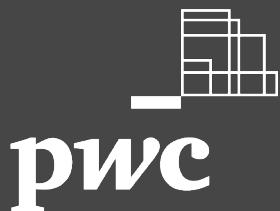


# European loan portfolio sales Market Update – Q4 2023

Corporate Finance – Portfolio Advisory Group (PAG)



# European loan portfolio activity and outlook in key markets

## Welcome to our Q4 2023 market update

Consistent with our analysis first 3 quarters, 2023 proved a very challenging period for loan portfolio sale transactions. Despite the headwinds, our team has managed to complete a number of seminal transactions involving back book loan portfolio transactions as well as structured solutions for new flow lending, underlining an increase of monies into Private Credit opportunities which has continued into 2024. This shows that for sellers and investors that are adjusting to the new investment environment, the key themes are:

### Continued challenges over credit quality

Despite the significant macroeconomic headwinds, credit quality has held up remarkably well with Stage 2 and Stage 3 loans being reasonably flat (or even decreasing) compared to FY22. However, according to the latest data from the EBA, Bank of England and individual banking results, there are now clear signs that arrears are increasing in certain asset classes such as CRE and mortgages, driven by falling valuations.

Our view is that the impact of increased interest rates and higher cost of living will continue to adversely affect credit quality for the whole of 2024, increasing pressure on banks to dispose of underperforming assets.

### Investors are repricing risk across different asset classes and geographies

The uncertain outlook over asset prices, especially commercial real estate, in combination with the view that interest rates may stay higher than expected for longer has resulted in investors repricing risk.

We have seen the increasing pricing gap either delaying or even resulting in deals being aborted.

For transaction success, it is more critical than ever that sellers approach the right investors and allow adequate time for transaction preparation before launch. Additionally having realistic price expectations at the outset is important to reduce execution risk.

### Private Credit - structured lending solutions are now actively being considered by lenders

Lenders are now more actively focused towards the increased capital requirements that will result from Basel 3.1, looking at alternatives that will enable them to continue or increased lending.

We are increasingly advising lenders and investors across Europe on structured credit solutions that allow banks to pass on a portion of the credit risk to a 3<sup>rd</sup> party investor.

This allows them to minimise the adverse capital charges, improve their product offering, increase fee income while at the same maintaining the overall client relationship.

**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.**

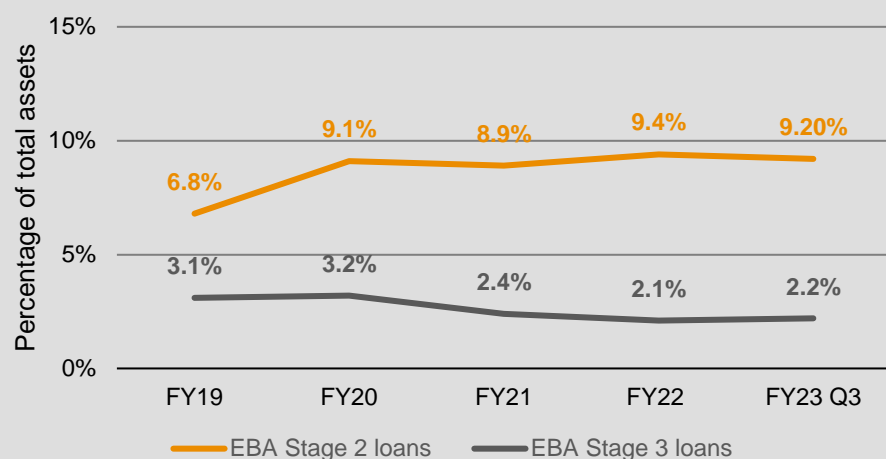
# European banks' assets stage bucketing

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

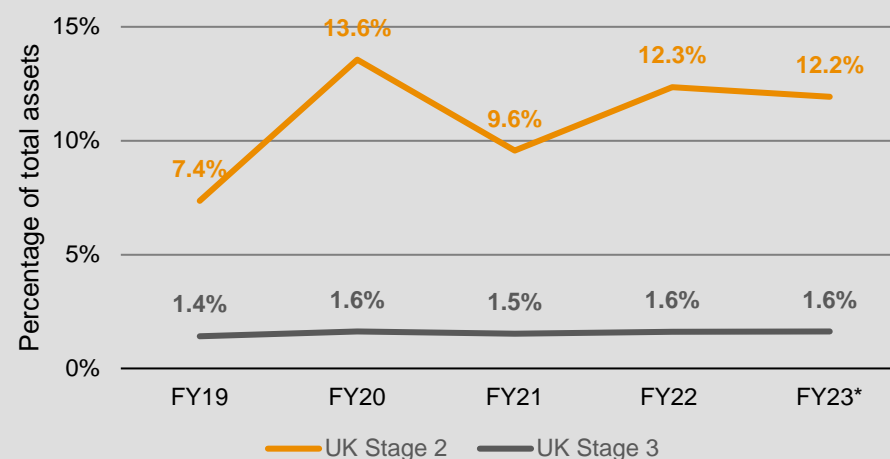
The latest available data shows that Stage 2 and Stage 3 loans have not moved materially since FY22 albeit at the time of writing end of year results will take another quarter to feed through. However, there are some early signs that NPLs in the commercial real estate sector are beginning to increase in a number of countries and are now EUR 54.2bn in the EU/EEA alone.

As the uncertain macro climate continues to persist, we predict a greater flow of loans from Stage 2 into Stage 3. This is likely to increase loan portfolio sale activity from the second half of 2024 onwards, as the current transactions are mostly focused on single names only.

EBA banks					
EUR bn	FY19	FY20	FY21	FY22	FY23 Q3*
EBA Stage 1 Loans	15,177	15,938	17,021	17,555	17,715
EBA Stage 2 Loans	1,145	1,654	1,708	1,865	1,839
EBA Stage 3 Loans	522	582	461	417	440
<b>Total</b>	<b>16,844</b>	<b>18,173</b>	<b>19,190</b>	<b>19,836</b>	<b>19,994</b>



UK – sample of largest banks and building societies					
EUR bn	FY19	FY20	FY21	FY22	FY23*
UK Stage 1	2,735	2,453	2,720	2,534	2,545
UK Stage 2	221	392	293	364	359
UK Stage 3	43	47	47	48	48
<b>Total</b>	<b>2,998</b>	<b>2,891</b>	<b>3,059</b>	<b>2,945</b>	<b>2,952</b>



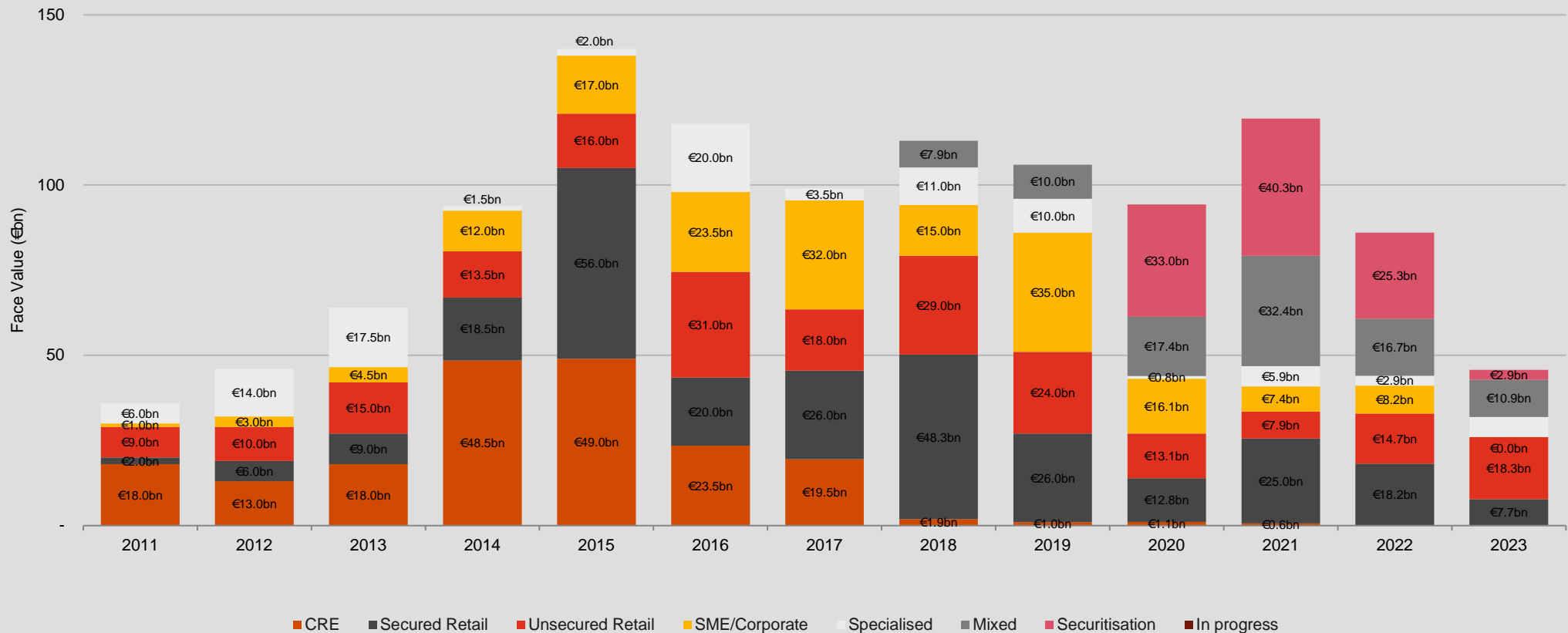
\*Datapoints are based on the latest available reporting period but may not align due to different financial year ends and reporting schedules.

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. The market experienced a slowdown in 2023, as financing costs and spreads widening contributed to sellers bringing fewer transactions to market. Although some of these factors have not gone away, we are seeing an increased level of transactions in Q1 2024.

## Value of transactions by underlying asset class

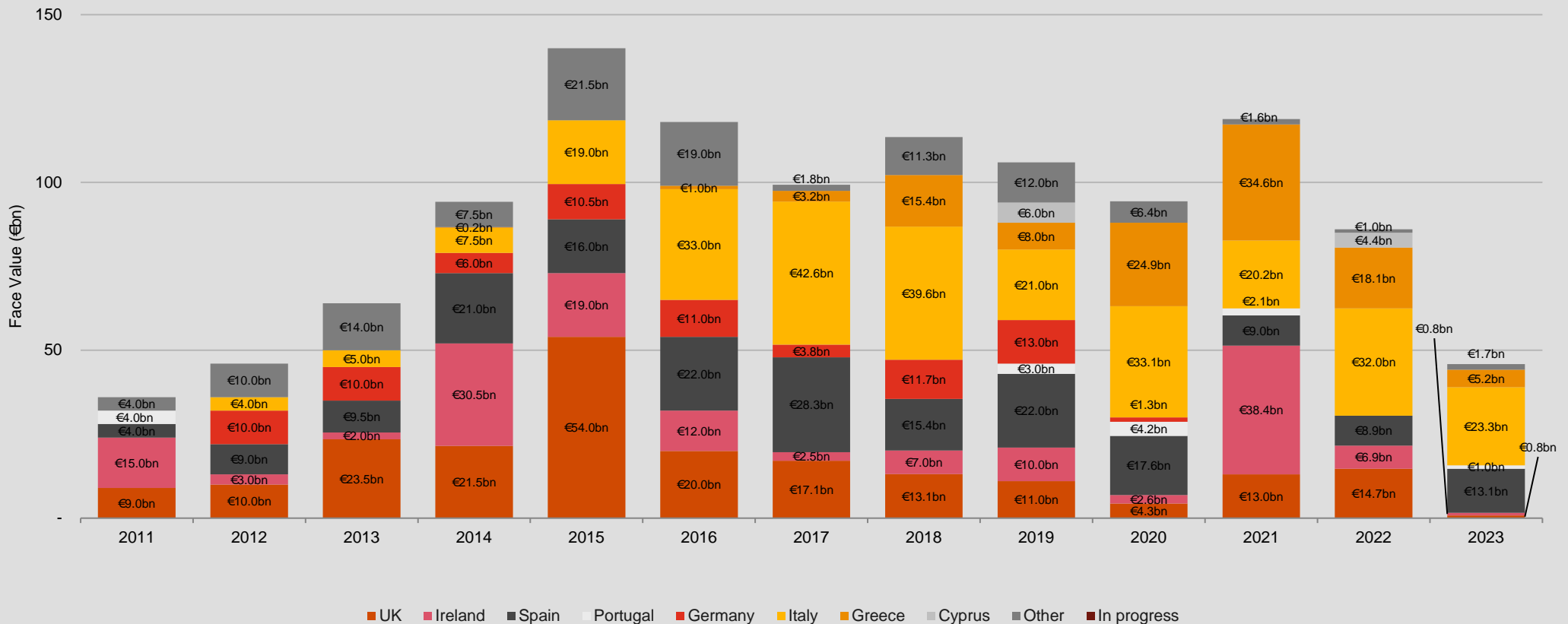


Please refer to note on page 7 regarding basis of preparation

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## Value of transactions by country



Please refer to note on page 7 regarding basis of preparation

# Contacts – Portfolio Advisory Group

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## Authors



### Panos Mizios

Mob: + 44 7739 877229  
panagiotis.mizios@pwc.com



### Chris Bennetts

Mob: + 44 7905 836218  
chris.s.bennetts@pwc.com

### Austria

**Bogdan Popa**  
+43 699 1630 5330  
bogdan.petre.popa@pwc.com

### Cyprus

**Michalis Stephanou**  
+35 722 555 001  
michalis.stephanou@pwc.com

### Christina Telemachou

+35 722 555 444  
christina.telemachou@pwc.com

### CEE

**Petr Smutny**  
+42 025 115 1215  
petr.smutny@pwc.com

### France

**Hervé Demoy**  
+33 156 577 099  
herve.demoy@pwc.com

### Germany

**Christopher Sur**  
+49 699 585 2651  
christopher.sur@pwc.com

### Jörg Jünger

+49 699 585 2707  
joerg.juenger@pwc.com

### Greece

**Thanassis Panopoulos**  
+30 210 687 4628  
thanassis.panopoulos@pwc.com

### Ireland

**David Tynan**  
+353 86 810 6582  
david.tynan@pwc.com

### James McMenamin

++353 85 721 0085  
james.m.mcmenamin@pwc.com

### Italy

**Pierpaolo Masenza**  
+39 065 7025 2483  
pierpaolo.masenza@pwc.com

### Fedele Pascuzzi

+39 028 064 6323  
fedele.pascuzzi@pwc.com

### Gabriele Guggiola

+39 346 507 9317  
pierpaolo.masenza@pwc.com

### The Netherlands

**Jessica Lombardo**  
+31 887 925 060  
jessica.lombardo@pwc.com

### Poland

**Pawel Dzurak**  
+48 227 464 697  
pawel.dzurak@pwc.com

### Portugal

**Antonio Rodrigues**  
+35 121 359 9181  
antonio.rodrigues@pwc.com

### Spain

**Jaime Bergaz**  
+34 915 684 589  
jaime.bergaz@pwc.com

### Pablo Martinez-Pina

+34 915 684 370  
pablo.martinez-pina@pwc.com

### Richard Garey

+34 915 684 156  
richard.garey@pwc.com

### United Kingdom

**Robert Boulding**  
+44 7970 829 669  
robert.boulding@pwc.com

### Chiara Lombardi

+44 7557 050 155  
chiara.p.lombardi@pwc.com

### Panos Mizios

+44 7739 877 229  
panagiotis.mizios@pwc.com

### Simin Varghese

+44 7803 456 036  
simin.z.varghese@pwc.com

### Sajan Shah

+44 7525 281 084  
Sajan.a.shah@pwc.com

### Turkey

**Serkan Tamur**  
+90 212 376 5312  
serkan.tamur@tr.pwc.com

### Asia Pacific

**Michael Fung**  
michael.fung@au.pwc.com

### Masaya Kato

+81 906 512 4999  
masaya.kato@pwc.com

### Latin America

**Daniel Aranha**  
+55 11 94327 2721  
daniel.aranha@pwc.com

### Isabella Juncker

+55 11 94327 1569  
isabella.juncker@pwc.com

### Middle East

**Mo Farzadi**  
+971 56 682 0649  
mo.farzadi@pwc.com

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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