

**ANNUAL REPORT**

2012

**Volume 1**



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**CHAIRMAN'S STATEMENT**  
**KEY INDICATORS**  
**SHAREHOLDERS STRUCTURE**  
**OUR SHAREHOLDERS**



## CHAIRMAN'S STATEMENT

*Over the years, Millenniumbcp Ageas has spread its expertise throughout the Ageas group, benefiting our companies in Europe and Asia*

Within Ageas, but also the financial community at large, Millenniumbcp Ageas has consistently been recognized as a front runner, having played a leading role in the development of bancassurance in the Portuguese market over the past quarter of a century, both in Life and Non-life. As a shareholder, Ageas has not only benefited from the financial returns generated by this company, but also from the strong expertise it has built over time in the areas of bancassurance and health care. Over the years, Millenniumbcp Ageas has spread its expertise throughout the Ageas group, benefiting our companies in Europe and Asia.

We have also been fortunate in being able to develop a strong, long term partnership with Millennium bcp over the past 8 years. Both Millennium bcp and Ageas went through a number of changes and periods of volatility, but both partners always showed their loyalty and commitment to the further development of the Company, which enabled us to face and overcome these challenges together.

I'm convinced that the key to this success is the way the team has managed to leverage the partnership and the alignment with the Bank, combining the respective areas of expertise for the benefit of the Customer.

Looking to the future, we cannot ignore the current economic crisis, and this continues to have a severe impact on the Portuguese economy. Millenniumbcp Ageas has clearly articulated its strategy for the future in a strategic plan that responds to this rapidly changing external environment. The execution of this strategy will modify the profile of the company: it will remain innovative and customer centric, but it will also become more agile and streamlined as an organization, leading to a stronger and less volatile earnings profile. The company and its staff have the ambition to fiercely defend its leading position in Life and to extend its market reach in Non-Life.

I would like to congratulate the Executive Committee and the Staff of Millenniumbcp Ageas for their commitment and their responsiveness to defend the interest of the Company in what are clearly difficult times. Looking ahead, and as Chairman of Millenniumbcp Ageas, I trust that based on the experience and dedication of the people, this company will continue to grow, in financial terms, but also in relative strength and skills.

Millenniumbcp Ageas began its journey 25 years ago, when bancassurance was still a pioneering concept; today it is well positioned to capture the challenges of the future.

Yours sincerely,



**Bart De Smet**

CHAIRMAN OF THE BOARD OF DIRECTORS

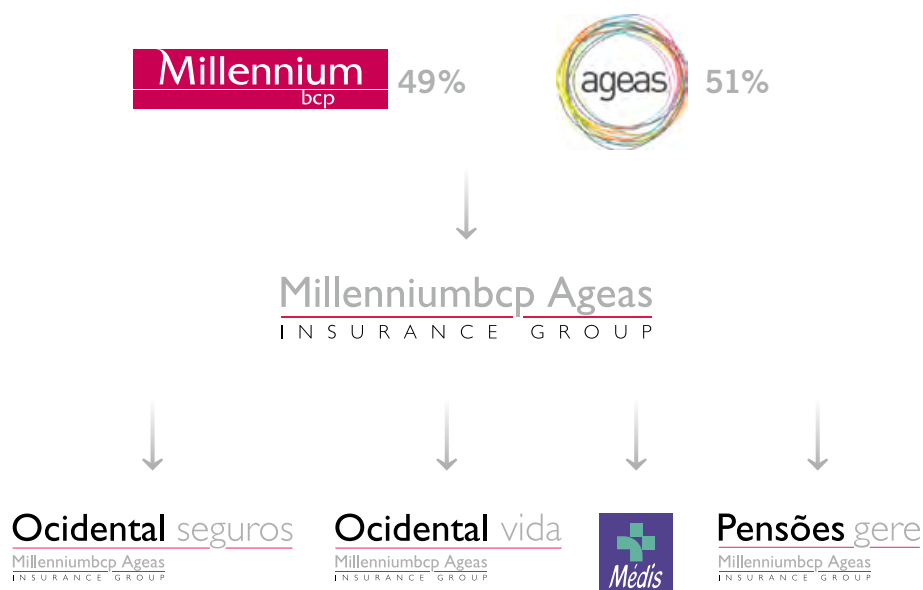
## KEY INDICATORS

KEY INDICATORS [EURO MILLIONS]	2012	2011	Var. 2012/2011
<b>Income Statement</b>			
Direct Written Premiums <sup>1</sup>	991	1,297	-23.6%
- Life	763	1,071	-28.7%
- Non-Life	228	226	0.8%
Technical Margin <sup>2</sup>	226	118	91.4%
Technical Margin Net of Operating Costs	117	3	4115.4%
Net Profit	94	16	470.9%
Net Profit before VOBA (value of business acquired)	111	36	204.4%
<b>Balance Sheet</b>			
Shareholders Equity	1,350	946	42.6%
Total Assets	12,023	11,678	3.0%
Investments	11,410	10,913	4.6%
<b>Ratios</b>			
<b>Efficiency</b>			
1 – Gross Claims Ratio (Non-Life)	62.2%	64.5%	-2.3 pp
2 – Gross Expense Ratio (Non-Life)	24.3%	23.9%	0.4 pp
3 – Non-Life Gross Combined Ratio	86.5%	88.3%	-1.8 pp
4 – Life Net Operating Costs/Average of Life investments	0.75%	0.84%	-0.09 pp
<b>Profitability</b>			
1 – Technical Margin / Direct Written Premiums <sup>2</sup>	22.8%	9.1%	13.7 pp
2 – Average Return on Investments (book value)	3.6%	1.8%	1.8 pp
3 – Return on Equity (ROE) <sup>3</sup>	11.0%	3.4%	7.6 pp
<b>Solvency</b>			
1 – Solvency Ratio	273%	147%	126 pp
2 – Shareholders Equity / Total Assets	11.2%	8.1%	3.1 pp
3 – Coverage of Insurance and Investment Contracts Liabilities <sup>4</sup>	109.1%	105.4%	3.7 pp
<b>Other Indicators</b>			
Market Share	9.1%	11.2%	-2.1 pp
- Life	11.0%	14.3%	-3.3 pp
- Non-Life	5.7%	5.5%	0.2 pp
Number of Employees	475	464	1.1%

1. Includes investment contracts, which under IFRS are not accounted as premiums
2. Before allocation of administrative costs and VOBA
3. Before VOBA (value of business acquired)
4. Includes investments, liquid assets and interests receivable



## SHAREHOLDERS STRUCTURE



## OUR SHAREHOLDERS



### Ageas

#### Company profile Ageas

Ageas is an international insurance group with a heritage spanning more than 180 years. Ranked among the top 20 insurance companies in Europe, Ageas has chosen to concentrate its business activities in Europe and Asia, which together make up the largest share of the global insurance market. These are grouped around four segments: Belgium, United Kingdom, Continental Europe and Asia and served through a combination of wholly owned subsidiaries and partnerships with strong financial institutions and key distributors around the world. Ageas operates successful partnerships in Belgium, UK, Luxembourg, Italy, Portugal, Turkey, China, Malaysia, India and Thailand and has subsidiaries in France, Hong Kong and UK. Ageas is the market leader in Belgium for individual life and employee benefits, as well as a leading non-life player through AG Insurance. In the UK, Ageas has a strong presence as the fourth largest player in private car insurance and the over 50's market. Ageas employs more than 13,000 people and has annual inflows of more than EUR 21 billion.



## Ageas in 2012

### A strong financial and operational performance across all segments

Ageas delivered satisfactory results in its insurance activities across all businesses and all segments in 2012. **Ageas's total inflows**, including the non-consolidated partnerships at 100%, amounted to EUR 21.3 billion, 24% higher than last year's levels with growth in both Life and Non-Life. Total non-consolidated partnerships at 100% contributed EUR 10.2 billion, up 71% driven in particular by Thailand and China, the inclusion of Turkey and the scope change in Luxembourg. A positive currency rate evolution accounted for 5% of the increase of total inflows. Inflow levels peaked in the last quarter of 2012 at EUR 5.8 billion, up 32% on the same quarter last year.

### Robust Insurance profit...

The **2012 net Insurance profit** amounted to EUR 624 million. This compares to a net loss of EUR 313 million last year, including the significant impairment charges related to the investment portfolio and on goodwill. Adjusting 2012 and 2011 for the total impact of impairment charges on investment portfolio and goodwill, the net result improved 15%. The level of net capital gains increased slightly compared to last year. Good operational progress has been made throughout the past year across all businesses with a reported net profit of EUR 430 million in Life and of EUR 194 million for the combined Non-Life & Other activities. The better overall results stem mainly from an improved operating performance in Non-Life, illustrated by a Group combined ratio of 99.1% (vs. 100.1% in 2011), a positive currency impact, scope changes and some positive one-offs in Asia. The net Insurance profit in the fourth quarter amounted to EUR 175 million.

In mid-November, Ageas announced the closing of the acquisition of Groupama Insurance Services Ltd (GICL) in the UK. The company was immediately consolidated, contributing EUR 63 million to gross inflow and EUR 4 million to the net result in 2012. In addition, the excess fair value over the purchase consideration amounting to EUR 63 million was partly offset by a EUR 19 million charge related to transaction and other costs and an impairment of goodwill and intangibles of EUR 39 million related to the UK retail distribution activities.

### ... Group result supported by positive General Account...

The **2012 Group net profit** amounted to EUR 743 million, with a positive net result in the General Account of EUR 119 million. The latter is largely driven by the positive outcome of the settlements on a number of legacies with the Dutch State and BNP Paribas respectively. The negative revaluation of the call option on the BNP Paribas shares partly offset the positive evolution of the equity stake in Royal Park Investments. The net profit of the General Account in the fourth quarter amounted to EUR 50 million.

## 01

### Our Shareholders

#### ...while maintaining a strong balance sheet.

Total **Shareholders' equity** increased 28% compared to the end of 2011 amounting to EUR 9.9 billion or EUR 42.75 per share end 2012. This increase is caused by the positive net Group result and the favourable impact of unrealised gains in the investment portfolio that increased from EUR 0.5 billion at the end of 2011 to EUR 2.0 billion.

The Insurance and Group solvency ratios amounted to 206% and 231% respectively, with total available capital EUR 5.2 billion above the minimum capital requirements.

The **net cash position in the General Account** amounted to EUR 1.2 billion, compared to EUR 0.7 billion at the end of December 2011.

In the context of the EUR 200 million share buy-back programme announced on 6 August 2012, Ageas purchased 7 million shares for a total amount of EUR 137 million at the end of December 2012. The Board of Ageas decided on 19 February to complete the existing programme and to propose to the Annual Shareholders Meeting the cancellation of the shares bought back between 6 August 2012 and 15 February 2013.

### Investment portfolio

Ageas's investment portfolio at the end of December 2012 amounted to EUR 75.9 billion compared to EUR 67.9 billion at the end of 2011. This increase can largely be explained by growth in the volumes of existing business, new business and by a positive performance in all asset classes. Ageas's allocation among different asset classes remained stable compared to the end of 2011. Within each asset class however, the investment strategy has been dynamic over the year.

### Group

Shareholders' equity at 31 December 2012 amounted to EUR 9.9 billion (EUR 42.75 per share) compared to EUR 7.8 billion (EUR 32.30 per share) at the end of 2011. This rise reflects mainly the impact on net equity of significantly increased unrealised capital gains on the investment portfolio, up from EUR 0.5 billion to EUR 2.0 billion and the positive full year Group net profit. The value of the liability related to the written put option on the 25%+1 share of AG Insurance to BNP Paribas Fortis (former Fortis Bank) amounted to EUR 1.0 billion and had a positive impact on Shareholders' equity of EUR 0.2 billion compared to 2011.

Ageas's **total available capital** amounted to EUR 9.2 billion compared to EUR 8.6 billion at the end of 2011, exceeding the total consolidated regulatory minimum requirements by EUR 5.2 billion, including the available capital within the General Account (EUR 1.0 billion). The total available capital of the insurance activities amounted to EUR 8.2 billion, with minimum solvency requirements

slightly up to EUR 4.0 billion. The Insurance solvency ratio amounted to 206%. The solvency ratios by segments remained strong amounting to 176% for Belgium, 224% for the United Kingdom, 244% for Continental Europe and 268% for Asia.

The Group Solvency came down from 237% to 231% due to the strong increase of the value of the put option on the non-controlling interest by EUR 341 million.

Ageas's Board of Directors will propose a gross dividend of EUR 1.20 per share to be paid in cash, subject to shareholder approval at the Annual Shareholders' meeting of 24 April 2013 in Brussels. This proposal is in line with the dividend policy set out in 2009 by Ageas.

## Our strategic choices

In line with its strategy towards 2015, Ageas communicated its financial targets during the 2012 Investor Day. Ageas plans to communicate on an annual basis on the evolution of the 4 Key Performance indicators.

In the table below, the figures for the 4 indicators are given at the end of 2011 and 2012 as well as the targets set by the end of 2015.

The acquisition of the UK Groupama activities will help to further increase the Non-Life business. Ageas's combined ratio at the end of 2012 was below the 100%-target, mainly as a result of improved risk pricing and a better performance in Household compared to 2011.

Return on Equity has improved to 8.7%. The impact of the higher net profit was partly offset by higher Shareholders' equity as a result of increased revaluations of mainly fixed income. The % of capital invested in emerging markets declined to 12.1%, mainly due to the strong increase of the Shareholders' equity in some of the mature markets.

AGEAS'S 2015 FINANCIAL TARGETS	Target by end 2015	Position end 2012	Position end 2011
% Life / Non-Life inflows at Ageas's part	60/40	67/33	66/34
Combined Ratio	< 100%	99.1%	100.1%
Return on Equity of Insurance activities	11%	8.7%	(5.5%) 1)
% capital in Emerging Markets	25%	12.1%	15.2%

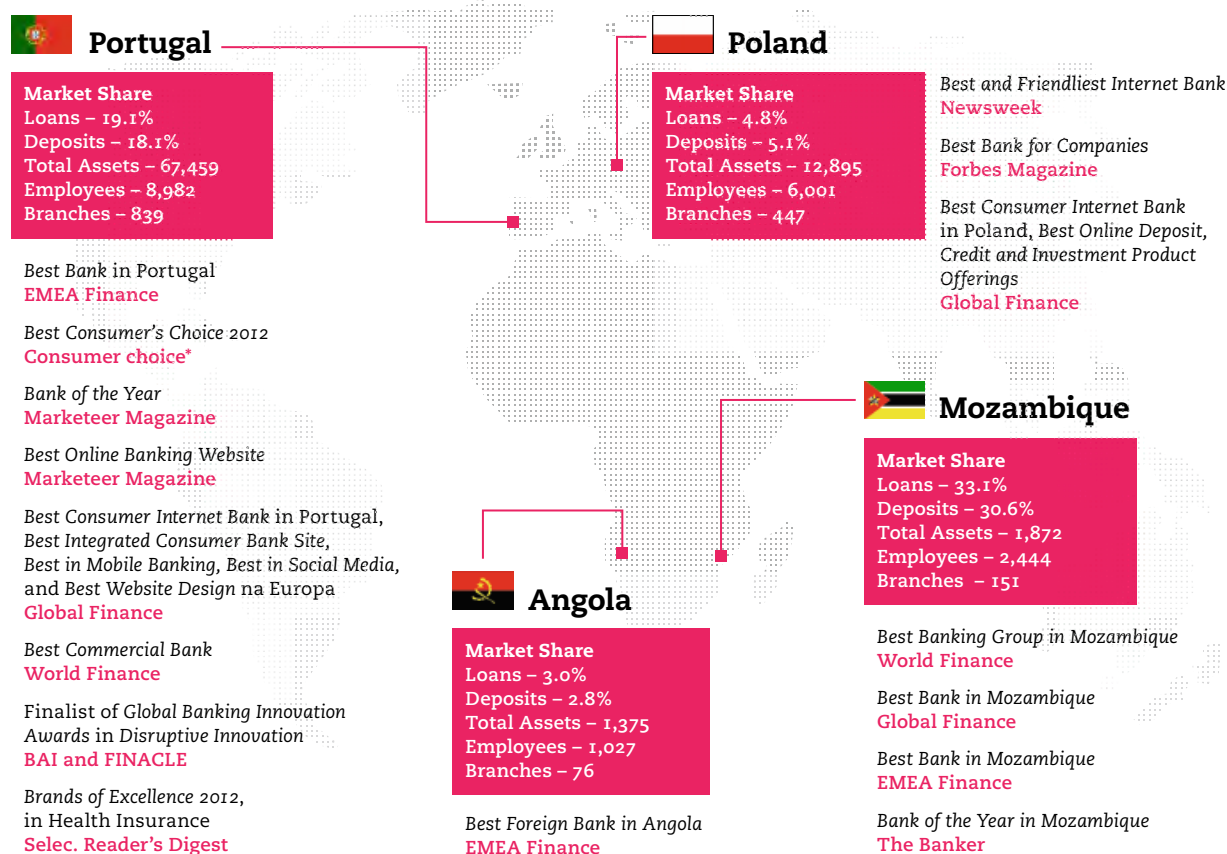
## Millennium bcp



Banco Comercial Português, S.A. (BCP, Millennium bcp or Bank) is the largest Portuguese private bank. The Bank, with its decision centre in Portugal, meets the calling of: "Going further beyond, doing better and serving the Customer", guiding its action by values such as the respect for people and institutions, focus on the Customer, a mission of excellence, trust, ethics and responsibility,

## 01 Our Shareholders

being a distinguished leader in various areas of financial business in the Portuguese market and a reference institution at an international level. The Bank also occupies a prominent position in Africa through its banking operations in Mozambique and Angola, and in Europe through its operations in Poland, Greece, Romania and Switzerland. The Bank has operated in Macao through an official branch since 2010, when a memorandum of understanding was signed with the Industrial and Commercial Bank of China with the objective of strengthening cooperation between the two banks, which is extended to other countries and regions beyond Portugal and China. In 2011, the Bank formalised a license application for the opening of an official branch in the Popular Republic of China. The Bank also has a presence in the Cayman Islands through BCP Bank & Trust with a type B license. The Bank is available to explore possible opportunities in the Brazilian market, namely in the areas of corporate and trade finance, through partnerships.



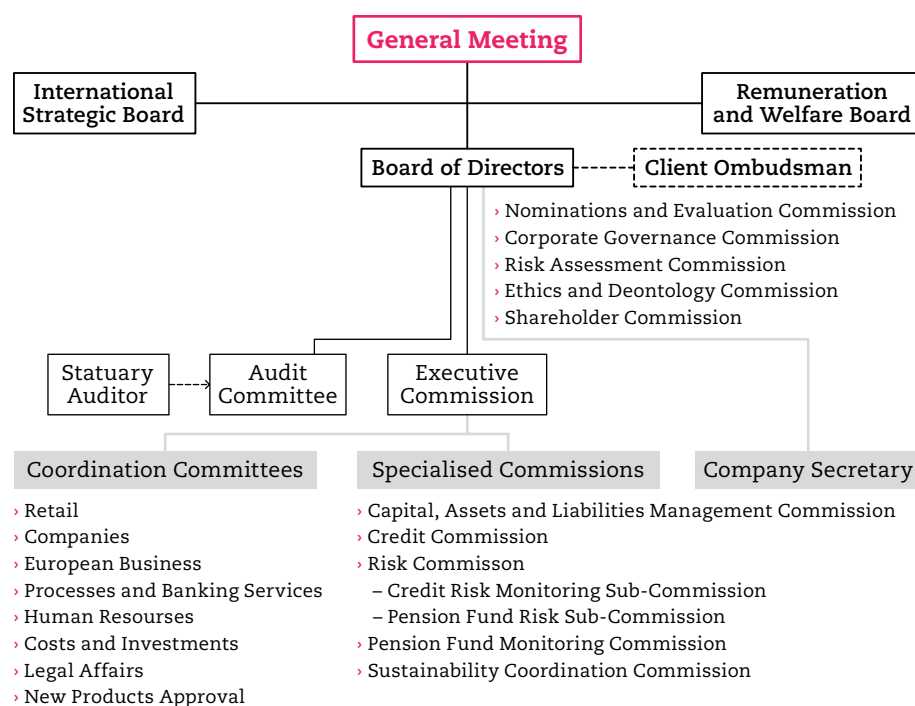
\* Evaluation of Consumer's Satisfaction Office

In Portugal, the bank has a position of leadership and particular strength in various financial products, services and market segments based on a strong franchise of great weight at a national level. The operations in Portugal currently account for 75% of total assets, 74% of total loans and advances to customers and 66% of total customer deposits. The Bank has 2.3 million Customers in Portugal and market shares of 19.1% and 18.1% for loans and advances to customers and customer deposits, respectively.

Based on the motto “We seek to see the world through our Customers’ eyes”, the Bank offers a vast range of banking products and services, concentrated on Retail, through which it provides universal banking services and, supplementary, remote banking channels (telephone and Internet banking services), operating as distribution points. Its mission of ensuring excellence, quality service and innovation are values which make the Bank distinctive and differentiated from the competition. Accompanying the changes in consumer preference for digital banking, the creation of ActivoBank represents a privileged way of serving a group of urban Customers, who are young in spirit, intensive users of new communication technologies and value simplicity, transparency, trust, innovation and accessibility in banking relations.

## Governance Model

The General Meeting of Shareholders of Banco Comercial Português, held on 28 February 2012, approved the amendment and restructuring of the articles of association, which was embodied in the adoption of a one-tier management and supervisory model, composed of a Board of Directors, an Audit Board (only with non-executive members), an Executive Committee (the Bank’s current management body) and Statutory Auditors. An International Strategic Board was also created for the purpose of ensuring the development of the international expansion strategy of the Bank and Group, entrusted with the analysis and reflection on this strategy, and supervision of its evolution and implementation.



## Strategy

In September 2012, BCP presented a Strategic Plan composed of three phases for the next 5 years: i) Strengthening of the capital and liquidity position (underway during 2012-2013); ii) Creation of conditions to ensure growth and profitability (for implementation over 2014-2015); iii) Sustainable growth (from 2016 to 2017). Priorities and strategic objectives (targets) were identified for each of these phases.

Hence, the priorities of the 1st phase, in place from 2012 to 2013, are to achieve comfortable capital ratios, improve the liquidity position and strengthening provisions.

During this period, BCP is undertaking an expressive deleveraging effort, with loans and advances to customers (gross) having declined by 8 billion euros and customer funds on the balance sheet having increased by 3 billion euros. The commercial gap decreased by 13 billion euros between December 2009 and December 2012, the ratio of loans and advances (gross) to customer funds on the balance sheet (loan-to-deposit ratio) fell from 152% in December 2009 to 120% in December 2012. The Bank had redeemed 18.5 billion euros of medium and long term debt by December 2012 and the use of ECB funding declined from 15 billion euros in December 2010 to 13 billion in December 2012, of which 12 billion are LTRO (long-term refinancing operations) with the objective of replacing short-term funding.

The Core Tier 1 ratio increased from 6.4% in December 2009 to 12.4% in December 2012, benefiting from the reinforcement of CT1 by 3 billion euros as a result of liability management operations (2011 and 2012) and issue of hybrid instruments (2012), in spite of the negative impacts of Greece and pension fund and the reduction of RWA by 12 billion euros, arising from the deleveraging process and adoption of internal rating based (IRB) methodologies, notwithstanding the downgrade of ratings. The Bank implemented a Capitalisation Plan reflected in the issue of 3 billion euros of hybrid instruments and a share capital increase of 500 million euros.

In relation to the reinforcement of provisioning, allocations for impairment of the value of 3,282 million euros were carried during the period of 2010-2012. Part of this provisioning effort resulted from inspections conducted pursuant to the measures and actions agreed by the Portuguese authorities in relation to the financial system, under the Economic and Financial Assistance Programme established with the IMF, EU and ECB. Thus, the Special Inspection Programme (SIP) of Banco de Portugal was reflected in the strengthening of provisioning by 381 million euros, while the On-site Inspection Programme (OIP) covering exposure to the construction and real estate development sectors resulted in the strengthening of provisioning by 290 million euros.

During the 2nd phase, the Bank intends to ensure the recovery of profitability in Portugal and the continued development of the business in Poland, Mozambique and Angola. The priority of the 3rd phase is the sustainable growth of net income, with an improved balance between the contributions of the domestic and international operations. At the same time, targets were



announced for 2017: Core Tier 1 above 10%; Net loans and advances over customer funds on the balance sheet (loan-to-deposit ratio) below 105%; Cost of risk lower by 60 basis points; Cost-to-income below 45%; and ROE above 15%.

It is the objective of BCP to create conditions of growth and profitability from 2014 to 2015 (2nd phase).

During 2013, the Bank intends to start implementing initiatives to recover the profitability in Portugal through 3 areas of action: improve net interest income, reduce operating costs and decrease impairment charges. The improvement of net interest income (above 1,200 million euros in 2017, which corresponds to a compound annual average growth rate of 4%) should result from the reduction of the cost of deposits and continued repricing of loans and advances through the recomposition of the mix of the credit portfolio. The objective for operating costs points to an annual reduction of 100 million euros, through scale reduction (decrease of the network of branches by over 40 in 2012-2013 and cutting of staff numbers in 977 until 2013) and administrative reorganisation, consisting of the simplification of the organisation, improvement of processes and optimisation of the commercial network. The forecast result of these actions indicates savings above 30 million euros in 2013 relative to 2011, savings above 50 million euros in other administrative costs in 2013 relative to 2011 and above 70 million euros in the medium term, also relative to 2011. Regarding impairment charges, the implementation of a new credit management model, covering the stages of its granting, monitoring and recovering, should lead to a reduction of the cost of risk to values that are 65 basis points lower in 2017. These actions should result in a recovery of profitability. Return on Equity (ROE) should increase from 5.5% (average adjusted for exceptional items) in 2008-2011 (period of the financial crisis) to values above 15% in 2017.

BCP has a unique international presence focused on key markets characterised by strong growth of GDP and a large population (Poland) or high rates of growth of the population's participation in the banking system (Mozambique and Angola). By the end of December 2012, these three operations represented 40% of the total branch network, 47% of total Employees, 19% of business turnover and 37% of Net Operating Revenues.

In Poland, Bank Millennium has a well distributed network of branches, supported on modern multi-channel infrastructure, reference service quality, high recognition of the brand, a robust capital base, comfortable liquidity and solid risk management and control. The principal initiatives consist of the exploration of new market opportunities in the corporate segment with strong focus on Medium-sized Enterprises and the expansion of consumer credit. Bank Millennium announced the Strategic Plan for 2013-2015 and new targets for 2015: ROE between 14%-15%, Cost-to-income 50%, CT1 above 10% and Loan-to-deposit ratio below 100%.

Mozambique is a market of high growth of GDP, based on natural resources and with rates of expansion of the population's participation in the banking system that are above the regional average. The potential for credit expansion is significant.



## 01 Our Shareholders

Likewise, Angola is also a market of strong growth of GDP, based on the export of oil. However, the contribution of the non-oil sector to the expansion of GDP has been increasing, essentially as a result of the investment in major infrastructure and agriculture. Also in Angola, the rates of the population's participation in the banking system are higher than the regional average.

BCP, under a process of assessment of alternatives in relation to its exposure to Greece, decided to start negotiations in exclusivity, with Piraeus Bank, in order to sell Millennium Bank. Although these negotiations are in due course, no decision was already taken by each parties.

### Financial Information

Millennium bcp's consolidated net income was negative by Euro 1,219.1 million in 2012, compared with a negative amount of Euro 848.6 million posted in 2011. This result was hindered by the accounting of impairment for estimated losses together with the net losses posted by the subsidiary in Greece, in the global amount of Euro 693.6 million. Excluding this impact, consolidated net income was Euro -525.4 million in 2012. At the same time, consolidated net income was also penalised by the impairment and provision charged in the activity in Portugal, in the amount of Euro 1,236.0 million, which includes the reinforcement in impairment charges in 2012, in the scope of the On-site Inspections Programme ("OIP"), in the amount of Euro 290.0 million.

In the international activity, highlights include the favourable performance of Bank Millennium in Poland, excluding the foreign exchange effect of the zloty against the euro, the Banco Millennium Angola and the Millennium bim in Mozambique, which together had a net profit of 236 million euros.

Total assets totalled 89,744 million euros as at 31 December 2012, which compares with 93,482 million euros as at 31 December 2011. Loans to customers (gross) was down by 6.5% to 66,861 million euros as at 31 December 2012, from 71,533 million euros at the end of 2011. The decrease in the loan portfolio, from the end of 2011, was determined by the 9.1% decrease posted by the activity in Portugal. In the international activity, the loan portfolio was up by 1.8%, from 31 December 2011, influenced by the foreign exchange rate effect of the appreciation of the zloty against the euro. Therefore, excluding the foreign exchange rate effect, loans to customers in the international activity reduced in most subsidiaries, despite the growth shown by Banco Millennium Angola and Millennium bim in Mozambique. The evolution of the loans portfolio reflects the decrease in loans to companies (-9.9%) and in loans to individuals (-3.0%), driven by the ongoing process of balance sheet adjustment in order to gradually deleverage the financial intermediation activity. Total customer funds grew 4.6% to 68,547 million euros as at 31 December 2012, from 65,530 million euros posted at the end of 2011, powered by the rise of 5.1% in balance sheet customer funds, from the end of 2011, benefiting from the performance of both customer deposits (+3.9%) and debt securities (+15.0%), reflecting the focus in retention and further increasing stable funding

resources. Simultaneously, off-balance sheet customer funds increase 2.5%, from 31 December 2011, boosted by capitalisation products (+2.9%) and assets under management (+1.6%). The Core Tier I ratio stood at 12.4% in accordance with the Bank of Portugal rules and at 9.8% in accordance with EBA rules (11.9% and 9.4%, respectively, at the end of September 2012), reflecting the positive performance in the fourth quarter of 2012 of both Core Tier I (Euro 57 million in accordance with Bank of Portugal rules and Euro 67 million with EBA rules) and risk weighted assets (that decreased by Euro 1,577 million). BCP shares are listed on Euronext Lisbon and market capitalisation as at December 31, 2011, stood at 1.5 billion euros.

[MILLION EUROS]	2012	2011	Change
Net income	(1,219.1)	(848.6)	n.a.
Total assets	89,744	93,482	-4.0%
Total customer' funds	68,547	65,530	4.6%
Loans to customers (net)	62,618	68,046	-8.0%
Market capitalisation (ordinary shares) <sup>3</sup>	1,478	980	50.8%
N. of customers (thousand)	5,523	5,384	2.6%
N. of employees (thousand) <sup>4</sup>	20,365	21,508	-5.3%
Return on average equity (ROE)	-35.4%	-22.0%	13,4 p.p.
Adjusted basic and diluted earnings per share (euros)	(0.10)	(0.07)	n.a.
Cost to income <sup>1/2</sup>	66.6%	58.6%	8 p.p.
Staff costs / Net operating revenues <sup>1/2</sup>	37.1%	32.1%	5 p.p.
Core Tier I <sup>1</sup>	12.4%	9.3%	3,1 p.p.
Total solvency ratio <sup>1</sup>	12.7%	9.5%	3,2 p.p.

1. According to Instruction no. 23/2011 from the Bank of Portugal.
2. Excludes the impact of specific items.
3. Market value per share adjusted from the capital increase.
4. Number of Employees for all operations, except Poland, which are reported full time equivalent (FTE).



## REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A., has the pleasure in presenting the consolidated report and accounts of the company, regrouping all operations of the Group companies for the year ended December 31, 2012. These consolidated accounts were audited by KPMG.

## 02

Report of the  
Board of Directors

## Macroeconomic Environment

### Global Economic Environment

The persistence of global macroeconomic distortions and the uncertainty relative to the path of economic policy were reflected in a slowdown of world economic growth in 2012, from 3.8% to 3.3%, according to the estimates of the

International Monetary Fund (IMF). During 2013, it is expected that the performance of the world economy will continue constrained by debt reduction in most of the industrialised countries, as well as by the correction of the distortions that affect some of the main emerging economies. Even so, the IMF foresees a modest acceleration of world GDP (3.6%), mainly explained by the prospect of clarification of the monetary and fiscal policy perspectives in the United States of America (USA) and in the euro zone.

The worsening of the sovereign debt crisis led the euro zone into a new period of recession in 2012 which, according to the IMF, should be reflected in a GDP contraction of 0.4%, compared with the growth

of 1.4% in 2011. In this context of deterioration of the economic situation and resurgence of tensions in the financial markets, the risks of disintegration of the euro were heightened, requiring the announcement of additional measures. The beneficial effect of these measures on the confidence of economic agents should contribute to a stabilisation of the economy of the euro zone, which, however, will remain constrained in its capacity to expand due to the fiscal consolidation measures and structural reforms underway.

In the USA, the recovery of economic activity has progressed at moderate pace, though insufficient to allow a sustained improvement of the labour market, leading the Federal Reserve to reinforce the level of accommodation of its monetary policy. During 2013, concerns about the sustainability of public finances constitute the strongest obstacle to a swifter recovery of the American economy.

In 2012, the emerging economies recorded modest growth rates due to the weakening of external demand and, in some cases, the need to correct domestic macroeconomic imbalances. The policies which have been implemented in this group of economies should confer greater resilience to external shocks, which may be translated into a slight acceleration of economic activity in 2013.

#### Global Economic Growth Remains Moderate

Annual growth rate of real GDP [%]



Source: FMI WEO Database (October 2012)

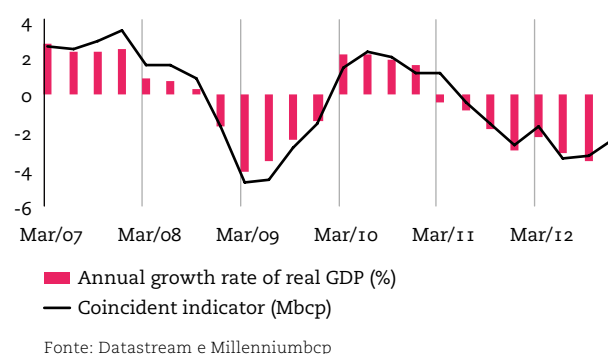
### Prospects for the Portuguese economy

During 2012, the evolution of the Portuguese economy continued to be dominated by the adjustment process taking place under the aegis of the Economic and Financial Assistance Programme (PAEF). Despite being crucial for

the reduction of the high levels of indebtedness and the promotion of the long term potential of wealth generation of the national productive structure, in the immediate term, the mentioned adjustment has exerted a recessive effect of considerable magnitude. The fiscal consolidation measures, added to the reduction of private expenditure as a result of the deterioration in economic and financial prospects, led to a significant cutback in domestic demand, which has been reflected in an expressive contraction of the production levels of the non-tradable sector, in particular construction. In marked contrast, the export sector has shown a notable recovery, benefiting from benign external circumstances and noticeable gains in competitiveness associated, above all, to the decline in unit labour costs. This trend, combined with the strong fall in imports, has enabled an expressive improvement of the external trade balance of Portugal. To summarise, economic activity is likely to have contracted by some 3% in 2012, after the decrease of 1.7% recorded in 2011.

For 2013, it is expected that the recessive context will be maintained, albeit with a lower intensity than that observed in the previous year, in view of the perspective of easing of the rate of contraction of internal demand. Notwithstanding, the economic situation of Portugal remains enshrouded in great uncertainty. Internally, the focus of concern lies on the impact of the enormous rise of taxation on private consumption and investment, in a context where the public expenditure cannot play its traditional role of automatic stabiliser. Externally, the main risks reside in the possibility of setbacks in the resolution of the sovereign debt crisis of the euro zone, which would not only affect foreign demand directed at the Portuguese economy, but would also dictate an aggravation of the financial conditions in Portugal.

Speed of contraction of the portuguese economy stabilizes



## Insurance Sector Environment

The year of 2012 was the second consecutive year of a downturn in the national insurance market. In fact, according to information provided by the Portuguese Association of Insurers, the insurance market achieved a volume of direct insurance premiums and investment contracts of 10.9 billion euros, which corresponds to a 7.1% decline relative to 2011, following the 28.1% decrease in the previous year. At the end of 2012, the weight of the insurance sector in the economy was estimated to be close to 6.4%.

Analysing by business segment, the Life business, having been strongly penalised in the previous year, registered another contraction in the volume of premiums in 2012, achieving a turnover of about 6.9 billion euros, which represents an 8.9% decline relative to the previous year.

Regarding the Non-Life business, 2012 was marked by a worsening of the contraction in this business, in line with the trend initiated in 2011, with the

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most representative lines of businesses of the sector, Workman's Compensation and Motor, having been the most heavily penalised as a result of the current economic climate. As a result, at the end of 2012, the total volume of premiums issued came to 4 billion euros, which represents a year-on-year decline of 3.8%.

With respect to the degree of concentration of the sector, it is important to note the increased market concentration around the five main insurance groups, which at the end of 2012 represented about 66.7% of the total national insurance market, which rose 1.2 pps relative to the same period of 2011. This concentration was mainly due to Life, in which the five main insurance groups represented about 77.7% of total premiums at the end of 2012, 1.9 pps more in comparison to 2011.

With regards to product distribution, in 2012 bancassurance was reinforced in terms of the marketing of Non-Life products, since this distribution channel represented about 14.7% of premiums issued in this business segment at the end of 2012, in comparison with the 13.8% achieved in 2011. In Life, distribution via bancassurance, which is clearly dominant, has lost weight over the last few years (76% at the end of 2012, which represents a 2 pps decrease relative to 2011).

**DIRECT WRITTEN PREMIUMS AND INVESTMENT CONTRACTS – PORTUGAL MARKET**

(MILLIONS OF EUROS)

Lines of Business	2012	2011	2010	Var. 12/11	Var. 11/10
Life	6,923.9	7,596.4	12,171.8	-8.9%	-37.6%
Non-Life	3,986.0	4,145.1	4,168.5	-3.8%	-0.6%
<b>Total</b>	<b>10,909.9</b>	<b>11,741.5</b>	<b>16,340.2</b>	<b>-7.1%</b>	<b>-28.1%</b>

Source: Portuguese Association of Insurers

It is important to mention that, in spite of the economic downturn in Portugal, the insurance sector has reinforced its levels of financial solidity resulting in a solvency ratio that is much higher than the minimum requirements set by the regulator, thus benefiting from the positive impact stemming from the recovery of financial markets.

**Life Business**

At the end of 2012, the Life business reached a turnover of 6.9 billion euros, corresponding to an 8.9% decline relative to the previous year, with all the business lines registering decreases in the volume of premiums issued.

Following a first semester in which the volume of premiums fell about 29%, strongly conditioned by competition from the banking sector in its efforts to capture savings via time deposits at attractive interest rates, the second semester was characterised by the recovery of the Life insurance market, mainly through capitalisation products. Retirement Savings Plans, in line with the previous year's trend in which the tax incentives associated with this type of products were eliminated, registered the greatest decline in this business segment, with the volume of premiums issued falling 14% relative to 2011, resulting in a decrease of its relative weight in the life insurance portfolio to about 16%.



**DIRECT WRITTEN PREMIUMS AND INVESTMENT CONTRACTS – PORTUGAL MARKET** [MILLIONS OF EUROS]

Lines of Business	2012	2011	2010	Var. 12/11	Var. 11/10
Savings (includes Unit-Linked)	4.889,1	5.361,7	7.981,2	-8,8%	-32,8%
Retirement Savings Plans	1.122,5	1.303,6	33.251,3	-13,9%	-59,9%
Risk and Annuities	912,3	931,1	939,3	-2,0%	-0,9%
<b>Total</b>	<b>6.923,9</b>	<b>7.596,4</b>	<b>12.171,8</b>	<b>-8,9%</b>	<b>-37,6%</b>

**Non-Life Business**

The volume of Non-Life insurance premiums registered a decrease of 3.8% relative to 2011, reaching the total value of 4 billion euros.

Positive attention should be drawn to the premiums issued in the Health business, which positioned itself as one of the insurance sector's business lines that continues to grow, thus confirming that the access to health care in a private context is increasingly a need felt by the market.

In contrast, two of the most representative lines of business in the Non-Life segment, Motor and Workman's Compensation, registered decreases of 5.4% and 10.6% respectively, which in the case of Workman's Compensation has been a recurring trend over the last few years, reflecting the pressure on prices, the contraction of economic activity and the increase in the unemployment rate.

**DIRECT WRITTEN PREMIUMS – PORTUGAL MARKET** [MILLIONS OF EUROS]

Lines of Business	2012	2011	2010	Var. 12/11	Var. 11/10
Motor	1.569.4	1,659.0	1,671.9	-5.4%	-0.8%
Fire	767.0	768.8	765.3	-0.2%	0.5%
Workman's Compensation	555.9	621.9	645.9	-10.6%	-3.7%
Health	552.8	540.9	532.2	2.2%	1.6%
Personal Accidents	153.0	171.2	178.4	-10.6%	-4.0%
Other	387.9	383.4	374.7	1.2%	2.3%
<b>Total</b>	<b>3,986.0</b>	<b>4,145.1</b>	<b>4,168.5</b>	<b>-3.8%</b>	<b>-0.6%</b>

Source: Portuguese Association of Insurers

**Millenniumbcp Ageas – Key Events 2012**

The year of 2012 proved once again to be a particularly demanding year, due to the degradation of the unfavourable circumstances, particularly in the economic sphere, which affected the previous year.

Following the strategic review conducted at the end of 2011 in response to a change in the surrounding environment, which had a considerable impact on an operation such as Millenniumbcp Ageas, 2012 was the first year of development and implementation of the new growth strategy, focused on bancassurance, as the core identity of the organisation, but channelling efforts and energy into Non-Life in the individual and SME segments, without neglecting the Life business, the main source of revenue of the organisation.

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The year under analysis demonstrated that the risks identified in the strategic review of the previous year materialised, but it also demonstrated that the path adopted was the right one, whose most visible results were the above-market growth of the Non-Life business, the reinforcement of the leadership in Life as measured by the volume of mathematical provisions, the sound operating performance, the reinforcement of solvency levels, and a net income of 111 million euros, 204.4% up on 2011.

Amongst the various events that marked the activity of 2012, the following were of particular relevance:

- › The launch of the new motor insurance concept, embodied in the Móbis solution, was the first step of the strategic refocus on the marketing of Non-Life products in the bancassurance channel. Móbis was the corollary of an important investment in Research & Development of a new range of products for modern bancassurance, and incorporated an important series of innovations at the level of product structure, subscription process, price and communication policy, having been responsible for a 45% growth in sales of motor insurance in the various distribution channels of Millennium bcp.
- › The new approach to the SME segment initiated in 2011, through the Business bancassurance channel, has already delivered tangible results in 2012, having more than doubled the volume of Non-Life sales to about 3 million euros. This is a strategic decision, in a segment in which the prospects of growth seem quite attractive, given the potential penetration in the Millennium bcp customer data base still to be achieved.
- › In the Non-Life distribution channel, *Ocidental – Agentes & Corretores*, launched at the start of 2008, supported by a network of professional brokers, approximately 4 million euros of new business was able to be captured, in spite of the difficult economic context, representing a year-on-year increase of 98%.
- › In Médis, in spite of an increasingly challenging market climate, a 1.2% growth in the volume of premiums was registered in relation to the previous year. The partnerships between Médis and other Insurers resulted in a volume of premiums of 13.3 million euros, 13% up on 2011.
- › As important as the growth of the business was the strategic focus on the maintenance of the existing portfolio, with greater emphasis having been placed on retention, through the development of several customer loyalty initiatives and plans. In capitalisation Life insurance, for example, a decrease in surrender rates relative to 2011 was achieved, with the highest fall recorded in Retirement Savings Plans (“PPR”), which enabled the strong decline in new pay-ins, registered across the entire market, to be offset.
- › In 2012, Pensõesgere kept the leadership in the pension fund market with a share of 29.1%. The assets under management reached 4,190 million € that reflects an increased of 8.4%, in line with the market. Despite the transfer of 2.7 million Euros of assets for Social Security in the end of 2011, the net income for the year stood at 3.4 million Euros, 24.8% less than that the recorded in 2011.
- › The satisfaction index of the Millennium bcp distribution network improved once again relative to previous years, reflecting the efforts made by the organisation as a whole in consolidating the customer-oriented service culture.

- › In 2012 two new measures to assess customer satisfaction were implemented. The first measured the efficacy and courtesy of the Contact Centres of Ocidental and Médis. An international standard scale was chosen which allows comparisons to be made with other companies and industries, both national and international. The results obtained in 2012 were excellent: between 54% and 55% in efficacy of service, and 70% in communication quality. The second was a survey of customers' satisfaction with Non-Life claims management, assessing the various stages of the process, starting with reporting, efficiency and effectiveness of the call centre to the expert surveying process and general claims handling. The results were also generally good.
- › Regarding management of the Life Business, 2012 was marked by various strategic projects aimed at improving operating processes, increasing the quality of the service provided to customers, enhancing productivity and cutting costs. The launch of a new IT system for capitalisation products, the implementation of a new life risk claims management model, partly through an outsourcing arrangement, based on a totally innovative workflow system and the implementation of a customer request management system, providing greater control of operating risk, are noteworthy.
- › In 2012 the necessary foundations for a sustainable growth strategy were laid in the Non-Life platform, supported by a solid and robust business model, capable of overcoming the demanding economic context and of strengthening, over the next few years, the competitive position of Millenniumbcp in the Portuguese insurance market. Recurring portfolio analyses were performed, new price policies were defined through the use of state of the art technologies, portfolio reorganisation measures were promoted, and service levels were improved. In parallel, processes were also automated, aimed at achieving a continuous and sustainable improvement of the levels of efficiency and effectiveness of the service.
- › In claims management, anti-fraud policies were implemented, namely the creation of an irregularities detection feature in the claims management system and, for the first time, the application of the closed file review process in the material damage claims of the Motor business.
- › The optimisation and consolidation of several processes also enabled Médis to achieve efficiency gains and to free up resources for investment in other areas such as cost control and service level improvement, without jeopardising the quality of the service provided, clearly recognised by customers. It was once again possible to maintain the level of premiums in standard Médis products for individual customers. This was due to the work that has been carried out over the last few years relative to the control of the use of premiums and of costs, in parallel with intervention in product design. A claims ratio of less than 70% is indicative of the success of the adopted measures.
- › The management of the existing partnerships with the Médis Network Providers, which in many cases date back over many years, is based on the provision of a superior quality service and on the permanent monitoring and efficiency of the care provided, taking into account the necessarily limited financing resources. In 2012, the conclusion of the technological

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renewal of the IT platform that supports the relationship of Médis with its health care providers through the Médis website on the Internet is noteworthy. In permanent collaboration with the Health Care Providers, areas for improvement were identified in which it was possible to obtain significant cost reductions, in order to guarantee greater sustainability and equity in the management of the integrated Médis health care provision system.

- › Regarding the management of investment portfolios, the Life offer was essentially composed of the latest generation of products launched following the onset of the financial crisis, with guaranteed capital and intermediate remuneration rates subject to market conditions. The transition to a held to maturity accounting component of part of the exposure to Portuguese public debt enabled maintaining and even, at certain times, increasing the control of the volatility of the profit and loss account and of solvency. On the other hand, it was also possible to fully benefit from the strong reductions in the risk spreads of domestic assets, both in terms of public debt and corporate debt issuance, which resulted in a substantial improvement of the revaluation reserve, as well as a consolidated mark-to-market performance of Life above two digits in the case of classified assets such as available for sale. The portfolio of assets representative of the mathematical reserves maintained a strong preference for fixed rate instruments, with reinvestment in shorter maturities and exposure to treasury bills and commercial paper of national companies, where it was possible to achieve interesting remuneration rates.
- › During 2012, in the risk management and actuarial areas, the following activities are particularly noteworthy: The Risk Officer function was added to the organisational structure; the Own Risk and Solvency Assessment (ORSA) was prepared for Millenniumbcp Ageas, within the regulatory scope of the Solvency II regime, whose main objective is the global assessment of risk and solvency, based on all the existing material risks at the business level, ensuring that the solvency levels, over a time horizon of three years, are monitored on a continuous basis; Business Process Management (BPM) was reviewed and updated, with particular emphasis on the main internal processes and associated documentation, with a view to strengthening confidence in the operating systems of Millenniumbcp Ageas in order to allow for the timely detection of failures or shortcomings in the processes and activities of the operating structures; a study was undertaken with a view to reviewing the investment allocation strategy in force, with the objective of defining a framework of limits in terms of asset class, geographic region, sector or rating, in both aggregate form and by autonomous fund; in addition, the “Pillar III” project was developed and monitored with a view to automating processes associated to the calculation of best estimate technical provisions, and of capital (SCR) and reporting (QRT) needs within the scope of the Solvency II regime.
- › In terms of information systems, a number of new solution projects were developed and existing solutions were improved and updated, in line with a continuous operating and applicational efficiency improvement process in

terms of service levels, cost optimisation and constant adaptation to business strategies. Due to its impact on the value chain, the renewal of the communication and documentation directed at customers and agents, the optimisation process of the data structures and information architectures supporting the requirements of Solvency II, and the migration of the capitalisation products portfolio to the new Life management system are worthy of mention. It is also important to highlight the implementation of the new production system, based on a more robust operating management model which will enable laying the foundations for innovation in terms of the development of Life products, and the start of the implementation of the IT area of the Solvency II project. Concerning infrastructures, particular note should be made of the continuous investment in endowing Millenniumbcp Ageas so that, in the event of a disaster, it is prepared for business continuity.

- › In the area of human resources, a number of measures were implemented with a view to launching initiatives to mitigate the negative effects of the current economic climate, in order to maintain the high levels of employee motivation, creating the conditions for Millenniumbcp Ageas to continue to proactively and effectively pursue the strategic objectives defined within the scope of the new strategic agenda. Among the initiatives launched in 2012, the restructuring of the Complementary Retirement Plan, the staff rejuvenation plan to prepare the company for future challenges and, within the scope of Occidental's 25th anniversary commemoration initiatives, the approval of the premises modernisation plan, which will be implemented until the end of the 1st semester of 2013, aimed at optimising the use of the work space by making it more functional and attractive, were of particular importance. Millenniumbcp Ageas closed the year of 2012 with 475 employees, 11 more than at the end of the previous year. The average age remained at 43 years. Female employees represent 54%.
- › Once again, in 2012, the service excellence and the confidence that consumers place in the Médis brand were confirmed by the distinctions received: "Superbrand" for the 7th consecutive time; "Trusted Brand" for the 4th time, taking on added importance, since it obtained its highest result ever (60% of votes) and the "Brands that Mark" distinction awarded for the first time.
- › In 2012, Occidental Seguros and Occidental Vida, founding companies of what is today Millenniumbcp Ageas, completed 25 years of activity. Several initiatives were conducted, symbolically celebrated with an event that was attended by all stakeholders (shareholders, founding customers, business partners, distributors, suppliers and staff of both Companies). The Occidental logo was also adapted to the symbolism of the date. More than an appeal to the past which is a source of justifiable pride, the 25 years of the Millenniumbcp Ageas Insurance Group served essentially to celebrate a future that, in light of a renewed strategic agenda, shall maintain the company faithful to its corporate DNA, which has resulted in **leadership, innovation and profitability**.

In spite of the economic climate, 2012 was a very positive year: Millenniumbcp Ageas grew above the market rate in Non-Life, obtained good technical results,

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improved its operating performance, managed to maintain costs under control, registered a significant increase in results, strengthened the solidity of its balance sheet and its main brand received awards from prestigious organisations. Millenniumbcp Ageas was sustained, once again, by the dedication of Millennium bcp and the unconditional support of Ageas.

## Mission, Values and Strategy

### Mission

To be the reference *bancassurer* in the Portuguese insurance market, leveraging competitive advantages to other high-potential channels, maximizing know-how developed in permanent cooperation with Millennium bcp and capitalizing on Ageas' competencies, through the distribution and management of a full range of protection, pensions, savings & investment solutions to its customers, supported by people and processes able to deliver service excellence.

### Values

The Group wants to be recognized by its stakeholders through a set of four values.

<b>Solidity</b>	We are a long-term partner, because the credibility and consistency are part of our corporate identity, and we project the future upon it. We manage risks prudently, once that is the identity matrix of the business where we operate on.
<b>Responsibility</b>	We listen, understand and respond to our customers, taking risks and returning to society the necessary stability to the common progress.
<b>Innovation</b>	We have initiative and entrepreneurial spirit. We have permanently in mind that the best and most appropriate solutions are those that our customers value, because it is through the value Customers give them that we generate value to Society.
<b>Transparency</b>	We are frontal and we act with transparency in all our activities.

These values are supported by a set of behaviours and business practices which are assumed on a day-to-day by all the organization.

### Strategy

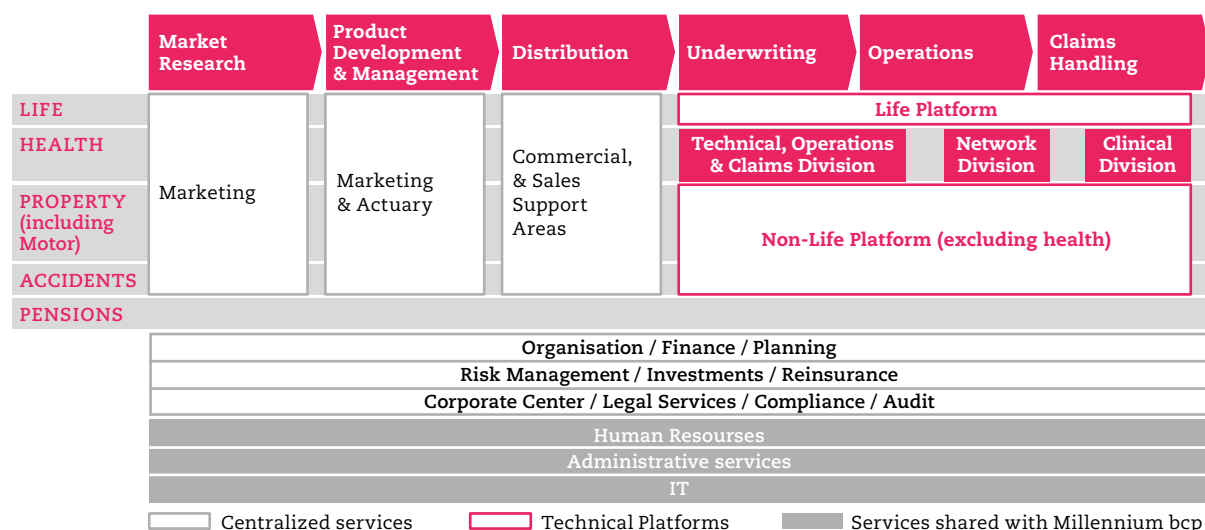
The strategy of the Millenniumbcp Ageas Group is based on 7 pillars, of which derives a set of objectives.



Strategic Pillars	Objectives
Financial Solidity	<ul style="list-style-type: none"> <li>• To be market leader in business volume</li> <li>• Ensure profitability drivers defending the product margin while balancing the portfolio</li> <li>• Maintain comfortable solvency levels</li> </ul>
Protection of current franchise	<ul style="list-style-type: none"> <li>• Actively manage investment portfolios, mitigating risks and maximizing return</li> <li>• Retain the portfolio, satisfying and maintaining customers;</li> <li>• Ensure low combined ratios, in line with international best practices</li> </ul>
Growth in bancassurance through Millennium bcp	<ul style="list-style-type: none"> <li>• Grow in stand-alone sales risk products, especially in Non-life but also on Term-life products</li> <li>• Permanently deliver an innovative product offer, competitive and adjusted to the needs and expectations of the banking channel, whether individuals or companies</li> <li>• Operate simple and efficient processes</li> </ul>
Develop new channels	<ul style="list-style-type: none"> <li>• Promote a balanced and profitable portfolio growth beyond Millennium bcp channel</li> </ul>
Quality of Service	<ul style="list-style-type: none"> <li>• Assure excellence of service levels</li> </ul>
Mitigate operational risk	<ul style="list-style-type: none"> <li>• Minimize exposure to operational and financial risk.</li> </ul>
Ensuring the involvement and accountability of Employees	<ul style="list-style-type: none"> <li>• Develop skills and competencies</li> <li>• Encourage self-development and accountability as a mean of increasing engagement with the Company and enhancing career development.</li> </ul>

## Organisational Structure

The continuous business rationalisation process is the key success factor for obtaining operational synergy and economies of scale whether in technical areas – Production, Claims and Reinsurance – or back-office – Organisation, IT systems, Administrative, Asset Management, Financial, Human Resources, Legal Services, Internal Audit and Compliance.





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Report of the  
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2012 was a challenging year for our marketing and commercial areas. Following our strategic commitment based on strong growth on Non-life, in parallel with the need to sustain our solid position on Life, Millenniumbcp Ageas set up high objectives on premium volume, cross-selling and profitability. These targets, in a more severe than expected economic downturn, brought big challenges in what concerns retaining and acquiring new business.

Implementing this strategy demanded the development of new solutions, both on product and service, taking advantage of key market opportunities for the different distribution channels. On bancassurance, our main distribution channel, Millenniumbcp Ageas invested strongly on lines of business with lower penetration on bank client database, such as Motor and SMEs.

Following last year trend, stand alone sales have assumed an increasing weight on new sales, not only due to the reduction of credit sold but mainly by a strong focus on selling risk insurance products through the bank commercial network. On Health, where there was still a slight market growth, the strategy was to leverage the value proposition of our brand – Médis – a true reference on the Portuguese market in all distribution channels.

On associated sales, the focus was to increase cross-selling of insurance products leveraging on bank events through improved and integrated sales processes focusing on client convenience. It should be highlighted the increase of penetration rate on life and household insurance linked to mortgages.

As a result, in a year where non-life market decreased 3.8%, Millenniumbcp Ageas has recorded an increase of 0.8% of gross written premiums allowing a overall market share growth.

On investment products, both Unit-linked and Savings, have been affected by the Bank priority to reduce loan-to-deposit ratio, increasing balance sheet resources. On Unit-linked the regular launch of a competitive offer allowed us to capture a strong share of maturities along the year. On Savings, the focus was to prevent higher level of redemptions, which was particularly challenging where market conditions were more adverse due to higher interest rate environment and lower tax incentives. At the end of the year redemption rate on Savings had reduced on overall saving products.

During 2012 the “New Life Offer” project was conducted designing new products for Life-risk, Retirement, Investment and Savings. As a result, offerings in 2013 will include new solutions targeted for different marketing segments with strong focus on innovation through new value added coverages and improved sales and underwriting processes, supported by a strong communication push.

The launch of the new product for motor insurance was a major milestone to achieve our ambition on standalone risk sales. The new product – Móbis – was a result of a deep internal analysis and market research. It included innovative coverages, a streamline simulation and underwriting process and a more granular pricing according to risk profiles. The launch was supported by a focused internal communication campaign, with high visibility on Bank branches and the development of new monitoring tools allowing a more



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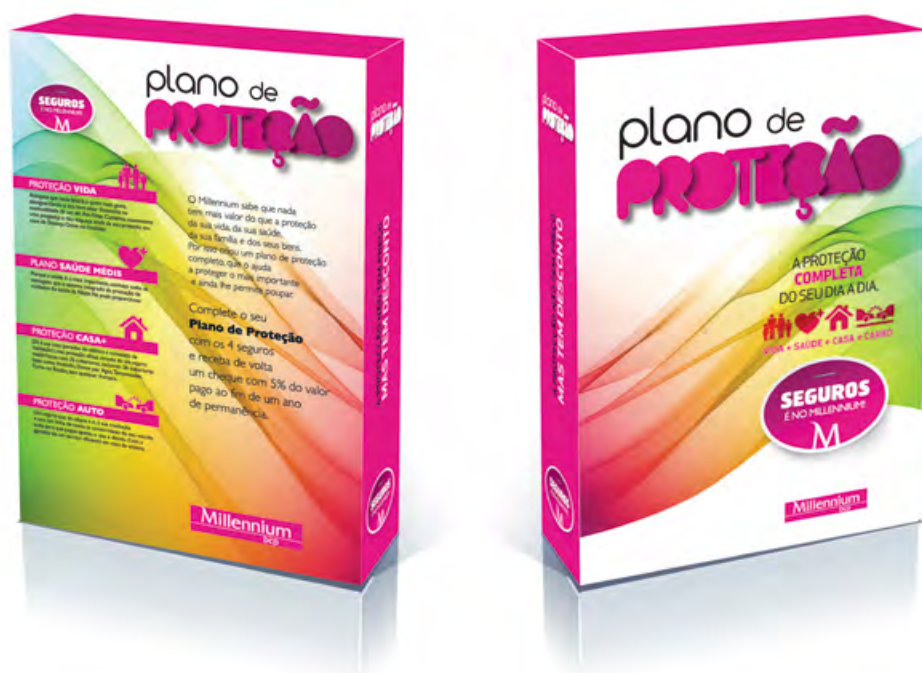
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frequent and comprehensive commercial performance analysis. As a result, Millenniumbcp Ageas achieved a sales growth of 45% comparing with 2011, with a growing trend which achieved the sales peak on last quarter.

In Health, there were two Médias multi-media campaigns across all distribution channels. Both campaigns were developed according to the new communication headline “Qual é o seu Plano? Tenho um Plano tenho Médias” (“What is your plan? I have a plan, I have Médias”). At the same time, multiple internal communication campaigns were implemented in branches and other Médias distribution partners.

Results were quite encouraging and contributed to further reinforce Médias brand awareness – that ranks in the Top 4 of insurance companies. Furthermore, in 2012, Médias has once again been distinguished with three prestigious awards – “Marca de Confiança” (“Most Trustworthy Brand, with 60% of the votes, the most significant result ever achieved), “Superbrand” and “Marca que Marca”

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(“Brand that Brands”). These awards are a clear statement – the Médis brand name is an undisputed reference in the health insurance business.

Communication strategy has been developed on the “faz bem à saúde”/“is good for you” concept. This statement has been gaining importance in the last few years with more and more activities being dedicated to life style and well being values – like the sponsorship of Maratona Clube de Portugal (that has set up three running competitions in 2012) and the one of APCOI – Associação Portuguesa Contra a Obesidade Infantil (Portuguese Association Against Child Obesity). Wellbeing values have also been the underlying concept of some internal corporate social responsibility initiatives.

In 2012, Médis had very good results both on marketing and sales. During the campaign period, monthly sales in Millennium bcp reached 1.300 clients. The other Médis distribution agreements sales grew 13% on gross written premiums. Channel innovation was also a reality to point out. Features like full online underwriting were introduced in the Bank website whole on Médis website service improvement functionalities were implemented.

To reinforce cross-selling practices, several campaigns were launched, like the “Protection Plan” campaign in the first quarter, including special pricing conditions for clients buying four key protection insurance products (Life-risk, Health, Motor and Household) or the summer campaigns to sell home contents coverage on already existing homeowners’ policies.

In the corporate segment (“Empresas”), the bancassurance model was further consolidated, with a major focus on SME. “Bancassurance Negócios” is a joint approach to Bank Clients through an Agents & Brokers network that brings additional value to the sales and after sales processes. Growth perspectives are optimistic given the current penetration rate in the Bank Client base. The conditions that were created in 2012 regarding service offerings and working model for the channel, are further reasons to anticipate good and sustainable performance results.

Current state analysis underlines important challenges in loyalty and client retention. Working on this assumption, several activities targeting to bring down cancellations have been launched in 2012. An attrition model for Média and Motor has been developed with the bank, a win-back operation has been setup (direct contact and through branches), all communication outputs to clients have been reviewed and client interactions have increased in number, quality and sense of opportunity across different means and communication channels. Following the above initiatives, in business areas like Health and Term Life, there were already positive results on cancellations rate control.

Millenniumbc Ageas has shown a steady growth in the Non Life business in all distribution channels. This is a clear indicator of the company's vitality and its proven strategic insight and ability to build a successful future.

## Financial Review

The analysis of the production volume of the Group and of the insurance market includes investment contracts which, in accordance with the IFRS, are not recorded as insurance premiums, namely Unit-Linked products (UL).

In 2012, Millenniumbc Ageas registered a decrease of 23.6% relative to the previous year, corresponding to a contraction greater than that of the market, whose volume of premiums decreased by 7.1% over the same period. The Life business, penalised by the lower demand for investment products and retirement solutions, registered a decrease in the volume of premiums of 28.7%, while the Non-Life business, in contrast to the performance of the market, grew in volume of premiums by about 0.8%, which compares to a market contraction over the same period of 3.8%. With a volume of direct insurance premiums of 991 million euros and a total market share of 9.1%, Millenniumbc Ageas has positioned itself as the third largest insurance group in the national insurance market, maintaining market leadership in terms of Life mathematical provisions.

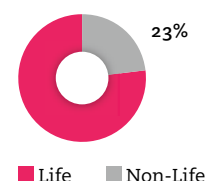
In the Pension Funds business, the year of 2012, in comparison to the previous year, was marked by an increase of 8.4% in the volume of assets under management, in line with the behaviour of the national sector, reaching 4,190 million euros. Pensõesgera has thus remained as the isolated leader in the national pension funds market, and even reinforced its market share by 0.9 percentage points, reaching 29.1%.

## Life Business

### Direct Insurance Premiums

The Life business achieved a total value of direct insurance premiums of 763 million euros, corresponding to a decrease of 28.7% relative to the same period of 2011. The lower demand for investment and retirement solutions contributed to the registered decline, with Unit-Linked products, in spite of the volume of

Structure of Direct Insurance Premiums





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premiums placed of 452 million euros, having decreased by about 38% year-on-year, while at the same time savings products, in line with the trend of the sector, were also penalised with declines of 23% in RSP products and 16% in other Savings products, reflecting the decline in saving capacity associated to the liquidity crisis in the economy.

The Risk and Annuities business line, after a detrimental year of growth, registered a volume of premiums sold of 173 million euros in 2012, which represents an increase of 5.3% relative to the same period of 2011, which was instrumental in view of the profitability associated to this type of products. Millenniumbcp Ageas remained as one of the main operators in this business line, with a market share of 18.9%, corresponding to the 2nd position in the national insurance ranking.

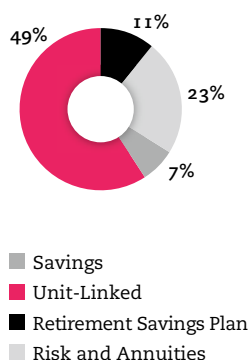
## EVOLUTION OF DIRECT INSURANCE PREMIUMS (THOUSANDS OF EUROS)

Line of Business	2012	2011	2010	Var. 12/11	Var. 11/10
Savings	52,565	62,773	432,504	-16.3%	-85.5%
Unit-Linked	451,589	732,119	585,708	-38.3%	25.0%
Retirement Savings Plan	86,254	112,081	519,544	-23.0%	-78.4%
Risk and Annuities	172,558	163,842	185,744	5.3%	-11.8%
<b>Total</b>	<b>762,966</b>	<b>1,070,815</b>	<b>1,723,501</b>	<b>-28.7%</b>	<b>-37.9%</b>

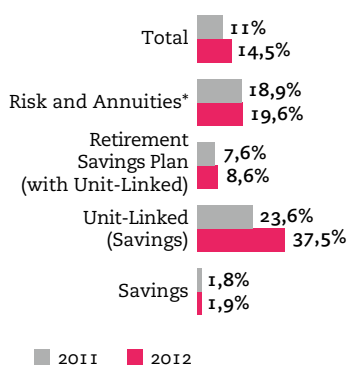
It should also be noted that one of the strategic priorities defined in 2012 consisted in the capacity to retain resources under management, an initiative whose success was materialised in the positive evolution of the volume of provisions under management registered by Millenniumbcp Ageas, which also enabled it to reinforce its market leadership in terms of mathematical provisions, with a market share of 26.1%.

Regarding the volume of premiums, Millenniumbcp Ageas maintained the third position in the national ranking of the Life insurance market, achieving a market share of 11%, which still represents a decrease of 3.5 percentage points relative to the same period of the previous year.

The different performances achieved in the various lines of business, with growth in risk products and less volume of sales in financial products, resulted in significant changes in the structure of the Life premium portfolio in 2012 relative to the previous year. In fact, the Risk and Annuities products reinforced their weight in the total portfolio, from 15% at the end of 2011 to 23% at the end of 2012. In contrast, in 2011, 68% of the total Life portfolio was composed of Unit-Linked products, which fell to 59% in 2012, with the other investment products maintaining their relative weight unchanged.

Structure of the Life  
Insurance Premium  
Portfolio

## Evolution of Life Market Share



(\*) Not considering the extraordinary effect of the surrender of the Annuity policy

## Technical Analysis

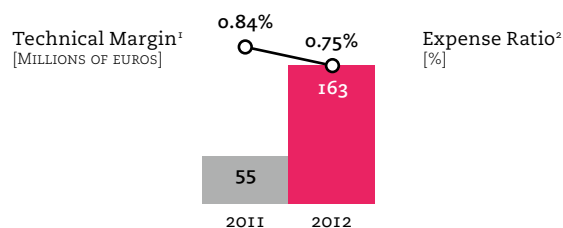
The technical margin of Life business, before allocation of administrative costs, came to 163 million euros in 2012, corresponding to a remarkable recovery relative to the previous year, period in which the technical margin was negatively influenced by non-recurrent factors related with the evolution of financial markets, which led to the recording of impairments and capital losses on assets such as Greek sovereign debt and Millennium bcp shares. Excluding this non-recurrent effect, the technical margin would have been 159 million euros in the previous year.

The achievement of an expense ratio of 0.75%, 0.9 percentage points below that of the previous year, is indicative of the growing concern of the company with decreasing operating costs, which, combined with the growth of the technical margin, demonstrates the careful and appropriate management which has allowed the adverse effects of the macroeconomic environment to be overcome.

The greatest relative contribution to the results of the Company continues to be rendered by Risk and Annuities products, the profitability of which is based on rigorous subscription policies and practices and a higher capacity to control costs, as confirmed by the reduction of claims in 2012 relative to the previous year.

The strong positive contribution of financial products to the technical margin is also particularly noteworthy, influenced by the recovery of the capital markets which permitted the mathematical provisions to be increased.

### Technical Margin versus Expense Ratio



1) Before allocation of administrative costs.

2) "Life operating expenses" / "Life assets under management (year average)".

## Pension Funds

### Market Evolution

The year of 2012 in the pension funds market was clearly earmarked by the recovery of the volume of assets under management, which since 2007 only took place in 2009 and to a lesser extent. Therefore, following a sharp reduction of 32.8% in assets under management in 2011, as a result of the transfer to Social Security of the liabilities associated with pensions as laid down in the social security scheme contained in the collective regulation of the banking sector, an increase of 8.7% is always noteworthy if we consider the current climate of crisis and economic recession.

The pension plans of the insurance sector underwent changes during 2012, in compliance with the collective agreement negotiated at the end of 2011. This process involved the closure of the defined benefit pension plans, whose entry to new members has been closed since 1995, with the conversion of past liabilities into the initial value of the defined contribution pension plan with the

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designation of IRP “Individual Retirement Plan”, which will cover the contributions of all employees progressively until 2015. Pensõesgera revised the contracts of the insurance sector under its management, namely that of the Millenniumbcp Ageas Group in which one went beyond the contractual rules established and, in addition to IRP, a new defined contribution pension plan was created which complies with the necessary conditions for attribution of the “Certificate of Responsibility for Retirement” (CERR).

### Pensõesgera Activity

Millenniumbcp Ageas operates in the pension fund market through the management company Pensõesgera, basing its activity on the quality of the information provided, permanent follow-up and timely response to Customer requests, having in 2012 maintained its position of leadership in the pension fund market.

### Especialists in Pension Funds since 1987



#### Horizonte Segurança

Risk: medium-low  
0% shares  
Time horizon:  
medium



#### Horizonte Valorização

Risk: medium  
25% – 35% shares  
Time horizon:  
medium-long



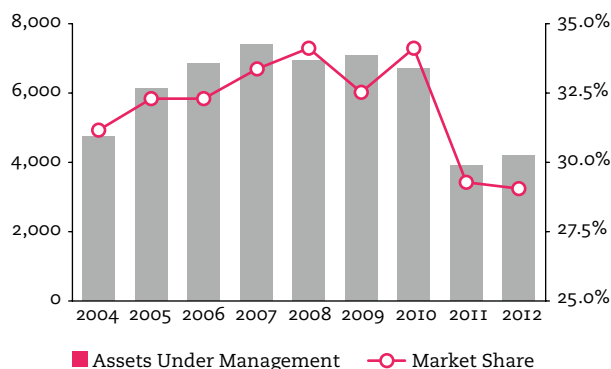
#### Horizonte Valorização mais

Risk: medium-high  
40% – 55% shares  
Time horizon: long

At the end of 2012, Pensõesgera had 4,190 million euros of assets under management, which represented an increase of 8.4% relative to 2011, in line with the growth of the market, which came to 8.7%.

### Total Assets Under Management and Market Share

[MILLIONS OF EUROS]



Pensõesgera maintains its market leadership in the Pensõesgera Funds market with a market share of 29.1%, in line with the value of 2011.

At the end of 2012, the total volume of assets under management by Pensõesgera was distributed over 26 closed funds, 4 open-end funds and 5 open-end Retirement Savings Plan funds.

Total assets under management relative to the 26 closed funds came to 4,026 million euros, which corresponded to an increase of 313 million euros relative to 2011, a similar value to that of the contributions with the returns generated having corresponded to roughly the amount of pensions paid.



Open-end funds continued to be those with the greatest dynamic, having grown 12.7% and the volume of assets under management reached 126.8 million euros.

Pensõesgere maintains the offer of open-end funds with different risk profiles, allowing its Associates and Participants to choose the appropriate financing for their pension plans, according to their risk profile and the time horizon of the liabilities.

In spite of the overall median performance and the performance of some investment profiles, of the funds managed by Pensõesgere, being below the median of the market, the performance values were nevertheless very interesting. However, if one considers 3-year values, in a universe of 8 of the most representative pension fund management companies in the market, the 3.8% median return of Pensõesgere is at the level of the upper quartile and in terms of the risk/return ratio, at 0.9, it is in second place.

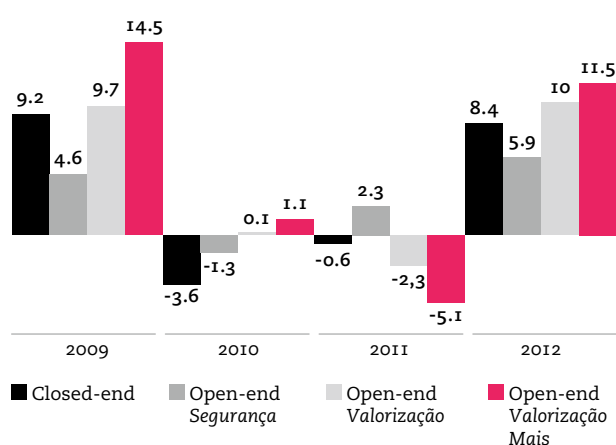
The value of the assets managed under Retirement Savings Plan funds reached 37.2 million euros at the end of 2012, 1.4 million euros less in comparison to 2011, indicating a closed portfolio in which many Participants can repay without penalties. However, the volume of redemptions declined relative to previous years and was almost absorbed by the increase in value of the funds.

Income from provision of services came to 8.3 million euros, representing a reduction of 26.7% in comparison to 2011, less than the reduction in assets under management.

Operating costs came to 4.1 million euros, corresponding to a decrease of 25.4%, in line with the reduction in income.

It is also important to mention that, in spite of the transfer of 43.0% of assets (2.8 billion euros) to Social Security, net income for the year only fell 24.8% relative to 2011, which came to 3.4 million euros.

Annual Return Rates of Pensõesgere Pension Funds [%]



<b>PENSÕESGERE</b> (THOUSANDS OF EUROS)	<b>2010</b>	<b>2011</b>	<b>2012</b>
Services Rendered	11.263	11.141	8.253
Net Income	4.847	4.516	3.398
Shareholders' Equity	21.802	18.733	23.242

Shareholders' equity, as at 31 December 2011, came to 23.2 million euros, corresponding to an increase of 24.1% as a result of there having been no distribution of profits or of reserves during 2012.

The average return on equity of Pensõesgere declined about a third of its value to 16.2% as result of the increase in shareholders' equity. However, in return, the Solvency Margin increased by 410% in 2011 to 474% in 2012.

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## Non-Life Business

## Direct Insurance Premiums

In 2012, Millenniumbcp Ageas achieved a volume of direct insurance premiums of 228 million euros in Non-Life, registering an increase of 0.8% relative to the previous year, counter-cyclically to the national insurance market, which contracted 3.8% over the same period, conditioned once again by the poor performance of our economy and strong competitive pressure among operators.

## EVOLUTION OF DIRECT INSURANCE PREMIUMS (NON-LIFE BUSINESS) [THOUSANDS OF EUROS]

Line of Business	2012	2011	2010	Var. 12/11	Var. 11/10
Motor	21,529	21,727	22,552	-0.9%	-3.7%
Workman's Compensation	7,167	6,186	6,088	15.9%	1.6%
Fire and Other Damage	44,504	42,404	39,787	5.0%	6.3%
Health	134,758	134,604	132,714	0.1%	1.4%
Personal Accidents	14,054	13,868	13,476	1.3%	2.9%
Other	6,358	7,663	7,315	-17.0%	4.8%
<b>Total</b>	<b>228,370</b>	<b>226,452</b>	<b>222,023</b>	<b>0.8%</b>	<b>2.0%</b>

With exception of the Health business, where in previous years it consolidated a leading position, Millenniumbcp Ageas registered above-market growth in all the other Non-Life business lines in 2012.

The Fire and Other Damage business, with revenues of 44.5 million euros, and growth of 5%, strongly driven, for the second consecutive year, by the Multi-risk product directed at the individuals segment, having also reinforced its market share, from 8.2% in 2011 to 8.4% in December 2012, is the business line that is most noteworthy, together with the Personal Accidents business, where traditionally the pressure of annulments is felt, and which Millenniumbcp Ageas has managed to control effectively, registering above-market growth rates in the last two years.

In the Motor business, and contrary to market behaviour, which registered a decline in revenues of about 5%, Millenniumbcp Ageas maintained the volume of premiums stable at about 21.5 million euros in 2012. Also noteworthy is the successful launch of a new motor product, "Móbis", whose innovative concept directed at capturing customers in the bank channel boosted and improved the performance of this business segment, particularly in the last quarter of 2012, which is expected to continue during 2013.

The Health business, operating through the Médis brand, continues to represent the largest share of the total Non-Life portfolio, equivalent to about 59% of the premiums of Millenniumbcp Ageas, having reached a volume of premiums of 135 million euros, which represents a slight increase of 0.1% relative to the previous year – below market growth –, in a year in which the focus was on profitability rather than growth, but nonetheless the revenues achieved enabled the second place in the ranking of insurance companies operating in the national market to be maintained, with a market share of about 24%. . The

Médis brand, as a result of the innovation of the offer, the diversification of the distribution channels, the careful approach made to the different segments and consistent investment in the promotion of the brand, remains the uncontested leader in its segment since its incorporation in 1996.

In essence, growth in Non-Life has been essentially organic and has evolved consistently over the last few years, materialised in the reinforcement of the market share which reached 5.7% at the end of 2012.

## Technical Analysis

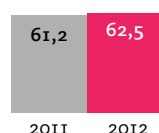
The technical margin of the Non-Life business, before the allocation of administrative costs, came to 62.5 million euros, representing an increase of 2% relative to the same period of 2011.

The increased processed revenue, in combination with a rigorous risk selection policy, which decreased the claims ratio by 2.7 percentage points, constituting a reference in the national insurance market in terms of profitability, allowed a comfortable technical rate of return (measured according to the gross premiums issued) of 26% to be achieved at the end of 2012.

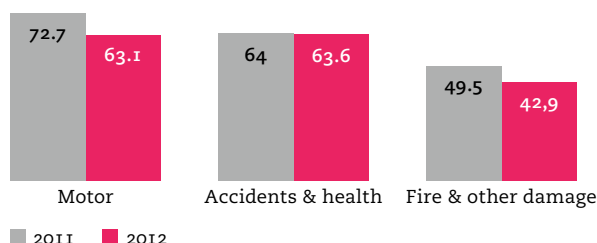
The Non-Life claims ratio, before the allocation of administrative costs, stood at 58.1%, representing consistent decreases in all businesses relative to 2011, in which the global claims ratio reached 60.8%.

### Evolution of the Non-Life Technical Margin

(before allocation of administrative costs)  
[MILLIONS OF EUROS]



### Evolution of the Non-Life Claims Ratio (before allocation of administrative costs) [%]



The Non-Life combined ratio, after the allocation of administrative costs, came to 86.5%, which represents a decrease of 1.9 percentage points relative to 2011, explained mainly by the strictness in the application of policies related to the subscription and acceptance of risk, which resulted in the reduction of claims ratios to historical levels, in combination with the continued focus on containing operating costs.

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Report of the  
Board of Directors**Administrative Costs**

Administrative costs decreased by 3.9%, which came to 87.8 million euros.

**EVOLUTION OF ADMINISTRATIVE EXPENSES (EXCLUDING DEPRECIATION)**

(THOUSANDS OF EUROS)	2012	2011	Var. 12/11	Structure 2012	Structure 2011
Staff Costs	28,657	29,841	-4.0%	32.6%	32.6%
Third Party Services	39,164	40,824	-4.1%	44.6%	44.7%
Taxation	1,586	1,540	3.0%	1.8%	1.7%
Others	18,388	19,193	-4.2%	20.9%	21.0%
<b>Total</b>	<b>87,796</b>	<b>91,398</b>	<b>-3.9%</b>	<b>100.0%</b>	<b>100.0%</b>

All headings, with the exception of Taxation – which reflects the increase in Non-Life turnover – contributed to the decrease in administrative costs, whose savings are of an equal magnitude in all headings.

In terms of Third Party Services, the decrease of 4.1% is essentially due to lower costs with the Collection of Premiums and IT.

The Other heading, which decreased by 4.2% partly reflects the renegotiation of the costs associated with asset management, partly absorbed by non-recurrent costs related with the Staff restructuring programme.

**Net Income**

At the end of 2012, the consolidated net income for the year, before VOBA (“value of business acquired”) came to 111.0 million euros, comparing very favourably to the net income of 36.5 million euros obtained in 2011. The consolidated net income, after VOBA, stood at 93.7 million euros.

Both Life and Non-Life business segments contributed positively to this result, registering increases of 108.0 million euros and 1.1 million euros, respectively, relative to 2011. It is important to mention, however, that the result obtained in 2011 was strongly penalised by a set of non-recurrent factors related with the performance of the financial markets, which led to the recording of impairments and capital losses on assets, whose impact on net income before VOBA came to 78.7 million euros.

**Solvency Ratio**

As at 31 December 2012, the capital structure of the Millenniumbcp Ageas Group presented, in consolidated terms, a solvency ratio of 273.5%, vastly superior to the minimum limit required by the regulator and indicative of the financial solidity of the Millenniumbcp Ageas Group. Relative to the previous year, in which the ratio obtained was 146.6%, a sharp increase of 127 percentage points was registered, mainly due to the recovery of the capital markets which allowed for a positive evolution in terms of the revaluation reserves.

The solvency ratio presented was calculated in accordance with the criteria defined by the Portuguese Insurance Institute and reflects a capital structure that is both solid and adequate relative to the liabilities assumed in all the Companies that are part of the Millenniumbcp Ageas Group.

#### **SOLVENCY RATIO** [THOUSANDS OF EUROS]

	<b>Margin</b>	<b>Capital</b>	<b>Surplus</b>	<b>Ratio</b>
Ocidental Seguros	18,377	51,026	32,649	278%
Ocidental Vida	262,196	730,124	467,927	278%
Médias	24,726	45,815	21,089	185%
Millenniumbcp Ageas (Consolidated)	310,164	848,230	538,066	273%

## **Embedded Value**

The embedded value provides a value estimate of Life business to shareholders, excluding any value, which may be generated by future new business. Embedded value is equal to the sum of shareholder's funds plus the present value of future profits on the current portfolio under management. The results reflected here were prepared internally by the Risk and Actuarial department and certified by KMPG.

The value of the existing portfolio is determined by the present value of future profits after tax, adjusted for the cost of maintaining solvency margin at 200% of the minimum level required by current regulation. The cost of solvency margin (cost of capital) represents the cost of tax and investment charges on Required Capital, but doesn't include an opportunity cost as in traditional embedded value, which results in a higher cost of capital.

The principles established at Ageas Group for embedded value reporting have been applied and the figures obtained were based on European Embedded Value Principles, that is, allowing for cost of options and guarantees (CFOG) and non-financial risks (CNFR).

The table below shows embedded value and new business value figures for the life segment of Millenniumbcp Fortis.

[EURO THOUSANDS]	<b>2012</b>	<b>2011</b>
<b>Embedded value as of previous valuation date</b>	<b>687,984</b>	<b>1,036,671</b>
Restatements to the opening EV	11,112	5,857
Changes in non-economic assumptions	6,359	(32,062)
Changes in economic assumptions	(1,883)	128,700
Expected return	206,290	103,859
Value added by new business	10,633	4,891
Impact of variance	93,166	(560,022)
<b>EV at valuation date before dividends</b>	<b>1,013,661</b>	<b>687,984</b>
Dividends to Shareholders	-	-
<b>EV at valuation date after dividends</b>	<b>1,013,661</b>	<b>687,984</b>

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The 2012 restatements to the opening embedded value reflect the impact resulting from model change related to economic calibration of risk free yield curve at Ageas Group level (use of Smith Wilson methodology and ultimate forward rate principle) and local adjustments to fix parameter bugs detect in local liability model (Prophet), but these impacts are no significant.

The downward movements in the risk free yield curve had a negative impact due to the fact that positive discount effect in term and unit linked products is lower than the negative one in savings and annuities products. The expected effect related to spreads reduction during 2012 for Sovereign and Corporate bonds is capture as economic variance.

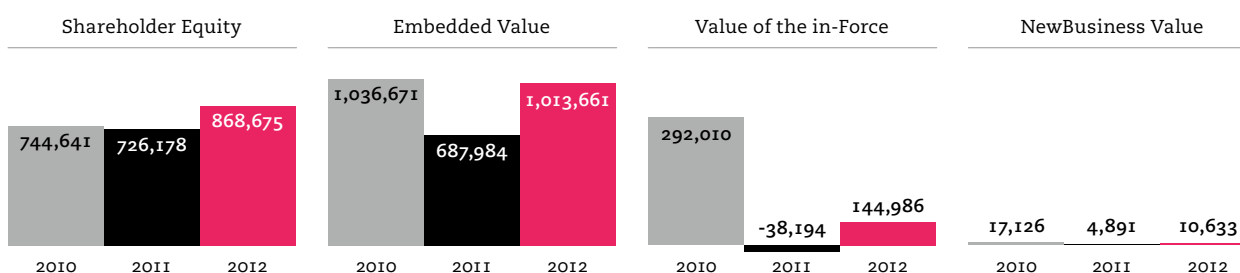
Regarding non-economic assumptions, the positive impact results from reduced mortality rates in term business linked to mortgage and personal loans as well as from decreasing overall disability rates. The impacts from lapses, unit costs and inflation updates are very small. This limited effect of lapse rates change is very important taken in perspective the economic environment in Portugal.

Contrary to last year, the positive movements registered in the unrealized losses related to Sovereign and Corporate debt explains the quite important positive economic variance during 2012, that is, the quite substantial amount of unrealised capital losses of bonds portfolio underlying technical provisions implicitly that generated a strong value decrease of products with guarantees (savings and annuities) in 2011, substantially reduced during 2012, generating a positive value impact under a market consistent valuation.

The expected return during the year reflects the projected one year profits and an additional release from risks, mainly related to the difference between risk neutral bonds coupons and expected coupons of existing bonds portfolio. The later is the most significant amount in this item.

After some years of decreasing trend, the new business margin recover during 2012, moving from 9.3% to 16.7% when expressed as percentage of APE (annual premium equivalent), explained by the change in business mix: higher weight of term business and less of savings with guarantees, but with better margin. The value generated by unit linked was offset by the negative value performance of savings with guarantees.

## Embedded Value Evolution [EURO THOUSANDS]



## Economic assumptions and market conditions

	2012		2011	
	Risk Free + 0.29% <sup>1</sup>		Risk Free + 0.43% <sup>1</sup>	
Yield curve				
	1 yr	0.51%	1 yr	2.29%
	5 yr	0.96%	5 yr	2.07%
	10 yr	1.80%	10 yr	2.77%
	20 yr	2.45%	20 yr	3.03%
Volatilities				
	Shares	17.0%	Shares	14.2%
	Real estate	1.8%	Real Estate	1.7%
Inflation		2.42% <sup>2</sup>		2.33% <sup>2</sup>
Tax rate		29.0%		29.0%

1. These 29bp and 43bp adjustments to risk free yield curve were decided and justified by Ageas.
2. Inflation rate is based on a specific swap curve, plus a spread adjustment; the 5th rate is shown.

The non-economic assumptions like mortality, surrenders, lapses and paid-up rates were based on experience investigations carried out by Millenniumbcp Ageas and based on the real data in its policies portfolio. Expenses allocation was based on recent experience, and divided between acquisition cost (new business) and maintenance (existing portfolio). Expenses taken as extraordinary, and thus exceptional, were identified one by one and not included on unit costs calculation.

It is assumed that methods and bases for calculating mathematical reserves, profit sharing and other policy benefits, along with current legislation and income tax levels, will remain unchanged.

## Non-Life Actuarial Review

Periodic actuarial reviews are performed in order to verify the level of reserves for all non-life products. The claim's reserves were estimated from the payments database and number of claims, using internationally accepted actuarial methods.

Apart from internal actuarial evaluations, a regular independent external certification is performed.

As the table below shows, Millenniumbcp Ageas has sufficient overall claims provisions.

[THOUSANDS OF EUROS]

RESULTS OF ACTUARIAL EVALUATIONS VERSUS BALANCE SHEET CLAIMS PROVISIONS	31-12-2012	31-12-2011
Total Balance sheet provisions	97,951	96,367
Claims Reserves Internally Certificated <sup>1</sup>	87,170	85,483
Claims Reserves Best Estimate	69,133	72,154
Claims Reserves at 90% Percentile	88,918	86,120

1. Actuarial Certification does not include expense reserve, reserves for claims receipts issued but not paid and Health PPP products.



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## Solvency II

Solvency II is the new EU legislation propose which will define the amount of capital insurance companies must hold (capital requirements) to reduce the risk of insolvency. The current solvency framework, Solvency I, was introduced in the early 70s and defined capital requirements by specifying simple rules. These were intended as a buffer to absorb potential risks, to act as a policyholder protection measure, but they were quite simplistic in design and did not always reflect the true risks of insurance business.

Solvency II is an opportunity to improve insurance regulation and supervision by bringing regulation, with the significant advances in risk management in insurance, introducing a risk-based-economic approach.

Solvency II introduces a holistic approach to policyholder protection: risk measurement by the Company in **Pillar 1**, qualitative review by supervisors in **Pillar 2**, and improved disclosure to the market and other stakeholders enhancing economic discipline in **Pillar 3**.

The Solvency II implementation, highly dependent on legal and political processes, had already moved from an original deadline 2013 to 2014.

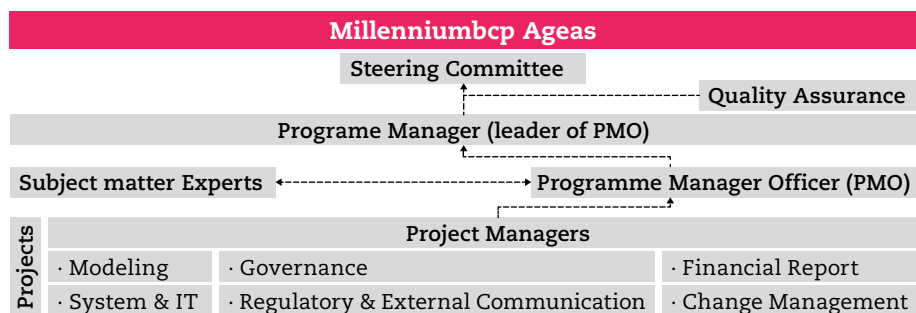
In September of 2012, a meeting attended by the European Commission, European council and the European Parliament, has deferral the implementation date to the January 1st 2015/2016. The European Commission would like to wait for the results of EIOPA's impact assessment on the treatment of long term guarantees (LTG) exercise that will take in the first quarter of 2013, before concluding negotiations.

The coming meetings in 2013 will confirm the approach: either proceed with Omnibus II (level 2 legislation) and maintain the official start date of Jan 1 2014, or wait until the results of EIOPA's impact assessment are available and support a delay in implementation to the January 1st 2015/2016.

The Solvency II Programme is a challenge and also an important opportunity, which will lead to significant changes in the way the insurance business is managed and how the main strategic decisions impacts in the capital requirements. In this sense, and in line with the Ageas Group, Millenniumbcp Ageas started the Solvency II project in 2009 and since there has been fully committed to implement it with a view to developing adequate initiatives for ensuring smooth transition to the new regime.

The Millenniumbcp Ageas ambition is to meet the Directive requirements and to integrate proactively the Risk Management into all Millenniumbcp Ageas processes, and will continue until Solvency II implementation.

The Millenniumbcp Ageas Solvency II governance structure is as follows:



The work developed in 2012 for all six work streams (three pillars structure), can be summarised as follows:

- › Continue developing the data warehouse focusing on the Quantitative Report's Templates (QRT), data quality and inputs for SCR calculation;
- › Conclusion of the revision and updating of the internal control system, including mapping of processes, risks, and respective controls (pillar II) (excluding PensõesGere);
- › Definition, approval and starting implementing on a set of risk policies, aligned with the development of the ORSA process (pillar II);
- › Development of the ORSA Dry-run report for Millenniumbcpc Ageas (pillar II);
- › Active participation in the working groups of Portuguese Insurers Association (APS) for all matters related to the Solvency II project;
- › Regular meetings with the Local Supervisor (ISP).

In 2013, the major focuses for Millenniumbcpc Ageas are related to data management, in particular: systems, data traceability, and data quality and as well as holding an efficiently reporting timely (QRT's). The pre-IMAP process related to Market Risk as the mile stone for the use of an internal partial model for SCR calculations. And fundamental in Solvency II environment will be the work around the ORSA process/report for each solo entity, as also focus in particular the development and implementation of the risk policies.

## Risk Management

As a holding insurance company, for Millenniumbcpc Ageas assuming risk is intrinsic to how the company creates value for its customers and shareholders. The goal is therefore to ensure that value is added to the business through the acceptance, warehousing, and transformation of risks that can be understood and effectively managed within a well-designed risk management system.

The Enterprise Risk Management framework that Millenniumbcpc Ageas is progressively putting in place reflects the philosophy, strategy and process that guide the Organization approach and attitude to risk.

Enterprise Risk Management is a process, carried out by Millenniumbcpc Ageas management, within our corporate governance, where it is established a risk management organizational structure, interacting actively with the risk management structure of Ageas Group.

The Risk Governance is set-up with the main objective to manage risks efficiently through a three lines of Defense Model. The Governance formalizes the way that the Company deals with the risk domain and assigns responsibilities and authorities to all stakeholders in the Organization to ensure that risks are managed appropriately.

A number of bodies are set up in order to make sure that the overall Risk Framework is supported effectively:

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Board						
EXECUTIVE COMMITTEE						
Internal Audit	Risk Committee				Compliance	
	Risk Management	Asset Management Committee				CFO Team Meetings
		Tactical Investment committee				
		Operation Risk & Internal Control				
		Liability Working Group				
		Solvency II Steering Committee				
	Ageas Risk Management					

This organizational structure encompasses several committees, with the aim of monitoring risks, proposing mitigating actions and enforcing a transparent and a coherent risk-related decision-making.

During 2012, aligned with the national legislation and the Solvency II directive, Millenniumbcp Ageas continue to reinforce the risk management system, in order to reflect commercial changes, regulatory environment changes, and strategic decisions. The main changes were the following:

- › the Risk Committee frequency changed from a quarterly basis to a monthly basis;
- › Added to the structure the position of Risk Officer;
- › Set up of a new committee: the Tactical Investment Committee.

2012 was also a challenging year regarding Solvency II (pillar II) in particular for the development of risk policies and the first Own Risk Solvency Assessment (ORSA) report. In 2013 the core objective will be embedding the ORSA process/information/conclusions on a continuous basis by the management in its decision-making process as well as the risk policies full implemented.

Within Millenniumbcp Ageas, Risk Management is based on a set of principles designed to ensure that all risks are identified, assessed, monitored and managed in accordance with predefined standards and that this approach is integrated into the conduct of all activities.

The Risk Management also relies on a robust **formal framework** describing guidelines, reference standards and limits while tackling risks identified in the **Risk Taxonomy**. This taxonomy also defines the roles and responsibilities within the system and the corresponding requirements.

## Asset Management

2012 was a year of a progressive stabilization for the European sovereign debt and financial credit spreads. As such and albeit during the first quarter there was, still, a ferocious competition from time deposits to the insurance products, that situation abated through the year, especially after the ECB lowered its Repo and Deposit rates in July.

With falling yields and less competitive rates from time deposits it was possible to limit the outflows and stabilize the portfolios and thus become more constructive on investments.

The mix of Life products offered through the year was based on last generation products, which were launched after the financial crisis with the main features being the capital guarantee at the end and adaptative interest rate.

That way it was possible to capture the strong spread compression of domestic sovereign and corporate issuers. The implicit valuation positively impacted the revaluation reserve account and mark to market performance was above two digits for the full year.

The portfolios kept a strong allocation to fixed rate assets, with reinvestments being made mainly in short duration assets and on a opportunistic basis the use of Portuguese treasury bills and commercial paper, where it was possible to extract a adequate high yield.

As a way of geographic diversification the portfolios were constantly active on the primary market taking advantage of the spread compression trend observed through the year.

The tender and exchange offers were still a constant through the year and the portfolios were active as well on that front.

Albeit interest rates were at historical lows, the spread compression dynamics through the year and several auction at zero or negative yield it was possible to maintain an average investment rate at an interesting level without increasing the risk on a substantial basis.

<b>INVESTMENTS PORTFOLIO</b> (THOUSANDS OF EUROS)	<b>2011</b>	<b>%</b>	<b>2012</b>	<b>%</b>
<b>Available for sale</b>	<b>4,525,127</b>	<b>100.0%</b>	<b>4,345,682</b>	<b>100.0%</b>
Government bonds	2,032,663	44.9%	1,495,843	34.4%
Corporate debt securities	2,158,367	47.7%	2,564,752	59.0%
Equity securities	16,483	0.4%	17,623	0.4%
Participation in unit funds	–	0.0%	267,463	0.0%
Debt	85,538	1.9%	61,563	1.4%
Equity	7,551	0.2%	–	0.0%
Real Estate	198,426	4.4%	196,874	4.5%
Alternative	26,099	0.6%	9,027	0.2%
<b>Held at fair value</b>	<b>4,635,086</b>	<b>100%</b>	<b>5,506,155</b>	<b>100%</b>
Government bonds	131,272	2.8%	262,934	4.8%
Corporate debt securities	4,280,102	92.3%	5,002,725	90.9%
Equity securities	2,403	0.1%	0	0.0%
Participation in unit funds	–	0.0%	240,496	0.0%
Debt	99,259	2.1%	115,978	2.1%
Equity	105,171	2.3%	104,542	1.9%
Real Estate	–	0.0%	1,226	0.0%
Alternative	16,880	0.4%	18,750	0.3%
<b>Held to maturity</b>	<b>670,543</b>	<b>100.0%</b>	<b>697,845</b>	<b>104%</b>
Government bonds	504,488	75.2%	527,494	75.6%
Corporate debt securities	166,055	24.8%	170,352	24.4%
<b>Other financial assets / (liabilities)</b>	<b>(113,997)</b>	<b>0.0%</b>	<b>209,580</b>	<b>0.0%</b>
Trading derivatives	98,528		209,580	
Repurchase agreement	(212,525)		–	
<b>Total</b>	<b>9,046,216</b>		<b>10,759,262</b>	

## 02

Report of the  
Board of Directors

## Our Staff

The year of 2012 was a challenging year due to the adverse social and economic environment throughout Europe, and in the Southern European countries in particular.

The Human Resources area played a dominant role in the promotion, preparation and launch of initiatives aimed at mitigating the negative effects of the external environment, in order to maintain the high levels of staff motivation and to adapt to the current needs & future challenges, creating the conditions for Millenniumbcp Ageas to continue to proactively and effectively pursue the strategic objectives defined within the scope of the new strategic agenda.

These measures were implemented as a complement to and together with the direct hierarchies of the employees, who are responsible for guaranteeing that the objectives defined by the company, in terms of counselling and performance assessment, training and career management, are achieved.

Amongst the initiatives launched in 2012, the following are worth mentioning:

**The restructuring of the Complementary Retirement Plan** – Millenniumbcp Ageas, which has always considered the social aspects and the present & future well-being of its employees as one of the main pillars of Human Resource management, decided to overhaul and modernise the complementary retirement plan, by launching a new, more flexible plan, adjusted to the specific needs of each employee, whose motto is “your future at your rhythm”. The objective is to contribute to the improvement of the retirement pensions, through a supplement to the General Social Security Regime, by promoting and reinforcing the savings of all employees, with the incentive and direct contribution of the Company.

In 2011, a **Restructuring Plan** was implemented with the objective of rejuvenating staff and preparing the company for future challenges. This programme, which had a strong impact in 2011 and resulted in the leaving through early retirement of a number of employees with more than 55 years of age, and in the entry of new employees, the majority of which are recent graduates with an average age of 29, was reformulated due to the government decision to suspend early pensions, which began to be implemented at the end of 2012, essentially based on early retirement. Under this programme, 18 employee set agreements to leave, concluded in December 2012 with effects from 1 January 2013.

Within the scope of Ocidental's 25th anniversary commemoration initiatives, a **premises modernisation project** was approved, which will be implemented until the end of the 1st semester of 2013, aimed at optimising the use of the work space by making it more functional and attractive. The adoption of a cleandesk policy is also one of the initiatives of this project.

Among other new and recurring activities, we continue to encourage **training**, one of the key drivers of Human Resource management, to develop and improve both in terms of contents and graphics the weekly newsletter

Age Group	Female	Male	Total
< 30	19	17	36
31-35	24	15	39
36-40	75	28	103
41-45	78	45	123
46-50	32	65	97
51-55	19	36	55
56-60	9	8	17
> 60	3	2	5
<b>Total</b>	<b>259</b>	<b>216</b>	<b>475</b>

**What's New**, and we implemented the new **Collective Labour Agreement of the Insurance Sector**.

As a result of this dynamism and the implementation of specific action plans aimed at improving the motivation and satisfaction indexes, the results of the **Annual Employee Satisfaction Survey** continue to present reference values at the level of the best benchmarks – **participation rate of 94%** and **Employee satisfaction and motivation indexes of 79.2% and 75.1%**, respectively – and to reflect progressive and sustainable improvements.

Millenniumbcp Ageas closed the year of 2012 with 475 employees, 11 more than at the end of the previous year. The average age fell remained at 43 and female employees represent 54%.

## Corporate Governance

Millenniumbcp Ageas is an insurance Group held by Ageas and by Millennium bcp. Apart from complying with laws and regulations, securing compliance with recommendations and corporate governance rules is a key area of concern of Millienniumbcp Ageas Grupo Segurador.

### Governing Bodies

#### General Meeting of Shareholders

Apart from its usual legal rights, the General Shareholders' Meeting elects the General Meeting's Board, the members of the Board of Directors, the members of the Board of Auditors, the Single Auditor and or the Chartered Accountant or a Chartered firm of Accountants, nominates an Audit Committee and defines the remuneration of the governing bodies, their social securities schemes and other complements.

The General Meeting's Board is constituted by a Chairman, a Deputy-Chairman and a Secretary, elected for a period of three years re-elected one or more times.

#### Governance and Auditing

The governance structure consists of a Board of Directors, which delegates part of its responsibilities to an Executive Committee, a Board of Auditors and a Chartered Accountant or a Chartered Accountants company, provided the latter is not a member of the Board of Auditors.

#### Board of Directors

The Board of Directors includes a maximum of eight members elected by the General Meeting of Shareholders for a period of three years re-elected one or more times, which elect among themselves their Chairman and



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### Report of the Board of Directors

Deputy-Chairman. The Board of Directors meets whenever decided by its Chairman or by two other members and, at least, once every quarter.

On 31 December 2012, the Board of Directors was composed by a Chairman (Mr. Bart Karel August De Smet), a Deputy-Chairman (Ms. Maria da Conceição Mota Soares Oliveira Calle Lucas) and six other members (Mr. Kurt André J De Schepper, Mr. Stefan Georges Leon Braekeveldt, Mr. Jan Adriaan de Pooter, Mr. Michel Edmond Joseph Ghislain Baise, Mr. Eduardo Manuel Carmona e Silva Consiglieri Pedroso and Manuel Frederico Lupi Belo).

#### **Executive Committee**

The Executive Committee, established by law, comprises a maximum of five members to whom powers and functions have been delegated by decision of the Board of Directors. The by-laws define the matters that may not be delegated by the Board of Directors.

Presently the Executive Committee includes Mr. Jan Adriaan de Pooter (CEO), Mr. Michel Edmond Joseph Ghislain Baise (CFO), Mr. Eduardo Manuel Carmona e Silva Consiglieri Pedroso and Mr. Manuel Frederico Lupi Belo.

The Members of the Executive Committee have presently the following responsibilities:

Mr. Jan Adriaan de Pooter (CEO) – Institutional relationships (regulators, APS and other) and the following internal areas: Organisation & IT; Internal Audit; Pensões; and Corporate Support, which includes the Corporate Affairs, the Human Resources, the Legal, the Compliance, the Technical Support and the Strategy & Performance.

Mr. Michel Edmond Joseph Ghislain Baise (CFO) – Planning and Control, Risk Management and Actuarial, Investments, Finance, Reinsurance.

Mr. Eduardo Manuel Carmona e Silva Consiglieri Pedroso – Médis, Non-Life back-office, Non-Life technical platforms, Life back-office (Life Platform) and Client and Sales Support.

Mr. Manuel Frederico Lupi Belo – Commercial (Bancassurance, Médis and Corporate) and Marketing.

#### **Board of Auditors**

The Board of Auditors includes three effective members and a substitute elected for three years by the General Meeting of Shareholders, which also appoints the Chairman. The Board of Auditors meets under the terms of the law or whenever decided by its Chairman, by the majority of its members or by the Board of Directors.

The auditing of corporate businesses may also be performed, under the terms of the law, by a Board of Auditors and by a Chartered Accountant or a Chartered Accountant company, provided that the latter is not a member of the Board of Auditors.

Whenever they find it convenient, the Board of Auditors or the Single Auditor can attend the meetings of the Board of Directors.

### **Audit Committee**

Notwithstanding the responsibilities of the Board of Auditors, the General Meeting of Shareholders, under the by-laws, also appoints an Audit Committee to supervise the company accounts and to assist the Board of Directors regarding its internal control responsibilities, in general.

The Audit Committee consists of three non-executive members of the Board of Directors, one of whom must be the Deputy-Chairman of the Board of Directors who will be Chairman of the Audit Committee.

### **Company's Secretary**

The Board of Directors appoints a Company's Secretary, as well as its respective alternate, with the competences entrusted by law, who cannot be members of the Board of Directors.

## **Remuneration**

### ***Remuneration policy of the members of the Board of Directors and Supervisory Bodies***

#### ***Decision making process and remuneration structure***

The remuneration policy for the members of the Board of Directors and Audit Boards has remained practically unaltered since the incorporation of the company, having been defined by the Remuneration Committee based on best practices and approved by the General Meeting of Shareholders.

The remuneration policy for the members of the Board of Directors and Audit Boards is structured in order to ensure the balance between the annual performance of the company and the contribution of the members of those bodies to that performance.

This policy is materialized through a fixed remuneration component and in the possibility of attribution of a variable component. These components, and their evolution, are dependent on the degree of achievement of the objectives set out in the medium and long term business plan that is approved by the Board of Directors and on criteria that considers individual performance, the real growth of the institution and wealth effectively created for shareholders, the protection of the interests of policyholders, insured persons, participants and beneficiaries, their long term sustainability and the risks assumed, as well as compliance with the rules applicable to the business of the institution.

#### ***Predetermined criteria for the assessment of the Board of Directors***

The decision to attribute the variable component depends, in addition to the extent to which the annual budget is met, on the financial solidity of the company, the solvency and rating levels, and the actual economic and competitive environment. The existence of plans for the attribution of financial instruments or options to purchase said instruments are not foreseen. The payment of the

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### Report of the Board of Directors

variable remuneration component is made after the clearance of the accounts for each financial year.

Directors who do not receive any remuneration may be appointed.

The directors who do not perform executive functions are not remunerated.

#### *Performance assessment of Board of the Directors*

The performance assessment of the executive directors is a direct result of the extent to which the annual budget is met, being the exclusive responsibility of the general meeting or of a remunerations committee nominated by the General Meeting of Shareholders.

The predetermined criterion for the performance assessment of the executive directors is the level of achievement of the annual budget.

#### *Relative importance of the remuneration components of the Board of Directors*

The remuneration of the executive directors includes the following components:

- a) a fixed monthly remuneration, defined based on the competitive positioning within the Portuguese benchmark universe of companies and, in the case of directors from other shareholding companies, its positioning within those companies may be considered, namely in terms of the remuneration level; this component represents a sufficiently high proportion of total remuneration, so as to permit the application of a fully flexible policy in terms of the variable remuneration component, including the possibility of not paying any variable remuneration component;
- b) an annual variable remuneration, paid after the approval of the annual accounts at the General Meeting of Shareholders; the establishment of this remuneration is based on practices of shareholders, which are important players in the markets where they are present; the annual variable remuneration of the total number of executive directors must not surpass 2% of the Group's results, before VOBA (Value of Business Acquired) or Goodwill depreciation, in the financial year to which they are related and does not constitute a vested right and is deliberated annually.

#### *Information on the deferral of payment of the variable component and criteria of attribution of variable remuneration in financial instruments of the Board of Directors*

The variable remuneration, when represents more than 35% of the annual fixed salary, is subject to mandatory deferral for a period of three years following that to which it relates, and the amount to be paid in the first year must be greater than the following. The variable remuneration is not paid in financial instruments, taking into account that the company has only two shareholders and dispersion of their capital is against the philosophy of the constitution of the Joint Venture, this form of payment of remuneration is liable to be applied.

#### *Other non-monetary benefits of the Board of Directors*

There is no payment of annual premiums and any other non-monetary benefits.

### *Remuneration in the form of profit sharing or bonuses of the Board of Directors*

In addition to the fixed monthly remuneration and the annual variable remuneration (which assignment depends from an annual deliberation), no remuneration in the form of profit sharing or payment of bonuses is foreseen.

### *Payment of any compensation to former executive directors relating to the termination of their functions during the year*

The payment of any compensation to former executive members of the Board of Directors relating to the termination of their functions during the year is not foreseen.

### *Limits to compensation payments due to discharge without just cause of the Board of Directors*

The compensation established for any form of discharge without just cause of a member of the management body will not be paid if the discharge or termination by mutual agreement results from an inadequate performance of the member of the management body.

### *Amounts paid for whatever reason by other companies with which there are controlling or group relationships of the Board of Directors*

The executive directors are only remunerated in one of the Group companies and do not receive any additional compensation to that foreseen in this remuneration policy.

### *Complementary pension or early retirement regimes of the Board of Directors*

Members of the management body do not benefit from any complementary pension or early retirement regimes for the performance of their functions.

### *Estimate of the value of the non-monetary benefits of the Board of Directors*

Not applicable.

### *Mechanisms that prevent the celebration of contracts that call into question the reason for existence of the variable remuneration of the Board of Directors*

Not applicable.

### *Remuneration policy assessment*

The remuneration policy will be submitted to an independent internal assessment at least once a year, performed in articulation with the key functions and materialized in a specific report to be presented to the Board of Directors and to the General Meeting of Shareholders, identifying the necessary steps to correct possible failures.

The assessment will include, in particular, the review of the remuneration policy and its implementation in accordance with applicable legislation and recommendations, especially about its effect on risk management and capital of the company.

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Report of the  
Board of Directors*Consistency of remuneration policies at Group level*

The remuneration policies of the subsidiaries are consistent among themselves and it ensured the implementation for all the remunerations paid to each employee by all Group companies.

*Detailed indication of the recommendations adopted and not adopted*

The table below corresponds to the detailed indication of the recommendations adopted and not adopted in Circular 6/2010, of 1 April, of the Portuguese Insurance Regulator (ISP), containing the rationale for the non-adoption of certain recommendations by reference to the respective paragraphs of this remuneration policy.

Recommendation	Declaration of adoption	Rationale
I.4. Adoption of a remuneration policy consistent with effective risk management and control I.5. Suiting the policy to the dimension, nature and complexity of the business I.6. Adoption of a clear, transparent and adequate structure	Adopted	Decision making process and remuneration structure
II.1. Approval of the policy by the Remuneration Committee	Adopted	Decision making process and remuneration structure
II.3. Participation in the definition of the policy for people that are functionally independent have adequate technical capacity, including people that are part of the structural units responsible for key functions	Adopted	Decision making process and remuneration structure
II.4. The policy must be transparent and accessible to all Employees, subject to periodic review and submitted as an autonomous document	Adopted	Decision making process and remuneration structure and predetermined criteria for assessment
III.1. Minimum annual frequency of review undertaken by the remunerations committee III.2. Independence of the members of the remunerations committee	Adopted	Performance assessment
IV.1. The remuneration of the executive directors should include a variable component that is dependent on a performance assessment	Adopted	Predetermined criteria for assessment and Performance assessment
IV.2. Adequate balance of the remuneration components	Adopted	Relative importance of the remuneration components
IV.3. Part of the variable component should be paid in financial instruments	Not Adopted	Not applicable, considering: the characteristics of the company and its shareholders
IV.4. Part of the variable remuneration should be deferred IV.5. Calculation of the deferral according to the weight relative to the fixed component	Adopted	Information on the deferral of payment of the variable component and criteria of attribution of variable remuneration in financial instruments of the Board of Directors
IV.6. The members of the management body must not celebrate contracts that mitigate the risk inherent to the variability of the remuneration	Adopted	Mechanisms that prevent the celebration of contracts that call into question the reason for existence of the variable remuneration

IV.7. Maintenance of the actions of the institution obtained through variable remuneration schemes	Not Adopted	Not applicable, considering: the characteristics of the company and its shareholders
IV.8. Deferral period in the case of the attribution of options		
IV.9. Maintenance of shares after the end of the term of office		
IV.10. Remuneration of the non-executive directors must not include any component that is dependent on the performance or value of the institution	Adopted	Predetermined criteria for assessment
IV.11. Compensation in the event of discharge	Adopted	Limits to compensation payments due to discharge without just cause
VI.1. Submission of the remuneration policy to an independent internal assessment	Adopted	Remuneration policy assessment
VII.1. Should be ensured consistency remuneration policies at Group level	Adopted	Consistency of remuneration policies at Group level
VII.2. Adoption of the recommendations for all the remunerations paid to each employee by all Group companies		

The annual value of the remunerations paid by Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A. to the Board of Directors and Audit Board members in the economic year of 2012 is the following:

Joaquim Patrício da Silva	11.250,00 Euros
José Rodrigues de Jesus	12.000,00 Euros
António Fernando Nogueira Chaves	5.625,00 Euros
<b>Total</b>	<b>28,875.00 Euros</b>

### **Remuneration Policy of the Employees**

#### *Decision making process and remuneration structure*

The remuneration policy for Employees has remained practically unaltered since the incorporation of the company, having been defined by the shareholders based on best practices.

The remuneration of Employees comprehends the base remuneration defined for each level of the Collective Labour Agreement (CCT) and a complement that varies in accordance with the professional category, the remuneration level, the specificity and requirements of the function, the degree of seniority, individual merit and the level of responsibility attributed.

The individual differentiation, adopted for all Employees, is based on the following criteria: CCT level, the specificity and requirements of the function, the degree of seniority, individual merit and the level of responsibility attributed.

#### *Relative importance of the remuneration components*

This policy is materialized through a fixed remuneration component and in the possibility of attribution of a variable component. These components, and their evolution, are dependent on the degree of achievement of the objectives set out in the medium a long term business plan that is approved by the



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Report of the  
Board of Directors

Board of Directors and on criteria that considers individual and departmental performance, the real growth of the institution and wealth effectively created for shareholders, the protection of the interests of policyholders, insured persons, participants and beneficiaries, their long term sustainability and the risks assumed, as well as compliance with the rules applicable to the activity of the institution.

The remuneration policy is structured in order to ensure the balance between the annual performance of the company and the contribution of Employees to that same performance.

The fixed component represents a sufficiently high proportion of total remuneration, so as to permit the application of a fully flexible policy in terms of the variable component of remuneration, including the possibility of non-payment of any variable component of remuneration.

*Information on the deferral of payment of the variable component and criteria of attribution of variable remuneration in financial instruments*

Considering the characteristics of the company and financial groups in which is integrated, the variable remuneration is not subject to any deferral or paid in financial instruments.

*Predetermined criteria for assessment*

The predetermined criteria for performance assessment is the extent to which the annual budget is met, individual and departmental performance, the real growth of the institution and the effective wealth created for the shareholders, the protection of the interests of policyholders, insured persons, participants and beneficiaries, their long term sustainability and the risks assumed, as well as compliance with the rules applicable to the activity of the institution.

The variable remuneration of the total number of Employees must not exceed 3% of the Group's results, before VOBA (Value of Business Acquired) or Goodwill depreciation, in the financial year to which they relate and does not constitute a vested right and is deliberated annually.

*Remuneration policy assessment*

The remuneration policy will be submitted to an independent internal assessment at least once a year, performed in articulation with the key functions and materialized in a specific report to be presented to the Board of Directors and to the General Meeting of Shareholders, identifying the necessary steps to correct possible failures.

The assessment will include, in particular, the review of the remuneration policy and its implementation in accordance with applicable legislation and recommendations, especially about its effect on risk management and capital of the company.

*Detailed indication of the recommendations adopted and not adopted*

The table below corresponds to the detailed indication of the recommendations adopted and not adopted in Circular 6/2010, of 1 April, of the Insurance

Portuguese Regulator (ISP), containing the rationale for the non-adoption of certain recommendations by reference to specific paragraphs of this remuneration policy.

Recommendation	Declaration of adoption	Rationale
I.4. Adoption of a remuneration policy consistent with effective risk management and control I.5. Suiting the policy to the dimension, nature and complexity of the business I.6. Adoption of a clear, transparent and adequate structure	Adopted	Decision making process and remuneration structure
II.2. Approval of the policy by the management body	Adopted	Decision making process and remuneration structure
II.3. Participation in the definition of the policy for people that are functionally independent have adequate technical capacity, including people that are part of the structural units responsible for key functions	Adopted	Decision making process and remuneration structure
II.4. The policy must be transparent and accessible to all Employees, subject to periodic review and submitted as an autonomous document	Adopted	Decision making process and remuneration structure and Predetermined criteria for assessment
II.5. Communication of the assessment process to Employees	Adopted	
V.1. Adequate balance of the remuneration components	Adopted	Decision making process and remuneration structure and Relative importance of the remuneration components
V2. Part of the remuneration component must be paid in financial instruments V.5. Possibility of non-payment or reduction of the deferred variable remuneration V.6. Deferral period of the variable remuneration V.7. Calculation of the deferral according to the weight relative to the fixed component	Not Adopted	Not applicable considering: the characteristics of the company and its shareholders; the decision making process and remuneration structure; the relative importance of the remuneration components; and the Information on the deferral of payment of the variable component and criteria of attribution of variable remuneration in financial instruments
V.3. The assessment must take into consideration individual performance and the structural performance of the Employee's department, including relevant non-financial criteria V.4. Assessment criteria must be predetermined and able to be measured, based on a pluri-annual framework	Adopted	Predetermined criteria for assessment
V.8. Remuneration of employees that perform key functions V.9. Remuneration of the actuarial function	Adopted	Decision making process and remuneration structure
VI.1. Submission of the remuneration policy to an independent internal assessment	Adopted	Remuneration policy assessment

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Report of the  
Board of Directors**Decision Making Process**

As part of the decision making process there are several governing bodies, commissions and units elected by the General Meeting of Shareholders or appointed by the Board of Directors, who co-operate with the Board of Directors and the Executive Committee, ensuring separation between business and operational areas.

**Risk Committee**

Its function is to provide guidance to the Board of Directors and the Executive Committee on understanding and proper management of risks inherent to insurance and pension fund business, and to ensure the adequacy of capital to risk and overall operation.

The Executive Committee defines the role and responsibilities of the Risk Committee and its terms of reference, which are periodically reviewed by the Risk Committee, by the Board of Directors or by the Executive Committee according to the most current regulation and risk management principles.

**Chief Investment Officer**

CIO is responsible for maximizing investment returns within the constraints of the strategic asset mix set by the ALM. The CIO is also responsible for selecting assets to invest, and providing information at the local and group level.

**Compliance officer**

This officer seeks to stimulate, monitor and control observation of laws, regulations, internal rules and ethical standards that are relevant to the integrity and, hence, to the reputation of Millenniumbcp Ageas.

In terms of Corporate Governance, compliance aims to provide reasonable assurance that the company and its Employees comply with these laws, regulations, internal rules and ethical standards.

The officer is also required to develop a confident relationship and mutual understanding with regulators and regulatory authorities in compliance matters.

**Millennium bcp Serviços, ACE**

Millennium bcp Serviços is a complementary group of companies whose mission is to manage resources and services in a structure that integrates, optimises and rationalises IT, operating, administrative and procurement resources.

**Company Rules****Code of Conduct**

Independently of the legal and regulatory arrangements applying to companies in general and insurance and pension schemes in particular, the Board of Directors

has approved a Code of Conduct setting out specific internal regulations that apply to staff and members of the governing bodies in the performance of their roles.

The Code of Conduct defines the principles and the rules to be observed on insurance and pension schemes businesses, namely conflict of interest, professional secrecy and incompatibility.

### ***Risk control internal procedures***

The Board of Directors and the Executive Committee are responsible for defining levels of risks and managing risks with the support of the transversal units, which, in terms of corporate governance, are contributing to the decision making process.

## **Governing Bodies**

### ***General Meeting of Shareholders***

Chairman	Rui Manuel Parente Chancerelle de Machete
Deputy-Chairman	Ana Isabel dos Santos de Pina Cabral
Secretary	João José Carvalho Pereira

### ***Board of Directors***

Chairman	Bart Karel August De Smet
Deputy-Chairman	Maria da Conceição Mota Soares Oliveira Calle Lucas
Member	Kurt André J De Schepper
Member	Stefan Georges Leon Braekeveldt
Member	Jan Adriaan de Pooter
Member	Michel Edmond Joseph Ghislain Baise
Member	Eduardo Manuel Carmona e Silva Consiglieri Pedroso
Member	Manuel Frederico Lupi Belo

### ***Board of Auditors***

Chairman	Joaquim Patrício da Silva
Member	José Rodrigues de Jesus
Member	António Fernando Nogueira Chaves
Member	Belmira Abreu Cabral

### ***Statutory Auditors***

Effective	KPMG & Associados (SROC) Represented by: Maria Inês Rebelo Filipe
Alternate	Vítor Manuel da Cunha Ribeirinho

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Report of the  
Board of Directors**Audit Committee**

Chairman	Maria da Conceição Mota Soares Oliveira Calle Lucas
Member	Kurt André J De Schepper
Member	Stefan Georges Leon Braekeveldt

**Outlook for 2013**

Despite the effects of the financial and economic crisis upon all sectors of the economy, 2012 proved the resilience of the insurance sector, even with a decrease of the premium volumes.

Reality has proven that Millenniumbcp Ageas assumptions were correct, with threats materializing and opportunities emerging along 2012. The organization has executed accordingly to the strategic plan.

One of the main priorities of the banking industry will keep being the deleveraging of the balance-sheet, with impact on the insurance sector, namely Life, since more than 90% of the premium volume comes from bancassurance channel. Non-Life market is also likely to keep flat or falling, as a result of the recessive environment affecting the Portuguese economy, and of the shortage of production coming from the business associated to mortgages & loans also. Sustainable profitability will be the main challenge of the industry in 2013.

Millenniumbcp Ageas decided to have a sequential approach to the new strategic agenda released late 2011. 2012 was a transition year, focused on execution of the first set of strategic priorities: the protection of the franchise (cost control, portfolio retention), and a shift to Non-life stand-alone sales in bancassurance. The preparation work to start delivering on the key pillars of the new strategic agenda is done, and it is traduced in the growth ambitions for the coming years, starting in 2013. Combined effect of scale & scope in Non-life is fundamental to underpin a medium-term diversification of reach of Millenniumbcp Ageas franchise, extending business beyond foundational borders of bancassurance, leveraging the acquired experience with Médis partnerships and with the Agents channel. This diversification will be instrumental to reduce output volatility, expand earnings, and drive a solid & sustained growth of Shareholder value in the coming years.

2013 will start the full steam execution of the growth within current footprint & the expansion of market reach. In very challenging economic circumstances, Millenniumbcp Ageas expects business growth to be underpinned by these two strategic choices. This is a very difficult transition, made in the middle of the storm. Execution of the strategic agenda will lead to a new picture of the Company: still innovative & customer centric, Millenniumbcp Ageas will be a relevant player in Non-life still maintaining a relevant position in Life, a more agile and streamlined organization with a less volatile output, with extended market reach, with a renewed staff profile build upon the foundational corporate DNA.

Millenniumbcp Ageas management team & staff are at the driving seat, fully confident that the Company will keep delivering a superior output & setting the market standards in financial, operational & customer service drivers.

## Proposed Disbursement

Net income for 2012, related to all companies reporting under the consolidated accounts of Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A., was 93,692,368.99 euros (ninety-three million, six hundred and ninety-two thousand, three hundred sixty-eight euros and ninety-nine cents).

Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A. net income was 7,407,395.98 euros (seven million, four hundred and seven thousand, three hundred ninety-five euros and ninety-eight cents).

Considering the Board of Directors report and paragraph c) of Article 376/1 of the Portuguese Companies Code, it is proposed that the reported earnings for 2012, on the amount of 7,407,395.98 euros (seven million, four hundred and seven thousand, three hundred ninety-five euros and ninety-eight cents) be disbursed as follows:

- › 370,369.80 euros (three hundred seventy thousand, three hundred sixty-nine euros and eighty cents), to the legal reserve;
- › 7,037,026.18 euros (seven million, thirty-seven thousand, twenty six euros and eighteen cents), to retained earnings.

LISBON, FEBRUARY 26, 2013

**The Board of Directors**





MANDATORY DISCLOSURES  
SHAREHOLDER STAKE  
OF GOVERNING BODIES  
GLOSSARY



## MANDATORY DISCLOSURES

### Percentage of Held Investment

Ageas Insurance International, N.V. – 51%

BCP Investment B.V. – 49%.



## SHAREHOLDER STAKE OF GOVERNING BODIES

Shareholder/Bondholder	Security	Number of securities at		Transactions in 2012			Unit Price Euros
		31-12-2012	31-12-2011	Acquisitions	Alienations	Date	
Maria da Conceição Mota Soares Oliveira Callé Lucas	BCP shares	100.001	0				
	Ações BCP – Rights issue			57.658		18-Sep-12	0,0290
	Ações BCP – preferred rights subscription			100.001		26-Sep-12	0,0400
Manuel Frederico Lupi Belo	BCP shares	424.767	254.402				
					30.000	10-Sep-12	0,0920
					33.595	10-Sep-12	0,0930
				330.950		5-Out-12	0,0400
					37.000	12-Out-12	0,0720
José Rodrigues Jesus	BCP shares	0	16.353	29.403		28-Sep-12	0,0400
					46.356	30-Nov-12	0,0700
Belmira Abreu Cabral	BCP shares	32.894	12.030	20.864		28-Sep-12	0,0400
Ana Isabel Santos Pina Cabral	BCP shares	74.550	27.264	47.286		28-Sep-12	0,0400
Carlos Alberto Correia Diogo	BCP shares	70.736	24.687	42.816		28-Sep-12	0,0400
				3.233		03-Out-12	0,0400
José Mário Fernandes Ventura	BCP shares	1.213	424	735		28-Sep-12	0,0400
				54		03-Out-12	0,0400
José Ricardo Gonçalves Monteiro	BCP shares	1.206	12.490		12.000	25-Jan-12	0,1370
				716		28-Sep-12	0,0400
Fernando Nogueira Chaves	BCP shares	36.159	36.159				
	Preferred rights reservation BCP	0	0		96.159	20-Sep-12	0,0280
<b>Cônjuge/Filhos Menores</b>							
Armanda Amélia G. Couto Rodrigues Jesus	BCP shares	0	1.873	3.248		28-Sep-12	0,0400
					5.121	30-Nov-12	0,0700
Ester Antunes Lopes	BCP shares	2.471	904	1.567		28-Sep-12	0,0400
	BCP Mill Rend Ext Abr 12/15	7	7				
	Mill BCP Subord 10/20	7	7				
Maria Cruz Moura Maia Nogueira Chaves	BCP shares	1.899	1.899				
	Preferred rights reservation BCP	0	0		1.899	20-Sep-12	0,0280

## GLOSSARY

### A

**Acquisition cost:** cost of acquiring new and renewed insurance business, namely, commissions, underwriting, advertising and policy issue expenses.

**Amortised Cost:** the amount at which a financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation/accretion of any premium/discount, and minus any write-down for impairment.

**Asset Liability Management (ALM):** is the on-going process of formulating, implementing, monitoring and revising attempt to achieve financial objectives for a given set of risk tolerances and constraints.

**Average Return on Financial Investments (Book Value):** average return on financial investments calculated considering the actual accounting principles.

### B

**Bancassurance:** sale of insurance contracts through banking distribution channel.

**Basis point (bp):** one hundredth of 1%.

### C

**Close-end Pension Funds:** may have one, or more members, since these members are tied up by the same organisation. New admissions need the existing members approval. May be created by one or more organisations.

**Combined Ratio:** the sum of the Non-Life loss ratio and the expense ratio

**Cost of Reinsurance:** cost of an operation whereby an insurer wishing to lower his exposure to a risk considered as excessive or dangerous, passes a portion of the risk exposure and its related premium to a reinsurer.

**Cross-selling:** strategy of using an existing customers database of one product as prospective customers for other products.

### D

**Derivative:** financial instrument such as a swap, a forward, a future contract and an option. This financial instrument has a value that changes in response to changes in various underlying variables. It requires little or no net initial investment, and is settled at a future date.

**Direct Written Premiums:** includes premiums received from all sources related to insurance contracts.

### E

**Earned Premiums:** book-keeping value of premiums regarded as revenue in a particular period.

**Economic Capital:** is the amount of capital that the company requires in order to support the economic risks it faces.

**Embedded derivative:** derivative instrument that is embedded in another contract – the host contract. The host contract might be a debt or equity instrument, a lease, an insurance contract, a sale or a purchase contract.

**Embedded Value:** the estimate economic value of a specific insurance company excluding any value which may be generated by future new business, based on the sum of shareholder's funds and the value of its current portfolio.

**Employee Benefits:** all forms of considerations given by an entity in exchange for services rendered by employees, in addition to their pay or salary.

**Expense Ratio:** ratio resulting from the division of general expenses (administrative costs, depreciation, commissions, network fee etc.) allocated to a specific activity by earned premiums.

## F

**Fair Value:** *the amount for which an asset (liability) can be bought (incurred) or sold (settled).*

**Funds Under Management:** assets (e.g. shares, bonds and real estate) managed by a financial services provider.

## G

**Goodwill:** represents the excess of the fair value of the assets given, liabilities incurred or assumed and equity instruments issued; usually is accounted for only in case of acquisition.

**Gross Written Premiums:** includes direct written premiums and reinsurance accepted premiums.

## I

**IFRS:** international Financial Reporting Standards, used as a standard for all listed companies within the European Union as of 1 January 2005 to ensure transparent and comparable accounting and disclosure.

**Impairment:** a decline in value whereby the carrying amount of the asset exceeds the recoverable amount. In such a case, the carrying amount will be reduced to its recoverable amount through the income statement.

**Indemnity:** the cost of the loss replacement to a victim through the substitution, repair, or when not feasible, through monetary compensation. The amount paid by an insurance company to a policyholder or third party, after a claim against a policy.

**Insurance Contract:** contract under which one party accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

**Investment Contract:** Life insurance policy contract that transfers financial risk without transferring significant insurance risk.

## L

**Loading Rate:** the average number of policies held by a Client.

**Loss Ratio:** the ratio obtained by the division of costs incurred with claims over earned premiums.

## M

**Market Share:** ratio calculated for the domestic market from direct insurance premiums of a company and direct insurance premiums in the total market, over the past 12 months of operations.

## O

**Open-end Pension Funds:** may be created by any organisation legally authorised to manage pension funds. New admissions conditioned only by the approval of the managed organisation.

## P

**Penetration Rate:** the average number of policies held by a Client and thus a benchmark of Client loyalty to a company.

**Profit sharing:** contractual right to receive additional benefits, as a supplement to guaranteed benefits.



**R**

**Return on Equity (ROE):** financial indicator that allows us to evaluate the financial return to the shareholders. It is calculated by the ratio between net earnings for the year and average shareholder equity for the same period.

**S**

**Shadow accounting:** In accordance with IFRS 4, the unrealised gains and losses on the assets covering liabilities arising out from insurance and investment contracts with discretionary participating features are attributed to policyholder, to the extent that it is expected that they will participate on those unrealised gains and losses when they became realised in accordance with the terms of the contracts and applicable legislation, by recording those amounts under liabilities.

**Solvency Ratio:** range of resources held by a company (net assets) apart from those legally required to meet current obligations to insurance policyholders.

**Subordinated Loan:** loan that ranks below other loans with regard to claims on assets or earnings.

**T**

**Technical Margin:** earnings after deduction of costs related to operations, such as claims, commissions and technical provisions, acquired premium revenue net of reinsurance and investment income related to technical provisions.

**Technical Reserves:** one of the main financial guarantee required of companies operating in the insurance business. The technical reserves that must be established and maintained are: Unearned Premium Reserve; Reserve for Risks Underway; Mathematical Reserve for Life Insurance; Ageing Reserve; Loss Reserve; Profit Sharing and Equalisation Reserve.

**V**

**Value of Current Portfolio:** the value of the current portfolio is determined by the current value of future profits after tax, adjusted for the cost of maintaining a determined level of solvency margin usually expressed as percentage of the minimum required under the current regulations.

**VOBA (Value of Business Acquired):** corresponds to the estimated present value of the future cash flows from the contracts in force at the date of acquisition.

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