

**ANNUAL REPORT**

2012

**Volume 2**

CONSOLIDATED  
FINANCIAL  
STATEMENTS



**ANNUAL REPORT**

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FINANCIAL  
STATEMENTS

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## Consolidated income statement

EUR	Note	2012				2011			
		Life	Non Life	Non technical	Total	Life	Non Life	Non technical	Total
Net premiums earned	1	285,479,350	204,064,770	—	489,544,120	312,100,782	203,294,567	—	515,395,349
Gross premiums		311,346,141	240,245,577	—	551,591,718	338,652,381	237,258,790	—	575,911,171
Reinsurance ceded premiums		(25,866,791)	(36,575,769)	—	(62,442,560)	(26,551,599)	(36,436,312)	—	(62,987,911)
Change in unearned premiums		—	2,891,711	—	2,891,711	—	4,475,655	—	4,475,655
Change in unearned reinsurance premiums		—	(2,496,749)	—	(2,496,749)	—	(2,003,566)	—	(2,003,566)
Fees on investment contracts	2	48,535,594	—	—	48,535,594	63,024,243	—	—	63,024,243
Net claims expenses	3	(692,665,508)	(142,121,031)	—	(834,786,539)	(955,618,482)	(142,617,242)	—	(1,098,235,724)
Claims paid		(712,549,480)	(139,235,134)	—	(851,784,614)	(938,574,316)	(139,382,317)	—	(1,077,956,633)
Claims paid gross		(726,801,369)	(148,685,280)	—	(875,486,649)	(952,336,652)	(151,225,590)	—	(1,103,562,242)
Reinsurance share of claims paid		14,251,889	9,450,146	—	23,702,035	13,762,336	11,843,273	—	25,605,609
Change in claims reserves		19,883,972	(2,885,897)	—	16,998,075	(17,044,166)	(3,234,925)	—	(20,279,091)
Change in claims reserves gross		20,103,828	(2,478,032)	—	17,625,796	(17,044,166)	(4,653,184)	—	(21,697,350)
Reinsurers share in change in claims reserves		(219,856)	(407,865)	—	(627,721)	—	1,418,259	—	1,418,259
Changes in other technical reserves net	4	—	(397,090)	—	(397,090)	—	210,152	—	210,152
Changes in mathematical reserves, net	4	433,485,820	—	—	433,485,820	648,356,754	—	—	648,356,754
Changes in mathematical reserves gross		433,565,396	—	—	433,565,396	648,232,584	—	—	648,232,584
Reinsurance share in changes in mathematical reserves		(79,576)	—	—	(79,576)	124,170	—	—	124,170
Profit sharing, net	4	(44,874,233)	(462,000)	—	(45,336,233)	(54,439,062)	(601,419)	—	(55,040,481)
Acquisitions and administrative expenses, net	5	(53,764,441)	(47,324,620)	—	(101,089,061)	(64,366,734)	(46,201,762)	—	(110,568,496)
Acquisition expense		(45,833,339)	(35,246,531)	—	(81,079,870)	(57,540,610)	(34,243,681)	—	(91,784,291)
Changes in deferred acquisition costs		—	(183,484)	—	(183,484)	—	(749,467)	—	(749,467)
Administrative expenses		(17,571,895)	(23,898,695)	—	(41,470,590)	(16,676,169)	(23,448,397)	—	(40,124,566)
Reinsurance commissions and profit sharing		9,640,793	12,004,090	—	21,644,883	9,850,045	12,239,783	—	22,089,828
Interest, dividends and other similar income	6	150,489,232	4,142,487	15,061,686	169,693,405	194,437,868	5,057,318	18,609,528	218,104,714
From financial assets not held at fair value through profit and loss		150,489,232	4,142,487	15,061,686	169,693,405	194,437,868	5,057,318	18,609,528	218,104,714
Financial expenses	7	(17,974,167)	(835,401)	(416,249)	(19,225,817)	(24,410,036)	(1,010,444)	(1,964,825)	(27,385,305)
From financial assets not held at fair value through profit and loss		(17,289,059)	(835,401)	(416,249)	(18,540,709)	(21,544,464)	(1,010,444)	(1,962,170)	(24,517,078)
From financial liabilities not held at fair value through profit and loss		(685,108)	—	—	(685,108)	(2,865,572)	—	(2,655)	(2,868,227)
Net gains/(losses) from financial assets not held at fair value through profit and loss	8	11,866,170	(99,059)	32,283	11,799,394	(10,259,028)	325,523	(1,359,277)	(11,292,782)
From investments available for sale		11,866,170	(99,059)	32,283	11,799,394	(10,705,634)	325,523	(1,359,277)	(11,739,388)
From loans and receivables		—	—	—	—	446,606	—	—	446,606
Net gains/(losses) from financial assets and liabilities held at fair value through profit and loss	9	2,087,614	—	4,881,778	6,969,392	5,641,345	—	(695,433)	4,945,912
From financial assets and liabilities held for trading		313,352,713	—	—	313,352,713	155,287,751	—	—	155,287,751
From financial assets and liabilities held at fair value through profit and loss		(311,265,099)	—	4,881,778	(306,383,321)	(149,646,406)	—	(695,433)	(150,341,839)
Net gains/(losses) from foreign exchange	10	132,441	—	—	132,441	(863,995)	—	—	(863,995)
Impairment charges (net of reversals)	11	(76,801)	—	(1,914,844)	(1,991,645)	(102,300,981)	(1,120,443)	(2,549,307)	(105,970,731)
From investments available for sale		(76,801)	—	—	(76,801)	(102,300,981)	(1,120,443)	(1,555,293)	(104,976,717)
Other		—	—	(1,914,844)	(1,914,844)	—	—	(994,014)	(994,014)
Other technical income / (expenses), net	12	(23,071,954)	116,529	—	(22,955,425)	(26,046,067)	176,368	—	(25,869,699)
Changes in other provisions	11	—	—	320,000	320,000	—	—	—	—
Other non technical income / (expenses)	12	—	—	3,707,213	3,707,213	—	—	6,457,402	6,457,402
<b>Profit before tax</b>		<b>99,649,117</b>	<b>17,084,585</b>	<b>21,671,867</b>	<b>138,405,569</b>	<b>(14,743,393)</b>	<b>17,512,618</b>	<b>18,498,088</b>	<b>21,267,313</b>
Current tax	26	—	—	(28,951,969)	(28,951,969)	—	—	(8,123,820)	(8,123,820)
Deferred tax	26	—	—	(15,761,230)	(15,761,230)	—	—	3,268,979	3,268,979
<b>Profit after tax</b>		<b>99,649,117</b>	<b>17,084,585</b>	<b>(23,041,332)</b>	<b>93,692,370</b>	<b>(14,743,393)</b>	<b>17,512,618</b>	<b>13,643,247</b>	<b>16,412,472</b>

## Consolidated statement of comprehensive income

EUR	2012	2011
Profit after tax	93,692,370	16,412,472
Unrealised gains and (losses), net		
Unrealised gains and (losses), gross	448,149,228	(288,790,052)
Current and deferred taxes	(138,449,997)	73,581,004
	<b>309,699,231</b>	<b>(215,209,048)</b>
Total comprehensive income for the year	403,391,601	(198,796,576)

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## Consolidated balance sheet

EUR	Note	2012	2011
Cash and equivalents	14	139,303,695	213,549,355
Trading assets	15	209,580,274	98,527,808
Investments held at fair value through profit and loss	16	5,506,155,071	4,635,086,256
Investments available for sale	17	4,345,681,771	4,525,172,465
Loans and receivables	18	511,694,670	769,753,833
Other deposits		511,694,670	769,753,833
Investments held to maturity	19	697,845,383	670,543,275
Investment property	20	4,656,008	4,879,664
Other tangible assets	21	1,361,843	1,297,866
Inventories		18,650	18,650
Goodwill	22	315,740,469	315,740,469
Other intangible assets	22	191,519,840	215,037,765
Reinsurance reserves	23	18,468,161	21,672,208
Reinsurers share in reserve for unearned premiums		7,635,677	10,132,426
Reinsurers share in mathematical reserves		769,515	849,091
Reinsurers share in claims reserves		10,062,969	10,690,691
Assets for employee benefits (long term)	24	4,486,920	3,836,588
Trade and other receivables	25	27,495,080	37,416,649
Receivables from policyholders		15,473,551	14,371,789
Receivables from reinsurance operations		8,012,820	9,924,114
Other receivables		4,008,709	13,120,746
Income tax assets	26	47,009,079	163,714,215
Current tax assets		24,756,596	26,421,656
Deferred tax assets		22,252,483	137,292,559
Accrued income and deferred charges	27	1,743,604	1,900,509
<b>Total assets</b>		<b>12,022,760,518</b>	<b>11,678,147,575</b>
Technical reserves	23	4,675,333,789	5,091,130,205
Unearned premiums reserve		35,800,096	38,508,323
Life mathematical reserves		4,453,507,130	4,844,968,796
Claims outstanding reserve		133,850,773	152,455,830
Claims reserves life		35,899,587	56,089,209
Claims reserves workers' compensation		23,022,501	20,986,230
Claims reserves other		74,928,685	75,380,391
Profit sharing reserves		46,941,812	50,360,368
Equalisation reserve		885,923	825,902
Unexpired risk reserve		4,348,055	4,010,986
Investment contracts liabilities at fair value through profit and loss	28	5,786,791,790	5,266,382,493
Other financial liabilities	29	13,485,536	228,135,652
Funds held under reinsurance agreements		13,485,536	15,611,083
Other liabilities		–	212,524,569
Liabilities for employee benefits (long term)	24	545,191	431,319
Trade and other payables	30	47,685,239	55,845,546
Due to agents, policyholders and intermediaries		11,434,722	20,577,867
Due to reinsurers		4,778,913	7,581,069
Other liabilities		31,471,604	27,686,610
Income tax liabilities	26	130,979,303	69,525,771
Current tax liabilities		76,997,874	8,475,925
Deferred tax liabilities		53,981,429	61,049,846
Deferred income and accrued charges	31	12,965,392	14,705,241
Provisions	32	5,294,797	5,703,467
<b>Total liabilities</b>		<b>10,673,081,037</b>	<b>10,731,859,694</b>
Share capital		1,000,002,375	1,000,002,375
Fair value reserve (gross)		(146,273,472)	(594,422,700)
Fair value reserve (current and deferred taxes)		12,849,868	151,299,865
Other reserves		8,187,297	7,717,054
Retained earnings		381,221,043	365,278,815
Profit after tax		93,692,370	16,412,472
<b>Total equity</b>	<b>33</b>	<b>1,349,679,481</b>	<b>946,287,881</b>
<b>Total liabilities and equity</b>		<b>12,022,760,518</b>	<b>11,678,147,575</b>
Earnings per share		0,5	0,1



## Consolidated statement of changes in equity

EUR	Share capital	FAIR VALUE RESERVE			Legal reserve	Retained earnings	Profit after tax	Total equity
		Gross	Current and Deferred taxes	Net				
<b>Balance as at 31 December, 2010</b>	<b>1,000,002,375</b>	<b>(305,632,648)</b>	<b>77,718,861</b>	<b>(227,913,787)</b>	<b>7,621,014</b>	<b>251,277,807</b>	<b>114,097,047</b>	<b>1,145,084,456</b>
Transfers to reserves	–	–	–	–	96,040	114,001,007	(114,097,047)	–
Unrealised gains and (losses), net	–	(288,790,052)	73,581,004	(215,209,048)	–	–	–	(215,209,048)
Profit after tax	–	–	–	–	–	–	16,412,472	16,412,472
<b>Balance as at 31 December, 2011</b>	<b>1,000,002,375</b>	<b>(594,422,700)</b>	<b>151,299,865</b>	<b>(443,122,835)</b>	<b>7,717,054</b>	<b>365,278,814</b>	<b>16,412,472</b>	<b>946,287,880</b>
Transfers to reserves	–	–	–	–	470,243	15,942,229	(16,412,472)	–
Unrealised gains and (losses), net	–	448,149,228	(138,449,997)	309,699,231	–	–	–	309,699,231
Profit after tax	–	–	–	–	–	–	93,692,370	93,692,370
<b>Balance as at 31 December, 2012</b>	<b>1,000,002,375</b>	<b>(146,273,472)</b>	<b>12,849,868</b>	<b>(133,423,604)</b>	<b>8,187,297</b>	<b>381,221,043</b>	<b>93,692,370</b>	<b>1,349,679,481</b>

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## Consolidated cash flows statements

EUR	2012	2011
<b>Cash flow from operating activities</b>		
Profit after tax	93,692,370	16,412,472
Adjustment for:		
Depreciation and amortisation	25,313,392	29,269,883
Change in technical reserves	(415,796,416)	(582,148,423)
Change in investment contracts liabilities	520,409,297	(751,822,745)
Change in provisions	(408,670)	(4,423,322)
Change in reinsurance reserves	3,204,047	430,221
Impairment on available for sale	76,801	104,976,717
Impairment on investment property	—	442,826
Impairment charges on other assets	1,914,844	551,189
Change in deferred and current tax assets/liabilities	178,158,668	(42,810,865)
Changes in operational assets and liabilities:		
Trading assets and liabilities	(111,052,466)	100,457,867
Loans and receivables	258,059,163	(468,703,667)
Trade and other receivables	8,006,725	7,561,355
Other assets and liabilities	(2,119,404)	(3,178,786)
Other financial liabilities	(214,650,116)	(2,495,999)
Trade and other payables	(8,160,307)	1,371,479
	<b>336,647,928</b>	<b>(1,594,109,798)</b>
<b>Cash flow from investment activities</b>		
Change in investments held at fair value through profit and loss	(871,068,815)	1,221,833,836
Change in investments available for sale	489,113,123	1,102,600,446
Change in investments held to maturity	(27,302,108)	(670,543,275)
Net Purchase/sale of tangible and intangible assets	(1,635,788)	(1,211,100)
	<b>(410,893,588)</b>	<b>1,652,679,907</b>
<b>Net increase in cash and cash equivalents</b>	<b>(74,245,660)</b>	<b>58,570,109</b>
Cash and cash equivalents at the beginning of the year	213,549,355	154,979,246
<b>Cash and cash equivalents at the end of the year</b>	<b>139,303,695</b>	<b>213,549,355</b>

**NOTES TO THE  
CONSOLIDATED  
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## 02

Notes to the  
Consolidated  
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Statements**II.1 Accounting policies****a) Basis of presentation**

Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A., ('Millenniumbcp Ageas' or 'Group' or 'Company') is a private company established by deed in Portugal, on 28 September 2004, being held by Ageas Group (51%) and Banco Comercial Português, S.A. (49%).

The sole purpose of the Company is to operate as a holding company. It can provide administrative and management services to subsidiary and associated companies in compliance with the articles of association and applicable laws, and can also invest in other companies.

Following the contract established in July 2004, between Banco Comercial Português, S.A. and Ageas Group, Millenniumbcp Ageas acquired Ocidental – Companhia Portuguesa de Seguros, S.A., Ocidental – Companhia Portuguesa de Seguros de Vida, S.A., Pensõesger – Sociedade Gestora de Fundos de Pensões, S.A. and Médis – Companhia Portuguesa de Seguros de Saúde, S.A. The referred contract was subject to the suspensive condition of non-opposition by the Regulatory Entities. The referred authorizations by the national regulatory entities were obtained in December 2004, allowing for the execution of the contract. The shares were legally transferred in January 2005, date on which control over these subsidiaries was obtained.

For the year ended 31 December, 2012, the Group's consolidated financial statements were prepared in accordance with the Plan of Accounts for the Insurance Companies ("PCES 07") issued by the Portuguese Insurance Institute and approved by the Rule n. 4/2007 of April 27 and taking into account the subsequent changes introduced by Rule n. 20/2007 – R of 31 December and Rule n. 22/2010 – R of 16 December. This Plan of accounts introduced the International Financial Reporting Standards ('IFRS') as adopted for use in the European Union ('EU'), except the measurement criteria of IFRS 4 Insurance Contracts. IFRS comprise accounting standards issued by the International Accounting Standards Board ('IASB') and its predecessor body, as well as interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

The consolidated financial statements presented were approved by the Board of Directors on 25 February, 2013.

The Group adopted the IFRS interpretations that were mandatory applicable for the accounting periods beginning on 1 January 2012.

The accounting policies set out below have been consistently applied throughout the Group entities and for all periods presented on these consolidated financial statements.

The consolidated financial statements are expressed in euros and have been prepared under the historical cost convention, as modified by the revaluation of investments on behalf of policyholders, derivative contracts, financial assets and financial liabilities at fair value through profit or loss and available-for-sale

financial assets. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

The preparation of the financial statements, in conformity with the Plan of Accounts for the Insurance Companies requires the Board of Directors to make judgments, estimates and assumptions that affects the process of applying the Group's accounting policies and the reported amounts of income, expenses, assets and liabilities. These estimates and assumptions are based on the latest available reliable information, resulting from the assessment of the present status of, and expected, future associated benefits and obligations. Actual results may differ from these estimates.

## **b) Basis of consolidation**

As from 1 January, 2010 onwards, the Group applied IFRS 3 (revised) for the accounting of business combinations. The changes in the accounting policies resulting from the application of IFRS 3 (revised) are applied prospectively.

The consolidated financial statements of Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A. (the 'Parent Company') comprise the financial statements of Millenniumbcp Ageas and its subsidiaries ('the Group').

All Group companies have consistently applied the accounting policies.

## **Investments in subsidiaries**

Subsidiaries are entities over which the Group exercises control. Control is presumed to exist when the Group owns more than half of the voting rights. Additionally, control also exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity, so as to obtain benefits from its activities, even if its shareholding is less than 50%. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases.

Accumulated losses of a subsidiary attributable to non-controlling interests which exceed the equity of the subsidiary attributable to the minority interest are attributed to the Group and are taken to the income statement when incurred. If the subsidiary subsequently reports profits, such profits are recognised by the Group until the losses attributable to the minority interest previously recognised have been recovered.

As from 1 January, 2010, the due proportion of accumulated losses is attributed to non-controlling interests, implying that the Group can recognize negative non-controlling interests.

As from 1 January, 2010, on a step acquisition process resulting in the acquisition of control the revaluation of any participation previously acquired is booked against the profit and loss account, when goodwill is calculated. On a partial disposal resulting in loss of control over a subsidiary, any participation retained is revalued at market value on the sale date and the gain or loss resulting from this revaluation is booked against the income statement.

## 02

Notes to the  
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As of 31 December, 2012 and 2011, the subsidiary companies included in the consolidation are as follows:

<b>SUBSIDIARY COMPANIES</b>	<b>% Share participation</b>	<b>Activity</b>
Ocidental-Companhia Portuguesa de Seguros, S.A.	100%	Non life
Ocidental-Companhia Portuguesa de Seguros de Vida, S.A.	100%	Life
Pensõesgere – Sociedade Gestora de Fundos Pensões, S.A.	100%	Pensions fund management
Médis – Companhia Portuguesa de Seguros de Saúde, S.A.	100%	Health

### Goodwill and VOBA (Value of Business Acquired)

Business combinations are accounted for using the purchase method of accounting. The acquisition cost corresponds to the fair value, determined at the acquisition date, of the assets given and liabilities incurred or assumed including the costs directly attributable to the acquisition, for acquisitions up to 31 December, 2009.

As from 1 January, 2010 onwards, costs directly attributable to the acquisition of a subsidiary are booked directly in the income statement.

Positive goodwill arising from acquisitions is recognised as an asset carried at acquisition cost and is not subject to amortisation. Goodwill arising on the acquisition of subsidiaries is defined as the difference between the cost of acquisition and the corresponding share of the fair value of the net assets and contingent liabilities acquired, depending on the option taken.

Negative goodwill arising on an acquisition is recognised directly in the income statement in the year the business combination occurs.

The recoverable amount of the goodwill in subsidiaries is assessed annually, regardless of the existence of any impairment triggers. Impairment losses are recognised in the income statement. The recoverable amount is determined based on the value in use of the assets, calculated using valuation methodologies supported by discounted cash flow techniques, considering market conditions, the time value of money and the business risks.

Until 31 December 2009, contingent acquisition prices were determined based on the best estimate of probable future payments, being the future changes in the estimate booked against “goodwill”. As from 1 January 2010, goodwill is no longer adjusted due to changes in the initial estimate of the contingent purchase price and the difference is booked in the income statement.

The value of business acquired (VOBA) is recognised as an intangible asset and amortised over the gross profit recognition period of the acquired policies, subject to impairment test. VOBA corresponds to the estimated present value of the future cash flows from the contracts in force at the date of acquisition.

### Balances and transactions eliminated in consolidation

Inter-company balances and transactions, including any unrealised gains and losses on transactions between Group companies, are eliminated in preparing

the consolidated financial statements, unless unrealised losses provides evidence of an impairment loss that should be recognised in the consolidated financial statements.

## **c) Insurance and Investment contracts**

### **Classification**

Millenniumbcp Ageas issues contracts that contain insurance risk, financial risk or a combination of both insurance and financial risk. A contract, under which the Group accepts significant insurance risk from another party, by agreeing to compensate that party on the occurrence of a specified uncertain future event, is classified as an insurance contract.

A contract issued by the Group without significant insurance risk, but on which financial risk is transferred with discretionary participating features is classified as investment contract recognized and measured in accordance with the accounting policies applicable to insurance contracts. A contract issued by the Group that transfers only financial risk, without discretionary participating features, is classified as an investment contract and accounted for as a financial instrument.

### **Recognition and measurement**

Premiums from life insurance policies and investment contracts with discretionary participation features and that are considered long duration type contracts are recognised as revenue when due from the policyholder. Benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies. This matching is accomplished by the establishment of liabilities of the insurance policies and investment contracts with discretionary participation features.

The liability corresponds to the expected discounted cash flows of the benefit payments, net of the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used. The liability is based on assumptions such as the mortality, maintenance expenses or investment income established at valuation date.

For contracts with premium payments due over a significantly shorter period than the benefit period, revenues are deferred and recognised in income in proportion to the duration of insurance coverage.

For short duration type contracts (mainly non-life), premiums are recorded as written upon inception of the contract. Premiums are recognised in income as earned on a *pro rata* basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of the coverage.

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The unit linked contracts held by the Group that transfer only financial risk, without discretionary participating features, have been classified as an investment contract and accounted for as a financial instrument. The liabilities correspond to the unit value, less the administration policy fees, surrenders charges and any withdrawals.

The unit linked contract held by the Group are classified as financial liabilities, with the respective fair value being dependent on the fair value of the underlying financial assets, derivatives and / or investment property, and have been accounted at fair value through profit and loss. Valuation techniques are used to establish the fair value at inception, and for each reporting date. The fair value of a unit linked financial liability is determined using the current unit values, that reflect the fair value of the financial assets within each investment fund, multiplied by the number of units attributable to the contract holder at the reporting date.

Unit-linked investments represent funds maintained to meet specific investment objectives of third parties that bear the investment risk. Investments are measured at fair value with the change in fair value recognised in income. Liabilities are reported at amounts owed to the third parties at the balance sheet date, including the fair value of any guarantees or embedded derivatives.

#### **d) Acquisition costs**

The non-life costs of acquiring new and renewed insurance business, mainly commissions, underwriting, agency and policy issue expenses, all of which vary with and primarily are related to the production of new business, are deferred and amortised. Deferred acquisition costs ("DAC") are periodically reviewed to ensure their recoverability based on estimates of future profits of the underlying contracts. Deferred acquisition costs are amortised over the period in which the related premiums written are earned.

#### **e) Insurance policy and claims reserves**

##### **Life mathematical reserve**

The life mathematical reserve reflects the present value of the Group's future obligations arising from life policies written and is calculated in accordance with recognised actuarial methods within the scope of applicable legislation.

##### **Claims outstanding reserves**

Claims outstanding reserves reflects the estimated outstanding liability for reported claims, and incurred but not reported claims (IBNR). Management based on experience and available data using statistical methods estimates



reserves for both reported and non-reported claims. Additionally, claims reserves also include an estimation related with future indirect costs with claims settlement (“expense reserve”).

The mathematical reserve relating to obligations to pay life pensions resulting from workmen’s compensation claims is calculated by using actuarial assumptions, with reference to recognised actuarial methods and current labour legislation.

Claims reserves are not discounted, except life pensions arising from workers compensation claims.

### Reserve for bonuses and rebates (profit sharing)

The reserve for bonuses and rebates corresponds to the amounts attributed to policyholders or beneficiaries of insurance or investment contracts, in the form of profit participation, which have not yet been specifically allocated and included in the life insurance reserve or paid to policyholders.

### Unexpired risk reserve

The unexpired risks reserve represents the amount by which expected claims and administrative expenses likely to arise after the end of the financial year, from contracts concluded before that date, exceeds the provision for unearned premiums, any expected future premiums expected to be written under those contracts and from premiums renewed on January next year.

### Ageing reserve

The ageing reserve corresponds to the present value of the Group’s future obligations arising from health policies after deduction of future premiums. It is calculated only for contracts covering more than one year and with levelled premiums.

### Liability adequacy test

At each reporting date, the Group performs a liability adequacy test to the insurance and investment contracts with discretionary participating features liabilities. The assessment of the liabilities is performed using the best estimate of future cash flows under each contract, discounted at a risk free rate. The liability adequacy test is performed product by product or on an aggregated basis, when contracts are subject to broadly similar risks and managed as a single portfolio. Any deficiency, when detected, is recognised directly through income.

### Equalization reserve

The equalization reserve is made for those lines of business that, given their nature, contain greater uncertainty as to the evolution of the claims ratio.

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In accordance with the Plan of Accounts for the insurance companies ("PCES 07"), 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.

**f) Financial assets****Classification**

Millenniumbcp Ageas classifies financial assets based on the business purposes of entering into these transactions, as follows:

- › Financial assets at fair value through profit or loss – This category includes: (i) financial assets held for trading, which are those acquired principally for the purpose of selling in the short term and (ii) financial assets that are designated at fair value through profit or loss at inception. This portfolio includes the investments held on behalf of policyholders.
- › Available-for-sale investments – Available-for-sale investments are non-derivative financial assets (i) intended to be held for an indefinite period of time, (ii) designated as available-for-sale at initial recognition or (iii) that are not classified in the other categories referred to above.
- › Loans and receivables – This category includes receivables related with direct, reinsurance ceded transactions arising from insurance contracts and other transactions.
- › The financial assets held-to-maturity – This category includes non-derivative financial assets with fixed or determinable payments and fixed maturity, that the Group has the intention and capacity to maintain until the maturity of the assets and that were not included in the category of financial assets at fair value through profit and loss or financial assets available for sale. These financial assets are initially recognised at fair value and subsequently measured at amortized cost. The interest is calculated using the effective interest rate method and recognised in Net interest income.

Any reclassification or sale of financial assets included in this category that does not occur close to the maturity of the assets will require the Group to reclassify the entire portfolio as financial assets available for sale and the Group will not be allowed to classify any assets under this category for the following two years.

## Initial recognition, measurement and derecognition

Purchases and sales of: (i) financial assets at fair value through profit or loss, (ii) available for sale investments (iii) loans and receivables, and (iv) financial assets held to maturity are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, in which case transaction costs are directly recognised on the income statement.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or the Group has transferred substantially all risks and rewards of ownership or the Group has not retained control of the assets.

## Subsequent measurement

Financial assets at fair value through profit or loss are subsequently carried at fair value with the respective gains and losses arising from changes in their fair value being included in the income statement in the period in which they arise.

Available-for-sale financial assets are also subsequently carried at fair value. However, gains and losses arising from changes in their fair value are recognised directly in equity, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Foreign exchange differences arising from equity investments classified as available-for-sale are also recognised in equity, while foreign exchange differences arising from debt investment securities are recognised in the income statement. Interest, calculated using the effective interest method and dividends are recognised in the income statement.

The fair values of quoted investments in active markets are based on current bid prices. For unlisted securities the Group establishes fair value by using (i) valuation techniques, including the use of recent arm's length transactions, discounted cash flow analysis and option pricing models and (ii) valuation assumptions based on market information.

Loans and receivables are subsequently measured at amortised cost using the effective interest rate method.

Financial instruments whose fair value cannot be reliably measured are carried at cost.

## Reclassifications between categories

In October 2008, the IASB issued a change to IAS 39 – Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7: Financial Instruments Disclosures). This change allowed an entity to transfer financial assets from financial assets at fair value through profit and loss – trading to financial assets available for sale, to Loans and Receivables – Loans represented by securities or to financial assets

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held-to maturity, as long as the requirements described in the Standard are met, namely:

- › If a financial asset, at the date of reclassification present the characteristics of a debt instrument for which there is no active market; or
- › When there is some event that is uncommon and highly improbable that will occur again in the short term, that is, the event can be classified as a rare circumstance.

During 2011, the Group adopted this possibility for a group of financial assets, as disclosed in note 19. Transfer of financial assets recognized in the category of financial assets available-for-sale to Loans and receivables – Loans represented by securities and financial assets held-to-maturity are permitted.

Transfers from and to Financial assets and financial liabilities at fair value through profit and loss by decision of the entity ("Fair value option") are prohibited.

### Impairment

The Group assesses periodically whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment, the recoverable amount of the asset is determined and impairment losses are recognised through the income statement.

A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after their initial recognition, such as: (i) for listed securities, a significant or prolonged decline in the fair value of the security below its cost, (ii) for unlisted securities, when that event (or events) has a significant impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In accordance with Group accounting policies, 25% decline in the fair value of an investment in an equity security is assumed to be a significant decline in fair value and 1 year is assumed as a prolonged period that the fair value is below cost.

If there is objective evidence that an impairment loss on available-for-sale financial assets has been incurred, the cumulative loss recognised in equity – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is taken to the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed through the income statement up to the acquisition cost, except in relation to equity instruments, in which case the reversal is recognised in equity.

Regarding financial assets held to maturity, the impairment losses are recognised in profit and loss when the net present value, calculated based on the original interest rate, is lower than the book value.

## Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is re-measured on a regular basis and the resulting gains or losses on re-measurement are recognised directly in the income statement.

Fair values are obtained from quoted market prices, in active markets, if available, or are determined using valuation techniques including discounted cash flow models and options pricing models, as appropriate. When it is not possible to estimate with reliability the fair value, the instruments are recognised at acquisition cost.

## Embedded derivatives

Derivatives that are embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

## g) Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, independently from its legal form.

Non-derivatives financial liabilities include amounts due to policyholders, reinsurers and other liabilities. These financial liabilities are recognised (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest method.

## h) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legal enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

## i) Repurchase transactions

Investments sold under repurchase agreements at a predetermined price ('repos') continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for either assets held for trading or

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available-for-sale as appropriate. The proceeds from the sale of the investments are reported as liabilities to banks.

The difference between the sale and repurchase conditions is recognized on an accrual basis over the period of the transaction and is included in interest and income or expenses.

## j) Reinsurance

Reinsurance contracts are reviewed to determine if significant insurance risk is transferred within the contract. Reinsurance contracts that do not transfer significant insurance risk are accounted for using the deposit method and included in loans or borrowings as a reinsurance financial asset or liability. Amounts received or paid under these contracts are accounted for as deposits using the effective interest method.

Millenniumbcp Ageas assumes and/or cedes reinsurance in the normal course of business. Reinsurance receivables mainly include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Amounts recoverable from or due to reinsurers are estimated in a manner consistent with the amounts associated with the reinsured policies and in accordance with the reinsurance contract. Reinsurance is presented on the consolidated balance sheet on a gross basis unless a right of offset exists.

The accounting requirements for liabilities related to accepted reinsurance contracts with significant insurance risk are the same as those applied to direct written insurance contracts.

## k) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to euro at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement, except when qualified as cash flow hedges or net investment hedges, being accounted on equity.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. The translations differences on non-monetary items, such as equity securities classified as available-for-sale financial assets, are included in the fair value reserve.

## l) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method over their estimated useful lives, as follows:

	Life time (years)
Premises	34
Administrative equipment	8
Computer hardware	3–5
Tools and equipment	5 to 7
Furniture and fixtures	10
Motor vehicles	4
Other tangible fixed assets	4 to 8

The useful lives and depreciation method are reviewed at each balance sheet date and adjusted, if appropriate, according with the expected pattern of consumption of the economic benefits embodied in the asset.

When there is an indication that an asset may be impaired, IAS 36 requires that its recoverable amount is estimated and impairment loss recognised when the net book value of the asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is determined as the greater of the fair value less cost to sell or value in use, which is based on the net present value of future cash flows arising from the continuing use and ultimate disposal of the asset.

## m) Intangible assets

The value of business acquired (VOBA) is recognised as an intangible asset and amortised over the gross profit recognition period of the acquired policies. VOBA corresponds to the estimated present value of the future cash flows from the contracts in force at the date of acquisition.

Computer software licenses acquired are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of their expected useful lives (three to five years).

Costs that are directly associated with the development of identifiable specific software applications by the Group, and that will probably generate future economic benefits, are recognised as intangible assets. These costs include employee costs directly associated with the development of the referred software.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding usually five years.

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Costs associated with the maintenance of computer software programs are recognised as an expense when incurred.

**n) Investment property**

The Group classifies as investment property the property held to earn rentals or for capital appreciation or both.

Investment property is measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives.

When there is an indication that an investment property may be impaired, IAS 36 requires that its recoverable amount is estimated and an impairment loss recognised when the net book value of the asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is determined as the greater of the fair value less cost to sell or value in use, which is based on the net present value of future cash flows arising from the continuing use and ultimate disposal of the investment property.

Subsequent expenditure is capitalised only when it is probable that it will give rise to future economic benefits in excess of the originally assessed standard of performance of the asset.

**o) Leases**

Millenniumbcp Ageas classifies its lease agreements as finance leases or operating leases taking into consideration the substance of the transaction rather than its legal form, in accordance with IAS 17 – Leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

**Operating leases**

Payments made under operating leases are charged to the income statement in the period to which they relate.

**Finance leases – As lessee**

Finance lease contracts are recorded at inception date, both under assets and liabilities, at the cost of asset leased, which is equal to the present value of outstanding lease instalments. Instalments comprise (i) an interest charge, which is recognised in the income statement and (ii) the amortisation of principal, which is deducted from liabilities. Financial charges are recognised as costs



over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of liability for each period.

#### **p) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, deposits with banks with less than three months and other financial instruments with less than three months maturity from the date of acquisition.

#### **q) Provisions**

Provisions are recognised when (i) the Group has a present obligation (legal or resulting from past practices or published policies that imply the recognition of certain responsibilities), (ii) it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation as a result of past events and (iii) a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reverted through profit and loss in the proportion of the payments that are probable.

The provisions are derecognised through their use, for the obligations for which they were initially accounted.

#### **r) Interest income and expense**

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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Statements**s) Fee and commission income**

Fees and commissions are recognised as follows:

- › Fees and commissions earned over the period in which the services are provided are recognised as income in the period the services are provided;
- › Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest method.

**t) Employee benefits****Defined benefit plan**

In accordance with the terms of its employment contracts, the Group is responsible for pensions and disability payments as stipulated in the Collective Agreements for Insurance Activity (CCT). Additionally, the Group assumed the responsibility with a Complementary Plan and health employment benefits.

On 23 December, 2011 a new labor agreement for the Insurance Companies – “Plano CTT – Contrato Coletivo de Trabalho da Atividade Seguradora” or “CCT” was signed. As a form of compensation, during the first quarter of 2012, a single bonus has already been paid by the Group to its employees.

In accordance with this revised agreement, some changes were introduced, which can be briefly presented as follows: (i) a permanency premium attributable to employees, in the form of additional salary increase at every five years until the age of 50, if certain conditions are met; (ii) replacement of a defined benefit plan to a defined contribution plan; and (iii) adoption of a defined contribution plan for all employees as from 1 January, 2012.

Following a decision of the Board of Directors, on 1 of October 2012, a curtailment of the Complementary Plan occurred. The employees will maintain the accrued benefits up to 2011.

The basic retirement attributable to the employees of the Group are as stipulated by ‘Plano CCT – Contrato Coletivo de Trabalho da Atividade Seguradora’. The complementary benefits are attributable according to the pension plans.

The obligations with retirement pensions of the Group are covered by collective subscriptions to an Open Pension Fund, denominated by ‘Horizonte Valorização’.

The Group’s net obligation in respect of pension plans (defined benefit pension plans) is calculated, separately for each plan, annually at each balance sheet date.

The current service costs plus the unwinding of the discount on the plan liabilities less the expected return on plan assets are charged to operating expenses.

The Group’s net obligation in respect of defined benefit pension plans is calculated, using the projected unit credit, separately for each plan by estimating the amount of future benefit that employees have earned in return for their

service in the current and prior periods; that benefit is discounted in order to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at balance sheet date by reference to interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have maturity dates approximating the terms of the Group's obligations.

Under the 'corridor' method, accumulated actuarial gains and losses at the beginning of the year that exceed 10% of the greater of the present value of the defined benefit obligation or the fair value of plan assets, are recognized in the income statement over the remaining average service lives of the employees participating in the plan.

Costs arising from early retirements or pre-retirements, as well as the corresponding actuarial gains and losses, are recognized in the income statement in the year in which the early retirement or the pre-retirement are approved and announced.

The Plan is funded by annual contributions from each Group company to cover projected pension liabilities, including non-contractual benefits, where appropriate. The minimum level required is 100% regarding liability with pensioners and 95% regarding the employees in service.

At each reporting date, the Group assess for each plan the recoverability of any excess of the fund, based on the perspective of future contributions that may be required.

### Defined contribution plan

For the defined contribution plan for the complementary non-contractual retirement benefit attributable to the employees of the Group, obligations are recognised as an expense in profit and loss when they are due.

### Other post-retirement obligations

Millenniumbcp Ageas provides post-retirement healthcare benefits to its employees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

The measurement and recognition of the Group's liability with post-retirement healthcare benefits is similar to the measurement and recognition of the pension liability described above.

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Bonus payments to employees are recognised in the income statement in the period to which they relate.

**Share based payments**

As at 31 December, 2012, there are no share based compensation plans in force.

**u) Income taxes**

Income tax for the year comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Deferred tax recognised directly in equity relating to fair value re-measurement of available-for-sale investments is subsequently recognised in the income statement when gains or losses giving rise to the deferred tax are also recognised in the income statement.

Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rates enacted or substantially enacted at the balance sheet date in any jurisdiction.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax basis, and is calculated using the tax rates enacted or substantially enacted at the balance sheet date in any jurisdiction and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets are recognised when there is a reasonable expectation to obtain future tax profits, which absorb deductible temporary differences for taxation purposes (including reportable tax losses).

The Group compensates, as established in IAS 12, the deferred tax assets and liabilities if, and only if: (i) has a legally enforceable right to set off current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

## **v) Operating segments**

The Group determines and presents the operating segments based on the management information prepared for internal purposes.

An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other operating segments.

The Group is structured in accordance with the following business areas:

- › Life and Pensions
- › Non-life

On Life and Pensions segment, the information is disaggregated by the following lines of business: i) insurance contracts: life traditional, ii) investment contracts (under IFRS 4): investment contracts with discretionary participation features (DPF) and iii) investment contracts (under IAS 39): unit-linked contracts. The Pensions sub-segment is related with the pensions fund management, having no impact under insurance technical margin.

Non-life segment includes the following lines of business: Accidents and health, Fire and other hazards, Motor and Other lines of business.

## **x) Earnings per share**

Basic earnings per share are calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

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Statements**II.2 Critical accounting estimates and judgments  
in applying accounting policies**

IFRS set forth a range of accounting treatments and require management to apply judgment and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies are discussed in this section in order to improve understanding of how their application affects the Group's reported results and related disclosure. A broader description of the accounting policies employed by the Group is shown in Note II.1 to the consolidated financial statements.

Because in many cases there are several alternatives to the accounting treatment chosen by Management, the Group's reported results would differ if a different treatment was chosen. Management believes that the choices made are appropriate and that the consolidated financial statements present the Group's financial position and results fairly in all material respects.

The alternative outcomes discussed below are presented solely to assist the reader in understanding the consolidated financial statements and are not intended to suggest that other alternatives or estimates would be more appropriate.

**Insurance reserves**

Insurance policy and claims reserves represent liabilities for future insurance policy benefits. Insurance reserves for traditional life insurance, annuities, and accident and health policies have been computed based upon mortality, morbidity, persistency and interest rate assumptions, applicable to these coverages, including adverse deviation. The assumptions considered were based on the Group experience and industry standards and may be revised if it is determined that future experience will differ substantially from that previously assumed. Insurance reserves includes (1) life mathematical reserve, (2) reserve for bonuses and rebates, (3) unearned premiums reserve, (4) unexpired risks reserve, (5) ageing reserve, (6) liability adequacy test and (7) estimated provisions for both reported and unreported claims incurred and claims expenses and (8) profit sharing to be attributable to policyholders.

When claims are made by or against policyholders, any amounts that the Group pays or expects to pay are recorded as losses. The Group establishes reserves for payment or losses for claims that arise from its insurance policies.

In determining their insurance policy and claims reserves, the Group performs a continuing review of its overall positions, reserving techniques and reinsurance coverage. Qualified actuaries periodically review the reserves. The Group maintains property and casualty loss reserves to cover the estimated ultimate unpaid liability for losses with respect to reported and unreported claims incurred as of the end of each accounting period.

Claims reserves do not represent an exact calculation of the liability amount, but instead represent estimates, generally using actuarial valuations.

These reserve estimates are expectations of what the ultimate settlement of claims is likely to cost based on an assessment of facts and circumstances then known, a review of historical settlement patterns, estimate of trends in claims severity, frequency, legal theories of liability and other factors. Variables in the reserve estimation process can be affected by both internal and external events, such as changes in claims handling procedures, economic inflation, legal trends and legislative changes. Many of these items are not directly quantifiable, particularly on a prospective basis. Additionally, there may be significant reporting time lags between the occurrence of the insured event and the moment it is actually reported to the insurer. Reserve estimates are continually reviewed in a regular ongoing process as historical loss experience develops and additional claims are reported and settled.

### **Fair value of derivatives**

Fair values are based on listed market prices if available; otherwise fair value is determined either by dealer price quotations (both for that transaction or for similar instruments traded) or by pricing models, based on net present value of estimated future cash flows which take into account market conditions for the underlying instruments, time value, yield curve and volatility factors. These pricing models may require assumptions or judgments in estimating their values.

Consequently, the use of a different model, assumptions or judgments in applying a particular model may have produced different financial results for a particular period.

### **Impairment of available for-sale equity investments**

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In accordance with Group accounting policies, 25% decline in the fair value of an investment in an equity security is assumed to be a significant decline in fair value and 1 year is assumed as a prolonged period that the fair value is below cost.

In addition, valuations are generally obtained through market quotation or valuation models that may require assumptions or judgment in making estimates of fair value.

Alternative methodologies and the use of different assumptions and estimates could result in a higher level of impairment losses recognised with a consequent impact in the income statement of the Group.

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Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, estimated returns on investment, and other factors that could impact the cost and liability of the pension plan.

Changes in these assumptions could materially affect the liabilities determined.

**Impairment of long-term assets**

Tangible and intangible assets are reviewed for impairment purposes, when there is an indication that the book value is less than the recoverable.

Considering, uncertainties regarding the determination of the net recoverable amount of tangible and intangible assets based on the available information at the reporting date, changes in assumptions or judgments may produce different impacts in the determination of impairment and consequently in the income of the Group.

**Income taxes**

Significant interpretations and estimates are required in determining the income taxes amount. Different interpretations and estimates would result in a different level of income taxes, current and deferred, recognized in the period.

In accordance with current tax legislation, Tax Authorities are entitled to review the Groups' income taxes for a period of 4 years. As a result, it is possible that additional taxes may be assessed, mainly as a consequence of differences in interpretations of tax laws. The Group Management is confident that there will be no material tax assessments within the financial statements context.

**Goodwill**

On an annual basis, regardless of whether there is any indication of impairment, the Group performs an evaluation of the recoverable amount of the consolidation differences, based on the value in use or the fair value less costs to sell. According with IAS 36, the value in use should be determined based on the evaluation of the future estimated cash-flows, using all available information, which requires the use of judgment.

The assumptions made for these assessments may change with the change in economic and market conditions.



## II.3 Operating segments

### Consolidated Income statement

EUR	2012			2011		
	Life & Pensions	Non Life	Total	Life & Pensions	Non Life	Total
Net premiums earned	285,479,350	204,064,770	489,544,120	312,100,782	203,294,567	515,395,349
Gross premiums	311,346,141	240,245,577	551,591,718	338,652,381	237,258,790	575,911,171
Reinsurance ceded premiums	(25,866,791)	(36,575,769)	(62,442,560)	(26,551,599)	(36,436,312)	(62,987,911)
Change in unearned premiums	—	2,891,711	2,891,711	—	4,475,655	4,475,655
Change in unearned reinsurance premiums	—	(2,496,749)	(2,496,749)	—	(2,003,566)	(2,003,566)
Fees on investment contracts	48,535,594	—	48,535,594	63,024,243	—	63,024,243
Net claims expenses	(692,665,508)	(142,121,031)	(834,786,539)	(955,618,482)	(142,617,242)	(1,098,235,724)
Claims paid	(712,549,480)	(139,235,134)	(851,784,614)	(938,574,316)	(139,382,317)	(1,077,956,633)
Claims paid gross	(726,801,369)	(148,685,280)	(875,486,649)	(952,336,652)	(151,225,590)	(1,103,562,242)
Reinsurance share of claims paid	14,251,889	9,450,146	23,702,035	13,762,336	11,843,273	25,605,609
Change in claims reserves	19,883,972	(2,885,897)	16,998,075	(17,044,166)	(3,234,925)	(20,279,091)
Change in claims reserves gross	20,103,828	(2,478,032)	17,625,796	(17,044,166)	(4,653,184)	(21,697,350)
Reinsurers share in change in claims reserves	(219,856)	(407,865)	(627,721)	—	1,418,259	1,418,259
Changes in other technical reserves, net	—	(397,090)	(397,090)	—	210,152	210,152
Changes in mathematical reserves, net	433,485,820	—	433,485,820	648,356,754	—	648,356,754
Changes in mathematical reserves gross	433,565,396	—	433,565,396	648,232,584	—	648,232,584
Reinsurance share in changes in mathematical reserves	(79,576)	—	(79,576)	124,170	—	124,170
Profit sharing, net	(44,874,233)	(462,000)	(45,336,233)	(54,439,062)	(601,419)	(55,040,481)
Acquisitions and administrative expenses, net	(53,764,441)	(47,324,620)	(101,089,061)	(64,366,734)	(46,201,762)	(110,568,496)
Acquisition expense	(45,833,339)	(35,246,531)	(81,079,870)	(57,540,610)	(34,243,681)	(91,784,291)
Changes in deferred acquisition costs	—	(183,484)	(183,484)	—	(749,467)	(749,467)
Administrative expenses	(17,571,895)	(23,898,695)	(41,470,590)	(16,676,169)	(23,448,397)	(40,124,566)
Reinsurance commissions and profit sharing	9,640,793	12,004,090	21,644,883	9,850,045	12,239,783	22,089,828
Interest, dividends and other similar income	164,804,428	4,888,977	169,693,405	211,817,011	6,287,703	218,104,714
From financial assets not held at fair value through profit and loss	164,804,428	4,888,977	169,693,405	211,817,011	6,287,703	218,104,714
Financial expenses	(18,280,772)	(945,045)	(19,225,817)	(24,732,136)	(2,653,169)	(27,385,305)
From financial assets not held at fair value through profit and loss	(17,595,664)	(945,045)	(18,540,709)	(21,863,909)	(2,653,169)	(24,517,078)
From financial liabilities not held at fair value through profit and loss	(685,108)	—	(685,108)	(2,868,227)	—	(2,868,227)
Net gains/(losses) from financial assets not held at fair value through profit and loss	12,063,331	(263,937)	11,799,394	(11,587,700)	294,918	(11,292,782)
From investments available for sale	12,063,331	(263,937)	11,799,394	(12,034,306)	294,918	(11,739,388)
From loans and receivables	—	—	—	446,606	—	446,606
Net gains/(losses) from financial assets and liabilities held at fair value through profit and loss	6,969,392	—	6,969,392	4,945,912	—	4,945,912
From financial assets and liabilities held for trading	313,352,713	—	313,352,713	155,287,751	—	155,287,751
From financial assets and liabilities held at fair value through profit and loss	(306,383,321)	—	(306,383,321)	(150,341,839)	—	(150,341,839)
Net gains/(losses) from foreign exchange	132,441	—	132,441	(863,995)	—	(863,995)
Impairment charges (net of reversals)	(61,590)	(1,930,055)	(1,991,645)	(103,913,735)	(2,056,997)	(105,970,731)
From investments available for sale	(76,801)	—	(76,801)	(103,494,021)	(1,482,697)	(104,976,717)
Other	15,211	(1,930,055)	(1,914,844)	(419,714)	(574,300)	(994,014)
Other technical income / (expenses), net	(23,071,954)	116,529	(22,955,425)	(26,046,067)	176,368	(25,869,699)
Changes in other provisions	—	320,000	320,000	—	—	—
Other non technical income / (expenses)	4,055,321	(348,108)	3,707,213	6,435,716	21,686	6,457,402
<b>Profit before tax</b>	<b>122,807,179</b>	<b>15,598,390</b>	<b>138,405,569</b>	<b>5,112,507</b>	<b>16,154,805</b>	<b>21,267,313</b>
Current tax	(22,304,112)	(6,647,857)	(28,951,969)	(2,916,152)	(5,207,668)	(8,123,820)
Deferred tax	(17,205,261)	1,444,031	(15,761,230)	2,732,683	536,296	3,268,979
<b>Profit after tax</b>	<b>83,297,806</b>	<b>10,394,564</b>	<b>93,692,370</b>	<b>4,929,038</b>	<b>11,483,433</b>	<b>16,412,472</b>

## Consolidated balance sheet

EUR	2012				2011			
	Life	Non Life	ICO	Total	Life	Non Life	ICO	Total
Cash and equivalents	121,995,084	17,308,611	—	139,303,695	195,878,433	17,670,922	—	213,549,355
Trading assets	209,580,274	—	—	209,580,274	98,527,808	—	—	98,527,808
Investments held at fair value through profit and loss	5,506,155,071	—	—	5,506,155,071	4,635,086,256	—	—	4,635,086,256
Investments available for sale	4,157,875,053	187,806,718	—	4,345,681,771	4,353,567,011	171,605,454	—	4,525,172,465
Loans and receivables	480,122,735	31,571,935	—	511,694,670	753,436,726	16,317,107	—	769,753,833
Other deposits	480,122,735	31,571,935	—	511,694,670	753,436,726	16,317,107	—	769,753,833
Investments held to maturity	697,845,383	—	—	697,845,383	670,543,275	—	—	670,543,275
Investment property	4,656,008	—	—	4,656,008	4,879,664	—	—	4,879,664
Other tangible assets	1,230,954	130,889	—	1,361,843	1,139,768	158,098	—	1,297,866
Inventories	—	18,650	—	18,650	—	18,650	—	18,650
Goodwill	247,487,477	68,252,992	—	315,740,469	247,487,477	68,252,992	—	315,740,469
Other intangible assets	191,519,840	—	—	191,519,840	214,988,313	49,452	—	215,037,765
Reinsurance reserves	1,591,595	16,876,566	—	18,468,161	1,891,026	19,781,182	—	21,672,208
Reinsurers share in reserve for unearned premiums	—	7,635,677	—	7,635,677	—	10,132,426	—	10,132,426
Reinsurers share in mathematical reserves	769,515	—	—	769,515	849,091	—	—	849,091
Reinsurers share in claims reserves	822,080	9,240,889	—	10,062,969	1,041,935	9,648,756	—	10,690,691
Assets for employee benefits (long term)	2,294,142	2,192,778	—	4,486,920	2,127,505	1,709,083	—	3,836,588
Trade and other receivables	4,557,764	63,437,316	(40,500,000)	27,495,080	14,046,329	65,670,320	(42,300,000)	37,416,649
Receivables from policyholders	2,601,295	12,872,256	—	15,473,551	2,564,988	11,806,801	—	14,371,789
Receivables from reinsurance operations	67,402	7,945,418	—	8,012,820	—	9,924,114	—	9,924,114
Other receivables	1,889,067	42,619,642	(40,500,000)	4,008,709	11,481,341	43,939,405	(42,300,000)	13,120,746
Income tax assets	41,797,896	5,211,183	—	47,009,079	154,962,830	8,751,385	—	163,714,215
Current tax assets	24,756,596	—	—	24,756,596	26,185,775	235,881	—	26,421,656
Deferred tax assets	17,041,300	5,211,183	—	22,252,483	128,777,055	8,515,504	—	137,292,559
Accrued income and deferred charges	244,358	1,499,246	—	1,743,604	14,232	1,886,277	—	1,900,509
<b>Total assets</b>	<b>11,668,953,634</b>	<b>394,306,884</b>	<b>(40,500,000)</b>	<b>12,022,760,518</b>	<b>11,348,576,653</b>	<b>371,870,922</b>	<b>(42,300,000)</b>	<b>11,678,147,575</b>
Technical reserves	4,535,643,988	139,689,801	—	4,675,333,789	4,950,300,562	140,829,643	—	5,091,130,205
Unearned premiums reserve	—	35,800,096	—	35,800,096	—	38,508,323	—	38,508,323
Life mathematical reserves	4,453,507,130	—	—	4,453,507,130	4,844,968,796	—	—	4,844,968,796
Claims outstanding reserve	35,899,587	97,951,186	—	133,850,773	56,089,209	96,366,621	—	152,455,830
Claims reserves life	35,899,587	—	—	35,899,587	56,089,209	—	—	56,089,209
Claims reserves workers' compensation	—	23,022,501	—	23,022,501	—	20,986,230	—	20,986,230
Claims reserves other	—	74,928,685	—	74,928,685	—	75,380,391	—	75,380,391
Profit sharing reserves	46,237,271	704,541	—	46,941,812	49,242,557	1,117,811	—	50,360,368
Equalisation reserve	—	885,923	—	885,923	—	825,902	—	825,902
Unexpired risk reserve	—	4,348,055	—	4,348,055	—	4,010,986	—	4,010,986
Invest. contracts liabilities at fair value through profit/loss	5,786,791,790	—	—	5,786,791,790	5,266,382,493	—	—	5,266,382,493
Other financial liabilities	8,270,889	5,214,647	—	13,485,536	221,165,326	6,970,326	—	228,135,652
Funds held under reinsurance agreements	8,270,889	5,214,647	—	13,485,536	8,640,757	6,970,326	—	15,611,083
Other liabilities	—	—	—	—	212,524,569	—	—	212,524,569
Liabilities for employee benefits (long term)	137,466	407,725	—	545,191	112,493	318,826	—	431,319
Trade and other payables	72,710,380	15,474,859	(40,500,000)	47,685,239	85,585,564	12,559,982	(42,300,000)	55,845,546
Due to agents, policyholders and intermediaries	2,695,129	8,739,593	—	11,434,722	12,705,789	7,872,078	—	20,577,867
Due to reinsurers	2,004,777	2,774,136	—	4,778,913	4,765,600	2,815,469	—	7,581,069
Other liabilities	68,010,474	3,961,130	(40,500,000)	31,471,604	68,114,175	1,872,435	(42,300,000)	27,686,610
Income tax liabilities	125,017,556	5,961,747	—	130,979,303	65,989,327	3,536,444	—	69,525,771
Current tax liabilities	71,036,127	5,961,747	—	76,997,874	4,939,481	3,536,444	—	8,475,925
Deferred tax liabilities	53,981,429	—	—	53,981,429	61,049,846	—	—	61,049,846
Deferred income and accrued charges	8,105,195	4,860,197	—	12,965,392	8,847,905	5,857,336	—	14,705,241
Provisions	2,043,629	3,251,168	—	5,294,797	1,332,000	4,371,467	—	5,703,467
<b>Total liabilities</b>	<b>10,538,720,893</b>	<b>174,860,144</b>	<b>(40,500,000)</b>	<b>10,673,081,037</b>	<b>10,599,715,670</b>	<b>174,444,024</b>	<b>(42,300,000)</b>	<b>10,731,859,694</b>
Share capital	889,997,375	110,005,000	—	1,000,002,375	889,997,375	110,005,000	—	1,000,002,375
Fair value reserve (gross)	(145,843,224)	(430,248)	—	(146,273,472)	(577,618,821)	(16,803,879)	—	(594,422,700)
Fair value reserve (current and deferred taxes)	12,725,096	124,772	—	12,849,868	146,426,740	4,873,125	—	151,299,865
Other reserves	5,608,586	2,578,711	—	8,187,297	5,138,344	2,578,710	—	7,717,054
Retained earnings	284,447,101	96,773,942	—	381,221,043	279,988,304	85,290,511	—	365,278,815
Profit after tax	83,297,807	10,394,563	—	93,692,370	4,929,041	11,483,431	—	16,412,472
<b>Total equity</b>	<b>1,130,232,741</b>	<b>219,446,740</b>	<b>—</b>	<b>1,349,679,481</b>	<b>748,860,983</b>	<b>197,426,898</b>	<b>—</b>	<b>946,287,881</b>
<b>Total liabilities and equity</b>	<b>11,668,953,634</b>	<b>394,306,884</b>	<b>(40,500,000)</b>	<b>12,022,760,518</b>	<b>11,348,576,653</b>	<b>371,870,922</b>	<b>(42,300,000)</b>	<b>11,678,147,575</b>

## II.4 Notes to the consolidated income statement

### Note 1 – Net premiums earned

EUR	2012	2011
Gross premiums Life	311,346,141	338,652,381
Gross premiums Non Life	240,245,577	237,258,790
Gross premiums	551,591,718	575,911,171
Reinsurance ceded premiums Life	(25,866,791)	(26,551,599)
Reinsurance ceded premiums Non Life	(36,575,769)	(36,436,312)
Reinsurance ceded premiums	(62,442,560)	(62,987,911)
Change in unearned premiums Non Life	2,891,711	4,475,655
Change in unearned reinsurance premiums Non Life	(2,496,749)	(2,003,566)
Change in unearned premiums Non Life (net)	394,962	2,472,089
<b>Premiums earned Life (net)</b>	<b>285,479,350</b>	<b>312,100,782</b>
<b>Premiums earned Non Life (net)</b>	<b>204,064,770</b>	<b>203,294,567</b>
<b>Premiums earned (net)</b>	<b>489,544,120</b>	<b>515,395,349</b>

Life insurance premiums include contracts with significant insurance risk, as well as contracts without significant insurance risk with discretionary participating features (DPF).

Life premiums are analysed as follows:

EUR	2012	2011
Insurance life traditional	172,558,091	163,841,719
Investment contracts with DPF	138,788,050	174,810,662
<b>Gross premiums under IFRS 4</b>	<b>311,346,141</b>	<b>338,652,381</b>

Premiums earned net of reinsurance ceded are analysed as follows:

EUR	2012	2011
Gross written premiums from direct insurance operations		
Individual policies	91,668,845	112,669,223
Group policies	219,677,296	225,983,158
	<b>311,346,141</b>	<b>338,652,381</b>
Periodic premiums	247,843,241	277,075,109
Single premiums	63,502,901	61,577,272
	<b>311,346,141</b>	<b>338,652,381</b>
Contracts without profit sharing	134,789,614	124,640,540
Contracts with profit sharing	176,556,528	214,011,841
	<b>311,346,141</b>	<b>338,652,381</b>
<b>Reinsurance ceded result</b>	<b>(2,273,541)</b>	<b>(2,815,048)</b>

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Direct insurance non-life premiums are analyzed as follows:

EUR	2012		2011	
	Gross written premiums	Earned premiums	Gross written premiums	Earned premiums
Accidents and health	167,854,486	170,760,637	165,464,807	170,612,830
Fire and other hazards	44,503,584	44,031,312	42,403,926	42,239,842
Motor	20,530,173	20,166,935	21,008,563	20,719,741
Other lines	7,357,334	8,178,404	8,381,494	8,162,031
<b>Total</b>	<b>240,245,577</b>	<b>243,137,288</b>	<b>237,258,790</b>	<b>241,734,444</b>

Reinsurance ceded non-life premiums are analysed as follows:

EUR	2012		2011	
	Gross written premiums	Earned premiums	Gross written premiums	Earned premiums
Accidents and health	11,161,645	13,211,917	12,164,352	14,027,771
Fire and other hazards	21,193,592	21,200,907	19,372,106	19,498,614
Motor	357,750	357,750	326,160	326,160
Other lines	3,862,782	4,301,944	4,573,694	4,587,332
<b>Total</b>	<b>36,575,769</b>	<b>39,072,518</b>	<b>36,436,312</b>	<b>38,439,877</b>

## Note 2 – Fee on investment contracts

Fee on investment contracts in the amount of Euro 48,535,594 (2011: Euro 63,024,243), are calculated on a fund-by-fund basis, according to the terms of each product.

## Note 3 – Net claims expense

Net claims expenses from the life insurance business are analysed as follows:

EUR	2012			2011		
	Insurance contracts	Investment contracts	Total	Insurance contracts	Investment contracts	Total
Claims paid						
Gross claims paid	67,473,113	658,639,899	726,113,012	68,957,465	883,096,610	952,054,075
Reinsurance share of claims paid	(14,251,889)	—	(14,251,889)	(13,762,336)	—	(13,762,336)
	<b>53,221,224</b>	<b>658,639,899</b>	<b>711,861,123</b>	<b>55,195,129</b>	<b>883,096,610</b>	<b>938,291,739</b>
Change in claims reserves						
Change in claims reserves gross	(9,148,470)	(10,955,358)	(20,103,828)	6,431,351	10,612,815	17,044,166
Reinsurers share in change in claims reserves	219,856	—	219,856	—	—	—
	<b>(8,928,614)</b>	<b>(10,955,358)</b>	<b>(19,883,972)</b>	<b>6,431,351</b>	<b>10,612,815</b>	<b>17,044,166</b>
<b>Net claims expense before cost allocation</b>	<b>44,292,610</b>	<b>647,684,541</b>	<b>691,977,151</b>	<b>61,626,480</b>	<b>893,709,425</b>	<b>955,335,905</b>
Claims expenses (allocated)			688,357			282,577
<b>Net claims expense Life</b>			<b>692,665,508</b>			<b>955,618,482</b>

Net claims expenses from Non life insurance business are analysed as follows:

EUR	2012				
	Accident & Health	Fire & Other damage	Motor	Other lines	Total
Claims paid					
Gross claims paid	107,107,861	16,313,854	14,259,583	1,134,491	138,815,789
Reinsurance share of claims paid	(2,235,434)	(6,623,255)	(3,083)	(588,374)	(9,450,146)
	<b>104,872,427</b>	<b>9,690,599</b>	<b>14,256,500</b>	<b>546,117</b>	<b>129,365,643</b>
Change in claims reserves					
Change in claims reserves gross	1,461,756	2,581,934	(1,539,655)	(26,003)	2,478,032
Reinsurers share in change in claims reserves	98,272	(106,415)	(213,662)	629,670	407,865
	<b>1,560,028</b>	<b>2,475,519</b>	<b>(1,753,317)</b>	<b>603,667</b>	<b>2,885,897</b>
<b>Net claims expense before cost allocation</b>	<b>106,432,455</b>	<b>12,166,118</b>	<b>12,503,183</b>	<b>1,149,784</b>	<b>132,251,540</b>
Claims expenses (allocated)	6,005,838	1,497,833	2,153,456	212,364	9,869,491
<b>Net claims expense Non life</b>	<b>112,438,293</b>	<b>13,663,951</b>	<b>14,656,639</b>	<b>1,362,148</b>	<b>142,121,031</b>

EUR	2011				
	Accident & Health	Fire & Other damage	Motor	Other lines	Total
Claims paid					
Gross claims paid	105,004,519	18,669,657	15,253,989	3,331,007	142,259,172
Reinsurance share of claims paid	(2,970,020)	(8,070,433)	36,152	(838,972)	(11,843,273)
	<b>102,034,499</b>	<b>10,599,224</b>	<b>15,290,141</b>	<b>2,492,035</b>	<b>130,415,899</b>
Change in claims reserves					
Change in claims reserves gross	4,117,799	2,223,347	(197,026)	(1,490,935)	4,653,185
Reinsurers share in change in claims reserves	162,691	(1,330,236)	(244,631)	(6,082)	(1,418,258)
	<b>4,280,490</b>	<b>893,111</b>	<b>(441,657)</b>	<b>(1,497,017)</b>	<b>3,234,927</b>
<b>Net claims expense before cost allocation</b>	<b>106,314,989</b>	<b>11,492,335</b>	<b>14,848,484</b>	<b>995,018</b>	<b>133,650,826</b>
Claims expenses (allocated)	5,402,442	1,385,494	1,986,611	191,869	8,966,416
<b>Net claims expense Non life</b>	<b>111,717,431</b>	<b>12,877,829</b>	<b>16,835,095</b>	<b>1,186,887</b>	<b>142,617,242</b>

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Change in mathematical and other technical reserves from life business are analysed as follows:

EUR	2012		
	Insurance contracts	Investment contracts	Total
Changes in mathematical reserves, net			
Changes in mathematical reserves, gross	(2,358,629)	(431,206,767)	(433,565,396)
Reinsurance share in changes in mathematical reserves	79,576	—	79,576
	(2,279,053)	(431,206,767)	(433,485,820)
Changes in profit sharing, net	6,120,356	38,753,877	44,874,233
<b>Total</b>	<b>3,841,303</b>	<b>(392,452,890)</b>	<b>(388,611,587)</b>

EUR	2011		
	Insurance contracts	Investment contracts	Total
Changes in mathematical reserves, net			
Changes in mathematical reserves, gross	(12,971,154)	(635,261,430)	(648,232,584)
Reinsurance share in changes in mathematical reserves	(124,170)	—	(124,170)
	(13,095,324)	(635,261,430)	(648,356,754)
Changes in profit sharing, net	8,031,399	46,407,663	54,439,062
<b>Total</b>	<b>(5,063,925)</b>	<b>(588,853,767)</b>	<b>(593,917,692)</b>

Change in other technical reserves from non-life is analysed as follows:

EUR	2012				
	Accident & Health	Fire & Other damage	Motor	Other lines	Total
Changes in equalisation reserve	—	60,022	—	—	60,022
Changes in unexpired risk reserve	156,738	83,004	(11,044)	108,370	337,068
	156,738	143,026	(11,044)	108,370	397,090
Changes in profit sharing, net	462,000	—	—	—	462,000
<b>Total</b>	<b>618,738</b>	<b>143,026</b>	<b>(11,044)</b>	<b>108,370</b>	<b>859,090</b>

EUR	2011				
	Accident & Health	Fire & Other damage	Motor	Other lines	Total
Changes in equalisation reserve	—	64,549	—	—	64,549
Changes in unexpired risk reserve	(618,792)	(43,612)	276,879	110,824	(274,701)
	(618,792)	20,937	276,879	110,824	(210,152)
Changes in profit sharing, net	601,419	—	—	—	601,419
<b>Total</b>	<b>(17,373)</b>	<b>20,937</b>	<b>276,879</b>	<b>110,824</b>	<b>391,267</b>

## Note 5 – Net acquisitions and administrative expenses

Net acquisition and administrative expenses from life insurance business are analysed as follows:

EUR	2012			
	Insurance contracts	Investment contracts	Unit Linked	Total
Acquisition expenses – commissions	19,491,308	11,164,219	11,975,447	42,630,974
Acquisition expenses allocated	1,533,116	1,493,766	175,483	3,202,365
Administrative expenses – commissions	9,516	–	–	9,516
Administrative expenses allocated	8,092,989	7,862,239	1,607,151	17,562,379
Reinsurance commissions and profit sharing	(9,640,793)	–	–	(9,640,793)
<b>Total</b>	<b>19,486,136</b>	<b>20,520,224</b>	<b>13,758,081</b>	<b>53,764,441</b>

EUR	2011			
	Insurance contracts	Investment contracts	Unit Linked	Total
Acquisition expense – commissions	20,491,000	18,294,558	16,043,789	54,829,347
Acquisition expenses allocated	1,153,458	1,165,415	392,390	2,711,263
Administrative expenses – commissions	9,545	–	–	9,545
Administrative expenses allocated	7,581,438	7,013,994	2,071,192	16,666,624
Reinsurance commissions and profit sharing	(9,850,045)	–	–	(9,850,045)
<b>Total</b>	<b>19,385,396</b>	<b>26,473,967</b>	<b>18,507,371</b>	<b>64,366,734</b>

Net acquisition and administrative expenses from non life insurance business are analysed as follows:

EUR	2012				
	Accident & Health	Fire & Other damage	Motor	Other lines	Total
Acquisition expenses – commissions	16,262,327	5,296,674	1,897,314	632,754	24,089,069
Acquisition expenses allocated	7,497,081	1,601,952	1,512,716	545,713	11,157,462
Change in deferred acquisition expenses	319,846	(90,953)	(22,073)	(23,336)	183,484
Administrative expenses – commissions	327,481	6,969	7,406	3,104	344,960
Administrative expenses allocated	15,485,461	5,412,271	2,015,562	640,441	23,553,735
Reinsurance commissions and profit sharing	(4,340,990)	(7,414,248)	–	(248,852)	(12,004,090)
<b>Total</b>	<b>35,551,206</b>	<b>4,812,665</b>	<b>5,410,925</b>	<b>1,549,824</b>	<b>47,324,620</b>

EUR	2011				
	Accident & Health	Fire & Other damage	Motor	Other lines	Total
Acquisition expenses – commissions	15,917,946	5,110,013	2,034,380	505,521	23,567,860
Acquisition expenses allocated	7,580,625	1,381,176	1,297,989	416,031	10,675,821
Change in deferred acquisition expenses	737,538	17,028	(17,230)	12,131	749,467
Administrative expenses – commissions	389,429	6,502	4,737	2,082	402,750
Administrative expenses allocated	15,428,017	5,166,551	1,846,739	604,340	23,045,647
Reinsurance commissions and profit sharing	(5,080,919)	(6,989,215)	–	(169,649)	(12,239,783)
<b>Total</b>	<b>34,972,636</b>	<b>4,692,055</b>	<b>5,166,615</b>	<b>1,370,456</b>	<b>46,201,762</b>

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The caption Acquisition expenses – commissions includes the amount of Euro 60,504,000 (2011: Euro 72,749,000) related with commissions paid to Grupo Banco Comercial Português, S.A., under the distribution agreement established with Millenniumbcp Ageas.

#### Note 6 – Interest, dividends and other similar income

Interest, dividends and other similar income are analysed as follows:

EUR	2012	2011
From available for sale investments	135,332,405	191,467,277
From investments held to maturity	30,234,058	17,712,646
From bank deposits	4,126,942	8,924,791
<b>Total</b>	<b>169,693,405</b>	<b>218,104,714</b>

#### Note 7 – Financial expenses

The financial expenses from assets not held at fair value through profit and loss relates to the operating and administrative expenses allocated to the investment function in the amount of Euro 18,541,000 (2011: Euro 24,517,000).

Financial expenses from financial liabilities not held at fair value through profit and loss in the amount of Euro 685,000 (2011: Euro 2,868,000) relates to the interest expense related with a repurchase agreement (REPO) of securities with Banco Comercial Português, S.A. (see note 36).

#### Note 8 – Net gains/(losses) from financial assets not held at fair value through profit and loss

Net gains/(losses) from financial assets not held at fair value through profit and loss are analysed as follows:

EUR	2012			2011		
	Gains	(Losses)	Net	Gains	(Losses)	Net
Government bonds	6,363,694	(402,691)	5,961,003	37,462,186	(43,696,714)	(6,234,528)
Corporate debt securities	10,988,473	(5,709,452)	5,279,021	5,043,395	(17,163,876)	(12,120,481)
Equity securities	1,863,435	(1,304,065)	559,370	7,285,229	(669,608)	6,615,621
<b>From Available for sale investments</b>	<b>19,215,602</b>	<b>(7,416,208)</b>	<b>11,799,394</b>	<b>49,790,810</b>	<b>(61,530,198)</b>	<b>(11,739,388)</b>
<b>From loans and receivables</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>446,606</b>	<b>–</b>	<b>446,606</b>
<b>Total</b>	<b>19,215,602</b>	<b>(7,416,208)</b>	<b>11,799,394</b>	<b>50,237,416</b>	<b>(61,530,198)</b>	<b>(11,292,782)</b>



## Note 9 – Net gains/(losses) from financial assets and liabilities held at fair value through profit and loss

Net gains/(losses) from financial assets and liabilities held at fair value through profit and loss are analysed as follows:

EUR	2012			
	Gains	(Losses)	Other income	Total
From trading	4,331,133,248	(4,230,218,463)	212,437,928	313,352,713
From held at fair value through profit and loss	667,376,447	(36,803,626)	(936,956,142)	(306,383,321)
<b>Total</b>	<b>4,998,509,695</b>	<b>(4,267,022,089)</b>	<b>(724,518,214)</b>	<b>6,969,392</b>

EUR	2011			
	Gains	(Losses)	Other income	Total
From trading	95,740,730	(203,452,299)	262,999,319	155,287,750
From held at fair value through profit and loss	1,849,070,907	(2,335,522,758)	336,110,013	(150,341,838)
<b>Total</b>	<b>1,944,811,637</b>	<b>(2,538,975,057)</b>	<b>599,109,332</b>	<b>4,945,912</b>

Other income / expense includes investment income, as well as the change in liabilities held at fair value through profit and loss arising from unit link contracts.

## Note 10 – Net gains/(losses) from foreign exchange

Net gains/(losses) from foreign exchange relates with Loans and receivables in the amount of Euro 132,000 (2011: cost of Euro 864,000).

## Note 11 – Impairment charges (net of reversals) and Changes in other provisions

Impairment charges (net of reversals) and changes in other provisions are analysed as follows:

EUR	2012	2011
From Investments available for sale	76,801	104,976,717
From Investment property	—	442,826
From Trade receivables	1,964,125	576,761
From Other receivables	(49,281)	(25,573)
<b>Total impairment charges</b>	<b>1,991,645</b>	<b>105,970,731</b>
<b>Change in other provisions</b>	<b>(320,000)</b>	<b>—</b>
<b>Total</b>	<b>1,671,645</b>	<b>105,970,731</b>

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In 2011, impairment charges from investments available for sale included an amount of Euro 52,618,000 related to Greek sovereign debt, which was completely sold as of 31 December, 2011 (see note 42).

## Note 12 – Other technical and non-technical income / (expenses)

Other technical income/(expenses) includes an amount of Euro 24,374,000 (2011: Euro 28,246,000) related to the amortization of the Value of Business Acquired (see note 22).

Other non-technical income/(expenses) includes an amount of Euro 8,229,000 (2011: Euro 11,117,000) related to pension funds management fees charged by Pensõesgere, S.G.F.P., S.A.

## Note 13 – Operating and administrative expenses

The Operating and administrative expenses are analysed as follows:

EUR	2012	2011
Staff and related costs		
Remuneration – management	1,240,826	1,590,884
Remuneration – other staff	18,600,958	18,352,441
Social security charges	3,686,029	3,211,768
Employee benefit plans expenses	3,663,544	5,160,705
Insurance costs	888,186	835,064
Social costs	115,169	121,129
Other costs	461,932	568,629
	28,656,644	29,840,620
External services and supplies	39,164,310	40,824,092
Depreciation of tangible assets		
Investment property	223,656	266,292
Equipment and motor vehicles	7,202	16,233
IT equipment	95,139	62,491
	325,997	345,016
Amortisation of intangible assets		
Software	613,544	678,871
Value of business acquired	24,373,851	28,245,997
	24,987,395	28,924,868
Other	19,974,831	20,733,678
<b>Total</b>	<b>113,109,177</b>	<b>120,668,274</b>

Other Operating and administrative expenses includes an amount of Euro 1,586,000 (2011: Euro 1,540,000) related with tax expenses, an amount of Euro 1,709,000 (2011: Euro 1,675,000) related with interest expenses, an amount of

Euro 16,768,000 (2011: Euro 21,942,000) related with commission expenses and a positive amount of Euro 89,000 of changes in provisions (2011: positive amount of Euro 4,423,000).

Commissions are mainly related with the group securities portfolio management performed by F&C.

The Operating and administrative expenses were allocated to claims management, acquisition, administrative and investment functions, as follows:

EUR	2012	2011
Claims incurred	10,557,848	9,248,994
Operating expenses		
Acquisition costs	14,359,827	13,387,084
Administrative costs	41,116,114	39,712,271
Investment expenses		
Allocated to insurance technical account	18,124,460	22,554,908
Allocated to insurance non technical account	416,249	1,962,170
Other non allocated expenses	28,534,679	33,802,847
<b>Total</b>	<b>113,109,177</b>	<b>120,668,274</b>

As at 31 December 2012 and 2011, the number of employees of the Group were 475 and 464, of each 465 and 456 are full time equivalents.

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## II.5 Notes to the consolidated balance sheet

## Note 14 – Cash and equivalents

Cash and equivalents include bank deposits on the amount of Euro 139,304,000 (2011: Euro 213,549,000).

## Note 15 – Trading assets

As at 31 December 2012 and 2011, this balance is analysed as follows:

EUR	2012		2011	
	Fair value	Notional amount	Fair value	Notional amount
Derivatives				
Swaps	207,373,354	7,149,403,705	91,398,719	6,885,020,259
Options	2,001,735	40,975,000	7,005,682	69,025,000
FRA	205,185	41,500,000	123,407	41,500,000
<b>Total</b>	<b>209,580,274</b>	<b>7,231,878,705</b>	<b>98,527,808</b>	<b>6,995,545,259</b>
Of which:				
Level 1	—	—	—	—
Level 2	209,580,274	7,231,878,705	98,527,808	6,995,545,259
Level 3	—	—	—	—
	<b>209,580,274</b>	<b>7,231,878,705</b>	<b>98,527,808</b>	<b>6,995,545,259</b>

As referred in IFRS 7, financial assets held for trading are valued in accordance with the following fair value measurement levels:

- › Level 1: financial instruments measured in accordance with quoted market prices or providers;
- › Level 2: financial instruments measured in accordance with internal valuation techniques based on observable market inputs;
- › Level 3: financial instruments measured in accordance with valuation techniques based on inputs not based on observable data that have significant impact in the instruments valuation.

## Note 16 – Investments held at fair value through profit and loss

As at 31 December, 2012 and 2011, this balance is analysed as follows:

EUR	2012			2011		
	Amortised cost	Unrealised gains/(losses)	Book value	Amortised cost	Unrealised gains/(losses)	Book value
Government bonds	212,274,662	50,659,190	262,933,852	45,479,268	(11,341,069)	34,138,199
Corporate debt securities	4,432,371,986	570,353,185	5,002,725,171	4,641,661,072	(264,425,589)	4,377,235,483
Equity securities and investment funds	213,407,958	27,088,090	240,496,048	451,925,411	(228,212,837)	223,712,574
<b>Total</b>	<b>4,858,054,606</b>	<b>648,100,465</b>	<b>5,506,155,071</b>	<b>5,139,065,751</b>	<b>(503,979,495)</b>	<b>4,635,086,256</b>
Of which:						
Level 1			1,349,795,751			1,031,507,702
Level 2			4,156,359,320			3,603,578,554
Level 3			—			—
			<b>5,506,155,071</b>			<b>4,635,086,256</b>

As referred in IFRS 7, financial assets held at fair value through profit and loss are valued in accordance with the following fair value measurement levels:

- Level 1: financial instruments measured in accordance with quoted market prices or providers;
- Level 2: financial instruments measured in accordance with internal valuation techniques based on observable market inputs;
- Level 3: financial instruments measured in accordance with valuation techniques based on inputs not based on observable data that have significant impact in the instruments valuation.

## Note 17 – Investments available for sale

As at 31 December, 2012 and 2011, this balance is analysed as follows:

EUR	2012				2011			
	Amortised Cost	Unrealised gains/(losses)	Impairment	Total	Amortised Cost	Unrealised gains/(losses)	Impairment	Total
Government bonds	1,485,025,687	(9,689,375)	—	1,475,336,312	2,161,509,352	(158,782,302)	—	2,002,727,050
Corporate debt securities	2,509,875,971	6,493,371	—	2,516,369,342	2,357,779,121	(251,553,314)	—	2,106,225,807
Equity securities and investment funds	274,634,054	12,093,262	(1,640,971)	285,086,345	385,841,873	(597,779)	(51,146,375)	334,097,719
Accrued interest	68,889,772	—	—	68,889,772	82,121,889	—	—	82,121,889
<b>Total</b>	<b>4,338,425,484</b>	<b>8,897,258</b>	<b>(1,640,971)</b>	<b>4,345,681,771</b>	<b>4,987,252,235</b>	<b>(410,933,395)</b>	<b>(51,146,375)</b>	<b>4,525,172,465</b>
Of which:								
Level 1				4,160,652,497				4,315,713,304
Level 2				185,029,274				209,459,161
Level 3				—				—
				<b>4,345,681,771</b>				<b>4,525,172,465</b>

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As referred in IFRS 7, financial assets available for sale are valued in accordance with the following fair value measurement levels:

- › Level 1: financial instruments measured in accordance with quoted market prices or providers;
- › Level 2: financial instruments measured in accordance with internal valuation techniques based on observable market inputs;
- › Level 3: financial instruments measured in accordance with valuation techniques based on inputs not based on observable data that have significant impact in the instruments valuation.

In 2011, the Group reclassified from the available for sale category an amount of Euro 645,250,000 to the held to maturity category, in accordance with IAS 39 Financial Instruments: Recognition and Measurement (see note 19).

### Note 18 – Loans and receivables

Other deposits relates to interest bearing deposits with Banco Comercial Português, S.A.

### Note 19 – Investments held to maturity

The held to maturity portfolio is analysed as follows:

	31 December, 2012			31 December, 2011			As of the date of reclassification	
	Book value under HTM	Market value	Fair value reserve amortised until 31 Dec 12	Book value under HTM	Market value	Fair value reserve amortised until 31 Dec 11	Book value reclassified out the available for sale	Fair value reserve
EUR								
Government bonds	516,562,713	606,745,174	36,382,512	493,586,702	403,570,655	12,678,367	481,346,191	(174,089,431)
Corporate debt securities	169,733,017	172,910,062	5,914,872	165,262,340	147,850,695	1,300,442	163,903,867	(23,378,682)
Total	686,295,730	779,655,236	42,297,384	658,849,042	551,421,350	13,978,809	645,250,058	(197,468,113)
Accrued income	11,549,653			11,694,233				
<b>Total</b>	<b>697,845,383</b>			<b>670,543,275</b>				

As previously mentioned, the held to maturity portfolio corresponds to the securities transferred in 2011 from the available for sale category in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

## Note 20 – Investment property

As at 31 December, 2012 and 2011, this balance is analysed as follows:

EUR	2012	2011
Cost	11,116,580	11,116,580
Accumulated depreciation	(2,476,750)	(2,253,094)
Impairment	(3,983,822)	(3,983,822)
<b>Balance at the end of the year</b>	<b>4,656,008</b>	<b>4,879,664</b>
<b>Fair value</b>	<b>5,355,000</b>	<b>5,355,000</b>

The estimated lifetime of investment property is analysed as follows:

	Estimated lifetime
Building	34 years
Components	10 years

As at 31 December, 2011 an independent valuation was performed to assess the fair value of the Investment property. As a result of this valuation, an impairment loss was recognised in the amount of Euro 443,000. As at 31 December, 2012, as there were no impairment loss indications no additional valuation was requested by the Group.

In 2012 the estimated lifetime of the building was revised for 34 years (2011: 25 years).

## Note 21 – Other tangible assets

As at 31 December, 2012 and 2011, this balance is analysed as follows:

EUR	2012	2011
Equipment		
IT equipment	949,782	1,254,381
Administrative equipment	1,092,270	1,092,270
Other	1,731,043	1,743,314
	3,773,095	4,089,965
Accumulated depreciation	(2,411,252)	(2,792,099)
<b>Net balance</b>	<b>1,361,843</b>	<b>1,297,866</b>

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The movements on this balance are presented as follows:

EUR	IT equipment	Administrative equipment	Other equipment	Total
<b>Acquisition cost</b>				
Balance as at 31 December 2011	1,254,381	1,092,270	1,743,314	4,089,965
Acquisitions	163,521	–	2,797	166,318
Equipment discharge	(468,120)	–	(15,068)	(483,188)
<b>Balance as at 31 December, 2012</b>	<b>949,782</b>	<b>1,092,270</b>	<b>1,731,043</b>	<b>3,773,095</b>
<b>Depreciation</b>				
Balance as at 31 December 2011	1,066,453	1,089,422	636,224	2,792,099
Depreciation of the year	95,139	–	7,202	102,341
Equipment discharge	(468,120)	–	(15,068)	(483,188)
Other movements	–	526	(526)	–
<b>Balance as at 31 December, 2012</b>	<b>693,472</b>	<b>1,089,948</b>	<b>627,832</b>	<b>2,411,252</b>
<b>Net balance as at 31 December, 2011</b>	<b>187,928</b>	<b>2,848</b>	<b>1,107,090</b>	<b>1,297,866</b>
<b>Net balance as at 31 December, 2012</b>	<b>256,310</b>	<b>2,322</b>	<b>1,103,211</b>	<b>1,361,843</b>

## Note 22 – Goodwill and other intangible assets

As at 31 December 2012, and 2011, this balance is analysed as follows:

EUR	Goodwill	VOBA	Other	Total
<b>Aquisition cost</b>				
Balance as at 31 December 2011	315,740,469	527,989,676	9,272,373	853,002,518
Acquisitions	–	–	1,469,470	1,469,470
<b>Balance as at 31 December 2012</b>	<b>315,740,469</b>	<b>527,989,676</b>	<b>10,741,843</b>	<b>854,471,988</b>
<b>Accumulated Amortisation</b>				
Balance as at 31 December 2011	–	(317,472,968)	(4,751,316)	(322,224,284)
Amortisation of the year	–	(24,373,851)	(613,544)	(24,987,395)
<b>Balance as at 31 December 2012</b>	<b>–</b>	<b>(341,846,819)</b>	<b>(5,364,860)</b>	<b>(347,211,679)</b>
<b>Net intangible assets 2011</b>	<b>315,740,469</b>	<b>210,516,708</b>	<b>4,521,057</b>	<b>530,778,234</b>
<b>Net intangible assets 2012</b>	<b>315,740,469</b>	<b>186,142,857</b>	<b>5,376,983</b>	<b>507,260,309</b>

The goodwill is related with the acquisition of Ocidental – Companhia Portuguesa de Seguros de Vida, S.A., Ocidental – Companhia Portuguesa de Seguros, S.A., Pensõesger – Sociedade Gestora de Fundos de Pensões, S.A., and Medis – Companhia Portuguesa de Seguros de Saúde, S.A., and at acquisition date was allocated as follows:

### LIFE & PENSIONS SEGMENT [EUR]

Ocidental – Companhia Portuguesa de Seguros de Vida, S.A.	233,127,409
Pensõesger – Sociedade Gestora de Fundos de Pensões, S.A.	14,360,068
	<b>247,487,477</b>



**NON LIFE SEGMENT** [EUR]

Ocidental – Companhia Portuguesa de Seguros, S.A.	64,074,457
Medis – Companhia Portuguesa de Seguros de Saúde, S.A.	4,178,535
	<b>68,252,992</b>
	<b>315,740,469</b>

As described on the accounting policies, the Group has performed an impairment test on the Goodwill and Value of Business Acquired (VOBA), determining that there was no impairment loss to be recognized. The impairment test of Goodwill was performed based on the 3 years business plan for each business unit approved by the Group Management and taking into account a long term growth of 2%. The present value of the future cash flows was determined using an average discount rate of 14% (2011: average of 13.7%).

The remaining balance of the Value of Business Acquired (VOBA) is expected to be amortised as follows:

EUR	2013	2014	2015	2016	2017	Thereafter
Estimated amortisation of VOBA	22,445,973	21,245,973	19,064,102	18,144,767	17,137,696	88,104,347

Within the scope of the implementation of the new life technical system – AIA, in 2011 Ocidental Vida applied for SIFIDE – Sistema de Incentivos à I&D Empresarial for the years 2008, 2009 and 2010. In 2012, the Company was informed that this application was not eligible for the purposes of granting these endowments; therefore no benefits will flow to Group.

**Note 23 – Technical reserves, net of reinsurance**

As at 31 December 2012, and 2011, this balance for life business is analysed as follows:

EUR	2012		
	Insurance contracts	Investment contracts	Total
<b>Gross</b>			
Life mathematical reserves	188,783,515	4,264,723,615	4,453,507,130
Claims reserves life	27,280,476	8,619,111	35,899,587
Profit sharing reserves	775,730	45,461,541	46,237,271
Attributed	769,262	45,461,541	46,230,803
To be attributable	6,468	–	6,468
<b>Total Gross</b>	<b>216,839,721</b>	<b>4,318,804,267</b>	<b>4,535,643,988</b>
<b>Reinsurance Ceded</b>			
Life mathematical reserve	769,515	–	769,515
Claims reserves life	822,080	–	822,080
<b>Total Reinsurance</b>	<b>1,591,595</b>	<b>–</b>	<b>1,591,595</b>
<b>Total (net)</b>	<b>215,248,126</b>	<b>4,318,804,267</b>	<b>4,534,052,393</b>

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EUR	2011		
	Insurance contracts	Investment contracts	Total
<b>Gross</b>			
Life mathematical reserves	191,142,144	4,653,826,652	4,844,968,796
Claims reserves life	36,514,741	19,574,468	56,089,209
Profit sharing reserves	431,163	48,811,394	49,242,557
Attributed	424,695	48,771,221	49,195,916
To be attributable	6,468	40,173	46,641
<b>Total Gross</b>	<b>228,088,048</b>	<b>4,722,212,514</b>	<b>4,950,300,562</b>
<b>Reinsurance Ceded</b>			
Life mathematical reserve	849,091	—	849,091
Claims reserves life	1,041,935	—	1,041,935
<b>Total Reinsurance</b>	<b>1,891,026</b>	<b>—</b>	<b>1,891,026</b>
<b>Total (net)</b>	<b>226,197,022</b>	<b>4,722,212,514</b>	<b>4,948,409,536</b>

In accordance with IFRS 4, the insurance contracts issued by the Group for which there is only a transfer of financial risks, with no discretionary profit sharing, are classified as investment contracts.

As at December 2012 the Life Business technical reserves have been increased by an amount of Euro 7,056,000 (2011: increase of Euro 13,227,000) due to the liability adequacy test carried out. This test was performed based on the best estimate assumptions (see note 38).

As at 31 December, 2012 and 2011, this balance is analysed as follows for non-life business:

EUR	2012				
	Accident & Health	Fire & Other damage	Motor	Other Lines	Total
<b>Gross</b>					
Unearned premiums reserve	21,882,282	5,982,150	5,558,541	2,377,123	35,800,096
Claims outstanding reserve	56,270,587	13,885,900	20,933,085	6,861,614	97,951,186
Profit sharing reserve	704,541	—	—	—	704,541
Equalisation reserve	—	821,797	—	64,126	885,923
Unexpired risk reserve	1,553,647	127,620	2,265,525	401,263	4,348,055
<b>Total Gross</b>	<b>80,411,057</b>	<b>20,817,467</b>	<b>28,757,151</b>	<b>9,704,126</b>	<b>139,689,801</b>
<b>Reinsurance Ceded</b>					
Unearned premiums reserve	5,245,578	1,108,752	—	1,281,347	7,635,677
Claims outstanding reserve	3,071,387	3,240,559	709,035	2,219,908	9,240,889
<b>Total Reinsurance</b>	<b>8,316,965</b>	<b>4,349,311</b>	<b>709,035</b>	<b>3,501,255</b>	<b>16,876,566</b>
<b>Total (net)</b>	<b>72,094,092</b>	<b>16,468,156</b>	<b>28,048,116</b>	<b>6,202,871</b>	<b>122,813,235</b>

2011					
EUR	Accident & Health	Fire & Other damage	Motor	Other Lines	Total
<b>Gross</b>					
Unearned premiums reserve	24,468,586	5,600,832	5,217,376	3,221,529	38,508,323
Claims outstanding reserve	54,739,834	11,312,875	23,002,141	7,311,771	96,366,621
Profit sharing reserve	1,117,811	–	–	–	1,117,811
Equalisation reserve	–	761,776	–	64,126	825,902
Unexpired risk reserve	1,396,910	44,615	2,276,568	292,893	4,010,986
<b>Total Gross</b>	<b>81,723,141</b>	<b>17,720,098</b>	<b>30,496,085</b>	<b>10,890,319</b>	<b>140,829,643</b>
<b>Reinsurance Ceded</b>					
Unearned premiums reserve	7,295,850	1,116,067	–	1,720,509	10,132,426
Claims outstanding reserve	3,169,660	3,134,144	495,373	2,849,579	9,648,756
<b>Total Reinsurance</b>	<b>10,465,510</b>	<b>4,250,211</b>	<b>495,373</b>	<b>4,570,088</b>	<b>19,781,182</b>
<b>Total (net)</b>	<b>71,257,631</b>	<b>13,469,887</b>	<b>30,000,712</b>	<b>6,320,231</b>	<b>121,048,461</b>

Included in claims outstanding for Workers compensation is the amount of Euro 13,973,000 (2011: Euro 13,055,000) relating to the mathematical provision for Workers compensation.

As a result of new reserving policy for Workers Compensation, aligned with life annuities, the Non-life claims outstanding reserve includes an amount of Euro 3,702,000 (in 2011 an amount of Euro 2,477,000), booked as LAT reserve.

Claims outstanding reserve life and non-life, including reinsurance accepted, represents unsettled claims occurring before 31 December 2012, and include an amount of Euro 34,550,000 (2011: Euro 35,391,000) for incurred but not reported claims (IBNR).

Claims outstanding reserve includes an estimation of future costs related with the settlement of pending claims, both declared and non-declared, in the amount of Euro 2,187,000 (2011: Euro 2,206,000).

The unearned premiums reserve is net of deferred acquisition costs as follows:

EUR	2012	2011
Unearned premiums reserve	41,219,762	44,111,472
Deferred acquisition costs	(5,419,666)	(5,603,149)
<b>Net</b>	<b>35,800,096</b>	<b>38,508,323</b>

The movements on the deferred acquisition costs are analysed as follows:

EUR	2012	2011
Deferred acquisition costs as at 1 January	5,603,149	6,352,617
Acquisition costs of the year	5,419,666	5,603,149
Acquisition costs amortisation	(5,603,149)	(6,352,617)
<b>Deferred acquisition costs as at 31 December</b>	<b>5,419,666</b>	<b>5,603,149</b>

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The profit sharing reserves corresponds to the amounts attributed to policyholders or beneficiaries of insurance contracts, in the form of profit participation, which have not yet been specifically allocated and included in the life mathematical reserve.

EUR	2012			2011		
	Life	Non Life	Total	Life	Non Life	Total
Balance as at 1 January	49,242,557	1,117,811	50,360,368	60,562,949	516,392	61,079,341
Amounts paid	(47,879,519)	(875,270)	(48,754,789)	(65,759,454)	–	(65,759,454)
Estimated attributable amounts	44,874,233	462,000	45,336,233	54,439,062	601,419	55,040,481
<b>Total</b>	<b>46,237,271</b>	<b>704,541</b>	<b>46,941,812</b>	<b>49,242,557</b>	<b>1,117,811</b>	<b>50,360,368</b>

Profit sharing reserves includes the shadow adjustment that corresponds to an estimation of the unrealised gains and losses on the assets covering liabilities arising out from insurance and investment contracts with discretionary participation features, to the extent that it is expected that policyholders will participate on those unrealised gains and losses when they became realised in accordance with the terms of the contracts and applicable legislation. As at 31 December, 2012 and 2011 there were no movements accounted for as shadow adjustments due to the level of unrealized capital losses.

Accordingly to regulations and contractual terms in place, profit sharing calculation has been performed for every product and/or policy, when applicable. In some cases, Management decided to attribute more than the minimum required due to strategic and/or commercial reasons, for instance, up-front guaranteed rates have been attributed to some new business.

The amounts attributed or to be attributable to policyholders are shown in the table below:

EUR	2012	2011
Profit sharing to be attributable to policyholders, 1 January	46,641	1,723,071
PPRA released, accordingly to plan	(40,173)	(1,676,385)
Total, 31 December	6,468	46,641
Profit sharing, 1 January	49,195,916	58,839,878
Profit Share distributed to policyholders during the year	(47,879,519)	(65,759,454)
Profit Share assigned to policyholders – contractual	41,558,021	31,186,844
Profit Share assigned to policyholders – commercial	3,356,385	24,928,648
Profit sharing, 31 December	46,230,803	49,195,916

## Note 24 – Employee benefits

### Pensions and other post retirement obligations

In accordance with the terms of its employment contracts, the Group is responsible, for pensions and disability payments as stipulated in the Collective

Agreements for Insurance Activity (“CCT”). Additionally, the Group assumed the responsibility with a Complementary Plan and health employment benefits.

On 23 December, 2011 a new labor agreement for the Insurance Companies – “Plano CTT – Contrato Coletivo de Trabalho da Atividade Seguradora” or “CCT” was signed. As a form of compensation, during the first quarter of 2012, a single bonus has already been paid by the Group to its employees.

In accordance with this revised agreement, some changes were introduced, which can be briefly presented as follows: (i) a permanency premium attributable to employees, in the form of additional salary increase at every five years until the age of 50, if certain conditions are met; (ii) replacement of a defined benefit plan to a defined contribution plan; and (iii) adoption of a defined contribution plan for all employees as from 1 January, 2012.

Based on a decision of the Board of Directors dated 23 November 2006, employees admitted until 22 September 2006 maintained the benefits established under the Complementary Plan – defined benefit.

On 1 of October 2012, following a decision of the Board of Directors, a curtailment of this Complementary Plan has occurred. The employees will however maintain the accrued benefits up to 2011. Taking into consideration that the benefit obligations are the same before and after the curtailment, and that there was no settlement of the liability, there was no profit and loss impact.

The obligations with retirement pensions of the Group are funded by the collective subscription no. 72 to an open Pension Fund, designated as ‘Horizonte Valorização’.

On this basis, Group companies will, annually, fund the pension fund in order to cover its benefits. The amount will be determined in accordance with the actuarial valuation performed each year, and funding will be performed annually.

The actuarial valuation of accrued pension and other employee benefits for the Group is performed annually, with the latest valuation performed as at 31 December, 2012.

As at 31 December, 2012 and 2011 the number of participants of the benefit plan was as follows:

	2012	2011
Number of participants		
Employees	419	419
Retired and pensioners	53	43
	472	462

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The actuarial assumptions used in the calculation of the present value of the employee's benefits are as follows:

	2012	2011
Discount rate	4.00%	5.25%
Future salary increases	2.50%	2.75%
Expected return on plan assets at 31 December	4.00%	5.25%
Future pension increases	1.50%	1.75%
Mortality table:		
Men	TV88/90	TV88/90
Women	TV 88/90 rated down 2 years	TV 88/90 rated down 2 years
Actuarial Method	Project Unit Credit	Project Unit Credit

As at 31 December, 2012 and 2011, employee's benefits and fair value of plan assets are analysed as follows:

EUR	2012				2011			
	Pension plans	Other post employment benefits	Other long term benefits	Total	Pension plans	Other benefits	Other long term benefits	Total
Projected benefit obligations	(33,772,792)	(4,192,781)	(545,191)	(38,510,764)	(28,015,241)	(3,136,959)	(431,319)	(31,583,519)
Fair value of plan assets	34,281,572	–	–	34,281,572	28,642,920	–	–	28,642,920
Net recognized defined benefit obligations	508,780	(4,192,781)	(545,191)	(4,229,192)	627,679	(3,136,959)	(431,319)	(2,940,599)
Unrecognised actuarial (gains)/losses	7,520,439	650,482	–	8,170,921	6,521,849	(175,981)	–	6,345,868
<b>Net asset/(liability)</b>	<b>8,029,219</b>	<b>(3,542,299)</b>	<b>(545,191)</b>	<b>3,941,729</b>	<b>7,149,528</b>	<b>(3,312,940)</b>	<b>(431,319)</b>	<b>3,405,269</b>

Additionally, the Group transferred part of their pension fund liabilities through the acquisition of life insurance policies in Ocidental Vida. The number of pensioners covered by these policies amounts to 9 (2011: 9), and the total liability amounts to Euro 1,932,000 (2011: Euro 2,012,000), which is included in the life insurance reserves.

Other long term benefits relates to the 'Permanency premium' considered in the new labor agreement for the Insurance Companies – "Plano CCT – Contrato coletivo de trabalho da Atividade Seguradora".

The liabilities with pensions and other post employee's benefits in 2012 and 2011 can be analysed as follows:

EUR	2012				2011			
	Pension plans	Other post employment benefits	Other long term benefits	Total	Pension plans	Other post employment benefits	Other long term benefits	Total
Liabilities as at 1 January	28,015,241	3,136,959	431,319	31,583,519	22,149,619	3,203,153	–	25,352,772
Current service cost	38,705	129,542	45,418	213,665	325,828	131,311	–	457,139
Interest cost	1,445,174	163,062	22,644	1,630,880	1,143,812	165,897	–	1,309,709
Past service cost	–	–	–	–	–	–	431,319	431,319
Benefits paid by the fund or by the Group	(992,281)	(85,265)	–	(1,077,546)	(1,156,863)	(58,460)	–	(1,215,323)
Actuarial (gains)/losses	2,647,456	819,874	45,810	3,513,140	1,206,376	(35,115)	–	1,171,261
Effect of the settlement of the CCT Plan	–	–	–	–	1,033,164	–	–	1,033,164
Curtailment losses related to early and pré retirements	2,618,497	28,609	–	2,647,106	2,863,305	180,173	–	3,043,478
Transfer between funds	–	–	–	–	450,000	(450,000)	–	–
Liabilities as at 31 December	33,772,792	4,192,781	545,191	38,510,764	28,015,241	3,136,959	431,319	31,583,519

The amount recognised as a cost by the Group in 2012 and 2011 is analysed as follows:

EUR	2012				2011			
	Pension plans	Other post employment benefits	Other long term benefits	Total	Pension plans	Other post employment benefits	Other long term benefits	Total
Current service cost	38,705	129,542	45,418	213,665	325,828	131,311	–	457,139
Interest cost	1,445,174	163,062	22,644	1,630,880	1,143,812	165,897	–	1,309,709
Expected return on plan assets	(1,248,739)	–	–	(1,248,739)	(1,063,932)	–	–	(1,063,932)
Past service cost	–	–	–	–	–	–	431,319	431,319
Amortisation of the unrecognised net (gains)/losses	495,283	(6,589)	–	488,694	282,552	(3,940)	–	278,612
Effect of the settlement of the CCT Plan	–	–	–	–	1,135,699	–	–	1,135,699
Losses/(gains) on curtailments (settlements)	2,618,497	28,609	45,810	2,692,916	2,863,305	180,173	–	3,043,478
Transfer between funds	–	–	–	–	450,000	(450,000)	–	–
Total benefit expenses	3,348,920	314,624	113,872	3,777,416	5,137,264	23,441	431,319	5,592,024

The changes in the fair value of the plan assets during 2012 and 2011 are analysed as follows:

EUR	2012	2011
Opening balance as at 1 January	28,642,920	22,526,538
Group contributions	4,228,611	7,548,769
Benefits paid by the fund	(992,281)	(1,156,864)
Expected return on plan assets	1,248,739	1,063,932
Actuarial gains (losses) on plan assets	1,153,583	(1,339,455)
Balance as at 31 December	34,281,572	28,642,920

The development of net actuarial losses for the year is analysed as follows:

	2012			2011		
	Pension plans	Other post employment benefits	Total	Pension plans	Other post employment benefits	Total
Net actuarial (gains)/losses at beginning of the year	6,521,849	(175,981)	6,345,868	4,361,105	(144,806)	4,216,299
Actuarial (gains)/losses in relation to the DBO	2,647,456	819,874	3,467,330	2,239,540	(35,115)	2,204,425
Actuarial (gains)/losses in relation to the plan assets	(1,153,583)	—	(1,153,583)	1,339,455	—	1,339,455
Amortisation of the unrecognised net (gains)/losses	(495,283)	6,589	(488,694)	(282,552)	3,940	(278,612)
Effect of the settlement of the CCT Plan	—	—	—	(1,135,699)	—	(1,135,699)
Net actuarial (gains)/losses at the end of the year	7,520,439	650,482	8,170,921	6,521,849	(175,981)	6,345,868

As at 31 December 2012 and 2011 the actuarial gains/(losses) incurred as a result of the changes in the actuarial assumptions amounted to Euro (4,579,000) and Euro (624,000), respectively.

The contribution to the Pension Fund made by the Group companies amounted to Euro 4,229,000 (2011: Euro 7,549,000) being made in cash. Additionally, in 2012, the Group Companies have also contributed with an amount of Euro 177,000 to the new complementary defined contribution plan.

The development of prepaid / (accrued) benefit cost is analysed as follows:

	2012				2011			
	Pension plans	Other post employment benefits	Other long term benefits	Total	Pension plans	Other post employment benefits	Other long term benefits	Total
EUR								
Prepaid / (accrued) benefit cost as at 1 January	7,149,528	(3,312,940)	(431,319)	3,405,269	4,738,024	(3,347,959)	—	1,390,065
Net periodic benefit cost	(3,348,920)	(314,624)	(113,872)	(3,777,416)	(5,137,264)	(23,441)	(431,319)	(5,592,024)
Employer contributions and other contributions	4,228,611	85,265	—	4,313,876	7,548,768	58,460	—	7,607,228
Prepaid / (accrued) benefit cost as at 31 December	8,029,219	(3,542,299)	(545,191)	3,941,729	7,149,528	(3,312,940)	(431,319)	3,405,269

The evolutions of employee's benefits and fair value of plan assets for the last five years are analysed as follows:

	EUR					
	2012	2011	2010	2009	2008	2007
Projected benefit obligations	(38,510,764)	(31,583,519)	(25,352,772)	(22,287,383)	(23,210,511)	(19,407,784)
Fair value of plan assets	34,281,572	28,642,920	22,526,538	20,854,497	20,218,077	17,950,264
Net recognized defined benefit obligations	(4,229,192)	(2,940,599)	(2,826,234)	(1,432,886)	(2,992,434)	(1,457,520)
Unrecognised actuarial (gains)/losses	8,170,921	6,345,868	4,216,299	2,975,904	5,843,088	313,290
Net asset/(liability)	3,941,729	3,405,269	1,390,065	1,543,018	2,850,654	(1,144,230)



The assets of the pension fund are analysed as follows:

EUR	2012	2011
Variable income securities	8,293,018	–
Fixed income securities	21,682,034	17,297,697
Real State	587,065	–
Others	3,719,455	11,345,223
	34,281,572	28,642,920

Health benefit cost has an impact in pension costs. Considering this impact, Millenniumbcp Ageas produced a sensitivity analysis to a positive one percent variation in health benefit costs (from 6.25% to 7.25%), whose impact is analysed as follows:

EUR	2012	2011
Pension cost impact	27,736	20,727
Liability impact	670,845	501,913

Additionally, within the scope of the changes approved by the Board of Directors over retirement plans granted by the Group to its employees, simultaneously with the curtailment of the Complementary Plan as a defined benefit, the Complementary plan in the form of a defined contribution was also revised. The changes were implemented in order to get this plan more flexible and adjusted to each employee needs. The current defined contribution plan, under the slogan: ‘Your future on your own way’, tends to achieve better retirement conditions, working as a complement to Social security, and attempting to stimulate employees savings, with the benefit of an additional direct contribution of the Group. As of 31 December, 2012, as a result of this new defined contribution plan, the Group has recognized a cost in the amount of Euro 177,000.

## Note 25 – Trade and other receivables

As at 31 December, 2012 and 2011 this balance is analysed as follows:

EUR	2012	2011
Receivables from policyholders	17,135,291	16,860,595
Receivables from intermediaries	2,352,073	893,779
Receivables from reinsurance operations	11,132,798	11,711,195
	30,620,162	29,465,569
Impairment	(7,133,791)	(5,169,666)
<b>Total trade receivables</b>	<b>23,486,371</b>	<b>24,295,903</b>
Other receivables	4,015,235	13,176,553
Impairment	(6,526)	(55,807)
<b>Total other receivables</b>	<b>4,008,709</b>	<b>13,120,746</b>
<b>Total</b>	<b>27,495,080</b>	<b>37,416,649</b>

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Receivables from policyholders includes an amount of Euro 8,809,000 (2011: Euro 7,544,000) related with uncollected premiums.

Receivables from policyholders also includes the amount of Euro 7,089,000 (2011: Euro 7,519,000) related with claims reimbursements issued in the scope of the agreement between BCP Group and the Sindicatos Bancários do Norte, Centro e Sul.

The changes occurred in impairment losses of receivables from trade and other receivables are analysed as follows:

EUR	2012		2011	
	Trade	Other	Trade	Other
Balance at the beginning of the year	5,169,666	55,807	4,592,905	81,380
Write back for the year	(252)	(49,281)	–	(25,573)
Charge of the year	1,964,377	–	576,761	–
<b>Balance at the end of the year</b>	<b>7,133,791</b>	<b>6,526</b>	<b>5,169,666</b>	<b>55,807</b>

## Note 26 – Income tax assets and liabilities

As for 2012 and until Troika's intervention in Portugal, which is expected to occur until the end of 2013, the tax charge is determined on the basis of a maximum nominal rate of 31.5% (comprising the corporate income tax and surcharges), as follows:

EUR	
Rate	Taxable profit
26.5%	Up to 1,500,000
29.5%	1,500,000 to 10,000,000
31.5%	> 10,000,000

The Portuguese Tax Authorities are entitled to review the annual tax return of the Group subsidiaries for a period of four years or six years in case there are tax losses brought forward. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Boards of Directors of the Group subsidiaries are confident that there will be no further material tax assessments within the context of the financial statements.

The Income tax assets and liabilities are analysed as follows:

EUR	2012	2011
Current tax assets and other taxes	24,756,596	26,421,656
Current tax assets	—	1,693,162
Other taxes	24,756,596	24,728,494
Deferred tax assets	22,252,483	137,292,559
<b>Income tax assets</b>	<b>47,009,079</b>	<b>163,714,215</b>
Current tax liabilities and other taxes	76,997,874	8,475,925
Current tax liabilities	68,533,893	—
Other taxes	8,463,981	8,475,925
Deferred tax liabilities	53,981,429	61,049,846
<b>Income tax liabilities</b>	<b>130,979,303</b>	<b>69,525,771</b>

Other taxes includes taxes payable to the State and insurance taxes, payable to the Portuguese Insurance Institute, namely Taxes on policies, FAT, Serviço Nacional de Bombeiros and Instituto Nacional de Emergência Médica.

As at 31 December, 2012 and 2011, Other tax assets includes an amount of Euro 24,728,000, related with the VAT reimbursement as a result of the real estate portfolio that has been transferred from Millennium BCP – Prestação de Serviços, A.C.E., to Pensõesger – Sociedade Gestora de Fundos de Pensões, S.G.F.P., S.A., management entity of the BCP Group pension fund.

The deferred tax assets and liabilities recognised as at the 31 December, 2012 and 2011, in the financial statements, are analysed as follows:

EUR	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
Investment property	—	16,872	—	—	—	16,872
Intangible assets	—	—	(53,981,429)	(61,049,846)	(53,981,429)	(61,049,846)
Investments	1,605,684	29,400,689	—	—	1,605,684	29,400,689
Insurance and investment contracts liabilities	15,367,673	12,242,649	—	—	15,367,673	12,242,649
Provisions	2,350,815	2,138,853	—	—	2,350,815	2,138,853
Tax losses carried forward (life segment)	—	91,399,798	—	—	—	91,399,798
Other	2,928,311	2,093,699	—	—	2,928,311	2,093,699
<b>Deferred tax asset / (liability)</b>	<b>22,252,483</b>	<b>137,292,559</b>	<b>(53,981,429)</b>	<b>(61,049,846)</b>	<b>(31,728,947)</b>	<b>76,242,713</b>
Off set asset / (liability)	—	—	—	—	—	—
<b>Net deferred tax asset / (liability)</b>	<b>22,252,483</b>	<b>137,292,559</b>	<b>(53,981,429)</b>	<b>(61,049,846)</b>	<b>(31,728,947)</b>	<b>76,242,713</b>

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The changes in deferred tax recognised in 2012 and 2011, are analysed as follows:

EUR	2012		2011	
	Recognised on income	Recognised on equity	Recognised on income	Recognised on equity
Investment property	(16,872)	—	(16,871)	—
Intangible assets	7,068,417	—	8,191,339	—
Investments	459,582	(28,254,587)	1,023,625	10,141,493
Insurance and investment contracts liabilities	3,125,024	—	4,939,001	—
Provisions	211,962	—	(1,094,062)	—
Tax losses carried forward (life segment)	(27,443,956)	(63,955,842)	(10,925,061)	63,439,511
Other	834,613	—	1,151,007	—
<b>Deferred tax asset / (liability)</b>	<b>(15,761,230)</b>	<b>(92,210,429)</b>	<b>3,268,979</b>	<b>73,581,004</b>

The income tax expense for the year ended 31 December, 2012 and 2011 is analysed as follows:

EUR	2012	2011
Current tax	(28,951,969)	(8,123,820)
Deferred tax	(15,761,230)	3,268,979
<b>Total tax recognised in the income statement</b>	<b>(44,713,199)</b>	<b>(4,854,841)</b>

The income taxes recognised in the fair value reserve for the year ended 31 December, 2012 and 2011 is analysed as follows:

EUR	2012	2011
Current tax	(71,090,893)	(24,851,325)
Deferred tax	83,940,761	176,151,190
<b>Total tax in fair value reserves</b>	<b>12,849,868</b>	<b>151,299,865</b>

The reconciliation of the income tax rate is analysed as follows:

EUR	2012	2011
Profit before taxes	138,405,569	21,267,313
Statutory rate	29.0%	29.0%
Income tax calculated on the statutory rate	40,137,615	6,167,521
Autonomous taxation	122,566	461,066
Effect of tax rate applicable to tax losses carried forward	—	(1,731,104)
Additional local income taxes	3,758,673	—
Other permanent differences	694,345	(42,642)
	<b>44,713,199</b>	<b>4,854,841</b>

## Note 27 – Accrued income and deferred charges

As at 31 December 2012 accrued income and deferred charges includes an amount of Euro 1,499,000 (2011: Euro 1,473,000) related to the service provided by Accenture regarding the claims management of Workmen's Compensation and Motor lines of business.

## Note 28 – Investment contracts liabilities at fair value through profit and loss

Investment contracts liabilities at fair value through profit and loss in the amount of Euro 5,786,792,000 (2011: Euro 5,266,382,000) relates to unit-linked contracts. These liabilities include the fair value of any guarantees or options embedded on the investment contracts.

In accordance with IFRS criteria, the investment contracts liabilities at fair value through profit and loss are classified as Level 2. The valuation of these liabilities is performed by the Group considering the fair value of the underlying assets.

## Note 29 – Other financial liabilities

As at 31 December, 2012 and 2011, this balance is analysed as follows:

EUR	2012	2011
Funds held under reinsurance agreements	13,485,536	15,611,083
Other liabilities	–	212,524,569
<b>Total</b>	<b>13,485,536</b>	<b>228,135,652</b>

Funds held under reinsurance agreements represent the value of guarantees received from reinsurers, arising from the acceptance of reinsurance risks and premiums.

In 2011, Other liabilities were related with the repurchase agreement (REPO) of fixed income securities (government bonds) with Banco Comercial Português, S.A. The assets sold and repurchased under the agreement were not derecognised as Millenniumbcp Ageas retaining all the risks and rewards of the ownership of the securities (see note 36).

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As at 31 December, 2012 and 2011, this balance is analysed as follows:

EUR	2012	2011
Due to agents, policyholders and intermediaries	11,434,722	20,577,867
Due to reinsurers	4,778,913	7,581,069
Trade amounts payable	16,213,635	28,158,936
Other liabilities	31,471,604	27,686,610
<b>Total</b>	<b>47,685,239</b>	<b>55,845,546</b>

As at 31 December, 2012 and 2011, Other liabilities includes an amount of Euro 24,728,000, related with the VAT reimbursement as a result of the real estate portfolio that has been transferred from Millennium BCP – Prestação de Serviços, A.C.E., to Pensõesgera – Sociedade Gestora de Fundos de Pensões, S.G.F.P., S.A., management entity of the BCP Group pension fund.

As at 31 December 2012 the commissions payable to Banco Comercial Português, S.A in the amount of Euro 7,524,000 (2011: Euro 17,274,000) are included in the balance Due to agents.

**Note 31 – Deferred income and accrued charges**

As at 31 December, 2012 deferred income and accrued charges includes an amount of Euro 4,799,000 (2011: Euro 5,739,000) related to unit linked management fees to be paid to the asset manager.

Additionally, accrued charges includes an accrual related with the present value of the future contributions to Workers Compensation Fund (FAT) in the amount of Euro 977,000 (2011: Euro 866,000) as described on the accounting policies.

**Note 32 – Provisions**

As at 31 December, 2012 and 2011, the balance provisions are analysed as follows:

EUR	2012	2011
Provision for income tax	93,437	93,437
Provisions for other risks and charges – others	5,201,360	5,610,030
<b>Total</b>	<b>5,294,797</b>	<b>5,703,467</b>

As at 31 December 2012 and 2011, the changes in provisions are as follows:

EUR	2012	2011
Balance as at 1 January	5,703,467	10,126,789
Write back for the year – OpAdmExp	(88,670)	(4,423,322)
Write back for the year – Other	(320,000)	–
<b>Balance as at 31 December</b>	<b>5,294,797</b>	<b>5,703,467</b>

As a result of the restructuring process initialized by the Group in the end of 2010 through early retirement benefits, a provision of Euro 9,000,000 was recognized.

In 2011, the write back of Euro 4,423,000 relates to early retirements and other adjustments agreed as of year-end.

In April 2012, the Portuguese Government has announced changes in early retirements in the private sector so, in accordance, as at 29 October, 2012, the Group's Executive Committee and Board of Directors approved a phased and selective pre-retirement scheme as an alternative to the initial early retirement program. The announcement of this change was made in accordance with the new conditions of the program.

In 2012, the write back of Euro 89,000 includes the reinforcement made to the provision, deducted of the amounts already transferred to the Companies Pension Funds, regarding the employees that have accepted the pre-retirement. As of 31 December, 2012, this provision amounts to Euro 4,638,000.

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## II.6 Notes to the Statement of changes in equity

**Note 33 – Share capital, legal reserve, retained earnings and fair value reserve****Share capital**

As at 31 December, 2012 and 2011, the authorised share capital of Millenniumbcp Ageas, Grupo Segurador, S.G.P.S., S.A., is represented by 200,000,475 shares with a face value of Euro 5 each, fully subscribed and paid by the shareholders.

The shareholders of the Group are presented as follows:

	% Share capital
Ageas Insurance International, N.V.	51
Banco Comercial Português, S.A. (*)	49
	<b>100</b>

(\*) Through BCP Investment BV which is owned 100% by Banco Comercial Português, S.A

**Legal reserve**

Under Portuguese legislation, Millenniumbcp Ageas must established a legal reserve of 5% of net statutory profit earned each year, until this reserve correspond to 20% of share capital.

**Fair value reserve**

The fair value reserves corresponds to the accumulated fair value changes of financial instruments available for sale, in accordance with the accounting policy presented in note II.1.

The gross movements during 2012 and 2011 are analysed as follows:

EUR	2012	2011
Balance as at 1 January	(410,933,395)	(305,632,648)
Revaluations	420,693,042	(97,880,947)
Sales	(862,389)	(7,419,800)
Balance as at 31 December	8,897,258	(410,933,395)



The fair value reserve is analysed as follows:

EUR	2012	2011
Amortised cost of Available for sale investments	4,338,425,484	4,987,252,235
Impairment	(1,640,971)	(51,146,375)
Amortised cost of Available for sale investments net of impairment	4,336,784,513	4,936,105,860
Fair value of Available for sale investments	4,345,681,771	4,525,172,465
Unrealised gains / (losses) recognised on fair value reserve	8,897,258	(410,933,395)
Current and deferred tax	(25,942,814)	105,427,538
Fair value reserve on equity (net)	(17,045,556)	(305,505,857)

The Equity as at 31 December, 2012 is analysed as follows:

EUR	Share capital	Fair value reserve			Legal reserve	Retained earnings	Profit after tax	Total equity
		Gross	Current and Deferred taxes	Net				
Issuance of capital	1,000,002,375	—	—	—	—	—	—	1,000,002,375
Unrealised gains and losses AFS, net	—	8,897,258	(25,942,814)	(17,045,556)	—	—	—	(17,045,556)
Unrealised gains and losses AFS transferred to HTM, net	—	(155,170,730)	38,792,682	(116,378,048)	—	—	—	(116,378,048)
Profit after tax of the year	—	—	—	—	—	—	93,692,370	93,692,370
Retained earnings	—	—	—	—	—	381,221,043	—	381,221,043
Legal reserve	—	—	—	—	8,187,297	—	—	8,187,297
<b>Balance as at 31 December, 2012</b>	<b>1,000,002,375</b>	<b>(146,273,472)</b>	<b>12,849,868</b>	<b>(133,423,604)</b>	<b>8,187,297</b>	<b>381,221,043</b>	<b>93,692,370</b>	<b>1,349,679,481</b>

The Equity as at 31 December, 2011 is analysed as follows:

EUR	Share capital	Fair value reserve			Legal reserve	Retained earnings	Profit after tax	Total equity
		Gross	Current and Deferred taxes	Net				
Issuance of capital	1,000,002,375	—	—	—	—	—	—	1,000,002,375
Unrealised gains and losses AFS, net	—	(410,933,395)	105,427,539	(305,505,856)	—	—	—	(305,505,856)
Unrealised gains and losses AFS transferred to HTM, net	—	(183,489,305)	45,872,326	(137,616,979)	—	—	—	(137,616,979)
Profit after tax of the year	—	—	—	—	—	—	16,412,472	16,412,472
Retained earnings	—	—	—	—	—	365,278,815	—	365,278,815
Legal reserve	—	—	—	—	7,717,054	—	—	7,717,054
<b>Balance as at 31 December, 2011</b>	<b>1,000,002,375</b>	<b>(594,422,700)</b>	<b>151,299,865</b>	<b>(443,122,835)</b>	<b>7,717,054</b>	<b>365,278,815</b>	<b>16,412,472</b>	<b>946,287,881</b>

As at 3rd January, 2013 the Board of Directors has approved the distribution of free reserves to the Shareholders, in the amount of Euro 40,000,000. The impact of this distribution was accounted for as of 31 January, 2013.

## II.7 Additional information to Operating segments

### Note 34 – Non life technical margins by line of business

EUR	2012					2011				
	Accidents and health	Fire and other hazards	Motor	Other lines	Total	Accidents and health	Fire and other hazards	Motor	Other lines	Total
Net premiums earned	157,548,720	22,830,405	19,809,185	3,876,460	204,064,770	156,585,059	22,741,228	20,393,581	3,574,699	203,294,567
Net claims expenses	(112,438,292)	(13,663,949)	(14,656,639)	(1,362,151)	(142,121,031)	(111,717,432)	(12,877,829)	(16,835,095)	(1,186,886)	(142,617,242)
Changes in other technical reserves net	(156,738)	(143,026)	11,044	(108,370)	(397,090)	618,792	(20,937)	(276,879)	(110,824)	210,152
Profit sharing, net	(462,000)	–	–	–	(462,000)	(601,419)	–	–	–	(601,419)
Acquisitions/ administrative expenses, net	(35,551,206)	(4,812,665)	(5,410,925)	(1,549,824)	(47,324,620)	(34,972,636)	(4,692,055)	(5,166,615)	(1,370,456)	(46,201,762)
Interest, dividends and other similar income	3,017,026	372,692	552,081	200,688	4,142,487	3,707,879	412,426	700,804	236,209	5,057,318
Financial expenses	(520,192)	(109,888)	(150,949)	(54,372)	(835,401)	(712,835)	(89,362)	(156,593)	(51,654)	(1,010,444)
Net gains/(losses) from financial assets	(104,577)	2,027	2,772	719	(99,059)	258,164	19,814	32,935	14,610	325,523
Impairment changes net of reversals	–	–	–	–	–	(861,343)	(80,586)	(132,492)	(46,012)	1,120,443)
Other income / (expenses) technical, net	116,742	(213)	–	–	116,529	187,209	(10,841)	–	–	176,368
<b>Technical margin</b>	<b>11,449,483</b>	<b>4,475,383</b>	<b>156,569</b>	<b>1,003,150</b>	<b>17,084,585</b>	<b>12,491,438</b>	<b>5,401,858</b>	<b>(1,440,354)</b>	<b>1,059,676</b>	<b>17,512,618</b>
Net investment income					746,491					1,230,384
Net realised gains / (losses)					(164,878)					(392,859)
General expenses					(118,017)					(1,651,638)
Net other income / (expenses)					(1,949,792)					(543,700)
<b>Non technical result</b>					<b>(1,486,196)</b>					<b>(1,357,813)</b>
<b>Profit before tax Non Life</b>					<b>15,598,389</b>					<b>16,154,805</b>
	Accidents and health	Fire and other hazards	Motor	Other lines	Total	Accidents and health	Fire and other hazards	Motor	Other lines	Total
Gross reserves	80,411,059	20,817,468	28,757,150	9,704,126	139,689,803	81,723,142	17,720,100	30,496,084	10,890,317	140,829,643
Reinsurance share in reserves	8,316,966	4,349,310	709,035	3,501,255	16,876,566	10,465,510	4,250,211	495,373	4,570,088	19,781,182

## Note 35 – Life technical margins by type of product

EUR	2012				2011			
	Insurance contracts	Investment contracts	Unit linked contracts	Total	Insurance contracts	Investment contracts	Unit linked contracts	Total
Net premiums earned	146,691,299	138,788,051	–	285,479,350	137,290,120	174,810,662	–	312,100,782
Fees on investment contracts	–	–	48,535,594	48,535,594	–	–	63,024,243	63,024,243
Net claims expenses	(44,842,356)	(647,823,152)	–	(692,665,508)	(61,831,672)	(893,786,810)	–	(955,618,482)
Changes in mathematical reserves, net	2,279,053	431,206,767	–	433,485,820	13,095,324	635,261,430	–	648,356,754
Profit sharing, net	(6,120,356)	(38,753,877)	–	(44,874,233)	(8,031,399)	(46,407,663)	–	(54,439,062)
Acquisitions and administrative expenses, net	(19,486,136)	(20,520,224)	(13,758,081)	(53,764,441)	(19,385,396)	(26,473,967)	(18,507,371)	(64,366,734)
Interest, dividends and other similar income	6,979,536	143,509,696	–	150,489,232	10,549,530	183,888,338	–	194,437,868
Financial expenses	(746,827)	(8,053,460)	(9,173,880)	(17,974,167)	(830,542)	(10,072,560)	(13,506,934)	(24,410,036)
Net gains/(losses) from financial assets	(348,369)	12,304,590	2,053,203	14,009,424	1,505,141	(112,403,852)	3,116,052	(107,782,659)
VOBA amortisation	(20,352,953)	(2,659,618)	(1,361,280)	(24,373,851)	(21,018,990)	(3,088,598)	(4,138,409)	(28,245,997)
Other technical income / (expenses), net	163,309	1,138,588	–	1,301,897	192,101	2,071,141	(63,312)	2,199,930
<b>Technical margin</b>	<b>64,216,200</b>	<b>9,137,361</b>	<b>26,295,556</b>	<b>99,649,117</b>	<b>51,534,217</b>	<b>(96,201,879)</b>	<b>29,924,269</b>	<b>(14,743,393)</b>
Net investment income				14,495,449				17,987,542
Net realised gains / (losses)				4,898,686				(4,271,024)
General expenses				(4,459,062)				(5,867,382)
Net other income / (expenses)				8,222,989				12,006,764
<b>Non technical result</b>				<b>23,158,062</b>				<b>19,855,900</b>
<b>Profit before tax Life</b>				<b>122,807,179</b>				<b>5,112,507</b>

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## II.8 Other Notes

## Note 36 – Related party transactions

As at 31 December, 2012 and 2011, the remuneration of key management – Board of directors, is analysed as follows:

EUR	2012	2011
Remuneration	1,240,826	1,590,884
Contributions to pensions plans	12,367	27,080
	<b>1,253,193</b>	<b>1,617,964</b>

The impacts of the transactions with related parties, per item, are analysed as follows:

<b>BALANCE SHEET</b> [EUR]	<b>BCP Group</b>	<b>Ageas Group</b>	<b>BCP Pensions Fund</b>	<b>Ageas Pensions Fund</b>	<b>Total</b>
Due from banks	139,303,695	–	–	–	139,303,695
Loans and receivables – other deposits	511,694,670	–	–	–	511,694,670
Investments available for sale	161,498,319	–	–	–	161,498,319
Investments held to maturity	19,578,382	–	–	–	19,578,382
Investments held at fair value through profit and loss	3,503,148,474	87,192,893	–	–	3,590,341,367
Other assets	3,406	4,450	–	4,486,920	4,494,776
<b>Total assets</b>	<b>4,335,226,946</b>	<b>87,197,343</b>	<b>–</b>	<b>4,486,920</b>	<b>4,426,911,209</b>
Insurance and investment contracts liabilities	99,507,414	–	–	–	99,507,414
Other liabilities	9,282,546	333,003	27,622	–	9,643,171
<b>Total liabilities</b>	<b>108,789,960</b>	<b>333,003</b>	<b>27,622</b>	<b>–</b>	<b>109,150,585</b>
<b>Net assets / liabilities 2012</b>	<b>4,226,436,986</b>	<b>86,864,340</b>	<b>(27,622)</b>	<b>4,486,920</b>	<b>4,317,760,624</b>
<b>Net assets / liabilities 2011</b>	<b>3,767,232,266</b>	<b>53,981,492</b>	<b>(27,622)</b>	<b>3,836,588</b>	<b>3,825,022,724</b>

<b>INCOME STATEMENT</b> [EUR]	<b>BCP Group</b>	<b>Ageas Group</b>	<b>BCP Pensions Fund</b>	<b>Ageas Pensions Fund</b>	<b>Total</b>
Net premiums earned	11,580,961	–	36,380,459	–	47,961,420
Interest income and Dividends	131,798,205	–	–	–	131,798,205
Net gains/(losses) from financial assets not held at fair value through profit and loss	3,093	–	–	–	3,093
Net gains/(losses) from financial assets and liabilities held at fair value through profit and loss	400,750,252	37,896,715	–	–	438,646,967
Other income	–	272,216	–	–	272,216
<b>Total income</b>	<b>544,132,511</b>	<b>38,168,931</b>	<b>36,380,459</b>	<b>–</b>	<b>618,681,901</b>
Changes in insurance and investment contracts liabilities (net) and reinsurance	(9,883,620)	–	(20,218,247)	–	(30,101,867)
Acquisitions expenses (net)	(60,503,989)	–	–	–	(60,503,989)
Operating and administrative expenses	(16,219,296)	(1,216,503)	(98,325)	(3,663,544)	(21,197,668)
<b>Total expenses</b>	<b>(86,606,905)</b>	<b>(1,216,503)</b>	<b>(20,316,572)</b>	<b>(3,663,544)</b>	<b>(111,803,524)</b>
<b>Net Income / Expenses 2012</b>	<b>457,525,606</b>	<b>36,952,428</b>	<b>16,063,887</b>	<b>(3,663,544)</b>	<b>506,878,377</b>
<b>Net Income / Expenses 2011</b>	<b>(79,639,528)</b>	<b>(21,472,063)</b>	<b>17,374,252</b>	<b>(5,160,705)</b>	<b>(88,898,044)</b>

Transactions with Banco Comercial Português Group, comprises mainly Investments, fees due to BCP for selling insurance products through BCP network and fees for shared services due to Millennium BCP Prestação de Serviços, A.C.E.

Additionally in 2011, Millenniumbc Ageas entered into a sale and repurchase agreement (REPO) of fixed income securities (government bonds) with Banco Comercial Português, S.A. in the amount of Euro 212,525,000. The assets sold and repurchased under this agreement were not derecognised, as Millenniumbc Ageas retained all the risks and rewards of the ownership of the securities. As at 31 December, 2012 there are no REPO agreements in force.

The related party transactions were made on terms equivalent to those that prevail in an arm's length transactions.

## Note 37 – Assets under management

Pensõesgere is a pension fund management company. The assets under management as at 31 December, 2012 and 2011 are analysed as follows by type of investment:

EUR	2012	2011
Equity securities	1,913,895,754	2,835,331,930
Fixed income securities	1,763,754,649	504,362,867
Investment property	512,050,715	524,852,043
<b>Total</b>	<b>4,189,701,118</b>	<b>3,864,546,840</b>

The roll forward of the year of the assets under management, is analysed as follows:

EUR	2012	2011
Value as at 1 January	3,864,546,840	6,717,621,363
Net contributions	195,839,758	(55,127,982)
Capital gains/(losses)	168,201,719	(51,395,742)
Transfers	(38,887,199)	(2,746,550,799)
<b>Value as at 31 December</b>	<b>4,189,701,118</b>	<b>3,864,546,840</b>

In 2011, the amount of Euro 2.746.550.799 relates to the BCP Pension Fund responsibilities transferred to the Social Security, in accordance with the terms of the decree-law 127/2011.

## Note 38 – Risk management

*Insurance is the equitable transfer of the risk of a loss, from one entity to another in exchange for payment. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss*

source Wikipédia

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For Millenniumbcp Ageas assuming risk is intrinsic to how the company creates value for its customers, shareholders, regulators and rating agencies. The strategy is 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. Millenniumbcp Ageas sees a sound risk management as key in ensuring sustainable profitable growth and therefore, a core competence.

### Millenniumbcp Ageas Risk Governance

Within Millenniumbcp Ageas corporate governance it is in place a risk management organizational structure, full aligned with the risk management structure of Ageas Group.

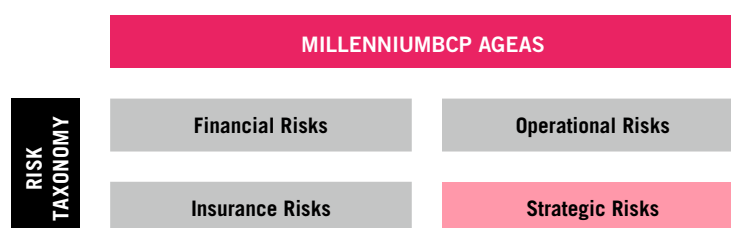
Millenniumbcp Ageas risk management is based on a process, guiding principles, a robust and formalized framework. All the Enterprise Risk Management is defined through a set of policies, namely for the business conduct and also the limits and minimum standards towards the risks pre-identified. It contains also the description of the roles and responsibilities in the risk management system and sets the reporting requirements.

The risk management function at Millenniumbcp Ageas is centralized under the Chief Risk Officer (CRO) being at the same time the Chief Financial Officer (CFO).

### Risk Taxonomy

To ensure a consistent and comprehensive approach aiming risk identification, assessment, monitoring and response within Millenniumbcp Ageas, it is in place a Risk Taxonomy whereby it defines the different categories of risks that might affect all its companies.

The risk taxonomy is divided into four broad categories:



Financial, Operational and Insurance risks are quantified within Solvency II Pillar I requirements, and Strategic risks are quantified within Solvency II Pillar II requirements.

### Strategic Risks

Strategic Risks cover external and internal factors that can impact Millenniumbcp Ageas' ability to meet its current business objectives and also to

position it and achieving ongoing growth and value creation. This includes changes in the external environment including regulatory and economic, competitive landscape or the way people (customers or staff) behave.

At Millenniumbcp Ageas Strategic Risks are managed via Key Risk Reporting (KRR), a process that also contributes to elaborate and implement the appropriate response at a Strategic Level. The KRR is the output of the identification and assessment process of the major key risks across Millenniumbcp Ageas that can impact negatively the realization of the key strategic objectives. Additionally, there are other key processes ongoing that are involved on the overall Strategic Risks Management.

## Financial Risks

### Millenniumbcp Ageas Financial Risk Governance

One of the core risks within our Organization are the financial risks, either from the risk of loss or of adverse change in the fluctuations in the level and in the volatility of market prices of assets, liabilities and other financial instruments, *market risks* or, possible losses due to unexpected default of the counterparties and debtors, *counterparty default risk*.

The governance regarding financial Risks at Millenniumbcp Ageas are plain defined and can be resumed as follows:

- › Administration board of Millenniumbcp Ageas provides a final approval of the Investment Strategy;
- › Investment decisions at Millenniumbcp Ageas and all of its subsidiaries are a responsibility of the Chief Financial Officer (CFO) and of the Investment Department. Further to that, the CFO has responsibilities in managing Financial Risks using the Risk Committee, the Asset Management Committee (AMC is a sub-committee of the Risk Committee) and the Tactical Investment committee;
- › The Risk and Actuarial Department:
  - Is in charge with the Strategic Asset Allocation (SAA) as well as reporting on the Financial risks exposure of Millenniumbcp Ageas;
  - Proposes new Investment Strategies (outcome of SAA) and provides related information to the Risk Committee and to the Executive Committee;
  - Reports on adherence to the Investment strategy and relevant policies;
  - Supports action (including risk mitigation) taken where necessary, especially to avoid or rectify limit breaches (i.e. soft limits) – Risk Appetite.
- › The Investment Function:
  - Operational Management of investments;
  - Develops the Investment Strategy (tactical allocation), which complies with risk constraints, regulation and SAA. In case this responsibility is delegated to external asset manager (F&C Portugal) the Investment function provides clear guidance to asset managers and monitors the relationship with them, their decisions and actions, in order to maximize return, through the AMC;

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- Reports on the exposure limits set by the AMC/Risk Committee or by Regulators.
- › The Risk Committee:
  - Is responsible for approving the Risk Constraints, monitoring adherence to them.

In the beginning of the year the Risk Officer function took place:

- Providing the Risk Appetite Constrains and the aggregate risk constraints;
- Providing an opinion on the appropriateness on the risk policies;
- Is a member of the RC/AMC Committee;
- Giving an opinion on the overall Investment Strategy before it is approved by the Board.

Management of Financial Risks in Millenniumbcp Ageas is built around four key elements:



### Millenniumbcp Ageas Financial Risks

Financial Risks, according with the Millenniumbcp Ageas risk taxonomy is divided into the following categories:

- › Counterparty Default Risks;
- › Market Risks.

### Counterparty Default Risks

The *Counterparty Default* risk reflects possible losses due to unexpected default of the counterparties and debtors. The scope of the Counterparty Default Risk category includes risk-mitigating contracts, such as reinsurance arrangements, securitisations and derivatives, and receivables from intermediaries.

This risk does not include the losses arising from defaults on assets bought for investment purposes – this risk is defined as investment default risk rather than counterparty default risk and is covered within Market Risk (spread risk).

Given the potential for overlap between spread risk and counterparty risk coverage the risk taxonomy of Millenniumbcp Ageas is elaborate in a way to insure that all credit related risks are identified and covered by one or the other risk type and there is no double counting.

In 2013, Millenniumbcp Ageas ambition is to monitor this risk within the Risk Appetite framework and the capital management process under the Solvency II requirements.

Within this category of risk is also included the *concentration risk*. This can arise due to large aggregate exposures to single counterparties or an aggregate



of exposures to a number of positively correlated counterparties (i.e. tendency to default under similar circumstances) with the potential to produce a significant amount of capital loss due to a bankruptcy or failure to pay.

### Market Risks

The assets and liabilities of Millenniumbcp Ageas are managed in order to maximize shareholder value, provide for growth that is sound, enhance profitability, serve customer needs, and to protect Millenniumbcp Ageas from any disastrous financial consequences arising from changes in interest rates, foreign exchange, spreads, equities, etc. The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments is defined at Millenniumbcp Ageas as *Market risk*.

To reduce the Market Risk, Millenniumbcp Ageas uses diversification as one of the mitigation actions, consequently the investment securities portfolio, are monitored in terms of ratings, industries, markets and countries.

As part of the Market Risk, currency risk arises from changes in the level or volatility of relevant currency exchange rates when there is a mismatch between the relevant currency of the assets and liabilities.

Any financial product is denominated in a specific currency and exchange rate risk stems from a change of the exchange rate of a currency to the reference currency of Millenniumbcp Ageas (Euro).

Millenniumbcp Ageas states that all foreign exchange risk should be hedged. Only the Unit Linked products are currently exposed to currency risk.

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The following table indicates the overall investments securities available for sale, held at fair value (through income), held to maturity as well as trading portfolios, by type of security (excluding accrued interest):

<b>INVESTMENTS PORTFOLIO</b> [EUR]	<b>2012</b>	<b>%</b>	<b>2011</b>	<b>%</b>
<b>Available for sale</b>	<b>4,345,681,771</b>	<b>100.0%</b>	<b>4,525,172,465</b>	<b>100.0%</b>
Government bonds	1,495,843,123	34.4%	2,029,533,475	44.8%
Corporate debt securities	2,564,752,305	59.0%	2,161,541,299	47.8%
Equity securities	17,623,156	0.4%	16,484,099	0.4%
Participation in unit funds				
Debt	61,562,607	1.4%	85,537,923	1.9%
Equity	–	0.0%	7,551,085	0.2%
Real Estate	196,873,917	4.5%	198,426,022	4.4%
Alternative	9,026,663	0.2%	26,098,562	0.6%
<b>Held at fair value</b>	<b>5,506,155,071</b>	<b>100%</b>	<b>4,635,086,256</b>	<b>100%</b>
Government bonds	262,933,852	4.8%	34,138,199	0.7%
Corporate debt securities	5,002,725,171	90.9%	4,377,235,483	94.4%
Equity securities	–	0.0%	2,402,957	0.1%
Participation in unit funds				0.0%
Debt	115,978,060	2.1%	99,258,912	2.1%
Equity	104,542,075	1.9%	105,170,807	2.3%
Real Estate	1,225,653	0.0%	–	0.0%
Alternative	18,750,260	0.3%	16,879,898	0.4%
<b>Held to maturity</b>	<b>697,845,383</b>	<b>100%</b>	<b>670,543,275</b>	<b>100%</b>
Government bonds	527,493,676	75.6%	504,487,799	75.2%
Corporate debt securities	170,351,707	24.4%	166,055,476	24.8%
<b>Other financial assets / (liabilities)</b>	<b>209,580,274</b>		<b>(113,996,761)</b>	
Trading derivatives	209,580,274		98,527,808	
Repurchase agreement	–		(212,524,569)	
<b>Total</b>	<b>10,759,262,499</b>		<b>9,716,805,235</b>	

As at 31 December, 2012 and 2011, the fair value of the assets and liabilities carried at amortised cost, is presented as follows:

<b>ASSETS</b> [EUR]	<b>2012</b>	<b>2011</b>
Cash and equivalents	139,303,695	213,549,355
Loans and receivables	511,694,670	769,753,833
Trade and other receivables	27,495,080	37,416,649
Investments held to maturity	697,845,383	670,543,275
<b>Total</b>	<b>1,376,338,828</b>	<b>1,691,263,112</b>
<b>LIABILITIES</b> [EUR]		
Other financial liabilities	13,485,536	228,135,652
Trade and other payables	47,685,239	55,845,546
<b>Total</b>	<b>61,170,775</b>	<b>283,981,198</b>

The equity securities hold by Millenniumbcp Ageas types of industry are as follows:

EQUITY SECURITIES BY INDUSTRY [EUR]	AVAILABLE FOR SALE			
	2012		2011	
	Book value	%	Book value	%
Financial	17,620,156	100.0%	16,465,226	99.9%
Communications & Technology	—	0.0%	16,613	0.1%
Consumer, Non-cyclical	3,000	0.0%	2,250	0.0%
Consumer, Cyclical	—	0.0%	10	0.0%
	<b>17,623,156</b>	<b>100.0%</b>	<b>16,484,099</b>	<b>100.0%</b>

The debt securities hold by Millenniumbcp Ageas, can be analyzed by type of industry as follows:

DEBT SECURITIES BY INDUSTRY [EUR]	AVAILABLE FOR SALE				HELD AT FAIR VALUE				HELD TO MATURITY			
	2012		2011		2012		2011		2012		2011	
	Book value	%	Book value	%	Book value	%	Book value	%	Book value	%	Book value	%
Government	1,495,843,123	36.8%	2,029,533,475	48.4%	262,933,852	5.0%	34,138,199	0.8%	527,493,676	75.6%	504,487,799	75.2%
Financial	1,937,998,570	47.7%	1,587,207,039	37.9%	3,745,798,538	71.1%	3,133,680,902	71.0%	19,578,382	2.8%	18,837,223	2.8%
Asset Backed Securities	5,032,687	0.1%	6,611,866	0.2%	12,843,969	0.2%	13,321,432	0.3%	—	0.0%	—	0.0%
Industrial	149,745,716	3.7%	129,406,897	3.1%	417,165,041	7.9%	397,604,889	9.0%	64,309,128	9.2%	62,817,696	9.4%
Utilities	169,670,458	4.2%	149,242,569	3.6%	33,111,859	0.6%	26,199,396	0.6%	—	0.0%	—	0.0%
Mortgage Securities	12,413,679	0.3%	11,487,926	0.3%	7,492,859	0.1%	7,383,560	0.2%	—	0.0%	—	0.0%
Consumer, Non-cyclical	54,756,247	1.3%	48,064,006	1.1%	38,170,208	0.7%	120,635,051	2.7%	—	0.0%	—	0.0%
Consumer, Cyclical	62,766,232	1.5%	66,659,757	1.6%	103,603,429	2.0%	123,198,237	2.8%	—	0.0%	353,487	0.1%
Communications	113,161,653	2.8%	124,970,073	3.0%	203,147,024	3.9%	168,448,094	3.8%	8,782,214	1.3%	8,513,628	1.3%
Basic materials	—	0.0%	1,053,399	0.0%	358,555,843	6.8%	315,492,230	7.2%	22,390,720	3.2%	21,562,348	3.2%
Diversified	23,147,111	0.6%	6,585,500	0.2%	82,836,402	1.6%	71,271,691	1.6%	55,291,263	7.9%	53,971,093	8.0%
Energy	36,059,953	0.9%	30,252,268	0.7%	—	0.0%	—	0.0%	—	0.0%	—	0.0%
	<b>4,060,595,428</b>	<b>100.0%</b>	<b>4,191,074,775</b>	<b>100.0%</b>	<b>5,265,659,023</b>	<b>100.0%</b>	<b>4,411,373,682</b>	<b>100.0%</b>	<b>697,845,383</b>	<b>100.0%</b>	<b>670,543,275</b>	<b>100.0%</b>

The following table outlines the investment grade for all debt securities (based on external ratings or equivalent):

DEBT SECURITIES BY RATING (EUR)	AVAILABLE FOR SALE				HELD AT FAIR VALUE				HELD TO MATURITY			
	2012		2011		2012		2011		2012		2011	
	Book Value	%	Book Value	%	Book Value	%	Book Value	%	Book Value	%	Book Value	%
AAA	571,752,662	14.1%	1,443,799,588	34.4%	810,748	0.0%	2,875,581	0.1%	–	0.0%	–	0.0%
AA	803,619,902	19.8%	390,926,737	9.3%	3,693,114	0.1%	5,597,484	0.1%	–	0.0%	–	0.0%
A	383,425,399	9.4%	580,399,789	13.8%	11,988,965	0.2%	58,619,784	1.3%	–	0.0%	–	0.0%
BBB	688,448,619	17.0%	656,987,952	15.7%	633,580,921	12.0%	820,137,678	18.6%	28,491,937	4.1%	41,341,074	6.2%
BB	1,357,403,959	33.4%	1,006,534,560	24.0%	1,237,966,893	23.5%	3,425,573,633	77.7%	563,629,686	80.8%	629,202,201	93.8%
B	220,626,632	5.4%	83,115,764	2.0%	3,339,164,591	63.4%	35,231,691	0.8%	103,042,763	14.8%	–	0.0%
CCC	6,051,601	0.1%	–	0.0%	25,861,659	0.5%	1,071,614	0.0%	–	0.0%	–	0.0%
CC	–	0.0%	826,053	0.0%	4,152	0.0%	1,451,314	0.0%	–	0.0%	–	0.0%
C	–	0.0%	–	0.0%	–	0.0%	6,599,850	0.1%	–	0.0%	–	0.0%
Not rated	29,266,654	0.7%	28,484,332	0.7%	12,587,980	0.2%	54,215,053	1.2%	2,680,997	0.4%	–	0.0%
<b>Total</b>	<b>4,060,595,428</b>	<b>100.0%</b>	<b>4,191,074,774</b>	<b>100.0%</b>	<b>5,265,659,023</b>	<b>100.0%</b>	<b>4,411,373,682</b>	<b>100.0%</b>	<b>697,845,383</b>	<b>100.0%</b>	<b>670,543,275</b>	<b>100.0%</b>
Government bonds	1,495,843,123	36.8%	2,029,533,475	48.4%	262,933,852	5.0%	34,138,199	0.8%	527,493,676	75.6%	504,487,799	75.2%
Corporate debt securities	2,564,752,305	63.2%	2,161,541,299	51.6%	5,002,725,171	95.0%	4,377,235,483	99.2%	170,351,707	24.4%	166,055,476	24.8%
<b>Total</b>	<b>4,060,595,428</b>	<b>100.0%</b>	<b>4,191,074,774</b>	<b>100.0%</b>	<b>5,265,659,023</b>	<b>100.0%</b>	<b>4,411,373,682</b>	<b>100.0%</b>	<b>697,845,383</b>	<b>100.0%</b>	<b>670,543,275</b>	<b>100.0%</b>

For deposits and trade and other receivables (based on external ratings or equivalent) the figures are as follows (the amounts associated with the ratings refer only to the reinsurers who have debtor balance):

EUR	2012		2011	
	Book Value	%	Book Value	%
Deposits				
B	650,998,365	100.0%	983,303,188	100.0%
Trade and other receivables				
AAA	–	0.00%	219,951	0.59%
AA	3,491,459	12.70%	4,419,230	11.81%
A	3,317,908	12.07%	5,092,435	13.61%
BBB	1,203,341	4.38%	–	0.0%
Not rated	19,482,372	70.86%	27,685,033	73.99%
	<b>27,495,080</b>	<b>100.00%</b>	<b>37,416,649</b>	<b>100.00%</b>
<b>Total</b>	<b>678,493,445</b>		<b>1,020,719,837</b>	

The participation in unit funds hold by Millenniumbcp Ageas can be analyzed by type and geographic breakdown, as follows:

PARTICIPATION IN UNIT FUNDS BY GEOGRAPHICAL BREAKDOWN [EUR]	AVAILABLE FOR SALE				
	Portugal	Luxemburg	Cayman	Total	%
Debt	–	61,562,607	–	61,562,607	23.0%
Real Estate	196,873,917	–	–	196,873,917	73.6%
Alternative	2,346,823	6,679,840	–	9,026,663	3.4%
<b>Total as at December 2012</b>	<b>199,220,740</b>	<b>68,242,447</b>	<b>–</b>	<b>267,463,187</b>	<b>100.0%</b>
Debt	–	85,537,923	–	85,537,923	26.9%
Equity	2,423,625	5,127,460	–	7,551,085	2.4%
Real Estate	198,426,022	–	–	198,426,022	62.5%
Alternative	–	–	26,098,562	26,098,562	8.2%
<b>Total as at December 2011</b>	<b>200,849,647</b>	<b>90,665,383</b>	<b>26,098,562</b>	<b>317,613,593</b>	<b>100.0%</b>

PARTICIPATION IN UNIT FUNDS BY GEOGRAPHICAL BREAKDOWN [EUR]	HELD AT FAIR VALUE									
	Portugal	Luxemburg	France	Ireland	Virgin Isle	EUA	England	Germany	Total	%
Debt	426,079	105,962,985	3,154,454	5,809,988	–	–	624,554	–	115,978,060	48.2%
Equity	105,626	72,305,781	–	25,640,332	–	495,208	5,995,128	–	104,542,075	43.5%
Real Estate	–	1,225,653	–	–	–	–	–	–	1,225,653	0.5%
Alternative	–	11,919,721	–	628,988	5,784,460	–	417,091	–	18,750,260	7.8%
<b>Total as at December 2012</b>	<b>531,705</b>	<b>191,414,140</b>	<b>3,154,454</b>	<b>32,079,308</b>	<b>5,784,460</b>	<b>495,208</b>	<b>7,036,773</b>	<b>–</b>	<b>240,496,048</b>	<b>100.0%</b>
Debt	387,133	77,240,840	14,956,726	6,151,523	–	–	522,691	–	99,258,912	44.9%
Equity	91,272	76,161,143	–	18,582,687	–	478,760	4,148,198	5,708,746	105,170,807	47.5%
Alternative	–	10,736,640	–	–	6,143,258	–	–	–	16,879,898	7.6%
<b>Total as at December 2011</b>	<b>478,405</b>	<b>164,138,623</b>	<b>14,956,726</b>	<b>24,734,210</b>	<b>6,143,258</b>	<b>478,760</b>	<b>4,670,889</b>	<b>5,708,746</b>	<b>221,309,617</b>	<b>100.0%</b>

Within this category of risk is also included the Liquidity risk.

Liquidity Risk is the risk that expected and unexpected cash demands of policyholders, and other contract holders cannot be met without suffering losses or without endangering the business franchise due to constraints on liquidating assets.

In order to monitor the Liquidity Risk, Millenniumbcp Ageas approach lies on a combination of managing funding resources as well as maintaining a buffer of highly marketable assets (according to the investment rules).

The presented figures should not be compared with the accounting balances figures, as they include projected cash flows that are not discounted.

As at December 31, 2012 and 2011, the projected cash flows (undiscounted) for the financial instruments, according to their maturity, are presented as follows:

<b>LIQUIDITY RISK 2012</b> [EUR]	<b>&lt; 1 month Maturity</b>	<b>1-3 months Maturity</b>	<b>3-12 months Maturity</b>	<b>1-5 years Maturity</b>	<b>&gt; 5 years Maturity</b>	<b>No maturity</b>	<b>Total</b>
Interest bearing – Fixed rate	186,471,381	312,562,335	974,989,939	2,369,218,719	900,076,937	–	4,743,319,311
Interest bearing – Variable rate	19,974,959	134,706,991	110,289,782	370,378,734	33,668,946	–	669,019,412
Non-interest bearing	575,899,974	85,615,911	314,048,597	40,944,374	21,538,550	285,086,343	1,323,133,749
Investments held at fair value through profit/loss	21,272,354	351,448,122	1,069,669,917	3,051,340,227	1,998,955,684	240,496,048	6,723,182,352
<b>Financial assets</b>	<b>803,618,668</b>	<b>884,333,359</b>	<b>2,468,998,235</b>	<b>5,381,882,054</b>	<b>2,944,240,117</b>	<b>525,582,391</b>	<b>13,458,654,824</b>
<b>Non financial assets</b>	<b>2,828,043</b>	<b>5,656,087</b>	<b>27,280,224</b>	<b>115,634,209</b>	<b>29,761,194</b>	<b>403,844,815</b>	<b>585,004,573</b>
<b>Total assets</b>	<b>806,446,712</b>	<b>889,989,446</b>	<b>2,496,278,459</b>	<b>5,947,516,263</b>	<b>2,974,001,311</b>	<b>929,427,206</b>	<b>14,043,659,397</b>
Other financial liabilities	(34,876,550)	21,132,072	45,463,855	29,385,091	55,313	10,994	61,170,775
Liabilities on behalf policyholders	18,502,673	239,529,359	996,151,545	2,955,515,245	1,577,092,969	–	5,786,791,791
<b>Financial liabilities</b>	<b>(16,373,877)</b>	<b>260,661,431</b>	<b>1,041,615,400</b>	<b>2,984,900,336</b>	<b>1,577,148,282</b>	<b>10,994</b>	<b>5,847,962,566</b>
<b>Non financial liabilities</b>	<b>57,381,437</b>	<b>42,469,475</b>	<b>914,096,876</b>	<b>2,296,594,814</b>	<b>2,523,523,460</b>	<b>–</b>	<b>5,834,066,062</b>
<b>Total liabilities</b>	<b>41,007,560</b>	<b>303,130,906</b>	<b>1,955,712,276</b>	<b>5,281,495,150</b>	<b>4,100,671,742</b>	<b>10,994</b>	<b>11,682,028,628</b>

<b>LIQUIDITY RISK 2011</b> [EUR]	<b>&lt; 1 month Maturity</b>	<b>1-3 months Maturity</b>	<b>3-12 months Maturity</b>	<b>1-5 years Maturity</b>	<b>&gt; 5 years Maturity</b>	<b>No maturity</b>	<b>Total</b>
Interest bearing – Fixed rate	284,008,718	144,687,051	1,128,741,099	2,566,988,994	1,212,976,621	–	5,337,402,484
Interest bearing – Variable rate	10,713,003	59,466,158	60,049,117	332,857,691	360,200,681	–	823,286,650
Non-interest bearing	773,225,259	71,971,489	220,443,038	65,155,994	1,052,708	224,453,952	1,356,302,441
Investments held at fair value through profit/loss	160,208,126	499,716,994	267,469,490	2,467,279,560	1,342,542,396	334,112,640	5,071,329,206
Financial assets	1,228,155,106	775,841,693	1,676,702,744	5,432,282,240	2,916,772,406	558,566,592	12,588,320,781
Non financial assets	3,053,494	6,106,989	29,544,767	237,402,250	31,007,923	420,982,512	728,097,934
<b>Total assets</b>	<b>1,231,208,600</b>	<b>781,948,682</b>	<b>1,706,247,511</b>	<b>5,669,684,490</b>	<b>2,947,780,329</b>	<b>979,549,103</b>	<b>13,316,418,715</b>
Other financial liabilities	18,742,360	13,623,690	228,179,449	23,747,695	99,540	19,785	284,412,519
Liabilities on behalf policyholders	9,219,527	180,420,081	449,961,242	3,222,871,853	1,403,909,790	–	5,266,382,493
Financial liabilities	27,961,887	194,043,771	678,140,691	3,246,619,548	1,404,009,330	19,785	5,550,795,012
Non financial liabilities	65,182,975	36,245,108	248,633,606	3,123,701,690	2,643,169,513	–	6,116,932,892
<b>Total liabilities</b>	<b>93,144,863</b>	<b>230,288,879</b>	<b>926,774,297</b>	<b>6,370,321,237</b>	<b>4,047,178,843</b>	<b>19,785</b>	<b>11,667,727,904</b>

The attainment of the projected cash flows of financial instruments is based on the principles and assumptions existing in Millenniumbcp Ageas to manage and control liquidity in the course of its business with the necessary adjustments relating to the disclosure requirements applicable.

For financial assets, namely investments (excluding unit linked), discretion was taken as the contractual maturity and the maturity date is considered the nominal value added to the projected value of the coupon payable until maturity using for floating rate notes the coupon paid in December 2012 and 2011 respectively.

With regard to liabilities, the calculation of the projected cash flows of the mathematical provision of life (non-financial liabilities) and financial liabilities from the deposit component of insurance contracts and investment contracts were considered the following assumptions:

- i) The balance sheet value of contracts “Unit Linked” was considered mature “view”;
- ii) In the calculation of the cash flows were not considered the premature withdrawals.

## Insurance Liability Risk

### *Millenniumbcp Ageas Insurance risks Governance*

Millenniumbcp Ageas manages insurance risks through a combination of its underwriting policy, pricing, provisioning and reinsurance.

The Governance structure for Insurance risk is briefly summarized as follows:

- › Management (as part of the first line of defence) is responsible for ensuring appropriate processes are in place to manage insurance risks in that the processes support the achievement of strategic business objectives;
- › The establishment by the management of a Insurance Risk Policy and their respective minimum standards. In case of limit breaches, an escalation process to the Risk Officer should be in place to inform on the breach and on the mitigating actions that will be taken;
- › The Risk Function is responsible to define the Risk Appetite constraints and the aggregate risk constraints, for evaluating and managing insurance risks within the policies and guidelines set at Millenniumbcp Ageas level;
- › The Risk Function must have an aggregated view on the risks underwritten;
- › The Risk Committee is responsible for approving the Risk Constraints, regularly assesses the adequacy of premium rates and technical reserves;
- › Management needs to develop a business plan / budget within the risk. Controls need to be undertaken to ensure risks remain within stated objectives;
- › In case of limit breaches, an escalation process to the Risk Officer should be in place.

Across the organisation several departments are involved in the insurance risk management, such as Risk and Actuarial Department, Underwriting, Reinsurance and Investments.

### *Underwriting and Pricing*

Underwriting is one of the most important parts of the insurance process being set as part of the overall management of insurance risk. An insurance contract transfers risk from the policyholders to the insurance company. The process by which applicants are segmented according to the level of expected claims and risks and for deriving an appropriate price for accepting the risk is the underwriting process. Following this description, pricing covers the expected level of risk and includes a margin for unexpected deviations thereof.

A range of indicators and statistical analysis tools are used to refine underwriting standards in order to improve loss experience and/or ensure pricing is adjusted appropriately.

The result of the underwriting process should provide for appropriately priced insurance policies covering both the expected and unexpected risks.

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How much the policyholder needs to pay for obtaining a predetermined coverage (premium) is referred to the pricing of an insurance contract.

The appropriateness of pricing is tested using techniques and key performance indicators appropriate for a particular portfolio, on both an a priori basis (e.g. profit testing) and an a posteriori basis (e.g. embedded value, combined ratios).

The factors taken into consideration in the pricing of insurance change by product, according to the coverage and benefits offered, however, in general include:

- › Expected claims of the policyholders and related expected benefit payments and their timing;
- › The level and nature of variability associated with the expected benefits. This includes analysis of claims statistics as well as consideration of the evolution of jurisprudence, the economic environment and demographic trends;
- › Other costs of producing the relevant product, such as distribution, marketing, policy administration, and claim administration costs;
- › Financial conditions, reflecting the time value of money;
- › Solvency capital requirements;
- › Target levels of profitability;
- › Insurance market conditions, notably competitor pricing of similar products.

### Reserving

The adequacy of insurance liabilities is reviewed at each reporting date and required increases in liabilities are immediately recorded and recognised in the income statement. The liability adequacy testing (LAT) is in line with IFRS requirements. The LAT is defined and implemented to provide assurance to Millenniumbcp Ageas' management that sufficient assets are held to back liabilities on best-estimate, economic basis with also a high degree of confidence.

Additionally, the appointed actuaries assess the adequacy of the insurance charges and reserves regularly, and independent external entity certifies the Non-Life provisions regularly.

### Reinsurance

Where appropriate, Millenniumbcp Ageas enters into reinsurance contracts to limit exposure to underwriting losses. This reinsurance may be on a policy by policy basis (facultative reinsurance), namely where the level of cover required by the policyholder exceeds internal underwriting limits or, on portfolio basis (treaty reinsurance) i.e. when individual policyholder exposures are within local limits but where an unacceptable risk of accumulation of claims exists at group level, namely due to weather related events (catastrophe disasters). The latter events are mostly weather related or manmade. The selection of reinsurance companies is based primarily on security and support provided.

To enable the group to benefit from aggregate buying power, diversification and best practice reinsurance strategy is coordinated centrally. This allows local businesses the flexibility to set their own risk appetite based on local



considerations while ensuring the group buys reinsurance based on group level capacity and diversification.

The major objective of reinsurance is to mitigate the impact of major earthquakes, windstorms or floods, large single claims where claims limits are high and to mitigate the impact of several claims triggered by a single event.

Some reinsurance companies have expressed their desire to discontinue providing unlimited covers. The reinsurance entities involved together with industry organisations are discussing with the Governments, possible solutions to this problem. Such solutions might be in the form of limited covers or the setting up of (partially) government-sponsored solutions.

The maximum risk exposure per event after reinsurance and after deductibles per segment and product line is summarized below:

#### NON LIFE & HEALTH [EUR]

Line of Business	Type of Reinsurance	Range of Cover	Net Retention
Fire	Surplus	15,000,000	300,000
Fire (natural perils)	XOL	400,000,000	20,000,000
General Third Party Liability	XOL	2,450,000	50,000
Engineering	Quota Share + Surplus	2,750,000	250,000
Personal Accident	Surplus	1,500,000	75,000
Motor Liability	XOL	50,000,000	750,000
Motor Hull	XOL	4,250,000	750,000
Marine	Quota Share	1,000,000	40%
Travel	Surplus	1,500,000	75,000
Personal Accident (catastrophe)	XOL	50,000,000	250,000
Workmen's Compensation	XOL	30,000,000	500,000
Health Business (Munich)	Quota Share	1,000,000	20%
Health Business (Acunsa)	Quota Share	limited	0%

#### LIFE [EUR]

Line of Business	Type of Reinsurance	Range of Cover	Net Retention
Life/Disability	Surplus	4,000,000	100,000
Life catastrophe	XOL	15,000,000	300,000

#### Millenniumbcp Ageas Insurance Risks

Accepting risks through insurance contracts must be subject to sound risk management principles. The amount of insurance risk that Millenniumbcp Ageas is willing to accept must be in line with the risk appetite and strategy defined.

The risk accepted through the insurance contracts, are classified under Millenniumbcp Ageas taxonomy of Specific Insurance Risks.

Insurance risk refers to all risks inherent to the insurance business, excluding any components that are covered under Financial or operational risks. In line with the Millenniumbcp Ageas risk taxonomy, the insurance risk can be divided into the following categories:

- › Life insurance liability risk;

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- › Non-life insurance liability risk;
- › Health insurance liability risk.

*Life Underwriting Risks*

The Life insurance liability risk is divided into two big blocs: Life underwriting risk and Catastrophe risk.

Claims relating to Term insurance and Annuity products are sensitive to changes in the mortality rates. Observed decreases in mortality rates with respect to the pricing mortality are referred to as longevity risk, while increases are referred to as mortality risk. Unexpected increases in mortality rates will lead to higher than expected claims for term products but lower claims for annuity products, while decreases in mortality rates (longevity risk) will have the opposite impact. Given the long-term nature of life business, unexpected changes in lapse rates or on-going expenses can also have a significant impact.

Life-catastrophe risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events.

One of the life insurance risks, Longevity Risk, arises when unexpected decreases in mortality rates lead to higher than expected claims for annuity products. Longevity risk is managed through pricing, underwriting policy, by regularly reviewing the mortality tables used for pricing and establishing provisions, by limitation of the contract period and by re-pricing at renewal. Where longevity is found to be improving faster than assumed in the mortality tables additional provisions are established and, whenever possible, the tables are updated.

Given the continuing expected increase in life expectancy of the population insured, the risk of unexpected increase, other quite important life insurance risk, mortality risk, in the business on a portfolio level is not considered significant at this stage. There is however a risk of mortality “disaster” caused by epidemic diseases, a major event such as an industrial accident or terrorist attack. Mortality risk of this type is mitigated through underwriting policy and close monitoring of mortality tables, but also through several excess-of-loss and catastrophe reinsurance treaties.

The main actuarial assumptions used in the calculation of the present value of Workmen’s Compensation mathematical reserves are the following:

	Redeemable pensions	Non redeemable pensions
Mortality table	TD 88/90	35% TV 88/90 65% TV 73/77
Discount rate	5.25%	3.5%
Management fees	2.4%	4.0%

Regarding Workmen’s Compensation, a liability adequacy testing is applicable to non-redeemable pensions. The assumptions taken into consideration are the same as referred above, where discount rate corresponds to the risk free yield curve.

Under current regulations life insurance provisions are calculated according with the actuarial assumptions defined in each policy.

For Millenniumbcp Ageas the assumptions are shown below:

	Mortality table	Technical rate
Term insurance	PM 60/64 or GKM 80	3% or 4%
Annuities*	TV 73/77, GKF 80, GKF 95	2.75%, 3%, 3.5%
Savings with DPF	PF 60/64 or GKF 80	0%, 2%, 2.4%, 3%, 3.25% or 4%

\* The mathematical provision for each policy in force cannot be lower than the amount calculated with TV 73/77 and 3.5% discount rate.

For liability adequacy test purposes, the mortality assumptions are based on best estimates derived from portfolio experience investigations as at 31 December 2012 and 2011. Future cash flows are evaluated through internal embedded value model and have been discounted at risk free yield curve. The mortality assumptions were:

	2012		2011	
	Male	Female	Male	Female
<b>MORTALITY TABLES</b>				
Term insurance				
Stand Alone	70% GKM95	70% GKF95	70% GKM95	70% GKF95
Mortgage Loans	50% GKM95	47.5% GKF95	52.5% GKM95	50% GKF95
Personal Loans	50% GKM95	45% GKF95	55% GKM95	50% GKF95
Annuities	100% PERM2000C	100% PERF2000C	100% PERM2000C	100% PERF2000C
Savings	40% GKM95	40% GKF95	40% GKM95	40% GKF95

Disability risk covers the uncertainty in claims due to disability rates higher than expected and can arise, for example, within the portfolios of health business, workmen's compensation, personal accidents and term business.

The incidence of disability as well as the recovery from disability is influenced by several factors such as economic environment, governmental intervention, medical advances and costs as well as standards used for disability assessment. This risk is managed through regular review of historical claims patterns, expected future trends and adjusting pricing, provisioning and underwriting policy appropriately. Millenniumbcp Ageas also mitigates disability risk through medical selection strategies and appropriate reinsurance coverage.

Regular sensitivity analyses are developed at Millenniumbcp Ageas in order to analyze the fair value of the insurance liabilities. The fair value is determined as the net present value of expected cash flows, taking into account embedded options such as profit-sharing. The valuation is performed on the basis of the market consistent principles. Contractual cash flows are discounted at the risk free rate, whereas non-contractual cash flows such as profit sharing are valued with risk-neutral principles.

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The table below provides further information on sensitivities to both, market and insurance risks on the fair value of equity, i.e., the fair value of all assets minus the fair value of all liabilities:

### LIFE BUSINESS [EUR]

Sensitivities	Impact on Fair Value at 31.12.2012	Impact on Fair Value at 31.12.2011
Risk free rates +100 bp	(28,493,744)	52,617,880
Risk free rates -100 bp	(55,021,179)	(68,194,562)
Market value of shares and real estate -10%	(25,912,935)	(37,261,673)
Expenses -10%	12,129,076	11,957,489
Mortality rates -5%	8,698,677	9,335,125
Lapse rates -10%	15,968,503	20,038,206

### Non-Life and Health Underwriting Risks

The *Non-Life Underwriting risk* reflects the risk arising from non-life insurance obligations, in relation to the perils covered and the costs of meeting the claims.

The Non-Life insurance risk can arise due to the uncertainty over levels of claims relating to motor, fire & property damage, third party liability, accident and the other lines of business.

For Health and Workmen's Compensations, the uncertainty of costs is also related with variations in medical costs. Disability rates may also be included in the longevity risk when products pay out for the lifetime, such as, pensions for Workmen's Compensation and some Health insurance policies.

The time required to discover and settle claims is an important factor to take into account in the analysis of volatility/severity of their costs. Short-tail claims (i.e. claims with short term resolution), such as motor damage and property damage claims generally are reported within a few days or weeks and are settled shortly thereafter. Resolution of long-tail claims, such as bodily injury or liability claims, can take years to complete. For long-tail claims, due to the nature of the loss, information concerning the event, such as required medical treatment, may not be readily obtainable. In addition, the analysis of long-tail losses is more difficult, requires more detailed work and is subject to greater uncertainties than short-tail losses.

Therefore, non-life claims provisions are established for claims that have occurred but which have not yet been settled and for claims already occurred but still to be reported. In general, Millenniumbcp Ageas establishes claims provisions by claim, coverage and damage type, taking into account the projections of the undiscounted payments and also the estimate of claims not yet reported. It is also considered the cost of the future inflation.

Unexpired risk, risk related to those claims for which premiums have been received but for which the risk has not yet expired, are covered by unearned premium reserves within the technical provisions. However, unearned premiums could prove to be insufficient to cover expected insured events during the remaining contract period. As a result at each reporting date, Millenniumbcp

Ageas performs a premium adequacy test and build up an unexpired risk reserve if the premium is insufficient for future costs.

The adequacy of provisions is tested at least quarterly, in line with group policy and is regularly certified by independent external actuaries. Any adjustments resulting from changes in provisions estimates are reflected in current results of operations. Additionally, whenever adequate, underwriting and pricing policies may be reviewed.

The claims provision development table below provides information on the historical adequacy of the claims provision.

EUR		BALANCE SHEET POSITION AS AT END OF YEAR						
		2006	2007	2008	2009	2010	2011	2012
<b>Gross claim reserves – incl IBN(E)R – for unpaid claims and allocated claim expenses as at the end of the reporting year.</b>		59,961,862	61,885,453	63,824,579	70,184,162	74,406,671	78,628,226	78,089,708
<b>Cumulative payments at:</b>								
	One year of development	21,763,715	20,603,878	26,212,709	34,129,809	32,068,910	35,727,056	
	Two years of development	24,404,684	26,243,302	33,145,210	41,448,744	38,527,958		
	Three years of development	27,235,730	31,052,408	36,871,536	45,013,046			
	Four years of development	30,078,011	34,211,856	39,361,682				
	Five years of development	32,453,105	38,716,340					
	Six years of development	36,512,397						
<b>Re-estimated reserve at:</b>								
	One year of development	54,685,321	52,871,836	58,658,157	70,412,088	65,179,098	66,628,765	
	Two years of development	51,217,276	53,022,951	59,938,850	66,506,977	61,822,175		
	Three years of development	49,511,959	54,068,029	56,852,726	62,898,759			
	Four years of development	46,541,525	51,117,267	54,022,251				
	Five years of development	44,408,121	51,151,708					
	Six years fo development	45,269,328						
<b>Cumulative redundancy/deficiency from the initial gross reserves in excess of the re-estimated gross reserves:</b>								
	Nominal amount (d)	14,692,534	10,733,744	9,802,329	7,285,403	12,584,496	11,999,461	
	Percentage	24.5%	17.3%	15.4%	10.4%	16.9%	15.3%	

#### Reconciliation between the reserves reported in the balance sheet and the claim development table

	11/12/31	12/12/31
Gross reserves for unpaid claims and allocated claims expenses as at the end of the reporting year (a)	78,628,226	78,089,708
Claims held at discounted value (b)	15,532,515	17,674,815
Unallocated Loss Adjustment expenses	2,205,880	2,186,663
<b>Total gross claims reserves and other reserves for Non-Life</b>	<b>96,366,621</b>	<b>97,951,186</b>

To mitigate the claims risk, the insurance business applies selection and underwriting policies based on their historical claims experience and modeling. This is done by type of client segment and class of business enhanced with knowledge of or expectations regarding future developments of claims frequency and severity. The risk of unexpectedly large claims is reduced through policy limits, concentration management and risk transfer agreements specifically catered for it, e.g. reinsurance.

Millenniumbcp Ageas contributes to the diversification of non-life insurance business and geographies of Ageas Group, reducing the risk at group level.

The combined ratio is the sum of the claims ratio and the costs ratio. The costs ratio results from the division of general expenses (administrative costs, depreciation, commissions, network fee etc.) allocated to a specific activity by earned premiums. The claims ratio results by the division of costs incurred with claims (loss reserves plus claims cost allocation) over earned premiums.

As at 31 December 2012 and 2011, the combined ratio of the non-life business was as follow:

	NON-LIFE		A&H		MOTOR		FIRE		OTHER	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Claims Ratio	62.2%	64.5%	67.1%	67.1%	73.8%	82.3%	46.3%	52.7%	16.2%	24.9%
Costs Ratios	24.3%	23.9%	23.2%	23.0%	26.9%	25.0%	28.0%	27.6%	22.3%	18.7%
Combine Claims/costs Ratio	86.5%	88.3%	90.3%	90.2%	100.7%	107.3%	74.3%	80.4%	38.4%	43.6%

The Millenniumbcp Ageas regularly performs sensitivity analyzes to major cost items that result from its business activity, considering the possible effect to the impacts in the income before taxes:

#### NON LIFE BUSINESS [EUR]

Sensitivities	Impact on pre-tax profits (€m) at 31.12.2012	Impact on pre-tax profits (€m) at 31.12.2011
Expenses -10%	6,985	6,767
Incurred Claims +5%	(6,613)	(6,683)

## Operational risk

### Millenniumbcp Ageas Operational Risk Governance

Operational risk denotes the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.

From governance prospective, the Risk and Actuarial Department is supported by a dedicated committee called ORIC (Operational Risk and Internal Control) which is focussing on the effectiveness and further improvement of the Operational Risk management across the company.

Operational Risk at Millenniumbcp Ageas is managed accordingly to the three lines of defence structure, with responsibilities for each line well defined. Additionally, the Operational Risk and Internal Control Committee was establish to manage Operational Risk in the Company. Moreover, Millenniumbcp Ageas adopted a Top-Down and Bottom-Up approach. These two approaches are synergetic, when implemented jointly, they allow for a global risk perception through the major operational risks that are included in the Key Risk Reporting and discussed in the Risk Committee while keeping attention and focus on the Company's processes through the Business Process Management, and thus enhancing the global risk management environment.

### **Millenniumbcp Ageas Operational Risks**

In order to have assurance, at all times, that underlying causes and exposures to operational risk are identified, assessed and addressed by Millenniumbcp Ageas, the operational risk management has been set as core component of the ERM framework of the Company.

In particular, it encompasses company-wide processes such as:

- › **Loss Data Collection:** Ensure there is awareness within the organisation about the incurred losses (in terms of amount and frequency). While the framework is yet in initial state of development, there is a commitment from both Local and Ageas Group Risk Management to encourage of such operational risk management tools;
- › **Key Risk Reporting:** Conducted periodically to ensure a forward-looking view on the risk profile of the Company, with a focus on operational risk. The approach consists in a Top-Down risk self-assessment aiming to identify and assess the risks faced by the organisation;
- › **Business Continuity Management:** A management process that identifies potential threats for the integrity of key business operations. More importantly, it provides a framework for building organisational resilience with the ability to make an effective response that safeguards the interests of its stakeholders, reputation, brand and value creating activities;
- › **Information Security:** Defines the organisational framework, management and staff responsibilities and the information security directives that apply throughout Millenniumbcp Ageas;
- › **Management Control Statements:** while operational risk management focuses on operational event risks, management control is mostly concerned with the business risk. Management teams sign their management control statement in a confirmation, every year-end, of the functioning of the risk management and internal control system during the year;
- › **Business Process Management (BPM):** the goal is to establish a strong internal control environment, enabling the operational risks to be managed from a Bottom-Up perspective. Therefore, through the internal control BPM, the Company:
  - identifies and documents all the processes across the Company;
  - identifies and evaluates main risks associated with the processes;
  - establishes and evaluates which controls are in place to mitigate those risks and;
  - defines Key Risks and performance indicators to monitor those processes.

This framework is supported by a specific Operational Risk policy (inspired by the respective policy from Ageas Group). It sets the high level principles for the identification, measurement, monitoring and reporting of operational risk faced in the execution of day-by-day business activities by Millenniumbcp Ageas. As next steps these principles are to be translated into detailed processes that need to be followed within the business lines.

Furthermore, this policy defines the roles and responsibilities of the business units and committees and provides a governance structure in which the management of operational risks can take place. The policy defines the interaction between the Group Ageas and Millenniumbcp Ageas regarding operational risk and prescribes reporting requirements.

*Additional information in respect to life and non life business, by line of business, is as follows:*

<b>LINE OF BUSINESS NON LIFE 2012</b> [EUR]	<b>Gross premiums written</b>	<b>Gross premiums earned</b>	<b>Gross claims earned</b>	<b>Gross operating expenses</b>	<b>Reinsurance ceded result</b>
<b>Direct Insurance</b>					
Accident and Health	155,979,101	158,848,552	102,425,177	28,871,122	(28,174,073)
Fire and Other hazards	44,503,584	44,031,312	20,453,781	12,226,912	(6,992,997)
<b>Motor</b>					
Third Party	12,340,714	11,894,073	7,683,102	2,132,647	211,248
Other	8,189,459	8,272,862	7,190,282	3,278,278	(352,253)
Maritime, Airline and Transportation	961,986	792,289	184,484	516,270	(259,165)
Third Party Liability	2,587,716	3,282,309	688,653	725,141	(1,764,406)
Credit and Surety Ship	5,146	5,123	19,225	10,867	—
Legal	376,646	385,974	—	42,930	(67,130)
Assistance	2,642,342	2,913,328	235,751	305,234	(1,837,180)
Other Lines	783,499	799,381	192,742	198,234	(166,509)
<b>Total Non Life</b>	<b>228,370,192</b>	<b>231,225,203</b>	<b>139,073,195</b>	<b>48,307,635</b>	<b>(39,402,465)</b>
<b>Reinsurance Accepted</b>	<b>11,875,385</b>	<b>11,912,085</b>	<b>12,090,117</b>	<b>11,021,075</b>	<b>21,376,318</b>
<b>Total</b>	<b>240,245,577</b>	<b>243,137,288</b>	<b>151,163,312</b>	<b>59,328,710</b>	<b>(18,026,147)</b>

<b>LINE OF BUSINESS NON LIFE 2011</b> [EUR]	<b>Gross premiums written</b>	<b>Gross premiums earned</b>	<b>Gross claims earned</b>	<b>Gross operating expenses</b>	<b>Reinsurance ceded result</b>
<b>Direct Insurance</b>					
Accident and Health	154,658,369	160,144,723	103,321,705	28,610,523	(26,371,628)
Fire and Other hazards	42,403,926	42,239,842	22,341,624	11,681,226	(3,052,024)
<b>Motor</b>					
Third Party	11,012,344	10,810,976	10,073,215	2,107,720	247,045
Other	9,996,220	9,908,765	6,970,360	3,058,896	(364,726)
Maritime, Airline and Transportation	574,589	588,170	359,480	428,984	(64,443)
Third Party Liability	3,705,387	3,536,916	520,227	631,554	(2,165,302)
Credit and Surety Ship	5,554	6,536	8,236	13,736	—
Legal	375,552	359,448	—	39,870	(33,656)
Assistance	2,952,320	2,920,785	360,004	352,991	(1,748,175)
Other Lines	768,092	750,176	783,994	72,972	438,947
<b>Total Non Life</b>	<b>226,452,352</b>	<b>231,266,337</b>	<b>144,738,845</b>	<b>46,998,472</b>	<b>(33,113,963)</b>
<b>Reinsurance Accepted</b>	<b>10,806,438</b>	<b>10,468,108</b>	<b>11,139,929</b>	<b>11,443,074</b>	<b>20,175,399</b>
<b>Total</b>	<b>237,258,790</b>	<b>241,734,445</b>	<b>155,878,774</b>	<b>58,441,545</b>	<b>(12,938,564)</b>



Additional information in respect to life and non life business, by line of business, is as follows:

<b>LINE OF BUSINESS</b>	<b>Claims Paid</b>	<b>Allocated claims management costs</b>	<b>Change in claims Reserve</b>	<b>Claims Incurred</b>
<b>NON LIFE 2012</b> [EUR]	(1)	(2)	(3)	(4)=(1)+(2)+(3)
Direct Insurance				
Accident and Health	99,400,370	1,908,827	1,115,980	102,425,177
Fire and Other hazards	16,300,672	1,497,833	2,655,276	20,453,781
Motor				
Third Party	8,851,432	1,097,301	(2,265,631)	7,683,102
Other	5,408,151	1,056,155	725,976	7,190,282
Maritime, Airline and Transportation	153,950	39,675	(9,142)	184,484
Third Party Liability	630,982	77,529	(19,858)	688,653
Credit and Surety Ship	12,178	8,126	(1,079)	19,225
Legal	—	—	—	—
Assistance	(158,994)	13,454	381,292	235,751
Other Lines	496,376	73,581	(377,215)	192,742
<b>Total Non Life</b>	<b>131,095,116</b>	<b>5,772,482</b>	<b>2,205,598</b>	<b>139,073,195</b>
<b>Reinsurance Accepted</b>	<b>7,720,672</b>	<b>4,097,009</b>	<b>272,434</b>	<b>12,090,117</b>
<b>Total</b>	<b>138,815,788</b>	<b>9,869,491</b>	<b>2,478,032</b>	<b>151,163,312</b>

<b>LINE OF BUSINESS</b>	<b>Claims Paid</b>	<b>Allocated claims management costs</b>	<b>Change in claims Reserve</b>	<b>Claims Incurred</b>
<b>NON LIFE 2011</b> [EUR]	(1)	(2)	(3)	(4)=(1)+(2)+(3)
Direct Insurance				
Accident and Health	98,786,074	1,759,566	2,776,065	103,321,705
Fire and Other hazards	18,667,791	1,385,494	2,288,339	22,341,624
Motor				
Third Party	8,655,863	1,023,407	393,944	10,073,215
Other	6,598,126	963,204	(590,970)	6,970,360
Maritime, Airline and Transportation	287,828	39,545	32,106	359,480
Third Party Liability	852,545	72,219	(404,537)	520,227
Credit and Surety Ship	—	6,916	1,320	8,236
Legal	—	—	—	—
Assistance	2,008,573	11,455	(1,660,023)	360,004
Other Lines	182,061	61,735	540,198	783,994
<b>Total Non Life</b>	<b>136,038,863</b>	<b>5,323,541</b>	<b>3,376,441</b>	<b>144,738,845</b>
<b>Reinsurance Accepted</b>	<b>6,220,310</b>	<b>3,642,876</b>	<b>1,276,743</b>	<b>11,139,929</b>
<b>Total</b>	<b>142,259,173</b>	<b>8,966,417</b>	<b>4,653,184</b>	<b>155,878,774</b>

Additional information in respect to life and non life business, by line of business, is as follows:

	Claims reserve as at 31 December 2011	Claims paid gross	Claims reserve as at 31 December 2012 in relation to 2011	Adjustments (run-off)
<b>LINES OF BUSINESS 2012</b> [EUR]	(1)	(2)	(3)	(3)+(2)-(1)
<b>Life</b>	<b>56,089,209</b>	<b>53,041,576</b>	<b>14,809,480</b>	<b>11,761,847</b>
<b>Non Life</b>				
Accident and Health	54,739,832	25,910,665	28,540,038	(289,130)
Fire and Other hazards	11,312,876	5,121,457	4,968,688	(1,222,732)
<b>Motor</b>				
Third Party	21,082,256	4,321,586	12,999,698	(3,760,973)
Other	1,919,886	1,099,190	335,002	(485,694)
Maritime, Airline and Transportation	246,337	21,810	162,215	(62,312)
Third Party Liability	4,812,271	411,785	3,705,108	(695,379)
Credit and Surety Ship	33,971	13,125	32,646	11,799
<b>Legal</b>				
Assistance	57,657	185	2,583	(54,889)
Other Lines	2,161,535	376,235	1,695,431	(89,869)
<b>Total Non Life</b>	<b>96,366,622</b>	<b>37,276,036</b>	<b>52,441,408</b>	<b>(6,649,178)</b>
<b>Total</b>	<b>152,455,831</b>	<b>90,317,612</b>	<b>67,250,888</b>	<b>5,112,669</b>

	Claims reserve as at 31 December 2010	Claims paid gross	Claims reserve as at 31 December 2011 in relation to 2010	Adjustments (run-off)
<b>LINES OF BUSINESS 2011</b> [EUR]	(1)	(2)	(3)	(3)+(2)-(1)
<b>Life</b>	<b>39,052,200</b>	<b>48,162,926</b>	<b>17,304,900</b>	<b>26,415,626</b>
<b>Non Life</b>				
Accident and Health	50,560,087	24,219,562	26,270,195	(70,332)
Fire and Other hazards	9,085,208	6,286,852	4,569,026	1,770,671
<b>Motor</b>	—	—	—	—
Third Party	20,721,431	4,091,370	14,286,845	(2,343,215)
Other	2,477,090	1,355,414	375,711	(745,963)
Maritime, Airline and Transportation	214,231	203,039	166,273	155,081
Third Party Liability	5,216,808	616,543	3,987,010	(613,255)
Credit and Surety Ship	32,651	975	32,646	970
<b>Legal</b>	—	—	—	—
Assistance	(22,337)	(3,151,196)	4,770	(3,124,088)
Other Lines	1,621,337	39,999	1,576,734	(4,603)
<b>Total Non Life</b>	<b>89,906,506</b>	<b>33,662,559</b>	<b>51,269,212</b>	<b>(4,974,733)</b>
<b>Total</b>	<b>128,958,705</b>	<b>81,825,485</b>	<b>68,574,112</b>	<b>21,440,893</b>

## Solvency requirements

The Solvency I r is determined under the requirements of the Portuguese Insurance Authority (ISP) as stated in standard rule n.6/2007-R, based on the statutory financial statements as at 31 December 2012.

Millenniumbcp Ageas monitors on a monthly basis the Solvency I ratio having a 200% operational target.

As at 31 December 2012 and 2011, the Solvency I figures can be detailed as follows:

ITEM [EUR]	31 December 2012	31 December 2011
Capital	1,000,002,375	1,000,002,375
Legal and Regulatory Revaluation	(125,236,307)	(435,405,780)
Retained earnings	381,221,043	365,278,815
Profit After Tax	93,692,370	16,412,472
Net Profit Distributions	(40,000,000)	–
<b>Total Equity (1)</b>	<b>1,309,679,481</b>	<b>946,287,882</b>
Intangible Assets	(453,278,880)	(469,728,388)
Retirement Pensions adjust	(8,170,921)	(6,345,868)
Life Future Profits	–	–
<b>Total (2)</b>	<b>(461,449,801)</b>	<b>(476,074,256)</b>
<b>Solvency Margin Available (1) + (2)</b>	<b>848,229,680</b>	<b>470,213,626</b>
<b>Solvency Margin Required</b>	<b>310,163,531</b>	<b>320,828,333</b>
<b>Excess / Shortage</b>	<b>538,066,149</b>	<b>149,385,293</b>
<b>Solvency Ratio</b>	<b>273%</b>	<b>147%</b>

## Note 39 – Fair value

Fair value is based on market prices, whenever available. If market prices are not available, fair value is estimated through internal models based on cash-flow discounting techniques, using the risk free rate plus a credit spread attributable to the issuer.

The main methods and assumptions used in estimating the fair value for the assets and liabilities of the Group are presented as follows:

### Cash and due from banks

Considering the short maturity of these financial instruments, the amount in the balance sheet is a reasonable estimate of its fair value.

### Financial assets and liabilities held at fair value through profit and loss, financial assets and liabilities held for trading and financial assets available for sale

These financial instruments are accounted for at fair value, which is based in market prices, whenever these are available. If market prices are not available, fair value is estimated through internal models based on cash-flow discounting techniques, using the risk free rate plus a credit spread attributable to the issuer.

In case of unquoted equities, these are recognised at historical cost when no market prices are available and it is not possible to determine reliably its fair value.

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Considering the short maturity of these financial instruments, the amount in the balance sheet is a reasonable estimate of its fair value.

**Financial assets held to maturity**

These financial instruments are accounted at amortised cost net of impairment. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

**Note 40 – Contingencies and commitments****Litigation**

Millenniumbcp Ageas Group companies are involved in legal proceedings in Portugal, involving claims by and against them, which arise in the ordinary course of their business in connection with their activities as insurance, employers and taxpayers. It is not feasible to predict or determine the ultimate outcome of the pending or threatened proceedings. Management does not believe that the outcome of these proceedings will have a material adverse effect on the consolidated financial position or results of Millenniumbcp Ageas, after consideration of any applicable reserves.

**Guarantees**

As at 31 December, 2012 the total amount of banking guarantees were Euro 197,000 (2011: Euro 267,000). The guarantees were given in the scope of the claims processes.

**Commitments**

Millenniumbcp Ageas Group companies entered into operating leases of vehicles. Payments made under such leases are charged to income statement over the period of the lease. Future minimum lease payments on non-cancellable operating leases are as follows:

EUR	Up to 3 months	3 -12 months	1 – 5 years	Total
Future lease payments	174,013	471,359	1,142,998	1,788,370

## Note 41 – Separate financial statements of Millenniumbcp Ageas Group, S.G.P.S., S.A.

Millenniumbcp Ageas separate financial statements are analysed as follows:

<b>INCOME STATEMENT</b> [EUR]	<b>2012</b>	<b>2011</b>
Dividends	4,500,000	7,000,000
Interest income	4,143,244	3,403,646
Total income	8,643,244	10,403,646
Total expenses	(1,235,848)	(998,798)
<b>Profit after tax</b>	<b>7,407,396</b>	<b>9,404,848</b>

<b>BALANCE SHEET</b> [EUR]	<b>2012</b>	<b>2011</b>
Investments in subsidiaries	999,953,125	999,953,125
Other assets	108,687,701	101,219,286
<b>Total assets</b>	<b>1,108,640,826</b>	<b>1,101,172,411</b>
Total equity	1,108,153,266	1,100,745,870
Total liabilities	487,560	426,541
<b>Total equity and liabilities</b>	<b>1,108,640,826</b>	<b>1,101,172,411</b>

## Note 42 – Exposure to Government bonds from European countries subject to bailout

The Group exposure to Government bond from European countries subject to bailout is analysed as follows:

<b>FROM DIRECT INVESTMENT EXPOSURE</b> [EUR]	<b>2012</b>					
<b>Country</b>	<b>Book value</b>	<b>Fair value</b>	<b>Fair value reserve</b>	<b>Interest income rate %</b>	<b>Maturity</b>	<b>Valuation level</b>
<b>Portugal</b>						
Investments available for sale						
Level 1	693,032,669	693,032,669	(19,390,027)	3.7%	4,0	L1
Level 2	7,264,205	7,264,205	(2,868,956)	5.3%	4,7	L2
Investments held at fair value	261,124,937	261,124,937	41,014,137	4.6%	5,8	L1
Held to maturity	527,493,676	617,147,038	–	4.2%	6,3	L1
<b>Total</b>	<b>1,488,915,487</b>	<b>1,578,568,849</b>	<b>18,755,154</b>	<b>4.1%</b>	<b>5,2</b>	<b>–</b>

<b>FROM INDIRECT EXPOSURE</b> [EUR]	<b>2012</b>					
<b>Country</b>	<b>Book value</b>	<b>Fair value</b>	<b>Gains and losses</b>	<b>Interest income rate %</b>	<b>Maturity</b>	<b>Valuation level</b>
<b>Portugal</b>						
Investments held at fair value	130,182,295	130,182,295	–	4.6%	5,9	L2
<b>Total</b>	<b>130,182,295</b>	<b>130,182,295</b>	<b>–</b>	<b>4.6%</b>	<b>5,9</b>	

**FROM DIRECT INVESTMENT  
EXPOSURE** [EUR]**2011**

Country	Book value	Fair value	Fair value reserve	Interest income rate %	Maturity	Valuation level
<b>Portugal</b>						
Investments available for sale						
Level 1	386,300,859	386,300,859	(159,027,055)	4.0%	5,2	L1
Level 2	25,427,822	25,427,822	(11,493,728)	3.8%	3,7	L2
Investments held at fair value	32,125,752	32,125,752	(15,751,787)	4.2%	5,0	L1
Held to maturity	504,487,799	414,471,752	–	4.2%	7,3	L1
<b>Total</b>	<b>948,342,233</b>	<b>858,326,186</b>	<b>(186,272,571)</b>	<b>4.1%</b>	<b>6,2</b>	

**FROM INDIRECT EXPOSURE** [EUR]**2011**

Country	Book value	Fair value	Gains and losses	Interest income rate %	Maturity	Valuation level
<b>Portugal</b>						
Investments held at fair value	57,638,192	57,638,192	(46,445,575)	4.7%	7,1	L2
<b>Total</b>	<b>57,638,192</b>	<b>57,638,192</b>	<b>(46,445,575)</b>	<b>4.7%</b>	<b>7,1</b>	
<b>Greece</b>						
Investments held at fair value	39,495,554	39,495,554	(109,746,385)	4.2%	3,8	L2
<b>Total</b>	<b>39,495,554</b>	<b>39,495,554</b>	<b>(109,746,385)</b>	<b>4.2%</b>	<b>3,8</b>	

As of 31 December, 2011 the position on Greek sovereign debt on the available for sale portfolio was completely sold. The impairment losses recognized during previous year amounted to Euro 52,618,000 (see note 11).

**Note 43 – Recently issued pronouncements**

**Recently Issued pronouncements already adopted by the Group in the preparation of the financial Statements are the following**

**IFRS 7 (amended) – Financial Instruments: Disclosures – Transfers of Financial Assets**

The International Accounting Standards Board (IASB), issued on 7th October 2010, amendments to “IFRS 7 – Disclosures – Transfers of Financial Assets”, effective for annual periods beginning on or after 1st July 2011. Those amendments were endorsed by EU Commission Regulation 1205/2011, 22nd November.

The amendment requires enhanced disclosures about transfers of financial assets that enable users of the financial statements:

- › To understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liability; and
- › To evaluate the nature of, and risks associated with, the entity’s continuing involvement in derecognised financial asset.

The amendments also required additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

The adoption of this amendment by the Group had no impact on its financial statements.

#### **IAS 12 (amended) – Deferred Tax: Recovery of Underlying Assets**

The IASB, issued on 20 December 2010, amendments to “IAS 12 – Income Tax – Recovery of Underlying Assets” (and withdraw SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets), effective for annual periods beginning on or after 1st January 2012. Those amendments were endorsed by EU Commission Regulation 1255/2012, 11th December.

The amendments to IAS 12 provide that, the deferred taxes related to investment properties are measured with the presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale. Before the amendment, entities were allowed to consider that the carrying amount of investment properties would be recovered either through use or sale, depending on management intention.

The adoption of this amendment by the Group had no impact on its financial statements.

### **The Group decided to opt for not having an early application of the following standards endorsed by EU but not yet mandatory effective**

#### **Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 – Presentation of Financial Statements**

The IASB, issued on 16th June 2011, amendments to “IAS 1 – Presentation of Financial Statements”, effective (with retrospective application) for annual periods beginning on or after 1st January 2012. Those amendments were endorsed by EU Commission Regulation 475/2012, 5th June.

The changes retain the entity’s option to present profit or loss and other comprehensive income in two statements, however requires:

- › to present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss; and
- › an entity that presents items of other comprehensive income before related tax effects will also have to allocate the aggregated tax amount between the two subcategories;
- › change the title to “statement of profit or loss and other comprehensive income” – although other titles could be used.

The amendments affect presentation only and have no impact on the Group’s financial position or performance.

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Statements**IAS 19 Revised – Employee Benefits**

The IASB, issued on 16th June 2011, amendments to “IAS 19 – Employee Benefits”, effective (with retrospective application) for annual periods beginning on or after 1st January 2012. Those amendments were endorsed by EU Commission Regulation 475/2012, 5th June.

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor method and the concept of expected returns on plan assets to simple clarifications and re-wording. The actuarial gains and losses arising from its post employment benefits will be charged directly to equity, under other comprehensive income. The amended standard will impact the net benefit expenses as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation.

The Group is still assessing the full impact of the new IAS 19.

**IFRS 7 (Amended) – Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities**

The IASB, issued on 16th December 2011, amendments to “IFRS 7 – Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities”, effective (with retrospective application) for annual periods beginning on or after 1st January 2013. Those amendments were endorsed by EU Commission Regulation 1256/2012, 11th December.

These amendments required an entity to disclose information about what amounts have been offset in the statement of financial position and the nature and extend of rights to set-off and related arrangements (e.g. collateral arrangements).

The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

The Group expects that adoption of the amendments to IFRS 7 will require more extensive disclosures about rights of set-off.

**IAS 32 (Amended) – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities**

The IASB, issued on 16th December 2011, amendments to “IAS 32 – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities”, effective (with retrospective application) for annual periods beginning on or after 1st January 2014. Those amendments were endorsed by EU Commission Regulation 1256/2012, 11th December.

The IASB amended IAS 32 to add application guidance to address the inconsistent application of the standard in practice. The application guidance



clarifies that the sentence 'currently has a legal enforceable right of set-off' means that the right of set-off must not be contingent on a future event and must be legally enforceable in the normal course of business, in the event of default and in the event of insolvency or bankruptcy, of the entity and all of the counterparties.

The application guidance also specifies the characteristics of gross settlement systems in order to be considered equivalent to net settlement.

The Group is not expecting a significant impact from the adoption of the amendment to IAS 32, taking into consideration the accounting policy already adopted.

### **IAS 27 (Revised) – Separate Financial Statements**

The IASB, issued on 12th May 2011, amendments to "IAS 27 – Separate Financial Statements", effective (with prospective application) for annual periods beginning on or after 1st January 2014. Those amendments were endorsed by EU Commission Regulation 1254/2012, 11th December.

Taking in consideration that IFRS 10 addresses the principles of controls and the requirements relating to the preparation of consolidated financial statements, IAS 27 was amended to cover exclusively separate financial statements.

The amendments aimed, on one hand, to clarify the disclosures required by an entity preparing separate financial statements so that the entity would be required to disclose the principal place of business (and country of incorporation, if different) of significant investments in subsidiaries, joint ventures and associates and, if applicable, of the parent.

The previous version required the disclosure of the country of incorporation or residence of such entities.

On the other hand, it was aligned the effective dates for all consolidated standards (IFRS 10, IFRS 11, IFRS 12, IFRS 13 and amendments to IAS 28).

The Group expects no relevant impact from the adoption of this amendment on its financial statements.

### **IFRS 10 Consolidated Financial Statements**

The IASB, issued on 12th May 2011, "IFRS 10 Consolidated Financial Statements", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

IFRS 10, withdraw part of IAS 27 and SIC 12, and introduces a single control model to determine whether an investee should be consolidated.

The new concept of control involves the assessment of power, exposure to variability in returns and a linkage between the two. An investment controls an investee when it is exposed, or has rights, to variability returns from its involvement with the investee and is able to affect those returns through its power over the investee (facto control).

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The investor considers whether it controls the relevant activities of the investee, taking into consideration the new concept. The assessment should be done at each reporting period because the relation between power and exposure variability in returns may change over the time.

Control is usually assessed over a legal entity, but also can be assessed over only specified assets and liabilities of an investee (referred to as *silo*).

The new standard also introduce other changes such as: i) accounting requirements for subsidiaries in consolidation financial statements are carried forward from IAS 27 to this new standards and ii) enhanced disclosures are required, including specific disclosures for consolidated and unconsolidated structured entities.

Nevertheless, the Group does not expect any significant impact on the application of this standard on its financial statements.

### IFRS 11 – Joint Arrangements

The IASB, issued on 12th May 2011, “IFRS 11 *Joint arrangements*”, effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December that allows a delayed on mandatory application for 1st January 2014.

IFRS 11, withdraw IAS 31 and SIC 13, defines “joint control” by incorporating the same control model as defined in IFRS 10 and requires an entity that is part of a “joint arrangement” to determine the nature of the joint arrangement (“joint operations” or “joint ventures”) by assessing its rights and obligations.

IFRS 11 removes the option to account for joint ventures using the proportionate consolidation. Instead, joint arrangements that meet the definition of “joint venture” must be account for using the equity method (IAS 28).

The group has not carried out a thorough analysis of the impacts of the application of this standard. Nevertheless, the Group does not expect any significant impact on the application of this standard on its financial statements.

### IAS 28 (Revised) – Investments in Associates and Joint Ventures

The IASB, issued on 12th May 2011, “IAS 28 *Investments in Associates and Joint Ventures*”, effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed as IAS 28 Investments in Associates and Joint ventures, and describes the application of the entity method to investments in joint ventures and associates.

The Group expects no impact from the adoption of this amendment on its financial statements.

## IFRS 12 – Disclosures of Interest in Other Entities

The IASB, issued on 12th May 2011, “IFRS 12 *Disclosures of Interests in Other Entities*”, effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

The objective of this new standard is to require an entity to disclose information that enables users of its financial statements to evaluate: (a) the nature of, and risks associated with, its interests in other entities; and (b) the effects of those interests on its financial position, financial performance and cash flows.

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special vehicles and other off balance sheet vehicles.

The Group is still assessing the full impact of the new IFRS 12 in ligne with IFRS 10 and IFRS 11.

## IFRS 13 – Fair Value Measurement

The IASB, issued on 12th May 2011, “IFRS 13 *fair value Measurement*”, effective (with prospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1255/2012, 11th December.

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs.

The Group is currently reviewing its methodologies for determining fair values, to evaluate if this rule has any impact on its financial statements.

Although many of IFRS 13 disclosures requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorized in Level 3.

## Recently Issued pronouncements that are not yet effective for the Group

### Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27 (issued by IASB on 31st October 2012)

The amendments apply to a particular class of business that qualifies as investment entities. The IASB uses the term ‘investment entity’ to refer to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could

## 02

Notes to the  
Consolidated  
Financial  
Statements

include private equity organizations, venture capital organizations, pension funds, sovereign wealth funds and other investment funds.

The amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

The amendments are effective from 1 January 2014 with early adoption permitted. This option allows investment entities to apply the *Investment Entities* amendments on the same date as the first application of the remaining IFRS 10.

The Group expects no impact from the adoption of this amendment on its financial statements.

### Improvements to IFRS (2009-2011)

The annual improvements cycle 2009-2011, issued by IASB on 17th May 2012, introduce amendments, with effective date on, or after, 1st January 2013, to the standards IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34 and IFRIC 2.

#### IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is related with the previous period.

#### IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

#### IAS 32 Financial Instruments, Presentation and IFRIC 2

The improvements clarify that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes, avoiding any interpretation that may mean any either application.

#### IAS 34 Interim Financial Reporting

The amendments align the disclosure requirement for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures in relation to the changes of profit and loss account and other comprehensive income.

The Group is not expecting any significant impacts from the adoption of these improvements, taking into consideration the accounting policies already adopted.

### IFRS 9 Financial instruments (issued in 2009 and revised in 2010)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additional requirements

related to financial liabilities. The IASB currently has an active project to perform limited amendments to the classification and measurement requirements of IFRS 9 and new requirements to address the impairment of financial assets and hedge accounting.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of *held to maturity*, *available-for-sale* and *loans and receivables*.

For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognized in profits or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment.

Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognized in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instruments is assessed in its entirety as to whether it should be amortized cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues.

The Group has commenced the process of evaluating the potential effect of this standard but is waiting finalization of the limited amendments before the evaluation can be completed. Given the nature of the Group's operation, this standard is expected to have a pervasive impact on the Group's financial statements.

**REPORT AND  
OPTION OF  
THE BOARD  
OF AUDITORS**

## 03

Report and  
Option of  
the Board  
of Auditors**Financial Year 2012****Shareholders,****1.**

In compliance with the legal provisions and articles of association, the Board of Auditors of MILLENNIUMBCP AGEAS – Grupo Segurador, SGPS, S.A., in the exercise of its duties, and after having analyzed the Balance Sheet, the Income Statement and the other individual and consolidated financial statements and respective Notes prepared by the Board of Directors, which accompany the Management Report, for the financial year 2012, hereby submits its Report on the auditing activity undertaken and its opinion on the said financial statements.

In the report and opinion presented, the Board of Auditors includes the results of the analysis and examination undertaken of the individual and consolidated financial statements that represent the total annual activity of the set of companies that make up the universe of MILLENNIUMBCP AGEAS – Grupo Segurador, SGPS, S.A.

**2.**

The Board of Auditors accompanied, on a regular basis, the activity of MILLENNIUMBCP AGEAS – Grupo Segurador, SGPS, S.A., through contacts it held periodically with the Board of Directors and Company departments, having always obtained all the information required to carry out its supervisory activities.

**3.**

The Board of Auditors also examined the Legal Certification of Accounts issued by the Chartered firm of Accountants and also obtained all the information required from said firm to perform its supervisory activities.

**4.**

The Management Report elaborated by the Board of Directors describes the evolution of the Company's activity, in a environment of accented Portuguese structural imbalances. The Report describes in detail the key events that characterized the set of activities of the Group in the insurance and pension fund management sectors along this year financial, which lead to the maintenance of a relevant position among the insurance and of a leadership position in the pension funds industries.

For the Board of Auditors, in short, given the fact that in 2012 the inflow of the insurance sector, including investment contracts, registered a decrease of 7.1% relative to the previous year, the following is worth highlighting:

#### 4.1

From the perspective of the company's positioning in the specific market in which it operates:

- › The maintenance of its position as a solid Portuguese insurance group, having reached at the end of 2012 a global market share of 9.1% (11.3% in 2011), 11% in Life (14.5% in 2011) and 5.7% in Non-life (5.5% in 2011);
- › The Maintenance of market leadership in the pension funds area represents a market share of 29.1% and a volume of assets under management of 4,190 million euros, comparing with 3,865 in the previous year;

#### 4.2

In terms of the consolidated inflow of group, where the overall market recorded a decrease in premium volume by 7.1%, MILLENNIUMBCP AGEAS – Grupo Segurador, SGPS, S.A.:

- › Reached a volume of inflow, considering direct insurance premiums and inflow from investment contracts, of 991 million;
- › Obtained, over the previous year, a decrease in Life Inflow of 28.7% and an increase of 0.8% in Non Life premiums. In the same period, the Portuguese insurance market decreased 8.9% and 3.8%, respectively in Life and Non-Life;
- › Achieved a consolidated technical margin, before allocation of administrative costs, of 226 million euros, an increase of 91.4% comparing with 2011;
- › Registered a consolidated solvency ratio of 273%.

#### 4.3

Regarding the capital structure and results:

- › An increase of 403 million euros in the shareholders' equity;
- › A net profit of 93.7 million euros, which compares with 16.4 million euros reported in 2011.

### 5.

In view of the above, the Board of Auditors is of the opinion that the General Shareholders' Meeting of MILLENNIUMBCP AGEAS – Grupo Segurador, SGPS, S.A., should approve:

- › the Management Report, the Balance Sheet and the other individual and consolidated financial statements of the Company, for the year ending 31 December 2012;
- › the proposal for the presentation of results submitted by the Board of Directors.

Lisbon, 04 March 2013

#### *The Board of Auditors*

Joaquim Patrício da Silva (Chairman)

José Rodrigues de Jesus (Member)

António F. Nogueira Chaves (Member)



**REPORT OF  
THE STATUTORY  
AUDITORS**



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## **CONSOLIDATED AUDITORS' REPORT**

**(ISSUED BY THE STATUTORY AUDITOR)**

**(This Report is a free translation to English from the Portuguese version)**

### **Introduction**

1. We have audited the consolidated financial statements of **Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.**, which comprise the consolidated balance sheet as at 31 December, 2012 (showing total assets of 12,022,760,518 Euros and total equity of 1,349,679,481 Euros, including consolidated net profit of 93,692,370 Euros), the consolidated statements of income, the comprehensive income, the cash flows and the changes in equity for the year then ended and the corresponding notes to the financial statements.

### **Responsibilities**

2. The Board of Directors is responsible for the preparation of the consolidated financial statements, in accordance with generally accepted accounting principles in Portugal applicable to the Insurance Sector, established by the rule nº 4/2007 of 27 April, with the changes introduced by the rule nº 20/2007 of 31 December and by the rule nº 22/2010 – R of 16 December, both issued by the Portuguese Insurance Regulator (Instituto de Seguros de Portugal), which presents fairly the financial position of the group companies included in the consolidation, the consolidated results of its operations, the consolidated comprehensive income, the consolidated cash flows and the consolidated statement of changes in equity, as well as for the adoption of adequate accounting policies and the maintenance of an appropriate system of internal control.
3. Our responsibility is to express an independent opinion on those consolidated financial statements based on our audit.

### **Scope**

4. We conducted our audit in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors ('Ordem dos Revisores Oficiais de Contas'), which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. Accordingly, our audit included the:
  - verification that the financial statements of the companies included in the consolidation have been properly audited;
  - verification of the consolidation procedures;

- evaluation of the appropriateness of the accounting principles used and of their disclosure, taking into account the applicable circumstances;
  - assessing the applicability of the going concern principle; and
  - assessing the overall adequacy of the consolidated financial statements presentation.
5. Our audit also included the verification of the consistency of the consolidated financial information included in the Annual Report of the Board of Directors with the consolidated financial statements.
6. We believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

7. In our opinion, the referred consolidated financial statements present fairly, in all material respects, the consolidated financial position of **Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.**, as at 31 December 2012, the consolidated results of its operations, the consolidated comprehensive income, the consolidated cash flows and the consolidated statement of changes in equity for the year then ended, in accordance with generally accepted accounting principles in Portugal applicable to the Insurance Sector, established by the rule n° 4/2007 of 27 April, with the changes introduced by the rule n° 20/2007 of 31 December and by the rule n° 22/2010 – R of 16 December, both issued by the Portuguese Insurance Regulator (Instituto de Seguros de Portugal).

### **Report on Other Legal Requirements**

8. It is also our opinion that the consolidated financial information included in the Board of Directors report is consistent with the consolidated financial statements.

Lisbon, 15 March 2013



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**KPMG & Associados,**  
**Sociedade de Revisores Oficiais de Contas, S.A. (n° 189)**  
represented by  
Maria Inês Rebelo Filipe (ROC n° 1445)

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