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BCP.EP - Q4 2011 Banco Comercial Portugues SA Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 06, 2012 / 5:00PM GMT

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CORPORATE PARTICIPANTS

Antonio Ramalho *Millennium bcp - Deputy Chairman, CFO*

Rui Coimbra *Millennium bcp - Director - IR*

CONFERENCE CALL PARTICIPANTS

Pedro Turras *Millennium bcp - Group Treasury*

Carlos Peixoto *BPI - Analyst*

Antonio Ramirez *KBW - Analyst*

Juan Lopez *Espirito Santo Investment - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Millennium BCP Full Year 2011 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to your host today, Antonio Ramalho. Please go ahead.

Antonio Ramalho - *Millennium bcp - Deputy Chairman, CFO*

Well, hello to everyone. Thank you very much to be with us and attending this conference call. I would like to do a small statement in advance that will talk about the main highlights that we have to present to you in terms of the profit and loss account of this year. And, of course, the numbers and the figures will be explained by Mr. Rui Coimbra, our Investor Relations, but the two or three points that I would like to stress are quite simple.

The first one is the priorities. And clearly, for this year, the priority for the banking system in Portugal was solvency, liquidity, and ratios. Since the situation has changed in Portugal and as we were in a bailout situation, we will define to the Portuguese financial system several new obligations in terms of ratios.

And if you can and if you look carefully for the accountings of the bank during this year, you will see that we did arrive at a level of core Tier I of 9.4% in the end of this year, coming from a figure of 5.6% in the beginning of this year. We have done this increase of capital, 275 basis points in one year and the special difficulty since we were in the bailout. I don't know if there are any example -- international example where this happens.

And this was reached with -- despite a 65% devaluation of Greek public debt by the bank that we have done in the last quarter of this year. We have 21% of coverage of impairment of the public debt -- Greek public debt in the third quarter. Now, we have 65% of coverage.

At the same time, in terms of liquidity, we are clearly focus in a process of deleveraging. And based on that, we are pleased to say that we have reduced the loans to customer for -- the loan to customer reduced 6.4% and deposits have increased 4.2%. And just to be clear, this increase of deposits was mainly based in the Portuguese and domestic activity where the deposits grew 7.2%, compared with the end of 2010.

So, the loans to deposit ratio decreased from 164% to 145%, proving that we are in conditions to be compliant with the main objectives or the Troika imposed to the Portuguese financial system that is to reach 120% in the end of 2014.

So, I think that these two main highlights that I want to stress are quite important. First, the capital core Tier I, something that probably no one believes that the bank by their own means were able to achieve were achieved, even with difficult situation that we have.

And the second point, that we are able to managing the commercial gap during this period. And this allows us even to reduce the dependence on the ECB in the end of the year, just to give you an example of odd conditions and results of these activities that we are able to do during this year.

In terms of results, the profit and loss account, let's be clear. The result and the consolidated net income was negative by EUR786 million, of course, penalized by all the extraordinary items that are non-recurrent items that we were imposed to do. Part of that was the public Greek debt. Also, the transfer of the pension fund that accounts for more than [EUR900 million] of liquid loss.

And also, the provisions that were incurred because of the special control of the impairments that were done in Portugal, the special impairment inspection. And the result of these inspections was quite clear, EUR381 million before taxes. That means something like EUR281 million after taxes.

That's true that we decided also and Mr. Coimbra will talk about this -- we decided to maintain the worst case of the impairments, so we decided to stay with the high level of impairments when the inspection says that we have more impairments than impairments needs and we put the impairments that were as small that the impairments that we have. And this means that this level of EUR281 million, I think, [Miguel], goes to something like EUR500 million in general terms before taxes.

So, this total amount of non-recurrent solutions represents more than EUR972 million. That means that we believe that we are in right conditions to say that the banking is now more solid, more liquid, and with more conditions to continue and to be quite challenge opportunity for the investors.

Finally, I would like to say that even in profitability terms I would like to stress that the net interest income, both in the best economic and international activities has rise more than 4% -- 4.1% year-on-year, that the operating costs fell 4.8% in consolidated terms if we excluded the consequences of the -- in staff costs of the pension fund transfer, so seems that we benefit and at -- in the same way that we were able to reduce the amount of the ECB dependence on EUR2.2 billion, compared with the figures of 2010, so now we have a little bit more than EUR12 billion in the ECB.

In terms of the international activity, I would like to stress finally the importance of the contributions of the activity in the African operations and also in the Polish operations, that has --which [resisted] the impressive growth of almost 15% -- 14.7%, to be more precisely at a level of unique historical profits.

Also, the good results in Poland that has net profit of EUR113.3 million and the expansion plans that we have in Africa, namely in Angola, where we ended with a level of 61 branches and we are covering now all the Angolan provinces and at the same time that we have passed the milestone of 1 million clients in Millennium Mozambique. So the African operations are growing a lot, not only in profits, but an impressive number in terms of the bank realization and the growth of their activity.

So, these are the things that I would like to stress. Of course, in a very, very difficult year, no one should forget this. A very difficult year for Portugal and a very difficult year for other financial systems in Portugal, and where all the Portuguese banks did prove that they are quite resilient since the banks that we know already the results are quite clear. They were able by their own means to undertake and be above the ratio of 4% core tier I that we were obliged to have.

Point one, that we are in the right direction in terms of the leverage that we need to do, that this means that we are able to manage in the liquidity issues and at the same time that we are able, even in these difficult circumstances, to clean the balance sheet and to appear in a better way if we look forward and we look to difficulties -- the difficult times that are expected in the Portuguese economy for sure.

So I think that these are the main things that I would like to stress. Of course, I would love to say that we were able to do this with profits. It was not possible for this time, but I'm sure that we'll return to profits in a very fast way. Mr. Coimbra, I will ask you to continue the presentation. Okay?

Rui Coimbra - *Millennium bcp - Director - IR*

Okay, thank you. On the highlights, let's move to page five and six, just to add two additional topics that we will go in more detail in some pages ahead.

The first one is the decrease of liabilities on the pension fund. We were having a pension fund of EUR5.3 billion on the liability side in December 2010, and now after the transfer, that we'll go in more detail, is less than 50% of that amount. So this a huge risk that the bank were facing now is less than half and even the maturity of the liability side and the asset side will be completely different, and we'll discuss this.

On page six, just a reminder. You saw already the P&L, but is affecting the full bottom line. It's not only the EUR381 million defined by the special inspection program, but on top of this there is another EUR1 billion that all together made the last four years of EUR3.2 billion that passed through our P&L. And this is -- it was and it is a huge effort that, of course, penalizes a little bit the bottom line.

Now, in capital, we surpassed the target of 9%, and this was done with an increase of EUR1.2 billion, and that we did with several operations, let's say, to increase core Tier I, both with the help of shareholders and bondholders, actually. More on the second than on the first.

You'll recall that we did the scrip dividend of the 2010 together with rights issue of EUR260 million. But other relevant parts, we asked the bondholders to help on this effort. And with these four operations we increased EUR1.2 billion, and this is, of course, after the negative results that we have and, in special, the 65% of impairment on the GGBs of Greece.

Now, another contribution for the 9.4% is the denominator where we reduced EUR4.3 billion in one year, and this was not only the effort of the deleveraging, but as well the collateral management that we did. But as well, some IRB -- some portfolios that moved from standardized to IRB that made some gains here as well.

On liquidity, we mentioned -- Mr. Ramalho mentioned already the increase of total deposits of 4.2%, in particular, in Portugal 7.2%, which makes the bank to be the second after, of course, [cashes deposits], the second bank in terms of deposits.

In terms of loans -- I am on page 11 -- the decrease was 6.4% in total and 7.4% in Portugal. This decrease, which is around EUR4.5 billion, is coming one, on the individual side, mainly mortgage, and more than EUR3 billion for companies. This has two parts, a normal repayment with, of course, less new dispersements, but as well with the sale of EUR1.5 billion of credits, it goes on the target of the loan-to-deposits.

But, of course, nowadays sales are not at 100%, so the average was 93%. We generate a loss during the year of EUR100 million gross and EUR72 million net, which affects, of course, the bottom line again. Here, although with this decrease still we're at on the top of the ranking in terms of banks for loans to companies.

Still, on the liquidity side, we decreased EUR7.8 billion commercial gap. And, as you'll recall from previous calls of this type, we always said that when the markets of short-term close to us we substitute this with ECB funding. And we use the deleverage for the repayments of the medium to long-term, and this is proven here again one quarter more.

And even more, because in this -- not only it is stable, the ECB exposure, more than one year and a half ago, but we have the ability for December even to decrease the number that we will use of EUR15 billion ECB. So in times that Spain, France, and other countries start to increase their ECB exposure, we have this target and agreement even with Troika that not only is to decrease the commercial gap but, if possible, to decrease the usage of ECB. And this happened again here.

In terms of -- I'm on page 13 -- the refinancing needs for the future has nothing to do what we have in the last three or four years. And even for 2012, the year that we have now, we start with almost EUR4 billion, but EUR3 is already there. So the full, let's say, 10, 11 months of this year we just need to repay EUR900 million and the next year EUR1 billion. This, of course, and assuming an ECB stable, this will be done through the continues of the process of the deleverage.

2014, the number will increase. It's is EUR3.6 billion that we'll have to repay. And then our assumptions the markets will be open for us that year. But even if, for some reason, it will not happen, it is a lower number compared to the past, so we will do it.

P&L. Mr. Ramalho mentioned already the negative items. We can really have this in two big blocks, the sovereign crisis that affect mainly Greece is almost EUR500 million in terms of net income and the goodwill of Greece, included here, that we decided to clean completely the goodwill. Last year, we did it 50%, now we did the other half.

Mark-to-market of public debt -- Portuguese public debt is -- it affect the results as well, EUR91 million in terms of net income. And then the pension fund and the special inspection program. We'll go into more detail on the pension fund more [in front].

Now, P&L. Here we see line-by-line where all these items affected, mainly net trading income. And we have the effect -- now, these effects are gross, before taxes. It was EUR128 million mark-to-market of public debt -- Portuguese public debt and the EUR100 million that I mentioned of the loss of the sale of some credit.

In the other income, among other aspects, we have the contribution -- the special contribution to the banking sector. It is EUR8 million per quarter, so EUR32 million for the year, and it will continue during the year 2012 and '13, I think, and we hope that this will stop there.

For staff costs, the main impact we see here, an increase. Of course, it is because of the EUR165 million impact of the change of the discount rate to 4% for the part that we transferred to the public regime of social security. And then the other effects we mentioned on the impairment, the EUR381 million, and then on the other impairment we registered a goodwill there for Greece and the impairment of GGB. So, altogether net is a number that we mentioned that is higher than the negative results that we are presenting now.

Let's go to the other lines -- I'm on page 17. Net interest income, it increased 4% mainly due to the international operations that increased 9%. Here, the main responsible for this increase is Poland, but, as well, Mozambique and Angola.

In Portugal, it was rather stable and the net interest margin stable because the increase of the spread of credit during the year of 51 basis points. It was completely compensated by the deterioration of the spread of deposits -- time deposits, of course, of 66 basis points. So this is why it's rather stable, the margin for Portugal.

In terms of commissions, again, rather stable, although with a different behavior between banking commissions that increased and the market commissions decreased in a way that the total is reduction. And this, I believe it is important to stress that banking commissions in Portugal increased and increased without numbers coming from new credit, so it is mainly from bank guarantees and other commissions that are the commissions on our different segments on retail. So both mark-to-markets, all the commissions that we charge in the accounts and for the [prestige] segment as well.

Operating costs. The decrease that we see after taking the specific items, and this happened both in Portugal and on the international operations. International operations, it is important to stress that regardless the expansionary plans in Angola, that -- where we increased 22 branches, and in Mozambique, 13 branches. And, of course, the correspondence staff to feed these branches. So, even though, there is a decrease on the operating costs.

Credit quality. I heard today on some analysis that appeared on the numbers about credit quality. Credit quality is -- it increased, definitely, the past [view] of the 90 plus from 3% to 4.5% and, if we consider the full exposure, from 6.4% to 8.9%, although the behavior of the year, up to September, we saw it already in September.

For the quarter of December, actually, the increase is from 4.3% to 4.5%, but this is because of the denominator. We are decreasing loans that will affect because the part of just the overview, December is less than September. So this -- let's see if this represent good news in terms of credit quality, but at least we stabilized on the last quarter comparing to the increases that we saw before.

So, I think this is good news and not bad news, as I saw in some analysis of today. The bad news were up to September. This quarter is good in terms of credit quality comparing to the previous quarters.

The coverage of this, just the part of the past view, is rather stable. When we go for the full exposure, we increase from 51% to 55%. So the full balance sheet provision is EUR3.5 billion and it came mainly with some write-offs, but mainly from the impairment that we did of EUR1.3 billion during the year.

Loan portfolio, on page 21. I just want to stress this characteristic of our portfolio, the first one on the top right, that more than 90% of credit is collateralized. And in terms of mortgage, then two-thirds of the mortgage portfolio has loan-to-values less than 80%. And here, we distribute as well the impairment charges by sectors and we see that the focus was really in companies that has EUR1 billion out of the EUR1.3 billion.

Pension fund. Pension fund is several things at the same time, that we show here on page 23. There are two things. The first was the agreement of moving big part of the liabilities to the [states], but the second part was the change on the accounting treatment of the pension fund and, in particular, of the actuarial differences.

So, all together, the effect is from EUR5.3 billion, we move to a EUR2.45 billion liabilities. These liabilities now are completely different from the previous ones since it affects mainly the current employees. So the [path] of the liabilities are much more for the future than currently. And, of course, these EUR2.4 billion is coverage with assets of 111% coverage ratio.

Even this, the asset side, of course, it is too soon. We have up to March to finalize the asset side of the pension, but, in essence, now we have conditions even to change the composition and to be much more on the safe side and avoid any changes on these that could, from now on, affect directly the equity of the bank.

The impact of this is several. The first one is immediately -- these differences that we had in the past, we immediately deduct from the equity of the bank in terms of balance sheet. But the effect on P&L is net EUR117 million, which, as I mentioned, is the change to the 4% discount rate.

And in capital, the main effect will be these. There is a positive effect of the change on the corridor and the accounting policy effects are several effects at the same time, but the final effect mainly is the change on the assumption of the discount rate. We have now a buffer of time to register this. It's passed through P&L, but in terms of core Tier I, we can neutralize and in June it will appear and the full impact of the pension will be in June.

Now, in terms of -- now, let's see, Portugal and international operations. Portugal, we mentioned already the increase in customer funds and deposits and the decrease on loans, mainly in companies, as I mentioned, and it is here that the sale of portfolio appeared.

Net income. All the exceptional that we mentioned affects the net income in Portugal, even though bigger than the negative results that we present. Net interest income. It increased 1.5% and we can see what is happening in the net interest margins is that the increase of the credit spreads, as I mentioned before, is being compensated by the deterioration of the deposit spreads.

In terms of credit spreads we see, and this is recurrent already for some quarters now in our history, is every time to increase the portfolio and in the -- for corporates. And in terms of spreads during the year, the full portfolio, which represents more than 50% of the portfolio -- the credit portfolio of the bank, increased 118 basis points.

Mortgages. More difficult to make this increase for the full portfolio, new production is definitely much higher than the current portfolio, but even though we've managed to increase 7 basis points during the year -- last quarter of 2010, last quarter of 2011.

Banking commissions is mainly guarantees and other commissions that I mentioned. Of course, we suffered on the market-related commissions for Portugal as well. Operating costs. The decrease is after taking the extraordinary items. It is mainly on other admin that we can see that almost in all lines we decreased comparing to previous year.

Credit quality is from 2.9% to 4.6%, the ratio. The main ratios, when we mentioned the consolidated, they are very close because with the Portuguese ones are the part that really is affecting the full portfolio and the credit quality for the bank. And we did it this year, 208 basis points for Portugal, which was more than what we did on the international side on average.

Now, international operations. I'm now on page 34. The full effect on the international -- the full contribution for the P&L, it was EUR123 million. The three operations that we mentioned -- Poland, Mozambique, and Angola, with the 50% increase in the results represent EUR236 million. And then, we have the negatives of Greece and Romania and, of course, the minorities. There out of this EUR92 million, EUR82 million are the minorities coming from Poland, Mozambique, and Angola.

Here we see that after the difficult year that Poland suffered in 2009 the recovery started. Then the other African countries are continuing having return on equities. For example, for Angola of 22%, for Mozambique, 38% and even for Poland at 11%. So the P&L of the Group now is really supportive on these three operations.

If we go to Poland -- I am on page 36. Poland customer funds increased 3.8% and deposits increased 5.7%. And it seems that the loans increased more than what was supposed, but is not the case since if we take out the FX effect, mainly the Swiss with the Polish zloty. If we put this aside, the increase in loans is 4.3% and not 12.5% if that includes this effect.

Loan-to-deposits increased slightly, but close to the 100%, and the share of FX loans, since we are not giving loans in Swiss francs since 2008 -- 2009, sorry, so is obviously decreasing the share of FX loans in the total portfolio, now is 56%. It was 60% one year ago.

In terms of net income, we mentioned already, this is coming from an increase of core income much higher than the operating costs -- core income, in particular. Net interest income -- and I am on page 38. Net interest income increased 18%, and this is a net interest margin that end of 2010, the full year 2010, it was 2.3% and now is 2.5%. So there is an increase in margin together, of course, with increase in volumes that generate this 18% increase on net interest income.

And if we go quarter-by-quarter for the net interest margin, and we understand that the gain this year came from the deposit margin that improved up to September, although last quarter the spread decreased significantly, although much better than one year ago. Net commission income, rather stable since the banking commissions compensate the decrease on the market-related commissions.

Operating costs increased 3.9%, both staff and administrative costs. Staff is related to an increase of 154 employees, mainly on the sales area. And inside this is a project with a macro cash and carry that makes the needs and the income that are coming from there of increasing the number of staff.

In terms of administrative costs, the increase is EUR7 million from one year to the other, and this is mainly due to EUR4 million of increase on Banking Guarantee Fund and another EUR4 million that represents an increase on some rentals that are actually -- that are being affected by the effects because they are in [yield] of some of the rentals that we have there.

So, moving to credit quality, and this is one of the good news that we have in our numbers, is that the decrease of the past due in Poland from 2.9% to 2.3% and the correspondent decrease of the impairment charges of the year that was 45 basis points, compared to 65 basis points last year.

This decrease, comparing to the previous year, is mainly on the consumer, less provisions in terms of credit cards and cash loans. Companies are more or less stable, although with a different mix, much less in leasing and factoring, slightly higher in other revolving and fixed in terms of companies, but, in general, stable in companies.

Moving to Mozambique now. Customer funds and loans to customers increasing and the loan-to-deposits less than 100%. And still, overdue loans in very low numbers and coverage of almost 500%.

In terms of net income, the increase that we mentioned already of almost 70%. And a return on equity of 38%. Actually, if we move to page 43 we see how -- the way, actually -- the net interest income in Mozambique is enough to pay all the costs. It pays operating costs, it pays impairment, it pays taxes and even minorities. So is really an operation that generates an important P&L for us and it will continue to do like this, even -- because we are under this expansionary plan during 2011, we increased 13 branches. 2012, we have plans to continue with another 30, and 30, 2013. So it is really investments that generates immediately the correspondent return.

If we move to Angola -- I'm on page 44. Here, the customer funds and deposits are the same. We do not have anything here that is not deposit, so there is an increase of 47% and the lower decrease in terms of credit, which makes the loan-to-deposits of almost 50%, so generating liquidity -- important liquidity for the consolidative ratios. Still low past due and overdue ratios, and very well coverage with more than 200%.

Net income increased 24% -- sorry, 41%, and coming from the increase on the banking income and, of course, operating costs as well. Net income, 24%, and the operating costs in all sides, of course, is coming as well from the expansionary plans that we did this year of 12 branches. Next year, we expect to open 24 more and to continue in an expansionary plan up to 2015 with, of course, this type of return on equity of 22%. So it makes sense to continue the investments there.

The conclusion. So, the summary, the ones we saw already, and I'm done. That's all. Thank you.

QUESTIONS AND ANSWERS

Operator

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

Carlos Peixoto - *BPI - Analyst*

Hi, good afternoon. First of all, I would like to ask what is the -- what is your estimate on the current [charge at all] to [erase] capital -- 9% core Tier I capital requirement? And furthermore, what would be that figure updated by the pending impacts to be recognized in the first half, namely the ones regarding -- with the transfer of the pension fund, and also, the provisions due to the Troika's audits on the bank?

Secondly, on the ECB exposure, out of the EUR12.7 billion of ECB funding, how much of this funds were obtained in the last three years' LTRO from the ECB? And then, furthermore, what are the bank's plans regarding February's long-term financing operation? Thank you.

Antonio Ramalho - *Millennium bcp - Deputy Chairman, CFO*

Let me answer in terms of capital shortfall. The capital shortfall, known as the capital shortfall for EBA, proposes -- defined when EBA announced this in October, is [EUR2.1 billion], something like this.

As you know, part of this came from sovereign debt and part of that came from the, let's say, the early adoption of part of Basel III, namely expected losses. Let's say that this is the situation that we know.

We decided not to talk more about capital than what we have done by communication -- done to the market by the Chairman of the Supervisory Council since we are, like the Portuguese banks, in [train] of discussion with the Central Bank of Portugal and EBA, how to work with this kind of temporary rules -- that temporary buffer that was defined by EBA. So, the figures are public and we don't intend to say anything more at this moment.

In terms of the other issues, I think that Rui Coimbra can answer the right figures.

Rui Coimbra - *Millennium bcp - Director - IR*

Yes. So, the second question was related to both provisions and pension, that will affect the core Tier I in June. So, provisions from the inspection, we mentioned already, is the amount that we passed through P&L, EUR381 million gross, EUR271 million net, that was neutralized in core Tier I in June will appear affecting core Tier I.

The second is the pension. The pension is -- the effect that I mentioned before is altogether December and June. For June, in particular, the effect will be EUR375 million, that will affect core Tier I in June.

The third question was about the ECB. The ECB, after the end of January, went up a little bit to EUR14 billion. And from now on, it will go on these numbers, all slightly lower with the effect of the deleverage that we have in our plan for the year 2012.

Carlos Peixoto - *BPI - Analyst*

(inaudible - multiple speakers).

Rui Coimbra - *Millennium bcp - Director - IR*

In terms of LTRO, we have EUR5 billion in terms of LTRO that -- in the last auction, and we can substitute a little bit of our long-term, but not three years' time LTRO on the end of February, but not increasing in the ECB for this special proposed. Since we are in the bailout, we are under the special compliance rules of the ECB and our main propose is to the final deleverage process.

Carlos Peixoto - *BPI - Analyst*

Thank you.

Operator

We will now move on to our next question from Antonio Ramirez of KBW. Please, go ahead.

Antonio Ramirez - *KBW - Analyst*

Hello. Good afternoon. If I can follow-up on the capital -- regulatory capital impact by June from the pensions. Just to see if I understood correctly, you said EUR375 million of negative impact by June? But then on the presentation where you were explaining the impact by June from the capital, you were referring to the change in the corridor, that was a positive of EUR35 million and the change in assumption, which was a negative of EUR117 million.

So, a total negative of EUR82 million. So, if you can please explain what are the different components in the case of the EUR375 million that I got are correct of impact from the capital?

And then, secondly, although you said that you cannot comment or you don't want to comment on the capital on the EBA deficit and potential capital actions, at a more generic level, can you give us some color on what kind of communication or what kind of feeling you have from the regulator in terms of before the capital deficit could be covered by the support from the government or if banks will be told to cover part of the deficit on their own means?

I know there is a limit of 50% on the Tier I for the government average, but if you can give us some more color on that aspect, that would be great. Thank you.

Antonio Ramalho - *Millennium bcp - Deputy Chairman, CFO*

I can answer this last question. As I said before, I don't want to comment more than what I have done, point one. Point two, as you know, everything is public. So, what we have said is public in a statement. And also, it's public -- let's say, the rules that the Central Bank of Portugal has defined for

EBA products, and you know EBA products can count till 50% of the total core Tier I if they are -- as they were defined in the central bank regulatory framework, and this means a huge level since 50% of the core Tier I is a number that is, let's say, much more over what are the normal means of the bank.

But, nevertheless, I don't want to comment on that because the proposal was sent to the central bank in 20 of February. We are discussing, but I think that the next step will be to discuss with the European entities, so the timetable is going normally and this is --.

You know that even there are some rules and some legal issues that are not yet approved by the Portuguese government, so there are some question marks that should be solved before that. It's not wise to say more than that. Thank you very much anyway. Rui?

Rui Coimbra - *Millennium bcp - Director - IR*

A note on pension. Both numbers are correct, meaning the full effect in core Tier I of the transfer of half of liabilities, together with the change of the accounting policy, is the minus EUR82 million that we referred. This -- we were allowed to take this in different times, in December and in June.

So what I mention now is the effect -- the negative effect that will appear in June, which is a combination of the EUR117 million of the change on the discount rate together with the end of a big part of the corridor. So it is the two together that makes the EUR375 million mentioned before.

Antonio Ramirez - *KBW - Analyst*

So then, what is the EUR35 million positive that you have in the presentation?

Rui Coimbra - *Millennium bcp - Director - IR*

There is --. Sorry? The EUR35 million is a combination of these together with the fiscal effect that we gain as well.

Antonio Ramirez - *KBW - Analyst*

Okay. So when we think -- if we forget about the numbers you just presented for December, if we think about June we should be considering a EUR375 million --?

Rui Coimbra - *Millennium bcp - Director - IR*

Exactly.

Antonio Ramirez - *KBW - Analyst*

-- negative impact in core Tier 1?

Rui Coimbra - *Millennium bcp - Director - IR*

Yes, yes.

Antonio Ramirez - *KBW - Analyst*

Because of pensions?

Rui Coimbra - *Millennium bcp - Director - IR*

Exactly.

Antonio Ramirez - *KBW - Analyst*

Okay, thank you.

Operator

(Operator Instructions). Our next question comes from Juan Lopez of Espirito Santo. Please, go ahead.

Juan Lopez - *Espirito Santo Investment - Analyst*

Hello. Thank you for taking my call. I'm sorry, because I'm asking about capital, so I'm trying. One clarification, if I may. Are you including in the shortfall you mentioned the impairments of the Greek debt that you recognized in the fourth quarter? So, are you reducing the EBA shortfall because of a mark-to-market of the sovereign debt on that amount? That's my first question.

My second question is regarding asset quality. Looking to the asset quality in Portugal, I would say it's relatively impressive, to be honest. I was expecting some kind of deterioration, so I don't know if you could give us more color on that and what's your guidance?

And thirdly, my last question is regarding funding. I don't know if you could help us with what will be the impact of the ratings downgrade in terms of your assets for -- to discount on the ECB? Thank you.

Antonio Ramalho - *Millennium bcp - Deputy Chairman, CFO*

Well, first of all, I must correct you, that I don't -- have said nothing in terms of EBA. Let's say that when we'll define the shortfall of EBA was defined after we have done 21% of impairment over the Greek debt. So, as you know, EBA makes a photo and says, Now, this is the shortfall. And it is the shortfall even if you are repay on the debt, if you put more impairment on the debt or so on.

So what I did say of this debt, the public shortfall that we have now defined by EBA is the public one that is [EUR2.1 billion]. So, no more than that. And it is a photo -- and this is a photo in [a day], so the things change. But, nevertheless, the EBA shortfall was defined in this strange picture. So you can sell every your public debt. You can lose everything. And, even so, you need to have this capital requirement based on this shortfall of [EUR2.1 billion].

So, [EUR2.1 billion] was defined by EBA on October, I think -- on October and it is completely clean. If you ask me, this shortfall was done with a certain level of impairment of Greek debt with [21%]. So, above 21%, it's something that we have already done in terms of EBA requirements. But, nevertheless, this not solve the problem since the shortfall was defined in a photo way. It's a technical answer.

The other question that you did pose, I pass to Rui.

Rui Coimbra - *Millennium bcp - Director - IR*

Two topics, credit quality in Portugal and then the potential effect of downgrades on the funding side.

Now, credit quality in Portugal. The increase was big, it was from 2.9% to 4.6% on the overdue loans, some call it on that. Mainly, this is companies. And consumer, although consumer, individuals is really a low part on our portfolio, so does not affect in a strong way the full ratio. Mortgages is very stable, of around 0.6%, 0.7% in terms of overall overdue loans, so still the average Portuguese definitely pays for the mortgage.

What we see during the year, and the good news is really the last quarter is the increase on the overdue loans on all the sectors in terms of companies -- all the sectors, no one special, from services to commerce to construction, everywhere. And this was the slightly good news that we mentioned for the quarter. Let's see the behavior during 2012. But it is really more on the company side than on the individual side.

Now, on the funding. Up to now, we didn't suffer a lot, especially because still we have one agency that do not consider the country as junk. If it happened, it really could be a problem. But before that, we hope very much to receive the new rules that are about to appear in terms of collateral to discount in ECB. And definitely, we are sure that the second part will come from -- before the first. So we do not expect, really, any problems in funding in terms of ECB because of future downgrades.

Juan Lopez - *Espirito Santo Investment - Analyst*

I think that --. I would like to have a word of our Group Treasury Mr. Pedro Turras about this liquidity issue, he can add something.

Pedro Turras - *Millennium bcp - Group Treasury*

Hello. Good afternoon. Just let me add that we have increased a lot the number -- the volumes of assets used as collateral that are covered by the waiver of the public debt. Mainly, we have increased the issues with state guarantee, which, as you know, were not impacted by any downgrades by any of the agencies.

On the other hand, we have a significant amount of covered bonds that are well above the minimum limits for the eligibility in the ECB, which doesn't put any problem in the short-term.

And finally, we have a group of [RBS] and senior debt of national financial institutions that are closer to the minimum ECB limit, but has -- Rui just added, we are awaiting for the announcement of the new criteria, which, as was already told, will be milder and probably enough to compensate any losses due to downgrades in the near future. Thank you.

Antonio Ramalho - *Millennium bcp - Deputy Chairman, CFO*

And let me, Juan, let me just say one word because it is an opportunity to say that. Portugal was able to do in the financial system. It's not only the bank and Millennium bank. All the banks were able to support this liquid issue, and we are one of the systems that are more leveraged in the beginning of the crisis without no recurring to emergency loan agreements, so without going [toellis].

And this was a proof of the resilience of our system, about our deposits, and also about our reputation -- our internal and domestic reputation. The point is the good quality of the assets are clear. We don't have no default in terms of [ABS]. We have no default in terms of covered bonds, nor in mezzanine, nor equity piece, in any situation.

So, the question is, what we are trying to expect and we will expect from the new rules is debt we don't -- that we should not have any devaluation based on the collaterals that we have. Because if the collaterals are good and they prove that they were good and we can support without no devaluation the leverage that we are doing, it's more than enough support, no liquid issue for the Portuguese financial system.

And this is important because it's something that we have done with our (inaudible). So, we are not Greece. We are not Ireland, even. So, we are doing this based on the collaterals that we have done that are good quality credit quality, and we expect that are not under the evaluation or under the re-evaluation that each day appears coming from rating agencies that come here and put in automatically way a problem to the evaluation of the collaterals.

So, this is more important because -- more important here just to say we have good collaterals, we are well supported. It's much more than that. It's that the banking systems are deleveraged quite well and were able to support their reputation of risk with their deposits and with deposit base. And this is the most important thing because this is the real life and real banking.

Juan Lopez - *Espirito Santo Investment - Analyst*

Okay, thank you.

Operator

(Operator Instructions). We have one follow-up question from Carlos Peixoto of BPI. Please, go ahead.

Carlos Peixoto - *BPI - Analyst*

Hi, again. Regarding the pension fund, I was also wondering if you could let us know what was the performance of the pension fund during the second half of the year. And secondly, regarding -- on the outlook, whether you could share with us your view on what could be the evolution of loans, NII and provisions during 2011 -- and 2012? Thank you.

Antonio Ramalho - *Millennium bcp - Deputy Chairman, CFO*

Let me give you my view about the evolutions of the market. If you look to the numbers, and the figures, if you looked clearly, the level of impairment that we have done puts us in a much more confident situation in terms of the non-performing loans that we have.

And, of course, we are above 100% in what we call credit [trends] risk that is, let's say, a figure that is very Portuguese, but you know it very well. And this means that we are in conditions to say now we are much more confident in terms of quality of the portfolio that we have in relation with the provisions of the impairment that we have done.

And this is an important point. If you ask me what will happen on the future, we will continue to deleverage. We expect that some areas will go a little bit better. We expect that some areas will go in a more difficult environment. But I think that this is what we can forecast because the situation is, let's say, a little bit abnormal in Portugal since we are in a moment where the austerity plans are creating some internal problems that we are trying to solve.

In terms of the performance of the pension fund from -- it's minus 2%, in the second quarter -- second half, sorry. Was in the second half. Okay, Carlos?

Carlos Peixoto - *BPI - Analyst*

Okay. Thank you.

Operator

(Operator Instructions). If there are no further questions in the queue, that will conclude today's Q&A session. I would now like to turn the call back to Mr. Ramalho for any additional or closing remarks. Please, go ahead.

Antonio Ramalho - *Millennium bcp - Deputy Chairman, CFO*

Let me say -- let me finish this presentation with a little statement, saying that it is clear that in past year we undertook several efforts aiming two main objectives -- or three main objectives. First, to maintain the solvency of the banks second, to increase the ratio in a compliant way and third, to managing the liquidities issues.

I think if they were only the three main objectives to attend, we'll be in a very, very good year. Unfortunately, this will [cost] a loss, but it is a non-recurrent loss, and I think that the other objectives were clearly defined and clearly achieved during this year.

So, thank you very much for your presence and for your questions in this conference call.

Operator

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