

# New Issue: Van Lanschot Kempen N.V. Soft Bullet Mortgage Covered Bond Program

**Primary Credit Analyst:**

Marta Escutia, Madrid + 34 91 788 7225; marta.escutia@spglobal.com

**Secondary Contact:**

Maria Luisa Gomez Grande, Madrid + 34 91 788 7208; marisa.gomez@spglobal.com

**Table Of Contents**

---

Major Rating Factors

Outlook

Rationale

Program Description

Rating Analysis

Environmental, Social, And Governance

Related Criteria

Related Research

# New Issue: Van Lanschot Kempen N.V. Soft Bullet Mortgage Covered Bond Program

## Ratings Detail

Reference Rating Level	a	+	Jurisdiction-Supported Rating Level	aa	+	Maximum Achievable Covered Bond Rating	aaa	=	Covered Bond Rating	
Resolution Regime Uplift	+2		Assigned Jurisdictional Support Uplift	+3		Collateral Support Uplift	+4		Rating Constraints	aaa
Systemic Importance	Very Strong		Jurisdictional Support Assessment	Very Strong		OC Adjustment	0		Counterparty Risk	aaa
Resolution Counterparty Rating	N/A		Legal Framework	Very Strong		Liquidity Adjustment	0		Country Risk	aaa
Issuer Credit Rating	BBB+		Systemic Importance	Very Strong		Potential Collateral Based Uplift	+4			
			Sovereign Credit Capacity	Very Strong						

N/A--Not available. OC--Overcollateralization.

## Major Rating Factors

### Strengths

- The structure features soft-bullet extendible maturities, which mitigates liquidity risk.
- The committed credit enhancement exceeds the credit enhancement needed at a 'AAA' rating level.
- The cover pool comprises highly seasoned residential mortgage loans.

### Weaknesses

- The structure does not benefit from an interest rate swap. We took this risk into account in our cash flow analysis.
- Cash belonging to the special-purpose entity (SPE) is mixed with cash belonging to the issuer and could be lost if Van Lanschot Kempen becomes insolvent. We took this risk into account in our analysis by assuming that two months of collections are lost.
- Most of the mortgage loans in the cover pool are backed by jumbo valuations (94.8% of the cover pool balance), which we considered in our loss severity assessment.

## Outlook

S&P Global Ratings' stable outlook on the 'AAA' ratings on Van Lanschot Kempen N.V.'s (Van Lanschot Kempen) soft-bullet covered bonds reflects that the ratings on the covered bonds benefit from two unused notches of support under our covered bonds criteria. This means that the ratings on the covered bonds would be unaffected if we were to lower our long-term issuer credit rating (ICR) on the issuer by up to two notches, all else being equal.

## Rationale

We assigned our 'AAA' credit ratings to Van Lanschot Kempen's soft-bullet covered bond program and its inaugural public issuance (see "Van Lanschot Kempen N.V. Dutch Soft-Bullet Covered Bond Program Assigned 'AAA' Rating; Outlook Stable," published on June 27, 2022).

Our covered bond ratings process follows the methodology and assumptions outlined in our "Covered Bonds Criteria," published on Dec. 9, 2014, and "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015.

We consider that the transaction documents, together with the Dutch legal and regulatory framework, effectively isolate the cover pool assets for the benefit of the covered bondholders. This asset isolation allows us to assign a higher rating to the covered bonds than our long-term ICR.

We conducted a review of Van Lanschot Kempen's mortgage operations, which we view as prudent. We believe satisfactory procedures are in place to support our ratings on the covered bonds.

Van Lanschot Kempen is domiciled in the Netherlands, which is subject to the EU's Bank Recovery and Resolution Directive (BRRD). We consider that mortgage covered bonds have a very strong systemic importance in the Netherlands. These factors increase the likelihood that Van Lanschot Kempen would continue servicing its covered bonds without accessing the cover pool or receiving jurisdictional support, even following a bail-in of its senior unsecured obligations. Therefore, under our covered bonds criteria, we assess the reference rating level (RRL) as 'a'.

We considered the likelihood for the provision of jurisdictional support. Based on a very strong jurisdictional support assessment for mortgage programs in the Netherlands, we assigned three notches of uplift from the RRL. Therefore, we assess the jurisdiction-supported rating level (JRL) as 'aa'.

We have reviewed the asset information provided as of March 31, 2022. The program's pool comprises €737.7 million of Dutch residential mortgage loans. Based on our cash flow analysis, the available credit enhancement in the program exceeds the target credit enhancement, which means that the covered bonds are eligible for up to four notches of collateral-based uplift. We do not reduce the total collateral-based uplift by any notches owing to the program's committed overcollateralization and because we consider that the liabilities' soft-bullet structure mitigates liquidity risk.

There are currently no rating constraints to the 'AAA' ratings relating to counterparty or country risks.

We have based our analysis on criteria articles referenced in the "Related Criteria" section.

## Program Description

**Table 1**

Program Overview*	
Jurisdiction	Netherlands
Year of first issuance	2022
Covered bond type	Registered covered bond
Outstanding covered bonds (mil. €)	500
Redemption profile	Soft-bullet
Underlying assets	Dutch residential mortgages
Jurisdictional support uplift	3
Target credit enhancement (%)	27.62
Credit enhancement for current rating (%)	27.62
Available credit enhancement (%)	47.5
Collateral support uplift	4
Total unused notches	2

\*Based on cash flow data as of June 2022.

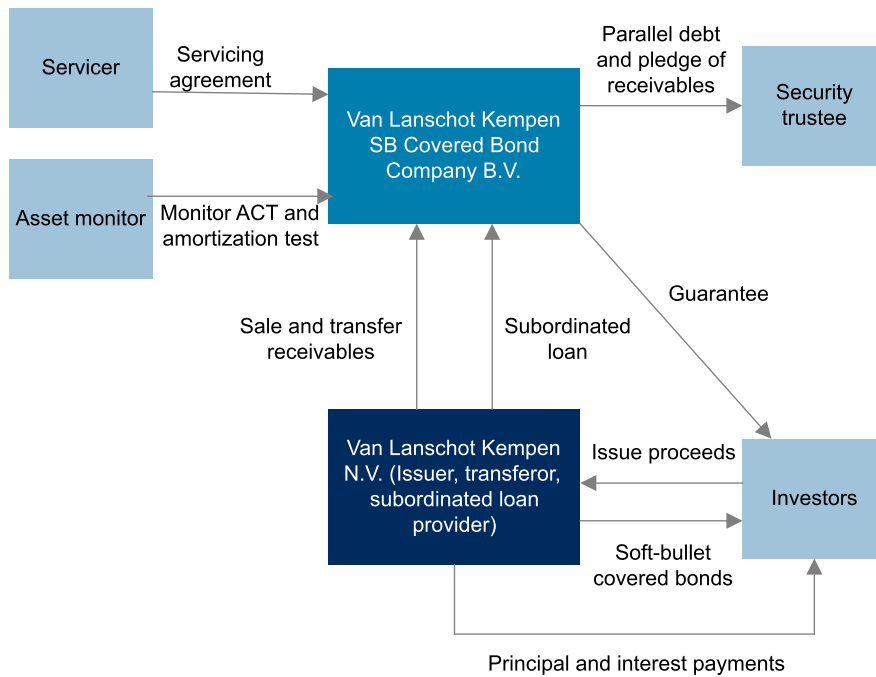
The mortgage covered bonds issued under the Van Lanschot Kempen soft-bullet covered bond program constitute senior unsecured unsubordinated obligations of Van Lanschot Kempen.

If Van Lanschot Kempen were unable to pay the outstanding covered bonds, then Van Lanschot Kempen SB Covered Bond Company B.V. (CBC) will guarantee payments on the bonds. The CBC is a bankruptcy remote SPE that manages the mortgage receivables in the cover pool and guarantees payment of the covered bonds to the noteholders. In order to enable the CBC to guarantee payments on the covered bonds, Van Lanschot Kempen will sell the cover pool assets to the SPE at closing and further sales may take place regularly.

Borrowers make their payments into their respective bank accounts held by Van Lanschot Kempen with ABN AMRO Bank N.V. Ultimately on the 14th calendar day of each month, the collections will be transferred into the CBC account (held with BNG Bank N.V.) and may be used to buy further eligible residential mortgage loans. Following the insolvency of the issuer, borrowers will have to redirect their mortgage payments into the CBC account directly. Under this structure, funds standing or paid in the collection account post issuer insolvency but pre transfer and notification would be exposed to commingling risk. This is because cash belonging to the CBC would be mixed with cash belonging to the issuer and could be lost if Van Lanschot Kempen were to become insolvent. We took this risk into account in our analysis by assuming that two months of collections are lost.

At closing, the CBC will not enter into an interest rate swap agreement to mitigate interest rate risk. This risk is partially mitigated by the fact that the bond pays a fixed interest rate. Moreover, the originator and/or servicer is contractually obliged to offer the relevant borrowers a reset rate that is at least equal to 0.95%. The program documentation allows the CBC to enter into a portfolio or interest rate swap after closing.

**Program Structure**



Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

Van Lanschot Kempen will pay interest and principal on each series of covered bonds on the respective scheduled payment dates. The program is structured in such a way that the redemption of the bonds can switch to soft-bullet and the maturity of the covered bonds is extended from the scheduled maturity to the legal final maturity date, which is 12 months later.

This maturity extension occurs if Van Lanschot Kempen has defaulted on its obligations and the CBC has insufficient available funds and is not able to sell or refinance sufficient assets to redeem a maturing covered bond.

The program has two overcollateralization tests (to ensure overcollateralization does not decrease below a minimum predetermined level). Before issuer insolvency, the monthly asset cover test (ACT) monitors the level of credit enhancement. If this falls below the minimum commitment, the issuer will undertake its best efforts to transfer collateral to the CBC to ensure that the ACT is met by the next monthly evaluation. Such a breach would prevent the issuer from issuing new covered bonds. Moreover, if the failure to assign sufficient collateral by the following month continues, the CBC will not pay back any amounts to the issuer for collections received from the cover pool.

The asset percentage included in the ACT determines the maximum amount of covered bonds that Van Lanschot Kempen can issue. It has been set at 78%, which is commensurate with the level required for the 'AAA' rating. The asset percentage is applied on the net current balance of the mortgage loans in the cover pool after deducting various

risks such as setoff or deteriorating pool performance.

After issuer bankruptcy the monthly amortization test determines if the cover pool balance is at least equal to the outstanding covered bonds' balance. A breach of the amortization test would lead to the acceleration of the covered bonds.

To redeem the covered bonds after issuer bankruptcy, the CBC uses its best efforts to sell randomly selected cover pool assets. However, this sale or refinance and subsequent redemption of the respective bonds cannot lead to an amortization test breach.

The CBC maintains a reserve account, in which the minimum amount is the higher of the mandatory liquidity required amount and, if the long-term ICR on the issuer falls below 'A', the reserve trigger required amount. The mandatory liquidity required amount is the sum of interest payments falling due in the following six months plus any other senior payments, less the expected cash flows to be received from the cover pool during the same period. The reserve trigger required amount is the sum of interest payments falling due in the following three months plus 0.03% of the covered bonds' outstanding balance plus €30,000.

**Table 2**

<b>Program Participants</b>			
<b>Role</b>	<b>Name</b>	<b>Rating</b>	<b>Rating dependency</b>
Issuer	Van Lanschot Kempen N.V.	BBB+/Stable/A-2	Yes
CBC account bank	BNG Bank N.V.	AAA/Stable/A-1+	Yes
Reserve account provider	Van Lanschot Kempen N.V.	BBB+/Stable/A-2	Yes
Originator, servicer, arranger, and transferor	Van Lanschot Kempen N.V.	BBB+/Stable/A-2	No
Arranger	Cooperatieve Rabobank U.A.	A+/Stable/A-1	No
Guarantor	Van Lanschot Kempen SB Covered Bond Company B.V.	NR	No
Collection account bank	ABN AMRO Bank N.V.	A/Stable/A-1	No
Trustee	Stichting Security Trustee Van Lanschot Kempen SB Covered Bond Company	NR	No
Administrator	Intertrust Administrative Services B.V.	NR	No
Principal paying agent and registrar	Citibank N.A., London Branch	NR	No
Asset monitor	PricewaterhouseCoopers Accountants N.V.	NR	No

NR--Not rated.

## **Rating Analysis**

### **Legal and regulatory risks**

We base our legal analysis on our "Structured Finance: Asset Isolation And Special-Purpose Entity Methodology," criteria, published on March 29, 2017 (SPE criteria), "Guarantee Criteria," published on Oct. 21, 2016, and our covered bond ratings framework.

The covered bonds are governed by the Dutch covered bond framework. The Dutch general framework is

principle-based and was introduced as secondary legislation in the Dutch Financial Supervision Act ("Wet op het financieel toezicht"). It comprises the Decree on Prudential Rules Regulation ("Besluit prudentieel toezicht Wft") and the Implementing Regulation ("Uitvoeringsregeling Wft"). In January 2015, a revised legislative framework came into force. The new legislation is incorporated into the Dutch Financial Supervision Act and introduces, among other provisions, mandatory ACTs, including a 5% minimum overcollateralization, mandatory liquidity buffer, and mandatory audits.

The legislation to transpose the EU Covered Bond Directive in the Dutch legislation includes a new law and a new decree (Besluit prudentiele regels Wft). The decree--dated May 24, 2022--was published on the Dutch Official Gazette on June 13, 2022. It becomes effective on July 8, 2022, and will apply to covered bonds issued from that date onwards. As such, this inaugural issuance under Van Lanschot's soft-bullet covered bond program is not affected by the new legal framework. In any case, we expect non-material amendments to the framework given that the Dutch legislation was already well aligned to the requirements of the directive. As a result, we believe that the new legislation will not affect our analysis of the Dutch legal framework.

The detailed provisions applicable to Van Lanschot Kempen's soft-bullet covered bonds are established via contractual obligations.

From our analysis we have concluded that the cover pool assets are effectively isolated for the benefit of covered bondholders. This asset isolation allows us to assign a higher rating to the covered bond program than the long-term ICR on Van Lanschot Kempen.

In order to grant a security interest over its assets, the CBC and the security trustee entered into a parallel debt agreement for the benefit of the secured parties. Under this agreement, the guarantor undertakes, through parallel debt, to pay the security trustee the amounts due by it to the secured parties. It thereby creates a claim of the security trustee, which can be validly secured by the rights of pledge created by the pledge agreements.

We have examined whether we can rely on the cover pool cash flows to serve the covered bonds if the issuer becomes insolvent. In our view, this implies that two key preconditions are satisfied: First, that we can reasonably expect that the CBC would not go bankrupt; and, second, that we can be comfortable that the CBC would serve the guarantee if the issuer becomes insolvent.

We have analyzed the CBC within the framework of our SPE criteria. We generally regard an entity that satisfies these criteria as sufficiently protected against both voluntary and involuntary insolvency risks. We have concluded the CBC establishment follows our SPE criteria and that we can therefore treat the CBC as a bankruptcy remote entity in our analysis.

We have also analyzed the CBC guarantee based on our guarantee criteria. The guarantee criteria are intended to minimize the risk that a guarantor may be excused from making a payment necessary for paying the holders of rated debt. Therefore, we would normally expect these criteria to be satisfied before giving credit to the guarantee. We have concluded that the CBC guarantee is in line with our guarantee criteria, and therefore we give benefit to the guarantee agreement in the program.

In our view, the program is exposed to setoff risk. This is because Van Lanschot Kempen is a deposit-taking institution and borrowers may lose their deposits if the issuer becomes insolvent and sums are above those guaranteed under the deposit guarantee scheme. The ACT mitigates this risk, by reducing the amount of eligible assets against which it can issue covered bonds by the potential setoff risk exposure.

### **Operational and administrative risks**

In our opinion, operational risk from the cover pool's management and loan origination would not constrain the covered bond ratings to the same level as the long-term ICR.

We believe that it is highly likely that a replacement cover pool manager could be appointed if the issuer were to become insolvent. We consider the Netherlands to be an established covered bond market and we believe that the mortgage assets in Van Lanschot Kempen's cover pool do not comprise product features that would materially limit the range of available replacement cover pool managers or servicers.

Van Lanschot Kempen is a midsize bank within the Dutch banking system and the second-largest private bank in this market. The bank is focused on three business lines of private banking, investment management, and investment banking. Van Lanschot Kempen's mortgage pool represented 38.8% of the bank's asset mix as of end-2021.

Van Lanschot Kempen's core clients are wealthy individuals and individuals starting to build up wealth in the Netherlands and Belgium. Van Lanschot Kempen offers three different types of mortgage loans: annuity, linear, and interest-only.

We view its underwriting criteria as prudent. Our view is also supported by the low delinquencies on Van Lanschot Kempen's mortgage book.

Our analysis of operational and administrative risks follows the guidelines in our criteria (see "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015).

### **Resolution regime analysis**

Van Lanschot Kempen is domiciled in the Netherlands, which is subject to the EU's BRRD. We assess the systemic importance for Dutch mortgage covered bonds as very strong. Under our covered bonds criteria, this means the RRL will be the greater of (i) our assessment of Van Lanschot Kempen's creditworthiness, plus two notches; and (ii) the resolution counterparty rating (RCR) on the issuing bank, where applicable. Because we do not assign an RCR to Van Lanschot Kempen, the RRL is two notches above our assessment of its creditworthiness, that is, we assess the RRL as 'a'.

This uplift recognizes that resolution regimes like the BRRD increase the probability that an issuer could service its covered bonds even following a default on its senior unsecured obligations because the law exempts covered bonds from bail-in risk if there is a bank resolution. We consider this as an internal form of support because the bail-in of certain creditors of the issuer does not require direct government support.

### **Jurisdictional support analysis**

In our jurisdictional support analysis, we assess the likelihood that a covered bond program facing stress would receive support from a government-sponsored initiative instead of from the liquidation of collateral assets in the open market.



Our assessment of the expected jurisdictional support for Dutch mortgage programs is very strong. Under our covered bonds criteria, this means that the program can receive up to three notches of jurisdictional uplift over the RRL. The uplift may be capped by the long-term rating on the sovereign, but as the unsolicited sovereign rating on the Netherlands is 'AAA', the program can receive the full three notches of jurisdictional support. The JRL is therefore 'aa'.

### Collateral support analysis

The cover pool comprises Dutch residential mortgage loans originated by Van Lanschot Kempen (see table 3). We base our analysis on loan-by-loan data provided by the issuer as of March 31, 2022.

The €737.7 million cover pool is fairly granular. It includes 3,177 loan parts granted to 1,355 borrowers. These loans currently represent on average about 68% of the property's reported values.

The cover pool comprises about 2.8% of mortgage loans with no maturity dates or with remaining maturities beyond 30 years. The ACT partially mitigates this risk by limiting the eligible share of these assets to 5%.

Dutch property prices increased year-on-year by 12% in 2021, and we forecast house price increases in 2022 and 2023 of 7.8% and 3.6%, respectively (see "Dutch Covered Bond Market Insights 2021," published on Nov. 8, 2021). The increase in house prices is one of the reasons behind the decline in the cover pool's loan-to-value (LTV) ratio post indexation. After considering our indexation and adjustments for house price index developments, the cover pool's adjusted weighted-average LTV ratio is 52.94%. Furthermore, also post indexation, almost 95% of the cover pool balance is backed by jumbo valuations (which we define as property values above €500,000 according to our criteria).

The portfolio's weighted-average seasoning is about 12 years and the interest rate on about 98.5% of these loans is a fixed reset, with a weighted-average reset period of about 7.8 years. Of the loans, approximately 77.9% are interest only. All mortgages are lent on owner-occupied properties and payments are made monthly.

The below tables provide an overview on the cover pool's composition based on our credit analysis.

**Table 3**

Cover Pool Composition		
As of March 31, 2022		
Asset type	Value (mil. €)	Percentage of cover pool
Residential	737.7	100
Commercial	0	0
Substitute assets	0	0
Other asset type	0	0
Total	737.7	100

**Table 4**

Key Credit Metrics	
As of March 31, 2022	
Average loan size (€)	544,411
Weighted-average CLTV ratio (%)	52.94
Weighted-average effective LTV ratio (%)*	72.36
Weighted-average loan seasoning (years)§	12.13

**Table 4**

Key Credit Metrics (cont.)	
	As of March 31, 2022
Balance of loans in arrears (%)	0.82
Interest rate type (%)	98.5 fixed-rate loans
Weighted-average interest rate (%)	2.28
Interest-only (%)	77.9
<b>Credit analysis results:</b>	
Weighted-average foreclosure frequency (%)	8.85
Weighted-average loss severity (%)	39.68
Country medians:	
WAFF (%)	8.62
WALS (%)	25.52

\*The effective LTV is the result of weighting each loan's original LTV and current indexed LTV in an 80% and 20% ratio. §Seasoning refers to the elapsed loan term. LTV--Loan-to-value.

**Table 5**

Loan-To-Value Distribution		
As of March 31, 2022	Effective LTV* (%)	Current LTV** (%)
0% - 60%	24.70	63.3
60% - 70%	20.48	20.52
70% - 80%	18.30	11.45
80% - 90%	16.68	3.21
90% - 100%	14.33	1.36
> 100%	5.51	0.17
Weighted-average LTV ratio	72.36	52.94

\*Effective LTV is calculated weighting 80% of the original LTV and 20% of the current LTV. \*\*Current LTV is indexed to house price index. LTV--Loan to value.

**Table 6**

Loan Seasoning Distribution*	
	As of March 31, 2022
	Percentage of portfolio
<=5 years	19.95
>5 and <=6 years	7.26
>6 and <=7 years	8.56
>7 and <=8 years	2.40
>8 and <=9 years	0.59
>9 and <=10 years	0.93
>10 years	60.31
Weighted average loan seasoning (years)	12.13

\*Seasoning refers to the elapsed loan term of loans not in arrears.

**Table 7**

**Geographic Distribution Of Loan Assets**

<b>As of March 31, 2022</b>	
<b>Top five concentrations</b>	<b>Percentage of cover pool</b>
Noord-Holland	30.98
Zuid-Holland	21.12
Utrecht	17.50
Noord-Brabant	13.92
Gelderland	8.27
Limburg	2.41
Other	5.80

**Eligibility criteria**

The mortgages included in the cover pool have to fulfill the following conditions (among others):

- The loans are any of the following, or a combination of: linear mortgage loans, interest-only mortgage loans, annuity mortgage loans, investment mortgage loans and life mortgage loans.
- Each borrower is a private individual and a resident of the Netherlands.
- The maximum LTV ratio on loans issued after August 2011 but before January 2018 is 104% (based on the properties' original market value or, if lower, the maximum amount that may apply under the relevant regulations at the time of origination); loans originated before this time range may have an LTV ratio of up to 125% based on the properties' foreclosure value (unless there are energy saving improvements; LTV ratio up to 106%).
- None of the borrowers is an employee of the issuer at origination.
- Each mortgage loan is governed by Dutch law and is denominated in euro.
- The borrower has paid at least the first installment on the mortgage.
- Each borrower is not in material breach of their mortgage loan's conditions (to the transferor's best knowledge).

We assess the credit quality of a typical residential mortgage cover pool by estimating the credit risk associated with each loan in the pool. For this program, we based this loan-level analysis on the specific adjustments defined for the Netherlands under our global residential loans criteria (see "Global Methodology And Assumptions: Assessing Pools Of Residential Loans," published on Jan. 25, 2019).

We then calculate the aggregate risk to assess the cover pool's overall credit quality. To quantify the potential losses associated with the entire pool, we weight each loan's foreclosure frequency and loss severity by its percentage of the total pool balance. The product of this weighted-average foreclosure frequency (WAFF) and weighted-average loss severity (WALS) estimates the required loss protection, assuming all other factors remain unchanged. As of March 31, 2022, we estimate a WAFF of 8.85% and a WALS of 39.68%. We based these metrics on the 'AAA' credit stresses that we applied.

Our analysis of the covered bonds' payment structure shows that cash flows from the cover pool assets would be sufficient, at the given rating, to make timely payment of interest and ultimate principal to the covered bond on its

legal final maturity. We have performed our cash-flow analysis as of June 27, 2022.

The program will have no swap at closing to mitigate interest rate risk. We have therefore modeled interest rate risk in our cash flow analysis. With a weighted-average interest rate of 2.28% on the assets, the program currently benefits from positive excess spread. However, it is uncertain to what interest rates the mortgages in the cover pool would be reset in future. Under the transaction documents, the originator and/or servicer undertakes to maintain an interest rate floor of 0.95% on each loan. In a high interest rate scenario, we have considered this risk in our cash flow analysis by assuming a haircut on the interest paid by the mortgages upon reset that we derived from the observed historical rates of the residential mortgages in the balance sheet of the originator. Yet, in our view, the interest rates set by other lenders in the market may limit their ability to set interest rates. Therefore, we have also tested scenarios where most of the borrowers refinance with another mortgage lender on the switch date and the cover pool receives less than par on the refinancing date, as borrowers could potentially ask the servicer to compensate for costs and damages. The program documentation allows the CBC to enter into a portfolio or interest rate swap after closing.

In our cash flow analysis we have modeled additional interest rate scenarios except standard up and down curves, to capture the structure's sensitivity to the mortgages resetting at different levels. We have run additional interest rate curves following up/down and down/up paths.

We also sized two months' worth of cover pool collection losses in our cash flow model because this amount is at risk of being amortized out of the portfolio without benefiting the bondholders. Borrowers do not redirect their payments into the CBC account if the ACT is breached, and by the time the CBC can benefit from the assets proceeds (the second time the ACT is breached, since the assessment is performed monthly) the cover pool may have lost two months of collections (pertaining to the time elapsed between the last successful ACT and the second breached one). We also sized commingling risk in our cash flow model because a replacement framework in the program's structure does not mitigate this risk (see "Counterparty risk"). As a result, we sized two months of collection loss in our analysis--two due to the frequency in which the ACT is assessed and two due to commingling risk. As the second month at risk due to the ACT overlaps with the first month of commingling risk, we have sized three months in total.

Lastly, when our model derives the required credit enhancement, it does so assessing that the program's amortization test is not breached and hence the covered bonds are not accelerated.

According to our criteria, the maximum potential collateral-based uplift on a covered bond program above the JRL is four notches. We may then adjust the maximum collateral-based uplift depending on whether six months of liquidity risk are covered and whether there is an overcollateralization commitment. Van Lanschot Kempen's soft-bullet covered bond includes a 12-month maturity extension, which we believe satisfies the liquidity coverage. Furthermore, the asset percentage applied in the ACT is set at a level that is commensurate with the current rating. Therefore, the maximum collateral uplift remains at four notches.

We have modeled the terms and conditions of the new covered bond issuance, that is, a notional balance of €500 million, a maturity in February 2028 subject to a one-year maturity extension, and a coupon of 2.50% (one-month Euro Interbank Offer Rate EURIBOR plus 0.20% during the extension).

By applying our credit and cash flow stresses, we calculate a target credit enhancement of 27.62% (which also

corresponds with the overcollateralization commensurate with a 'AAA' rating), below the available credit enhancement of 47.5%, allowing for the full four notches of collateral-based uplift.

**Table 8**

Collateral Uplift Metrics	
As of June 2022	
<b>5.7-year bond with a one-year maturity extension</b>	
Asset WAM (years)	18.26
Liability WAM (years)	5.7 (extendible to 6.7)
Available credit enhancement (%)	47.53
Required credit enhancement for coverage of 'AAA' credit risk (%)	27.62
Required credit enhancement for first notch of collateral uplift (%)	27.62
Required credit enhancement for second notch of collateral uplift (%)	27.62
Required credit enhancement for third notch of collateral uplift (%)	27.62
Target credit enhancement (%)	27.62
Potential collateral-based uplift (notches)	4
Adjustment for liquidity (Y/N)	N
Adjustment for committed overcollateralization (Y/N)	N
Collateral support uplift (notches)	4

WAM--Weighted-average maturity.

### Counterparty risk

We have identified several counterparty risks to which the covered bonds are exposed. However, these are either structurally addressed in line with our current counterparty criteria or considered in our cash flow modeling. Therefore, we believe that they do not constrain the rating from a counterparty risk perspective (see "Counterparty Risk Framework: Methodology And Assumptions" published on March 8, 2019).

Borrowers make their payments into their respective bank accounts held by Van Lanschot Kempen with ABN AMRO Bank N.V. Ultimately on the 14th calendar day of each month, collections will be transferred into the CBC account (held with BNG Bank N.V.) and may be used to buy further eligible residential mortgage loans. Following the insolvency of the issuer, borrowers will have to redirect their mortgage payments into the CBC account directly. Under this structure, funds standing or paid in the collection account post issuer insolvency but pre notification would be exposed to commingling risk. This is because cash belonging to the CBC would be mixed with cash belonging to the issuer and could be lost if Van Lanschot Kempen were to become insolvent. We took this risk into account in our analysis by assuming that two months of collections are lost.

The CBC account bank has committed to replace itself within 90 days if it were to lose its 'BBB' long-term ICR. Our counterparty criteria categorize this counterparty as bank account (minimal), with a replacement trigger that can support up to 'AAA' rated notes. Our criteria classify the exposure as minimal when the bank account is held with a counterparty unrelated to the covered bond issuer. This is because we believe that the risk relating to an account at an unrelated bank should only adversely affect a covered bond rating if multiple events occur, such as the simultaneous failures of the bank account provider and the issuer.

In addition, setoff risk relates to deposit accounts. The ACT addresses this risk by limiting the maximum amount of covered bonds that can be issued under the program.

### Sovereign risk

We analyze country risk according to our criteria "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019. Given our 'AAA' long-term unsolicited rating on the Netherlands, sovereign risk does not constrain our ratings on the covered bonds.

## Environmental, Social, And Governance

### ESG Credit Indicators



ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

We view environmental and governance factors in Van Lanschot Kempen's soft-bullet covered bond program to be aligned with those of its Dutch peers. Social factors are a neutral consideration in our credit analysis.

Certain features of the Dutch tax system have incentivized the origination of high LTV ratios and interest-only loans, which we consider as credit negative in our analysis. Furthermore, resetting interest loans with no pre-established rules to determine the new reset interest rates are common in the Netherlands. Although this introduces uncertainty regarding future cash inflows from the cover pool, the risk is partially mitigated by the fact that the bond pays a fixed interest rate. Van Lanschot Kempen commits to a level of overcollateralization commensurate with the current rating, and the soft-bullet repayment structure addresses our liquidity risk requirement, allowing the program to achieve four notches of potential collateral-based uplift.

### Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Criteria | Structured Finance | RMBS: Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017

- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Structured Finance | Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Criteria | Structured Finance | Covered Bonds: Covered Bonds Criteria, Dec. 9, 2014
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## **Related Research**

- Van Lanschot Kempen N.V. Dutch Soft-Bullet Covered Bond Program Assigned 'AAA' Rating; Outlook Stable, June 27, 2022
- ESG Credit Indicator Report Card: Covered Bonds, April 7, 2022
- Global Covered Bond Insights Q1 2022, March 17, 2022
- S&P Global Ratings Definitions, Nov. 10, 2021
- Dutch Covered Bond Market Insights 2021, Nov. 8, 2021
- Glossary Of Covered Bond Terms, April 27, 2018

Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.