



Ministry of Finance

Dutch State Treasury Agency

5-year DDA

Investor presentation



Presentation outline

Part I Introduction, Economy, Budget

The Dutch State Treasury Agency - *An introduction*

Economic outlook and policy - *The return to growth*

*Special topics: housing market, labour market,
financial sector*

Budgetary outlook and policy - *Reputation of consensus-based fiscal discipline*

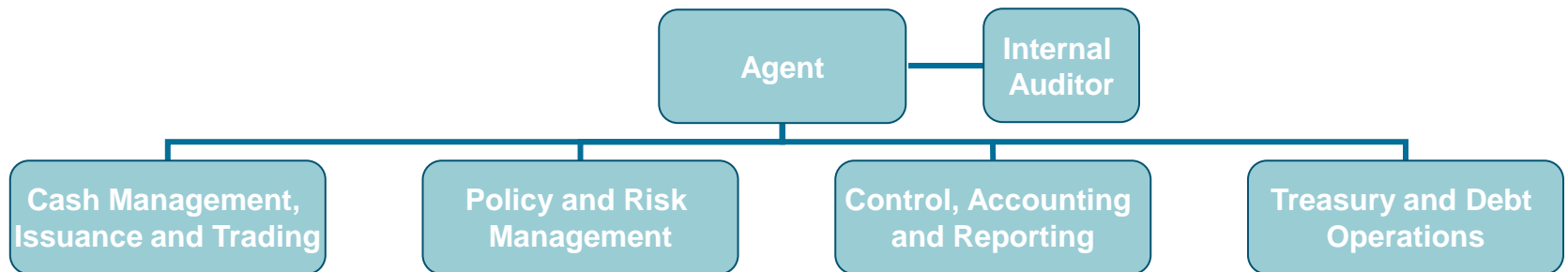
Part II Funding, Issuance & Liquidity

Supplement

DDA explained and changes to investor classification



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:
 - Compatibility: only the Finance Minister can borrow on behalf of the State
 - Minister granted the mandate to the DSTA
- Main objective: to manage the State's debt efficiently and effectively and to meet the State's funding requirement by borrowing and lending money



Economic Outlook & Policy



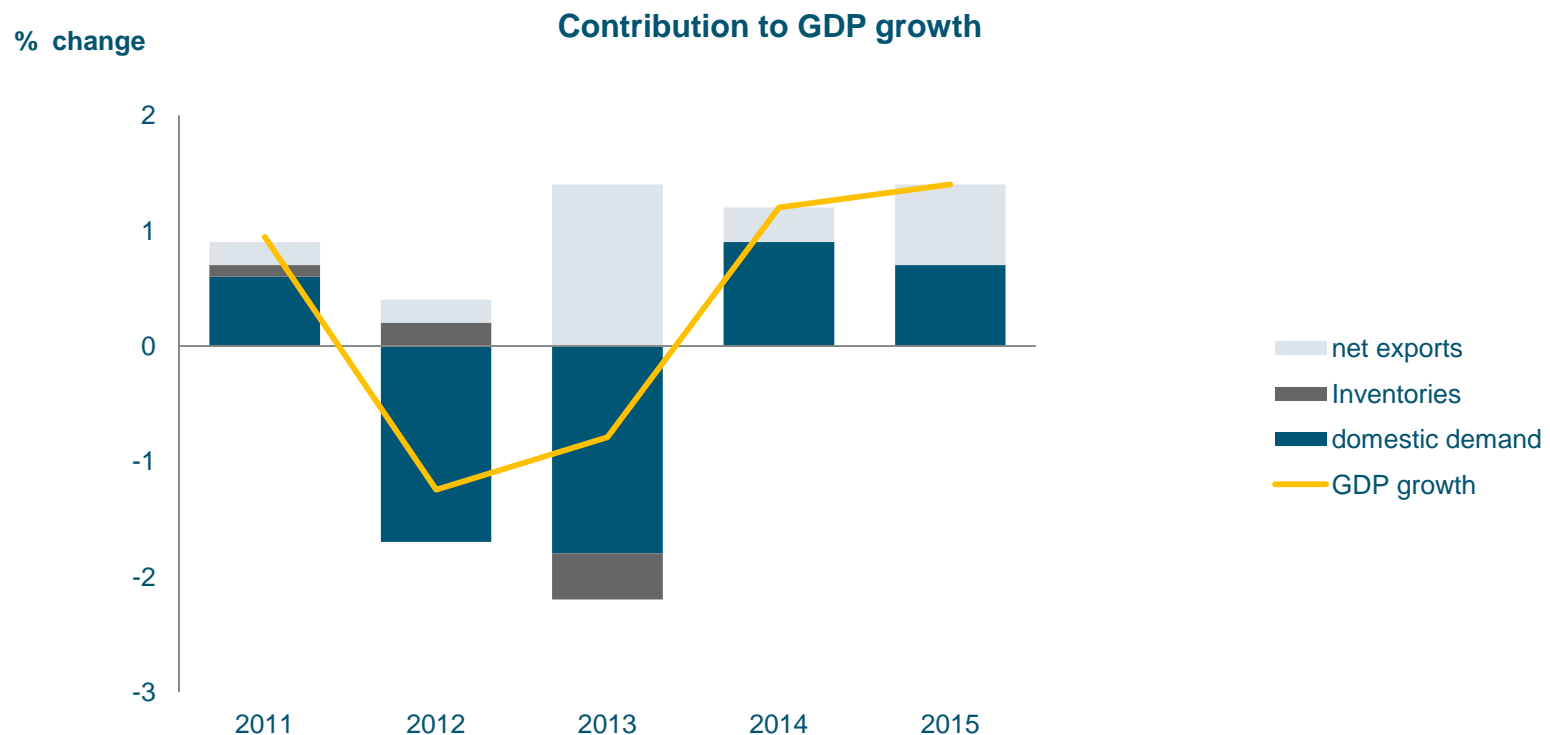
Projections: across the board improvement in 2014 and 2015

Key economic figures 2012-2015 (% changes, year-on-year)	2012	2013	2014	2015
Gross Domestic Product	-1.7	-0.7	3/4	1 1/4
Private Consumption	-1.4	-1.6	0	1
Gross Investments	-5.8	-4.9	2 3/4	3 1/4
Public expenditures	-1.6	-0.2	- 3/4	0
Exports	3.2	2.0	3 1/4	3 3/4
Imports	2.8	0.8	3	3 3/4
Unemployment (% of labour force)	5.3	6.7	7	6 3/4
Labour productivity	-1.3	0.6	2	1 1/4
Inflation (HICP % change)	2.8	2.6	1/2	1

Source: CPB Netherlands Bureau for Economic Policy Analysis, Macro Economic Outlook, 16 September 2014



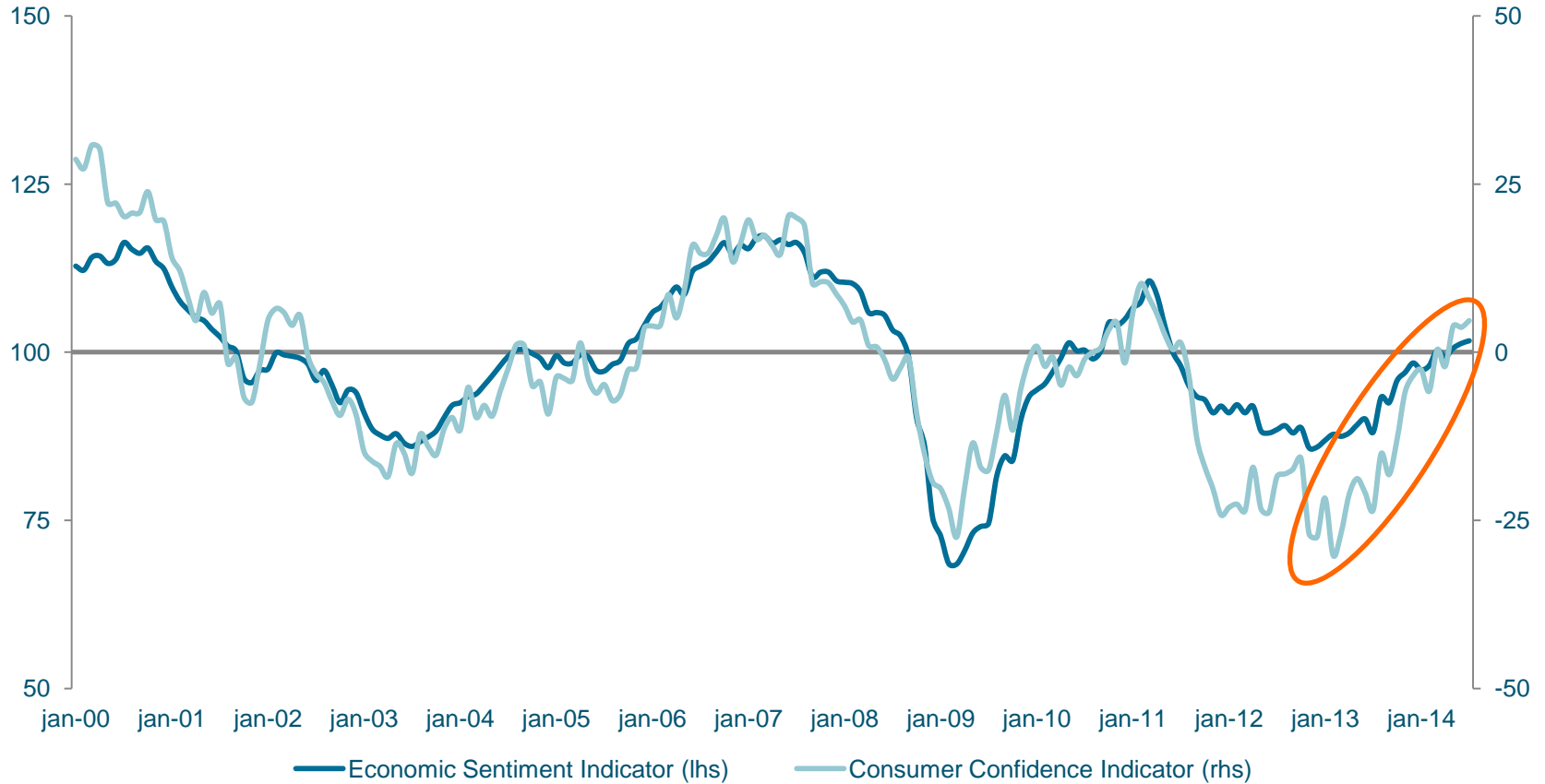
2014: Domestic demand contributing to growth



Source: European Commission, Spring forecast 2014



Continuous improvement in sentiment indicators



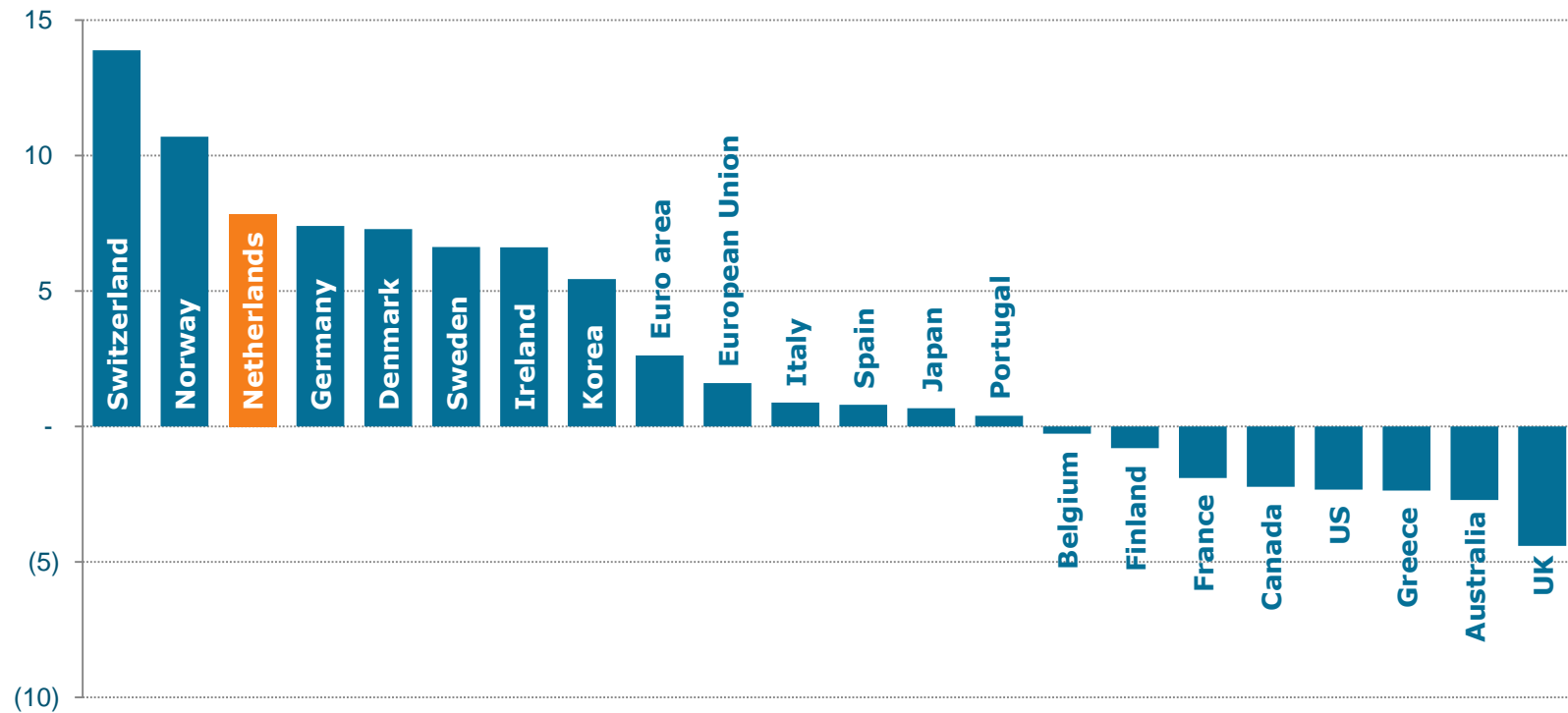
Source: Eurostat



Strong current account surplus

Current account balance 2014

% of GDP

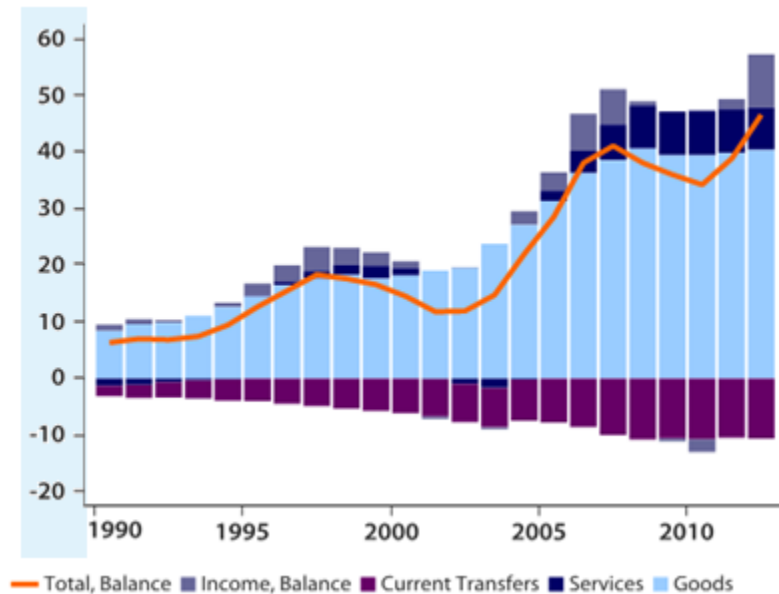


Source: European Commission, Spring forecast 2014

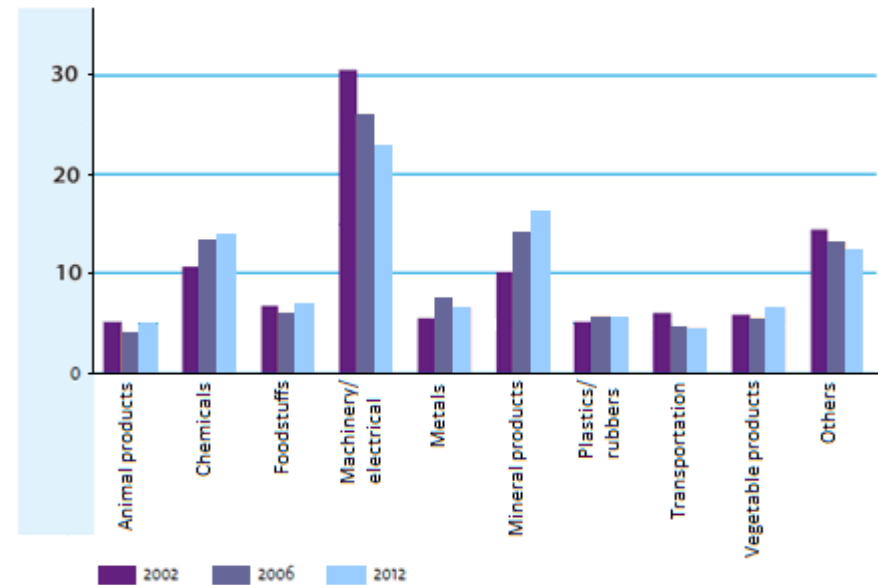


Consistent and diversified trade surplus

Components trade surplus 1990-2012 (€ bn)



Exports by product category (% of total)



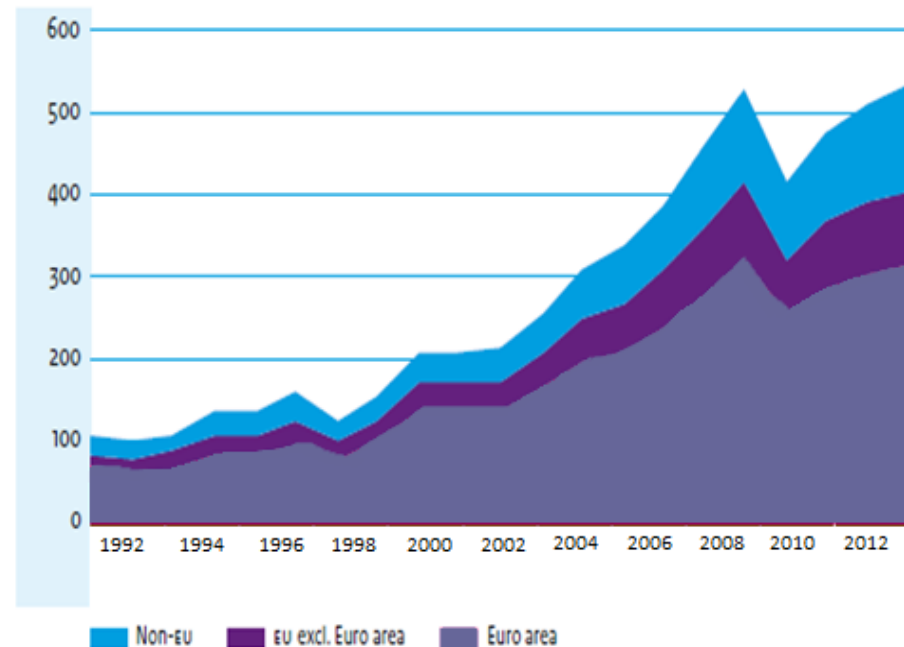
Source: National Statistics Bureau CBS



Increasing geographic diversification of export markets

Rank	Country	%
1	Germany	24.7
2	Belgium	11.3
3	France	8.4
4	United Kingdom	8.1
5	United States	4.7
6	Italy	4.6
7	Spain	2.8
8	Poland	2.0
9	China	1.8
10	Sweden	1.7
11	Russia	1.6
12	Czech Republic	1.4

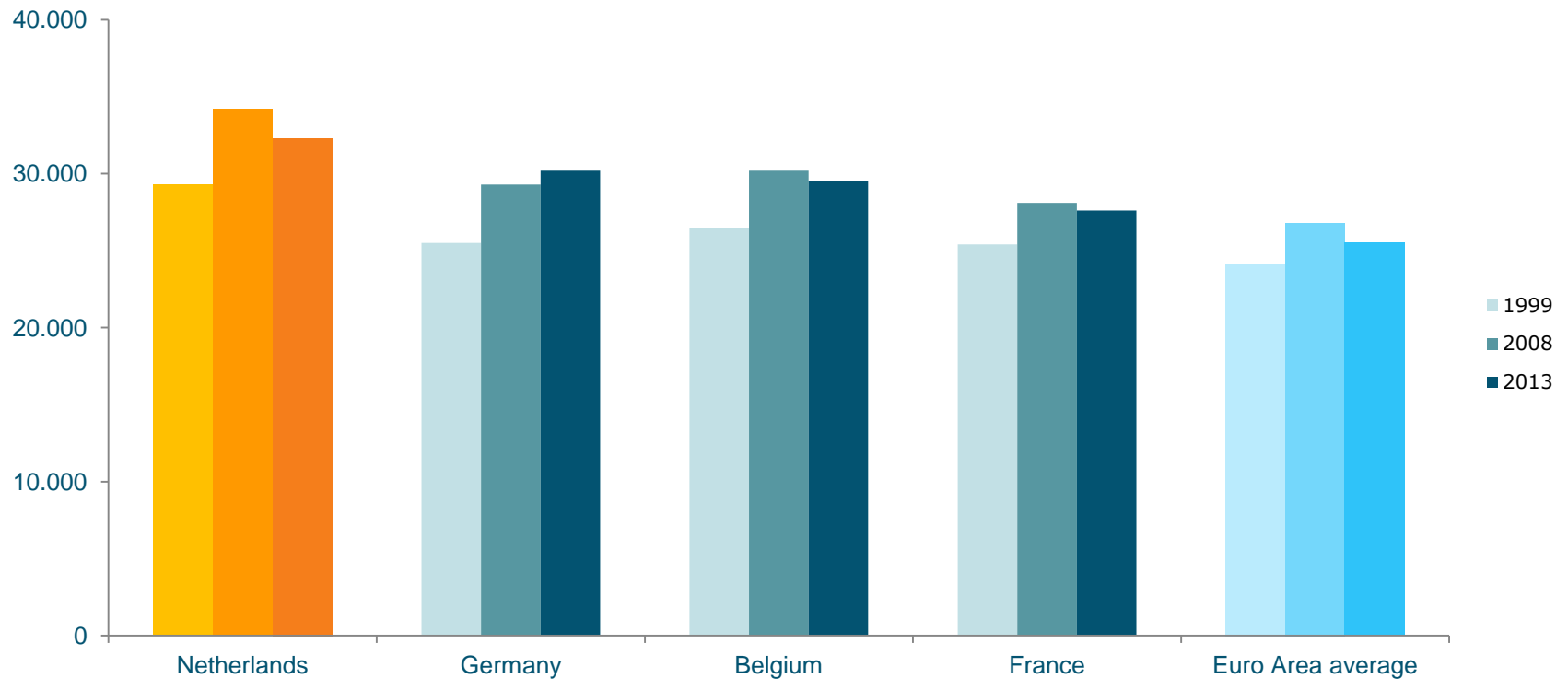
Exports per region (€ bn)



Source: National Statistics Bureau CBS



Real GDP per capita is high relative to EU peers



Source: Eurostat



Special topic I: Housing market

Gradual price correction in the housing market following years of generous mortgage lending...

- › Total price decline from peak to trough: -21%
- › More than 30% of households are in negative equity
- › High mortgage lending → gross household debt-to-GDP ratio approx. 125%

Problems remain contained

- › Net household wealth-to-GDP ratio is ca. 375% (but partially in less liquid assets)
- › Lenders have full recourse to borrowers' assets
- › Unemployment remains low in a European context, social security helps to mitigate income decline.
- › Mortgage arrears (>120 days) have increased, but remain at low levels (1.6% of mortgages)

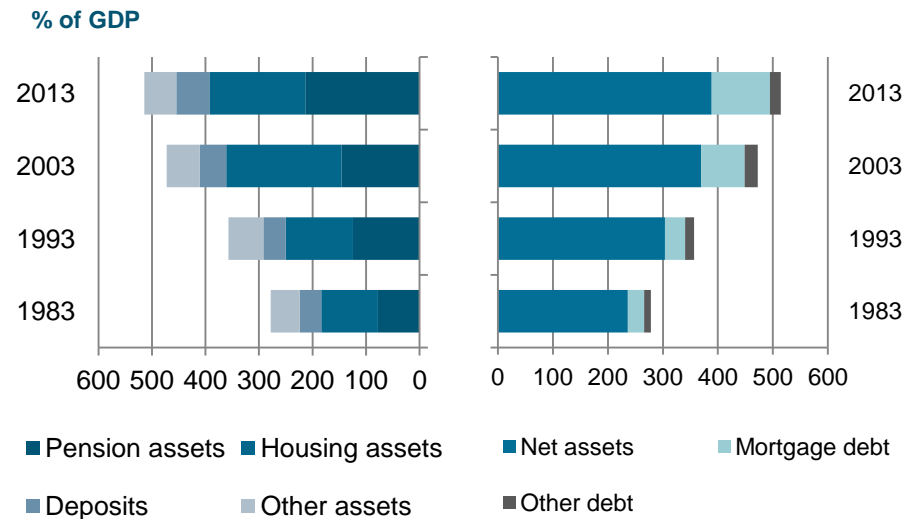


Households have strong asset position

Household financial assets



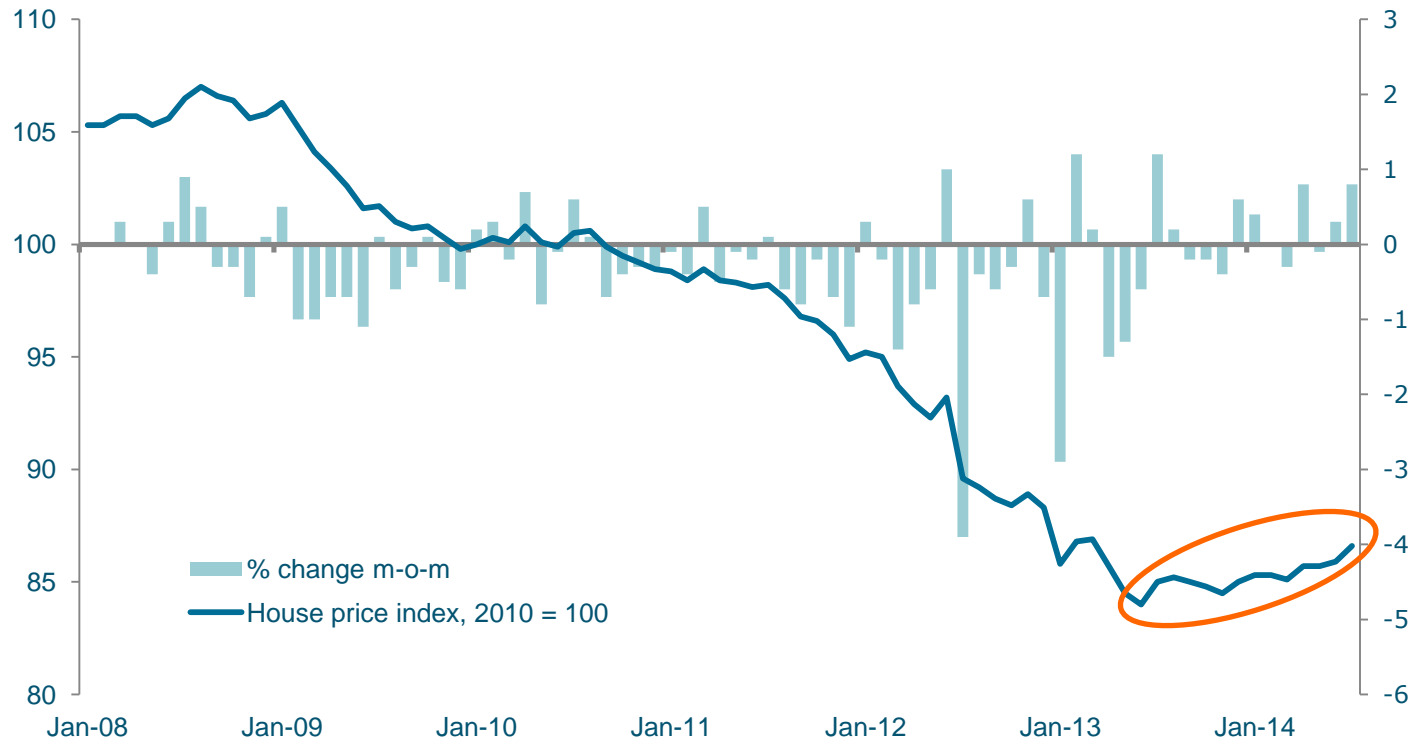
Household assets and liabilities (% GDP)



Source: Eurostat (2013)



House price developments are improving

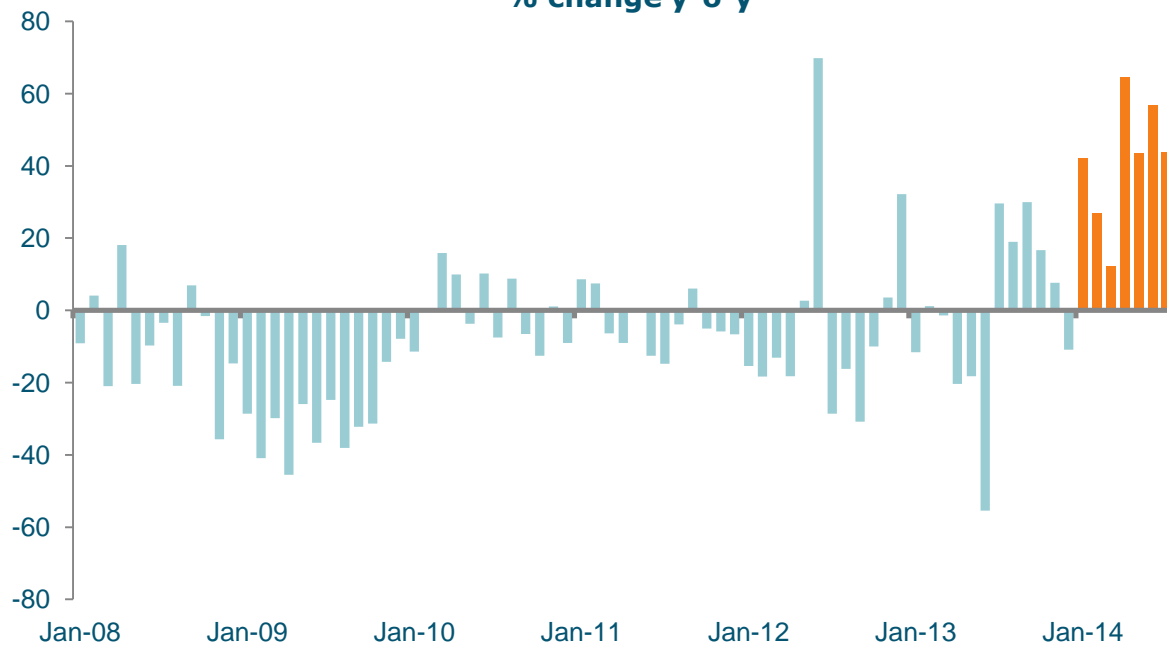


Source: National Statistics Bureau CBS



Solid increase in number of transactions in 2014

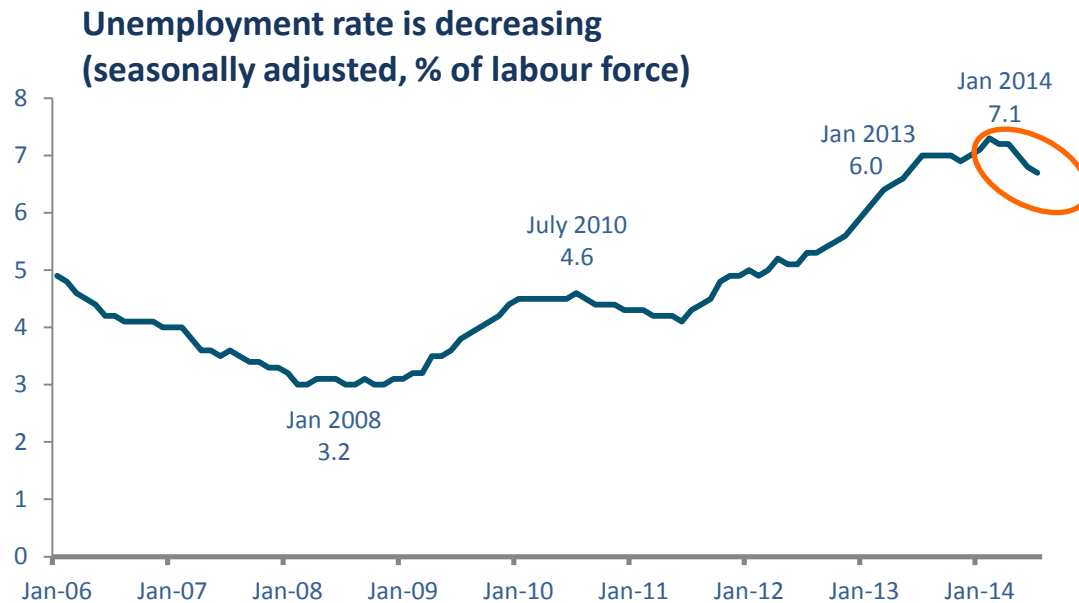
Number of housing transactions
% change y-o-y



Source: National Statistics Bureau CBS



Special topic II: Labour market



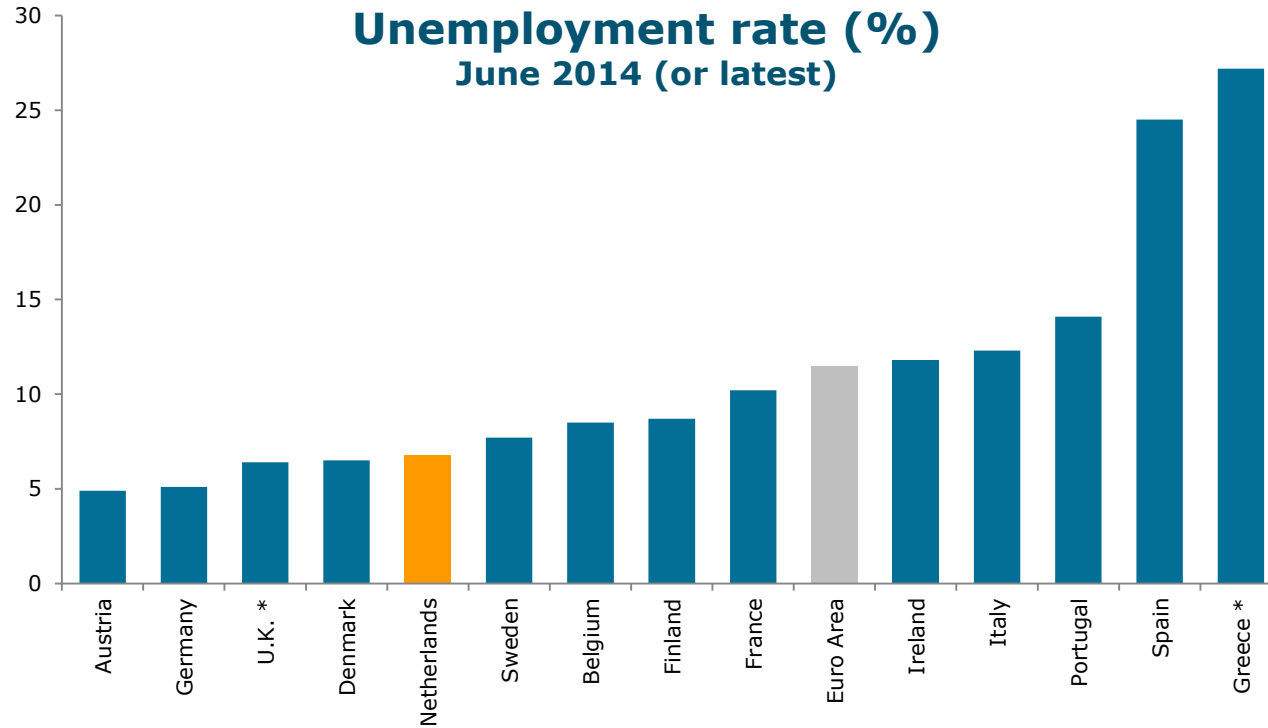
Forecasts (%)		
	CPB	E.C.
2014	7.0	7.4
2015	6 ³ / ₄	7.3

Source: National Statistics Bureau CBS

Source: CPB Netherlands Bureau for Economic Policy Analysis, Macro Economic Outlook, 16 September 2014 European Commission Spring 2014 forecast.



Unemployment remains low in European context



Source: Eurostat

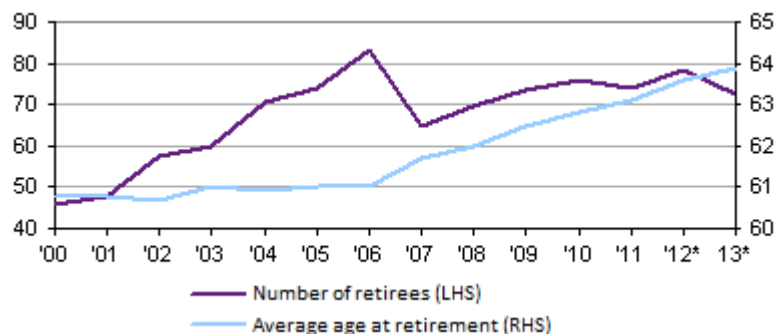
* May 2014



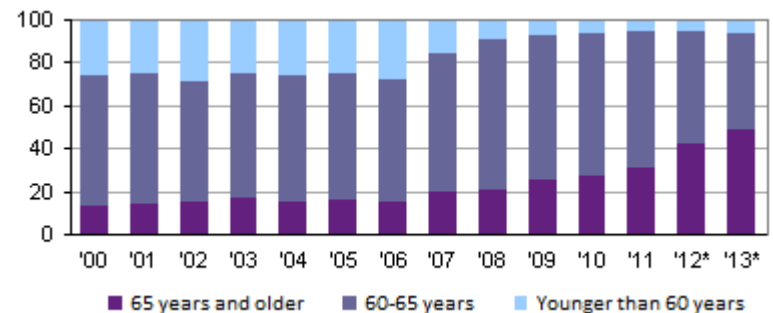
Pensions: reforms to achieve sustainability

- Increase in pensionable age to 67 in 2021
- Pensionable age tied to life expectancy after 2021
- Reduction of annual pension savings that can be accumulated tax-free

Average retirement age



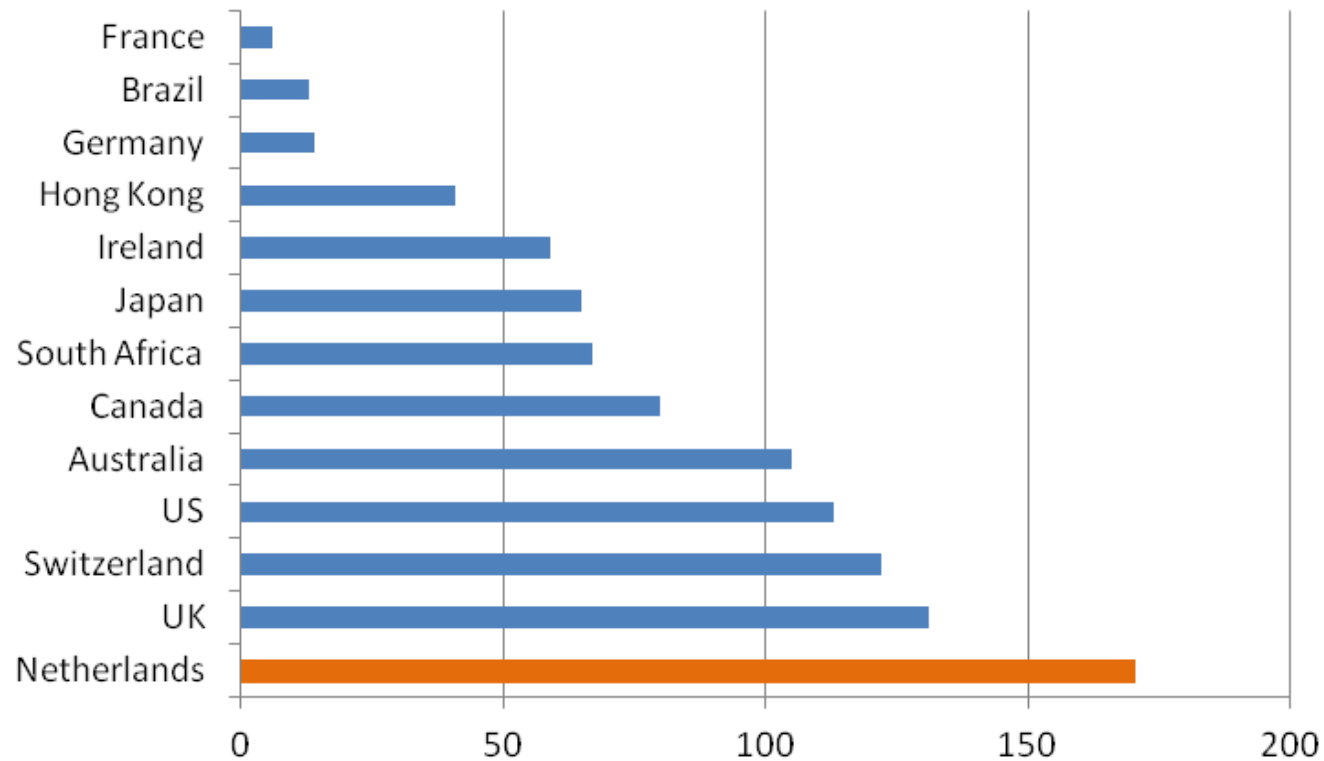
Retirement age (% of total retirees)



Source: National Statistics Bureau CBS



International comparison: pension assets (% GDP)



Source: Towers Watson, Global Pension Asset Study, 2014



Special topic III: Financial sector

Government support for financial sector is being wound down, which results in debt to GDP reductions

1. Capital support (2008) is largely repaid:

Institution	Support (€)	Repayment (€)	Return on repayment
AEGON	3 bn	3 bn	18.5%
ING	10 bn	8.5 bn	14.7%
SNS	750 mln	185 mln	N.A. (nationalization)

2. Guarantees on medium-term bank debt instruments mature:

Window open 2008-2010; outstanding loans redeemed end-2014 at the latest

3. Nationalisations: *ABN Amro (2008), ASR (2008), SNS Reaal (2013)*

4. IABF: The Dutch State realised a positive net result upon winding down the IABF of USD 1.9 bn (EUR 1.4 bn).

5. IceSave: the total amount of the 1.4 bn euro loan is repatriated by the Dutch government



Budgetary Outlook & Policy



Government finances: structural improvement

Budgetary developments 2009-2015 in % GDP (ESA 2010 methodology)

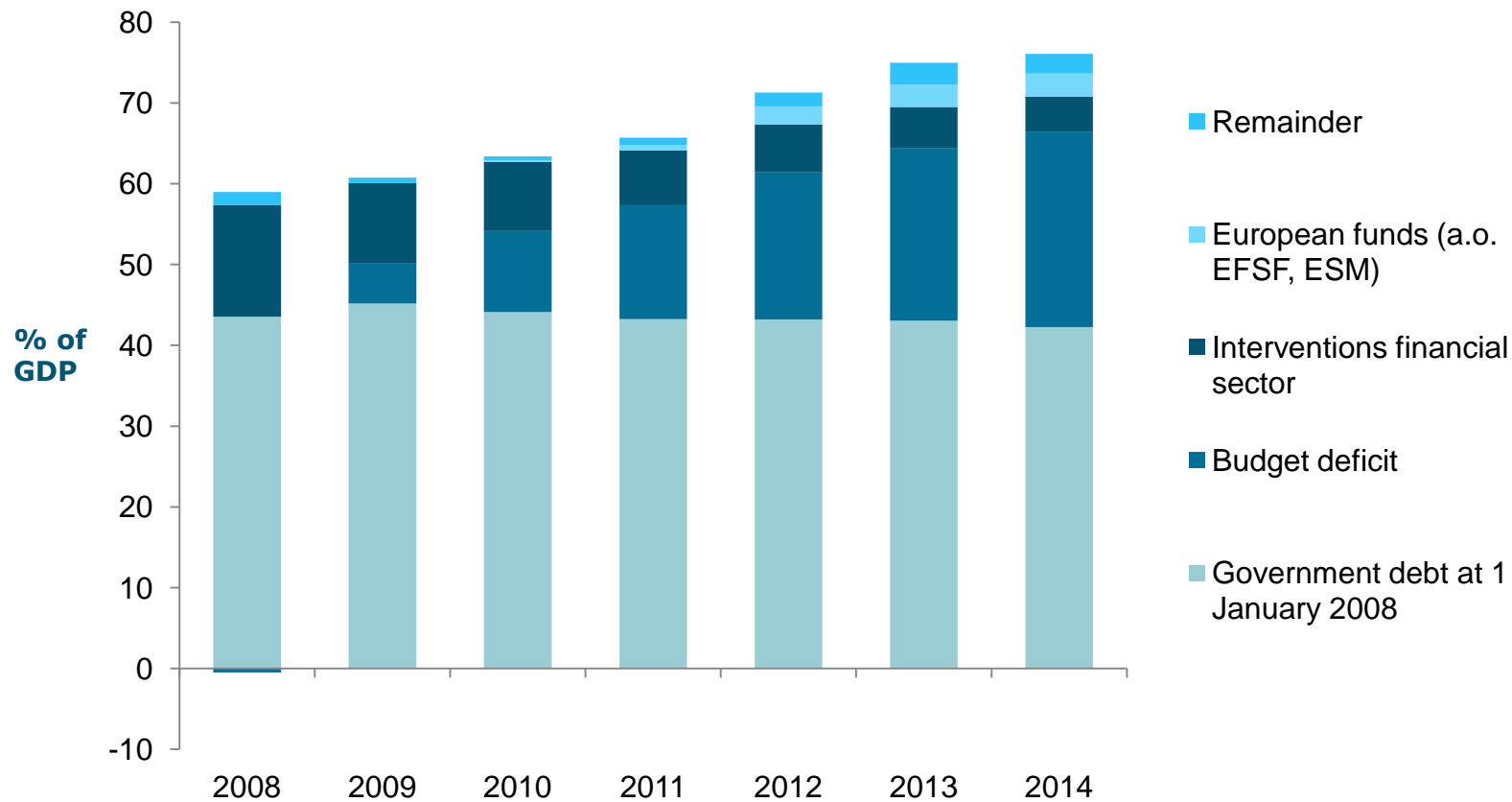
	2010	2011	2012	2013	2014	2015
EMU-balance	-5.0	-4.3	-4.0	-2.3	-2.9	-2.2
EMU-debt	59.0	61.3	66.5	68.6	69.8	70.0

Source: Budget Memorandum, 16 September 2014

- EMU balance below 3% threshold
- EMU debt stabilizes
- **EMU-balance: -2.7% and EMU-debt: 69.7% in 2014**
- **Government remains committed to reducing deficit**



Government debt: gradual stabilization

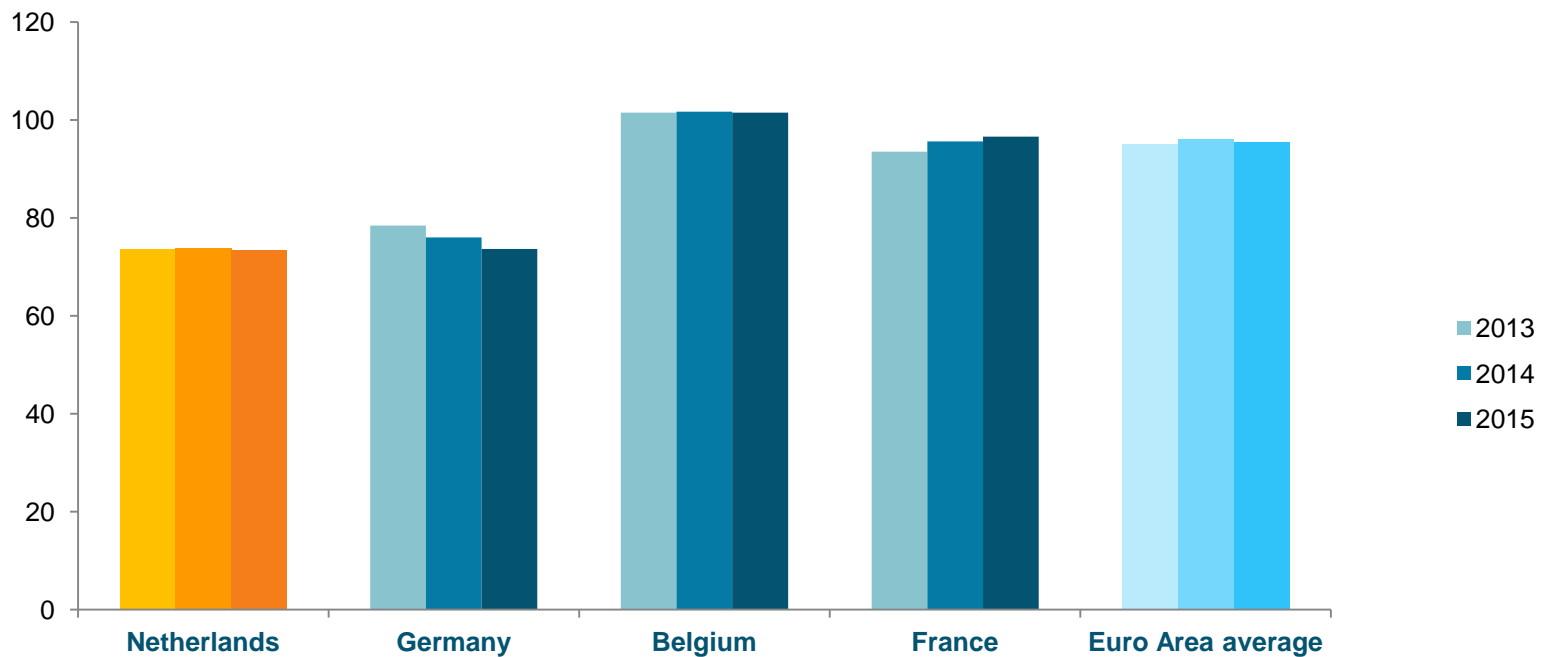


Source: CPB Netherlands Bureau for Economic Policy Analysis, (2013, based on ESA-1995 methodology)



Debt: below Euro Area average

EMU-debt 2013-2015 (% GDP)



Source: European Commission, Spring Forecast 2014 (based on ESA-1995 methodology)



Funding, Issuance & Liquidity



Capital market issuance (€ bn)

Year	Outlook (y-1)	Actual	Deviation
2013	50	51.8	1.8
2012	60	60.4	0.4
2011	50	53.0	3
2010	50	51.9	1.9
2009	48	48.1	0.1

...in line with commitment



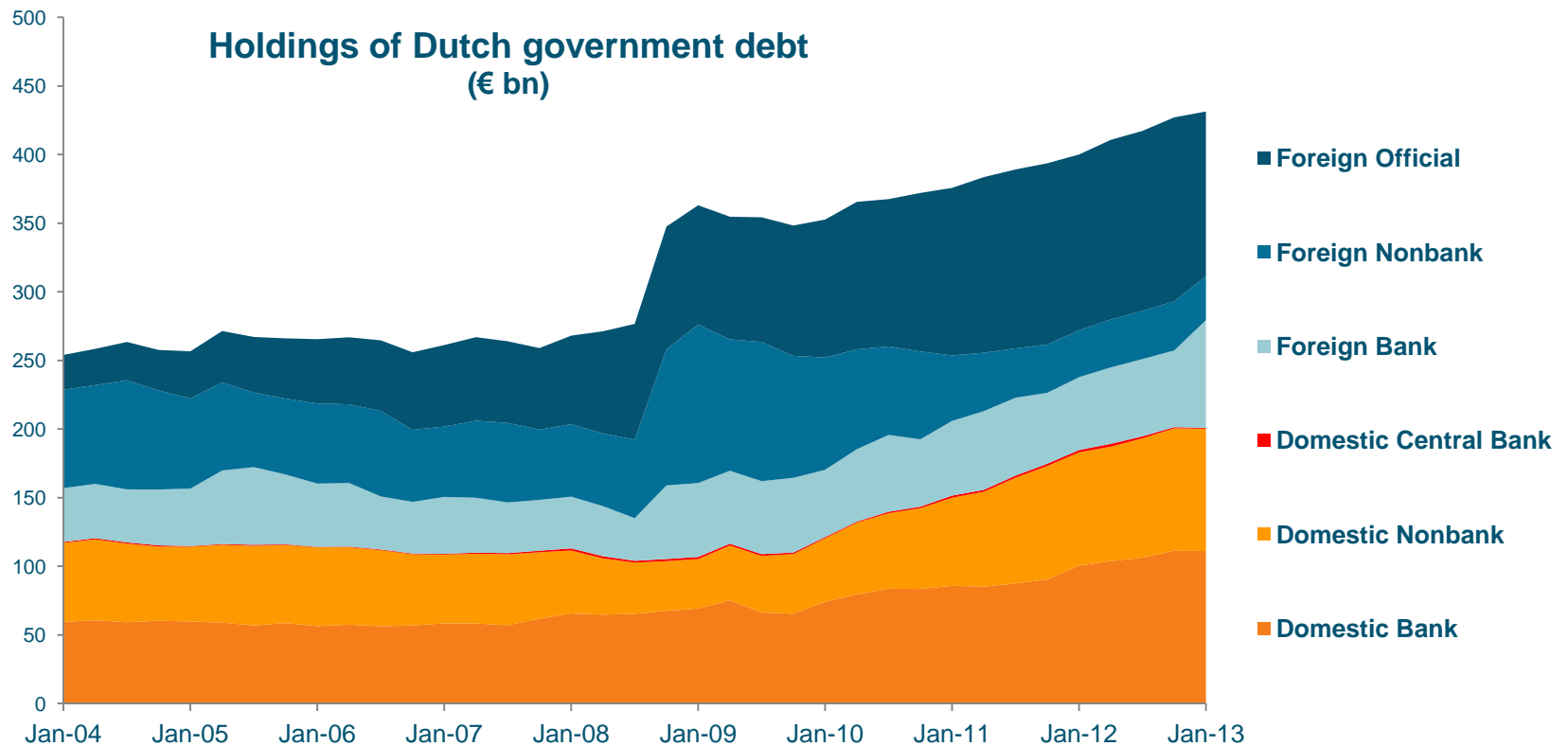
Money market serves as a buffer

Changes in outstanding funding need can result from:

- A changing economic environment
- Inflow of deposits from local governments
- Sale/acquisition of assets by the State (e.g. ABN Amro)



Diversified holdings of debt



Source: Sovereign Investor Base Estimates, Arslanalp and Tsuda (IMF working paper)



Funding plan 2014 (€ bn)

Borrowing requirement	
Capital market redemptions 2014	32.2
Buy-back DSL 2015	7.1
Money market ultimo 2013*	41.6
Cash deficit	13.8
Total external funding requirement	94.7

Funding	
Capital market	50
Money market*	44.7
Total funding	94.7

*Incl. collateral

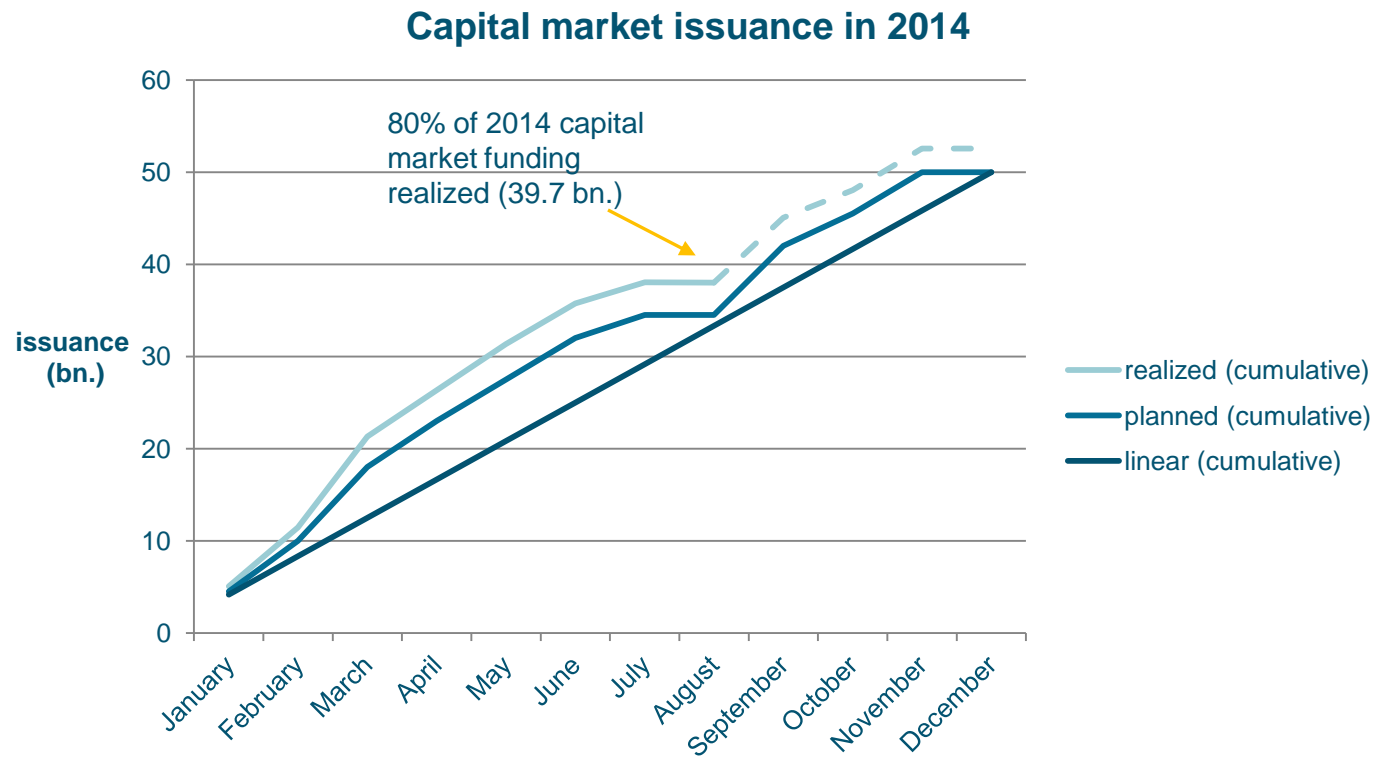


DSL issuance in 2014 (€ bn)

New 3-year DSL	15
On-the-run 5-year DSL	7
New 5-year DSL	5
New 10-year DSL	15
Off-the-run facility	3
New 30-year DSL	5
Total funding	50



Current DSL Funding Position (€ bn)





Indicative DSL calendar 2014

Month of issuance	Auction Date		Auction Date		DDA window
	2nd Tuesday	Details	4th Tuesday	Details	
January	14	Tap new 3-year: DSL 15 April 2017	28	Off-the-run	
February	11	Tap 5-year: 1.25% DSL 15 January 2019	25	No tap	New 30-year: 18 February
March	11	Reopening new 3-year	25	No tap	New 10-year: 25 March
April	8	Tap	22	Tap	
May	13	Tap	27	Tap	
June	10	Tap	24	Off-the-run	
July	8	Tap	22	No tap	
August	Reserve dates				
September	9	Tap	23	No tap	
September					New 5-year: 24 September
October	14	Tap	28	No tap	
November	11	Tap	25	Tap	
December	Reserve dates				

} completed

} remaining



Details new 5-year benchmark bond

DDA date:	Wednesday 24 September
Maturity date:	15 January 2020
Reference bond:	DBR 3.25% January 2020
Target volume:	Minimum of EUR 4 billion
Settlement date:	Monday 29 September
Coupon:	To be announced on 22 September
Initial spread guidance:	To be announced on 23 September

Treasury/ALM accounts of banks are being classified as Real Money clients



Time schedule 5-year DSL

- Book opens on 24 September at 10:00 CET
- Final spread guidance will be announced no later than 15:00 CET
- Book closes at latest 17:00 CET on 24 September
- Allocation communicated a.s.a.p. after closing of the book, no later than 25 September at 9:00 CET
- Pricing at least 1 hour after allocation and no later than 12:00 CET on 25 September; preferably on the auction day itself



Ensuring sufficient liquidity in secondary markets

- Raising outstanding amounts of new 3-, 5-, and 10 year DSLs to at least € 15 bn; at least € 10 bn for the 20- and 30 year DSL
- Annual issuance of new 3- and 10 year bonds
- Frequent reopenings of off-the-run bonds
- Quotation obligation for PDs to ensure that tradable prices are available at all times
- Repo facility available to PDs ('lender of last resort')



Primary Dealers

Primary Dealers for 2014 <i>in alphabetical order</i>	
ABN Amro Bank	Jefferies
Barclays Capital	Natixis
Citigroup	Nomura
Commerzbank	Rabobank
Deutsche Bank	Royal Bank of Scotland
Goldman Sachs	Santander GM&M
HSBC France	Société Générale
ING Bank	



5-year DSL: Why to buy

- Netherlands has reputation of consensus-based fiscal discipline
- DSL 2020 offers attractive yield versus Germany
- Economy and housing market bottoming out, structural reforms in place
- One of the best pension systems in the world (Mercer)
- Highly rated issuer (Aaa/AA+/AAA, unsolicited country rating)
- Continuous availability of secondary market prices



Supplement

The DDA explained

Short overview

Bidding

Investor classification

Mechanics of allocation:

2 scenarios



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
- 2014: Reform of PD fee structure; PDs must sign DDA Allocation and Price Compliance Statement*

* 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 € 500 million per spread;
- An investor may split orders among Primary Dealers up to the maximum allowed
- 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



Change in 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 and private banks
Insurance Companies	Other Trading Desks
Pension Funds	
Private Banks	
Treasuries/ALM accounts of banks	

Change in classification due to new regulation; bank treasuries/ALM are required to hold higher liquidity buffers containing high-rated bonds



Investor classification

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	Min. € 5 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

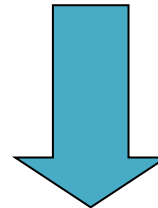


Mechanics of allocation – scenario 1

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: **€ 6500**
- Uniform cut off: **+17.5**



Allocation at cut-off:
Real Money **67 %**
Others **0 %**

Allocation

Spread	At best	17	17.5	18
Real Money	1500	1000	1000	0
Other	1000	2000	0	0
Total	2500	3000	1000	0
Cumulative		5500	6500	

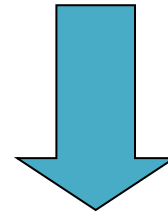


Mechanics of allocation – scenario 2

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		