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Millennium bcp earnings release for 2008

- Consolidated net income of Euro 201.2 million in 2008, reflecting the depreciation in BPI shares. Excluding specific items consolidated net income totalled Euro 426.2 million (-27.4%);
- Operating income, on a comparable basis, increased 7.7% to Euro 2,851 million;
- Net interest income amounted Euro 1,721 million, up by 12%;
- Net commissions totalled Euro 740 million, down by 3.6%, on a comparable basis;
- Operating costs, excluding specific items, totalled Euro 1,681 million (+3.3%); in Portugal operating costs were reduced by 3.8%;
- Improvement in consolidated cost to income to 58.6% and in Portugal to 53.7%, on a comparable basis, down 1.7 p.p. and 3.6 p.p., respectively;
- Total assets grew 7.1% to Euro 94,424 million;
- Customers' deposits increased 14.4% to Euro 44,907 million, growing 9.9% in Portugal and 27.3% in the international activity;
- Customers' funds totalled Euro 66,264 million, up by 3.6%;
- Loans to customers, excluding loans represented by securities, increased 10.4% to Euro 73,849 million; activity in Portugal grew 6.6% and international activity grew 28.3%;
- Overdue loans by more than 90 days stood at 0.9% of total loans (0.7% in 2007); the coverage ratio stood at 211%;
- Own Funds amounted to Euro 7,057 million, an increase of 19.7%; Tier I stood at 7.1% and solvency ratio at 10.5%;
- Proposed dividend of Euro 0.017 per share, representing a payout ratio of 40%.

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Specific items, in Euro million, net of tax

	2008	2007
BPI: Impairment, take-over bid and merger project	-232.6	-145.4
Early retirements and cancelation of variable remuneration	7.5	-89.6
Gains from the sale of shareholdings		272.6
Other impairment and provisions (incl. potential regulatory charges)		-61.1
	-225.1	-23.5

Financial Highlights

<i>Euro million</i>	31 Dec. 08	31 Dec. 07	Change 08 / 07
Balance sheet			
Total assets	94,424	88,166	7.1%
Loans to customers (net) ⁽¹⁾	72,372	65,650	10.2%
Total customers' funds ⁽²⁾	66,264	63,953	3.6%
Balance sheet customers' funds	51,682	45,355	13.9%
Results			
Net interest income	1,721.0	1,537.3	12.0%
Net operating revenues ⁽³⁾	2,602.0	2,791.9	-6.8%
Operating costs ⁽⁴⁾	1,670.8	1,748.6	-4.4%
Loan impairment provision	637.5	407.2	56.5%
Loan recoveries	92.8	147.0	-36.9%
Income taxes	84.0	69.6	20.7%
Minority interests	56.8	55.4	2.7%
Net income	201.2	563.4	-64.3%
Net income excluding specific items ⁽⁵⁾	426.2	586.8	-27.4%
Profitability			
Net operating revenues / Average net assets ⁽⁶⁾	2.8%	3.3%	
Return on average assets (ROA) ⁽⁷⁾	0.4%	0.6%	
Income before taxes and minority interests / Average net assets ⁽⁶⁾	0.4%	0.8%	
Return on average equity (ROE) ⁽⁷⁾	8.3%	14.2%	
Income before taxes and minority interests / Average equity ⁽⁶⁾	7.2%	17.2%	
Credit Quality			
Overdue loans/ Total loans ⁽¹⁾⁽⁶⁾	1.4%	1.0%	
Overdue loans, net / Total loans, net ⁽¹⁾⁽⁶⁾	-0.7%	-0.8%	
Impairment for loans losses / Overdue loans by more than 90 days ⁽¹⁾	211.1%	251.8%	
Impairment for loan losses / Overdue loans ⁽¹⁾	173.5%	220.4%	
Efficiency ratios			
Operating costs / Net operating revenues ⁽⁶⁾⁽⁷⁾	58.6%	60.3%	
Operating costs / Net operating revenues (Portugal) ⁽⁶⁾⁽⁷⁾	53.7%	57.3%	
Staff costs / Net operating revenues ⁽⁶⁾⁽⁷⁾	32.2%	32.8%	
Capital			
Total regulatory capital ⁽⁸⁾	7,057	5,897	
Risk-weighted assets ⁽⁸⁾	67,426	61,687	
Tier I Solvency ratio ^{(6) (8)}	7.1%	5.5%	
Total Solvency ratio ^{(6) (8)}	10.5%	9.6%	
Branches			
Portugal	918	885	3.7%
Foreign activity	885	743	19.1%
Employees			
Portugal	10,667	10,821	-1.4%
Foreign activity	11,922	10,301	15.7%

(1) Excludes loans represented by securities transferred from financial assets available for sale.

(2) Amounts due to customers (including securities), assets under management and capitalisation insurance.

(3) Net interest income, income from securities, net commissions, net trading income, equity accounted earnings, other net operating income

(4) Staff costs, other administrative costs and depreciation.

(5) Specific items in 2008 in the amount of Euro -225.1 million (net of tax) and in 2007 of Euro -23.5 million (net of tax).

(6) According to rule 16/2004 from the Bank of Portugal.

(7) Excludes the impact of specific items.

(8) Indicators for 31 December 2008 determined in the scope of Basel II. Indicators for 31 December 2007 determined in scope of Basel I.

Presenting earnings for 2008, the Chairman of the Executive Board of Directors of Millennium bcp, Carlos Santos Ferreira, said that "given an environment that will be remembered as one of the most challenging ever for the global financial system, Millennium bcp was able to present net profit of Euro 201.2 million in 2008, rising to Euro 426.2 million excluding specific items, particularly losses associated with the depreciation of the 9.69% stake the Bank held in Banco BPI."

In addition to the net profit, the Chairman highlighted a number of aspects of the current earnings report that deserve particular attention:

- a) Operating profit, excluding the impact of specific items, rose 7.7%, driven by a 12% increase in net interest income;
- b) The trust that customers placed in Millennium, and the support the Bank provided to its clients, translated into a 14.4% rise in deposits and a 10.4% rise in loans;
- c) The bank's commercial network, in Portugal and abroad, grew 11%, adding 175 new branches;
- d) Costs remained under control, despite the expansion of the network, with an overall rise of just 3.3% and a decline in Portugal of 3.8%. That underpinned a decrease in the bank's consolidated cost-to-income ratio to 58.6% from 60.3%, and in Portugal to 53.7% from 57.3%.

Referring to Millennium bcp's strategy, Carlos Santos Ferreira said "the strategy as defined was followed in a manner appropriate to the current economic and financial environment, with redoubled attention paid to liquidity and risk management, as well as capital ratios." Of the many strategic initiatives and programmes carried out over the year, the Chairman highlighted the following:

- (i) The strengthening of the Bank's capital base, benefiting from the rights issue in April 2008 that prepared the Bank to better weather market instability. At the end of 2008, the capital ratio stood at 10.5% from 9.6% as at 31 December 2007, and the "Tier 1" ratio stood at 7.1%;
- (ii) The efforts made at the level of institutional reputation, with the Bank initiating, among other actions, a mediation process, in collaboration with the Portuguese Securities Market Commission, designed to resolve outstanding litigation issues with small shareholders;
- (iii) Renewal of the focus on Customers service, with the result that in Portugal in 2008 the Bank brought in the largest number of new clients in this decade. Customer satisfaction indicators in Millennium also recovered, rising to levels that hadn't been achieved in three years;
- (iv) The strengthening of the commercial capacity in the markets with the greatest potential. For example, Millennium established agreements with Angolan companies designed to provide appropriate conditions for the development of a successful operation - Millennium Angola - in a high-growth market of strategic importance to the Group;
- (v) The simplification of the Bank's structure, with the proportion of employees working in the central services dropping to 29% in 2008 from 31% in 2007."

In conclusion, he noted "the five main strategic guidelines for Millennium bcp in 2009: i) reinforcing the commitment to our Customers; ii) implementing a more effective risk management; iii) seeking new levels of simplicity and efficiency; iv) focusing the international presence; v) taking full advantage of the distinctive capabilities of the Bank as a strategic and differentiating element in the markets where it is present."

The Chairman ended by noting that "Millennium once again showed tenacity and resilience when confronted with challenges," stressing that "the Executive Board of Directors remains committed to managing the demands of the short term while simultaneously promoting profitable and sustainable growth for the long term."

RESULTS

BCP's financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union, in compliance with Regulation (EC) 1606/2002, of July 19th and in accordance with the reporting statements defined by the Bank of Portugal (Notice n.º 1/2005) following the adoption by the Portuguese legal system of the European Commission Directive 2003/51/EC of June 18th of the European Parliament and Council.

Millennium bcp's **consolidated net income** stood at Euro 201.2 million in 2008, down from Euro 563.3 million in 2007, mostly conditioned by the evolution of net trading income and by the higher impairment charges for loan losses, associated with the considerable uncertainty and volatility seen in the markets during 2008. Consolidated net income includes the booking of specific items, in particular, the impact of impairment losses related with the depreciation of shares in BPI, in the sum of Euro 232.6 million (net of tax), despite the agreement signed by the Group for the sale of 9.69% of Banco BPI' share capital. As a result of the execution of this agreement Banco Comercial Português will no longer have a qualified holding in Banco BPI, S.A.. Specific items booked also included the impacts of the reduction in the variable remuneration already accrued in 2007, in the sum of Euro 13.2 million (net of tax), and of the restructuring costs related with the early retirement of employees, in the sum of Euro 5.7 million (net of tax). Excluding specific items, consolidated net income in 2008 totalled Euro 426.2 million, down 27.4% from 2007, and return on equity (ROE) stood at 8.3% in 2008.

Consolidated net income in 2008 reflects the reduction in net trading income, determined by the performance of capital markets, and the increase in impairment charges for loans losses (net of recoveries), driven by the revaluation of financial collaterals and the identification of impairment indicators in the loans portfolio. These impacts were partially offset by the favourable performance of net interest income, supported by the sustained growth in business volumes, both of loans to customers and of customers' funds, and by the increase of net commissions, as well as the reduction in operating costs, influenced by cost control in Portugal. Excluding specific items, the evolution of net income, between 2007 and 2008, was positively influenced by the performance of operating income, which includes net interest income, dividends from equity instruments, net commissions, net trading income and other net operating income, that achieved Euro 2,851.0 million in 2008, up by 7.7% from Euro 2,647.7 million in 2007.

Consolidated net income in 2008 was sustained by the positive results determined both in Portugal and in international activity. Excluding specific items, net income in Portugal totalled Euro 332.3 million, 29.9% down from 2007. This evolution was influenced by the higher impairment charges for loan losses and by the reduction in net commissions and in other net operating income, partially offset by the favourable impact of the increases in net interest income and in net trading income, as well as by the control of operating costs. In the international business, net income in 2008 was supported by superior levels of income, driven by the growths in net interest income and in net trading income, reflecting the increase in business volumes achieved by most operations abroad. This was insufficient, however, to offset higher operating costs incurred, essentially related with the expansion plans that were implemented in several countries. The net income of the international business, excluding the impact of the Romanian operation (launched in October 2007), fell by 4.8%, between 2007 and 2008.

Net interest income amounted to Euro 1,721.0 million in 2008, up 12.0% from Euro 1,537.3 million in 2007, boosted by favourable volume effect, driven by the increase in business volumes, in particular loans to customers and customers' funds, in Portugal and in the international activity, which outweighed the unfavourable interest rate effect, hindered by higher funding costs, as a result of capital markets behaviour and the greater restriction in access to alternative sources of funding. Net interest margin in 2008 stood at 2.06%, compared with 2.09% in 2007. Notably, net interest margin showed a recovery in the fourth quarter of 2008 and stood at 2.11%. The evolution of net interest income reflected the selective assets and liabilities management policy followed by the Group, and was influenced by the repricing of credit operations, aiming to adjust these to the competitive environment and to the markets evolution, focused in the pricing alignment regarding the higher cost of risk. Simultaneously, several initiatives were implemented aiming to

retain and further increase customers' funds, sustained by the reinforcement of the attractiveness of traditional saving and investment solutions, to meet the growing demand, from customers, for products with lower exposure to risk and to capital market volatility.

AVERAGE BALANCES

<i>Euro million</i>	31 Dec. 08		31 Dec. 07	
	Balance	Yield %	Balance	Yield %
Deposits in banks	7,255	5.64	7,881	5.14
Financial assets	5,845	6.00	5,548	5.37
Loans and advances to customers	69,206	6.39	60,247	6.02
Interest earning assets	82,306	6.30	73,676	5.88
Non interest earning assets	9,635		9,687	
	91,941		83,363	
Amounts owed to credit institutions	9,875	7.28	10,912	5.68
Amounts owed to customers	41,769	3.09	35,019	2.55
Debt securities	29,042	4.51	26,235	4.26
Subordinated debt	2,954	5.77	2,880	5.63
Interest bearing liabilities	83,640	4.17	75,046	3.72
Non interest bearing liabilities	2,557		3,276	
Shareholders' equity and minority interests	5,744		5,041	
	91,941		83,363	
Net interest margin ⁽¹⁾		2.06		2.09

(1) Net interest income as a percentage of average interest earning assets.

Net commissions reached Euro 740.4 million in 2008, 11.4% up from Euro 664.6 million reported in 2007. Net commissions in 2007 include the impact of costs associated with the potential merger and the general tender offer for the acquisition of Banco BPI, in the amount of Euro 103.2 million, booked in "other commissions". Excluding this impact, net commissions would have declined 3.6% between 2007 and 2008, determined by smaller commissions related to asset management and transactions on securities (-33.1%), influenced mainly by capital markets volatility. The reduction of these commissions was partly offset by the growth in commissions associated with the cards business, which increased 14.2%, and in commissions related to credit operations, which rose 2.6%, both sustained by the activity in Portugal and the international operations. Other commissions in 2008 include the accounting of fees related to the bancassurance activity transferred from other operating income; on a comparable basis, other commissions were conditioned by the lower commissioning level as a result of promotions to customers under the "Preference Programme" and "Frequent Customer Solution" commercial campaigns, as well as by the unfavourable impact of regulatory changes, especially the introduction of a maximum limit on commissions on early repayment of mortgage loans in Portugal. Net commissions in foreign operations increased 0.3% between 2007 and 2008, favourably influenced by the performance achieved in Greece, Mozambique and Angola.

Net trading income, which include net gains arising from trading and hedging activities and net gains arising from available for sale financial assets, amounted to Euro 18.1 million in 2008, a reduction from Euro 392.3 million in the previous year, determined by the impact of the accounting of impairment losses of Euro 268.1 million in 2008 (Euro 94.0 million in 2007), mainly associated with the devaluation of the shareholding in Banco BPI. Additionally, during 2007, net trading income included gains obtained on the sales of shares in EDP and in Banco Sabadell of Euro 173.3 million and of Euro 116.9 million, respectively. Excluding the impairment losses and the gains booked in 2007 and 2008, net trading income would have increased from Euro 196.2 million in 2007 to Euro 286.2 million in 2008. Net trading income booked in 2008 included the income, in the fourth quarter, related to the economic hedging strategy for interest-rate risk associated with a fixed-rate liability, through an interest-rate swap. As a result of markets volatility, the tests performed to access the effectiveness of the accounting hedge, as required under IAS 39, showed that there had been a break of the hedge relation, and the Bank decided to interrupt the hedge relation. The evolution of results from foreign exchange transactions between 2007 and 2008 reflects the impact of foreign currency exchange operations derivatives associated with fund-taking in dollars as a result of the change in the dollar interest rate compared to the euro observed throughout 2007 and 2008.

Other net operating income, which includes other operating income, other net income from non banking activities and gains from the sale of subsidiaries and other assets, amounted to Euro 66.6 million in 2008, compared with Euro 118.6 million in 2007. This evolution was influenced by the reduction in operating income, mostly due to the change in the accounting of fees from bancassurance activity, which in mid 2008 started to be booked in net commissions, and by the simultaneous increase in expenses, both in Portugal and in the international activity.

Dividends from equity instruments, which include dividends received on investments in available for sale financial assets, totalled Euro 36.8 million in 2008, compared with Euro 27.9 million in 2007. Dividends received in 2008 were essentially related to the shareholdings in Eureka and Banco BPI.

OTHER NET INCOME

<i>Euro million</i>	2008	2007	Change 08/07
Net commissions			
Cards	190.0	166.4	14.2%
Asset management and securities	177.4	265.4	-33.1%
Credit operations	142.7	139.1	2.6%
Other ⁽¹⁾	230.3	93.7	145.9%
	<u>740.4</u>	<u>664.6</u>	11.4%
Net trading income ⁽²⁾	18.1	392.3	-95.4%
Other net operating income	66.6	118.6	-43.8%
Dividends from equity instruments	36.8	27.9	31.9%
Equity accounted earnings	19.1	51.2	-62.7%
Total other net income	<u>881.0</u>	<u>1,254.6</u>	-29.8%
Other income / Net operating revenues ⁽³⁾	33.9%	44.9%	

⁽¹⁾ Includes the impact of costs accounted in the 2007, related to the potential merger and the general tender offer for the acquisition of Banco BPI, in the amount of Euro 103.2 million.

⁽²⁾ Includes in 2008 the impairment losses related to the shareholding in Banco BPI in the amount of Euro 268.1 million. Includes in 2007 gains from the sale of the shareholdings in EDP and Banco Sabadell, in the amount of Euro 290.2 million, and the impairment losses accounted mainly related to the shareholding in BPI, in the amount of Euro 94.0 million.

⁽³⁾ Calculated according to rule 16/2004 from the Bank of Portugal.

Equity accounted earnings stood at Euro 19.1 million in 2008, down from Euro 51.2 million in 2007, chiefly evidencing the earnings appropriation of the 49% shareholdings in the insurance company Millenniumbcp

Fortis, which despite the good performance were influenced by the capital market volatility in the fourth quarter of 2008.

Operating costs (staff costs, other administrative costs and depreciation) stood at Euro 1,670.8 million in 2008, showing a reduction of 4.4% from Euro 1,748.6 million in 2007. Operating costs included, in 2007, the accounting of costs associated with the early retirement of employees and of members of the Executive Board of Directors, amounting to Euro 121.8 million and, in 2008, the accounting of Euro 7.8 million of restructuring costs related to the retirement of employees and a Euro 18.0 million reduction in the variable remuneration accrued in 2007. Excluding these impacts, operating costs increased 3.3% between 2007 and 2008, driven by the international activity, which grew 18.2%, as a result of the branch network expansion plans implemented in several markets, in particular Poland, Greece, Romania, Angola and Mozambique. Nevertheless, operating costs were favourably influenced by the activity in Portugal, which reduced costs by 3.8% from 2007, excluding specific items. The consolidated cost to income ratio improved from 60.3% in 2007 to 58.6% in 2008. In Portugal the cost to income ratio also improved, from 57.3% in 2007 to 53.7% in 2008 achieving an efficiency gain of 3.6 p.p..

Staff costs totalled Euro 915.3 million in 2008, down from Euro 1,066.2 million in 2007. Staff costs included, in 2008, the Euro 18.0 million reduction in the variable remuneration already accrued in the previous year and Euro 7.8 million of restructuring costs in Portugal and, in 2007, the costs associated with the early retirement of employees and of members of the Executive Board of Directors, as previously mentioned. Staff costs were influenced by the growth of costs in the international activity, as a result of the increase in the number of employees, driven by the expansion plans implemented in several international operations, particularly in Poland, Greece, Mozambique and Angola, and also by the activity launched in Romania at the end of 2007. The number of employees at international operations as of 31 December 2008 represented 53% of the Group's total number of employees. In Portugal, the staff costs fell 18.9% from 2007 (representing a 1.5% decrease excluding specific items previously mentioned), reflecting the cancellation of the variable remuneration accrued of the Executive Board of Directors and the lower amount of variable remuneration accrued for the employees, and also the reduction in the number of employees, due to the partial replacement of voluntary exits of employees, despite the additional 33 branches in the distribution network, reflecting the focus on the incentive policies aimed at transferring employees from support areas to the commercial network.

Other administrative costs amounted to Euro 642.6 million in 2008, up 2.4% from Euro 627.5 million in 2007, driven by the 20.6% increase in international activity, despite the 7.4% reduction in Portugal. The evolution of other administrative costs in the international activity reflects the costs associated with the network expansion plans, in particular costs related to rent, specialised services, maintenance, advertising and communications. Amongst the international operations, the higher growth levels were registered in Poland, Angola and Romania. In Portugal, other administrative costs benefited from reductions achieved in most line items, as a result of the operative rationalisation measures carried out, highlighting the lower costs related to consulting and advisory services, travel expenses, legal services and temporary labour.

Depreciation totalled Euro 112.9 million in 2008, down 1.8% from Euro 114.9 million in 2007, as a result of the lower amount registered in Portugal and the stabilisation of the depreciation in the international activity. The reduction in Portugal was mostly influenced by the lower depreciation related to real estate, reflecting the end of the depreciation period for investments completed in previous years.

OPERATING COSTS

<i>Euro million</i>	2008	2007	Change 08/07
Staff costs ⁽¹⁾	915.3	1,006.2	-9.0%
Other administrative costs	642.6	627.5	2.4%
Depreciation	112.9	114.9	-1.8%
	<u>1,670.8</u>	<u>1,748.6</u>	-4.4%
Of which:			
Activity in Portugal	1,048.3	1,221.9	-14.2%
Foreign activity	622.5	526.7	18.2%
Operating costs / Total income ^{(2) (3)}	53.7%	57.3%	

(1) Includes in 2008 the Euro 18.0 million reduction in the variable remuneration already accrued in the previous year and Euro 7.8 million of restructuring costs in Portugal. Includes in 2007 Euro 121.8 million of costs associated with the early retirement of employees and of members of the Executive Board of Directors.

(2) Activity in Portugal. Calculated according to rule 16/2004 from the Bank of Portugal.

(3) Excludes the impact of specific items.

Impairment for loans losses (net of recoveries) totalled Euro 544.7 million in 2008, compared with Euro 260.2 million in 2007. The evolution of impairment for loans losses (net of recoveries) was determined by the increase in the volume of loans to customers and overdue loans, together with the lower level of credit recoveries from 2007, in Portugal and in the international activity. Impairment for loan losses increase to Euro 637.5 million in 2008, compared to Euro 407.2 million in 2007, determined by the coverage of impairment indicators in the loans portfolio, including the impact of the devaluation of financial collaterals, as an effect of the continuous volatility in the capital markets. The cost of risk, measured by the proportion of impairment charges, net of recoveries, in the total loans portfolio, stood at 74 b.p..

Other provisions, which include other assets impairment and other provisions, totalled Euro 44.5 million in 2008, down from Euro 94.8 million in 2007. In 2008, other provisions fundamentally include impairment charges related to the revaluation of assets, in particular, real estate assets received in kind not fully covered by guarantees, while in 2007 were also included provisions related to potential charges related to enquires from regulatory entities.

BALANCE SHEET

Total assets amounted to Euro 94,424 million as of 31 December 2008, an increase of 7.1% from Euro 88,166 million as of 31 December 2007.

Loans to customers, excluding loans represented by securities transferred from financial assets available for sale, totalled Euro 73,849 million as of 31 December 2008 up by 10.4% from Euro 66,873 million at 31 December 2007. The increase in loans to customers was boosted by both the activity in Portugal and the international activity, benefiting from the 10.1% increase in loans to companies and the 10.8% rise in loans to individuals, which was supported by the 11.9% growth in mortgage loans. In Portugal, loans to customers grew 6.6%, determined by loans to companies, which increased 8.2%, while loans to individuals rose 4.5%, chiefly sustained by mortgage loans, while consumer loans remained stable. In the international activity, loans to customers increased 28.3% from 31 December 2008, boosted by loans to individuals (+31.3%) together with loans to companies (+23.7%), benefiting from the favourable evolution in all foreign operations, in particular in Poland and Greece. The performance achieved in Poland was mostly determined by the growth in mortgage loans, while in Greece the major increase was in loans to companies. Between 31

December 2007 and 31 December 2008 the loans portfolio showed a stable and balanced structure, with loans to individuals and loans to companies representing 45% and 55%, respectively, of the total loans portfolio.

LOANS TO CUSTOMERS ⁽¹⁾

<i>Euro million</i>	31 Dec. 08	31 Dec. 07	Change 08 / 07
Individuals			
Mortgage loans	28,538	25,503	11.9%
Consumer loans	4,877	4,645	5.0%
	<u>33,415</u>	<u>30,148</u>	10.8%
Companies			
Services	13,409	11,841	13.2%
Commerce	5,184	5,083	2.0%
Other	21,841	19,801	10.3%
	<u>40,434</u>	<u>36,725</u>	10.1%
Total	<u>73,849</u>	<u>66,873</u>	10.4%
Of which:			
Activity in Portugal	58,860	55,194	6.6%
Foreign activity	14,989	11,679	28.3%

(1) Excludes loans represented by securities transferred from financial assets available for sale.

Credit quality, determined by the non-performing loans indicators, shows that the ratio of overdue loans by more than 90 days as a proportion of total loans, excluding loans represented by securities transferred from financial assets available for sale, registered an unfavourable evolution from 30 September 2008 and stood at 0.9% as at 31 December 2008. The coverage ratio stood at 211.1% as of 31 December 2008.

OVERDUE LOANS BY MORE THAN 90 DAYS AND IMPAIRMENTS AT 31 DECEMBER 2008 ⁽¹⁾

<i>Euro million</i>	Overdue loans by more than 90 days	Impairment for loan losses	Overdue loans more than 90 days / Total loans	Coverage ratio
Individuals				
Mortgage loans	112	209	0.4%	186.5%
Consumer loans	148	205	3.0%	139.3%
	<u>260</u>	<u>414</u>	0.8%	159.6%
Companies				
Services	81	320	0.6%	395.2%
Commerce	90	170	1.7%	188.5%
Other	269	573	1.2%	213.1%
	<u>440</u>	<u>1,063</u>	1.1%	241.5%
Total	<u>700</u>	<u>1,477</u>	0.9%	211.1%

(1) Excludes loans represented by securities transferred from financial assets available for sale

The Group does not have any exposure to the US subprime / Alt-A mortgage market, in particular through Residential Mortgage-Backed Securities (RMBS), Commercial Mortgage-Backed Securities (CMBS), Asset-Backed Securities (ABS) or Collateralized Debt Obligations (CDO). The Group also does not have any exposure to monoline insurance companies.

The Group's exposure to structured credit products potentially affected by the markets turmoil in 2008 was limited to the exposure of its subsidiary company Millennium bcpbank in United States, through which the Group owns, as at 31 December 2008, Euro 52.3 million of Residential Mortgage-Backed Securities (RMBS), Euro 10.8 million of bonds with senior AAA debt, both issued by Government Sponsored Entities (GSEs), and Euro 9.6 million of Commercial Mortgage-Backed Securities (CMBS) issued by Government Agencies.

Total customers' funds reached to Euro 66,264 million as of 31 December 2008, a 3.6% increase from Euro 63,953 million in 2007. The favourable performance of total customers' funds was boosted by the increase of 13.9% in balance sheet customers' funds, highlighting the growth of 14.4% in customers' deposits, which more than offset the reduction of 21.6% in off-balance sheet customers' funds, determined by the evolution of assets under management. The growth in balance sheet customers' funds, in particular in customers' deposits, reflects the higher propensity of investors to take refuge in products with lower risk, such as the traditional term deposits, driven by the instability context in the stock markets. The evolution of off-balance sheet customers' funds was hindered by the drop in assets under management (-45.5%), influenced by the evolution of unit trust funds, despite the favourable performance of capitalisation insurance, which grew 1.1% from 31 December 2007. The increase of total customers' funds benefited from the activity in Portugal (+1.8%), where the growth in customers' deposits more than offset the decrease in assets under management, and also benefited from the performance achieved in the international activity (+10.9%), highlighting the further increase in customers' deposits in Poland, Greece, Mozambique and Angola.

TOTAL CUSTOMERS' FUNDS

<i>Euro million</i>	31 Dec. 08	31 Dec. 07	Change 08 / 07
Balance sheet customers' funds			
Deposits	44,907	39,247	14.4%
Debt securities	6,775	6,108	10.9%
	<u>51,682</u>	<u>45,355</u>	13.9%
Off-balance sheet customers' funds			
Assets under management	4,927	9,044	-45.5%
Capitalisation insurance	9,655	9,554	1.1%
	<u>14,582</u>	<u>18,598</u>	-21.6%
Total	<u>66,264</u>	<u>63,953</u>	3.6%
Of which:			
Activity in Portugal	52,322	51,380	1.8%
Foreign activity	13,942	12,573	10.9%

In the scope of the Group's **liquidity management**, balance sheet customers' funds, especially customers' deposits from Retail network, remained as a major contributor to the funding structure for the Millennium bcp's intermediation activity, notwithstanding the importance of wholesale funding operations, in particular the regular recourse to securities issuance within the Euro Medium Term Notes (EMTNs)

Programme, to assets securitisation operations and to covered bonds operations settled amongst financial institutions, boosted by the greater ability of the Group to access to international financial markets.

Millennium bcp developed in 2008 important initiatives aiming to reduce the unfavourable impact from monetary and capital markets in its liquidity position, highlighting the favourable impact of the share capital increase in April 2008, through the issuance of 1,083,270,433 new ordinary shares, for subscription by Banco Comercial Português, S.A. shareholders through the exercise of their pre-emptive subscription rights, which were fully subscribed, in the amount of Euro 1.3 billion.

Notwithstanding the unfavourable conditions of the financial markets, especially during the second half of the year, Millennium bcp essentially achieved its financing plan for 2008 in the area of wholesale funding, by the strict monitoring of the commercial gap (coverage of loans to customers by the customer's balance-sheet funds), reflected in a sustained growth of customer balance-sheet funds and in the moderate growth of loans to customers.

In early 2009 Millennium bcp successfully launched a fixed-rate 3-year debt issue (Euro Fixed Rate Notes), guaranteed by the Portuguese Republic, in the sum of Euro 1.5 billion, which was placed at a price equivalent to the mid-swaps rate plus 100 b.p.. Despite the uncertainty that characterised the international financial markets and the highly competitive scenarios for new issues, the success of this operation confirms the receptiveness and importance of Banco Comercial Português as an issuer in the international financial markets.

PENSION FUND

The pension fund liabilities, which at the end of 2008 amounted to Euro 5,723 million, were fully financed, and at a level higher than the minimum limit defined by the Bank of Portugal, to which contributed cash payments in the amount of Euro 777 million.

In 2008 the actuarial assumptions regarding the discount rate and the women's mortality table were changed. The discount rate rose from 5.25% in 2007 to 5.75% in 2008 and the women's mortality table considered a life expectancy extended by two years.

The stock markets volatility in 2008 determined negative actuarial differences in the Pension fund in the amount of Euro 827 million, and consequently a negative return rate of 14%.

CAPITAL

The capital ratios of the Group as of 31 December 2008 were determined in accordance with the Basel II framework, with the calculation of capital requirements following the standard approach in respect to credit risk and the basic indicator approach for the operational risk.

In accordance with a clarification from the Bank of Portugal, capital deductions related to shareholdings in insurance and banking companies are now deducted from Tier I, when previously they were deducted from Core Tier I.

The **solvency ratio** as at 31 December 2008 stood at 10.5% and Tier I at 7.1%. Core Tier I stood at 5.8%, compared with 6.5% as at 30 September 2008, essentially reflecting the negative impact related to the deduction of the expected return of the pension fund's assets in 2008.

The Bank of Portugal, through the Notice 11/2008, authorized the deferral of the actuarial losses of 2008 over the next four years, except for the expected return of the fund's assets, as referred above, which led

to the deduction of Euro 293 million from Core Tier I. The impacts related to the pension fund led to a decrease of 50 b.p. on the Core Tier I ratio, from 30 September 2008.

The activity in the quarter was influenced, in particular, by negative foreign exchange differences, related to the zloty devaluation associated with the shareholding in Bank Millennium in Poland, which impacted both equity (down Euro 114 million) and minority interests, down by Euro 40 million. These impacts determined the negative contribution of the fourth quarter activity in Core Tier 1 ratio, which reached 19 b.p., despite positive recurrent earnings and the moderate increase of risk weighted assets related to the business.

Investment in BPI registered an additional net devaluation of Euro 18 million in the fourth quarter, as the selling price was lower than market value at 30 September 2008, while the negative impacts of net restructuring costs (Euro 6 million) and Bank of Portugal deferrals for the period (Euro 20 million) should also be highlighted, corresponding, all together, to -5 b.p. in Core Tier I ratio.

In the scope of Basel II a formal request has been filed with the Bank of Portugal, which is currently being analysed, regarding the use of the internal ratings based approach for credit risk and the internal models approach for the general market risk requirements, as well as the standard approach for calculating operational risk requirements. However, regarding recent developments, it is expected that this approval will occur during 2009.

SOLVENCY

Euro million

	Basel II		Basel I
	31 Dec. 08	30 Sep.08	31 Dec.07
Own Funds			
Tier I Capital	4,780	5,234	3,362
of which: Preference shares	955	962	688
Deductions on shareholdings ⁽¹⁾	(60)	(92)	(78)
Tier II Capital	2,358	2,314	2,557
Deductions to Total Regulatory Capital	(81)	(41)	(22)
Total Regulatory Capital	7,057	7,507	5,897
Risk Weighted Assets	67,426	66,976	61,687
Solvency ratios			
Core Tier I ⁽²⁾	5.8%	6.5%	4.5%
Tier I	7.1%	7.8%	5.5%
Tier II	3.4%	3.4%	4.1%
Total	10.5%	11.2%	9.6%

⁽¹⁾ Includes, in particular, the deductions related to the shareholdings in Millenniumbcp Fortis, Banque BCP (France and Luxembourg).

⁽²⁾ In accordance with a clarification from the Bank of Portugal, the capital deductions related to shareholdings in insurance and banking companies are deducted from Tier I, previously deducted from Core Tier I. The ratio as at 31 December 2007 is on a comparable basis.

SEGMENTAL REPORTING

Millennium bcp offers a wide range of banking activities and financial services in Portugal and abroad, with a special focus on Commercial Banking, Investment Banking and Private Banking and Asset Management.

SEGMENTS DESCRIPTION

Commercial Banking is the core business in the Group's activity, both in terms of volumes and contribution to results. The Commercial Banking activity includes Millennium bcp's network in Portugal, operating as a distribution channel targeting the segments of Retail Banking and Corporate and Companies, focusing the activity on satisfying customers' financial needs, both for individuals and companies. Commercial Banking also includes the segment of Foreign Business, operating through several banking operations in markets with affinity to Portugal and in markets of recognised growth potential, in Europe and in other regions.

The strategic approach of Retail Banking in Portugal was to target "Mass market" customers, who appreciate a value proposition based on innovation and speed, as well as Affluent and Small businesses customers, whose specific characteristics, financial assets or income imply a value proposition based on innovation and personalisation, requiring a dedicated Account Manager. Retail Banking also includes ActivoBank7, a universal Bank, focusing on brokerage and on the selection and advisory of long-term investment products. Within the scope of the cross-selling strategy, Retail Banking also acts as a distribution channel for financial products and services of the Millennium bcp business as a whole.

The Corporate and Companies segment includes: (i) the Corporate network in Portugal, targeting corporate and institutional customers with an annual turnover in excess of Euro 100 million, providing a complete range of value added products and services; (ii) the Companies network in Portugal, which covers the financial needs of companies with an annual turnover between Euro 7.5 million and Euro 100 million, focused on innovation and on offering a wide range of traditional banking products complemented by specialised financing; and (iii) the activity of the Bank's International Division.

The Investment Banking business is undertaken essentially by Millennium Investment Banking, a company specialised in capital markets, providing strategic and financial advisory, specialised financial service - Project finance, Corporate finance, Securities brokerage and Equity research - as well as in structuring risk-hedging derivatives products.

The Private Banking and Asset Management activity comprises the Private Banking network in Portugal, Millennium Banque Privée, a private banking platform incorporated under Swiss law, and subsidiary companies specialised in the asset management business.

The Foreign Business comprises the operations outside Portugal, namely in Poland, Greece, Turkey, Romania, Mozambique, Angola and United States. The Group is represented by a universal bank in Poland and by an operation based on the innovation of products and services in Greece. The activity in Turkey is performed through an operation focused on financial advising, and in Romania, it is represented through a greenfield operation launched in 2007, focused on Mass market and Businesses, Companies and Affluent. All the above operations develop their activities under the same commercial brand of Millennium. The Group is represented in Mozambique by Millennium bim, a universal bank targeting both companies and individual customers, in Angola by Millennium Angola, a bank focused on individuals and public and private sector companies and institutions, and in the United States by Millennium bcpbank, a local bank that serves the local population, in particular the Portuguese community.

BUSINESS SEGMENT ACTIVITY

The figures reported for each business segment result from aggregating the subsidiaries and business units integrated in each segment, including the impacts from capital allocation and balancing process of each entity's level, both at balance sheet and income statement, based on average figures. Balance sheet headings for each subsidiary and business unit are re-calculated, given the replacement of their original own funds by the outcome of the capital allocation process, according to regulatory solvency criteria. As the process of capital allocation follows the regulatory criteria of solvency in place, the risk weighted assets and, consequently, the business segments' capital allocation, were determined in accordance with the Basel II framework for 2008 figures and in accordance with the Basel I for 2007. Each operation is balanced through internal transfers of funds, with no impact on consolidated accounts.

To ensure comparability, the changes that occurred in 2008 were reflected in the segments as of 31 December 2007. It should be noted that the liquidity premium started to be allocated to the Bank's business areas, in order to properly reflect the contractual maturities of the operations in internal transfer prices of the respective funds. Each segment's net contribution reflects the individual results reached by business units, independent of the percentage held by the Group, including the impact of the fund transfers previously mentioned. The following information is based on financial statements prepared according to IFRS and on the organisational model in place in the Group.

Retail Banking in Portugal

The net contribution of Retail Banking in Portugal amounted to Euro 267.0 million in 2008, compared to Euro 399.0 million in 2007. The evolution of net contribution reflects the decline in income, due to the reduction in the net interest income from deposits repayable on demand and the lower net commissions, as well as the increase in charges for impairment and provisions.

The growing importance of mortgage loans and the increasing competition in the Small business segment and in consumer loans led to a significant reduction in credit spreads, despite the increase of business volumes. Net commissions showed a favourable evolution, in particular in commissions related to deposits repayable on demand, stock exchange operations and credit operations, mainly in mortgage credit operations, due to the lower amount of new credit granted. The increase in charges for impairment and provisions reflects the coverage of impairment indicators in the loan portfolio and the depreciation in financial collaterals. The increase in staff costs resulted from the transfer of employees from support areas to the commercial network, despite the control of administrative costs, notwithstanding the opening of new branches.

Total customer funds reached Euro 34,014 million as of 31 December 2008, declining 1.6% from Euro 34,556 million at 31 December 2007, as a result of the 57.8% reduction in investment funds and assets under management. However, the strategy to further increase the number of customers and the total customers' funds, focused on supplying investment and savings products with attractive returns and suited to the various risk profiles, led to a 1.7% increase in customers' deposits.

Loans to customers totalled Euro 34,788 million at 31 December 2008, rising 3.3% from Euro 33,674 million in the same date of 2007, supported by both the growth of Small business loans and the good performance of mortgage loans, despite the slow down evidenced.

In terms of cross-selling, Retail Banking registered positive progress, growing from 3.99 products per client in 2007 to 4.12 in 2008. Customers' global satisfaction index reached 78.8% at the end of 2008, comparing positively with the 2007 level (77.9%).

<i>Euro million</i>	31 Dec.08	31 Dec.07	Change 08 / 07
Income Statement			
Net interest income	906.7	955.5	-5.1%
Other net income	408.8	420.0	-2.7%
	1,315.5	1,375.5	-4.4%
Operating costs	747.9	723.9	3.3%
Impairment and provisions	204.1	108.9	87.4%
Pre-tax contribution	363.5	542.7	-33.0%
Taxes	96.5	143.7	-32.9%
Net contribution	<u>267.0</u>	<u>399.0</u>	-33.1%
Summary of Indicators			
Capital employed	1,084	1,178	
Return on capital employed	24.6%	33.9%	
Weighted risks	21,674	24,399	
Cost-to-income ratio	56.8%	52.6%	
Loans and advances to customers	34,788	33,674	3.3%
Total customer funds	34,014	34,556	-1.6%

Note: Capital employed was calculated in accordance with the Basel I methodologies for 2007 and Basel II for 2008.

Corporate and Companies

The Corporate and Companies segment showed a net contribution of Euro 150.6 million in 2008, compared to 232.4 million in the same period of 2007. The performance of this business segment was determined by the higher charges for impairment despite the favourable evolution registered in total operating income and operating cost.

The increase of net interest income reflects the growth in business volumes, both in terms of loans to customers and customers' deposits. Notwithstanding the effort to align pricing of operations with the associated cost of risk, the price effect was negative. Overall, commissions showed a positive performance. Operating costs decreased when compared with the same period of 2007, showing sustained savings throughout 2008.

The higher level of charges for impairment and provisions reflects the increasing impairment indicators in the loan portfolio and the depreciation of financial collaterals, following the decline of capital markets.

Corporate and Companies network activity was focused in the effort to further increase customers funds and in the discipline in the repricing policy and risk management, in order to optimise the use of capital. The return on allocated capital at 31 December 2008 stood at 12.6%.

Total customers' funds increased 15.0%, to Euro 11,323 million at 31 December 2008, compared to Euro 9,849 million as of 31 December 2007. The rise in total customers' funds, despite the intense competition in this business segment, was supported by commercial activity focused on providing diversified treasury, investment and saving solutions, as well as on the continuous identification of new business opportunities. It also reflects the rise in funds from institutional customers.

Loans to customers totalled Euro 22,848 million at the end of December 2008, rising 6.5% from Euro 21,459 million at the end of December 2007. The favourable evolution in loans to customer was achieved despite the increasing restrictive access to funding sources and a more selective credit approval, with additional pricing discipline, through the repricing of credit operations, aligned with the cost of risk and associated capital needs.

<i>Euro million</i>	31 Dec.08	31 Dec.07	Change 08 / 07
Income Statement			
Net interest income	327.5	310.2	5.6%
Other net income	147.3	146.8	0.3%
	474.8	457.0	3.9%
Operating costs	105.3	111.1	-5.2%
Impairment and provisions	164.7	29.7	-
Pre-tax contribution	204.8	316.2	-35.2%
Taxes	54.2	83.8	-35.2%
Net contribution	150.6	232.4	-35.2%
Summary of Indicators			
Capital employed	1,194	1,300	
Return on capital employed	12.6%	17.9%	
Weighted risks	23,873	26,935	
Cost-to-income ratio	22.2%	24.3%	
Loans and advances to customers ⁽¹⁾	22,848	21,459	6.5%
Total customer funds	11,323	9,849	15.0%

(1) Includes commercial paper.

Note: Capital employed was calculated in accordance with the Basel I methodologies for 2007 and Basel II for 2008.

Investment Banking

The net contribution of Investment Banking stood at Euro 48.4 million in 2008, compared to Euro 63.7 million in 2007. This was mainly driven by the drop in income line items, in particular net commissions related to securities and net trading income, mostly as a result of the adverse performance of capital markets, together with the persistence of an unfavourable macroeconomic environment in Portugal, despite the operating costs control. The return on allocated capital stood at 40.9% at the end of December 2008.

Loans to customer increased by 26.6% between the end of December 2007 and end of December 2008, sustained by the participation of Millennium Investment Banking in major Project finance and Structured finance operations, in the framework of structural investment projects, especially the tourism and renewable energy sectors.

Notwithstanding the unfavourable capital markets environment, Millennium Investment Banking was actively involved in the organisation and structuring of various finance intermediation operations, in particular in the debt issuance segment, which resulted in a significant volume of bonds and commercial paper being issued.

<i>Euro million</i>	<u>31 Dec.08</u>	<u>31 Dec.07</u>	<u>Change 08 / 07</u>
Income Statement			
Net interest income	8.4	9.1	-7.4%
Other net income	104.7	121.4	-13.8%
	113.1	130.5	-13.4%
Operating costs	44.6	54.9	-18.9%
Impairment and provisions	-0.9	0.6	--
Pre-tax contribution	69.4	75.0	-7.5%
Taxes	21.0	11.3	86.3%
Net contribution	<u>48.4</u>	<u>63.7</u>	-24.0%
Summary of Indicators			
Capital employed	118	117	
Return on capital employed	40.9%	54.7%	
Weighted risks	2,366	2,320	
Cost-to-income ratio	39.4%	42.1%	
Loans and advances to customers	1,166	921	26.6%

Note: Capital employed was calculated in accordance with the Basel I methodologies for 2007 and Basel II for 2008.

Private Banking and Asset Management

The Private Banking and Asset Management segment evidenced a negative net contribution of Euro 0.5 million in 2008, down from Euro 41.8 million in 2007. The evolution of the net contribution reflects the higher impairment and provisions charges, driven by the devaluation of financial collateral influenced by the falling stock markets, in particular in Millennium Banque Privée, and the lower commissions related to asset management. These performances were partly offset by the rise in net interest income, sustained by the repricing of credit operations.

Assets under management totalled Euro 10,593 million at 31 December 2008, 27.7% down from the same date of 2007. This reflects the adverse development of capital markets, which determined financial products withdrawal and led to the devaluation of assets under management portfolio. Term deposits in the Private Banking network in Portugal achieved an increase of 35.6% in 2008, compared with 2007, and also real estate investment funds registered a favourable evolution.

Loans to customers amounted to Euro 3,426 million at 31 December 2008, growing by 5.9% from Euro 3,235 million at 31 December 2007, sustained by the performance of Private Banking network in Portugal, which increased 9.7%, driven by the efforts to expand the business base.

<i>Euro million</i>	31 Dec. 08	31 Dec. 07	Change 08 / 07
Income Statement			
Net interest income	57.3	44.7	28.3%
Other net income	44.5	72.5	-38.6%
	101.8	117.2	-13.1%
Operating costs	57.5	58.4	-1.6%
Impairment and provisions	52.4	6.9	--
Pre-tax contribution	-8.1	51.9	--
Taxes	-7.6	10.1	--
Net contribution	-0.5	41.8	--
Summary of Indicators			
Capital employed	121	126	
Return on capital employed	-0.5%	33.1%	
Weighted risks	2,426	2,741	
Cost-to-income ratio	56.5%	49.9%	
Loans and advances to customers	3,426	3,235	5.9%
Assets under management	10,593	14,662	-27.7%

Note: Capital employed was calculated in accordance with the Basel I methodologies for 2007 and Basel II for 2008.

Foreign Business

In the Foreign Business segment, net contribution was down by 5.8% to Euro 128.3 million in 2008, from Euro 136.1 million in 2007. This evolution includes the impact of the Romanian operation, which was launched at the end of 2007.

It is worth noting the sustained growth in income line items, in particular in net interest income (positive volume and interest margin effects, especially in Poland, Angola, Mozambique and Greece). Other net income also showed a favourable performance (mostly driven by commissions, in particular in Angola and Mozambique), sustained by the significant growth in business volumes. The improvements in incomes, more than offset the rise in operating costs, driven by the expansion of the distribution networks in the international operations, which led to an increase in the number of employees. The return on allocated capital stood at 13.1% at the end of 2008.

The cost to income ratio stood at 71.6%, as a result of the strategy of organic growth carried out in the international operations, as reflected by the expansion plans in Poland, Greece, Mozambique, Angola, and most recently in Romania.

Loans to customers grew 28.5% to Euro 14,711 million at 31 December 2008, benefiting from the developments in both loans to individuals and loans to companies, strengthened by the continuous launching of innovative products and services, tailored to customers needs and risk profile. This performance was determined by the increases achieved by all foreign operations, in particular Poland, Angola and Mozambique.

Total customers' funds boosted 9.2%, totalling Euro 13,942 million at 31 December 2008, influenced by the further increase in customers' deposits, especially in Poland.

<i>Euro million</i>	31 Dec. 08	31 Dec. 07	Change 08 / 07
Income Statement			
Net interest income	495.6	392.1	26.4%
Other net income	373.7	344.9	8.3%
	869.3	737.0	17.9%
Operating costs	622.5	526.7	18.2%
Impairment and provisions	78.0	41.2	89.4%
Pre-tax contribution	168.8	169.1	-0.2%
Taxes	40.5	33.0	22.7%
Net contribution	128.3	136.1	-5.8%
Summary of Indicators			
Capital employed	983	737	
Return on capital employed	13.1%	18.5%	
Weighted risks	13,761	10,655	
Cost-to-income ratio	71.6%	71.5%	
Loans and advances to customers	14,711	11,447	28.5%
Total customer funds	13,942	12,772	9.2%

Note: Capital employed was calculated in accordance with the Basel I methodologies for 2007 and Basel II for 2008.

SIGNIFICANT EVENTS

Despite the adverse environment, Millennium bcp kept up efforts to cut costs and streamline the organization, searching simultaneously to promote the improvement of service quality, risk minimization, an adequate liquidity and capital management, and preserving the institutional reputation. Of particular note regarding Millennium bcp's activities in the fourth quarter of 2008 were:

- Announcement of the deliberation to resume the process of merger by incorporation of Banco Millennium bcp Investimento, SA, into Banco Comercial Português, S.A.;
- Registration of the merge by incorporation of BCP Participações Financeiras, SGPS, Sociedade Unipessoal, Lda, into Banco Comercial Português, S.A.;
- Notification of Order nº 31835-A/2008 issued by the secretary of State for the Treasury and Finances, authorising the granting of a personal guarantee by the Portuguese State securing the capital and interest obligations within the scope of the 3 fixed-rate issue in the sum of up to Euro 1.5 billion, under the Millennium bcp Euro Medium Term Notes Programme, which took place on 12 January 2009;
- Conclusion of the 4th and of the 5th editions of the Commercial Skills Development Programmes, to encourage employee mobility from central services to commercial areas;
- Notification of charges received from the Portuguese Securities Market Commission (CMVM) and from the Bank of Portugal concerning administrative offence proceedings brought against it in respect of facts that occurred prior to 2008, particularly with regard to alleged irregularities related with the financing of the acquisition of shares issued by the Bank granted to companies headquartered in foreign jurisdictions;
- Sale of 87,214,836 shares representing 9.69% of the share capital of Banco BPI, S.A., to Santoro Financial Holdings, SGPS, S.A., a company incorporated under Portuguese law. As a result of the execution of this agreement Banco Comercial Português will no longer have a qualified holding in Banco BPI, S.A.;
- Millennium Investment Banking became a direct trading service provider in the Amsterdam and Brussels Euronext markets;
- Fitch Ratings reaffirmed the long and short term ratings on Banco Comercial Português, S.A., A+/F1, keeping the outlook stable;
- Moody's reaffirmed the long and short term ratings on Banco Comercial Português, S.A., Aa3/P-1, keeping the outlook stable;
- Standard & Poor's reaffirmed the long and short term ratings on Banco Comercial Português, S.A., A/A-1, revising at the same time the outlook from stable to negative. Already on 3 February 2009, Standard & Poor's reaffirmed the counterparty ratings on Banco Comercial Português, S.A.;
- Millennium bcp was named Best Foreign Exchange Bank in Portugal, by Global Finance magazine and Best Commercial Bank in Portugal, by Euromoney magazine;
- Bank Millennium 2007 Report and Accounts was distinguished as the best in the "Application of International Standards" category in Poland;
- Millennium bim was named "Bank of the Year in Mozambique" by "The Banker" magazine.

ECONOMIC ENVIRONMENT

During 2008 the world economy has faced multiple shocks that led to a significant deceleration of economic activity. This ripple effect was more pronounced during the last quarter of the year, as the financial turmoil rapidly spread to the non-financial sectors of the economy. The past buoyancy of the developing economies suddenly came to a halt on the ferocity and speed of the downturn in world trade and financial flows. Countries from Europe and Southeast Asia, more vulnerable to the reversion of short-term capital flows, had to look for external aid and, in the more extreme situations, decided to end their currency's full convertibility and imposed restrictions on free capital mobility.

With the full impact of this environment still to be felt over the coming months, as companies adjust their production plans and businesses and households revise down their expected investment and consumption spending, the economic outlook for the main economies is dismal, pointing to a recessionary period ahead. The contribution to growth from the developing countries will be well below last year's levels amid an unusually high level of uncertainty as regards the timing and extent of the forthcoming recovery. The decline in the price of raw materials has fostered a strong disinflation dynamic. As the moderation in world activity adds to increasing economic slack the risk of development of a deflationary trend has increased.

Financial instability was a common feature across 2008, but particularly so after the summer months, in the aftermath of the financial difficulties that took place in some of the most prominent financial institutions of the US. The risk premium rose to unprecedented levels, more markedly in the more complex financial instruments, with dramatic negative implications in the performance of most financial markets and funding deals. The investment fund industry was specially hit, facing an unusually high level of redemptions. It was also very distressful for the major stock markets. Stock indices retraced on average by 40% to 50% on a yearly basis, in an extremely volatile day-to-day environment. The interbank money market has been mostly dysfunctional in its role of allocating excessive savings among market participants.

Governments and central banks have been pursuing pro-cyclical policies, through accommodative monetary stance, public spending largesse, stabilization of the financial system and provision of funds for recapitalization purposes. The combined policies are starting to have some effect, more noticeably in the reduction of risk premia charged and on resumption of primary debt issuance, but with a slight perverse effect on the widening of the sovereign spreads. Despite the tentative signs of lower risk aversion in the early days of 2009, restoring the regular functioning of financial markets is still seen as a complex task.

The banking activity has been impacted as well. The global financial turmoil derailed funding markets, lowered asset valuations, increased the need for provisioning and raised nonperforming loans and overall impairment levels. At the same time, an improving trend of capital adequacy is underway. In the case of Portugal, this has been further reinforced by the Bank of Portugal's proposal for banks to have a Tier I Ratio of 8% by the end of the third quarter of 2009.

In the main European countries economic activity heavily downshifted during the second half of the year and inflationary pressures retreated. The European Central Bank cut the main refinancing rate on several occasions, from 4.25% in July to 2.00% in early 2009. Further rate cuts are expected, though logically by a smaller amount. In most countries, internal demand lacks the means and the incentives to be a growth driver and the monetary policy effectiveness is impaired due to the poor functioning of the money markets. So, a large share of the economic impulse has to come from public initiatives, though subject to the public finances' long-term sustainability.

The contagion of domestic economies has been mainly indirect, through the marked reduction in external demand and the much more restrictive financial terms. This mix of conditions has been somewhat amplified by some vulnerabilities of these countries: in Portugal and Greece making more difficult for the regular financing of the current account deficit; in the Eastern European countries, by the inversion of short term capital inflows; in the African economies by the less friendly state of key commodity markets. All countries will face a sharp deceleration in economic activity and risks are tilted further to the downside, as related to the ability and cost of refinancing maturing debt. Once financial stability is restored, interest rates in countries with own monetary policies will likely be cut further contributing to ease the burden of financial and external constraints.

“Disclaimer”

This document may include certain sections or statements, in particular relating to the Banco Comercial Português (“BCP”) Group, that are neither reported financial results nor other historical information. These statements, which may include, without limitation, targets, forecasts, projections, statements regarding the possible development or possible assumed future results of operations and any statement preceded by, followed by or that includes the words “believes”, “expects”, “aims”, “intends”, “may”, “expect”, “estimate”, “project”, “anticipate”, “should”, “intend”, “plan”, “probability”, “risk”, “Value-at-Risk” (“VaR”), “target”, “goal”, “objective”, “will”, “endeavour”, “outlook”, “optimistic”, “prospects” or similar expressions or negatives or combinations thereof are or may constitute forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, regulations and case law, or other applicable laws and regulations. By their nature, forward-looking statements are inherently predictive, speculative and are subject to risk and uncertainty. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by forward-looking statements. These factors include, but are not limited to, changes in economic condition in individual countries in which the BCP Group conducts its business and internationally, fiscal or other policies adopted by various governments and regulatory authorities of Portugal and other jurisdictions, levels of competition from other banks and financial services companies as well as movements in securities markets, currency exchange rates and interest rates, monetary policies, inability to hedge certain risks economically; the adequacy of loss reserves; acquisitions or restructurings; technological changes; changes in consumer spending and saving habits, changes in financial position or credit worthiness of our customers, obligors and counterparties, and the success of the Group in managing the risk involved in the foregoing.

BCP does not undertake to update or to release publicly any revision to any forward-looking statements included in this document, whether to reflect events, circumstances or unanticipated events occurring after the date hereof, or otherwise.

BANCO COMERCIAL PORTUGUÊS

**Consolidated Income Statement
for the years ended 31 December, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
	(Thousands of Euros)	
Interest income	5,269,597	4,332,187
Interest expense	<u>(3,548,549)</u>	<u>(2,794,884)</u>
Net interest income	1,721,048	1,537,303
Dividends from equity instruments	36,816	27,921
Net fees and commission income	740,417	664,583
Net gains / losses arising from trading and hedging activities	277,631	199,138
Net gains / losses arising from available for sale financial assets	(259,532)	193,211
Other operating income	<u>57,580</u>	<u>97,861</u>
	2,573,960	2,720,017
Other net income from non banking activity	<u>17,390</u>	<u>12,925</u>
Total operating income	2,591,350	2,732,942
Staff costs	915,307	1,006,227
Other administrative costs	642,641	627,452
Depreciation	<u>112,843</u>	<u>114,896</u>
Operating costs	1,670,791	1,748,575
	920,559	984,367
Loans impairment	(544,699)	(260,249)
Other assets impairment	(60,024)	(45,754)
Other provisions	<u>15,500</u>	<u>(49,095)</u>
Operating profit	331,336	629,269
Share of profit of associates under the equity method	19,080	51,215
Gains from the sale of subsidiaries and other assets	<u>(8,407)</u>	<u>7,732</u>
Profit before income tax	342,009	688,216
Income tax		
Current	(44,001)	(73,045)
Deferred	<u>(39,997)</u>	<u>3,475</u>
Profit after income tax	<u>258,011</u>	<u>618,646</u>
Attributable to:		
Shareholders of the Bank	201,182	563,287
Minority interests	<u>56,829</u>	<u>55,359</u>
Profit for the period	<u>258,011</u>	<u>618,646</u>

BANCO COMERCIAL PORTUGUÊS

Consolidated Balance Sheet as at 31 December, 2008 and 2007

	<u>2008</u>	<u>2007</u>
	(Thousands of Euros)	
Assets		
Cash and deposits at central banks	2,064,407	1,958,239
Loans and advances to credit institutions		
Repayable on demand	1,048,348	820,699
Other loans and advances	2,892,345	6,482,038
Loans and advances to customers	75,165,014	65,650,449
Financial assets held for trading	3,903,267	3,084,892
Financial assets available for sale	1,714,178	4,418,534
Assets with repurchase agreement	14,754	8,016
Hedging derivatives	117,305	131,069
Financial assets held to maturity	1,101,844	-
Investments in associated companies	343,934	316,399
Non current assets held for sale	19,558	24,180
Property and equipment	745,818	699,094
Goodwill and intangible assets	540,228	536,533
Current tax assets	18,127	29,913
Deferred tax assets	586,952	650,636
Other assets	4,147,645	3,355,470
	<u>94,423,724</u>	<u>88,166,161</u>
Liabilities		
Amounts owed to central banks	3,342,301	784,347
Amounts owed to others credit institutions	5,997,066	8,648,135
Amounts owed to customers	44,907,168	39,246,611
Debt securities	20,515,566	26,798,490
Financial liabilities held for trading	2,138,815	1,304,265
Other financial liabilities held for trading		
at fair value through results	6,714,323	1,755,047
Hedging derivatives	350,960	116,768
Provisions for liabilities and charges	221,836	246,949
Subordinated debt	2,598,660	2,925,128
Current income tax liabilities	4,826	41,363
Deferred income tax liabilities	336	46
Other liabilities	1,383,633	1,399,757
	<u>88,175,490</u>	<u>83,266,906</u>
Equity		
Share capital	4,694,600	3,611,330
Treasury stock	(58,631)	(58,436)
Share premium	183,368	881,707
Preference shares	1,000,000	1,000,000
Fair value reserves	214,593	218,498
Reserves and retained earnings	(274,622)	(1,598,704)
Profit for the period attributable to Shareholders	201,182	563,287
	<u>5,960,490</u>	<u>4,617,682</u>
Total Equity attributable to Shareholders of the Bank		
Minority interests	287,744	281,573
	<u>6,248,234</u>	<u>4,899,255</u>
Total Equity	<u>94,423,724</u>	<u>88,166,161</u>