

## MORTGAGE ACTIVITY OCTOBER 2015 AND 2016 FORECAST

December 2015

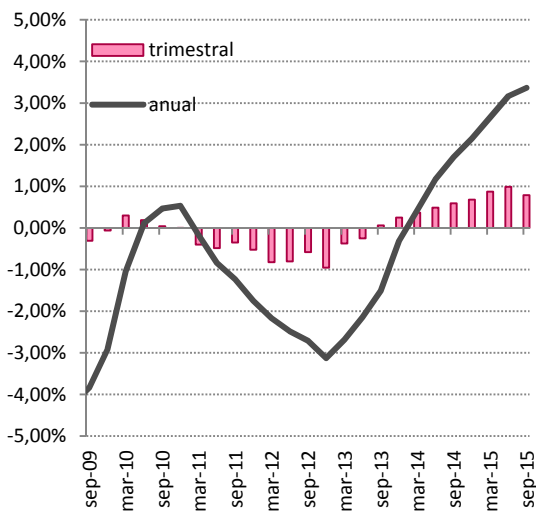
### 1. Economic environment

The economic environment has strengthened during 2015 providing a favourable context for credit and mortgage activity as well as for the housing market.

The Spanish economy registered in the third quarter of 2015 an annual growth of 3.4% and a q-o-q variation of 0.8%. These figures confirm the estimations which suggest that the Spanish economy will grow over 3% in 2015 and approximately 2.8% in 2016.

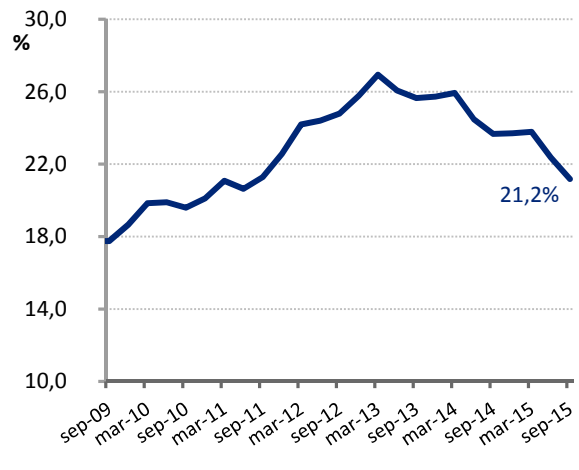
This positive economic development can be attributed to the strengthened domestic demand, enhanced by the improvement of the employment rate as well as the structural reforms fostered on national and European level. Other factors like the ECB's quantitative easing programme and the favourable evolution of commodities' prices have been determinant for the economic recovery.

Chart 1: Evolution of the Spanish GDP



Fuente: INE, AHE

Chart 2: Evolution of the Spanish unemployment rate



Fuente: INE, AHE

## 2. Mortgage market analysis

The negative variation rate of the credit activity has been contained during 2015. Although loans to the resident private sector registered a negative annual variation of 1% in October, this trend suggests that positive variations could be reached in 2016 after at least five years of negative variation in annual terms.

The mortgage market has also progressed positively in relative terms along 2015 showing an improvement in the number of newly established mortgages. According to the Spanish National Statistics Institute (INE), between January and October of 2015 a total of 312,398 mortgage loans were formalised, 17.4% more than the same period of 2014, in the amount of 40.6 billion euro (35.1 billion euro in the same period of the previous year).

The enhancement of the domestic demand is reflected by the 20% increase in the number of residential mortgage loans established as of October 2015 with regard to the same period of 2014.

Chart 3: New mortgage transactions (aggregate as of October)

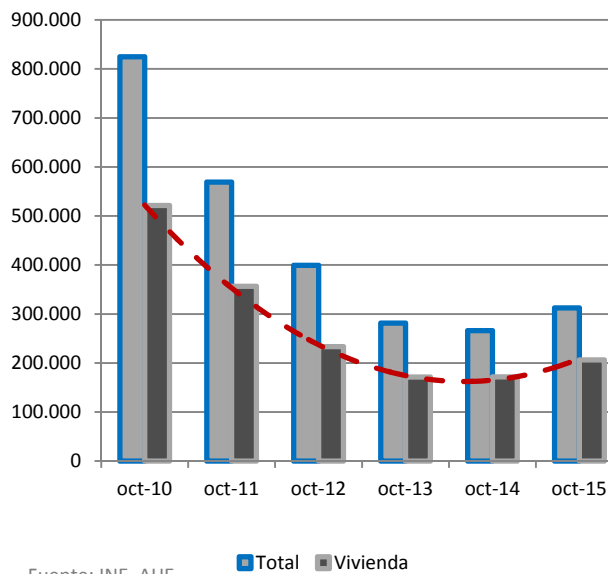
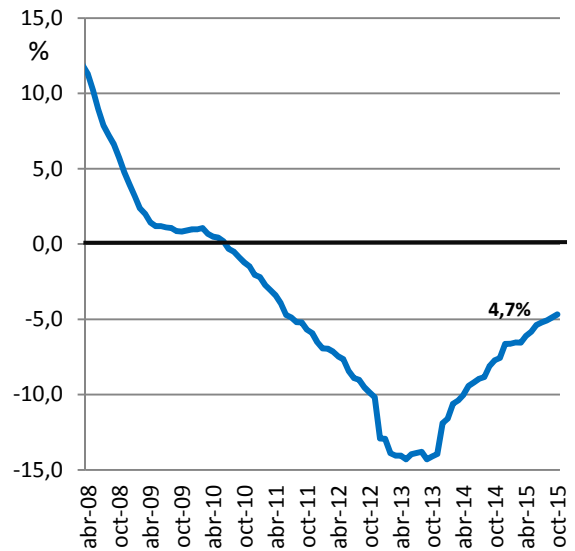


Chart 4: Annual variation of outstanding mortgage loans



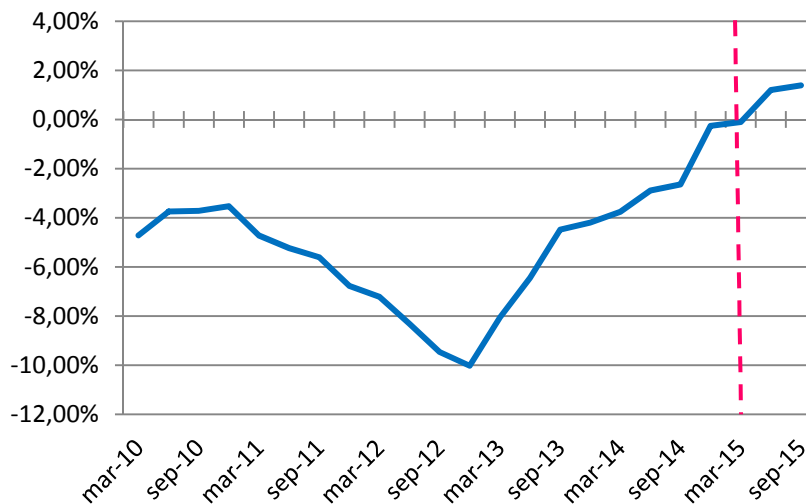
Following the same trend, the total outstanding mortgage lending continues to show the deleveraging of households and companies, although at ever milder rates. Thus, the outstanding mortgage lending reached 695.5 billion euro in October 2015, which represents an annual descent of -4.7% (-7.7% in October of 2014). If this trend continues, it is expected that the variation rate of the outstanding mortgage lending will be close to **-4%** at year end.

## 2.1 Housing market

As we expected, the housing market has also shown signs of recovery during 2015. The number of new construction licences as well as real estate transactions have improved considerably compared to previous years.

Housing prices also recovered, having registered positive variations in the second and third quarters of 2015 (1.2% and 1.4% respectively) after more than twenty quarters of downward prices.

Chart 5: Annual variation of housing prices



Fuente: Ministerio de Fomento, AHE

It is likely that the housing market **will progressively recover** its prominent role lost during the economic and financial crisis with a prudential perspective along with sound risk management.

## 2.2 Non-performing loans

The doubtfulness has decreased during 2015 due to the greater paying capacity of Spanish households as a consequence of the improved economic environment as well as management and negotiation efforts undertaken by financial institutions.

The rate of doubtful loans of the resident private sector, which closed 2014 at 12.75%, was 10.7% as of October 2015. The average default rate between January and September 2015 was 11.7% (13.5% in the same period of 2014).

Regarding residential lending, the outstanding amount of doubtful loans decreased 20% in September 2015 compared to the same month of 2014, reaching a total of 27 billion euro, which represents 5% of the total credit (best figure since 2013).

Chart 6: Evolution of the resident private sector default rate

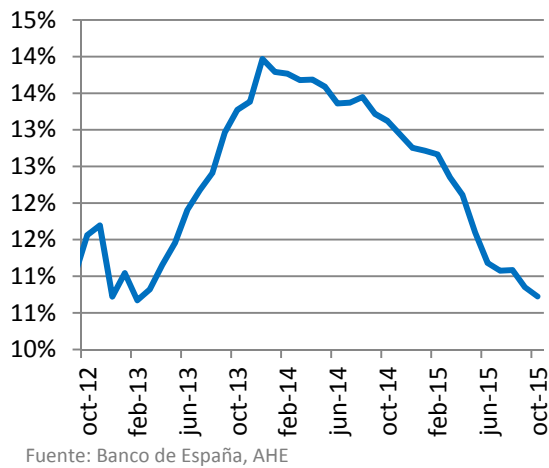
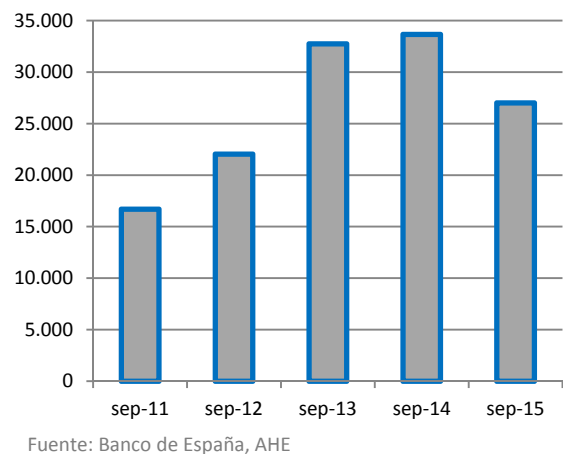


Chart 7: Non-performing loans for residential lending (millions of €)



### 3. 2016 forecast

The economic and financial developments during 2015 have been characterised for positive and favourable behaviours. The GDP and the domestic demand as well as the employment rate and the confidence of households in the financial system have shown signs of clear recovery.

Because of this, it is expected that a **more distinct recovery of the mortgage market** will take place during 2016 as well as a general improvement of the overall credit activity.

On the other hand, the improving employment situation suggests a progressive recovery of households' financial capacity, which not only affects their ability to acquire new loans and handle the ones they already have but also positively affects their solvency and their borrowing capacity in the future.

The banking system also shows positive conditions in terms of liquidity and solvency in a context of historically low interest rates and an inflation which will most likely reach year-end on negative rates.

More so, the adequacy of asset portfolios and the improvement of non-performing loans suggest better conditions for banking activity.

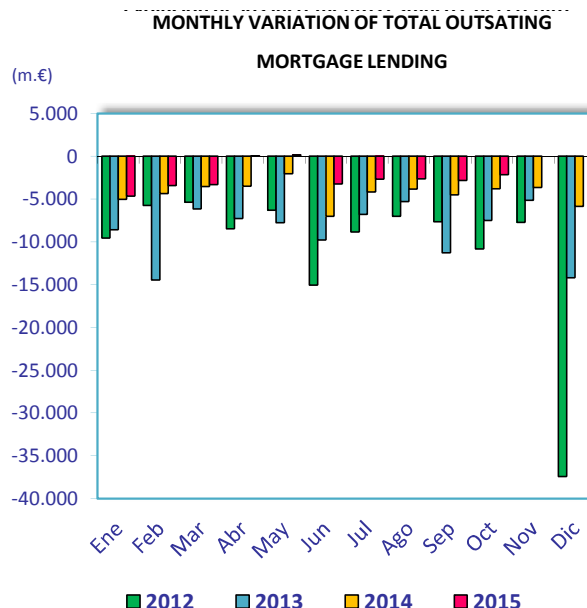
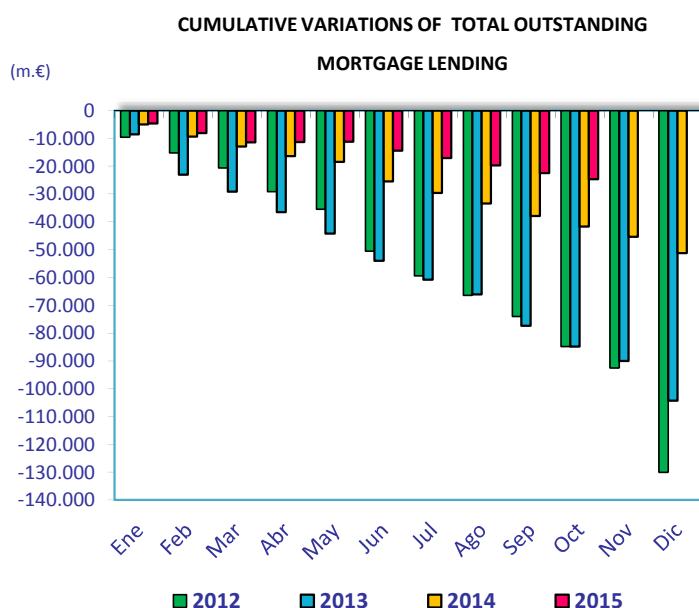
All in all, we expect a [general improvement of the funding demand in all credit segments](#) and that new loans manage to compensate the amortisation of the existing portfolio, thus, [achieving a loss stabilisation in the mortgage portfolio](#).

**MORTGAGE CREDIT ACTIVITY OCTOBER 2015**

	oct-15	oct-14	Percentage variations (%)			Absolute variations (m.€)		
	(m.€)	(m.€)	Yearly	Monthly	Cumulative	Yearly	Monthly	Cumulative
<b>TOTAL OUTSTANDING MORTGAGE LENDING<sup>1</sup></b>	<b>696.505</b>	<b>730.697</b>	<b>-4,68</b>	<b>-0,40</b>	<b>-3,12</b>	<b>-34.192</b>	<b>-2.147</b>	<b>-24.684</b>
Total banks and saving banks	634.088	665.064	-4,66	-0,34	-3,41	-30.976	-2.147	-22.357
Cooperative	53.339	55.414	-3,75	0,00	-2,16	-2.076	0	-1.175
Financial credit institutions	9.079	10.219	-11,16	0	-11	-1.140	0	-1.153
<b>Of which: Inside Balance Sheets</b>	<b>685.237</b>	<b>723.655</b>	<b>-5,31</b>	<b>-0,38</b>	<b>-3,79</b>	<b>-38.418</b>	<b>-2.051</b>	<b>-29.118</b>
Total banks and saving banks	623.973	659.364	-5,37	-0,33	-4,14	-35.391	-2.056	-26.941
Cooperative	52.986	54.968	-3,61	0,01	-2,02	-1.982	4	-1.094
Financial credit institutions	8.278	9.323	-11,21	0	-12	-1.045	0	-1.084
<b>Of which: Outside Balance Sheets (MBS)<sup>2</sup></b>	<b>11.268</b>	<b>7.042</b>	<b>60,01</b>	<b>-1,52</b>	<b>66,29</b>	<b>4.226</b>	<b>-96</b>	<b>4.434</b>
Total banks and saving banks	10.115	5.700	77,47	-0,90	82,89	4.415	-92	4.584
Cooperative	352	446	-21,00	-1,16	-18,73	-94	-4	-81
Financial credit institutions	801	897	-10,68	0	-8	-96	0	-69

1) Total outstanding of mortgage loans in October 2015 includes 117,119 million Euro of MBS (See Circular 4/2004 of Bank of Spain about new rules of accountancy for credit institutions)

2) It refers to MBS outside credit institutions balance sheets.



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	(m.€)	(m.€)	Yearly	Monthly	Cumulative	Yearly	Monthly	Cumulative
<b>TOTAL OUTSTANDING MBS</b>	<b>128.388</b>	<b>127.215</b>	<b>0,92</b>	<b>-1,20</b>	<b>-1,74</b>	<b>1.173</b>	<b>-1.764</b>	<b>-4.069</b>
Total banks and saving banks	112.313	109.544	2,53	-1,47	-2,71316	2.768	-1.676	-3.132
Cooperative	10.388	11.741	-11,52	-0,84	-9,45939	-1.352	-88	-1.085
Financial credit institutions	5.686	5.930	-4,11	0	2,674954	-243	0	148