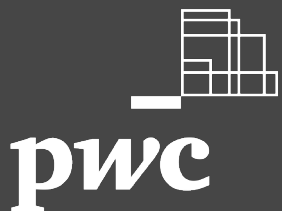


European loan portfolio sales Market Update – Q3 2024

Corporate Finance – Private Credit Solutions



European loan portfolio activity and outlook in key markets

Welcome to our Q3 2024 market update

Despite the challenging marketing conditions, the first 9 months of 2024 proved to be very active with a number of very significant, mostly performing, portfolio transactions taking place; mainly as a direct result of strategic repositioning of the selling banks and secondary transactions. During the same period, our team has succeeded in completing a number of innovative transactions involving both back book loan portfolios as well as structured solutions for funding partnerships between banks, non-banks and investors, underlining the growing focus into Private Credit opportunities. We see the following factors as key deal drivers for the next 6-12 months:

Strong balance sheets

Despite the continuous talk about an expected economic slowdown or forthcoming recession in the European or US economy, credit quality continued to hold up well with Stage 2 and Stage 3 loans being relatively flat compared to FY23. However, whilst Stage 2 and 3 loans are reasonably flat, there are some early signs of Stage 2 assets rolling into Stage 3 at a macro level (see next page for more details).

Banks appear more focused on growth and confident about taking strategic deleveraging decisions to recycle capital to other areas.

Pricing bid ask gap narrowing

The recent cut in interest rates has resulted in investors stabilising return requirements and pricing, bringing more liquidity and optimism to sellers that have struggled to hit their target sale price.

Despite the above, investor return requirements remain above the levels observed in the last decade and the expectations are that this will be the new floor for the foreseeable future.

As investor expectations and areas of focus continue to evolve, we believe that it is more critical than ever for sellers to consider different pools of capital and structures in getting deals executed.

Private Credit - structured lending solutions are now a major area of focus for banks and non-bank lenders

The increased capital requirements that will result from Basel 3.1 in addition to the significant competition from the direct private lenders, are driving major lenders to seek partnerships with large international investors.

This allows them to minimise the adverse capital charges, take on larger exposures, increase fee income while at the same maintaining the overall client relationship.

We have recently advised a major UK bank in their partnership with a large international investor and we are working on a number of similar opportunities.

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

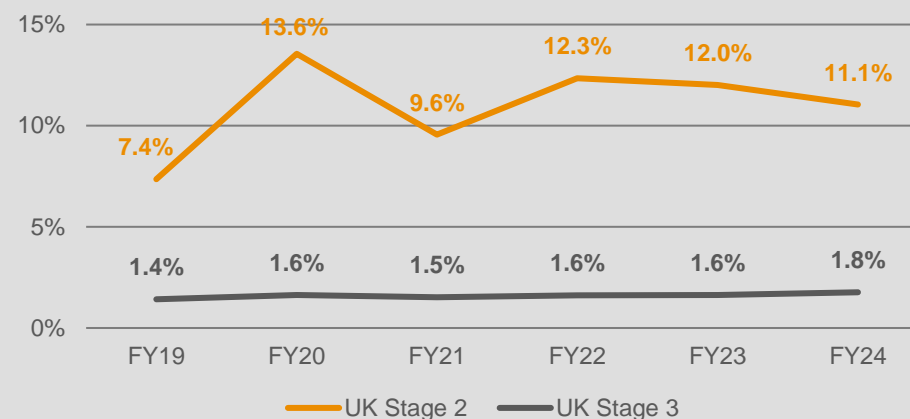
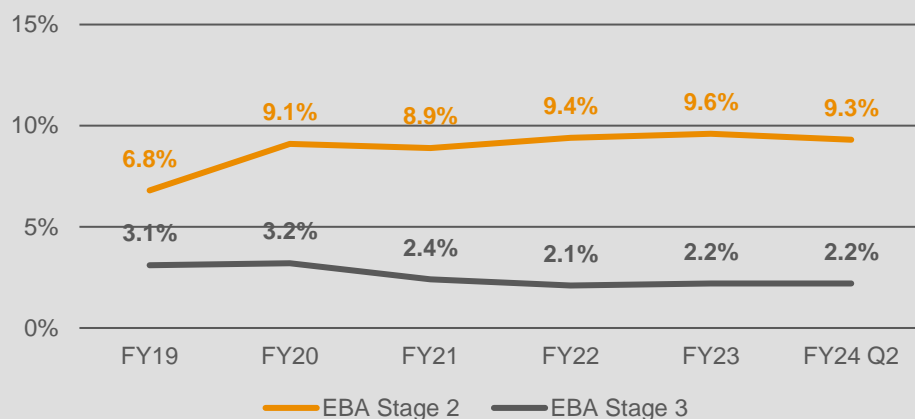
We are continuing to track the evolution and composition of Stage 2 and Stage 3 assets in European and UK banks.

The latest available data shows that Stage 2 and Stage 3 loans have not moved materially since FY23 and they appear to have stabilised around €2.2 trn for Stage 2 and €0.5trn for Stage 3 loans for the UK and rest of Europe. In addition, we are observing a marginal increase in the value of Stage 3 loans, compared to FY23.

Given the significant macroeconomic uncertainties that appear to persist, we will continue to monitor that €2.7trn group of “at risk loans” (Stage 2 and Stage 3) closely for any signs of further deterioration.

EBA banks						
EUR bn	FY19	FY20	FY21	FY22	FY23	FY24 Q2*
EBA Stage 1	15,177	15,938	17,021	17,555	17,508	17,731
EBA Stage 2	1,145	1,654	1,708	1,865	1,906	1,863
EBA Stage 3	522	582	461	417	437	441
Total	16,844	18,173	19,190	19,836	19,850	20,035

UK – sample of largest banks and building societies						
EUR bn	FY19	FY20	FY21	FY22	FY23	YTD24*
UK Stage 1	2,735	2,453	2,720	2,534	2,546	2,631
UK Stage 2	221	392	293	364	354	334
UK Stage 3	43	47	47	48	48	53
Total	2,998	2,891	3,060	2,946	2,948	3,018



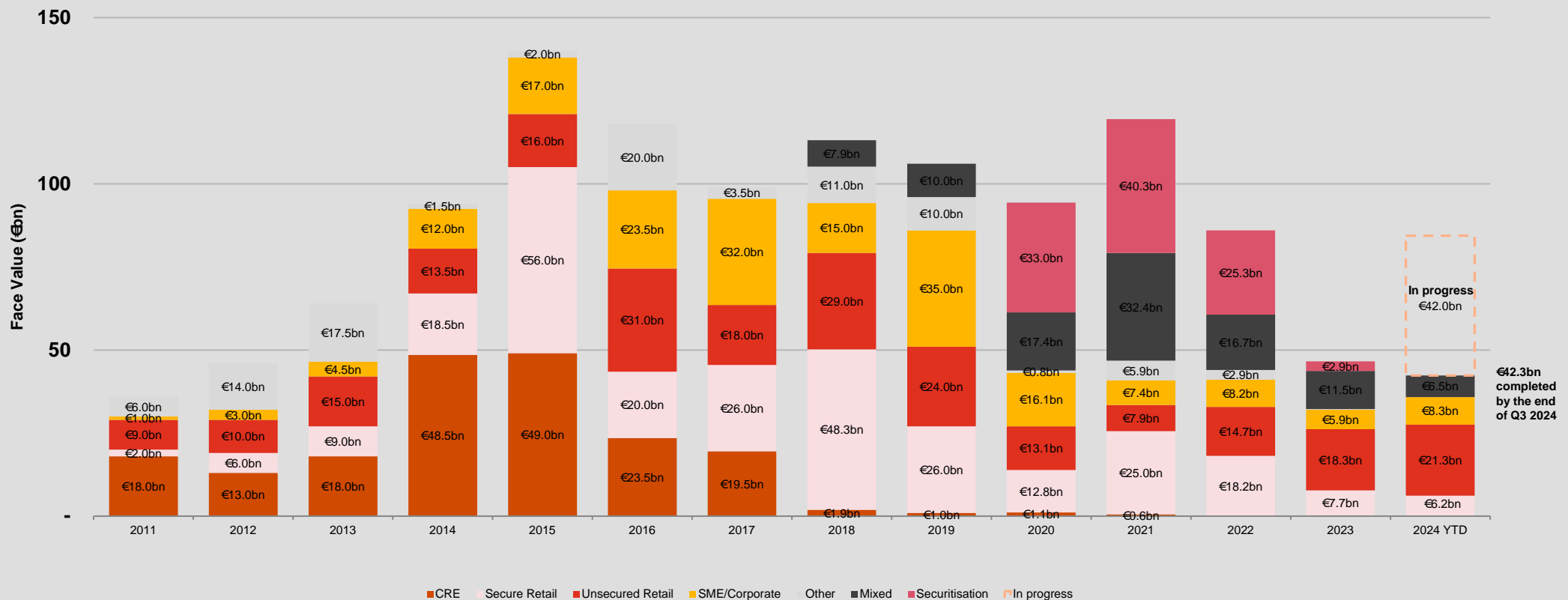
*Datapoints are based on the latest available reporting period but may not align due to different financial year ends and reporting schedules.

Source: EBA, CapitalIQ, Press coverage, PwC analysis and estimates. UK represents total from 10 banks and buildings societies covering a large part 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 in face value. Despite the headwinds experienced in 2023, the market is experiencing increased transaction levels, with transactions expected to surpass the €46bn traded during 2023. This was mainly driven by secondary NPL sales and strategic repositioning of European banks which decided to exit certain markets or sectors.

Value of transactions by underlying asset class

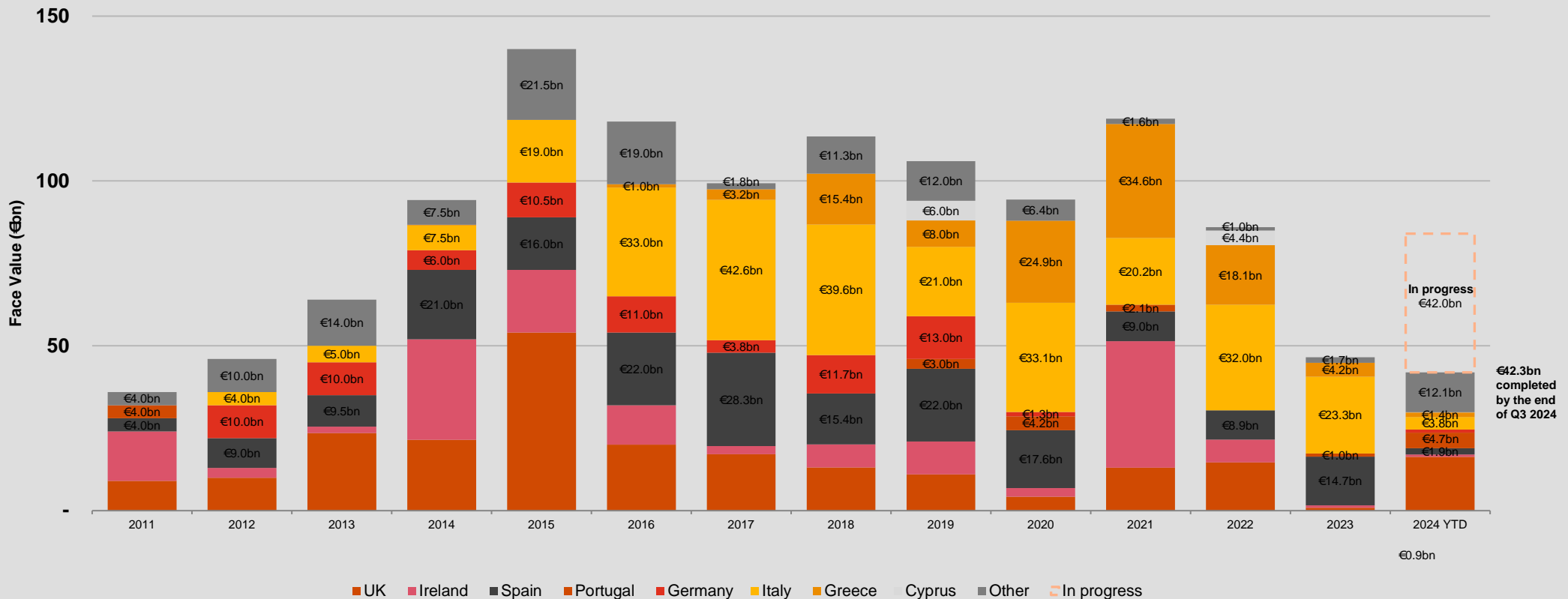


Please refer to note on page 7 regarding basis of preparation

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Value of transactions by country



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Contacts – Private Credit Solutions

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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;
- "Other" 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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