**BCP**: Presents new business plan for 2013-15
(*€0.18 Price Target and CoRe Buy Recommendation maintained*)

- ROE at 15%, CT1 at 10%, LTD at 100%, C/I below 45% and cost-of-risk below 100bps by 2017 are the main targets of BCP’s updated business plan, following the European Competition Authority decision on the bank’s restructuring plan. As opposed to the previous one, the plan presented today relies more on internal factors, namely cost reduction and RWA optimization. BCP intends to reduce 20% of its installed capacity in Portugal and, therefore, to reduce domestic costs by an additional €100mn.

<table>
<thead>
<tr>
<th>BCP: Main Targets vs. BPI Estimates (Group level)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>1H13</td>
</tr>
<tr>
<td>ROE</td>
</tr>
<tr>
<td>CT1(*)</td>
</tr>
<tr>
<td>C/I</td>
</tr>
<tr>
<td>CoR</td>
</tr>
</tbody>
</table>

Source: BCP and BPI Equity Research.

- **20%-30% upside to our estimates**: At first sight, BCP’s business plan seems to lag our estimates as the targeted ROE falls short of our numbers. However, this is merely due to a higher equity base, as illustrated in the CT1 ratios. In reality, BCP’s expectations on capital generation until Jun17 stand 47% ahead of our estimates for that period. As such, the net profit implied in BCP’s targets for 2015 and 2017 stand 20% and 30% above our bottom-line estimates.

- **CT1 at 12% following the CoCos redemption**: BCP expects to generate c. €2bn of capital until Jun17. At the same time, the bank expects to reduce RWAs by €6bn, benefiting from the implementation of IRB advanced models (€5bn) and lower loan volumes (€4bn). All in all, the bank expects a CT1 ratio (BoP definition) of 12% by 2017 (we expect a ratio of 10.9% mainly on lower capital generation). By 2019, BCP expects a BIS3 CT1 of c. 10% (vs. 8.6% in our estimates)

- **Expect a positive reaction to the plan**: Despite the downgrade in top-line expectations, we believe that the plan announced today should help investors regain confidence on the investment case as: (1) it provides additional visibility on the bank’s ability/strategy to redeem the CoCos in due time; (2) the plan has more internal drivers (cost reduction and RWAs optimization), therefore reducing execution risks; and (3) the underlying assumptions seem more conservative (particularly on the interest rates assumptions).

- **Value to be unlocked**: The bank’s ability to redeem the €3bn of State CoCos in due time, side by side with the evolution of the sovereign crisis, comes as the main threats but also the main source of upside. Besides, we believe there is value to be unvelled from: (1) efficiency improvements at home; (2) confirmation of the first glimpses of economic recovery in Portugal; and (3) possible asset disposals, namely the Polish subsidiary which represents 67% of BCP’s mkt cap (vs. 14% of assets and 23% of normalized earnings). The stock trades at 0.93x PTBV14 but at a compelling 4.1x on normalized earnings, making it an interesting play on the Portuguese recovery.

Analysts
Carlos Peixoto
carlos.joaquim.peixoto@bpi.pt
Phone 351 22 607 3141

**Highlights & Recommendation**

| Price(1) | 0.10 |
| Market Cap (€ mn) | 1,951 |
| YE13 Price Target(2) | 0.18 |
| Adj. PE13 | n.s. |
| Adj. PBV13 | 0.9 |
| DY13 | 0.0% |

**Recommendation** CoRe Buy

| Reuters | BCP LS |
| Bloomberg | BCP PL |

(1) Today’s closing price.
(2) Detailed valuation and assumptions used in our Research Note “X BPI’s Iberian Conference” dated 10th Sep. Source: BPI Equity Research.

**Market Performance (%)**

<table>
<thead>
<tr>
<th>1m</th>
<th>3m</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>BCP</td>
<td>-1.0</td>
<td>-2.0</td>
</tr>
<tr>
<td>PSI20 Index</td>
<td>1.3</td>
<td>4.8</td>
</tr>
</tbody>
</table>

Source: Bloomberg.

**Historical Recommendation**

<table>
<thead>
<tr>
<th>Date</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>19-Nov-10</td>
<td>Hold</td>
</tr>
<tr>
<td>18-Sep-12</td>
<td>Neutral</td>
</tr>
<tr>
<td>22-Jan-13</td>
<td>CoRe Buy</td>
</tr>
</tbody>
</table>

Source: BPI Equity Research.

Available on our website: www.bpiequity.bpi.pt, BPI Online, and Bloomberg at NH BPD.
Main targets for Portugal:

- **Core income (NII+Fees) at €1.3bn by 2017**, vs. €1.9bn in the previous plan. As anticipated expectations on top line were downgraded as result of lower volumes but mainly lower interest rates assumptions (which come well below the ones assumed by the market).

- **Operating costs** below €700mn from 2015 to 2017, driven by a 20% reduction of branches and headcount in Portugal (to c. 700 branches and c. 7,500 employees by 2017). This should not come as a surprise given the performance shown so far, which placed BCP in an excellent position to achieve the previous 2015 cost target (<€800mn) already this year.

- **Cost of risk at 100bps in 2015 and below that level by 2017**, a figure which comes in line with expectations. The bank expects this progressive improvement from the CoR of 221bps in the 2Q13 to levels below 100bps to be driven by: (1) macro stabilization; and (2) the creation of a legacy portfolio (non-core assets) as it should progressively result in a decline in the exposures to riskier segments.

### BCP: Main Targets vs. BPI Estimates Portugal

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core income</td>
<td>BCP</td>
<td>&gt; €1.3bn</td>
</tr>
<tr>
<td>Op costs</td>
<td>~ €700mn</td>
<td>€687mn</td>
</tr>
<tr>
<td>CoR</td>
<td>100bps</td>
<td>107bps</td>
</tr>
</tbody>
</table>

Source: BCP and BPI Equity Research.

International area:

- **Poland**: BCP aims to place a stronger focus on corporates and mid-sized companies, increase its weight to c. 35% of the unit's loan book as a way to enhance its assets profitability. The financial targets include: (1) a C/I of 50% by 2015 (from 57.4% in Dec12 and our 51% forecast); a LTD ratio below 100% (from 95% in Dec15) and a CT1 ratio above 10%. The 14-15% ROE target for Bank Millennium was maintained.

- **Mozambique**: (1) C/I below 45% by 2015, which compares with our forecast of 42% and the 44.5% witnessed in Dec12; (2) despite the loan growth expected for the country and the banks increased focus on the corporate and affluent segments, the LTD ratio is expected to continue below 90% by 2015; (3) ROE is intended to remain above 20% by 2015.

- **Angola**: BCP intends to introduce some changes in the unit business model with the introduction of branches specialized in the affluent segment as a way to improve cross selling. Financial targets for 2015 include: (1) C/I below 45%, (2) LTD below 70% and (3) ROE above 20%.
DETAILS ON THE AGREEMENT WITH THE EC:

Commitments:
- Scale down in Portugal through the reduction of branches and employees, implying a reduction of ~25% of staff costs in 2015 vs. 2012;
- Conditional sale of its equity holding in BCP Poland, if BCP does not repay €2.3 billion of CoCos by December 2016;
- Sale of:
  - Its 100% holding in MGA (Millennium Asset Management);
  - The loan books of BCP Cayman Islands and BCP Switzerland;
  - Its 100% equity holding in Banca Millennium (Romania);
  - The entire shareholding in Piraeus
- Achieve the following key ratios:
  - Maximum of 120% LTD ratio in 2015-17 (123% in Jun 13);
  - Maximum CIR of 50% in 2016-17 (77% in Jun 13);
  - Maintain a minimum CT1 ratio that meets statutory solvency levels (12.5% in Jun13);
  - ROE higher than 10% in 2016-17.
- Split its existing activities into two parts: the core unit and the non-core unit (real estate development and land acquisition, securities-backed lending, construction subcontractors, football clubs, highly-leverage secured lending and subsidized mortgages)

General restrictions:
- Ban on acquisitions
- Ban on aggressive commercial practices
- Remuneration of corporate boards and employees oriented towards long-term company objectives
- Business restrictions with related parties
- Ban on dividends, coupon payments (if not legally mandatory) and buy-backs
- Ban on financing the purchase of shares or hybrid capital issued by BCP
Amongst the companies covered by BPI Equity Research, BPI Group has qualified stakes in Ibersol, Impresa, ZON Multimedia, Semapa and Sonae. BPI Group may provide corporate finance and other investment banking services to the companies referred to in this report.

In November 2007, Banco BPI has celebrated an "Equity Swap" contract with Sonae Investments with strictly financial settlements (Cash Settled Share Swap Transaction), to cover the inherent risk in the acquisition of 6.64% of Sonae's share capital, at a price of €2.06 per share. In this contract, the periodic repercussion over Sonae Investments of the amounts corresponding to Sonae share price changes relative to the above-mentioned price was agreed as well as the amounts equivalent to the proceeds to be received by Banco BPI under the exercise of rights inherent to these shares. The contract had a maximum maturity of 3 years. In October 2010, the maximum maturity of this "Equity Swap" (covering at such date the inherent risk in respect of 6.52% of Sonae's share capital) was extended up to 3 years, until November 2013. BPI entered into a liquidity provider agreement with Euronext Lisbon for the Banco Popular Español shares, being such agreement effective from February 2008.

Banco BPI and/or Banco Português de Investimento participate or have participated, as a syndicate member and/or assisting the issuer, in the share offerings of Pescanova, La Seda Barcelona and in the bonds offerings of Brisa, EDP, Portugal Telecom, Semapa, Sonae Investimentos, ZON Multimédia and REN.

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BPI's activity is supervised by both Banco de Portugal (the Portuguese Central Bank) and by the CMVM (Stock Exchange Regulator).

**INVESTMENT RATINGS AND RISK CLASSIFICATION (TOTAL RETURN IN 12-18 MONTHS):**

<table>
<thead>
<tr>
<th>Low Risk</th>
<th>Medium Risk</th>
<th>High Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy/CoRe Buy</td>
<td>&gt;15%</td>
<td>&gt;20%</td>
</tr>
<tr>
<td>Neutral</td>
<td>&gt;5% and &lt; 15%</td>
<td>&gt;10% and &lt;20%</td>
</tr>
<tr>
<td>Reduce</td>
<td>&gt;-10% and &lt; 5%</td>
<td>&gt;-10% and &lt; 10%</td>
</tr>
<tr>
<td>Sell</td>
<td>&lt; -10%</td>
<td>&lt; -10%</td>
</tr>
</tbody>
</table>

These investment ratings are not strict and should be taken as a general rule.

**INVESTMENT RATINGS STATISTICS**

As of 30th August BPI Equity Research investment ratings were distributed as follows:

- **Buy:** 30%
- **CoRe Buy:** 7%
- **Neutral:** 39%
- **Reduce:** 13%
- **Sell/Accept Bid:** 8%
- **Under Revision/Restricted:** 2%
- **Total:** 100%

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- BPI's activity is supervised by both Banco de Portugal (the Portuguese Central Bank) and by the CMVM (Stock Exchange Regulator).