Millennium BCP

“Banking”

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Stuck with the Portuguese Economy

Will there be enough time to avoid the nationalization?

- Millennium BCP is in the middle of a restructuring process that was conceived by the CEO Nuno Amado and its team, in order to invert the negative results that the bank has been experiencing in the last years. In 2013 the bank presented a net income of €(740.5)M.

- Millennium BCP is highly exposed to the evolution of the Portuguese economy. The percentage of the assets directly linked to the Portuguese economy is still very high and that is the main reason of the remarkable losses that the bank has been dealing with, since 2011. Despite the improvement of such situation, in the first quarter of 2014 the net loss still accounted for 40,7M.

- To fulfill the capital requirements demanded by BoP, the bank has been facing relevant challenges over the last two years. Namely, the bank has increased its capital (€500M), sold the operations in Greece to Piraeus bank, and with the state subscription of €3B in CoCo’s, the bank was able to maintain the Core Tier 1 ratio above 10%, in the last two years.

- International operations are the oxygen balloon of this group. The net profit has been increasing over the years, tendency that is verified by the results of 2013. It is expectable that the results with foreign operations continue to increase, boosted by the growth of the economic activity in Poland, Mozambique and Angola.

Note that the forecast from 2013 onwards only include the activities in Portugal, Poland, Mozambique and Angola.
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Company Overview

BCP was founded in 1985, a period of banking deregulation, which opened doors to commercial banks with private capital in the Portuguese banking system. Due to an organic growth and also through an acquisition process, the bank is nowadays one of the largest financial institutions in Portugal with a Market Capitalization of €3862.6M. Besides the strong presence in Portugal with more than 19% of loans to customers and more than 700 branches, the Group has also a strong presence in countries like Poland, Mozambique and Angola.

Bank’s history

The first decade of the Group was characterized by a quick organic growth. At the end of 1994, the market share in deposits and loans to customers were already larger than 8.5%. Until the beginning of the current century, two main strategies were settled: 1) the increase in the market share through a process of mergers and acquisitions at a national level; 2) the international expansion between 1992 and 2010 to Cayman Islands, Macau, Mozambique, Poland, Greece, Switzerland, Romania and Angola.

The first one was materialized by the integration of Banco Português do Atlântico, Banco Mello and Banco Pinto & Sotto Mayor in the Millennium group, which allowed it to reach the position of the number one private bank in Portugal.

The second strategy is divided into two moments: the enlargement of the international growth and the restructuration in Europe after several losses in Portugal, Romania and Greece. The expansion to emergent economies like Mozambique and Angola was very important to the future of the Group not only because the investment on those countries has been generating ROE’s superior to 15% in the last 3 years, but also because these economies still have a tremendous potential of development, especially on the financial sector where Mozambique and Angola present very low rates of banking penetration. Expanding this international business structure, the Group has established an on-shore position in Macau in 2010.

On the other hand the expansion in Europe tells a different story. Although the performance in Poland has been exceptional (the share prices appreciated 63% in 2013), the European counterparts’ losses and the capital requirements demanded by BoP forced the Group to sell the Greek participation to Piraeus Bank in May of 2013 – something that is also expected to Romania’s Bank as it is predicted in the annual report of 2013.

At the domestic level the group has been restrained since the end of 2012 by the restructuration plan agreed between the Government and the ECB.
Shareholder Structure

Over the past two years there were significant changes in the shareholder structure. In the mid-2012 the qualified holdings, above the threshold of 2%, represented 29.38% of the total capital. The major shareholder was the Sonangol Group with 11.3% equity stake, followed by Teixeira Duarte, Sabadell Group, Berardo, CGD and EDP with a stake of 5.36%, 3.97% 3.07%, 2.99% and 2.96% respectively.

On October 2012 the bank needed to increase their Capital by €500 M, (an erlaid operation subscribed by private investors) in order to fulfill the capital requirements demanded by BoP and to receive the €3B in CoCo’s from the Portuguese state. When compared to the end of 2012 the main differences in the shareholder structure, were the re-enforcement of the Sonangol Group position and the dilution of the Teixeira Duarte Group and CGD participations, giving place to Estêvão Neves Group as a qualified shareholder. In Jun2013 the Sonangol was the major shareholder with 19.44% followed by Sabadell, Berardo, EDP and Estêvão Neves with a stake of 4.27%, 3.06%, 2.99% and 2.81% respectively.

In the last half of the 2012, Estêvão Neves, the fifth larger shareholder, sold a significant portion of their participation and saw their equity in Millennium BCP decrease from 2.81% to 1.94%, thus no longer belonging to the qualified holdings.

Depending on the evolution of the Portuguese economy and on the position of the principal macroeconomic agents, there is the possibility of converting the €3B CoCo’s and also of the entrance of the Portuguese state in the shareholder structure of BCP.

Macroeconomic Context

Europe is no longer the dominant force of other centuries, and nowadays is facing a tremendous competition by emergent economies. In 2012, Assets under Management grew at a faster pace in emergent markets than in those of developed countries (16% overall) with China taking the leading role with a growth of 23%.

Looking at the evolution of the GDP of the Eurozone countries, after the big drop in 2009, we see two different realities. On one hand countries like Germany, France and Norway presented positive GDP growth rates. On the other hand countries like Portugal, Greece and Spain presented a negative growth. Nevertheless, all these countries seem to present a convergence trend in the last two years.

In what concerns European banking system’s recent history we have been also assisting to two completely different scenarios. On one side we see countries like Finland, Luxembourg and Sweden presenting levels of Non-Performing Loans (NPL) below 1% between 2007 and 2013. One the other side countries like Greece and Ireland presented ratios of NPL well above 10% since 2011. Due to Millennium BCP
exposure to the Greek economy this macroeconomic scenario led to the recognition of a large amount of losses due to impairments during the year of 2012.

In Portugal besides the GDP contraction we have been dealing simultaneously with a sharply rise of the public Debt/GDP ratio over the last years. On top of that the private sector is increasing its indebtedness to unsustainable levels. For instance, in 2013, Portuguese households had 101.2% of Debt/GDP (financial consolidated liabilities) while the Eurozone registered 69.6%, on average terms.

This level of indebtedness in the public and in the private sector, culminated in a downgrade of the credit rating of the Portuguese Republic. The credit rate of the biggest companies in Portugal followed the same path and in general all the small and medium companies started to feel tremendous difficulties in financing themselves. This situation led to a lack of competitiveness by the Portuguese economy and to a sharply increase of the Non-preforming loans in the banking sector.

To invert the situation Troika (formed by elements of the European commission, European Central Bank and the IMF) has started its intervention in Portugal in 2011, jointly with the support of the two biggest political parties. For this purpose, a Memorandum of Understanding (MoU) was designed in order to reduce the Public deficit, that was constantly negative, with an increasing trend since between the Euro adhesion and the beginning of the crisis (when it reached a peak of 10.2% of the GDP), and also to restructure the Public, Financial, business and legal systems of the country. It was also agreed that Portugal would borrow €78B, for a significant lower interest rate, when compared with the one that Portugal would had borrowed at the financial markets, during the assistance program (2011-2014).

The so called austerity measures, implemented in order to accomplish the goals set at the MoU, sent Portugal to a 3 year recession (2011 to 2013), led by decrease in the domestic demand that was severely affected by the cuts in the Public sector wages and the massive increase in the unemployment rate from 8.8% in 2009 to 15.1% at the beginning of the current year with an historical record of 17.5% in 2013Q1.

However, some good signals came up during the last year. First of all the Portuguese GDP growth has finally came to the positive side – mainly due to the expansion of the exports that grew above 5% (qoq) in the second quarter of 2013. Such a performance lead to the most significant accomplishment during this period – the credit rating of the Portuguese Republic increased to Ba2 in May of 2014 after being rated at Ba3 for more than 2 years, period when the Portuguese debt’s interest rate (10 year maturity) decreased approximately 10p.p. from 13.58% to 3.82%. Despite this recovery, significantly influenced by the one started across Europe during 2013, the GDP contracted by 0.1% in the first quarter of 2014(qoq) – an indicator that the short and medium run of the Portuguese economy is still sailing over trouble waters.
European Crisis – time to strengthen the Union

All started in USA with drop of the S&P500 index by 48% from July 2007 to Jan 2009. After the beginning of the recession in Dec 2007 due to the housing market bubble, the bankruptcy of Lehman Brothers and the fire-sells of Bear Sterns and Merrill Lynch in September 2008 aggravated the worst financial crisis since the Great Depression. The spread of the crisis to Europe was inevitable and the confidence in the credit market collapsed in a heartbeat.

However the speed and the depth of the measures took by the government and the FED with an unprecedented QE program helped the US economy to recover a lot quicker when compared to Europe. At the end of 2013, the GDP was growing at 3.1% and the unemployment rate was converging to pre-crisis levels (6.7%).

In Europe the response was not as quick and organized as in US. Actually, it was amplified by the sovereign debt crisis of the peripheral countries of the EU (including Portugal). The levels of unemployment went out the roof, accompanied by the opposite direction of GDP growth, especially for the countries that ended up under bailout programs: Ireland, Greece, Portugal, Spain (banking level) and Cyprus.

In Portugal, the banking system was one of the sectors that were massively affected by this crisis. The returns that averaged 7.7% in 2010 dropped to negative levels until 2013 (-11.5%). The exponential increase of the NPL and respectively costs with provisions added to the increase of funding cost were unquestionable the main drivers of those negative returns. During this intervention period, the Portuguese banks were able to be financed by ECB at lower rates, but were forced to strengthen their capital ratios and to deleverage their portfolio, as the evolution in the Core Tier1 ratio of the banking system can prove (8.1% at 2010 vs 12.3% at 2013).

Considering the European recovery, a decrease in the ECB interest rate is expected to come as we get closer to the meeting in June. As the president Mario Draghi said, “there are a lot of possibilities on the table”. Also, Yves Mersch an Executive Commission’s member said that “the ECB is working at high speed in monetary policies matters”. Peter Praet an executive board member and chief economist of the European Central Bank had inclusively introduced the possibility of ECB applying other measures rather the simple decrease of the interest rate by saying that: “the ECB can offer a new line of medium and long term credit to the banking sector if a certain type of circumstances happen in the future”.

Moreover, in a recent declaration, the Bundesbank’ president Jens Weidmann demonstrates support to the ECB measures: “If necessary, the Bundesbank is ready to act”. Finally, the Nobel Economist Paul Krugman believes that there is a similar path between what happened in Japan in the 90s (deflationary crisis) and what is happening today in the Euro-Area.
In the same June’s meeting another issue that may come up is the new plan for the European banking systems. Within the context of sovereign debt crisis that has been taking place in the Eurozone in the last years, the frailties of the banking systems became more evident, thus urging the need of creating a Banking Union. Such a structure aims to homogenize the differentiation between credit conditions among members as well as to reestablish the confidence in the banking systems.

The plan will be set on three unique mechanisms: supervision, resolution and deposits warranty. In a first step, before the implementation of this strategy, the ECB has started a comprehensive assessment in November 2013 which will perform an extensive and intensive auditing (recurring also to stress-tests) to the balance sheets of the European banks. With this assessment, not only the Portuguese banks (BCP, BPI, BES, and CGD) will be prepared to face the challenges of a Banking Union but the BoP will also strengthen the efficacy and efficiency of the supervision and financial stability duties.

Complementing this proposal, the European Commission has suggested in November 2011 the creation of Eurobonds. Based on a two-economist’s idea (“The Blue Bond Proposal”) this instrument aims to tackle the European sovereign debt crisis through the common issuance of bonds thus pooling, among the 18 Eurozone countries, both the revenues and costs of this operation.

However, such a move will only be possible if the member states give up on their “fiscal sovereignty” by partially transferring it to a supranational institution. This issue will not only be difficult to overcome due to legal framework but also due to political/social pressures against this new way of dealing with fiscal policy.

There is a lot of skepticism in the Euro-area regarding this revolutionary change. Germany (in Nov/2011 only 15% of the German population view the Eurobonds with good eyes) is one of those skeptical states together with Austria, Finland and the Netherlands. This resistance to the Eurobonds is mainly explained by the increase in financing costs that those “well-behaved countries” will have to support if the Eurobonds’ project goes ahead. According to specialists on this topic the funding costs of Germany could increase in more than €20B per year. On the other side, countries like Portugal and Ireland would be able to save over 3% of their GDPs in financing costs.

The impact on the Portuguese banking system would not only be affected by the euro partners. An indirect impact should be considered in the health of the Portuguese economy both by the increase on the banking assets or even by the possible upgrade in the rating of the banking system that such fracturing measure could produce.

The effect would be immediate even if the introduction of Eurobonds takes some time due to the quick adaptation to the new market expectations. However the
implementation of the Eurobonds it is not in the short-term agenda of the euro-area – in Jun/2012 Germany said no to Eurobonds and in April 1st of the current year the European Parliament’s economic committee did not shed too much light on whether there is a need of Eurobonds or if they are urgent – reason why it is only expectable that futures advances/changes on this financial issue can only start to produce results at best in the medium-run.

**Regulatory Capital Ratios**

Due to the banking crisis that has affected most of European countries the Basel Committee announced in 2010 some guidelines that should be implemented by Central Banks in order to strength the balance sheets and reduce the probability of bankruptcy across the Eurozone banking system.

The adoption of capital requirements by the Portuguese banks was considered crucial considering the results (specially the rising of the impairment levels) of the major Portuguese banks in 2011 and 2012. The BoP has imposed a minimum level of 10% in Core Tier 1 ratio, and also the reduction of the credit/deposit ratio to the threshold of 120% until 2014.

To fulfill the Capital requirements the Bank needed to subscribe in the end of 2012, €3B in CoCo’s from the state and to increase the Capital in €500M. This restructuring plan was made under special circumstances: the bank as to pay an annual interest between 8.5% and 10% and it has to fulfill the Capital requirements set by BoP in order to avoid the conversion. Furthermore the state has the possibility of sell their position to a third entity, under the form of ordinary actions, after BoP approval.

Over the last years the group has been able to improve their ratios and achieved a loan-to-deposit ratio of 117% in 2013 and decreased the RWA from 66% in 2009 to 44% 2013, which allowed to maintain the Core Tier 1 ratio well above the 10% mark in the end of the last year.

**Capital Increase**

Virtually at the same time that Banco Espírito Santo and BANIF announced that they will proceed to a capital increase it was reported by some media and economical specialized press that Millennium BCP was also considering doing one. Some private investment banks like Goldman Sachs and JPM quickly reacted to these news and increased their Millennium BCP’s target price, according to available information in the Portuguese press. However the official position of the bank is that no capital raise has been decided and that the strategic plan predict that the €3B of CoCo’s will be repaid through out and organic growth sustained by a generation of positive results.
Furthermore EDP’s CEO, António Mexia said in middle of May that a hypothesis of a capital raise would be communicated to EDP (which holds a qualified participation of 3% in the bank).

In our opinion these capital increase can be benefic to the bank and this hypothesis was considered in our valuation model. There were three main reasons that lead us to consider a capital increase in the medium run by the bank. First of all and as it was mention before, the interest rate on CoCo’s is considerable high and will increase with the time, and so, the Capital raise could be used to decrease this annual cost. Secondly this Capital increase could also be very useful to strength the bank’s capital ratios, in a period that not only the NPL remain at very high levels but also in period in which the bank’s results were still in the red. Third because it is at least questionable that bank will be able to repaid the full amount of CoCo’s until 2017 considering that in the 2014 first quarter the net income was negative in €40,7M and the Portuguese economy contract 0.1%(qoq) on 2014 first 3 months and as Manuel Aguiar, a Nova SBE’s student pointed out: “The Contingent Convertible Debt (CoCo’s) subscribed by the Portuguese Government feature a very dilutive conversion fraction, in which the number of shares to be issued depends closely to the stock price of BCP 5 days prior to the announcement of conversion. This death spiral convertible feature (as dubbed by academics) implies that dilution is practically unknown at the start. For instance, if conversion is expected, the share price drops thus increasing the number of shares to be issued and further dilution leading to another price drop – a self-fulfilling event. In this sense, it is expectable that, depending on the amount of CoCo’s outstanding, BCP’s stock will be trading very low in anticipation of conversion, meaning that the Portuguese Government may end up with a big stake in the bank and appropriate a lot of value from the shareholders. This is why repaying the Government until June 2017 is one of the main objectives of BCP at the moment: otherwise, shareholders will be strongly diluted and must purchase the shares owned by the Government to keep their stake.”

**Funding Position**

The way a bank finances its operations varies a lot with the geographical localization. Traditionally in Europe the banks use a lot of senior debt and other financial instruments to finance their asset side and presented very low ratios of Equity to Capital. However since the international financial crisis, and mainly due to the Sovereign Debt Crisis in Europe, this funding Structure has been changing and both deposits and equity have been increasing in the bank’s Capital

Millennium BCP has following this trend and in the end of 2012, deposits from costumers already represented more than 55% of total Capital structure, a significant increase relative to the 46% in 2010. The Tier 1 ratio has also increased in the last years, mainly due to the subscription of the Hybrid instruments, the early mentioned
€3000M in CoCo’s that represented in 2012 more than 3.3% of the funding structure.

**Ratings Evolution**

Since 2009 the Portuguese Republic has been through constant downgrades to its own credit rating. This cut down in the credit rating, which was also common to other peripheral countries, triggered by the constant raise of the public debt and public deficit and by the deterioration of other macroeconomic indicators, had a significant negative impact on the bank’s balance sheet.

Millennium BCP also faced a reduction on its own credit rating, far below the investment grade level. Like the other major banks in Portugal, due to the extreme difficulties to repay the debt, BCP has been recurring to the European Central Bank to fulfil its financial responsibilities. In the 3Q2013 Millennium has announced a net usage of €12.7B of ECB funds. Despite of the high weight of ECB on the bank’s balance sheet the group has more than €21B of eligible assets, net of air cuts, which means that it is still a buffer of €8.3B.

**Financial Assets – possible source of liquidity?**

At the end of 2012 the bank had around €14.7B of financial assets in the Portfolio – the great majority composed by Portuguese Assets including €5438M of Portuguese Sovereign Debt. According to the information that has been released by the company during 2013, the financial asset’s portfolio has not suffered significant changes in their composition and the amount slightly grew.

Taking into account the funding difficulties that the bank has had in their recent history – which culminated with the State Intervention, and also the need to fulfil the capital requirements and decrease the RWA –, a possible solution could be the disposal of these financial assets. However the bank has not opted for this path until now, instead the bank is significantly decreasing the loans and advances to costumers.

Despite the recommendation of BoP to try to reduce exposure to BCE and to increase the Core Tier 1 ratio, the bank is reluctant in giving up on their financial assets because they are ECB eligible, which means that the bank will not only reduce a possible source of funding but will also dispose a source of profitability with an average yield of 4.36% during the last year.

We believe that during 2014, this tendency of not selling the financial assets will completely change since the cost of raising capital in order to repay the CoCo’s and to reduce the exposure to ECB is much higher than the average yield rate of those financial assets.
Credit

During the past three years the Portuguese economy has been facing a reduction in the amount of credit conceded by the Eurozone financial system. Due to the capital ratios that the banks are forced to fulfill, to the difficulties of funding and to the adverse macroeconomic scenario of the Portuguese economy, the banking system had no other alternative than to reduce the Credit conceded to both companies and individuals.

Clearly the companies that were more penalized by this crisis, with credit lines closed, were the smallest ones. According to BoP there was reduction of more than 5% to the total credit conceded to small and medium enterprises during the year of 2013 (until September). On the individual side the credit available to housing has decreased by more than 3% and the credit to consumption more than 6% in 2013.

It is expectable that this trend continues in the following year especially on non-exporting companies. According to the OECD, not only the GDP growth will be very close to zero, but it will also be driven by Exports. On top of that the business perspective for 2014 is negative, as it states a study releases by the OCDE, based on the answers given by major Portuguese companies. This means that it is expectable that the levels of production, orders and business activity will decrease on the next year.

Looking at Millenium BCP’s balance sheet, in Portugal, we verify that the bank has followed the tendency of the financial system, with a reduction of more than 10% in the credit conceded to clients during 2012.

Deposits

Apart from the ECB funds, traditionally the deposits are the ones that have a lower interest rate. However deposits from customers had lost weight until 2011 in the funding side of the bank. In part this happened because the bank was able to get financing in the markets at appellative levels with the major upside of being able to hedge their portfolio and match the long maturities of their assets.

Nevertheless with the tightness of the financial lines and with the necessity to decrease the loans/deposits ratio to the threshold of 120%, deposits have been becoming a central issue on Millennium BCP’s funding activity.

The interest rate on Portuguese deposits has been sharply decreasing since the end of 2011, more than 4% in a term deposits of one year in 2011 Vs. 2% in the same deposit at the end of 2013. However we expect that the bank will only have 1% decrease in deposits in 2013, partially motivated by the large uncertainty of the
economy which has been translated in an increase of the saving rates in the last months of 2013.

**Pension Fund**

The Portuguese Banking sector is obliged by law to pay their employees pensions on retirement and disabilities among other obligations. In the case of Millennium BCP, those are ensured by the banks’ pension funds.

In the end of 2011, after a transfer of €2747M to the Social Security, the pension fund was valued in €2342M, being composed with 49% of equity. During 2012 the amount of the fund has not significantly changed, however the composition did, once the amount of shares held by the fund was reduced and only represented 28% at the end of that year. The pension fund size did not have relevant changes until Jun 2013, presenting an amount of €2417M with a coverage ratio of 117%.

Due to size of the fund when compared to the total assets (2.7% in 2012) and to its pears, considering the actuarial losses of past years and the risky composition of the fund, we consider that the bank is more exposed to the volatility of the fund than its competitors which can jeopardize short run financial health of the bank.

**Domestic Operations**

Despite the importance that the international operations have in the Millennium BCP group, the Portuguese economy is still in the center of the bank’s operations. The weight in the balance sheet that the domestic activity has in the group is still yet considerable superior to that of international operations. The loans and deposits in Portugal represented, in end-2013, 78% of the total loans in deposits in the Group.

The group is the number one private bank in Portugal being present in more than 774 branches, employing more than 8584 workers in Dec2013. However the bank is currently in the middle of restructuration process. In order to reduce the operating costs, the bank intends to reduce both the number of employees and the number of branches by more than 20% until 2018. However this cost reduction has not produced significant effects, yet. In the domestic operations in 2013; the operational costs were €852.9M, only 2.1% lower when compared 2012.

The group has presented a net income in domestic operations of €(948)M in 2011, €(1082)M in 2012 and €(874)M in 2013, sharply contrasting with the results of the preceding years, being highly penalized by the exponential loss due to impairments. Taking into account the IMF forecast and the recent developments in the NPL of other European countries, it is expectable that those losses related to impairments become a major threat to the group profitability.
Another reason that explains the poor results that Millennium has been showing during the last year is the decreasing of the net interest income, to €343M in 2013, when compared to a result of €493M in the same period of 2012.

Considering the bank’s income, one of the main reasons that explained the poor results is the high interest rates charged by the Hybrid instruments (Coco’s) that the Portuguese State has subscribed during the last year in an €3B operation - crucial to the requirements of capital ratios demanded by the BoP.

International Operations

Poland

In the last two decades, Polish GDP growth had no parallel in Eurozone. From the beginning of the nighties until nowadays, GDP per capita has increased from 30% to 62% of the average Eurozone (17). In fact Poland was the only European country that did not entered in a recession due to the global financial crisis, registering an annual GDP growth higher than 1% in 2009. Benefiting from a depreciated real exchange rate, such results are reinforced by the recovery of the external balance which presents positive levels since mid-2012, contrasting with the non-consistent recovery of the external position of Portugal.

This discrepancy between the evolution of the Polish economy and the remaining Euro-zone economies in the last decade led to an interesting turn around in the Polish public opinion in the introduction of the common currency in Poland. Although, in 2002, only 21% of the population disagreed to join the euro, that number rose to 64% in 2012. Despite the Prime Minister Donald Tusk positivism relative to the adoption of the euro, he considers that is not very likely that Poland join the common currency before 2019 since this process demands a constitutional change, which requires at least two thirds of the votes.

The “arm wrestling” between Russia and Ukraine represents another major source of risk, in many aspects. Namely a possible increase in energy prices, since Russia supplies around 25% of Europe’s gas needs and half of that is send via pipelines running through Ukraine. It is also important to highlight that the IMF recently downgraded its forecast for GDP growth from 1.3 percent to 0.2 percent for 2014 in Russia. Due to the high dependence on Russian imports it is clear that this crisis could jeopardize the regular day-to-day business of many companies present in Portugal and Poland where Millennium BCP has the majority of their credit portfolio allocated (95% of total loans of the group), thus slowing down the bank’s profitability.

Millennium BCP has expanded to Poland in 1989 and today the group has more than 5881 employees and 439 branches in this country. Nowadays the Polish business is the (international) one that has more weight in the group’s assets – around 50% of
the assets in international operations. In this country the main focus of the group is the credit conceded to households, which represented 66% of total credit conceded in the end of 2012. In terms of profitability the group has achieved a net income of €93M and a ROE of 10.5% in the 3Q2013.

**Mozambique**

Mozambique is an African country with more than 25 million people. In the last five years Mozambique had an average GDP growth between 6.5% and 8.5% which in large part reflects the Government’s quick and flexible policy responses and by the private investment that more than doubled since 2008. Furthermore, Mozambique is considered as one of the countries with more potential to growth in the world, with an 8.5% average of GDP growth in the next two years, according to the IMF. Such result will be supported on the one hand by an expansionary fiscal policy (fiscal deficit should increase from 3% to 9.5% in the current year) and on the other by an amplification of the economic activity, especially in the coal outflow upturn through Sena’s railroad (a major improvement in comparison to last year). Besides the extractive industry it is also expected an expansion in the sectors of construction, transportation, communications and financial services.

On top of these projections it was announced by a consulting firm that the recent discovery of Natural Gas could generate additional revenue of €7.3B per year and catapult de long term growth of GDP to two digit levels when the exploration starts. It is also relevant to refer that the Mozambique’s banking system is one of the least developed in the world and it is expectable that the saving rates will sharply increase in the next 3 years.

To sustain all of this growth the government of Mozambique is trying to improve the financial system by planning the creation of credit registry bureaus that have the function of compile information on current/past borrowers and also with the implementation of a Deposit Insurance Fund that will strength the confidence in the banking system. Furthermore the Government also pretends to keep the higher level of investment with a Public Investment to GDP ratio (currently 15%).

Millennium BCP has a strong presence in Mozambique through Millennium BIM that is the number one in the country with a market share greater than 30% in loans and deposits. The bank net profit has been increasing over the years, achieving €85.5M in 2013 with a ROE of 24%.

**Angola**

Angola is one of the major economic forces in Africa. Fueled by the oil industry that had a weight superior to 45% in the 2012 GDP and more than 96% on exports, the 2013 real GDP growth ended up above 5% (12.6% in nominal terms) according to the
IMO. It is expected that this tendency of high GDP growth by Angola’s economy remains in the following years - driven not only by the oil-industry (which GDP’s weight is expected to decrease along time) but also by the recent Liquid Gas exploration that can have a positive impact of 2p.p. in GDP.

The evolution of the Angolan banking system over the last decade has been remarkable. The total assets of the financial system in Angola were only €2.21B in 2003 and that number rose to approximately €54B at March of 2014. The number of banks present in Angola also increased from 9 to more than 20 within the same period span.

Despite the astonishing growth of the banking system over the last decade, the Angolan banking system still lacks of corporate information and transparency. As a consequence the Angolan’s financial system it is still one of the most underdeveloped in the world with roughly 80% of unbanked population. In 2010 the percentage of large rms that had a loan or a credit line was inferior to 20%. Therefore, there is still room for an expansion in the pension fund sector (which currently accounts for €1B) as well as in the insurance and microfinance businesses. Moreover, the low levels of Public External Debt to GDP ratio and the Investment to GDP ratio (17.3 and 13.3% in 2013, respectively) means that there is a lot of potential to invest in the economy without exposing too much the country to external negative shocks and take advantage of low interest rates.

On the other hand, the external indicator on imports presents a major concern at the macroeconomic level. The great dependency on imports namely food, consists one of the major risks this country faces in terms of wellbeing. According to a study released by the World Bank a 30% increase in food-imported prices will have a negative impact of -1.1% in the GDP on the first year and will escalate the inflation rate to 18%.

In 2008 Millennium BCP was able to establish a partnership with Sonangol to enter in Angola with the name of MBA. Currently the group has more than 1000 employees, more 70 branches in the country, and a market share close to 3% in loans and deposits to costumers. The group has been presenting great results in these five years of activity achieving a net profit of €40,8M in 2013 and a ROE of 15%. Results that were driven by a strategy mainly supported by the credit conceded to companies that represented more than 85% of the total credit conceded to costumers.

Other Operations

In addition to the operations mentioned above Millennium BCP is also operating in Romania, Switzerland and in the Cayman Islands.
The Cayman Islands' operations had been the most profitable of those three countries, presented a net Income of €14.7M in 2012. The main goal of this branch office is provide banking services for customers that are not residents in Portugal and is considered by the Bank of Portugal as “Cooperative Jurisdiction”. The asset portfolio is mainly composed by financial assets, and the proportion of the credit conceded to clients to the total assets was inferior to 10% in 2012 and 2011.

Millennium BCP expanded the operations to Switzerland, under the name of Millennium BCP Banque Privée, which operates as a private bank platform. The bank presented a positive net income of €2.5M in 2012 and due to its nature had more than €2098M of customer's funds off the balance sheet a considerable higher value when compared to the €377M on the balance sheet.

The Romanian operations that started in 2007 presented a similar credit portfolio to the Portuguese and Polish business once that the great majority of the assets are composed by credit conceded to companies and to individuals. The profitability of this segment had been affected by the competitive environment in the banking industry, among other factor, which lead to negative results in the last 3 years, reaching a net loss of €28,3M in 2012.

Valuation

The method that was used to evaluate Millennium BCP was the Discounted Cash Flow to Equity which consists in directly valuing the Company's equity, by discounting the cash flows to equity at the cost of equity. The reason behind using the Discounted Cash Flow to Equity (DCFE) to value BCP is the difficulty of make a clear division over the financial side and the operational side of the bank. Instead we must look to part of the debt of a company like a good to be sold for a higher price, or in a bank case, for a higher interest.

The DCFE method was also chosen to evaluate the group once that allows enough flexibility to evaluate each business unit separately. This means that the future cash flows were individually forecasted for each Group's key country (Portugal, Angola, Mozambique and Poland) in order to model each information that was considering relevant – which means that it was possible to incorporate the major sources of each country risk directly on the cash flows. The sum-of-the-parts Method that was used in this valuation was combined with the creation of different scenarios for each country with a correspondent probability that allows us to embed different Macroeconomic scenarios in our cash flows forecast. This approach is interesting from the investor point of view since it enables him or her to quickly adapt our valuation to its own macroeconomic sensibility.
The framework of our valuation is the following. We consider two main hypotheses linked to the evolution of the Portuguese economy. The conservative scenario where the CoCo’s conversion is activated and three scenarios that will be explained ahead in which the CoCo’s will be fully repaid. Then independently of what happen to the operations in Portugal we forecast two different scenarios for each international operation in Poland, Mozambique and in Angola. These two scenarios for each international country were then incorporated in the two main hypotheses of triggering or not the hybrid instruments. The reason behind this approach relates to fact that the conversion of the CoCo’s by the Portuguese state implies that the dilution of the shares would affect, not only the domestic operations but, the group as a whole.

For the international operations in Poland, Mozambique and Angola we forecast the results the national currency, the Zloty, Metical and Kwanza respectively. The projections, made in nominal values, were then converted to euros recurring to the Purchasing Power Parity formula based on the international organizations’ estimations for the inflation.

The cost of equity at which the cash flows were discounted was calculated based on a 5.3% Market Premium and in a Risk Free, based on the German Bunds at a 10 year maturity. For the Portuguese, Angolan and Mozambican operations the beta was estimated based on a panel of Portuguese comparable banks. No adjustments were made to the beta of the African operations due to the lack of information available. Despite the strongest presence of oil companies in the Angolan economy, the relationship between the crude price and the MSCI world index, as well the correlation between the biggest oil companies in the world and the same index does not give enough confidence to us in order change the beta. For the Polish operations we added a comparable bank in Poland to the panel of Portuguese banks used for estimate the beta for the domestic operations

Portugal

Millennium BCP’s valuation is highly dependent on the future performance of the Portuguese operations since 78% of the bank assets are from Portugal. The uncertainty that comes with the support that the European Central Bank will give to the peripheral countries, regarding the banks’ funding needs and also to the high degree of uncertainty linked to the future of the Portuguese economy and to the European Union, generates a higher degree of complexity in modelling this valuation. Given that uncertainty, we have decided to model different scenarios with the corresponding probabilities in order to incorporate in our valuation all of the possible outcomes.

The model is composed by 4 different scenarios: 1) Basis Case, which incorporates the previsions of the major economic and financial organizations regarding the evolution of the Portuguese economy and the repayment of the CoCo’s
through a mix of Capital increase and the selling of financial assets; 2) reducing dependence on the ECB scenario, includes the same expectations about the evolution of the Portuguese economy as the first scenario but assumes harder liquidity constrains and additional difficulties to meet the capital ratio; 3) Optimistic Scenario, assumes the same macroeconomic conditions of the first two scenarios but, incorporates a favorable scenario in terms of ECB, European Commission and the Portuguese Government’s support to the banking system. 4) Conservative Scenario that considers a significant deterioration in the macroeconomic conditions relative to the first 3 scenarios, in the medium run that culminate in the conversion of the hybrid instruments.

All the four scenarios were built using the assumption of a loan to deposit ratio of 120% recommended by the BoP – a short run target for the bank. The RWA was calculated by multiplying the total assets by a constant, which was estimated according to the evolution of the RWA in the Portuguese banking system and in the Millennium BCP over the last 5 years. This assumption has implicit on it, that we believe that the asset risk profile of the bank (after 2014) will remain stable over the years.

The deposit and loans evolution was forecasted according to last years’ trends of the Portuguese banking system and also taking into account its comparison with the EU average.

The interest income was calculated based on the risk and the cost to fund the new loans and also based on the “old” portfolio of loans to companies and to individuals presented in the assets of the bank. For valuation purposes we have considered that a housing credit has an average maturity of 23 years. Regarding the average interest rate that the bank is receiving for that house portfolio we have estimated a value of 3.8% of interest, recurring to the historical information available in the BoP – for the interest rates charged on this type of loans in the Portuguese banking system. We have also considered that a loan to a company present in the bank portfolio has an average maturity of 4 years and an average interest of 5.5%.

The losses due to impairments in the short run were calculated based on the estimations of the Global Financial Stability IMF for the Portuguese banking system. The evolution of the NPL in the Italian, Irish and Spanish financial system helped us to adjust the forecasts and to confirm the tendency of the IMF report since those NPL kept on rising, even after those countries recovery since the beginning of the decade.

Another common element to the first three scenarios was the adoption of favorable measures in terms of the Portuguese authorities in what concerns to the capital requirements. Namely, we consider that, similarly to what happens in Spain, the Portuguese authorities will allow the using deferred taxes as a Core Tier 1 component. According to a study made by Caixa Investimento, the amount of deferred taxes that
Millennium BCP has, eligible for Core Tier 1 purposes, are superior to €1200M. That information was also inserted into our model.

In terms of operational costs we decided to directly link this expense to the banking income, but taking into consideration the recent cost saving program implemented by the bank.

In the basis case scenario we have predict that the Portuguese’s operation will return to a profit of €137M in 2015, mainly driven by the increase of the NIM. We also consider that in this scenario the ECB will maintain the support to the company as a funding source, once that Millennium BCP has a considerable margin in terms of the amount of ECB’s funds that can use (as it was mentioned before), and we also consider that the ECB will keep the reference interest rate low in the short and medium run 0,25% in 2014 and 2015 and will increase after 2015 according to the BoP forecasts on the EURIBOR 3 months that was calculated based on the implicit rate on future contracts. However we believe that the bank will be able to reduce their dependency of the ECB without jeopardize the effort made to rebuilt their portfolio and will return to pre-crisis ECB’s funding values in 2019 or 2020.

In terms of margins we expect that the bank improve they NIM mainly due to the reduction in funding costs. Despite the “new deposits” interest rate that is now at less than 2%, will probably increase, the decrease on the yield of the senior and subordinated debt that is expected in the short and medium-run, (what has actually happened in the new debt issues of 2014 by the some of the main Portuguese banks) and the reduction of the costs related to the CoCo’s will compensated that effect. In this scenario the CoCo's will be repaid until the end of 2016, but it will only be possible due to the sale of financial assets and if a capital increase occur during 2016 (in the amount of €837M) as we expect to happen.

We attribute a 45% probability to this second scenario.

In the second scenario we try to model the liquidity constrains and respective implications in the bank profitability that a more hostile policy by the ECB can produce. The Portuguese banking system and particularly Millennium BCP have a significant amount of their liabilities linked to ECB funds. In this scenario we model not only a possible increase in the interest rates but mainly the impact that a decrease in the funding support by the ECB could have and on Millennium BCP’s financial results.

In this scenario it was also assumed that the Portuguese state would not trigger hybrid instruments conversion, and by the contrary would continue to support the bank until the end of the contract in 2016. The bank would also perform an increase in Capital at the end of 2016 in order to repay the CoCo’s to the Portuguese state.

Another important aspect of this scenario was the way that the amount of deferred taxes was treated. We considered that the Portuguese government due to budget...
constrains will only let the Portuguese’s banks to use 40% of the deferred taxes accumulated during the financial crisis. This negative shock incorporated into this scenario will not only affect financial results but also the capital ratios in negative way.

In this second scenario the bank would also return to profitability in 2015, €147M and will keep a positive increasing tendency in the evolution of the net income.

**We attribute a 20% probability to this second scenario**

In the optimistic case we try to incorporate a favorable development of the Portuguese economy together with a strong support by the ECB to the EU economy and also with a supportive behavior by the Portuguese state with the banking system. In this case we model a totally opposite course of action by the European Central Bank than in the previous situation. We believe that this behavior of the ECB is more likely, than more hostile position derived by the public interventions of the president Mario Draghi and other prestigious member of the ECB and famous economists, like Paul Krugman that view with good eyes an increase of the ECB’s support to the EU economy and a respective decrease of the interest rates.

The main changes in this scenario were related to the low interest rate that the Portuguese banks will be able to finance themselves at the ECB, 0.1% in 2014/1015 and also with the use of the deferred taxes.

In this scenario the results of the bank, powered by an higher NIM and by the low increase in Capital that would be needed in order to repay the CoCo’s until the end of the period, would be even higher, reaching €410M in 2019

**The probability of the third scenario is 30%**

In the conservative scenario we try to incorporate a bunch of negative shocks, by the ECB, by the evolution of the Portuguese economy, the BoP and the Portuguese state, culminating in CoCo’s at the end of 2016.

In this scenario we have considered a share price at the conversion time very close to 0.0001€, which was estimated a research study developed by the Nova student Manuel Aguiar about the CoCo’s evolution in Millennium BCP. According to this projection, after the triggering of the conversion, the current shareholders would face a total reduction of their stake at the bank. The shareholders would not be willing to perform an increase of Capital.

We projected that in such a scenario the bank will once again, come back to negative results in 2016, €(543M) due to an increase in funding costs but mainly to the increase in the losses related to the increase of provisions.

**The probability of the last scenario is 5%**

According to our projections we value the Portuguese operations at €0.5422 per share
Poland

With a positive and growing net income over the last 3 years, Polish’s operations represent a **source of liquidity and profitability** to Millennium group. For this operation two different scenarios were considered for valuation purposes: 1) **Basis Case**, which assumes the institutional macroeconomic expectation and the continuation of the strategy that the bank has for this region; 2) **Conservative scenario** that contemplates deterioration in the polish economy fuel by instability in the Eurozone and by the deterioration with the conflict between Russia and Ukraine.

In the first scenario it was incorporated the major macroeconomics projections in terms of GDP growth, and the evolution of the banking penetration that combined with the high growth of deposits and loans to customers that was verified in the country and also in the bank.

The interest income charged besides taking into consideration the source of funds, was modeled considering the evolution of the cost risk and cost to income that a slightly changed in the evolution of the loan portfolio towards the company side causes.

Based on this assumption we expected that the net income would rise from 1524M of Zlotys in 2014 to 1847M in 2019 fueled by the growth of the economy.

**In the second scenario** we adjust the loan and deposits evolution, as well as the increasing in the NPL to the deterioration of the macroeconomic conditions. As it was mention before the polish economy is highly dependent on the EU economy and also from the Russia one.

For the continue value it was used a growth rate of 1.9%, based on the long-term projections of The World Bank about the Polish long term GDP growth that are in line with the long term inflation rate forecasted by the IMF of 2.5%.

By weighting the two scenarios by their corresponding probability we value the Polish operations in **€0.0748 per share**.

Mozambique

Millennium BCP is the number one bank in terms of deposits and loans to customer in Mozambique which leads the bank in a privileged position to take advantages of the tremendous potential of the Mozambique’s banking system. Two different scenarios were considered for valuation purposes: 1) **Basis Case**, which assumes the institutional macroeconomic expectation and the continuation of the strategy that the bank has for this region; 2) **Conservative scenario** that contemplates an increase in the political and special social stability that could led to a new civil war scenario.
In the first scenario it was incorporated the major macroeconomics projections in terms of GDP growth, the evolution of the banking penetration that combined with the high growth of deposits and loans to customers that was verified in the country and also in the bank.

In order to forecast the interests Income and expenses we opted to forecast the interest charged based on the historical data about the Mozambique banking system and compared them we other African countries in order to forecast the evolution of the rates.

In this scenario we anticipated that the growth trajectory of the net income will continue achieving a positive result of **2625M meticais in 2014**. However we also forecast a reduction in the ROE over the years.

In the conservative scenario we decided to incorporate external negatives shocks namely in the rising of the food price, the increase of social instability and to the respective deterioration of the economic conditions.

Mozambique was involved on a civil war from 1977 to 1992 and the scars of that fight had not totally healed yet, especially considering that over 54% of the population live below the poverty linear and Mozambique is one of the poorest countries in the world. The impact on the economy would be devastating and the NPL would skyrocket. We anticipated that in such a scenario the operations in Mozambique go from an expected **2625M meticais in 2014** to a **1094M** in 2020 of net income, which means that could take over a decade to come back to a normal situation.

For the long term growth the rate used was **5.6%**.

By weighting the two scenarios by their corresponding probability we value the Polish operations in **€0.375 per share**.

**Angola**

Despite the small market share in terms of deposits and loans to customer in Angola that Millennium BCP currently has (**3.4% and 3.2%** respectively in 2013), the bank consider the development of the operations in this area a crucial strategy for the group increase the profitability and take advantage of projected growth for Angola in the near future. Two different scenarios were considered for valuation purposes: 1) **Basis Case**, which assumes the institutional macroeconomic expectation and the continuation of the strategy that the bank has for this region; 2) **Conservative scenario** that contemplates an increase in the political and special social stability that could led to a new civil war scenario.

In the first scenario it was incorporated the major macroeconomics projections, in terms of GDP growth, the expected evolution of the banking penetration in the next
years, the historical growth of credit rates and its last years trend, the higher NIM of
that banking market and their respective evolution, the possible increase of the NPL
and the directly liked increase in the provisions costs, (that were under control in the
last years), but for instance lead the Angola state to issue a guarantee of more than
€4b to BES Angola due to 2014 1Q unexpected losses due to provisioning costs.

In order to forecast the interests income and expenses we opted to forecast the
interest charged based on the historical data about the Angola banking system.

The growth rate used was based on the long term inflation for the region.

We expected that Millennium BCP could be able to maintain to increasing trend of
net income and achieve a 2093M kwanzas result at the end of 2014. We also expected
that the margins and the ROE decrease with the time, mainly due to the increase
of competition and decrease in the interest rate of the Angola’s savings
certificate.

In the adverse scenario we decided to incorporate a combination of negative
events: a negative shock in oil price, an increase on imported good prices, and social
revolution that despite being every year less likely there is still a 36.6% of poverty rate
and a government regime, considered by many political analysts as a “rousted
democracy”.

The negative impact of this scenario would be felt since 2016 especially due to
the exponential increase of the NPL and cost with provisions. Even considerer these
negative conditions the scenario of a nationalization of the bank was not consider.

We value the Angola operations in €0.008 per share.

Other Operations

As it was mentionated before Millenium BCP is present in other international
regions besides Poland, Mozambique and Angola. Namely with three subsidiaries in
Romenia, Switzerland, Caymon Islandand and a branch in Macau. However the
information avaible about these operations is very scarce when compared to Poland
and the two African countries.

Romenia’s operation with 562 employees and 65 branches by the end of 2013,
had presented negative results over the last years; -24,1M€ in 2012 and -5,9M€ in
2013. Despite these desencouring results, the bank was able to increase the banking
product 14,4%(yoy) and reduce the operational costs -16,7%(yoy)in 2013. The bank
pretend to increase the volume of business in both retail and corporate sectors and
break-even in 2014. Based on a multiple valuation with only three comparables with
completely different results deppending on the multiple used (-243M€ P/E and +46M€
P/B), taking into consideration the high fragment banking market and specially the lack
of information available to make at least a good approximation we decided to value these operation at 0€ per share.

Millennium BCP is present since 2003 in Switzerland with the name Millennium bcp Banque Privée. At the end of 2012 the bank had 68 collaborators and only one branch because Millennium bcp Banque Privée is essential a private banking platform dedicated to trade finance. We once again used a multiple valuation approach, but due difficulty of using solid comparable banks and also due to the inconsistency of the multiple valuation we also decided to value this operation at the same 0€ per share.

The presence of the bank in Macau mostly related in support Portuguese’s companies presents in the region and also to support other companies that already had established a relationship with Millennium BCP. There are barely no public data available about this operation so we were forced to value this operation at 0€ per share. The Cayman Islands’ operations were also valued at 0€ per share due to the same lack of information despite presented a positive net income in 2010, 2011 and 2012.

Risks

We believe that the evolution of the Portuguese economy in the next three years will be determinant to the success of the bank.

From our point of view the main risk that the bank faces in the short-run is the related to the evolution of the domestic consumption. The Portuguese exporting companies were one of the major responsible for Portugal overcome the technical recession, however the scenario of the Small and medium companies in Portugal is completely different. The NPL of the SME sharply increase during the last year and the amounts of credit conceded by financial sector to those companies follow the opposite direction. To invert this scenario and to avoid future losses from impairments that can undermine the bank solvency the Portuguese economy need to growth.

Another source of risk for the bank comes from highly dependency from the liquidity provided by the ECB. Despite the unprecedented supported given by the ECB president’s Mario Draghi to the peripherals countries until now, any change that reduce or even withdraw the liquidity support given by the ECB to Millennium BCP can seriously jeopardize all the effort made until now since the group could face tremendous difficulties of financing in the short and medium run.

The constant growth of the “non-EU” political parties in the EU, particularly in England German could also be prejudicial the banking systems of the countries, namely Portugal. Not because these political parties have a real chance (in the medium run) to win the elections and rule without any colligation, but because their weight in the society is already considerable in those countries, and because of that,
the political speech of the European leaders is start to change and to be less supportive to the Mediterranean countries.

The evolution of the Capital requirements ratios that are subject to the Portuguese State decision about the deferred taxes and also to futures change in the ECB and BoP guidelines, is in our opinion another source of moderated risk the Millennium BCP’s shareholders faces despite the legislation regarding this issued had been consistent and at a certain point predictable over the past two years.

Conclusion

Millennium BCP is facing the most challenging moment of its existence. Used to present high Returns on equity in the early years of the century, since 2011 the scenario has completely changed. Dragged by the grievous recession lived in Portugal that severed affect the Small and medium Enterprises, the bank saw their NPL sharply increase ,and faced unprecedented domestic losses, in 2011, due to impairments and provisions of almost €2 billion. The state intervention, and the Capital raised by the shareholders as well as the liquidity provided by the ECB were crucial to the solvency of the bank. In 2013 the bank presented by the third year in a row a negative net income, and the future of the domestic operations is very dependent on the evolution of the Portuguese economy.

The International operations in Poland, Mozambique and Angola represented a source of profitability. Since 2010 that all of them presented positive net incomes, and they also represents a tremendous potential of growth for the group. Due to the perspectives of GDP growth for those countries allied with the effort that have been made by the Mozambican and Angolan's governments to regulate the banking system we believe that those operations can generate a tremendous value to the firm in the long run.
Recommendation

According to the assessment made on the BPC we reach a 0.203 EUR for each share. Considering a current market value of 0.196 EUR per share our recommendation is to hold.
## Appendix 1

### Appendix 1

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## Appendix 2

### Year Balance Sheet

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<td>194</td>
<td>439</td>
<td>582</td>
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<td>716</td>
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<td>Equity and non-controlling Interest</td>
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<td>3353</td>
<td>4462</td>
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### Appendix 3

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<td>LTD</td>
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<td>Average Asset yield</td>
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<td>Average Costumer Loan yield</td>
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<td>5,79%</td>
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<td>Average Other financial Assets yield</td>
<td>2,94%</td>
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<td>Cost-to-Income</td>
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<td>Core Tier 1 Ratio</td>
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<td>12%</td>
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Disclosures and Disclaimer

Research Recommendations

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<tr>
<td>Buy</td>
<td>Expected total return (including dividends) of more than 15% over a 12-month period.</td>
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<tr>
<td>Hold</td>
<td>Expected total return (including dividends) between 0% and 15% over a 12-month period.</td>
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<tr>
<td>Sell</td>
<td>Expected negative total return (including dividends) over a 12-month period.</td>
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</table>

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