What is driving the shift in leveraged finance

Structures and credit resilience through a risk lens

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The rise of private markets

Financial sponsors

Private Equity

Private Credit

How did we get here?

Disintermediation from banks

Has this shift made markets more resilient or vulnerable?

Why the shift	How capital is now deployed	Key risks
Regulation	Bank balance sheets	Lower transparency
Prolonged low rates and QE	Private capital	Less regulation
Investor demand		

Credit risk in today's market

Inflation

Higher interest rates

Geopolitical risk

Have leverage adjusted for the current macroeconomic environment?

Has the traditional credit cycle been fundamentally disrupted?

Debt protections

In the competition to deploy capital, what is the current trend in documentary terms?

Debt incurrence

EBITDA adjustments

Value leakage

The priming of existing creditors

What is the role of Liability Management Exercises (LMEs)

Are LMEs on the rise?

What are the implications for lenders?

Private equity funds are holding assets for longer

What are the implications?

Dividend recaps

Borrowing to fund payouts to shareholders

NAV based loans

Portfolio assets used as a collateral to borrow at fund level

Continuation funds

Used to extend holding periods.

The complexity and interconnectedness

Interconnections are not always obvious, making it harder to assess true risk concentration.

Can interconnections amplify the impact in ways that have not been fully accounted for?

Where do assumptions break down under stress?

What actions help mitigate these risks?

Regulators expect banks to systematically track and aggregate exposures across private markets, identifying interconnected risks, collateral dependencies, and concentration vulnerabilities. Scenario-based stress testing, adequate due diligence, and board-level oversight are required to meet regulatory standards and support financial stability.

Mitigating credit risk - Examples

- Holistic portfolio approach
- Enhanced due diligence
- Portfolio diversification and stress testing
- Structural mitigants
- Risk transfer strategies

Systemic risk

Is systemic risk increasing?

Is it mitigated or contained?

What do regulators expect from banks?

Mitigants
• Limited direct exposure to retail deposits • Diverse capital base and long-term commitments • Market wide revaluation are less likely due to asset-liability matching in private markets • Collateralisation and structural mitigants

Final Takeaways

- Rapid growth
- Disintermediation
- Impact on credit cycle
- Valuation risk
- Regulatory expectations for banks

Q&A

Thank you