Q2 2013 Earnings Call

Company Participants

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

Other Participants

• Jaime Hernández
• Mario Ropero Garcia
• Carlos Peixoto
• André Rodrigues
• Ignacio Ulargui

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to the Millennium bcp First Half 2013 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Nuno Amado. Please go ahead, sir.

Nuno Manuel da Silva Amado

Good afternoon to everybody. As you know, we are here today to present the results of the first semester of 2013. And that is obviously a challenging moment in a challenging environment and in a situation that had some uncertainty.

Before I start with the presentation in page four, let me make two quick words about Portugal. I believe that the political uncertainty has gone. We have now the same political alliance that we had before, in my opinion, stronger and more focused than before with a government that was reinforced. So, after some turmoil, I expect that this government is prepared to face the difficult times that we have in front of us, ahead of us.

On the economic side, we have not yet numbers that are expected, the last economic numbers are expected to be launched in the next days. But we see, we feel that our productive sector is improving both in the export side and on the replacement of imports. So, I'm a little bit more optimistic on the last months than I was in the last quarter when we were on a similar conference.

So let me go to page four of the presentation. And I think that the main conclusion that I would like to pass to you is the following: the sale of the Greek operation, the agreement with the DG Competition, the capitalization that we did last year, the comfortable liquidity position that we have today, and some signs of the operational recovery in Portugal, I think, are giving some optimism to us. And this is our opinion in spite of the demanding year that we have in this year.

As you know, our consolidated net income was negative by €488 million Euros, which represents a slight improvement vis-à-vis last year where it was €544 million Euros. Let me tell you that this is more or less in line with the plan, with some anticipation of provisions for the first semester for impairments, and they are, I'll say, in line with the economic environment that we faced during the year.

Let us go now to the details. As I mentioned, DG Comp agreement was approved and will be signed in the next week. It will be signed between the DG Comp and the State of Portugal, the Ministry of Finance. So we will not disclose in this moment details of the agreement. They will be disclosed after they are signed.

On the liquidity side, we maintained our commercial gap improvement. We reduced again, when we see on a year-on-year basis, €7.8 billion Euros, that means we are reducing in average €2 billion per quarter with the loan-to-deposit ratio at 123% and net loans to balance sheet customers at 110%. So we are improving our liquidity position. But I believe that in the next quarters, this reduction will be then at a slow pace because we have not the need of maintaining this high level of deleveraging.

The customer deposits in consolidated terms grew 4.7% year-on-year. And in Portugal, they grew 3.2%, what I think is a very good achievement. I would say that loan to customers is still on a decreasing rate. It's still decreasing quarter-to-quarter. However, the credit to companies in Portugal is stable. It was stable in the first quarter and increased a little bit on second quarter, that I think is a positive aspect, a positive fact that I would like to remark.

We reduced this semester, in the quarter, the guarantee that the State had issued in our favor. We redeemed it. To put things like this, the amount of the guarantee was €1.75 billion and this will have annual savings of €24 million Euros.

On the capital, we have a 12.5% core Tier 1 ratio according to the Bank of Portugal rules, above the June figures, last year figures, a strong one, and we have a core Tier 1 EBA ratio of 10%. But if we don't take in consideration the sovereign buffer, as you know the rules have just changed, this ratio is 11.7%.

In terms of profitability, the main aspect, as I mentioned, was the fact that we had this semester a negative net income of €488 million, €60 million better than last year, but on a complex, difficult and demanding environment. The contribution of international operations, excluding Greece that was sold this semester, as you know, was a net income of €84 million, an increase of almost 30% compared with the first half of last year.

We could see an increase of 11% in the core income in Portugal during this quarter when we compare it with the first quarter of the year, which shows some recovery in the domestic operating income. We maintain a very strong reduction of costs, with operating costs reducing almost 16% in Portugal year-on-year again. And we see a significant increase in provisioning, but we maintain the same target of cost of risk for the year. So, we believe that we anticipate some provisioning this first half of the year. So we expect a lower amount in second half, but it will depend on the development of the economy and the development of the macroeconomic environment. So it will not depend only of us. Let's see. But we expect better on that respect second half of the year.

Before I pass to our CFO, Miguel Bragança, let me tell you that I think we concluded an initial step of our plan that was expected for 2012 and 2013, and this main aspect was the reinforcement of our capital, our liquidity position, and the conditions for the definition and the implementation and execution of a clear strategy to recover the profitability in Portugal. Until now, we have not all the information and all details on that.

So last year, we were working on the capital; last year and this year, on the liquidity. Now,with the sale of Greece that was concluded and with the bank in Greece that was concluded and the pre-agreement with DG Comp, now we know what will be in Portugal and what will be the geometry of our business in the different markets, in the different segments, and in different programs. So we are now holding information to review our business plan, to adjust it, and to make the turnaround in Portugal. That's in our objective.

So I'm much more positive on that. And if I put that together with the good performance, as you will see of Poland, Mozambique and Angola, I expect that maintaining a situation in terms of positive figures still difficult in the next quarters, we work, as I mentioned, on the recovery of the profitability in the medium term to Portugal.

I will pass to Miguel Bragança that will go in detail to some of the aspects, of many of the aspects that are in the presentation.

Miguel de Campos Pereira de Bragança

Good afternoon. So as we have commented, the main highlights of this quarter were the agreement with DG Comp. This agreement is substantiated in a plan that we will disclose as soon as the decision goes through all the formalities. The plan will include a very significant effort of cost cutting and a focus on the bank's core markets and businesses. Core markets including Portugal, Angola, Mozambique and Poland.

Another very important point is the continued development in terms of the loan-to-deposit ratio that has reached 123% and the loan to balance sheet customer funds ratio, so including retail bonds, is at 110%. And this was achieved on both sides of the balance sheet, both through an increase in the customer deposits of 4.7%, a part of it in our international operations, mainly Poland, and a part of it also in Portugal.

The core Tier 1 ratio is, according to Bank of Portugal criteria, is at 12.5%, comfortably above the minimum of 10%.And the EBA ratio is at 10%, also comfortable above the minimum of 9%. This was reflected in an improvement of the net income to which contributed the Portuguese operations and also the international operation with a growth of 12.7%.

But more importantly, there is already a trend of recovery of the core income in Portugal. As you see, the second quarter is having much better than the first quarter with a quarter-on-quarter growth of 11%. Together with the operating costs in Portugal, this enabled us, in spite of higher provisions in this quarter, to improve the profitability vis-à-vis last year.

Going through the three main points, the customer funds. As you see here, on top of the growth of 4.7% of deposits, there was also a growth of total customer funds, including customer deposits of 2.1%. So our franchise is growing. So the growth that we are having on deposits is not only based on a transfer from off-balance sheet to on-balance sheet, but it's based on customer franchise, on growth of genuine customer business.

The loans to customers have decreased 6.3%. They have decreased more than we would like. We are trying to rebalance our balance sheet from less mortgage dependent and more based on healthy company's loans. However, according to our perspective, the demand for healthy credit for companies has not improved yet. But what we see is that through the combination of these two movements, the commercial gap has increased once again year-on-year around €8 billion, in line with the development of the last couple of years at the [indiscernible] (15:12).

As you see in page 11, our refinancing needs are quite low. So for the end of this year, we have basically nothing. We have €3 billion that mature in 2014 which are very comfortable when you see the type of closure of commercial gap that we are seeing and with the type of payments that we've made in the last couple of years. And our funding structure is also very healthy, with almost two-thirds finance through customer deposits and less than 5% with wholesale funding with less than one year.

The core capital has improved 40 basis points to 12.5% and this in spite of a decrease in core Tier 1, which is explained basically by the negative net income because this negative effect at the level of the core Tier 1 was more than compensated through the risk-weighted assets reduction, both linked to Greece and linked to a synthetic securitization that we have implemented this quarter that allowed us to save around €2 billion of risk-weighted assets with a genuine risk transfer. So this is a genuine risk transfer that allowed us to decrease the risk-weighted assets.

The pension fund, the funds at the end of June had a slightly positive performance of 0.6%. As of today, with the recoveries of the market, it's better as expected when the markets recover. But the funds, I would say, has a balanced structure at the level of the asset allocation with 26% of shares, 26% of bonds, 15% of rent and real estate, and 33% of deposit cash and short-term paper. Okay?

In terms of profitability, and this is our key challenge as you see, the net interest income has decreased materially. But when you see what – the main explanation of this decrease is the cost of the CoCos. So, of this decrease, around three-quarters is explained by the cost of the CoCos.

The net fees and commissions are improving slightly. But with, I would say, a good quality as we will see because this is a story of two tails so to say. The client-driven commission to transactionality to cash management to customer loyalty are increasing the account management fees. And the fees that are more linked to credit, exactly because we are originating less credits than we envisaged last year, are decreasing. Once the credit starts to recover, this is a good sign. As we disclosed last year, there was a liability management exercise last year that allowed us to register a capital gain of €184 million Euros. And of course, we don't have this impact this year. And this year, we sold a couple of bad loans in order to recover some of the cash. We took the bullet or we bite the bullet and these bad loans impacted our accounting €53 million this year compared with around €7 million last year.

In terms of staff costs, there was also a one-off impact of actuarial table linked to the mortality allowance last year as we had disclosed that was a one-off. The correct for this, the costs had a very, very good behavior, and all the admin costs and depreciation also showing a good behavior, in line with the last quarters.

In terms of impairment and provisions, we decided ,in spite of actually not being obliged, to take a provision of around €80 million on our participation on Piraeus Bank, as you know, as part of the deal of the sale of Millennium Bank Greece to Piraeus, we have acquired a stake in Piraeus, in their capital increase. The mark-to-market of this stake would show around a 20% loss. So in order to be conservative and totally transparent and in spite of the fact that this is booked in an available for sale book, we have registered here a loss, so to say, or an allowance of around €80 million Euros exactly because of the mark-to-market of the stake in Piraeus. In spite of this, we feel very comfortable that the transaction that we closed in Greece is very clearly in the interest of our company, in the interest of our shareholders.

So, going now to the net interest income. As we have showed, what explains the net interest income, as I had explained, was mainly the CoCos cost. From the remaining difference, half of it is basically explained by the evolution of the Euribor, that is at all times minimum. And the other half is linked to volumes effect, namely less credit, that we have compensated somehow with a good management of the margin of deposits but it is actually smaller effects when compared with the cost of the CoCos.

In terms of fees, as I had anticipated, what we see here is that the current account-related fees, so the genuine franchise-linked fees, linked to customers and to retail, are behaving very well. And what we see as a challenge here is everything that is driven by credit volumes and credit acquisition which is exactly because we are generating less credit due to the less credit demand are decreasing vis-à-vis last year.

The trading income had this important behavior when compared with last year. As you see, last year we have clearly one-off gain of €184 million linked to liability management exercise. This year, we had a loss of a sale of bad credits of around €53.6 million Euros. This explains very clearly the behavior of these trading gains, if you want. Going forward, I mean, I would expect a more normal behavior. The international operations have also showed a good behavior with 10% growth in terms of trading income.

The costs. Exactly because the environment is more challenging on the top line, we have anticipated a big part of our efforts in terms of operating costs with a reduction of around 11.5%, of which 16.5% in Portugal. This has been a very tough job that is partly explained to a difficult negotiation with our key providers in terms of admin costs, systems costs and so on, but also with the head count reduction that we have implemented in the end of last year that we are continuing to implement. So here we are ahead of the original plan. But having said that, our future plan going forward will be even more challenging in this regard.

In terms of impairments, I would say that in terms of the second quarter, we are slightly ahead of plan in terms of having a slightly higher cost than we had anticipated beforehand. This was due because we were involved in an exercise of analysis of very very, a profound analysis that was coordinated by the Bank of Portugal and by the auditors at the command of the Bank of Portugal. This was a very thorough exercise that normally is only done at year-end.

By anticipating this exercise, some of the provisions probably that we would have done at year-end have been, so to say, anticipated. However. and of course, we cannot totally commit because I mean, the situation, the macro situation is very difficult to forecast the future now and always, but we are still in line with our objective of around 140 basis points of cost of risk evolution.

The credit quality, I would say, is deteriorating slightly at a much slower pace than it was deteriorating before, which is positive. So the second derivative is behaving well and the coverage ratios are relatively stable. I would like to highlight that the net new entries in Portugal were halved, so I think this good news. So the second derivative is behaving well. Let's see exactly how all the environment and how all the economic situation in Europe mainly evolves. But these are some positive leading indicators.

The collateralization of the portfolio is relatively constant, I would say, with more than 63% of our loans with real estate collateral, and with a quite diversified distribution across sectors in terms of the loans to companies.

Going now to the different geographies, I would pass it now to Rui.

Rui Pedro da Conceição Coimbra Fernandes

Good afternoon. So starting with Portugal, we saw a 3.2% increase in deposits. This is June 2013 versus June 2012. We notice a decrease on the deposits quarter-on-quarter, so from March to June. Although it's a decrease from a more institutional/expensive deposits. On the retail side, we continue to saw the increase on the deposits.

On the loan side, the reduction of 7.8%, it was already mentioned. It is €1 billion in mortgage as anticipated since then this is more or less the forecast for at least the next year is the normal repayment. But it was an important decrease on companies. Although this decrease, for us to really understand the number, should be adjusted from the transfers to some restructuring funds and write-offs. If we do this, and analyzing just the trends adjusted from this transfer of credit, we notice already that the loans to companies are increasing since December.

Net income, it is €530 million negative number coming mainly from the decrease of banking income both net interest income and trading as it was already mentioned. Net interest income, although when we compare as Miguel mentioned already, when we compare with last year, we saw obviously the effect of the CoCos and the market's rate. When we see quarter-on-quarter, the performance was 21% increase and this is mainly due to the better spread on time deposits and now the stock is already at a lower rate than before. We are having now a spread of minus 2.5% which is completely in line with the medium-terms target on our strategic plan.

Moving to commissions. Through that year-on-year, there is a decrease. And the main cause of the decrease is the commissions related to loans although – and this is reflected on the previous remark on the trend for loans to companies that we see already quarter-on-quarter the commissions related to loans to increase. So overall, we have a 5% increase on commissions in Portugal compared to previous quarter.

On operating costs, everything was said. It is in the last year, we decreased 1,173 employees and 65 branches. And what we see when we really compare numbers with others is that, now, we start to compare well with our peers, which was not the case in the recent past.

Credit quality just in Portugal, we have an increase on the non-performing loans to 13.9% now, and we see a decrease on stock. Obviously, this decrease is based on one side of the less new entries in NPLs, but as well, of course, of some write-offs and some transfers to the restructuring fund and this is why the stock decreased. But the decrease on the stock and the increase on the provisions made the coverage ratio to increase.

On the international side, the sum of the three core subsidiaries is already at €119 million. Adjusted for the minorities, the contribution is €84 million, an increase of almost 13%. On Poland, it is according to what was shown before on the strategic plan when it was presented. Mainly on the loan side, the fact that we bet on companies and on consumer and less on mortgage. And the number shows already the implementation of those targets.

Net income increased 15%, both from effect of banking income increase and the lower costs. But the main reason on the banking income increase is coming from fees and commissions and less obvious from the net interest income, where the market's rates play the role here down, but the volume effects and the effort of decreasing the rates on deposits helped to, more or less, maintain at a stable level. Credit quality, very stable. Both the non-performing loans ratio and the cost of risk and still coverage ratio above 100% here for the NPLs.

Moving to Mozambique. Both customer funds and loans increasing at more than 20%, which gives a very comfortable liquidity position. The net income decrease, because the effect of market's rates that was an important and fortunately 240 basis points decrease on the reference rate. And of course, all the increase on the operating cost as well because of still we are on the expansionary phase there, with five branches more.

So net income, net interest income decreased 9% mainly because of the market's rates and the increase on the commissions was not sufficient to compensate that effect, plus the increase on the operating costs. Credit quality, there was an important decrease here on the NPL ratio. But of course, it helps because of the stock, but as well because of the denominator with a strong growth on the loan side. Cost of risk at 134 basis points and a very, very comfortable coverage here of almost 200%.

Moving to Angola. Again, we continued our expansion there in terms of customer funds and loans. Net income increased 7% mainly from the banking income increase of 5%. This, again, we suffer on the net interest income because of the decrease of market's rates, but commissions were sufficient to compensate that effect and credit quality rather stable both on non-performing and the cost of risk. And again non-performing, the coverage is well above 100%.

As a conclusion and we continue to use the same targets since last year, that the first phase, the phase of 2012 and 2013, the focus was on the balance sheet. So we have a core Tier 1 ratio at 12.5%, well above the minimum of 10%. We have a loan-to-deposit ratio of 123% and if you include all the balance sheet customer funds goes to 110%, so very comfortable liquidity position.

We continue to reinforce impairment charge and we start this program of recovery the profitability of Portugal based on costs. But we see already some signs on the net interest income and on commissions. We sold the item of Greece and we are about to present the agreement with DG Comp. Thank you.
We go for Q&A.

Q&A

Operator

Thank you. [Operator Instructions] We will take our first question from Jaime Hernández of Nomura. Please go ahead.

<Q - Jaime Hernández>: Hi. Good afternoon. Thank you for taking my questions. The first one is related to restructuring plan with DG Comp. If you can please explain us what are the reasons behind of – or why the plan was not signed or formally approved at the same time as other Portuguese banks. And I would also like or I would appreciate if you can update the Basel III fully loaded ratios if they have changed in the quarter and if this year [ph] the FOM (35:40) has done positive impacts, if you can provide us some details.

And the third one, although, in fact, you mentioned it in the presentation, can we assume that the cost of risk for the second half of the year will be below maybe the one considering that – do you think the one part of the impairments made this quarter in some way charges banks of the – what you should do in the second half of the year? Thank you very much.

<A - Miguel de Campos Pereira de Bragança>: Jaime, thank you for your questions. In terms of the approval of the restructuring plan, what I can say right now is that everything is, so to say, closed. The deal is closed with DG Comp. I understand that they close in the last week of July until August. So there is an issue of holidays. I don't know exactly because we were not coordinating the processes of the other banks, as normal. But it maybe that the other banks were, I don't know, one week in front of us. So they were before holidays. So they were able to close it before holidays.

And in spite of closing all the deal with the DG Competition formally, there was not an agenda in the meeting for it to be formally approved. But we are not expecting any news in the approval and we have right now a deal that is closed with DG Competition. The only issue is that it has not gone through the formal final committee in terms of DG Competition, okay? So why we were one week later or not, I cannot tell you because holidays happen sometimes, unfortunately.

In terms of Basel III, we are not disclosing Basel III numbers for the moment. What I can say is that both today and in our plan, we think we have a strong plan to be always above the regulatory minimum. In terms of the cost of risk for the second half, we are managing the bank on the assumption, as I said, that some of the provisions that we did in this quarter were anticipations of the provisions that we had for the full year. And internally, we are maintaining our targets, so to say, for the full year. This is what I can tell you. Exactly what will happen, of course, depends on the environment, on the evolution so on. But based on a normal evolution and on a positive evolution of Portugal as we are expecting, we are maintaining our target of 140 basis points, okay?

<Q - Jaime Hernández>: Okay, thank you.

<A - Miguel de Campos Pereira de Bragança>: Okay.

Operator

Thank you. We will take our next question from Mario Ropero of Fidentiis. Please go ahead.

<Q - Mario Ropero Garcia>: Hi. Good afternoon. Thank you for taking my questions. I wanted to ask you a couple of things. The first one, I wanted to ask you about the turnaround in Portugal now that the macro seems to be improving and that you are actually delivering good results in Portugal. I would like to know if you have more visibility on when you think that the Portuguese turnaround may happen. Also, I wanted to ask you if you could give us an update on your plans to repurchase debt with guarantees of the state in the short term. Thank you.

<A - Miguel de Campos Pereira de Bragança>: As we had disclosed at the time of the capital increase, our internal objective was to hit breakeven by the mid of next year and we are maintaining this objective, okay? So, as I said, we are maintaining the objective of hitting breakeven, of being cash positive, so to say, hitting breakeven by the middle of next year.

In terms of a plan to repurchase debt with guarantees, as you know, we have a very strong shield, so to say, of liquidity to discount in the Central Bank. We like to manage this very prudently. And what we are doing is to gradually, so to say, to repurchase these debts with guarantees. We have now repurchased €1.7 billion. We have not taken yet the decision to repurchase more. But subject to the healthy evolution in Portugal and in spite of the fact that we have not taken the decision, this is something that we will analyze very seriously by year-end whether we will repurchase an additional tranche or not, contingent of course on the positive evolution of Portugal.

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

Operator

Thank you. We will take our next question from Carlos Peixoto of BPI. Please go ahead.

<Q - Carlos Peixoto>: Hi. Good afternoon. I was wondering if you could give us some details on the reasons behind the increase in ECB funding in the quarter. Was this to finance sovereign bonds or any other bonds in your ALCO portfolio? Basically, what was the reason behind the increase? Because honestly, we were expecting ,or I was expecting to see it reducing at the same time as the reduction of credit line to the Greek unit was coming down. If I recall correctly, it was supposed to come down by €650 million Euros with the closing of the operation.

My second question would have to do with your insurance business. First, what is currently the deductions on core Tier 1 that result from it and whether this is an asset that the bank would be willing to dispose of to improve capital ratios?

Thank you.

<A - Miguel de Campos Pereira de Bragança>: Hello. Yes, I mean, in a bank with a balance sheet of our size to have fluctuations in terms of cash of €1 billion more, €1 billion less, I mean we have more than €60 billion of credit. We have more than €52 billion of client resources. So I mean, it's perfectly normal in a bank of our size to have here fluctuations of cash. And even last year, what we told early in the last quarter what we told and the guidance that we gave was to expect a difference or an oscillation between €10 and €12 billion in terms of ECB funding.

So I mean this is the normal come and going on. We also have some deposits that are from larger clients. These deposits are more costly than ECB funding. So we are progressively, as we told last quarter, being more stringent in terms of the cost of deposits exactly to refocus the bank more from liquidity to profitability. And so we have also, so to say, lost, as it was commented, some big deposits that are very, very price sensitive maintaining the focus in terms of, I would say, the retail deposits, okay?

Our portfolio is a very conservative portfolio. It has increased basically in the short term, so treasury bills and very short term treasury bonds, bonds that mature in 2014 as you may see in our presentation. We did increase a part of our treasury bill portfolio as you may see in the annex of the presentation. And this also explains so the year-on-year comparison in terms of the treasury, in terms of Portuguese bonds shows an increase of around €2 billion, of around €1billion in treasury bills, very short-term treasury bills, and the other billion also in terms of short term bonds mostly maturing in 2014.

So, in terms of the insurance business, as you may know, we already have a partnership in the insurance business and we are a minority shareholder in the insurance business. The insurance business is not consuming a relevant amount of capital and it has excess capital allegedly as a minority when the bank has a participation in the insurance business and when there is excess capital, we can count on this excess capital towards our core ratios. So it's not consuming a relevant amount of capital. We cannot, so to say, put our insurance business in an open sale because we already have an industry partner that has the majority control of the business. Yes, 51%. We have 49%. Okay. Next?

Operator

We'll take our next question from André Rodrigues of Caixa EI. Please go ahead.

<Q - André Rodrigues>: Hi. Hello, good afternoon and thank you for taking my questions. The first one has to do with the sale of loans that you presented in the second quarter that led to a loss of €53 million Euros. I would like to hear your view if you are planning more of these sales in the second half, if you should expect more of these sales in the second part of the year? The second question has to do with other impairment provisions. If you could give us your view or your expectations for this line in the second half of the year? And inside this line, if you can give us the breakdown of your repossessed loans portfolio and the coverage for it? Thank you.

<A - Miguel de Campos Pereira de Bragança>: Okay. In terms of sale of loans, I can say that this is a very bulky business. So it is sometimes a big loan that you have and that you sell. Not all loans are, so to say, liquid. What I can tell you is that this sale of loans that we did were only of two loans, so one of two big, obviously, big bad loans and it's not something that we have recurrently that we are always doing and that we, I mean, we should expect every quarter. And we don't have anything in our pipeline right now.

So having said that, I mean, it may happen that in the context of a recovery of a big bad loan, we receive a proposal from somebody trying to buy the stressed loan and then this may happen. But as of today, we don't have any expectation in this regard. So we are not planning for this, okay.

In terms of the impairments and provisions, the guidance – I mean, subject, I want to stress this a lot because we are living in a very uncertain world, subject to the positive evolution that we are expecting in Portugal, we are maintaining our internal targets. It's an internal target, it's not a commitment – of around 140 basis points. So of course, a risk for the full year, okay, in our consolidated terms. So you can do the numbers. So this shows a little bit at least what we are planning for. Of course, I mean, if the situation deteriorates, it will be different. If the situation improves, it will be better. But this is what it is. In terms of the repossessed assets, so our gross value of repossessed assets decreased. It was in the last quarter, €1.524 billion Euros and it decreased to €1.474. And the coverage is broadly constant. It actually increased slightly. It was before 21% and it's now 22%, okay? Thank you.

<Q - André Rodrigues>: Okay, thanks.

Operator

Thank you. We will take our next question from Ignacio Ulargui of BBVA. Please go ahead.

<Q - Ignacio Ulargui>: Hi. Good afternoon, gentlemen. I have three questions for you. Two of them are related to the net interest income in Portugal. The first one is related to the cost of deposits and how do you see the competitive environment in terms of deposits going forward? Second, if you have any guidance for top line in Portugal for the second half of the year and also at a group level. And a final question on what are your plans for the Piraeus stake, whether you are planning a quick sale of it as of December 1, I think that when expires the lock-up or you think that you should maintain that stake going forward?

<A - Miguel de Campos Pereira de Bragança>: Okay. Starting with the last question because it's easier, so as you know, we have a six-month lock-up period. And we actually want to sell the Piraeus stake as quickly as possible, as long as we receive a fair price. So as long as the price is minimally fair, we want to – it's not core. We don't know how to time the Greek market. It's not our core business to time the Greek market. So as long as the price is fair, is a genuine market price, we want to sell it as quickly as possible, of course, in articulation with the Piraeus management because we don't want either to do anything that is not coordinated or that is hostile to Piraeus management. So we want to do something that is correct and is aligned. So this is probably what I would like to say.

In terms of the net interest income and of the cost of deposits, we are seeing the cost of deposits behaving well also in the market. The competitive environment, I think, is becoming broadly less stressed. Obviously, I mean this is a movement with ups and downs and not every week is the same. So on a weekly basis, we see here some volatility. But as time goes by, we are seeing a progressive normalization of the situation.

And subject to the normalization in Portugal which we are expecting and in the absence of surprises elsewhere in Europe, we expect a normalization. And the normalization is that the Portuguese deposits, as time goes by, converge to, I would say, progressively and gradually to European average deposits that, they won't become like German deposits tomorrow, but a convergence to European deposits, we think, is totally now normal as the situation goes by. And we are seeing this with some ups and downs, as normal.

In terms of some guidance of net interest income, as you've seen, our interest net income has increased materially from the second quarter to the first quarter. We are expecting a continuation of the improvement of the net interest income on a quarter-on-quarter basis, albeit at a slower pace than the second quarter to the first quarter because the second quarter and the first quarter increased 12% quarter-on-quarter. What we are expecting is that it increases, albeit at a slower pace, as the cost of deposits comes down, and as we are able to create a healthy and genuine companies loan portfolio or to improve our companies loans portfolio, okay?

Based on this, we would also then expect a, progressive also, increase on the top line. So that's basically – a progressive, gradual, sustained increase both on net interest income, on commissions at a lower pace, and on the top line.

<Q - Ignacio Ulargui>: Okay.

<A - Miguel de Campos Pereira de Bragança>: Thank you very much, Ignacio, for your question.

Operator

Thank you. As there are no further questions, I would like to turn the call back over to Mr. Nuno Amado for any additional or closing remarks.

Nuno Manuel da Silva Amado

I think the essential was said. BCP has a strong correlation with the Portuguese economy as you know. And there's additional three markets where we think we can grow and we can create capital, not to try capital but to create capital. So this is our message.

We have a market where we have a position where we are losing money. We want to turn it around. As Miguel mentioned, I will say that if we could reach the breakeven by the second semester of next year that would be great. And we could, based on that, have an interesting development later on. But that requires what I mentioned execution of the plan very clear and strong in the next three quarters, I will put like that. And that also will require, for obvious reasons, that Portugal after so many years of recession, we could have a clear, a better outlook for next year. And, in my opinion, the Portuguese budget for 2014 will be a critical part.
So, optimistic because we know right now what are the conditions that we have apply to the business, what I called before the geometry of the business. We didn't know that before. We will inform the market as soon as the agreement will be done with DG Comp. But we know right now what will be the, as I mentioned, the geometry of our business.

With some attention to Portugal, it's an optimism also to the core market. Let's see what is reserved in the next quarters and what is the execution of our plan in the next quarters. Thank you very much to everybody.

Operator

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