BANCO BPI SA

COMPANY REPORT

FINANCIAL INSTITUTIONS

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International operations to take the backstage

Recovery to be driven by improved domestic trends

- With plans to divest its international operations, Portugal's domestic activity will drive BPI's future growth. Nonetheless, the participation interest in Banco de Fomento Angola will still be an important boost for BPI's net income despite the expected loss of its majority interest in 2016

- Lower funding costs will be the main driver of Portuguese banks recovery, and we expect BPI to follow the trend. Lower funding costs allied with a gradual decrease of impairments, with the improvement of credit quality, will bring BPI to positive domestic profit already in 2015

- The economic outlook of Angola, motivated by the continuous falling of international oil prices, will pressure BFA's contribution to the group. In the following years Angola's financial institutions Sector will experience higher costs, namely funding and impairment costs, and a shortening of foreign reserves

- BPI's intention of divesting its African operations, keeping only a minority interest in BFA, may open the possibility for a future consolidation in the Portuguese market

- Our valuation was achieved through a sum of the parts methodology, in which the price target of €1.22 implies an upside of 16% to the current share price of €1.19, and our recommendation is to buy

Company description

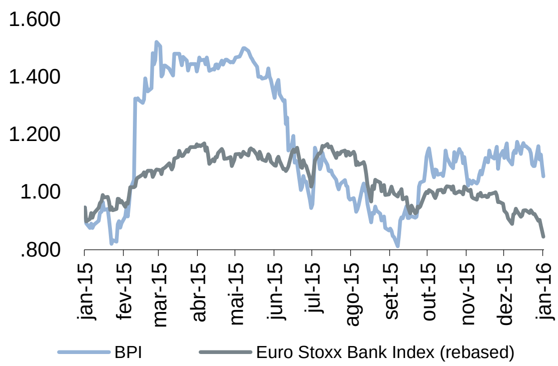
Established in 1981, is a Portugal-based financial institution company, focused on corporate and retail banking businesses, as well as, in the provision of investment banking and asset management services. Is Portugal's fourth-largest financial institution in terms of total assets amounting €42.6bn in 2014.

Recommendation:	**BUY**
Vs Previous Recommendation	*Not rated*
Price Target FY15:	**1.22 €**
Vs Previous Price Target	*Not rated*
Price (as of 9-Jan-16)	**1.05**

Reuters: BBPI.LS, Bloomberg: BPI PL

52-week range (€)	0.760-1.570
Market Cap (€m)	1.531
Outstanding Shares (m)	1.457

Source: Analyst's estimates and Blomberg



Source: DataStream

(Values in € millions)	2014	2015e	2016e
Net Interest Income	514	563	332
Net Banking Income	858	1,079	693
Net Income	137	150	186
ROE	-7.3%	+6.0%	+6.7%
ROA	-0.1%	0.3%	0.4%
Loans/deposits	84%	84%	106%
RWA	22,934	23,055	23,707
Core tier 1	8.4%	9.%	9%

Source: Company and analyst's estimates

THIS REPORT WAS PREPARED BY TIAGO PASSOS, A MASTERS IN FINANCE STUDENT OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS, EXCLUSIVELY FOR ACADEMIC PURPOSES. THIS REPORT WAS SUPERVISED BY ROSÁRIO ANDRÉ WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL. (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

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Executive summary

Domestic operations valued at €0.83 per share

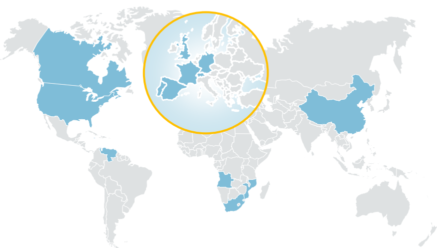
A solid 2015 3Q performance seems to have set BPI in the right path to recover from the 2010 sovereign debt crisis. In fact, we believe that BPI will fully recover from the sovereign crisis by the end of 2017, beginning of 2018, driven by solid P&L trends in its domestic market, which will allow the management team to focus on growth strategies instead of restructuring plans.

BFA valued at €0.23 per share

As for BPI's international operations the outlook is different: Banco de Fomento Angola has been an important contributor for the group's profit, easing the considerable losses of BPI's domestic operations following the 2010 sovereign crisis. However, Angola's unfavourable economic outlook, as a result of a continuous falling of the international oil prices, allied with a sharp devaluation of its domestic currency, the kwanza (the kwanza currency devaluated by more than 20% between April and October of 2015), will impact the banks revenue and subsequent contribution to the BPI Group. Moreover, BPI will deconsolidate BFA from its accounts in 2016 by selling (or carving-out) part of its majority stake due to breaches in ECB regulations. Since the breach in large exposures needs to be solved until March 2016, we do not expect any gain on the sale of minority participation, and we believe that BPI will want to keep a stake of c.40% given the importance of the bank to the group and the money that was invested in it.

BPI Group

Figure 1 - BPI's geographical footprint



Source: Company

BPI Group, headed by Banco BPI, is a Portugal-based financial institution that offers financial services and products for corporate, institutional and individual customers.

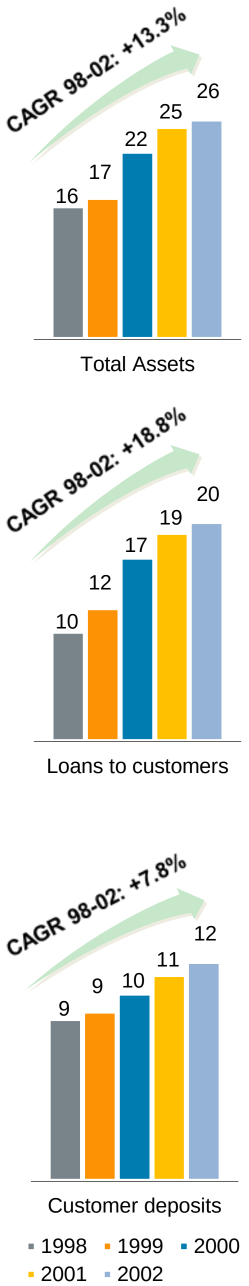
BPI operates mainly in Portugal and Angola and is the fourth largest Portuguese private financial institution operating in Portugal (in terms of business volume), with a market capitalization of c.€1.6bn weighting 2.36% of the PSI-20 (as of 31/12/2014) and 0.77% in the Euronext Top 150 (as of 07/01/2015).

Portugal's domestic market is the main activity of the BPI group, operating in commercial banking, investment banking and private equity & financial investments. The Group's domestic operations serve more than 1.7m customers through a multi-channel distribution network comprising 495 retail branches, 39 investment centres and 51 corporate banking centers, supported by 5,934 employees (as of September 2015).

Angola is the main international activity of the BPI Group (more than 99% in terms of assets) operating through its 50.1% participation in Banco de Fomento Angola (BFA). BFA serves more than 1.4m customers through a distribution network comprising 165 retail branches, 9 investment centres and 16 corporate centres, supported by 2,618 employees (as of September 2015). In addition to that, BPI has a 30% participation in Banco Comercial e de Investimentos (BCI) in Mozambique, serving 1m customers, supported by a distribution network of 146 retail branches and 1 corporate centre.

Moreover, BPI Group announced on the 30th of September 2015 a Demerger Plan, approved by the Board of directors, entailing a carve-out(1) of the international operations (BFA, BCI and BPI Mozambique) from Banco BPI. Nonetheless, the Demerger Plan is still subjected to shareholders and regulatory approval and also to the approval of Unitel concerning the BFA divestment. Although there is no consensus between shareholders regarding the carve-out, we believe that the most likely outcome will result in BPI group detaining its domestic operations with only one minority interest stake in BFA (between 30% to 40%) and a complete divestment of its Mozambique operations.

Figure 2 – BPI's steady growth between 1998 and 2002 (€bn)



Source: Company

History

BPI Group was created in 1981 by Artur Santos Silva as ***Sociedade Portuguesa de Investimento* (SPI)**, a well-defined project created with the purpose of financing investment projects launched by the private sector, participating in the creation of a dynamic capital markets and contributing to the country's industrial modernization.

By 1985, **SPI** was converted into an investment bank, allowing it to attract deposits and grant loans, and, in the following year, SPI launched its **IPO**, being listed in the **Lisbon and Oporto Stock Exchange.**

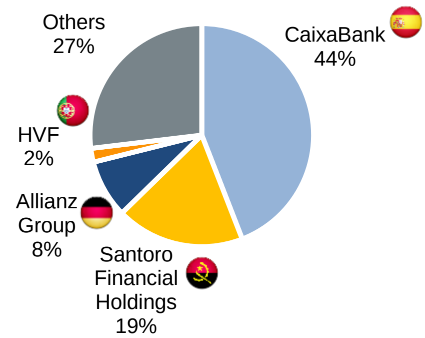
Following the IPO, ***Banco BPI*** engaged in an acquisition strategy to leverage its growth. It started in 1998, with the integration of three banks, **Banco Fonsecas & Burnay** (BFB), **Banco Fomento e Exterior** (BFE) and **Banco Borges & Irmão** (BBI).

As shown by figure 2, from 1998 to 2002, ***BPI'*** total assets **had** a compounded annual growth rate (GAGR) of 13% reaching €26bn in 2002 with loans to customers representing over 75% of total assets.

The BPI Group saw its domestic position well consolidated in the early 20's and decided to embrace an international expansion with the creation of ***Banco de Fomento Angola*** in 2002, currently the 3rd largest bank in Angola(2), and, in the following year, acquiring a 30% stake of ***Banco Comercial e de Investimentos*** (BCI), a Mozambique retail bank focused on capturing customer resources and granting loans(3).

Notes: (1) A carve-out is a partial divestiture of a business unit; (2) Excluding Banco Económico, former BESA; (3) Caixa Geral de Depósitos owns a 51% stake in BCI

Figure 2 – Shareholder structure (03/2015)



Source: Company

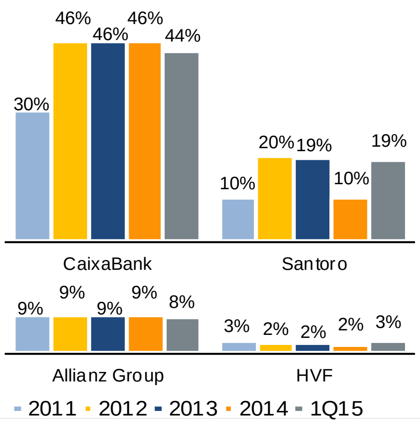
Figure 3 – BPI's value creation and performance over the years

Value creation	Banco BPI	Market
Last 1m	(5.2%)	(3.9%)
Last 3m	18.0%	3.8%
YTD	5.4%	15.7%
Last 5y	0.1%	(2.1%)
Last 10y	(6.8%)	(0.1%)
Since IPO	1.9%	6.9%

Share price performance	Banco BPI
Last 1m	0.7%
Last 3m	27.5%
YTD	(23.9%)
Last 5y	(9.9%)
Last 10y	(63.6%)
Since IPO	(5.1%)

Source: Company; DataStream

Figure 4 – Shareholder structure evolution since 2011



Source: Company

Shareholder structure

Banco BPI has a share capital of €1,293m, with 1,457m normative and dematerialized ordinary shares held by 21,418 shareholders. From the total shareholders, c.98% are individuals owing 11.1% of BPI's share capital and c.2% are institutional investors and companies owning 88.9% of the company's share capital.

BPI's concentrated shareholder structure (Figure 2) has 4 shareholders with a stake higher than 2%. **CaixaBank**, Spain-based financial institution company offering banking, insurance and investment services, is the largest minority shareholder holding 44%, followed by **Santoro Financial Holding**, Angola-based company founded by Isabel dos Santos, daughter of Eduardo dos Santos, that also has a 49.9% participation in BFA. The two remaining shareholders are Allianz, German-based insurance company which has a partnership with BPI in the non-life and life-risk insurance business, and HVF (through Violas Ferreira Financial), a Portugal-based holding company.

Since the IPO (September 1986), until the last closing market price the annual average return (ROI[(4)]) of Banco BPI shares stands at 1.7%, underperforming the market (PSI Geral Index) that in the same period has a total return of 6.9%. If we analyse the performance of the Banco BPI's share price in the same period we see that BPI share price is trading -13.9% below the IPO price, which means the positive investors annual average return (ROI) comes from the company's dividend and buy-back policy (figure 3 displays the value creation and share price performance of Banco BPI).

In the past 3 years, BPI faced two main events that changed the shareholder structure of the Group. The most recent of these started on the 27th of May 2014, and ended on the 6th of June of the same year. It consisted in a Public Offer for general and Voluntary Trade of Securities ("Oferta Pública de Troca geral e voluntária dos Valores Mobiliários") by BPI shares. This offer increased the share capital by 8.66% (€103 063 to €1 293 063). This increase diluted the stakes of the La Caixa Group, Santoro and HVF SGPS, SA (interest held via Violas Ferreira Financial, S.A.) and Allianz Group, BPI's main shareholders. (Figure displays the changes in BPI's shareholder structure from 2011 until 1Q15)

BPI had already suffered some important changes on its shareholders structure in 2012. Firstly, in April, La Caixa Group and Santoro (the two biggest shareholders of BPI) acquired in equal shares the 18.9% stake of Banco Itaú on BPI (held for almost two decades). Secondly, the Board of Directors of Banco BPI decided on 10 July 2012 to increase the share capital as part of the

Notes: (4) ROI is calculated taking into account the selling price (last closing market price) the initial price (IPO) and the total amount of dividends paid since the IPO

Recapitalisation Plan approved by BPI's shareholders in order to strengthen the Core Tier 1 capital. Banco BPI, then, issued €1,500 million of Contingent Convertible Subordinated Bonds (CoCos) subscribed by the Portuguese government, aside with a capital increase of €200 million, in August 2012, subscribed by the shareholders.

The expected divestment of BPI's international operations in Africa, showing the intention to keep only a minority stake in BFA, opens the possibility of market consolidation, with Caixa Bank being a good candidate for the acquisition of BPI (after failing a tender offer in 2015. As a result, there is a significant probability of future changes in the shareholder structure of BPI.

Domestic market

Macroeconomics

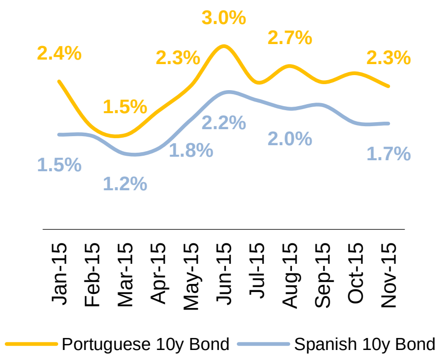
Portugal was the third country to leave its rescue program in May 2014, after Ireland became the first to do so in December 2013 followed by Spain in January 2014. After facing some severe austerity measures and a large number of restructuring reforms on many economic sectors, which continued after the rescue program, Portugal's economic activity seems to have stabilized and continues to gather momentum driven by exports and private consumption. In 2014, GDP grew by 0.9% and accelerated in the first-half of 2015 by growing 1.6% y-o-y. However, the latest short-term indicators show a deceleration of growth in the second-half of 2015 due to weaker retail indicators and a slower pace of employment creation as capital stocks are rebuilt, following the decline in investment of nearly 35% between 2007 and 2014.

Moreover, Portugal faced a period of political instability (more than 20 days without government) after the elections in October 2015. The government named after the elections (right-wing colligation) was dissolved and, after an agreement between all the left parties, a socialist government was appointed by the President of the Republic. The main risks to the short-term macroeconomic outlook, lies in the ineffective implementation of policies, by the new left-wing alliance, to reduce the burden of private and public sector debt and to strengthen investment and job creation.

Figure 5 - Key macroeconomic drivers

	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e
GDP growth	1.9%	(1.8%)	(4.0%)	(1.6%)	0.9%	1.6%	1.5%	1.4%	1.3%	1.2%	1.2%	1.3%	1.5%
Inflation (average consumer prices)	1.4%	3.6%	2.8%	0.4%	(0.2%)	0.6%	1.3%	1.5%	1.6%	1.7%	1.7%	1.8%	2.0%
Unemployment rate	10.8%	12.7%	15.5%	16.2%	13.9%	12.3%	11.3%	10.9%	10.4%	10.0%	9.5%	9.0%	8.0%
Gross savings rate	9.4%	10.9%	14.1%	15.0%	15.4%	15.4%	16.2%	16.1%	16.0%	16.1%	16.4%	16.0%	16.0%

Figure 6 - Portugal vs. Spain (%)

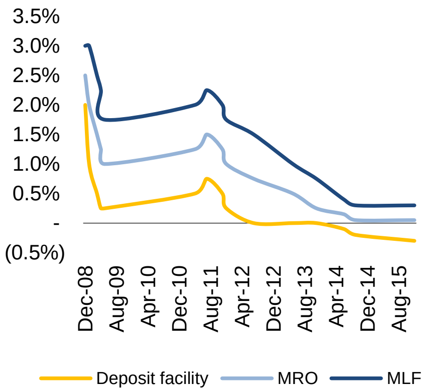


Source: DataStream

Portugal's borrowing costs also reacted to the Portuguese political situation between October and November, with the Portuguese 10-year bond rate increasing to 2.54% (a 3-week high) in October, increasing the spread between the Portuguese and Spanish 10-year bond rates to 0.8%. The Spanish 10-year bond yield has been a good benchmark for the behaviour of the Portuguese 10-year bond yield as shown by figure 6.

The European Central Bank (ECB) continues to encourage liquidity into the Euro area. Besides keeping the key interest rates at historical low rates (the deposit facility rate was set at -0.3%, the main refinancing operations rate at 0.05% and the marginal lending facility rate at 0.3%)(5), the ECB launched in March 2015 a Public Sector Purchase Programme (PSPP)(6), targeting sovereign bonds and securities from European institutions and national agencies, in order to address a period of low inflation in the Eurozone and to stimulate the credit to the economy by lowering the funding costs.

Figure 7 - ECB's key interest rates (%)



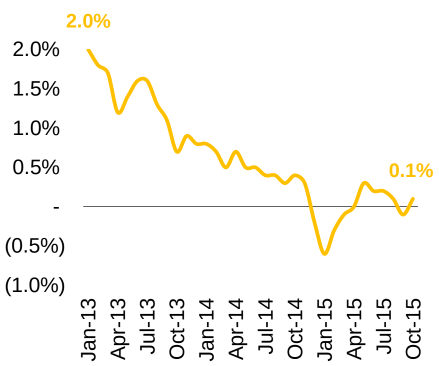
Source: ECB

Resolution Fund and the sale of Novo Banco

The Resolution Fund was created in 2012 with the objective of making available certain resources from the Bank of Portugal (BoP) to the application of resolution measures when a given financial institution would be in distress. It has 69 constituents that are obliged to make periodic contributions for the fund.

In August 03, 2014, BoP requested the Resolution Fund an amount of €4,900m for the realization of Novo Banco's equity. At that date, the Fund had collected €377m through contributions and it was necessary to raise more than €4bn. The lacking amount was covered through a state loan in the amount of €3,900m, with quarterly interest payments, and a loan conceded by a group of Financial Institutions(7), including BPI, in the amount of €700m that can only be restored after the State Loan is fully paid, with non-capitalized interest paid upon the amortization of the loan.

Figure 8 - Inflation in the Euro Area (%)



Source: ECB

The way the finance aid was structured makes a group of financial institutions both creditors and contributors of the fund, which means that, if the amount received for the sale of NB is less than the sum of the amounts provided by the Fund, the proceeds will first be used to repay the State Loan and only then the credit institutions loan, and any loss on both loans will be supported by contributions made to the Fund. Since the contributions to the fund are made by financial institutions, the group that conceded the loan to NB may incur in a maximum loss of €700m(8), jeopardising the welfare and recovery of the sector from the 2010 sovereign debt crisis.

Notes: (5) Last intervention was on December 09, 2015; (6) Extended until March 2017 (may be further extended);(7) Constituents of the Resolution Fund; (8) will not be the whole amount (€700m) since part of that loss will be diluted by the contributions made by the institutions that didn't subscribed the loan

Banco BPI contributed with €116.2m for the loan. Since the sale of NB will be completed in 2016 (according to BoP), the price that will be paid for NB will have a significant impact on BPI's 2016 domestic net profit, since it may incur on a loss that may exceed €100m. Figure 9 displays some possible outcomes regarding the sale of NB and the respective impact on BPI's share price.

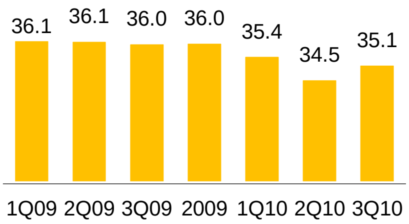
Figure 9 - Impact of the sale of NB (€m)

Purchase Price	3,500	3,900	4,000	4,500	4,900	5,000
Loss for State	(400)	-	-	-	-	-
Loss for Financial institutions	(700)	(700)	(600)	(100)	-	-
BPI stake on group loan	**16.6%**	**16.6%**	**16.6%**	**16.6%**	**16.6%**	**16.6%**
Potential loss for BPI	**(116)**	**(116)**	**(100)**	**(17)**	**-**	**-**
Impact on share price	**-2.4%**	**-2.4%**	**-1.8%**	**1.6%**	**2.2%**	**2.2%**
Resolution Fund	(300)	(300)	(300)	(300)	300	400
Loss/Gain	(1,400)	(1,000)	(900)	(400)	-	100

Source: Analysts estimates

Funding structure

Figure 10 - BCP (domestic deposits' account - €bn)

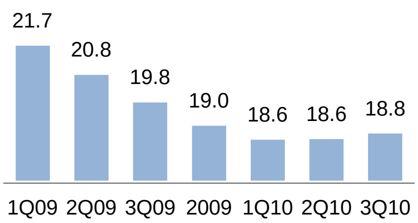


Source: Company

The funding structure of financial institutions is, since the 2010 sovereign debt crisis, a very central and important topic. Following the crisis, European regulators (following ECB directives) strengthened the financial institutions capital regulations, which lead to a wave of capital reinforcements. Portuguese financial institutions were forced to present restructuring plans to face the new regulations, which limited their ability to access the wholesale debt market funding increasing their dependence on the customer deposits funding. Going forward, the way financial institutions structure their funding will dictate the pace of expansion when the sector fully recovers. Solid funding structures with a strong customer deposits base will allow them (financial institutions) to place more products and still complying with the new banking regulations.

Deposits

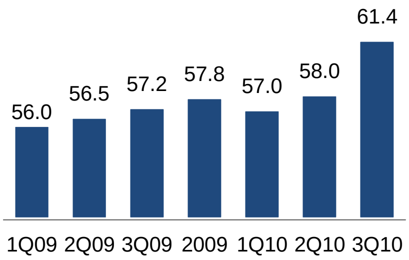
Figure 11 - BPI (domestic deposits' account - €bn)



Source: Company

Customer resources are the main source of funding of Group BPI accounting for more than 60% of the total liabilities in 2014. Growing at a slow pace in the beginning of the XXI century, BPI's deposits account started experiencing a high growth rate in the beginning of 2005, a pace that lasted until the 1Q of 2009 with almost €22bn of deposits. The Lehman Brothers' bankruptcy in September 2008 followed by the European Sovereign Debt Crisis that started in the end of 2009 led to a short-period of mistrust on financial institutions. In Portugal, this mistrust was reflected through a considerable decrease on the deposits' account of the main financial institutions. Millennium BCP saw its domestic deposits' account shrink by c.€1.5bn in the first 6 months of 2009 followed by Banco BPI, with a decrease of c€1.2bn from the 1Q 2009 to the 2Q 2010, and with CGD registering a decrease of c.€0.8bn in just 3 months (figure 10, 11 and 12).

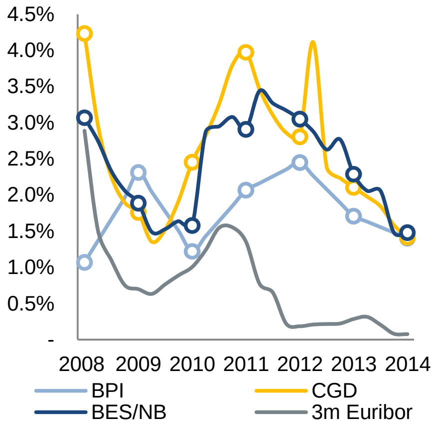
Figure 12 - CGD (retail deposits' account - €bn)



Source: Company

In order to regain clients trust and attain more deposits, Portuguese Financial Institutions started increasing the interest rates paid to its deposits' account (figure 12). This shift to a more aggressive strategy translated into a hog growth rate of Portuguese deposits but in expense of higher funding costs, which led the BoP to intervene, during the 1Q 2012, setting a roof for the maximum spread allowed to 300bp over the market rate (typically the 3m Euribor rate).

Figure 13 - Average deposit interest rates & 3m Euribor (%)



Source: Company

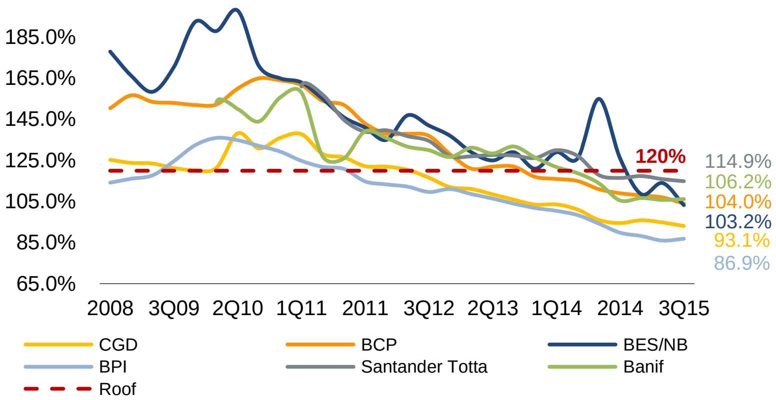
Recently, given the environment of low interest rates set by the European Central Bank (3m Euribor is trading at negative rates since May 2015), Portuguese financial institutions have been able to lower their interest rate costs as a way to improve/generate profits, since the credit to the economy (mainly the consumption and mortgage credit) has been contracting given the high levels of indebtedness of the private sector. We believe that rates will continue at low levels at least until mid-2017 and we expect interest rates to start increasing by 2018, when the ECB is expected to start easing some of the monetary policies implemented since the 2010 sovereign crisis.

Transformation ratio

Following the *Economic and Financial Assistance Programme* (EFAP) to Portugal, which started in 2011, the Portuguese financial institutions were forced to keep a loan-to-deposit ratio below 120% by the end-2014. This measure intended to deleverage the banking sector and to promote stability.

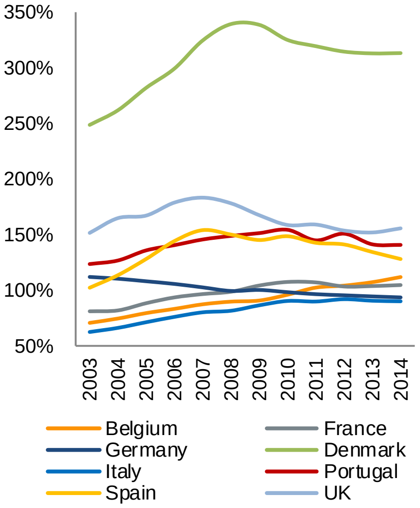
Given the limitations in attracting customer savings due to the low interest rates environment, the deleveraging of the banking sector was achieved through a reduction in the credit: mainly the corporate and consumption credit given the limited ability of deleveraging through mortgage loans.

Figure 14 – Transformation ratio (%)



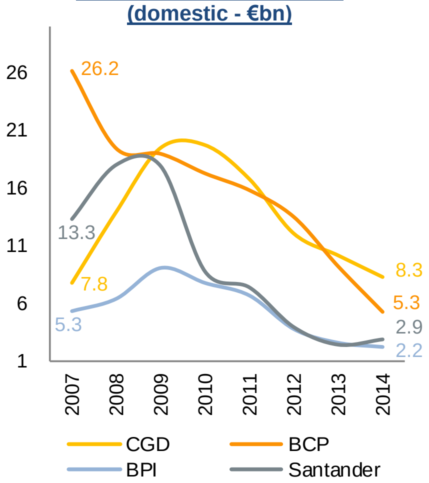
Source: Company

Figure 15 - Debt as % of Household disposable income



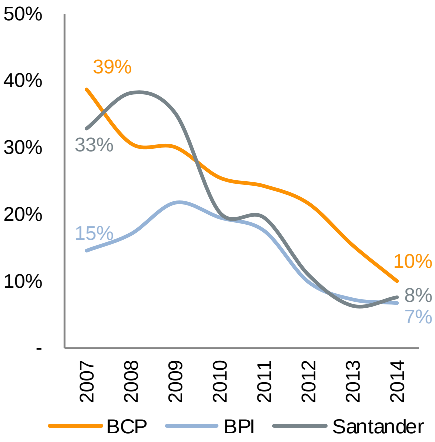
Source: OECD

Figure 16 - Debt securities (domestic - €bn)



Source: Company

Figure 17 - Debt securities as % of total liabilities (domestic)



Source: Company

Figure 14 displays the evolution of the consolidated transformation ratio of the 6 largest Portuguese financial institutions.

We see that even after achieving ratios below the threshold, there was no need of further deleveraging, and the ratio continued to decrease. This continued decrease is explained in part by the high level of indebtedness of the private sector (figure 15 displays the debt as percentage of household disposable income), which discouraged the demand for new loans despite the incentives promoted by the ECB (increase of liquidity).

Nonetheless, we believe that the environment of low interest rates on deposits (both term and sight) will pressure the transformation ratios, as the economy recovers, for levels close to the ones recommended by the regulators (roof of 120%) limiting banks capacity to provide new loans when the demand for new credits starts to increase again.

Debt securities & credit institutions' resources

The 2010 sovereign debt crisis triggered a cut to junk of Portugal's credit rating by Moody's, S&P and Fitch in 2011, and the country was forced to request an assistance program with the European Union. This sequence of downgrades limited the access of the Portuguese financial institutions to the debt market since a large number of investment houses[9] are not allowed to buy securities (bonds, equities, among others) that are classified as junk. As a result, the funding from debt security instruments decreased significantly as one can see in figure 16.

Debt securities have been the second main source of funding for Banco BPI. Nonetheless, its percentage of the total domestic liabilities is relatively small when compared with its peers (figure 17).

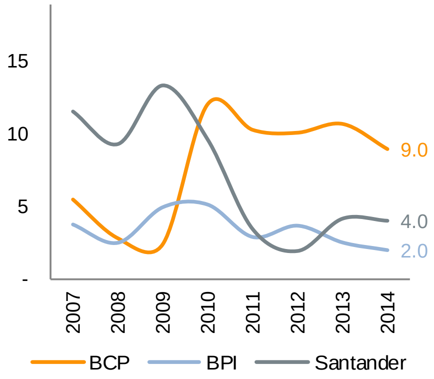
We believe that BPI's debt securities will continue at relatively low values (around €1bn) in the next two years, given the low demand for such securities and some uncertainty regarding Portugal's current political situation. As markets started to recover (both bond and equity market) we expect this source of funding to follow the trend.

With respect to the resources from other credit institutions, we believe that this source of funding will have an important role in the following years and that it will become the second main source of funding of Banco BPI. The difficulty of placing debt securities in the market and the lower interest rates charged within banks will encourage this source of funding.

Notes: (9) e.g. Funds, pension funds, asset managements

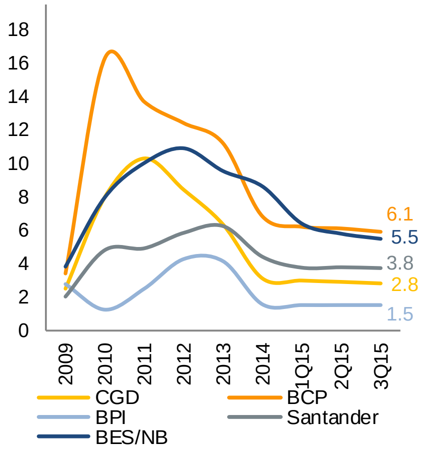
ECB funding

Figure 18 - Deposits from other credit institutions (domestic - €bn)



Source: Company

Figure 19 - ECB funding (€bn)



Source: Company

As mentioned above, the sovereign debt crisis, that stroke Portugal particularly in 2011, limited the sources of funding for the Portuguese financial institutions. The access to the wholesale debt market closed and banks didn't have surplus to lend funds to each other. Given the outlook, Portuguese banks resorted heavily to ECB for funding (figure 18).

The successful exit from the assistant program and the gradual recovery of the Portuguese economy led to a progressive decrease of the ECB funding as other sources of funding became available (e.g. BES and CGD issued debt securities at the end of 2013).

BPI presents the smallest dependence on resources obtained from ECB, in absolute terms, within the financial institutions sector amounting €1.5bn (as of 3Q 2015), which corresponds entirely to funds raised under the TLTRO[(10)]. Going forward, we believe that BPI will maintain this source of funding at around €1.5bn given the liquidity incentives provided by ECB's monetary policy.

BPI's medium and long-term net refinancing needs, up until the end of 2018, amount to €659m, which are fully covered with additional assets (net of haircuts) capable of being transformed into liquidity via operations with the ECB, amounting to €5.9bn[(11)]. It is worth mentioning that in 2019 there will be a significant release of liquidity by way of prepayment of the MLT Eurozone sovereign debt held by BPI in portfolio.

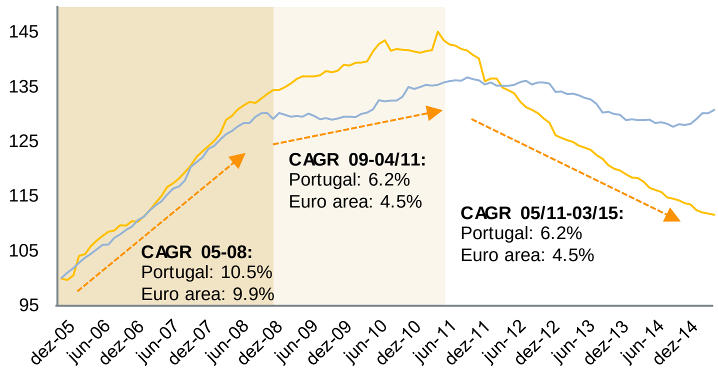
Main operations

Credit portfolio

In the period prior to the financial crisis, loans to customers were showing an upward trend and were growing at a very high pace both in Portugal and in the Euro area (figure 20). From 2005 to 2008, lending registered a CAGR of 10.5% in Portugal and 9.9% in the Euro area. In the summer of 2008, credit growth started to slow down but between 2009 and April 2011 it still registered a GAGR of 6.2% and 4.5% in Portugal and in the Euro area respectively. After the sovereign debt crisis affected Portugal, with the implementation of the EFAP program, loans to customers started contracting at a high pace, increasing the gap to the Euro area average (figure 21). Despite the contraction, loans to customers still account for c.50% of the Portuguese banks' assets, above the Euro area average of 36.8%[(12)]

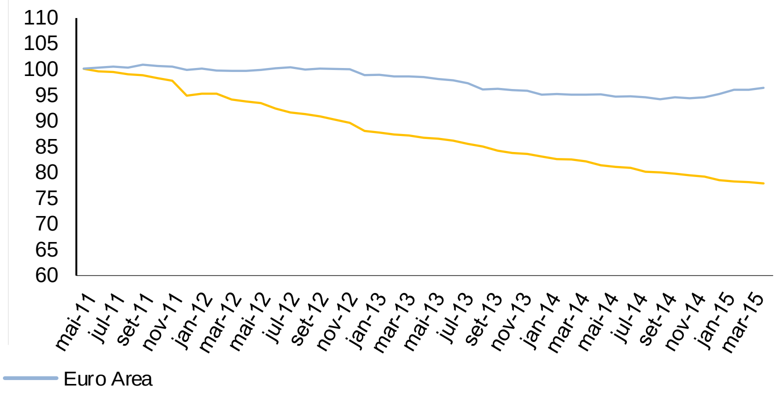
Notes: (10) Targeted long-term refinancing operations; (11) As of September 2015; (12) As of February 2015

Figure 20 – Loans in Portugal and in the euro area (Dec 2005=100)



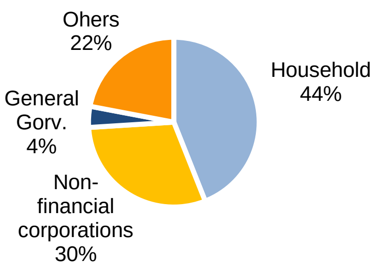
Source: APB

Figure 21 – Loans in Portugal and in the euro area (May 2011=100)



Source: APB

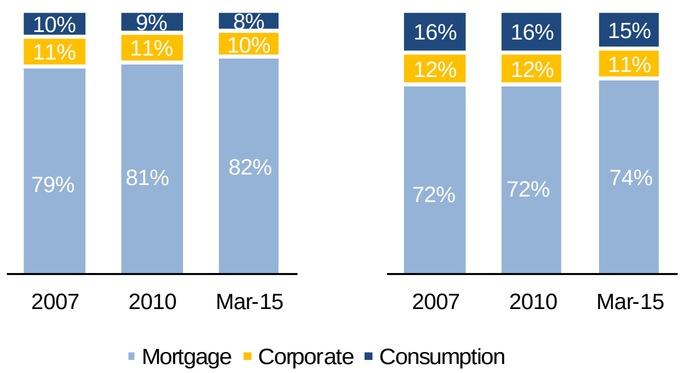
Figure 22 – Loan split by segment (Feb 2015)



Source: APB

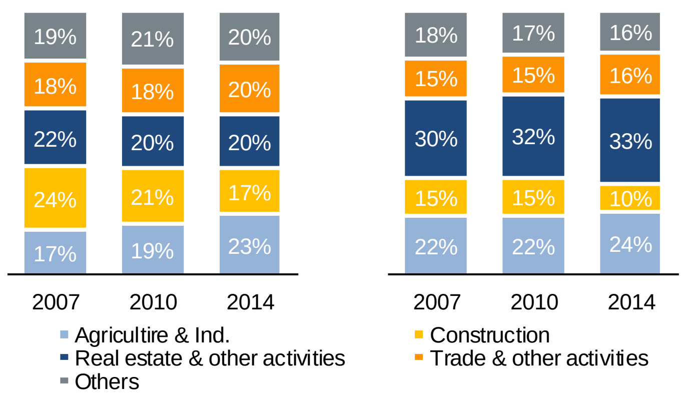
In Portugal, loans to households and to non-financial corporations represent more than 70% of the overall (figure 22). Portuguese mortgage loans are the main business segment of the household loan's offerings, weighting more than the euro average (figure 23), while loans to non-financial corporations are mainly to the construction and real-estate businesses. Nonetheless, the aggregated weight of the construction and real estate sectors has been falling since 2007 and the agricultural, industry and trade, accommodation & food service activities have been increasing substantially in the last seven years (figure 24). This trend is in line with the increase of Portuguese exports with the most influent sectors being agricultural, industry and trade, accommodation & food service activities.

Figure 23 – Loans to private customers' evolution



Source: ECB

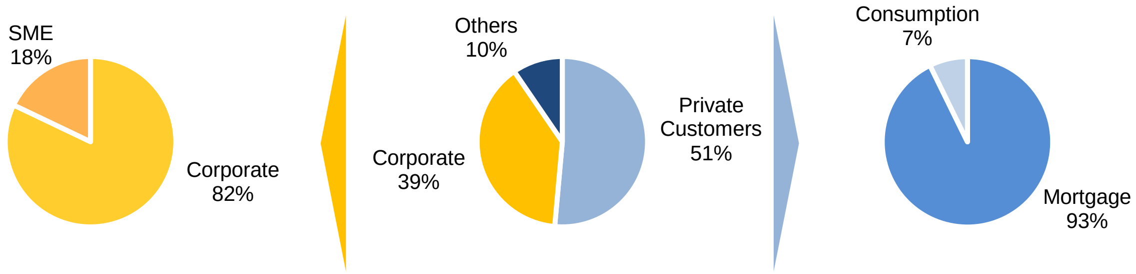
Figure 24 – Loans to non-financial corporations' evolution



Source: ECB

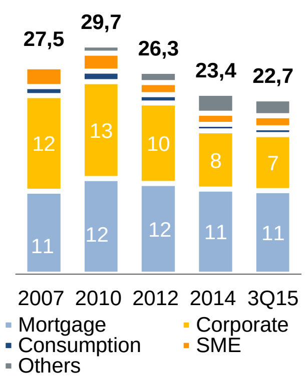
BPI's domestic credit portfolio followed the trend of the sector and contracted c.17.5% between 2007 and 2014 (figure 25). Its credit portfolio is mainly composed by loans to private customers (51%, mortgage alone accounts for 48% of the total) and by loans to non-financial corporations (39%).

Figure 25 – BPI's credit portfolio (%)



Source: Company

Figure 26 – BPI's credit portfolio (€bn)

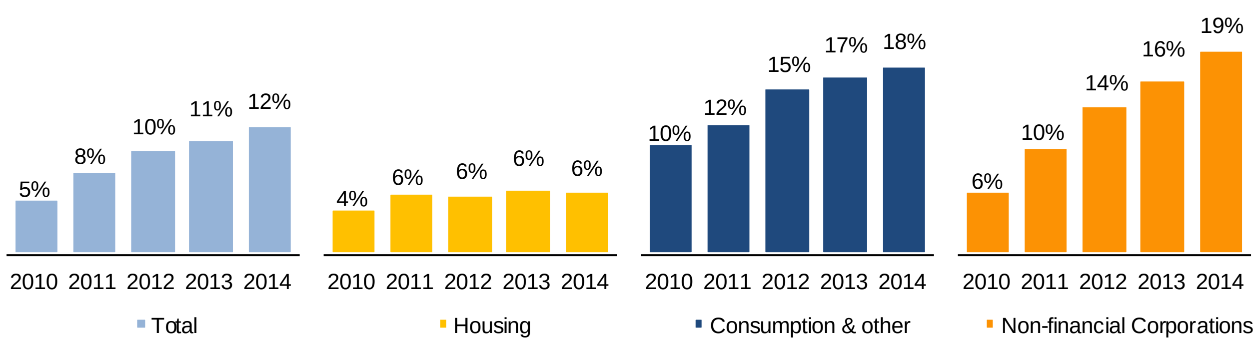


Source: Company

Going forward we believe that the contraction trend that has been felt for the past 4 years will invert by mid-2017 when households' confidence in the economy is regained, employment starts increasing and the overall European economy enters in a "growing phase" after a prolonged period of stagnated growth. The main recoveries will be in the mortgage loans (as new clients start applying for mortgage loans instead of relying in the rented housing market), consumer loans (as indebtedness reaches the Euro area average) and loans to corporations (excluding Small and Medium size Enterprises that are already growing in order to boost exports).

The non-performing loans also registered a significant increase in the banking sector since 2010. This increase was partly explained by the changes in regulation required by the EFAP program in order to present ratios in line with international practices[(13)] and partly due to the increase in default rates (figure 27). The mortgage loans suffered less deterioration on the ratio, increasing from 4.3% in 2010 to 5.9% in 2014. On the other hand, consumption loans (excluding mortgage), especially loans to the non-financial corporations, registered significant increases. NPLs of the consumption loans increased from 10.3% in 2010 to 17.5% in 2014, while NPLs of the non-financial loans increased from 5.9% in 2010 to 19.0% in 2014.

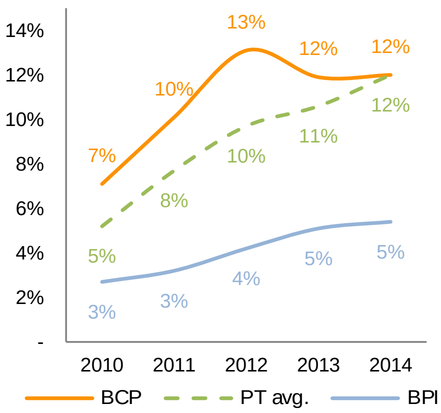
Figure 27 – Non-performing loans as a percentage of total corresponding credit



Source: APB

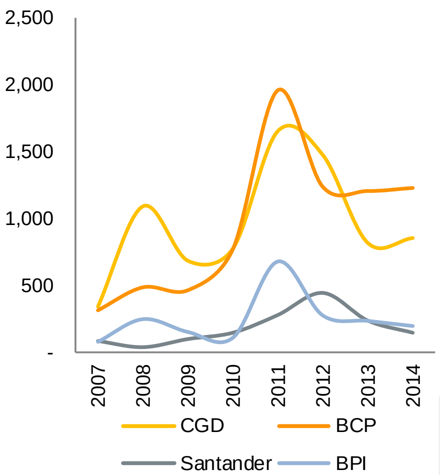
Notes: (13) The ratio includes all credit in default and not just the amount overdue

Figure 28 – NPL ratio benchmark



Source: Company and APB

Figure 29 – Total impairments



Source: Company

Figure 30 – BPI's financial assets portfolio

Portfolio of assets	2014	3Q15
Portugal	3,352	2,727
as % of total	*68.9%*	*65.9%*
Italy	566	628
as % of total	*11.6%*	*15.2%*
Spain	-	150
as % of total	-	*3.6%*
Corporate	631	318
Equities	120	115
Others	193	202
Total	**4,862**	**4,140**

Source: Company

Since BPI's credit portfolio is mainly composed by mortgage loans, its NPL ratio registered levels below the Portuguese banking sector average (figure 28) between 2010 and 2014. The Portuguese bank most penalized by the deterioration of credit quality was BCP with a credit at risk ratio of 12% compared to the one of 5.4% of Banco BPI. In 2015 the NPL ratio has improving slightly as economic conditions improve, with BPI registering a ratio of 5.1% in the 3Q 2015 and BCP a ratio of 11.9% in the same period.

Financial assets portfolio

In order to strengthen the capital ratios, as imposed by the ECB prudential rules, the Portuguese Banking sector decreased its exposure to sovereign debt securities after the sovereign debt crisis affected Portugal in 2011. One of the critical exposures was to the Greek sovereign debt, which led to the recognition of significant impairment losses in the Portuguese banking sector (figure 29).

From 2011 forward, we saw two opposite trends pressuring the financial assets portfolio of the Portuguese financial institutions. On one hand, the macroeconomic instability in the world and the strict requirements for the capital ratios led to a downward trend with the contraction of the sovereign debt securities in the portfolio. On the other hand, some financial institutions acquired securities that are eligible for refinancing operations at ECB increasing the financial assets portfolio.

BPI's portfolio of financial assets available for sale was comprised mainly by Portuguese sovereign debt securities (c.66%), followed by exposure to Italian public debt (c.15%) and finally to Spanish Public debt (c.3.6%). The table below presents the risk inherent to those exposures and the respective impact in the share price.

Going forward we believe that BPI's financial assets portfolio will not register any significant increase or decrease over the next two years, pressured by the economic outlook, with the focus being on the strengthening of the capital ratios. As financial markets recover (bond and equity markets) and the Portuguese financial sector stabilizes (the outcome of the sale of the state's participation in Novo Banco and Banif will play a crucial role for the welfare of the financial sector and for the overall Portuguese economy)(14), we expect the portfolio to increase slightly.

Notes: (14) The outcome of both Novo Banco and Banif may lead to new tranches of special contributions from the financial sector, which may harm the sector profitability and stability

Regolatory capital

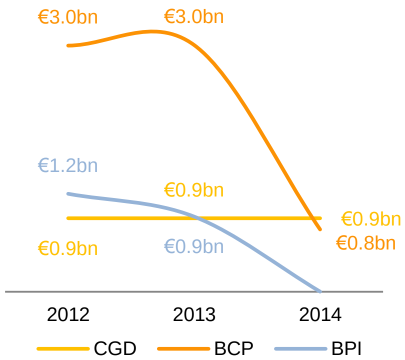
Capital requirements

Figure 31 – CoCos reimbursement

Recapitalization plan		
Date	**CoCo (end of period)**	**Interest cost**
Jun 12	€1,500m	-
2012 (2nd half)	€1,200m	€56m
2013	€920m	€85m
2014 (1st half)	-	€27m

Source: Company

Figure 32 – CoCos reimbursement benchmark



Source: Company

Capital requirements became a central focus for the banking sector after the 2010 European sovereign crisis. European financial institutions were forced to register significant impairments on sovereign debt securities in their balance-sheet revealing, in most cases, a lack of capital to face adverse macroeconomic situations. As a result, the European Banking Authority (EBA) implemented new and more demanding capital requirements for the financial institutions, imposing a minimum core tier one of 9% at the end of 2011 and 10%, since the end of 2012, on a consolidated basis which resulted in a recapitalisation exercise for 71 European banks.

Banco BPI was one of the 71 banks affected by the recapitalisation exercise with a shortfall of €1,389m, c.98% from sovereign debt exposure (mainly Portuguese sovereign debt amounting €989m). BPI approved a *Recapitalisation Plan which* consisted in issuing €1.5bn of contingent convertible subordinated bonds (CoCo's) subscribed by the Portuguese State in June 2012, allied with a capital increase of €200 million in August 2012. By the end of 2012, Bank of Portugal also established a new regulation imposing a minimum core tier 1 capital requirement of 10%, meaning that Portuguese banks needed to comply with both BoP core tier 1 requirements of 10% and EBA requirements of 9%.

Since early 2014, EBA implemented a new transitional regime for adapting its own funds implemented by CRD IV/CRR, which requires a Common Equity Tier 1 ratio (CET1) of 7%. At the end of 2013 BPI had a CET1 capital ratio of 11.2%, which represented a capital surplus of €713m allowing the bank to repay the full amount of the CoCo's to the state, with the last tranche paid in June 2014 (figure 31).

After repaying the CoCo's, the CET1 ratio started to improve and reached 9.8% in the 3Q 2014, well above the 7% threshold. However, on December 2014, Banco BPI received unfavourable news from the European Commission regarding the list of countries with regulations and supervision equivalent to those of the European Union. The European Commission released a list of 17 countries and/or territories which didn't include the Angolan State. This meant that, for the purpose of calculation of Banco BPI's capital ratios, exposures to Angola started being weighted at 100%. The new equivalent regulation led to an increase of €4.5m in risk-weighted assets and BPI's exposure to the Angolan State and BNA were no longer exempt from application of the limit to large exposures, which will ultimately result in the loss of the majority stake in BFA (carve-out keeping a minority stake).

Going forward, we believe that after the problem of the limit to large exposures is solved, with BPI keeping a minority stake in BFA (addressed further in this report) and divesting all the remaining international operations, BPI will have no issue in complying with the new capital requirements, namely the 7% Core Tier 1.

Basel III

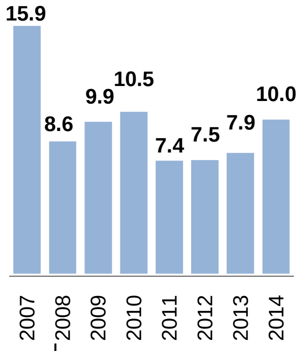
The Basel Committee on Banking Supervision structured, by the end of 2010, "BASEL III" as a comprehensive set of reform measures designed to improve the regulation, supervision and risk management within the banking sector, which is supposed to phase-in until 2019. Figure 33 presents the different Basel guidelines implemented since 1992:

Figure 33 – Basel guidelines

	Basel I	Basel II	Basel 2.5	Basel III
	1992	2004	2009	2014
Capital requirements	▪ Definition of Tier 1 and Tier 2 ▪ Requirememts: Tier1: 4% Own funds: 8%	▪ Same requirements as Basel I		▪ New definition of capital ▪ New buffers (2.5% for CET1) ▪ Leverage ratio ▪ Systemic risk
RWA requirements	▪ Pillar 1: market risk (change made in 1997) ▪ Pillar 1: credit risk ▪ Requirement: 8%	▪ New Pillar 1: credit risk ▪ Pillar 2: ICAAP ▪ Pillar 3: disclosures ▪ Requirements: same as Basel I	▪ Revisions of securitisa-tion instruments and trading book	▪ Counterparty risk ▪ Requirements: CET: 4.5% Tier 1: 6% Tier 1 + Tier 2: 8%
Liquidity requirements				▪ Liquidity coverage ratio (LCR) ▪ Net stable funding ratio (NSFR)

The Portuguese financial institutions sector will face some important challenges in the years to come that may jeopardize the compliance of the new Basel III ratios: CGD has to repay €900m of CoCo bonds to the Portuguese state in 2016, needing c.€800m of additional capital do to so; Novo Banco is searching for a private investor in order to comply with the necessary capital requirements imposed by ECB while Banif was partially sold to Santander Totta (resolution measures implemented by the Portuguese Government); Banco BPI is in breach with the maximum limit to large exposures and will need to divest its majority participation in BFA. From those challenges, the ones that inspire close attention

Figure 34 – Assets under management evolution



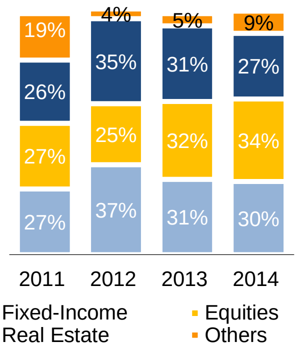
Source: Company

Figure 35 – Pension fund impact on RWAs

Actuarial adjustment	Impact on CET1	CET1 ratio
-	+0.38%	9.0%
-10.0%	+0.15%	8.7%
-20.0%	+0.08%	8.7%
-40.0%	+0.04%	8.6%
93.3	**-**	**8.6%**
+10.0%	-0.04%	8.5%
+20.0%	-0.08%	8.5%
+40.0%	-0.15%	8.4%
+60.0%	-0.23%	8.4%

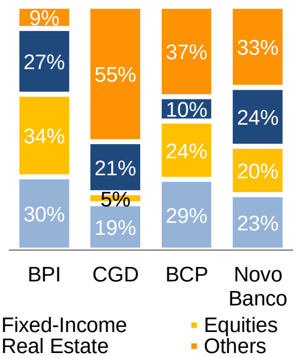
Source: Analysts estimates

Figure 36 – Pension fund split by assets



Source: Company

Figure 37 – Pension fund – Peer analysis



Source: Company

are Novo Banco and Banif since its outcome affects not only the financial sector but the whole Portuguese economy.

Pension fund

Portuguese credit institutions, up to June 2011, used the corridor method to recognize actuarial deviations relating to pension plans and other post-employment benefits under defined benefit plans. In December 2011 credit institutions adopted the new rules introduced by IAS 19 and changed the accounting policy for the recognition of actuarial and financial variances relating to pension funds.

The new rules implemented by the IAS 19 also resulted in a partial transfer of the pension liabilities and funds to Social Security. Banco BPI saw its pension liabilities and funds decreased by 62% and 63% respectively (figure 34). Since then, both assets and liabilities have been growing slightly, mainly due to the recapitalisation plan, implemented in 2011, which increased the number of early retirements

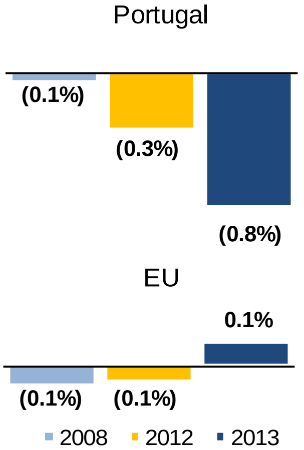
The actuarial method recognizes any loss or gain in the statement of comprehensive income, thus, affecting directly the shareholders' equity account. As a result, if the assets under management are not enough to cover the liabilities, BPI needs to register the actuarial directly in the shareholders' equity difference which may jeopardize the compliance of its capital ratios. Figure 35 measures how different actuarial losses would impact the 2014 CET1 ratio. Every 10% variation has an impact of c.0.04% in the CET1 ratio, and, even with a 60% increase in the actuarial deviations, the CET1 ratio would stand above the minimum threshold of 7%. Thus, the pension fund's actuarial deviations do not pose a significant threat for Banco BPI.

The Banco BPI's pension fund composition has been changing over time. In 2012, fixed-income and real estate asset classes were the main focus of investment, but in 2014, equity investments aggregate the highest stake (figure 36). When compared to some of its main peers we see that BPI has a more diversified portfolio in relative terms and the percentage of liquidity stands out for being the main difference (figure 37).

Profitability

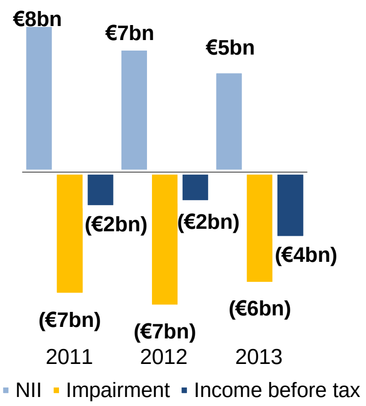
Portuguese banks' return on assets (ROA) and return on equity (ROE) have fallen in recent years and have not accompanied the European climate of recovery (figure 38). This behaviour is mainly explained by the significant increase in impairments following the European sovereign crisis and by a reduction in the net interest income mainly between 2011 and 2013 (figure 39)

Figure 38 – ROA (%)



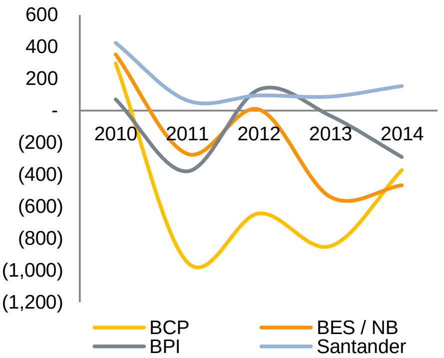
Source: APB

Figure 39 – Credit risk evolution



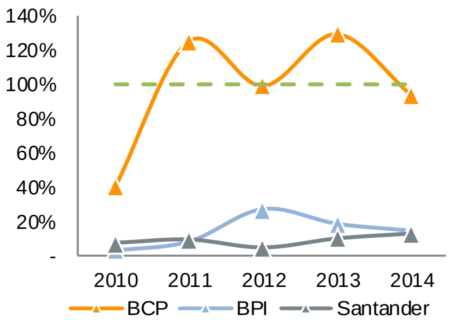
Source: APB

Figure 40 – Net income evolution of Portuguese largest banks (€m)



Source: Company

Figure 41 – Impairment as % of NBI



Source: Company

due to lower average interest rates (sharp decrease on the Euribor rate) and the higher cost of financing (as explained above, in a first stage banks increased interest rates on deposits in an attempt to attract customers).

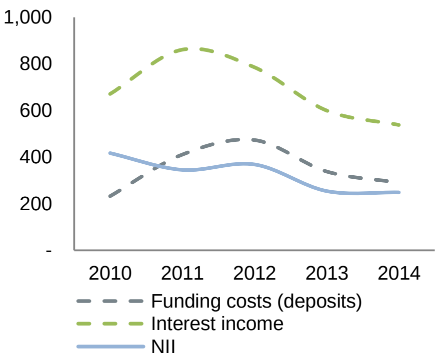
BPI' profitability was mostly affected by its exposure to sovereign debt securities, while being most resilient to the deterioration in the credit quality given its higher exposure to the mortgage loan segment in its portfolio (Santander had a similar behaviour but its lower exposure to sovereign debt securities resulted in higher profits when compared to its main peers – Figure 40). The deterioration of the credit quality had higher impact on credit institutions with a credit portfolio focused on corporate clients, such as BCP that saw its domestic impairments as percentage of its domestic banking income increase significantly when compared to BPI and Santander (figure 41).

In 2014, Portuguese banks changed strategy and started decreasing the average interest rates charged on deposits following the trend of Euribor (figure 13). This strategy is having a positive impact on the net interest income despite the contraction of the loan portfolio (Figure 42), which aligned with a gradual decrease in the credit impairments (Figure 40) as well as with gradual recovery of the Portuguese and European economy, will bring the Portuguese credit institutions to positive domestic profits already in 2015.

Despite the historical low interest rates both households and a significant stake of non-financial corporations are still reluctant in applying for new credit lines given the high levels of indebtedness. The contraction of the loans portfolio limits the credit institutions' ability to improve their net interest income through the lending side by re-pricing its new issued loans, thus, the focus shifted to the funding side. Banco BPI's net interest income has been under pressure since 2008 contracting c.48% between 2007 and 2014, driven by the contraction of the credit portfolio and its higher concentration on mortgage loans (mortgage loans carry lower interest rates and are harder to re-price given the higher maturity of its loan contracts). Following the market trend, BPI re-priced its funding costs. Its average cost on deposits decreased from €473m in 2012 to €291m in 2014 (c.55% of domestic banking income), and should continue to decrease at least until mid-2017 as ECB monetary policy is supposed to ease and rates are expected to start to gradually increase. Nonetheless, the expected increase in funding costs should be balanced by a gradual recovery of the credit portfolio, driven by low interest rates, declining unemployment figures and economic growth that are expected to stimulate consumer confidence and credit availability.

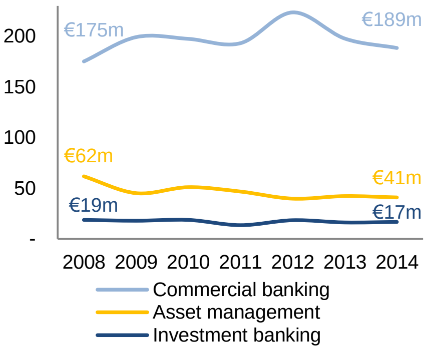
Net commission income performance is linked to the performance of the overall economy. Commercial banking commissions are mostly dependent on the

Figure 42 – BPI's NII evolution (€m)



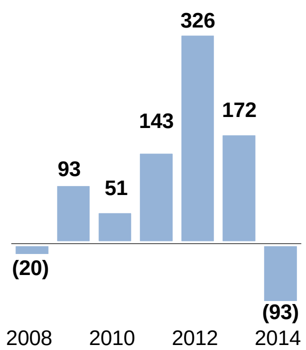
Source: Company

Figure 43 – BPI's net commissions evolution (€m)



Source: Company

Figure 44 – BPI's gains and loss with financial assets (€m)



Source: Company

domestic economy of the bank, while asset management and investment commissions are mainly affected by the international economic activity (the performance of the European markets is the most important economy for Portuguese banks). Banco BPI's net commission income represented c.55% of its domestic banking income in 2014 and has also been under pressure since the 2008 crisis. BPI's asset management and investment banking commissions were the most affected with the economic and sovereign crisis (Figure 42). The reduction in the asset management fees was motivated by a generalized risk aversion, with customers re-allocating off-balance sheet resources into on-balance sheet resources and, as a result, BPI's assets under management decreased significantly (figure 34). As for the investment banking fees, the overall bad performance of the capital markets led to significant reduction of the amount invested by clients, which decreased significantly BPI's brokerage fees (in 2007 brokerage fees amounted €23.7m decreasing to €9.2m in 2012).

Nonetheless, the overall performance of BPI's net commission income, in relative terms, contracted far less than the net interest income between 2007 and 2014 (-6% vs. -48% respectively). The main contributors for this behaviour were commercial banking commissions related to insurance products that increased by c.28% between 2007 and 2014. As for the overall commercial banking commissions the performance was negative, as a result of a reduction in the fees related with the loan portfolio and a reduction of the banking services fees, driven by a loss of confidence in the financial institutions sector.

Going forward, BPI's net commission income should recover at a slow pace in the next 3 years, influenced by a continuous lack of confidence in the financial institutions credit as a result of Banif and Banco Espírito Santo resolutions measures, and by the slow recovery of the capital markets. As confidence returns and capital markets start to improve again, net commission income's growth should also accelerate.

BPI's trading income is highly dependent on the performance of the capital markets, both domestic and international. As seen above, BPIs financial assets' portfolio is mainly exposed to Portuguese debt securities, followed by Italian and Spanish debt securities, thus, the gains and losses obtained from trading activity will mostly be linked with the performance of these 3 peripheral countries.

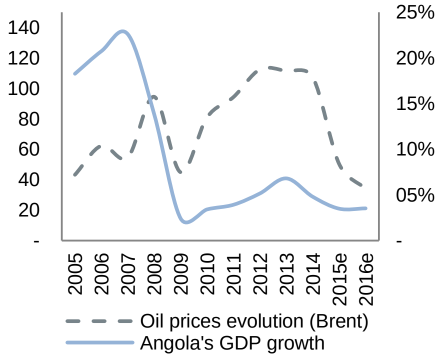
Since 2008, BPI's gains and losses on financial assets have not been steady (figure 43), with either significant gains arising from sovereign debt securities or considerable losses on those same securities. Substantial losses arising from the trading activity may seriously jeopardize the financial wealth of the bank as seen by figure 45. Nonetheless, the overall European economy has been improving

Figure 45 – Financial loss impact on price

Financial loss impact		
Loss	**Impact on price**	**Domestic Price**
1x -100m	(6.3%)	€0.75
2x -100m	(12.4%)	€0.68
3x -100m	(17.8%)	€0.62

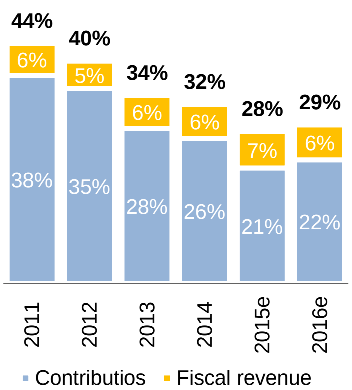
Source: Analyst's estimates

Figure 46 – Angola's GDP growth rate (%) vs. Brent oil prices ($)



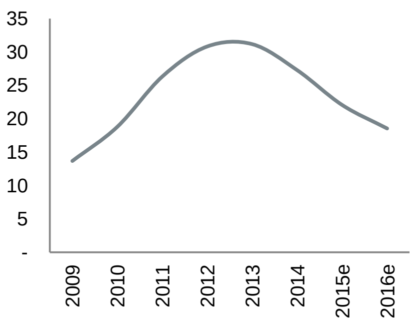
Source: IMF and DataStream

Figure 47 – Angolan government revenues as % of PIB



Source: African Economic Outlook

Figure 48 – Foreign reserves evolution ($m)



Source: IMF

significantly and we expect capital markets to fully recover by mid-2017, beginning of 2018. The main risks to BPI arise from the current political situation in Portugal, given the inherent risks of a minority government in parliament, and the political impasse in Spain (the elected party is yet to be confirmed, due to lack of agreement in parliament, and there is a possibility of new elections in the beginning of 2016).

However, the probability of significant losses in the forecasted period is minimal, given the strict regulations imposed to the financial institutions sector which penalize riskier portfolios with higher capital requirements.

Angola

Macroeconomics

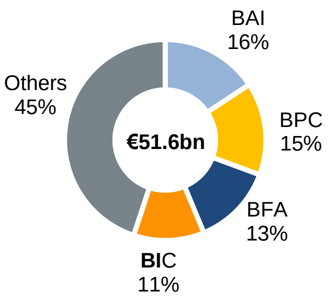
Africa's second-largest petroleum producer (after Nigeria), Angola was one of the fastest growing economies in the world between 2002 and 2008. This growth was achieved almost exclusively through the oil sector, allied with a political stability environment, started with the end of Angola's civil war in 2002 (figure 45).

The continuous fall of the international oil prices, started in mid-2014, posts a significant challenge for Angola's economy since its oil sector is estimated to account for c.95% of exports, c.70% of total government revenue and c.46% of GDP. As a result, economic growth slowed down to 4.8% in 2014, from 6.8% in 2013[(15)]. To extend the unfavourable outlook of Angola's economy, China, its number one importer of goods and services, is facing an economic crisis and has been decreasing its level of imports. However, this situation forces the Angolan government to implement structural reforms needed to enhance economic diversification by promoting the non-oil sectors, reduce unemployment (that have increased to more than 25% in 2014) and address income inequality and poverty.

Going forward, the Angolan government will most likely be forced to implement austerity measures in order to address the sharp decrease on fiscal revenues and to increase Angola's economy resilient to the volatility of oil revenues (figure 46). National Bank of Angola allowed the devaluation of the kwanza against the US dollar (down c.24% since the beginning of 2015) to boost exports, and has been increasing its base interest rate (currently at 11% from 9% in October 2014) to control inflation and to attract foreign currency (figure 47).

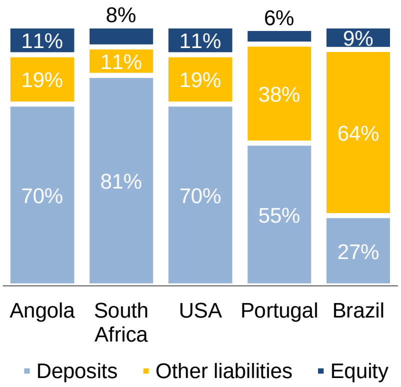
Notes: (15) According to IMF

Figure 49 – 2013 Ranking by total assets[19]



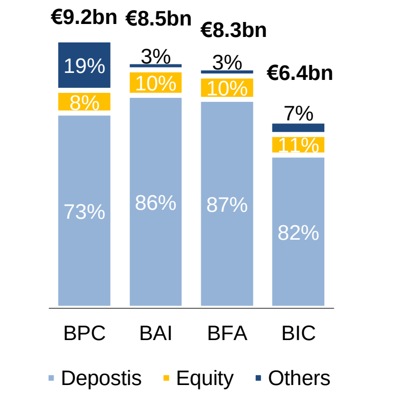
Source: Deloitte

Figure 50 – Sources of funding – country benchmark



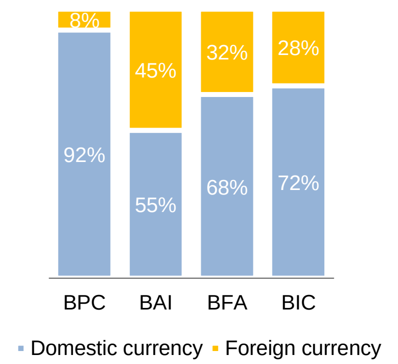
Source: Deloitte

Figure 51 – Sources of funding – company benchmark in Angola



Source: Company

Figure 52 – Deposits split by currency



Source: Company

Financial sector

Angola financial sector is highly concentrated with the top four banks[16] (BPC, BAI, BFA and BIC)[17] controlling c.55% of the total assets in 2013 (figure 48), enjoying close connections with the country's elite, which creates barriers for other international banks to enter in the market. One of the main challenges of the sector is the access to finance, with just c.39% of individuals holding bank accounts and only 8% with access to credit. As for SMEs, 86% have bank accounts, but only 9% have access to credit[18].

Funding structure

Angolan banks rely almost exclusively on customer deposits to fund their operations. In 2013, deposits accounted for c.70% of total funding, the same level as the USA market and slightly below South Africa level (figure 49)

BFA's customer deposits accounted for 87% of 2014 funding structure, registering the highest stake when compared to its main peers (figure 50), with an absolute value of c.€7.2bn (a 21.8% increased vs. 2013 figures). The ongoing process of de-dollarization have been also impacting the Angola's customer deposits, with deposits in domestic currency representing more than 50% of the overall for all top four Angolan banks (figure 51). Going forward, we believe that deposits are expected to continue to grow at a pace higher than Angola's GDP growth, with the percentage of deposits in foreign currency continue to decrease and eventually disappear (given that many institutions, including the state, have loans or operate in dollars, the completely de-dollarization in Angola's economy is not expected in the forecasted period).

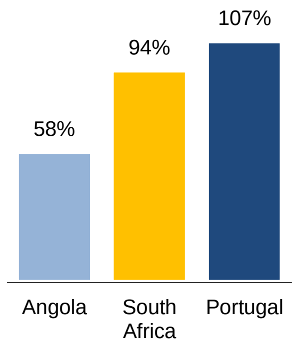
The restricted access to credit allied with a strong customer deposits base is reflected by a relatively low transformation ratio. In 2013 Angola's transformation ratio amounted to 58%, below South Africa and Portugal average (figure 52). BFA registered in 2014 the lowest transformation ratio when compared to its main peers (figure with transformation ratio), registering 24.7%. We believe that BFA's transformation ratio will continue at relatively low values, with a slight increase as BFA starts to expand its credit portfolio to non-oil sectors

Main operations

The main focus of operations of BFA is the operations in the financial markets, with its financial assets weighting c.44.9% of total assets in 2014, the highest among the top four Angolan banks, followed closely by BIC with 44.6%. BPC is the top four banks with the lowest weight on financial assets, being focused

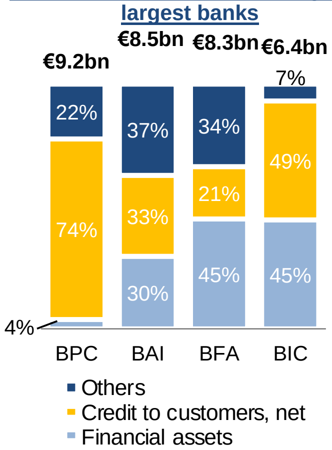
Notes: (16) excluding Banco Económico, former BESA; (17) Banco de Poupança e Crédito, Banco Angolano de Investimentos, Banco de Fomento Angola and Banco BIC; (18) According to Financial Inclusion in Africa, AfDB, 2013; (19) Total assets converted to euros using 1 year AOA / EUR 2013 average from oanda

Figure 53 – Transformation ratio in 2013



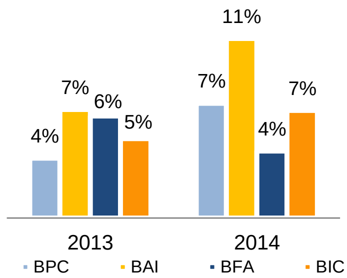
Source: Deloitte

Figure 54 – Assets split of Angola's largest banks



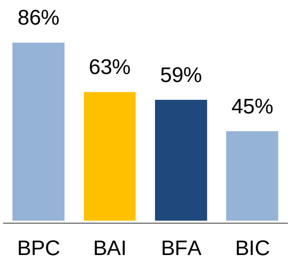
Source: Company

Figure 55 – Credit at risk of Angola's largest banks



Source: Company

Figure 56 – NII as % of NBI



Source: Company

mainly on its credit portfolio (figure 53).

The falling of international oil prices has been deteriorating the credit portfolio quality, with non-performing loans increasing from 9.2% in January 2014 to 17.4% in November 2014, being the loans to the State and to the extraction industry the most impacted with the volatility of oil prices. Banco BAI presented the highest credit at risk[20] ratio in 2014, when compared to the top four Angolan banks, with c.11% and with loans to State and to the industry sector representing c.48% of the overall portfolio. BFA was the bank with the lowest ratio, and the only bank that improved from 2013 to 2014 (figure 54). For this performance contributed a lower exposure to the extraction industry sector and a relatively low exposure in the past to the State (loans to the State increased significantly in 2014 which will most likely increase the credit at risk ratio in the coming years).

Going forward, the expansion of the credit portfolio should slow down following the trend of Angola's GDP, allied with some corrections related to the limit of 25% of regulatory capital stipulated by BNA for banks biggest debtor.

Capital requirements

Angola financial system continues to be well capitalised, with the average solvency ratio standing at c.20%, 2x the minimum required ratio of 10%. BFA presented a solvency ratio of 24%, thus, capital requirements risk don't present any significant risk for the bank.

Profitability

Angolan banks' profitability will be under pressure in the following two to five years reflecting the impact of lower international oil prices and the crisis of Angola's main importer, China.

The expansion of Angola's financial sector followed the trend of its GDP growth, with significant developments between 2002 and 2008, mainly driven by the oil sector. The recent decline in the international oil prices constrains both liquidity and foreign exchange reserves in the Angolan economy, which will impact mostly smaller banks and could lead to consolidation in the banking sector.

Angola's net banking income main contributor, net interest income (figure 55) will be pressured by the monetary policy implemented by the Angolan government. A lower remuneration on the non-oil sectors allied with higher costs of funding for the customer deposits (to attract foreign investment) will slow significantly the growth pace of the net banking income. Moreover, provisions for doubtful account are also expected to increase, thus, we expect bank's profits to deaccelerate the growth pace to rates below GDP in 2015 and close to the GDP

Notes: (20) Provision for doubtful accounts / total credit portfolio growth rate in 2016. As the world market recovers (namely China), the international oil prices start to improve and some of the measures to stimulate non-oil sectors start showing some impacts, we expect bank profits to return to growth rates higher than the GDP in the overall financial sector.

Valuation

Figure 57 – Valuation Methodology

Valuation Methodology	
Portugal	DCFE
Angola	DCFE
Other equity participations	Equity Method

Source: Analyst's research

The €1.22 target price was derived from a sum-of-the parts valuation (SOTP), applying a discounted free cash flow to equity model (DCFE) to value the domestic operations of Banco BPI and to value the operations in Angola through Banco de Fomento Angola. The remaining equity participations, including Banco Comercial e de Investimentos from Mozambique, Inter-Risco, Cosec, Allianz and Unicre, were valued using the equity method by multiplying a price-to-book value of equity multiple, using a set of selected peers from each company's sector, by the book value of equity of each company to derive the market value of equity.

Despite the differences between the Mozambique's financial sector and the Nigerian and South African financial sectors (e.g. market penetration, maturity stage), we decided to value BCI through a multiple using a wide range of selected peers (#10) from both Nigerian and South African stock exchange. The wide range of selected peers allows not only to catch different stages of maturity, but we also believe that is the multiple from which the Mozambique's banks will converge in the future.

Cost of equity

Figure 58 – Valuation Methodology

Portugal - Cost of equity	
Risk-free rate	2.48%
Market return	10.38%
Market risk premium	*7.90%*
Beta	1.34
Return on equity	**13.06%**

Source: Analyst's Estimates

Figure 59 – Cost of equity for Angola

Angola - Cost of equity	
Risk-free rate	9.32%
Market return	11.16%
Market risk premium	*1.84%*
Beta	1.29
Premium	5.02%
Return on equity	**16.72%**

Source: Analyst's estimates

The cost of equity was calculated using the Capital Asset Pricing Model. For Portugal we used a risk-free rate of 2.48%, taking into consideration the average yield on the last month of 2015 of the Portuguese 10 year government bond, and a market return of 10.38%, taking into consideration the average return on the last month of 2015 of the PSI-20, which results in a market risk premium of 7.90%. For the domestic beta we regressed the BPI against the Euro Stoxx Banks Index (SX7E Index used as proxy for the Europeans banks) using weekly data over the past two years, reaching a beta of 1.34. As a result, Portugal's cost of equity was 13.02%.

For Angola, we used a risk-free rate of 9.32%, taking as benchmark the South Africa's 10 year government bond yields average of the last month of 2015, and a market return of 11.16%, using as benchmark the average return on the last month of 2015 of the South Africa's Stock exchange, reaching a market risk premium of 1.84%. As for the beta, we took a sample of betas from eleven South African and Nigerian companies listed on the respective country stock exchange

Figure 60 – Beta benchmark in Africa

Africa - Beta benchmark		
Bank	**Country**	**Beta**
Guaranty	Nigeria	1.43
Zenithba	Nigeria	1.35
SFBNH	Nigeria	1.13
Access	Nigeria	1.11
UBA	Nigeria	1.66
FSR	South Africa	1.32
SBK	South Africa	1.32
BGA	South Africa	1.06
NEDbank	South Africa	1.25
RMH	South Africa	1.35
CPI	South Africa	1.24
Average		**1.29**

Source: Analyst's research and Bloomberg

Figure 61 – Beta sample to value BCI

BCI multiple - Equity method	
Company	**P/B 2015e**
Firstrand	2.19x
Zenith International Bank	0.72x
Guaranty Trust Bank	1.21x
Fbn Holdings	0.28x
Access Bank Nigeria	0.36x
United Bank For Africa	0.37x
Barclays Africa Group	1.31x
Nedbank Group	1.22x
Rmb	1.97x
Average	**1.07x**

Source: Analyst's research and DataStream

Figure 62 – Beta sample to value insurance participations

Insurance multiple - Equity method	
Company	**P/B 2015e**
Vittoria Assicurazioni	1.03x
Cattolica Assicurazioni	0.63x
Average	**0.83x**

Source: Analyst's research and DataStream

as benchmark and used the average of those betas for Angola, which resulted on a beta of 1.29. Moreover, to incorporate higher risk in Angola due to the falling of international oil prices, we used a premium of 5.02%, calculated between the difference of the Angola government bond maturing in 2020 (longest available), with a yield c.7.5%, and the yield on the Portuguese 10 year government bond (Portugal's risk-free rate). Thus, the cost of equity for Angola was 16.72%.

Equity interest

The equity interests include BCI, the Mozambique-based financial institution company focused on commercial banking. BCI is Mozambique's second biggest bank representing 26.8% of the financial system's total assets in 2014, accounting for c.9% of BPI's international net income. Nonetheless, the strict regulations imposed by ECB regarding international exposures, specially to emerging markets, will most likely result in a divestment of the Mozambique's operations from BPI (as expressed in the carved-out proposition). The domestic equity interests include: Allianz Portugal, the insurance company that provides life and non-life insurance products; Cosec, the Portuguese insurance company specialised in credit insurance; Inter-Risco, a Portuguese private equity company; and Unicre, the Portugal-based company specialised in the issuance and management of payment cards.

To value BCI we used, as mention, a sample of nine Nigerian and South African Banks, taking into consideration the market capitalisation of each bank and the 2015 expected earnings[(21)], reaching an average P/B ratio of 1.07x. The P/B ratio was then multiplied by the 2014 shareholders' equity (assumed constant), resulting in an equity value for BPI of €59m.

The same process was repeated for all BPI's domestic participations with the P/B ratio arriving from a sample of peers of each company's sector. For the insurance companies (Allianz and Cosec), given the lack of Portuguese listed peers, the Italian market was used as proxy. We selected Cattolica Assicurazioni, Italia-based insurance company focused on non-life and life products (as proxy for Allianz) and Vittoria Assicurazioni, the Italia-based insurance company more focused on the non-life segment (as proxy for Cosec), reaching an average P/B of 0.83x, giving an equity value of €78m and €25m for Allianz and Cosec, respectively. As for Inter-Risco and Unicre we used a sample of Portuguese and Spanish listed banks, which resulted in a P/B ratio of 0.77x, valuing Inter-Risco at €0.5m and Unicre at €16m.

Notes: (21) Expected figures taken from Thomson One

Figure 63 – Beta sample for the Portuguese financial sector

Portuguese financial sector multiple - Equity method	
Company	**P/B 2015e**
Banco Popular Espanol	0.48x
Banco De Sabadell	0.70x
Millenium BCP	0.56x
Liberbank	0.61x
Bankinter	1.51x
Average	**0.77x**

Source: Analyst's research and DataStream

Portugal

To value BPI's domestic activity we believe accurately reflects the reality of the market for the forecasted period. We believe that the inclusion of multiple scenarios in Portugal would not create any additional value in this report. Nonetheless, when an event presented multiple scenarios, as for the sale of Novo Banco, the different outcomes were weighted by a probability of happening in order to reach the estimation figure.

We incorporated the estimates of the International Monetary Fund (presented in figure 9) in the main drivers of the Portuguese financial sector. BPI's recovery will be mostly driven by a repricing of its funding costs given the historical low Euribor rates, which allied with the incentives of liquidity promoted by the ECB will significantly slow the pace of growth of customer deposits, specially by a sharp reduction of term deposits. The credit portfolio will be under pressure in the following two to three years, with lower remuneration rates and lower demand for new credit. The impairments, which increase significantly after the 2010 sovereign crisis, should start to decrease at a slow pace following the pace of Portuguese GDP growth. Nonetheless, with the sale of Novo Banco expected to be completed at the end of 2016, beginning of 2017, we decided to include an impairment of €59m, split evenly between 2016 and 2017, to reflect a possible loss as a result of the €116m loan to Novo Banco's recapitalisation plan. As for the financial assets performance, the lower remuneration in the international financial markets will result in to lower returns, but no loss is expected in the forecasted period.

The main risks for BPI's domestic market valuation arise from the ongoing resolution programmes of two Portuguese financial institutions. If the BoP imposes financial institutions special measures to further recapitalise Banif or Novo Banco, the recovery of the overall Portuguese financial institutions may be jeopardise. Nonetheless, we do not expect any significant risks for BPI to comply with capital requirements.

Angola

Angola's forecasts and valuation were performed in its domestic currency, the kwanza, and then converted to Euro using 2014 forward exchange rate[(22)].

In order to minimise the risks of making inaccurate assumptions when valuing Angola's operations, we decided to create two scenarios:

1) **Base case**: We incorporated the IMF forecasts for the Angolan economy in the main drivers of its financial sector. According to IMF, Angola's GDP

Notes: (22) The forward exchange rate was calculated taking into account the exchange rate purchase power parity, using the expected target inflation for Angola and for the Euro area growth should slow down in the following three years for then start increasing the growth pace by 2018. The falling of the international oil prices will be the main constraint for the sector, as loans to the extractive industry and to the State (very depended on oil revenues) represent an important stake in Angolan banks' credit portfolio. Inflation is also expected to increase in the following three years, reflecting the impact of lower oil prices, but also a weaker Kwanza. BFA's net banking income will be pressured by increasing funding costs, as BNA increases the base interest rate to control inflation and to attract foreign investment, and lower interest income as interest rates for the non-oil sector should decrease to stimulate growth and diversification from the volatile oil revenues. Loan impairments will also pressure the bank's net income as credit at risk increases in the oil and State credit segments. The outlook should start to improve by 2018 as the oil sector recovers and the measures implemented to non-oil sectors should start positively impacting GDP growth, as well as improving international market conditions especially with the recovery of China, Angola's main importer. BFA should follow the economic trend and should start growing at a higher pace by 2018 forward. To the base case, it was attributed a probability of 70% and the forecasts were converted at an AOA/EUR of 0.0072.

2) **Pessimist / bad management case:** The pessimist / bad management case incorporates the possibility of a slower recovery of the overall economy of Angola with GDP growth rate lower than 4% and with inflation in the two digit figures. It also reflects the possibility of bad management from BFA reflecting the loss of BPI's controlling stake in BFA to Unitel. We implemented a more aggressive strategy for BFA with lower interest rates on loans than in the base case, increasing the supply to the non-oil sector which eventually will increase credit at risk, and with higher deposits interest rates in an attempted to capture domestic but especially foreign currency deposits which allied with lower returns on international markets will stagnate the net banking income. BFA's role as the main source of funding for the measures implemented by the State to stimulate non-oil sector will result in higher provisions for doubtful loans, with the main increases being registered in loans to the State (reflecting lower tax revenues) and in loans to the non-oil sector, as the criteria to supply credit wides and eventually riskier products will be funded. To the pessimist / bad management case, it was attributed a probability of 30% and the forecasts were converted using an AOA/EUR exchange rate of 0.0070.

For both scenarios a minority equity stake of 40% was considered.

Sum-of-the-parts

Finally, we added each individual valuation to arrive to an FY15 total equity value of €1,772 (€1.22 per share). The table below summarizes BPI's equity valuation:

Sum-of-the-Parts valuation

Company	Approach	Value (€m)	% of total	€ per share	Implied 2015e P/B ratio
Banco Português de Investimentos (BPI)	DCFE	€1,212m	68%	€0.83	0.68x
Banco de Fomento Angola (BFA)	DCFE	€383m	22%	€0.26	0.91x
Banco Comercial e de Investimentos	Equity Method	€59m	3%	0.04 €	
Inter-Risco	Equity Method	€1m	0%	0.00 €	
Cosec	Equity Method	€25m	1%	0.02 €	
Allianz Portugal	Equity Method	€78m	4%	0.05 €	
Unicre	Equity Method	€16m	1%	0.01 €	
Total Equity Value		**€1,772m**	**100%**	**€1.22**	0.80x
Number of shares outstanding (m)		1,457		1,457	

Figure 64 – Portuguese sensitive analysis

Ce\Gr	0.3%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
9.5%	1.17	1.20	1.25	1.32	1.39	1.47	1.56
10.6%	1.02	1.04	1.08	1.13	1.18	1.24	1.31
11.8%	0.89	0.90	0.94	0.97	1.01	1.05	1.10
13.1%	0.77	0.78	0.81	0.83	0.86	0.89	0.92
14.4%	0.68	0.69	0.70	0.72	0.74	0.77	0.79
15.8%	0.59	0.60	0.61	0.63	0.64	0.66	0.68
17.4%	0.52	0.52	0.54	0.55	0.56	0.57	0.58

Source: Analyst's research

Figure 65 – Angolan base case sensitive analysis

Ce\Gr	0.6%	1.1%	2.3%	3.4%	4.5%	5.7%	6.8%
12.2%	0.31	0.32	0.35	0.38	0.42	0.48	0.56
13.5%	0.27	0.27	0.29	0.32	0.34	0.38	0.43
15.0%	0.23	0.23	0.25	0.26	0.28	0.31	0.34
16.7%	0.19	0.20	0.21	0.22	0.23	0.25	0.27
18.4%	0.17	0.17	0.18	0.18	0.19	0.21	0.22
20.2%	0.14	0.14	0.15	0.16	0.16	0.17	0.18
22.3%	0.12	0.12	0.13	0.13	0.14	0.14	0.15

Source: Analyst's research

Figure 66 – Angolan pessimist / bad management case sensitive analysis

Ce\Gr	0.4%	0.8%	1.7%	2.5%	3.3%	4.2%	5.0%
12.2%	0.06	0.06	0.06	0.06	0.07	0.07	0.08
13.5%	0.05	0.05	0.05	0.06	0.06	0.06	0.06
15.0%	0.05	0.05	0.05	0.05	0.05	0.05	0.06
16.7%	0.04	0.04	0.04	0.04	0.05	0.05	0.05
18.4%	0.04	0.04	0.04	0.04	0.04	0.04	0.04
20.2%	0.03	0.03	0.04	0.04	0.04	0.04	0.04
22.3%	0.03	0.03	0.03	0.03	0.03	0.03	0.03

Source: Analyst's research

Figure 67 – Possible price outcomes

1.66	1.70	1.78	1.88	2.00	2.14	2.32
1.46	1.49	1.55	1.62	1.71	1.80	1.92
1.28	1.31	1.35	1.40	1.46	1.53	1.61
1.13	1.14	1.18	1.22	1.26	1.31	1.36
1.00	1.02	1.04	1.07	1.10	1.14	1.18
0.89	0.90	0.92	0.94	0.96	0.99	1.02
0.79	0.80	0.81	0.83	0.85	0.87	0.89

Source: Analyst's research

Multiples

BPI’s final valuation implies a P/B multiple of 0.80x, which is slightly above the selected peers average multiple for the Portuguese financial institutions sector of 0.77x (figure 62), and is trading at a premium of c.43% when compared to Millennium BCP. One of the possible explanations for the difference between the two multiples of the Portuguese banks may reflect the fact that Millennium BCP still hasn’t paid the expansive CoCos and registered higher impairment costs after the 2010 crisis due to a credit portfolio more exposed to the corporate sector.

Appendix

Appendix 1 – Financial Statements:

Consolidated Balance Sheet									
(amounts in €m)	2014a	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e
ASSETS									
Cash and deposits at central banks	1,894	2,117	499	456	453	443	446	484	524
Financial Assets	10,632	11,969	7,675	7,716	7,996	8,040	8,104	8,161	8,169
Deposits and Loans and advances to credit institutions	2,969	2,943	2,026	2,259	3,132	2,732	3,007	3,308	3,640
Loans and advances to Customers	25,269	24,094	22,074	22,523	23,396	24,818	26,311	27,683	29,290
Tangible and Intangible assets	229	222	78	82	84	87	90	93	94
Investment in associated companies and jointly controlled entities	213	222	610	641	679	722	769	818	869
Other Assets	1,422	1,161	1,076	1,148	1,158	1,202	1,202	1,279	1,370
Total assets	**42,629**	**42,727**	**34,038**	**34,825**	**36,898**	**38,045**	**39,929**	**41,825**	**43,956**
LIABILITIES									
Resources of central banks	1,561	1,343	1,349	1,279	967	1,054	1,178	1,288	1,304
Resources of other credit institutions	1,372	2,239	2,498	2,785	3,861	4,248	4,674	5,144	5,660
Resources of Customers and other debts	28,135	28,697	20,750	20,991	21,784	22,608	23,463	24,350	25,271
Debt securities	2,238	1,008	1,012	1,484	2,007	2,189	2,447	2,675	2,709
Provisions	4,259	4,022	3,948	3,725	3,294	2,733	2,798	2,638	2,773
Other liabilities	2,518	2,745	2,250	2,281	2,567	2,702	2,720	2,943	3,300
Total liabilities	**40,083**	**40,055**	**31,806**	**32,545**	**34,480**	**35,534**	**37,281**	**39,038**	**41,016**
SHAREHOLDERS' EQUITY									
Shareholders' equity attributable to the shareholders of BPI	2,127	2,268	2,230	2,279	2,416	2,510	2,646	2,785	2,939
Minority interest	418	405	2	2	2	2	2	2	2
Total shareholders' equity	**2,546**	**2,673**	**2,232**	**2,280**	**2,418**	**2,511**	**2,648**	**2,787**	**2,940**
Total liabilities and shareholders' equity	**42,629**	**42,727**	**34,038**	**34,825**	**36,898**	**38,045**	**39,929**	**41,825**	**43,956**

Consolidated Income Statement									
(amounts in €m)	2014a	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e
Financial margin (narrow sense)	**485**	**528**	**297**	**309**	**291**	**305**	**297**	**319**	**346**
Gross margin on unit links	5	12	12	12	13	13	13	13	13
Income from equity instruments	4	4	4	4	4	4	4	5	5
Net commission relating to amortised cost	20	20	19	19	20	21	22	23	24
Financial margin	**514**	**563**	**332**	**345**	**328**	**344**	**336**	**360**	**387**
Technical result of insurance contracts	34	38	37	38	41	42	44	46	48
Net commission income	312	295	253	258	272	284	298	311	325
Gain and loss on financial assets	23	175	77	77	99	113	122	139	147
Interest and financial gain and loss with pensions	2	3	3	4	4	4	4	4	4
Net income on financial operations	**25**	**178**	**80**	**81**	**102**	**116**	**126**	**143**	**151**
Operating income and charges	(28)	5.1	(9)	(10)	(9)	(8)	(7)	(7)	(6)
Operating income from banking activity	**858**	**1,079**	**693**	**712**	**734**	**778**	**796**	**853**	**906**
Personnel administrative and suplier costs	(641)	(635)	(473)	(445)	(440)	(435)	(429)	(424)	(419)
Depreciation and amortisation	(31)	(32)	(18)	(19)	(19)	(20)	(20)	(20)	(21)
Overhead costs	**(672)**	**(667)**	**(491)**	**(464)**	**(459)**	**(454)**	**(449)**	**(445)**	**(440)**
Recovery of loans, interest and expenses and Impairment losses and provisions for loans and guarantees and Impairment losses and other provisions, net	(222)	(163)	(151)	(142)	(105)	(99)	(92)	(83)	(73)
Net income before income tax	**(36)**	**249**	**51**	**105**	**170**	**224**	**254**	**325**	**392**
Income tax	(31)	(10)	(10)	(20)	(31)	(38)	(43)	(55)	(67)
Earnings of associated companies (equity method)	26	15	110	101	100	106	120	128	141
Global consolidated net income	**(40)**	**254**	**151**	**186**	**239**	**292**	**332**	**399**	**467**
Net income excluding earnings from associated companies	**(66)**	**240**	**41**	**85**	**139**	**186**	**211**	**270**	**326**
Income attributable to minority interest	(123)	(117)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Consolidated net income of the BPI Group	**(164)**	**137**	**150**	**186**	**238**	**292**	**331**	**398**	**466**

	Portugal									Angola								
	2014a	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2014a	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e
ASSETS																		
Cash and deposits at central banks	440	520	499	456	453	443	446	484	524	1,454	1,597	1,685	1,796	1,944	2,092	2,294	2,494	2,685
Financial Assets	7,754	7,672	7,675	7,716	7,996	8,040	8,104	8,161	8,169	2,878	4,297	4,793	5,036	5,336	5,851	6,382	6,856	7,337
Deposits and Loans and advances to credit institutions	1,573	1,817	2,026	2,259	3,132	2,732	3,007	3,308	3,640	2,059	1,126	1,162	1,198	1,254	1,236	1,237	1,263	1,289
Loans and advances to Customers	23,436	22,535	22,074	22,523	23,396	24,818	26,311	27,683	29,290	1,833	1,558	1,784	1,982	2,202	2,428	2,680	2,991	3,371
Tangible and Intangible assets	84	83	78	82	84	87	90	93	94	144	139	147	155	163	170	178	186	193
Investment in associated companies and jointly controlled entities	213	219	227	235	244	252	260	268	276	-	3	3	4	4	4	5	5	6
Other Assets	1,400	1,104	1,076	1,148	1,158	1,202	1,202	1,279	1,370	26	58	66	63	62	61	54	52	52
Total assets	**34,901**	**33,949**	**33,655**	**34,419**	**36,463**	**37,575**	**39,420**	**41,276**	**43,364**	**8,394**	**8,778**	**9,640**	**10,233**	**10,964**	**11,844**	**12,830**	**13,847**	**14,934**
LIABILITIES																		
Resources of central banks	1,561	1,343	1,349	1,279	967	1,054	1,178	1,288	1,304	-	-	-	-	-	-	-	-	-
Resources of other credit institutions	2,007	2,239	2,498	2,785	3,861	4,248	4,674	5,144	5,660	29	0	0	0	0	0	0	0	0
Resources of Customers and other debts	20,686	21,285	20,750	20,991	21,784	22,608	23,463	24,350	25,271	7,449	7,413	8,059	8,706	9,428	10,211	11,059	11,977	12,972
Debt securities	2,238	1,008	1,012	1,484	2,007	2,189	2,447	2,675	2,709	-	-	-	-	-	-	-	-	-
Provisions	4,228	3,985	3,948	3,725	3,294	2,733	2,798	2,638	2,773	31	37	42	47	51	51	55	60	67
Other liabilities	2,457	2,240	2,250	2,281	2,567	2,702	2,720	2,943	3,300	56	505	583	465	397	407	443	436	412
Total liabilities	**33,177**	**32,100**	**31,806**	**32,545**	**34,480**	**35,534**	**37,281**	**39,038**	**41,016**	**7,566**	**7,955**	**8,684**	**9,217**	**9,876**	**10,668**	**11,557**	**12,473**	**13,452**
SHAREHOLDERS' EQUITY																		
Shareholders' equity attributable to the shareholders of BPI	1,722	1,847	1,847	1,872	1,981	2,039	2,137	2,235	2,346	412	403	574	609	653	705	764	824	889
Minority interest	2	2	2	2	2	2	2	2	2	416	421	383	406	435	470	509	550	593
Total shareholders' equity	**1,724**	**1,849**	**1,849**	**1,874**	**1,982**	**2,041**	**2,139**	**2,237**	**2,348**	**828**	**824**	**957**	**1,015**	**1,088**	**1,175**	**1,273**	**1,374**	**1,482**
Total liabilities and shareholders' equity	**34,901**	**33,949**	**33,655**	**34,419**	**36,463**	**37,575**	**39,420**	**41,276**	**43,364**	**8,394**	**8,778**	**9,640**	**10,233**	**10,964**	**11,844**	**12,830**	**13,847**	**14,934**

	Portugal									Angola								
(amounts in €m)	2014a	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2014a	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e
Financial margin (narrow sense)	**485**	**528**	**297**	**309**	**291**	**305**	**297**	**319**	**346**	**237**	**229**	**247**	**268**	**288**	**316**	**339**	**373**	**413**
Gross margin on unit links	5	12	12	12	13	13	13	13	13	-	-	-	-	-	-	-	-	-
Income from equity instruments	4	4	4	4	4	4	4	5	5	-	-	-	-	-	-	-	-	-
Net commission relating to amortised cost	20	20	19	19	20	21	22	23	24	0	-	-	-	-	-	-	-	-
Financial margin	**514**	**563**	**332**	**345**	**328**	**344**	**336**	**360**	**387**	**237**	**229**	**247**	**268**	**288**	**316**	**339**	**373**	**413**
Technical result of insurance contracts	34	38	37	38	41	42	44	46	48	-	-	-	-	-	-	-	-	-
Net commission income	312	295	253	258	272	284	298	311	325	65	39	39	39	45	47	54	56	63
Gain and loss on financial assets	23	175	77	77	99	113	122	139	147	118	123	133	99	77	78	87	86	73
Interest and financial gain and loss with pensions	2	3	3	4	4	4	4	4	4	-	-	-	-	-	-	-	-	-
Net income on financial operations	**25**	**178**	**80**	**81**	**102**	**116**	**126**	**143**	**151**	**118**	**123**	**133**	**99**	**77**	**78**	**87**	**86**	**73**
Operating income and charges	(28)	5.1	(9)	(10)	(9)	(8)	(7)	(7)	(6)	(11)	15.3	17	20	24	26	34	37	40
Operating income from banking activity	**858**	**1,079**	**693**	**712**	**734**	**778**	**796**	**853**	**906**	**408**	**406**	**436**	**427**	**435**	**467**	**515**	**552**	**589**
Personnel administrative and suplier costs	(641)	(635)	(473)	(445)	(440)	(435)	(429)	(424)	(419)	(125)	(138)	(151)	(160)	(167)	(179)	(192)	(204)	(211)
Depreciation and amortisation	(31)	(32)	(18)	(19)	(19)	(20)	(20)	(20)	(21)	(14)	(14)	(14)	(15)	(16)	(17)	(17)	(18)	(19)
Overhead costs	**(672)**	**(667)**	**(491)**	**(464)**	**(459)**	**(454)**	**(449)**	**(445)**	**(440)**	**(139)**	**(151)**	**(165)**	**(174)**	**(183)**	**(196)**	**(210)**	**(222)**	**(230)**
Impairments and provisions, net of recoveries	(222)	(163)	(151)	(142)	(105)	(99)	(92)	(83)	(73)	(26)	(27)	(29)	(32)	(34)	(36)	(35)	(39)	(36)
Net income before income tax	**(36)**	**249**	**51**	**105**	**170**	**224**	**254**	**325**	**392**	**244**	**227**	**243**	**220**	**218**	**235**	**269**	**291**	**323**
Income tax	(31)	(10)	(10)	(20)	(31)	(38)	(43)	(55)	(67)	(4)	(3)	(3)	(4)	(6)	(6)	(5)	(6)	(7)
Earnings of associated companies (equity method)	26	15	110	101	100	106	120	128	141	-	0	0	0	0	0	0	1	0
Global consolidated net income	**(40)**	**254**	**151**	**186**	**239**	**292**	**332**	**399**	**467**	**240**	**224**	**240**	**216**	**213**	**230**	**265**	**285**	**316**
Net income excluding earnings from associated companies	**(66)**	**240**	**41**	**85**	**139**	**186**	**211**	**270**	**326**	**240**	**224**	**239**	**216**	**213**	**230**	**265**	**285**	**316**
Income attributable to minority interest	(123)	(117)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(123)	(110)	(96)	(86)	(85)	(92)	(106)	(114)	(126)
Consolidated net income of the BPI Group	**(164)**	**137**	**150**	**186**	**238**	**292**	**331**	**398**	**466**	**117**	**115**	**144**	**130**	**128**	**138**	**159**	**171**	**190**

Appendix 2 – Valuation: DCFE

Portugal								
Base case	**2015e**	**2016e**	**2017e**	**2018e**	**2019e**	**2020e**	**2021e**	**2022e**
FCFE		40	60	30	126	113	171	215
Discount factor		88.45%	78.23%	69.19%	61.20%	54.13%	47.88%	42.34%
Discounted FCFE		35	47	21	77	61	82	91
PV FCFE	415							
Terminal value	1,883							
PV terminal value	798							
Equity Value (€m)	**1,212**							
BPI's Stake	100.00%							
Number of shares	1,457							
Growth rate	1.50%							

Summury box	
EQV (€m)	**1,212**
EQV per share (€)	**0.83**

Angola - Base case								
Base case	**2015e**	**2016e**	**2017e**	**2018e**	**2019e**	**2020e**	**2021e**	**2022e**
FCFE (Kwanzas)		16,022	23,341	23,218	24,847	28,772	31,782	36,139
FCFE (€m)		116	169	168	180	208	230	261
Discount factor		85.68%	73.40%	62.89%	53.88%	46.16%	39.55%	33.89%
Discounted FCFE (€m)		39	57	57	61	70	78	89
PV FCFE(€m)	451							
Terminal value (€m)	2,028							
PV terminal value	687							
Equity Value (in €m)	**1,138**							
Attributed to BPI	**319**							
BPI's stake	40.00%							
Number of shares	1,457							
Exchange rate	0.00723							
Growth rate	3.4%							
Probability	70.0%							

Summury box	
EQV (€m)	**1,138**
EQV to BPI (€m)	**319**
EQV per share (€)	**0.22**

Angola - Pessimist / bad management scenario								
Base case	**2015F**	**2016F**	**2017F**	**2018F**	**2019F**	**2020F**	**2021F**	**2022F**
FCFE (Kwanzas)		11,838	18,076	10,635	7,863	9,835	10,816	11,825
FCFE (€m)		83	127	74	55	69	76	83
Discount factor		85.68%	73.40%	62.89%	53.88%	46.16%	39.55%	33.89%
Discounted FCFE (€m)		71	93	47	30	32	30	28
PV FCFE(€m)	330							
Terminal value (€m)	597							
PV terminal value	202							
Equity Value (in €m)	**533**							
Attributed to BPI	**64**							
BPI's stake	40.00%							
Number of shares	1,457							
Exchange rate	0.00700							
Growth rate	2.5%							
Probability	30.0%							

Summury box	
EQV (€m)	**533**
EQV to BPI (€m)	**64**
EQV per share (€)	**0.04**

DCFE	
EQV Portugal (€m)	**1,212**
EQV Angola (€m)	**383**
EQV Angola + Portugal (€m)	**1,594.63**
EQV per share (€)	**1.09**

Appendix 3 – Valuation: Equity method

Equity Method					
Company	**Sector**	**Stake**	**Shareholders equity (2014) (€m)**	**Sector P/B (2015e)**	**Equity value for BPI (€m)**
Banco Comercial e de Investimentos	Bank	30.0%	183	1.07x	59
Inter-Risco - Sociedade de Capital de Risco	Venture Capital	49.0%	1	0.77x	1
Cosec	Insurance	50.0%	60	0.83x	25
Allianz Portugal	Insurance	35.0%	267	0.83x	78
Unicre	Others	21.0%	98	0.77x	16
Equity Value (€m)					**178**
Equity Value per share (€m)					**0.1**

Disclosures and Disclaimer

Research Recommendations

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

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