

# Execution in a difficult environment

**KBW Conference**  
**16/17 September '08**



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## Banks are under pressure on two fronts

**Financial  
crisis: credit  
and liquidity**



**Economic  
slowdown**

**In this extremely difficult environment we saw banks disappearing, or being integrated into other banks or even being broken into pieces.**

# At Millennium bcp, we had a third element of pressure during 2007



**In 2008, a new chapter has begun, after the clarification of strategic priorities under the new management team.**

## **Overall**

- We were one of the first banks to tap the capital markets with an extremely successful rights issue

## **Portugal**

- Continue to be market leaders and a reference bank
- Volume growth is a good example of the soundness of our franchise
- We manage to improve the satisfaction of our clients
- Our team is highly motivated and focused

## **International**

- We continue to develop our international operations with significant further organic growth projects

**The Bank as shown its resilience**

# The current environment is particularly difficult

The financial crisis led to an increase in the liquidity cost and credit risk, forcing a hike in credit spreads.

The relevant impact is not the subprime crisis, but the impact on the markets due to the economic situation

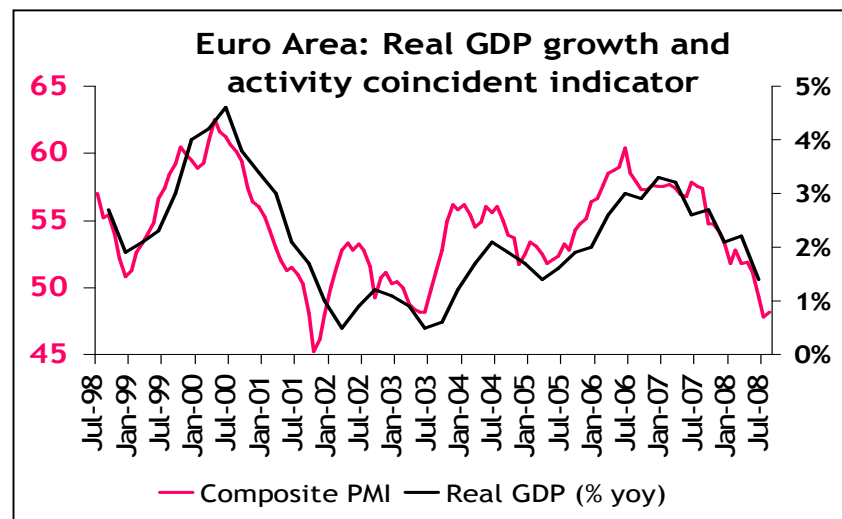
The analysis of previous crises suggests the effects will last into 2009

- Need to align credit pricing with the cost of liquidity and the cost of risk
- Relevant credit risk from SME and highly levered affluent customers
- Negative impact from direct and via Pension Fund exposure to equities
- Capital discipline is critical

# Portugal

## Economic outlook

- The Portuguese economy re-entered the convergence path on several fronts in 2007: GDP growth dynamics, inflation moderation and state budget consolidation.
- For 2008 and 2009, economic activity is expected to moderate significantly.
- The challenging economic and financial environment (external demand, oil prices and financial conditions) and structural vulnerabilities of the Portuguese economy (external deficit and private sector indebtedness levels) weigh on economic prospects.



Source: Eurostat, Bloomberg

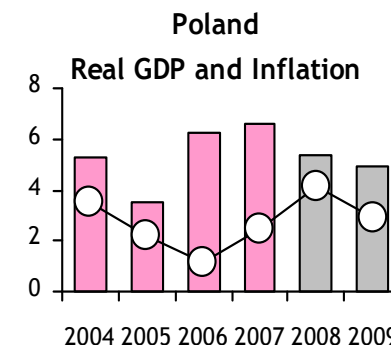
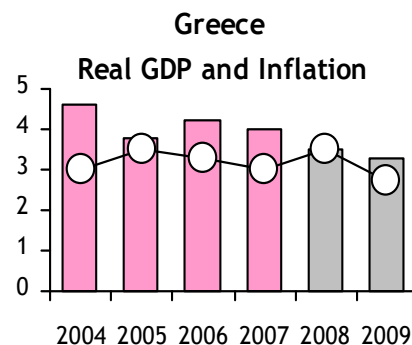
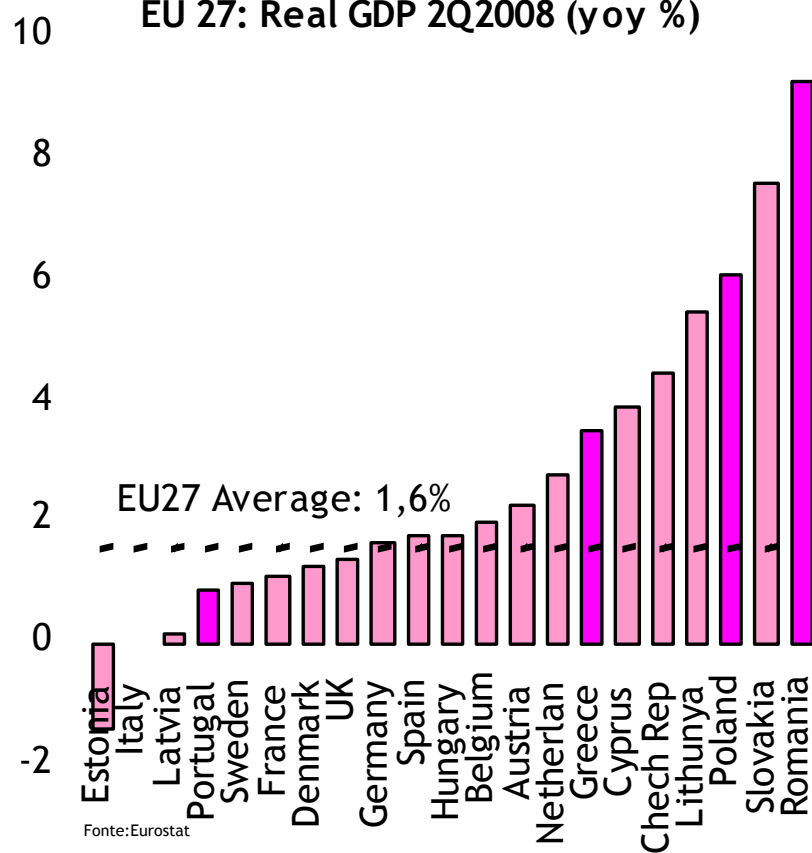
	Actual		Mbcp	Bank of Portugal		
	2006	2007	2008 (F)	2009 (F)	2008 (F)	2009 (F)
Real GDP (yoy %)	1,3	1,8	1,0	1,2	1,2	1,3
Private Consumption	1,1	1,5	1,0	1,0	1,3	0,7
Public Consumption	-0,3	-0,3	0,4	0,7	0,4	0,8
Gross Fixed Capital Formation	-1,6	3,2	2,5	2,8	1,0	1,2
Exports	8,9	7,3	3,5	2,2	4,4	4,0
Imports	4,3	5,5	3,9	2,0	3,3	2,1
Unemployment Rate (%)	7,7	8,0	7,7	7,7	na	na
Inflation Rate (%)	3,1	2,5	2,8	2,5	3,0	2,5
External Balance (% GDP)	-8,6	-8,0	-9,0	-9,1	-10,6	-11,1
Budget Balance (% GDP)	-3,9	-2,6	-2,6	-2,6	na	na
Public Debt (% GDP)	64,8	63,7	64,0	63,5	na	na

# Poland and Greece

## Economic environment and outlook

Poland and Greece keep outperforming Euro Area on real GDP dynamics

EU 27: Real GDP 2Q2008 (yoy %)



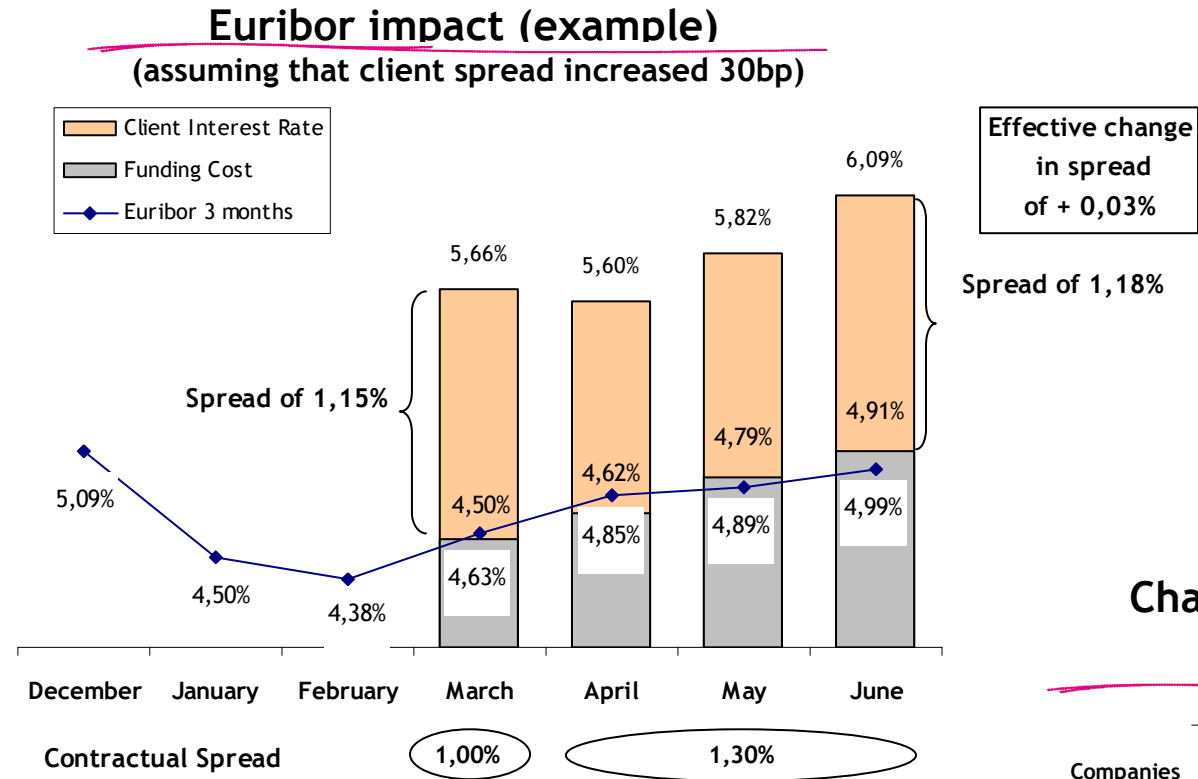
### Poland:

- GDP expansion within the 4%-5% range for 2008 and 2009;
- Monetary policy to retain tightening bias on inflation pressures (current key official rate at 6.00%);
- Main challenges: medium term fiscal consolidation; emerging markets contagion; joining the euro (>2012).

### Greece:

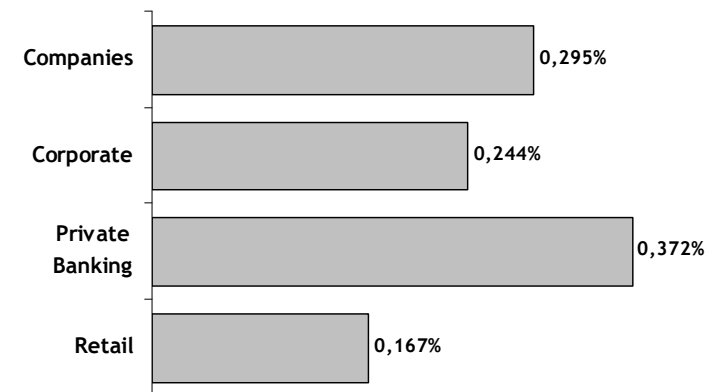
- GDP growth below potential in 2008-2009 (3.5%);
- Wage growth to keep inflation on the high side;
- The high external imbalance (14% of GDP) is partly due to strong investment (mostly in *shipping*) but also a reminder of erosion of the country's competitiveness.

# With rising interest rates, legally-imposed formula has a negative on effective customer spread



The contractual spread increased 30bps, the impact of the index led to an increase of only 3bps. Client interest rate is calculated using previous month average.

## Change in spread for short term products \*



\* Analysis done on short term products using a relevant sample per business line

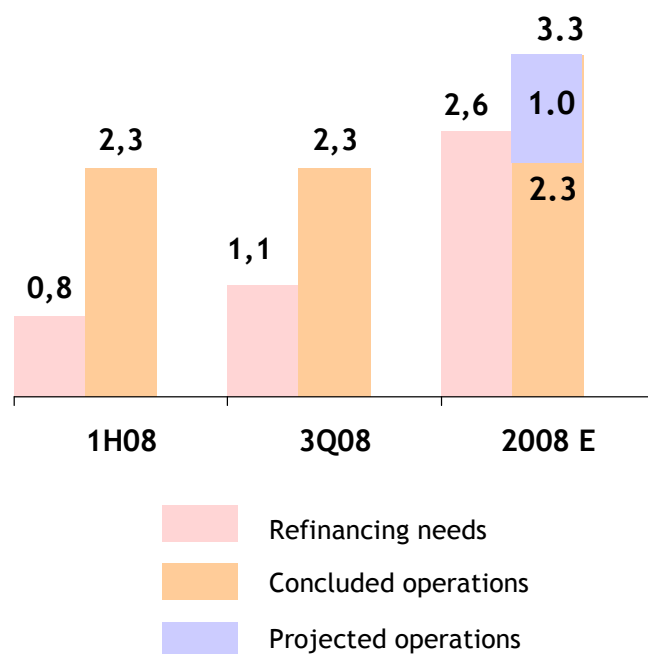
# Comfortable liquidity position

## Wholesale funding

(Eur billion)

### Maturity and projected issues

#### Accumulated values



### Highly liquid assets

- ✓ Increase until June 08 of €1.8 bn
- ✓ Expected increase for the full year 2008 of €3.9 bn

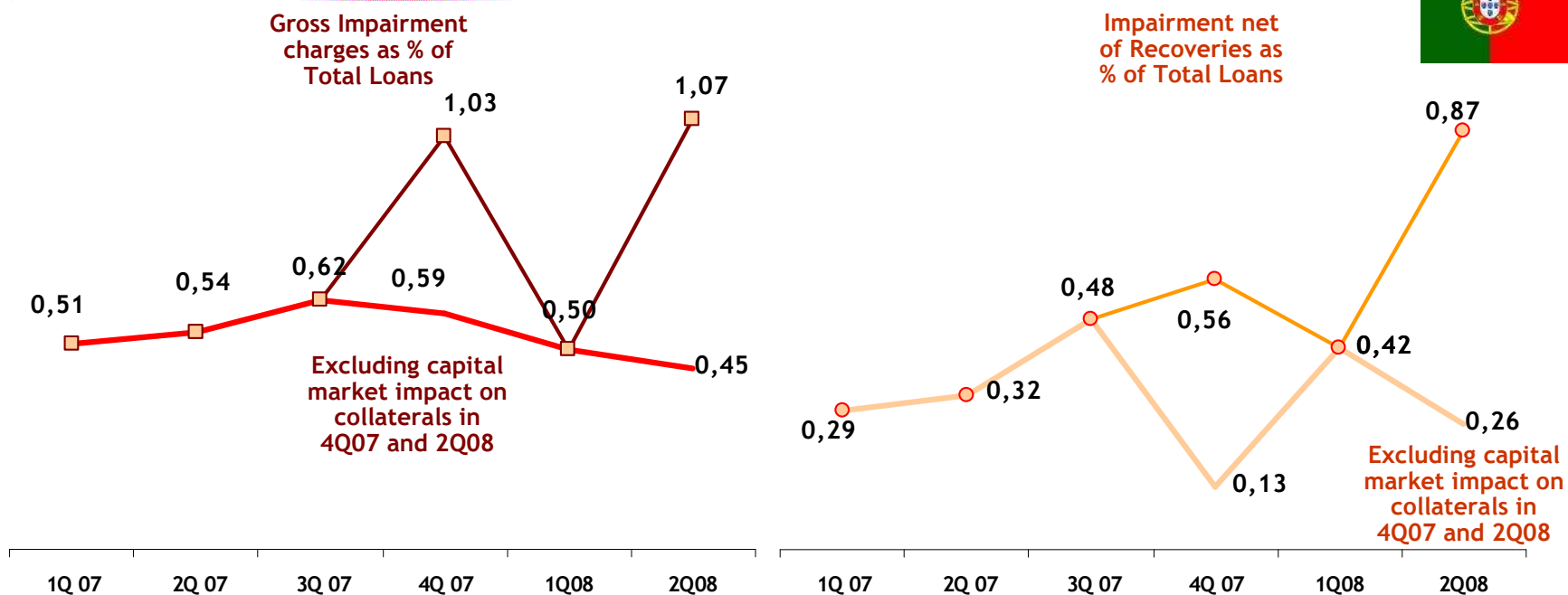
#### Change in commercial gap 1H08

Consolidated	- € 0.17 bn
Portugal	- € 0.26 bn
Poland	+ € 0.59 bn

\* Commercial Gap = change of (Deposits + Debt Securities) - Loans to Customers before provisions

# Controlling cost of risk

Impairment charges as % of Total Loans (\*)



When excluding capital market impact on collateral revaluation that had a negative impact, the cost of risk has been stable, with the gross impairment in the 45 to 50 bps region.

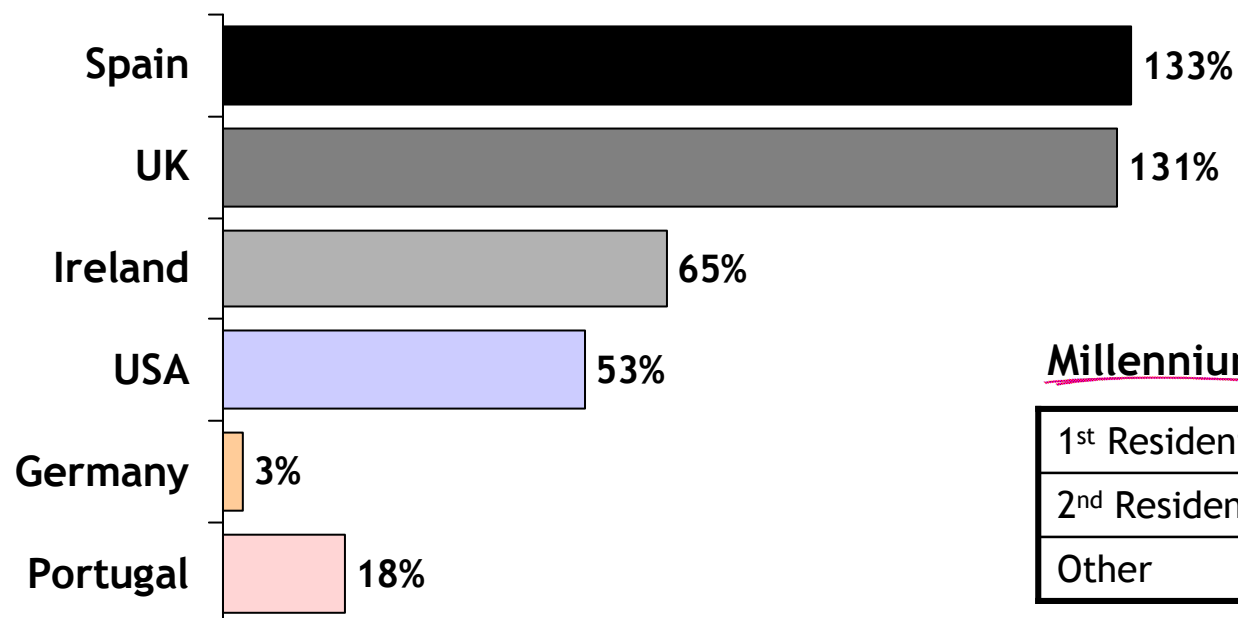
Stable credit quality (overdue ratio) in the context of sustained loan volume growth.

No exposure to US subprime, no consumer credit issues and no exposure to insurance monoliners

(\*) Impairment charges on a comparable basis.

# Mortgage Loans portfolio

## Nominal House Prices change 2007 vs 2000



## Millennium bcp Mortgage Portfolio

1 <sup>st</sup> Residential	92.3%
2 <sup>nd</sup> Residential	3.3%
Other	4.4%

Portuguese real estate market had a completely different evolution when compared with other European countries.

We have no major risks and the average LTV in Portugal has been near 72%. New production has been done at much lower LTVs (2008 below 60%).

# Equity exposures

## AVAILABLE FOR SALE PORTFOLIO

Million Euros	30 Jun 2008			Cumulated valuation in 2008 (2)
	Cost net of impairment	Market value	Unrealised Capital Gains (1)	
Eureko (2,6%)	123,4	380,1	256,7	7,2
BPI (9,9%) (3)	234,1	234,1		-202,2
<b>Total</b>	<b>357,5</b>	<b>614,2</b>	<b>256,7</b>	<b>-195,0</b>

(1) Potencial gross capital gains with P/L impact in the case of sale

(2) Gross impacts (Eureko: impact on AFS reserves; BPI: P/L impact)

(3) After capital increase

## PENSION FUND MAJOR EQUITY INVESTMENTS

(million euros)			30 June 08
	# Shares	%	Value
EDP-Energias de Portugal SA	122.336.594	3.35%	405,5
Banco de Sabadell SA	60.821.413	4.97%	326,6
Cimpor-Cimentos de Port. SGPS	67.200.000	10.00%	287,6
B.Comercial Português-Nom.	75.977.246	1.62%	104,5
Teixeira Duarte-Eng.Construções SA	41.999.716	10.00%	37,8
			<b>1.162,0</b>

**BPI is a financial stake that Millennium bcp intends to sell when appropriate.**

**Pension fund held stakes that have strategic value**

**Pension fund reduced the exposure to Millennium bcp during the capital increase**

**Millennium bcp decided to significantly restrict the acceptance of Millennium bcp shares as collateral**

# Pension Fund

## Current Initiatives:

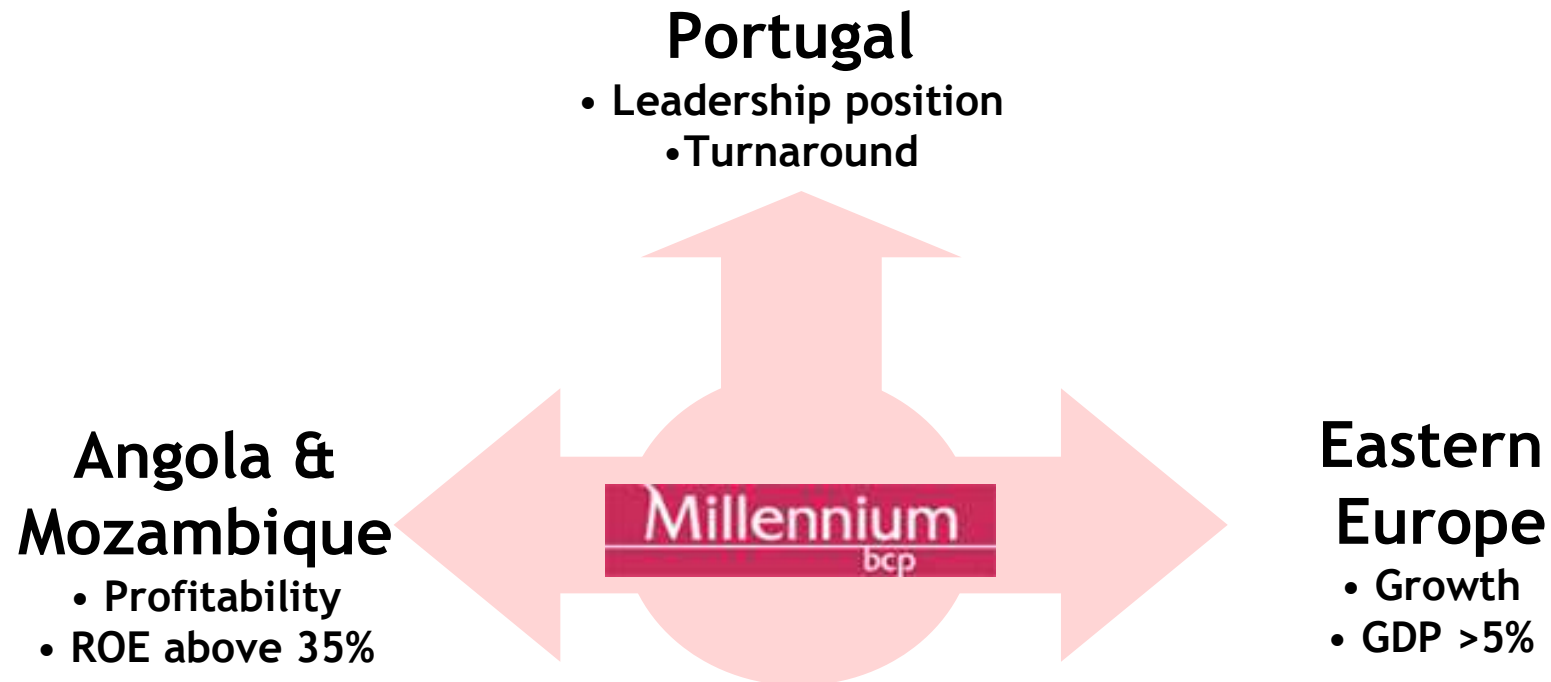
- Revising benefits plan
- Revising composition of the pensionable remuneration
- Revising the pension growth
- Revising the contribution scheme between employee and bank
- Reanalysing the eligibility criteria for the employees
- Reanalysing actuarial assumptions

**Pension Fund actuarial study will be done at year end and will be audited**

## Comments:

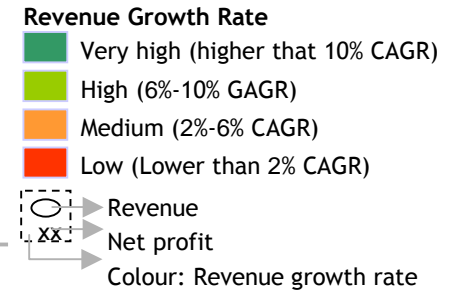
- Return on the fund in 2008 negative of circa 10%.
- Discount rate needs to be adapted to current environment. We expect to revise the discount rate upwards at year end, thereby significantly reducing the present value of pension liabilities and the negative impact on capital ratios.
- Apart from the discount rate, other actuarial assumptions may be revised - as mentioned above.

## Three main development areas



# Medium/long term perspectives in the regions Millennium is present are promising

Bn€

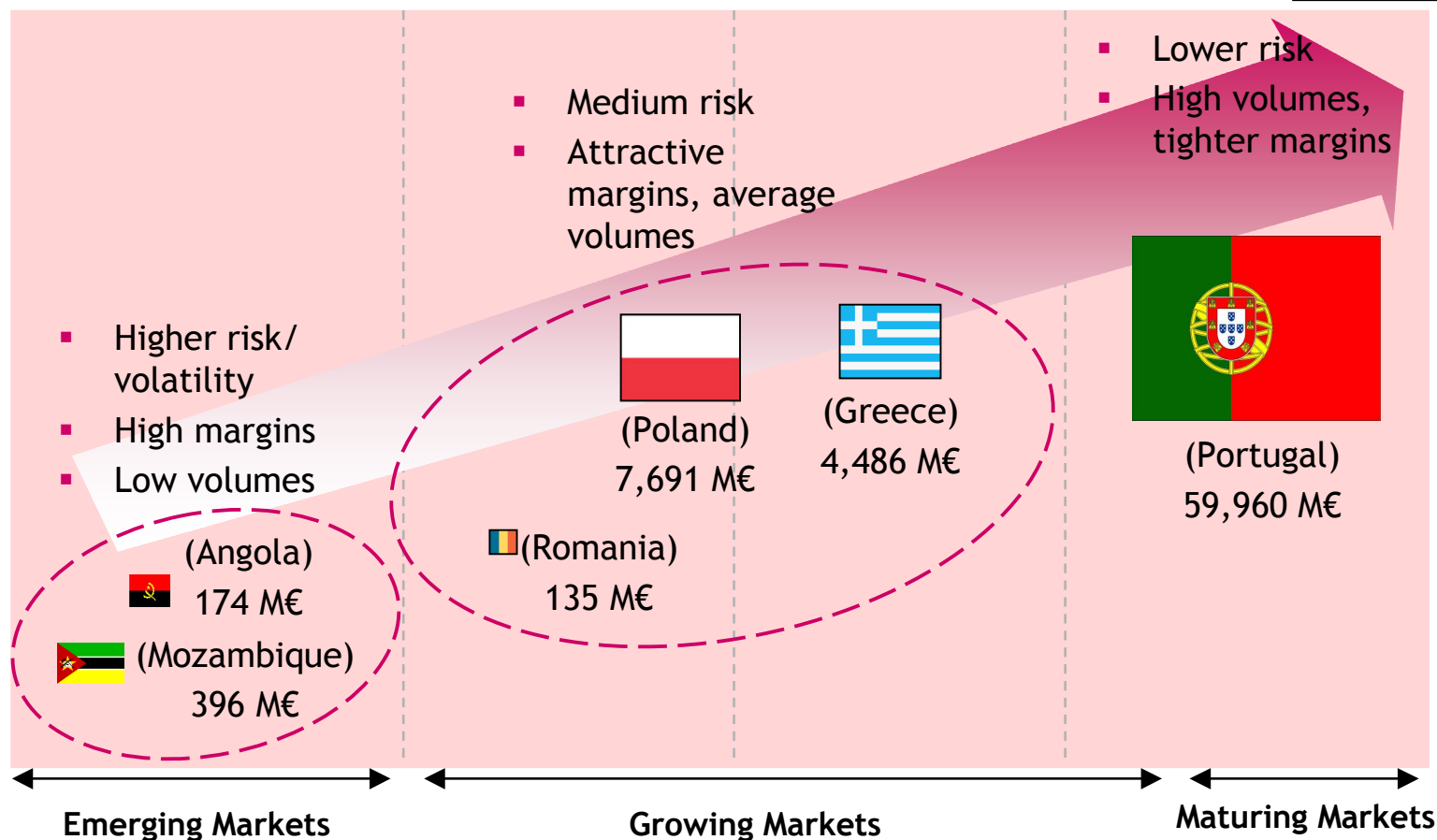


		2006 Figures/ Historical growth rate 2002-06			2010 Figures/ Expected growth rate 2006-10		
		Western Europe	Eastern Europe	Africa	Western Europe	Eastern Europe	Africa
Retail (Credit)	Revenues	144	16	6	148	37	9
	Net Profit	26	3	1	24	6	1
Retail (Consumer Funds)	Revenues	221	13	9	250	26	10
	Net Profit	50	5	2	65	9	3
Corporate banking	Revenues	169	23	15	186	52	20
	Net Profit	35	5	3	39	12	4
Investment banking	Revenues	18	3	1	11	5	1
	Net Profit	3	1	0	3	2	0
Sales, trading and asset mngmt.	Revenues	94	4	3	81	8	4
	Net Profit	23	2	1	22	3	1
Total	Revenues	646	59	34	676	127	43
	Net Profit	138	15	7	153	32	9

Opportunity to reinforce growth in eastern Europe and Africa

# With a balanced portfolio

Loans to customers  
below country names  
(incl. securitizations)



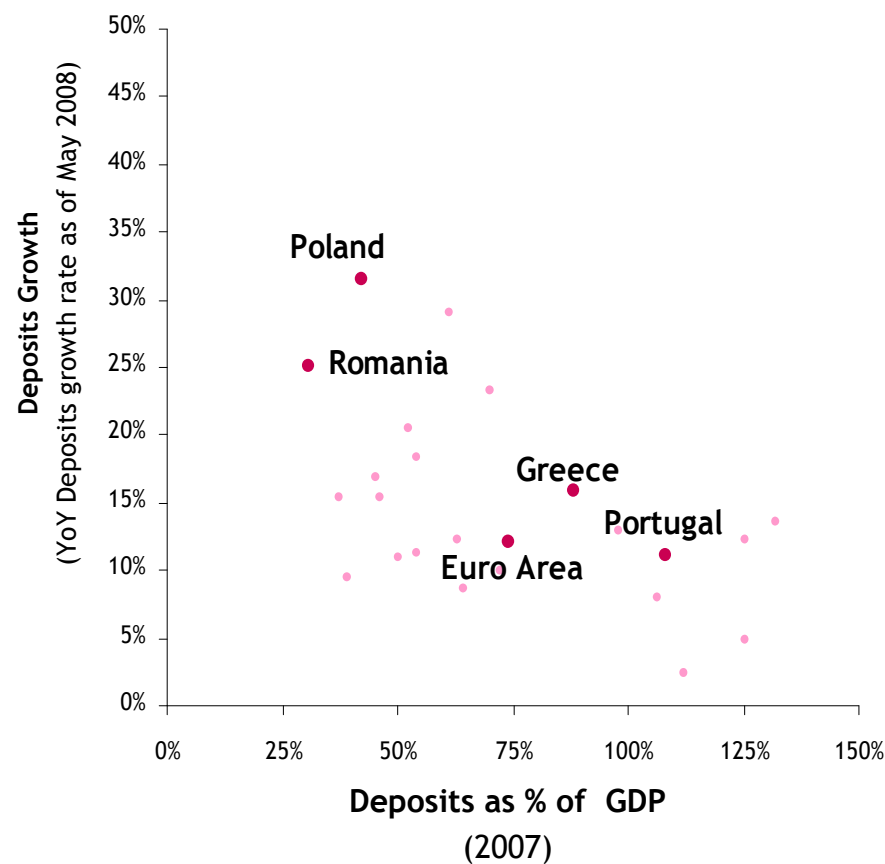
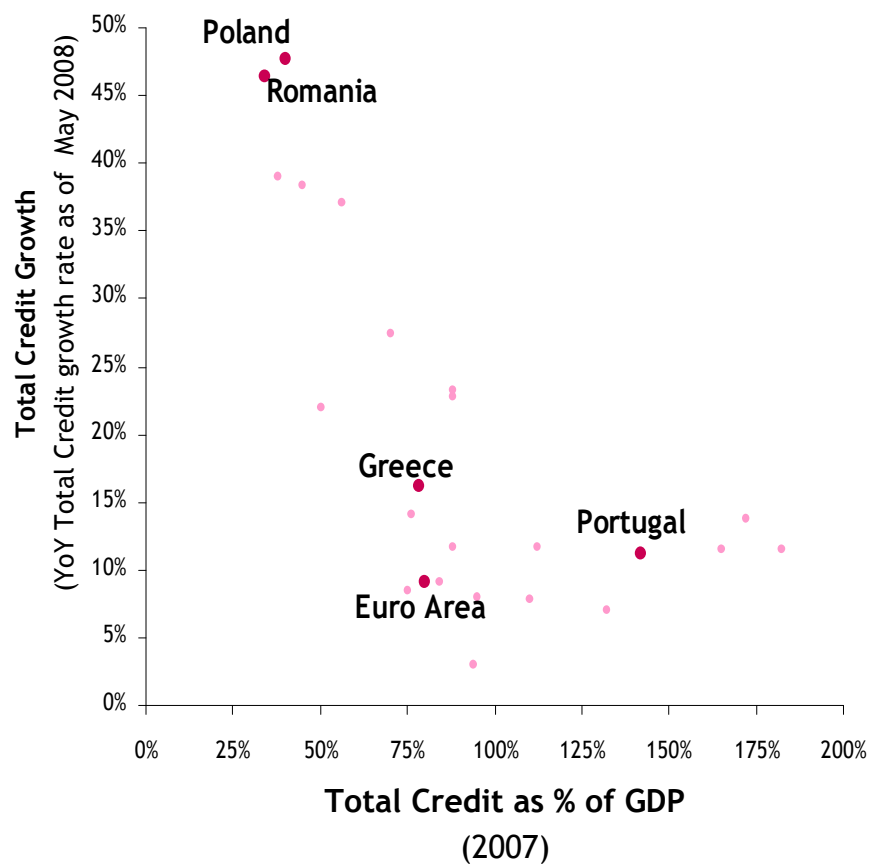
GDP growth (07-10)	9.5%	4.1%	2.1%
Population	36 MM	71 MM	10 MM
Business vol.growth	High	Medium	Low

Source: Country annual real GDP growth estimates from Economist Intelligence unit ([www.eiu.com](http://www.eiu.com)) as of 26 February 2008. Numbers shown are an arithmetic average of the 2007-2010 CAGR for each of the countries in the relevant groups (with the exception of Mozambique where CAGR is calculated based on 2007-2009). Loans to customers as at June 2008.

# Deposits and credit growth markets

Millennium bcp is present in the European highest growth credit markets\*...

...as well as on the highest deposits growth markets

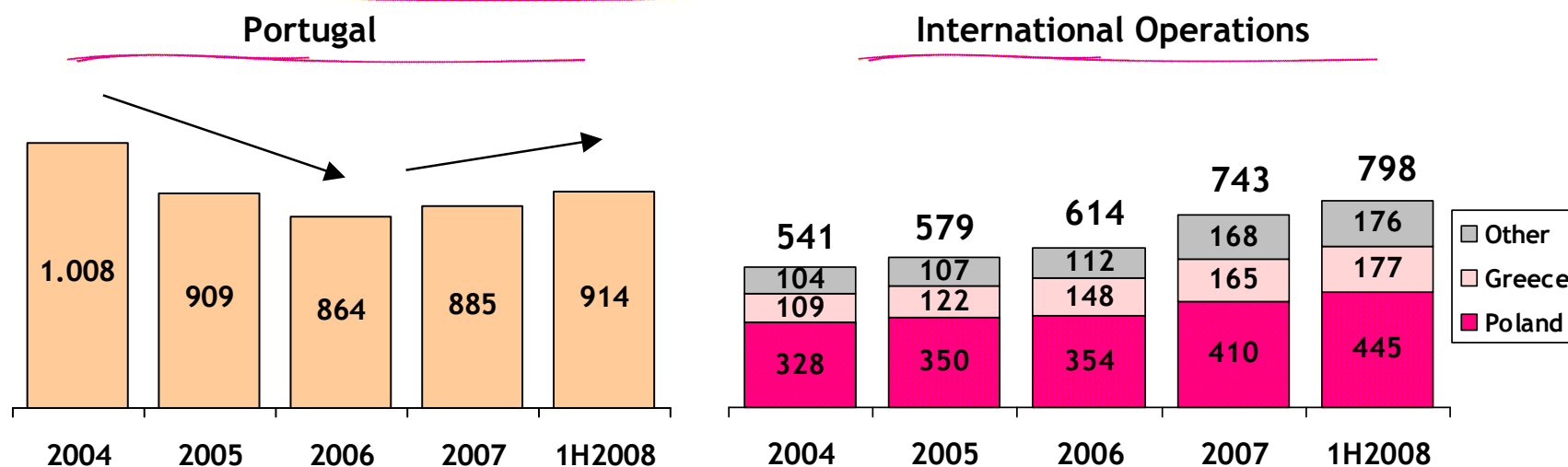


Source: UBS; Mckinsey

\* Euro Area + Sweden, Latvia, Estonia, Lithuania, Unit Kingdom, Romania, Hungary, Poland, Slovakia and Czech Republic

# Strong focus on organic growth and Retail

## Number of branches

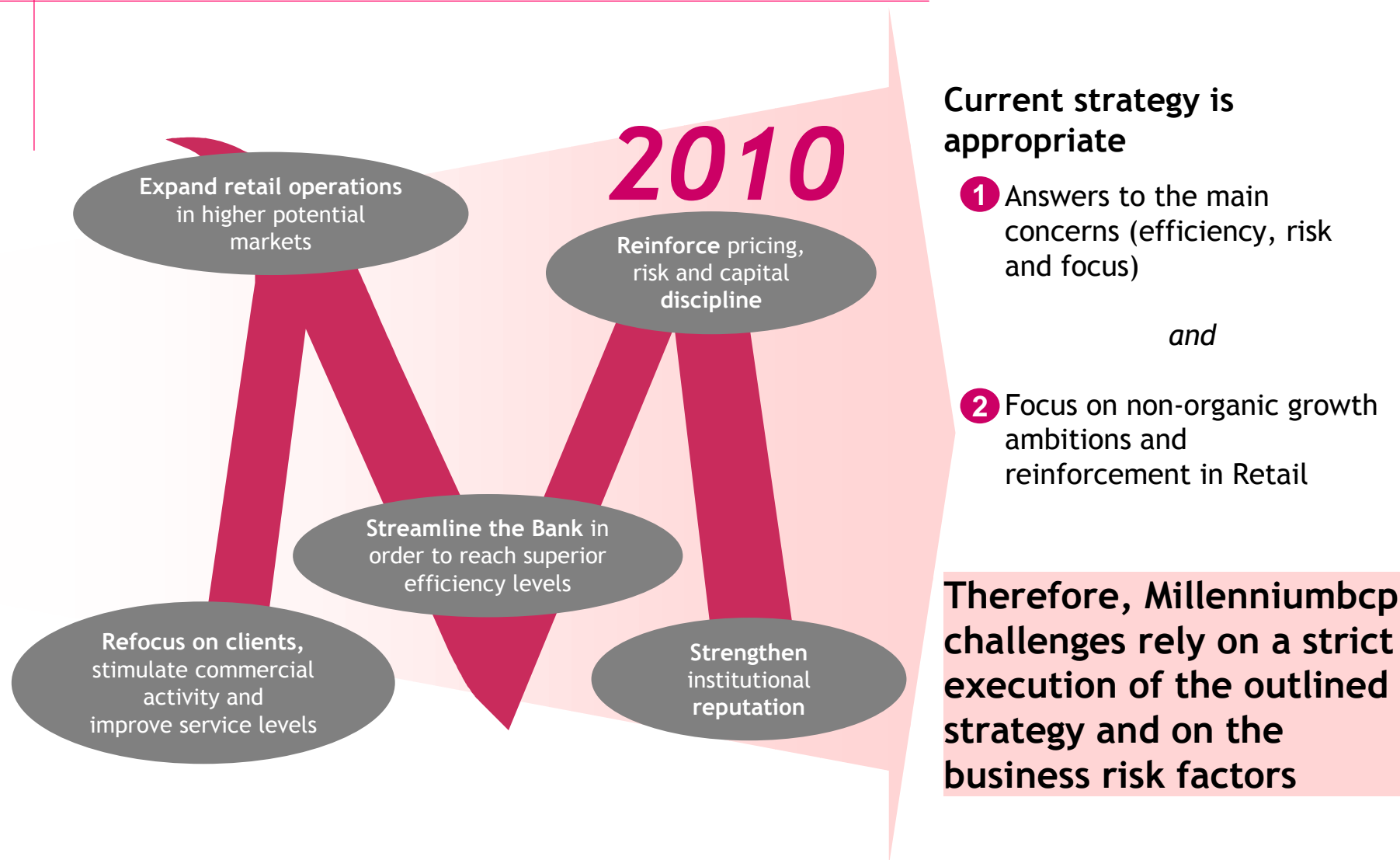


### In International Operations:

- 710 thousand new clients originated in 2006, 2007 and 1H2008 at an accelerating rate with the loading of the new branches
- 37.8% of the branches were opened after 2005 (less than three years).
- 27.1% of the Polish branches were opened after 2005
- 45.1% of the Greek branches were opened after 2005.

**Portugal:** re-started the opening of new branches in specific locations (micro market analysis) from June 2007 onwards

# The strategic priorities for 2008-2010 are appropriate in the current environment



# Strategic priorities for 2008-2010

Strengthen institutional reputation

- ✓ Successful conclusion of the Euro 1.3 billion rights issue, in April 2008;
- ✓ Successful €1.0 bln covered bonds issue in May 2008 and a non-collateralised senior €1.25 bln debt issue took place also in May 2008;
- ✓ Confirmation of the Bank's ratings by Fitch and the upgrade of Standard & Poor's "outlook" to "stable";
- ✓ Stabilisation and alignment of the shareholders base with the Bank's project.

Reinforce pricing, risk and capital discipline

- ✓ Revision of spreads in the scope of the cost of risk management policy, which was reflected in the net interest margin turnaround in Portugal;
- ✓ Adequacy and strengthening of the capital position, with the Core Tier 1 exceeding 6% after the rights issue, providing a solid base for sustained and profitable organic growth.

Streamline the Bank in order to reach superior efficiency levels

- ✓ Integration and simplification of several Central Services departments;
- ✓ Reinforcement of the commercial team with the transference of Employees from the Central Services to the commercial networks in the scope of the Commercial Skills Development Programme (PDCC). Branches opened while decreasing headcount;
- ✓ Measures of rationalization of Other Administrative Costs, namely regarding the reduction of research and advisory services; optimisation of the real estate portfolio and optimization of the investment in corporate image, mailing costs, among others.

# Strategic priorities for 2008-2010

Expand retail operations in higher potential markets

- ✓ The Bank continues to expand its Retail network in Portugal and internationally: 29 new branches were opened in Portugal and 55 new branches in foreign businesses, of which 35 in Poland and 12 in Greece;
- ✓ Volumes continue to grow robustly: +13% in customers' funds and +10% in the loans portfolio.

Refocus on clients, stimulate commercial activity and improve service levels

- ✓ Number of customers in Portugal stabilises with customer acquisition efforts;
- ✓ More than 2 million clients outside Portugal;
- ✓ 1 million active retail clients in Poland reached in the 1st Quarter 2008.

# High performance formula

**Clear path/ Contribution to  
strategic goals**

(To understand Why and What For)

**High Performance =  
= C x C x C**

**Capacities and skills**

(To Know and to Know how  
to Make)

**Commitment**

(Want to Do )

# Clear path: Agenda for the medium-term

## Key priorities

## Status

### M2010 execution

- Accelerate the income generation, namely in commissions, and client and funds acquisition
- Ensure the credit repricing in line with the continuing increased cost of risk
- Capture the identified cost saving opportunities
- Continue the Workforce rebalancing Program

- Program MIL2010 underway
- Dedicated GM to drive the cost program
- Oversight by CAE every month

### Focus international portfolio

- Review portfolio based on ability to add value and resources needed
- Objective to consolidate the current portfolio and preserve growth potential

- Decision to divest from non-core banking operations; processes being defined (positive contribution to capital situation - if divestitures are successful)
- Review organic expansion and business plans of the remaining operations,
- Divestiture of non-core assets and financial participations

### Strengthen risk management

- Need to keep tight management of capital
- Address the volatility impact of the pension fund
- Keep a tight management of the funding situation in the short term (namely in the corporate portfolio)
- Keep a close watch on the default risks from new credit underwriting and existing loans

- Review of options to improve capital
- Proactive management of the Bank's liquidity situation already yielding positive results
- New credit recovery model under implementation

# Capacities exist in Millennium

## Capacities that we want to keep

- Capacity attract new customers and increase share of wallet
- Customer focus
- Innovation leadership in retail banking
- To continue with success the expansion of retail operations in the markets of higher potential
- A culture that promotes Excellence

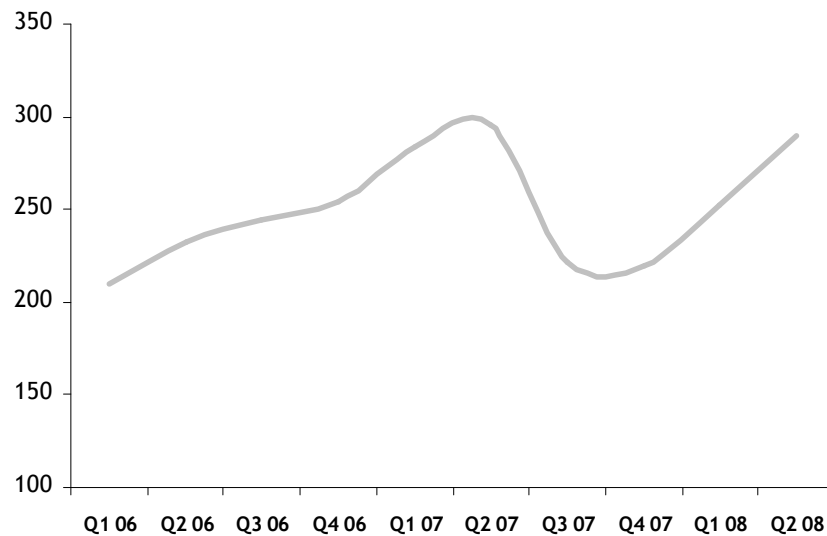
## Capacities that we want to reinforce

- Cost reduction culture
- Exceed customers' service level expectations
- Focus on operating performance
- Accountability at the different levels
- Repricing
- Superior commercial execution

# We have the necessary Commitment

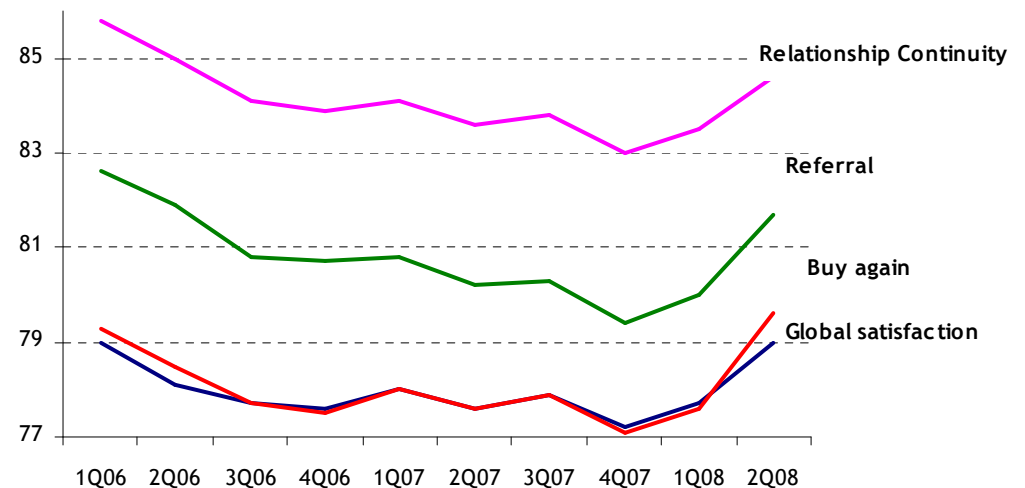
- To make the difference for the Client
- To execute/deliver
- Ambition and impatience

### Operating Profit Evolution



Source: Millennium bcp consolidated accounts

### Customers Satisfaction



Source: Millennium bcp Customer Satisfaction Index (Portugal)

# Performance drivers

## Portugal

- Restore asset margins across loan portfolio
- Reallocate capital from wholesale to retail
- Reduce loan book concentration
- Improve cost efficiency (management compensation, headcount)

## International

- Increase portfolio focus, divesting non-core assets in appropriate time frame
- Maintain organic expansion plans where they have proven to be value-accretive
- No M&A moves planned

# Conclusion

**STRATEGY**



Now its time for

**EXECUTION**

# Millennium

bcp