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PRESENTATION

Operator

Good day, and welcome to the Millennium bcp First Half 2010 Earnings Conference Call. For your information, today's conference is being recorded. At this time, I would like to turn the conference over to Carlos Santos Ferreira, CEO, and Sofia Raposo, Head of Investor Relations. Please go ahead.

Carlos Santos Ferreira - *Millennium bcp - CEO*

Thank you very much. Good afternoon ladies and gentlemen, and welcome and thank you again for attending this conference call. Before commenting on the bank's financial performance, I would like to briefly note that despite an adverse environment characterized by scarcity of liquidity in the market, Millennium bcp continued to focus on pursuing our strategic priorities for this year, namely the recovery of net interest income and commissions, as well as maintaining efforts on costs containment.

The Group posted a profit of EUR163 million in the first half of 2010, 10.7% up from 2009, benefiting from the consistent recovery of banking income. The profit benefits from the important contribution of our international operations that represent now 15.5% of the consolidated net income, namely due to the good performance of our core operations in Poland, Angola and Mozambique.

Bank capital ratios are comfortable. According to IRB methodologies pro-forma tier one ratio reached 8.9% and core tier one ratio 6.6%. Regarding our operation performance, I should highlight - net interest margin continued the upward trend initiated in the second quarter of 2009, increasing 4.4% year-on-year with a strong recovery from the international operations, which registered an increase of 44% over the same period of the previous year.

Commissions also presented a positive performance, both in domestic and international activity rising 11.8% and 30.1% on a yearly basis. Operating costs remained controlled, showing stability in a consolidated basis and the decreasing of 4.5% in

Portugal year-on-year. Efficiency ratios were improved with the consolidated cost to income reaching 52.2% and 46.2% in Portugal in the first six months of 2010.

Regarding our business volumes, customer funds and loans maintained stable. Customer funds increased 1.2% and loans rose 1.5%. During the first half, we have also improved the total return for shareholders reaching a 6.6% return on equity ratio. We took the opportunity to reinforce net impairment charges that stood at 98 basis points. Loans overdue by more than 90 days, stood at 2.7% of total loans, and the coverage ratio at 105.1% comparing in our opinion well with our Iberian peers.

I would like also to emphasize the positive developments of the liquidity management plan. Indeed, all the 2010 refinancing needs of long term debt are already refinanced providing the bank with comfortable liquidity levels. The bank continues to reinforce its portfolio of highly liquid assets discountable in central banks, which reach now EUR16.5 billion.

To sum up, the bank has improved its net income with the recovery of international operations aligned with our objectives. We saw consistent recovery of core banking income since the second quarter of 2009. Costs remained controlled. Non performing loans are in line with the economic cycle. We have reinforced impairment for loan losses, we have a solid liquidity position and tier one reached 8.9%.

I now have Mrs. Sofia Raposo to start the presentation with details of the bank performance in the first half of 2010. Thank you.

Sofia Raposo - *Millennium bcp - Head of IR*

Well, good afternoon Mr. Chairman, good afternoon to you all and good morning to those in the US. I would like to start the first half of 2010 results presentation. As the main highlights have already been presented by the chairman, I will be moving on to slide four. And I would like to say that during the first half of 2010, net profits rose 10.7% to EUR163.2 million and excluding the EUR73.6 million goodwill impairment in the second quarter and capital gains in Angola last year, net profit rose by 87.5% to EUR236.8 million.

The results basically benefit from a strong recovery of international operation from EUR8.8 million profit in the first half of 2009, to EUR25.3 million profit in the first half of this year, and also the consistent improvement in operating revenues, costs and recurring profitability in Portugal.

Customer funds, as you can see in slide six, rose by 1.2% to EUR65.6 million with deposits remaining flat, and we highlight the evolution of the balance sheet customer funds, which grew by 13.4% versus last year, namely long term insurance savings up by 15.4% and assets under management grew by 8.8%. Loans to customers rose 1.5% to EUR78.2 million, of which we highlight the 4.8% growth in mortgage loans. Our corporate loans showed a small 0.1% decline.

With regards to capital, the pro-forma tier one ratio considering the first phase of IRB methodologies, 8.9% and pro forma core tier one, reached 6.6% ratios during the second quarter were negatively affected partially due to the actuarial losses and change in the pension corridor which together represented a negative impact of 62 bp.

During last week, we would like to ask your attention to the Bank of Portugal and CEBS published the results of the European stress test, and basically they reveal the good results for the Millennium bcp and highlight especially the resilience and capital adequacy under the most -- the most adverse scenarios.

During the first half of 2010, the return of pension fund was negative by 3.9%, actuarial losses of EUR365 million that were deducted from during the second quarter from core tier one. Pension liabilities are covered at 102% of pension fund and there are no additional contribution requirements in 2010. Equity exposure stood at 19% at the end of the first half of 2010.

Regarding liquidity, the liquidity position of the Group is comfortable. The refinancing needs for 2010 are mostly paid until May this year. Also, the banks has reinforced the portfolio of assets discountable in the central banks EUR16.5 billion that would cover the long-term wholesale refinancing need until 2012.

The bank has also announced its new liquidity plan that allows the coverage of all refinancing needs for both medium to long term, and also for the short term until 2011, while keeping a confortable cushion for 2012. The purpose of the liquidity plan is to ensure both the refinancing and at the same time reduce the relative exposure to the ECB. We expect to do this basically by the reduction of the commercial gap for the next two, three years by deleveraging and the reinforcement of our relationship with corresponding banks.

Simultaneously, the bank will continue to pool the eligible assets in central banks to over EUR20 billion, and as you can see in the bottom graph, the bottom right graph side, we have already increased the pool from EUR11.3 to EUR16.5 billion between March and June. And at July, we have already reached EUR19.5 billion of eligible assets, which we believe is the largest liquidity cushion of any Portuguese bank. Having said that, we shall continue to pursue to issue in the markets, as soon as they reopen, and we'll be working on the deleveraging of the balance sheet and the maintenance of an adequate funding.

Moving onto the P&L, and as you can see, the results benefit from cost containment along with strong income growth, of which we highlight the recovery of commissions by 17%, and net interest income by 4.4% as well as by strong trading profits during the first half and the second quarter that have allowed us to reinforce bank impairments and to carry out the impairment for EUR74 million goodwill of the Greek operation.

Moving now to slide 13, banking income as you see during the first half of 2010 shows a material improvement of 12.6% for EUR1.488 billion while costs remained almost flat on EUR777 million. The efficiency ratios stood at 52.2%, and showed a significant improvement versus the previous year and previous quarter. We highlight the improvement of the efficiency ratio in Portugal improving versus 2009 and already below 50%, standing at 46.2%.

International operations, we also saw improvement of the cost-to-income ratio when compared to last year, and the cost-to-income ratio is 66.2%. The first half of 2010, net interest income increased by 4.4% compared to the previous year, reversing the trend seen during the past five quarters. As we had already said we were expected to happen.

Net interest income benefits from the recovery of international operations, the notable performance in Poland, Mozambique and Angola, as well as by the consistent recovery of the net interest income in Portugal and as has been most evident in the second quarter of 2010, as we had anticipated

The recovery of the net interest income on a quarterly basis is quite evident looking at the long-term series since first quarter of 2009, and is again reaffirmed in the second quarter of 2010 rising by 7% quarter-on-quarter especially in Portugal by 12% quarter-on-quarter, and 10.7% year-on-year. The reversal of the net interest margin trend is quite visible quarter-on-quarter and in international operation, we see material improvement when compared to last year.

Regarding commissions, slide 18, continued to show a strong increase in the first half of 2010, up by 16.8% both in international operations, rose by a robust 30.1% and in Portugal up by 11.8%. Commissions' growth was led both by a significant 41.7% increase in market related commission and a robust growth of 12% in banking commission.

Increase year-on-year on commissions is most visible in market related commissions as I said both in security operations and asset management, but also quite visible in terms of banking commission, helped mostly by the performance of bancassurance, rising by 48.5% and account related commissions up by 29.2%.

We would like to highlight also the fourth quarter, the quarter on quarter performance where we see material improvement, banking commissions namely in loans and cards. We would also like to stress that we expect this performance in the next coming quarters.

Therefore, despite the decline in interest rates that strongly penalized the net interest income during 2009, namely in the deposit margins, and an increase in the cost of financing over the past 12 months. The Group has already managed to recover from the fall in core income registered in 2009. Core income, that is net interest income plus commissions, finished to increase quarterly now above the level of first quarter 2009, and the total level of core revenues of 2007.

Moving to slide 21, so as the operating costs remained almost flat, getting in particular, the impact of a 4.5% cost reduction in Portugal and in spite of the ongoing expansion in Angola and Mozambique. Personnel cost fell 1.5% led by the decline in pension cost, while admin costs rose 8%,as a result, both of the expansion of the African operations and the impact of the valuation of zloty in Polish costs. Depreciation declined by 4.5%.

With regards to impairment and credit quality, overdue loans ratio over 90 days rose to 2.7% during 2010 and we maintained an impairment coverage ratio over 100%, 105.1 . In the second quarter of 2010, we took the opportunity to reinforce impairment, with the cost of risk rising to 98 basis points.

In this regard, we would like to point out that we expect the cost of risk to decline in the next quarters, and we expect the overall cost of risk for 2010 at around 90 basis points, and for 2011 the cost of risk is expected to be between 70 to 80 basis points.

The current level, as you can see, in slide 23, the current level of cost of risk is aligned with the current economic cycle that's reflect that we had last year, but we believe that it's (technical difficulty) more than the double of the average, of the cycle, and this slide highlights.

In terms of on the balance sheet, total loan impairments as a percent of loans, we would like to show that Millennium presents one of the best provisioning levels among Iberian banks, and this ratio is actually the only one that's comparable between all Iberian banks. And what we have set aside for impairment as percentage of loan book is 2.89%.

Now, moving onto Portugal, volumes in Portugal have remained more or less stable with customer funds pretty much flat at EUR49.9 billion. We would nonetheless highlight a good performance of balance sheet customer funds rising by almost 12% with capitalization insurance rising 14% and assets under management rising by 5.4% year-on-year.

With regards to loans to customers, we saw a small decline of 0.6% to EUR61 billion, and we would like to highlight the 2.2% growth of mortgage loans, nonetheless also significant at loans to companies reduced somewhat by 1.5% and consumer loans reduced by 9.2%.

In terms of banking income, in Portugal, the first half, during the first half of 2010, we show a material improvement of 10.3% year-on-year, reaching EUR1.039 billion, while costs fell 4.5% for EUR478 million. We'd like to highlight that the cost of income ratio in Portugal is the lowest we have registered since 2005.

Now, moving into and looking into the net interest income in Portugal, as you know, the pressure that was created by lower interest rate, raw material improvement and net interest income in the second quarter increase as we had expected. And as we had mentioned last year in the last year conference call at right about this time of the year 2009, we anticipated the recovery to start in the fourth quarter, become more visible in the second quarter of 2010 onwards, as indeed it happened.

Improvement in the net interest income was mostly led by higher customer spread, the re-pricing of the loan books filtering through to the P&L. Unlike other markets, we saw improvements in the time deposit margins under 2009, and again in the second quarter of 2010, as well as we believe that we also marginally benefited from the reversal of interest rates downward trends and the improvement of customer spread.

Re-pricing speed in the corporate segment has now been able to offset the reduction of the deposit margins in the first half of 2009 and the increase in wholesale funding cost year-on-year. We continue to corporate segment re-pricing, which represents

59% of loan portfolio, and which has a three year re-pricing maturity. The results are quite visible in the contractual spreads in the corporate segments.

New production increase in spreads during the second quarter rose by an average of 1.4% when compared to the average of 2008. And we continue to expect very positive effects during the next 12 months.

With regards to the mortgage portfolio, which represent 36% of the loan book in Portugal, we really cannot re-price the portfolio, but new production is being booked at adequate level, and over a period of seven to 10 years, we expect slowly but steadily higher spread level.

With regards to core income in Portugal, there is significant improvement 8% when compared to the last year with improvements -- I'm sorry, with regards to commission, it's a improvement both in terms of banking commissions, as well as market related commissions, and especially in banking commissions.

Operating portfolio in Portugal dropped, as you could see in slide 33, by 4.5%, led by staff costs (technical difficulty) which basically reflect decline in the pension costs, whilst other admin costs rose by 7.9%, and depreciation fell by 9.5%.

Overdue loans of 90 days rose 0.7% (technical difficulty) as of June 2010, and we retain the coverage ratio of 105.5% (technical difficulty) a relatively high level of trading games during the quarter. We also took the opportunity to increase the provisioning level at 95, and the cost of risk is 95 basis points of loans during the first half of 2010.

We also saw during the first half, and especially in the second quarter, improvements in client satisfaction in Portugal, (technical difficulty) actually the highest -- recorded the highest level since the launch of the single brand in 2004.

Moving to international operations, we saw, as I had highlighted before, a strong recovery in international operations with profits growing from EUR8.8 million to EUR25.3 million, mainly led by the good performance of Poland, where the turnaround is now very visible, aesthetic growth in Mozambique, and the expansion and good results of the expansion in Angola.

We also saw, as you can see, in the next line, that Greece showed worse than expected performance, posting losses of EUR10 million. Moving to Poland, the net income of the Polish operation rose by almost six times to EUR34.4 million, and ROE grew from 1.1% to 7.7%. These results obviously reflect a turnaround and operating income recovered by 47% year-on-year driven by poor income growth, whereas trading and other income declined.

Operating cost remained under control for the improvement of the cost to income ratio from 72% to 63.3%. The net interest margin had a significant improvement in the second half of the last year, and maintained that trend by rising 2.9% in spite of the strong deposits promotional campaign. And the net interest margins probably stabilized around (technical difficulty).

Net commissions also posted significant year-on-year growth of 22.2%, and the increase was driven more or less across the board, in cards, mutual funds, other capital market related savings as far as current accounts. Operating costs remained under control, rising by 0.7% with the -- still showing the impact of the restructurings that took place last year. And even though our personnel cost rose by 5.4%, the declines in admin cost and (technical difficulty) depreciation maintained operating costs under control. The number of employees shows the turnaround that was done last year, declining 234 while the number of branches reduced marginally for 465.

With regards to volumes, we saw customer funds growing by 5.3%, while loans to customers remained broadly at EUR8.8 billion rising by 4.5%, loans of individuals growing by 6.3%, whilst loans to companies remained more or less flat at around EUR2.2 billion. Credits quality rose when compared to last year with the impairment ratios standing at 5.9%. However, we would like to highlight the decline in the impairment ratio quarter on quarter from 6.0% to 5.9%, very good signs in the Polish operation.

Net provisions decline by 30% for the Polish operation, and the cost of risk decreased from a 106 basis points last year to 76 basis points in the first half of this year.

In Mozambique, the sustained evolution of net income supported by the banking income growth, in spite of the expansion plan. We'll highlight the GDP growth in Mozambique aims as high levels of around 5%, the ROE remained at very high levels of 38.4%, and the net income evolution was the same increase of 9.6% in banking income and also (technical difficulty) one year.

Net impairments remained as a (technical difficulty) positive policy. And we expanded the branch network for 119. We continued to see sustained volume growth with customer funds up by 20% and loans growing by 56%. And we would like to highlight that the growth in terms of local currency is higher, a 34% growth in customer funds, and 74% in loans to customers.

With regards to Angola, we continued the strong expansion plans for the operation in the last six months, network of 28 branches, nonetheless profit rose by 55.9%, EUR9.8 million. And we continued to see strong loan growth of 58.4% and 39.9% from customers' funds. In spite of the ongoing expansion, the profitability remained high with an ROE of 16.3%.

Now, moving to Greece, the operation posted net losses of EUR10.2 million in the first half. These losses happened by higher provisions. Also this fact that we had low trading gain in the operation and the deteriorating condition in funding. The impairment charges were up by 96% due to the unprecedented economic conditions (technical difficulty) led us to take on a more conservative approach regarding the impairment charges and also were affected by lower trading income during the first half, and on the overall slightly worse than expected.

The net interest income during the second quarter and we saw a deterioration month by month and a deposit war going on pressuring the deposit spreads to negative at 1.57%. With regards to volumes, we saw customer funds declining by 12%, although they reflect mostly institutional customers and (technical difficulty) are due to very intense competition for customer funding, whilst we remained relatively contained in customers loans year-on-year.

Nonetheless, I would like to highlight that the overdue loans ratio over 90 days rose to 3.2% below Greek peers and coverage level by 59.5%. With regard to the portfolio in Greece, coverage is adequate for the impairment estimates that we do have, and we believe that the structural composition of the portfolio makes it safer than the average of the Greek market with a very strong proportion of mortgage loans at an LTV around 50%, and loans to companies without significant exposure to the large companies or sectors like shipping. To conclude, I would like to make the final references, international operations have become increasingly important already representing 24% of customer funds and half the employees, branch network and customers. International operations are already weighing quite significantly in terms of the net income growing from 6% in first half 2009 to 15.5% in the first half 2010.

And as you can see, and it's paramount that growth today come from our international operations.

We would also like to highlight that the net income of our core international operations grew by 94% with the good performance of Poland, Angola and Mozambique. The operations that are more important to our core business among our international portfolio. The bank continues to focus on increasing profitability, and it has been able to reverse the core income growth trend whilst sustainably and effectively cast in a sizeable way.

To conclude and to sum up, we believe that the first half of 2010 was quite positive, and the bank improved profits by 10.7% to EUR160.2 million, and excluding specific items, it actually increased by 87.5% to EUR236.8 million. We saw confirmation of the recovery of our international operations. We see consistent recovery in the net interest and commissions since the third quarter of 2009, we continue to see strong cost containment especially in Portugal, and without penalizing the expansion of Mozambique and Angola, we reinforced impairment and provisions, past due loan ratio are in line with our expectation in the cycle, have adequate liquidity levels, have been working to improve the profile of the bank, and we also believe the stress test highlight the low risk profile of the Group, its resilience and capital adequacy under the most adverse scenarios.

This concludes the presentation. I'm here with the chairman, Mr. Santos Ferreira, the CFO Mr. Paulo Macedo, our Risk Officer, Miguel Pessanha, and we would be delighted to take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Our first question comes from Andre Rodrigues from Caixa, please go ahead.

Andre Rodrigues - *Caixa Banco de Investimento - Analyst*

Hi, hello, good afternoon, Andre Rodrigues from Caixa BI. I have two questions for you. The first one is if you can give us the breakdown in terms of gains in financial operations? What part came from debt valuation adjustments and what part came from the specific gains in terms of markets you're trading with financial operations?

The second one has to do with cost of risk. Although you consider the cost of risk adjusted to the current business cycle, and the truth is that it has been high, what are your expectations? What do you think can be a good proxy for the end of this year in terms of cost of risk? Thank you.

Sofia Raposo - *Millennium bcp - Head of IR*

Thank you, Andre. With regards to (technical difficulty) the debt valuation during the quarter (technical difficulty) around a EUR140 million.

Andre Rodrigues - *Caixa Banco de Investimento - Analyst*

Sorry Sofia, can you repeat it please?

Sofia Raposo - *Millennium bcp - Head of IR*

A EUR140 million is debt valuation. And with regards to own position, it was insignificant. Now, with regards to the cost of risk, what I have said during the presentation and what I would like to highlight at the provisioning level during this quarter was particularly high. We also took the opportunity, because we had very strong trading gains during the quarter, to reinforce the provisioning level and what we are seeing for the whole of 2010, the provisioning level around 90 basis points, which means lower provisioning level, and this is basically for 2010. With regards to 2011, what we are expecting is to have a provisioning level between 70 to 80 basis points, not materially different from what we had last (technical difficulty) previous year.

Andre Rodrigues - *Caixa Banco de Investimento - Analyst*

Sorry Sofia, the trouble is from my phone. Can you repeat your guideline for 2011, sorry?

Sofia Raposo - *Millennium bcp - Head of IR*

70 to 80 basis points.

Andre Rodrigues - *Caixa Banco de Investimento - Analyst*

Okay, thank you.

Operator

Our next question comes from Carlos Peixoto from BPI. Please go ahead.

Carlos Peixoto - *BPI - Analyst*

Hi, good afternoon. I just had a couple of questions. First of all, I was wondering if you could share with us your view on the outlook for NII, particularly on the domestic division for the rest of the year, and for 2011. Secondly, I noticed that there was a decrease in reserves, in return earnings in the balance sheets in the book value. I was wondering what were the reasons behind this, just the division's payment or was there in the other factor in influencing this? Thank you.

Sofia Raposo - *Millennium bcp - Head of IR*

Okay Carlos, starting with the net interest income. What we are expecting for the net interest income for this year is continued growth quarter-on-quarter, as we had anticipated previously, and as we had discussed also. But for this year, we maintain our expectations that the net interest income should grow around 10%, or between 8% to 10%. So, we continued and that was more or less the guidance we had for the year, and we are maintaining that perspective.

This should imply higher growth obviously from our international operations, and with regards to the growth in the Portuguese net interest income and net interest margins. We still believe that we are going to have a positive year-on-year growth in the net interest income in Portugal, which should continue to show during the next quarter's end growth due to the re-pricing earlier.

So, there we are. Initially we believed we could perhaps go around by single digit. Recently we've been moving slightly downwards, because volume growth has not been so strong. So, basically we are talking about something around 3 to 5%, some positive growth.

Carlos Peixoto - *BPI - Analyst*

Sofia, sorry, I didn't quite listen well. You mentioned 8% to 10% growth in NII for the Group, and 3% to 5% for the domestic activity, was that it?

Sofia Raposo - *Millennium bcp - Head of IR*

I was discussing a growth, a positive growth in Portugal of around something between in fact 3 and 5%, with regards to growth on the overall consolidated figures, we are expecting something in high single digits up to 10, 11%.

Carlos Peixoto - *BPI - Analyst*

Okay, thank you.

Sofia Raposo - *Millennium bcp - Head of IR*

Okay. Now, with regards to reserves, looking at the reserves that we have basically what we see is number one is the payment of dividends obviously, and some reduction in fair value reserves. So, basically some reduction in fair value and we can get back to you on specifics if you need any further detail, okay?

Carlos Peixoto - *BPI - Analyst*

Okay, thank you.

Operator

Our next question comes from Alvaro Serrano of Santander. Please go ahead.

Alvaro Serrano - *Santander - Analyst*

Hi, good afternoon. Just one clarification on the provision charge in Portugal. It was quite sizeable in the quarter. I think it's a 120 basis points, something in that magnitude, and still that provision charges, the coverage, sorry, a 110 basis points, the coverage went down in the quarter despite the big effort. Can you explain a bit more what happened? Thanks.

Sofia Raposo - *Millennium bcp - Head of IR*

Hi Alvaro. With regards to the provisioning level, obviously we continue to see -- basically what we are seeing is the level of net interest in terms of overdue loans to remain more or less at the same level that we saw in the first half of 2010. So, in terms of the bad loans we saw some improvements since the first half of 2009 up until the end of the year, but during the first half the performance was a bit below our expectations. So, things were not improving as much as we had anticipated. And therefore, we are providing this guidance of 90 basis points for the year.

Alvaro Serrano - *Santander - Analyst*

And also, just another question on capital. Just assuming...

Sofia Raposo - *Millennium bcp - Head of IR*

You know Alvaro that we also said, as if you recall that we probably go a little bit below a 100% coverage ratio during this quarter, and indeed now we are managing (inaudible). We are managing -- remain with a coverage ratio over a 100, and therefore on overall terms, are better than we were expecting of the year.

Alvaro Serrano - *Santander - Analyst*

Okay, and just another question on a slightly different issue, on capital. You had efficiency plans in place where you expected to basically reduce your risk weighted assets. If nothing changes in terms of the pension fund, which is not fully under your control, given the market volatility, what kind of -- could you update us on what kind of savings in terms of risk weighted assets are representative of risk weighted assets we could see from here to the year end and next year? Thank you.

Sofia Raposo - *Millennium bcp - Head of IR*

So, first of all, with regards to the RWAs, as I had mentioned during the beginning of this year, we were expecting to do about EUR2 billion reduction in risk weighted assets based due to the initiatives we had in that area (technical difficulty) and doing our own homework. So, basically that's what happened in the risk weighted assets December on June declined more or less by what we were expecting.

Going forward and until the end of the year, we believe that we can expend what we did in Portugal to the international operations, and we believe that we could have a further billion perhaps in terms of savings. With regards to the Portugal operations, it's going to depend a little bit on the evolution of the volume of credit if indeed we are expecting some reduction or at least stable volumes over the next 12 months, 18 months, we also expect a significant containment and eventually some decline in that area. So, something of a billion more or less is a sensible expectation. Eventually we could do a little bit more. We'll see.

Alvaro Serrano - *Santander - Analyst*

Okay, thank you very much.

Operator

(Operator Instructions). Our next question comes from Peter Testa of One Investments. Please go ahead.

Peter Testa - *One Investments - Analyst*

Hi, good afternoon. Just firstly the line that the lady is speaking from, Sofia, is quite poor, so our apologies, I think we've all had a bit of trouble with the numbers. So, excuse me if I ask to clarify an earlier question. The first was just on the debt valuation adjustment. Did you say that was 1-4-0, EUR140 million in the quarter?

Sofia Raposo - *Millennium bcp - Head of IR*

Yes.

Peter Testa - *One Investments - Analyst*

Okay. Then, just a question on the lower cost of the pension fund impact on the operating expenses. If you could give us some sort of sense as to what that difference made to the operating expenses, and maybe help explain why that came down in light of the pension deficit move?

Sofia Raposo - *Millennium bcp - Head of IR*

I'm not sure I understood your question with regard to the pensions. What's the impact in terms of the cost going forward?

Peter Testa - *One Investments - Analyst*

It's described in the (inaudible) -- well, no in staff cost, you talk about the staff cost mostly reflected lower cost related to the pension fund in the press release, and I was trying to understand the impact of lower cost with any of the pension fund on staff cost, and maybe the background as to why those are coming down at the same time as the deficit is going up.

Sofia Raposo - *Millennium bcp - Head of IR*

Well, if you look at the presentation, in page 55 you see that pension costs declined by around 45%. So, that's the main impact in terms of pension costs during this year.

Peter Testa - *One Investments - Analyst*

Right. And what is the reasoning for that coming down in light of the deficit, what would you expect going forward?

Sofia Raposo - *Millennium bcp - Head of IR*

Well, as you know, we have pension gains, during 2009, we had significant gains in the pension fund, and as you know, the pension deficit outside of the corridor is being deducted in the P&L over 20 years. So, when pension deficit increases, the pension cost increased. When the exact opposite happens, then we have savings as we had last year.

Peter Testa - *One Investments - Analyst*

Okay. Would you expect then therefore this line to go up in the future?

Sofia Raposo - *Millennium bcp - Head of IR*

We would expect some increase in this line. It's quite easy to estimate, because basically you take the pension fund outside the corridor and you divide it by 20 years, so you know the impact on the pension costs, okay?

Peter Testa - *One Investments - Analyst*

Okay. And last question was on liquidity and liquidity management, please. It's notable from the balance sheet statement if there's an increase, say use of central banks as a source of deposit. But I was wondering if you could help us understand in light of two things. One in light of your desire to increase assets fundable to the central banks, whether you'd expect this to carry on increasing? And the second is the extent to which this has an impact on the net interest margin? Thank you.

Sofia Raposo - *Millennium bcp - Head of IR*

Okay, I'm sorry. With regards to the liquidity plan as you saw in our presentation, and you saw in the balance sheet as well, we had an increase of ECB funds to EUR11.6 billion. This happened, because as you know, we paid a significant amount of debt during the month of May. And also in Portugal, sovereign issues have been quite -- has had quite an important impact both in the closure of the markets since we saw as well Spain I believe, and well, even excluding Greece, which is probably worse, but Portugal and Spain have remained more or less closer since April 2010, and what we saw as well is not only the medium to long term market closure, but we also saw some reduction in terms of the short-term funding, namely in commercial paper, and some reduction in terms of maturities, and a reduction in terms of volumes, in terms of money markets as well.

So, the overall impact was the increase of the ECB funding until June, and we expect perhaps we don't have a very high short-term funding as of now, and we believe we can maintain a reasonable amount still rolling over, and a portion of the funding obviously continues to rollover normally. We believe that it's going to be perhaps some increase in the next -- in the quarter, but definitely not as significant as you saw during the second quarter of this year.

But we are taking the initiative first of all to continue to deleverage the balance sheet and control credit growth, and focus a little bit more on deposits and reducing eventually some of the credit going forward. And we'll also take the opportunity to issue medium to long-term funding to see if the markets reopen. And that is quite clear.

So, obviously ECB funding has been what we could do, that's why the eligible assets pool is there for, So, we've obviously been using it when it was required, but our aim is to reduce this over time.

Peter Testa - *One Investments - Analyst*

And on...

Sofia Raposo - *Millennium bcp - Head of IR*

With regards to the impact on the P&L, what we believe is that at this point while the increase is more towards the end of the quarter, so the impact is relatively limited, we believe that going forward, it should have perhaps some positive effect, hopefully more of a positive effect depends on what exactly we are re-pricing, from short term funding to medium-long term funding.

Peter Testa - *One Investments - Analyst*

Okay, right, thank you very much.

Operator

We now have a follow up question from Andre Rodrigues. Please go ahead.

Andre Rodrigues - *Caixa Banco de Investimento - Analyst*

Hi again. I have a question that is more a confirmation. This semester, you had a very low tax rate. This is quite in line in terms of trend with what BPI and BES also presented. From my point of view, this has to do with the fiscal benefits from the dividends this quarter, and also from any adjustment on the fair tax assets due to the increase of taxes in Portugal. Can you confirm this? Thank you.

Sofia Raposo - *Millennium bcp - Head of IR*

Well, no, I don't confirm this at all. The low tax rate in the quarter for BCP has to do first of all, obviously with dividends that were quite significant during the quarter, also because we have higher than average, I would say, high level of equity accounts as profits.

And apart from the usual effect of lower tax rate in our subsidiaries abroad, we also had an effect that had nothing to do with the increase on deferred taxes, and the increase in the corporate rate on deferred tax and nothing to do with it with the specific gains we had a tax shield funds. Some of the companies that we have been restructuring, as you know, BCP has been simplifying its structure of holding companies, and therefore we were able to take advantage of some tax shields that were in some other companies, some other losses that these companies had. And therefore, we had a low tax rate during the quarter, and we expect to have a low tax rate for the whole year. Also, I would say that this is not at all the same situation as BES or BPI have reported.

Andre Rodrigues - *Caixa Banco de Investimento - Analyst*

Okay.

Sofia Raposo - *Millennium bcp - Head of IR*

Okay?

Andre Rodrigues - *Caixa Banco de Investimento - Analyst*

Thanks.

Operator

We are now taking a question from Carlos Peixoto of BPI, please go ahead.

Carlos Peixoto - *BPI - Analyst*

Hi. I would just like to pose two questions. Regarding administrative costs, this quarter there was a quarter on quarter increase in administrative costs in Portugal from what I was able to read from your press release. This was mainly driven with advertisement in outsourcing costs. My question is whether you see these levels as sustainable for the rest of the year or do you expect some decreases.

Secondly, if I recall correctly from the first Q presentation, the goodwill on Greece was around EUR250 million more or less. Do you expect any further impairments along the year or in upcoming quarters or are you comfortable with a value that Greece currently has in your books? Thank you.

Sofia Raposo - *Millennium bcp - Head of IR*

Hi Carlos, again, with regards to the quarter-on-quarter in Greece and Portuguese admin costs and overall costs, this second quarter we had a bit of an increase due to the sponsoring of the Rock in Rio, and we expect for the whole of the year to remain with contained costs. So, we are expecting in terms of cost for 2010 in Portugal, is for a reduction between 1% to 2%, some reduction in cost in Portugal again this year.

Going forward, what we expect is to grow cost very lightly under inflation for the next two, three years. With regards to consolidated costs we are expecting this (technical difficulty) consolidated cost growth around -- under inflation again this year, and the next year and only to start rising again in 2012, okay? Does that answer your question?

With regards to Greece, as you know every year we assess the -- at the end of the year, we reassess the goodwill that we have in all of our subsidiaries. With regards to Greece, obviously we are looking into the business plan of the Company. We are looking into the economic situations, and we are going to be reassessing the subsidiary and what we are planning to do in the country in the next 6 month.

So, we'll have obviously a clearer view by December. Nonetheless, we thought it was wise and prudent at this point to consider that some reduction of the value of the (technical difficulty) and therefore we believe that what we did today was sizeable and enough to what we are expecting and will cost now. Obviously we will reassess our view, okay?

Carlos Peixoto - *BPI - Analyst*

Okay, thank you.

Operator

We are now taking a question from Tiago Dionisio of Espirito Santo. Please go ahead.

Tiago Bossa Dionisio - *Espirito Santo Research - Analyst*

Hi, good afternoon. Going back to Greece, I have a question on deposits. They came down 12% in the quarter, so roughly about EUR440 million. Is it possible to have an update on how things are developing in the first days of July and how you see also for the remainder of the year? Do you expect this, well, some stabilization or at least the worst to be behind us? And also, well you mentioned that over the next six months you're going to assess your operations in Greece. How do you see the next six months evolving? Thank you.

Sofia Raposo - *Millennium bcp - Head of IR*

Tiago, hi, good to hear you. With regards to deposits in Greece --

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Tiago Bossa Dionisio - *Espirito Santo Research - Analyst*

Sofia, I'm sorry, I can't hear you very well.

Sofia Raposo - *Millennium bcp - Head of IR*

Sorry, I'll try to be closer to the microphone. With regards to deposits in Greece, we believe we saw the worse of the potential outflows in the second quarter of 2010, mostly obviously in the institutional players, which are more volatile.

In July, in the third quarter we've seen no change from the previous situation, so nothing new there. What we are expecting with regards to Greece towards the end of the year is for losses to stand around EUR20 million. So, some improvements perhaps during the next few quarters, but still a sizeable reinforcement in terms of the provisioning level, and obviously depressed margins for the time being.

We expect this obviously to not continue for the next few years. So, perhaps a weak situation next year as well, but we are -- but our portfolio is quite controlled, and it's a very sound portfolio, so we do not expect the impact of the prices to be beyond a few years at most, okay? Thank you.

Tiago Bossa Dionisio - *Espirito Santo Research - Analyst*

Okay, just a follow up question, if I may. Regarding Poland, your assessment on your operations in the country remains the same correctly or it remains the core market?

Sofia Raposo - *Millennium bcp - Head of IR*

We're very pleased with the outcome of the operation with the turnaround that we're doing in Poland. The economic situation there is much better than it was a year ago. Things are picking up. We are seeing for the first time, improvements in NPL. In the corporate business, for instance, it's still not growing as much as we could anticipate in corporate, but nonetheless we believe that the performance of the operation is that good, and it remains within our budget, so we're very happy with how it's going in Poland, yes.

Tiago Bossa Dionisio - *Espirito Santo Research - Analyst*

Okay, thank you.

Operator

Our final question today comes from Benjie Creelan-Sandford of Macquarie. Please go ahead.

Benjie Creelan-Sandford - *Macquarie - Analyst*

Hi, good afternoon, I might have a couple of questions. First on Greece, is BCP the parent providing any direct support to the Greek subsidiary at the moment in terms of liquidity or such, and if so, to what extent and on what terms? And then secondly, on Portugal, can you give some guidance on what level you expect the NPL ratio to peak and when and how much further we could expect the coverage ratio to fall from current level? Thanks.

Sofia Raposo - *Millennium bcp - Head of IR*

Hi Benjie, good to hear you. With regards to Greece, yes we are the parent Company to Greece, so obviously if they have any structural financing and they don't access, and they cannot access the market we would provide liquidity through them.

Having said that, the Greek operation has funded themselves in the market track in securitizations in the past, so they have a sound funding structure. And what they have done, they can also use some of their loan book as collateral to the ECB directly. So, we believe that, yes, and as a guarantee. So they have alternative sources of funding that are not only the parent company, okay?

With regards to the NPL, obviously if we are providing the funding that we indeed are provided, it's provided at market rate.

With regards to NPL, to the NPL in Portugal, we are expecting NPLs to continue to increase as we have said before, and we believe that they should likely peak during 2012, as the economy is going down a little. But we expect to -- 2011, sorry. 2011 should be the peak of NPLs, but we are expecting to start seeing improvements in the second half of the year.

Benjie Creelan-Sandford - *Macquarie - Analyst*

Okay thanks, and just on the coverage. Is there a minimum level you wouldn't want to see that drop below?

Sofia Raposo - *Millennium bcp - Head of IR*

Okay. So, in terms of coverage, we believe that it is very -- that it's possible for NPL, for the coverage ratios to continue to go. As I said before, the coverage ratio should go below the 100% levels, but not very much during the next quarters. But we expect this to start increasing more towards the end of 2011, the second half of 2011, to start growing again. So, maybe we will go a little under, but then we expect to start going again.

Benjie Creelan-Sandford - *Macquarie - Analyst*

Okay, thank you very much.

Sofia Raposo - *Millennium bcp - Head of IR*

Okay, thank you.

Operator

That will conclude today's question and answer session. I would now like to turn the call back to Mr. Carlos Santos Ferreira, CEO, for any additional or closing remarks.

Carlos Santos Ferreira - *Millennium bcp - CEO*

Thank you very much ladies and gentlemen, let me finish this presentation with two final remarks. First, during the first half we have shown material improvements in core revenues and cost control. Second, following the disclosure of stress test results made to the major European banks, it is comfortable to see that Millennium bcp is one of the most capitalized banks in the Iberian Peninsula, and was ranked in second place when compared with its national peers as regards to capital ratios. Thank you very much. We will see each other in October. Thank you.

Operator

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