

# Fitch Ratings

## Fitch Affirms FvL's Conditional Pass-Through Covered Bonds at 'AAA'; Outlook Stable

Fitch Ratings-London-25 April 2016: Fitch Ratings has affirmed F. Van Lanschot Bankiers N.V.'s (FvL, BBB+/Stable/F2) EUR5bn mortgage covered bonds issued out of the bank's conditional pass-through programme at 'AAA'. The Outlook is Stable.

### KEY RATING DRIVERS

The rating reflects FvL's Long-term Issuer Default Rating (IDR) of 'BBB+', an unchanged IDR uplift of 1 notch, an unchanged D-Cap of 8 notches (minimal discontinuity) and the 90% asset percentage (AP) that Fitch takes into account in its analysis, which provides more protection than the 95% breakeven AP for the 'AAA' rating. The breakeven AP supports a 'AA' tested rating on a probability of default basis and a two-notch recovery uplift to a 'AAA' rating. The Stable Outlook reflects a four-notch cushion against a downgrade of FvL's IDR.

The unchanged D-Cap of 8 notches is driven by what Fitch assesses as minimal discontinuity of the liquidity gap and systemic risk component. This is due to the pass-through structure and the six-month interest reserve, including senior costs, in place for the bonds. It is Fitch's view that none of the other D-Cap components compromise the overall minimal discontinuity assessment for the programme. The one-notch IDR uplift results from FvL's senior unsecured debt accounting for more than 5% of the bank's adjusted balance sheet.

The 'AAA' breakeven AP is equivalent to a breakeven overcollateralisation (OC) of 5% and corresponds to the legal minimum OC under the Dutch covered bonds law. The current 'AAA' breakeven AP of 95% is an increase from 92.5% in April 2015, mainly due to a decrease of the 'AAA' credit loss component to 7.5% from 10.3%. This component represents the impact on the breakeven AP from a lower 15.6% weighted average default rate (WAFF) and a higher 55.4% weighted average recovery rate (WARR) for the mortgage cover assets in a 'AAA' scenario. The 'AAA' WAFF decrease (from 19.3%) is primarily driven by a decrease of the WA loan-to-value (LTV) ratio resulting from the addition of loans with lower LTVs to the cover pool. The 'AAA' breakeven AP also takes into account the interest rate risk arising from the unhedged nature of the programme and adjustments made for insurance set-off risk and commingling risk.

The cash flow valuation reduces the 'AAA' breakeven OC by 4.2% due to the high excess spread available in the programme. The mostly fixed-rate loans (88%) in the cover pool carry a higher interest rate until their reset date (WA five years) than the fixed-rate coupon payable on the bond, which will remain fixed in case of a switch to pass-through. The difference in interest rate between assets and liabilities is high enough to result in sufficient excess spread even in a high prepayment scenario, in turn leading to a higher stressed present value of the assets than that of the liabilities. Fitch has assumed a compression in the interest rate on the assets to 1% which is a variation from the Criteria Addendum: Netherlands - Residential Mortgage Loss and Cash Flow Assumptions where an assumed compression in fixed rates to 3%-4.5% is stated.

The 'AAA' breakeven OC is further driven by the asset disposal loss component (4.3%), reflecting (i) the negative carry calculated in a high prepayment scenario; and (ii) the cushion between the model output and the legal minimum OC of 5%.

The breakeven AP considers whether timely payments are met in a 'AA' scenario and tests for recoveries given default of at least 91% in a 'AAA' scenario.

### RATING SENSITIVITIES



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Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds (pub. 19 Dec 2014) ([https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?)

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EMEA RMBS Rating Criteria (pub. 01 Apr 2016)

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Exposure Draft: Counterparty Criteria for Structured Finance and Covered Bonds (pub. 14 Apr 2016)

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Exposure Draft: Counterparty Criteria for Structured Finance and Covered Bonds - Derivative Addendum (pub. 14 Apr 2016) ([https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?)

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Fitch's Foreign Currency Stress Assumptions for Residual Foreign Exchange Exposures in Covered Bonds - Excel file (pub. 11 Mar 2016)

([https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?)

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Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File (pub. 22 Dec 2014) ([https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?)

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Fitch's Mortgage Covered Bond Refinancing Stresses - Excel File (pub. 12 Feb 2016)

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Dodd-Frank Rating Information Disclosure Form

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