

INSURANCE IN PORTUGAL

INSURANCE MARKET
OVERVIEW 12/13

INSURANCE IN PORTUGAL

During 2012 Portugal plunged into an unprecedented macroeconomic crisis of significant social impact. Of itself, it was already a difficult environment for business in general, one that became even more difficult for the insurance industry following the adoption of several measures especially of a fiscal nature.

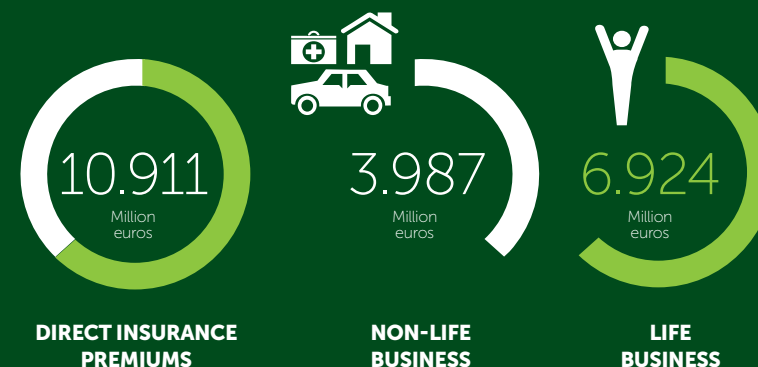
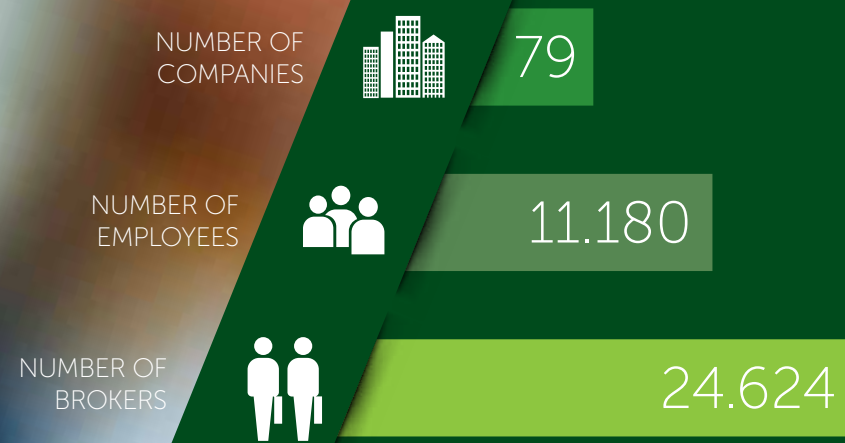
Nevertheless, from a purely economic point of view, 2012 was not a negative year for the industry.

Rather, it was a year of high net income (estimated at €539 million), underpinned by the recovery of the capital markets, particularly in the debt segment, and by an extraordinary operation involving the assignment of the life-risk portfolio of one of the insurers operating in the Portuguese market. More sensitive to market volatility, the Life segment was the main driver of this performance (with a technical-account balance of €741 million), although the Non-Life segments taken together also contributed to the improvement of the overall result, likewise because of an increase of the financial component of its balance (which totalled €100 million).

Nonetheless, the macroeconomic and regulatory environment continued to be somewhat unfavourable to the growth of insurance business in 2012, in both the savings-management and the risk-protection areas.

Albeit at a more moderate pace than in the previous year, total direct insurance production (premiums

and contributions to capitalisation products) decreased once more in 2012 (6.5%). In the Life segment, attracting savings was affected by the fall of household disposable income, by the progressive loss of tax incentives on several of its products (the PPR in particular) and by the competition of other financial products. For the Non-Life segment it was also a year of remarkable reduction of production, particularly in those segments more sensitive to macroeconomic variables such as Workmen's Compensation and Motor insurance.





/ MAJOR AGGREGATES

	2010	2011	2012	+11/10	+12/11
Nº of Companies	83	79	79	-4,8%	0,0%
Nº of Employees	11.224	11.242	11.180	0,2%	-0,6%
Nº of Brokers	25.897	25.397	24.624	-1,9%	-3,0%
Net Assets	62.119	56.050	55.198	-9,8%	-1,5%
Investment assets	59.089	52.909	52.705	-10,5%	-0,4%
Own Funds (Equity)	4.081	3.594	5.181	-11,9%	44,2%
Direct Insurance Premiums	16.340	11.669	10.911	-28,6%	-6,5%
Life Business	12.172	7.536	6.924	-38,1%	-8,1%
Non-Life Business	4.168	4.133	3.987	-0,9%	-3,5%
Results for the Year	416	10	539	-97,6%	> 1000%
Life Technical Account	402	-65	741	-116,2%	< -1000%
Non-Life Technical Account	58	67	100	16,4%	48,1%
Non-technical account	-44	7	-302	-117,0%	< -1000%
Equity / Net Assets	6,6%	6,4%	9,4%	-0,2 p.p.	3,0 p.p.
Results / Equity	10,2%	0,3%	10,4%	-9,9 p.p.	10,1 p.p.

U: Million euro | Sources: APS, Insurance Supervisory Authority, Bank of Portugal and National Statistics Institute

/ LIFE AND NON-LIFE PRODUCTION

	2010	2011	2012	+11/10	+12/11
TOTAL (LIFE AND NON-LIFE)	16.340	11.669	10.911	-21,6%	-6,5%
TOTAL LIFE	12.172	7.536	6.924	-38,1%	-8,1%
Life Insurance	9.600	5.506	4.820	-42,6%	-12,5%
Insurance linked to Investment Funds	2.331	2.029	1.954	-12,9%	-3,7%
Capitalisation Operations	241	0	150	-99,9%	> 1000%
TOTAL NON-LIFE	4.168	4.133	3.987	-0,9%	-3,5%
Accidents & Health	1.357	1.322	1.262	-2,6%	-4,5%
Workmen's Compensation	646	622	556	-3,7%	-10,6%
Sickness	532	541	553	1,6%	2,2%
Fire & Other Damage	765	769	767	0,5%	-0,2%
Motor	1.672	1.659	1.569	-0,8%	-5,4%
Transport, General Third-party Liability & Sundry	375	383	388	2,3%	1,2%

U: Million euro

INSURANCE AND SOCIETY

Insurance business stands out from others because of its major involvement in areas of obvious social interest, such as protection of people and property and management of savers' savings. Furthermore, it is also a sector of considerable importance in the promotion of economic development, through the role it plays in financing the State and the private business sector.

Evidence of the presence and importance of insurance business for the economy as a whole is provided by the direct-insurance production to GDP ratio which, in 2012, stood at 6.4%. As expected, the evolution of this indicator is not immune to the economic cycle and to the significant drop of premium volume in 2011 and 2012, and, when compared to 2010, it fell by more than 3 p.p., attributable almost entirely to the evolution of Life insurance production.

Another aspect to highlight is the role of the insurance industry as an institutional investor. At the end of 2012, the total volume of the investment portfolio of the insurance sector amounted to over €52.7 billion (about 30.8% of GDP), again putting the insurance industry at the top of institutional investors in Portugal.

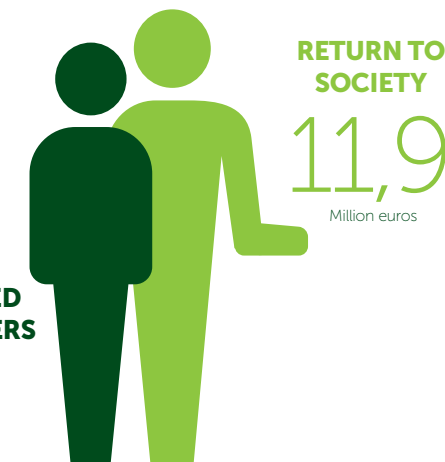
And it is particularly the efficient management of its investment portfolio and of the results it generates that lends the insurance industry the ability to return to society, every year, the whole – or even more – of the volume of premiums that it receives from policyholders.

Thus, if we add to the amount of premiums written the amount corresponding to the stamp duty on the policies and the para-fiscal burden associated with the insurance premiums, we conclude that the total cost borne by policyholders having insurance contracts in the Portuguese market amounted in 2012 to €11.4 billion.

In contrast, in 2012, the insurance industry ended up by returning to society around €11.9 billion (broken down into claims costs and provisions, brokers' remuneration, taxes and levies, staff costs and amounts allocated to shareholders), that is, a sum greater the overall amount received from policyholders as premiums plus the respective tax and para-fiscal burden.

PREMIUMS RECEIVED FROM POLICYHOLDERS

11,4
Million euros



/ INDICATORS

	2010	2011	2012	+11/10	+12/11
Investment Assets / GDP	34,2%	32,0%	30,8%	-2,2 p.p.	-1,2 p.p.
D. I. Premiums / GDP	9,5%	7,1%	6,4%	-2,4 p.p.	-0,7 p.p.
Life Business	7,0%	4,6%	4,0%	-2,5 p.p.	-0,5 p.p.
Non-Life Business	2,4%	2,5%	2,3%	0,1 p.p.	-0,2 p.p.
D. I. Premiums / N° Inhabitants	1.536	1.105	1.030	-28,1%	-6,8%
Life Business	1.144	714	654	-37,6%	-8,4%
Non-Life Business	392	391	376	-0,1%	-3,8%

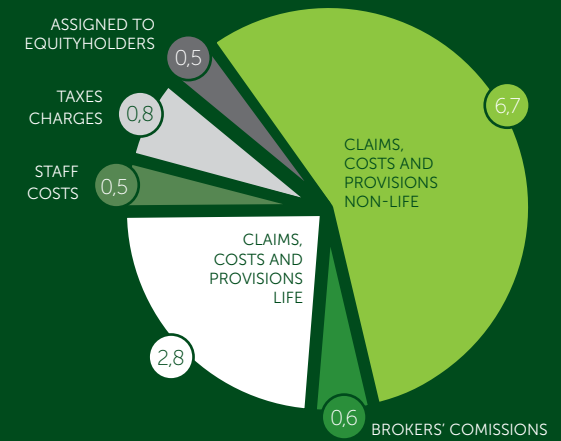
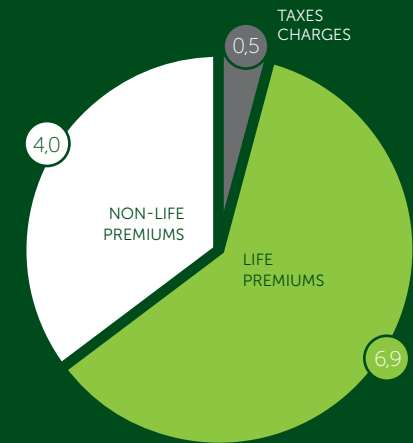
Source: APS, Bank of Portugal and National Statistics Institute.

/ INSTITUTIONAL INVESTORS' PORTFOLIO

	2010	2011	2012	STRUCTURE		
				2010	2011	2012
Mutual Funds & Money Market	14.237	10.835	12.295	13,5%	12,2%	13,4%
Real-Estate Funds	12.220	11.959	12.129	11,6%	13,4%	13,3%
Pension Funds	19.724	13.238	14.388	18,7%	14,9%	15,7%
Insurance companies	59.089	52.909	52.705	56,1%	59,5%	57,6%
TOTAL	105.271	88.942	91.517	100%	100%	100%

U: Million euros | Source: APS, Bank of Portugal, Insurance Supervisory Authority, APFIPP and CMVM.

PREMIUMS RECEIVED FROM POLICYHOLDERS | 11,4
 RETURN TO SOCIETY | 11,9



RETURN TO SOCIETY

U: Billion euros

IN 2012, THE VOLUME OF PREMIUMS OF THE 27 MEMBER COUNTRIES OF THE EUROPEAN UNION (EU) FELL BY ABOUT 6,4% TO AROUND USD 1.402 THOUSAND MILLION.

EUROPEAN INSURANCE MARKET

In 2012, the volume of premiums of the 27 member countries of the European Union (EU) fell by about 6,4% to around USD 1.402 thousand million, the decrease more pronounced in the Life segment (6,8%) than in Non-Life segment (6,0%).

Having particularly well-developed Life segments, the English and French insurance markets remain the largest in the European Union area, with shares of 22,2% and 18,2%, respectively. Next comes the German market, the third largest in overall terms (with a share of 16,5%) but the biggest in the Non-Life segment, in which it accounts for more than 21,6% of the European market.

In this ranking, Portugal continues to occupy an

intermediate place among the 27 EU markets, though its share fell to 1,0% (1,1% in 2011) largely due to further decrease the production of the Life segment which, of course, reduced the relative weight of the Portuguese market in this segment (1,0% in 2012 compared to 1,2% in 2011).

On the other hand, there was also a further decrease of the premiums to GDP ratio for the Portuguese market. Even so, with a ratio of 6,3%, Portugal's indicator is just slightly lower than that of other major European markets (Italy and Germany, for example), and higher than that of Spain (5,1%).



/ DIRECT INSURANCE PRODUCTION - EUROPEAN UNION

	GROSS PREMIUMS WRITTEN						STRUCTURE						
	LIFE		NON-LIFE		TOTAL		LIFE		NON-LIFE		TOTAL		
	2011	2012 ^(a)	2011	2012 ^(a)	2011	2012 ^(a)	2011	2012 ^(a)	2011	2012 ^(a)	2011	2012 ^(a)	
United Kingdom	210	206	109	106	320	311	United Kingdom	23,9%	25,1%	17,7%	18,2%	21,3%	22,2%
France	175	149	98	93	273	242	France	19,8%	18,2%	15,9%	16,0%	18,2%	17,3%
Germany	114	106	131	125	245	232	Germany	12,9%	13,0%	21,2%	21,6%	16,4%	16,5%
Italy	105	93	55	51	161	144	Italy	11,9%	11,4%	9,0%	8,8%	10,7%	10,3%
Netherlands	31	29	80	71	111	100	Netherlands	3,5%	3,6%	12,9%	12,2%	7,4%	7,2%
Spain	39	34	41	38	80	72	Spain	4,5%	4,1%	6,6%	6,6%	5,3%	5,1%
Portugal	11	8	6	5	16	14	Portugal	1,2%	1,0%	0,9%	0,9%	1,1%	1,0%
TOTAL EU (27)	881	821	618	581	1.499	1.402	TOTAL EU (27)	100%	100%	100%	100%	100%	100%

U: USD thousand million | Source: Sigma - Swiss Re | (a): Provisional data

/ INSURANCE MARKETS IN THE EUROPEAN UNION - PENETRATION

	PER CAPITA PREMIUMS						PREMIUMS/GDP						
	LIFE		NON-LIFE		TOTAL		LIFE		NON-LIFE		TOTAL		
	2011	2012 ^(a)	2011	2012 ^(a)	2011	2012 ^(a)	2011	2012 ^(a)	2011	2012 ^(a)	2011	2012 ^(a)	
United Kingdom	3.347	3.256	1.188	1.094	4.535	4.350	United Kingdom	8,7%	8,4%	3,1%	2,8%	11,8%	11,3%
France	2.638	2.239	1.403	1.304	4.041	3.544	France	6,2%	5,6%	3,3%	3,3%	9,5%	8,9%
Germany	1.389	1.299	1.578	1.505	2.967	2.805	Germany	3,2%	3,1%	3,6%	3,6%	6,8%	6,7%
Italy	1.696	1.473	834	748	2.530	2.222	Italy	4,7%	4,5%	2,3%	2,3%	7,0%	6,7%
Netherlands	1.870	1.750	4.777	4.235	6.647	5.985	Netherlands	3,7%	3,8%	9,5%	9,2%	13,2%	13,0%
Spain	849	730	880	827	1.729	1.557	Spain	2,6%	2,5%	2,7%	2,8%	5,4%	5,3%
Portugal	985	794	538	485	1.523	1.279	Portugal	4,4%	3,9%	2,4%	2,4%	6,8%	6,3%
TOTAL EU (27)	1.447	3.012	1.110	1.028	2.757	2.533	TOTAL EU (27)	4,7%	4,6%	3,2%	3,1%	7,9%	7,7%

U: United States dollar | Source: Sigma - Swiss Re | (a): Provisional data

79



NUMBER OF COMPANIES OPERATING DIRECTLY IN **PORTUGAL**

STRUCTURE OF THE INDUSTRY

Despite the unfavourable economic climate, the overall structure of the Portuguese insurance industry remained stable during 2012. Indeed, there was no change in the total number of companies operating directly in Portugal (79) and the reduction of the number of employees was marginal (0.6%).

Even so, largely due to mergers/ acquisitions and of operations involving the reorganisation of domestic and international financial groups, changes were observed in the capital structure of several insurers and there was geographical relocation of the decision centres of others, the latter contributing the increase of the number of general agencies operating in Portugal (36 in 2011 versus 34 in 2011).

However, despite the increase by numbers, the volume of production of the general agencies declined by more than the market (10% compared to 2011), leading to a reduction of their relative weight as a proportion of the total industry production to 7.8 % (8.7% in 2011).

/ COMPOSITION OF THE MARKET

	2010	2011	2012
Limited liability companies	45	43	41
National	25	23	23
Foreign ^(a)	20	20	18
Mutuals	1	1	1
General Agencies	37	35	37
Community	36	34	36
Non-Community	1	1	1
TOTAL	83	79	79
Community in FPS (Free Provision of Services) ^(b)	509	507	537

Sources: ISP e APS | (a) Held directly by foreign entities with a majority stake;
(b) Head offices or branches of companies based in other Member States that reported for the year in FPS in Portugal.

/ TOTAL PRODUCTION (LIFE AND NON-LIFE)

	2010		2011		2012	
	Amount	%	Amount	%	Amount	%
Limited liability companies	15.284	93,5%	10.648	91,2%	10.048	92,1%
Co-operatives	10	0,1%	9	0,1%	9	0,1%
General Agencies	1.046	6,4%	1.012	8,7%	853	7,8%
TOTAL	16.340	100%	11.669	100%	10.911	100%

U: Million euros | Sources: ISP Tables (Valores Provisórios_ES)

FINANCIAL DIMENSION AND RESULTS

The pre-tax profit in 2012 for the insurance sector as a whole, amounts to about €870 million, attracting a tax burden (current and deferred taxes) of nearly €331 million (effective rate of over 38%), leading to overall net income in the sum of around €539 million.

Unsurprisingly, Life business, most sensitive to the volatility of the financial markets, was the main beneficiary of their good performance. The result of the Life technical account, when compared with the figures for 2011, increased by more than €805 million (to around €741 million), with its financial component standing at €776 million (a positive variation of over 310%).

With respect to the Non-Life segment, the absolute growth of about €32 million of the result of the technical account also contributed to the positive performance of the 2012 results. However, analysing the results in detail, we find that in this segment, too, the evolution of the financial component of the result (€250 million in 2012, compared to €114 million

in 2011) was predominant, having offset the sharp declines in technical component thereof (from -€47 million in 2011 to -€150 million in 2012).

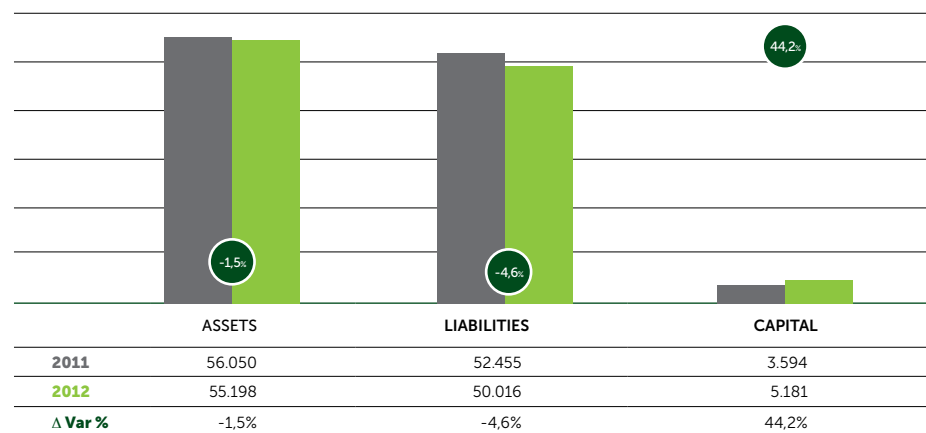
On the other hand, the balance-sheet total of the insurance industry in 2012 decreased by 1.5% (approximately €851 million) to €55.2 billion.

This change of the balance sheet is closely related to the evolution of the amount of Life liabilities (Technical Provisions and Financial Liabilities arising from insurance contracts), down by about €1.8 billion (3.8%), with particular emphasis on the decrease of the amount of mathematical provisions (15%), a result of the still large volume of repayments and redemptions seen in 2012.

Thus, the evolution of the balance sheet total was not more unfavourable due only to the aforementioned improvement of the performance of the financial markets, which, in 2012, allowed a partial recovery of the value of the portfolio investments.

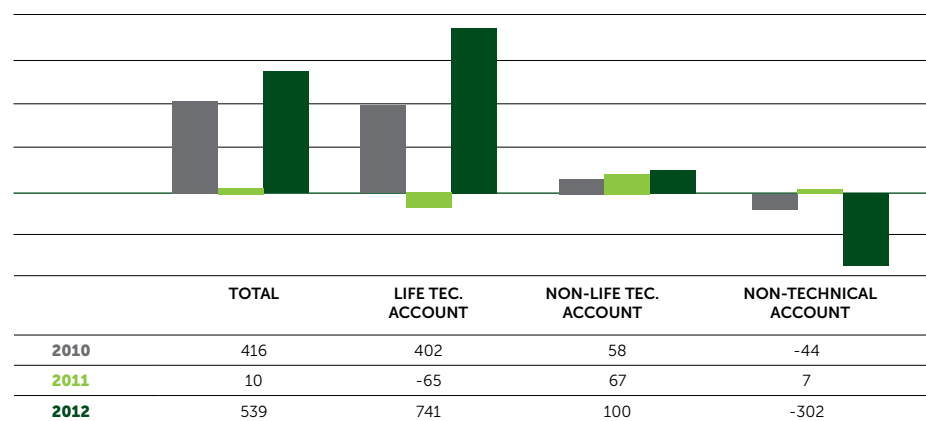
The combination of the two effects mentioned above resulted in a fairly good performance in terms of equity (up €1.6 billion, or 44.2%, compared to the figures at the end of 2011) and, reflexively, of the solvency ratio of the insurance industry, which, in December 2012, stood at 233% (57 p.p. more than at the end of 2011).

/ BALANCE OF INSURANCE BUSINESS



U: Million euros | Source: ISP Tables (Contas_ES)

/ TECHNICAL ACCOUNTS RESULTS



U: Million euros | Source: ISP Tables (Contas_ES)

233% | 2012

176% | 2011

175% | 2010

870
MILLION EUROS
BEFORE TAX

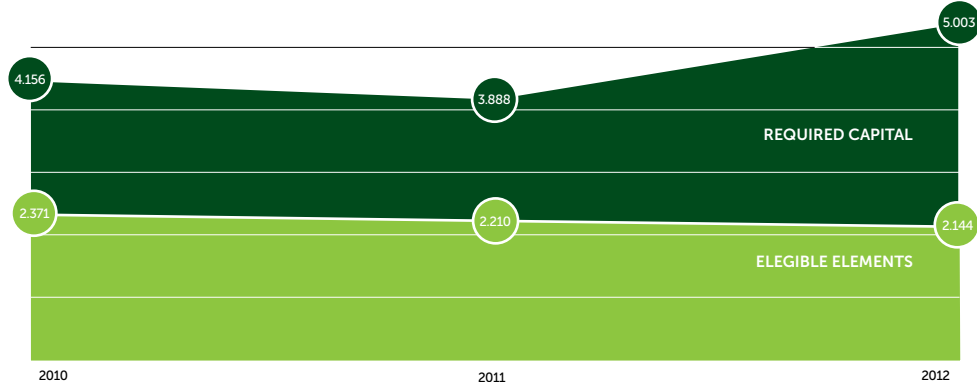
331
MILLION EUROS
FISCAL CHARGES (CURRENT AND DEFERRED)
- EFFECTIVE RATE HIGHER THAN 38%

539
MILLION EUROS
NET GLOBAL RESULTS

/ SOLVENCY RATIO (Market Total)

U: Percentage

/ ELIGIBLE ITEMS VS. REQUIRED ELEMENTS



U: Million euros | Source: ISP Tables | Note: Data extrapolated for 100% of the market.

/ BREAKDOWN OF ELEMENTS IN 2011

INTANGIBLE ASSETS	-196				
21 OTHER TO ADD/DEDUCT					
	414	PREFERENCE SHARES & SUBORDINATED DEBT			
	178	NET PROFIT FOR THE YEAR / NET OF DISCRIPTIONS)			
			1.026	RETAINED EARNINGS	
				1.537	RESERVES
					2.022 PAID-UP EQUITY CAPITAL

U: Million euros | Source: ISP Tables (Contas_ES) | Note: Data extrapolated for 100% of the market

INVESTMENTS

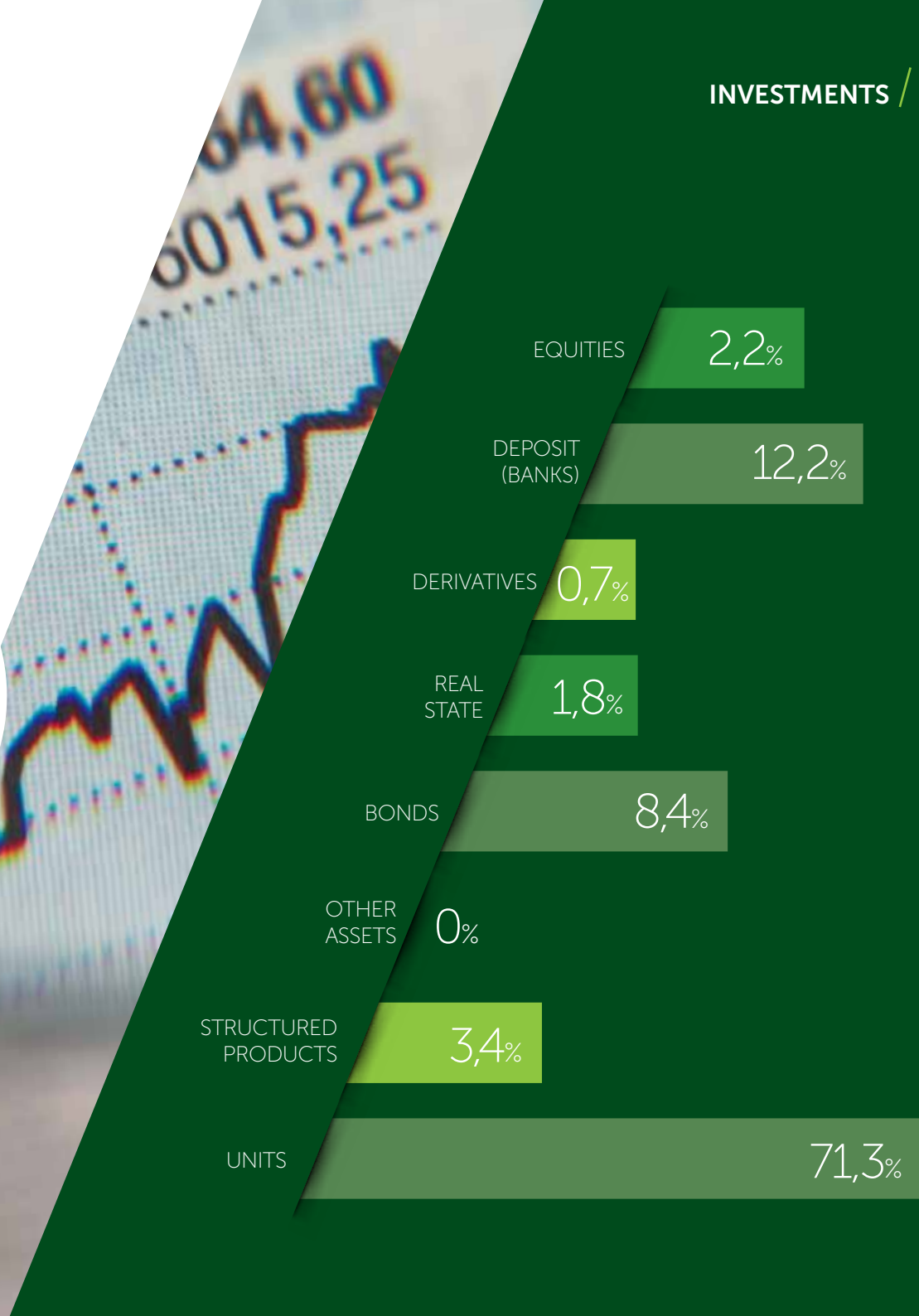
At the end of 2012, the total value of the insurance industry's investment portfolio amounted to €52.7 billion, a slight decrease (0.4%) compared to the end of 2011.

This decrease was largely the result of the reduction of liabilities in the Life segment caused by the significant number and values of surrenders and reimbursements that continued to be seen in 2012, not the result only of the fall of household disposable income but also, and above all, by the great need for bank financing, which led the respective financial groups to focus on marketing products that attract savings to their balance sheets (mainly term deposits).

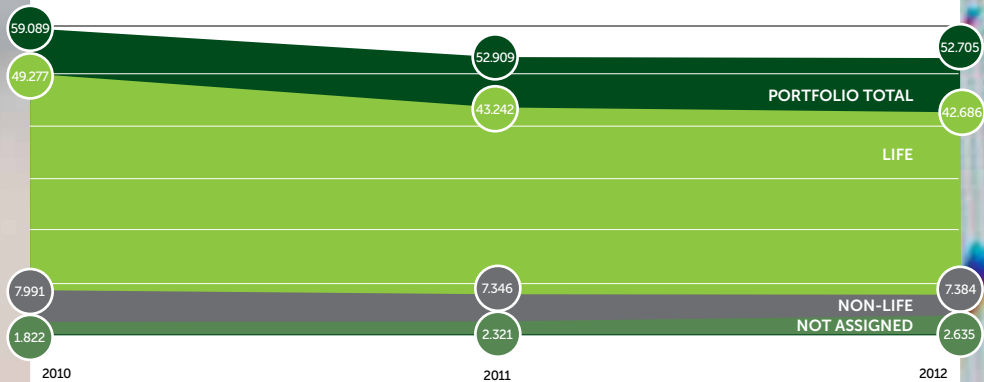
In this connection, the decline in value of the portfolio was no greater thanks only to the favourable performance of the financial markets seen in 2012, with a focus, in the first place, on the progressive decline of the yields on Portuguese public debt.

The combination of these two effects led to an increase in the rate of coverage of the liabilities of the insurance industry to 106.3% (a figure that greatly exceeds that recorded the same time last year: 102.1%) or, considering assets not allocated, to 111.9% (which compares with the figure of 106.8% last time).

Lastly, as regards the structure of the investment portfolios, it comes as no surprise that bonds continue to be the most significant asset in the portfolio, accounting for more than 71.3% of the total, of which almost 27% are public debt and remaining 44.5% private debt and others.

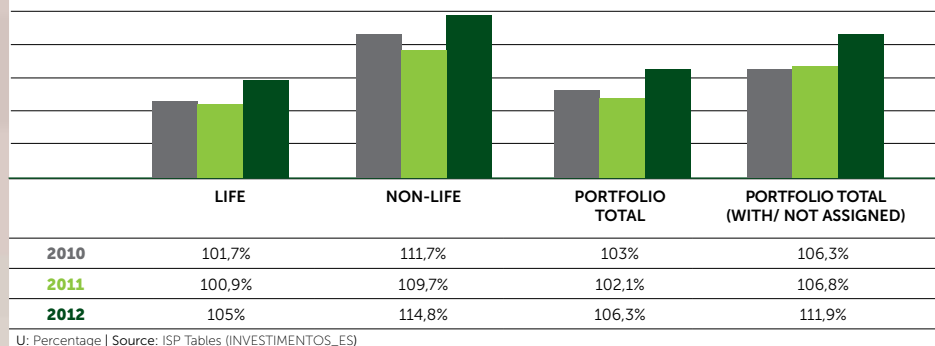


/ EVOLUTION OF THE INVESTMENT PORTFOLIO



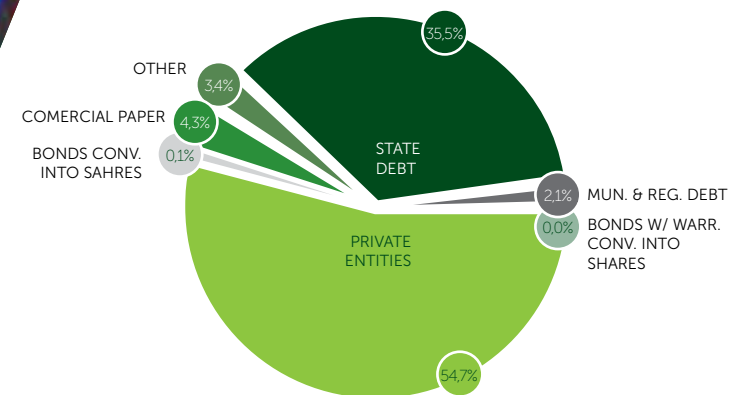
U: Million euros | Source: ISP Tables (INVESTIMENTOS_ES) and ISP Tables (CONTAS_ES) | Note: Date extrapolated

/ TECHNICAL PROVISIONS COVERAGE RATE



U: Percentage | Source: ISP Tables (INVESTIMENTOS_ES)

/ STRUCTURE OF THE BOND PORTFOLIO



/ PORTFOLIO COMPOSITION - ASSET TYPE

	STRUCTURE			CHANGE	
	2010	2011	2012	+11/10	+12/11
Equities	3,3%	2,5%	2,2%	-23,8%	-12,1%
Deposits (banks)	8,1%	10,7%	12,2%	31,4%	14,3%
Derivatives	0,6%	0,5%	0,7%	-18,1%	38,1%
Real estate	1,8%	2,0%	1,8%	10,5%	-6,9%
Bonds	68,2%	71,0%	71,3%	4,1%	0,3%
Other assets	0,6%	0,1%	0,0%	-87,0%	-143,8%
Structured products	9,4%	4,7%	3,4%	-50,3%	-26,7%
Units	8,0%	8,6%	8,4%	7,7%	-1,8%
TOTAL	100%	100%	100%		

Source: ISP Tables (INVESTIMENTOS_ES)



DISTRIBUTION CHANNELS

Given their relevance in terms of production volume and their characteristics in terms of their distribution structure, the accumulated decrease, between 2010 and 2012, of about 42% in the production of the Life segment could not fail to have an impact on the structure of the distribution channels of the insurance industry as a whole.

Indeed, overall, the relative weight of the "Agents" channel (traditionally stronger in the Non-Life segment) grew again in 2012, its share rising to almost 31% in the industry's distribution structure, that is, 10 p.p. more than at the end of 2010.

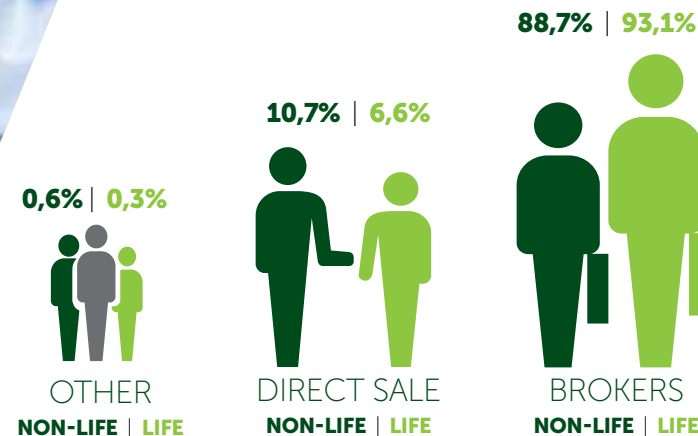
The performance of the "Banks" channel (traditionally greater in the Life segment) was the opposite, accounting in 2012 for about 53% of the volume distributed, a decrease of more than 12 p.p. when compared to its weight in 2010 (almost 65% of overall sales volume).

Even so, analysing just the Life segment, the banking channel remains, by a wide margin, the channel with the largest share, accounting, in 2012, for nearly 74% of sales. However, in the past two years the sale of Life products through this channel declined more sharply than the production of the segment, and this naturally impacted on its share in the distribution structure (10 p.p. less than in 2010).

The evolution of the "Agents" channel was quite the opposite, with remarkable growth seen both by volume and by its relative weight in distribution. Thus, the "Agents" channel now accounts for about 17% in the distribution of Life products, which compares with a weight of slightly less than 9% in 2010.

With regard to the Non-Life segment, insurance distribution continues to be based primarily on the "Agents" channel, which in 2012 accounted for 54% of sales, a percentage very similar to that of the previous year.

In this segment, penetration by the banking channel is traditionally lower, though it has grown on a sustained basis, to stand in 2012 at nearly 15% of total sales.



/ STRUCTURE OF THE DISTRIBUTION CHANNELS						
	NON-LIFE		LIFE		TOTAL	
	2011	2012	2011	2012	2011	2012
Brokers	88,6%	88,7%	94,6%	93,1%	92,4%	91,5%
Tied - Type I	15,1%	15,5%	52,9%	57,1%	39,5%	41,8%
Tied - Type II	1,9%	2,1%	25,8%	17,6%	17,3%	11,9%
Insurance brokers	17,2%	17,1%	1,2%	1,3%	6,9%	7,1%
Agents	54,4%	54,0%	14,6%	17,1%	28,7%	30,6%
Reinsurance	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Of which: Banks	13,7%	15,3%	76,0%	74,1%	53,9%	52,5%
Of which: CTT (Post Office)	0,0%	0,0%	6,0%	7,5%	3,9%	4,8%
Direct Sale	10,4%	10,7%	5,2%	6,6%	7,1%	8,1%
Branches	8,1%	8,3%	5,2%	6,6%	6,2%	7,2%
Internet	0,2%	0,3%	0,0%	0,0%	0,1%	0,1%
Telephone	2,1%	2,1%	0,0%	0,0%	0,7%	0,8%
Other	1,0%	0,6%	0,2%	0,3%	0,5%	0,5%
TOTAL	100%	100%	100%	100%	100%	100%

U: Percentage

TAXATION

Taxes borne by the insurance industry, or collected through its activity, also play a prominent role in the nation's public finances.

Considering just the stamp duty on policies (borne by the policyholders), the corporation tax borne by insurers and the various para-fiscal charges borne by policyholders and insurers, the tax and para-fiscal revenue generated by this business amounts to nearly €765 million each year (2012 values), the equivalent of 7.3% of total direct insurance production, or 19.96% considering just the Non-Life premiums, on which the majority of this burden is levied.

Lastly, we would just mention that with an effective tax rate of more than 30%, and unlike that seen in 2011, the amount of corporation tax borne by insurance companies stood close the tax that would

result from the application of maximum rates – Corporation tax (25%), municipal surcharge (1.5%) and state surcharge (5%).

Even so, one cannot overstate the fact that, considering the volatility of this indicator in recent years and taking into account the intensity of the economic cycles in insurance business, only an analysis over a long period of time can produce a coherent effective rate of corporation tax (and surcharges), especially cancelling out the effect of carrying forward tax losses generated in economically negative years.

/ TAX & PARA-FISCAL BURDEN					
	2010	2011	2012(e)	+11/10	+12/11
FOR THE ACCOUNT OF POLICYHOLDERS					
Policy Stamp	318	316	306	-0,6%	-3,2%
Motor Guarantee Fund (MGF)	25	24	23	-1,3%	-5,8%
Workmen's Compensation Fund	68	68	66	0,4%	-3,4%
National Civil Defence Authority	32	32	32	-0,3%	0,7%
National Medical Emergency Institute	79	77	74	-1,8%	-4,3%
SUB-TOTAL	522	518	501	-0,7%	-3,3%
FOR THE INSURER'S ACCOUNT					
Third-party Cert. (Motor policies)	5	5	5	0,8%	-1,1%
Insurance Institute of Portugal	18	17	15	-5,4%	-8,8%
Workmen's Compensation Fund (WCF)	7	8	9	15,5%	3,9%
IRC and Surcharge	89	103	266	16,5%	156,9%
SUB-TOTAL	119	133	294	12,5%	120,7%
TOTAL	640	651	795	1,8%	22,1%

/ RATIOS					
	2010	2011	2012(e)	+11/10	+12/11
IRC Rate (IRC and Surcharge/Gross Op. Profit)	16,4%	324,8%	30,5%	308,4 p.p.	-294,3 p.p.
Tax and Para-fiscal Burden/Direct Insurance Premiums	3,9%	5,6%	7,3%	166%	171%
Policyholders	3,2%	4,4%	4,6%	125%	15%
Insurers	0,7%	1,1%	2,7%	42%	156%
Tax & Para-fiscal Burden/ Non-Life Direct Insurance Premiums	15,4%	15,8%	19,9%	40%	419%

U: Million euros | (e) These figures are APS estimates, except for the WCF (total) and MGF, taken from their reports. Not including amounts in respect of VAT and personal income tax (IRS) withheld.



MANAGEMENT COSTS

Total chargeable costs by nature of expense amounted in 2012 to about €1,104 million, a significant decrease (4.7%) compared to 2011 (€1,158 million). Only in the Non-Life companies did this general decrease not occur (a 5.6% y-o-y increase), while the Life and Composite companies fell by 7.6% and 13.6% respectively.

For the market as a whole, the structure of chargeable expenses by nature did not change significantly compared to the figures for 2011.

In this connection, "Staff costs", accounting for 46% of the total, continues to account for the lion's

share of costs by nature of expense to be allocated. Additionally, the absolute value of this item increased by 1.5% (from €503 million in 2011 to €510 million in 2012) which also contributed to a small increase of its relative weight (2.8 p.p. up over the 43% recorded in 2011).

"Third-party supplies and services" continued to rank second in 2012 in the structure of costs by nature of expense, amounting to 42% for the total market.

With respect to the allocation of expenses by segment, the Motor segment continues to dominate in terms of relative weight (about 33%), now followed by the Accidents and Health segment (22% in 2012) and by the Life segment (which fell from second to third: 21% in 2012, compared to 26% in 2011).

/ MANAGEMENT COSTS - BY NATURE OF EXPENSE

	AMOUNTS		CHANGE +12/11	STRUCTURE	
	2011	2012		2011	2012
Staff costs	503	510	1,5%	43,4%	46,2%
Third-party supplies & services	464	467	0,6%	40,0%	42,3%
Taxes & charges	33	34	1,3%	2,9%	3,1%
Depreciation & amortisation charges for the year	60	56	-6,7%	5,1%	5,0%
Other provisions	29	-22	-176,9%	2,5%	-2,0%
Interest expense	21	21	-3,2%	1,8%	1,9%
Commissions	48	39	-18,5%	4,2%	3,6%
TOTAL	1.158	1.104	-4,7%	100%	100%

U: Million euros | Source: ISP Tables (CRIT_IMPUB) | Note: Extrapolated figures - Sample in 2010: 94.04%; 2011: 92.17%

/ MANAGEMENT COSTS - BY SEGMENT

	AMOUNTS		CHANGE +12/11	STRUCTURE	
	2011	2012		2011	2012
Segmento Vida	298	237	-20,6%	25,7%	21,4%
Segmento Não Vida	850	861	1,2%	73,4%	78,0%
Acidentes e Doença	259	243	-6,2%	22,3%	22,0%
Incêndio e Outros Danos	163	157	-3,9%	14,1%	14,2%
Automóvel	361	365	1,1%	31,2%	33,1%
Marítimo e Transportes	4	5	17,3%	0,4%	0,4%
Aéreo	0	0	-34,3%	0,0%	0,0%
Mercadorias Transportada	6	5	-9,4%	0,5%	0,5%
R. C. Geral	22	26	14,9%	1,9%	2,3%
Diversos	35	60	74,5%	3,0%	5,5%
Não Técnico	10	7	-34,2%	0,9%	0,6%
TOTAL	1.158	1.104	-4,7%	100%	100%

U: Million euros | Source: ISP Tables (CRIT_IMPUB) | Note: Extrapolated figures - Sample in 2010: 94.04%; 2011: 92.17%

LIFE SEGMENT

The adverse economic climate during 2012 continued to affect attracting private savings by the insurance industry, which has seen a further decline, though much less pronounced than in 2011, in the production of the Life segment (down 8.1%).

In this connection, the downturn of production particularly affected products of a financial nature. PPR contributions, for example, decreased by more than 13%, even if reality shows that their remuneration model is most adequate where the main concern is, in fact, long-term saving, all the more evident in times of greater uncertainty and volatility. But the reduction also extended to the remaining deferred capital insurance (8%), mainly affected by the same circumstances.

Additionally, in temporary insurance too, where the risk component is predominant and whose evolution profile is typically more stable, production fell by over 4%.

It therefore comes as no surprise that in 2012 there has been a further decrease in the number of insured

persons for the whole of the Life segment. In any case, and extrapolating for the entire market, this number is still above 9.5 million, that is, a figure very close to that seen at the end of 2008.

An analysis of the causes of the amounts paid reveals the significant decrease in the volume of surrenders and reimbursements (35%), back to figures very similar to those seen in 2010 (about €5.4 billion), but still far higher than those for 2009 for example (the year when reimbursements and surrenders were little more than €4 billion).

Lastly, and although in a context where the volume of surrenders and maturities was well above the volume of new contributions, it should be noted that the mathematical provisions and financial liabilities of the Life segment, which basically represent the insurers' liabilities in respect of savings under its management, remained fairly stable (with only a slight decrease of 0.6% on the basis of like samples). This was possible thanks only to the good performance of the financial markets in 2012, which allowed this decrease to be mitigated.

/ BREAKDOWN OF LIFE INSURANCE^(a)

	WRITTEN PREMIUMS			CHANGE		STRUCTURE		
	2010	2011	2012	+11/10	+12/11	2010	2011	2012
Life Insurance	9.600	5.506	4.820	-42,6%	-12,5%	78,9%	73,1%	69,6%
Excluding Retirement Savings Schemes (PPR, PPE, PPR/E)	6.573	4.299	3.755	-34,6%	-12,7%	54,0%	57,1%	54,2%
Retirement Savings Schemes (PPR, PPE, PPR/E)	3.027	1.207	1.065	-60,1%	-11,7%	24,9%	16,0%	15,4%
Products Linked to Investments	2.331	2.029	1.954	-12,9%	-3,7%	19,2%	26,9%	28,2%
Excluding Retirement Savings Schemes (PPR, PPE, PPR/E)	2.107	1.931	1.897	-8,4%	-1,8%	17,3%	25,6%	27,4%
Retirement Savings Schemes (PPR, PPE, PPR/E)	224	99	58	-55,9%	-41,8%	1,8%	1,3%	0,8%
Capitalisation Contracts	241	0	150	-99,9%	>1000%	2,0%	0,0%	2,2%
TOTAL LIFE INSURANCE	12.172	7.536	6.924	-38,1%	-8,1%	100%	100%	100%
of which PPR	3.251	1.306	1.123	-59,8%	-14,0%	26,7%	17,3%	16,2%

U: Million euros | (a) With investment contracts.

/ LIFE INSURANCE PORTFOLIO^(a)

	WRITTEN PREMIUMS			CHANGE		STRUCTURE		
	2010	2011	2012	+11/10	+12/11	2010	2011	2012
Annuities Contracts	33	19	45	-41,1%	132,7%	0,3%	0,3%	0,7%
Life Time Annuity	27	13	32	-52,6%	149,4%	0,2%	0,2%	0,5%
Retirement Saving Plan (PPR)	3.240	1.298	1.128	-59,9%	-13,1%	27,2%	18,0%	16,7%
Endowment Insurance (excluding PPR)	7.443	4.918	4.522	-33,9%	-8,0%	62,4%	68,3%	66,9%
Term Insurance Contracts	841	841	800	0,0%	-4,8%	7,1%	11,7%	11,8%
Other Capital Contracts (excluding PPR)	130	124	120	-4,5%	-3,4%	1,1%	1,7%	1,8%
Capitalisation Contracts	240	0	149	-100%	>1000%	2,0%	0,0%	2,2%
TOTAL	11.927	7.200	6.764	-39,6%	-6,1%	100%	100%	100%
INDIVIDUAL CONTRACTS	9.759	6.134	5.803	-37,1%	-5,4%	81,8%	85,2%	85,8%
GROUP CONTRACTS	2.168	1.066	948	-50,8%	-11,0%	18,2%	14,8%	14,0%
Sample:	96,4%	94,5%	96,0%					

U: Million euros | (a) APS 'Life Insurance Statistics'. Sample Values (Not Extrapolated)

/ INSURED PERSONS^(a)

	NUMBER			CHANGE		AVERAGE PREMIUM (€)		
	2010	2011	2012	+11/10	+11/12	2010	2011	2012
Annuities Contracts	30.633	29.643	27.562	-3,2%	-7,0%	1.079	656	1.642
Life Time Annuity	22.972	22.740	21.115	-1,0%	-7,1%	1.172	561	1.507
Retirement Saving Plan (PPR)	2.594.933	2.447.603	2.290.843	-5,7%	-6,4%	1.248	530	492
Endowment Insurance (excluding PPR)	1.896.127	1.757.820	1.701.443	-7,3%	-3,2%	3.926	2.798	2.658
Term Insurance Contracts	5.337.211	5.410.721	5.070.054	1,4%	-6,3%	158	155	158
Other Capital Contracts (excluding PPR)	215.059	193.990	177.825	-9,8%	-8,3%	603	638	673
Capitalisation Contracts	17.333	14.049	7.518	-18,9%	-46,5%	13.869	1	19.839
TOTAL	10.091.296	9.853.826	9.275.245	-2,4%	-5,9%	1.182	731	729
INDIVIDUAL CONTRACTS	5.003.510	5.309.036	5.045.557	6,1%	-5,0%	1.951	1.155	1.150
GROUP CONTRACTS	5.105.119	4.558.839	4.193.577	-10,7%	-8,0%	425	234	226
Sample:	96,4%	94,5%	96,0%					

(a) APS "Life Insurance Statistics". Sample Values (Not Extrapolated).

/ MATHEMATICAL PROVISIONS AND FINANCIAL LIABILITY^(a)

	AMOUNTS			CHANGE		STRUCTURE		
	2010	2011	2012	+11/10	+12/11	2010	2011	2012
Annuities Contracts	609	603	605	-1,0%	0,4%	1,3%	1,6%	1,6%
Life Time Annuity	582	581	576	-0,1%	-0,9%	1,3%	1,5%	1,5%
Retirement Saving Plan (PPR)	15.479	12.845	12.147	-17,0%	-5,4%	33,4%	33,4%	31,2%
Endowment Insurance (excluding PPR)	26.699	22.160	23.024	-17,0%	3,9%	57,6%	57,6%	59,2%
Term Insurance Contracts	85	85	68	0,2%	-20,8%	0,2%	0,2%	0,2%
Other Capital Contracts (excluding PPR)	922	859	781	-6,9%	-9,0%	2,0%	2,2%	2,0%
Capitalisation Contracts	2.547	1.944	2.260	-23,7%	16,2%	5,5%	5,0%	5,8%
TOTAL	46.340	38.496	38.885	-16,9%	1,0%	100%	100%	100%
INDIVIDUAL CONTRACTS	39.776	33.070	33.598	-16,9%	1,6%	85,8%	85,9%	86,4%
GROUP CONTRACTS	6.564	5.426	5.140	-17,3%	-5,3%	14,2%	14,1%	13,2%
Sample:	96,4%	94,5%	96,0%					

U: Million euros | (a) APS "Life Insurance Statistics". Sample Values (Not Extrapolated).

/ CLAIM COSTS CAUSES IN LIFE INSURANCE^(a)

	PAID AMOUNTS ^(b)			CHANGE		STRUCTURE		
	2010	2011	2012	+11/10	+12/11	2010	2011	2012
Term	3.892.726	4.522.513	3.464.690	16,2%	-23,4%	38,9%	33,3%	35,7%
Death	439.717	418.927	584.493	-4,7%	39,5%	4,4%	3,1%	6,0%
Redemption	5.367.149	8.348.535	5.426.415	55,5%	-35,0%	53,6%	61,5%	55,9%
Annuities	55.270	52.220	52.972	-5,5%	1,4%	0,6%	0,4%	0,5%
Transferral	103.451	90.629	79.038	-12,4%	-12,8%	1,0%	0,7%	0,8%
Incapacity and others complementary contracts	66.157	77.768	69.106	17,6%	-11,1%	0,7%	0,6%	0,7%
Other	91.233	73.398	23.877	-19,5%	-67,5%	0,9%	0,5%	0,2%
TOTAL GLOBAL	10.015.702	13.583.990	9.700.592	35,6%	-28,6%	100%	100%	100%
Sample:	96,4%	94,5%	96,0%					

U: Million euros | (a) APS "Life Insurance Statistics". Sample Values (Not Extrapolated)

(b) Excluding charged claims management costs. Including paid amounts for investment contracts.

NON-LIFE SEGMENTS

The year under review was also a year of contraction in the Non-Life segment (3.5%), affecting more intensely several areas more sensitive to macroeconomic variables, though not inhibiting moderate growth of others.

In Accidents and Health insurance (down 4.5%) the decline of the volume of Workmen's Compensation premiums (10.6%) predominated, naturally induced by lower employment and wage restraint, but also affected by the strong competitive pressure of the market, which has continued to be reflected in further attenuation of average prices.

Equally negative was the performance of Motor insurance, the largest Non-Life segment, which in 2012 saw a drop in production volume (5.4%). Also negative, though marginally so, was the performance of the Fire and Other Damage segment (0.2%), reversing the growth trend seen in recent years.

Conversely, Health premiums continued to perform well (up 2.2%), with growth higher than in 2011 but

still below the average growth observed between 2005 and 2010 (7.5%). Anyway, this performance demonstrates, once again, growing consumer interest in this type of protection.

In many of these business lines, the context of economic recession helped to contain the claims rate, both in absolute volume of costs and also in proportion to premiums. However, the growth of claims' costs in the Workmen's Compensation segment (including the increase of provisions) associated with the said erosion of premium volume, so worsened the claims ratio in 2012 that it actually grew in the Non-Life segment as a whole (from 73.3% in 2011 to 75.3%).

This deterioration of the Non-Life technical result is largely the result of the deterioration degradation of the main technical indicators of this segment. Overall, the Non-Life combined ratio increased by more than 3 p.p. (with an increase of 2 p.p. in the claims ratio and an increase of slightly less than 1 p.p. in the expense ratio). In this connection, the focus in on the particularly severe variation of Workmen's Compensation claims ratio which, when compared with the figure at the end of 2011, rose more than 21 p.p., meaning that this segment generated a combined ratio of very nearly 140%.

/ COMBINED RATIOS - DIRECT INSURANCE^(a)

		PREMIUMS ISSUED	CLAIMS RATIO	SURCHARGE	COMBINED RATIO
Accidents & Health	2012	1.262	97,0%	27,7%	124,7%
	2011	1.322	83,1%	27,6%	110,7%
	2010	1.357	77,9%	26,6%	104,5%
Workmen's Compensation	2012	556	112,9%	26,9%	139,8%
	2011	622	91,5%	26,8%	118,3%
	2010	646	83,3%	25,6%	108,9%
Health	2012	553	87,5%	24,2%	111,7%
	2011	541	88,0%	24,4%	112,4%
	2010	532	84,1%	22,6%	106,7%
Fire & Other Damage	2012	767	59,5%	39,2%	98,6%
	2011	769	61,5%	38,3%	99,8%
	2010	765	75,4%	39,8%	115,3%
Motor	2012	1.569	70,7%	29,7%	100,4%
	2011	1.659	74,4%	28,8%	103,3%
	2010	1.672	74,5%	29,1%	103,6%
Marine & Transport	2012	32	90,3%	20,5%	110,7%
	2011	28	70,9%	18,0%	88,9%
	2010	25	59,9%	28,2%	88,1%
Air	2012	8	1,3%	-1,8%	-0,5%
	2011	11	-115,9%	31,2%	-84,7%
	2010	16	120,5%	3,7%	124,2%
Carriage of Goods	2012	25	61,5%	26,6%	88,1%
	2011	26	38,0%	26,3%	64,3%
	2010	26	30,4%	43,6%	73,9%
General Third-party Liability	2012	114	40,8%	38,8%	79,6%
	2011	114	41,9%	35,4%	77,3%
	2010	116	54,5%	40,5%	95,0%
Sundry	2012	209	49,6%	45,0%	94,6%
	2011	204	37,5%	39,5%	77,0%
	2010	191	43,4%	42,5%	85,8%
TOTAL DIRECT INSURANCE	2012	3.987	75,3%	31,1%	106,5%
	2011	4.133	73,3%	30,2%	103,5%
	2010	4.168	74,4%	30,4%	104,8%

U: Million euros | (a) These ratios are calculated on premiums written.

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