DYNAMIC CREDIT

October 2021

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Dutch Housing Market Update 2021 Q3

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Dynamic Credit originates and manages tailored portfolios of Dutch residential and consumer BTL mortgage loans for institutional investors in an easy, cost-efficient and transparent way. As always, we welcome the opportunity to discuss the housing market or investing in Dutch mortgages.

"Dutch mortgage spreads have been under pressure due to increasing swap rates. For example, the 10Y Euro swap rate increased from a low of -15 bps mid-August to 25 bps in the last week of October. Dutch mortgage rates generally lag with swap rate movements. However, since mid-October mortgage rates have been increasing, albeit with a modest 2-6 bps so far for the relevant segments. Further increases are expected as many lenders have announced interest rate increases. Compared to alternatives, Dutch mortgages remain attractive and the medium to long-term expectations are favorable for Dutch mortgages as less demand is expected from Dutch investors due to allocation constraints."

Jasper Koops,
Head of Portfolio Management

DYNAMIC

1. Executive Summary

Consumer confidence: consumer confidence declined slightly in the third quarter from 104 to 103. Most notably, the number of people expecting further house price increases, increased from 69% last quarter to 74% now.

Sustainable mortgage portfolio: next to passive reduction additional measures are to be taken simultaneously to reach a 50% carbon reduction in 2030.

House prices: the Dutch House Price Index increased 6.4% QoQ and 17.5% YoY, again the largest increase in 20 years. Properties transferred decreased by 13.4% YoY.

HDN: the number of offers remained equal during this quarter. However, the percentage of offers used for financing a purchase decreased by 19.7% YoY.

Housing market reforms: the DNB presented their view on elements that should be included in the formation process.

NHG: the NHG market share decreased compared to last year. The number of loss declarations decreased with 67% in 2021-Q2 YoY. The NHG cost limit will increase to EUR 355,000 in 2022 but further decrease of the NHG market share is expected.

Interest rate developments: interest rates declined in the third quarter for both owner-occupied and buy-to-let.

Spreads: for both owner-occupied and buy-to-let mortgages spreads declined as swap rates increased. This trend continued in the beginning of the fourth quarter, especially for the shorter maturities.

RMBS activity: activity in the Dutch RMBS market is higher in 2021 compared to 2020. In Q3, one RMBS deal was priced.

Rental prices: rental prices started to increase again with 2.5% YoY after four quarters of declines as demand is increasing and supply is decreasing.

Energy poverty: in the Netherlands, approximately 7% of the population is facing energy poverty.

Government measures: almost all support measures have ended in the third quarter.

2. Dutch Housing Market Update

Consumer confidence

Vereniging Eigen Huis ("VEH") measures consumer confidence in the housing market every month based on questions about interest rates, prices, and the general housing market. The indicator can take values ranging from 0 to 200, 100 indicating a neutral value and a higher value indicates more positive sentiment.

After the dip in the second quarter of 2020, an upward trend was observed in the second half of 2020 and the beginning of 2021. In the second quarter of this year, however, a small decrease was observed. This continued in the third quarter with the indicator dropping from 104 to 103, which was mainly driven by less favorable buying conditions.

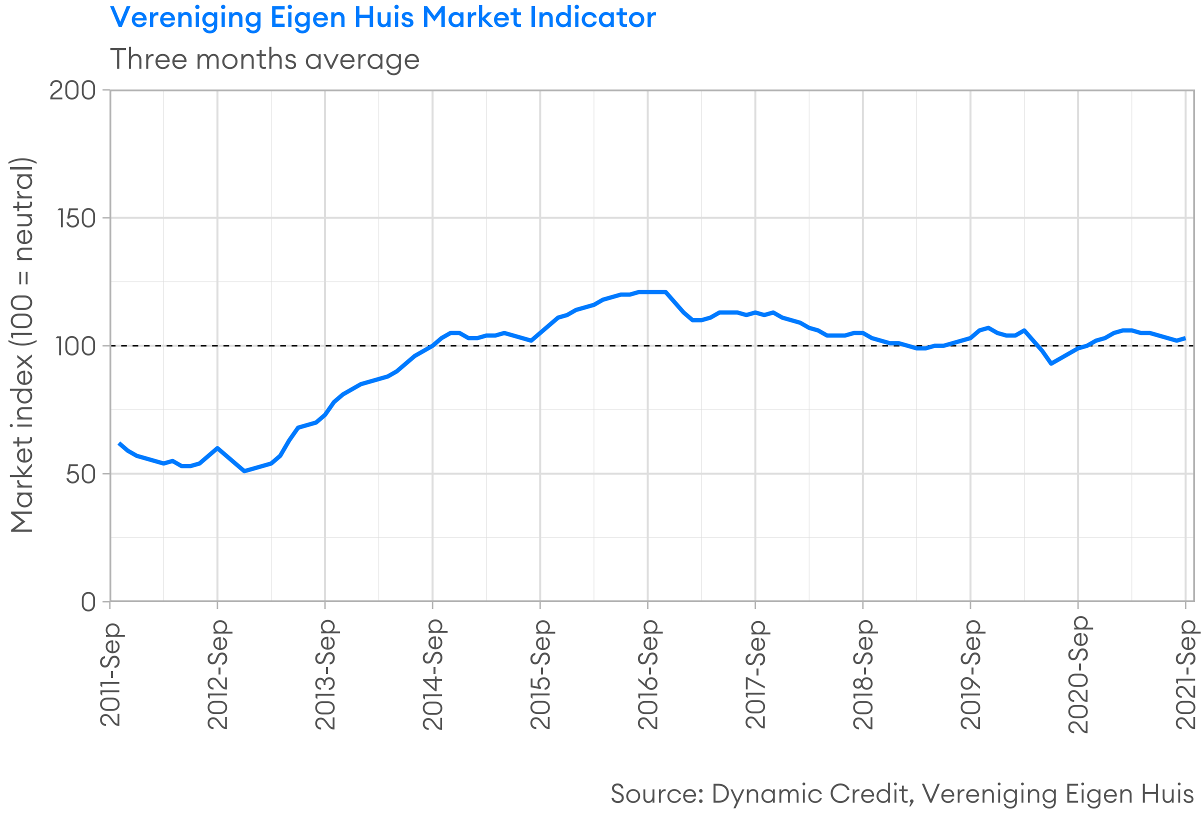

Figure 1: Vereniging Eigen Huis Market Indicator. As of September 2021.

The most recent poll published by VEH[1] covering the third quarter of 2021 gives several factors that led to the limited decrease in consumer confidence. First, the number of respondents who expect deteriorating conditions to buy a home in the coming twelve months increased from 57% to 61%, which had a negative effect on the indicator. On the other hand, approximately 74% of the respondents expect purchase prices to increase further, compared to 69% last quarter, which had a small positive effect. The expectations related to increasing interest rates where more favorable, but barely had an impact. In this quarter, 34% expected interest rates to (slightly) increase, opposed to 37% in the previous quarter. Altogether, these three developments caused the indicator to slightly decrease. Of the respondents, 68% deem this moment as (very) unfavorable to find a house, compared to 60% last quarter. The two main reasons given for this expectation are both affordability and a limited supply of homes for sale.

1 Vereniging Eigen Huis - Marktindicator

Making mortgage portfolios more sustainable

In June 2019, the Dutch Government presented the Climate Agreement[1] (Klimaatakkoord), introducing the measures needed to comply with the goal to reduce carbon emissions with 49% in 2030 (relative to 1990) and 95% in 2050. This should ensure that the Netherlands will act in line with the Paris Agreement to limit global warming to 2 degrees Celsius by 2050, and if possible 1.5 degrees Celsius. The most important measure is stopping electricity production from coal by 2030, but measures related to the housing market have also been announced. For example, 1.5 million homes must be made more sustainable by 2030.

Analysis

For the portfolios of Dynamic Credit to align with the goals of carbon emission reduction, an analysis has been performed to see how the 50% reduction in 2030 could be achieved. We looked at an active sample portfolio with a history of a couple of years. The effects of various components influencing carbon reduction are considered and attributed to these components. A distinction can be made between 'passive reduction' and 'additional measures', each of which are subdivided into several underlying factors.

Passive reduction

We consider developments to be a 'passive reduction' when no additional action is needed by Dynamic Credit or other stakeholders as developments will take place in the market. Passive reduction is split into three categories:

- As mentioned in the introduction, the government announced that electricity production from coal must stop by 2030. Energy producers also announced ambitious plans to reduce emissions. Eneco[2], for example, indicated that they want the energy they supply to consumers to be climate neutral by 2035. This makes cleaner energy delivered to consumers the biggest contributor to the 2030 goal with an estimated reduction of 25%.
- Also, the improvement of existing homes by borrowers without incentives provided by lenders are considered a passive contributor to the reduction of the carbon footprint. Based on an energy label migration table published by Calcasa[3], improvements in the energy efficiency of houses in the portfolio are estimated. The associated effect of this projection resulted in a 6% carbon reduction.
- Finally, there is the deleveraging of the loans through repayment, which according to the PCAF methodology[4] reduces the allocation of emissions towards the portfolio with approximately 11% in the sample portfolio. This adds up to a total of 42% of passive reduction, which is not enough to reach the target.

Additional measures

To reach the 50% reduction, additional measures need to be taken simultaneously, such as:

- The first one is related to new inflow in the portfolio. By offering more attractive interest rates for more energy-efficient homes, the portfolio's emissions can be reduced. However, this is a relatively expensive option. For the sample portfolio in this analysis, this measure is expected to result in a reduction of the carbon footprint of 3%.
- Second, in addition to the passive development of houses becoming more sustainable, more borrowers could be stimulated to take measures by offering 'construction vouchers'. This provides the consumer with a financial incentive to take sustainability measures. The estimated reduction, considering realistic conversion numbers for such a campaign, is 2%. Dynamic Credit already launched a pilot to make borrowers aware of the actions they can take. Although this pilot was not offering any vouchers, it provided valuable information about the interest and information needs of borrowers. Of the borrowers approached, 50% showed an interest in making their house more sustainable, but 33% of this group did not think it was the right time to spend time, money and/or attention on this. A financial incentive will probably move borrowers towards taking action.

1 Klimaatakkoord
2 Eneco - Eneco en zijn klanten klimaatneutraal in 2035
3 Calcasa - WOX quarterly 2021 Q1
4 PCAF - Global GHG Accounting and Reporting Standard for the Financial Industry

- The remaining 3% reduction needed to reach the 50% reduction target in 2030 should come from promoting borrowers to switch to clean energy. A campaign targeting borrowers, linked to a relatively small discount, should lead to houses in the portfolio using cleaner energy.

Altogether, the components discussed could give an insight in how the climate target can be reached. This remains an indication, as portfolio characteristics and other assumptions play a major role and there are still a lot of uncertainties. For example, it remains uncertain how quickly 'upgreening' of the energy mix will take place and how many Dutch homeowners will take action to improve the sustainability of their homes.

House prices and property sales

The Dutch House Price index ("HPI") increased with 6.4% in 2021-Q3 and with 17.5% YoY, the largest YoY increase in 20 years (the 13.0% YoY increase in 2021-Q2 was also a record increase). The number of properties transferred in 2021-Q3 was close to 54,000, which is a 2.1% increase QoQ and a 13.4% decrease YoY.

Among provinces there is again relatively large dispersion for the number of property sales. In Overijssel 20.4% fewer properties were sold, and the smallest decreases took place in Flevoland (-6.9%) and Zuid-Holland (-9.2%). All other provinces reported double digit decreases.

For more detailed information, see Table 1 and Figures 3 to 5 on the following pages.

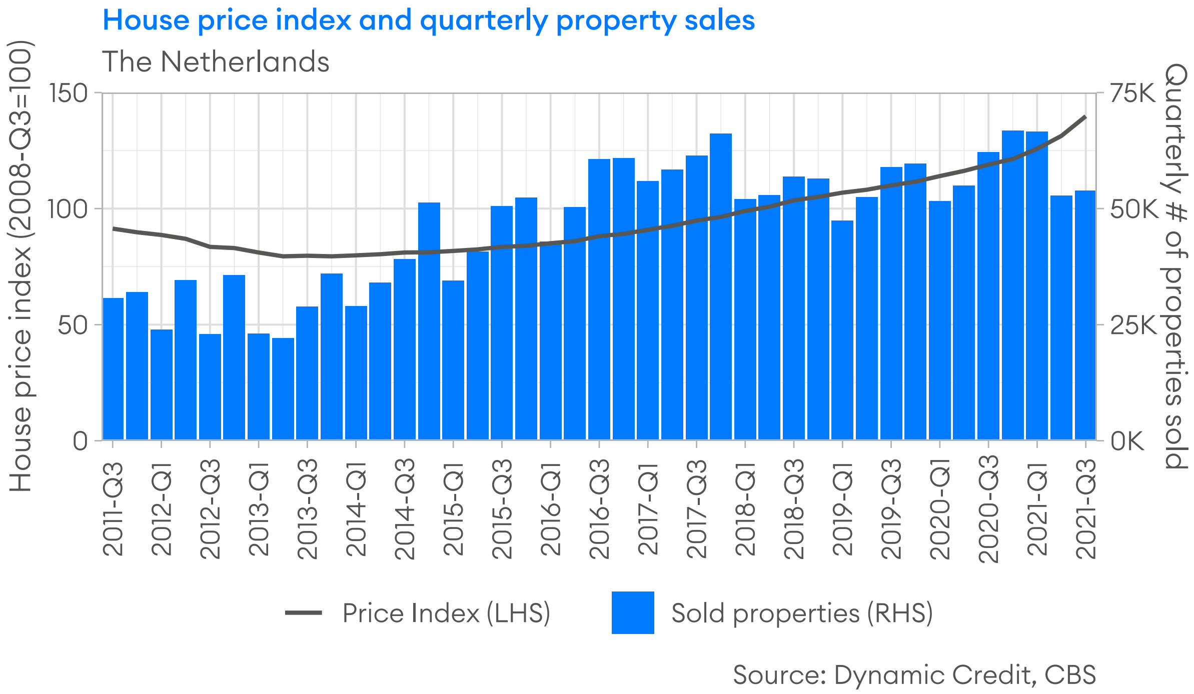

Figure 2: House Price Index of the Netherlands (2008-Q3=100) and monthly property sales. HPI until September 2021. Source: CBS, Dynamic Credit

Purchase versus refinances

Hypotheken Data Netwerk[1] ("HDN", a provider of infrastructure for mortgage loan requests) reports that in 2021-Q3 the number of offers remained almost equal YoY (119,000 versus 118,000 a year earlier). The number of offers for financing a purchase decreased by 19.7% to 58,000 (that equals 48% of all offers, in 2020-Q3 69,000 or 58% of all offers was observed) following the ongoing tightness of the housing market. Pensioners have become more active in the refinance market, making 11,000 requests (up 46% YoY).

1 HDN - Steeds minder hypotheekaanvragen voor aankoop woning

House Price Index QoQ change

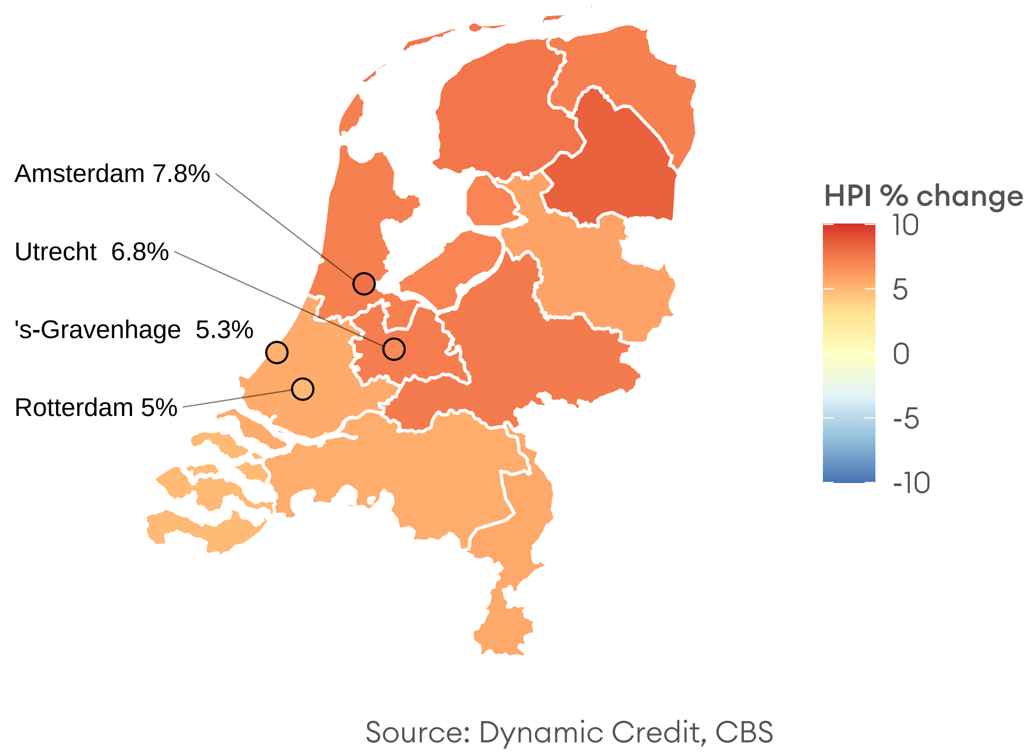

Figure 3: Dutch House Price Index QoQ % change. 2021-Q3.

Number of sold properties YoY change

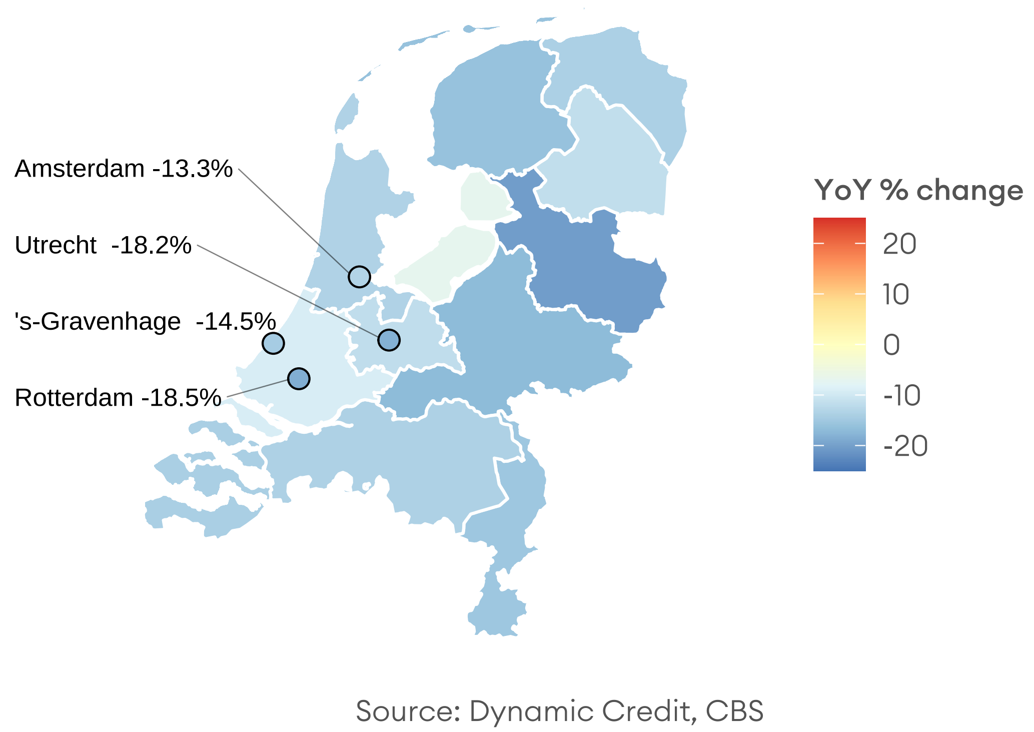

Figure 4: Sold properties YoY % change. 2021-Q3.

Area	Type	HPI (2008-Q3=100)	CPI adjusted HPI (2008-Q3=100)	YoY Price %	QoQ Price %	#Sold in quarter	YoY Sold %	QoQ Sold %
Nederland	Country	139.8	113.9	17.5	6.4	53,875	-13.4	2.1
Friesland	Province	132.2	107.8	19.6	7.6	1,927	-16.1	-6.8
Groningen	Province	140.0	114.1	19.6	7.2	1,753	-13.9	3.1
Zeeland	Province	134.4	109.5	18.2	4.9	1,428	-14.1	6.2
Drenthe	Province	135.2	110.2	21.8	8.4	1,686	-11.7	-0.1
Overijssel	Province	134.4	109.5	17.4	5.8	3,282	-20.4	-5.3
Flevoland	Province	155.5	126.7	21.9	7.0	1,608	-6.9	8.5
Zuid-Holland	Province	143.9	117.3	15.5	5.5	11,502	-9.2	5.0
Gelderland	Province	133.2	108.5	19.9	7.4	5,855	-17.0	-3.8
Utrecht	Province	146.0	119.0	18.6	7.3	4,304	-11.8	8.6
Limburg	Province	131.0	106.8	15.3	5.6	3,398	-15.3	-7.1
Noord-Holland	Province	154.8	126.1	17.9	7.2	8,793	-13.5	7.3
Noord-Brabant	Province	127.4	103.9	15.9	5.4	8,339	-13.7	1.9
Utrecht	Municipality	180.1	146.8	18.9	6.8	1,125	-18.2	12.3
Amsterdam	Municipality	179.1	146.0	14.9	7.8	2,485	-13.3	12.2
's-Gravenhage	Municipality	160.4	130.7	17.3	5.3	1,625	-14.5	1.4
Rotterdam	Municipality	173.0	141.0	15.3	5.0	1,583	-18.5	10.9

Table 1: House prices and number of property sales changes in Dutch provinces and major municipalities 2021-Q3. Source: CBS.

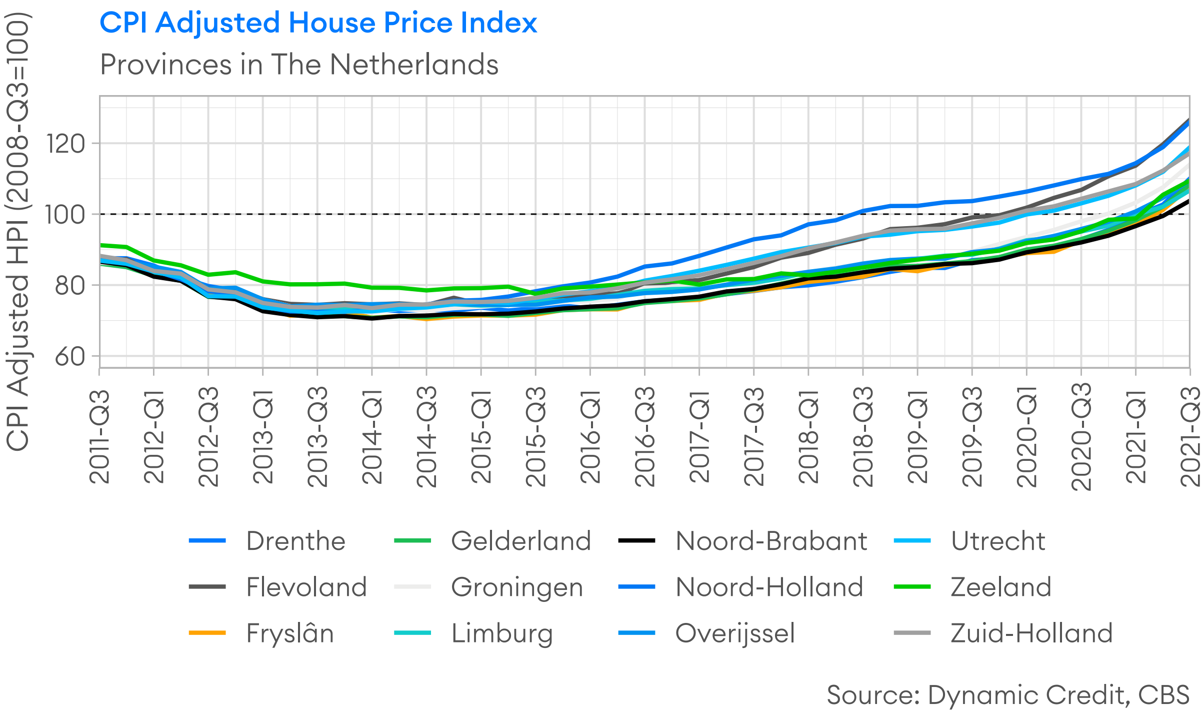

Figure 5: CPI Adjusted House price index of provinces in the Netherlands (2008-Q3=100). The data is indexed as of 2008-Q3 because this marks the pre-crisis high for the unadjusted House Price Index.

Housing market reforms

General elections were held in the Netherlands in March 2021 to elect all 150 members of the House of Representatives. At the moment of writing, the formation of a new government is still ongoing. Housing market policies are expected to be part of the coalition agreement in the light of the housing shortage and steeply increasing house prices. Parallel to the formation process, DNB[1] presented their views on which elements should be included in a broad approach to improve the housing market:

1. **Avoid policies that make lending standards more lenient:** recent examples of such policies include the exemption of transfer tax for first-time buyers and the renewed interest in first-time-buyer loans (startersleningen). There is consensus amongst economists to not further stimulate demand for owner-occupied housing in a market where there is a shortage of supply of housing as these measures will result in upward pressure on housing prices instead of increasing affordability. Such measures are tempting for policymakers as they generally resonate well with voters.
2. **Reduce fiscal benefits for homeowners:** DNB proposes to reduce fiscal differences between tenants and homeowners. Currently home equity related to the primary residence is not counted as part of wealth and hence no wealth tax (Box 3 tax) is due on home equity. Instead, homeowners can deduct interest from their income but are also confronted with imputed rents (Box 1). To create a more level playing field with tenants, who are not able to build up wealth in their primary residence or deduct interest, DNB proposes to transfer the primary residence to Box 3 and redistribute the additional wealth tax proceeds to (partially) mitigate negative purchasing power effects on homeowners. There is consensus amongst economists to abolish interest rate deductibility as subsidizing debt could create the incentive to "overconsume" housing. The proposal to tax the primary residence as part of Box 3 has been met with both enthusiasm and criticism: arguments in favor are that it could simplify Box 1 tax rules related to interest rate deductibility and balance the playing field between tenants and owners. However, concerns are raised as this measure could negatively impact homeowners with a low income but high home equity, both due to higher taxes and the wealth limit eligibility requirement in place for instance for health care subsidy. Furthermore, additional consumptive borrowing could be incentivized, as such loans will be deductible against assets in Box 3 (at that point including the primary residence), and the mitigating measures against negative purchasing power effects on homeowners could result in additional fiscal complexity.
3. **Abolish tax-free donations:** it is possible to receive a tax-free gift of up to EUR 100,000 if this is used for the purchase of a home or repayment of a mortgage loan. An important purpose of this measure was to reduce the number of households that had an LTV in excess of 100% due to house price decreases after the Great Financial Crisis. However, according to DNB, mostly households with a low LTV repaid their mortgage, and first- time buyers with a wealthy family obtained an advantageous position on the market.
4. **More housing constructions:** the government should take a more leading role in housing construction and ensure construction takes place in the right segments, such as the middle segment of the rental sector, where there is most demand.

With the current imbalance between the owner occupied and rental sector, it is sensible to improve the playing field between tenants and owners. It will however remain tempting for policy makers to introduce further measures that increase demand for owner-occupied housing and limit supply in the unregulated rental sector as they have done in the recent past. It is expected that the government that is currently being formed will include housing policies in their coalition agreement. Overall, we do not expect a material reduction in the fiscal attractiveness, as hardly any party proposed stringent housing measures in their party programs, other than a possible increase of the pace of implementation of the already planned reduction of interest rate deductibility and potentially the abolishment of tax-free gifts.

1 DNB - Housing market reforms

NHG

Stichting Waarborgfonds Eigen Woningen ("WEW"), a central, privatized entity, has been responsible for the administration and granting of the Nationale Hypotheek Garantie ("NHG Guarantee"). The NHG Guarantee covers the outstanding principal, accrued unpaid interest and disposal costs of mortgage loans. Irrespective of scheduled repayments or prepayments made on a mortgage loan, the NHG Guarantee is reduced on a monthly basis by an amount which is equal to the principal repayment part of the monthly instalment as if such mortgage loan were to be repaid on a thirty-year annuity basis. Financial support from the Dutch government is formalized in a backstop agreement, under which the State is responsible for providing interest-free loans in case of need.

New NHG guarantees

Data from the Hypotheken Data Netwerk ("HDN") shows that over 2021-Q3, slightly more than 26,000 NHG loans with a total balance of EUR 5 billion were offered through its network (8 billion in 2020-Q3). This corresponds to an NHG market share of 15.9% in terms of mortgage loans balance (24.7% in 2020-Q3). The decrease can be attributed to the steeply rising house prices which result in fewer properties being eligible for an NHG guarantee.

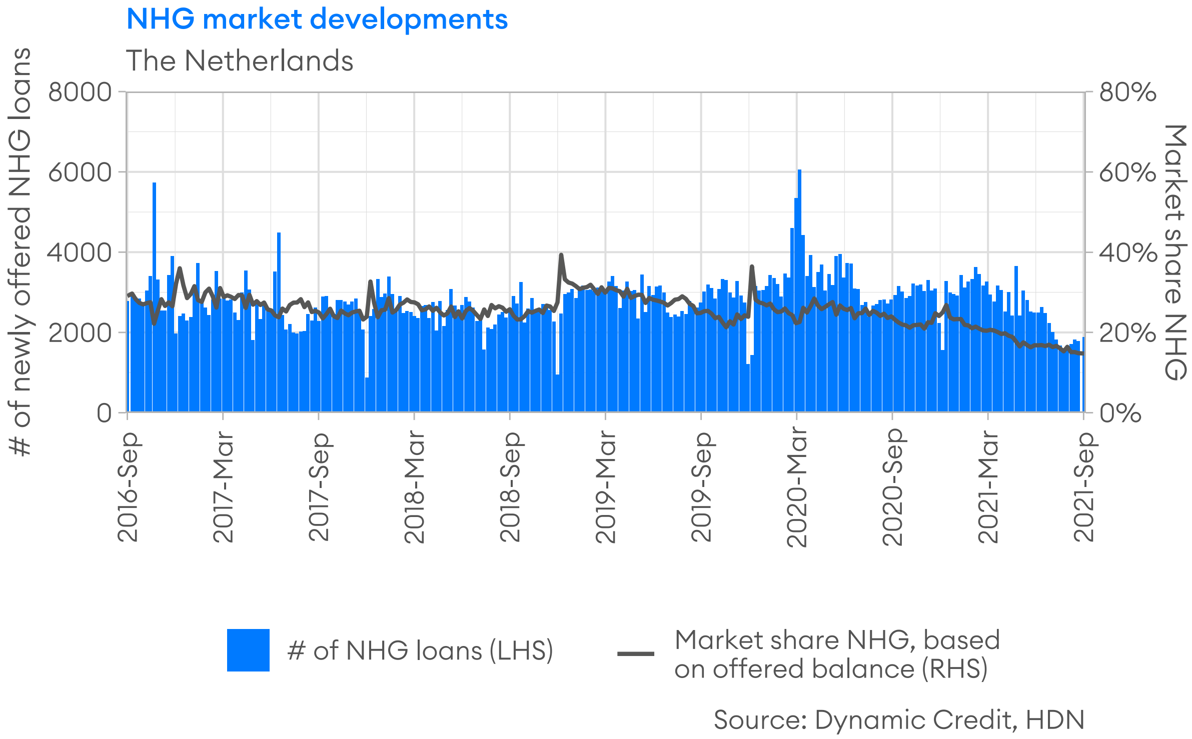

Figure 6: Number of new NHG guarantees and market share of NHG loans as a percentage of total originated balance through time.

Loss declarations[1]

The number of loss declarations submitted to WEW decreased with 66.7% from 27 in 2020-Q2 to 9 in 2021-Q2. The low number of loss declarations submitted is attributed by WEW to the still increasing house prices. The NHG pay-out ratio of processed declarations decreased to 72.6% in 2021-Q2 (was 94.7% in 2020-Q2). The average paid out loss declaration amounted to EUR 11,000 in 2021-Q2, which is equal to 2020-Q2.

1 NHG Quarterly Results

Expected NHG changes 2022

At least annually WEW revises the NHG norms and conditions. Per 1 January 2022 the following changes are expected:

- The NHG premium will decrease with 0.1% to 0.6% of the loan amount;
- The NHG cost limit will increase from EUR 325,000 in 2021 (or EUR 344,500 when including energy-saving measures) to EUR 355,000 (or EUR 376,300 when including energy-saving measures). As shown in Figure 7, the NHG limit does not increase one-on-one with the average purchase price anymore (for 2022 the average purchase price over the last 27 months plus a 4% correction is taken), this is expected to result in a lower market share for NHG in 2022 than in 2021;
- Hybrid appraisals will also be permitted in case of renovations (including energy-saving measures) and/or redemption of ground lease;
- The required divorce papers for borrowers divorced more than 12 years prior to issuing the binding offer will be reduced to (i) a recent overview of the registration of the divorce with the municipality and (ii) the most recent tax report. The most recent tax report replaces the court ruling on the divorce and the divorce agreement; and
- Several changes will be made in relation to the registration and weighing of loans registered with the Stichting Bureau Kredietregistratie ("BKR"), the most important one relating to car leases. At the moment, the loan amount for car leases is registered as 65% of the monthly payment multiplied by the number of months of the lease contract. In 2022, the registered loan amount will be calculated as 100% of the monthly obligation multiplied by the number of months of the lease contract. This will increase the financial burden considered for these car leases, limiting the maximum loan amount for borrowers based on their income.

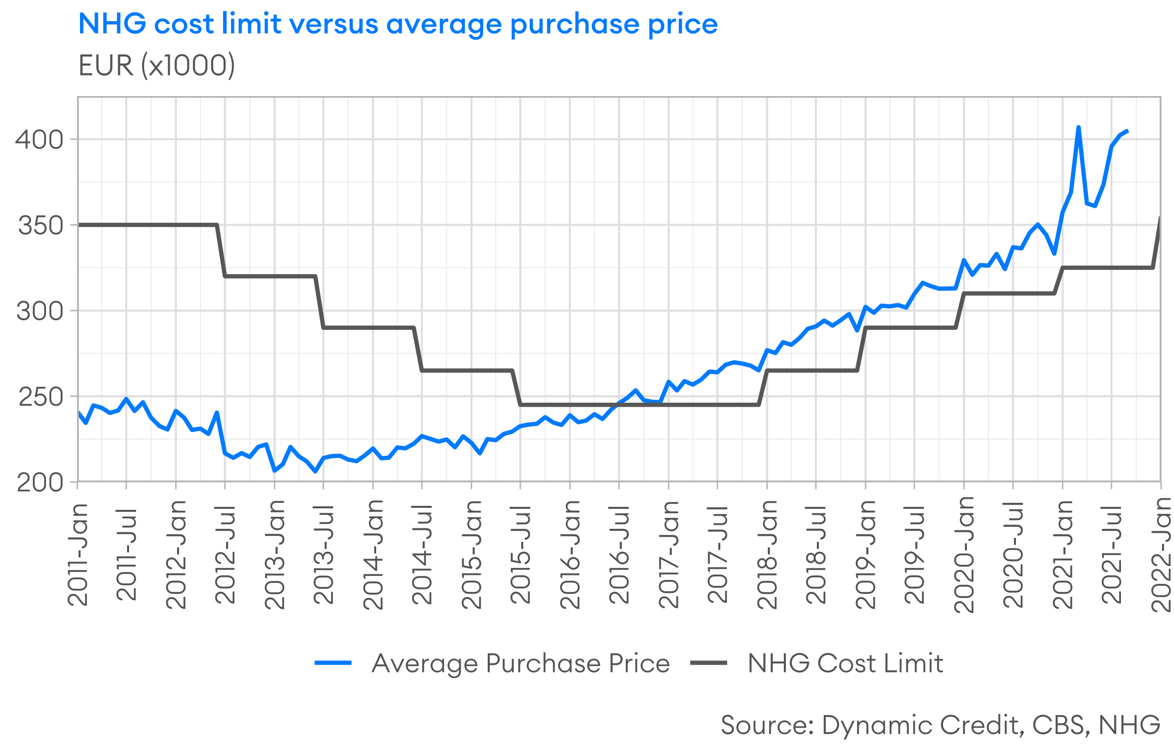

Figure 7: NHG cost limit versus the average purchase price in the Netherlands. Source: Dynamic Credit, CBS, NHG

3. Owner-Occupied Mortgages

Investing in Dutch Mortgages

Dutch mortgage loans have become a cornerstone investment for many Dutch and international institutional investors during the past years. With their attractive risk/return profile and long duration they provide an attractive alternative to other high quality fixed-income products.

Attractive returns

Yields on Dutch mortgages, net of fees and expected losses, are consistently attractive compared to other high quality fixed-income products. Figure 8 below shows the current and 12 months range of net yields of Dutch mortgages versus alternatives.

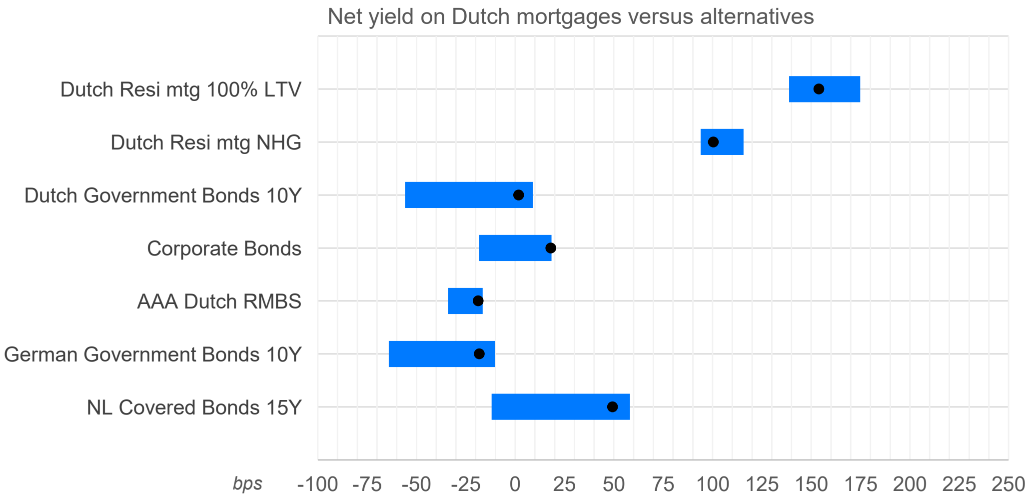

Figure 8: net yields on Dutch mortgages versus alternatives. The blue bar indicates the 12-month historical yield range and the black dot the latest observation mid October 2021. Net yield on Dutch mortgages is calculated taken into account representative management and origination fees and expected losses. Source: Dynamic Credit, Hypotheekbond, Bloomberg

Strong investor protection

A lender has full recourse to all borrowers' assets in case of a foreclosure, meaning all assets besides the property that serves as collateral to the mortgage loan can be seized. Furthermore, if a borrower still has employment income, a part of the wage can be garnished without court approval.

Mortgage loans up to EUR 325,000, or EUR 344,500 in case of energy-saving measures (updated annually), are eligible for an NHG guarantee, which provides a safety net for borrowers and lenders in case or residual losses. NHG guarantees are offered by WEW, which is backed by the State of the Netherlands. As such, the foundation has been assigned a 'Aaa' rating by Moody's and 'AAA' rating by Fitch Ratings and S&P. The borrower pays an upfront fee of 70 bps (will be decreased to 60 bps in 2022) for the NHG guarantee. To ensure skin-in-the-game, 10% of the loss is for the lender. The remainder of the loss is covered by the NHG guarantee, subject to the mortgage file being compliant with the NHG requirements, considering the amortizing nature of the guarantee. WEW re-underwrites the mortgage file prior to payout of any claims.

In case a borrower is unable to pay, the lender generally first gives the borrower the opportunity to sell the property himself. If the borrower is unwilling to cooperate or fails to sell its property then it will be auctioned. No court approval is required prior to the auction ensuring an efficient process.

Full recourse and an efficient legal system result in a high payment morale. Note that long waiting lists in the public housing sector and the small unregulated rental sector make these worse alternatives than staying in their own home and paying their mortgage.

Robust performance

In the aftermath of the Great Financial Crisis the asset class experienced the worst performance of recent history, resulting in losses up to 15 bps per annum for Dutch RMBS. Even though losses were minimal, underwriting standards have tightened significantly since then, which improved the creditworthiness of Dutch mortgage loans. Since inception of our mortgage investment platform in 2014, cumulative realized losses have been well below 1 bps.

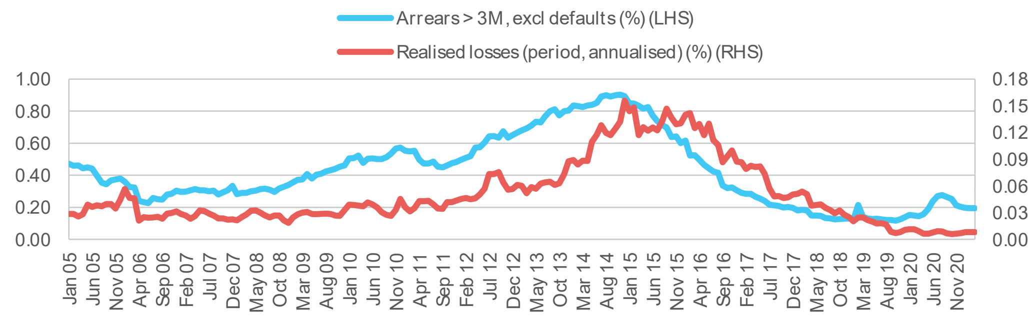

Figure 9: Arrears and realized losses history for RMBS. Source: Fitch Ratings

COVID-19 has not impacted the performance of Dutch mortgages negatively. Payment holidays have been introduced for borrowers with temporary loss of income due to lockdown measures. The usage of these payment holidays has been minimal and the outstanding payment holiday amounts have been reduced greatly later in 2020.

Origination volume

Estimated offer volumes over the past 12 months have been around EUR 145 billion, with around 75% in the 15 to 30 year fixed rate periods. The longer fixed rate periods have significantly grown in market share during the past years, benefiting investors with long-term liabilities.

Estimated Market Shares

	NHG	0-75%	75-90%	90-106%	Total
Floating - 5 year	0%	1%	0%	0%	**1%**
7 - 10 year	3%	8%	5%	7%	**24%**
15 - 30 year	7%	18%	32%	19%	**75%**
Total	11%	27%	36%	26%	**100%**

Table 2: Estimated market origination over segments in 2021, up to week 42. Source: Dynamic Credit, HDN

Market access

Whole loan exposure to Dutch mortgages can be obtained in different ways:

- Mandates: are optimal for most investors as a tailor-made portfolio, in terms of risk and duration segments are built-up at attractive fee levels. Mandates are generally optimal for investors with a commitment in excess of EUR 100 million.
- Funds: offer exposure to a vertical slice of a portfolio thereby limiting flexibility. Furthermore, fee levels are generally materially higher than for a mandate. Funds are generally optimal for investors with appetite for less than EUR 100 million.
- Own white label: provide most flexibility, also in terms of product features. Downsides are the long set-up period and higher costs. This solution could be optimal for investors with appetite for many segments and have a target size in excess of EUR 2 billion.

As always, we welcome the opportunity to discuss the housing market or investing in Dutch mortgages.

Interest rate developments

Across all major risk classes and fixed rate periods, the top six most competitive rates fell on average 6 bps from the end of 2021-Q2 to the end of 2021-Q3. The decrease was strongest for the highest risk class, while the differences across the fixed rate periods were relatively small. Compared to previous year, interest rates are on average 28 bps lower. However, due to strongly increasing swap rates after quarter-end, interest rates started to increase again. So far, this resulted in interest rates increasing on average 3 bps, with more upcoming increases announced in the market.

Rates fell in 2021-Q3 with the largest decrease in the highest LTV segment.

Mortgage rate development for average of top 6 mortgage rates

Fixed rate period	Risk class	2020-09-30	2021-06-30	2021-09-30	2021-10-29	QoQ	YoY	QtD
5-year	NHG	0.92%	0.75%	0.75%	0.75%	0.00%	-0.18%	0.00%
	60% LTV (non-NHG)	1.10%	0.94%	0.87%	0.88%	-0.07%	-0.23%	0.02%
	80% LTV (non-NHG)	1.19%	1.01%	0.97%	0.97%	-0.04%	-0.22%	0.00%
	100% LTV (non-NHG)	1.49%	1.32%	1.23%	1.25%	-0.09%	-0.26%	0.02%
10-year	NHG	1.05%	0.89%	0.85%	0.90%	-0.04%	-0.20%	0.05%
	60% LTV (non-NHG)	1.22%	0.99%	0.94%	1.00%	-0.05%	-0.28%	0.06%
	80% LTV (non-NHG)	1.35%	1.14%	1.09%	1.11%	-0.05%	-0.26%	0.02%
	100% LTV (non-NHG)	1.66%	1.41%	1.32%	1.37%	-0.09%	-0.34%	0.04%
20-year	NHG	1.37%	1.22%	1.19%	1.22%	-0.04%	-0.18%	0.03%
	60% LTV (non-NHG)	1.61%	1.41%	1.34%	1.38%	-0.07%	-0.26%	0.04%
	80% LTV (non-NHG)	1.75%	1.51%	1.45%	1.48%	-0.06%	-0.30%	0.03%
	100% LTV (non-NHG)	2.05%	1.75%	1.69%	1.75%	-0.06%	-0.36%	0.06%
30-year	NHG	1.70%	1.43%	1.40%	1.41%	-0.03%	-0.30%	0.00%
	60% LTV (non-NHG)	1.93%	1.63%	1.56%	1.59%	-0.07%	-0.37%	0.03%
	80% LTV (non-NHG)	2.04%	1.72%	1.65%	1.69%	-0.06%	-0.39%	0.04%
	100% LTV (non-NHG)	2.30%	2.00%	1.90%	1.96%	-0.09%	-0.40%	0.06%

Table 3: Average top-6 mortgage rates (excluding action rates) for mortgage loans with different fixed rate periods for four risk classes. Source: Dynamic Credit, Hypotheekbond.

Spread developments[1]

Throughout 2021-Q3 mortgage spreads have decreased significantly across all major fixed rate periods as swap rates increased and interest rates decreased. This quarter, the average spread decrease across major fixed rate periods and risk classes was 13 bps, of which half can be accounted to swap increases. The changes to the swap curve were relatively parallel, 7-8 bps on average. The decreases moved spread levels back to 2018 levels, for several 10- year rates, 20 and 30-year spreads have now reached all-time lows. Following the development of the mortgage rates, spreads tightened especially in the highest LTV bucket, with spreads decreasing 16 bps. The average annual decrease in spreads was approximately 66 bps, with spreads dropping the most in the longer fixed rate periods. After quarter-end, swap rates continued to rise particularly in the shorter maturities (5 and 10 years), this resulted in decreasing spreads for mortgages with shorter fixed rate periodes. The swap rates for the longer maturities are close to the level at quarter-end.

20- and 30-year mortgage spreads decreased to all-time lows in 2021-Q3

For an overview of the evolution of mortgage spreads, see Table 4 below.

The information in the table below and the graphs in the Appendix can be interpreted as a representative gross spread for newly originated Dutch residential mortgage loans over time.

Spread development for average of top 6 mortgage rates								
Fixed rate period	Risk class	2020-09-30	2021-06-30	2021-09-30	2021-10-29	QoQ	YoY	QtD
5-year	NHG	1.41%	1.08%	1.01%	0.85%	-0.07%	-0.40%	-0.16%
	60% LTV (non-NHG)	1.59%	1.27%	1.14%	0.99%	-0.14%	-0.46%	-0.15%
	80% LTV (non-NHG)	1.68%	1.35%	1.24%	1.07%	-0.10%	-0.44%	-0.17%
	100% LTV (non-NHG)	1.98%	1.65%	1.50%	1.36%	-0.16%	-0.48%	-0.14%
10-year	NHG	1.41%	0.96%	0.84%	0.79%	-0.12%	-0.57%	-0.05%
	60% LTV (non-NHG)	1.58%	1.07%	0.94%	0.90%	-0.13%	-0.64%	-0.04%
	80% LTV (non-NHG)	1.71%	1.22%	1.09%	1.01%	-0.13%	-0.62%	-0.08%
	100% LTV (non-NHG)	2.02%	1.49%	1.32%	1.27%	-0.17%	-0.70%	-0.06%
20-year	NHG	1.54%	1.00%	0.90%	0.91%	-0.10%	-0.64%	0.01%
	60% LTV (non-NHG)	1.78%	1.19%	1.06%	1.07%	-0.14%	-0.72%	0.01%
	80% LTV (non-NHG)	1.93%	1.30%	1.17%	1.18%	-0.13%	-0.76%	0.01%
	100% LTV (non-NHG)	2.23%	1.55%	1.41%	1.45%	-0.13%	-0.82%	0.04%
30-year	NHG	1.83%	1.14%	1.05%	1.06%	-0.09%	-0.77%	0.01%
	60% LTV (non-NHG)	2.06%	1.35%	1.21%	1.24%	-0.14%	-0.85%	0.03%
	80% LTV (non-NHG)	2.18%	1.44%	1.31%	1.35%	-0.13%	-0.87%	0.04%
	100% LTV (non-NHG)	2.44%	1.73%	1.57%	1.63%	-0.16%	-0.88%	0.06%

Table 4: Spread of the average top-6 mortgage rates (excluding action rates) over duration matched swap rates for four risk classes. Source: Dynamic Credit, Hypotheekbond.

1 The EUSWxV3 swap is used, which uses quarterly resets and the floating leg is 3-month EURIBOR.

4. Funding Update

RMBS

In 2021-Q3, only one RMBS deal was priced. The total distributed Dutch RMBS issuance of the third quarter was close to EUR 1 billion. This makes the total of 2021 EUR 4.7 billion, which is more than was distributed last year (EUR 3.5 billion). The retained issuance in the second quarter amounted to EUR 380 million, making the total of 2021 EUR 2.2 billion. The spread of Dutch RMBS senior AAA paper tightened further from 18 bps on the 25th of June to 16 bps on the 22nd of October.

The total YTD distributed Dutch RMBS issuance is already EUR 1.2 billion more than last year.

The single priced deal was EDML Series 2021-1 and the seller was Elan Woninghypotheken with Goldman Sachs and ING as joint lead managers. The deal is structured with the aim to be STS compliant. The total deal amounted to EUR 518 million with EUR 492 million class A notes. The rest of the notes ranged from class B to RS. All notes were prices at 3m Euribor. The spread before issuance of the class A notes was 60 bps and of the class B to C notes is respectively 75 bps and 500 bps. The deal was sold above par at 101.16 which led to a discount margin of 33 bps. The loans are coming from two previous securitizations (EDML 2018-2 and DCDML 2016-1) and the originator's banking book. The current loan to value is 85.9% and the pool has a seasoning of 43 months on average. The pool consists of 37.5% interest-only loans while self-employed amount to 7.1% of total.

Covered Bonds

In the third quarter of 2021, EUR 2.75 billion was issued, for a total of EUR 4.45 billion in 2021. The spread (iBoxx EUR Netherlands) decreased slightly from 4 bps on the 25th of June to 3 bps on the 15th of October.

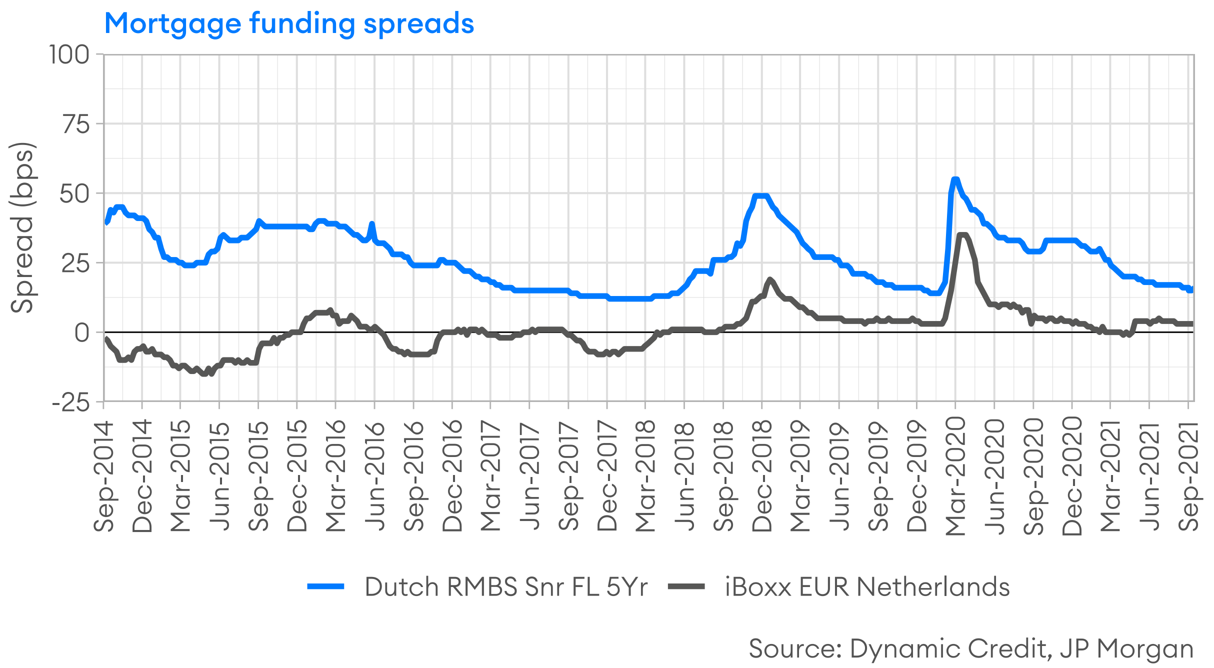

Figure 10: RMBS spread refers to indicative mid spread (DM) for representative generic RMBS bonds. iBoxx EUR Netherlands spread refers to spread versus mid swap rates. The data is as of 2021-Q3.

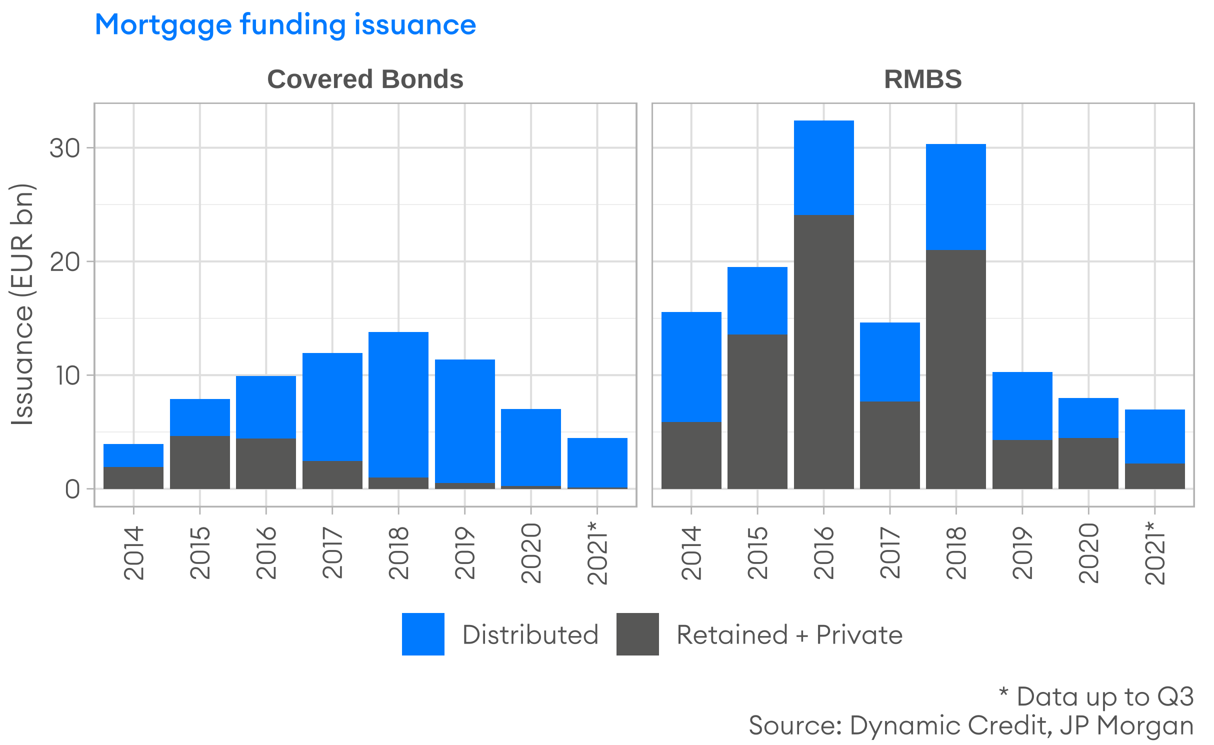

Figure 11: Issuance of Dutch RMBS and covered bonds. The data is as of 2021-Q3.

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Dutch RMBS market: Priced Dutch prime RMBS and BTL deals

One new Dutch prime RMBS was priced during 2021-Q3

Date	Issuer	Series	Seller	Class	Euro Amount	Life	FXFL	Spread	Benchmark	M	SP	F	DBR	Retained	Comments
15-Oct-21	EDML BV	2021-1	Elan Woninghypotheken	A	492	4.20	FL	60	3 Mo. Euribor	Aaa		AAA		N	RMBS; EUR
				B	7	5.10	FL	75		Aa3		AA+		N	518mm; WA
				C	9	5.10	FL	100		A2		A+		N	Seasoning 43m;
				D	4	5.10	FL	145		Baa2		A		N	WA CLTV 85.9%;
				E	4	5.10	FL	240		Ba1		BB+		N	IO Loans 37.5%;
				F	3	5.10	FL	500						N	Self-employed
				RS	40		FX							N	7.1%

Table 5: Priced Dutch RMBS en BTL Deals in 2021-Q3. Source: Dynamic Credit, JP Morgan

5. Buy-to-let Mortgages

WOZ value in regulated market[1]

One of the parameters that is used to determine if a rental property is categorized as regulated or unregulated rent is the property value under the Immovable Property Act (WOZ). Parameters such as living area size and property value are assigned points and any property that exceeds 142 points is deemed unregulated rent. In the four large cities, the property value has been having a significant effect on this calculation since prices are generally higher than in the rest of the Netherlands. The number of points for the property value is the sum of two components: i) the property value divided by EUR 11,041, and ii) the price per square meter divided by EUR 172.

From January 2022 onwards, the points following from the property value will be limited at 33% of the total points if the property exceeds the regulated limit 142 (the system is explained in the next paragraph). The idea is that it will make less social housing unregulated due to increases to the WOZ value. It could potentially trigger recalculation of points and rents for existing rental contracts.

Purchase protection[2]

On 6 July 2021 a legislative proposal in relation to the purchase restrictions (*opkoopbescherming*) for BTL investors was approved by the Dutch Senate and will enter into force per 1 January 2022. The legislation does not automatically require every BTL investor to get a permit but allows municipalities to require such permits in certain areas for lower and middle priced houses (to be defined by the municipality). Certain carve-outs apply, please refer to our 2021-Q2 update for a complete overview.

The municipalities of Amsterdam and Utrecht have indicated that they wish to apply the purchase protection to as many properties as possible. The feasibility of the plan and/or the definitive property value threshold is still under review. The municipalities of Rotterdam and The Hague are planning a more granular approach and intend to protect the neighborhoods with the most affordable housing. Smaller municipalities consider other approaches such as requiring owner-occupancy for all housing stock below the NHG costs limit (Tilburg) or applying the purchase protection for all properties below EUR 300,000 (Breda).

Rental prices[3]

Pararius (an online rental property broker) reports that the average rental price per square meter has increased by 2.5% YoY. The increase follows on four quarters of rental price decreases caused by the COVID-19 pandemic. Especially outside the Randstad area price increases have been prominent: Flevoland (+9,2%), Groningen (+8,4%), Gelderland (+6,5%) and Noord-Brabant (+6,7%). In Noord-Holland and Zuid-Holland rental prices increased by 1.7% and 2.7% respectively. Absolute price differences between provinces remain pronounced, in Noord-Holland the average monthly rental price is now EUR 20.84 per square meter while in Gelderland it costs EUR 12.44. The most affordable rental properties are in Drenthe, where a tenant pays on average EUR 9.82 per square meter.

In Amsterdam, Rotterdam, The Hague, Eindhoven, and Utrecht prices have increased YoY. In Amsterdam Pararius explains the price increase with two factors, first the return of expats has led to an increase in demand and second, more apartments are taken out of the long-stay market and returned to the short-stay market as tourism picks up again now the pandemic seems under control. The effect of the latter is even dampened as Airbnb reports[4] a reduction of 75% in Amsterdam offering following the mandatory registration since April 2021.

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1 Rijksoverheid - WOZ value in regulated market

2 NOS - Purchase protection

3 Pararius - Rental prices

4 NOS - Airbnb offering

Rate and spread development

Dynamic Credit launched its consumer buy-to-let platform in the Netherlands in 2019. Besides the unique feature of offering borrowers an LTV of 90%, the product also sets itself apart by offering a 30-year fixed rate period.

Average rates decreased by 10 bps QoQ. The 90% LTV segment shows the steepest decrease with an average of 14 bps. Among fixed rate periods the changes were similar. Buy-to-let spreads have decreased with on average 16 bps (owner-occupied: 13 bps). Note that the spread pickup for consumer buy-to-let remains generous at quarter end, for example, a 70% LTV 10-year fixed loan offers a 131 bps premium (240 bps for buy-to-let versus 109 bps for owner-occupied). It is worth mentioning that throughout October especially spreads in the shorter maturities have been under pressure due to significantly increasing swap rates.

It should be noted that Dynamic Credit is the only active lender in the high LTV (>85%) segment.

Market rate and spread development for consumer buy-to-let rates									
		BTL rates				Spreads			
Fixed rate period	LTV	2021-06-30	2021-09-30	2021-10-29	QoQ	2021-06-30	2021-09-30	2021-10-29	QoQ
1-year	50%	2.21%	2.11%	2.09%	-0.10%	2.73%	2.61%	2.53%	-0.12%
	60%	2.30%	2.20%	2.18%	-0.10%	2.82%	2.70%	2.62%	-0.12%
	70%	2.34%	2.24%	2.22%	-0.10%	2.86%	2.74%	2.66%	-0.12%
	80%	2.72%	2.66%	2.61%	-0.06%	3.24%	3.16%	3.05%	-0.08%
	90%	3.40%	3.30%	3.30%	-0.10%	3.92%	3.80%	3.74%	-0.12%
5-year	50%	2.28%	2.18%	2.16%	-0.10%	2.62%	2.45%	2.27%	-0.17%
	60%	2.37%	2.27%	2.26%	-0.10%	2.71%	2.55%	2.36%	-0.16%
	70%	2.40%	2.31%	2.29%	-0.09%	2.74%	2.58%	2.40%	-0.16%
	80%	2.90%	2.83%	2.81%	-0.07%	3.24%	3.11%	2.92%	-0.13%
	90%	3.45%	3.30%	3.30%	-0.15%	3.80%	3.58%	3.41%	-0.22%
10-year	50%	2.34%	2.26%	2.26%	-0.08%	2.44%	2.28%	2.17%	-0.16%
	60%	2.43%	2.35%	2.34%	-0.08%	2.53%	2.36%	2.25%	-0.17%
	70%	2.48%	2.39%	2.38%	-0.09%	2.58%	2.40%	2.30%	-0.18%
	80%	2.99%	2.92%	2.90%	-0.07%	3.10%	2.95%	2.82%	-0.15%
	90%	3.60%	3.45%	3.45%	-0.15%	3.72%	3.49%	3.38%	-0.23%
20-year	50%	2.77%	2.70%	2.71%	-0.07%	2.60%	2.46%	2.43%	-0.14%
	60%	2.87%	2.80%	2.81%	-0.07%	2.71%	2.56%	2.53%	-0.15%
	70%	2.92%	2.84%	2.85%	-0.08%	2.76%	2.60%	2.57%	-0.16%
	80%	3.33%	3.23%	3.21%	-0.10%	3.18%	3.01%	2.95%	-0.17%
	90%	3.75%	3.60%	3.60%	-0.15%	3.62%	3.39%	3.34%	-0.23%

Table 6: Interest rate and spread development for consumer buy-to-let rates in the Netherlands.
Source: Dynamic Credit, Hypotheekbond.

6. News

The following sections provide an update on the (macro)economic environment.

Macroeconomic update

Statistics Netherlands ("CBS")[1] reports that the Dutch economy grew 3.8% QoQ in 2021-Q2 and 10.4% YoY. The increase was mostly driven by more household consumption and a trade surplus. The positive effect was further strengthened by increased investments and government spending.

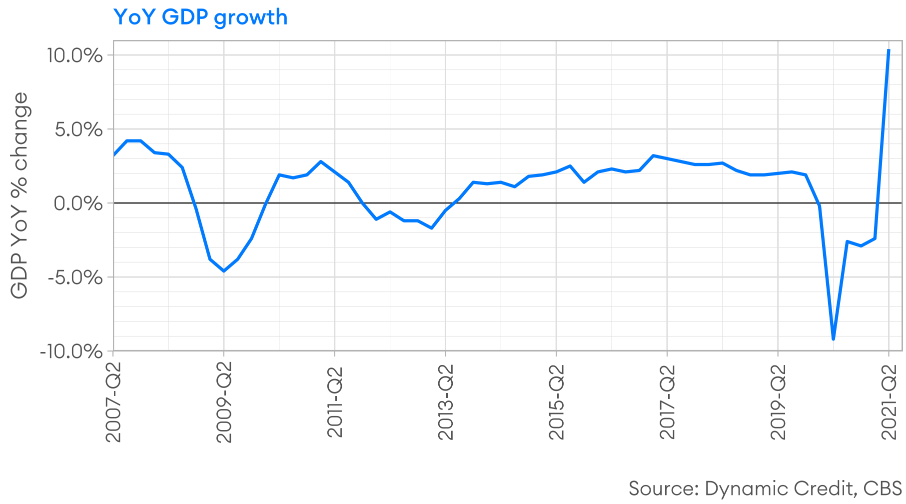

Figure 12: YoY GDP growth in the Netherlands. Source: CBS, Dynamic Credit

Inflation is picking up across the Eurozone with an increase of the HICP of 2.2% in July, 3.0% in August and 3.4% YoY in September. In the Netherlands inflation was lower, it was 1.4% in July, 2.7% in August and 3.0% YoY in September. The CPI increased by 2.7% YoY in September, among the drivers are the increasing costs of gas and electricity. The discount of 50% on tuition fees in the Netherlands for higher education resulted in a decrease in educational spending.

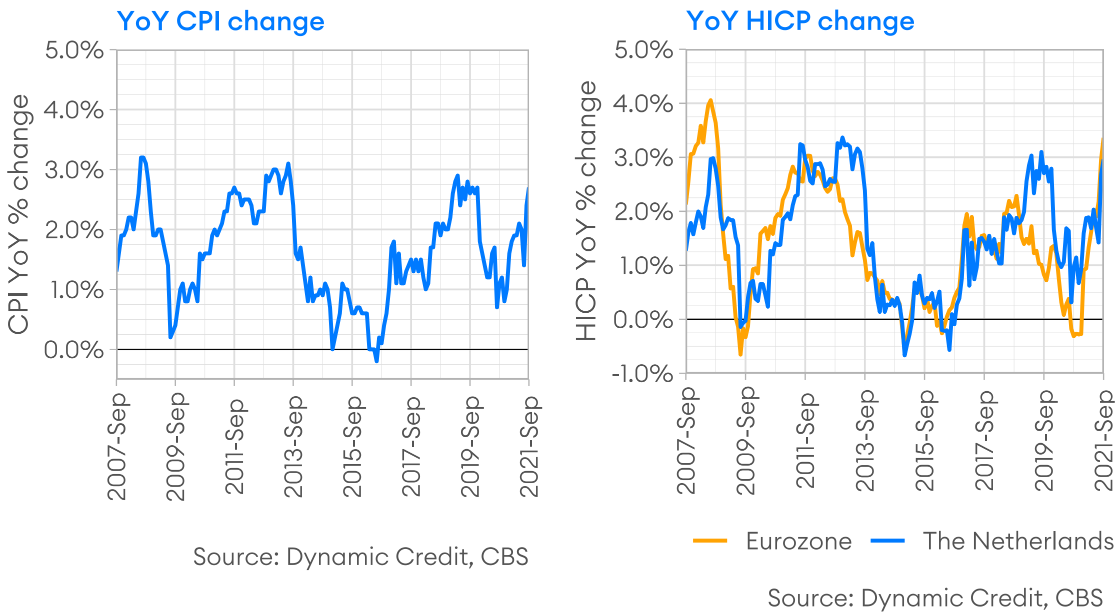

Figure 13: YoY CPI change for the Netherlands (left) and HICP change (right) for the Eurozone and the Netherlands. Source: CBS, Dynamic Credit

1 CBS - Economic growth of 3.8 percent in Q2 2021

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Monetary policy[1]

In September, the Governing Council of the ECB concluded that the current favorable financing conditions and inflation outlook warrant a lower pace of net purchases under the pandemic purchase programme ("PEPP") than in the previous two quarters. The council indicates that the current envelope of EUR 1,8520 billion might not be used in full if favorable conditions can be maintained without asset purchases. However, it could also be increased if necessary. The programme runs until March 2022 or longer if the pandemic persists.

Net purchases under the asset purchase programme ("APP") will remain at its current EUR 20 billion per month pace for the foreseeable future. Inflation picks up on the medium term, but remains below the 2% target on the longer term. With the end date of PEPP in sight, it is still unclear how the ECB will maintain its monetary policy once the programme stops and how purchases will be governed by the stricter APP. The December meeting might provide more clarity. The interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively.

Unemployment[2]

In 2021-Q3, unemployment decreased by 2,000 per month to 292,000. Following the global pandemic, unemployment increased from 2.9% to 4.6% between March and August 2020. In September 2021 it is almost at pre-pandemic level again with a rate of 3.1%.

In most sectors a decrease in unemployment was observed (measured by unemployment benefits). Especially in the catering sector a steep decrease (-12.3%) was observed. The cultural, cleaning and retail sectors also experienced relatively steep decreases (-6%, -5.5% respectively and -4.8% respectively).

Labor participation under young people increased from 65% in September compared to 63.9% a quarter earlier. Only for young people the labor participation is still lower than pre-pandemic (was 66% in February 2020). Labor participation for the general population increased but not as pronounced, it is now 69.7%.

Support measures[3]

Following the reopening of the economy and the subsequent economic recovery, many of the support measures have been stopped (most importantly TOZO, NOW, TVL). Only TVL (Tegemoetkoming Vaste Lasten) will be rolled over but under a new name - Vaste Lasten Nachtsluiting Horeca ("VLN") - it will only be available for entrepreneurs that are affected by the mandatory closing of nightlife. Time Out Arrangement ("TOA") – under which companies can apply for a loan of maximum EUR 100,000 with favorable terms and can be used to restart, expand, or adjust the business activities - will run until mid 2024. Smaller initiatives to support SMEs will be stopped at the end of the year (*Kleine Kredieten Corona Garantieregeling* ("KKC") and *Borgstelling MKB-kredieten Corona* ("BMKB-C")).

1 ECB - Monetary policy decisions
2 CBS - Number of employed further up
3 Rijksoverheid - Nieuwsberichten over Coronavirus: financiële regelingen

AFM interpretation of the EBA GLOM

Per 30 June 2021 the first part of the Guidelines on Loan Origination and Monitoring ("GLOM") from the European Banking Authority ("EBA") had to be implemented in the Netherlands. On 29 June 2021 the Autoriteit Financiële Markten ("AFM") informed[1] the Dutch lenders via a general newsletter that they will supervise the application of Chapter 5 of the GLOM by Dutch lenders. They further observed that the market practice in the Netherlands relating to issuing loans does not yet comply with all guidelines of Chapter 5 of the GLOM. The AFM mentions that the following guidelines are net yet (sufficiently) implemented by lenders:

- Paragraph 86, sub f together with paragraph 107: these paragraphs require the lender to get sufficient insight in the general expenses of a borrower and perform a stress test for future changes on a household level. When a financial advisor is involved in the loan application, the AFM expects lenders to make clear arrangements with the financial advisor on the performance of the stress test. The lender remains responsible for the execution and should conduct periodic checks on the stress tests performed by the financial advisors. In case of an execution-only mortgage loan, the stress test should be performed by the lender itself.
- Paragraph 104: this paragraph prescribes lenders to take sufficient account of the income after retirement when a borrower reaches the retirement age before the end of maturity of the loan. Currently, lenders in the Netherlands take into account the income after retirement when a borrower retires within 10 years after issuing a binding offer.
- Paragraph 85, sub d: this paragraph requires the affordability test performed by lenders to be tailored to the composition of the household. Currently, the maximum mortgage loan is determined taking into account one standard household composition; a couple without children.

Dutch lenders have been given a transition period up to 1 January 2022 to (sufficiently) implement these guidelines and the AFM requested these lenders to collectively provide input to the AFM on how implementation is best realized. The AFM aims to inform the lenders ultimately on 1 November 2021 on how these guidelines should be implemented. As this leaves only 2 months for implementation, feasibility of implementation per 1 January 2022 is grossly dependent on the requirements of the AFM.

New appraisal report

In March 2021 a new version appraisal report for residential properties was finalized. This new appraisal report was intended to be implemented per 1 July 2021 but was postponed to 1 October 2021 due to IT-related issues. The new report is developed due to criticism from both the government[2] and De Nederlandsche Bank ("DNB")[3] that in 35% of the appraisal reports, the appraisal value is exactly equal to the purchase price of the property and in 60% of the cases the value was higher than the purchase price. This implies that appraisers are mostly guided by the purchase price when determining the value of a property and are thus not completely impartial.

The new report provides more insight in the maintenance and sustainability of a property. Where the previous report gave a general qualification of the maintenance of the interior, exterior and building construction, the new appraisal report divides this into several categories. This forces the appraiser to form an extensive view of independent characteristics of the property and its maintenance condition. The appraiser should also specify per category the costs required to bring the maintenance up to an adequate level. Regarding sustainability, the new appraisal report will include the energy performance of the property and advises on possibilities to make a property more sustainable.

1 AFM - EBA Guidelines
2 Rijksoverheid - Working method of appraisers
3 DNB - Independecy of valuations

The energy crisis and related poverty

Over the past weeks, gas prices have occupied the minds of many people in Europe. Although gas prices have been increasing throughout the year, the increase was especially large in September which has major consequences for consumers and businesses. Many countries already announced measures to support these parties financially. In the Netherlands, measures have been announced to reduce the burden on consumers, as a large group faces energy poverty.

In the Netherlands, 7% of the population is facing energy poverty.

TNO[1] (a Dutch research organization) has researched energy poverty in the Netherlands. In contrast to previous studies, they not only look at affordability but also at the quality of the home and the extent to which residents are financially able to make it more sustainable. They found that approximately 550,000 households are suffering from energy poverty, which amounts to about 7% of the total. Households are considered to suffer from energy poverty if they have a low income in addition to either high energy costs or a house with a low energy quality. By way of comparison, about 15% of households in the Netherlands are suffering from income poverty.

The regional distribution of severe energy poverty is much more concentrated than income poverty, which should make it easier to target these groups. In contrast to income poverty, the problem mainly occurs outside the Randstad: in the northern, eastern, and southeastern provinces and parts of Zeeland. By way of illustration, almost all the top 20 most energy-poor municipalities are in the northeast of the Netherlands. However, at the neighborhood level, energy poor neighborhoods are spread across the country, including the major cities. This means the spatial clustering of energy poverty in certain regions in the Netherlands gives a general picture, but not the complete picture.

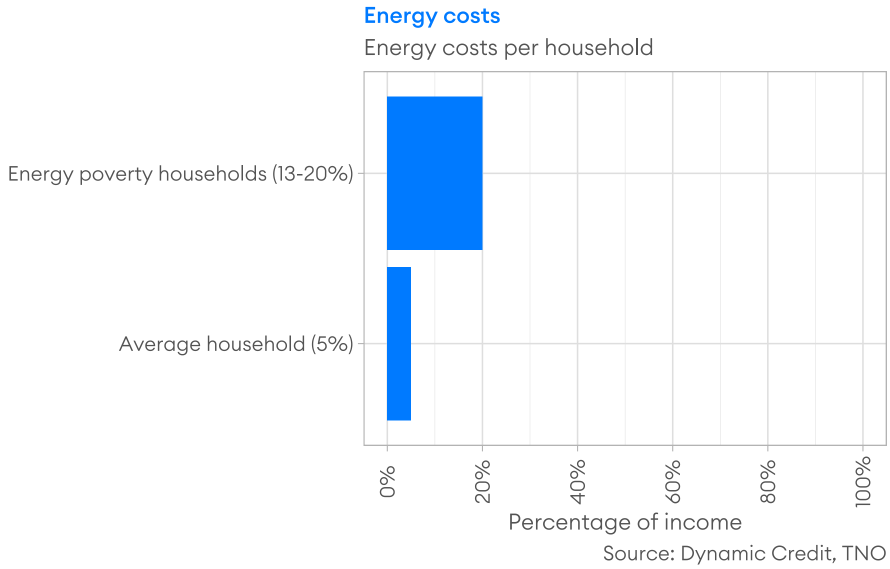


Figure 14: Energy costs as a percentage of household income for energy-poor households and average households. Source: TNO, Dynamic Credit

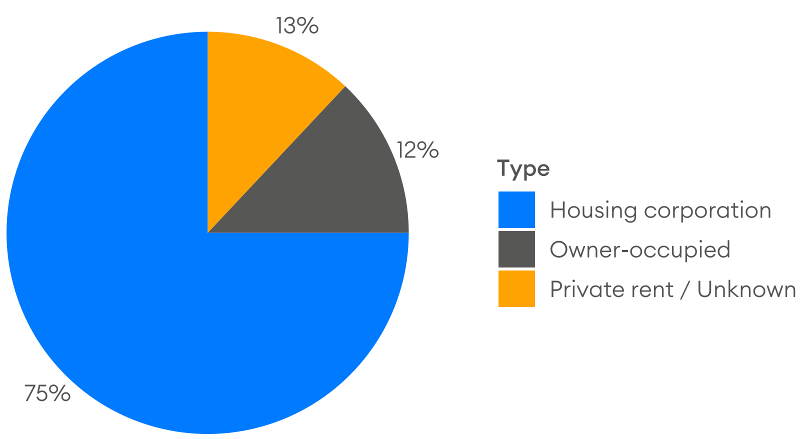
1 TNO - Energy poverty

When zooming in on the type of households, TNO finds that single-person households and single-parent families are overrepresented. About 17 to 22% of energy-poor households consist of single-parent families, while they constitute only 5% of all households in the Netherlands. This makes single-parent families a vulnerable group. Energy-poor households in the Netherlands spend approximately 13 to 20% of their income on energy, compared to 5% on average for all households. About 75% of energy-poor households live in a housing association; roughly 12% own an owner-occupied home and a comparable percentage rent privately. About 40% of energy-poor households have income from social assistance or other social benefits.

All in all, TNO suggests targeted policy by the government to make houses more sustainable for people that are not able to do that themselves, and to indirectly subsidize energy costs for vulnerable groups. The fact that the research shows that 48% of households cannot make their poorly insulated houses more sustainable on their own, underlines the urgency to come up with targeted policy to boost the energy transition. The measures currently being taken by the government to ease the burden on consumers are very generic and much of the EUR 2.7 billion in consumer support goes to consumers who don't need the support. Only a very limited budget of EUR 150 million has been made available to help vulnerable households to insulate their homes. This is not a structural contribution to solving the problem, which may arise even more often during the energy transition.

Energy poverty

Ownership type of households facing energy poverty



Source: Dynamic Credit, TNO

Figure 15: Distribution of house ownership for households facing energy poverty. Source: TNO, Dynamic Credit

Appendix

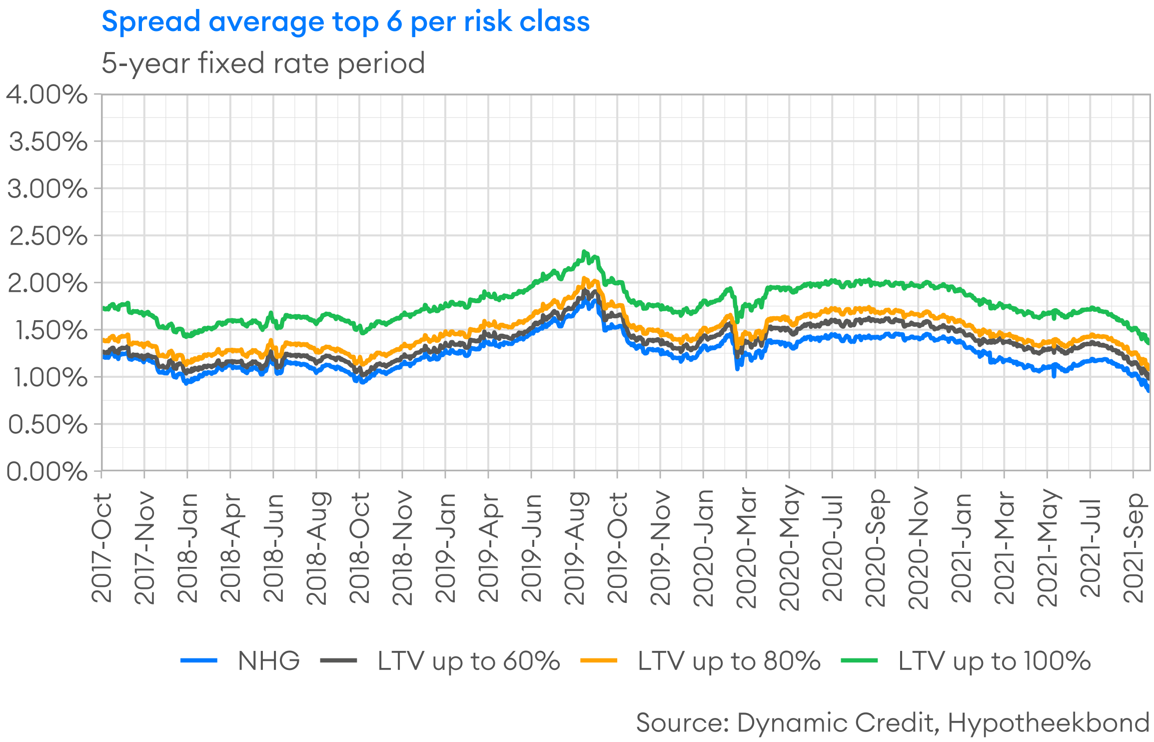


Figure A1: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 5-year fixed rate period for four risk classes. Up to and including 24/10/2021.

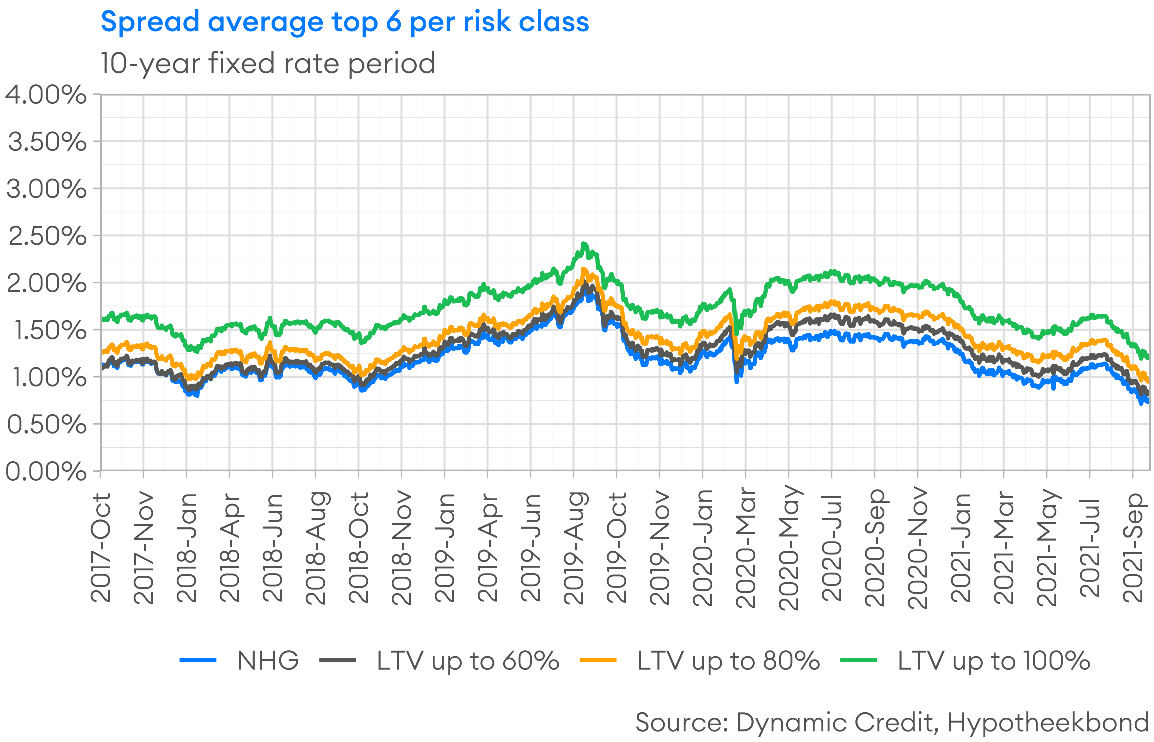


Figure A2: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 10-year fixed rate period for four risk classes. Up to and including 24/10/2021.

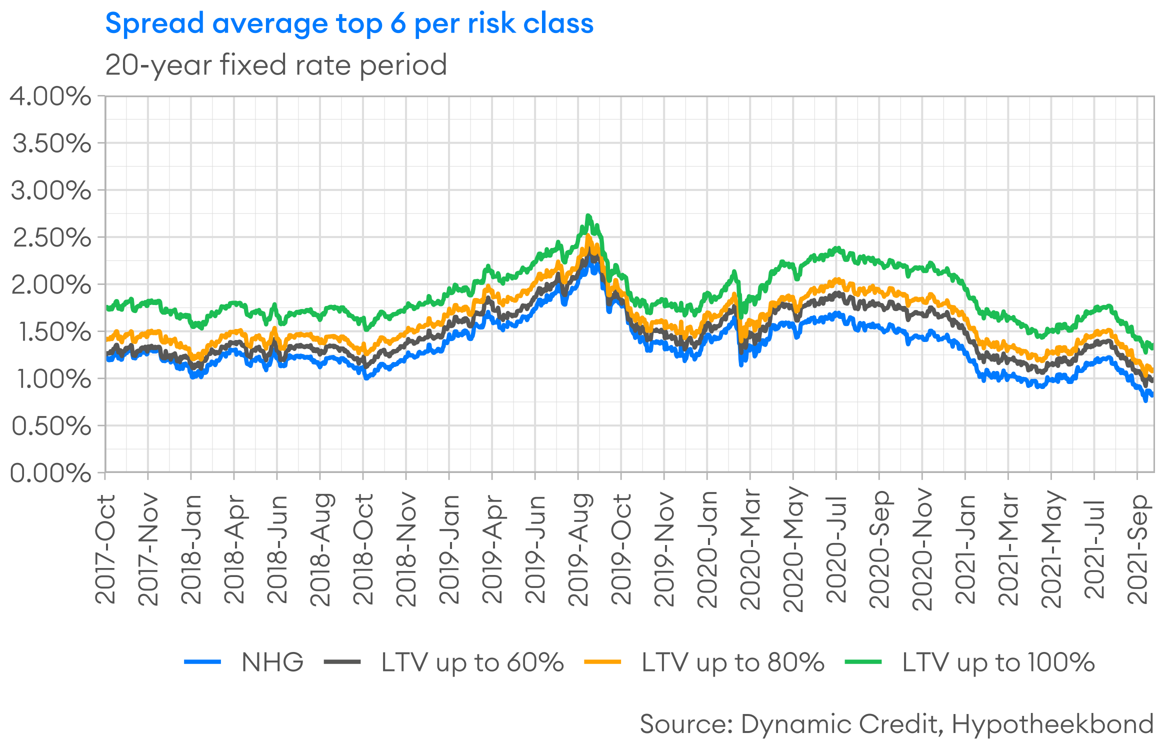


Figure A3: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 20-year fixed rate period for four risk classes. Up to and including 24/10/2021.

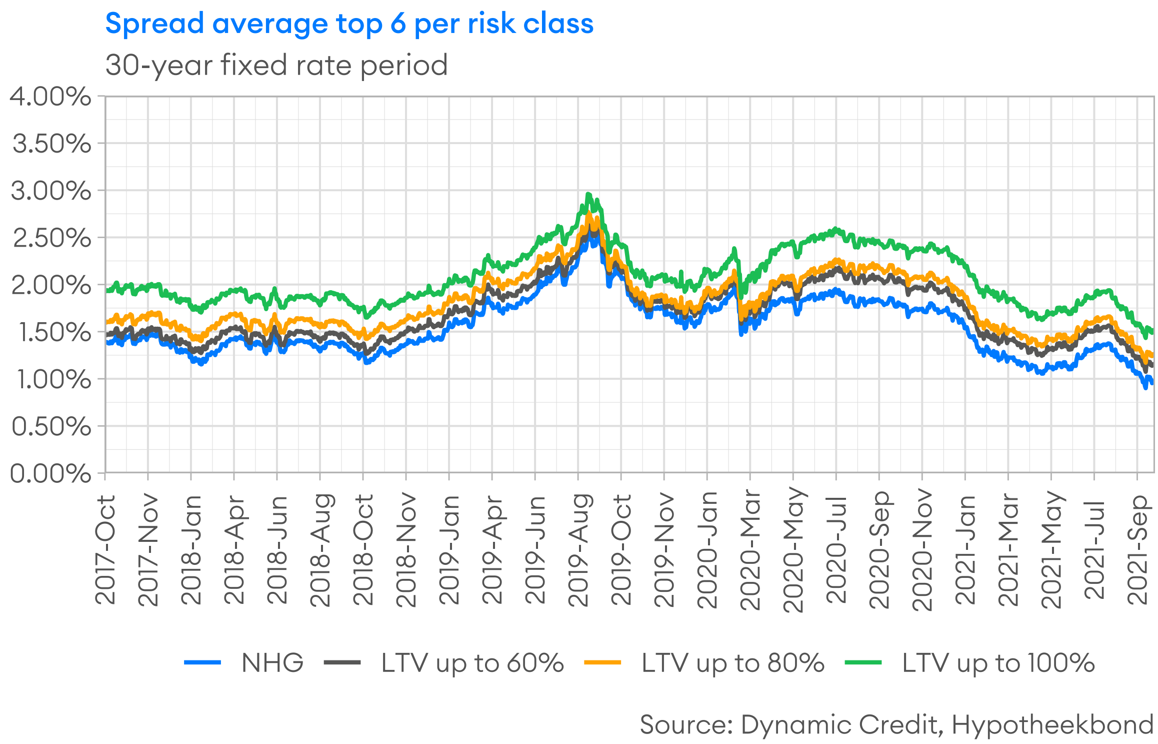


Figure A4: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 30-year fixed rate period for four risk classes. Up to and including 24/10/2021.

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