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PRESENTATION

Operator

Hello, and welcome to today's BCP First Half Earnings Presentation. During this call all participants will be in listen-only mode and after that there will be a question-and-answer session. I'll now hand you over to the Chairman of the Board, Mr. Paulo Teixeira Pinto. Sir, please begin.

Paulo Teixeira Pinto - *MILLENNIUM BCP - Chairman*

Good afternoon, ladies and gentlemen. Welcome and thank you for attending this conference call. Before starting the presentation and all those results are already public I would like to stress some message and I believe are important to correctly understand the results for the semester. First, operating profits before provision continue to show a positive evolution, increasing by 15% year-on-year.

Second, this is a result of the very strong increase in profitability of the international operations that were up 68% and already contribute 22% of the group's operating profits as well as strict cost control in Portugal.

Third, I must note however, that profits before taxes on a comparable basis posted a slower increase of 9% as a result of the increase in credit impairment charges in the second quarter although within the levels already announced to the market.

Credit quality remains at very solid levels, as seen by the stable ratio of loans overdue over 90 days, which remained unchanged at 0.8% of the loan portfolio and the high provision coverage levels of 250%.

Tax charges also increased in line with anticipated trends, naturally impacting the evolution of net income, although not change down the slide in business profitability. In the second quarter, and upon conclusion of the Tender Offer for BPI, we booked the related costs, a net amount of EUR65.5 million. These were essentially related to the underwriting agreements and the legal and financial fees of the process, in line with the notice given at the time.

To conclude I want to reiterate to the market's commitment of the bank to successful proceeds with the strategy of developing its international operations, increasing efficiency in Portugal and expanding the commercial networks. Our aim is to accelerate sustainable growth and profitability [long-term] in line with Millennium 2010 program presented on Investors Day on June 1, which was very well received by the market.

Now, I would like to ask Miguel Duarte to start the presentation please.

Miguel Duarte - *MILLENNIUM BCP - Director IR*

Thank you, I believe you all have received those analogies of presentation next on our website. We will refer to the number of pages of that presentation. As we might see in page number three, concerning the highlights of earnings of this first half year. The total net income reached EUR373 million and that is before the BPI costs, which were EUR65 million net. The operating income before provisions increased 15%, ROE stood at 18%. Net income in Portugal increased by 6% and the net income of international operations increased on an accounting basis of 63% and on a comparable basis of 40%. If you can see that, for that purpose the adjustment for the increase of stake in the Bank Millennium in Poland from 50% to 65.5% that occurred in December of last year.

Net interest income and net commissions increased 12% and the operating costs in Portugal reduced by 5% bringing the cost income ratio to 52.8% an improvement of nearly 3 points versus 4 percentages points for first half '06. Loans to customers increased by 13% on the group level, and mortgage loans continue to be the fastest growth ones with 16% growth. Loans overdue by more than 90 days remain stable at 0.8% and the coverage ratio remains also very strong at nearly 250%.

Customer funds increased by 6% in retail banking which is the most profitable area in customer funds and that by 30% in international operations and finally solvency ratio stood at 11.3% in Q1 at 5.4 we will elaborate on these methods within a few minutes.

In slide number five, you can see the graphic expression of the earnings as mentioned. And there you see -- for an increase of 3.1% of net income on comparable basis, i.e. excluding the non-recurrence that were as on the footnote of EUR65 million in 2007 and EUR33.8 in 2006. I guess the reported earnings in '06 were positively impacted by some non-recurrence where as the reported in '07 are negatively impacted by that which explains to a very large extent the decrease that we saw there, because if we adjust for those or if we correct for those effects, the comparable net income increased by 3%

The operating profit before provisions increased by 15%, essentially in line with the growth trends that we have been seeing in previous quarters. So, all-in-all and on the bullets on the right hand side, the indication is clear, all-in-all we see that operating top lines, the margins and commissions remains at an encouraging level of 12%. More than offset the expected decrease in trading gains, and these led to a 7% growth in operating revenues, which more than outpaced the growth of costs, which were essentially flat well below inflation around 1%.

So this is to illustrate that down the line business has remained strong, remained solid and remained in line to with the previous quarters and with our outlook.

The second point relates to the increase in impairment charges which this quarter improved increased to 33 basis points on an annualized base and as you know this is similar to volatile line and it is very dependant on the credits recoveries which in the second quarter were not as high as on the equivalent quarter of last year. We also know from the previous experience that the second half of the year tends to be stronger in terms of credit recoveries.

And also the tax rate, that the increase from 15% last year on half year base to around 18.7 this year and that has essentially to do with some technicalities on the eligibility of some tax deductions. And therefore, these explain why the 15% operating profits before provision turned in to a 3%. It is also worth nothing that the international operations remain and continue very strong as I said before, and they really represent 16% of the Group earnings.

Page number six, the intermediation margin grew 12.3% at the Group level 6% in Portugal with a slight compression on spreads as you see from 2% to 1.9% and international spreads remained at the same level of 3.3% but due to the volume impact the overall net interest margin increased by 28%

If we see in page seven, the evolution essentially shows that the corporate loans suffered around -- suffered some compression, however easing from the trend that we saw for example a year ago, but the mortgage we saw the reduction in line to what we expected was relatively steeper. That deserves a word because it essentially relates to change in the regulation in Portugal that makes it much easier to switch from one bank to the other as the early repayment penalties were lifted or were severely limited to that extent it promotes additional competition.

Along with that the Bank decided to increase its long-term funding and therefore reducing the exposure to interest rate volatility and that had the immediate impact of slightly increasing the funding costs. So I would say that they clearly identify the reasons why we had this slight drop on Q2 versus Q1 but they do not indicate neither a less power for economic environment or a less dynamic business position in the market but ties into that element of change under regular time environment, a part of it because this is a new regulation that came in place, a part of it could be one-off which remains to be seen, what is the ongoing impact. But that work is important to this predicament. Commissions were up by 12%, bear in mind that accounting wise the cost of the BPI offer was accounted as cost commissions so, as a negative commission. So, accounting wise what you will find on the commission line for this first half year, it has the net value of 294, if we adjust for that the increase is of 12% and Portugal increased by 6% and international by 40%.

The breakdown of the commissions in page nine clearly show that, the strongest of them all, Securities and Asset Management continue to grew very fast and on the Banking Related Services and Credits Related Services what we have there is the impact of all -- in [essence] changing on the mortgage regulation namely, the early repayment commissions that are no longer charged. Operating costs remained essentially flat 1.2% year-on-year. As you see in Portugal, we are down 5% and cost income improved as mentioned before. And on international operations, the increase was 20.3% which although didn't not prevent or did not last to a deterioration of the cost-to-income, by the opposite cost-to-income improved by 70.2% to 64.6%.

On following page, page 11 you see the breakdown per country and you see that imports for all cost lines decreased. International operations, the cost related to staff and other admin costs, which are the one most sensitive to the expansion plan as you see the ones that grew the most but that has to do with enlargement of our presence in those markets. Cost-to-income ratio continues to go down, mostly at the group level and in Portugal and this reflects the effort that we continue to enforce for to reduce staff. Year-on-year we have 337 people less, whereas internationally in line with the expansion we increased staff number by more than 8% adding 700 new employees.

Loans to customers in page 13, the increase was 12.6%, again mortgage is strong with 16%. Loans to company is picking up, something that we were expecting and then we saw -- confirmed this half year. In Portugal, the growth was 8% and again mortgage are slowing down also as we have been indicating to the market and loans to companies are picking up, both are growing around 10%. International operations are growing very fast in all the lines, particularly the ones, particularly in mortgage and consumer credit and they represent, the international operations 15% of the total loan portfolio of the Group, but they are 42% of the [dish] off the growth in the loan book.

Page number 14, credit quality. I have said before the overdue ratio over 90 days remained stable at 0.8% of the total book. We had a slight increase in total overdue loans, vis- -vis the previous year. The impairment charges, the coverage ratio decreased to 247%, this is essentially the result of the fact that we continue to do some write-offs and the level of new credit provisions is lower than the write-offs made and this is in it self already a positive impact of the [asset] credit quality of the overall book, which ties in with increasing weight of the mortgage component.

In Portugal, the situation is even more solid, 300% of coverage, 0.6 of overdue ratio and in international we also see improvements, both on the coverage ratio as well as on the overdue ratio that is now below 2%.

Page number 15, we see the evolution. We have essentially within the guidance for the over-the-cycle expectation with 32 basis points, which we mentioned around 30 basis points. We know that some quarters are better than the others, but we are essentially in line, but I would highlight on page number 16 that the gross impairment charges are although on the top of the range, are within the range that we've been seeing on the last year.

What is in fact lower than it was on previous year are credit recoveries, but again, as I've said as we are -- we know historically that the second half tends to be stronger, specially, due to the effect that after the summer holidays usually occur.

Total customer funds were up 6% at the Group level. In Portugal, they were up mildly 1.5 but this figure it includes 6% growth in retail customer funds, which are for us very important given these spreads that they carry. And a reduction in the large tickets on corporate banking, which are the ones with very low or is negative in fact, most of them are spreads. Therefore, this was a deliberate policy in order to protect the overall spread.

International operations increased by 30% in customer funds and they are already account for 18% of the Group total funds, customer funds and as in the credit side, they accounted for 40% of the growth of the period.

In capital, we see that total capital remains at 11.3%, Core Tier 1 at 5.4%, which is 1 peak below what we saw in December. There are essentially three big reasons for this evolution. The first relates to the BPI offer, on one hand we have the impact of the costs, the EUR65.5 million, which coupled with the increase in risk-weighted assets associated with our 9.8% stake in BPI consumed 17 basis points indicated in bullet number one.

The other element relates to the change in the regulatory prudential treatment of deduction of the shareholdings, and so participations in financial and insurance companies. Bear in mind that we have 49% of the life insurance company, Millennium BCP Fortis in Portugal of which we do the bank insurance distribution and that participation implies that half of its amount is divested in Tier 1. These led to a deduction of around 100 basis points and the other is deducted to Tier 2, where as up to now it was only included in risk-weighted assets.

Having said that, bear in mind that we are simply talking about regulations and not about actual outflow of capital. This was partially offset by the strong organic capital generation on a comparable return basis already net of the [360] deductions which were off around 18% in period.

In page number 19, we have the breakdown of the financial investments. Our portfolio now comprises chiefly of these four lines, EUR1.4 billion and we have unrealized capital gains which therefore are not on our P&L of EUR540 million and we have an appreciation in the first half of around EUR83 million as you can see.

Now, in slide number 20 and 21. We would quickly review the performance of the several business units. In slide number 21, we see that domestic retail balance continues to increase its net contribution by 17% and has very attractive return on allotted capital of 57%. Private Banking and Asset Management also increased by 33%. Commercial and Corporate Banking despite the competition, but really as a reflection of the pickup in volumes increased by 10% and then return on allocated capital remained at 20.8.

Investment Banking had a very good quarter and the half year amount increased by 63% with stable work capital allocated, return on allocated capital here it is not the most meaningful measure. European Banking was up 82% and that return on allocated capital increased to 18%. And finally Overseas Banking, which is essentially the most elite continued to increase as most of them posted again a record earnings of EUR22 million in the first half, which were 10% above what we saw last year, which were really in itself a super earnings for the country.

If we look into Page 22, the evolution in volumes on the Portugal retail banking up 10% in loans to customers, 6% in customer funds. Commercial and Corporate banking up 10% as well, down in customer funds as I mentioned before, so the impact of the large tickets and Private Bank and Asset Management up 10%, 12% in loans and 9% in customer funds.

As a result of these in page 22 an update on the execution of the Millennium program for the targets for 2007. We see that the Commercial and Corporate banking in Portugal, we plan to capture an additional EUR37 million this year to reach a total of EUR80 million of additional contribution. These are the start of the program back in the beginning of 2004 and this year alone we already captured 65% of the target having in mind that we are talking about first half which is the weaker, we can say that we are ahead of plan and more clearly so in the Retail banking as we already captured two thirds of the target.

Now in Page 24 an update on cross-selling to illustrate that cross-selling levels continue to increase in all Retail sub segments and in the key business products. Now international operations, Page 25 and next I would suggest for us to Page 26 to remind you those, those of you more interested in Millennium BCP and that the earnings were released on Monday and they are available on Millennium bank website and in page number 27, we see the increase of net income, that increased by 52% and the annualized ROE increased to 19%. We saw strong growth of core income that increased by 27%.

Page 28, you see net interest margin up by 13%. In terms of spreads, the net interest spread declined in the quarter from 3.2% to 2.9% which is a normal evolution in a market that is very dynamic and competitive, but that did not prevent us from increasing the net interest income by 14% showing that the strong volumes growth are more than compensating for this. Commissions had a very good performance, 55% up and they represent already, nearly one-third, 32% of the total operating income.

Page number 29, the evolution of the cost, costs were up 21%, but bear in mind that three quarters of the increase in costs is related to the expansion plan, which they already account for 13% of the cost base. If we were to exclude those the ongoing cost growth on a like-for-like basis was below 9%, which I think is quite important to note as the Bank is growing very fast in volumes around 15%.

We increased staff by nearly 1,000 people, 21% more employees. We have at this moment 380 branches and the cost-to-income ratio has improved to 60%. Volume wise as mentioned, total loans were up 57%, mostly on mortgage that nearly doubled again and on consumer credit. Important to note that in mortgage we entirely continue to do well but we are accelerating further. As you can see the first half year production doubled as well vis- -vis the previous year and we estimate the market share of the Bank, new production to be around 15% as of May 2007.

Customer funds were up 37% and a special word to -- regarding mutual funds, which were up 175% and we increased our market share to 4.5% in June. We are the sixth in the country for a business where we were not present three years ago.

So another consequence of these is Page 22, it is clear that the 2008 targets are already achieved both in terms of cost-to-income and ROE and therefore it is only logical to come up with or to follow new revised targets for 2009 more ambitious in line with what was announced in the 1st of June and so we are now aiming at the target cost-to-income of 55% in 2009 and then ROE above 20% in 2009.

In Greece, we see that earnings increase were up 10%, despite the expansion costs as we will later, although confirming the evolution that we saw in previous years.

Operating revenues up 17% and costs they also grew in line with at 16% but however the revenue costs is really larger than the cost base, it means that's a positive job, it is producing additional profits.

We did these, while we opened 32 new branches and they have now 156 branches and acquired 54,000 new customers. We increased the number of employees by 14% and with all this we managed to also improve the cost-to-income ratio to 72.4%. Loans to customers increased 34% and as you see in mainly in business loans the outset of the growth in all lines and customer funds increased 26%.

A last update in page number 29, to just putting on the single page the summary of the most recent communication with a qualified participation of shareholders with more than 2%. Those were the communications at the most recent bank. It does not necessarily imply that they remain the same as of today, but this is the most updated public information so we thought it to be useful to put it together in one page for the benefit of the market. And then we have the usual financial statements, but I guess that we can now return the call, we are now ready for questions and I would hand the conference to [Arkawi] to open the Q&A period.

QUESTIONS AND ANSWERS

Operator

Okay. We will now begin the question-and-answer portion of this call. [OPERATOR INSTRUCTIONS]

Our very first question is from Carla Rebelo of Banif Investimento, please go ahead Carla.

Carla Rebelo - *Banif Investimento - Analyst*

Hello, good afternoon. I had a couple of questions and I would like to begin with the ones regarding margins. Although everybody is aware that's presently seeing some compression lately I was surprised by the dimension of the [spot] compression we saw in the first quarter. So, I would like to know what are the trends you are expecting for the remainder of the year? Then in terms of loan growth, I was surprised to see consumer loans falling in Portugal on a year-on-year basis, particularly because in the events today it was mentioned that these would be the new target segment. So, I was wondering if you could elaborate a bit further on these. Then to specific questions, regarding the evolution of commission, I would like to know whether it's possible to have a breakdown between the Asset Management funds and Securities, so to have an idea on what could have been the impact of the IPOs we saw in late June. And finally, how much CapEx has already been invested in Romania? Thank you.

Antonio Rodrigues - *MILLENNIUM BCP - Director*

Okay, Carla. Antonio Rodrigues here, good afternoon. I will address the first question and I can see that Miguel is looking for the answers regarding consumer loans and the other points. So regarding the margin, what I wanted to draw your attention to is two factors. One is the normal margin compression that we have been experiencing throughout the various quarters and namely in the two main segments. Mortgage, we have seen throughout the market an evolution -- a negative evolution on that and also possibly in SMEs and retail SMEs. So those are factors that are even -- on a normal basis slightly sliding down over these periods. However, there is a point which we would like to stress which is that the points regarding the changes regarding the regulatory framework that took place at the end of the last year, and most of it start with the beginning of this year, and you're probably familiar with the new rules for interest rate [rounding] applied to all credit contracts.

The scheduling of the data value for movements in deposits and deposit accounts and transfers; and also some limits on commissions paid for early amortization of mortgage loans. I refer this last points because clearly escalations have been limited to very, very small values, this has determined an increased competitive environment whereby clients have felt that now it's a lot easier to move around at least, since some of these are a lot cheaper and they've been shopping around. And I think this is why you can see that this acceleration of the trend in the reduction of the spreads on the first quarter, whereas in the first quarter on mortgage loans we've seen a reduction of roughly four basis points. On the second quarter, we've seen nine basis points on the mortgage because I am referring to slide seven. So, this is clearly something that explains this deceleration of the reduction on the second quarter so associated with this factor.

Then the reason of the factor which is related to the funding of the Group, we are now getting funding over or rather extended the funding over a longer maturities, so that has also impacted similarly on the margin. And all-in-all these three factors that I referred to would on the quarter explain something like EUR6 million i.e. inverting the trend of 4.4 reduction first quarter versus second quarter, but the main item clearly is the regulatory framework change that has occurred, and which has determined on the semester a total effect of EUR13 million. Actually in total as we also account for the impact in commissions, this is a total of

19 because clearly with the reduction of the commissions that I referred to and also with the effects that have taken place. The whole impact would be on the semester roughly EUR19 million, so I think this is a point that we have to consider and explains the evolution of the margin and possibly on the commissions line. And may be we go back to the commission line, Miguel on the second consumer loans.

Miguel Duarte - *MILLENNIUM BCP - Director IR*

On the consumer loans, in fact what you see there and I believe that we are talking for the benefit of all; we are talking about slide number 13. What you see there is a comparison June '06-June '07. If we look quarter-after-quarter we see that from Q1 to Q2 -- no from March '07 to June '07, we have already had an increase in consumer loans in the period alone of around 2.5%. So an annualized base, you might say that the last three months we grew by 10%. So I would say that a part of this slide what it reflects is old news. So it is the reduction that we saw in the second half of '06 and to a lesser extent, also in the first quarter of '07. But clearly we already saw a changing trend. As for the commission, I would say that in -- at the Group level the increase in --

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Antonio Rodrigues - *MILLENNIUM BCP - Director*

On the first point that you were referring to, obviously as the capital markets have evolved positively, I think that also retail has been taking -- profit taking and therefore paying off some of the loans that they have. So, this is also contributing to the evolution.

Miguel Duarte - *MILLENNIUM BCP - Director IR*

Going to the split between Asset Management and Securities. We see that globally, if you take group level, the increase on both is very similar and very similar and very high both of them. However, if you are looking to Portugal, what you see is that the investment banking components are very strong. They are not only related to recent privatization or IPO's because already we're incorporated on the first quarter and that our Asset Management sites continue to grow but they were 8% a year -- year-on-year. And I guess, this is it there is also CapEx for Romania. The overall amount that we plan to invest in this country, it is under EUR200 million evolving to approximately 350 and at the steady state of the operation which shall be 2009 around that, with the opening of new branches. And as it was yesterday confirmed the Bank is ready to open doors before the end of September as scheduled.

Antonio Rodrigues - *MILLENNIUM BCP - Director*

Okay. Just on the commission I think Miguel mentioned but I think it's worth stressing when you look at the commission line. You obviously have to take into consideration the points regarding the costs associated with the offer for BPI. And as I stated on a call with Reuters, that the impact was gross EUR88 million and the impact net after tax impact was 65, but commission line is impacted by EUR88 million in relation to that of which as you all know 86% of that amount is related to the underwriting agreement. And then I think regarding Securities and the impact of any major operation in this quarter and I think the rand impact is probably what you are looking for is marginal and any other impacts are really attributable to higher trading in the quarter due to it's good activity in the capital markets and in the periods.

Carla Rebelo - *Banif Investimento - Analyst*

Okay, thank you.

Operator

We'll now go to Kato Mukuru of Citibank. Please go ahead.

Kato Mukuru - *Citibank - Analyst*

Hello good afternoon. I have just a couple of questions. On the very first information point on the international businesses how many branches do you have in international business at the end of total of the second quarter? And secondly, I noticed that quarter-on-quarter i.e. of your other international i.e. your ex-European businesses actually declined quarter-on-quarter. I wanted just to know where the weakness was, was that in Mozambique compared to Turkey, if you could give us some more explanation on that and also on Fortis with regards to your bancassurance relationship recently sold out of that, they have sold their share in their Spanish bancassurance venture bank location. Is there a possibility that they might be exiting, how does this relationship stand, just some update on that would be fantastic. And also with regards to the margin pressure, to what extent do you believe that is being driven by the low deposit growth, I see your deposits are going well now on 3%. Will there be a drive to accelerate that deposit growth to help fend of some of the margin pressure? Thank you.

Antonio Rodrigues - *MILLENNIUM BCP - Director*

Okay maybe I will start by commenting on Fortis and the relationship and Miguel is just looking at number of branches in international and in international the current number we have increased quite significant recently. In Poland, I think the number is 400 branches right now. Although, at the end of June it was slightly lower than that. So, that's quite an achievement and in line with the objectives regarding the Millennium 2010 program, so we're progressing well that in terms of opening branches with Miguel you can check the branches right now. In terms of the impact on the margin on international activity, there is an effect here regarding Turkey with some changes in the accounting and composition, so Miguel, can you refer to that as well.

And on the Fortis, what I could say is that Fortis has made a significant investment as you all know approximately EUR500 million in acquiring the 50% or more than 50% control of our bancassurance activities and what -- that the progression has been extremely good as we have seen, even from the contribution from Millennium bcp Fortis in to our own accounts in the equity accounted portion of the P&L. And we are in line with the objectives that have been set. The results have progressed well and so, and there is nothing to believe that Fortis -- we just believe that Fortis would not be happy with the investment. We have noticed that and the market has noticed that they have reduced slightly the stake. So, we have noticed that with regards to the results this has been a good evolution, and basically there is no reason to believe that they will not be happy. Miguel, the other questions?

Miguel Duarte - *MILLENNIUM BCP - Director IR*

Thank you. As on the number of branches, the total number of branches of international operations is of 650.

Kato Mukuru - *Citibank - Analyst*

Thank you.

Miguel Duarte - *MILLENNIUM BCP - Director IR*

This number is important because in Portugal we have 867, so more than 40% of the total number of branches is really abroad. Now on the net interest margin on a quarter-on-quarter, and I guess you are comparing Q2 with Q1, right?

Kato Mukuru - *Citibank - Analyst*

Yes, absolutely.

Miguel Duarte - *MILLENNIUM BCP - Director IR*

Yes, in Q1, Q2 versus Q1, we see that essentially we have there an increase in Poland and in Greece, which was driven by volumes increase because as you saw in Greece we had some margin compression which is on a normal given the very strong growth in debt market but that was mostly offset by a change which is a purely accounting change that occurred in Turkey where given the hedge accounting that was applied, some of the costs with the hedging instruments which where were accounting in trading costs were switched to be accounted as interest costs and therefore its compensated for that.

But I would say that -- having that adjustment made we are not seeing a reduction but we would see an increase on the quarter around 6%. As for the pressure on deposits, we see that the whole market is very much looking into the deposit side, essentially because the deposits are an increasingly attractive business, as you see in page seven, we had expressed we have increased off-rates, demand deposits now generated more than three times spreads than the mortgage loan does around 3.4 and term deposits are paying around 1%, so also above mortgage loans. We were aware of that and more than a year ago, we selected the demand -- we selected deposits and customers funds in general as a priority area and so, we reversed the trend we have been seeing in previous years. So, I guess that from that point of view, our evolution in deposit side is our good news.

Antonio Rodrigues - *MILLENNIUM BCP - Director*

Just one additional comment is that, despite the fact that the evolution was mild in Portugal on the deposit side, if you look into segment-by-segment, evolution on the press release, you will see that the customer funds in retail increased by 5.9, Private banking 8.9 and then there is a reduction on companies and corporates and this is precisely because we felt that there were some large tickets that we, I think we talked about in the previous quarter that we decided not to pay those rates and as a consequence, they were lost to the competition with obviously a positive impact on the margin as they were having a negative spread. So I wouldn't think that, that would imply that the explanation is related to that and as you can see in the Retail business and Private banking evolution has been quite positive with increased growth rates from this quarter to the previous quarter particularly in what this relates to retail. Thank you.

Kato Mukuru - *Citibank - Analyst*

If I may add a follow on question on the back of that looking at your Portuguese growth rates and you have grown slow and so when you are growing on these percent that's there about with the market. Where, in which areas do you expect to start outperforming the market on a sustainable basis? Do you expect to see a significant turnaround for example [inaudible], or in your SME book, that would be very helpful?

Antonio Rodrigues - *MILLENNIUM BCP - Director*

The priority in this to go back to our presentation on the Millennium 2010 that we have projected, recall that there were three pillars in Portugal, one was extending the number of branches and we will be doing that actually, the work relating to choosing locations is taking place. And then there was a second objective of maximizing the value of the franchise, particularly in the SME and in personal loans. And then so those would be the two areas where we would expect an improvement, obviously in addition to that the areas associated with the growth of the Portuguese economy namely the companies that are more [prone] to exports as for the time being what we have seen in profit demand is not that significant. So, those three areas is -- are those that we expect an improvement going forward.

Kato Mukuru - *Citibank - Analyst*

Thank you very much.

Operator

Okay, we now are going to Antonio Ramirez of KBW. Please go ahead sir.

Antonio Ramirez - *KBW - Analyst*

Hello, thank you. Basically I have a question or I would like a reflection from you guys, regarding your capital position and also the growth in risk rate assets on the growth in lending, because I see that especially on the corporate loan book in Portugal, you are growing below some of your competitors and when I look to the expansion on these great assets you are growing at 3.5% on year-to-date, which is quite moderate and then we see also a more moderate growth in revenues than for some of these competitors in Portugal. So I was just wondering how comfortable do you feel with your capital position with the Core Tier I at 5.4. Is that any kind of restriction and that's the reason why you cannot grow faster? And then do you think that you can realize some capital from additional disposal of non-core assets and what would be these non-core assets that eventually could be dissolved? So that's the question.

Antonio Rodrigues - *MILLENNIUM BCP - Director*

Thank you Antonio. Miguel, can you put the slide of the capitalized gains. The capital position as Miguel explained very well in the beginning of -- throughout the presentation, and there was a specific slide on that. You could see what the evolution has been over these recent quarters and more or less with one impact or another. We've had an impact quarter-on-quarter, and we've been creating capital at the rate of roughly 10 basis points per quarter. And in this specific quarter there were two impacts. One, was associated with the BPI transaction, 17 basis points that you saw of which 12 basis points had to do with the EUR65 million, and another five basis points had to do with the fact that once we started we went below the 10% threshold on BPI.

We had to include this in our risk rated assets and, obviously, the total investment, 100% of the investment therefore implying the five basis points. So, obviously, those are of debt specific nature and we'd imply that once that investment would be reverted then we would have a 2/5 basis points turnaround. With regards to the other second point that affected capital was in relation to the change on the rolling which affects all the older system Banco Portugues determined that investment in insurance companies and in this case in our Millennium bcp Fortis insurance that until now it was included in capital on risk-rated assets 100% of that.

From now onwards and this quarter that has been done that way, 50% of the total investment to be deducted from Tier 1 and the other 50% is deducted from Tier 2. So those were I guess one-off events that one has to consider and obviously to offset some of these events, clearly one of the items that we can use is non-core assets and clearly on the page that Miguel has shown you the ones where we have interests relating to partnerships, only the two ones are Eureko and Sabadell, which represents the Bank in Spain and vice versa.

Antonio Ramirez - *KBW - Analyst*

Antonio if I may rather than analyzing the evolution of capital I was more interested on the implications this good half if there is any in terms of the growth of the risk-rate asset base and in terms of the growth of the loan book, so basically what I feel that some of your colleagues in Portugal have stronger capital ratios in the region of 6.5% to 7.5% in quarter one and they are also growing much faster in terms of risk-rate assets and in terms of lending in Portugal especially on the on the corporate segment and as a result they also can produce high revenue growth. So, the question was, I mean, I know what's your capital position, is that restraining you from a faster growth. So, is that the restriction for growth or not. I am just trying to understand why you are growing the risk rate asset base and the loan book less let's say than some of your competitors?

Antonio Rodrigues - *MILLENNIUM BCP - Director*

I was just getting to that point and just maybe took a little bit longer then. I was just trying to explain that some of those items are exceptional in nature and we are still generating those 10 basis points per quarter with the growth that we've experienced in that, therefore my conclusion would be that we don't feel restrained by -- to grow more and by that sector because net-net we are generating 10 basis points inconsequently. We could accommodate the higher growth. Towards the fact that clearly what we expect going forward, are these two other items. One, we have significant unrealized items in our -- in the slide that Miguel showed to get -- include the account for additional between 15 and 30 basis points in capital and clearly looking a little bit more longer term 2008 and 2009, when we look into the possibility of once the Basel II is in place and once the transitional period starts fading off then clearly there is a benefit or there could be a benefit from that. So, short-term in conclusion short-term, we are not restrained by the reasons I explained. And even on the longer-term, I would not think that assuming our higher growth rate that would be a problem.

Antonio Ramirez - *KBW - Analyst*

Okay. Thank you.

Miguel Duarte - *MILLENNIUM BCP - Director IR*

And Antonio, if I may, I would just add, that bear in mind that the part of the book that grows as fast it is mortgage which is one that consumes less capital. And if you look into the loan evolution year-to-date we have near to this growth of 6.2% so roughly speaking we have an annualized growth rate of 12.5% while we have risk-rated assets growing at 7%. So the fact that you grow at 7% in risk-rated assets basically reflects -- or it is a result of the nature of growth more focused on mortgage.

Antonio Ramirez - *KBW - Analyst*

Okay, thanks.

Operator

And we go back to Kato Mukuru of Citibank

Kato Mukuru - *Citibank - Analyst*

Sorry, Antonio I just had a question on the back of that. Are you saying that you would consider selling your stakes in BPI and EDP, just wanted a clarification of that? Thanks.

Antonio Rodrigues - *MILLENNIUM BCP - Director*

No, I said the opposite obviously they -- all those items are available for sale. In the past and we have been reducing the stakes and those that I would see on longer term which have to do with the -- not cross-share holdings but with the partnerships that we have in place, the only two are Sabadell and in Eureko so I don't want to make any statement regarding the other two.

Kato Mukuru - *Citibank - Analyst*

So, it is those two that you would consider as selling?

Miguel Duarte - *MILLENNIUM BCP - Director IR*

We did not hear you Kato. Can you please rephrase?

Kato Mukuru - *Citibank - Analyst*

Sorry, just to be clear, I am sorry if I am not understanding you correctly guys, so it is there for Sabadell and Eureko that could be potential investments, that you would look to unwind yourself in the case of Sabadell.

Antonio Rodrigues - *MILLENNIUM BCP - Director*

I'm sorry Sabadell and Eureko are definitely on and those -- they would stay because we have a partnership. Those are the two only ones.

Kato Mukuru - *Citibank - Analyst*

Okay. Thank you very much. And I understand very well that.

Antonio Rodrigues - *MILLENNIUM BCP - Director*

Thanks.

Operator

Okay. [OPERATOR INSTRUCTIONS]. Okay. That seems to be our full questions for today's call. Can I please pass it back to you for any closing comments?

Antonio Rodrigues - *MILLENNIUM BCP - Director*

Jason, thank you very much. Just a final comment on the results saying that clearly, although, this quarter results have been affected by this one-off item and that have obviously, that affected the evolution on an accounting basis. We think that the overall operating income has grown quite positively. Actually, if you exclude the trading line from the overall, and the overall operating growth that you, we'll arrive to the conclusion that the activity in Portugal has grown by more than 13% and the consolidated activity 20%. So, I guess on the current environment those are good figures on the operating side, and that were just my final comments that's drawing your attention to that point. Thank you very much, Miguel.

Miguel Duarte - *MILLENNIUM BCP - Director IR*

I think from our side we can close the conference and thank all the participants for attending.

Operator

This now concludes our call. Thank you all very much for attending.