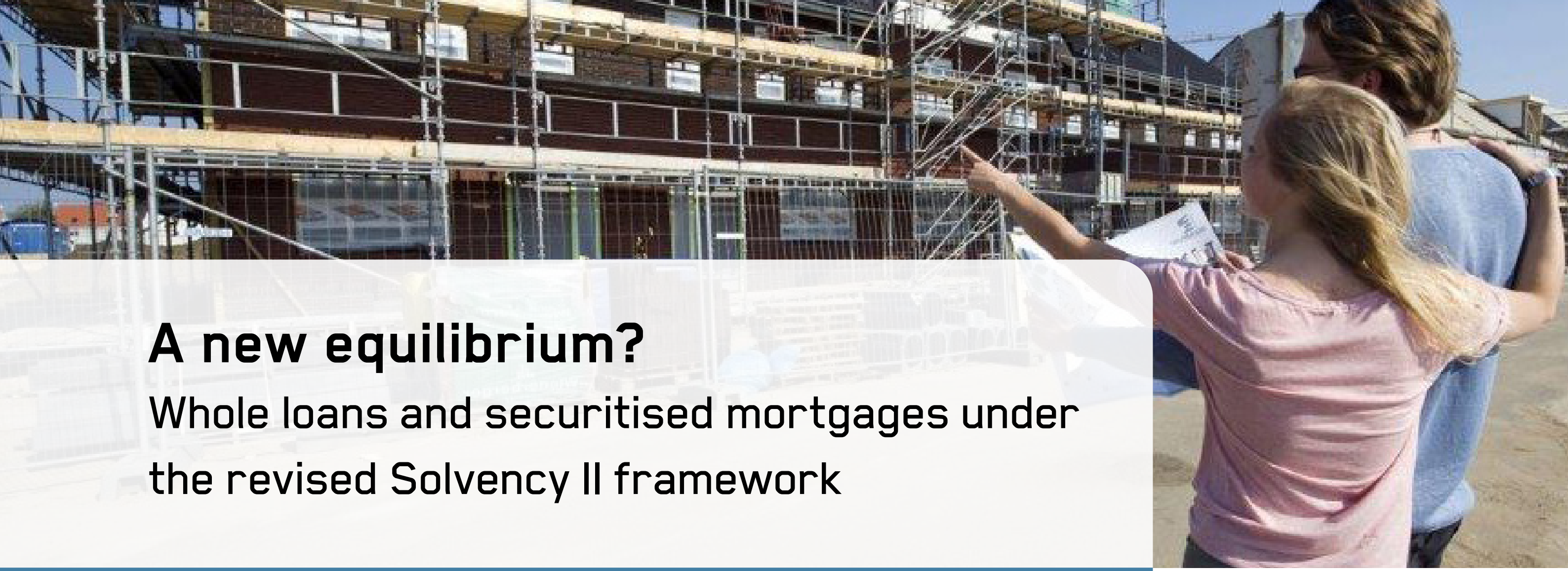

A new equilibrium?

Whole loans and securitised mortgages under the revised Solvency II framework

Achmea Mortgages

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Key insights

- Whole loans remain the most capital-efficient route for insurers to hold Dutch residential mortgage risk, both before and after the reform.
- NHG-backed lending benefits most from the revised treatment, moving from a relatively high capital charge to the 0.75% floor where the guarantee is recognised.
- AAA securitisations become materially more attractive, but they do not overtake whole loans on a return-on-capital basis.

Why this matters for insurers

The reform affects three issues that matter directly to insurers. It introduces a minimum capital charge for low-LTV whole loans, materially reduces capital charges for senior securitisations and expands the range of mortgage-related exposures that can be held efficiently under the standard formula. The result is not a reversal of the current hierarchy, but a narrower gap between whole loans and securitised mortgage exposures. This creates a broader opportunity set for portfolio construction, while preserving the capital-efficiency advantage of whole loans.

Background: what changes under Solvency II

Under the current Solvency II framework, the capital requirement for Dutch residential mortgage exposure depends on the legal form in which the exposure is held. Whole loans are treated under the counterparty default risk module, where the requirement is driven primarily by the loan-to-value ratio. For low-LTV portfolios this can result in a very low capital charge. The NHG guarantee is not recognised in the current calculation, even though it materially reduces expected credit losses.

Securitised mortgages are treated under the spread risk module. Existing calibrations, introduced after the financial crisis, are relatively punitive for senior, highly rated tranches compared with their underlying credit risk and compared with other highly rated fixed-income instruments. The revised framework reduces these charges and aligns parts of the insurance treatment more closely with the banking framework under the Capital Requirements Regulation. It also introduces a minimum charge for low-LTV whole loans to avoid outcomes where the standard formula produces a zero capital requirement.

Impact on whole loan mortgages

Non-securitised mortgages continue to fall under the counterparty default risk module. The core structure of the calculation remains unchanged: the capital requirement is primarily driven by the loan-to-value ratio and by the stressed value of the collateral.

Under the current rules, the capital requirement for a whole loan mortgage portfolio is effectively calculated as follows:

$$\textbf{SCR} = \textbf{MAX}(0; 15\% \times (\text{Remaining debt} \times (100\% - 60\% / \text{LTV})))$$

For mortgages with an LTV below 60%, the current formula returns zero because the stressed collateral value fully covers the outstanding loan. From 30 January 2027, a floor of 5% of the remaining debt is introduced in the loss calculation:

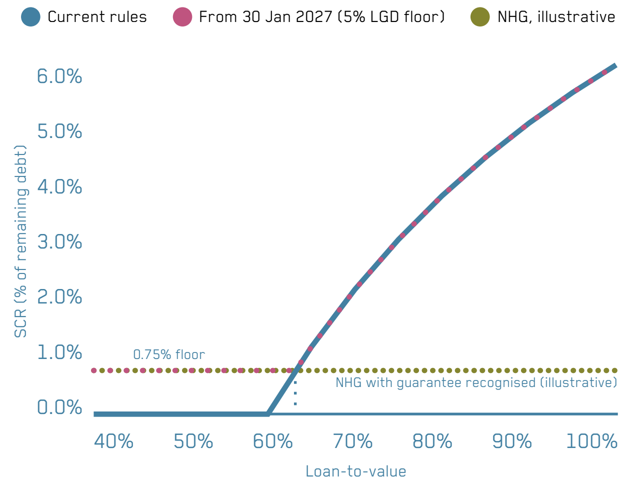
SCR = 15% × MAX(Remaining debt × (100% – 60% / LTV) - Guarantee (NHG payout); 5% × Remaining debt)

The floor applies whenever the original formula produces a loss below 5% of the remaining debt. In practice this affects mortgages with an LTV below approximately 63%. For those loans, the SCR becomes 15% × 5%, or 0.75% of remaining debt. The SCR on a whole loan portfolio can therefore no longer fall below 0.75%, irrespective of how low the LTV is. For higher-LTV loans, the existing formula continues to apply and the floor has no effect.

The amendments to Article 215 align the recognition of guarantees more closely with the CRR treatment for banks. This creates the basis for insurers using the standard formula to recognise the NHG guarantee when calculating the SCR for whole loan mortgages, subject to the applicable recognition criteria. Where the guarantee is recognised, NHG mortgages are expected to be constrained by the 0.75% floor: the guarantee is sufficiently material for the calculated loss to fall to the minimum level.

The graph *SCR for whole loan mortgages under old and new rules* illustrates this effect. For mortgages with an LTV of approximately 63% or below, the SCR rises modestly because of the new floor. Above that threshold, the formula is unchanged. For newer NHG mortgages, which often have higher LTVs, the impact can be more pronounced because guarantee recognition may reduce the calculated SCR to the floor.

SCR FOR WHOLE LOAN MORTGAGES UNDER OLD AND NEW RULES (SOURCE: EUROPEAN COMMISSION)



For most seasoned portfolios, the increase is expected to be limited. Even after the reform, the resulting capital charge remains below that of most securitised mortgage exposures.

Two further changes are relevant. First, indexation raises the maximum eligible loan amount for Solvency-compliant mortgage loans from €1 million to €1.35 million. Second, defaulted and forborne loans are reclassified from the spread risk module to the counterparty default risk module, where they are treated as Type 2 exposures. Their loss-given-default is subject to a floor of 36% of the loan value. The applicable LGD is therefore the higher of 36% of the loan and the actual expected loss, defined as the loan amount less expected recoveries.

Impact on securitisations

The reform materially improves the capital treatment of securitised products. This is consistent with the European policy objective of deepening capital markets and increasing the role of long-term investors in credit risk transfer.

For Simple, Transparent and Standardised (STS) securitisations, the reduction is meaningful but less dramatic than for non-STS securitisations. The table *SCR % for a senior STS securitisation with a duration of five years* shows the before-and-after position. In absolute terms, lower-rated STS positions still carry materially higher charges. In relative terms, the reduction is also significant at the top of the capital structure: AAA-rated senior STS positions move from 5.0% to 3.5%.

Junior STS securitisations also receive a lower capital charge. The reduction is more limited for lower credit quality steps, as shown in the table *SCR % for a junior STS securitisation with a duration of five years.*

Non-STS securitisations currently attract a substantially higher SCR than STS securitisations. The reform narrows that gap significantly while preserving a clear distinction between the two categories. This is relevant for structures that cannot qualify as STS, including actively managed securitisations. The table *SCR % for a senior non-STS securitisation with a duration of five years* sets out the revised senior charges. A split between senior and junior positions is also introduced; for example, AAA-rated junior non-STS positions receive an SCR of 37.0% at a five-year duration.

Taken together, the capital relief for securitised mortgages is substantial, particularly for senior tranches backed by prime residential mortgage portfolios. This improves their return on capital and makes them more competitive within the broader fixed-income allocation. It does not, however, eliminate the structural advantage of directly held whole loans.

SCR % FOR A SENIOR STS SECURITISATION WITH A DURATION OF FIVE YEARS

Rating corresponding to credit quality step	AAA	AA	A	BBB	BB	B
Before	5.0%	6.0%	8.0%	14.0%	28.0%	47.0%
After	3.5%	4.5%	7.0%	12.5%	22.5%	37.5%
Absolute difference	**-1.5%**	**-1.5%**	**-1.0%**	**-1.5%**	**-5.5%**	**-9.5%**
Relative difference	**-30%**	**-25%**	**-12.5%**	**-10.7%**	**-19.6%**	**-20.2%**

SCR % FOR A JUNIOR STS SECURITISATION WITH A DURATION OF FIVE YEARS.

Rating corresponding to credit quality step	AAA	AA	A	BBB	BB	B
Before	14.0%	17.0%	23.0%	39.5%	79.0%	100.0%
After	10.0%	13.0%	20.0%	35.5%	63.5%	100.0%
Absolute difference	**-4.0%**	**-4.0%**	**-3.0%**	**-4.0%**	**-15.5%**	**-0.0%**
Relative difference	**-28.6%**	**-23.5%**	**-13.0%**	**-10.1%**	**-19.6%**	**-0.0%**

SCR % FOR A SENIOR NON-STS SECURITISATION WITH A DURATION OF FIVE YEARS

Rating corresponding to credit quality step	AAA	AA	A	BBB	BB	B and CCC+
Before	62.5%	67.0%	83.0%	98.5%	100.0%	100.0%
After	13.5%	16.5%	22.0%	37.5%	71.5%	100.0%
Absolute difference	**-49.0%**	**-50.5%**	**-61.0%**	**-61.0%**	**-28.5%**	**-0.0%**
Relative difference	**-78.4%**	**-75.4%**	**-73.5%**	**-61.9%**	**-28.5%**	**-0.0%**

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A new equilibrium

The reforms narrow the capital-efficiency gap between whole loan portfolios and senior credit instruments, but they do not close it. Under the current framework, securitisations have often been unattractive for insurers because spread risk charges were high relative to expected returns. The revised framework changes that assessment. Senior securitised mortgage exposures become a more viable allocation option, particularly where liquidity and tradability are important. Whole loans, however, continue to compare favourably on spread per unit of capital.

The table *Comparing asset classes on SCR and spread* compares capital requirements and indicative spreads across selected mortgage and senior credit exposures.

The seasoned whole loan portfolio has an SCR of 1.20% rather than the 0.75% floor because its 55% average LTV combines loans below the floor threshold with loans above it. The largest changes are visible in NHG whole loans and AAA CLOs, reflecting guarantee recognition and the reduction in securitisation capital charges.

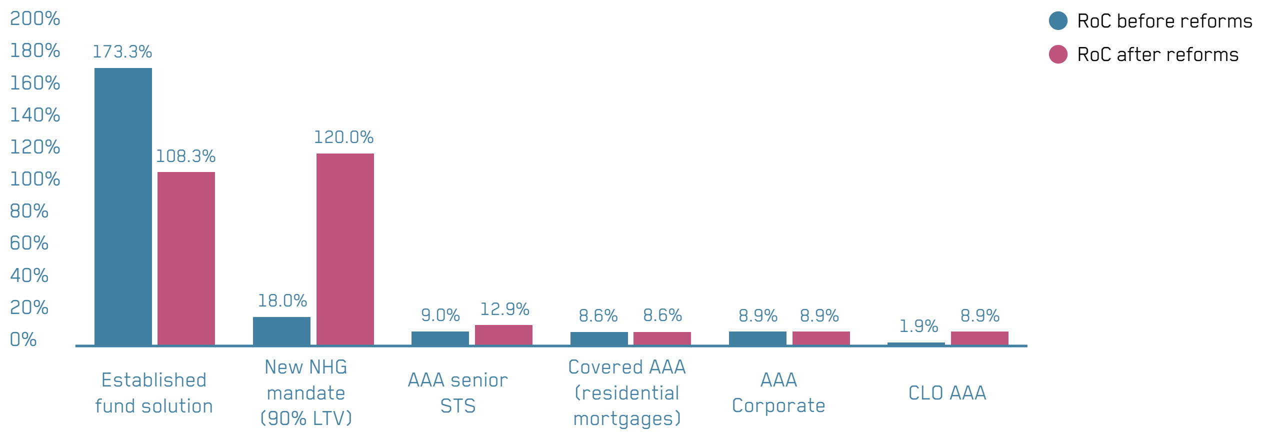
On a return-on-capital basis, the distinction remains clear. The graph *Return-on-capital per asset class* shows whole loan exposures, including NHG-backed lending where the guarantee is recognised, above the senior credit alternatives. The revised framework therefore improves the relative position of securitisations, but whole loans remain the more capital-efficient way to access Dutch residential mortgage risk.

COMPARING ASSET CLASSES ON SCR AND SPREAD

Asset classes	Asset SCR current Solvency II framework	Asset SCR new Solvency II framework	Spread
Established fund solution. Seasoned whole loan portfolio with an average LTV of around 55%.	0.75%	1.20%	1.30%
New NHG mandate (90% LTV)	5.00%	0.75%	0.90%
AAA senior STS	5.00%	3.50%	0.45%
Covered AAA (residential mortgages)	3.50%	3.50%	0.30%
AAA Corporate	4.50%	4.50%	0.40%
CLO AAA	62.50%	13.50%	1.20%

Spreads are indicative, expressed as spread over swaps, and based on internal data and Bloomberg data for euro-denominated assets issued in the Netherlands or Western Europe at the time of writing. Whole loan mortgage spreads are shown gross of fees. The average LTV for whole loan mortgage portfolios or fund solutions does not imply that every individual loan has that LTV; individual loan-level LTVs may be lower or higher. Figures assume AAA-rated senior positions unless stated otherwise. For securitised and credit positions, the SCR assumes a weighted average life of five years. For whole loan mortgages, the SCR follows the counterparty default formula and is driven by loan-to-value rather than weighted average life.

RETURN-ON-CAPITAL PER ASSET CLASS



What this means for portfolio construction

For insurers deciding where to allocate, the reforms shift the relative economics. Dutch residential whole loans remain the most capital-efficient channel, supported by strong credit performance, granular collateral and long-term cash-flow characteristics. The new floor modestly reduces the advantage for low-LTV portfolios. At the same time, recognition of the NHG guarantee can materially improve the treatment of eligible NHG-backed lending, subject to the conditions under the amended Article 215.

For institutional investors, the opportunity set expands rather than shifts. Whole loans remain the cornerstone of Dutch mortgage allocation for insurers seeking capital-efficient exposure. Securitised positions become more relevant as a complementary instrument, particularly where liquidity, tradability or tranche selection are important. Achmea Mortgages provides access to both routes through fund solutions and bespoke mandates, allowing investors to build diversified exposure across NHG, low-LTV and higher-LTV mortgage segments without originating or servicing directly. Portfolio construction can therefore be aligned with insurer-specific capital, return, liquidity and risk objectives.

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