



Ministry of Finance

Dutch State Treasury Agency

**10-year DDA
on 24 March 2015**

Investor presentation

Update 20 March



Presentation outline

Part I Introduction, Economy, Budget

The Dutch State Treasury Agency

Economic outlook

Budgetary outlook

Part II Funding, Issuance, Liquidity

Funding strategy

Funding plan 2015

DDA 10-year DSL details

Secondary market and liquidity

Supplement I

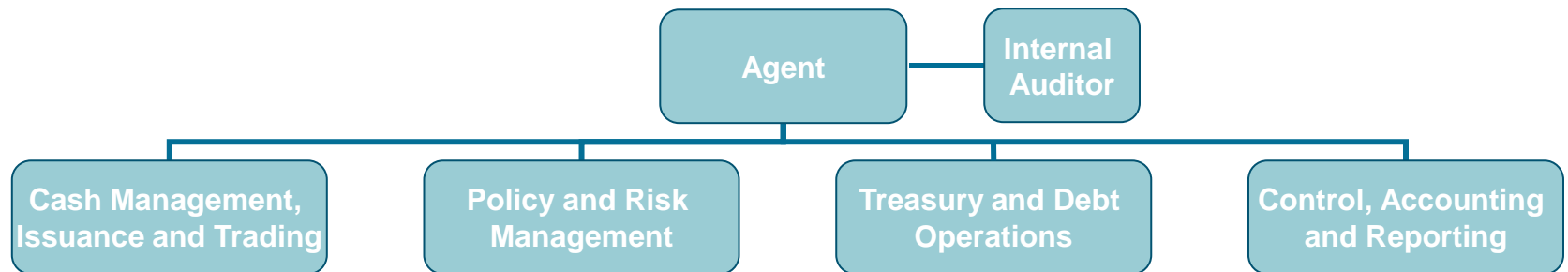
Economic outlook: trade, sentiment, housing, labour, pensions

Supplement II

DDA explained



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



Projections: steady economic recovery

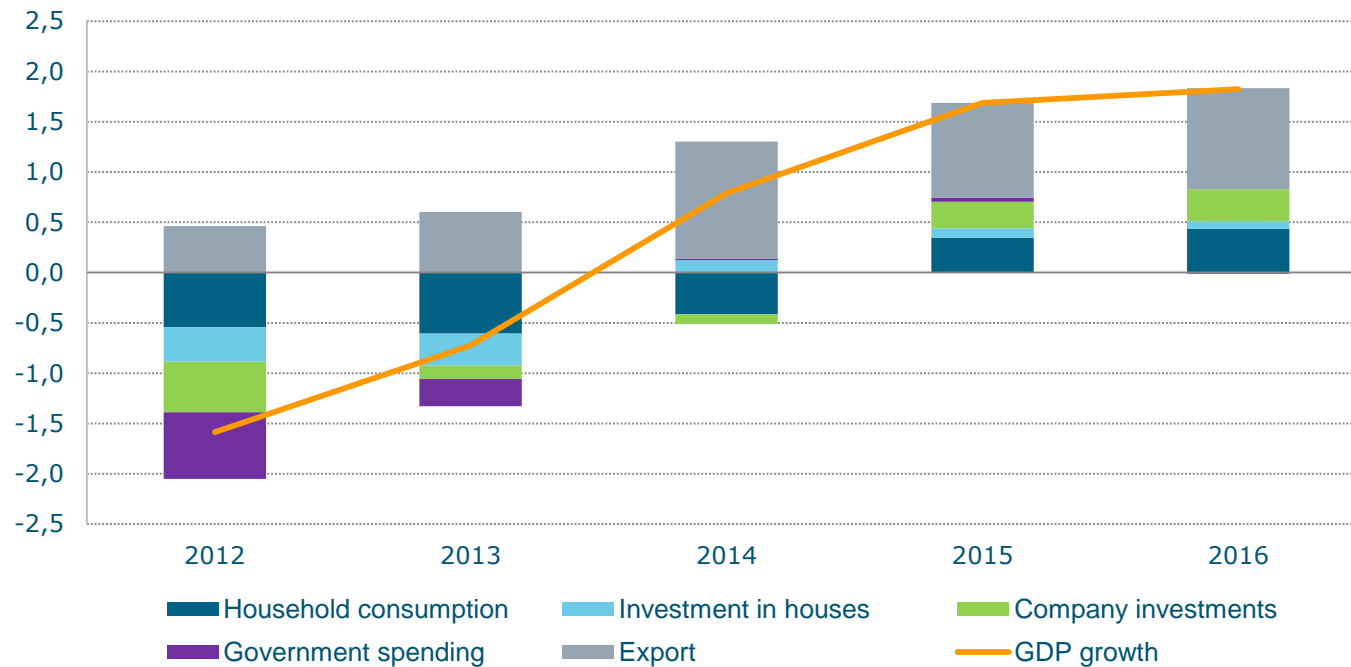
Key economic figures 2013-2016 (% change, year on year)	2013	2014	2015	2016
GDP	-0.7	0.8	1.7	1.8
Household Consumption	-1.6	0.1	1.5	1.7
Gross Investments	-5.3	1.5	3.8	4.5
Government expenditures	-0.3	-0.1	0.2	0.1
Exports	2.0	4.0	4.6	4.8
Imports	0.8	3.8	4.9	5.3
Unemployment (% of labour force)	7.3	7.4	7.2	7.0
Labour productivity	0.4	1.5	1.1	1.3
Inflation (HICP)	2.6	0.3	-0.1	0.9

Source: CPB, Netherlands Bureau for Economic Policy Analysis, March 2015



Household consumption stimulates growth

Contribution to GDP growth (% change)

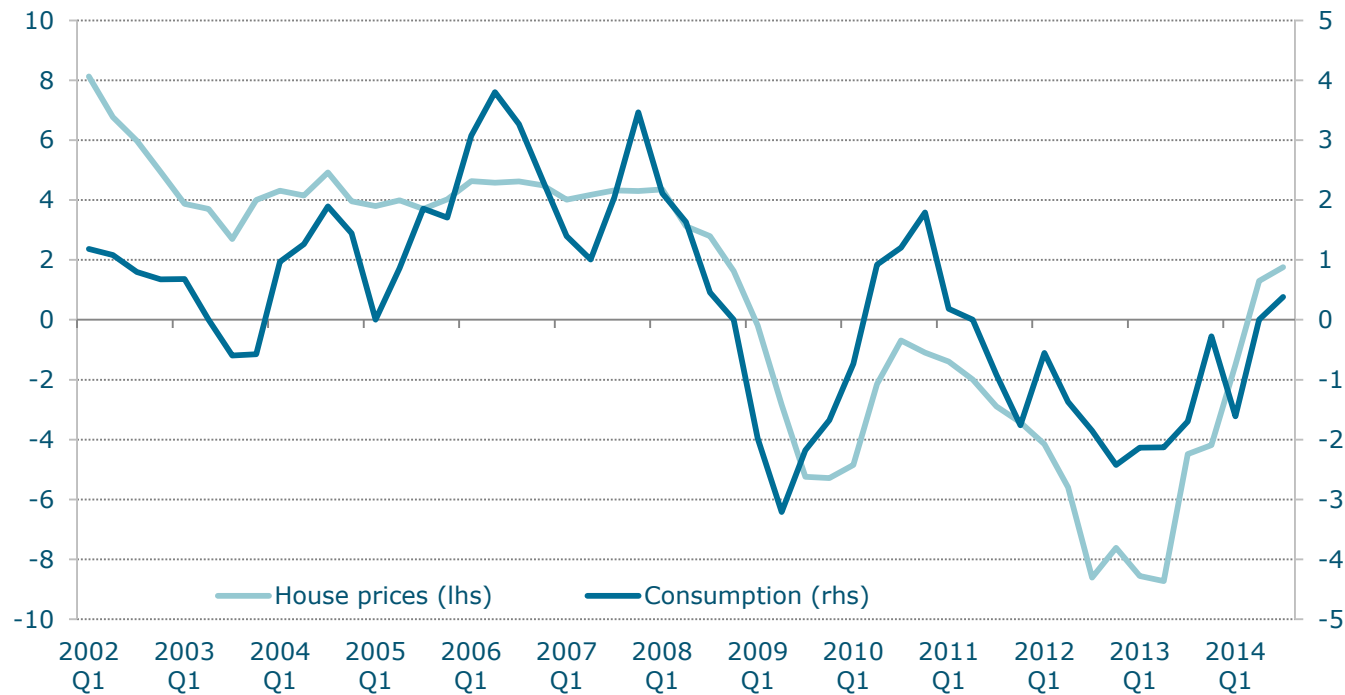


Source: CPB, Netherlands Bureau for Economic Policy Analysis, March 2015



Co-movement house prices & consumption

House prices and consumption (% change, y-o-y)

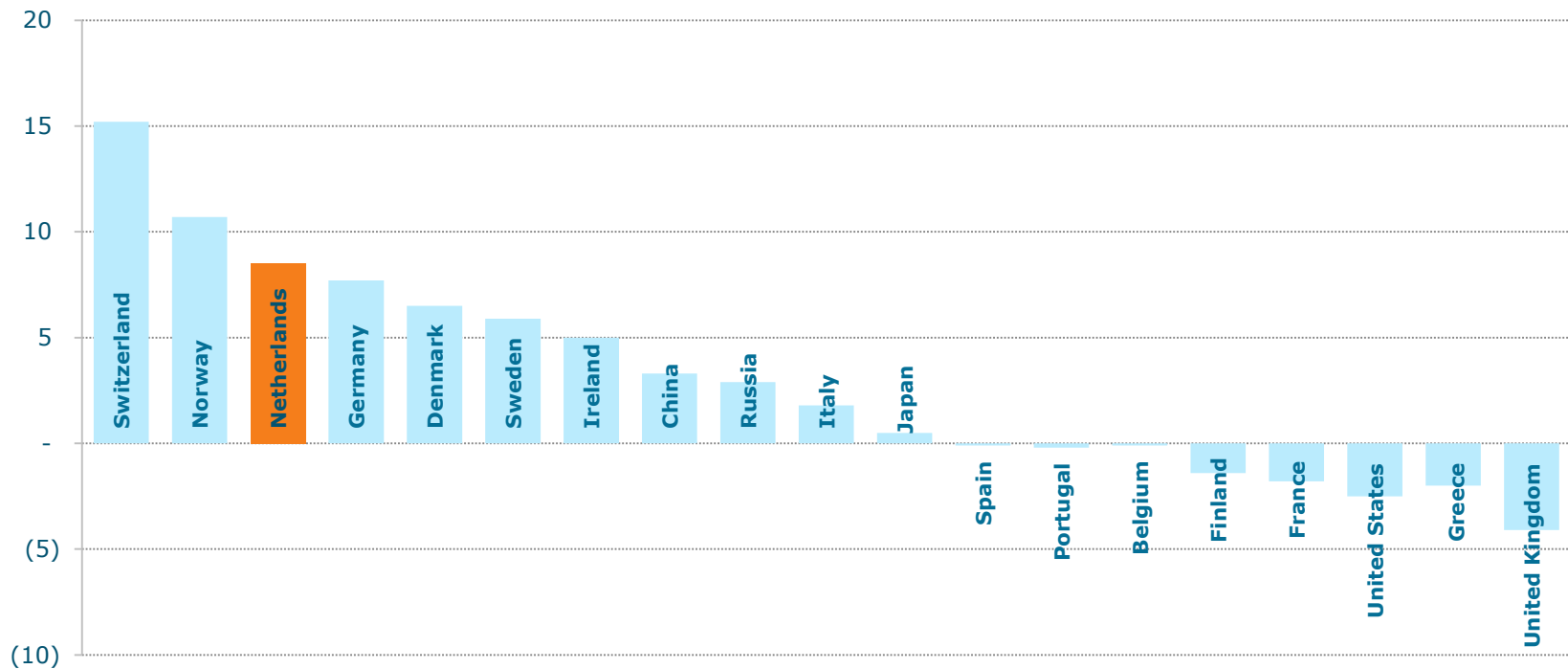


Source: National Statistics Bureau CBS



Strong current account surplus

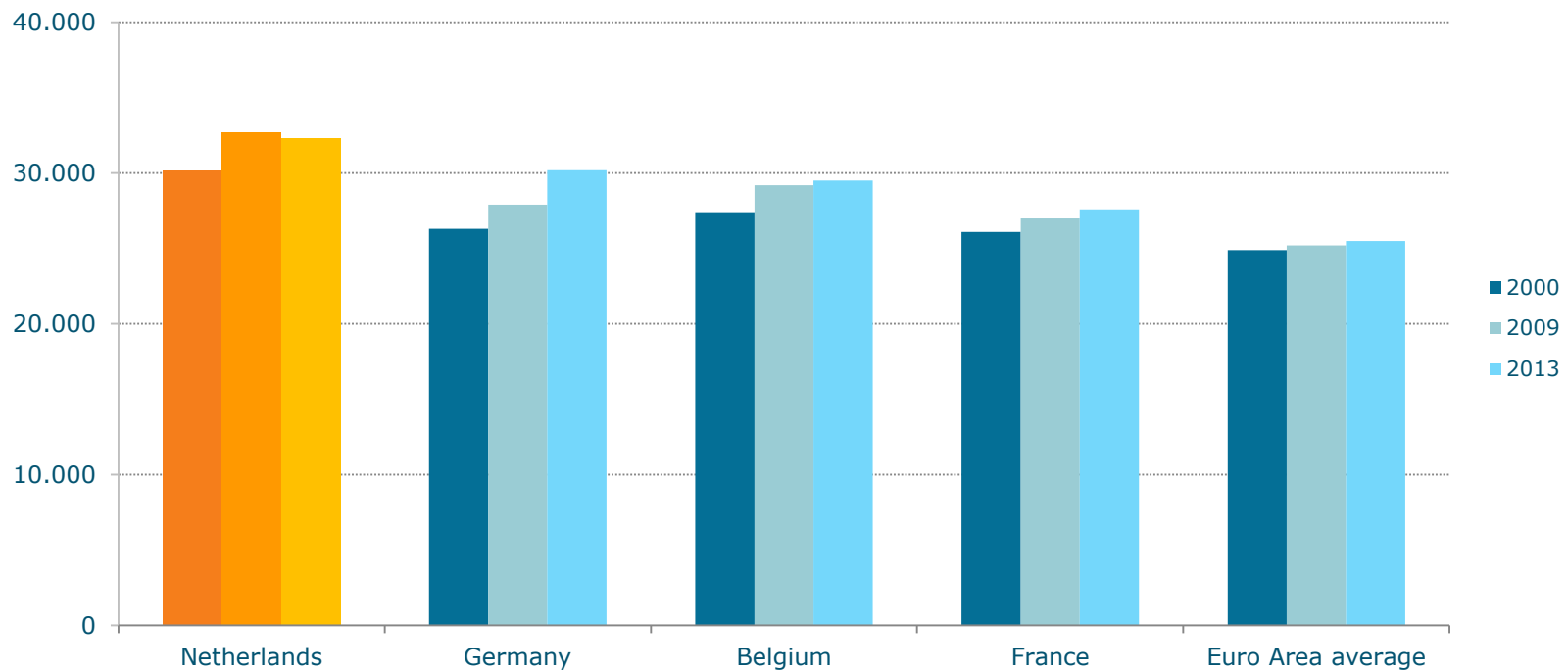
Current account balance 2014 (% of GDP)



Source: European Commission, Winter forecast 2015



Real GDP per capita (€)



Source: Eurostat



Structural reforms (to be) implemented

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 in 2021, early retirement fiscally less attractive
- 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



Financial sector

1. Capital support (2008) is repaid:

Institution	Support (€)	Repayment (€)	Return on repayment
AEGON	3 bn	3 bn	18.5%
ING	10 bn	10 bn	12.7%
SNS Reaal	750 mn	185 mn	NA (nationalisation)

2. All guarantees on medium-term bank debt instruments matured end-2014.

3. Nationalisations: ABN AMRO (2008), ASR (2008), SNS REAAL(2013)

The government has indicated that these financial institutions will be privatized in the short to medium term.

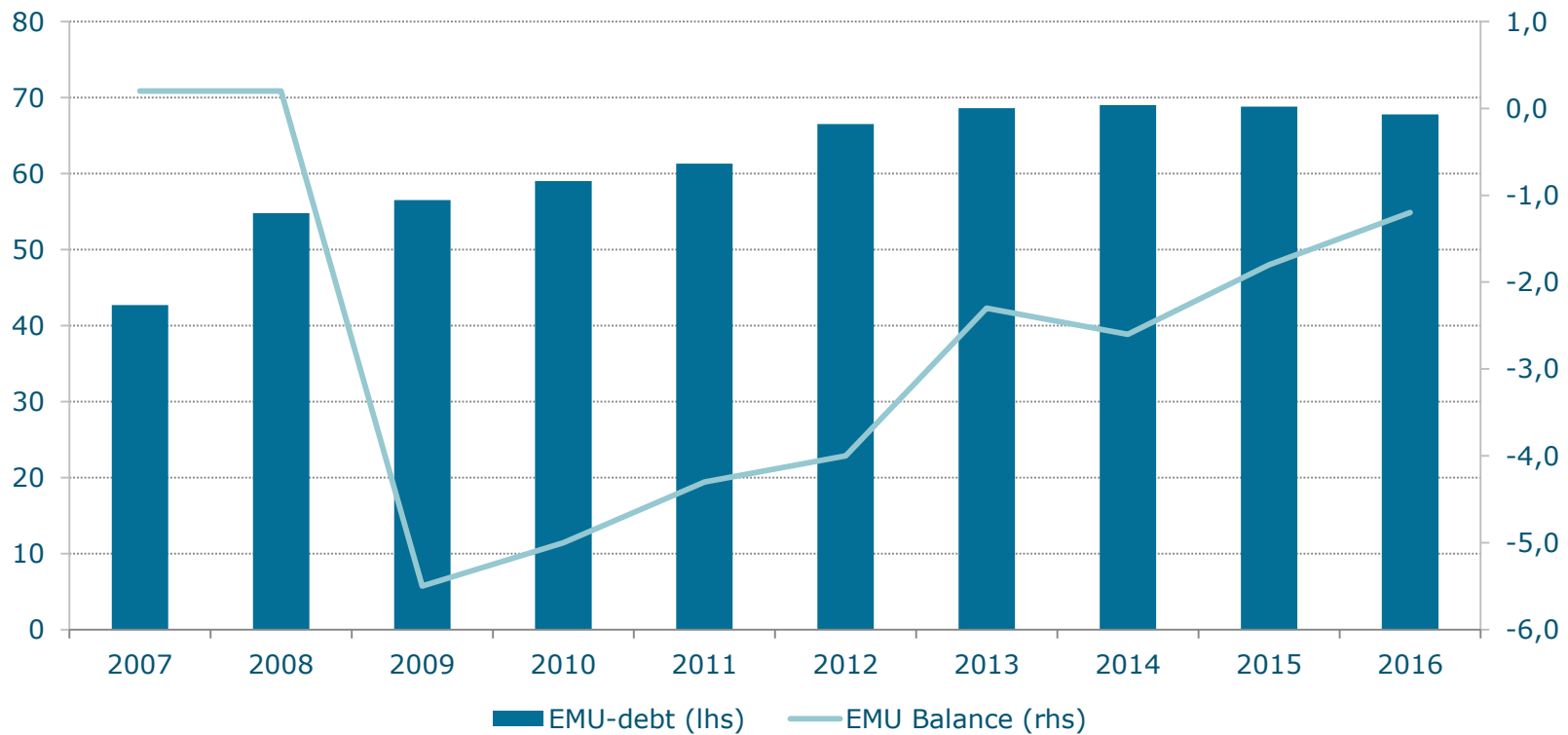
4. On 16 February 2015: REAAL (the insurance part of SNS REAAL) was sold; closing of the transaction expected mid 2015.



Budgetary Outlook



Government finances

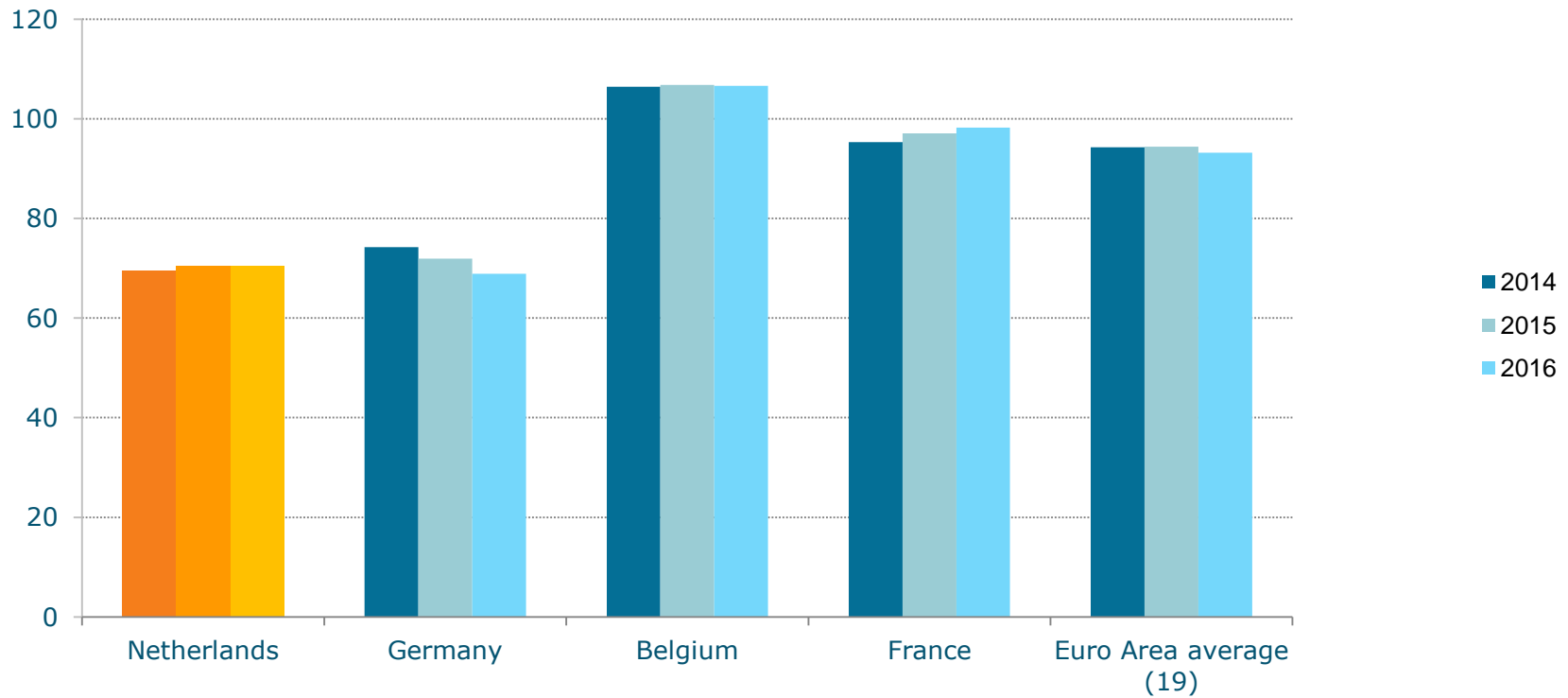


Source: Budget Memorandum, September 2014 + CPB projections 5 March 2015



Debt: below Euro Area average

EMU-debt (% of GDP)

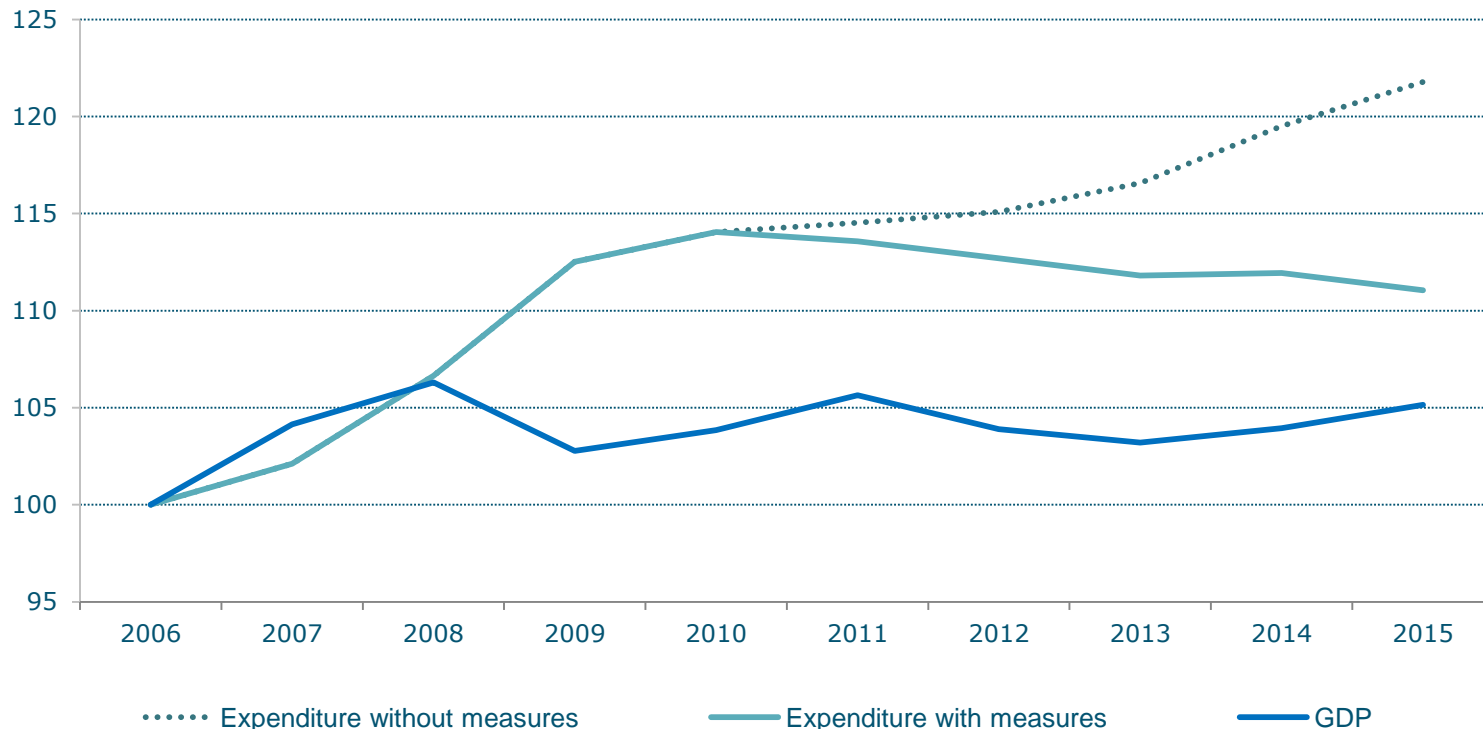


Source: European Commission, Winter forecast 2015



Consolidation efforts crucial

Real public spending and volume of GDP (index, 2006 = 100)



Source: Budget Memorandum, September 2014



Funding Issuance Liquidity



Debt Outstanding

Key figures at the end of February 2015 (in mn of euros)

DSL (T-bonds)	322,584
DSL in foreign currency	5,304
DTC (T-bills)	16,840
Private loans	3,615
Private loans in foreign currency*	877
Total debt outstanding #	349,220

Excluding cash collateral received (€27.3 bn at the end of the month)

* Debt of the Netherlands Antilles taken over by the Netherlands



Funding instruments: the capital market

Dutch State Loans (T-bonds)

- Maturities: focus on 3 and 10-years, but also 5-years
- Commitment to the long end of the curve (up to 30 years)
- Auctions on fixed dates: 2nd and 4th Tuesday
- Quarterly calendars
- Dutch Direct Auctions for new longer-dated DSLs
- Benchmark size at least € 15 bn (€ 10 bn for 30-year DSLs)
- Buy-backs for cash management purposes



Funding instruments: the money market

Dutch Treasury Certificates (T-bills)

- Maturities: 3, 6, 9 and 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

Deposits (“Cash”)

- Borrowing short term; large amounts if necessary
- Lending: unsecured and secured (reverse repo: buy-sell-back)



Funding plan 2015 (€ bn)

Borrowing requirement	
Capital market redemptions 2015	39.5
Money market ultimo 2014*	43.1
Cash deficit 2015	12.2
Total external funding requirement	94.8
Funding	
Capital market	48
Money market ultimo 2015*	46.8
Total funding	94.8

*Incl. cash collateral received



DSL issuance in 2015 (€ bn)

New 3-year DSL	15
New 10-year DSL	15
On-the-run 5-year DSL	10
On-the-run 30-year DSL	5
Reopening off-the-run DSLs	3
Total funding	48



Details new 10-year benchmark bond

DDA date:	Tuesday 24 March
Maturity date:	15 July 2025
Reference bond:	DBR 0.50% 15 February 2025
Target volume:	Minimum of € 5 bn
Settlement date:	Thursday 26 March
Coupon:	0.25% annually from 2015 (short first coupon)
Initial spread guidance:	To be announced Monday 23 March
Country ratings:	Aaa/ AA+/ AAA



Time schedule 10-year DSL

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



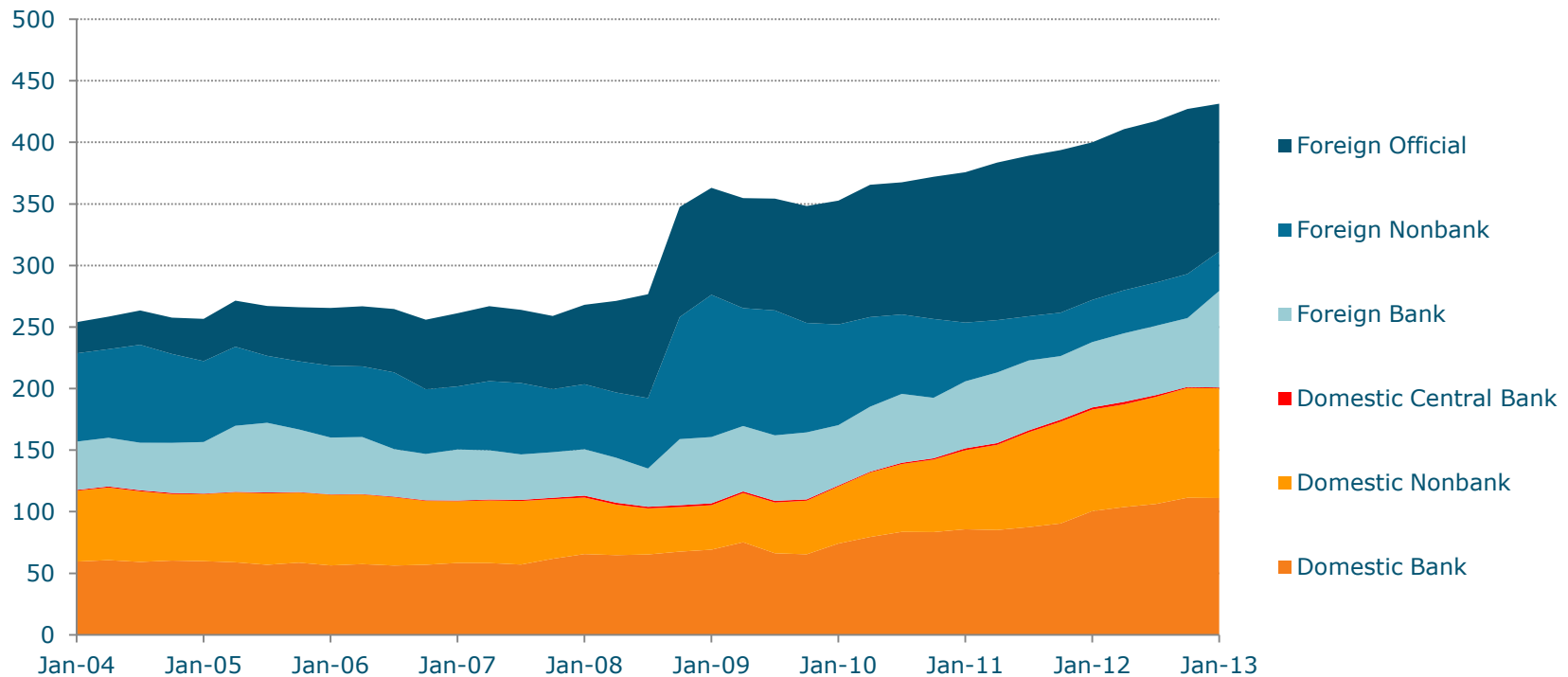
Ensuring sufficient liquidity in secondary markets

- Annual issuance of new 3- and 10-year bonds
- Raising outstanding amounts of 3-, 5- and 10-year bonds to € 15 bn within 1 year of issuance
- Quotation obligation for PDs to ensure that tradable prices are available at all times
- Repo facility available to PDs ('lender of last resort')



Diversified holdings of debt

Holdings of Dutch government debt (€ bn)

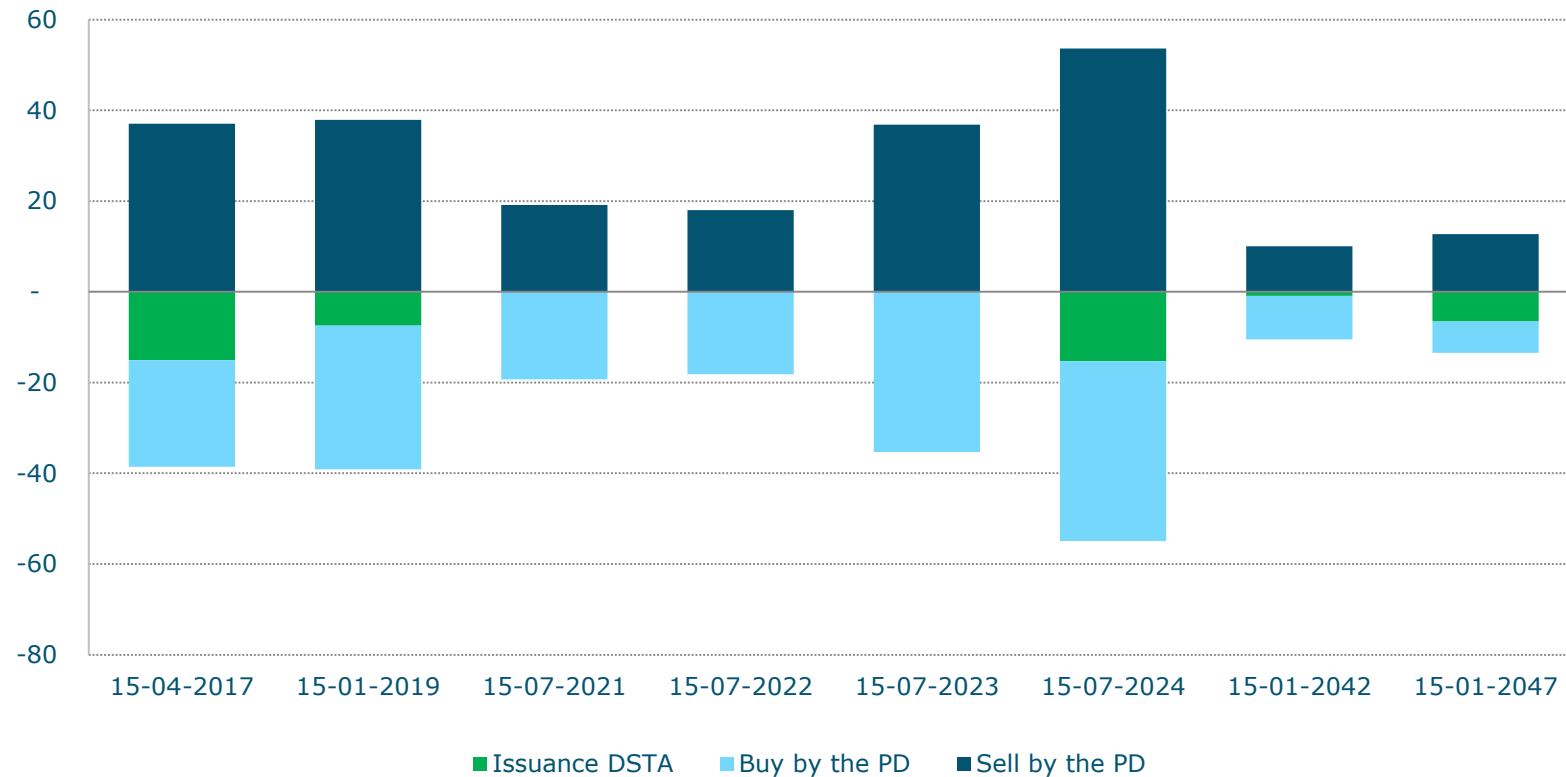


Source: Sovereign Investor Base Estimates, Arslanalp and Tsuda (IMF working paper)



Secondary market

Turnover selected DSLs (Jan. 2014- Jan. 2015, in bn)





Primary Dealers

List of 15 Primary Dealers for 2015 (in alphabetical order)

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	



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 2025 offers attractive yield versus Germany
- Highly rated issuer (Aaa/AA+/AAA)
- Continuous availability of secondary market prices
- Annual issuance of 10-year bonds; commitment to raise outstanding amount to € 15 bn within the year



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Supplement I

Economic Outlook

Trade figures

Economic sentiment

Housing market

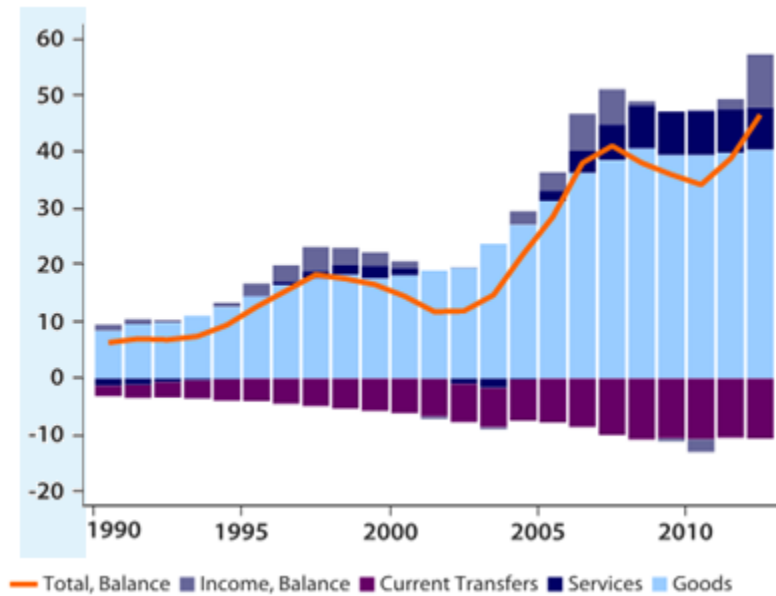
Labour market

Pensions

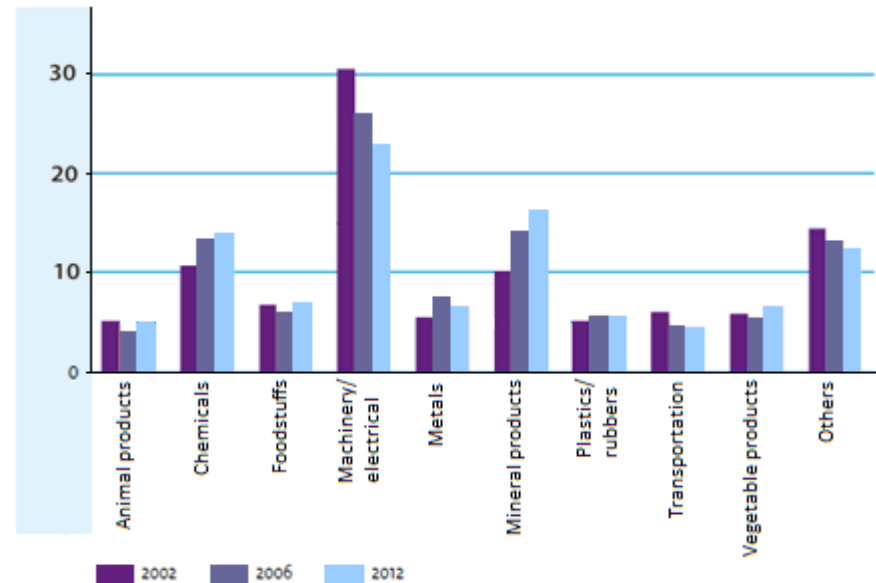


Consistent and diversified trade surplus

Components, 1990-2012 (€ bn)



Exports by product category (% of total)



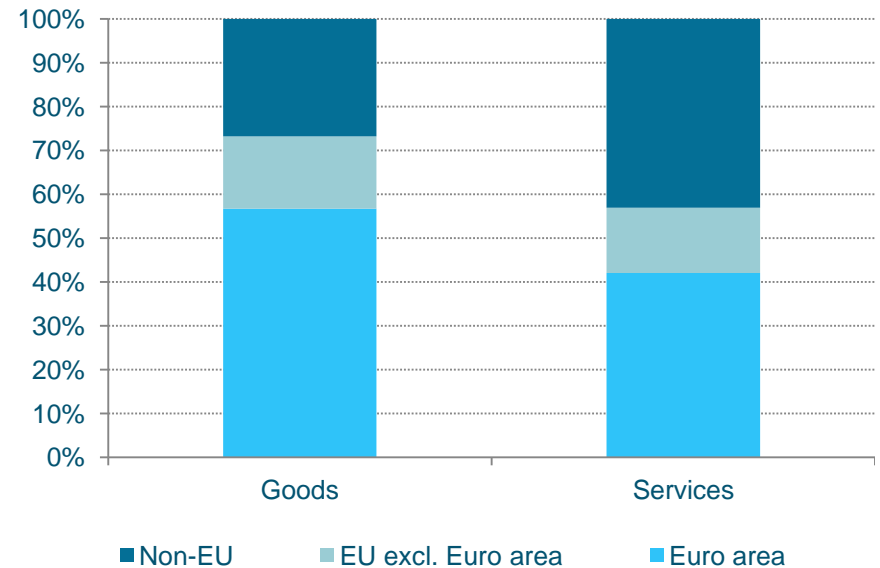
Source: National Statistics Bureau CBS



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

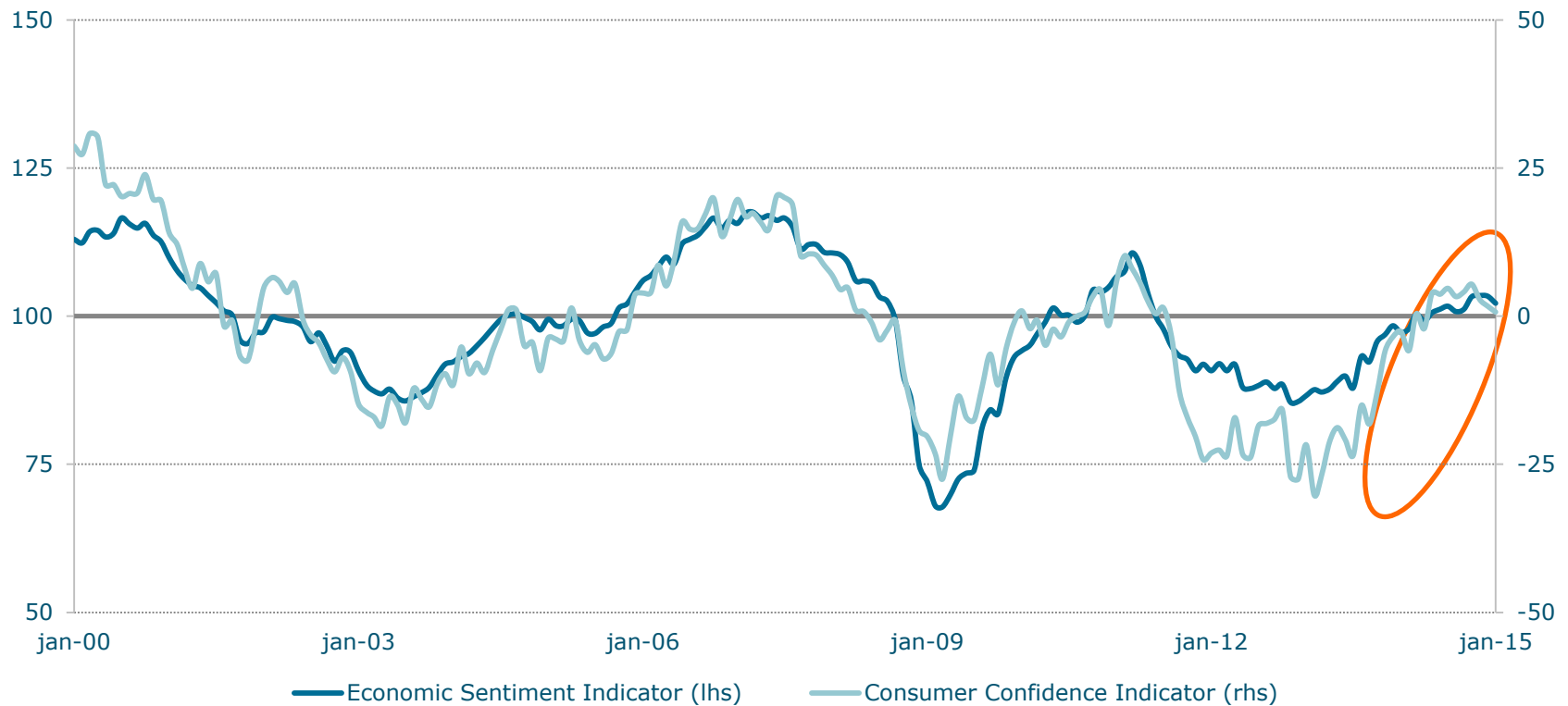
Exports geographically diversified (shares in %)



Source: National Statistics Bureau CBS, 2013



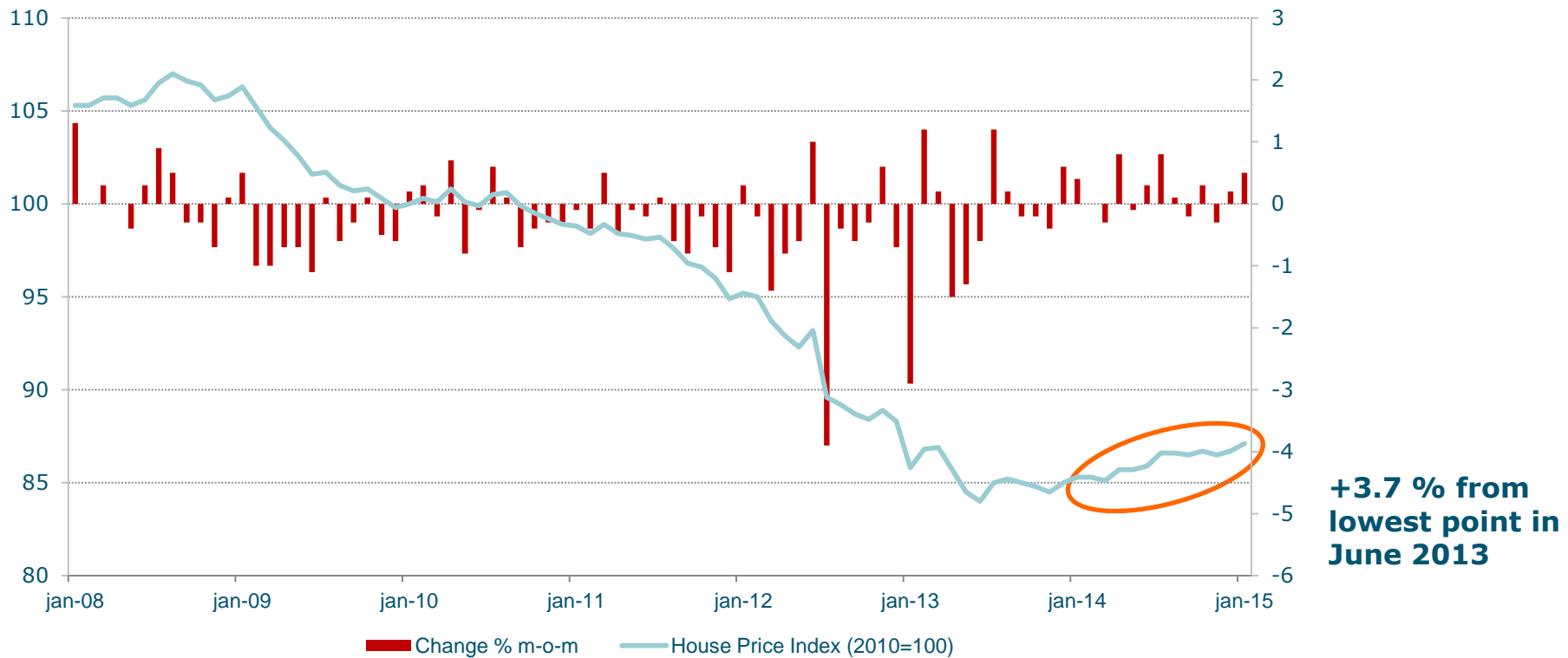
Improvement in sentiment indicators



Source: Eurostat



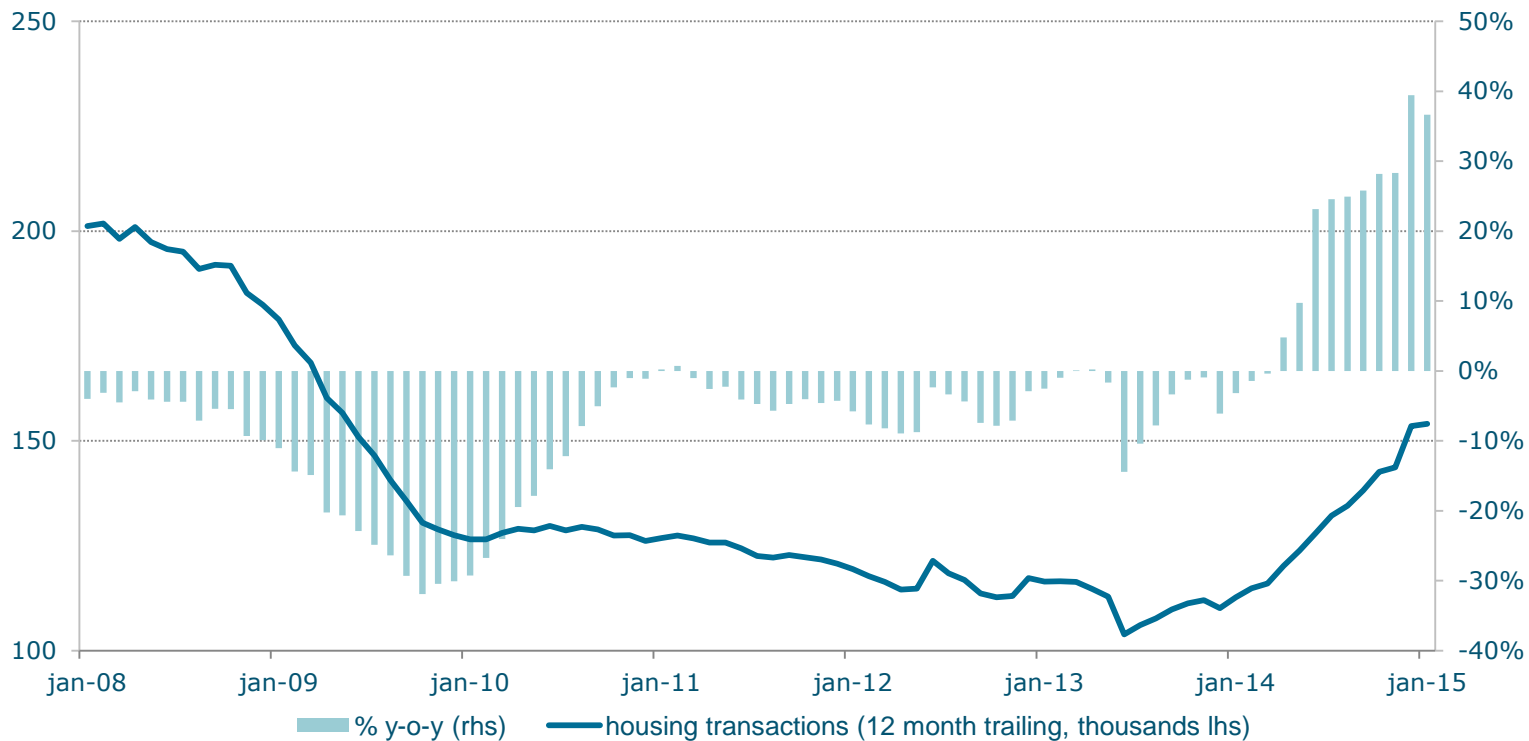
House price developments look more favourable



Source: National Statistics Bureau CBS



Number of transactions has been increasing since 2014

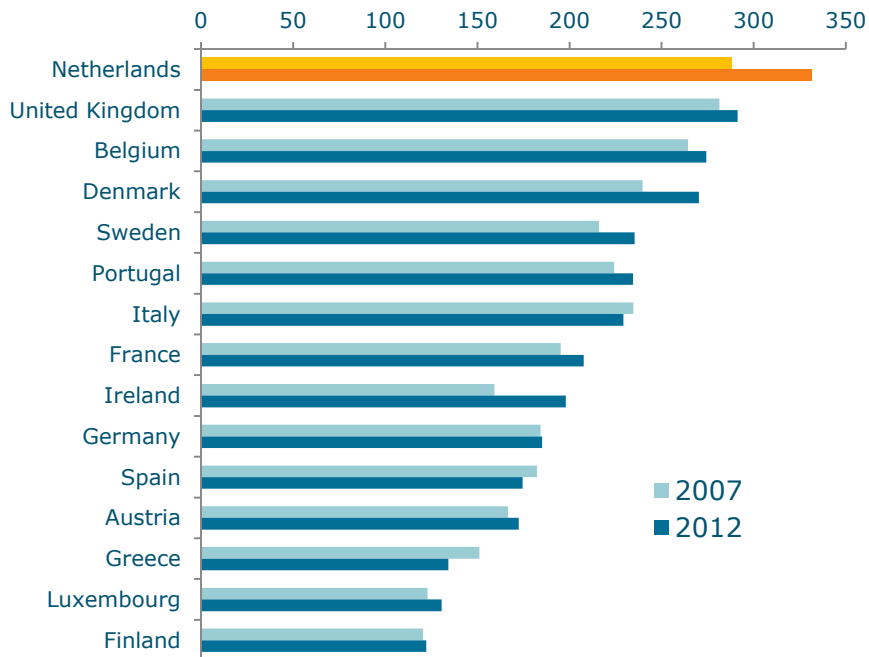


Source: National Statistics Bureau CBS



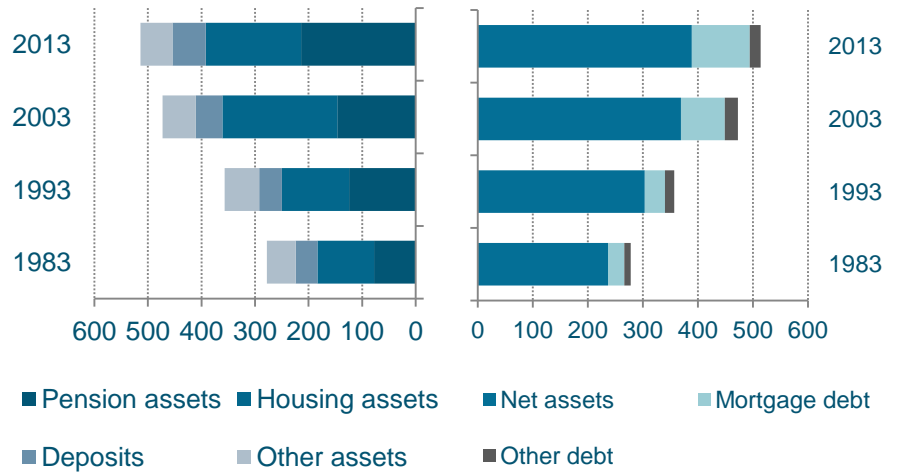
Households have strong asset position

Household financial assets (% GDP)



Source: Eurostat, 2013

Household assets and liabilities (% GDP)



Source: DNB



Housing market

Gradual price correction in the housing market has followed years of generous mortgage lending

- › At the trough of the market: nominal price decline since Q2 2008 of 21%
- › Since June 2013 prices have slowly increased by 3.7%. For 2015 the CPB projects house prices to improve in line with inflation.
- › Confidence in the housing market has improved since the start of 2013. One factor is improved affordability, due to low mortgage rates, reduced housing prices and increase in disposable income.

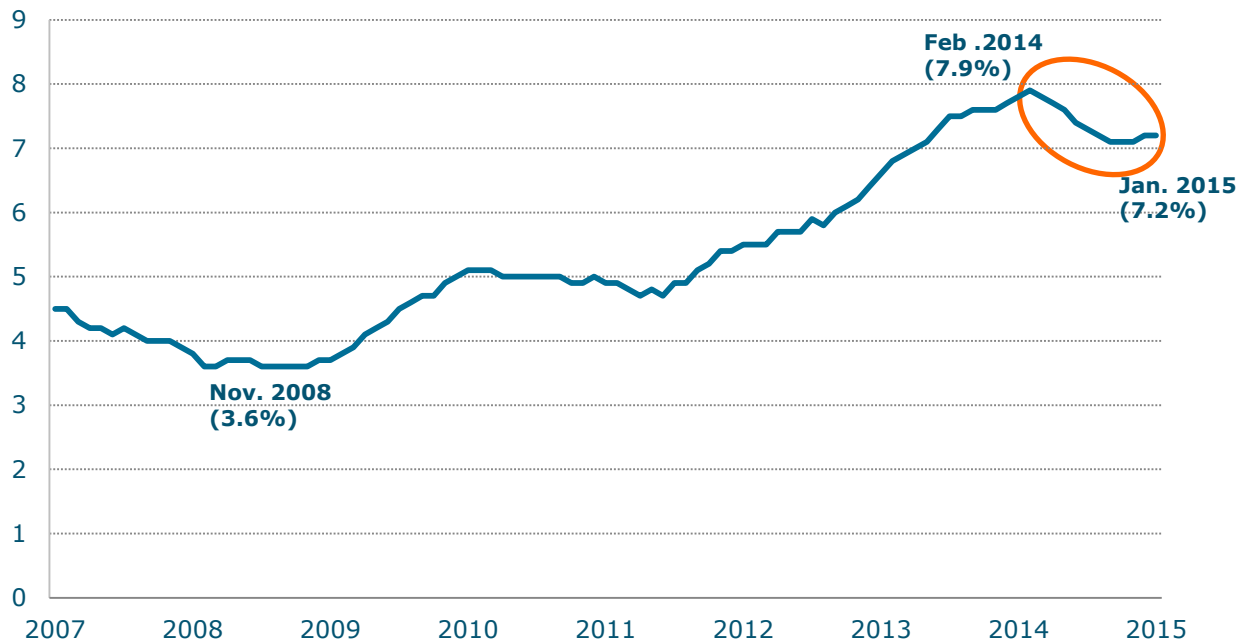
Challenges remain contained

- › 28% of households with a mortgage are in negative home equity (2014)
- › Net household wealth-to-GDP ratio is ca. 375% of GDP (but partially in less liquid 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)



Labour market

Unemployment rate (seasonally adjusted, % of labour force)

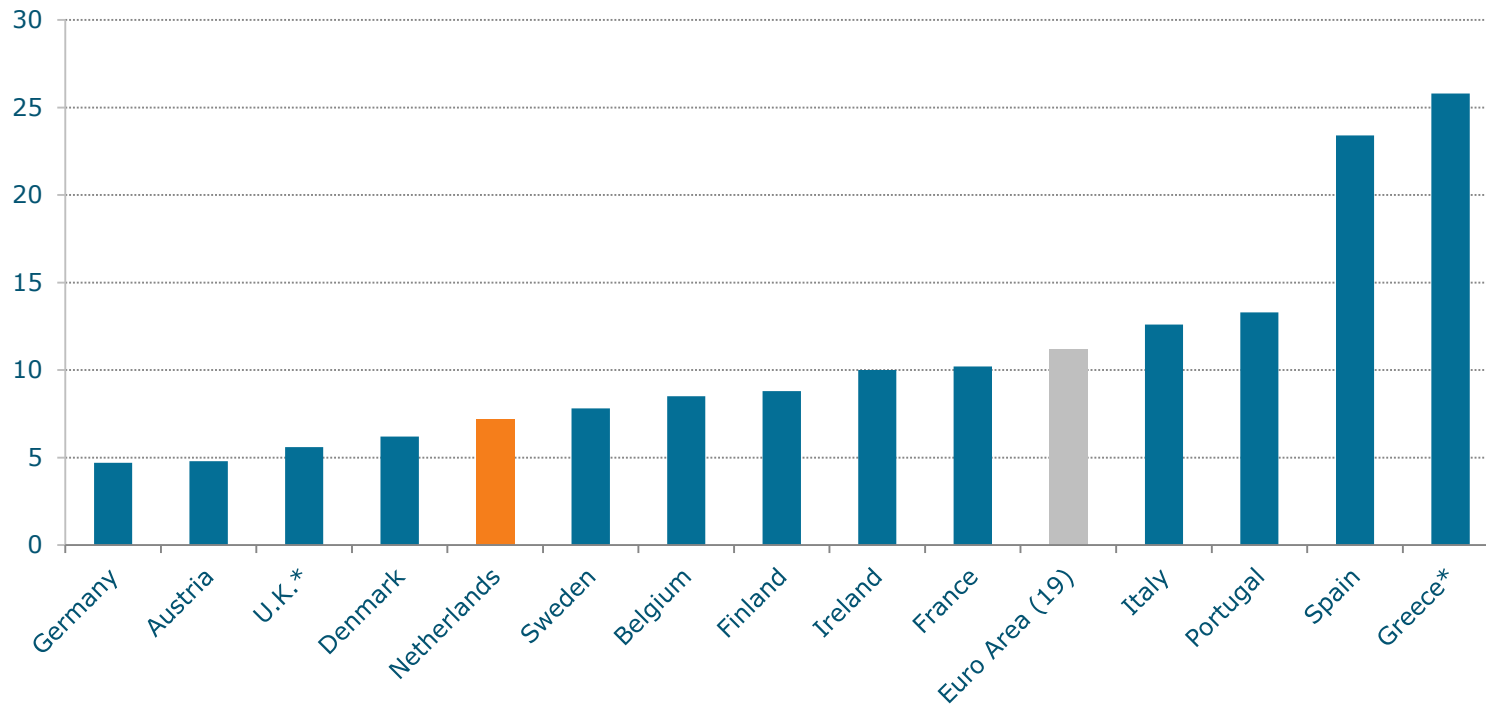


Source: National Statistics Bureau CBS



Unemployment remains low in European context

Unemployment rate (% of labour force, seasonally adjusted)

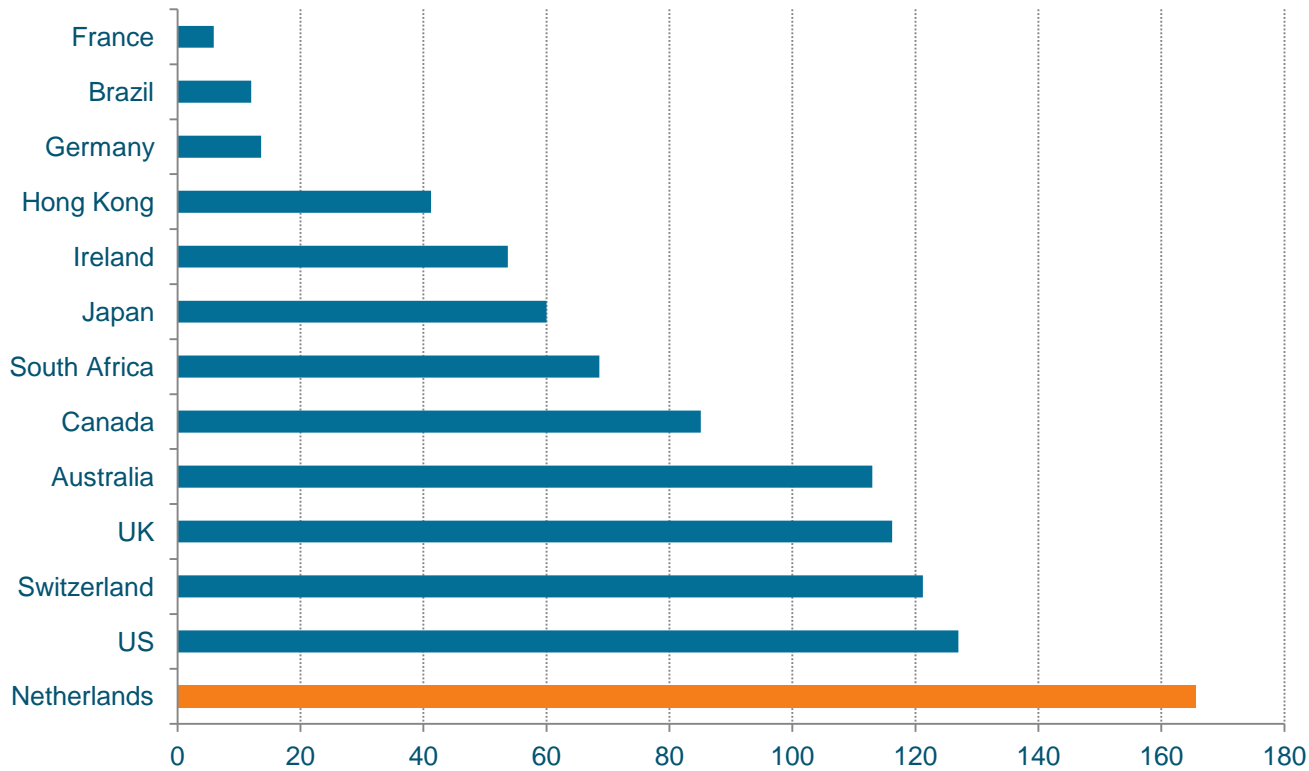


Source: Eurostat, January 2015 (or latest)

* November 2014



Pension assets (% GDP in 2014)

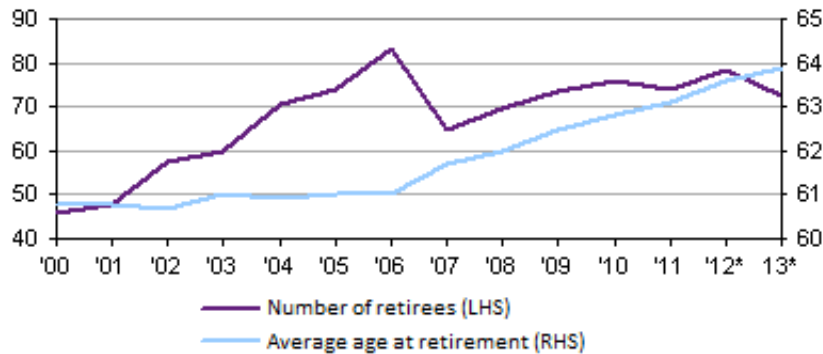


Source: Towers Watson, Global Pension Asset Study, 2015

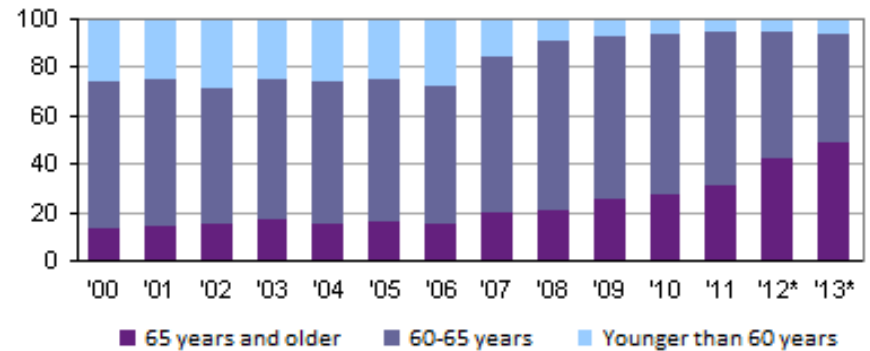


Pensions: reforms to achieve sustainability

Average retirement age



Retirement age (% of total retirees)



- 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

Source: National Statistics Bureau CBS, 2014



Supplement II

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
- 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 € 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



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	

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

		Transaction			
Details	Spread	17 to 18 bp			
	Target size	Min. € 5 bn			
	Book size	€ 10.5 bn			

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

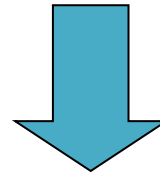


Mechanics of allocation – scenario 1

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	

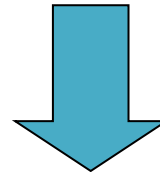


Mechanics of allocation – scenario 2

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		