Conference Call Transcript

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PRESENTATION

Operator

Good day and welcome to the Millennium bcp third-quarter 2010 earnings conference call. 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***

Good afternoon ladies and gentlemen. Welcome and thank you for attending this conference call.

I would like to begin by stressing out that despite the demanding environment featured by austerity measures and led by macroeconomic imbalances, Millennium bcp was able to present a profit of EUR 217.4 million in the first nine months of 2010, 22.0% up from the corresponding period of 2009.

This positive net income is based on Millennium bcp's current activity, both in Portugal and in international operations, and benefits from the consistent recovery of banking income, which grew 13.1% year-on-year, and cost containment policy, especially in domestic activity.

It should be also pointed out the growing importance of our international operations, with a net income increase from EUR 3.0 million in September 2009 to EUR 26.6 million at the end of this quarter.

The bank's capital ratios are comfortable. According to IRB methodologies (pro forma), Tier 1 ratio reached 9.0% and Core Tier I ratio 6.7%.

Regarding our liquidity management plan, I would like to emphasize that all of 2010 refinancing needs on the long-term debt are already refinanced and we continue to reinforce our portfolio of highly liquid assets discountable in central banks, which now reached EUR 17.8 billion.

Insofar as profitability is concerned, I should highlight -

First, net interest margin continued the upward trend, initiated in the second quarter of 2009 increasing 9.4% year-on-year, driven by efforts on credit re-pricing and improvements on deposits margin, and benefiting from international operations contribution, which registered an increase of 32.5% over the same quarter of the previous period.

Second, commissions - commissions also presented a positive performance, both in domestic and international activity.

Third, operating costs - operating costs remained controlled showing stability on a consolidated basis and a decreasing of 4.2% in Portugal, year-on-year.

And last, but not the least, efficiency ratios improved with consolidated cost-to-income reaching 55.1% and 48.7% in Portugal, in the first nine months of 2010.

Regarding the business volumes, we could see an improvement of the commercial gap, with customer funds increasing 1.9% on a yearly basis and 2.0% on a quarterly basis, mainly driven by the increase on deposits, both in Portugal and in international operations. Loans to customers decreased slightly by 0.3% despite growth in international activity, which increase 8.4%, year-on-year.

Regarding the quality of credit and the cost of risk, net impairment charges stood at 96 basis points, in line with current economic cycle, but decreasing in the third quarter versus the second. Loans overdue by more than 90 days stood at 3.1% of total loans and the coverage ratio at 100.2%, comparing well with our Iberian peers.

In relation to our international activity, I would like to underline -

First, the good results achieved by the Polish operation, which posted a net profit of EUR 53.4 million in the first nine months of 2010 -

Second, the maintenance of expansion plans in Angola and Mozambique, with Millennium Angola expanding its retail network to 30 branches in September and 33 currently. Together, these operations presented a net profit of EUR 60.4 million in the first nine months of 2010, up 21.0% over the same period of 2009.

I now ask Ms. Sofia Raposo to start the presentation, with the details of the Bank's performance in the third quarter of 2010. Thank you very much.

Sofia Raposo - ***Millennium bcp - Head of IR***

Thank you Mr. Chairman.

Good afternoon to all.

I would like to start the third quarter 2010 results presentation. So moving into slide 4, as the main highlights were already addressed by the Chairman.

During the first nine months of 2010 net profits rose 22.0% to EUR 217.4 million. The results benefited from the strong recovery of international operations, that were up by more than nine times, from EUR 3.0 million in the nine months of 2009 to EUR 26.6 million profits, in the first nine months of this year and from the consistent improvement of operating revenues, costs, and recurrent profitability in Portugal, where results went up by 9.0% to EUR 190.8 million, in spite of the EUR 73.6 million of goodwill impairment, that was recorded in the second quarter, as well as capital gains that were recorded last year.

Customer funds rose by 1.9% to EUR 67 billion.

We highlight the evolution of off-balance sheet funds growing by 8.4% versus last year, namely in long-term insurance savings that was up by 11.4% and reached an all-time high of EUR 12 billion. We would also like to underline the deposit growth between June and September, up by 2.8% in the quarter and rising by more than EUR 1.2 billion. International operations contributed with a 6.8% growth but Portugal contributed with a strong part of the deposit growth in the last quarter.

Loans to customers fell by 0.3%, so remaining broadly stable to EUR 76.6 billion, of which we would highlight the 4.3% growth of mortgage loans, while corporate loans showed a 2.9% decline. International operations rose by 8.4% while Portugal declined by 2.5%, contributing to an improvement of the consolidated commercial gap by by EUR2.7 billion in the first quarter of 2010.

With regards to capital, the pro forma Tier I ratio, with the first phase of the use of IRB methodologies, improved to 9.0% in September 2010, when compared to 8.9% in June 2010. And the pro forma Core Tier I also improved from 6.6% in June to 6.7% in September 2010, mostly benefiting from the reduction of risk weighted assets.

The liquidity position of the Group is comfortable, and all the medium/ long-term refinancing needs for 2010 were paid until September 2010. We would like to note that the refinancing needs of 2011, 2012 and 2013 are lower than in the past two years. Also, the bank has continued to reinforce the portfolio of eligible assets, which are discountable in central banks, to EUR 17.8 billion that would cover all of the long-term wholesale refinancing needs until 2013.

In June, the bank also announced its new liquidity plan that basically allows the coverage of most of its refinancing needs, both in the medium to long-term and also for the short-term and until 2011, while keeping a comfortable cushion for 2012 and '13. Our purpose is to ensure the refinancing, but at the same time, reduce the relative exposure to the ECB. We expect to do this through the reduction of the commercial gap in the next two to three years by deleveraging; by the reinforcement of our relationship with correspondent banks and by issuing in the market as soon as it re-opens.

Simultaneously, the bank will continue to reinforce the pool of eligible assets with central banks to over EUR 20 billion and we already have almost EUR 18 billion, up from EUR 11 billion in the first quarter, the largest liquidity cushion of any Portuguese bank.

With regards to ECB usage, we had EUR 14 billion used in September 2010. This represents an improvement versus August figures, which was already better than the July figures and in line with the Portuguese market evolution. We would like to note that the increase versus June reflects the fact that short-term funding, such as commercial paper and money markets, reduced from EUR 5.3 billion in June to EUR 2.5 billion in September. So, in fact, and unlike what several analysts have been saying and writing, there is no gain in terms of cost of funding through the bank from higher ECB usage.

It is also important to stress that, considering our ongoing initiatives, we believe we should be able to reduce our ECB usage, to around half of that of the current amount in the next 12 months. Also, and as we have always said, we shall continue to pursue to issue in the markets as soon as they re-open and we will be working on the de-leveraging of the balance sheet and the maintenance of an adequate short-term funding position that has improved in recent months and that we believe can stabilize at around, at least EUR 2 billion to EUR 3 billion.

As you can see in the P&L, the results benefit from cost containment along with a strong revenue growth of 13.1% of which we highlight the recovery in commissions by 12.7% and net interest income by 9.4%, as well as by strong trading profits that have allowed us to reinforce credit impairment by 30.7% and to carry out the impairments of EUR 74 million of goodwill for the Greek operation.

Moving to slide 11, the banking income in the nine months of 2010 shows a material improvement of 13.1%, reaching EUR 2,147 million while costs remained controlled at EUR 1,183 million.

The efficiency ratio of 55.1% on a consolidated basis shows a significant improvement versus last year and we highlight the improvement of the efficiency ratio, cost to income in Portugal, improving versus 2009 and clearly below 50%, at 48.7%.

In the first nine months of 2010, the net interest income increased by 9.4% compared to the previous year, benefiting from the recovery of international operations, with its net interest income increasing by 32.5%. And we underscore the performance of Poland, up by 85% in euros; in Angola, 90% in euros; and Mozambique, 5% in euros.

But we also highlight the consistent recovery of net interest income in Portugal, on a quarterly basis, and that again was reinforced in the third quarter as we had anticipated, reaching its highest level, since the second quarter of 2009.

The recovery of the net interest income, on a quarterly basis, is quite evident and is again re-affirmed in the third quarter of 2010, rising by 6.2% quarter-on-quarter, especially in Portugal, which was up by 7.6%, quarter-on-quarter, and 22.7%, year-on-year.

The reversal of the net interest margin trend is quite visible, both in international operations, in the third quarter of 2010, but we also saw improvements in the net interest margins in Portugal.

Commissions continued to show a strong increase in the first nine months of [2010, up by 12.7%] (corrected by company after the call), both in international operations that rose by a robust 17.9% and in Portugal by 10.7%. Commission growth was led both by a significant 27.5% increase in market-related commissions but also by a robust growth of 9.7% in banking commissions.

The increase in commissions, on a year-on-year basis in quarterly commissions is both visible in market-related commissions but mostly in banking commissions, up by 5.7%; led by the performance in loans and guarantees, which were up by 16%, bancassurance that was up by 15%, and account-related commissions that were up by nearly 6%. We would also like to stress that we expect that this positive trend in commissions should continue in the next quarters.

Therefore, despite the decline in interest rates that strongly penalized the net interest income throughout 2009, mainly in deposit margins, and the increase in the cost of financing, the Group has already managed to recover from the fall in core income registered in 2009. The core income, that is net interest income plus commissions, continues to increase, on a quarterly basis, and is now above the level of first quarter of '09 and the level of core revenues in 2007.

Operating costs were contained showing a growth of 0.9% and were negatively affected by the closure of our US operations, in an amount of EUR 7.7 million. The contain cost evolution reflects, in particular, the 4.2% cost reduction in Portugal and, in spite of the expansion in Angola and Mozambique.

Personnel costs fell by 2.1% led by the decline in pension costs while administrative costs rose 4.6% as a result of the expansion of the African operations and the impact of devaluation of the zloty, in Poland. Depreciation rose by 6.4% affected by the performance of the international activity, particularly by the impact from the depreciation of the residual value of assets excluded from the process of sale of our US operation, in an amount of EUR 6 million.

The overdue loans ratio over 90 days rose to 3.1% and we maintained an impairment coverage of over 100% at 100.2%.

The impairment charges stood,in the first nine months of 2010, at 96 basis points of loans, which is below the first half figures, with impairment charges in the third quarter of 2010 standing at 86 basis points of loans.

During this quarter, we saw a low level of net entries than in the previous two quarters and we believe that the peak of provisioning is now behind us. We maintain our guidance of an overall cost of risk of around 90 basis points for 2010 and for 2011 we expect the cost of risk to stand between 70 to 80 basis points.

Putting impairment costs into perspective, we note that our impairment charges, as of the nine months 2010, are more than the average of this cycle within the double of the average of the cycle of the last 10 years, standing at 96 basis points of loans, versus a normalized level of 47 basis points of loans since 2000.

We, therefore, were able to maintain a high level of provisions in our balance sheet set aside for non-performing loans that basically stands at around 3.11% of loans and are one of the best in Iberian banks.

Moving to slide 25, customer funds in Portugal rose by 0.4% year-on-year to EUR 50.7 billion and recovered in the third quarter of 2010 by 2%, with an improvement in deposits of 2.5% or an increase of EUR 755 million between June and September.

Loans to customers in Portugal, on the other hand and as we had indicated previously, that was our intention, fell by 2.5% leading to a EUR 1.5 billion decline in loans during the third quarter. This decline was mostly led by corporates that fell 4.5%, year-on-year, and we nonetheless maintained a 1.9% growth in mortgage loans.

The banking income in Portugal, in the nine months of 2010, shows a material improvement of 12.3% year-on-year reaching EUR 1,486 million while costs fell 4.2% to EUR 724 million.

With regards to the net interest income in Portugal and, in spite of the pressure created by lower interest rates, we saw material improvement in the net interest income in the third quarter of this year as we had expected.

As I had mentioned in last year conference calls, we anticipated the recovery to start in the fourth quarter of 2009 and to become more visible from second quarter of 2010 onwards and this is again confirmed in this quarter. The improvement in the net interest income was mostly led by higher customer spreads that rose from 1.56% in June to 1.69% in September. And we continue to see the re-pricing of the loan book still going through the P&L, Unlike other markets, we still saw improvements in the time deposit margins in September of 2009 throughout 2010 and again in this third quarter of the year. We also marginally benefited from the reversal of interest rates downward trend, in terms of demand deposits, although we did have a negative impact in mortgage margins due to the base rate effect.

So on the overall, we see deposit margin spreads in Portugal improving from a negative 56 basis points in Q2 to 44 basis points in the third quarter of 2010.

Re-pricing speed of the corporate segment, has now been able to offset the reduction in deposit margins seen throughout 2009 and the increase in wholesale funding cost, year-on-year.

We continue to see the corporate segment re-pricing which represents 58% of the portfolio and have a three-year re-pricing maturity. The results are visible in the increase of the contractual spreads of the corporate segment that were up by 1.4 percentage points versus 2008 level. We expect re-pricing in the corporate segment to continue and to have a very positive impact in the next year.

With regards to the mortgage portfolio, which represents 37% of the loan book in Portugal, the loan book cannot be re-priced but the new production is being carried out with some spreads of 2.37% and with healthy LTVs of 71%.

With regards to commissions, they rose by 10.7%, year-on-year in Portugal, with market-related commissions rising by 23.5%, but also showing a very sound increase in banking commissions of 8.9%. And we would highlight the good performance of bancassurance, up by 35% and the account related commissions up by 16% and loan commissions up by 5%.

We would also like to note that, even though our quarterly performance is affected by seasonality, we still saw quite significant increases in terms of commissions in loans on a year-on-year comparison, which shows the real effort that is being done on a yearly basis. We saw increases of loans and guarantees commissions up by 27%, an increase in bancassurance by 15% and accounts-related commissions by 8.8%.

Despite the seasonality, there was in Portugal still growth in terms of commissions, mainly in banking commissions and the recovery is rather visible and consistent.

In terms of costs, in Portugal they fell by 4.2% led by the decline of 7.4% in personnel costs even though in the third quarter there was a slight increase in pension costs, on a quarterly basis.

In terms of administrative costs, they increased by 2.9%, but with a better quarterly performance and depreciation fell by 9.5%.

So all in all, this led to an improvement in the cost-to-income ratio from 60.7% to 48.7%.

Overdue loans over 90 days rose to 3.1% and we maintained an impairment coverage over 100% at 100.8%.

The impairment charges stood, in the first nine months of 2010, at 97 basis points of loans with impairment charges in the third quarter standing at 94 basis points of loans, which was slightly below the second quarter of this year.

So during the quarter, we continued to see a lower level of net entries on the overall of the quarter than in the previous two quarters, so basically during the first half of 2010, and we continue to reinforce our provisioning efforts.

One final note with regards to Portugal to note that global client satisfaction remains at its higher level since the launch of the single brand.

Now, moving into international operations, the contribution from international operations rose by more than nine times from EUR 3.0 million to EUR 26.6 million, and we would highlight the performance of Poland, rising to EUR 53.4 million, Mozambique rising by 12.6% to EUR [44.3 million and Angola rising by 52.8%] (corrected by company after the call) to EUR 16.1 million.

With regards to the Polish operation, we would like to highlight that net income during the third quarter was almost 10% higher than the second and, on the overall, the nine months profits amounted to EUR 53.4 million with regular increasing quarterly profits.

The main drivers were higher income from core activities, net interest income, commissions, strong cost discipline and a lower cost of risk.

With regards to the operating income, it grew by 20%, mainly due to core income which was up by 37.4%, year-on-year, whereas trading and other income showed some decline due to the negative effect of swaps.

The net interest income showed a significant improvement in the nine months compared to last year, up by 51% with accelerating quarterly trends. And the net interest margin grew to 2.4% through the improvement of the cost of deposits which are already in positive territory but also slightly better spreads on loans.

With regards to commissions, they continued to grow by 18.3%, year-on-year, and the increase was driven by cards, mutual funds and capital markets related saving products, as well as current accounts and loans.

Operating costs went up by 1.9% and were quite contained, showing an increase in personnel costs by 7.5%, that is basically led by marketing costs , and a decline in administrative costs of 2.2% and in depreciation by 7.4%. Therefore, in Poland, we also saw improvement in the cost-to-income ratio from 75.5% to 64.1%.

With regards to volumes, in terms of customer funds, they rose by 12.0% to EUR 9.5 billion whereas in loans to customers we saw an increase of 5.6% to EUR 8.9 billion. And in terms of segments, the loans to individuals rose by 6.6% whereas corporates went up by 2.6%. The growth in corporates, however, hides the increase in the weight of SMEs to 80% on the overall portfolio of corporate and with a notable growth of 1.3 billion zlotys.

Now with regards to credit quality, we saw some improvements in terms of the impaired loans ratio, that was down from 5.90% to 5.87% with some improvement in terms of the leasing portfolios and loans to corporates. And, therefore, we were able to reduce the provisioning assets, year-on-year, by 47.6% to [EUR 45.1 million] (corrected by company after the call), which represents an improvement in the impairment charges as a percentage of total loans, from 133 basis points to 70 basis points.

With regards to Mozambique, we continue to see growth in terms of profitability, so the net income was up by 12.6% to EUR 44.3 million, despite the devaluation of the metical of 18% in the third quarter and the ROE in our Mozambiquean operation remained high at 37%.

The net income evolution was supported by banking income good performance, rising by 9.9%, with moderate evolution of operating costs and we continue to see , on the overall, a good performance of the operation.

Volume wise and, looking in euros, they grew by nearly 7% in terms of customer funds and 42% in terms of loans to customers with very good results in terms of overdue loans ratio showing an improvement, year-on-year, with a very high coverage ratio. In terms of volumes, in local currency, customer funds went up by 25% in local currency and 66%. in loans in local currency.

Now with regards to Angola, the network continued to expand to 30 branches, and nonetheless, net income went up by 52.8% to EUR 16.1 million and maintaining a return on equity of 17.3%.

GDP in Angola remains at robust levels. It's expected to reach around 6% in 2010 and 7% next year.

Now, in overall terms, banking income went up by 80% and operating costs went up by 56% in euros, loans to customers also up by 55% and customer funds by nearly 30%.

With regards to Greece, the operation continues obviously affected by the impacts of the sovereign crisis. Net profits or net losses stood at EUR 20.9 million, in the first nine months of 2010, and were basically penalized both by impairment charges and the deposit war that's been happening since the beginning of the year.

The impairment charges were up by 83%, as obviously the current economic conditions led to significant delinquency increase and also we saw the challenging market conditions affecting trading that showed a small loss, in the nine months of 2010, whereas last year they were positive.

Net interest income was 14% down, year-on-year, and clearly shows the impact of, first of all, a deposit war that's been going on and we see deposit spreads worsening out to minus 2.15%, during the third quarter.

To explain what we have been trying to do in Greece, you will see the quarterly performance in our deposits, showing an increase of 7% on the overall, customer funds rising by 6.3% in the quarter while, at the same time, we are still carrying out a small reduction of our loans to customer portfolio to EUR 5.1 million, therefore improving the commercial gap in the country.

To conclude, just some final references.

As you know, we continue to see international operations becoming increasingly important in our portfolio, obviously, representing now about a quarter of our customer funds, half the branches, customers and employees and already weighing about 30% of our banking income and clearly increasing the contribution to net income, from 2% to 12% in the nine months of 2010, and also to show that, growth, now and in the future, should continue to come from our international operations.

Our core international operations, especially the ones that we want to continue to expand profitably, saw profits rise by more than three times to EUR 114 million, with the notable performances of Poland, Angola and Mozambique.

Also, we would like to mark that Millennium bcp was authorized to provide banking services using an onshore branch, being part of our strategy to boost our presence in Asia, with emphasis in China. We will offer the customers in Macao and other geographies access to the international business platform, linking both China, Africa, and Europe and creating the base of a new strategic triangle.

The bank continues focus on increasing profitability and it has been able to reverse the core income growth trend and sustainably and effectively cutting costs in a sizable way.

So therefore we believe that despite the austerity, nine months of 2010 is quite positive.

The bank managed to improve profits by 22% to EUR 217 million, despite specific items. International operations improved materially.

The net interest income and commissions show a clear recovery since the third quarter of 2009.

We continue to have a very strong cost containment, especially in Portugal and without penalizing our expansion in Angola and Mozambique. We reinforced impairments and provisions and saw some improvements in the level of net entries of cost to loan ratios.

The 2010 refinancing needs are complete and liquidity is being managed adequately. Customer funds and deposits improved during the quarter, while de-leveraging is proceeding and capital remains adequate, improving slightly in the third quarter.

So to sum up, we are competing in an age of austerity with the adequate measures to overcome the crisis by credit re-pricing, higher revenues and cost control; increasing the trust in our capital management with our funding plans and by improving results; and focus and profitability, keeping Portugal on track, focusing on those geographies that have strong growth and should have higher contribution to profits and creating the base of a new strategic triangle between Portugal, Africa, and China.

And this completes the presentation. I'm here with the Chairman, Mr. Santos Ferreira; the CFO, Mr. Paulo Macedo; the CFO of our Polish operation, Mr. Fernando Bicho; our Risk Officer, Mr. Miguel Pessanha; and our Chief Treasurer, Mr. Pedro Turras and we would be delighted to take

QUESTION AND ANSWER

Operator

Thank you. (Operator Instructions). We will take our first question from Andre Rodrigues from Caixa BI. Please go ahead.

Andre Rodrigues - ***Caixa BI - Analyst***

Hello, good afternoon, Andre Rodrigues from Caixa BI. I have two questions. The first one has to do with cost of risk. In the last quarter your cost of risk stood at 98 basis points, and at that time you said that your guideline was around 90.

Well, my question is if you maintain this idea to the end of the year and if you can give us some outlook for the next year. I know the outlook is difficult to give because the visibility is quite low but do you maintain the 70 to 80 basis points in terms of cost of risk for 2011?

The second question has to do with the small item D&A, depreciation and amortization, which had a very high level this quarter. Do you think this level is to be maintained or it was an unusual item this quarter? Thank you.

Paulo Macedo - ***Millennium bcp - EVP, CFO***

Hello Andre, it's Paulo Macedo.

Relating to your first question, in terms of cost of risk we had, as you saw this quarter, 86 basis points, so what we think we'll have around similar level in the fourth quarter, a bit lower, so our prediction for the end of the year, around 90 basis points, I think is reasonable and, at that this time of the year, is what we see ahead.

Concerning the next year, of course, as you know, it will depend a lot in the terms of the evolution of the Portuguese economy but what we can see is, in international terms, apart of the cost of risk that we had in the past in Poland has disappeared and we are better now.

The other concern, in terms of our US operations, it will disappear also and since we have closed the operation this year. So and even in Angola and Mozambique we think we are with higher provisioning but because we want to keep a healthy growth not because we've seen impairment cases there.

And also, I think a part of the cost of risk that we had was one off because, as you know, a part was collateralized with securities so we don't think that will happen again. In terms of individuals, we have clearly better loan to values than in the past, in Portugal and in Poland, both portfolios are better today, in terms of LTVs, than in the past. And also we have less consumer credit and, as you know, we benefit from the fact that we didn't had a huge growth in Portugal, so we will not be severely hit by a small decrease. These are our reasons to see around 80 basis points. We think, if things maintain more or less the same, there are a part of one offs that were already made and we don't think they will be repeated.

Relating to your second question, in terms of depreciation, the rise of the depreciation is mainly related with the closing of US operation. We had, with our sale to investors, some total depreciation of intangible assets and that is mainly the reason. so it's also one offs in depreciation. The next quarter, we will keep on track, and I think, in terms of depreciation, the trend that we have seen, quarter-on-quarter decreasing, it's what we expect going forward.

Andre Rodrigues - ***Caixa BI - Analyst***

Okay. Thank you.

Operator

We will take our next question from Antonio Ramirez from KBW. Please go ahead.

Antonio Ramirez - ***KBW - Analyst***

Hello, good afternoon, Antonio Ramirez here. I have few questions, all of them related to funding and margins. I think, Sofia, you mentioned in the conference call that you think you can reduce the ECB funding to half, in the near term.

So I don't know if I got it correctly, but assuming that's the case or whatever it is your target, how do you think you can get to a lower ECB utilization. I mean, obviously if the markets open and improve significantly, you will be able to issue into the market but if that doesn't happen, what would be the alternative to reduce the ECB fundings? So that would be my first question and maybe I come back with following questions.

Pedro Turras - ***Millennium bcp - Chief Treasurer***

Pedro Turras. Thank you for your question. Let me first remember you what our funding policy has been for the last six months. Just after we saw the crisis aggravating in April, we defined the plan in three stages.

First stage was to increase our asset portfolio eligible from the ECB. That is to cover all our financing needs up to end of 2011. We are now completing this process for 2010. We just announced that we are over EUR 17 billion assets by now and we'll probably reach EUR 20 billion portfolio by the year end in Portugal only. As you may see by the slide that Sofia Raposo just presented, that will cover all our needs for next year, regarding all the instruments maturing by then, but even so, we will keep growing our portfolio up to EUR 25 billion in Portugal by the end of 2011.

Second stage of our policy was to diversify away from the ECB. Not that we are exceeding exactly what we projected at the time that our usage would be by now,in fact, you estimated correctly, we estimated even slightly over the EUR 14 billion that we have now but we understand that the market is demanding us to diversify our funding sources and in fact that was part of our policy that we defined in May this year.

How do we intend to do it? Using three types of instruments. First of all, the short-term instruments. We have been working within the international money markets and European commercial paper since in fact, the beginning of the year without interruption. In fact, we reduced some volumes and the terms of the transactions we're doing but we never fall below the EUR 2 billion mark. And we're now increasing it. In October we're already around EUR 3 billion and we expect that trend to keep on over the next month, and of course, in 2011.

Antonio Ramirez - ***KBW - Analyst***

This is commercial paper, you said?

Pedro Turras - ***Millennium bcp - Chief Treasurer***

Commercial paper and international money markets. Basically, money market more than commercial paper.

Secondly, we have the debt instruments. As you referred, we are seeing some windows of opportunities coming like in the Spanish market occurred in September that may happen in the Portuguese market too soon, probably only in 2011, but maybe we have conditions to do it earlier. Of course, we're not speaking about senior debt; we're speaking about covered notes, we're speaking about exchangeable and other kinds of more structured debt but we believe, we can do some issuing, at least, up to the end of 2011.

But where we see significant volumes coming is from the repo markets. and here we have been studying several offers from the very short-term end, up to one week, to the very- medium/ long-term end with repos up to the maturity of the assets, we're speaking about three, five and more years. And those include, not only eligible assets, but in particular some non-eligible assets that could be used in this repo activity. And from here, we expect, still in 2010, to reduce our ECB funding by, at least EUR1 billion to EUR2 billion, and then increase this activity during 2011 up to the moment that will arrive most probably with less than half that our usage is now, by the end of 2011.

I don't know if I answered your question.completely.

Antonio Ramirez - ***KBW - Analyst***

Yes.

Pedro Turras - ***Millennium bcp - Chief Treasurer***

Just let me add that we have a third stage in our policy, which is arbitraging between the costs that we are having now in diversifying from the funding. We understand that we pay a little more than we should but having in mind that you'll have the EUR 25 billion assets in the next year, that you could eventually use with the liquidity transaction with ECB, we can then arbitrage the costs and bring it down turning our funding costs more efficient by the end of 2011.

Antonio Ramirez - ***KBW - Analyst***

Yes, effectively that was my follow-up question. Today, it is obvious that the cost in markets would be higher than the cost of the ECB, so some of the instruments where you will diversify so much are short-term instruments so I would assume the cost that will not be substantially higher. But, other instruments that are near term that would (technical difficulty) so any view on that on cost of funding?

Pedro Turras - ***Millennium bcp - Chief Treasurer***

As I told you, yes, we are willing to pay more for the medium-term instruments in the short-term. But up to the moment with the market as it stands, with our needs are not significant because we have alternatives in the ECB, even if the ECB rate becomes higher then it is today, we can then arbitrage and bring the prices down. Of course, we will account for a slightly increase in overall funding but, that won't be too significant in the overall results of the bank.

Antonio Ramirez - ***KBW - Analyst***

Okay. My follow-up question would be - you said in the presentation you have completed EUR 1.6 billion private placements. So, if you can tell us, what is the duration of these placements and what was the cost?

Sofia Raposo - ***Millennium bcp - Head of IR***

This is private placements in the local market and the duration is just a year, so it should be payable next year and we expect it hopefully to be renewed. One follow-up comment Antonio, about your question with regards to funding costs. Basically, I would like to stress. because I know it is one area where you are particularly worried. Obviously our intention is to start issuing in the market, as soon as the markets reopen and obviously that will have higher funding costs.

But, do note, that the funding does not re-price immediately all at once. And we are also continuing to do the re-pricing of our loan portfolio. So, in overall terms there might be one quarter where we do poorly but on the overall, we should be able to match the increase in funding costs slowly by the increase in spreads of our loan portfolio, so, we are still maintaining a relatively moderate expectation.

Operator

We will now take our next question from Carlos Peixoto from BPI. Please go ahead.

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

Hi, good afternoon. I was just wondering, well considering all that you said regarding the liquidity plan and the impacts that this could have or may not have in NII, whether you could give us some light on the outlook you see for next year, both for loan volume growth, deposits and as well for NII. Also on that subject, do you have any concrete figure of the covered bond that you are going to be issuing during next year? You have any expectation on the amounts to issue and its cost? Thank you.

Sofia Raposo - ***Millennium bcp - Head of IR***

Hi, hello Carlos. With regards to your questions of volumes, we have said before and we maintain our expectations that the loans should continue to decline in Portugal, by around 2% for the next two years. And we should have, on a consolidated basis, something closer to 0% due to the growth of our international operations.

In terms of deposits, basically what we are expecting is not a huge deposit growth obviously, in Portugal at least, due to the economic conditions. but, still we do expect that deposits should continue to increase somewhat in the next few years.

And with regards to the net interest margins, net interest income mostly, is that we should have in Portugal. for this year, obviously, we retain the same expectations of a positive growth during the year.

So, considering the figures for the first nine months, we continue to expect single-digit growth in the net interest income.

For next year we would expect something between mid single digits for the whole of the consolidated portfolio and in Portugal a much more moderate growth but still something closer to 0% to 2% growth in the next year.

I hope this answer your question, I'm not sure I understood the beginning of your question if there was anything else...

Pedro Turras - ***Millennium bcp - Chief Treasurer***

Well, I think there was something about the cost of the covered notes what we eventually put by next year.

Sofia Raposo - ***Millennium bcp - Head of IR***

With regards to the covered notes, we do intend to start issuing in the market and we would very likely prefer to do with a covered bond. With regards to costs, Pedro will give you some notes..

Pedro Turras - ***Millennium bcp - Chief Treasurer***

Well, with the volatility of the markets, it's very difficult to predict any kind of prices for next year. But I can give you a reference - the Spanish banks went out to the markets with 250 basis points by September, two years issues.

We think that we have a better product recognized by the market, in relation to the Spanish covered bonds. In fact, we systematically price below Spanish bonds over the years but since the covered notes are now stronger linked to the sovereign risks, we believe that we have to price slightly over the Spanish banks so I think we have to pay a premium above them to get out to the market. That premium could grow to 25 to 50 basis points. That's what I expect in that actual market condition.

We don't know what will happen after the next few months.

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

Just a follow up. Are there any figures regarding the amounts that bcp could be issuing of covered bonds? And secondly, and a separate question, could you share us some light on the evolution of the pension fund for the quarter? Thank you.

Sofia Raposo - ***Millennium bcp - Head of IR***

Carlos, with regards to the covered bonds, we would expect to be able to issue up to EUR 2 billion in terms of the potential of the portfolio now. With regards to your second question, about the pension fund, we saw a positive evolution during the third quarter compared to what we had until the first half. So we believe that, in terms of capital, the performance was close to neutral.in terms of capital.

Paulo Macedo - ***Millennium bcp - EVP, CFO***

Relating to the pension fund, I think we should bear in mind that there was some structural developments in our pension funds. So besides the aspect of a better profitability of the Fund compared to the second quarter, in the third quarter what happened is also we have a coverage of more then 100% of the Fund, we have around 103% actually, but the most important is that in structural fund there was three moves.

The first one, as you know, was the agreement between the unions, the government and the bank to move future responsibilities to the State which will will reduce substantially the volatility of our fund and make it even more closer because, as you know, since 2006 all of our new employees went to social security. But this agreement closed also the fund for the actual employees and reduces the size of the fund more quickly going forward.

The second thing is we also took measures in terms of our complementary funds. We reduced the benefit of the complementary fund, which will happen only if our ROE is higher than 10%. So on the years that our ROE will be higher than 10%, we will have lower costs than in the past.

And the third thing that is important is we have checked our data, in terms of the deviations of the actuarial assumptions for our fund, and we have a positive deviation for salaries, for pensions and overall, and this for the third consecutive year. So year-on-year our results are systematically better than what the assumptions are. So I think this is also important in terms of the pension fund. Okay?

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

Thank you.

Operator

We will take our next question from Andrea Unzueta from JP Morgan. Please go ahead.

Andrea Unzueta - ***JP Morgan - Analyst***

Yes, good afternoon. Most of my questions have been answered already but I have one on the transition to IRB. If I understand correctly, you have around EUR 5 billion reduction on risk weighted asset and, if I calculate the impact on current core levels, I get to around 30 basis points impact. Can you explain me where the other 70 basis points come from?

Miguel Pessanha - ***Millennium bcp - Risk Officer***

In fact, the definition of capital is different between the standardized approach and the IRB. In the case of the standardized approach, there are adjustments related to provisions and impairment that are replaced in IRB by the relationship between the expected loss and the impairments. This is the reason for the differences.

Andrea Unzueta - ***JP Morgan - Analyst***

Okay, thank you.

Operator

We will take our next question from Antonio Ramirez from KBW. Please go ahead.

Antonio Ramirez - ***KBW - Analyst***

Thank you. Just to follow up.

I saw that the securities book, if I had all the portfolio trading available for sale at maturity, it increased in the quarter by around EUR 1.5 billion and then, year-to-date, it has increased more significantly by around EUR 5.5 billion. So it looks inconsistent because you are talking about de-leveraging and reducing the size of the balance sheet as a way to basically generate funding or reduce your funding needs, but on the other hand, the securities book has been growing during the year.

At the time you have been growing your demand of funds from the ECB so that would suggest there is some kind of carry trade going on. So I would like to know what type of assets did you added?

I saw in this quarter, in the held-to-maturity portfolio, I think increased the most. So what type of assets did you added and what was the contribution of these portfolios net of the funding cost to the net interest income? Thank you.

Paulo Macedo - ***Millennium bcp - EVP, CFO***

Antonio, in terms of the increase in our portfolio, it is mainly related to eligible assets to the ECB. So, clearly, a part is public led, mainly treasury bills, and that's mainly the reason for the growth in terms of our assets.

In terms of what would be the benefit, in terms of margin, I don't have that figure here but we can come back to you on that.

Antonio Ramirez - ***KBW - Analyst***

Okay, thank you.

Operator

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

Ignacio Ulargui - ***BBVA - Analyst***

Hi, good afternoon.

I just have one question, on the international operations. Could you provide us with further color regarding the outlook that you have for Greece and Romania and especially focusing on the revenue side on provisioning?

Thank you.

Sofia Raposo - ***Millennium bcp - Head of IR***

With regards to Greece, what we aim to do in Greece is basically, at this point, to reduce the commercial gap. So you should see some declines in terms of the loan portfolio going forward whilst at the same time and hopefully improving the customer funds and that is the short-term strategy for Greece.

Another subject is, obviously, the control of impairments. We did an audit on our loan books in May and we did not find any significant worries in that particular portfolio. But nonetheless Greece is suffering from the effects of the crisis that is going on in the country, so we should expect it to evolve in the same trends as the sector, although in our view with a relatively or a much better quality of our specific portfolio.

In Romania we should expect the natural growth that should happened from the new network but we do not plan to expand in the country. It should go along in line with the growth of the market on the new network, so we do not expect anything much different than what we had in our business plan which is basically to reach break even by 2013.

Ignacio Ulargui - ***BBVA - Analyst***

Okay, thank you very much.

Operator

We will now move to Andre Rodrigues from Caixa BI. Please go ahead.

Andre Rodrigues - ***Caixa BI - Analyst***

Hi, hello again. Just to ask another item and to follow up one question. You have, again, a very low corporate income tax this quarter as it happened in the second one. What I want to listen is, if you have an explanation, what are you expecting during the next quarters?

Second, regarding pension funds and the explanation came from Mr. Paulo Macedo Are you expecting to change your actuarial assumptions in what refers to salaries assumptions and in changes in that kind of matters you spoke about? Thank you.

Paulo Macedo - ***Millennium bcp - EVP, CFO***

I'll respond to your second question and we will come back to your first one. On actuarial assumptions, we have a lot of things going on and, as you know, we think we clearly have high assumptions for salaries and pensions for whatever it will happen in the long-term, in the next five years or three years or whatever we can count. So that's a side of our assumptions.

The other side is what will be the discount rate and ,on that, as we don't have a clear view one what is a AA minus for Portugal, what we think is we should consider various variables like what would be the alternatives - Ots (Portuguese Public debt) or what are the similar bonds.

But don't think that we are considering huge variations. We are considering what will happen and what will be the trend of the Portuguese budget -- and if it is approved, this can change significantly and decrease of the interest that we are paying. That could be a scenario or we could be in exactly the opposite scenario in a month.

The interest rates are significantly higher, so I think we must see what will happen in these couple of months, but I think we are looking for all variables at the same time. The salaries, the pensions and the interest rates can vary significantly going forward.

Sofia has some comments on your first question, thank you.

Sofia Raposo - ***Millennium bcp - Head of IR***

Hi, Andre again.

With regards to taxes - this year we had a lowerthanaverage income tax rate. Basically it has to do with four aspects, I would say.

So, first of all, obviously this year we have higher equity accountedprofits and dividends, that were already taxed and we also have a higher contribution from international operations that have a lower tax rate, marginal tax rate than in Portugal.

We have, in this particular year , some fiscal gains from the restructuring and simplification of holding companies which is something that we have been undergoing in the past two years. So this year we should expect, until year-end, to maintain a relatively lower than average tax rate. Going forward, we should expect a normalized level, let's say around 20%, 22%, excluding of course the banking income tax, that we will see when it is published, when the budget is

Andre Rodrigues - ***Caixa BI - Analyst***

Okay, that's fine. Thank you.

Operator

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

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

Just two additional questions. First of all, I was wondering if you could give us some light on the timeframe for the approval of the IRB methods for risk weighted assets calculations.

And secondly, regarding this last subject on the new taxes on banks. Did you have any expectation or any initial calculation on what could be the impact for bcp of this new levy. Thank you.

Paulo Macedo - ***Millennium bcp - EVP, CFO***

On your first question, relating to the calendar for the first phase of IRB, we have a timetable agreed with the Bank of Portugal. The central bank pointed to conclude these exercises a year ahead so, on 31 December of 2010, it is our target.

Sofia Raposo - ***Millennium bcp - Head of IR***

Relating to the tax, we have done some simulations according to what was published from the budget proposal and we would estimate something between a minimum of EUR 5 million to EUR 20 million maximum.

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

Thank you.

Operator

(Operator Instructions). As there are no further questions in the queue that would conclude today's Q&A sessions. I would now like to turn the call back to Carlos Santos Ferreira for any additional or closing remarks.

Carlos Santos Ferreira - ***Millennium bcp - CEO***

Okay, thank you very much. Ladies and gentlemen, let me finish this presentation with three final remarks.

First, in September of this year, Millennium bcp has officially inaugurated the onshore branch in Macao with the aim of establish itself as an international business platform between the triangle of China, Europe and the Portuguese speaking African countries.

Second, we have complete in October the sale of our United States' operation, in line with our strategy to focus on priority markets. Third and the last, we are confident that our strategy responds to the challenges of an age of austerity with - focus and profitability, keeping Portugal on track and focusing the international portfolio with profitable expansion in Poland, Angola and Mozambique.

Thank you, all of you. Thank you.