

Annual Report 2009

volume 2

CONSOLIDATED FINANCIAL STATEMENTS

Millenniumbcp Fortis
INSURANCE GROUP



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I Consolidated Financial Statements

→ **I – CONSOLIDATED FINANCIAL STATEMENTS**

Consolidated income statement [Euros]	Note	2009				2008			
		Life	Non Life	Non technical	Total	Life	Non Life	Non technical	Total
Net premiums earned	1	1,144,021,231	178,935,779	–	1,322,957,010	981,602,335	130,178,468	–	1,111,780,803
Gross premiums		1,167,721,331	213,500,350	–	1,381,221,681	1,003,164,387	191,733,956	–	1,194,898,343
Reinsurance ceded premiums		(23,700,100)	(34,985,728)	–	(58,685,828)	(21,562,052)	(60,217,181)	–	(81,779,233)
Change in unearned premiums		–	1,259,930	–	1,259,930	–	(717,123)	–	(717,123)
Change in unearned reinsurance premiums		–	(838,773)	–	(838,773)	–	(621,184)	–	(621,184)
Fees on investment contracts	2	59,379,110	–	–	59,379,110	73,106,961	–	–	73,106,961
Net claims expenses	3	(475,928,282)	(124,457,569)	–	(600,385,851)	(693,696,004)	(83,122,055)	–	(776,818,059)
Claims paid		(468,197,676)	(119,639,763)	–	(587,837,439)	(688,438,818)	(78,751,882)	–	(767,190,700)
Claims paid gross		(482,409,220)	(126,404,272)	–	(608,813,492)	(700,136,970)	(99,606,377)	–	(799,743,347)
Reinsurance share of claims paid		14,211,544	6,764,509	–	20,976,053	11,698,152	20,854,495	–	32,552,647
Change in claims reserves		(7,730,606)	(4,817,806)	–	(12,548,412)	(5,257,186)	(4,370,173)	–	(9,627,359)
Change in claims reserves gross		(8,209,461)	(4,325,040)	–	(12,534,501)	(5,514,040)	(4,801,637)	–	(10,315,677)
Reinsurers share in change in claims reserves		478,855	(492,766)	–	(13,911)	256,854	431,464	–	688,318
Changes in other technical reserves net	4	–	(663,494)	–	(663,494)	–	112,888	–	112,888
Changes in mathematical reserves, net	4	(642,205,016)	–	–	(642,205,016)	(265,568,556)	–	–	(265,568,556)
Changes in mathematical reserves gross		(642,366,106)	–	–	(642,366,106)	(265,651,350)	–	–	(265,651,350)
Reinsurance share in changes in mathematical reserves		161,090	–	–	161,090	82,794	–	–	82,794
Profit sharing, net	4	(45,321,586)	(428,564)	–	(45,750,150)	6,951,775	(240,610)	–	6,711,165
Acquisitions and administrative expenses, net	5	(58,873,096)	(36,009,791)	–	(94,882,887)	(56,152,648)	(23,797,843)	–	(79,950,491)
Acquisition expense		(49,902,717)	(28,086,362)	–	(77,989,079)	(47,852,593)	(25,545,689)	–	(73,398,282)
Changes in deferred acquisition costs		–	132,717	–	132,717	–	459,189	–	459,189
Administrative expenses		(16,141,382)	(21,750,685)	–	(37,892,067)	(15,056,457)	(23,520,501)	–	(38,576,958)
Reinsurance commissions and profit sharing		7,171,003	13,694,539	–	20,865,542	6,756,402	24,809,158	–	31,565,560
Interest, dividends and other similar income	6	176,152,429	4,793,710	24,821,380	205,767,519	171,446,453	5,218,131	23,296,996	199,961,580
From financial assets not held at fair value through profit&loss		176,266,008	4,793,710	24,466,450	205,526,168	171,326,133	5,218,131	22,695,396	199,239,660
From financial liabilities not held at fair value through profit and loss		–	–	–	–	–	–	–	–
Other		(113,579)	–	354,930	241,351	120,320	–	601,600	721,920
Financial expenses	7	(32,819,049)	(920,525)	(1,719,186)	(35,458,760)	(35,843,564)	(3,336,737)	(2,946,456)	(42,126,757)
From financial assets not held at fair value through profit&loss		(24,883,252)	(711,452)	(156,864)	(25,751,568)	(22,640,867)	(2,937,158)	(122,495)	(25,700,520)
From financial liabilities not held at fair value through profit&loss		(7,935,797)	(209,073)	(1,562,322)	(9,707,192)	(13,202,697)	(399,579)	(2,823,961)	(16,426,237)
Net gains/(losses) from financial assets not held at fair value through profit and loss	8	(606,631)	25,594	(4,473,017)	(5,054,054)	(151,155,002)	(4,264,815)	647,700	(154,772,117)
From investments available for sale		(712,360)	25,594	(4,473,017)	(5,159,783)	(150,827,277)	(4,265,656)	647,700	(154,445,233)
From loans and receivables		105,729	–	–	105,729	(327,725)	841	–	(326,884)
Net gains/(losses) from financial assets and liabilities held at fair value through profit and loss	9	420,375	(12,161)	1,866,991	2,275,205	6,643,132	99,546	(5,375,119)	1,367,559
From financial assets and liabilities held for trading		116,706,689	(12,161)	(2,136)	116,692,392	133,796,869	99,546	(2,708)	133,893,707
From financial assets and liabilities held at fair value through profit and loss		(116,286,314)	–	1,869,127	(114,417,187)	(127,153,737)	–	(5,372,411)	(132,526,148)
Net gains/(losses) from foreign exchange	10	(578,571)	(3,447)	5,409	(576,609)	(725,885)	4,857	12,129	(708,899)
Impairment charges (net of reversals)	11	(633,276)	–	(923,827)	(1,557,103)	–	–	1,773,510	1,773,510
From investments available for sale		–	–	–	–	–	–	–	–
Other		(633,276)	–	(923,827)	(1,557,103)	–	–	1,773,510	1,773,510
Other technical income / (expenses), net	12	(40,061,090)	109,651	–	(39,951,439)	(43,861,134)	45,305	–	(43,815,829)
Changes in other provisions	11	–	–	214,588	214,588	–	–	(530,261)	(530,261)
Other non technical income / (expenses)	12	–	–	8,036,605	8,036,605	–	–	9,473,608	9,473,608
Profit before tax		82,946,548	21,369,183	27,828,943	132,144,674	(7,252,137)	20,897,135	26,352,107	39,997,105
Current tax	25	–	–	(52,517,855)	(52,517,855)	–	–	(20,357,630)	(20,357,630)
Deferred tax	25	–	–	17,159,353	17,159,353	–	–	8,787,722	8,787,722
Profit after tax		82,946,548	21,369,183	(7,529,559)	96,786,172	(7,252,137)	20,897,135	14,782,199	28,427,197

Consolidated balance sheet [Euros]	Note	2009	2008
Cash and equivalents	14	239,238,743	359,796,252
Trading assets	15	165,754,234	73,315,927
Investments held at fair value through profit and loss	16	5,897,547,280	5,271,845,562
Investments available for sale	17	5,540,652,344	4,446,002,376
Loans and receivables	18	779,587,877	646,359,569
Deposits with ceding undertakings		295	7,120
Other deposits		779,587,582	646,352,449
Investment property	19	5,832,882	7,437,136
Other tangible assets	20	1,287,316	1,325,337
Inventories		19,950	19,950
Goodwill	21	315,740,469	315,740,469
Other intangible assets	21	270,997,609	310,727,104
Reinsurance reserves	22	22,024,445	65,393,663
Reinsurers share in reserve for unearned premiums		13,498,317	21,163,827
Reinsurers share in mathematical reserves		680,950	519,860
Reinsurers share in claims reserves		7,845,178	43,709,976
Assets for employee benefits (long term)	23	1,543,016	2,850,652
Trade and other receivables	24	48,939,751	82,097,157
Receivables from policyholders		33,001,306	58,865,205
Receivables from reinsurance operations		6,544,737	12,343,175
Other receivables		9,393,708	10,888,777
Income tax assets	25	25,410,665	26,511,897
Current tax assets		24,728,356	24,728,349
Deferred tax assets		682,309	1,783,548
Accrued income and deferred charges	26	148,029	2,661,212
Total assets		13,314,724,610	11,612,084,263
Technical reserves	22	5,159,652,705	4,425,150,930
Unearned premiums reserve		45,032,823	46,425,470
Life mathematical reserves		4,884,699,808	4,213,312,427
Claims outstanding reserve		128,390,156	114,083,017
Claims reserves life		43,135,694	34,879,834
Claims reserves workers' compensation		17,888,602	16,899,831
Claims reserves other		67,365,860	62,303,352
Profit sharing reserves		98,128,116	48,591,708
Equalisation reserve		727,721	640,854
Unexpired risk reserve		2,674,081	2,097,454
Investment contracts liabilities at fair value through profit and loss	27	6,044,647,299	5,317,041,241
Other financial liabilities	28	576,538,419	557,478,703
Funds held under reinsurance agreements		18,259,206	61,678,301
Other liabilities		558,279,213	495,800,402
Trade and other payables	29	123,913,055	103,244,900
Due to agents, policyholders and intermediaries		22,441,114	19,988,504
Due to reinsurers		6,849,832	15,995,272
Other liabilities		94,622,109	67,261,124
Income tax liabilities	25	98,458,787	71,696,461
Current tax liabilities		45,469,423	12,257,997
Deferred tax liabilities		52,989,364	59,438,464
Deferred income and accrued charges	30	19,837,076	11,950,047
Provisions	31	2,666,701	2,402,672
Total liabilities		12,025,714,042	10,488,964,954
Share capital		1,000,002,375	1,000,002,375
Fair value reserve (gross)		40,965,131	(53,186,214)
Fair value reserve (current and deferred taxes)		(10,855,760)	14,190,498
Other reserves		6,708,628	5,997,679
Retained earnings		155,404,022	127,687,774
Profit after tax		96,786,172	28,427,197
Total equity	33	1,289,010,568	1,123,119,309
Total liabilities and equity		13,314,724,610	11,612,084,263
Earnings per share		0.5	0.1

→ I – CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of changes in equity [Euros]								
	Share capital	Fair value reserve			Legal reserve	Retained earnings	Profit after tax	Total equity
		Gross	Current and Deferred taxes	Net				
Balance as at 01 January, 2008	1,000,002,375	(96,300,676)	25,620,007	(70,680,669)	4,438,878	42,068,011	87,178,564	1,063,007,159
Transfers to reserves	–	–	–	–	1,558,801	85,619,763	(87,178,564)	–
Unrealised gains and (losses), net	–	45,547,389	(12,074,235)	33,473,154	–	–	–	33,473,154
Profit sharing to be attributable (“shadow”), net	–	(2,432,927)	644,726	(1,788,201)	–	–	–	(1,788,201)
Profit after tax	–	–	–	–	–	–	28,427,197	28,427,197
Balance as at 31 December, 2008	1,000,002,375	(53,186,214)	14,190,498	(38,995,716)	5,997,679	127,687,774	28,427,197	1,123,119,309
Transfers to reserves	–	–	–	–	710,949	27,716,248	(28,427,197)	–
Unrealised gains and (losses), net	–	133,932,876	(35,588,363)	98,344,513	–	–	–	98,344,513
Profit sharing to be attributable (“shadow”), net	–	(39,781,531)	10,542,105	(29,239,426)	–	–	–	(29,239,426)
Profit after tax	–	–	–	–	–	–	96,786,172	96,786,172
Balance as at 31 December, 2009	1,000,002,375	40,965,131	(10,855,760)	30,109,371	6,708,628	155,404,022	96,786,172	1,289,010,568

Statement of comprehensive income [Euros]			2009	2008
Profit after tax			96,786,172	28,427,197
Unrealised gains and (losses), net				
Unrealised gains and (losses) gross			133,932,876	45,547,389
Current and deferred taxes			(35,588,363)	(12,074,235)
			98,344,513	33,473,154
Profit sharing to be attributable (“shadow”) gross			(39,781,531)	(2,432,927)
Current and deferred taxes			10,542,105	644,726
			(29,239,426)	(1,788,201)
Total comprehensive income for the year			165,891,259	60,112,150

Consolidated cash flows statements [Euros]	2009	2008
<i>Cash flow from operating activities</i>		
Profit after tax	96,786,172	28,427,197
<i>Adjustment for:</i>		
Depreciation and amortisation	42,287,722	47,586,291
Change in technical reserves	734,501,775	261,678,060
Change in investment contracts liabilities	727,606,058	(198,636,798)
Change in provisions	264,029	530,261
Change in reinsurance reserves	43,369,218	(149,927)
Impairment charges on other assets	1,557,103	(1,773,510)
Change in deferred and current tax assets/liabilities	27,863,558	(20,404,281)
<i>Changes in operational assets and liabilities:</i>		
Trading assets and liabilities	(92,438,307)	(71,707,670)
Loans and receivables	(133,228,308)	(503,633,425)
Trade and other receivables	(10,126,064)	(31,607,867)
Other assets and liabilities	11,707,848	(31,142,637)
Other financial liabilities	19,059,716	392,229,214
Trade and other payables	63,668,155	52,513,779
	1,532,878,675	(76,091,313)
<i>Cash flow from investment activities</i>		
Change in investments held at fair value through profit and loss	(625,701,718)	364,817,995
Change in investments available for sale	(1,025,544,881)	(115,666,576)
Purchase of tangible and intangible assets	(2,189,585)	(197,049)
	(1,653,436,184)	248,954,370
<i>Cash flow from financing activities</i>		
Dividends paid	–	–
Net increase in cash and cash equivalents	(120,557,509)	172,863,057
Cash and cash equivalents at the beginning of the year	359,796,252	186,933,195
Cash and cash equivalents at the end of the year	239,238,743	359,796,252



II Notes to the Consolidated Financial Statements

→ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

II.1 Accounting policies

a) Basis of presentation

Millenniumbcf Fortis Grupo Segurador, S.G.P.S., S.A., ('Millenniumbcf Fortis' or 'Group' or 'Company') is a private company established by deed in Portugal, on 28 September 2004, being held by Fortis 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 Fortis Group, Millenniumbcf Fortis 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 2009, the Group's consolidated financial statements were prepared in accordance with the New 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. 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 19 February 2010.

For 2009, the Group adopted the IFRS standards and interpretations for mandatory application for the accounting periods beginning on 1 January 2009. These standards are detailed in note 42. In accordance with the transition dispositions of these standards and interpretations, comparative figures are presented in these financial statements referring to additional divulgations.

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 thousands of 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 New 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

The consolidated financial statements of Millenniumbcp Fortis Grupo Segurador, S.G.P.S., S.A. (the 'Parent Company') comprise the financial statements of Millenniumbcp Fortis 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 one 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 minority 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.

The consolidated financial statements incorporate the assets, liabilities and results of the company and its subsidiaries. The results of subsidiaries acquired or sold during the period are included in the consolidated results from the date of acquisition or up to the date of disposal.

The subsidiary companies included in the consolidation are as follows:

Subsidiary companies	% Share participation	Activity
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

The purchase method of accounting is used by the Group to account for the acquisition of subsidiaries. The acquisition cost is measured as the fair value, determined at the acquisition date, of the assets given and liabilities incurred or assumed plus any costs directly attributable to the acquisition.

Goodwill represents the excess of the acquisition cost over the fair value of the Group's share of identifiable net assets acquired.

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.

In accordance with IFRS 3 – Business Combinations, goodwill is recognised as an asset and is not amortised. Negative goodwill is recognised in the income statement in the period the business combination occurs.

The recoverable amount of the goodwill recognised as an asset is reviewed annually, regardless of whether there is any indication of impairment. Impairment losses are recognised directly in the income statement.

→ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 Fortis 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.

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.

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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 aggregate 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.

Profit sharing to be attributable (Shadow accounting)

In accordance with the New 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 (see Note 22).

f) Financial assets

Classification

Millenniumbcp Fortis 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.

Initial recognition, measurement and derecognition

Purchases and sales of: (i) financial assets at fair value through profit or loss, (ii) available for sale investments and (iii) loans and receivables 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 the IAS 39 – Reclassification of Financial Assets (Amendments to IAS 39 Financial Investments: Recognition and Measurement and IFRS 7: Financial Investments 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 or to financial assets held-to-maturity, as long as these financial assets comply with the characteristics of an each category. The Group did not adopt this possibility.

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

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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.

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 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 Fortis 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 accept 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	25
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

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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 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 net selling price 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.

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 net selling price 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 Fortis 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)

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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.

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 agreement entered into with its employees, Millenniumbcp Fortis is liable for pensions, including widows and orphans benefits and permanent disability as stipulated in the 'Plano CCT – Contrato Colectivo de Trabalho da Actividade Seguradora'.

The basic retirement attributable to the employees of the Group are as stipulated by 'Plano CCT – Contrato Colectivo de Trabalho da Actividade Seguradora'.

The obligations with retirement pensions of the Group is covered by a pension fund denominated 'Fundo de Pensões do Grupo Banco Comercial' under which, as long as certain conditions are complied with, complementary non-contractual retirements benefits are attributable to the employees of the Group, after due consideration to the requirements of the collective labour agreement (complementary plan).

The Group's net obligation in respect of pension plans (defined benefit pensions plan) 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, as well as the corresponding actuarial gains and losses are recognized in the income statement in the year in which the early retirement is 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 mini-

minimum level required is 100% regarding liability with pensioners and 95% regarding the employees in service.

At each reporting date, the Group assesses 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

Millenniumbcfp Fortis 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.

Bonus to employees

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

Share based payments

As at 31 December 2009, 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).

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v) Segment reporting

A business 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 business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

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

- Life insurance and Pensions
- Non-life insurance

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.

The activities of the Group are developed only in Portugal.

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.

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 coverage's, 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 expect 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 perform 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 judgement. 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.

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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.

Pension and other employees' benefits

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.

The recoverable amount of the goodwill recognised as an asset is reviewed annually, regardless of whether there is any indication of impairment. Impairment losses are recognised directly in the income statement.

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.

II.3 Segmental report

Consolidated Income statement [Euros]	2009			2008		
	Life & Pensions	Non Life	Total	Life & Pensions	Non Life	Total
Net premiums earned	1,144,021,231	178,935,779	1,322,957,010	981,602,335	130,178,468	1,111,780,803
Gross premiums	1,167,721,331	213,500,350	1,381,221,681	1,003,164,387	191,733,956	1,194,898,343
Reinsurance ceded premiums	(23,700,100)	(34,985,728)	(58,685,828)	(21,562,052)	(60,217,181)	(81,779,233)
Change in unearned premiums	–	1,259,930	1,259,930	–	(717,123)	(717,123)
Change in unearned reinsurance premiums	–	(838,773)	(838,773)	–	(621,184)	(621,184)
Fees on investment contracts	59,379,110	–	59,379,110	73,106,961	–	73,106,961
Net claims expenses	(475,928,283)	(124,457,568)	(600,385,851)	(693,696,004)	(83,122,055)	(776,818,059)
Claims paid	(468,197,676)	(119,639,763)	(587,837,439)	(688,438,818)	(78,751,882)	(767,190,700)
Claims paid gross	(482,409,220)	(126,404,272)	(608,813,492)	(700,136,970)	(99,606,377)	(799,743,347)
Reinsurance share of claims paid	14,211,544	6,764,509	20,976,053	11,698,152	20,854,495	32,552,647
Change in claims reserves	(7,730,607)	(4,817,805)	(12,548,412)	(5,257,186)	(4,370,173)	(9,627,359)
Change in claims reserves gross	(8,209,461)	(4,325,040)	(12,534,501)	(5,514,040)	(4,801,637)	(10,315,677)
Reinsurers share in change in claims reserves	478,854	(492,765)	(13,911)	256,854	431,464	688,318
Changes in other technical reserves, net	–	(663,494)	(663,494)	–	112,888	112,888
Changes in mathematical reserves, net	(642,205,016)	–	(642,205,016)	(265,568,556)	–	(265,568,556)
Changes in mathematical reserves gross	(642,366,106)	–	(642,366,106)	(265,651,350)	–	(265,651,350)
Reinsurance share in changes in mathematical reserves	161,090	–	161,090	82,794	–	82,794
Profit sharing, net	(45,321,586)	(428,564)	(45,750,150)	6,951,775	(240,610)	6,711,165
Acquisitions and administrative expenses, net	(58,873,096)	(36,009,791)	(94,882,887)	(56,152,648)	(23,797,843)	(79,950,491)
Acquisition expense	(49,902,717)	(28,086,362)	(77,989,079)	(47,852,593)	(25,545,689)	(73,398,282)
Changes in deferred acquisition costs	–	132,717	132,717	–	459,189	459,189
Administrative expenses	(16,141,382)	(21,750,685)	(37,892,067)	(15,056,457)	(23,520,501)	(38,576,958)
Reinsurance commissions and profit sharing	7,171,003	13,694,539	20,865,542	6,756,402	24,809,158	31,565,560
Interest, dividends and other similar income	199,837,436	5,930,083	205,767,519	191,821,252	8,140,328	199,961,580
From financial assets not held at fair value through profit and loss	199,596,085	5,930,083	205,526,168	191,099,332	8,140,328	199,239,660
Other	241,351	–	241,351	721,920	–	721,920
Financial expenses	(34,347,715)	(1,111,045)	(35,458,760)	(38,501,828)	(3,624,929)	(42,126,757)
From financial assets not held at fair value through profit and loss	(24,887,830)	(863,738)	(25,751,568)	(22,664,187)	(3,036,333)	(25,700,520)
From financial liabilities not held at fair value through profit and loss	(9,459,885)	(247,307)	(9,707,192)	(15,837,641)	(588,596)	(16,426,237)
Net gains/(losses) from financial assets not held at fair value through profit and loss	(5,556,813)	502,759	(5,054,054)	(149,562,083)	(5,210,034)	(154,772,117)
From investments available for sale	(5,662,542)	502,759	(5,159,783)	(149,234,358)	(5,210,875)	(154,445,233)
From loans and receivables	105,729	–	105,729	(327,725)	841	(326,884)
Net gains/(losses) from financial assets and liabilities held at fair value through profit and loss	2,289,502	(14,297)	2,275,205	1,269,829	97,730	1,367,559
From financial assets and liabilities held for trading	116,706,689	(14,297)	116,692,392	133,795,978	97,730	133,893,708
From financial assets and liabilities held at fair value through profit and loss	(114,417,187)	–	(114,417,187)	(132,526,149)	–	(132,526,149)
Net gains/(losses) from foreign exchange	(578,571)	1,962	(576,609)	(729,765)	20,866	(708,899)
Impairment charges (net of reversals)	(1,317,040)	(240,063)	(1,557,103)	(10,679)	1,784,189	1,773,510
From investments available for sale	–	–	–	–	–	–
Other	(1,317,040)	(240,063)	(1,557,103)	(10,679)	1,784,189	1,773,510
Other technical income / (expenses), net	(40,061,093)	109,654	(39,951,439)	(43,861,134)	45,305	(43,815,829)
Changes in other provisions	–	214,588	214,588	(776,907)	246,646	(530,261)
Other non technical income / (expenses)	7,910,436	126,169	8,036,605	8,429,419	1,044,189	9,473,608
Profit before tax	109,248,502	22,896,172	132,144,674	14,321,967	25,675,138	39,997,105
Current tax	(45,941,810)	(6,576,045)	(52,517,855)	(12,815,917)	(7,541,713)	(20,357,630)
Deferred tax	17,048,655	110,698	17,159,353	9,047,766	(260,044)	8,787,722
Profit after tax	80,355,347	16,430,825	96,786,172	10,553,816	17,873,381	28,427,197

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Consolidated balance sheet [Euros]	2009				2008		
	Life	Non Life	ICO	Total	Life	Non Life	Total
Cash and equivalents	215,933,707	23,305,036	–	239,238,743	339,167,630	20,628,622	359,796,252
Investments on equity associates and joint ventures	–	–	–	–	–	–	–
Trading assets	165,754,234	–	–	165,754,234	73,297,332	18,595	73,315,927
Investments held at fair value through profit and loss	5,897,547,280	–	–	5,897,547,280	5,271,845,562	–	5,271,845,562
Investments available for sale	5,388,317,890	152,334,454	–	5,540,652,344	4,305,348,371	140,654,005	4,446,002,376
Loans and receivables	745,633,912	33,953,965	–	779,587,877	571,791,319	74,568,250	646,359,569
Deposits with ceding undertakings	–	295	–	295	–	7,120	7,120
Other deposits	745,633,912	33,953,670	–	779,587,582	571,791,319	74,561,130	646,352,449
Investment property	5,832,882	–	–	5,832,882	7,437,136	–	7,437,136
Other tangible assets	1,154,896	132,420	–	1,287,316	1,182,310	143,027	1,325,337
Inventories	–	19,950	–	19,950	–	19,950	19,950
Goodwill	247,487,477	68,252,992	–	315,740,469	247,487,477	68,252,992	315,740,469
Other intangible assets	270,921,899	75,710	–	270,997,609	310,597,629	129,475	310,727,104
Reinsurance reserves	1,722,885	20,301,560	–	22,024,445	1,082,941	64,310,722	65,393,663
Reinsurers share in reserve for unearned premiums	–	13,498,317	–	13,498,317	–	21,163,827	21,163,827
Reinsurers share in mathematical reserves	680,950	–	–	680,950	519,860	–	519,860
Reinsurers share in claims reserves	1,041,935	6,803,243	–	7,845,178	563,081	43,146,895	43,709,976
Assets for employee benefits (long term)	882,746	660,270	–	1,543,016	1,407,673	1,442,979	2,850,652
Trade and other receivables	29,470,827	62,468,924	(43,000,000)	48,939,751	58,484,723	23,612,434	82,097,157
Receivables from policyholders	20,901,359	12,099,947	–	33,001,306	47,969,205	10,896,000	58,865,205
Receivables from reinsurance operations	98,482	6,446,255	–	6,544,737	242,251	12,100,924	12,343,175
Other receivables	8,470,986	43,922,722	(43,000,000)	9,393,708	10,273,267	615,510	10,888,777
Income tax assets	24,728,349	682,316	–	25,410,665	24,728,349	1,783,548	26,511,897
Current tax assets	24,728,349	7	–	24,728,356	24,728,349	–	24,728,349
Deferred tax assets	–	682,309	–	682,309	–	1,783,548	1,783,548
Accrued income and deferred charges	134,563	13,466	–	148,029	2,462,595	198,617	2,661,212
Total assets	12,995,523,547	362,201,063	(43,000,000)	13,314,724,610	11,216,321,047	395,763,216	11,612,084,263
Technical reserves	5,025,477,226	134,175,479	–	5,159,652,705	4,296,568,161	128,582,769	4,425,150,930
Unearned premiums reserve	–	45,032,823	–	45,032,823	–	46,425,470	46,425,470
Life mathematical reserves	4,884,699,808	–	–	4,884,699,808	4,213,312,427	–	4,213,312,427
Claims outstanding reserve	43,135,694	85,254,462	–	128,390,156	34,879,834	79,203,183	114,083,017
Claims reserves life	43,135,694	–	–	43,135,694	34,879,834	–	34,879,834
Claims reserves workers' compensation	–	17,888,602	–	17,888,602	–	16,899,831	16,899,831
Claims reserves other	–	67,365,860	–	67,365,860	–	62,303,352	62,303,352
Profit sharing reserves	97,641,724	486,392	–	98,128,116	48,375,900	215,808	48,591,708
Equalisation reserve	–	727,721	–	727,721	–	640,854	640,854
Unexpired risk reserve	–	2,674,081	–	2,674,081	–	2,097,454	2,097,454
Invest. contracts liabilities at fair value through profit/loss	6,044,647,299	–	–	6,044,647,299	5,317,041,241	–	5,317,041,241
Other financial liabilities	558,465,643	18,072,776	–	576,538,419	489,293,684	68,185,019	557,478,703
Funds held under reinsurance agreements	8,082,733	10,176,473	–	18,259,206	7,274,771	54,403,530	61,678,301
Other liabilities	550,382,910	7,896,303	–	558,279,213	482,018,913	13,781,489	495,800,402
Trade and other payables	154,889,349	12,023,706	(43,000,000)	123,913,055	82,696,080	20,548,820	103,244,900
Due to agents, policyholders and intermediaries	14,997,947	7,443,167	–	22,441,114	13,423,392	6,565,112	19,988,504
Due to reinsurers	4,027,444	2,822,388	–	6,849,832	4,428,452	11,566,820	15,995,272
Other liabilities	135,863,958	1,758,151	(43,000,000)	94,622,109	64,844,236	2,416,888	67,261,124
Income tax liabilities	94,633,745	3,825,042	–	98,458,787	66,450,553	5,245,908	71,696,461
Current tax liabilities	41,644,381	3,825,042	–	45,469,423	7,012,089	5,245,908	12,257,997
Deferred tax liabilities	52,989,364	–	–	52,989,364	59,438,464	–	59,438,464
Deferred income and accrued charges	15,037,420	4,799,656	–	19,837,076	7,785,091	4,164,956	11,950,047
Provisions	1,725,941	940,760	–	2,666,701	1,938,342	464,330	2,402,672
Total liabilities	11,894,876,623	173,837,419	(43,000,000)	12,025,714,042	10,261,773,152	227,191,802	10,488,964,954
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)	39,835,403	1,129,728	–	40,965,131	(49,742,600)	(3,443,614)	(53,186,214)
Fair value reserve (current and deferred taxes)	(10,556,382)	(299,378)	–	(10,855,760)	13,277,940	912,558	14,190,498
Other reserves	4,749,072	1,959,556	–	6,708,628	4,498,911	1,498,768	5,997,679
Retained earnings	96,266,109	59,137,913	–	155,404,022	85,962,453	41,725,321	127,687,774
Profit after tax	80,353,347	16,430,825	–	96,784,172	10,553,816	17,873,381	28,427,197
Total equity	1,100,646,924	188,363,644	–	1,289,010,568	954,547,895	168,571,414	1,123,119,309
Total liabilities and equity	12,995,523,547	362,201,063	(43,000,000)	13,314,724,610	11,216,321,047	395,763,216	11,612,084,263

II.4 Notes to the consolidated income statement

Note 1 – Net premiums earned

Premiums earned net of reinsurance ceded are analysed as follows:

[Euros]	2009	2008
Gross premiums Life	1,167,721,331	1,003,164,387
Gross premiums Non Life	213,500,350	191,733,956
Gross premiums	1,381,221,681	1,194,898,343
Reinsurance ceded premiums Life	(23,700,100)	(21,562,052)
Reinsurance ceded premiums Non Life	(34,985,728)	(60,217,181)
Reinsurance ceded premiums	(58,685,828)	(81,779,233)
Change in unearned premiums Non Life	1,259,930	(717,123)
Change in unearned reinsurance premiums Non Life	(838,773)	(621,184)
Change in unearned premiums Non Life (net)	421,157	(1,338,307)
Premiums earned Life (net)	1,144,021,231	981,602,335
Premiums earned Non Life (net)	178,935,779	130,178,468
Premiums earned (net)	1,322,957,010	1,111,780,803

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:

[Euros]	2009	2008
Insurance life traditional	186,741,317	210,230,540
Investment contracts with DPF	980,980,014	792,933,847
Gross premiums under IFRS 4	1,167,721,331	1,003,164,387

[Euros]	2009	2008
Gross written premiums from direct insurance operations		
Individual policies	521,935,688	508,929,688
Group policies	645,785,643	494,234,699
	1,167,721,331	1,003,164,387
Periodic premiums	278,309,226	267,188,709
Single premiums	889,412,105	735,975,678
	1,167,721,331	1,003,164,387
Contracts without profit sharing	9,235,803	11,691,630
Contracts with profit sharing	1,158,485,528	991,472,757
	1,167,721,331	1,003,164,387
Reinsurance accepted premiums	–	–
Reinsurance ceded result	(1,677,609)	(2,767,850)

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Direct insurance non-life premiums are analysed as follows:

[Euros]	2009		2008	
	Gross written premiums	Earned premiums	Gross written premiums	Earned premiums
Accidents and health	146,006,566	147,469,046	131,598,071	129,636,664
Fire and other hazards	38,172,950	37,619,561	35,123,882	34,961,352
Motor	22,471,837	22,906,751	19,215,454	20,206,027
Other lines	6,848,997	6,764,922	5,796,549	6,212,790
Total	213,500,350	214,760,280	191,733,956	191,016,833

Reinsurance ceded non-life premiums are analysed as follows:

[Euros]	2009		2008	
	Gross written premiums	Earned premiums	Gross written premiums	Earned premiums
Accidents and health	15,177,008	16,363,682	23,744,133	23,232,913
Fire and other hazards	15,739,708	15,593,581	13,638,918	13,607,231
Motor	312,796	312,796	19,111,488	20,102,061
Other lines	3,756,216	3,554,442	3,722,642	3,896,160
Total	34,985,728	35,824,501	60,217,181	60,838,365

Note 2 – Fee on investment contracts

Fee on investment contracts in the amount of Euro 59,379,000 (2008: Euro 73,107,000), 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:

[Euros]	2009			2008		
	Insurance contracts	Investment contracts	Total	Insurance contracts	Investment contracts	Total
Claims paid						
Gross claims paid	64,347,261	417,772,086	482,119,347	60,739,125	638,992,988	699,732,113
Reinsurance share of claims paid	(14,211,544)	–	(14,211,544)	(11,698,152)	–	(11,698,152)
	50,135,717	417,772,086	467,907,803	49,040,973	638,992,988	688,033,961
Change in claims reserves						
Change in claims reserves gross	10,877,736	(2,668,275)	8,209,461	6,870,563	(1,356,523)	5,514,040
Reinsurers share in change in claims reserves	(478,855)	–	(478,855)	(256,854)	–	(256,854)
	10,398,881	(2,668,275)	7,730,606	6,613,709	(1,356,523)	5,257,186
Net claims expense before cost allocation	60,534,598	415,103,811	475,638,409	55,654,682	637,636,465	693,291,147
Claims expenses (allocated)			289,873			404,857
Net claims expense Life			475,928,282			693,696,004

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

[Euros]	2009				
	Accident & Health	Fire & Other damage	Motor	Other lines	Total
Claims paid					
Gross claims paid	89,463,162	10,954,010	13,464,327	3,404,289	117,285,788
Reinsurance share of claims paid	(2,227,694)	(3,778,185)	–	(758,630)	(6,764,509)
	87,235,468	7,175,825	13,464,327	2,645,659	110,521,279
Change in claims reserves					
Change in claims reserves gross	4,055,761	729,407	1,305,657	(1,765,785)	4,325,040
Reinsurers share in change in claims reserves	719,364	(284,421)	(61,744)	119,567	492,766
	4,775,125	444,986	1,243,913	(1,646,218)	4,817,806
Net claims expense before cost allocation	92,010,593	7,620,811	14,708,240	999,441	115,339,085
Claims expenses (allocated)	5,443,339	537,657	3,052,779	84,708	9,118,484
Net claims expense Non life	97,453,932	8,158,468	17,761,019	1,084,149	124,457,569

[Euros]	2008				
	Accident & Health	Fire & Other damage	Motor	Other lines	Total
Claims paid					
Gross claims paid	73,427,295	9,027,280	11,810,359	(823,434)	93,441,500
Reinsurance share of claims paid	(4,990,157)	(3,070,582)	(11,810,359)	(983,397)	(20,854,495)
	68,437,138	5,956,698	–	(1,806,831)	72,587,005
Change in claims reserves					
Change in claims reserves gross	3,395,511	1,169,660	(2,191,421)	2,427,887	4,801,637
Reinsurers share in change in claims reserves	(2,055,911)	(379,120)	2,014,373	(10,806)	(431,464)
	1,339,600	790,540	(177,048)	2,417,081	4,370,173
Net claims expense before cost allocation	69,776,738	6,747,238	(177,048)	610,250	76,957,178
Claims expenses (allocated)	4,616,838	770,089	391,949	386,000	6,164,877
Net claims expense Non life	74,393,576	7,517,327	214,901	996,250	83,122,055

Note 4 – Change in mathematical and other technical reserves net of reinsurance

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

[Euros]	2009		
	Insurance contracts	Investment contracts	Total
Changes in mathematical reserves, net			
Changes in mathematical reserves, gross	154,193	642,211,913	642,366,106
Reinsurance share in changes in mathematical reserves	(161,090)	–	(161,090)
	(6,897)	642,211,913	642,205,016
Changes in profit sharing, net	6,368,356	38,953,230	45,321,586
Total	6,361,459	681,165,143	687,526,602

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[Euros]	2008		
	Insurance contracts	Investment contracts	Total
Changes in mathematical reserves, net			
Changes in mathematical reserves, gross	32,081,489	233,569,861	265,651,350
Reinsurance share in changes in mathematical reserves	(82,794)	–	(82,794)
	31,998,695	233,569,861	265,568,556
Changes in profit sharing, net	4,001,466	(10,953,241)	(6,951,775)
Total	36,000,161	222,616,620	258,616,781

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

[Euros]	2009				
	Accident & Health	Fire & Other damage	Motor	Other lines	Total
Changes in equalisation reserve	–	71,199	–	15,668	86,867
Changes in unexpired risk reserve	738,601	86,744	42,368	(291,086)	576,627
	738,601	157,943	42,368	(275,418)	663,494
Changes in profit sharing, net	428,564	–	–	–	428,564
Total	1,167,165	157,943	42,368	(275,418)	1,092,058

[Euros]	2008				
	Accident & Health	Fire & Other damage	Motor	Other lines	Total
Changes in equalisation reserve	–	7,101	–	–	7,101
Changes in unexpired risk reserve	(35,246)	(448,093)	240,863	122,487	(119,989)
	(35,246)	(440,992)	240,863	122,487	(112,888)
Changes in profit sharing, net	240,610	–	–	–	240,610
Total	205,364	(440,992)	240,863	122,487	127,722

Note 5 – Net acquisitions and administrative expenses

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

[Euros]	2009			
	Insurance contracts	Investment contracts	Unit Linked	Total
Acquisition expenses – commissions	16,813,446	15,072,779	14,863,403	46,749,628
Acquisition expenses allocated	1,782,071	1,133,773	237,245	3,153,089
Administrative expenses – commissions	12,718	–	–	12,718
Administrative expenses allocated	7,820,260	6,671,622	1,636,782	16,128,664
Reinsurance commissions and profit sharing	(7,171,003)	–	–	(7,171,003)
Total	19,257,492	22,878,174	16,737,430	58,873,096

[Euros]	2008			
	Insurance contracts	Investment contracts	Unit Linked	Total
Acquisition expense – commissions	16,665,399	11,349,800	15,344,818	43,360,017
Acquisition expenses allocated	2,434,303	1,785,920	272,353	4,492,576
Administrative expenses – commissions	11,512	–	–	11,512
Administrative expenses allocated	7,172,765	6,305,846	1,566,334	15,044,945
Reinsurance commissions and profit sharing	(6,756,402)	–	–	(6,756,402)
Total	19,527,577	19,441,566	17,183,505	56,152,648

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

[Euros]	2009				
	Accident & Health	Fire & Other damage	Motor	Other lines	Total
Acquisition expenses – commissions	12,157,615	3,351,839	2,245,534	551,697	18,306,685
Acquisition expenses allocated	7,173,899	1,107,060	1,137,270	361,448	9,779,677
Change in deferred acquisition expenses	112,250	(40,204)	(203,675)	(1,088)	(132,717)
Administrative expenses – commissions	380,278	4,000	2,574	2,523	389,375
Administrative expenses allocated	15,583,288	3,218,717	2,066,321	492,984	21,361,310
Reinsurance commissions and profit sharing	(7,259,510)	(6,248,001)	(76)	(186,952)	(13,694,539)
Total	28,147,820	1,393,411	5,247,948	1,220,612	36,009,791

[Euros]	2008				
	Accident & Health	Fire & Other damage	Motor	Other lines	Total
Acquisition expenses – commissions	11,120,478	2,927,441	1,776,709	404,131	16,228,759
Acquisition expenses allocated	6,964,580	1,362,597	707,624	282,129	9,316,930
Change in deferred acquisition expenses	(320,169)	(59,150)	67,208	(147,078)	(459,189)
Administrative expenses – commissions	305,750	1,613	153	1,158	308,674
Administrative expenses allocated	15,210,508	4,474,809	2,767,712	758,798	23,211,827
Reinsurance commissions and profit sharing	(11,025,958)	(5,472,025)	(7,722,749)	(588,426)	(24,809,158)
Total	22,255,189	3,235,285	(2,403,343)	710,712	23,797,843

The caption Acquisition expenses - commissions includes the amount of Euro 59,567,000 (2008: Euro 55,578,000) related with commissions paid to Group Banco Comercial Português, S.A., under the distribuion agreement established with Millenniumbcp Fortis.

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Note 6 – Interest, dividends and other similar income

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

[Euros]	2009	2008
From available for sale investments	189,070,360	164,183,092
From bank deposits	16,455,808	35,056,568
	205,526,168	199,239,660
From investment property	241,351	721,920
Total	205,767,519	199,961,580

Note 7 – Financial expenses

The financial expenses from assets not held at fair value through profit and loss includes the operating and administrative expenses allocated to the investment function in the amount of Euro 25,752,000 (2008: Euro 25,701,000).

Financial expenses from financial liabilities not held at fair value through profit and loss relates to the interest expense related with a repurchase agreement (REPO) of securities with Banco Comercial Português, S.A. in 2009 and 2008, in the amount of Euro 9,707,000 and Euro 16,426,000 respectively (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:

[Euros]	2009			2008		
	Gains	(Losses)	Net	Gains	(Losses)	Net
Government bonds	22,982,611	(5,071,944)	17,910,667	9,832,813	(2,429,337)	7,403,476
Corporate debt securities	10,013,151	(22,991,887)	(12,978,736)	788,169	(3,877,453)	(3,089,284)
Equity securities	5,328,428	(15,420,142)	(10,091,714)	14,821,577	(173,581,003)	(158,759,425)
From Available for sale investments	38,324,190	(43,483,973)	(5,159,783)	25,442,559	(179,887,792)	(154,445,233)
From loans and receivables	105,729	–	105,729	842	(327,725)	(326,884)
Total	38,429,919	(43,483,973)	(5,054,054)	25,443,401	(180,215,517)	(154,772,117)

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:

[Euros] 2009				
	Gains	(Losses)	Other income / expense	Total
Trading	97,616,115	(24,553,657)	43,629,934	116,692,392
Held at fair value through profit and loss	589,634,939	(141,271,384)	(562,780,741)	(114,417,187)
Total	687,251,054	(165,825,041)	(519,150,807)	2,275,205

[Euros] 2008				
	Gains	(Losses)	Other income / expense	Total
Trading	208,132,287	(25,931,907)	(48,306,672)	133,893,708
Held at fair value through profit and loss	32,310,216	(665,956,566)	501,120,201	(132,526,148)
Total	240,442,503	(691,888,473)	452,813,529	1,367,559

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 are analysed as follows:

[Euros]			2009	2008
From available for sale investments			(394,314)	1,498,043
From financial assets and liabilities held for trading			72	–
From held at fair value through profit and loss			–	(2,000,000)
From loans and receivables			(182,367)	(206,942)
Total			(576,609)	(708,899)

→ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Impairment charges on other assets, net of reversals, and changes in other provisions are analysed as follows:

[Euros]	2009	2008
From Investment property	1,273,633	–
From Trade receivables	293,488	(1,628,225)
From Other receivables	(10,018)	(145,285)
Total impairment charges	1,557,103	(1,773,510)
Change in other provisions	(214,588)	530,261
Total	1,342,515	(1,243,249)

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

Other technical income/(expenses) includes an amount of Euro 41,635,000 (2008: Euro 46,804,000) related to the amortization of the Value of Business Acquired (see note 21).

Other non-technical income/(expenses) includes an amount of Euro 11,667,000 (2008: Euro 11,834,000) related to pension funds management fees charged by Pensões-gere, S.G.F.P., S.A.

Note 13 – Operating and administrative expenses

The Operating and administrative expenses are analysed as follows:

[Euros]	2009	2008
Staff and related costs		
Remuneration – management	1,561,003	1,411,463
Remuneration – other staff	18,402,494	17,209,682
Social security charges	3,280,648	3,213,999
Employee benefit plans expenses	1,422,456	1,477,841
Insurance costs	793,617	783,485
Social costs	111,152	71,486
Other costs	85,958	358,505
	25,657,328	24,526,461
External services and supplies	34,341,152	33,245,831
Depreciation of tangible assets		
Investment property	330,621	322,476
Equipment and motor vehicles	25,206	33,765
IT equipment	102,042	80,419
	457,869	436,660
Amortisation of intangible assets		
Software	193,487	373,594
Value of business acquired	41,635,344	46,803,994
Other intangible assets	1,022	2,043
	41,829,853	47,179,631
Other	31,469,833	32,130,316
Total	133,756,035	137,518,899

Other Operating and administrative expenses includes an amount of Euro 2,565,000 (2008: Euro 3,398,000) related with tax expenses, an amount of Euro 1,747,000 (2008: Euro 4,509,000) related with interest expenses, an amount of Euro 26,736,000 (2008: Euro 24,223,000) related with bank expenses and Euro 421,000 of changes in provisions.

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

[Euros]	2009	2008
Claims incurred	9,408,357	6,569,734
Operating expenses		
Acquisition costs	12,932,766	13,809,506
Administrative costs	37,489,974	38,256,771
Investment expenses		
Allocated to insurance technical account	25,594,703	25,578,025
Allocated to insurance non technical account	156,865	122,495
Other non allocated expenses	48,173,370	53,182,368
Total	133,756,035	137,518,899

As at 31 December 2009 and 2008, the number of employees of the Group were 458 and 454, of each 450 and 438 are full time equivalents.

→ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

II.5 Notes to the consolidated balance sheet

Note 14 – Cash and equivalents

As at 31 December 2009 and 2008, this balance is analysed as follows:

[Euros]	2009	2008
Cash	4	61
Bank deposits	239,238,739	359,796,191
Total	239,238,743	359,796,252

Note 15 – Trading assets

As at 31 December 2009 and 2008, this balance is analysed as follows:

[Euros]	2009		2008	
	Fair value	Notional amount	Fair value	Notional amount
Derivatives				
Interest rate swaps	160,374,071	5,026,387,211	64,984,254	4,880,648,299
Forward contracts	5,264,192	50,000,000	8,319,140	65,169,661
Options	103,173	7,975,000	293	950,000
FRA	12,798	41,500,000	12,240	41,500,000
Total	165,754,234	5,125,862,211	73,315,927	4,988,267,960
Of which:				
Level 1	–	–	–	–
Level 2	165,754,234	5,125,862,211	73,315,927	4,988,267,960
Level 3	–	–	–	–
	165,754,234	5,125,862,211	73,315,927	4,988,267,960

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 2009 and 2008, this balance is analysed as follows:

[Euros]	2009			2008		
	Amortised cost	Unrealised gains/(losses)	Book value	Amortised cost	Unrealised gains/(losses)	Book value
Government bonds	73,114,710	(30,924,532)	42,190,178	3,309,869	152,315	3,462,184
Corporate debt securities	5,295,206,830	463,987,842	5,759,194,672	5,812,687,573	(614,684,173)	5,198,003,400
Equity securities and investment funds	80,862,185	15,300,245	96,162,430	89,434,533	(19,054,555)	70,379,978
Total	5,449,183,725	448,363,555	5,897,547,280	5,905,431,975	(633,586,413)	5,271,845,562
Of which:						
Level 1			2,460,335,054			3,037,857,503
Level 2			3,437,212,226			2,233,988,059
Level 3			–			–
			5,897,547,280			5,271,845,562

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.

Quoted financial assets includes securities measured with stock market's quotations, provider's prices and securities admitted to quotation in organized markets.

Note 17 – Investments available for sale

As at 31 December 2009 and 2008, this balance is analysed as follows:

[Euros]	2009			2008		
	Amortised Cost	Unrealised gains/(losses)	Total	Amortised Cost	Unrealised gains/(losses)	Total
Government bonds	2,562,568,260	30,464,877	2,593,033,137	2,360,088,772	39,296,460	2,399,385,232
Corporate debt securities	2,481,692,679	44,282,920	2,525,975,599	1,636,296,890	(84,828,059)	1,551,468,831
Equity securities and investment funds	313,031,502	8,431,792	321,463,294	422,837,221	(5,221,688)	417,615,533
Accrued interest	100,180,314	–	100,180,314	77,532,780	–	77,532,780
Total	5,457,472,755	83,179,589	5,540,652,344	4,496,755,663	(50,753,287)	4,446,002,376
Of which:						
Level 1			5,188,096,561			4,254,256,733
Level 2			352,555,783			191,745,643
Level 3			–			–
			5,540,652,344			4,446,002,376

→ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

Quoted financial assets includes securities measured with stock market's quotations, provider's prices and securities admitted to quotation in organized markets.

Further disclosures on Investments are provided in Risk management (see note 38).

Note 18 – Loans and receivables

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

Note 19 – Investment property

As at 31 December 2009 and 2008, this balance is analysed as follows:

[Euros]	2009	2008
Cost	11,116,580	11,116,580
Accumulated depreciation	(1,742,701)	(1,412,080)
Impairment	(3,540,997)	(2,267,364)
Balance at the end of the year	5,832,882	7,437,136
Fair value	6,562,000	7,437,136

The estimated lifetime of investment property is analysed as follows:

	Estimated lifetime
Building	25 years
Components	10 years

As at 31 December 2009 in order to assess the recoverable amount of the Investment property, an independent valuation was performed. An impairment loss of Euro 1,274,000 was recognised, as the recoverable amount estimated was lower than the net book value.

Note 20 – Other tangible assets

As at 31 December 2009 and 2008, this balance is analysed as follows:

[Euros]	2009	2008
Equipment		
IT equipment	1,030,296	947,388
Administrative equipment	1,111,132	1,106,926
Other	1,726,196	1,724,050
	3,867,624	3,778,364
Accumulated depreciation	(2,580,308)	(2,453,027)
Net balance	1,287,316	1,325,337

The movements on this balance are presented as follows:

[Euros]	IT equipment	Administrative equipment	Other equipment	Total
Acquisition cost				
Balance as at 31 December 2008	947,388	1,106,926	1,724,050	3,778,364
Acquisitions	82,908	4,206	2,146	89,260
Other movements	–	–	–	–
Balance as at 31 December, 2009	1,030,296	1,111,132	1,726,196	3,867,624
Depreciation				
Balance as at 31 December 2008	771,133	1,092,427	589,467	2,453,027
Depreciation of the year	102,041	4,997	20,210	127,248
Other movements	33	4,388	(4,388)	33
Balance as at 31 December, 2009	873,207	1,101,812	605,289	2,580,308
Net balance as at 31 December, 2008	176,255	14,499	1,134,583	1,325,337
Net balance as at 31 December, 2009	157,089	9,320	1,120,907	1,287,316

Note 21 – Goodwill and other intangible assets

As at 31 December 2009 and 2008, this balance is analysed as follows:

[Euros]	Goodwill	VOBA	Other	Total
Acquisition cost				
Balance as at 31 December 2008	315,740,469	527,989,676	4,089,648	847,819,793
Acquisitions	–	–	2,109,828	2,109,828
Other movements	–	–	(9,503)	(9,503)
Balance as at 31 December 2009	315,740,469	527,989,676	6,189,973	849,920,118
Accumulated Amortisation				
Balance as at 31 December 2008	–	(217,891,878)	(3,460,342)	(221,352,220)
Amortisation of the year	–	(41,635,344)	(194,509)	(41,829,853)
Other movements	–	–	33	33
Balance as at 31 December 2009	–	(259,527,222)	(3,654,818)	(263,182,040)
Net intangible assets 2008	315,740,469	310,097,798	629,306	626,467,573
Net intangible assets 2009	315,740,469	268,462,454	2,535,155	586,738,078

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The goodwill is related with the acquisition of Ocidental – Companhia Portuguesa de Seguros de Vida, S.A., Ocidental – Companhia Portuguesa de Seguros, S.A., Pensõesgere – 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:

[Euros]	
Life & Pensions segment	
Ocidental – Companhia Portuguesa de Seguros de Vida, S.A.	233,127,409
Pensõesgere – Sociedade Gestora de Fundos de Pensões, S.A.	14,360,068
	247,487,477
Non Life segment	
Ocidental – Companhia Portuguesa de Seguros, S.A.	64,074,457
Medis – Companhia Portuguesa de Seguros de Saúde, S.A.	4,178,535
	68,252,992
	315,740,469

As described on the accounting policies, the Group as 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 was performed based on the 5 years financial budget for each business unit approved by the Group management. The present value of the future cash flows was determined using a discount rate of 11.4% (2008: 12%).

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

[Euros]	2010	2011	2012	2013	2014	Thereafter
Estimated amortisation of VOBA	29,699,749	28,245,997	24,373,851	22,445,973	21,245,973	142,450,911

Note 22 – Technical reserves, net of reinsurance

As at 31 December 2009 and 2008, this balance for life business is analysed as follows:

[Euros]		2009		
		Insurance contracts	Investment contracts	Total
GROSS				
Life mathematical reserves		203,866,903	4,680,832,905	4,884,699,808
Claims reserves life		34,615,995	8,519,699	43,135,694
Profit sharing reserves		3,833,129	93,808,595	97,641,724
Attributed		2,384,852	45,986,860	48,371,712
To be attributable		1,448,277	47,821,735	49,270,012
Total Gross		242,316,027	4,783,161,199	5,025,477,226
REINSURANCE CEDED				
Life mathematical reserve		680,950	–	680,950
Claims reserves life		1,041,935	–	1,041,935
Total Reinsurance		1,722,885	–	1,722,885
Total (net)		240,593,142	4,783,161,199	5,023,754,341

[Euros]	2008		
	Insurance contracts	Investment contracts	Total
GROSS			
Life mathematical reserves	203,969,902	4,009,342,525	4,213,312,427
Claims reserves life	23,684,341	11,195,493	34,879,834
Profit sharing reserves	2,938,535	45,437,365	48,375,900
Attributed	2,693,577	29,761,264	32,454,841
To be attributable	244,958	15,676,101	15,921,059
Total Gross	230,592,778	4,065,975,383	4,296,568,161
REINSURANCE CEDED			
Life mathematical reserve	519,860	–	519,860
Claims reserves life	563,081	–	563,081
Total Reinsurance	1,082,941	–	1,082,941
Total (net)	229,509,837	4,065,975,383	4,295,485,220

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 2009 the Life Business technical provisions have been increased by an amount of Euro 802,000 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 2009 and 2008, this balance is analysed as follows for non-life business:

[Euros]	2009				
	Accident & Health	Fire & Other damage	Motor	Other Lines	Total
GROSS					
Unearned premiums reserve	32,322,188	5,414,399	4,830,644	2,465,592	45,032,823
Claims outstanding reserve	48,245,841	8,288,784	24,225,822	4,494,015	85,254,462
Profit sharing reserve	486,392	–	–	–	486,392
Equalisation reserve	–	663,595	–	64,126	727,721
Unexpired risk reserve	1,896,383	266,214	460,016	51,468	2,674,081
Total Gross	82,950,804	14,632,992	29,516,482	7,075,201	134,175,479
REINSURANCE CEDED					
Unearned premiums reserve	10,878,023	1,141,966	–	1,478,328	13,498,317
Claims outstanding reserve	3,317,609	1,683,074	1,146,371	656,189	6,803,243
Total Reinsurance	14,195,632	2,825,040	1,146,371	2,134,517	20,301,560
Total (net)	68,755,172	11,807,952	28,370,111	4,940,684	113,873,919

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[Euros]	2008				
	Accident & Health	Fire & Other damage	Motor	Other Lines	Total
GROSS					
Unearned premiums reserve	33,672,417	4,901,214	5,469,231	2,382,608	46,425,470
Claims outstanding reserve	44,239,895	7,559,593	22,957,930	4,445,765	79,203,183
Profit sharing reserve	215,808	–	–	–	215,808
Equalisation reserve	–	592,396	–	48,458	640,854
Unexpired risk reserve	1,157,782	179,470	417,648	342,554	2,097,454
Total Gross	79,285,902	13,232,673	28,844,809	7,219,385	128,582,769
REINSURANCE CEDED					
Unearned premiums reserve	12,414,069	995,839	6,086,561	1,667,358	21,163,827
Claims outstanding reserve	19,549,835	1,398,653	21,315,007	883,400	43,146,895
Total Reinsurance	31,963,904	2,394,492	27,401,568	2,550,758	64,310,722
Total (net)	47,321,998	10,838,181	1,443,241	4,668,627	64,272,047

Included in claims outstanding for Workers compensation is the amount of Euro 11,898,000 (2008: Euros 11,708,000) 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 1,134,000 (in 2008 an amount of Euro 1,158,000), booked as LAT reserve.

Claims outstanding reserve life and non-life, including reinsurance accepted, represents unsettled claims occurring before 31 December 2009, and include an amount of Euro 31,644,000 (2008: Euro 25,862,000) 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 2,039,000 (2008: Euro 2,512,000).

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

[Euros]	2009	2008
Unearned premiums reserve	50,809,671	52,069,601
Deferred acquisition costs	(5,776,848)	(5,644,131)
Net	45,032,823	46,425,470

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

[Euros]	2009	2008
Deferred acquisition costs as at 1 January	5,644,131	5,184,942
Acquisition costs of the year	5,776,848	5,644,131
Acquisition costs amortisation	(5,644,131)	(5,184,942)
Deferred acquisition costs as at 31 December	5,776,848	5,644,131

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.

[Euros]	2009			2008		
	Life	Non Life	Total	Life	Non Life	Total
Balance as at 1 January	48,375,900	215,808	48,591,708	96,157,414	106,227	96,263,641
Amounts paid	(36,123,330)	(157,980)	(36,281,310)	(42,976,629)	(131,029)	(43,107,658)
Estimated attributable amounts	45,321,586	428,564	45,750,150	(6,951,775)	240,610	(6,711,165)
Shadow accounting	40,067,568	–	40,067,568	2,146,890	–	2,146,890
Total	97,641,724	486,392	98,128,116	48,375,900	215,808	48,591,708

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 2009 the total amount of the shadow adjustment is Euro 42,214,000 (2008: Euro 2,433,000, which Euro 286,000 is included in the mathematical reserves as part of the liability adequacy test).

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 the 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:

[Euros]	2009	2008
Profit sharing to be attributable to policyholders, 1 January	15,921,059	57,833,988
Released, accordingly to plan	(6,718,615)	(44,059,820)
Allocated at year-end	40,067,568	2,146,890
Total, 31 December	49,270,012	15,921,059
Profit sharing, 1 January	32,454,841	38,323,426
Profit sharing distributed to policyholders during the year	(36,123,329)	(42,976,629)
Profit sharing assigned to policyholders – contractual	40,959,159	7,832,977
Profit sharing assigned to policyholders – commercial	7,966,656	10,891,204
Profit sharing assigned to policyholders – management decision	3,114,385	18,383,863
Profit sharing, 31 December	48,371,712	32,454,841

Note 23 – Employee benefits

Pensions and other post retirement obligations

In accordance with the terms of its employment contracts, the Group is responsible, apart from its admission to the Insurance Sector, for pensions and disability payment as stipulated in the Collective Agreements for Insurance Activity. Additionally, the Group assumed the responsibility with a Complementary Plan and health employment benefits.

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 2009.

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As at 31 December 2009 and 2008 the number of participants of the benefit plan was as follows:

	2009	2008
Number of participants		
Employees	405	400
Retired and pensioners	24	23
	429	423

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

	2009	2008
Discount rate	5.25%	5.75%
Future salary increases	2.75%	3.25%
Expected return on plan assets at 31 December	5.50%	5.81%
Future pension increases	1.75%	2.25%
Mortality table:		
Men	TV73/77 rated down 1 year	TV73/77 rated down 1 year
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 2009 and 2008, employee's benefits and fair value of plan assets are analysed as follows:

[Euros]	2009			2008		
	Pension plans	Other benefits	Total	Pension plans	Other benefits	Total
Projected benefit obligations	(19,353,688)	(2,933,695)	(22,287,383)	(20,026,116)	(3,184,397)	(23,210,513)
Fair value of plan assets	20,854,497	–	20,854,497	20,218,077	–	20,218,077
Net recognized defined benefit obligations	1,500,809	(2,933,695)	(1,432,886)	191,961	(3,184,397)	(2,992,436)
Unrecognised actuarial (gains)/losses	3,156,155	(180,253)	2,975,902	5,491,248	351,840	5,843,088
Net asset/(liability)	4,656,964	(3,113,948)	1,543,016	5,683,209	(2,832,557)	2,850,652

Following the decision of the Executive Board of Directors dated 23 November 2006, the employee admitted until 22 September 2006 maintain, for Complementary Plan terms, the benefits established under the Plan - (Defined benefit), being funded by the Collective subscription N° 72 to Open Pension Fund 'Horizonte Valorização'.

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

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 (2008: 9), and the total liability amounts to Euro 2,130,000 (2008: Euro 2,202,000), which is included in the life insurance reserves.

The liabilities with pensions and other post employee's benefits in 2009 and 2008, can be analysed as follows:

[Euros]	2009			2008		
	Pension plans	Other benefits	Total	Pension plans	Other benefits	Total
Liabilities as at 1 January	20,026,116	3,184,397	23,210,513	17,158,821	2,248,963	19,407,784
Current service cost	944,439	120,512	1,064,951	867,206	126,253	993,459
Interest cost	1,138,395	179,847	1,318,242	908,208	119,546	1,027,754
Benefits paid by the fund or by the Group	(543,630)	(30,154)	(573,784)	(442,215)	(42,017)	(484,232)
Actuarial (gains)/losses	(1,785,156)	(520,907)	(2,306,063)	905,252	650,469	1,555,721
Curtailment losses related to early retirements	–	–	–	482,762	81,183	563,945
Transfer between funds	(426,476)	–	(426,476)	146,082	–	146,082
Liabilities as at 31 December	19,353,688	2,933,695	22,287,383	20,026,116	3,184,397	23,210,513

The amount recognised as a cost by the Group in 2009 and 2008 is analysed as follows:

[Euros]	2009			2008		
	Pension plans	Other benefits	Total	Pension plans	Other benefits	Total
Current service cost	944,439	120,512	1,064,951	867,206	126,253	993,459
Interest cost	1,138,395	179,847	1,318,242	908,208	119,546	1,027,754
Expected return on plan assets	(1,145,395)	–	(1,145,395)	(1,118,018)	–	(1,118,018)
Amortisation of the unrecognised net (gains)/losses	173,472	11,186	184,658	21,911	(11,207)	10,704
Losses (gains) on curtailments (settlements)	–	–	–	482,762	81,183	563,945
Total benefit expenses	1,110,911	311,545	1,422,456	1,162,069	315,775	1,477,844

The changes in the fair value of the plan assets during 2009 and 2008, are analysed as follows:

[Euros]	2009	2008
Opening balance as at 1 January	20,218,077	17,950,264
Group contributions	84,666	5,430,709
Benefits paid by the fund	(543,630)	(442,215)
Expected return on plan assets	1,145,395	1,118,018
Actuarial gains (losses) on plan assets	376,465	(3,984,781)
Transfer between funds	(426,476)	146,082
Balance as at 31 December	20,854,497	20,218,077

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

[Euros]	2009			2008		
	Pension plans	Other benefits	Total	Pension plans	Other benefits	Total
Net actuarial (gains)/losses at beginning of the year	5,491,248	351,840	5,843,088	623,126	(309,836)	313,290
Actuarial (gains)/losses in relation to the DBO	(1,785,156)	(520,907)	(2,306,063)	905,252	650,469	1,555,721
Actuarial (gains)/losses in relation to the plan assets	(376,465)	–	(376,465)	3,984,781	–	3,984,781
Amortisation of the unrecognised net (gains)/losses	(173,472)	(11,186)	(184,658)	(21,911)	11,207	(10,704)
Net actuarial (gains)/losses at the end of the year	3,156,155	(180,253)	2,975,902	5,491,248	351,840	5,843,088

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As at 31 December 2009 and 2008 the actuarial gains incurred as a result of the changes in the actuarial assumptions amounted to Euro 578,000 and Euro 1,002,000, respectively.

The contribution to the Pension Fund made by the Group companies amounted to Euro 85,000 (2008: Euro 5,431,000) being made in cash. It refers to the transference to pension fund of the social security charges, until retirement age, of the pre-retirement employees.

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

[Euros]	2009			2008		
	Pension plans	Other benefits	Total	Pension plans	Other benefits	Total
Prepaid / (accrued) benefit cost as at 1 January	5,683,209	(2,832,557)	2,850,652	1,414,569	(2,558,799)	(1,144,230)
Net periodic benefit cost	(1,110,911)	(311,545)	(1,422,456)	(1,162,069)	(315,775)	(1,477,844)
Employer contributions and other contributions	84,666	30,154	114,820	5,430,709	42,017	5,472,726
Prepaid / (accrued) benefit cost as at 31 December	4,656,964	(3,113,948)	1,543,016	5,683,209	(2,832,557)	2,850,652

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

[Euros]	2009	2008	2007	2006	2005
Projected benefit obligations	(22,287,383)	(23,210,513)	(19,407,784)	(15,565,226)	(15,508,050)
Fair value of plan assets	20,854,497	20,218,077	17,950,264	14,645,067	13,341,742
Net recognized defined benefit obligations	(1,432,886)	(2,992,436)	(1,457,520)	(920,159)	(2,166,308)
Unrecognised actuarial (gains)/losses	2,975,902	5,843,088	313,290	(1,184,759)	791,953
Net asset/(liability)	1,543,016	2,850,652	(1,144,230)	(2,104,918)	(1,374,355)

The assets of the pension fund are analysed as follows:

[Euros]	2009	2008
Variable income securities	1,247,262,000	2,011,543,000
Fixed income securities	2,841,297,000	2,133,380,000
Real State	383,431,000	385,214,000
Others	1,101,582,000	833,316,000
	5,573,572,000	5,363,453,000

It should be noted that the amounts disclosed above refer to the totality of Banco Comercial Português Group pension fund, from which Millenniumbcp Fortis represents around 0.37% (2008: 0.38%).

The securities issued by Banco Comercial Português Group and Fortis Group accounted in the portfolio of the Fund are analysed as follows:

[Euros]	2009	2008
Variable income securities	39,362,000	61,901,000
Fixed income securities	352,171,000	366,785,000
	391,533,000	428,686,000

As at 31 December 2009 and 2008, the premises booked in the fund and used by Millenniumbcf Fortis amount of Euro 31,457,000.

Health benefit cost has an impact in pension costs. Considering this impact, Millenniumbcf Fortis produced a sensitivity analysis to a positive one percent variation in health benefit costs (from 6.5% to 7.5%), whose impact is analysed as follows:

[Euros]	2009	2008
Pension cost impact	19,191	20,086
Liability impact	398,709	373,133

Note 24 – Trade and other receivables

As at 31 December 2009 and 2008, this balance is analysed as follows:

[Euros]	2009	2008
Receivables from policyholders	35,820,291	61,473,099
Receivables from intermediaries	529,281	484,780
Receivables from reinsurance operations	8,031,820	13,792,021
	44,381,392	75,749,900
Impairment	(4,835,349)	(4,541,521)
Total trade receivables	39,546,043	71,208,379
Other receivables	9,417,643	10,923,070
Impairment	(23,935)	(34,292)
Total other receivables	9,393,708	10,888,778
Total	48,939,751	82,097,157

Receivables from policyholders includes an amount of Euro 28,401,000 (2008: Euro 55,835,000), related with uncollected premiums, of Euro 7,805,000 (2008: Euro 6,699,000) in the bad debt risk, which are covered by the recognition of an impairment loss.

Receivables from policyholders also includes the amount of Euro 5,700,000 (2008: Euro 3,882,000) related with claims reimbursements issued in the scope of the agreement between BCP Group and the Sindicatos Bancários do Norte, Centro e Sul.

In 2008 Other receivables includes also an amount of Euro 8,031,000 related with investments sold in the last days of the year, which were received in the begging of 2009. In 2009 this amount is zero.

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

[Euros]	2009		2008	
	Trade	Other	Trade	Other
Balance at the beginning of the year	4,541,521	34,292	6,169,746	179,577
Write back for the year	–	(10,017)	(1,628,225)	(145,285)
Charge of the year	293,488	–	–	–
Transfers and other movements	340	(340)	–	–
Balance at the end of the year	4,835,349	23,935	4,541,521	34,292

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Note 25 – Income tax assets and liabilities

The Group determined its income tax liability for the 2009 and 2008 financial years on the basis of a nominal rate of 26.5%. This is the nominal rate in force at the balance sheet date.

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:

[Euros]	2009	2008
Current tax assets and other taxes	24,728,356	24,728,349
Current tax assets	–	–
Other taxes	24,728,356	24,728,349
Deferred tax assets	682,309	1,783,548
Income tax assets	25,410,665	26,511,897
Current tax liabilities and other taxes	45,469,423	12,257,997
Current tax assets	38,978,170	4,262,299
Other taxes	6,491,253	7,995,698
Deferred tax liabilities	52,989,364	59,438,464
Income tax liabilities	98,458,787	71,696,461

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 2009 and 2008, 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 Pensõesgera – 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, 2009 and 2008, financial statements, are analysed as follows:

[Euros]	Assets		Liabilities		Net	
	2009	2008	2009	2008	2009	2008
Investment property	46,252	–	–	(577,247)	46,252	(577,247)
Intangible assets	–	–	(71,142,550)	(82,175,916)	(71,142,550)	(82,175,916)
Investments	11,819,268	16,459,064	–	–	11,819,268	16,459,064
Insurance and investment contracts liabilities	5,185,480	7,187,756	–	–	5,185,480	7,187,756
Provisions	986,867	816,545	–	–	986,867	816,545
Other	797,628	634,882	–	–	797,628	634,882
Deferred tax asset / (liability)	18,835,495	25,098,247	(71,142,550)	(82,753,163)	(52,307,055)	(57,654,916)
Off set asset / (liability)	(18,153,186)	(23,314,699)	18,153,186	23,314,699	–	–
Net deferred tax asset / (liability)	682,309	1,783,548	(52,989,364)	(59,438,464)	(52,307,055)	(57,654,916)

The changes in deferred tax recognised in 2009 and 2008, are analysed as follows:

[Euros]	2009		2008	
	Recognised on income	Recognised on equity	Recognised on income	Recognised on equity
Investment property	623,499	–	–	–
Intangible assets	11,033,366	–	12,403,059	–
Investments	7,171,696	(11,811,492)	(1,080,317)	187,050
Insurance and investment contracts liabilities	(2,002,276)	–	(2,722,327)	–
Provisions	170,322	–	(89,452)	–
Other	162,746	–	276,759	–
Deferred tax asset / (liability)	17,159,353	(11,811,492)	8,787,722	187,050

The income tax expense for the year ended 31 December, 2009 and 2008 is analysed as follows:

[Euros]	2009	2008
Current tax	(52,517,855)	(20,357,630)
Deferred tax	17,159,353	8,787,722
Total tax recognised in the income statement	(35,358,502)	(11,569,908)

The income taxes recognised in the fair value reserve for the year ended 31 December, 2009 and 2008 is analysed as follows:

[Euros]	2009	2008
Current tax	(24,851,327)	(11,616,560)
Deferred tax	13,995,566	25,807,058
Total tax in fair value reserves	(10,855,760)	14,190,498

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

[Euros]	2009	2008
Profit before taxes	132,144,674	39,997,105
Statutory rate	26.5%	26.5%
Income tax calculated on the statutory rate	35,018,339	10,599,233
Tax exempt dividends	–	(110,824)
Autonomous taxation	107,106	110,789
Other permanent differences	233,057	970,710
	35,358,502	11,569,908

Note 26 – Accrued income and deferred charges

As at 31 December 2009 accrued income and deferred charges includes an amount of Euro 60,000 (2008: Euro 2,213,000) related to management fees charged to the pension funds.

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Note 27 – 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 6,044,647,000 (2008: Euro 5,317,041,000) relates to unit-linked contracts. These liabilities include the fair value of any guarantees or options embedded on the investment contracts.

Note 28 – Other financial liabilities

As at 31 December 2009 and 2008, this balance is analysed as follows:

[Euros]	2009	2008
Funds held under reinsurance agreements	18,259,206	61,678,301
Other liabilities	558,279,213	495,800,402
Total	576,538,419	557,478,703

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

The Other liabilities are 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 Fortis retains all the risks and rewards of the ownership of the securities (see note 36).

Note 29 – Trade and other payables

As at 31 December 2009 and 2008, this balance is analysed as follows:

[Euros]	2009	2008
Due to agents, policyholders and intermediaries	22,441,114	19,988,504
Due to reinsurers	6,849,832	15,995,272
Trade amounts payable	29,290,946	35,983,776
Other liabilities	94,622,109	67,261,124
Total	123,913,055	103,244,900

In 2009, Other liabilities includes an amount of Euro 56,349,000 (2008: Euro 33,657,000), related with investments acquired in the last days of the year, which will be paid in the beginning of January 2010.

As at 31 December 2009 and 2008, 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 Pensõesger – Sociedade Gestora de Fundos de Pensões, S.G.F.P., S.A., management entity of the BCP Group pension fund.

As at 31 December 2009 the commissions payable to Banco Comercial Português, S.A in the amount of Euro 18,213,000 (2008: Euro 16,004,000) are included in the balance Due to agents.

Note 30 – Deferred income and accrued charges

As at 31 December 2009, deferred income and accrued charges includes an amount of Euro 5,372,000 (2008: Euro 5,545,000) related to unit linked management fees to be paid to the asset manager

Additionally, it is also included an amount of Euros 6,220,000 related with a success fee to be paid to investments portfolio managers, which was calculated based on the performance achieved. It should be mentioned that in 2008, due to poor market conditions, no fee took place.

Additionally, accrued charges includes also an accrual related with the present value of the future contributions to Workers Compensation Fund (FAT) in the amount of Euro 865,000 (2008: Euro 876,000) as described on the accounting policies.

Note 31 – Provisions

As at 31 December 2009 and 2008, the balance provisions are analysed as follows:

[Euros]	2009	2008
Provision for income tax	93,437	–
Provisions for other risks and charges – others	2,573,264	2,402,672
Total	2,666,701	2,402,672

As at 31 December 2009 and 2008, the changes in provisions are as follows:

[Euros]	2009	2008
Balance as at 1 January	2,402,672	1,872,411
Changes in other provisions	(214,588)	530,261
General expenses – change in provisions	421,172	–
Transfers and other movements	57,445	–
Balance as at 31 December	2,666,701	2,402,672

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Note 32 – Financial instruments and other assets allocation covering technical reserves

As at 31 December 2009, financial instruments and other assets allocation covering technical reserves was analysed as follows:

[Euros]	2009				
	Life contracts	Unit Linked contracts	Non life contracts	Non allocated	Total
Cash and equivalents	196,116,582	28,506,059	20,506,062	(5,889,960)	239,238,743
Investment property	–	–	–	5,832,882	5,832,882
Trading assets / liabilities	103,173	165,651,061	–	–	165,754,234
Investments held at fair value through profit and loss	12,356,353	5,870,632,934	–	14,557,993	5,897,547,280
Investments available for sale	5,131,488,694	–	136,974,891	272,188,759	5,540,652,344
Loans and receivables	452,420,585	(28,188,001)	27,922,712	327,432,581	779,587,877
Other tangible assets	230,036	–	26,484	1,030,796	1,287,316
Other assets/liabilities	(487,813,469)	–	(4,456,044)	(62,569,442)	(554,838,955)
Total	5,304,901,954	6,036,602,053	180,974,105	552,583,609	12,075,061,721
Technical reserves and investment contracts liabilities at fair value through profit and loss	5,025,477,226	6,044,647,299	134,175,479	–	11,204,300,004
Net	279,424,728	(8,045,246)	46,798,626	552,583,609	870,761,717

As at 31 December 2008, financial instruments and other assets allocation covering technical reserves was analysed as follows:

[Euros]	2008				
	Life contracts	Unit Linked contracts	Non life contracts	Non allocated	Total
Cash and equivalents	275,701,837	34,800,510	20,156,370	29,137,535	359,796,252
Investment property	7,437,136	–	–	–	7,437,136
Trading assets / liabilities	1,479,024	71,818,308	15,817	2,778	73,315,927
Investments held at fair value through profit and loss	22,696,235	5,235,206,181	–	13,943,146	5,271,845,562
Investments available for sale	4,026,746,416	–	126,108,801	293,147,159	4,446,002,376
Loans and receivables	473,846,239	1,364,298	29,184,537	141,964,495	646,359,569
Other tangible assets	315,827	–	38,618	970,892	1,325,337
Other assets/liabilities	(396,513,294)	(27,941,093)	(7,285,742)	(88,153,224)	(519,893,354)
Total	4,411,709,420	5,315,248,204	168,218,401	391,012,780	10,286,188,805
Technical reserves and investment contracts liabilities at fair value through profit and loss	4,296,568,161	5,317,041,241	128,582,769	–	9,742,192,171
Net	115,141,259	(1,793,037)	39,635,632	391,012,780	543,996,634

In 2008, the shortfall in the unit linked contracts is due to surrenders already issued but not yet paid.

Other liabilities include the loan with Banco Comercial Português, SA, related to the sale and repurchase agreement (Repo) of fixed income securities.

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 2009 and 2008, the authorised share capital of Millenniumbcp Fortis, 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
Fortis Insurance, B.V.	51
Banco Comercial Português, S.A.*	49
	100

* In 2008, through Seguros e Pensões Gere S.G.P.S., S.A., which is owned 100% by Banco Comercial Português, S.A. As at 28 December 2009, those shares were sold to BCP Investment BV.

Legal reserve

Under Portuguese legislation, Millenniumbcp Fortis 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 2009 and 2008 are analysed as follows:

[Euros]	2009	2008
Balance as at 1 January	(50,753,287)	(96,300,676)
Revaluations	133,272,992	195,248,160
Impairment	–	–
Sales	659,884	(149,700,771)
Balance as at 31 December	83,179,589	(50,753,287)

The fair value reserve is analysed as follows:

[Euros]	2009	2008
Amortised cost of Available for sale investments	5,457,472,755	4,496,755,663
Impairment	–	–
Amortised cost of Available for sale investments net of impairment	5,457,472,755	4,496,755,663
Fair value of Available for sale investments	5,540,652,344	4,446,002,376
Unrealised gains / (losses) recognised on fair value reserve	83,179,589	(50,753,287)
Current and deferred tax	(22,042,591)	13,545,772
Fair value reserve on equity (net)	61,136,998	(37,207,515)
Profit sharing to be attributable ("shadow"), net	(31,027,627)	(1,788,201)
Fair value reserve on equity (net)	30,109,371	(38,995,716)

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The Equity as at 31 December 2009 is analysed as follows:

[Euros]	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, net	–	83,179,589	(22,042,591)	61,136,998	–	–	–	61,136,998
Profit sharing to be attributable ("shadow"), net	–	(42,214,458)	11,186,831	(31,027,627)	–	–	–	(31,027,627)
Profit after tax of the year	–	–	–	–	–	–	96,786,172	96,786,172
Retained earnings	–	–	–	–	–	155,404,022	–	155,404,022
Legal reserve	–	–	–	–	6,708,628	–	–	6,708,628
Balance as at 31 December, 2009	1,000,002,375	40,965,131	(10,855,760)	30,109,371	6,708,628	155,404,022	96,786,172	1,289,010,568

The Equity as at 31 December 2008 is analysed as follows:

[Euros]	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), net	–	(50,753,287)	13,545,772	(37,207,515)	–	–	–	(37,207,515)
Profit sharing to be attributable ("shadow"), net	–	(2,432,927)	644,726	(1,788,201)	–	–	–	(1,788,201)
Profit after tax of the year	–	–	–	–	–	–	28,427,197	28,427,197
Retained earnings	–	–	–	–	–	127,687,774	–	127,687,774
Legal reserve	–	–	–	–	5,997,679	–	–	5,997,679
Balance as at 31 December, 2008	1,000,002,375	(53,186,214)	14,190,498	(38,995,716)	5,997,679	127,687,774	28,427,197	1,123,119,309

II.7 Additional information to Segment report

Note 34 – Non life technical margins by line of business

[Euros]	2009					2008				
	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	131,105,364	22,025,980	22,593,955	3,210,480	178,935,779	106,403,751	21,354,121	103,966	2,316,630	130,178,468
Net claims expenses	(97,453,932)	(8,158,470)	(17,761,019)	(1,084,148)	(124,457,569)	(74,393,576)	(7,517,327)	(214,901)	(996,251)	(83,122,055)
Changes in other technical reserves net	(738,601)	(157,943)	(42,368)	275,418	(663,494)	35,246	440,992	(240,863)	(122,487)	112,888
Profit sharing, net	(428,564)	–	–	–	(428,564)	(240,610)	–	–	–	(240,610)
Acquisitions/administrative expenses, net	(28,147,820)	(1,393,411)	(5,247,948)	(1,220,612)	(36,009,791)	(22,255,189)	(3,235,285)	2,403,343	(710,712)	(23,797,843)
Interest, dividends and other similar income	3,561,255	330,728	736,392	165,335	4,793,710	3,649,884	392,313	952,288	223,646	5,218,131
Financial expenses	(634,948)	(81,546)	(171,571)	(32,460)	(920,525)	(1,595,757)	(129,392)	(1,571,607)	(39,981)	(3,336,737)
Net gains/(losses) from financial assets	(15,498)	6,124	17,344	2,016	9,986	(2,899,430)	(321,895)	(752,597)	(186,490)	(4,160,412)
Other income / (expenses) technical, net	109,651	–	–	–	109,651	44,444	–	861	–	45,305
Technical margin	7,356,907	12,571,462	124,785	1,316,029	21,369,183	8,748,763	10,983,527	680,490	484,355	20,897,135
Net investment income					1,096,119					2,729,877
Net realised gains / (losses)					482,459					(927,722)
General expenses					(161,151)					(108,500)
Net other income / (expenses)					109,563					3,084,348
Non technical result					1,526,989					4,778,003
Profit before tax Non Life					22,896,172					25,675,138
	Accidents and health	Fire and other hazards	Motor	Other lines	Total	Accidents and health	Fire and other hazards	Motor	Other lines	Total
Gross reserves	82,950,804	14,632,992	29,516,482	7,075,201	134,175,479	79,285,902	13,232,673	28,844,809	7,219,385	128,582,769
Reinsurance share in reserves	14,195,632	2,825,040	1,146,371	2,134,517	20,301,560	31,963,904	2,394,492	27,401,568	2,550,757	64,310,722

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Note 35 – Life technical margins by type of product

[Euros]	2009				2008			
	Insurance contracts	Investment contracts	Unit linked contracts	Total	Insurance contracts	Investment contracts	Unit linked contracts	Total
Net premiums earned	163,041,217	980,980,014	–	1,144,021,231	188,668,488	792,933,847	–	981,602,335
Fees on investment contracts	–	–	59,379,110	59,379,110	–	–	73,106,961	73,106,961
Net claims expenses	(60,725,482)	(415,202,800)	–	(475,928,282)	(55,899,152)	(637,752,464)	(44,388)	(693,696,004)
Changes in mathematical reserves, net	6,897	(642,211,913)	–	(642,205,016)	(31,998,695)	(233,569,861)	–	(265,568,556)
Profit sharing, net	(6,368,356)	(38,953,230)	–	(45,321,586)	(4,001,466)	10,953,241	–	6,951,775
Acquisitions and administrative expenses, net	(19,257,492)	(22,878,174)	(16,737,430)	(58,873,096)	(19,527,577)	(19,441,566)	(17,183,505)	(56,152,648)
Interest, dividends and other similar income	11,097,823	165,054,606	–	176,152,429	11,767,955	159,678,498	–	171,446,453
Financial expenses	(1,068,434)	(19,207,762)	(12,542,853)	(32,819,049)	(1,004,052)	(18,166,383)	(16,673,129)	(35,843,564)
Net gains/(losses) from financial assets	230,424	(2,788,505)	1,159,978	(1,398,103)	(10,131,282)	(136,273,752)	1,167,279	(145,237,755)
VOBA amortisation	(26,476,209)	(7,308,509)	(7,850,626)	(41,635,344)	(28,019,409)	(8,536,078)	(10,248,507)	(46,803,994)
Other technical income / (expenses), net	79,039	1,542,745	(47,530)	1,574,254	167,004	1,577,887	1,197,969	2,942,860
Technical margin	60,559,427	(973,528)	23,360,649	82,946,548	50,021,814	(88,596,631)	31,322,680	(7,252,137)
Net investment income				22,784,054				12,366,629
Net realised gains / (losses)				(4,344,550)				1,588,961
General expenses				(6,533,739)				(6,392,367)
Net other income / (expenses)				14,396,189				14,010,881
Non technical result				26,301,954				21,574,104
Profit before tax Life				109,248,502				14,321,967

II.8 Other Notes

Note 36 – Related party transactions

As at 31 December, 2009 and 2008, the transactions with related parties and the remuneration of key management – Board of directors, is analysed as follows:

[Euros]	2009	2008
Remuneration	1,561,003	1,411,463
Contributions to pensions plans	115,153	104,574
	1,676,156	1,516,037

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.

Transactions with F&C, are related with commissions due to F&C related with the Group securities portfolio management.

The impacts of these operations with related parties, per item, are analysed as follows:

Balance Sheet [Euros]	BCP Group	Fortis Group	Pensions Fund	F&C	Total
Cash and equivalents	239,238,743	–	–	–	239,238,743
Loans and receivables – other deposits	779,587,582	–	–	–	779,587,582
Investments available for sale	446,365,575	–	–	–	446,365,575
Investments held at fair value through profit and loss	3,575,610,504	73,006,034	–	–	3,648,616,539
Other assets	–	–	1,543,016	–	1,543,016
Total assets	5,040,802,404	73,006,034	1,543,016	–	5,115,351,454
Technical reserves	119,370,953	89,041	–	–	119,459,994
Other financial liabilities	558,279,213	–	–	–	558,279,213
Other liabilities	18,249,766	–	–	13,544,748	31,794,514
Total liabilities	695,899,932	89,041	–	13,544,748	709,533,721
Net assets / liabilities 2009	4,344,902,472	72,916,993	1,543,016	(13,544,748)	4,405,817,733
Net assets / liabilities 2008	3,125,708,384	41,610,462	2,850,654	(5,544,597)	3,164,624,904

Income statement [Euros]	BCP Group	Fortis Group	Pensions Fund	F&C	Total
Net premiums earned	13,186,355	–	20,689,405	–	33,875,760
Interest, dividends and other similar income	121,173,693	–	–	–	121,173,693
Net gains/(losses) from financial assets not held at fair value through profit and loss	(10,535,877)	–	–	–	(10,535,877)
Net gains/(losses) from financial assets and liabilities held at fair value through profit and loss	173,130,709	37,457,549	–	–	210,588,258
Total income	296,954,880	37,457,549	20,689,405	–	355,101,834
Changes in technical reserves net and reinsurance	(4,886,489)	(51,541)	(8,669,013)	–	(13,607,043)
Acquisition expenses	(59,567,151)	–	–	–	(59,567,151)
Operating and administrative expenses	(19,412,168)	–	2,642,332	(23,197,733)	(39,967,569)
Total expenses	(83,865,808)	(51,541)	(6,026,681)	(23,197,733)	(113,141,763)
Net Income / Expenses 2009	213,089,072	37,406,008	14,662,724	(23,197,733)	241,960,071
Net Income / Expenses 2008	(144,688,010)	(4,210,098)	(1,477,841)	(24,181,970)	(174,557,919)

In 2009, Millenniumbcp Fortis 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 558,279,000 (2008: Euro 495,883,000). The assets sold and repurchased under the agreement were not derecognised as Millenniumbcp Fortis retains all the risks and rewards of the ownership of the securities.

Note 37 – Assets under management

Pensõesgera is a pension fund management company. The assets under management as at 31 December, 2009 and 2008, are analysed as follows by type of investment:

[Euros]	2009	2008
Fixed income securities	3,753,670,116	3,682,321,559
Equity securities	2,789,310,491	2,651,126,135
Investment property	549,661,291	564,760,246
Total	7,092,641,898	6,898,207,940

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

[Euros]	2009	2008
Value as at 1 January	6,898,207,940	7,428,056,596
Net contributions	(328,972,010)	455,105,146
Capital gains/(losses)	605,809,263	(976,587,394)
Transfers	(82,403,295)	(8,366,408)
Value as at 31 December	7,092,641,898	6,898,207,940

Note 38 – Risk management

A sound risk management is one of the key pillars for a strategy of sustainable profitable growth and therefore, a core competence at Millenniumbcp Fortis. As part of our corporate governance we have established a risk management organisational structure, based on the structure that Fortis Group has in place. Its primary objective is to develop and implement a risk management framework that allow us to ensure that we achieve an appropriate balance between risk and return and to secure and preserve the trust and confidence of customers, shareholders, regulators, rating agencies and other stakeholders. The risk management framework resides at all levels within Millenniumbcp Fortis.

Standardised risk taxonomy

Following Fortis Group Risk Management guidelines and principles, Millenniumbcp Fortis has the various components of the risk management function centralized under the CFO, who is also acting as Chief Risk Officer. At the same time, the Group has applied the standardised risk taxonomy of Fortis Group to manage its main risks:

Operational risk	Investment risk	Insurance risk
Event risk	Credit risk	Life Insurance risk
Business risk	Market risk	Non-Life Insurance risk
	Liquidity risk	

a) Operational risk

All companies including financial institutions are subject to Operational risk resulting from the uncertainty inherent to all business undertakings and decisions. For the purpose of reporting and monitoring, Operational risk can be broken down in two categories, Event and Business risk.

Event Risk comprises the risk of losses due to inadequate or failed internal processes, people and systems or from external events. This definition includes legal and compliance risk, but excludes strategic and reputational risk.

Business Risk is the risk of “being on the business” and comprises the risk of losses due to changes in the structural and/or competitive environment and thus, mostly externally driven. Even so it can be mitigated by effective management practices.

The operational risk function of Millenniumbcp Fortis, within the Risk Management department, continues implementing the international best practises in Operational risk management and introducing Fortis principles and methodologies, in particular, the implementation of a framework for sound operational risk management and management control, covering all dimensions of operational risk. The operational risk and management control (ORMC) framework encompasses policies for the governance of operational

risks, for the identification, assessment, measurement and reporting of those risks and for their mitigation.

POLICY ON OPERATIONAL (EVENT) RISK				
Operational risk identification, assessment, measurement/modelling, analysis, reporting, monitoring				
OPERATIONAL RISK FRAMEWORK EMBEDMENT AND USE SCAN				
Loss Data <ul style="list-style-type: none"> • Loss data collection and reconciliation • Benchmarking internal vs external data (ORX) 	Model <ul style="list-style-type: none"> • OR VaR • Economic capital • Regulatory capital 	Risk Self-Assessment <ul style="list-style-type: none"> • Assessment of operational risk exposure • Scenario Analysis • Identify risk areas and trigger management action 	Key Risk Indicators <ul style="list-style-type: none"> • Define KRIs (and trigger levels) for risk areas • Monitor KRIs and trigger management action 	Business Continuity Assessment <ul style="list-style-type: none"> • Assessment of BC management • Business Impact Analysis • Define Availability Limits
Product Line/Process description at business Line/Legal level				

MANAGEMENT OF OPERATIONAL (EVENT) RISK BY BUSINESSES			
Risk Mitigation (avoidance, reduction/transfer, control)			
Business Continuity Management	Implementation of Management Control	Management Control Statements	Risk Transfer (Insurance, Captives,...)

This framework helps the organisation to increase operational risk awareness, monitor operational risk effectively and measure the operational risk profile and associated fund requirements. To enable such a high-level approach, an all-encompassing Risk Management organisation and an appropriate risk mitigation policy will have to be consistently implemented together with the full integration of Millenniumbcp Fortis business' approach.

For the effective and efficient identification and management of operational risks, Millenniumbcp Fortis has already implemented a number of tools and techniques:

- Risk Assessments are conducted periodically at the business and support functions to ensure a forward-looking view on the operational risk profile. This consists of a bottom-up risk self-assessment aiming at identifying and assessing the operational risks in the organisational and process context;
- Business Continuity Management is a management process that identifies potential threats to an organisation and the impacts on business operations that those threats, if realised, might have, and that 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 that defines the organisational framework, management and staff responsibilities and the information security directives that apply throughout Millenniumbcp Fortis;
- 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 that is an attestation, every year-end, of the functioning of the risk management and internal control system during the year.

b) Investment Risk

Investment risk has three components, credit, market and liquidity risk.

Credit Risk

Credit risk is to be understood as the risk arising from an obligor's failure to meet the terms of any contract or to otherwise fail to perform as agreed.

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In the context of Millenniumbcp Fortis, this risk arises mainly through our investments in corporate bonds, commercial mortgages and other securities. Along with the implementation of a credit policy that contains a set of principles, rules and guidelines from credit risk limits, we are also monitoring this risk using a “Value at Risk” (VaR), which calculates the maximum potential structural loss on a total exposure at maturity basis.

Millenniumbcp Fortis is also exposed to Credit risk through its use of reinsurance, for which is verified if the placement is carried out with providers who meet the Group counterparty credit standards.

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

[Euros]	2009	%	2008	%
Available for sale	5,440,472,030	100.0%	4,368,469,596	100.0%
Government bonds	2,593,033,137	47.7%	2,399,385,232	54.9%
Corporate debt securities	2,525,975,599	46.4%	1,551,468,831	35.5%
Equity securities	235,323	0.0%	738,014	0.0%
Participation in unit funds				
Debt	101,315,969	1.9%	95,110,502	2.2%
Equity	3,237,640	0.1%	108,952,833	2.5%
Real Estate	189,312,386	3.5%	187,126,817	4.3%
Alternative	27,361,976	0.5%	25,687,367	0.6%
Held at fair value	5,897,547,280	100%	5,271,845,562	100%
Government bonds	42,190,178	0.7%	3,462,184	0.1%
Corporate debt securities	5,759,194,672	97.7%	5,198,003,400	98.6%
Participation in unit funds				
Debt	38,648,196	0.7%	44,448,555	0.8%
Equity	41,160,116	0.7%	19,381,495	0.4%
Real Estate	–	0.0%	245,213	0.0%
Alternative	16,354,118	0.3%	6,304,715	0.1%
Other financial assets / (liabilities)	(392,524,979)		(422,484,475)	
Trading derivatives	165,754,234		73,315,927	
Repurchase agreement	(558,279,213)		(495,800,402)	
Total	10,945,494,331		9,217,830,683	

One of the objectives of the Group’s investment policy is to mitigate the underlying credit risk through means of a diversified investment securities portfolio, in terms of industries, markets and countries.

The equity securities hold by the Group, can be analysed by type of industry as follows:

Equity securities by industry [Euros]	2009		2008	
	Book value	%	Book value	%
Financial	168,542	71.6%	174,194	23.6%
Communications & Technology	64,521	27.4%	68,008	9.2%
Basic Materials	–	0.0%	493,552	66.9%
Consumer, Non–cyclical	2,250	1.0%	2,250	0.3%
Consumer, Cyclical	10	0.0%	10	0.0%
	235,323	100.0%	738,014	100.0%

The debt securities hold by the Group, can be analysed by type of industry as follows:

Debt securities by industry [Euros]	Available for Sale				Held at Fair Value			
	2009		2008		2009		2008	
	Book value	%	Book value	%	Book value	%	Book value	%
Government	2,593,033,137	50.7%	2,399,385,232	60.7%	42,190,178	0.7%	3,462,184	0.1%
Financial	1,853,561,731	36.2%	1,182,242,049	29.9%	4,144,700,124	71.4%	3,090,491,712	59.4%
Asset Backed Securities	23,733,989	0.5%	5,320,712	0.1%	80,205,987	1.4%	72,398,840	1.4%
Industrial	158,265,187	3.1%	118,498,153	3.0%	489,464,738	8.4%	751,719,043	14.5%
Utilities	159,863,320	3.1%	57,949,346	1.5%	184,916,449	3.2%	174,489,718	3.4%
Mortgage Securities	30,154,140	0.6%	15,309,264	0.4%	11,360,514	0.2%	12,661,870	0.2%
Consumer, Non–cyclical	53,243,080	1.0%	18,871,553	0.5%	1,793,191	0.0%	50,132,535	1.0%
Consumer, Cyclical	16,363,250	0.3%	32,415,254	0.8%	199,490,761	3.4%	374,401,217	7.2%
Communications	106,638,306	2.1%	39,224,911	1.0%	142,559,850	2.5%	179,814,072	3.5%
Basic materials	23,072,383	0.5%	20,002,997	0.5%	409,539,594	7.1%	406,976,462	7.8%
Diversified	69,721,543	1.4%	61,634,592	1.6%	93,943,771	1.6%	83,607,406	1.6%
Energy	31,358,670	0.6%	–	0.0%	1,219,693	0.0%	1,310,525	0.0%
	5,119,008,736	100.0%	3,950,854,063	100.0%	5,801,384,850	100.0%	5,201,465,584	100.0%

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

Debt securities by rating [Euros]	Available for Sale				Held at Fair Value			
	2009		2008		2009		2008	
	Fair value	%	Fair value	%	Fair value	%	Fair value	%
AAA	1,289,030,785	25.2%	1,480,424,476	37.5%	59,002,039	1.0%	28,943,023	0.6%
AA	735,563,261	14.4%	1,136,971,691	28.8%	85,028,647	1.5%	100,394,290	1.9%
A	2,420,943,624	47.3%	1,032,639,820	26.1%	3,135,337,624	54.0%	3,031,228,246	58.3%
BBB	671,169,281	13.1%	300,818,076	7.6%	2,494,814,517	43.0%	1,989,991,671	38.3%
BB	–	0.0%	–	0.0%	–	0.0%	49,069,801	0.9%
B	2,301,785	0.0%	–	0.0%	25,673,391	0.4%	277,522	0.0%
CCC	–	0.0%	–	0.0%	1,515,834	0.0%	140,808	0.0%
Not rated	–	0.0%	–	0.0%	12,798	0.0%	1,420,223	0.0%
Total	5,119,008,736	100.0%	3,950,854,063	100.0%	5,801,384,850	100.0%	5,201,465,584	100.0%
Government bonds	2,593,033,137	50.7%	2,399,385,232	60.7%	42,190,178	0.7%	3,462,184	0.1%
Corporate debt securities	2,525,975,599	49.3%	1,551,468,831	39.3%	5,759,194,672	99.3%	5,198,003,400	99.9%
Total	5,119,008,736	100.0%	3,950,854,063	100.0%	5,801,384,850	100.0%	5,201,465,584	100.0%

The participation in unit funds hold by the Group, can be analysed by type and geographic breakdown, as follows:

Participation in unit funds by Geographical Breakdown [Euros]		Available for Sale				
		Portugal	Luxemburg	Cayman	Total	%
Debt		9,705,244	91,610,725	–	101,315,969	31.5%
Equity		–	3,237,640	–	3,237,640	1.0%
Real Estate		189,312,386	–	–	189,312,386	58.9%
Alternative		2,491,713	–	24,870,263	27,361,976	8.5%
Total as at December 2009		201,509,343	94,848,365	24,870,263	321,227,971	100.0%
Debt		9,153,273	85,957,230	–	95,110,503	22.8%
Equity		–	108,952,833	–	108,952,833	26.1%
Real Estate		187,126,817	–	–	187,126,817	44.9%
Alternative		2,507,680	–	23,179,686	25,687,366	6.2%
Total as at December 2008		198,787,770	194,910,063	23,179,686	416,877,519	100.0%

Participation in unit funds by Geographical Breakdown [Euros]		Held at Fair Value Eur								
	Portugal	Luxemburg	France	Ireland	Virgin Isle	EUA	Germany	England	Total	%
Debt	2,310,401	33,205,996	–	2,640,055	–	–	–	491,744	38,648,196	40.2%
Equity	173,259	28,298,176	5,463,004	6,322,148	–	684,684	–	218,845	41,160,116	42.8%
Alternative	–	1,823,486	3,370,081	9,180,197	1,976,248	–	4,106	–	16,354,118	17.0%
Total as at December 2009	2,483,660	63,327,658	8,833,085	18,142,400	1,976,248	684,684	4,106	710,589	96,162,430	100.0%
Debt	3,699,335	33,165,172	–	7,584,048	–	–	–	–	44,448,555	63.2%
Equity	271,258	16,520,025	–	2,590,213	–	–	–	–	19,381,496	27.5%
Real Estate	245,213	–	–	–	–	–	–	–	245,213	0.3%
Alternative	–	21	120,652	6,160,440	23,601	–	–	–	6,304,714	9.0%
Total as at December 2008	4,215,806	49,685,218	120,652	16,334,701	23,601	–	–	–	70,379,978	100.0%

Market Risk

Market risk refers to the potential loss resulting from unfavorable market movements, namely interest rates fluctuations, change in price of securities, foreign exchange fluctuation and property prices. Millenniumbcp Fortis recognizes that such risk is inevitable in the business it runs, and that a certain level of Market risk is acceptable in order to deliver benefits to both policyholders and shareholders.

Market risk is broken down into two types, ALM risk and trading risk, depending on the purpose of the position taken. Positions taken with the aim of making short-term profit pertain to trading risk; all other positions are addressed under ALM risk.

Millenniumbcp Fortis monitors and controls its ALM risk with the assistance of risk indicators, such as:

- (i) *Cash-Flow gap analysis*, which illustrates the profile of the interest rates exposure over time and is used to quantify and compare interest rate sensitive asset and liability exposures by different time buckets. The cash flow gap highlights the mismatch between asset and liability exposures at different maturities.
- (ii) *Interest rate sensitivity of the fair value of equity*, which indicates how much the market value of all assets and liabilities changes when each individual point on the yield curve changes by one basis point. Stress tests of +/- 100bp are applied to the fair value.
- (iii) *'Duration of equity'*, used as a key indicator for the interest rate risk: it reflects the value sensitivity to a small parallel interest rate shift.
- (iv) *The 'earnings at risk'* being an indicator that simulates the effect of changes in interest rates on future results.
- (v) *The 'Value-at-Risk' (VaR)*, which calculates the maximum potential structural loss on a fair value basis for Fortis resulting from different possible market fluctuations, based on a horizon of one year and a reliability interval of 99.97%.

The Risk Committee, monitors on a quarterly basis ALM Economic capital risk (Ecap) / return indicators and position, as well as the Economic Capital. It also reviews the strategic asset allocation of the insurance companies, and in particular the definition of optimal strategic asset allocations.

Liquidity Risk

Liquidity risk is defined as the risk whereby the Company would be unable:

- To meet cash demands of its policyholders and other contract holders without suffering unacceptable losses;
- To realize assets to fund its financial obligations as and when they fall due in normal and in stressed circumstances.

In other words, it is the risk that Millenniumbcp Fortis, though solvent, does not meet actual or potential payments when they are due, either because it does not have sufficient resources available, or it cannot be met without suffering unacceptable losses. Managing this risk is a combination of managing funding resources while maintaining a buffer of highly marketable assets, which is part of our investment policy.

The table presented below, has been prepared both on a legal and contractual basis and has been updated to include insurance contracts liabilities. Insurance contract settlement periods were based on run-off analysis.

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As at 31 December 2009 and 2008:

Liquidity risk 2009 [Euros]	< 1 month Maturity	1–3 months Maturity	3–12 months Maturity	1–5 years Maturity	> 5 years Maturity	No maturity	Total
Interest bearing – Fixed rate	139,587,110	50,007,875	199,681,770	1,512,143,159	2,312,797,032	–	4,214,216,946
Interest bearing – Variable rate	25,961,489	59,885,745	222,754,972	293,947,111	372,808,759	–	975,358,076
Non-interest bearing	213,946,452	54,780,334	824,923,177	70,937,881	98,546,789	321,463,294	1,584,597,927
Investments held at fair value through profit/loss	–	94,371,221	229,598,380	2,876,144,060	2,595,161,212	102,272,407	5,897,547,280
Financial assets	379,495,051	259,045,175	1,476,958,299	4,753,172,211	5,379,313,792	423,735,701	12,671,720,229
Non financial assets	3,944,951	7,889,903	30,711,185	150,390,594	134,327,279	315,740,469	643,004,381
Total assets	383,440,002	266,935,078	1,507,669,484	4,903,562,805	5,513,641,071	739,476,170	13,314,724,610
Other financial liabilities	62,172,202	54,471,245	583,348,801	–	459,226	–	700,451,474
Liabilities on behalf policyholders	8,660,343	7,489	42,769,545	3,848,186,193	2,145,023,729	–	6,044,647,299
Financial liabilities	70,832,545	54,478,734	626,118,346	3,848,186,193	2,145,482,955	–	6,745,098,773
Non financial liabilities	93,978,119	92,610,798	570,199,967	2,686,365,952	1,676,854,275	160,606,158	5,280,615,269
Total liabilities	164,810,664	147,089,532	1,196,318,313	6,534,552,145	3,822,337,230	160,606,158	12,025,714,042

Liquidity risk 2008 [Euros]	< 1 month Maturity	1–3 months Maturity	3–12 months Maturity	1–5 years Maturity	> 5 years Maturity	No maturity	Total
Interest bearing – Fixed rate	6,210,011	3,515,013	246,904,771	1,057,270,715	1,928,018,276	–	3,241,918,786
Interest bearing – Variable rate	33,191,567	46,596,827	109,290,237	292,100,251	276,620,690	–	757,799,572
Non-interest bearing	536,551,466	489,021,952	49,832,023	23,771,548	82,817,431	425,858,503	1,607,852,923
Investments held at fair value through profit/loss	–	377,492,584	662,603,407	2,238,254,835	1,923,114,758	70,379,978	5,271,845,562
Financial assets	575,953,044	916,626,376	1,068,630,438	3,611,397,349	4,210,571,155	496,238,481	10,879,416,843
Non financial assets	4,268,477	8,437,299	91,317,875	125,180,030	187,723,270	315,740,469	732,667,420
Total assets	580,221,521	925,063,675	1,159,948,313	3,736,577,379	4,398,294,425	811,978,950	11,612,084,263
Other financial liabilities	34,017,241	94,391,513	531,532,062	642,868	139,920	–	660,723,604
Liabilities on behalf policyholders	8,099,778	333,210,508	421,327,221	2,814,339,388	1,740,064,346	–	5,317,041,241
Financial liabilities	42,117,019	427,602,021	952,859,283	2,814,982,256	1,740,204,266	–	5,977,764,845
Non financial liabilities	73,909,845	51,421,789	567,129,798	1,859,050,720	1,803,486,530	156,201,427	4,511,200,109
Total liabilities	116,026,864	479,023,810	1,519,989,081	4,674,032,976	3,543,690,796	156,201,427	10,488,964,954

Currency risk

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 Fortis (Euro).

The general policy states that all foreign exchange risk should be hedged.

The Group condensed consolidated balance sheet by currency, is analysed as follows:

Currency risk 2009 [Euros]	EUR	USD	GBP	JPY	Total
Investments	11,581,607,590	16,594,788	3,322,660	2,428,820	11,603,953,858
Other assets	1,710,770,752	–	–	–	1,710,770,752
Total assets	13,292,378,342	16,594,788	3,322,660	2,428,820	13,314,724,610
Liabilities	12,025,714,042	–	–	–	12,025,714,042
Total liabilities	12,025,714,042	–	–	–	12,025,714,042

Currency risk 2008 [Euros]	EUR	USD	GBP	JPY	Total
Investments	9,764,569,036	24,927,602	662,750	1,004,477	9,791,163,865
Other assets	1,820,920,398	–	–	–	1,820,920,398
Total assets	11,585,489,434	24,927,602	662,750	1,004,477	11,612,084,263
Liabilities	10,488,964,954	–	–	–	10,488,964,954
Total liabilities	10,488,964,954	–	–	–	10,488,964,954

As at 31 December, 2009 and 2008, the fair value of the assets and liabilities carried at amortised cost, is presented as follows:

[Euros]	2009	2008
Assets		
Cash and equivalents	239,238,743	359,796,252
Loans and receivables	779,587,877	646,359,569
Trade and other receivables	48,939,751	82,097,157
Total	1,067,766,371	1,088,252,978
Liabilities		
Other financial liabilities	576,538,419	557,478,703
Trade and other payables	123,913,055	103,244,900
Total	700,451,474	660,723,603

c) Insurance Risk

The key feature of the insurance business is a transfer of risk from the policyholder to the insurance company. Whilst for the policyholder this risk may be random and unpredictable, insurance companies are able to pool such individual risks into portfolios and analyses and model the average underwriting claims and their potential variation for such portfolios. Analyzing, modeling and forecasting the average claims and their potential variation are core risk management activities and form the basis for measuring, monitoring and managing insurance risk. Uncertainty surrounding future expenses and lapse rates are also currently covered under insurance risks given their potential impact on overall claims and provisioning requirements.

Insurance risk refers to all other risks inherent to the insurance activity, excluding any components that are covered under Investment or Operational risks. The Insurance risk can be divided into two different classes, the Life insurance risk and the Non-life insurance risk.

The Life insurance risk can arise due to uncertainty relating to mortality rates – and is therefore also referred to as ‘biometric risks’. 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 ongoing Expenses can also have a significant impact.

The Non-life insurance risk can arise due to several factors, mainly, for Property and Casualty (P&C) business through the uncertainty over levels of claims relating to motor, fire & property damage, third party liability and the other lines of business. For Accident & Health the uncertainty arises over medical and related costs, disability rates and can

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also include longevity risk where products pay out over the lifetime of the injured person when a claim occurs in workmen's.

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.

The fair value of the insurance liabilities 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.

Life Business [Euros]		
Sensitivities	Impact on Fair Value at 31.12.2009	Impact on Fair Value at 31.12.2008
Risk free rates +100 bp	(35,601,694)	(10,634,738)
Risk free rates -100 bp	30,270,089	(798,598)
Market value of shares and real estate -10%	(26,261,477)	(21,174,226)
Expenses -10%	10,127,943	10,507,955
Mortality rates -5%	12,926,643	9,784,029
Lapse rates -10%	27,309,715	25,879,710

Insurance risk – Risk Management

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

The Actuarial department is responsible for evaluating and managing insurance risks within the policies and guidelines set at Millenniumbcp Fortis level. The Risk Committee regularly assesses the adequacy of premium rates and technical reserves. Moreover, Insurance Risk is managed together with other risks including ALM. Therefore, other departments, such as Risk Management, Reinsurance and Investments are also involved in the process.

Underwriting policy

Underwriting policies are set at local level as part of the overall management of insurance risk and involve review procedures by actuarial personnel, in which actual loss experience is examined. 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.

Pricing

Millenniumbcp Fortis sets premiums at a level that will ensure premiums combined with investment income earned on them, exceed the total amount of claims and costs of handling the claims and managing the business. The premium setting on policies (pricing) is performed using statistical analysis based on internal and external historical data. 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 Fortis' management that sufficient assets are held to back liabilities on best-estimate, economic basis with 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 annually.

Reinsurance

Where appropriate, Millenniumbcp Fortis 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 man made. 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 organizations 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.

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

Line of Business [Euros]	Type of Reinsurance	Range of Cover	Net Retention
Life/Disability	Surplus	4,000,000	100,000
Life catastrophe	XOL	10,000,000	300,000
Fire	Surplus	12,000,000	300,000
Fire (natural perils)	XOL	350,000,000	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	400,000
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

Insurance liability risk-exposure

Non-Life Insurance Risk

Non-life insurance risk concerns the uncertainty in ultimate claims arising from property and casualty business (including motor and third party liability) and accident and health business. The time required to discover and settle claims is an important consideration. Short-tail claims, 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 Fortis establishes claims provisions by product category, coverage and accident year and takes into account undiscounted prudent forecasts of payouts on reported claims and estimates of unreported claims. Allowances for claims expenses and inflation are also included.

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 Fortis 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 annually 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.

Loss reserves development table Property and Casualty [Euros]						
Balance sheet position as at end of year	2004	2005	2006	2007	2008	2009
Gross claim reserves – incl IBN(E)R – for unpaid claims and allocated claim expenses as at the end of the reporting year.	47,274,487	53,092,391	59,961,862	61,885,453	63,824,579	70,184,162
Cumulative payments at:						
One year of development	17,632,206	17,898,374	21,763,715	20,603,878	26,212,709	
Two years of development	22,668,376	24,005,796	24,404,684	26,243,302		
Three years of development	26,521,217	25,314,641	27,235,730			
Four years of development	26,824,262	27,927,665				
Five years of development	29,137,629					
Re-estimated reserve at:						
One year of development	43,441,717	49,167,765	54,685,321	52,871,836	58,658,157	
Two years of development	45,251,801	49,234,989	51,217,276	53,022,951		
Three years of development	45,530,254	46,468,256	49,511,959			
Four years of development	42,693,805	44,801,393				
Five years of development	41,684,126					
Cumulative redundancy/deficiency from the initial gross reserves in excess of the re-estimated gross reserves:						
Nominal amount	5,590,361	8,290,998	10,449,903	8,862,502	5,166,422	
Percentage	11.8%	15.6%	17.4%	14.3%	8.1%	

Reconciliation between the reserves reported in the balance sheet and the claim development table [Euros]	2008	2009
Gross claim reserves for unpaid claims and allocated claim expenses as at the end of the reporting year	63,824,579	70,184,162
Claims held at discounted value (workmen compensation)	12,866,217	13,031,964
Unallocated Loss Adjustment expenses	2,512,387	2,038,336
Total gross claim reserves and other reserves for Non-Life	79,203,183	85,254,462

To mitigate the claims risk, the insurance business applies selection and underwriting policies based on their historical claims experience and modelling. 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 Fortis contributes to the diversification of non-life insurance business and geographies of Fortis 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 2009 and 2008, the combined ratio of the non-life business is as follows:

	Non-Life		A&H		Motor		Fire		Other	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Claims Ratio	60.9%	54.7%	67.1%	62.8%	77.8%	49.5%	32.5%	31.4%	25.5%	32.0%
Costs Ratios	23.2%	25.7%	23.9%	25.9%	23.8%	26.0%	20.4%	25.1%	20.8%	23.3%
Combine Claims/costs Ratio	84.1%	80.3%	91.0%	88.7%	101.6%	75.5%	52.9%	56.4%	46.3%	55.3%

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Mortality and Longevity risk

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 in mortality risk in the existing 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 10-year risk free rate, with a maximum of 4%.

Under current regulations life insurance provisions are calculated according with the actuarial assumptions defined in each policy. For Millenniumbcp Fortis the assumptions are shown below:

	Mortality table	Technical rate
Term insurance	PM 60/64 or GKM 80	3% or 4%
Annuities*	GKF 80 or TV 73/77	3% or 3.5%
Savings with DPF	PF 60/64 or GKF 80	0%, 2%, 2.4%, 3%, 3.25% or 3.8%

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

As at 31 December 2009 and 2008, for liability adequacy test purposes, the mortality assumptions are based on best estimates derived from portfolio experience investigations. Future cash flows are evaluated through internal embedded value model and have been discounted at risk free yield curve. The mortality assumptions were:

Mortality Tables	2009		2008	
	Male	Female	Male	Female
Term insurance				
Stand Alone	70% GKM95	65% GKF95	60% GKM95	50% GKF95
Mortgage Loans	52,5% GKM95	55% GKF95	60% GKM95	50% GKF95
Personal Loans	55% GKM95	50% GKF95	60% GKM95	50% GKF95
Annuities	100% PERM2000C	100% PERF2000C	100% PERM2000C	100% PERF2000C
Savings	40% GKM95	40% GKF95	40% GKM95	40% GKF95

Disability risk

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 Fortis also mitigates disability risk through medical selection strategies and appropriate reinsurance coverage.

Additional information by lines of business in respect to the life and non-life business is as follows:

Line of Business	Claims Paid	Allocated claims management costs	Change in claims Reserve	Claims Incurred
Non Life 2009 [Euros]	(1)	(2)	(3)	(4)=(1)+(2)+(3)
Direct Insurance				
Accident and Health	86,378,670	1,794,048	3,633,711	91,806,429
Fire and Other hazards	10,605,425	537,657	1,127,359	12,270,441
Motor				
Third Party	8,501,925	39,899	143,286	8,685,110
Other	4,962,402	3,012,880	1,169,196	9,144,479
Maritime, Airline and Transportation	194,154	27,557	(68,701)	153,010
Third Party Liability	770,706	45,617	165,519	981,843
Credit and Surety Ship	–	77	(6)	72
Legal	–	–	(7,132)	(7,132)
Assistance	2,316,530	2,383	(1,833,846)	485,067
Other Lines	122,899	9,073	(21,620)	110,352
Total Non Life	113,852,712	5,469,193	4,307,766	123,629,671
Reinsurance Accepted	3,433,076	3,649,291	17,274	7,099,641
Total	117,285,788	9,118,484	4,325,040	130,729,312

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Line of Business Non Life 2008 [Euros]	Claims Paid	Allocated claims management costs	Change in claims Reserve	Claims Incurred
	(1)	(2)	(3)	(4)=(1)+(2)+(3)
Direct Insurance				
Accident and Health	72,282,825	1,255,990	3,239,208	76,778,023
Fire and Other hazards	8,959,733	770,089	501,646	10,231,469
Motor				
Third Party	8,122,269	216,983	(1,847,593)	6,491,659
Other	3,688,090	174,966	(343,829)	3,519,228
Maritime, Airline and Transportation	170,002	58,498	(82,429)	146,071
Third Party Liability	195,563	35,613	114,942	346,118
Credit and Surety Ship	–	331	2	333
Legal	–	6,624	–	6,624
Assistance	(1,338,878)	273,643	2,412,553	1,347,318
Other Lines	149,879	11,292	(17,181)	143,990
Total Non Life	92,229,483	2,804,029	3,977,320	99,010,832
Reinsurance Accepted	1,212,017	3,360,848	824,316	5,397,181
Total	93,441,500	6,164,877	4,801,637	104,408,013

Additional information by lines of business in respect to the life and non-life business is as follows:

Lines of Business 2009 [Euros]	Claims reserve as at 31 December 2008	Claims paid gross	Claims reserve as at 31 December 2009 in relation to 2008	Adjustments (run-off)
	(1)	(2)	(3)	(3)+(2)–(1)
Life	34,879,834	34,705,627	6,990,321	6,816,115
Non Life				
Accident and Health	44,239,895	16,791,109	24,107,371	(3,341,415)
Fire and Other hazards	7,559,593	3,295,364	3,473,406	(790,823)
Motor				
Third Party	21,626,872	4,047,950	16,244,459	(1,334,463)
Other	1,331,058	717,827	382,365	(230,866)
Maritime, Airline and Transportation	314,177	41,810	153,392	(118,975)
Third Party Liability	2,122,226	679,644	1,849,304	406,722
Credit and Surety Ship	11	8	–	(3)
Legal	243,839	–	236,708	(7,132)
Assistance	123,947	1,826,387	27,903	1,730,344
Other Lines	1,641,564	24,786	1,562,824	(53,954)
Total Non Life	79,203,183	27,424,885	48,037,733	(3,740,565)
Total	114,083,016	62,130,512	55,028,054	3,075,550

Lines of Business 2008 [Euros]	Claims reserve as at 31 December 2007	Claims paid gross	Claims reserve as at 31 December 2008 in relation to 2007	Adjustments (run-off)
	(1)	(2)	(3)	(3)+(2)-(1)
Life	29,358,274	34,635,645	4,967,811	10,245,182
Non Life				
Accident and Health	40,598,518	21,002,278	22,525,455	2,929,213
Fire and Other hazards	6,389,738	1,991,177	3,567,586	(830,975)
Motor				
Third Party	23,505,569	4,525,327	16,981,525	(1,998,717)
Other	1,658,433	591,855	415,275	(651,303)
Maritime, Airline and Transportation	399,115	61,051	226,015	(112,048)
Third Party Liability	2,007,284	95,961	1,696,274	(215,049)
Credit and Surety Ship	10	37	–	28
Legal	243,839	756	243,839	756
Assistance	103,357	(268,337)	26,750	(344,943)
Other Lines	1,656,888	35,358	1,610,688	(10,842)
Total Non Life	76,562,751	28,035,462	47,293,409	(1,233,881)
Total	105,921,025	62,671,107	52,261,220	9,011,301

Additional information by lines of business in respect to the life and non-life business is as follows:

Line of Business Non Life 2009 [Euros]	Gross premiums written	Gross premiums earned	Gross claims earned	Gross operating expenses	Reinsurance ceded result
Direct Insurance					
Accident and Health	140,306,342	141,894,581	91,806,429	24,987,956	(23,169,126)
Fire and Other hazards	38,172,932	37,619,543	12,270,441	7,641,341	(4,890,686)
Motor					
Third Party	11,063,954	11,316,781	8,685,110	1,956,271	61,744
Other	11,407,883	11,589,969	9,144,479	3,291,754	(312,721)
Maritime, Airline and Transportation	653,448	703,576	153,010	316,625	(256,485)
Third Party Liability	2,796,222	2,350,325	981,843	445,760	(888,571)
Credit and Surety Ship	92,945	90,319	72	39,453	(72,654)
Legal	218,144	206,176	(7,132)	24,668	(31,076)
Assistance	2,679,583	3,026,226	485,067	463,896	(1,433,610)
Other Lines	408,657	388,300	110,352	117,160	(46,030)
Total Non Life	207,800,109	209,185,797	123,629,671	39,284,883	(31,039,215)
Reinsurance Accepted	5,700,241	5,574,483	7,099,641	10,419,447	15,180,996
Total	213,500,350	214,760,280	130,729,312	49,704,330	(15,858,219)

→ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Line of Business Non Life 2008 [Euros]	Gross premiums written	Gross premiums earned	Gross claims earned	Gross operating expenses	Reinsurance ceded result
Direct Insurance					
Accident and Health	128,122,745	126,289,919	76,778,023	23,091,919	(21,003,577)
Fire and Other hazards	35,247,246	35,084,716	10,231,469	8,725,172	(5,523,097)
Motor					
Third Party	9,945,122	10,518,479	6,491,659	1,368,133	(1,220,369)
Other	8,989,082	9,406,298	3,519,228	3,951,273	(1,081,707)
Maritime, Airline and Transportation	722,754	740,018	146,071	319,452	(291,608)
Third Party Liability	1,729,315	2,026,526	346,118	344,789	(1,046,115)
Credit and Surety Ship	85,796	56,368	333	14,827	(20,318)
Legal	214,859	262,399	6,624	45,286	(127,246)
Assistance	2,682,846	2,738,984	1,347,318	504,872	(762,268)
Other Lines	360,979	388,495	143,990	69,911	(65,976)
Total Non Life	188,100,744	187,512,201	99,010,832	38,435,634	(31,142,282)
Reinsurance Accepted	3,633,212	3,504,632	5,397,181	10,171,366	16,399,033
Total	191,733,956	191,016,833	104,408,013	48,607,000	(14,743,249)

d) Solvency requirements

The calculation of the Solvency margin is performed under the demands of the Portuguese insurance authority (ISP) as stated in Norm nº 6/2007-R, based on the statutory financial statements as at 31 December 2009.

Millenniumbcp Fortis does a monthly follow up of its Solvency level having set a minimum of 150% of its legal demand.

As at 31 December 2009 and 2008, solvency is analysed as follows:

Item [Euros]	31 December 2009	31 December 2008
Capital	1,000,002,375	1,000,002,375
Legal and Fair value reserves	36,818,000	(32,998,038)
Retained earnings	155,404,022	127,687,774
Profit After Tax	96,786,172	28,427,197
Net Profit Distribution	–	–
Total Equity (1)	1,289,010,569	1,123,119,308
Intangible Assets	(515,595,527)	(544,291,656)
Deferred actuarial losses	(2,975,904)	(3,693,155)
Life Future Profits	28,622,768	25,159,949
Total (2)	(489,948,663)	(522,824,862)
Solvency Margin Available (1) + (2)	799,061,906	600,294,446
Solvency Margin Required	330,911,419	291,509,991
Excess / Shortage	468,150,487	308,784,455
Solvency Ratio	241%	206%

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.

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.

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.

Loans and receivables (trade and other receivables)

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

Note 40 – Contingencies and commitments

Litigation

Millenniumbcp Fortis 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 Fortis, after consideration of any applicable reserves.

Guarantees

As at 31 December 2009 the total amount of banking guarantees were Euro 116,000 (2008: Euro 169,000). The guarantees were given in the scope of the claims processes.

Commitments

Millenniumbcp Fortis 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:

[Euros]	Up to 3 months	3–12 months	1–5 years	Total
Future lease payments	95,322	285,599	807,421	1,188,342

→ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Millenniumbcp Fortis separate financial statements are analysed as follows:

Income statement [Euros]	2009	2008
Dividends	16,000,000	11,850,000
Interest income	2,641,103	3,314,988
Total income	18,641,103	15,164,988
Total expenses	(393,377)	(946,005)
Profit after tax	18,247,726	14,218,983

Balance Sheet [Euros]	2009	2008
Investments in subsidiaries	999,953,125	999,953,125
Other assets	90,071,693	71,390,986
Total assets	1,090,024,818	1,071,344,111
Total equity	1,089,420,220	1,071,172,494
Total liabilities	604,598	171,617
Total equity and liabilities	1,090,024,818	1,071,344,111

Note 42 – Recently issued pronouncements

Standards, changes and interpretations effective since 1 January 2009

The new standards and interpretation that have been issued, that are already effective and that the Group has applied on its Financial Statements can be analyzed as follows:

IAS 1 (amendment) – Presentation of Financial Statements

The International Accounting Standards Board (IASB) has issued in September 2007, IAS 1 (amendment) – Presentation of Financial Statements, which is applicable from 1 January, 2009, although allowing for an early adoption.

Changes regarding the current text of IAS 1:

- The presentation of the financial position statement (balance sheet) is required for current and comparative periods. According with changed IAS 1, the financial position statement should also be presented for the beginning of the comparative period whenever an entity restates the comparatives following a change in an accounting policy, a correction of an error or the reclassification of an item in the financial statements. In these cases, three statements of the financial position will be presented, comparatively to the other two required statements.
- Following the changes required by this standard, the users of the financial statements will be able to distinguish, in an easier way, the variations in the equity of the Group on transactions with shareholders, as shareholders (ex. dividends, transactions with own shares) and transactions with third parties, that are summarized in the comprehensive income statement.

Given the nature of these changes (disclosures) the impact was exclusively related to the presentation.

IAS 23 (amendment) – Borrowing costs

The International Accounting Standards Board (IASB) has issued in March, 2007 an amendment to IAS 23 - Borrowing costs, which is applicable from 1 January, 2009, although early adoption was permitted.

This standard requires the capitalization of borrowing costs that are directly related to the acquisition, production or construction of a qualifying asset, as part of the cost of that asset. As a result, the option to recognize such borrowing costs as an expense in the period which they arise was eliminated.

The Group did not obtain any impact from the adoption of this amendment.

IAS 32 (amendment) - Financial Instruments: Presentation – Puttable Financial Instruments and obligations arising from liquidation

The International Accounting Standards Board (IASB) has issued in February 2008 an amendment to IAS 32 Financial Instruments - Presentation - Puttable financial instruments and obligations arising from liquidation, which is applicable from 1 January 2009.

According with the current requirements of IAS 32, if an issuer can be required to make a payment in money or in other financial asset in exchange for the redemption or repurchase of the financial instrument, the instrument is classified as a financial liability. As a result of this review, some financial instruments that currently comply with the definition of a financial liability will be classified as an equity instrument if (i) represent a residual interest in the net assets of the entity; (ii) are included in a class of instruments subordinated to any other class of instruments issued by the entity; and (iii) if all instruments in the class have the same terms and conditions. A change in IAS 1 Presentation of Financial Statements was also performed to add a new presentation requirement for puttable financial instruments and obligations arising from liquidation.

The Group did not obtain any impact from the adoption of this amendment.

IFRS 1 (amendment) – First time adoption of the International Financial Reporting Standards and IAS 27 – Consolidated and Separate Financial Statements

The changes in the IFRS 1 - First time adoption of the International Financial Reporting Standards and IAS 27 - Consolidated and Separated Financial Statements are effective from 1 January 2009.

These changes allowed entities adopting IFRS for the first time in the preparation of the individual accounts, to use as deemed cost of the investments in subsidiaries, joint-ventures and associated companies, the respective fair value at the transition date to the IFRS or the carrying amount determined based on the previous accounting framework.

The Group did not obtain any impact from the adoption of this amendment.

IFRS 2 (amendment) - Share-based payment: Acquisition conditions

The International Accounting Standards Board (IASB) has issued in January, 2008 an amendment to IFRS 2 - Share-based payment: Acquisition conditions, which is applicable from 1 January, 2009, although early adoption was permitted.

This change to IFRS 2 allowed clarifying that: (i) the acquisition conditions of the inherent rights for a share-based payment plan are limited to service or performance conditions and that (ii) any cancellation of these programmes, by the entity itself or by third parties, has the same accounting treatment.

At 31 December 2009, the Group does not have any share-based payment plan and therefore the issue of this amendment does not have any impact in the financial statements of the Group.

→ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

IFRS 7 (amendment) – Financial instruments: Disclosures

The International Accounting Standards Board (IASB) has issued March 2009 the IFRS 7 (amendment) – Financial instruments: Disclosures, for obligatory application in 1 January 2009.

This amendment to IFRS 7 requires additional information in the disclosures related to fair value measurement, namely that these amounts should be presented in three hierarchical levels defined in the interpretation and related to liquidity risk.

Given the nature of these changes the impact in the Group financial statements was exclusively related to the presentation.

IFRS 8 – Operational segments

The International Accounting Standards Board (IASB) has issued on 30 November 2006 the IFRS 8-Operational segments, which was endorsed by the European Commission on 21 November, 2007. This standard is mandatory applicable to periods from or on 1 January, 2009.

IFRS 8 sets out the requirements for disclosures of information about an entity's operational segments and also about services and products, geographical areas where the entity operates and its major clients. This standard specifies how an entity should disclose its information in the annual financial statements and, as a consequential amendment to IAS 34 - Interim Financial Reporting, regarding the information to be disclosed in the interim financial reporting. Each entity should also to provide a description of the segmental information disclosed namely profit or loss and of assets, as well as a brief description of how the segmental information is produced.

Given the nature of these changes the impact was exclusively related to the presentation.

IFRIC 13 – Customer Loyalty Programmes

The International Financial Reporting Interpretations Committee (IFRIC) has issued in July 2007 the IFRIC 13 - Customer Loyalty Programmes with effective date of application for the financial years starting from 1 July 2008, although allowing for an early adoption.

This interpretation is applicable to customer loyalty programmes and addresses how companies grant their customers loyalty award credits (often called 'points') when buying goods or services, allowing them to exchange these credits, in the future, by free goods or services or with a discount.

The Group did not obtain any impact from the adoption of this interpretation.

IFRIC 15 - Agreements for the Construction of Real Estate

The IFRIC 15 - Agreements for the Construction of Real Estate is effective from 1 January 2009.

This interpretation includes guidance that allows determining if a contract for the construction of real estate is within the scope of IAS 18 - Revenue or IAS 11 - Construction Contracts. Is expected that IAS 18 will be applied to a larger number of transactions.

The Group did not obtain any impact on its financial statements from this interpretation.

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation

The International Financial Reporting Interpretations Committee (IFRIC), issued in July, 2008, IFRIC 16 – Hedges of a Net Investment in a Foreign Operation, with mandatory application date for years started after 1 October 2008, although an early adoption was permitted.

This interpretation intends to clarify that:

- The hedge of a net investment in a foreign operation can only be applied to exchange differences resulting from the foreign subsidiaries' financial statements conversion from its functional currency to the parent company's functional currency and only for an amount equal or smaller to the subsidiary's net assets;
- The hedge instrument can be contracted by any of the Group's entities, except by the entity that is being hedged; and
- At the moment of the hedged subsidiary's sale, the accumulated gain or loss related to the effective hedge component is reclassified to profit and loss.

This interpretation allows an entity that uses the step by step consolidation method to choose an accounting policy that allows determining the accumulated foreign exchange conversion adjustment that is reclassified to profit and loss when the subsidiary is sold, as it would do if applying the direct consolidation method. This interpretation has a prospective application.

The Group did not obtain any impact from the adoption of this interpretation.

Annual Improvement Project

In May, 2008, the IASB published the Annual Improvement Project that implied changes to the standards in force. The effective date of the referred changes depends on the specific standard, although the majority is mandatory for the Group in 2009, as follows:

- Changes to *IAS 1 - Financial Statements presentation*, which is applicable from 1 January 2009. The change clarifies that only some financial instruments classified as trading instruments are an example of current assets and liabilities. Until this change all trading instruments were classified as current assets and liabilities.

The Group did not obtain any impact from the adoption of this change.

- Changes to *IAS 16 - Property, Plant and Equipment*, which is applicable from 1 January 2009. The change that occurred establishes classification rules (i) for the income originated by the sale of rented assets subsequently sold and (ii) for these assets during the period between the date of termination of the rental agreement and the date of the sale agreement.

The Group did not obtain any impact from the adoption of this amendment.

- Changes to *IAS 19 - Employee Benefits*, which is applicable from 1 January 2009. The changes allowed clarifying (i) the concept of negative costs associated to past services resulting from changes in the defined benefit plan, (ii) the interaction between the expected return from the assets and the costs of managing the plan, and (iii) the distinction between short and medium and long term benefits.

The Group did not obtain any impact from the adoption of this amendment.

- Changes to *IAS 20 - Accounting for government grants* and disclosure of government assistance, which is applicable from 1 January 2009. This change established that the benefit arising from obtaining a government loan at rates below market rates, should be measured as the difference between the fair value of the liability at granting date, determined according with IAS 39 Financial Instruments: Recognition and Measurement and the amount received. This benefit should be subsequently accounted according with IAS 20.

The Group did not obtain any impact from the adoption of this amendment.

→ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- Changes to *IAS 23 - Borrowing Costs*, applicable from 1 January 2009. The concept of borrowing costs was changed to clarify that these costs should be determined according with the effective interest rate as defined in *IAS 39 - Financial Instruments: Recognition and Measurement*, thus eliminating the inconsistency between *IAS 23* and *IAS 39*.

The Group did not obtain any impact from the adoption of this amendment.

- Changes to *IAS 27 - Consolidated and separate financial statements*, applicable from 1 January 2009. The change to this standard determines that in the cases when an investment in a subsidiary is accounted at fair value in the individual accounts, according with *IAS 39 - Financial Instruments: Recognition and Measurement* and qualifies for classification as a non-current asset held for sale according with *IFRS 5 - Non-current assets held for sale and discontinued operations*, the investment should continue to be measured as defined in *IAS 39*.

The Group did not obtain any impact from the adoption of this amendment.

- Change to *IAS 28 - Investments in Associates*, applicable from 1 January 2009. The changes to *IAS 28 - Investments in Associates* had the objective of clarifying (i) that an investment in an associate should be treated as a single asset for impairment testing purposes under the scope of *IAS 36 - Impairment of assets*, (ii) that any impairment loss to be recognized shouldn't be allocated to specific assets namely to goodwill and (iii) that the impairment write backs are accounted as an adjustment to the carrying amount of the associate as long as and to the extent that the recoverable amount of the investment increases.

The Group did not obtain any impact from the adoption of this amendment.

- Change to *IAS 38 - Intangible Assets*, applicable from 1 January 2009. This change determined that an incurred deferred expense related with advertising or promotional activities can only be recognized in the balance sheet if an advance payment was made regarding goods and services that will be received in a future date. The recognition in profit and loss should occur when the entity has the right to receive the goods and services.

The Group did not obtain any impact from the adoption of this amendment.

- Changes to the *IAS 39 - Financial Instruments: Recognition and Measurement*, applicable from 1 January 2009. These changes include mainly in (i) the clarification that it is possible to perform transfers from and to the category of fair value through profit and loss regarding derivatives, whenever these start or end an hedge relationship in cash-flows hedge models or net investment in an associate or subsidiary, (ii) the change to the definition of financial instruments at fair value through profit and loss in what relates the trading portfolio, determining that in the case of financial instrument portfolios jointly managed and for which there is evidence of a recent and real model of short-term profit taking, these should be classified as trading on initial recognition; (iii) the change to the documentation requirements and the effectiveness tests of the hedge relationship for the operational segments defined under the scope of *IFRS 8 - Operating Segments*; and (iv) the clarification that the measurement of a financial liability at amortized cost, after the interruption of the respective fair value hedge relationship, should be performed based on the new effective rate calculated at the interruption date.

The Group did not obtain any impact from the adoption of this amendment.

- Change to *IAS 40 - Investment Properties*, applicable from 1 January 2009. Following this change, the properties under construction or development for subsequent use as investment properties are included under the scope of IAS 40 (before they were included under the scope of IAS 16 Property, Plant and Equipment). These properties under construction can be accounted at fair value except if they cannot be reliably measured in which case they should be accounted at acquisition cost.

The Group did not obtain any impact from the adoption of this amendment.

Standards, changes and interpretations issued but not effective for the Group

IAS 39 (amendment) - Financial Instruments: Recognition and measurement – Eligible hedged items

The International Accounting Standards Board (IASB) has issued an amendment to IAS 39 - Financial Instruments: Recognition and measurement – Eligible hedged items, which is for mandatory application from 1 July 2009.

This change clarifies the application of the existing principles that determine what risks or which cash-flows can be designated as a hedged item.

The Group does not expect any significant impact of adopting this standard in its financial statements.

IFRS 3 (amendment) - Business combinations and IAS 27 (amendment) consolidated and separate Financial statements

The International Accounting Standards Board (IASB) has issued in January 2008 an amendment to IFRS 3 (amendment) - Business Combinations, with mandatory application from 1 July 2009, although early adoption is permitted.

The main impacts of the changes to these standards are: (i) the treatment of partial acquisitions where the non-controlling interests (previously defined as minority interests) will be measured at fair value (which implies also the recognition of goodwill attributable to non-controlling interests) or as an alternative allows for the attributable to non controlling interest of the fair value of the net assets acquired (as currently required) to be measured at fair value; (ii) the step acquisition that require, at the time when the goodwill is determined, the revaluation against profit and loss, of the fair value of any non-controlling interest held previously to the acquisition; (iii) the costs directly related with the acquisition of a subsidiary will be accounted in profit and loss; (iv) the changes in the estimates of the contingent prices are accounted in profit and loss and do not affect goodwill; (v) the changes in percentages of subsidiaries held that do not result in a loss in control are accounted as equity changes.

Additionally, following the changes to IAS 27, the accumulated losses in a subsidiary will be attributed to the non-controlling interests (recognition of negative non-controlling interests) and when a subsidiary is sold with a subsequent loss of control, the remaining non-controlling interests are measured at the fair value determined at the date of the transaction.

The Group does not expect any material impact from the adoption of this amendment.

IFRS 9 - Financial instruments

The International Accounting Standards Board (IASB) has issued in November 2009, IFRS 9 - Financial instruments part I: Classification and measurement, which is for mandatory application for the financial years starting on 1 January 2013, although early adoption is permitted. This standard has not yet been adopted by European Union

→ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

This standard is part of phase I of the IASB's comprehensive project to replace IAS 39 and relates to matters of classification and measurement of financial assets. The main issues considered are as follows:

- The financial assets can be classified in two categories: at amortized cost or at fair value. This decision should be defined at initial recognition of the financial assets. Its classification depends on the entity, business model for managing its financial instruments and the contractual cash flows associated to each financial asset;
- Only debt instruments could be measured at amortized cost when the contractual cash-flows represent only payments of principal and interest, which means that contains only the basic loan features, and for which an entity holds the asset to collect the contractual cash flows. All the other debt instruments are recognized at fair value;
- Equity instruments issued by third parties are recognized at fair value with subsequent changes recognised in the profit and loss. Although for equity instruments an entity could make an irrevocable election at initial recognition, to recognise fair value changes are recognized in fair value reserves. Gains and losses recognized on fair value reserves cannot be recycled to profit and loss. This is a discretionary decision, not implying that all the equity instruments should be treated on this basis. The dividends received are recognized as income for the year for both situations.

The Group is evaluating the impact from the adoption of this standard.

IFRIC 12 – Service Concession Arrangements

The International Financial Reporting Interpretations Committee (IFRIC) has issued in July 2007 IFRIC 12 – Service Concession Arrangement. The EU endorsement was at 25 March 2009. This interpretation is mandatory for annual periods beginning on or after 29 March 2009. The IFRIC 12 applies to public-to-private service concession arrangements. This interpretation will be applicable only when a) the grantor controls or regulates what services the operator must provide and b) the grantor controls any significant residual interest in the infrastructure at the term of the arrangement.

Considering the nature of the contracts considered under this interpretation, the Group does not expect any significant impact from its adoption in the financial statements.

IFRIC 17 – Distributions of Non-cash Assets to Owners

The International Financial Reporting Interpretations Committee (IFRIC) issued in November 2008, IFRIC 17 – Distributions of Non-cash Assets to Owners, with effective application date to years started after 1 July 2009, early adopting being allowed.

This interpretation intends to clarify the accounting treatment of non-cash assets distribution to owners. It establishes that non-cash assets distributions must be accounted at fair value and the difference to the distributed assets carrying amount recognized in profit and loss in the period of the distribution.

The Group does not expect any significant impact from the adoption of this interpretation in the financial statements.

IFRIC 18 – Transfers of Assets from Customers

The International Financial Reporting Interpretations Committee (IFRIC) issued in November 2008, IFRIC 18 – Transfers of Assets from Customers, with effective application date to years started after 1 July 2009, early adopting being allowed.

This interpretation intends to clarify the accounting treatment of agreements through which an entity receives assets from customers for its own use and with the intent of establishing a future connection of the clients to a network or of granting continued access to the supply of services and goods to customers.

The interpretation clarifies:

- The conditions in which an asset is within the scope of this interpretation;
- The assets recognition and initial measurement;
- The identification of the identifiable services (one or more services in exchange for the transferred asset);
- Revenue recognition;
- Accounting of money transfers from customers.

The Group does not expect any impact from the adoption of this interpretation in the financial statements.

Annual Improvement Project

In May, 2008, as referred previously IASB published the Annual Improvement Project that implied changes to the standards in force. However, the effective date of the referred changes depends on each specific standard.

- Changes to IFRS 5 – Non-current assets held for sale and discontinued operations, effective for years starting after 1 July 2009. This change clarifies that all the assets and liabilities of a subsidiary must be classified as non-current assets held for sale in accordance with IFRS 5 if a plan for the partial sale of the subsidiary, that will imply losing the subsidiary's control, exists.

This standard will be adopted prospectively by the Group.



III Report and opinion of the Board of Auditors

→ IV – REPORT AND OPINION OF THE BOARD OF AUDITORS

Financial Year 2009

Shareholders,

1. In compliance with the legal provisions and articles of association, the Board of Auditors of MILLENNIUMBCP FORTIS – Grupo Segurador, SGPS, S.A., in the exercise of its duties, and after having analysed 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 2009, 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 FORTIS – Grupo Segurador, SGPS, S.A.

2. The Board of Auditors accompanied, on a regular basis, the activity of MILLENNIUMBCP FORTIS – 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 context of weak dynamism and stagnation of economic activity in general, and the company's financial position, presenting in detail the key events that, during the course of the financial year, characterised the set of activities of the Group in the insurance and pension fund management sectors, whose movements provide it with a key position among insurance companies and the maintenance of the leadership with reference to the pension funds segment.

For the Board of Auditors, in short, given the fact that in 2009 the premiums insurance sector, including investment contracts, registered a decrease of 5% 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 attained at the end of 2009 a global market share of 16.3% (15.8% in 2008) and a market share of 20.7% (20.3 in 2008) and 5.0% (4.4% in 2008) in Life business and Non-life business, respectively;
- The position it occupies in the pension funds area represents a market share of 32.5% and a volume of assets under management of 7,093 million euros, corresponding to a decrease of 2.8% relative to the previous year;
- An increase in shareholders' equity of 165.9 million euros;
- Consolidated net income of 96.8 million euros.

4.2 In terms of the Group's consolidated production, and where the global evolution of the sector registered a decrease of 5% in the volume of premiums, including investment contracts, MILLENNIUMBCP FORTIS – Grupo Segurador, SGPS, S.A.:

- attained a volume of direct insurance premiums, including investment contracts, of 2,371 million euros;
- obtained, relative to the previous year, a decrease of 3.4% in Life business and an increase of 10.5% in Non-Life, with the evolution of the Portuguese insurance market registering decreases of 5.2% and 4.4% in Life and Non-Life business, respectively;
- achieved a consolidated technical margin, before the allocation of administrative costs, of 231.5 million euros, corresponding to an increase of 60% relative to the previous year;
- registered a consolidated solvency ratio of 241%, showing an increase of 36 perceptual points relative to the previous year.

5. In view of the above, the Board of Auditors is of the opinion that the General Shareholders' Meeting of MILLENNIUMBCP FORTIS – 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 2009;
- the proposal for the presentation of results submitted by the Board of Directors.

Lisbon, 26 February 2010

THE BOARD OF AUDITORS

Joaquim Patrício da Silva – (Chairman)

Jose Rodrigues de Jesus – (Member)

António Fernando Nogueira Chaves – (Member)



IV 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 Fortis Grupo Segurador, S.G.P.S., S.A.**, which comprise the consolidated balance sheet as at 31 December, 2009 (showing total assets of 13,314,724,610 Euros and total equity of 1,289,010,568 Euros, including consolidated net profit of 96,786,172 Euros), and the consolidated statements of income, the cash flows, the changes in equity and the comprehensive income 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 n° 4/2007 of 27 April, with the changes introduced by the rule n° 20/2007 of 31 December, both issued by the Portuguese Insurance Regulator (Instituto de Seguros de Portugal), which presents fairly the financial position of the Group, the results of its operations, the cash flows, the statement of changes in equity and the comprehensive income, 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 and the verification, on a test basis, of the documents underlying the figures and disclosures contained therein, and an assessment of the estimates made, based on judgments and criteria defined by the Board of Directors, used in preparation of the referred financial statements;

- 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 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 Fortis Grupo Segurador, S.G.P.S., S.A., as at 31 December 2009, the results of its operations, the cash flows, the statement of changes in equity and the comprehensive income 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, both issued by the Portuguese Insurance Regulator (Instituto de Seguros de Portugal).

Lisbon, 25 February 2010



**KPMG & Associados, Sociedade
de Revisores Oficiais de Contas, S.A. (n° 189)**
represented by
Ana Cristina Soares Valente Dourado (ROC n° 1011)

