

Non-Performing Loans?
Respond to thrive
post-moratorium

October 30th 2020



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Agenda

Recovery instruments and the Investors' narrative – from 9AM to 10:15AM



Webinar reloaded - NPL ecosystem at a glance

- Joaquim Paulo, Deloitte Portugal
- Susana Bento, Deloitte Portugal



The outbreak of recovery instruments

- Andrew Grimstone, Deloitte UK
- Ricardo Reis, Deloitte Portugal
- Jorge Marrão, Deloitte Portugal



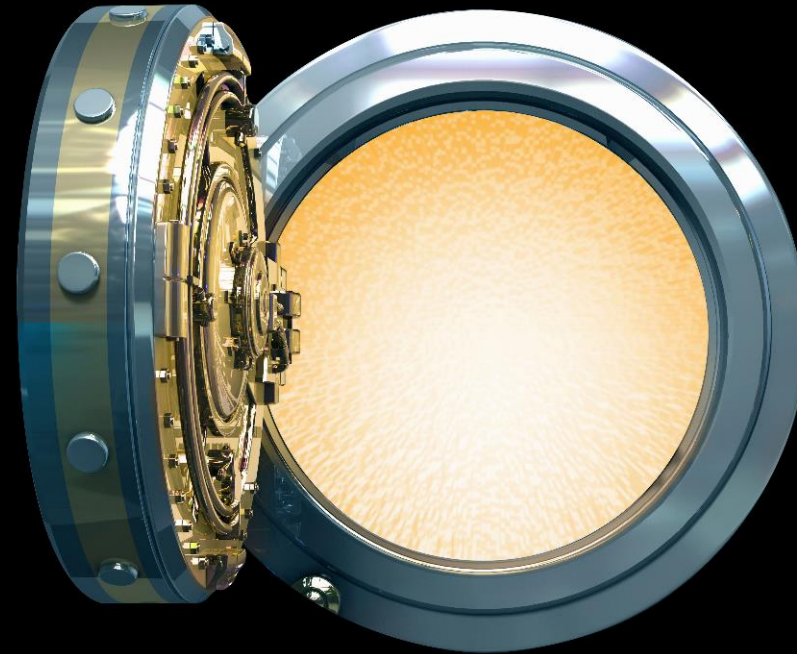
Voice to investors: a new narrative?

- Benjamin Collet, Deloitte UK
- André Nunes, Arrow Global Group - Portugal
- Martim Avillez Figueiredo, Core Capital



Closing





Webinar reloaded - NPL ecosystem at a glance

Susana Bento | October 30th 2020

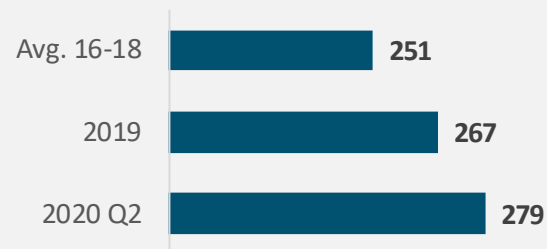


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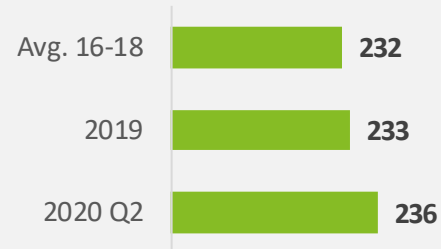
Portuguese banking sector

In recent years we have seen a stabilization but many challenges are arising for the Portuguese banking sector, which will have to play a key role in the current pandemic crisis

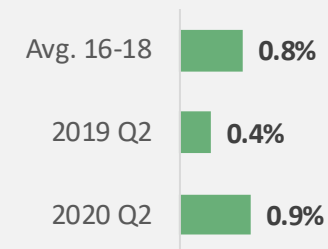
Deposits from clients (€bn)



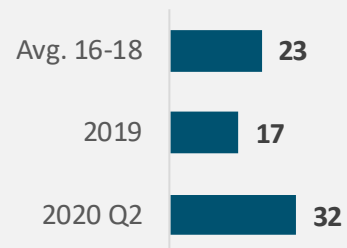
Gross loans to clients (€bn)



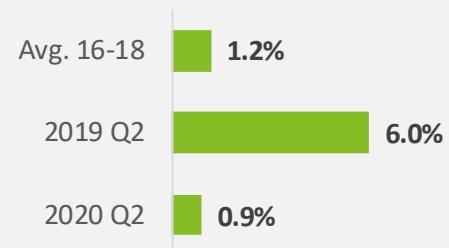
Cost of credit risk



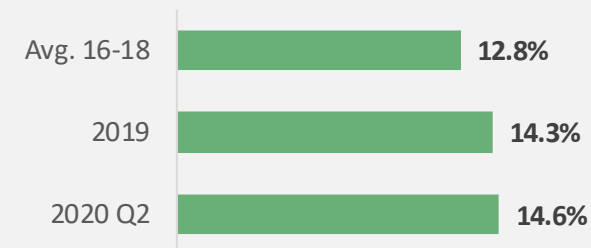
Resources from Central Banks (€bn)



ROE



CET1 Ratio



Source: APB – Síntese de Indicadores do Sector Bancário 2020 1º semestre; Banco de Portugal – Sistema Bancário Português: Desenvolvimentos Recentes 2º Trimestre 2020

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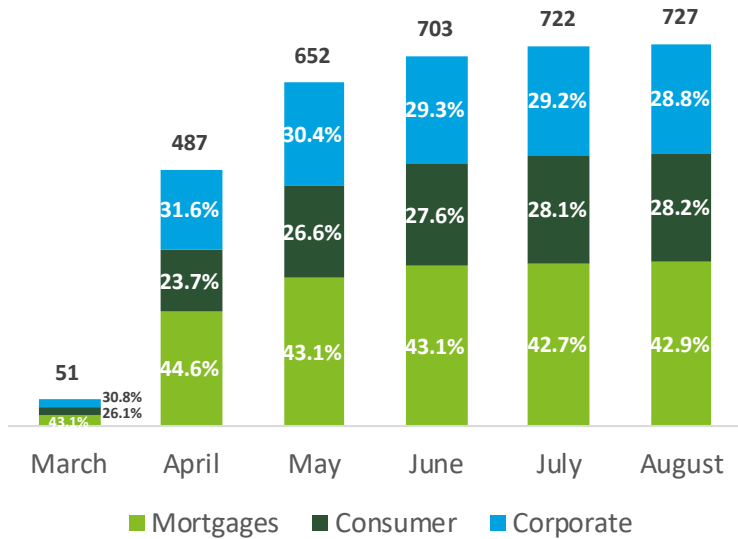
Non-Performing Loans? Respond to thrive post-moratorium
Recovery instruments and the Investors' narrative

Impact of moratoriums in the Portuguese economy

Until June 2020, the top 5 largest Banking groups exposure to credits subject to the application of moratoria regimes amounted to approximately €38 billion, the largest proportion of total credit in Europe

Loan agreements under moratorium per credit type, from March to August 2020

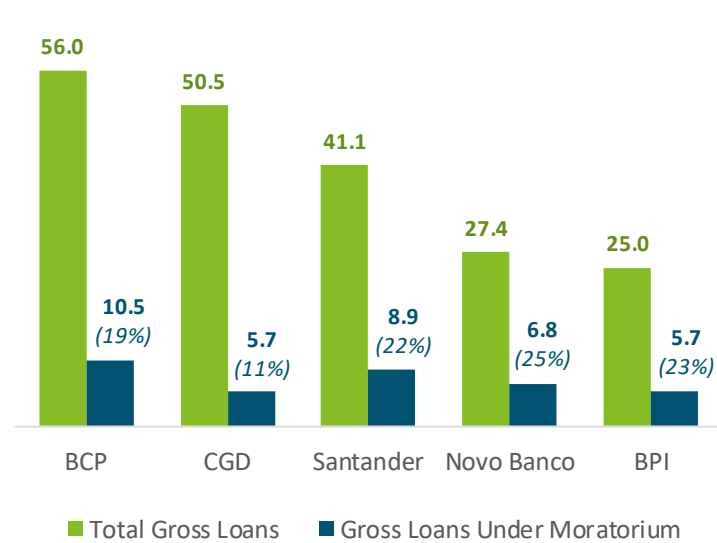
(in % of total and in thousands)



Source: Banco de Portugal - Sinopse de Atividades de Supervisão Comportamental

Total gross loans and gross loans under moratoriums, Top 5 banks as of 2020 Q2

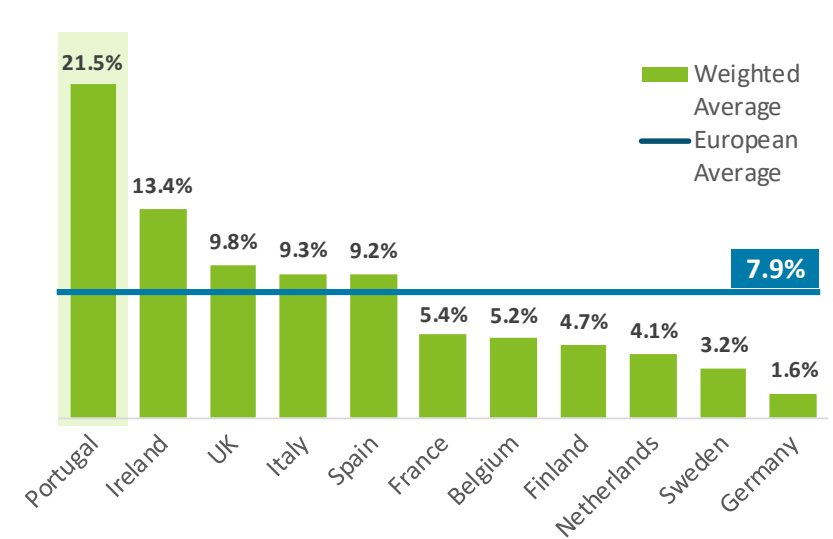
(in €bn)



Source: Banks' Mid-Year Reports

Moratoriums / Total gross loans by country in Europe

(in %)



Source: DBRS Morningstar - European Bank Moratoria: Short-Term Relief Only – Sample of 3 Portuguese banks: BCP, Montepio and Novo Banco

727k

Contracts under moratorium in August

200 €bn

Total gross loans of the top 5 banks

38 €bn (19%)

Under moratoriums for the top 5 banks

21.5%

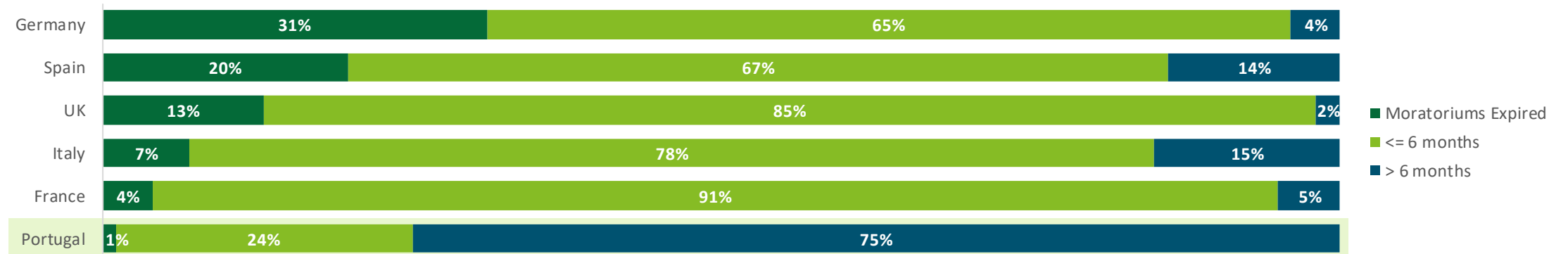
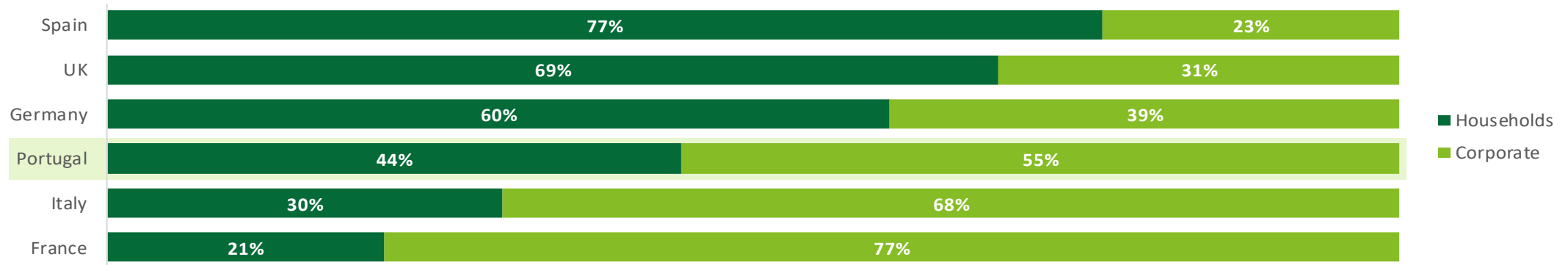
Credit under moratorium in Portugal

Loan moratoria granted by European Banks

There is a wide dispersion in moratoria loans by segment in Europe, with Portuguese Banks granting 44% of the moratoria to Households and 55% to Corporates. Portugal is among the countries with longer maturities on moratoriums

Moratoriums by institutional sector and maturity, per European country

(in % of total credit under moratoriums)

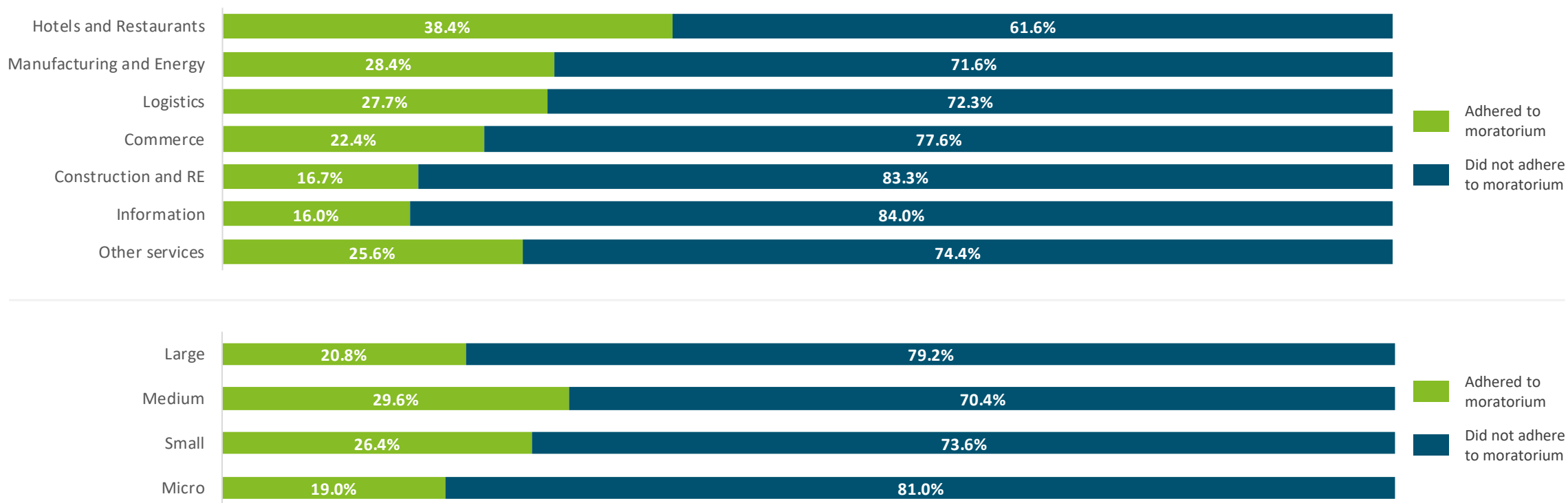


Impact of moratoriums in the Portuguese economy

“Hotels and Restaurants” was the sector in Portugal with a higher proportion of companies adhering the moratorium and with respect to size of the companies there was a higher proportion in medium and small sized companies

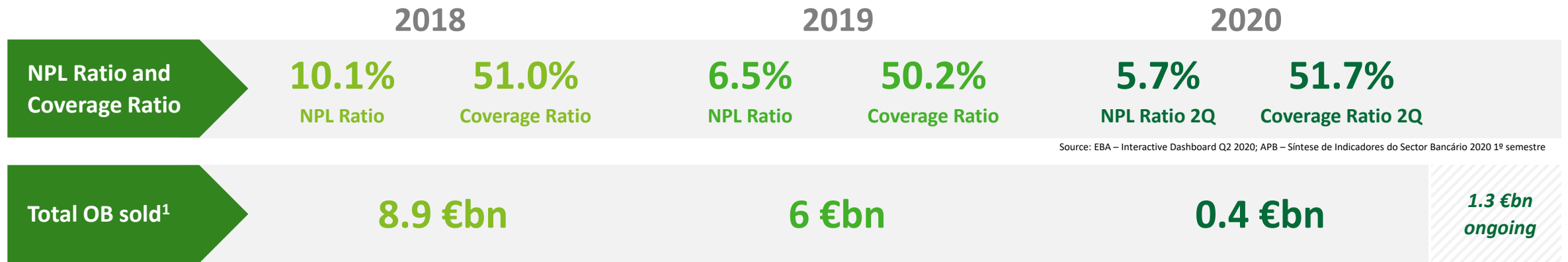
Companies adhering to moratoriums, per sector and size, as of 2020 Q2

(in % of total surveyed companies)



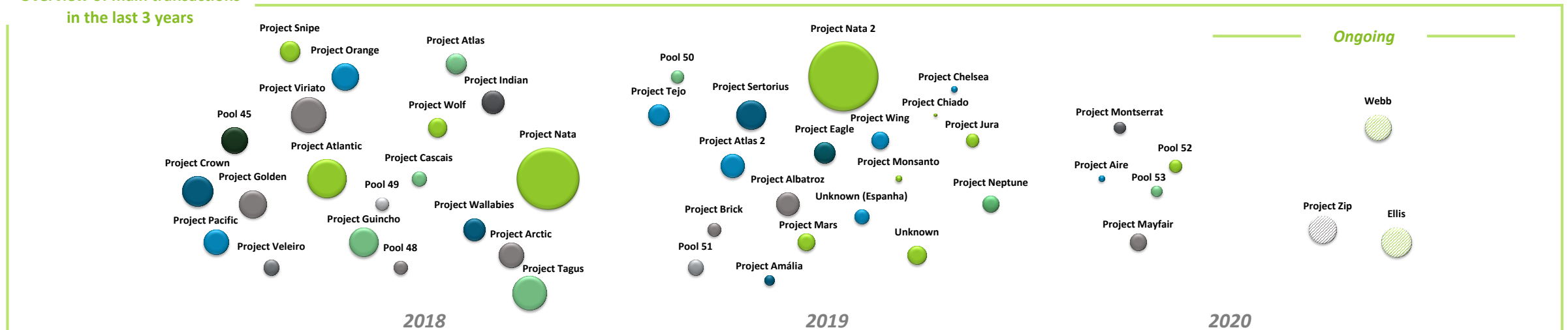
NPL in Portugal

In June 2020 the Portuguese NPL ratio maintained its downward trend. NPL transactions slowed down both in volume and in size, after two years of several relevant transactions in the market



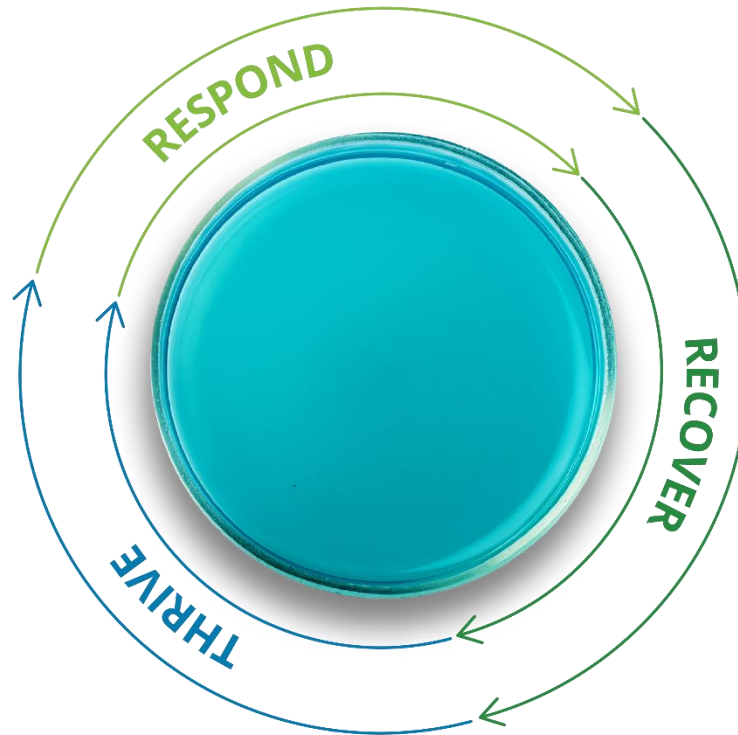
¹ Estimated OB sold based on main NPL transactions executed through a competitive sale process

Overview of main transactions in the last 3 years

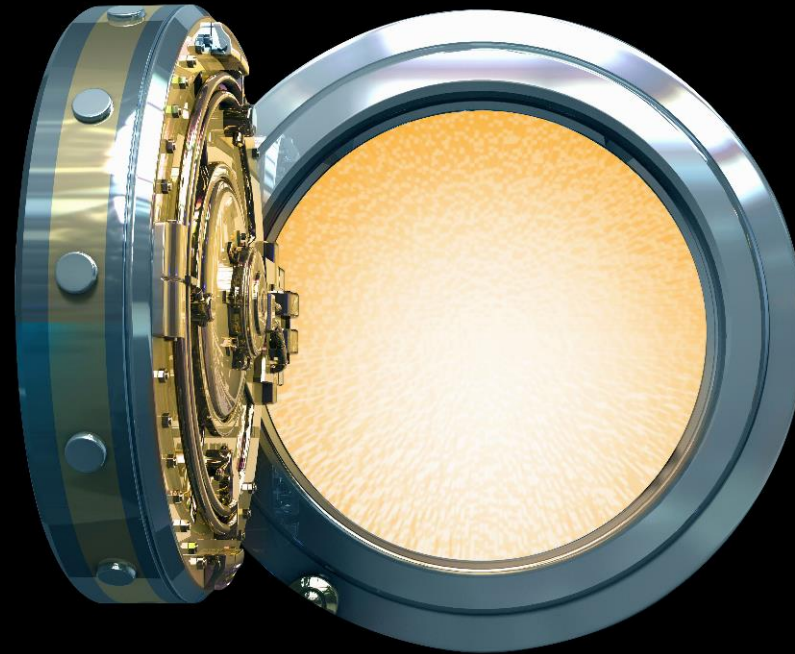


After the loan moratoria

The impact of the pandemic crisis in the Portuguese banking system will depend on the duration and severity of this crisis and on the effectiveness of the mitigation measures implemented



Deloitte.







The outbreak of recovery instruments

Andrew Grimstone | October 30th 2020



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Global Covid-19 Sector Impact Assessment

 TMT	 Consumer	 Energy, Resources and Industrials	 Financial Services	 LSHC	 Government and Public Services
Telecom, Media and Entertainment <ul style="list-style-type: none"> Media and Entertainment Telecom 	Consumer Products	Power and Utilities	Banking and Capital Markets <ul style="list-style-type: none"> Global Banking Second Tier Lenders 	Health Care <ul style="list-style-type: none"> Providers Payers 	Health and Social Care
Technology <ul style="list-style-type: none"> Hardware and Semiconductors Software and Services 	Retail and Wholesale and Distribution (non-food)	Mining and Metals <ul style="list-style-type: none"> Mining Metals 	Insurance <ul style="list-style-type: none"> Life and Annuity General Insurance 	Life Sciences <ul style="list-style-type: none"> BioPharma MedTech 	Defence, Security & Justice <ul style="list-style-type: none"> Defence Security and Justice
	Consumer Services and Transportation	Oil and Gas (selectively including chemicals and specialty materials)	Investment Management <ul style="list-style-type: none"> Private Equity Sovereign Wealth Embedded Asset Managers 		Civil Government <ul style="list-style-type: none"> Education Business support & Taxes
	Tourism, Hospitality & Leisure <ul style="list-style-type: none"> Hotels Restaurants Health and Wellness 	Industrial Products and Construction <ul style="list-style-type: none"> Engineering and Construction 	Real Estate <ul style="list-style-type: none"> REITS Operators 		International Donor Organisations
	Aviation <ul style="list-style-type: none"> Airlines and related services 	Aerospace and Defence (including OEM and component suppliers)			Transportation
	Automotive <ul style="list-style-type: none"> Manufacturers 	Automotive (including OEM and component suppliers)			

High impact on business trading and cash flows
 Significant disruption, likely financial impact or loss
 Neutral or low impact/outlook

Global Sector Heatmap - Consumer

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Vaccine	Vaccine developed by Dec 2020, rolled out 2021. No major surge in northern hemisphere winter. Travel restrictions lifted late spring to enable Northern hemisphere summer holidays in
Mid-case	No vaccine before end 2021. Surge in infections through northern hemisphere winter (Q420-Q221). Local lockdowns and travel restrictions to end 2021
Downside scenario	No effective vaccine. Continuous waves of infections stretching healthcare systems and ongoing local lockdowns and travel restrictions

All scenarios: Bumpy recovery with localised lockdowns through H2 2020, significant redundancies as government support unwinds.

H	Hi High impact on businesses trading and cash flows
M	Si Significant disruption, likely financial impact/loss
N	Ne Neutral or low impact/outlook
PO	Po Positive Outlook

Industry	Sector	Sub-sectors	China			Rest of Asia Pacific			EMEA			Americas			Comments - EMEA	
			Vaccine	Mid-case	Downside scenario	Vaccine	Mid-case	Downside scenario	Vaccine	Mid-case	Downside scenario	Vaccine	Mid-case	Downside scenario		
Consumer	Consumer Products	Automotive	M	M	H	M	H	H	M	M	H	M	H	H	New car sales recovering, down 4% y-o-y in July (-35% YTD). However, medium term demand outlook remains unclear, and Brexit may impact EU & UK adversely.	
		Agribusiness	N	N	N	N	N	N	N	N	N	N	N	N	Demand has normalised. Seasonal worker issues have caused challenges, as have Covid outbreak but impact generally localised.	
		Apparel and Footwear	N	M	H	N	M	H	N	M	M	N	M	M	Rise of working from home has changed product and channel mix. Overall demand lower resulting from economic uncertainty. Some manufacturers have switched to making medical PPE.	
		Food & Beverage	N	N	PO	N	N	N	N	N	N	N	N	N	Winners and losers due to change in mix as food retail has gained at expense of restaurants and bars. Likely to remain so due to consumer caution. Alcohol consumption increased on average.	
		Personal & Household Goods	PO	N	M	PO	N	M	PO	N	M	PO	N	M	Mixed picture. People spending more time at home has caused short-term increased demand for home electronics, DIY, furnishings and hygiene/personal products. Other sub-sectors more impacted.	
	Retail, Wholesale & Distribution	Drug and Pharmacy	N	PO	PO	N	PO	PO	N	PO	PO	PO	PO	PO	Demand has normalised, noting a few categories (eg, hygiene) are up and expected to remain so. Online expected to keep gains vs	
		Grocery & Convenience Stores	N	PO	PO	PO	PO	PO	PO	PO	PO	PO	PO	PO	Stores continue to hire as expect to retain much of gains made through lockdown as consumer caution likely to remain.	
		Mass & Discount Stores	N	N	N	N	N	N	N	N	N	N	N	N	Mixed picture. Stores with an online footprint likely to do well. Food and essentials retail doing well. Impact on non-essentials continues.	
		Specialty Stores & Luxury Goods (Non-essentials)	PO	M	H	M	H	H	M	H	H	M	H	H	Luxury demand remains depressed due to lower footfall, caused by travel ban, consumer caution, depressed demand for non-essentials	
		Wholesale & Distribution	N	N	M	N	N	M	N	N	PO	N	N	PO	Increase in food/essentials/online sales partially offsets decline in non-essentials to retail and restaurants/pubs. Opportunity in downside due to significant increase in online purchases.	
	Transportation, Hospitality & Services	Transportation	Airlines	N	H	H	H	H	H	M	H	H	M	H	H	Summer season saw very low flight levels. Rising covid cases as enter autumn / winter, giving no cause for optimism despite airport testing
			Shipping & Ports	PO	N	M	N	N	M	N	N	N	N	N	M	Ports open, traffic recovered, but is below normal levels as demand for non-essentials remains below past levels. Shipping companies faring well notwithstanding partial fleet retirement/mothballing.
		Hospitality	Cruise Lines & Ferries	N	H	H	H	H	H	H	H	H	H	H	H	Customer wariness in medium term. A few cruises have started, but some have had covid outbreaks, so outlook generally very negative.
			Hotels, Restaurants, Health & Wellness	N	M	M	M	M	H	H	H	H	H	H	H	Sector has reopened, but heavily impacted by lack of international and business travel, consumer caution and need for social distancing which may make many businesses non-viable.
		Business Services	N	N	N	M	M	M	N	M	M	M	M	M	H	Those that can transact electronically should thrive, notwithstanding overall economic softness. Businesses that require personal interface or exchange of goods will suffer.

Global Sector Heatmap – Energy, Resources & Industrials

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Energy, Resources & Industrials	Industrial Products & Construction	Aerospace	M	M	H	M	H	H	H	H	H	H	H	H	<p>Aerospace decimated by decline in travel -> new aircraft not needed, impacting supply chains until demand picks up and investment programs recommence. Defence relatively unaffected, but Government spending may reduce. Construction is broadly back to normal, with much of the work deemed as essential. Long-term instability and economic uncertainty may result in softness in the downside scenario, particularly if Government spending programmes are constrained.</p> <p>Demand is lower, particularly for manufacturers of non-essentials, and supply chain impact from Aviation & Automotive, hence there is a focus on cost-cutting as a defensive measure.</p> <p>Activity depressed in the short-term but is expected to recover in the longer term. Those related to essential goods remain open/producing.</p> <p>See Engineering & Construction comment above.</p> <p>Benefiting from lower oil price. Consumer & medical side doing well, industrial side impacted by general downturn.</p> <p>Heavily impacted by lower demand (notably aviation) and lower oil price (over-supply). Rationalisation in supply chain in recent years reduce scope for further cost cutting. Hence there is consolidation, accelerated by the shift to decarbonisation.</p> <p>Demand has still not fully recovered, and so prices are down with non-renewables feeling the bulk of the pain. Long term impact of reduced industrial production is reduced energy consumption. Outlook remains favourable for renewables due to ongoing government commitments and law changes despite lower energy prices.</p>
		Defence	N	N	N	N	N	N	N	N	M	N	N	N	
		Engineering & Construction	N	M	H	N	N	M	N	N	M	N	M	H	
		Industrial Products	N	M	H	PO	N	M	N	M	M	N	M	M	
	Mining & Metals	Mining & Metals	N	N	N	N	M	M	N	N	M	N	M	M	
		Construction & Base Materials	N	M	H	N	N	M	N	N	M	N	M	H	
	Oil, Gas & Chemicals	Chemicals & Speciality Materials	N	M	M	N	M	M	N	M	M	N	M	M	
		Oil & Gas	N	M	M	M	M	H	M	H	H	H	H	H	
	Power, Utilities, Renewables	Power and Utilities	PO	N	M	N	N	M	N	M	M	N	N	M	
		Renewable Energy	PO	N	N	N	N	N	N	N	N	N	M	H	

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FOR DISCUSSION PURPOSES

Global Sector Heatmap – Life Sciences & Healthcare and Technology, Media & Telecom

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			Vaccine	Mid-case	Downside scenario	Vaccine	Mid-case	Downside scenario	Vaccine	Mid-case	Downside scenario	Vaccine	Mid-case	Downside scenario			
Life Sciences & Healthcare	Health Care Providers & Health Care Plans			PO	N	M	PO	N	M	N	M	M	N	M	M	Hospital budgets etc. stretched during Covid crisis. Cash flow a challenge. Testing all staff remains a challenge. The pandemic has hit hospitals hard due to locked bed capacity and insufficient government aid compensation. Private healthcare providers, who lost deferred high margin elective surgery revenue, are recovering, but face higher costs. Future rising demand for remote services.	
		Life Sciences	Bio Pharma & Generics	PO	N	M	PO	N	N	PO	N	N	PO	PO	N		Products driven by Covid remain in high demand. Sector generally healthy. Likely to be affected positively in the case of a vaccine due to the number of vaccines required and the related consumables.
	Med Tech		Devices	N	M	M	N	N	N	N	N	M	N	N	M	Devices market is recovering as elective surgeries etc. have restarted, albeit not back at pre-crisis volumes and impacted by second wave.	
			Consumables	N	N	PO	N	PO	PO	N	PO	PO	N	PO	PO		
	Technology Media & Telecom	Technology		PO	PO	N	PO	PO	PO	PO	PO	PO	PO	PO	PO	Increase in streaming, gaming, virtual etc - many of gains expected to be retained.	
Telecom, Media & Entertainment		Media & Ent's	Digital Entertainment, Info Services, Social & Digital Advertising	PO	PO	PO	N	N	N	PO	PO	PO	PO	PO	PO		Traditional publishing volumes down, advertising revenue significantly down and rate of recovery in advertising unclear.
			Traditional Print Publishing & Media Advertising	N	M	H	M	M	H	M	M	H	M	M	H		
		Sports & Live Entertainment	N	M	H	M	H	H	M	H	H	M	H	H			
Telecom		PO	PO	N	PO	N	N	PO	PO	PO	PO	PO	PO	PO	PO		Generally positive boost caused by increase in home working, increasing streaming etc.

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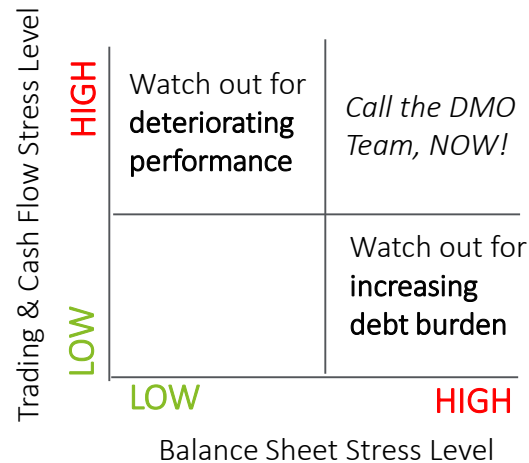
FOR DISCUSSION PURPOSES

Distressed Market Offering – Key Triggers

Performance Issues

Watch out for **deteriorating performance**

- Is the business model outdated or failing, or is performance benchmarking below the peer set or is the business strategy no longer appropriate?
- Does the business have an underperforming division, territory or product that needs to be fixed, sold or closed?
- Are there customers or suppliers in the value chain that might fail in the near/medium term?
- Are activist investors approaching the company or short selling shares?
- Are there concerns in relation to future trading or upcoming audit going concern disclosures?



Debt & Capital Issues

Watch out for **increasing debt burden**

- What is the liquidity outlook, are there any large 'trapped cash' balances, could the business run out of cash in the near/medium term?
- Are there significant amounts of debt maturing in the near/medium term, or is there any risk of breaching financial covenants?
- Are there significant off balance sheet or supply chain financing liabilities that may crystallise?
- Is there delays in refinancing or are there any significant sale transactions at risk of failing?
- Are there any negative sentiments or recent reports in the restructuring newswires?

Other Warning Signs

- Foreign duty impositions / other trade issues
- Significant management turnover
- Significant litigation events
- Loss of major customers
- Material reassessments
- Fraudulent activities
- Regulatory issues

Thinking through Demand, Supply and Operations



Assess impact on sales

- Will customers disappear, defer or cancel?
- Will there be goods for them to buy?
- What is the medium term outlook?



Assess impact on production

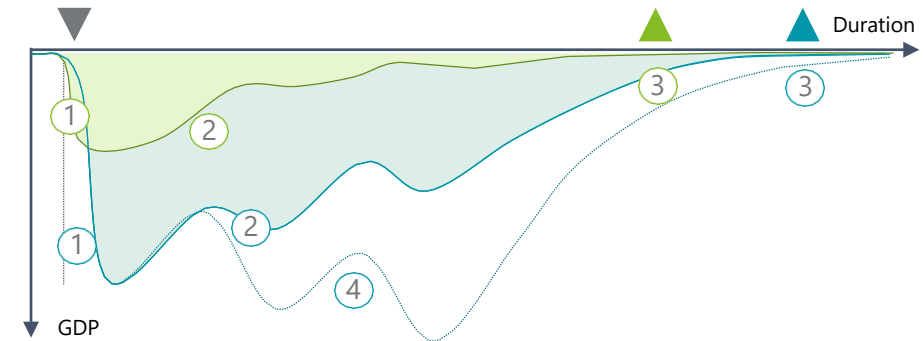
- End-to-end supply chain assessment
 - Assess inventory levels
 - Cost effective fulfillment
- Identify alternative suppliers



Operations in affected areas

- Which operating locations are still active?
- If not active, when will they resume service?
- What capacity impact and timing of recovery?

Overview and economic impact of Covid-19



'Eastern' model and impact

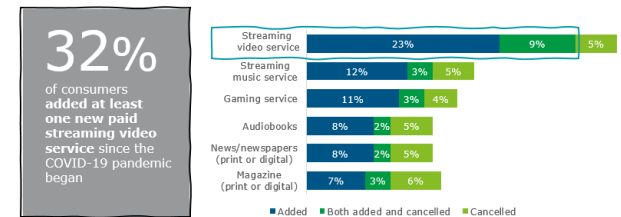
1. Swift severe action: GDP impact reduced
2. Consumer caution delays recovery
3. Prior levels achieved sooner

'Western' model and impact

1. Delay of severe action: large GDP impact
2. Resurges delay recovery
3. Return of activity levels takes longer
4. Business failures compound impact risk

During the pandemic, consumers added new paid subscriptions—especially streaming video, music, and games

Changes made to paid subscriptions since the COVID-19 pandemic began

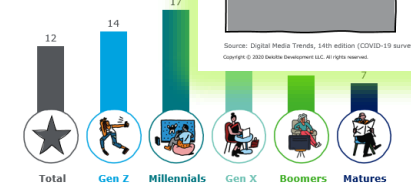


Before COVID-19, consumers were paying for a variety of

12 Average # of paid entertainment subscriptions

3 Average # of paid streaming video services

Average number of paid



32% of consumers added at least one new paid streaming video service since the COVID-19 pandemic began

Source: Digital Media Trends, 14th edition (COVID-19 survey). Copyright © 2020 Deloitte Development LLC. All rights reserved.

Thinking through the Financial Implications



Understand and monitor liquidity impact

- Prepare 13 week cash flow forecast
- Track and assess virus impact daily
- Flag upcoming issues and develop mitigation plans



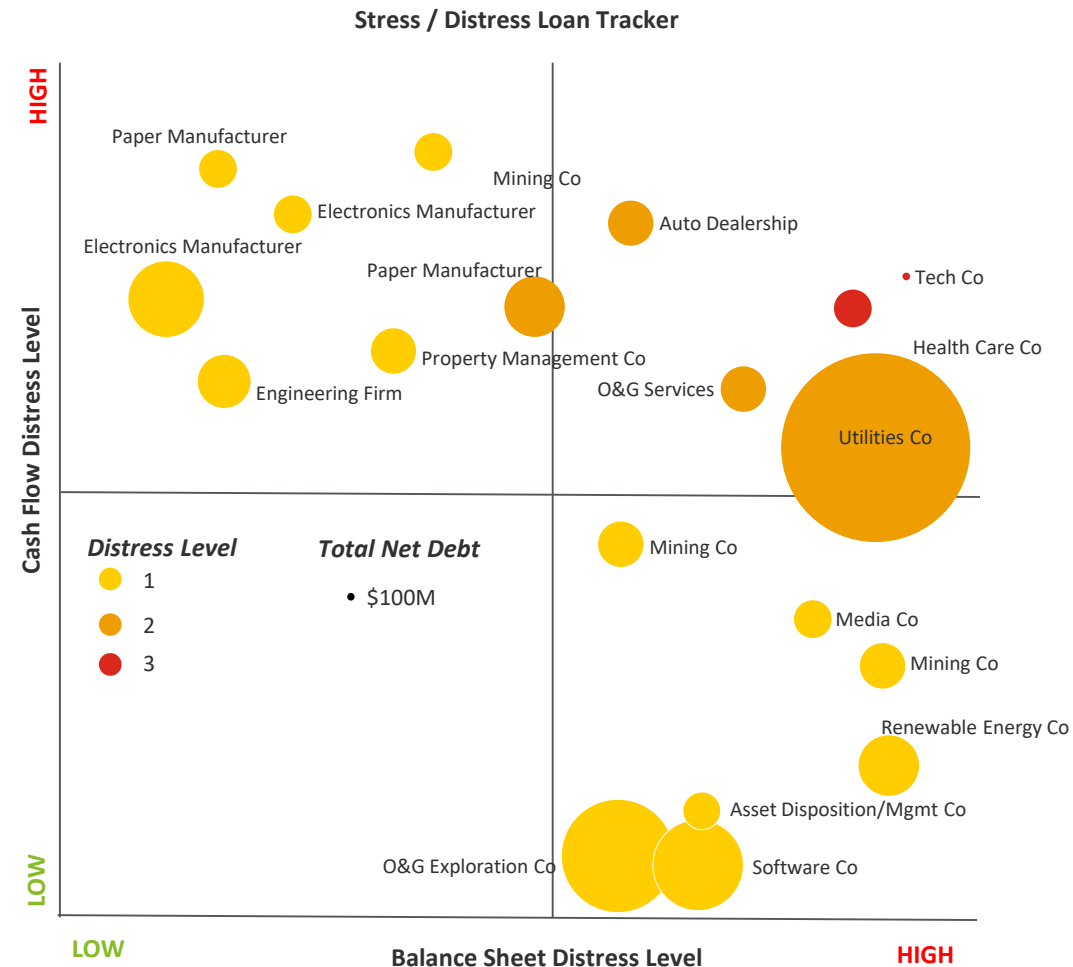
Manage working capital and profitability

- Trading and cash flow forecast for 6-18 months out:
 - Be realistic: base case and downside scenario
- Focus on collecting trade debtors
- Manage inventory and supplier payments
- Minimise all discretionary opex and capex



Seek additional funding early if required

- Seek new committed facilities (even if not drawn):
 - Review existing facility/inter-creditor docs
 - Potential collateral for additional borrowing
- Evaluate business interruption cover/claims



Thinking through Stakeholder Management



Take advantage of relevant government policies and support

- Take advantage of government/regulatory support:
 - Tax deductions
 - Deferred payments
 - Rental reductions/deferrals
 - Job retention schemes



Proactively manage key stakeholders

- Key stakeholders:
 - Customers & Suppliers
 - Investors, lenders and trade financiers
- Pro-actively communicate to manage expectations



Test need/opportunity for more radical restructuring

- Consider need for corporate and/or financial restructuring
- Exit non-core assets, strategic or accelerated M&A
- Evaluate alternative financing options

Options Analysis

- Performance Improvement
- Turnaround
- Chief Restructuring Officer
- Third Party Credit Risk
- Debt & Capital Raising
- Strategic M&A
- Managed Exit
- Accelerated M&A
- Consensual Restructuring
- Contingency Planning
- Enforcement

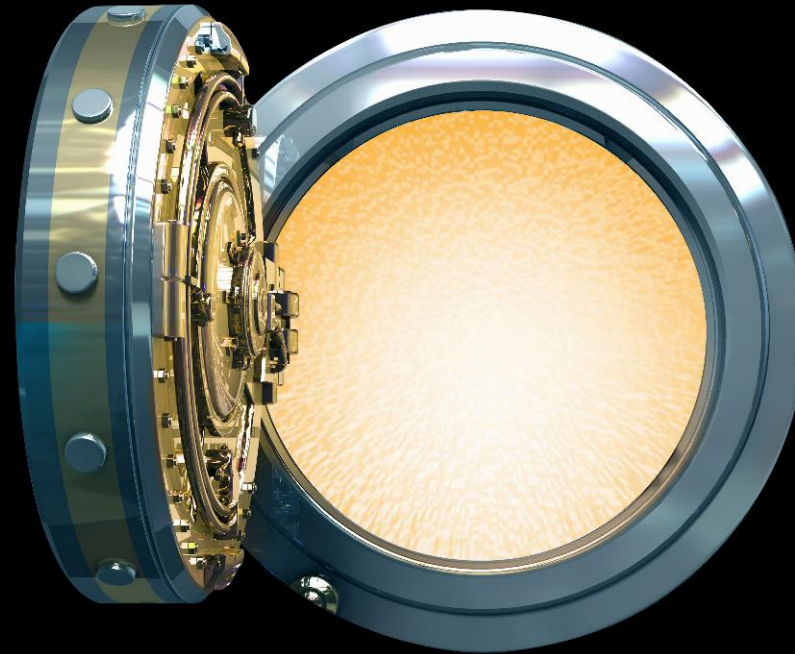
Summary Considerations for Lenders

Companies are going to be loss making, have funding gaps and require balance sheet restructuring ... at a minimum they will need waivers to provide time, but more than likely will require new money injection and covenant reset



- Consider company **priorities/conditions** attaching to any ask
- Request detailed revised **trading forecasts** and **cash flows**
- Understand what **self-help measure** management are taking
- Scenario analysis to **test headroom** especially downside cases
- Consider requiring **diligence** and/or **financial advisors**
- Evaluate **security available** and **alternative financing options**
- Explore potential/terms for attracting **new money investors**
- Stakeholder analysis: fair **allocation of burden/return sharing**
- Review **existing documents** to ensure any proposals are permissible
- Consider overall relationships versus returns and **options to trade out**

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The outbreak of recovery instruments

Ricardo Reis | October 30th 2020

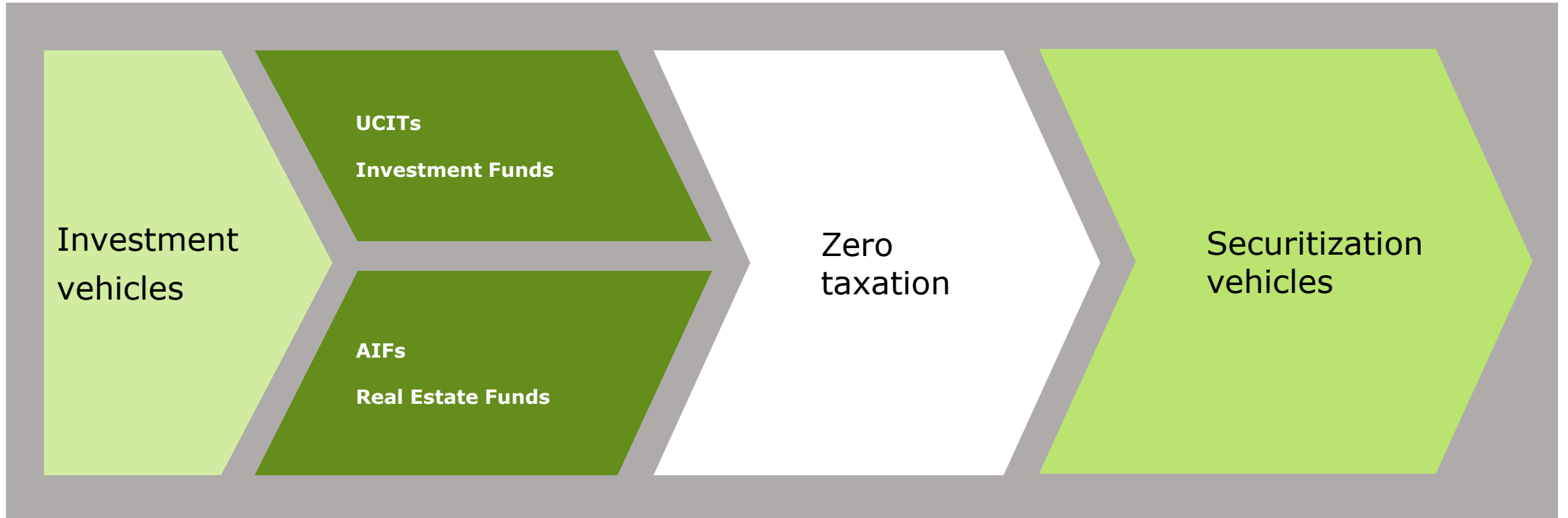


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The importance of TAX when restructuring NPEs and NPL portfolios

Taxation of investment vehicles

Zero taxation of securitization vehicles as a structural feature and not a preferential tax regime



Securitization vehicle and interest barrier rule

Full tax deductibility of interest

Typical P&L of Securitization vehicle

+ Interest and other financial income

- Interest and other financial expenses

= Financial margin

- Other costs

+/- variable remuneration of security/bond

= ZERO net profit

Past:

Securitization vehicles excluded from interest barrier rules

14th May, 2020

European Commission notifies Portugal and Luxembourg for incorrect exclusion of securitization vehicles from interest barrier rules (under ATAD1)

6th July, 2020

Portugal reacts to notification by changing the tax law and applying interest barrier rules to securitization vehicles

Timeline

11th August, 2020

Portugal changes law so that pull-to-par and other income is included in the net financial expenses subject to interest barrier test

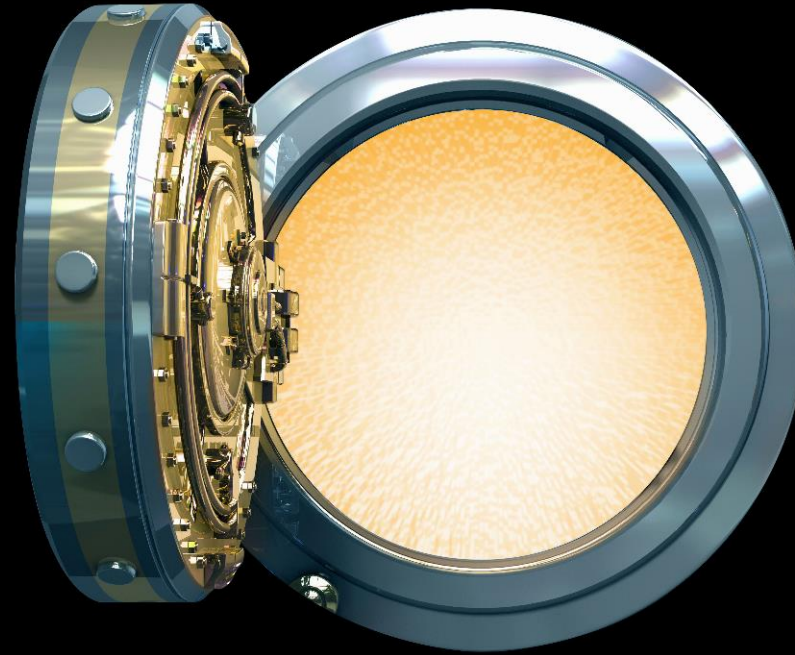
Future:

Securitization vehicles expected to have full tax deduction of remuneration of security/bond

New investment vehicle suitable for NPL Credit Fund

Credit Fund	
Eligible assets	Loans (originated or acquired); Debt securities; Cash
Indebtedness	Up to 60% of asset value
Governance	Managed by regulated Venture Capital and UCIT/AIF managers
Tax profile	To be confirmed

Deloitte.



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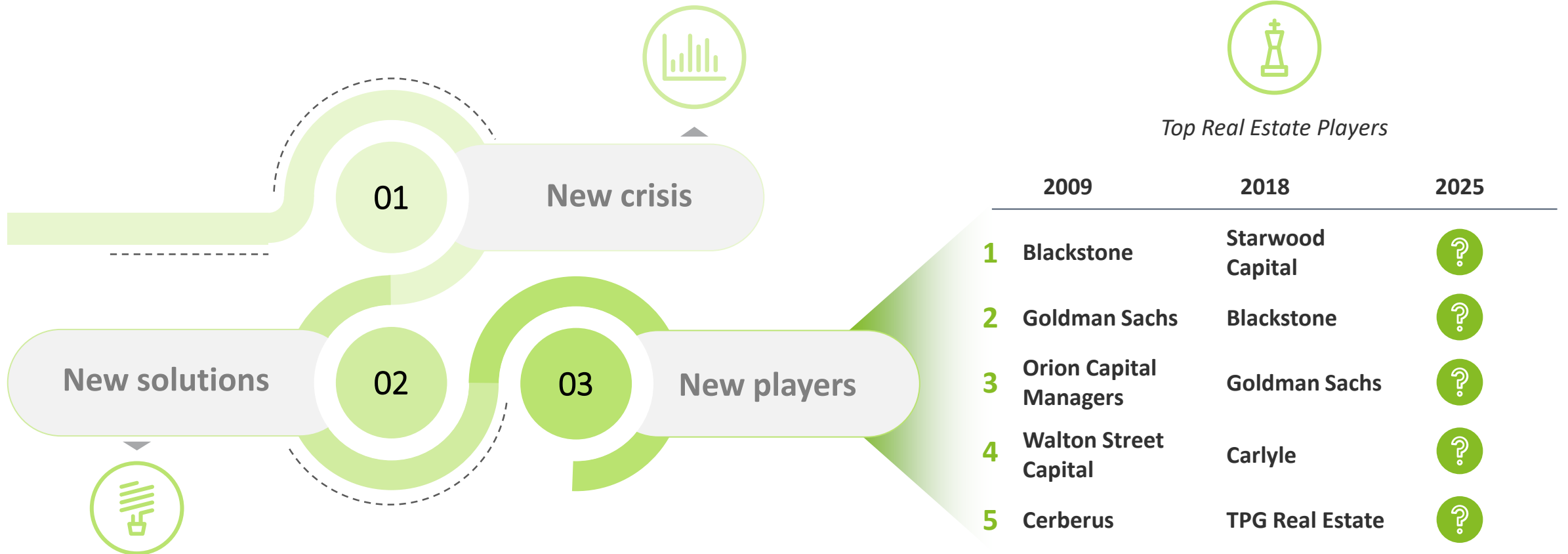
Jorge Marrão | October 30th 2020



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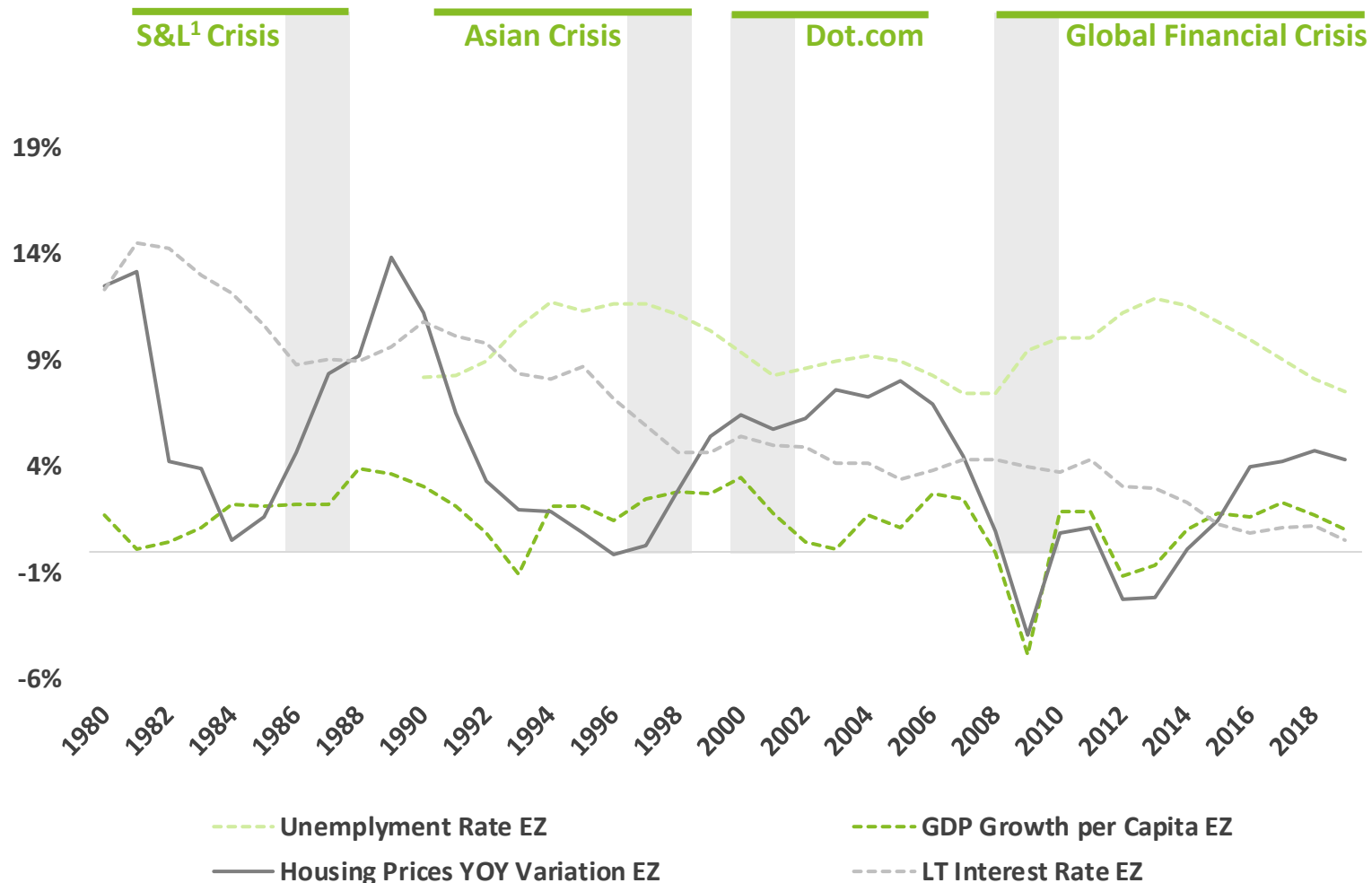
Secured NPL portfolios giving rise to new Real Estate global players

Covid-19: a new context



Secured NPL portfolios giving rise to new Real Estate global players

Past crisis impact



¹Savings and Loan
Source: The World Bank. OCDE

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Past crisis impact in macroeconomic variables

Unit: CAGR (%)

S&L Crisis	↑ 8.93%	↑ 6.68%	↓ 0.10%
Asian Crisis	↓ 2.44%	↓ 5.37%	↓ 11.61%
Dot.com	↑ 0.92%	↓ 5.01%	↓ 8.79%
Global Fin. Crisis	↓ 0.32%	↑ 13.25%	↓ 3.56%

- GDP per capita Growth
- Unemployment Rate Euro Zone
- LT Interest rate Growth Euro Zone

Past crisis impact in housing prices

Unit: CAGR (%)

S&L Crisis	↑ 6.31%	↑ 9.75%
Asian Crisis	↑ 4.19%	↑ 6.69%
Dot.com	↑ 3.43%	↑ 5.28%
Global Fin. Crisis	↓ 1.49%	↓ 3.10%

Secured NPL portfolios giving rise to new Real Estate global players

What are the future perspectives for the Real Estate industry?

3%-5%

*Average Real Estate assets return.
Usually higher than alternative
investments (government bonds, p.e.)*

0.2%

*LT interest rate estimated for 2021,
more 0.1 p.p. than in the previous
year*

-8.3%

*IMF estimated fall of the GDP in the
Euro Zone in 2020. Additionally,
unemployment rate is expected to
increase by 17.5% in the same period*

+100 Bn\$

*Disposable income in the G7 group,
during the 2Q 2020, compared with
the pre-crisis period*

+0.6%

*CAGR of the value for “Non current
Assets Held for Sale” in the
Portuguese bank’s Balance Sheet
between 2009 and 2019¹*

+16.2%

*Growth of exposures collateralized by
immovable commercial property in
the European Union, between 2017
and 2019*

¹ In 2019 the considered value was “Ativos não correntes e grupos para alienação classificados como detidos para venda”
Source: Deloitte Analysis

Secured NPL portfolios giving rise to new Real Estate global players

Key Questions

#1

What will happen to Real Estate prices? At what pace will it change?

#4

Is covid-19 accelerating changes in the business models of the sector?

#2

Will the pandemic extend the timings of Real Estate transactions?

#5

Are low interest rates sufficient to offset other macroeconomic and microeconomic variables effects?

#3

What sectors (for example logistics) will maintain the investment in the industry?

Closing



Closing



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