

Event ID: 2194663

Culture: en-US

Event Name: Q1 2009 Millennium bcp Earnings Conference Call

Event Date: 2009-05-12T14:00:00 UTC

C: Carlos Santos Ferreira;Millennium bcp;CEO

C: Pedro Esperanca Martins;Millennium bcp;IRO

C: Paulo Macedo;Millennium bcp;CFO

P: Ignacio Cerezo;JPMorgan;Analyst

P: Carlos Berastain;Deutsche Bank;Analyst

P: David Vaamonde;Fidentiis;Analyst

+++ presentation

Operator: Good afternoon, ladies and gentlemen, and welcome to the Millennium bcp First Quarter 2009 Earnings Conference Call, hosted by Mr. Carlos Santos Ferreira, CEO, Mr. Paulo Macedo, CFO, and Mr. Pedro Esperanca Martins, IRO.

My name is Maddie and I'll be your coordinator for today's conference. For the duration of the call, you will be on listen-only. However, at the end of the call, you will have the opportunity to ask questions.

(Operator Instructions)

I am now handing you over Carlos Santos Ferreira to begin today's conference. Thank you.

Carlos Santos Ferrari: Well, good afternoon, ladies and gentlemen. And welcome and thank you again for attending this conference call. We all know that the economic environment has been particularly challenging for the global finance sector, but also that there is somewhat less instability than that seen in the last quarter of 2008.

For the Group, net income was up from EUR14.7 million in the first quarter 2008 to EUR106.7 million in first quarter 2009. More than the increase in profits, what is important in our opinion is the fact that we are back on the profit generation path as reflected in the 7.4% rise on a comparable-basis in consolidated net operating revenues which in Portugal increased 16%.

Net income also benefits from the significant reduction of the bank's exposure to equity markets, namely through the sale of the stake we held in Banco BPI. Net interest income remained stable in Portugal, while the decline seen in the international operation was mitigated by rigorous cost control.

Operating costs in Poland, for example, decreased 18% when compared with the fourth quarter of 2008 and illustrating the banks fast response to challenging environments. In Portugal, cost control has also been a priority, with administrative costs decreasing 6.6%, while we have more 18 branches than a year ago, with less 247 employees.

On the backdrop of an economic recession and the difficult moment being faced by the business sector, the Group saw an 8.2% rise in loans granted, underpinned by the growth in deposits with 9.4% rise in on balance sheet client funds.

Non-performing loans more than 90 days overdue represent 1.6% of the total loan portfolio, being within the range expected and reasonable given the current economic environment. The coverage ratio for non-performing loans more than 90 days overdue stood at 161%.

I should also note the positive development of the liquidity management plan with the successful issue of EUR1.5 billion in bonds at the start of the year granted by the Portuguese state, and the issue in April EUR1 billion in variable rate 5 year bonds without recourse to the state guarantee.

As for Angola, the bank had completed the strategic partnership agreement with Sonangol and Banco Privado do Atlantico, by way of a rights issue at Banco Millennium Angola carried out in February. Sonangol and BPA became important shareholders in Banco Millennium Angola, which will accelerate its business plan and expects to significantly expand its branch network over the next three years.

Regarding capital, we received two authorization from the Bank of Portugal for the adoptions of the methods we had applied for regarding market risk and operational risk. The authorization for the advance in turnout, writing the approach for credit risk is still being reviewed by the regulator and if it were applied the Tier 1 ratio would stand at 7.4%.

During the first semester, the bank will issue up to EUR1.2 billion of a non-dilutive Tier 1 instrument that we decided to call BCP Capital Value 2009. We have already received clearance from the Bank of Portugal and from the Securities Market Commission, and we have yesterday published the prospect that frames this issue.

I now ask Pedro Esperanca Martins to start the presentation with the details of the bank's performance in the first quarter of 2009. Thank you very much.

Pedro Esperanca Martins: Thank you very much. Good afternoon to you all. Let's start the presentation. I'll go straight -- from what has been presented by the president, I'll go straight to the P&L. These are numbers you already saw, in terms the indicators, in terms of net assets, and volume growth. I should come back to these numbers during the presentation.

So let's move to the income statement. In this slide, we present to you the income statement, highlighting in all the boxes some specific actions that help to understand the evolution of the bank.

Net income stood at EUR106 million, an increase of 625% from last year -- first quarter last year. Regarding Portugal, the income grew from minus EUR15 million to EUR102 million. And international operations, the net income decreased almost EUR30 million to EUR4.7 million in the first Q '09.

Let's go through the details of these P&L lines. Let's start with the Group. At group level, we have a stable net interest income from Portugal, but lower in terms of international operations. Intermediation margin decreased 9.5%, but in Portugal the net interest income has been stable.

The decrease came mainly from the international operations and we will see during the presentation where this comes. This comes mainly from Poland and also Greece, but I'll highlight that when I present to you the details of the international operations. Mainly, the impact here has been on the price effect in international operations that has justified mainly the decrease in terms of net interest income.

On the core banking commissions continue to grow year on year. The core banking business grew 10.8% overall, and including capital market related commissions the decrease was 2.9%. We continue to see lower capital market related commissions. The environment where we are justifies the decrease as we have much lower assets under management than we had one year ago and it is justified by that.

As the President also said we continue to have a strong cost control, with increased focus on efficiency. Let me try to explain this slide -- if you -- if comparing to first Q '08 to first Q '09, there was an increase of 3.1% of operating costs, but we feel -- we adjust the first Q '08 number by the reduction that we did on the variable remuneration, including 2007, of EUR80 million, the comparison with first Q '09 was minus 0.7%. And if considering the increased amortization of the core losses in the pension fund, the decrease was 4.7%. So we are keeping a strong cost control in terms of the Group level.

On the volume side, the on balance sheet customer funds continued to grow 9.4% year on year, with deposits growing 11.6%. On the -- and this continues to show higher growth than the loans to customers that grew 8.2%, I would highlight the growth on mortgage with 9.1% and loans to companies with 8.2%.

And of -- okay. On the risk side -- the cost of risk and asset quality, we consider it to be at the expected level and in line with the current economic cycle. The overdue ratio more than 90 days is now at 1.6%. I should highlight that as it is in the note, until December 2008 and in accordance with the criteria adopted by the Group, non-performing loans that were completely covered by provisions were written off from the assets when impairments correspond to 100%.

In the first quarter of 2009, following a circular letter from the Bank of Portugal, the bank began to write off only the non-performing loans completely covered that it considers to be unrecoverable. As a result of this change, there was an increase of EUR241 million of

overdue loans that returned to the asset side of the balance sheet. I would highlight that this change had no impact on the P&L account.

In this slide you have details of this evolution compared with fourth Q '08 and stripping out the nuance related to this new criteria, the new interest was EUR337 million, mainly due to the economic cycle. And this number is not that different from other Portuguese banks that have already presented their figures.

In terms of the credit quality, you -- from this slide, you can see that on the individuals the credit quality increased but not significantly. There was a deterioration at the Company level and now we keep very good coverage, either for individual and also for companies and this number includes the EUR241 million of write offs that were put into the balance sheet.

Looking at evolution of the cost of risk across the last year. We are now at the levels that we saw in the previous crisis in 2003. We show now 0.9% or 90 bps of cost impairment charges. We have in 2003 95 bps. We are at the same kind of level.

On this slide, I would like to highlight the following -- what we are doing is comparing the balance sheet credit impairments with the gross loans to customers, and then comparing Millennium bcp with other Portuguese and Spanish peers. As we can see, we compare very well with all the Spanish peers, where you know that the credit risk is completely different from the one that you can see in Portugal. We had no real estate bubble, we had no issues on several areas of the credit, and as you can see, we are at a very good level, there is only one Spanish bank that has a higher ratio than ourselves. All the Spanish banks that have been considered to be very well governed in terms of provisions are below Millennium bcp.

On the equity risk exposure, on the balance sheet it decreased 59% and there are no potential losses included here. Of course this is also due to the sale of BPI stake. On the pension funds exposure -- equity exposure decreased 40% -- almost 41% and in terms of the percentage of pension funds, it moved from 35% to 21%.

On the liquidity position and looking at maturities of also funding and long-term gap for the next three years, we have a total of EUR10.6 billion to refinance. We already issued during 2009 EUR2.5 billion. We have available today to use with ECB another EUR7 billion, and also available to issue with a state guarantee another EUR3.5 billion. So we have available already issued EUR13 billion compared with the needs of EUR10.6 billion.

So all in all, the positive -- we have a positive evolution of the commercial gap, compared with first Q '07 where we showed you a ratio of 156% -- more or less -- 156%. We are now at 149.8%.

On the capital side, and the -- we have here the standardized methodology with the Tier 1 ratio of 6.8% and the core Tier 1 of 5.5%. The bank, as you know and has already been

mentioned by the President, the President received authorization of the Bank of Portugal to use more advanced methods for the market and operational risk and is finalizing the certification process to adopt IRB methods for credit and counterparty risk.

This impact -- the adoption of the IRB methods would have an impact of 1.1% of the core Tier 1 ratio, moving the core Tier 1 from 5.5% to 6.6%. And on the Tier 1 ratio, from 6.8% to 7.4%, or 0.6%. These numbers are somewhat different from the ones we showed to you when presenting the year 2008.

Here you have the comparison when we show to you the impact of IRB, we were using the scenario one with the full IRB advanced method that gave us a Tier 1 ratio -- that would give us a Tier 1 ratio of 7.9%, an increase of 1.1% and a core Tier 1 ratio of 6.9%, 1.4% in line with what we showed to you in December 2008.

What we are now looking and the proxy that we have on the scenario two is the IRB advanced with an LGD for the corporate book of 45%. This is mainly in line with other Portuguese bank that also received -- that already received authorization to use this methodology. And this gives us a Tier 1 ratio of 7.4% and a core Tier 1 ratio of 6.6%.

Just to highlight that the issue of non-diluted Tier 1 will bring -- on any of the methodologies the Tier 1 ratio above 8%. And if you consider the scenario two it could be above 9%.

Going back to the standardized and to show you the evolution of the capital position, we had a devaluation of the Eureka participation of around almost EUR200 million that have a negative impact on core Tier 1 of 27 bps. FX impact from the international operations, minus 11 basis points.

The federal impacts from the pension fund, seven. Own shares three basis points. Then we had a positive on the sale of Angola. And also offer 12 bps, and also operational risk, and organic generation of the quarter was five bps. So having added all these impacts, the core tier one ratio using the standardized methods was 5.5%.

On ratings, I will go through this one. You this is -- you know the ratings of the bank. So I'll move to Portugal. In Portugal, let's start with the intermediation margin mainly the net interest income, that is stable. We -- this -- the stable net interest margin decreased slightly from 1.81% to 1.78%.

In these numbers, for first Q '09 includes the increase in the funding costs from the issue of the -- from the issues that we did at the beginning of the year with the state guarantee. And also, impacts from the cash transfers from the pension funds. If it was not this impact, the net interest income should have grown -- should have grew somehow almost 4% excluding these two impacts.

The repricing is underway and we expect to see a further impact on retail business going forward. So as you can see in terms of the margins per segment, we continue to do the

repricing the effort on credits repricing on the credit side. The margins on retail SMEs increased to 2.96%. On the corporate SMEs, 2.47% and large corporates to 1.74%. These numbers are highly above the number that we should see here in the first Q '08 and even higher than the ones that we had shown to you in the fourth Q.

On the margin, on the mortgage loans, it's increased to 1.4 -- 1.54% and it was one year ago 1.09%. On the other side, on the deposits, with the decrease of interest rates, the margins decreased significantly, mainly on the demand deposits, but also on the term deposits.

On the commission side, the core banking business continued to grow. We had a very good performance on cuts that increased 6.5% and credit related with a 5.5% of the capital market related commissions continued to show a decrease. But this is due to the cycle where we are and to what happened to the assets under management.

On the operating costs, in Portugal, the same type of slide that I showed to you, looking at the consolidated figures, an increase in 10.2% without adjustments. If we adjust the first Q '08 with the EUR18 million of the variable remuneration, the increase has been 2.7%. If we adjust the first Q '09 numbers, with the impact from the amortization of the federal losses of the pension funds, we should have seen a decrease of 3.5% -- of 3.4%.

In terms of the numbers of employees, the bank reduced 247 employees year-on-year. During this quarter, the reduction of employees was 65. In terms of the branches, this is mainly the 18 new branches that are open were opened during 2008. There was no branch opened during 2009.

Going to the volume side, the customer growth -- the customer funds continue to grow 8.4% with deposits growing at 11.4%. On the loans to customers, it grew 6.6%, at a lower rate, with the mortgages growing at 5.1% and loans to companies growing at 7.7%.

Let me just try to highlight the growth on the customer side, that has been almost fully supported by balance sheet -- on balance sheet funds. The on balance sheet funds variation was EUR2.948 million. On the loan side, you -- we need to exclude from the March '09 numbers an asset reclassification of EUR500 million and -- million euros and also the write-offs of EUR241 million.

So on the loans to customers, if you exclude these two effects that there were no new credits, the evolution of the loans to customers was EUR2.973 million. So at the same level as the on balance sheet funds.

On the credit quality, we have shown to you during the last quarter of 2008 that we are following a prudent approach on this depressed where we are leasing in Portugal, with a very high number in terms of impairment charges. We are now much more in line with the cycle that we guided you during the last conference call. Of course the total overdue

increase has to do with current cycle and also has to do with the change of criteria in terms of the impairments of the written-off portfolio.

And data arrests talked about during the -- when I showed you the consolidated figures. We have here the similar slide but only for Portugal. The new entries were at EUR270 million, in line with the economic cycle, and again, not so different from the number that we saw from other banks. And I would like to highlight that we are accelerating the recovery process in Portugal.

We are now starting to follow any client that there has any sign of problems after 15 days. This has been a change that we've been introduced during the quarter and started last year because it was mainly due to -- introduced in this quarter that we expect to control the evolution of the overdue loans going forward.

On the credit quality and coverage, again the same slide, but on the Portuguese business only. Again, on the individuals, the numbers were stable. Some increase on the consumer. And this main increase is coming from companies in line with the current cycle that was using -- we have already talked about.

Going to Poland, and I'm sure that you also, and some of you may have attended the conference call in Poland, when we presented the numbers. The net profits decreased almost 90%. This was mainly influenced by the strong price fall in deposits, which compressed interest margin, a significant reduction in costs and also higher provisions for impact loans. The operating income decreased 10% mainly due to the financial margins and commissions.

That's the detail with which the net interest income decreased to 27%, affected by a continued pressure on term deposit spreads, despite the quality -- the quick adjustment at the bank -- of the bank to the lower market interest rates in the beginning of the year.

There was a very strong decrease in terms of reference rates in Poland and the banks tried to react quickly to this change.

On the other side, there was also raising of the FX funding that rose significantly during this quarter when compared with the 4Q '08. On the net commissions, year-on-year, we are showing an increase in terms of the core banking business, plus 21.7%, but I would like to highlight that when -- even when compared with the fourth Q '08, the net commissions are -- reverted to the downward trends, with a positive contribution from insurance costs and constant loans.

On the cost side, again, a strong control, in line with the target, even serving a bigger return network. The operating costs reduced 6.2%. The number of employees will, although in this competitive year-on-year comparison is increased, but it was mainly due to the expansion plan that we had during last year. Looking at the quarter, there was a reduction of more than 300 employees during the first Q '09.

This is -- these are the first effects of the strategic cost reduction program that we started in Poland. The first effects are now visible. We had lower admin costs in Q1 resulting from lower IT marketing costs and some typical seasonality during the year-end period.

The number of branches is now at stable, it's 483 net new branches in Poland. Regarding loans, the loan growth of 51.1% year-on-year, mainly on the mortgage, where we have impact of the FX changes, compared with the 4Q, the increase was only 7% and this quarterly growth results mainly from the FX changes.

On the customer deposits, year-on-year, they grew 34.7%, but compared -- however there was small growth compared with the fourth Q due to a careful pricing policy in the context of the price war on term deposits.

On the credit risk side, we have a conservative provisioning even with the effect of FX derivatives, impairment charges worth 85 bps, excluding the provisions connected with FX derivatives. And let me move to the following slide, where we can show the credit quality per product category. There, on the mortgage I would highlight the coverage ratios for all of these products, mortgage, the total provision is 484%. As a retail, 139, leasing, 167, other corporate, 374. So the total provisions coverage is 244%. We believe that we have a well covered and relatively small share of non-secure portfolio. Mortgage leasing and corporate loans are additionally collateralized by assets.

And now the slide that we also showed you when presenting 2008 results. And that gives mainly the same message and that reaffirms the message. Impacts from the recent sharp decrease of the Swiss francs interest rates more than compensated the PLN depreciation. If you look at the monthly installments, the initial -- the currency installment is lower than initially -- that initial installment in this example. We are now at a level of January 2008.

So there is no, on our belief, there is no issue in terms of the mortgage, the FX mortgage book. The people are paying mainly the same thing at the same levels, even at lower levels than they were paying in January. So there is no reason to have concerns on this side.

Moving to another core operation, to Mozambique. Yes, we had very good numbers with strong performance even in this less favorable world economy, net income grew 20% -- more than 20% and operating income grew more than 23%, mainly due to the increase of the financial margin and commissions.

There has been a strong debt interest income growth and loss on commission side, net interest income grew 34% and commissions more than 20%. Net interest margins have been stable, which is around 10.2%, 10.3%.

On the operating costs, we have now a bigger network in Mozambique than we had one year ago. And this increase mainly reflects this new -- this bigger network and the increased number of employees to serve this new network.

In terms of the volumes, it continues to show very good volume growth, 40% on loans to customers and 24% on customer deposits. Mozambique continues to be very well funded. Regarding the credit quality, it improved from 1.1% one year ago to 0.8% this year.

Moving to Greece, the earnings were affected mainly by the focus that -- of the operation on liquidity, impacting on the spread on deposits and also on the burstiness of new loans. Net income is almost zero. Operating income decreased 6.1% due to margin impact on the core income that increased 15.1%.

The widening spreads on loans were offset by the impact of planned deposits at 4Q '08 rates. The widening of spreads on loans reflects the successful repricing efforts. And the concentration of self-funding, there is a negative impact on the financial margins. You can see that the spreads on deposits, in certain deposits, are extremely negative, 1.79%. But we are moving on the other -- on the asset side, we are improving the spreads. On the mortgages, consumer loans and on the business funds, it has been more stable.

On the operating costs, we are increasing is at a slower pace than average human and fiscal structure. The increase of operating costs of 4.6% compares with 7.7% for the average headcount of 4.1% of the branch network.

Deposits growth continued to exceed loans, 18% growth on customer deposits and 13.8% growth on the loans to customers. This was mainly due to the loans to companies in mortgage. There was a decrease in terms of consumer loans.

The quality of the loan portfolio continues to be strong, limiting the impact of the deterioration of the economic conditions on the delinquency. The credit risk has been mitigated by increased proportion of loans that is collateralized by real estate. And the weight also of the consumer credit decreased from last year to this year.

In Greece, we have been focusing on deposit gathering and customer acquisitions. That continues to be the case in the first Q '09. We are now more than 520 customers with 1,000 customers in Greece. More 74,000 customers than Q1 '08. And we have now EUR3.1 billion in deposits plus EUR0.5 billion when compared with the first Q '08.

Our Millennium bank in Greece was considered to be the best bank. It's a great place to work. The best workplaces for 2009. This was the survey that was done among Greek employees and we are the third among all large companies with more than 250 employees.

Quickly on Angola, we continue to show very strong volume growth either on loans to customers with more than 80% and customer funds with more than 96%. The expansion plan is in due course. We are starting the expansion plan. We have currently 16 branches and we have seen the improvement of profitability of the operation already with a EUR2.2 million of net profit.

Other financial operations, in Romania we continue to see encouraging initial figures. We had lower than expected net loss driven by trading income and also mainly by operating cost savings. We have now 72 branches in Romania, of which seven were opened in 2009. Loans to customers grew almost 200% and customers funds grew almost 86%.

In the US you know that we have the Community Bank focused on the Portuguese, Greek, and Brazilian ethnic groups. We had a negative impact from the US economy's recession. That was reflected in significant increase on loan impairment provisions. The net loss of EUR1.4 million. We continue to have 18 branches and continue to show growth in terms of loans to customers and also customers' funds with 21% and almost 15% growth rates.

In Turkey we are focusing on cost control and also on rebalancing the portfolio. There was some decrease in terms of volumes either on loans and also on customer funds. But the net profit -- the loss is lower than what we had one year ago. We have now 18 branches and we also have the impacts from the evaluation Turkish lira.

So we are in Portugal, we are recovering the performance and preparing for a difficult year. We have a strong volume growth in deposits and the credit growth has been conditioned to the on balance sheet customers' funds growth.

International business has been the impact from the economic crisis, mainly in Poland. The cost reduction plan in Poland is already delivering the first results. We have a stable liquidity position, asset capital position, and believe to have an adequate strategy through the current business environment with focus on efficiency, risk control, and retail oriented. Thank you very much. We are now open to answer any of your questions.

+++ q-and-a

Operator: Thank you very much. (Operator Instructions) And the first question comes from the line of Inigo Lecubarri from Abaco Financials(inaudible). Please go ahead.

Inigo Lecubarri: I have a couple of questions. First I'd like to ask you some details if available on the EUR1.2 billion risk, non-dilutive capital -- what kind of capital is this? I assume this is going to be placed to the retail. And if you can give us some indication to what kind of details you have on that?

Second question, I'd like to ask you about the possibility of selling foreign assets, any of your foreign assets. Capital is very limited in the world right now. I understand that this is not the best time to go out there and try to buy foreign assets but in some of these areas, more in Greece, Romania, and in Poland even -- they have strategic value for others. Is there a possibility that we can raise capital by selling foreign assets? Thank you.

Pedro Esperanca Martins: Thank you very much for your questions. Let me start with the last one, selling of the foreign assets.

You know that this is definitely not the right moment we have been keeping all of our alternatives open regarding the assets. Mainly we are now talking about Turkey. That was already announced that we are looking for that. But one thing is sure, we don't see any pressure to sell any of the foreign assets and we will only do that if that creates value to our shareholders. We don't see a pressure to go and sell at any price. It is not the best moment to sell any of these foreign assets. Only if the opportunity arises and that creates value to our shareholders then we can see selling off the foreign assets.

Regarding the Tier 1 issue that was approved by the Bank of Portugal and by the Securities Commission of Portugal. It's been approved yesterday where, or Friday last week by the Securities Commission. The number one point two is the maximum that the bank can issue. We are looking at the conditions and we are defining the market conditions to see what would be the best way to put this either to retail or to institutions. We expect to see -- we expect to sell this type of instrument in retail but also for the institutional investors.

But we strongly believe that we are going to be able to sell these types of instruments mainly to the institutional investors. We have a target of one-third to a retail and two thirds to institutional investors. Conditions, we need to define them and then we'll communicate to the markets.

Inigo Lecubbarri: (technical difficulty) one more. The consumer -- the NPLs in the consumer segment have doubled from first Q, to fourth Q -- which is a very significant increase. Can you give a sense to what you'd expect the availability to be in the future?

Pedro Esperanca Martins: I believe that we saw an increase, a significant increase during the first Q. First Q '09 we compare with the fourth Q. On the consumer side, the consumer -- we have in terms of the size of the portfolio, the portfolio is pretty small.

I think that we suffered immediately on consumer loans as well. We suffered immediately the impact from the economy cycle and that I think is mainly the case. And we expect to see these stable going forward. I think this was the first impact that as usual when there is a recession and the population, the confidence that is at the lowest levels that the first portfolio where you can get immediately the impact of this. We don't expect to see an increase at this level that we showed to you the first Q '09.

Paulo Macedo: I would have this as an area where we restructure our recovery area and we are comfortable with the provisions going forward. We don't expect to see any significant increase for the future.

Operator: Thank you. We have another question coming through. (Operator Instructions) And the next question comes from the line of Tiago Dionísio from Espírito Santo. Please go ahead.

Tiago Dionísio: Hi. Good afternoon. I would like to know if you could give guidance regarding the outlook on margin and also both in Portugal and Poland and also cost of risk. And then the second question is if you know the performance of the pension funds in the first Q or preferably in the first four months of the year? Thank you.

Pedro Esperanca Martins: I could not understand your first question. Was guidance on what?

Tiago Dionísio: On net interest margin in Portugal and also in Poland. And also cost of risk?

Pedro Esperanca Martins: Okay. I'll start with Portugal. On the cost of risk side we are, as we said to you during the last presentation, we see the cost of risk to be at these levels of 90 bips. This was also -- we use some part of the trading gains to increase the provisions so we believe that during the cycle for 2009 we expect to see it in line with the 75 to 80 bips going forward. That has been our target for Portugal.

Regarding net interest margin, we expect to see a stabilization going forward. We've been re-pricing our loan portfolio. We'll continue to do that. That's an assumption that we will continue to do for sure.

On the retail map, the retail segment, they started at the later stage, they are now improving the spreads. We are moving fast on the re-pricing on the retail networks.

Let's go to the pension fund and then we will go back to Poland. On the pension fund side the number that we have in terms of the profitability of the pensions fund is now, at the end of March, was still negative but now it's positive with a number higher than 1%. So in terms of there was no material change in terms of that losses keeping the assumption that we had at the year end.

So there was no, and in terms of the profitability that this was a number above 1% positive and we expect to continue to see the profitability of the pension fund going forward to increase. We've been reducing our exposure to equities but we still have some equities and we are gaining on equities on the interest rates securities.

To answer to your question in Poland, I'll ask Mr. Fernando Bicho if he could give some details and some guidance regarding net interest margin and cost of risk.

Fernando Bicho: Good afternoon. Regarding the evolution of the net interest margin we have to notice some pressure on margins still in the second quarter although we expect to have reached the bottom during the second quarter especially the fact that we are observing now some signs of stabilization of margins along the time of deposits where the price war for deposits have been more intense.

So we expect that to really stabilize the margin from the commercial activity at the current levels and then to start having the positive impacts from a gradual re-pricing of the loan portfolios, especially on the corporate side.

Also we see some signs of improvement on the swap market which is relevant for us in terms of the funding of the of the loan portfolio in foreign currency so we also expect gradually to have an improvement in market conditions which can also support our cost of funding in foreign currency.

Regarding cost of risk, we might on an annualized basis of 85bp of provisions over total loans excluding specific provisions for FX derivatives transactions. This was mainly concentrated in the corporate and business portfolios where we are seeing more deterioration and we would expect that the similar levels to be observed during the next quarters.

Tiago Dionísio: Just a third question if I may. Regarding trading income, is it possible to break down the very syntax last in Q4, the impact from the interest rate swap was about EUR100 million. Is this quarter about half that level? And where did the other trading income come from? Is it possible to know please?

Pedro Esperanca Martins: You know that in Poland we had almost no trading gains in the fourth Q so you need to compare, when looking at the Group level we have now Poland with normal trading gains.

Going to Portugal, the main impact that also had an impact in the fourth Q was the interest rates swap. That has impacted in this quarter of EUR45 million. The rights is mainly interest rates related from acquisitions of our own portfolio. As interest rates goes down and we suffered on the margin we were able to do some gains on the trading side. But the main, the 45 million I think are the main issue that comes from the interest rate swap that also generated a profit during the fourth Q '08.

Tiago Dionísio: Okay. Thank you.

Operator: Thank you. And the next question comes from the line of David Vaamonde from Fidentiis. Please go ahead sir.

David Vaamonde: Hi. Good afternoon. On Poland, I'd like to know what's the frequency of the re-pricing of the mortgage book because I see that the re-pricing of the mortgage book is offsetting the FX affect but I was wondering, if in terms of timing, those are linked? That would be the first question.

A second question on NPLs. I'd like to know if BCP has sold any NPL portfolio in Poland this quarter?

Third question would be on provisions on financial assets, on assets received as payment in kind during the quarter, we are talking about 30-something million Euros, so I was wondering if I could have some more information on that? That's all. Thank you.

Pedro Esperanca Martins: Regarding Poland I'll ask Mr. Fernando Bicho to answer to the two questions re-pricing of the mortgage group and also on NPLs. And I'll answer on the financial assets. Fernando can you answer those first two?

Fernando Bicho: Yes. So the re-pricing of the mortgage loan portfolio happens on a quarterly basis. And regarding the NPLs, there was no sale of the NPL portfolio in the first quarter.

Pedro Esperanca Martins: Sorry, on the financial assets you were referring to EUR35 million impact? These are the other provisions?

David Vaamonde: Yes, yes.

Pedro Esperanca Martins: These are foreclosures.

David Vaamonde: But you must believe that the mark-to-market applied to the asset you have received, right?

Pedro Esperanca Martins: Now we continue to use the same methodology to value the collaterals. We continue, but that's something that we continue to have in the provisions. We continue to do a mark-to-market off the collaterals, either equities or interest related securities.

David Vaamonde: Okay.

Operator: Thank you, and we currently have no further questions coming through, so one last reminder ladies and gentlemen. (Operator Instructions). And we have another question coming through from the line of Ignacio Cerezo from JPMorgan. Please go ahead, sir.

Ignacio Cerezo: Yes, hello, good afternoon, a couple of questions relating to capital. First one is, a follow-up of Inigo's on the sale of assets. Basically, we have touched upon foreign banks, foreign units you have, but what about insurance business?

I was wondering actually if wouldn't give us information about which is the book value of that 50% of stake in Millennium's Fortis in your book? And if you would be ready to sell the 50% of stake if necessary?

And the second issue is the dividend policy. I mean you have been talking about the 40% range of operation the past. I was just wondering if you are speaking to that number or there are any changes there? Thank you.

Pedro Esperanca Martins: Sorry, Ignacio, I could not follow you on your second question. Can you say it again?

Ignacio Cerezo: Yes, it's about the dividend policy. I mean if you're speaking to the 40% payout ratio. Are there any changes in there?

Pedro Esperanca Martins: Our dividend policy, yes. We are sticking to the dividend policy that was, that we also did in 2008. That's something that we continue -- that's our dividend policy the 40% distribution. And .

Ignacio Cerezo: Is cash payout or are you open --to a script?

Pedro Esperanca Martins: No, we have for the time being, have been discussing the cash payout.

Ignacio Cerezo: Okay.

Pedro Esperanca Martins: The cash payout. We have not taken any decision to an intermediary dividends, but we still talking about the cash payouts. Regarding Millennium bcp Fortis the book value of Millennium bcp Fortis is around EUR290 million. That's the number of -- that's the book value in terms of, in March 2009. Let's say, and we are very happy with Millennium Fortis, it's something that is being working very well in Portugal. And for the time being, I don't think that we have any other comments regarding Millennium Fortis.

Ignacio Cerezo: And the 290 million is a 50% stake right?

Pedro Esperanca Martins: Exactly.

Ignacio Cerezo: Okay, thank you.

Operator: Thank you, and the next question comes from the line of Carlos Berastain from Deutsche Bank. Please go ahead.

Carlos Berastain: Thank you, good afternoon. I had another question on capital. Looking at Q4, results presentation, you guys said that the increase that core capital would experience ,if you were to move to the advanced IRB model, would be 156 basis points and it, would be around 148 basis points in Tier 1.

Whereas now looking at the Q1 results presentation, those are the improvement that you are now forecasting would be only 110 in core capital and 60 basis points in Tier 1. What has changed between Q4 and Q1 for your forecast in terms of how much capital release you will get to be half of what they were especially Tier 1? Thank you.

Pedro Esperanca Martins: Carlos, thank you very much for your question. I'm showing, I don't know if you are looking at the presentation, but if you look at slide 21 you have the explanation on the two scenarios that we are using.

We are now using scenario two with the IRB Advanced methodology, but with imposed LGD on corporate loans of 45%. In the previous announcements, we have IRB Advanced with our own methodology for corporate without own LGDs. This is mainly what changed.

Carlos Berastain: Okay (inaudible).

Pedro Esperanca Martins: What we announced was basically what would be the impact with the foundation method on the credit. And we are going forward with the Central Bank we hope in the next couple of months with a foundation. And we were still working on the following months in the next two quarters for the advanced method.

So we haven't put aside the full impact, but we expect it to see it in two stages, first, the impact in scenario two in this slide 21 of the foundational method, and then after the scenario one of the advanced.

Operator: Thank you, and the next question comes from the line of David Vaamonde from Fidentiis. Please go ahead, sir.

David Vaamonde: Hello, I've got another question, sorry. It's on the preference shares you are planning to issue. Do you have any idea what could be the cost, the financial cost, for that? And also, I understand that these wouldn't go through the profit and losses account, I mean that could go through some minority interest. Is that right? Thank you.

Pedro Esperanca Martins: David, we have not yet defined the conditions of the issues. So I cannot give you more information on that. But in terms of the accounting treatment, you're right. It goes to -- it is a kind of -- it's not a preference share, first of all, because preference shares are dilutive. This is a Tier 1 issue that's non-dilutive.

So, we have not defined yet the conditions. And as soon as we have it, we will inform the market. Regarding the accounting treatment, you are right. This goes to equity. So, it will be reported outside of the P&L.

David Vaamonde: Okay, thank you.

Operator: Thank you and we have no further questions coming through. So I will hand you back to Mr. Carlos Santos Ferreira to conclude today's conference. Thank you.

Carlos Santos Ferreira: Okay, thank you very much. I believe that all of you, you have the last remarks of these presentations. But let me only underline that we believe that the operating performance in Portugal is recovering. That we saw a strong volume growth mainly in deposits, and we have been limiting credit growth to deposit growth.

Third point that we believe that the impact from the economic crisis is in the international operation, mainly in Poland, is being met by fast and determined management actions. And that we have a stable liquidity position and we believe that we have an adequate capital position which will be further reinforced with the non-dilutive Tier 1 issue.

By last but not the least, we have, in our opinion, an adequate strategy to face the current business environment. Thank you very much.

Operator: Thank you for joining today's conference, ladies and gentlemen. You may now replace your handsets.