

Annual Report

Millenniumbcp Fortis
INSURANCE GROUP

2008

volume 2

CONSOLIDATED
FINANCIAL
STATEMENTS

□ CONTENTS

I Consolidated financial statements

- 6 Income statement
- 7 Balance sheet
- 8 Statement of changes in equity
- 9 Cash flow statement

II Notes to the Consolidated financial statements

12 II.1 Accounting policies

24 II.2 Critical accounting estimates and judgments in applying accounting policies

27 II.3 Segmental report

29 II.4 Notes to Income statement

- 29 **Note 1** Net premiums earned
- 30 **Note 2** Fee on investment contracts
- 30 **Note 3** Net claims expense
- 31 **Note 4** Changes in mathematical and other technical reserves, net
- 32 **Note 5** Net acquisitions and administrative expenses
- 34 **Note 6** Interest, dividends and other similar income
- 34 **Note 7** Financial expenses
- 34 **Note 8** Net gains/(losses) from financial assets not held at fair value through profit and loss
- 35 **Note 9** Net gains/(losses) from financial assets and liabilities held at fair value through profit and loss
- 35 **Note 10** Net gains/(losses) from foreign exchange
- 36 **Note 11** Impairment charges on other assets (net of reversals) and Change in other provisions
- 36 **Note 12** Other technical and non-technical income/(expenses)
- 37 **Note 13** Operating and administrative expenses

38 II.5 Notes to Balance sheet

- 38 **Note 14** Cash and equivalents
- 38 **Note 15** Trading assets
- 38 **Note 16** Investments held at fair value through profit and loss
- 39 **Note 17** Investments available for sale
- 39 **Note 18** Loans and receivables
- 39 **Note 19** Investment property
- 40 **Note 20** Other tangible assets
- 40 **Note 21** Goodwill and other intangible assets
- 41 **Note 22** Technical reserves, net of reinsurance
- 44 **Note 23** Employee benefits

- 48 **Note 24** Trade and other receivables
- 49 **Note 25** Income tax assets and liabilities
- 51 **Note 26** Accrued income and deferred charges
- 51 **Note 27** Investment contracts liabilities at fair value through profit and loss
- 51 **Note 28** Other financial liabilities
- 51 **Note 29** Trade and other payables
- 52 **Note 30** Deferred income and accrued charges
- 52 **Note 31** Provisions
- 53 **Note 32** Financial instruments and other assets allocation covering technical reserves

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

- 54 **Note 33** Share capital, reserves, retained earnings and fair value reserve

56 II.7 Additional information to Segmental report

- 56 **Note 34** Non life technical margins by line of business
- 57 **Note 35** Life technical margins by type of product

57 II.8 Other Notes

- 57 **Note 36** Related party transactions
- 59 **Note 37** Assets under management
- 59 **Note 38** Risk management
- 74 **Note 39** Fair value
- 74 **Note 40** Contingencies and commitments
- 75 **Note 41** Separate Financial statements of Millenniumbcp Fortis
- 75 **Note 42** Recently issued pronouncements
- 81 **Note 43** Transition adjustments to the New Plan of Accounts

III Report of the auditors

IV Report and opinion of the board of auditors

I

Consolidated Financial Statements

I – CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statement [Euros]	Note	2008				2007			
		Life	Non Life	Non technical	Total	Life	Non Life	Non technical	Total
Net premiums earned	1	981,602,335	130,178,468	-	1,111,780,803	854,378,419	112,890,361	-	967,268,780
Gross premiums		1,003,164,387	191,733,956	-	1,194,898,343	874,459,632	175,694,181	-	1,050,153,813
Reinsurance ceded premiums		(21,562,052)	(60,217,181)	-	(81,779,233)	(20,081,213)	(61,856,932)	-	(81,938,145)
Change in unearned premiums		-	(717,123)	-	(717,123)	-	2,593,069	-	2,593,069
Change in unearned reinsurance premiums		-	(621,184)	-	(621,184)	-	(3,539,957)	-	(3,539,957)
Fees on investment contracts	2	73,106,961	-	-	73,106,961	57,585,022	-	-	57,585,022
Net claims expenses	3	(693,696,004)	(83,122,055)	-	(776,818,059)	(544,604,618)	(70,857,348)	-	(615,461,966)
Claims paid		(688,438,818)	(78,751,882)	-	(767,190,700)	(556,535,038)	(69,322,909)	-	(625,857,947)
Claims paid gross		(700,136,970)	(99,606,377)	-	(799,743,347)	(568,097,394)	(89,378,233)	-	(657,475,627)
Reinsurance share of claims paid		11,698,152	20,854,495	-	32,552,647	11,562,356	20,055,324	-	31,617,680
Change in claims reserves		(5,257,186)	(4,370,173)	-	(9,627,359)	11,930,420	(1,534,439)	-	10,395,981
Change in claims reserves gross		(5,514,040)	(4,801,637)	-	(10,315,677)	11,930,420	(868,718)	-	11,061,702
Reinsurers share in change in claims reserves		256,854	431,464	-	688,318	-	(665,721)	-	(665,721)
Changes in other technical reserves net	4	-	112,888	-	112,888	-	(797,856)	-	(797,856)
Changes in mathematical reserves, net	4	(265,568,556)	-	-	(265,568,556)	(287,139,066)	-	-	(287,139,066)
Changes in mathematical reserves gross		(265,651,350)	-	-	(265,651,350)	(287,258,796)	-	-	(287,258,796)
Reinsurance share in changes in mathematical reserves		82,794	-	-	82,794	119,730	-	-	119,730
Profit sharing, net	4	6,951,775	(240,610)	-	6,711,165	(56,822,655)	(95,000)	-	(56,917,655)
Acquisitions and administrative expenses, net	5	(56,152,648)	(23,797,843)	-	(79,950,491)	(49,955,836)	(21,310,923)	-	(71,266,759)
Acquisition expense		(47,852,593)	(25,545,689)	-	(73,398,282)	(42,988,529)	(22,228,047)	-	(65,216,576)
Changes in deferred acquisition costs		-	459,189	-	459,189	-	(353,848)	-	(353,848)
Administrative expenses		(15,056,457)	(23,520,501)	-	(38,576,958)	(12,901,536)	(23,111,480)	-	(36,013,016)
Reinsurance commissions and profit sharing		6,756,402	24,809,158	-	31,565,560	5,934,229	24,382,452	-	30,316,681
Interest, dividends and other similar income	6	171,446,453	5,218,131	23,296,996	199,961,580	132,108,542	4,267,658	15,627,033	152,003,233
From financial assets not held at fair value through profit&loss		171,326,133	5,218,131	22,695,396	199,239,660	131,415,478	4,267,658	15,627,033	151,310,169
Other		120,320	-	601,600	721,920	693,064	-	-	693,064
Financial expenses	7	(35,843,564)	(3,336,737)	(2,946,456)	(42,126,757)	(16,342,932)	(2,620,748)	(105,141)	(19,068,821)
From financial assets not held at fair value through profit&loss		(22,640,867)	(2,937,158)	(122,495)	(25,700,520)	(16,342,932)	(2,620,748)	(105,141)	(19,068,821)
From financial liabilities not held at fair value through profit&loss		(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	(151,155,002)	(4,264,815)	647,700	(154,772,117)	35,548,768	1,127,989	(1,695,653)	34,981,104
From investments available for sale		(150,827,277)	(4,265,656)	647,700	(154,445,233)	35,548,768	1,129,424	(1,702,087)	34,976,105
From loans and receivables		(327,725)	841	-	(326,884)	-	(1,435)	6,434	4,999
Net gains/(losses) from financial assets and liabilities held at fair value through profit and loss	9	6,643,132	99,546	(5,375,119)	1,367,559	7,529,649	-	(1,311,455)	6,218,194
From financial assets and liabilities held for trading		(43,769,373)	99,546	(2,708)	(43,672,535)	301,095	-	2,092	303,187
From financial assets and liabilities held at fair value through profit and loss		50,412,505	-	(5,372,411)	45,040,094	7,228,554	-	(1,313,547)	5,915,007
Net gains/(losses) from foreign exchange	10	(725,885)	4,857	12,129	(708,899)	(176,077)	-	812,353	636,276
Impairment charges (net of reversals)	11	-	-	1,773,510	1,773,510	(554,111)	(1,047,732)	148,754	(1,453,089)
From investments available for sale		-	-	-	-	-	(1,047,732)	-	(1,047,732)
Other		-	-	1,773,510	1,773,510	(554,111)	-	148,754	(405,357)
Other technical income/(expenses), net	12	(43,861,134)	45,305	-	(43,815,829)	(57,590,066)	3,265	-	(57,586,801)
Changes in other provisions	11	-	-	(530,261)	(530,261)	-	-	(320,000)	(320,000)
Other non technical income/(expenses)	12	-	-	9,473,608	9,473,608	-	-	10,755,381	10,755,381
Profit before tax		(7,252,137)	20,897,135	26,352,107	39,997,105	73,965,039	21,559,666	23,911,272	119,435,977
Current tax	25	-	-	(20,357,630)	(20,357,630)	-	-	(44,893,546)	(44,893,546)
Deferred tax	25	-	-	8,787,722	8,787,722	-	-	12,636,133	12,636,133
Profit after tax		(7,252,137)	20,897,135	14,782,199	28,427,197	73,965,039	21,559,666	(8,346,141)	87,178,564

Consolidated balance sheet [Euros]	Note	2008	2007
Cash and equivalents	14	359,796,252	186,933,195
Trading assets	15	73,315,927	1,608,257
Investments held at fair value through profit and loss	16	5,271,845,562	5,636,663,557
Investments available for sale	17	4,446,002,376	4,287,221,338
Loans and receivables	18	646,359,569	142,726,144
Deposits with ceding undertakings		7,120	7,120
Other deposits		646,352,449	142,719,024
Investment property	19	7,437,136	7,759,612
Other tangible assets	20	1,325,337	1,901,190
Inventories		19,950	19,950
Goodwill	21	315,740,469	315,740,469
Other intangible assets	21	310,727,104	357,218,017
Reinsurance reserves	22	65,393,663	65,243,736
Reinsurers share in reserve for unearned premiums		21,163,827	21,785,012
Reinsurers share in mathematical reserves		519,860	437,066
Reinsurers share in claims reserves		43,709,976	43,021,658
Assets for employee benefits (long term)	23	2,850,652	-
Trade and other receivables	24	106,825,506	73,444,129
Receivables from policyholders		58,865,205	23,231,821
Receivables from reinsurance operations		12,343,175	10,887,216
Other receivables		35,617,126	39,325,092
Income tax assets	25	1,783,548	2,795,216
Current tax assets		-	766,260
Deferred tax assets		1,783,548	2,028,956
Accrued income and deferred charges	26	2,661,212	2,717,566
Total assets		11,612,084,263	11,081,992,376
Technical reserves	22	4,425,150,930	4,163,472,870
Unearned premiums reserve		46,425,470	46,167,537
Life mathematical reserves		4,213,312,427	3,912,269,472
Claims outstanding reserve		114,083,017	105,921,025
Claims reserves life		34,879,834	29,358,274
Claims reserves workers' compensation		16,899,831	15,629,528
Claims reserves other		62,303,352	60,933,223
Profit sharing reserves		48,591,708	96,263,641
Equalisation reserve		640,854	633,752
Unexpired risk reserve		2,097,454	2,217,443
Investment contracts liabilities at fair value through profit and loss	27	5,317,041,241	5,515,678,039
Other financial liabilities	28	557,478,703	165,249,489
Funds held under reinsurance agreements		61,678,301	64,638,966
Other liabilities		495,800,402	100,610,523
Liabilities for employee benefits (long term)	23	-	1,144,230
Trade and other payables	29	111,240,598	58,726,819
Due to agents, policyholders and intermediaries		19,988,504	2,597,829
Due to reinsurers		15,995,272	7,283,468
Other liabilities		75,256,822	48,845,522
Income tax liabilities	25	63,700,763	84,805,422
Current tax liabilities		4,262,299	16,146,778
Deferred tax liabilities		59,438,464	68,658,644
Deferred income and accrued charges	30	11,950,047	28,035,937
Provisions	31	2,402,672	1,872,411
Total liabilities		10,488,964,954	10,018,985,217
Share capital		1,000,002,375	1,000,002,375
Fair value reserve (gross)		(53,186,214)	(96,300,676)
Fair value reserve (current and deferred taxes)		14,190,498	25,620,007
Other reserves		5,997,679	4,438,878
Retained earnings		127,687,774	42,068,011
Profit after tax		28,427,197	87,178,564
Total equity	33	1,123,119,309	1,063,007,159
Total liabilities and equity		11,612,084,263	11,081,992,376
Earnings per share		0.1	0.4

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, 2007	1,000,002,375	(1,379,178)	463,624	(915,554)	2,040,821	9,149,804	70,316,264	1,080,593,710
Transfers to reserves	-	-	-	-	2,398,057	67,918,207	(70,316,264)	-
Unrealised gains and (losses), net	-	(95,148,334)	25,216,495	(69,931,839)	-	-	-	(69,931,839)
Profit sharing to be attributable ("shadow"), net	-	226,836	(60,112)	166,724	-	-	-	166,724
Profit after tax	-	-	-	-	-	-	87,178,564	87,178,564
Dividends paid in 2007	-	-	-	-	-	(35,000,000)	-	(35,000,000)
Balance as at 31 December, 2007	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
Dividends paid in 2008	-	-	-	-	-	-	-	-
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

Consolidated cash flows statements [Euros]	2008	2007
Cash flow from operating activities		
Profit after tax	28,427,197	87,178,564
Adjustment for:		
Depreciation and amortisation	47,586,291	52,034,190
Change in technical reserves	261,678,060	322,945,090
Change in investment contracts liabilities	(198,636,798)	338,560,718
Change in provisions	530,261	112,840
Change in reinsurance reserves	(149,927)	4,087,313
Impairment charges on other assets	(1,773,510)	1,453,090
Change in deferred tax assets/liabilities	(20,404,281)	(37,749,959)
Changes in operational assets and liabilities:		
Trading assets and liabilities	(71,707,670)	(1,234,881)
Loans and receivables	(503,633,425)	(55,000,000)
Trade and other receivables	(31,607,867)	27,601,958
Other assets and liabilities	(31,142,637)	11,247,610
Other financial liabilities	392,229,214	1,873,472
Trade and other payables	52,513,779	(135,484,798)
	(76,091,313)	617,625,207
Cash flow from investment activities		
Change in investments held at fair value through profit and loss	364,817,995	(306,331,598)
Change in investments available for sale	(115,666,576)	(383,067,013)
Purchase of tangible and intangible assets	(197,049)	(321,000)
	248,954,370	(689,719,611)
Cash flow from financing activities		
Dividends paid	-	(35,000,000)
		(35,000,000)
Net increase in cash and cash equivalents	172,863,057	(107,094,404)
Cash and cash equivalents at the beginning of the year	186,933,195	294,027,599
Cash and cash equivalents at the end of the year	359,796,252	186,933,195



Notes to the consolidated financial statements

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

II.1 Accounting policies

a) Basis of presentation

Millenniumbcp Fortis Grupo Segurador, S.G.P.S., S.A., ('Millenniumbcp 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, Millenniumbcp Fortis acquired Ocidental – Companhia Portuguesa de Seguros, S.A., Ocidental – Companhia Portuguesa de Seguros de Vida, S.A., Pensões-gere – 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 2008, 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.

For the preparation of the financial statements for the year ended 31 December 2008, the Group adopted IFRS 7 Financial Instruments: disclosures and IAS 1 Presentation of Financial Statements (amendment) – Capital Disclosures. These standards were effective from 1 January 2007. It should be noted that the impact of the adoption of the standards mentioned above relates to additional disclosures requirements, without any impact on the equity of the Group. In accordance with the transitional rules, comparative information is also provided.

Additionally, the Group adopted since 2008 IAS 39 and IFRS 7 – Reclassification of Financial Instruments and IFRIC 14 and IAS 19 – The limit of a defined benefit asset, minimum pending requirements and their interaction. The adoption of these interpretations did not have any impact on the financial statements.

The consolidated financial statements for the year ended 31 December 2008 have been prepared in terms of recognition and measurement in accordance with New Plan of Accounts issued by the Portuguese Insurance Regulator.

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

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

The preparation of the financial statements, in conformity with the 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.

Transition to the New Plan of Accounts

In preparing these financial statements for the year ended 31 December, 2008 and in determining the adjustments in accordance with IFRS except the measurement criteria of IFRS 4, the Group has elected to apply in accordance with IFRS 1 – First time Adoption of International Financial Reporting Standards, the transition date to IFRS of the Holding Company. As a result, the transition date was 1 January 2005.

An explanation of how the transition to the New Plan of Accounts has affected the reported financial performance of the Group is provided in Note 43.

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

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

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.

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Reserve for bonuses and rebates (profit sharing)

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

Unexpired risk reserve

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

Ageing reserve

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

Liability adequacy test

At each reporting date, the Group performs a liability adequacy test to the insurance and investment contracts with discretionary participating features liabilities. The assessment of the liabilities is performed using the best estimate of future cash flows under each contract, discounted at a risk free rate. The liability adequacy test is performed product by product or on an 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.

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Impairment

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

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

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

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.

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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:

	<u>Life time (years)</u>
Premises	25
Administrative equipment	8
Computer hardware	3 to 5
Tools and equipment	5 to 7
Furniture and fixtures	10
Motor vehicles	4
Other tangible fixed assets	4 to 8

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

When there is an indication that an asset may be impaired, IAS 36 requires that its recoverable amount is estimated and 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 – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ties), (ii) it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation as a result of past events and (iii) a reliable estimate can be made of the amount of the obligation.

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

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

r) Interest income and expense

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

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

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

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

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

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

Defined contribution plan

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

Other post-retirement obligations

Millenniumbcf 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 2008, 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 sub-

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

sequently 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).

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 were 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 where 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 pays 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

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

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]

	2008			2007		
	Life & Pensions	Non Life	Total	Life & Pensions	Non Life	Total
Net premiums earned	981,602,335	130,178,468	1,111,780,803	854,378,419	112,890,361	967,268,780
Gross premiums	1,003,164,387	191,733,956	1,194,898,343	874,459,632	175,694,181	1,050,153,813
Reinsurance ceded premiums	(21,562,052)	(60,217,181)	(81,779,233)	(20,081,213)	(61,856,932)	(81,938,145)
Change in unearned premiums	-	(717,123)	(717,123)	-	2,593,069	2,593,069
Change in unearned reinsurance premiums	-	(621,184)	(621,184)	-	(3,539,957)	(3,539,957)
Fees on investment contracts	73,106,961	-	73,106,961	57,585,022	-	57,585,022
Net claims expenses	(693,696,004)	(83,122,055)	(776,818,059)	(544,604,618)	(70,857,348)	(615,461,966)
Claims paid	(688,438,818)	(78,751,882)	(767,190,700)	(556,535,038)	(69,322,909)	(625,857,947)
Claims paid gross	(700,136,970)	(99,606,377)	(799,743,347)	(568,097,394)	(89,378,233)	(657,475,627)
Reinsurance share of claims paid	11,698,152	20,854,495	32,552,647	11,562,356	20,055,324	31,617,680
Change in claims reserves	(5,257,186)	(4,370,173)	(9,627,359)	11,930,420	(1,534,439)	10,395,981
Change in claims reserves gross	(5,514,040)	(4,801,637)	(10,315,677)	11,930,420	(868,718)	11,061,702
Reinsurers share in change in claims reserves	256,854	431,464	688,318	-	(665,721)	(665,721)
Changes in other technical reserves, net	-	112,888	112,888	-	(797,856)	(797,856)
Changes in mathematical reserves, net	(265,568,556)	-	(265,568,556)	(287,139,066)	-	(287,139,066)
Changes in mathematical reserves gross	(265,651,350)	-	(265,651,350)	(287,258,796)	-	(287,258,796)
Reinsurance share in changes in mathematical reserves	82,794	-	82,794	119,730	-	119,730
Profit sharing, net	6,951,775	(240,610)	6,711,165	(56,822,655)	(95,000)	(56,917,655)
Acquisitions and administrative expenses, net	(56,152,648)	(23,797,843)	(79,950,491)	(49,955,836)	(21,310,923)	(71,266,759)
Acquisition expense	(47,852,593)	(25,545,689)	(73,398,282)	(42,988,529)	(22,228,047)	(65,216,576)
Changes in deferred acquisition costs	-	459,189	459,189	-	(353,848)	(353,848)
Administrative expenses	(15,056,457)	(23,520,501)	(38,576,958)	(12,901,536)	(23,111,480)	(36,013,016)
Reinsurance commissions and profit sharing	6,756,402	24,809,158	31,565,560	5,934,229	24,382,452	30,316,681
Interest, dividends and other similar income	191,821,252	8,140,328	199,961,580	145,714,621	6,288,612	152,003,233
From financial assets not held at fair value through profit and loss	191,099,332	8,140,328	199,239,660	145,021,557	6,288,612	151,310,169
Other	721,920	-	721,920	693,064	-	693,064
Financial expenses	(38,501,828)	(3,624,929)	(42,126,757)	(16,373,771)	(2,695,050)	(19,068,821)
From financial assets not held at fair value through profit and loss	(22,664,187)	(3,036,333)	(25,700,520)	(16,373,771)	(2,695,050)	(19,068,821)
From financial liabilities not held at fair value through profit and loss	(15,837,641)	(588,596)	(16,426,237)	-	-	-
Net gains/(losses) from financial assets not held at fair value through profit and loss	(149,562,083)	(5,210,034)	(154,772,117)	33,519,732	1,461,372	34,981,104
From investments available for sale	(149,234,358)	(5,210,875)	(154,445,233)	33,515,363	1,460,742	34,976,105
From loans and receivables	(327,725)	841	(326,884)	4,369	630	4,999
Net gains/(losses) from financial assets and liabilities held at fair value through profit and loss	1,269,829	97,730	1,367,559	6,218,194	-	6,218,194
From financial assets and liabilities held for trading	(43,770,265)	97,730	(43,672,535)	303,187	-	303,187
From financial assets and liabilities held at fair value through profit and loss	45,040,094	-	45,040,094	5,915,007	-	5,915,007
Net gains/(losses) from foreign exchange	(729,765)	20,866	(708,899)	636,276	-	636,276
Impairment charges (net of reversals)	(10,679)	1,784,189	1,773,510	215,804	(1,668,893)	(1,453,089)
From investments available for sale	-	-	-	-	(1,047,732)	(1,047,732)
Other	(10,679)	1,784,189	1,773,510	215,804	(621,161)	(405,357)
Other technical income/(expenses), net	(43,861,134)	45,305	(43,815,829)	(57,590,066)	3,265	(57,586,801)
Changes in other provisions	(776,907)	246,646	(530,261)	-	(320,000)	(320,000)
Other non technical income/(expenses)	8,429,419	1,044,189	9,473,608	8,035,861	2,719,520	10,755,381
Profit before tax	14,321,967	25,675,138	39,997,105	93,817,917	25,618,060	119,435,977
Current tax	(12,815,917)	(7,541,713)	(20,357,630)	(38,189,134)	(6,704,412)	(44,893,546)
Deferred tax	9,047,766	(260,044)	8,787,722	12,910,937	(274,804)	12,636,133
Profit after tax	10,553,816	17,873,381	28,427,197	68,539,720	18,638,844	87,178,564

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance sheet [Euros]	2008			2007		
	Life	Non Life	Total	Life	Non Life	Total
Cash and equivalents	339,167,630	20,628,622	359,796,252	169,445,438	17,487,757	186,933,195
Trading assets	73,297,332	18,595	73,315,927	1,589,203	19,054	1,608,257
Investments held at fair value through profit and loss	5,271,845,562	–	5,271,845,562	5,636,663,557	–	5,636,663,557
Investments available for sale	4,305,348,371	140,654,005	4,446,002,376	4,145,956,034	141,265,304	4,287,221,338
Loans and receivables	571,791,319	74,568,250	646,359,569	109,354,024	33,372,120	142,726,144
Deposits with ceding undertakings	–	7,120	7,120	–	7,120	7,120
Other deposits	571,791,319	74,561,130	646,352,449	109,354,024	33,365,000	142,719,024
Investment property	7,437,136	–	7,437,136	7,759,612	–	7,759,612
Other tangible assets	1,182,310	143,027	1,325,337	1,579,037	322,153	1,901,190
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	310,597,629	129,475	310,727,104	356,902,311	315,706	357,218,017
Reinsurance reserves	1,082,941	64,310,722	65,393,663	743,293	64,500,443	65,243,736
Reinsurers share in reserve for unearned premiums	–	21,163,827	21,163,827	–	21,785,012	21,785,012
Reinsurers share in mathematical reserves	519,860	–	519,860	437,066	–	437,066
Reinsurers share in claims reserves	563,081	43,146,895	43,709,976	306,227	42,715,431	43,021,658
Assets for employee benefits (long term)	1,407,673	1,442,979	2,850,652	–	–	–
Trade and other receivables	83,213,072	23,612,434	106,825,506	50,841,811	22,602,318	73,444,129
Receivables from policyholders	47,969,205	10,896,000	58,865,205	18,984,303	4,247,518	23,231,821
Receivables from reinsurance operations	242,251	12,100,924	12,343,175	115,843	10,771,373	10,887,216
Other receivables	35,001,616	615,510	35,617,126	31,741,665	7,583,427	39,325,092
Income tax assets	–	1,783,548	1,783,548	–	2,795,216	2,795,216
Current tax assets	–	–	–	–	766,260	766,260
Deferred tax assets	–	1,783,548	1,783,548	–	2,028,956	2,028,956
Accrued income and deferred charges	2,462,595	198,617	2,661,212	549,978	2,167,588	2,717,566
Total assets	11,216,321,047	395,763,216	11,612,084,263	10,728,871,775	353,120,601	11,081,992,376
Technical reserves	4,296,568,161	128,582,769	4,425,150,930	4,037,785,160	125,687,710	4,163,472,870
Unearned premiums reserve	–	46,425,470	46,425,470	–	46,167,537	46,167,537
Life mathematical reserves	4,213,312,427	–	4,213,312,427	3,912,269,472	–	3,912,269,472
Claims outstanding reserve	34,879,834	79,203,183	114,083,017	29,358,274	76,562,751	105,921,025
Claims reserves life	34,879,834	–	34,879,834	29,358,274	–	29,358,274
Claims reserves workers' compensation	–	16,899,831	16,899,831	–	15,629,528	15,629,528
Claims reserves other	–	62,303,352	62,303,352	–	60,933,223	60,933,223
Profit sharing reserves	48,375,900	215,808	48,591,708	96,157,414	106,227	96,263,641
Equalisation reserve	–	640,854	640,854	–	633,752	633,752
Unexpired risk reserve	–	2,097,454	2,097,454	–	2,217,443	2,217,443
Investment contracts liabilities at fair value through profit/loss	5,317,041,241	–	5,317,041,241	5,515,678,039	–	5,515,678,039
Other financial liabilities	489,293,684	68,185,019	557,478,703	107,054,913	58,194,576	165,249,489
Funds held under reinsurance agreements	7,274,771	54,403,530	61,678,301	6,444,390	58,194,576	64,638,966
Other liabilities	482,018,913	13,781,489	495,800,402	100,610,523	–	100,610,523
Liabilities for employee benefits (long term)	–	–	–	190,699	953,531	1,144,230
Trade and other payables	87,982,920	23,257,678	111,240,598	49,652,524	9,074,295	58,726,819
Due to agents, policyholders and intermediaries	13,423,392	6,565,112	19,988,504	1,017,632	1,580,197	2,597,829
Due to reinsurers	4,428,452	11,566,820	15,995,272	4,954,639	2,328,829	7,283,468
Other liabilities	70,131,076	5,125,746	75,256,822	43,680,253	5,165,269	48,845,522
Income tax liabilities	61,163,713	2,537,050	63,700,763	84,606,168	199,254	84,805,422
Current tax liabilities	1,725,249	2,537,050	4,262,299	15,947,524	199,254	16,146,778
Deferred tax liabilities	59,438,464	–	59,438,464	68,658,644	–	68,658,644
Deferred income and accrued charges	7,785,091	4,164,956	11,950,047	20,490,065	7,545,872	28,035,937
Provisions	1,938,342	464,330	2,402,672	1,161,435	710,976	1,872,411
Total liabilities	10,261,773,152	227,191,802	10,488,964,954	9,816,619,003	202,366,214	10,018,985,217
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)	(49,742,600)	(3,443,614)	(53,186,214)	(92,928,053)	(3,372,623)	(96,300,676)
Fair value reserve (current and deferred taxes)	13,277,940	912,558	14,190,498	24,722,085	897,922	25,620,007
Other reserves	4,498,911	1,498,768	5,997,679	3,994,990	443,888	4,438,878
Retained earnings	85,962,453	41,725,321	127,687,774	17,926,655	24,141,356	42,068,011
Profit after tax	10,553,816	17,873,381	28,427,197	68,539,720	18,638,844	87,178,564
Total equity	954,547,895	168,571,414	1,123,119,309	912,252,772	150,754,387	1,063,007,159
Total liabilities and equity	11,216,321,047	395,763,216	11,612,084,263	10,728,871,775	353,120,601	11,081,992,376

II.4 Notes to the consolidated income statement

Note 1 – Net premiums earned

Premiums earned net of reinsurance ceded are analysed as follows:

[Euros]	2008	2007
Gross premiums Life	1,003,164,387	874,459,632
Gross premiums Non Life	191,733,956	175,694,181
Gross premiums	1,194,898,343	1,050,153,813
Reinsurance ceded premiums Life	(21,562,052)	(20,081,213)
Reinsurance ceded premiums Non Life	(60,217,181)	(61,856,932)
Reinsurance ceded premiums	(81,779,233)	(81,938,146)
Change in unearned premiums Non Life	(717,123)	2,593,069
Change in unearned reinsurance premiums Non Life	(621,184)	(3,539,957)
Change in unearned premiums Non Life (net)	(1,338,307)	(946,887)
Premiums earned Life (net)	981,602,335	854,378,419
Premiums earned Non Life (net)	130,178,468	112,890,361
Premiums earned (net)	1,111,780,803	967,268,780

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]	2008	2007
Insurance life traditional	210,230,540	174,035,142
Investment contracts with DPF	792,933,847	700,424,490
Gross premiums under IFRS 4	1,003,164,387	874,459,632

[Euros]	2008	2007
Gross written premiums from direct insurance operations		
Individual policies	508,929,688	184,881,806
Group policies	494,234,699	689,577,826
	1,003,164,387	874,459,632
Periodic premiums	267,188,709	253,167,479
Single premiums	735,975,678	621,292,153
	1,003,164,387	874,459,632
Contracts without profit sharing	11,691,630	8,548,138
Contracts with profit sharing	991,472,757	865,911,494
	1,003,164,387	874,459,632
Reinsurance accepted premiums	–	–
Reinsurance ceded result	(2,767,850)	(2,464,899)

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Direct insurance non-life premiums are analysed as follows:

[Euros]	2008		2007	
	Gross written premiums	Earned premiums	Gross written premiums	Earned premiums
Accidents and health	131,598,071	129,636,664	116,003,244	116,562,313
Fire and other hazards	35,123,882	34,961,352	32,574,805	33,221,145
Motor	19,215,454	20,206,027	20,934,385	22,220,795
Other lines	5,796,549	6,212,790	6,181,748	6,282,997
Total	191,733,956	191,016,833	175,694,181	178,287,250

Reinsurance ceded non-life premiums are analysed as follows:

[Euros]	2008		2007	
	Gross written premiums	Earned premiums	Gross written premiums	Earned premiums
Accidents and health	23,744,132	23,232,913	22,501,986	24,081,803
Fire and other hazards	13,638,918	13,607,231	14,752,971	15,456,585
Motor	19,111,488	20,102,061	20,934,385	22,220,795
Other lines	3,722,642	3,896,160	3,667,591	3,637,706
Total	60,217,181	60,838,365	61,856,932	65,396,889

Note 2 – Fee on investment contracts

Fee on investment contracts in the amount of Euro 73,107,000 (2007: Euro 57,585,000), 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]	2008			2007		
	Insurance contracts	Investment contracts	Total	Insurance contracts	Investment contracts	Total
Claims paid						
Gross claims paid	60,739,125	638,992,988	699,732,113	57,506,029	510,142,817	567,648,846
Reinsurance share of claims paid	(11,698,152)	–	(11,698,152)	(11,562,356)	–	(11,562,356)
	49,040,973	638,992,988	688,033,961	45,943,673	510,142,817	556,086,490
Change in claims reserves						
Change in claims reserves gross	6,870,563	(1,356,523)	5,514,040	74,295	(12,004,715)	(11,930,420)
Reinsurers share in change in claims reserves	(256,854)	–	(256,854)	–	–	–
	6,613,709	(1,356,523)	5,257,186	74,295	(12,004,715)	(11,930,420)
Net claims expense before cost allocation	55,654,682	637,636,465	693,291,147	46,017,968	498,138,102	544,156,070
Claims expenses (allocated)			404,857			448,548
Net claims expense Life			693,696,004			544,604,618

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

[Euros]	2008				
	Accidnet & 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

[Euros]	2007				
	Accidnet & Health	Fire & Other damage	Motor	Other lines	Total
Claims paid					
Gross claims paid	60,419,614	8,083,711	12,109,185	2,823,212	83,435,722
Reinsurance share of claims paid	(4,518,558)	(2,685,930)	(11,908,611)	(942,225)	(20,055,324)
	55,901,056	5,397,781	200,574	1,880,987	63,380,398
Change in claims reserves					
Change in claims reserves gross	1,881,237	797	(458,302)	(555,014)	868,718
Reinsurers share in change in claims reserves	(215,286)	248,034	443,788	189,185	665,721
	1,665,951	248,831	(14,514)	(365,829)	1,534,439
Net claims expense before cost allocation	57,567,007	5,646,612	186,060	1,515,158	64,914,837
Claims expenses (allocated)	4,813,638	864,684	63,416	200,773	5,942,511
Net claims expense Non life	62,380,645	6,511,296	249,476	1,715,931	70,857,348

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]	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

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

[Euros]	2007		
	Insurance contracts	Investment contracts	Total
Changes in mathematical reserves, net			
Changes in mathematical reserves, gross	5,849,424	281,409,372	287,258,796
Reinsurance share in changes in mathematical reserves	(119,730)	–	(119,730)
	5,729,694	281,409,372	287,139,066
Changes in profit sharing, net	7,796,677	49,025,978	56,822,655
Total	13,526,371	330,435,350	343,961,721

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

[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

[Euros]	2007				
	Accident & Health	Fire & Other damage	Motor	Other lines	Total
Changes in equalisation reserve	–	160,590	–	–	160,590
Changes in unexpired risk reserve	660,043	417,187	(389,148)	(50,816)	637,266
	660,043	577,777	(389,148)	(50,816)	797,856
Changes in profit sharing, net	95,000	–	–	–	95,000
Total	755,043	577,777	(389,148)	(50,816)	892,856

Note 5 – Net acquisitions and administrative expenses

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

[Euros]	2008			
	Insurance contracts	Investment contracts	Unit Linked	Total
Acquisition expenses – 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

[Euros]	2007			
	Insurance contracts	Investment contracts	Unit Linked	Total
Acquisition expense – commissions	13,363,220	10,333,329	14,044,669	37,741,218
Acquisition expenses allocated	2,774,359	2,274,922	198,030	5,247,311
Administrative expenses – commissions	9,883	–	–	9,883
Administrative expenses allocated	6,116,092	4,874,624	1,900,937	12,891,653
Reinsurance commissions and profit sharing	(5,934,229)	–	–	(5,934,229)
Total	16,329,325	17,482,875	16,143,636	49,955,836

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

[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	305,751	1,613	153	1,158	308,675
Administrative expenses allocated	15,210,508	4,474,809	2,767,712	758,797	23,211,826
Reinsurance commissions and profit sharing	(11,025,959)	(5,472,025)	(7,722,749)	(588,425)	(24,809,158)
Total	22,255,189	3,235,285	(2,403,343)	710,712	23,797,843

[Euros]	2007				
	Accident & Health	Fire & Other damage	Motor	Other lines	Total
Acquisition expenses – commissions	9,217,072	2,498,929	1,816,747	170,667	13,703,415
Acquisition expenses allocated	6,053,660	1,487,006	728,950	255,016	8,524,632
Change in deferred acquisition expenses	104,437	40,339	146,662	62,410	353,848
Administrative expenses – commissions	168,192	4,895	444	134	173,665
Administrative expenses allocated	14,987,923	4,356,968	2,933,209	659,715	22,937,815
Reinsurance commissions and profit sharing	(11,072,392)	(4,884,168)	(7,999,438)	(426,454)	(24,382,452)
Total	19,458,892	3,503,969	(2,373,426)	721,488	21,310,923

The caption Acquisition expenses – commissions includes the amount of Euro 55,578,000 (2007: Euro 48,342,000) related with commissions paid to Banco Comercial Português, S.A., under the distribuion agreement established with Millenniumbcp Fortis.

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 6 – Interest, dividends and other similar income

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

[Euros]	2008	2007
From available for sale investments	164,183,093	143,430,039
From bank deposits	35,056,567	7,880,130
	199,239,660	151,310,169
From investment property	721,920	693,064
Total	199,961,580	152,003,233

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 25,701,000 (2007: Euro 19,069,000).

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 2008, in the amount of Euro 16,426,000 (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]	2008			2007		
	Gains	(Losses)	Net	Gains	(Losses)	Net
Government bonds	9,832,813	(2,429,337)	7,403,476	204,601	(7,062,359)	(6,857,758)
Corporate debt securities	788,169	(3,877,453)	(3,089,284)	1,104,763	(220,340)	884,423
Equity securities	14,821,577	(173,581,003)	(158,759,425)	66,008,402	(25,058,962)	40,949,440
From Available for sale investments	25,442,559	(179,887,792)	(154,445,233)	67,317,766	(32,341,661)	34,976,105
From loans and receivables	842	(327,725)	(326,884)	6,434	(1,435)	4,999
Total	25,443,401	(180,215,517)	(154,772,117)	67,324,200	(32,343,096)	34,981,104

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]	2008			
	Gains	(Losses)	Other income	Total
From trading	16,803,419	(12,169,282)	(48,306,672)	(43,672,535)
From held at fair value through profit and loss related with embedded derivatives	1,231,243	(7,656,282)	2,054,732	(4,370,307)
From held at fair value through profit and loss related with Unit Linked	6,323,832,607	(6,773,487,675)	499,065,469	49,410,400
From held at fair value through profit and loss	6,325,063,850	(6,781,143,957)	501,120,201	45,040,094
Total	6,341,867,269	(6,793,313,239)	452,813,529	1,367,559

[Euros]	2007			
	Gains	(Losses)	Other income	Total
From trading	1,152,187	(849,000)	-	303,187
From held at fair value through profit and loss related with embedded derivatives	-	(2,541,574)	1,604,008	(937,566)
From held at fair value through profit and loss related with Unit Linked	527,832,901	(691,349,588)	170,369,260	6,852,574
From held at fair value through profit and loss	527,832,901	(693,891,162)	171,973,268	5,915,008
Total	528,985,088	(694,740,162)	171,963,268	6,218,195

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

Net gains/(losses) from foreign exchange are analysed as follows:

[Euros]	2008	2007
From available for sale investments	1,498,043	-
From held at fair value through net income related with embedded derivatives	(2,000,000)	-
From held at fair value through net income related with Unit Linked	63,551	-
From loans and receivables	(270,493)	636,276
Total	(708,899)	636,276

□ 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]	2008	2007
From Investments available for sale	-	1,047,732
From Investment property	-	554,111
From Trade receivables	(1,628,225)	(1,156,576)
From Other receivables	(145,285)	1,007,822
Total impairment charges	(1,773,510)	1,453,089
Change in other provisions	530,261	320,000
Total	(1,243,249)	1,773,089

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

Other technical income/(expenses) includes an amount of Euro 46,804,000 (2007: Euro 50,861,000) related to the amortization of the Value of Business Acquired (see note 21).

In 2007, Other technical income/(expenses) also includes an amount of Euro 1,638,000 related with the services rendering contract Sistema de Orientação Pediátrica – Saúde 24 with the Administração Regional de Saúde de Lisboa e Vale do Tejo e Centro. On 22 March 2007 Médis – Companhia Portuguesa de Seguros de Saúde sold to Direcção Regional de Saúde the “Saúde 24” brand.

Other non-technical income/(expenses) includes na amount of Euro 11,834,000 (2007: Euro 12,969,000) 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]	2008	2007
Staff and related costs		
Remuneration – management	1,411,463	1,258,008
Remuneration – other staff	17,209,682	18,222,130
Social security charges	3,213,999	3,064,795
Employee benefit plans expenses	1,477,844	695,719
Insurance costs	783,485	661,666
Social costs	71,486	125,754
Other costs	358,502	23,550
	24,526,461	24,051,623
External services and supplies	33,245,831	31,893,078
Depreciation of tangible assets		
Investment property	322,476	332,676
Equipment and motor vehicles	33,765	91,341
IT equipment	80,419	74,750
	436,660	498,767
Amortisation of intangible assets		
Software	373,594	672,597
Value of business acquired	46,803,994	50,860,783
Other intangible assets	2,043	2,043
	47,179,631	51,535,423
Other	32,130,316	24,409,563
Total	137,518,899	132,388,453

Other Operating and administrative expenses includes an amount of Euro 3,398,000 (2007: Euro 2,793,000) related with tax expenses, an amount of Euro 4,509,000 (2007: Euro 3,620,000) related with interest expenses and an amount of Euro 24,223,000 (2007: Euro 17,997,000) related with bank expenses.

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

[Euros]	2008	2007
Claims incurred	6,569,734	6,391,059
Operating expenses		
Acquisition costs	13,809,506	13,771,943
Administrative costs	38,256,771	35,829,468
Investment expenses		
Allocated to insurance technical account	25,578,025	18,963,680
Allocated to insurance non technical account	122,495	105,141
Other non allocated expenses	53,182,368	57,327,162
Total	137,518,899	132,388,453

As at 31 December 2008 and 2007, the number of employees of the Group were 454 and 454, of each 438 and 440 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 2008 and 2007, this balance is analysed as follows:

[Euros]	2008	2007
Cash	61	87
Bank deposits	359,796,191	186,933,107
Total	359,796,252	186,933,195

Note 15 – Trading assets

As at 31 December 2008 and 2007, this balance is analysed as follows:

[Euros]	2008		2007	
	Fair value	Notional amount	Fair value	Notional amount
Derivatives				
Interest rate swaps	64,984,254	4,880,648,299	–	–
Forward contracts	8,319,140	65,169,661	1,608,257	31,325,000
Options	293	950,000	–	–
FRA	12,240	41,500,000	–	–
Total	73,315,927	4,988,267,960	1,608,257	31,325,000

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

As at 31 December 2008 and 2007, this balance is analysed as follows:

[Euros]	2008			2007		
	Amortised cost	Unrealised gains/(losses)	Book value	Amortised cost	Unrealised gains/(losses)	Book value
Government bonds	3,309,869	152,315	3,462,184	1,256,494	284,438	1,540,932
Corporate debt securities	5,842,901,915	(608,259,134)	5,198,003,400	5,735,583,839	(163,608,810)	5,571,975,029
Equity securities	89,434,533	(19,054,555)	70,379,978	61,529,896	1,617,700	63,147,596
Total	5,935,646,317	(627,161,374)	5,271,845,562	5,798,370,229	(161,706,672)	5,636,663,557

Note 17 – Investments available for sale

As at 31 December 2008 and 2007, this balance is analysed as follows:

[Euros]	2008				2007			
	Amortised Cost	Impairment	Unrealised gains/(losses)	Total	Amortised Cost	Impairment	Unrealised gains/(losses)	Total
Government bonds	2,360,088,772	–	39,296,460	2,399,385,232	2,093,220,091	–	(63,482,326)	2,029,737,765
Corporate debt securities	1,636,296,888	–	(84,828,058)	1,551,468,831	1,569,002,452	–	(32,682,082)	1,536,320,370
Equity securities	422,837,222	–	(5,221,689)	417,615,533	650,766,634	(1,049,476)	(136,268)	649,580,890
Accrued interest	77,532,780	–	–	77,532,780	71,582,313	–	–	71,582,313
Total	4,496,755,663	–	(50,753,287)	4,446,002,376	4,384,571,490	(1,049,476)	(96,300,676)	4,287,221,338

In 2007, an impairment loss of Euro 1,048,000 was recognised. These equity securities had a significant and prolonged decline in the fair value below its cost and there is no market expectation about its recover. 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 2008 and 2007, this balance is analysed as follows:

	2008	2007
Cost	11,116,580	11,116,580
Accumulated depreciation	(1,412,080)	(1,089,604)
Impairment	(2,267,364)	(2,267,364)
Balance at the end of the year	7,437,136	7,759,612
Fair value	7,437,136	7,759,612

The estimated lifetime of investment property is analysed as follows:

	Estimated lifetime
Building	25 years
Components	10 years

As at 31 December 2007 in order to assess the recoverable amount of the Investment property, an independent valuation was performed. An impairment loss of Euro 554,000 was recognised, as the recoverable amount estimated was lower than the net book value.

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 20 – Other tangible assets

As at 31 December 2008 and 2007, this balance is analysed as follows:

[Euros]	2008	2007
Equipment		
IT equipment	947,388	921,009
Administrative equipment	1,106,926	1,106,926
Other	1,724,050	2,212,306
	3,778,364	4,240,241
Accumulated depreciation	(2,453,027)	(2,339,051)
Net balance	1,325,337	1,901,190

The movements on this balance are presented as follows:

[Euros]	IT equipment	Administrative equipment	Other equipment	Total
Acquisition cost				
Balance as at 31 December 2007	921,009	1,106,926	2,212,306	4,240,241
Acquisitions	26,587	-	6,234	32,821
Other movements	(208)	-	(494,490)	(494,698)
Balance as at 31 December, 2008	947,388	1,106,926	1,724,050	3,778,364
Depreciation				
Balance as at 31 December 2007	690,922	1,074,477	573,652	2,339,051
Depreciation of the year	80,419	17,950	15,815	114,184
Other movements	(208)	-	-	(208)
Balance as at 31 December, 2008	771,133	1,092,427	589,467	2,453,027
Net balance as at 31 December, 2007	230,087	32,449	1,638,654	1,901,190
Net balance as at 31 December, 2008	176,255	14,499	1,134,583	1,325,337

Note 21 – Goodwill and other intangible assets

As at 31 December 2008 and 2007, this balance is analysed as follows:

[Euros]	2008			
	Goodwill	VOBA	Other	Total
Aquisition cost				
Balance as at 31 December 2007	315,740,469	527,989,676	3,400,723	847,130,868
Acquisitions	-	-	194,227	194,227
Other movements	-	-	494,698	494,698
Balance as at 31 December 2008	315,740,469	527,989,676	4,089,648	847,819,793
Accumulated Amortisation				
Balance as at 31 December 2007	-	(171,087,884)	(3,084,498)	(174,172,382)
Amortisation of the year	-	(46,803,994)	(375,636)	(47,179,630)
Other movements	-	-	(208)	(208)
Balance as at 31 December 2008	-	(217,891,878)	(3,460,342)	(221,352,220)
Net intangible assets 2007	315,740,469	356,901,792	316,225	672,958,486
Net intangible assets 2008	315,740,469	310,097,798	629,306	626,467,573

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 12% (2007: 9%).

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

[Euros]	2009	2010	2011	2012	2013	Thereafter
Estimated amortisation of VOBA	41,635,344	29,699,749	28,245,997	24,373,851	22,445,973	163,696,884

Note 22 – Technical reserves, net of reinsurance

As at 31 December 2008 and 2007, this balance for life business is analysed as follows:

[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

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

[Euros]	2007		
	Insurance contracts	Investment contracts	Total
GROSS			
Life mathematical reserves	171,631,221	3,740,638,252	3,912,269,472
Claims reserves life	16,907,748	12,450,526	29,358,274
Profit sharing reserves	3,217,862	92,939,552	96,157,414
Attributed	3,217,862	35,105,563	38,323,426
To be attributable	–	57,833,989	57,833,989
Total Gross	191,756,831	3,846,028,330	4,037,785,160
REINSURANCE CEDED			
Life mathematical reserve	437,066	–	437,066
Claims reserves life	306,227	–	306,227
Total Reinsurance	743,293	–	743,293
Total (net)	191,013,537	3,846,028,330	4,037,041,867

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 31 December 2008 an amount of Euro 1,001,000 on Life business has been recognised as a result of the liability adequacy test. This test was performed based on the best estimate assumptions (see note 38).

As at 31 December 2008 and 2007, this balance is analysed as follows for non-life:

[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

[Euros]	2007				
	Accident & Health	Fire & Other damage	Motor	Other Lines	Total
GROSS					
Unearned premiums reserve	32,031,180	4,797,834	6,392,596	2,945,927	46,167,537
Claims outstanding reserve	40,598,518	6,389,738	25,164,002	4,410,493	76,562,751
Profit sharing reserve	106,227	-	-	-	106,227
Equalisation reserve	-	585,295	-	48,457	633,752
Unexpired risk reserve	1,193,028	627,563	176,784	220,068	2,217,443
Total Gross	73,928,953	12,400,430	31,733,382	7,624,945	125,687,710
REINSURANCE CEDED					
Unearned premiums reserve	11,902,850	964,152	7,077,134	1,840,876	21,785,012
Claims outstanding reserve	17,493,923	1,019,533	23,329,380	872,595	42,715,431
Total Reinsurance	29,396,773	1,983,685	30,406,514	2,713,471	64,500,443
Total (net)	44,532,180	10,416,745	1,326,868	4,911,474	61,187,267

Included in claims outstanding for Workers compensation is the amount of Euro 11,708,000 (2007: Euros 10,981,000) 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 1,158,000 (in 2007 an amount of Euro 576,000 was booked as LAT reserve).

Claims outstanding reserve life and non-life, including reinsurance accepted, represents unsettled claims occurring before 31 December 2008, and include an amount of Euro 25,862,000 (2007: Euro 23,592,000) for incurred but not reported claims (IBNR).

Additionally, the 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 2,512,000 (2007: Euro 3,121,000).

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

[Euros]	2008	2007
Unearned premiums reserve	52,069,601	51,352,479
Deferred acquisition costs	(5,644,131)	(5,184,942)
Net	46,425,470	46,167,537

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

[Euros]	2008	2007
Deferred acquisition costs as at 1 January	5,184,942	5,538,790
Acquisition costs of the year	5,644,131	5,184,942
Acquisition costs amortisation	(5,184,942)	(5,538,790)
Deferred acquisition costs as at 31 December	5,644,131	5,184,942

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.

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

[Euros]	2008			2007		
	Life	Non Life	Total	Life	Non Life	Total
Balance as at 1 January	96,157,414	106,227	96,263,641	64,256,045	526,000	64,782,045
Amounts paid	(42,976,629)	(131,029)	(43,107,658)	(24,921,286)	(514,773)	(25,436,059)
Estimated attributable amounts	(6,951,775)	240,610	(6,711,166)	56,822,655	95,000	56,917,655
Shadow accounting	2,146,890	–	2,146,890	–	–	–
Total	48,375,900	215,808	48,591,708	96,157,414	106,227	96,263,641

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 2008 the total amount of the shadow adjustment is 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]	2008	2007
Profit sharing to be attributable to policyholders, 1 January	57,833,988	43,913,573
Released, accordingly to plan	(43,376,230)	–
Allocated at year-end	1,463,301	13,920,415
Total, 31 December	15,921,059	57,833,988
Profit sharing, 1 January	38,323,426	20,342,471
Profit sharing distributed to policyholders during the year	(42,976,629)	(24,921,286)
Profit sharing assigned to policyholders – contractual	7,832,977	13,587,340
Profit sharing assigned to policyholders – commercial	10,891,204	3,719,430
Profit sharing assigned to policyholders – management decision	18,383,863	25,595,471
Profit sharing, 31 December	32,454,841	38,323,426

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 2008.

As at 31 December 2008 and 2007 the number of participants of the benefit plan was as follows:

	2008	2007
Number of participants		
Employees	400	403
Retired and pensioners	23	24
	423	427

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

	2008	2007
Discount rate	5.75%	5.35%
Future salary increases	3.25%	3.25%
Expected return on plan assets at 31 December	5.81%	6.30%
Future pension increases	2.25%	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
Actuarial Method	Project Unit Credit	Project Unit Credit

As at 31 December 2008 and 2007, employee's benefits and fair value of plan assets are analysed as follows:

[Euros]	2008			2007		
	Pension plans	Other benefits	Total	Pension plans	Other benefits	Total
Projected benefit obligations	(20,026,116)	(3,184,397)	(23,210,513)	(17,158,821)	(2,248,963)	(19,407,784)
Fair value of plan assets	20,218,077	-	20,218,077	17,950,264	-	17,950,264
Net recognized defined benefit obligations	191,961	(3,184,397)	(2,992,436)	791,443	(2,248,963)	(1,457,520)
Unrecognised actuarial (gains)/losses	5,491,248	351,840	5,843,088	623,126	(309,836)	313,290
Net asset/(liability)	5,683,209	(2,832,557)	2,850,652	1,414,569	(2,558,799)	(1,144,230)

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 14 (2007: 8), and the total liability amounts to Euro 2,010,000 (2007:Euro 2,177,000), which is included in the life insurance reserves.

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The liabilities with pensions and other post employee's benefits in 2008 and 2007, can be analysed as follows:

[Euros]	2008			2007		
	Pension plans	Other benefits	Total	Pension plans	Other benefits	Total
Liabilities as at 1 January	17,158,821	2,248,963	19,407,784	13,419,651	2,145,575	15,565,226
Current service cost	867,206	126,253	993,459	666,237	166,430	832,667
Interest cost	908,208	119,546	1,027,754	617,314	99,141	716,455
Benefits paid by the fund or by the Group	(442,215)	(42,017)	(484,232)	(471,560)	(31,037)	(502,597)
Actuarial (gains)/losses	905,252	650,469	1,555,721	2,907,818	(131,146)	2,776,672
Curtailment losses related to early retirements	482,762	81,183	563,945	-	-	-
Transfer between funds	146,082	-	146,082	19,361	-	19,361
Liabilities as at 31 December	20,026,116	3,184,397	23,210,513	17,158,821	2,248,963	19,407,784

The amount recognised as a cost by the Group in 2008 and 2007 is analysed as follows:

[Euros]	2008			2007		
	Pension plans	Other benefits	Total	Pension plans	Other benefits	Total
Current service cost	867,206	126,253	993,459	666,237	166,430	832,667
Interest cost	908,208	119,546	1,027,754	617,314	99,141	716,455
Expected return on plan assets	(1,118,018)	-	(1,118,018)	(853,402)	-	(853,402)
Amortisation of the unrecognised net (gains)/losses	21,911	(11,207)	10,704	-	-	-
Losses (gains) on curtailments (settlements)	482,762	81,183	563,945	-	-	-
Total benefit expenses	1,162,069	315,775	1,477,844	430,149	265,571	695,720

The changes in the fair value of the plan assets during 2008 and 2007, are analysed as follows:

[Euros]	2008	2007
Opening balance as at 1 January	17,950,264	14,645,067
Group contributions	5,430,709	1,625,371
Benefits paid by the fund	(442,215)	(471,560)
Expected return on plan assets	1,118,018	853,402
Actuarial gains (losses) on plan assets	(3,984,781)	1,278,623
Transfer between funds	146,082	19,361
Balance as at 31 December	20,218,077	17,950,264

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

[Euros]	2008			2007		
	Pension plans	Other benefits	Total	Pension plans	Other benefits	Total
Net actuarial (gains)/losses at beginning of the year	623,126	(309,836)	313,290	(1,006,069)	(178,690)	(1,184,759)
Actuarial (gains)/losses in relation to the DBO	905,252	650,469	1,555,721	2,907,818	(131,146)	2,776,672
Actuarial (gains)/losses in relation to the plan assets	3,984,781	-	3,984,781	(1,278,623)	-	(1,278,623)
Amortisation of the unrecognised net (gains)/losses	(21,911)	11,207	(10,704)	-	-	-
Net actuarial (gains)/losses at the end of the year	5,491,248	351,840	5,843,088	623,126	(309,836)	313,290

As at 31 December 2008 and 2007 the actuarial gains incurred as a result of the changes in the actuarial assumptions amounted to Euro 1,002,000 and Euro 292,000, respectively.

The contribution to the Pension Fund made by the Group companies amounted to Euro 5,431,000 (2007: Euro 1,625,000) being made in cash.

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

[Euros]	2008			2007		
	Pension plans	Other benefits	Total	Pension plans	Other benefits	Total
Prepaid/(accrued) benefit cost as at 1 January	1,414,569	(2,558,799)	(1,144,230)	219,347	(2,324,265)	(2,104,918)
Net periodic benefit cost	(1,162,069)	(315,775)	(1,477,844)	(430,149)	(265,571)	(695,720)
Employer contributions and other contributions	5,430,709	42,017	5,472,726	1,625,371	31,037	1,656,408
Prepaid/(accrued) benefit cost as at 31 December	5,683,209	(2,832,557)	2,850,652	1,414,569	(2,558,799)	(1,144,230)

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

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

The assets of the pension fund are analysed as follows:

[Euros]	2008	2007
Variable income securities	2,011,543,442	3,047,027,839
Fixed income securities	2,133,379,774	2,025,109,274
Real State	385,213,975	390,250,469
Others	833,315,486	195,411,123
	5,363,452,677	5,657,798,705

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 0.38% (2007: 0.32%).

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

[Euros]	2008	2007
Variable income securities	61,901,080	230,658,533
Fixed income securities	366,784,860	157,091,021
	428,685,940	387,749,554

As at 31 December 2008 and 2007, the premises booked in the fund and used by Millenniumbcp Fortis amount of Euro 31,457,000 (2007: Euro 31,668,000).

Health benefit cost has an impact in pension costs. Considering this impact, Millenniumbcp 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]	2008	2007
Pension cost impact	19,970	20,897
Liability impact	373,132	357,763

Note 24 – Trade and other receivables

As at 31 December 2008 and 2007, this balance is analysed as follows:

[Euros]	2008	2007
Receivables from policyholders	61,473,099	33,224,067
Receivables from intermediaries	484,780	735,558
Receivables from reinsurance operations	13,792,021	12,618,221
Receivables from state and other public entities	24,728,349	26,026,395
	100,478,249	72,604,240
Impairment	(4,541,521)	(6,169,746)
Total trade receivables	95,936,728	66,434,493
Other receivables	10,923,070	7,189,213
Impairment	(34,292)	(179,577)
Total other receivables	10,888,778	7,009,636
Total	106,825,506	73,444,129

Receivables from policyholders includes an amount of Euro 55,835,000 (2007: Euro 25,131,000), related with uncollected premiums, of Euro 6,699,000 (2007: Euro 5,520,000) in the bad debt risk, which are covered by the recognition of an impairment loss.

As at 31 December 2008 and 2007, receivables from state and other public entities 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.

Receivables from policyholders also includes the amount of Euro 3,882,000 (2007: Euro 6,275,000) related with claims reimbursements issued in the scope of the agreement between BCP Group and the Sindicatos Bancários do Norte, Centro e Sul.

Other receivables includes also an amount of Euro 8,031,000 (2007: Euro 5,582,000) related with investments sold in the last days of the year, which will be received in the begging of 2009.

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

[Euros]	2008		2007	
	Trade	Other	Trade	Other
Balance at the beginning of the year	6,169,746	179,577	7,087,979	1,294,741
Write back for the year	-	-	(1,156,576)	-
Charge of the year	(1,628,225)	(145,285)	-	1,007,822
Transfers and other movements	-	-	238,343	(2,122,987)
Balance at the end of the year	4,541,521	34,292	6,169,746	179,577

Note 25 – Income tax assets and liabilities

The Group determined its income tax liability for the 2008 and 2007 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 deferred tax assets and liabilities recognised as at the 31 December, 2008 and 2007, financial statements, are analysed as follows:

[Euros]	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
Investment property	-	-	(577,247)	(577,247)	(577,247)	(577,247)
Intangible assets	-	-	(82,175,916)	(94,578,975)	(82,175,916)	(94,578,975)
Investments	16,459,064	17,352,331	-	-	16,459,064	17,352,331
Insurance and investment contracts liabilities	7,075,530	9,952,111	112,226	(42,028)	7,187,756	9,910,083
Provisions	816,545	905,997	-	-	816,545	905,997
Other	634,882	507,008	-	(148,885)	634,882	358,123
Deferred tax asset/(liability)	24,986,021	28,717,447	(82,640,937)	(95,347,135)	(57,654,916)	(66,629,688)
Off set asset/(liability)	(23,202,473)	(26,688,491)	23,202,473	26,688,491	-	-
Net deferred tax asset/(liability)	1,783,548	2,028,956	(59,438,464)	(68,658,644)	(57,654,916)	(66,629,688)

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The changes in deferred tax recognised in 2008 and 2007, are analysed as follows:

[Euros]	2008		2007	
	Recognised on income	Recognised on equity	Recognised on income	Recognised on equity
Investment property	–	–	235,264	(158,179)
Intangible assets	12,403,059	–	13,478,108	–
Investments	(1,080,317)	187,050	1,138,702	23,892,361
Insurance and investment contracts liabilities	(2,722,327)	–	(1,945,103)	1,422,200
Provisions	(89,452)	–	(583,271)	–
Other	276,759	–	312,433	–
Deferred tax asset/(liability)	8,787,722	187,050	12,636,133	25,156,382

The income tax expense for the year ended 31 December 2008 and 2007 is analysed as follows:

[Euros]	2008	2007
Current tax	(20,357,630)	(44,893,546)
Deferred tax	8,787,722	12,636,133
Total tax recognised in the income statement	(11,569,908)	(32,257,413)

The income taxes recognised in the fair value reserve for the year ended 31 December 2008 and 2007 is analysed as follows:

[Euros]	2008	2007
Current tax	(11,616,560)	–
Deferred tax	25,807,057	25,620,007
Total tax in fair value reserves	14,190,498	25,620,007

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

[Euros]	2008	2007
Profit before taxes	39,997,105	119,435,977
Statutory rate	26.5%	26.5%
Income tax calculated on the statutory rate	10,599,233	31,650,534
Tax exempt dividends	(110,824)	(188,991)
Autonomous taxation	110,789	65,495
Other permanent differences	970,710	730,375
	11,569,908	32,257,413

During 2008, the tax legislation applicable to the insurance companies in Portugal has been changed.

Note 26 – Accrued income and deferred charges

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

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 5,317,041,000 (2007: Euro 5,515,678,000) 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 2008 and 2007, this balance is analysed as follows:

[Euros]	2008	2007
Funds held under reinsurance agreements	61,678,301	64,638,966
Other liabilities		
Trading liabilities	–	100,610,523
Other liabilities	495,800,402	–
Total	557,478,703	165,249,489

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 related with the repurchase agreement (REPO) of fixed income securities (government bonds) with Banco Comercial Português, S.A. in the amount of 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 (see note 36).

Trading liabilities relates to interest rate swaps.

Note 29 – Trade and other payables

As at 31 December 2008 and 2007, this balance is analysed as follows:

[Euros]	2008	2007
Due to agents, policyholders and intermediaries	19,988,504	2,597,829
Due to reinsurers	15,995,272	7,283,468
Trade amounts payable	35,983,776	9,881,297
VAT and Other taxes payable	7,995,698	6,289,165
Other liabilities	67,261,124	42,556,357
Other	75,256,822	48,845,522
Total	111,240,598	58,726,819

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

VAT and other taxes payable include 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 2008 and 2007, Other liabilities payable 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 Pensõesgere – Sociedade Gestora de Fundos de Pensões, S.G.F.P., S.A., management entity of the BCP Group pension fund.

In 2008, Other liabilities includes an amount of Euro 33,657,000 (2007: Euro 11,458,000), related with investments acquired in the last days of the year, which will be paid in the beginning of January 2009.

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

Note 30 – Deferred income and accrued charges

As at 31 December 2008 and 2007, this balance is analysed as follows:

[Euros]	2008	2007
Deferred income	–	6,672,610
Accrued charges	11,950,047	21,363,327
Total	11,950,047	28,035,937

In 2007 Accrued charges includes the amount of Euro 14,051,000 related to commissions payable to Banco Comercial Português, S.A., for the products distribution. As at 31 December 2008, the commissions payable are included in trade payables – due to agents (see note 29).

It also includes an amount of Euro 5,545,000 (2007: Euro 5,180,000) related to unit linked management fees to be paid.

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 867,000 (2007: Euro 777,000) as described on the accounting policies.

Deferred income relates to management fees already charged to the unit-linked contracts.

Note 31 – Provisions

As at 31 December 2008 and 2007, the balance provisions are analysed as follows:

[Euros]	2008	2007
Provision for income tax	–	317,824
Provisions for other risks and charges – others	2,402,672	1,554,587
Total	2,402,672	1,872,411

As at 31 December 2008 and 2007, the changes in provisions are as follows:

[Euros]	2008	2007
Balance as at 1 January	1,872,411	1,759,570
Charge for the year	530,261	320,000
Transfers and other movements	–	(207,159)
Balance as at 31 December	2,402,672	1,872,411

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

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

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

As at 31 December 2007 the amounts reported to the Portuguese Insurance Institute were based on the Plan of Accounts for the Insurance Companies ("PCEs 94"), without any parallel in terms of assets and liabilities with the information reported under the New Plan of Accounts for the Insurance Companies ("PCEs 07").

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

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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

* Through Seguros e Pensões Gere S.G.P.S., S.A., which is owned 100% by Banco Comercial Português, S.A.

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 2008 and 2007 are analysed as follows:

[Euros]	2008	2007
Balance as at 1 January	(96,300,676)	(1,152,341)
Revaluations	195,248,160	(79,147,000)
Impairment	–	1,047,732
Sales	(149,700,771)	(17,049,067)
Balance as at 31 December	(50,753,287)	(96,300,676)

The fair value reserve is analysed as follows:

[Euros]	2008	2007
Amortised cost of Available for sale investments	4,496,755,663	4,384,571,490
Impairment	–	(1,049,476)
Amortised cost of Available for sale investments net of impairment	4,496,755,663	4,383,522,014
Fair value of Available for sale investments	4,446,002,376	4,287,221,338
Unrealised gains/(losses) recognised on fair value reserve	(50,753,287)	(96,300,676)
Deferred tax	13,545,772	25,620,007
Fair value reserve on equity (net)	(37,207,515)	(70,680,669)
Profit sharing to be attributable ("shadow"), net	(1,788,201)	–
Fair value reserve on equity (net)	(38,995,716)	(70,680,669)

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

The Equity as at 31 December 2007 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	-	(96,300,676)	25,620,007	(70,680,669)	-	-	-	(70,680,669)
Profit sharing to be attributable ("shadow"), net	-	-	-	-	-	-	-	-
Profit after tax of the year	-	-	-	-	-	-	87,178,564	87,178,564
Retained earnings	-	-	-	-	-	77,068,011	-	77,068,011
Legal reserve	-	-	-	-	4,438,878	-	-	4,438,878
Dividends paid in 2007	-	-	-	-	-	(35,000,000)	-	(35,000,000)
Balance as at 31 December, 2007	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

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

II.7 Additional information to Segment report

Note 34 – Non life technical margins by line of business

[Euros]	2008					2007				
	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	106,403,751	21,354,121	103,966	2,316,630	130,178,468	92,480,510	17,764,560	-	2,645,291	112,890,361
Net claims expenses	(74,393,576)	(7,517,327)	(214,901)	(996,251)	(83,122,055)	(62,380,645)	(6,511,296)	(249,476)	(1,715,931)	(70,857,348)
Changes in other technical reserves net	35,246	440,992	(240,863)	(122,487)	112,888	(660,043)	(577,776)	389,148	50,815	(797,856)
Profit sharing, net	(240,610)	-	-	-	(240,610)	(95,000)	-	-	-	(95,000)
Acquisitions/administrative expenses, net	(22,255,189)	(3,235,286)	2,403,343	(710,711)	(23,797,843)	(19,458,893)	(3,503,969)	2,373,426	(721,487)	(21,310,923)
Interest, dividends and other similar income	3,649,884	392,313	952,288	223,646	5,218,131	3,856,313	697,536	(12,149)	(274,042)	4,267,658
Financial expenses	(1,595,757)	(129,392)	(1,571,607)	(39,981)	(3,336,737)	(1,117,199)	(88,918)	(1,392,198)	(22,433)	(2,620,748)
Net gains/(losses) from financial assets	(2,899,430)	(321,895)	(752,597)	(186,490)	(4,160,412)	968,081	36,994	101,715	21,199	1,127,989
Impairment charges net of reversals	-	-	-	-	-	-	(1,047,732)	-	-	(1,047,732)
Other income/(expenses) technical, net	44,444	-	861	-	45,305	3,265	-	-	-	3,265
Technical margin	8,748,763	10,983,526	680,490	484,356	20,897,135	13,596,389	6,769,399	1,210,466	(16,588)	21,559,666
Net investment income					2,729,877					1,762,232
Net realised gains/(losses)					(927,722)					592,104
General expenses					(108,500)					(82,671)
Net other income/(expenses)					3,084,348					1,786,729
Non technical result					4,778,003					4,058,394
Profit before tax Non Life					25,675,138					25,618,060
	Accidents and health	Fire and other hazards	Motor	Other lines	Total	Accidents and health	Fire and other hazards	Motor	Other lines	Total
Gross reserves	79,285,902	13,232,673	28,844,809	7,219,385	128,582,769	73,928,953	12,400,430	31,733,382	7,624,945	125,687,710
Reinsurance share in reserves	31,963,904	2,394,492	27,401,568	2,550,758	64,310,722	29,396,773	1,983,685	30,406,514	2,713,471	64,500,443

Note 35 – Life technical margins by type of product

[Euros]	2008				2007			
	Insurance contracts	Investment contracts	Unit linked contracts	Total	Insurance contracts	Investment contracts	Unit linked contracts	Total
Net premiums earned	188,668,488	792,933,847	-	981,602,335	153,953,929	700,424,490	-	854,378,419
Fees on investment contracts	-	-	73,106,961	73,106,961	-	-	57,585,022	57,585,022
Net claims expenses	(55,899,152)	(637,752,464)	(44,388)	(693,696,004)	(46,331,283)	(498,236,684)	(36,651)	(544,604,618)
Changes in mathematical reserves, net	(31,998,695)	(233,569,861)	-	(265,568,556)	(5,729,694)	(281,409,372)	-	(287,139,066)
Profit sharing, net	(4,001,466)	10,953,241	-	6,951,775	(7,796,677)	(49,025,978)	-	(56,822,655)
Acquisitions and administrative expenses, net	(19,527,577)	(19,441,566)	(17,183,505)	(56,152,648)	(16,329,325)	(17,482,875)	(16,143,636)	(49,955,836)
Interest, dividends and other similar income	11,767,955	159,678,498	-	171,446,453	8,385,439	123,723,103	-	132,108,542
Financial expenses	(1,004,052)	(18,166,383)	(16,673,129)	(35,843,564)	(794,860)	(5,110,221)	(10,437,851)	(16,342,932)
Net gains/(losses) from financial assets	(10,131,282)	(136,273,752)	1,167,279	(145,237,755)	2,030,660	33,464,996	6,852,573	42,348,229
VOBA amortisation	(28,019,409)	(8,536,078)	(10,248,507)	(46,803,994)	(30,364,759)	(9,380,143)	(11,115,881)	(50,860,783)
Other technical income/(expenses), net	167,004	1,577,887	1,197,969	2,942,860	15,406	107,884	(6,852,573)	(6,729,283)
Technical margin	50,021,814	(88,596,631)	31,322,680	(7,252,137)	57,038,836	(2,924,800)	19,851,003	73,965,039
Net investment income				12,366,629				15,298,411
Net realised gains/(losses)				1,588,961				(4,220,470)
General expenses				(6,392,367)				(6,488,849)
Net other income/(expenses)				14,010,881				15,263,786
Non technical result				21,574,104				19,852,878
Profit before tax Life				14,321,967				93,817,917

II.8 Other Notes*Note 36 – Related party transactions*

As at 31 December, 2008 and 2007, the transactions with related parties and the remuneration of key management – Board of directors, is analysed as follows:

[Euros]	2008	2007
Remuneration	1,411,463	1,256,508
Contributions to pensions plans	104,574	143,396
	1,516,037	1,399,904

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.

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	359,796,252	-	-	-	359,796,252
Loans and receivables – other deposits	646,352,449				646,352,449
Investments available for sale	137,406,585	-	-	-	137,406,585
Investments held at fair value through profit and loss	2,605,819,445	41,647,962	-	-	2,647,467,408
Other assets	-	-	2,850,654	-	2,850,654
Total assets	3,749,374,731	41,647,962	2,850,654	-	3,793,873,348
Technical reserves	127,845,241	37,500	-	-	127,882,741
Other financial liabilities	495,800,402				495,800,402
Other liabilities	20,704	-	-	5,544,597	5,565,301
Total liabilities	623,666,347	37,500	-	5,544,597	629,248,444
Net assets/liabilities 2008	3,125,708,384	41,610,462	2,850,654	(5,544,597)	3,164,624,904
Net assets/liabilities 2007	3,032,430,000	8,419,000	(1,144,000)	(212,000)	3,039,493,000

Income statement [Euros]	BCP Group	Fortis Group	Pensions Fund	F&C	Total
Net premiums earned	40,993,293	(4,172,598)	-	-	36,820,695
Interest, dividends and other similar income	129,717,505	-	-	-	129,717,505
Net gains/(losses) from financial assets not held at fair value through profit and loss	(1,203,243)	-	-	-	(1,203,243)
Net gains/(losses) from financial assets and liabilities held at fair value through profit and loss	(201,657,680)	-	-	-	(201,657,680)
Total income	(32,150,124)	(4,172,598)	-	-	(36,322,722)
Changes in technical reserves net	(42,728,812)	(37,500)	-	-	(42,766,312)
Acquisition expenses	(55,578,384)	-	-	-	(55,578,384)
Operating and administrative expenses	(14,230,690)	-	(1,477,841)	(24,181,970)	(39,890,501)
Total expenses	(112,537,886)	(37,500)	(1,477,841)	(24,181,970)	(138,235,197)
Net Income/Expenses 2008	(144,688,010)	(4,210,098)	(1,477,841)	(24,181,970)	(174,557,919)
Net Income/Expenses 2007	(74,742,000)	(25,414,000)	(696,000)	(15,625,000)	(116,477,000)

In 2008, 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 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

Pensõesgerere is a pension fund management company. The assets under management as at 31 December, 2008 and 2007, are analysed as follows by type of investment:

[Euros]	2008	2007
Fixed income securities	3,682,321,559	3,061,083,169
Equity securities	2,651,126,135	3,766,788,237
Investment property	564,760,246	600,185,189
Total	6,898,207,940	7,428,056,595

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

[Euros]	2008	2007
Value as at 1 January	7,428,056,595	6,815,749,436
Net contributions	455,105,146	422,076,039
Capital gains/(losses)	(976,587,394)	291,272,488
Transfers	(8,366,407)	(101,041,368)
Value as at 31 December	6,898,207,940	7,428,056,595

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 Millenniumbcpc 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 Millenniumbcpc Fortis.

Standardised risk taxonomy

Following Fortis Group Risk Management guidelines and principles, Millenniumbcpc 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.

II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 particularly, 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. 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:

[Euros]	2008	%	2007	%
Available for sale *	4,368,469,596	100.0%	4,215,648,025	100.0%
Government bonds	2,399,385,232	54.9%	2,029,737,765	48.1%
Corporate debt securities	1,551,468,831	35.5%	1,536,329,370	36.4%
Equity securities	738,014	0.0%	24,084,441	0.6%
Participation in unit funds				
Debt	95,110,502	2.2%	96,679,874	2.3%
Equity	108,952,833	2.5%	290,435,012	6.9%
Real Estate	187,126,817	4.3%	176,251,829	4.2%
Alternative	25,687,367	0.6%	62,129,734	1.5%
Held at fair value	5,271,845,562	100%	5,636,663,557	100%
Government bonds	3,462,184	0.1%	1,540,932	0.0%
Corporate debt securities	5,198,003,400	98.6%	5,571,975,029	98.9%
Equity securities	-	0.0%	-	0.0%
Participation in unit funds				
Debt	44,448,556	0.8%	26,309,657	0.5%
Equity	19,381,495	0.4%	22,154,694	0.4%
Real Estate	245,213	0.0%	-	0.0%
Alternative	6,304,714	0.1%	14,683,245	0.3%
Other financial assets/(liabilities)	(422,484,475)		(99,002,266)	
Trading derivatives	73,315,927		(99,002,266)	
Repurchase agreement	(495,800,402)		-	
Total	9,217,830,683		9,753,309,316	

* Excluding accrued interest

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 analyzed by type of industry as follows:

Equity securities by industry [Euros]	2008		2007	
	Book value	%	Book value	%
Financial	174,194	23.6%	5,735,524	23.8%
Industrial	-	0.0%	1,969,891	8.2%
Utilities	-	0.0%	3,041,467	12.6%
Communications & Technology	68,008	9.2%	101,140	0.4%
Basic Materials	493,552	66.9%	3,357,355	13.9%
Consumer, Non-cyclical	2,250	0.3%	2,250	0.0%
Consumer, Cyclical	10	0.0%	1,948,465	8.1%
Energy	-	0.0%	7,608,349	31.6%
Technology	-	0.0%	320,000	1.3%
	738,014	100.0%	24,084,441	100.0%

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

Debt securities by industry [Euros]	Available for Sale				Held at Fair Value			
	2008		2007		2008		2007	
	Book value	%	Book value	%	Book value	%	Book value	%
Government	2,399,385,232	60.7%	2,029,737,765	56.9%	3,462,184	0.1%	1,540,932	0.0%
Financial	1,182,242,049	29.9%	1,198,195,900	33.6%	3,090,491,712	59.4%	3,444,478,110	61.8%
Asset Backed Securities	5,320,712	0.1%	9,268,782	0.3%	72,398,840	1.4%	142,403,473	2.6%
Industrial	118,498,153	3.0%	116,717,913	3.3%	751,719,043	14.5%	620,514,070	11.1%
Utilities	57,949,346	1.5%	17,889,147	0.5%	174,489,718	3.4%	192,558,302	3.5%
Mortgage Securities	15,309,264	0.4%	20,451,899	0.6%	12,661,870	0.2%	-	0.0%
Consumer, Non-cyclical	18,871,553	0.5%	24,739,329	0.7%	50,132,535	1.0%	51,029,256	0.9%
Consumer, Cyclical	32,415,254	0.8%	14,208,113	0.4%	374,401,217	7.2%	431,815,951	7.7%
Communications	39,224,911	1.0%	19,620,231	0.6%	179,814,072	3.5%	207,119,498	3.7%
Basic materials	20,002,997	0.5%	4,085,000	0.1%	406,976,462	7.8%	425,335,093	7.6%
Diversified	61,634,591	1.6%	111,143,056	3.1%	83,607,406	1.6%	55,416,744	1.0%
Energy	-	0.0%	-	0.0%	1,310,525	0.0%	1,304,531	0.0%
	3,950,854,063	100.0%	3,566,057,135	100.0%	5,201,465,584	100.0%	5,573,515,961	100.0%

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			
	2008		2007		2008		2007	
	Fair value	%	Fair value	%	Fair value	%	Fair value	%
AAA	1,480,424,476	37.5%	1,292,461,157	36.2%	28,943,023	0.6%	20,006,670	0.4%
AA	1,136,971,691	28.8%	1,247,072,134	35.0%	100,394,290	1.9%	102,175,034	1.8%
A	1,032,639,819	26.1%	747,035,507	20.9%	3,031,228,246	58.3%	3,205,556,855	57.5%
BBB	300,818,077	7.6%	273,690,911	7.7%	1,989,991,671	38.3%	2,178,933,960	39.1%
BB	-	0.0%	-	0.0%	49,069,801	0.9%	7,585,940	0.1%
B	-	0.0%	-	0.0%	277,522	0.0%	-	0.0%
CCC	-	0.0%	-	0.0%	140,808	0.0%	-	0.0%
Not rated	-	0.0%	5,797,425	0.2%	1,420,222	0.0%	59,257,503	1.1%
Total	3,950,854,063	100.0%	3,566,057,135	100.0%	5,201,465,584	100.0%	5,573,515,961	100.0%
Government bonds	2,399,385,232	60.7%	2,029,737,765	56.9%	3,462,184	0.1%	1,540,932	0.0%
Corporate debt securities	1,551,468,831	39.3%	1,536,319,370	43.1%	5,198,003,400	99.9%	5,571,975,029	100.0%
Total	3,950,854,063	100.0%	3,566,057,135	100.0%	5,201,465,584	100.0%	5,573,515,961	100.0%

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

Participation in unit funds by Geographical Breakdown [Euros]	Available for Sale					
	Portugal	Luxemburg	Germany	Cayman	Total	%
Debt	9,153,272	85,957,230	-	-	95,110,502	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	-	-	23,179,687	25,687,367	6.2%
Total as at 31 December 2008	198,787,769	194,910,063	-	23,179,687	416,877,519	100%
Debt	9,618,599	87,061,275	-	-	96,679,874	15.5%
Equity	-	287,775,812	2,659,200	-	290,435,012	46.4%
Real Estate	176,251,829	-	-	-	176,251,829	28.2%
Alternative	-	-	-	62,129,734	62,129,734	9.9%
Total as at 31 December 2007	185,870,428	374,837,087	2,659,200	62,129,734	625,496,449	100.0%

Participation in unit funds by Geographical Breakdown [Euros]	Held at Fair Value							
	Portugal	Luxemburg	France	Ireland	Virgin Isle	Bermuda	Cayman	Total %
Debt	3,699,335	33,165,172	-	7,584,049	-	-	-	44,448,556 63.2%
Equity	271,258	16,520,025	-	2,590,212	-	-	-	19,381,495 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 31 December 2008	4,215,806	49,685,218	120,652	16,334,701	23,601	-	-	70,379,978 100.0%
Debt	4,144,539	15,393,110	1,985,013	4,786,995	-	-	-	26,309,657 41.7%
Equity	2,371,521	16,692,957	-	3,090,216	-	-	-	22,154,694 35.1%
Real Estate	-	-	-	-	-	-	-	- 0.0%
Alternative	-	-	1,035,363	6,460,535	4,316,184	1,402,486	1,468,677	14,683,245 23.3%
Total as at 31 December 2007	6,516,060	32,086,067	3,020,376	14,337,746	4,316,184	1,402,486	1,468,677	63,147,596 100.0%

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

As at 31 December 2008 and 2007:

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	74,560,372	23,771,548	82,817,431	425,858,503	1,632,581,273
Investments held at fair value through profit/loss	–	377,492,584	662,603,407	2,238,254,835	1,923,114,758	70,379,979	5,271,845,562
Financial assets	575,953,045	916,626,376	1,093,358,786	3,611,397,350	4,210,571,155	496,238,481	10,904,145,192
Non financial assets	4,268,477	8,437,299	24,954,182	23,414,461	20,305,944	626,558,708	707,939,071
Total assets	580,221,522	925,063,674	1,118,312,968	3,634,811,811	4,230,877,099	1,122,797,189	11,612,084,263
Other financial liabilities	34,017,241	102,387,211	531,532,062	642,868	99,943	39,977	668,719,301
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	435,597,719	952,859,283	2,814,982,256	1,740,164,288	39,977	5,985,760,542
Non financial liabilities	73,909,845	43,426,092	567,129,798	1,859,050,720	1,803,486,530	156,201,427	4,503,204,412
Total liabilities	116,026,864	479,023,811	1,519,989,080	4,674,032,977	3,543,650,818	156,241,404	10,488,964,954

Liquidity risk 2007 [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	208,741,179	22,050,721	50,502,014	952,732,322	1,542,636,921	–	2,776,663,157
Interest bearing – Variable rate	15,198,988	7,465,431	168,518,808	276,427,318	383,299,891	–	850,910,436
Non-interest bearing	65,083,156	53,974,619	291,403,290	3,583,031	869,459	649,445,915	1,064,359,470
Investments held at fair value through profit/loss	425,733	208,641,159	1,025,278,226	2,043,935,036	2,295,045,638	63,337,766	5,636,663,557
Financial assets	289,449,055	292,131,929	1,535,702,338	3,276,677,707	4,221,851,909	712,783,681	10,328,596,620
Non financial assets	4,685,289	33,762,954	8,631,179	17,339,263	16,018,585	672,958,485	753,395,756
Total assets	294,134,345	325,894,883	1,544,333,517	3,294,016,970	4,237,870,494	1,385,742,166	11,081,992,376
Other financial liabilities	14,434,992	14,159,290	193,257,097	969,257	1,155,672	–	223,976,308
Liabilities on behalf policyholders	12,059,250	92,614,221	724,909,402	2,469,293,417	2,216,801,749	–	5,515,678,039
Financial liabilities	26,494,242	106,773,511	918,166,499	2,470,262,674	2,217,957,421	–	5,739,654,347
Non financial liabilities	78,577,972	77,844,839	130,411,992	1,300,376,621	2,563,557,526	128,561,919	4,279,330,870
Total liabilities	105,072,214	184,618,351	1,048,578,491	3,770,639,295	4,781,514,947	128,561,919	10,018,985,217

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 2008 [Euros]	EUR	USD	GBP	JPY	Total
Investments	9,687,199,804	24,927,602	662,750	1,004,477	9,713,794,633
Other assets	1,898,289,630	–	–	–	1,898,289,630
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

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Currency risk 2007 [Euros]	EUR	USD	GBP	JPY	Total
Investments	9,818,634,782	35,022,000	247,000	8,000	9,853,911,782
Other assets	1,228,079,594	-	-	1,000	1,228,080,594
Total assets	11,046,714,376	35,022,000	247,000	9,000	11,081,992,376
Liabilities	10,018,985,217	-	-	-	10,018,985,217
Total liabilities	10,018,985,217	-	-	-	10,018,985,217

As at 31 December, 2008 and 2007, the fair value of the assets and liabilities carried at amortised cost, is presented as follows:

[Euros]	2008	2007
Assets		
Cash and equivalents	359,796,252	186,933,195
Loans and receivables	646,359,569	142,726,144
Trade and other receivables	106,825,506	73,444,129
Total	1,112,981,327	403,103,468
Liabilities		
Other financial liabilities	557,478,703	165,249,489
Trade and other payables	111,240,598	58,726,819
Total	668,719,301	223,976,308

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 on-going 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

also include longevity risk where products pay out over the lifetime of the policyholder such as workmen's compensation and some disability policies.

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 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 31.12.2008	Impact on Fair Value at 31.12.2007
Risk free rates +100 bp	(10,634,738)	(9,707,109)
Risk free rates -100 bp	(798,598)	(4,151,974)
Market value of shares and real estate -10%	(21,174,226)	(40,247,255)
Mortality rates -5%	10,507,955	9,798,265
Expenses -10%	9,784,029	14,635,596
Lapse rates -10%	25,879,710	34,911,189

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 employed 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;

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- 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 reserves 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 and, when appropriate, is channelled through internal re-insurance companies. 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.

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

Line of Business	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 reserves are established for claims that have occurred but which have not yet been settled and for future claims. In general, Millenniumbcp Fortis establishes claims reserves by product category, coverage and 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 reserves is tested at least quarterly, in line with group policy and is certified by independent external actuaries. Any adjustments resulting from changes in reserves estimates are reflected in current results of operations. Additionally, whenever adequate, underwriting and pricing policies may be reviewed.

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

U/W year	<2002	2002	2003	2004	2005	2006	2007	2008	Total
Estimate of cumulative claims:									
At the end of the 1st Accident year		74,262,239	61,458,284	71,738,001	78,892,093	80,400,186	89,131,140	103,273,213	
2003		73,310,823							
2004		73,506,764	63,752,840						
2005		72,750,064	63,067,999	67,394,090					
2006		73,804,986	62,763,159	65,829,281	78,851,613				
2007		74,342,675	62,633,742	65,141,651	75,069,838	80,887,616			
2008		73,161,922	60,316,660	64,974,043	74,441,114	78,768,975	86,856,346		
Estimate of cumulative claims to date		73,161,922	60,316,660	64,974,043	74,441,114	78,768,975	86,856,346	103,273,213	
Cumulative payments to date		71,645,528	57,943,504	60,805,889	68,756,772	72,557,200	79,634,917	72,837,621	
Outstanding claims liabilities	8,726,121	1,516,394	2,373,157	4,168,155	5,684,342	6,211,776	7,221,429	30,435,592	66,336,966
Other claims liabilities (not included in the above)									
Claims with regard Workmen Compensation									12,866,217
Total liabilities	8,726,121	1,516,394	2,373,157	4,168,155	5,684,342	6,211,776	7,221,429	30,435,592	79,203,183

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.

Millenniumbcf 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 2008 and 2007, the combined ratio of the non-life business is as follow:

	Non-Life		A&H		Motor		Fire		Other	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Claims Ratio	54.7%	50.6%	62.8%	57.6%	49.5%	52.7%	31.4%	26.9%	32.0%	39.3%
Cost Ratio	25.7%	25.5%	25.9%	26.1%	26.0%	24.7%	25.1%	25.1%	23.3%	17.3%
Combine ratio (claims/costs)	80.3%	76.1%	88.7%	83.7%	75.5%	77.4%	56.4%	52.1%	55.3%	56.6%

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 except for discount rate, where a risk free rate is used.

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 2008 and 2007, 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 Table	
	Male	Female
Term insurance	60% GKM95	50% GKF95
Annuities	100% PERM2000C	100% PERF2000C
Savings	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 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 man-

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

aged 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 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)

Lines of Business [Euros]	Claims reserve as at 31 December 2007 (1)	Claims paid gross (2)	Claims reserve as at 31 December 2008 in relation to 2007 (3)	Adjustments (run-off) (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

Line of Business Non Life 2008 [Euros]	Claims Paid (1)	Allocated claims management costs (2)	Change in claims Reserve (3)	Claims Incurred (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

d) Solvency requirements

The calculation of the Solvency margin is performed under the demands of the Portuguese Insurance Regulator (ISP) as stated in Norm nº6/2007-R, based on the statutory financial statements. The statutory financial statements were prepared in accordance with ISP rules. As at 31 December, 2008 the statutory financial statements are prepared in accordance with the New Plan of Accounts for the Insurance Companies ("PCES 07") and as at 31 December, 2007 the statutory financial statements were prepared in accordance with the Plan of Accounts for the Insurance Companies ("PCES 94").

Millenniumbcp Fortis monitors on a monthly basis of its Solvency level having set a minimum of 150% of its legal demand.

Item	31 December 2008	31 December 2007
Capital	1,000,002,375	1,000,002,375
Legal and Regulatory Revaluation	(32,998,038)	4,951,312
Retained earnings	127,687,774	54,746,662
Profit After Tax	28,427,197	87,522,341
Total Equity (1)	1,123,119,308	1,147,222,690
Intangible Assets	(544,291,656)	(588,840,202)
Bonds and Retirement Pensions adjust	(3,693,155)	(86,963,632)
Life Future Profits	25,159,949	24,052,002
Total (2)	(522,824,862)	(651,751,832)
Solvency Margin Available (1) + (2)	600,294,446	495,470,858
Solvency Margin Required	291,509,991	279,352,205
Excess/Shortage	308,784,455	216,118,653
Solvency Ratio	206%	177%

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Millenniumbcf 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 Millenniumbcf Fortis, after consideration of any applicable reserves.

Guarantees

As at 31 December 2008 the total amount of banking guarantees were Euro 169,000 (2007: Euro 169,000). The guarantees were given in the scope of the claims processes.

Commitments

Millenniumbcf 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	79,511	194,240	329,478	603,229

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	2008	2007
Dividends	11,850,000	29,700,000
Interest income	3,314,988	2,093,010
Total income	15,164,988	31,793,010
Total expenses	(946,005)	(616,998)
Profit after tax	14,218,983	31,176,012

Balance Sheet	2008	2007
Investments in subsidiaries	999,953,125	999,953,125
Other assets	71,390,986	57,506,567
Total assets	1,071,344,111	1,057,459,692
Total equity	1,071,172,494	1,056,953,511
Total liabilities	171,617	506,181
Total equity and liabilities	1,071,344,111	1,057,459,692

Note 42 – Recently issued pronouncements

The new standards and interpretations that have been issued, but that are not yet effective and that the Group has not yet applied, can be analysed 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 the impact will be exclusively regarding presentation. However as at 31 December 2008, the Group is still evaluating the impact of these changes.

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 allowing for an early adoption.

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.

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) they represent a residual interest in the net assets of the entity are included in a class of instruments subordinated to any other class of instruments issued by the Bank; and (iii) is 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 does not expect any impact from the adoption of this amendment.

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 applicable 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 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 to 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 does not expect 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 (amendment) – Share-based payment: Acquisition conditions, which is applicable from 1 January, 2009, although allowing for an early adoption. 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.

As for 31 December 2008, 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.

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, which is applicable for years starting after 1 July, 2009, although allowing for an early adoption.

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 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 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 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.

Considering the nature of this change (disclosure) the impact will be limited to the presentation of the financial statements. As at 31 December 2008, the Group is evaluating the impact of adopting this standard.

IFRIC 12 – Service Concession Arrangements

The International Financial Reporting Interpretations Committee (IFRIC) has issued in July, 2007 IFRIC 12 – Service Concession Arrangements, which is applicable from 1 January, 2008, although allowing for an early adoption. The endorsement by the European Union

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

was not yet approved. However, it is expected for the first quarter of 2009. The IFRIC 12 applies to public-to-private service concession arrangements. This interpretation will be applicable only when (i) the grantor controls or regulates what services the operator must provide and (ii) the grantor controls any significant residual interest in the infrastructure at the end of the term of the arrangement.

Considering the nature of the contracts considered, the Group does not expect any impact from the adoption of this interpretation.

IFRIC 13 – Customer Loyalty Programmes

The IFRIC 13 Customer Loyalty Programmes was issued on July, 2007 and will be effective from 1 July, 2008, although allowing for an early adoption.

This interpretation 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 does not expect any impact from the adoption of this interpretation

IFRIC15 – Agreements for the Construction of Real Estate

The IFRIC15 – Agreements for the Construction of Real Estate will be 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 does not expect this interpretation to have an impact on its financial statements.

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 allowing for an early adoption.

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 does not expect this interpretation to have an impact on its 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 this interpretation to have an impact on its 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 this interpretation to have an impact on its financial statements.

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 will be mandatory for the Group in 2009.

The main changes resulting from the Annual Improvement Project are as follows:

- 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.
- 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 does not expect any material 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 on this standard establishes classification rule (i) for the income originated by the sale of rented assets subsequently sold and (ii) for the income from these assets during the period between the date of termination of the rental agreement and the date of the sale agreement. The Group does not expect any material impact from the adoption of the changes referred above.
- 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

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 changes to IAS 19 will be adopted by the Group in 2009. However, the Group does not expect any material impact from the adoption of the changes referred above in its consolidated financial statements.

- 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 does not expect any impact from the adoption of this change.
- 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 does not expect any impact from the adoption of this change.
- 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. This change will not have an impact on the financial statement of the Group considering that, in the individual accounts, the investments in subsidiaries are accounted at acquisition cost, according with IAS 27.
- 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, (ii) that any impairment loss to be recognized shouldn't be allocated to specific assets namely to goodwill and (iii) that the impairment reversions 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 increase.
- Change to IAS 38 Intangible Assets, applicable from 1 January 2009. This change determined that an incurred deferred expense related with publicity 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 does not expect any significant impact from the adoption of this change.
- Changes to the IAS 39 Financial Instruments: Recognition and Measurement, applicable from 1 January 2009. These changes include mainly (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 instrument 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 does not expect any significant impact from the adoption of this change.

- 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 does not expect any impact from the adoption of this change.

Note 43 – Transition adjustments to the New Plan of Accounts

As referred to in note II.1.a) these are the first consolidated financial statements prepared by the Group in accordance with the New Plan of Accounts for the Insurance Companies ("PCEs 07") approved by Rule n. 4/2007 issued by the Portuguese Insurance Regulator ("ISP"). The accounting policies describe in Note II.1 were used in the preparation of the financial statements as at and for the year ended 31 December, 2008, for the comparative financial information as at and for the year ended 31 December, 2007 and the opening consolidated balance sheet as at 1 January, 2007.

In the preparation of the opening consolidated balance sheet in accordance with the New Plan of Accounts for the Insurance Companies ("PCEs 07") and of the comparative financial information as at and for the year ended 31 December, 2007, the Group restated amounts previously reported in accordance with generally accepted accounting principles in Portugal for the insurance companies and the Plan of Accounts for the Insurance Companies ("PCEs 94").

The key impacts in equity of the transition to the New Plan of Accounts as at 1 January, 2007 and 31 December, 2007, are set out as follows:

		1-Jan-07	31-Dec-07
Equity in accordance with previous accounting policies [Euros]		1,095,666,420	1,147,222,690
IAS 19 – Employee benefits	a)	(172,413)	891,660
IFRS 3 – Business combination (goodwill)	b)	(307,734,148)	(273,096,669)
IFRS 3 – Business combination (VOBA – Value of business acquired)	c)	407,762,574	356,901,791
IAS 40 – Investment property	d)	–	(290,888)
IAS 39 – Financial instruments	e)	62,324,075	(15,768,445)
IFRS 4 – Insurance reserves (liability adequacy test)	f)	(27,821,835)	(26,918,989)
IFRS 4 – Profit sharing to be attributable ("shadow")	g)	(43,913,574)	(57,833,989)
IAS 12 – Income taxes	h)	(105,517,389)	(68,100,002)
Equity in accordance with the New Plan of Accounts		1,080,593,710	1,063,007,158

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The key impacts in profit and loss of the transition to the New Plan of Accounts as at and for the year ended 31 December, 2007, are as follows:

		31-Dec-07
Profit after tax in accordance with previous accounting policies [Euros]		87,522,341
IAS 19 – Employee benefits	a)	1,064,073
IFRS 3 – Business combination (goodwill)	b)	34,637,479
IFRS 3 – Business combination (VOBA – Value of business acquired)	c)	(50,860,783)
IAS 40 – Investment property	d)	(887,788)
IAS 39 – Financial instruments	e)	16,108,521
IFRS 4 – Insurance reserves (liability adequacy test)	f)	902,846
IFRS 4 – Profit sharing to be attributable (“shadow”)	g)	(13,920,415)
IAS 12 – Income taxes	h)	12,612,290
Profit after tax in accordance with the New Plan of Accounts		87,178,564

a) Pensions and other employee benefits

The previous accounting policies adopted by the Group required that any increase in vested benefits, net of actual returns on plan assets, was charged to income in the year to which it related. The excess of the fair value of plan assets above total liabilities was not recognised. In accordance with IAS 19, the portion related to actuarial gains and losses is deferred in accordance with the corridor method and the excess of the fair value of plan assets above total liabilities is recognised as an asset.

b) Goodwill

In accordance with the previous accounting policies, goodwill was determined based on the difference between the acquisition cost and the respective portion of net assets acquired and was recorded as an asset, if positive, and amortised over 20 years. In accordance with IFRS 3, 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.

As a result the impact was a decrease in consolidated equity as at 31 December, 2007 of Euro 273,097,000 (1 January, 2007: Euro 307,734,000) and an increase in the consolidated profit for the year ended amounting to Euro 34,637,000.

c) VOBA – Value of business 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 the previous accounting policies this intangible asset was not accounted for.

As a result the impact was an increase in consolidated equity as at 31 December, 2007 of Euro 356,902,000 (1 January, 2007: Euro 407,763,000) and a decrease in the consolidated profit for the year ended amounting to Euro 50,861,000.

d) Investment property

In accordance with the previous accounting policies of the Group, investment property were valued at market value determined based on valuations performed at least every five years. In accordance with the alternative treatment of IAS 40, investment property is measured at amortised cost and subject to impairment tests.

e) Financial instruments

In accordance with IAS 39, financial assets are classified in one of the following categories: (i) assets at fair value through profit or loss, (ii) Available-for-sale investments and (iii) Loans and receivables.

Available-for-sale investments are measured at fair value and losses being recognised in the fair value reserve, except when an impairment loss exists, in which case it is charged against income. Impairment losses on equity securities cannot be reversed through income, as opposed to the procedure followed for debt securities.

Debt securities held by insurance subsidiaries were accounted for in accordance with the previously accounting policies adopted by the Group at acquisition cost, except for the investments for the benefit of life assurance policyholders who bear the investment risk. Interest accrual was made based on nominal value and on the applicable interest rate for the period. Premium or discount was accrued over the period to maturity against the income statement.

The equity securities portfolio was measured at fair value determined at the balance sheet date. Unrealized gains and losses resulting from the difference between the book value and fair value, at the balance sheet date, were recorded in equity under "Regulatory revaluation reserve" or in the "Fund for future appropriations" in the case of assets covering the liabilities arising from life insurance contracts with profit sharing. Any losses not covered by the reserve or by the fund for future appropriations were charged to income.

Under IAS 39, all derivative instruments are recognised in the balance sheet at fair value. In accordance with the accounting policies previously adopted by the Group, derivatives were recognised at its notional amount as an off balance sheet item, the interest being accrued in the balance sheet.

As at 31 December 2007, the adoption of IAS 39 resulted in an decrease in the amount of Euro 15,768,000 (1 January, 2007: increase of Euro 62,324,000) and an increase in the consolidated profit for the year ended amounting to Euro 16,109,000.

f) Insurance reserves

As mentioned previously and following the acquisition of the operating entities, goodwill has been determined based on the fair value of the assets and liabilities acquired. The assessment of the liability was performed using the best estimate of future cash flows under each contract, discounted at a risk free rate. As a result as at 31 December 2007 consolidated equity decreased in of Euro 26,919,000 (1 January, 2007: Euro 27,822,000) and the consolidated profit for the year ended increased in the amount of Euro 903,000.

g) 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.

The adoption of this accounting policy as at 31 December, 2007 implied a decrease in consolidated equity of Euro 57,834,000 (1 January, 2007: Euro 43,914,000) and a decrease in the consolidated profit for the year ended amounting to Euro 13,920,000.

h) Deferred taxes

In accordance with the accounting policies previously adopted by the Group the insurance subsidiaries already recognised deferred taxes on the temporary differences between local and tax balance sheets. Therefore, on the date of transition these subsidiaries recognised additionally deferred taxes on the relevant IFRS adjustments determined at that date.



Report of 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, presented on pages 6 to 83, of **Millenniumbcp Fortis Grupo Segurador, S.G.P.S., S.A.**, which comprise the consolidated balance sheet as at 31 December, 2008 (showing total assets of 11,612,084,263 Euros and total equity of 1,123,119,309 Euros, including consolidated net profit of 28,427,197 Euros), and the consolidated statements of income, cash flows and changes in equity for the year then ended and the corresponding notes to the accounts.

Responsibilities

2. The Board of Directors is responsible for the preparation of the consolidated financial statements, in accordance with generally accepted accounting principles in Portugal applicable to the Insurance Sector, established by the rule nº 4/2007 of 27 April, with the changes introduced by the rule nº 20/2007 of 31 December, both issued by the Portuguese Insurance Regulator (Instituto de Seguros de Portugal), which presents fairly the financial position of the Group and of its results, 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 judgements and criteria defined by the respective 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 their disclosure, taking into account the applicable circumstances;
 - assessing the applicability of the going concern principle; and
 - evaluating 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 Directors' Report with the consolidated financial statements.
6. We believe that our audit provides a reasonable basis for our opinion.

Opinion

7. In our opinion, the consolidated financial statements referred to above 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 2008, and of the results of its operations, its cash flows and changes in shareholders' equity for the year then ended, in accordance with generally accepted accounting principles in Portugal applicable to the Insurance Sector, established by the rule n° 4/2007 of 27 April, with the changes introduced by the rule n° 20/2007 of 31 December, both issued by the Portuguese Insurance Regulator (Instituto de Seguros de Portugal).

Lisbon, 27 February 2009



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

IV

**Report
and opinion
of the board
of auditors**

□ IV – REPORT AND OPINION OF THE BOARD OF AUDITORS

Financial Year 2008

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 2008, 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 great adversity, 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 leadership with reference to the pension funds segment.

For the Board of Auditors, in short, given the fact that in 2008 the insurance sector grew 11.5% 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 national insurance group, having attained at the end of 2008 a global market share of 15.8% (13.9% in 2007) and a market share of 20.3% (18.6 in 2007) and 4.4% (4.0% in 2007) in Life business and Non-life business, respectively;
- The position it occupies in the pension funds area represents a market share of 34.1% and a volume of assets under management of 6,898 million euros, corresponding to a 7% decrease relative to the previous year;
- An increase in shareholders' equity of 60.1 million euros;
- Consolidated net income of 28.4 million euros.

4.2 In terms of the Group's consolidated production, and where the global evolution of the sector registered an 11.5% increase in the volume of premiums, MILLENNIUMBCP FORTIS – Grupo Segurador, SGPS, S.A.:

- ▣ attained a volume of direct insurance premiums of 2,426 million euros;
- ▣ obtained, relative to the previous year, a 28.6% and 8.2% increase in Life and Non-Life business, respectively, with the evolution of the national insurance market registering a 17.5% growth in Life business and a 1.3% decline in Non-Life business being worthy of mention;
- ▣ achieved a consolidated technical margin, before the allocation of administrative costs, of 144 million euros, 34.8% less than that which was registered in 2007;
- ▣ registered a consolidated solvency ratio of 206.2%, up 28.8% 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 2008;
- ▣ the proposal for the presentation of results submitted by the Board of Directors.

Lisbon, 5 March 2009

THE BOARD OF AUDITORS

Joaquim Patrício da Silva *Chairman*

Jose Rodrigues de Jesus *Member*

António Fernando Nogueira Chaves *Member*

