



Grant Thornton

An instinct for growth™

Non-Performing Loans Solutions

March 2019





Resolving the issue of Non-performing Loans (NPLs) is not just a regulatory problem to address but a way to manage a bank's balance sheet and increase profitability. Sound management of non-performing loans means that these would be replaced by new, sound exposures. Interest income would be boosted as a result, as rates charged on new business would substitute for the lower earnings from non-performing loans. Other benefits would include lower funding cost or lower capital requirements that would be forthcoming from a reduction of NPLs.

The need for a strategy

A clear strategy is essential to deal with the NPL problem. This entails the following:



1. Operational assessment

The operational assessment involves assessing the internal capabilities and resources within the bank to deal with the problem. Often external help is sought. In addition, an assessment of the external environment is conducted to analyse the conditions and market appetite for NPLs as for any solution the bank to consider the balance sheet implications. Besides analysing the regulatory implications, the accounting treatment has also to be considered. With the introduction of IFRS 9 and more forward-looking provisioning rules could be conducive to faster recognition of losses.



2. Strategic development

The NPL strategy must include specific targets to be achieved over different time horizons, typically short, medium and long terms. Both qualitative and quantitative targets should be set. Detailed quantitative modelling allows the bank to not only set realistic targets but also consider the changes in Risk Weighted Assets and other important implications.



3. Implementation planning

As a direct result of the operational assessment, the operational plan is implemented and may not only include bolstering the internal resources but even altering the internal organisational structure of the bank.



4. Embedding the strategy

Embedding the strategy entails having a proper governance structure within the bank to have the necessary management processes to enable regular reviews and independent monitoring.

Potential solutions to the NPL problem

Banks with more than 15% in NPLs are now considered to have a high NPL position. Although there are different ways to reduce this percentage, a clear process must be followed to reach an optimal decision. Internal workout by the bank originally holding the impaired asset marks one end of the spectrum of options and should always feature highly in any broader resolution scheme. On the opposite end, direct sales to investors offer an opportunity to dispose of NPLs quickly. At one end of the spectrum there is an “on-balance sheet” solution, while at the other end lies an off-balance sheet one.

These include:



Improvements to bank practices and to data quality and availability are also going to take time before progress becomes tangible.

How we can help



At Grant Thornton we have significant capabilities and expertise to assist you in managing your Non-Performing Loans portfolios across their life cycle.

We are capable of combining our quantitative risk, capital markets, accounting, IT and regulatory expertise to provide insights and assist your organisation in several ways:

- develop your NPL strategy and help you execute and implement it
- restructure your NPL portfolios and transact accordingly
- provide you with due diligence advice
- build or validate your quantitative models and stress test these as necessary
- provide you with support to assess the quality of your collateral
- assist you in any regulatory reviews including the ECB's AQRs
- specialist accounting support for financial reporting purposes

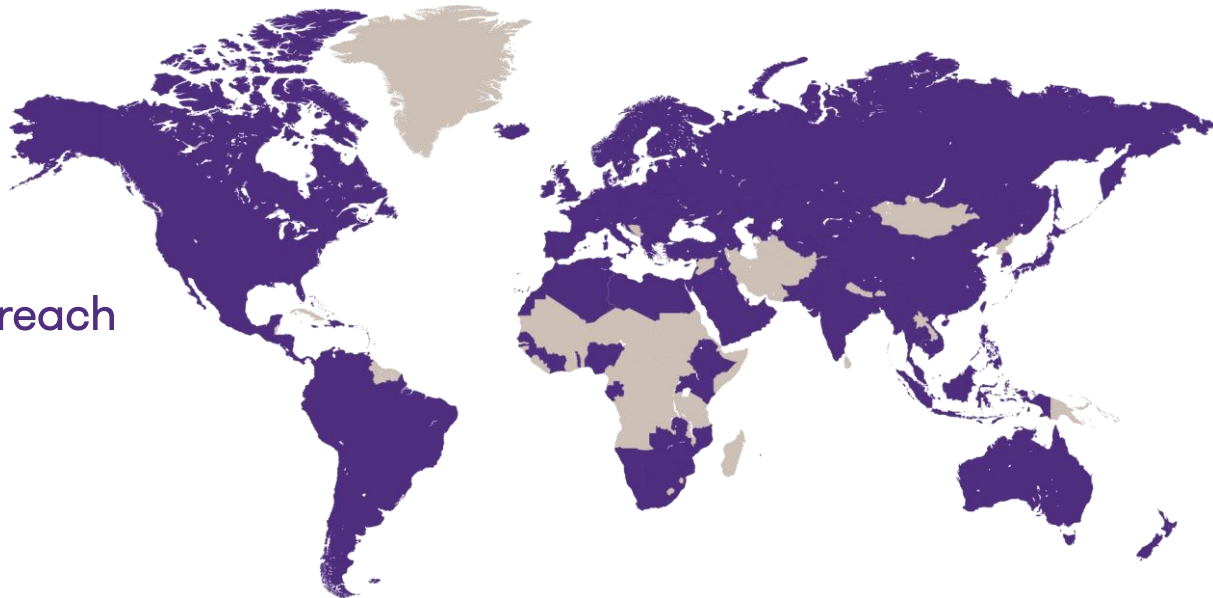
Our experience

Our professionals bring a wealth of experience which includes advising banks and regulators on NPLs and other troubled assets:

- advised the European Commission on the implementation of the Asset Relief Programme for troubled European Banks in relation to the Global Financial Crisis, covering banks from the UK, Germany, France, Belgium and the Netherlands. Banks' exposures included retail and commercial loans to structured products (CDOs, CLOs, CDOs², CBMS and RMBS)
- advised a European banking group on the acquisition of several distressed loan portfolios collateralised through real estate assets. Provided advice relating to the impact on risk-weighted assets, capital adequacy and liquidity of the bank as a result of the acquisitions and overall portfolio restructuring
- advised a Southern European bank on balance sheet restructuring which included developing and executing a strategy to reduce NPLs. Part of the NPL portfolio was sold to a fund
- expertise in segregating non-performing assets into a "Bad" bank
- participated in several asset quality reviews across the Eurozone.



A global reach



We discover what is important to you and make it important to us

Our culture is built on a genuine interest in our clients – their challenges, growth ambitions and wider commercial context. You get the attention you deserve from approachable, senior professionals who ask the right questions, listen and provide real insight and a clear point of view.

The bottom line

- A relationship-led approach with more time and attention from partners and senior advisers
- A deeper understanding of your business for more meaningful advice and recommendations.

Agile and responsive service

Our size and structure creates advantages for you. We adopt a flatter structure, with shorter decision making chains, empowered teams and no complex chain of command. We have all the necessary processes and controls in a streamlined, efficient and responsive environment.

The bottom line

- A faster response when you need quick answers and clarity
- Anticipating the answers you will need before you ask.

Pragmatic solutions to help you improve and grow

Our teams bring ideas to the table, going beyond the technical issues to recommend ways to make your business better. We balance a desire to do what's best for you in the future with an experienced sense of what is going to help you now.

The bottom line

- Helping you think ahead and think more broadly
- Proactively identifying opportunities for improvement and growth

Collaborative teams with a different mindset

Our people are open, accessible and easy to work with. We work through the issues alongside you and challenge your ideas where necessary, whilst keeping an independent perspective. Our collaborative style also enables us to assemble teams across service lines, industries and geographies to tailor our capabilities to your requirements.

The bottom line

- Teams and solutions built around your needs not our structures
- A better working relationship with you and your team



US \$4.8bn
(2016 revenue)



47,000+
people



700+
offices



130+
countries



**Our distinctive
client experience
sets us apart**

Key contact

Related expert



George Vella
Partner - Transactions Advisory Services
E george.vella@mt.gt.com
M: +356 9966 5000
D: +356 2093 1812
T: +356 2093 1000

George is a Partner in the Advisory arm at Grant Thornton. He has over 17 years experience in corporate and project finance, research and development, strategic and project management. As a partner in the Transaction Advisory Services at Grant Thornton, George leads a team of professional business advisors that provide projections, feasibility studies and cost benefit analyses, assistance in the preparation of business plans, business valuations, due diligences, assistance with mergers and acquisitions, project finance and corporate finance advisory services for a range of private sector and public sector organisations. As all such assignments require complex financial models, George provides on-the-job coaching to all his staff when required, in order to meet the client's requirements. Grant Thornton Malta is an accredited Corporate Advisor on Prospects and an accredited Listing Agent on EWSM.

George has led his team on several assignments for the MCA including the review of Vodafone and Melita's regulated accounts in 2015, the calculation of the weighted cost of capital for the fixed and mobile market in 2012, as well as the analysis of a fair rate of return for the postal industry in 2012. George was also the lead partner in respect to the buy-side due diligence for a potential bidder with respect to GO plc in 2016. Prior to joining Grant Thornton George was a Finance Director at the Corinthia Grand Hotel Royal in Budapest, Hungary and a Corporate Finance Executive at the Corinthia Head Office – a multi-national chain of Hotels. He was involved in numerous large projects, including the raising of finance by way of bonds and syndicated loan facilities, which were then used either to acquire or develop mixed use projects. George's qualifications include a B.A (Hons) Accountancy (University of Malta), and a Master in Business Administration (Henley). He is also a member of the Malta Institute of Accountants.

Grant Thornton
Fort Business Centre
Mrieħel Bypass, Birkirkara BKR
3000, Malta

T +356 2093 1000
E grantthornton@gt.mt.com



grantthornton.com.mt

© 2019 Grant Thornton International Ltd. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton International Ltd (GTIL) and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.