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PRESENTATION

Operator

Good day, and welcome to the Millennium BCP first quarter 2012 earnings conference call. For your information, today's conference is being recorded. At this time, I would like to turn the conference over to Nuno Amado, Vice Chairman and CEO. Please go ahead.

Nuno Amado *- Banco Comercial Portugues SA - Vice Chairman and CEO*

Good afternoon, everybody. It is a pleasure to be here with you for the first time. First, I would like to welcome you for attending this conference call. As I mentioned before, it's the first time that I'm presenting the Millennium BCP's results and as it was mentioned, I'm the CEO of the Group, but I'm the CEO for two months. So, I understand that you understand that there are some -- probably some figures that I have not in my mind, but we will try to answer the best as we can.

As you know, Portugal is in a financial assistance program. This has implications; this has implications for all the economy and for the financial sector. Financial sector is affected by the program in Portugal and it was not the cause of that program.

Due to the Portuguese situation and the adjustment program, we have right now a very challenging economic environment in Portugal. However, I believe that we are doing our homework properly. We saw during the first quarter, I would say, a slight improvement of the economic situation, but mainly we saw some softening of the risk aversion sentiment to Portugal. This is the good news in my opinion.

We expect that in the next two quarters will be the bottom of the Portuguese adjustment process in terms of economic growth. We have a recession and we are under a recession. I believe in the next quarters we will still have some reduction of the economic activity, but we expect that by the year end this will improve.

Why? Because as I mentioned before, we are doing our homework accordingly with the plan. We are doing it on the three areas; on the budget consolidation, on the restoration of the economy and the implementation of the reforms; and on the financial sector, basically on the budget deficit. It is our best estimation that we will comply with the target that were defined with the troika. I have -- I'm confident that that will occur, which is very good. I believe that some countries will not do it, but we will do it.

On the reforms side, you are -- we are in the critical moment for the reforms. We already implemented some of them and we are implementing additional ones, and this is being done without social unrest and without very strong political issues. There are issues but they are manageable, and I believe that we were doing it very well.

On the financial sector, the revisions -- reviews done by the troika or coordinated by the troika, all three reviews are finalized. Some adjustments were done but no major issue was detected, and the banks are being additionally capitalized either to cover the minimum capital ratios, the adequate capital ratios, or to cover the EBA requirements.

So, I believe we are doing better than estimations, than initial estimations on our financial assistance program. We believe that in the next quarters we will be in a turnaround point, that the political and social situation is pretty stable and we will comply with -- achieve the targets for the budget consolidation and for the external deficit.

Obviously, that we have a clear strategy with a clear focus on the strength of our balance sheet, namely through the increase of the capital ratios and through the deleverage process. As you will see, we have in the last 12 months strongly increased our capital ratios and in the last 12 months, including in the last quarter, we have decreased on a very significative way the leverage and our ratios are now much better and in line with what is planned in the troika program.

But this was done at a cost for obvious reasons, so we have and we will have some difficult quarters. We have a difficult quarter and we have some difficult quarters in front of us. However, in this first three months our consolidated net income was around EUR41 million, more or less half of last year's, and the contribution came, as it was expected, much more from abroad than from Portugal.

So two-thirds of the profit was from international operations, one-third from Portugal. And I must tell you there were some exceptional items also on the quarter, but that's normal, some exceptional positive and some exceptional negatives.

I think to add what I just mentioned, that Portugal is on track -- and the Bank -- on a very difficult environment did a profit, and this profit was mainly originated internationally. I will pass the floor to Miguel Braganca, which is the CFO, and he joined the Bank at the same date as I did in the beginning of March. I will be available for questions later on without any problem.

Miguel Braganca - ***Banco Comercial Portugues SA - CFO***

Okay. Good afternoon, ladies and gentlemen. I will start with the main highlights of the presentation. So as you have access to the presentation, I suggest to start with page 4, where we see the main highlights.

As you see in page 4, the loans -- our deleveraging process has continued with the loans reducing by 5.4% and the customer deposits increasing by almost 9%, which has made it possible to improve the commercial gap in EUR9 billion. And associated to improvement in the commercial gap, the loan to deposit ratio according to the Bank of Portugal is already below 140%, so is at 137.8% level. And the loan to deposit plus retail bonds is already at 123%, which is perfectly aligned, I would say, with international standard. So, on the liquidity front, I would say clearly good news.

In terms of core capital there was a huge effort than last year and we are already at levels of 9.2%, which, if it were not for EBA, would make us totally comfortable and totally compliant, as we may comment to you. As we have the additional EBA and non-recurrent issues, we will have -- as it's already public, we are analyzing further capitalization of the Bank.

Nuno Amado - ***Banco Comercial Portugues SA - Vice Chairman and CEO***

Let me just -- this is Nuno Amado. Let me just make a short comment on this. As Miguel said, we have a -- mainly due to EBA, we have a shortfall of EUR2.5 billion. We plan to be capitalized under the Portuguese mechanisms, and this will be done through -- we are expecting it now yet, because they are on the negotiation process with our government, this will be done through a cash call and a larger amount of CoCos.

We have not yet the geometry of this increase of capital using these two types of instruments. We expect to have something by the next one week, two weeks. But we are, as I mentioned, on the negotiation process, so it is for me difficult to go much more on this comment.

Miguel Braganca - ***Banco Comercial Portugues SA - CFO***

Okay. In terms of the net income, and we see this -- and we will see this in detail. We see the banking income with a slight increase of 2.6%; a high increase in international operations, which, together with a decrease in the local operations, made the net income reduced by around 55%. The costs and the recurrent costs, I would say, broadly stable.

Going a little bit more in detail to the liquidity front, what we see. We see a very significant increase in balance sheet customer funds, which are increasing 6.5%, of which around 8.8% in deposits. And I would highlight especially the customer deposits in Portugal, which have grown by 10%. That makes us as the second largest bank in Portugal in the deposit franchise, which is very, very important as it's a very valid franchise in the present environment as you know.

In terms of the loans, we have pursued our deleveraging policy, which shows now a reduction of 5.4%. And I would highlight that in this reduction of 5.4%, we have been able to reduce the loans to the construction and real estate promotion significantly. Unfortunately, the mortgages have not been able to reduce that far, because, as you know, the mortgage contracts in Portugal are very long-term. That makes us still, together with Caixa Geral de Depositos, the largest bank in terms of market share in Portugal.

The sum of these two effects, as I had just commented on the highlights, has made it possible to consistently reduce the commercial gap, which has been reduced year-on-year on EUR9 billion. And the usage of this reduction of commercial gap has made it possible to repay around EUR6 billion of medium and long-term debt without increasing the recurrence to the ECB. As you know the markets for Portuguese financial institutions are closed, so it is basically through the management of the commercial gap that we have been able to repay the medium and long-term debt and we have been able to do this successfully.

I would also highlight here once again the very consistent decrease in the loan to deposit ratio. So, besides having already gotten to a level of 124% of loan to deposits plus customer bonds, what you see is a very consistent day to day, month to month evolution.

Looking forward, this good evolution of the liquidity and the financial structure has made it possible, as you see in the bottom part of the chart, to go from a 24% reliance on wholesale funding below one year to only around 8% reliance on below one year funding, and customer deposits have increased significantly. So, our funding structure has clearly improved. And also as you take a look here at our maturity profile, you see that a lot has been repaid, as I had just commented, and for the remaining of this year and for the remaining of next year the sums are not relevant.

We have then a relevant sum in 2014, but which is perfectly in line with the deleveraging effort that we are pursuing. So, we are not concerned right now with the refinancing and even the refinancing policy. On top of that, as is shown in the previous graph, we have more than EUR4 billion of eligible assets in Central Bank already net of haircut.

In terms of capital we have been able -- in spite of an increase in risk weighted assets due to downgrades in clients rating due to the economic situation. As we are partially in advanced methods, this has increased our risk weighted assets and in spite of this increase in risk weighted assets, we have been able to broadly maintain our Core Tier I ratio. In December it was 9.26, now it's 9.22. So it's broadly in line, and this was done through all the efforts that we had just commented and through our results also.

In terms of profitability, I will pass now to Mr. Rui Coimbra, our Investor Relations. But at the end of the conversation, I am here available to ask any questions -- to answer any questions.

Rui Coimbra - ***Banco Comercial Portugues SA - Director - IR***

Okay, thank you. So the net income, as already mentioned, is EUR41 million comparing with EUR90 million last year. On banking income the increase was 2.6%, but of course we will go in more detail, but it has an extraordinary effect on the other operating income -- that we will go in detail -- that more than compensated the decrease on net interest income and commissions.

Staff -- and more or less like the number of previous years, there is a reversal of provision with the pension charges last year of an amount of EUR31 million and of course taking out this number, that's of course stable, and this makes the full operating cost to slightly decrease.

Impairment and provisions more or less in line, and we'll go in more detail now explaining the variations. First, coming from a EUR90 million of the first quarter last year there is a decrease on net interest income of EUR84 million. And this is a combination of several effects, but probably the main one is the impact of the liability management, actually two that we did last year in September-October.

That was the conversion of the preference shares that has here an impact of EUR10 million in net interest income, although economically it's exactly the same as before, since this was a cost going directly as a deduction in capital. So, it is neutral in the economic value of the Bank. But the other is the EUR38 million from the exchange that we did.

So this in a way we should multiply by four and consider a decrease on the net interest income for the full year, and then we should really try to understand quarter-by-quarter without this effect. And at the same time -- and we'll see more detailed the combination of higher spreads in credit, but higher negative spreads in deposits. And the volume effect plays an important role in the variation of net interest income.

For the commissions, the decrease of EUR25 million compared to last year; and this is mainly two reasons. One, the state guarantee I remember -- I recall, sorry, that now, today, currently, we have EUR6 billion of state guarantees that we use to increase the pool of assets eligible for ECB purpose and this has a cost of slightly over 1%.

And comparing to previous year, especially first quarter, we didn't have any effect on the commission as a commission cost. So again, this is a decrease of around EUR15 million times four that you should consider in your exercise for the full year.

Apart of this, market-related commissions is the other aspect responsible for the decrease on the commissions. For obvious reasons, markets are not so exciting to make commissions nowadays.

On the other income, which is a combination of results from financial operations and other income, there is a gain that compensates the other two, that I mentioned already, of -- that makes a change here of EUR127 million. Out of this, the main reason apart of a good trading quarter, apart of this, is that EUR96 million is the effect of the repurchase of covered bond that we did during March.

Operating cost is in line with the previous number with the exception of the EUR31 million related to the reversal of provision that we did last year on the first quarter, and EUR19 million of impairment, variation of impairment and the other provision.

The impairment is slightly the same, just an increase of EUR3 million comparing to the first quarter. But other provisions here increased as well, which is the revaluation of other assets, not credits, that made the other provisions to increase.

On the tax, the current tax follows the normal tax rate. But last year -- and I don't know if you remember -- there were a positive effect on the deferred tax coming from the change of the tax rate, and that changed from 26.5 to 29. So, last year we had a positive tax on the first quarter, now we don't have. So the main reason of taxes to increase when we have decreasing results is this one. So out of this, the final result is EUR41 million.

If we go in detail now, still at the Group level, net interest income, the decrease that we mentioned of EUR84 million, it was mainly in Portugal; very stable at the international level.

And here we try to really to explain the EUR83 million of decrease on the net interest income, apart of the effect of the liability management of EUR48 million. Actually, the commercial area, margin and volumes, it was not bad performance actually comparing to the first quarter. So the repricing of credit managed to compensate the increase of the cost of deposits together with the volume effect, although two other important parts affect the commercial side of our net interest income.

The first one was the Euribor effect. In fact, the big jump from the last quarter to -- of last year to the first quarter of this year. Although when we compare the average Euribor of the first quarter of last year and this one, the change is it seems a detail because it is just five basis points, but five basis points times EUR70 billion makes this EUR35 million effect.

So this shows the effect and then the positive effect that will come on our P&L if Euribor starts to go up again. But the effect was huge and it is five basis points, although we believe that there is no reason for Euribor to continue to go down. So we hope we stay here on this effect.

Past due; past due, the effect on the net interest income on the commercial side for the fact that the loans became past due and so interest income become zero, continuing to have the interest cost was in the first quarter and comparing to the first quarter of last year EUR25 million. Then there is other positive effects that are a sum of small parts that makes the 83 negative impact.

On the commission side, it is important here to mention definitely the minus EUR9 million on the market related commissions but the almost stable banking commissions, if we take aside the special effect of the state guarantees of EUR15.4 million. So this more or less affects in Portugal. On the international operations the decrease of EUR4 million was market-related commissions in Poland.

Operating costs, operating costs going more or less stable, as we mentioned. And on the international operations it increased of course related mainly with Angola and Mozambique with the expansion plans that we are doing, and of course the decrease in Portugal as we are already used to see.

Credit quality; credit quality, the NPL ratio as we are use to see in all the countries, meaning the full exposure when it appears on more of 90 days, is now 9.7%. We manage to increase the coverage from 50% to 52%, and this is a result of an increase mainly in companies.

Our portfolio, as you know, a big part is mortgage for 42% with an average LTV of 68%, and so here we have enough space and this is why here we don't need coverage from provisions to be so high. It is for companies 51%. The portfolio that we have is well diversified, although there are sectors that are suffering more than others, and construction is one of them that is increasing a bit more than the others. Although for the full portfolio more than 90% is collateralized.

And just a note on the Portuguese public debt that is a relevant part of our assets, more than EUR4.4 billion for the Portuguese public debt. Although it is important to see that up to two years we have two-thirds of the public debt, and two years is more or less the time of the end of the agreement that we have with troika which in a way is completely safe, let's put it like this. Of course, we believe that it will be safe even after, but as long as an agreement exists this has zero risk.

Now, on the impairment; as I mentioned, is slightly -- is very similar the number of this quarter compared to the previous quarter. Because the denominator is decreasing, the cost of risk increased for 95 basis points. The EUR170 million of provision of this quarter, the big part, 78%, was allocated to companies.

Now, this was for at the Group level. Let's see the numbers now for Portugal. In terms of liquidity, it was already mentioned that the increase of more than 10% for deposits and the decrease of 7.3%, which is more than EUR4 billion in terms of gross loans.

Net income decreased 80% from EUR73 million to EUR15 million now. This is -- of course income is more or less stable. It is exactly what we mentioned already, the decrease of net interest income and decrease of net commission income it was compensated by other -- mainly the EUR96 million of the liability management transaction that we did.

I would like to recall that this liability management is a little bit different from the ones of last year, that we see now a negative impact on the net interest income. This one was a repurchase, which means that if there is something -- is a positive net interest income coming from not paying for the coupon on the covered bond that we were paying before.

Operating costs decreased 1% more or less, as we discussed, the same level in terms of impairment; the other provisions that I mentioned already and then the effect on tax makes the full decrease on the net income.

In more detail on net interest income in Portugal, we need to split this decrease of 1.52 net interest margin from 1.52 to 1.12. If we take the effect out, the effect of the liability management, then margin will be 1.42. And of course even if we take out the effect of the NPLs, then it became more than -- it becomes 1.55, which -- this is just to understand that the normal activity is positive and we managed to compensate the increase or the decrease of the deposit spread.

So you can see there that the credit spread increased 68 basis points from March to March and actually is a 63 increase on the rate to customers, plus the effect of the change of 5 on the Euribor, that you see there, and on the deposit spread is a 96 deterioration on the spread, which is again the rate that -- the increase of the rate that we pay to customers, which is 91 plus the effect on the Euribor.

The 68 basis points that I mentioned on the credit spread is mainly coming from the corporate side. If you see there is on the companies that represent 55% of the total loans to the portfolio, the increase here is 114 basis points. So this times the 55% gives immediately 63 increase for the full portfolio. And there is a slight increase from 1.10 to 1.14 on the spread of the mortgage, which helps the overall spread and consumer as well. But the main responsible for the increase of the average spread in credit is definitely the effort that we are doing on the Companies side.

Commissions, is what we mentioned for the Group. It follows more or less the same trend; stable banking commissions, decrease of EUR5 million on the market related commissions and then the effect of the state guarantee commission.

Operating cost, in Portugal, overall, there is a decrease of 1%. This on the -- is important the decrease at depreciation, almost 14, and this is mainly equipment. And the decrease on staff -- we are decreasing staff. We decreased from March to March 177 employees. And for the increase on the administrative cost, it is mainly VAT and increased prices for utilities and communications.

On the credit quality in Portugal, the big numbers we mentioned already at the Group level, it is from 3.3 to 5.1 when we consider just the overdue loans and 10.7 when we consider the full exposure. The increase from last year to this year is mainly on companies; consumer of course as well as it characterizes an economy under unemployment. But in a way it represents just 5% of the portfolio, so it doesn't affect a lot the big numbers here. And mortgage is from 0.7% to 0.8%. So, still the average Portuguese pays the mortgage and this is important here for this number. Companies is different, is increasing.

The coverage here is again we managed to increase a little bit, is close to almost 50%. And the cost of risk it was 97 basis points.

Moving to international operations, as it was already mentioned, the number is EUR26 million coming from almost EUR17 million, so it is a 56% increase on the net income. It is a result especially from the three main operations; Poland, Mozambique and Angola. The three together increased 8.9%.

And moving now to Poland, in Poland we have an increase on customer funds of 7% and in deposits as well of 7% and loans almost 12%, mainly in companies and mortgage. We are decreasing the share of FX loans. It is now 54%, and the loan to deposits is slightly above 100%.

Net income, it increased to EUR2 million mainly from EUR4 million in income and EUR2 million in costs, with a stable impairment. On the income side, we mentioned already the decrease on the commissions. But it is net interest income that compensates on the operating cost. The increase of EUR2 million will explain this easily.

Now, income side, the net interest margin is stable at 2.4, even the spreads both on credit and deposits are more or less in line with last year. So it is more a volume effect that generates this increase on the net interest income from the net interest margin that is stable.

Commissions decrease EUR4 million, as we mentioned, is mainly from market-related commissions. On the cost side, very stable administrative costs, but an important increase on the staff, which has two effects or due to two effects. But the main one is an increase on the social security tax imposed to the employer from 4.5 to 6.5. So it is an important increase that generates this together with the increase of number of staff, although the first reason definitely explained the most part of this increase.

Credit quality, good news in Poland, decreasing the NPLs from 3% to 2.5% and the coverage, a very comfortable coverage of more than 100%, which managed to help the P&L as well of not having the need of any additional increase in provisions. That was the same as last year.

Moving to Mozambique now, Mozambique, there is an important increase here in volumes. Loan to deposits, I remind you that it is -- it was 87% and now is 72%. So it is self-funded. Poland, as I mentioned before, it is more or less self-funded, slightly above 100% loan to deposit. Mozambique really contributes to the commercial gap, the positive trend of the commercial gap of the Group.

Net income, net income increased EUR2 million, coming from EUR12 million increase on the income on -- everywhere; EUR7 million on net interest income, EUR3 million on commissions, EUR3 million on trading and an increase of EUR6 million on costs, which is completely understandable given the expansion plan that we have. I remind you that -- and we usually use IMF forecasts for our international operations, and, on average, we expect a GDP growth of 7%, which is very comfortable.

As I mentioned, especially on the operating cost, the increase is due to the expansion plan. It is 16 branches more compared to last year and 300 employees more. Net interest margin on the other side has slightly decreased from the previous year, but still at 10%.

Moving to Angola now, again it was an important contribution on the deposit side. Here, like in Mozambique, actually, customer funds on deposit side are the same. So when we see here, this increase is really on EUR200 million more in deposits with more or less a stable on the loan side, which again helped to improve the loan to deposit from 77% to 59% now.

Net income increased EUR2 million, EUR4 million on the income and EUR3 million on the cost, and even we released EUR1 million of provisions compared to the previous year. GDP in Angola is forecast to -- on average the two years, this and the next one, to increase 8% and return on equity of almost 20% here.

Of course, on the operating cost side, which again increased, but again for the same reason; we opened 24 branches or we have more 24 branches than last year and 195 employees. And this is the reason why costs are increasing.

Now as a conclusion and the main highlights again; liquidity after the decrease of the commercial gap of EUR9 billion and to achieve the 137.8% loans to deposit, we just missed in a way EUR8 billion to reach the 120%. So it is less than what we did in the last year, March to March.

And so continuing what we are doing quarter by quarter, and I believe as all the analysts understood this already, liquidity is not a topic now, and the difficulty and the initial difficulty that appear for the Bank and the doubts that appear that we will reach the 120%, I suppose that now these doubts are put aside.

Core Tier I at 9.2% and profitability, the EUR41 billion, with the important contribution of the international operations. Thank you.

Nuno Amado - ***Banco Comercial Portugues SA - Vice Chairman and CEO***

Just before the questions -- this is Nuno Amado -- three final -- four final remarks. Firstly, we are under a very demanding and challenging environment and this is not only for Portugal but also for the Bank in the next quarters. That's for me clear and I want to pass this message to all of you.

Second, but I am optimistic. Why I am optimistic? Because both in the economy of Portugal and in the Bank we will be much more balanced by the end of the year and we will have a much more sustainable growth model, and I think it's always positive.

Thirdly, our focus is clear. We have key priorities. They didn't change a lot, but they have to be managed. First, capitalization in the next two months. Second, maintain a deleveraged path. I think that's important to maintain a continuous process that's important for the Bank and for the future.

Third, is an active management of net interest margin. We have to have a more active management of the margin, mainly on the cost of deposits. But as you know, this will take some time. This is not immediate, but is clearly a third priority. And the fourth is active management of NPLs. For obvious reasons in the Portuguese environment that's very, very important.

Finally, as it was mentioned by Rui in the last slides, we expect the contribution of international operations to be -- they will be growing and they will be growing on a very balanced way.

That's all. So now is the time for the Q&A I understand.

QUESTION AND ANSWER

Operator

(Operator Instructions)

Carlos Peixoto, BPI.

Carlos Peixoto *- BPI - Analyst*

First of all, the first question I would like to pose is related with the margin evolution and particularly what do you expect in terms of the evolution of deposits cost throughout the year, and also to some extent what should we expect for the evolution of margins during the year?

And then if I may, I would also like to ask you on what's your expectations regarding the evolution of costs, if you see any room for further cost cuttings in any of your operations and what can we expect on that front? And at the same time, what should we expect in terms of provisions in asset quality evolution for the full year? Thank you.

Miguel Braganca *- Banco Comercial Portugues SA - CFO*

Hello, it's Miguel Braganca. As you know, in retail banking and commercial banking there is always some inertia in terms of the margin evolution. So in terms of our new deposits, the rates and the spreads at which our new deposits are being quoted, are significantly lower than the ones of our -- of which we used to quote, so to say, one and half to two months ago. So -- and we will expect that going forward we will have, I would say, a positive impact in terms of the margins. And this is clearly -- one of our key priorities is to manage the margin of deposits. However, this is a process that takes time and so I would not be very optimistic in terms of an immediate inversion of our margin.

In terms of evolution of costs, cost cutting and cost control is clearly also one of our priorities, but we want to do it right. So, we are analyzing in detail what are the areas in the organization where there is most, as you say it in English, most bang for the buck.

So without jeopardizing the franchise and bringing the most value to the shareholders, what we can do further? Right now what we can commit to is to an absolute cost control. Whether we will go much further in terms of cost cutting, we are doing our homework and then we will come back to you on these issue as soon as we have it done.

Provisions; provisions, this is -- I would say this is probably one of the most difficult areas. I would say that BCP is clearly has -- with the market share that it has in Portugal, clearly a view on the Portuguese economy. So -- and as you know, the credit risk has always a lagging -- is always a lagging indicator of what's happening in terms of the GDP evolution. So I would say that we have to first to start seeing some stabilization of the GDP, some stabilization of the economic cycle and once we start seeing the stabilization of the economic cycle, I would expect probably two to three months later to start to see a reduction of the credit cost. But not before that, because clearly credit risk is a lagging indicator. Okay. Next question?

Operator

(Operator Instruction).

Juan Pablo Lopez, Espirito Santo Research.

Juan Pablo Lopez *- Espirito Santo Research - Analyst*

I have actually three questions. First question is regarding asset quality. You already mentioned during the presentation that construction is a sector that probably you are always performing weaker. Actually, if I look to the evolution of the overdue loans quarter-on-quarter -- overdue, and I am saying overdue loans -- in the construction sector increased around 58% quarter-on-quarter.

I am curious if this is something specific, some corporate, a big impact from two or three corporate or are you seeing as a trend this deterioration in construction? I am asking this as well because, well, we all know that in Portugal there was not a real estate bubble, so I don't know if you could give us a bit more color on what's the driver on this deterioration?

Linked to this question, I would like to know if you could give us also a bit more color regarding repossessed assets. I don't know if you could give us what's the current amount of repossessed assets, what's the evolution in the last quarter and what's the coverage of these repossessed assets?

And lastly, my third question is regarding capital. Well, we have already read in the newspapers and your comments in the press conference, but I would like to know if you could give us more color on this. What will be the capital shortfall if we take into account and we take out the impairments that you already recognized like the Greek debt? These impairments are recognized by the EBA. Well, this is something I guess open for discussion.

But what will be the capital deficit if we take out the impairments that you have already recognized like the Greek impairments or I guess some Portuguese municipalities' debt or things like that?

And maybe regarding this -- and this is more out of curiosity. I don't know if you could share with us why it's taking so long to know the new regulation and the approval of the capitalization plans of the banks? I don't know if you could share with us what's your view on that? Thank you.

Rui Coimbra *- Banco Comercial Portugues SA - Director - IR*

Hello, Juan Pablo. This is Rui Coimbra. On the construction, there are several effects here. One probably when you look to the rate, the NPL ratio, there is an important, as you can imagine, denominator effect of the decrease of the denominator that is more than EUR1 billion. So definitely the ratio immediately increase, and this is not a problem. It is just a number that is not nice.

Now, the second effect, there was out of this number -- now we go to the nominator, out of this there were more or less EUR200 million of reclassifications between sectors. So more on construction, okay. So again, it was already among us the topic, but it shows for the big increase on the construction there is this as well.

So these are the -- just for you to understand better the number. The only topic that for you to be more calm on this that I can add is the following. If we look to the variation of this number but not exactly to the NPLs, just the past due part, but the past due plus, meaning the full exposure, the increase is much less, which means that in a way the past due part is increasing, decreasing the other one.

Which means that we know the cases, they were there already, and now past due part is increasing. But overall, as you know and I believe where you come from it is happening the same, it is not an easy sector. Okay.

Now, second question, repossessed assets. We have EUR1.2 billion of repossessed assets and out of this, we have a 25% coverage by balance sheet -- impairment of balance sheet. Capital?

Miguel Braganca - ***Banco Comercial Portugues SA - CFO***

Okay. Regarding the capital, as you know, from our EBA exercises, this is public information of last year, there was a shortfall of EUR2.1 billion. Of this EUR2.1 billion, assuming they are correct at least for the Greek part, for the part that already went through P&L, we would have a shortfall of around EUR1.6 billion. But after the EBA exercise, we had both the pension fund transfer and the SIP, so the Special Inspection Program from the troika exercise, which together represented an impact of around EUR900 million.

So the type of numbers -- of course, things may change, but the type of numbers that we expect in terms of order of magnitude to reach our objectives, are numbers, in the neighborhood of around EUR2.5 billion.

Why is it taking so long for the government I mean to put the final rules on the table? It's -- I shouldn't say this, but it's also for us a little bit difficult to understand. Probably I would -- and to give the government the benefit of the doubt, is that the process in which we are is you are basically under an intervention and under a program the type of stakeholders and the type of people that have to be included in the process makes the decision process of the final rules probably much more complex and much more lengthy.

So this is the best answer that I can give you. We also would have preferred to have the final rules already in place and to have already this clearly agreed. We are not expecting, I would say, that this delay is somehow being caused in order to expressly to harm us. This is not the -- don't -- this is not the way we look at it. But of course as the uncertainty remains, this is -- we agree this is not good for our share price and this is not good for us, and we would have preferred for the rules to be already in place.

Nuno Amado - ***Banco Comercial Portugues SA - Vice Chairman and CEO***

Just a comment, additional comment. Don't believe in everything you read in the newspapers, because sometimes there are certain understandings of the words that are not exactly as they were said. So let me make a point, obviously our proposal was based on two instrument, a cash call, a private cash call and a CoCo. But we are in a negotiation process and that negotiation process might finalize a little bit with some adjustment. That's normal. As I mentioned before, we expect that we can have a much more clear view by this week, beginning of next, is what we would like. Next question from BPI again.

Operator

Carlos Peixoto, BPI.

Carlos Peixoto - ***BPI - Analyst***

I was wondering if you could shed us some lights on the evolution of the pension fund during the first quarter of the year and what would be its impact in the capital? Also following up on the previous question, I was just also wondering if you could elaborate on the EUR900 million negative impact that you mentioned from the transfer of the pension fund to the state and also the FIP provisions? I am just -- I am asking this basically because I get those figures slightly below.

Nuno Amado - ***Banco Comercial Portugues SA - Vice Chairman and CEO***

Can you please repeat it again the last question?

Carlos Peixoto - ***BPI - Analyst***

I was wondering if you could elaborate on the EUR900 million of negative impacts in capital that you mentioned arising from the SIP provisions and the transfer of the pension funds to the state? I am asking this because basically the idea has in the past was that the impact was somewhat below the EUR900 million that you mentioned. Thank you.

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Miguel Braganca - ***Banco Comercial Portugues SA - CFO***

Yes, regarding the pension fund, we normally only give final numbers each semester. But correcting for the recent evolutions in the market, we are slightly negative, around 1% negative. This is where we stand right now in terms of our pension fund. But the final numbers we only give it on the semester.

In terms of the impact of the EUR900 million, EUR600 million is the impact of the change in accounting again linked to the -- to transfer to the state. As you know, at the end of last year the pension funds were transferred to the state and associated to it there was also a change in accounting and -- a corridor that went directly through equity. So this -- and it was commented at the time. This would have an impact of around EUR600 million.

And EUR300 million is the impact of the SIP which was already announced at our year end result of -- that the SIP, the Special Inspection Program, had an impact of around EUR300 million after taxes. And if you see our December presentation or our year end presentation, you already see the numbers. So the EUR600 million plus the EUR300 million make the EUR900 million, okay.

Carlos Peixoto - ***BPI - Analyst***

Thank you.

Operator

(Operator Instruction).

Juan Pablo Lopez, Espirito Santo Research.

Juan Pablo Lopez - ***Espirito Santo Research - Analyst***

Thank you again for taking one additional question. This is regarding the potential use of the proceeds coming from the insurance of CoCos and capital increase. I don't know if you have any plans on how to invest these proceeds. I guess increasing lending is something difficult to see given the deleveraging process happening in Portugal and in your Bank.

So I don't know if this is going to be invested in the sovereign debt or in any other kind of assets? What I am trying to see here, what could be also the potential impact in terms of net interest income of the issuance of CoCos? Thank you.

Operator

As we have no further questions, I would like to hand the call back to the host for any additional or closing remarks.

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

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