

ACHMEA MORTGAGES

Quarterly Update Q1 2024

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COVER PHOTO: Oostenburg, Amsterdam

1. Summary Q1 2024

Highlights

- Swap interest rates increased in the first quarter for the shorter durations. The rates rose for two years and more.
- Mortgage rates have decreased for almost all maturities and all risk categories except for the one-year period.
- The mortgage principal, the amount that the mortgagee wishes to finance slightly decreased to €256,000 (Q4 2023: €260,000).
- The average mortgage principal of the executed mortgages amount was €255,000 (Q4 2023: €256,000).
- Numbers of foreclosures and unemployment increased to 22 (Q4 2023: 18).

Company profile

Achmea Mortgages is the mortgage asset manager within Achmea, holding an AIFMD license. With a history of over 60 years, Achmea Mortgages has been managing assets for institutional investors. By the end of 2023, Achmea Mortgages manages over €29 billion in Dutch mortgages on behalf of more than 50 pension funds and other institutional investors under the brand names Centraal Beheer Leef hypotheek, Syntrus Achmea Hypotheken, and Attens Hypotheken. We do this jointly with Achmea Bank and Centraal Beheer, enabling homeowners' needs for carefree living, across all our brands and products.

Update

In the 1st quarter swap rates increased especially for shorter durations. Although inflation has decreased from double digit highs to 2.4% for the eurozone in March 2024, it is still higher than the 2% inflation target for Central Banks. As inflation proves to be more sticky, the consensus in the market has become higher rates for longer. The expected rate cuts by central banks are now expected to be later and hence leading higher rates. The mortgage market was still adjusting to lower swap rates and with mortgage rates actually declining and swap rates increasing, credit spreads on mortgages decreased in the 1st quarter.

Mortgage applications increase with 23% during Q1 2024 compared to the foregoing quarter. This is in line with a recovery in the housing market and therefore an expected higher turnover for 2024.

Outlook

- Higher turnover in the mortgage market is expected for 2024 in line with increased activity in the housing market.
- The economy is expected to grow in 2024 with unemployment to remain low and thus limited credit risk in 2024. Hence, we do not expect arrears to increase or credit losses to be incurred in 2024.
- House prices continued to rise in the 1st quarter. As mortgage rates have stabilized and wages have increased substantially, the affordability has improved. Given the positive outlook for the economy, low unemployment rate and limited supply of new constructions, a further rise in house prices is expected going forward.
- The economy is to grow in 2024 with unemployment to remain low and thus resulting in limited credit risk in 2024.



2. Dutch Housing Market Update

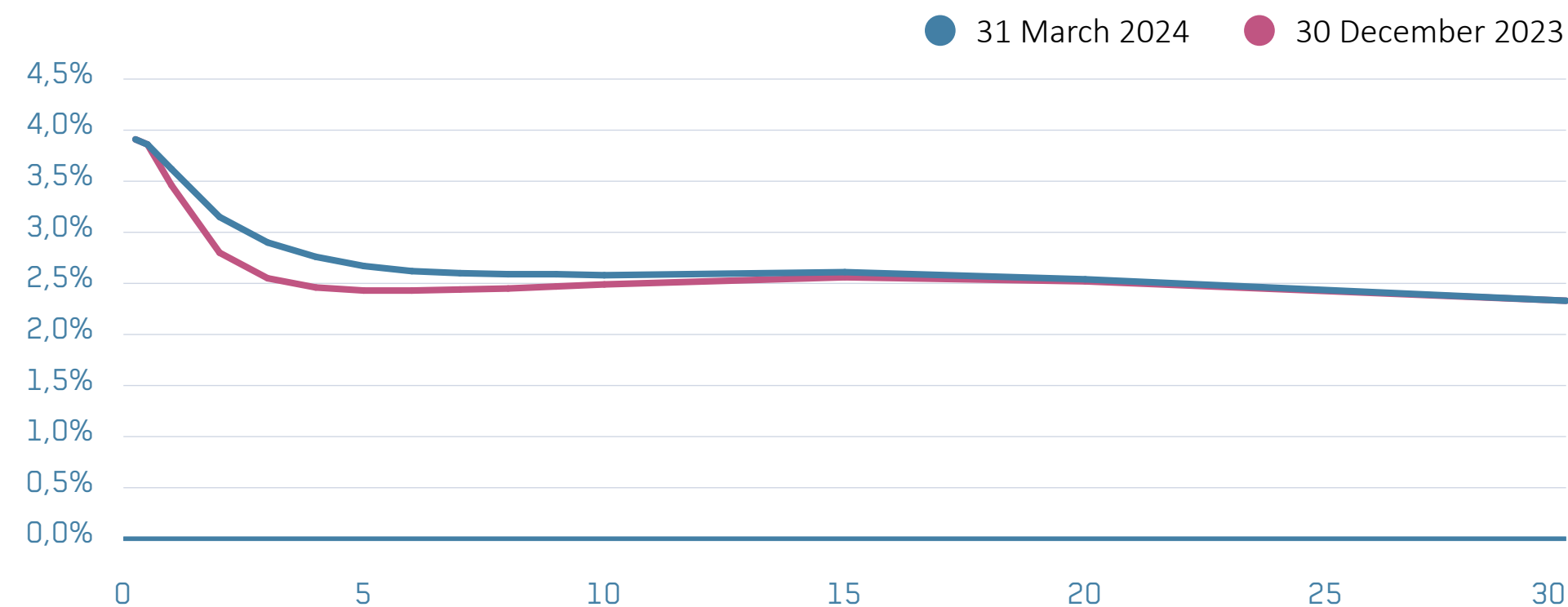
INTEREST-RATE MARKET

During the first quarter of this year, swap rates increased, although this was only evident in the shorter durations. The rates for two and three years rose by approximately 35 basis points, while the rate for ten years increased by nine basis points. Longer durations saw minimal movement: rates for 20 and 30 years remained virtually unchanged. The rise in short-term rates resulted in the yield curve between 5 and 15 years being nearly flat by the end of the quarter. For longer durations, the curve maintained a slightly inverted shape, with the rate for 30 years remaining at the lowest point on the curve.

It is now evident that inflation is on a downward trend, and the challenge for central banks lies in timing the interest rate cuts correctly. Markets are anticipating the first interest rate cuts this summer from both the ECB and the Fed.

EURO SWAP CURVE

Source: Achmea Mortgages



In Europe, inflation continued to decrease, with the preliminary figure for March coming in at 2.4%. This is very close to the 2% target that the European Central Bank is aiming for. This figure was somewhat distorted by rising oil prices. However, European core inflation, which is adjusted for volatile food and energy prices, also further declined to below 3%. The preliminary figure for March was 2.9% (source: Eurostat).

The fact that short-term interest rates rose this quarter despite declining inflation is due to the central bank's cautious policy. The ECB wants to first observe how wages develop. Therefore, the expectation is that the first interest rate cut will not occur before June. The market had anticipated earlier rate cuts, hence rising rates. Inflation seems to be more sticky, which could lead to less or later rate cuts than anticipated.

Mortgage rates and margins

Despite the higher short-term swap rates, mortgage rates decreased in the first quarter. This decline occurred across all fixed-rate periods except for the one-year period. The decrease ranged from 2 to 30 basis points depending on the fixed-rate period and risk category. Larger decreases were observed for longer fixed-rate periods.

The average rate (based on the top-10 providers) for a 10-year fixed-rate mortgage with NHG (National Mortgage Guarantee) decreased by nine basis points from 3.78% to 3.69%. Similarly, the average rate (based on the top-10 providers) for a 30-year fixed-rate mortgage with an LtV (Loan-to-Value ratio) of 100% decreased by 31 basis points from 4.52% to 4.21%.

The decline in mortgage rates typically follows that of the underlying swap rates, although this often occurs with a delay and not necessarily proportionally across all fixed-rate periods. Therefore, the decrease in mortgage rates in the first quarter was partly a delayed effect of the significantly reduced swap rates in the fourth quarter of 2023.

The decreased mortgage rates combined with the increased short-term swap rates resulted in lower spreads. This effect was most noticeable in the higher Loan-to-Value (LTV) buckets, where margins decreased by between 30 and 45 basis points depending on the fixed-rate period. In other LTV buckets and within the NHG (National Mortgage Guarantee) segment, margins also declined between 20 and 40 basis points. The margin on a 10-year fixed-rate NHG mortgage decreased from 134 basis points to 112 basis points in the first quarter. Similarly, the margin on a 30-year fixed-rate LTV 100% mortgage decreased from 211 basis points to 170 basis points.

We anticipate that margins for longer fixed-rate-periods will decrease further in the coming months. Mortgage rates will move up or down in line with swap rates, but the difference will likely diminish.

Number and distribution of mortgage applications

According to Mortgage Data Network (HDN) 115,000 mortgage loan requests were registered in Q1, a 23% increase compared to the previous quarter (93,000), also because Rabobank requests were added to the platform. Especially the group 'others' increased significantly with almost 9,000. As a result the distribution between the type of requests changed.

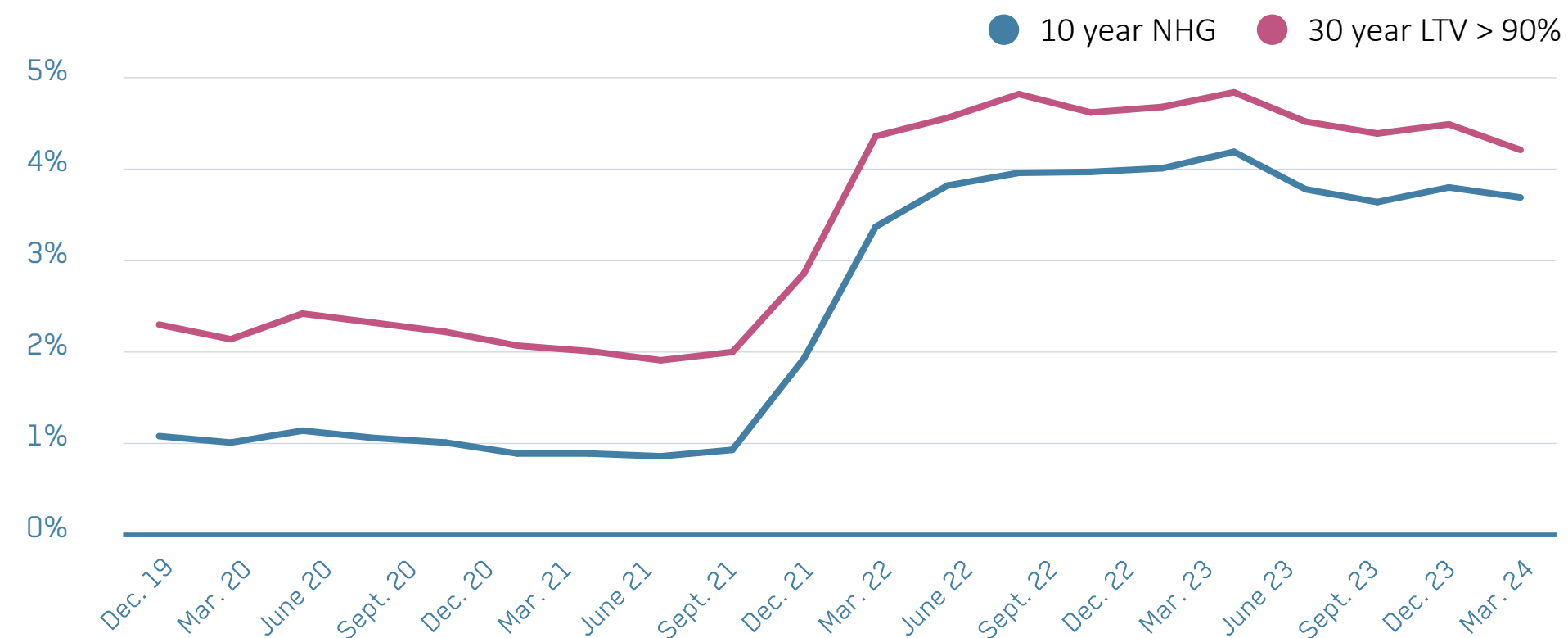
Within the total number of mortgage requests about 70,000 can be assigned to the buyer's market and 45,000 to the non-buyer's market (refinancing & other). Compared to the same quarter a year earlier; the proportion of NHG mortgages in the buyers' market has increased with 26% to 34,000 requests and the group of borrowers who take the mortgage loan to the new house increased with 45% to 19,000 requests.

Development mortgage principal (requests)

The mortgage principal, the amount that the mortgagee wishes to finance, averaged at around €256,000 in Q1 2024, which is slightly less than Q4 2023 (€260,000). The decrease is mainly due to the shift in the distribution of mortgage types (see previous paragraph), because almost all individual types show an increase in mortgage principal, see graph below. For buyers' only, the average amount in Q1 is €347,000 and among non-buyers €110,000.

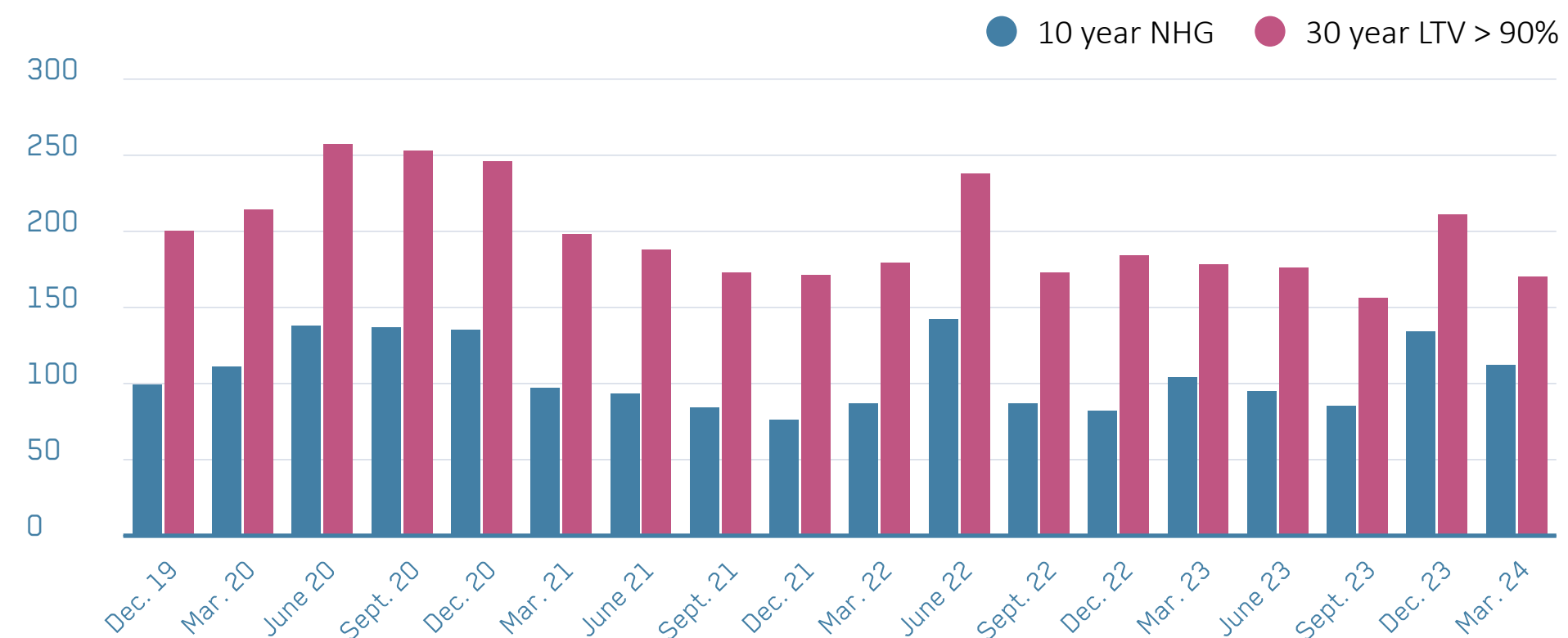
MORTGAGES RATES

Source: Achmea Mortgages



SPREADS (IN BPS)

Source: Achmea Mortgages



Market size of granted mortgage loans

HDN figures show that around €18.0 billion in mortgage loans were granted this quarter (Q4 2023: €18.8 billion). The average mortgage principal of the executed mortgages was €255,000 (Q4 2023: €256,000). This principal amount follows the average mortgage principal of a request (previous paragraph) due to a lead time of several month between the request and the execution of a mortgage.

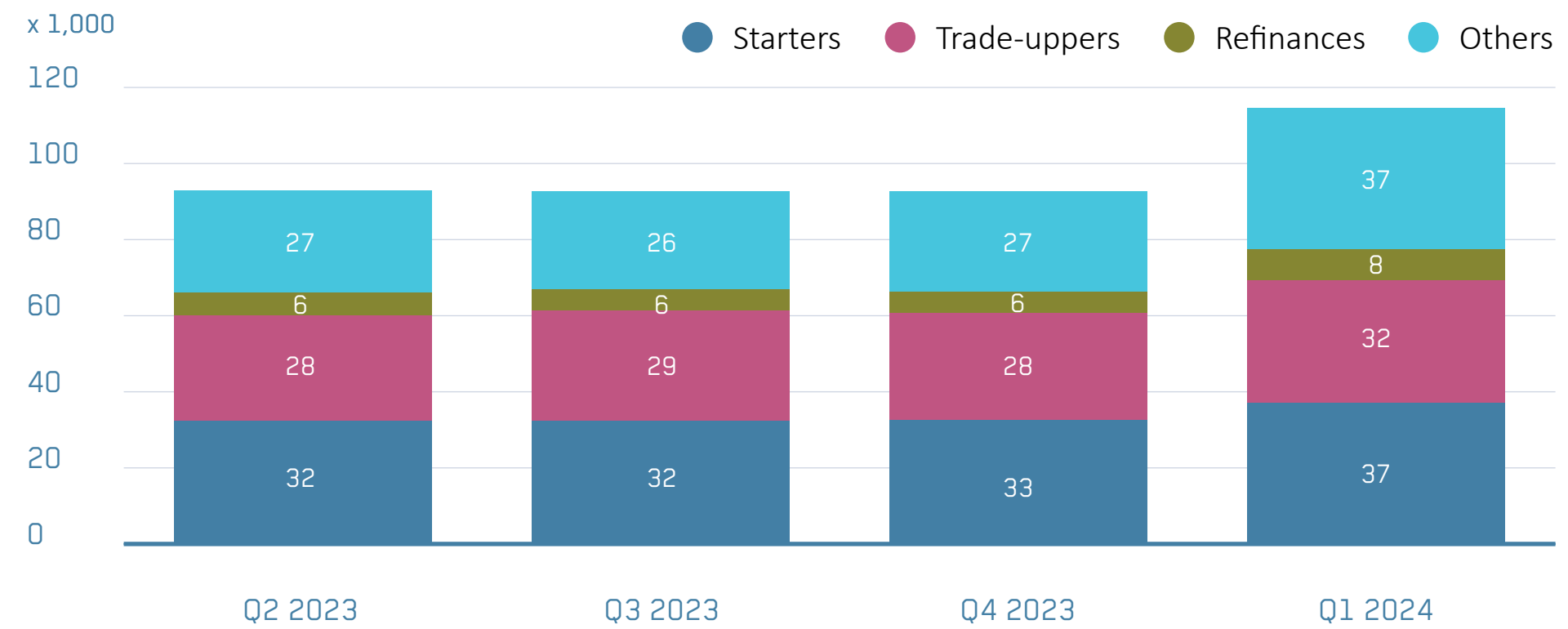
Number of foreclosure sales and unemployment rate

At the end of February, the number of foreclosure sales, based on a 3-month moving average, increased to 22 per month¹ (November 2023: 18). From a historical perspective, this number remains low. The unemployment rate also remains low with an average of 3,6% (source: CBS). This limits the chance of a foreclosure, because mortgagors are better able to meet their obligations.

¹ Land Registry foreclosure sales figures are one month behind.

DISTRIBUTION OF MORTGAGES TYPES

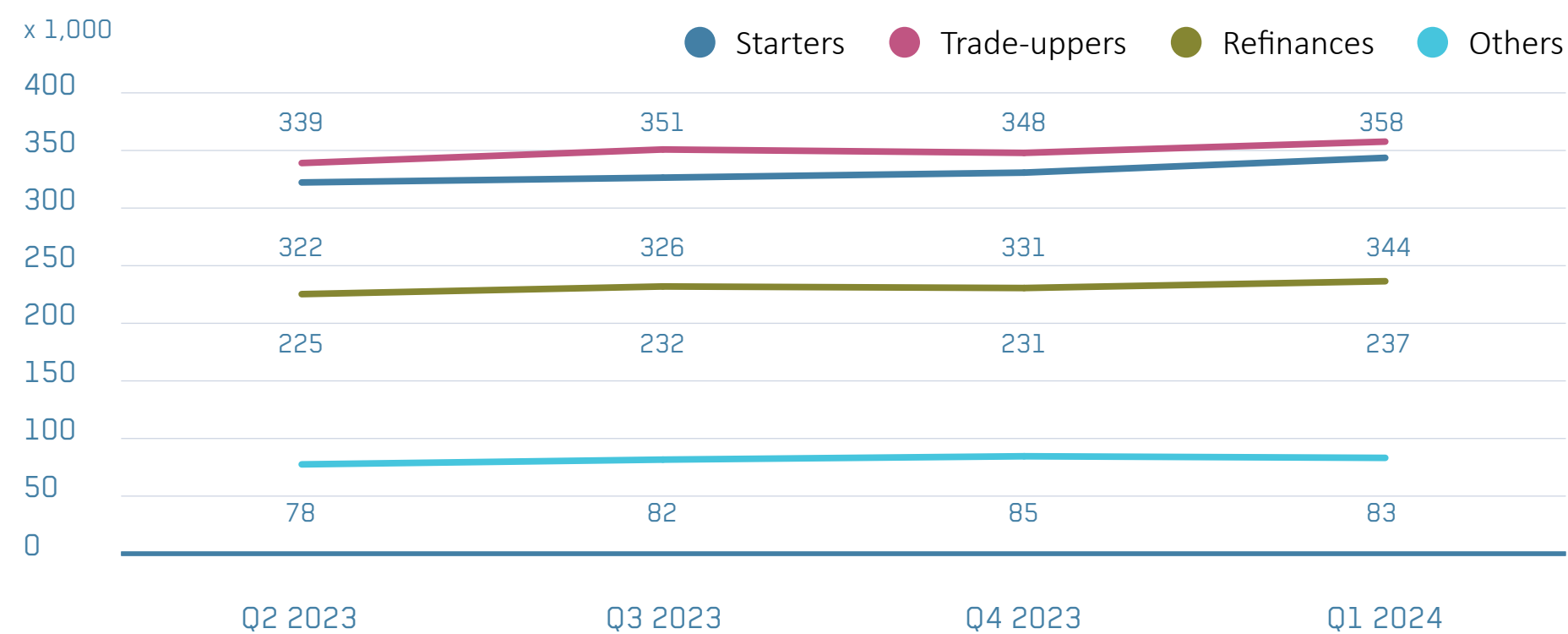
Source: HDN, Achmea Mortgages



Source: HDN, Syntrus Achmea adaptation (2024)

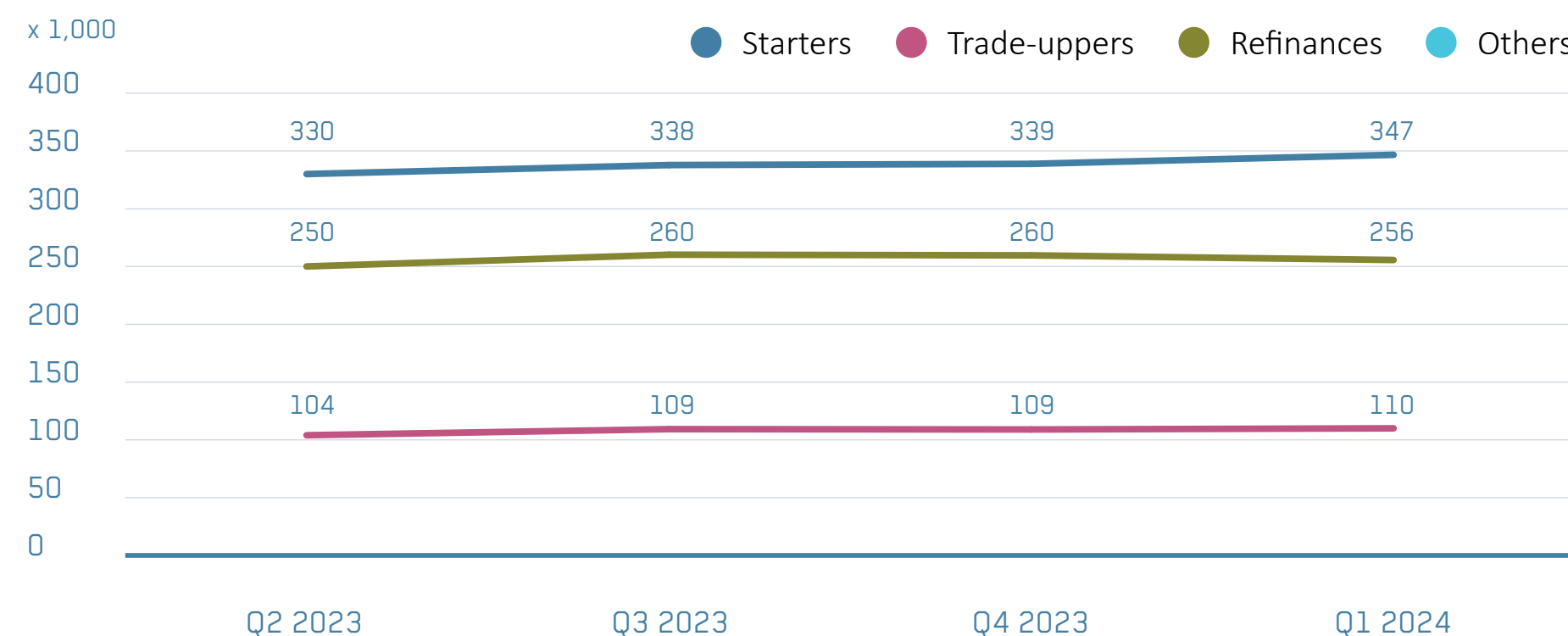
AVERAGE MORTGAGE PRINCIPAL (APPLICATION)

Source: HDN, Achmea Mortgages

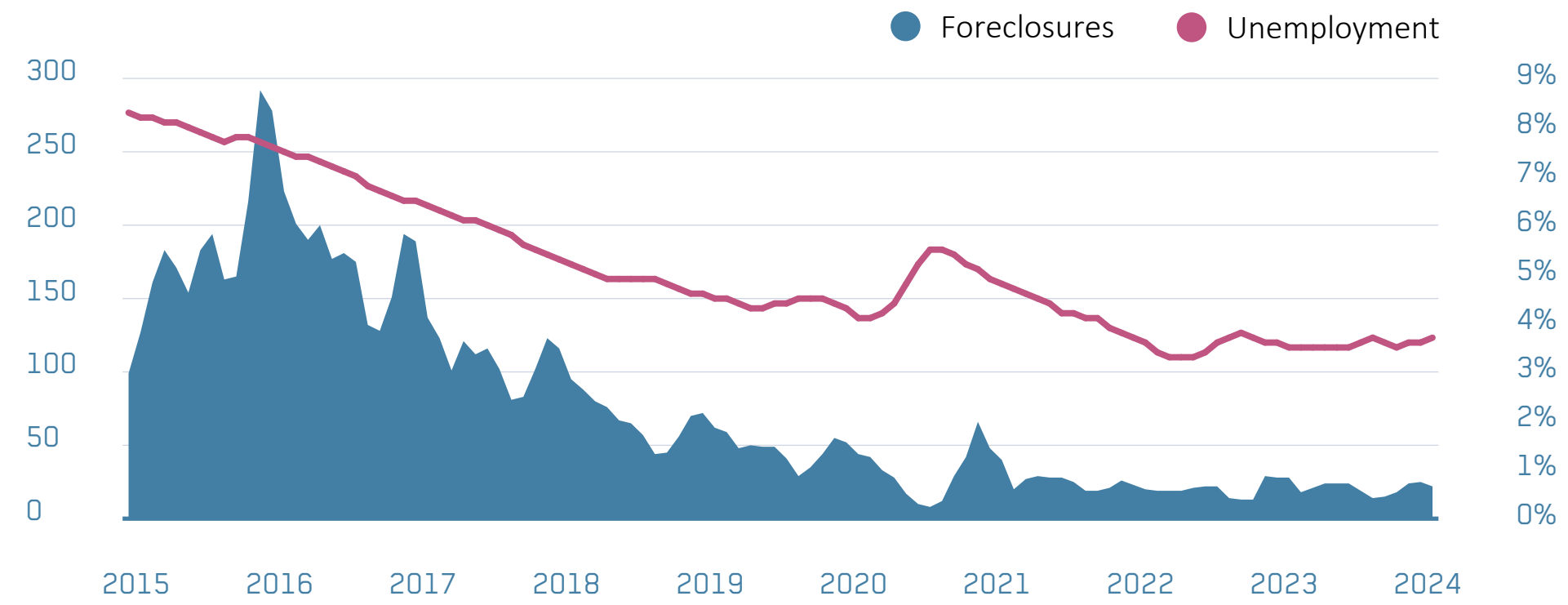


BUYERS VS NON-BUYERS

Source: HDN, Achmea Mortgages



NUMBER OF FORECLOSURE AUCTIONS (3 MONTH MOVING AVERAGE)



Source: CBC and Dutch Land Registry with Syntrus Achmea edit (2024)

3. Dutch Housing Market Outlook

HOUSE PRICES TO RISE IN THE 1ST QUARTER

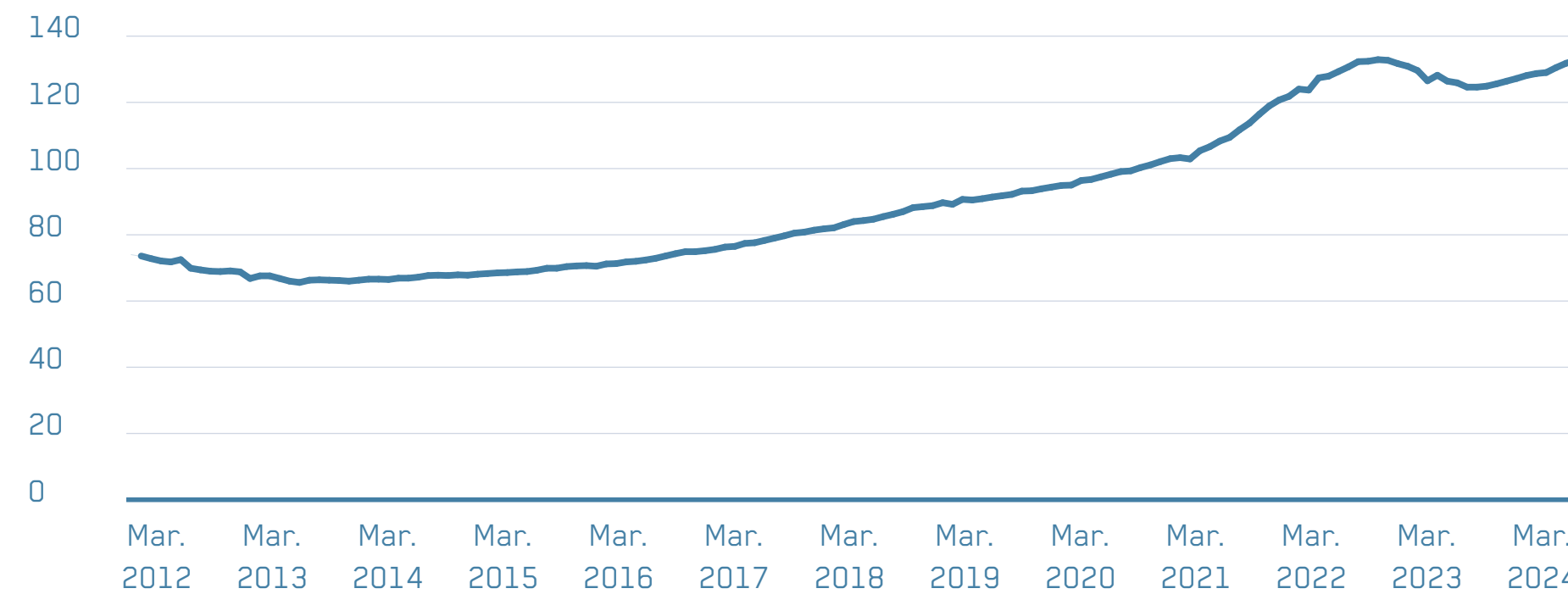
House prices have remained virtually stable in the first quarter of 2024 compared to the fourth quarter. Compared to a year earlier, prices rose by 9.1 percent. This is evident from figures from the Dutch Association of Realtors (NVM). The number of transactions fell by 18 percent compared to the previous quarter, as did the supply, which fell by 15 percent. Because the number of transactions fell faster than the supply, the shortage indicator rose: a potential home buyer now has a choice of 2.4 homes. A year ago this was still 3.2.

The NVM figures are based on the average transaction price and provide a rough, but current indication of house price developments. The price index for existing owner-occupied homes (PBK) from CBS and Land Registry provides a more accurate but delayed indication. The first quarter of 2024 shows an increase of 2.9% compared to the last quarter 2023. Compared to a year earlier, prices rose by 5.4%. The Eigen Huis market indicator, which shows consumer confidence in the housing market, has shown an upward trend since June 2023. In January, this was the highest level since July 2022 at 85 points (100 is 'neutral' on a scale of 0 to 200).

After house prices bottomed in may 2023, house prices have now increased 6.5% cumulatively at the end of Q1 2024.

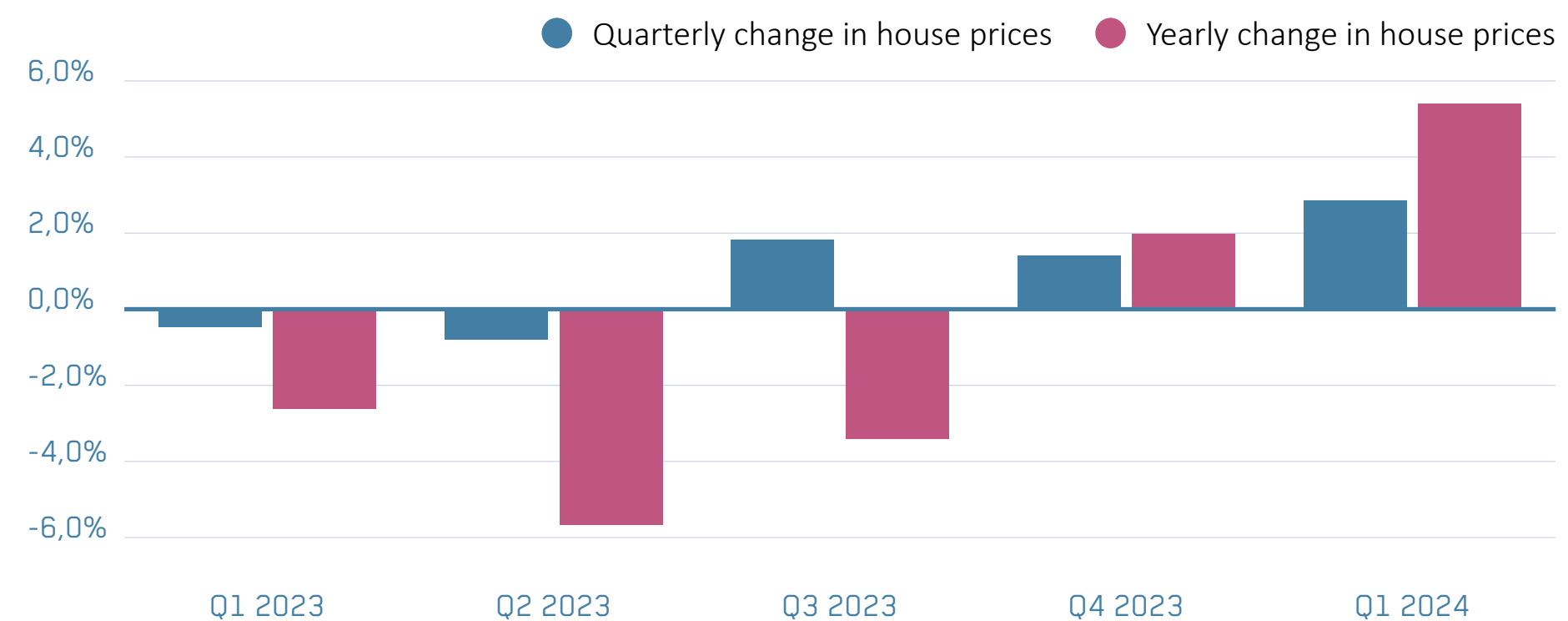
HOME PRICE INDEX

Source: CBS, Achmea Mortgages



HOUSE PRICE CHANGE

Source: CBS, Achmea Mortgages



4. Sustainability Mortgage Market

Investing in mortgages can contribute to achieving Sustainable Development Goals. Investing in sustainable mortgages is the best way to achieve a stable financial return in the long term combined with social impact and minimised risks.

One of the objectives of sustainability policy could be to reduce carbon emissions. Policies that could be implemented can include but are not limited to:

- Encourage energy-saving measures through financing up to a 106% LTV combined with an energy-saving plan.
- Inform consumers on how to improve energy efficiency and provide ways to implement these measures.
- Marketing campaigns for our mortgage lenders on the subject of
- Carbon emissions from homes.
- Financial incentives to implement energy saving measures such as a one time financial contribution
- Introduction of a green loan part offering a discount on the mortgage rate in case the loan part is used to finance energy saving measures.

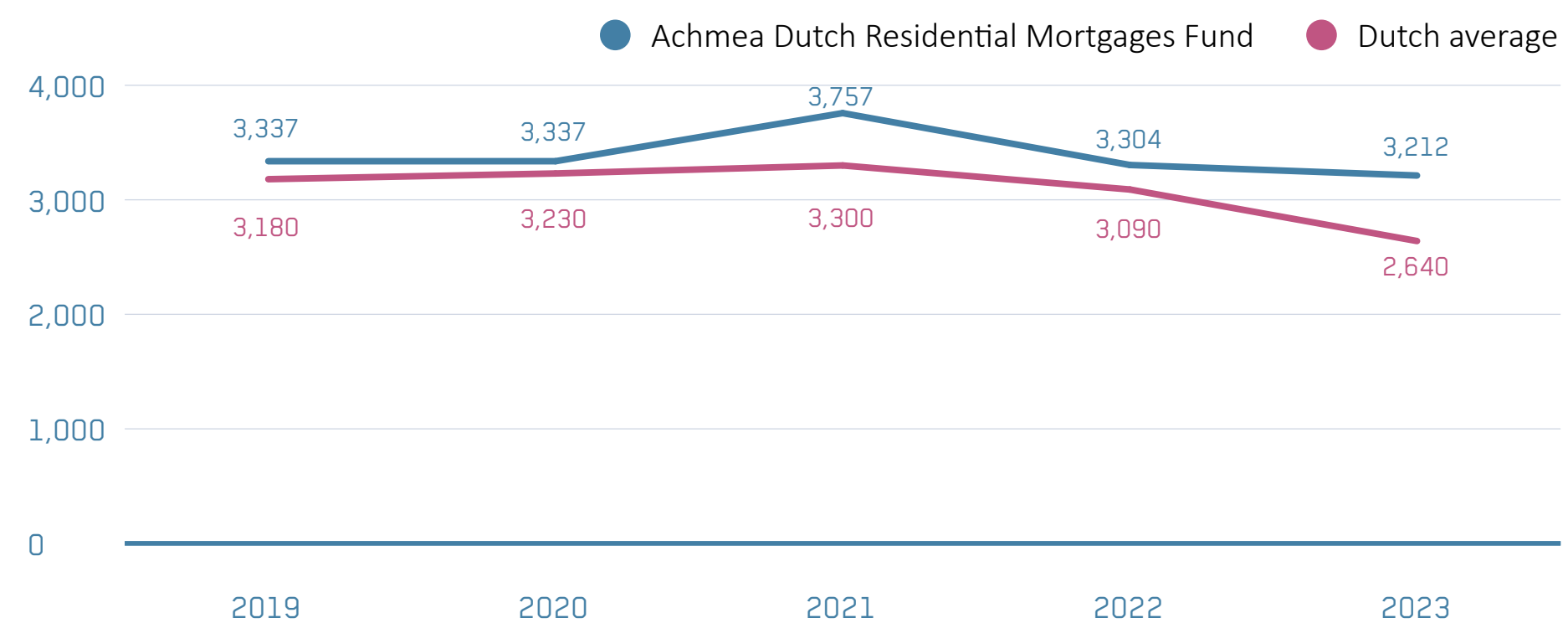
For the Achmea Dutch Residential Mortgage Fund we have calculated Carbon Footprint. CO₂ emissions of the portfolio are calculated based on actual energy consumption.

The following graphs show the total energy consumption of the portfolio. The graphs show a decline in electricity and gas consumption of the portfolio, while the number of collateral properties grew modestly. This points to a lower average consumption on an annual basis. However, it should be noted that underlying composition details, such as the average number of residents, are not available for the portfolio. This makes it difficult to provide a detailed analysis.

The next charts show the average consumption for each collateral as well as the average consumption of an average Dutch household for comparison. Again, differences in composition between the portfolio and the Dutch average can lead to an underestimation or overestimation of the difference in consumption.

The average electricity consumption in 2023 has declined around 3% compared to 2022. The Dutch average decreased by about 15% during the same period. While this could mean that the composition in the portfolio deviates from the Dutch average, it could also mean that the average number of occupants or the average year of construction of the portfolio differs, resulting in higher energy consumption compared to the Dutch average.

AVERAGE ELECTRICITY CONSUMPTION PER COLLATERAL PROPERTY (KWH) Source: Achmea Mortgages



The average gas consumption has decreased in recent years, mainly as a result of a huge rise in gas prices in 2022 and relatively mild winters. In 2023, average gas consumption in the portfolio was about 14% below that of 2022. The Dutch average in 2023 was only 2% lower in the same period. Again, the behavior and/or household composition in the portfolio seems to differ from the Dutch average here.

The source of the average Dutch gas and electricity consumption for 2019-2022 is Statistics Netherlands (CBS). The 2023 consumption is an estimation by Nibud.

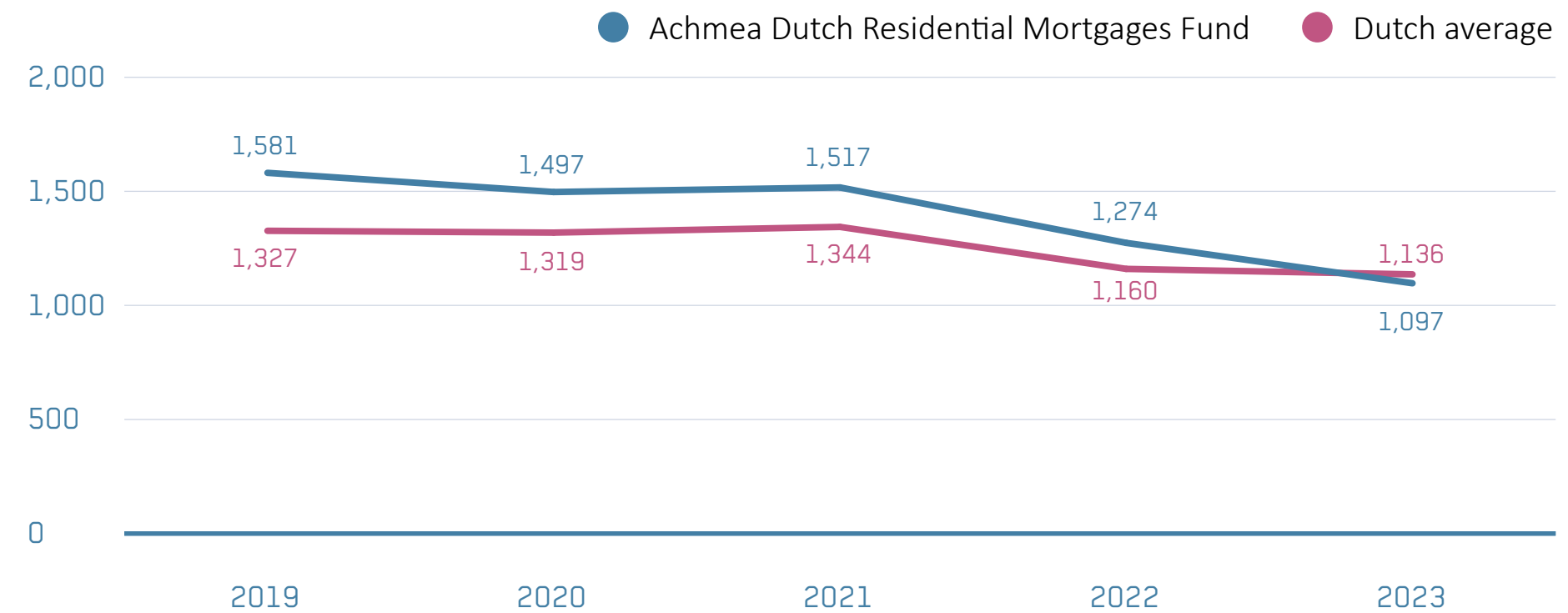
Calculation method of CO₂ emissions

The most important data is the actual consumption as described above. The quality of the CO₂ emissions calculation depends greatly on the quality of the data. In this report, we only have access to the actual consumption of each cluster as to safeguard the privacy of the owners whose energy consumption data have been provided. No information is available at address level. Even so, the CO₂ emissions of the portfolio can be properly determined based on this data.

Besides the actual consumption, emission conversion factors are needed to convert kilowatt hours of electricity and cubic metres of gas into CO₂ emissions. These emission factors are published annually on www.CO2emissiefactoren.nl. This site with CO₂ emission factors is an initiative by Milieu Centraal, Stimular, SKAO, Connekt and the Dutch central government. A broad panel of experts updates the published list every year based on the latest insights.

AVERAGE GAS CONSUMPTION PER COLLATERAL PROPERTY (M³)

Source: Achmea Mortgages



THESE EMISSION FACTORS APPLY FOR 2022 AND 2023:

	2022	2023
Gas	1,782	1,779
Electricity	0.29	0.27

To arrive at the portfolio total, the following formula is used, with summation of all the collateral properties:

$$\text{CO}_2 \text{ portfolio} = \Sigma \text{ energy consumption gas} * \text{emission factor} + \text{energy consumption electricity} * \text{emission factor}$$

Portfolio results

Based on what has been described above, the CO₂ emissions for the portfolio can be calculated. The adjoining chart shows both the total CO₂ emissions for the portfolio and the financed emissions. The latter is calculated using the Loan to Value of each property. Both total and financed CO₂ emissions have decreased.

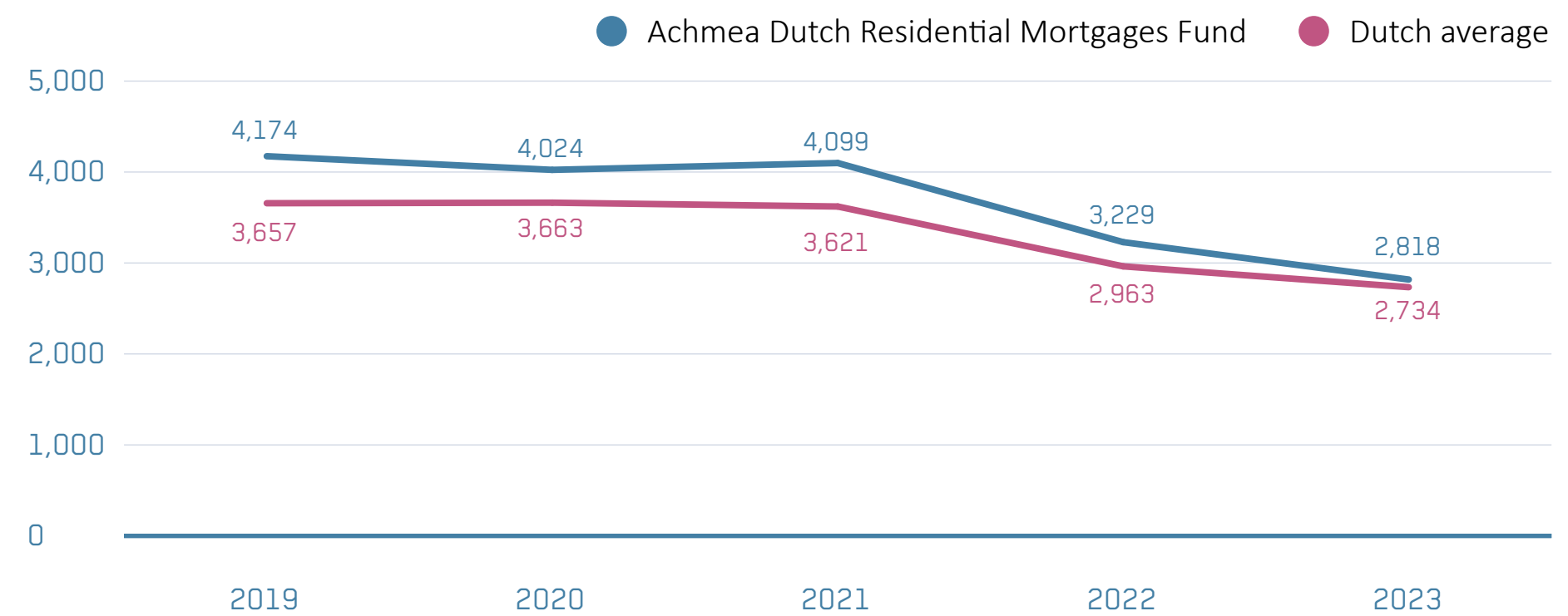
To make a better comparison over the years, the average CO₂ emissions for each collateral are shown in the following chart. The CO₂ emissions of the Dutch average are calculated using the same emission factors. The chart clearly shows that the energy crisis in 2022 has had a profound effect on average emissions, as a result of declined energy consumption for both the portfolio as the Dutch average.

Apart from lower consumption, another factor of relevance here is the lower CO₂ emission factor for electricity. In 2022, this factor declined by 27% (from 0.369 to 0.29). This was explained by the growing share of green energy sources used in electricity production. (source: www.CO2emissiefactoren.nl)

Looking at the average emissions per energy label, energy labels F & G clearly emit higher average CO₂ levels. Labels A to E are more or less in the same range. While one might expect label A to have the lowest average emissions, several factors are at play here. Consumption of households with a better energy label can be negated due to bigger houses or different behavior.

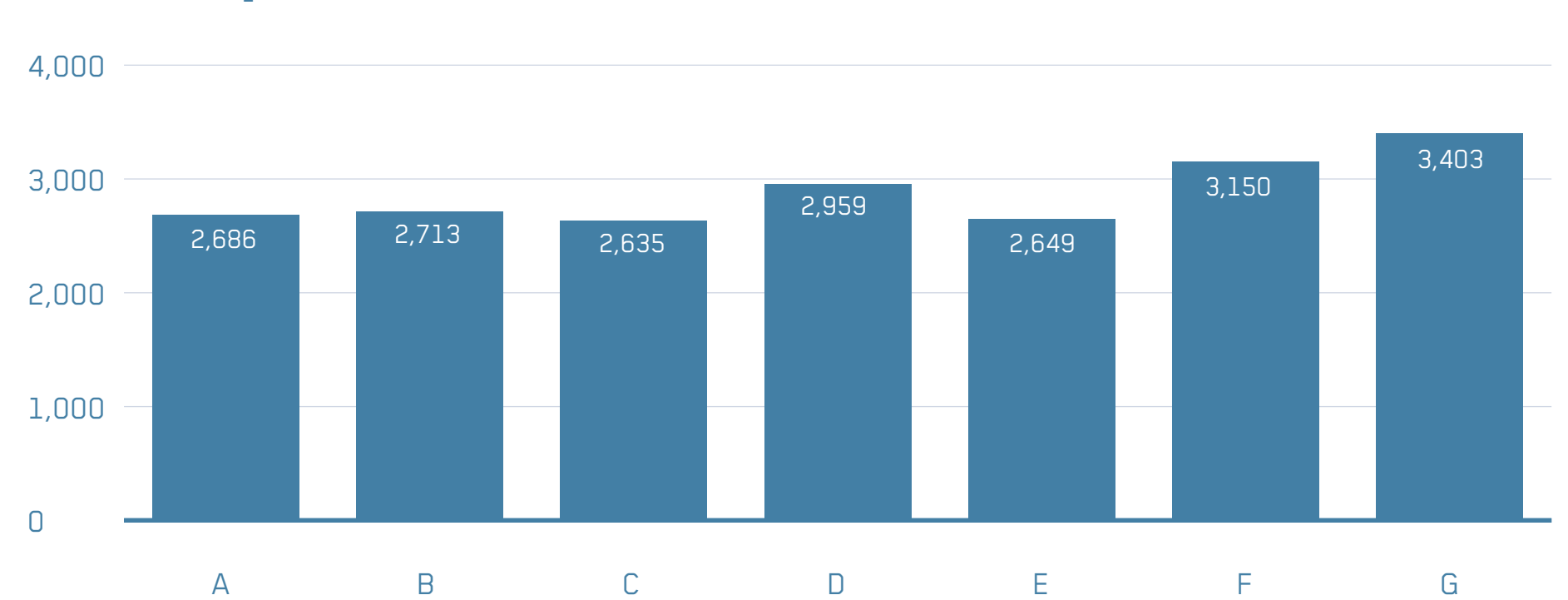
AVERAGE CO₂ EMISSION PER COLLATERAL PROPERTY (KGCO₂)

Source: Achmea Mortgages



AVERAGE CO₂ EMISSION PER LABEL

Source: Achmea Mortgages



5. Mortgage market in numbers

Indicator	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024
General unemployment ²	3.6%	3.5%	3.6%	3.5%	3.6%
Inflation ²	4.4%	5.7%	0.2%	1.2%	3.1%
Number of originated mortgages ³	73,178	77,864	80,820	90,620	78,605
Mortgage applications ³	91,341	92,999	92,744	92,779	115,000
Foreclosures ¹	54	73	43	72	56
Price index (2020=100) ¹	125.8	124.9	127.2	129.0	132.7
Energy label known ³	54.1%	57.2%	58.3%	58.6%	87.6%
Energy savings measures ³	14.9%	14.7%	13.5%	14.1%	16.8%

Source: ¹Kadaster, ²CBS, ³HDN



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Fund Management

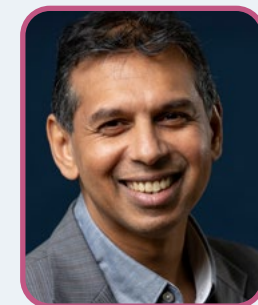


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