FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day and welcome to the Q3 2011 Millennium BCP earnings conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Antonio Ramalho. Please go ahead, sir.

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

Hello everybody. Antonio Ramalho speaking, the CFO. First of all, good morning to or good afternoon to everyone. I would like to say a few words about the numbers or the figures of this quarter. And also to give you a message about the activity and the main figures of the balance sheet on the profit and loss account.

But first of all, the main point is that we reached a 9.1% Core Tier 1 after several operations that we have done during the last year. As you know, we have increased the capital in EUR1.25 billion in the middle of the year. We have done several liability management operation and also exchange and on result of increase of EUR2.2 billion of capital, we reached and we were the first Portuguese Bank to reach the 9.1% Core Tier I ratio in the end of this quarter, a pro-forma number since the settlement of the operation took place in the 13 of October. But these are really the pro-forma numbers.

The second important point that I would like to stress is that we did continue the process of deleveraging and the commercial gap of the bank was reduced during the last year in 4 billion. So we did arrive with a commercial gap of EUR25 billion and loan-to-deposit ratio of 154%. I remember to everyone that we need to reach in the end of 2014 a figure of 120%. This means that if we continue at a level EUR1 billion per quarter, we will arrive at this number.

As you will see when Mr. Rui Coimbra, the new Investor Relations Manager will explain, we did so with a stable deposit base that was maintained during the quarter and at the same time with reduction in terms of the commercial loans.

So the other important point to stress is that we reached a figure of EUR59.4 million in terms of profit for this first nine months of the year. This means a loss of EUR30 billion, EUR29 billion precisely in this quarter and this was mainly because we have decided to do and we have done a 135 million euros before taxes, 104 after taxes, impairment for 21% of our Greek debt.

So this decision was the main reason to this level of loss of the third quarter and the level of total result of the first nine months of the year.

At the same time, you should see and you will see the good level and the good performance of our international operations where we have other shareholders like Angola, like Mozambique. The two operations mean something like EUR85 million in terms of profits of the first nine months and also the operation in Poland, where we have increased our result in a significant way.

Finally, just to give you the main highlights of the important things that I would like to stress before trying to answer all the questions that you want to put after the explanation of the figures in more detail by Mr. Rui Coimbra, I would like to stress that the level of the core income of the bank has continuously increased in this nine months by 5.8% and I'm putting together the commissions and the net interest margin.

The operating costs were reduced by 5.4% and the impairment charge has increased by 39% in this year, accumulated figures.

Nevertheless, the level of impairment of this quarter is less than last quarter. And I remember that I did explain here in the last conference call that we had the special impairment charges during the second quarter, that's why the impairments now are a little bit less this quarter than the quarter before.

So these are the main figures. Let me summarize in a way -- a good performance in terms of core activity clearly; A level of capital that was the first bank to reach the 9.1% and remember that we came from the worst position in terms of the Portuguese banking system. I remember that we were with 5.6% Core Tier I one year ago. And I think that we are the bank in the world that has increased more the Core Tier I during the bailout situation. And at the same time too much impairment, partly because, in a way, we have done the impairment of 21% of our Greek debt. And this is the reason because the profitability remains so small during this nine months of the year; Good movement and good performance of international operations and of course a tough situation in terms of the Portuguese operation, clearly.

So I think these are the main highlights that I would like to stress. Thank you very much for being with us. We will be here to try to answer all your questions.

And now I will pass to Mr. Rui Coimbra to detail the figures.

Rui Coimbra - *Millennium bcp - Director of IR*

Okay, thank you. After the main highlights, let's move to page 8 on Core Tier I. So a bit more explain what happened from June till September. The increase in Core Tier I is EUR250 million and this is coming from the liability management operation that we did generate EUR405 million and then of course and coming from the negative net income over the quarter that was minus 29, the normal effect of the pension fund and some other results like the FX coming from the appreciation of the zloty on the Polish operation. So this is the reason why you can reconcile now for the increase of EUR250 million. The other important part was the decrease of EUR1 billion in risk-weighted assets that goes along with the deleveraging process that we are doing.

Now these three of our Core Tier I is what is here. For seven years, we were working with kind of numbers around 5% Core Tier I. We moved to 6%, we moved to 8% and now 9.1% where we compare very well with our peers in Portugal.

After that as you know, it appear the EBA by exercise and for Portugal the shortfall is EUR7.8 billion and for the four financial institutions that were stressed, the numbers are known. Of course, our number, it was outdated in the sense that meanwhile we did the liability management transaction as well as the 21% of the impairment in Greece. On top of this actually, we then reduced EUR900 million from Portuguese public debt. So this generates a shortfall given the new conditions of EUR1.75 billion.

Now the new characteristics of stress test, you know very well. Apart of moving from 5% to 9% as the minimum Core Tier 1 after stress, the stress was to the total portfolio of public debt to be mark-to-market. And on top of this some anticipation of some years of Basel III, which recall now that we are under 2.75 or something Basel, is very close to Basel III now.

Our numbers in the shortfall of EUR1.75 billion and coming from the shortfall of [add by] in the sense of some anticipations of Basel III and the initial gap from 8.5% to 9% Core Tier 1 together with the effect of the mark-to-market of the public debt, it was EUR1.3 million. And then, what we have done up till now and the shortfall for the June 2011 of 9%, the EUR1.75 million. And EUR1.75 million, we will continue with our capital plan. All the initiatives that we did and we delivered, it will continue the deleverage. It was mentioned before of EUR1 billion per quarter, sale of non-core assets that -- you know very well that we are starting all the alternatives for at least for two case of Poland and Greece.

The risk-weighted assets optimization and even the portfolio that still are not at the IRB advanced, although in an advanced stage of going there and all the other alternatives that exists nowadays. What we have is a portfolio of initiatives to continue and to deliver and to reduce this gap.

In terms of liquidity, customers funds, as Mr. Ramalho mentioned, it increased 2.5%, but with a stable amount for deposits. Here the Bank continues to be the biggest private bank in terms of deposits. And we have and we believe we have strong space to increase especially turning some of this off balance customer funds or the other balance sheet customer funds into deposits.

The environment now gives the chance to do these. So we believe that our deposits will grow and apart from the growth in the market, which is not huge nowadays. But the big part we think that will come from this shift from off balance to on balance.

On the credit side, we reduce inner lines actually even mortgage. I would like to remind you that there was a securitization of EUR600 million that was -- it was not on our balance sheet and in December entered there. So when we compare September with September, there is a EUR600 million that is not in September 2010 and it is now. So in essence, we've decreased in mortgage, in consumer and companies, of course, inside companies. We sold EUR1 billion of credit. So the decrease on the normal activity is less than what it is here. But it is really EUR3.3 billion on the gross loans as a decrease.

For companies still we are top in the Portuguese market. So what we are doing with the reduction of the commercial gap that was EUR4 billion from September 2010 to September 2011 is, in essence, to use these to repay our medium- and long-term debt. And with this, we managed to more or less to have a stable use of ECB that in essence substitute the short-term financing, the commercial paper and the money market that is close now.

So we use the ECB for this purpose and we are using the decrease of commercial gap to repay the medium- and long-term debt. Loan to deposit, it was mentioned already, the pay scales in a way to achieve the 120% at the end of 2014. Still intangible assets, we have a buffer of 3.5 to be used if necessary.

And on the other hand, a part of the repayment that we did already for next year, we have a much more comfortable situation comparing to some years ago. We have EUR4 billion to repay and out of this EUR1.5 billion is issued with the state guarantee that we think will substitute for an exactly new one. But for the same type, which means that we have to repay EUR2.5 billion.

This is the exercise that we have for next year. Having not only more space available if necessary to issue more state guarantees -- more with state guarantee and on top of this, of course, what we think to cover that EUR2.5 billion is with the normal deleveraging of EUR1 billion per quarter.

P&L -- the results are known, [EUR59 million] (Company corrected after the conference call) for the nine months minus EUR29 million in the quarter. Let's see in more details some of the explanations line-by-line. But it is important to mention that on the trading income we have this effect of the Greek public debt impairment of EUR136 million.

We sold some loans and commercial papers that generate a loss of EUR70 million. So with an average discount of 6% and mark-to-market of public debt, Portuguese public debt, generate a loss of EUR126 million. So this is more than EUR300 million together with the contribution to the banking sector of EUR24 million is actually EUR8 million per quarter and we should expect more or less the same number next year.

Net interest income, an increase of 9.6%. Margin increased 12 basis points, 8 in Portugal and 28 on the international side. So on the international, the 10.7% increase on net interest income is coming mainly from Poland plus 25%, from Angola 32% and from Mozambique 53%. So it's a comfortable increase in net interest income.

In essence, on the quarter, let me give a detail, here we decreased 4% from June till September, and the main reason was the increase of the cost of funding. Actually, we are managing with the re-price on the loan side to more than compensate the deleveraging. So on the interest income, it is growing. Interest expense grew more than the income and the reason is the increase of cost of funding. Of course, this is not exactly a concern for us going forward, given the new rules of Bank of Portugal that in essence put the threshold maximum on the rate of deposits. So it means that if -- first there is no war for deposits, but even if there was a trend of increasing, it has a threshold now. So we assume with this that you should not expect interest expense to grow much more.

Now on the commission side, banking commissions behaved very well both mainly in Portugal and the final minus 1% for total commission is coming completely from the securities operation given the conditions of markets now.

Now, on banking commissions, I would like to mention that is the 4.2% increase is not coming from loans, is mainly guarantees -- increase on guarantees and on the -- that increased 8% and it is on the international side more.

Although, the other commissions, the increase of 4.3%, is both in Portugal and in Poland and it is really a retail commission. So the ones that are here to stay and to continue -- continue to grow.

Core income, the increase comparing to previous years 5.8% and two years ago 17%, this is an increase of EUR260 million. I believe it is a particular good number in spite of the deleveraging and the increase cost of funding.

Trading income, last year we have this number of EUR45 million and now EUR39 million. The three main arguments is [the same], we mentioned already.

But in fact and in particular for the quarter the trading result was very good, was around EUR50 million just for the quarter.

And so mainly the impairment of Greek public debt destroyed a little bit the result that related to Portuguese public debt it was -- before it was in June and the loss is from selling loans was the big part was already there. So for the quarter it was EUR28 million.

So the quarter was particularly good in terms -- mainly in all the lines of the trading income.

Operating costs, it is a very good result of a decrease of 5.4% through all the lines, staff, admin and depreciation, both in Portugal and on the international operations, in spite of the expansion plans in particular for Angola that opened 20 branches from September to September and Mozambique that opened 10. So in spite of the expansion plans in these two countries, we managed to have a decrease at the cost side.

Credit quality, there was an increase on the overdue loans on our normal criteria to 4.3%, although the coverage is still close to 100%.

And on the NPL ratio, that normally we use, which is as you know, considering the 90 plus, the positive part past due and the part is that is not positive past due, includes but the full exposure, coverage. This ratio is 7.6%, with a coverage of 50.1%.

So especially to compare with the banks, especially in Spain or even in other places in Europe, this is the ratio that we should consider. It is a ratio that we always announced that is close to twice the ratio, the previous ratio. It is actually better, it is 7.6% with a coverage more than 50%.

If we include on these numbers all the cases considered at risk, mainly some restructurings, which is, as you know, a new ratio utilized by Bank of Portugal, then the ratio goes to 9.5%.

But when we talk about this ratio, then it makes sense again to consider not only the coverage by provisions but the coverage by real estate and financial guarantees with this related to those loans that are at risk of course. When we consider this, the coverage is higher than 100%.

Our portfolio, as you know, is very well diversified and very well collateralized, starting by having 42% of mortgage and on companies diversified by all sectors.

We have more than 90% of the portfolio collateralized with real estate and other guarantees. And we have more than half of our portfolio in the mortgage with loan-to-values less than 80%.

Given there is no bubble in the Portuguese market, we believe that we are very well collateralized, and the values are being recalculated through the rules of Bank of Portugal. So, they are updated.

Impairment charges, it was mentioned already. Mainly we do not think that we need so many provisions at the mortgage portfolio and the consumer is very well collateralized by impairment and on the size side of companies and they are distributed by the big groups of sectors here.

Going for Portugal now is customer funds 3.5%. Here it seems that mortgage increased but you should consider the EUR600 million on September 2010 this securitization that I mentioned before. So there is a decrease in all lines of the loan side.

On the customer funds, the picture is very close to the one we mentioned for the Group, deposits are stable. Now P&L for Portugal is minus EUR14 million and for the quarter is minus EUR38 million completely influenced by the one-off that we mentioned already.

Net interest income increased 9%, margin increased as well 8 basis points as we mentioned already. The spread on the loan side from September to September increased 31 basis points. But on the deposit side it decreased 79 basis points. So -- and this is what we think that it stopped here. It seems the new rules of Bank of Portugal that I remind you, it penalize capital when the banks pay for deposits more than the corresponding deliver plus 300 basis points. Reprising we are doing in the corporate portfolio, for companies is an increase from September to September for the full portfolio or more than 100 basis points.

Mortgage is more difficult for the new production. We are doing spreads of more than 3%. But it is a big portfolio, increased 7 basis points from September to September. It goes at 1, 2, 3 basis points per quarter going up.

Commissions is what we mentioned, the loan side as I say, it was zero. Guarantees is on the international side. So here the effect of the banking commissions are the ones. This Other that are related to the re-pricing that we are doing, not only on the loan side, but on all the commissions. And that the rule no leakage, and this is making the commissions to increase to 12% in the banking month.

Operating costs, this is -- it became something that I believe you are used now of every quarter, the operating cost to go down and in particular in Portugal. And it is, as you can see on the table on the right side, it is through all the lines. And so, not only the staff, admin, and depreciation but inside admin cost you see that is through all the lines. And it is something to continue, of course.

Credit quality, the main numbers we mentioned for the consolidated, of course, for Portugal the deterioration that is the normal aspect given the economic conditions and what the country is suffering. It increased from 3.1% to 4.4% on the normal way of calculating the ratio and impairment for Portugal for the nine months is 146 basis points. Of course, it has the big part that we did on the second quarter.

International operations, Greece and Romania are the same together and the main increase for the international operations, that is 177% increase, is coming from Poland, Mozambique and Angola 51% up.

It is EUR87 million of the two African countries Angola and Mozambique and EUR45.5 million of Poland, that is EUR85 million, it was mentioned already. Greece minus EUR26 million and Romania minus EUR13 million.

Going forward for Poland, the customer funds increased 8%, deposits grew 10% and loans to customers 15%, but of course it has the FX effect here. Without this the increase on loans would be 4.5%.

Net income EUR85 million, the increase of almost 60%, we mentioned coming from core income increase of almost 15% and operating costs increased 5%.

Margin, net interest margin is stable. There is a competitive environment on the loan side that is specially quarter on quarter made the margin on loans to decrease, but completely compensated by the improvement on the spread of deposits. So net interest margin remained stable.

Commissions increased 3% mainly on the commissions from account service. Operating costs as mentioned increased 5%, and the number of employees, this is a new project that is in cooperation with "Makro cash-and-carry". And so this is increasing business.

Cost to income is a result achieved before target. It is on the quarter 58.4%, and on the year to date already at 60%.

Credit quality, using the same criteria that we use in Portugal, it decreased to 2.78% with a coverage more than 100% and because of this improvement on the credit quality, the impairment charges decreased to 45 basis points.

Mozambique, increase of results of 41% and overdue loans with the same criteria of 1.5% with the loans growing as well. This actually the growth in loans has a particular effect of the appreciation of the metical, the local coin.

The same happened in the customer funds although even this, it grew customer funds in spite of the FX effect.

Net income 45% up mainly coming from the 32% on the banking income. Operating costs increased with the expansion plan and their forecast for the year to come is very good in terms of growth. We expect these numbers to continue and the numbers of the bank to go along the numbers of the country.

Net interest income 52% up and commissions as well 39% up and the operating cost as we mentioned it has to do with the increase and opening of branches.

Angola now increasing with the expansion plan, as well both customer funds and loans overdue 2.7% and the coverage 211%. We are now with 50 branches, so continuing and even accelerating a little bit our expansionary plan there.

Net income increased 41% to almost EUR23 million with an return on equity of almost 21%. Angola as well have very good prospect in terms of growth for the country. And we go again with the country in our numbers.

Both net interest income and commissions increased and operating cost again along with expansion. So as a conclusion and main highlights again -- Core Tier I at 9.1% and liquidity as the second main point with a commercial gap decreasing EUR4 billion at EUR1 billion per quarter mainly based on the loan size and then on the deposits.

Net income with some extras and the main one, the provisioning and our decision of passing through P&L. The 21% of the Greece public debt. Strong results in Poland, Angola and Mozambique.

Core income up, costs down and reinforcement over loan impairment charges by almost 39%, with now provisions at balance sheet with 4.1% of total credit. Thank you.

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

Okay. Thank you very much. Let's expect for the Q&A.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Carlos Peixoto, BPI.

Carlos Peixoto - *BPI - Analyst*

Just a couple of questions. First of all, what was the exact impact from Greece net of taxes? I know that gross it was EUR136 million, but if you could elaborate on the net impact. Secondly, regarding the EUR1.75 billion of capital or the gap towards the 9% required by the EBA under their definition, I was wondering if you could shed us some light on what alternatives would the Bank be considering and what is the impact that the Bank expects from each one of them. And also in this sense whether you could give us some update on the situation on the evaluation of possibilities for the Polish unit. Thank you.

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

In terms of net for the impairment of 21% in Greek debt. So 136 in gross and 104 net. So this was the final impairment that affects the results.

Second point, that is a much more interesting point that is [EUR1.75 billion] (Company corrected after the conference call) shortfall on EBA decisions. So we were quite clear in terms of the strange definition of the EBA definition of shortfall of capital.

And let's be clear [EUR1.75 billion] (Company corrected after the conference call) is too much -- let's say in terms of the Portuguese banks, is the best figure in relation with total assets and in relation with the capital. But nevertheless it is a huge figure.

In our opinion, we have clearly said to the market that we are studying all options. Deleverage is the first one, and this is much more, let's say, a strategical decision for the next four years. So let's say that we can accelerate a little bit more.

The second point is clearly something that was addressed that is the restructuring of the international portfolio and this means that eventually as we have several international banks, we have much more possibilities to see if they are assets that we can study the solution of selling them. We never told the market that we will sell Polish operation, let's be clear. We are not saying this now. But what we are saying is that we are in conditions to see all theinternational and the Polish operation and study if we can get the value and capture the value and benefit from the value that we did build and we did create on the past. And this, of course, creates a different situation in terms of the shortfall that we have.

And the last one is to see all the solutions even an increase of capital using private funds or public funds. Since it was approved two hours ago, the national regulation for the use of EUR12 billion of the public line that can be used for recapitalization of the Portuguese banks.

Let's say that is something that we are studying. When we have some decisions we will tell clearly the market what will be our next steps in terms of the future.

Nevertheless, I would like to stress again that first we were the first one to reach the 9.1%. We are -- let's say if we take the international bank and the big five banks that we have in Portugal, the international full branch, the international bank that is owned by a Spanish bank. We are the more capitalized Portuguese bank with 9.1% core capital after 21% of reduction of capital and profit and loss account in our case in Greek debt.

We are probably one of the banks that have more assets to risk situation to create conditions to benefit in terms of capital. And, of course, we will see other solutions in terms of recapitalization of the institution. And we have a good track record in terms of deleveraging.

So I think that is something. Of course, we are discussing these things through June 2012. And you know that if we are compliant with these rules in June 2012, we will be also complying with the 10%, Troika obligation in the end of 2012. Since 9% in the EBA regulations are much more tough than 10% in the Troika regulations that we have signed before. So the second answer is not so clear as you should like, but nevertheless, it is what we have now in this moment.

And the third question, remember what was the third question? The Polish operation is what our CEO has clearly said on the press conference that we are receiving several interest proposals and everyone that goes to Poland knows the quality of the asset. So I think that there are lots of people that are interested in looking for the Polish operation and we are studying, of course, all the solutions as we have said before.

First of all, we need to be very clear on that, what we ask the market is that what are the solutions that other banks or other institutions want to study with us to Polish operation? And this means that we are open for several and different solutions and we are studying now the different solutions that were already some of them proposed to the bank.

The non-binding process was finished. Now we are in a much more advanced situation since some of the banks, some of the interested have already done due-diligence. There are several teams in Poland, so we are studying all the solutions. When we have a final decision, of course we will give the information to the market.

Carlos Peixoto *- BPI - Analyst*

Okay. Thank you. Just a small follow-up, if I may. From your previous answer, I deducted that more solutions for the international operations could be considered. My question is, would BCP be also willing to consider a possible disposal or a strategic partnership relating with operations in Mozambique? Thank you.

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

We did clearly define last quarter, the strategic movement that Africa is our main priority. I remember that I made clearly the definition of the new Latin America for the south part of Africa. I can stress on that and I would like to underline this expression, is the way we look at Africa, south part of Africa.

So, we are very, very interested and continue our operation in Mozambique. We are very, very interested to continue our operation in Angola. We intend and we are asking license to Namibia and to Sao Tome that is an island, an old Portuguese colony that has lots of oil to whom don't know. You know very well Sao Tome, but there are other participants on this conference that don't know Sao Tome.

And so we are completely keen on this part of Africa. So there are no reasons to think that we will do something different than investing on this part of globe. What I have said already is that we are open to other solutions in the non-core activities. And we are talking about Romania, we are talking about Greece for sure.

So we are much more interested in Mozambique than in Greece for sure. And that's what I said that we are open in terms of restructuration of our position in the international operation is clearly defined to investing in the holding in Africa and see Europe as a non-core for our main activity, okay. So, Carlos, no way of thinking in Mozambique.

Carlos Peixoto - *BPI - Analyst*

Okay, understood. Thank you.

Operator

Antonio Ramirez, KBW.

Antonio Ramirez - *KBW - Analyst*

I have a few questions. Maybe I should go one-by-one. The first question is, can you tell us what was the positive contribution to the trading income from own debt, and split it, how much of that was the accounting revaluation of own debt, how much of that was the actual profit on the buyback of debt you have been doing in the quarter.

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

The liability management operation gave us a profit of EUR98 million. The total amount of recapitalization that we benefit from this liability operation was 503. So this means that 405 were directly to capital and the other part is by profit and loss account of EUR98 million in the liability management operation.

Antonio Ramirez - *KBW - Analyst*

So the total will be around 600 then, is the one you said in the presentation?

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

No, no, no, the total is 500.

Antonio Ramirez - *KBW - Analyst*

Okay.

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

So, [98] (Company corrected after the conference call) more 405, this means 503 in terms of increase of Core Tier 1.

Antonio Ramirez - *KBW - Analyst*

Okay. And then, do you have as well the accounting impact on the re-evaluation?

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

Sorry, Antonio Ramirez, just to tell you, if you ask me what is the amount of the benefit in terms of profit and loss account, let's split the situation and say, [61] (Company corrected after the conference call) was right the swap of the equity to that and [37] (Company corrected after the conference call) came from own debt re-evaluation. Just to be clearly answering your first question.

Antonio Ramirez - *KBW - Analyst*

Okay. And, then the 500 impact that would be coming in October, isn't it?

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

The 403 directly to capital comes on October.

Antonio Ramirez - *KBW - Analyst*

Okay.

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

Do not expect anything in profit and loss account. So when we talk about 9.1% Core Tier 1 is the pro forma with the October operation.

Antonio Ramirez - *KBW - Analyst*

Perfect. Second question is also on the P&L. Shall we expect an anticipated amortization and impairment of the goodwill in Greece? You took an impairment last year and obviously it's quite evident that the goodwill in Greece will have very little value if any. So shall we expect you clean this in at the year end?

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

Well, let me be clear on that too. We will study the operation in Greece, the situation of the operation in Greece and every year we make the definition of the right value of the goodwill. If you are asking me if I think that I'm in completely in conditions to defend a level of 147 of goodwill to Greece today, I am not confident. So I believe that probably we will write-off.

Antonio Ramirez - *KBW - Analyst*

Okay.

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

But I'm saying this in terms of forecast estimation. I'm not -- let me make a joke, I'm not agreeing in advance with my auditor. So do not tell the auditors that I said that, I will discuss and make the right evaluation. But let's be clear, I think that we don't expect any news coming from Greece that will allow us till the end of the year to see a different way our operation in Greece.

Antonio Ramirez - *KBW - Analyst*

Okay. And in terms of the impairment of the Greek debt, you have taken now 21%, but it looks like the new proposal for the private sector participation is 50% and effectively a true mark-to-market of the debt would even broadly require an even deeper haircuts. So again are you planning to take this into the P&L this year?

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

Let me put the things on this way. I know the proposal of the ECOFIN. I do not know the counterproposal of the IIF and I have not agreed till now any solution for Greece.

The only thing that we have done was quite clear. We have said the last quarter that we did not have decided to swap based on PSI1.

Unfortunately, we were right because there are no PSI1 as you know. Nevertheless as everyone has done clearly a 21% impairment at least, and second because the Central Bank of Portugal decided also that 21% should be reduced to the core capital in the end of the quarter, we decided to do immediately the impairment because we think and we feel more comfortable that this goes directly to the profit and loss account and not only to capital without no notice in the profit and loss account. This is the way we do our account to the market.

In this way, this decision is not a decision of swapping to any other operation, even because we don't know what are the real proposals on the table.

Second, we are waiting to see what will be the real proposal that we can sign in the end. And this means that we need to be very careful. Of course, it seems now that we should increase a little bit the level of impairment till the end of the year. But it's a decision that was not taken, even because there are other discussions when we are talking about the country and banks on the country -- in a bailout discussing the conditions and the European conditions when we are discussing the support of other countries. You know that there are some rules that were waived to countries like Portugal, a good example.

Now the investment that we have coming from structural funds from the European Commission allow us to invest at a level of 85% coming from Europe without no support of our budget. And this is, let's say, a waiver of the rule of 50-50 that exist or 75 in priority projects, 75 to 25.

So I'm just giving you several scenarios that can change this main idea that is now the wise idea that you have and I have that is that normally we should increase a little bit impairment in the last quarter.

Antonio Ramirez - *KBW - Analyst*

Okay. And on Poland, you already said that you are exploring, you are discussing with several interested parties. Whatever you decide at the end of day to do in Poland, it is something that you think could be implemented before year end?

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

This is a question that I cannot answer really. I'm not in a condition to answer.

Antonio Ramirez - *KBW - Analyst*

Okay.

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

Of course, we are doing our best in terms of the activity. If you ask me it is possible or not possible to do something before the year end, I'm not sure.

Antonio Ramirez - *KBW - Analyst*

Okay. And then, my final question. You also mentioned that you may consider capital increase as well as the different alternatives to cover the EBA deficit and you may consider tapping the funds that were made available for the Portuguese banking system. Do you have any or in the discussions you have with the regulators, do you have any idea if this potential utilization of funds would be in the form of common equity or would there be a possibility of getting some of this capital support if necessary, let's say, in preferred shares or mandatory convertibles?

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

Well, let me put the things in this way. The only thing that we know is the news of the minister that have decided today. We don't know the exact rules.

The only important thing that was quite stressed by the government were -- two main questions. The first one is that the government of Portugal don't intend to managing banks. They have their own bank, as you know, Caixa Geral de Depositos. It is the biggest one in terms of deposits. It's the second largest in terms of corporate lending as you can see in our information. So they don't intend it, and the Prime Minister of Portugal was quite clear and was his only statement after the Council of Ministries of Europe last Wednesday, was quite clear saying, even if we use the recapitalization, we don't want to managing banks, first statement. The second statement was quite clear on the past was that the government is quite concerned that all the instruments, the products, the financial instruments that can be used should be for a period of five years maximum, and should be considered during the five years Core Tier 1.

These are a political statement and a technical assumption and that's the only thing that we know till now.

Antonio Ramirez - *KBW - Analyst*

Okay. That's very helpful. Thank you very much.

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Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

Okay.

Operator

(Operator Instructions). Prathmesh Dave, Nomura International.

Prathmesh Dave - *Nomura International - Analyst*

Just had a query on the asset quality situation. When do you expect, given the recession outlook in Portugal, a peak in your NPLs? And also in terms of net interest income, as the emphasis is on growing deposits, what sort of pressure from the retail cost of funding would be on NII, given the fact that you would also be focusing on deleveraging? So what sort of impact do you see on both the accounts on profitability for 2012 and 2013? Thank you.

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

Well, I think that the history of the Bank is quite clear to allow us to say that already prepared or we will be by the recession before the other banks. And the reason is that because we have increased the impairments a lot in the past three years, a level of more than EUR3 billion of impairment that we have done and we have also increased or we have seen the increase of these needs of impairment based on the evolution of some recession figures that probably are much bigger than the figures that we expect for the next two years.

Let me explain in a clear way. We have 40% of our portfolio, little bit less than that, 38% in terms of mortgage activity. As you know, unemployment seems -- is the worst situation to increase impairment in the mortgage activity. We did increase unemployment in the last three years from 8% to 12.2% now.

We are expecting that unemployment will increase from 12.3% to 13.5%. Till now the increase of non-performing loans in terms of mortgage comes from 0.7 to 0.9. So we don't expect this will increase a lot, point one. Point two, the part of the portfolio that is state owned, and this represent project finance state owned companies and so on, are now much more supportive in terms of the support of European funds. So we don't expect anything from this 10%, 15% of our portfolio also in terms of assets.

So we are concentrating 40% of our portfolio that are the small and medium company and also real estate. Real estate means 10% of our portfolio, and 30% it is small and medium corporations. So let's say that we have put our main target doing impairments with arrears trying to be very, very careful in terms of the risk that we are implementing and supporting the legacy that we have from the past.

Since we were the only bank to increase so much the impairments in the last two years, let's say and I'm repeating what I've said before, we believe that we will benefit from the beginning of recovery of this total amount of impairment in the next year that will support also the bad momentum of our economical environment.

So if you ask me are you expecting an increase based on the recession for the next year? No, we are not waiting for that. We are not waiting, because we don't believe that unemployment will increase a lot and will destroy value in terms of our mortgage portfolio, first.

Second, we believe that we were able to benefit from lots of impairment that we have done in the last three years in terms of medium and small sized companies and corporates. But we don't expect anything the state-owned companies. They are much more supportive now than they were before.

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So let's say that this is our view about credit side. This means that the level of employment will be, the credit risk will be over 100 basis points.

But not so why that we will destroy too much volume in the next two years. So this means that we can benefit from the increase of our net interest margin at the same time. You asked me the second point that is the net interest margin coming from the, let's say, the stress in terms of the deposit base and the process of deleveraging and what was the momentum in terms of the deposits.

Let's be clear that till now we are able to maintain the level of interest margin. That's true that this quarter is a little bit less than the last quarter. But if you look the accumulated figures, we are one of the banks that are increasing -- I'm thinking, the only bank that is increasing the net interest margin at the level of almost 10%, it's 9 something percentage this first nine months.

In our opinion, we are in conditions even with deleverage to continue this process, not because we are not paying more to deposits, but because we are in condition to benefit from new production and from the new, let's say, the revolving of the credit activity allow us to have an average that is better, because new production is done at a level of 400 basis points. The legacy is 100 basis points and this means that revolving will increase a lot the level of interest margin.

We expect even in terms of our budget and our funding plan to increase something like 3% during the interest margin in 2013. So let's be clear, this is what we expected from the next two years. Of course, I must say, Prathmesh, let's be clear, Portugal is a country in bailout. So when are forecasting this, of course, what we estimate with the situation of the banking industry in Portugal that we are benefiting also through the much higher profits that we are obtaining in the international operations even in the operation in Africa, where the interest margin is much more wide and largest. So it will allow us to benefit in terms of the importance of this part of our activity that is increasing since our domestic activity is decreasing a little bit in terms of importance. Let's be clear. That's okay?

Prathmesh Dave - *Nomura International - Analyst*

Yes, thanks. Thank you.

Operator

Stephane Suchet, Credit Suisse.

Stephane Suchet - *Credit Suisse - Analyst*

Quick question, I just would like to understand what is the rational for the increase in NPL on the construction book from roughly 10% in Q2 to roughly 14.5% at the end of the third quarter? Thank you.

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

If I may, quick question needs to be very well studied before answering.

Stephane Suchet - *Credit Suisse - Analyst*

No problem. Thank you.

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

Okay.

Operator

[Miguel Tolda], Credit Suisse.

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

Stephane, we will check exactly the numbers. The construction is one the areas and real estate is one of the areas where we are doing much more impairments, let's be clear. And the reason is because normally these are the big cases that we studying and the level of the evaluation of the collateral is much more strict nowadays.

And this can explain a little bit figures in roughly figures, roughly numbers. But I think that we should answer you clearly in terms of the figure for the amount of credit. So, we will see that and quickly we will check with you and answer you directly if you don't mind.

Stephane Suchet - *Credit Suisse - Analyst*

Okay, sure. No problem, thank you very much.

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

Okay. There are no more?

Operator

Miguel Tolda, Credit Suisse.

Miguel Tolda - *Credit Suisse - Analyst*

I have a question regarding page 16 of the presentation provided yesterday. It's regarding the refinancing needs of BCP. In page 16, it shows that in next year approximately EUR4 billion need to refinanced. I just have a question regarding this particular amount. My understanding is that out of this EUR4 billion more than EUR3 billion need to be refinanced before February next year. And given the current situation of the capital markets, I just want to understand how BCP intends to refinance these large impending maturities. Also on this note, given the current announcement from the ECB to lower the interest rates, does the strategy of reduction of ECB usage in the medium term, does it still make sense given the current announcements? Thank you.

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

Well, first point, I will try to answer you in the right way and politically correct. And after that I will tell you my personal opinion.

First EUR4 billion figure. But this EUR4 billion as you have said the EUR3 billion are in the first quarter. But it's not really EUR3 billion as our main issue is EUR1.5 billion for one simple reason, EUR1.5 billion is a public guaranteed issue that we can reissue and put in the ECB if we needed.

So it is issue guaranteed by the government. And this is the situation of all the Portuguese banks since we have done all these operation three years ago after the Lehmann crises. So we are talking about Banco Espirito Santo, Caixa Geral de Depositos and ourselves, and each month we have EUR1.5 billion of amortization that we can renew with the new issue.

So we are talking about less EUR1.5 billion this means that we have EUR1.5 billion. Now, as we have said, we have, well each quarter we reduced our needs in EUR1 billion. So, let's say that from this EUR1.5 billion we are talking about EUR500 million. And if I tell you that we have EUR3.5 billion of total amount of eligible assets that I can use, this is not a huge point to us. So I don't see any huge problem to solve.

The only thing that is important is, the markets are closed but we are doing some niche operations and we are selling some assets, we are doing equity swaps. So if you ask me if it is possible to have EUR500 million in terms of medium-term market, it is possible.

And we continue to be on the market trying to use our capacity to funding ourselves and to put our name not only here but also in Asia and other areas of the globe. For instance, we have signed a line to Mozambique, for instance, of EUR75 million last week.

There are small operations, but the total amount of these operations is much more higher than it seems. So we are not working without market, we are working only with, let's say, with niche markets, but this is important also to stress.

So I think that it's quite clear for us to do this EUR4 billion of 2012 are not a huge problem. But at the same time, you make a point and you said to me, okay Antonio and with this movement of the ECB, are you willing to continue to reduce.

Well, in the correct way, yes we are willing to reduce to prove the capacity to deleverage, we have an agreement, we tried to deleverage, so we will continue to deleverage and to reduce our dependence from ECB.

If you ask me, are you completely a group, do you agree completely with this, I must tell you that we were the only bank that since the beginning were clear saying that the money of the ECB should be used when the markets are not open.

And we have always said that we want to have a level of eligible assets that are important, at a level of more than EUR15 billion to prove that we have the quality of assets that allow us to take money from ECBs since the level of the market that we need should be at the right price.

And if we don't have market, we should not, let's say, not use ECB to use other different portfolios that are more expensive than the ECB.

It seems -- and our proposal is quite simple, because we are a country in bailout, does not make sense that we need to work with something like EUR40 billion to EUR50 billion in terms of total amount of ECB that Portuguese banks are using in the last year when we see the Irish banks using EUR170 billion and the Greece banks using more than EUR110 billion.

So it does not make sense this big difference and this creates problems in terms of our own economy and remember that the Portuguese banks are here to funding based on the deposits but also to give money to our companies and to our economy.

That's why we are now understanding that ECB is looking much more in a easy way, the way of using and they are benefiting from this price.

So, this is a trade off. And I would like to say that when everyone will talk about that use of ECB, it will be natural and I am sure that the next six months this will happen for the Italian banks from the Spanish banks and also even to the French banks, we will be the only one country saying this is the moment to continue the process of reducing because if you reduce slowly this process you will benefit in terms of your image in terms of the market. And this, our strategy and that's what we intended to continue to do.

Miguel Tolda - *Credit Suisse - Analyst*

Thank you, very much.

Operator

Carlos Peixoto, BPI.

Carlos Peixoto - *BPI - Analyst*

Just a couple of additional questions. First of all, on the pension funds, if you could give us some light on what was the performance during the third quarter? And also on how are the negotiations with the government towards the possible transfer of these funds to the state by year end advancing, whether we should expect this to happen and what sort of impacts could this have for the bank? Thank you.

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

Well, the performance of the pension fund was minus one. The discussions with the government is something that we don't want to talk even with the analysts, let me be clear, before the end of the situation. As you understand, we can benefit a lot from sending this liability to the government. But at the same time we need to -- and I think that when we are saying that we benefit, it's a benefit for the Portuguese banking, the total Portuguese banking financial system will benefit if this liability does not stay in the portfolio of the banks. But at the same time it's something that the government has announced as an important issue for them. So it should be dealt a very careful way because we are talking about people, we are talking about liabilities, and we are talking about assets, lots of things to discuss. So let's see what will happen till the end of the year.

Carlos Peixoto - *BPI - Analyst*

Okay. Thank you. If I might just another question regarding the composition of asset quality namely the credit at risk ratio, I understand that it includes loans which have been restructured. I was wondering if you could give us the breakdowns between how much of this ratio is composed of restructured loans. And how much of this has indeed the loans which are currently non-performing?

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

Yes, Rui Coimbra will answer.

Rui Coimbra - *Millennium bcp - Director of IR*

Out of that number, restructured loans is about EUR700 million.

Carlos Peixoto - *BPI - Analyst*

Okay, thank you.

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Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

Okay.

Operator

Simon Morgan, Morgan Stanley.

Simon Morgan - *Morgan Stanley - Analyst*

Just a very quick question referencing page 26 of your earnings press release. There are two movements there, one on the deferred tax assets over EUR300 million and a change in reserves and retained earnings of EUR200 million. Can you just elaborate on that decisions?

Rui Coimbra - *Millennium bcp - Director of IR*

Simon, Can you tell me again the page?

Simon Morgan - *Morgan Stanley - Analyst*

Sure, it's page 26 of your earnings press release. It's the last page that gives the balance sheet.

Rui Coimbra - *Millennium bcp - Director of IR*

Yes.

Simon Morgan - *Morgan Stanley - Analyst*

And the question relates to the deferred tax assets caption, which has increased by about EUR300 million. The question is what accounts for those movements. And the second question is down the bottom under the equity caption reserves and retained earnings have moved by about EUR200 million. Could you elaborate on that movement as well?

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

This was the movement that is not a movement of this quarter, it's last quarter. This operation was a Bital Part operation, it's an operation where we have this benefit and was recognized in the second quarter of this year. And it is deferred tax of the total amount of [EUR442 million] that we had to recognize in the second quarter of this year.

Bital Part is company that will be closed and/or will be closed and also can benefit from the selling of the Polish operation if we sell the Polish operation next year. So that's why the operation was recognized in the second quarter when we defined the core activities of the bank and we allow ourselves to think that we are in condition eventually to have capital gain in selling some operations. Okay?

Simon Morgan - *Morgan Stanley - Analyst*

Thank you.

Operator

(Operator Instructions) We have no further questions at this time.

Antonio Ramalho - *Millennium bcp - Board of Directors, Deputy Chairman, CFO*

Okay, so thank you very much. Just the last words since there are no questions. Just to stress what it seems for us more important. And for us very important is -- unless we clearly focus, it's clearly capital. And we did prepare capital plan, we were able to execute this capital plan. And doing process difficult on test movements of the last of this year we are able to increase the capital the core capital from 5.6% to 9.1%.

So, this proves that when we define a plan and we announced the plan, we are in conditions to do it. And that's important points since now we double compliance to 9% in the end of June. We should wait till we define a completely capital plan. We have proved in the past that we are able to increase capital in tough times.

We will be, of course, for sure in conditions to have a clear plan that we can execute in terms of capital for the next nine months. In terms of liquidity, we were able to reduce the commercial gap EUR1 billion per year. This is good, but also good that we are able to do this with a stable deposit based. And this is important issue because this is completely different from the other countries that are in bailout. The Portuguese financial system remains with a highest reputational risk in terms of clients.

And even in sometimes we don't have the best press, we have the best clients and the clients remain very loyal to Portugal and very loyal to the banks.

Remember that we are talking about a churn rate of 3%, 1.6 banks per client a level of more than six products for each client at level of BCP. And this proves that when you work very well in retail, we benefit also very much when you have tough times. Third point, profitability, that's true that we can expect difficult times in profitability in Portuguese industry. So don't expect any fantastic miracles in terms of our profit and loss account, but we benefiting a lot with the right strategy, the strategic equations that we have done. Africa is going very, very well. Also Poland is going very, very well and supporting part of the difficulties time that we have in Greece.

And this allows us to continue to benefit from the international operations. So, we believe that international operation will be supported to a good level of return on equity in the future. After we sold some of the key points that everyone are supposed in this today and they are important to be clearly addressed.

First, level of impairment that we believe that we have done the right impairment movement on the past that we will benefit in terms of recover on the future, point one.

Point two, good movement in terms of the level of the interest margin where we did prove that we are able to increase the interest margin during this process, with a good re-pricing strategy in terms of asset side and a good movement in terms of stable funds based on deposits and based not only in term deposits but also in terms of current deposits.

So capital liquidity and profitable is our main targets for the next three months and after Christmas and after the year we will be here to a new conference call, expecting that we have of course during this period all the time to discuss with you the movement of BCP since we believe that we are nowadays a quite interesting bank since we are listed at the level of 20% of our value or less than 20% of our value and sometimes we are in a very, very risky country. So, we are kind of the investment that's only less people that believe on the future can assume that's something that we also intended to put more information on the market and allow the market a new investor to come and to understand the bank.

And thank you very much for your time. We will be here and me and Rui Coimbra and the team is completely open to discuss all the things with you. Bye.

Operator

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