ING receives €10 billion from Dutch government

By David Jolly

Oct. 19, 2008

PARIS — The Dutch government said Sunday that it would inject €10 billion into ING Group after the financial services company became the latest victim of the global financial crisis.

The capital injection, in the form of nonvoting preferred shares, works out to about $13.4 billion, giving the government an 8.5 percent stake in the bank. The new funds, ING said, will create "a strong buffer to navigate the current market and economic environment."

The announcement came after top bank executives spent the weekend in urgent talks with government and central bank officials concerned about the prospect that ING might collapse when trading started on Monday. Shares of ING fell more than 27 percent on Friday in Amsterdam after the company said it expected to post a third-quarter loss of €500 million as a result of €1.6 billion in write-downs.

The government's intervention to save ING marks the latest effort by the national and international authorities to calm investors and keep tight credit markets from bringing economic activity to a halt. The United States has announced a $700 billion plan to bail out the U.S. financial system, while European governments last week announced national relief packages valued at hundreds of billions of euros.

In what is becoming a routine occurrence, it also marked the latest rescue plan to be announced hastily on a Sunday night.

ING said the bailout would bring its core Tier 1 ratio, a measure of capital strength, to about 8 percent. It had said Friday that the ratio was 6.5 percent.

"Our capital position was in line with previously targeted levels and regulatory requirements," the chief executive, Michel Tilmant, said in a statement. "However, market conditions have changed dramatically in recent weeks and have led to an internationally recognized belief that going forward, in this market environment, capital requirements for financial institutions should be higher."

The bank said structure of the transaction was intended to avoid dilution of existing shareholders. ING has the right to buy back all or some of the "core Tier 1 securities" at any time at 150 percent of the issue price. The bank said it would not pay a final dividend for 2008.

The government will obtain the right to nominate two members for the ING Group supervisory board. The board will review executive pay for senior management "to align it with new international standards," the company said.

The securities will pay out 8.5 percent, but only if dividends are paid over the preceding year, and will be increased annually if the dividend exceeds that rate, the Finance Ministry said in a separate statement. The structure of the deal is "an incentive to ING to withdraw from this government participation as soon as justified by the share price and the path of dividends," the ministry said.

ING has major insurance and commercial banking operations. With €338 billion in savings and current-account deposits at the end of last year, it is also one of the world's largest retail banks. It said it would use the new capital to increase shareholders' equity in its banking unit €5 billion and to strengthen the balance sheet of ING Insurance by €2 billion. The other €3 billion will be used to pay down the group's debt.

Wouter Bos, the Dutch finance minister, said on Oct. 9 that the government stood ready to provide as much as €20 billion immediately to help shore up the balance sheets of financial institutions facing liquidity problems.

Like other European governments and the United States, the Netherlands has also explicitly backed bank loans to restore calm to the credit market. The government said it expected to guarantee loans amounting to €200 billion.

Of all the major Dutch financial companies, only Aegon, a giant insurance company, has not had to ask the government for help. On Oct. 3, the Dutch operations of the Belgian-Dutch bank Fortis were nationalized, as was ABN AMRO, the Dutch bank whose acquisition proved too much for Fortis to digest.

ING's problems are themselves partly a result of the recent wave of those bailouts. Thomas Nagtegaal, a banking analyst at Royal Bank of Scotland in Amsterdam, said that until just a few weeks ago, ING had been seen as one of the world's more stable lenders and was able to raise money in the interbank market at very favorable rates. But cash injections into its rival suddenly made it look less comparatively less robust.

The government bailouts have "raised the bar for capital ratios," Nagtegaal said. "There are new capital standards in the market."

The bank has also been hurt by its exposure to the extremes of the stock market, he said, as ING had €3.5 billion of unhedged equity exposure in its equity investment portfolio at the end of June.

The Dutch government's intervention followed the news earlier Sunday that South Korea would guarantee as much as $100 billion in foreign debt held by its banks and would pump an additional $30 billion into the financial sector to restore market confidence.

The announcement also came as board members of Groupe Caisse d'Épargne, one of the largest French mutual banks, voted Sunday at an extraordinary meeting to fire the lender's three top executives after the announcement Friday that unauthorized trading in derivatives had cost the bank €600 million.

French media reported that the chairman, Charles Milhaud, was stepping down, as was Nicolas Merindol, the chief executive, and Julien Carmona, the chief financial officer. The company could not be reached for comment late Sunday.

Caisse d'Épargne has sought to play down comparisons to the fraud that Jérôme Kerviel, a low-level trader, has been accused of carrying out at Société Générale, at a cost to that bank of €4.9 billion. Rather than a deliberate effort to evade controls, the loss resulted from "a big mistake," a spokeswoman said Friday.

Caisse d'Épargne, which is in talks to merge with Groupe Banque Populaire, its partner in the troubled investment bank Natixis, said that a team of traders from its proprietary desk was responsible for unauthorized dealing in equity indexes and that they had been suspended pending inquiries. The bank has not given further details.

The case has brought more embarrassment to a government sensitive to the international criticism of its handling of the Société Générale affair. The French finance minister, Christine Lagarde, said Friday that she had asked the French banking commission to investigate the incident and to ensure that other French lenders were complying with market rules. President Nicolas Sarkozy called on Caisse d'Épargne's management to take responsibility for the incident.

Jean-Claude Trichet, the president of the European Central Bank, said Sunday that he was shocked by the revelations at Caisse d'Épargne, though he stopped short of calling for the ouster of its top executives. "When we know who is responsible, we must obviously draw conclusions," Trichet said.