

European loan portfolio sales Market Update – Q3 2023

Corporate Finance – Portfolio Advisory Group (PAG)



European loan portfolio activity and outlook in key markets

Welcome to our Q3 2023 market update

During the first 3 quarters of 2023, the market experienced an overall slowdown in transactions, mainly as a result of a decrease in the number of Italian and Greek securitisations from prior periods.

A number of market factors are hindering transactions in the short term (6-12 months), most notably the higher cost of finance for larger transactions. However, we expect macroeconomic factors to become catalysts for higher activity levels in the medium to longer term. Most notably:

Deterioration in credit quality going into 2024

Despite the significant macroeconomic headwinds, credit quality is holding up remarkably well with Stage 2 and Stage 3 loans being reasonably flat compared to FY22. However, according to the latest surveys from the EBA and Bank of England, lenders expect losses to increase. Our view is that the adverse impact of increased interest rates and higher cost of living has yet to come through in asset quality but is likely to, as we go into 2024.

Uncertainty over real estate prices

Both investors and banks are still uncertain over the impact of higher financing costs on the underlying real estate collateral. This is further exacerbated by the current challenges faced by specific assets classes such as office. For example, PwC has recently estimated that over £65bn will be required to refurbish UK offices to meet energy efficiency standards. We expect financial institutions to actively look at exit options for stranded or underperforming real estate exposures.

EBA estimates that banks will need less Tier 1 capital than originally predicted, putting them at a much stronger position to execute loan portfolio sales to manage their balance sheets

Based on the latest Basel III monitoring exercise, published by the EBA as of 26 September 2023, European banks will need a total of EUR 0.6bn of additional Tier 1 capital at the full implementation date of 2028. This is based on a sample of 157 European banks and is based on data as of December 2022. The current estimate is 50% below the previous estimate and suggests that banks are well capitalised and could have more options in exiting uneconomical positions.

We have a dedicated team of over 80 professionals across Europe who have market leading experience advising on loan portfolio transactions and advising financial institutions on balance sheet optimization solutions for the last 15 years.

For further details please get in touch.

European banks' assets stage bucketing

We are continuing to track the evolution and composition of Stage 2 and Stage 3 assets in European and UK banks.

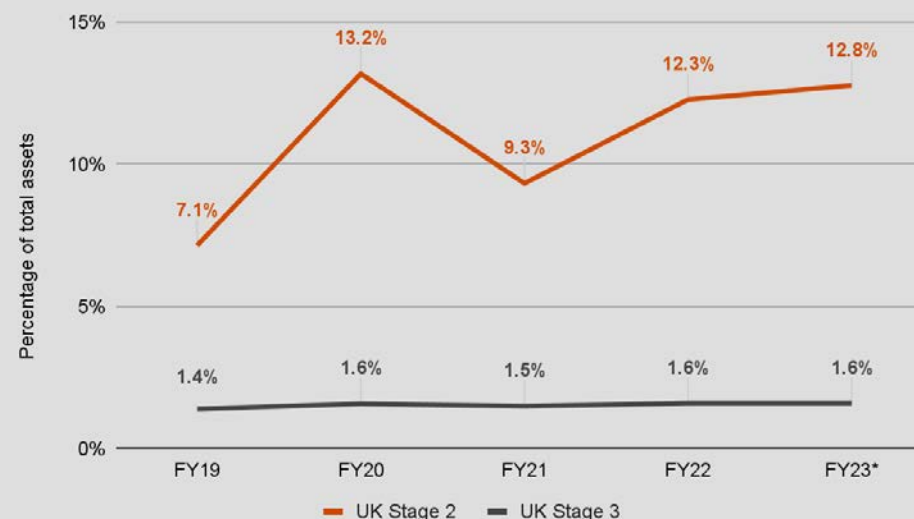
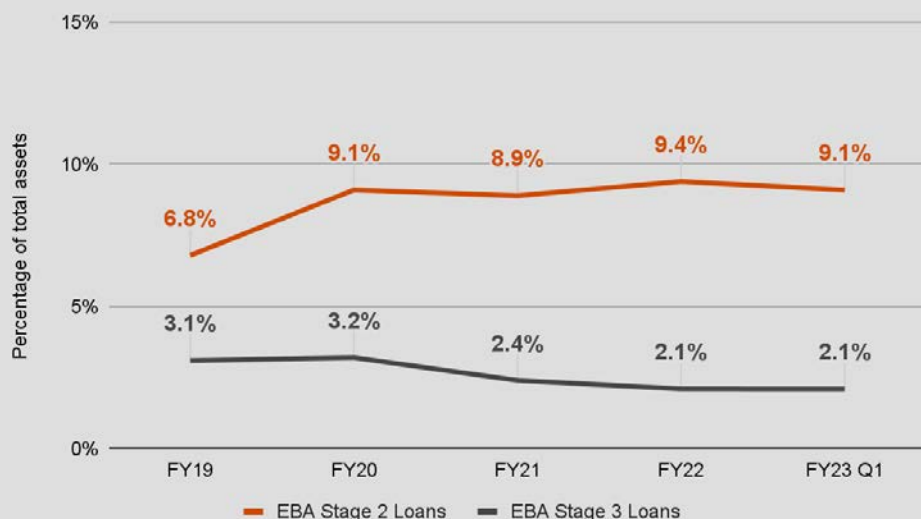
Whilst the latest available data does not show a marked increase in Stage 2 and Stage 3 loans, Stage 2 has increased by more than €700bn and €170bn in Europe and UK respectively since 2019.

This has not yet translated into an increase in the stock of Stage 3 loans.

However, in the current macro climate we predict a greater flow of Stage 2 into Stage 3, which is likely to increase loan sale activity from 2024 onwards.

EBA banks					
EUR bn	FY19	FY20	FY21	FY22	FY23 Q1
EBA Stage 1 Loans	15,177	15,938	17,021	17,554	18,073
EBA Stage 2 Loans	1,145	1,654	1,708	1,864	1,852
EBA Stage 3 Loans	522	582	461	417	427
Total	16,844	18,173	19,190	19,835	20,353

UK – sample of largest banks and building societies					
EUR bn	FY19	FY20	FY21	FY22	FY23*
UK Stage 1	2,814	2,533	2,799	2,581	2,620
UK Stage 2	220	392	293	368	391
UK Stage 3	43	47	47	48	49
Total	3,077	2,972	3,139	2,997	3,060



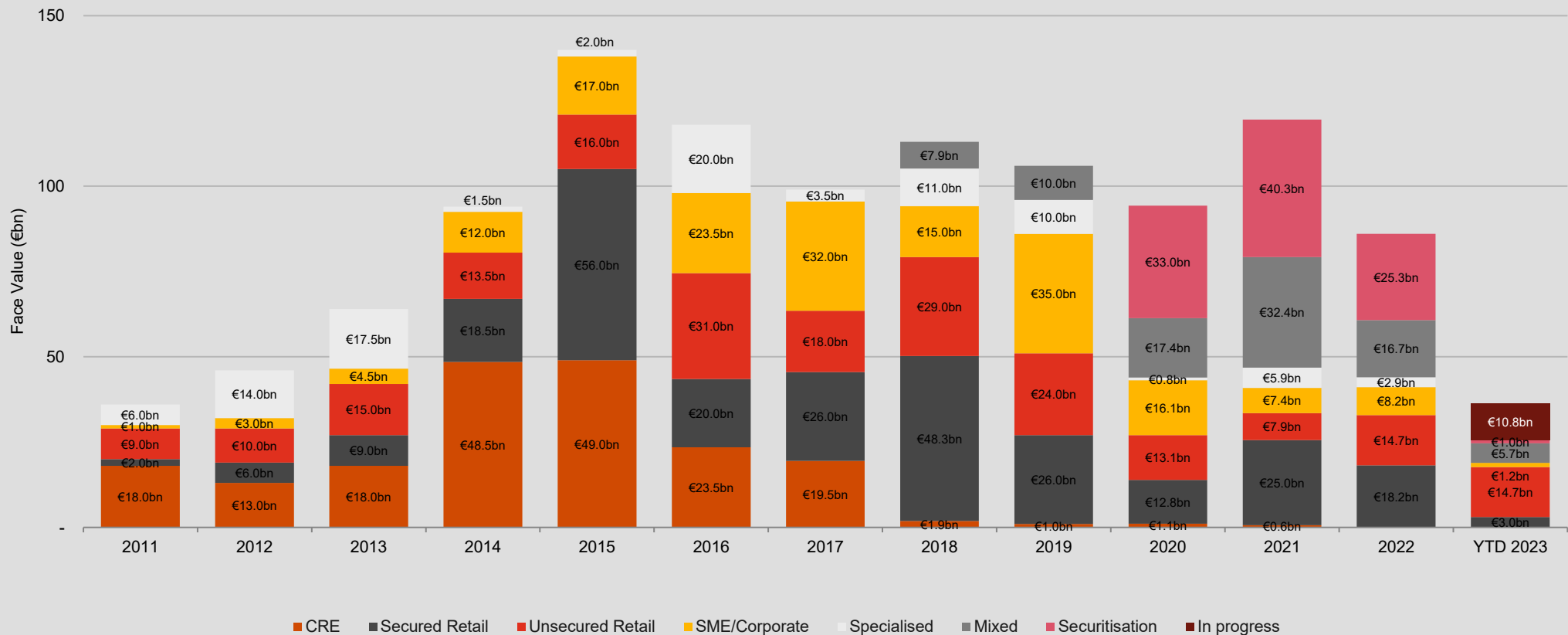
*Datapoints are based on the latest available reporting period but may not align due to different financial year ends and reporting schedules.

Source: EBA, CapitalIQ, Press coverage, PwC analysis and estimates. UK represents total from 10 banks and buildings societies covering the majority of the UK market.

Loan portfolio sales activity and transactions since the GFC

Since 2014, annual European loan portfolio transactions have been close to, or above, €100bn face value. Since H2 2022 a slowdown in European portfolio transactions can be observed as financing costs and spread widening contributed to sellers bringing fewer transactions to market. Our analysis of Stage 2 and Stage 3 loans would suggest growing stock that will fuel higher volumes in future years.

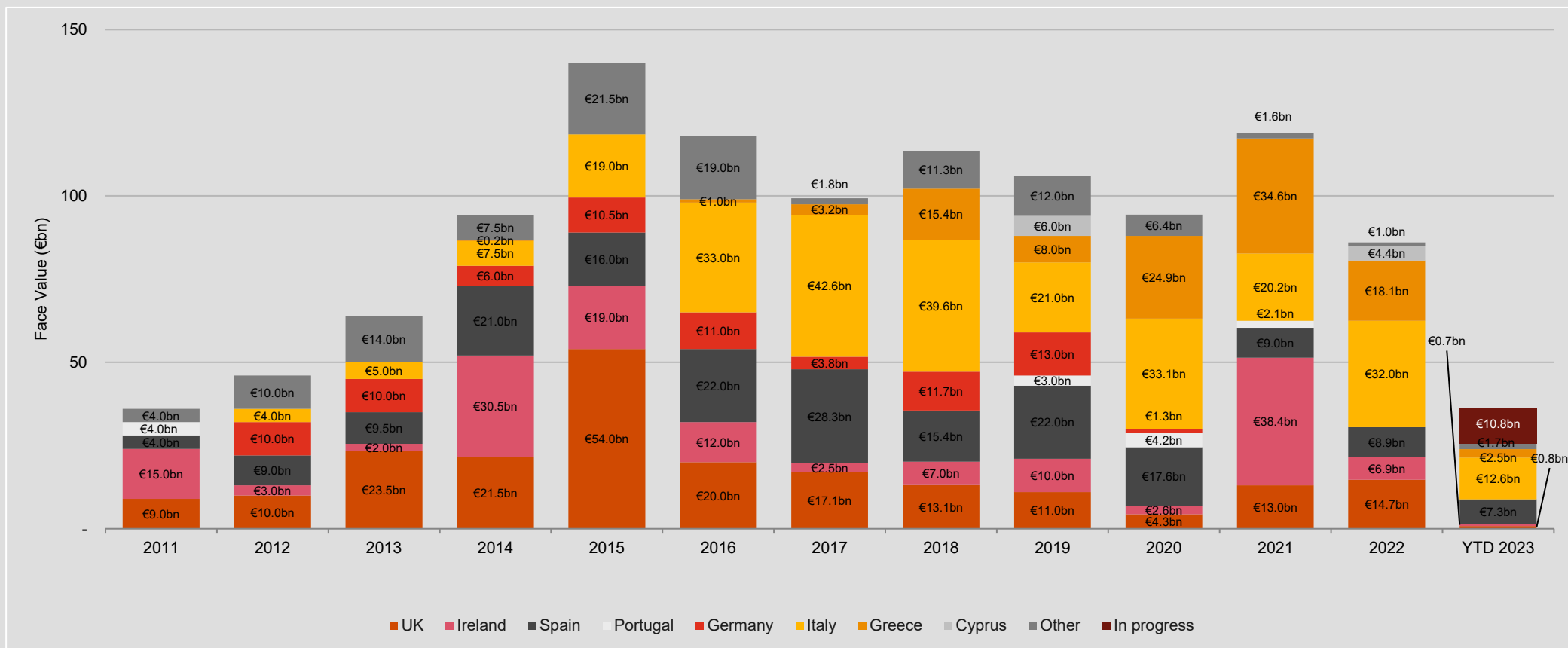
Value of transactions by underlying asset class



Please refer to note on page 7 regarding basis of preparation

Loan portfolio sales activity and transactions since the GFC

Value of transactions by country



Please refer to note on page 7 regarding basis of preparation

Contacts – Portfolio Advisory Group

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Please note:

- Please note that the data set out in this document is based on publicly available information concerning portfolio transactions involving the sale of financial institutions' debt, supplemented with information derived from transactions where we have acted as an adviser. This data will therefore not include transactions which have been unannounced;
- Geography of the transactions is based on the location of the head office of the vendor selling the assets;
- 'Specialised' includes certain structured and asset backed products, shipping, infrastructure, energy and aviation; and
- "Securitisation" includes only loans securitised under the GACS (Italy) and HAPS (Greece) securitisation programmes. Data for these has been included for 2020 onwards only. Securitisations include predominantly a mixture of retail secured and unsecured and SME loans and to a lesser extent large corporate exposures. No new funding transactions have been included.

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