FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day and welcome to the Millennium bcp full year 2010 earnings conference call. Today's conference is being recorded. At this time I would like to turn the conference over to your host today, Mr. Carlos Santos Ferreira, CEO. Please go ahead.

Carlos Santos Ferreira - *Millennium bcp - CEO*

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

We all know that the past year was featured by the deterioration of the sovereign debt crisis and macro economic conditions in Portugal as well by the debate on future regulatory requirements for capital and liquidity.

Before commenting on the Bank's financial performance, I would like to note the set of initiatives that we have developed through the year, mainly the credit repricing, the reinforcement of our reputation, and the reliability based on a sound compliance and risk policy. The focus on innovation, launching Activobank's projects, the simplification of our international portfolio concluding the sale of United States and Turkish operations, the acceleration of the expansion plans in Angola and Mozambique, and the creation of a new strategic triangle between Europe, Portuguese-speaking African countries, and China, launching an onshore branch in Macau.

Regarding the Bank's solvency, we have obtained the authorization of Bank of Portugal to adopt the IRB approach for credit risk with tier 1 reaching 9.2% and core tier 1 6.7% at December 31.

The Group posted the profits of EUR301.6 million last year, 33.9% up from 2009, which was greatly influenced by the contribution of the international activity, mainly the Polish operation that presents a net income of EUR81.3 million.

The positive net income also benefit from the recovery of core banking income and cost containment policy, offsetting the efforts made to reinforcing permits for the [traded] portfolio, with consolidated banking income growing 16% on a yearly basis.

Regarding our financial performance in 2010, there are a number of aspects that should be highlighted. Net interest income and commissions maintained their quarterly and annual growth strength, both in domestic and in international activity, growing 13.7% and 10.9% respectively on a consolidated basis from 2009.

Operating costs remained controlled, mainly in Portugal. Efficiency ratios improved to the best level since 2005 with consolidated cost to income reaching 56.3% and 51.3% in Portugal year on year.

Customer funds increased 1.6%, 4.7% in international operations. And loans to customers decreased slightly 0.7% despite the significant growth in the international activities, which increased 7.3% year on year.

Concerning credit equality and the cost of risk, net impairment charges stood at 93 basis points in line with current economic cycle, but decreasing on a quarterly basis. Loans overdue by more than 90 days improved versus September and stood at 3% of total loans, enabling a coverage ratio of 109.4% at December 31.

On the topic of our liquidity management plan, I would like to emphasize the high quality on the Bank's assets, which translates into a better asset portfolio, eligible for discounting at central banks, attaining EUR20.6 billion by the end of 2010.

In relation to our international activity, I would like to underline the successful turnaround of the Polish operation, driven by the sustained growth of net interest income and commissions, which were up 46.1% and 14.4% respectively on a yearly basis. The expansion plans in Africa increasing the number of branch of Millennium Mongolia plus 16 branches and of Millennium bim in Mozambique plus nine branches. Together, the African operations presented a net profit of EUR76.4 million, 14.6% up from 2009.

The inauguration of Millennium bcp's onshore branch in Macau materializing the Bank's attitude to have a stronger presence in the Asia Pacific region, especially in China, taking into consideration on one hand the principles of prudent capital management and on the other the calendar for applying the new capital standards within the scope of Basle III, Millennium bcp has decided to submit a proposal to the general meeting of shareholders to distribute to the shareholders a straight dividend as a result of our share capital increase through the incorporation of reserves in the amount of EUR120 million.

Ladies and gentlemen, I now ask Mrs. Sofia Raposo to start the presentation with the details of the Bank's performance in 2010. Thank you.

Sofia Raposo - *Millennium bcp - Head of IR*

Thank you Mr. Chairman. Good afternoon to all. I would like to begin with a detailed presentation of 2010 results.

Now moving to the highlights of 2010, as the Chairman as already mentioned, the net income increased by 33.9% to EUR301.6 million, which reflects the increase in the contribution of our international operations, which grew by almost 4 times to EUR51.8 million, representing 17% of the net income whilst the previous year they had represented only 5%.

It is also noteworthy that the banking income of the Bank increased by 16%, with very notable performances of our core income, namely the net interest income growing by 13.7% and commissions growing by 10.9%.

The improvement in revenues and the containment in costs led to a decline of the cost to income ratio at the consolidated level from 63.6% to 56.3%, the lowest level we have recorded since 2005. And Portuguese activity a very significant improvement as well with cost to income ratio declining from 60.2% to 51.3%.

Moving on to the balance sheet, we would like to highlight that the core tier 1 improved from September 2010 from 5.6% to 6.7% following the approval of IRB methodologies used by the Bank of Portugal whereas tier 1 improved from 8.5% in September to 9.2% at year-end.

With regards to the commercial gap, we saw improvement during the year of 2007. Customer funds grew by 1.6% with very good performances on balance sheet. Customer funds especially in the second half of the year and growing 1.5% for the overall year, whereas loans we saw the beginning of the deleveraging policy decided during the year and leading to the decline of the loans to customers by 0.7%. So on the overall, the decline in the commercial gap stood at EUR1.3 billion from EUR26.4 billion to EUR25.1 billion.

The results of out net revenue during the year, we have been able to improve the balance sheet impairment, so the impairments that we had set aside for loan loss provisions that have increased to EUR2.5 billion and stand today at 3.3% of loans, which is quite significant when compared to our non-performing loans in 2010 that stood at 3%.

In regards to liquidity, it is also noteworthy that we've been able to increase the level of eligible assets in central banks from EUR10.6 billion in 2009 to EUR20.6 billion in 2010.

With regards to the proposal to be submitted by the annual general meeting, the Supervisory Board formalized its agreement regarding the proposal for the application of 2007 [interim] results into reserves. That being accepted, Board of Directors decided to submit to the general meeting of shareholders on 18th of April, 2011. So considering that the evolution of international financial markets and the Portuguese economy as well as more demanding capital requirements as a result of the new Basel III accord, Supervisory Board also agreed that the deliberation of the Executive Board of Directors to submit to the GM of our shareholders, share capital increase proposal, exclusively through the incorporation of reserves in the amount of EUR120 million. The proposal of the (inaudible) dividends reflects our efforts to find a balance between shareholder interests and the priority of preserving the Group's capital and liquidity.

In regards to (inaudible) our evolution, the net income, as we said, improved by 33.9%. And it is quite notable the performance of our international operations growing by 353% whilst Portugal we also saw significant improvement of 16.9%.

Our customer funds improved by 1.6%, reaching EUR67.6 billion and growing 0.9% during the fourth quarter of 2010. And it is notable that during this period balance sheet to customer funds increased on the quarter by 2.5%.

Loans to customers have declined by 0.7%, although this is -- evidences the 2.8% decline in the Portuguese activity, whereas our international operations grew by 7.3%. We still see a 7% increase in mortgage loans, whereas we see a decline in consumer loans and loans to companies.

And a general overview of the income statement shows the improvements are about 16% of the banking income, with growth of nearly 14% in the net interest income and 11% in commissions, and also a good performance in trading profits. Whereas at the same time we have maintained a contained cost growth of 4% when compared to last year, even though we have continued and accelerated the expansion in Africa, mainly in Angola and Mozambique.

The does allow the operation of profits before impairment to grow by 35% and has allowed as well the increase in loan impairments by 27% and an extraordinary impairment for goodwill in Greece in the amount of EUR147.1 million.

The banking income rose 16% to EUR2.892 billion whereas operating costs rose 4.1% to EUR1.603 billion. And this has led to the improvement of the cost to income ratio as mentioned before and as you can see this has been a sustained and continuous effort to improve costs throughout the Group at both in Portugal and in consolidated activity.

And the net interest income increased by 13.7%, led by the growth in international activities by 27.9% whereas Portugal showed an increase on a year-on-year basis of 7.2% during 2010. It is quite notable the improvement in quarterly net interest income both at international operations where we see a 4.7% growth in Q4 as we have been seeing since the second quarter of 2009, and in Portugal as well where we see a 12.6% increase on the quarter to EUR285 million and quite [unsustained] growth on the overall.

At the consolidated level it is quite evident the recovery that has been achieved in the net interest income that is now close to the levels of Q4 2008 when interest rates were still at the 4% levels.

The net interest margin increased from 1.67% in Q3 to 1.84% in Q4. And compares well with the majority of the quarters during 2009 and shows sustainable and continuous improvement. This has happened not only in international operations, but also more visibly in Portugal as we had already said that we expected to happen.

With regards to commissions, we saw a 10.9% increase, double-digit, with the improvement of both market related commissions that grew by 20.2% and also by a very sound improvement in banking commissions of 9%. The increase in commissions is not only in international operations, where we indeed saw improvement of 14% year-on-year, but also in Portugal with a very notable 9.7% growth in 2010.

The commission lines have grown also quite sustainably in line with all our initiatives related to increasing revenues in the Bank. And have been led mostly on the quarterly basis by banking commissions, mainly account related commissions, loan commissions, and cards commissions.

Therefore, as you can see, when we look at the core income, that is net interest income plus commissions, we are already at a level that is quite above the levels seen throughout 2009. And core commissions stood at EUR635 million, growing on a quarterly basis by 8.8% and compared to the fourth quarter of last year by 18.9%.

Operating costs as mentioned previously grew by 4.1% with basically reflecting the expansions in Africa and the recovery in Poland. And the overall international operations growing by 10% growth in Portugal and so our contained costs grew at 0.7%.

With regards to credit quality, the overdue loans ratio for more than 90 days increased to 3% in 2010 when compared to 2009, which obviously reflects the deterioration of the macro economic situation in Portugal, although showing a lower increase in 2009. Also it is quite relevant to note that the trends in the fourth quarter of 2010 shows an improvement of overdue loan ratios for more than 90 days versus the previous quarter with lower net entries of overdue loans and higher recoveries. Therefore, we've made strong provisions reinforcement during 2010, maintaining a coverage ratio of overdue loans for more than 90 days at above 100% and funding improving since Q3 2010 from 100% to 109.4%.

The cost of risk for 2010 stood at 93 basis points, which is a significant increase when compared to the previous year and twice the average of the cycle. We believe that the cost of risk and provisioning efforts has peaked in the second quarter of 2010 and we expect this going forward to slowly start improving.

We would also like to note, as mentioned previously, that the balance sheet impairments that we have satisfied for loan losses are one of the highest in Iberian banks. And we compare very well with the majority of banks in terms of precaution of our provisioning policy having the 3.3% of loans set aside.

Now moving to capital. We receive the approval of Bank of Portugal for the use of IRB methodologies and therefore our core tier 1 increased from 5.6% to 6.7% whereas tier 1 increased from 8.5% to 9.2%. During this quarter, the main effects that have impacted the core tier 1 evolution and capital ratios evolution has been obviously as of the introduction the dividend retention that we are making, improvement in organic growth and results. And on the negative side, the negative actuarial deviations that we had for the full year, which were set at EUR468 million and therefore with an impact of EUR102 million in the second half of this year as we had already recorded EUR365 million during the second quarter of 2010.

With regards to capital, we would like to state very clearly that we have set and defined a very clear plan, capital plan, to top Basle III agreement requirements. In this regard, our main initiative and (inaudible) to improve the capital ratios are at on one hand a new very obvious pursue of the Phase 2 of IRB methodologies, that is including in IRB methodologies IRB advance the companies that are still not yet under IRB (inaudible) and the Polish portfolio.

We will also through the next two, three years continue our deleveraging process that we began during this year and we will continue RWA optimization. We also have the possibilities of the sale of non-core assets and we will continue to evaluate new strategic partnerships in capital management alternatives.

Also throughout this period, we expect that organic capital generation should be quite an important part of the improvement of the core tier 1 ratio. Also throughout the period, we would like to say that we will maintain a strict capital discipline that we have also shown during the past three years.

With regards to pensions, pension liabilities ae covered by 104% by our pension fund and provision. We would like to note that the -- one of the most important aspects that happened during 2010 was the conclusion of the agreement with the state and the unions, governmental unions to pass on Social -- the future pension liabilities to Social Security to the state in effect in January 1, 2011. We believe this is a very positive impact going forward as it effectively closes the pension fund, which will be reducing over time in the future.

With regards to the performance in 2010, we have recorded actuarial losses of EUR468 million in 2010, of which we EUR365 million are already accounted for in the first half of this year, so during the fourth quarter we have recorded additional EUR103 million. This reflects basically a negative performance of the pension fund by 5.5% and also a change in pension fund growth rate assumption from 1.65% to 1.5%.

During the year, as it has been the policy (inaudible), we have maintained a percentage of equity in our funds at around 20% levels, 23% during -- at year-end 2010.

With regards to liquidity, we have completed the 2010 medium and long term refinancing almost on [due]. Basically we had to -- EUR4.9 billion to refinance and this was carried out and completed through pre-funding in 2009, issuance of EUR2.7 billion during 2010 and also to deleveraging. As I mentioned previously, the commercial gap declined by EUR1.3 billion and this obviously has helped to cut the refinancing of the medium and long term debt. It is also noteworthy that the loans to deposit ratio declined from 152% to 149%.

In what concerns the refinancing needs for the next year-end 2010, next year we have EUR2.3 billion of wholesale funding to refinance. We also have EUR1.6 billion of private placements that we believe are -- will be renewed. And we should be able to match this with the leveraging that we are planning to do for 2011.

The most important aspect of our liquidity plan that we announced in mid last year that we have reinforced at year-end is for other most important components, the reduction of the commercial gap and the loan to deposit ratio that we would like to see closer to 120% by 2013. And we would also like to note that we remain committed to this wholesale funded market refinancing by diversifying our funding sources, mainly in the -- in weaker markets and also reinforcement of our eligible assets with central banks to EUR25 billion. It is important to see that over the course of the past three years we managed to increase the eligible asset pool from EUR1 billion in '07 to EUR20.6 billion in 2010, which reflects the quality of the asset portfolios that we have.

Also it is (inaudible) note that our funding structure remains focused on deposits and other on balance sheet customer funds with medium and long term institutional debt representing around EUR16 billion, short-term debt representing EUR2 billion, ECB standing below at around EUR14 billion, and equity at only EUR7 billion.

Moving to the performance in Portugal, we saw banking income rising by 15.9% and this has -- reflects the improvement in both the trading income line, but also (inaudible) a very sound performance of the net interest income growing by 7.2% with commissions also growing by 9.7% as we had planned.

In regards to costs we continued to see a significant containment and therefore our operational profits before provisions grew by 37% and loan impairments and we were -- and provided the scope for loan impairments increase in reinforcement by 42% as well as the impairment for the goodwill of Millennium Bank in Greece of EUR147.1 million and the reinforcement of other provisions.

In regards to customer funds, they improved by 0.7% during the year, with a notable performance in the second half of the year and on balance sheet sharing a good performance during the fourth quarter of 2010, growing by 2.5%. Our customer funds in Portugal stand at EUR51.1 billion and on balance sheet customer funds are close to EUR36 billion.

Loans to customers on the other hand reduced by 2.8%. We still saw some increase in mortgage loans, but we had an 11.6% reduction in consumer loans and 6.5% reduction in loans to companies.

The banking income rose by 15.9% to EUR1.966 billion and operating costs increased by only 0.7% to EUR985 million.

The net interest income in Portugal grew by 7.2% and show a consistent improvement throughout the quarters. We believe these have been very evident, the recovery of the net interest income has been quite evident since the second quarter of 2010 and basically reflects the improvements for the overall year, reflects asset time deposit margins for the overall year that show and evidence the improvement that we have been seeing throughout the year since the beginning of the year until the third quarter of 2010, although we saw some worsening on a quarterly basis in Q4 in time deposit margins as the sovereign prices heightened since October to December. However, on the overall we still see a positive 2010 when compared to 2009.

On the other hand, the overall demand deposit margin year-on-year was lower than 2009, basically reflecting an average higher interest rates in 2009 when compared to this year.

With regards to credit, we believe that the repricing very positively affected the net interest income, pushing net interest margins up to substantially higher levels, especially in corporate loans where in spreads we are seeing consistent repricing on average new production.

Also important to note that the net interest margin was also penalized by the delveraging, but the credit repricing more than offset this impact.

We also have some increase in terms of the security portfolios during 2010. This has happened within the scope of our central banks' eligible asset management policy and this has also led to slightly high interest margin with an estimated impact of EUR30 million that explains part of the improvement during the year.

Now in regards to spreads of the repricing effort, we continued to see the improvement of the contractual spreads in the portfolio. This reflects that the fact that new production, which is about a third of the portfolio, or around EUR1 billion per month, now stands at around 5% levels in the corporate segment, whereas in mortgage we are seeing the production during Q4 of 2.54%, which is almost 2.5 times higher than in 2008. The portfolio obviously reprices on the overall quite slowly whereas in corporate it is much speedier repricing impact.

In regards to commissions, we saw 9.7% increase reflects both market improvement in market related conditions by 16.6%, led by securities -- commissions and securities. But we also saw in line with our initiatives in revenues an 8.7% banking income increase that was led by improvements in bancassurance in sale of insurance and other conditions, which basically include the commissions related to account managing and some account related fees basically. On a quarterly basis, we would also like to highlight the increase of loans and guarantees and account related fees where we have been reinforcing our efforts.

And therefore, as you can see on a quarterly basis there's a trend over the past few years. We are seeing a consistent improvement in terms of the commission lines and especially in terms of the banking commissions.

Now looking at operating costs, we had a 0.7% increase in Portugal in operating costs. Staff costs declined by 0.9%, which basically reflects on one hand the decrease in pension costs during the year and also includes the EUR10.4 million of early retirement costs in 2010 whereas in 2009 it had only EUR3.9 million. Now with regards to other admin costs, there was an increase of 5.6%, which basically reflects the additional efforts that we made in credit recovery.

And moving to credit quality and credit recovery, we saw a substantial improvement on a quarterly basis in Portugal, from 3.1% of overdue loans ratio of 90 days to 2.9%, which considering the high level of provisioning that we had during the quarter, that's an improvement in coverage to 113%.

Also during the year of 2010, we recorded the highest level of client satisfaction since the launch of the single brand in 2004.

Now international operations. We would like to highlight the good performance of our three core international operations that rose by 135%. And led to the improvement in international operations contribution from EUR11.4 million to EUR51.8 million. The performance was quite significant in Poland, rising from EUR0.3 million to EUR81.3 million in profits. Mozambique also increasing slightly and Angola increasing from EUR14.6 million to EUR23.6 million.

In Poland, the net profit has consistently been growing every quarter during 2010 and especially the fourth quarter recorded a EUR28 million profit, getting closely to the level that we had at -- before the crisis. Banking income grew by 18%, supported basically by the core income growth by 33%, which has matched the record level that we saw on pre-crisis period of Q3 2008. On the other hand, the operating costs were 9% below 2008 levels, increasing by 5.9% and allowing cost to income to improve to 60.6%.

And net interest income shows a significant improvement, growing by 46% year-on-year and 5.3% in the quarter, compared to Q3 2010. The gradual increase that we have been seeing in the net interest margin has happened in spite of competition [for] loans and deposits, but we have managed to improve the deposit margin to positive levels in the third quarter and this has now been reinforced to 13 basis points positive, contributing to a net interest margin of 2.4% for the third quarter.

With regards to commissions, as we mentioned commission growth was 14.4% and this was driven by overall performances, although we should highlight cards, mutual funds, current accounts, and loan promoted fees. On a quarterly basis, we also saw improvement by 7.4%.

Operating costs were up by 5.9% but on the overall were in line with the targets that we had announced at the beginning of 2009. The personnel costs increased in 2010 by 11.7% and this was after having declined by almost 23% last year in 2009, mostly driven by variable remuneration increase related to the Group performance of the business unit. The admin costs grew by 1.1% and depreciation decreased by almost 5%. The cost-to-income ratio stood at 63.1% in 2010.

Customer funds on the other hand rose by 13% whereas loans to customers increased by 9.7% with a sound performance in mortgage, varying by 13.6%, whereas consumer loans grew by 3.6%, and loans to companies grew by 1.7%.

With regards to credit quality, we saw an improvement in impaired loan ratio from 5.9% in June and to 5.8% in December, and therefore we were able to increase the impaired loans coverage, even though the impairment charges as a percent of total loans has decreased by -- from 127 basis points of loans to 65 basis points of loans.

Now in regards to Mozambique, we saw the results of Millennium bim increased from EUR52 million to EUR52.8 million, growing by 1.4% in euros, although this represents a 20% increase in local currency. The ROE, the return on equity, reached 32.3%. And the net income evolution was supported by banking income good performance, as well as the conservative provisioning policy and in spite of the ongoing expansion plan.

With regards to the country performance, I would like to highlight that GDP growth in Mozambique remains at high levels, 6.5% expected to be recorded for 2010 and 7.5% expected for next year.

With regards to the business units, net interest income increased by 13.8% and commissions showed a slight decline in euros, although growing by 8% in local currencies. But on the other hand, trading basically the FX revenues increased by 16%. Operating costs growth of 9.3% basically reflects the expansion in branches to 125 at year-end.

Customer funds grew by 8% and loans to customers by 21.4%. And we remain (technical difficulty) positive with a positive loan (technical difficulty) below 100% loan to deposit.

The overdue ratio over 90 days in Mozambique's quite low, standing at 0.9% and coverage is 569%.

With regards to Angola, the net income rose there 79% in local currency and 61% in euros, standing with a net profit at EUR23.6 million. During this 2010, we accelerated the expansion of the network, of the branch network, and despite the expansion we managed to remain with a return on equity of 18.6%. Now in the operation we saw a strong growth in revenues by 58% loans to deposits and this basically reflects the growth in Angola that remains at fairly high levels, expected to be reported around 6% in 2010 and over 7% in 2011.

The net interest income grew by 91% to EUR51 million, commissions grew by 33% to almost EUR16 million and operating costs also grew by significantly, reflecting the expansion of the branch network from 23 to 39 during 2010.

It's also important to note that we have accelerated the expansion of the business plan in Angola during 2010, especially during the second half of the year. And we ended the year with 39 branches and we aim to reach 100 in the next years with coverage of the whole of the country and all the provinces.

Loans to customers grew by 46.6% and customer funds grew by 38% in Angola.

With regards to Greece, our operations had a EUR16 million loss when compared to EUR9 million profits in 2009. This -- obviously the Greek operation has been affected by the sovereign crisis that the Greek economy (inaudible). And our overdue performance of the unit obviously reflects the impacts. The net interest income, nonetheless rose 2% compared to 2009, but included -- this includes a gain from liability repurchase of EUR27 million. And excluding this specific item from net interest income we would be 20% below 2009, which basically reflects the (inaudible) competition that the Greek banking system is facing.

Also we should note the increase in impairment charges. As a result of the increase of those credit delinquency, but also the prospects of macro economic situation deterioration. However, it is very important to note that the overdue loans ratio in our Greek operation stands significantly below the sector. On the other hand, I would like to note as well that we have maintained our strict cost control in the operation and have closed around 20 branches.

The next slide just basically illustrates the difficulties seen by the Greek operation with the [manager's] income declining and deposit spreads remaining at minus or around minus 2%, whereas impairment charges were significantly reinforced during the year.

Now to conclude. You are already familiar with our strategy of focusing on the profitability of Portugal and focusing our portfolio more, especially in European markets where we can make difference and continuing to invest in our affinity markets. What we have done so far, we've been pretty much in line with our strategy, so we are reversing the banking income trend in Portugal with a sustained improvement in our core income, which is what matters for banking profitability going forward. And also at the same time controlling our cost base and writing down the 0.7% in 2010 after a decline of 14.5% in 2008 and a 5.1% decline in 2009.

Our core international operations, what we have been focusing more in the past few years, have risen by 135% in terms of aggregate profits with very notable performance in Poland and Angola, but also in Mozambique with very high level of profitability.

So you already know that our international operations represent about half our clients and employees in branches, about a quarter of the customer funds, and a third of banking income. And during the past year, we saw improvement in customer funds where we have been focusing in our banking income. Quite substantial improvement of 16% and therefore we've managed to improve the weight in that income from 5% to 17% from our international operations. And we believe this is a trend that should continue to be reinforced during 2011 and the next few years.

It's basically we are -- whereas expectations for positive performance in all the main - the three main economies, namely Poland, Mozambique, and Angola, where we have seen consistent improvement in profitability and nothing indicates that this should change in the next few years. And these three operations have continued to grow substantially during the next few years.

Whereas at the same time we have sold our operations in Turkey and US, which were loss making, and those losses won't be there next -- this year, 2011. And at the same time, we have been improving our operation in Romania, which is basically following its business plan, which is expected to reach breakeven by 2013. So basically going forward they should have lower losses over a larger period of time.

Also just to note that following the Macau onshore branch that we opened in the beginning -- in mid this year, we just a quick note to say that because profitability of EUR6.7 million and grew by 58%. And we expect this to continue to show a very strong potential in the next few years.

Now to summarize our business strategies. Profitability increased by 33.9%, basically boosted by the international operations and the recovery in Portugal. And led by the improvement in banking income, but not only banking income but with core income growing by 12.7%.

Also important to our strategy is the maintenance of strict cost control in spite of the expansion in Africa and the recovery in Poland.

We have refocused the bank to customer funds. They have increased by 1.6% in 2010, but showing a stronger recovery in -- on balance sheet customer funds, especially during the second half of the year.

Now with regards to our international operations, we have focused the portfolio further by the sale -- through the sale of Turkey and the US that had negative contributions to our profits and a refocusing on Poland, Mozambique, and Angola. The improvement of our international operations during 2010, this basically highlights the success of the turnaround in the Polish operation and the possible expansion that we are seeing in Africa, in our Portuguese speaking African operations.

Also the opening of the onshore Macau branch creates a new base for a strategic triangle between the markets we already operate.

With regards to Portugal, it is very important to note that the repricing initiatives have led to the improvement of net interest income, core revenues, and profits. Costs have remained under control, rising by only 0.7%. And cost to income spend of 51% in spite of the impending crisis in Portugal.

We've refocused also in Portugal towards customer funds and we saw a significant recovery during the second half by EUR1.5 billion.

With regards to the business per se, we have changed the distribution model in retail and also we launched an innovative concept of banking, Activobank by Millennium.

Moving towards the sustainability initiatives that will improve the Bank's performance on the medium to long term. With regards to liquidity management, I would like to highlight that we began the reduction of the commercial gap during 2010. We managed to refinance 2010's medium and long term debt through re-funding, issuance, and commercial gap reduction. And we reinforced our eligible asset pool by -- to EUR20.6 billion during the year. We've also reinforced our liquidity plan, which is quite simple and straightforward, and quite decisive with the deleveraging plan that we are implementing and reduction of the loan to deposit rato to continue until 2013.

We are also committed to wholesale refinancing and we are prepared to issue as soon as the market reopens. We are also working on the diversification of funding sources, reinforcement of eligible asset pools to EUR25 billion, and during 2007 we managed to make sure that the coverage of the refinancing needs during -- until 2011 are basically covered by our deleveraging process.

With regards to capital management, the core tier 1 increased to 6.7% and tier 1 to 9.2%. We have the initiatives that were significant in this respect in 2010 relates basically to the sale of non-core assets, to RWA reduction, and to optimization and delveraging, the IRB approval obviously, and also during the year we have concluded the one important aspect in terms of mitigation of risk in the pension fund with the transfer of future liabilities with current workers to Social Security.

Also during this year we have defined a clear and capital plan to top the new Basle III agreement requirements, and we will maintain a strong capital discipline.

With regards to risk management, the main points we already mentioned, but I would like to just highlight the reinforcement of provision to 3.3% of loans, with coverage of overdue loan ratios standing ahead of our expectations with standing at more than 100% at 109% of the consolidated level and 113% in Portugal.

We also recognized the impairment to goodwill of EUR147 million from Millennium Bank in Greece. And in Portugal, the overdue loans ratio of 2.9% actually increased less than we had seen in 2009 and showed improvement in the last quarter. We believe that our portfolio here is quite diversified and without high sector concentration with construction in real estate portfolios representing quite a small proportion of the portfolio compared to the Portuguese sector and the Spanish sectors. And we have also a low rate of consumer loans in our portfolio and a good quality of the mortgage portfolio. Whereas it is also relevant to note that they will have no house pricing boom in Portugal.

During this year, bearing those we're also the initiatives towards promoting a culture of rigor, which is the standard in the Group for the future.

This concludes the presentation. I would like to open to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator instructions) Andre Rodrigues, Caixa BI.

Andre Rodrigues - *Caixa BI - Analyst*

Two questions. The first one is regarding cost of risk. As you said, the quarter we had a very positive performance in terms of the net new interest in non-performing loans. I wonder if you can give us your outlook for cost of risk for 2011? You're maintaining the 80 basis points you referred in the last conference call or should you expect any improvement?

The second question has to do with capital. Even after the positive impact of the IRB approval, your core tier 1 seems somewhat below your peers. It seems that capital is still an ongoing issue. How do you see this and what measures or what are you analyzing (inaudible) on capital by now? Thank you.

Paulo Macedo - *Millennium bcp - EVP, CFO*

It's Paulo Macedo speaking. Relating to your first question, in terms of cost of risk. Going forward we maintain our expectation of the cost of risk around (inaudible) a bit more, but we are more confident after the fourth quarter that we can achieve that figure.

Relating to your second question in terms of capital. We are conscious that we in terms of core tier 1 we are below our peers, not in terms of tier 1. But clearly we target the more ambitious ratios for the end of 2011 and 2012. As we mentioned yesterday, the eventual sale of credit portfolios or our operations of debt to equity, the sale of non-core assets, also the deleverage that already happened in 2010. As you saw, we reduced the credit and we were first Portuguese bank to do it I believe. That will continue also in 2011.

And also, a clear optimization of risk weighted assets. In 2010 if you saw we have again from optimization of assets of around 76 basis points during the full year. So we think that our scope to do more and is our main targets to achieve the main goal, that is to clear to have better ratios by the year end 2011 and better ratios in 2012.

Also you have to have in mind that the biggest negative impact in terms of our capital was the pension fund. And on the pension fund, as you know there were several measures that happened already and going forward we will have a lower volatility than in the past. As you know, in terms of the pension fund, we have registered again for the few actual deviations related to actuarial assumptions, so we are doing better systematically on these last three years relating to our assumptions.

We are also benefiting from the transfer of future responsibilities to the Social Security. And you should have in mind also that going forward the limitation that we introduced in our complementary fund will also produce results.

So we have several things to -- or several levels to increase our core capital and clearly what has been the most negative impact during these years is much more controlled today than it was in 2010 or 2009.

Andre Rodrigues - *Caixa BI - Analyst*

Thank you.

Operator

Andrea Unzueta, JP Morgan.

Andrea Unzueta - *JP Morgan - Analyst*

Three quick questions. The first one is what your ECB borrowing as of Q4?

And the second one is on capital. If I back calculate the core capital level or actual level, I get to EUR4 billion. And I have EUR3.5 billion in Q3. I was trying to see where those EUR500 million come from and I understand you have the earnings, the reduction of (inaudible), the reduction of goodwill, and also the different retention. And you have with all the pension difference of EUR100 million, I guess it's in the quarter. So I only add up to EUR185 million or something. What are the other EUR300 million differences?

And final question is on the (inaudible) management. Is there any chance that you do an effective agreement?

Sofia Raposo - *Millennium bcp - Head of IR*

With regards to ECB usage, you have that on our slide 26. The usage per choice of consolidated, so to your consolidated levels 14.9% is at the year-end 2010. In Portugal this is EUR14.3 billion.

Now with regards to capital, the main change -- our risk officer will explain this to you.

Miguel Pessanha - *Millennium bcp - Risk Officer*

I think that you must foresee that there is a difference between the profits of core capital under the standardized approach and in terms of IRB. Mainly because in the standardized approach there is a reduction to core related to the difference between the local (inaudible) provisions and the IFRS provisions. This explains your difference.

Andrea Unzueta - *JP Morgan - Analyst*

Oh, okay. Thank you.

Paulo Macedo - *Millennium bcp - EVP, CFO*

Relating to your third question. We asked, I think as we said, that (inaudible) in terms of operations that (inaudible). And we see several positive aspects on it. So according to our conclusions we will advance on that with that operation.

Andrea Unzueta - *JP Morgan - Analyst*

Thanks.

Operator

Carlos Peixoto, BPI.

Carlos Peixoto - *BPI - Analyst*

Just a couple of questions. On slide 42 of the presentation you mentioned that the increase in the securities first of all is one of the reasons that helps NIM performance in 2010. What's the current size of this portfolio and what's its composition?

Secondly, what are your estimates on the expected marginal costs on replacing the ECB funding by other alternatives of funding as foreseen in your liquidity plan? Thank you.

Sofia Raposo - *Millennium bcp - Head of IR*

With regards to public debt, we have increased the public debt from -- in Portugal I believe that was your question if I'm not mistaken.

Carlos Peixoto - *BPI - Analyst*

Yes.

Sofia Raposo - *Millennium bcp - Head of IR*

They have increased with regards to [OT] public debt medium and long term, we increased from EUR900 million to EUR3 billion at year-end 2010.

Carlos Peixoto - *BPI - Analyst*

And was there any other relevant public bonds held by the Bank?

Sofia Raposo - *Millennium bcp - Head of IR*

We also have treasury bills of EUR2.7 billion in Portugal.

Carlos Peixoto - *BPI - Analyst*

Okay, thank you.

Operator

Benjie Creelan-Sandford, Macquarie.

Benjie Creelan-Sandford - *Macquarie - Analyst*

I just had a quick question on the reasons behind the rebound in interest income in Greece, if you could give any more details or not. I just had a thing where you think about will be going forward.

And then secondly, just another follow-up question on capital. I mean in terms of the measures that you have planed for meeting Basle III implementation, what sort of timeframe do you have in mind for that? And I guess what sort of level do you envisage in terms of core capital and what sort of level do you envisage the Bank running at under Basle III?

Sofia Raposo - *Millennium bcp - Head of IR*

Following these we will also be answering the previous question, which was not answered, by Carlos from BPI.

With regards to Greece, I'm not sure we understand your question in the sense that the Greek net interest income has declined, so we are -- we don't see any improvement in the net interest income during 2010 in the Greek market in operations.

With regards to capital, what we would like to have is to top core capital level that minimum requirements of Basle III. And we would like to have a level that is higher than the minimum requirement of Basle III ahead of its implementation, so by 2013.

Benjie Creelan-Sandford - *Macquarie - Analyst*

I guess in Greece, I mean the net interest income it's just mainly on the fourth quarter, not in the full year. In the fourth quarter there seemed to be a pretty sharp rebound in terms of the levels of (multiple speakers).

Sofia Raposo - *Millennium bcp - Head of IR*

As we have in slide -- in notice in the slide, I believe it's in slide 54, there was a substantial gain of EUR27 million in the Greek operation before the repurchase of liabilities (inaudible). That basically explains the evolution in Q4. Okay?

Benjie Creelan-Sandford - *Macquarie - Analyst*

Okay, perfect. Thank you.

Sofia Raposo - *Millennium bcp - Head of IR*

We'd also like to answer the question related to the cost of refinancing of ECB in the future.

Pedro Turras - *Millennium bcp - Chief Treasurer*

I'm Pedro Turras. What we forecasted in terms of liquidity plan for 2011 is replacement of the short-term ECB financing by short-term financing through (inaudible) or other short-term instruments. Unfortunately the scenario on the playbooks is not the one of reopening the markets of the medium and long debt. So the impact that we estimated in terms of financing costs is relatively small, about 30 to 40 basis points over the year.

And let me say that from January 1 we are already been about nearly EUR1 billion (inaudible) in short-term (inaudible) from one to three months. But that's the type of transaction that we expected to happen in the next few months. And we are looking for any windows of opportunity to do some (inaudible), but for the time being we see it as a significant liability [hold] for the short term.

Carlos Santos Ferreira - *Millennium bcp - CEO*

Relating to your last question in terms of capital, in terms of our plan going forward, just by the organic growth and some higher retention of profits, we will achieve the targets of Basle III. But our plans to having better core ratios than that and by the levels that we have shown. And for instance, only by adopt the IRB advance for our corporate portfolios and for the Polish operation, we will have another 60 to 80 basis points. And so also the operation of debt to equity is on the table, and so we have several levels to increase the capital above the levels that Basle II increases.

Sofia Raposo - *Millennium bcp - Head of IR*

Also as a follow-up in regards to your question of the refinancing of ECB medium and long term. Obviously when we are considering 2011 we have the (inaudible) repricing. Going forward in the medium and long term trend, what we expect is the refinancing of ECB funds to be done, well obviously not all in a year, so over time and we expect to match that by the continuous repricing efforts that we are doing.

Operator

Andre Rodrigues, Caixa BI.

Andre Rodrigues - *Caixa BI - Analyst*

I was wondering, regarding your portfolio of securities, what's the contributor of this to your net interest income in Portugal this quarter? And also related with the net interest income in Portugal, you had a very good quarter this quarter. Do you think this is sustainable? How are you viewing your outlook for net interest income in Portugal for 2011? Thank you.

Sofia Raposo - *Millennium bcp - Head of IR*

With regards to the impact of the increase in the securities portfolio, we estimate that the impact during 2010 was around EUR30 million. This was more focused in the last -- in the second half of the year, so I would say around EUR15 million more or less per quarter.

Now with regards to net interest income going forward, what we expect to have in -- during 2011 is a growth in (inaudible) net interest income between mid to high single digit. And why do we expect this to happen? We believe that international operations should post growth of high single digit and even considering that we are selling the operations in Turkey and US. So there we would expect a positive increase from Poland, Angola, and Mozambique.

In Portugal, what we expect to have is a growth of mid to high single digit for 2011. And why? We would expect a broadly flat deposit margin with basically perhaps higher spreads -- higher costs in terms of time deposits being offset by improvements in the demand deposit margins. On the other hand, we expect the repricing effort to be quite visible as well during 2011 and offsetting both the deleveraging impact and the increase in cost of wholesale funding. Basically overall we would expect the net interest income to increase by mid to high single digits.

With regards to the next few years, we would expect something slightly more moderate in Portugal, but more -- but higher growth in international operations to offset that. So also mid to high single digit for the next few years or so.

Andre Rodrigues - *Caixa BI - Analyst*

Thank you.

Operator

Carlos Peixoto, BPI.

Carlos Peixoto - *BPI - Analyst*

Just a couple more follow-up questions. When you refer to a debt to equity operation in terms of capital, what are the possibilities being considered? Is this the conversion of the capital instruments issued in 2008 into equity?

Secondly, regarding the deleverage plan and the eventual sale of non-core assets, could you share some details on what could be the assets available for disposal at this point?

And also I would take the opportunity to ask you whether the sale of Poland could be considered at any point? Thank you.

Carlos Santos Ferreira - *Millennium bcp - CEO*

The first one, what I mentioned by operations that we are studying, for instance operations with our hybrids (inaudible) shares and our perpetual (inaudible) debt. So that would be the object of what we are studying.

Relating to disposal of assets, of course if we would dispose Poland, we would resolve the question of the core capital. But -- relating to our peers. But we maintain that Poland is a strategic asset and that's our view.

Operator

[Pasterness Davi], Nomura.

Pasterness Davi - *Nomura - Analyst*

Two questions. One, if you explain the positive evolution of taxes in Portugal this quarter and what would be the more normalized rate of taxes we should factor in going forward?

And another one again on the bank tax that was turned about last year. Do we implement it in Portugal and also in Poland? Do you have any update that and what kind of impact could have on the results?

Sofia Raposo - *Millennium bcp - Head of IR*

With regards to the taxes in 2010, as you know taxes were quite low during 2010 basically because we had -- we benefited from the increase of corporate tax rates in the tax related to our deferred pension liabilities and impairments. So in regards to current tax, actually we had a 15% tax rate, lower than the marginal rates obviously because of accounted profits and dividends. But what we expect to have, but basically this is mostly a one off effect.

Going forward, we expect to have for 2011 also a below average tax rate, but after that from 2012 onwards we expect to have a tax rate of normalized levels, 20%, 22%.

In regards to the special tax, the special banking tax is still somewhat unclear. Our initial estimates indicated something between EUR5 million and EUR20 million, which we have budgeted actually.

Operator

I'm showing no further questions in the queue. I would now like to turn the call back over to Mr. Paulo Macedo for any additional and closing remarks.

Paulo Macedo - *Millennium bcp - EVP, CFO*

Thank you, ladies and gentlemen. Let me finish the conference call by saying that Millennium bcp is well prepared to face the challenges ahead. We have a strong and resilient retail franchise as we have been showing. We have reinforced our brand and reputation. In Portugal we achieved the highest customer satisfaction level since the single brand was created in 2004, as it was mentioned.

Our portfolio is balanced. We have a strategy to keep Portugal on track and focused on the international portfolio with profitable expansion in Poland, Angola, and Mozambique. We have addressed the issues of funding with leveraging, market commitment, and reinforcement of eligible assets. We have improved our core capital ratio to 6.7 by keeping a strict capital discipline, and we have a capital plan to top the new Basle III agreement requirements. Thank you very much. Bye.

Operator

Thank you for your participation, ladies and gentlemen. You may now disconnect.