A report by the Spanish Mortgage Association

OCTOBER 2022

Analysing the Spanish Mortgage Pool

First half of 2022

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Analysing the Spanish Mortgage Pool

1. Preliminary Comments

This report presents a dynamic analysis of the evolution of the mortgage portfolio of mortgage bond issuers subscribed to the ECBC Covered Bond Label[1]. The data are obtained from the information provided and published by the credit institutions on their corporate websites (currently 12 credit institutions[2]) regarding to the mortgage cover pool (covered bonds) through the second half of 2022.

As a member of the ECBC, the Spanish Mortgage Association coordinates part of the publication process of this information as well as the definition of different concepts. Thus, all the variables presented in this analysis are subject to homogeneous definitions.

It should be clarified however that since the ECBC Label is an information platform to which the institutions voluntarily adhere, the treatment and interpretation of all the information presented throughout this publication must be limited to the purpose pursued in the analysis of the same. This is because that, although it provides an overview of the profile and composition of the pool in the Spanish mortgage market, it does not offer information on the total number of institutions operating in the market and it has not been possible to obtain an homogeneous sample of institutions throughout the time interval addressed (as a result of the reorganization of the banking system and of the importance that the ECBC Label is gaining in the international community, with the incorporation of new Spanish entities in recent years). That being said, this report could prove very useful in providing stakeholders with an outlook of the national market, since virtually over all the years under analysis the representativeness of the sample has remained above 80%-90% of the total mortgage volume of the Spanish mortgage system.

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[1] *https://coveredbondlabel.com/*

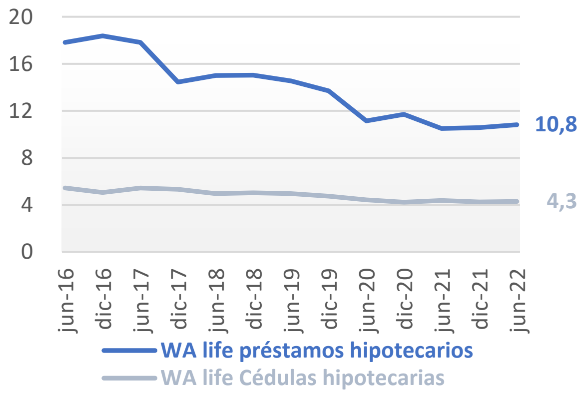
[2] *Banco Sabadell, CaixaBank, Banco Santander, Kutxabank, Unicaja Banco, BBVA, Bankinter, Ibercaja Banco, Eurocaja Rural-Caja Rural Castilla-La Mancha, Caja Rural de Navarra, Abanca and Cajamar.*

2. Fundamental Data of the Covered Pool

In line with the favourable evolution that the real estate activity has maintained, especially since the beginning of 2021, the outstanding volume of the pool under study has increased by 2.6%[3] year-on-year (y-o-y), after registering a balance of 470,642 million euros[4] in the second quarter of 2022. In terms of stock, the pool has been settled with a volume of almost 5.7 million of mortgage loans. This implies an increase in net terms during the last year of 141,000 loans, which in relative terms translates into a 2.5% y-o-y.

As for the average loan amount, this is maintained above 82,700 euros, almost the half of the average principal granted on average for new mortgage loans (156,000 euros in June 2022). The average amount of transactions in **the residential portfolio** is around 73,500 euros, clearly below that of **the commercial portfolio**, around 202,500 euros.

Chart 1: Mortgage pool repayment vs. cédulas (years)



Source: ECBC Label entities and own elaboration

In general, from a global perspective, the average repayment term of the pool[5] has reduced from 15 years recorded in 2018 to almost 11 years currently. For its part, the repayment term of *cédulas hipotecarias*[6] is also shorter but the reduction has been more stable within the time frame, reaching 4 years and 3 months as of June 2022.

While loan repayment periods can extend to 30 years and even more, credit institutions normally rely on a funding mix, partly with long-term issuances (not necessarily with the same terms of the portfolio) and partly with issuances and deposits at a shorter term, something that makes it necessary to protect their cash flows through derivatives in case of market rates above the repayment interests.

3 It should be clarified that it has been included the mortgage balance of an entity that until this year did not belong to this group due to the absorption by another entity.

4 A set of coverage in relation to which the bond holders (cedulistas) have a preferential right in case of bankruptcy of the issuer. Securitised assets that serve as a collateral for other transactions are excluded from this amount.

5 Weighted average life: the weighting of the loan life according to the repayment schedule.

6 Funding tool used by financial entities in the wholesale market.

Table 1: Fundamental Data of the Cover Pool

	SAMPLE MORTGAGE PORTFOLIO (MM €)	Nº LOANS	AVERAGE AMOUNT	AVERAGE TERM (years)	AVERAGE LTV	LOAN SEASONING (years)
dec-17	456.986	5.211.637	91.111 €	14,4	55,5%	8,1
jun-18	477.795	5.538.873	88.335 €	15,0	57,8%	8,0
dec-18	478.946	5.728.991	86.054 €	15,0	57,4%	8,4
jun-19	479.731	5.750.172	85.943 €	14,6	58,3%	8,5
dec-19	466.472	5.645.002	85.322 €	13,7	58,7%	8,6
jun-20	461.603	5.592.297	82.543 €	11,1	58,4%	8,8
dec-20	451.550	5.513.529	81.899 €	11,7	59,2%	8,8
jun-21	458.589	5.549.017	82.643 €	10,5	58,4%	8,6
dec-21	455.472	5.529.502	82.371 €	10,6	58,2%	8,6
jun-22	470.642	5.690.083	82.713 €	10,8	57,2%	8,4

Source: ECBC Label entities and own elaboration
[1] Not including Mortgage-Backed Securities (MBSs)

3. Property Type Information

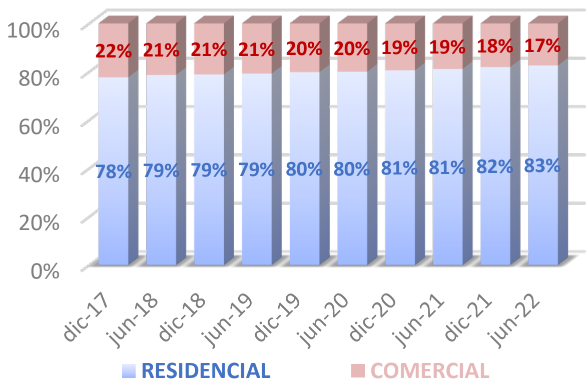
According to the collateral securing the loan, the **residential portfolio**[7] predominates and maintains its leading position in the cover pool. This segment represented 82.6% of the outstanding balance as of June 2022, after adding 1.5 percentage points in the last year. For their part, **loans with a real estate collateral**[8] have fallen to account for the 17.4% of the outstanding balance of the portfolio.

Table 2: Type of collateral (expressed in outstanding balance)

	RESIDENTIAL	COMMERCIAL
Jun-17	76,7%	23,3%
Dec-17	77,7%	22,3%
Jun-18	78,6%	21,4%
Dec-18	78,9%	21,1%
Jun-19	79,2%	20,8%
Dec-19	79,8%	20,2%
Jun-20	80,0%	20,0%
Dec-20	80,6%	19,4%
Jun-21	81,1%	18,9%
Dec-21	81,9%	18,1%
Jun-22	82,6%	17,4%

Source: ECBC Label entities and own elaboration

Chart 2 Type of collateral



[7] Residential loans meet the following criteria: loans with full recourse to the individual taking out the loan; and either (a) loans secured against a residential property in which the borrower resides or b) where the borrower rents out less than four properties.

[8] Commercial loans are loans backed by a mortgage and which have recourse to a borrower, excluding individuals and public-sector entities.

Within the **residential segment**, the homes that constitute the main residence of the loan borrower stood out, accounting for 86.9% of the balance (+0.1 percentage points in annual terms). With a significantly lower share were second homes, whose operations represented 9.6% of the outstanding balance of this portfolio, after scoring 0.8 points more than in the same period of 2021. Likewise, they present a similar share both housing financed for rental purposes such as public protection housing: both with a share of 0.7% and 0.8%, respectively. The remaining 2.1% of the portfolio corresponded to residential loans for purposes different than the above-mentioned or not properly identified.

Table 3: Residential portfolio purpose

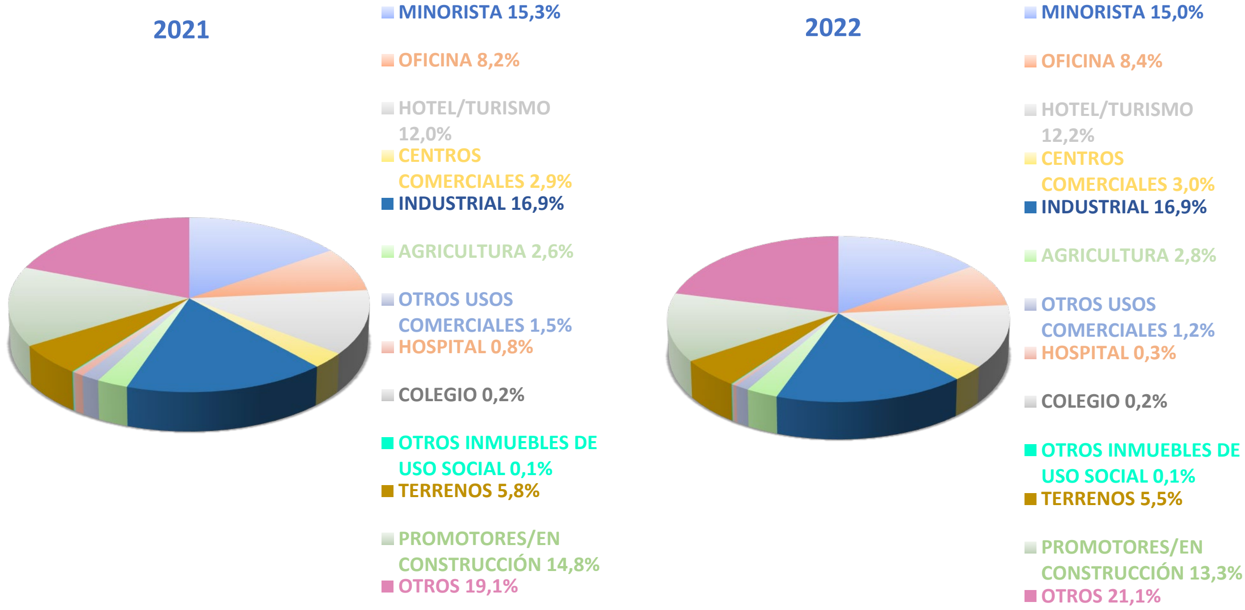
	MAIN RESIDENCE	SECOND HOME	RENTAL HOUSING	SOCIAL HOUSING	HOUSING FOR AGRICULTURE	OTHER
Jun-17	85,7%	9,6%	0,7%	-	-	3,9%
Dec-17	85,2%	10,1%	0,7%	-	-	4,0%
Jun-18	84,3%	9,6%	0,7%	-	-	5,4%
Dec-18	85,6%	9,7%	0,7%	-	-	4,0%
Jun-19	86,3%	9,1%	0,7%	-	-	3,8%
Dec-19	86,7%	9,0%	0,7%	-	-	3,5%
Jun-20	86,6%	9,0%	0,8%	-	-	3,6%
Dec-20	86,6%	9,1%	0,8%	-	-	3,5%
Jun-21	86,8%	8,8%	0,6%	0,9%	0,1%	2,8%
Dec21	86,7%	9,8%	0,6%	0,8%	0,0%	2,1%
Jun-22	86,9%	9,6%	0,7%	0,8%	0,1%	2,0%

Source: ECBC Label entities and own elaboration

Chart 3: Residential property collateral

Regarding to **commercial portfolio,** the breakdown of the different assets remained in line with that of recent years, with slight variations. In this sense, the logistic segment remained in top position by volume, with a share of 16.9% (same as the previous year). The retail sector, which represented 15.0% of this cover portfolio, is the second albeit it has recorded a decrease of 0.3 percentage points in the last year. Real estate activities, with a share of 13.3%, continued reflecting the deleveraging process that resulted from the financial crisis, decreasing by 1.5 points over the last 12 months. For its part, the hotel sector increased its share by 0.2 points compared to mid-2021, recording 12.2%. The remaining sectors stayed under 10% of the commercial balance, except for the classification “others”, which brought together 21.1% of the balance.

Chart 4: Commercial portfolio breakdown (June 2021 vs. June 2022)



Source: ECBC Label entities and own elaboration

4. Loan-to-value Ratio (LTV)

If the sample is analysed according to the average level of financing of the portfolio concerning its appraisal value (Loan-to-Value), the trend showed greater rigor in risk policies as the years progressed, also favoured in part by the expansive real estate cycle of recent years. Thus, in the second quarter of 2022, barely 10% of the balance in the portfolio was made up of operations with an LTV above 80%, almost 2 points less than compared to the same period of 2021 and more than 3 points less than five years ago. In addition, it should be noted that within the volume of loans whose capital exceeds 80% of the value provided as collateral, approximately 33% is located within the limit below 90% LTV.

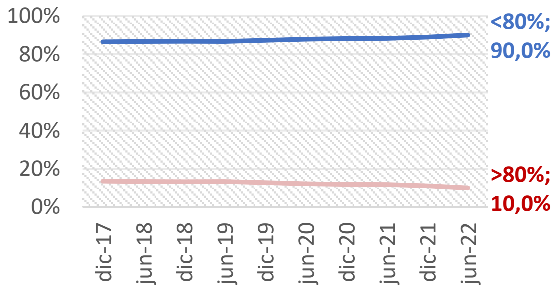
This indicator is a key element both for credit entities as a basis for their risk and provision metrics and the supervisor in the context of its macroprudential policy.

Table 4: LTV distribution of the pool

	<80%	>80%
Jun-17	86,8%	13,2%
Dec-17	86,5%	13,5%
Jun-18	86,7%	13,3%
Dec-18	86,8%	13,2%
Jun-19	86,7%	13,3%
Dec-19	87,3%	12,7%
Jun-20	87,8%	12,2%
Dec-20	88,2%	11,8%
Jun-21	88,3%	11,7%
Dec-21	89,0%	11,0%
Jun-22	90,0%	10,0%

Source: ECBC Label entities and own elaboration

Chart 5: LTV evolution by tranches of the sample



By segments, the **residential portfolio** showed a more positive behaviour since the loans with an LTV >80% represented 9.2%, very similar to the new originations (9.0%), according to the latest available data gathered by the Bank of Spain as of June 2022. The outstanding balance of loans with LTV>80% within **the commercial portfolio** accounted for 13.8%, higher than in the residential portfolio, albeit showing a downward trend.

On average, the weighted LTV of the cover pool is 57.2%, approximately one percentage point less year-on-year. This coefficient stood at 56.1% in the **residential portfolio**, whereas in the **commercial portfolio** it stood at 62.4%.

5. Distribution of Loans by Size

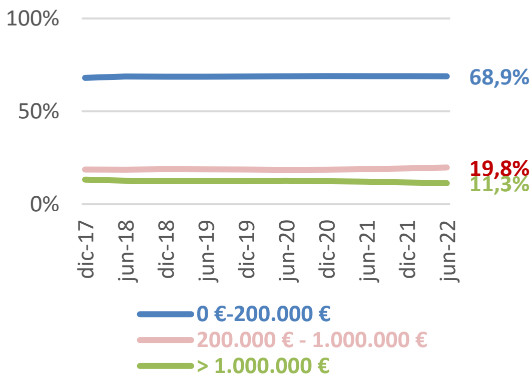
Considering the composition of the pool according to the outstanding capital, it is observed a slight variation year-on-year in the tranches of higher amounts. Thus, in the first tranche -which does not exceed 200,000 euros- the share stood at 68.9% for third half-year in a row. For their part, loans with an outstanding capital between 200,000 and 1 million euros accounted for 18.9% of the balance, almost 1 percentage point more; while transactions with a principal of more than one million euros reduced their share in the same proportion, accounting for 11.3%.

Table 5: Pool breakdown by loan outstanding balance

	0 €-200.000 €	200.000 € - 1.000.000 €	> 1.000.000 €
Jun-17	67.2%	18.9%	14.0%
Dec-17	68.0%	18.7%	13.3%
Jun-18	68.8%	18.6%	12.7%
Dec-18	68.7%	18.8%	12.5%
Jun-19	68.7%	18.8%	12.6%
Dec-19	68.8%	18.7%	12.5%
Jun-20	68.8%	18.5%	12.7%
Dec-20	69.0%	18.6%	12.4%
Jun-21	68.9%	18.9%	12.2%
Dec-21	68.9%	19.3%	11.8%
Jun-22	68.9%	19.8%	11.3%

Source: ECBC Label entities and own elaboration

Chart 6: Pool evolution by principal granted



If the portfolio is broken down according to the nature of the collateral, important differences that have been maintained over the years are observed. In **the residential segment**, 79,2% of the residential balance was located in the lower tranche (<200,000 euros); 19,3% corresponded to the tranche between 200,000 and one million euros; while only the remaining 2.0% of the balance is made up of loans with a principal exceeding one million euros. Virtually these are the same percentages, compared to the situation of the previous year. In **the commercial segment** however, as in previous years, due to the nature of the operations, the bulk of the portfolio corresponded to the tranche that exceeds one million euros, accounting for 55.6 %. The remaining 44.4% is divided in practically equal parts between the tranches than include loans under 200,000 euros (22.4%) and the intermediate tranche that includes loans with an outstanding balance between 200,000 and one million euros (22.0%).

6. Loan Seasoning

According to the behaviour of the pool in terms of loan seasoning, loans with lower seasoning showed an upward trend, precisely at a moment marked by the strong dynamism in the granting of mortgage loans.

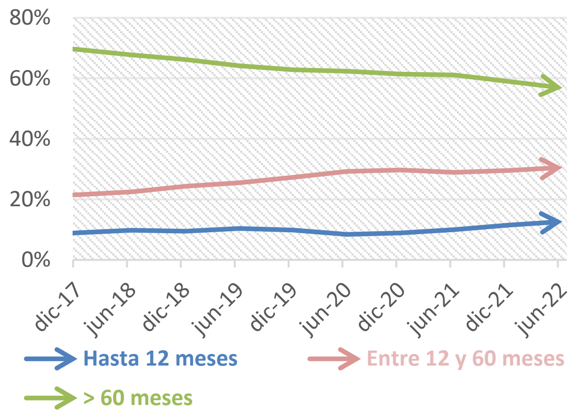
Specifically, loans granted in the last year accounted for 12.7% of the balance, which represented an increase of more than 2.5 percentage points y-o-y and more than 1 percentage point compared to the end of 2021.

Table 6: Loan Seasoning

	Up to 12 months	Between 12 & 60 months	> 60 months
Jun-17	7,8%	21,1%	71,1%
Dec-17	8,9%	21,5%	69,6%
Jun-18	9,8%	22,5%	67,7%
Dec-18	9,5%	24,3%	66,2%
Jun-19	10,3%	25,5%	64,2%
De-19	9,9%	27,3%	62,8%
Jun-20	8,4%	29,2%	62,4%
Dec-20	8,9%	29,7%	61,4%
Jun-21	10,0%	28,9%	61,1%
Dec-21	11,5%	29,5%	59,0%
Jun-22	12,7%	30,5%	56,8%

Source: ECBC Label entities and own elaboration

Chart 7: Pool evolution by loan seasoning



Loans with a seasoning between 12 and 60 months (from 1 to 5 years) have also shown an upward path since over the last year this tranche has gone from accounting for 28.9% to 30.5% of the balance. Loans in the remaining tranche, those granted more than 60 months (5 years) ago, has shown a clear evolution downwards despite being the bulk due to the characteristic long terms of mortgage loans, especially those for home purchase with initial terms of 30 years and even more under certain circumstances. This tranche comprised 56.8% of the balance.

With respect to the average age of the pool, the annual evolution remained reasonably stable. In aggregate, considering 10 of the 12 entities that make up the sample[9], it resulted in a weighted average age of 8 years and 4 months.

7. Amortisation Profile

As for the composition of the mortgage pool according to the outstanding repayment term, two trends are observed. Loans with the longest terms have shown an upward trend, since loans with a repayment period exceeding 10 years accounted for 69.3% of the pool.

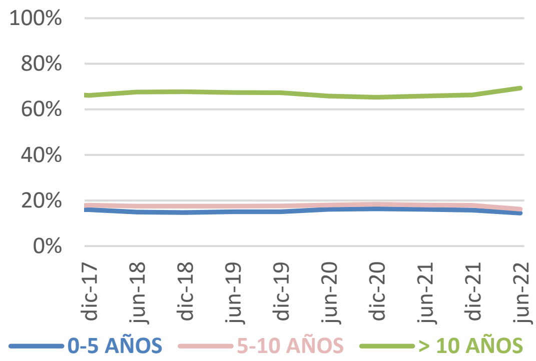
[9] *They represent around 82% of the balance of this pool.*

Table 7: Amortisation profile of the pool

	0-5 YEARS	5-10 YEARS	> 10 YEARS
Jun-17	15,8%	16,4%	67,8%
Dec-17	16,0%	17,9%	66,1%
Jun-18	14,9%	17,5%	67,6%
Dec-18	14,7%	17,5%	67,8%
Jun-19	15,1%	17,5%	67,4%
Dec-19	15,1%	17,6%	67,3%
Jun-20	16,1%	18,0%	65,9%
Dec-20	16,3%	18,4%	65,3%
Jun-21	16,2%	18,0%	65,9%
Dec-21	15,8%	17,9%	66,3%
Jun-22	14,5%	16,2%	69,3%

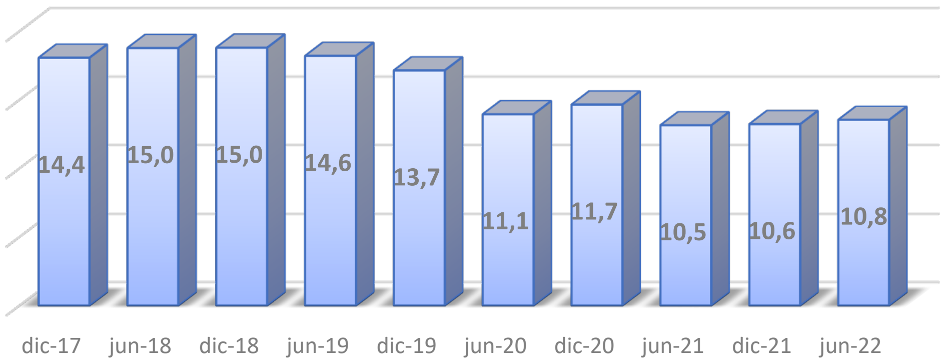
Source: ECBC Label entities and own elaboration

Chart 8: Pool evolution by loan seasoning



As for transactions with a repayment period due over the next 10 years, a downward trend is observed with a 30.7% balance share. Within this classification, 14.5% of the balance corresponded to a repayment period under 5 years, while those with an outstanding life between 5 and 10 years accounted for 16.2%.

Chart 9: Evolution of the Weighted Average Life (Years)



Source: ECBC Label entities and own elaboration

In aggregate, the weighted average life[10] of the pool was 10 years and 8 months as for June 2021. However, the weighted average maturity[11] stood at 18 years and 1 month, slightly above that recorded in June 2021 (17 years and 5 months).

[10] *The weighting of the loan life according to repayment schedule accrued by the loan is considered. This is especially significant for loans under the French repayment system, where the principal is progressively amortised as the instalments are paid. Thus, in the case of a new loan, as the years gradually go by, a higher proportion of the instalment will be devoted to amortise capital.*

[11] *It is exclusively considered the residual term of the loan from the time of reference (the year under analysis) until maturity, without considering the planned repayment schedule. This data has been calculated on 10 of the 12 entities that make up the sample, which account for about 82% of the mortgage portfolio under analysis.*

8. Geographical Distribution of the Pool.

Although the general profile of the pool according to the location of the underlying asset did not show significant variations, Q2 2022 showed some changes[12], but of minor importance since they do not affect the pool's breakdown.

Table 8: Geographical distribution of the mortgage pool assets

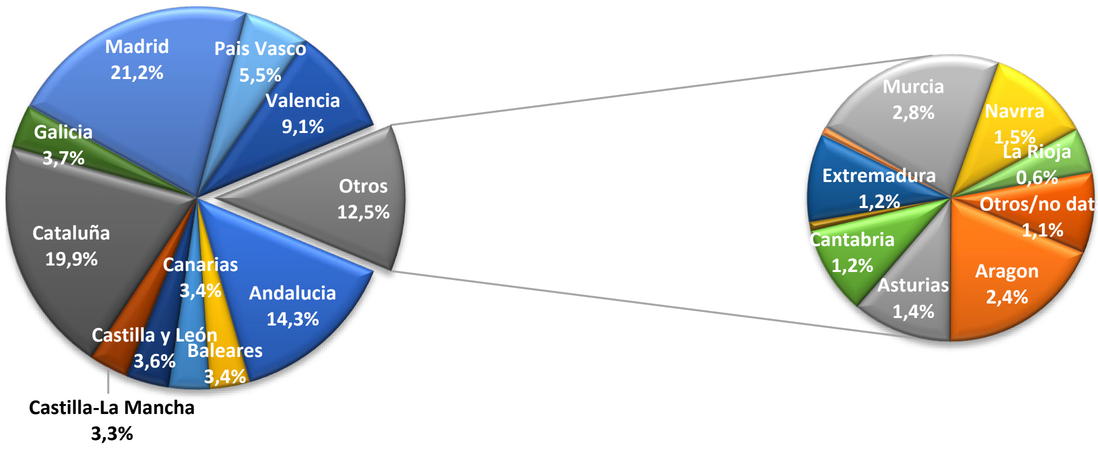
	Andalusia	Catalonia	Madrid	Valencia	Basque Country	Castile And Leon	Galicia	Canary Islands	Balearic Islands	Other
Dec-17	15,9%	21,6%	20,2%	9,8%	5,3%	3,3%	2,0%	4,0%	3,5%	14,3%
Jun-18	15,9%	20,7%	17,7%	10,2%	5,1%	3,3%	3,4%	4,0%	3,5%	16,3%
Dec-18	15,7%	20,5%	19,6%	10,0%	5,1%	4,2%	3,6%	3,8%	3,4%	14,2%
Jun-19	15,4%	20,4%	19,6%	9,9%	5,1%	4,1%	4,0%	3,8%	3,5%	14,2%
Dec-19	15,4%	20,4%	20,1%	9,7%	5,2%	4,1%	3,9%	3,7%	3,5%	14,0%
Jun-20	15,3%	20,4%	20,5%	9,6%	5,3%	4,0%	3,9%	3,7%	3,5%	13,8%
Dec-20	15,3%	20,6%	20,3%	9,6%	5,4%	4,0%	3,9%	3,6%	3,5%	13,9%
Jun-21	15,3%	20,4%	20,6%	9,5%	5,4%	3,9%	3,9%	3,7%	3,5%	13,8%
Dec-21	15,1%	20,4%	20,9%	9,5%	5,6%	3,8%	3,8%	3,6%	3,5%	13,6%
Jun-22	14,3%	19,9%	21,2%	9,1%	5,5%	3,6%	3,7%	3,4%	3,4%	15,8%

Source: ECBC Label entities and own elaboration

Once again, Madrid headed the ranking by volume of mortgage balance, after increasing its share to 21.2%. It was followed by Catalonia which, after losing 0.5 percentage points in annual terms, closed the second quarter with a rate of 19.9%. Also, with a double-digit market share was Andalusia, which represented 14.3% of the balance (around one point less compared to June 2021). To a lesser extent, although still representative, was the Valencian Community, whose mortgage balance represented 9.1% of the sample. Basque Country (5.5%), Galicia (3.7%), Castilla y León (3.6%) and the Canary Islands (3.4%) and the Balearic Islands (3.4%) made up 19.7 % of the portfolio, slightly reducing its weight compared to previous years. The rest of the portfolio was distributed unevenly among the rest of the communities, with Castilla-La Mancha standing out for volume (3.3%) and Murcia (2.8%).

[12] *This change comes from the merge of two entities, one of them not included in the pool under study until then.*

Chart 10: Geographical distribuition of the mortgage pool asssets (Jun.22)



Source: Own elaboration from ECBC Label data

By type of collateral, the structural scheme barely changes compared to the aggregate pool, with Madrid, Catalonia, Andalusia and Valencia again, in that order, being the four communities that concentrated the largest volume of assets. In both the **residential** and **commercial portfolios**, these four communities represented around two-thirds of the mortgage balance.

As in previous years under study, 99.9% of the properties included in the mortgage pool were located in the EU, 98.5% of which were located in Spanish territory.

9. Interest Rate

The growing trend that fixed-rate loans[13] have been registering for more than five years is maintained precisely as more recently constituted loans are incorporated into the pool. It must be remembered that, in recent months, fixed-rate loans have come to account for up to 80% of new transactions. However, due to the effect of contracts signed during previous years, loans subject to variable interest[14] continued to predominate, representing 70.5% of the pool.

[13] *Loans with an initial rate fixation over 1 year.*

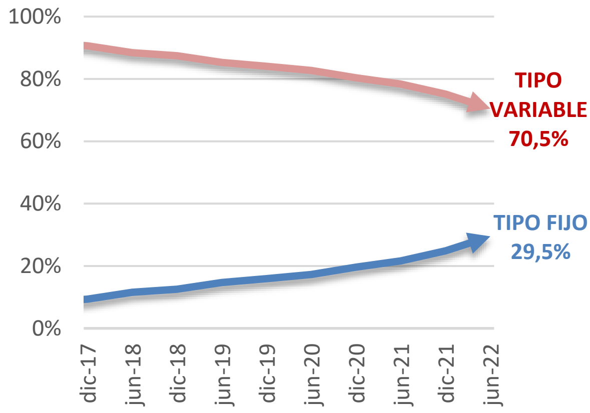
[14] *Loans with an interest rate up to 1 year of initial rate fixation.*

Table 9: Pool breakdown by subscribed interest rate

	FIXED RATE	VARIABLE
Jun-17	8,3%	91,7%
Dec-17	9,4%	90,6%
Jun-18	11,6%	88,4%
Dec-18	12,6%	87,4%
Jun-19	14,7%	85,3%
Dec--19	15,9%	84,1%
Jun-20	17,3%	82,7%
Dec-20	19,6%	80,4%
Jun-21	21,6%	78,4%
Dec-21	24,9%	75,1%
Jun-22	29,5%	70,5%

Source: ECBC Label entities and own elaboration

Chart 11: Pool share by interest rate



Thus, we see that fixed-rate loans have come to stand around 8 points above the proportion they held a year earlier since they accounted for 29.5% of the outstanding balance as of June 2022. This showed prudence and risk aversion on the part of consumers supported by the very favorable financial conditions of recent years. It should be noted that this increase in the share of fixed-rate loans in the pool would not be solely due to new loans, but also to those recently modified through a novation or through a creditor subrogation to convert variable into fixed loans.

The proportions according to the modality of the interest rate remained at reasonably similar levels in both the **residential** and **commercia**l segments. While in the first, the balance of loans with a fixed interest rate represented 29.6%, in the second it stood at 29.1%. In this last financial year, a surprise was observed on the part of the operations with residential collateral, since they have traditionally had a lower proportion of fixed rates compared to the commercial segment.

10. Amortisation System Followed in the Pool

Considering the evolution of the pool according to the amortisation system, it is observed a slight increase in transactions with a French amortisation system (constant instalments) [15]. In this sense, the French amortization system -the most common in our system, accounting for 96.5% of the balance- has

[15] *A system characterised by constant periodic instalments, including principal and interests. Under this formula, in the first years of the loan more interests are paid rather than principal, and as the loan life pass the opposite occurs (as the life of the loan passes, less interest is paid, while more principal is amortised).*

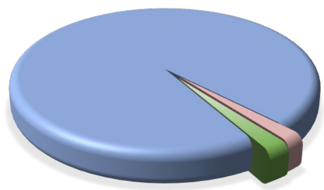
increased its share by 0.8 percentage points. Transactions with a bullet system[16], accounted for 1.7% as of June 2022, after reducing its share by 0.3 percentage points in the last 12 months. The remaining 1.8% corresponded to an amortisation system other than the abovementioned (such as an increasing o decreasing amortization system)

Table 10: Amortisation system detail

	FRENCH	BULLET-INTEREST ONLY	OTHER
Jun-17	-	-	-
Dec-17	96,6%	2,1%	1,3%
Jun-18	96,3%	2,0%	1,8%
Dec-18	96,5%	1,8%	1,7%
Jun-19	96,1%	2,1%	1,9%
Dec-19	95,9%	2,2%	1,9%
Jun-20	95,8%	2,2%	2,0%
Dec-20	95,7%	2,2%	2,1%
Jun-21	95,7%	2,0%	2,2%
Dec-21	95,9%	1,9%	2,2%
jun-22	96,5%	1,7%	1,8%

Source: ECBC Label entities and own elaboration

Chart 12: Pool breakdown by repayment system (Jun.22)



As for the type of collateral, in the **residential portfolio,** virtually all the operations in force followed the French amortisation system, accounting for 99.1% of the outstanding residential balance, while in the **commercial balance** this rate was lower but also relevant, 84.2%.

11. NPLs portfolio

The steady decline of the Non-Performing Loans (NPL) ratio in the pool continued[17], with the exception of the first half of 2020, which in perspective showed a practically anecdotal increase, coinciding precisely with the moment in which the pandemic broke out.

In the last year, doubtful exposures in the pool have gone from representing 3.8% of the balance to 3.1%, the lowest level since this series began in 2017. This positive evolution can also be seen if the

[16] *Method that contemplates a certain grace period, normally referred to principal, while accruing interest according to a repayment schedule. At the end of that period, the entire outstanding principal must be repaid, which will coincide with the initial principal. There is the partial bullet method, in which this modality only applies to part of the loan and the rest follows another amortisation method.*

[17] *Loans with more than 90 days past-due considering the total amount of the loan.*

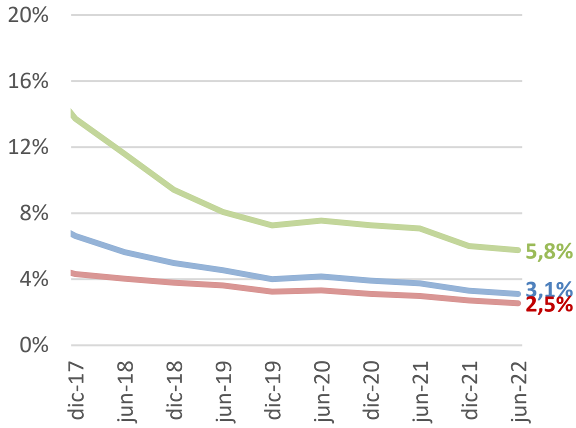
detail of the total loans with some overdue and unpaid instalment (regardless of when it occurred) is incorporated into the analysis since this magnitude showed a decrease of 0.4 percentage points throughout the period of the last year to account for 3.7%18 of the outstanding portfolio.

Table 11: Evolution of Non-Performing Loans (NPL)

	TOTAL	RESIDENTIAL	COMMERCIAL
Jun-17	8,2%	5,1%	17,4%
Dec-17	6,6%	4,3%	13,7%
Jun-18	5,6%	4,0%	11,6%
Dec-18	5,0%	3,8%	9,4%
Jun-19	4,5%	3,6%	8,1%
Dec-19	4,0%	3,2%	7,3%
Jun-20	4,2%	3,3%	7,5%
Dec-20	3,9%	3,1%	7,3%
Jun-21	3,8%	3,0%	7,1%
Dec-21	3,3%	2,7%	6,0%
Jun-22	3,1%	2,5%	5,8%

Source: ECBC Label entities and own elaboration

Chart 13: Evolution of Non-perfoming Loans



The restructuring of the portfolio in overall has been extended both to the portfolio with residential **collateral** and to that of **the commercial segment**. The former presented an NPL rate of 2.5% as of June 2022 after an improvement in year-on-year terms of 0.5 points. It should be noted that this segment started from reasonably low records and in clear contrast with the commercial segment which, although it reduced its doubtful loan ratio by 1.3 points in the last year, continued to be above the residential portfolio with a ratio of 5. 8%.

After having weathered the Covid-19 crisis, partly thanks to the moratoriums and other tax support measures enacted, the balances of the entities are now facing the possible materialisation of some risks arising from the normalisation of the monetary policy derived from the general increase in prices. The interest rate rises will lead to an increase in mortgage instalments that will mainly affect recently granted variable rate loans -whose interest charge is higher due to the calculating method of the French amortisation system, where the outstanding principal on which interest is calculated is gradually reduced-. In fact, while the average indebtedness in a new loan for home purchase purposes is around 145,000 euros, the average loan amount of the analysed residential portfolio is half that. This means

[18] *Data calculated on 10 of the 12 entities that make up the sample, which represented around 82% of the balance.*

that, on average, the upward revision of loan instalments in this portfolio will be less sensitive than for new contracts (although part of these are not affected by fixed rates transactions).