EQUITY RESEARCH

BCP

Reduce

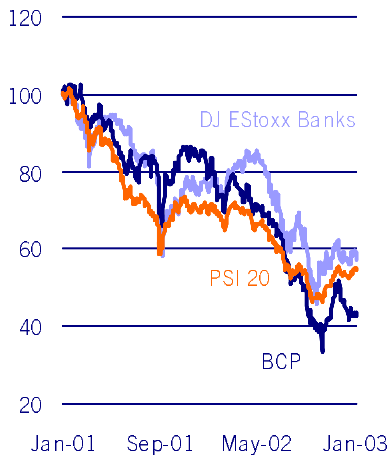
FY02 results and valuation update

23rd January 2003

Portugal

- **FY02 net profits were of € 273mn (-52% yoy), on the surprising build up of an € 200mn extraordinary provision in Q4** that was definitely not anticipated by the market. **Excluding the latter, net profits were of E 473mn, a 17% yoy drop ending below consensus range (€ 491mn-€ 544mn) and our own estimate of € 494mn**. Overall this was a poor set of results, though **operating cash-flow figures were well in line with our estimates. Operating cash-flow was down 9% yoy**: NII -3% yoy, costs up 6% yoy. BCP announced a cut in the DPS from € 0.15 to 0.10.
- **Capital/Insurance**: Tier 1 stood at 6.6% (core capital at 4.2% including the mandatory convertible issue) vs 6.0% in Sep02, though both inflated by the non-consolidation of the insurance business.
- Following this set of results, **we have adjusted our forecasts** mainly to account for (1) the cut in DPS;(2) the impact on the P/L of actuarial differences; (3) the different accounting of the return of the convertible issue (against reserves); (4) lower contribution from equity income (Poland and insurance) and (5) update BCP's capital ratio and unrealized capital loss. **We accordingly cut our EPS forecast by 20%, 17% and 14% respectively for 2003, 2004 and 2005.**
- **Backed by DCF and normalized earnings multiples applied to our revised forecasts, we have cut our YE03 price target by 15% from € 2.35 to € 2.00. We maintain our Reduce recommendation.**

BCP vs PSI20 vs. DJ Estoxx Banks



Source: Bloomberg.

Stock data

Risk Rating:	Medium	Sector:	Banking
Price:	2.10	Price target:	2.35
PSI20:	5 845.29	No. of shares (mn):	2 327
Index weight:	15.3%	Market cap (€ mn):	4 886
Reuters/Bloomberg:	BCPN.IN/BCP PL	Free float:	60%
P/BV	2.4	Avg. daily turnover(€ mn):	€ 7.3mn

Major shareholders: CGD 8.4%; Mello 4.6%; Intesa 7.4%; Eureko 5%;ABN;5%, EDP 4%; Sabadell 3.4%; Demco 3.1%;Friends Provident 3.0%;BCP pension funds 3.3%; TD 2.5%

Historical Recommendation

Date	Recommendation
12-Mar-01	Accumulate
9-Jan-02	Hold
4-Jul-02	Under Revision
16-Jul-02	Accumulate
27-Sep-02	Hold
12-Nov-02	Under Revision
25-Nov-02	Reduce

Source: BPI Equity Research.

Estimates €	2001	2002E	2003E	2004E	2005E
EPS adjusted	0.24	0.11	0.15	0.18	0.21
PE adjusted	8.6	19.7	13.6	11.9	9.9
CFPS	0.46	0.41	0.38	0.41	0.45
PCF	4.6	5.2	5.5	5.1	4.7
BVPS adjusted	0.94	0.87	0.66	0.73	0.85
PBV adjusted	2.2	2.4	3.2	2.9	2.5
GDY	7.1%	4.8%	4.8%	4.8%	5.0%

Sources: Bloomberg, BPI Equity Research.

Available on our website: **www.bpi.pt/equity**, **BPI Online**, Bloomberg at **BPIR** and through **IBES Trapeze**

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Comparative financial data & recommendations

	BBVA	SAN	BCP	Popular	Sabadell	BES	Bankinter	BPI	Pastor
Price (22nd January)	9.05	6.28	2.10	37.10	12.91	12.40	23.65	2.03	18.15
Price target (end-2003)	11.00	7.20	2.00	50.70	U.R.	10.30	34.60	n.a.	19.80
Upside potential	22%	15%	-5%	37%	n.s.	-17%	46%	n.s.	9%
Recommendation	Hold	Hold	Reduce	Buy	Hold	Sell	Buy	Not rated	Hold
Prior Recommendation	Hold	Hold	Reduce	Buy	Hold	Sell	Buy	Not rated	Hold
YTD Performance	-1%	-4%	-8%	Buy	-6%	-1%	0%	-7%	2%
Market cap (€ mn)	28 924	29 942	4 886	8 220	2 634	3 720	1 779	1 543	988
Number of shares (mn)	3 196	4 768	2 327	222	204	300	75	760.0	54

Market ratios

		BBVA	SAN	BCP	Popular	Sabadell	BES	Bankinter	BPI	Pastor
	01	0.74	0.55	0.25	2.55	1.12	0.78	1.31	0.26	1.51
	02	0.67	0.47	0.12	2.84	1.02	0.63	1.46	0.19	1.46
EPS reported	03	0.72	0.49	0.16	3.01	1.07	0.68	1.64	0.19	1.47
	04	0.83	0.57	0.19	3.25	1.21	0.77	1.82	0.24	1.60
	05	0.98	0.70	0.22	3.64	1.52	0.83	2.04	n.a.	1.76
	01	12.2	11.5	8.3	14.5	11.5	15.9	18.1	7.9	12.0
	02	13.5	13.5	17.9	13.1	12.7	19.7	16.2	11.0	12.4
PE reported	03	12.6	12.8	12.8	12.3	12.1	18.2	14.4	10.5	12.3
	04	11.0	11.1	11.3	11.4	10.6	16.2	13.0	8.5	11.3
	05	9.3	9.0	9.5	10.2	8.5	15.0	11.6	n.a.	10.3
	01	0.83	0.70	0.24	2.59	1.30	0.72	1.65	0.26	1.59
	02	0.84	0.66	0.11	2.88	1.06	0.57	1.82	0.19	1.46
EPS adjusted [1]	03	0.85	0.68	0.15	3.05	1.12	0.63	2.03	0.19	1.48
	04	0.94	0.81	0.18	3.29	1.26	0.71	2.25	0.24	1.61
	05	1.09	0.94	0.21	3.68	1.57	0.77	2.51	n.a.	1.76
	01	10.9	9.0	8.6	14.3	9.9	17.3	14.3	7.9	11.4
	02	10.7	9.5	19.7	12.9	12.1	21.7	13.0	11.0	12.4
PE adjusted	03	10.7	9.3	13.6	12.2	11.6	19.8	11.7	10.5	12.3
	04	9.6	7.8	11.9	11.3	10.2	17.4	10.5	8.5	11.3
	05	8.3	6.7	9.9	10.1	8.2	16.1	9.4	n.a.	10.3
	01	2.07	1.39	0.46	5.53	2.50	2.44	3.35	0.47	2.51
	02	2.01	1.57	0.41	6.20	2.14	2.38	3.49	0.42	2.47
CFPS	03	2.09	1.42	0.38	6.40	2.31	2.48	3.79	0.44	2.74
	04	2.31	1.53	0.41	6.81	2.56	2.58	4.06	0.49	2.96
	05	2.60	1.67	0.45	7.53	3.09	2.75	4.38	n.a.	3.21
	01	4.4	4.5	4.6	6.7	5.2	5.1	7.1	4.3	7.2
	02	4.5	4.0	5.2	6.0	6.0	5.2	6.8	4.8	7.4
PCF	03	4.3	4.4	5.5	5.8	5.6	5.0	6.2	4.7	6.6
	04	3.9	4.1	5.1	5.5	5.0	4.8	5.8	4.1	6.1
	05	3.5	3.8	4.7	4.9	4.2	4.5	5.4	n.a.	5.7
	01	2.67	2.55	0.94	11.56	9.20	7.02	11.24	n.a.	11.13
BVPS adjusted [1]	02	2.86	3.70	0.87	12.86	12.08	6.82	11.92	n.a.	12.05
	01	3.4	2.5	2.2	3.2	1.4	1.8	2.1	n.a.	1.6
PBV adjusted	02	3.2	1.7	2.4	2.9	1.1	1.8	2.0	n.a.	1.5
	01	4.2%	4.8%	7.1%	3.5%	3.5%	3.0%	3.9%	4.4%	2.5%
DY	02	3.8%	5.1%	7.1%	3.9%	4.4%	3.0%	4.1%	5.2%	2.7%

Sources: BPI Equity Research and IBES consensus estimates for BPI (we do not emit an opinion on BPI).

Sep 02 - € bn	BBVA	SAN	BCP	Popular	Sabadell	BES	Bankinter	BPI	Pastor
Total assets	280.3	335.5	61.3	40.5	27.0	39.8	22.3	24.9	9.1
Loans	141.4	164.3	44.9	31.9	20.1	26.2	15.2	16.4	6.8
Deposits	143.6	171.3	27.4	24.0	17.8	17.2	13.2	12.0	6.0
Loans to deposits	98%	96%	163%	133%	113%	152%	115%	137%	113%
BIS Solvency ratio	12.6%	10.8%	9.8%	10.8%	10.5%	12.6%	11.7%	11.6%	10.7%
Net Profit (9M02) - € mn	1655	1722	403	473	171	138	81	97	59
Net Interest Income [2]	2.6%	2.6%	2.1%	4.0%	2.7%	2.0%	1.8%	1.9%	2.9%
Cost to income [3]	48%	52%	57%	36%	64%	46%	49%	59%	62%
Cost to income [4]	56%	59%	68%	40%	68%	61%	56%	67%	66%
ROE as reported	12.8%	10.0%	26.1%	23.4%	11.2%	10.9%	12.4%	12.7%	12.2%
ROA as reported	0.7%	0.7%	0.9%	1.6%	0.9%	0.5%	0.5%	0.5%	0.8%

(1) Adjusted for financial cost and income from equity consolidated companies and goodwill; excess provisioning at Bankinter; employee bonus at BES, (2) Excl. interest from securities, except for Sabadell and Pastor, (3) Excl. depreciation, (4) Incl. Depreciation, excl. FX and trading.

EARNINGS REVISION & VALUATION

FY02 net profits were of € 273mn (-52% yoy), on the surprising build up of an € 200mn extraordinary provision in Q4 that was definitely not anticipated by the market. Excluding the latter, net profits were of € 473mn, a 17% yoy drop ending below the consensus range and our own estimate of € 494mn.

Released figures were in general poor, but operating cash flow stood well in line with our estimates. The main deviation to our figures ended being lower equity income on the negative quarterly contribution from Poland. Also the information on pension charges points to much higher charges from 2003 onwards than previously.

Good news: (1) better than expected revenues quality; (2) healthy mortgage lending growth (+19% yoy). **Bad news**: (1) Extraordinary provision charges, unveil extremely difficult outlook.(2) Negative Q4 results from Poland (3) Staff costs hit by pension costs. (4) 8% yoy drop in deposits, partly offset by structured products.

Following BCP's earnings release, **we have adjusted our 2003-2005 forecasts to account for**

- **DPS of € 0.10** vs € 0.1125 on our previous forecast (+ € 29mn on Tier 1 funds)

- Marginally **lower FX and trading income**

- Annual extraordinary charges relative to **actuarial differences** to flow through the P/L in the next years of € 45mn (vs previous € 12.8mn)

- The different **accounting of the return of the recent mandatory convertible issue**: indeed, we had included the respective interest (9%) under minorities, whilst BCP has taken the NPV of this return against reserves, hence easing pressure on the P/L in 2003-2005

- A **lower contribution from Poland** to the equity income line attending to the surprising negative figures of the Q4. All in all, this equates to cutting the previously estimated contribution by some 50% to € 20mn in 2003 (vs reported € 24mn in the FY02). We have then assumed a subsequent 10% annual rise in Millenium's contribution.

- A reduction in the previously forecasted contribution from the **insurance business** along with an **update of the goodwill amount** implied in the purchase of Seguros e Pensões to € 330mn (including embedded value).

- **Update of BCP's capital ratio** and of **unrealized capital losses and pension fund shortfall**. These came though close to our figures.

- As for the **impact of the € 200mn extraordinary provisioning charge**, since the reason backing its build up was not enough clarified, doubts remain on to what extent the underlying risks will be higher than anticipated. We have therefore been conservative and only mildly cut our forecasted provisioning effort for 2003. The underlying assumption is that this provision could be partly reverted towards lending provisioning. For the latter we would expect 95b.p. of lending in FY03, which would mean reverting some € 100mn of the extraordinary provision for this purpose, with the corresponding impact on capital.

Please see detailed revised forecasts on Annex 1.

Impact of earnings revision on bottom-line

€ mn	2003E	2004E	2005E
Before	436	496	585
After revision	385	447	537

Source: BPI Equity Research.

Impact on EPS was accordingly the following:

Impact on EPS (fully diluted)

€	2003E	2004E	2005E
Before	0.185	0.207	0.241
EPS after earnings revision	0.148	0.171	0.206
Change (%)	-20%	-17%	-14%

Source: BPI Equity Research

Our revised DCF valuation points to an end-03 fair price of € 1.98 per share.

DCF valuation

Cash flows	2003	2004	2005
Dividends	233	233	274
Extraordinary dividend			440
Perpetuity			6 966
Discount factor	1.00	1.11	1.23
Discounted "cash flows"	233	2102	5 539
Equity value @ end 2003			5 983
Unrealised capital losses & pension fund (net)			-976
Total number of shares (fully diluted)			2 607
Fair value per share @ end 2003			1.98

Source: BPI Equity Research.

Backed by this valuation, we continue to recommend investors to Reduce the stock and cut our price target to € 2.00 per share from € 2.35.

Changes in price targets

	€ per share
Previous end-2003 fair price	2.35
Impact of earnings revision	**-0. 45**
Impact of updating pension fund shortfall & unrealised capital losses	**+0.08**
Revised end-2003 fair price	**1.98**

Source: BPI Equity Research.

KEY ISSUES

1. Capital

Reported T1 ratio as of Dec02 stood at 6.6% according to BCP vs 6.0% last September, though again inflated by the non-consolidation of the insurance activity. Recall that BCP stated at the time of the 3Q earnings announcement that its stake in Eureko was now booked at cost while the group did not yet consolidate Seguros e Pensões as it was still to be acquired from Eureko. Should it have been consolidated, bottom-line would have come out lower (Seguros e Pensões posted net losses of € 94mn for the FY02) and the capital ratio would be some estimated 40b.p.-50b.p. lower[1]. Core capital of reported 4.2% (includes the convertible issue) would accordingly stand at some 3.7%.

To estimate this impact we have considered the size of Eureko's listed equities portfolio at end-June (€ 4.0 bn stripping off the € 389mn increase relative to the mark to market of BCP shares) and a 24% drop in the Eurostoxx 50 index in the 2H02. Hence we considered a reduction in Eureko's shareholders equity of € 0.95bn as plausible (=4.0 * 24%).This would equate to a cut in BCP's shareholders' equity of estimated € 240mn.

BCP's capital ratio

€ mn	30-Jun (as rep.)	Sep 02 (as rep.)	Sep 02 adj. (1)	Dec 02 (as rep.)	Dec 02 adj. (2)
Tier 1	2 968	2988	3 407	3 270	2 820
o.w. preferred	1 205	1207	1 207	1 198	1 198
Tier 2	2 034	n.a.	n.a.	n.a.	n.a.
o.w. Upper T2	463	n.a.	n.a.	n.a.	n.a.
Deductions	-640	n.a.	n.a.	n.a.	n.a.
Total	4 362	4 356	4 776	4 848	4 398
RWA	49 330	49 220	49 220	49 359	49 359
Tier 1 ratio	6.0%	6.0%	6.9%	6.6%	5.7%
Total capital ratio	8.8%	8.8%	9.7%	9.8%	8.9%
Core capital	3.6%	3.6%	4.5%	4.2%	3.3%

(1) After the acquisition and consolidation of 100% Seguros e Pensões. Does not reflect insurance activity in 2H02.

(2) After the acquisition and consolidation of Seguros e Pensões plus the remaining unrealized capital loss in ONI that is not yet covered. Does not reflect insurance activity in 2H02.

Source: BCP for June, Sep and Dec (reported); BPI estimates for adjusted figures.

Reported Tier 1 of 6.6% already reflects the impact of the mandatory convertible issue (+€ 700mn), but it is adversely impacted by the pension shortfall along with the anticipation of provisions for ONI (40%, taken against reserves).Note, though, that the total unrealized capital losses in ONI amount to € 290mn,

(1) Note, though, that according to BCP this is reflected in the calculation of the goodwill of Seguros e Pensões (purchase scheduled for March/April).

of which circa 40% are covered. The remaining amount is gradually being covered as a deduction to eligible funds.

The adverse impact on capital from the pension shortfall basically results from the increase in the actuarial differences (estimated at € 350mn). The latter mostly relate to the difference between the estimated return of the pension fund (6%) and the effective return, which was negative.

After the purchase of Seguros & Pensões scheduled for next March/April (implied goodwill updated to € 330mn including the embedded value), on a ceteris paribus basis the capital ratio should drop to 5.9% if the group consolidates 100% of the company. Recall that this goodwill calculation should reflect the devaluation of Eureko's equity portfolio in the meantime. **Further 0.2% would be wiped out by the sale or full coverage of ONI.**

A last note goes to the fact that unlike in the case of BIS, the capital ratio calculated according to the Bank of Portugal's rules does not accept generic provisions as eligible funds. Our view is that these are in fact hidden reserves.

2. Insurance

Again, **the insurance business was not consolidated**, and that should not occur before the upcoming purchase of Seguros e Pensões scheduled for March/April. This, assuming that BCP will consolidate 100% of the company. **Updated goodwill amount for 100% of the insurance company stands at € 330mn including embedded value**. Depending on implied valuations, this could be partially recovered in the subsequent sale of 49% (base case) of the insurance company.

One way or the other, FY02 results are overvalued since Seguros e Pensões posted net losses of € 94mn, the same applying to Tier 1. The latter would according to our estimate be cut by some 40-50b.p. from reported levels if the insurance activity had been consolidated.

On our revised forecasts we are assuming that Seguros e Pensões is 100% consolidated from March and that its contribution for FY03 will be zero.

3. Internationalisation

In the last few quarters, Poland had started to somehow become good news, with rising quarterly contributions to the equity income line in the P/L. This quarter, though, harsh provisioning locally delivered negative results at Millenium: € 48mn for the FY02 vs € 60mn for the 9m02. Not only was this a surprise for the market, it reinforced concerns about the future of BCP's internationalization strategy.

Income from international activities

€ mn	Stake held	4Q02	3Q02	2Q02	1Q02	FY01	4Q01	Invest.
Eureko	24.60%	-	-	17.3	18.6	43	-37.0	2 000
Sabadell	8.50%	n.a.	n.a.	n.a.	6.2	19.9	4.6	381
Big Bank Gdansky	50%	-6	15.3	7.2	9.7	5.2	4.4	401
Novabank	50%	n.s.	n.s.	n.s.	n.s.	n.a.	n.a.	74
Other		6	7.2	11.0	3.5	14.7	3.3	25
Total		0	22	36	38	83	-25	2 880

Sources: BCP.

The quarterly slash in Millenium's results following a strong provisioning reinforcement led to zero contribution from equity income in Q4. This was particularly surprising given the positive evolution observed in the last 4 quarters and the optimism evidenced by BCP in the last earnings releases.

Please **note that BCP ceased equity consolidating Eureko in Q3 (though maintaining its contribution until end-June-02), not consolidating Seguros & Pensões either**. Hence, the positive contribution came most likely only from Sabadell, offsetting the loss from Millenium.

Following these figures, we revised our equity income figures for the period 2003-2005 significantly downwards whilst assuming that BCP will start consolidating the insurance business next April.

4. Pensions

The pension shortfall was one of our major concerns for this earnings season, attending to the slashing capital markets this year and therefore the expected negative deviation between the expected return of the pension fund and its respective return.

The negative return of the fund vis-à-vis an expected return of 6% determined a substantial increase in **actuarial differences, from € 398mn as of Dec01 to € 795mn at end-Dec02**. This difference impacted capital ratios negatively and **raised the burden on the next years' P/L. We have indeed raised the annual pension charges under extraordinaries from € 13mn to € 45mn.**

Pension obligations and actuarial differences

€ mn	2002	2001
Projected pension obligations	3388	3246
Fair value of plan assets	3008	2665
Actuarial differences	795	399
Corridor	341	270
Excess of corridor	454	129
Amount to be amortised 10%/year from year (n+1)	45	13

Source: BCP.

Nevertheless, since we had been conservative and estimated a significant shortfall (€ 730mn), this subject ended being roughly neutral on our valuation.

5. Unrealized Capital Losses in Non-Core Investments

Unrealized capital losses in non-core investments stood in line with expectations, reaching € 952mn including ONI. We already had similar figures implied in our valuation for BCP.

Breakdown of main unrealized capital losses in equity investments

	€ mn
Intesa	248
Friends Provident	87
EDP	328
ONI	289
Total	**952**

Source: BCP.

Of this amount according to the regulations regarding unrealized capital losses in equity investments, € 762mn have to be covered until 2006, with 40% against provisions (through reserves in 2002 and 2003) and the remaining 60% as a deduction to eligible funds. For valuation purposes we consider 100% of unrealized capital losses.

According to BCP, € 277mn are already covered (€ 163mn via provisions built against reserves, in line with the regulations). Recall that the provisions for ONI (40% of the total) have been anticipated, as previously announced by BCP.

DETAIL OF FY02 ACCOUNTS

FY02 P/L Account

(€ mn)	2002	% Chg yoy	4Q02A	3Q02A	2Q02A	% Chg qoq	% qoq dev.
Net interest income	1 370	-3%	333	333	368	0%	3%
NIM	*2.2%*		*2.2%*	*2.4%*	*2.4%*		
Fees (net)	499	2%	128	126	120	2%	0%
FX & Trading	97	-38%	17	6	31	193%	-22%
Other income	291	30%	81	73	74	10%	7%
Net operating revenue	**2 257**	**-1%**	**558**	**538**	**592**	**4%**	**2%**
Staff costs	785	8%	204	202	196	1%	2%
Other administrative costs	529	4%	136	131	131	4%	3%
General expenses	**1 314**	**6%**	**340**	**332**	**328**	**2%**	**2%**
Cost-to-income	*58%*		*61%*	*62%*	*55%*		
Operating cash-flow	**943**	**-9%**	**219**	**206**	**264**	**6%**	**2%**
Depreciation	174	18%	50	43	40	15%	13%
Provisioning (net)	575	101%	274	83	125	230%	204%
Operating profit	**194**	**-68%**	**-105**	**80**	**99**	**-232%**	**-229%**
Extraordinary profit (net)	109	85%	-5	6	49	-184%	-132%
Profit before taxes	**303**	**-54%**	**-110**	**86**	**149**	**-228%**	**-212%**
Taxes	55	-34%	1	13	19	-94%	-93%
Equity income	96	16%	0	22	35	-100%	-100%
Minority interests	71	-22%	19	14	11	35%	2%
Net consolidated profit	**273**	**-52%**	**-130**	**82**	**153**	**-259%**	**-243%**

Sources: BCP, BPI Equity Research (estimates).

Includes € 200 mn extraordinary provision for banking risks

Negative contribution from Poland

PROVISIONING CHARGES: THE COMPLETE SURPRISE

BCP surprised the market with the build up of an € 200mn provision for general banking risks for which the explanation was the adverse environment. This provision was **neither a fiscal impact nor impacted the group's capital ratio.** It could be (1) a cushion that signals the expectation of extremely difficult times ahead or (2) the will to anticipate costs and evidence a brighter earnings outlook going forward. It could end being used for (1) specific loan losses, (2) to cover unrealized capital losses in any sale or eventually to (3) somehow ease the impact of pension charges.

Reported NPL ratio was kept at September's 1.5%, with quarterly write-offs of € 127mn (€ 85mn in Q3) exceeding the quarterly entries of € 106mn in Q4 and € 69mn in Q3. Adjusted for write-offs, NPL rose to 1.7%, with new entries accounting for 0.23% of total loans. Although this is not good news, it attests an already awaited deterioration in asset quality and was accordingly already expected.

BPI

Asset quality (reported ratios)

€ mn	Dec02	Sep02	Jun02	Mar02	Dec01
NPL ratio (as reported)	1.5%	1.5%	1.6%	1.7%	1.7%
NPL coverage	142%	140%	137%	138%	145%

Source: BCP.

NPL coverage increased from 140% to 142% despite the quarterly drop in provisioning charges if we exclude the extraordinary € 200mn charge. Note that the latter is not influencing coverage ratios according to our calculations.

Of the remaining € 74 mn provisioning charges in Q4, € 66 mn are loan-related (less than in Q3 on decelerating lending growth). These are mostly relative to specific provisions that have increased in Q4 consistently with the already awaited deterioration in asset quality. Overall, loan provisioning charges amounted to 0.6% of average loan in Q4 (vs. 0.7% in Q3). Note, though, that the extraordinary provisioning charge could eventually be directed towards lending in the future. As for the remaining quarterly provisioning charges, they relate to unrealized losses in securities.

The table below evidences current NPL ratios by lending segment. Note that part of the deterioration in the NPL in mortgages and in consumer lending was in Q3 explained by the recent securitization operations at year-end 2001.

NPLs by segment

	Dec02	Sep02	Jun02	Mar02	Dec01
Consumer lending	3.2%	3.2%	3.1%	4.0%	3.8%
Mortgages	0.8%	0.8%	0.9%	0.8%	0.9%
Companies	1.5%	1.6%	1.6%	1.8%	1.7%

Source: BCP.

NET INTEREST INCOME: FLAT IN Q4

Net interest income (excluding income from securities) was flat in Q4 and down 3% yoy, ending the quarter 3% above our estimates.

Client spread was slightly increased from Q3 to 3.69%. The annual squeeze in the customer spread should largely reflect the impact on deposit spreads from the fall in interest rates at year-end.

Net interest income quarterly evolution

€ mn	4Q02	3Q02	2Q02	1Q02	4Q01
NII [1]	331.2	331.5	331.3	332.7	338.7
Quarterly chg. %	-0.1%	0.1%	-0.5%	-2%	-1%
%ATA	2.2%	2.2%	2.2%	2.1%	2.2%
Customer spread	3.69%	3.64%	3.62%	3.75%	4.07%

(1) Excluding dividends.

Source: BCP.

Total annual lending growth (adjusted for securitisation) stood at 6%, with mortgages, rising healthy 19.5% yoy, lending to companies up mere 0.8% yoy and the more risky consumer lending up by 5.2% yoy. This points once again to a market share loss, in total lending, while BCP states to have gained market share in mortgage lending in Q4.

Lending advanced 1% in the quarter, thus decelerating from Q3. Mortgages advanced 5% accelerating from Q3 and ending the best news in this set of results. Consumer lending was up mere 1% qoq, while loans to companies stood flat. Mortgages represent 87% of the quarterly lending increase, confirming our expectations for the overall segment that lending should continue to be the most dynamic segment going forward. Note, though, that the pace of growth should noteworthy decelerate going forward owing to the restrictions to subsidized lending set by the Portuguese government.

Quarterly increases by type of lending

	Var (€ mn)	Var%	Var (€ mn)	Var%	Var%	Var%	Var%
€ mn	4Q02	4Q02	3Q02	3Q02	2Q02	1Q02	4Q01
Total Loans (gross)	**580**	**1%**	**650**	**2%**	**2%**	**1%**	**1%**
Companies	47	0%	-205	-1%	1%	1%	1%
Mortgages	**504**	**5%**	**447**	**4%**	**5%**	**4%**	**3%**
Consumer	29	1% (1)	408	12%	0%	-2%	11%

(1) Incl. Securitization and car renting impacts

Source: BCP.

Total customer funds dipped 3% yoy on a pro-forma basis and stood flat from Q3. Deposits were the worst news, slashing 8% yoy (-1% qoq), combining a 3% drop in sight deposits with a 12% reduction in term deposits. Hence the worsening of the group's liquidity position, with loans to deposits up to 168% from September's 157%.

Assets under management (-4% yoy) suffered from capital markets whilst insurance products and other structured products increased 12% yoy, partly offsetting the slash in deposits.

Breakdown of customer resources

€ mn	Dec02	Sep02	Jun02	Mar02	Dec01	Var.% yoy	Var.% qoq
Customer deposits	27 098	27 444	28 245	28 764	29 451	-8.0%	-1.3%
Assets under management (1)	9 230	9183	9 972	10 570	9 601	-3.9%	0.5%
Structured products	11 164	11064	10 547	10 401	10 017	11.5%	0.9%
Total	47 491	47700	48 774	49 735	49 068	-3.2%	-0.4%

Source: BCP.

BPI

Fees and other income: no major surprises

Fees and other income slightly exceeded our quarterly estimate (+2%yoy, +2% qoq). On a LFL basis, adjusting other income by € 107 mn of loan recoveries in the FY02, **fees and other income would be 8% down qoq.**

Fees quarterly evolution

€ mn	4Q02	3Q02	2Q02	1Q02	% yoy	% qoq
Banking fees	99.2	100.0	89.3	98.4	7%	-1%
Cards	30.1	30.6	30.1	27.7	16%	-2%
Securities	5.9	6.4	6.3	11.7	-67%	-8%
Other	63.2	63.0	52.9	59.0	28%	0%
Asset management	29.0	25.8	30.5	27.1	-6%	12%
Total	128.1	125.8	119.8	125.5	3.%	2%

Source: BCP.

As expected capital markets related fees behaved poorly. Securities fees are 67% down yoy and asset management fees are 6% down yoy despite a 12% hike (that follows a 15% drop in Q3).Typical retail banking fees, such as cards, continue to support this item's performance.

Costs: slightly above expected

General expenses came out 2% above expected for this quarter, and are 2% up qoq. On an annual basis, general expenses are up 6% (staff costs +8% yoy and other administrative costs +4% yoy). The deviation to our estimates is explained by higher pension charges and an year-end acceleration of administrative costs.

General expenses breakdown

€ mn	4Q02	3Q02	2Q02	1Q02	4Q01	3Q01
Staff costs	204	202	196	183	183	179
Var. % qoq	1%	3%	7%	0%	2%	-3%
Other administrative costs	136	131	131	131	123	135
Var. % qoq	4%	-1%	0%	7%	-9%	1%
General Expenses	340	332	328	314	306	314
Var. % qoq	2%	1%	4%	3%	-2%	-1%

Source: Disclosed accounts.

Again, the highest cost growth comes from international activities with an important contribution from start-up operations. Nevertheless, domestic costs continue to grow 5%, hit by pension charges that jumped 49% yoy to € 100mn. Excluding them, domestic costs would have stood flat and overall staff costs would be up 1.5%.

Breakdown of operating costs

	4Q02	3Q02	2Q02	1Q02	% Chg qoq	% Chg yoy
Staff costs	**203.9**	**201.5**	**196.3**	**182.8**	**1%**	**6%**
Domestic	175.7	174.7	168.2	156.2	1%	5%
International	28.2	26.7	28.2	26.6	5%	12%
Other administrative costs	**135.8**	**130.6**	**131.5**	**131.4**	**4%**	**1%**
Domestic	113.8	109.1	108.0	110.4	5%	-1%
International	21.8	21.6	23.5	21.1	1%	9%
Amortization	**49.5**	**43.1**	**40.4**	**41.0**	**15%**	**13%**
Domestic	37.7	32.4	30.3	31.5	17%	5%
International	11.9	10.7	10.1	9.5	10%	49%
Total operating costs	**389.2**	**375.2**	**368.1**	**355.3**	**4%**	**5%**
Domestic	327.3	316.0	306.5	298.1	4%	3%
International	61.8	59.3	61.6	57.2	4%	16%

Source: BCP.

Summing up, **operating cash-flow dropped 9% yoy, attesting the tough environment, but ended in line with our estimates which were though among the most conservative of the market.** Moreover, revenues quality came out above expected, as the only negative deviation regarded FX and trading income. With both revenues and costs 2% above our estimate, cost to income (excl. depreciation) improved 1p.p. to 61% in Q4, standing at 58% for the FY02. This jumps to 69% including depreciation.

BCP Balance Sheet - Consolidated

				% TA						% TA		Δ%	
(€ mn)	Dec02	Dec01	Δ% yoy	Dec02	Dec01	Mar02	Jun02	Sep02	Mar02	Jun02	Sep02	Dec02/ Sep02	Dec02/ Jun01
ASSETS													
Monetary assets	2 146.3	3 202.1	(33%)	3.5%	5.1%	1 180.5	2 024.3	1 039.0	1.9%	3.3%	1.7%	107%	6%
Loans to Credit Institutions	3 209.1	4 250.9	(25%)	5.2%	6.8%	5 426.1	3 470.2	4 550.0	8.7%	5.7%	7.4%	(29%)	(8%)
Loans to customers	45 450.7	42 938.3	6%	73.5%	68.2%	43 432.7	44 216.2	44 860.2	70.0%	72.7%	73.2%	1%	3%
Securities	3 560.9	4 773.8	(25%)	5.8%	7.6%	4 379.0	4 172.3	3 929.9	7.1%	6.9%	6.4%	(9%)	(15%)
Participations	2 562.8	2 675.5	(4%)	4.1%	4.2%	2 686.7	2 642.1	2 685.7	4.3%	4.3%	4.4%	(5%)	(3%)
Tangible and intangible assets	1 285.2	1 446.7	(11%)	2.1%	2.3%	1 322.5	1 314.3	1 287.7	2.1%	2.2%	2.1%	(0%)	(2%)
Treasury Stock	0.2	9.0	(98%)	0.0%	0.0%	24.2	24.0	16.4	0.0%	0.0%	0.0%	(99%)	(99%)
Other assets	3 636.3	3 664.4	(1%)	5.9%	5.8%	3 601.0	2 932.3	2 885.9	5.8%	4.8%	4.7%	26%	24%
	61 851.6	62 960.7	(2%)	100.0%	100.0%	62 052.7	60 795.7	61 254.8	100.0%	100.0%	100.0%	1%	2%
LIABILITIES AND EQUITY													
Debt to Credit Institutions	13 140.8	13 169.2	(0%)	21.2%	20.9%	12 362.7	11 395.2	12 783.8	19.9%	18.7%	20.9%	3%	15%
Deposits	27 088.0	29 441.1	(8%)	43.8%	46.8%	28 763.7	28 244.7	27 444.1	46.4%	46.5%	44.8%	(1%)	(4%)
Debt evidenced by securities	11 534.8	10 718.9	8%	18.6%	17.0%	11 566.9	12 113.5	12 287.3	18.6%	19.9%	20.1%	(6%)	(5%)
Other liabilities	2 405.6	2 289.4	5%	3.9%	3.6%	2 305.7	2 070.9	1 775.1	3.7%	3.4%	2.9%	36%	16%
Provisions for other risks	994.7	924.2	8%	1.6%	1.5%	890.6	859.4	813.7	1.4%	1.4%	1.3%	22%	16%
Minority interests	1 355.3	1 347.2	1%	2.2%	2.1%	1 367.2	1 365.6	1 365.2	2.2%	2.2%	2.2%	(1%)	(1%)
Subordinated debt	3 143.9	2 883.6	9%	5.1%	4.6%	2 827.8	2 882.7	2 857.1	4.6%	4.7%	4.7%	10%	9%
Subscribed capital	2 326.7	2 326.7	0%	3.8%	3.7%	2 326.7	2 326.7	2 326.7	3.7%	3.8%	3.8%	0%	0%
Reserves	(411.0)	(711.2)	(42%)	(0.7%)	(1.1%)	(526.3)	(783.9)	(801.0)	(0.8%)	(1.3%)	(1.3%)	(49%)	(48%)
Net consolidated profit	272.7	571.7	(52%)	0.4%	0.9%	167.6	320.9	402.8	0.3%	0.5%	0.7%	n.s.	n.s.
	61 851.6	62 960.7	(2%)	100.0%	100.0%	62 052.7	60 795.7	61 254.8	100.0%	100.0%	100.0%	1%	2%

Source: Disclosed accounts.

BCP P/L Account - Consolidated

(€ mn)	Jan-Dec02	Jan-Dec01	Δ% yoy	% ATA Jan-Dec02	% ATA Jan-Dec01	4Q01	1Q02	2Q02	3Q02	4Q02	% ATA 4Q01	% ATA 1Q02	% ATA 2Q02	% ATA 3Q02	% ATA 4Q02	Δ% 4Q02/3Q02	Δ% 4Q02/4Q01
Interest and similar income	2 988.5	3 396.5	(12%)	4.8%	5.4%	824.5	753.8	738.8	745.6	750.3	5.3%	4.8%	4.8%	4.9%	4.9%	1%	(9%)
Income from securities	43.2	55.9	(23%)	0.1%	0.1%	(0.7)	2.8	36.8	1.7	1.8	(0.0%)	0.0%	0.2%	0.0%	0.0%	2%	(353%)
Interest and similar expenditure	1 661.7	2 044.7	(19%)	2.7%	3.3%	485.9	421.1	407.5	414.1	419.1	3.1%	2.7%	2.7%	2.7%	2.7%	1%	(14%)
Net interest income	**1 369.9**	**1 407.7**	**(3%)**	**2.2%**	**2.3%**	**338.0**	**335.6**	**368.1**	**333.3**	**332.9**	**2.2%**	**2.1%**	**2.4%**	**2.2%**	**2.2%**	**(0%)**	**(1%)**
Fees (net)	499.2	487.3	2%	0.8%	0.8%	124.0	125.5	119.8	125.9	128.1	0.8%	0.8%	0.8%	0.8%	0.8%	2%	3%
FX & Trading	96.8	156.4	(38%)	0.2%	0.3%	45.8	43.7	30.5	5.8	16.9	0.3%	0.3%	0.2%	0.0%	0.1%	193%	(63%)
Other income	291.1	224.2	30%	0.5%	0.4%	60.5	63.7	73.8	73.2	80.5	0.4%	0.4%	0.5%	0.5%	0.5%	10%	33%
Net operating revenue	**2 257.0**	**2 275.6**	**(1%)**	**3.6%**	**3.6%**	**568.2**	**568.4**	**592.2**	**538.1**	**558.4**	**3.6%**	**3.6%**	**3.9%**	**3.5%**	**3.6%**	**4%**	**(2%)**
Staff costs	784.5	727.4	8%	1.3%	1.2%	183.0	182.8	196.3	201.5	203.9	1.2%	1.2%	1.3%	1.3%	1.3%	1%	11%
Other administrative costs	529.3	509.0	4%	0.8%	0.8%	123.1	131.4	131.4	130.6	135.8	0.8%	0.8%	0.9%	0.9%	0.9%	4%	10%
General expenses	**1 313.7**	**1 236.4**	**6%**	**2.1%**	**2.0%**	**306.0**	**314.3**	**327.8**	**332.1**	**339.6**	**2.0%**	**2.0%**	**2.1%**	**2.2%**	**2.2%**	**2%**	**11%**
Operating cash-flow	**943.3**	**1 039.2**	**(9%)**	**1.5%**	**1.7%**	**262.2**	**254.1**	**264.4**	**206.0**	**218.8**	**1.7%**	**1.6%**	**1.7%**	**1.4%**	**1.4%**	**6%**	**(17%)**
Depreciation	174.0	147.9	18%	0.3%	0.2%	42.1	41.0	40.4	43.1	49.5	0.3%	0.3%	0.3%	0.3%	0.3%	15%	18%
Provisioning (net)	575.0	286.3	101%	0.9%	0.5%	118.1	93.0	124.7	83.2	274.1	0.8%	0.6%	0.8%	0.5%	1.8%	230%	132%
Operating profit	**194.3**	**605.1**	**(68%)**	**0.3%**	**1.0%**	**102.0**	**120.1**	**99.3**	**79.7**	**(104.9)**	**0.7%**	**0.8%**	**0.6%**	**0.5%**	**(0.7%)**	**n.s.**	**n.s.**
Extraordinary profit (net)	108.6	58.6	85%	0.2%	0.1%	10.3	58.4	49.2	6.4	(5.4)	0.1%	0.4%	0.3%	0.0%	(0.0%)	n.s.	n.s.
Profit before taxes	**302.9**	**663.6**	**(54%)**	**0.5%**	**1.1%**	**112.2**	**178.5**	**148.5**	**86.2**	**(110.3)**	**0.7%**	**1.1%**	**1.0%**	**0.6%**	**(0.7%)**	**n.s.**	**n.s.**
Taxes	55.4	84.5	(34%)	0.1%	0.1%	13.0	22.5	19.4	12.6	0.8	0.1%	0.1%	0.1%	0.1%	0.0%	n.s.	n.s.
Equity Income	96.0	82.8	16%	0.2%	0.1%	(25.1)	38.0	35.5	22.5	0.0	(0.2%)	0.2%	0.2%	0.1%	0.0%	n.s.	n.s.
Minority interests	70.7	90.3	(22%)	0.1%	0.1%	18.3	26.4	11.3	14.1	19.0	0.1%	0.2%	0.1%	0.1%	0.1%	35%	3%
Net attributable profit	**272.7**	**571.7**	**(52%)**	**0.4%**	**0.9%**	**55.8**	**167.6**	**153.3**	**81.9**	**(130.1)**	**0.4%**	**1.1%**	**1.0%**	**0.5%**	**(0.8%)**	**n.s.**	**n.s.**

Source: Disclosed Accounts.

ANNEX 1: REVISED FORECASTS

Balance Sheet Forecast

	2001E	%TA	%YoY	2002E	%TA	%YoY	2003E	%TA	%YoY	2004E	%TA	%YoY	2005E	%TA	%YoY	CAGR 01-05
Cash on hand and deposit at central banks	1 822	3%	40%	1 286	2%	-29%	1 249	2%	-3%	1 266	2%	1%	1 283	2%	1%	-8%
Government debt securities	1 380	2%	7%	860	1%	-38%	888	1%	3%	924	1%	4%	961	1%	4%	-9%
Loans to Credit Institutions	4 251	7%	-24%	3 209	5%	-25%	3 210	5%	0%	3 290	5%	2%	3 372	5%	2%	-6%
Loans to customers	42 938	68%	4%	45 451	73%	6%	46 912	74%	3%	49 899	75%	6%	53 295	75%	7%	6%
Bonds and other fixed-income securities																
Issued by Public issuers	1 673	3%	-10%	1 187	2%	-29%	1 175	2%	-1%	1 205	2%	2%	1 235	2%	2%	-7%
Issued by others	2 086	3%	-32%	1 811	3%	-13%	1 847	3%	2%	1 894	3%	2%	1 941	3%	2%	-2%
Shares and other variable-yield securities	1 015	2%	36%	563	1%	-45%	788	1%	40%	1 103	2%	40%	1 545	2%	40%	11%
Participations	2 676	4%	0%	2 563	4%	-4%	2 563	4%	0%	2 563	4%	0%	2 563	4%	0%	-1%
Tangible and intangible assets	1 447	2%	8%	1 285	2%	-11%	1 291	2%	0%	1 186	2%	-8%	1 112	2%	-6%	-6%
Other assets	3 673	6%	23%	3 636	6%	-1%	3 636	6%	0%	3 636	5%	0%	3 636	5%	0%	0%
Total Assets	62 961	100%	2%	61 851	100%	-2%	63 560	100%	3%	66 965	100%	5%	70 943	100%	6%	3%
Debt to Credit Institutions	13 169	21%	-20%	13 141	21%	0%	14 622	23%	11%	16 884	25%	15%	19 596	28%	16%	10%
Deposits	29 441	47%	2%	27 088	44%	-8%	27 630	43%	2%	28 471	43%	3%	29 339	41%	3%	0%
Debt evidenced by securities	10 719	17%	27%	11 707	19%	9%	11 535	18%	-1%	11 535	17%	0%	11 535	16%	0%	2%
Subordinated debt	2 884	5%	83%	3 144	5%	9%	3 143	5%	0%	3 143	5%	0%	3 143	4%	0%	2%
Other liabilities	2 289	4%	-9%	2 406	4%	5%	2 454	4%	2%	2 515	4%	2%	2 578	4%	2%	3%
Provisions for other risks	924	1%	-1%	995	2%	8%	1 111	2%	12%	1 145	2%	3%	1 183	2%	3%	6%
Minority interests	1 347	2%	5%	1 355	2%	1%	1 353	2%	0%	1 353	2%	0%	1 353	2%	0%	0%
Subscribed capital	2 327	4%	11%	2 613	4%	12%	2 613	4%	0%	2 613	4%	0%	2 613	4%	0%	3%
Reserves	-711	-1%	-10%	-869	-1%	22%	-1 286	-2%	48%	-1 141	-2%	-11%	-934	-1%	-18%	7%
Net profit	572	1%	13%	273	0%	-52%	385	1%	41%	447	1%	16%	537	1%	20%	-2%
Total Liabilities and Equity	62 961	100%	2%	61 851	100%	-2%	63 560	100%	3%	66 965	100%	5%	70 943	100%	6%	3%

Source: BPI Equity Research.

P/L account Forecast

	2001E	%ATA	%YoY	2002E	%ATA	%YoY	2003E	%ATA	%YoY	2004E	%ATA	%YoY	2005E	%ATA	%YoY	Cagr 01-05
Net interest income	1 407.7	2.3%	8%	1 369.9	2.2%	-2.7%	1 382.1	2.2%	0.9%	1 416.1	2.2%	2.5%	1 469.5	2.1%	3.8%	1%
Fees (net)	487.3	0.8%	-15%	499.2	0.8%	2%	539.1	0.9%	8%	587.7	0.9%	9%	652.3	0.9%	11%	8%
Profits on financial operations	156.4	0.3%	-27%	96.8	0.2%	-38%	106.5	0.2%	10%	111.8	0.2%	5%	117.4	0.2%	5%	-7%
Other income (net)	224.2	0.4%	64%	291.1	0.5%	30%	313.2	0.5%	8%	339.7	0.5%	8%	369.1	0.5%	9%	13%
Net operating revenue	2 275.6	3.6%	2%	2 257.0	3.6%	-1%	2 340.9	3.7%	4%	2 455.3	3.8%	5%	2 608.2	3.8%	6%	3%
Staff costs	727.4	1.2%	-2%	784.5	1.3%	8%	798.7	1.3%	2%	823.9	1.3%	3%	851.1	1.2%	3%	4%
Other administrative costs	509.0	0.8%	7%	529.3	0.9%	4%	542.8	0.9%	3%	559.8	0.9%	3%	577.9	0.8%	3%	3%
General expenses	1 236.4	2.0%	1%	1 313.8	2.1%	6%	1 341.5	2.1%	2%	1 383.7	2.1%	3%	1 429.0	2.1%	3%	4%
Operating cash-flow	1 039.2	1.7%	3%	943.2	1.5%	-9%	999.4	1.6%	6%	1 071.6	1.6%	7%	1 179.2	1.7%	10%	3%
Depreciation	147.9	0.2%	3%	174.0	0.3%	18%	173.5	0.3%	0%	170.5	0.3%	-2%	178.1	0.3%	4%	5%
Provisioning (net)	286.3	0.5%	-24%	575.0	0.9%	101%	346.0	0.6%	-40%	372.0	0.6%	8%	350.4	0.5%	-6%	5%
Operating profit	605.1	1.0%	25%	194.2	0.3%	-68%	479.9	0.8%	147%	529.1	0.8%	10%	650.7	0.9%	23%	2%
Extraordinary profit (net)	58.6	0.1%	-69%	108.6	0.2%	85%	-15.0	0.0%	-114%	-15.0	0.0%	0%	-15.0	0.0%	0%	n.s.
Profit before taxes	663.6	1.1%	-1%	302.8	05%	-54%	464.9	0.7%	54%	514.1	0.8%	11%	635.7	0.9%	24%	-1%
Taxes	84.5	0.1%	-35%	55.4	0.1%	-34%	58.2	0.1%	5%	99.0	0.2%	70%	153.8	0.2%	55%	16%
Profit from associated companies (eq. method)	82.8	0.1%	-39%	96.0	0.2%	16%	45.4	0.1%	-53%	102.1	0.2%	125%	125.3	0.2%	23%	11%
Minority interests	90.3	0.1%	-48%	70.7	0.1%	-22%	66.6	0.1%	-6%	70.4	0.1%	6%	70.4	0.1%	0%	-6%
Net profit	571.7	0.9%	13%	272.7	0.4%	-52%	385.4	0.6%	41%	446.8	0.7%	16%	536.8	0.8%	20%	-2%

Source: BPI Equity Research.

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Investment ratings and risk classification (Total return in 12-18 months):

	Low Risk	Medium Risk	High Risk
Buy	> 15%	>20%	>25%
Accumulate	>10% and < 15%	>10% and < 20%	>15% and < 25%
Hold	>0% and < 10%	>0% and < 10%	>0% and < 15%
Reduce	>-15% and < 0%	>-20% and < 0%	>-25% and < -0%
Sell	< -15%	< -20%	< -25%

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

Investment ratings statistics

As of 31st December BPI Equity Research's investment ratings were distributed as follows:

	%
Buy / Speculative Buy	20%
Accumulate	15%
Hold	34%
Reduce	8%
Sell	2%
Under Revision	22%
Total	100%

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