Conference Call Transcript

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Millennium bcp Full Year 2009 Earnings Conference Call. My name is Liz, 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 will now hand over to your host, Carlos Santos Ferreira, CEO, to begin today's conference. Thank you.

Carlos Santos Ferreira ***- Millennium bcp - CEO***

Okay. Good afternoon, ladies and gentlemen, and welcome, and thank you again for attending this conference call. First of all, I would like to stress the challenging environment of the past year. But we believe that 2010 will see a moderate recovery.

Let me start by pointing out that the bank's capital ratios were reinforced. The tier one ratio reached 9.2%, and core tier one ratio, 7.1%, as of the 31st of December 2009, the highest ratios of last decade.

There are a number of aspects that deserve to be highlighted regarding our performance in 2009.Customer deposits increased 3.9%, and loans rose 1.5%, with mortgage loans increasing by 2.7%. The evolution of the bank's cost base, as a result of measures designed to simplify the organization and optimize process, operational costs fell 7.8%, reflecting the 12.2% reduction from international operations, and a 15.5% drop in administrative costs in Portugal.

Despite historical low reference interest rates, and higher funding costs, it should be noticed that recovery of net interest margin and commission on a quarterly basis, both in Portugal and international operations.

Last but not least, the bank has successfully placed subordinated perpetual securities Valor Capital in a total amount of EUR1 billion, and issued EUR5.6 billion of medium long - term debt in 2009, partially anticipating the funding plan for 2010. Together with the increase in eligible assets to discount the central banks, we have a comfortable position in terms of refinancing needs.

Regarding credit quality and the cost of risk, net impairment charge stood at 76 basis points, in line with current economic cycle. Loans overdue by more than 90 days stood at 2.3% of total loans, and the coverage ratio at 119%, comparing well with our Iberian peers.

I would like to underline our Polish operation as it demonstrated an exceptional turnaround capacity under the very difficult environment; cost reduction of 14.2% reflecting the measures undertaken since the end of 2008: good results of the last quarter of 2009, already reflecting the upturn in net interest income and commissions; successful capital increase by EUR258 million, through a rights issue. The shares available to minority shareholders were almost four times oversubscribed.

Concerning our operations in Africa, they continued to perform well, and are growing relevant. Millennium Angola and Millennium bim in Mozambique together opened 23 new branches during 2009, and together had EUR66.6 million of net income, up 19.1% from 2008.

We will submit, in the next annual shareholders meeting, a proposal for distributing a dividend of EUR0.019 per share, representing an increase of 12%, compared with a dividend distributed in the previous year and the payout ratio of 40%. Finally, yesterday it was announced that the bank signed an agreement to sell 95% of Millennium Bank in Turkey, which fits the bank's strategy of focusing on priority markets.

I now ask Mrs. Sofia Raposo to start the presentation with details of the bank's performance in 2009. Thank you very much.

Sofia Raposo *- Millennium bcp - Head of IR*

Good afternoon, all. I would like to start the 2009 results presentation. We can perhaps skip slide three, because the Chairman has already stated the main highlights. So moving to slide four, I would like to say that net profits rose 11.9% to EUR225.2 million, with a very strong rise in Portugal from EUR117 million to EUR214 million in profits, and despite having a much lower contribution from international operations, mainly in Poland, due to the impact of the financial crisis.

The 12% increase in results benefited from the inexistence of losses in the BPI stake that was sold in late 2008, from positive gains of EUR78.4 million booked in other income, and from lower operating costs, and was pressured by the decline in net interest income throughout the year, and the increase in impairments.

Loans to customers rose 1.5% to EUR77.3 billion, of which we highlight the 2.7% growth in mortgage loans, while corporate loans showed a moderate 0.2% rise. Customers' funds, on the other side, rose by 1.8% to EUR67 billion. We highlight the growth in deposits of 3.9% versus 2008, and the increase in off-balance sheet funds by 10.7%, namely in capitalization insurance, up by 15.2%.

We have strengthened our capital ratios during the fourth quarter of 2009. The pro forma impact of the first phase of the use of IRB methodologies is around 70 basis points in core tier one, and now above 7% at 7.1%. The pro forma tier one stands at 9.2%.

Even if we excluded IRB, capital ratios would also have been up with the standard method. The increase relates mostly with the issue of EUR1 billion perpetual subordinated securities, improvement in actuarial differences in the pension fund by EUR557 million, and initiatives to reduce risk weighted assets that allowed savings of almost EUR2 billion during the year.

Specifically, in the fourth quarter, as comparing with September numbers, the bank has issued further EUR100 million perpetual subordinated securities, and actuarial deviations were a positive EUR107 million.

In regards to capital ratios, we would like to highlight that there are still some positive impacts expected going forward. First of all, the second phase of Basel II, for the approval of IRB Advanced in the corporate portfolio in Portugal, as well as Poland and Greece. The approval of these -- of the submission that we made to the Bank of Portugal could add a further 70 basis points in the next two years.

The capital increase in Poland should add a further 14 basis points in core tier one in the first quarter of this year. The agreement to sell 95% of Millennium Bank in Turkey should also have a positive impact of four basis points in core tier one, and a positive impact of six basis points in tier one during this first quarter.

Some positive effects, as well, from revaluation of the stake in Eureko, which is usually carried out during the first quarter of every year. Also, we are launching a new program to reduce risk-weighted assets, which could be reduced by further EUR2 billion. And obviously we are not including any potential positive impacts from other sales of non-core assets. As you can see, the capital ratios of BCP are the highest of the decade.

With regards to pension liabilities, I would like to note that during 2009, we had EUR557 million of actuarial gains, of which EUR107 million in the fourth quarter of 2009. The gains relate to the 9.4% positive return of the pension fund, and a positive impact in 2009 of the change in actuarial assumptions.

We would also like to remark that pension liabilities are covered by 109%, and that there was no significant contribution needed in 2009 to the fund. And there is room to have low contributions in 2010 as well. Also, we have reduced the equity exposure of the pension fund to 22% from significantly higher levels in the past.

With regards to actuarial assumptions, the total positive impact in 2009 was EUR299 million. During the fourth quarter, or the second semester, the impact, however, was a small negative EUR73 million. We reduced the discount rate to 5.5%, which had a negative impact, partially offset by the reduction of salary growth rate to 2.5%, and pension's growth rate of 1.65%.

Furthermore, we have -- as we had already said during the first half -- changed the financing conditions of the defined contribution fund for employees hired from July 2009 onwards. That, we believe, will improve the value of the bank in the future.

Another important change for the future that was decided by the Executive Board of Directors is the change in conditions for benefit contribution of the defined benefits fund. As an example, the bank will only contribute to the fund if ROE will be higher than government bonds plus 5%, with a minimum of 10%. This means there was no contribution in 2008 and 2009. And we will only start contributing again to the complementary pension fund when we reach an ROE of 10%.

Also, we believe we have one of the most conservative mortality tables in Portugal, and we would like to refer to the fact that the technical deviations of actual mortality rate versus the tables, has been positive.

During 2009, it was also possible to anticipate part of the funding plan for 2010. The new issue in 2009 reached EUR6.6 billion, above the refinancing requirements of EUR5.2 billion. This, together with the 2010 issue, means that by February, 47% of the plan is already concluded.

We have also reinforced the portfolio of assets discountable in central banks to EUR10.6 billion. This, together with the refinancing already completed, means that we have all long - term wholesale refinancing needs covered until 2012.

Moving to slide 12, the banking income declined by 4.2% at the consolidated level, affected by international operations, although we saw a 2.3% rise in Portugal. However, this was more than offset by a 7.8% decline in operating costs.

The net interest income declined by 22.5%, affected by lower margins in international operations, and also because of the impact of lower interest rates on deposit spreads and higher cost of wholesale funding, not fully compensated by higher credit spreads.

However, we would like to note that the group managed to reverse the net interest income trends since the third quarter of 2009, which was confirmed in the last three months of the year. Also, the NII of BCP had no significant impact from ALM, as BCP is not engaged in the "carry trade" that has been so popular in the sector in 2009. Therefore it does not have any significant losses in public debt portfolios that in some of the banks could reverse the ALM gains of previous years.

The margin reversal is already quite visible in international operations, which had the highest quarter in net interest margin in the fourth quarter of last year. In Portugal, as anticipated, in the fourth quarter it was possible to reverse the decline trend, with the net interest margin increasing from 1.26% to 1.32%, although we are still far from the margins recorded in 2008.

Commissions recovered throughout 2009. And BCP managed to record a small increase in commissions in Portugal overall, despite the poor performance of market related commissions. It is noteworthy the increase on an annual basis of banking commissions and the global quarterly improvement of commissions.

Operating costs fell by 7.8%, with a very strong decline in international operations of 12.2%, and a 5.1% decline in Portugal. The increase was led by administrative costs falling by 11.3%, and staff costs falling 5.5% in spite of the 10% increase in pension costs. Depreciation also fell by 7.2%.

There was significant staff cost containment in all geographies except in African operations, in Mozambique and Angola, where we are still expanding. With regards to Portugal, the increase in staff costs was 2%, which basically reflects the increase of the pension costs by 10%, otherwise being flat. We'd also like to note that because of the good performance of the pension fund, the pension costs in 2010 should decline to under EUR100 million.

The cost of risk during the year remained in line with the expectations we had for 2009. Total overdue ratio over 90 days increased to 2.3%. But we maintained very strong coverage over 100%, at 111%.

The cost of risk, as you can see, over the past ten years, is now at a fairly high level, standing at 76 basis points of loans. And we would like to highlight that the current level of provisioning is EUR245 million above the average of the last ten years, which is 43 basis points.

Nonetheless, irrespectively of NPL calculation methodologies, the fact remains that bcp has balance sheet impairments that represent 2.8% of loans, which compares favorably with a majority of its Iberian peers.

Moving to slide 24, and focusing a bit more on Portugal, I'd like to stress that volume growth has been very moderate during the year, and balanced between loans to customers and customer funds. Loans to customers rose 0.8% to EUR60.6 billion, and customer funds rose by 0.6% to EUR50.8 billion.

In loans, we would like to highlight the growth of the mortgage portfolio and SMEs by 3%, with corporate -- large corporate loan growth falling by 6%. In customer's funds, we highlight the increase in deposits by 4.1%, and as well, the increase of 8.6% in off-balance sheet customers funds, mainly in capitalization insurance, by almost 15%.

The banking income in Portugal managed to increase 2.3%, and costs fell by 5.1%. In terms of the net interest margin in Portugal, as we anticipated, we saw a recovery during the fourth quarter. We had been expecting that the margins should be able to grow during the quarter, as effectively they have. This means that the repricing efforts we are doing on the credit side are beginning to show more on the net interest income.

As you know, during the year, the declining interest rates has affected the deposit spreads quite significantly, both in demand deposits as well as in time deposits.

Although the repricing speed of the corporate segment was still insufficient to offset on a yearly basis the reduction in the deposit margin and the increase in wholesale funding costs for the full year, its impact has become more noticeable in the quarterly improvement of the net interest income.

We continue to see the corporate segment repricing, which represents 59% of the portfolio, and has a three year repricing maturity. Its results are visible in the increase of contractual spreads for the corporate segments, which are now up by 66 basis points when compared to two years ago.

New production and increase in spreads in 2009 actually rose by an average of 1.4 percentage points when compared to the average of 2008, and should continue to have a very positive effect during the next year, year and a half.

The mortgage portfolio, which represents 35% of the loan book in Portugal, cannot be repriced. But new production has been able to have adequate spreads, as you can see in the slide.

With regards to commissions in Portugal, we saw a recovery of commissions year-on-year, and also on a quarterly basis, even though market related commissions declined by almost 30%, which means that banking commissions are already showing a significant improvement. We are now seeing that the fourth quarter has increased in terms of banking conditions by more than 5%.

In terms of operating costs, operating costs fell by 5.1% in spite of the 2% rise in staff costs due to higher pension costs. But we definitely saw a very material decline in admin costs and in depreciation.

As you can see in slide 31, the decline in admin costs was not a one - item effect. And actually we even saw an increase in advertising. So the changes are quite structural and very widespread throughout all the items, which means a very different way to manage the bank.

In terms of credit quality, the overdue ratios over 90 days rose to 2.4%, as expectable and the coverage ratio stood at 119.7%. The cost of risk is also in line with our expectations for this point of the cycle and stood at 68 basis points of loans, slightly better than the previous year, but still a relatively high figure for the average of the cycle.

In terms of international operations, we would like to say that profits declined by 86.5% to EUR11.4 million. And here we would highlight the positive performance of Angola and Mozambique, and the resilience of the Greek operation.

Poland successfully completed its rights issue during this month. We would like to just highlight that the demand for shares available for minority shareholders were almost four times oversubscribed. With regards to the impacts of the rights issue, the capital adequacy ratio on a pro forma basis would be 14.7% for the bank, with a tier one of over 12%. And also to note that the proceeds will allow Millennium bank to continue to support its strategy of growth, which we expect will become much more visible during 2010 and onward.

In Poland, the year 2009 actually finished with a positive net profit. The strong results in the fourth quarter compensated previous losses. And this was basically the result of the very strong decline in costs by 14% that actually anticipated the savings plan targets for 2010. And also, strong increase in operating income on a quarterly basis, even though on the overall, at the year - end, showed a decline of 21%.

In terms of net interest income, we saw a confirmation of the rebound that began in the third quarter of 2009. And we would like to highlight that this is already the highest margin reported on a quarterly basis that was reported during the year. The improvement results of lower deposit costs, improvement in the loan margin, and lower cost of funding in Forex and FX swaps and cross currency swaps.

In terms of commissions in Poland, we also saw a significant improvement during the fourth quarter, and the overall commissions managed to grow by 4.6%. The cost savings were quite substantial. The costs declined by 14%, which we would highlight that the strong 23% decline in staff costs of Bank Millennium managed to reduce 804 employees during the year, practically maintaining the number of branches.

In terms of loan growth, volumes were -- volume growth was fairly subdued during the year and the growth was very much balanced and commercial gaps was quite controlled. With regards to credit quality, the impairment ratio rose to 5.9%, and impairment coverage stands at 64%. Impairment charges during the year, and as you already know, were affected by the extraordinary provision in the third quarter of EUR24.9 million for corporate exposures related from FX derivatives.

In Greece, the operations remained very resilient despite the adverse environment. Net earnings stood at EUR9 million, and were also negatively affected by the EUR1.5 million social contribution imposed by Greek authorities. Net income, obviously, during 2009 and net operating income were affected by the deposit spreads tightening during the first half of the year, although we would like to highlight that during the second half, net interest margins behaved much better.

Indeed, loans to customers rose by 6.4% to EUR5.2 billion and customer's deposits grew by 7% to EUR3.5 billion. The quarterly net interest income in the fourth quarter, as I already said, was actually the highest of the year and we saw some recovery in terms of the loan spreads during the year, even though deposit spreads during the fourth quarter, as we could expect, considering the environment that happened during the last two months of the year, remained at a negative 30 basis points. Despite all this, the operation actually managed to improve its cost to income during the year.

In terms of the Mozambican operation, I would like to say that it posted a 1% growth to EUR52 million in terms of net income, with a strong growth in terms of operating income. The operation continues to expand its activity. The number of branches increased by 16 and we continue to see very strong increase in volumes with the operation remaining with a positive commercial gap, and a loan to deposit ratio under 100%. The level of profitability of the Mozambican operation is quite high.

In terms of volume growth, loans grew by 39% to EUR703 million, while customers deposits rose 14% to EUR916 million. We'd also highlight that the loan to deposit ratio continues below 100%. In terms of Angola, we see a strong growth in net income, in spite of the expansion plans -- the partnership with Sonangol and BPA was completed through a rights issue and strong capital base allows for activities and expansion going forward, which already increased to 23 branches.

Despite the ongoing expansion, it's notable that the net income went up significantly to EUR14.6 million and obviously operating income increased quite substantially. We saw loans to customers and customers' funds growing at very high rates of 45% and 53% respectively.

To conclude, I would like to make some final references. International operations, as you know, are becoming increasingly important, already representing 24% of customer's funds, and half of the employees in the branch network.

International operations already weigh quite significantly in terms of operating income, although in 2009, contributions to profits were small. However, as you can see in the fourth graph in the right hand side on the bottom, most of the growth today and going forward should come from our international operations.

The bank continues focused on increasing profitably. It has been able to reverse the core income growth trend in net interest income and commissions, while sustainably and effectively reducing and cutting costs. The capital ratios of the bank are now in line with its peers, and provision coverage is high.

Today, we believe the group is mostly a retail operation in Portugal and abroad, with retail operations in Portugal and Poland, Mozambique, Angola, representing more than 77% of the customers' funds and loans. We are now focused on Portugal, Poland, Mozambique, and Angola, and basically in increasing profitability. The current outlook for the core economies in Portugal, Poland, and emerging Africa should allow us a higher return on equity, which today is fairly low, to something closer and above 10% by 2011.

To sum up, we believe that 2009 was a year of significant evolution. The bank today is institutionally stable, has demonstrated its commercial resilience, a clear focus on efficiency, risk management and control, and improved profitability. The bank is now more solid with IRB pro forma core tier one of 7.1%, and tier one of 9.2%.

It has a reinforced liquidity position. It controlled its commercial gap. It reversed the net interest income and commissions' evolution trend. It cut costs materially. And although the cost of risk is still high, it is in line with expectations for this point of the cycle.

More importantly, client satisfaction in Portugal reached its maximum since the creation of the single brand in 2004. We revised the business models in Poland, Romania, and private banking. We continue to expand in Angola and Mozambique in line with our strategy. And we concluded the agreement to sell 95% of our Turkish operation.

The organization is now aligned towards the goals for the future. So basically in our view, the execution of 2009 priorities prepared the bank to continue to the announced strategy for 2010 and 2012, Focus and Transformation that I leave with you.

This concludes the presentation. And we are now ready to take your questions.

QUESTION AND ANSWER

Operator

Thank you.

(Operator Instructions)

Your first question comes from Alvaro Serrano from Santander. Please go ahead.

Alvaro Serrano - ***Santander - Analyst***

Good afternoon. Just a couple of questions. You mentioned that in some areas the repricing of the corporate book or the increase in spreads was not enough to offset the higher costs of deposits. I wonder if you've seen, since the latest turmoil related with sovereign debt markets, have you seen any upward pressure or any increased pressure in deposit margins in Q4 or the first weeks of the year? And what are you counting on if this situation continues? What are your contingency plans, or how do you see this unfolding?

And the second question in regards to Basel III, what do you think the impact will be for BCP at this stage? In particular, I want to see if there's any changes in terms of how the pension fund will be treated and the corridor and if that will be sustained or not.

And the second area as being the preference shares you just issued, would those still count as tier one? And that's it. Thank you.

Sofia Raposo *- Millennium bcp - Head of IR*

Well thank you, Alvaro. With regards to the wholesale market and deposits, there has been a bit of turmoil during the markets in the past month and a half, I would say. Hopefully we believe this is a transitory effect that at some point will stabilize on a more normalized level.

In terms of pressure of cost of funding, obviously there hasn't been a lot of debt issues during the turmoil period. But on the opposite side, we see that actually we are seeing improvement in deposit margins and not worsening in deposit margins. We have seen an improvement in deposit margins throughout the fourth quarter. And we have seen an improvement in deposits as well during the first month of the year.

With regards to Basel III, to be totally honest, we feel that this is not a theme that we would probably like to discuss a lot, because really there's no way to know what actually is going to be approved.

Alvaro Serrano *- Santander - Analyst*

As it stands today, do you think there'll be material changes? Or just --

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Carlos Santos Ferreira *- Millennium bcp - CEO*

Well, let me try to answer you. We have been very attentive to capital matters, as all of you know. And since 2008, we have got EUR2.3 billion of assets, EUR1.3 billion related to tier one, and EUR1 billion related to tier one.

And we have also -- and you have these matters in the presentation -- we have also taken control of RWAs as also a matter of very high importance for us. So we are studying Basel III, as I believe that everybody. And we are addressing the question.

But really what we are talking about is about something that is not yet decided, that is under discussion, that will happen in future -- not very far, perhaps. But we are really pretty confident that we have been -- that we are able to deal with the problem, the same way that we have dealt with tier one level and the portion that the central bank -- Portugal Bank recommendation that some months ago was a big issue, and by the end of day was nothing. And also, the way we have dealt with increasing capital in 2008. Thank you.

Paulo Macedo *- Millennium bcp - CFO*

Just to add on this and your other question on the preference shares. In spite of what will be decided for Basel III, we have to notice that our last issue of EUR1 billion of Valores Mobiliarios, they are loss absorption. So they qualify for what is discussed to be the new tier one for purposes of Basel III.

So we are managing what is in stake, but we think that it will be a long discussion between what will happen to minority interests and what will happen to deferred taxes, et cetera, et cetera.

What we are focusing is reducing our RWA increasing our tier one and core tier one. And on this theme, I think you should notice that besides the 7.1% that we present, we have plus 14 basis points for the capital -- the rights issue that we have made in Poland. So it took the core tier one to 7.24 plus the selling of Turkey, which will account for more or less five basis points, plus what will be the future evaluation of Eureko. If you remember, we had the devaluation last year. So we hope we'll rebound on this. Plus the second phase of Basel II.

And what we are focusing is nowadays in Basel II. And having better processes, our ratios and methods, and just for -- we have some -- our portfolios in Greece and Poland are not yet qualified for effects of Basel II. If we qualify, more this portfolio plus the corporate portfolios and the LGD in Portugal, we should account for more 70 to 80 basis points.

So we have a long way to go with the – nowadays existing regulamentation. And of course we are looking very carefully towards the discussion around what will be the future.

Alvaro Serrano - ***Santander - Analyst***

Okay, thank you.

Operator

Okay, thank you. Your next question comes from the line of Antonio Ramirez from KBW. Please go ahead.

Antonio Ramirez - ***Keefe, Bruyette & Woods - Analyst***

Hello. Good afternoon. I have two questions from me. One is can you comment on the performance we can expect from the net interest income in incoming quarters, both in Poland and Portugal? In particular, we saw in both areas a lot of pressure that now seems to be starting to improve. But what level do you think it's recurring in the next coming quarters?

And similar question regarding cost, because on the cost side, you have done a great job and we have seen costs coming down substantially, again both in Poland and Portugal. But to what extent that new base level for cost should be considered as the starting point for 2010?

I know you mentioned that the amortization of the deficit in pensions will cost probably something like EUR30 million less. So assuming that, the underlying cost base -- is there room for further reductions in 2010? Or, was there some adjustment in 2009 that probably was not recurrent? So I'm just thinking about bonuses for instance or variable remuneration, if there is a risk we see some pick up in 2010. And that would imply that the cost base we had for 2009 was not really sustainable. So, that's all for me.

Sofia Raposo - ***Millennium bcp - Head of IR***

Well, with regard to net interest income in Portugal and Poland, what we are expecting in 2010 is obviously a recovery. We believe that there is a substantial potential for improvement in terms of credit spreads in the corporate portfolio. Some of it has been done, some is still yet to come. We don't believe that interest rates will fall more than the current level. So under that scenario, we believe that net interest income in Portugal will grow by high single digit.

With regards to Poland and the overall international operations, we expect them to grow by double digit -- solid double digits. So we have very strong expectations for net interest income for the next year. This evolution should, however, be gradual throughout the year, and should be much more visible after the second and third quarter.

With regards to cost, we believe that the room for a reduction is perhaps a bit too much. What we see in terms of the personnel costs is that indeed we have room to reduce the pension costs this year, but also this year, as you know, there was no variable remuneration.

So what should happen during 2010 is that we are managing a bit more on the jaws. If we do have an increase in costs over inflation of 2%, we will -- we would -- if we have an increase in operating income, we should also have a small increase in costs.

Antonio Ramirez - ***Keefe, Bruyette & Woods - Analyst***

Okay, thank you.

Operator

Okay, thank you. Your next question is from Carlos Peixoto from BPI. Please go ahead.

Carlos Peixoto - ***BPI - Analyst***

Hi, good afternoon. I have the following questions. First, what were the reasons for tax benefits in Portugal during the fourth quarter? Secondly, if I understood correctly, the IRB or the first phase of IRB models have already been approved by the Bank of Portugal. Could you please confirm on that?

And finally, in the presentation, you mentioned social contribution of EUR1.5 million in Greece. I was wondering if you could elaborate on this, namely if this is something which is recurrent going forward, or was it a one off effect? Thank you.

Sofia Raposo *- Millennium bcp - Head of IR*

Thank you, Carlos. With regards to the taxes during the fourth quarter, basically you know that tax rate on the overall is generally not equal to the marginal tax rate. So our subsidiaries generally have lower tax rates, on average, than the Portuguese marginal rates. Also, the capital gains were not taxed. So that explains a bit why the tax rate for the full year is below the marginal rate.

Also, we have the impact on dividends. But on the overall, specifically the fourth quarter, what we saw was basically that the estimates we had made for taxes up until September were higher than they should have been, so basically there was room for a small reduction. With regards to the Greece social contribution of EUR1.5 million, we do not expect this to be recurrent. And with regards to the Bank of Portugal, we do not yet have the formal authorization. However, the Bank of Portugal has not opposed the disclosure of pro forma ratio. It actually authorized the disclosure of pro forma ratio, given the status of the review process of IRB applications.

I believe you had another question. And --

Carlos Peixoto *- BPI - Analyst*

No, no. Those three items. But if I may add, just a follow up. On -- what sort of impact could we expect from the re-valuation of Eureko in capital ratios?

Sofia Raposo *- Millennium bcp - Head of IR*

Well obviously this is done -- this is being done by an independent company. So we really don't know what they are going to evaluate the company.

Our expectations are, however, positive. Basically because the situation in Eureko improved quite substantially because they received compensation from the Polish State with regards to PZU. So irrespectively of whether or not the evaluation of the insurance sector is much higher from last year, we would expect something positive.

So on the overall, perhaps a bit under ten basis points, perhaps seven basis points, something around those levels. But definitely we'll have to wait for the independent evaluation. It should come about this month, more or less.

Carlos Peixoto *- BPI - Analyst*

Thank you very much.

Sofia Raposo *- Millennium bcp - Head of IR*

Thank you.

Operator

Thank you. Your next question comes from the line of Andre Rodrigues from Caixa Banco de Investimento. Please go ahead.

Andre Rodrigues - ***Caixa Banco de Investimento - Analyst***

Hello. Good afternoon, and thank you for taking my questions. I have two questions. The first one refers to costs. I know that the question regarding costs has been already answered. But I have one specific one in Portugal. The decrease in staff costs in Portugal in the last quarter was quite relevant. Should we expect the level of the last quarter in staff costs in Portugal to be maintained, or should we expect the level of the other three quarters to be the benchmark for the next two quarters?

The second one refers to asset disposal. Should we expect any news regarding asset disposal soon? I'm thinking on -- namely on US, even Greece. Of course, I'm not expecting you to disclose any negotiations of course, but can you give us some news regarding this issue?

Finally, it's not a question,, it's more a doubt. If I understand it well, you said that you intend to reduce the risk weighted assets by around EUR2 billion. If that's correct -- is that to do in 2010? Thank you.

Sofia Raposo - ***Millennium bcp - Head of IR***

Well thank you, Andre, for your questions. With regards to cost, indeed there was a very strong reduction during the fourth quarter which partially relates to the annulment of variable remuneration, and also the reduction of pension costs and the non-existence of contribution to the complementary fund of the employees.

For next year, what we would expect is for the costs -- personnel costs, to be on average, I would say, of the past last four quarters. So I believe that's the answer to that particular question.

With regards to RWAs, yes, that is exactly what we are saying. We believe that we could save a further EUR2 billion, obviously on top of what we expect to get from Basel II advanced methodologies.

Now with regards to asset disposals, well we have not yet announced any disposals in the US or Greece -- basically, that is an assumption from your part. What we have said is that the core businesses where we would like to focus is Poland, Angola, Mozambique, and Portugal. US, perhaps is not critical or core in our activity. But we have not yet announced anything with relation to these two companies. If and when we do, we will let you know.

Andre Rodrigues - ***Caixa Banco de Investimento - Analyst***

Okay, thank you.

Operator

Okay, thank you. Your next question comes from the line of (inaudible). Please go ahead.

Inigo Lecubarri - ***PCE Investors - Analyst***

Good afternoon. Just one question regarding Poland. I would like you to give us a bit of clarity as to what is the euro amount in which your participation in the Polish bank is booked. What is the euro amount which you have the Polish operation? How much, in terms of price book value, and how much is goodwill? So I just want to get a sense as to what kind of price book value multiple are you carrying it on your books?

Sofia Raposo - ***Millennium bcp - Head of IR***

Hi Inigo, thank you for your question. With regards to Poland, you know that we have a 65.5% stake in that subsidiary. With regards to the price to book, the book value in bcp is below EUR600 million. So I would say around EUR580 million more or less, which would be a price to book value of under 1.4 times.

Obviously the company is trading today at -- well it's been trading at a very reasonable level, and represents quite -- it's becoming -- representing a more significant part of BCP market cap in terms of percentage.

Inigo Lecubarri - ***PCE Investors - Analyst***

If I could just add on to that the -- do you have any studies in terms of impairment of the value of goodwill related to Tranquilidade? Is that something that we should worry about or not at all?

Sofia Raposo - ***Millennium bcp - Head of IR***

We don't have a stake in Tranquilidade you're getting it wrong with BES. But with regards to goodwill, the amounts that we do have are related to the Polish operation, EUR164 million, and with our operations in Greece, where indeed goodwill is a bit higher at EUR294 million. And the other remaining goodwill is very small. We are talking about EUR42 billion for other small companies in other small stakes.

Inigo Lecubarri - ***PCE Investors - Analyst***

So is any of this, especially the Greek bit, subject to impairment test, or you don't think so?

Sofia Raposo - ***Millennium bcp - Head of IR***

It is subject to impairment test every year. It has passed the impairment test this year.

Inigo Lecubarri - ***PCE Investors - Analyst***

Okay, thank you very much.

Operator

Okay, thank you. Your next question comes from Benjie Creelan-Sandford from Macquarie. Please go ahead.

Benjie Creelan-Sandford - ***Macquarie - Analyst***

Hi, good afternoon. Just a quick question on NPLs in Greece. I noticed that the NPL ratio declined quarter-on-quarter. I just wondered what the reason behind that was. And perhaps if you could just comment more generally on the outlook for asset quality trends in Greece and in the African operations going forward. Thanks.

Sofia Raposo - ***Millennium bcp - Head of IR***

Well thank you for your question, Benjie. With regards to Greece, we're looking into the details of the non-performing ratio in Greece. But basically, our impression was that there was one specific operation that were booked in NPLs during the first quarter that actually were reversed. And there is -expectations, as a trend obviously, NPLs should increase. However, on the specifics of the Greek operation, we saw an improvement quarter-on-quarter. It is a positive.

Benjie Creelan-Sandford - ***Macquarie - Analyst***

Thanks. And just on the outlook for the African operations?

Sofia Raposo - ***Millennium bcp - Head of IR***

Well the outlook for the African operations, as you know, we are -- in Angola, we are planning to invest EUR200 million and open up to 150 branches with our partner Sonangol. We are very optimistic with relation to the Angolan economy. We see growth rates climb more than 5%, perhaps some 7%, 8% this year, and quite buoyant for the next few years.

The economy, as you can imagine, has huge potential for expansion. And we want to have a foothold in that. And not particularly in the corporate business, more focused on retail. We want to have a retail operation to gather the growth of the Angolan market, as we have done in a very significant way in Mozambique, where we have a market share of 37%.

In Angola it's different. We are a small operation still. But we will grow to become relevant, hopefully in the next few years. And it's going to be two, three years of investment in that. Hopefully profits will remain reasonably good. They have been in the past two years. And we expect this to continue going forward.

With regards to Mozambique, well Mozambique is a poorer country. It has a lower starting base, in a way. But at the same time, you see GDP growth rates quite robust over the past ten years, 4% or 5%. Very reasonable outlooks going forward, very low starting base. The penetration of the banking sector in Mozambique is 4%. So, the scope for growth is quite substantial.

In that particular operation, we have return on equity of 40%. We don't believe that we can do much better than that but hopefully, we distribute a lot of dividends. And we see quite substantial growth in terms of profits going forward.

Nonetheless, please note that we are still investing somewhat, some 15, 20 branches in Mozambique every year. And there should be some investment-- in the next one, two years.

Benjie Creelan-Sandford - ***Macquarie - Analyst***

Okay, thank you.

Operator

Thank you for your questions. We currently have no further questions.

(Operator Instructions)

Okay, we have no further questions coming through, so I'll hand the call back to your host.

Carlos Santos Ferreira - ***Millennium bcp - CEO***

Okay. Ladies and gentlemen, let me finish this presentation with one final remark. And it's a remark pertaining our corporate strategy for the coming years.

We will continue to concentrate our efforts in focusing and in transformation in the view of improving our profitability after the last testing years. We will continue to promote transformation in Portugal with initiatives to drive growth and leadership in retail banking.

We will, regarding our international portfolio, focus in European markets and markets that sustain a competitive presence and a meaningful medium long term position, while continuing investing in affinity markets such as Angola and Mozambique.

Regarding sustainability driven measures, we will proceed with the customization of capital and liquidity management, and we will maintain a strict risk control. And I believe that after two years, you believe that we will be able to do these measures.

Thank you very much.

Operator

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