



COVID-19 CEE banking sector impact survey

First symptoms of the coronavirus outbreak

September 2020

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The icon indicates insights based on responses received from investors participated in the survey.



Foreword



Dear Reader,

It is a great pleasure to introduce you our survey report summarising insights on the impact of the COVID-19 pandemic on the banking sector, with a special focus on the current and future development of loan demand, non-performing loans and related transaction activity, restructuring and workout measures.

The following pages capture the views of 69 banks' chief risk officers and heads of workout departments across twelve countries in the Central and Eastern European region. The survey was conducted between June and August 2020 with the vast majority of the answers collected based on a questionnaire but our team also conducted interviews with selected respondents.

Our team has also asked the opinion of some of the representatives of investment firms, debt purchase and collection companies as we expect that the market volatility and the current challenging times can be a catalyst for future growth of the NPL market activity.

Being several months into an economic downturn brought by the emergence of the COVID-19 pandemic, all market players need to face unprecedented challenges and this makes no exception to the banking industry either. Banks need to face the possible acceleration of new defaults, thus an increased level of loan losses as well as a decline in interest, fee and commission income due to the contraction of economic activity, not to mention the already experienced and potential future operational concerns.

Nevertheless, time since the COVID-19 outbreak and the measures implemented to support the economy is relatively short to draw robust conclusions in terms of the NPL formation in the coming years.

Banks still need to run their scenarios and stress test models in order to assess the possible impact and outcomes of COVID-19. Furthermore, the loan repayment moratorium introduced in many countries over the Central and Eastern European region can temporarily mask the actual damage that restrictions can cause to the economy.

However, the survey report provides a valuable insight about banks' expectations regarding the real impact of the pandemic. Among many other important and exciting topics the survey results shed a light on the banks' views on economic recovery, loan portfolio evolution, asset quality, NPL disposal activity, as well as restructuring and workout priorities.

We thank the respondents for taking the time to participate, and we hope you find the survey results informative and insightful.

Best regards,

Albert Márton

**Partner, Regional Head of
Portfolio Lead Advisory Services**

Financial Advisory

Introduction

Highlights

Banks have significantly improved their asset quality since the global financial crisis of 2008-09, built up larger capital buffers and strengthened their liquidity positions, therefore entering the economic slowdown in a better state than they did at the time of the previous financial crisis.

The combination of economic upturn over the past years, the supervisory and political attention as well banks' commitment to tackle non-performing assets contributed to the considerable decrease of NPL volumes over the past years.

These challenging years also required banks to develop their NPL management and best practices as well as to tackle the build-up of non-performing exposures. The NPL strategies implemented prior to COVID-19 might need to be adjusted now, potentially affecting the servicer universe as well as the buyers' market.

Our team conducted the survey among CROs and heads of workout departments who provided their views and expectations in relation to the impact of COVID-19 on the banking sector covering **five main areas**. Some of the findings may be in line with intuitions, while others might be surprising.





A U-shaped economic recovery is expected

A prolonged economic recovery is expected over the next 12 months, with the **majority** of the respondents expecting a **U-shaped** (39.1%) or L-shaped economic recovery (21.7%). **The view of respondents on the application of moratorium is positive overall**, with 75% of the respondents considering it as an effective measure to maintain financial stability.



Measures by local authorities were implemented in time

The reception of the implemented fiscal and monetary stimulus package is rather miscellaneous; however, the participants were more satisfied with their national banks' measures (nearly half of the respondents) than the acts of local governments, with more than 40% of our respondents expressing that the measures implemented by the local government are not sufficient to safeguard the economy.



New loan disbursements are to decrease

Unsurprisingly, **new loan disbursements are expected to slightly or significantly decrease in 2020 compared to 2019**, whilst the expectations are more optimistic for the year 2021.



Tightening credit standards both in retail and corporate segment

Credit standards of loans for both households and non-financial corporations **are anticipated to tighten somewhat**. This can be attributable to banks' expectations in relation to the deterioration of economic outlook as well as the increased credit risk. Having the experiences from the global financial crisis of 2008-09, banks tend to also have a lower risk tolerance.

Who experienced the most significant drop?

Based on the responses, **sectors that were hit hard by the pandemic** situation such as hospitality and transport and storage **experienced the most significant drop in demand for loans** over the past 3 months.

Asset quality is expected to deteriorate somewhat

The **asset quality is not expected to deteriorate considerably over the next 12 months** as almost half of the respondents anticipate the retail NPL ratio to increase by 0-3% points, whilst two-thirds expect the corporate NPL ratio to rise at the same pace. It is anticipated that the inflow of non-performing loans will come mainly from hospitality, transport and storage as well as real estate & construction portfolios.

In contrast, **the investors seem to be more pessimistic regarding the development of the asset quality**, with nearly half of them expecting the retail NPL ratio to increase by 3-5% points, whilst one-third anticipate the corporate NPL ratio to deteriorate at the same pace over the next 12 months.

NPL transactions market is likely to revive in the short term

Almost **a quarter of the respondents plan to dispose of non-performing loan portfolios over the next 6 months**, whilst more than one-third do not plan any portfolio sales in the upcoming period. **Retail unsecured portfolios will dominate the NPL transactions market**, with more than one-third of banks expecting to dispose of non-performing loans in the largest amount in the aforementioned asset class. A fifth also consider the disposal of corporate single cases. Besides this, nearly half of the respondents expect **the disposal of non-performing single tickets to increase over the next 12 months**.

At the time of writing, the majority of **investors stated intentions to continue buying** despite the pandemic situation **but selecting deals more cautiously**. Investors felt the transaction activity to come to a halt in the CEE region, with some ongoing deals put on hold. The majority of respondents expect the **NPL market activity to revive over the next 12 months**, with some deals already in the last quarter of the year. This expectation is visible on the loan sales market with some banks already indicating that postponed deals will proceed and even new deals will start in 2020.

Half of the **investors expect banks to dispose of corporate unsecured assets** in the largest amount. Expectations for the corporate segment do not differ materially from those for the households.



Debt restructuring is on the rise

Nearly one-third of respondents think that **5-10% of debtors in the retail segment with liquidity difficulties will require restructuring over the next 12 months**. One-third expect that even more, 10-20% of households will require restructuring. However, the majority of participants (38%) think that maximum 5% of retail debtors will require restructuring due to fundamental financial difficulties.



In-house vs. outsourcing?

The **majority of respondents** indicated they **have sufficient human resources to handle the increased need** from debtors **for restructuring** (64%) **and** the potentially increased amount of **workout** cases (55%) in-house. Banks tend to allocate resources internally from departments (e.g. lending) experiencing less workload recently and to some extent also standardise processes. However, a fifth of participants indicated that in-house resources are not sufficient to handle the extra workload in case of workout. **Nearly half of the banks indicated they are ready to outsource workout activities to external servicers**.





Overview of the Central and Eastern European banking sector

After the global financial crisis of 2008-09, the banking system had to face the rapidly increasing NPL amounts and operate under heterogeneous, distinct monetary and fiscal measures introduced by local governments and national banks. Consequently, the first seven years of the crisis resulted in the accumulation of a significant amount of distressed assets across Europe emerging as one of the main challenges in the upcoming years for

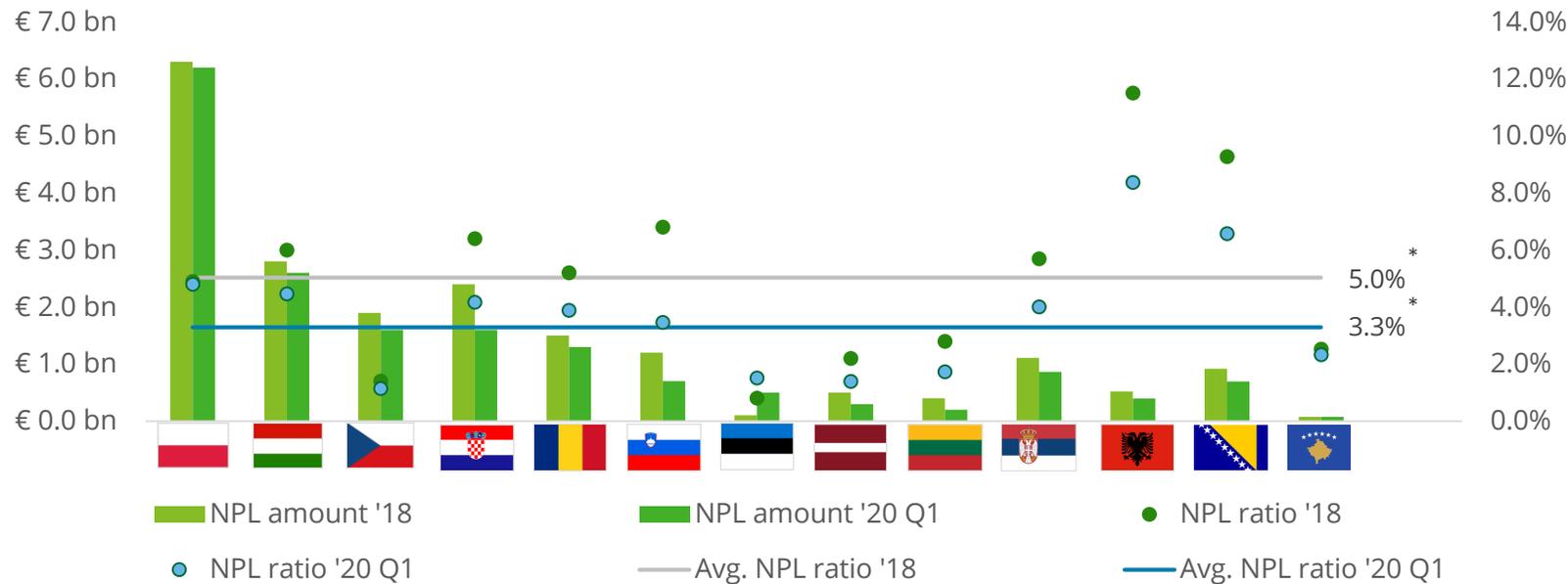
the monetary and financial authorities to handle.

In 2015, the European Central Bank and national banks outside of the Eurozone announced several schemes and measures to support the recovery and contraction of underperforming assets on the banks' balance sheets across the European Union, which led to a successfully decreasing trend in non-performing loan volumes.

As Figure 1. shows, the average **NPL ratio of the CEE region has decreased by nearly 2% points over the past two years** and the NPL volumes were still showing the signs of recovery with decreasing amounts compared to previous years.

This progress enabled banks to be resilient against shocks and severe potential losses in an upcoming economic downturn.

Figure 1. NPL volumes and ratios (Q1 2020)



Source: EBA, NBS, BoA, CBK and CBBH

* By CEE countries the report refers only to countries participated in the survey.



However, similarly to the global financial crisis of 2008-09, another unexpected and unprecedented event of the COVID-19 pandemic crisis hit the global economy in the first quarter of 2020, which will most probably have an effect on the asset quality of the banks in a longer term. It is worth mentioning that the pandemic crisis has a different impact on the financial sector compared to the financial crisis of 2008-09, as the signs of slowdown were visible and experienced more in the real economy and not directly in the financial sector.

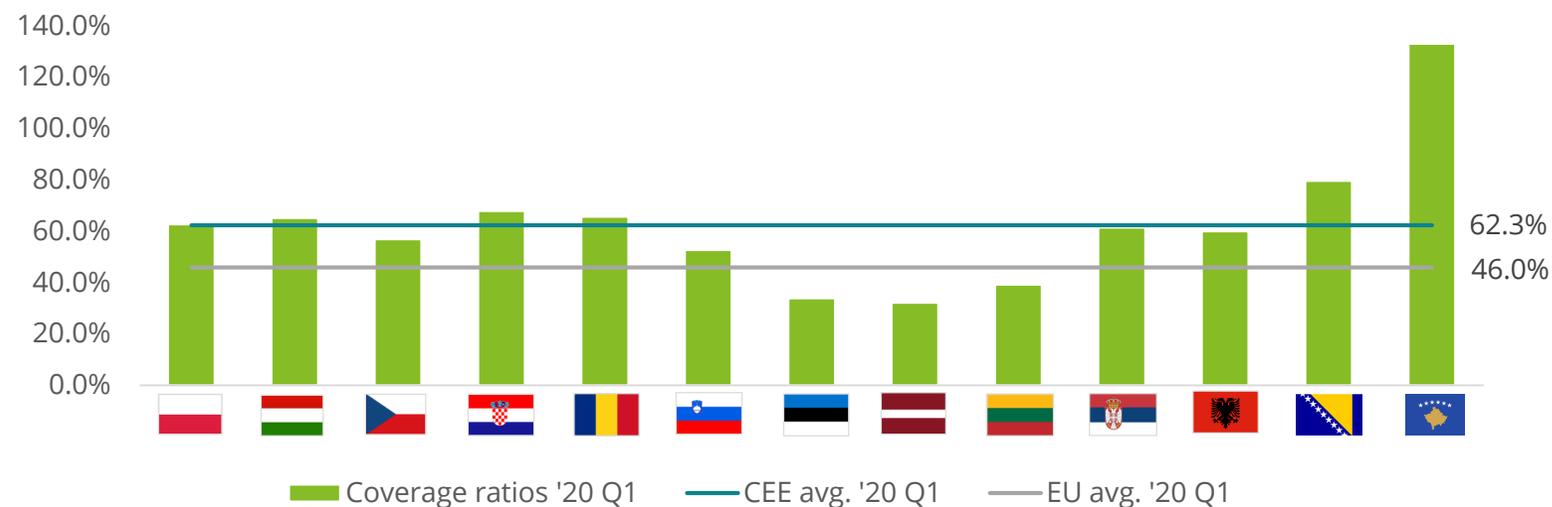
The short term effects of COVID-19 are not yet taking place in the European banking market in terms of the potential increase of distressed asset amounts, also mainly due to the measures implemented by local governments and national banks to safeguard the economies such as moratorium on loans payments. Nevertheless, there is still some uncertainty from 2021 onwards regarding the payment behaviour of borrowers when the moratorium relief stops as it can temporarily

mask the economic damage incurred during the lockdown.

However, compared to previous crises, the banking system in the CEE region is facing the pandemic with a larger capital buffer, strengthened liquidity positions and relatively low NPL ratios in case of the majority of the banking sectors.

Provisioning policies can differ across the countries and banking groups, but in overall **the coverage ratio of non-performing loans and advances were 16.3% points higher in the CEE region compared to the EU average in Q1 2020**, which indicates that most banks already built up a sufficient amount of risk provisions for NPLs.

Figure 2. Coverage ratios of NPLs (Q1 2020)



Source: EBA, NBS, BoA, CBK and CBBH



The significant decrease in NPL volumes over the recent years – among others - allowed banks to strengthen their capital positions and fulfil their role in funding the real economy. In Q1 2020, the Common Equity Tier 1 (CET1) ratios of Central and Eastern European banks stood at 19.1%, which is 4.5% points higher than the European average and well above the regulatory minimum of 4.5% (set as a per cent of total risk

exposure amount). Out of the 13 CEE countries, the Baltics are far above the CEE and the EU average with an average CET1 ratio of 24.9%.

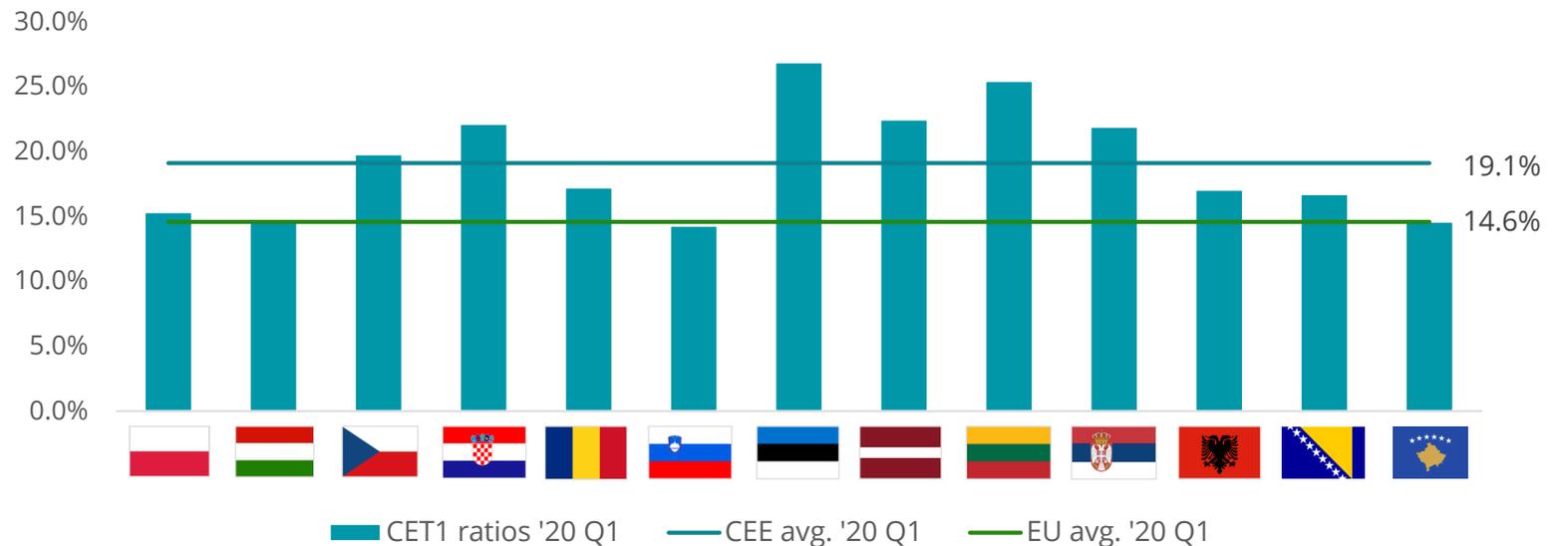
The retail segment is the most dominant sector among CEE banks thus the lending activity may decrease at a slower pace compared to those countries where corporate loans,

especially the SME segment, constitute a higher portion in the banking system.

Moratorium on loans and other measures could also restrain the slowdown in the lending activities.

Asset quality and adequate capital amounts are a key concern for banks to overcome the economic downturn. According to EBA, European banks on average have shifted their loan portfolio structure to the riskier segments as the exposures in the SME and retail unsecured segments have been increasing over the past few years.

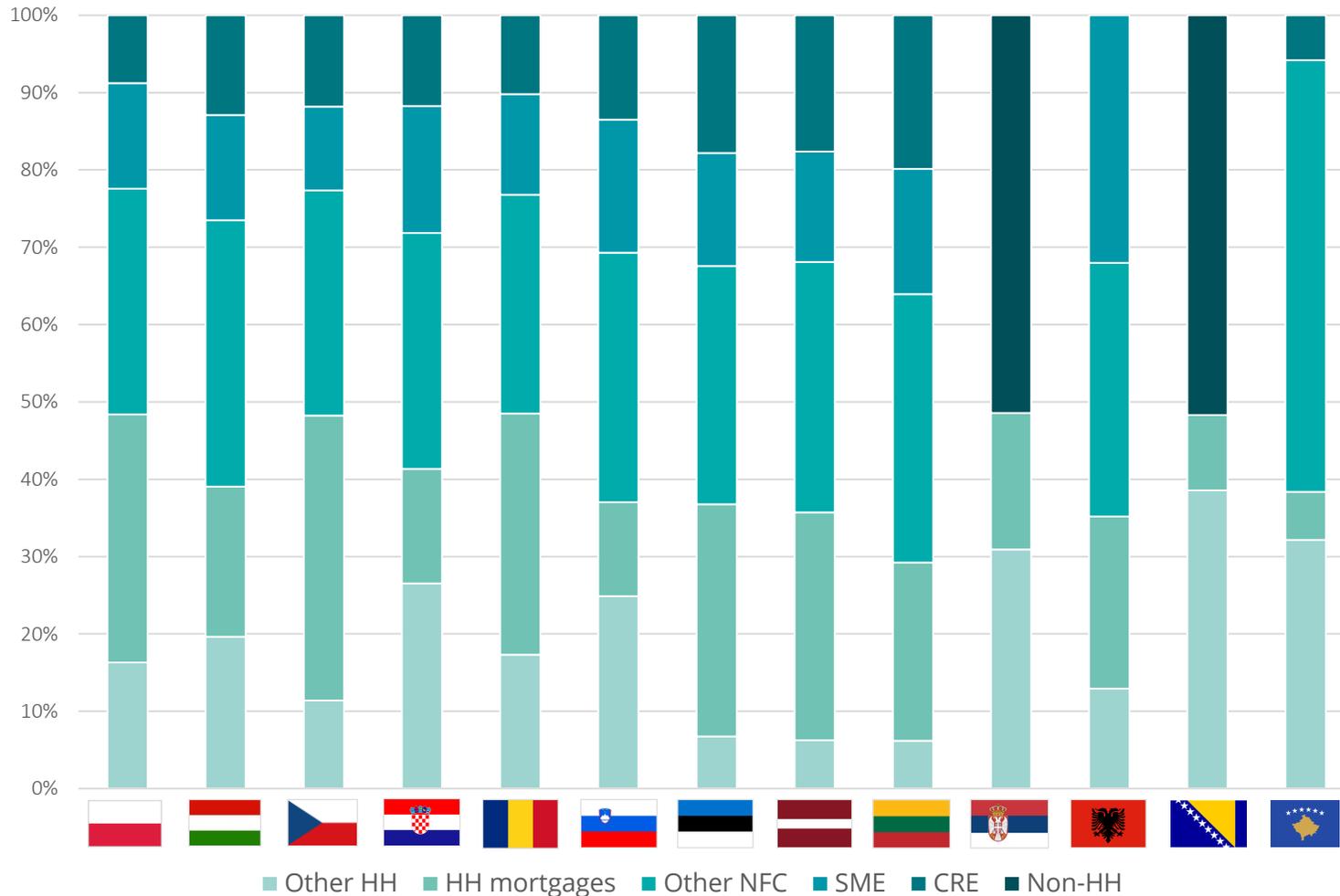
Figure 3. CET1 ratios (Q1 2020)



Source: EBA, NBS, BoA, CBK and CBBH



Figure 4. Loan composition (Q1 2020)



As presented in the survey report, **banks are more positive about the lending activity for 2021 compared to 2020** and believe that economies will require additional lending to stimulate the real economy and to recover from the pandemic situation.



Source: EBA, NBS, BoA, CBK and CBBH

Introduction

COVID-19 measures across Europe

In January 2020, coronavirus emerged in the European countries and the pandemic situation required an immediate and firm response from local governments and national banks to mitigate the social and economic impact of the outbreak. The measures in the first place were health-centric with the priority of protection of health and to slow down the spread of the virus.

This resulted in a wide range of measures and policy responses from school closing and travel restrictions to the introduction of economy protection measures such as the moratorium on loan payments, tax reliefs, job guarantees, state guarantees for bank loans and other types of state aid to the real economy as well as temporary relief on capital and liquidity buffer requirements for banks. European regulatory authorities like the EBA, ESMA and ECB have also released multiple guidelines in order to mitigate the impact of COVID-19 on the economy and to support banks in finding their way in this complex and unprecedented situation.

In the framework of the survey, our aim was to understand the general opinion of banks on government and national bank measures as the number and the characteristics of the measures could differ significantly country by country.

In our survey, we also investigated whether banks considered the responses of the local authorities to be carried out in time as timing was considered as a crucial factor by epidemiologists to stop the spread of the infection. One of the most impactful response from national banks to protect the economies and support borrowers was the introduction of moratorium on loan payments. As a result, questions on the effectiveness of the measure to safeguard the economy were also raised among banks.

One of the first countries to implement measures among the analysed countries was Poland.





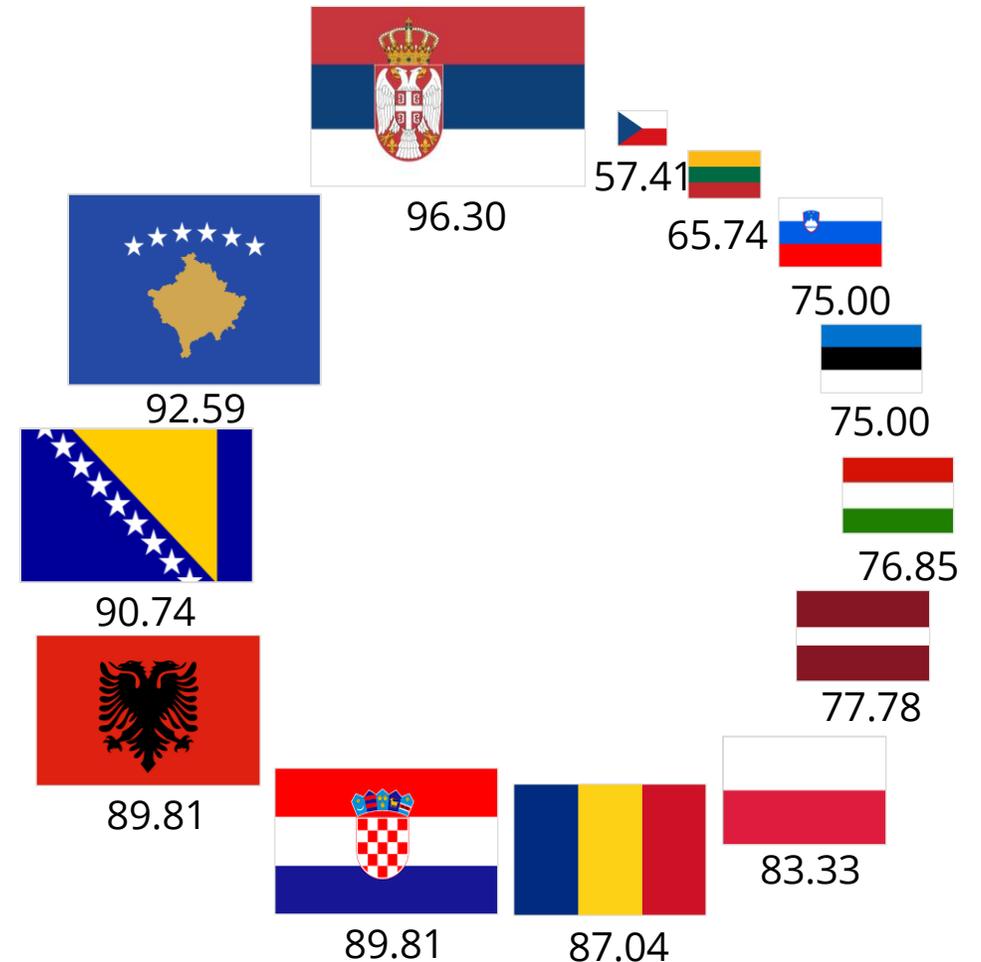
Figure 5. presents the stringency of containment measures based on the Oxford COVID-19 Government Response Tracker in April, which was considered one of the peaks of the pandemic.

The OxCGRT provides a systematic analysis of the measures implemented by the governments across countries and time but should not be interpreted as a measure of effectiveness of the government responses.

According to EBA's Thematic Note, however, the indices might be viewed as an indication of the magnitude and length the countries could be affected by the pandemic crisis economically.

In line with our survey results, countries with higher stringency indices like **Serbia, Croatia or Kosovo** considered the government measures less effective compared to the general sentiment of the CEE and overall **these countries are expecting a longer economic recovery.**

Figure 5. Government Response Stringency Index as of April 2020 (0 to 100, 100 = strictest)



Source: OxCGRT



Survey results



Survey results

Economic recovery

A prolonged economic recovery is expected over the next 12 months

The outbreak of the coronavirus in Europe and the rest of the world is the most severe negative shock economies have experienced since the global financial crisis of 2008-09. However, this crisis has affected not only the economies but also directly people's health and daily lives, resulting in more serious and deeper social and economic impact than the world previously had to face. GDP is expected to decline significantly in EU economies and globally as well, however it is still too early to predict and adequately quantify the real economic and social impact of the pandemic.

CEE banks were rather pessimistic regarding the economic recovery in the region, as **39.1% of the respondents expect a longer (U-shaped) recovery for the upcoming months**, whilst a fifth expect an L-shaped recovery.

Nearly a fifth of the respondents expect a faster (V-shaped) recovery, among these banks the Hungarians and Albanians were the most optimistic.

The investors expressed a slightly different view on the economic recovery, with half of the respondents expecting the economic recovery to be **W-shaped**.



Survey results



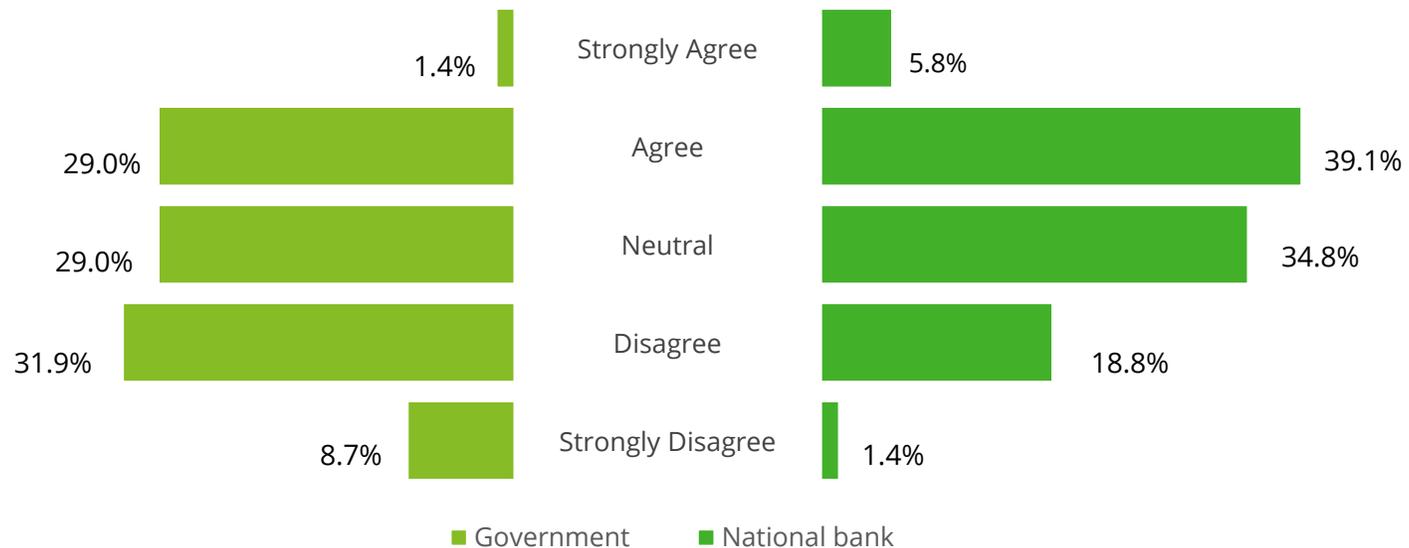
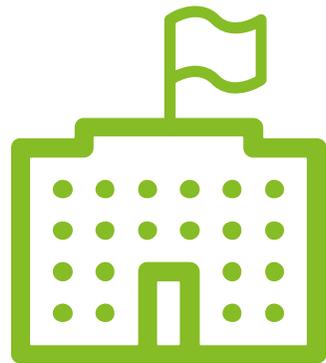
Measures implemented by local governments and national banks

The reception of the implemented fiscal and monetary stimulus package is rather miscellaneous

The magnitude of the economic downturn is mainly determined by the pace and expediency of the measures implemented by local governments, as limiting the contagion and preventing the emergence of the second wave of the virus could have a massive impact on the economic recovery.

In general, the respondents were more satisfied with the measures implemented by the national banks as nearly half of the banks agreed that those were sufficient to protect the economy, whilst in case of the acts of local governments less than one-third responded positively.

Figure 6. The current measures implemented by these institutions are sufficient to safeguard the economy from the pandemic crisis.



Source: Deloitte analysis



Countries in the south part of the region such as Albania, Bosnia, and Kosovo expressed a strong disagreement regarding the effectiveness of the government measures.

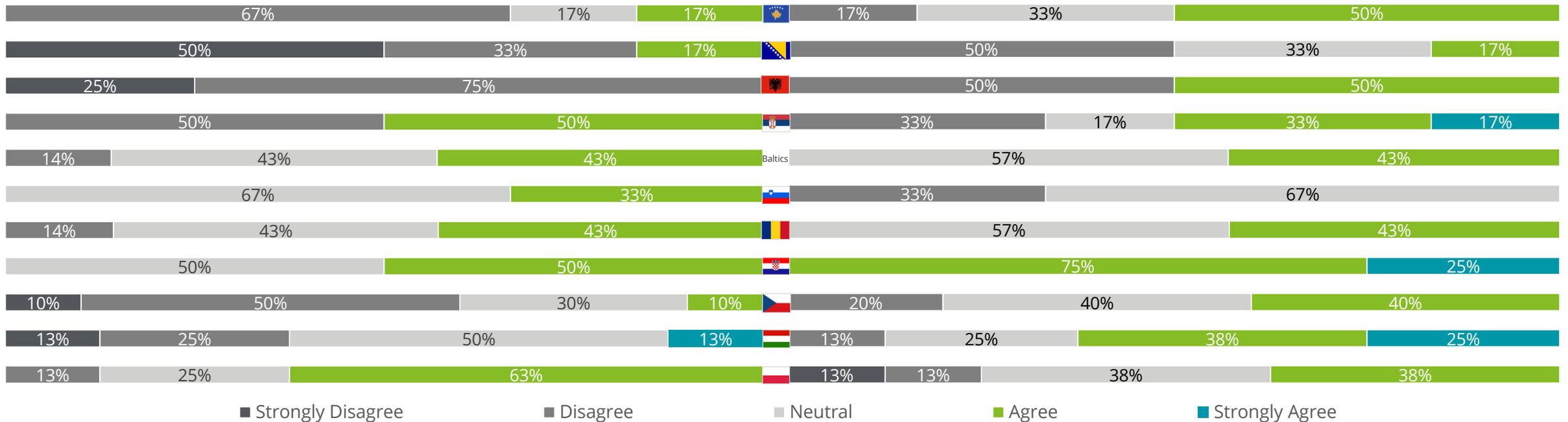
As presented on Figures 7-8., these countries also posted a higher stringency index than the CEE average. In contrast, countries like Poland, Croatia, Romania and the Baltic states felt the measures more efficient than the CEE average.



Figure 7. The current measures implemented by the local government are sufficient to safeguard the economy from the pandemic crisis.



Figure 8. The current measures implemented by the national bank are sufficient to safeguard the economy from the pandemic crisis.



Source: Deloitte analysis

Timing of the measures was considered as a key factor to stop the spread of the virus and to mitigate the negative economic effects, which was in general positively assessed among the banks. The majority of the respondents (62.3%) agreed that the local authorities reacted in time to COVID-19. The only exception is Bosnia where two-thirds stated that the governmental and institutional reactions were late.

One of the most impactful measures to protect the borrowers and the financial system was the introduction of moratorium on loans. It was crucial for the local authorities to ensure that temporary liquidity difficulties do not lead to long-lasting and deepening economic problems. The temporary payment facilitation measures were designed to protect households and corporate customers, however the specifics of moratoria can differ by countries. Besides the characteristics of the moratoria, banks were positive in general as the vast majority (75.3%) considered the measure as an effective tool to maintain financial stability.



The majority of the respondents (62.3%) agreed that the local authorities reacted in time to COVID-19.



Banks were positive in general as the vast majority (75.3%) considered the moratorium on loans as an effective tool to maintain financial stability.

Survey results

Loan dynamics

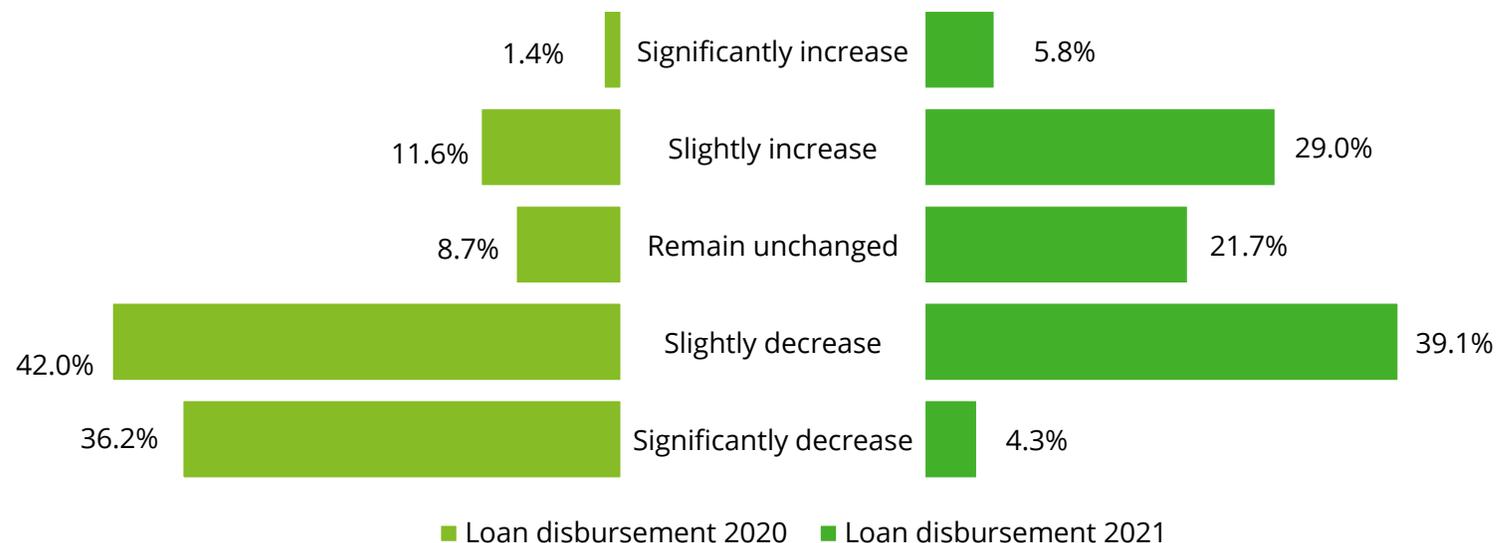
New loan disbursements | New loan disbursements can rebound in 2021 also attributable to regulatory measures aiming to sustain the lending activity of banks

In recent years, banks have increased their exposures in the riskier segments (e.g. SMEs and consumer credit) mainly because of searching for yield in the low interest rate environment. Furthermore, due to the positive macroeconomic conditions, the loan demand has also significantly increased in the past years. However, these conditions were negatively affected by the pandemic crisis. The uncertainty around the severity of the crisis, the length of the recession and measures like moratorium increased the ambiguity in case of the demand for new loans in 2020 and 2021.

The vast majority of respondents (78.2%) anticipate that new loan disbursements in 2020 are going to decrease which is in line with the expectations of a U-shaped and L-shaped economic recovery. Bosnia has the most pessimistic outlook with just over 80% expecting a significant decrease.

In contrast to the expectations for 2020, in 2021 only 43.4% of the banks expect decrease in loan disbursements, whilst one-third expect a slight or significant increase.

Figure 9. I expect that the level of new loan disbursements compared to the previous year will:



Source: Deloitte analysis



The Baltic region indicated the most confident expectations on the disbursements of new loans.

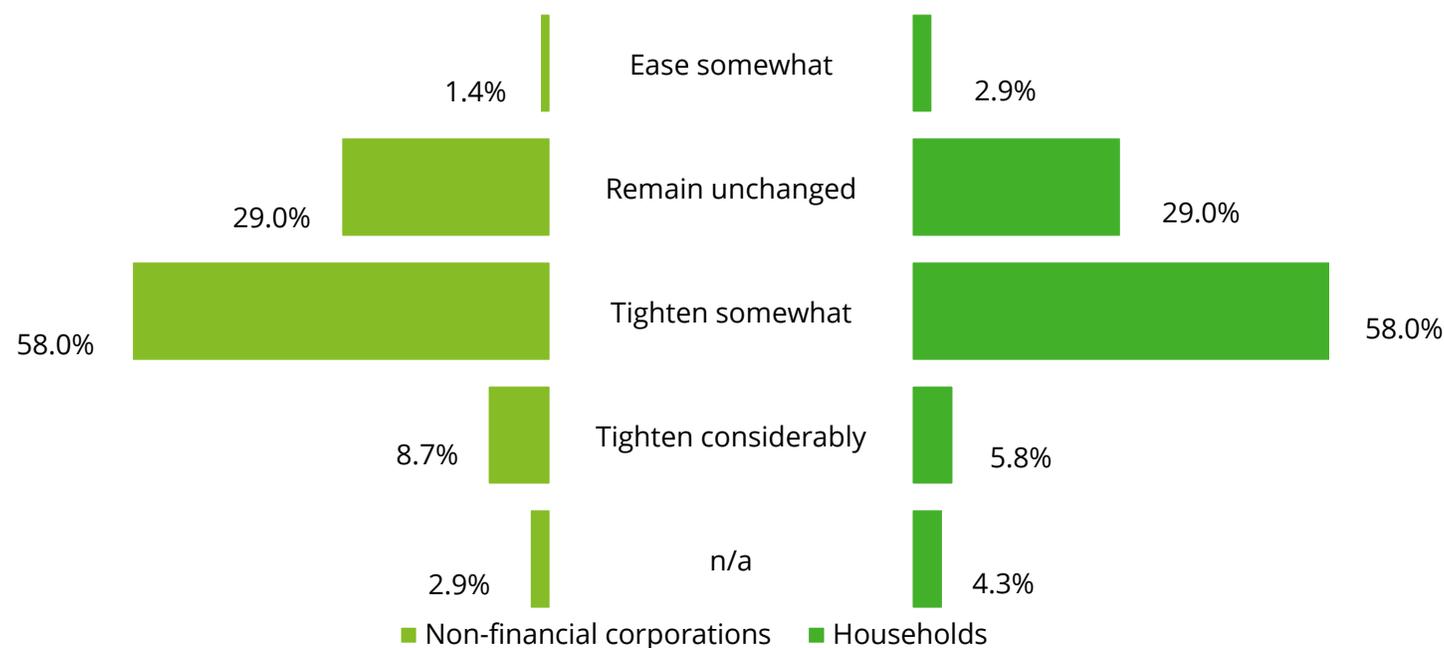
Survey results

Loan dynamics

Credit standards | Credit standards of loans for both households and non-financial corporations are expected to tighten somewhat mainly due to the deterioration of economic outlook as well as the elevated credit risk

There is no significant difference in the change of credit standards between the retail and corporate segments, however almost 60% of the banks forecast that credit standards of lending in both segments will tighten somewhat and c. 30% of the respondents expect the credit standards to remain unchanged. According to EBA, credit standards were already tightening in the first quarter of 2020, however such tightening was less severe compared to that during the sovereign debt crisis of 2008-2009. Needless to say that banks differentiate between sectors and borrower groups with regards to the amendment of credit standards by taking into account their exposure to the COVID-19 pandemic.

Figure 10. Credit standards of loans for non-financial corporations and households in my bank due to the COVID-19 crises are expected to:



Source: Deloitte analysis

Survey results

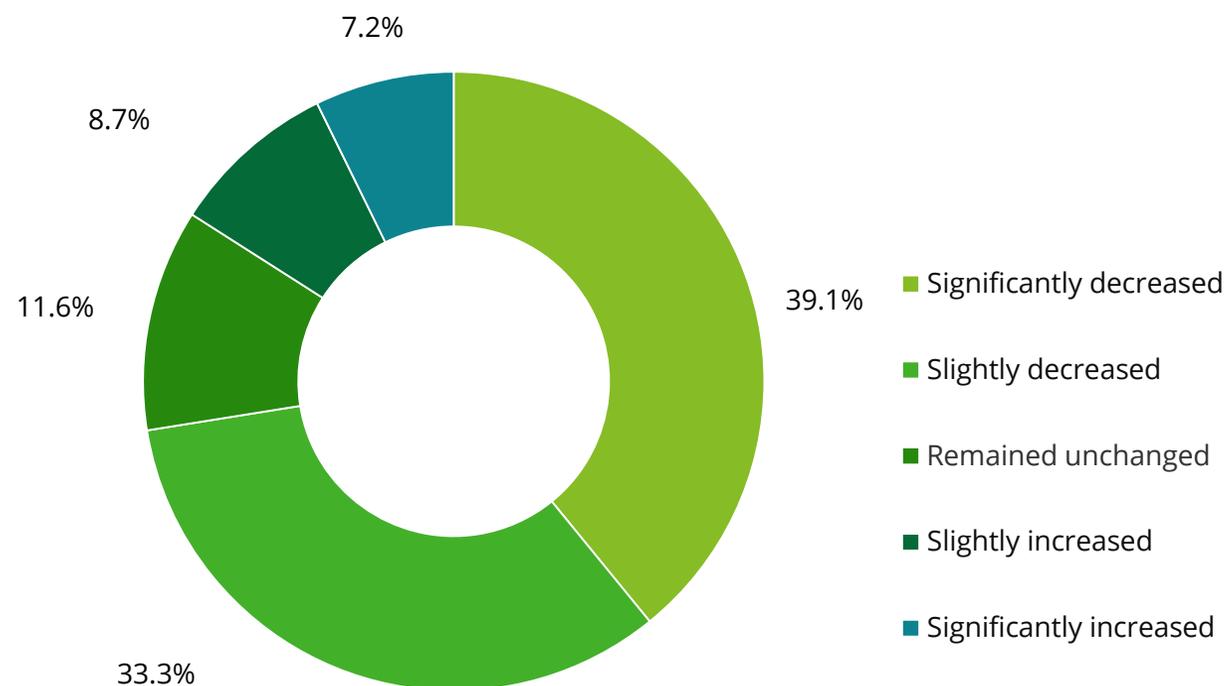
Loan dynamics

Demand for new loans | The vast majority of the banking sectors reported declining loan demand in Q2 2020

Demand for new loans in Q2 2020 decreased according to more than 70% of the respondents mainly due to the pandemic situation as the virus had the most significant impact on the real economic sector. Especially the hospitality industry as hotels, restaurants and bars needed to close down their operations for several months across Europe.

However, 15.9% of the banks experienced a moderate or significant increase in loan demand. More than half (57.2%) of the banks reported increase in demand in Romania as the energy and the real estate sectors have drawn down significant financing.

Besides the uncertainty, lending is likely to resume after the end of the lockdown period as a lending stimulus potentially will be required to restart the economies.



Source: Deloitte analysis

Survey results

Loan dynamics

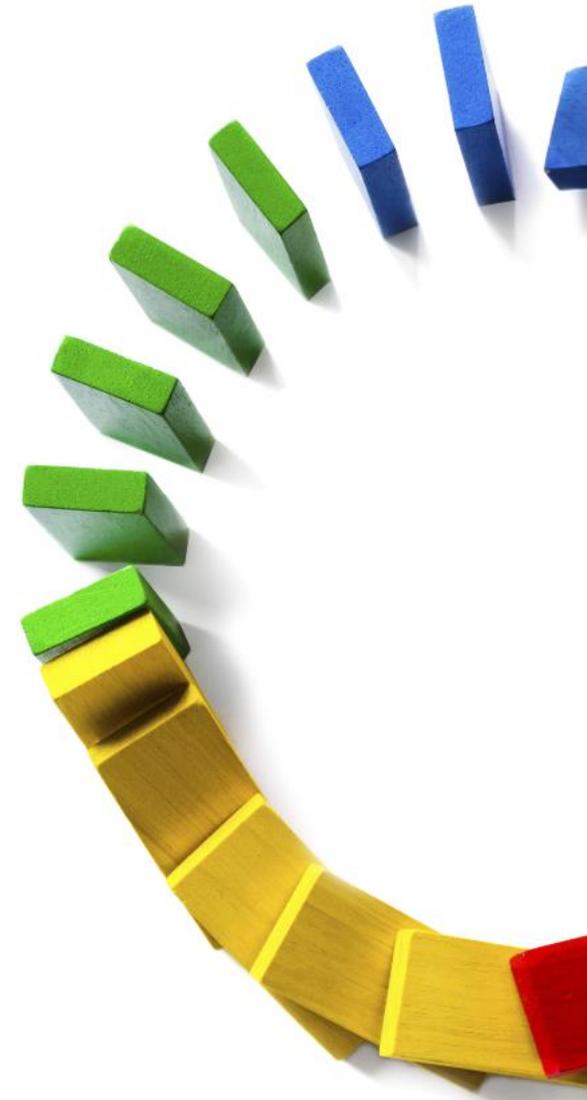
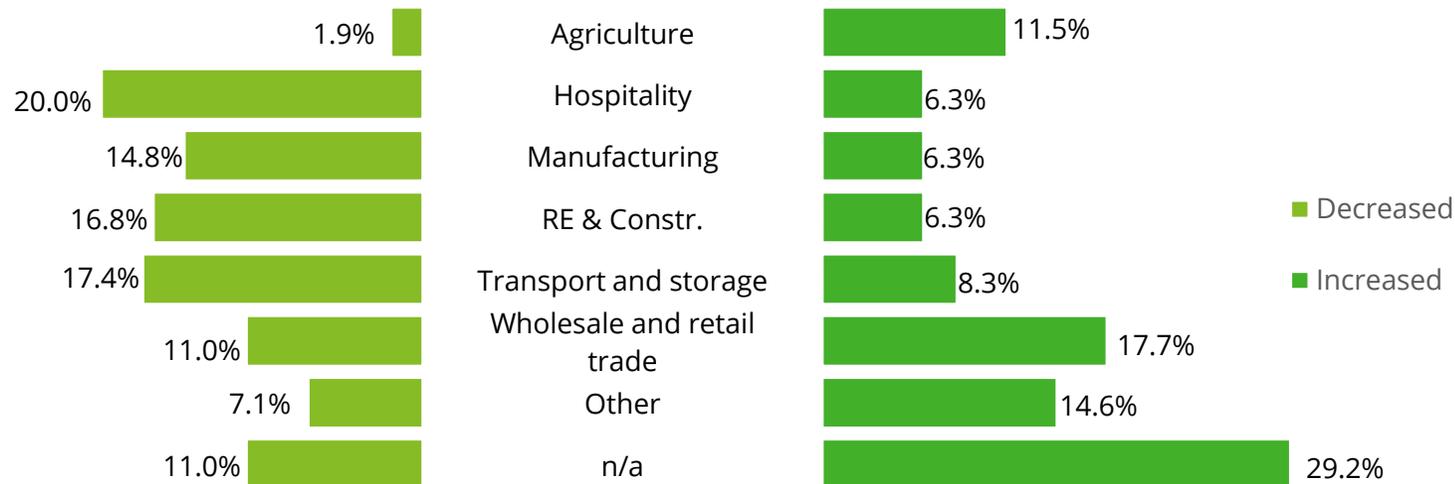
Loan demand in the corporate segment | Sectors that were hit hard by the pandemic situation experienced the most significant drop in loan demand

Especially those sectors and corporates were influenced by the pandemic, which are related to tourism and hospitality, such as travel agencies and accommodation, as well as food and beverage services. This comes as no surprise, since governments had to maintain the social distance to hinder the spread of the coronavirus. On the other hand, telecommunication and IT services as well as e-commerce are the least affected subsectors as these do not require personal contact.

Answers received from the banks are in line with the above, since the majority of respondents felt that loan demand decreased most significantly in the hospitality sector.

However, there are several other industries such as real estate and construction, transport and storage or manufacturing which were mentioned among the sectors that posted a drop in loan demand.

Figure 12. Over the past 3 months, demand for loans to non-financial corporations changed significantly in the following sectors



Survey results

Non-performing loans

Asset quality | Asset quality is not expected to deteriorate considerably over the next 12 months based on responses

As the emergence of COVID-19 resulted in deteriorating macroeconomic conditions, the new defaults are likely to increase in the upcoming period. However, there is a high level of uncertainty with respect to the loan repayment behaviour and debt service capacity of borrowers from 2021 onwards when the moratorium relief ceases in most of the countries. The moratorium could to a certain extent mask the real economic damage incurred during the lockdown.

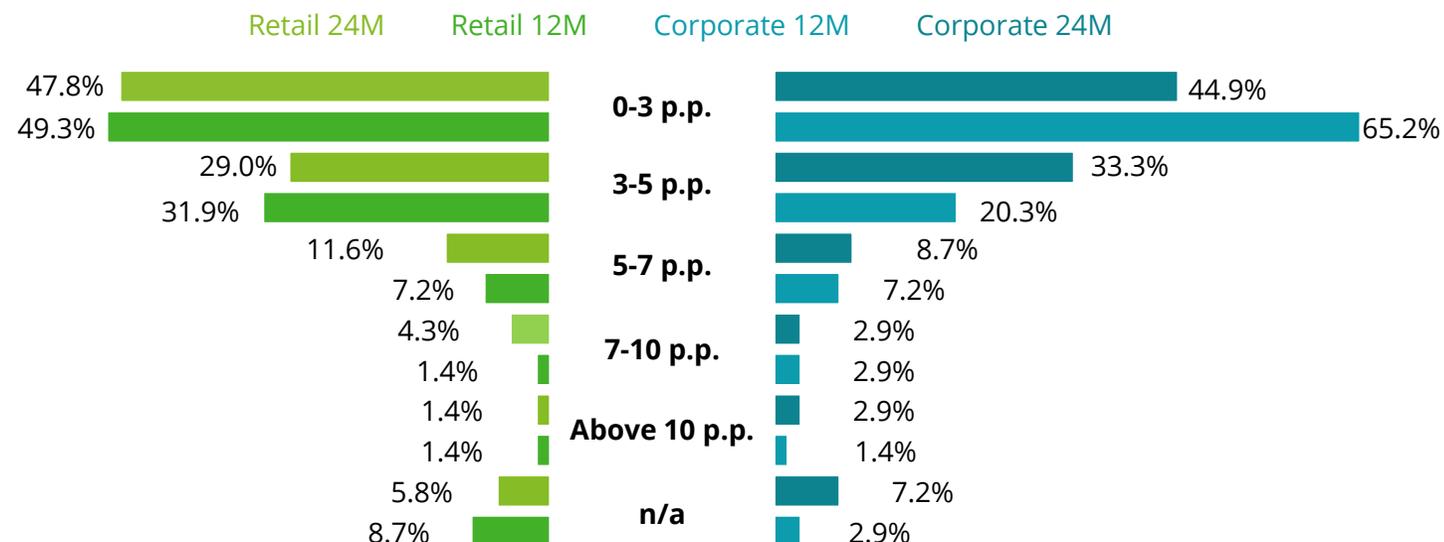
As the majority of banks are aware of this, they are running and analysing stress test models with multiple scenarios in order to assess the possible impact of COVID-19 and the moratoria measures implemented. For prudential reasons, banks are likely to book additional provisions to prepare for the end of the moratorium.

In contrast, investors expect higher growth in NPLs with half of the respondents expecting the retail NPL ratio to increase by 3-5% points over the next 12 months, whilst one-third of the respondents expect the corporate NPL ratio to increase by 5-7% points. It is noteworthy that nearly two-thirds expect the corporate NPL ratio to rise by 5-7% points over the next 24 months.



Figure 13. Over the next 12/24 months, NPL ratio in the retail/corporate segment is going to increase by:

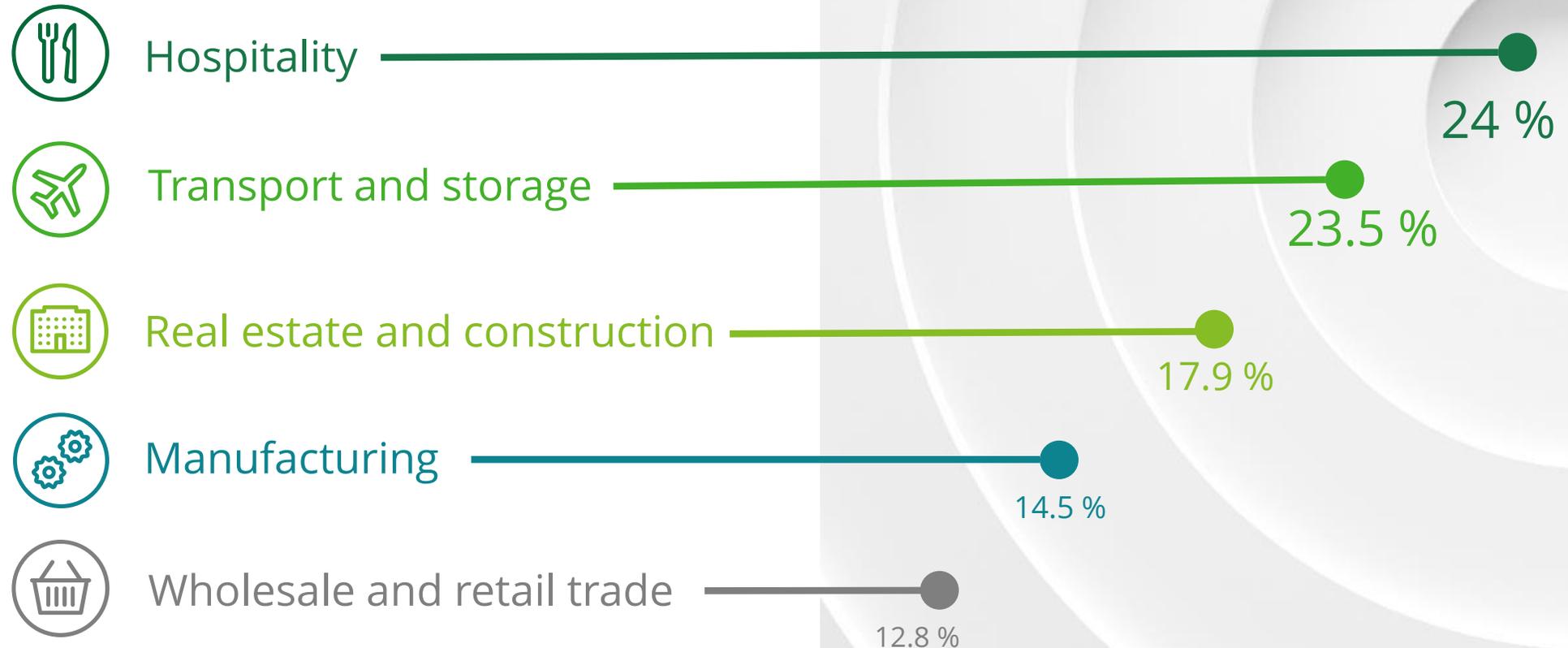
As Figure 13. suggests, **there is no significant difference** in the respondents' expectations **for the development of NPL ratios in the retail and corporate segments**. Almost half of the banks expect the retail NPL ratio to increase by 0-3% points, whilst two-thirds anticipate the corporate NPL ratio to rise at the same pace. A few banks in Poland, Romania, Bosnia and Croatia expect the corporate NPL ratio to increase above 7% points in the longer term.





I expect that the increase of NPL ratio in the corporate segment will be mainly driven by the following industries:

Unsurprisingly, it is anticipated that the inflow of new non-performing loans will be driven by the hospitality, transport and storage as well as the real estate and construction sectors, which are the most affected by the coronavirus.



Source: Deloitte analysis



Survey results

NPL transactions

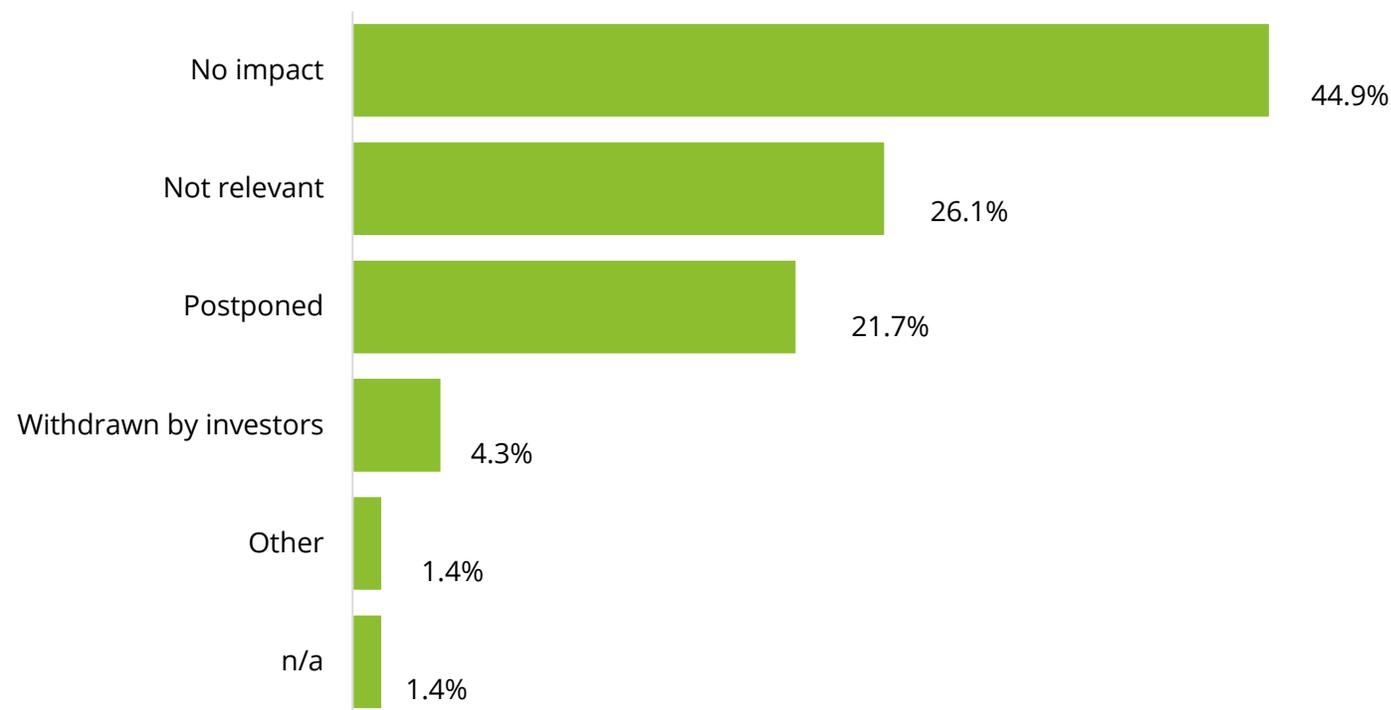
Impact of COVID-19 on transaction activity | Almost a quarter of respondents plan to dispose of non-performing loans over the next 6 months, whilst more than one-third do not plan any portfolio sales

Portfolio disposals played a significant role in banks' deleveraging activity in the CEE region over the past years evidenced by the material volume of NPLs traded.

As large NPL portfolios have been gradually diminishing and many banking sectors achieved a sustainable level of NPLs, COVID-19 did not have a significant impact on the NPL market activity.

Transactions were mainly postponed in Poland, which has one of the most vibrant **loan sales markets in the CEE region** as well as in Croatia and Bosnia where NPL ratios are still relatively high.

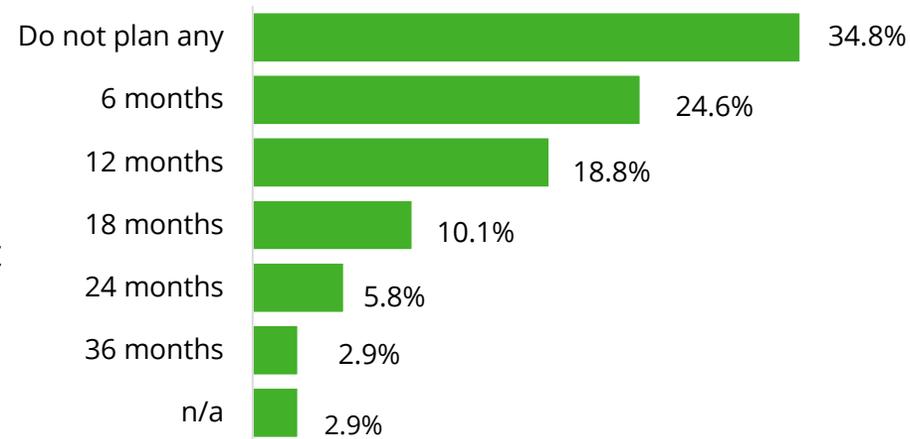
Figure 14. What impact did COVID-19 have on the bank's already ongoing or contemplated disposal of non-performing loan portfolios or single tickets?



Source: Deloitte analysis

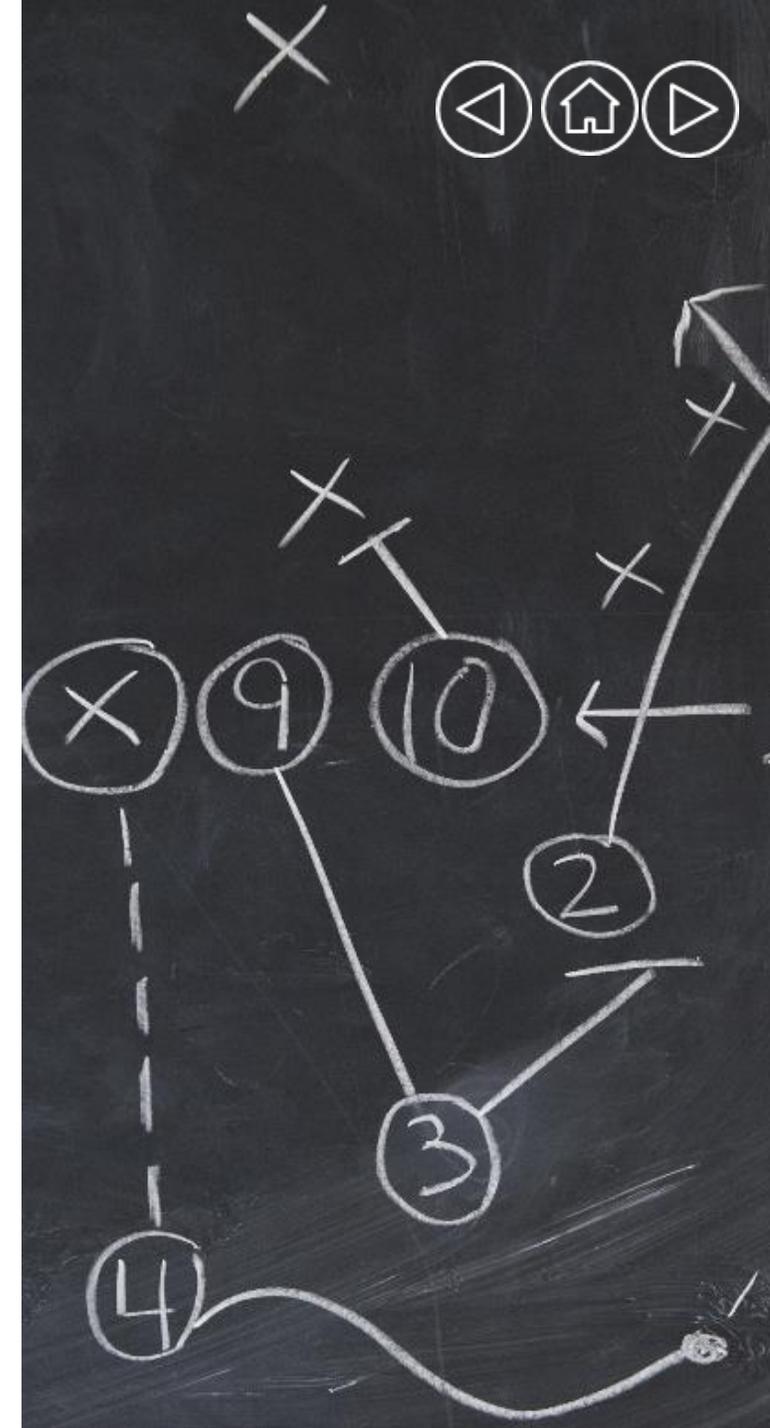
In general, more than one-third of the respondents do not plan to commence NPL disposals in the upcoming period, whilst more than 40% would sell their NPLs within a year, of which a quarter within 6 months. All respondents from Bosnia stated an intention to sell NPL portfolios at least within 24 months, whilst the vast majority of the banks in Romania do not plan any transactions in the near future. This is among others due to multiple changes in legislation, including the deductibility of losses realised on portfolio transactions.

Figure 15. I expect to dispose of non-performing loan portfolios earliest in the next:



Source: Deloitte analysis

Majority of our respondents stated intentions to continue buying despite the pandemic situation but selecting deals more cautiously, whilst only a few investors chose to wait and observe or invest opportunistically. However, investors felt the transaction activity to come to a halt, with some ongoing deals put on hold. The majority of respondents expect the NPL market activity to increase considerably only in the next 12 months, with some deals to come already in the last quarter of the year. Some investors also expect the secondary market transactions to accelerate in the coming months.





Survey results

NPL transactions

Asset classes to be sold | Retail unsecured portfolios will dominate the NPL transactions according to banks. On the other hand, investors expect banks to dispose of corporate unsecured assets in the largest amount.

More than one-third of banks stated intentions to focus on selling retail unsecured portfolios in the largest amount. This could be attributable to the abovementioned shift in loan composition as well as the fact that banks have already disposed of the vast majority of their corporate non-performing assets.

Given the limited amount of large corporate portfolios in most banking sectors in the CEE region, it comes as no surprise that a fifth plan to dispose of single cases. The most common asset class indicated to be disposed of is the retail unsecured with 35% followed by the single ticket sales with 21%.

In contrast, half of the respondents expect banks to dispose of corporate unsecured assets in the largest amount. Most of the respondents also expect the pricing of assets to decrease somewhat compared to the pricing of assets pre-COVID-19. Needless to say that the impact on the pricing also depends on the type of the asset and the exposure. Industries which were hit hard by the pandemic situation (e.g. hospitality with decreasing occupancy) might see more significant price changes than those with stable operation. Investors asked in the survey also tend to reflect the higher risk environment in their IRR, this combined with the uncertainty regarding the projected time and level of recovery is expected to result in more conservative pricing.

Figure 16. I expect to dispose of assets in the largest amount in the following asset classes:

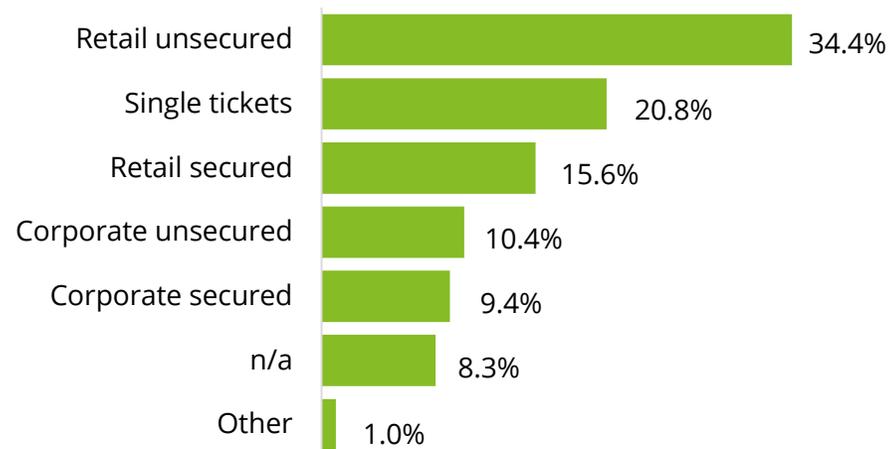
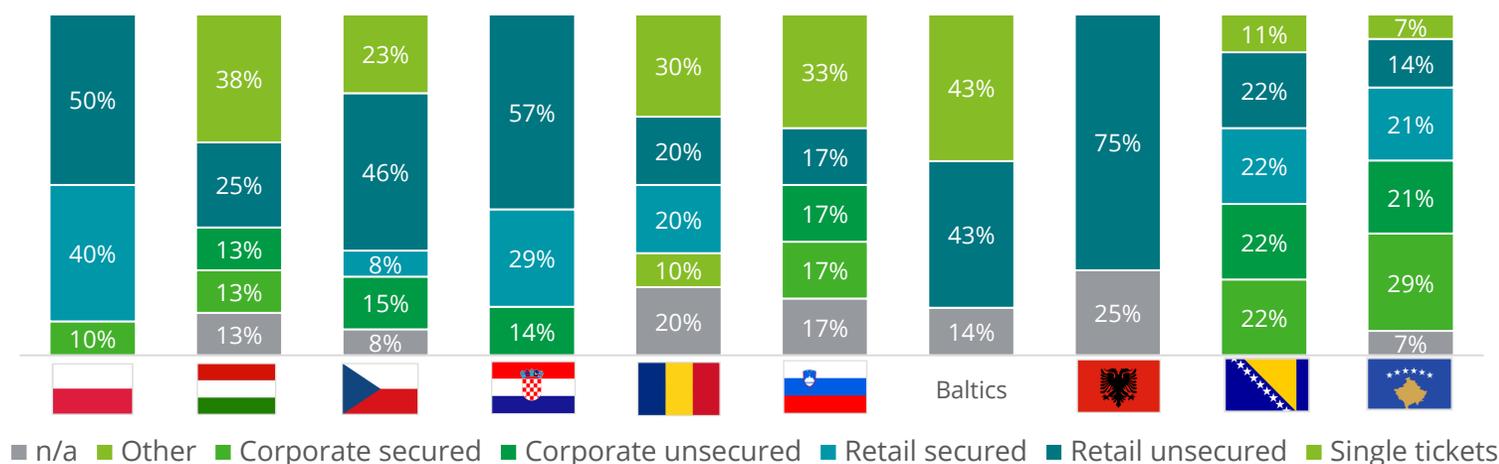


Figure 17. I expect to dispose of assets in the largest amount in the following asset classes:



Source: Deloitte analysis

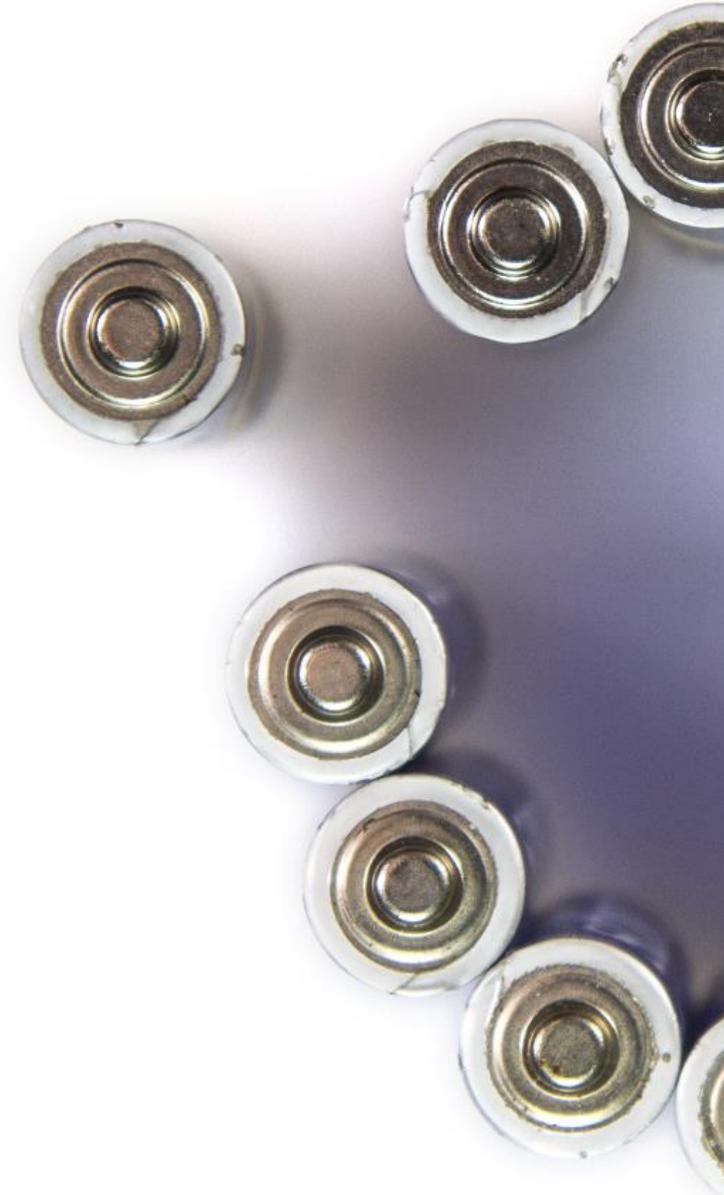
Source: Deloitte analysis





Banks' preferred strategy in relation to the management of retail NPLs **is in-house workout**, while the share is even higher in case of corporate NPL compared to the retail segment.

10% of the respondents indicated that outsourcing is an option to manage NPLs.



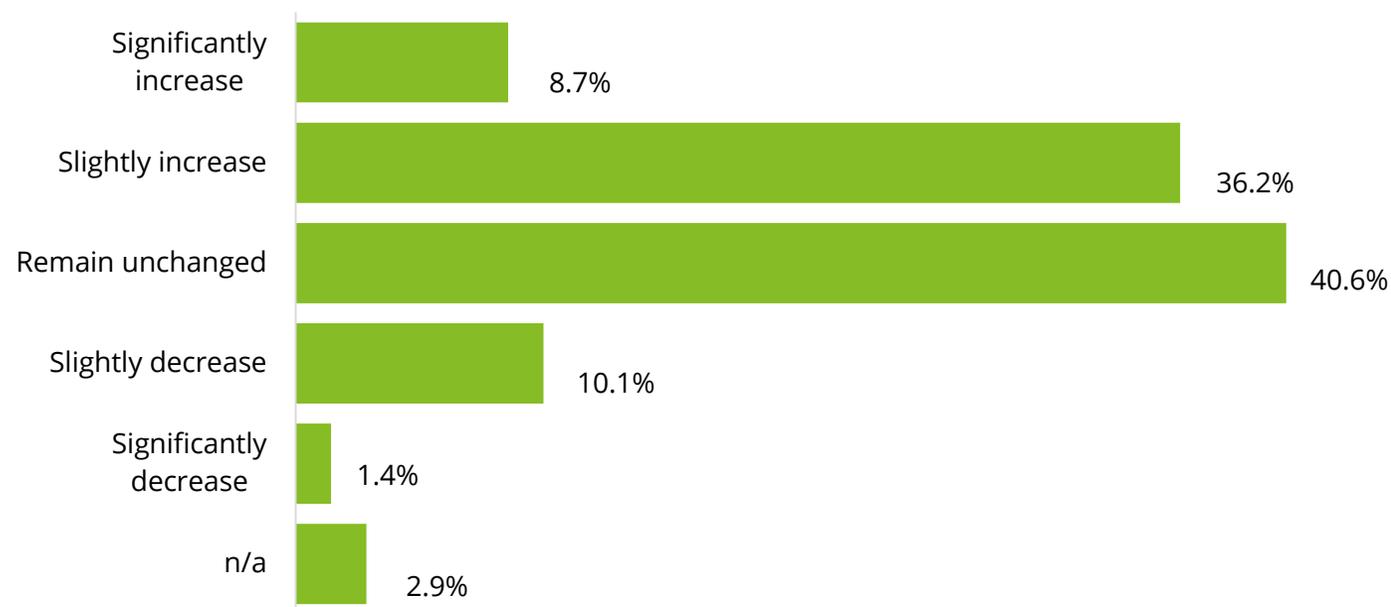
Survey results

NPL transactions

Corporate single tickets | Nearly half of the respondents expect the disposal of non-performing single tickets to rise over the next 12 months

More than 40% of the banks in the CEE region expect an increase in the disposal of non-performing single tickets over the next 12 months, whilst c. 40% anticipate that the dynamics of single ticket transactions will remain unchanged. In Romania, over a quarter indicated a significant increase in single ticket transactions in the upcoming year. The gradually diminishing large NPL portfolios offered for sale and the ambition of regulators to develop sustainable long-term NPL prevention could contribute to the sale of corporate single tickets, especially on mature markets.

Figure 18. I expect that the disposal of non-performing single tickets over the next 12 months will:



Source: Deloitte analysis



Survey results

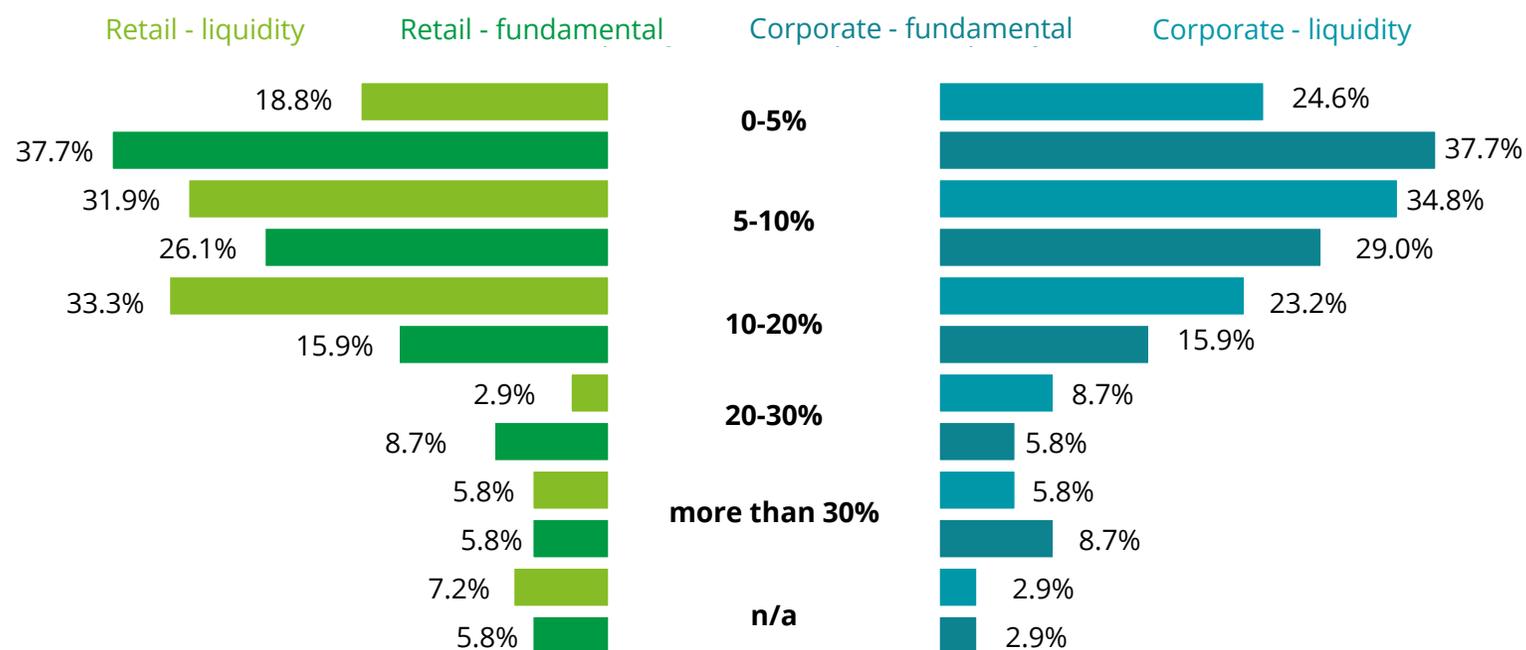
Restructuring and workout

Restructuring | One-third of the respondents expect that 10-20% of retail borrowers with liquidity difficulties will require restructuring over the next 12 months

In case of corporate debtors, nearly a quarter of participants anticipate that due to liquidity difficulties 10-20% of borrowers will require restructuring over the next 12 months. More than one-third of the respondents believe that only 5-10% of corporate borrowers with liquidity difficulties will require restructuring which result does not show material difference compared to the retail segment.

There is no significant difference concerning the expectations of fundamental financial difficulties between retail and corporate borrowers, with nearly 40% anticipating that maximum 5% of debtors will require restructuring.

Figure 19. I expect that [...] % of debtors in the retail and corporate segment with liquidity/fundamental financial difficulties will require restructuring over the next 12 months.



Source: Deloitte analysis

Survey results

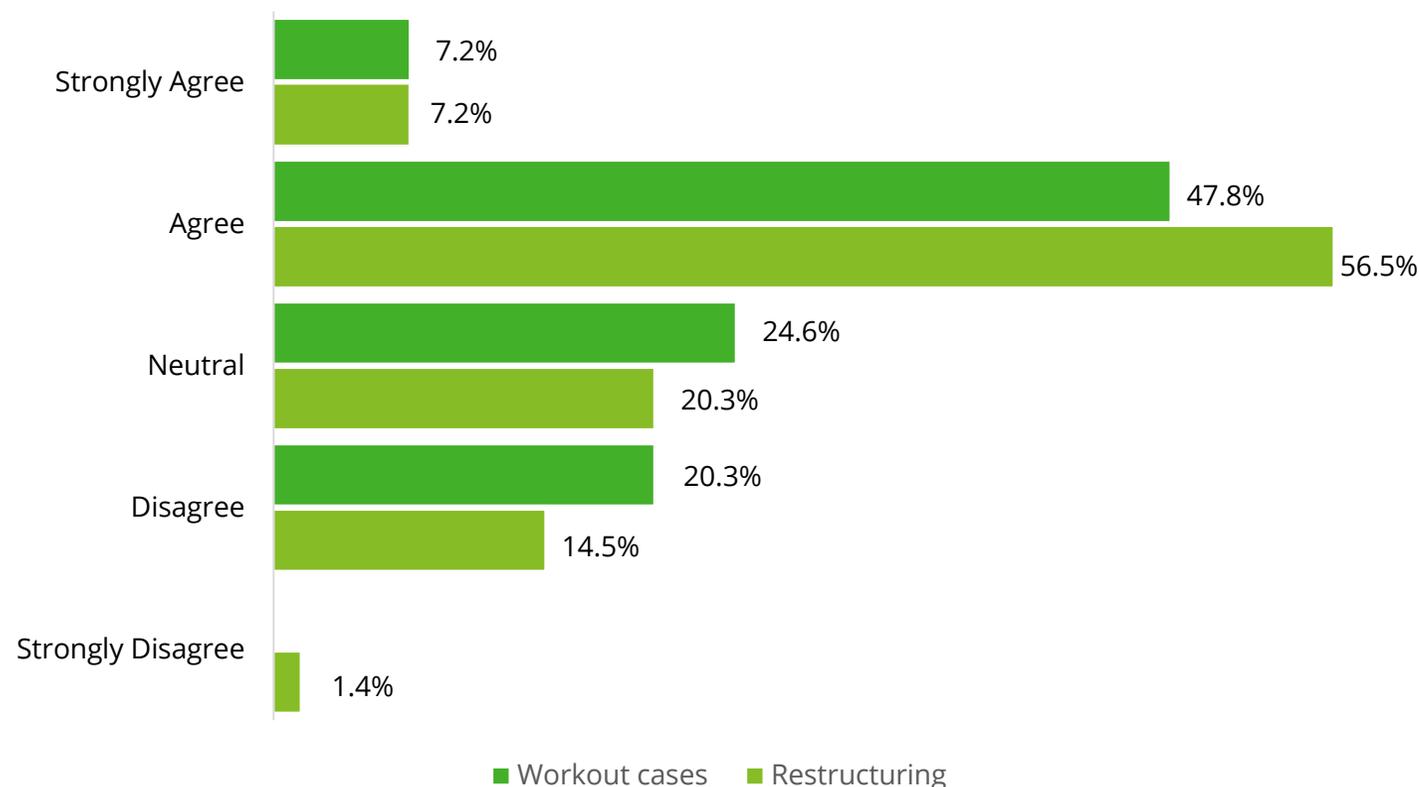
Restructuring and workout

Human resources | The majority of respondents believe they have sufficient human resources to handle restructuring and workout cases in-house

Almost two-thirds of the respondents indicated that in-house restructuring was manageable, while 15.9% may require external support to handle the potentially increased amount of restructurings. Similarly, more than half of the banks consider they have sufficient human resources in-house to handle workout cases. Banks tend to allocate resources internally from departments (e.g. lending) experiencing less workload recently and to some extent also standardise processes.

However, a fifth of respondents indicated that in-house resources are not sufficient to handle the extra workload in case of workout. Nearly half of the banks are ready to outsource workout activities to external servicers in the CEE region, save for Hungary where the share of banks planning to outsource workout activities is well below the average.

Figure 20. I have sufficient human resources in-house to handle the increased need from debtors for restructuring and workout cases.



Source: Deloitte analysis



List of abbreviations

| | | | |
|------|--|--------------|---|
| '18 | 2018 | H1 | First Half (calendar year) |
| '20 | 2020 | HH | Household |
| Avg. | Average | IT | Information Technology |
| BoA | Bank of Albania | M | Month |
| c. | circa | NBS | National Bank of Serbia |
| CBBH | Central Bank of Bosnia and Herzegovina | NFC | Non-financial corporation |
| CBK | Central Bank of Kosovo | NPL | Non-performing loan |
| CEE | Central and Eastern Europe | OxCGRT | Oxford COVID-19 Government Response Tracker |
| CRO | Chief Risk Officer | PLAS | Portfolio Lead Advisory Services |
| EBA | European Banking Authority | Q1 | First Quarter |
| ECB | European Central Bank | Q2 | Second Quarter |
| EU | European Union | RE & Constr. | Real estate and construction |
| GDP | Gross Domestic Product | SME | Small and Medium Enterprises |



Contact us

Financial Industry Leader Central Europe

Andras Fulop

Tel: +36 (1) 428 6937

Email: afulop@deloittece.com

Financial Advisory Managing Partner Central Europe

Balazs Biro

Tel: +36 (1) 428 6865

Email: bbiro@deloittece.com

Regional Head of Portfolio Lead Advisory Services

Albert Marton

Tel: +36 (1) 428 6762

Email: amarton@deloittece.com

Global Head of Portfolio Lead Advisory Services

David Edmonds

Tel: +44 20 7303 2935

Email: dedmonds@deloitte.co.uk

Albania

Kreshnik Robo

Tel: +35 (54) 451 7922

Email: krobo@deloittece.com

Baltic region

Linas Galvele

Tel: +37 05 2553000

Email: lgalvele@deloittece.com

Bosnia and Herzegovina

Sabina Softić

Tel: +387 (0) 33 277 560

Email: ssoftic@deloittece.com

Bulgaria

Alexander Zahariev

Tel: +359 (8) 994 76094

Email: azahariev@deloittece.com

Croatia

Jelusic Vedrana

Tel: +385 (1) 235 21 17

Email: vjelusic@deloittece.com

Czech Republic

Pavel Piskacek

Tel: +420 246 042 946

Email: ppiskacek@deloittece.com

Roman Lux

Tel: +420 246 042 488

Email: rlux@deloittece.com



Contact us

Hungary

Balazs Biro

Tel: +36 (1) 428 6865

Email: bbiro@deloittece.com

Albert Marton

Tel: +36 (1) 428 6762

Email: amarton@deloittece.com

Kosovo

Kreshnik Robo

Tel: +35 (54) 451 7922

Email: krobo@deloittece.com

Poland

Tomasz Ochrymowicz

Tel: +48 (22) 5110456

Email: tochrymowicz@deloittece.com

Romania

Radu Dumitrescu

Tel: +40 (21) 2075 322

Email: rdumitrescu@deloittece.com

Serbia

Darko Stanisavic

Tel: +381 (1) 138 121 34

Email: dstanisavic@deloittece.com

Slovakia

Ivana Lorencovicova

Tel: +421 (2) 582 49 148

Email: ilorencovicova@deloittece.com

Slovenia

Luka Vesnaver

Tel: +386 (1) 307 28 67

Email: lvesnaver@deloittece.com

Contributors

Attila Nebl

Tel: +36 (1) 428 6243

Email: anebl@deloittece.com

Attila Csoma

Tel: +36 (1) 428 6380

Email: acsoma@deloittece.com

Robert Amann

Tel: +36 (1) 428 6579

Email: roamann@deloittece.com



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