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PRESENTATION

Nuno Amado *- Millennium bcp - Vice-Chairman and CEO*

Good afternoon, ladies and gentlemen. This is Nuno Amado. I am the CEO of BCP. I want to welcome and thank you for attending this conference call Friday at 6 p.m. We have just presented the results. And I would like to start because it's already a little bit late.

So, I will make some -- I will mention the highlights that I think are worthwhile mentioning, and then I will transfer the floor to Miguel Braganca and Rui, which are my colleagues, as you know.

I would like to start referring that the economic environment, as we all know, during this first half of the 2012 has been particularly challenging to the financial European sector, to Portugal and to Greece. Nevertheless, after the issuance of the hybrid instruments subscribed by the State, our bank core tier 1 ratio has been strengthened and we have reached 12.1% in terms of Bank of Portugal criteria and 9.7% in terms of EBA's criteria.

So, the first point that I would like to highlight is that our capital is being strengthened, our solvency is being strengthened and we have reached a level that I can't remember that Millennium bcp had in the last decade.

Additionally, we have continued to perform through deleveraging process. Our commercial gap decreased EUR8 billion, allowing a decrease of loan-to-deposit ratio from 154% in June last year to 138% in June this year. And if we use the ratio to customer funds in the balance sheet, this ratio already reach 121%. I believe that's very important and is also a very good and positive trend. This was possible through the increase of deposits, 5.5% in terms of consolidated terms and 7.3% in Portugal.

Loans to customers decreased at a pace of 5.5% in accordance with the liquidity plan and in accordance with the capital plan.

In terms of profitability, the net income was a loss of EUR540 million. This loss was not desired, but was expected. What do I mean for it? Obviously, nobody wants to have a loss, but this was in accordance with our capitalization process, our plan 2012 - 2017, and is something that was expected by us.

This was due to three things. This was due to the reinforcement of impairment charges. This was due to the provision that we have booked for Greece. And this was due, also, to the squeeze on net interest margin that will be explained later. All three aspects were planned, are part of our recapitalization process and are not easy ones, but are very clear. But, as we are not only in Greece and with this provision, we believe we have isolated, let's put the things like that, the impact of Greece in our capital in the future.

As I mentioned, we are not only in Portugal and in Greece we are also in other three core area business, countries. We want to be seen as a multi-local bank. And in Poland, Mozambique and Angola the business is increasing at the pace of two digits. The results improved and the balance sheets are very balanced and they have adequate capital.

So, we are, in my opinion, much more strong in terms of capital. We have a much better liquidity position with almost EUR8 billion of collateral not used in the ECB. Just to give you an idea, we have a net position of about EUR11 billion in ECB, coming down from EUR15 billion. And we have a much better capital position, a much better liquidity position at a cost as we planned.

These effects will -- Greece, no, but these effects will take place in the first coming quarters according with our plan. But, we feel comfortable with the decisions that are being taken, reinforcing the bank, the ones that we have taken that will impact the net interest margin in the future, and the contribution of the foreign entities.

So, I would say that, in this particular difficult and demanding year, we are in line with capitalization plans, focusing on the capital base, on the balance sheet and on the provisioning. We will deal with the net interest margin, with the cost base in the future but, as you know, you all know, the impacts of the decision that we've taken now will have an effect later in the process.

Now, this is what I think it's critical from my perspective as the CEO of the bank because our recapitalization plan has three phases. This year and next year, the resistance phase, the preparation of -- in terms of capital and liquidity and reinforcement in these areas. '14 and '15 in terms of clear rentability, increasing of profitability and all countries, core countries, adding up to the bottom line on a very strong way. And later on, the actions to sustain the good growth rate. This is our plan as it was presented four months ago to the authorities and we are in accordance with it.

So, I will pass the floor to Miguel Braganca and I'll do it right away.

Miguel Braganca - *Millennium bcp - Vice-Chairman of Executive Committee and Member of Board of Directors*

Okay. Just complementing what was -- the comments right now by Mr. Nuno Amado. So, the three big priorities of the Bank in this first semester were the containment of the Greek risk, were the issues around the core capital and capitalization of the Bank and liquidity in terms of our balance sheet. And as you see here in page 5, the core tier 1 has increased according to the Bank of Portugal rule by 364 basis points. And in terms of liquidity, the commercial gap has improved by almost EUR8 billion and the loan-to-deposits ratio has been reduced in 16 percentage points so that the ratio of credits to deposits and customer securities, customer put -- placed bonds is already at 151%, as commented by Mr. Nuno Amado.

The impact in terms of net income is basically explained by the issues around Greece. We have provided for the Greek situation with a provision of EUR450 million and we think that this provision enable us to look to the future in a quite comfortable way.

Banking income has remained stable. The net income from -- and the operating costs, after correcting for extraordinaries, has also been stable. With the extraordinaries, it has to do with the actuarial gains linked to death subsidies. They actually show above the line figure.

Going a little bit in detail in terms of the capital plan, as you know, we have issued the hybrids. The money -- the securities were settled at the end of June. The subscription for the -- by the Portuguese State have already occurred. And we now have the second side of the program which will be a rights issue to be implemented up until the end of September.

As explained here in page 8, the capitalization plan basically is of the same size as the requirements due to extraordinary and non-recurrent events.

You see in page 9 the different capital ratios. The Bank of Portugal ratio is 12.1%. Core tier 1 improving to around EUR6.7 billion, which is -- I mean, which is a very comfortable cushion for our activity, and the risk-weighted assets going down to EUR55 billion. So that, despite the Greek impairment, despite the extraordinary impacts of the SIP program and of the pension funds, we are presenting quite interesting ratios.

In terms of liquidity, going to page 12, you see the customer funds going up, the balance sheet customer funds going up by 5% and the customer deposits in Portugal going up by 7.3%, so that we remained as the second largest bank in terms of deposits in Portugal; actually, the largest private bank in Portugal in terms of deposits.

In terms of loans, what you see is that we continue to delever, albeit at a slower pace, as you may see. And in this deleveraging effort, as far as it's possible, we tend to delever more in the construction, the real estate sector, or all the value chain around real estate promotion and construction, as you see through the decrease of EUR9.2 billion to EUR7.8 billion.

The result of these two movements in terms of deposits and in terms of credit has been a closing of the commercial gap of around EUR8 billion, as you see here, with accumulated net repayment of medium and long-term debt of around EUR18 billion and a net usage of ECB between EUR11 billion and EUR15 billion. So, quite stable even with a positive movement at the 30th of June with the settlement of the CoCos.

Another way of looking at our liquidity position is to look at our refinancing needs of medium and long-term debt. And looking here in page 15 on our redemption profile, you see that, up until the end of the year we have almost nothing. 2013 only EUR1 billion, which is very little. And 2014 we have only EUR3 billion, which compares very favorable with what we have already achieved here in the first half of 2012. So, we feel quite comfortable in terms of our capability to generate liquidity for the repayment of the long-term debt.

And as you see in the lower part of the slide, you see that, as of today, our funding is basically on either customer deposits or medium and long-term debt. So, you see here that there are 95% of our balance sheet, of our credit, at the end of the day are funded through either customer deposits or medium and long-term debt.

So, I would say a big tick both in terms of capital and in terms of liquidity, which were our two main priorities for the summertime.

Profitability. This is a little bit more complex, as you may expect. For analysis purposes, we have isolated in the second line from the bottom the issues around Greece. And we have all the remaining of the bank in the other lines. You see here that Greece has been responsible for around EUR500 million of negative net income.

And looking at the remaining activity, what do we see? We see here that the banking income is relatively stable with an increase of EUR30 million. But, this is a tail -- a story of two tails, if you want. On one hand we have a decrease in the net interest income and we will go deeper into it later on. On the other hand, we have here a P&L derived from the buybacks of our -- implicit in our liability management exercises. So, these are the two main impacts here.

In terms of the staff cost, you see that this is -- there is an abnormal effect of around EUR61 million, while last year there was an abnormal effect of around EUR34 million. Correcting for these two abnormal effects, we see that the staff costs have been reduced somewhat.

The result of all these movements has been an increase in the operating profit before impairments from EUR442 million to around EUR600 million. But, the impairment and provision charges even for -- I mean Portugal, if you want to get -- basically Portugal, have increased from last year and this is what explains that we have had a net -- an income before income tax of around EUR28 million.

After taxes and non-controlling interest, these EUR28 million go to a level of EUR42 million negative. So basically, I would say close to breakeven except for Greece.

In page 18 you see another way of presenting exactly the movements that I have just commented.

And now, going a little bit deeper into the several lines of the P&L. Margin. What is happening to the margin? The margin in Portugal, and I think Portugal basically explains the movement of the margin, has decreased to EUR200 million and there are basically two effects here. We charged Portugal for around half of this EUR200 million impact.

Half of the impact has been, I would say, the dynamics of the interest rate of the credits which, in Portugal, at least in terms of the mortgages, are mostly linked to the 3-month Euribor and you know what's happen to the 3-month Euribor, whereas the deposits in the retail markets have decoupled totally from Euribor rates. So, the market, the retail market in Portugal, as you know or some of you may know, has nothing to do with the Euribor. Is basically explained by more competitive pressures and by -- it is another market. It is a segment of the market.

The fact that the deposits have decoupled from the 3-month Euribor, which was not usual in the pre-crisis environment, has impacted in terms of the margin around EUR100 million.

The remaining impact of EUR100 million is the impact of previous liability management exercises of previous years that have impacted positively in terms of the P&L in the year they were done, but at the expense, if you want, of future higher costs. At the end of the day, when you prepay a bond and you reissue new bonds at the new market rates or new rates, there will be an impact for the future.

Then, there are two effects that more or less compensate each other and they -- an effect of the past due loans that of course cease to generate interest, and an effect of the repricing of the loans. So, most of these impacts are around EUR30 million. So, this is what explains the dynamics of the margin.

I would say that, in terms of the interest rate evolution, the situation with the Euribor at these levels, our expectation in monthly terms, they will tend to stabilize in the second half of this year, in monthly terms. In terms of the liability management, at least according to our expectations, these impacts will be here for the next 3 semesters, more or less, and then they will start to decrease.

Commissions. In terms of commissions, there is here a very important commission, that is the commission that we pay to the State, linked to the State guarantee, to the State issue of the bonds, which is EUR33 million. And the market-related commission, asset management fees, securities, operations and so on, due to the situation of the market have also increased. But, day-to-day commissions linked to customer business are reasonably constant.

The operating costs went down. In Portugal they even showed here an impact of around 2.6%, as I just commented. So our three priorities as new management, were the containment of the highest risks, namely the issues related to Greece, were capital and were liquidity. We think that with the capitalization process that we will end by the end of September there will be here then another opportunity to re-twist, so to say, the issue around costs.

Credit quality is a reflex of the country. As you know, we are the largest bank in terms of credit in the country. Historically, due to our presence in the SME sector we have -- and in our presence in loan guaranteed by securities, we have shown a higher overdue and doubtful loans rate. This rate now is around 12%, which is high when you compare it with our competitors, but this is not so high when you compare it to comparable ratios in other countries that are facing the same difficulty as Portugal is facing. And this impacted in terms of cost of risk in a charge of 281 basis points, including the charge for Greece.

And as you see here in the next page, you see that our portfolio is quite diversified. The real estate part of companies is only 7%; is only 7%. And the mortgage business, in spite of some decrease in the price of the real estate in Portugal, is still, as you see, mostly below 90% LTV. I would even say mostly below 80% LTV.

In terms of the portfolio of Portugal government debt, it has decreased. It's only now EUR4.7 billion with around two-thirds of it, so around EUR3 billion, maturing in the next two years, so within the timeframe of the Troika.

Debt. The cost of risk that I just commented has impacted very strongly the P&L. And just to show you the numbers, so the impairment charge, the total impairment charge has been around EUR1 billion, which is what explains mostly our result.

The good news is that the mortgage portfolio, which is around half of our asset base, is performing quite well, not least because of the evolution of the Euribor rate, which is the main rate that explains the mortgage installments in Portugal.

And I will pass to our Investor Relations, Rui Coimbra.

Rui Coimbra - *Millennium bcp - Head of IR*

Thank you. Let's move now to some more detail in Portugal and for the international operations.

So, customer funds in Portugal, as mentioned already, we have an increase of 7% in deposits of more than EUR2 billion. And as well, a decrease on loans on almost EUR4 billion, which contribute to the decrease of the commercial gap that we mentioned already.

Now, on net income. After EUR50 million last year, and the main reasons were already explained, including this tax effect last year, this year the result is minus EUR117 million coming mainly from the effect that we will see. Banking income increases, although it has been major of the effects that we mentioned before of the effect on the margin, slightly compensated by gains from the liability management transaction we did this year, one on the first quarter and the second on the second quarter.

The decrease of operating costs. And here again is on a comparable basis, but the decrease was higher than this one. And on the margin, as we discussed before and the reasons were already presented of EUR200 million decrease. And we present before as well the commercial part. So, if we take out the two main effects, this represents EUR200 million. But then, we have the effect of the NPL, which is negative, but the positive effect of the repricing we can see here, that for credit spread increased 93 basis points from second quarter, '11 to second quarter '12. But of course we had, as you see even from the dynamics of the curve, it start to be -- to stabilize a little bit now, even though with a decrease of more than 100 basis points.

Even this effect, together with the others that we mentioned, even though if we take the net interest margin and we take the liability management effect that in some moment will disappear but, anyway, is definitely not recurrent and affects the commercial activity, the net interest margin of 1% moves to 1.3%, even though is less than the 1.5% of last year.

The increase of the credit spread that I mentioned is coming mainly from loans to companies, which from second quarter last year until the second quarter this year increased more than 80 basis points on the total portfolio, which actually is 55% of the total. And consumer, of course there was an increase, but is -- since it represents a small amount in the total portfolio, so doesn't help a lot of increasing the average spread. But, and in mortgage, we know the difficulties of repricing here and it represents 20% of the total. So, which means that is definitely the effort on the Company side that we manage to do. And this, as you see, builds quarter on quarter up to now and this is the reason why credit spread, average credit spread is increasing.

On commissions. In the consolidated terms, it was already referred and, of course, the numbers of Portugal are the ones that are relevant for the consolidated. So, market related commissions year on year, and obvious decrease related to the situation in general. And that -- but even banking commissions, if we take aside the State's guarantee, which is really a one-off that we should put aside when we look to the total commissions, even then it decrease. Although the positive news, I suppose, here that we can present is that there is a good dynamic of the second quarter comparing to the first, which definitely -- well, it probably is too soon for us to find this as a positive trend that should continue quarter on quarter; let's see, but definitely is one piece of good news from these numbers.

Operating costs. We mentioned already the 2.6 is in a recurrent place, so taking into consideration all the -- let's say the four effects, one positive, one negative and one positive/negative each year.

And just a note on the important one this year. This is nothing more than the application of a new decree law from I believe May/June this year which, actually, it affects the way the death allowance was calculated. And so, it turned to be that the agreement with the banking employees goes more towards the general social security as well. And because it is less on the general social security, so we had this gain that is completely one-off, even though accounting-wise the operating costs in Portugal decreased 9.3%.

Miguel Braganca - *Millennium bcp - Vice-Chairman of Executive Committee and Member of Board of Directors*

But -- I'm sorry, just if I -- this is a real gain. So effectively, the amount that has to be paid for debt allowances and the pension fund has to provide for has decreased by virtue of these regulatory changes.

Rui Coimbra - *Millennium bcp - Head of IR*

Now, on credit quality. The overdue loans more than 90 days moved from 3.8 last year to 6.5. This is -- as it was mentioned already, this is much more on companies than individuals, especially because the mortgage is really relevant on the total portfolio. And this -- up to now it goes well. Our customers, they are paying the mortgage. And what we feel is more difficulties on the companies side and, in particular, on the SME segment.

We -- the total amount is more or less EUR3.4 billion, EUR3.5 billion, which is EUR2.8 billion in companies and EUR0.6 billion individuals, which shows that the economic recession and the economic conditions in Portugal are affecting hugely this segment and being us, the leader of the segment for companies in Portugal, definitely we need to suffer more than the others here.

If we take into consideration not only the past due, but as well the other part of the loan that still is not past due, so this ratio jumps to twice the previous one to 13. Then, we decrease the coverage this year, the six months comparing to the previous six months, in a way, because here, it is not included, the EUR450 million that this kind of provision we did on a consolidated basis. So, it is not for any particular customer in Greece, but is not as well in Portugal, so in a way we allocate and the provision is for portfolios of our Greek subsidiary, but we did it in a consolidated basis and this is why it is not here included in this EUR2.9 billion provisions that we have.

Now on the international side -- Poland, Mozambique and Angola. And each one increased the results and, altogether, is 3.8%. Then, of course, the total result, including the minus EUR52 million of Greece affects, the global number for the international operations.

Let's go in some more detail for Poland now. In Poland the customer funds increased almost 10% and this -- it was a similar increase between on and off balance sheet. And loans to customers, an increase of 7%, mainly in mortgage, but in companies as well. The loan-to-deposits is slightly above 100%, so is self-funded in a way, the operations that we have there.

Net income increased 2%. As we mentioned, is around EUR1 million increase and this is coming from EUR8 million increase on the banking income, mainly net interest income, and rather stable operating costs. So, the reason for a less increase on the net income is, as it is very well know, there is a topic now in Poland for the global sector related to some sector that became -- not problematic, but with some concerns, which is mainly construction. And is not exactly real estate; it is really some construction companies. And so, there was an increase in provisions related to this sector that in a way made the net income not to increase as much as we would like, although better than expected because, in a way, we do not have these type of exposures that other banks in Poland have.

As I mentioned, it is EUR8 million in net interest income. This is a combination of a volume effect but, as well, a better spread on the deposits, since on the loan side is rather stable. So, net interest margin now is at 2.5%, an increase from the previous quarter.

In commissions, this decrease of around EUR2 million is not on the banking commissions that even -- they increase slightly, so it is on the market-related commissions. Then, there was some small gains in other incomes; nothing special.

Now, on the cost side, although the number of staff increased 52 and we managed to keep the operating costs stable, although with a different composition between the decrease on the admin costs and an increase of staff costs. The increase of staff costs, we discuss this already on the first quarter, is definitely not this 52 additional employees that are causing this increase of EUR3 million. This is an increase in the social security tax rate and -- by law, from 4.5% to 6.5% that now it will appear. So, in a way the full year will have this effect. Next year we hope, in comparable basis, it will be the same.

On credit quality, it decreased the 90-days ratio. Now is at 2.6%. But, the impairment increasde from -- by the reasons on the construction sector that I mentioned already. And on the other portfolios NPLs are definitely not increasing and the need of provisions as well. So, because of t his decrease on the 90-plus and the increase on provisions, the coverage is now comfortably above 100%.

In Mozambique, here the country's growing and we are opening branches, so it is quite normal to have this dynamic in terms of increase in customer funds and in loans, 28% the first and 14% the second. And the loan to deposits, because of this dynamic, is decreasing. It was 80% last year. It is 70% this year. So, completely self-funded and with excess liquidity to utilize, mainly in public debt there.

Now, net income is from the -- mainly the volume effect. It increased 10%. And it was banking income, 21% in everywhere. So, it was EUR7 million more in the net interest income and EUR4 million in commissions. So, everywhere there is an increase line by line. And the operating costs, of course, increased as well from our expansion plans.

So, as we can see here, there was the number of employees, increasing more than 300, and branches more than 20. The good news is that we can compensate completely this extra course of the expansion plan with income.

Now, moving now to Angola. Here customer funds and deposits, they are the same. All the customer funds and deposits increased 25% and loans 15%, which makes -- and as we can easily see from the numbers here, that the loan to deposit is really low and, again, self-funded. Loan to deposits is 58%.

Net income increased 15%. And through the increase of banking income and, of course, operating costs, given the expansion plan again, from an increase of more than 150 employees and 22 branches.

Now, to conclude. Mr. Nuno Amado mentioned already at the beginning that our capitalization plan that was presented had two -- in a way, two phases of covering the needs that we compute at that time. As well, a buffer of around EUR500 million. And included already this EUR450 million in this way is definitely not a surprise and the fact that the ratios are so high, even doing -- even after this result and this special provisions.

So now, the topic is -- and it is a recurrent topic that appears several times is if the bank has the capacity to repay the CoCos. And our capitalization plan that you can see there, and knowing exactly that 2012 and 2013 had a demanding years, of course, is not because the results, what we are presenting now, that someone should question if the capacity to repay is different from before because it was everything, it was already there.

So, we accept that 2012, '13 has a demanding environment and the concern is not P&L now and is much more on the topic that we saw,in capital and liquidity, and even in providing for all the risks that we can conceive today and forecast today. '14, '15 it will definitely be different and we call this phase of creating all the conditions for a growth in profitability and then to continue on a more sustainable basis.

So, as a conclusion, on the topics capital, balance sheet and provisioning we mentioned already. And I believe probably -- yes.

Miguel Braganca - *Millennium bcp - Vice-Chairman of Executive Committee and Member of Board of Directors*

Just to stress -- I'm sorry. Just to stress that the Board of Directors is continually committed to the capitalization plan. We believe that we will be able to complete the process with the capital increase that is due for September. And we believe, based on our projections, that the plan is a sustainable plan with the possibility of -- or with a clear possibility of repaying the the hybrid instruments.

So, we are here optimistic that we have a plan. What is happening right now in terms of the P&L evolution is evolving exactly according to plan. We are in a turnaround phase, if you want, and we are confident that we will deliver on our plan. And I will end with that and I'll open the session to questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). We will take now our first question from Carlos Peixoto from BPI. Please go ahead.

Carlos Peixoto - *BPI - Analyst*

Hi. Good afternoon. I would like to start by posing some questions on the State CoCos that the bank will be receiving. Namely, my first consideration is on whether -- what will be the application of these funds or will it be used to finance a normal -- the day-to-day activity, or are you considering increasing your exposure to Portuguese debt using these funds?

Also, this quarter there was a decrease of roughly EUR2 billion in risk-weighted assets. What were the drivers for this decline?

Finally, I noticed that deposits have come down close to EUR1 billion in the quarter. Is this mainly explained by seasonal issues or competitive pressure? Thank you.

Hello?

Miguel Braganca - *Millennium bcp - Vice-Chairman of Executive Committee and Member of Board of Directors*

Okay, okay. I will answer this question. This is Miguel Braganca speaking.

So, in terms of our balance sheet, we don't really reason in terms of flow. So, the money is not really a color. It's not the money of the CoCos with -- that has somehow a mark on it that will be applied to something else. So, we have a balance sheet that we manage in an integrated way, that the funds that have been received from the CoCos are a part of our balance sheet and our balance sheet will be managed in a calibrated and equilibrated way.

So, over the short-term what we will do most probably is to prepay some -- the highest cost deposits. And there are some wholesale deposits that have very high prices. So, the first impact of this is to be less dependent on the deposits with the highest pricing. And actually, this answers also your third question, which is why have some deposits decreased. It's exactly some wholesale deposits. A part of them linked to the State, from State entities that have decreased. So, the first impact is obvious.

In terms of our government portfolio, we feel comfortable with our present government portfolio. We take comfort from the fact that it is only EUR4.7 billion and EUR3 billion of it have less than 2 years. We think it's very important that it's a short-term portfolio that falls within the program, or the -- most of it falls within the program of the Troika]. And we think that we have the adequate degree of risk in our balance sheet. So, we have to see the -- our whole risk appetite. We cannot isolate only the government portfolio, only the credit or only -- I mean, we think that our balance sheet is calibrated for the adequate degree of risk do we want to have a conservative balance sheet in this regard going forward.

Having said that, having said that, I mean, here and there small increases in a portfolio -- in a balance sheet that is almost EUR100 billion, I mean, it's something that cannot be excluded. So, we -- it' a part of our business.

I think this answers those three questions. Probably we could get the other question.

Carlos Peixoto - *BPI - Analyst*

Thank you.

Operator

We will take now our next question from Benjie Creelan-Sandford from Macquarie. Please go ahead.

Benjie Creelan-Sandford - *Macquarie Research - Analyst*

Yes. Hi, everyone. It's Benjie at Macquarie here. I just had a few quick questions on Greece. I mean, first of all, just to clarify, what's exactly the EUR450 million provision you've taken this quarter is assigned to? I mean, is that writing down the -- I guess your equity exposure, essentially, to the Greek business?

Secondly, can I just check what the updated intergroup funding position with the Greek business is?

And the other couple of questions on Greece would be the current NPL and coverage ratio in Greece and, finally, the core capital position of that business.

Miguel Braganca - *Millennium bcp - Vice-Chairman of Executive Committee and Member of Board of Directors*

Okay. In terms of Greece, what is the reasoning of this provision? Maybe I start with the intergroup exposure and then we may go a little bit deeper in terms of the provision.

So, in terms of capital, we have a capital of around EUR250 million right now of Greece. And we have -- in terms of intergroup funding, besides the capital, around give or take EUR50 million of unsecured exposure, and EUR1.3 billion of secured exposure. And this exposure is linked to a repo of credits with EUR2 billion of notional value.

So, this is basically the situation that we have right now. So, we have equity of EUR250 billion -- EUR250 million, EUR50 million of -- 50 give or take -- of unsecured, and EUR1.3 billion of secured. And in these secured we are speaking about EUR2 billion of guarantees of credits chosen by us. So, we have chosen a credit portfolio of EUR2 billion and this credit portfolio of EUR2 billion guarantees our intergroup funding.

Why have we provided for this EUR450 million? There are several ways of looking at it. One way of looking at it is to say that we have written off our capital, written off our secured debt and provided a little bit for the unsecured debt so that, I would say, our breakeven would be a loss on the credits that we have chosen of around 40%. This would be our breakeven. So, up to 40% of loss on the good credits chosen by us we will not have a further impact on P&L. So, this gives you an idea of the situation.

Of course, if worse comes to worse, there's an additional upside that we have not commented here. So, if really the situation gets totally dramatic and if the potential devaluation in Greece exceeds the 40%, there's also the possibility to deconsolidate Greece. And if we deconsolidate Greece, I mean, there's an additional positive effect in terms of capital of the deconsolidation of the Greek risk-weighted assets, which are give or take around EUR4.5 billion.

In terms of the core tier 1 of Greece, as of today the core tier 1 is 6 -- is of -- I'm sorry, is of 30th of June. The core tier 1 is 6.6% and we do not intend to send a euro more to Greece. So, if we are asked to capitalize our subsidiary, what we will do is to convert part of our unsecured loan and the part of the money that we have there in capital, maintaining the guarantee of the EUR2 billion. So, we do not expect this to materially impact our economic position.

I hope this answers your -- so, we are -- I mean, we are quite comfortable that the situation in Greece will not harm our capital ratios further. Okay?

Benjie Creelan-Sandford - *Macquarie Research - Analyst*

Okay. That was very clear. Thank you very much.

Operator

(Operator Instructions). We will take now our next question from Juan Pablo Lopez from Espirito Santo. Please go ahead.

Juan Pablo Lopez - *Espirito Santo Investment - Analyst*

Hi. Hi, hello. I have maybe a follow-up.

Hello? Can you hear me?

Operator

Yes, we can hear you.

Juan Pablo Lopez - *Espirito Santo Investment - Analyst*

Can you hear me? Okay. I have a follow -- okay. I have a follow-up question regarding the allocation of the proceeds from the CoCos. I don't know if you could give us more color on this, on what could be the yields that we could expect from this EUR3 billion, roughly.

The question is related to the net interest income. Have we already seen the bottom in terms of net interest income or we could expect a further decrease in terms of net interest income if the cost of the CoCos is above the yields and if the NPLs continues to increase and we would expect interest rates to continue to go down a bit. So, first net interest income bottom and use of the CoCos.

A second question is regarding asset quality in Portugal. We are seeing that NPLs are increasing by more than 20% quarter on quarter. Is there any reason for that? Is there any -- a specific case? I don't know if you could give us more details on this one.

Regarding Greece, I don't know if you answered the -- or I didn't hear the -- maybe I missed the NPL ratio and coverage ratio in the Greek loan book.

And lastly, the third question is more related to capital, again and it's a double question. First, I would like to hear your thoughts regarding the EBA temporary buffer. And second, I would like to -- also to hear your thoughts. In the presentation you are saying that safety buffer is something slightly below EUR500 million. Do you feel comfortable with that safety buffer of -- below EUR500 million? And do you expect that in the next quarter you will be able to generate capital organically? Thank you.

Miguel Braganca - *Millennium bcp - Vice-Chairman of Executive Committee and Member of Board of Directors*

A lot of questions. So, going first to your first question in terms of the yield of the CoCos and the impact of the yield of the CoCos on our net interest margin.

So, what -- the yield of the CoCos is high, as you know. It's -- the first coupons are 8.5% and the average coupon is 9%. And what we will not do is that, because we were somehow imposed the higher yields, to increase our risk appetite in the bank so as to change the profile of the bank and to run higher risks that we don't think are deserved. So, we will not re-risk our balance sheet or increase substantially the risk of the balance sheet because, in order to accommodate a higher cost of the CoCos, we don't think this is a sound management decision, okay? So, I think that things should be looked at separately.

Having said that, we think that, be it through credit, be it through repayment of deposits, we think that on average we will be able to invest the CoCos at around -- or to invest or to repay deposits, high-cost deposits at around 3.5% to 4% yield. So, in marginal terms that is yield spread. So, in marginal terms the impact that we should expect should be something around this, okay?

But linked to this, of course, because of this, we -- and because of the CoCos, we will have further impact in terms of our net interest income. But, I have to say that this impact is an expected impact. It's an impact that we have already presented and discussed it with the Bank of Portugal and with Troika and is implicit in the plan. And implicit in this plan also is our ability to generate capital and to repay the CoCos. And this is linked also to the question around our ability to generate capital. Will we be able to generate capital over the time of the CoCos? We think yes, okay? Very clearly, yes, because they obviously would not have issued CoCos. We would have gone to the government and asked directly for shares, no? So, we think we will be able to generate capital.

Will we be generating capital this year and in the first quarters of next year? Probably not. So, the investment that is now in BCP I would say is an investment with a longer-term risk profile, so it's for a longer-term investment. But, if things turn out right, I mean, the type of upside that is implicit is also different. So, somehow, I mean, over the short-term you will see all of these effects, but longer-term we think we are taking the adequate decisions.

The NPLs of risk, could you comment on it?

Rui Coimbra - *Millennium bcp - Head of IR*

Yes. We have -- so, the 90-days past due is 9% with a 63% coverage. If we move to, again, not only past due but the other part of the loans that is not past due yet, then the 9% move to 16% and the coverage is slightly below 40% .

Miguel Braganca - *Millennium bcp - Vice-Chairman of Executive Committee and Member of Board of Directors*

EBA temporary buffer. Exactly because, I mean, a part of the EBA temporary buffer is linked to the sovereign portfolio. And because, as time goes on, we expect this sovereign portfolio to shorten its maturity, we are thinking that -- I mean, this temporary buffer will be temporary in our case and will be reduced, so to say.

I mean, the NPLs in Portugal. I think there are two issues regarding NPLs in Portugal. I believe you are based in Spain. it's Juan Pablo that has asked the question, no? I believe you are based in Spain.

Juan Pablo Lopez - *Espirito Santo Investment - Analyst*

Yes. Yes I am.

Miguel Braganca - *Millennium bcp - Vice-Chairman of Executive Committee and Member of Board of Directors*

Okay. So, looking at Spanish numbers, so these NPL numbers for BCP should not surprise you very much. I think the issue around BCP maybe is because we are also in a crisis. So, the issue around BCP is more another type of issue, it's why are the NPLs numbers somehow different from the NPL numbers of other banks in Portugal. Because I think our NPL numbers are nothing to write home about, but are reasonable NPL numbers for a country that is in the situation in which Portugal is.

I cannot say exactly where the -- whether the criteria are equal or not. What I can tell you is that, typically, BCP is the largest bank in terms of SMEs in Portugal and, typically, this is more pro cyclical. Over the past, also, BCP has had the business of loans collateralized by securities and, with the situation in the market that we've seen, these loans have become more risky in probably other situations. But the general number, I would say, is perfectly aligned with the great cycle for a country that is being bailed out.

Juan Pablo Lopez - *Espirito Santo Investment - Analyst*

Okay.

Miguel Braganca - *Millennium bcp - Vice-Chairman of Executive Committee and Member of Board of Directors*

In terms of the safety buffer. I mean, we are speaking about the safety buffer. We are speaking about the short-term safety buffer for EBA purposes. So, whether we think it's sufficient, yes, we think it's sufficient for the projections that we've had. So, without -- I mean, we think that we will be able -- this is the safety for the EBA. It's not -- I mean, the -- in terms of the Bank of Portugal ratios, our buffer is much, much higher, as you know. So, we don't even know whether we will have EBA ratio next year. So, we are quite comfortable that having a EUR500 million excess capital on top of the EBA buffer, while we don't even know whether there will be the need to comply with EBA next year, I mean, it's prudent.

Having said that, I mean, we cannot be complacent. I mean, we are not complacent. But, we think it's the needed equilibrium between not diluting too much our shareholders and being conservative. So, it's an equilibrium.

Juan Pablo Lopez - *Espirito Santo Investment - Analyst*

Okay.

Miguel Braganca - *Millennium bcp - Vice-Chairman of Executive Committee and Member of Board of Directors*

I think I've answered your questions.

Operator

(Operator Instructions). We will take now a follow-up question from Carlos Peixoto. Please go ahead, sir.

Carlos Peixoto - *BPI - Analyst*

Hi, again. I was wondering if you could give some details on the specific gains in FX and trading during the second quarter.

Also, could you shed some light on the amount of foreclosed assets held by the bank? I've seen that the major driver for other provisions seem to be provisions on foreclosed real estate assets. So, it would be good to have some visibility on the size of the foreclosed portfolio.

And finally, looking a bit more forward, I was wondering if you could share your thoughts on -- or your expectations on what could be the evolution of NII and cost of risk for the remaining of the year and for 2013? Thank you.

Miguel Braganca - *Millennium bcp - Vice-Chairman of Executive Committee and Member of Board of Directors*

So, starting with the trading gains, so, the main impact is the impact of the liability management operation, so as you may see from the presentation. So, the repurchase of the securities has generated in the first half of 2012 an impact of EUR184 million. So, this is the main impact. On top of it, there were some Portuguese government debt classified in the trading book that have generated EUR28 million. So, these are the biggest impact in terms of the trading gains, at least in Portugal, okay?

In terms of the foreclosed assets, let me just see. The total amount -- the amount that we have received in June, 2012 is around EUR63.2 million. And the total stock of assets is slightly above EUR1 billion.

The evolution of the NII. I mean, this links to the question that I have answered before, from the evolution of NII and cost of risk. First, it's very difficult right now to project the cost of risk in Portugal but, in conservative terms, I would not expect the present cost of risk in Portugal to decrease in the next couple of quarters. So, I do think so, but I'm not particularly bullish, either. And probably you might -- I think our situation is much more linked to situation of the country than to BCP's specific situation. So, I would not say that your guess is as good as mine, but almost. So, I would have to be quite humble here. So, I do think that over the next couple of quarters the type of provisions or the size of the provisions that we will have in Portugal will be aligned with the ones that we have -- we had in this first semester.

In terms of the NII, the NII will become probably worse going further down the year, partly because of the CoCos, partly because of the inertia in the balance sheet because, as you know, the Euribor went down and the time that we have to re-price deposits, I mean, it takes time to re-price deposits, on top of the fact that the deposits are not linked to the Euribor.

So, you can do the math so you know now much mortgages we have. You know the dynamics of the deposits in Portugal. So, our situation, at least in terms of the dynamics, will not be very different form the rest of the market. So, it's easy to develop the model in this regard, but I do not want to specify the exact number, even for compliance purposes. But, you can certainly do the numbers to see it, okay?

Having said that, we do think that with the measures that we will be taking, I mean, and with the capital that we will have, that our plan is self-sustainable over the term of the plan.

Any more questions?

Operator

There are no further questions in the queue.

Miguel Braganca - *Millennium bcp - Vice-Chairman of Executive Committee and Member of Board of Directors*

Okay. A nice weekend for everybody and I would -- and I would excuse ourselves for doing this in a Friday at such a time, but we really wanted to share with you the information as soon as possible because we are commenting all this information with the press also today. Tomorrow, a part of our results will be in the newspapers. And because of this situation, we did not want to delay further commenting this to you. Okay? Thank you very much.

Operator

Thank you very much, ladies and gentlemen. This does conclude today's conference call. Thank you for your participation. You may now disconnect.
