

bancoctt



Acquisition of 321 Crédito

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Transaction Overview

TRANSACTION OVERVIEW

CTT strategy: transform the postal business and continue to develop its growth levers Express & Parcels and Banco CTT...



CTT is pursuing a diversification strategy...

...notably through the development of Banco CTT



Preserving the value of the Mail business through the implementation of a sizeable Operational Transformation Plan to improve profitability, reinforce quality of service and sustain the mid-term transformation of the Company



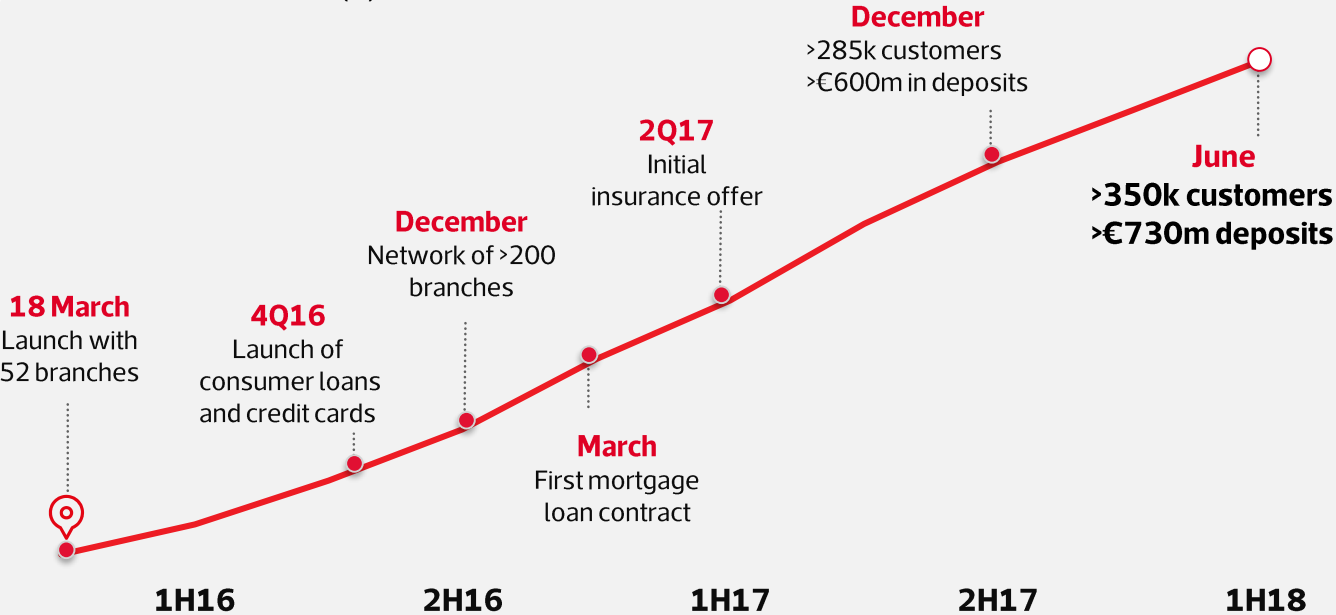
Consolidating CTT's positioning as a strong and integrated Iberian CEP operator, leader in the last mile distribution in Portugal, leveraging on the e-commerce growth trend



Developing an innovative and fast-growing retail banking player focused on simplicity, transparency and proximity

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Customers evolution (#)







Phase I:
Launch, brand awareness, client acquisition and base product offer

TRANSACTION OVERVIEW



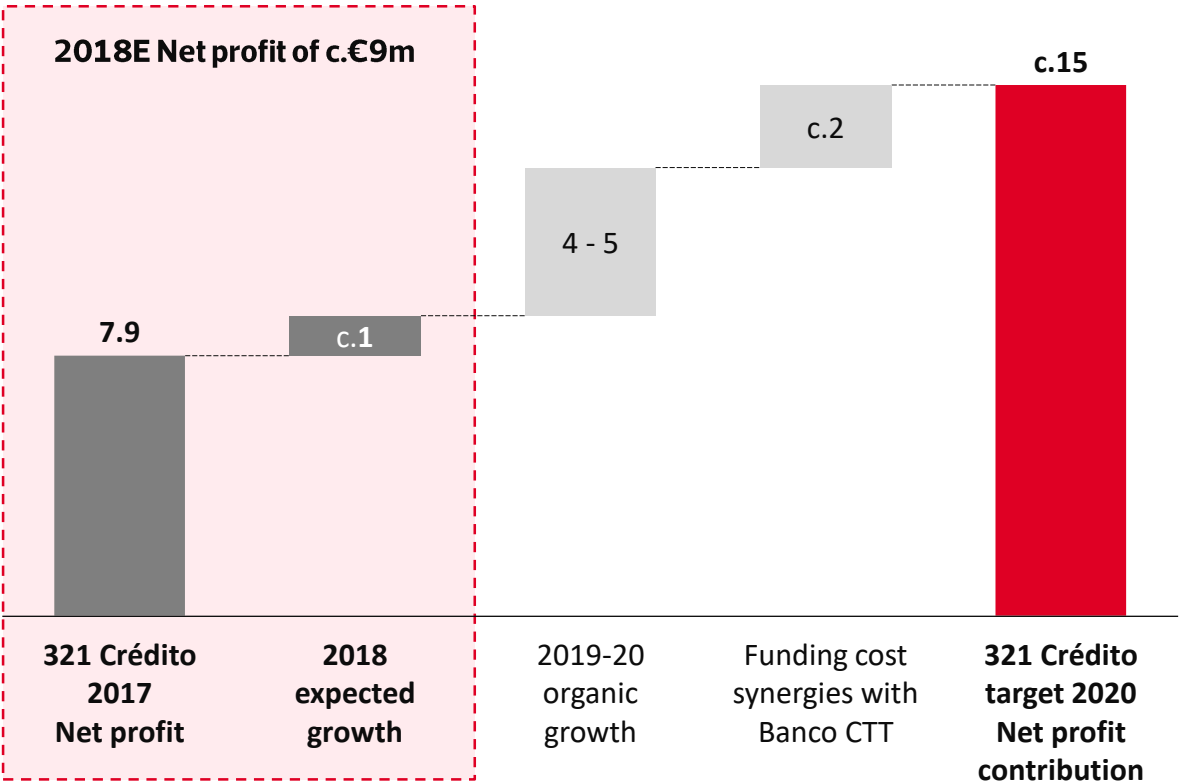
... that will be accelerated with the acquisition of 321 Crédito, a high-performing and profitable specialised consumer credit business operating in a very attractive market

321 Crédito is a fast-growing consumer credit player...

-  Specialised consumer credit institution, focused on lending for the purchase of used cars by retail clients through a network of car dealers
-  Net Loan book of c.€250m, of which c.93% used auto loans and new production volume of €133m in 2017 (c.€80m new production and >€300m Net Loan book in 1H18)
-  Top-5 player with a market share in 2017 of 9.2% (up from 7.5% in 2016), in a market of c.€1.4bn¹, with strong growth dynamics
-  Net profit of €7.9m in 2017 (25.2% RoAE), expected to grow to c.€9m in 2018, based on higher expected used auto loan production

... with upside potential within Banco CTT

Target 2020 Net profit contribution from 321 Crédito post-acquisition (€m)



¹ Addressable market of €1.4bn as per ASFAC – Association of Specialised Credit Institutions (Associação de Instituições de Crédito Especializado) and €1.8bn as per the Bank of Portugal (BoP).

The acquisition of 321 Crédito is an EPS-accretive transaction for CTT...



Financial terms of the acquisition

- Acquisition by Banco CTT of 100% of 321 Crédito's shares for a price of €100m, paid in cash at completion
- Post-completion price adjustment mechanism to capture regulatory capital variation¹ from 31 Dec 2017 until verification of a set of conditions precedent, such as customary banking and competition regulatory approvals
- Immediate application at completion of Banco CTT's existing liquidity to fund part of 321 Crédito's Net loan book via Shareholder Loans, the principal of which at the date hereof amounts to €30.6m
- Closing of the transaction is expected to occur during 1Q19

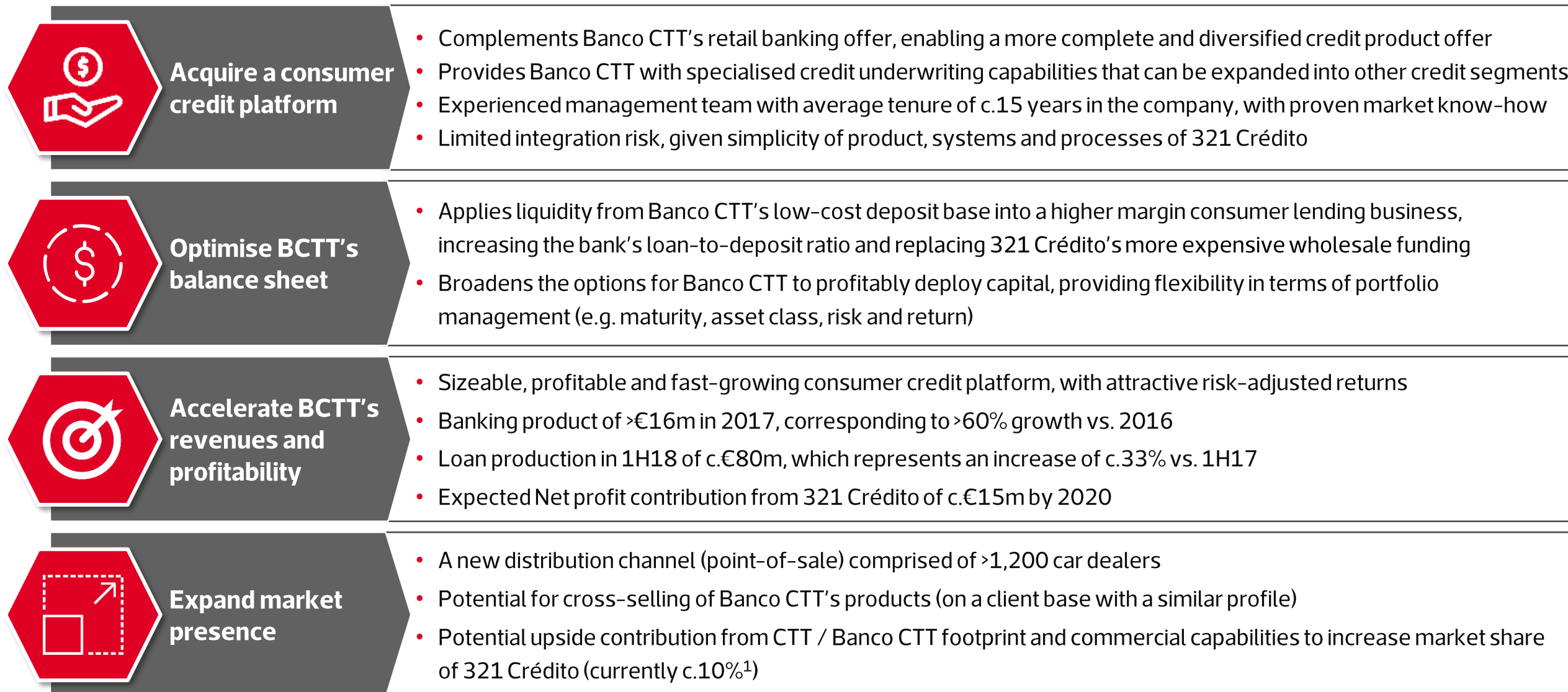


EPS-accretive transaction for CTT

- Acquisition aligned with CTT's strategy to find additional sources of value, diversifying and increasing the growth potential of its portfolio
- Expected positive contribution from Banco CTT to CTT's consolidated EBITDA already in 2019
- EPS-accretive transaction: >25 % accretion² over CTT's 2017 EPS with a target 2020 ROIC³ of c.14%
- Implied 10.0x P/E FY18 PF with funding synergies⁴ below the average trading P/E of consumer finance peers of 14.4x⁵
- CTT maintains capacity to pursue future growth opportunities in other business units, especially in Express & Parcels

¹ Regulatory capital variation corresponds to the fully implemented Common Equity Tier 1 (CET 1) capital of 321 Crédito. Assuming closing on January 1st, 2019, subsequent price adjustment mechanism estimated at c.€10m: expected Net profit of the period, expected positive IFRS 9 impact in the accounting of provisions flowing through reserves and other accounting movements. ² Earnings per share accretion. Defined as incremental Net profit per CTT share over CTT 2017 EPS. ³ Return on Invested Capital. Henceforth defined as Net profit in the period divided by total price. ⁴ Considers c.€10m for subsequent price adjustment mechanism, assuming closing January 1st 2019. PF stands for proforma, considering potential fully-loaded funding synergies of €2m. ⁵ Based on 2018 earnings consensus for selected listed peers with RoAEs above 20% (includes Credit Acceptance Corporation, Provident Financial plc, Ferratum, Enova International. Peers data as of market closing 23rd July 2018, Bloomberg.

... and represents a logical strategic step for Banco CTT in becoming an integrated player in retail financial services



¹ As per ASFAC

TRANSACTION OVERVIEW



The acquisition of 321 Crédito will contribute to the optimisation of Banco CTT’s loan-to-deposit ratio...

Key metrics (1H18)

	bancoctt		321 crédito <small>Soluciones Crédito Personalizadas</small>		Combined
Total Customers <i>(o/w with credit)</i>	>350k <i>(c.10k¹)</i>		>50k <i>(>50k)</i>		>400k <i>(c.60k)</i>
Deposits	>€730m		-		>€730m
Credit <i>(o/w on own BS)</i>	>€200m ² <i>(c.€150m)</i>	+	>€300m <i>(>€300m)</i>	=	>€500m <i>(>€450m)</i>
Credit Production LTM ³	>€165m ²		>€150m		>€315m
Loan-to-deposit ratio	c.20%		-		>60%

- 2 years after its launch, Banco CTT has been very well accepted by the population, having attracted more than 350k customers and more than €730m in deposits
- 321 Crédito enables the diversification of Banco CTT’s product portfolio with a profitable specialised consumer credit business
- Expansion of the bank’s customer base with propensity towards consumer credit
- Transaction enables the optimisation of Banco CTT’s Balance Sheet, by combining its proven deposit-taking capabilities with a specialised consumer credit platform

¹ Includes customers with personal credit outstanding.

² Banco CTT considers credit products placements, including credit placed by Banco CTT on its own Balance Sheet and the total gross outstanding balance of credit placed by Banco CTT branches (outside Banco CTT’s Balance Sheet), in partnership with BNP Paribas Personal Finance (Cetelem).

³ Last twelve months.

... which will enable the acceleration of Banco CTT's financial performance



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Banco CTT's key financial targets ¹

Positive EBITDA contribution	2019
Positive Net profit	2020
Additional capital until 2020 ²	c.€20m
ROE long-term aspiration	c.15%

¹ Banco CTT's on a consolidated basis, assuming closing on January 1st, 2019.

² In addition to the capital increase required to finance the final acquisition price.



Investment Highlights

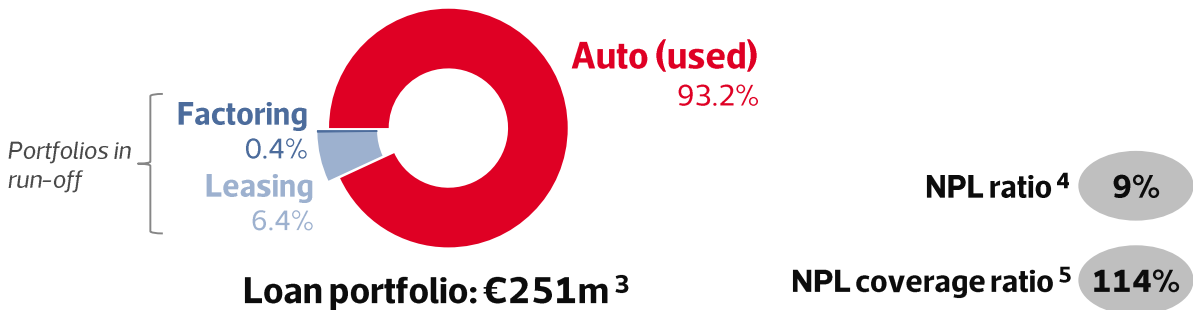


321 Crédito is a well-established specialised auto credit financial institution...

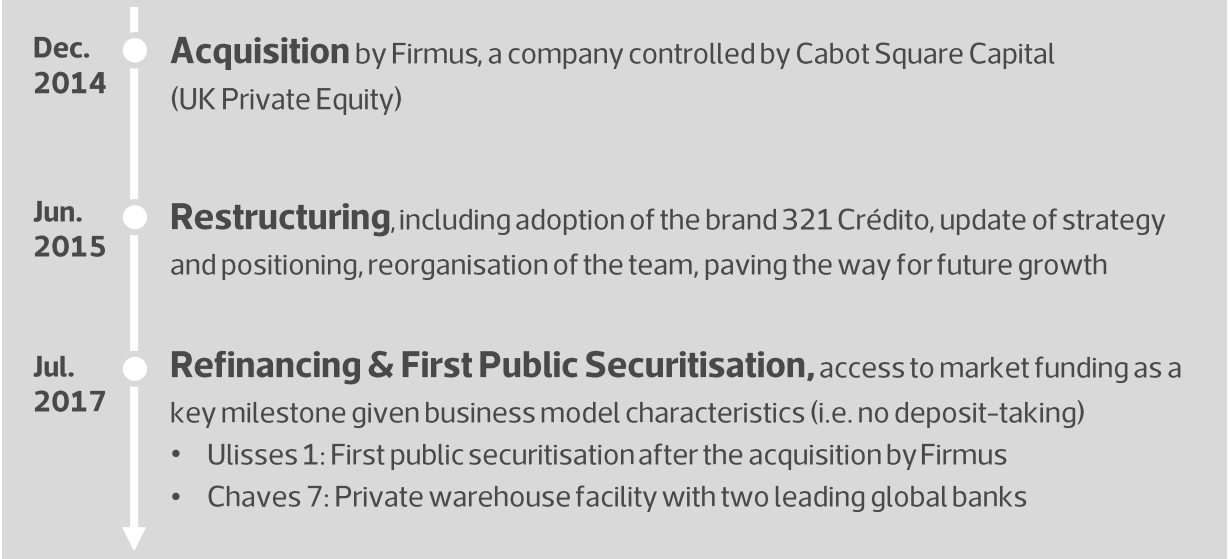
Company overview

- 321 Crédito is a credit institution focused on the provision of credit for the purchase of used cars to individuals through a network of >1,200 car dealers
- #4 in Portugal with 9.2% market share (ASFAC¹) in 2017 (10.3% in December 2017)
- Loan origination of €133m in 2017 with average gross yield of 8.5%²
- Experienced team of 100+ employees, with an average tenure in the Company of c.15 years (including Management team) under different owners
- Licensed and supervised by the Bank of Portugal

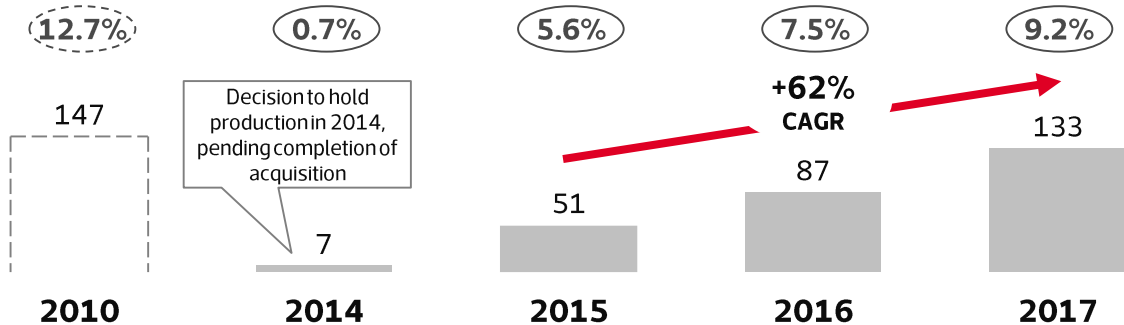
Loan portfolio (Net loan portfolio; € million; 31 Dec 2017)



History – Key milestones



Origination volume (Used auto loans; € million) ○ Market shares⁶ – used auto loans (production)



¹ Association of Specialised Credit Institutions (Associação de Instituições de Crédito Especializado). ² Gross yield, excludes ancillary yield (e.g. insurance commissions, prepayment fees, etc.). ³ Figures based on Net asset value (Gross loan value subtracting provisions). ⁴ Calculated as per EBA's (European Banking Authority) definition: Non-performing loans and advances to customers divided by total loans and advances to customers (gross). ⁵ Calculated as per EBA's (European Banking Authority) definition: accumulated impairment on loans and advances to customers / total non-performing loans and advances to customers (gross). ⁶ As per ASFAC

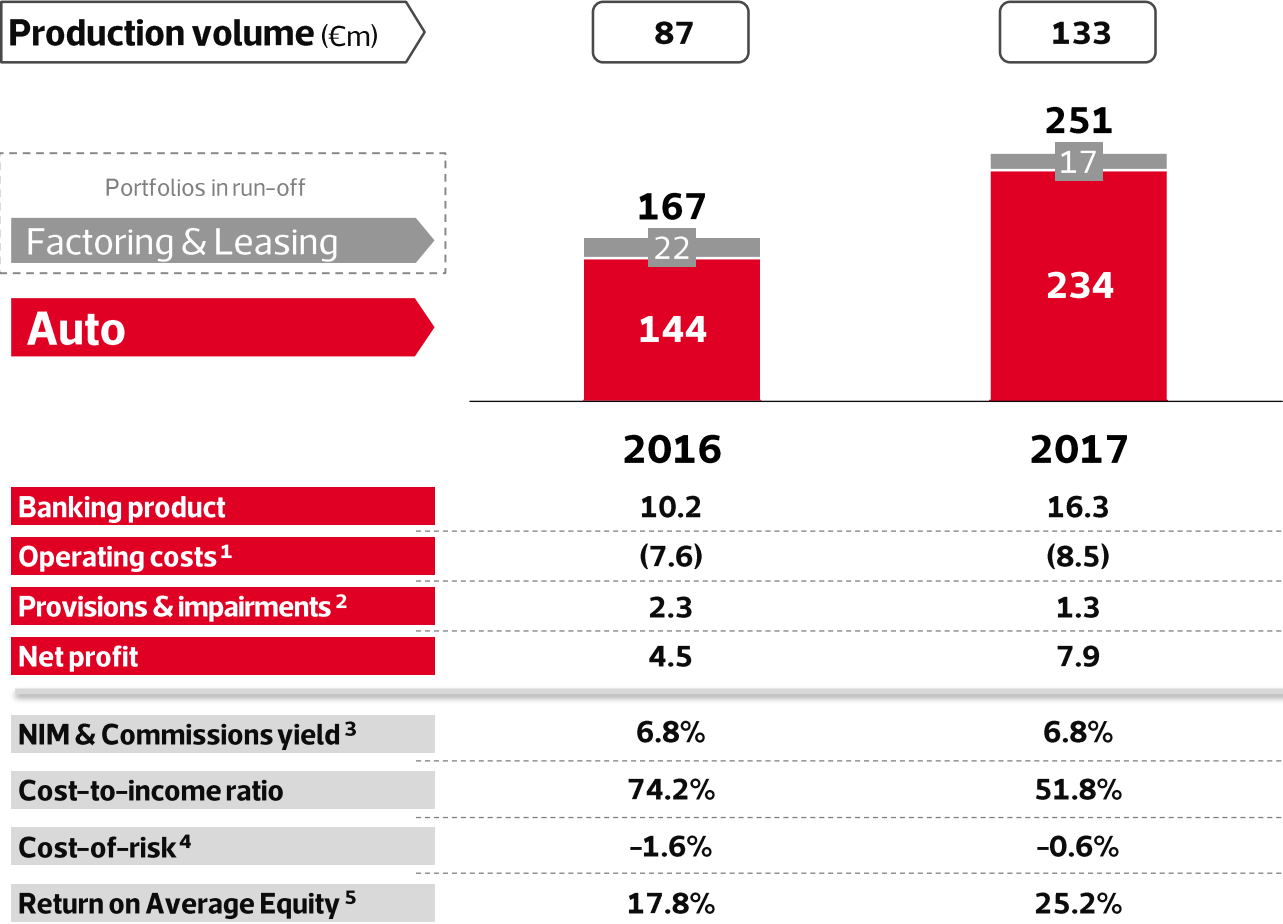
INVESTMENT HIGHLIGHTS

...which has experienced significant growth since its restructuring and the stabilisation of the Portuguese economy



321 Crédito loan portfolio and profitability evolution

Loan portfolio (Net loan portfolio; € million)



Variation
2016-2017

+54%

+62%

+60%

+12%

-45%

+77%

+0.0 p.p.

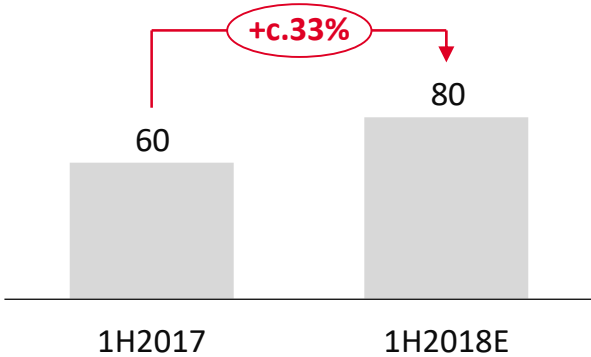
-22.5 p.p.

+1.0 p.p.

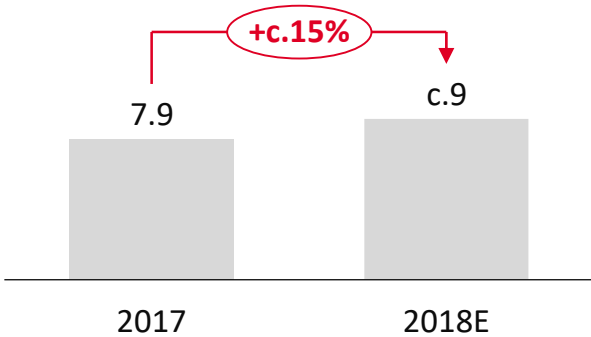
+7.4 p.p.

2018 key financial trends⁶

Production
(€ million)



Target Net profit
(€ million)



¹ Excludes D&A. ² Provisions & impairments as per 2016-17 statutory accounts. Positive impact on P&L due to NPL recoveries. ³ Net interest margin and commissions divided by average net loan book. ⁴ Provisions & impairments as per 2016-17 statutory accounts, divided by average Net loan book. Negative value corresponds to positive impact of provisions & impairments on P&L. ⁵ Defined as Net profit divided by the average Equity of the year. ⁶ Annual figures as per Annual Reports and half-year unaudited figures.



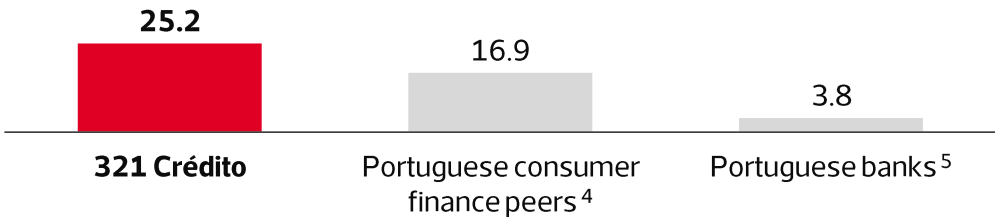
321 Crédito is focused on the provision of used auto loans, which in Portugal have generated attractive returns

Used auto loan product key characteristics

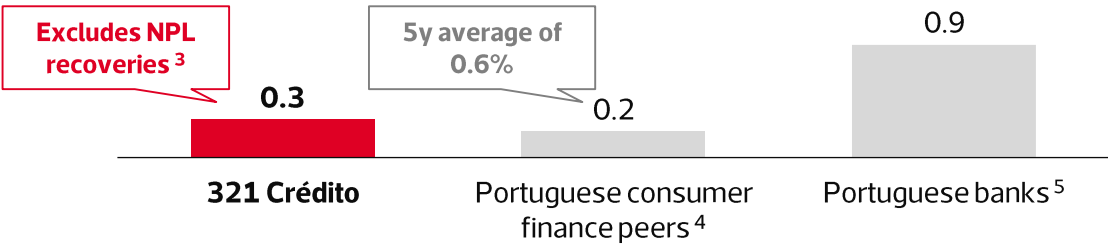
- Product:** dealer point-of-sale loan whereby customer receives a loan explicitly linked to an auto transaction
- Ticket:** average ticket originated in 2017 of c.€10.5k
- Term:** 12 to 120 months (average 64 months)
- Interest rate:** average gross yield of 8.5% in 2017, predominantly fixed rate
- LTV:** 93% average in 2017
- Collateral:** lender retains a right over the vehicle (in case of default it is expected that c.60% of outstanding debt amount could be recovered¹), contributing for historical LGD levels of c.30%-40%
- Controlled risk:** auto credit is a top priority for households (after mortgage), maximum total indebtedness (DSTI²) on origination of 50%, impact of default on customers' credit track record, and relatively low tickets, have ensured historically low default levels

321 Crédito key metrics vs. different finance segments

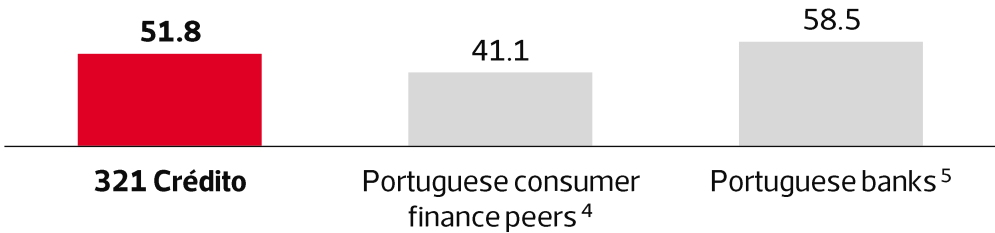
Return on Average Equity (RoAE) (% , 2017)



Cost of risk (% , P&L provisions & impairments divided by net loan book, 2017)



Cost-to-income (% , 2017)



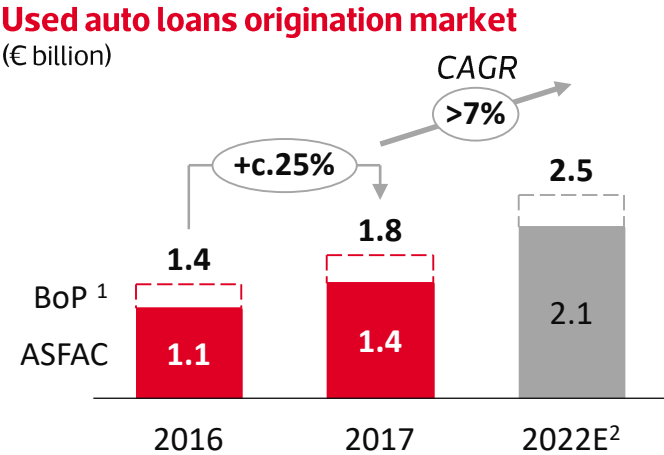
¹ Based on historical data. ² Debt service-to-income ratio (DSTI) corresponds to the ratio between a borrower's total monthly debt installments (associated to all credits) and monthly income, net of taxes and mandatory contributions to social security. ³ Cost of risk of -0.6% (as per statutory accounts) including NPL recoveries. ⁴ Benchmark of consumer finance peers includes Credibom, Cetelem, Santander Consumer Finance, Banco Primus, BBVA Consumer Finance. ⁵ Benchmark of Portuguese banks includes Caixa Geral de Depósitos, Santander Totta, Millenium BCP, BPI, Montepio; Source: Annual Reports.

INVESTMENT HIGHLIGHTS

321 Crédito operates in a sizeable addressable market with strong growth dynamics and benefits from a favourable competitive positioning, having gained significant market share over the last years



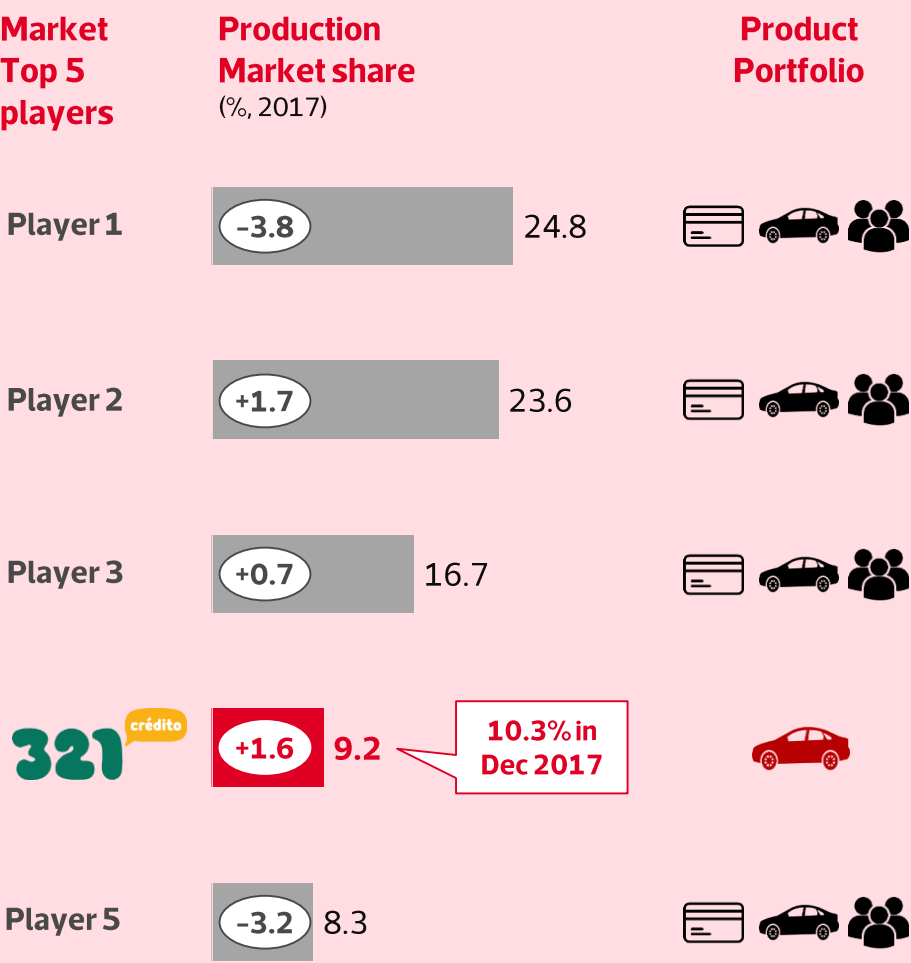
Sizeable addressable market with strong growth dynamics



Key growth drivers

- **Motorisation rate** converging to the levels of other EU countries, reflecting economic recovery
- **Used car parc turn rate** increasing given economic recovery and Portugal structural bias towards used cars
- **Average price of used car** increasing with shift to newer used cars (convergence with EU countries)
- **% of financed sales** increasing with rise of average car price (car parc renewal with newer cars)

Strong competitive positioning of 321 Crédito with significant market share growth over the last years...



...underpinned by 321 Crédito key differentiating factors vs. competitors

Relationship with dealers

- Proactive & capable commercial team
- Strong long-term relationships with dealers

Strength



Product focus & controlled risk

- Simple product with strong market acceptance
- Strict underwriting and collateral policy



Customer service

- Reliable and efficient service



Lean approval

- Lean approval and fast loan disbursement process



User-friendly platform

- Quick and easy for dealers to use platform



¹ Includes used auto leasing amounts. ² Oliver Wyman estimates.
Source: ASFAC used auto loans market shares.

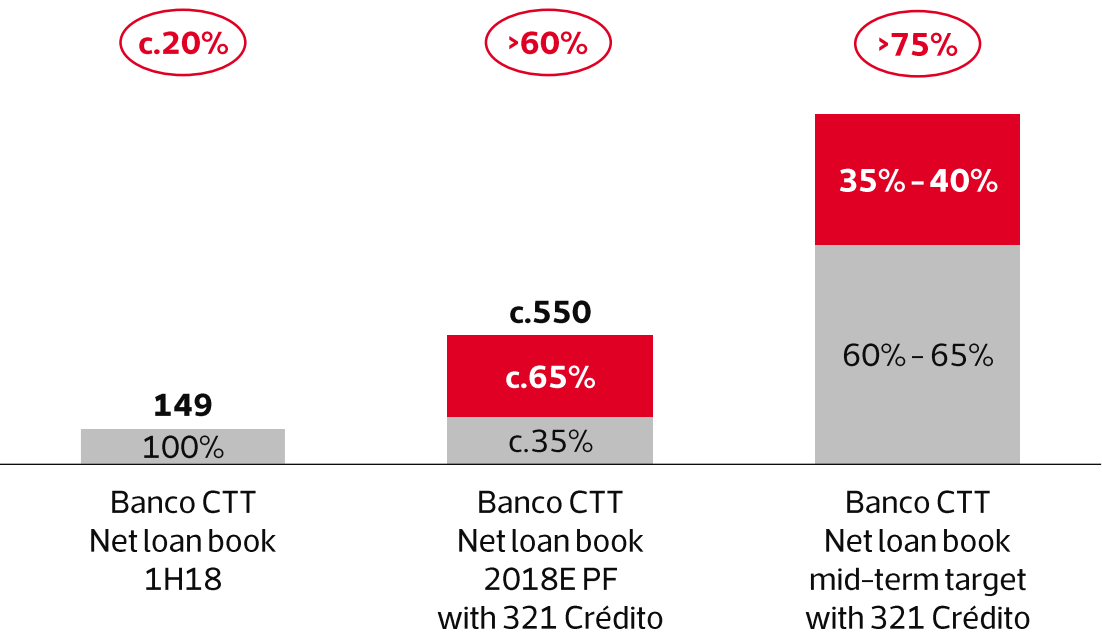
INVESTMENT HIGHLIGHTS

The integration of 321 Crédito provides an additional credit product line to Banco CTT's model, with improved prospects for returns on risk-weighted assets...



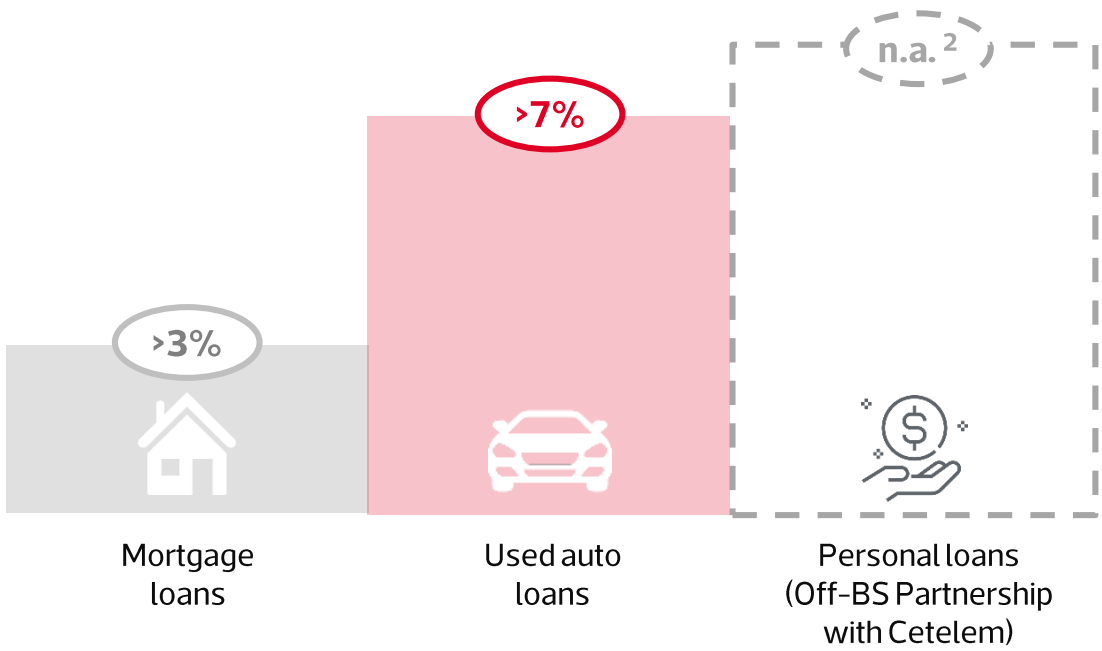
Projected Banco CTT Net loan book (€ million)

■ Used auto loans
■ Mortgage & other loans
○ Loan-to-deposit ratio



- Acquisition of 321 Crédito significantly increases Banco CTT's Net loan book and adds options in terms of capital allocation and portfolio management

Estimated Risk adjusted margin on RWAs¹ (%, illustrative example)



- Introduction of used auto loans in the product portfolio allows Banco CTT to deploy capital in a segment with higher risk-adjusted returns

¹ Risk adjusted margin on RWA calculated as net spread after cost of risk divided by risk-weighting. Net spread after cost of risk calculated as [business spread (interest and deferred commissions) – funding spread – cost of risk]. Gross as it does not consider other costs and taxes.
² Non-applicable given no credit risk-weighting on Banco CTT's Balance Sheet.

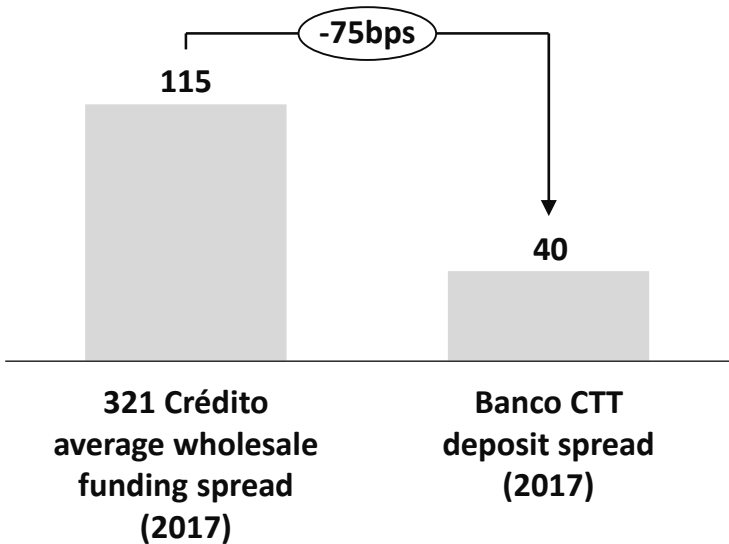
INVESTMENT HIGHLIGHTS

... and will allow for sizeable funding synergies, with additional potential value to be captured from cost efficiencies and cross-selling



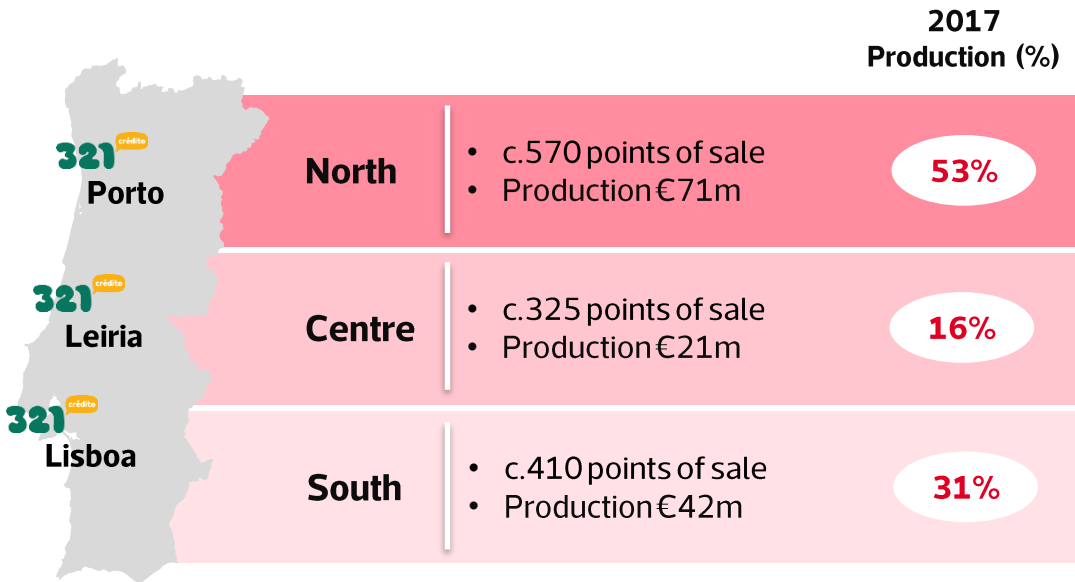
Sizeable funding and cost synergies to be materialised...

Funding spread
(bps)



- c.75 bps cost differential to unlock savings on the funding of 321 Crédito's target loan book, would lead to a potential positive impact of c.€2m on Net profit in 2020

... with additional revenue enhancement potential



- Funding synergies to be achieved over the next years as existing wholesale funding (e.g. securitisations) of 321 Crédito matures and is gradually replaced with funding from Banco CTT
- New 321 Crédito lending activity funded with Banco CTT's resources, optimising Balance Sheet and liquidity management
- Cost savings expected from efficient procurement / overhead spending and optimisation of future hiring requirements in the development of Banco CTT

- Strong presence in the North region of Portugal
- Opportunity to further expand the dealer network, leveraging on CTT / Banco CTT's nationwide presence and commercial force, particularly in the Centre and South regions of Portugal
- Cross-selling of Banco CTT's products (mortgage loans, insurance products, consumer loans) on 321 Crédito client base, with a propensity for consumer credit



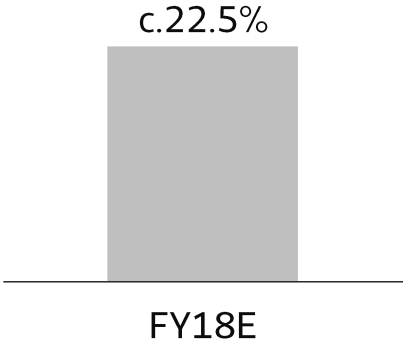
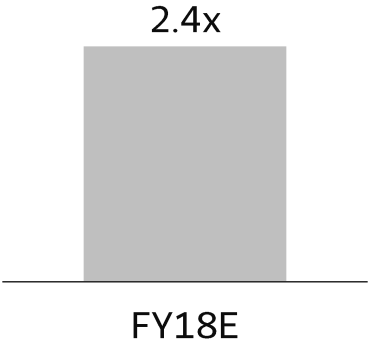
Implied acquisition multiples below those of listed consumer finance peers

Transaction key financial highlights

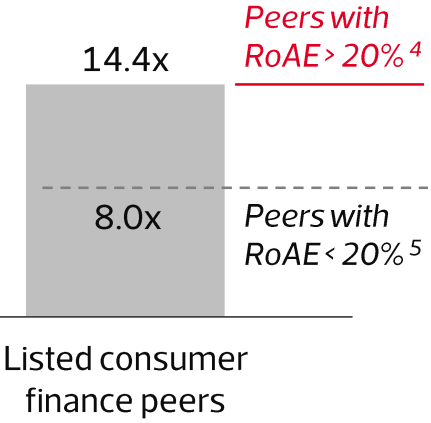
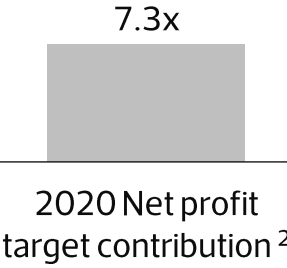
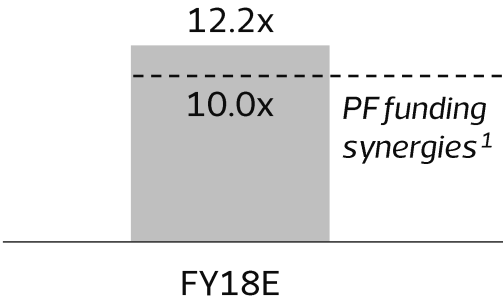
- 2020 target ROIC of c.14%, significantly above CTT's cost of capital
- Transaction significantly accretive to CTT's EPS, with over >25% accretion over 2017 reported Net profit (excluding potential synergies)
- P/BV multiple consistent with high RoAE businesses, significantly above cost of equity requirements
- P/E multiple FY18E PF with funding synergies of 10.0x and P/E 2020 Net profit target contribution of 7.3x below those of listed consumer finance peers average P/E of 14.4x

P/BV multiple...

...consistent with the **high RoAE** profile of 321 Crédito



P/E multiple below those of listed consumer finance peers³



Note: Assuming closing on January 1st, 2019, considers c.€10m for subsequent price adjustment mechanism.
¹ Considers potential fully-loaded funding synergies of €2m. ² Based on 2020 Net profit target contribution of c.€15m. ³ Listed peers data as of market closing 23rd July 2018, Bloomberg.
⁴ Selected listed consumer finance businesses with 2018E RoAE above 20% (based on 2018E earnings consensus as per Bloomberg and assuming 50% dividend payout), which includes: Credit Acceptance Corporation, Provident Financial plc, Ferratum, Enova International.
⁵ Selected listed consumer finance businesses with 2018E RoAE below 20% (based on 2018E earnings consensus as per Bloomberg and assuming 50% dividend payout), which includes: Santander Consumer USA, Ally Financial, Consumer Portfolio Services.



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