

Insights on NPLs in Europe

A Credit Rating Agency Perspective

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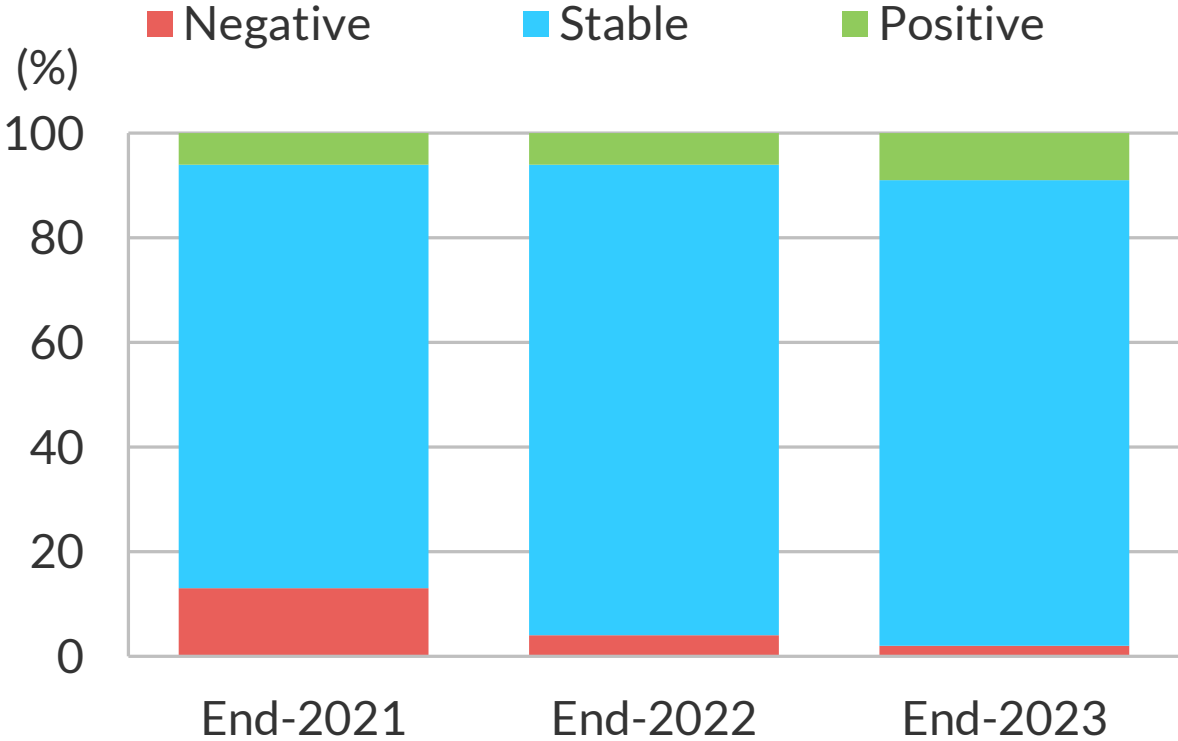
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Head of French, Italian and Portuguese banks

14 February 2024 - Paris

Western European Banks – Rating Outlooks Indicate Resilience

Rating Outlooks



Source: Fitch Ratings



Large European Banks: Defying Macroeconomic Headwinds?

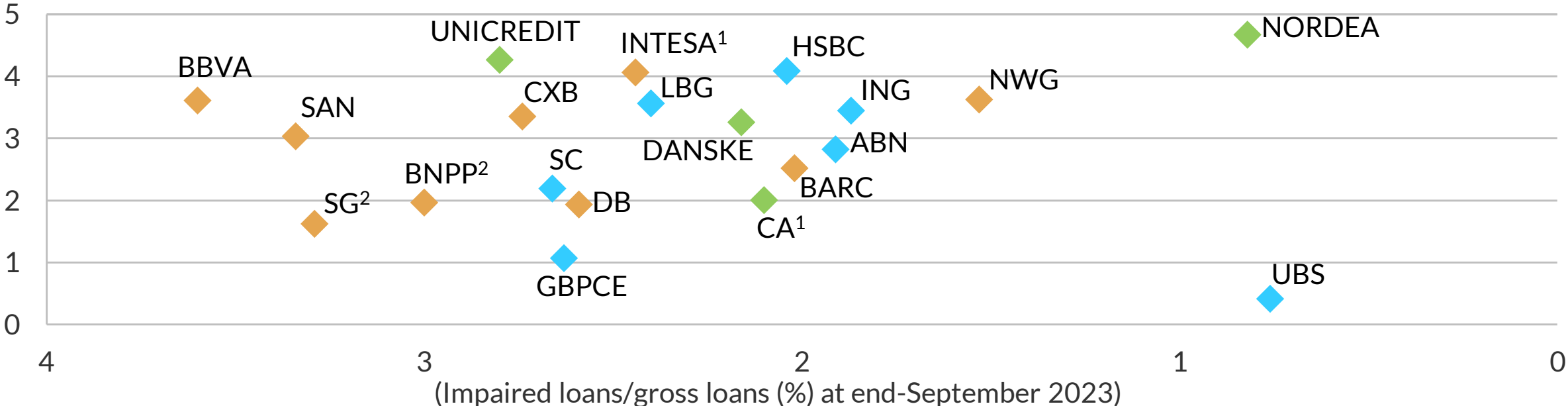
List of Banks	Country	LT IDR/ Outlook	VR	Latest Rating Action	Latest Rating Action Date
Banco Bilbao Vizcaya Argentaria, S.A.	Spain	BBB+/Stable	bbb+	Affirmed	22 September 2023
Banco Santander, S.A.	Spain	A-/Stable	a-	Affirmed	22 September 2023
Barclays plc	UK	A/Stable	a	Affirmed	4 July 2023
BNP Paribas S.A.	France	A+/Stable	a+	Affirmed	3 July 2023
CaixaBank, S.A.	Spain	BBB+/Stable	bbb+	Affirmed	13 June 2023
Crédit Agricole	France	A+/Stable	a+	Affirmed	4 October 2023
Danske Bank A/S	Denmark	A+/Stable	a+	Upgraded	15 September 2023
Deutsche Bank AG	Germany	A-/Stable	a-	Upgraded	3 July 2023
Groupe BPCE	France	A/Stable	a	Downgrade	4 October 2023
HSBC Holdings plc	UK	A+/Stable	a+	Affirmed	8 September 2023
ING Groep N.V.	Netherland	A+/Stable	a+	Affirmed	31 October 2023
Intesa Sanpaolo S.p.A.	Italy	BBB/Stable	bbb	Affirmed	17 November 2023
Lloyds Banking Group plc	UK	A/Stable	a	Affirmed	7 December 2023
Nordea Bank Abp	Finland	AA-/Stable	aa-	Affirmed	20 June 2023
NatWest Group plc	UK	A/Stable	a	Affirmed	7 December 2023
Societe Generale S.A.	France	A-/Positive	a-	Affirmed and Outlook Revised to Positive	3 July 2023
Standard Chartered PLC	UK	A/Stable	a	Affirmed	27 June 2023
UBS Group AG	Switzerland	A/Stable	a	Downgraded	12 June 2023
UniCredit S.p.A.	Italy	BBB/Stable	bbb	Affirmed	17 November 2023

Top 20 Western European Banks – Strong Starting Point

Large European Banks' Financial Profile Overview

CET1 ratio (%) at end-September 2023: **Green = >16%** **Blue = 14-16%** **Orange = <14%**

(Operating profit/RWAs (%) 9M23)

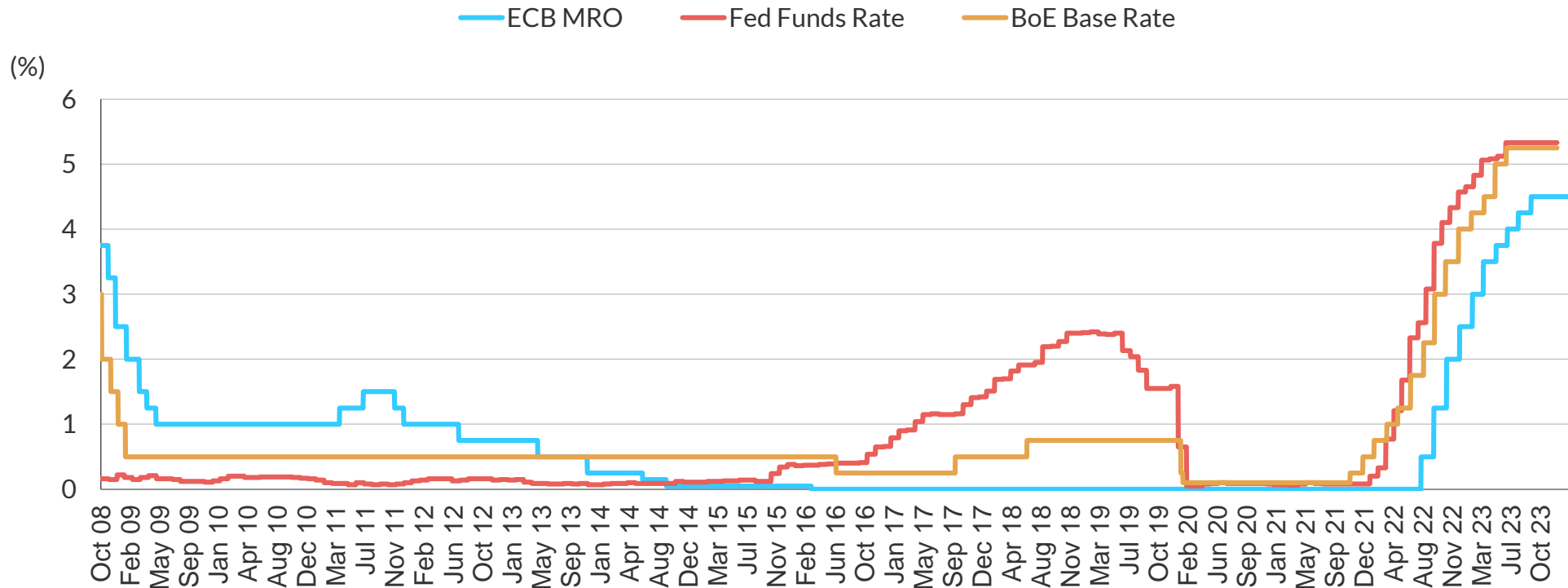


Notes: ¹ end-June 2023; ² impaired loans as of end-June 2023

Source: Fitch Ratings, banks

Interest Rate Environment: Rates at a Peak Following an Unprecedented Tightening

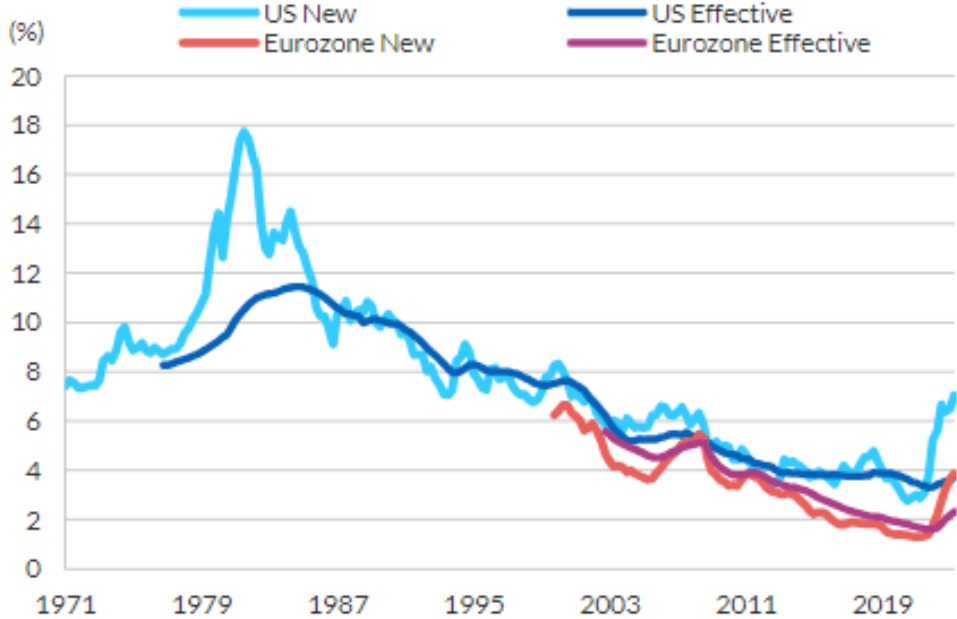
Unprecedented Monetary Policy Tightening Cycle



Source: ECB, Saint Louis Fed Reserve, Bank of England, Fitch Ratings

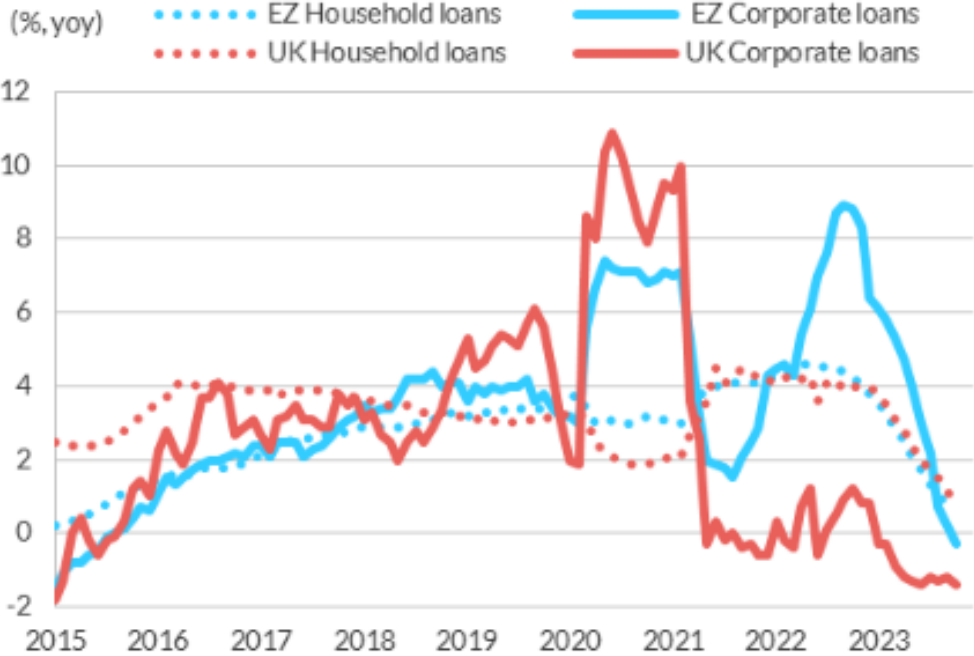
Spike in Offered Rates Contributes to Sharp Drop in New Lending

Mortgage Interest Rates - New and Effective



Source: Fitch Ratings, ECB, Freddie Mac, St Louis Fed, Haver Analytics

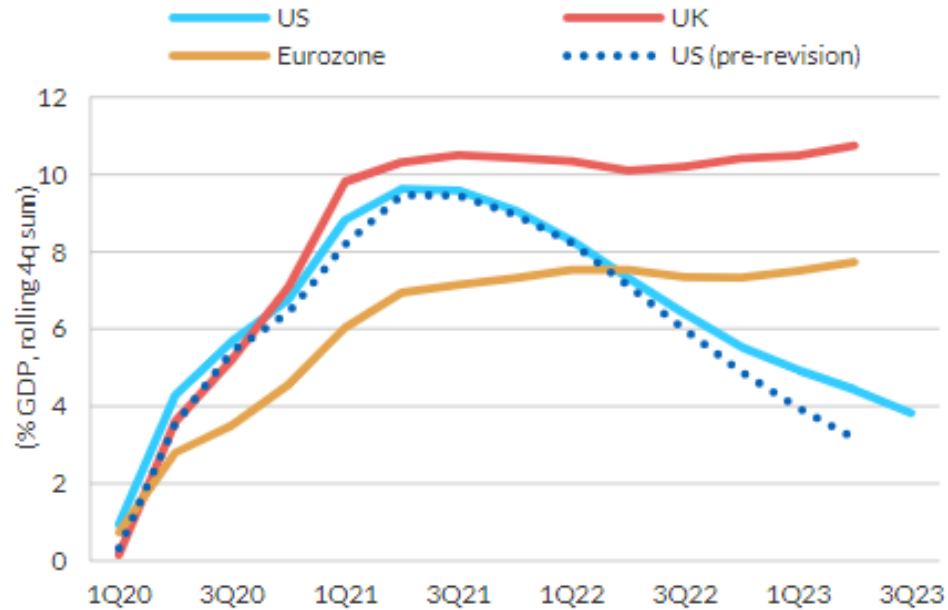
Eurozone and UK Bank Lending



Source: Fitch Ratings, ECB, BoE, Haver Analytics

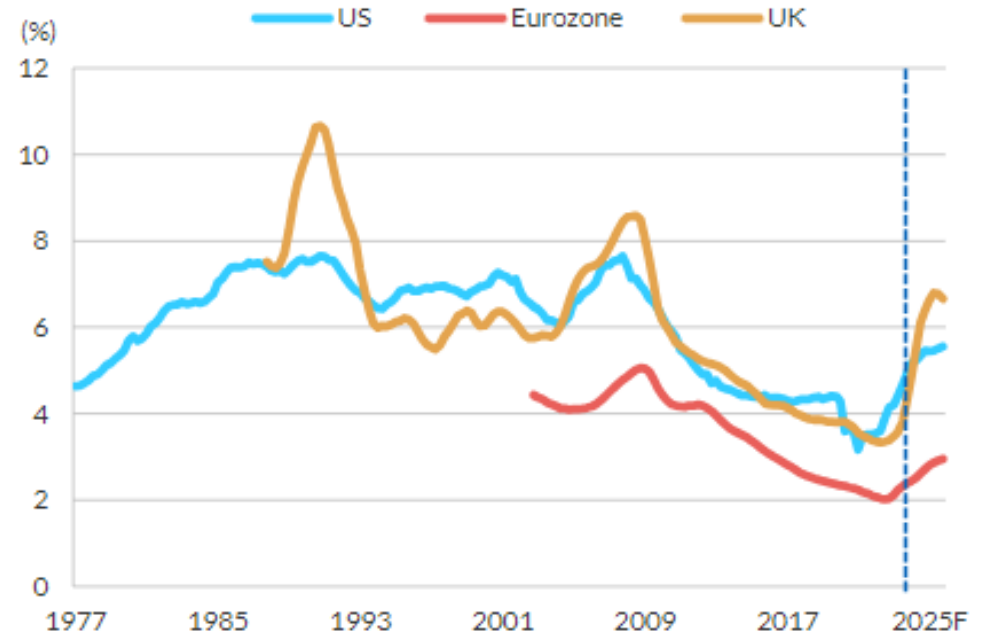
Monetary Transmission not Yet Fully Complete for Households

Cumulative Household Excess Savings



Source: Fitch Ratings, ONS, BEA, Eurostat, Haver Analytics

Household Interest Payments as % of Disposable Income

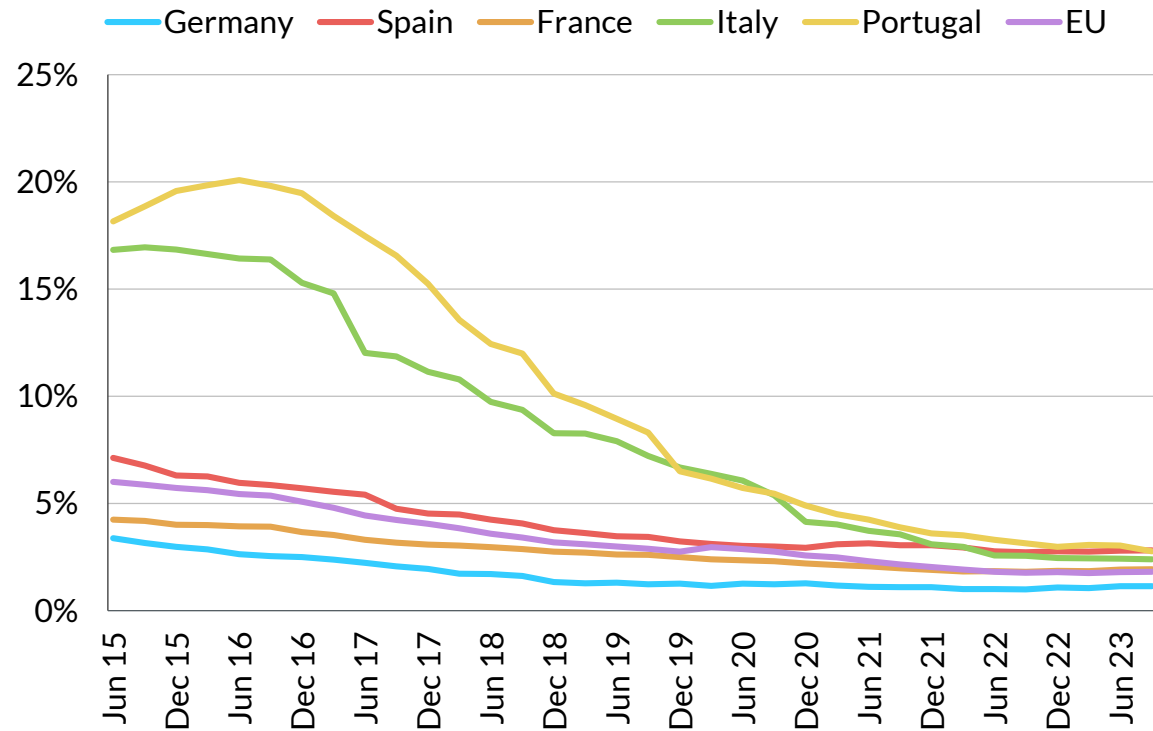


Source: Fitch Ratings, ECB, Fed, BoE, ONS, Haver Analytics

European NPLs: Balance Sheet Clean-Up Coming to an End

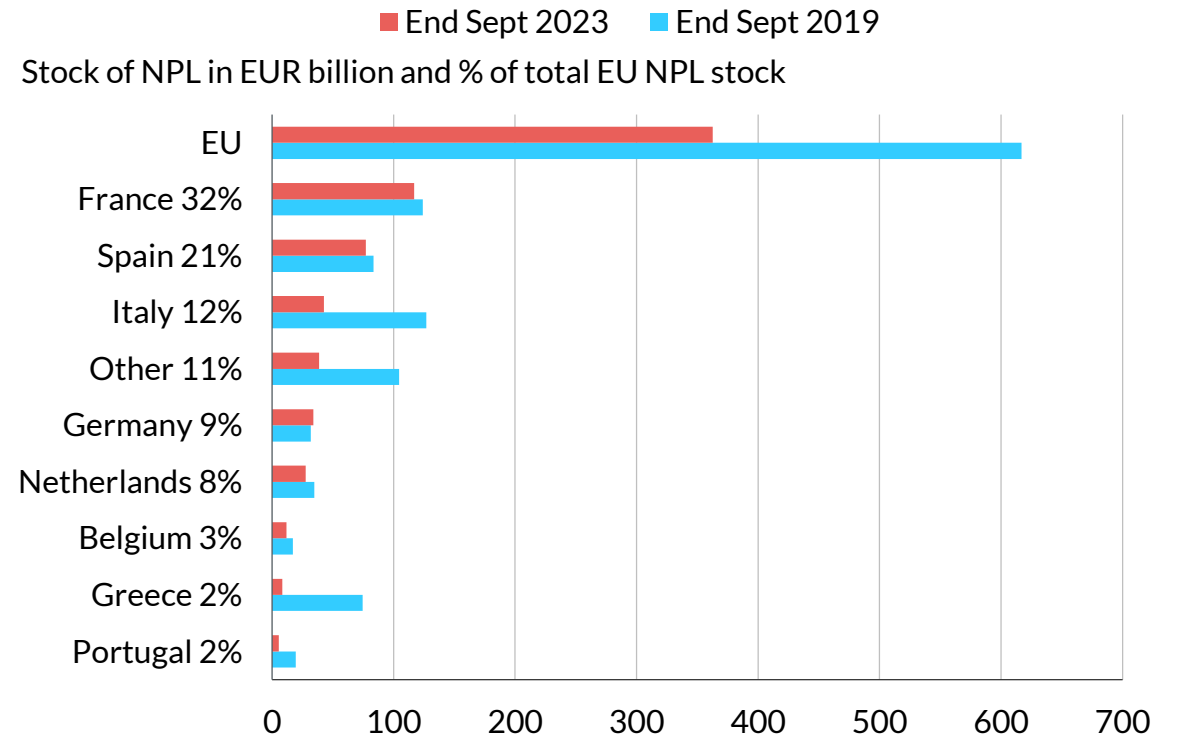
- Strong NPL reduction over last 4 years of around 40% or >EUR250 billion
- More pronounced drop in Italy, Greece and Portugal
- France now largest theoretical market for bank NPLs, still followed by Spain (o/w some international exposures), Italy and Germany

NPL Ratios Have Materially Improved up to 2023



Source: EBA, Fitch Ratings

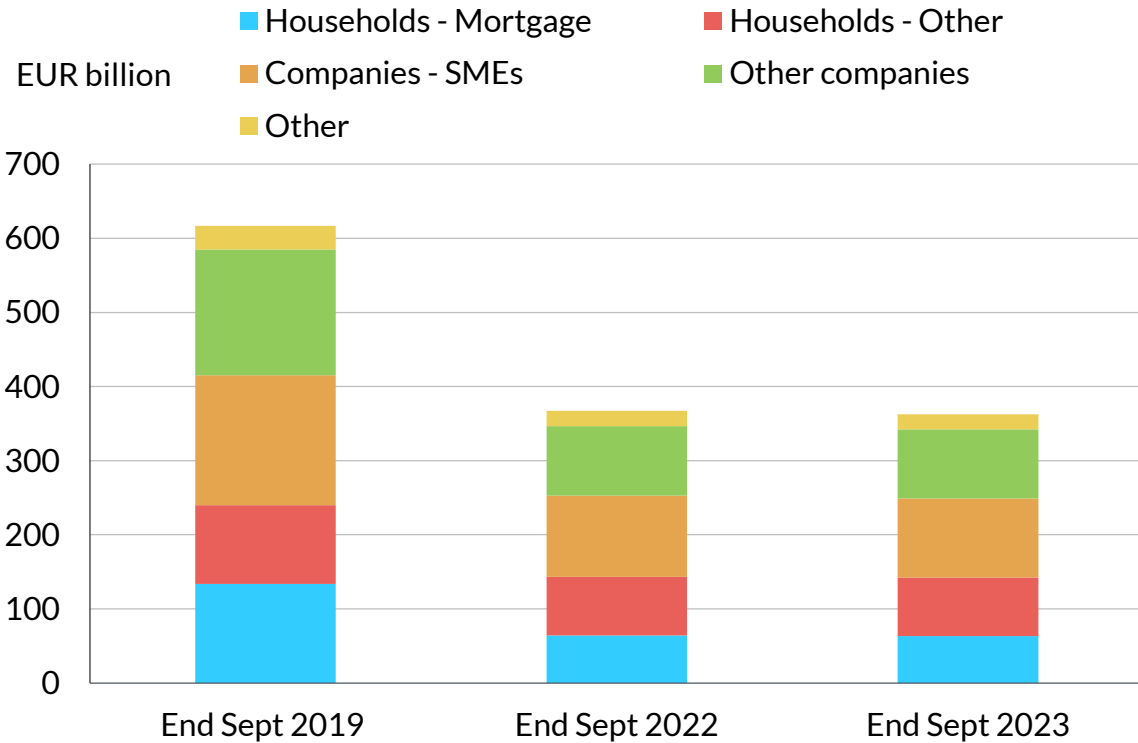
Strong NPL Reduction in Southern Europe



Source: EBA, Fitch Ratings

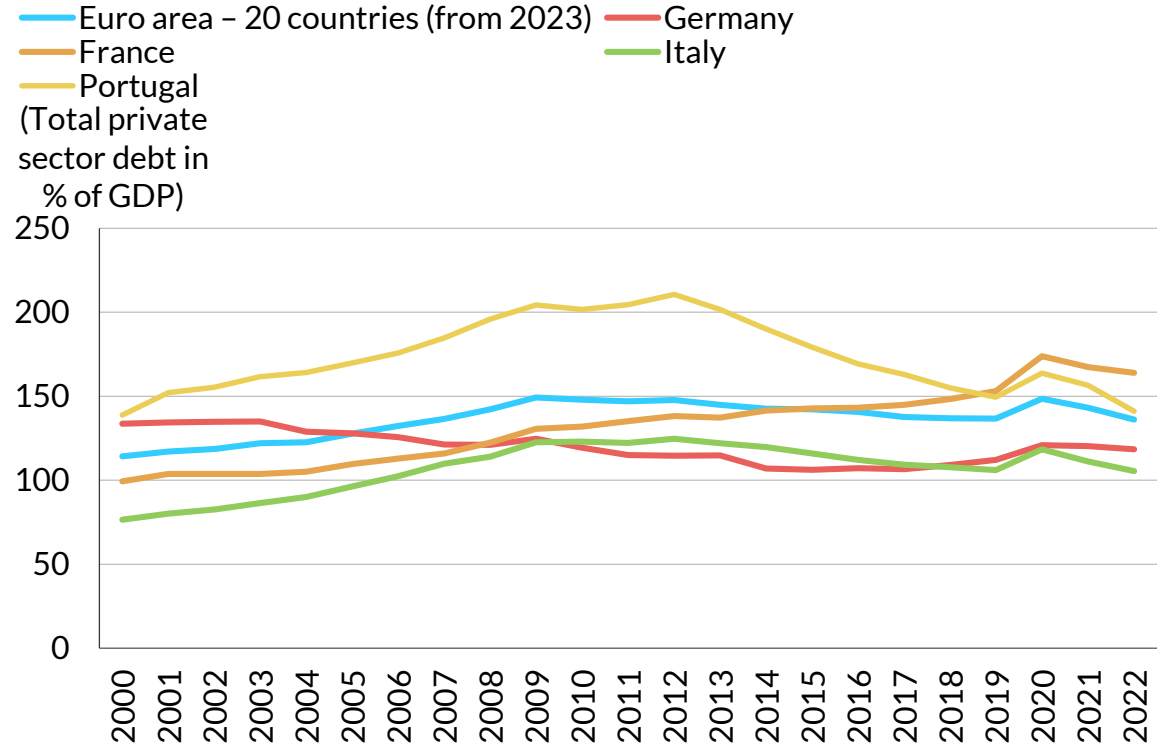
European NPLs: Balance Sheet Clean-Up Coming to an End

EU NPL Stock by Borrower/Product Type



Source: EBA, Fitch Ratings

Private Sector Leverage Slowly Declining

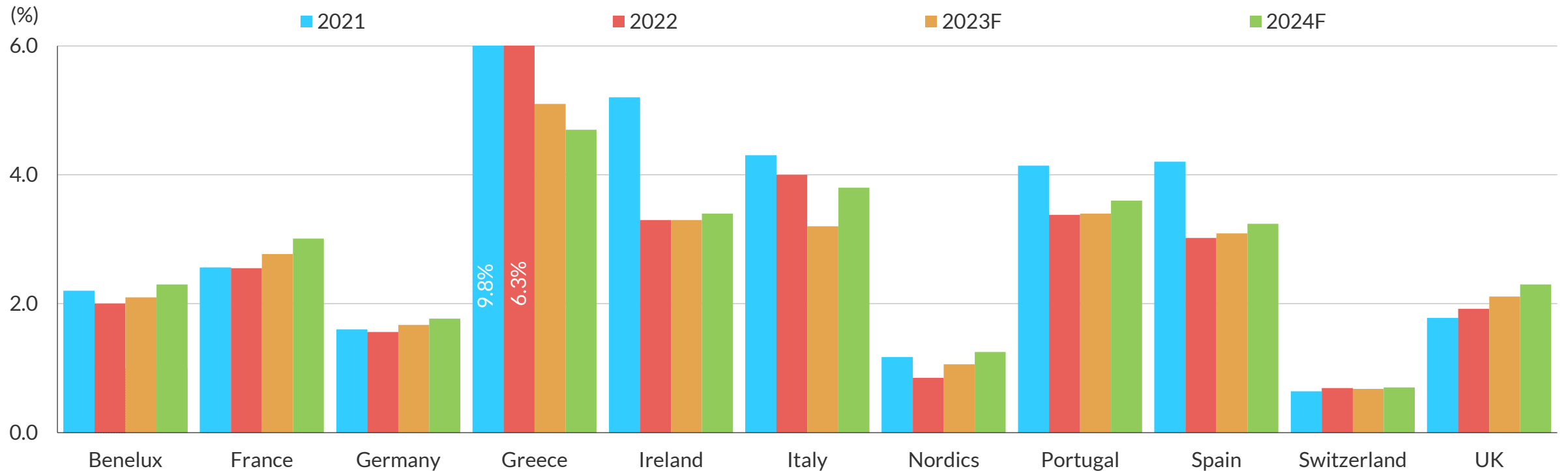


Source: Eurostat, Fitch Ratings

Impaired Loan Ratios to Increase Slightly for Banks Overall in 2024

Impaired Loan Ratios to Increase Overall

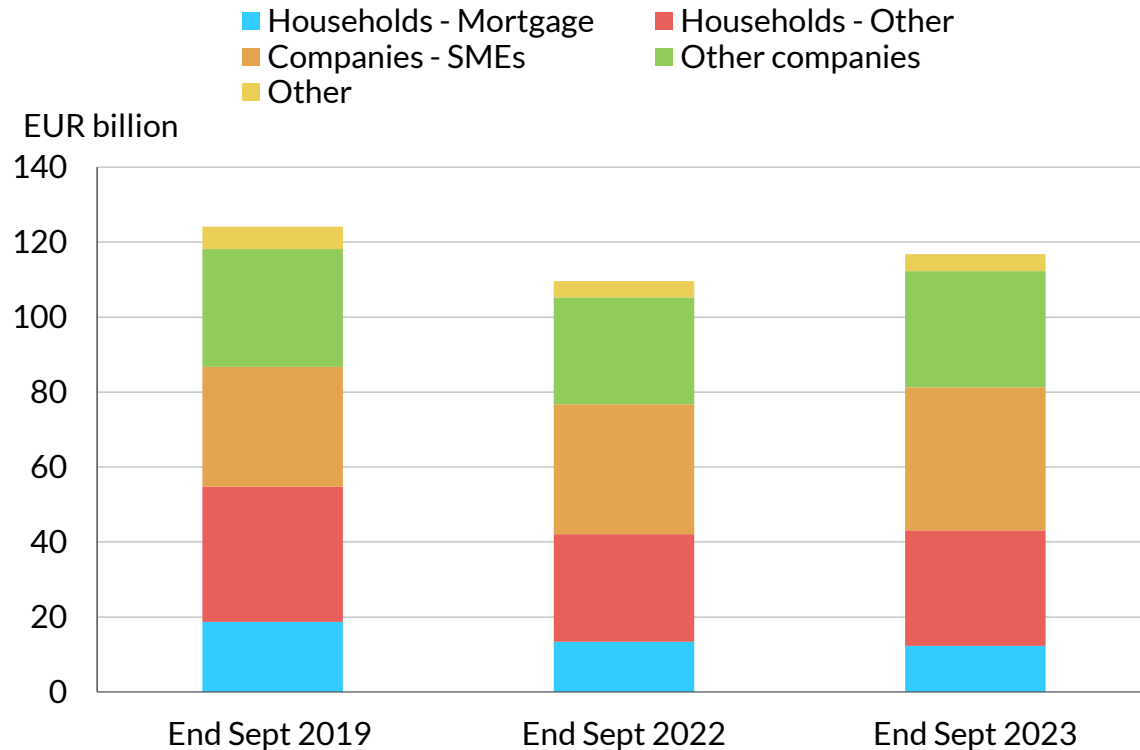
Gross impaired loans/gross loans



Source: Fitch Ratings

Focus on France – NPL Market Landscape

French Banks' NPL Stock by Borrower/Product Type

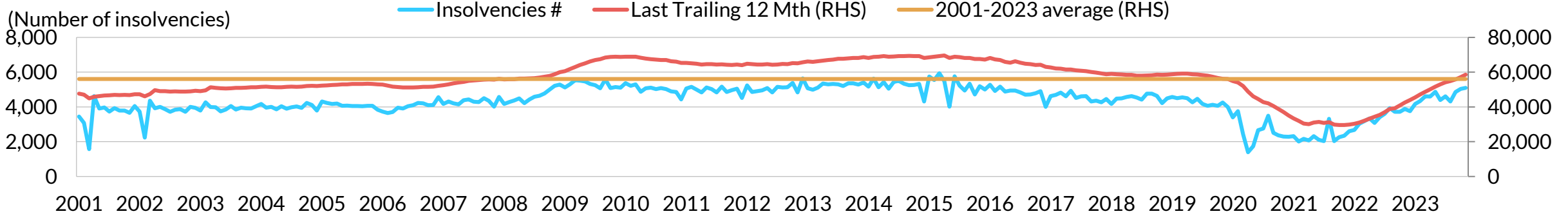


Source: EBA, Fitch Ratings

- Several servicers exist in an underdeveloped French NPL market vs Southern Europe
- Recoveries dealt with internally or through partners
- NPL Sales volumes generally <5 billion per year, small tickets focused on unsecured consumer loans, and more occasionally housing loans....
- But likely pick up of NPL sales in France in mid-term, likely driven by SMEs
- NPL Stocks of French banks (up 7% YoY); more tilted towards unsecured consumer loans and SMEs than EU average and much less so on housing loans
- Expected increase in 2024 for NPL ratio of around 20bp and NPL stock by nearly EUR10 billion

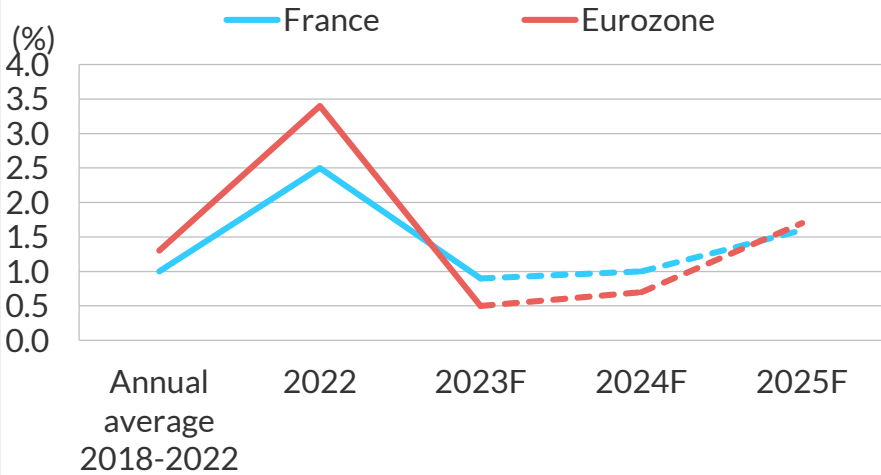
Focus on France – Early Warning Signals

Company Insolvencies in France



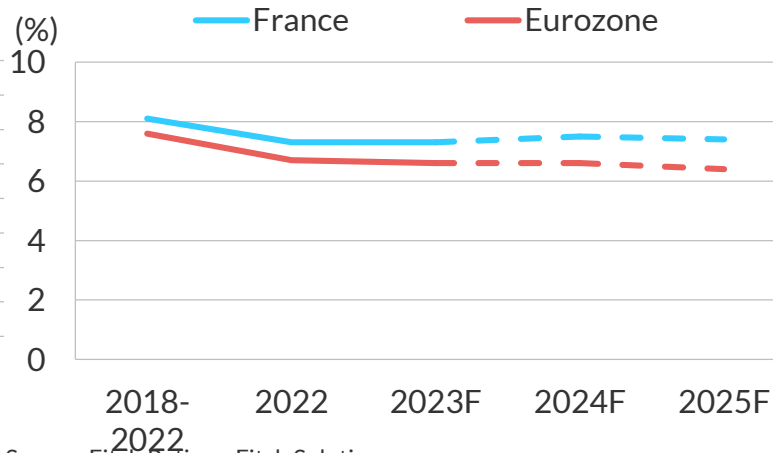
Source: Insee, Fitch Ratings

Moderate GDP Growth



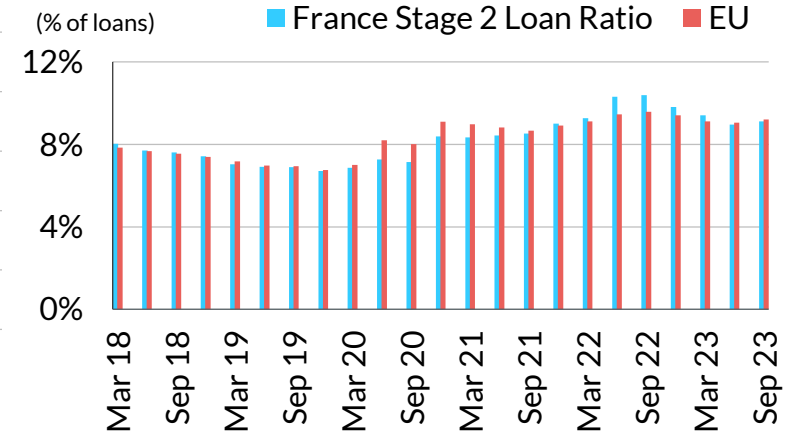
Source: Fitch Ratings, Fitch Solutions

Stable Unemployment



Source: Fitch Ratings, Fitch Solutions

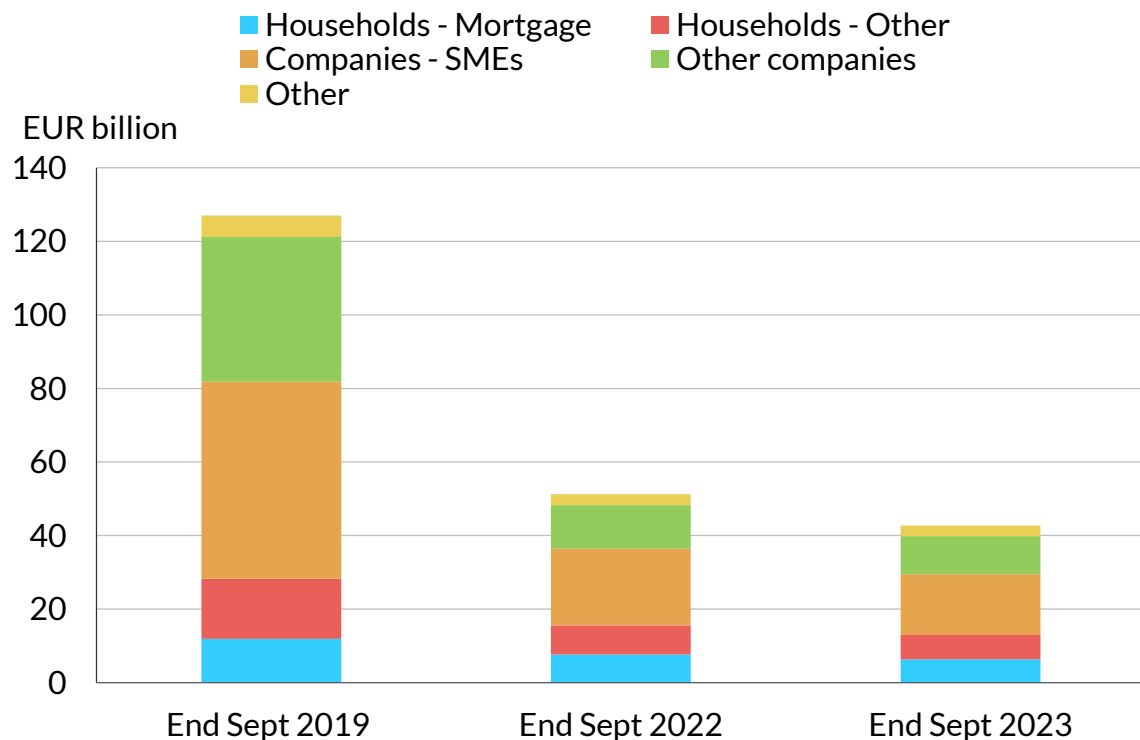
Stage 2 Loans in France



Source: EBA, Fitch Ratings

Focus on Italy – NPL Market Landscape

Italian Banks' NPL Stock by Borrower/Product Type



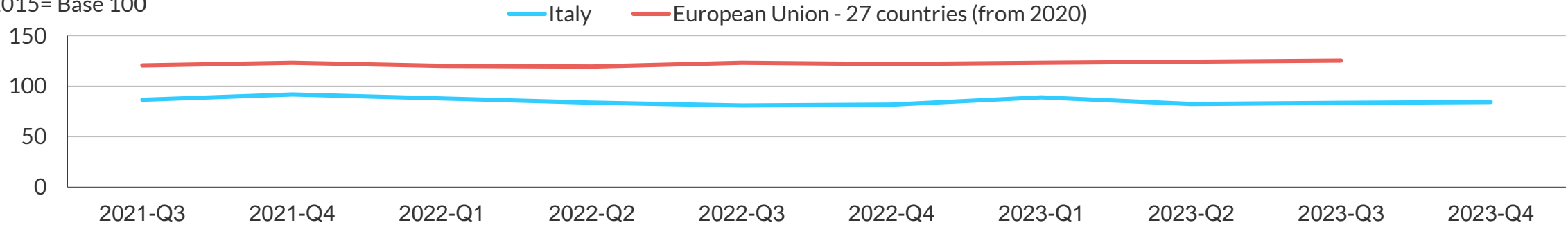
Source: EBA, Fitch Ratings

- Well-functioning NPL market with established servicers, investors and structures (guarantees through GACS, securitisations and sales)
- Large NPL sales volumes in recent years between EUR20-25bn
- Sales volume to remain a lot more contained over 2024-2025 than in recent years
- Recent proposals to allow non-performing borrowers more options for returning to performing creates uncertainties for NPL servicers, investors and banks
- NPL stock of Italian banks declined further in 2023, helped by write-offs, securitisations and sales; more tilted towards SMEs than EU average
- Expected increase in 2024 for NPL ratio of around 60bp and NPL stock by nearly EUR10 billion

Focus on Italy – Early Warning Signals

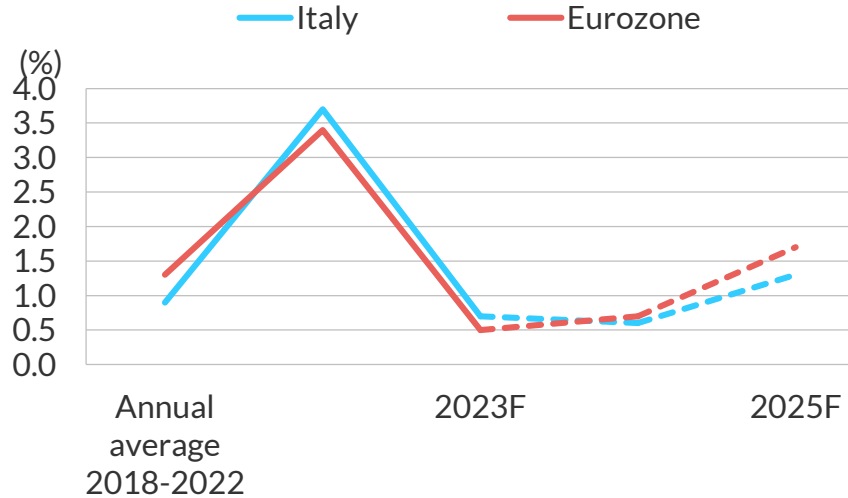
Corporate Bankruptcies in Italy

2015= Base 100



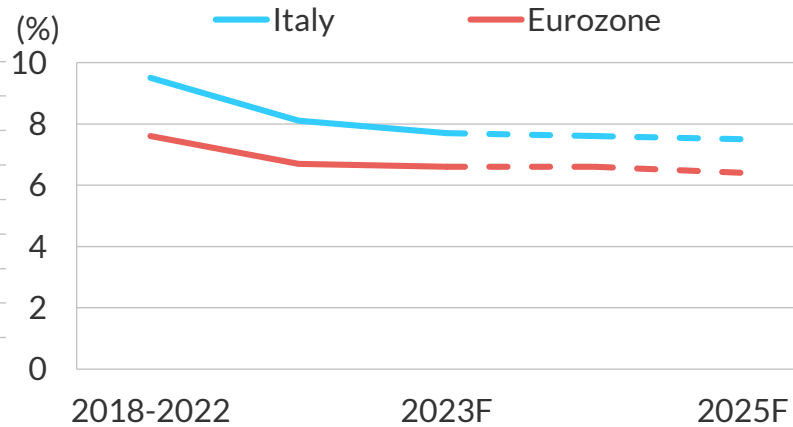
Source: Eurostat, Fitch Ratings

Modest GDP Growth



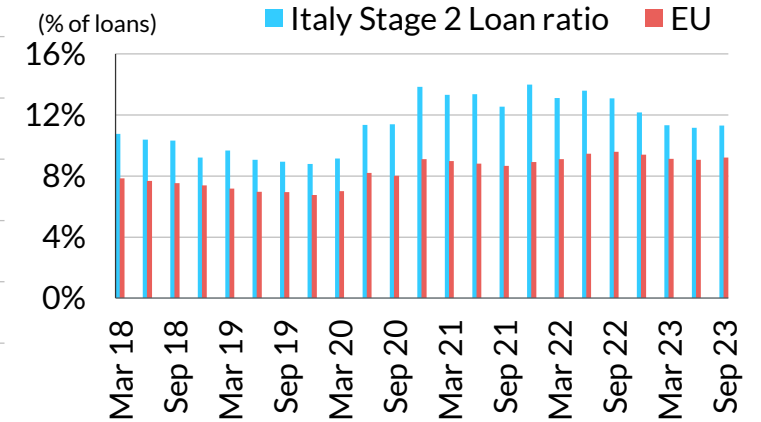
Source: Fitch Ratings, Fitch Solutions

Stable Unemployment



Source: Fitch Ratings, Fitch Solutions

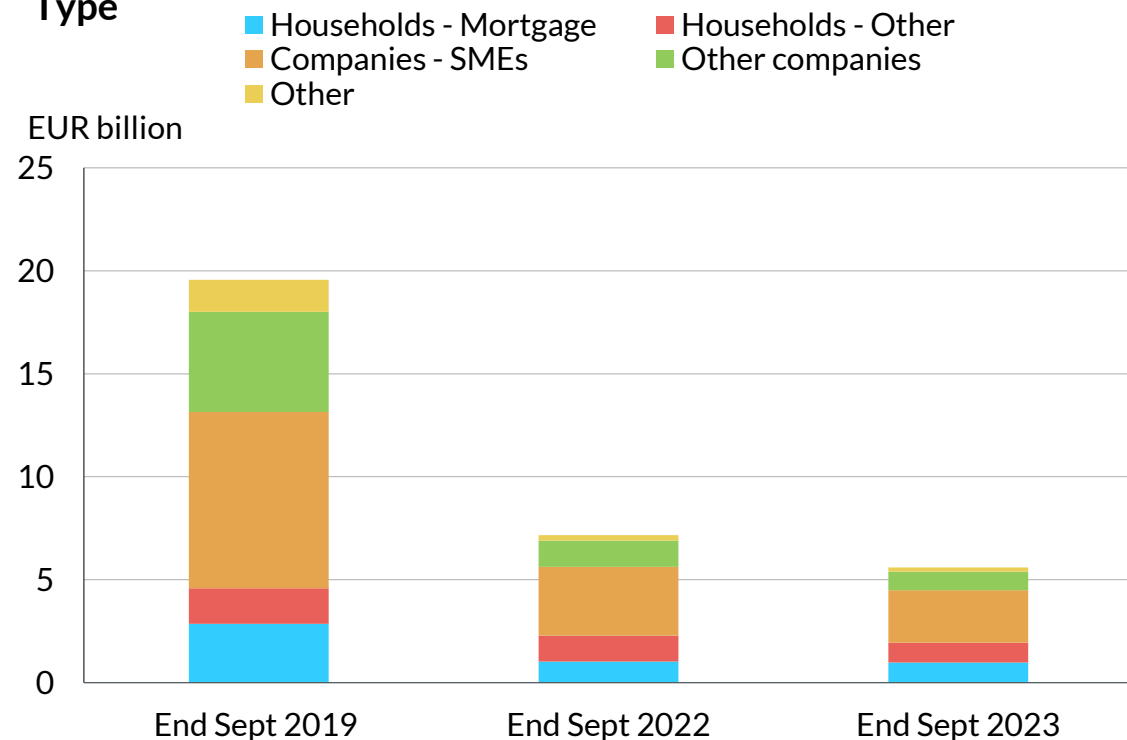
Stage 2 Loans in Italy



Source: EBA, Fitch Ratings

Focus on Portugal – NPL Market Landscape

Portuguese Banks' NPL Stock by Borrower/Product Type



Source: EBA, Fitch Ratings

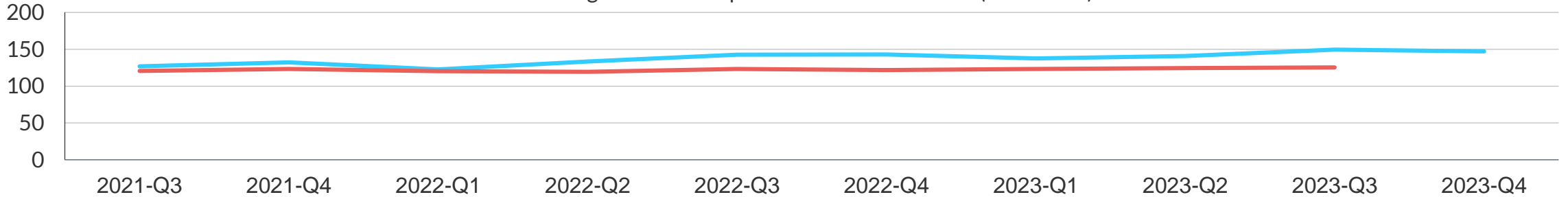
- Small NPL market with tested appetite from investors for securitisations and sales (no guarantee structure) of some banks which were under restructuring
- NPL sales volumes accelerated in recent years but dropped in 2023 to less than EUR1.5bn, due to much smaller ticket sales
- Sales volume to remain constrained due to small size economy and complete balance sheet de-risking
- Some limited potential for distressed assets sales remain through corporate restructuring and debt funds (ca EUR 1bn)
- NPL stock of Portuguese banks declined further in 2023 (-20%), helped by write-offs and small sales; more tilted towards SMEs than EU average
- Expected increase in 2024 for NPL ratio of around 20bp and NPL stock by nearly EUR500 million

Focus on Portugal – Early Warning Signals

Corporate Bankruptcies in Portugal

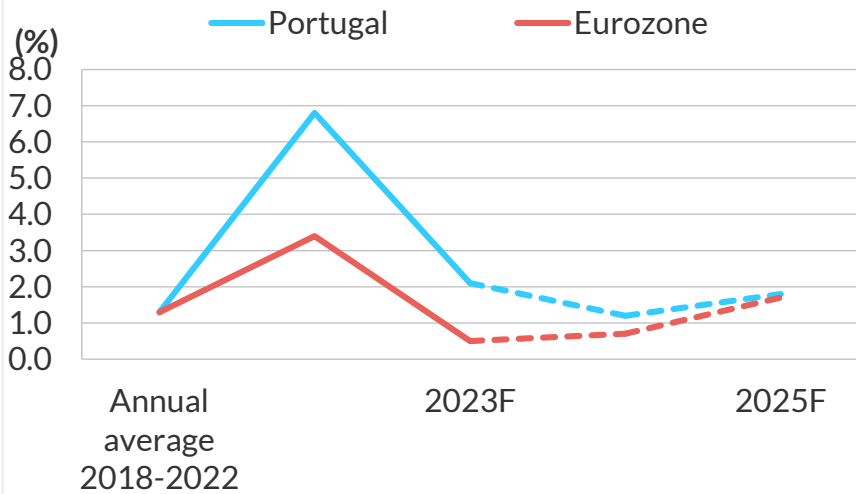
2015= Base 100

— Portugal — European Union - 27 countries (from 2020)



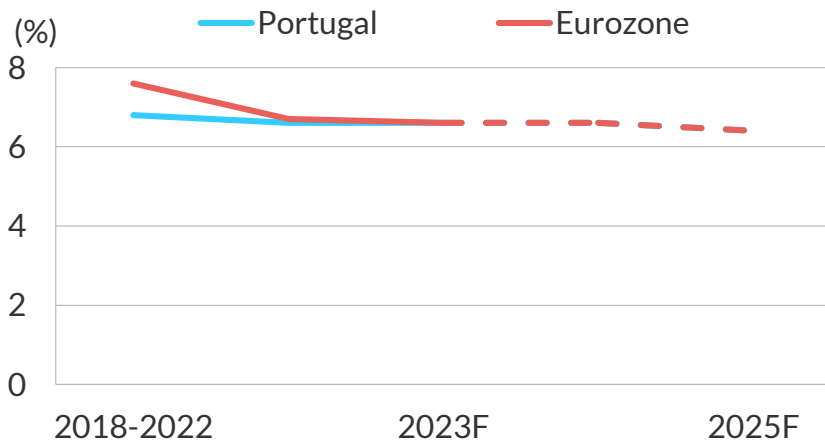
Source: Eurostat, Fitch Ratings

Satisfactory Growth



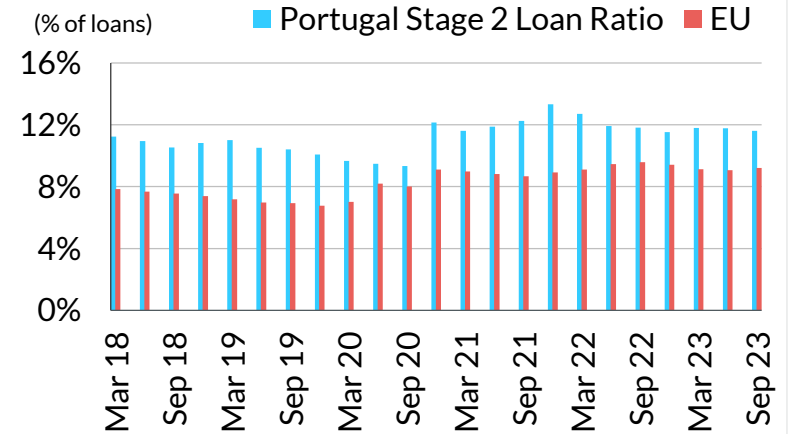
Source: Fitch Ratings, Fitch Solutions

Stable Unemployment



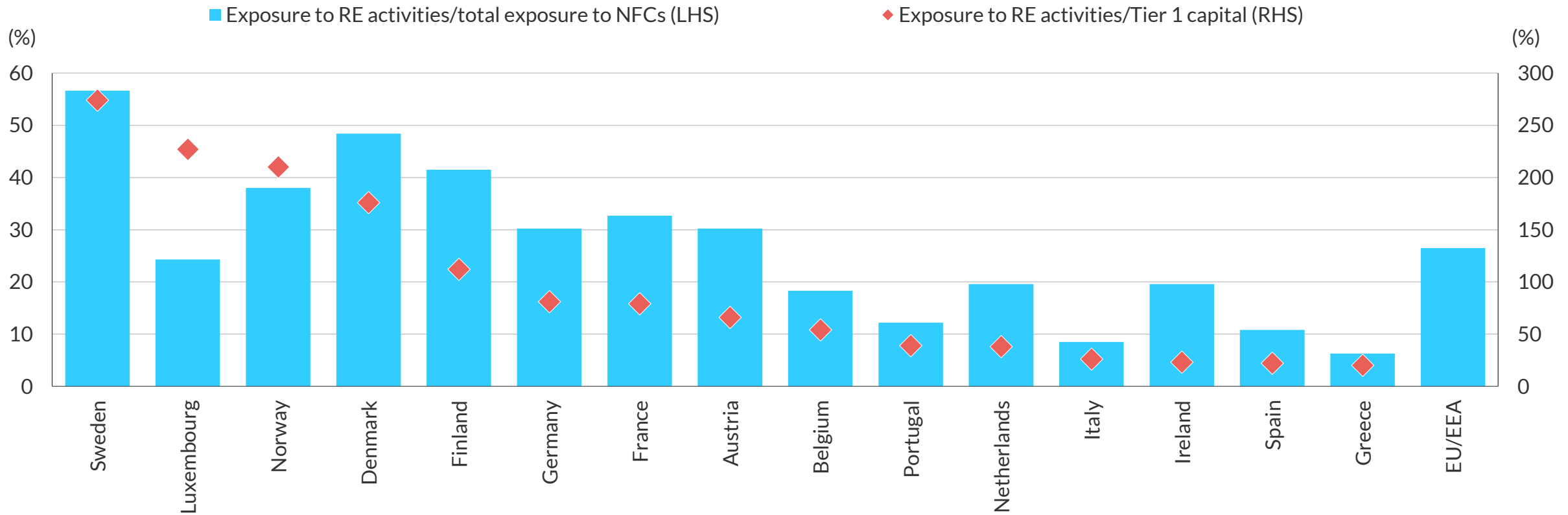
Source: Fitch Ratings, Fitch Solutions

Stage 2 Loans in Portugal



Source: EBA, Fitch Ratings

European Banks: Material Exposure to CRE



Source: Fitch Ratings, EBA Risk Dashboard (end-June 2023 data)

What to Watch for in Bank NPLs in 2024



Asset Quality

- High interest rates combined with slower economic growth will affect borrower repayment capacity
- We expect a moderate asset quality deterioration overall which should drive NPL stocks higher



Pockets of Risks

- CRE exposures
- Leveraged finance exposure
- SMEs and small companies
- Consumer lending – especially at variable rates
- Uncertain access of NPL buyers to refinancing



Opportunities

- More robust early NPL detection and NPL management/data
- Primary NPL market already tested in many EU countries
- Secondary market to develop
- Recovery prospects on some existing NPLs

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