



Loan portfolio evaluation

The Deloitte methodology

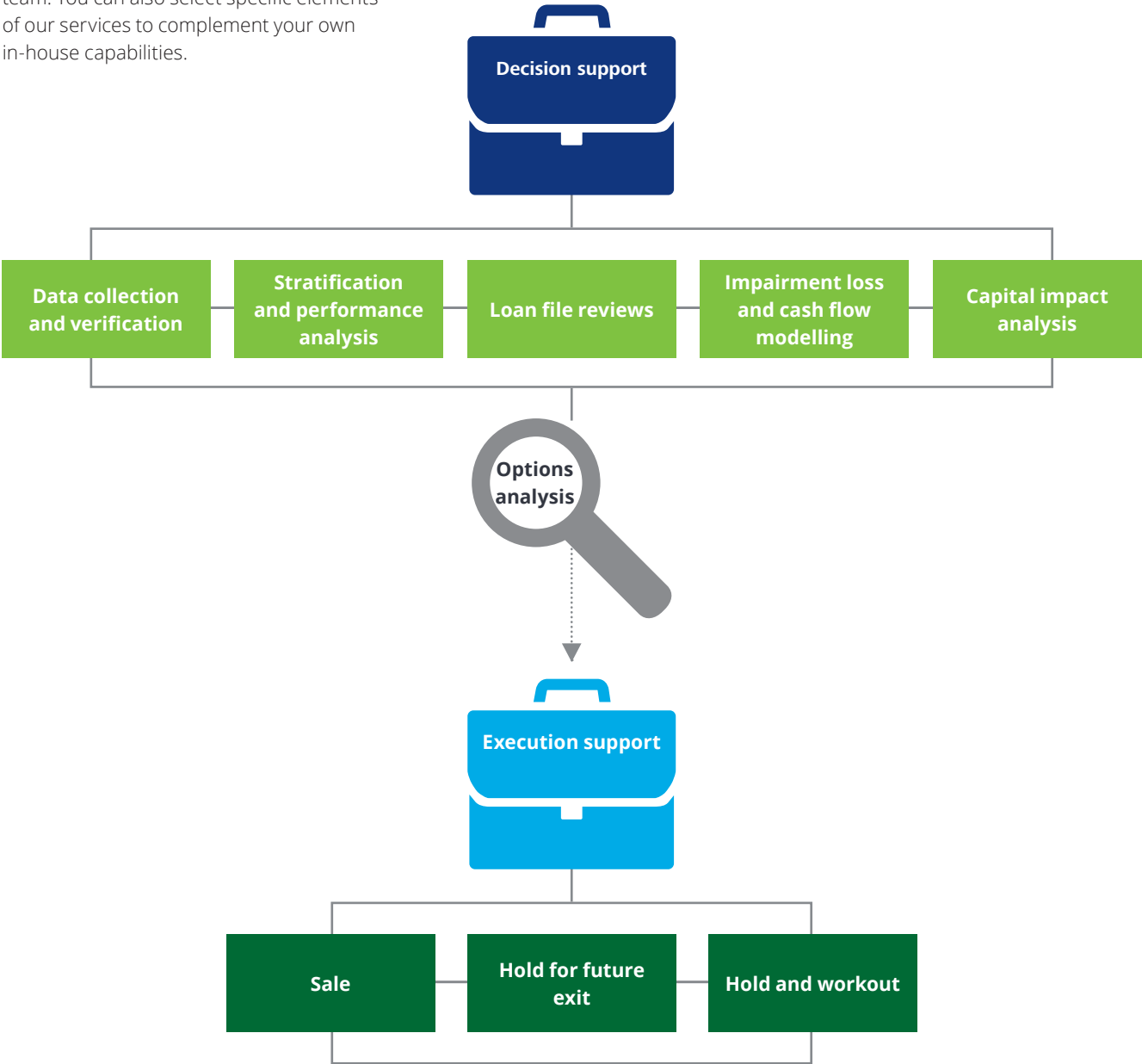
Deloitte Malta
Risk Advisory - Banking

Risk Advisory 

Our modular approach to addressing non-core loan portfolios

Flexible approach

We have the capability and resource to support you from the early stages of your decision-making process right through the execution of your chosen strategy. We can deliver all of the required services through one, cross-border, integrated advisory team. You can also select specific elements of our services to complement your own in-house capabilities.



Decision support



Data collection and verification

Data collection involves managing an efficient collection process which makes full use of available resources.

Data verification involves ensuring data is presented in a consistent format and any data quality limitations are mitigated through further collation.

Stratification and performance analysis

Grouping of assets by similar characteristics provides a set of parameters for reporting on key trends:

- Static analysis to understand the structure of the portfolio, with a view to identifying key risk areas;
- Defining sample and non-sample for loan file reviews and/or the data room;
- Preparing statistics and summaries for marketing materials upon decision to sell; and
- Division into sub-portfolios with homogenous characteristics which might receive different treatment (eg. retail vs. corporate, secured vs. unsecured).

Loan file reviews

The focus of this phase is to interpret the themes identified during stratification and performance analysis and address the following:

- Were collateral values assessed appropriately at origination and indexed/revalued appropriately?
- Are the facilities as reported in the data tape?
- Do risk characteristics link to certain origination channels/surveyors/vintages, etc.?
- Have loans been restructured and, if so, was it a success?
- What are the related exposures (considering both legally related parties and connected parties)?

Impairment loss and cash flow modelling

We overlay the portfolio segmentation performed above with the findings and results of our loan file reviews to perform modelling of potential future losses.

Capital impact analysis

- Understanding the drivers of RWA in individual asset classes
- Quantifying the impact of changes to assumptions underpinning RWA calculations.

Options analysis

Drawing from the analysis above and our experience of advising on several loan portfolio reviews, we can assist you in identifying the available options and facilitate the selection of your preferred strategy.

Decision support:

- **The process of taking strategic decisions regarding non-core portfolios requires a robust analysis to be undertaken and be based on high quality input data.**
- **A significant challenge lies in balancing the need for taking immediate action with the time required to analyse portfolios adequately.**
- **We have supported the decision making process for several of our clients through the services above.**

Execution support

Sale



Transaction structuring

- Loan pool selection and analysis of performance
- Tax structuring.

Carve-out planning

- Identifying the transaction perimeter.
- Identifying carve-out issues and developing plans to address these through the transaction.

Production of marketing documents

Producing all documentation necessary to support the sale process such as preparing a teaser, information memorandum, data tape, process letters, and NDAs.

Selection of most appropriate information to include in order to maximise the interest in transaction.

Marketing

Leveraging our experience to ensure the right bidders are approached and the most appropriate process is adopted:

- Advising on the most appropriate way to test the market and run the sale process.
- Negotiating NDAs
- Utilising our knowledge of which buyers are active in the market at the time

- Matching the right buyers with the right type of assets
- Distributing of a teaser, information memorandum, data tape and process letter to appropriate parties.

Vendor due diligence

A sale process could be supported by the provision of vendor due diligence. This is more appropriate for complex processes where time and cost efficiencies can be gained by getting a wider group of bidders up the learning curve.

Due diligence set-up and support

Ensuring efficient provision of data in a way that can improve the quality of offers received whilst preserving the highest levels of confidentiality:

- Supporting management in preparing and collating due diligence materials
- Leveraging Deloitte's loan portfolio database to facilitate a better understanding of complex facilities
- Preparing an electronic/physical data room
- Co-ordinating bidders' Q&As.

Sale process management

Acting as your lead advisor throughout the sale process:

- Approaching bidders and soliciting offers
- Advising you on offers received and negotiating with bidders on your behalf
- Commercial input into SPA and other legal documents
- Project managing the process to completion.

Separation/transition support

Assisting you to ensure a clean separation:

- Ensuring operational readiness for exit
- Developing detailed plans for full separation by workstream.

Execution support - Sale

- **Portfolio sales can be complex with buyers typically expecting to obtain significant amounts of detail. Therefore, preparation and execution phases require a number of different specialisms. From our experience, loan portfolio sales are therefore best approached in a detailed, methodical fashion.**
- **We have supported portfolio sales for our clients by providing the services above.**

Execution support

Hold for future exit



Transaction structuring

- Assessing and commending financial structures to meet your needs to facilitate a later exit
- Issuing formal opinions to support tax, regulatory and accounting structuring and to confirm the tax status of the SPVs
- Defining criteria and selection of appropriate assets for securitisation and other funding arrangements
- Constructing a pool of sufficient quality and characteristics

Carve-out planning

- Identifying the transaction perimeter
- Identifying carve out issues and develop plans to address these throughout the transaction

Decision dashboard design and implementation

- Monitoring the ongoing performance of the portfolio/ the market against certain sale/securitisation/hold criteria to facilitate exit timing
- Designing and implementing a dashboard to assist with in the ongoing monitoring of you strategy

Due diligence setup and support

Ensuring efficient provision of data in a way that can improve the quality of offers received whilst preserving the highest levels of confidentiality:

- Supporting management in preparing and collating due diligence materials
- Leveraging Deloitte’s loan portfolio database to facilitate a better understanding of complex financing arrangements
- Preparing an electronic/physical data room
- Anticipation of potential bidders’ Q&As

Ongoing monitoring and review

Perfecting the dashboard to ensure it is continuing to:

- Meet your requirements
- Gather the right data
- Perform the right calculations

Servicing propositions

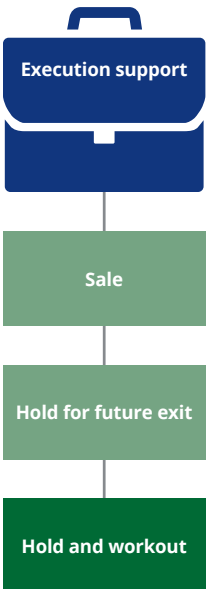
- Conducting tender process for the ongoing servicing of the loan portfolio where required.

Execution support - Hold for future exit

- **The decision making process may conclude that a portfolio is non-core but that it is not possible, or it is not economically favourable, to pursue an exit in the short to medium term. In this case holding the portfolio, while maintaining flexibility to facilitate a future exit, is the most appropriate course of action.**
- **There are a number of tasks that can be undertaken to facilitate a swift future exit, when market conditions improve.**

Execution support

Hold and workout



Workout framework design

- Design framework and methodology to:
 - Develop a sustainable and scalable workout capability in the bank
 - Develop standardised policies and procedures
 - Assist with hands on project management and setting up of unit.

Portfolio strategy

- Develop framework and methodology to run-off loan portfolio with the objective of:
 - Extracting best recovery
 - Minimising cost
 - Minimising need for management input and time
- Identify emerging problem loans in the bank's portfolios and develop strategies
- Identify groups of loans where redemption could be accelerated through incentivisation schemes

Dashboard design and implementation

- Having gone through the decision making process, you may find that you have found:
 - A new way of segmenting the portfolio
 - A new metric to manage performance
 - A better way of measuring performance
 - A more consistent approach to measuring performance
- It would be preferable if this information were available as part of the ongoing work out of the book, rather than just through the specific assessment.
- We can help you to design, and implement, an appropriate dashboard.

Servicing propositions

- Conducting a tender process for the ongoing servicing of the loan portfolio where required.
- Provide hands on assistance with implementation of chosen alternative including project managing the set up and operation of the run off team.

Execution support - Hold and workout

- **The decision making process may conclude that an immediate exit of the portfolio is not optimal and that it should be worked out with a view to maximising and/or accelerating individual loan recoveries.**
- **We have supported clients execute a work out plan by providing the services above.**

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