



# Managing Assets: Asset Valuation Process of SDIF

**Çiğdem Akdağ**  
**Savings Deposit Insurance Fund (SDIF)**  
**TURKEY**  
**February 14-18, 2011**

## Overview of Asset Valuation Process



- ❖ Fairness, transparency, accountability and commercial principles are cornerstones of the asset sales operation. Within this scope, asset valuation is an essential process to obtain the best possible bid for the assets offered for sale. Otherwise, in the absence of asset valuation potential bidders are inclined to make conservative price assumptions, which lower the bid price.
- ❖ The ultimate goal of asset valuation is to reach potential buyers and verify that an asset is sold for its full value.
- ❖ Various methods could be used in valuation of the assets.
  - Mark to Market
  - Cash Flow Analysis (Worksheet)
  - Cash in Hand
  - Price at par
  - Self Assign (Expert Value)
  - Total or Partial Loss
- ❖ The most appropriate method is determined based upon the type, performance and other characteristics of assets.

## **SDIF Loan (NPLs) Valuation Methodology**

- ❖ SDIF appointed a **Financial Advisor** to develop its own valuation method. The Financial Advisor also provided SDIF with financial advice and related deliverables on a number of matters in connection with the auction of SDIF's corporate NPLs transferred from the Fund banks.
- ❖ SDIF developed an **asset database** with relevant 'comparables', base case (assumptions, discount/premium factors) and a model (method for each asset type) for the valuation.
- ❖ After establishment of asset database, SDIF executed a **validation process** for the saleable asset portfolio together with its financial advisor. Validation process enabled SDIF to review information provided to the investors for consistency, completeness and accuracy.
- ❖ Then, the Financial Advisor performed a **valuation exercise** which gives **a range of values (min-max)** for the portfolio for sale, subject to various reasonable assumptions, and presented the range of possible outcomes with detailed explanation to the Board of SDIF.
- ❖ SDIF also used **several independent experts** especially for collaterals in the process by considering cost-benefit analysis and necessity.

## **SDIF Loan (NPLs) Valuation Methodology**

SDIF used **Discounted Cash Flow (DCF)** techniques:

- ❖ **Primary Cash Flows** (Repayment of the obligation)
  - There are good prospects for full repayment of the obligation over time
  - NPLs are currently generating a cash flow (repayments)
    - in accordance with the repayment agreement,
    - repayments are not entirely in line with the terms of the loan
  - NPLs are most likely generate repayments in the near future.
- ❖ **Secondary Cash Flows** (Realisations other than repayment of all or part of the Primary Cash Flow)

Collaterals of NPLs are;

  - either liquid or readily marketable real property,
  - recently valued or capable of being valued quickly,
  - Legal process is in order and SDIF has gone through most of the legal and court processes to secure its position.

## SDIF Loan (NPLs) Valuation Methodology



DCF Analysis	Primary Cash Flow	Secondary Cash Flows
<b>Aim</b>	Qualitative and quantitative assessment of ability and willingness of borrower to repay	Qualitative and quantitative assessment of realisations achieved over time
<b>Assumptions Included in DCF</b>	<ul style="list-style-type: none"> <li>❖ how fast the cash will be paid</li> <li>❖ timing of cash flows</li> <li>❖ risk related to cash flows</li> <li>❖ discount factors</li> <li>❖ costs to be incurred in settlement or servicing</li> </ul>	<ul style="list-style-type: none"> <li>❖ how fast the realisations will occur</li> <li>❖ timing of cash flows</li> <li>❖ risk related to cash flows</li> <li>❖ discount factors</li> <li>❖ costs related to achieving realisations</li> </ul>
<b>Factors considered</b>	<ul style="list-style-type: none"> <li>❖ Contractual repayment terms (if applicable)</li> <li>❖ "Restructured/rescheduled" repayment terms (if applicable)</li> </ul>	<ul style="list-style-type: none"> <li>❖ Existence, certainty and clarity of title (and possible impediments).</li> <li>❖ Collateral valuation (including uncertainties in basis of estimate)</li> <li>❖ Costs and timing related to securing title</li> <li>❖ Market condition, costs and timing related for liquidating collateral</li> <li>❖ Current uncertainty of legal outcome and delays.</li> <li>❖ Future political, legal, regulatory and market impediments.</li> </ul>

## SDIF Loan (NPLs) Valuation Methodology



Since DCF techniques require **sufficient information** on the resources of **primary and secondary cash flows** in order to formulate reasonable assumptions, SDIF focused on the setting up a **sound and complete asset database** by :

- ❖ Submitting the data format required to SDIF Collection Teams
- ❖ Managing the data received (Data reconciliation, data management & programming and MIS reporting)
- ❖ Grouping the assets to satisfy the sales strategy (*pooling*)
- ❖ Preparing a system control for the data files

## SDIF Loan (NPLs) Valuation Methodology



### ❖ Documents in the credit and legal files

- Borrower summary and background
- Collection history
- Repayment agreements/protocols (if any)
- Loan and collateral details (including guarantors)
- Legal actions and legal documentation
- Major developments as of cut-off date
- Mosts recent independent appraisal results carried out by the valuation firm(s) (if any).

### ❖ Data of the sales portfolio (Asset database)

- Key data from the SDIF's information systems
- Key data inputs from the SDIF's loan files
- Summarized financial statements of the borrower (where available)
- Summary template of all debtors, including details on; loan origination, balances, payment history, industry, collaterals, guarantors and legal status,

## SDIF Valuation for Subsidiaries and Real Estates



- ❖ SDIF preferred to use **independent experts (appraiser)** for the valuation of subsidiaries, real estates and other movables. When determining the best method for real estates and commercial assets valuation, SDIF considered the **type of property** and the **cash flow** it may provide.
- ❖ Within this context, SDIF developed a standard “**Appraisal Methodology**” for different types of property, such as real estates, equipments and other movable properties.
- ❖ **Appraiser selection** is executed by the SDIF in accordance with;
  - The approved appraiser list of **Capital Market Board (CMB)** for real estates and moveables,
  - The approved list of **Banking Regulation and Supervision Agency (BRSA)** and **securities companies**.

## **SDIF Valuation for Subsidiaries and Real Estates**



**Valuation Methods for Subsidiaries** is determined with the type of subsidiaries and its business area as follows:

- ❖ Net Asset Value
- ❖ Market Value
- ❖ Liquidation Value
- ❖ Registered Value
- ❖ Discounted Cash Flow Value
- ❖ Comparable Companies Method or Earnings Multiple Method

## **SDIF Valuation for Subsidiaries and Real Estates**



**Valuation Methods for Subsidiaries** is determined with the type of subsidiaries and its business area as follows:

- ❖ Net Asset Value
- ❖ Market Value
- ❖ Liquidation Value
- ❖ Registered Value
- ❖ Discounted Cash Flow Value
- ❖ Comparable Companies Method or Earnings Multiple Method

---

# **Thank You ...**