MILLENNIUM BCP

COMPANY REPORT

PORTUGUESE BANKS

6 JUNE 2011

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Managing through the storm

With the international operations life boat

- BCP's domestic operations, representing 74% of total assets, will continue to be hit by the Portuguese crisis. Banks are facing serious liquidity and funding challenges for which we believe BCP has more downward exposure than its peers, as evidenced by its higher ECB dependence. Required deleveraging, rising funding costs and further deterioration of asset quality will keep driving down the bank's returns, which are expected to remain low in the near-future. We value BCP Portuguese activity at €0.23/sh.

- International operations do look promising, especially in Africa and Poland, and should account for 63% of the group results in 2013. Greece is a country we consider BCP should leave if an opportunity comes along.

- BCP is now raising €260m through a rights issue. Yet, we don't expect the bank to handle the new requirement of 10% CT1 in 2012 without a further capital increase.

- We value BCP at €0.44/share and our recommendation is SELL. The possibility of accelerated balance sheet deleveraging and debt restructuring event in Portugal and/or in Greece are the main downside risks to our valuation.

Company description

BCP is the 2nd largest private Portuguese financial institution with a market share of 21% in loans to customers and 19% in customer funds. It is the 5th largest company in the PSI 20 Index with a weight of 10% and a market cap of € 2.4bn.
Apart from its domestic operations, the bank also has a considerable international presence with operations in Poland, Greece, Mozambique and Angola.

Recommendation:	**SELL**
Price Target FY11:	**0.46 €**
Price (as of 3-Jun-11)	**0.49 €**

Reuters: BCP.LC, Bloomberg: BCP PL

52-week range (€)	0.45-0.65
Market Cap (€m)	2,377
Outstanding Shares (m)	4,902

Source: Bloomberg

Source: Bloomberg

(Values in € millions)	2010	2011F	2012F
Net Interest Income	1,517	1,621	1,668
Net Income	361	217	250
ROE adjusted	3.5%	1.5%	1.7%
ROA	0.4%	0.2%	0.3%
NIM	1.7%	1.9%	2.1%
Cost/Income	57%	60%	60%
Deposits	45,609	45,649	46,520
Loans	73,905	72,516	70,971
Loans/Deposits	1.62	1.59	1.53
RWA	59,564	58,444	57,199
Core Tier 1	8.4%	8.9%	10.0%

Source: Company Data and Analyst estimates

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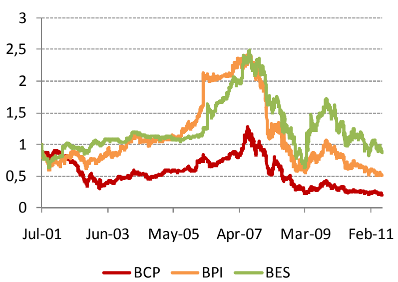
Company Overview

BCP is currently the **second largest private Portuguese financial institution** with a market cap of €2.4bn. It is also the 5th largest company in the PSI 20 index with a weight of 9%. It has an average **market share close to 21% in loans to customers and 19% in customer funds**, the biggest branch network in Portugal and a growing international network in some of the other countries in which it operates.

Fig. 1 – Banks performance (%)



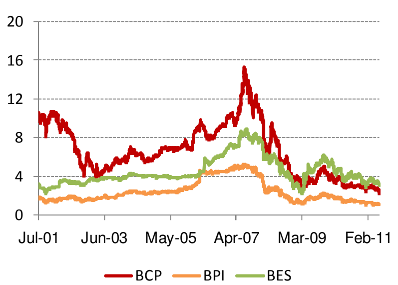
Source: Bloomberg

Company description

Following a 20-year growth period during which BCP was regarded as a case study worldwide due to its rapid market share conquest, the company has been losing value.

The bank has been expanding in terms of volume over the past several years, via both organic growth and selected acquisitions. These were, namely, Banco Portugues do Atlantico in 1995, Pinto&Sotto Mayor in 2000, Banco Mello in 2001 and Millennium in Poland in 2000. In 2003 the bank rebranded the group as Millennium BCP.

Fig. 2 – Banks market cap (€bn)



Source: Bloomberg

However, **BCP's performance has been less than impressive**. Looking at the graph, one can distinguish 3 periods: 1) 2000-2002 – acquisitions period along which BCP lost c. €6bn in value; 2) 2002-2007 – BCP's performance was in line with sector growth; 3) 2007-2009 – following the beginning of institutional disputes in 2007 and the financial crisis BCP lost €4bn.

Besides domestic operations, the bank is also present in Poland, Greece, Mozambique and Angola, which we analyse separately. Given the current economic situation in Portugal and the international opportunities**, we expect an increasing contribution of international operations to consolidated earnings** which will account for more than 50% of revenues in 2012.

Table 1 – BCP selected data

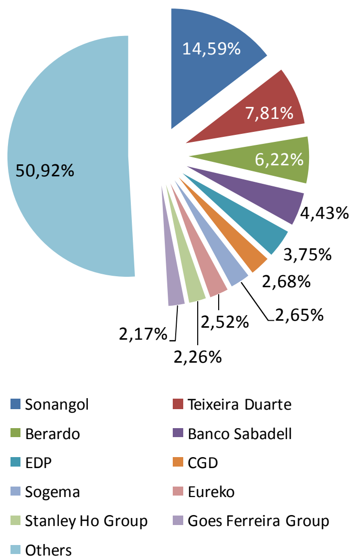
	2006	2007	2008	2009	2010	2011F	2012F	2013F	2014F
Assets €m									
Portugal	66,707	71,941	68,739	69,161	73,591	67,991	64,749	60,726	57,853
International Operations	12,338	16,226	25,685	26,389	26,419	27,220	27,828	28,320	29,448
Total Assets	79,045	88,166	94,424	95,550	100,010	95,211	92,577	89,046	87,301
Net Income €m									
Portugal	731	477	135	238	258	77	57	142	193
International Operations	108	141	123	12	103	140	193	244	307
Total	839	618	258	249	361	217	250	386	500
International operations as %									
Total Assets	**16%**	**18%**	**27%**	**28%**	**26%**	**29%**	**30%**	**32%**	**34%**
Net Income	**13%**	**23%**	**48%**	**5%**	**29%**	**65%**	**77%**	**63%**	**61%**
ROE (adjusted)	**20%**	**13%**	**4%**	**3%**	**4%**	**2%**	**2%**	**4%**	**5%**

Source: Company data and analyst estimates

Shareholder structure

BCP presents a dispersed shareholder structure, with ten qualified shareholders from which only 3 are above the 5% level and none has more than 15% of the share capital. By December 2011, **Sonangol[1] (Angola state-owned oil company) and Teixeira Duarte Group (Portuguese construction company) were the largest minority shareholders**, with 14.6% and 7.8% stakes, respectively, followed by Berardo Group with 6.2%. Additionally, there was a group of 7 other investors, including EDP and CGD, with stakes ranging from 2% to 5%.

Fig. 3 – Shareholder structure as of December 2010



Source: Company data

It is worth noticing that 2.5% out of Teixeira Duarte's 7% stake in BCP was given as collateral to CGD in two loan requests. According to the press, CGD also financed part of Joe Berardo's interest stake acquisition in BCP. **CGD (the Portuguese government, indirectly) thus effectively has a larger exposure to BCP, adding up to its direct stake**. The current funding issues troubling Portuguese banks are obviously taking a toll on CGD's access to funding. Moreover, EDP, another relevant shareholder, needs to finance its ambitious strategic development program. All in all, one can gather that **BCP's major Portuguese shareholders are currently in a weak financial position.**

Table 2 – Shareholder structure changes

	31-12-2010	23-05-2011
Sonangol	14,59%	
Teixeira Duarte	7,81%	5,89%
Berardo	6,22%	4,70%
Banco Sabadell	4,43%	
EDP	3,75%	1,99%
CGD	2,68%	
Sogema	2,65%	
Eureko	2,52%	1,90%
Stanley Ho Group	2,26%	1,71%
Goes Ferreira Group	2,17%	1,64%
BCP Pension Fund		4,27%
Ocidental		10,92%
Total	49,08%	

Source: Company data

BCP's capital ratios were found at worryingly low levels, Core Tier 1 (CT1) of 6.9%, and **the bank carried out several capital strengthening measures:** i) increase of €120.4m by incorporation of share premium reserves by issuing new shares without nominal value; ii) conversion of €990m subordinated debt, and iii) **It is currently undertaking a €260m capital increase** through new share issuance. Hence, **the structure described above is undergoing several changes.** CGD has put out the intent of selling its stake in the bank, and Teixeira Duarte has announced it will subscribe the capital increase. Two new qualified shareholders, BCP's Pension Fund and Ocidental, emerged from the conversion of subordinated debt. The known alterations in BCP's shareholder structure as of May 23 are portrayed in the table 2 but there will be further changes as a result of the present capital increase.

[1] Sonangol was given permission by Banco de Portugal to increase its interest stake in BCP up to 20%.

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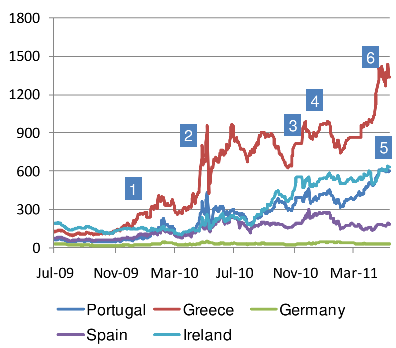
Domestic Activity

Fig.4 – Selected countries € 5-year senior debt CDS spreads



Source: Bloomberg

1) Market fears about government deficits become clear
2) S&P downgrades both Greece and Portugal debt
3) EU announcement of plans to make bondholders bear more of the burden of any future rescue
4) Ireland's bail-out and proposal of a permanent debt restructuring mechanism
5) Portugal asks for external help
6) Greek debt restructuring fears intensify

Table 3 – Portuguese indebtedness levels (%GDP)

	2000	2005	2009	Jun-10
Households	62	82	97	96
Corporates	102	108	138	139
Government	42	56	72	79
Total	206	246	307	314

Source: BoP and IMF

Portugal is BCP's core market, accounting for 84% of Profits and 74% of Assets in 2010. However, we expect the Portuguese market's relative importance to decline given the challenges the country is currently facing.

Macroeconomic challenges

In early 2010, market fears about government deficits in Europe's peripheral economies – particularly Portugal, Ireland, Greece and Spain – started to emerge as evidenced by credit rating downgrades and widening bond yields. **By the end of April 2010**, the amplification **in international investors' aversion to hold public debt could be clearly observed** in all debt markets' maturities, as bond yields and CDS spreads escalated for the aforementioned countries.

Greece was the first country to lose access to funding markets, forcing the IMF and EU to launch a €110bn bailout program in May 2010. Facing the risk of an institutional crisis of unforeseen consequences, euro member states agreed to establish a financial stabilization mechanism, with a commitment to accelerate the consolidation of public finances in several countries. ECB announced several non-standard monetary policy measures, including a debt acquisition program (public and private) and extra liquidity facilities for banks.

To address rising bond yields and lower access to funding the Government implemented an austerity plan. The set of measures included a 5% average reduction in public wages, freezing of pensions, a 2% increase in the VAT's main rate from 21% to 23% and cuts in public investments and tax deductions. **These measures are taking a heavy toll on economic growth**, as households are unable to offset lower public expenditure via a reduction in private savings, **a problem further enhanced by sky-scraping levels of private indebtedness** of 235% of GDP as of June 2010 (table 3). The combination of the necessary fiscal consolidation and the deleveraging process is having a negative impact on domestic demand as well as on unemployment and disposable income.

In December the Irish bailout package was agreed and markets turned their attention towards Portugal as yields started to soar. Portugal's ability to raise enough funds to meet its financial obligations in 2011 became impaired. Consequently, Portugal began issuing debt at an increasing cost. In order to

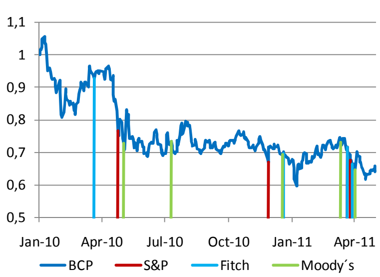
Table 4 – Credit rating changes

Agency	Date	Portugal	BCP	BES	BPI
S&P	21-01-09	A+			
Fitch	24-03-10	AA-			
S&P	27-04-10	A-	BBB+	A-	A-
Moody's	05-05-10	Aa2	A1		
Moody's	13-07-10	A1			
Moody's	14-07-10		A3		
Fitch	21-07-10		A		A
Fitch	08-11-10		BBB+		A-
Fitch	23-12-10	A+			
Moody's	15-03-11	A3			
Fitch	24-03-11	A-			
S&P	24-03-11	BBB			
S&P	28-03-11		BBB-	BBB	BBB
S&P	29-03-11	BBB-			
S&P	31-03-11			BBB-	BBB-
Fitch	01-04-11	BBB-			
Fitch	05-04-11		BBB-		BBB-
Moody's	05-04-11	Baa1			
Moody's	06-04-11		Baa3	Baa2	Baa2

Source: Bloomberg

Sovereign downgrades are usually followed by bank downgrades and its impact is visible in banks' share performance...

Fig. 5 – BCP share performance and time of sovereign downgrades



Source: Bloomberg

ease pressure on refinancing costs **the government announced a new austerity program at the 11th March EU Summit**, including several structural reforms and new measures to strengthen the financial sector by encouraging banks to reduce their funding needs and raise capital, if needed, and called for restructuring plans to be submitted by banks by end-April.

Nevertheless, markets did not react to the new measures and in addition, the biggest opposition party group did not back up the new wave of austerity, refusing to approve the austerity package in parliament driving the government towards resignation. **The ensuing political uncertainty triggered several rating downgrades** by S&P and Fitch on March 24[2], which was followed by downgrades on the banking system.

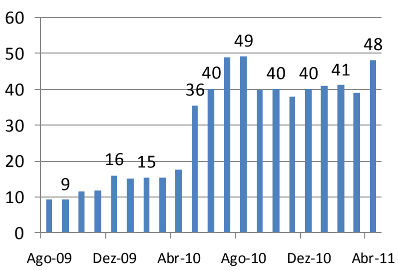
Credit rating changes may have serious consequences for banks. When entering into rediscount operations with Central Banks or in the repo market, banks must post collateral. All assets presented as collateral are subject to a certain haircut that depends on the 'quality' of the security presented, which is assessed through the credit rating of the issuer of the security. The issue is that, alongside banks, many Portuguese corporations have been downgraded as well, and since Portuguese Banks hold a considerable amount of securities from Portuguese companies that have been downgraded, **banks net eligible assets for collateral are drastically reduced.**

Downgrades may also impact ISDA master agreements. These are documents agreed between two parties that set out standard terms that apply to all the transactions between those parties. A Credit Support Annex (one of the parts of the ISDA – not mandatory) delineates the conditions under which collateral is posted or transferred between counterparties to diminish credit risk arising from derivative positions. It includes items such as the level of threshold. Threshold levels may decrease upon a downgrade forcing banks to post collateral at earlier stages. **As collaterals are remunerated at EONIA, which is considerably lower than banks current funding costs, the impact of such action is relevant**. In the worst-case scenario, credit lines may be reduced or completely erased, hence seriously hurting banks normal functioning.

[2] Moody's cut Portugal debt rating by two notches to A3 and maintained a negative outlook on March 16

Wholesale debt markets are closed for more than a year now…

Fig. 6 – ECB dependence (€bn)



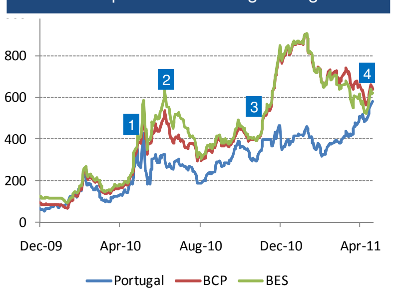
Source: BoP

Table 5 – ECB dependence (€bn)

	BCP	BES	BPI
ECB	16,2	5,9	0
TA (€bn)	100	837	46
ECB (%TA)	16,2%	0,7%	0,0%

Source: Company data

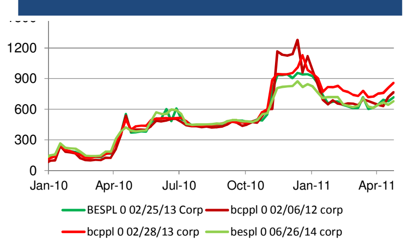
Fig. 7 – Portugal and banks €5-year senior debt CDS spreads and rating downgrades



Source: Bloomberg

1) S&P on April 27,2010
2) Fitch on July 21,2010
3) Fitch on November 8, 2010
4) Fitch on April 5, 2011; Moody's on April 6, 2011

Fig. 8 – Selected bond yields (bps)



Source: Bloomberg

By the time of the Portuguese sovereign downgrade on April 2010, the ratings assigned to Portuguese banks and subsidiaries in Portugal of foreign banks were also worsened (Table 4). Since then, **wholesale debt markets have been closed for medium and long-term issues for Portuguese Banks**. Given the high indebtedness levels of the Portuguese economy, banks rely heavily on wholesale debt markets. Unable to access them, Portuguese banks replaced their funding needs through ECB liquidity facilities. **ECB reliance was at €48bn**, c.9% of sector Total Assets, at the end of April (Fig. 6).

Banks funding costs are also **tightly linked to their sovereign funding costs** as evidence by CDS spreads (Fig. 7). If not yet discounted by the markets, a rating cut increases risk perceptions which obviously increases funding costs. In fact, S&P observes a close relationship between borrowing costs and credit ratings[3] that is also observed in Portuguese banks funding costs (Fig. 8). Thus the implementation of structural reforms to unlock debt markets and alleviate funding pressures will be crucial for the banking sector evolution as discussed further ahead.

On April 6, after a Treasury bill auction where Portugal had to pay 5.9% for 12-month bills, approximately what Ireland was paying on IMF loans with an average maturity of 7.5 years, **Portugal formally asked the EU Commission for external financial help**. The €78bn support package came under strong conditions including recalibration of the tax structure, elimination of barriers to competition in the non-tradable sector and reform of unemployment insurance and employment protection. We would like to stress that, **for Portugal the issue is economic growth** rather than fiscal adjustment. Therefore, measures are, to a certain extent, different from those applied to Greece and Ireland, with a greater number of reforms aimed at raising **the economy's potential growth rate**, which **averaged 0.7% over the last decade**.

The programme also seeks to strengthen the financial sector in terms of funding and solvency. In order to safeguard liquidity, it includes €35bn to be made available by the government as guarantees for bank bonds. At the same time, it asks for more capital from banks, which are now required to raise CT1 capital ratios to 9% by the end of 2011 and to 10% in 2012, up from the 8% previously requested by BoP. In the event that they cannot reach the required levels by 2012 the bailout package includes €12bn to recapitalise banks.

[3] **S&P**. Feb 24, 2011. "Credit trends: The relationship between corporate credit ratings and debt cost across the maturity curve and through stress periods:1945-present "

Table 6 – Debt maturity profile (€bn)

	2011	2012	2013	2014	2015	Total
BCP	4,9	2,0	2,2	2,7	0,7	12,5
BES	1,7	3,1	2,1	2,4	3,2	12,6
BPI	0,5	2,2	0,3	0,2	1	4,2
As % of TA						
BCP	4,9	2,0	2,2	2,7	0,7	12,5
BES	2,0	3,8	2,5	2,9	3,8	15,0
BPI	1,1	4,8	0,7	0,4	2,2	9,2

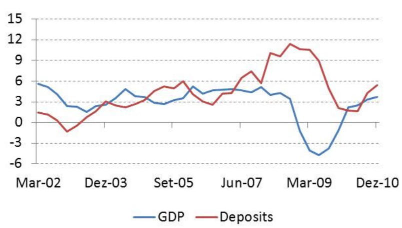
Source: Company data and analyst estimates

Table 7 – Eligible ECB Assets (€bn)

	BCP	BES	BPI
Eligible Assets 1Q11	20,1	9,7	8,2
ECB	16,2	5,9	0
Repos			2,3
Still Available	3,9	3,8	5,9
Debt 2011	4,9	1,7	0,5
Available End 2011	-1,0	2,1	5,4
Debt 2012	2,0	3,1	2,2
Available End 2012	-3,0	-1,0	3,2

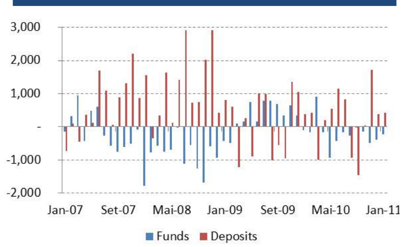
Source: Company Data and analyst estimates

Fig.9 – Deposits and GDP growth (%)



Source: BoP

Fig. 10 – Deposits and AuM (€bn)



Source: BoP

Funding position and deleveraging

Banks are facing demanding refinancing obligations as shown in table 6. BCP stands out with €4bn debt maturing until the year-end corresponding to c. 4% of Total Assets[4], which will completely exhaust available ECB collateral already this year.

To worsen things, **ECB has signalled its intentions of reducing funding to Portuguese banks**. However Taking ECB out of the picture at a time where its funds represent c.10% of system assets will obviously not be possible without triggering an unprecedented systemic liquidity crisis over the European Union. Hence, **we believe this will be a gradual process**.

In this context, banks will have to look for alternative sources of funding.

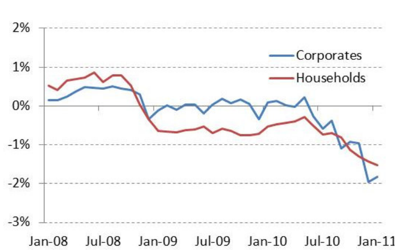
o Deposits

Deposits are the banks' main sources of funds. Historically, customer deposits have followed GDP growth closely except for the period between mid-2008 and the beginning of 2010. The beginning of the financial crisis and the consequently risk aversion period led households to increase its savings rate and to transfer their funds away from asset management and securities instruments to less risky banking products like deposits. Hence, despite negative GDP growth rates, total sector deposits managed to increase. However, deposit evolution was different amongst banks: CGD and Totta were able to expand their customer resources market share (probably as a result of being perceived as safer institutions, the former is state owned and the latter a Spanish bank), whereas those of BCP, BES and BPI declined. This trend seems to have ended in 4Q10, with all major banks seeing their market shares improving except for CGD (Fig. 12).

Efforts to attract customer deposits are already visible in interest rates offered (fig. 11). Going forward, we believe banks will avoid entering into more aggressive strategies to capture new deposits but will do everything to at least keep their customer bases intact. If they pursued more aggressive strategies, banks would end up with limited market share gains and reduced margins since competitors would promptly respond. Still, we **expect negative spreads to continue in 2011 and 2012, driven by banks´ need to increase deposits attractiveness compared to other savings products.** In fact, future deposit

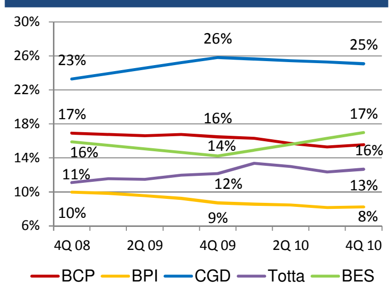
[4] One billion of the €4.9bn debt maturing in 2011 matured in 1Q11.

Fig. 11 – Deposit spreads



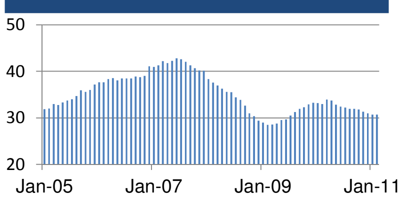
Source: BoP

Fig. 12 – BS Customer resources market share evolution



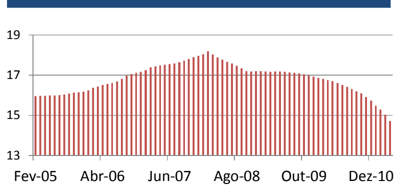
Source: Company data and analyst estimates

Fig. 13 – Investment Funds (€bn)



Source: BoP

Fig. 14 – Savings certificates (€bn)



Source: IGCP

volume growth is far from clear. In order for deposits to grow in 2011, one of two alternatives must take place: either household's saving rate increases or there must be a shift in current savings allocation. In a context where disposable income is set to drop due to fiscal and budgetary measures, the only way savings rate would jump would be through an even more pronounced fall in consumption[5]. In addition, ECB is expected to tighten moderately over the next 2 years, which along with current household indebtedness levels, is likely to sweep away savings in order to repay debt burdens. Thus, we find the scenario under which deposits are boosted through an increase in the savings rate unlikely. Alternatively, deposits could increase through changes in resource allocation, specifically if there is a shift in preferences, driving money away from off-balance sheet resources or other savings instruments to deposits. In fact, we have been observing negative evolutions for funds and saving certificates as seen in figures 13 and 14[6].

All in all, **we do not expect deposits to be the solution for BCP's funding issues**. BCP deposits decreased by 0.9% in 1Q11 and we expect 0% growth until the year-end and moderate positive growth thereafter.

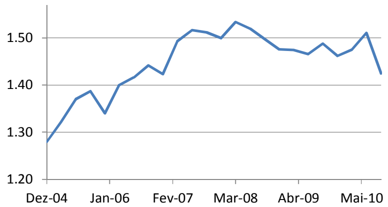
- Other funding sources

Funding could also be obtained through debt issuance. However, **international financial markets remain closed for Portuguese banks and the situation is only to change once the perception of the Portuguese economic situation** improves which we do not expect to happen before 2012.

As previously stated, the sovereign support package includes €35bn to be made available as guarantees for bank bonds. However, we doubt that this guarantee will make any significant difference in improving market confidence towards banks given the yield at which Portuguese government debt trades. Hence, banks will likely use the guarantees to create collateral[7] to tap the ECB emergency liquidity, which will ultimately result in increased ECB reliance instead of effectively reducing it as it already does for Ireland and Greece. All major banks have already stated that they will request state guarantees. **BCP is awaiting approval for a bond issue of €1.75bn with a 3-year maturity**[8].

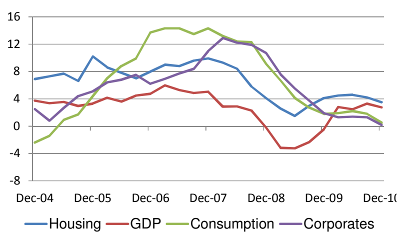
[5] OECD is predicting lower savings: 11% on December 2010 to 8% on December 2012.
[6] There are rumours of capital outflows, but they don't seem significant so far given the deposits, funds, and savings certificates evolution.
[7] Banks issue debt that is bought by other banks to use as collateral, the latter doing the same the other way around, which means there is a debt exchange that is then taken to the ECB.
[8] We assumed the 3-year Portuguese government bonds current yield plus 1% for the guarantee.

Fig. 15 – Sector LTD ratio



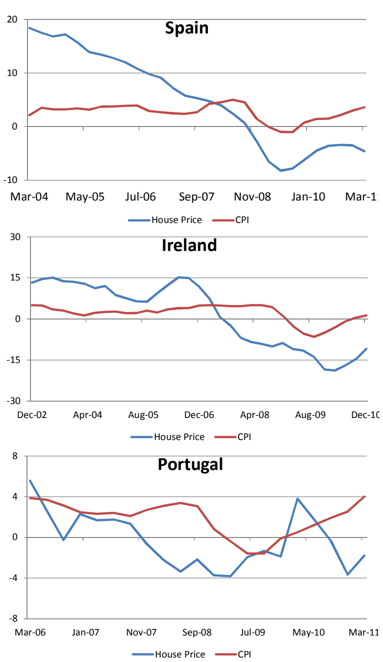
Source: BoP

Fig. 16 – Credit and GDP growth (%)



Source: BoP

Fig. 17 – Selected countries house prices yoy and inflation (%)



Source: INE and Bloomberg

This request still falls under the previous state support programme of October 2008, when the government put in place a guarantee scheme to help the banks in case they need it. In 2009, BCP issued €1.5bn under this programme.[9]

To address funding concerns **banks had already guided that they would seek to deleverage,** with BES seeking a LTD of 120% in 2012 and BCP in 2013[10]. Still, we assumed 2014 as the year banks need to meet the 120% target according to what the market expects BoP will announce in September. Note that, with limited deposit growth, deleveraging can only take place either through credit rationing or asset disposals. We are modelling a strong rationing according to management guidelines.

- Credit

Credit rationing is already taking place, as Portuguese banks are limiting access to credit, and a deceleration in credit growth is already becoming evident, though sluggish credit demand can also be a cause for this.

Credit for house purchase is typically less volatile regarding changes in the current macroeconomic environment. As a long-term decision, it is dependent to a much lesser extent on current GDP or disposable income. It is much more dependent upon expectations, thus it varies much more with indicators such as consumer confidence, which may drive house buying decisions to be postponed or even swapped for house renovations. Nevertheless, some economic indicators such as unemployment do affect house-purchasing decisions directly. The fact is **the sector is currently undergoing an adjustment process, which is driving prices downwards, and will keep placing pressure upon prices, at least until oversupply is thoroughly absorbed.** It is important to highlight that this is not the outcome of a real estate bubble which could have more damaging consequences for banks. Contrarily to other countries where such bubbles occurred, **in Portugal housing prices had been advancing nearly in line with inflation** (fig 17). Although economic indicators such as consumer confidence or unemployment do affect house purchases, this is only true for the short-term, in the medium/long term house purchases will instead depend much more upon demographic indicators such as birth/mortality rates, net migration flows,

[9] In case of BCP default the Portuguese government becomes the main shareholder of the bank.

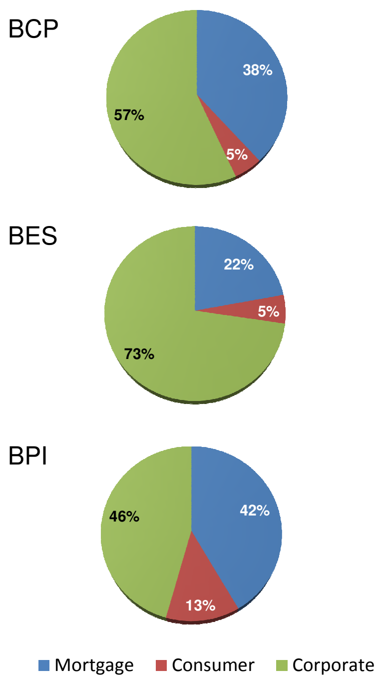
[10] In order for loans to remain constant (assuming a LTD target of 135% for the Portuguese operation) BCP would have to increase BS customer resources by 15% over the next 3 years (€5.3bn).

Table 8 – BCP's mortgage credit maturities (€m)

Less than 1 year	19
Between 1 and 5 years	169
More than 5 years	22,345
	22,533

Source: Company Data and analyst estimates

Fig 18 – Portuguese banks loan books



Source: Company Data and analyst estimates

household formation, etc. Therefore, and since unemployment is forecasted to increase over 2011 and 2012 and consumer confidence is not expected to improve, at least over 2011, given all the uncertainty surrounding the sovereign debt crisis, we believe credit demand will remain subdued. **BCP's obvious need to deleverage should also negatively impact credit volume.** However, this is likely to be limited for housing loans given their traditional long term maturity profile. According to management, BCP's average maturity is 27 years. However, as people often move home, housing loans behavioural duration is typically smaller. Since people are postponing such decisions, **BCP's behavioural duration of 7 years has now enlarged and is forecasted to stabilize at around 15-20 years.** Still, we predict credit for house purchase to decrease by 1% until 2014. This is based on management policies and current expectations of tighten monetary policy that will make loan repayments more attractive than saving deposits. Thereafter we expect the real-estate sector to complete its adjustment process, being progressively more dependent on demographic factors.

Credit for consumption is much more volatile than credit for house purchase as it depends to a much larger extent on current macroeconomic conditions. This type of credit is extremely cyclical and thus depends very much on how the economic situation plays out. Disposable income, household indebtedness and unemployment rate are some of the factors that directly have an effect on consumption. Specifically, with disposable income set to decrease by 2011 – a situation that grew worse as it was one of the items tackled by the Portuguese government's austerity measures – employment predicted to deteriorate over the next two years, and the high levels of household indebtedness recorded, we predict credit for consumption demand to decrease. Still, the lack of funding is also due to have an effect on credit conceded and we expect this impact to be larger. **We forecast BCP's credit for consumption to decrease by 10% until 2014, and finally picking up with a 2% growth after 2015.**

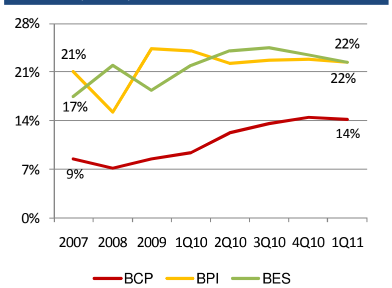
Corporate credit, though not as volatile as credit for consumption, is also extremely dependent on the current macroeconomic situation. Hence, economic indicators such as GDP and its forecasts are typically very much linked to credit demand by corporations. Moreover, **corporations are currently undergoing a deleveraging process that is likely to place enhanced downward pressure on demand for credit**. Still, poorer corporate profitability may prevent companies from repaying their loans while forcing

Table 9 – BCP selected data (€m)

	BS Customer Resources	Total Loans	LTD (%)
1Q09	36.102	58.999	163
1Q10	35.438	58.710	166
1Q11	36.270	56.179	155

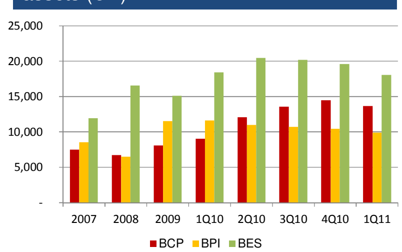
Source: Company Data and analyst estimates

Fig. 19 – Portuguese banks financial assets (%TA)



Source: Company Data and analyst estimates

Fig 20 – Portuguese banks financial assets (€m)



Source: Company Data

banks to recognize NPLs. Banks, in turn, may counterbalance this by extending the maturity of the loans they grant, which may also explain the slower than expected rise in NPLs.

However, **given the LTD targets banks that banks will be required to meet, the limited ability of banks to deleverage through mortgage credit rationing and the reduced weight of credit for consumption purposes on banks' loan books, credit to companies will be hurt the most**[11]. We predict credit to companies to decrease by 3% until 2014.

Deleveraging can also be achieved through asset sales. According to Reuters BCP could sell €1.6bn of loans related to international project finance. It is hard to assess the loss associated with the sale of these loans. **Deleveraging banks through asset sales in an economy expected to contract is a challenge** and banks financial condition diminishes their negotiating power. International assets are likely to be more liquid from a disposal perspective and consequently likely to be sold at lower discounts than Portuguese assets. Nevertheless, we believe banks would have to accept losses higher than 10% if they were to dispose of loan portfolio assets nowadays. Hence, **we are not accounting for any losses resulting from asset sales,** meaning that in our model deleveraging is done through credit reduction. Yet, if BoP LTD targets prove more demanding than those we are assuming such losses must be accounted for.

- Financial Assets

Alternatively, **funding needs may be reduced through financial asset disposals**. Last year **banks significantly enlarged their financial assets** and consequently their weight in relation to total assets. BCP presents the same trend (fig. 19 and 20). This jump was **mostly due to the acquisition of public debt,** particularly Portuguese debt. However, as these are ECB eligible, the disposal of these assets would also result in a disposal of a funding source. Moreover, **banks are able to make a profit out of these transactions**. Hence, in short-term banks do not have incentives to dispose of these securities. Furthermore, the price of public debt securities has been dropping significantly as yields continue to rise. Thus, if banks were forced to sell these assets they would have to book significant losses and undergo cuts

[11] Comparing Portuguese banks, BES may be better positioned given the lower weight of credit for house purchase in its loan book

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on capital positions. This could be one of the outcomes of a debt restructuring scenario, which we will analyse further ahead.

Table 10 – Fixed income maturities as of 4Q10 (€bn)

	Financial Assets
Less than 3 months	2.72
Betw een 3months and 1 year	3.55
Betw een 1 and 5 years	6.90
Above 5 years	0.00
	13.17

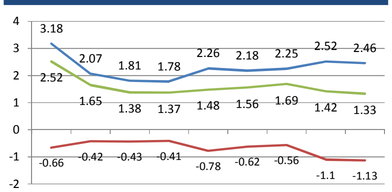
Source: Company Data

Still, **BCP's fixed income securities are concentrated in the short term** (Table 10) **which may provide some funding relief**. Banks have been rolling over such securities but, according to management guidelines, the group intends to reduce its exposure to Portuguese bills in €2bn and c. €1.5bn of other debt titles.

Deleveraging may prove important to address solvency concerns by reducing Risk Weighted Assets (RWA) but it will seriously impact profitability.

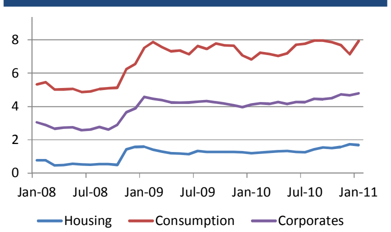
Profitability

Fig. 21 – BCP spreads (%)



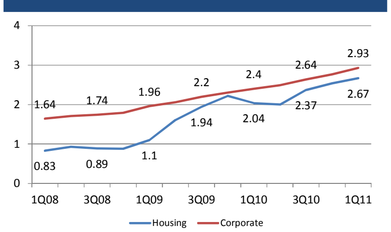
Source: Company Data

Fig. 22 – Sector new loan spreads (%)



Source: BoP

Fig. 23 – BCP new loan spreads (%)



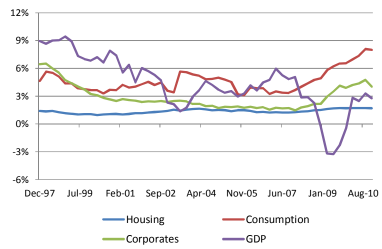
Source: Company Data

Portuguese macroeconomic challenges resulted in declining profitability.

Banks have been hurt by a weak Euribor. As their loan book is directly linked to the Euribor, but the interest paid on deposits is not, when interest rates fall the NIM lingers. Furthermore, the need to attract deposits resulted in negative deposits spreads. Going forward, we believe banks will not go into more aggressive deposit competitions, so we expect BCP 1Q11 negative deposit spread of 1.13% to be kept until the year end. Afterwards, as rates are projected to increase, we believe banks will be able to slowly recover deposit margins. **They will also gradually recover credit margins as higher funding costs are being passed on to customers and hence translated into larger credit spreads.** Moreover, **customer spreads should compensate each loan probability of default and its associated loss**, which is now appearing to have been underestimated as evidence by non-performing loans (NPLs) ratios**. Hence, the trend is for overall loan re-pricing**. However, the ability to do so is limited by the weight of mortgage credit, whose re-pricing is lengthier, especially as behavioural duration increases. Currently mortgage credit constitutes c. 38% of domestic loans for BCP. Note that, challenges faced by BCP are also being faced by the whole sector. If this was not the case, the impact on BCP's value could be dramatic as BCP has an obvious need to increase loan spreads to pass on extra costs to its clients**.**

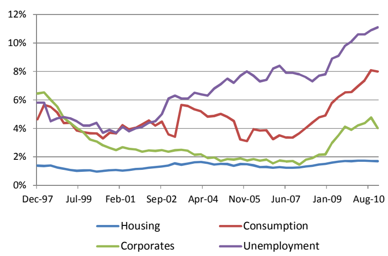
NPLs reached historic high levels in November 2010. Yet, the past analysis of unemployment, GDP growth, disposable income and NPLs suggests that they have not reached their peak. The implementation of the government's

Fig. 24 – NPLs and GDP growth rate



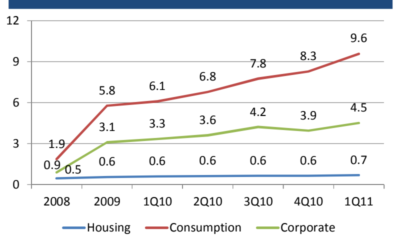
Source: BoP

Fig 25 – Sector NPLs and unemployment



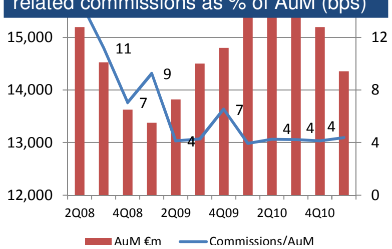
Source: BoP

Fig. 26 –BCP NPLs (%)



Source: Company Data

Fig. 27 –BCP's AuM (€bn) and market related commissions as % of AuM (bps)



Source: Company Data

stabilization measures will place further downward pressure on employment and disposable income levels which, along with the recessionary outlook, suggest the need for higher provisioning and the booking of more significant losses in the credit portfolio. **Consumer loans have been the main driver of the recent credit quality deterioration** as they are also the most sensible to the aforementioned macroeconomic variables. Mortgage NPLs, on the opposite side have remained contained as customers are not in the aftermath of any housing bubble and have benefited from a low interest rate environment alongside with fairly stable house prices. However, we accounted for the further pressure that expected interest rates increases will be translated into. As **corporate delinquencies are generally late-cycle this is the sector where we expect considerable additional deterioration.** Moreover, banks have been able to sustain the NPLs rising by extending the maturities of loans they grant, a scenario that will be hampered by deleveraging targets.[12] All in all, the pace of the Portuguese economy is driving asset deterioration up, and due to its outlook we expect levels of NPLs to peak in 2012[13].

In what concerns other funding sources, **we assumed that markets will remain closed until 2013, the issuance of bonds with state guarantees in case of any adverse development and that banks will continue to take advantage of the ECB's extraordinary liquidity measures**. However, they are doomed to finance themselves at a higher price once they regain access to international financial markets. Hence, when markets reopen, assuming funding costs will be above their historic average, banks with higher LTD ratios, translated into increased funding needs, will be hurt the most. In the long run, we believe banks will be able to pass such costs to customers.

Commission income has been an important source of banks' revenues. However, efforts to attract customer funds are likely to continue, leading to the reduction of customer's assets under management (AuM). As market related commissions are defined as a % of such assets, we expect them to decrease. Banking commissions are also likely to be affected by credit contraction and by the expected drop in consumption, which will affect fees on in-store automatic means of payment, despite BCP recent upward re-pricing. Commissions related to banks guarantees are now being re-priced as to compensate for increased collateral costs. Still, lower volumes are likely to mitigate such effort.

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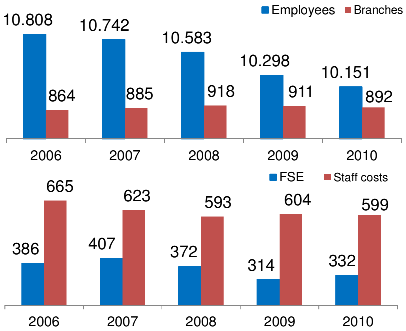
[12] Interest rate hikes increase the interest burden on households, which combined with high unemployment levels, should lead to further deterioration in asset quality

[13] We assumed smoother evolution for provisions over time for provisions: 1% losses per year over the next 3 years

Fig. 28 – BCP domestic branches, employees and operational costs



Source: Company Data

Table 11 – Portuguese banks cost to income ratio

	2008	2009	2010
BCP	62	67	65
BES	61	61	50
BPI	66	59	59

Source: Company Data

Table 12 – Portuguese banks capital ratios as of 4Q10 (%)

	BCP	BES	BPI
Core Tier 1	6.7	7.9	8.7
Tier 1	9.2	8.8	9.1
Solvency ratio	10.3	11.3	11.1

Source: Company Data

Table 13 – Exchange Public Offer results

Subordinated debt	1,000,000
Amount converted	990,147
Issue Value	0.625
Shares issued	1,584,235

Source: Company Data

Table 14 – Number of shares (m)

Initial	4,694,600
Incorporation of reserves	206,518
EPO	1,584,235
Current Capital Increase	721,813
Final number of shares	7,207,166

Source: Company Data

All in all, **we believe BCP will keep its commissions revenues close to 2010 levels.**

Given margin reductions, banks have been attempting to cut operational costs. **BCP has been following a cost-cutting program** that entails a gradual reduction in the number of employees and branches[14]. Compared to peers, BCP presents a cost-to-income ratio higher than BES, which shows that there is room for improvements. We estimate that **a €50m/year cost cut (c. 5% of total) would represent an added value of €0.05/share** – 11% of the present value of the group. We accounted for 1% yearly increase in operational costs.

Despite BCP efforts to boost earnings, deleveraging will keep driving down the bank's returns, which are expected to remain low in the near-future. As previously stated, we assumed in our valuation a 120% LTD target for 2014. We estimate an impact of up to -€0.03/sh should this be the target for 2013[15].

Addressing Solvency Concerns

○ Capital Increase

At the end of 2010 BCP was, among major banks, the least capitalized (Table 11). In March 2011, the Group decided not to pay dividends on 2010 earnings and announced an increase of €120.4m by incorporation of share premium reserves. Later, BCP's AGM approved a €1.0-1.25bn capital increase through the conversion of up to €1bn of BCP's perpetual subordinated debt and a subsequent rights issue. As **the exchange public offer for €1bn of perpetual debt to equity was accepted by 99.01% of debt holders** (above the threshold limit of 75%[16]), **€260m are now being raised through a rights issue**. BCP will issue 721.813m in ordinary shares in the ratio of 1:9 at a subscription price of €0.36, which is a 33% discount to the closing price of €0.537 on 18th May. This operation will boost BCP's CT1 to 9%.

The fact that BCP's former perpetual debt holders were mainly insurance companies and funds with specific investment policies and limits, may force them to sell their shares stock once they start to trade by June 16. However,

[14] Staff costs are up by 10% when compared to 1Q10 if we take into account that in 1Q11 BCP booked a reversal €31m on account of early retirement charges in the Portuguese operation

[15] Assuming that the ECB is still providing cheap liquidity

[16] If the take-up did not exceed 75% the right issues would be the amount necessary to reach €1bn capital increase.

we believe overhang will be limited given BCP's participations in 2 biggest former holders: Ocidental and BCP's pension fund.

BCP's capital increase is a step in the right direction as it is likely to increase investors' confidence but **it will fall short of solving long term capital issues for BCP**. The bank's pension fund liabilities, potential for further loan loss provisions and possible sovereign debt restructurings are our main concerns.

- Pension Fund

Table 15 – Pension Fund Analysis(€m)

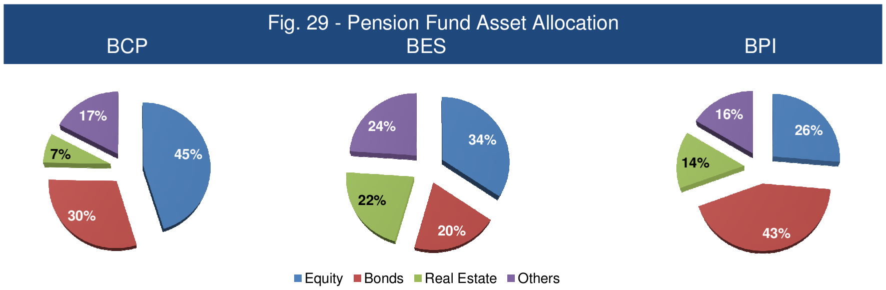
	BCP	BES	BPI
Pension Fund (€m)	5,121	2,206	2,409
Market Cap (€m)	2,493	3,247	1,029
Impact of a 10% pension fund deficit			
on CT1	0.9%	0.3%	0.9%
per share (€)	0.07	0.19	0.24
Actuarial differences (€m)			
Outside the corridor	1,382	666	16
Inside the corridor	529	219	239
	1,912	885	255
Outside the corridor differences			
as % of CT1	35%	12%	1%
Employees	10,020	6,292	6,847
Pensioners	15,639	5,684	10,584
	25,659	11,976	17,431
Projected rate of return	5.50%	5.50%	5.50%
Discount rate	5.50%	5.50%	5.25%
Compensations increase rate	2.50%	3.25%	3.00%
Pensions increase rate	1.50%	1.75%	1.75%
Amortization period (years)	20	15	21

Portuguese Banks are required to pay their employees pensions on retirement or disabilities and other obligations that are covered through the banks' pension funds. If differences between those liabilities present value and the value of the fund are above a corridor (10% of the maximum of the pension fund's assets or liabilities), they must be deducted from regulatory capital and amortized in the P&L over the average working lives of the employees (currently 20 years for BCP).

Table 15 highlights the impact of pension funds in banks' solvency and value. **BCP and BPI performances and solvency are heavily impacted by their pension funds size, representing twice their market capitalization**. Hence, if economic conditions deteriorate any further, BCP's solvency may be threatened, with every 10% negative-move in pension fund asset value representing 0.9% of CT1 and €0.07/sh (not including tax savings impact).

Pension funds exposure to fixed income markets, namely sovereign debt, represents a concern but asset allocation disclosure is limited which confines our analysis. [17] Still, considering market performance since the beginning of the year **it seems unlikely that the pension fund will meet its expected return of 5.5%.** We assumed 0% effective return which implies actuarial losses of c. €140m this semester.

Fig. 29 - Pension Fund Asset Allocation



[17] New employees don't benefit from these pension funds. Therefore the number of beneficiaries should gradually decrease over time.

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Pension funds significance when assessing Portuguese banks value and solvency **is an additional source of volatility** comparatively to their European peers, **which is taken into account in the COE computation**, as it increases the beta of Portuguese banks. It is also worth noticing that BCP actuarial assumptions, although in line with other banks, are slightly less conservative.

- Basel III

Table 16 – Basel III capital requirements (%)*

	2013	2015	2019
Core Tier 1	3.5	4.5	7.0
Tier 1	4.5	6.0	8.5
Total Capital	8.0	8.0	10.5

* Includes capital conservation buffer
Source: Basel Committee

Table 17 – Basel III impact on BCP

	2010 €m	2010 %RWA
RWA	59,564	
Core	4,981	8.4%
New deductions		
Corridor actuarial differences	529	0.9%
Deferred tax assets	440	0.7%
Participations	195	0.3%
	1,164	2.0%
New core Tier 1	3,817	6.4%

Source: Company Data and analyst estimates

Table 18 – Capital Adequacy (€m)*

	BCP	BES	BPI
2012 Target CT1	10%	10%	10%
RWA	58,400	68,567	25,194
Own funds needed	5,840	6,857	2,519
Current own funds	5,198	5,622	2,258
Difference	642	1,234	261
2010 NI	302	522	184

Source: 1Q11 Company Data, Analyst Estimates
*We are taking into account BCP's €1.25bn capital increase

In September 2010, the Basel Committee announced the new proposals regarding capital and liquidity requirements. Capital requirements will not pose a serious threat for BCP, as **bail-out requirements are already more demanding than those of Basel III**. However, regulatory adjustments to capital may be cause for concern, even though **banks will be allowed a number of years before all measures are phased-in**:

1) pension funds actuarial differences inside the corridor will have to be deducted (currently only those outside the corridor are being deducted to capital for regulatory purposes); 2) deferred tax assets above 10% common equity will start being deducted as well; 3) 100% deduction of participation in financial and insurance corporations, up from current 50% deduction.

If we are to realize the potential impact of these measures, the full implementation of Basel III in 2010 would have led to a 195bps decrease in BCP's capital ratios, as shown in the table 17. It also shows in greater detail what the impact of the new Basel III deductions on BCP's capital ratio would be if they were to be fully implemented by 2010 and 2015. BCP's capital ratios would take a serious hit if new regulatory adjustments were to be considered now. However, **measures will only be fully implemented by 2019, thus giving BCP enough time to cope with new requirements**.

Still, if Basel III doesn't seem to be a problem, new IMF conditions may be. If we apply the required 2012 CT1 target of 10% to banks' 1Q11 RWA and compare it to banks' own funds one can assess the magnitude of such requirement – Table 18. The amount of additional capital needed to meet capital requirements is further aggravated if banks want to play safe and target higher CT1 so that they can have a margin for error.

As a conclusion, **even with no further cash dividends and substantial deleveraging, we estimate that organic capital generation will not be enough to handle the 10% CT1 target**. Hence, we considered a €400m cash injection and value BCP Portuguese activity at €0.11/sh.

International Operations

Poland

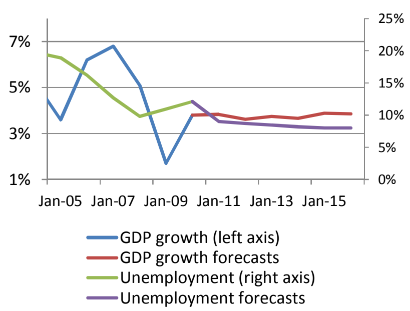
Bank Millennium is the 5th largest retail bank in Poland, offering a wide range of financial products and services to individuals and companies nationwide. In 2010, its polish branch accounted for 27% of Profit and 12% of Assets. In January 2010, the bank completed a PLN 1bn capital increase; with the main purpose of supporting its ambitious medium-run business growth plan and financing its investment plan for the next 3 years.

In 2010, Poland's annual real **GDP growth rate was one of the highest among European Union countries** and is expected to stay above the 3% level in the coming years, boosted by investment, external demand and strong domestic demand. **Favourable macroeconomic forecasts, along with rising credit demand and low penetration levels of banking services make Poland one of the most attractive European markets for banks**. In fact, several factors are likely to stimulate loan demand in Poland: expected increase in the number of households, internal migrations to big cities, desire to improve living standards and rising incomes. In addition, the implementation of investment projects co-financed by the EU may stimulate loan demand further.

Deposits have been the main source of financing for Polish banks' loan growth and we believe this trend will be kept as GDP growth and unemployment reduction will likely support deposits growth. However, we see limited potential as 1) companies are expected to use their own funds to finance part of potential investments; 2) families are likely to diversify their savings following the end of the deposit war, 3) Polish economy savings rate is high comparing to European countries. We forecast loans to grow 6.8% in 2011 and 6.9% in 2012, in line with GDP growth predictions but deposits to drop 2% this year (as a consequence of the recent rating downgrade) and to grow in line with GDP thereafter.

The economic recovery and rising employment should also bring improvements to the risk provision charges. Still, BCP's coverage ratio is low (54% vs. sector average of 64%) which we account for by maintaining an above average cost of risk.

Fig. 30 – Poland GDP growth and unemployment rate

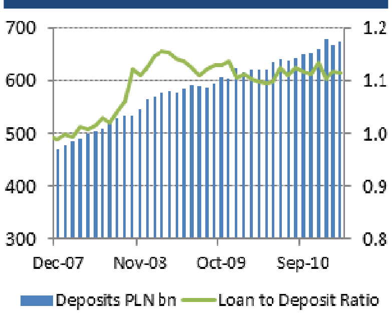


Source: IMF

Table 19 – Banking services indicators

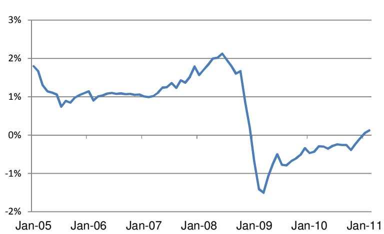
	Poland	Average*
As % of GDP		
Outstanding loans	49	127
Outstanding deposits	47	112
Per 100m adults		
Bank branches	46	40
ATMs	49	103

Fig. 31 – Deposits and LTD ratio



Source: NBP

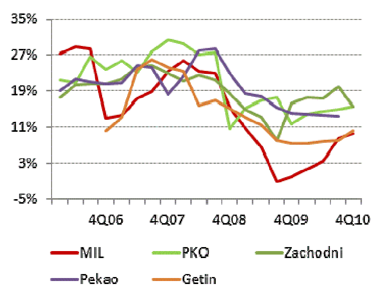
Fig.32 – Deposit spreads



Source: NBP

We also believe **there is room for improvement in deposit margins during 2011**, as the lasting effects from the 2009 deposit war wear off. The reference rate is up by 50 bps since the beginning of the year and deposit margin improvement is already visible in 1Q11 results. Accordingly, we expect Net Income to grow at a CAGR of 19% in 2011-2013, leading to an ROE of 13% by 2013.

Fig. 33 – Polish banks ROE



Source: Bloomberg

The performance of Polish banks, in general, has been quite strong. Even in 2009, despite the global financial crisis, the overall performance of the sector was good, with ROE averaging at 10.7% and improving to 14.8% in 2010. **Bank Millennium, however, has steadily underperformed its peers**, trading at Lower P/BV values and presenting lower profitability (ROE of 0% and 8% in 2009 and 2010, respectively).

Despite having cut its operating costs by 13% in 2009 - it inverted its network expansion, closed 30 stands and downsized its staff from 7,049 to 6,245 - **Bank Millennium's cost-to-income ratio is still much higher than its peers**.

Table 20 – Polish banks operational costs as % of TA

	2009	2010
MIL	2.30%	2.28%
PKO	2.50%	2.71%
Zachodni	3.25%	3.00%
Pekao	2.73%	2.82%
Kredyt	2.05%	2.20%
Getin	1.99%	2.25%

Source: Company data and analyst estimates

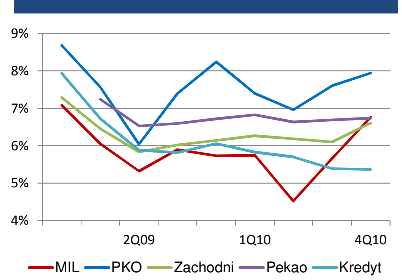
We observe that Millennium operational costs as % Total Assets are in line with peers, hence the real problem in Poland is revenue generation. In fact, Millennium's high loan to deposit ratio and lack of FX financing for the large, albeit reducing, portion of FX denominated mortgages (58% of total loans) resulted in a larger effort to attract deposits during the deposit war which began at the end of 2008. On the asset side, the bank shows a different strategy: the mortgage sector represents c. 68% of total loans, which compares with an average of 40.5% for its peers in 2010, which explains its lower interest income. All in all, the **bank's NIM has been significantly lower than its main competitors.**

Table 21 – Polish banks cost of risk and coverage ratio (%)

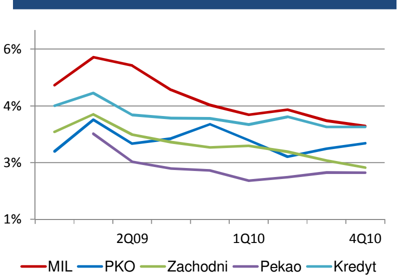
	Cost of Risk				CR
	4Q07	4Q08	4Q09	4Q10	4Q10
MIL	0.3	0.4	1.3	0.6	54
PKO	0.1	1.0	1.4	1.4	45
Zachodni	0.0	1.0	1.4	1.3	59
Pekao	0.3	0.4	0.7	0.7	77
Kredyt	0.5	0.4	3.0	1.7	68
Getin	0.9	1.8	3.2	3.1	71

Source: Company data and analyst estimates

g. 34 – Polish loans rate



deposits rate



The higher share of mortgage loans in the bank's portfolio should be compensated by a lower cost of risk as mortgage loans are usually less

Table 22 – Sector NPLs

	2009	2010
Consumption	13.1%	17.2%
Corporates	13.6%	14.2%
Housing	1.5%	1.8%

Source: NBP and analyst estimates

Table 23 – Millennium NPLs

	2009	2010
Consumption	10.2%	13.1%
Corporates	16.6%	15.3%
Housing	0.7%	0.9%

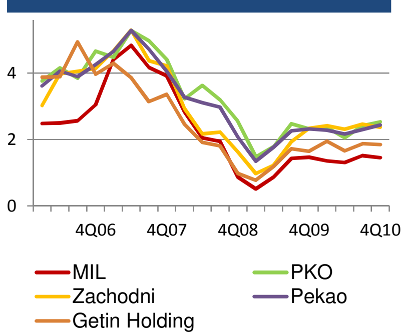
Source: Company data and analyst estimates

Table 24 – P/BV

Commissions/Total Loans			
	4Q08	4Q09	4Q10
MIL	1.4%	1.5%	1.5%
PKO	2.4%	2.2%	2.4%
Zachodni	3.9%	3.8%	4.1%
Pekao	3.0%	3.0%	3.0%
Kredyt	1.1%	1.1%	1.2%
Getin	1.5%	1.5%	1.7%

Source: Company data and analyst estimates

Fig. 36 – Selected banks P/BV



Source: Bloomberg

risky than corporate or consumer loans. However, we observe that Millennium's cost of risk, despite lower, increased more than its peers and that it's provisioning coverage of NPLs remains below average (54% as of 2010).

Nevertheless, through a more thorough analysis we can witness that historically, Millennium's mortgage loan book has consistently presented a higher quality than its peers and contrastingly its corporate loan book has shown a much poorer performance in comparison to other banks. Particularly in 2009 NPLs of Millennium's corporate loans amounted to 16.6% compared to the market average of 13.6%, and in 2010 15.3% to 14.2% respectively. Consequently, we can draw the conclusion that **Millennium's corporate lending profile has been much looser than its peers.**

Considering that their performance in longer-term mortgage loans is above average, corporate loans are shorter-term and thus can undergo a re-pricing process much faster, and that Millennium also shows a weak non-interest income revenue generation, as measured by Commissions over Total Loans, we think that **Bank Millennium is an attractive acquisition target** even more for someone who can have operating costs synergies in Poland.

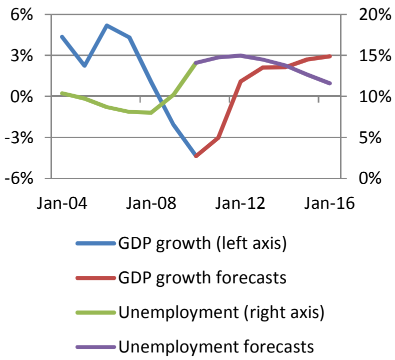
In fact, **we have started to witness some M&A activity** in the Polish banking sector: Austrian bank Raiffeisen acquired 70% Polbank for €490m; Getin Noble Bank purchased Allianz by €35m, and most recently, the sale of Bank Zachodni WBK, Poland's fifth largest bank to Spain's Santander for €4bn. In fact, Polish banking sector is fragmented compared to most European countries: PKO BP and Pekao SA, together control less than half the market; the next 15 banks each have less than 5% share. According to Reuters, Polish second largest bank Pekao will analyse the possibility of acquiring Bank Millennium if the latter is put up officially on sale. Reuters has also mentioned Raiffeisen, PKO BP, BNP Paribas and Deutsche Bank as possible bidders.

Calculations based on the same valuation multiples implied in the aforementioned Santander transaction suggest that the **disposal of Polish operations could involve between €0.4bn and €1bn capital gains.** If BCP were to sell its Polish operations the impact on BCP's share price could amount to €0.14.

Still, **management continues to consider Polish operations to be strategically important for BCP and has repeatedly stated that these are not for sale**. Poland is important for BCP now but even more in the future. Hence, we value the bank in €962m (€0.13 per share).

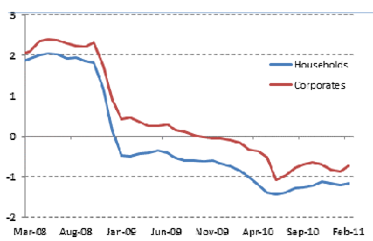
Greece

Fig. 37 – GDP growth and unemployment rates



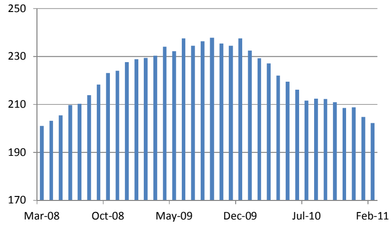
Source: IMF

Fig. 38 – Deposit spreads (%)



Source: Bank of Greece

Fig. 39 – Total deposits (€bn)



Source: Bank of Greece

Millennium has a small operation in Greece (2% market share in loans) that represented -5% of Profits and 7% of Assets in 2010. The bank's core operation is retail banking but it also offers a range of additional financial services.

Greece was the first country to lose access to funding markets, forcing the IMF and EU to act in May 2010. A €110bn bailout program was launched and the country advanced on fiscal adjustment and structural reforms. Despite some progress, fiscal slippages and expenditures overruns have prevailed as confirmed by the last EU and IMF report. As a result, a new medium-term fiscal plan and privatisation programme along with a new aid package shall be announced once the European and IMF officials complete work on their assessment of Greece's public accounts and negotiations end.

Banks had a difficult year: international money dried up and deposits declined due to fears of sovereign default. Deposit outflows have continued into 1Q11 despite on-going efforts to attract customer funds. The accelerating unemployment rate, the latest GDP forecasts and uncertainties regarding a possible debt restructuring suggest deposits will continue to decrease in 2011, reversing this trend only in late 2012. With wholesale debt markets closed and deposit outflows, credit growth is also in negative territory and is expected to continue since banks need to deleverage their balance sheets.

Fiscal consolidation has resulted in NPLs increases that are still on the rise. We expect this trend to persist at least until 2012, and assume an above historical average cost of risk thereafter as Millennium (and Greek banks) has been reducing coverage ratios.

To counterbalance the declining profitability banks have implemented successful cost control programs. We believe further cuts will take place in 2011, supported by the current downward pressure on wages. We have also accounted for some margin improvement from 2012 onwards; as banks have been increasing loan spreads and those of deposits are expected to recover[18].

All in all, we expect losses of €50m for the year-end and the return to positive levels only in 2014. Hence, we **value BCP's Greek operations at -€28m** (-

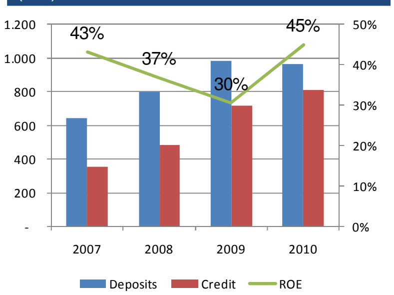
[18] For the past 3 quarters BCP has been able to recover some deposit margin

€0.0/share) **based on our assumption that the Group would not risk damaging its own reputation by letting a subsidiary go bankrupt.**

Still, 5-year CDS spreads are now implicitly pricing in a 60% haircut on Greek bonds with a probability of 69%, and a growing number of economists and politicians defend that fiscal consolidation will need to be helped by an effective debt reduction. We did not consider this in our valuation but it would result in a deeper recession for the Greek economy and consequently further damage BCP's Greek operations. In addition, it would directly hit the book value of the bonds BCP holds (exposure of €600m[19] to Greek sovereign debt through its Portuguese operation) that would hit capital. **A 40% cut on bonds book value would imply losses €240m (€0.04/sh) and 0.5% reduction of CT1.** Note that, according to our estimates the market value of bonds BCP holds is already down by 36%.

Mozambique

Fig. 40 – Credit and Deposits evolution (€m) and ROE



Source: Company data and analyst estimates

Table 25 – Banking services indicators

	Mozambique	Average*
As % of GDP		
Outstanding loans	27	127
Outstanding deposits	37	112
Per 100m adults		0
Bank branches	3	40
ATMs	5	103

Source: IMF

Millennium also controls Mozambique biggest bank with a market share of 40% in loans to customers. These operations accounted for 17% of Profits and 1% of Assets in 2010.

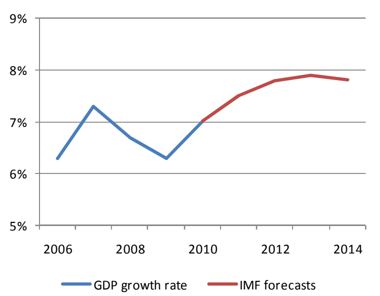
Mozambique has a population of c. 22 million people. Most of the population is still rural and more than half is below the absolute poverty line. The country has experienced a decade of rapid growth. Exploitation of natural resources supports a considerable portion of the economic activity. The major export industry is fishery followed by cotton and tobacco. Forestry and tourism are also important areas and it has recently begun its exploitation of natural gas, titanium, uranium and other mineral resources. According to the IMF, **real GDP is expected to have grown by 7% in 2010 and to accelerate during the coming years** supported by construction, energy and financial sectors (Fig. 41).

Mozambique´s profitability levels and volume expansion are worth noticing in Fig. xx. Management strategy is to continue its expansion plan to support volume increase and to sustain the high ROE experienced by this unit (Fig. 40) Given GDP's growth forecasts, the economy low levels of bank penetration (Table 25) and BCP's know-how and history in Mozambique, **we believe the bank will be able to deliver similar performances for the next years**. Still,

[19] BCP's total exposure is €740m but we have only considered those with maturity higher than 1 year as restructuring is not imminent.

we are accounting for a slowly decreasing NIM due to inflation and competition. We value these operations at €393m.

Fig 41 – Real GDP growth rate



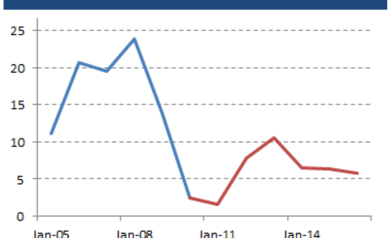
Source: IMF

Professional skills are scarce and may be a binding constraint for BCP's expansion plans to rural areas. Currency exchange rates risk must also be accounted for. Although not a relevant risk (given the economic prospects and political stability in the Country), a 10% decrease in the exchange rate should represent a loss of €0.01 per share.

The major upside risk to our forecasts may be caused by natural gas discoveries. Recently, Anadarko Petroleum Corp (U.S. oil producer) announced the discovery of a gas reserve off the coast of Mozambique that might be big enough to justify a liquefied natural gas (LNG) project. The company is currently evaluating whether gas can be produced and commercialized. If gas commercialization turns out to be viable the country will be the destination of considerable amounts of investments. The spill over effects, such as employment and total income increase, caused by this huge investment together with the market leader position of the bank in the country put Millennium in a privileged situation to grow even quicker in Mozambique.

Angola

Fig. 42 – Real GDP growth rate (%)



Source: IMF

Millennium started its activity on the Angolan market in 2006. It has been rapidly expanding and accounts for 8% of Profits and 1% of Assets in 2010.

In 2009 the global financial crisis, falling oil prices and the limitations imposed on Angola's oil output resulted on a -0.4% GDP growth. Since then the increase in oil revenues and the vigour of the non-oil sectors resulted on a recovery of the economic activity. Going forward, Angola's performance is expected to be backed by the commodity markets' rebound, high investment levels and foreign capital inflows recovery. In addition, for the first time in 2 years, **National Bank of Angola decided to cut the short-term loans' interest rate** charged to commercial banks from 30% to 25%, **showing a clear sign of its intentions to stimulate the economy.**

Table 26 – Banking services indicators

	Angola	Average*
As % of GDP		
Outstanding loans	41	127
Outstanding deposits	47	112
Per 100m adults		
Bank branches	1	40
ATMs	10	103

Source: IMF

Currently, there are 20 banks providing a full range of banking services that have been rapidly growing while achieving steadily high ROEs. Still, the **Angolan banking system is dominated by 5 banks**, which together control about 80% of deposits and lending. Angola's large population of 18.5m and low levels of bank penetration provide a potential source of long-term growth. The **percentage of the population served by the banks is 11% and it is**

forecasted to increase to 20% by 2013[20]. In addition, since 1Q09 BCP has a strategic partnership with Sonangol which we believe will enable the bank to reach its peers' ROE levels.

Table 27 – Angolan banks ROE

	2007	2008	2009
BFA	32%	48%	43%
BESA	45%	49%	60%
BAI	40%	44%	42%
BCP	14%	10%	17%

Source: Company data

Table 28– Angolan banks credit growth rates

	2007	2008	2009
BFA	60%	19%	19%
BESA	134%	117%	74%
BAI	85%	110%	106%
BCP	123%	71%	78%

Source: Company data

For the coming years the strategic priorities of Millennium Angola consist of the development of the business, greater efforts in the execution of the expansion plan, on-going strengthening of the Bank in the matter of technologies and information systems as well as focus on recruiting and training plans. Angola has also been through 40 years of civil strife (25 years of highly disruptive civil war) which together with a non-existent education system, impacted its development and led to dislocations in the labour force, as almost 2 generations of the Angolan labour pool do not exist. Hence, **there has been intense competition for human resources that result in increasing staff costs**. Given the economic expansion plans we expect this trend to continue.

We see the operation in Angola delivering a net profit of €53m in 2013 fuelled by the growth of the economic activity and the consequential increase in loans and deposits.

The most relevant upside in the value of Angolan operations would be the improvement of political and economic situation, the elimination of the complex foreign exchange control system and liquidity issues[21] and the creation of a credit risk institution that centralizes information on credit and performing ratios helping banks in the process of credit concession.

Other Operations

Table 29 – Romania operations selected data (€m)

	2008	2009	2010	1Q11
Banking income	14	23	27	6
Operating costs	44	41	41	11
Net income	-35	-39	-24	-6
Customer resources	105	254	282	293
Loans	236	268	344	343
Branches	65	74	74	66
Employees	691	700	731	699

Source: Company data

Apart from the countries described above, BCP presents aggregate results from the operations in other countries. In this segment BCP allocates an equity of €170m, assets worth €5.383m and corresponds to the groups' operations in Romania, Switzerland and Cayman Islands. **Romania is a small operation that has been showing negative results.** Management expects to reach break-even point in 2013. We don't have information about the Group's remaining operations. As a whole this segment has been reporting losses (€57m, €37m and €27m in 2009, 2010 and 1Q11 respectively[22]) after a small profit in 2007. On the basis of this information **we value this segment as zero.**

[20] According to a speech made by BNA Governor in November 2010
[21] In 2010 some banks limited lending and prevented some withdrawals due to liquidity issues
[22] In 2009 this included Millennium operations in USA and Turkey.

Valuation

Table 30 – Discounted Cash Flows

	Net income
+	Amortization
-	Regulatory requirements
-	Preference share dividends
-	Capital injections
-	Interest paid on perpetual subordinated instruments
	CF available for shareholders

Table 31 – Country Risk Premiums

	Country Premium	COE	g
Portugal	6%	16%	2%
Poland	2%	12%	3%
Greece	10%	20%	2%
Mozambique	6%	16%	3%
Angola	6%	16%	3%

We valuate BCP's domestic and each of its international operations separately. We then use the Flow-to-Equity approach, since it is almost impossible to separate a bank's financing and investment decisions from its operating business. In this model we discount cash flows available to the common shareholder.

We adjust the Net Income by Regulatory Requirements, as banks must comply with minimum regulatory capital. For this purpose, we considered the new CT1 of 10% set by Bank of Portugal. For future periods we incorporate the required retention by multiplying the long-term growth rate by the RWA and by the required CT1 ratio. In addition **we treat loan loss provisions as if they were a cash-outflow for valuation purposes.** We know that risk provisioning is often driven by accounting purposes and intents to smooth out results over time – hence it does not reflect economic reality. However, information concerning unpaid loans is limited. Considering that the sum of risk provisions over time should be equal to the sum of bad debts we believe this to be an immaterial adjustment. Finall, **we add BCP's real estate property arising from recovery of loans.**

Cash flows are later discounted at a cost of equity computed using the CAPM model. We considered the 10-year German Bund rate of **3% for the economy risk free rate,** the historical **market risk premium of 5%** and the industry **Beta of 1.2**[23]. As previously referred, we expect Portuguese banks to be more sensitive to market fluctuations given their pension funds size. Hence, we use a **Beta 1.4 for the Portuguese operation**. We have also assigned a country risk premium to each of BCP's operations. For Portuguese, Greek and Polish operations we used the difference between those countries sovereign 10-year bond yields and the German 10-year bund. As there is no such data for Angola and Mozambique we use Damodaran's approach, which is based upon Moody's assessment of long-term country risk. Mozambique is not covered by Moody's but given that Fitch attributes the same risk to Angola and Mozambique we considered it to be the same. COE assigned to the Portuguese operation may be higher than what would be expected according to historical data. However, **BCP's subordinated debt was trading at an implicit rate of 12%-13% leaving us confortable with our COE estimates.**

[23] Beta estimated through a regression of Euro Stoxx Banks Index (proxy to EMU banks behaviour) on Euro Stoxx 600 Index.

We converted Kwanza and Metical cash flows to Euro cash flows using the Purchasing Power Parity based on expected inflations. In this way we ensure that the implicit inflation in the expected cash flows is consistent with the inflation embedded in the discount rate. Zloty cash flows were converted according to the futures market. Terminal values were computed using the cash flow of year 2015 and an expected growth rate.

We reach the following results:

	Net Profit (€m) *		Estimated Value	Value per share	P/BV
	2010	**2013F**	**€m**	**€**	**2011**
Portugal	255	142	1679	0.23	0.31
Operations	255	142	826	0.11	
Real Estate			853	0.12	
Poland					
Greece	82	136	962	0.13	1.34
Mozambique	-16	-16	-28	0.00	-0.09
Angola	52	70	393	0.05	3.70
	25	**53**	**280**	**0.04**	3.13
Total	**397**	**386**	**3286**	**0.46**	**0.48**

Will BCP ever fully recover?

In the past BCP was a very profitable bank but, as seen above, is now expected to perform very poorly. We think that it is possible for BCP to recover but, for that to happen, banking income needs to increase dramatically. **A 60% increase in 2014 income would be required to reach an ROE of 12%.** We don't regard this as a real possibility in light of the present macroeconomic scenario.

A full recovery is possible only if and when Portugal overcomes its present crisis. The date for this is not certain. **The success of BCP is thus fully linked to the success of the country.**

Risks

Sovereign developments will be the main driver of share price performance for the Portuguese banks. **History tells that countries can successfully implement budgetary consolidation at the same time of unpopular structural reforms**. **However, it has never occurred within a monetary union**. Hence, we consider debt restructuring event to be the major risk to our valuation. In such scenario, banks could have to book significant losses as banks' exposure to Portuguese debt is considerable (table 33).

Table 32 – Sovereign debt exposure (€bn)

	BCP	BES	BPI
Portugal	5.2	1.6	2.7
Greece	0.7	0.0	0.5
Ireland	0.2		0.3
Total	**6.1**	**1.6**	**3.5**

Source: Company data

To assess the impact of mark to market of sovereign debt in banks' capital it is important to distinguish between trading, AFS and HTM portfolios. Trading portfolios are already marked to market and resulting movements are reflected through the P&L, hence changes are already reflected in equity and capital and we have not considered them. In AFS portfolios, realised losses are reflected through the P&L and unrealised losses are deducted from equity, however they are not considered for regulatory purposes. Hence, to estimate the impact of the mark to market of sovereign debt in regulatory capital we sum losses already deducted from equity and the drop in the aforementioned securities value since 1Q11 (last time they were revaluated). In HTM portfolios securities are kept at book value. Hence, we must account for losses since such assets were acquired. BCP does not disclose bonds nominal value or the acquisition date but the evolution of HTM portfolio suggests that Portuguese debt was acquired between 2009 and 1Q11. Hence, we assumed an average of debt trading levels in those dates as the acquisition cost of Portuguese securities and a maturity of 4-years.

Table 33 – Portuguese debt exposure with maturity above 1y (€bn)

	AFS	HTM
BCP	0,2	2,3
BPI	2,6	
BES	0,3	

Source: Company data

We estimate that a haircut of 30% to Portuguese debt would leave BCP and BPI in a very delicate position, being BPI the most affected, with losses amounting to 67% of its current market cap, while BCP would lose 20% and BES 0%[24]. However, banks pension funds are also exposed to sovereign debt which would imply further losses.

Table 34 – Impact of a 30% sovereign debt haircut (€m)

	BCP	BES	BPI
AFS	0	-26	-721
HTM	-690	0	0
Total	-690	-26	-721
Impact per share (€)	-0,10	-0,02	-0,73
RWA	59.564	68.802	26.036
CT1 impact	-1,2%	0,0%	-2,8%
Resulting CT1	7,8%	8,2%	6,2%

Source: Company data and analyst estimates

Furthermore, in such scenario, **capital outflows would be difficult to stop**. Banks would need substantial liquidity amounts and would also need to be recapitalized. Higher risk aversion would probably leave the **Government as the only entity willing to solve the problem.**

[24] We are considering market cap, number of shares and CT1 after the capital increase.

Conclusions

We conclude that the Portuguese operation is now worth only 50% of the bank's total value, while representing 73% of its Total Assets, hence demonstrating the impact of the Portuguese crisis.

With wholesale debt markets closed and limited deposit growth, banks are now faced with increased funding costs and the need to deleverage. This fact, together with rising NPLs, has prevented the recovery of past profitability levels, despite banks' efforts to increase spreads and commissions. The current situation is unlikely to change before Portugal's structural problems are solved. When this will come to be is hard to predict as of now. It is important to emphasize that there is one particular area with a large impact on the share value: operational efficiency. Despite the results already achieved by the management, it still has potential to create more value.

Unsurprisingly, there are two evident stars in BCP's portfolio: Angola and Mozambique. BCP has performed very well in these two countries, having trailed a successful path which we believe will be continued. It would not even be surprising if the results in these countries were to actually exceed our estimates.

Polish contribution to BCP´s value is very close to Portuguese operations. However the company has been underperforming its peers in a sustained manner. Results are good but could be better. In addition, there are banks (which have shown interest in acquiring BCP´s stake) that may be able to offer more than the value that BCP has been able to extract from Poland. Management has announced they will not sell this operation and indeed we see political internal difficulties to approve such decision.

Greece has a negative value for BCP and the country´s present economic crisis will bring even more difficult times for the banks in the country.

It is worth noticing that BCP is able to deliver very good results in countries with strong ties with Portugal – Angola and Mozambique – whereas in markets without any traditional relationship, BCP´s performance is completely different.

We attributed a zero value for the "other operations" based on present management efforts to rationalize its international presence, leaving countries where it is hard to see a bright future for BCP. Still, they are not irrelevant as BCP has been presenting important losses.

Financial Statements

P&L	Portugal						Consolidated (€m)					
	2009	2010	2011F	2012F	2013F	2014F	2009	2010	2011F	2012F	2013F	2014F
Net Interest Income	933	991	1,120	1,099	1,028	983	1,334	1,517	1,621	1,668	1,646	1,656
Comission Income	571	604	543	543	563	583	792	882	765	777	807	846
Trading Gains	65	313	21	21	21	21	225	429	154	161	165	175
Total operating income	**1,569**	**1,909**	**1,684**	**1,663**	**1,611**	**1,587**	**2,352**	**2,828**	**2,540**	**2,607**	**2,618**	**2,676**
Operating costs	919	931	910	947	953	961	1,436	1,493	1,418	1,471	1,494	1,532
Depreciation	60	54	55	56	57	58	105	110	100	95	95	94
Total Costs	**979**	**985**	**965**	**1,003**	**1,010**	**1,018**	**1,540**	**1,603**	**1,519**	**1,567**	**1,590**	**1,625**
Loan impairments	-464	-760	-689	-654	-495	-401	-657	-931	-825	-801	-625	-510
Operating Profit	**127**	**164**	**30**	**6**	**107**	**167**	**154**	**293**	**196**	**239**	**403**	**541**
Equity accounted earnings	65	67	51	51	51	51	66	67	51	51	51	51
Other Income	75	-3	0	0	0	0	75	-3	0	0	0	0
Profit Before Income Tax	**266**	**228**	**82**	**58**	**158**	**218**	**296**	**358**	**248**	**290**	**454**	**592**
Taxes	-29	29	-5	-1	-16	-25	-46	3	-30	-40	-68	-92
Profit After Tax	**238**	**258**	**77**	**57**	**142**	**193**	**249**	**361**	**217**	**250**	**386**	**500**
atributable to							0	0	0	0	0	0
Shareholders	2	3	0	0	0	0	225	302	146	164	290	393
Minority interests	236	255	77	57	142	193	24	59	71	86	96	107
Preferred Shares Dividends	-49	-49	-49	-49	-49	-49	-59	-116	-49	-49	-49	-49
Interest on Perpetual Securitie	-11	-67	-0	-0	-1	-1	0	0	0	0	0	0
Available to Shareholders	**177**	**139**	**28**	**7**	**93**	**144**	**166**	**186**	**97**	**115**	**241**	**344**
ROE	3.9%	4.2%	1.2%	0.8%	2.0%	2.7%	3.5%	5.0%	2.6%	2.8%	4.3%	5.5%
ROA	0.3%	0.4%	0.1%	0.1%	0.2%	0.3%	0.3%	0.4%	0.2%	0.3%	0.4%	0.6%
NIM	1.5%	1.5%	1.8%	1.9%	1.9%	1.9%	1.6%	1.7%	1.9%	2.0%	2.1%	2.2%
Cost/Income	62.4%	51.6%	57.3%	60.3%	62.7%	64.2%	65.5%	56.7%	59.8%	60.1%	60.7%	60.7%

Balance Sheet (€m)	Consolidated					
	2009	2010	2011F	2012F	2013F	2014F
Cash	5,110	5,087	3,976	3,977	4,026	4,120
Customer Loans	75,191	73,905	72,516	70,971	69,406	68,554
Financial Assets	8,549	14,931	11,419	10,502	8,654	7,820
Other Assets	6,700	6,086	7,299	7,127	6,960	6,807
Total Assets	**95,550**	**100,010**	**95,211**	**92,577**	**89,046**	**87,301**
Deposits from Credit Institutio	10,306	20,077	17,749	17,646	15,180	13,931
Clients Deposits	46,307	45,609	45,649	46,520	47,771	49,542
Debt securities	19,953	18,137	14,598	12,618	10,416	8,115
Financial liabilities at fair value	7,418	5,215	5,212	3,324	3,162	3,115
Other financial liabilities	2,307	2,386	1,376	1,295	1,295	1,291
Other liabilities	2,038	1,339	2,316	2,297	2,281	2,274
Total Liabilities	**88,330**	**92,762**	**86,900**	**83,701**	**80,106**	**78,269**
Equity and Minority Interests	7,221	7,247	8,311	8,876	8,940	9,032
Total Liabilities and Equity	**95,550**	**100,010**	**95,211**	**92,577**	**89,046**	**87,301**
ROE (adjusted)	3.2%	3.5%	1.5%	1.7%	3.5%	4.9%
Loans/Deposits	162%	162%	159%	153%	145%	138%
RWA (IRB)	61,240	59,564	58,444	57,199	55,937	55,251
Tier 1 ratio	9.2%	9.2%	9.7%	10.8%	11.3%	11.8%
Core Tier 1	6.1%	8.4%	8.9%	10.0%	10.5%	10.9%

P&L	Poland (€m)						Greece (€m)					
	2009	2010	2011F	2012F	2013F	2014F	2009	2010	2011F	2012F	2013F	2014F
Net Interest Income	146	233	259	295	314	337	125	127	88	99	110	123
Comission Income	120	142	140	143	146	156	33	30	29	30	31	32
Trading Gains	88	66	67	64	62	62	18	8	0	0	0	0
Total operating income	**354**	**442**	**465**	**502**	**522**	**554**	**175**	**166**	**116**	**128**	**141**	**156**
Operating costs	230	264	284	291	295	309	122	120	111	106	106	107
Depreciation	19	19	17	17	17	16	10	10	11	9	8	8
Total Costs	**249**	**282**	**301**	**308**	**311**	**326**	**131**	**130**	**121**	**115**	**114**	**115**
Loan impairments	-106	-57	-46	-48	-39	-41	-25	-57	-60	-62	-48	-19
Operating Profit	**-1**	**102**	**118**	**147**	**171**	**187**	**19**	**-21**	**-65**	**-49**	**-20**	**22**
Equity accounted earnings	2	0	0	0	0	0	0	0	0	0	0	0
Other Income	0	0	0	0	0	0	0	0	0	0	0	0
Profit Before Income Tax	**0**	**102**	**118**	**147**	**171**	**187**	**19**	**-21**	**-65**	**-49**	**-20**	**22**
Taxes	-0	-21	-24	-30	-35	-39	-10	6	15	11	4	-4
Profit After Tax	**0**	**82**	**94**	**116**	**136**	**149**	**9**	**-16**	**-50**	**-38**	**-16**	**17**
ROE	0.1%	8.0%	8.5%	10.8%	12.8%	13.8%	2.3%	-4.3%	-15.6%	-13.4%	-5.6%	5.6%
ROA	0.0%	0.7%	0.8%	1.0%	1.1%	1.1%	0.1%	-0.2%	-0.8%	-0.6%	-0.3%	0.3%
NIM	1.5%	2.2%	2.4%	2.6%	2.7%	2.8%	2.3%	2.4%	1.7%	1.9%	2.2%	2.4%
Cost/Income	70.3%	63.9%	64.7%	61.3%	59.7%	58.8%	74.9%	78.4%	104.5%	89.8%	80.8%	73.8%

P&L	Mozambique P&L (€m)						Angola P&L(€m)					
	2009	2010	2011F	2012F	2013F	2014F	2009	2010	2011F	2012F	2013F	2014F
Net Interest Income	85	94	95	110	119	129	23	51	59	65	75	84
Comission Income	38	30	33	36	39	44	10	16	22	26	28	31
Trading Gains	23	26	29	32	35	39	18	27	37	45	47	53
Total operating income	**146**	**150**	**157**	**178**	**192**	**213**	**51**	**94**	**118**	**136**	**150**	**167**
Operating costs	54	58	66	70	73	80	29	44	47	57	67	74
Depreciation	6	7	7	7	7	7	3	6	11	7	7	4
Total Costs	**60**	**65**	**73**	**77**	**80**	**87**	**32**	**50**	**58**	**64**	**74**	**79**
Loan impairments	-21	-21	-21	-24	-27	-30	-7	-15	-10	-13	-17	-18
Operating Profit	**65**	**64**	**63**	**77**	**86**	**95**	**12**	**28**	**50**	**58**	**59**	**70**
Equity accounted earnings	0	0	0	0	0	0	0	0	0	0	0	0
Other Income	0	0	0	0	0	0	0	0	0	0	0	0
Profit Before Income Tax	**65**	**64**	**63**	**77**	**86**	**95**	**12**	**28**	**50**	**58**	**59**	**70**
Taxes	-12	-12	-11	-14	-15	-17	0	-4	-5	-6	-6	-7
Profit After Tax	**53**	**52**	**52**	**63**	**70**	**78**	**12**	**25**	**45**	**52**	**53**	**63**
ROE	30.8%	45.4%	39.7%	35.9%	39.9%	42.8%	11.3%	17.6%	26.7%	25.5%	27.2%	31.7%
ROA	4.1%	4.0%	3.7%	3.9%	4.0%	4.0%	1.7%	2.4%	3.9%	3.8%	3.7%	4.0%
NIM	7.0%	7.8%	7.2%	7.2%	7.1%	6.8%	3.4%	5.7%	5.5%	5.1%	5.5%	5.5%
Cost/Income	41.2%	43.4%	46.6%	43.1%	41.7%	41.1%	62.7%	53.3%	49.1%	47.3%	49.5%	47.2%

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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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