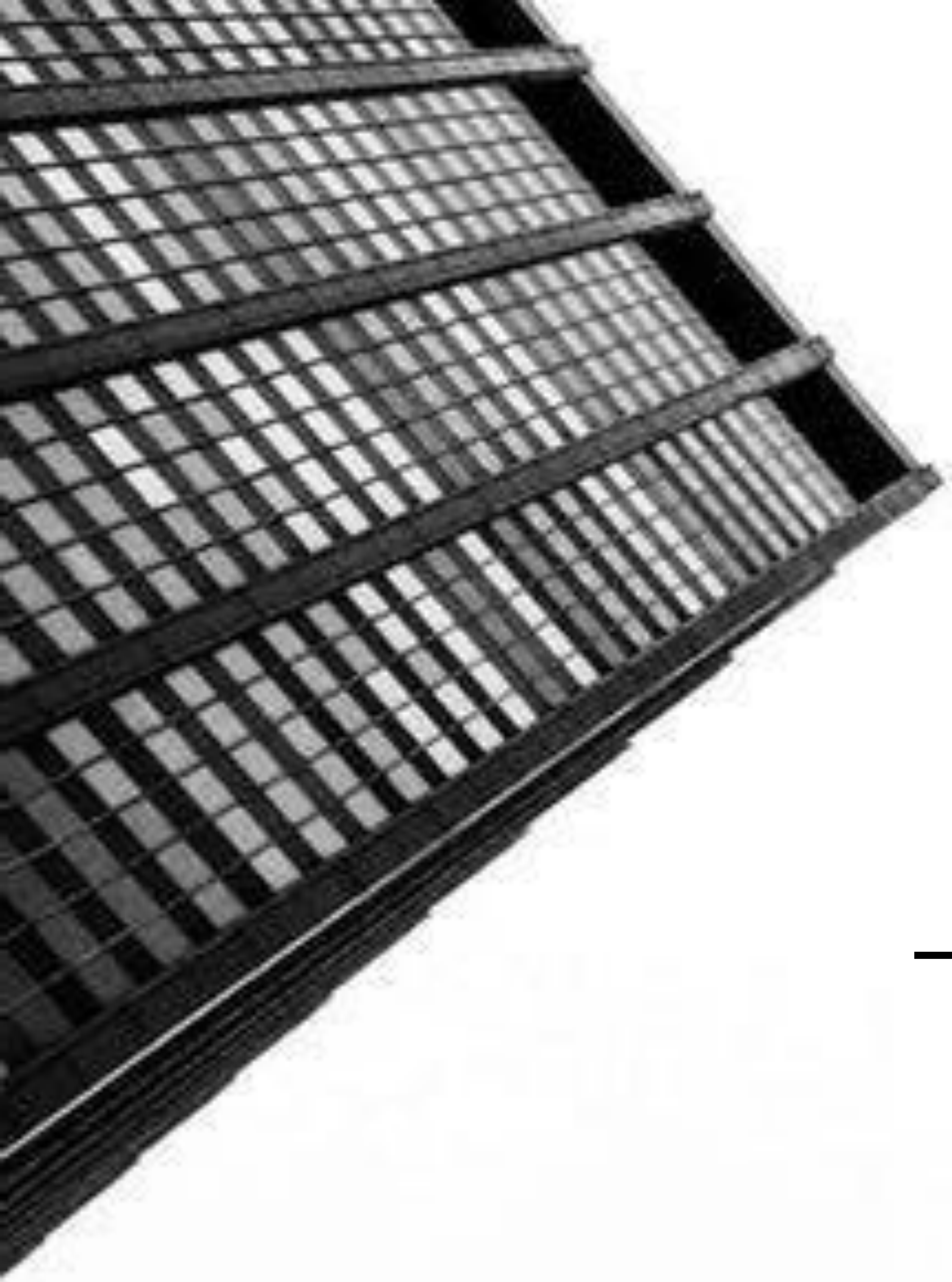


NOVA SCHOOL OF BUSINESS & ECONOMICS

Risk Management at Wellfleet Bank

“All That Glitters Is Not Gold”

2206 Banking | Group 17 | Case Presentation | April 7th, 2025

Meet the committed Team guiding you through the Wellfleet Bank Case

Meet the Team

Felix Georgi 65321
German
Master in Management

João Alves 51959
Portuguese
Master in Management

Miguel Abecasis 64562
Portuguese
Master in Management

Guilherme Fernandes 51727
Portuguese
Master in Management

Oguzhan Yildirim 63778
Portuguese
Master in Finance

Todays Agenda

01 **Wellfleet Strategy & Risk Management Process**

02 **Mega-loans (Pros, Cons, Challenges and Risk Mitigation)**

03 **Wellfleet‘s Credit Risk Management (Credit approval process)**

04 **Economic Profit of the Gatwick Gold Loan**

05 **Loan Approval? Reasoning**

Wellfleet Bank operates globally with emphasis on emerging markets and accountable compliance

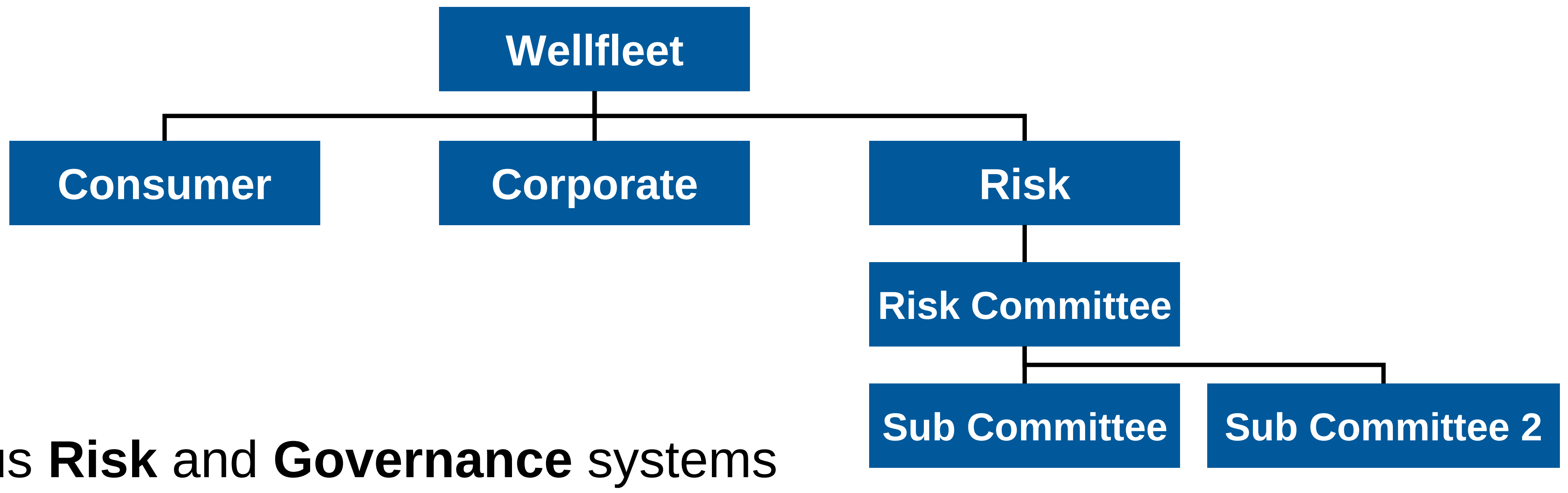
Wellfleet Bank Introduction

- **Wellfleet** Bank was founded in London, **1847**
- It originally provided banking services to British colonial outposts in **Asia** and **Africa**
- Since **1990s** lies the focus on **emerging economies**. Targeting emerging markets with „**first-world compliance standards**“
- Growth in **corporate banking** via large-scale **syndicated** and **leveraged loans**

Wellfleet Bank Numbers (2007)

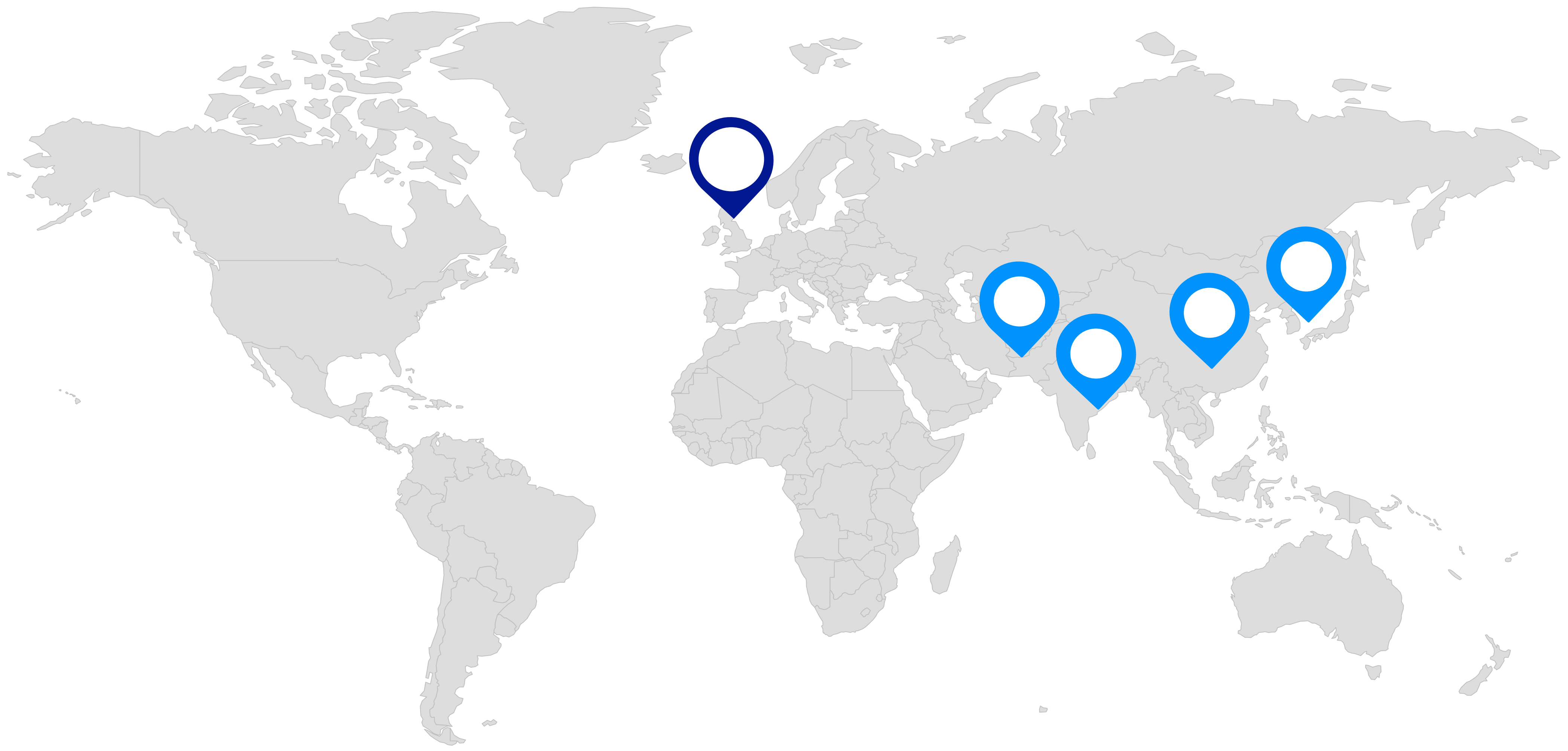
Operating Assets	Market Cap	EBT	Customer Base
$329 billion	$51 billion	>$4 billion	R: 6 million; C: 15K

Wellfleet Bank Organigram



- Rigorous **Risk** and **Governance** systems
- **8** Risk **Subcommittees** in place

Wellfleet Markets & Presence

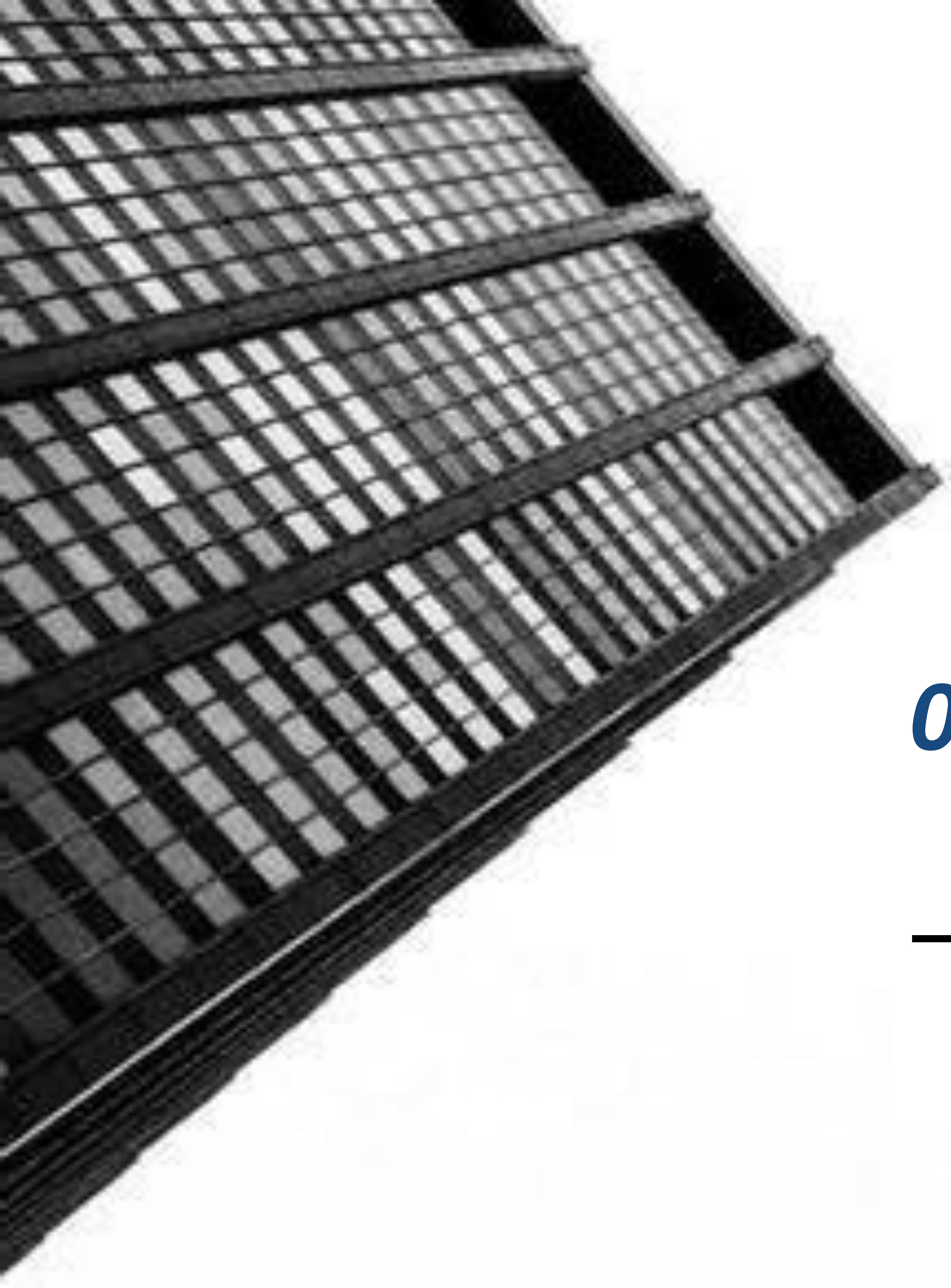


Headquarter is located in London, UK 

Global Presence in Europe, North America, Africa and Asia

Operations in 78 Countries

Core Markets are South Korea, China, India and Pakistan



01|Wellfleet Strategy & Risk Management Process

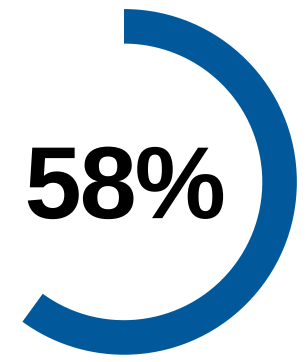
Wellfleet's expansion grounds on dept markets for corporate clients and requires a rigorous Risk Management

Strategic Fit & Risk Management

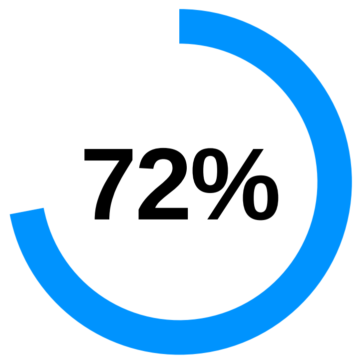
Strategic Approach

- Expansion through syndicated and leveraged loans in emerging markets
- Targeted corporate Banking dominance with 58% in profits
- Pursuit of high-profile, high-value clients like Gatwick Gold Corp.

Corporate (% of Profits)



Corporate (% of Assets)



Risk Management Structure

- Independent Risk function, separated from business units
- Multi-layered approval process (Alpine-Pass + Group Credit Committee)
- Use of internal credit rating models and metrics:
- PD (0.39%), LGD (52.25%), EAD – Risk Adjusted Revenue

Committees

1. Group Credit Committee
2. Country Risk Committee
3. Reputational Risk Committee
4. Operational Risk Committee
5. Market Risk Committee
6. Business Risk Committee
7. Business Risk Committee

Evaluation

- Crisis Resilience (2008)
- Strong, multi-layer governance model
- Strict accountability

- Lack of scalability
- Deal volume expansion
- Bottlenecks and time inefficient

- Refine risk governance
- Delegate Authority beyond GCC
- Diversify Business Model

02|Mega-loans (Pros, Cons, Challenges and Risk Mitigation)

Mega loans increase risk exposure, operational complexity and involve multiple types of risk

Complexities of Mega-loans

Increased Risk Exposure

- "If a billion-dollar deal went wrong, it could sink the ship"
- Large loans **carry higher risk** and if they fail the financial impact would be **catastrophic**
- The **Gatwick Gold Corporation (GGC)** loan proposal highlights the risks associated with **large-scale loans**

Operational Overload

- The decision-making process for mega-loans places difficulties on the **bank's risk-management capacity**
- Leads to backlogs in **approvals, delays, and the potential for overlooked risks** due to time constraints

Complex Risk Evaluation

- Mega-loans often involve multiple risk types that interact with each other, including **credit, market, operational, reputational, and country risks**
- Risk models become more difficult to apply effectively, especially when the **market is unpredictable**

Banks need to balance the high return and growth potential of Mega Loans with default and reputational risks

Balancing Risk & Reward

High Profit Potential

- Substantial returns through interest **payments and fees**
- Mega Loan could promote long term relationship between the bank and GGC

Strategic Growth and Market Positioning

- Dealing with Mega-Loans can push Wellfleet to the forefront of international corporate banking
- Allows the bank to expand its client base in emerging markets **like South Africa**

Access to High-Value Clients

- Mega-loans typically attract **large corporations or governments** that have established credit worthiness and a track record of successful operations.

High Default Risk

- The risk of borrower default increases as the **loan amount grows**
- In the case of **GGC, Wellfleet** would face a high loss given default if GGC failed to repay the loan

Operational and Decision-Making Pressures

- Bank's decision-making process can become **delayed and blocked**
- Group Credit Committee's capacity to review and approve mega loans efficiently is limited **during crisis**

Reputational Risk

- Mega Loans' fails or significant issues could lead to **reputation damage** which could **affect future clients and investors** for Wellfleet

Strategic approaches to handling mega-loans include advanced processes, syndication, and covenants

Strategic Approaches to Handle Mega-Loans

Improving Risk Management Systems

- Wellfleet Bank can **improve and update its risk models** to incorporate a more comprehensive view of risks beyond just credit risk
- **Operational, market, political, and reputational** risks

Mega-Loan Syndication

- Distribute the risk associated with mega-loans, Wellfleet can syndicate large loans by **partnering with other financial institutions**
- In the **GGC loan proposal**, Wellfleet could plan to underwrite the full loan but intended to **sell down a significant portion** of it, reducing its own risk exposure

Guarantees and Covenants

- Conditions set within the loan agreement to reduce risk exposure, such as requiring borrowers to maintain certain financial ratios
- **Leverage Cover, Interest Cover, Cash Cover**

03|Wellfleet‘s Credit Risk Management (Credit approval process)

The structured, multi-tiered process focuses on maintaining balance between growth & risk mitigation

Credit Approval Process

Origination

Relationship Manager is responsible for **client engagement**, understanding their financial needs and proposing **loan products**

Collects the borrower's financial documents including **Financial Statements**, **business plans** and **credit history**

Credit Analysis

Credit Officers use internal **models** to calculate **Probability of Default, Loss Given Default** and **Exposure at Default**

These models help estimate the **potential loss** the bank might face in case the **borrower defaults**

Decision Making

Group Credit Committee reviews the detailed credit proposal

Assesses whether the loan meets the bank's **risk parameters**

Borrower's **credit rating**, the **quality of collateral** and overall ability to **repay obligations** are analyzed

Execution

If loan is accepted, the **Legal Team** at Wellfleet works with the **Relationship Manager** to finalize **loan agreement** and set up **contract**

Interest rates, repayment schedules and **collateral** requirements are defined

Monitoring

Wellfleet Bank actively tracks the **performance of its loans** and assesses risk exposure throughout the life of a loan

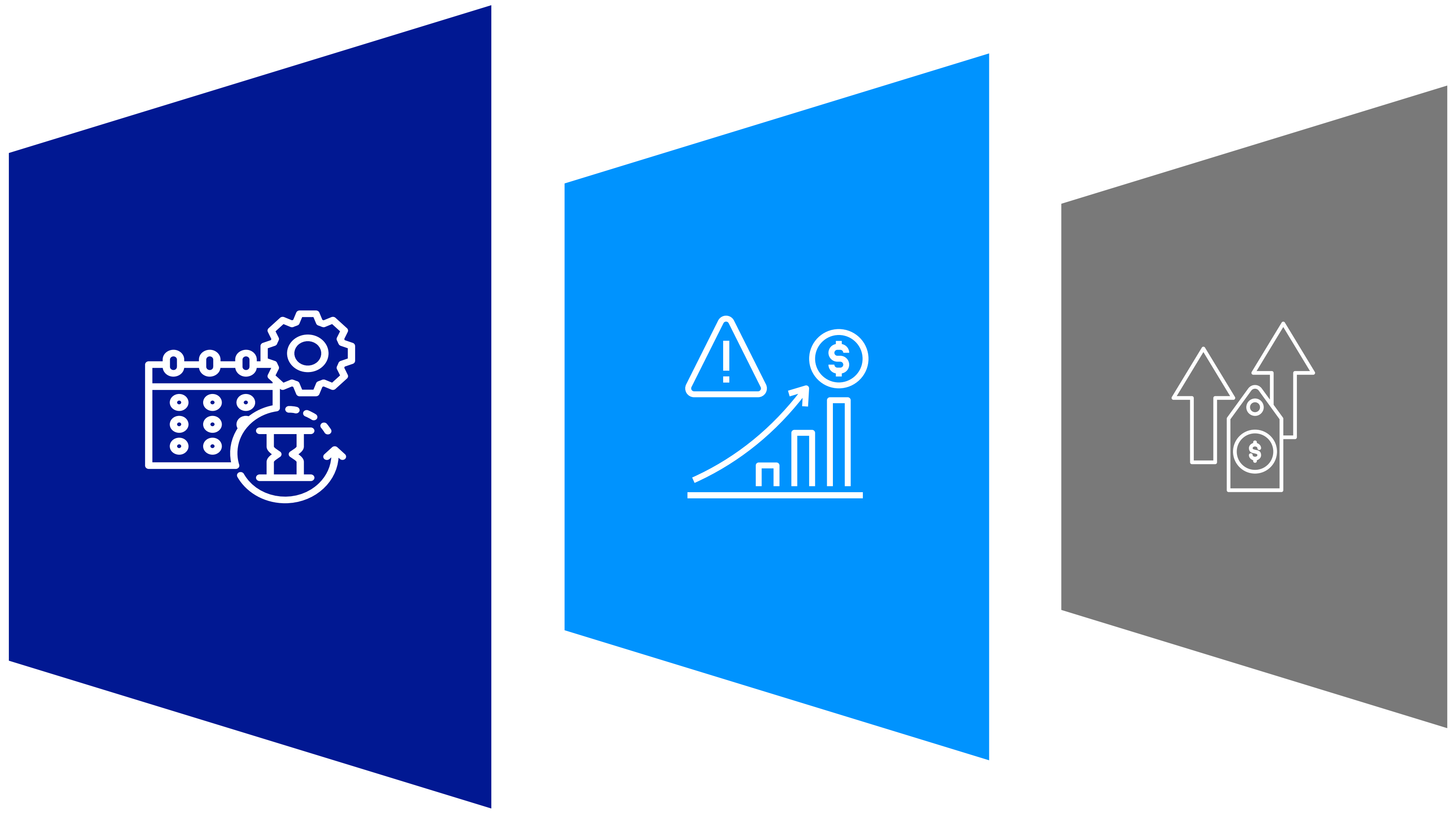
Wellfleet might also conduct **regular audits**

The assessment of Wellfleet‘s process highlights strengths like multi-stakeholder involvement or risk models

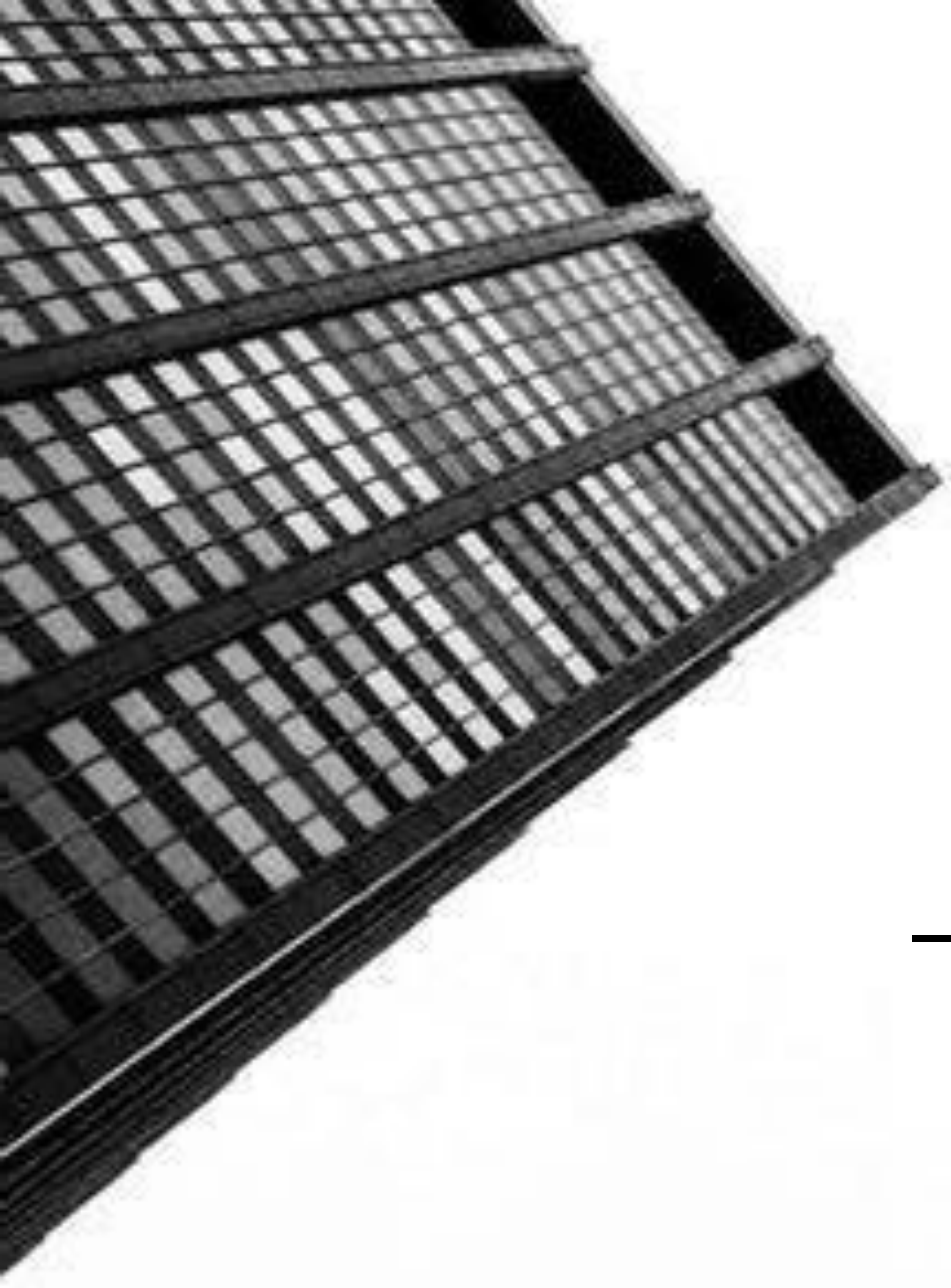
Advantages

- A **multi-step process** ensures that each loan is carefully analyzed for risk, allowing the bank to make **well-informed lending decisions**
- The **involvement** of **multiple stakeholders** in the **Group Credit Committees** ensures that all perspectives are considered, leading to more **balanced decision-making**
- Wellfleet employs a combination of **sophisticated risk models**, **collateral requirements**, and **diversification** to reduce exposure to high risk-loans

Disadvantages



- The **extensive** process, especially for larger loans, can lead to **delays in decision-making**
- The highly structured and cautious approach may cause Wellfleet to **miss out on high-return opportunities** that carry some level of risk but could potentially lead to significant profits
- Maintaining robust risk management systems and continuously monitoring loans **adds costs to the bank‘s operations**, reducing its overall financial profit



04|Economic Profit of the Gatwick Gold Loan

The economic profit of the Gatwick loan adjusting for risk and taxes is $32,162,250

Calculations

Expected Loss = *Probability of Default x Exposure at Default x Loss Given Default*

0.39 x $1,000,000K x 52.25%
= 2,037,750

Revenue = *Interest Income + Fee Charge*

$(500,000,000 x 4.25%) + $(500,000,000 x 5.25%) + $(1,000,000K x 0.3%) = $50,500,000

Risk Adjusted Revenue (RAR) = *Revenue – Expected Loss*

$50,500,000 - 2,037,750
=48,462,250

Total Revenue = *RAR – △Capital*

$48,462,250 - $3,800,000
=$44,662,250

Total Profit = *Revenue - Cost - Tax*

$44,662,250 - $500,000 - $12,000,000
=$32,162,250

Description and Interpretation

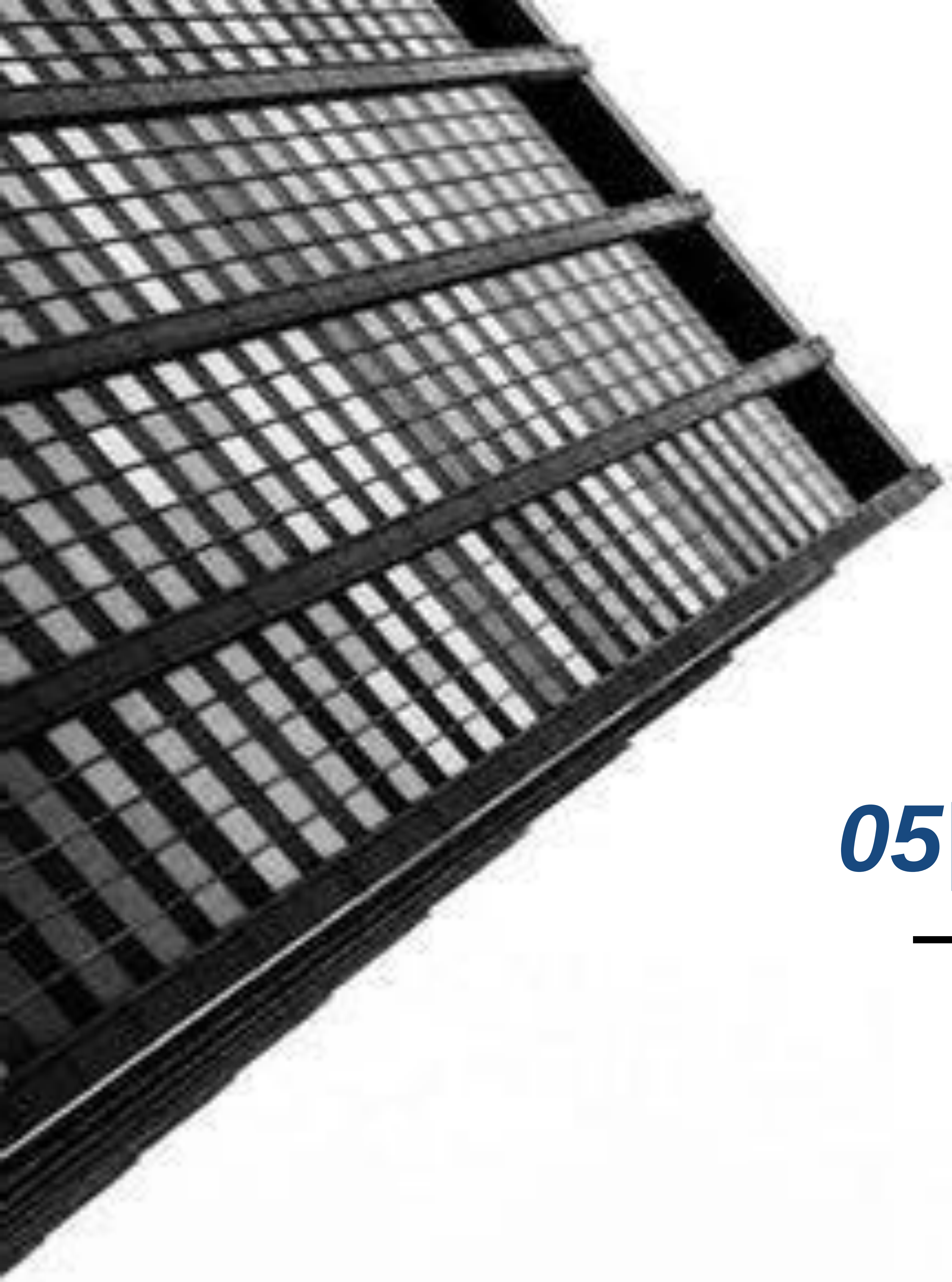
Expected Loss reflects the anticipated **financial loss** on a loan based on the likelihood of default and the severity of loss if it occurs. For Gatwick Gold Corporation, Wellfleet estimates a **0.39%** probability of default on the fully drawn **$1 billion loan**, with a **Loss Given Default of 52.25%.** This results in an **expected loss of $2,037,750.**

The **total revenue** from the proposed loan is derived from the interest income earned during the loan's two phases, **4.25%** in the first half and **5.25%** in the second as well as a 0.30% upfront fee. With a $1 billion loan split into **two $500 million** tranches, the **combined revenue amounts to $50.5 million**, forming the gross income base for evaluating profitability.

To account for the risk exposure, the expected loss is subtracted from the total revenue. This yields the **Risk Adjusted Revenue**, a more accurate reflection of the deal's value to the bank. In this case, **subtracting $2,037,750** from the **$50.5 million** revenue gives a **RAR of $48,462,250,** for a more realistic assessment of earnings under credit risk.

From the **risk-adjusted figure**, the next step is to deduct the capital the bank must hold against the loan. With a **$3.8 million capital charge** allocated by the Treasury, the resulting Economic Revenue comes to **$44,662,250.** This adjustment ensures that profitability reflects not just risk, but also **regulatory capital requirements.**

To reach the **bottom line**, operational costs and tax liabilities are subtracted from Economic Revenue. Wellfleet estimates **$500,000 in overhead** and **$12 million in tax expenses** for this transaction. After these deductions, the **final Economic Profit** stands at **$32,162,250,** confirming the deal as both **financially attractive and risk-adjusted for return.**




05|Loan Approval? Reasoning

Accounting for characteristics of the commodities market, Wellfleet is exposed to various risk factors

Commodities Market

"The single largest risk for GGC in the long-term would be a sustained fall in the gold price. The **risk trigger is gold price under $650/oz**. During the recent commodity price turmoil, the gold price has only been below $700 on one day."

If price of gold **falls significantly**, below the **critical level of $650/oz,** many of GGC's mines will become **uneconomical** to operate and the company **loses** ability to generate **profits** and **repay** outstanding **dept**

Market Risk - Significant unexpected Loss (UL)

- **Unexpected Loss** arises from the **highly volatile** nature of gold prices and GGC's reliance on these prices for profitability
- A large, unexpected loss could drastically impact Wellfleet's ability to **recover the loan amount**, especially since GGC has **limited ability** to **hedge against** further price **declines.**

Implications

High Risk Profile

GGC's **financials** are weak: **high debt** (800% debt/EBITDA), **negative EBIT**, volatile cash flows = **Probability of Default (PD) higher** than normal

Reputational & Political Risk

72% of production is in **Africa**; mine safety and regulatory issues (BEE compliance, safety incidents).

Timing

The ask comes during the **2008 global financial crisis**, a period of extreme market **volatility** and **uncertainty.**

The low RAROC and high LGD leads to the conclusion of not accepting the loan as risks outweigh the reward

RAROC

Risk-adjusted Return on Capital to evaluate whether the potential profit from GGC outweighs the potential risks

- Due to GGC's high-risk profile (gold price exposure and financial instability)

= LOW RAROC

Approve the Loan?

- No further information on **numbers** or how would a decrease in % of the price of gold will **affect the economic revenue** of Wellfleet
- **Weak collateral recovery** as their collateral value fluctuates as well.

Economic Profit

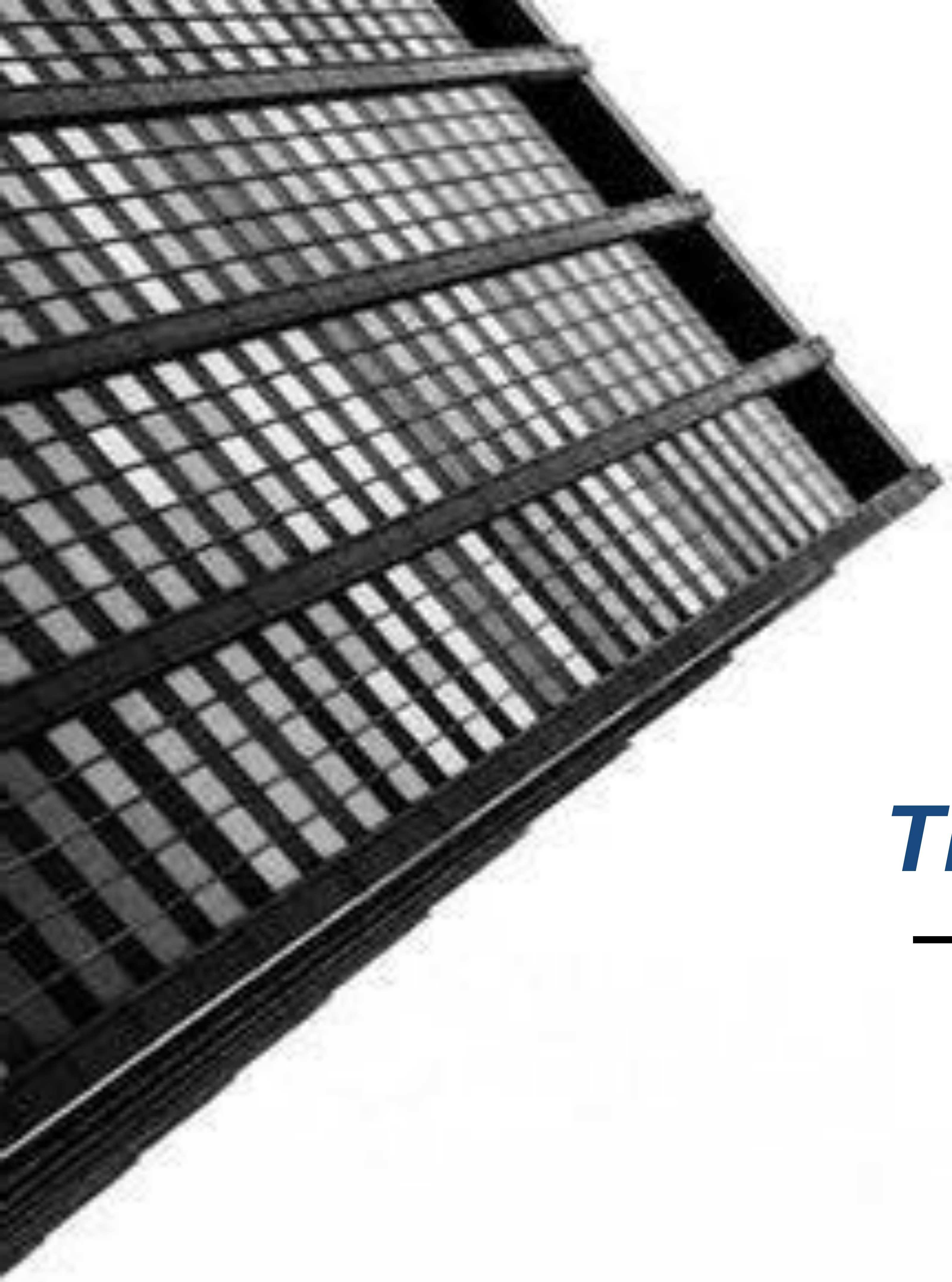
Economic Profit to understand if the profit from the deal is sufficient or not, given the high risks

Wellfleet may find that approving the deal is **not in its best interests**, even with a short-term **significant revenue**

Loss Given Default (LGD) is significant as GGC's primary assets might not be enough (mines and equipment)

Do not Accept the Loan

Despite the **attractive economic profit** and **long-term relationship potential**, the deal could expose Wellfleet to a **downside**. Unless there are strong guarantees, the **risks outweigh the reward**.



Thank you for the Attention!