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Real Estate Capital Talks

A London View on Banking Non Core Asset

Lisbon 28 June 2016

Agenda

- **Opening remarks**
- **The European non core asset market**
- **Value maximization in non core asset disposal**
- **A perspective from the banking and financial sector**
- **Closing remarks**

Jorge Marrão

Session 1

The European non core asset market

"Portuguese Overview"

A taste of our history

1143
Portugal was founded

15th century
Age of discoveries

1932
António Salazar became Prime Minister

1933
Dictatorship was installed

1951
Portuguese colonies renamed "Portuguese overseas Provinces"

1957
First live event of Portuguese national television and the beginning of regular broadcasting

1966
"Salazar" bridge was built on the Tagus River

1974
Democratic peaceful revolution

1985
Cristiano Ronaldo was born

1976
New Political Constitution was approved

1991
First McDonalds opened in Portugal

1998
José Saramago won the Nobel Prize

1999
Portugal adopted the Euro
(formerly Portuguese escudo, PTE)

2014
Cristiano Ronaldo wins FIFA Ballon d'Or award for 2013)

2016
Portugal European Football Champion
*Deloitte Predictions

The Portuguese real estate market over the last year

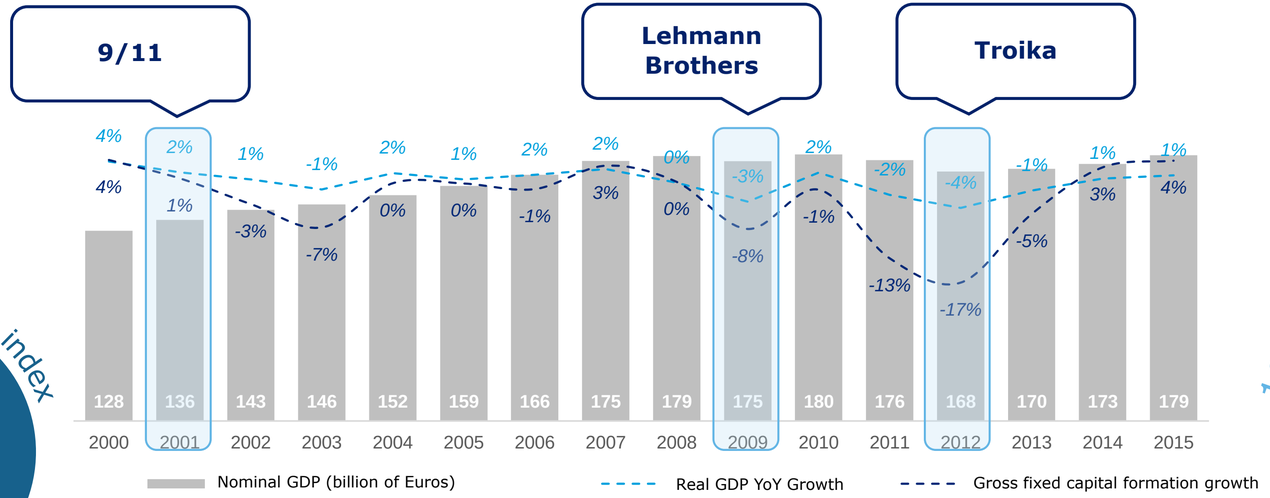
Our macroeconomic environment

The Portuguese economy is gradually recovering from a difficult period…

Unemployment rate
12%
(in 2015)

Consumer confidence index
-48%
(in 2012)

Consumer confidence index
-12%
(in 2015)



Public Debt
128%
(of GDP in 2015)

10 Y Port Bonds
11%
(in 2012)

10 Y Port Bonds
2%
(in 2015)

Information Source: Economist Intelligence Unit; Bank of Portugal; PORDATA; Deloitte analysis

David Edmonds

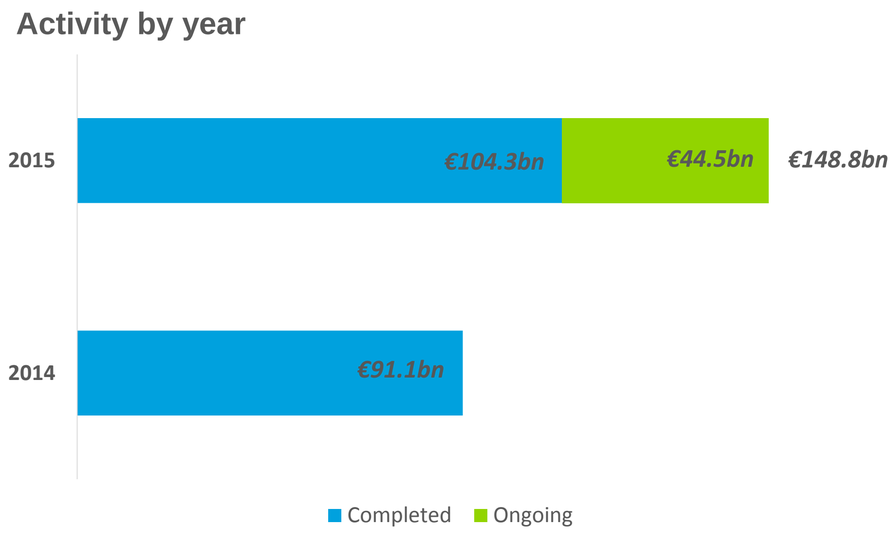
Session 1

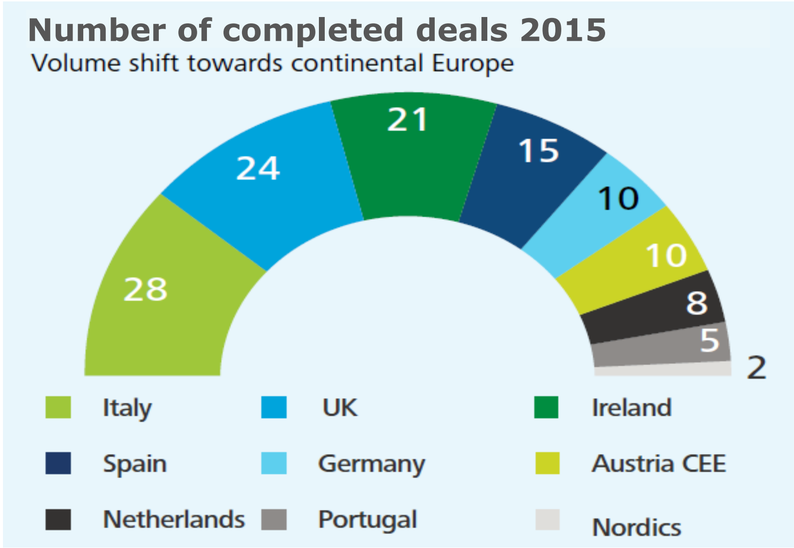
The European non core asset market

"Update on the European non core asset market"

2015 Market Snapshot

A record 2015 with 2016 to follow

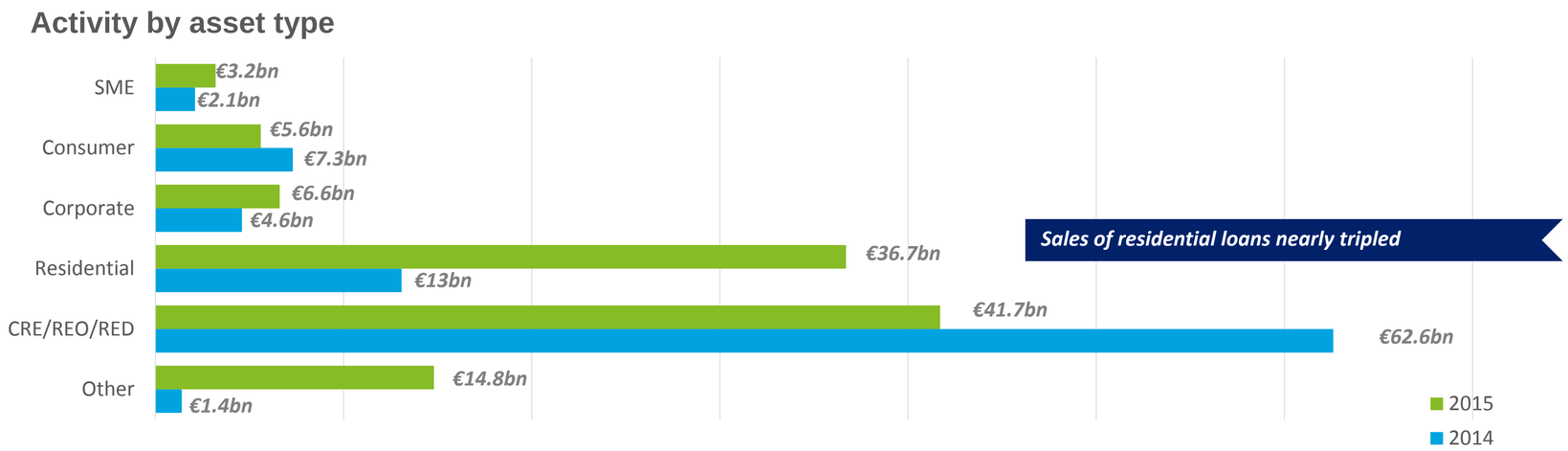




Source: Deloitte Research. December 2015.

Loan sale activity on the rise

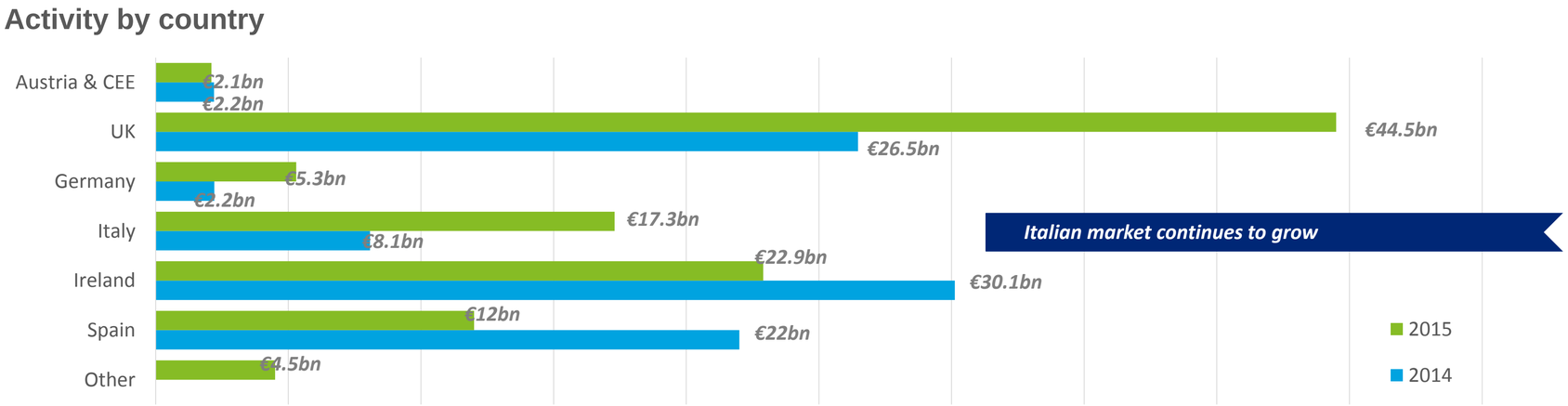
2015 loan sale activity increased by 14.5%* since 2014. Real estate backed loans continued to be the most traded asset type, but the highest growth was in residential loan sales



Source: Deloitte Research. December 2015.
**in GBV terms*
Other: Mixed, undisclosed

Loan sale activity on the rise

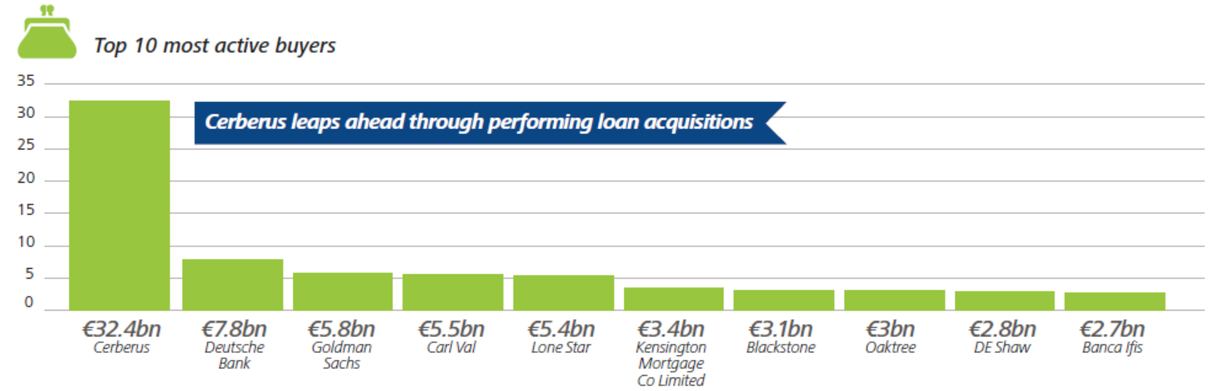
UK and Ireland dominated, but Italy is on the rise

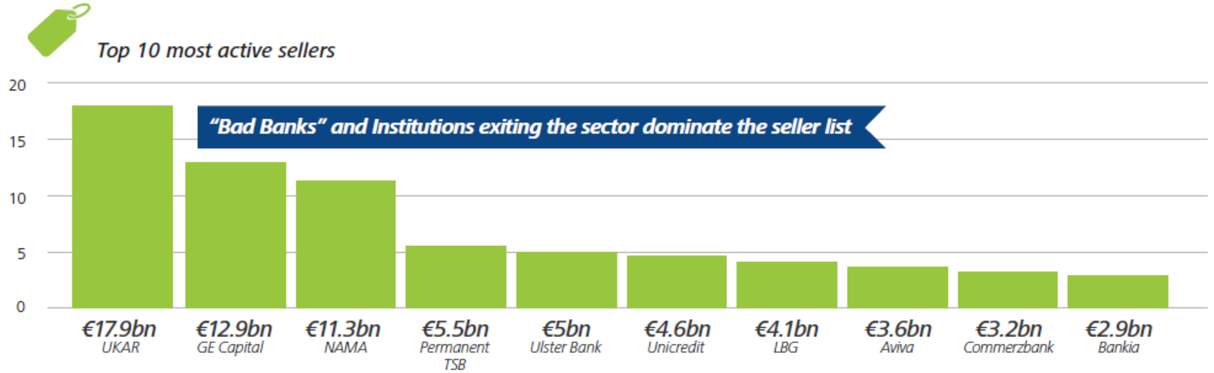


Source: Deloitte Research. December 2015.
**in GBV terms*
Other: Netherlands, Portugal, Nordics

Loan sale activity on the rise

Concentrated Buying, Fragmented Selling





Key Activity Drivers

2016 – a record year in the making

Size of outstanding non-core universe c. €2trn

Ever increasing regulatory pressure and oversight – Basel III, SII, IFRS, SSM

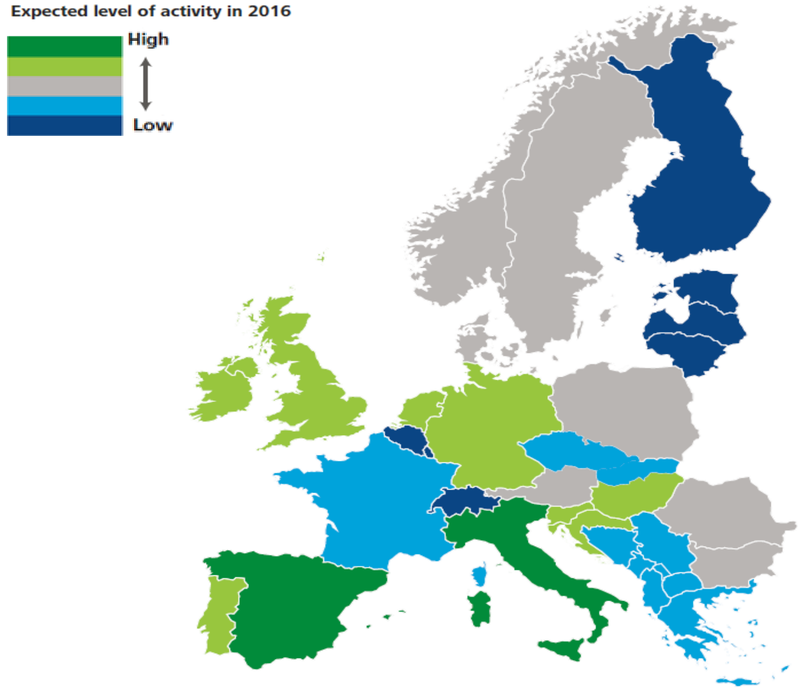
Market pressure to clean house and focus on return on capital

Ever growing buyer demand for European assets – €100bn in capital raised and rising

2016 Market Opportunity

Deloitte vision

- Significant loan sale activity throughout Europe in 2016, with particular focus on Italy, Spain, Netherlands, Ireland, CEE and SEE in the distressed space
- Performing volumes are set to rise rapidly in more mature markets
- Expected transactions to amount to €130bn out of €2trn non core/non performing asset pool



2016 Country Focus

Deloitte vision

United Kingdom

The most active country in terms of loan sales in 2015 with sales exceeding £32bn

If rumoured UK transactions occur, 2016 sales should surpass 2015 activity

Residential and performing loan portfolios expected to be the focus in 2016

A number of UK institutions are committed to deleverage programmes, albeit these may be globally driven as opposed to UK focused

Ireland

Total completed sales in 2015 were €22.8bn, down 19% from €28bn in 2014

NAMA and Ulster are the likely key sellers for 2016

Pricing is widening as supply shrinks and investors look elsewhere

Those investors who have invested through the Irish cycle will be focused on asset resolution

2016 Country Focus

Deloitte vision

Spain

Circa €20bn of transaction volume placed on the market in 2015. Only €8bn was reportedly closed in the year with a further €12bn continuing into 2016

An estimated €148bn of non-performing assets (NPLs/REOs) still held on the banks' balance sheet as of September 2015

Spanish NPLs in the banking sector reduced to 11% as of September 2015 according to Bank of Spain

Most actively traded asset classes are REDs and REOs

Italy

€17.4bn completed loan sales reported at the end of 2015 with an increase of 36.7%

Italian government reforms aiming to accelerate loan recovery process and facilitate restructurings

Recent government reform: Italian banks to offload NPL portfolios to private investors

€25bn of estimated loan sales in 2016, with Italian banks still having at least €200bn in bad debt

Netherlands

More than €80bn loans, mostly from Rabobank and Propertize, estimated to be classified as non-core

€2bn loans were sold in 2015

Propertize sale likely to focus attention at the start of 2016

CRE likely to drive transaction activity in 2016

2016 Country Focus

Deloitte vision

Portugal

Gathering momentum. €1.6bn of completed transactions in 2015 and another €2.4bn ongoing

Market activity to strengthen in 2016 with several banks expected to become repeat sellers

Greater willingness from banks to bring portfolios to market and increased pressure from the regulator

NPL ratio in the banking sector down marginally to 16.3% as at June 2015

Update on European non core asset market

In summary

The European deleveraging theme is still in its early stage. Like a marathon, it is picking up pace due to well-capitalized buyers and brisk regulatory pressures on sellers. Our bet for 2016… more than €130bn of the non core pool will change hands.

Roundtable and Open Q&A

Session 1

"A London view and Portuguese perspective"

Luís Campos e Cunha
Nova Business School
Former Minister of Finance

David Edmonds
Deloitte Global
Head of PLAS

Moderator

Jorge Marrão
(Deloitte Portugal)

Joaquim Paulo

Benjamin Collet

Session 2

Value maximization in non core asset disposal

Essential to the success of a transaction is the alignment between the sellers and the buyers expectations. This is where the advisor role is key to maximize transaction value.

Full transaction timeline and stages

A complete and thorough preparation and execution is key in order to maximize transaction value and should have its foundation on four pillars

Placement
A clear and well defined process and timeline is fundamental to generate market traction. Following strictly the initially defined process and timeline is key

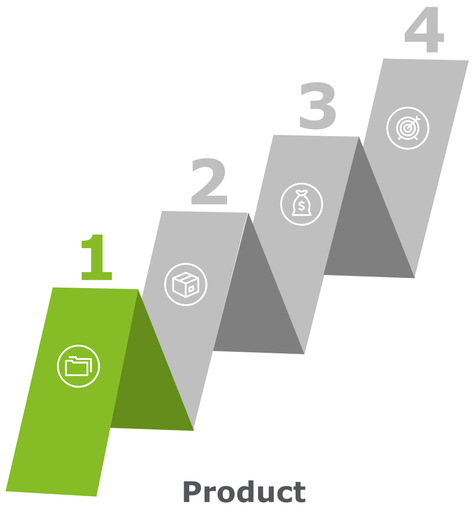
Price
Sellers commitment is a key transaction factor since early in the process. This commitment should be translated into the existence of a reserve price

Package
A well defined and thorough preparatory work will ultimately factor into an accurate and complete set of information

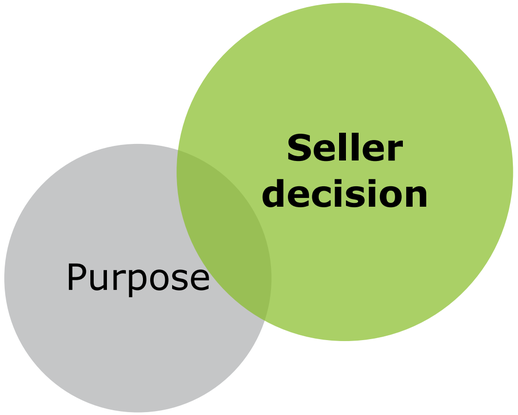
Product
The portfolio perimeter should be defined early in the process and remain unchanged since transaction launch, whilst aligned with investor appetite and market traction

Product

The portfolio perimeter should be defined aiming to satisfy the sellers deleveraging plan whilst generating investors appetite and maximizing value

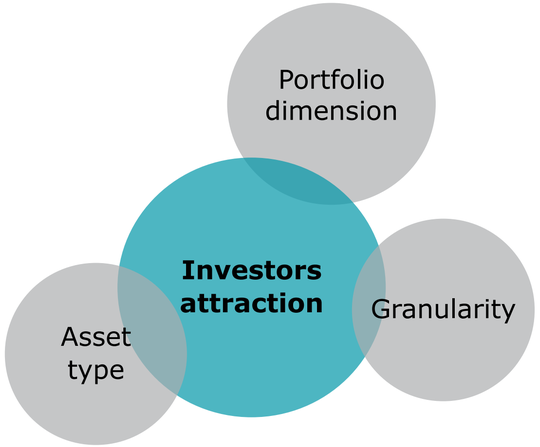


Selection criteria for portfolio perimeter aligned with market traction



Each portfolio should consist as much as possible in underlying assets of the same type in order to target experienced investors in each asset class

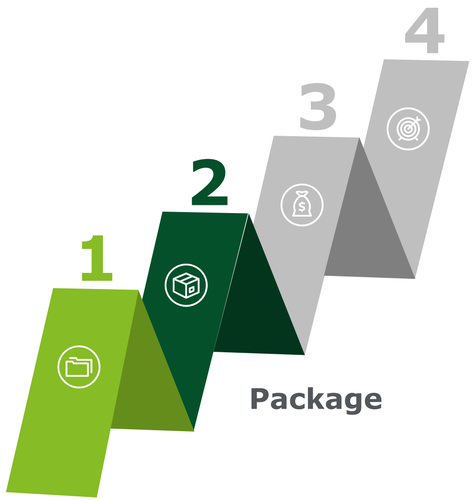
A minimum size and ticket should be met in order to attract international investors and enable competitive tension



Deciding on exposures size depending on the market appetite (concentration/ dispersion of risk)

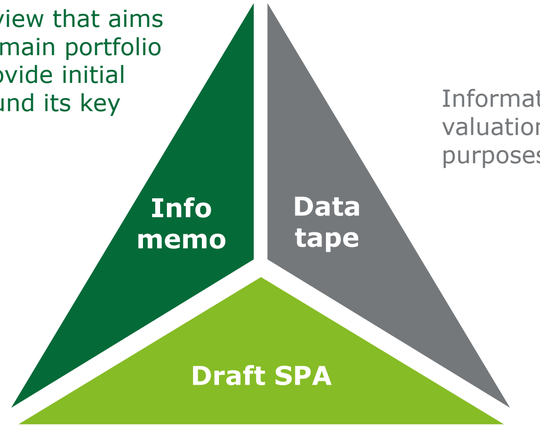
Package

A complete and accurate data set reduces uncertainty, increases investors confidence, maximizes value and minimizes the price adjustments after due diligence as well as SPA reps and warranties



Date Set of information preparation

A portfolio overview that aims to highlight the main portfolio features and provide initial information around its key connections



Information in excel format for valuation and due diligence purposes

A draft SPA should be available for mark-up during Phase II and should be read together with each binding offer. This document will also be the negotiation starting point with the preferred bidder

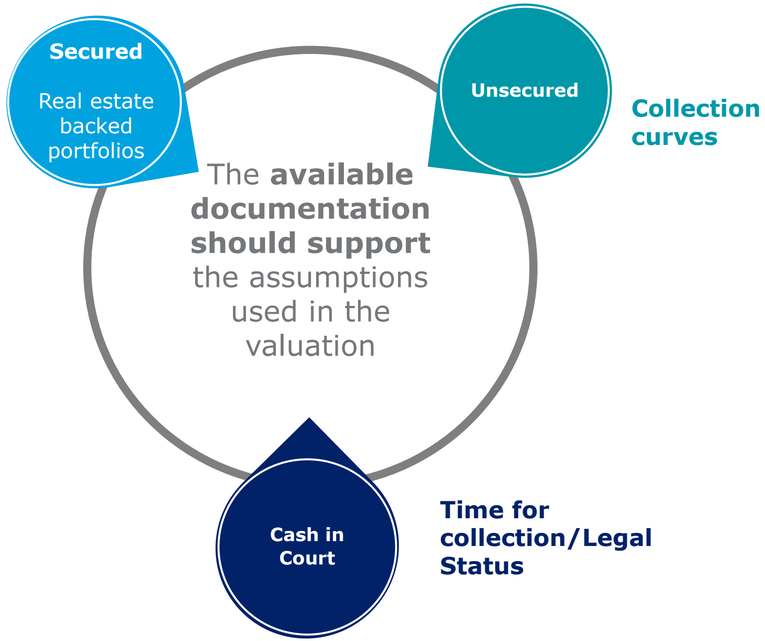
Price

Agreeing with the seller an adequate and accurate reserve price reassures investors that the transaction is solid and will have a higher success rate

Preliminary price definition

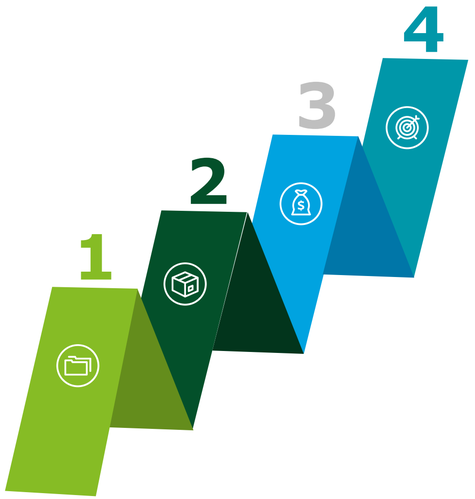
Time to repossession

Discount to exit



Placement

Each transaction should be directed to a limited group of chosen investors to allowing a close monitoring and assuring their engagement with the process



Placement

Targeting investors

The **transaction process** should be **transparent and well defined** in order to attract the targeted investors and to **maximize portfolio value** through competitive tension

Commercial banks
Similar to investment banks usually available for smaller transactions

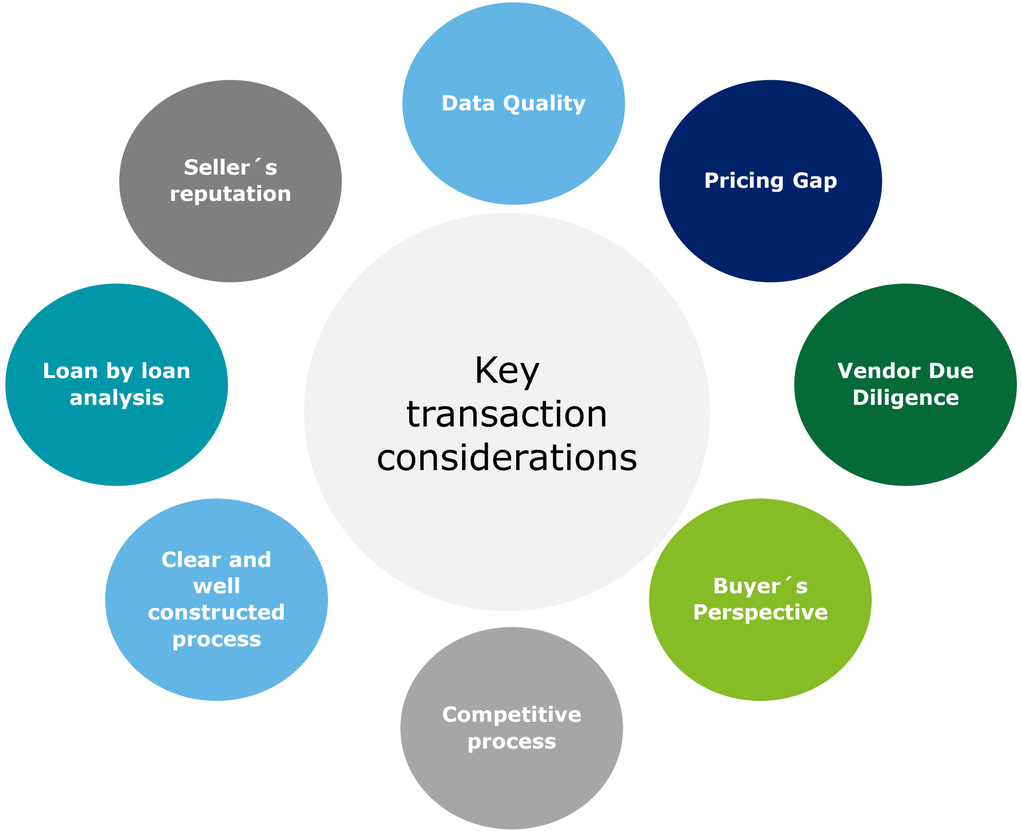
Investment banks
Less flexible than funds, in general require a smaller investor return to invest

Funds historically focused in loan portfolios acquisitions
These funds are available to perform large transactions with flexible terms

Private equity funds
Some smaller funds recently raised money for debt investment, enabling smaller and more tailored transactions

Key transaction considerations

Key takeaways



Portfolio Sales vs Workout

Main advantages

Strategic signal to the market/NPL ratio

- The market perception of continuing to hold non performing assets is likely to be negative, especially as the bank may have a limited track record in successful work out programmes
- A portfolio sale is the most direct way to reduce the headline NPL ratio, as the face value of all loans sold is immediately derecognised

Early cash recovery

- A portfolio transaction option provides certainty of an early cash receipts, compared to the uncertainty of recovery timings in a run off scenario
- A holding strategy for the portfolio leaves the bank potentially exposed to a long tail risk in relation to the long dated connections. A portfolio sale would mitigate this risk

De-risking the balance sheet

- De-recognition of non performing loans from the balance sheet results in a reduction in risk weighted assets, freeing up capital to be deployed elsewhere

Management focus

- Reducing the scale of the work out operation will free up management time to focus on core activities
- May result in cost savings as fewer resources are deployed to manage time intensive work out positions

Realising value

- Potential investors have a range of realisation strategies available and will often be able to achieve enhanced collection results

Market activity

- The demand for non-core assets and non-performing loans remains high, with distressed debt investors and private equity funds having raised nearly €100bn in the past 18-24 months

Portfolio Sales vs Workout

Main disadvantages

Investor cost of capital

- Distressed debt investors and private equity funds typically have higher costs of capital which will impact the pricing of non performing loan portfolios.
- Mitigation factors: Vendor financing, delayed purchase price, extensive warranty package

Lose potential upside

- By selling loans with uncertain outcomes, may miss out on upside recovery outcomes
- Mitigation factors : Vendor equity participation

Investor perspective

Key considerations

Market potential

NPL markets are competitive in other Western European countries. International investors look for indications of a future strong deal flow before spending time and money in a country. Early stage acquisitions could help them dominate the market

Readiness and commitment of seller

A committed seller with market driven price expectations is key. Lack of data from the seller is an issue and results in the perception that the seller is not committed

Size

Minimum equity cheque of is €50+m

IRR

The typical expected IRR rate is approximately 15% or slightly over with money multiples in excess of 1.4+

Transaction process

A transparent process with a comprehensive set of documentation and data will increase the commitment to the transaction from the investor

Portfolio type

Investors have their preferred asset type: corporate or retail / secured or unsecured. In terms of collateral, there is preference for more liquid assets as residential rather than developed land or industrial assets. But in the end, there is a specialized buyer for all

Servicing solution

Investors require a suitable servicing solution to manage the portfolio post acquisition. Understanding the legal framework is also a key

Roundtable & Open Q&A

Session 2

"Maximizing value"

Alessandro Pappalardo
Intrum Justitia

Carlos Robalo Freire
Banco Popular

Natalia Joubrina
CarVal

Benjamin Collet
Deloitte UK

Moderator

Joaquim Paulo
(Deloitte Portugal)

Roundtable & Open Q&A

Session 3

"A perspective from the banking and financial sector"

Moderator

Jorge Marrão
(Deloitte Portugal)

Bruno Castro Henriques
Parvalorem

Jorge Góis
Millennium bcp

Joaquim Paulo
Deloitte Portugal

Sérgio Monteiro
Banco de Portugal

Sérgio Frade
Caixa de Crédito Agrícola

Q&A and Closing Remarks

Jorge Marrão
(Deloitte Portugal)

David Edmonds
(Deloitte Uk)

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Thank you

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