Operator

Good day and welcome to the Millennium BCP First Quarter 2014 Earnings Conference Call. Today's conference is being recorded.

At this time, I would like to turn the call over to your host today, Mr. Nuno Amado, Vice Chairman and CEO. Please go ahead, sir.

Nuno Manuel da Silva Amado

Good afternoon, everybody. It's a pleasure to be here with you. As you know, we are presenting the first quarter results of Millennium BCP. I will do the initial comments, the highlights. Then I'll pass to my colleagues, Miguel Bragança, the CFO, and Rui Coimbra. And the highlights are, in our opinion, pretty clear. In terms of consolidated net income, we got a negative result of €41 million Euros which compares with €152 of last year. So, still negative but clearly a large improvement vis-à-vis one year ago. In terms of the contribution of international operations, the core countries which I recall are basically Poland, Mozambique and Angola, we reached a core net income of €48 million Euros attributable, consolidated net income of €48 million Euros, a very important increase vis-à-vis last year too, with 18% increase. This is the best contribution of last years and I guess one of the best contributions of foreign entities of the bank in our history. And we have an idea that this improvement and these good results could keep growing in the near future. In terms of banking income, we could improve our banking income in all geographies. As you can see, we grew 23% year-on-year in three areas: net interest income, commissions and the results of financial operations including trading. So, the three areas improved. A clear improvement vis-à-vis last year, a slight improve vis-à-vis last quarter with some resistance in Portugal but a very good evolution in the other geographies too. In terms of operating costs, we keep doing our work and we have reduced our cost base in Portugal for 7%. This is on top of the very significant decreases that we got in previous years, in last years, and in terms of consolidated level, at the consolidated level we also decreased our cost base for 4.3%. So, on the cost side, no news I think, a good news, which is a good management of cost and a consistent decrease on our cost bases. In terms of new entries in non-performing loans, I would say that the decrease of 52% comparing with first quarter of 2013, which is aligned with our estimations and is aligned with our target of sustained reduction of the cost of risk. But, in spite of this, we have taken the decision to maintain relatively good and high level of provisioning during this quarter. Probably could have then some anticipation of provisions, but we did it and I think we did the right thing for the bank. In terms of capital, so in terms of profitability, let we make a summary. Clear improvements vis-à-vis last year. The improvement was in both domestic activity in the international operations and the improvement came from the revenue side, but also from the cost side. On the capital-wise, we have common equity core tier 1 of – we reached 12.2%, according with CRD IV, the phase-in ratio, which is aligned with our estimations and this quarterly ratio replaced the previous one from Bank of Portugal. In this previous one, we reached almost 14% above the 12% ratio that we had last year. We present it because it shows the evolution, the trend, the signal that we are giving which is reinforcing quarter-after-quarter our capital ratios. In terms of liquidity, the repayment of €2 billion of State guaranteed debt that was done this quarter. We issued €500 million Euros of unsecured, senior unsecured bond. As you know, we did it two months ago. And we have maintained our deposit base and our customer funds pretty stable. And this quarter, the increase of the deposits was 1.2% in Portugal which is I think very – is remarkable in the sense that to remove these difficult years that we have gone through, the result in year was always positive, the performance was always positive and still is positive. We continue to improve our commercial gap which decreased this – the amount of decrease was €3 billion Euros, as you can see, and we reached a loan to deposit ratio according with the Bank of Portugal, of 116%, which is below the 120% level that was recommended when the Troika did the first review to the Banks, they recommend that it should reach 120% by next year, by 2015, so we are in the beginning of 2014 and we reached 116%. And if you take in consideration the ratio loans to balance sheet customer funds, not only deposits but customer bonds, just to give you an idea, we already have a ratio of 106%. In terms of the ECB, we are using right now a [inaudível] between €9 billion and €10 billion, €9.2 billion, it is a decrease of €2 billion. We have repaid €2 billion of LTROs and we have our plan in series accordingly – is also in accordance with our base plan, our restructuration plan that we are following very – on a very strict way. If we can see – if you want to see this graphically, the next page 5, we see a clear decrease, an improvement vis-à-vis last year on net income, an improvement of more than 70%, reduced loss more than 70% and with a very, very positive contribution of our international operations, with banking income, total banking income growing at two digits. Operating cost being reduced at 4%. New entries in NPLs reducing quarter after quarter, right now at already a low level, where core tier 1 ratio improving. So we can compare what's comparable and improved 180 basis points, and the core tier 1 ratio, Basel 3 core tier one ratio of about 12.2%. Commercial gap is being decreased at a smallest pace, smaller level because deleveraging is still going, but at the level that it is not so strong that it was initially in the beginning of the crisis. That's normal, but still improving the gap. And as I mentioned, we already reached the loan to deposit ratio that was recommended and we already overtake it. So, I think before I pass the word to our CFO, to Miguel Bragança, I would say that he will present much more detail, the results in much more detail. I would say that we are doing our best to deliver on our promises. I believe we are doing it. We are complying with our restructuration plan. We have much of the indicators already better than the one that we have in our plan namely in capital, in liquidity, in cost et cetera, we are doing very well. In terms of CoCos repayment, we have requested the Bank of Portugal, we have recently requested Bank of Portugal for the authorization to repay €400 million Euros. We are waiting for the decision, for obvious reasons. We are also expecting good outcome, positive outcome on the DTA's. For us, it is a question of fairness and the question of having the same competition environment in Europe vis-à-vis things that are very important to us and we believe we will have it during this AQR period, AQR moment. And in the AQR, we are doing our job. As you know, Portugal comes through a very difficult period and because of that, we were subject to several reviews of our portfolio. It's another one. Obviously, it's something that we are focusing with all the importance but as I mentioned, this year it will be a very important year for us in terms of the inversion, the change on the trend of the P&L account. We are doing that and also of the diversification of our balance sheet and I believe we have our balance sheet pretty analyzed and reviewed. So, no bad news, we are in accordance with the plan and when we are in accordance with the plan I think the news are good. I will pass to Miguel Bragança right now.

Miguel de Campos Pereira de Bragança

Good afternoon, ladies and gentlemen. As you see here from the structure of the presentation we are inverting the priorities starting with profitability, then we will go to capital and then we will go to liquidity, as we said before. In terms of profitability, taking a look at our income statement you see a significant increase in terms of net interest income and we will go a little bit deeper into this. And it is to be also stressed that this quarter compares well with the similar quarter of last year in terms of the cost of the hybrid instruments that weighed around €66 million for quarter in our income statement. In terms of net fees and commissions, we see here some stability, which is good. We have been compensating with other initiatives some of the regulatory pressure that has faced the decline of the income statement. And we had a good quarter, as the last quarter, in terms of the operating income, mainly in terms of the capital gains in securities. Our banking income increased by almost €100 million Euros on a quarter-on-quarter basis. In terms of cost, they are also evolving according to plan. We see here a reduction of around €7 million in terms of other administrative costs and of around €6 million in terms of staff costs. So you see that the other operating income had very healthy improvement of around €100 million Euros, almost more than 90% when you compare with – or around 90% when you compare with last year. In terms of loans impairment, we see here some stability. As you will see later on, the cost of risk is evolving more or less according to plan. What happened was that the first quarter of last year had quite a slightly lower cost of risks than the other quarters. And these made basically our net income before tax and minorities show a value of over minus €20 million, which compares very favorably with the last quarters. As a part of our profitable operations are exactly in places where we have minority interests. So we have a minority interest charts, so to say, of around €25 million Euros and this explains why our net income is of around minus €41 million Euro, a very good improvement when compared to last year. You see there is minus €41 million has been influenced by some relevant factors that you favor over time, hopefully, the cost of the CoCos part of the contribution to the banking sector, of the extraordinary contribution, and the liability management and securities issued in the context of the liability management of 2011. Net interest income, you see an improvement in consolidated terms of around 32% which is explained mainly by the improvement of the 51% that we see in Portugal but also very significantly by the improvement of 21% in international operations. You see that our [inaudível] excluding CoCos that effectively our capital instruments that's why they are also more expensive than traditional debt, it's already at 1.7% which is – which shows already some normalization in terms of the dynamic of our income statement. In terms of fees and commissions, we also see here some stability in terms of banking fees and commissions with a good development in terms of loans and guarantees in spite of the fact that we are slightly below target in terms of loan growth and some pressure in terms of the current accounts related fees due to regulatory pressures. The market related fees show a healthy improvement due to the market environment that you know well. The net trading income showed, once again, a good quarter aligned with what happened in the last quarter at least in general context regarding peripheral market. The operating costs, you see they go down by around 4% in consolidated terms which is mostly explained by the reduction of around 7% in Portugal, and by some stability in terms of international operations. This has allowed our cost to income ratio to improve by 15 percentage points, both excluding trading and including trading. The loan impairments show a cost of risk of overall 129 basis points with some stability vis-à-vis last year which is quite still aligned with the target that we are not reviewing of around 100 basis points by 2015. So, basically, what we see here is that the full year of 2011 we had a cost of risk of around 186, the full year of 2012, 457, full year of 2013, 137, and we have this target of evolving towards the 100 basis points cost of risk, so we are relatively on track on these targets with the normal oscillation and the predominant volatility that happened. The good sign here is that the net new entries keep coming down, so as you had seen in the previous quarter, they had reduced already in the previous quarter by around 50%. This year, we see the same trend with the net NPLs going down by 52%. We should allow out credit at risk to come down and our non-performing loans value also to go down. These, together with the effort that was done at the provisioning level, has improved the coverage ratio of both the NPLs but also more significantly of the credit at risk which covered ratio increase by three percentage points. In terms of our collateralization of our portfolio, here we see some stability. Around 60% have real estate guarantees that have regular assessments. All of our assessments are below one year right now and 33% have other types of guarantees with pure, pure unsecured only 7% of loans and you see here that most of our loans are below 80% LTV as you see here in terms of mortgages. Going now to capital, our core tier 1 ratio that is comparable with the previous ratios of the Bank of Portugal and that we are communicating in parallel with the new phase-in ratios is 13.9% which shows good improvement vis-à-vis last year when it was 12.1%. This was mainly due to the sharp reduction in risk-weighted assets that you've seen last year that more than compensated some capital consumption that we had during last year also, okay? In terms of other ratios that are not, I would say, not regulatory required, we see here that the core, besides the core tier 1 ratios of the Bank of Portugal which has a limit of 10%, the EBA ratio which, if you adjust for the sovereign buffer, we would have an EBA ratio of 12.9% where the benchmark I would say is around 9%. We have here a fully loaded ratio, if we have a similar solution to the Italian or the Spanish solution, of around 9.5% and, of course, this is original and contingent on the final development of the solution and without this solution around 5.4%. In terms of phase-in ratio without any type of solution for DTA, we have 12.2% with the DTA solution similar to Spanish or Italy actually, it came slightly down because of the risk weight associated to the solution and it is around 12%. So I would say, all in all, acceptable ratios. We feel very comfortable with the DTA solution as you also have seen in recent communications by the Portuguese government to investors, there is a general communication that this will be implemented in the context of this AQR preparation and our ratios are quite acceptable mainly when taking into consideration that we are in a turnaround phase. In terms of liquidity, liquidity is not a factor right now. As I have commented, our focus now is much more on profitability and we are willing to sacrifice a little bit of liquidity to enhance our profitability and capital position. We see here that our customer funds are relatively stable when you compare with December and December, there is typically some seasonality in December and you see further more that the customer deposits in Portugal are actually going up when you compare it with December and the customer deposit in international operations are also quite stable when you compare with December. We have been less aggressive in terms of deposits and mainly in terms of the deposits that are not very much linked to our franchise such as large corporate deposits, we have been letting some go so as not to sacrifice our profitability. In terms of the loans to customers, also quite stable when compared with December, basically at minus 0.6% where you see a slight decrease in Portugal of around minus 1% and some increase in the international operations of around 2%. The conjunction of these deposit dynamics with the credit dynamics is a commercial gap evolution of around minus 3 – minus I would say there, an improvement of around €3 billion Euros which is still a relevant improvement. As I said right now we almost have – see our net loans to balance sheet customers fund is already at 106%, so it's quite comfortable. And our loans to traditional deposits, I would say, at 116%. Our liquidity ratios, both the net stable funding ratio and the liquidity cover ratio are also very, very comfortable. So you see this is not an issue. Going forward, you see the maturities that we have in terms of pure, I would say, senior and covered bonds and long term funding, you see they are totally manageable in the context of the reduction of our commercial gap and in the context of our access to the capital market. I will now pass to Rui to comment a little bit further in terms of Portugal and our international operations.

Rui Pedro da Conceição Coimbra Fernandes

So, starting with Portugal volumes, it was already mentioned that since December up to now, it was 1% up both in customer funds and deposits and 1% down in loans, this happened, it was around €600 million down to €100 million in mortgage and two thirds of this for companies. Net income at minus €88 million, an improvement of around €60 million from previous year, and this improvement is mainly due to the improvement on net interest income, trading and lower operating cost. Net interest income, it improved 51% and this is mainly due to a price effect. So there was a positive evolution of net interest margin in Portugal of 28 basis points and the negative volume effect coming from the low volumes increased. In more detail, if we see the table – we understand that the increase of €33 million can be split into €56 million improvement from the decrease of the cost of the time deposits and the €27 million negative effect from the decrease in volumes, minor effects all together, but these two dynamics is what explains the dynamics of net interest income. If we see just the quarter numbers versus the previous one, it is rather stable, again the two effects the positive and the negative playing an important role, together with the fact that the first quarter always has two days less and two days less is more or less, for us, €1 million a day, so the other is more or less explained by the number of days. If we see now the evolution of rates, the total portfolio on the time deposits is now already at 2.2% and the new production below 2% is at 1.9%. On the other side, relatively stable the rates on credit. If we move to the evolution of the spread now, that we have a clear target for 2015, we see that this quarter it has improved 23 basis points, so it is already at 200 now and it is since the fourth quarter of 2013, so the improvement and [inaudível] the fourth quarter of 2012, it is 100 basis points improvement and so we are converging well to the target that we set for 2015. Moving to commissions, it was already discussed, it is rather stable where the banking commissions decrease are explained by the regulatory change that was already mentioned by Miguel and it shows here on the current account related fees there, where we show and we managed to compensate part of this with [inaudível] state guarantees that was announced to the market at that time. Part of this as well was compensated by higher commissions on market-related securities and asset management. Decreasing of operating cost of 7%, and on credit quality NPLs for Portugal at 13.4%. This is a decrease if we look to the stock versus March last year of €135 million. Obviously, this is the combination of the fact that you can see on the table there of more write-offs than the positive effect of the net new entries, and this is why it decreased the number. But if we look versus just the previous quarter, there is an increase on the stock of €55 million since the net new entries that I already mentioned is quite less compared to the previous year, and two years ago, even though it's a positive number of €185 million and higher than the write-offs we did in the first quarter and this is why the number – the stock increased. Cost of risk at 147 basis points in Portugal, and this to make the coverage to improve to 48% and 47% average of weighted risk. Foreclosed assets, it continues to decrease the stock both in gross and net. And the coverage that we have of 26% is in line and is consistent with the prices that we are selling our assets. Moving now to the international operations, the contribution, as it was already mentioned, of $48 million is an increase of 18% and looking to expect it for macro this year and the next, we see that nominal GDP growth at around 5% for Poland and 13, 14% for Mozambique and Angola. So macro forecasts are quite interesting in the three countries. Starting now with Poland, the results were presented already to the market here. Funds increased by around 3%, but more than this the relevant point here is the weight of current and savings accounts increased and is now 50% of the deposits. So this is one of the strategic actions that were presented last year by our subsidiary as a target and they are managing to do. On the other hand, the same is happening with loans that increased 5%, but the weight of the non-mortgage increased as well and is now 39% over the total portfolio. Net income increased 30%, mainly the increase in banking income and relatively stable, of course. And on the net interest income the improvement of 23% is mainly due to a price effect. Actually, net interest margin increased 37 basis points. It is now at 2.6% and this is mainly through the improvement on the cost of the deposits, as it was already mentioned and the shift on the liability side for more current and savings and less by deposits. Commissions up by 10% and the cost stable, but with the cost to income that is already at 50%. Credit quality, NPL ratio at 3% and we maintained the coverage above 100%. Moving now to Mozambique, an important growth of volumes, deposits of 14% and loans 24%. Net income increased due to mainly the improvement on the net interest income, that increased 20% and here the volumes played an important role, but as well the pricing side. Net interest margin improved 50 basis points and it is now already above 7%. Commissions up by 11% and the cost obviously the increase is in line with branch expansion and cost to income at 45%. Credit quality, NPLs at 3.8% and with a very comfortable coverage above the 100%, now is at 146%. Moving to Angola now, strong volume growth. Deposits increased 66% and credit, a 40% increase. Net income, an increase of 81%, due to the increase of net interest income and the decrease of cost of risk. In terms of net interest income 18% up driven mainly by volumes. Commissions up 14% and costs in line again with expansion, NPL at 4.9%, decrease versus previous year and the coverage again above 100%. Just to conclude [inaudível] (34:42) and I will pass now to Miguel.

Miguel de Campos Pereira de Bragança

Okay. Just to conclude in terms of the metrics, that we have presented to you. So in the last two years more or less, we have been presenting every quarter a set of KPIs that frames our plans and these KPIs are the ones that you see with which we have committed to the market and we see that we are clearly evolving according to plan.

We have presented intermediate numbers for 2015 and then another number for 2017 and what you see very clearly is that in terms of the core tier 1 ratio and it was defined two years ago by the Bank of Portugal, we wanted to be at a level of around 12%. We are at the level of around 13.9% which allows us some flexibility and is clearly aligned with what we wanted. We told the market that we wanted to go to other ratio below 110% in terms of loans to total customer funds. We are already below 110%. We said we wanted also to reach by 2015 a cost to income ratio slightly below 55%, we are there and albeit, of course, in a quarter with some trading gains, so we have to, I mean, to take this also with a pinch of salt. But still we are clearly progressing even before trading gains, as I've shown with an improvement of around 15% percentage points in terms of ratio. Our operating costs, we have a target of €700 million by 2015. If we analyze this quarter, we are already below these targets. So I would say we are overachieving in this metric. In terms of cost of risk, we said that we would converge or we expected in terms of the general macroeconomic situation to converge towards the cost of risk of around 100 basis points. It is evolving well in this quarter, we have cost of risk of around 139 basis points. So I don't think that our long-term, I would say, objective is not achievable. On the contrary, I think we are clearly on track for this. And then what we see is that in terms of ROE which would the resulting of all these numbers, we are evolving towards our target of our around 10% that we have presented to the market. You see here that we have performed well in the market. So I think the market has given us some capital of credibility showing – acknowledging the de-risking that we did of the bank and acknowledging the delivery that we are showing. And also want, I wanted also to say is that we have high turnover in the Portuguese market, so there is the other bank that is second to us in terms of liquidity, is still at a large distance. So I would say, that for investors that want to take a view on the Portuguese market with liquidity and with the flexibility that liquidity allows we are, I would say, we are a very good vehicle for this exposure. And of course, you as analysts and most of you are hearing us have being analyzing our restructuring story and our capability to deliver. And so we feel very confident that we will continue on this track. Thank you very much, ladies and gentlemen. We are now open for questions.

Q&A

Operator

[Operator Instructions] We'll now move to our first question now from Carlos Peixoto from BPI. Please go ahead.

<Q - Carlos Peixoto>: Hello, good afternoon. My first question has to do with a number of real estate sales carried out in the first Q in comparison with the first Q of last year. Basically, I noticed that there is decline in the number of transactions but there is an increase in the amounts in Euros being sold. My question is whether there were some wholesale transactions being done throughout the first Q? The second question would be on asking you some guidance or your expectations on the evolution of NII for the full year as well as for cost of risk in the full year. Finally, I would also like to ask you what was the performance of the pension fund throughout the first Q and whether there could be some negative deviations or positive ones to account for at the end of the first half. Thank you very much.

<A - Miguel de Campos Pereira de Bragança>: Carlos, just to comment in terms of your questions. In terms of the pension fund return, the return of the pension fund, the analyzed return in the first quarter was 5.9%. However, I mean, to use the quarter as a guideline for the full year as you know this is a long-term investment so I would not necessarily extrapolate this for every part but it was 5.9% in terms of comparing with return actual return of around 4%. In terms of the full year provision, the full year cost of risk, what we have been saying to the market is that we want to we think our portfolio is consistent with the cost of risk by 2015 of around 100 basis points and that we will gradually converge toward this value. Last year, it was around 140 basis points. As you know, we said that in 2015 it will be around 100 basis points and we said also that it will be a gradual evolution toward this. So I would say that's what I would like to say at this moment and it's already more than most of the – it’s already a strong guidance. In terms of the property, I would not highlight nothing special. This quarter, we focused more on higher value properties but there is nothing really special. So if you take a look here basically in the similar quarter of last year, the value per property was around €70,000, this year, the value per property is around €97,000. I mean, this type of volatility happens overtime, so an average value of €97,000 is not a very big value, so there is always some volatility in terms of property being sold. What, what would I would like also to stress is that, I mean, we have not seen any difficulty in selling properties that are located in Lisbon, Porto, in the main cities, at the balance sheet prices which we have. So what is the prime location properties and so on, there is already a liquid market in Portugal, okay? In terms of the NII, the guidance, the guidance that we are giving right now is very much linked to the cost of deposits. And what we would expect here is also a gradual reduction in the cost of deposits of around 20 basis points, when you compare year end with year end.

Operator

We now move to our next question from Ignacio Ulargui from BBVA. Please go ahead.

<Q - Ignacio Ulargui>: Hi. Good afternoon, gentlemen. I have just three questions. The first one is whether you see the AQR as a potential catalyst for BCP both are positive for or raising any concern especially on the sovereign [indiscernible] (44:06) The second one is, I mean what's the scope that you for further decline in the cost of retail funding, whether you think that term deposits can go to levels like 1.5% [indiscernible] (44:22) And the third one is just looking and coming a bit back to Carlos' question on the cost of risk. Looking to your net new interest performance and do you think – don't you think that the 100 basis point is still quite conservative? And linked to that, what would be the deduction on the Basel 3 or the expected loss versus the provisions that could just justify you to make still higher provisions? That's all. Thanks.

<A - Miguel de Campos Pereira de Bragança >: I'm sorry. Could you repeat the last question because there was a problem with the...

<Q - Ignacio Ulargui>: On the cost of risk, I mean, provided that net new entries are like 50% down year on year whether the 100 basis points don't look to you a bit conservative and I mean linked to that what's the Basel 3 deduction for the expected loss for the provision versus the expected loss that it could justify you to still make the 100 basis points of provisions?

<A - Miguel de Campos Pereira de Bragança>: Okay. Thank you very much. So, in terms of the sovereign test, the sovereign guidance that was given to the market some days ago, we have simulated the impact that these have on our portfolio and I would say is a totally manageable impact. So our portfolio is quite short term portfolio. So I would not expect anything major coming from this issue. Okay. In terms of retail funding, as you know, we have been reducing our retail deposit cost. As you see, when you compare with the last quarter, we have been reducing around 23 basis points in Portugal. Of course, as you approach the lower value, the speed at which you reduced it is smaller. Right now, we have a deposit cost in Portugal in terms of spread of around 200 basis points, in terms of stock of our spread. So, our spread has a negative – our stock of the term deposit has a negative spread of 200 basis points. What we have committed to the market two years ago, is that by 2015 we would be around slightly below 170 basis points. We think, we may anticipate this somewhat that's why I told that in few years time, I would say that the reduction of around 20 basis points further is just an anticipation of our plan. In terms of whether our deposit – whether our cost of risk is too conservative or it's not too conservative, there are arguments in many ways. As you see the future has some uncertainty. I acknowledge that if the world and if Portugal becomes suddenly very, very rosy, 100 basis points of cost of risk it may be too conservative. However, our scenario is that we will still be facing a challenging period so the conjunction of an improvement with Portugal still facing a challenging period has not led us to review this target of around 100 basis points. In terms of the difference between expected loss and impairment, it's around €700 million Euros. So this allows us still, I would say, to some impairments without charging the sum of the capital ratios from which the expected loss is already deducted.

<Q - Ignacio Ulargui>: Thank you very much.

Operator

Thank you. We now move to our next question from Sofie Peterzens of JPMorgan. Please go ahead.

<Q - Sofie C. Peterzens>: Yes, hi, here is Sofie Peterzens from JPMorgan. Thank you very much for taking the questions. I was just wondering if you could talk a little bit about loan growth in Portugal, if it's still negative in the first quarter of this year but how should we got to think about loan growth going in to the second half of this year and also into 2015? So that would be like my first question. And then secondly, my understanding is that your Portuguese division should breakeven in the second half of this year. What will be the key drivers from the loss that you had now in the first quarter compared then to the second half, what will drive the could it be breakeven or what will be the breakeven point? And thirdly, could you just discuss the DTAs and when you expect to get a little bit more clarity around the DTA tratment in Portugal? Thank you very much.

<A - Miguel de Campos Pereira de Bragança>: With the DTA issue, some of you have for sure been in some of the investor conferences in which government officials have spoken. They have, I mean, communicating intensively with the market and some of you have asked directly to the government what is their position in terms of DTAs. And you've heard the same as I've heard in these conferences that they think that the solution such as the Italian or Spanish one is fair, assures a level playing field and is important. And I'm sure that you've heard the same as I have heard, so we feel very comfortable that it will be implemented in time for the AQR. Exactly when, this is much more, I would say, a calendar issue from the government that may possibly conflict with other priorities that the government has. And I cannot anticipate exactly when because I don't manage the political calendar of our government. What I can tell you is that there is a strong commitment from the Portuguese government in terms of having this implemented by the time that it is considered in the AQR, okay? And as you know, as you have seen in terms of the phase-in ratio and I think this is very important, which is the only ratio, which is really, I mean, the ratio that is relevant for regulatory purposes, the DTA solution, if implemented as in Spain, has not a relevant impact. So, it's neutral. So it is not relevant from a regulatory standpoint and what concerns the market that we acknowledge that for the market it may be relevant. There is already a public commitment from the government that it will be implemented by the time of the AQR. Okay, so I think this is the most that I can say. And in terms of the Portuguese breakeven, so we have – and in terms of loan growth, we have not said to the market that we would breakeven in Portugal in the second half of this year. What we would say is that we would – of course, this is also dependent on the activities, so we are here, I mean, in an environment that changes and so on. So this is not a government bond or a fixed security, so there is activity, there is dynamics et cetera. So what we said is that we expected to break even in consolidated terms this year in the second half of this year. In terms of the loan growth in Portugal, we would expect that at least that the loan growth in the market would be slightly negative this year, slightly negative, but what we have in terms of our objectives is to be, so to say, at a 0% loan growth this year. This is the area where it is proving more difficult and where we are facing more difficulties. So we are clearly over achieving in cost. We are clearly over achieving in terms of cost of deposits. We are on track with the plan in terms of impairments. In terms of loan growth, we are facing more difficulties in terms of healthy loan growth, to grow in a non-healthy way, of course, is something that we saw as not valid, that goes without saying. And what we're seeing is that our plan is to be at zero but having the loans to corporate compensating the decrease in terms of the loans – decrease of the mortgage loans. However, this is proving more difficult. Let's see whether we will get there, or not.

<A - Nuno Manuel da Silva Amado>: So now it's Nuno Amado, just to reinforce the last comments of Miguel, I really believe that the loan book of our bank and the loan book of Portugal for corporations will decrease this year for reasons that Miguel mentioned, but I believe that it will be a change on the mix. So loan book will decrease because last part of the book is related with non-tradable sectors and this part of the book that is larger than the other one will be reduced and will have a consistent decrease in the next years and the tradable sectors, more competitive sectors, the ones that are exporting are now replacing imports, those will increase, but the level – absolute level in terms of errors is not enough to compensate the decrease. So it will be also a decrease, so our target in that area is one of the most difficult ones – one of the difficult targets that we have in our plan but we expect to compensate with a very good management of cost of deposit as Miguel mentioned before. On the breakeven, I think it's clear in our plan and we are very strict in terms of trying to implement it, we expect in terms of consolidated terms be around breakeven by the end of this year, by second semester end of the year. This is our objective in terms of consolidated terms.

<Q - Sofie C. Peterzens>: Thank you very much. That was very clear.

Operator

Thank you. [Operator Instructions] We'll now move to our next question from Marta Romero from KBW. Please go ahead.

<Q - Marta L. Sánchez Romero>: Hi. Hello. Good afternoon. I have two questions. First, regarding NII, we've seen some – we've seen in Portugal a diluting a bit of momentum, and I was wondering whether after the disposal the rotation in the sovereign book this quarter that has translated in quite sizable trading gains, we should expect this negative effect of lower reinvestment yields more than offset in any positive momentum that we may have from cheaper deposits. So the question is, should we expect any growth in Portugal quarter-on-quarter in terms of NII? And the second question is regarding asset quality. We've seen very, very positive trends in terms of net additions. However, restructured loans have gone up by roughly €0.5 billion. The ones not included in trade-up risk and I was wondering how confident is management regarding the AQR that this book won't need any provisions down the line. Thank you.

<A - Miguel de Campos Pereira de Bragança>: So in terms of NII, in terms of the dynamics of the NII, the dynamics of the NII is to a large extent a function, of course, of the cost of deposits and the loan volumes effect. As you've seen this quarter, we had a positive impact from the cost of deposits when you compare with the previous quarter of around €8.5 million, and a negative impact from the loan volumes, so the deleverage, of around €5.5 million. It is riskier, so to say, to make exact projections, exact demand on months, that means when you have certain loans that are large corporate loans, what exactly will occur in any specific month or any specific quarters. If you take a longer term view, the projections are safer because the areas can fill out – or projecting areas can fill out. So, I would say that as time goes by, what we would expect is an improvement in terms of the deposit cost. As I said, around 20 basis points year-on-year and in terms of the loan volumes effect, we expect this as time goes by also to fade away. In terms of our portfolio, the impact that we have on our – of the sale of the part, of the sale of our portfolio, on a quarterly basis is not that relevant. There will be some minor impacts, but we think that still the key factors will be the reduction of the cost of deposits. In terms of the restructured loans and the provisioning of the restructured loans, these restructured loans have important provisions. The provisions are, more or less, five times the provisions that we have for generic loans. And if you take – if we take a view on all our loans, so to say, that have some type, that are either at risk, restructured and so on, you see that the type of provision that we have are totally aligned with the type of provisions that the sector have. So if you sum all real estate credit at risk to restructured loans not considered restructured risk, we see very clearly that the coverage that we have is totally aligned with the system in Portugal.

<Q - Marta L. Sánchez Romero>: Okay. Thank you.

Operator

Thank you. And now we move to our next question from Jaime Hernández from Nomura. Please go ahead.

<Q - Jaime Hernández>: Hi. Good afternoon. Thank you for taking my questions. I got two, both of them on capital. The first one is that if you can please elaborate a little bit more on the Basel III impact mainly the ones related to the fully loaded capital ratio because there were a high level for what I was expecting? And the second one is also related to capital. I don't know if I'm more considering the recent rally the share price had been in the last months. I'm considering that maybe that the loan growth is going to be much more balanced out than maybe initially was expected. Don't you think that it could make sense to raise capital in order to repay the CoCos more considering this upside that we saw in other Italian banks or even in other Greek banks? Thank you.

<A - Miguel de Campos Pereira de Bragança>: In terms of the impact of the fully loaded, the main impact that we have here are the DTAs. As we have been commenting, the DTAs, in terms of the fully loaded, have an impact of around €2 billion, of which a part of – an important part, around €1.7 are temporary differences. So this is something that you should be taking into consideration also. We have here also the deduction of expected loss, as I have commented – as I have already commented, that is around €700 million, which is effectively a cushion towards further impairments that we may have. And we also have the deduction of our minority interests and the participations in our trade, mainly, in insurance, which are more or less €400 million each. So these are the main factors that influence the capital on a fully loaded on a [audio gap] (01:0319-01:03:21) In terms of capital, I will say, we have a disciplined in these issues. So we have a plan. Our plan has been approved by the Board where the shareholders are represented. We are here the executive board, we have been mandated to execute this plan. The plan that we have approved is to generate capital through organic capital generation and to repay CoCos. Of course, we are always regarding the market and always seeing alternative that could make sense for the shareholders mainly if they are positive from an equity standpoint and mainly if they contribute to the positive evolution of the share price but today what we're doing is implementing the plan.

<Q - Jaime Hernández>: Thank you.

Operator

Thank you. As there are no further questions, that will conclude today's Q&A session. I would now like to turn the call back over to Mr. Miguel Bragança for any additional or closing remarks. Thank you.

Miguel de Campos Pereira de Bragança

And I would like very much to thank you all. Basically, what I would like here to highlight is that we committed to the market in a very objective manner around two years ago. We have been delivering on our commitment. We have been showing you our KPIs. In general, we are evolving according to a plan which was a very difficult plan at the time which we presented it but we are delivering on it. And do want to thank you all, the trust that you've had in our ability to deliver which has been shown in the growth of our share price Thank you very much.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.