

BANCO BPI SA

BANKING SECTOR

STUDENT: ANA FERRARIA

COMPANY REPORT

6 DECEMBER 2013

Uncertainty Ahead ...

Leveraged by International Operations

- Banco BPI has been penalized by the need to preserve a buffer for exposures to sovereign debt, amounting to EUR 1359mn, which is no longer updated.
- Domestic operations represent 90% of the financial institution assets, consequently price share will be heavily dependent on the sovereign debt crisis developments and on the evolution of portuguese macroeconomic conditions. Domestic operations were valued at EUR 1.35 per share.
- Under low Euribor environment, the deterioration of asset quality, rising funding costs of deposits and high interest expenses with CoCos have been putting pressure on bank's profitability. Going forward, banks will not go into more aggressive strategies to attract deposits and re-pricing of the loan portfolio will take place, which is expected to be lengthier for Banco BPI given the credit portfolio concentration on the mortgage segment.
- Banco Fomento Angola (BFA) is expected to be the main driver of Banco BPI's results in the future having provided high ROEs. Angolan operations were valued at EUR 0.14 per share.
- **Valuation:** The YE14 target price is based on the sum-of-the-parts valuation. The discounted cash flow to equity was used to value Domestic, Angolan and Mozambican operations of Banco BPI. The domestic equity interests were valued at equity book value. **The EUR 1.55 target price implies an upside of 31% to the current share price of EUR 1.19, and our recommendation is to buy.**

Company description: Founded in 1981, Banco BPI is the third largest Portuguese private financial institution, operating in Commercial Banking, Investment Banking, and Financial Investments and Private Equity. Banco BPI's possesses relevant equity interests in the insurance business, through Allianz Portugal and Cossec. Banco BPI has presence abroad, through subsidiaries in Angola and a 30% participation on BCI in Mozambique.

Recommendation: BUY

Vs Previous Recommendation HOLD

Price Target FY14: 1.55 €

Vs Previous Price Target 1.22 €

Price (as of 2-Dec-2013) 1.19 €

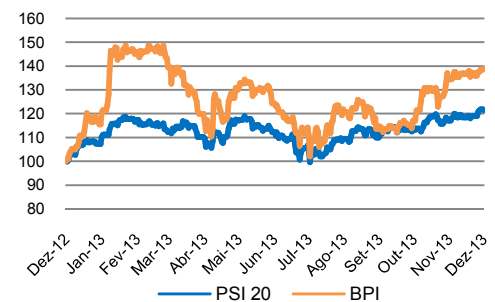
Reuters: BBPI.LS, Bloomberg: BPI PL Equity

52-week range (€) 0.80-1.19

Market Cap (€m) 1,690

Outstanding Shares (m) 1390

Source: Bloomberg



Source: Bloomberg

(Values in € millions)	2012	2013F	2014F
Net Interest Income	549	443	610
Net Income	249	92	181
ROE	15.1%	7.3%	7.9%
ROA	0.68%	0.35%	0.4%
NIM	1.25%	1.04%	1.38%
Cost/Income	48%	60%	53%
Loans/Deposits	111%	109%	95%
RWA	24,512	24,384	21,950
Core Tier 1 (BoP)	15%	14.25%	16.2%
Core Tier 1 (EBA)	9.8%	9%	9%

Source: Bloomberg, Analyst's estimates

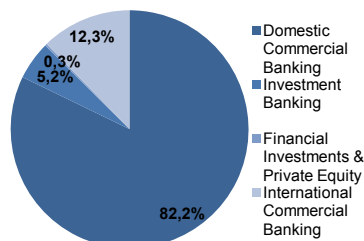
THIS REPORT WAS PREPARED BY ANA FERRARIA, A MASTERS IN FINANCE STUDENT OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS, EXCLUSIVELY FOR ACADEMIC PURPOSES. THIS REPORT WAS SUPERVISED BY ROSÁRIO ANDRÉ WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL. (SEE DISCLOSURES AND DISCLAIMERS AT END OF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

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Company Overview

Figure 1 – BPI's assets by business segment (2012)



Source: Company Data

Banco Português de Investimentos (BPI) is the **third largest Portuguese private financial institution** with a market capitalisation of EUR 1.69bn, weighing 1.71% on PSI-20 Index. Portuguese activity is the core business of Banco BPI, acting in commercial banking, investment banking, and private equity and financial investments. It accounts for close to 90% of the assets managed by the bank, comprising a network of 53 corporate centers, 39 investment centers and 612 traditional branches, employing 6326 workers, and detaining a market share close to 9% in deposits and loans. As for International activities, the bank owns a 50.1% participation in angolan Banco Fomento Angola and a 29.7% participation in the mozambican Banco Comercial e de Investimento (BCI).

- History

Figure 2 – Acquisitions and Internationalization



Source: Company Data

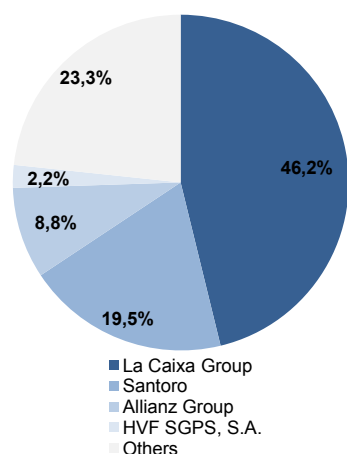
BPI was founded in 1981 as Sociedade Portuguesa de Investimentos, by Artur Santos Silva, having as purpose to finance projects launched by the private sector, and to contribute to the creation of capital markets as well as to the country's industrial modernization.

Since its foundation, BPI aspires to consolidate its position in the domestic market as one of the major Portuguese financial groups, a goal which end up being achieved through a solid organic growth and an acquisition strategy. In 1991 took place the **acquisition of Banco Fonseca & Burnay** allowing to enter into the Commercial Banking segment; and in 1996, the **acquisition of Banco de Fomento e Exterior and Banco Borges e Irmão** marked the beginning of the integration process involving the three banks belonging to BPI's Group which would culminate, in 1998, with the creation of Banco BPI.

Once Banco BPI's position in the domestic market was consolidated an internationalization strategy became the next step. **Banco de Fomento Angola (BFA)**, currently the angolan market leader holding a market share of 16% in deposits and 10% in loans, was founded in 1996. Later, in 2008 BPI developed a strategic partnership with Unitel, the Angolan mobile telecommunications company hold by Isabel dos Santos, selling it 49.9% of BFA's capital. In 2003, the group acquired a 29.7% participation on **Banco Comercial e de Investimentos (BCI)**, Mozambican retail bank focused on capturing customers' resources and granting loans where Caixa Geral de Depósitos (CGD) owns a 51% participation.

• Shareholder Structure

Figure 3– Shareholder Structure



Source: Company Data

BPI presents a concentrated shareholder structure. La Caixa Group (the Spanish third largest financial institution) is the largest minority shareholder controlling 46.2% of BPI's equity, followed by Santoro Financial Holding (a company hold and founded by Isabel dos Santos, daughter of the President of Angola José Eduardo dos Santos, and owner of 49.9% stake on BFA through Unitel), Allianz SE (the German multinational financial services company with whom BPI holds a partnership in order to provide a range of life and non-life insurance products within the domestic market) and Violas Ferreira Financial (which capital is hold by HVF SGPS) with a stake of 19.5%, 8.8% and 2.2%, respectively.

In 2012, two events altered Banco BPI's shareholder structure. To start with, in March 2012, Itaú sold its 18.87% participation to La Caixa for EUR 93mn, following the merger between Itaú and Unibanco. The participation on Banco BPI seen as an investment rather than strategic partnership, dictated as inevitable the sale as soon as the merger took place, since Itaú Unibanco's goal was to become a global player by the next 5 years having in Latin America its growing opportunity.

Second, in order to comply with a 9% capital ratio imposed by the EBA, BPI carried out a capitalization plan entailing the issuance of EUR 1500mn Contingent Convertible Subordinated Bonds (CoCos) subscribed by the portuguese government, in June 2012, allied with a capital increase of EUR 200mn, in August 2012, subscribed in 90% by Banco BPI's major shareholders, La Caixa, Santoro and Allianz. Following the capital increase, La Caixa reinforced its participation from 40% to 46.2%, Santoro and Allianz made the investment required to maintain their positions unaltered, and HVF had its participation diluted to 2.2%. The alterations in BPI's capital structure resulting from the capital increase are presented in Table 1.

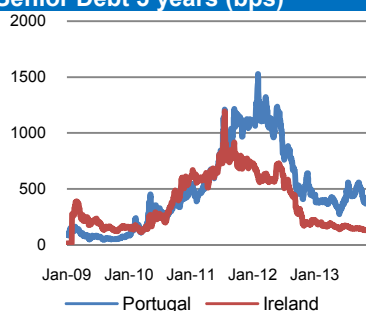
Table 1 – Change in Shareholder Structure

Company	Before	After
La Caixa Group	40%	46.2%
Santoro	19.5%	19.5%
Allianz Group	8.8%	8.8%
HVF SGPS, S.A.	2.6%	2.2%

Even though Banco BPI holds the aforementioned hybrid instruments, we are expecting their full redemption before 2017 implying the non-conversion of these instruments into BPI shares. Hence, future changes in the present shareholders structure are not foreseen. The single case in which we believe that the hybrid instruments would be converted into BPI shares would be in the unlikely scenario in which Portugal would leave the Euro Zone.

Domestic Operations

Figure 4 – Credit Default Swaps Senior Debt 5 years (bps)



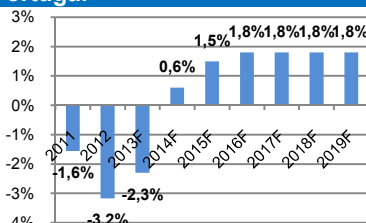
Source: Bloomberg

Table 2 – Moody's Credit Ratings

Date	BPI	BCP	BES	PT
04-12-2012		B1		
28-03-2012	Ba3		Ba3	Ba3
13-02-2012				
07-10-2011	Ba2	Ba3	Ba2	
15-07-2011	Baa3	Ba1	Ba1	
05-07-2011				Ba2
06-04-2011	Baa2	Baa3	Baa2	
05-04-2011				Baa 1
15-03-2011				A3
21-12-2010				A1
14-07-2010	A2	A3	A2	
13-07-2010				A1
05-05-2010				Aa2
16-09-2009		A1	A1	
06-04-2009	A1	Aa3	Aa3	
11-07-2008				Aa2

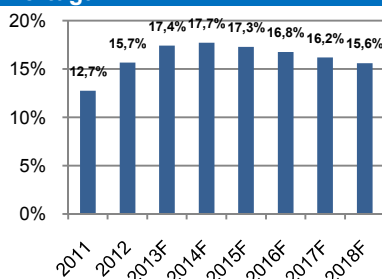
Source: Bloomberg

Figure 5 – Real GDP growth Portugal



Source: IMF

Figure 6 – Unemployment Rate Portugal



Source: IMF

Macroeconomic Context

Escalating yields and CDS spreads coupled with several sovereign credit rating downgrades by Moody's, Fitch and Standard&Poor drove Portugal towards a formal request of EUR 78bn bailout, in 2011, becoming the third country to request assistance after Greece and Ireland. Implementation of austerity program and structural reforms involving cuts on government spending and tax increases resulted in the contraction of the Gross Domestic Product (GDP) of 1.6% in 2011 and 3.2% in 2012, and degradation of labour conditions with unemployment rate reaching 15.65% by the end of 2012. Even though Portuguese figures have considerably improved, they are still not very optimistic: unemployment rate is forecasted to continue climbing to 17.7% by the end of 2014; country is facing a recessive mood with negative 2.3% economic growth being expected until end of 2013, while return to economic growth is expected to take place in 2014 with a slight 0.6% economic growth; government deficit is still among the highest in the European Union; and deficit targets have been extended being a goal to attain 6% of GDP by 2015.

With portuguese assistance program reaching to an end in June 2014, some argue that the country might be heading for a temporary credit line (the so called "precautionary program"¹) or even to a second bailout program, which would include the permanence of tough austerity measures and further reforms. Portugal's funding costs reflect that uncertainty with 10 years government bonds yields (a measure of investors sentiment) standing around 6%, and the country not seeing any changes in the sovereign credit ratings being classified as non-investment grade by the three rating agencies². Ireland was a success case being able to exist the bailout program without having to resort to further precautionary programs, however Ireland funding costs (10 years ireland government bonds were around 3.5%) are considerably smaller than portuguese ones, and Moody's is the only credit rating agency still classifying Irish government bonds as non-investment grade.

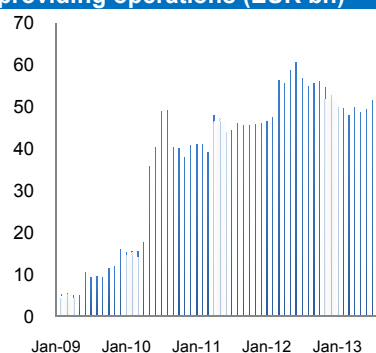
ECB continues to encourage liquidity into the Euro area, reducing the reference interest rate on refinancing operations, which stands at 0.25% since 13th November 2013; reducing the interest rate on deposit facilities which is fixed at zero since 11th July 2011 attempting to stimulate inter-bank lending; and launching the Outright Monetary Transactions (OMT) program of unlimited purchase of sovereign debt on secondary markets.

¹ According to EFSF, the temporary credit line would be available for one year and has a limited size of 10% of the country GDP. Therefore, the temporary credit line would have a maximum of around EUR 17bn for Portugal.
² Standard&Poor putted the country on negative watch, considering that the country might be heading for the precautionary assistance program

Funding Structure

• ECB Funding

Figure 7 – ECB Liquidity providing operations (EUR bn)



Source: Bank of Portugal

Figure 8 – Exposure to ECB funding (EUR bn)

	BPI	BCP	BES
Eligible Assets	11,9	21	21
ECB Repos	4,1	12,7	9,2
Still Available	6,2	8,3	11,8
Total Assets	43,0	83,1	79,9
ECB % Assets	9,5%	15,3%	11,5%

Source: Company data

Figure 9 – Debt maturity profile (EUR bn)

	BPI	BCP	BES
2014	0,1	3	2,3
2015	0,6	0,3	3,1
2016	0,1	0,6	0,4
2017	0	1,2	0,2
>2017	0,3	0,4	
Total	1,1	5,5	6

Source: Company data

The sovereign debt crisis resulted in a sequence of sovereign credit rating downgrades by Moody's, S&P and Fitch along with CDS spreads reaching historical maximums, closing the access to the wholesale debt market for Portuguese banks. Since then, Portuguese financial institutions have resorted heavily to ECB funding, which have increased from EUR 5.2bn in January 2009 to over EUR 51.9bn in September 2013, reaching its peak of EUR 60.5bn in June 2012 (Figure 7).

Recently liquidity has been improving as banks are gradually returning to the wholesale debt market, a milestone not achieved since April 2010. In 4th quarter 2012, BES and CGD issued non-guaranteed senior debt securities amounting to EUR 750mn and EUR 500mn, respectively, and in the 4th quarter 2013³, BES issued EUR 750mn subordinated debt⁴ with 10 years of maturity and coupon of 7.125%. Even though the amounts issued are small and interest rates considerably high, this achievement signs that investors are regaining confidence on Portuguese banks. Still, the Portuguese state and banks have not seen a change in their credit ratings.

BPI presents the smallest dependence on resources obtained from ECB, both in absolute and relative terms, within the Portuguese financial system, contrasting with Millennium BCP which is the Portuguese financial institution that most relies on ECB funding. In 3Q13, BPI's resources borrowed from ECB stand at EUR 4.1bn representing 9.5% of the total assets, comparing with 15.3% and 11.5% for BCP and BES, respectively. The assets eligible as collateral for the refinancing operations with ECB corresponded to EUR 11.9bn from which EUR 6.2bn are still available to use as collateral for future refinancing operations.

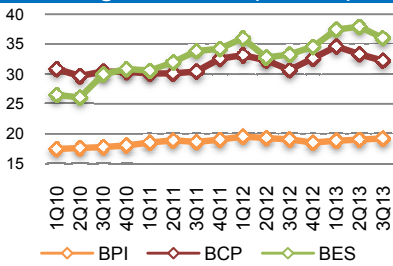
BPI faces minimal medium and long-term debt refinancing needs, with debt maturing until 2017 being fully covered by the available ECB collateral, and significant freeing of liquidity being expected upon the redemption of EUR 3bn of medium and long-term bonds held in BPI portfolio in 2019⁵. These minimal refinancing needs were attained through deleveraging strategy allying stable customers resources with the contraction of the loan portfolio, which allowed it to achieve a transformation ratio well below the 120% threshold recommended by the Bank of Portugal.

³ Issuance was made at 31 October 2013

⁴ Among the subscribers of BES subordinated debt 95% were foreign investors, standing out investors from the USA, France and United Kingdom.

⁵ Source: Banco BPI's annual report 2012

Figure 10 – Evolution of Deposits of Portuguese banks (EUR bn)

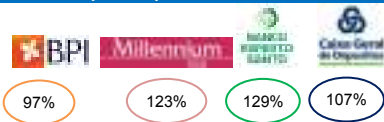


Source: Company Data

• Customers Deposits

Deposits are the main source of funding for Banco BPI, accounting for more than 50% of the bank’s funding structure. Banco BPI deposits increased sharply from EUR 17.5bn in the 1Q10 to over EUR 19.5bn in the 1Q12, when Bank of Portugal decided to put an end to the deposits competition soaring the banking system by penalizing banks paying 300bps above the 6 months on customers deposits. That year, banks increasing containment on deposits remuneration reduced customers deposits for two quarters consecutively (Banco BPI’s deposits moved from EUR 19.5bn in 1Q12 to EUR 18.5bn in 4Q12). Since then, Banco BPI experienced a close to null growth on deposits (more precisely 0.9% YoY from 3Q12 to 3Q13).

Figure 11 – Transformation Ratios (3Q13)

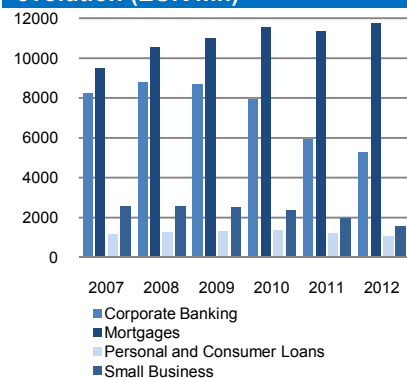


Source: Company Data

• Transformation Ratios

Portuguese banks have been forced to pursue a Loan-to-Deposits ratio below 120% by 2014. In 3Q13, two Portuguese financial institutions had already meet this target, including BPI with a LTD of 97% and CGD with a LTD of 107.4%, while the remaining portuguese financing institutions are fairly closed to the 120% threshold, BES has a LTD of 129% and BCP of 123%. Given the limitations in attracting customers savings through higher remuneration on deposits, and the small potential for asset disposal in the Portuguese banking system, BCP and BES deleveraging can only be achieved through a reduction in the credit, being credit to corporate hurt the most since banks have limited ability to deleverage through mortgage loans.

Figure 12 – BPI’s credit portfolio evolution (EUR mn)



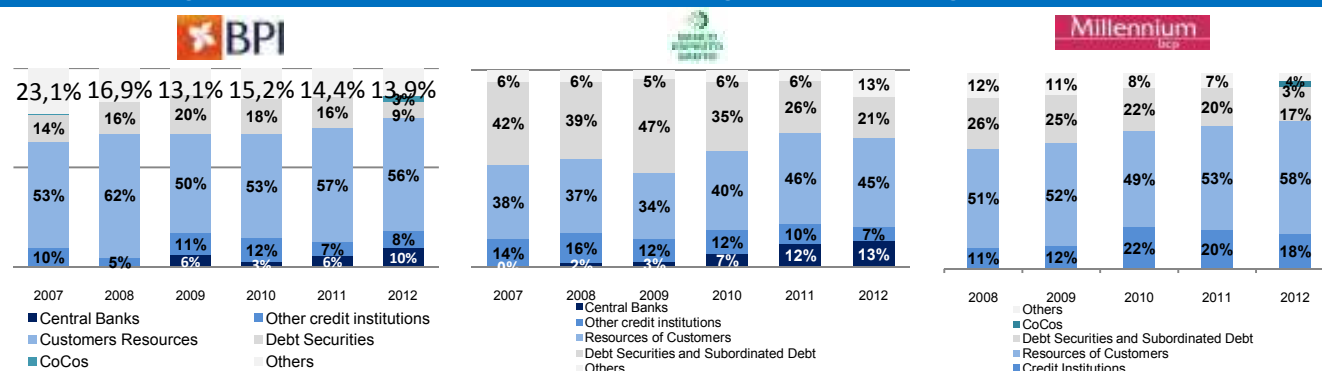
Source: Company data

Banco BPI transformation ratio way below the 120% threshold was achieved through a deleverage strategy that consisted on retaining customers deposits while contracting corporate credit (corporate banking loans decreased from EUR 8.7bn in 2009 to EUR 5.3bn in 2012, while small business loans drop from EUR 2.5bn in 2009 to EUR 1.6bn in 2012) and consumption credit (decreased from EUR 1.3bn in 2009 to EUR 1bn in 2012). Banco BPI has no further need to deleverage with a LTD standing below 100% indicating little dependence on the wholesale debt market. As result, once the country economic conditions improve BPI has incentives to grant more credit to the economy and take advantage of the rising credit spreads to improve its profitability.

Funding Structure

The evolution of the consolidated funding structure of the main portuguese private financial institutions can be seen in the Figure 13. Going forward, considerable changes on Banco BPI's funding structure are anticipated. First of all, customers deposits are expected to gradually moved back to the off-balance sheet resources as new products offering more attractive remunerations than deposits begin appearing in the banking system. Second, bank's dependence on ECB is expected to gradually disappear as financial institutions regain access to the wholesale debt market and the expensive CoCos are reimbursed. Third, banks are re-gaining access to the wholesale debt market, two portuguese banks have already issued debt securities, therefore is reasonable that as soon as the CoCos are fully reimbursed Banco BPI will follow the same example.

Figure 13 – Evolution of the Consolidated Funding Structure of portuguese private banks

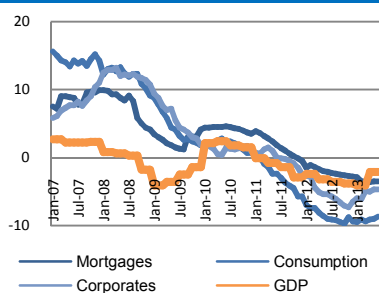


Source: Company Data

Credit

Historical low interest rates and vast access to credit lines following integration in the Eurozone, allowed to accommodate for a strong credit growth above that of the economy (Figure 14) consequently indebtedness levels skyrocketed (by 2009 households, corporate and government indebtedness had reached 97%, 138% and 83.7% of the GDP, respectively). Going forward, credit portfolio is expected to accommodate growth levels below that of portuguese economy favoring the reduction in the high indebtedness level of portuguese households and companies accumulated over the past years.

Figure 14 – Credit Growth Vs GDP Growth



Source: BoP

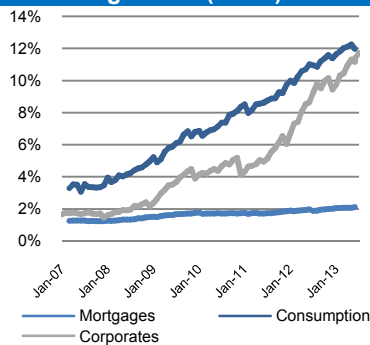
Figure 15 – Indebteness (%GDP) Portugal vs Europe

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Government													
Portugal	50,7	53,8	56,8	59,4	61,9	67,7	69,4	68,4	71,7	83,7	94	108,2	124,1
Average Europe	49,6	49,2	48,6	48,9	48,4	47,4	45,8	43,8	47,0	55,2	60,8	64,8	68,7
Private													
Portugal	154,7	165,9	169,4	176,1	175,7	184,4	192,4	202,9	215,9	224,5	222,2	222,1	223,7
Average Europe	95,4	97,6	101,0	102,4	107,1	116,7	125,5	135,4	154,8	163,6	159,7	158,5	156,6

Source: Eurostat

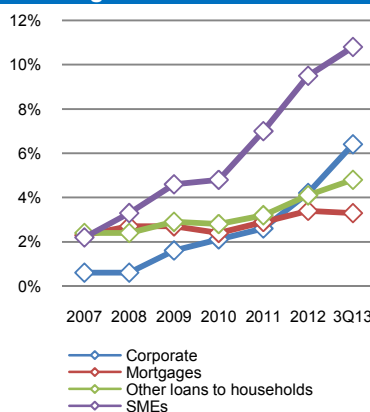
BPI's credit portfolio is represented in 96% by the domestic loan portfolio, whereas the angolan loans portfolio accounts for the remaining 4%, in 9M13. BPI's domestic loan portfolio is mainly composed of mortgages loans (63.6%), followed by corporate loans (31.2%, where 8% were loans to small firms and 23.2% to medium and large corporates), and consumption loans (5.2%).

Figure 17 – Sector Non-Performing Loans (NPLs)



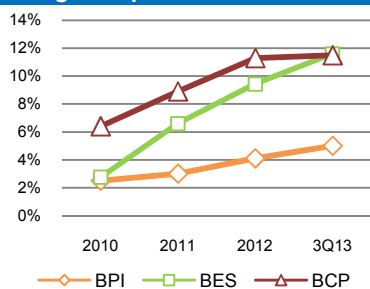
Source: BoP, Analysts' estimates

Figure 18 – BPI NPLs Ratio by loans segment



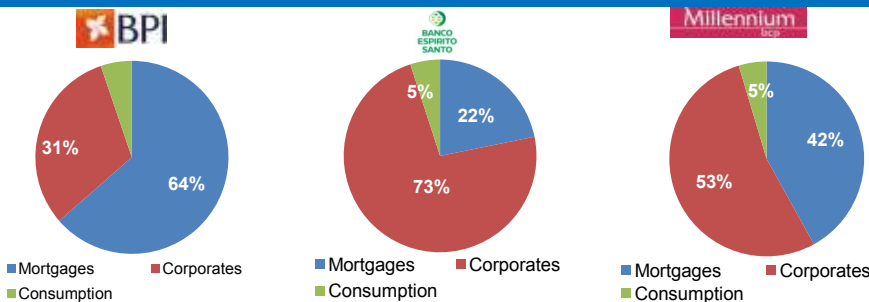
Source: Company Data

Figure 19 – NPLs Ratio of portuguese private banks



Source: Company Data

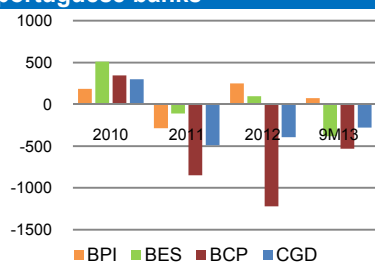
Figure 16 – Credit Portfolio Composition of the portuguese private banks (9M13)



Source: Company Data

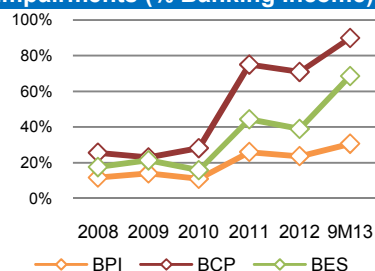
The adverse macroeconomic conditions led to the deterioration of the credit quality, as portrait by the evolution of the Non-Performing Loans (Figure 17). Consumer Loans, being dependent on the macroeconomic conditions such as unemployment rate and disposable income, were the most penalized with defaulting rates on consumption loans increasing from 3.29% in January 2007 to over 12% by August 2013. Contrasting with Mortgages loans, being dependent on housing prices and expectations of future income, and having benefited from low past spreads and present small euribor environment, proved to be the most resilient with defaulting rates on mortgages loans moving slowly from 1.25% in January 2007 to 2.22% in August 2013. As for the corporate segment, corporate loans although less dependent on economic cycles than consumption loans have been hurt by the deterioration of companies profitability that might prevent them from covering interest payments, defaulting rates on corporate loans moved from 1.65% in January 2007 to 11.73% in August 2013. Deterioration of corporate credit quality didn't impacted all the industries the same, with worst sectors being Construction, Real Estate and Retailing, also its incidence was greater on SMEs than on Large and exporting companies. Hence, financial institutions presenting loans portfolios more concentrated on the smaller defaulting rates mortgages segment have a portfolio with stronger credit quality than those with its credit portfolio more concentrated on the corporate segment and credit to consumption segment. Indeed, BPI portraying the largest concentration on the mortgages segment suffered less from the deterioration of credit quality, presenting a domestic non-performing loans ratio of 5% compared with 11.6% for BES and 11.5% for BCP, in 9M13. As for BCP, it was the most penalized with the deterioration of credit quality due to its large concentration on corporate loans segment.

Figure 20 – Net Income portuguese banks



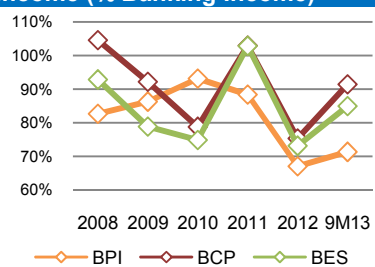
Source: Company Data

Figure 21 – Credit Provision and Impairments (% Banking Income)



Source: Company Data

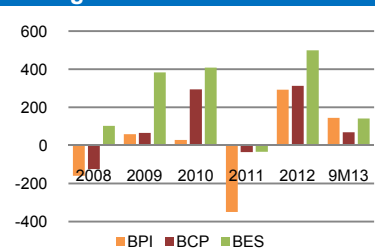
Figure 22 – Net interest income and Commission and fees income (% Banking Income)*



Source: Company Data

* A percentage above 100% means that in that year the trading income was negative.

Figure 23 – Portuguese banks Trading Income



Source: Company Data

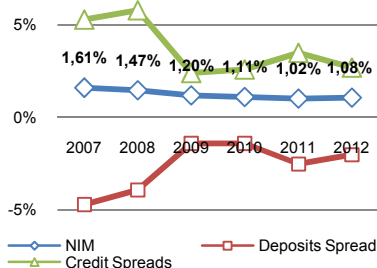
Profitability

Portuguese banks have been experiencing a deterioration in profitability being BPI the most resilient while BES, CGD and BCP suffered significant losses (Figure 20).

Banco BPI's resilience to the recessive macroeconomic environment can be explained by: (1) Smaller exposure to the deterioration in the credit quality arising from the bank's concentration on the low delinquency mortgage segment which implied that the bank credit provisions and impairments were considerably smaller than its peers (as can be seen in Figure 21, credit impairment and provisions devoured 75% and 71% of BCP banking income in 2011 and 2012, respectively, and 44% and 39% of BES banking income in 2011 and 2012, respectively); and (2) Large exposure to sovereign debt of periphery countries, particularly portuguese debt, that allowed the bank's trading income to benefit from the favorable evolution of the debt yields.

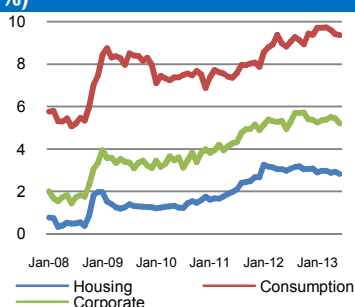
Going forward, in light of economic growth, Banco BPI's profitability is likely to be overcome by BES and BCP: credit quality will take the backstage (Figure 21, in 2010, credit impairment and provisions accounted for 16% of BES banking income and 28% of BCP banking income, comparing with 11% of BPI banking income); larger credit spreads on the corporate and consumption segments allied with faster re-pricing of the credit portfolio will ensure the faster recovery of the bank's net interest income; at last, as volatility in the fixed income market stabilizes the trading income weight on the banking income will become smaller. Hence, the trade-off between credit quality and spreads is the main reason for the resilience of Banco BPI during recessive mood, by contrast with the lenghtier recovery in light of economic growth.

Figure 24 – BPI Domestic Net Interest Margin, Deposit Spread and Credit Spread



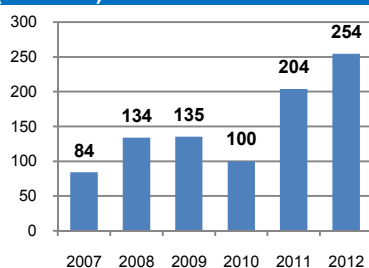
Source: Company Data

Figure 25 – New Loans Spread (%)



Source: BoP, Analyst's estimates

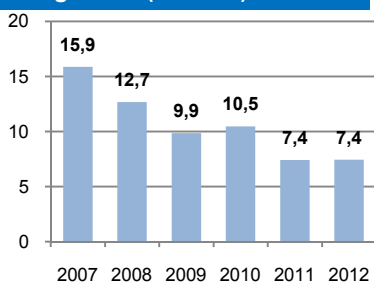
Figure 26 – BPI Credit Provisions and Impairments (EUR mn)*



Source: Company Data

* Excluding related to Financial Assets

Figure 27 – BPI Assets under Management (EUR bn)



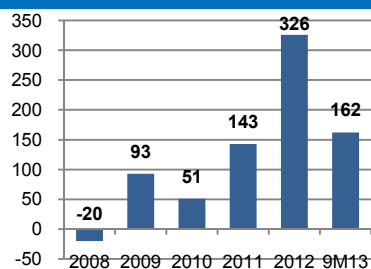
Source: Company Data

Domestic Net Interest Income has been under pressure due to: increasing funding costs with deposits in an attempt to attract customers savings; a weak euribor environment with loans remunerations being defined as a spread over the euribor; increasing provisions and impairments resulting from non-performing loans; and high interest expenses attributed to the hybrid instruments. BPI's NII decreased from EUR 417mn in 2010 to EUR 345mn in 2011, followed by recovery between 2011 and 2012 with the NII reaching EUR 369mn, however in 9M13 NII registered a 31% decrease YoY from EUR 278mn in 9M12 to EUR 191mn in 9M13. Over the next years, deposits spreads are expected to continue slowly recovering, as banks are no longer competing so aggressively to attract customers savings and the commercial gap between loans and deposits has considerably improved. Credit spread are forecasted to increase as loans are being re-priced, but credit re-pricing depends on the average maturity of the loan portfolio as spreads cannot be changed during the loan lifetime. Given BPI considerable weight on mortgages loans (64% of the loan portfolio) re-pricing will be lengthy. Non-Performing Loans seem not to have reach their peak, with unemployment rate being expected to continue increasing until 2014⁶, accordingly provisions and impairments in the loans portfolio are expected to peak in 2014 and beginning to recover afterwards.

Commissions and Fees Income accounted for close to 28% of Banco BPI revenues. Commissions have been decreasing substantially as result of a reduction in the Assets under Management, motivated by a generalized risk aversion that led consumers to re-allocate their savings from off-balance sheet resources to on-balance sheet resources, and by an effort of the financial institutions to attract customers deposits in order to reduce commercial gap and improve liquidity. Banking commissions obtained, among others, from credit and debit cards, sight deposits, bank guarantees or ATM machines, have been negatively impacted by the contraction in credit to consumption. Finally, investment banking commissions have been affected by the reduction both in the number and size of Mergers and Acquisitions deals, and by the reduction in the brokerage and placement of corporate bonds and stocks as several companies were undergoing deleveraging and restructuring processes. Going forward, commissions and fees income are expected to recover, as new saving products are being placed by the government offering more attractive interest rates and the demand for public bonds of portuguese companies becomes stronger, which implies that savings will begin to gradually move from the deposits back to the off-balance sheet resources. In

⁶ IFM forecasted an unemployment rate of 17.409% for 2013, and 17.713% in 2014.

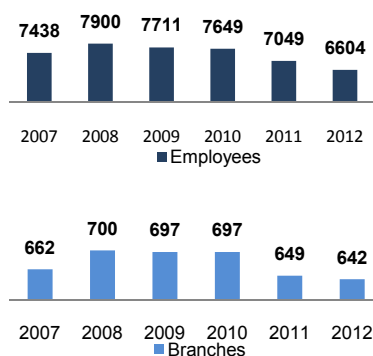
Figure 28 – BPI Trading Income (EUR mn)*



Source: Company Data

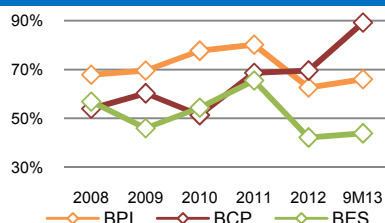
* 2012 - Trading Income include EUR 204mn gains from sale of public debt which are non-recurrent; 2011 - Trading income excludes the impairments of Greece debt pardon otherwise trading income would be negative (-EUR 258mn).

Figure 29 – BPI Domestic branches and employees



Source: Company Data

Figure 30 - Efficiency Ratios of Portuguese Banks*



Source: Company Data

* In 2012, BPI's non-recurrent gains with the sale of public debt were removed to avoid distortions

addition, the need to deleverage of portuguese banks have been significantly reduced, and BPI transformation ratio is way below the 120% threshold.

Trading Income is dictated by the evolution of the financial markets and by the composition of the financial assets portfolio (namely, Available For Sale and Held For Dealing at fair value portfolios). In 2012, BPI had an available for sale portfolio totaling EUR 8393mn (21% of company assets), with the sovereign debt portfolio accounting for 82% of the AFS portfolio. That sovereign debt portfolio was fully composed of periphery countries sovereign debt including: Portuguese (80%), Italian (15%) and Ireland (5%) debt securities. As result, revenues from trading will be mostly linked to the evolution of the of the debt yields of periphery countries which have been evolving positively, and to the sovereign debt rating of these countries where a sovereign haircut would leave the bank in a delicate position and a improving in the sovereign debt rating would highly benefit bank's trading income. Over the past two years, BPI's trading revenues have been mixed: trading income increased 128% YoY in 2012 benefiting from the positive evolution of portuguese debt yields, but, in 2011, the bank registered a significant loss arising from the partial pardon of Greek sovereign debt that forced it to recognize huge impairment losses.

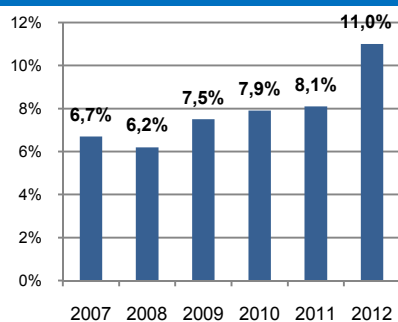
Under BPI's recapitalization plan, the financial institution made a commitment to cut its operational costs⁷, closing 21 branches by the end of 2014, a goal that BPI plans to achieve still this year; and dismissing 163 employees by the end of 2014 and 200 by the end of 2015, decreasing the number of employees from 6363 to 6000 by the end of 2015. As can be seen in Figure 30, previously to 2012, the efficiency ratio of BPI was above that of the main portuguese private financial institutions due to smaller banking revenues arising from its lower Net Interest Margin when compared with its peers, which can be explained by the fact that BPI's credit portfolio is concentrated on the low spreads mortgages segment while BES and BCP focused more on the high spreads corporate segment. However, in 2012 an accentuated reduction in the cost-to-income is observed, resulting from reduction in the operating costs (10% YoY) allied with an increase in operating income (14% YoY). BPI presents a cost-to-income higher than BES but below that of BCP, showing that there is still room for improvements regarding efficiency.

⁷ These measures were imposed by DGComp in the end of June 2013

Regulatory Capital

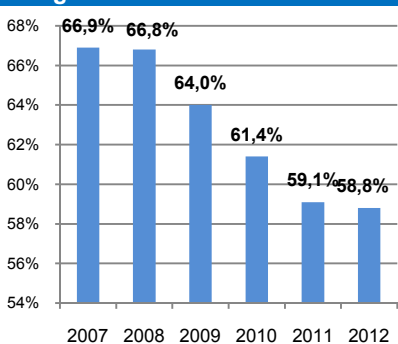
- Capital Requirements

Figure 31 - Banking Sector Core Tier 1



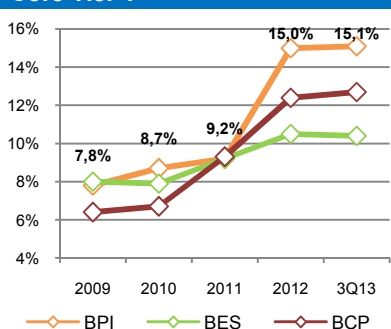
Source: Associação Portuguesa de Bancos

Figure 32 - Banking Sector Risk Weighted Assets % Assets



Source: Associação Portuguesa de Bancos

Figure 33 - Portuguese Banks Core Tier 1



Source: Company Data

EBA's stress test exercises required Portuguese banks to strengthen their capital position in order to comply with 9% Core Tier 1 by 30 June 2012. Banco BPI's capital shortfall, mainly motivated by the sovereign debt buffer amounting to EUR 1359mn, forced the bank to carry out a recapitalization plan that entailed the issuance of EUR 1.5bn CoCos⁸, in June 2012, allied with a capital increase of EUR 200mn, in August 2012. Since then, Portuguese financial institutions have been hit by double capital adequacy requirements, having to comply with a Core Tier 1 above 10% according to Bank of Portugal, and above 9% according to European Banking Authority (EBA) which definition includes a buffer for exposures to sovereign debt assessed at market prices as of 30th September 2011, implying that the value of the sovereign buffer is not impacted neither by market prices changes nor by disposal or reimbursement of the sovereign debt securities.

Having said so, Banco BPI has been penalized by the need to preserve a buffer for exposures to sovereign debt, which assessment was made at market prices as of 30th September 2011. That buffer is no longer updated, not only because it accounts for a potential losses related to exposure to Greece sovereign debt⁹, something that no longer exists on bank's portfolio, but also because the Portuguese yields improved since then. If that sovereign debt buffer was updated based on BPI's sovereign exposure as of 25th October 2013, the value of the buffer would decline by EUR 738mn, resulting in a increase of the share price by 14 cents. It is worth mentioning that new stress test are being performed to European Banks by EBA, which are expected to be finished by October 2014.

On 22nd July 2013, EBA replaced its recommendations regarding capital preservation, allowing banks either to maintain the amount of capital required to comply with EBA recommendation relative to 30 June 2012, or a lower amount as long as the Core Tier 1 ratio of 7% under fully implemented CRD IV rules is met (meaning, that the bank would not benefit from the phase-in period, fully implementing the Basel III)¹⁰. Therefore, understanding whether BPI would be able to comply with the 7% Core Tier Ratio under fully implemented Basel III rules becomes extremely important, since an excess capital might lead BPI immediately to adopt fully implemented Basel III rules.

⁸ Currently, BPI's amount of CoCos stands at EUR 920mn, and the financial institution requested to EBA and BoP the approval of a EUR 588mn reimbursement, considering that the on-going optimization measures will allow the bank to achieve a EUR 588mn surplus relative to the minimum CET1 ratio of 7% fully implemented.

⁹ Buffer related to exposures to Greek debt amounts to EUR 175mn.

¹⁰ Source: Banco BPI

• Basel III

Figure 34 – Basel III Capital Requirements

	Common Equity Tier 1	Tier 1 Capital	Total Capital	Conservative Buffer	Total Capital + Conservative Buffer
2014	4,0%	5,5%	8%		8%
2015	4,5%	6,0%	8%		8%
2016	4,5%	6,0%	8%	0,625%	8,625%
2017	4,5%	6,0%	8%	1,25%	9,25%
2018	4,5%	6,0%	8%	1,875%	9,875%
2019	4,5%	6,0%	8%	2,5%	10,5%

Source: Basel Committee on Banking Supervision

Figure 35 – Analysis of Basel III full implementation under CRD IV rules (1H13)

EUR mn	BPI
Base Own Funds	3603
Hybrid Instruments (CoCos)	-920
Preferred Shares	-51
Minority Interest in non-financial entities	-7
Revaluation Reserves related to unrealized losses in AFS portfolio	-415
Define benefit pension funds	-37
Preliminary CET1	2173
Deferred Tax Assets (DTA)	-268
Investments in Financial Institutions	0
Sum non-deducted DTA and Investments in Fin. Institutions	-78
Common Equity Tier 1 (CET1)	1827
CET1 Ratio (Basel III)	7.9%
Risk Weighted Assets	23219
Minimum CET1 (CRD IV)	7%
Excess Capital	202

Source: Analyst's estimates under the interpretation of the CRD IV rules as of 26 June 2013

Figure 36 – CoCos impact on Banco BPI's Net Income

Year	Impact Net Income (EUR mn)
2014	-12,397
2015	-15,8355
2016	-19,5615
2017	-23,2875

Source: Analyst's estimates

The global financial crisis revealed weakness in the banking regulation, calling for the revision of regulatory demands. Having as purpose to improve stability in the financial markets and the ability of banks to absorb unexpected losses, in December 2010, the Basel Committee on Banking Supervision (BCBS) introduced new proposals regarding liquidity and regulatory capital requirements, the Basel III, which are phase-in until 2018.

Although Basel III rules do not represent a challenge for Portuguese banks, at least in the short-run framework, deductions to regulatory capital required under fully implemented Basel III, beginning in 2019, might be challenging.

Deductions to regulatory capital required under fully implemented Basel III, not being already applied under BoP regulation in force, include: the full recognition of defined benefit pension fund assets, resulting in an adjustment of capital for the entire actuarial differences; deferred tax assets in the amount exceeding 10% of common equity tier 1; investments in financial or insurance companies in the amount exceeding 10% of common equity tier 1; and the sum of non-deducted deferred tax assets and investments in financial or insurance companies in the amount exceeding 15% of common equity tier 1¹¹.

As shown in Table 35, BPI's capital ratios are largely impact by full implementation of the Basel III, as proved by the 7.4% reduction in the core capital ratio of BPI from 15.3% as of June 2013, specially due to unrealized losses in the Assets for Sale portfolio. Yet, complying with the Common Equity Tier 1 of 7% (that comprises a minimum core tier of 4.5% plus a conservation preservation buffer of 2.5%) seems not to be an issue, as the increase in deductions to core capital are balanced with the decrease in the required minimum core capital ratio to 7%. Assuming that hybrid instruments are not classified as capital, under fully implementation, Banco BPI Common Equity Tier 1 would stand at 7.9% representing an excess of capital of EUR 202mn over the minimum required CET1 ratio of 7%. Therefore, the bank might be interested in Basel III full implementation by 2014, as the excess capital could be used to reimburse the expensive hybrid instruments (CoCos) that have been negatively impacting bank's profitability¹² (Figure 36).

¹¹ Source: Official Journal of European Union – Regulation n° 575/2013 of 26 June 2013

¹² CoCos require have an effective interest rate of 8.5% in the first year, increasing 0.25% per year in the first two years and 0.5% in each of the following years. As the CoCos were subscribed in June 2012, currently, the effective interest rate stands at 8.75%. Figure 36 was computed assuming that Banco BPI could refinance itself on the wholesale debt market at the same yield that BES (7.125%), replacing the CoCos with subordinated debt.

Figure 37 – Impact of portuguese sovereign debt haircut (1H13)*

Haircut	Impact (EUR mn)	% RWA
5%	-227	-0,98%
10%	-454	-1,95%
15%	-680	-2,93%
20%	-907	-3,91%
25%	-1134	-4,88%
30%	-1361	-5,86%

Source: Analyst's estimates

* The exposures to portuguese sovereign debt maturing in 2013 were excluded from the computation

Unrealized losses with the assets for sale portfolio (AFS) have a considerably large impact on Banco BPI's capital ratios. As domestic AFS portfolio is mostly composed of sovereign debt (82%) where Portuguese debt accounts for 80% of the sovereign debt portfolio, developments in the sovereign debt crisis and the uncertainty surrounding the Portuguese macroeconomic conditions constitute an increased risk for the regulatory capital of the bank. Unrealized losses with the AFS portfolio could arise either from an haircut in the sovereign debt or from an increase in the debt yields of the sovereign countries. Looking at Figure 37 can be seen that an haircut of 20% on Portuguese sovereign debt would reduced the regulatory capital by EUR 907mn (3.91% of RWA) leaving BPI incapable of complying with regulatory capital demands. On top of that, bank's pension fund¹³ exposure to sovereign debt would amplify even further that impact. Unrealized losses could also arise from an increase in the yields (Figure 38), a 2% positive change in the Portuguese yields would reduced regulatory capital by EUR 185mn (0.8% of RWA), still not constituting such a large threat for the regulatory capital as an haircut in the Portuguese debt. So, exposures of the AFS to sovereign debt of periphery countries could seriously impact bank's capital ratio, either through an haircut or an increasing in yields, exposing it to the developments in the sovereign debt crisis.

Figure 38 – Exposures to sovereign debt of periphery countries (1H13)*

Periphery Sovereign debt	Nominal (EUR mn)	Duration (6-Dec-13)	Modified Duration (6-Dec-13)
T-Bills Portugal	2.810	0,445	0,440
T-Bonds Portugal	1.727	4,896	4,648
T-Bonds Italy	975	5,034	4,888
T-Bonds Ireland	335	5,015	4,889
TOTAL	5.847		

Yield Change	Portuguese Debt Devaluation (EURmn)	% RWA	Italian Debt Devaluation (EUR mn)	% RWA	Irish Debt Devaluation (EURmn)	%RWA
0,5%	-46	-0,2%	-24	-0,10%	-8	-0,04%
1%	-93	-0,4%	-48	-0,21%	-16	-0,07%
1,5%	-139	-0,6%	-71	-0,31%	-25	-0,11%
2%	-185	-0,8%	-95	-0,41%	-33	-0,14%
2,5%	-232	-1,0%	-119	-0,51%	-41	-0,18%
3%	-278	-1,2%	-143	-0,62%	-49	-0,21%

Source: Bloomberg, Company Data and Analyst's Estimates

* Exposures to sovereign debt maturing in 2013 were not included in the computations

¹³ Quantifying the effect of an haircut on bank's pension fund was not possible since Banco BPI do not release the exposure of the pension fund to the sovereign debt.

• Pension Fund

Figure 39 – Pension Funds Information (2012)

	BPI	BES	BCP
Pension Fund Liabilities	937,1	1206	2293
Pension Fund Assets	987,4	1221	2432
Coverage	105%	101%	106%
Market Cap	1316	4050	2167
Participants:			
Pensioners	8120	5734	15978
Employees	9258	5311	9175
Total Participants	17378	11045	25153
Assumptions:			
Projected Rate of Return	5,5%	5,5%	5,5%
Discount Rate	4,5%	4,5%	5,5%
Pensionable Salary Increase Rate	1,5%	1,75%	2%
Pension Increase Rate	1%	1%	1%
Mortality Tables:			
Men	TV 73/77	TV 73/77	TV 73/77
Women	TV 88/90	TV 88/90	TV 88/90

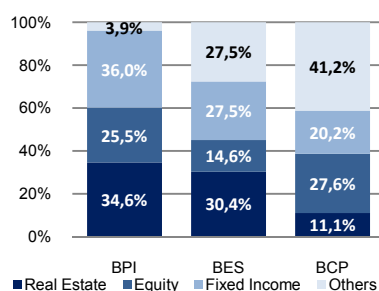
Source: Company Data

Figure 40 – BPI's Pension Fund Sensitivity Analysis (2012)

Pension Fund Adjustment	Impact on CT1 Ratio (% RWA)
-93,4	-0,381%
-91,7	-0,374%
-90,0	-0,367%
-88,3	-0,360%
-86,6	-0,353%
-84,9	-0,346%
-83,2	-0,339%
-81,5	-0,333%
-79,8	-0,326%
-78,1	-0,319%
-76,4	-0,312%

Source: Analyst's estimates

Figure 41 – Pension Fund Asset Allocation (2012)



Source: Company Data

An additional source of risk inherent to the Portuguese Banking system arises from pension fund management. Up to June 2011, Portuguese banks used the corridor method to recognize actuarial deviations related to the pension fund: actuarial gains or losses were recognized on the balance sheet caption Other Assets or Other Liabilities up to 10% maximum of pension fund's assets or liabilities, while amounts exceeding the 10% corridor were deducted from regulatory capital and amortized in the income statement over the expected working lives of the employees covered by the fund. On December 2011, the corridor account policy to recognize actuarial deviations related to pension funds ceased to exist, and actuarial losses or gains start being recorded directly in equity, in Other Comprehensive Income, in the period in which they occur¹⁴. The change in the account policy aimed to avoid the potential impact on regulatory capital resulting from the partial transfer of the pension funds and pension liabilities to Social Security which took place in that same year. Thereby, the transfer of pension liabilities to Social Security impacted the banks' results rather than their regulatory capital, indeed, BPI had a negative impact on its net results of EUR 71mn, EUR 107mn for BES and EUR 117mn for BCP in December 2011. Upon the transfer to Social Security, BPI's pension fund liabilities decreased from EUR 2306mn in 2010 to EUR 836mn in 2011, while pension fund assets decreased from EUR 2409mn in 2010 to EUR 801mn in 2011. Currently, BPI pension fund assets stands at EUR 987mn while the pension fund liabilities stands at EUR 937mn.

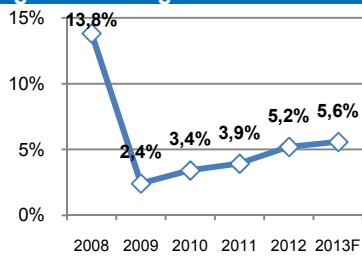
The pension fund risk arises from the possibility that value of fund's liabilities might exceed the value of its assets, case in which the bank must cover the differences and incur into losses impacting negatively bank's results. However, Basel III full implementation will require banks to also adjust regulatory capital for the entire actuarial differences. This constitutes an additional source of risk for Banco BPI, specially given the large size of its pension fund corresponding to 75% of the bank market capitalization.

BPI's pension fund composition has been changing (Figure 41), increasing its exposure to real estate (56% YoY) and to fixed income (55% YoY). Exposure to government debt, specially with the uncertainty surrounding the sovereign debt crisis, might constitutes a concerned since increasing volatility and a possible sovereign debt haircut would have a negative impact on pension fund assets, generating actuarial losses that will penalize the bank's results and, under Basel III fully implemented, the bank's regulatory capital. To understand

¹⁴ Source: Banco BPI

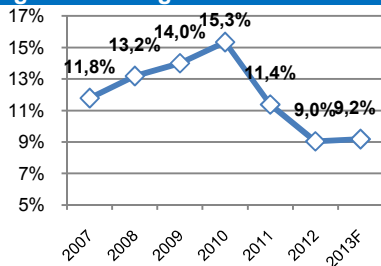
the potential impact of a change in the value of the pension fund assets on the bank's core capital, a sensitivity analysis was performed (Figure 40). Every 2% increase in the total negative actuarial deviations of Banco BPI had an impact on the core capital ratio of 0.007%, which corresponds to a reduction in the regulatory capital of EUR 1.698mn. Hence, pension fund negative actuarial deviations do not pose a significant threat for Banco BPI at least in what concerns regulatory capital, however it might threat bank's profitability.

Figure 42 – Angolan GDP Growth



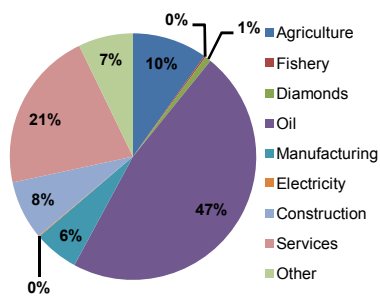
Source: IMF

Figure 43 – Angolan Inflation



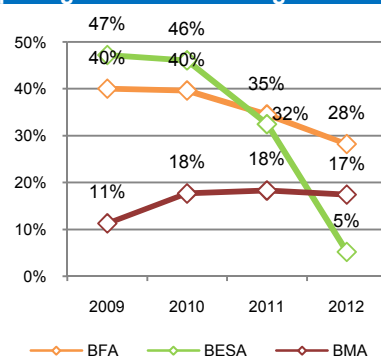
Source: IMF

Figure 44 – Compositon of Angolan GDP (2011)



Source: Banco Nacional de Angola

Figure 45 – ROE of the subsidiaries of the main private portuguese banks in Angola



Source: KPMG

Angola Operations

Angola is one of the fastest growing economies in the world¹⁵. Benefiting from political stability allied with increasing international oil prices the country was able to ensure the maintenance of high levels of economic growth, a considerably reduction of inflation and the development of the non-oil sectors. Still, Angola remained heavily dependent on the oil sector, making the economy highly exposed to collapses in oil prices. Indeed, the collapse of the oil prices, following the 2008 global financial crisis, resulted in the devaluation of the domestic currency (the kwanza), the stagnation of the economic growth, and in government and current account deficits. Since then, as oil prices began to rebound so did the economy. By 2010, the economy was running again government and current account deficits, the exchange rate returned to pre-financial crisis levels, and Angolan economy began booming.

Going forward, in the absence of any shock in oil prices or production, an average real GDP growth of around 5.8% per year is expected between 2013 and 2018, according to IMF, and inflation is forecasted to gradually decline stabilizing around 7% by 2017. Furthermore, Banco Nacional de Angola is attempting to stimulate liquidity into the real economy and to reduce the cost of lending granted by the financial system which remain high due to the non-existence of guarantees, so Banco Nacional de Angola interest rate was reduced by 25bps to 9.75%, the liquidity absorption interest rate decreased by 25bps to 0.75% and the provisions rates declined from 11.5% to 11.25%.

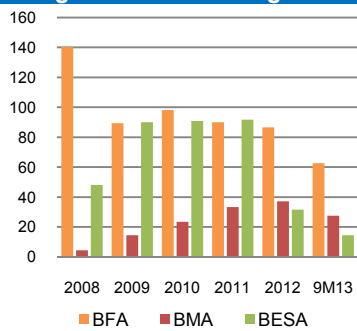
In 2012, there were 23 financial institutions operating within Angolan market. Yet, banking sector continues to be characterized by a high concentration where five banks (BAI, BESA, BPC, BFA and BIC) accounting together for 79% of the assets of the banking system. However, the tendency is for dispersion and loss of market share to the remaining financial institutions joining the market¹⁶. Despite the large population of over 20.2 millions habitants, the degree of banking penetration in Angola remains at low levels, providing an opportunity for future growth for Banco BPI¹⁷. In 2012, 20% of the population had access to banking services and banking penetration is expected to reach 30% by the end of 2013. The limited access to the banking services arises from high collateral requirements, geographic inaccessibility and the inability to accurately assess the creditworthiness of the borrowers¹².

¹⁵ According to IMF, Angola had an average GDP growth rate of 11.6% over the past decade

¹⁶ ¹² Source: KPMG's Banking Survey Angola

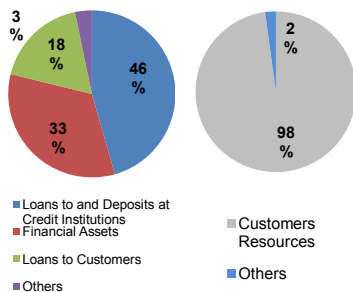
¹⁷ According to World Bank, the degree of banking penetration of the more developed economies is around 90%

Figure 46 – Net Income of the subsidiaries of the main private portuguese banks in Angola



Source: Companies Data

Figure 47 – BFA’s Assets and Liabilities Decomposition (2012)

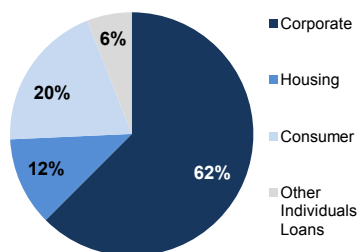


Source: Companies Data

Banco Fomento de Angola (BFA) began its activities in the Angolan market in 1996, having achieved high ROEs (Figure 45). In 2012, BFA attained a 28% ROE above that the Portuguese subsidiaries counterparts, BESA and BMA. In 9M13, the bank distribution network comprised 150 branches, 8 investment centres and 16 corporate centres, and the bank employed 2417 workers. BFA’s market share in deposits reached 16.2%, occupying the second position in the Angola ranking, while market share on loans corresponded to 10.9%, in September 2013.

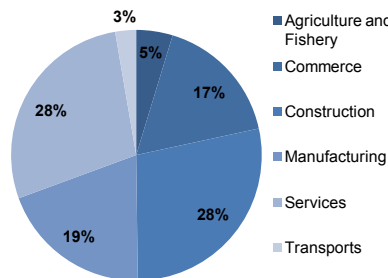
BFA is a retail bank focused on capturing customers’ resources and granting loans. Customers deposits¹⁸ account for close to 98% of the bank’s funding structure, with 41.2% being expressed in domestic currency. On the assets side, credit portfolio accounts for 18% of assets, loans to credit institutions and deposits in credit institutions represent 45.5% of assets, and financial assets represent 33% of assets. BFA’s credit activities¹⁹ are concentrated on the corporate loans segment (63%, being construction, services and manufacturing the most relevant sectors), while 37% of bank’s credit portfolio corresponds to the household segment (12% mortgages loans and 19% consumption loans). In 2012, BFA’s transformation ratio was 20.5%

Figure 48 – BFA’s Credit Portfolio



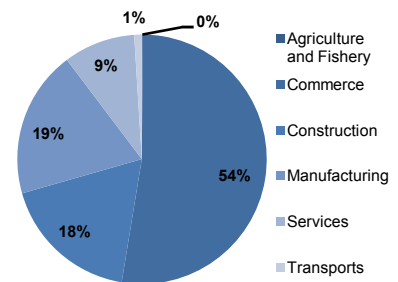
Source: Companies Data

Figure 49 – BFA’s Corporate Credit by Sector



Source: Companies Data

Figure 50 – BFA’s weight on overdue loans by sector



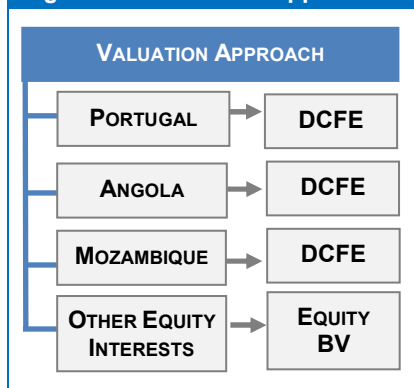
Source: Companies Data

¹⁸ According to BNA, in July 2013, customers deposits of the angolan banking system comprise 42% deposits expressed in foreign currency and 58% in the domestic currency, being the tendency for increasing weight on deposits expressed in domestic currency as angolan savings improve. Within both the foreign and domestic currency deposits, sight deposits are considerably large. Sight deposits expressed in foreign currency account for 51% of foreign currency deposits while sight deposits expressed in domestic currency account for 47% of domestic currency deposits.

¹⁹ According to BNA, in December 2009, government loans represented 41% of the credit granted by the angolan banking system, public loans represented 3% and private loans represented 56%. However, the tendency is for larger weight on private loans, which grew 108% from AOA 1,238,311mn in December 2009 to AOA 2,577,164mn in July 2013. In July 2013, government loans accounted for 25% of the credit granted by the angolan banking system, public loans accounted for 3% and private loans for 72%.

Valuation

Figure 51 – Valuation Approach



Source: Analyst’s Research

The EUR 1.55 Target price was derived from the a sum-of-the-parts (SOTP) valuation, applying a discounted cash flow to equity (DCF) model to value domestic operations of BPI, operations within Angola through Banco Fomento Angola (BFA), and the 29.7% participation on Banco Comercial e de Investimento (BCI) operating in Mozambique. Finally, the other equity interest including Allianz Portugal, Cosec, Unicre were value at the equity book value.

To value domestic, Angolan and Mozambican operations of BPI the discounted cash flow to equity approach was used because: we cannot separate the financing and investing decisions from the operating decisions in a bank; and financial institutions are strongly regulated having to hold a certain minimum equity level relative to their risk weighted assets.

- Cost of Equity

Figure 52 – Cost of Equity for Portugal

Beta Levered	1.72
Risk Free	2.29%
Market Risk Premium	5,5%
Cost of Equity	11.8%

Source: Analyst’s Estimates

The Capital Asset Pricing Model (CAPM) was used to assess BPI’s cost of equity. For Portugal, it was applied a market risk premium of 5.5%, a risk free rate of 2.29% based on the average yield of the 10-years Euro Zone government bonds with a rating of Aaa according to Moody’s²⁰. Concerning the banking beta, we regressed the Euro Stoxx Banks Index (SX7E Index used as proxy for European banks) against the MSCI World (MXWO Index) using weekly data over the past two years, reaching to a industry beta of 1.72. Hence, the cost of equity for Portugal was 11.8%.

As for Angola, the market risk premium applied was 5.5%, and the risk free rate was based on the yield of 10 years government bonds of Aaa rating Euro Zone countries (2.29%) factored by a differential between the average expected inflation of Aaa rating Euro Zone countries and the expected inflation of Angola for each year. With regards to the sector beta, given the unavailability of angolan banks being transacted at the stock exchange, the sector beta was assumed to 1.72. In order to incorporate the country specific risk, a country beta of 0.86 was computed by regressing returns on the Crude Oil Index (CO1 Comdty) against the MSCI World (MXWO Index) over the past 3 years. Angola’s cost of equity can be seen in Figure 53 :

²⁰ Aaa rating Euro Zone countries include: Netherlands, Germany, Finland, Luxembourg and Austria.

Figure 53 – Cost of Equity for Angola

	2014	2015	2016	2017	2018	2019	Terminal
Beta Levered	1,72	1,72	1,72	1,72	1,72	1,72	1,72
Risk Free	8,97%	8,10%	7,82%	7,54%	7,54%	7,54%	7,54%
Inflation Angola	8,50%	7,73%	7,23%	7,00%	7,00%	7,00%	7,00%
Inflation Aaa Rating Euro Zone countries	1,845%	1,940%	1,730%	1,776%	1,772%	1,772%	1,772%
Market Risk Premium	5,5%	5,5%	5,5%	5,5%	5,5%	5,5%	5,5%
Country Beta	0,86	0,86	0,86	0,86	0,86	0,86	0,86
Cost of Equity	17,1%	16,3%	16,0%	15,7%	15,7%	15,7%	15,7%

Source: Analyst's Estimates

At last, for Mozambique, the risk free rate was obtained using the yield of 10 years Aaa rating Eurozone countries factored by the differential between average expected inflation of Aaa rating Euro Zone countries and the expected inflation of Mozambique for each year. The banking sector beta was assumed to be again 1.72 and the market risk premium was assumed to be 5.5%. Mozambique's cost of equity can be seen in Figure 54:

Figure 54 – Cost of Equity for Mozambique

	2014	2015	2016	2017	2018	2019	Terminal
Beta Levered	1,72	1,72	1,72	1,72	1,72	1,72	1,72
Risk Free	6,59%	5,77%	6,18%	6,13%	6,14%	6,14%	6,14%
Inflation Mozambique	6,13%	5,40%	5,60%	5,60%	5,60%	5,60%	5,60%
Inflation Aaa Rating Euro Zone countries	1,845%	1,940%	1,730%	1,776%	1,772%	1,772%	1,772%
Market Risk Premium	5,5%	5,5%	5,5%	5,5%	5,5%	5,5%	5,5%
Cost of Equity	16,1%	15,2%	15,7%	15,6%	15,6%	15,6%	15,6%

Source: Analyst's Estimates

• Equity Interests

Figure 55 – Domestic Equity Interests of Banco BPI (2012)

Company	Direct Stake
Inter-Risco	49%
Cosec	50%
Allianz Portugal	35%
Finangeste	32.78%
Unicre	20.65%

Source: Company Data

Domestic Equity interests include: Inter-Risco (49%), a player in the private equity market investing in approximately EUR 200mn across Iberia in more than 80 companies, Cosec (50%), insurance company providing assistance for Portuguese companies in their international operations, Allianz Portugal (35%), insurance company which provides a range of products covering both life and non-life insurance, Finangeste (32.78%), and Unicre (20.65%), the Portuguese company specialized in the management and issuance of payment cards. Among the domestic equity interests, Allianz Portugal, Cosec and Unicre account together for close to 98% of the domestic profit from equity-accounted subsidiaries.

The technique used to value the most relevant equity interest, Allianz Portugal, Cosec and Unicre, was the equity book value. By subtracting the total liabilities from the total assets, obtained from the financial statements of the companies in 2012, we obtained a value of EUR 1.06mn for Allianz Portugal, EUR 43.6mn for Cosec, and EUR 81.6mn for Unicre. Taking into account BPI's participation on these companies, it was derived a fair of EUR 0.37mn (0€/share) for Allianz Portugal, EUR 21.8mn (0.02€/share) for Cosec, and EUR 16.8mn (0.01€/share) for Unicre. So, the combined domestic equity interest are valued at EUR 0.03 per share.

- Portugal

Figure 56 – Main Indicators of Base Scenario

BASE CASE	2014	2018
Nominal GDP growth (%)	1.7%	3.6%
Inflation (%)	1%	1.5%
Equity Value (EURmn)	1913	
Value per Share	1.41€	

Source: Analysts' estimates

Figure 57 – Main Indicators of Pessimistic Scenario

PESSIMISTIC CASE	2014	2018
Nominal GDP growth (%)	1.5%	3.1%
Inflation (%)	1.2%	1.7%
Equity Value (EURmn)	1534	
Value per Share	1.10€	

Source: Analysts' estimates

Figure 58 – Main Indicators of Optimistic Scenario

OPTIMISTIC CASE	2014	2018
Nominal GDP growth (%)	1.9%	4%
Inflation (%)	0.9%	1.4%
Equity Value (EURmn)	2175	
Value per Share	1.56€	

Source: Analysts' estimates

In order to minimize the risks of making inaccurate assumptions when valuing domestic operations of Banco BPI, the model incorporated four scenarios:

1) Base Scenario incorporates the forecasts made by the International Monetary Fund, assuming an average nominal GDP growth of 3.1% and an average inflation of 1.4% between 2014 and 2018. As for the capital requirements, the financial institutions would generate enough cash flows to fully reimburse the CoCos, implying the non-conversion of these hybrid instruments into shares. Additionally, the bank would reunite the necessary conditions to return to the wholesale debt market as soon as the CoCos are fully reimbursed. Resort to the wholesale debt market would increase the bank funding costs, because despite liquidity improvements and return of BES and CGD to the wholesale debt market, the portuguese state and the banks have not seen any change in their credit ratings. Finally, impairment losses and provisions would be expected to peak in 2014 and beginning recovering afterwards. To the Base Case a 70% probability was attributed.

2) Pessimistic Scenario incorporates the possibility of Portugal requesting for a second bailout, assuming that the austerity measures were not able to produce the required results to allow Portugal to return to the markets at reasonable yields in 2014, accordingly a further package of austerity measures would be implemented in the country. Hence, BPI would only return to the wholesale debt market once the second bailout program reached to an end by 2018. Further austerity measures would imply that expansion of the credit portfolio would be lengthier and, in turn, so would be the re-pricing of the credit portfolio. As loans re-pricing is lengthier the Net Interest Margin recovery would take longer and bank's profitability would be smaller than under Base Case. Unemployment rate would remain at historical high levels, consequently banks would continue struggling with impairment losses on their loans portfolios and with rising provision which were assumed to peak in 2018 and beginning to recover afterwards. Still, BPI would generate enough cash flows to allow the fully reimbursement of the CoCos but not as soon as in the Base Case. To the Pessimistic Case was attributed a 10% probability.

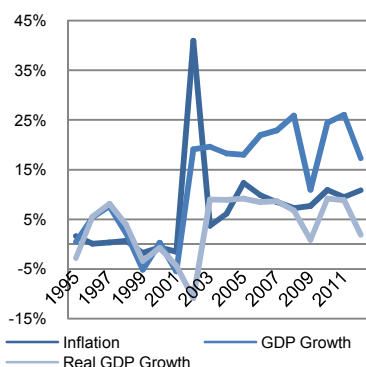
3) Optimistic Scenario incorporates the improvement of the macroeconomic conditions above that forecasted made by the IMF. To the Optimistic Case was attributed a 15% probability.

Figure 59 – Main Indicators of Leave Euro Scenario

LEAVE EURO CASE	2014	2018
Nominal GDP growth (%)	4%	5%
Inflation (%)	10%	1.5%
Equity Value (EURmn)	351	
Value per Share	0.12€	

Source: Analysts' estimates

Figure 60 – Argentina Case



Source: IMF

4) Leaving Eurozone Scenario incorporates the return to the Escudo (old portuguese currency), thereby assuming that Portugal would leave the Eurozone in 2014 after failing to achieve the conditions imposed by the Troika. Under such scenario, accumulated losses allied with the lack of access to ECB funding would immediately trigger the conversion of the hybrid instruments into shares diluting the stake of the current shareholders of BPI. Additionally, the banks would be struggling with rising impairment losses motivated by the devaluation of the assets now denominated in Escudos against the Euro, and with increasing provisions and impairments. Given the unavailability of historical information about countries leaving monetary union, the forecasts were based on the Argentina abandonment of dollar-peso peg. Argentina's case was characterized by escalating inflation (40%) and real GDP contraction (-10.89%) upon the abandonment of the parity peso-dollar, but devaluation of the currency (75%) allowed the country to increase its competitiveness, improving its current account balance through exports stimulation, and to achieve economic growth three years later. Hence, in the year of Eurozone abandonment, the portuguese inflation would reach 10% and the economy would face a recessive mood (about -5% of real GDP growth), but in the following years improving in competitiveness would allow the country to reach an average nominal GDP growth of 4% and an average inflation of 1.5% between 2015 and 2019. Leaving Eurozone Scenario yields a price per share for the domestic activity equal to EUR 0.12 implying a downsize of 91% relatively to the domestic base case²¹. To the Leaving Eurozone Scenario was attributed a 5% probability.

Putting together the different scenarios weighted by the probabilities, Banco BPI's domestic activities were valued at EUR 1871mn (1.35€/share)²².

²¹ The average devaluation of argentina banks share price during the 2001 crisis was 76% (the comparison of share prices was computed using last day prices for 1997 and 2001 using the following banks: Santander Rio (BRIO AR Equity), Banco Macro (BMA AR Equity), BBVA Banco Franc (FRAN AR Equity), and Banco Galicia (GALI AR Equity)). However, due to the multi-exposure of Banco BPI to the sovereign debt of periphery countries, particularly to the portuguese debt, the bank devaluation is expected to be amplified.

²² For valuation purposes, the growth rates used have an implicit reinvestment rate of 9.5% (Growth Rate = ROE x 9.5%)

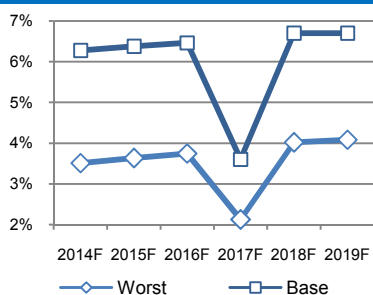
• Angola

Figure 61 – Angolan Operations’ Valuation

	BASE		WORST	
	2014	2018	2014	2018
Real GDP growth (%)	6.27	6.70	3.51	4.08
Inflation (%)	8.5	7	9.8	8.1
Cost of Equity	17.9%		18.5%	
Equity Value (EURmn)	434		50	
Fair Value for BPI (EURmn)	217		25	
Value per Share	0.16€		0.02€	

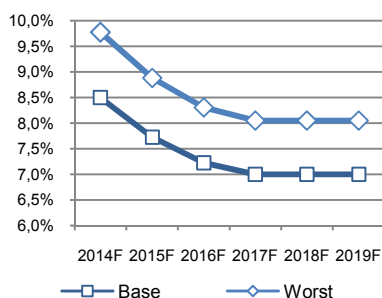
Source: Analysts’ estimates

Figure 62 – Real GDP growth Base vs Oil Collapse Case



Source: IMF, Analysts’ estimates

Figure 63 – Inflation Base vs Oil Collapse Case



Source: IMF, Analysts’ estimates

Angolan operations’ forecasts and valuation were performed in the domestic currency²³, the Kwanza, and then converted to Euro using the 2014 forward exchange rate. The analysis of Angolan operations was based on many assumptions and expectations regarding the future. In the base case, the most relevant one was the absence of any shock on oil prices or production, meaning that the oil sector would continue ensuring the maintenance of a high economic growth, the progressive reduction of the inflation, and to create opportunities for the development of the non-oil sector within the country²⁴. Under the base case, BFA would manage to benefit from the angolan economic growth and increasing banking penetration, in order to consolidate its position within the market and to expands its loan portfolio. BFA’s profitability would be gradually reduced due to the appearance of new players into the market that would result in the loss of market share in the long-run.

In addition to the base case, a worst case was built under the hypothesis of a collapse in the oil prices, such as the one that followed the 2008 global financial crisis, since Angola is still heavy dependence of the country on the oil sector which, in 2012, contributed 46% for the country GDP, accounted 96% for the country exports being the main source of foreign direct investment into the country, and countributed about 80% for the government fiscal revenues. The collapse in the oil sector would result in the devaluation of the domestic currency (Kwanza), the possible stagnation of the economic growth, and higher inflation. The average real GDP growth of Angola between 2014 and 2018 was forecasted to be around 3.52%, while average inflation would be above 8.5%. Hence, banking income would be smaller, charges with provisions and impairments would be larger and the bank would not be able to expand its loans portfolio as much as in the base case. Furthermore, deposits expressed in foreign currency accounting for 59% of BFA’s deposits would likely be withdrawn. To the worst case a probability of 10% was attributed.

The perpuity growth assumed for the base case was 3% while for the worst case was 2.5%. Banco Fomento Angola was valued at EUR 395mn. Taking into consideration Banco BPI 50.1% participation on BFA, the fair value of angolan operations was EUR 198mn (0.14€/share).

²³ For consolidation purposes, the forecasts were converted into Euro using the exchange rate purchase power parity formula, with the expected inflation of Angola and the average expected inflation of the Aaa rating Eurozone countries for each year

²⁴ IMF forecasts regarding Real GDP growth, Inflation Rate and Unemployment Rate were used for the Base Case

Figure 64 – Sensitivity Analysis to EUR/AOA Exchange Rate*

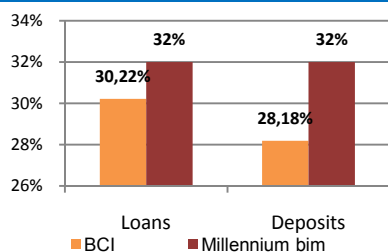
ANGOLA	Equity Value (EURmn)	BPI's Stake Value (EURmn)	Price per Share (€)
2σ	377	189	0,136
1σ	403	202	0,145
Basis	434	217	0,156
- 1σ	469	235	0,169
- 2σ	510	256	0,184

Source: Analyst's estimates
 *Standard deviation of EUR/AOA exchange rate was computed using daily data over the past two years.

As potential sources of risk for Angolan operations can be appointed the exposure to the exchange rate risk, the heavy dependence of Angola on oil sector, and even the uncertainty surrounding the political succession of José Eduardo dos Santos²⁵. A sensitivity analysis was performed to understand the impact of a change in the EUR/AOA exchange rate on BFA value per share (Table 64), an increase in the EUR/AOA exchange rate by 2 standard deviations would decrease the share price of BFA by 13.04% from 0.156€/share to 0.136€/share, while a 2 standard deviations decrease in EUR/AOA exchange rate would increase the BFA value per share by 17.65% from 0.156€/share to 0.184€/share.

• **Mozambique**

Figure 65 – Market Share Mozambique

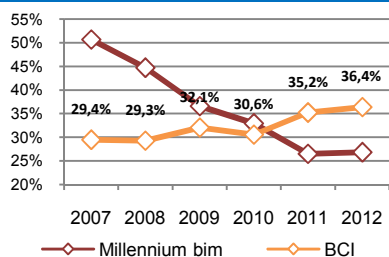


Source: Company Data

Besides the domestic equity interests, Banco BPI also detains a 29.7% participation on Banco Comercial e de Investimentos (BCI), the mozambican commercial bank which major shareholders is Caixa Geral de Depositos (51%), the portuguese state-owned bank. BCI is currently challenging the leadership position of Millenium bim occupying a 30.22% market share in loans to customers and 28.18% in deposits, in 2012.

BCI has presented high ROEs which combined with the small banking penetration rate and the country remarkable growth perspectives, makes the mozambican subsidiary an important source of growth for Banco BPI. According to IMF, real gdp is expected to grow on average 8% between 2013 and 2019, while the inflation is expected to be on average 5.65%.

Figure 66 – ROE of subsidiaries of portuguese banks in Mozambique

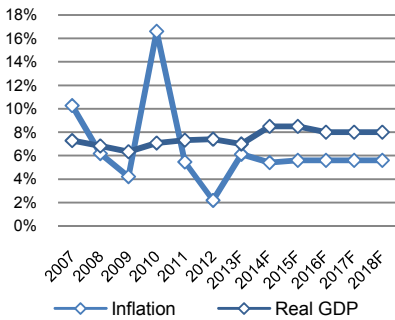


Source: Company Data

BCI is mozambican retail bank focused on capturing customers deposits and providing loans to the domestic economy. Customers deposits are the main source of funding of the bank, accounting for 80% of the funds collected being 59% sight deposits and 41% term deposits. Furthermore, 25% of the customers deposits are expressed in a foreign currency. On the assets side, credit portfolio accounts for 54% of bank's assets, being followed by the financial assets accounting for 13.3% of the assets. Credit portfolio is exclusively composed of credit to residents being corporate credit more expressive (80%) than individual loans (20%, within the loans to individuals 18.7% are mortgages loans and 25.3% correspond to consumption loans). Corporate loans are geared mainly to transportation and communication (9.9%), construction (9%) and manufacturing (6.5%) sectors. Even though credit is exclusively granted to residents (99.9%), credit expressed in a foreign currency is considerably large (41.7%).

²⁵ Moody's considers that the two main factor that could impact negatively Angolan government's rating are: the volatility of oil price, and the uncertainty surrounding the political succession where the political succession could compromise the stability of the country economic policy. Moody's attributes a Ba3 rating to Angola government debt.

Figure 67 – Mozambique Inflation and Real GDP



Source: IMF

Figure 68 – Sensitivity Analysis to EUR/MZM Exchange Rate*

MOZAMBIQUE	Equity Value (EURmn)	BPI's Stake Value (EURmn)	Price per Share (€)
2σ	133	40	0,029
1σ	151	45	0,032
Basis	173	51	0,037
- 1σ	204	61	0,044
- 2σ	247	73	0,053

Source: Analyst's estimates

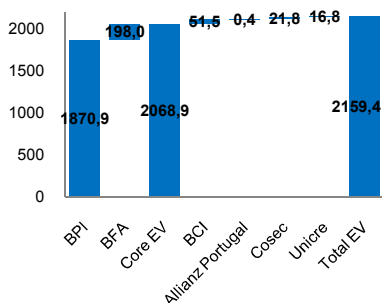
*Standard deviation of EUR/MZM exchange rate was computed using daily data over the past two years.

Banco BPI stake at BCI was valued through the Discounted Cash Flow to Equity rather than using market multiples, since the available african banks on stock exchange didn't seem suitable to the Mozambican reality presenting a larger banking penetration and a banking sector in a more mature stage than Mozambican banks. Loans portfolio of BCI was forecasted to expand according to the economic growth and banking penetration, while deposits would evolve according to country saving rate. The entrance of new players in the market would result in market share losses and, in turn, in a gradual reduction of the bank profitability in the long-run. Banco Comercial e de Investimentos (BCI) was valued at EUR 173mn (which represents a discount of 40.5% to the South African banks showing an average P/E 2013F of 12x). Taking into consideration the 29.7% participation, the fair value of BCI for Banco BPI was EUR 51.5mn (0.04€/share).

Potential risk of Mozambican activities include the possibility of a political turmoil and the exchange rate risk, however mozambican operations account for only 2% of Banco BPI's valuation. A sensitivity analysis was performed on the EUR/MZM exchange rate (Figure 68). An increase in the EUR/MZM exchange rate by 2 standard deviations decrease the value per share by 23% from 0.037€/share to 0.029€/share, while a 2 standard deviations decrease in the EUR/MZM exchange rate would increase the value per share by 42.6% from 0.037€/share to 0.053€/share.

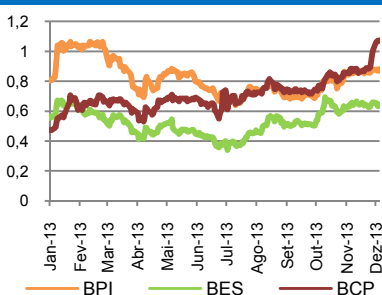
• Sum-of-the-Parts

Finally, the different scenarios were put together using their weighted probabilities, deriving a YE14 target price of EUR 1.55, as showed in Table 3.



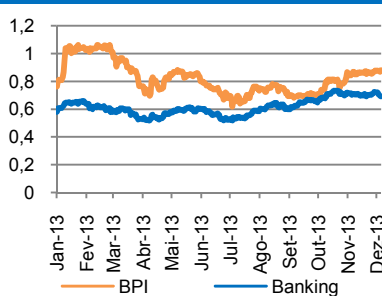
	Methodology	Value (EUR mn)	% of Total	EUR per Share	Implied 2014F P/BV
Banco Português de Investimentos (BPI)	DCF	1871	87%	1.35	1.1x
Banco Fomento Angola (BFA)	DCF	198	9%	0.14	0.4x
EQUITY VALUE - CORE BUSINESS		2069	96%	1.49	0.9x
Banco Comercial e de Investimentos (BCI)	DCF	51	2%	0.04	
Allianz Portugal	Equity Book Value	0	0%	0.00	
Cossec	Equity Book Value	22	1%	0.02	
Unicre	Equity Book Value	17	1%	0.01	
TOTAL EQUITY VALUE		2159	100%	0.07	1.3x
Number of Shares Outstanding (mn)		1390		1390	
EQUITY VALUE PER SHARE		1.55		1.55	

Figure 69 – Price-to-Book Ratio portuguese banks (2013)



Source: Bloomberg

Figure 70 – Price-to-Book Ratio Banco BPI vs SX7E (2013)



Source: Bloomberg

• Market Multiples

Currently, Banco BPI trades at premium compared with the Europe Stoxx Banks Index (SX7E Index) on Price-to-Book value basis, with P/BV for Banco BPI standing at 0.88x against 0.69x for european banking system which corresponds to a 27% premium. Comparing Banco BPI with the private portuguese financial institutions (Figure 69), Banco BPI is trading at discount on a Price-to-Book value relatively to BCP (with a Price-to-Book ratio of 0.88x for Banco BPI against 1.07x for BCP) which can be explained by the anticipation of smaller profitability for Banco BPI than BCP due to the concentration on the smaller spreads mortgage segment, however Banco BPI is trading at premium on a Price-to-Book value relatively to BES (with a Price-to-Book ratio of 0.88x for Banco BPI against 0.64x for BES) implying that investor might be anticipating that BES will recognize more provisions in the future. It is worth stressing, that the Price-Earnings multiple didn't provide useful information since the portuguese financial institutions have been facing negative earnings.

Appendix

Appendix 1 - Financial Statements

INCOME STATEMENT - CONSOLIDATED (EUR mn)								
Million EUR	2012	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Net interest income (narrow sense)	549	443	610	715	789	755	762	803
Unit linked gross margin	3	3	3	3	3	3	3	3
Income from securities (variable yield)	4	4	4	4	4	4	4	4
Commissions related to deferred cost (net)	28	25	25	25	25	25	25	25
Net Interest Income	583	475	642	746	821	787	793	834
Technical results of insurance contracts	23	23	23	23	23	23	23	23
Commissions and other similar income (net)	332	311	280	286	302	313	326	338
Gains and losses in financial operations	401	269	353	338	298	305	331	354
Operating income and charges	-9	-18	-21	-21	-21	-21	-21	-21
Net Operating Revenue	1330	1061	1277	1373	1423	1406	1453	1529
Personnel costs	373	368	386	386	397	408	420	433
Other administrative expenses	233	243	258	261	271	282	294	306
Depreciation of fixed assets	33	31	30	31	32	32	33	34
Operating Costs	639	642	673	677	699	722	747	772
Operating Profit Before Provisions	691	419	604	695	724	684	706	757
Recovery of loans written-off	16	18	15	16	16	17	18	19
Loan provisions and impairments	269	223	282	256	214	172	148	154
Other impairments and provisions	37	29	39	36	32	31	33	35
Profits Before Income Taxes	400	186	298	419	495	497	543	587
Income Taxes	88	30	53	68	82	81	88	95
Profits After Income Taxes	312	156	245	351	413	416	454	492
Equity-accounted results of subsidiaries	24	25	25	25	25	25	25	25
Minority/Non-controlling Interest	87	89	89	88	87	87	87	87
Net Profit	249	92	181	288	350	354	392	430

INCOME STATEMENT (EUR mn)	PORTUGAL								ANGOLA							
	2012	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2012	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Million EUR																
Net interest income (narrow sense)	369	251	416	503	553	494	472	482	180	192	194	212	236	262	289	321
Unit linked gross margin	3	3	3	3	3	3	3	3	0	0	0	0	0	0	0	0
Income from securities (variable yield)	4	4	4	4	4	4	4	4	0	0	0	0	0	0	0	0
Commissions related to deferred cost (net)	26	25	25	25	25	25	25	25	1	1	0	0	0	0	0	0
Net Interest Income	401	282	448	534	584	525	504	514	181	192	194	212	236	262	289	321
Technical results of insurance contracts	23	23	23	23	23	23	23	23	0	0	0	0	0	0	0	0
Commissions and other similar income (net)	282	257	226	230	243	251	261	270	50	55	55	57	59	62	65	68
Gains and losses in financial operations	326	177	265	234	198	193	209	223	76	92	88	104	100	111	123	131
Operating income and charges	-14	-21	-21	-21	-21	-21	-21	-21	4	3	0	0	0	0	0	0
Net Operating Revenue	1018	719	941	1001	1028	972	976	1009	312	342	337	372	395	435	477	520
Personnel costs	310	301	300	293	297	301	304	307	63	67	86	93	100	108	116	125
Other administrative expenses	180	185	168	164	167	169	171	173	54	58	90	96	104	113	122	132
Depreciation of fixed assets	20	18	17	16	16	16	16	16	13	13	13	15	15	16	17	18
Operating Costs	510	504	485	474	480	486	492	497	129	138	189	204	220	237	255	275
Operating Profit Before Provisions	508	215	456	527	549	486	484	512	183	204	148	169	175	198	221	245
Recovery of loans written-off	13	16	12	12	13	13	14	14	3	2	3	3	4	4	5	5
Loan provisions and impairments	254	212	265	237	192	148	120	122	15	11	17	19	22	24	28	32
Other impairments and provisions	34	26	36	32	28	27	29	31	3	3	4	4	4	4	4	5
Profits Before Income Taxes	233	-7	168	270	342	324	349	373	168	193	131	149	153	173	194	214
Income Taxes	82	4	39	51	65	62	66	71	6	26	15	17	17	19	22	24
Profits After Income Taxes	151	-11	129	219	277	262	282	302	161	167	116	132	136	154	172	190
Equity-accounted results of subsidiaries	14	17	17	17	17	17	17	17	10	8	8	8	8	8	8	8
Minority/Non-controlling Interest	2	2	2	2	2	2	2	2	85	87	87	86	86	85	85	85
Net Profit	163	4	144	234	292	277	297	317	87	88	37	54	58	76	95	112

BALANCE SHEET – CONSOLIDATED (EUR mn)

Million EUR	2012	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Assets								
Cash and Deposit in Banks	4557	4679	4718	4785	4867	4956	5076	5197
Loans and advances to Customers	27345	25979	26155	26507	27052	27585	28228	28915
Financial Assets	12091	11903	13286	12283	11047	11119	11975	12768
Tangible and Intangible Assets	225	210	228	234	241	248	255	262
Investments in associated companies and jointly controlled entities	202	215	214	214	214	214	214	214
Other Assets	1287	1235	1235	1235	1235	1235	1235	1235
Total Assets	45707	44221	45837	45257	44655	45356	46982	48591
Liabilities and shareholders' equity								
Resources of central banks and other credit institutions	7963	6872	7684	6889	6060	5189	3463	2744
Resources of Customers and other loans	24621	25968	27399	27750	28106	28164	29934	31308
Debt securities	3788	2596	1986	1986	1986	3494	5032	5901
Financial Liabilities	2406	2029	2029	2029	2029	2029	2029	2029
Contingently convertible subordinated bonds	1200	810	610	264	0	0	0	0
Provisions	2394	2636	2676	2674	2674	2673	2674	2676
Other Liabilities	1275	1157	1157	1133	1111	1088	1066	1066
Total Liabilities	43646	42069	43540	42726	41966	42637	44197	45723
Equity attributable to shareholders of BPI	1708	1795	1942	2179	2338	2368	2434	2518
Non-controlling interest	353	357	355	353	351	351	351	351
Total Shareholders' Equity	2061	2152	2297	2532	2689	2719	2785	2868
Total Liabilities and Shareholders' Equity	45707	44221	45837	45257	44655	45356	46982	48591
ROE	15.1%	7.3%	7,9%	11,4%	13,0%	13,0%	14,1%	15,0%
ROA	0.68%	0.35%	0,40%	0,64%	0,78%	0,78%	0,83%	0,88%
NIM	1.04%	1.25%	1,38%	1,64%	1,84%	1,73%	1,68%	1,71%
Cost-to-Income	48%	60%	53%	49%	49%	51%	51%	50%
Loans-to-Deposits	111%	109%	95%	96%	96%	98%	94%	92%
RWA	24512	24384	21950	20739	19572	19911	20646	21571
CT1 Ratio (BoP)	15%	14.3%	16,2%	17,0%	17,8%	17,7%	17,5%	17,1%
CT1 Ratio (EBA)	9.8%	9%	9%	9%	9%	9%	9%	9%

BALANCE SHEET (EUR mn)	PORTUGAL								ANGOLA							
	2012	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2012	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Million EUR																
Assets																
Cash and Deposit in Banks	1803	1625	1518	1518	1516	1511	1525	1534	2754	3054	3200	3267	3351	3445	3551	3664
Loans and advances to Customers	26263	24972	25002	25195	25556	25924	26328	26745	1082	1007	1153	1312	1496	1661	1899	2170
Financial Assets	10077	9730	10978	9753	8291	8093	8718	9288	2014	2173	2308	2530	2756	3027	3257	3480
Tangible and Intangible Assets	92	79	78	78	78	78	78	78	132	131	151	157	163	170	177	184
Investments in associated companies and jointly controlled entities	163	173	173	173	173	173	173	173	39	42	42	41	41	41	41	41
Other Assets	1260	1218	1218	1218	1218	1218	1218	1218	27	17	17	17	16	16	16	16
Total Assets	39659	37797	38967	37934	36832	36996	38039	39035	6048	6424	6870	7324	7823	8359	8942	9556
Liabilities and shareholders' equity																
Resources of central banks and other credit institutions	7962	6871	7683	6888	6059	5188	3462	2743	1	1	1	1	1	1	1	1
Resources of Customers and other loans	19307	20235	21249	21170	21052	20602	21823	22619	5314	5733	6149	6581	7054	7562	8111	8689
Debt securities	3788	2596	1986	1986	1986	3494	5032	5901	0	0	0	0	0	0	0	0
Financial Liabilities	2406	2029	2029	2029	2029	2029	2029	2029	0	0	0	0	0	0	0	0
Contingently convertible subordinated bonds	1200	810	610	264	0	0	0	0	0	0	0	0	0	0	0	0
Provisions	2360	2613	2640	2634	2628	2622	2615	2609	34	22	35	40	46	51	58	67
Other Liabilities	1194	1070	1070	1047	1025	1003	980	980	81	87	87	86	86	86	85	85
Total Liabilities	38216	36225	37267	36017	34779	34937	35940	36880	5430	5844	6273	6708	7187	7699	8256	8842
Equity attributable to shareholders of BPI	1384	1506	1634	1850	1987	1993	2033	2089	324	289	308	329	351	375	401	429
Non-controlling interest	59	66	66	66	66	66	66	66	294	291	289	287	285	285	285	285
Total Shareholders' Equity	1443	1572	1699	1916	2053	2059	2099	2155	618	580	597	615	637	660	686	714
Total Liabilities and Shareholders' Equity	39659	37797	38967	37934	36832	36996	38039	39035	6048	6424	6870	7324	7823	8359	8942	9556
ROE	11,3%	0,3%	8,5%	12,2%	14,2%	13,5%	14,2%	14,7%	14,0%	15,2%	6,2%	8,8%	9,1%	11,5%	13,8%	15,7%
ROA	0,41%	0,01%	0,37%	0,62%	0,79%	0,75%	0,78%	0,81%	1,43%	1,37%	0,54%	0,74%	0,74%	0,91%	1,06%	1,18%
Cost-to-Income	50%	70%	52%	47%	47%	50%	50%	49%	41%	40%	56%	55%	56%	55%	54%	53%
Loans-to-Deposits	136%	123%	118%	119%	121%	126%	121%	118%	20%	18%	19%	20%	21%	22%	23%	25%
RWA	22288	18898	18509	17070	15653	15723	16167	16785	3029	3218	3441	3668	3919	4187	4479	4786

Appendix 2 – Discounted Cash Flow to Equity

Domestic Operations (EUR mn)

Base Case	2014F	2015F	2016F	2017F	2018F	2019F
FCFE	0	0	139	254	241	245
Discount factor	1,00	1,12	1,25	1,40	1,56	1,74
Discounted FCFE	0	0	111	182	154	141
PV FCFE	588					
Terminal Value	2397					
PV Terminal Value	1374					
Equity Value (EURmn)	1963					
Growth Rate	1,40%					
BPI's Stake	100%					
Number of Shares (millions)	1390					
Price per Share	1,41					

Pessimistic Scenario	2014F	2015F	2016F	2017F	2018F	2019F
FCFE	0	0	0	176	191	212
Discount factor	1,000	1,118	1,249	1,396	1,561	1,744
Discounted FCFE	0	0	0	126	123	122
PV FCFE	370					
Terminal Value	2030					
PV Terminal Value	1164					
Equity Value (EURmn)	1534					
Growth Rate	1,2%					
BPI's Stake	100%					
Number of Shares (millions)	1390					
Price per Share	1,10					

Optimistic Scenario	2014F	2015F	2016F	2017F	2018F	2019F
FCFE	0	0	202	271	258	265
Discount factor	1,000	1,118	1,249	1,396	1,561	1,744
Discounted FCFE	0	0	162	194	165	152
PV FCFE	673					
Terminal Value	2619					
PV Terminal Value	1501					
Equity Value (EURmn)	2175					
Growth Rate	1,5%					
BPI's Stake	100%					
Number of Shares (millions)	1390					
Price per Share	1,56					

Exit Euro Zone Scenario	2014F	2015F	2016F	2017F	2018F	2019F
FCFE	1,0	-738,2	39,0	90,4	72,1	145,9
Discount factor	1,000	1,118	1,249	1,396	1,561	1,744
Discounted FCFE	1	-660	31	65	46	84
PV FCFE	-434					
Terminal Value	1368					
PV Terminal Value	784					
Equity Value (EURmn)	351					
Growth Rate	1,0%					
BPI's Stake	100%					
Number of Shares (millions)	2808					
Price per Share	0,12					

Probabilities	
Base Case	70%
Pessimistic	10%
Optimistic	15%
Leaving Euro	5%

Enterprise Value (EURmn)	1871
BPI's Stake	100%
Number of Shares (millions)	1390
Price per Share	1,35

Angola – Banco Fomento Angola (AOA mn²⁶)

Base Case	2014F	2015F	2016F	2017F	2018F	2019F
FCFE	866	2585	2968	4957	6949	8873
Discount factor	1,000	1,163	1,345	1,549	1,793	2,074
Discounted FCFE	865,709	2223,348	2206,145	3199,912	3876,527	4278,048
PV FCFE	16650					
Terminal Value	71914					
PV Terminal Value	34673					
Equity Value (AOAmn)	51322					
Growth Rate	3,00%					
BPI's Stake	50,10%					
Fair Value (AOAmn)	25713					
Number of Shares (millions)	1390					
Price per Share (AOA)	18,50					

Equity Value (EURmn) 434

Fair Value (EURmn) 217

Price per Share (EUR) 0,16

Worst Case	2014F	2015F	2016F	2017F	2018F	2019F
FCFE	929	-2096	-1959	-567	865	2178
Discount factor	1,000	1,191	1,403	1,636	1,911	2,247
Discounted FCFE	929,0	-1759,4	-1395,9	-346,4	452,8	968,9
PV FCFE	-1150,9					
Terminal Value	14800,7					
PV Terminal Value	6585,8					
Equity Value (AOAmn)	5435					
Growth Rate	2,5%					
BPI's Stake	50,10%					
Fair Value (AOAmn)	2723					
Number of Shares (millions)	1390					
Price per Share (AOA)	1,96					

Equity Value (EURmn) 50

Fair Value (EURmn) 25

Price per Share (EUR) 0,02

Probabilities	
Base Case	90%
Pessimistic	10%

Enterprise Value (EURmn) 395

BPI's Stake 50,1%

Fair Value (EURmn) 198

Number of Shares (millions) 1390

Price per Share (EUR) 0,14

Mozambique – Banco Comercial e de Investimentos (MZM mn²⁷)

	2014F	2015F	2016F	2017F	2018F	2019F
FCFE	144	-221	1126	3524	-1399	963
Discount factor	1,00	1,15	1,34	1,55	1,79	2,07
Discounted FCFE	144	-192	842	2281	-783	466
PV FCFE	2757					
Terminal Value	7859					
PV Terminal Value	3804					
Equity Value (MZMmn)	6561					
Growth Rate	3,00%					
BPI's Stake	29,70%					
Fair Value (MZMmn)	1949					
Number of Shares (millions)	1390					
Price per Share (MZM)	1,40					

Equity Value (EURmn) 173

Fair Value (EURmn) 51

Price per Share (EUR) 0,04

²⁶ Unless stated otherwise²⁷ Unless stated otherwise

Appendix 3 – Periphery Countries Sovereign Debt Exposure

EUR mn	Nominal	Book Value (1H13)	Price (6-Dec-2013)	Duration (6-Dec-2013) ²⁸	Modified Duration (6-Dec-2013) ²⁹
Portuguese Public Debt					
<u>Treasury Bills</u>					
Bilhetes do Tesouro- CZ - 17.01.2014	440	437	99,88	0,117	0,117
Bilhetes do Tesouro - CZ - 18.04.2014	253	250	99,52	0,369	0,368
Bilhetes do Tesouro - CZ - 18.07.2014	132	130	99,048	0,625	0,617
Bilhetes do Tesouro - CZ - 19.09.2014	274	268	98,748	0,71	0,704
Bilhetes do Tesouro - CZ - 19.12.2014	273	266	98,318	1,05	1,036
Bilhetes do Tesouro - CZ - 21.02.2014	190	188	99,758	0,214	0,213
Bilhetes do Tesouro - CZ - 21.03.2014	489	484	99,635	0,294	0,291
Bilhetes do Tesouro - CZ - 21.05.2014	759	748	99,343	0,47	0,464
<u>Treasury Bonds</u>					
OT 3.35% 15.10.2015	0	0	100,238	1,811	1,757
OT 3.6% 15.10.2014	1	1	101,003	0,844	0,825
OT 4.75% 14.06.2019	1.700	1.602	97,085	4,856	4,61
OT 4.95% 25.10.2023	25	23	92,498	7,911	7,467
Foreign Government Debt					
<u>Italy Public Debt</u>					
BUONI POLIENNALI DEL T 4.25% 01.09.2019	800	833	106,63	5,108	4,959
BUONI POLIENNALI DEL T 4.5% 01.03.2019	175	184	107,968	4,695	4,564
<u>Ireland Public Debt</u>					
Irish Treasury 4.4% 18.06.2019	235	247	109,648	4,954	4,833
Irish Treasury 5.9% 18.06.2019	100	117	117,093	5,158	5,022

EUR mn	Nominal	Book Value (1H13) - EURmn	Price (6/Dec/2013)	MtM (EUR mn)	Gain/Loss (EURmn)
Portuguese Public Debt					
<u>Treasury Bills</u>					
Bilhetes do Tesouro- CZ - 17.01.2014	440	437	99,88	439	2,85
Bilhetes do Tesouro - CZ - 18.04.2014	253	250	99,52	252	2,01
Bilhetes do Tesouro - CZ - 18.07.2014	132	130	99,048	131	0,95
Bilhetes do Tesouro - CZ - 19.09.2014	274	268	98,748	270	2,17
Bilhetes do Tesouro - CZ - 19.12.2014	273	266	98,318	268	2,44
Bilhetes do Tesouro - CZ - 21.02.2014	190	188	99,758	189	1,33
Bilhetes do Tesouro - CZ - 21.03.2014	489	484	99,635	488	3,60
Bilhetes do Tesouro - CZ - 21.05.2014	759	748	99,343	754	5,82
<u>Treasury Bonds</u>					
OT 3.35% 15.10.2015	0	0	-	-	-
OT 5.45% Setembro 1998/2013	0	0	-	-	-
OT 3.6% 15.10.2014	1	1	101,003	1	-0,02
OT 4.75% 14.06.2019	1700	1602	97,085	1650	48,91
OT 4.95% 25.10.2023	25	23	92,498	23	0,05
Foreign Government Debt					
<u>Italy Public Debt</u>					
BUONIPOLIENNALI DEL T 4.25% 01.09.2019	800	833	106,63	853	20,32
BUONIPOLIENNALI DEL T 4.5% 01.03.2019	175	184	107,968	189	4,51
<u>Ireland Public Debt</u>					
Irish Treasury 4.4% 18.06.2019	235	247	109,648	258	10,98
Irish Treasury 5.9% 18.06.2019	100	117	117,093	117	0,40
TOTAL	5847	5777		5883	106,31

²⁸ Bloomberg

²⁹ Bloomberg

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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