An Overview of the Spanish Covered Bonds and their Cover Pools

Q2 2025

Preliminary Comments

The information presented in this report has been obtained from data provided by the issuers of covered bonds subscribed the Covered Bond Label program and operate within the national scope. This initiative provides financial institutions with a quality label that guarantees transparency standards in the covered bond market, facilitating decision-making and access to information for investors, regulators, and other market participants.

At the national level, this initiative includes 12 Spanish credit institutions[1] with a very significant share in the mortgage market.

Spanish Covered Bonds (*cédulas hipotecarias*) are a source of funding for financial institutions, offering a double guarantee for investors. This double protection includes a credit claim against the issuer and a preferential claim on the assets that make up the cover pool.

RDL 24/2021 requires identifying and selecting a cover pool dedicated to the issuance of mortgage bonds, prioritizing its credit quality.

The entry into force of **Royal Decree-Law 24/2021** (RDL 24/2021) on July 8, 2022, introduced significant changes to further harmonize the regulation of covered bonds at the national level, improving their quality and strengthening their management and supervision.

Among the most relevant changes, the redefinition of the cover pool used as collateral in the issuance of *cédulas hipotecarias* stands out. Until then, the pool of assets backing the payment obligations included the totality of the issuer's outstanding mortgage loans, except those that were pledged to a securitization issuance. However, since the entry into force of this RDL, the cover pool has been segregated and is now limited to a defined set of assets, which includes primary assets (mortgage loans), substitution assets (with a 10% limit), liquid assets, and derivative instruments.

[1] ABANCA Corporación Bancaria, Banco Sabadell, Banco Santander, Bankinter, BBVA, Caixabank, Caja Rural de Navarra, Eurocaja Rural, Grupo Cooperativo Cajamar, Ibercaja Banco, Kutxabank and Unicaja Banco.

Profile of the Spanish Covered Bonds

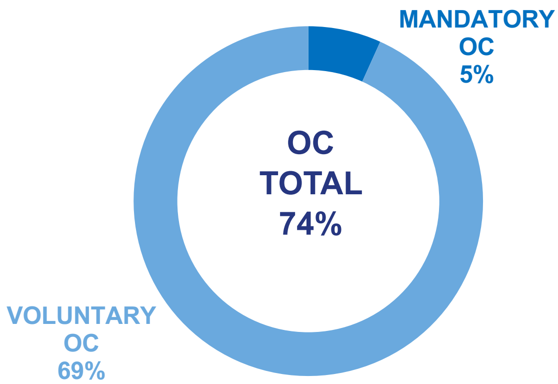
176.2€ billion in bond issuances

European Covered Bond Premium

Overcollateralization (OC) of 74%

4,7 years weighted average life

As of June 2025, the coverage pool for this sample amounted to €306.6 billion, compared to the €176.2 billion issued in mortgage-covered bonds. This implies that the analysed bonds have an **average weighted collateralization of 174%**, ranging from a minimum of 129% observed in one institution to a maximum of 297% in another. In this sense, the regulatory minimum of 105% is comfortably exceeded.



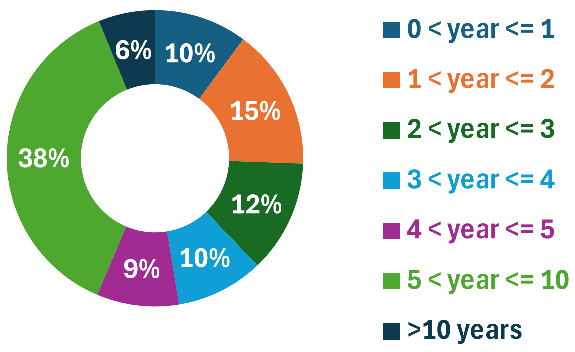
It is worth noting that all Spanish mortgage-covered bonds meet the requirements set out in Article 129 of the **Capital Regulatory Requirements (CRR)** and, therefore, are considered **European Covered Bond Premium**.

Within the assets that make up the coverage pool, **0.6% of the balance**, equivalent to approximately €1.75 billion, is attributed to **liquid assets** such as deposits or assets held with central banks. **The remaining** (approximately €305 billion) consists of primary assets, **which are entirely made up of mortgage loans**.

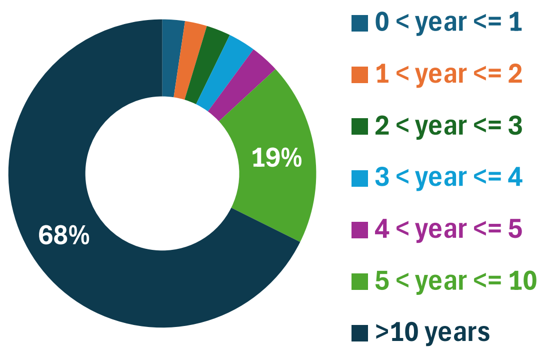
The **Weighted Average Life**[2] **of the Spanish mortgage-covered bonds is 4 years and 7 months**, although 10% of the capital is expected to be amortized over the next 12 months and another 15% within two years. In the cover pool, however, only 5% will be amortized over the next two years, with the bulk of the portfolio concentrated in longer maturities (almost 90% from the fifth year onward). On a weighted basis, **the remaining life of the cover pool is 11 years and 4 months.**

[2] It refers to the weighted average maturity, considering the partial scheduled amortizations.

Amortization profile
Spanish Covered Bonds

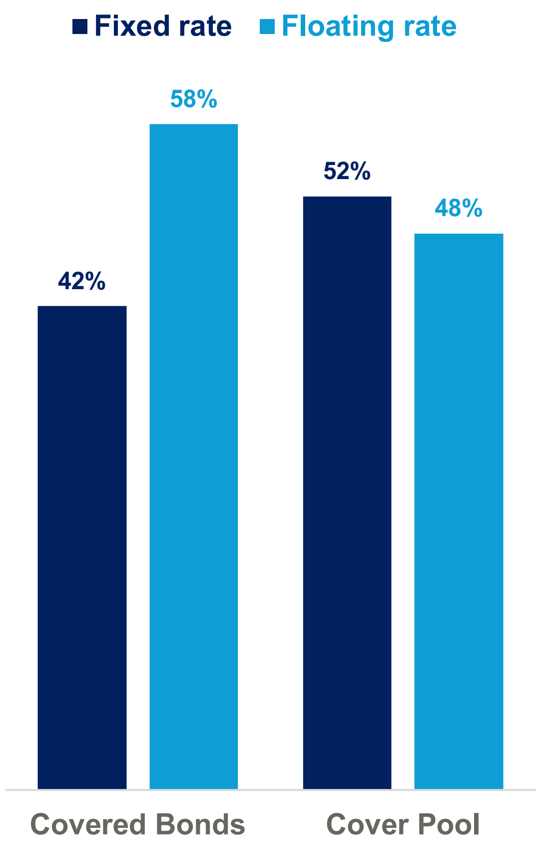


Amortization profile
Cover Pool



Nearly all *cédulas hipotecarias* have been issued in Euros, although a small percentage of 0,5% has been placed in US dollars.

Regarding the type of interest rate, **41% of the outstanding issuances offer a fixed coupon**, while 59% of the remaining balance is subject to a variable interest rate, typically indexed to the 'mid swap' or the 3- or 6-month Euribor, plus a spread. **On the asset side, the fixed-rate[3] component** represents 53%, with the remainder being variable. It's important to note that the fact that 100% of both the issues and the cover pool are not fully tied to variable rates -and thus do not adjust according to the same market conditions- underscores the need for hedging instruments in certain cases. Notably, interest rate swaps or similar tools are commonly used to help entities mitigate risks arising from interest rate volatility. Additionally, the risk is influenced not only by the current interest rate environment compared to the issuance rate but also by the different maturities of the bonds and loans, as well as their respective amortization schedules.



[3] Fixed refers to those with an initial fixed-rate period exceeding one year. This category therefore includes not only fixed-term loans but also mixed-rate loans.

Profile of the Mortgage Assets in the Cover Pool

304.8 billion € outstanding assets

3.7M of mortgage loans

0% NPL

49% LTV

11 years and 4 months of WA life

91% are residential properties

Of the €306.6 billion that make up the cover pool, 99.4% of the assets are primary assets. Only 0.6% of the outstanding balance corresponds to liquid assets, mostly instruments backing issuances with central banks. As for the primary assets, these consist entirely of mortgage loans, notable for their quality and low level of risk. Below are some of their most characteristic features:

Virtually the entire portfolio is performing, **with no material exposure past due by more than 90 days**.

The real estate collateral backing the loans consists of **first-ranking mortgages** over full ownership of the entire property

The weighted average **loan-to-value (LTV)** of the portfolio under analysis is **49%**, with a range between 44% and 61%, with all exposures concentrated below the 80% level. It should be noted that, under the provisions of the Royal Decree-Law (RDL), only mortgage assets with an LTV below 80% in the case of residential loans, or below 60% for commercial loans, may be included in the cover pool. However, if those thresholds are subsequently exceeded, the assets may still serve as collateral, though only up to the respective limits. In **the residential portfolio**, the weighted average LTV stood at **50.4%**, while in the **commercial portfolio** it was **37.9%.**

Residential loans predominate, accounting for 91% of the outstanding balance and 96% of the number of loans. Within this segment, primary residences stand out, representing 88% of the residential balance. Far behind are secondary residences, which account for 9.4% of the balance, and rental properties, with a 1.5% share.

The average seasoning of the mortgage loans is 6 years and 3 months, while the contractual maturity, disregarding scheduled amortizations, is 17 years and 9 months[4]. Overall, **the average original term of the loans stands at 24 years**, below the 30-year limit established by the Royal Decree-Law (RDL).

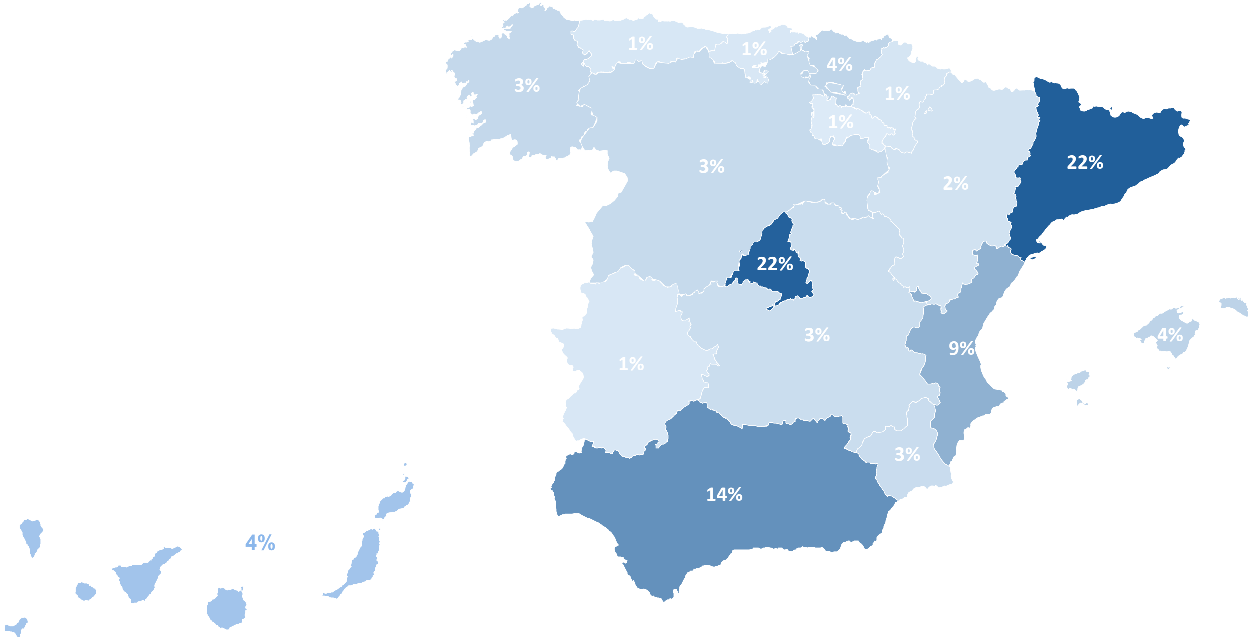
When weighting the outstanding principal of the portfolio loans by the scheduled payment calendar, the Weighted Average Life decreases to 11 years and 4 months. Within the maturity structure of the cover pool assets, only 13% of the outstanding balance is expected to be repaid within the next 5 years, while the majority—specifically 68% of the balance—is scheduled to mature in more than 10 years. The remaining 19% is expected to amortize within 5 to 10 years.

99.3% of the mortgage balance amortizes under a capital repayment system, a threshold exceeded by the residential portfolio (99.7%). In Spain, the most used method is the French amortization method, in which the interest burden decreases over the life of the loan, inversely to the principal amortized.

More than half of the balance (52.6%) corresponds to mortgage loans with an interest rate fixation period longer than one year. In the residential segment, this ratio rises slightly to 54.2%. This figure has been following an upward trend, in line with current market preferences.

Although all loans are originated in Spain, 1.5% of the outstanding balance corresponds to properties located outside the country, specifically in Portugal. **Within Spain**, assets are concentrated in **Catalonia** (22.3%), **Madrid** (21.9%) and **Andalusia** (14.5%), which together account for nearly 60% of the total.

[4] Both figures are drawn from data reported by nine credit institutions, which account for 70% of the outstanding balance.



The vast majority of mortgage loans (99.8%) are denominated in euros, while only 0.2% of the outstanding balance is in foreign currencies, primarily Japanese yen and U.S. dollar.