

BKS

Bundesvereinigung
Kreditankauf und Servicing e.V.



Frankfurt School
of Finance & Management

German Excellence. Global Relevance.

NPL-Barometer 2022

Survey from May to July 2022



Outcomes

Significant increase in non-performing loans (NPLs) expected for 2023 - from EUR 30.1 billion to EUR 37.6 billion in Germany.

Particularly large loan defaults are expected in the area of loans to consumers and SMEs.

Rising inflation rates and energy costs are mentioned as the main causes of loan defaults - followed by supply chain problems and geopolitical risks.

Credit situation has remained constant over the past twelve months. Insolvencies above pre-Corona level.

In the current summer survey of the NPL-Barometer, which is published by the Bundesvereinigung Kreditankauf und Servicing and the Frankfurt School of Finance & Management, the risk managers in the German credit institutions interviewed expect a significant increase in non-performing loan portfolios in 2023.

While an average NPL volume of EUR 31.9 billion was forecast in 2022 - compared with EUR 30.1 billion (EBA survey of March 2022) - **the volume could rise to EUR 37.6 billion in 2023.**

The expected value of the NPL barometer rises accordingly from 0.19 in 2021 to currently 0.26. This value indicates whether an increased activity could be expected in the German NPL market in the future - i.e., higher NPL portfolios, more portfolio transactions, and outsourcings, as well as falling prices for defaulted exposures. The highest expected value had been measured at 0.42 in 2020 after the outbreak of the coronavirus pandemic, but then declined again as a result of effective aid programs implemented by governments and central banks. However, risk managers currently fear a renewed increase, primarily **due to growing inflation and rising energy costs.**

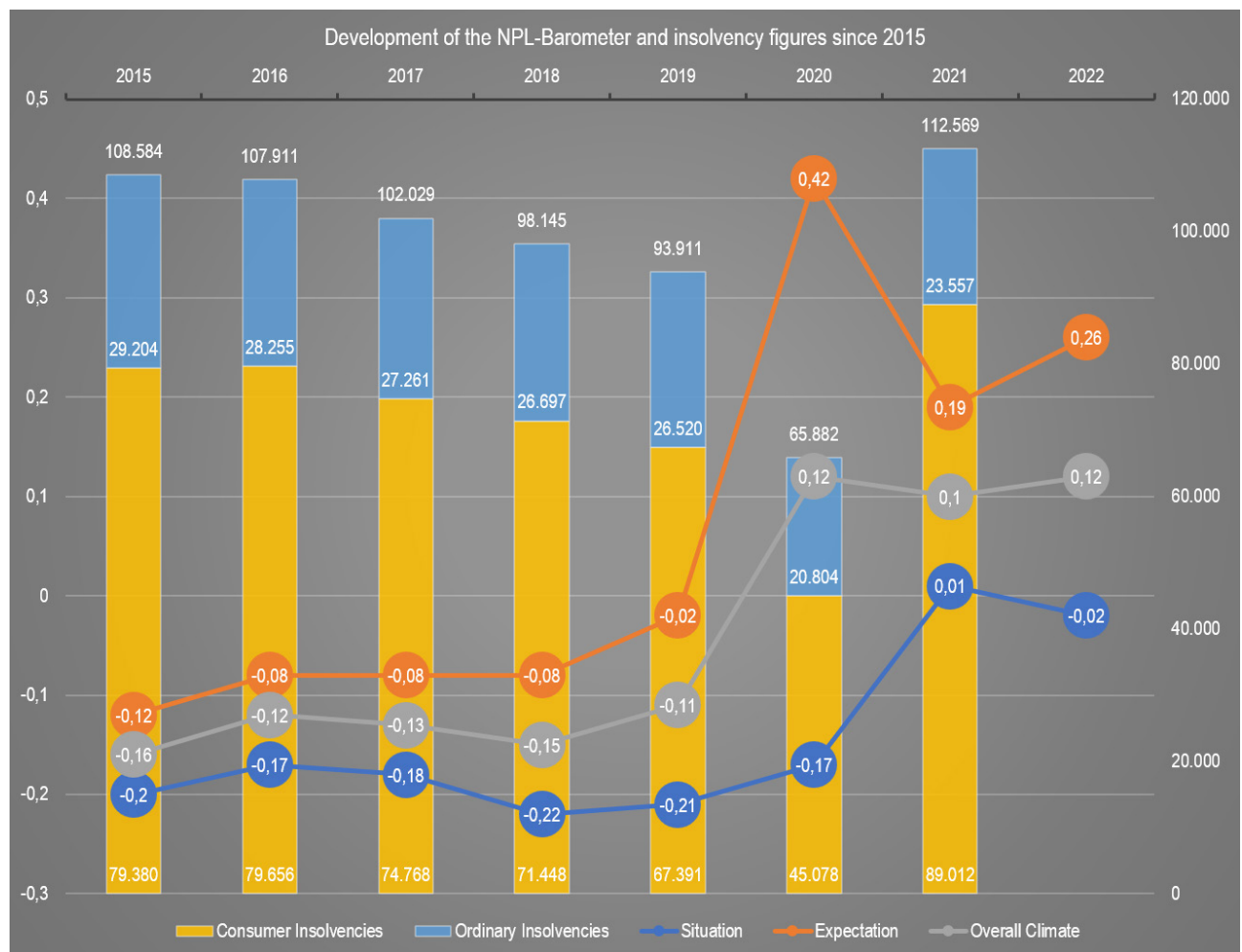
Other reasons cited include supply chain problems and geopolitical risks, wars, and sanctions. Less frequently mentioned are the consequences of Corona and the bursting of bubbles, as well as other risks.

At -0.02, the value for the assessment of the situation actually fell minimally compared with the previous year. This means that the credit situation continued to improve over the past twelve months - i.e., NPL portfolios were reduced, and transaction activity stagnated. This is also reflected in the individual asset classes. In the case of consumer loans, 52 percent of respondents observed constant and 14 percent declining NPL portfolios. In the residential real estate sector, 50 percent again observed stable while 24 percent declining NPL portfolios.

NPL ratios are expected to increase across all asset classes, however, at a lower rate for secured loans by real estate than for consumers and small and medium-sized enterprises loans.

	Q1 2022 (EBA/SCHUFA)	End of 2022 (estimate)	End of 2023 (estimate)
Consumers	2,1 %	2,6 %	3,4 %
RRE	0,8 %	1,4 %	1,9 %
CRE	2,2 %	2,8 %	3,1 %
SME	2,7 %	3,0 %	3,7 %

Estimated NPL ratios for the years 2022 and 2023 (average of responses)



Development of the NPL barometer and insolvency figures since 2015 (sources: BKS, STP Business Information)

„In spring 2020, we were all wrong, market participants, regulatory authorities, and academics: the pandemic did not lead to a significant increase in non-performing loans in Germany. The reason for this were to a large extend the government programs billions worth. But things look quite different now. Other factors, such as inflation, disrupted supply chains, the war of aggression against Ukraine and rising interest rates, are also playing a role. Perhaps still somewhat influenced by the misjudgment of 2020, market participants are now assuming a noticeable but not extraordinary increase. There is much to suggest that they could be mistaken this time too and that the curve will ascend much more steeply.“

Prof. Dr. Christoph Schalast

Professor of Mergers & Acquisitions, Commercial Law and Europa Law at Frankfurt School of Finance & Management, Attorney at Law, Notary Public, Managing Partner of Schalast & Partner Attorneys at Law

Chairman of the BKS Advisory Board

„The expected loan defaults during the Corona pandemic which surprisingly failed to materialize make a future prospect difficult. Nevertheless, many factors suggest that the risk of a movement in the NPL market will increase.

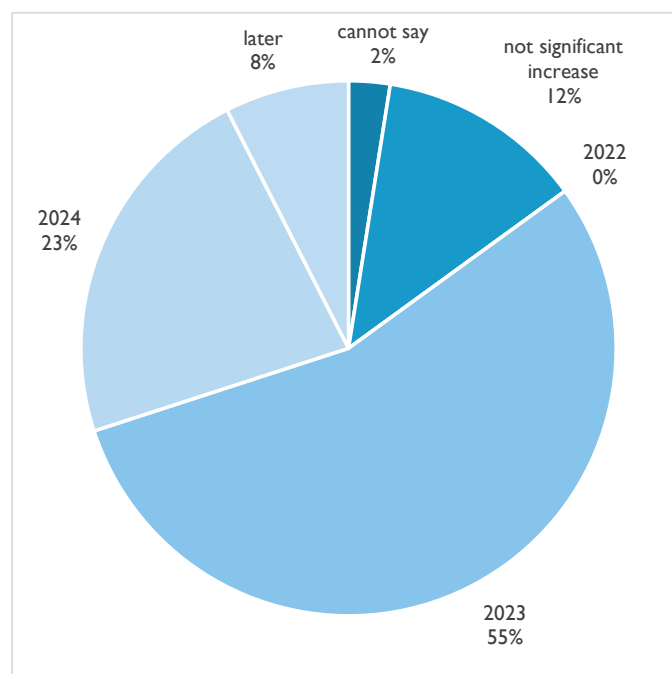
These include:

1. Government aid provided during the Corona pandemic has expired.
2. Savings that were made available to continue operations during the pandemic have been substantially depleted.
3. Inflation, increased energy costs as well as the changed interest rate environment make the financial parameters for companies but also private individuals so difficult in the current year that many will run into difficulties.

From these perspectives, I agree with the result of the NPL Barometer and the resulting forecast.“

Janine Hardi

Attorney at Law / Founder / Managing Partner at RPI GmbH



„For which year do you expect a significant increase in NPLs in German credit institutions?“

„The NPL Barometer of Summer 2022 clearly shows that we are operating in a once again challenging environment. In the context of Covid 19, we have already gained relevant crisis experience with no evidence of increased default in our portfolios. We are monitoring the current situation very closely and are confident that we are well prepared given our solid risk processes and our partners. We also consider it important to remain in close contact with NPL experts, particularly in times of crisis.“

Sandra Förster

DKB AG, Head of Credit Consult

„I also expect prices in the residential sector to stagnate (even if there will still be one or two „price outliers“ in prime locations), because the times when we had to make quasi-monthly adjustments in price valuations are probably, until further notice, history. In the case of commercial real estate, the price trend is likely to depend to a large extent on the location in conjunction with the possible usability of the property (stores of certain brands are withdrawing from large areas, but are still holding on to „anchor“ stores, office space per employee is being reduced, as remote work reduces the need for space, etc.).“

Markus Thanner

Bankhaus Bauer AG, Head of Credit Risk Office

„Moderately falling or stagnating prices are to be expected in the development of real estate prices for residential use. A distinction needs to be made between the metropolitan areas, the locations on the periphery of these metropolitan areas and the more rural regions.

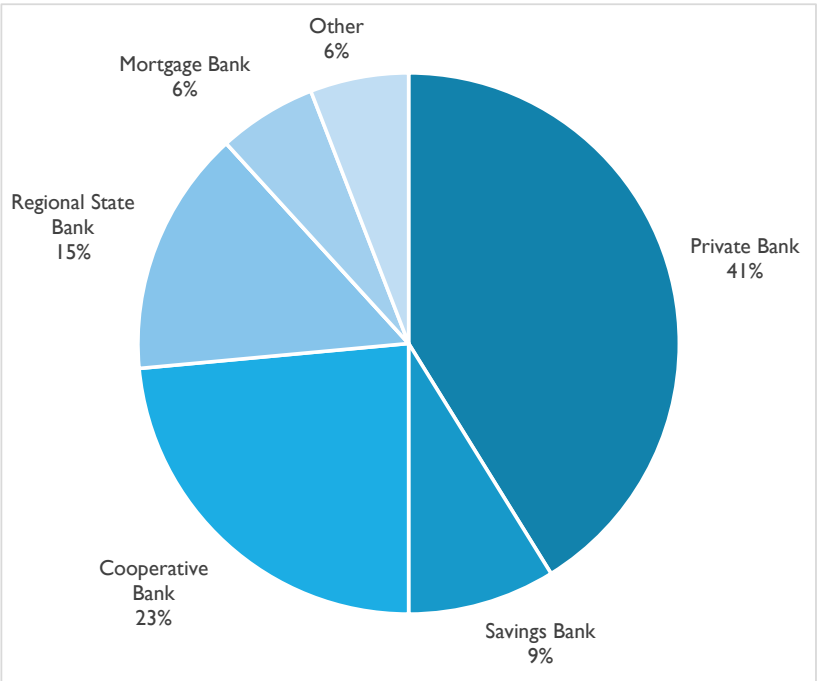
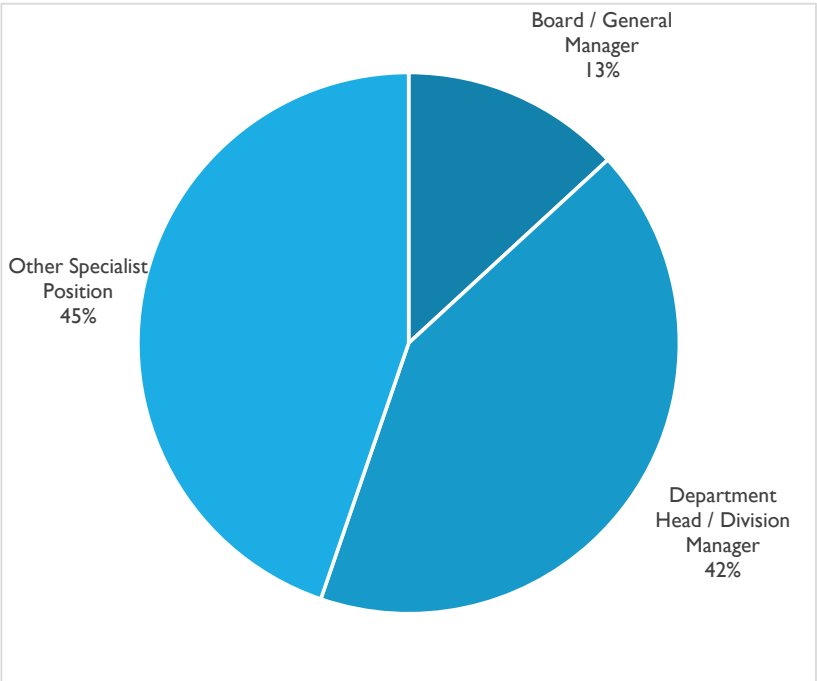
In the metropolitan areas, no significant reduction is expected, but rather stagnating prices. The effects of a shortage of building land and persistent demand will continue to have an impact here.

In locations on the edge of metropolitan areas and especially in rural regions, prices are likely to come under pressure due to declining demand; therefore, price reductions are to be expected.“

Holger Petry

ING, Head of Collections, Service - CoE Collections

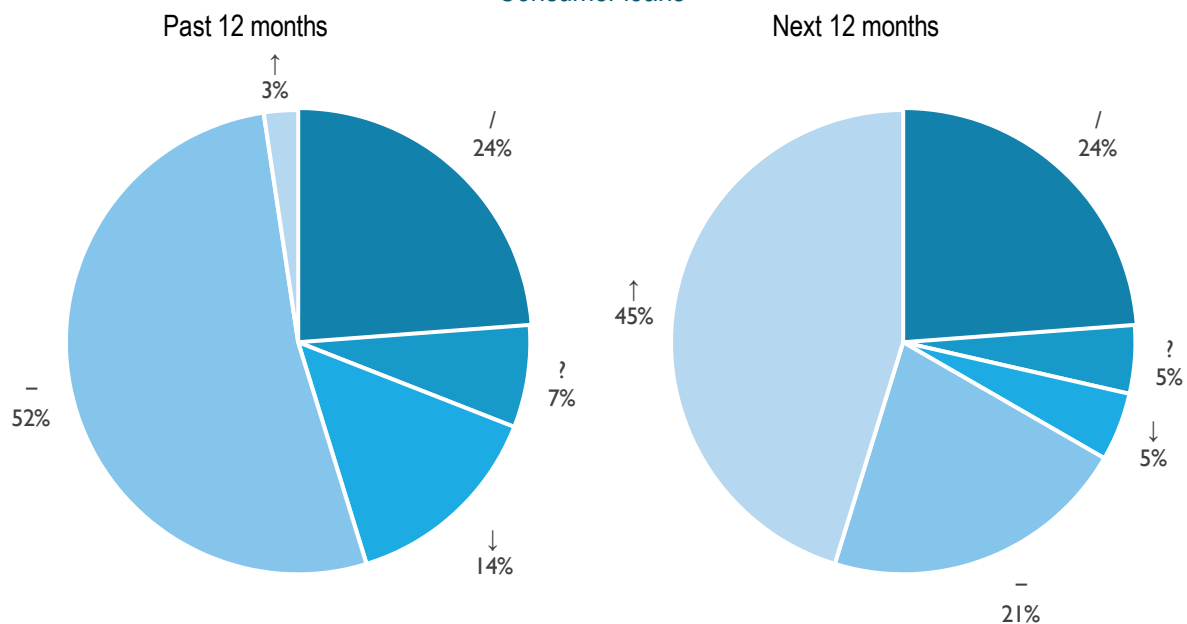
Participants structure



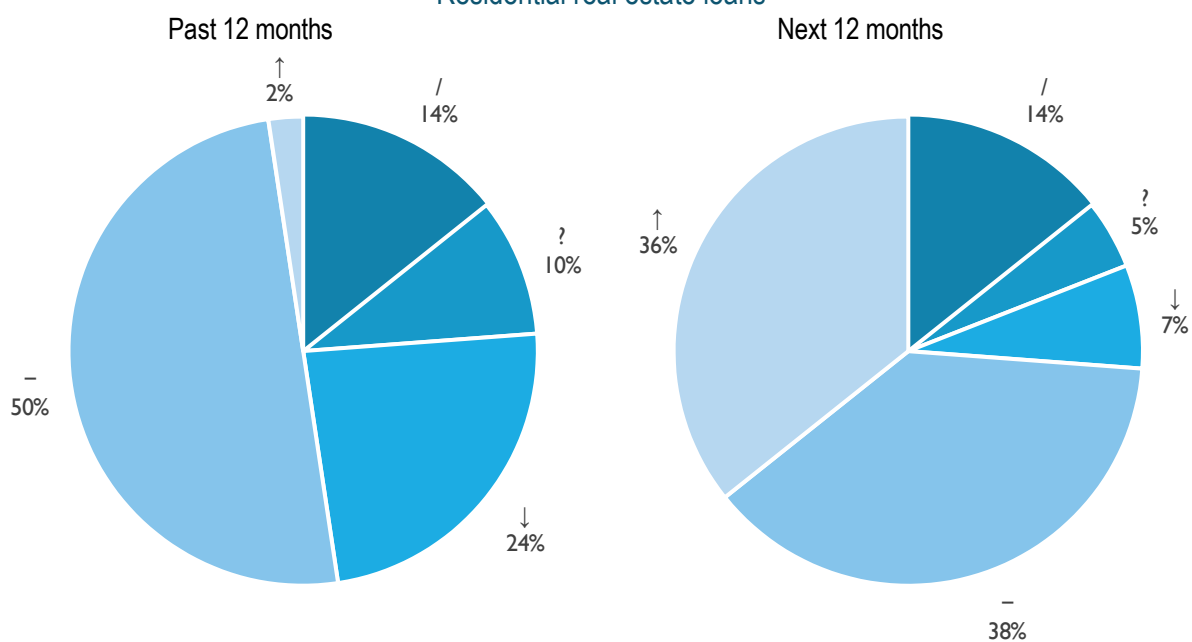
Annex

NPL-Portfolios

Consumer loans



Residential real estate loans



/ Not applicable to our business

? Cannot say

– Has remained or will remain the same

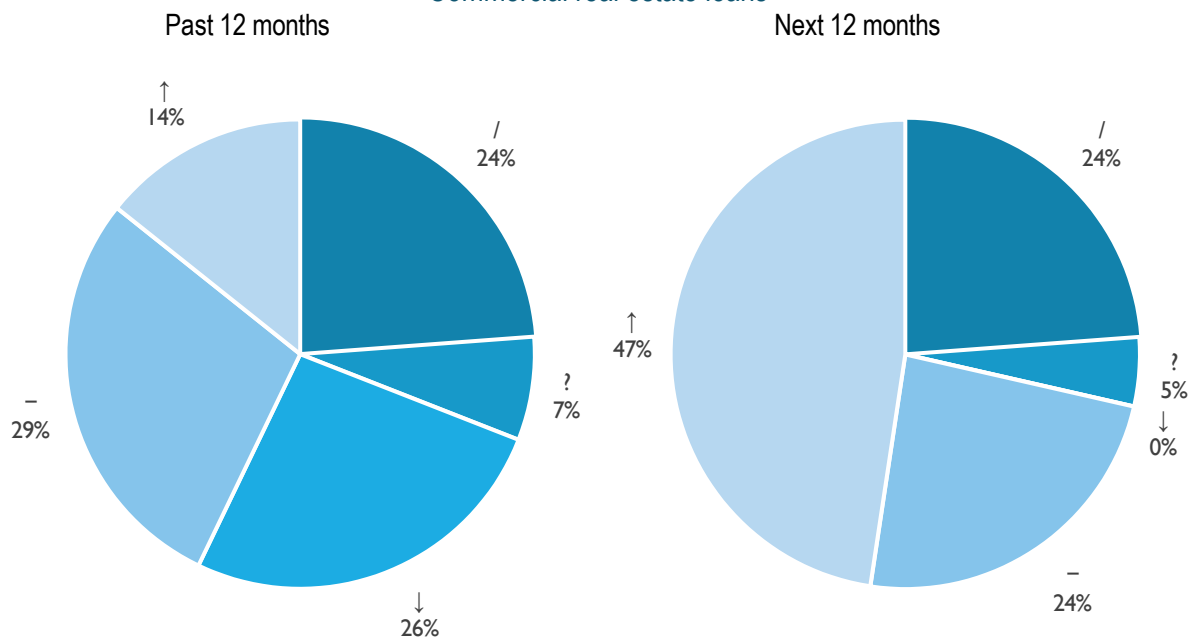
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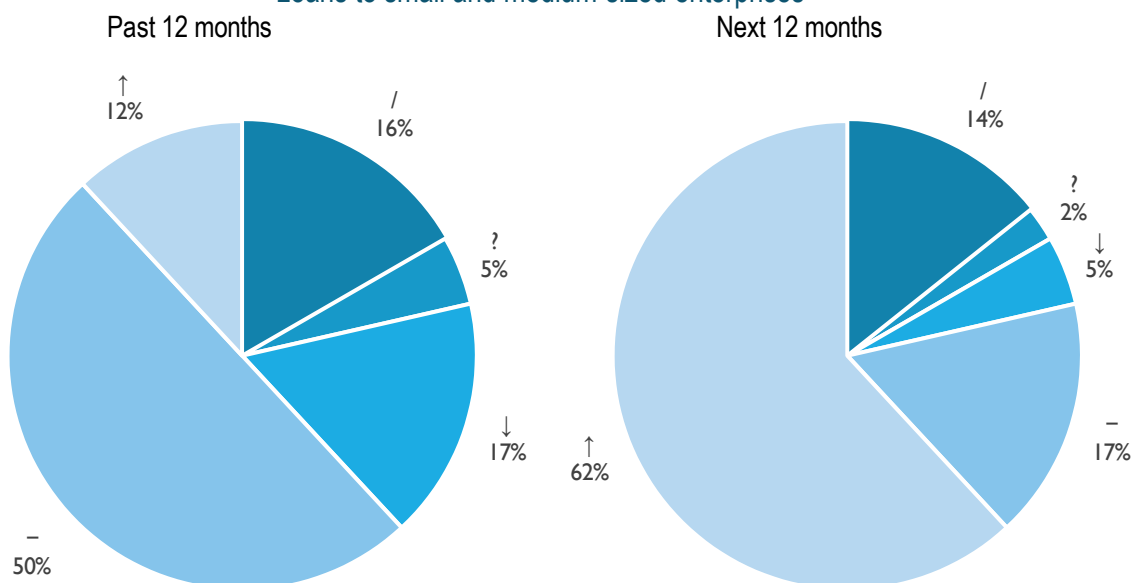
Annex

NPL-Portfolios

Commercial real estate loans



Loans to small and medium-sized enterprises



/ Not applicable to our business

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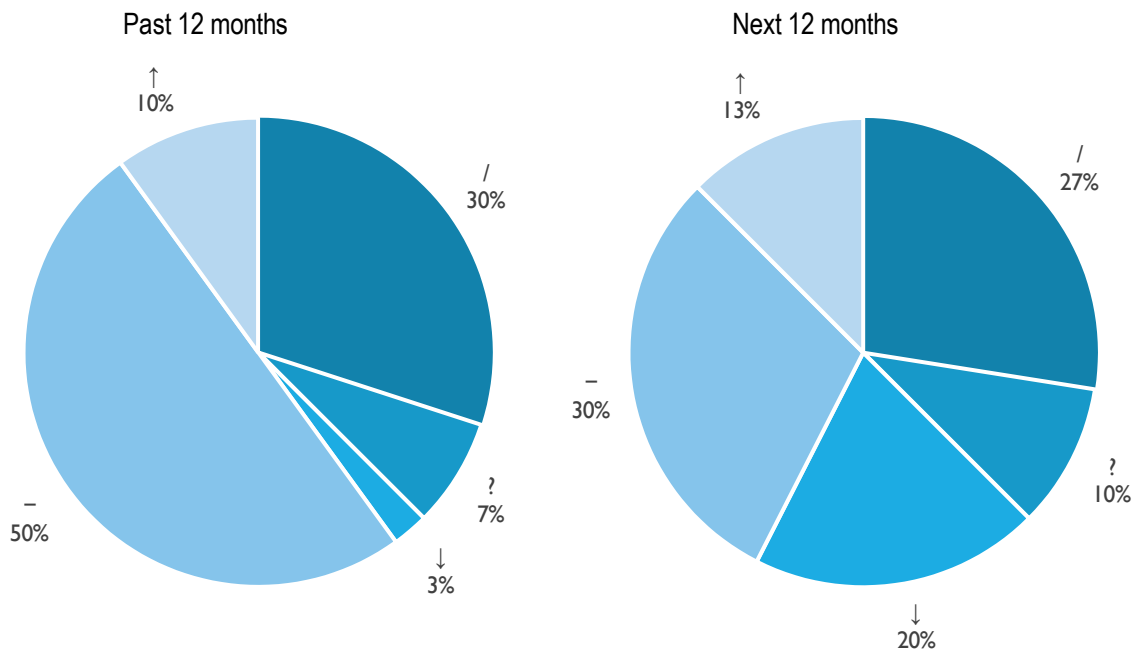
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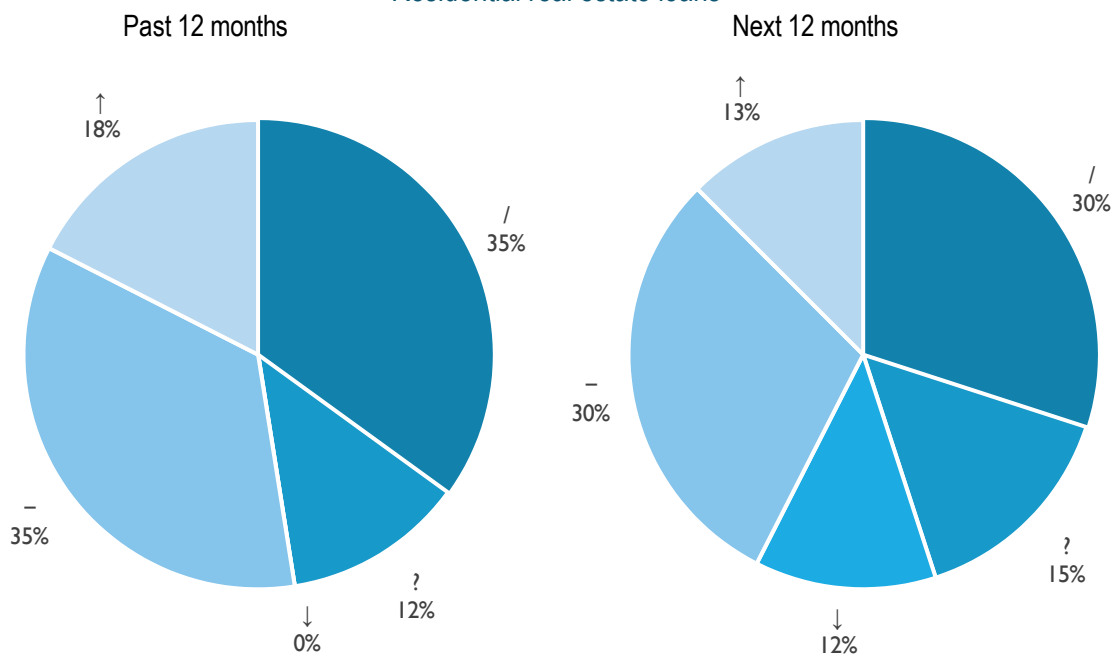
Annex

NPL-Sale prices

Consumer credits



Residential real estate loans



/ Not applicable to our business

? Cannot say

- Has remained or will remain the same

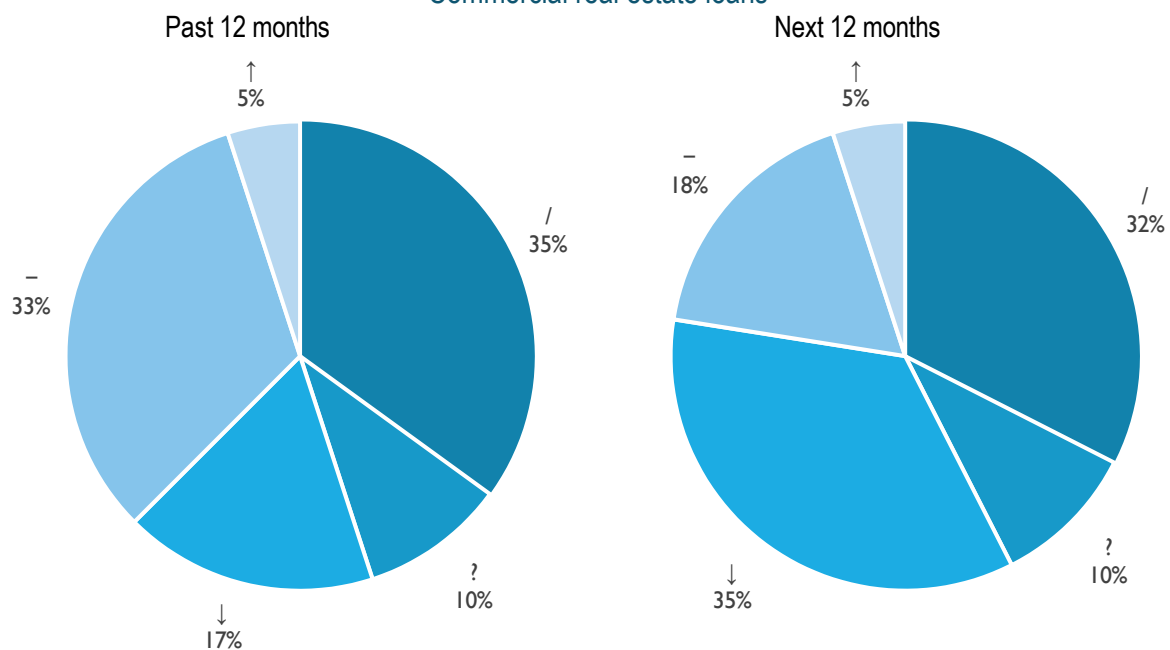
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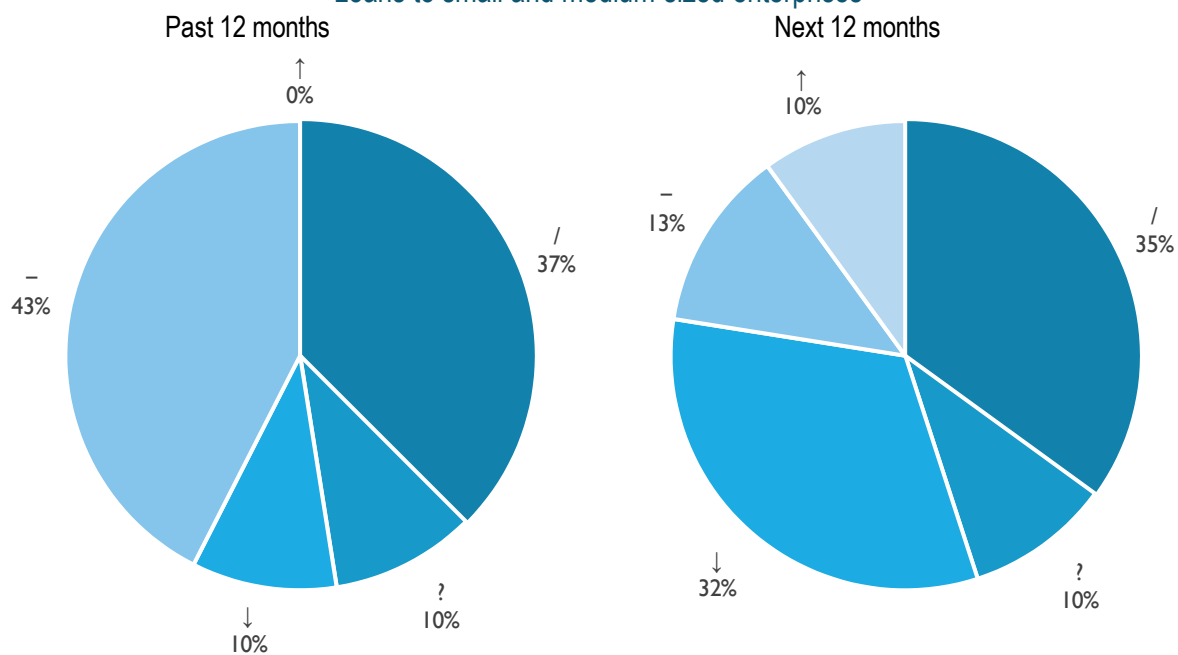
Annex

NPL-Sale prices

Commercial real estate loans



Loans to small and medium-sized enterprises



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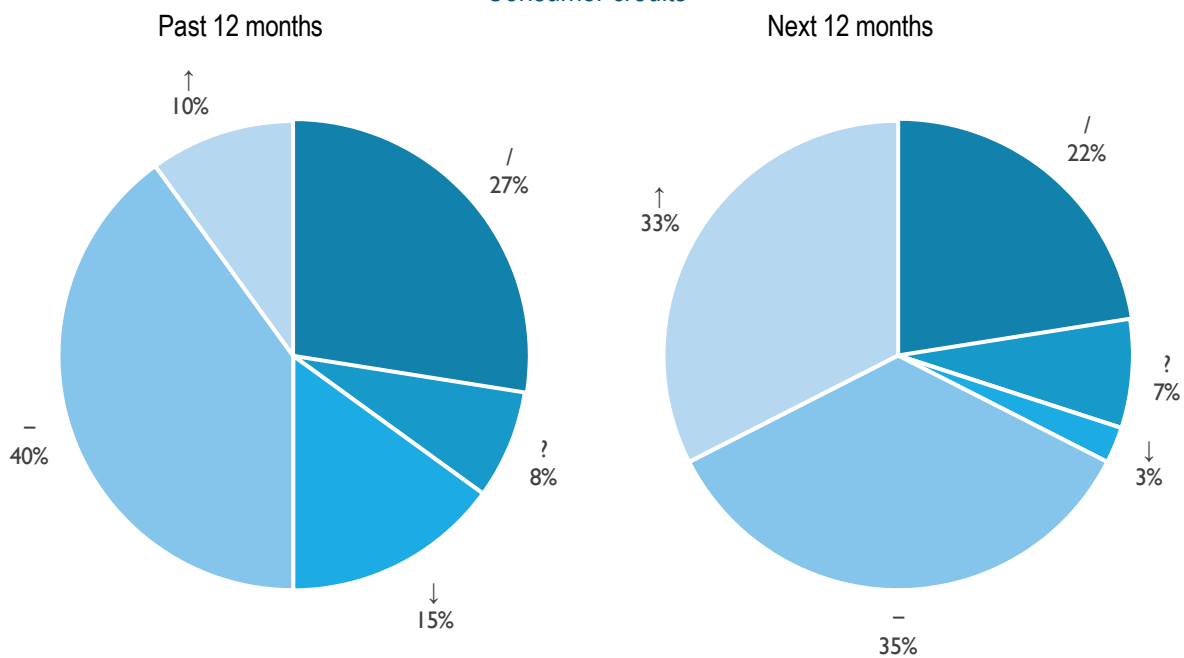
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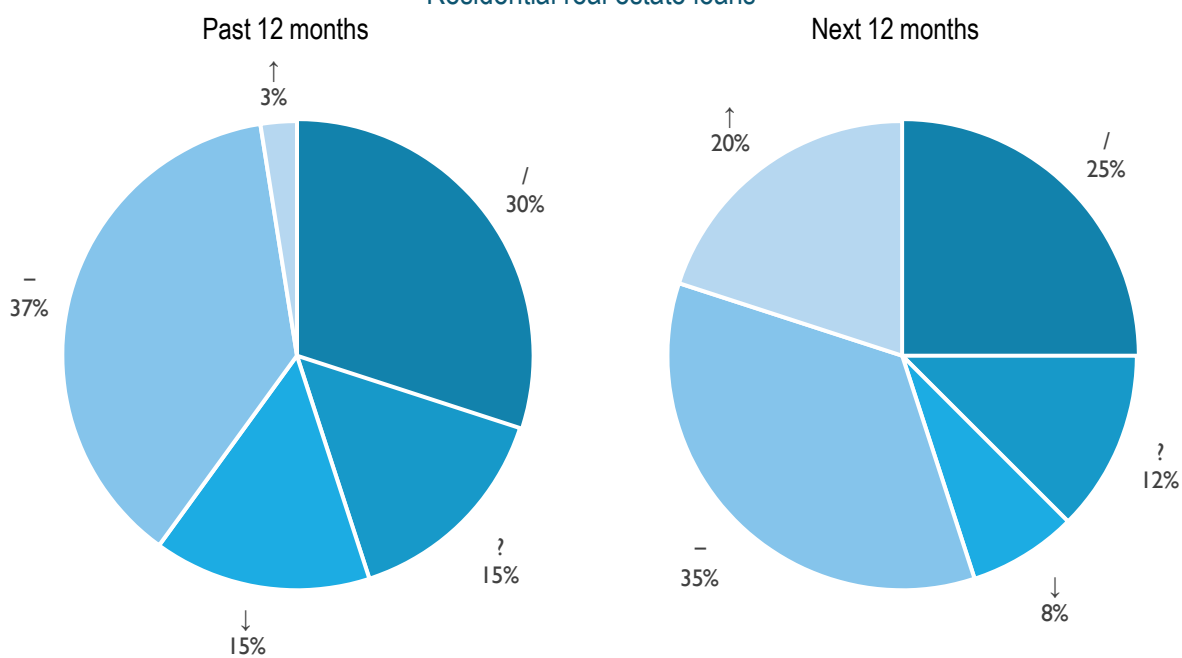
Annex

Share of sales and external servicing

Consumer credits



Residential real estate loans



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? Cannot say

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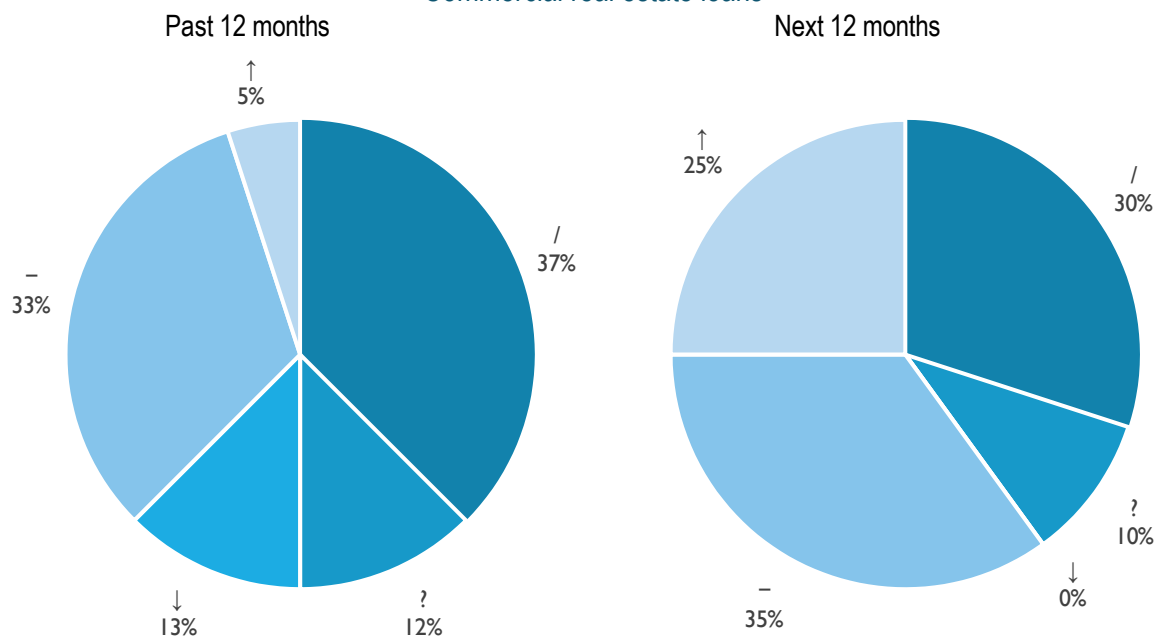
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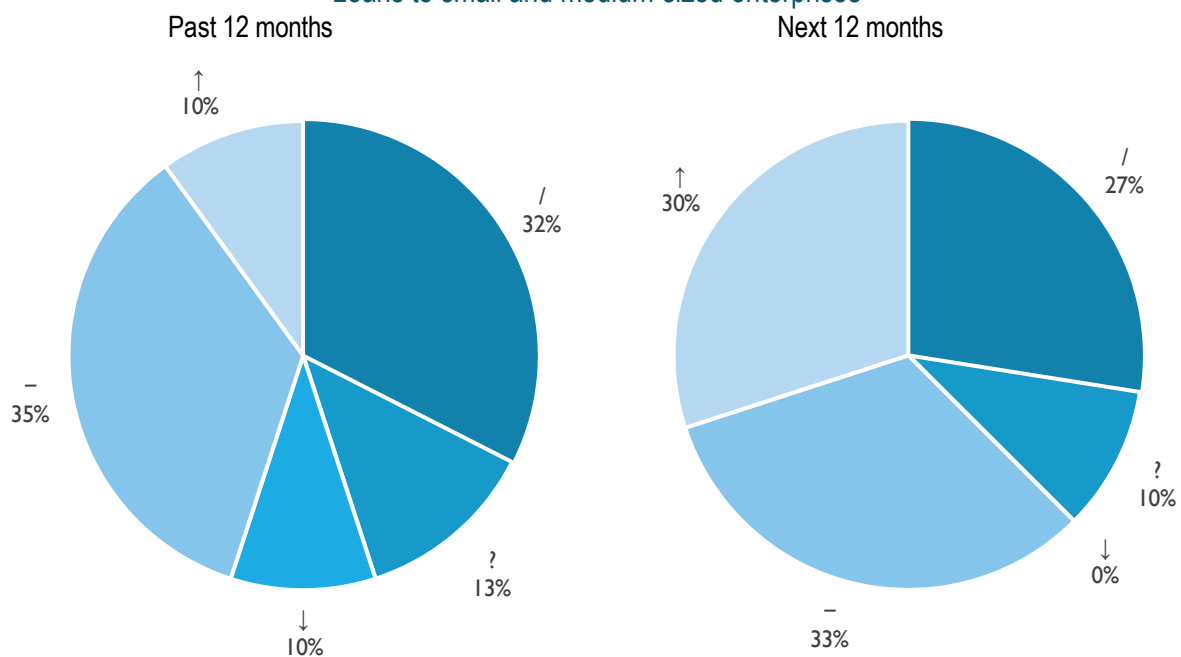
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Share of sales and external servicing

Commercial real estate loans



Loans to small and medium-sized enterprises



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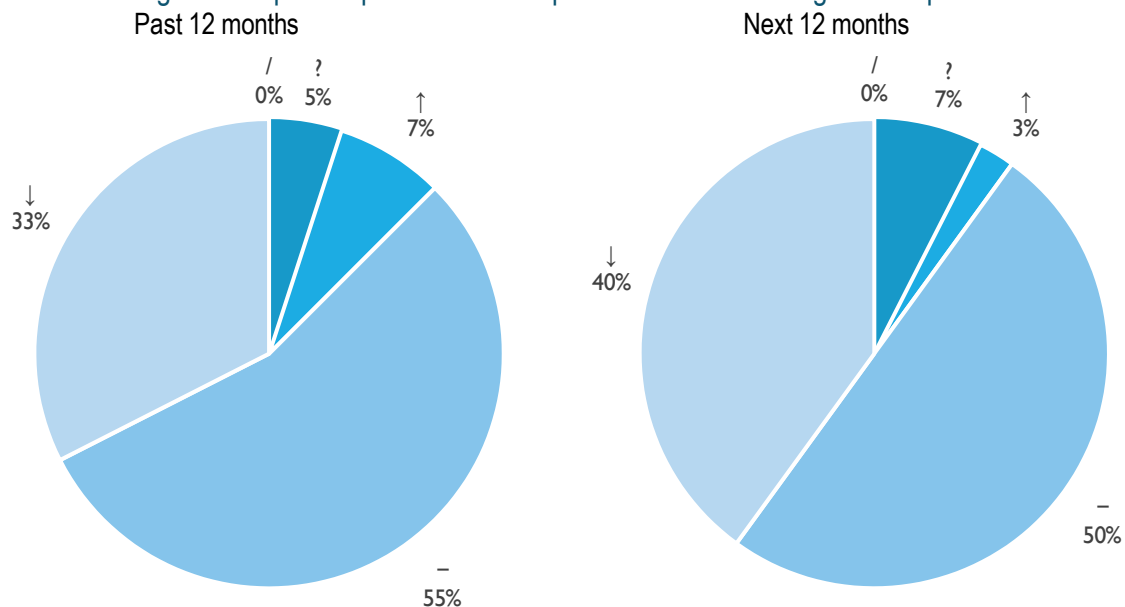
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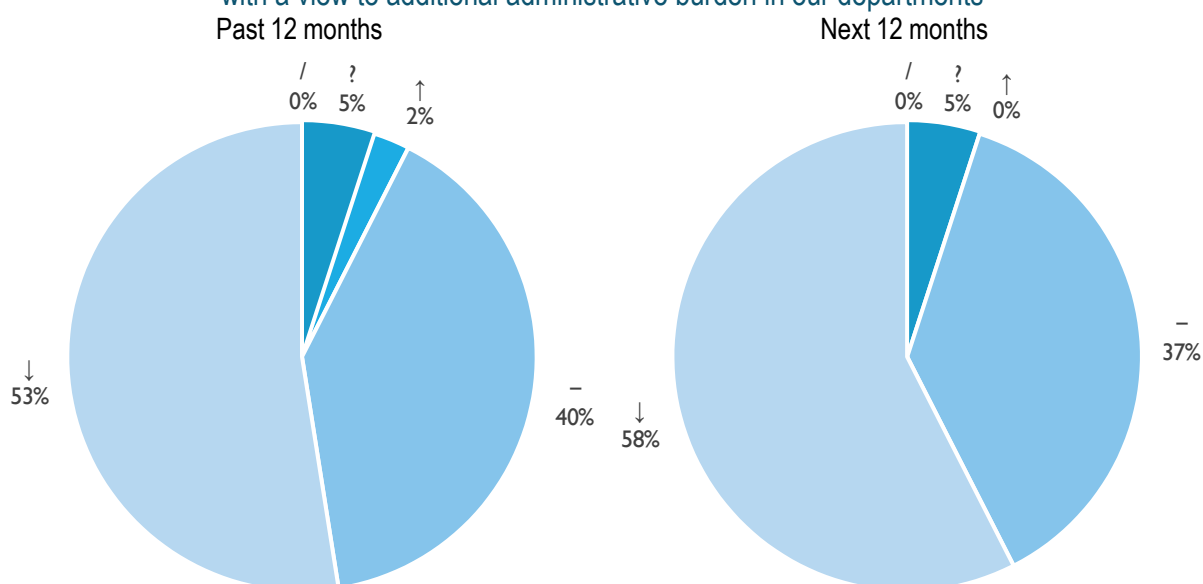
Annex

Regulatory environment

with regard to capital requirements or requirements for the recognition of provisions



with a view to additional administrative burden in our departments



/ Not applicable to our business

? Cannot say

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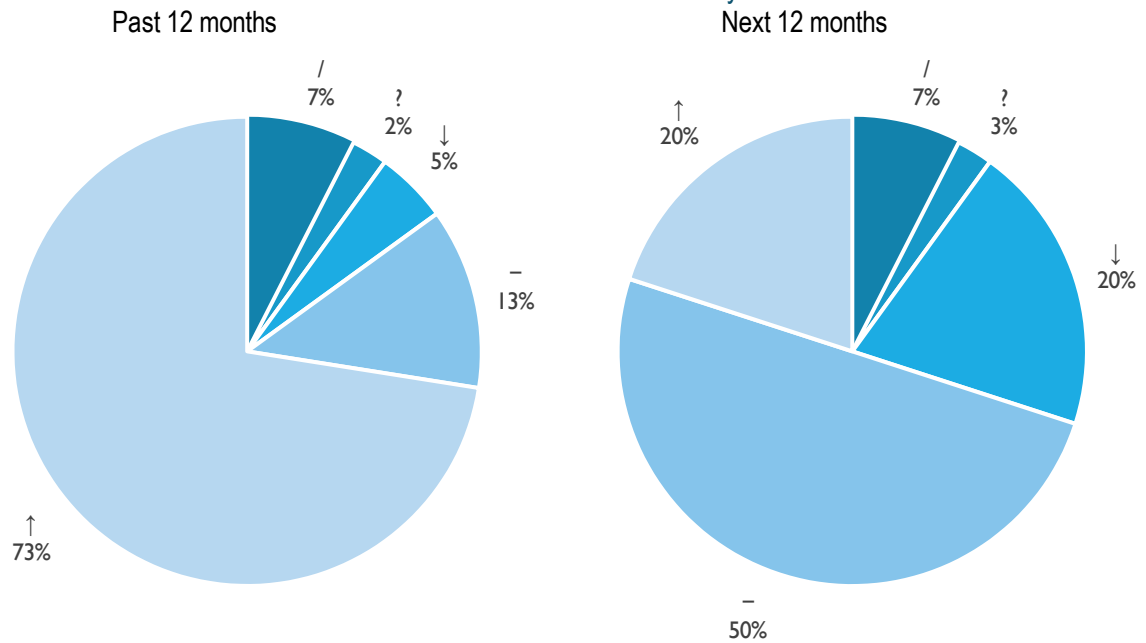
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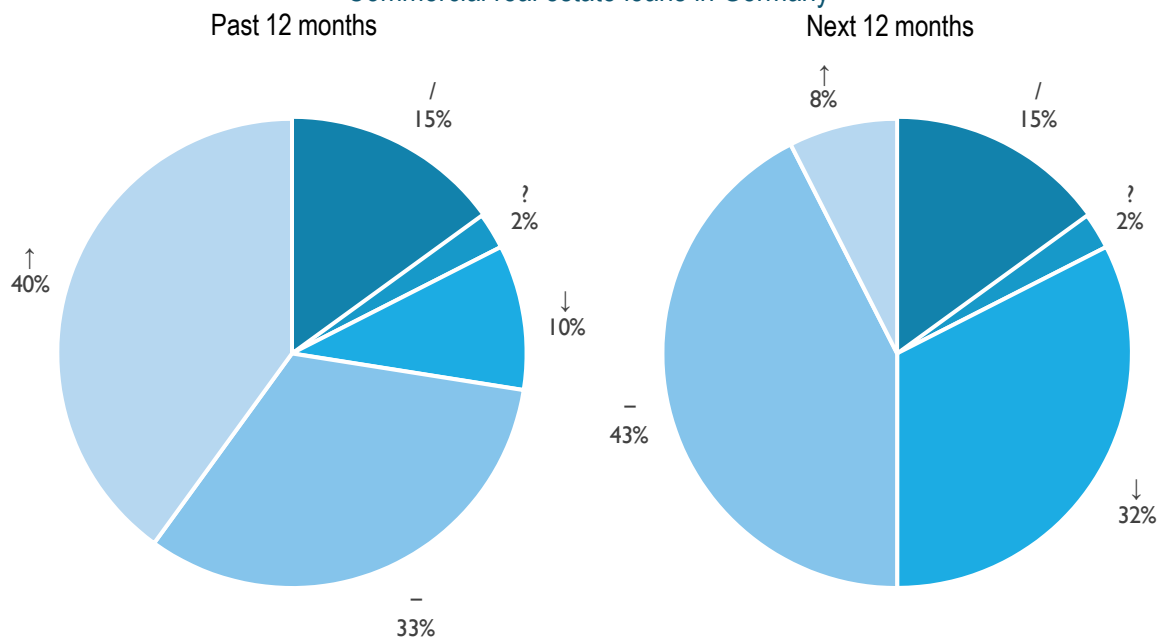
Annex

Real estate prices

Residential real estate loans in Germany



Commercial real estate loans in Germany



/ Not applicable to our business

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Masthead

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