

## Ministry of Finance

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**Our reference**  
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Subject Winding up of State aid to ING

Dear Mr President,

On 8 May 2013, MP Wouter Koolmees (D66) put questions in writing regarding the winding up of State aid to ING (reference 2013Z09108). During the Financial Debate [*Financiële Beschouwingen*] too, questions were put concerning the state of affairs regarding the termination of the Illiquid Assets Back-Up Facility (IABF). At that time, constructive talks were taking place with ING about the IABF that had been formed between the Dutch State and ING in January 2009. These talks led to the plan to end the facility. By means of this letter, I am informing you about this plan and the starting points for termination. In this letter, after briefly explaining the IABF, I will go into more detail about the considerations that resulted in this agreement, the agreements made and the related consequences for the EMU debt and the EMU balance, and the operational aspects of the termination.

### *Introduction of the IABF*

The IABF is one of the measures the State took in 2008 and 2009 to contribute to restoring stability on the financial markets. The IABF involves a portion of ING's US Alt-A mortgage-backed securities (Alt-A portfolio) which, at that time, were virtually impossible to trade. Pursuant to accounting rules, ING was in danger of having to write off the Alt-A portfolio against its equity down to the severely decreased market value.

On the introduction of the IABF, the Dutch State took over 80 per cent of the risk of ING's portfolio of US Alt-A mortgage-backed securities and in exchange the State receives 80 per cent of all interest and principal payments from the securities in the portfolio. The State received a loan from ING to fund this purchase of this economic ownership. ING remains exposed to 20 per cent of any results on the portfolio. In addition, the IABF consists of various fees paid and received by both the State and ING. For a more detailed account of these flows, I refer you to the letter my predecessor sent to the House of Representatives on 17 June 2011.<sup>1</sup>

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<sup>1</sup> Parliamentary Papers II 2010-2011, 31 371, no. 362.

### *Deliberations leading to selling*

As I also explained in my letter dated 23 August 2013 concerning the future plans for the ABN AMRO and ASR, the State is not as a matter of course the owner of financial institutions of this kind. This equally applies to the Alt-A portfolio. It is therefore my goal to restrict such interventions in the financial sector to those that are strictly necessary, and limit the period of time in which the State assumes risk. With the termination of the IABF and the sale of the portfolio, another step is being taken towards normalising the Dutch financial sector.

This does not, however, alter the fact that the termination must take place under conditions acceptable to the State, whereby the State is properly compensated for the risk it took on. In the past year, I have seen a significant improvement in the possible return on the Alt-A portfolio if sold. Currently, the market value of the portfolio is higher than the remaining debt the State owes to ING. At present, the outstanding loan to be repaid to ING amounts to EUR 6.0 billion,<sup>2</sup> while based on the most recent market information the market value of the portfolio comes to approximately EUR 6.4 billion. This means that I now foresee that the winding up will result in a total profit for the State of approximately EUR 400 million. This amount does not include the settling of the guarantee fees with ING. Further on in this letter I will go into this settlement in greater detail. In this respect, I would like to stress that the final result is completely dependent on market conditions at the time of sale.

### *Agreements with ING*

The termination will take place by selling the portfolio that forms the IABF. The return will be used to repay the loan owed to ING.

As explained further below, the State suffers a reduction in the EMU balance for each premature termination of the IABF. This effect occurs because Statistics Netherlands entered the guarantee fees yet to be received as an asset of the State. This is unconnected to the price for which the portfolio will ultimately be sold. The talks with ING were focused on the desirability of selling while at the same time limiting the impact on the EMU balance.

The result of these talks is that this year ING will make a one-off payment to the State. This payment consists of three components. First of all, the payment involves the claw-back fee that pursuant to the agreement must be paid in the event of an exit. The net present value of this fee amounts to EUR 97 million. The second component concerns the present value of the amendment to the guarantee of EUR 201 million that the European Commission imposed in 2009. By paying this fee in full, the expectation is that the agreement will fit within the state aid framework of the European Commission. There has been contact with the European Commission in this regard, and it is currently examining the final proposal. Finally, ING will pay EUR 97 million as compensation for the State's loss of future guarantee fees.

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<sup>2</sup> All amounts referred to involve conversions of amounts in dollars. To this end, an exchange rate of EUR/USD 1.32 was applied in accordance with the estimate of the Netherlands Bureau for Economic Policy Analysis (CPB). The actual amounts may therefore differ from the amounts stated.

As ING in this way shares in the impact on the balance, this impact will be significantly reduced. The total contribution from ING thus comes to EUR 395 million.<sup>3</sup>

In addition to the settlement of the various fees, I have agreed with ING that the counter guarantee provided by ING will lapse as of the end of 2013. Pursuant to this guarantee – that is related to the sale of ING Direct in the US – ING would bear the loss incurred by the State on a portion of the portfolio, should this fall drastically in value.<sup>4</sup> Given the current value of the portfolio and the forecast regarding its future value, the value of such a guarantee is negligible.

#### *Consequences for the EMU debt and EMU balance*

There will be no consequences in terms of the spending framework because transactions connected to the financial crisis are not part of that framework. The agreement does, however, have consequences for the EMU balance and EMU debt. As mentioned earlier, in accordance with the relevant rules, all future guarantee fees are entered as an asset on the national balance sheet. Declaring the present value of these fees non-payable, results in a one-off negative effect on the EMU balance at the time of the agreement. Currently, the present value amounts to EUR 618 million. Pursuant to the agreement, ING pays EUR 395 million of this, so that the one-off negative impact on the EMU balance in 2013 will be EUR 223 million. The guarantee fees are settled in full in this way. If the portfolio is sold, ING's loan to the State can be repaid from the proceeds. This will reduce the EMU debt by approximately EUR 6.8 million (depending on the exact sale revenue of the portfolio).

#### *Operational aspects of the sale*

It is my intention to sell the portfolio within a year. BlackRock Solutions has been appointed to manage this process. Certain safeguards will be put in place for the sale of the Alt-A portfolio. For example, I will include safeguards to prevent a sale with insufficient proceeds. Various parties will therefore be entitled to submit competing bids throughout the sale process. I reserve the right to halt the sale process at any time, for instance if the proceeds are insufficient to repay the remaining debt to ING. The progress and results of the sales process will be periodically published on the Dutch State Treasury Agency website. I will inform the House on the progress and proceeds in accordance with the *Comptabiliteitswet* [Government Accounts Act]. In addition, via the budget memorandums and subsidiary budgets, the House will be informed about the proceeds of the sale and their use to repay the load received from ING.

I believe that with the abovementioned agreements and preconditions, the sale of the Alt-A portfolio and consequently the winding up of the IABF is both desirable and possible under conditions that are acceptable to the State. The sale of the portfolio means that the end of state support for ING is in sight. The House of Representatives was informed earlier about the repayment schedule for the outstanding core Tier 1 securities. In this regard, ING will pay a further three tranches of EUR 1.125 billion to the State.<sup>5</sup> In addition, in June this year

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<sup>3</sup> The amounts referred to are based on the situation as of 30 September 2013. In addition, a settlement will take place of the fees of EUR 20 million paid by ING in advance over the period after the winding up of the IABF.

<sup>4</sup> Parliamentary Papers II 2010-2011, 31 371, no. 362 and Parliamentary Papers II 2011-2012, 31 371, no. 367.

<sup>5</sup> Parliamentary Papers II 2012-2013, 31 371, no. 372.

ING announced that it wants to repurchase the government-guaranteed interbank loans from the guarantee facility. ING has already done so in part. The winding up of the State aid to ING is a major step towards further normalising the Dutch financial sector after the financial crisis of 2008-2009.

Yours faithfully,

The Minister of Finance

J.R.V.A. Dijsselbloem