

SPANISH COVERED BOND & SECURITIZATION STATISTICS

Data provided by AIAF (Rector Society of the Income Market)

February 2020

1. Issuance

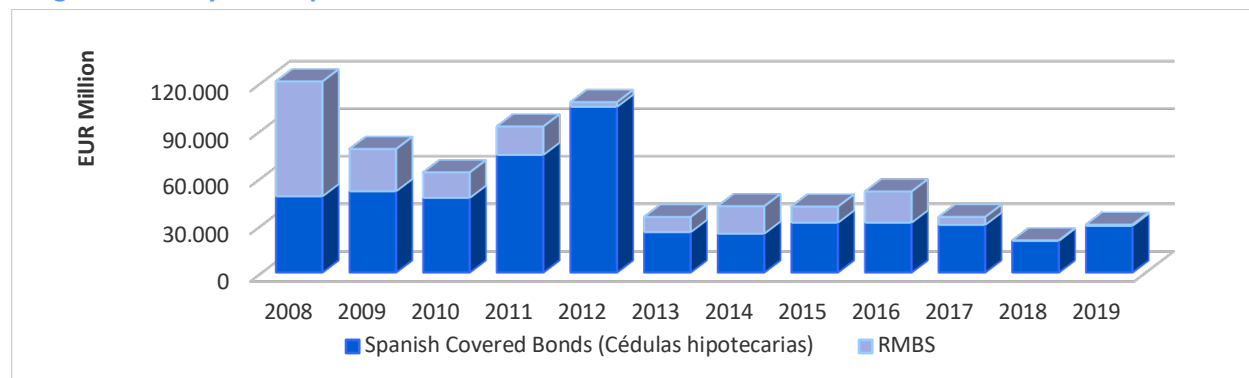
Financial institutions have channelled part of their efforts over 2019 into strengthening their capital base according to the regulatory requirements under the *Basel III* framework. This has been accomplished by the use of different funding instruments, especially those able to be classified as eligible regulatory capital or liabilities with loss-absorbing capacity. In addition to the above, financial institutions have not lost sight of funding instruments with higher guarantees for the investor, such as the Spanish mortgage-backed covered bonds (*cédulas hipotecarias*), placed at very attractive prices for banking institutions in the current context of low interest rates.

Thus, after two years of slowdown, it seems that during 2019 the total volume of issuances backed by the mortgage portfolio (*cédulas hipotecarias*) is back again to the upward path. In absolute terms, the mortgage securities admitted to trading during 2019 amounted to EUR 29.37 bn, compared to EUR 19.93 bn in 2018, which represents an increase over 47%. This volume also accounted for about 70% of the new lending for housing purchase during 2019.

As regards the issuance of **mortgage backed securities (MBSs)**, approximately EUR 725 million were placed in 2019, a significantly smaller amount compared to the total volume of *cédulas hipotecarias* issued. Nonetheless, it recorded 184% upturn against the low issuance volume in 2018.

In aggregate terms, in 2019 the total volume of **mortgage securities admitted to trading** (including *cédulas hipotecarias* and MBSs) amounted to EUR 30.1 bn, which represents an increase of more than 50% compared to 2018.

> Figure 1: Yearly development of issuances



Source: own elaboration based on AIAF data

2. Outstanding Balance

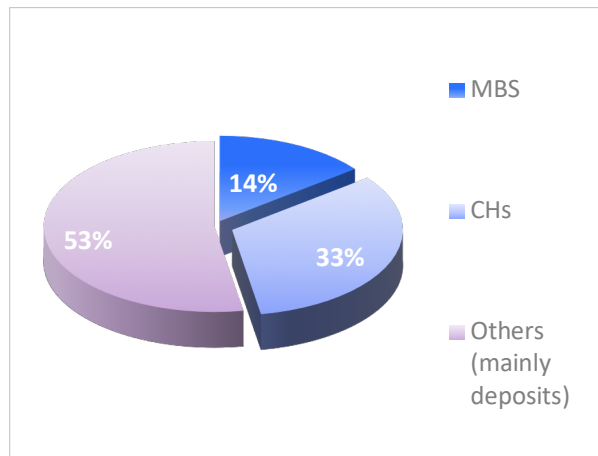
The **total volume of outstanding mortgage securities** at the close of the year stood at EUR 311.37 bn, experiencing a y-o-y decrease of -0.2%.

By type of instrument, outstanding volumes of **Spanish mortgage-backed covered bonds (*cédulas hipotecarias singulares*)** stood at EUR 195.70 bn as of December 2019 (a y-o-y increase of +6,8%), growing for two consecutive years, after more than five years at negative growth rates. For its part, **repackages of Spanish covered bonds (*cédulas hipotecarias multicedentes*)** – with a balance of EUR 24.97 bn at the end of the year – has continued to decrease steadily. This decrease started approximately in 2010 and became even more significant from 2013 onwards, given that no activity has been recorded since then. It is also worth noting another type of figure known as a **public sector debt-backed covered bonds (*cédulas territoriales*)**, similar to *cédulas hipotecarias* in terms of the guarantee, but backed by loans to the public sector. Its outstanding balance-sheet stood at EUR 20.76 bn as of December 2019, with a y-o-y variation of +13.1%.

Furthermore, the outstanding volume of **mortgage securitizations (MBSs)** recorded a drop of -9.3% on a yearly basis, in line with the downward trend followed by this market over the last three years. As of December 2019, its outstanding balance stood at EUR 90.71 bn, around 15% of the total outstanding mortgage lending stock.

> Annex: Additional information

Funding mix



Source: own elaboration from AIAF and Bank of Spain data

Portfolio information (% and Mill. euros) *

	Jun-19
Total outstanding mortgage credit **	654,394
Outstanding residential mortgage loans	489,192
Eligible Pool (% Total Mortgage Pool)	62%
Private Sector NPL	5.4%
Residential mortgage lending NPL	3.8%
Total outstanding covered bonds (<i>cédulas hipotecarias</i>)	214,316
% on mortgage pool	33%
Outstanding mortgage securitisation	95,169
% on mortgage pool	15%

* All values correspond to June 2019 as it is the latest data available for the mortgage credit series

** Not including Mortgage Backed Securities removed from banks' balance sheets

The recent publication of the Covered Bonds legislative package, both the Directive and the Regulation amending the Regulatory Capital Requirements (*CRR*), seeks to harmonise the EU covered bonds frameworks, for further integration of capital markets. To this end, Member States shall adopt and publish, by 8 July 2021, the laws, regulations and administrative provisions necessary to comply with this legislative package.

Although changes in some jurisdictions do not appear to be very substantive, other countries -such as Spain- will have to implement significant legislative developments to adapt to the new regulations.

Among others provisions, the EU Directive requires a mandatory buffer of liquid assets to cover the liquidity outflow of the covered bond programme (over at least 180 days); the extension of the principle of dual recourse also to counterparties of derivative contracts to prevent the contract from being extinguished upon the insolvency of the issuer; or a clearer segregation of the cover pool which could lead to a reduction upon over-collateralization levels (in Spain, currently set at 25% for *cédulas hipotecarias* and 43% for *cédulas territoriales* or *cédulas de internacionalización*).

Other aspects not currently covered in the Spanish legal framework, such as the appointment of the cover pool monitor or the specific insolvency administrator and the application of 'soft bullet' mechanisms when objective events occur, are left to the discretion of national legislators and may have a positive impact on our market.

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ISSUANCE (Euro Million)				
	Spanish Cédulas Hipotecarias (individual)	Multiseller Covered Bonds ¹	Residential Mortgage Backed securitites ²	Total mortgage securities
2013	25.400	0	9.528	34.927
2014	24.438	0	17.310	41.748
2015	31.375	0	10.133	41.508
2016	31.393	0	19.621	51.014
2017	30.000	0	4.968	34.968
2018	19.935	0	255	20.190
2019	29.375	0	725	30.100

OUTSTANDING VOLUME (Euro Million)				
	Spanish Cédulas Hipotecarias (individual)	Multiseller Covered Bonds ¹	Residential Mortgage Backed securitites	Total mortgage securities
2013	246.968	86.970	117.006	450.944
2014	208.314	72.985	119.931	401.231
2015	194.073	58.310	114.992	367.375
2016	186.528	44.980	123.426	354.934
2017	181.328	35.170	112.938	329.436
2018	183.258	28.495	100.238	311.991
2019	195.699	24.970	90.708	311.376

Year on year variation of the outstanding volumes (%)				
	Spanish Cédulas Hipotecarias (individual)	Multiseller Covered Bonds ¹	Residential Mortgage Backed securitites	Total mortgage securities
2013	-15,8%	-19,8%	-5,8%	-14,2%
2014	-15,7%	-16,1%	2,5%	-11,0%
2015	-6,8%	-20,1%	-4,1%	-8,4%
2016	-3,9%	-22,9%	7,3%	-3,4%
2017	-2,8%	-21,8%	-8,5%	-7,2%
2018	1,1%	-19,0%	-11,2%	-5,3%
2019	6,8%	-12,4%	-9,5%	-0,2%

Weight of the Mortgage securities over the outstanding mortgage lending (%) ²			
	Total Spanish Cédulas Hipotecarias (individual and multiseller)	Residential Mortgage Backed securitites	Total mortgage securities
2013	43,2%	15,1%	58,4%
2014	39,0%	16,6%	55,6%
2015	36,4%	16,6%	53,0%
2016	35,1%	18,7%	53,7%
2017	31,7%	16,5%	48,2%
2018	32,1%	15,2%	47,2%
jun.-19	32,8%	14,5%	47,3%

¹ Multiseller covered bonds = Cédulas Hipotecarias in a CDO structure

² As of 2017 the data of outstanding mortgage lending used in the denominator of the ratio is subject to the introduction and adoption of the regulatory changes contained in **Circular 5/2014 of 28 November** on information rules public and reserved financial statements, and models of financial statements. It does not include information neither from Financial Credit Establishments (EFCs) nor of MBS removed from banks' balance sheets.