Q3 2013 Earnings Call

Company Participants
• Nuno Manuel da Silva Amado
• Miguel de Campos Pereira de Bragança
• Rui Pedro da Conceição Coimbra Fernandes

Other Participants
- Mario Ropero Garcia
- Ignacio Ulargui
- Antonio Ramirez
- Carlos Peixoto
- Francisco Marques
- Benjie Sandford
- Jaime Hernández

MANAGEMENT DISCUSSION SECTION

Operator
Good day and welcome to the Millennium bcp Third Quarter 2013 Earnings Conference Call.
For your information, today's call is being recorded.
At this time, I would like to turn the call over to your host today, Nuno Amado, CEO and Vice Chairman. Please go ahead, sir.

Nuno Amado

Hello. Good morning to everybody. This is Nuno Amado from BCP, – Millennium bcp.
We are presenting, as you know, the third quarter – third quarter results. The main highlights are in this page. We have concluded already in the fourth quarter, the sale of the Piraeus Bank stake, as you know. We've got the final approval by DGComp of the restructuration plan. We have a, I believe, a comfortable liquidity position as we will show to you. We have strengthened our capital position too, our capital ratios, and we have some signs of the operational recovery in Portugal. These are the main highlights, and these highlights are the ones that I will develop a little bit further.
In terms of Piraeus, as I mentioned we have concluded the operation. It is October, this year operation, so a fourth quarter operation, but we have completely reduced our risk exposure to Greece and we have right now, we have received all the amounts that we should receive, everything is done, this was well done, was done in accordance with our Greek partners, let's put things like that. And it had an impact in our core Tier 1 vis-à-vis September, of plus 40 basis points.
In terms of liquidity position, we have reduced our gap, commercial gap, in $7.4 billion since September last year – so in the last year, and we have reached net loans to deposit ratio of 124% or 111% if we take into consideration the total customer, the resources, funds in our balance sheet. This percentage, these ratios are similar to the ones that we showed in the second quarter this year. So, an improvement vis-à-vis last year and certain stabilization.
In customer deposits, we have maintained a good trend. We have increased our deposits in 5.4% year-on-year and in Portugal 5.2%, I'm sorry, when we compare it in Portugal. In terms of loans, the loans are decreasing. We will show that they are decreasing at about 7%. In spite of

we are having a good position on new loans, the book is decreasing at a faster pace, taking consideration too that the demand for new loans is right now much lower than it was before.
In terms of capital, we have a capital ratio of 12.7%, in accordance with our Bank of Portugal rules and we have a 10.2% in terms of EBA. In terms of EBA, if you adjust this amount with the buffer, the sovereign buffer that was defined two years ago and we have to tell you that market-to-market position of our government portfolio doesn't require a buffer right now, as you may imagine, we have a 11.9% ratio and if we consider in these figures, in these ratios the sale of Greece you should add 40 basis points to these ratios that we show here. In terms of profitability, our result it's 597, is a loss of 597 with – that compares with a loss of 796, nine months – for the first nine months of last year. This is – it is a smaller loss of €200 million Euros and is a loss that is more or less in accordance with our strategic plan, so it is aligned with it. The contribution of our international operations, excluding Greece, are – is being very positive trend and we got €128 million Euros from these operations which shows an increase of 13.5%. Net interest income maintains some recovery of the Portuguese figures and of the Portuguese domestic operation. So we'll show you some increase on these figures, but I would say still in a very small, with a small effect and fragile, let's put things like that. In terms of operating costs, we are doing our homework very well, in my opinion, we are reducing operating costs in 14.8% in Portugal and we also reduced something abroad as you'll see. And the new entries in NPLs are basically out of the NPLs of last year, a very important reduction of the NPLs. So, these are the main comments. We can show the same comments graphically.
The customer deposits – please put to page five – the customer deposits, as I mentioned, was increasing 5.4%.; it is increasing positively in both Portugal and in international operations as you can see, respectively in 5.2% and 5.8%, loan to deposit ratios decreased 13 basis points, and as I mentioned, an important decrease, we are reaching a level that we are much more comfortable and the quarter was pretty stable. Core Tier one is improved. We reached 12.7% on EBA 10.2%, including the sovereign buffer. If we had not that, it would be much higher. So, we are – so we have a, I think, a comfortable capital position right now. Internal net income is what I mentioned, we have a loss. It's a very complex situation. We have a loss, but it's a better figure than last year and we have some signs of recovery as I mentioned before.
The contribution of the international operations, as you will see, is positive in all the geographies, the three core geographies. The net interest income that we show here, it's still, the total figure is relatively small, but the improvement is important, is one of the also positive thing that we could see from our quarter figures. And the operating costs are on the decreasing trend, as well as the new entries in NPLs.
Right now for the more, a more detailed presentation, I will ask my colleague Miguel, Miguel Bragança to do the next pages.

Miguel Bragança

Thank you very much, ladies and gentlemen. So we will start here with the consolidated view, in terms of liquidity, then we'll go to the capital position, and finally to profitability. In terms of liquidity, we see a good improvement, with the deposits growing 5.4% and balance sheet customer funds growing 1.1%. So, it's a very healthy development in terms of deposits. And in terms of total customer funds, what you see is a positive development, both in Portugal and in international operations.
We see also, that this evolution in terms of balance sheet customer funds, is being, is occurring simultaneously, with a positive evolution in terms of balance sheet customer funds, which shows the position of our franchise and the healthy growth of our liability base.
In terms of loans to customers, the loans came down, so, 5.8%. The mortgage with the normal run down, and a small production as, is happening in the last couple of quarters , and the loans

to companies reducing 7.2%. These two developments led to a further closing of the commercial gap by €7 billion, as it's happening in the last quarters in terms of year-on-year developments, we are seeing typically a closing of the commercial gap between €7.5 to €8 billion. And this lead the loan-to-deposit ratio to come down to a level of 124% and the net loan to balance sheet customers funds ratios, so including retail bonds, of 111%. The net usage of ECB stayed relatively constant at €12.7 billion Euros with a very marginal increase due to a position in money market. Still the, our position in terms of eligible assets, net of haircuts is very high, €21 billion Euros, which represents a buffer of about €8.3 billion Euros. As you see, our refinancing needs for the quarters to come are very manageable.

Now, going to capital. We see here that the core capital ratio stood at 12.7%, above the 12.5% that we presented in June. Over the same period, the reduction in the amount of core Tier 1 is explained by the results of Greece and the cost of the Cocos. There was a considerable reduction in terms of risk-weighted assets, influenced by the deconsolidation of the Greek operation, which represented below €4 billion. And the synthetic securitization transaction, which represented more or less €2 billion Euros. So these two transactions represented most of the reduction of RWA. In terms of profitability, what do we see? We see that the net interest income came down by €132 million Euros, but you see that's basically the CoCos cost that represent, that explained this reduction, so before CoCos you see that the net interest income is stable. Net fees and commissions are going up and other operating income, as you'll see further, adjusted by the larger extraordinary items, is relatively constant. I would like to stress here the large trading gain that we had last year due to the debt repurchase of our own loan. So, all-in-all I would say –a very, a quite healthy top line development.

The staff costs, constant, but when you adjust by the extraordinary benefit that we had last year of the mortality allowance, you see that, in terms of total costs in Portugal, we are reducing by 15% in terms of [indiscernible] down the road. And, in terms of the impairments and positions, before the provision for the impairment on Piraeus Bank participation, and the provision that we did for other liabilities linked also to the sale or to the valuation of the Piraeus stake, you see also a positive development.

From the €600 million of, €597 million, of negative income that we are presenting, €440 million, give or take, are explained by some extraordinary items. We see that, extraordinary, I mean that within three or four years they won't be there, like the large CoCos costs, like the impact of the liability management transactions that we did in 2011, a special provision for the recent liabilities, the negative income from Greece, that will also disappear, a sell-off trades, and the cost of state guarantees, these concepts will not be here within three or four years, so it is important to keep this in mind.

As I was commenting a couple of minutes ago, the net interest income, before CoCos, as you see here is going up 0.1% and in Portugal, what you see is that it's actually going up 2.4%.

The fees and commissions, relatively stable. You see here a reduction in terms of the fees and commissions linked to loans and guarantees due to lower production of new loans, which is normal due to the development now in the market. You see a good development in terms of market related fees and commissions because of our growth in asset management products and our securities business.

The net trading income, you see our modest recurrent net income of around $40 million in three quarters is relatively stable. So you see here still an increase of around $4 million, which is more or less 10% and you have here some elements that are not totally recurrent as it's normally, as it is normal in trade income. So, we had, as I was commenting, the impact of the repurchase of our own debt last year, we had also the positive gains that we had last year from Portuguese public debt and we had this year the positive development of Piraeus Bank warrant that up until September were in our trading portfolio and it won't have to be. So, this was raised in the account of September and some sale of credit as we did clearly this year we

sold some large credit in our credit management process. We just for these, clearly, a typical items you see here a positive development of our recurrent trading gains.
In terms of costs, you see here already a 15% reduction in terms of recurrent costs in Portugal. A 3.3% reduction in our international operation which translates into a 10.7% reduction in consolidated cost. And you see this healthy development in all the different types of cost liabilities, staff cost, the administrative cost, and depreciation. The impairments are evolving as planned, so they are going down. Our cost of risk was 144 basis points in the nine months up until September of last year, is reduced to 37 basis points for the September of this year. So we maintained our target of around 140 basis points for the end of this year, in line with our mid-term projection of getting to a level around 100 basis points by 2015.
This is occurring together with a sharp reduction, as Nuno Amado was commenting, in the net new entries of NPLs in Portugal which decreased by around 60%, which made our NPL ratio basically remain stable and which allowed to have this cost of risks together with an increase in the coverage ratio both of the NPL ratio and of the credit at risk ratio. So all-in-all, I will say a healthy development to these concepts also.
As you see, our loans are very well collateralized. So, 93% of the loan portfolio is collateralized, and mortgage represents 44% of the total loan portfolio within all the liquidity level. An average LTV of 67%. So this is all-in-all, our group development. I will pass here to Mr. Rui Coimbra, our investor relations.

Rui Coimbra

Okay, so for Portugal. It was mentioned already the increase of 5% in the [audio gap], if we compare, versus June numbers, there was a decrease on both, although exactly on the same amounts of in terms of commercial gap we [audio gap]. Even with this decrease, in credit to companies, in Portugal what we are gaining is an important position in terms of market share in new production. So we are around 20% now, which is even above the market share that we have on the stock, which means that we are gaining here market share.
In terms of net income in Portugal. This situation is coming from both, the effect on the net interest income, completely from the Cocos and as well on the trading side, that it was already, explained, is mainly from the debt, from the debt repurchase last year. When we look to net interest income, quarter-on-quarter, that only has, in all the quarters, has cost of the CoCos in sight, so they are completely comparable, we see that with the exception of the first quarter that we mentioned at that time that had an important non-recurrent part, what we see here is a positive trend already quarter-on-quarter. In particular for the last one, so the third quarter compared to the second, and the gain of almost €30 million can be splitted in two parts. The one that we are promising every quarter here, which is a decrease on the cost of deposits, and actually this quarter again we decreased 20 basis points or we improved the spread on 20 basis points on the time deposit. And this should continue, this trend, and the other two effects, one is related to, unfortunately, the lower volume that we have, so this volume effect is creating a downward pressure on the net interest income that [audio gap] like not to have is negative [audio gap]. But on the other hand, we had an effect that was more recoveries, more collection this quarter, compared to the previous one. So, we can say that this number now is the recurrent, but we should not expect any increase of $30 million every quarter from now on because these 20 really represents lower collections on the second quarter.
As it was mentioned for the time deposits, the full portfolio again moved from 2.7% to 2.5%. So, another 20 basis points [audio gap]. In terms of credit spread they are relatively stable. If we move to commissions now, it was referred already – the decrease on total commissions of around 4% that is mainly coming from the commissions on loans and guarantees.

Operating costs adjusted from the extra item so, in a comparable base, it is almost 15% decrease and if we annualize the cause of the first nine months, we yield to something like 740, which is clearly below the guidance that we gave one-year ago of having operating cost in Portugal below 800, so we are definitely there already and – but when we analyze this and we compare with our peers, we are already comparing very well with [audio gap]. Moving to credit quality in Portugal. What we see is a NPL ratio of 13.9, which is the same as in June, but with the coverage that is higher. For credit at risk, 14.1 compared to 14.3 in June, so a decrease. What we saw obviously, related to the less new entries in NPL, together with some write-offs, of course, made the stock of NPLs to [audio gap] and the cost of risk is at 157 and so it should be around this type of numbers for the full year. Foreclosed assets, it is rather stable actually even €20 million less on the net value and with an increasing number on the number of properties sold and on the value of [audio gap]. Moving to the international operations. The impact of the numbers is, as mentioned already, 128 contribution for the consolidated P&L, which is an increase of 13.5%. And starting with Poland, an important increase in volumes, both in deposits and loans. Net income increased mainly due to the fact – of the increase on the banking income. Let's go in more detail with this. Starting with net interest income, that is rather stable, although it is an effort to compensate the decrease of markets rate, that were important. The reference rate for three months, decreased from 5 to 3.2 and this obviously affect very much the numbers, but it was obviously compensated with the new mix on deposits, much more demand accounts than time deposits. And, in a way, a new mix as well on the loan side, increasing the weight of the non-mortgage loans. With this, we managed to compensate the decrease of the market rates and at the end to have rather stable net interest income. Although we see the trend quarter-on-quarter, that is very good.

In terms of fees and commission the increase of almost 7% coming from, mainly, from banking fees and commission and the decrease of operating cost of around 2%, both admin and staff costs. Credit quality, NPLs decreased, the coverage increased, and rather stable cost of risk of around 55 basis points. Moving to Mozambique now, an important increase in volumes. Net income increased 2% mainly from an increase of banking income. If we go in more detail, net interest income, there was a decrease here again from the fact that the interest rate decreased on the country, which made the interest on bonds to dramatically decrease from 10% to 5%, which is a negative effect here. The interest on credit, as well we saw, decreased because of the markets rate. We managed to, more or less, compensate with decreasing the interest rates on deposits, but, of course, by the volume effect that helped to stabilize this. What we see here is that, although year-on-year a decrease, quarter-on-quarter we are, we are recovering that position. In terms of fees, an important increase of 24% mainly from cards, and the – what explains the increase on the operating costs, is obviously still the expansion plan. It was the three branches – three branches more. On their credit quality, a decrease on NPLs, an increase on coverage made possible to have a lower cost of risk. For Angola, the same type of numbers, the same type of ideas, so an increase on volumes both in deposits and loans. Net income, an important increase of 16%, again coming from banking income and again more on commissions than on the net interest income, again for the same reason. Stable margins here coming from a positive effect from the volumes but the negative effect from the market rates that affect very much the bonds and especially the yield on the public debt. In terms of fees, the increase of 34% coming mainly from cards and transfers. Operating costs 3% increase, which is much less compared to the increase on the number of branches and FTE's. The same characteristics for Angola as well in terms of credit quality, NPLs to decrease, coverage to increase and cost of risk to decrease. So when we, as a conclusion for all the international side, we see that the trend of the quarter or the main characteristics it was an increase in volumes that managed to compensate the decrease of the markets rate and credit quality, the same trend for everywhere.

If we move to last page, here we can compare our typical KPIs with the ones that we present first on the [audio gap] of last year and then with the updated version after the DG Comp.

Miguel Bragança

Basically, what you see here is that we are well on track of our key performance indicators. The Core Tier 1, according to the Bank of Portugal, is clearly above our threshold. In terms of loan to deposits we are well ahead of schedule, in terms of reaching the 110 by 2015. In terms of operating costs, we are also well on target. The cost to income, we are in line with expected, however, we still have our challenges here, because we want to reach a cost to income of 55% by 2015. And the cost of risk is decreasing and we still maintain our target of 100 basis points by 2015 and our ROE will, of course, increase if we are able to develop our top line, the cost to income and the cost of risk getting to a level around 100 basis points, we'll get to an ROE of around 10% by 2015. We are basically on track to reach the objectives that we presented to the market.

Nuno Amado

Basically I agree what Miguel mentioned. We start to see some signs of operational recovery. But I want to mention that this is still a fragile situation, for obvious reasons. But we are positive in terms of the future trend of it. We want to reinforce this fragile signs that we have. I'd like to stress that this is also in the macroeconomic environment that is complex, too complex as you know, but also with the positive signs, because as we all know, we have reached a very balanced balance of payments something that we didn't see for many, many years and we will see, I'm sure, two quarters of positive growth which is something we also didn't see for many years. So, I'll say that in a very complex macro environment but with some positive signs. We have some good points and some pressure points as always. But the issue is that we will pursue the restructuration plan that we have, in order that we could recover the profitability in Portugal through a clear and very transparent process of restructuration and simplification and rationalization of our process and structure, to become more lean and more efficient with a smaller base cost, smaller structure. But still with a distribution branch network that has a presence in the country, a presence with our customers that we think are vital. So, we believe we know what we have to do. But we also know that this will not be a short term race, this is a medium-term race. This is not also a long term, which is not a long term race. I think it's a clearly a medium term race that I think we have to do and we are doing and we are focusing right now in domestic market. That's all. I think we have now questions a Q&A moment.

Q&A

Operator
Thank you. [Operator Instructions] We will now take our first question from Mario Ropero with Fidentiis. Please go ahead.

<Q - Mario Ropero Garcia>: Hello. Good afternoon. And thank you for taking my questions. I have two questions that actually you really talked about, but I wanted to see if you could actually give some more colour in order to understand better. One is about the plus €20 million of net interest income that we saw in Portugal this project coming from recoveries. I just wanted to understand a bit more, in order to see if this a recurring effect that will happen in the future. In other words, I just want to know if the €20 million is a recurrent thing going forward. And also, we saw very little push in charges in this quarter, actually lower than the guidance you have given for the full year. So again, I wanted to know if the credit provision charges for this quarter is something that we can see as recurrent. Thank you.

Miguel Bragança: Okay. Mario, unfortunately the sound was not very good. So I understand basically your main questions were concerning the net interest income developments in Portugal and the guidance for cost of risk and provisions. So in terms of the net interest income in Portugal that we commented on page 28, what I would like to comment is the following: The level of net interest income, I would say, is recurrent. However, I would like just to point here a special point. Typically on the end of the quarters we have more focus in terms of recoveries by the commercial areas and by the network. So, typically, on quarter end we tend to have a better past due loans impact, and a better past due loan development than in the middle of the quarter. But if you look at the full quarter, and what we disclose in our full quarter figures, I would say that the level is recurrent, of course these type of growth is not something that you may expect into the future. Okay, so this is what I would like to comment. And in terms of the cost of risk, in our specific case due to the – our presence in Portugal as a licensed private bank in Portugal our cost of risk is very much macro basis, very much linked to the situation of the country. So based on our reading of the macroeconomic development in Portugal at the moment, we are maintaining our guidance in terms of cost of risk for around 140 basis points this year, going to around 100 basis points in 2015. So the macroeconomic development that we are still seeing are not leading us to revise our guidance. Okay?

<Q - Mario Ropero Garcia>: Okay. Thank you.

Operator

Our next question comes from Ignacio Ulargui with BBVA. Please go ahead.

<Q - Ignacio Ulargui>: Hi. Good afternoon gentlemen. I just have one question which is, what's your thoughts regarding the potential impact from the new savings product that the government is offering, these saving certificates today offering to retail through the postal services that this could have on term deposits. Whether we should see that what kind of an improvement that we have seen in the couple of quarters, maybe affected by this product or do you think that is sort of behalf a [indiscernible] in Portugal?

Miguel Bragança: Thanks. So, up until now we are not seeing any major impacts from this government product. It's still too early stage to make any comment on this. It's difficult to say how far the market is segmented or not. In the past, there have been already - situations in which they were – there have been government products placed by the post office with more attractive conditions than the deposits of the banks, and they appealed to different types of customers. How far the future is correlated to the past, it is difficult to say. So, what I can tell is, there are arguments both sides, I would say, and it's still too early days to make any comment on this, probably next quarter I'll cover a little bit more on this.

We are still in our effort to reduce our funding costs. Of course it makes it more difficult, but it also will depend on what will be the competitor movements vis-a-vis the product. So I think that if the whole industry reacts in a balanced way, we have one situation. If this contaminates the remaining of the industry and suddenly this creates a negative dynamics in terms of increasing the cost of the deposits, this will have another impact. In one month, probably I can give you a little bit more colour in this situation.

<Q - Ignacio Ulargui>: Okay. Thanks very much.

Operator

Our next question comes from Antonio Ramirez with KBW. Please go ahead.

<Q - Antonio Ramirez>: Hello. Good afternoon. A couple of questions from me. The first one is regarding the accounting impact of the trade gains with Piraeus. So my calculation you will have to book around €95 million profit in the fourth quarter. Part of that has already been recognized in the mark-to-market of the AFS book for capital purposes, but it will show in the P&L, I'm assuming this $95 million. So, my question is, are you planning to offset this one off as you did this quarter with some sort of general provision that then you can use to cover the restructuring cost or other asset impairments. So that would be my first question. My second question is regarding ECB funding, because that has been increasing over the last two quarters and when we project loans and deposits, it looks like you can further reduce the commercial funding gap and cover mixture maturities, but it doesn't look like you have much room to reduce ECB funding. So, I was wondering, I know that in your restructuring plans you have a quite significant reduction in ECB funding for the medium term. So, I was wondering what the strategy is in the medium term that require to reduce the fixed income portfolio, what are the alternatives to cut ECB funding towards the levels you are targeting? Thank you.

Miguel Bragança: Okay. In terms of the accounting impact of Piraeus, the Piraeus transaction settled yesterday. So it's everything very recent and the trade was last week. So, up until the year-end, we still have more or less two months. So we have taken – and of course the gain will appear in terms of the top line. We have taken no decision yet on whether, I mean we will try to use this extraordinary gain to create any provision or not. This is something that we will discuss because everything is very, very recent, it was something that – I mean there was a market opportunity and we used very quickly this market opportunity, so we will take the decision in the next couple of weeks. In terms of the ECB funding, the slight increase that we have in this quarter was mostly explained by typical liquidity management issues on the ordinary cost of business. So, at the end of the quarter we had liquidity instead of investing at the ECB, because as you know this is – the ECB – if you do it on a day-by-day basis, you earn a zero percent interest rate. We made money markets to a bank, so if it were not that I mean it would have been very, very stable. So the increase that we had in the size of our balance sheet, I would say, when you compare with the previous quarter is not relevant. In terms of – and if you see – if you take a look at our balance sheet, what you see that it is compensated in a larger asset position in terms of money market increase. So it's a non-issue. In terms of the ECB funding, we don't' have, I would say, any type of firm commitment in terms of reducing the ECB funding, and we are not seeing any type of pressure to reduce the ECB funding. What we are saying is that as the market opens and so far as the market opens and we can start issuing at reasonable costs, what I mean reasonable costs is costs more tied to the Euribor, typical wholesale funding instruments and money market instruments, we will use these instruments to pay the ECB. Of course and it's – because it's much more normal, so it's – but it's not normal also to pay these instruments at the rate that is much higher than the ECB, what we would expect, is that the rate would somehow converge to a right closer to ECB or to the Euribor. As the market opens, what will happen is that we will substitute ECB by the more traditional short-term wholesale funding instruments, which we think is perfectly manageable due to our balance sheet. So, that is more or less what we have in our plan. If the market takes a little bit more time to open, what will happen is that our position in the ECB will take a little bit more time to reduce, but the position that we are seeing from the regulatory authorities is that they – they understand this. So because what ECB is doing is to compensate partially some inefficiencies and some fragmentations of the market that are occurring because what would be normal is that the market would be, would be working. Okay?

<Q - Antonio Ramirez>: Okay. Thank you.

Operator

Our next question comes from Carlos Peixoto with BPI. Please go ahead.

<Q - Carlos Peixoto>: Hello. Good afternoon. I wanted to pose basically three questions. First of all just still picking up a bit on Mario's question regarding NII and the impact from loans recoveries in the quarter, I just wanted to make sure, we're talking about, the €20 million Euros that you referred to in slide 28, is basically the interest related to - with loans that were recovered and those interests refer to the period of the fourth quarter, although meaning what I'm trying to assess here is whether there were some repay – payment of interests that were also overdue and that were all concentrated in this quarter or whether this was just the normal interest related with one quarter on these loans and therefore sustainable going forward? Second question will be on the stock of – what's the current stock for closed assets and the coverage on those assets? And also what are your expectations on the evolution of further provisions, meaning, we this quarter saw €80 million – we have €80 million associated with the specific items and the generic – the provision for generic purposes that you mentioned in the release, but then we will also have an underlying provisioning effort of €60 million in the quarter. Is this something that we should assume is stable going forward or as with the approach what maybe the recurrent levels for their provisions or should we expect here some decline going forward? Thank you very much.

Miguel Bragança: Okay. Just in terms of the NII, [inaudible] what you see here in terms of these past due loans effect is €20 million is a difference between Q2 and Q3. And what is much more that in Q2 there were some past due loans which interests had to be reverted because the loans became past due and the interest was not recuperated. Then a special gain in Q3. So what you say that Q3 went relatively well, because we did not have as many loans going into past due. And when you have a lot of loans going into past due, and when the valuation of the guarantee is not enough to pay the interest what you have is that you revert the interest. So this €20 million difference is more, most of it, most of it is – was a reversion of interest in Q3, in Q2, and not as much an extra ordinary in Q3. Okay. So, I would say that, in Q3 we have very good development in terms of NPLs. And the – and we almost have no reversions in terms of interest rates in Q3, I'm sorry, in terms of interest income in Q3. So, in so far as the development of NPL stays as it's now, this level is sustainable. Of course we will have some volatility, this is in line where there is always a little bit of volatility contrary to the remaining of the net interest income, because the reversion of interest rates linked to NPL has always a little bit of volatility when you compare with the remaining of the net interest income. Okay. In terms of foreclosed assets [audio gap]. What you see here is that our foreclosed assets are relatively constant in page 33 with a coverage of around 22.4%. This coverage does not include the €80 million in case we allocate the €80 million exactly to the foreclosed assets portfolio, in case we would include it, the ratio would go to 25%, which is already a quite high ratio.

I would say that we are doing, as you know, we, from the large Portuguese banks that have a large foreclosed assets portfolio, large I would say, a reasonable portfolio, this is a very good coverage ratio. So you have some banks that have a much smaller portfolio that have a higher ratio, but when you compare with the comparables, this is already a very good coverage ratio. The reason why we are allocating these €80 million to or a part of this €80 million to assets, or we will in principle allocate the part of this €80 million to assets is because we already have a lot of inspections to our credit portfolio. We had several I mean four inspections already in detail to our credit portfolio by the Bank of Portugal, by the Troika, by everybody. But in terms of foreclosed assets, now with the balance sheet assessment, this will be the first time where they will be analyzed in detail. And because we had these extraordinary gain, we thought it would be prudent to allocate a part of this €80 million to this issue. But we don't have any special reason to think that this is a special area of concern. It's just I mean, just in case.

Operator

We now move to Francisco Marques. Please go ahead.

<Q>: Good afternoon, ladies and gentleman, Mr. Nuno Amado in particular. I have a couple of questions to ask. When you refer on page 29 of presentations, credit portfolio spreads in mortgage, this is a current problem not only for BCP but for everybody else. One spot one six, the spread in relation to what, against the Euribor which doesn't work or to the cost average – weighted average cost of deposits. Can you enlighten me on that please? Also, and my other question, I mean, even today Bloomberg and of course LIBOR was manipulated and also Euribor and here you'll see all these banks, it's on top of [indiscernible], even putting out of negotiations. Now everybody knows that Euribor in fact doesn't work. So I suspect that we use some sort of different way to calculate. This is a drag on perhaps and all of were effected in a more less way, because this is an unprofitable business obviously and [indiscernible] to know what is the average maturity of these mortgages because they have to finish because clearly we're on business. Thank you.
<A>: Just a moment. We're trying to – the connection was very poor...
<Q>: No, the problem was with sound, myself.
<A>: I don't know, I'm trying, we're trying here to make...
<Q>: Did you understand my question?
<A>: Do understand, just one minute.
<Q>: Hello.
<A>: Just a moment...because we were trying to figure out what you asked. It is not easy, because as I mentioned communication was very...
<Q>: Yeah, I know I had problem to listen myself in the beginning I thought that will be better.
<A>: No problem.
<Q>: But I can speak louder, I don't know if you heard my question.
<A>: No. Now we understand one question that what is the
<Q>: The credit for portfolio spread as you mentioned page 29, 1.16% to mortgage – in relating to mortgage. That is the spread against what – against the average cost of deposits or against Euribor doesn't work.
<A>: Against Euribor, against Euribor.
<Q>: And then my question, what is the average maturity of these loans, because the problem as per the Bloomberg today and it's talking top here, there are talks going on because Euribor was manipulated by all these major banks, it's clear that no bank as I know and we're talking Euribor what, three months or six months? And it doesn't work. I don't that any bank that lends money at these rates to another. And so, this is the problem that affects all the banks, some more some less. And this is obviously non business side with – a non business, maybe to be corrected, one that's probe of European union ends, but it's clearly a problem that affects all banks and how what is the average I mean when we'll get rid of these – think we will get rid of this probably because the non-business end, I believe in now a days.
Nuno Amado: Our mortgage book is partially a reference to the Euribor, a six months Euribor and partially to a three months Euribor. And basically it has remaining maturities of about 15 years. Basically, we see a decreasing on this portfolio of about €1 billion Euros per year, that's what we see the decrease, the net decrease of the portfolio, on a very consistent basis – on the last 8 to 10 quarters in a row. And in terms of the deposits, we are making also a convergence with Euribor with a negative cost, but I think we are in plan, with our plan. As you see, we expect in two years time, in our plan, to have a negative spread, that is Euribor at cost – Euribor plus, this level of spread that is in the page 29, and if you see we are quarter-on-quarter reducing between 10 and 20 basis points on our cost, there are obviously a market pressure on these, there are also a lot of pressures, but we are trying to converge with our objective.
<Q>: Can you just clarify one thing Mr. Amado, please. What is the – if you can say, I know the commission is tied to this, but what is the total impact of this mortgage business, this non-

business in the total earnings of the bank, if you can tell us, and what would have to happen to Euribor in order for this business to stop being a non-business and start making some money? Thank you.

<A>: I think the key issue here - **It's Miguel Bragança** - I think the key issue here is not what will need to happen to the Euribor for this to be profitable. The key problem that happened in the Portuguese market is that due to the fragmentation, due to the fragmentation that occurs in Europe and due to the sovereign risk issue, is the deposit costs in Portugal that somehow was contaminated by the sovereign risk crisis – by the sovereign risk crisis and the deposit cost contrary to what happened in Central Europe, decoupled from the Euribor. So what we think will need to happen is that with the stabilization of the country that we expect to occur in the next couple of years, the deposit costs in Portugal will have to converge to a level more aligned with what happened in Portugal and, in this situation, in this situation, the mortgage portfolio is clearly a healthy business and is clearly sustainable. So the way out here is not through the increase in the Euribor, it's through the convergence of the third deposits rate to what's normal in Europe.

<Q>: Okay. I don't know if you allow me, one more which is connected to this. You understand perfectly that in most of Northern Europe that the interest rate some more like fixed, and not so depending on the Euribor. So this is like smooth Southern Europe banks, and also this legislation which have been passed or trying to be passed in order for that who is going to assume the risk in case of what clearly favours the image which is in my point of view a long one of some of the Northern Europe banks because it gives the idea that Northern European banks are so stronger than the Southern ones which I personally don't think is true, but I think this legislation being passed, one has to evaluate the risk for the country, risk for the bank, et cetera. I think, it is the wrong and also the ability of any European citizen of opening an account anywhere in the European Union. This also tends to attract, a lot of people think that is safer and we certainly do know that some of the banks are presented this, that people think that are safer, are certainly not and that this is – I think, this is – I don't know what you think about or if you can comment about. Thank you very much, Mr. Amado.

Nuno Amado>: Okay. Thank you very much for your comment. I understand your point. We will move forward and I will make just two or three final comments.

<Q>: Thank you very much.

Nuno Amado: Loan to deposit ratio, sorry, I'll move forward on the question. Loan to deposit – the loan to value ratio is 68% in our mortgage book, about that. We have some problems that are not here, also related with the business models such as insurance, et cetera. So our presentation it was not based on a segmented, product segmentation, but much more on a line-by-line. So what I say, just finalizing the question or the point on the deposit side as Miguel mentioned, Miguel Bragança mentioned, we are planning our plan to be much more aligned with average – European average in two to three years time, but as you can see there in our graph still clearly above the average of the European area. So I think, it should be achievable in a normalized Europe. Okay?

<Q>: Thank you very much.

Operator

We will now move to Benjie Creelan Sandford with Macquarie. Please go ahead, sir.

<Q - Benjie Sandford>: Yes, good afternoon everyone. Just quick two questions from my side. First of all, could you give us some guidance on your current Basel III fully loaded capital position? And also just what kind of level you personally target as a reasonable level for BCP going forward?

Miguel Bragança: At this point in time, we are not publicly communicating our fully loaded Basel position, but I can tell you that we have a plan that at all times in terms of phasing of the ratio we are comfortably above the minimum of the phase-in ratios that have been approved.

Okay? And we think that we are here in a special situation in which we think that the type of ratio that one has to have is linked to the type of risk and liquidity risk and access to wholesale funding that one also needs to have. We are, for the time being, privileging a situation in which we get to a situation in which our balance sheet is fully funded, between deposit and credits, so that we are much less dependent on wholesale funding issues. So, we think that as long as we are comfortably above the minimum regulatory ratios, we think that this is enough, mainly in a transitional phase in which we're paying the CoCos.

Nuno Amado: Next question.

Operator

We'll now take our question from Jaime Hernández with Nomura. Please go ahead.

<Q - Jaime Hernández>: Hi, good afternoon. Three questions from my side. The first one regarding the cost cutting plans. If you are expecting or we can expect to see some restructuring costs, one-off restructuring costs, ahead in the fourth quarter or even in the first quarter. And if we should consider some type of one-off coming from those cost cut planning? The second one is on the timing of the repayment of CoCos due to the recent capital positive trends that we saw, I don't know if something has changed, so you can have the expected timing on their opinion of CoCos? And the final one is on the DTAs. We saw that in some jurisdictions, the DTA is going to change and some countries already changed. Are you expecting to see something similar in Portugal? Thank you very much.

Miguel Bragança: Okay, in terms of cost cutting plans, so we are progressing in terms of our effort of head count reduction and of the restructuring plan. We are still negotiating with the unions, a salary reduction and dependent on the salary reduction, so we will have more or less people. This process may take some time and what we expect is that the implementation will occur between beginning of next year, depending on how far the restructuring plan is developed. So we will have to make a restructuring provision at the end of the year. Based on the information that we have now, I think that something like we had last year is good projection to have on what we will have this year. Okay. In terms of the timing of the repayment of the CoCo's, right now, our timing for the repayment of the CoCo's is an objective of paying around $400 million next year and we are maintaining the repayment of the CoCo's that we have communicated to the markets when we closed our agreement with DG Comp. Okay? In terms of DTA, you are right, there has been a very interesting development in Italy regarding the DTAs. It is said that this week we'll see a similar development in Spain and probably you are better informed than I am, we think that there is a level playing field. If something like this happens in Italy and happens in Spain, we think it would be unfair if it does not happen in Portugal but of course it does not depend only on ourselves, it will depend on the Portuguese Government, but based on, I mean, a mere issue of fairness, we would expect something or we would think it will be fair to have something similar in Portugal if you have such a situation in Italy and Spain. It will depend a lot on the government and a lot also on the Bank of Portugal also trying to, I mean, to endorse this situation to the government. I would say that right now Portugal people are still in expectancy mode vis-à-vis what will happen in Spain because there has been a lot of communication about this, but the concrete final solution is not out yet, as far as I know.

<Q - Jaime Hernández>: Thank you.

<A>: Okay.

Operator

[Operator Instructions] We will now move to Carlos Peixoto with BPI. Please go ahead.

<Q - Carlos Peixoto>: Hello again. Just two follow-up questions. The first one still on NII and now looking a bit further down the road, what should we expect for next year in terms of NII, what would be the base of growth you would see as reasonable for next year. Second question, is still regarding other provisions. Basically what can we expect in other provisions in

coming quarters. Just to have a bit of a sense there on what could be the recurrence level on that line?
Thank you.

Miguel Bragança: Okay. In terms of NII, what you see here is what we are communicating to the market and this is still our target, is the development of the NII in Portugal in line with what you are seeing here that is, more or less, a reduction of the deposit spreads around 20 basis points per quarter, going to a trend of around 170 basis points, relative to the Euribor by 2015. So, in the next couple of quarters it will be higher, but that it will converge progressively to 170 basis points above the Euribor by 2015. So this is the expectation that we have regarding Portugal. This is the main lever for the NII development that will lead to an increase in terms of the NII margin so that will come back to a level, close to a level that we had in 2012, that's basically what you're expecting, okay. [audio gap] In terms of the other provisions, we think we are adequately covered in terms of the other provisions. We take some comfort from the, I mean from the analysis that we have been subjected to by different entities.