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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Millennium bcp First Half Earnings Conference Call, hosted by Mr. Carlos Santos Ferreira. My name is Ina and I will 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 to your host to begin today's conference.

Carlos Santos Ferreira - *Millennium bcp - CEO*

Well, good afternoon, ladies and gentlemen. Welcome and thank you again for attending this conference call. I would like to begin by stressing some key messages that are important to a correct understanding of the activity of the bank in the first half of 2008. First of all, having strengths in our capital and liquidity ratios, we have been accelerating the implementation of the bank's initiatives to improve efficiency and profitability included in our strategic program for 2008-2010.

Second, we have been reinforcing our pricing, risk and capital management discipline. We have been improving our commercial productivity and strengthening the relationship with our customers. The Millennium meetings where we go to the countries' regions to meet with our customers and employees and the opening of new branches are two good examples of this. And last but not least, we have been streamlining the organization to further improve efficiency.

We have also concluded the assessment of our portfolio of business and assets, arriving at the decision on its composition, which naturally will only be disclosed when the time is right. Before commenting on the financial performance of the bank, I would like to briefly note that the current instability of financial markets has been having an important impact on the banking sector worldwide and the bank is not an exception. But one should also bear in mind, the benefits of not having direct exposures to the subprime market and not having accumulated in the past few years on balance in the real estate market.

Net income for the first half of 2008 was EUR101 million, being negatively influenced by the impact of the performance of financial markets, especially by the booking of impairment losses associated with appreciation of the stake in BPI held in our available for sale portfolio, and also by booking of provisions to cover for the depreciation of financial collateral in Portugal. Excluding one-off items, essentially the BPI impairment, net income at EUR265 million.

There are a number of positive developments I should highlight. The bank's commercial performance was favorable, revealing that our franchise is resilient and was not permanently affected by last year's events. Net interest income increased 10% year on year, costs are under control and in Portugal, costs stayed flat, despite the expansion of the branch network.

Net income for international operation increased 19% when compared with the first half of 2007. Business volumes continued to grow at a sustainable pace. Credit increased 13% and customer funds increased 10%, with on-balance sheet customer funds growing 21%, both in Portugal and in our international operations, where credit increased 43% and customer funds, 29%. May I now ask Pedro Esperanca Martins to start the presentation? Thank you very much.

Pedro Esperanca Martins - *Millennium bcp - IR*

Thank you, good afternoon. Before starting the presentation, I would like to address two issues to better understand the numbers that we will present afterward. We are currently in a completely different environment than a year ago after the subprime crises and the rise of the commodity prices, and in Portugal, after the regulation changes that were introduced that had a negative impact on the profitability of the banking system. The second one, in order to best understand the performance of the bank, you need to clearly separate the operational performance, where I will show you the first signs of the recovery of the bank, from the market-related impact, mainly on the BPI valuation and also on the negative impact from the financial collateral revaluation.

So let's start with the presentation with the highlights. Theportuguese operating profit was up 19% from Q1 '08. On international operations, the profit was up 3%. Without Romania, as you know, is a Greenfield operation started in October 2007, so on comparable basis, the growth would have been 10%.

At the group level, the operating performance was up 15% from Q1. We also saw an acceleration of the volumes growth, mainly on deposits, and we have now restored the capital position able to support the franchise growth in the core markets, and also the expansion plans that we have in all geographies are on track.

Let's look at the group level. Year-over-year, we had a lower consolidated income of EUR101 million, that compares with EUR308 million last year. Looking on recurrent terms, i.e. excluding the specific items of the BPI stake and also the reduction of the variable remuneration that was accrued in 2007, the income, the recurrent net income should have been EUR265 million, that compares with EUR373 million, so a decrease of 29%.

On a quarter on quarter analysis, we are below the last year second quarter 28%, but we are in line with last quarter on consolidated terms, and also in Portugal, we are mainly in line and we are increasing on the international front.

On the top line, the top line in Q2 accelerated, in spite of the worse financial market conditions. We had an increase of 2% year on year, mainly driven by core revenues, especially financial margin. On a quarter on quarter basis and excluding dividends, the growth was 6% on core revenues, and comparing the second quarter '08 to the second quarter '07, there is an increase of 4.4% on operating revenues and 7.4% on core revenues. There was a very strong increase in terms of international operations.

The operating profit has been restored quarter after quarter, as you can see on your bottom right graph. We are almost at the same level as we were in our second Q '07, where we had a completely different environment, but we managed to be at the same level.

That shows a strong recovery in a much more demanding business environment, and should be seen as a very positive sign of the promised turnaround that we are implementing in Portugal, a word that I'm glad that some of the analysts are already mentioning, the turnaround has been a word that has been recognized by the markets.

On the cost to income ratio, we improved 1.5 points. That comes mainly from the international operations where we had an increase on on the operations costs, we are controlling these in Portugal and the increase that you are going to see in the international operations came from the expansion plans that we have nowadays.

So the operating performance has been restored quarter after quarter, in spite of expansion efforts, we opened, during the first half '08, 84 new branches, and we have now more employees outside Portugal than we have in Portugal. This is the first time in the history of bcp that we have more employees outside Portugal than in Portugal.

On the volumes, we continued to show double digit growth, both in loans and also on customer funds. And on customer funds, I would like to highlight the increase on the on-balance sheet customer funds with a growth rate of 20%, almost 23%, with deposits growing at 21.2%.

On the credit side, the credit qrowth was 13% and the main driver, even if the loan mortgage continues to grow at double digit, the main driver of growth was loans to companies that grew 14.1%. If we exclude the securitization, the securitized loans, the credit growth rate should have been around 15%.

On the credit quality, the overdue ratio is stable, 0.8%, and the coverage is also almost at the same level, 248%. But there was an increase in cost of risk due to the collateral revaluation. This was in Portugal, that 0.35 increase in terms of the gross impairment charges and also on the net from the 0.39 bps last year to the 0.58 bps this first half of 2008. This is mainly happened in Portugal. As I will show you, there was a decrease on impairment charges in Poland and in Greece.

Looking at the portfolio, there is a very slight deterioration on companies when compared with previous quarter, but we are still below last year and on individual side, where is stable, but a little bit above last year. And I will like to reiterate that we have no exposure to U.S. subprimes, no consumer credit issues and no exposure to insurance monoliners.

On the liquidity side, as you know, we tapped the markets, the debt market twice this year already. We raised EUR2.25 billion. We covered the financial needs for this quarter and the next one. On the fourth quarter, we will have some funding needs, but we intend to issue another EUR1 billion to cover these needs.

I would like to stress the work that has been done by the bank either in Portugal and also outside Portugal regarding the commercial gap. The commercial gap in the first half 2008 is almost zero at the consolidated level and also in Portugal and we have a positive contribution from Poland, where deposits grew much more than the loans to customers.

We also increased significantly our pool of high liquidity assets until June's increase of EUR1.8 billion and we expect that for the full year, the increase will be EUR3.9 billion, so we will have a liquidity position that is comfortable. We have no issues on liquidity going forward.

On the capital base and after the capital increase, that had a positive impact, a direct positive impact of 194 bps. The activity generated three bps and then we have the impact from BPI devaluation and also a positive impact from the share capital increase on the limits that are acceptable for the calculation of the core capital.

On this, I would like to stress two issues that I think has been one of the major concerns that I have been listening when I am talking to you. The first one is the pension fund. As I have been saying, this calculation is done once a year and we will do it at year-end with the precise figures from what happened during the year.

Anyhow, and also from the discussions, I believe that we need to look on both sides, not only on the asset side, but also on the liability side, and this has been an issue that the board has been looking very deeply, trying to understand the issues and to solve them.

As you can expect, with increase of the long interest rates, the discount rate should also change and the expected rate of return of the fund should decrease. You need to bear in mind that the rate of return of the fund is for one year and the discount rate that we will be using is a long discount rate.

And this will change the current value of the liabilities. What I can say to you is that based on these figures, the change in the discount rate will cover more than 70% of the devaluation of the assets until that date.

On the other side, the bank, as it was said, concluded the portfolio analysis, and will, as promised, increase the focus in terms of international operations. But as you can understand, we cannot announce the list of the assets that are up for sale, because that will have a negative impact on the operations and also on the value of the assets that could be considered.

So we have done the work. The work is done. And we will implement it and we will come to you as soon as we complete any transaction. We are not preannouncing anything at this stage. As soon as we -complete one transaction and only then, we will announce it.

Let's move to Portugal, where there was a decrease of 35% in terms of net income and we are looking at the net income excluding the specific items so on a recurrent basis. And the impact that we saw in Portugal was mainly due to the capital markets impact on the collateral revaluation, while there is a clear recovery of operational performance, as you will see.

The top line still reflects the adverse market environment where we are in, but the pace of recovery is picking up. And the financial margin and commissions was stable when compared to the first half '08 with the first half '07. In terms of on a quarter on quarter basis, we accelerated the growth rate. It moved from 2.3% last quarter to 10.1% this quarter. So the recovery is picking up.

We had some positive net interest income performance, in spite of the higher funding costs. The net interest income increased 4.1% and the financial margin increased 4.9%. Here and on the spreads, on the corporate loan spreads and mortgage spreads, something that I would like to explain to you what happened.

We have an index issue here. So we are using average of last month when calculating the revenues compared with this month's interest rate. So the revenue is done on last month's EURIBOR and the cost is on the current month EURIBOR.

When the EURIBOR interest rates are increasing, we have a time lag in terms of repricing and on the margins. We recalculated based on a sample, what will be an impact of the index and the index impact on the spreads could be up to 20 bps, depending on the segment.

So you need to look at these spreads carefully, considering that there is a time lag when there is an increase in the interest rates, in the EURIBOR interest rates. As soon as the EURIBOR interest rates stabilize, we will recover this gap.

On the commissions and for Portugal, the lower commissions mainly reflected the adverse financial market. But we are recovering strongly from Q1 '08, with an increase that is around 21% compared with Q1 on almost all lines, securities, bank services, credit related and cards on a quarterly basis. Of course, when you look at the last year, first half of '07, there is decrease, and don't forget those regulatory changes where introduced after the first half '07.

On the cost side, in Portugal, although we opened new branches in Portugal, the costs are stable at 0.4%, this is almost nothing. We opened 29 new branches in Portugal without any increase in terms of cost or employees. When comparing the number of employees of first half 2008 in Portugal, we have 10,810 employees. In '07, in Portugal, we had 10,844 employees. So we have more branches with less people. And that's a trend that we will continue to have.

Looking at the jaws, what we can say is that operating performance is coming back and the revenues are accelerating, because the costs are kept under tight control. The cost to income ratio improved from last quarter from 57% to 54.3%, and on the graph on the bottom right, you can see the operating profits, they have increased 19% compared with the first quarter '08 and this is in line, almost at the same level as the operating profit one year ago. If we had promised this six months ago, I don't believe that any of you would believe it.

On the volume side, we showed strong volume in both loans and customer funds, with especially on the balance sheet customer funds that grew 16.6% with deposits growing at 13%. On the loan side, the total loan portfolio grew 7.8% and here, the biggest growth has been on the loans to companiesthat grew 10% while the mortgage grew 5.3%.

On the mortgage, the LTVs that we are having on the second quarter on the stock is 72% and for the new production is 78%. The spread on new production on mortgages is around 91 bps, that improved significantly from last year.

On the credit quality, we have a stable credit quality as we are continuing to grow on the loan side. The overdue ratio is at 0.6%. Of course, we had an impact on the cost of risk due to the collateral revaluation, that increased from 40 bps to 64 bps and if you look at the growth, it is from the 65 bps to the 78 bps.

Regarding the new entries, we had 66 bps for the firts half '08 that compares with the second quarter '07 of 69 bps. So we are more or less in line in terms of the credit quality.

Looking at the different portfolios, we have a resilient loan quality in spite of some deterioration exposure to corporate. That has been a stable with 0.75 points.

Going to Poland, where we have an increase of almost 19% in terms of net income despite the crisis in the capital markets and the adverse impact of the fixed income trading in Poland. Here, I would like to highlight that the retail segment profit before taxes doubled over a one year period and represents now 57% of the total profit before taxes, from 31% a year ago. There is a clear focus on retail in Poland.

The crisis in the capital markets had a negative impact on mutual funds, mainly on commissions. All, and I repeat, all the other lines showed a very strong performance and we need to take into consideration the growth potential coming from the loading of new branches that we have been opening during the last half and the last year.

The operating income performance is a strength that is reflected in the sound core business that we have in Poland, the financial margin and commissions growth grew almost 25% year on year. On a quarterly basis, this has been stable on the core revenues. We continued to have a very strong performance in sound core business in Poland, with strong net interest income growth, benefiting from both volumes on loans and on deposits and also from the price trends with the growing net interest margin that grew from 2.92% to 3.41%.

The 3.5% net interest margin that we have in the second quarter, was driven by the growing also of the market rate, which translated into much better deposit spreads and this is one of the products that we have been focusing during this quarter.

That more than compensated the drop of net commissions due to adverse market conditions this year, , when you look at the securities and asset management, that decreased 33% from last year is where we see the impact on the mutual funds commissions. On the other side, all of the other commissions: banking, credit cards and insurance, showed a very good performance, that almost offset the decrease in terms of the securities.

On the costs side, the costs grew almost 20%, with an increase of more than 1,000 employees. We have now more 1,138 employees in Poland than we had a year ago. Excluding the expansion plan, the operating costs should have grown only 12%, so we have a strong potential here. We are having the costs and the revenues will come in the near future.

And looking at the efficiency ratio, the cost to income ratio is stable compared with the first Q '08 and the operating profit increased almost 90% from last year. Costs are under control and the revenue decreased mainly due to the impact of the mutual fund commissions.

We continued to have our branch expansion program.We added another 20 new branches in the second Q and we keep the target of achieving 490 branches by year-end and 560 branches by 2009. So we are increasing the coverage and the capilarity of our network, particularly in the big cities, so we are moving near the clients, so there is a strong potential on the Polish operations going forward.

The Bank Millennium continues to fast develop its client base, with an increase of around 200,000 new clients from last year. That is shown in the sustained volume growth. Growth of deposits was 49% year on year. That more then compensated the drop in mutual funds.

The growth of deposits came mainly from retail, with an increase rate highly above the market. We continued to gain market share on the deposit side. On the loan side, the growth continues to be very strong, 34%, with the retail loans to be the main growth driver.

The loan to deposit ratio stayed below 100%, at 98%, and I would like to highlight that the average LTV in terms of the mortgage book that we have in Poland is 68%, well below the one that we have in Portugal, and it is very sound in terms of the risk.

That is shown in terms of asset quality and the cost of risk, both of them decreased from 2007 and we have an improvement in terms of the quality with the impairment ratio decreasing from 4.6% to 3.1%. The asset quality remains sound in the main portfolios of the bank.

Let's move now to Greece, another geography where we are present. The increase in the net income was 5.2%. There is a strong recovery from the previous quarter, where there was a negative impact on provisions. That is now fully recovered with the actions that were taken on the credit recovery.

On the negative side, we will continue to see a negative impact from the ECB-linked mortgages. That will take some time to recover as the spread between the EURIBOR and the ECB has been widening during the quarter. We expect this to be over as the market is no longer offering ECB-linked mortgages, so we can recover on that side.

On the operating income from the core business, it grew 17%. That more than compensates for the lower trading income. On the quarter on quarter basis, it increased 4.6%, so the business fundamentals are improving and the growth is also coming from the margin that we are having.

We have a solid net interest income evolution, despite the competition that we are having on deposits and the impact of increased EURIBOR on the ECB-linked mortgages, as I told you. The widening of the spreads drove net interest income to a lower level of 2.26% in the second Q '08.

Anyhow, we have been focusing on liquidity on increasing the deposit side and also on the repricing on the corporate loans, as you can see, on the revolving, where we moved from a spread of 1.94% in the Q1 to a spread of 2.45% in the second quarter. This was an impressive growth in terms of pricing and a special effort done by the bank to improve this situation.

On the commissions side, the commission grew 32% compared with last year and 6% compared with last quarter. The main drivers here were the cards and the credit-related commissions, and also other commissions in the second quarter. But the main drivers are banking business related commissions.

On the operating cost side, we opened 12 new branches in first half 2008. So the operating costs are increasing mainly due to this expansion plan. We have now more than 1,500 employees in Greece and since June 2007, we opened in Greece 21 new branches.

The cost of expansion plans are here (reflected, the revenues will come as we have an immature branch network. One out of three branches has been opened less than three years ago. So we have a very promising development here as soon as these branches start to be fully loaded. Anyhow, we continue to have a stable efficiency ratio, in spite of the expansion plan that we are having and the operating profit increased almost more than 11% year on year.

On the volume side, the loans grew at 35%. There is a slight deceleration in the loan's growth, mainly on loans to companies, when compared with the previous quarter. Anyhow, the loans to companies grew year on year 62.5% and the mortgage grew 22% year on year. On the customer deposits, we continued to show a very good performance. We had a growth rate of 21%.

On the credit quality, as I told you last quarter, in the first quarter there was a hike in terms of the cost of risk due to the conditions on the recovery on the collections process. The bank has taken the required decisions to take care of the issue and the actions that were taken by the bank that were referred to by me in the last conference call delivered the result and the outcome is clear. We are now at the normal level in terms of impairment charges for Greece.

Just to highlight some of the products that were launched in the first half that reflect the strong emphasis on increasing deposits and acquiring customers, we managed to acquire 30,000 new customers. That increased EUR130 million of deposits.

Moving to the other international operations, and I will go quickly on each of the operations. In Mozambique, we have a sustained and profitable leadership position. We continue to have a very strong market share. The loans to customer and the customer funds continued to show very good trends in terms of growth, mainly on the loans to customers, and the profits continued to grow at 90% this year, with an impressive return on equity, near 50% and the cost to income is at -45%-. It's a very sound operation that we have in Mozambique.

In Angola, we have a strong credit volume growth, on the back of the solid macro performance. The results were affected by the branch expansion and also by the dollar devaluation, although they are improving from last quarter. The partnership with Sonangol and BPA will boost growth. The deal with Sonangol is almost closed and we hope that this will be completed very soon. And this will have a positive impact on the core Tier One going forward as soon as this is completed.

Regarding Romania, we have encouraging initial figures with good market acceptance. The loans to customers are at a good level. On the profit side, of course, as this is a Greenfield operation, ee are showing a loss. But this loss is much less than the one that was expected. We have been acting and we have been trying to avoid costs and there are some operating cost savings that help the outcome of having a lower net loss than the one that was expected.

In the U.S., we are close to breakeven, mainly as a result of the cost effort that has been done by the bank. And here, we also have the negative impact from the dollar devaluation, so when you look at the decrease in terms of volumes, you need to take into account that there was a devaluation in terms of the dollar that more than justified this decrease in terms of volumes.

Regarding to Turkey, the main focus of the bank has been on cost control and rebalancing the loan portfolio. We continued to have a strong growth in customer loans and the market continues difficult on the customer funds. The second quarter showed a big improvement of operating performance. We reached breakeven on a quarter basis.

To conclude, we have been improving the operational performance versus Q1 '08 and we are almost at the level of the second quarter last year. Of course, we have this negative impact on impairment from the collateral revaluation. There is a strong volume growth, particularly on deposits. We can say that the turnaround of the Portuguese business is starting, with substantial upside via cost optimization and repricing.

Our international business continues to be strong and showing profitable growth. We have a comfortable liquidity position with capital position rebuilt, capable of supporting the organic growth projects, and we believe that we have the adequate strategy to the current business environment with focus on efficiency, risk control and it is mainly retail-oriented.

I hope that after the presentation, the first signs of operational turnaround became clear to you all and that it has been clear that there are on the operational side, we are performing very well and we have some negative impacts from the capital markets. Thank you very

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Carlos Santos Ferreira - *Millennium bcp - CEO*

Well, ladies and gentlemen, thank you very much, Pedro. I would like to conclude your presentation and stress three or four points. First, we believe that the bank has been overcoming the issues that need attention and we believe and we hope that we are right, that we are already seeing the first results of the measures implemented in the first half of the year.

Second, I want to say again that we are strongly committed to our strategic program and that we are working on the turnaround of the performance of the Portuguese franchise. And we believe that we are going to continue to benefit from the growth prospects of the international operations.

Third, as noted at the beginning of the conference call, we have assessed our portfolio of business and assets and we have made a decision on it. As you surely understand, this decision cannot yet be publicized or the value of the asset or assets at stake would be compromised.

I want only to say two more things. First of all, I can assure you that we will be focused in the international operations. Second, related with 2010 objectives, we believe that we can accomplish everything that is in our control, resources from clients, cost control, credit, commissions. We must be aware of the international market conditions, but this is something that all of us, we know. Thank you very much. I believe that we will be glad to answer to any of your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (OPERATOR INSTRUCTIONS). The first question is coming from the line of Jacoba Garcia from Fox Pitt Kelton. Please go ahead.

Jacoba Garcia - *Fox Pitt Kelton - Analyst*

Hello, good afternoon. I have a couple of questions. First, one of the comments you make on the earnings report is that the improvement in the securities commission in Portugal in the quarter is partly influenced by the capital increase. And I was wondering if you could quantify the impact of the capital increase on the commission revenues for this coming on the securities line of the commission revenues? The second thing is regarding the impact on the depreciation of the financial collateral in Portugal. Again, if you could quantify on this?

Lastly, regarding the pension fund, I was wondering if you could give us some color as to how big the pension deficit is, assuming that you keep the current actuarial assumptions and change? Thank you.

Pedro Esperanca Martins - *Millennium bcp - IR*

Thank you, Jacoba. Let me start with the commissions on the securities. The impact that we have from the capital increase in terms of the commissions was around EUR2 million in terms of commissions that come from securities.

On the devaluation of collateral, you can assume that the increase that you see in terms of the cost of risk from the 40 bps to the 58 that we showed this quarter, the major driver of this growth has been the devaluation of the collateral.

On the pension fund, you cannot analyze a decrease in assets due to -a decrease in the capital market without considering a change in the interest rates and then consider it on the liabilities side. It is an analysis that only looks at one of the sides and not both of the sides. And when you are looking at the pension plan and pension fund, you need to look at the asset side and also at the liability side. The actuarial difference comes from both, not just from one of the sides.

And as I said during my presentation, if you consider and if you look at the AAA bonds interest rates, you are going to see that they increased significantly. If you check some benchmarks in terms of discount rate of pension funds outside Portugal, you will see that they have a completely different discount rate and we are talking about an higher discount rate that should be used.

So as I said during the presentation, if there was a change in the discount rate, to take into account what happened in the market, this will cover more than 70% of the devaluation on the asset side until June. I think this is clear. I hope that gives you the support that you need to have.

Jacoba Garcia - *Fox Pitt Kelton - Analyst*

Yes, so you mean, you didn't change the actuarial assumptions, how big would the pension fund deficit be? Or put it the other way, how big are the pension fund assets currently?

Filipe Abecasis - *Millennium bcp - Head of Corporate Center*

The size of the pension fund is approximately EUR5 billion, as you are probably aware. So you can work out from there what the evolution would have been in the first half. In any case, it is still sound once you take into account the effect of the higher interest rates.

If we were to do the exercise which we normally do at year-end, which is compare the present value of liabilities with the value of the assets in the pension fund, what we would have is that the negative impact on the value of the asset would have been largely made up by a decline in the present value of the liability. So the two effects do not off set each other completely, but they do so to a large extent and the net difference would be something like 30% of the total decline in value of the assets.

Jacoba Garcia - *Fox Pitt Kelton - Analyst*

Okay, thank you.

Operator

Thank you. Your next question is coming from the line of Carlos Berastain from Deutsche Bank. Please go ahead.

Carlos Berastain - *Deutsche Bank - Analyst*

Good afternoon. I have a number of questions regarding different topics. Number one on capital, you have been talking about the disposal of assets. Logically, you cannot develop much more from that. But would it be possible to get a feeling of the nature of those kind of assets, or more precisely, on whether -- I know that you want to focus on the international business, but would you consider if Greece and Poland under review as so much of that could be disposed eventually if things get really, really tough from the capital point of view?

Second question would be on spreads. You guys have given some color on why corporate spreads have come down. But could we get a feeling of why spreads on mortgages have dropped so much in Q2 versus Q1? Third question would be on loan growth in Portugal. Assuming the corporate loan continues growing nicely, whereas the loan production on mortgages and consumer lending has been virtually zero in Q2, whether we could get some views on why that is the case, whether you have doing it on purpose, whether the competition is too intense, or what has gone on there?

And finally, whether you can give us a bit more color on the nature of those financial assets that have been revaluated, the collateral to those corporate loans, what kind of assets they are, to get a feeling of whether we could see some extra charges in coming quarters? Thank you.

Carlos Santos Ferreira - *Millennium bcp - CEO*

Okay, I will try to answer your first question. I will leave for Pedro the last three. My I clarify that for us, Poland is as core business as Portugal. So we cannot forecast any situation of capital pressure, that is not the case, that oblige us to dispose of the Poland operation. Pedro?

Pedro Esperanca Martins - *Millennium bcp - IR*

Thank you. On the mortgage spread, as you know, we cannot change the spread of the mortgage book and so this decrease in terms of the mortgage spread comes mainly from the index. The index that we are mainly using on the mortgage is the three-month EURIBOR. So you have a leg of one month, in terms of the evolution of the EURIBOR.

When the EURIBOR goes up, you are on every month, using the EURIBOR from last month to calculate revenues and you are comparing this with the current three-month EURIBOR of this month. So whenever you have a growth trend, you will have a lag of one month at least.

This is done whenever the book is on repricing, so on a quarterly basis, we have around one-third of the book reprices in the every month. So you will have this time lag in terms of the book.

If you compare it, and I will give an analysis, comparing the spreads on the mortgage book keeping fixed spread for the customer, when you compare the number between first quarter and second quarter, the difference is only due to index it is higher than 25 bps. That is why I also said that new production on the mortgage is at 91 bps. That is completely different from the 68 bps that I showed to you in terms of the book. But this is mainly driven by the index.

On the loan growth, regarding mortgages, you know that the mortgages growth in Portugal was around 7.3% year on year. In terms of the Portuguese market, we showed to you 5% growth in terms of our mortgage book. Of course, when compared with last year, we have been -decelerating. What we did differently from last year was that we have been much more strict in terms of the quality of the mortgage book. We have been focusing on the best geographies and making sure that we move to higher quality mortgage book.

And we are also increasing the spreads on the new production. That is why we have now this 91 bps, when three months ago, I had 82 or 83 bps in terms of new production. And we are also asking for a lower LTV.

So all in all, driving for a better quality in terms of the book, of course, you are going to suffer in terms of new production. Anyhow, we are not at such bad times as we were saying that there was no growth in terms of the mortgage book. The mortgage book continued to grow at the same level as it did, more or less, last quarter.

On the collateral side, what we have mainly there are equities and bonds, mainly Portuguese equities and bonds and that devaluated significantly during this first semester.

Carlos Berastain - *Deutsche Bank - Analyst*

All right, thank you. Only one follow-up.

Pedro Esperanca Martins - *Millennium bcp - IR*

Carlos?

Carlos Berastain - *Deutsche Bank - Analyst*

Yes.

Pedro Esperanca Martins - *Millennium bcp - IR*

Thank you.

Operator

Thank you. The next question is coming from the line of Peter Testa from One Investments. Please go ahead.

Peter Testa - *One Investments - Analyst*

Yes, thank you very much. I was wondering if you could help a bit on the international operations in just terms of whether -- you gave a brief rundown through them all, but whether there are any particular issues outstanding there or ownership issues which may be part -- were they, for example, part of your review of all assets? I am referring to the catalog of smaller operations. And then the second question was --

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Pedro Esperanca Martins - *Millennium bcp - IR*

Sorry, can you say it again? Because I could not understand it fully.

Peter Testa - *One Investments - Analyst*

Sure. You gave a more in-depth presentation on the international operations of Poland and Greece, but then there is a series of other international operations and I was wondering whether they were also part of the overall review?

And then the second question I had was if you could give any feeling of what the impact of the capital increase was, the funds we see to the capital increase on the P&L or net interest income during the quarter? Thank you.

Pedro Esperanca Martins - *Millennium bcp - IR*

Okay. On the international operations, I showed you in the last slides, we see the other international operations that we had. And as it was said last quarter and it was reiterated this quarter, all international operations were the target of the portfolio analysis that was done by the bank. So when you are talking about any of these international operations, that was discussed and seen and it was included in the portfolio analysis.

On impact of the capital increase, the impact that we had on the capital increase on the net interest margin was around EUR8 million in terms of the financial margin in the second quarter 2008.

Peter Testa - *One Investments - Analyst*

So I didn't -- was that eight as in eight, a round figure, or 88? I couldn't understand you.

Pedro Esperanca Martins - *Millennium bcp - IR*

Eight.

Peter Testa - *One Investments - Analyst*

Eight rounded, okay.

Pedro Esperanca Martins - *Millennium bcp - IR*

Eight, just eight. 88 would be nice, but --

Peter Testa - *One Investments - Analyst*

Okay, I appreciate it. Thank you for the answer.

Pedro Esperanca Martins - *Millennium bcp - IR*

Thank you.

Operator

Thank you. Your next question is coming from the line of Antonio Ramirez from KBW London. Please go ahead.

Antonio Ramirez - *KBW - Analyst*

Yes, good afternoon. I would like a comment on the personal finance as well, but instead of centering into this cash and all the processes, I would rather prefer a management comment. I mean, if we consider that the size of the pension obligations is currently more or less the size of the market cap of the company and it exceeds the capital of the company or the NAV, and if we consider that 40% of the assets of that pension fund are invested in equities, and if we consider that you are outside of the corridor and the pension fund is already producing a significant adjustment in your core capital and this could becoming bigger, depending what happens in the future, can you -- and I would like management to comment on that. How do you see that?

I mean, from the outside, it looks like the capital of the bank is geared to equities, I mean, it is geared to the success of the investment of these pension assets. And just because the size of the pension obligation is so high compared to the size of the capital of the bank, it looks quite a risky position, I would say. So can you qualify, what is your view on this thing and if there is any way you can reduce the exposure of the capital of the bank to this situation? Thank you.

Paulo Macedo - *Millennium bcp - CFO*

There are two ways we are addressing this issue. The first one, and starting by detailing the deviation of our pension fund, actuarial differences, as it was said, our pension fund, as I mentioned, of about EUR5 billion. We can say that there is a deviation of about 10% if nothing would change by the year-end. As it was said also, that if we adapt the discount rate on the pension fund, we have only a deviation of 30% on this 10%. I don't know if I am being clear.

And so, one form of addressing this is changing the assumptions on the funds. But the second way we are addressing the issue is by revising the benefit of the plan. As you know, we have created a new pension fund for new employees and also this year, we have a lower increase in pensions by an agreement with the syndicate that we signed last month, by differentiating the increases in pensions and salaries for higher level.

So there are two different approaches, one in terms of assumptions, in terms of the performance of the fund. The second and the structural one that we are addressing is revising the benefit plan by revising the increase and the pace of growth of the increase of pension and by the criteria for being eligible for the funds. Because part of our employees are eligible or not for a part of the pension in the fund, according the performance and according a certain percentage for a part of the pension.

So, the management has the possibility of putting higher or lower that percentage for a part of the benefit of the pension fund. So there are several measures that we are studying the impact and we will address that in a strategic way.

Another issue that you should not forget is that the equity that we have on our pension fund is being depressed, but some have clearly a strategic value and an upside, like for instance, the fund has an important strategic stake in Cimpor or other companies that have a significant upside. Is that clear?

Antonio Ramirez - *KBW - Analyst*

Yes, it is clear. But the truth is, when you look to the actuarial assumption you are utilizing today, it is quite debatable that these assumptions are conservative enough. I mean, if you look to the mortality tables that are used in Portugal in general, so that is not bcp issue only, these mortality tables have not been updated for, I don't know, 15 years?

So it looks really -- it is really interesting to see how different banks in Europe are approaching this issue. And you were mentioning the room to increase the discount rate. But again, if you look at the discount rate of other banks, you see Europe, maybe you find some example that they use higher ones, but you will find a lot of examples of banks using lower ones.

So it just looks -- obviously the assumptions can be changed, but the size of the issue of pensions for Portuguese banks in general and bcp in particular is quite concerning, is very big. So that is why I am quite concerned about that. That is why I was thinking, on the strategic thinking you have rather than just the fine-tune only prophesies you may implement.

Paulo Macedo - *Millennium bcp - CFO*

In strategic terms, and just addressing the pension fund issue, that is why we are first, revising the benefit plan; second, revising the composition of the remuneration that is pensionable; third, revising the face of growth of pensions; four, revising the structure of contributions from the institution, from the bank and from the employee, because in our second pension fund, we have two different pension schemes.

Nowadays, only the bank is contributing and the employee is contributing with zero. It would be easy because other Portuguese banks have these already arranged with employees and with syndicates that a [equitable] contribution would be made. Then fifth, reanalyzing the criteria for eligibility for the employees that are qualified to have a complement of the pension in certain years. And at last, reanalyzing the actuarial assumption. So we have a checklist and this is the strategic approach for the amount of the liability.

Antonio Ramirez - *KBW - Analyst*

Okay, yes, thank you very much.

Operator

Thank you. The next question is coming from the line of [Oliver Dobu] from JPMorgan. Please go ahead. Oliver, please go ahead. Your line is open.

We seem to have lost that line. (OPERATOR INSTRUCTIONS). We have a question from the line of Carlos Berastain from Deutsche Bank. Please go ahead.

Carlos Berastain - *Deutsche Bank - Analyst*

Hi, sorry to come back again. Two quick questions. Number one, on this, the revaluation of these collateral assets in Portugal, if there was an increase in the value of those assets again, would you be able to release that amount back through the P&L? That is number one.

And number two, coming back on the loan production of mortgages, I understand some of the things that you have said, being more cautious, approaching specific segments on the mortgage market. But the truth is that there has been no production. I mean, the outstanding amount of mortgages in Q2 is exactly the same as at the end of Q1.

So my question is if you follow the same approach, we may have the risk of not producing any mortgages in Q3 and Q4, and therefore, we could end up 2008 growing less than 1% in the mortgage book. What makes you think that that will change and that the production levels will become positive in the coming quarters? Thank you.

Pedro Esperanca Martins - *Millennium bcp - IR*

Carlos, starting with the mortgage, the numbers -are growing and I will provide you with this information, because you are looking at the book that includes the securitized loans that are run off portfolios. I don't have it here with me, but I will send it to you, the numbers excluding the securitized loans, where you can see that the mortgage book is growing and was growing in Q1 and also in Q2 and the pace of growth of new production that I have is exactly the same. We are talking about EUR600 million, okay?

Carlos Berastain - *Deutsche Bank - Analyst*

Understood.

Pedro Esperanca Martins - *Millennium bcp - IR*

Okay? On the collateral side, of course, as you are doing a revaluation, in this case a devaluation, of the value of the collateral, if the capital markets improve, of course, you will have an impact on P&L, a positive impact.

Carlos Berastain - *Deutsche Bank - Analyst*

Understood, thank you.

Operator

Thank you. The next question is coming from the line of Carlos Garcia from ING. Please go ahead.

Carlos Garcia - *ING - Analyst*

Yes, good afternoon. I have a couple of questions. One is following up on the question of Antonio on the gearing to the equity markets. You also have a stake in BPI, which is penalizing yourself and I would like to know, what is the reasoning behind keeping it? What do you plan to do with that?

Secondly, if you would need to for whatever reason, raise capital, what would be your view regarding the smaller international operations in which you would be core, among core, like Romania, you get a good price, or Mozambique, which are the options available going forward?

Carlos Santos Ferreira - *Millennium bcp - CEO*

Well, if I may try to answer your second question, we are not forecasting any increase of capital. We have some international operations that could be sold and this will help us releasing capital. And we have also some internal assets that are also possible to be sold. So you have been talking about BPI. So clearly, we don't forecast any capital increase. We believe that we have assets enough in Portugal or if necessary, in other countries, to release capital if necessary. Thank you.

Operator

Thank you. We currently have no questions coming through. (OPERATOR INSTRUCTIONS). We have no questions coming through, so I hand you back to your host to wrap up today's conference.

Paulo Macedo - *Millennium bcp - CFO*

Just a remark on BPI. BPI is accounted as an available for sale, so it will be -up for sale. On the other hand, we think this stake has a higher value as a qualified stake of 10%, so we don't want to sell piece by piece on a day by day basis or to put it just on the market. But it is clearly available for sale and it is our intention, according a fair price that we want, of course, to take advantage from this stake.

The second thing on the increase of capital, as the CEO said, we don't envisage any increase of capital. Ee will release capital from the sales of international business -and, it's cumulative, we will reduce our exposure, as we have been saying, in the pension fund. So by addressing these two issues at the same time, we will not have any necessity of raising capital. I don't know if you have other questions?

Operator

There are no further questions from the line, so I hand you back to your host to wrap up today's conference.

Filipe Abecasis - *Millennium bcp - Head of Corporate Center*

So just some final clarification, because some of you raised the question on the degree of conservativeness in our assumptions in the pension fund, mainly regarding when we discussed the possibility of revising our discount rate in the current environment.

The current standards that are used to determine the discount rate are based on AAA and AA-rated bonds, that is high grade corporate bonds, long dated, 10-year, high-rated corporate bonds. That is the standard that is used, that should be used according to IAS. If you look at these rates, recently, they are at or above 6%, whereas in our assumptions, we are using 5.25%. So we are talking about a substantial difference here, I just wanted to stress. No further comments from us.

Operator

Thank you for joining today's conference. You may now replace your handsets.
