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Case-study:

Millennium bcp: When one door closes, many digital banking accounts are connected

PEDRO LUÍS FERREIRA REIS ALEMÃO GOMES

3429

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Professor Gonçalo Rocha

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On February 9th 2017, the BCP Group's Executive Board, presided by Mr. Nuno Amado, were holding a press conference to reveal the end of the Recapitalization Scheme. At the same time, far from the group's headquarters, several customers were taking their transport to travel to the nearest branch. Many others were downloading Millennium bcp's mobile banking app or connecting on their laptop to the bank's website.

For the BCP Group's planning team it was a time of celebration, as the difficult period under a close banking supervisors' scrutiny was over, but, simultaneously, a moment of doubts. The team needed to define a way: to satisfy the branch existence needs of fewer and fewer customers or to increase bank's efficiency.

BCP GROUP

After a massive nationalization of the Portuguese financial sector, the country had opened it to private capitals. During the sector transformation, numerous banks were created and Banco Comercial Português (BCP) was one of them. More than two hundred investors founded this bank in 1985, looking for a bank where innovation and quality worked together, focused on the banking experience of the customers.

In the beginning, the bank was focused on affluent segment and grew through its premium service, characterized by a personalized customer relation. Later, with the creation of Nova Rede brand - an universal banking network -, BCP Group entered on the mass market segment, which allowed to enlarge the customer's base.

Between 1995 and 2000, the Group went through a new expansion phase with the acquisition of relevant Portuguese players in the banking sector, such as Banco Português do Atlântico, which was the largest private bank in Portugal at that time, and Banco Pinto e SottoMayor, among other smaller institutions. With these acquisitions BCP became the largest private bank in Portugal and the second largest bank in terms of total assets.

Since the late 1990s, the Group grew internationally through foreign acquisitions, joint ventures or the establishment of new banks from the scratch under the Millennium brand, the same brand adopted by the Portuguese business. It has expanded to international markets, namely Poland and Greece - where the markets had some similarity to the Portuguese one and the bank would take advantage of its know-how by replicating its business model. The Group also entered on affinity's markets, such as Angola and Mozambique - countries with historical connections with Portugal. Although with a lower dimension, it was also present in Romania, Spain, France, Canada, USA and Luxembourg.

In a twenty-five years period, a national bank has emerged as a global bank, presented in more than a dozen of geographies. At the end of 2011, from its global operations, representation offices and commercial agreements BCP Group had more than 5.4 million customers. Globally, the Group has consolidated total assets of €93.5 billion, total loans to customers (net) of €68.0 billion and total resources from customers of €65.5 billion. Moreover, it operated by a network of 1 722 branches and 21 500 employees.

In Portugal – the domestic market –, at the end of 2011, its business represented 75% of the total assets and 74% of the total loans to customers (net). In 2011, the bank had 839 branches and 8 982 employees dispersed over the Portuguese territory. Millennium bcp had a market share of 19.1%[1] in total assets and 18.1% in total loans to customers, taking the second place behind the state-owned bank – Caixa Geral de Depósitos.

[1] Banco Comercial Português, S.A. 2012. *Annual Report 2011*.

CONTEXT

A real estate bubble in the USA, accompanied by a high leveraging level of financial institutions and a strong focus in financial derivative products, dropped the world in a global crisis without precedent since the Great Depression of 1930's. In 2008, the crisis led to a sovereign debt problem for most of developed countries, including Portugal and Greece. These two countries were part of the most affected countries by the crisis in Europe, and the downgraded of their sovereign credit rating by all major rating agencies took the funding interest rate to an unbearable level.

Greece

The high leverage of the Greek economy (Public Debt represented 159.6%[2] of GDP) exposed the country to the international finance crisis. Greece requested bail out with the International Monetary Fund (IMF), European Central Bank (ECB) and European Commission three times, in total more than €246 billion.

In 2012, Greece was facing the second bailout and the sovereign debt was restructured under Private Sector Involvement (PSI). PSI was a voluntary private sector bond exchange of the held Greek bonds for new instruments with a nominal discount of 53.5%. European Financial Stability Facility issued two-year bonds to compensate 15% of the older bonds and Greek Treasury issued 20 years maturity sovereign bonds corresponding to the remaining 31.5%, with an interest rate lower than the older debt. Therefore, private investors lost more than 75% of the government securities held at the beginning of 2012. Millennium bcp integrated the bond swap program resulting in an impairment recognition of €533 million, which represented 77% of the Greek sovereign debt owned.

[2] International Monetary Fund. 2017. *Greece 2016 Article IV Consultation – Press Release; Staff Report; and Statement by the Executive Director for Greece*. IMF Country Report No. 17/40.

During the second bailout, the Greek economy worried as the rise of unemployment rate to 24.4%[3], 59.1%[4] of which represented long-term unemployment, and the domestic credit to private sector issued by banks represented 118.8%[5] of total Greek GDP. It resulted in bank non-performing loans hitting 24.5%[6] of the total gross loans. Under this scope, BCP Group's subsidiary in Greece had to increase its loans loss provision in more than €185 million.

Portugal

Portugal also requested a bailout program by IMF, ECB and European Commission to be able to pay their sovereign debt. In 2011, when the real GDP contracted 1.8%[7], the debt of Public Administration increased to 125.1%[8] of GDP and the unemployment took 15.5%[9] of the national workforce, the so-called Troika provided a €78 billion fund.

In 2012, the real Portuguese GDP fell 4%[10] and macro-economic perspectives of growth were weakening with the private consumption declining 5.5%[11]. Private companies were highly leveraged – private non-financial companies' debt as 162.0%[6] of the GDP, and almost 15.5%[12] of Portuguese companies closed their business. Construction sector was one of the most affected as a result of the international mortgage crisis and 16%[13] of the companies operating in this sector shut down during 2012.

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[3] Ibid.
[4] OECD. 2017. "Unemployment rate (indicator)". Retrieved from OECD database https://data.oecd.org/. (accessed October 1, 2017).. doi: 10.1787/997c8750-en.
[5] International Monetary Fund. 2017. *Greece 2016 Article IV Consultation – Press Release; Staff Report; and Statement by the Executive Director for Greece*. IMF Country Report No. 17/40.
[6] Ibid.
[7] Statistic's Portugal. 2015. *Contas Nacionais Anuais (Base 2011)*.
[8] Bank of Portugal. 2013. Statistical Bulletin 12|2012.
[9] Statistic's Portugal. 2017. "Unemployment Rate". Retrieved from INE database http://www.ine.pt. (accessed October 1, 2017).
[10] Statistic's Portugal. 2015. *Contas Nacionais Anuais (Base 2011)*.
[11] Ibid.
[12] Statistic's Portugal. 2017. "Taxa de mortalidade (%) das Empresas por Atividade económica (Divisão - CAE Rev. 3) e Escalão de pessoal remunerado; Anual - INE, Demografia das empresas". Retrieved from INE database http://www.ine.pt. (accessed October 1, 2017).
[13] Ibid.

Millennium bcp, as the second largest bank in terms of credit's market share, was affected by the deterioration of the economic outlook. The bank was the market leader in credit to companies, with a market share of 22.3%[14] at the end of 2011, and the main creditor of the construction sector.

In the same year, the bank charged total impairments (net of recoveries) of €1 684.2 million, which were added to €1 331.9 million of impairments (net of recoveries) settled on the previous year. It influenced the Group's net income of €1 219.1 million in 2012.

Additionally, BCP Group suffered a negative impact of €117 million, as it integrated the group of banks that transferred part of their pension plan to the General Social Security Scheme.

Furthermore, the implementation of Basel III reforms was anticipated and Bank of Portugal required a temporary sovereign buffer that increases the minimum Core Tier 1 ratio to 9% at the end of 2011 and to 10% at the end of 2012, while the European Banking Authority (EBA) recommend 9% as Core Tier 1 ratio before June 2012.

CAPITAL REQUIREMENTS

BCP Group faced difficulties to answer these capital requirements, as the group had already applied recapitalization operations before: in 2008, BCP Group issued a public offer of ordinary shares valued at €1.3 billion and in 2011 the group increased its capital in €1.9 billion, by the combination of the incorporation of issuance premium reserves, contributions in kind of perpetual subordinated securities, and public ordinary shares offer. Therefore, capital markets

[14] Banco Comercial Português, S.A. 2012. *Annual Report 2011*.

were closed to BCP Group, forcing the group to look for a new alternative to answer the requirements.

RECAPITALIZATION SCHEME

In June 2012, BCP closed an agreement with Portuguese Government and European Central Bank to a Recapitalisation Scheme, in order to increase the capital as required and to achieve the minimum Core Tier 1 ratio level. The scheme agreed by these institutions was divided in two parts: the first one was based on the issuance of a bridge loan using hybrid instruments, CoCos, and underwritten by the Portuguese Government in €3 billion; the second part was based on €0.5 billion of shares issuance to private investors, which was guaranteed by the Portuguese Government.

In accordance to the European law, a Capitalization Scheme using public funds, as it was the case, required a Restructuring Plan. The main commitments defined in BCP’s plan were: the divestment of some international operations, which were not considered strategic - the Greek and Romanian subsidiaries, as well as the loan books of BCP Cayman Islands and BCP Switzerland, and the sale of the Mutual Fund Management business. The other group’s commitment was to split the business into core and non-core unit.

On the Non-Core Unit were incorporated the business lines with high risk exposure, that would not be aligned with the new focus of the bank and equity stakes of non-strategic nature. The assets that moved to this new business unit should be discontinued, sold or held to maturity.

The Core Unit was created as a sound and viable bank, keeping the presence in Poland, Angola, Mozambique and Macao. The bank’s business should focus on retail, Small and Middle Enterprises (SMEs) and Large Corporates, and, at the same time, to decrease the weight of mortgage loan, and to deleveraging the Loan to Deposits ratio from 123% stated at that moment with the adoption of risk taking limits.

Regarding the restructuration of the Portuguese operations, another commitment was to increase the operating efficiency. The number of branches should be reduced between 15% to 20%, not exceeding a total of 650 to 700, and the staff expenses should decrease between 25% to 30%. In 2012, the cost to core income of Millennium bcp was higher than 85%, in line with Union European average, but distant from the internal objective of being the most efficient bank in Europe.

BRANCHES CLOSURE PROCESS

Millennium bcp had already began the closure of branches a couple years before on its own initiative, but, because of the external imposition, emerged the necessity to define an approach to outline the branches to be closed without disregarding customer relation. The branch closure has always influenced the way as the customers perceive the bank and might result in customers' losses, therefore the cure could prove worse than the disease.

Under this imposition, the bank developed its strategy based on three basic milestones: the selection of branches to be closed using the information of the individual reality of each one and the its environment; an efficient and transparent communication with affected customers by the process; and investments on the improvement of reopened branches and on employee development.

Branches Selection

In order to minimize the reputational risk, Millennium bcp did not perceive the closure of the branches as a mere end of the line to non-profitable locations. Instead, it looked for the possibility of merging of two or more branches on an existing one or opening new ones at different locations. Within the merge of branches, it aggregated their activities, such as customers' resources or credit books; employees were transferred to the same location. Therefore, customers would not be totally affected as they would be served by the same persons but in a different place. Through this process, the bank would overcome the possibility of losing customers and expected to decrease operating costs.

Before the restructuring plan's implementation, Millennium bcp already used a continuous scoring model to evaluate every branch in terms of performance and attractiveness. As any scoring model, it was limited to past information and it did not take in consideration specific branch's factors. To perform a future perspective analysis, it was necessary to have someone who knew branches in a 360-degree perspective. Thus, the bank introduced commercial directors in the branch closured processes.

Commercial Directors were the responsible for mapping the branches' commercial activity within their assigned geographic region. They monitored the activity of the commercial network to achieve the objectives and the annual strategy's efficient implementation. As a result of the close contact with the day-to-day branch's work, they were who better knew the team, the customers and the direct competition of each branch. They were responsible for the preparation of the rational explanation for branches' closure on support documents and for the initiation of the process which would scale to the executive board, where the final decision was taken.

They also should understand the reason for a non- or low- profitability of branches. A poor location might be related to high level of competition in the same area, stagnation of new customers' resources or because the recently acquired costumers were not so profitable as expected. All these factors became the branch unattractive, but a low scoring level could be caused by a temporary factor that would disappear in the near future, and these situations should be anticipated by Commercial Director.

The closure of a branch had an impact on customers' lives as it might force to a change in their habits. For many customers, who had not yet adopted alternatives such as online banking, mobile banking or even the use of cashpoints, the branches were still a recurring visit to pay bills, withdraw cash, transfer and/or get financial advises. As shown in exhibit 7, for European customers branch remained as the preferred channel to purchase products and/or services, get advises, make deposits or buy/sell investments.

In remote areas with scarce branches, their closure can lead to the necessity of proceeding several kilometres to the nearest branch, often in the nearby city. In contrast, when the closure takes place in the urban areas, where the branches’ density is much higher, the negative impact is limited. For example, Millennium bcp had multiple branches on the same street, some of them only separated by a road (exhibit 8), which was an outcome of the inorganic domestic growth. In these cases, the inconvenience for costumers was practically null. Moreover, there was an openness to new technologies, as it may be concluded by the number of mobile banking users in Lisbon or Oporto on the total in Portugal, as these two regions aggregate more than 40%[15] of the total users.

In Millennium bcp, Commercial Director was the responsible for the monitoring of the social impact of the closing decision, meeting with local authorities or relevant stakeholders to minimize the impact. During these encounters, pressures and offers from the other participants might change the intention and the decision of closing the branch could go back. Anyway, when

[15] Morais, Joana Rebelo. 2017. “Banca fecha balcões, mas internet banking não cresce”. Diário de Notícias February 20, 2017. https://www.dn.pt/dinheiro/interior/banca-fecha-balcoes-mas-internet-banking-nao-cresce-5678747.html (accessed October 10, 2017).

a closure process was validated, a natural choice was the cashpoints preservation on the location of the former branch is a natural choice.

Regarding the financial impact, if the branch was owned by the Bank, it would be sold and removed from the Balance Sheet, resulting in an extraordinary earning for the Bank and decreasing the annual depreciation at Profit and Loss Account. In 2012, as shown in exhibit 9, this positive impact in financial statements was not so relevant as the real estate market was falling and the market prices for the branches was below the book value, which resulted in accounting losses.

Another possibility was the use of a rented building and, in this case, the Bank would save the rent value. However, it would incur in the reposition cost and the necessary costs to cease contract, resulting in a more expensive and complex option.

The financial impact of the branch closure definition was one of the most important points in the decision-making process, as the main goal of the process was to decrease the operating costs. In fact, according to *Branch of the Future, Integrating New Technologies* report, from the consultancy firm Diebld, Inc., branches network's activity represents on average 60% of the total operating costs.

Although, the Bank implemented a negotiation plan for the reduction of the number of employees, in order to reduce staff costs, the closure of branches was not directly related to the need of decreasing its number. In fact, the transfer of employees to the receiving branch, to face the increasing number of customers, make possible to conclude that all this process did not imply a significant direct reduction of employees. The excess and, consequently, the exit, were usually in employees on the top positions, as a result of the duplication of management positions.

Investment in Branch and in People

The bank invested in people development with the launch of a training program to every employee working at branches, to be prepared to distribute financial products and services in their interactions with the customer. Instead of a front- and back- office differentiation, all the team should be able to take both roles.

The bank invests in the receptor branches aiming the leverage of customer experience, creating conditions to answer to the new demands. Depending on the location, each branch is adapted to the customer attractiveness for technologies. In urban areas, with more traffic and more openness to digital alternatives, it has been implemented *Sucursais do Futuro* (Branch of the Future), where automatisms and new technologies are the central focus.

Sucursais do Futuro are branches designed with a special focus on the customers' experience. While the clients are waiting to be attended by a teller, they stay in a lounge area, where free Wi-Fi, mobile phone chargers and digital experiences related to the Bank's apps are available. These branches dispose of machines that allow treasury activity, including payment of cheques, coins deposit and withdraws, twenty-four hours a day, every day. The greater part of the branch activity is developed through a paperless approach, replacing paper by tablets on contracts and other documents requiring the customer's signature. Because of these branches, Millennium bcp was already awarded by international awards in customer experience inside banking sector[16].

[16] Best in Bank Customer Experience for 2017 by Networld Media Group; Model Bank 2017 by Celent.

Communication

The Millennium bcp's employees of closed branches were responsible for timely communication of the closure to the customers, by SMS, e-mail, mail or direct contact during the visit to the branch. On this way, customers might perceive more transparency and they should be answered on time to any queries about the transfer process. In 2011, half of the European customers felt less confident in their bank than one year earlier[17], and almost one quarter of the worldwide customers who changed or were planning to change their bank did it because of lack of trust[12]. Therefore, a timely communication could decrease the risk of bank transference.

When a new branch reopened after the re-adaptation, there was a welcome party for all customers, from the closed and from the transformed branch. It was an opportunity to show the innovations and to contact closely with customers.

THE PROCESS

In 2012, during the first year of implementation of the restructuring process, Millennium bcp closed 5.5% of its branches, 65% of which were located in the districts of Lisbon or Oporto, corresponding to 8% of the branches in these two areas. In fact, despite being only two out of the twenty Portuguese districts and occupy less than 6% of the national land area, they grouped more than 42% of total bank's branches. These were the districts with more residual branches and therefore where the closure would have less impact on customers.

The bank established the goal of a maximum 700 branches and closed more and more branches per year. After the achievement of the goal in 2012, the bank reduced the intensity of the annual

[17] Ernst & Young. 2011. *New era of customer expectation Global Consumer Banking Survey 2011*. EYGM Limited.

closure to less than half per year. It reached the end of 2016 with around 30% less branches than at the end of 2011. Among the five largest banks in Portugal, Millennium bcp was the one with higher percentage branches closed during this period, almost doubling the average number of branches closed in the banks Eurozone (16%[18]).

With the implementation of the activity restructuration program, the Bank decreased operating costs by 42%[19] between the end of 2011 and 2016, on an individual basis. The implementation of a parallel staff reduction plan, by mutual consent agreements, allowed to decrease the personnel costs by 48%[20]. The administrative costs, in which the rent costs were incorporated, fall by 29%. The bank was the one among the Portuguese top 5 banks with the largest decline in operating costs.

As costs decreased more than the number of branches, the cost ratio per branch fell 40% in the five years. The Bank ended the year of 2016 with an operating cost per branch of only € 714.6 – it has gone from one of the largest cost in the Portuguese market for the lowest one among its most direct competitors.

We could expect a decrease in the volume of deposits in the Balance Sheet by the loss of savings from affected customers. However, on an individual basis, customer deposits increased by 5% by 2016 over 2011, while the total deposits on Portuguese banking sector decreased 0,1% on same periods.

In terms of efficiency, the restructuration of the bank's operation improved its cost to income indicator. Before the plan implementation, on an individual basis, it was the less efficient among the biggest Portuguese banks and above the Eurozone average. However, in 2016, it was the

[18] European Central Bank. 2017. "Number of branches - Domestic (home or reference area) counterpart". http://sdw.ecb.europa.eu/quickview.do (accessed December 13, 2017).
[19] Net of the impact from revision of collective labour agreement net of restructuring costs (€168.9 million).
[20] Ibid.

most efficient among the main banks in Portugal and under the average of banks in countries of the Euro-zone.

RESULT

Because of this successful implementation of its scheme, reducing costs, but gaining more customer confidence to keep its deposits and increasing efficiency, the capital market has reopened for the BCP Group. On February 9th 2017, the group increased its capital through the issue of shares in €1.3 billion in order to pay the remaining CoCos. It occurred ten months before the end of the restructuring period. During the five years under the Recapitalization Scheme, the Bank was transformed; now, the Bank is smaller, present in less countries and providing fewer services in Portugal.

While the bank was under the Program, the market has also undergone profound changes. Caixa Geral de Depósitos, the public bank and the largest national bank, needed to be recapitalised in more than €5 billion. Banco Espírito Santo required a bail-out and was under the management of a Guarantee Fund. BPI was acquired by the Spanish bank La Caixa. Two relevant players, Banif and Banco Popular, were acquired by Santander Totta, which grew and equalled Millennium bcp in terms of market share in assets and loans to customers. All these banks have already embarked on their restructuring phase.

Customers have also changed, becoming more digital and requiring less and less branches. At the end of 2016, from 2345 thousand Millennium bcp's customers in Portugal, 638 thousand were using online banking[21] and 249 thousand were using mobile banking[22]. It represented a penetration rate of 27% in online banking and 11% in mobile banking for the bank, despite being below the online banking penetration in Portugal – that is about 29% (exhibit 10).

[21] The bank considers active users those who use Internet or Mobile Banking at least once in last 90 days.
[22] Ibid.

However, it represents a rise of 18% in online banking's costumers and more than 5 times more in mobile banking's costumers than 2011.

A new threat has been entered into the market that until now was exclusive to banks: non-bank companies, the majority digital exclusive, providing payment services and credit to customers in alternative to banking institutions. In 2016, 42%[23] of worldwide customers have already used a digital exclusive non-bank financial product or service, mainly because their lower cost.

THE DECISION

Now, without the external impositions, but with the know-how acquired under the process that the Bank was forced to go through, the Millennium bcp team continues to reflect about the possibility of closure of more branches.

[23] Schlich, Bill, and Ebstein, David, and Schrezenmaier, Teresa, and Turner, Anna Slodka. 2017. *The relevance challenge: What retail banks must do to remain in the game*. EYGM Limited.

Exhibit 1 – Consolidated Balance Sheet

Euro Million	2011	2012	2013	2014	2015	2016
Assets						
Cash and deposits at central banks	2 116	3 581	2 940	1 707	1 840	1 574
Loans and advances to credit institutions	4 490	2 717	2 295	2 252	1 698	1 505
Loans and advances to customers	68 046	62 618	56 802	53 686	51 970	48 018
Financial assets held for trading	2 145	1 691	1 290	1 674	1 189	1 049
Other financial assets held for trading at fair value through profit or loss	-	-	-	-	152	147
Financial assets available for sale	4 774	9 223	9 327	8 263	10 779	10 596
Assets with repurchase agreement	-	4	58	36	-	21
Hedging derivatives	496	186	105	75	73	57
Financial assets held to maturity	5 160	3 569	3 110	2 311	495	511
Investments in associated companies	305	517	579	323	316	599
Non current assets held for sale	1 105	1 284	1 506	1 622	1 765	2 250
Investment property	561	554	196	177	146	13
Property and equipment	625	626	733	755	671	474
Goodwill and intangible assets	251	259	251	253	211	162
Current tax assets	53	34	41	42	44	17
Deferred tax assets	1 565	1 755	2 181	2 399	2 562	3 185
Other assets	1 791	1 124	593	785	974	1 088
Total Assets	**93 482**	**89 744**	**82 007**	**76 361**	**74 885**	**71 265**
Liabilities						
Amounts owed to credit institutions	17 723	15 266	13 493	10 966	8 591	9 938
Amounts owed to customers	47 516	49 390	48 960	49 817	51 539	48 798
Debt securities	16 236	13 548	9 411	5 710	4 768	3 513
Financial liabilities held for trading	1 479	1 393	870	953	723	548
Other financial liabilities held for trading at fair value through profit or loss	2 579	329	-	-	-	-
Hedging derivatives	508	301	243	353	541	384
Non current liabilities held for sale	-	-	-	-	-	-
Provisions for liabilities and charges	246	253	366	460	285	321
Subordinated debt	1 147	4 299	4 361	2 026	1 645	1 545
Current income tax liabilities	24	16	25	32	22	35
Deferred income tax liabilities	2	3	6	7	15	3
Other liabilities	1 647	946	997	1 052	1 075	916
Total Liabilities	**89 108**	**85 744**	**78 731**	**71 374**	**69 204**	**66 000**
Equity						
Share capital	6 065	3 500	3 500	3 707	4 094	4 269
Treasury stock	(11)	(14)	(23)	(14)	(1)	(3)
Share premium	72	72	-	-	16	16
Preference shares	171	171	171	171	60	60
Other capital instruments	10	10	10	10	3	3
Legal and statutory reserves	-	-	-	-	-	246
Fair value reserves	(389)	3	22	107	23	(131)
Reserves and retained earnings	(1 241)	850	(357)	449	192	(102)
Profit for the year attributable to Shareholders	(849)	(1 219)	(740)	(218)	235	24
Total Equity attributable to Shareholders of the Bank	**3 827**	**3 372**	**2 583**	**4 213**	**4 623**	**4 382**
Non-controlling interests	548	628	693	774	1 057	883
Total Equity	**93 482**	**89 744**	**82 007**	**76 361**	**74 885**	**5 265**

Source: BCP Group's Annual Report

Exhibit 2 – Consolidated Profit & Loss Account

Euro Million	2011	2012	2013	2014	2015	2016
Interest income	4 060	3 616	2 833	2 653	2 316	1 910
Interest expense	2 481	2 592	1 985	1 537	1 015	680
Net interest income	**1 579**	**1 024**	**848**	**1 116**	**1 302**	**1 230**
Dividends from equity instruments	1	4	4	6	12	8
Net fees and commission income	789	691	663	681	693	644
Other operating income	(23)	(56)	(72)	11	(122)	(106)
Net trading income	208	463	264	442	595	240
Equity accounted earnings	15	56	62	36	24	81
Net operating revenues	**2 570**	**2 181**	**1 769**	**2 293**	**2 504**	**2 097**
Staff costs	954	815	767	636	616	357
Other administrative costs	584	565	460	449	424	374
Depreciation	96	78	68	66	67	50
Operating costs	1 634	1 459	1 295	1 150	1 107	780
Operating profit bef. imp.	**935**	**722**	**474**	**1 143**	**1 397**	**1 317**
Loans impairment (net of recoveries)	1 332	1 257	821	1 107	833	1 117
Goodwill impairment	161	-	466	209	161	481
Other assets impairment and provisions	664	353	(813)	(173)	403	(281)
Profit before income tax	**(1 222)**	**(888)**	**(211)**	**(98)**	**56**	**(382)**
Income tax	(459)	(178)	(602)	(76)	346	101
Profit after income tax	**(763)**	**(710)**	**(45)**	**(32)**	**15**	**45**
Non-controlling interests	86	82	94	110	126	122
Net income	**(849)**	**(792)**	**(740)**	**(218)**	**235**	**24**

Source: BCP Group’s Annual Report

Exhibit 3 – Millennium bcp's Balance Sheet

Euro Million	2011	2012	2013	2014	2015	2016
Assets						
Cash and deposits at central banks	1 036	2 397	1 524	533	540	791
Loans and advances to credit institutions	13 521	13 481	8 589	1 493	906	1 810
Loans and advances to customers	48 467	43 086	40 298	36 761	35 106	34 028
Financial assets held for trading	2 492	1 528	1 115	1 336	1 000	954
Other financial assets held for trading at fair value through profit or loss	-	-	-	-	152	147
Financial assets available for sale	15 987	11 880	11 256	5 516	6 773	5 960
Assets with repurchase agreement	-	-	-	-	-	-
Hedging derivatives	464	118	51	53	39	33
Financial assets held to maturity	5 086	3 561	3 110	2 311	427	410
Investments in associated companies	3 986	3 503	4 349	4 048	3 697	3 464
Non current assets held for sale	945	1 066	986	1 110	1 256	1 621
Investment property	-	-	-	-	210	-
Property and equipment	331	304	233	213	-	218
Goodwill and intangible assets	11	14	12	10	13	15
Current tax assets	10	10	9	7	10	11
Deferred tax assets	1 611	1 821	2 508	2 818	2 911	3 050
Other assets	3 806	2 818	2 751	1 197	1 112	1 270
Total Assets	**97 753**	**85 588**	**76 792**	**57 407**	**54 151**	**53 782**
Liabilities						
Amounts owed to Central Banks and credit institutions	23 265	18 124	16 600	10 721	8 280	9 746
Amounts owed to customers	32 718	32 698	34 851	35 056	35 151	33 958
Debt securities	16 984	18 860	12 643	4 588	3 980	2 756
Financial liabilities held for trading	1 775	1 255	725	806	645	534
Other financial liabilities held for trading at fair value through profit or loss	2 538	326	-	-	-	-
Hedging derivatives	64	55	53	29	41	108
Non current liabilities held for sale	-	-	-	-	-	-
Provisions for liabilities and charges	502	416	371	545	432	224
Subordinated debt	2 797	2 906	2 959	1 256	770	712
Current income tax liabilities	1	2	3	3	3	3
Deferred income tax liabilities	-	-	-	-	-	-
Other liabilities	12 591	7 181	6 812	1 526	1 422	1 290
Total Liabilities	**93 236**	**81 823**	**75 018**	**54 530**	**50 724**	**49 330**
Equity						
Share capital	6 065	3 500	3 500	3 707	4 094	4 269
Treasury stock	1	1	1	1	-	-
Share premium	72	72	-	-	16	16
Other capital instruments	10	10	10	10	3	3
Fair value reserves	(342)	63	72	113	61	(43)
Reserves and retained earnings	(818)	1 605	153	(268)	(974)	137
Profit for the year attributable to Shareholders	(469)	(1 483)	(1 959)	(684)	226	69
Total Equity	**4 517**	**3 765**	**1 774**	**2 876**	**3 427**	**4 452**

Source: BCP Group's Annual Report

Exhibit 4 – Millennium bcp's Profit & Loss Account

Euro Million	2011	2012	2013	2014	2015	2016
Interest income	3 209 123	3 295 543	2 616 769	1 966 827	1 305 183	1 131 067
Interest expense	2 308 227	2 902 582	2 376 115	1 541 787	641 119	410 754
Net interest income	**900 896**	**392 961**	**240 654**	**425 040**	**664 064**	**720 313**
Dividends from equity instruments	297 280	270 887	334 656	374 425	154 814	215 176
Net fees and commission income	560 819	514 899	480 400	441 117	428 631	434 332
Other operating income	80 108	66 186	(190 466)	(101 390)	53 874	(82 772)
Net trading income	(417 557)	341 799	120 161	595 487	454 272	366 476
Net operating revenues	**1 421 546**	**1 586 732**	**985 405**	**1 734 679**	**1 755 655**	**1 653 525**
Staff costs	661 628	519 445	538 777	401 033	365 190	171 869
Other administrative costs	346 024	324 363	291 119	268 303	251 022	244 325
Depreciation	39 353	32 879	27 970	25 031	23 864	24 699
Operating costs	1 047 005	876 687	857 866	694 367	640 076	440 893
Operating profit bef. imp.	**374 541**	**710 045**	**127 539**	**1 040 312**	**1 115 579**	**1 212 632**
Loans impairment (net of recoveries)	802 412	1 519 973	1 337 061	1 158 366	514 285	1 030 606
Other assets impairment and provisions	433 269	989 864	1 218 750	837 252	353 298	594 846
Profit before income tax	**(861 140)**	**(1 799 792)**	**(2 428 272)**	**(955 306)**	**247 996**	**(412 820)**
Income tax	(392 613)	(316 430)	(469 542)	(270 882)	21 939	(482 128)
Net income	**(468 527)**	**(1 483 362)**	**(1 958 730)**	**(684 424)**	**226 057**	**69 308**

Source: BCP Group's Annual Report

Exhibit 5 – Millennium bcp's net interest income

Euro Thousand	2011	2012	2013	2014	2015	2016
Interest and Similar Income						
Interest on Loans	2 080 294	1 821 217	1 420 350	1 229 727	1 130 705	961 118
Interest on Trading Securities	106 680	22 433	16 462	15 637	7 419	5 195
Interest on Available for Sale Financial Assets	437 559	494 314	356 381	237 978	112 650	94 778
Interest on Held to Maturity Financial Assets	186 893	127 988	121 166	115 990	29 929	9 036
Interest on Hedging Derivatives	128 505	51 154	37 716	34 726	21 872	20 127
Interest on Derivatives Associated to Financial Instruments Through Profit and Loss Account	31 543	4 610	3 023	29 846	15 275	17 173
Interest on Deposits and Other Investments	237 649	773 827	661 671	302 923	11 058	19 952
Interest on Other Financial Assets Valued at Fair Value Through Profit and Loss Account	-	-	-	-	6 061	3 688
Total	**3 209 123**	**3 295 543**	**2 616 769**	**1 966 827**	**1 334 969**	**1 131 067**
Interest Expenses and Similar Charges						
Interest on Deposits and Other Resources	1 566 910	1 396 165	923 497	674 088	326 910	158 430
Interest on Securities Issued	619 161	1 247 409	1 067 012	582 941	178 295	127 814
Interest on CoCos	-	134 880	269 009	180 027	65 352	65 525
Interest on Other Sucordinated Debt		106 176	100 010	82 944	48 431	40 405
Interest on Hedging Derivatives	20 737	16 501	8 735	7 713	4 345	7 162
Interest on Derivatives Associated to Financial Instruments Through Profit and Loss Account	3 199	1 451	7 852	14 074	17 786	11 418
Interest on Other Financial Liabilities Valued at Fair Value Through Profit and Loss Account	96 450	-	-	-	-	-
Interest on Securities Sold Under Repurchase Agreement	1 773	-	-	-	-	-
Total	**2 308 230**	**2 902 582**	**2 376 115**	**1 541 787**	**641 119**	**410 754**
Net Interest Income	**900 893**	**392 961**	**240 654**	**425 040**	**693 850**	**720 313**

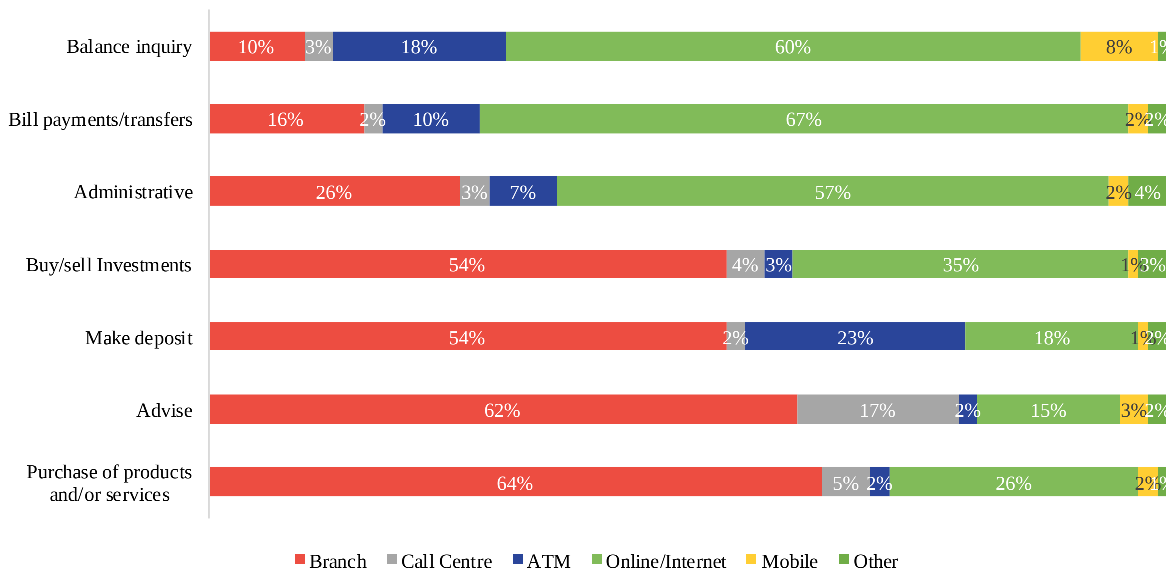
Source: BCP Group's Annual Report

Exhibit 6 – Millennium bcp’s net fees and commission income

Euro Thousand	2011	2012	2013	2014	2015	2016
Fees and Commissions Received						
From Guarantees	93 994	88 723	76 437	60 894	58 718	55 503
From Credit and Commitments	315	297	1 112	1 909	2 938	3 815
From Banking Services	359 784	325 755	275 892	285 342	278 808	268 431
From Securities Operations	-	-	60 127	64 232	58 684	59 822
From Management and Maintenance of Accounts	-	-	72 655	76 470	84 247	90 481
From Other Services	188 910	185 750	85 971	33 838	27 278	34 663
Total	**643 003**	**600 525**	**572 194**	**522 685**	**510 673**	**512 715**
Fees and Commissions Paid						
From Guarantees	4 196	6 578	4 935	4 422	6 385	7 744
From Banking Services	59 041	57 225	65 901	59 096	51 656	45 519
From Securities Operations	-	-	8 063	8 131	7 700	7 599
From Other Services	18 948	21 823	12 894	9 919	16 301	17 520
Total	**82 185**	**85 626**	**91 793**	**81 568**	**82 042**	**78 382**
Net Commissions	**560 818**	**514 899**	**480 401**	**441 117**	**428 631**	**434 333**

Source: BCP Group’s Annual Report

Exhibit 7 – Percentage of customers who prefer channels for specific tasks (Combined Western and Eastern European data)



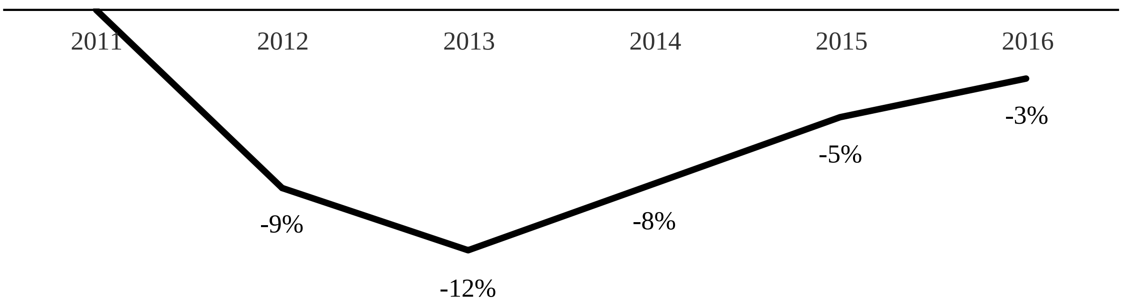
Source: Looking at the bank from the customer’s point of view - October 2014 produced by EY and Efma

Exhibit 8 – Selected Millennium bcp’s branches in 2012

Alvalade, Lisbon, and Praça de Mouzinho de Albuquerque, Oporto

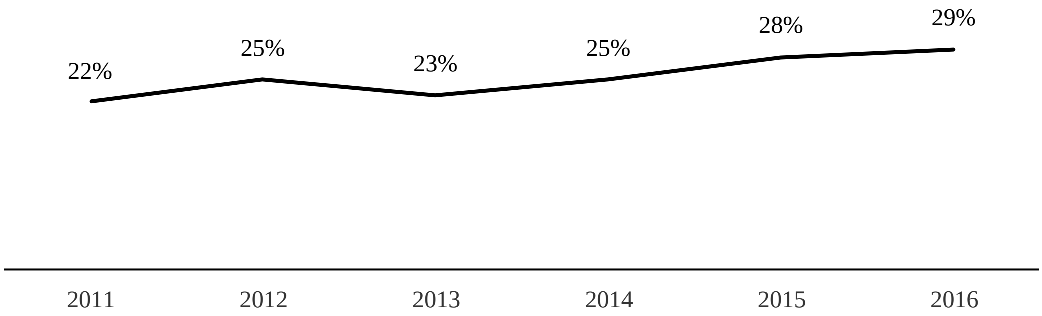
Source: Google Maps (2017)

Exhibit 9 – Commercial Real Estate Price Index in Portugal (base 2011) 2011-2016



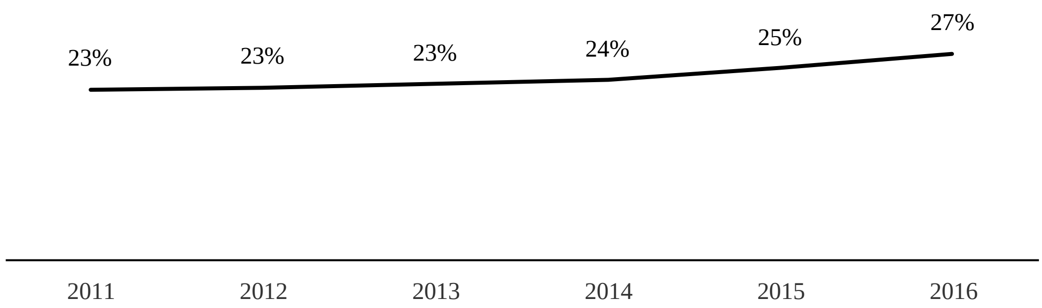
Source: Portugal’s National Statistics Institute

Exhibit 10 - Online banking penetration in Portugal 2005-2016



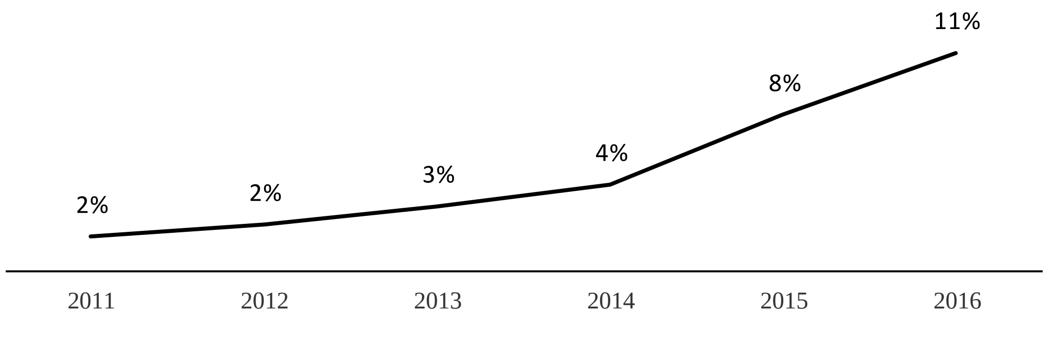
Source: Eurostat

Exhibit 11 - Internet banking penetration in BCP Group's Portuguese business 2011-2016



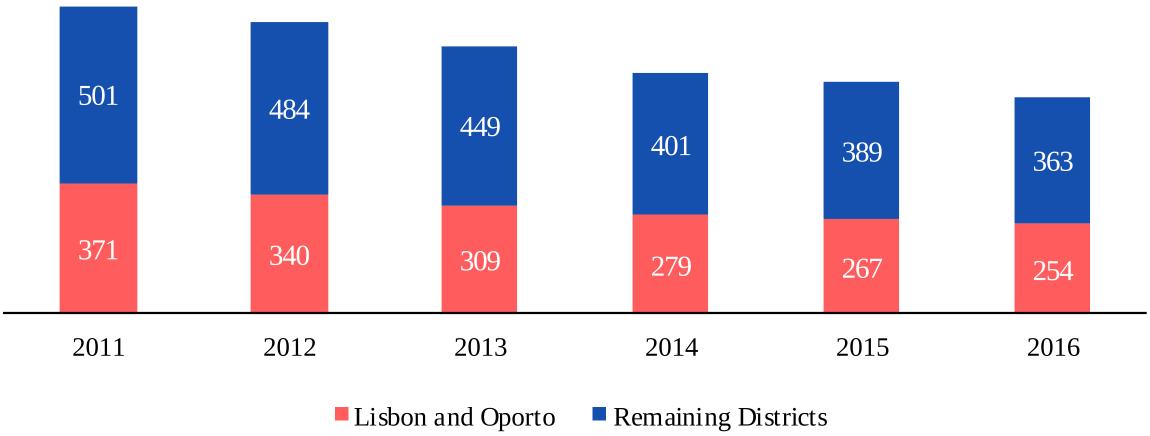
Source: BCP Group's Annual Report (Division active internet banking users over total costumers)

Exhibit 12 – Mobile banking penetration in BCP Group's Portuguese business 2011-2016



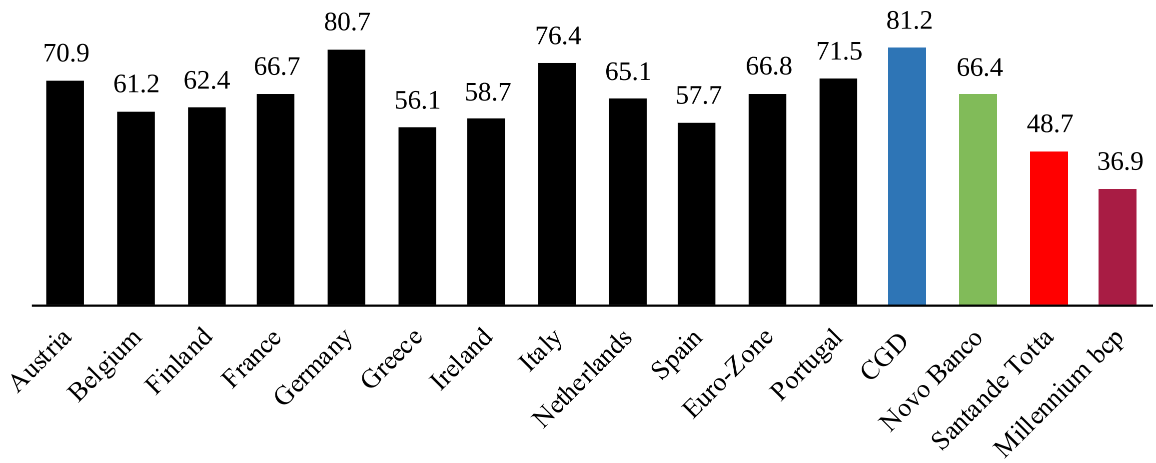
Source: BCP Group's Annual Report (Division active mobile banking users over total costumers)

Exhibit 13 – Millennium bcp's number of branches 2011-2016



Source: APB (Portuguese Banking Association)

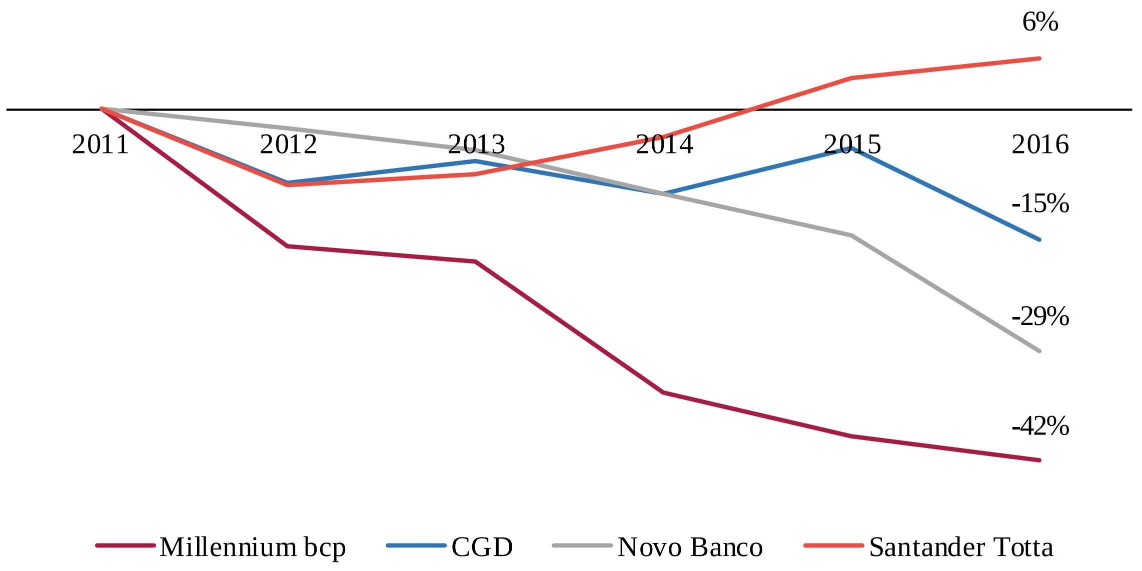
Exhibit 14 – Average C/I ratio in selected Euro-zone countries, Eurozone average and top four major banks in Portugal as of 2016



Source: S&P Global Market Intelligence, European Central Bank and APB (Portuguese Banking Association

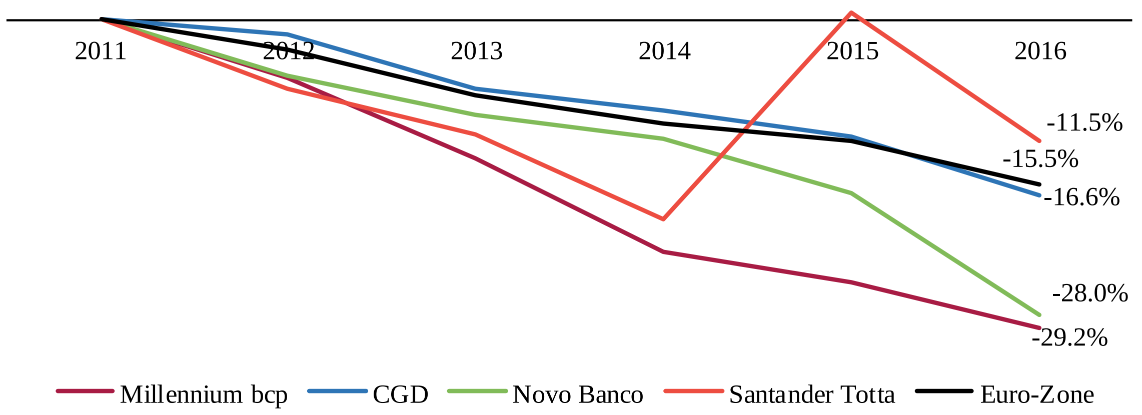
Note: Weighted averages based on each company's assets; Millennium bcp without the impact from revision of collective labour agreement net of restructuring costs

Exhibit 15 – Operating costs of major banks in Portugal 2011 – 2016 (base 2011)



Source: APB (Portuguese Banking Association)

Exhibit 16 – Variation on number of branches of major banks in Portugal and Euro-Zone 2011 - 2016 (base 2011)



Source: APB (Portuguese Banking Association) and European Central Bank

Millennium bcp: When one door closes, many digital banking accounts are connected

Teaching Notes

SYNOPSIS

In order to respect the commitments agreed on the Restructuration Plan, BCP Group developed a branches' closure strategy. This strategy was based on the branches' selection using individual information about each one and the environment that surrounded it; on an efficient and transparent communication; and on investments in branches' improvement and in employee development.

When the implementation of the plan came to an end, the BCP Group needs to decide either the continuation of the branches' closure process, applying the know-how acquired during the period under the Restructuring Plan; or satisfy the customers' need, maintaining the branch network as it was.

OBJECTIVES

The objective of this case-study is to study the successful implementation of BCP Group's branch closure process and how banks are adapting their branches' network to the new technologies used by costumers.

This case addresses the importance of transparent communication with customers and of the investment on their experience.

COURSES WHERE THE CASE-STUDY MAY BE USED

Since the case-study approaches several companies' issues focused on a customer oriented and risky sector as banking, the case may be used in different courses as banking, marketing or strategy.

In banking course, it can be used to study the necessity of banking capitalization plans agreed with national Governments and its impact on the bank's strategy. The case may also be used to study the way banks have been adopting new technologies and new nonbank's alternatives to traditional credit institutions.

Marketing courses may apply the case relating the 4C's of Marketing Communication to the way the Bank informed the process for their customers.

The Case-Study can be used in strategy courses, studying the adaptation of new technologies through new channels, and the replacement of the traditional channels of interactions with customers.

SUGGESTED QUESTIONS:

1. **How would BCP Group benefit of the closure of more 10% of Millennium bcp's branches?**

If BCP Group closes 10% of Millennium bcp's branches, taking into account the Group's results at the end of 2016, the Bank could have 555 branches instead of the stated 617.

The Group's financial results, on 31st December 2016, were reported as exhibit1.

Assuming that net interest income remains equal, because it is difficult to transfer loans between banks, and as the remuneration of the customer's deposits are close to 0%, the impact of deposit's costs is immaterial.

The reduction of the number of branches in 10% could result in a loss of customers and a consequent fall in banking service, assuming a proportional decrease in commission income from this service, as exhibit 2.

According to “Branch of the Future, Integrating New Technologies” report from the consultancy firm Diebld, Inc., branches network’s activity represents on average 60% of the total operating costs. Assuming this same proportion to Millennium bcp results, a 10% less branches could result in a reduction of bank’s operating costs by 6% (= 10% * 60%). Instead of the stated €440.9 million, the total operating costs would be equal to €414.4 million in 2016.

Assuming all other Financial Statements’ items constants, the Bank and Group’s results would be as Exhibit 4.

For the same year, the annual consolidate net income of BCP Group would increase 2%.

Return on Equity (ROE) is the commonly indicator to measure bank’s performance. It calculates the Net Income returned as a percentage of shareholders’ equity. Thus, it assesses to evaluate the efficiency of a company to generate profit from the shareholders’ investments. It is calculated as:

$$\text{Return on Equity} = \text{Net Income}/\text{Book Value of Shareholder's Equity}$$

Also, it may be calculated as the average shareholder’s equity by using the average of the equity at the beginning and at the end of a period. It mitigates the impact of an equity’s variation during the period. The total shareholder’s equity for BCP Group at the end of 2015 was about €5 681 million and at the end of 2016 it was of €5 265 million, thus the average shareholder’s equity in 2016 was €5 473 million.

At the end of 2016, the stated BCP Group’s Return on Average Equity was of 0.6%. If the Group has reduced the number of branches by 10%, the ratio would increase 1 basis point.

Another comparative indicator is the Cost to Income ratio (C/I). It measures the efficient use of bank's costs to generate income. The ratio is calculated dividing the total operating costs by the operating income, thus lower ratios generally indicate higher efficiency and productivity.

The C/I of BCP Group as stated at the end of 2016 was 46.1%. If the Millennium bcp have closed more 10% of their branches, the ratio would decrease to 36.2%.

2. How has the Bank implemented the 4Cs model for marketing communications?

David Jobber and John Fahy in their book "Foundations of Marketing" (2009) developed the 4Cs model. According to this model, a company shall communicate its position based on four different principles: clarity, credibility, consistency and competitiveness.

In the case of the Millennium bcp, affected branches' employees were responsible for the communication to customers of branches' closure. This strategy was the direct contact and it respected the four principles as:

- Clarity: The communication should be clear and simple, internally and externally, in order to be easily understood by customers and the company. After a meeting with local authorities, the Bank presented the closure process for their customers. They were notified of their transference to a new branch without any business transformation.
- Credibility: Customers should trust in the truthfulness of the message. As in *Best in Bank Customer Experience for 2017* by Networld Media Group, almost one quarter of the worldwide customers who changed or were planning to change their bank did it because of lack of trust.

The Bank's investment in new and more progressive branches transmitted the idea of concern and commitment to the future. The communication made by branches' employees, who had already been in contact with customers for some time, and their maintenance in the new branch avoided a breach of trust developed over time.

- Consistency: The core message of an organization should prevail consistent over the time and over the communication channels.

Since the BCP Group was founded, the Group has been following a strategy based on innovation and quality. The creation of *Sucursais do Futuro* was consistent with the BCP's history.

- Competitiveness: The company's message should transpose any competitive advantage over the competitors.

This principle is not directly related to branches' closure communication to affected customers. Although, the closure led to a higher efficiency over other banks on the market, and, consequently, the Bank was less at risk and more secure for their customers.

3. What are the advantages of Recapitalization Scheme through Financing Bridge?

As happened to BCP Group after the 2008 crisis, several European financial institutions have closed Recapitalization Schemes' agreements with their national Governments. Until the Group's recapitalization, the capitalizations were implemented through one of three approaches: business shaping, controlling stake or financing bridge. It depended on financial institutions' economic exposure, dimension and Balance Sheet's financial strength.

The business shaping approach was implemented at institutions inadequately capitalized and with a higher exposure to toxic assets. It did not use ordinary shares, but instruments with mid-seniority with limited vote-right.

This approach allowed the Government to present on banks' key governance organisms and it gave the opportunity to the Authorities to shape the bank's business model. It had a medium-term focus with price incentives to possible exits.

The controlling stake option was a partial or total stake control by the Government on insolvent banks with a restructuring necessity – sometimes shadow banks – using ordinary shares. It had higher exit risk normally on long-term, despite Authorities had a higher control over the banks, defining their activities and divestment of non-performing assets.

Institutions that were financial strength, but with low liquidity or limited market access – as BCP Group, agreed on a financial bridge approach. They issued relatively senior instruments, as they might be convertible on ordinary shares to protect the tax payer's money, without control rights as the Government just would define generic business orientations. It mitigated the banks' shareholders from the dilutive effect on their stake.

It had a maximum of five years maturity and the issuer had the opportunity to end before the maturity – as BCP Group did when it paid at February 9th 2017 – with a price increase over time in order to align incentives between the two counterparties.

The agreement of a Recapitalization Scheme with Portuguese Government and European Central Bank through a financing bridge enabled BCP Group to define and implement the strategy over the period until the amortization of all capitalization amount – although limited by an in-depth scrutiny and schemes' commitments.

This opportunity resulted in a successful plan's implementation, by respecting the required capital necessity without compromise shareholder's stake.

4. Which strategy would follow the Bank? Satisfy customers' branches need or close branches to increase efficiency?

The banking sector has changed. In the past, banks opened as many branches as possible, to acquire a larger customer base and serve closely their customers as a signal of higher dimension and better service.

However, in the past few years, it has seen an incredible process of branches consolidation over developed countries (exhibits 5).

Nowadays, banks are looking to the optimize branch network just keeping those with sufficient dimension and rentability perspective. The visit to a physical establishment has been passed over in favour of the digital channels, such as online banking or mobile banking.

In accordance with *Branch of the Future, Integrating New Technologies* report from the consultancy firm Diebld, Inc., more than half of total operating costs of retail banks are directly related to the branch network. An open branch incurs costs as the rental price, security, local's refurbishment, equipment, branch's marketing, depreciation and miscellaneous costs. On average, a teller interaction with a customer has a variable cost equal to $ 4[24], that is much higher than just $ 0.10[25] for mobile banking' interaction.

The Online banking penetration in Portugal has been rising over the past years (exhibit 6) and the existence of a digital presence by banks is highly important for 65%[26] of worldwide customers. Digital channels have been offering more and more services reaching up the offered services by physical branches, with the advantage to the customers to use anywhere through their smartphone or Internet connection. Compared to 2015, in 2016 41%[27] of worldwide customers use more often online banking and 33%[2] mobile banking, compared with 40%[28] of customers who use less often branches.

[24] Gerard Toit, Maureen Burns. 2016. "Customer Loyalty in Retail Banking: Global Edition 2016". http://www.bain.com/publications/articles/customer-loyalty-in-retail-banking-2016.aspx (accessed October 5, 2017).
[25] Ibid.
[26] Pilorge, Pierre, and Ebstein, David, and Schrezenmaier, Teresa, and Turner, Anna Slodka. 2017. *Defining the new drivers of customer engagement*. EYGM Limited.
[27] Ibid.
[28] Ibid.

Despite all the advantages of digital channels, 60%[29] of worldwide customers support the banks' physical presence. In accordance to exhibit 3, branches are still the preferred channels to purchase products and/or services, advice, to make deposits and buy/sell investments.

In 2016, 40%[30] of worldwide customers had already used a non-bank provider. There are more and more nonbank providers on market offering services that traditionally were exclusive offered by banks institutions. With the implementation of the Second Payment Services Directive (PSD2) these FinTech will take advantage from developing payment and information services based on banks' payments infrastructure and customer data assets, which until now it was one of the bank's competitive advantages.

The main reason for customers consider the use of a digital-only nonbank provider is the more attractive rates/fees[31]. By decreasing the number of branches, the bank will improve its efficiency, thus Millennium bcp would offer more competitive fees.

The bank should maintain the closure process, by applying the acquired know-how during the restructuring period.

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EXHIBIT

Exhibit 1 – Millennium bcp and BCP Group's Stated Profit and Loss Accounts 2016

Euro Thousand	**Millennium bcp**	**Portugal**	**Portugal without Millennium bcp**	**International**	**Consolidated**
Net interest income	**720 313**	**736 100**	**15 787**	**494 000**	**1 230 100**
Dividends from equity instruments	215 176	7 300	(207 876)	500	7 800
Net fees and commission income	434 332	456 600	22 268	187 200	643 800
Other operating income	(82 772)	25 900	108 672	(51 200)	(25 300)
Net trading income	366 476	100 300	(266 176)	140 000	240 300
Net operating revenues	**1 653 525**	**1 326 200**	**(327 325)**	**770 500**	**2 096 700**
Operating costs	**440 893**	**438 300**	**(2 593)**	**341 700**	**780 000**
Operating profit bef. imp.	**1 212 632**	**887 900**	**(324 732)**	**428 800**	**1 316 700**
Provisions and Impairements (net of recov	1 625 452	1 515 900	(109 552)	82 100	1 598 000
Profit before income tax	**(412 820)**	**(628 000)**	**(215 180)**	**346 700**	**(281 300)**
Income tax	(482 128)	(469 600)	12 528	87 700	(381 900)
Profit after income tax	**69 308**	**(158 400)**	**(227 708)**	**259 000**	**100 600**
Income arising from discontinued operations				36800	45200
Non-controlling interests		1100	1100	123000	121900
Net income	**69 308**	**(157 300)**	**(226 608)**	**172 800**	**23 900**

Source: BCP Group's 2016 Annual Report

Exhibit 2 – Millennium bcp's Fees and Commissions Received from Banking Service 2016

Euro Thousand	**2015** Stated (656 branches)	**2016** Stated (617 branches)	**2016** Projected (555 branches)
Fees and Commissions Received			
From Banking Services	278 808	268 431	252 014

Source: BCP Group's 2016 Annual Report

Exhibit 3 – Millennium bcp and BCP Group's Fees and Commissions Afeter Closure of More 10% Branches

Euro Thousand	2015 Stated (656 branches)	2016 Stated (617 branches)	2016 Projected (555 branches)
Fees and Commissions Received			
From Guarantees	58 718	55 503	55 503
From Credit and Commitments	2 938	3 815	3 815
From Banking Services	278 808	268 431	252 014
From Securities Operations	58 684	59 822	59 822
From Management and Maintenance of Accounts	84 247	90 481	90 481
From Other Services	27 278	34 663	34 663
Total	**510 673**	**512 715**	**496 298**
Fees and Commissions Paid			
From Guarantees	6 385	7 744	7 744
From Banking Services	51 656	45 519	45 519
From Securities Operations	7 700	7 599	7 599
From Other Services	16 301	17 520	17 520
Total	**82 042**	**78 382**	**78 382**
Net Commissions	**428 631**	**434 333**	**417 916**

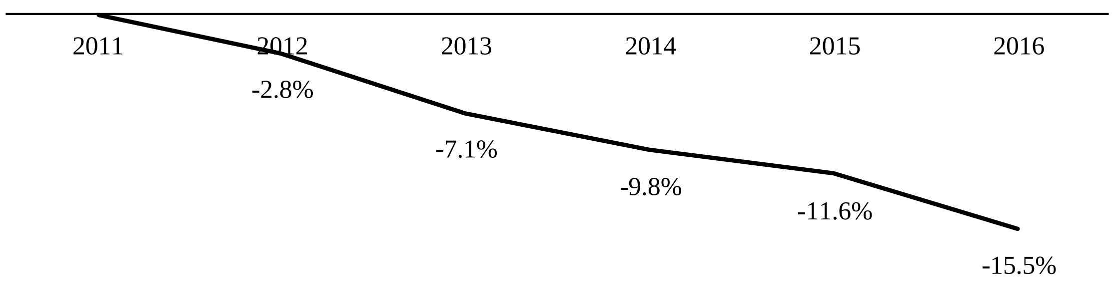
Source: BCP Group's 2016 Annual Report

Exhibit 4 – Millennium bcp and BCP Group's Calculated Profit and Loss Accounts After Closure of More 10% Branches

Euro Thousand	**Millennium bcp**	**Portugal without Millennium bcp**	**Portugal**	**International**	**Consolidated**
Net interest income	**720 313**	**15 787**	**736 100**	**494 000**	**1 230 100**
Dividends from equity instruments	215 176	(207 876)	7 300	500	7 800
Net fees and commission income	417 916	22 268	440 184	187 200	627 384
Other operating income	(82 772)	108 672	25 900	(51 200)	(25 300)
Net trading income	366 476	(266 176)	100 300	140 000	240 300
Net operating revenues	**1 637 109**	**(327 325)**	**1 309 784**	**770 500**	**2 080 284**
Operating costs	**414 439**	**(2 593)**	**411 846**	**341 700**	**753 546**
Operating profit bef. imp.	**1 222 670**	**(324 732)**	**897 938**	**428 800**	**1 326 738**
Provisions and Impairements (net of recov	1 625 452	(109 552)	1 515 900	82 100	1 598 000
Profit before income tax	**(402 782)**	**(215 180)**	**(617 962)**	**346 700**	**(271 262)**
Income tax	(482 128)	12 528	(469 600)	87 700	(381 900)
Profit after income tax	**79 346**	**(227 708)**	**(148 362)**	**259 000**	**110 638**
Income arising from discontinued operations				36800	45200
Non-controlling interests		1100	1100	123000	121900
Net income	**79 346**	**(227 708)**	**(148 362)**	**172 800**	**24 438**

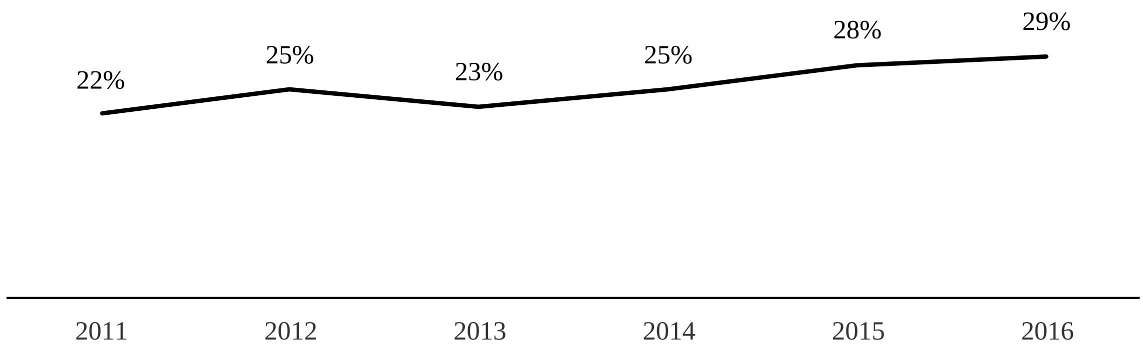
Source: Author's calculation and BCP Group's 2016 Annual Report

Exhibit 5 – Variation on number of branches Total Euro-Zone 2011 - 2016 (base 2011)



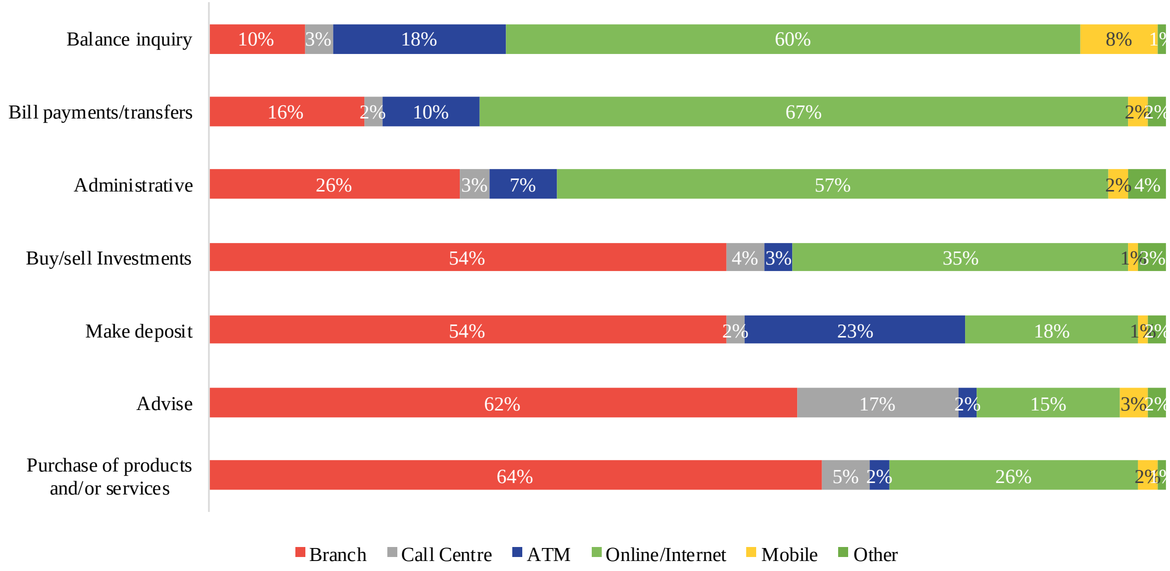
Source: European Central Bank

Exhibit 6 – Online banking penetration in Portugal 2005-2016



Source: Eurostat

Exhibit 7 – Percentage of customers who prefer channels for specific tasks (Combined Western and Eastern European data)



Source: Looking at the bank from the customer's point of view - October 2014 produced by EY and Efma