



Conference Call Transcript

BCP.F - Q3 2008 Millennium bcp Earnings Conference Call

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PRESENTATION

Operator

Welcome to the Millennium bcp Third Quarter 2008 Earnings Conference Call. My name is Sara 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, Mr. Carlos Santos Ferreira, CEO 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 before I ask Mr. Pedro Esperanca Martins to make the presentation. And I would appreciate to comment five or six points.

First of all, the growth of on balance sheet customer funds by EUR1.6 billion and the growth of loans to customers by EUR8.4 billion in the first nine months of 2008, when compared to the same periods. When comparing the third quarter with the second quarter of 2008, we also see a good performance showing that's having the commercial gap under control we continue to support our customers in their investments and entrepreneurial projects. We have been pursuing a prudent liquidity management policy and have funding for our 2009 needs.

Second, the capital ratio, as you can see, increased to 11.2% as of September 30, 2008; the tier one ratio to 7.8% and the core tier one ratio to 7.6%, with the impact of the depreciation of the BPI stake in the third quarter being offset by organic generation of capital.

We have also presented pro forma capital ratios incorporating the impact of the pension fund performance and difference and changes to actuarial assumptions and also estimate the additional positive impact from the adoption of the IRB advance method that we submitted for authorization from the Bank of Portugal. As you know, our BPI stake is in our available for sale portfolio and we are starting its sale.

The third point regarding the credit quality; loans overdue by more than 90 days remain stable at 0.8% of total loans as of September 30, 2008. And impairment charges stood at 0.62% of total loans, increasing 0.04 when compared with the first semester of 2008.

The provisioning efforts increased influenced mainly by the depreciation of finance collateral resulting from the fall of financial markets, but stand in our view at acceptable and levels comparable with other domestic and international markets.

Even in such an extraordinary year, the bank's consolidated net income for the first nine of months of 2008 amounted to EUR142.1 million and to EUR344.6 million, excluding primarily the impairments related to the stake in BPI.

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I would also appreciate regarding our performance to note that net income from international operations, a central pillar of the Bank's growth strategy, increased by 18%, excluding the Romanian operation which launched one year ago when it's still, as you know, in the investment phase.

Our operating performance has been resilient with the operating profit staying in the first nine months, in line with the same period of 2007; it was minus 0.4% and improving in the third quarter of 2008 when compared with the third quarter of 2007, plus 16%.

Net interest income was up 11% in the first nine months of 2008 when compared to the same period of 2007. And operating costs increased 3.4% in the first nine months of 2008, compared to the same period of 2007.

In the context of branch expansion, with the group adding 116 branches to its network since the beginning of the year. In Portugal, despite the opening of 44 new branches, staff numbers decreased and operation costs decreased 6.1%.

Finally, we have continued to implement a number of initiatives to improve our performance of which some examples-- we take initiatives to attract new customers, to expand the branch networks, rebalance our workforce to our sales and customer service, improve efficiency and streamline the cost base and re-pricing initiatives on credit and customer funds are underway.

I believe that now is the moment to ask Pedro Esperanca Martins to start the presentation. Pedro-?

Pedro Esperanca Martins - Millenium bcp - IR

Thank you very much. Good afternoon to you all. Let's move on in terms of the presentation. Let me start with highlights for the third quarter 2008.

What we'd like to stress is that operating income is growing in Portugal, our international operations continue to show strong growth, we've able to sustain the volumes growth mainly on deposits, the impairment increase is in line with the current cycle we're living in, and due to the collateral revaluations. And capital market-- cash composition is able to support franchise growth in the core markets where we are.

Let's move into more details- to the detailed presentation on the group. The stated net income decreased 64.8% from EUR403 million to EUR142 million. If we take out the impairment on the BPI stake and the reduction of the variable remuneration, the net income that we consider to be recurrent would have decreased 28% year on year.

When we look at the quarter-on-quarter net income, the decrease was 24% from third quarter '07 to the third quarter '08. This is mainly due to net impairments and provisions that were up 73% and also to lower trading income that reflects the instability of the capital markets.

Looking at operating profits, the operating profits on a quarter-on-quarter basis increased 15.6%. That shows the resilience of the franchise of BCP, when we exclude the impacts from the capital markets.

Looking at the Portuguese operation, the net income was down 38.6% and the operating profit was at 9.8%.

The international operations contribution to the consolidated net income increased 13.3% and I would like highlight the performance of the Polish operation and also from the operation in Mozambique. Without Romania, the growth of international operations would have been 18%.

The top-line growth has been supported by core revenues and as announced, we separated the core operating income from the impacts from the capital markets and from the income that has been related to capital markets. The core operating meaning the net interest income, dividends, banking related commissions and other operating income. The core operating income grew 7.8% year on year, and 8.8% on a quarter-on-quarter basis, comparing the third quarter '07 with the third quarter '08.

When we compare the operating income with last quarter and if we exclude dividends that we received in the second quarter '08, the core operating income is stable on those two quarters.

Regarding Portugal, the core operating income grew 2.7% and in international operations the core operating income grew 22.7%. I believe these are very good numbers in the environment where we are.

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Let's talk about intermediation margin; that had a positive performance in spite of the commercial financial market conditions. The net interest income grew 11% year on year, and when compared on a quarter-on-quarter basis third quarter '08 to third quarter '07, the growth rate was 14.2%.

The net interest margin decreased from 2.04% in the third quarter of last year to 2% this year, meaning that of course as we all you know, there was an increase in cost of funding, but we've been able to re-price also our portfolio. It was not enough to cover the cost of the funding, but there was a strong effort from the Bank on doing this.

And this is also something that I liked and I discussed in the last presentation that we need to talk again; this one is called the index impact that has been a significant impact on the net interest margin and also net interest income from the Bank. As you know, declined interest rate is based on the previous month, Euribor average, and the cost of funding is on the current month. So this has a significant impact and I can tell this on the mortgage book, this could be between 15 and 20 basis points. So the re-pricing is underway and we'll see where this will take us.

Regarding Portugal, the net interest income grew 6.5% and on our international operations the growth rate was 24.6%. The core banking commissions are growing year on year and favorable on a quarter-on-quarter basis. And of course we have lower capital markets related to commissions, as to be expected.

In the core banking business, the commissions on the core banking business grew 3.6% year on year, and when you compare on the quarters it was 8.25%.

In Portugal, as you know, there was a change in the regulations in the year 2007 so when compared to nine months '07 with the nine-month '08, there still is a decrease on the core banking business of 3%.

On international operations, the growth has been very stable. And the core banking business grew 25.1%.

In terms of the group, and regarding the core banking business, I would to highlight the performance of the commissions on costs and that grew 6.6% and the credit-related commissions that grew 13.7%.

So we are improving the operating profitability. We have stable revenues when excluding the dividends from the analysis, the operating costs are stable given we are opening branches in the geographies where we are in. In Portugal, we opened 44 new branches and closed 9. During the third quarter, we opened 7 branches in Portugal. And in international operations we opened 81 new branches, of which 26 were in the third quarter.

The cost to income ratio declined 2.4 percentage points from last year and the operating profit, when excluding dividends to take out some of the seasonal effects that we have here, we have an increase of over 16% when compared with the third quarter of last year and it's at almost the same level as last quarter.

We continue to expand the footprint in the most profitable markets. We have been able to acquire 815,000 new clients since 2006 in international operations. Of the branches that we have outside of Portugal, 268 were opened after 2005, so they have less than three years; of which 138 branches are in Poland and 56 are in Greece. So we have young set of branches, below that the current branches will improve profitability as the costs are already here, but the revenues will come.

I would like also to share with you the expansion plans that we are having as have been illustrated two of the locations that are already chosen and reserved. So we are on our way to see [movement]. We are sure this was a good decision to continue to invest. That has been proven by the performance of the international operations. The business model that we are using proves to be the right one. But in the current environment, we are waiting to see what will be the development of the economies to decide to further invest in the opening of the branches.

We will continue with the ones that are already reserved. With the other ones, we'll see what's going to happen.

On the volume side, we have double-digit growth in volumes in both loans and customer funds. The loans to customers excluding the securitized loans grew 13.2%, with the growth coming from more efficient losses from loans to companies. On the customer fund side, I would like to highlight the growth on balance sheet from customer funds that grew 20.4% year on year.

Talking a little bit about the mortgage loan portfolio, some of you know that in Portugal we had no real estate bubble. When we look at the nominal house price change from 2007 to 2008, in Portugal the change in price was 18%; that compares with Ireland with 65% and with Spain at 133%.

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What have we been doing in Portugal regarding the mortgage portfolio? We have been reducing the average LTV, it has reduced 5.4 percentage points from last year to this year, and we have been improving the spread on mortgage on new production.

In Poland, the new production LTV is at 68% with a spread of 1.14%. In Greece, new production LTV is 60% with a spread of 0.94%.

On the credit quality, the deterioration that we had is in line with the current economic cycle and increasing cost of risk is also due to the lower market value of the collateral. This is something that has also hit the P&L of BCP last quarter, as the markets continue to go down, we have also devaluations of collaterals and it's important to stress that our impairments models force IRS charges as market value of the collateral decreases, even when the loan remains current. So that's something that we've been having- this is mainly in Portugal.

Regarding the liquidity position, the refinancing needs of long-term debt for 2008 are EUR2.6 billion. We already tapped the market with EUR2.4 billion debt issues and we have a capital increase of EUR1.3 billion.

For the first half of 2009, the refinancing needs are EUR2.1 billion and I would like to highlight that we have a pool of (inaudible) liquid assets that we can use with an ECB of EUR3.8 billion as at September '08. The total portfolio expected at year end to be EUR5.3 billion.

On the commercial gap, something that the President already mentioned; we have been making a strong effort in managing the commercial gap. We have been showing a healthy growth on the loan side that is critical for a retail bank as Millennium bcp. What's important to stress here is that loan growth has been completely funded with growth of on balance sheet customer funds.

The loans to on balance sheet funds ratio has been decreasing during all this year. It is now at 142.7%. We are leveraging and this is something that we will continue to work on going forward.

On the capital side, the core tier one for September '08 is at 6.5%, tier one at 7.8% and the total solvency rate showed 11.2%. We had a negative impact from the BPI stake of around 5bps. And then we had some impacts from the recent regulatory changes and from the activity we've been able to have a core tier one of 6.5%. In this slide we included also an analysis of the impact from the pension funds.

The pension funds impact will move as of September '08, we will move the core tier one from 6.5% to 6.1% and the tier one from 7.8% to 7.4%, so we are talking a 40bps impact from the pension funds.

We have two sides on the pension funds. We have the decrease in terms of the assets and also the change in the actuarial assumptions. In this analysis, we are including a change in discount rate from 5.25% to 6%, and in terms of the pension increase, a change in the assumptions from 2.25% to 2%.

The 6% that we are using on the discount rates is in line with the yields that we had at the end of September on the double and triple-A corporate bonds. If you look at the yields nowadays, they are higher; how much higher, the triple-A bond yield is around 6.27% and the double-A bond yield is at an average of 6.99%. So we believe that 6% discount rate is perfect in the market and it's perfectly acceptable.

Regarding the pension increase, the percent that we are using nowadays is a current practice on the BCP regarding salaries increase, so we are moving through the current practice of the Bank and the current yields on the markets.

Regarding the pension funds, I would like to highlight that in terms of the composition of the assets as of September '08, 28% of the pension fund was invested in shares, 22% in bonds, 13% in real estate and 37% in liquidity. So this is the impact that we have in terms of the ratio.

We also did an analysis that some of you already saw, and we estimated what would be the additional impact from implementation of the internal rating based approach, and this will give us impact on the core tier one of 78 basis points, moving from 6.1% to 6.9%. And the impact on the tier one of 110 basis points, moving from 7.4% to 8.5% tier one ratio. We are not including here an impact from the sale of [Milan and Angola].

We also did during this year a careful analysis of the risk per file of our clients and we have (inaudible) currently that the loans that we have from the public sector and from companies are accelerating that allows us to reduce the impact on the risk-weighted assets.

Moving to Portugal, as we saw already we had a lower net income. This is mainly due to impairment costs and also to the seasonal effect. As you know, the third quarter is always a bad quarter in Portugal. We also had the dividends that we received on the second quarter, so the quarter-on-quarter third quarter '07 with third quarter '08, the decrease was 38.7%.

On the operating profit, when looking at the nine months, the decrease was 6%; but when looking at quarter on quarter, the increase was 9.8%.

The top line was supported by core revenues, the core income grew 2.7% year on year and when comparing quarter on quarter, the growth rate was 4.6%.

We had a positive net interest income performance. The net interest income grew 6%; with the net interest margin to be almost at the same level as last year, but lower than last quarter; the spread has been decreased somewhat from last quarter. This is mainly due to the cost of funding. But the volumes more than compensated-- the growth of the volumes more than compensated the decrease in terms of interest rate effects.

The year-on-year commissions reflects of course the financial markets, but also the seasonality that I've been talking to you. The core banking business on the nine months decreased 3% but when looking at quarter on quarter; the growth rate was 4%.

On the cost side, we are decreasing the operating costs. We are serving a broader branch network with less employees. We decreased 1.8% of the number of employees while we increased 5.7% the number of branches in Portugal. The operating costs decreased 2.5% and when compared on the quarter-on-quarter basis, the decrease was 7.8%. So we are managing tightly the cost side and we've been able to decrease the operating costs while expanding the branches in Portugal.

When looking at the Jaws and the cost to income ratio, we have stable revenues if you exclude the dividends received in the last quarter and the costs continue to be under tight control and decreasing.

Cost to income ratio decreased to 60.1%, a 3.2 percentage point decrease. And operating profit increased 9.5%.

We have been showing very strong volume growth. Also in Portugal the loans to customers growth rate was 7.7%. We've been growing on loans to companies year on year is 8.7% and on the mortgage we experienced 7% growth.

On the customer funds, the growth rate was 10.1% and this has been a strong effort from the Bank regarding the growth on the on balance sheet funds.

Regarding the credit quality, the slower economy and depressed markets are reflected in the cost of risk. Cost of risk impairment charges, although they are below the last third quarter, they are still at a high level. That reflects the slower economy but also the devaluation of the collaterals that continue to have an impact on BCP. The overdue ratio of more than 90 days is at 0.7% and the coverage ratio at 290.8%.

Moving to Poland, we still continue to have a resilient performance even in a less favorable environment that we are having in Poland. The net income grew 11.3% in terms of the quarter. And in terms of a quarter-on-quarter basis, we have stable net income.

We have been strengthening the operating income of the Bank that reflects on the sound core business and the financial margin and commissions grew 23.5% year on year, and when comparing on the quarterly basis, the growth rate was 21.2%. This more than covered the decrease in the trading revenues.

On the margin we have strong net interest income growth, benefitting from volume and prices. The net interest income growth rate was almost 46%. And the net interest margin increased from 3% to 3.5%. So we are gaining on the volume side and also on the price side.

This more than compensates for the drop on the net commissions, mainly on the capital market related; that decreased 44.2%. The core banking business continues to grow with a very healthy rate of 33.5% and on a quarter-on-quarter basis the growth rate was 13%.

The operating costs reflect the expansion plan that we continued to see in Poland. The cost increase is 17%. And it is mainly due to the opening of the new branches.

The efficiency ratio and the Jaws are in line with the previous quarter. We are accelerating the revenues growth and the costs are under control, despite expansion. The cost to income ratio is in line with last quarter and the first half of 2008. It was a slight increase of 0.7 percentage points.

Regarding volumes; we have very strong growth, 31% on loans to customers and then impressive growth on the deposits of 60.6%. This has been impressive as well as on the Polish business on the deposit side.

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Coming back to the loans, we've been growing on the mortgage loans more than 40% year on year, and loan to company growth rate was [18].

Regarding the cost of risk and the asset quality; it's stable, we've been improving the impairment ratio. It's now at 3% and we cap the impairment coverage of 75%. Impairment charges at the low level of 45bps and 50bps, including the recoveries.

We have a strong market share in Poland, especially in deposits from individuals. We have very good ranking positions; we are the sixth bank on deposits from individuals. We are the third one the mortgage loans. We are the fifth bank on the total loans so we have been improving the position; it's impressive, the growth of the market share on deposits from 5.2% in December to 6.7% in August.

While we are strengthening our presence in important regions, we have now 465 branches. We have been increasing the coverage in many regions, in fact, particularly in the big cities. The Bank maintains its goals of 490 branches by year end. All of these locations are already reserved and the employees-- we've been recruiting employees to take care of these bank branch expansions.

Finally, regarding Poland; this was something that was also shown by the Bank Millennium and CHF results show you the FX denominated mortgage portfolio should be able to support the PLN depreciation. We are perfectly comfortable with the stock that we have. As you can see, the customer receives the Swiss francs; (inaudible) loan has the capacity to support at least the 76% depreciation on the Swiss francs. This is something that we do [as a precaution].

Regarding the future, as the market has been changing significantly also in this and this is something that has been happening with all the markets in Poland in the recent days. The Bank Millennium decided to increase spreads significantly on FX mortgage loans to reduce the maturity so we have now a maximum maturity of 20 years on these FX loans.

So nowadays it's almost equal to have an FX loan or a PLN loan. It's something that the market has been doing in the last days and that's something that we will see happening in Poland. So we have a Swiss franc and we have this [loan] and it will be essentially the same going forward. We expect to see the new production to move much more on the (inaudible) side than on the FX side.

Moving to Greece, the earnings in Greece have been affected by a strong focus on liquidity. That's something that we have been able to do in all our geographies. This impacts the spreads on deposits of course and also the disbursement of new loans for the year.

The net income decreased 9.3%. Let's see why. The strong operating income from-- we had strong operating income from core business, that compensated for lower trading due the financial margin commissions grew 13.4% year on year. The operating income growth rate was 10%.

We had also solid net interest income evolution, despite the competition on deposits and impacts on increased Euribor on ECB-linked mortgages. As you know, until June this year some of the mortgage book-- interest rates on the mortgage was linked to ECB rates and nowadays all the new production is linked to Euribor. But we still have a book on the ECB-linked mortgages.

But anyhow, the net interest income grew 11.5%, although the net interest margin decreased from 3% to 2.38%. As you can see on the spread side, we've been able to increase the spreads on corporate loans. The spreads on the mortgage loans are stable and on the current deposits, the spreads increased but on the total deposits, the spread now is negative.

Commissions have been growing steadily at 21.7%, same average level from last quarter. The operating costs are increasing due to expansion plans. This is mainly due to the expansion of the network that we have also increased. As you can see, there was a decrease in terms of the revenue growth in the third quarter, mainly due to this spread compression on the deposit side and the costs were stable.

Cost to income ratio, when excluding trading gains is at 77.5% and the operating profit decreased slightly 1.4%.

We continue to show strong volume evolution with an increased focus on deposits. As you can see, the deposits growth rate was 26.3%. On the loan side, we continue to grow on the loans to companies and also [slower] with some deceleration on the mortgage, the loans to customer growth rate was 32.3%.

We have stable asset quality and the cost of risk is decreasing. We changed the process of collection in Greece. This has been duly bringing the results we expected. We have now a controlled cost of risk and also impairment charges.

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We've been also changing the offers to our clients with much more emphasis on increasing deposits and acquiring new clients. We have given three examples of those initiatives and from September '07, we've been able to acquire 66,000 new clients that increased EUR630 million of deposits.

Regarding the other international operations, in Mozambique we have sustained our profitable position in the market. We have a market share of 37%. We continue to see a strong acceleration on deposits of around 32%. And also on the loans to customers, we had an extremely good quarter with increased profitability. The return on equity is near 50% and we have a cost of income of around 44%.

Regarding Angola, we continue to grow very well. We have a strong volume growth, 136% on loans to customers and 144% on customer funds. We have now more customer funds than loans to customers. This will be funding our operation. We signed an agreement with Sonangol and this will boost growth of the operation in Angola in the future. We have now in Angola 11 branches.

In Romania, we have encouraging initial figures and a good market acceptance. We have lower than expected net loss driven mainly by operating cost savings that we've been able to implement in Romania. The operation is highly accepted by clients and we have been accelerating the origination of new clients. We have now 45 branches in Romania.

In the US operation, we are suffering from the impacts from the crisis the US. We have a community bank that is focused primarily on Portuguese, Greek and Brazilian ethnic groups. But the global crisis and the reduction on interest rates are affecting the deposit's volumes and also the margins as you can see in terms of the volume to customer funds decreased almost 3%.

Regarding Turkey, the recovery is underway, and we've been mainly focusing on cost control and rebalancing the loan portfolio. We continue to see strong growth in customer loans and the market continues to be fairly difficult on the customer funds side.

The third quarter showed a net income that benefitted from the sale of the headquarters office building-- of the headquarters building of the operation.

So as a conclusion, we have a stable group operational performance versus Q2 in spite of the seasonal effect in Portugal. Of course, we had a negative impact on impairments on collateral revaluation. We have strong volume growth, particularly in deposits and other balance sheet customer funds.

On the international side, we have strong and profitable growth. Liquidity position is stable and capital has been rebuilt and is capable of supporting the organic growth projects. We continue to have adequate strategies in the current business environment. We focus on efficiency, risk control and retail oriented.

Thank you very much.

Carlos Santos Ferreira - Millennium bcp - CEO

Okay gentlemen and ladies, I would like to underline some points. We believe that today we have stronger capital ratios; that the commercial gap is under control and our own balance sheet customers grew 20% and loans to customers grew 13%; that our credit quality and cost of risk stand at acceptable levels; that our international operation continue to perform well and net income increased 18% excluding, as you have seen, the Romanian operation and that our operating profit in the first nine months stood in line with the same period of 2007, despite the extraordinary environment we are living in.

Thank you very much. We wait now for your questions.

QUESTION AND ANSWER

Operator

Thank you. (OPERATOR INSTRUCTIONS) We have a question from the line of [Annette Garcia] from (inaudible). Go ahead, please.

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Annette Garcia Analyst

Hello, good afternoon. I have a few questions. First of all, I would like to know how you see margins going in 2009. The second question has to do with the loan growth and asset quality situation. How do you expect this to widen through all of next year. And finally, I would like-- if you could shed some light on pension funds performance as of September '08. Thank you very much.

Pedro Esperanca Martins - Millenium bcp - IR

Annette, let me start with the pension fund performance. There was some news in the press today regarding the pension fund. In Portugal, I don't know if all of you saw it or not; the performance of the fund at September on the asset side was negative--10% negative. This will give an impact on the actuarial differences and also comparing with expected return on the fund.

Today in the press, there was a number. It was around EUR916 million of impact from the situation with the assets. Then you need to consider also the impact from the change into the discount rate, and also the change in terms of the pension increases from 2.25% to 2%; this discount rate from 5.25 to 6%.

All in all, this should give you an impact on the capital of around 40bps, so we've been able to cover the impact-- the final (inaudible) difference is from the asset side will partly covered from the change in the assumption. This is something that we will do as to ARN, we are adding initiatives that were outlined during the second-quarter presentation that we continue look at them. The study is study is still going on. We are not only going to change the assumption and that's it, we'll continue to study and the initiatives that we presented to you during the last quarter are still valid and we'll continue to look into what can be done.

So the impact that we have on the pension fund- the pension side impact is on core capital and as you know, the difference between the change in the devaluation of the assets and the change of the assumptions; this is the part that goes to the-- to be out of the corridor as we are already out of the corridor and that will have impact on the core tier one.

On the margins for 2009, I think the market environment nowadays-- is extremely difficult to understand where the market is going. What are seeing and what we are doing, we continue to re-price our loan group and that's something that we've been trying to pass the increased cost of funding to the client. It's something that we'll continue to do. We need to wait and see where the cost of funding will go and how the debt markets will be opened until the year end or not and then we can have a proper idea on that.

Operator

The next question comes from the line Antonio Ramirez from KBW. Go ahead please.

Antonio Ramirez - Keefe, Bruyette & Woods - Analyst

Yes hello; good afternoon. I would like to discuss a little on the capital position. You have just explained what's [specificity] to the pension fund. Obviously you are absorbing a big portion of the losses on the asset side with the increase in discount rates from 5.35% to 6%, as other Portuguese banks did. So my first question is- what happens next year if interest rates go down because we are now expecting the ACB to cut rates and over time this will have an impact on market rates as well and you have to use I think the [dollar-rate] bond as benchmark . So it's not too likely that in 2009 interest rates could be for these bonds materially lower. Obviously, if at the same time you will cover all the losses on the asset side, it's fine. But if this doesn't happen, because we have a recession let's say and the valuations did not recover so much; then the gap on the pensions will open again and will impact the capital more than what is impacting right now.

So it looks like this is still a risk. And connected to that question, I would like you to talk about asset sales because you already said in previous conferences that you would consider asset sales. Clearly the market is not now easy for that to be accomplished. So can you tell us-- what can we expect in terms of capital generation from asset sales?

Pedro Esperanca Martins - Millenium bcp - IR

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Antonio, thank you very much. Regarding the pension fund, as I said, we are not only looking at the change on (inaudible) assumptions, we have other initiatives that we have spoken about already that I used several times in the presentation to the investors; something that we'll continue to look at.

But anyhow, if you look at the double-A yields nowadays, we are talking about a yield that is much more-- is today is 6.99%. Of course this can change, but also it can change-- the valuation of the banks and of the asset debts we have and we can recover also at that time.

It's something that we'll be playing on both sides of the (inaudible). I don't expect to see a huge decrease on the yield and no evolution on the asset side. That would be a bit odd in terms of the economy. So it's something that will move in tandem. If the yields go down, of course the valuations of the assets needs to go up. Of course the (inaudible) will have a retraction and that will create some issues. I don't know if that's going to be on the pension fund or not, but what I like on this is that these are not only measures that we have taken. We have been studying and we have different analysis on the pension fund that we intend to implement in terms of decreasing the responsibilities on the fund; something that I've been talking about -- the CEO and CFO have been talking about these initiatives. It's something that we are going to implement to (inaudible).

We are talking with the syndicates. We are talking with the unions. We told the required people. It's something that we've been discussing for the last two or three months and something that we'll continue and when we close this, we'll come up with the conclusion of that study. And it's something that's going to reduce significantly these responsibilities on the pension fund.

Regarding the asset sales, I believe that today's market is a very difficult one; very tricky one. We will see what can be done on that sales side. This is not, as the President said yesterday, we don't need to sell anything. We are in an [optimal] position. We will see what is going to happen. We will continue on this. Of course we are, as we have been saying during the last quarters, whenever we crystallize the value of an asset, we will sell it. That's something that we are looking at and we will see where this can go.

Going back to capital, in terms of that impact of the introduction of the IRB; the tier one with IRB will be at 8.5%; it's something that we consider to be extremely good for the bank of the size of BCP and of the risk of the BCP (inaudible) of 8.5% I believe it's strong for the Portuguese system and we'll have a core tier one of 6.5%; we'll see. In these numbers, we don't have an impact of the sale of (inaudible) Angola. There were also regulatory changes that would have impact going forward. We'll be generating from these regulatory changes and releasing capital, including the capital side of around 2bps per quarter.

We are continuing to look at the risk-weighted assets and we are doing several things at the same time to manage the capital position of the bank.

Antonio Ramirez - Keefe, Bruyette & Woods - Analyst

Thank you.

Operator

(OPERATOR INSTRUCTIONS)

There are no further questions coming through so I'll hand you back over to Mr. Carlos Santos Ferreira, CEO, to wrap up today's conference.

Carlos Santos Ferreira - Millennium bcp - CEO

Okay ladies and gentlemen, thank you very much for attending this conference call and we hope to speak again in the beginning of next year. Thank you very much again. Thank you.

Operator

Thank you for attending today's conference. You may now replace your handset.

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