

Annual Report 2007

Millenniumbcp Fortis
INSURANCE GROUP

VOLUME II
CONSOLIDATED FINANCIAL
STATEMENTS

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I Consolidated Financial Statements

□ I – CONSOLIDATED FINANCIAL STATEMENTS

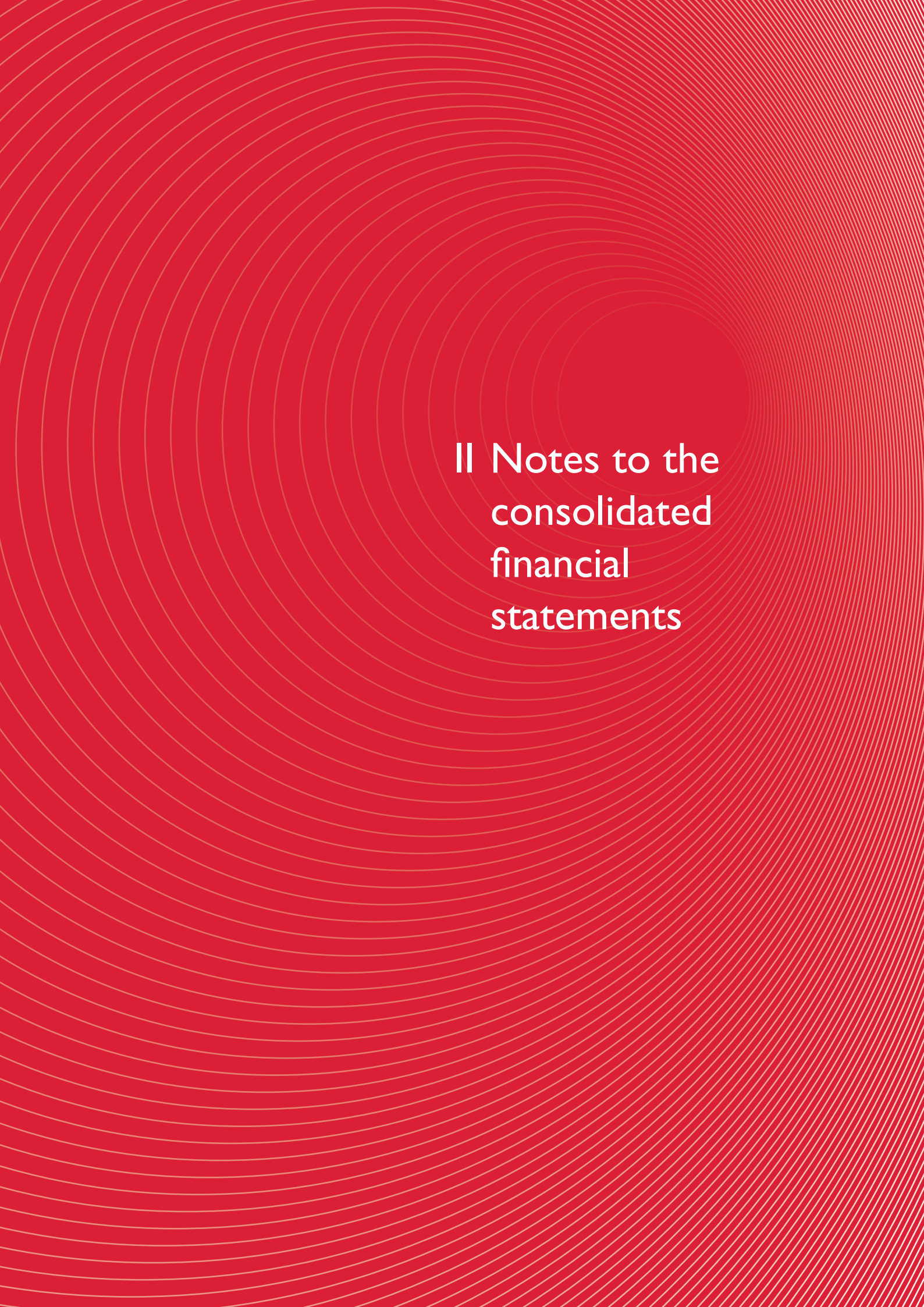
Consolidated income statement [Thousands of Euros]	Note	2007	2006
Net premiums earned	1	967,269	964,557
Interest income	2	149,576	101,864
Dividends and similar income	3	4,843	1,853
Net gains/(losses) from financial assets held at fair value through profit and loss	4	(2,238)	432
Net gains/(losses) from available-for-sale financial assets	5	34,976	40,820
Net other realised gains/(losses)		(171)	(36)
Net income from investments held on behalf of policyholders	6	87,489	31,193
Fees and similar income	7	70,554	59,589
Other income	8	6,200	9,585
Total income		1,318,498	1,209,857
Changes in insurance contracts liabilities (net)	9	(125,191)	(116,277)
Changes in investment contracts liabilities (net)			
– with discretionary participation features	10	(828,573)	(809,254)
– at fair value through profit and loss account	10	(80,637)	(31,190)
Impairment charges other assets (net of reversals)	11	(1,453)	(1,319)
Change in other provisions	11	(320)	(1,478)
Acquisitions expenses (net)	12	(21,665)	(13,246)
Operating and administrative expenses	13	(80,354)	(82,138)
Amortisation and depreciation	14	(52,034)	(57,735)
Other expenses	15	(8,674)	(4,550)
Total expenses		(1,198,901)	(1,117,187)
Profit before tax		119,597	92,670
Total tax expense	25	(32,300)	(22,236)
Profit after tax		87,297	70,434
Attributable to:			
Equity holders of the parent		87,297	70,434
Minority interests		–	–

Consolidated balance sheet [Thousands of Euros]	Note	2007	2006
Cash and equivalents	16	144,609	294,028
Due from banks	17	141,400	86,400
Trading assets	18	1,608	373
Investments held at fair value through profit and loss	18	42,104	37,424
Investments available for sale	19	4,287,228	3,973,927
Investment property	20	7,760	8,647
Investments on behalf of policyholders	21	5,514,540	5,170,564
Reinsurance contracts	27	65,244	69,330
Trade and other receivables	22	73,444	98,718
Goodwill and other intangible assets	23	672,957	724,492
Property and equipment	24	1,921	1,769
Current tax assets		767	—
Deferred tax assets	25	1,861	11,843
Deferred acquisition costs	27	5,185	5,539
Other assets	26	20,590	27,511
Total assets		10,981,218	10,510,565
Insurance contracts liabilities	27	321,996	317,542
Investment contracts liabilities			
— with discretionary participation features	28	3,846,028	3,527,891
— at fair value through profit and loss account	28	5,515,678	5,177,117
Funds held under reinsurance agreements	29	64,639	62,766
Provisions	30	1,872	1,760
Trade and other payables	31	57,460	189,836
Current tax liabilities		16,147	17,402
Deferred tax liabilities	25	68,659	116,390
Other liabilities	32	25,266	18,920
Total liabilities		9,917,745	9,429,624
Share capital		1,000,002	1,000,002
Retained earnings		42,416	9,380
Other reserves		4,439	2,041
Fair value reserve		(70,681)	(916)
Profit after tax		87,297	70,434
Total equity	33	1,063,473	1,080,941
Total liabilities and equity		10,981,218	10,510,565

□ I – CONSOLIDATED FINANCIAL STATEMENTS
Consolidated statement of changes in equity [Thousands of Euros]

	Share capital	Fair value reserve			Legal reserve	Retained earnings	Net profit	Total equity
		Gross	Deferred tax	Net				
Balance as at 01 January, 2006	1,000,002	25,151	(7,109)	18,042	–	(2)	39,423	1,057,465
Transfers to reserves	–	–	–	–	2,041	37,382	(39,423)	–
Unrealised gains and (losses), net	–	(47,151)	13,246	(33,905)	–	–	–	(33,905)
Shadow adjustment, net	–	20,620	(5,673)	14,947	–	–	–	14,947
Profit after tax	–	–	–	–	–	–	70,434	70,434
Dividends paid in 2006	–	–	–	–	–	(28,000)	–	(28,000)
Balance as at 31 December, 2006	1,000,002	(1,380)	464	(916)	2,041	9,380	70,434	1,080,941
Transfers to reserves	–	–	–	–	2,398	68,036	(70,434)	–
Unrealised gains and (losses), net	–	(95,148)	25,216	(69,932)	–	–	–	(69,932)
Shadow adjustment, net	–	227	(60)	167	–	–	–	167
Profit after tax	–	–	–	–	–	–	87,297	87,297
Dividends paid in 2007	–	–	–	–	–	(35,000)	–	(35,000)
Balance as at 31 December, 2007	1,000,002	(96,301)	25,620	(70,681)	4,439	42,416	87,297	1,063,473

Consolidated cash flows statements [Thousands of Euros]	2007	2006
Cash flow from operating activities		
Profit after tax	87,297	70,434
Adjustment for:		
Depreciation and amortisation	52,034	57,735
Change in insurance contracts liabilities	4,454	15,082
Change in investment contracts liabilities	656,698	664,219
Change in provisions	112	1,289
Change in reinsurance reserves	4,086	640
Impairment charges on other assets	(1,773)	(2,797)
Change in deferred acquisition costs	354	1,309
Change in deferred tax assets/liabilities	(37,749)	(26,800)
Changes in operational assets and liabilities:		
Trading assets and liabilities	(1,235)	(1,002)
Trade and other receivables	27,602	34,698
Other assets and liabilities	11,248	5,501
Trade and other payables	(132,376)	122,069
Funds held under reinsurance agreements	1,873	1,562
	672,625	943,939
Cash flow from investment activities		
Change in investments held at fair value through profit and loss	(4,681)	(8,087)
Change in investments available for sale	(383,067)	(543,181)
Change in investments on behalf policyholder	(343,975)	(294,585)
Purchase of property and equipment	(321)	(530)
Due from banks – interest bearing deposits	(55,000)	142,902
	(787,044)	(703,481)
Cash flow from financing activities		
Dividends paid	(35,000)	(28,000)
	(35,000)	(28,000)
Net increase in cash and cash equivalents	(149,419)	212,458
Cash and cash equivalents at the beginning of the year	294,028	81,570
Cash and cash equivalents at the end of the year	144,609	294,028

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

For the year ended 31 December 2007, the Group's consolidated financial statements were prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted for use in the European Union ('EU'). 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 2007, 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 in 2007 the IFRIC 10 Interim Financial Reporting and Impairment. The adoption of this interpretation did not have any impact on the financial statements.

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

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

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

b) Basis of consolidation

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

All Group companies have consistently applied the accounting policies.

Investments in subsidiaries

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

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

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

The subsidiary companies included in the consolidation are as follows:

Subsidiary companies	% Share participation	Activity
Ocidental – Companhia Portuguesa de Seguros, S.A.	100%	Non life
Ocidental – Companhia Portuguesa de Seguros de Vida, S.A.	100%	Life
Pensõesgere – Sociedade Gestora de Fundos Pensões, S.A.	100%	Pensions fund management
Médis – Companhia Portuguesa de Seguros de Saúde, S.A.	100%	Health

Goodwill

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

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

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

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

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

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Balances and transactions eliminated in consolidation

Inter-company balances and transactions, including any unrealised gains and losses on transactions between Group companies, are eliminated in preparing the consolidated financial statements, unless unrealised losses provides evidence of an impairment loss that should be recognised in the consolidated financial statements.

c) Insurance and Investment contracts

Classification

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

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

Recognition and measurement

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

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

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

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

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

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

of the financial assets within each investment fund, multiplied by the number of units attributable to the contract holder at the reporting date.

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

d) Acquisition costs

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

e) Insurance policy and claims reserves

Life mathematical reserve

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

Claims outstanding reserves

Claims outstanding reserves reflects the estimated outstanding liability for reported claims, and incurred but not reported claims (IBNR). Management based on experience and available data using statistical methods estimates reserves for both reported and non-reported claims. Additionally, claims reserves also include an estimation related with future indirect costs with claims settlement ("expense reserve").

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

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

Reserve for bonuses and rebates

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.

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

Shadow accounting

In accordance with IFRS 4, the unrealised gains and losses on the assets covering liabilities arising out from insurance and investment contracts with discretionary participating features are attributed to policyholder, to the extent that it is expected that they will participate on those unrealised gains and losses when they became realised in accordance with the terms of the contracts and applicable legislation, by recording those amounts under liabilities (see note 28).

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.

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 accordance with IAS 39, the Group does not reclassify, after initial recognition, a financial instrument into or out of the fair value through profit or loss category.

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.

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.

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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) 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 accepted reinsurance contracts with significant insurance risk are the same as those applied to direct written insurance contracts.

j) 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.

k) Property and equipment

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

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

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

	Life time (years)
Premises	25
Administrative equipment	8
Computer hardware	3 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.

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

l) 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.

m) 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.

n) 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.

o) 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.

p) Provisions

Provisions are recognised when: (i) the Group has present legal or constructive obligation, (ii) it is probable that settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

q) 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.

r) 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.

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

s) Employee benefits

Defined benefit plan

In accordance with the agreement entered into with its employees, Millenniumbcf 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.

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

In 2003, the Group established a share based payment scheme, whereby it grants to directors and employees equity options over Banco Comercial Português, S.A. ('BCP') shares, BCP being a minority shareholder of the Group.

The fair value of the services received is determined by reference to the fair value of the share options granted. Compensation expense is measured on the grant date based on the value of the options and is recognised over the vesting period of the options as a liability. Fair value is determined using an option-pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the expected volatility of the underlying stock and the expected dividends on it, and the risk-free interest rate over the expected life of the option.

At each balance sheet date the liability is measured at fair value through the income statement. During the first quarter of 2006, the employees exercised the stock option plan.

t) Income taxes

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

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

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

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

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

u) 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.

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

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 were based on the Group experience and industry standards and may be revised if it is determined that future experience will differ substantially from that previously assumed. Insurance reserves includes (1) life mathematical reserve, (2) reserve for bonuses and rebates, (3) unearned premiums reserve, (4) unexpired risks reserve, (5) ageing reserve, (6) liability adequacy test and (7) estimated provisions for both reported and unreported claims incurred and claims expenses.

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

In determining their insurance policy and claims reserves, the Group perform a continuing review of its overall positions, reserving techniques and reinsurance coverage. Qualified actuaries

periodically review the reserves. The Group maintains property and casualty loss reserves to cover the estimated ultimate unpaid liability for losses with respect to reported and unreported claims incurred as of the end of each accounting period.

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

Fair value of derivatives

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

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

Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility of the share price.

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.

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 [Thousands of Euros]						
	2007			2006		
	Life & Pensions	Non Life	Total	Life & Pensions	Non Life	Total
Net premiums earned	854,378	112,891	967,269	863,573	100,984	964,557
Interest income	143,421	6,155	149,576	97,078	4,786	101,864
Dividends and similar income	4,709	134	4,843	1,785	68	1,853
Net gains/(losses) from financial assets held at fair value through PL	(2,265)	27	(2,238)	410	22	432
Net gains/(losses) from available-for-sale financial assets	33,541	1,435	34,976	38,841	1,979	40,820
Net other realised gains/(losses)	(170)	(1)	(171)	(33)	(3)	(36)
Net income from investments held on behalf of policyholders	87,489	–	87,489	31,193	–	31,193
Fees and similar income	70,554	–	70,554	59,589	–	59,589
Other income	1,934	4,266	6,200	1,809	7,776	9,585
Total income	1,193,591	124,907	1,318,498	1,094,245	115,612	1,209,857
Changes in insurance contracts liabilities (net)	(59,544)	(65,647)	(125,191)	(67,402)	(48,875)	(116,277)
Changes in investment contracts liabilities (net)						
– with discretionary participation features	(828,573)	–	(828,573)	(809,254)	–	(809,254)
– at fair value through profit and loss account	(80,637)	–	(80,637)	(31,190)	–	(31,190)
Impairment charges other assets (net of reversals)	217	(1,670)	(1,453)	(362)	(957)	(1,319)
Change in other provisions	–	(320)	(320)	(1,158)	(320)	(1,478)
Acquisitions expenses (net)	(31,817)	10,152	(21,665)	(26,037)	12,791	(13,246)
Operating and administrative expenses	(41,041)	(39,313)	(80,354)	(41,637)	(40,501)	(82,138)
Amortisation and depreciation	(51,239)	(795)	(52,034)	(56,919)	(816)	(57,735)
Other expenses	(7,138)	(1,536)	(8,674)	(91)	(4,459)	(4,550)
Total expenses	(1,099,772)	(99,129)	(1,198,901)	(1,034,050)	(83,137)	(1,117,187)
Profit before tax	93,819	25,778	119,597	60,195	32,475	92,670
Total tax expense	(25,278)	(7,022)	(32,300)	(12,475)	(9,761)	(22,236)
Profit after tax	68,541	18,756	87,297	47,720	22,714	70,434
Attributable to:						
Equity holders of the parent	68,541	18,756	87,297	47,720	22,714	70,434
Minority interests	–	–	–	–	–	–

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance sheet [Thousands of Euros]	2007			2006		
	Life & Pensions	Non Life	Total	Life & Pensions	Non Life	Total
Cash and equivalents	127,121	17,488	144,609	252,964	41,064	294,028
Due from banks	108,035	33,365	141,400	74,290	12,110	86,400
Trading assets	1,589	19	1,608	366	7	373
Investments held at fair value through profit and loss	42,104	–	42,104	37,424	–	37,424
Investments available for sale	4,145,956	141,272	4,287,228	3,841,404	132,523	3,973,927
Investment property	7,760	–	7,760	8,647	–	8,647
Investments on behalf of policyholders	5,514,540	–	5,514,540	5,170,564	–	5,170,564
Reinsurance contracts	743	64,501	65,244	624	68,706	69,330
Trade and other receivables	50,842	22,602	73,444	69,968	28,750	98,718
Goodwill and other intangible assets	604,390	68,567	672,957	655,251	69,241	724,492
Property and equipment	1,579	342	1,921	1,359	410	1,769
Current tax assets	–	767	767	–	–	–
Deferred tax assets	–	1,861	1,861	10,242	1,601	11,843
Deferred acquisition costs	–	5,185	5,185	–	5,539	5,539
Other assets	18,422	2,168	20,590	22,880	4,631	27,511
Total assets	10,623,081	358,137	10,981,218	10,145,983	364,582	10,510,565
Insurance contracts liabilities	191,757	130,239	321,996	186,216	131,326	317,542
Investment contracts liabilities						
– with discretionary participation features	3,846,028	–	3,846,028	3,527,891	–	3,527,891
– at fair value through profit and loss account	5,515,678	–	5,515,678	5,177,117	–	5,177,117
Funds held under reinsurance agreements	6,444	58,195	64,639	6,051	56,715	62,766
Provisions	1,161	711	1,872	1,261	499	1,760
Trade and other payables	46,046	11,414	57,460	171,280	18,556	189,836
Current tax liabilities	15,948	199	16,147	10,804	6,598	17,402
Deferred tax liabilities	68,659	–	68,659	116,390	–	116,390
Other liabilities	19,106	6,160	25,266	11,791	7,129	18,920
Total liabilities	9,710,827	206,918	9,917,745	9,208,801	220,823	9,429,624
Share capital	889,997	110,005	1,000,002	889,997	110,005	1,000,002
Retained earnings	17,927	24,489	42,416	(2,245)	11,625	9,380
Other reserves	3,995	444	4,439	1,837	204	2,041
Fair value reserve	(68,206)	(2,475)	(70,681)	(127)	(789)	(916)
Profit after tax	68,541	18,756	87,297	47,720	22,714	70,434
Total equity	912,254	151,219	1,063,473	937,182	143,759	1,080,941
Total liabilities and equity	10,623,081	358,137	10,981,218	10,145,983	364,582	10,510,565

II.4 Notes to the consolidated income statement

Note I – Net premiums earned

Premiums earned net of reinsurance ceded are analysed as follows:

[Thousands of Euros]	2007	2006
Gross premiums Life	874,460	881,851
Gross premiums Non Life	175,694	170,755
Gross premiums	1,050,154	1,052,606
Reinsurance ceded premiums Life	(20,082)	(18,278)
Reinsurance ceded premiums Non Life	(61,857)	(67,505)
Reinsurance ceded premiums	(81,939)	(85,783)
Change in unearned premiums Non Life	2,593	(309)
Change in unearned reinsurance premiums Non Life	(3,539)	(1,957)
Change in unearned premiums Non Life (net)	(946)	(2,266)
Premiums earned Life (net)	854,378	863,573
Premiums earned Non Life (net)	112,891	100,984
Premiums earned (net)	967,269	964,557

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:

[Thousands of Euros]	2007	2006
Insurance life traditional	174,035	168,373
Investment contracts with DPF	700,425	713,478
Gross premiums under IFRS 4	874,460	881,851

Direct insurance non-life premiums are analysed as follows:

[Thousands of Euros]	2007		2006	
	Gross written premiums	Earned premiums	Gross written premiums	Earned premiums
Accidents and health	116,003	116,562	109,559	107,018
Fire and other hazards	32,575	33,221	30,834	31,419
Motor	20,934	22,221	23,966	25,237
Other lines	6,182	6,283	6,396	6,772
Total	175,694	178,287	170,755	170,446

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Reinsurance ceded non-life premiums are analysed as follows:

[Thousands of Euros]	2007		2006	
	Gross written premiums	Earned premiums	Gross written premiums	Earned premiums
Accidents and health	22,502	24,082	24,673	24,578
Fire and other hazards	14,753	15,457	14,604	15,079
Motor	20,934	22,220	23,955	25,468
Other lines	3,668	3,637	4,273	4,337
Total	61,857	65,396	67,505	69,462

Note 2 – Interest income

Interest income is analysed as follows:

[Thousands of Euros]	2007	2006
Interest from available for sale investments	139,280	91,684
Interest from financial assets held at fair value through profit and loss	1,604	1,070
Interest from bank deposits	8,692	9,110
Total	149,576	101,864

Note 3 – Dividends and similar income

Dividends and similar income are analysed as follows:

[thousands of euros]	2007	2006
Dividends from available for sale investments	4,150	1,140
Investment property	693	713
Total	4,843	1,853

The balance dividends from available for sale investments correspond to dividends received.

Note 4 – Net gains/(losses) from financial assets held at fair value through profit and loss

This balance is analysed as follows:

[Thousands of Euros]	2007			2006		
	Gains	(Losses)	Net	Gains	(Losses)	Net
Other investments	–	(2,542)	(2,542)	284	(1,003)	(719)
Derivative financial instruments	1,153	(849)	304	1,326	(175)	1,151
Total	1,153	(3,391)	(2,238)	1,610	(1,178)	432

Note 5 – Net gains/(losses) from available-for-sale financial assets

This balance is analysed as follows:

[Thousands of Euros]	2007			2006		
	Gains	(Losses)	Total	Gains	(Losses)	Total
Government bonds	205	(7,062)	(6,857)	6,530	(8,398)	(1,868)
Corporate debt securities	1,105	(220)	885	2,946	(4,238)	(1,292)
Equity securities	66,007	(25,059)	40,948	44,383	(403)	43,980
Total	67,317	(32,341)	34,976	53,859	(13,039)	40,820

Note 6 – Net income from investments held on behalf of policyholders

Net income from investments held on behalf of policyholders is analysed as follows:

[Thousands of Euros]	2007	2006
Interest income	251,002	230,896
Dividends and similar income	3	8
Net gains/(losses)	(163,516)	(199,711)
Total	87,489	31,193

Note 7 – Fees and similar income

Fees and similar income are analysed as follows:

[Thousands of Euros]	2007	2006
Fees on pensions funds management	12,969	13,093
Fees on investment contracts without discretionary participation features (inc unit-linked)	57,585	46,496
Total	70,554	59,589

Fees on investment contracts without discretionary profit features (including unit linked contracts), are determined as follows:

[Thousands of Euros]	2007	2006
Management commission (loading) (+)	24,059	29,388
Financial income net of expenses (+)	90,049	28,171
Surrender charges (+)	1,029	1,006
Agent/bank commissions paid (-)	(14,045)	(12,859)
Interest credit to policyholder (-)	(30,933)	14,308
Other expenses allocated to UL management (-)	(12,574)	(13,518)
Total	57,585	46,496

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The yield curve movement during 2006 led to a significant decrease of the level of unrealised capital gains of the unit linked funds, which justifies a negative allocation of return to policyholder after deducting the management fee.

Note 8 – Other income

Other income includes an amount of Euro 1,638,000 (2006: Euro 6,120,000) 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.

Note 9 – Changes in insurance contracts liabilities (net)

Changes in insurance contracts liabilities net of reinsurance ceded are analysed as follows:

[Thousands of Euros]	2007			2006		
	Life	Non Life	Total	Life	Non Life	Total
Direct insurance						
Claims paid	57,506	83,436	140,942	50,105	73,467	123,572
Claims reserves	74	869	943	2,086	7,611	9,697
Mathematical reserves	5,849	–	5,849	14,009	–	14,009
Ageing reserve	–	–	–	–	(485)	(485)
Reserve for bonuses and rebates	7,797	95	7,892	8,961	550	9,511
Unexpired risk reserve	–	637	637	–	(9,906)	(9,906)
Total	71,226	85,037	156,263	75,161	71,237	146,398
Reinsurance ceded						
Claims paid	(11,562)	(20,056)	(31,618)	(7,700)	(21,104)	(28,804)
Claims reserves	–	666	666	(157)	(1,258)	(1,415)
Mathematical reserves	(120)	–	(120)	98	–	98
Total	(11,682)	(19,390)	(31,072)	(7,759)	(22,362)	(30,121)
Total (net)	59,544	65,647	125,191	67,402	48,875	116,277

Note 10 – Changes in investment contracts liabilities (net)

Net changes in investment contracts at fair value through income, including unit-linked contracts liabilities, are analysed as follows:

[Thousands of Euros]	2007	2006
Fee	57,585	46,496
Interest credit to policyholder	30,933	(14,308)
Surrender charges and other	(7,881)	(998)
Total	80,637	31,190

Net changes in investment contracts liabilities with discretionary participation features are analysed as follows:

[Thousands of Euros]	2007	2006
Claims paid	510,143	396,593
Claims reserves	(12,005)	(16,412)
Mathematical reserves	278,084	391,341
Reserve for bonuses and rebates	52,351	37,732
Total	828,573	809,254

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

Impairment charges on other assets, net of reversals, are analysed as follows:

[Thousands of Euros]	2007	2006
Receivables from policyholders	(1,157)	(1,982)
Available for sale investments	1,048	118
Investment property	554	1,713
Other receivables	1,008	1,470
Total Impairment	1,453	1,319
Change in other provisions	320	1,478
Total	1,773	2,797

Note 12 – Acquisitions expenses (net)

Acquisition expenses (net) are analysed as follows:

[Thousands of Euros]	2007	2006
Commissions	51,628	46,919
Change in deferred acquisition costs	354	1,309
Reinsurance commissions and profit sharing	(30,317)	(34,982)
Total	21,665	13,246

The caption Commissions includes the amount of Euro 48,342,000 (2006: Euro 43,771,000) 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 13 – Operating and administrative expenses

The Operating and administrative expenses are analysed as follows:

[Thousands of Euros]	2007	2006
Staff and related costs		
Remuneration and other short term benefits	20,291	21,062
Social security charges	3,065	2,983
Employee benefit plans expenses	695	789
	24,051	24,834
External services and supplies	56,303	57,304
Total	80,354	82,138

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

[Thousands of Euros]	2007	2006
Claims incurred	6,254	6,952
Operating expenses		
Acquisition costs	13,615	15,831
Administrative costs	35,227	34,320
Investment expenses		
Allocated to insurance technical account	18,622	19,141
Allocated to insurance non technical account	105	61
Other non allocated expenses	6,531	5,833
Total	80,354	82,138

As at 31 December 2007 and 2006, the number of employees of the Group were 454 and 467 (402 and 426 in average for the year), of each 440 and 452 are full time equivalents.

Note 14 – Amortisation and depreciation

The amortisation and depreciation of intangibles and tangible assets, respectively, are analysed as follows:

[Thousands of Euros]	2007	2006
Depreciation of tangible assets		
Investment property	333	378
Equipment and motor vehicles	91	121
IT equipment	75	19
	499	518
Amortisation of intangible assets		
Software	672	769
Value of business acquired	50,861	56,446
Other intangible assets	2	2
	51,535	57,217
Total	52,034	57,735

The amortisation and depreciation were allocated to claims management, acquisition, administrative and investment functions, as follows:

[Thousands of Euros]	2007	2006
Claims incurred	137	171
Operating expenses		
Acquisition costs	157	180
Administrative costs	533	537
Investment expenses		
Allocated to insurance technical account	341	401
Other non allocated expenses (not related with insurance)	50,866	56,446
Total	52,034	57,735

Note 15 – Other expenses

Other expenses includes an amount of Euro 1,450,000 (2006: Euro 3,498,000) 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.

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

II.5 Notes to the consolidated balance sheet

Note 16 – Cash and equivalents

As at 31 December 2007 and 2006, this balance is analysed as follows:

[Thousands of Euros]	2007	2006
Bank deposits	144,609	294,028
Total	144,609	294,028

Note 17 – Due from banks

This balance is related with an interest bearing deposit of Euro 141,400,000 in Banco Comercial Português, S.A., 138,850,000 with a maturity of 1 month and 2,550,000 with a maturity of 3 months (2006: Euro 86,400,000).

Note 18 – Investments held at fair value through profit and loss and trading assets

As at 31 December 2007 and 2006, this balance is analysed as follows:

[Thousands of Euros]	2007	2006
Derivative financial instruments	1,608	373
Trading assets	1,608	373
Corporate debt securities	42,104	37,424
Investments held at fair value through PL	42,104	37,424

As at 31 December 2007 and 2006, Derivative financial instruments are analysed as follows:

[Thousands of Euros]	Assets	
	Fair value	Notional amount
Foreign exchange contracts		
Forwards	373	16,026
Total in 2006	373	16,026
Foreign exchange contracts		
Forwards	1,608	31,325
Total in 2007	1,608	31,325

Note 19 – Investments available for sale

As at 31 December 2007 and 2006, this balance is analysed as follows:

[Thousands of Euros]	2007				2006			
	Amortised Cost	Impairment	Unrealised gains/(losses)	Book value	Amortised Cost	Impairment	Unrealised gains/(losses)	Book value
Government bonds	2,093,220	–	(63,482)	2,029,738	2,285,561	–	(23,796)	2,261,765
Corporate debt securities	1,569,002	–	(32,683)	1,536,319	1,111,279	–	(4,703)	1,106,576
Equity securities	650,766	(1,048)	(136)	649,582	509,061	(118)	27,346	536,289
Deposits ceding undertakings	7	–	–	7	7	–	–	7
Accrued interest	71,582	–	–	71,582	69,290	–	–	69,290
Total	4,384,577	(1,048)	(96,301)	4,287,228	3,975,198	(118)	(1,153)	3,973,927

In 2007, an impairment loss of Euro 1,048,000 (2006: Euro 118,000) 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 39).

Note 20 – Investment property

As at 31 December 2007 and 2006, this balance is analysed as follows:

[Thousands of Euros]	2007	2006
Cost	11,117	11,117
Accumulated depreciation	(1,089)	(756)
Impairment	(2,268)	(1,714)
Balance at the end of the year	7,760	8,647
Fair value	7,760	8,647

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 (2006: Euro 1,714,000) was recognised, as the recoverable amount estimated was lower than the net book value.

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 21 – Investments on behalf of policyholders

As at 31 December 2007 and 2006, this balance is analysed as follows:

[Thousands of Euros]	2007			2006		
	Amortised cost	Unrealised gains/(losses)	Book value	Amortised cost	Unrealised gains/(losses)	Book value
Government bonds	1,256	284	1,540	14,088	(642)	13,446
Corporate debt securities	5,693,479	(163,609)	5,529,870	5,316,227	(90,977)	5,225,250
Equity securities	61,530	1,618	63,148	19,193	2,814	22,007
Derivatives	(100,611)	–	(100,611)	7,609	(82,664)	(75,055)
Bank deposits	22,183	–	22,183	26,692	–	26,692
Receivable/payable on sales/acquisitions	21,462	–	(21,462)	(12,223)	–	(12,223)
Management commissions	(23,052)	–	(23,052)	(29,553)	–	(29,553)
Total	5,676,247	(161,707)	5,514,540	5,342,033	(171,469)	5,170,564

Note 22 – Trade and other receivables

As at 31 December 2007 and 2006, this balance is analysed as follows:

[Thousands of Euros]	2007	2006
Receivables from policyholders	26,936	41,079
Receivables from intermediaries	736	4,893
Receivables from reinsurance operations	12,618	12,017
Receivables from state and other public entities	26,026	26,558
	66,316	84,547
Impairment	(6,170)	(7,088)
Total trade receivables	60,146	77,459
Other receivables	13,478	22,554
Impairment	(180)	(1,295)
Total other receivables	13,298	21,259
Total	73,444	98,718

Receivables from policyholders include an amount of Euro 25,131,000 (2006: Euro 38,927,000), which relates to uncollected premiums, of which Euro 5,520,000 (2006: Euro 8,594,000) is for premiums in course of collection, for which the bad debt risk was covered by the recognition of an impairment loss.

As at 31 December 2007 and 2006, 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.

Other receivables includes the amount of Euro 6,275,000 (2006: Euro 5,764,000) related with claims reimbursements issued in the scope of the agreement between BCP Group and the Sindicatos Bancários do Norte, Centro e Sul. As at 31 December, 2006 it is also included an amount of Euro

1,803,000 related with the service agreement of the Sistema de Orientação Pediátrica with the Administrações Regionais de Saúde. On 22 March 2007 Médis – Companhia Portuguesa de Seguros de Saúde sold to Direcção Regional de Saúde the “Saúde 24” brand.

Other receivables includes also an amount of Euro 5,582,000 (2006: Euro 11,887,000) related with investments sold in the last days of the year, which will be received in the begging of 2008.

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

[Thousands of Euros]	2007		2006	
	Trade	Other	Trade	Other
Balance at the beginning of the year	7,088	1,295	9,717	232
Write back for the year	(1,157)	–	(2,706)	–
Charge of the year	–	1,008	724	1,470
Transfers and other movements	239	(2,123)	(647)	(407)
Balance at the end of the year	6,170	180	7,088	1,295

Note 23 – Goodwill and other intangible assets

As at 31 December 2007 and 2006, this balance is analysed as follows:

[Thousands of Euros]	2007			
	Goodwill	VOBA	Other	Total
Aquisition cost				
Balance as at 31 December 2006	315,740	527,990	3,399	847,131
Balance as at 31 December 2007	315,740	527,990	3,399	847,131
Accumulated Amortisation				
Balance as at 31 December 2006	–	(120,227)	(2,410)	(122,637)
Amortisation of the year	–	(50,861)	(674)	(51,535)
Balance as at 31 December 2007	–	(171,088)	(3,084)	(174,172)
Net intangible assets 2006	315,740	407,763	989	724,492
Net intangible assets 2007	315,740	356,902	315	672,957

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

Life & Pensions segment [Thousands of Euros]		Non Life segment [Thousands of Euros]	
Ocidental – Companhia Portuguesa de Seguros de Vida, S.A.	233,127	Ocidental – Companhia Portuguesa de Seguros, S.A.	64,074
Pensõesger – Sociedade Gestora de Fundos de Pensões, S.A.	14,360	Médis – Companhia Portuguesa de Seguros de Saúde, S.A.	4,179
	247,487		68,253
			315,740

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 9%.

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

[Thousands of Euros]	2008	2009	2010	2011	2012	Thereafter
Estimated amortisation of VOBA	46,804	41,635	29,700	28,246	24,374	186,143

Note 24 – Property and equipment

As at 31 December 2007 and 2006, this balance is analysed as follows:

[Thousands of Euros]	2007	2006
Equipment		
IT equipment	922	897
Administrative equipment	1,107	1,088
Other	2,232	1,958
	4,261	3,943
Accumulated depreciation	(2,340)	(2,174)
Net balance	1,921	1,769

The movements on this balance are presented as follows:

[Thousands of Euros]	IT equipment	Administrative equipment	Other equipment	Total
Acquisition cost				
Balance as at 31 December 2006	897	1,088	1,958	3,943
Acquisitions	25	19	277	321
Other movements	–	–	(3)	(3)
Balance as at 31 December, 2007	922	1,107	2,232	4,261
Depreciation				
Balance as at 31 December 2006	615	1,003	556	2,174
Depreciation of the year	75	72	19	166
Balance as at 31 December, 2007	690	1,075	575	2,340
Net balance as at 31 December, 2006	282	85	1,402	1,769
Net balance as at 31 December, 2007	232	32	1,657	1,921

Note 25 – Deferred tax

The Group determined its income tax liability for the 2007 and 2006 financial years on the basis of a nominal rate of 26.5% for 2007 and 27.5% for 2006. These are the nominal rates 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 in the 31 December, 2007 and 2006, financial statements, are analysed as follows:

	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
Investment property	–	–	(577)	(654)	(577)	(654)
Intangible assets	–	–	(94,579)	(108,057)	(94,579)	(108,057)
Investments	17,352	–	–	(7,679)	17,352	(7,679)
Insurance and investment contracts liabilities	9,952	10,308	(210)	–	9,742	10,308
Provisions	906	1,489	–	–	906	1,489
Other	507	46	(149)	–	358	46
Deferred tax asset/ (liability)	28,717	11,843	(95,515)	(116,390)	(66,798)	(104,547)
Off set asset/ (liability)	(26,856)	–	26,856	–	–	–
Net deferred tax asset/ (liability)	1,861	11,843	(68,659)	(116,390)	(66,798)	(104,547)

The changes in deferred tax recognised in 2007 and 2006, are analysed as follows:

	2007		2006	
	Recognised on income	Recognised on equity	Recognised on income	Recognised on equity
Investment property	235	(158)	(104)	(654)
Intangible assets	13,478	–	19,600	–
Investments	1,139	23,892	(4,238)	8,227
Insurance and investment contracts liabilities	(1,988)	1,422	3,951	–
Provisions	(583)	–	(187)	–
Other	312	–	205	–
Deferred tax asset/ (liability)	12,593	25,156	19,227	7,573

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The income tax expense for the years 2007 and 2006 is analysed as follows:

[Thousands of Euros]	2007	2006
Current tax	(44,893)	(41,463)
Deferred tax	12,593	19,227
Total tax recognised in the income statement	(32,300)	(22,236)

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

[Thousands of Euros]	2007	2006
Profit before taxes	119,597	92,670
Statutory rate	26.5%	27.5%
Income tax calculated on the statutory rate	31,693	25,484
Tax exempt dividends	(189)	(260)
Tax benefits	–	(1,166)
Autonomous taxation	65	64
Effect of changes in tax rates on temporary differences	–	(4,019)
Other permanent differences	731	2,133
	32,300	22,236

In 2006, the effect of changes in tax rates on temporary differences includes the change in tax rate of 27.5% to 26.5% as a result of the approval of the municipality law, which result in a change of rate and methodology of calculation of “derrama”.

The deferred tax recognised directly through equity was booked against fair value reserves in the available for sale investments.

Note 26 – Other assets

Other assets include an amount of Euro 17,872,000 (2006: Euro 22,715,000) related with management commissions charged on the unit-linked contracts.

Note 27 – Insurance contracts liabilities and deferred acquisition costs

As at 31 December 2007 and 2006, this balance is analysed as follows:

[Thousands of Euros]	2007			2006		
	Life & Pensions	Non Life	Total	Life & Pensions	Non Life	Total
Gross						
Unearned premiums reserve	–	51,353	51,353	–	53,946	53,946
Claims outstanding reserve	16,908	76,563	93,471	17,182	75,275	92,457
Life mathematical reserve	171,631	–	171,631	165,781	–	165,781
Reserve for bonuses and rebates	3,218	106	3,324	3,253	525	3,778
Unexpired risk reserve	–	2,217	2,217	–	1,580	1,580
Total Gross	191,757	130,239	321,996	186,216	131,326	317,542
Reinsurance Ceded						
Unearned premiums reserve	–	21,785	21,785	–	25,325	25,325
Claims outstanding reserve	306	42,716	43,022	306	43,381	43,687
Life mathematical reserve	437	–	437	318	–	318
Total Reinsurance	743	64,501	65,244	624	68,706	69,330
Total (net)	191,014	65,738	256,752	185,592	62,620	248,212

The life mathematical reserve (net) is analysed as follows:

[Thousands of Euros]	2007			2006		
	Direct insurance	Reinsurance ceded	Total	Direct insurance	Reinsurance ceded	Total
Annuities	130,306	–	130,306	128,313	–	128,313
Risk products	41,325	(437)	40,888	37,468	(318)	37,150
Life mathematical reserves	171,631	(437)	171,194	165,781	(318)	165,463

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 a result of new reserving policy for Workers Compensation, aligned with life annuities, the Non-life claims outstanding reserve includes an amount of Euro 576,000 (in 2006 an amount of Euro 1,091,000 was booked as LAT provision).

As at 31 December 2007 and 2006, no additional liability 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 39).

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

[Thousands of Euros]	2007	2006
Deferred acquisition costs as at 1 January	5,539	6,848
Acquisition costs of the year	5,185	5,539
Acquisition costs amortisation	(5,539)	(6,848)
Deferred acquisition costs as at 31 December	5,185	5,539

The Non Life claims outstanding reserve by line of business is analysed as follows:

[Thousands of Euros]	2007			2006		
	Direct insurance	Reinsurance ceded	Total	Direct insurance	Reinsurance ceded	Total
Accident and health	40,599	17,494	23,105	38,715	17,278	21,437
Fire and other hazards	6,390	1,020	5,370	6,391	1,268	5,123
Motor	25,164	23,329	1,835	25,717	23,773	1,944
Other lines of business	4,410	873	3,537	4,452	1,062	3,390
Total	76,563	42,716	33,847	75,275	43,381	31,894

Claims outstanding reserve life and non-life, including reinsurance accepted, represents unsettled claims occurring before 31 December 2007, and include an amount of Euro 23,592,000 (2006: Euro 21,464,000) 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 3,121,000 (2006: Euro 3,207,000).

Included in claims outstanding for Workers compensation is the amount of Euro 10,981,000 (2006: Euros 11,015,000) relating to the mathematical provision for Workers compensation.

The movements on the claims outstanding reserve are analysed as follows:

[Thousands of Euros]	2007	2006
Balance as of 1 January	92,456	82,251
Plus incurred claims:		
Current year	138,848	140,387
Prior years	3,109	(6,610)
Less paid related to		
Current year	(104,974)	(96,774)
Prior years	(35,968)	(26,797)
Balance as of 31 December	93,471	92,457

The reserve for bonuses and rebates 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.

[Thousands of Euros]	2007	2006
Balance as at 1 January	3,778	2,829
Amounts paid	(8,346)	(8,561)
Estimated attributable amounts	7,892	9,510
Total	3,324	3,778

Note 28 – Investment contracts liabilities

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

As at 31 December 2007 and 2006, investment contracts liabilities with discretionary participating features are analysed as follows:

[Thousands of Euros]	2007	2006
Claims outstanding reserve	12,450	24,521
Life mathematical reserves	3,760,584	3,465,411
Reserve for bonuses and rebates	72,994	37,959
Total	3,846,028	3,527,891

As at 31 December 2007 and 2006, no additional liability 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 39).

Reserve for bonuses and rebates 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 2006 the total amount of the shadow adjustment is Euro 227,000.

The movements on the reserve for bonuses and rebates of investment contracts with discretionary participation features, excluding the effect of the shadow adjustment, are analysed as follows:

[Thousands of Euros]	2007	2006
Balance as at 1 January	37,732	8,663
Attributed amounts included in life mathematical reserves	(17,090)	(8,663)
Estimated attributable amounts	52,352	37,732
Balance as at 31 December	72,994	37,732

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2007, and 2006, the liabilities on behalf of policyholders are analysed as follows:

[Thousands of Euros]	2007	2006
Balance as at 1 January	5,177,117	4,905,075
Deposits received	865,935	576,520
Benefits paid	(608,011)	(290,169)
Return to policyholder	80,637	(14,309)
Balance as at 31 December	5,515,678	5,177,117

Liabilities on behalf of policyholders include the fair value of any guarantees or options included on the investment contracts. The yield curve movement during 2006 led to a significant decrease on the level of unrealised capital gains of the unit linked funds, which justifies a negative allocation of interest credit to policyholder after deducting the management fee.

Note 29 – Funds held under reinsurance agreements

Funds held under reinsurance agreements of Euro 64,639,000 (2006: Euro 62,766,000), represent the value of guarantees received from re-insurers, arising from the acceptance of reinsurance risks and premiums.

Note 30 – Provisions

As at 31 December 2007 and 2006, the balance provisions are analysed as follows:

[Thousands of Euros]	2007	2006
Provision for income tax	318	400
Provisions for other risks and charges – others	1,554	1,360
Total	1,872	1,760

As at 31 December 2007 and 2006, the changes in provisions are as follows:

[Thousands of Euros]	2007	2006
Balance as at 1 January	1,760	471
Charge for the year	320	1,478
Write back for the year	(208)	(189)
Balance as at 31 December	1,872	1,760

Note 31 – Trade and other payables

As at 31 December 2007 and 2006, this balance is analysed as follows:

[Thousands of Euros]	2007	2006
Amounts payable to policyholders and intermediaries	2,598	21,929
Amounts payable from reinsurance operations	7,283	6,581
Trade amounts payable	9,881	28,510
Post-employment benefits	1,144	2,105
Short term employee benefits	2,768	2,424
Share based compensation liability – Cash settled	–	877
Liabilities for employee benefits	3,912	5,406
VAT and Other taxes payable	6,290	5,085
Other amounts payable	37,377	150,835
Other	43,667	155,920
Total	57,460	189,836

The post employment benefits relates to the Group liabilities to provide for accrued pension and health benefits. Further disclosures on employee benefits (including stock options), are provided in note 36.

Short term employees benefits in the amount of Euro 2,768,000 (2006: Euro 2,424,000) is related with the accrual of the 2007 bonus attributable to employees that will be paid in 2008.

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 2007 and 2006, Other amounts 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 Pensõesger – Sociedade Gestora de Fundos de Pensões, S.G.F.P., S.A., management entity of the BCP Group pension fund.

In 2007, Other amounts payable includes an amount of Euro 11,458,000 (2006: Euro 124,997,000), related with investments acquired in the last days of the year, which will be paid in the beginning of January 2008.

Note 32 – Other liabilities

Other liabilities include the amount of Euro 14,051,000 related to commissions payable to Banco Comercial Português, S.A., for the products distribution (2006: Euro 12,922,000).

Additionally, includes also an accrual related with the present value of the future contributions to Workers Compensation Fund (FAT) in the amount of Euro 777,000 (2006: Euro 773,000) as described on the accounting policies.

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

II.6 Notes to the Statement of changes in equity

Note 33 – Share capital, legal reserve and fair value reserves

Share capital

As at 31 December 2007, 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 2007 and 2006 are analysed as follows:

<i>[Thousands of Euros]</i>	2007	2006
Balance as at 1 January	(1,153)	45,997
Revaluations	(79,147)	(33,294)
Impairment	1,048	118
Sales	(17,049)	(13,974)
Balance as at 31 December	(96,301)	(1,153)

The fair value reserves is analysed as follows:

<i>[Thousands of Euros]</i>	2007	2006
Amortised cost of Available for sale investments	4,384,577	3,975,198
Impairment	(1,048)	(118)
Amortised cost of Available for sale investments net of impairment	4,383,529	3,975,080
Fair value of Available for sale investments	4,287,228	3,973,927
Unrealised gains/(losses) recognised on fair value reserve	(96,301)	(1,153)
Deferred tax	25,620	404
Fair value reserve on equity (net)	(70,681)	(749)

The Equity as at 31 December 2007 is analysed as follows:

[Thousands of Euros]

	Share capital	Fair value reserve			Legal reserve	Retained earnings	Net profit	Total equity
		Gross	Deferred tax	Net				
Issuance of capital	1,000,002	—	—	—	—	—	—	1,000,002
Unrealised gains and losses, net	—	(96,301)	25,620	(70,681)	—	—	—	(70,681)
Profit after tax of the year	—	—	—	—	—	—	87,297	87,297
Retained earnings	—	—	—	—	—	77,416	—	77,416
Legal reserve	—	—	—	—	4,439	—	—	4,439
Dividends paid in 2007	—	—	—	—	—	(35,000)	—	(35,000)
Balance as at 31 December, 2007	1,000,002	(96,301)	25,620	(70,681)	4,439	42,416	87,297	1,063,473

The Equity as at 31 December 2006 is analysed as follows:

[Thousands of Euros]

	Share capital	Fair value reserve			Legal reserve	Retained earnings	Net profit	Total equity
		Gross	Deferred tax	Net				
Issuance of capital	1,000,002	—	—	—	—	—	—	1,000,002
Unrealised gains and losses, net	—	(1,153)	404	(749)	—	—	—	(749)
Shadow accounting, net	—	(227)	60	(167)	—	—	—	(167)
Profit after tax of the year	—	—	—	—	—	—	70,434	70,434
Retained earnings	—	—	—	—	—	37,380	—	37,380
Legal reserve	—	—	—	—	2,041	—	—	2,041
Dividends paid in 2006	—	—	—	—	—	(28,000)	—	(28,000)
Balance as at 31 December, 2006	1,000,002	(1,380)	464	(916)	2,041	9,380	70,434	1,080,941

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

II.7 Additional information to Segment report

Note 34 – Non life technical margins by line of business

[Thousands of Euros]										
	2007					2006				
	Accidents and health	Fire and other hazards	Motor	Other lines	Total	Accidents and health	Fire and other hazards	Motor	Other lines	Total
Gross premiums earned	116,562	33,221	22,221	6,283	178,287	107,018	31,419	25,237	6,772	170,446
Reinsurance premiums earned	(24,082)	(15,457)	(22,220)	(3,638)	(65,397)	(24,578)	(15,079)	(25,468)	(4,337)	(69,462)
Gross claims	(67,115)	(8,950)	(11,715)	(2,470)	(90,250)	(60,747)	(9,426)	(14,776)	(2,836)	(87,785)
Reinsurance share in claims	4,734	2,438	11,465	752	19,389	4,700	3,154	13,355	1,153	22,362
Change in other technical reserves – gross	(755)	(417)	389	51	(732)	8,065	297	1,742	(264)	9,840
Net acquisition and administrative expenses	(19,741)	(3,388)	2,451	(704)	(21,382)	(18,380)	(2,984)	2,288	(124)	(19,200)
Net investment income	4,021	(500)	(1,332)	(284)	1,905	1,145	(26)	64	(53)	1,130
Net realised gains/(losses)	(107)	(17)	(46)	(9)	(179)	1,149	153	495	83	1,880
Net other income/(expenses)	235	146	32	(20)	393	221	(727)	(57)	40	(523)
Technical margin	13,752	7,076	1,245	(39)	22,034	18,593	6,781	2,880	434	28,688
Net investment income					1,762					1,141
Net realised gains/(losses)					592					119
General expenses					(10)					(38)
Net other income/(expenses)					1,400					2,565
Non technical result					3,744					3,787
Profit before tax Non Life					25,778					32,475
	2007					2006				
	Accidents and health	Fire and other hazards	Motor	Other lines	Total	Accidents and health	Fire and other hazards	Motor	Other lines	Total
Gross reserves	77,502	32,418	12,457	7,862	130,239	75,936	34,646	12,688	8,056	131,326
Reinsurance share in reserves	29,397	30,407	1,984	2,713	64,501	30,761	32,137	2,935	2,873	68,706

Note 35 – Life technical margins by type of product

[Thousands of Euros]	2007				2006			
	Insurance traditional	Investment non UL with DPF	Investment UL	Total	Insurance traditional	Investment non UL with DPF	Investment UL	Total
Gross premiums	174,035	700,425	–	874,460	168,373	713,478	–	881,851
Fees	–	–	57,585	57,585	–	–	46,496	46,496
Net investment income	7,624	119,304	77,051	203,979	4,638	78,330	19,603	102,571
Net realised gains/(losses)	1,998	32,774	–	34,772	562	36,767	–	37,329
Net other income/(expenses)	785	108	(6,853)	(5,960)	1,475	152	10	1,637
Claims paid	(57,506)	(510,143)	–	(567,649)	(50,105)	(396,593)	–	(446,698)
Change in insurance contracts liabilities	(13,720)	–	–	(13,720)	(25,056)	–	–	(25,056)
Change in investment contracts liabilities	–	(318,431)	(80,637)	(399,068)	–	(412,661)	(31,190)	(443,851)
Reinsurance	(2,465)	–	–	(2,465)	(3,464)	–	–	(3,464)
Commissions and DAC	(13,373)	(10,333)	(14,045)	(37,751)	(11,704)	(8,529)	(12,859)	(33,092)
Allocated operating costs	(9,204)	(7,313)	(2,136)	(18,653)	(9,840)	(7,174)	(1,928)	(18,942)
VOBA amortisation	(30,365)	(9,380)	(11,116)	(50,861)	(33,617)	(11,265)	(11,564)	(56,446)
Technical margin	57,809	(2,989)	19,849	74,669	41,262	(7,495)	8,568	42,335
Net investment income				15,298				10,526
Net realised gains/(losses)				(4,220)				59
General expenses				(6,424)				(6,208)
Net other income/(expenses)				14,495				13,483
Non technical result				19,149				17,860
Profit before tax Life				93,818				60,195

II.8 Other Notes**Note 36 – Employee benefits (including stock options)****Pensions and other post retirement obligations**

In accordance with the terms of its employment contracts, the Group is responsible for pensions, including widows and orphans benefits and disability payment as stipulated in the Collective Agreements for Insurance Activity and Complementary Pension for Pension Fund BCP. Additionally, the Group assumed the responsibility with 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 2007.

As at 31 December 2007 and 2006 the number of participants of the benefit plan was as follows:

	2007	2006
Number of participants		
Employees	403	412
Retired and pensioners	22	9
	425	421

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	2007	2006
Discount rate	5.35%	4.65%
Future salary increases	3.25%	2.75%
Expected return on plan assets at 31 December	6.30%	6.03%
Future pension increases	2.25%	1.80%
Mortality table:		
Men	TV73/77 rated down 1 year	TV73/77 rated down 1 year
Women	TV 88/90	TV 88/90
Actuarial Method	Project Unit Credit	Project Unit Credit

As at 31 December 2007 and 2006, employee's benefits and fair value of plan assets are analysed as follows:

[Thousands of Euros]	2007			2006		
	Pension plans	Other benefits	Total	Pension plans	Other benefits	Total
Projected benefit obligations	(17,158)	(2,249)	(19,407)	(13,419)	(2,146)	(15,565)
Fair value of plan assets	17,950	–	17,950	14,645	–	14,645
Net recognized defined benefit obligations	792	(2,249)	(1,457)	1,226	(2,146)	(920)
Unrecognised actuarial (gains)/losses	623	(310)	313	(1,006)	(179)	(1,185)
Net asset/(liability)	1,415	(2,559)	(1,144)	220	(2,325)	(2,105)

As at 31 December 2006, the value Projected benefit obligations includes the amount of Euros 2,482,000 related with the obligations with past services for the Complementary plan, which are totally funded. Following the decision of the Executive Board of Directors dated 23 November 2006, the Complementary Plan, which was established in the "Plano de Pensões do Grupo Banco Comercial Português" (Defined benefit), will be funded through a defined contribution. However, the employees hired until the reference date of this decision maintain the benefits that were entitled to under the previous plan ("defined benefit"). The Group guarantees this defined benefit at the date of retirement.

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 8 (2006: 10), and the total liability amounts to Euro 2,177,000 (2006:Euro 6,236,000), which is included in the life insurance reserves.

The liabilities with pensions and other post employee's benefits in 2007 and 2006, can be analysed as follows:

[Thousands of Euros]	2007			2006		
	Pension plans	Other benefits	Total	Pension plans	Other benefits	Total
Liabilities as at 1 January	13,419	2,146	15,565	13,459	2,049	15,508
Current service cost	666	166	832	643	132	775
Interest cost	617	99	716	552	85	637
Benefits paid by the fund or by the Group	(447)	(31)	(478)	(297)	(28)	(325)
Actuarial (gains)/losses	2,908	(131)	2,777	(1,462)	(92)	(1,554)
Transfer between funds	(5)	–	(5)	524	–	524
Liabilities as at 31 December	17,158	2,249	19,407	13,419	2,146	15,565

The amount recognised as a cost by the Group in 2007 and 2006 is analysed as follows:

[Thousands of Euros]	2007			2006		
	Pension plans	Other benefits	Total	Pension plans	Other benefits	Total
Current service cost	666	166	832	643	132	775
Interest cost	617	99	716	552	85	637
Expected return on plan assets	(853)	–	(853)	(623)	–	(623)
Total benefit expenses	430	265	695	572	217	789

The changes in the fair value of the plan assets during 2007 and 2006, are analysed as follows:

[Thousands of Euros]	2007	2006
Opening balance as at 1 January	14,645	13,342
Group contributions	1,625	30
Benefits paid by the fund	(447)	(297)
Expected return on plan assets	853	623
Actuarial gains (losses) on plan assets	1,279	451
Transfer between funds	(5)	496
Balance as at 31 December	17,950	14,645

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

[Thousands of Euros]	2007			2006		
	Pension plans	Other benefits	Total	Pension plans	Other benefits	Total
Net actuarial (gains)/losses at beginning of the year	(1,006)	(179)	(1,185)	907	(87)	820
Actuarial (gains)/losses in relation to the DBO	2,908	(131)	2,777	(1,462)	(92)	(1,554)
Actuarial (gains)/losses in relation to the plan assets	(1,279)	–	(1,279)	(451)	–	(451)
Net actuarial (gains)/losses at the end of the year	623	(310)	313	(1,006)	(179)	(1,185)

As at 31 December 2007 the actuarial gains incurred as a result of the changes in the actuarial assumptions amounted to Euro 292,000. The actuarial losses are mainly a result of the changes introduced by the New Social Security Benefits Regime (decree-law n°187/2007 of 10 May). As at 31 December 2006 the actuarial gains incurred as a result of the changes in the discount rate amounted to Euro 1,941,000.

The contribution to the Pension Fund made by the Group companies amounted to Euro 1,625,000 (2006: Euro 30,000) being made in cash.

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

[Thousands of Euros]	2007			2006		
	Pension plans	Other benefits	Total	Pension plans	Other benefits	Total
Prepaid/(accrued) benefit cost as at 1 January	220	(2,325)	(2,105)	762	(2,136)	(1,374)
Net periodic benefit cost	(430)	(265)	(695)	(572)	(217)	(789)
Employer contributions and other contributions	1,625	31	1,656	30	28	58
Prepaid/(accrued) benefit cost as at 31 December	1,415	(2,559)	(1,144)	220	(2,325)	(2,105)

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

[Thousands of Euros]	2007	2006	2005	2004 Pro-forma
Projected benefit obligations	(19,407)	(15,565)	(15,508)	(14,159)
Fair value of plan assets	17,950	14,645	13,342	9,869
Net recognized defined benefit obligations	(1,457)	(920)	(2,166)	(4,290)
Unrecognised actuarial (gains)/losses	313	(1,185)	792	1,542
Net asset/(liability)	(1,144)	(2,105)	(1,374)	(2,748)

The assets of the pension fund are analysed as follows:

[Thousands of Euros]	2007	2006
Variable income securities	2,209,907	2,715,273
Fixed income securities	2,366,814	1,807,489
Real State	658,469	639,678
Others	422,609	415,570
	5,657,799	5,578,010

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 0,32% (2006: 0,26%).

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

[Thousands of Euros]	2007	2006
Variable income securities	230,659	269,482
Fixed income securities	157,091	56,098
	387,750	325,580

As at 31 December 2007 and 2006, the premises booked in the fund and used by Millenniumbcp Fortis amount of 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 6.25% to 7.25%), whose impact is analysed as follows:

[Thousands of Euros]	2007	2006
Pension cost impact	21	21
Liability impact	358	341

Share based payments

As mentioned in the accounting policies, the Group established a share based payment scheme, whereby it grants to directors and employees equity options over Banco Comercial Português S.A., shares. In accordance with IFRS 2, at each balance sheet date the liability is measured at fair value through the income statement. In 2006 employee options were exercised.

The plan with an impact in the Consolidated Financial Statements is analyzed as follows:

- **Beneficiaries: employees of the Group that fulfill the following cumulative requirements:**

- having received an extraordinary gratification equal or above Euro 6,500 in 2003;
- having a monthly remuneration above Euro 3,500;
- not being excluded from the annual extraordinary gratification plan in the last three years.

- **Benefit granted: attribution of share subscription rights.**

- **Summary of the plan:**

Grant date: 21 April 2003

Number of share subscription rights: 811,888

Exercise price: Euro 1.26

Exercise date: 1 March 2006

Fair value of the option as at 31 December 2005: Euro 1.08

Total liability: Euro 877,000.

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 37 – Related party transactions

As at 31 December, 2007 and 2006, the transactions with related parties and the remuneration of key management – Board of directors, is analysed as follows:

[Thousands of Euros]	2007	2006
Remuneration	1,257	2,159
Contributions to pensions plans	143	132
	1,400	2,291

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

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

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

Balance Sheet [Thousands of Euros]	BCP Group	Fortis Group	Pensions Fund	F&C	Total
Due from banks	286,009	–	–	–	286,009
Investments available for sale	220,670	18,000	–	–	238,670
Investments on behalf of policyholders	2,663,681	(9,694)	–	–	2,653,987
Other assets	–	113	–	–	113
Total assets	3,170,360	8,419	–	–	3,178,779
Insurance and investment contracts liabilities	123,553	–	–	–	123,553
Other liabilities	14,377	–	1,144	212	15,733
Total liabilities	137,930	–	1,144	212	139,286
Net assets/liabilities 2007	3,032,430	8,419	(1,144)	(212)	3,039,493
Net assets/liabilities 2006	3,242,663	310,485	(2,105)	(568)	3,550,475

Income Statement [Thousands of Euros]	BCP Group	Fortis Group	Pensions Fund	F&C	Total
Net premiums earned	13,592	–	–	–	13,592
Interest income and Dividends	3,413	194	–	–	3,607
Net gains/(losses) from available-for-sale financial assets	(1,523)	–	–	–	(1,523)
Net income from investments held on behalf of policyholders	21,461	(25,608)	–	–	(4,147)
Total income	36,943	(25,414)	–	–	11,529
Changes in insurance and investment contracts liabilities (net)	(34,036)	–	–	–	(34,036)
Acquisitions expenses (net)	(50,241)	–	–	–	(50,241)
Operating and administrative expenses	(27,408)	–	(696)	(15,625)	(43,729)
Total expenses	(111,685)	–	(696)	(15,625)	(128,006)
Net Income/Expenses 2007	(74,742)	(25,414)	(696)	(15,625)	(116,477)
Net Income/Expenses 2006	(24,627)	(29,734)	(789)	(18,405)	(73,555)

Note 38 – Assets under management

Pensõesgera is a pension fund management company. The assets under management as at 31 December, 2007 and 2006, are analysed as follows by type of investment:

[Thousands of Euros]	2007	2006
Fixed income securities	3,061,083	2,147,379
Equity securities	3,766,788	4,063,682
Investment property	600,185	604,689
Total	7,428,056	6,815,749

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

[Thousands of Euros]	2007	2006
Value as at 1 January	6,815,749	5,865,687
Net contributions	422,076	283,278
Capital gains/(losses)	291,272	756,225
Transfers	(101,041)	(89,441)
Value as at 31 December	7,428,056	6,815,749

Note 39 – Risk management

Sound risk management is one of the key pillars for a strategy of sustainable profitable growth and therefore, a core competence at Millenniumbcp Fortis. As part of our overall corporate governance framework we have established a risk management organisational structure, based on the structure that Fortis Group has in place. Its primary objective is to protect the group from events that hinder the achievement of our objectives, our financial performance, or cause us to fail to exploit opportunities.

Standardised risk taxonomy

Following Fortis Group Risk Management guidelines and principles, Millenniumbcp Fortis has the various components of the risk management function centralized under the CFO, who is also acting as Chief Risk Officer. At the same time, the Group has applied the standardised risk taxonomy of Fortis Group to manage the 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 because of the uncertainty inherent in 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 and thus, often internally driven, reason why it can be limited through management processes and controls. This definition includes legal and compliance risk, but excludes strategic and reputation 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.

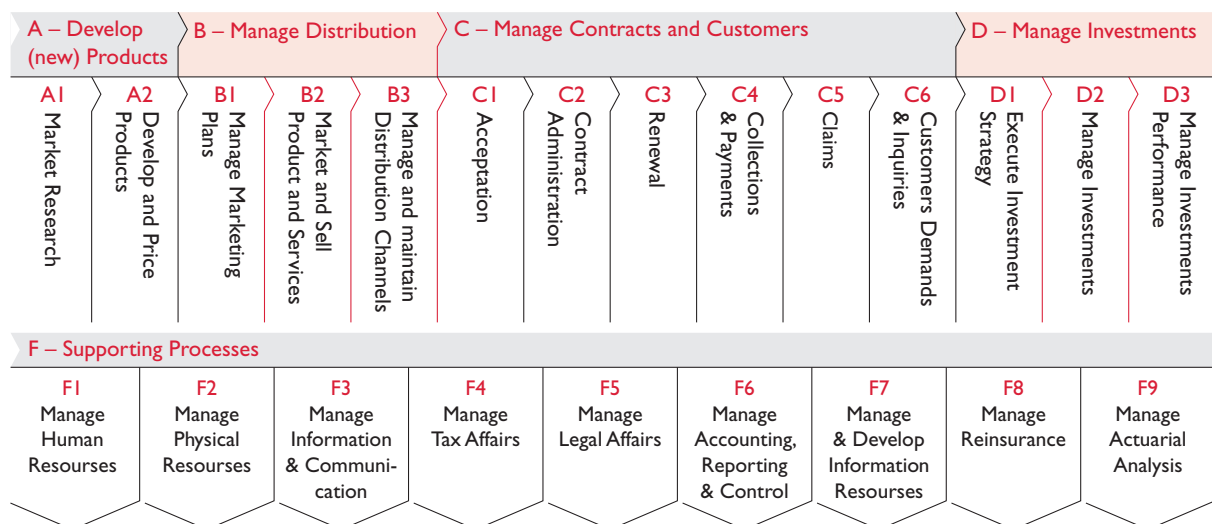
The operational risk function of Millenniumbcp Fortis, within the Risk Management department, continues implementing the international best practises in Operational risk management and introducing Fortis principles and methodologies. It continued to perform the control risk assessments and, in particular in 2007 it was approved in the scope of the operational risk governance, the operational risk framework developed by Fortis, whose schematic form is presented bellow.

Policy on Operational (Event) Risk				
Operation risk identification, assessment, measurement/ modeling, 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
PRODUCTLINE / PROCESS DESCRIPTION AT BUSINESS LINE / LEGAL ENTITY 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,...)

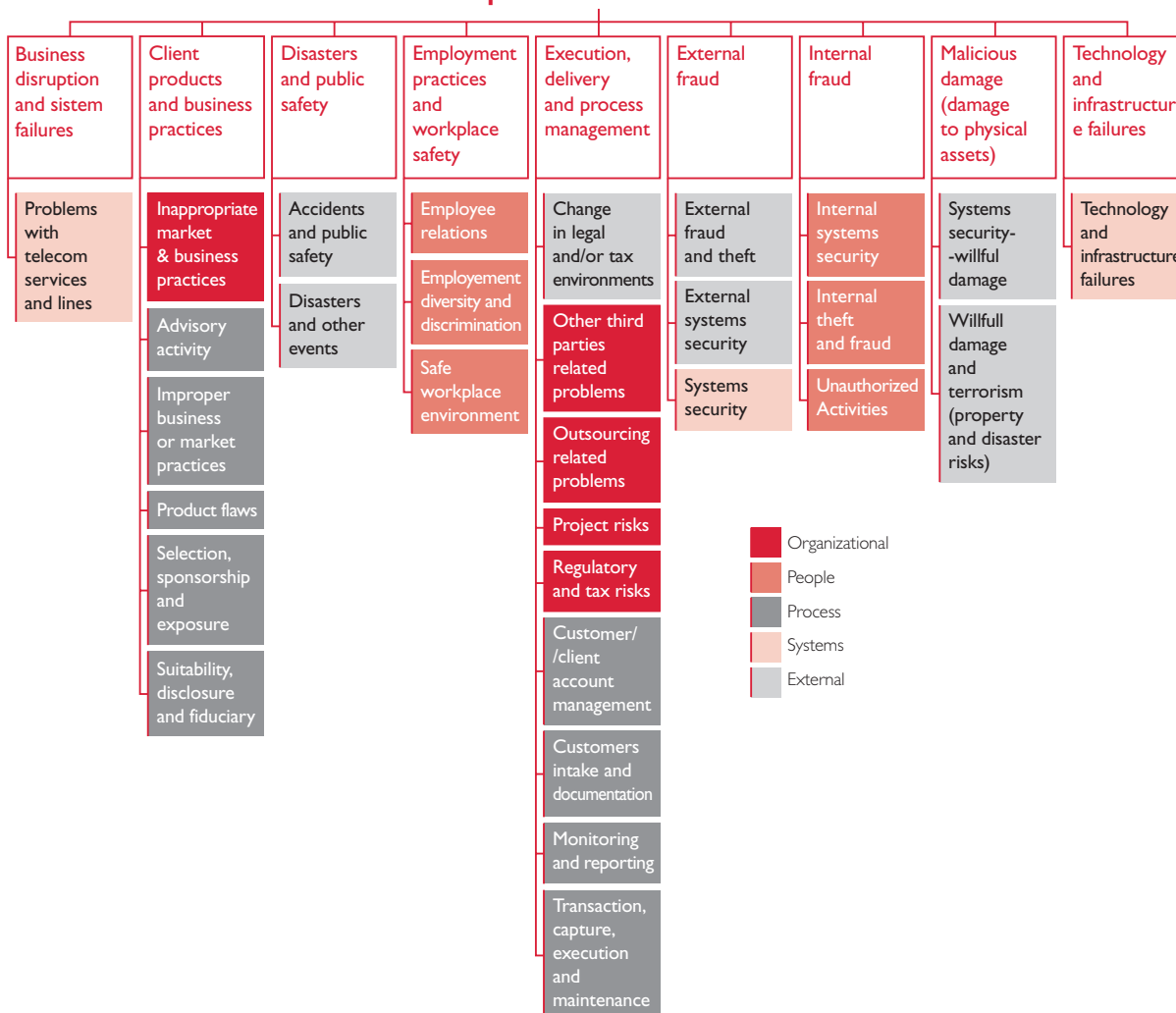
This framework helps the organisation to increase operational risk awareness, monitor operational risk effectively and measure the operational risk profile and associated fund requirements. To enable such a high-level approach, an all-encompassing Risk Management organisation and an appropriate risk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

Together with DOIT (Organization and IT department) it was developed the Business Process Management of Millenniumbcp Fortis, based on the process structure mapped across the Company. This project was made in the scope of the requirements stated in Norm nº14/2005-R of the Portuguese Insurance Institute (ISP) with the purpose of both, risk management and internal control policy.



Additionally, it was also approved the operational risk taxonomy as presented in the follow scheme.

Operational Risk tree



□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Moreover, Millenniumbcp Fortis continued to develop its Business Continuity management (BCM) which is a 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 the stakeholders, reputation, brand and value creating activities.

b) Investment Risk

Investment Risk encompasses three types of risks, namely 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, that the Group hold for the benefit of both our policyholders and shareholders. The Group manages this risk through the implementation of a credit policy that contains a set of principles, rules, guidelines and procedures for identifying, measuring and reporting.

Millenniumbcp Fortis is also exposed to Credit risk through its use of reinsurance, but as to that, it's verified that all insurance arrangements are only placed 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:

Investments portfolio [Thousands of Euros]	2007	%	2006	%
Available for sale	4,215,646	100.0%	3,904,637	100.0%
Government bonds	2,029,738	48.1%	2,261,765	57.9%
Corporate debt securities	1,536,319	36.4%	1,106,576	28.3%
Equity securities	24,084	0.6%	22,329	0.6%
Participation in unit funds				
Debt	96,682	2.3%	96,161	2.5%
Equity	290,435	6.9%	190,193	4.9%
Real Estate	176,252	4.2%	147,245	3.8%
Alternative	62,130	1.5%	61,353	1.6%
Treasury	—	0.0%	19,008	0.5%
Dep with ceding undertakings	7	0.0%	7	0.0%
Held at fair value (through net income)	42,104		37,424	
Trading assets/ (liabilities)	1,608		373	
Total	4,259,358		3,942,434	
Investment property	7,760		8,647	
Due from banks	141,400		86,400	
	4,408,518		4,037,481	

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

[Thousands of Euros]

	2007		2006	
	Book value	%	Book value	%
Financial	5,736	23.8%	5,368	24.0%
Industrial	1,970	8.2%	885	4.0%
Utilities	3,041	12.6%	2,775	12.4%
Communications & Technology	101	0.4%	2,387	10.7%
Basic Materials	3,357	13.9%	9,518	42.6%
Consumer, Non-cyclical	2	0.0%	226	1.0%
Consumer, Cyclical	1,948	8.1%	1,170	5.2%
Energy	7,608	31.6%	0	0.0%
Technology	320	1.3%	0	0.0%
	24,084	100.0%	22,329	100.0%

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

Corporate debt securities by industry

[Thousands of Euros]

	2007		2006	
	Book value	%	Book value	%
Government	2,029,738	56.3%	2,144,659	63.0%
Financial	1,227,956	34.0%	1,140,387	33.5%
Asset Backed Securities	21,613	0.6%	30,428	0.9%
Industrial	116,718	3.2%	18,913	0.6%
Utilities	17,889	0.5%	19,603	0.6%
Mortgage Securities	20,452	0.6%	24,066	0.7%
Consumer, Non-cyclical	24,739	0.7%	14,601	0.43%
Consumer, Cyclical	14,208	0.4%	3,317	0.10%
Communications	19,620	0.5%	5,656	0.17%
Basic materials	4,085	0.1%	3,135	0.09%
Diversified	111,144	3.1%	1,000	0.03%
	3,608,162	100.0%	3,405,765	100.0%

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

Debt securities by rating

[Thousands of Euros]

	2007		2006	
	Fair value	%	Fair value	%
AAA	1,306,587	36.2%	1,369,411	40.2%
AA	1,269,087	35.2%	1,278,956	37.6%
A	752,015	20.8%	700,808	20.6%
BBB	273,691	7.6%	36,957	1.1%
Not rated	6,781	0.2%	19,634	0.6%
Total	3,608,162	100.0%	3,405,765	100.0%
Government bonds – AFS	2,029,738	56.3%	2,261,765	66.4%
Corporate debt securities – AFS	1,536,319	42.6%	1,106,576	32.5%
Corporate debt securities held at fair value	42,104	1.2%	37,424	1.1%
Total	3,608,162	100.0%	3,405,765	100.0%

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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

[Thousands of Euros]	Portugal	Luxemburg	Germany	Cayman	Total	%
Debt	9,619	87,063	–	–	96,682	15.5%
Equity	–	287,776	2,659	–	290,435	46.4%
Real Estate	176,252	–	–	–	176,252	28.2%
Alternative	–	–	–	62,130	62,130	9.9%
Total as at December 2007	185,870	374,839	2,659	62,130	625,498	100.0%
Debt	9,113	87,047	–	–	96,160	18.7%
Equity	–	190,193	–	–	190,193	37.0%
Real Estate	147,245	–	–	–	147,245	28.6%
Alternative	–	–	–	61,354	61,354	11.9%
Treasury	19,008	–	–	–	19,008	3.7%
Total as at December 2006	175,366	277,240	–	61,354	513,960	100.0%

Market Risk

Market risk is the potential for loss resulting from unfavourable market movements, namely interest rates fluctuations, change in price level of securities, foreign exchange fluctuation and property prices. These fluctuations create risks which impact on the structural positions of the insurance activities (Asset and Liability Management Risk - ALM). Millenniumbcp Fortis recognizes that such risk is inevitable from the business run, 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. In particular in 2007 was approved a new investment mandate contemplating the overall portfolios of the Company.

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 or collateral posting obligations 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 2007 and 2006:

Liquidity risk 2007 [Thousands of Euros]	< 1 month Maturity	1-3 months Maturity	3-12 months Maturity	1-5 years Maturity	> 5 years Maturity	No maturity	Total
Assets							
Interest bearing – Fixed rate	208,741	22,051	172,626	952,732	1,542,637	–	2,898,787
Interest bearing – Variable rate	15,199	7,465	168,519	276,427	383,300	–	850,910
Non-interest bearing	65,083	53,975	166,637	4,686	869	649,446	940,697
Investments on behalf policyholders	426	208,641	903,154	2,043,935	2,295,046	63,338	5,514,540
Financial assets	289,449	292,132	1,410,936	3,277,781	4,221,852	712,784	10,204,934
Non financial assets	4,685	33,763	31,520	17,339	16,019	672,958	776,285
Total assets	294,134	325,895	1,442,456	3,295,120	4,237,870	1,385,742	10,981,218
Liabilities							
Investment contracts liabilities – Unit linked	12,059	92,614	724,909	2,469,293	2,216,802	–	5,515,678
Other financial liabilities	14,435	14,159	91,380	969	1,156	–	122,099
Financial liabilities	26,494	106,774	816,289	2,470,263	2,217,957	–	5,637,777
Investment contracts liabilities	67,392	49,093	24,723	1,210,562	2,494,259	–	3,846,028
Insurance contracts liabilities	10,436	20,185	65,533	63,791	33,489	128,562	321,996
Other non-financial liabilities	750	8,568	40,156	26,661	35,809	–	111,944
Non-financial liabilities	78,578	77,845	130,412	1,301,014	2,563,558	128,562	4,279,968
Total liabilities	105,072	184,618	946,701	3,771,277	4,781,515	128,562	9,917,745

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Liquidity risk 2006 [Thousands of Euros]	< 1 month Maturity	1-3 months Maturity	3-12 months Maturity	1-5 years Maturity	> 5 years Maturity	No maturity	Total
Assets							
Interest bearing – Fixed rate	25,215	89,181	159,182	848,995	1,647,338	–	2,769,911
Interest bearing – Variable rate	6,994	6,115	142,796	260,355	139,041	–	555,301
Non-interest bearing	168,283	154,593	251,489	24,685	30,081	536,528	1,165,659
Investments on behalf policyholders	(17,347)	121,753	469,551	2,639,458	1,933,131	24,018	5,170,564
Financial assets	183,145	371,642	1,023,018	3,773,493	3,749,591	560,546	9,661,435
Non financial assets	9,227	18,660	106,197	171,687	227,619	315,740	849,130
Total assets	192,372	390,302	1,129,215	3,945,180	3,977,210	876,286	10,510,565
Liabilities							
Investment contracts liabilities – Unit linked	10,521	16,529	270,127	2,657,155	2,222,785	–	5,177,117
Other financial liabilities	140,530	31,171	32,167	46,628	2,106	–	252,602
Financial liabilities	151,051	47,700	302,294	2,703,783	2,224,891	–	5,429,719
Investment contracts liabilities	89,162	36,122	20,060	1,347,985	2,034,562	–	3,527,891
Insurance contracts liabilities	20,851	20,638	66,677	62,655	29,588	117,133	317,542
Other non-financial liabilities	1,123	3,370	45,307	48,230	56,442	–	154,472
Non financial liabilities	111,136	60,130	132,044	1,458,870	2,120,592	117,133	3,999,905
Total liabilities	262,187	107,830	434,338	4,162,653	4,345,483	117,133	9,429,624

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 2007 [Thousands of Euros]	EUR	USD	GBP	JPY	Total
Investments	4,230,893	26,858	–	–	4,257,751
Investments on behalf of policyholders	5,506,121	8,164	247	8	5,514,540
Other assets	1,208,928	–	–	1	1,208,929
Total assets	10,945,942	35,022	247	9	10,981,218
Liabilities	9,917,745	–	–	–	9,917,745
Total liabilities	9,917,745	–	–	–	9,917,745

Currency risk 2006 [Thousands of Euros]	EUR	USD	GBP	JPY	Total
Investments	3,923,641	18,786	–	–	3,942,427
Investments on behalf of policyholders	5,169,432	1,132	–	–	5,170,564
Other assets	1,397,574	–	–	–	1,397,574
Total assets	10,490,647	19,918	–	–	10,510,565
Liabilities	9,429,624	–	–	–	9,429,624
Total liabilities	9,429,624	–	–	–	9,429,624

As at 31 December, 2007 and 2006, the fair value of the assets and liabilities carried at amortised cost, is presented as follows:

[Thousands of Euros]	2007		2006	
	Book value	Fair value	Book value	Fair value
Assets				
Cash and equivalents	144,609	144,609	294,028	294,028
Due from banks	141,400	141,400	86,400	86,400
Trade and other receivables	73,444	73,444	98,718	98,718
Total	359,453	359,453	479,146	479,146
Liabilities				
Funds held under reinsurance agreements	64,639	64,639	62,766	62,766
Trade and other payables	57,460	57,460	189,836	189,836
Total	122,099	122,099	252,602	252,602

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, modelling 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, ie, 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.

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Life Business [Thousands of Euros]

Sensitivities	Impact on Fair Value at 31,12,2007	Impact on Fair Value at 31,12,2006
Risk free rates +100 bp	(9,707)	(2,500)
Risk free rates -100 bp	(4,152)	(11,303)
Market value of shares and real estate -10%	(40,247)	(32,167)
Mortality rates -5%	9,798	7,962
Expenses -10%	14,636	16,867
Lapse rates -10%	34,911	21,824

Non-Life Business [Thousands of Euros]

Sensitivities	Impact on pre-tax profits at 31,12,2007	Impact on pre-tax profits at 31,12,2006
Expenses -10%	5,135	5,252
Incurred Claims +5%	-4,215	-4,054

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;
- 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.

Provisioning

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. An early warning mechanism ensures that actions are taken should the level of additional prudence (assets held above and beyond the best estimate level of liabilities) fall below 90% confidence interval.

Additionally, the appointed actuaries assess the adequacy of the insurance charges and provisions regularly, and independent external entity certifies the provisions annually.

Reinsurance

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

To enable the group to benefit from aggregate buying power, diversification and best practice reinsurance strategy is coordinated centrally 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.

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

Line of Business [Thousands of Euros]	Type of Reinsurance	Range of Cover	Net Retention
Life/Disability	Surplus	4,000	100
Life catastrophe	XOL	10,000	300
Fire	Surplus	12,000	300
Fire (natural perils)	XOL	350,000	20,000
General Third Party Liability	XOL	2,450	50
Engineering	Quota Share + Surplus	2,750	250
Personal Accident	Surplus	1,500	75
Motor Liability	XOL	50,000	600
Motor Hull	XOL	4,400	600
Marine	Quota Share	1,000	400
Travel	Surplus	1,500	75
Personal Accident (catastrophe)	XOL	50,000	250
Workmen's Compensation	XOL	30,000	500

The proportion of premiums ceded to reinsures by product line is as follow:

Line of Business	2007			2006		
	Gross written premiums	Ceded premiums	Net premiums	Gross written premiums	Ceded premiums	Net premiums
Life insurance	174,035	(20,082)	153,953	168,373	(18,278)	150,095
Life investment	700,424	–	700,424	713,477	–	713,477
Accident & Health	116,003	(22,502)	93,501	109,559	(24,673)	84,886
Property & Casualty	59,691	(39,355)	20,336	61,196	(42,832)	18,364
Total Insurance	1,050,154	(81,939)	968,215	1,052,606	(85,783)	966,822

Insurance liability risk-exposure

Non-Life Insurance Risk

Non-life insurance risk concerns the uncertainty in ultimate claims arising from property and casualty business (including, motor and third party liability) and accident and health business. The time required to discover and settle claims is an important consideration. Short-tail claims, such as motor damage and property damage claims, generally are reported within a few days or weeks and are settled shortly thereafter. Resolution of long-tail claims, such as bodily injury or liability claims, can take years to complete. For long-tail claims, due to the nature of the loss, information concerning the event, such as required medical treatment, may not be readily obtainable. In addition, the analysis of long-tail losses is more difficult, requires more detailed work and is subject to greater uncertainties than short-tail losses.

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

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

U/W year [Thousands of Euros]	<2001	2001	2002	2003	2004	2005	2006	2007	Total
Estimate of cumulative claims:									
At the end of the U/W year		75,444	74,262	61,458	71,738	78,892	80,400	89,131	
One year later		78,373							
Two years later		82,883	73,311						
Three years later		82,687	73,507	63,753					
Four years later		82,687	72,750	63,068	67,394				
Five years later		82,913	73,805	62,763	65,829	78,852			
		82,725	74,343	62,634	65,142	75,070	80,888		
Estimate of cumulative claims to date		82,725	74,343	62,634	65,142	75,070	80,888	89,131	
Cumulative payments to date		81,569	71,167	59,589	60,365	67,751	71,225	61,672	
Outstanding claims liabilities	8,412	1,156	3,176	3,045	4,776	7,319	9,663	27,459	65,006
Other claims liabilities (not included in the above)									
Claims with regard Workmen Compensation	—								11,557
Total liabilities	8,412	1,156	3,176	3,045	4,776	7,319	9,663	27,459	76,563

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. re-insurance.

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

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.

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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 a 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 follows:

	Redeemable pensions	Non redeemable pensions
Mortality table	TD 88/90	35%TV 88/90 65%TV73/77
Discount rate	5.25%	3.9%
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%, 3%, 3.25% or 3.8%

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 rate. The mortality assumptions were:

	Mortality Table			
	2007		2006	
	Male	Female	Male	Female
Term insurance	55%TV 73/77		60%GKM95	50%GKF95
Annuities	100% PERM2000C	100% PERF2000C	100%PERM2000C	100%PERF2000C
Savings	50%TV 73/77		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 and workmen’s compensation.

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

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

d) Solvency requirements

The calculation of the Solvency margin is performed under the demands of the Portuguese insurance authority (ISP) as stated in Norm n°2/2005-R, based on its statutory financial statements. The statutory financial statements are prepared in accordance with ISP rules, which differs from IFRS.

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

As at 31 December 2007 and 2006 the Solvency margin of the Company is analyzed as follows:

Item [Thousands of Euros]	31 December 2007	31 December 2006
Capital	1,000,002	1,000,002
Legal and Regulatory Revaluation	4,951	3,519
Retained earnings	54,747	18,410
Profit After Tax	87,522	73,734
Net Profit Distribution	—	(35,000)
Total Equity (1)	1,147,223	1,060,666
Intangible Assets	(588,840)	(623,480)
Bonds and Retirement Pensions adjust	(86,964)	(15,344)
Life Future Profits	24,052	22,386
Total (2)	(651,752)	(616,438)
Solvency Margin Available (1) + (2)	495,471	444,228
Solvency Margin Required	279,352	261,806
Excess/Shortage	216,119	182,422
Solvency Ratio	177%	170%

Note 40 – 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.

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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 41 – 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 2007 the total amount of banking guarantees were 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:

<small>[Thousands of Euros]</small>	up to 3 months	3-12 months	1-5 years	Total
Future lease payments	94	260	421	775

Note 42 – Separate financial statements of Millenniumbcf Fortis Group, S.G.P.S., S.A.

Millenniumbcf Fortis separate financial statements are analysed as follows:

Income statement <small>[Thousands of Euros]</small>	2007	2006
Dividends	29,700	47,400
Interest income	2,093	772
Total income	31,793	48,172
Total expenses	(617)	(211)
Profit after tax	31,176	47,961

Balance Sheet <small>[Thousands of Euros]</small>	2007	2006
Investments in subsidiaries	999,953	999,953
Other assets	57,507	61,024
Total assets	1,057,460	1,060,977
Total equity	1,056,954	1,060,777
Total liabilities	506	200
Total equity and liabilities	1,057,460	1,060,977

Note 43 – 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:

IFRS 2 (amendment) – Share-based payments: vesting conditions

The International Accounting Standards Board (IASB) issued in January 2008 an amendment to IFRS 2, which will be effective from 1 January 2009.

The objective of the amendment to IFRS 2 was to clarify that (i) vesting conditions are service conditions and performance conditions only and that (ii) all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

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

IFRS 3 (revised) – Business combinations and IAS 27 (amendment) Consolidated and Separate Financial Statements

The International Accounting Standards Board (IASB) issued in January, 2008 IFRS 3 (revised) and an amendment to IAS 27 *Consolidated and Separate Financial Statements*.

The main changes the revised IFRS 3 and amended IAS 27 will make to existing requirements or practice relate to (i) partial acquisitions, whereby non-controlling interests (previously named minority interests) can be measured either at fair value (implying full goodwill recognition against non-controlling interests) or at their proportionate interest in the fair value of the net identifiable assets acquired (which is the original IFRS 3 requirement); (ii) step acquisitions whereby, upon acquisition of a subsidiary and in determining the resulting goodwill, any investment in the business held before the acquisition is measured at fair value against the profit and loss account; (iii) acquisition-related costs, which must generally, be recognised as expenses (rather than included in goodwill); (iv) contingent consideration which must be recognised and measured at fair value at the acquisition date, subsequent changes in fair value being recognised in profit or loss (rather than by adjusting goodwill); and (v) changes in a parent's ownership interest in a subsidiary that do not result in the loss of control which are required to be accounted for as equity transactions.

Additionally, IAS 27 was amended to require that an entity attributes a share of the accumulated loss of a subsidiary to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance, and to specify that, upon losing control of a subsidiary, an entity measures any non-controlling interest retained in the former subsidiary at its fair value, determined at the date the control is lost.

The IFRS 3 (revised) and the amendment to IAS 27 will be effective from 1 July, 2009. The Group is evaluating the impact of adopting both rules.

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.

The IFRS 8 – *Operational segments* sets out requirements for Disclosures of information about an entity's operating segments and also about the entity's products and services, the geographical areas where the entity operates and where it's major clients are located. 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 Segment assets, as well as a brief description of how the segmental information is produced.

□ II – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

This IFRS is mandatory applicable for periods beginning on 1 January 2009.
The Group is evaluating the impact of adopting this standard.

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.

IAS 1 (amended) requires financial information to be presented in the financial statements based on the nature of the underlying transactions and introduces the statement of ‘comprehensive income’.

The Board’s objectives in this project are to present information in ways that improve the ability of investors, creditors, and other financial statement users to distinguish between transactions with shareholders, in their capacity as shareholders (e.g. dividends, treasury shares), and transactions with third parties, which will be summarised in a statement of ‘comprehensive income’.

IAS 1 (amended) will impact the way the financial statements are presented. The Group is at the moment analysing the extent of the necessary modifications to the current presentation of its 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 mandatory applicable from 1 January, 2009.

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

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

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

Amendment to IAS 32 Financial Instruments: Presentation – Puttable financial instruments and obligations arising on liquidation

International Accounting Standards Board (IASB) issued, in February 2008, an amendment to IAS 32 *Financial Instruments: Presentation – Puttable financial instruments and obligations arising on liquidation* effective from 1 January 2009.

This amendment addresses the balance sheet classification of puttable financial instruments and obligations arising only on liquidation. Under the current requirements of IAS 32, if an issuer can be required to pay cash or another financial asset in return for redeeming or repurchasing a financial instrument, the instrument is classified as a financial liability. As a result of the amendments, some financial instruments that currently meet the definition of a financial liability will be classified as equity because they represent the last residual interest in the net assets of the entity.

The Board also amended IAS 1 *Presentation of Financial Statements* to add new disclosure requirements relating to puttable instruments and obligations arising on liquidation.

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

IFRIC 11 – IFRS 2 – Group and Treasury Share transactions

The International Financial Reporting Interpretations Committee (IFRIC) has issued on 2 November, 2006 an Interpretation – IFRIC 11 – *IFRS 2 Group and Treasury Share Transactions*.

IFRIC 11 clarifies in what conditions a share-based payment with treasury shares or shares of another group company should be classified in the subsidiaries financial statements as equity settled or cash settled based payment.

This IFRIC is mandatory and applicable for the Group for annual periods beginning on or after 1 January, 2008.

The Group is evaluating the impact of adopting this interpretation on the financial statements of its subsidiaries.

IFRIC 12 – Service Concession Arrangements

The IFRIC 12 *Service Concession Arrangements* will be effective from 1 January, 2008.

The IFRIC 12 applies to public-to-private service concession arrangements. This interpretation will be applicable only when a) the grantor controls or regulates what services the operator must provide and b) the grantor controls any significant residual interest in the infrastructure at the end of the term of the arrangement.

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 28 June, 2007 and will be effective from 1 July, 2008. As a result, will only be relevant to the Group from 1 January, 2009.

This interpretation addresses how companies, which grant their customers' loyalty, award credits (often called 'points') when buying goods or services, should account for their obligation to provide free or discounted goods or services if and when the customers redeem the points.

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

IFRIC 14 – IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interpretation

O IFRIC 14 IAS 19 – *The limit on a defined benefit asset, minimum funding requirements* and their interpretation is mandatory applicable for annual periods beginning on or after 1 January, 2008.

This interpretation addresses how entities should determine the limit placed by paragraph 58 of IAS 19 *Employee Benefits* on the amount of a surplus in a pension plan they can recognise as an asset and discusses how a minimum funding requirement affects that limit.

The Group is evaluating the impact of adopting this interpretation on the financial statements.

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III Report of Auditors

