ACHMEA MORTGAGES

Quarterly Update Q4 2024

achmea
Mortgages

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1. Summary Q4 2024

Highlights

- In the fourth quarter especially short-term swap rates decreased. Swap rates for middle and long-term rates were slightly higher or slightly lower.
- Mortgages rates decreased for all maturities in the fourth quarter.
- The total mortgage loan principal for requests remained almost the same as previous quarter at €275,000.
- The number of foreclosures decreased to 18 per month (previous quarter: 21).

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

This quarter was marked by a decline in swap rates for short-term maturities and long-term maturities.

- In the middle part of the curve swap rates were actually higher. Rate cuts by central banks contributed to a sharp decrease in short-term maturities, with the 1-year swap-rate falling by more than 30 basis points. Longer-term rates also declined, albeit to a much lesser extent. The 30-year rate dropped by 12 basis points over the quarter.
- Mortgage rates decreased across all fixed-rate periods in line with lower swap rates for most of the fourth quarter. On average, rates fell by 18 basis points, although this varied significantly depending on the fixed-rate term. In the fourth quarter, mortgage rates declined more than the underlying swap rates, leading to lower credit spreads.
- According to Mortgage Data Network (HDN) about 133,000 mortgage loan applications were registered this quarter of 2024, an increase of 14% compared to the previous quarter. Mortgage applications are roughly 31% higher in 2024 compared to 2023. This is in line with a recovery in the housing market leading to a higher turnover in the housing market.

Outlook

- The turnover in the mortgage market for 2024 was slightly more than €100 billion, an increase from €80 billion in 2023. For 2025, we expect a higher turnover compared to 2024.
- House prices continued to rise in the 4th quarter. House price gains for 2024 were almost 11%. 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. Double-digit house price gains for 2025 do not seem likely given the current interest rate levels and expected wage increases.
- The Dutch economy performed quite well in terms of GDP growth in 2024. We expect this to continue in 2025 where the economy is expected to grow moderately. Unemployment is expected to remain low and thus resulting in limited credit risk also in 2025. Looking forward, we expect a similar macro-economic environment in 2025.

2. Mortgage Market Update

INTEREST-RATE MARKET

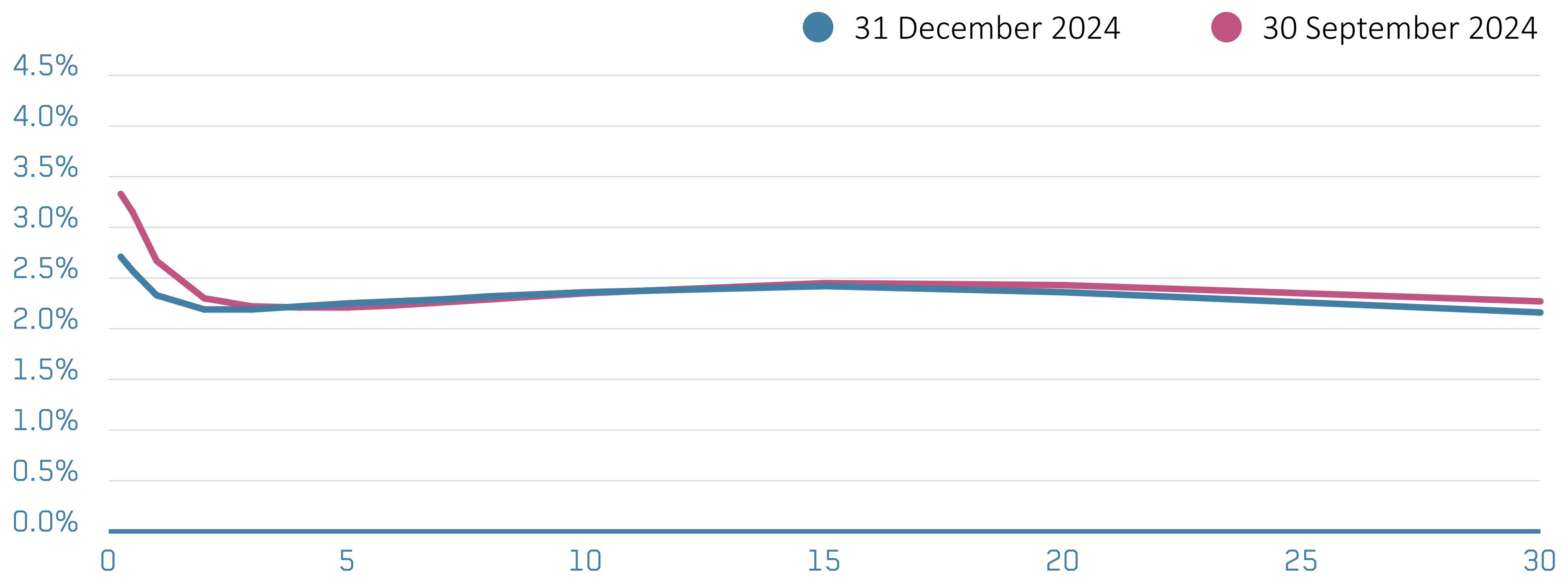
This quarter was marked by a decline in swap rates for short-term maturities and long-term maturities. The middle part of the curve swap rates were actually higher.

Rate cuts by central banks contributed to a sharp decrease in short-term maturities, with the 1-year swap-rate falling by more than 30 basis points. Longer-term rates also declined, albeit to a much lesser extent. The 30-year rate dropped by 12 basis points over the quarter.

One of the consequences is that the slope of the 10-year to 3-month segment became less inverted, with the difference increasing by 62 basis points. In the 10- to 2-year segment, the difference increased by 17 basis points, resulting in a steeper curve in that segment. However, the overall curve remains inverted.

EURO SWAP CURVE

Source: Achmea Mortgages



The significant decline in short-term market rates was primarily driven by central banks. The Fed implemented its first rate cut in years, a direct reduction of 50 basis points, in the third quarter and followed by two times another 25 basis points rate cuts in the fourth quarter.

Similarly, the European Central Bank reduced the deposit rate from 3.5% to 3.0% in the fourth quarter. Preliminary inflation figures for the eurozone showed a rate of 2.4% for December, slightly above the 2% target. Core inflation in Europe, adjusted for volatile food and energy prices, dropped to 2.7% (source: Eurostat).

However, swap rates did increase for the middle part of the yield curve albeit very limited. Swap rates with a maturity between 4- and 10-years increased by an average of 3 basis points. During the fourth quarter the narrative, especially from the Fed, changed to a more hawkish tone. The Fed indicated during the December meeting that the outlook for the inflation in 2025 became more uncertain, inflation could remain higher than anticipated, making the anticipated rate cuts for 2025 less certain. As the market adjusted to this changed outlook for 2025, rates increased, especially in the US. For the Eurozone, the outlook remains that of a weak economy with limited growth, in contrast to the US where the economy remains strong. However, rates also increased in Europe in line with the US, but to a lesser extent.

Mortgage rates and margins

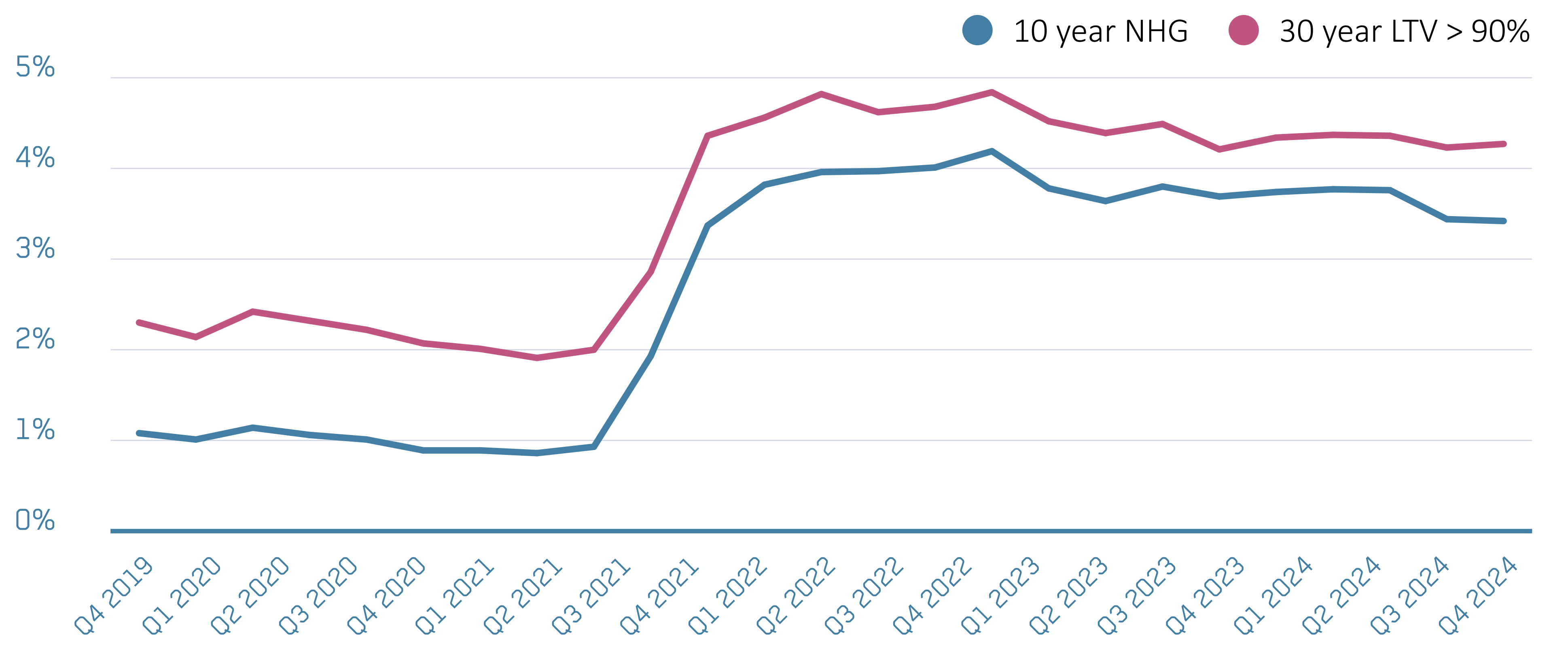
Mortgage rates decreased across all fixed-rate periods in line with lower swap rates for most of the fourth quarter. On average, rates fell by 18 basis points, although this varied significantly depending on the fixed-rate term. The steepest decline was observed in mortgage rates for 1- and 2-year terms, which averaged a drop of 43 basis points, while the 30-year fixed-rate period experienced the smallest decrease, with an average drop of 7 basis points. Notably, 1-year mortgage rates saw the most significant decline, averaging a reduction of 62 basis points, reflecting the rate cuts implemented by central banks.

The average rate for a 10-year fixed-rate mortgage with National Mortgage Guarantee (NHG) decreased by 11 basis points, from 3.44% to 3.33%, based on data from the top 10 providers. Similarly, the average rate for a 30-year fixed-rate mortgage with a loan-to-value (LtV) of 100% fell by 9 basis points, from 4.23% to 4.14%. While mortgage rates generally followed the decline in underlying swap rates, this occurred with some delay and was not uniform across all fixed-rate periods. In the fourth quarter, mortgage rates declined more than the underlying swap rates, leading to decreased margins. The increase in rates at the end of December did not provide the mortgage market adequate time to adjust to rising rates.

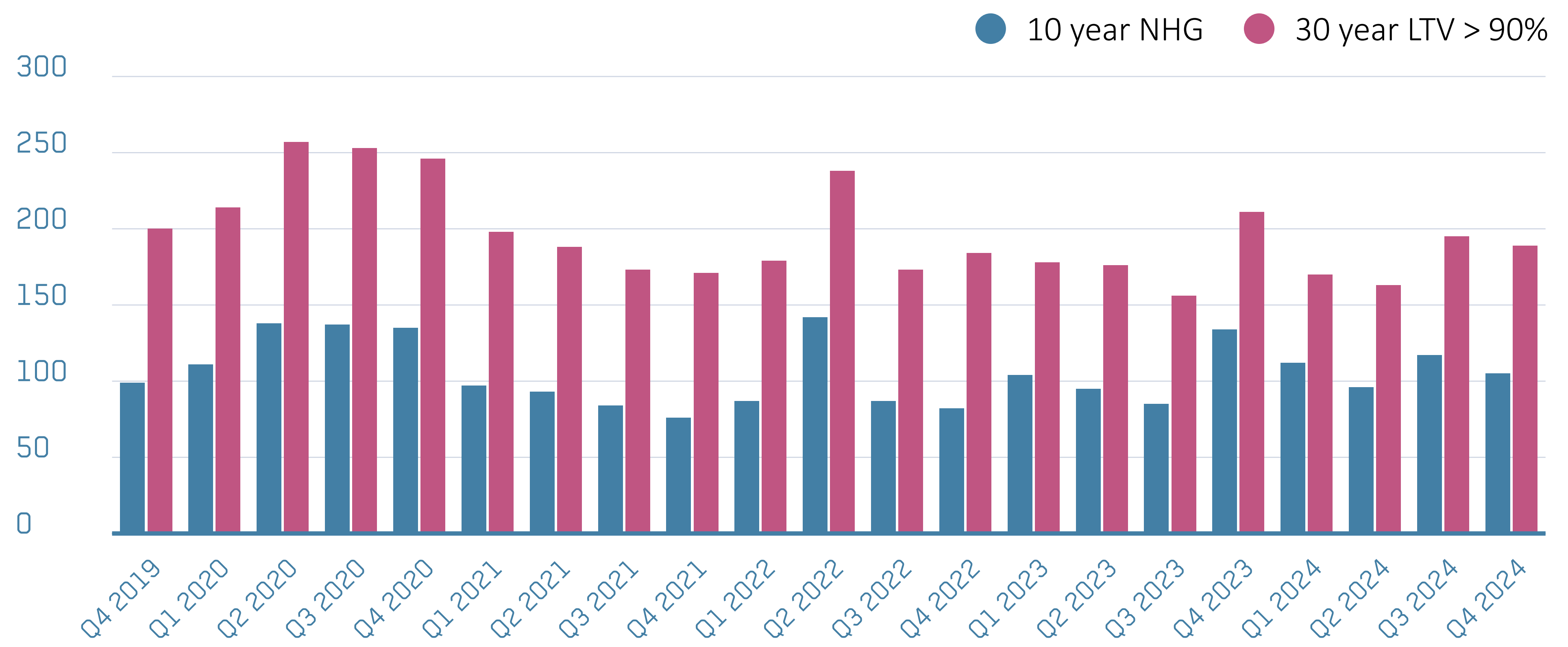
The margin on a 10-year fixed-rate NHG mortgage decreased during the quarter from 117 basis points to 105 basis points. Similarly, the margin on a 30-year fixed-rate mortgage with an LtV of 100% decreased from 195 basis points to 189 basis points. Margins have tightened significantly during 2024 and have returned to the average levels seen in recent years. We anticipate that mortgage rates will continue to align with swap rates, and thus margins will likely remain around current levels. However, margins may either tighten or widen from these levels as the mortgage market tends to lag behind the swap market. Consequently, changes in swap rates will lead to adjustments in mortgage rates, but with a time lag.

MORTGAGES RATES

Source: Achmea Mortgages



SPREADS (IN BPS)



Number and distribution of mortgage loan requests

According to Mortgage Data Network (HDN) about 133,000 mortgage loan applications were registered this quarter of 2024, an increase of 14% compared to the previous quarter.

Within the total number of mortgage loan applications, about 84,000 can be assigned to the buyer's market (starter and trade-uppers). In the non-buyer's market (refinances and other) the number of requests are just over 49,000. The relative distribution of the groups remained almost the same compared to the previous quarter, with starters being the largest group (33%).

As per the start of 2025, several mortgage changes have been implemented, including an increase of the NHG limit, more options for contracters, and increased borrowing capacity for singles. The ECB expects to lower the deposit rate in 2025. Van Bruggen Adviesgroep anticipates more home sales in 2025 (source: Van Bruggen Adviesgroep). As a result, we expect the number of mortgage loan applications to increase in the next quarters.

Development of mortgage loan principal (requests)

The average mortgage loan principal for buyers, the amount that the mortgagee wishes to finance, increased by 1.4% to €367,000 in this quarter compared to the previous quarter (€362,000).

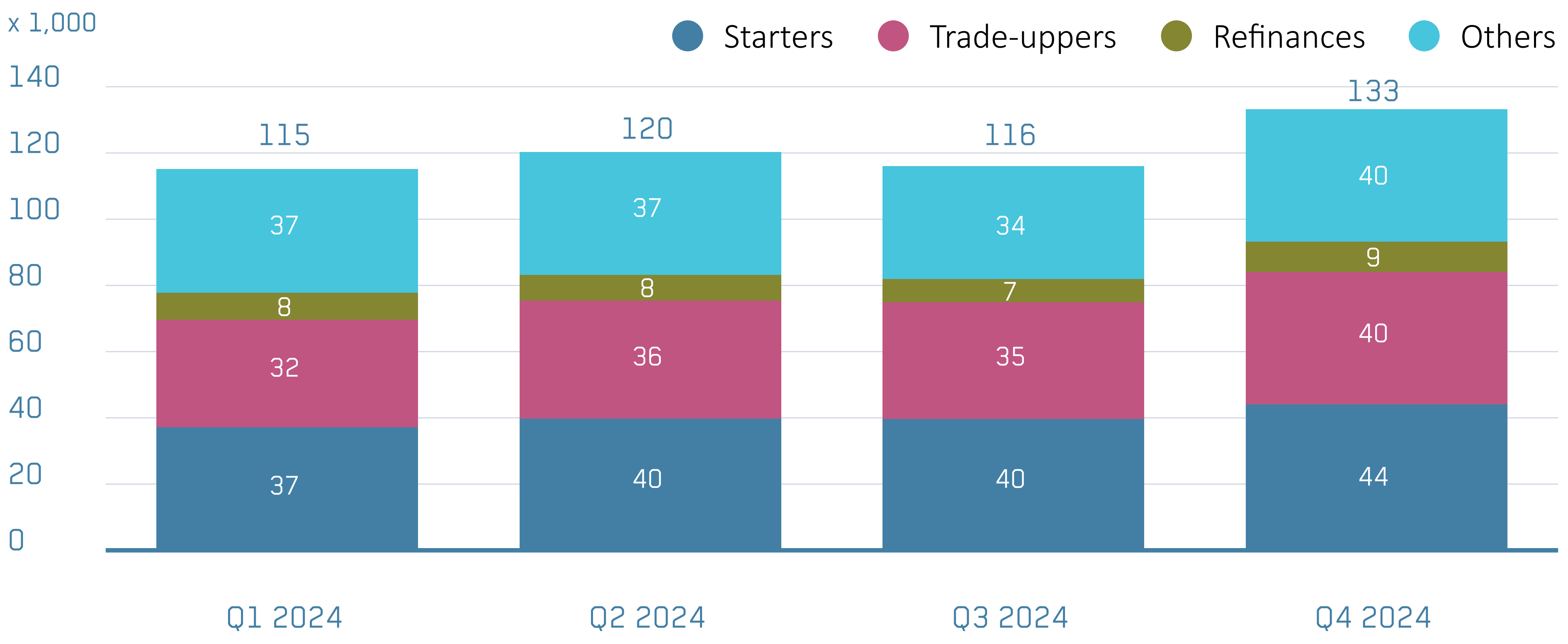
The value of the underlying house that is to be mortgaged in the buyers' market increased to €505,000 this quarter. An increase of 10.9% compared to the fourth quarter of 2023 and 2.3% compared to the previous quarter. This growing market value of houses in the buyers' market can be attributed to rising wages combined with declining mortgage rates and a tight housing market. It is expected that this market value will continue to rise in the 2025 as well.

The non-buyers market has a similar increase of the average mortgage loan principal. The average loan principal of non-buyers increased to €120,000 this quarter. This is an increase of 9.6% compared to the fourth quarter last year and 3.5% compared to the previous quarter.

The total mortgage loan principal averaged at around €275,000 this quarter. This is the same as the previous quarter.

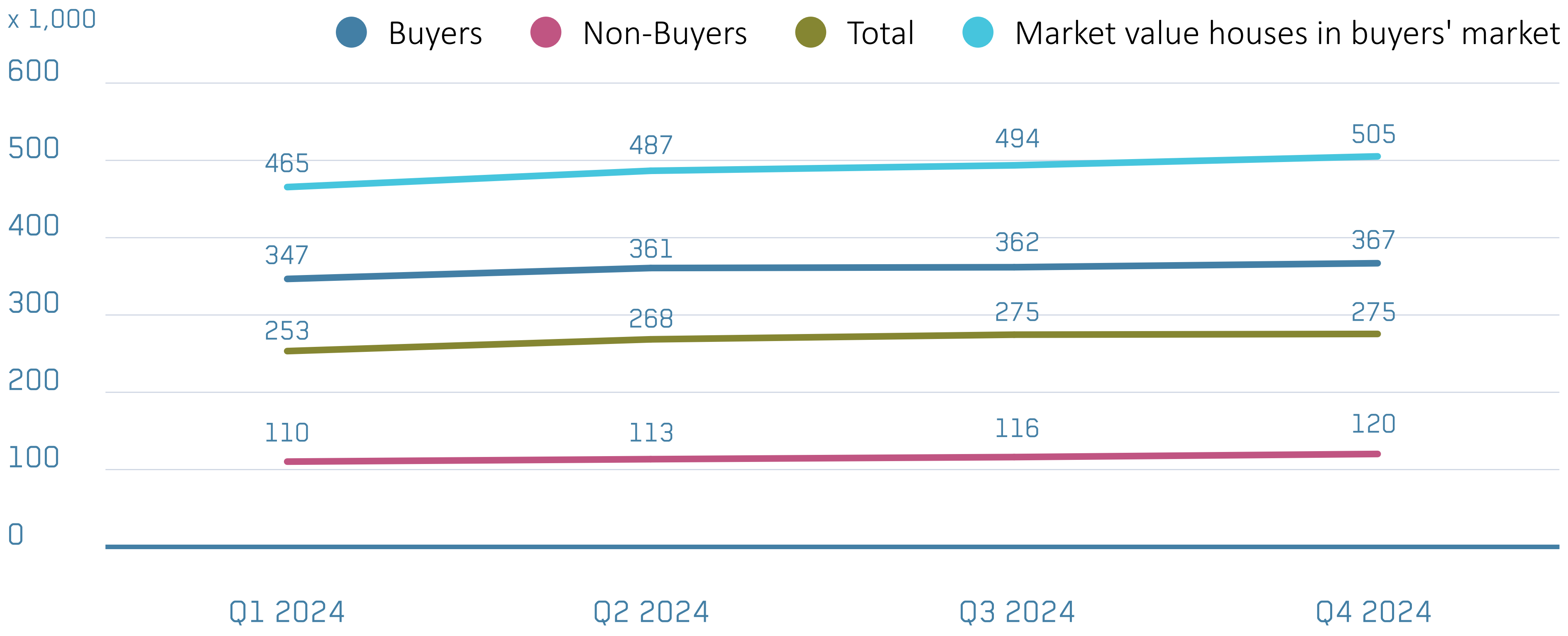
DISTRIBUTION OF MORTGAGES TYPES

Source: HDN, Achmea Mortgages adaptation (2024)



MORTGAGE LOAN PRINCIPAL AND MARKET VALUE HOUSES

Source: HDN, Achmea Mortgages adaptation (2024)



As a result of the ongoing scarcity and increasing demand for housing, we expect that the mortgage loan principal continues to rise in 2025 (source: Van Bruggen Adviesgroep).

Market size of granted mortgage loans

HDN figures show that around €25.3 billion in mortgage loans were granted this quarter. This is an increase of almost 6% compared to the previous quarter (€23.9 billion). The average mortgage principal of the granted mortgages this quarter remained almost the same as the previous quarter: €272,000. This principal amount follows the average mortgage loan principal of an application (previous paragraph) with some delay due to a lead time of several months between the application and the passing of a mortgage loan.

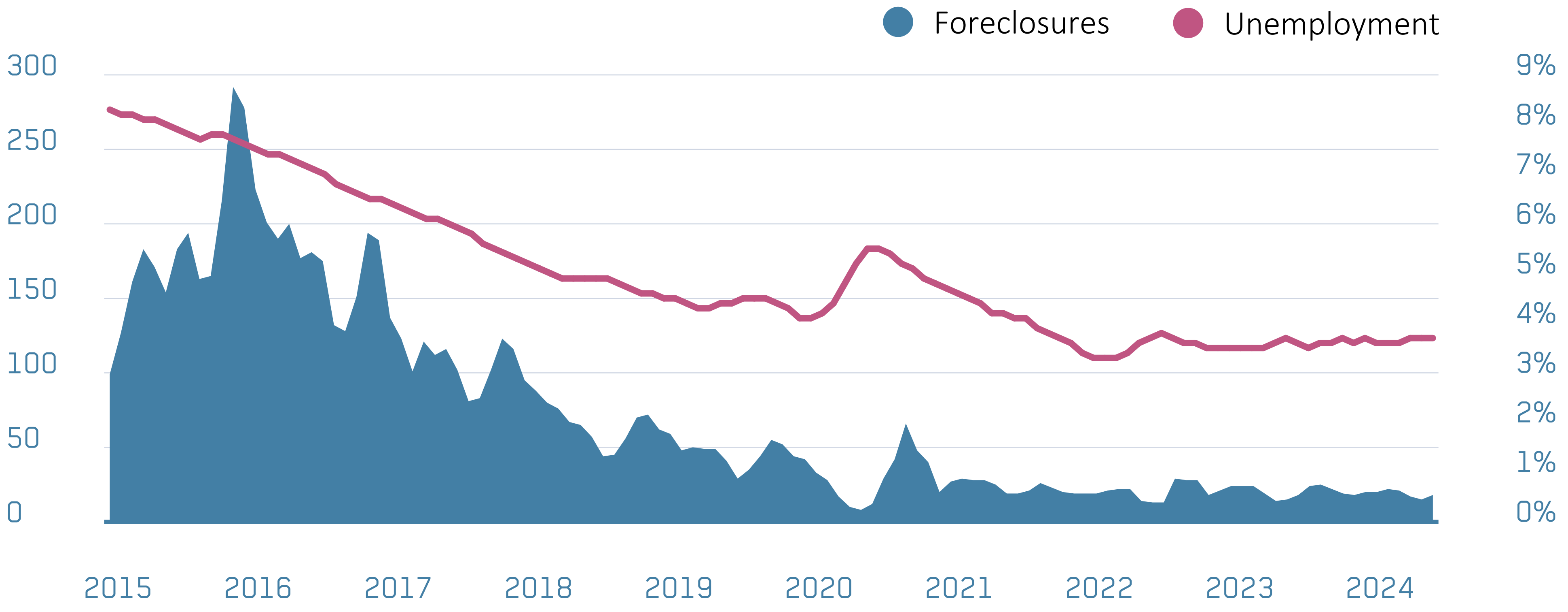
With an expected increase in both the average mortgage loan principal and the number of mortgage loan requests, we expect that the market size continues to grow in the next couple of months.

Number of foreclosure sales, bankruptcies and unemployment rate

At the end of November, the number of foreclosure sales, based on a 3-month moving average, decreased slightly to 18 per month[1] (August 2024: 21). From a historical perspective, this number remains very low. The unemployment rate also remains low with an average of 3.7% (source: CBS). This limits the chance of a foreclosure, because mortgagees are better able to meet their obligations.

In 2024, 4,270 applications for bankruptcies were filed, an increase of 30% compared to 2023 (source: CBS). However, the number of bankruptcies is still significantly lower than the peak during the euro crisis in 2013 (9,431 bankruptcies). For 2025, we expect a low risk that unemployment or bankruptcies will have a significant impact on the mortgage market.

NUMBER OF FORECLOSURE AUCTIONS (3 MONTH MOVING AVERAGE)



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

[1] Land Registry foreclosure sales figures are one month behind.

3. Housing Market Update

STRONG PERFORMANCE IN THE HOUSING MARKET

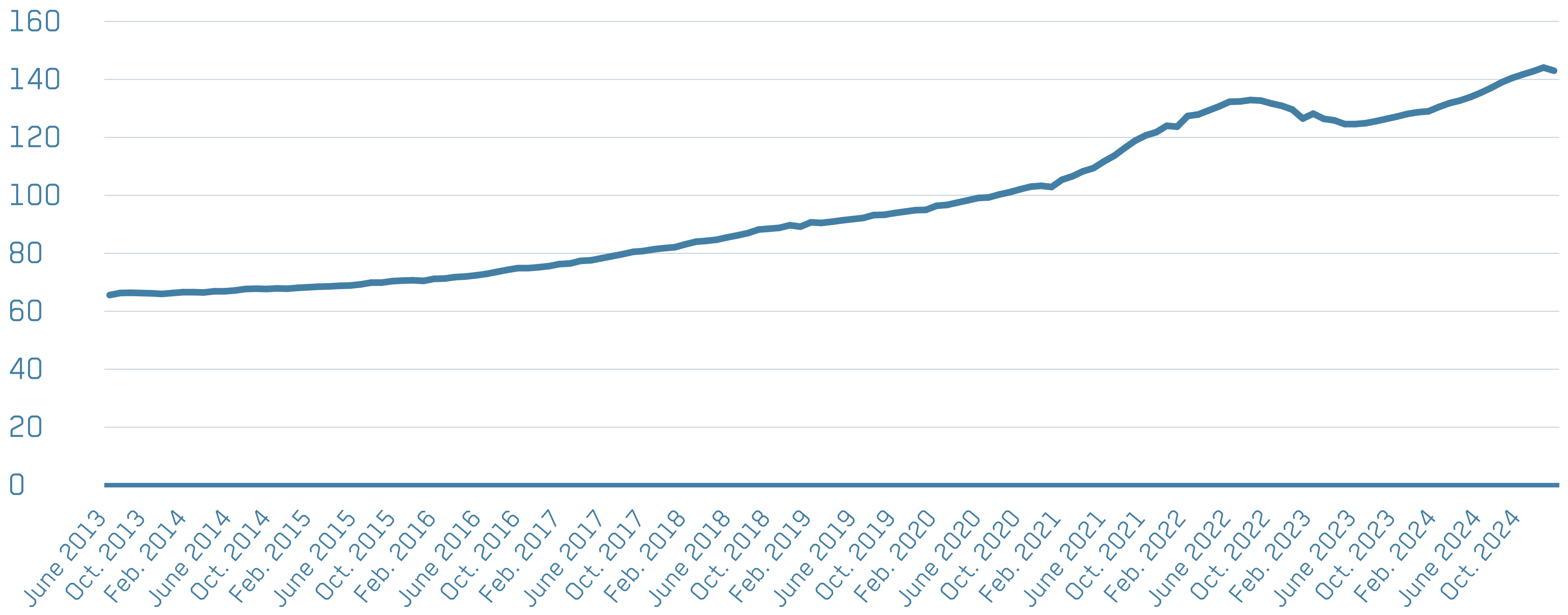
In the fourth quarter of 2024, house prices increased by 2.5% compared to the third quarter, and they rose by 11.5% compared to a year earlier, according to data from the Dutch Association of Realtors (NVM). The number of transactions rose by 19% year-on-year, marking the highest transaction volume since the fourth quarter of 2020. The supply remained stable compared to the previous quarter, and as a result of the combination of increased transactions and stabilized supply, the tightness indicator decreased, allowing a potential homebuyer an average choice of 1.8 properties, down from 2.3 in the previous quarter.

The NVM figures, based on the average transaction price, provide a rough but current indication of housing price development. The NVM figures are based on the average transaction price. For a more accurate but delayed indication, we can refer to the Price Index of Existing Owner-Occupied Homes (PBK) from CBS and Kadaster, which shows an increase of 0.9% in the fourth quarter (quarter on quarter), with an annual increase of almost 11% (year on year).

The Eigen Huis market indicator, which reflects consumer confidence in the housing market, further recovered in 2024. In October, the indicator reached 96 points, the highest level since March 2022. In 2016, the indicator peaked at 121 points (with 100 being 'neutral' on a scale of 0 to 200).

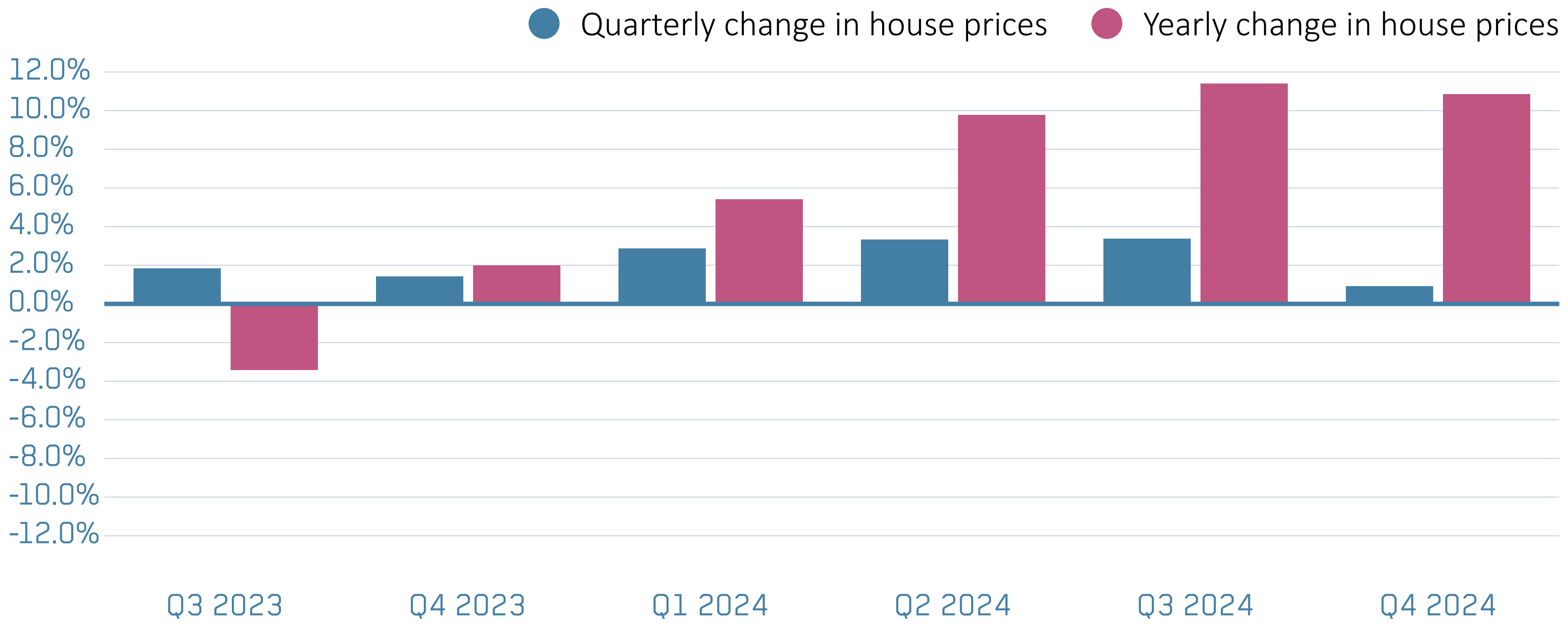
HOME PRICE INDEX

Source: CBS, Achmea Mortgages

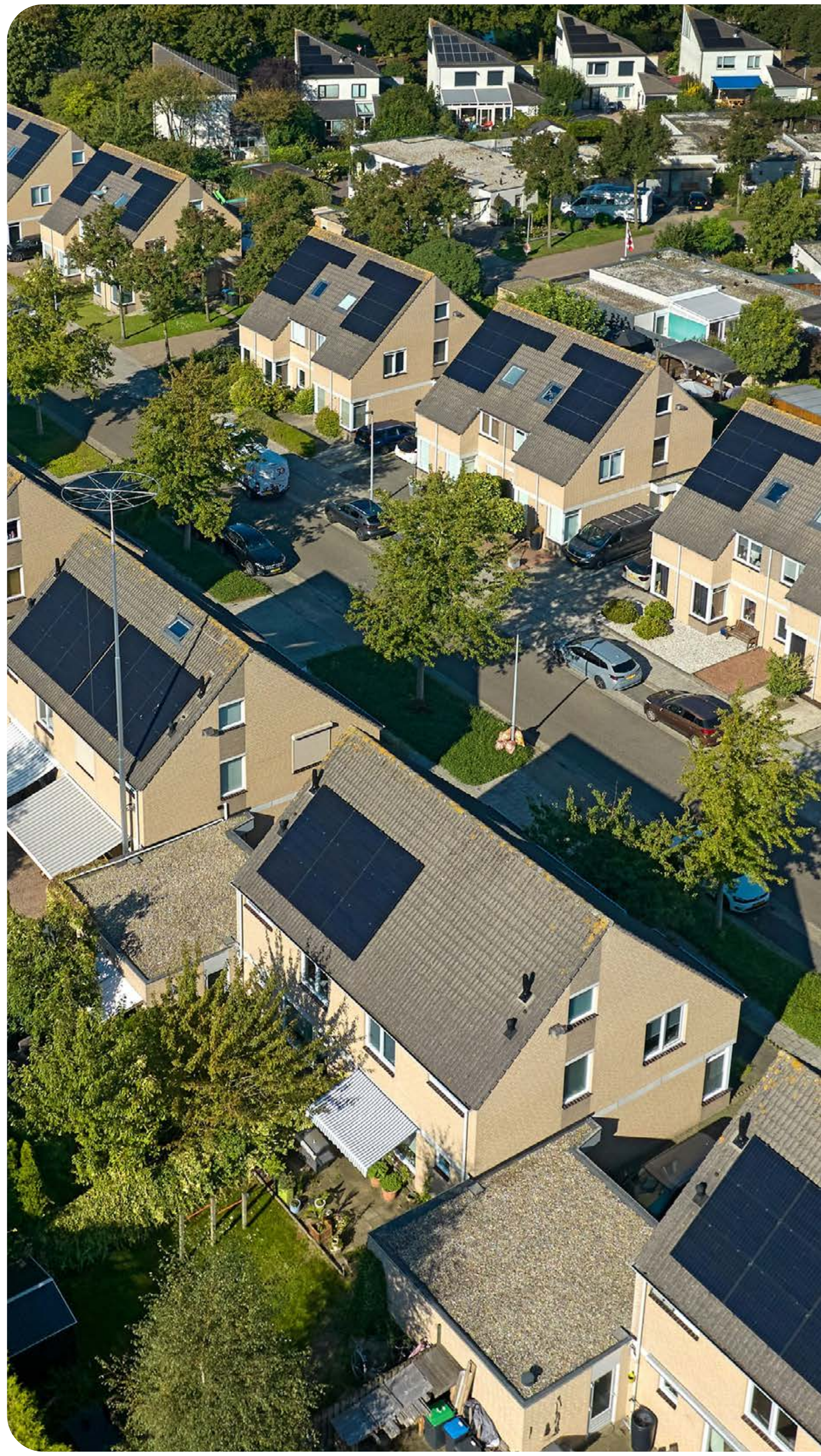


HOUSE PRICE CHANGE

Source: CBS, Achmea Mortgages



4. Impact Investing with Dutch Residential Mortgages



Introduction

Mortgages represent an attractive investment category from an ESG perspective. Residential properties account for approximately 20% of national emissions, making them a highly relevant area for CO_2 reduction. However, a challenge with mortgages is that lenders do not own the properties and therefore lack direct influence. Nonetheless, it is indeed possible to create a positive impact.

Informing and Activating

Effective communication and strong engagement are essential for encouraging consumers to make their homes more sustainable. Generally, Dutch homeowners are well aware of the options available for energy-saving measures. The energy crisis in 2022, characterized by soaring gas prices, prompted many to realize that improving their home's sustainability is not only a worthwhile investment but also provides protection against fluctuating energy costs.

However, many consumers perceive certain barriers to taking action. The subsidy application process can be complex, and inconsistent government policies, such as those regarding the netting scheme or mandatory hybrid heat pumps, create uncertainty. Nevertheless, motivating consumers to take action is possible by providing clear information, offering financial incentives, and lowering barriers. An example of reducing barriers is the 'climate store' from the Achmea Dutch Residential Mortgage Fund, where homeowners can easily purchase items like solar panels or heat pumps.

A Push in the Right Direction

Dutch consumers are often responsive to financial incentives, which can serve as additional motivation for pursuing sustainability. Some of the options include:

- **Increased borrowing capacity:** As of 2024, national standards have been adjusted, allowing households with low energy labels to borrow additional funds for energy-saving measures. For labels E, F, and G, this can amount to up to €20,000, capped at 6% of the property's value.
- **Interest rate discount:** The Achmea Dutch Residential Mortgage Fund offers consumers a 'green loan component' that allows borrowing up to €25,000 at a 0.5% discount, provided the funds are used for home sustainability improvements.
- **Voucher in the climate store:** Syntrus customers gain access to the climate store, where they receive easily accessible information and can purchase products like insulation or solar panels. As an additional incentive, they receive a €500 voucher.

The costs of these measures for investors are limited. Moreover, the improvements achieved lead to lower monthly expenses for consumers, thereby enhancing the risk profile of the loan.

Measuring Impact

The energy label of a property is often cited as a measure of sustainability; however, it does not accurately reflect the actual impact made. An improved average energy label could also result from changes in the portfolio. Additionally, very few consumers apply for a new energy label after making improvements, leading to an underestimation of the energy label's effectiveness.

Therefore, we prefer to focus on the actual impact made, such as the amounts we disburse for sustainability initiatives, the number of green loan components issued, and the volume of orders in the climate store. As a manager, we have established specific KPIs in sustainability to quantify our impact and serve as a basis for dialogue with our investors. For more information, please visit ESG update 2024.

The following table shows how these themes align with the SDGs and includes some concrete measures that have been taken for the fund.

Financing the Energy transition

11 SUSTAINABLE CITIES AND COMMUNITIES
13 CLIMATE ACTION

We finance the energy transition, thereby assisting our consumers in making their homes more sustainable.

- Encouraging energy-saving measures by providing financing up to 106% LTV in combination with a discount for a maximum of 25k.
- Informing consumers on how to improve energy efficiency and providing ways to implement these measures.
- Offering financial incentives for consumers, such as interest rate discounts and vouchers, to actually motivate them to make their home more sustainable.

Information & Education

10 REDUCED INEQUALITIES

We consider it part of our responsibility to contribute to information provision and education aimed at improving the financial literacy, opportunities for sustainability and access to climate adaptation measures among our consumers.

- Our internal special service team aims to assist mortgage holders in difficulty, offering support such as job and budget coaching.
- We work with mortgage holders facing payment difficulties to resolve these issues. This may include restructuring the loan, interest rate averaging, etc.
- Mortgage holders who have reached retirement age and have a low LTV mortgage are informed about options to increase their mortgage as a way to supplement their pension.
- We inform all mortgage holders about the options available to repay their mortgage loans.
- Our employees offer guest lectures on finance at schools.

Minimize greenhouse gas emissions

13 CLIMATE ACTION

We aim to contribute to minimizing greenhouse gas emissions as much as possible and encourage consumers to reduce their emissions.

- Through ‘Duurzaam Woongemak’, we inform and support consumers in making their homes more sustainable, thereby reducing CO_2 emissions.
- In terms of reporting, we work with grid operators, Calcasa, and the CAS to obtain the necessary data. This enables us to make timely adjustments and take additional measures if needed.
- As Manager, Achmea Mortgages aims for fully climate-neutral operations by 2030, and climate neutral portfolios by 2050.

5. Mortgage Market in Numbers

Indicator	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024
General unemployment[2]	3.5%	3.6%	3.6%	3.7%	3.7%
Inflation[2]	1.2%	3.1%	3.2%	3.5%	4.1%
Number of originated mortgages[3]	90,62	78,605	91,058	99,549	111,707
Mortgage applications[3]	92,779	115,108	120,228	116,052	132,528
Foreclosures[1]	72	56	60	50	74
Price index (2020=100)[1]	129.0	132.7	137.1	141.7	143.0
Energy label known[3]	58.6%	87.6%	90.3%	92.2%	92.3%
Energy savings measures[3]	14.1%	16.8%	16.1%	13.6%	13.3%

Source: [1]Kadaster, [2]CBS, [3]HDN

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