



Ministry of Finance

Dutch State Treasury Agency

Investor presentation

10-year DDA
on 12 February 2019

Dutch State Loan 2029

Latest update: 28 January 2019

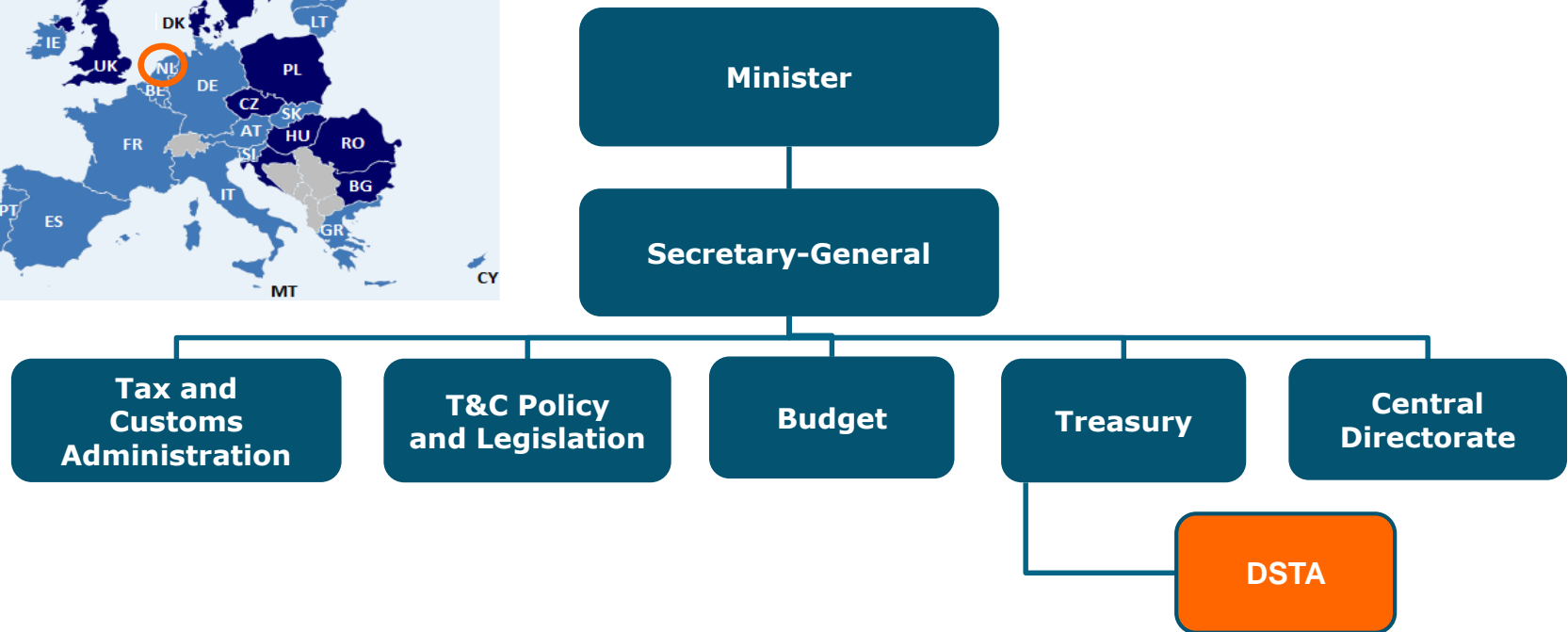
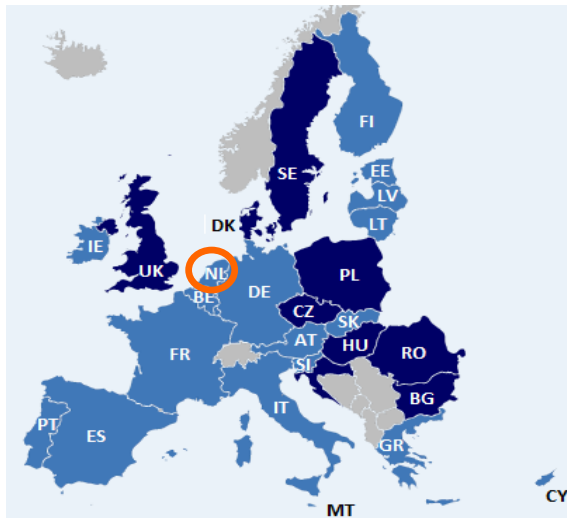


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The Dutch Ministry of Finance





The Dutch State Treasury Agency



- Founded in 1841 in Amsterdam
- Moved to The Hague in 2009
- Part of the Ministry of Finance
- Autonomous decisions within a mandate:
 - Compatibility: only the Finance Minister can borrow on behalf of the State
 - Minister granted this 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*



Details new 10-year Dutch State Loan

Details new DSL 2029

DDA date	Tuesday 12 February 2019
Maturity date	15 July 2029 (short first coupon)
Reference bond	DBR 0.25% 15 February 2029
Target volume	€ 4 - 6 bn
Pricing	Aim to price on the auction day, but no later than 12:00 CET on 13 February 2019
Settlement date	Two days after pricing
Coupon	To be announced on Friday 8 February 2019
Initial spread guidance	To be announced on Monday 11 February 2019
Country ratings	Aaa/AAA/AAA
Total fees	€ 13 mn (incl. advisory fee) for 2019, including green bond



Time schedule 10-year DDA

- Book opens 10:00 CET on Tuesday 12 February 2019
- Final spread guidance will be announced no later than 15:00 CET on the auction day
- Book closes at the latest 17:00 CET on the auction day
- Allocation communicated as soon as possible after closing the book; preferably on the day of auction but no later than 09:00 CET the following morning
- Pricing from 30 minutes after allocation and preferably on the auction day itself; but no later than 12:00 CET the following day



Economic Outlook



Projections: strong economic performance

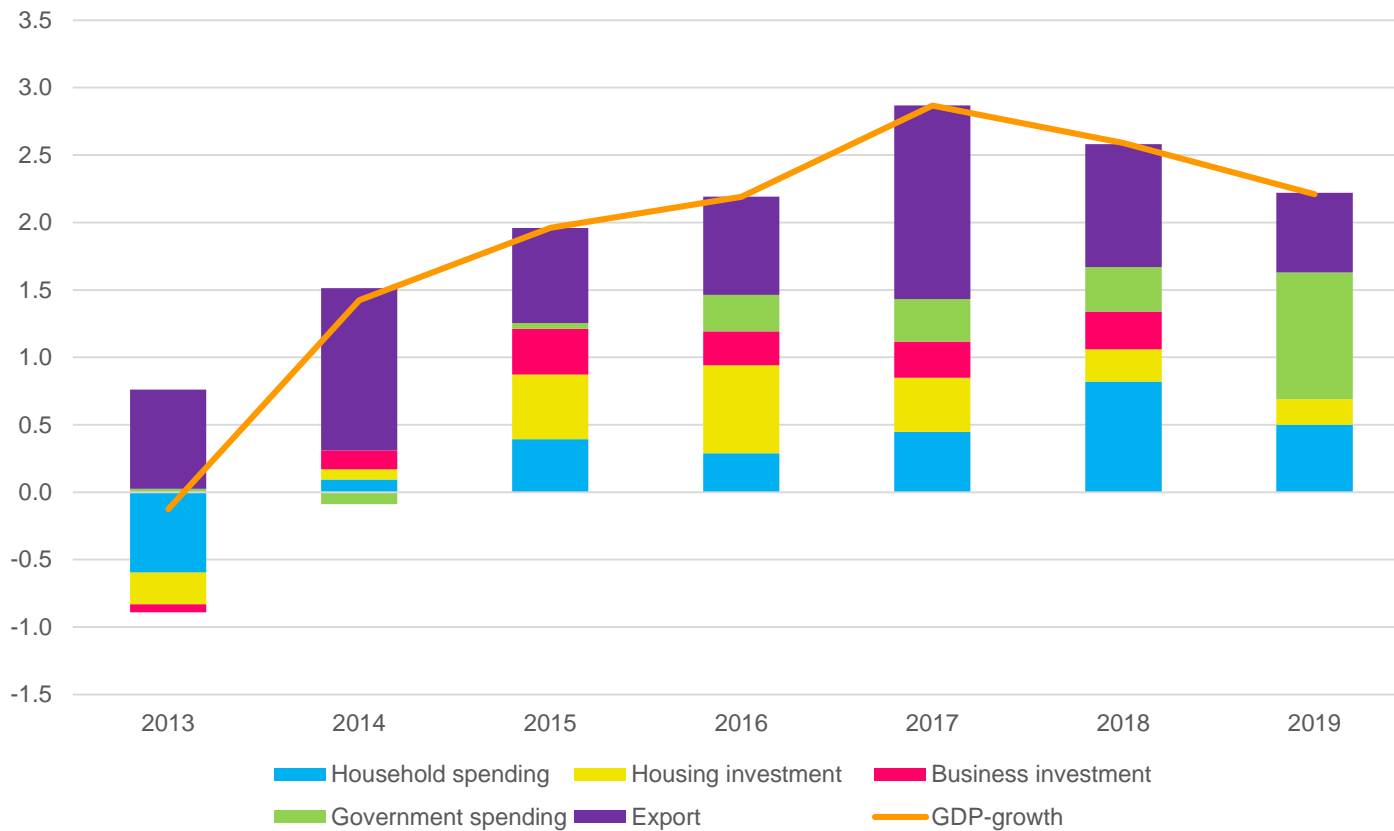
Key economic figures 2017-2019 (% change, y-o-y)

	2017	2018	2019
GDP growth	2.9	2.6	2.2
Household consumption	1.9	2.7	1.9
Government consumption	1.1	1.2	3.4
Investments (incl. inventories)	4.4	4.5	3.9
Exports	5.3	2.8	3.6
Imports	4.9	3.0	4.5
Unemployment (% of labour force)	4.9	3.9	3.6
Inflation (HICP)	1.3	1.6	2.4

Source: CPB (Netherlands Bureau for Economic Policy Analysis), Forecast December 2018 (www.cpb.nl)



Broad-based economic growth

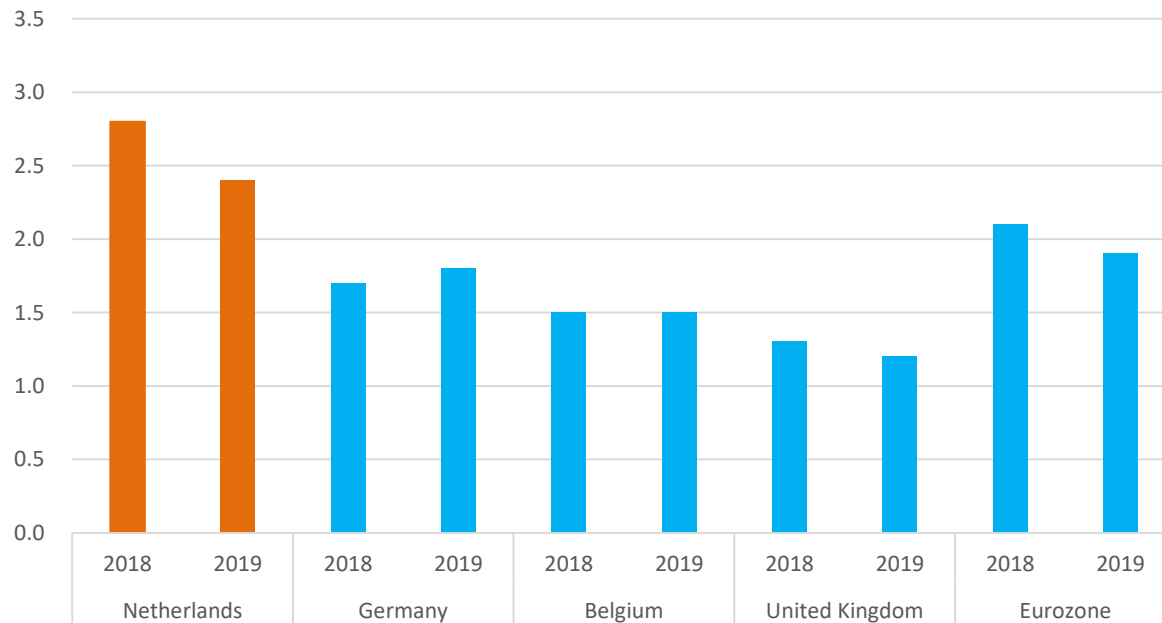


Source: CPB (Netherlands Bureau for Economic Policy Analysis), Forecast December 2018 (www.cpb.nl)



Dutch GDP growth stands out positively

GDP growth (% y-o-y)

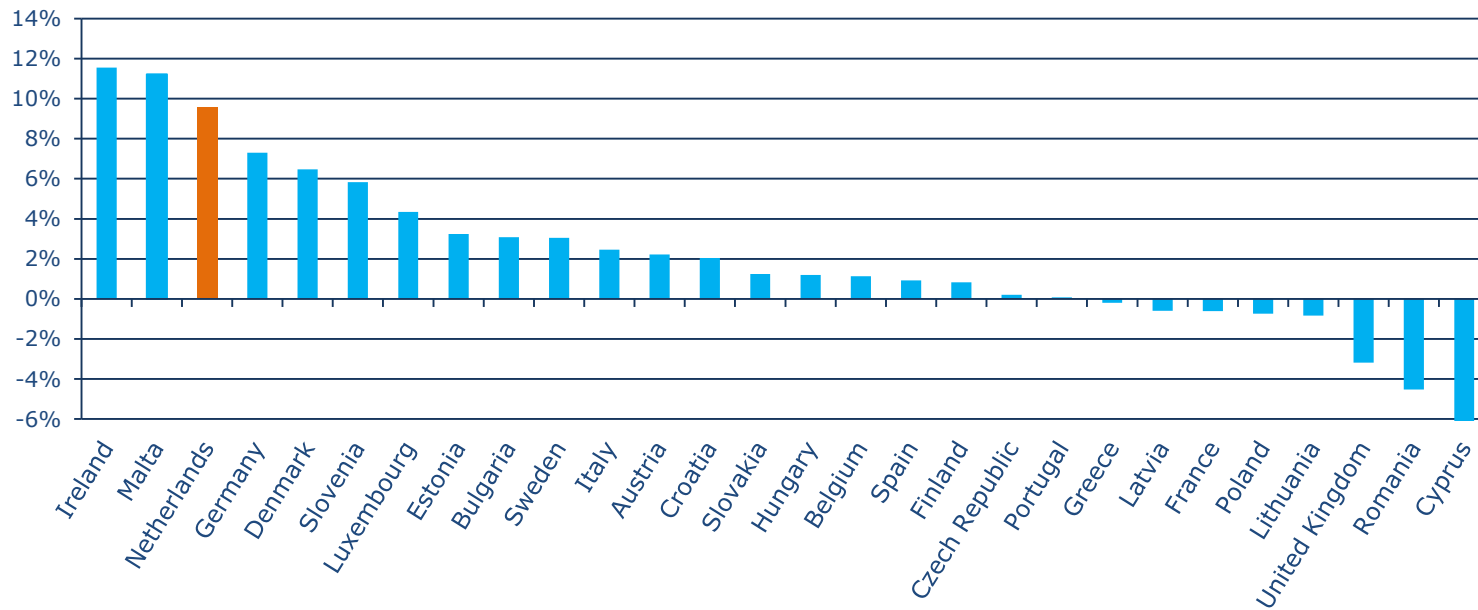


Source: European Commission (EC) economic forecast autumn, October 2018



Strong current account surplus

Current account balance 2019 (% of GDP)



Source: EC economic forecast autumn, October 2018

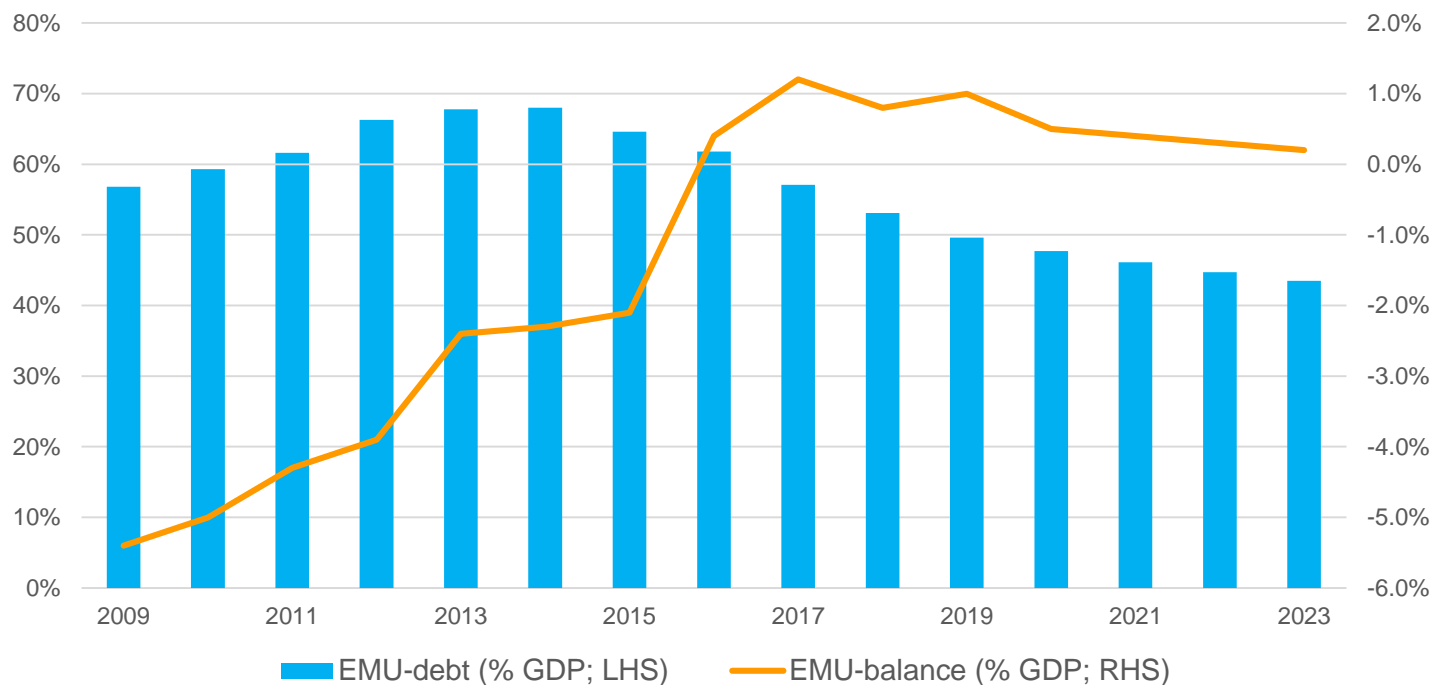


Budgetary Outlook



Public finances show strong improvement

EMU-debt and EMU-balance over 2009-2018, including projections



Source: Ministry of Finance, September 2018



Funding and Issuance



Debt outstanding

Key figures at the end of December 2018

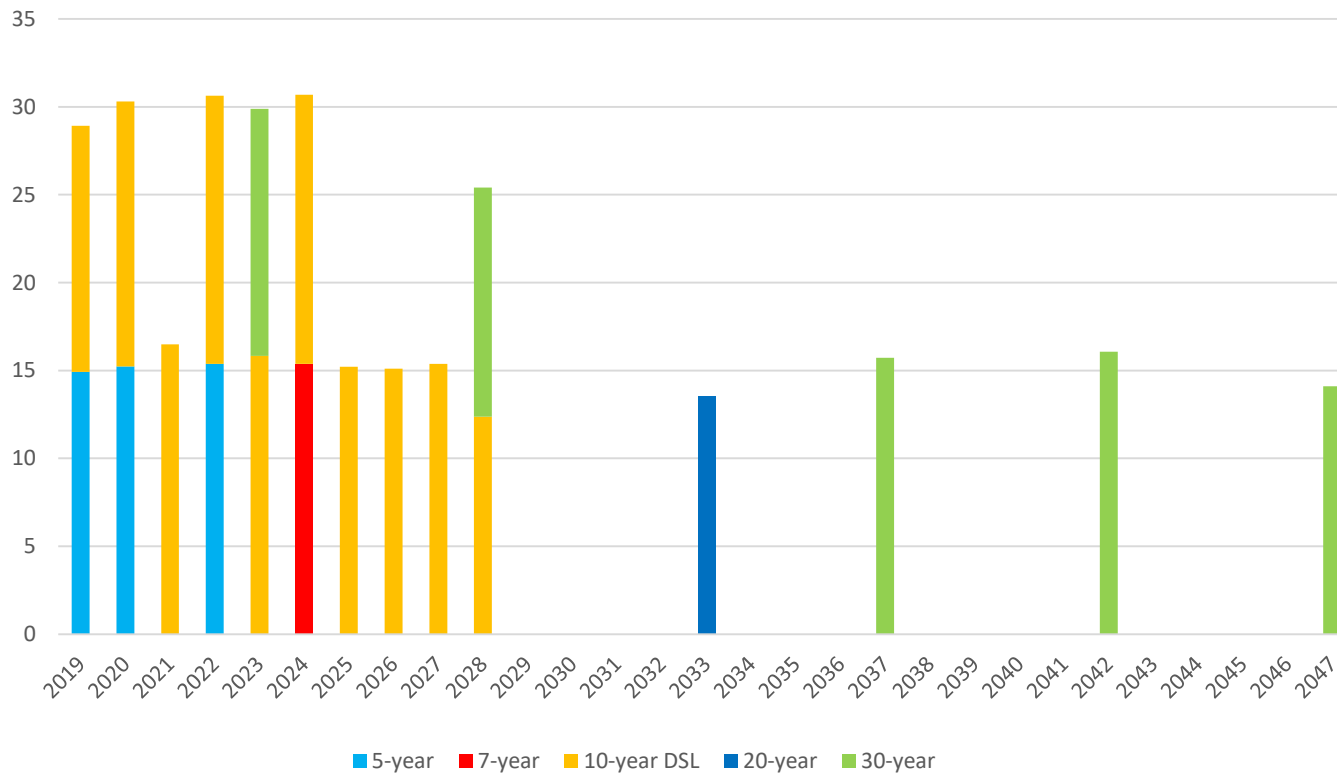
Instrument	(€ bn)
DSL (T-bonds)	297.5
DTC (T-bills)	19.7
Commercial Paper	2.2
Private loans	1.0
Cash	1.4
Cash collateral	8.7
Total debt outstanding	330.5

Source: DSTA, Monthly Report



DSL redemption profile

Redemptions of DSLs, position at the end of December 2018 (€ bn)





Borrowing requirement 2019

Borrowing requirement 2019	(€ bn)
Capital market redemptions 2019	29.6
Money market ultimo 2018 (excl. cash collateral)	20.2
Cash balance 2019*	-7.2
Total	42.6

* A cash surplus is shown as a negative number because it decreases the total borrowing requirement

Source: DSTA, Update borrowing requirement for 2019, January 2019



Funding in 2019

Funding 2019	(€ bn)
Capital market issuance (DSLs) in nominal terms	19-23
Money market ultimo 2019	19-23
Total	42.6

- Money market is primary buffer
- Some flexibility on capital market (target range as announced in Outlook 2019)

Source: DSTA, Update borrowing requirement for 2019, January 2019



Issuance in 2019

Total DSL funding (€ bn)

DSL	Indicative	Realised
New 10-year DSL 2029	≈ 12	-
Reopening off-the-run DSLs	≈ 3-5	1.78
Green bond (maturity ≥ 15 years)	≈ 4 - 6	-
Total DSL funding	≈ 19 - 23	1.78

Source: DSTA

Liquidity and investor base





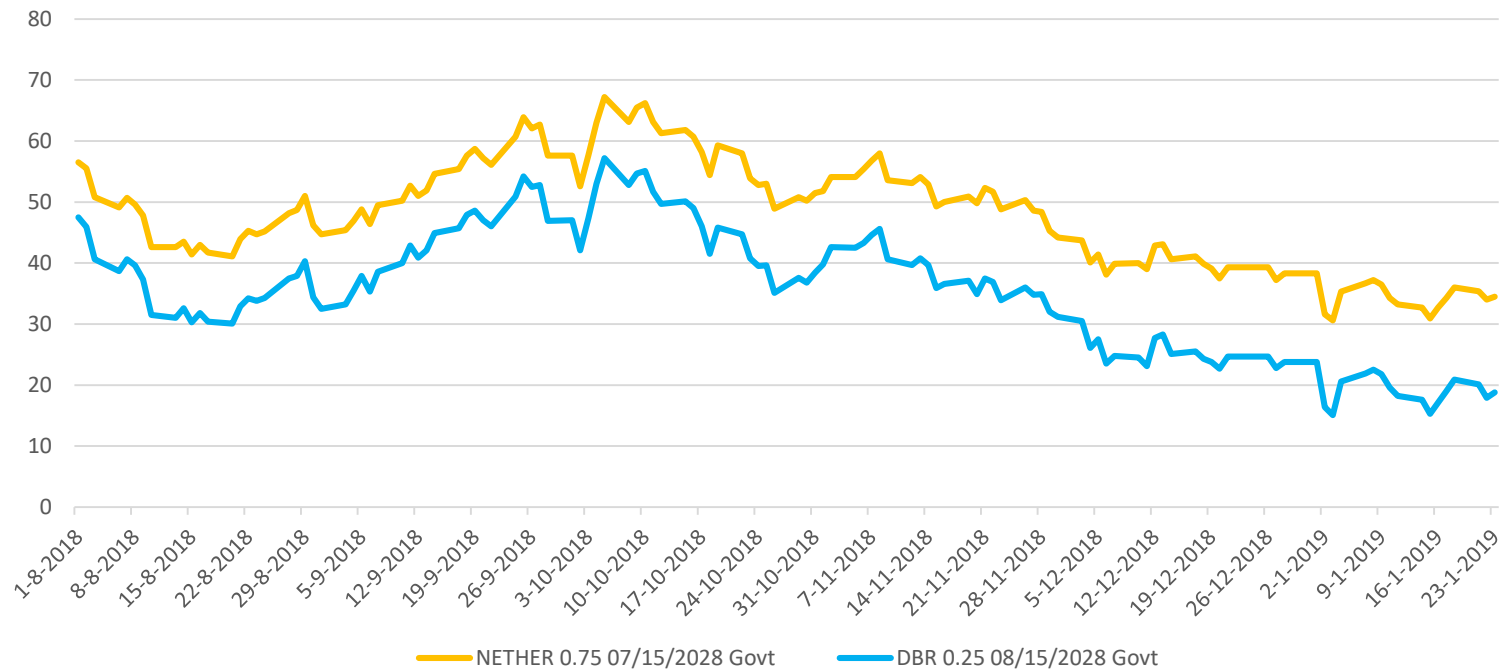
Ensuring sufficient liquidity in secondary markets

- Annual issuance of a new 10-year bond; and clarity at start of the year on other benchmark issuances (shorter-dated bonds, longer-dated bonds)
- Raising the outstanding amount of the 10-year bond to size of around € 12 bn within 1 year of issuance
- Quotation obligation for Primary Dealers to ensure tradable prices to be available at all times
- Repo facility available to Primary Dealers ('lender of last resort')



Dutch yield spreads attractive vs German bund

Yields of Nether Jul2028 versus DBR Aug2028 (in bps)

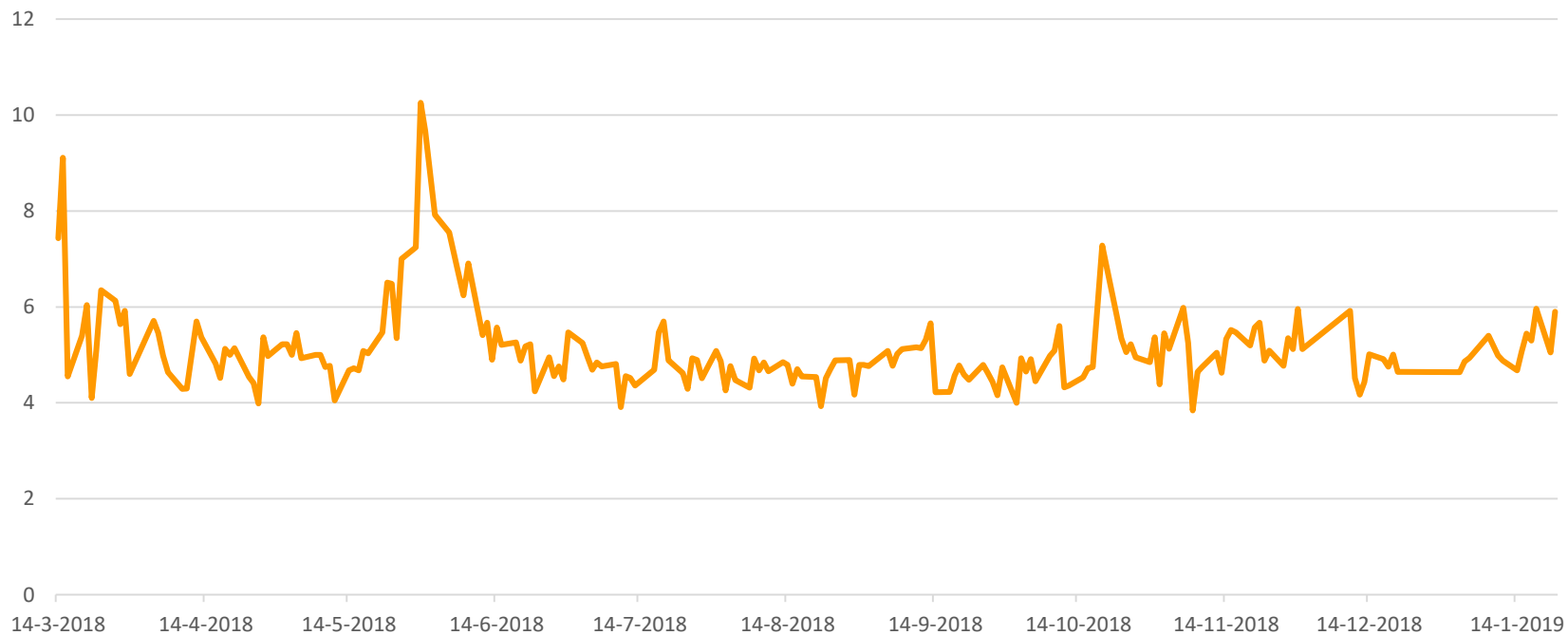


Source: Bloomberg



Tight interdealer bid/offer spreads

Tightest interdealer bid/offer spread of Nether Jul2028 (in cents)



Source: DSTA



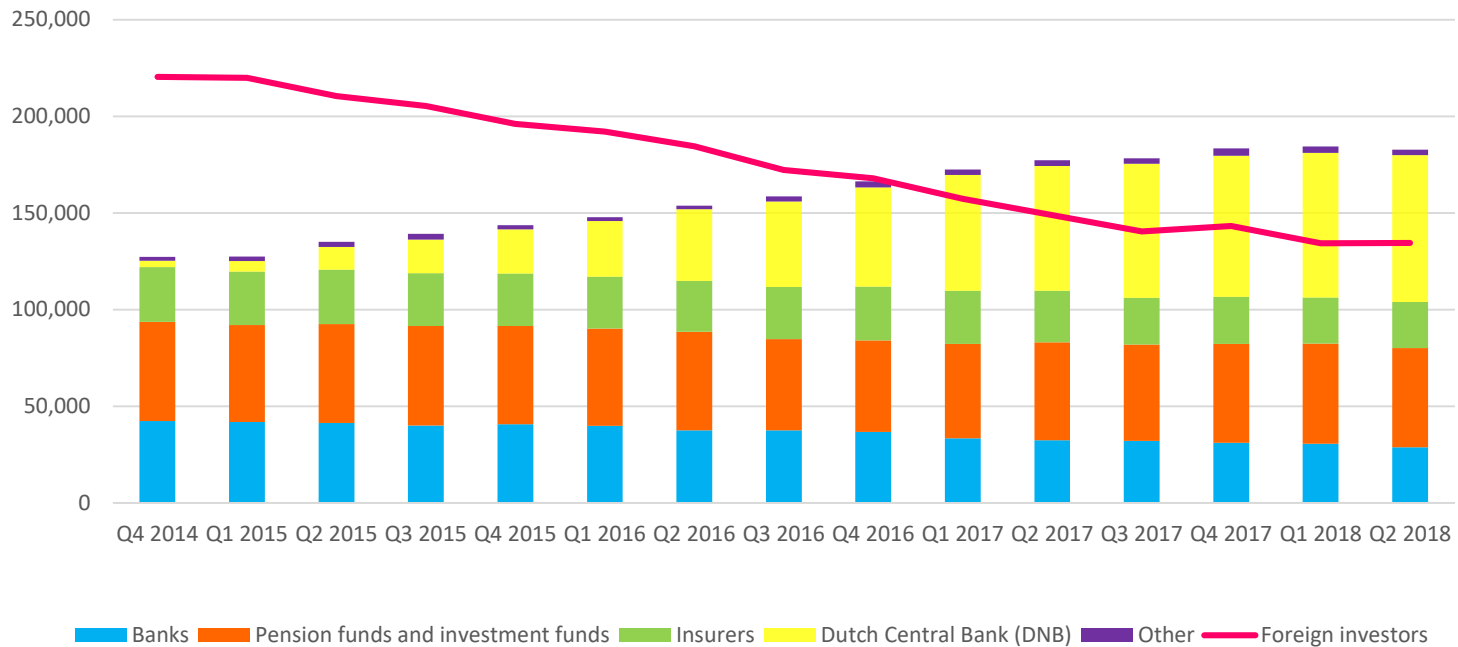
QE and DSLs

- ECB does not actively buy net. securities under their current policy anymore but is still reinvesting maturing securities that have been bought under the APP
- As of the end of December 2018 the ECB bought approximately net. € 115.2 bn of Dutch paper under the programme
- Next to DSLs, ECB can buy bonds from three other Dutch agencies:
 - Bank Nederlandse Gemeenten N.V. (BNG)
 - Nederlandse Waterschapsbank N.V. (NWB)
 - Nederlandse Financieringsmaatschappij voor Ontwikkelingslanden N.V. (FMO)
- Average maturity of Dutch debt held by ECB was 7.2 years at end of December 2018
- DNB has a securities lending facility



Holdings of DSLs

Holdings of Dutch government securities (€ mln), Q2 2018

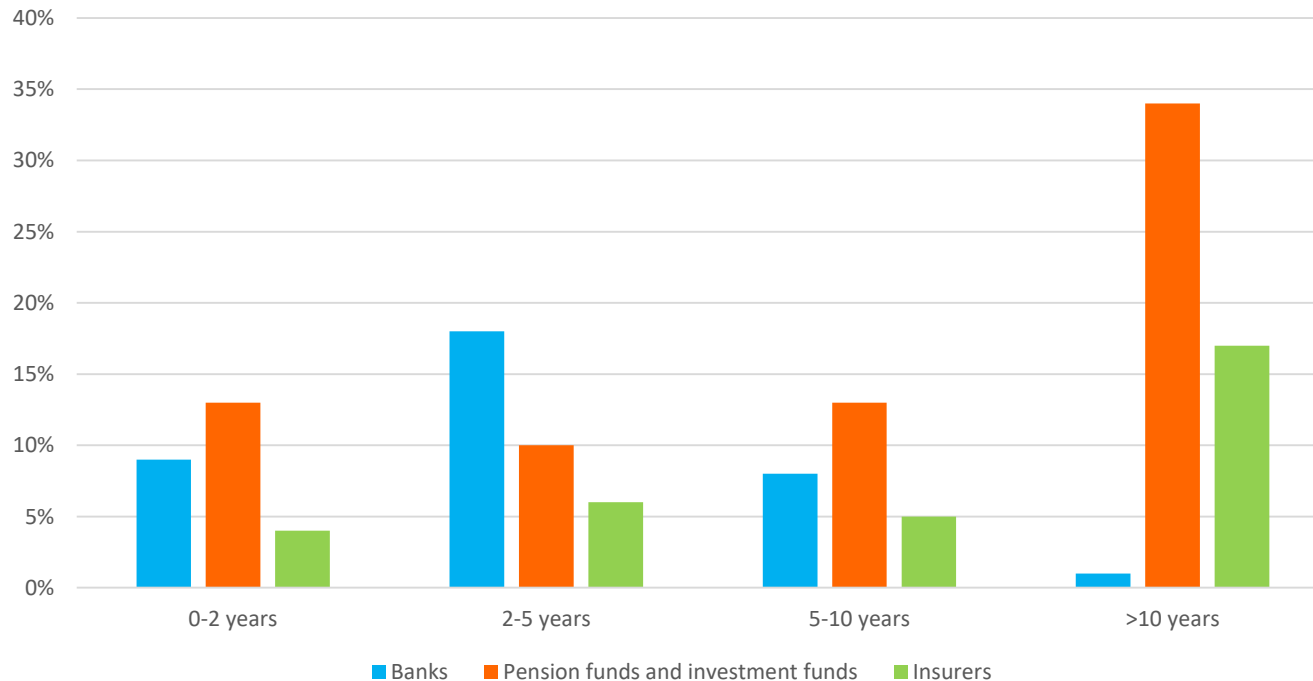


Source: Dutch Central Bank (DNB), December 2018



Holdings of DSLs per maturity segment

Domestic sector holdings (% of outstanding debt in the specific segments), Q2 2018

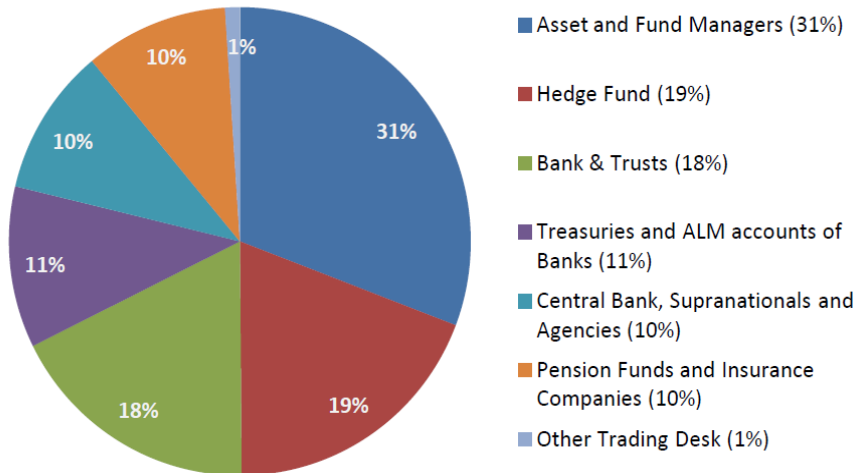


Source: DNB, December 2018



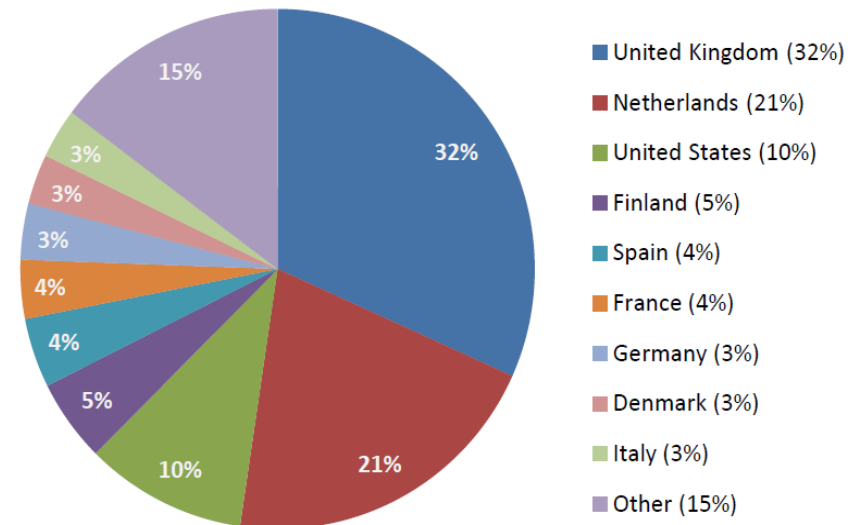
Diversified investor base: previous 10-year DDA

Breakdown of investor base



* 'Asset and fund managers' also includes 'private banks'

Geographical breakdown





Reasons to buy DSL 2029

- Strong economy: 2.2% GDP growth projected for 2019, steady growing housing market and declining unemployment
- Solid budget: Budget surplus, and EMU-debt level below 60% GDP. Solid reputation of consensus-based fiscal discipline
- Liquidity: commitment to raise outstanding amount of bond to a size of around €12 bn within one year of issuance
- Tradability: Continuous availability of secondary market prices
- Highly rated issuer (Aaa/AAA/AAA): only triple A rated EMU sovereign with an attractive yield compared to Germany



Supplement I

Current Government Policy



Present political situation

- Government of Rutte (III) took office on 26 October 2017
- Long-standing tradition of 'trend-based' budgetary policy → government expenditure levels are determined at the beginning of the government term, are fixed and cannot be exceeded during the government term.
- Specific investments are in the field of defense, education, security, environment, infrastructure and elderly care.
- The government plans contribute to the continued strong economic outlook for the Netherlands.



Governmental plans

Housing market

- There will be an accelerated reduction of the mortgage interest deduction: in steps of 3% per year to the basic rate
- Maximum LTV for new mortgages down to 100%

Pensions/retirement

- Retirement age increased to 67+ from 2021 onwards
- The coalition agreement envisages further modernization of the pension system

Health care

- The government argues there's no need for major reforms. However, there is a need for certain improvements.
- €2.1 bn is being made structurally available for good quality residential care
- General agreements will be concluded again, with savings of €1.9 bn a year

Labour market

- Lower tax rates on labour (and higher rate on consumption)
- Institutional changes to reduce labour market segmentation



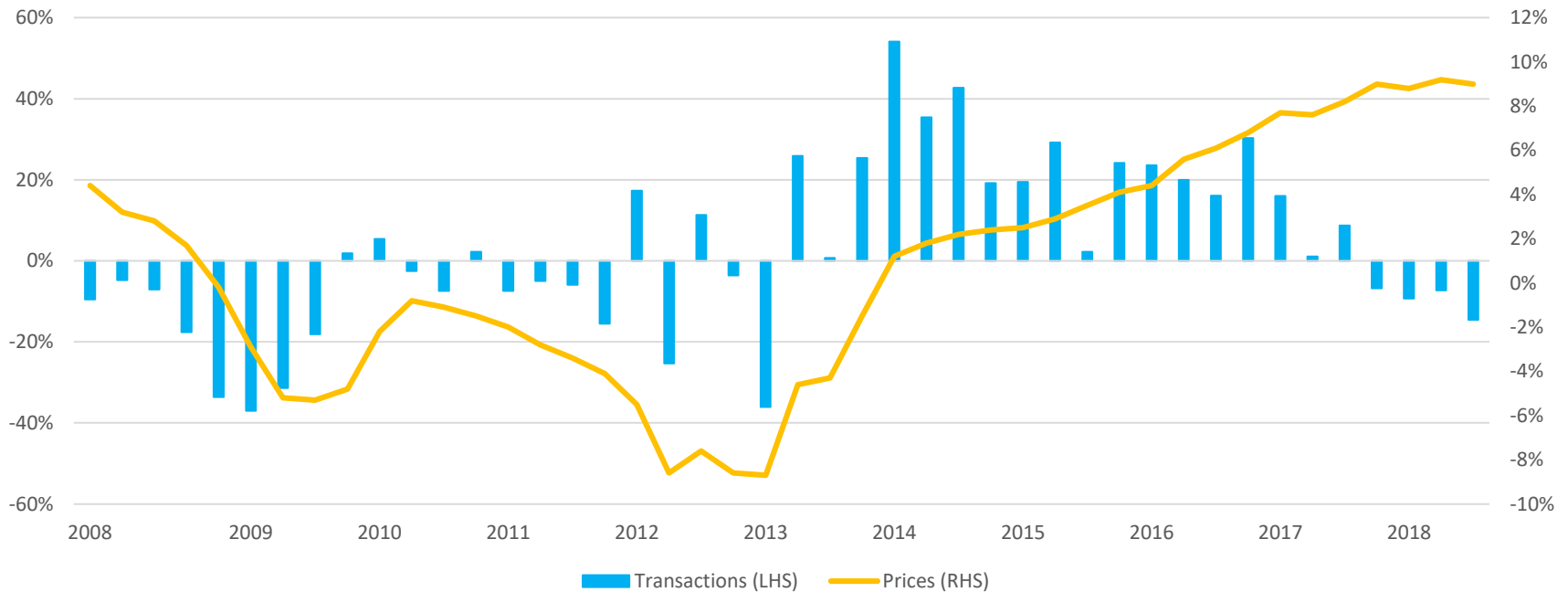
Supplement II

The economy continued



Housing market recovery

Transactions and prices %-change (y-o-y)

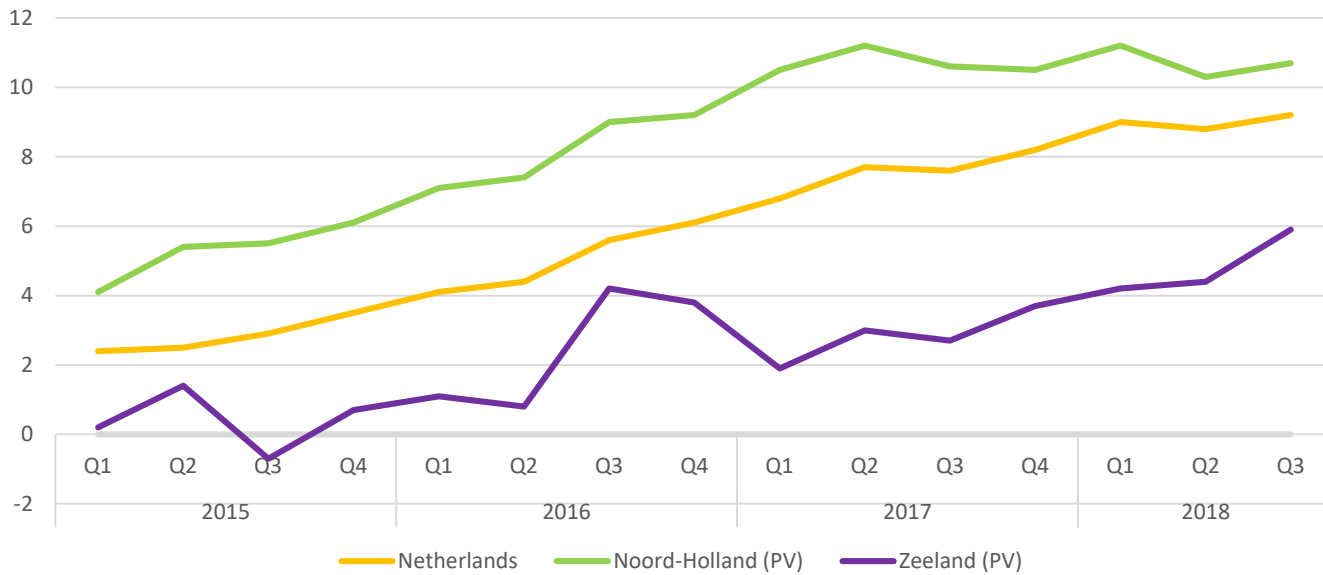


Source: CBS, January 2019



Regional divergence in housing prices

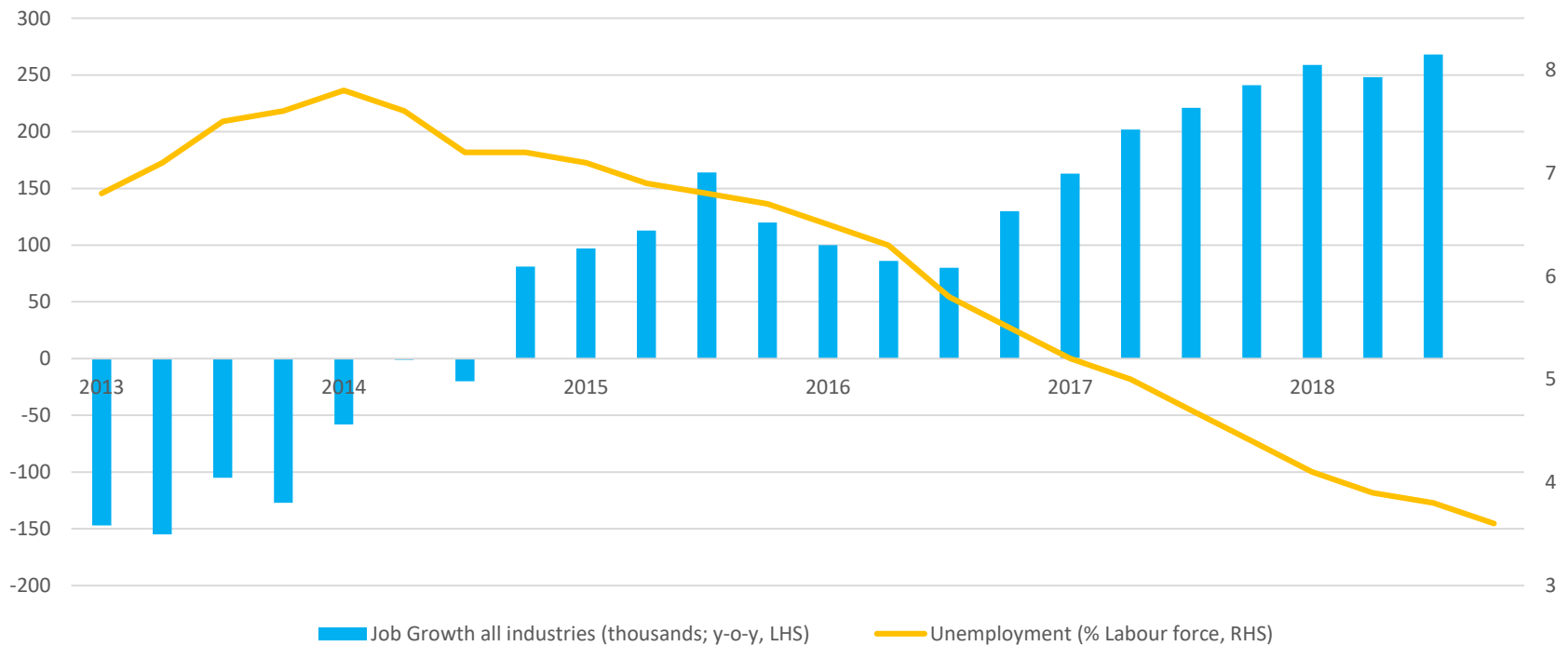
Housing prices in different provinces (%-change y-o-y)



Source: CBS, January 2019



Labour market recovery

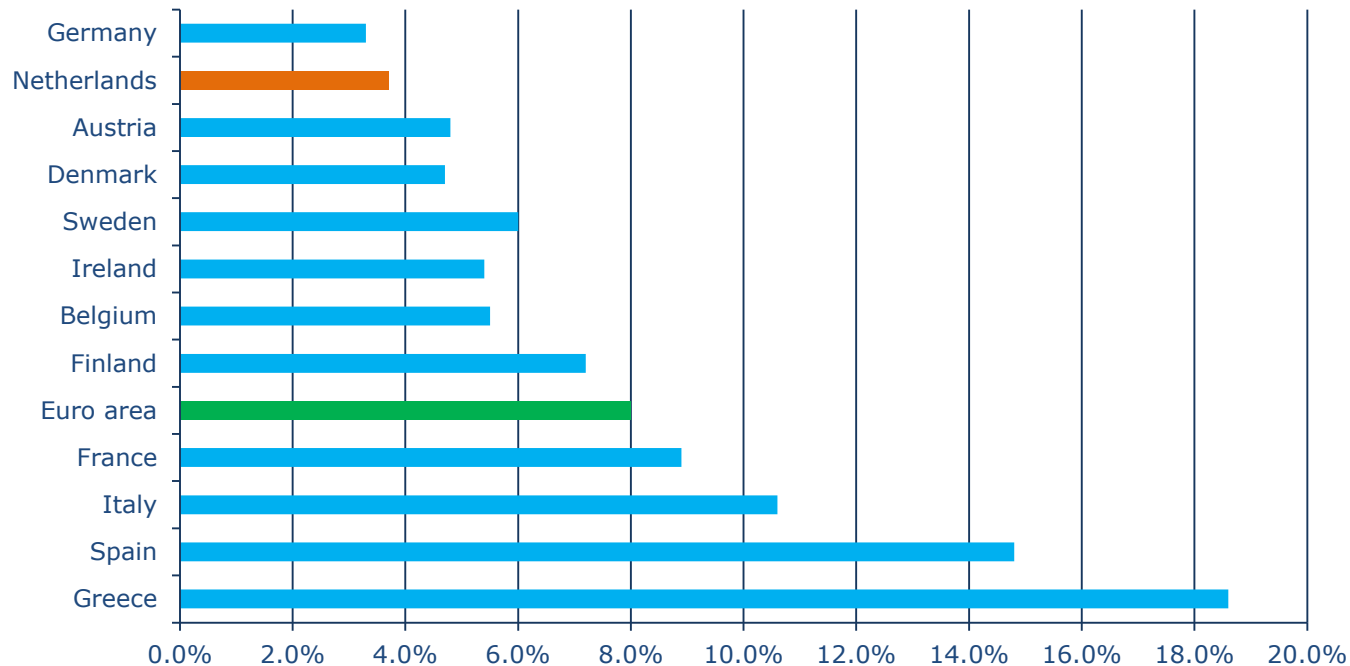


Source: CBS, January 2019



Unemployment is low and declining further

Unemployment rate, seasonally adjusted data (% of labour force)

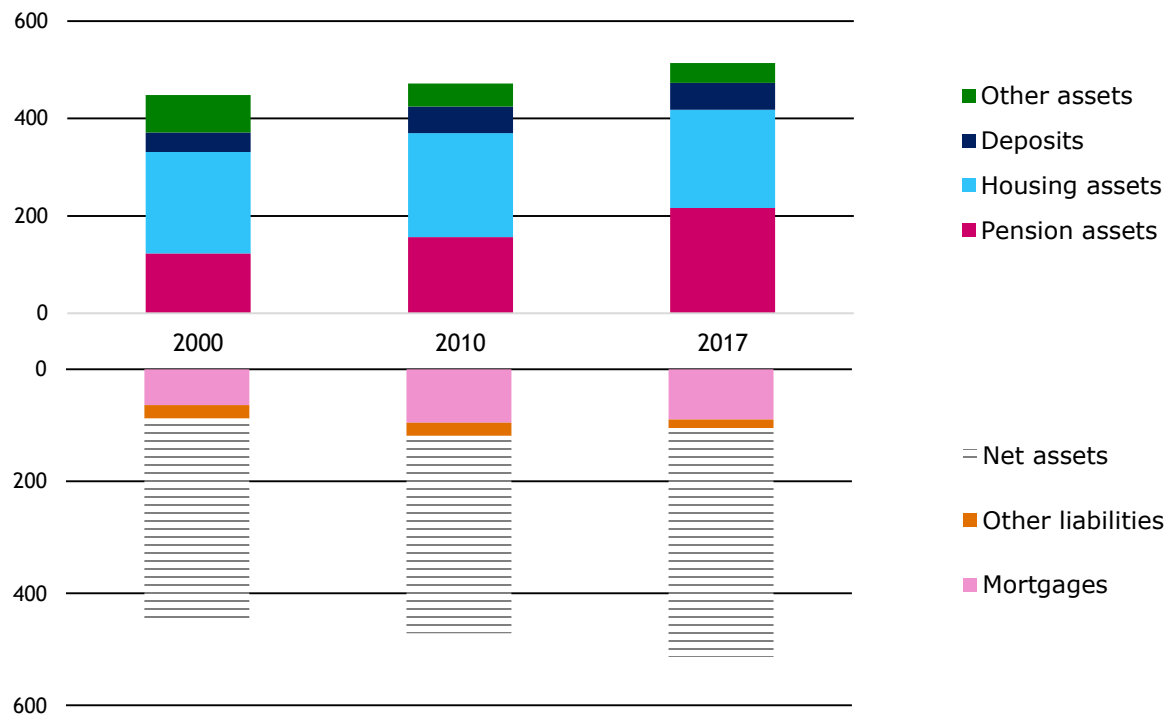


Source: Eurostat, October 2018



Households have strong asset position

Households assets and liabilities (% of GDP)

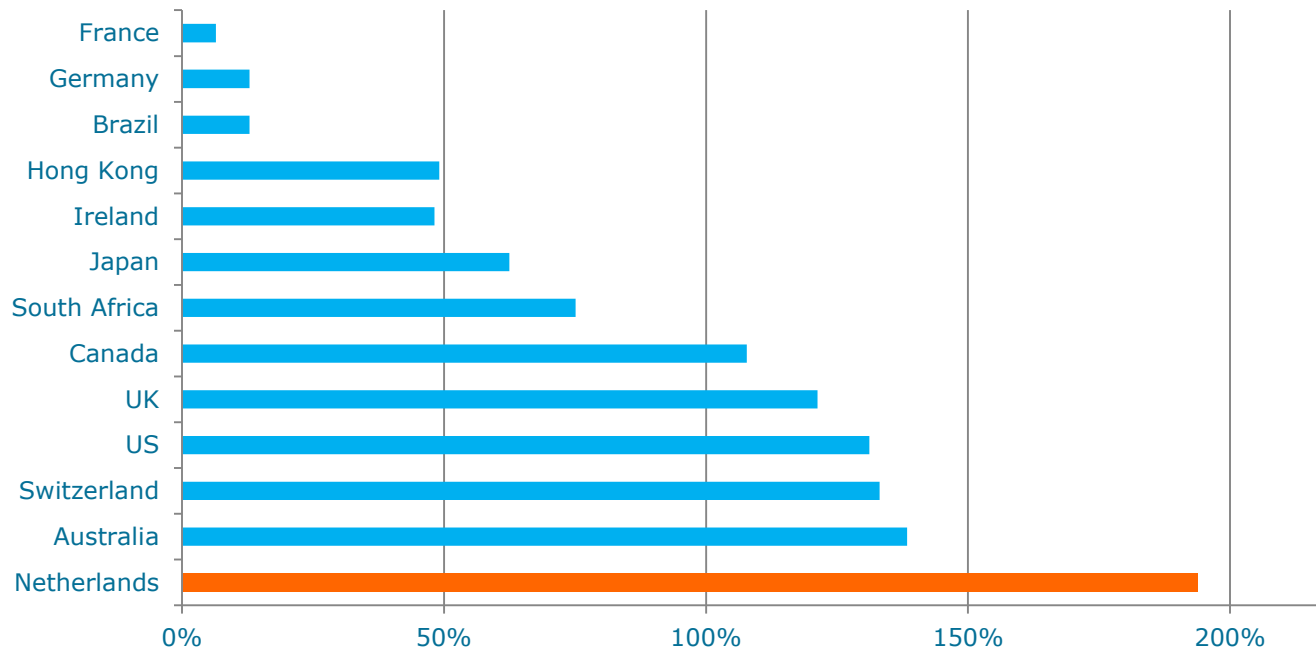


Source: Ministry of Finance, September 2018



Pension assets internationally

International pension assets in 2017 (% of GDP)

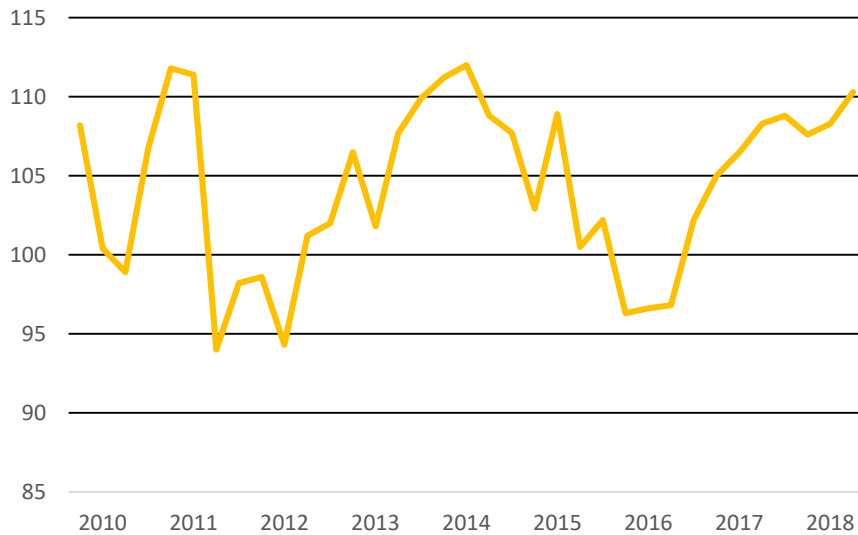


Source: Willis Towers Watson, Global Pension Asset Study, February 2018



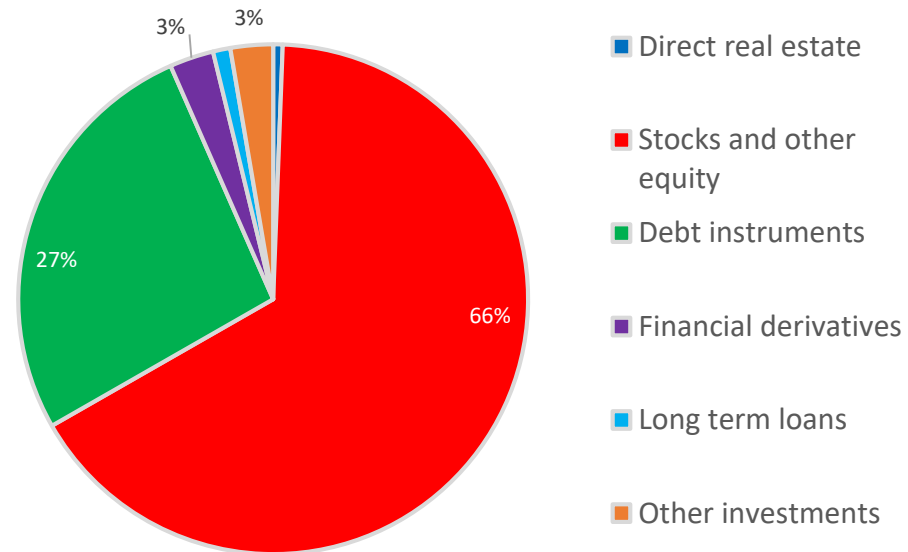
Pension funds

Pension fund coverage ratios



Source: DNB, December 2018

Pension fund holdings at the end of 2017

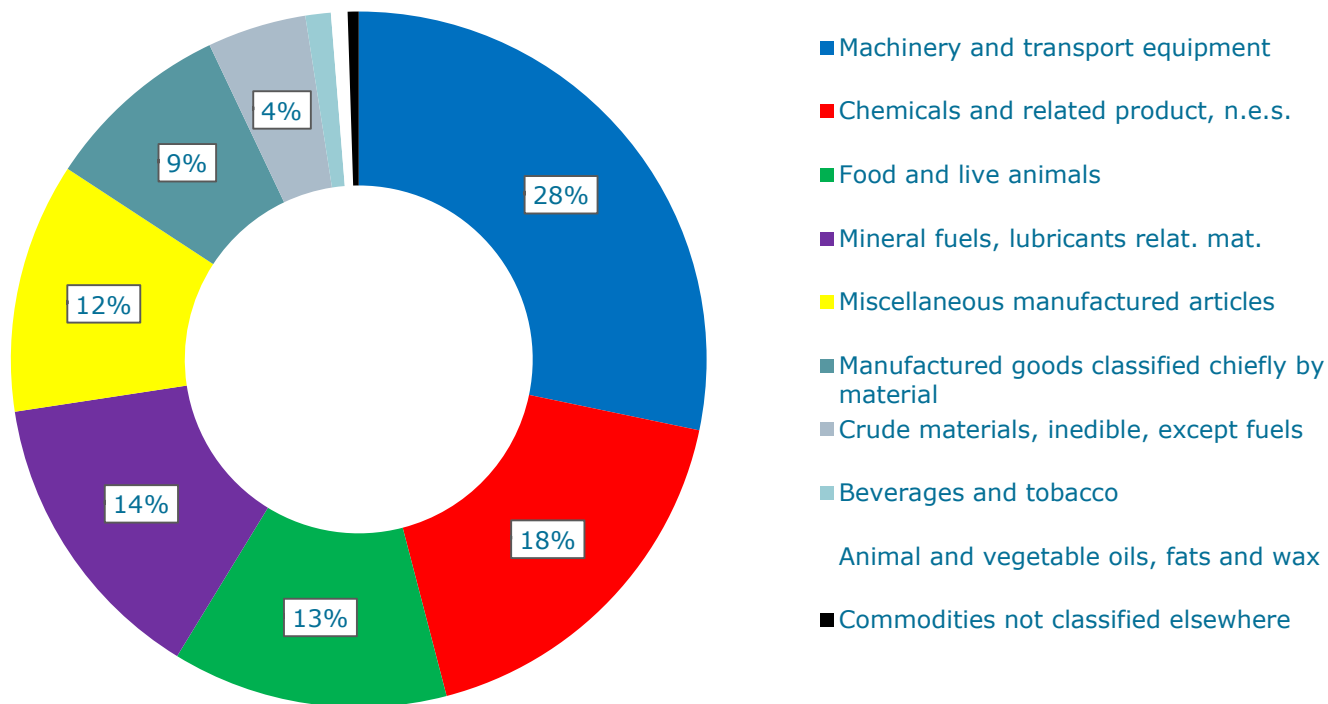


Source: CBS, July 2018



Export breakdown by product category

Export breakdown by product category, January - November 2018



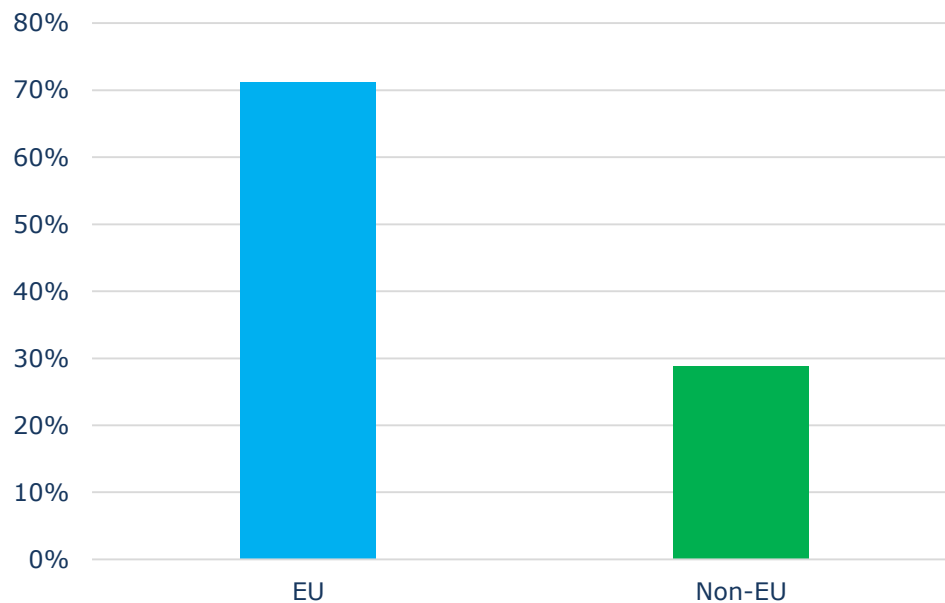
Source: CBS, January 2019



Export breakdown by country

Share of exports: EU and non EU (% of total), January – November 2018

Rank	Country	Share
1	Germany	22.9%
2	Belgium	10.3%
3	United Kingdom	8.4%
4	France	8.1%
5	USA	4.2%
6	Italy	4.1%
7	Spain	2.9%
8	Poland	2.5%
9	China	2.4%
10	Sweden	2.1%



Source: CBS, January 2019



Among the most competitive countries worldwide

Top 15 countries on the WEF Competitiveness Index

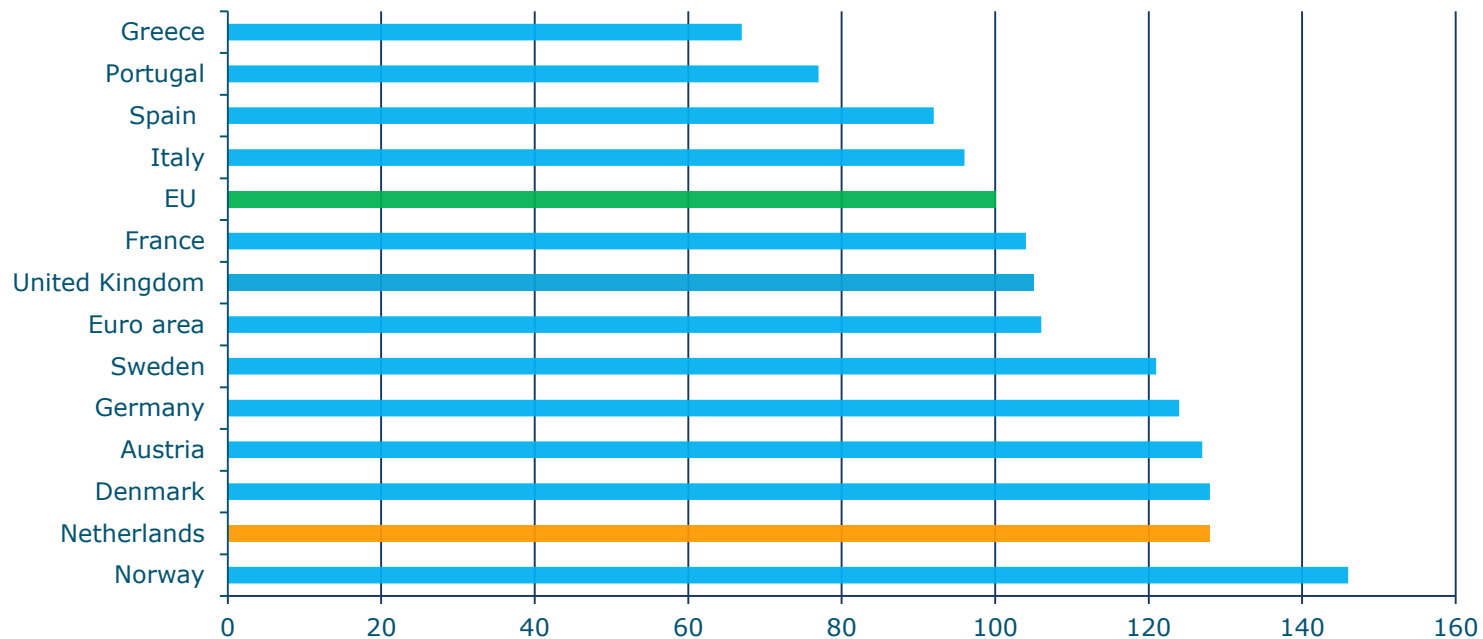
Rank	Country
1	United States
2	Singapore
3	Germany
4	Switzerland
5	Japan
6	Netherlands
7	Hong Kong SAR
8	United Kingdom
9	Sweden
10	Denmark
11	Finland
12	Canada
13	Taiwan, China
14	Australia
15	Korea, Rep.

Source: World Economic Forum, 2018 Rankings



GDP per capita among the highest in Europe

Real GDP per capita (PPS, 2017, index)

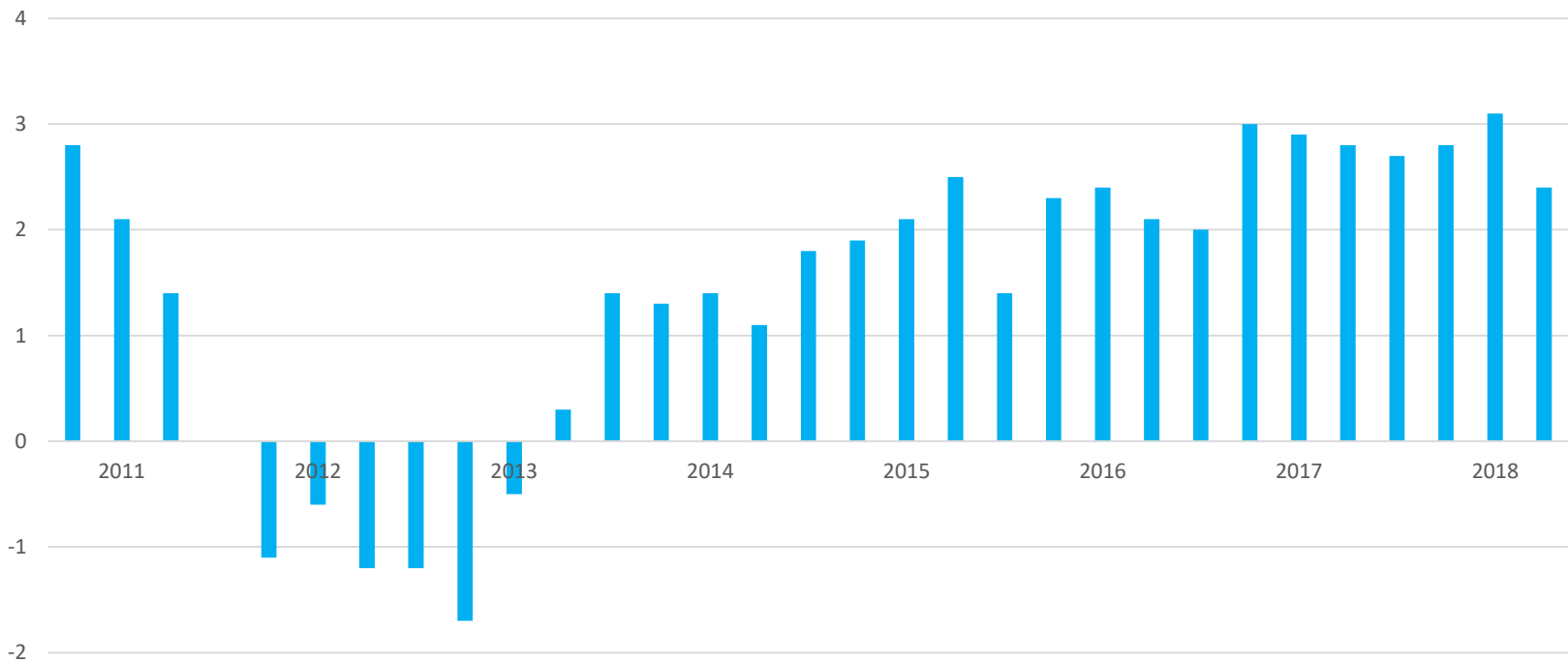


Source: Eurostat, June 2018



GDP on the rise

%-change, year-on-year



Source: CBS, February 2018



Financial sector interventions

- During the credit crisis in 2008 the State had to intervene in the financial sector to maintain financial stability of our economy. As a result, several financial institutions have been nationalized of which ABN Amro Bank and insurer ASR (2008) and later on bank-insurer SNS REAAL (2013).
- In the past few years, the Dutch State gradually reduced its stakes in these financial institutions. This resulted in privatization of the insurance and real estate part of SNS REAAL (respect. in July 2015 and September 2016), and a completed privatization of ASR (ended in September 2017).
- The remaining stakes are:
 - ABN Amro Bank: remaining 56% stake (current market value \approx € 11.6 bn) will be sold in coming years
 - Volksbank (former banking part of SNS REAAL) – no decision yet on privatization



Supplement III

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
- The DSTA is the sole book runner
 - Level playing field among all Primary Dealers
 - Confidential participation of investors
- PDs must sign a DDA Allocation and Price Compliance Statement as indicated in the General Conditions for PDs (<https://english.dsta.nl/subjects/d/dealers>)

The DDA rules can be found on our website: english.dsta.nl/ddarules



Bidding

- Bids are placed at increments of 0.5 bps to the reference bond or 'at best'
- Maximum bid of € 300 million per spread point
- 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 receive a total of € 13,000,000 including advisory fees for their performance over the 2 DDA's in 2019.
- 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, and supranationals	All accounts of banks, except treasury / ALM accounts 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

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

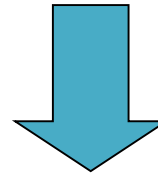


Mechanics of allocation – scenario 1

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 %**
Other **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	

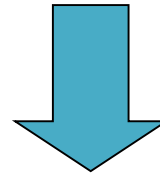


Mechanics of allocation – scenario 2

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 %**
Other **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 IV

Funding instruments



Funding instruments: the capital market

Dutch State Loans (T-bonds)

- Focus on issuance in EUR
- Maturities: annual issuance of 10-year DSL; additional focus on shorter end and longer end of the curve (up to 30 year segment)
- Auctions on fixed dates: 2nd and if needed on 4th Tuesday of the month
- Quarterly issuance calendars (Q1 2019, released 14 December 2018)
- Dutch Direct Auctions for new medium and longer-dated DSLs
- Benchmark sizes to ensure liquidity
- Buy-backs for cash management purposes (up to 24 months remaining maturity)



Funding instruments: the money market

Dutch Treasury Certificates (T-bills)

- Maturities: 3 to 6 months
- Auctions: twice a month on the first and third Monday

Commercial Paper (CP)

- USCP (SEC Rule 144A compliant) and ECP
- Maturities up to 1 year (focus on 3-28 days segment)
- In EUR, USD, GBP, CHF and NOK
- No auctions, dependent on cash needs
- Foreign currencies fully hedged

Deposits (“Cash”)

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



Funding strategy

- Transparency: calendars, press releases, website
- Consistency: no surprises, live up to commitments
- Liquidity:
 - Minimum outstanding volumes of bonds
 - Quotation obligations for PDs
 - Repo facility for PDs



Primary Dealer group for 2019

ABN AMRO Bank	Barclays	Citigroup
Goldman Sachs	HSBC France	ING Bank
Jefferies	Natixis	NatWest Markets
Nomura	Nordea	Rabobank
Société Générale		



Supplement V

Interest rate risk
framework



Interest rate risk framework 2016 - 2019

- Framework based on two measures of risk
 - Long term risk measure: average maturity
 - Short term risk measure: 12-month forward looking refixing amount
- Goal: average maturity of 6.4 years at the end of 2019 within a margin of ± 0.25 years
- 12-month forward looking refixing amount needs to stay below 18% debt
- The average maturity has to follow the path of 5.5, 6.0, 6.3 and 6.4 years ultimo the years 2016-2019 respectively. Up to 2018 it is right on track.



Consequences

- No major changes in funding strategy compared to previous framework
- Not anchoring to a benchmark
- Reduced dependency on new interest rate swaps
- Option to revise strategy depending on market developments

We are working on the new interest rate risk framework 2020-2023



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