European Structured Finance Outlook 2023

Close To The Edge

Jan. 12, 2023

S&P Global
Ratings

This report does not constitute a rating action

Contents

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Key Takeaways

Consumer: Record inflation and rising interest rates spell mounting pressure on collateral performance in consumer-related securitizations, although we expect resilient labor markets to help cushion the blow.

Corporate: For corporate-backed transactions, credit prospects will also be dimmer in 2023, although we expect only a moderate rise in the speculative-grade corporate default rate. Commercial real estate will continue to face pressure from falling property values and higher refinancing risks.

Ratings performance: Although the effects of higher prices and interest rates could put pressure on structured finance ratings, they have remained largely stable through recent periods of stress, such as the pandemic.

Issuance: European securitization issuance may remain flat at about €80 billion in 2023, given greater interest rate certainty and normalizing monetary policy but muted underlying lending and a smaller call pipeline.

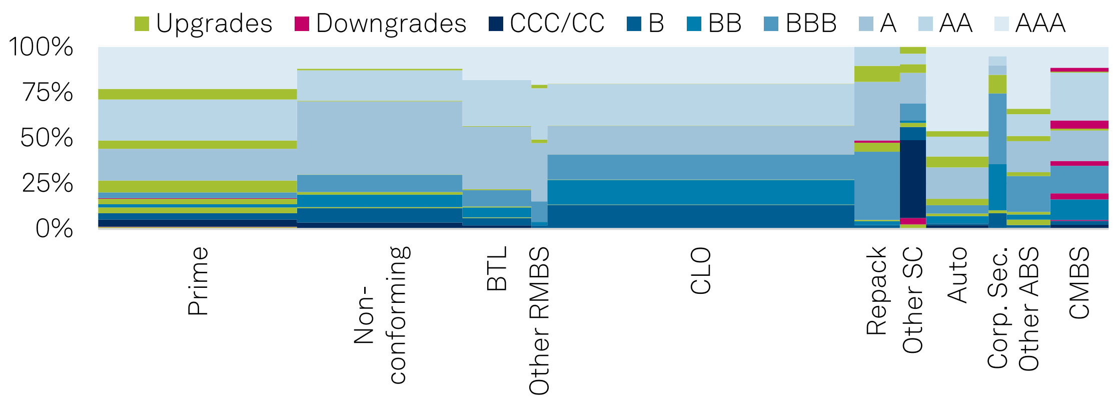
Lending: Borrower sentiment and lender risk appetite are both at a low ebb, suggesting that the volume of credit originations that could act as new securitization collateral may be slow to recover from current depressed levels.

Central banks: The wind-down of central banks' cheap term funding schemes may support more bank-originated supply, although most have sufficient liquidity to repay their borrowings without tapping capital markets.

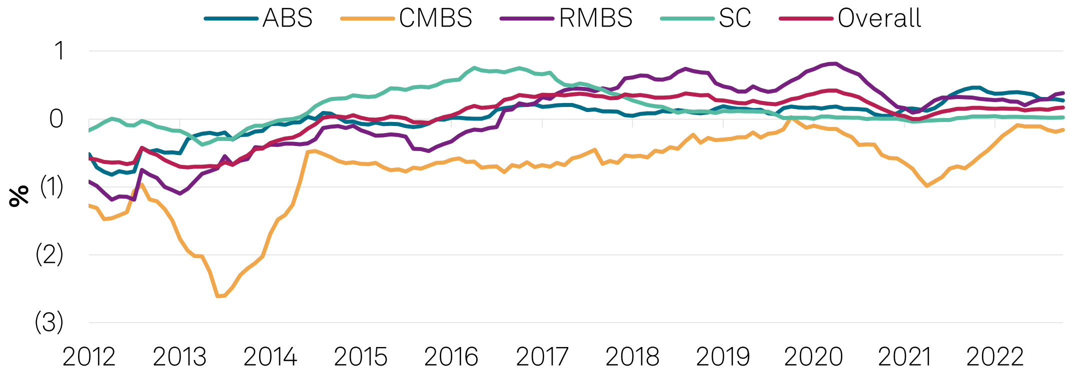
Ratings Have Been Resilient So Far, But Credit Pressures Are Growing

- Higher prices and interest rates will put pressure on European structured finance credit performance in 2023.
- In 2022, we lowered fewer than 2% of our ratings on securitizations in Europe. CMBS transactions backed by retail assets were most affected, but this sector constitutes a small portion of our outstanding European securitization ratings.
- For most asset classes, the 12-month trailing average change in credit quality has been positive for several years, indicating aggregate upward rating movements. Although the trend weakened during the COVID-19 pandemic, it has since reversed.
- CMBS ratings continued to fall by an average of 0.2 notches in the 12 months ended September 2022, but other sectors saw net upgrades, and overall, our European structured finance ratings rose by an average of 0.2 notches.

Distribution Of Ratings And 2022 Transitions



12-Month Average Change In Credit Quality

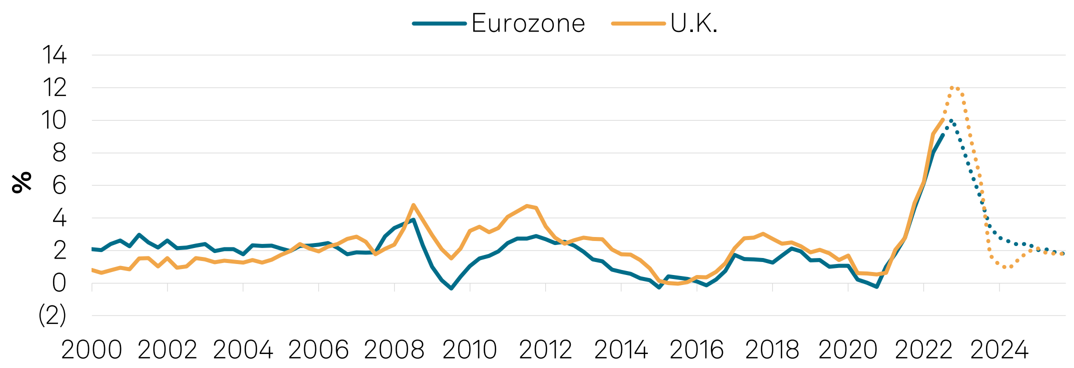


BTL--Buy-to-let. SC--Structured credit. Excludes confidential ratings. Securities whose ratings migrated to 'NR' over the period are classified based on their rating prior to 'NR'. Source: S&P Global Ratings.

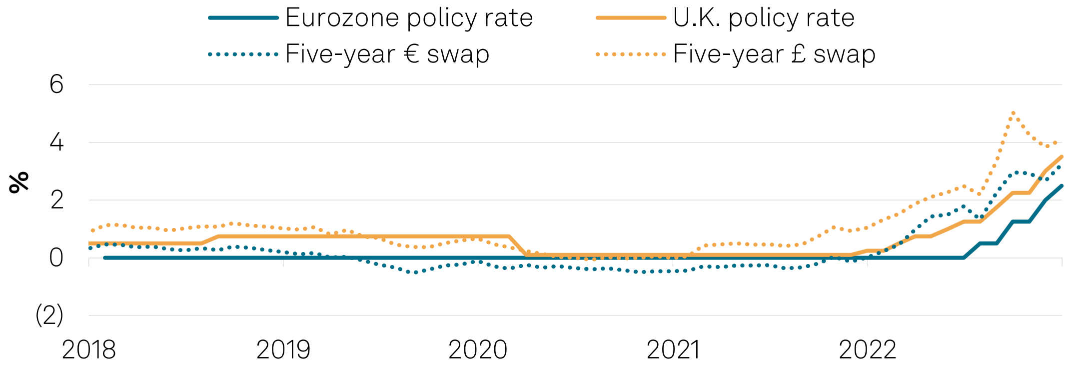
Consumer-Backed Transactions Are Exposed To Tighter Household Finances

- Despite targeted fiscal measures providing some relief, headline inflation has repeatedly hit multi-decade highs during 2022, spelling mounting pressure on credit performance in consumer-related securitizations. While we expect base effects to gradually lower inflation through 2023, wages will take longer to adjust, and consumer confidence is close to record lows across Europe.
- We expect policymakers to pause rate tightening by mid-2023 and longer-term market benchmarks have already stabilized, but at levels that are likely to cause a significant "payment shock" for borrowers on floating-rate loan contracts or at refinancing.
- Downside risks dominate our forecasts, with pronounced uncertainty over the development of the Russia-Ukraine war and its impact on global energy markets and food inflation. If a wage-price spiral develops, this could result in much higher interest rates.

Consumer Price Inflation



Interest Rates

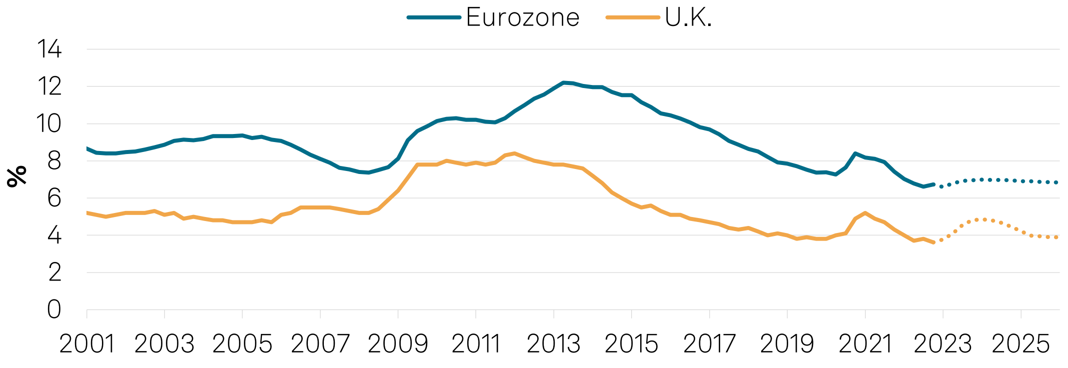


Source: Eurostat, Office for National Statistics, S&P Global Ratings forecasts.

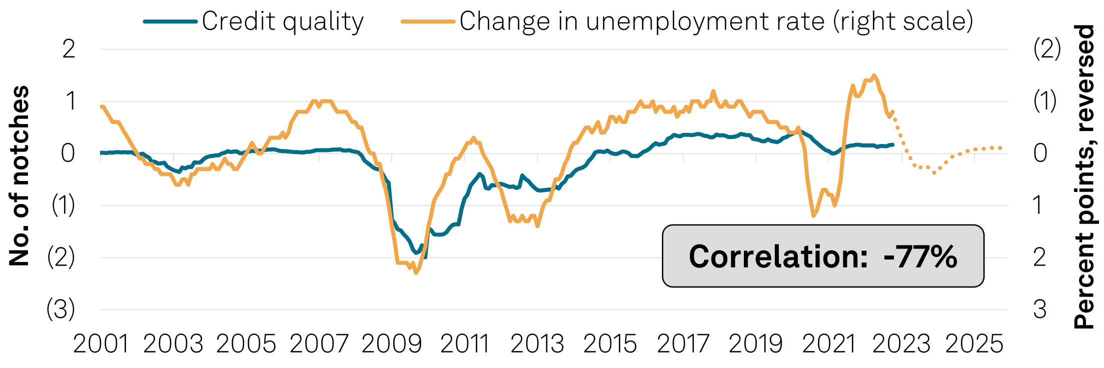
Resilient Labor Markets Could Help To Cushion The Blow

- We expect both eurozone and U.K. unemployment rates to edge higher in 2023, but to average only 7.0% and 4.6%, respectively.
- Although European labor markets are now starting to soften and will likely weaken further, they look set to remain unusually resilient during the coming economic contraction. This is a significant supportive factor and a major reason why our overall economic outlook is for a moderate recession and not much worse. Even though double-digit inflation will squeeze consumer incomes, most households will still be able to rely on a steady stream of wages, which has not been the case in previous, more "typical" recessions.
- If unemployment were to remain this stable, it would bode well for structured finance ratings migration, despite high inflation. In the past 20 years, rating movements have shown a 77% negative correlation with unemployment but a limited correlation with inflation.

Unemployment



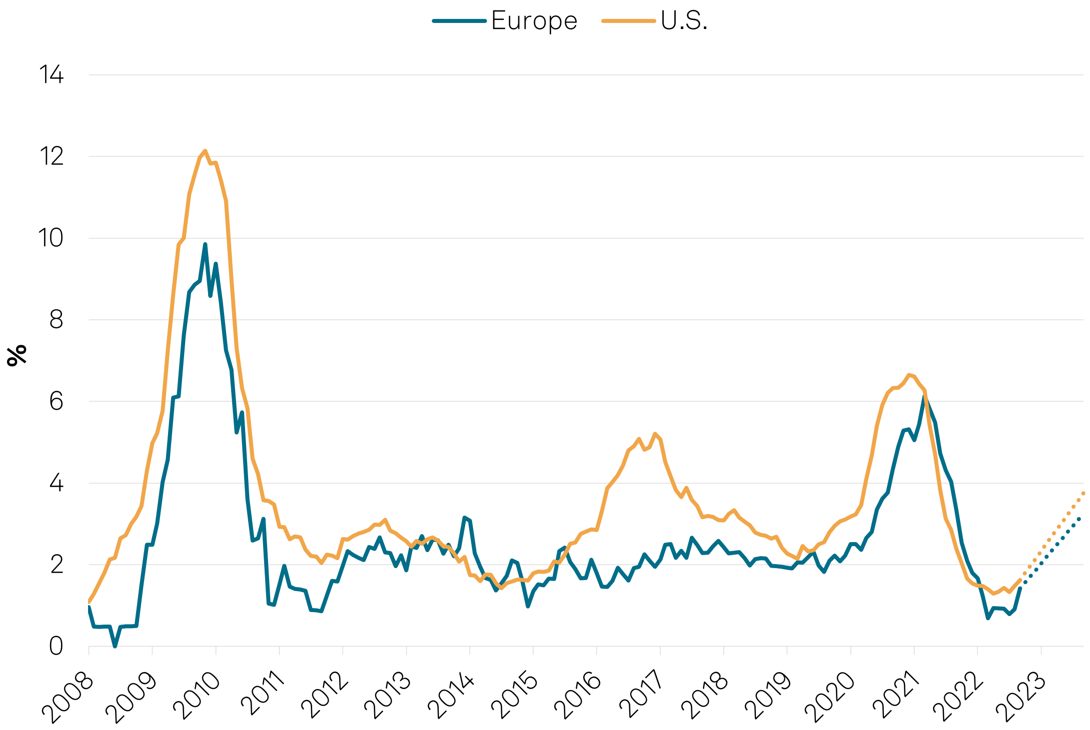
Ratings Versus Unemployment



Source: Eurostat, Office for National Statistics, S&P Global Ratings.

Fundamentals Are Also Deteriorating For Corporate-Backed Sectors

Speculative-Grade Corporate Default Rate



Trailing 12-month basis. Dotted lines indicate forecast. Source: S&P Global Ratings.

- For corporate-backed transactions, credit prospects will also be dimmer in 2023, as European companies grapple with the effects of the Russia-Ukraine war, the energy transition, and supply chain vulnerabilities.
- Energy-intensive, consumer discretionary, and leveraged corporate sectors will likely be hit hardest. Broadening input cost pressures, rising funding costs, and potential contractions in demand will increasingly weigh on earnings, particularly in more competitive sectors that lack pricing power.
- We expect a moderate increase in the annualized default rate for speculative-grade corporates to 3.25% by September 2023--slightly higher than the 10-year average.
- That said, the previous spike in default rates in 2020-2021 had little effect on European CLO ratings, as collateral managers were able to mitigate credit deterioration through trading.
- Commercial real estate, and therefore CMBS, is also under pressure from rising interest rates, which are depressing property values and raising refinancing risks.

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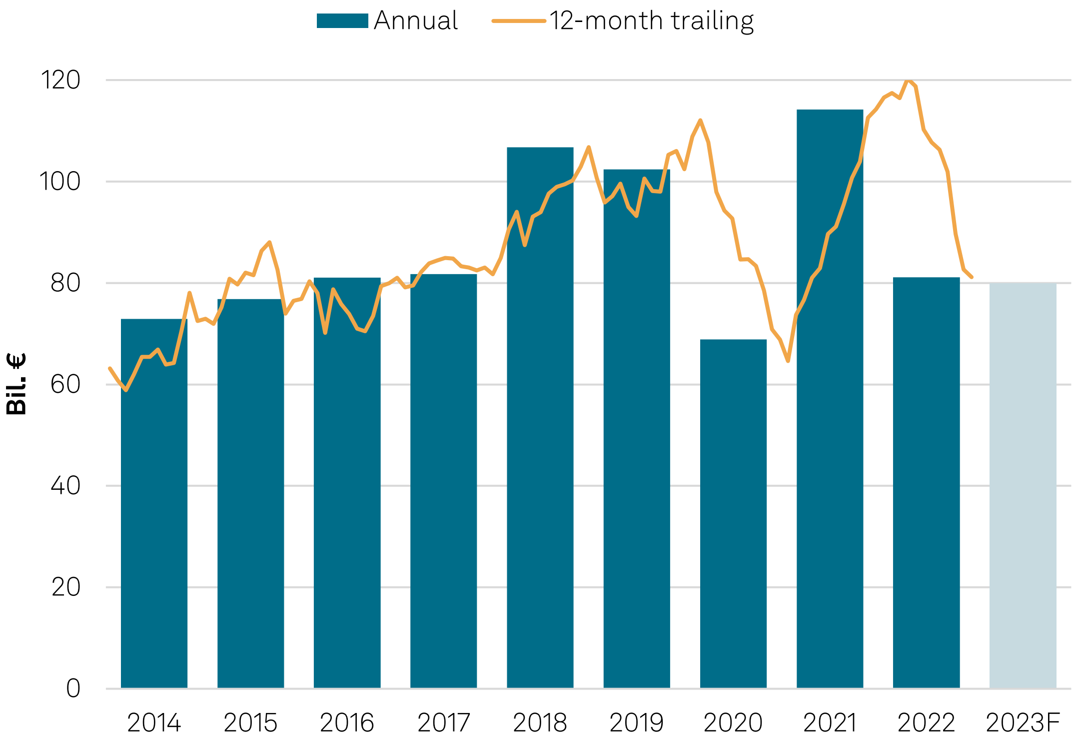
Market Volatility And Credit Concerns Have Dulled Issuance Prospects

European Investor-Placed Securitization Issuance



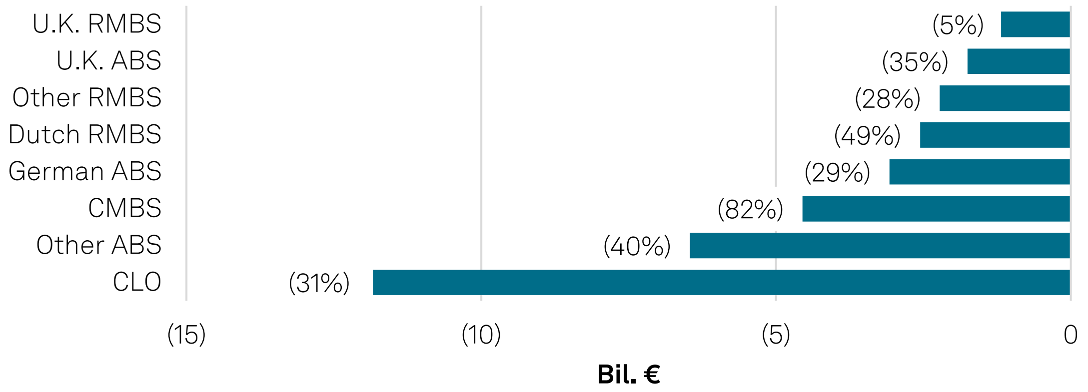
F--Forecast. Excludes CLO refinancings and resets. Source: S&P Global Ratings.

- After a buoyant start to 2022, investor-placed European securitization issuance slumped in the second half of the year, ending nearly 30% down on 2021 volumes, at €81 billion.
- This was only modestly higher than in the pandemic-stricken year of 2020 and below the annual average of the prior decade.
- Issuance may remain flat at about €80 billion in 2023, due to a smaller volume of legacy transactions with upcoming call dates and muted underlying credit origination, especially for the leveraged loans that back CLOs.
- That said, we expect the uncertainty surrounding the path of spreads and underlying interest rates to gradually ease, allowing both originators and investors to recalibrate.
- Looking ahead, bank-originated securitization issuance is a potential bright spot, after a decade of stagnation. Central bank liquidity schemes that have helped fund financial institutions for many years are now in the early stages of wind-down, which--together with slowing rates of deposit growth--could slowly bring more bank securitizers back to the market.

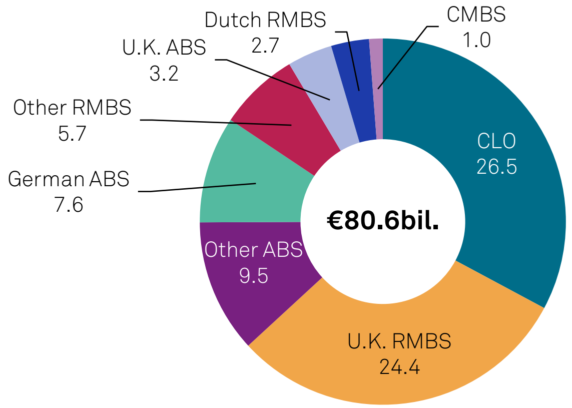
Primary Market Activity Slowed Across All Sectors, But Remains Diverse

- European securitization volumes declined across most countries and sectors in 2022, but new issuance generally remained diverse.
- The two largest sectors experienced mixed fortunes, with CLO issuance declining substantially while U.K. RMBS volumes held up, increasing that sector's share of total issuance to more than 30%. That said, these figures are distorted by a handful of unusually large transactions refinancing U.K. mortgage collateral that was originated before the financial crisis.
- Together the CLO and U.K. RMBS sectors accounted for almost two-thirds of European issuance, but a broad mix of other areas remained active, with auto and consumer ABS transactions issued from nine different countries, for example.
- The CMBS and Dutch RMBS sectors saw the largest relative declines in volumes, accounting for less than 5% of overall issuance.

Increase/(Decrease) In Issuance, 2021 To 2022



2022 Issuance By Sector (Bil. €)



Based on investor-placed issuance. Figures in boxes on left-hand chart show year-on-year growth rate. CLO data excludes refinancings and resets. Source: S&P Global Ratings.

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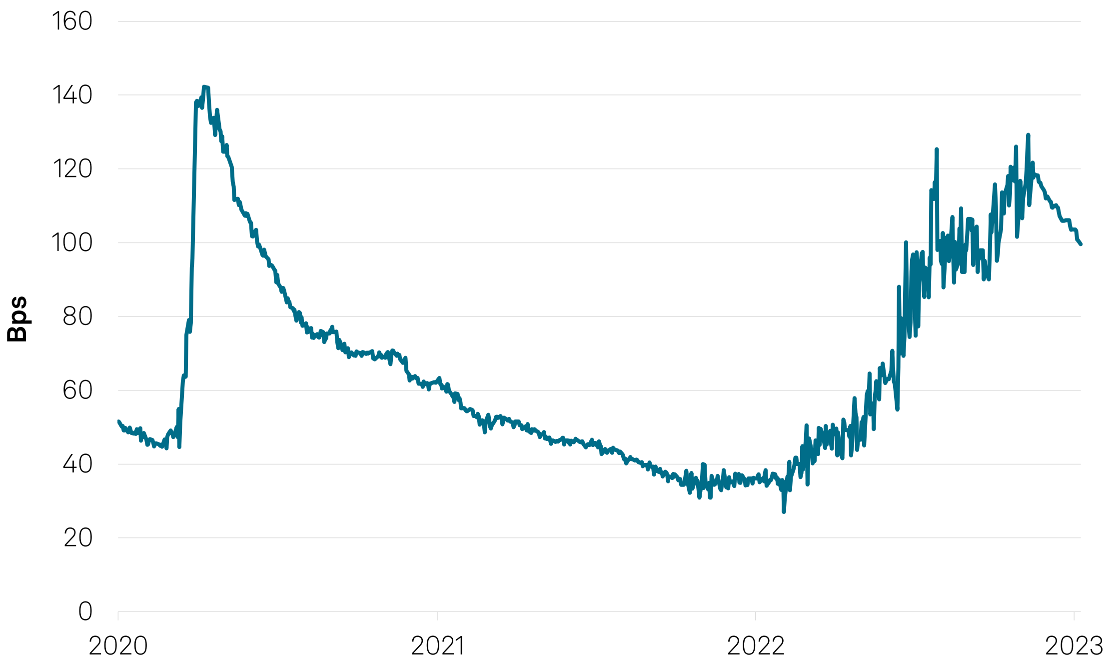
Volatile Spreads Have Kept Both Originators And Investors On The Sidelines

- An entrenched spread-widening trend since the beginning of 2022 and persistent volatility throughout the year proved to be major obstacles for the smooth functioning of the primary market. With originators subject to high execution risk and investors facing the prospect of ongoing mark-to-market value declines, both supply and demand were curtailed.
- Although the deteriorating credit backdrop may have partly contributed to this spread widening, most market participants suggest that technical factors--such as liquidity and fund flows--have been a more significant driver than fundamentals.
- Securitization markets were not immune to the volatility in the wider fixed-income market that followed the U.K. government's fiscal announcement in late September, when a sharp sell-off in U.K. gilts sparked a "doom loop" of forced sales to collateralize rising derivatives liabilities for some pension funds.
- That said, in recent weeks spread volatility has calmed somewhat across both the securitization and more mainstream corporate credit markets, which could support 2023 issuance.

Indicative European Securitization Spreads

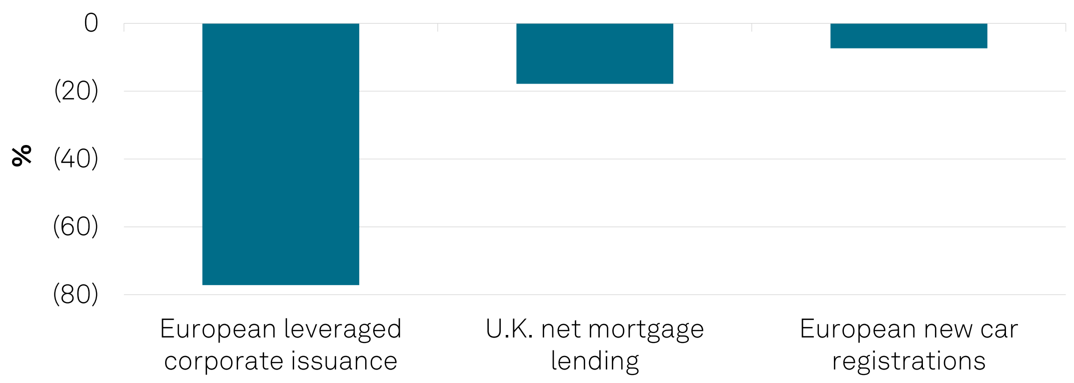


Bps—Basis points. Source: Bloomberg Barclays Pan-European Floating ABS Bond Index.

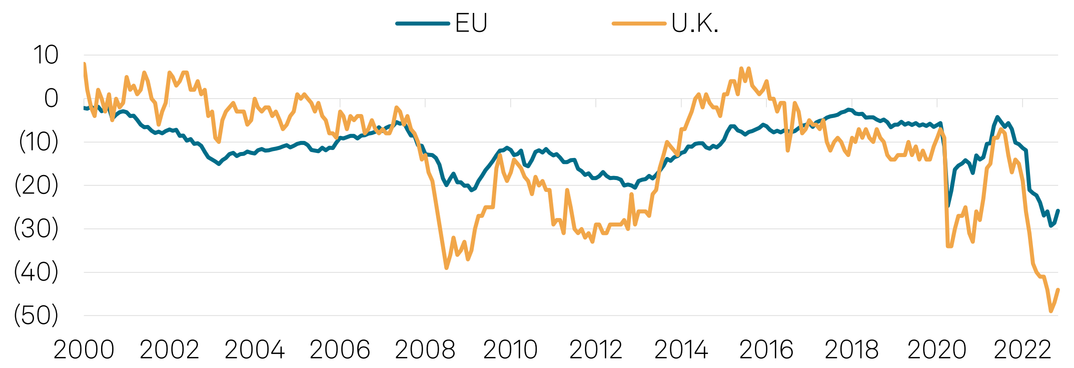
Underlying Origination Has Been Weak For Many Securitizable Credit Assets

- Securitization issuance has historically been linked to the level of activity in the underlying lending markets. This depends on both lenders' appetite for risk and balance sheet expansion, as well as borrower sentiment and willingness to take on leverage.
- In this regard, conditions are at a low ebb. In the underlying credit markets that tend to be most strongly linked to securitization issuance, activity levels have generally been declining over the past 12 months. The slowdown in lending to speculative-grade corporate issuers has been particularly sharp, and this is closely linked to the rate of new CLO formation.
- Consumer confidence measures are at all-time lows in both the U.K. and the EU, likely due to the combination of sharply rising prices and interest rates, suggesting that borrowers are less inclined to make discretionary purchases funded with credit.

Year-On-Year Change In Underlying Credit Origination



Consumer Confidence



Corporate issuance includes high-yield bonds and institutional leveraged loans. New car registrations based on the five largest European markets. Source: Pitchbook LCD, Bank of England, Society of Motor Manufacturers and Traders (U.K.), Federal Motor Vehicles Office (Germany), French Automobile Makers Association (France), ANFAC Spanish Automobile Association (Spain), ANFIA (Italy), S&P Global Ratings.

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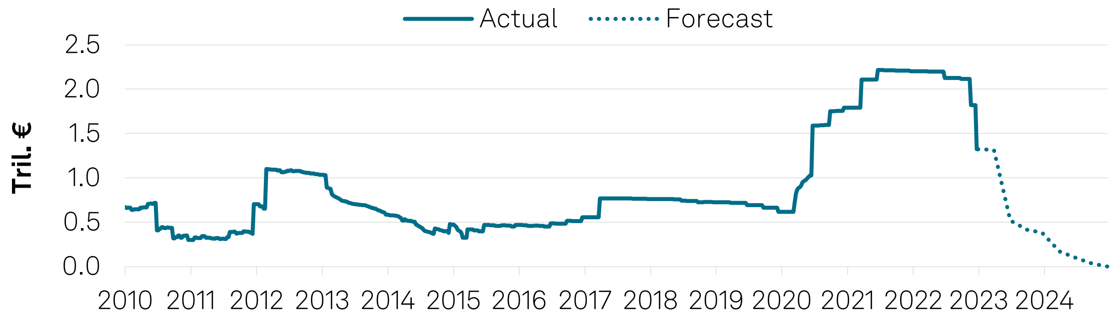
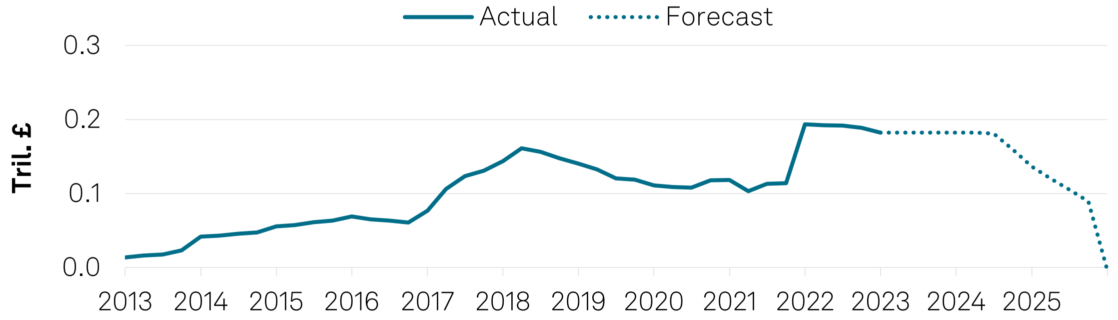
Lenders Are Beginning To Repay Funding Taken From Central Bank Schemes

Borrowings Outstanding, ECB TLTROs



ECB—European Central Bank. TLTRO--Targeted long-term refinancing operations. Forecasts based on maturity profile. Source: ECB, S&P Global Ratings.

Borrowings Outstanding, Bank Of England FLS And TFS(ME)



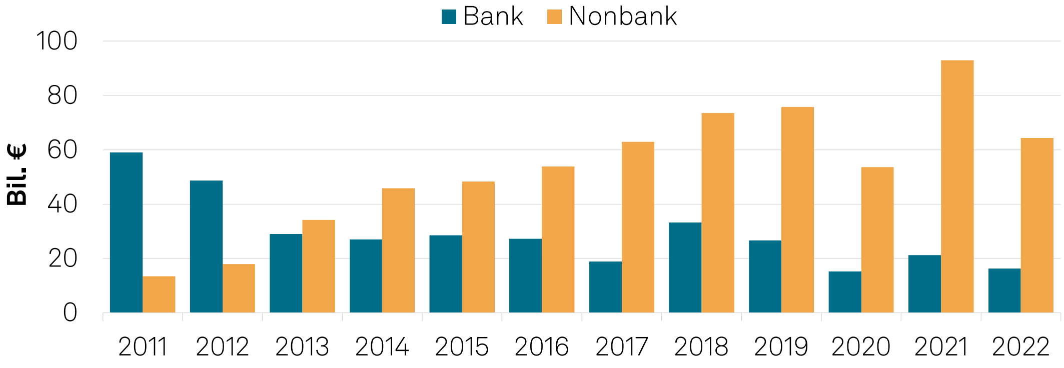
FLS--Funding for Lending Scheme. TFS(ME)--Term Funding Scheme (with additional incentives for small- and mid-sized enterprises). Forecasts based on original maturity profile, assuming no extension. Source: Bank of England, S&P Global Ratings.

- As part of their policy response to the pandemic, central banks revived liquidity schemes to provide credit institutions with cheap term funding, and borrowings under these facilities were still close to all-time highs throughout 2022.
- However, the European Central Bank (ECB) recently changed the terms of its targeted long-term refinancing operations (TLTROs), incentivizing banks to repay the funds earlier than the scheduled maturity date. Since then, banks have repaid €800 billion of borrowings under the scheme that, at its peak, had more than €2 trillion outstanding. In general, eurozone banks have ample liquidity to make these repayments without turning to the capital markets for more funding. However, the TLTRO wind-down still signifies a normalization of monetary policy that could eventually increase banks' appetite for issuance.
- In the U.K., the Bank of England's term funding scheme with additional incentives for small and midsize enterprises (TFSME) closed to new drawdowns in late 2021, but borrowings of about £180 billion remain outstanding. Although the first scheduled maturities are not until 2024, some banks may turn their attention to refinancing the four-year funding that they tapped under this scheme several months before maturity.

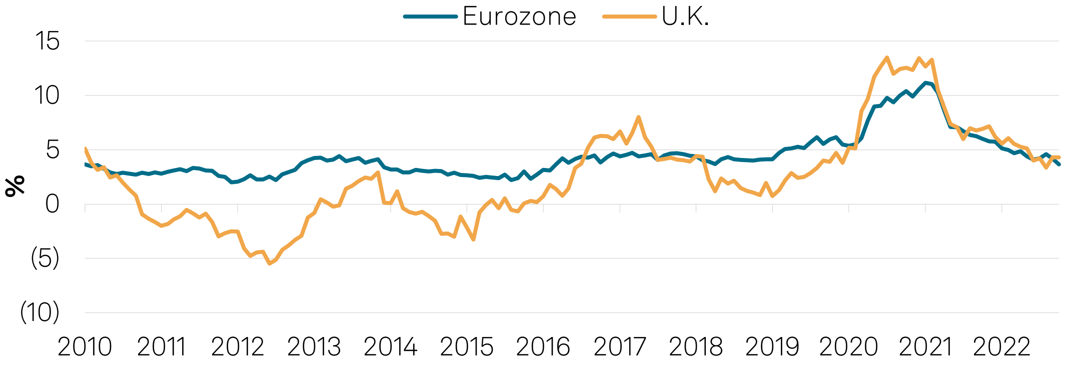
Bank-Originated Securitization Has Been Depressed But Could Recover

- Partly due to the cheap funding provided by central bank liquidity schemes over the past decade, bank-originated securitization issuance has stagnated--accounting for only 21% of the total in 2022--while nonbank supply has gained momentum. However, this trend could begin to reverse in 2023, given central banks' gradual return to more conventional monetary policy.
- Strong growth in financial institutions' deposit funding during the COVID-19 pandemic further reduced their incentives to access wholesale funding. However, the system-wide rates of deposit growth in both the eurozone and the U.K. have now normalized and continue to trend lower, likely due to pressure from the cost of living squeeze. All else being equal, this could also support bank-originated securitization issuance, though the extent will depend on the relative cost of banks' various funding alternatives.

Bank Versus Nonbank Securitization Issuance



12-Month Deposit Growth

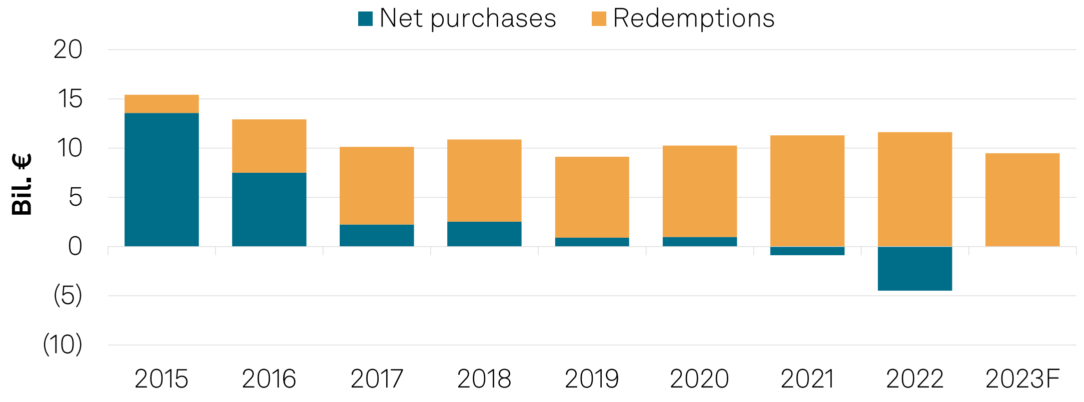


Deposit growth based on lending to households and nonfinancial corporates. Source: European Central Bank, Bank of England, S&P Global Ratings.

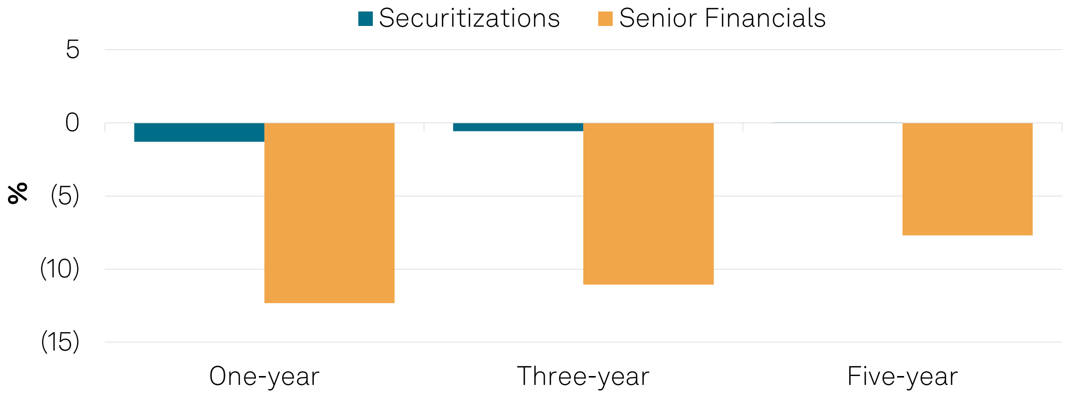
Demand For Securitizations Is Weakened By Slowing Central Bank Purchases

- While the scaling back of liquidity schemes represents a normalization of monetary policy that could increase structured finance supply, the parallel wind-down of the ECB's quantitative easing program will effectively reduce demand for eligible transactions.
- In 2022, the ECB's net purchases of securitizations turned markedly negative, meaning that gross purchases were insufficient to cover redemptions. Gross purchases will likely fall further in 2023 as this trend continues and expected redemptions are set to fall.
- In a rising rate environment, the European securitization sector's floating-rate nature may have appealed to investors seeking lower portfolio duration and more stable mark-to-market returns than traditional fixed-income products. However, it's likely that the sector failed to benefit from any material demand boost through 2022, given wider considerations determining allocations and fund flows.

ECB ABS Purchase Program Activity



Cumulative Total Returns: Securitizations Vs. Financials



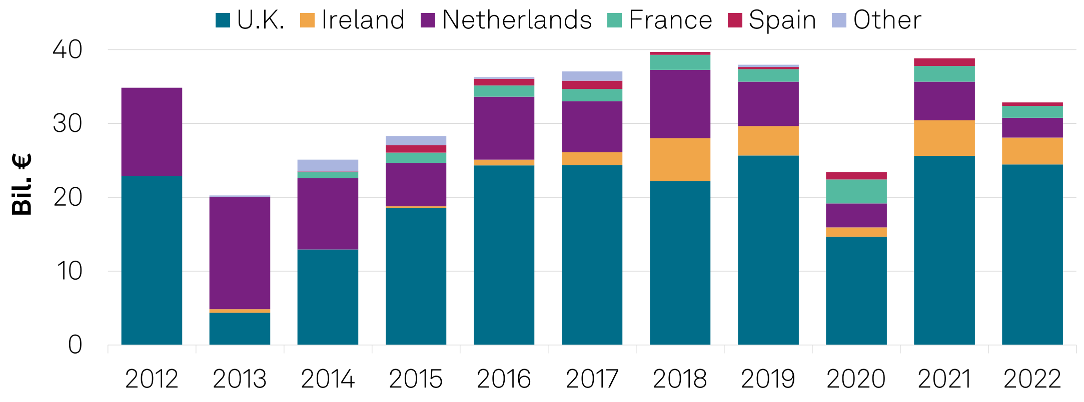
F—Forecast. Senior Financials returns based on iBoxx Euro Senior Financial index. Securitizations based on Bloomberg Barclays Pan-European Floating ABS index. Source: ECB, Bloomberg, S&P Global Market Intelligence, S&P Global Ratings.

RMBS

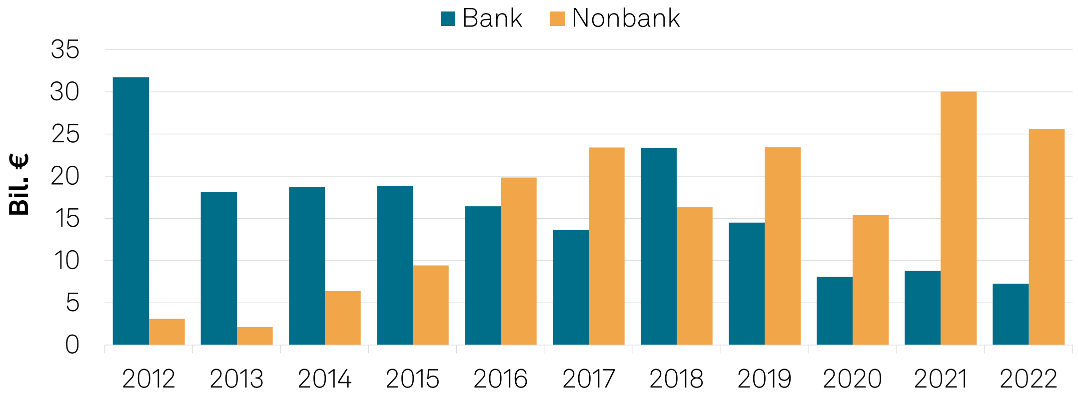
RMBS Issuance Fell In 2022 And Will Likely Continue To Trend Lower

- RMBS volumes were down 14% to €33 billion in 2022, with declines in each of the major markets: U.K., Ireland, and the Netherlands.
- Transactions brought by nonbank originators dominated once again, accounting for 77% of the total volume compared with 9% in 2012, and there was very little issuance from traditional U.K. prime RMBS master trusts.
- Issuance could fall further in 2023, given slowing underlying mortgage lending and only a small pipeline of transactions with upcoming call dates. Some calls may not be economic for originators, given high primary market spreads relative to legacy step-up margins.
- Bank-originated RMBS issuance could be one bright spot, as some lenders prepare to repay their borrowings from central bank liquidity schemes and therefore begin to re-engage with wholesale funding markets.

European RMBS Issuance, By Country



European RMBS Issuance, By Originator Type



Investor-placed issuance only. Source: S&P Global Ratings.

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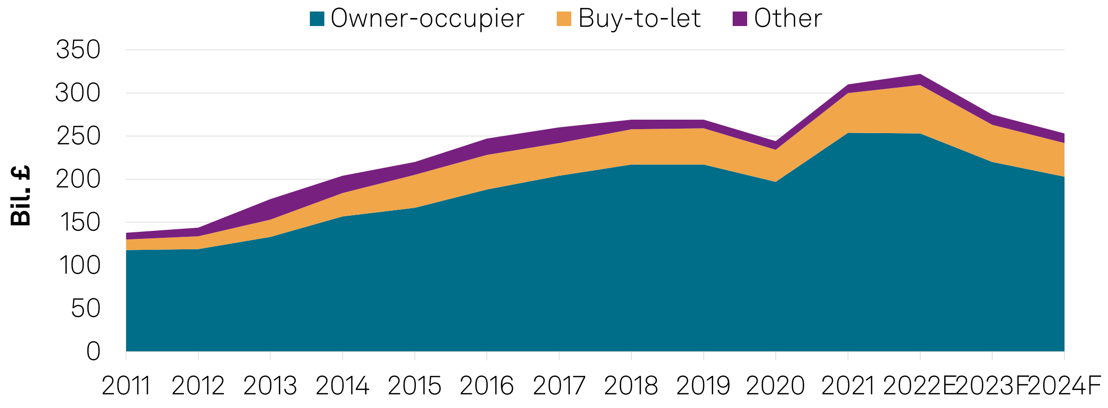
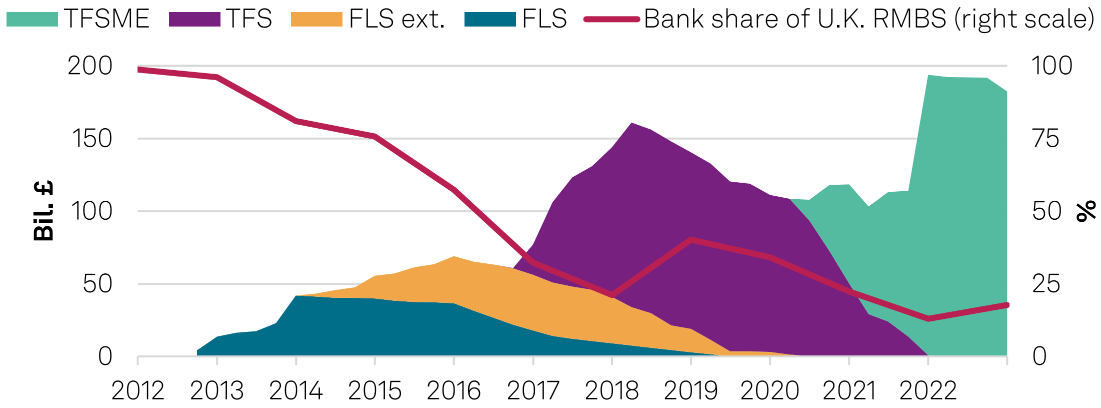
In The U.K., Central Bank Funding Has Peaked, But Lending Is Slowing

- UK Finance, the trade body, expects gross mortgage lending to fall 15% in 2023, which is likely negative for RMBS issuance volumes.
- While €17 billion of outstanding U.K. RMBS has a call date this year, this is low by recent standards. In addition, some originators have already opted to extend transactions beyond the first call date, and this trend may continue given current market conditions.
- The bank-originated share of new U.K. RMBS supply has severely dwindled over the past decade. However, it ticked up to 20% in 2022, as financial institutions' borrowing from cheap Bank of England funding schemes begins to fall from its £200 billion peak.
- While borrowings from the Bank of England's TFSME facility will not start maturing until 2024, lenders will likely have to stagger their refinancing over time, potentially involving a gradual return to wholesale debt markets, including RMBS issuance.

U.K. Gross Mortgage Lending



Central Bank Borrowing Versus Bank U.K. RMBS Issuance

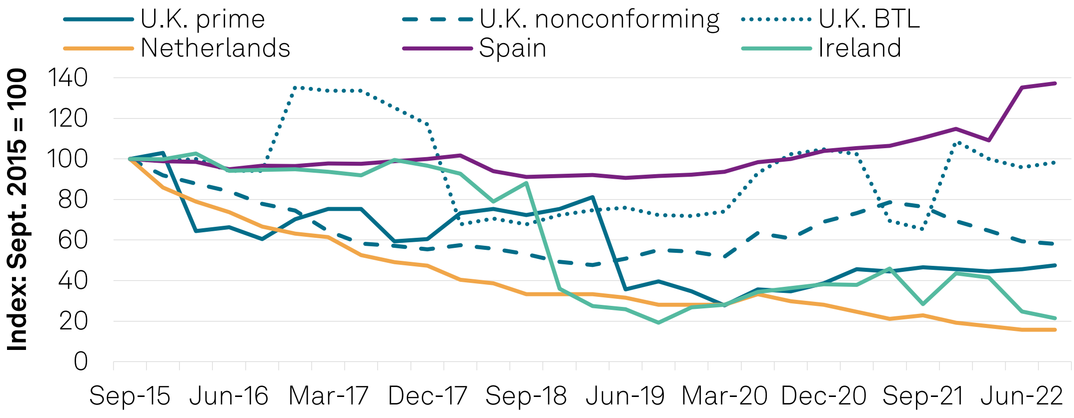


E--Estimate. F--Forecast. FLS (ext.)--Funding for Lending Scheme (and extension). TFS(ME)--Term Funding Scheme (with additional incentives for small- and mid-sized enterprises). Source: U.K. Finance forecasts, Bank of England, S&P Global Ratings.

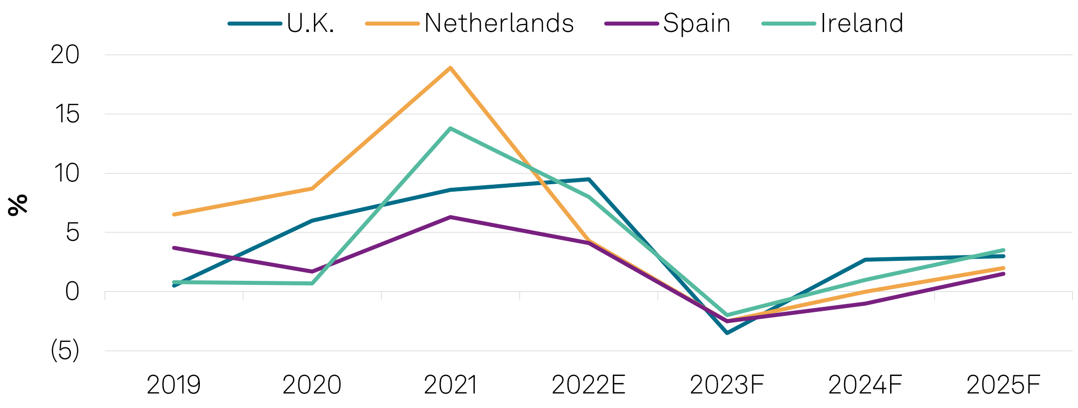
Arrears Remain Stable Despite Higher Rates; Expect House Prices To Plateau

- In general, severe delinquencies reported for the mortgage pools backing RMBS that we rate have not yet increased significantly, despite the economic downturn and rapid rises in the cost of living and interest rates.
- Arrears are rising in Spanish transactions, which are mostly backed by loans that are well-seasoned but pay a floating rate of interest.
- House price inflation looks set to normalize, as higher interest rates lower purchasers' borrowing capacity and their savings and disposable incomes are absorbed by the higher cost of living. That said, in 2023 we only expect single-digit percentage corrections to nominal prices in the major European RMBS markets of the U.K., Ireland, the Netherlands, and Spain. In 2024 or 2025, we expect house prices in these countries to resume modest rates of growth.

European RMBS 90+ Day Delinquency Indices



House Price Growth Forecasts For RMBS Markets



BTL--Buy-to-let. E--Estimate. F--Forecast. House price growth based on year on year change in the fourth quarter. Source: OECD, S&P Global Ratings

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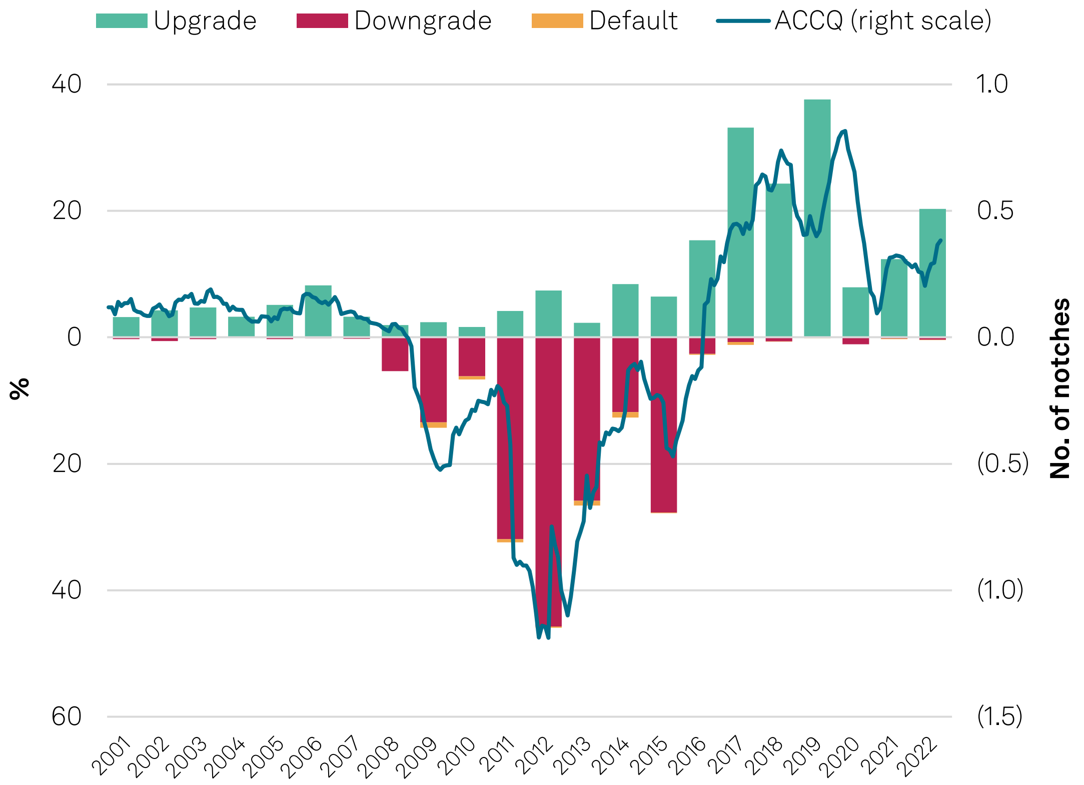
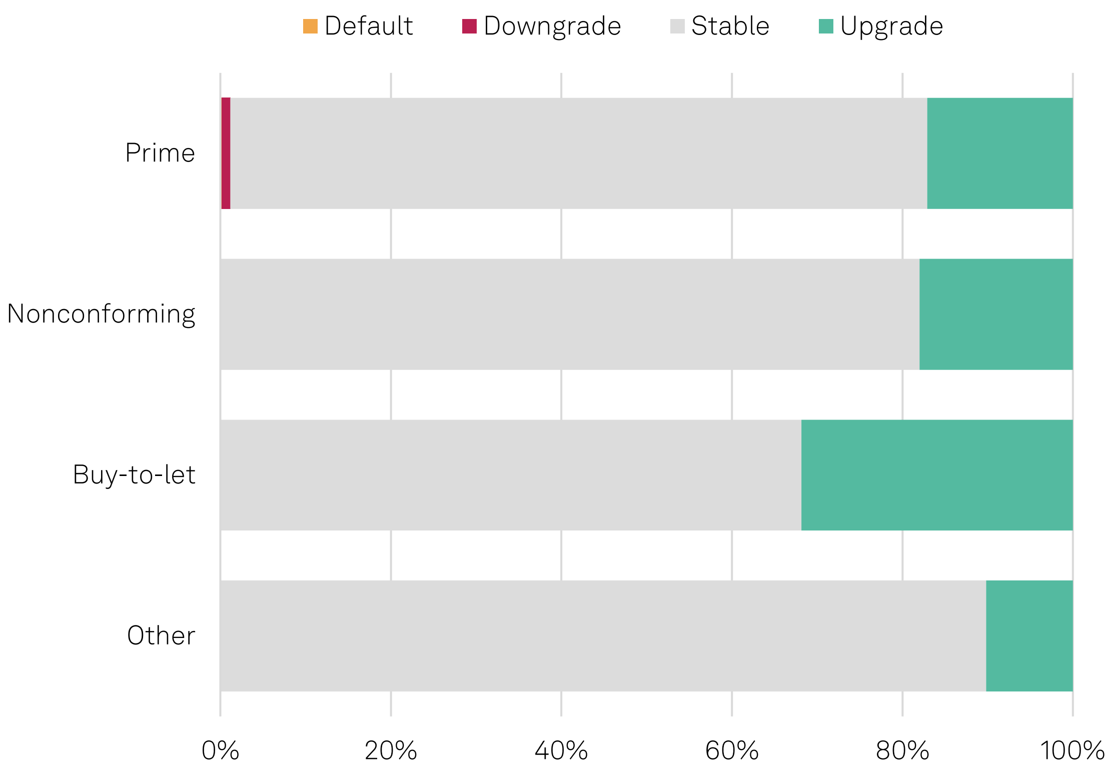
Upgrades Have Dominated Recent RMBS Rating Actions

RMBS Transition Rates And Change In Credit Quality



ACCQ--Average change in credit quality, i.e., the average number of notches by which ratings changed over a trailing 12-month period. Downgrades exclude defaults. Source: S&P Global Ratings.

RMBS Subsector Rating Transitions, 2022



Downgrades exclude defaults. Source: S&P Global Ratings.

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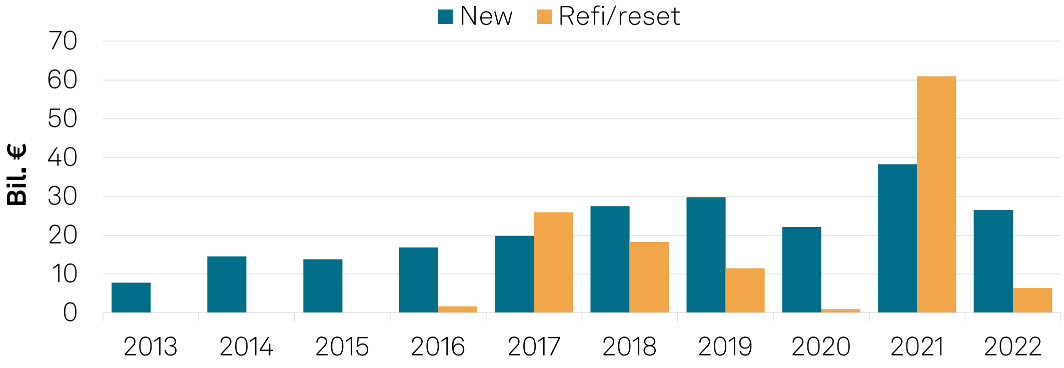
CLO

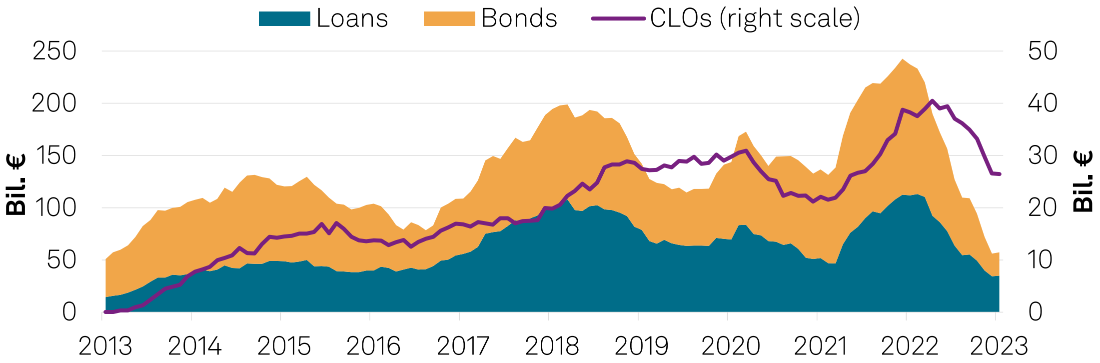
CLO Issuance Trending Lower, Linked To Muted Leveraged Finance Activity

- New European CLO issuance fell by more than 30% to €26 billion in 2022, against the backdrop of underlying leveraged finance originations declining to a decade low, as corporate borrowers' appetite for debt waned in the higher interest rate environment.
- CLO volumes could fall further in 2023, as a dearth of buyout and mergers and acquisitions activity keeps leveraged loan originations and high-yield bond issuance subdued.
- Additional activity from refinancings and resets ceased completely after April 2022, accounting for only €6 billion by year-end.
- With CLO liability spreads widening through 2022, collateral managers had no economic incentive to refinance or reset transactions that exited their non-call periods. Refinancing and reset activity will likely remain close to zero, absent significant spread tightening.

European CLO Issuance



European Leveraged Finance Vs. CLO Volumes



Right chart shows volumes on a 12-month rolling basis. Loan figures are institutional only. Source: S&P Global Ratings, Pitchbook LCD.

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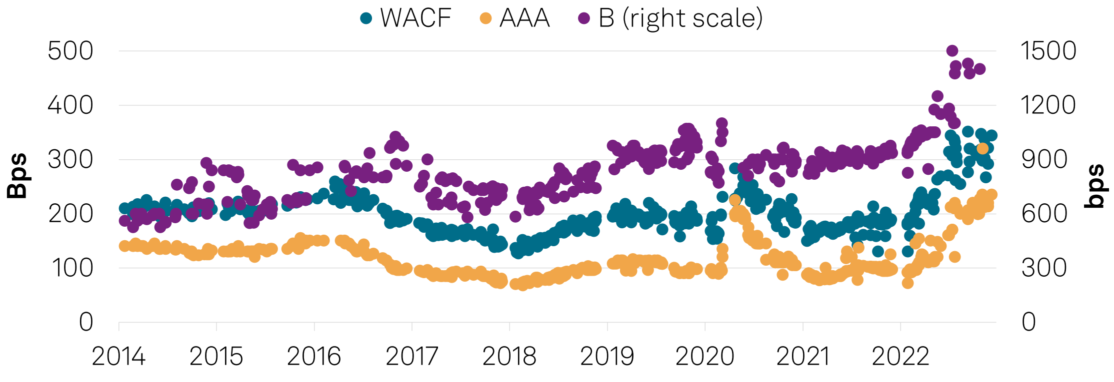
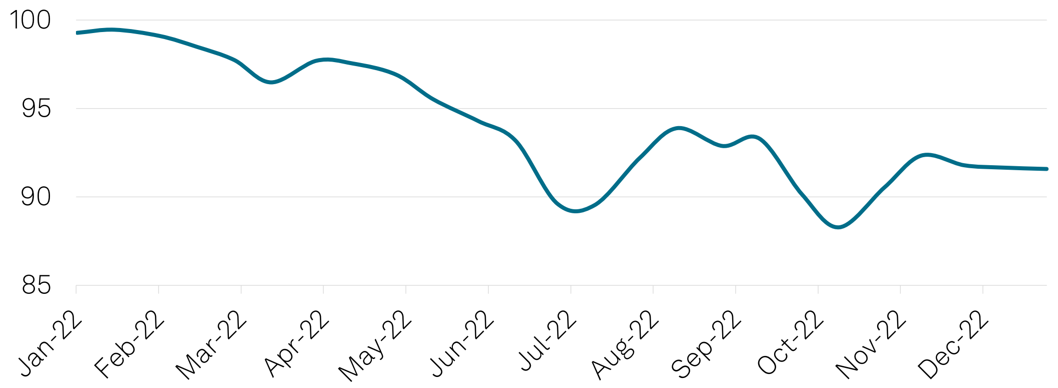
Innovations Have Kept CLO Issuance Afloat, But May Have Limited Shelf-Life

- Despite sharply rising funding costs, substantial execution uncertainty, and a limited primary market for collateral, the 2022 decline in issuance was mitigated by several innovations that allowed CLO formation to continue and warehoused collateral to clear.
- Many transactions placed senior tranches with arranging banks (often in loan format), issued delayed draw junior tranches to contain liability costs, and implemented shorter non-call periods in order to capitalize sooner on any improvement in market conditions.
- With collateral markets in flux, managers may have had more opportunities to selectively source assets in the secondary market at a discount to par, shifting the focus of equity returns from traditional "CLO arbitrage" to par accretion on performing assets.
- However, these approaches may not solve the current issues with new CLO construction indefinitely, leading volumes to head lower.

European CLO WACF And Tranche Discount Margins



European CLO Weighted-Average Loan/Bond Price

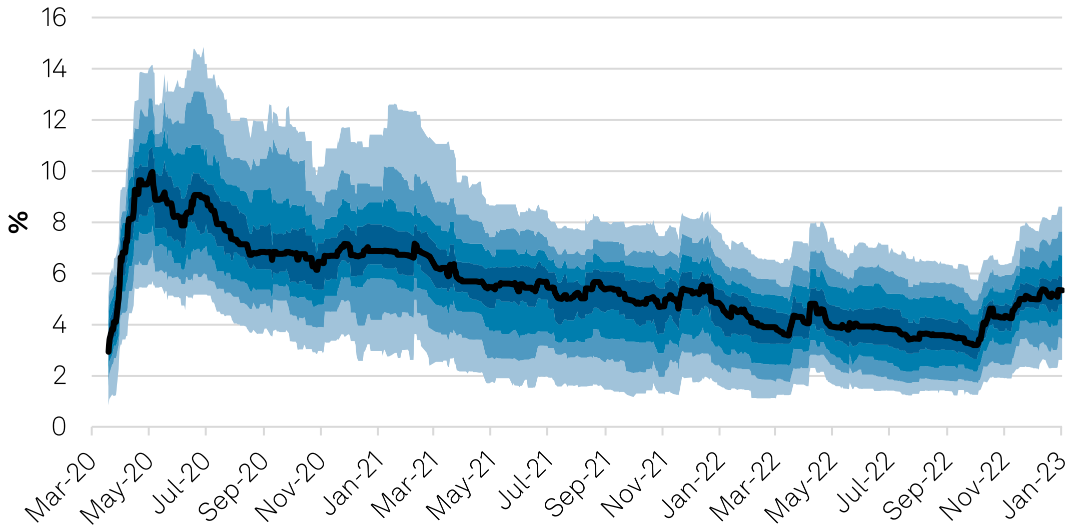


WACF--Weighted-average cost of funding as coupon margin over three-month EURIBOR. Bps--Basis points. Based on new issue transactions only. Source: S&P Global Market Intelligence, S&P Global Ratings, Pitchbook LCD.

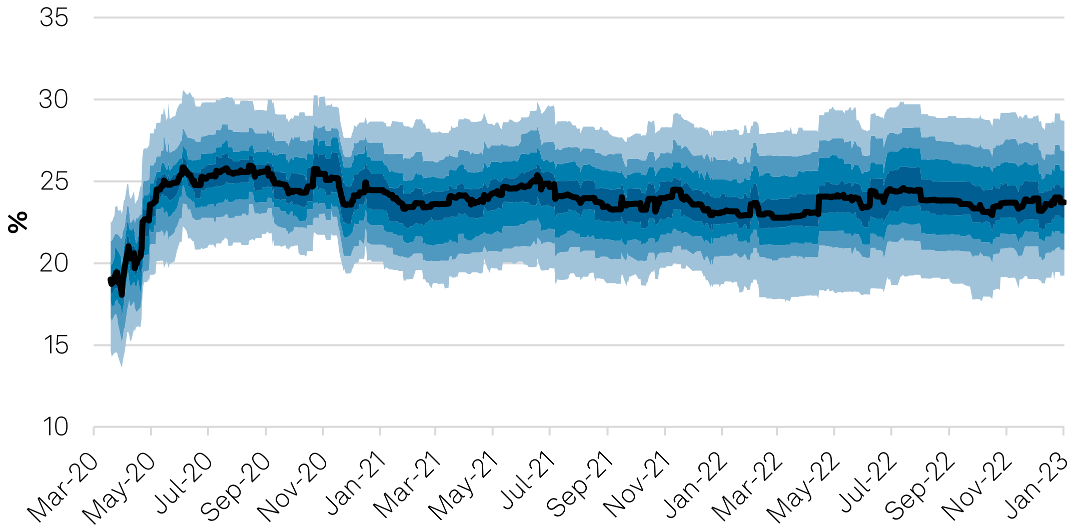
Key Credit Metrics For CLO Portfolios Seeing Only Mild Deterioration For Now

- Across the European CLOs that we rate, the median exposure to obligors rated in the 'CCC' category has recently risen to 5.3%, and there are not many transactions where this statistic is higher than the 7.5% threshold above which some assets are carried at market value in overcollateralization tests.
- Given current economic pressures, the pool of obligors currently rated 'B-' could be a source of future migrations to 'CCC', and typically account for a quarter of the portfolios backing CLOs. However, the 'B-' portfolio share has remained stable.

European CLO Exposure To 'CCC' Category Obligors



European CLO Exposure To Obligors Rated 'B-'

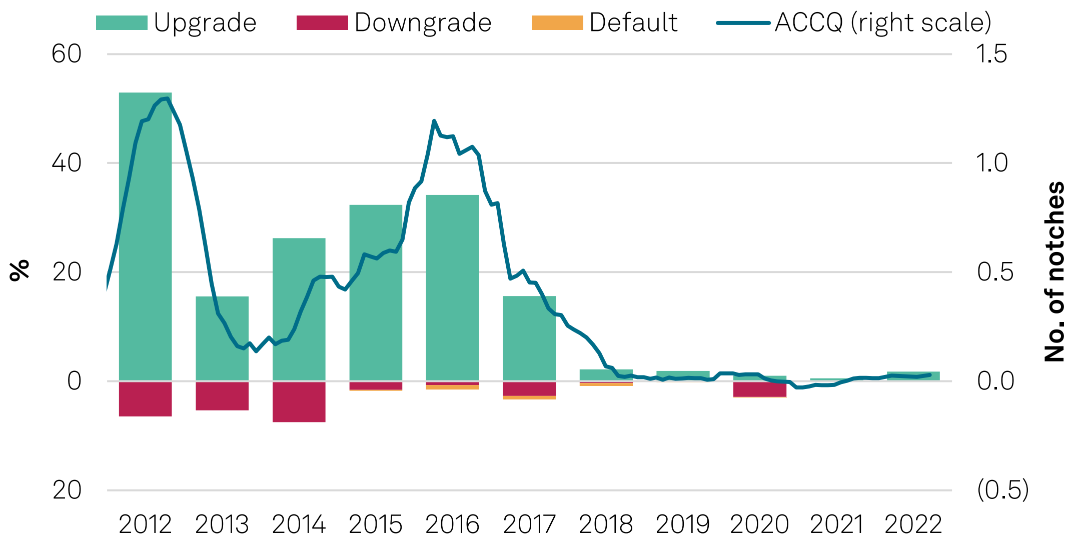


Solid line is the median, with each band representing a decile, from 10th to 90th percentiles. Estimates based on portfolios from latest available trustee reports, with ratings updated. Source: S&P Global Ratings.

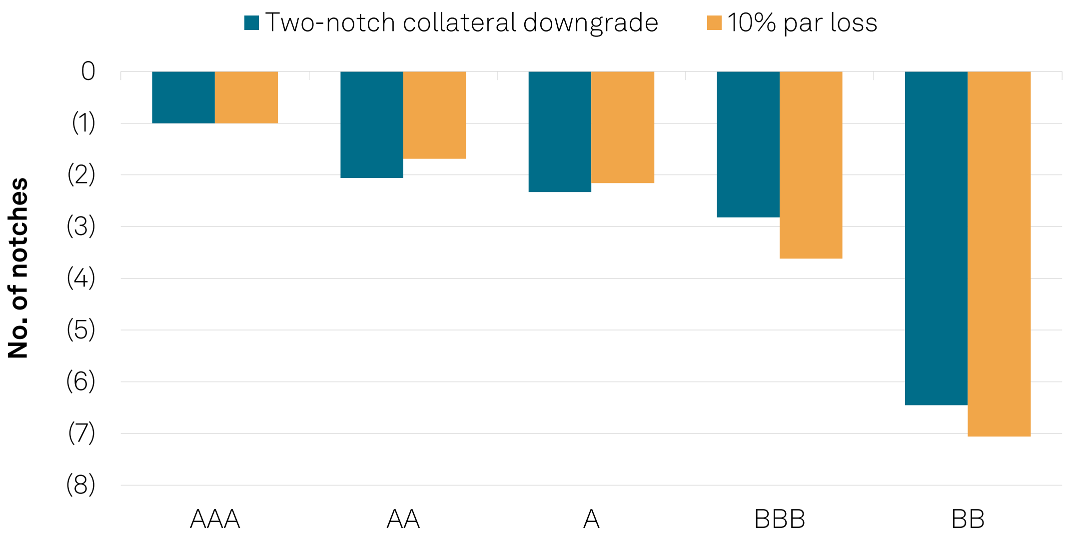
CLO Ratings Have Been Stable; 'AAA' Is Robust, Even In Severe Scenarios

- European leveraged loan CLOs have seen very few ratings migrations over the past five years--even through the COVID-19 pandemic--partly due to collateral managers' ability to actively trade out of credits and sectors should they come under stress.
- Even under severe hypothetical scenarios--such as a uniform two-notch downgrade of all underlying obligors or 10% par losses in the portfolio--European CLO tranches currently rated 'AAA' would typically only see their ratings lowered by a single notch.

CLO Transition Rates And Change In Credit Quality



CLO Scenario Analysis, Average Rating Change

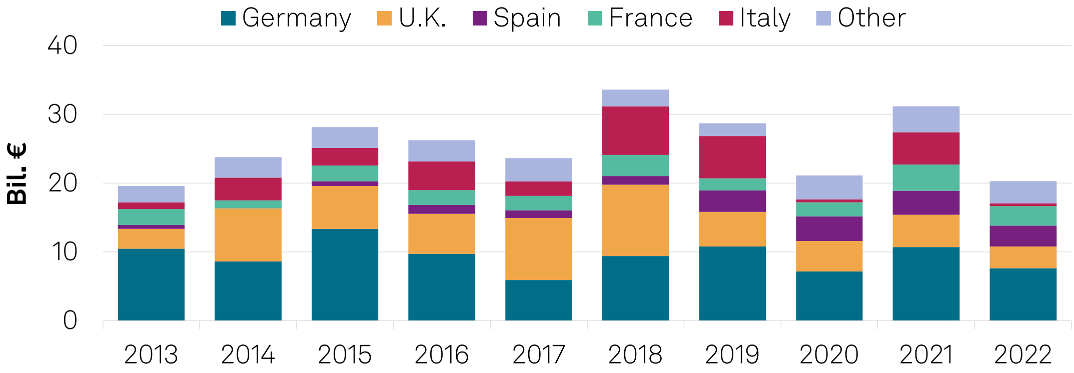


ACCQ--Average change in credit quality, i.e., the average number of notches by which ratings changed over a trailing 12-month period. Downgrades exclude defaults. Scenario analysis based on the universe of reinvesting European CLOs that we rate, as of September 2022. Explore full scenario analysis results with our interactive dashboard. Source: S&P Global Ratings.

ABS

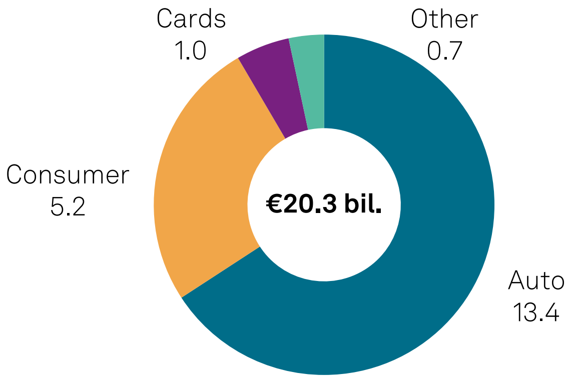
ABS Issuance Fell To A Nine-Year Low In 2022, But Remained Diverse

European ABS Issuance, By Country

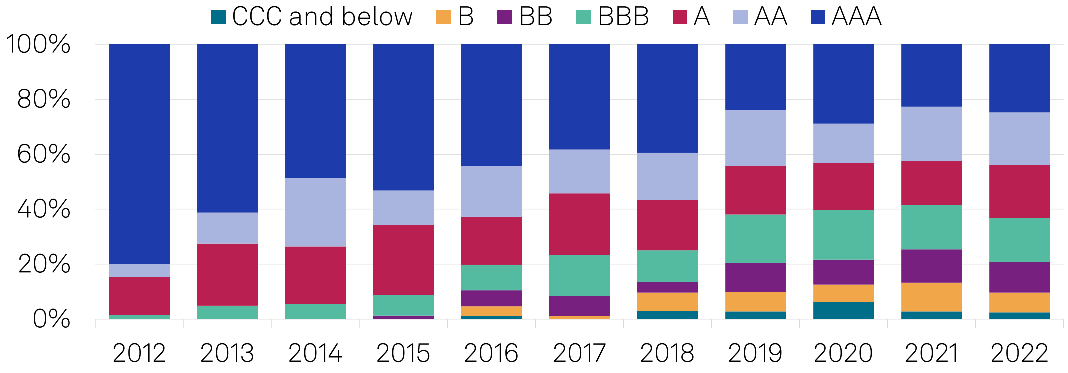


- In 2022, investor-placed ABS issuance was only €20 billion, although most traditional collateral types and countries continued to be represented. Transactions backed by auto loan and lease collateral dominated, with issuance from eight countries.
- More than 20% of tranches (by count) placed with investors were rated in the 'BB' category or lower, reflecting some originators' use of securitization for capital relief, rather than solely as a funding tool. This could help to support issuance at a time when underlying lending--and therefore funding needs--are likely declining.

2022 Issuance Mix, By Subsector (Bil. €)



Issuance Mix, By Number Of Tranches And Rating Category



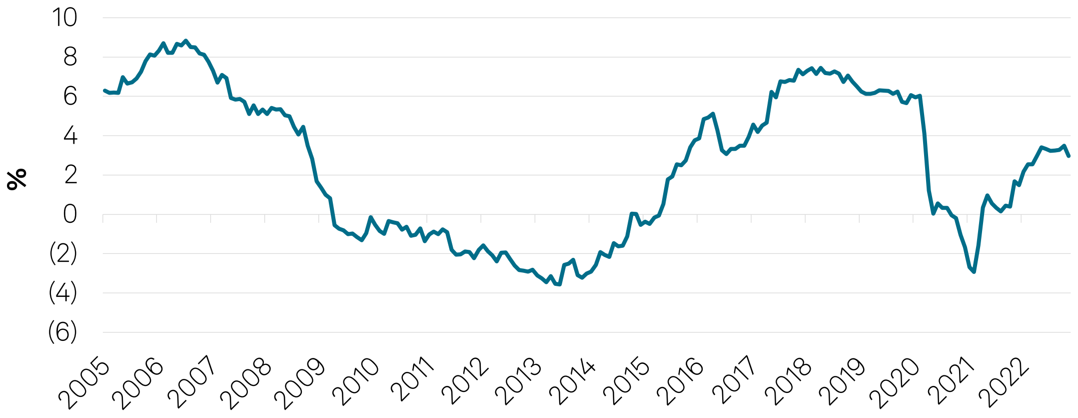
Investor-placed issuance only. Source: S&P Global Ratings.

S&P Global Ratings

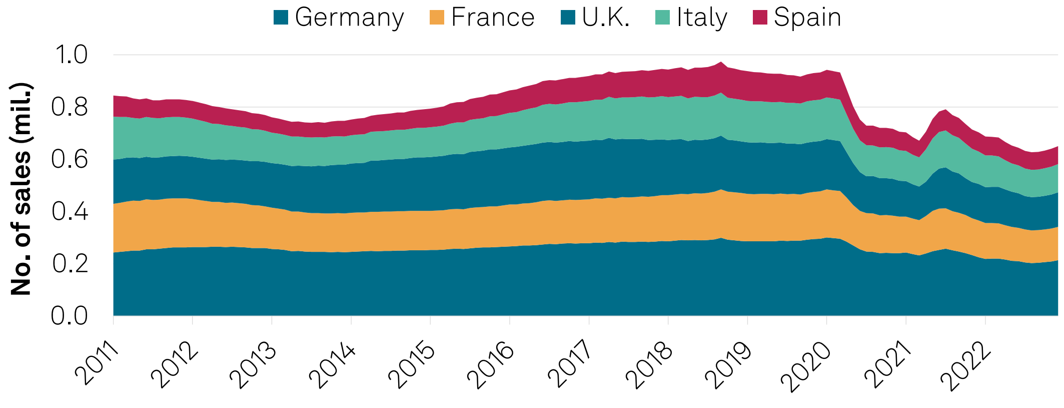
Muted Demand For New Consumer Credit Could Keep ABS Issuance Down

- While origination volumes for the types of lending that back consumer ABS initially recovered from a dip during the COVID-19 pandemic, the cost of living crisis, higher rates, and low consumer confidence are leading to renewed pressure.
- Eurozone banks' net lending to households for consumption remained mildly positive through 2022, but has not recovered to the levels seen in 2018-2019, for example, and may slow again.
- In 2022, sales of new passenger vehicles in major auto ABS markets were lower than during the pandemic, which is generally a negative for auto ABS supply.
- That said, originators are also exploring the securitization of new collateral types, such as solar and buy now pay later finance.

Growth In Lending To Households For Consumption



Monthly New Auto Sales Volumes



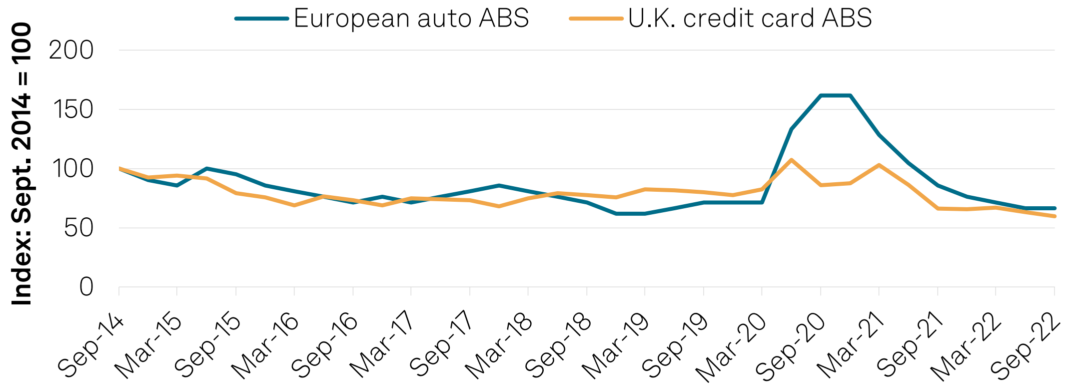
Lending data based on Eurozone banks. Auto sales based on 12-month rolling averages. Source: European Central Bank, national automobile associations.

S&P Global Ratings

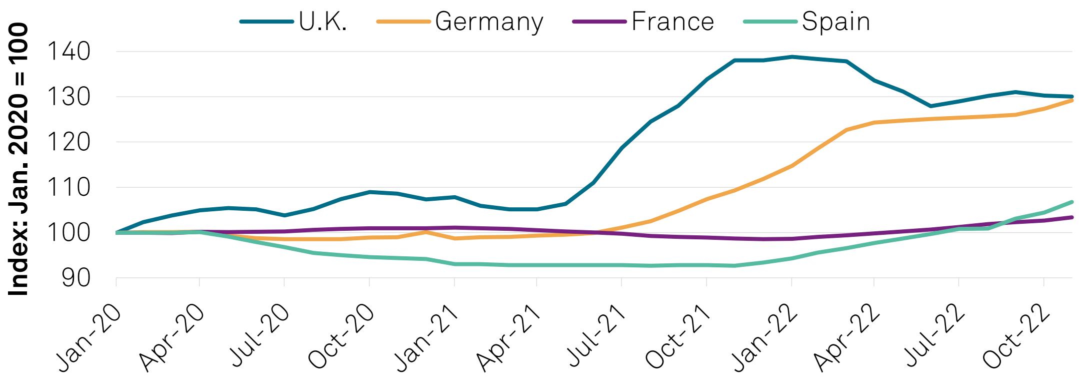
ABS Arrears Have Not Yet Ticked Up; High Used Car Prices Pose Limited Risk

- Our delinquency indices do not yet reveal any deterioration in aggregate credit performance across the underlying collateral pools of transactions that we rate. In auto ABS, we would expect minimal ratings impact if used car prices return to pre-pandemic levels.
- As consumers increasingly feel the strain of rising living costs, we believe ABS collateral performance will first deteriorate in transactions backed by non-prime borrowers or unsecured receivables.
- We expect our investment-grade ratings on European consumer ABS transactions will remain stable, as current performance is generally better than our base-case assumptions. However, if our downside receivables performance scenario and macroeconomic outlook were to materialize, we anticipate that any revisions to our stress assumptions would only affect speculative-grade ratings.

European ABS 90+ Day Delinquency Indices



Used Car Price Index

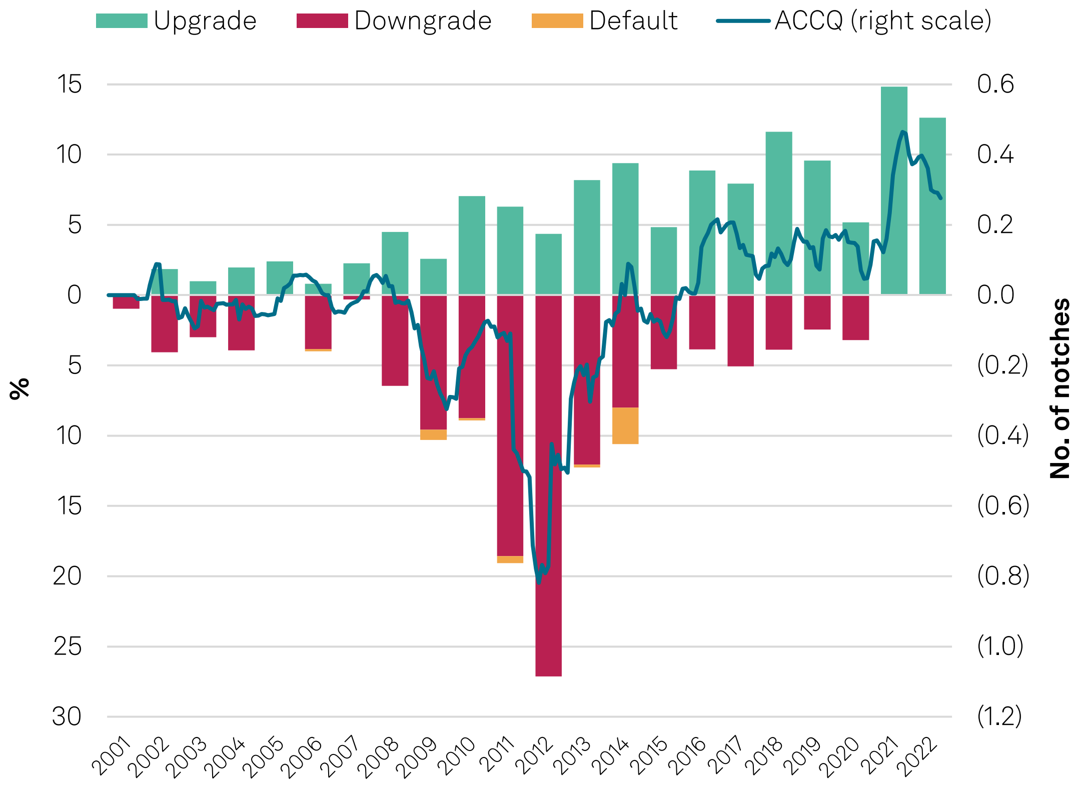


Source: S&P Global Ratings, national statistical offices.

S&P Global Ratings

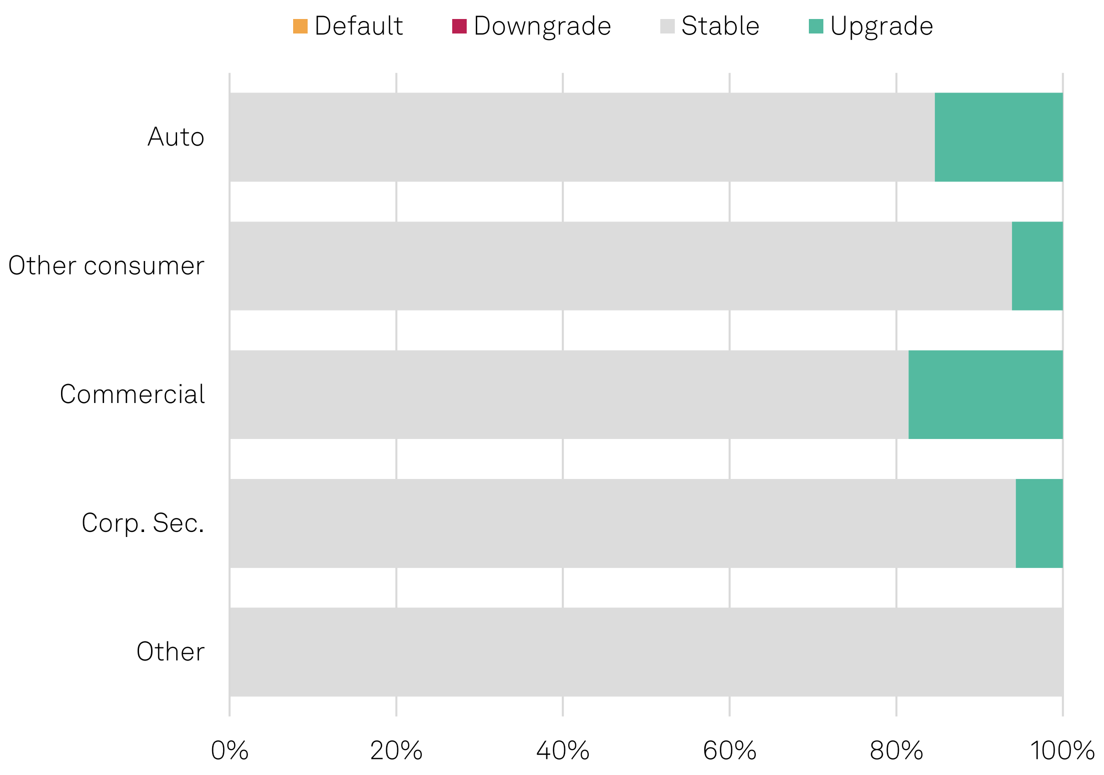
European ABS Saw A Second Successive Year With No Downgrades In 2022

ABS Transition Rates And Change In Credit Quality



ACCQ--Average change in credit quality, i.e., the average number of notches by which ratings changed over a trailing 12-month period. Downgrades exclude defaults. Source: S&P Global Ratings.

ABS Subsector Rating Transitions, 2022



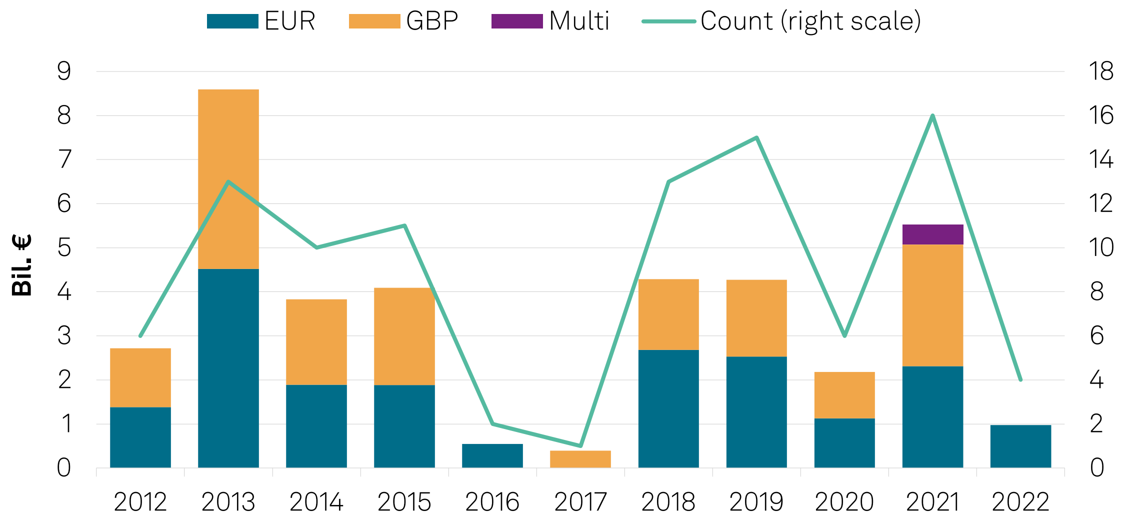
Downgrades exclude defaults. Source: S&P Global Ratings.

CMBS

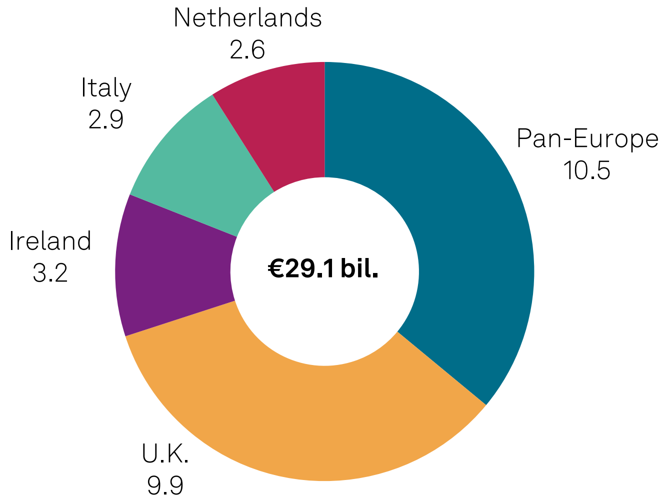
CMBS Issuance Dropped To A Five-Year Low In 2022

- In 2022, European CMBS issuance declined to less than €1 billion for the first time since 2017, with only four transactions closing.
- Even this limited activity was confined to the first four months of 2022, with no new European CMBS issuance at all since then.
- Our outlook for 2023 is similarly bleak. Given the likely continuation of current unfavorable market conditions in the sector, we expect new issuance to come in at or below the level of 2022.

European CMBS Issuance, By Currency Format



European CMBS Outstanding, By Collateral Country (Bil. €)

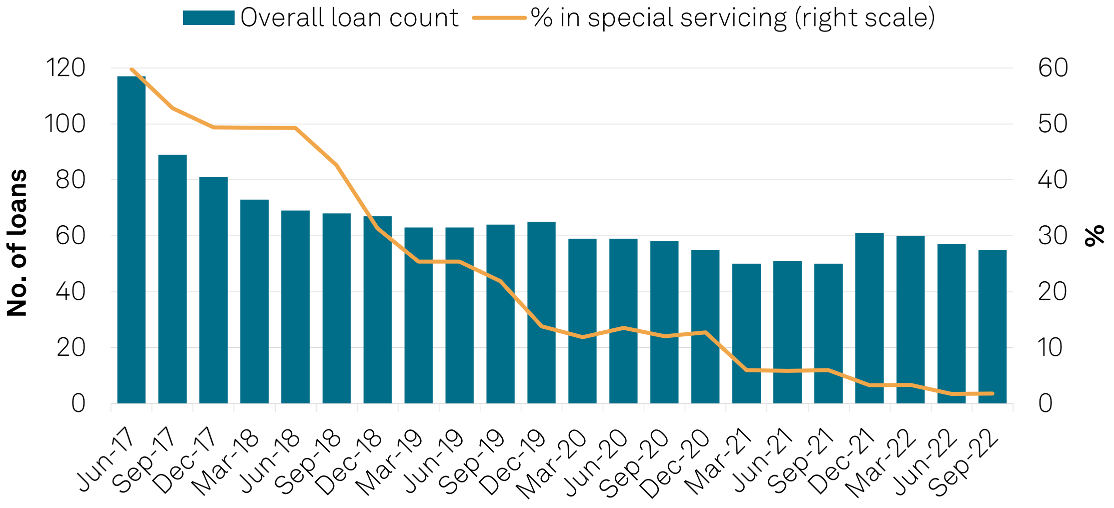


Investor-placed issuance only. Outstanding balances as of Sept. 30, 2022. Source: S&P Global Ratings.

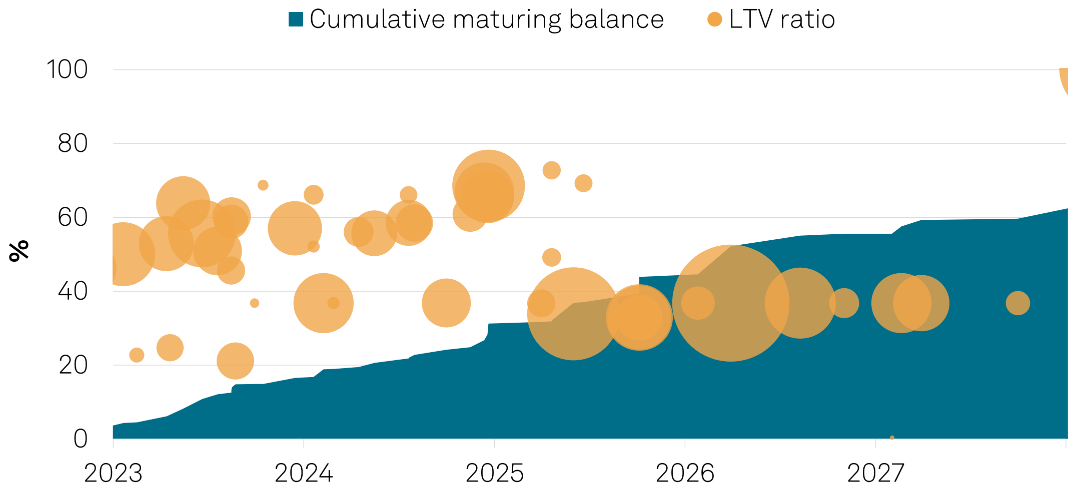
Few Loan Defaults For Now, But Refinancing Could Become A Challenge

- The number of loans in special servicing remains low, although this is largely due to few loans reaching maturing recently.
- About one-third of loan balances mature by the end of 2024 and these are susceptible to refinancing risk in the current environment.
- That said, when the underlying real estate is appraised at current market values, most maturing loans have a loan-to-value ratio of less than 60%, which could be a substantial mitigant.

European CMBS Loans In Special Servicing



European CMBS Loan Maturity Profile

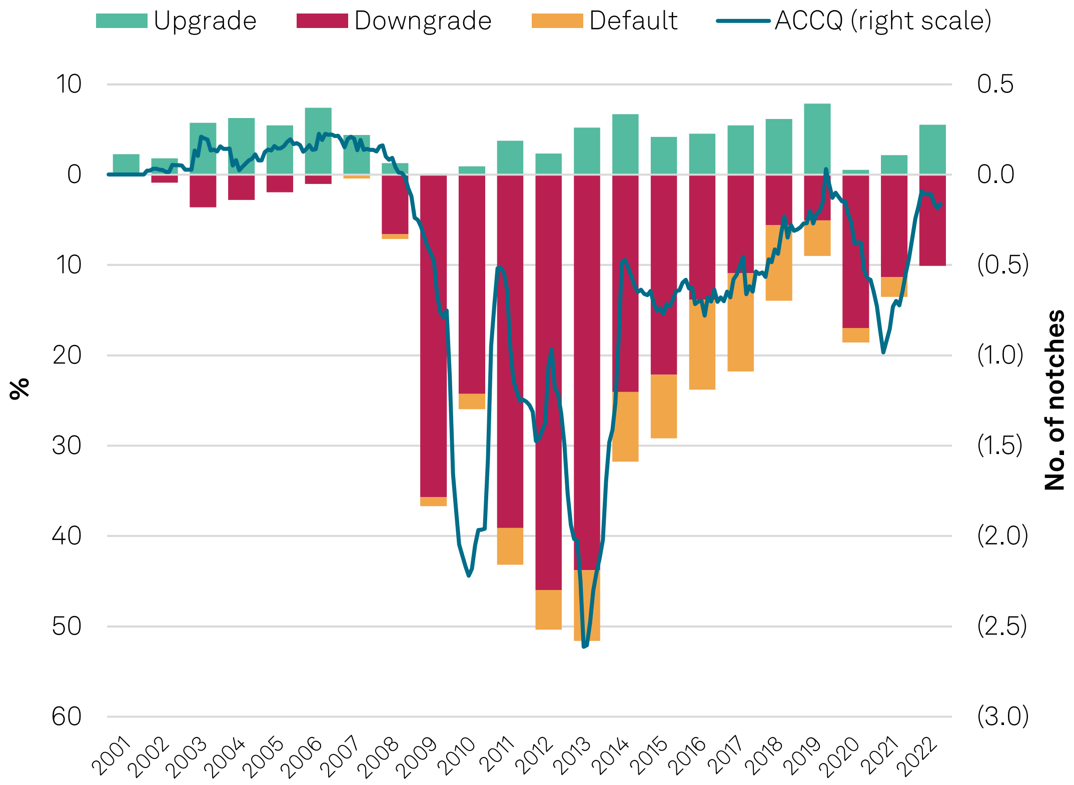


LTV--Loan to value. Based on loans backing European CMBS rated by S&P Global Ratings as of Sept. 30, 2022. Bubble size in right hand chart corresponds to loan balance. Source: S&P Global Ratings.

S&P Global Ratings

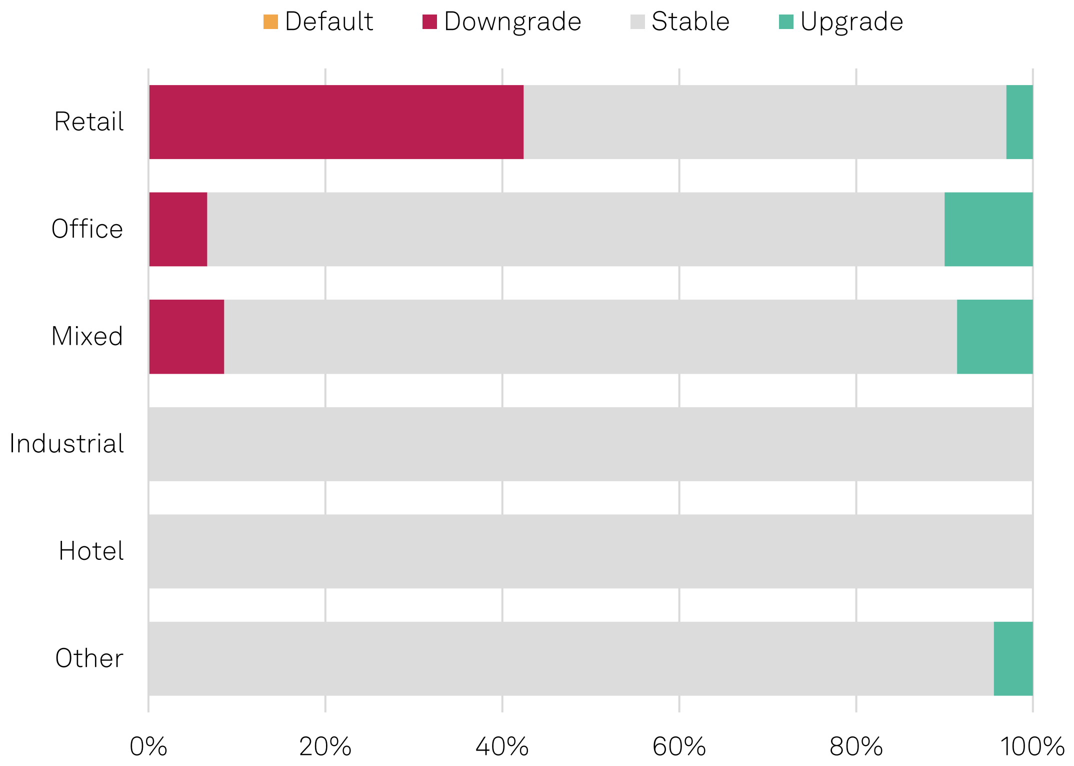
Most CMBS Ratings Stable Recently, Though Downgrades Continue In Retail

CMBS Transition Rates And Change In Credit Quality



ACCQ--Average change in credit quality, i.e., the average number of notches by which ratings changed over a trailing 12-month period. Downgrades exclude defaults. Source: S&P Global Ratings.

CMBS Subsector Rating Transitions, 2022



Downgrades exclude defaults. Source: S&P Global Ratings.

Links To Recent Research

- European Housing Prices: A Sticky, Gradual Decline, Jan. 11, 2023
- Cost Of Living Crisis: Payment Shock Greatest In Legacy U.K. Nonconforming RMBS, Dec. 15, 2022
- Covered Bonds Outlook 2023: Sailing Through Choppy Waters, Dec. 6, 2022
- Global Credit Outlook 2023: No Easy Way Out, Dec. 1, 2022
- Economic Outlook U.K. Q1 2023: A Moderate Yet Painful Recession, Nov. 29, 2022
- Asset Price Risks: European Auto ABS Appear Resilient To A Potential Fall In Used Car Prices, Nov. 29, 2022
- Economic Outlook Eurozone Q1 2023: Reality Check, Nov. 28, 2022
- Credit FAQ: Understanding Pro Rata Amortization Profiles In EMEA ABS Transactions, Nov. 24, 2022
- Credit FAQ: Assessing The Impact Of Increasing Multifamily Exposure On U.K. Buy-To-Let RMBS Transactions, Nov. 24, 2022
- Cost Of Living Crisis: U.K. Buy-To-Let RMBS: Sheltered But Not Immune To Rate Rises, Nov. 24, 2022
- Scenario Analysis: How Bad Can It Get Before European CLO Performance Suffers?, Nov. 17, 2022
- European RMBS Market Update Q4 2022: The New Normal For How Long?, Nov. 9, 2022
- European RMBS Index Report Q3 2022, Nov. 7, 2022
- European Auto ABS Index Report Q3 2022, Nov. 7, 2022
- European And U.K. Credit Card ABS Index Report Q3 2022, Nov. 7, 2022

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