TRANQUILIDADE / T-VIDA'06
ANNUAL REPORT

TRANQUILIDADE

VIDA

Photography occupies an outstanding position in the history of contemporary art, representing today a major form of artistic expression.

Photography offers a vast and rich universe of languages and resources that question and transform the traditional concepts of plastic expression to afford new insights, new visions and new ways of feeling.

By assuming an increasingly important role as Patron of Photography in Portugal, BES Group has given a key contribution to the development and assertion of this art form. This strategy reveals the commitment to the future and the option for modernity that distinguish the BES brand and the Group's corporate culture.

The illustrations included in this year's Annual Report depict some of the pieces of the BES art collection which the Bank has been building since 2004 with recent works from renowned international and Portuguese contemporary artists.

BES art

TRANQUILIDADE / T-VIDA'06

ANNUAL REPORT

Colecção BESart • Valter Vinagre
Da série Variações para um fruto, "S/ título #17", 2003 • Cybachrome mounted on aluminum • 100 x 125cm • Edition: 1/3 • Courtesy VPFCream Arte

TRANQUILIDADE

VIDA

TRANQUILIDADE / T-VIDA'06

ANNUAL REPORT

Founded in 1871, Companhia de Seguros Tranquilidade has long been a leading player in the Portuguese economy. With premiums of 361.3 million euros in 2006 and a market share of 8.3%, Tranquilidade has based its strategy on quality, innovation and a customer-oriented approach.

T-Vida, Companhia de Seguros was incorporated in 2006, as part of the reorganization of the insurance operations of the Espírito Santo Group, with Companhia de Seguros Tranquilidade further consolidating its role as specialist in financial protection and taking back direct control of life business. T-Vida has taken over the non-banking insurance portfolio of the former Tranquilidade-Vida, and operates through Tranquilidade's sales outlets and brokers' network.

Established in all market segments, with a full range of products geared to private customers, small and medium business and large corporations, and with a multi-channel distribution system, Tranquilidade has asserted itself as a specialist in protection. The fact that it belongs to a major financial group – the Espírito Santo Group – allows it to enjoy significant synergies and to offer its customers a comprehensive range of products.

650,000 customers trust Tranquilidade to protect their assets and to assure their future. 870 employees are committed to providing a quality service. 50 branch offices, an expanding network of franchised shops and a vast network of brokers nationwide are able to guarantee professionalism, convenience and speed. A call centre, working long hours and providing a personalised services, together with a website offering a number of online services, mean that our customers can reach us easily and comfortably wherever they are.

136 years of history are the proof of Tranquilidade's experience and know-how, providing a store of expertise and a launch pad for future operations, allowing us to assure the company's essential core value: our customers' peace of mind.

TRANQUILIDADE / T-VIDA'06
ANNUAL REPORT

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COMPANHIA DE SEGUROS TRANQUILIDADE

T-VIDA, COMPANHIA DE SEGUROS

TRANQUILIDADE
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Colecção BESart • Valter Vinagre
Da série Variações para um fruto, "S/ título #19", 2003 • Cybachrome mounted on aluminum • 100 x 125cm • Edition: 1/3 • Courtesy VPFCream Arte

01'

COMPANY OFFICERS

INNOVATION AND COMPETENCE.
COMMITMENT IN EFECTIVE MANAGEMENT.
TRANQUILIDADE'06

1.0 Company Officers

General Meeting

Paulo Jorge Barreto de Carvalho Ventura (Chairman)
Rui Manuel Duarte Sousa da Silveira (Vice-Chairman)

Board of Directors

Luís Frederico Redondo Lopes (Chairman)
Pedro Guilherme Beauvillain de Brito e Cunha (Director)
Augusto Tomé Pires Fernandes Pedroso (Director)
António Miguel Natário Rio-Tinto (Director)
Eduardo Antunes Stock (Director)
João Carlos Neves Ribeiro (Director)
Miguel Maria Pitté Reis da Silveira Moreno (Director)
Miguel Luís Kolback da Veiga (Director)
António José Baptista do Souto (Director)
Manrico Iachia (Director)
António Manuel Rodrigues Marques (Director)

Executive Board

Pedro Guilherme Beauvillain de Brito e Cunha (Chairman)
Augusto Tomé Pires Fernandes Pedroso
António Miguel Natário Rio-Tinto
João Carlos Neves Ribeiro
Miguel Maria Pitté Reis da Silveira Moreno
Eduardo Antunes Stock

Audit Board

Fernando Aguiar Branco (Chairman)
António Maria Pereira (Member)
António Ricardo Espírito Santo Bustorff (Member)
Isidro Valente (Member)
José Manuel Macedo Pereira – R.O.C. (Member)

João Augusto & Associados (Alternate member)
Sociedade de Revisores Oficiais de Contas
represented by
Ana Cristina Soares Valente Dourado

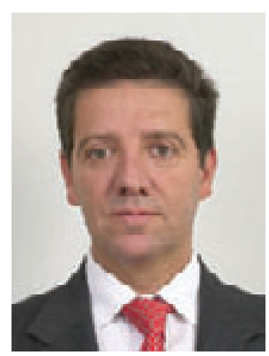
Executive Board

Peter de Brito e Cunha

Tomé Pedroso

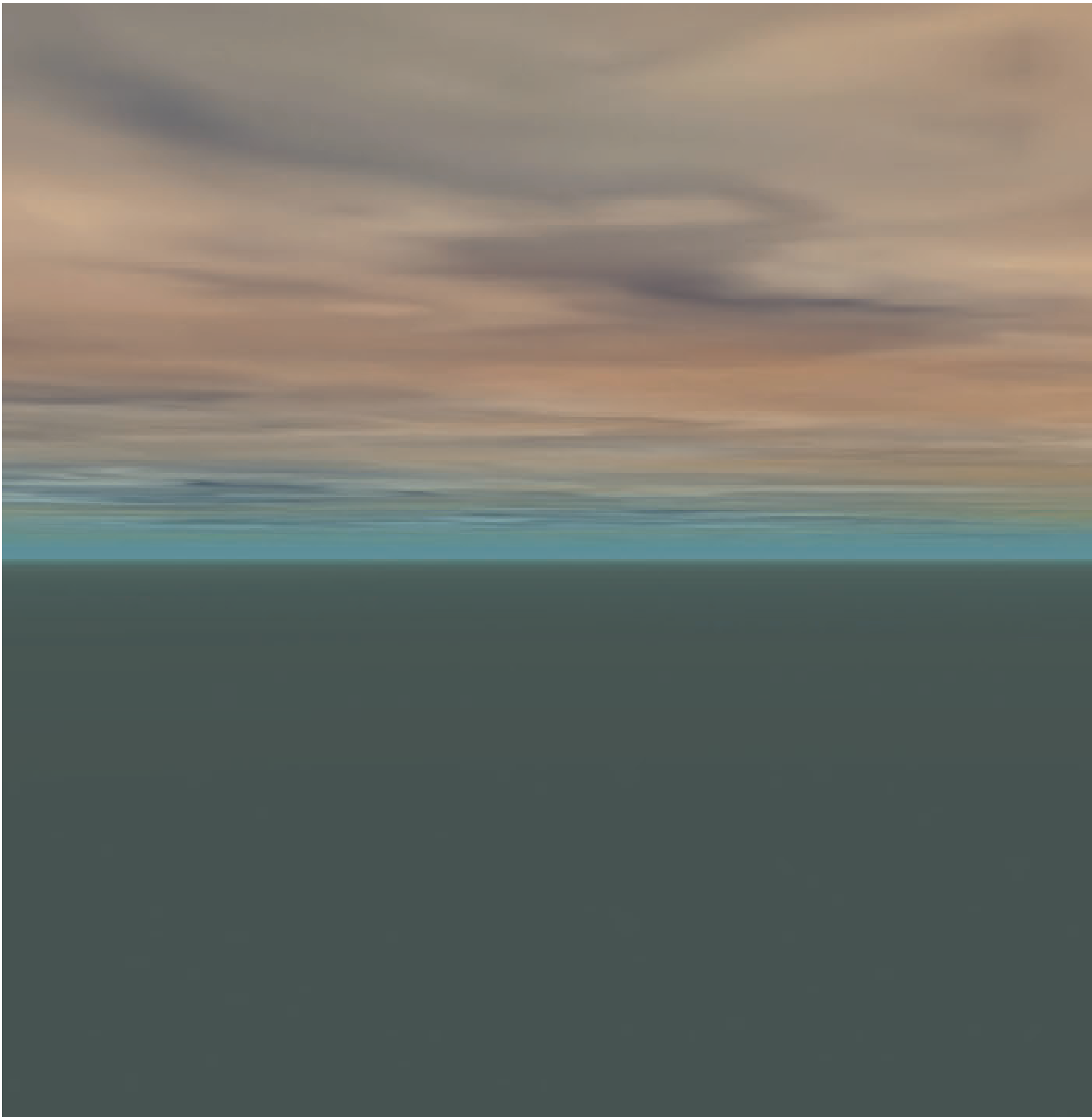
Miguel Rio-Tinto

João Ribeiro

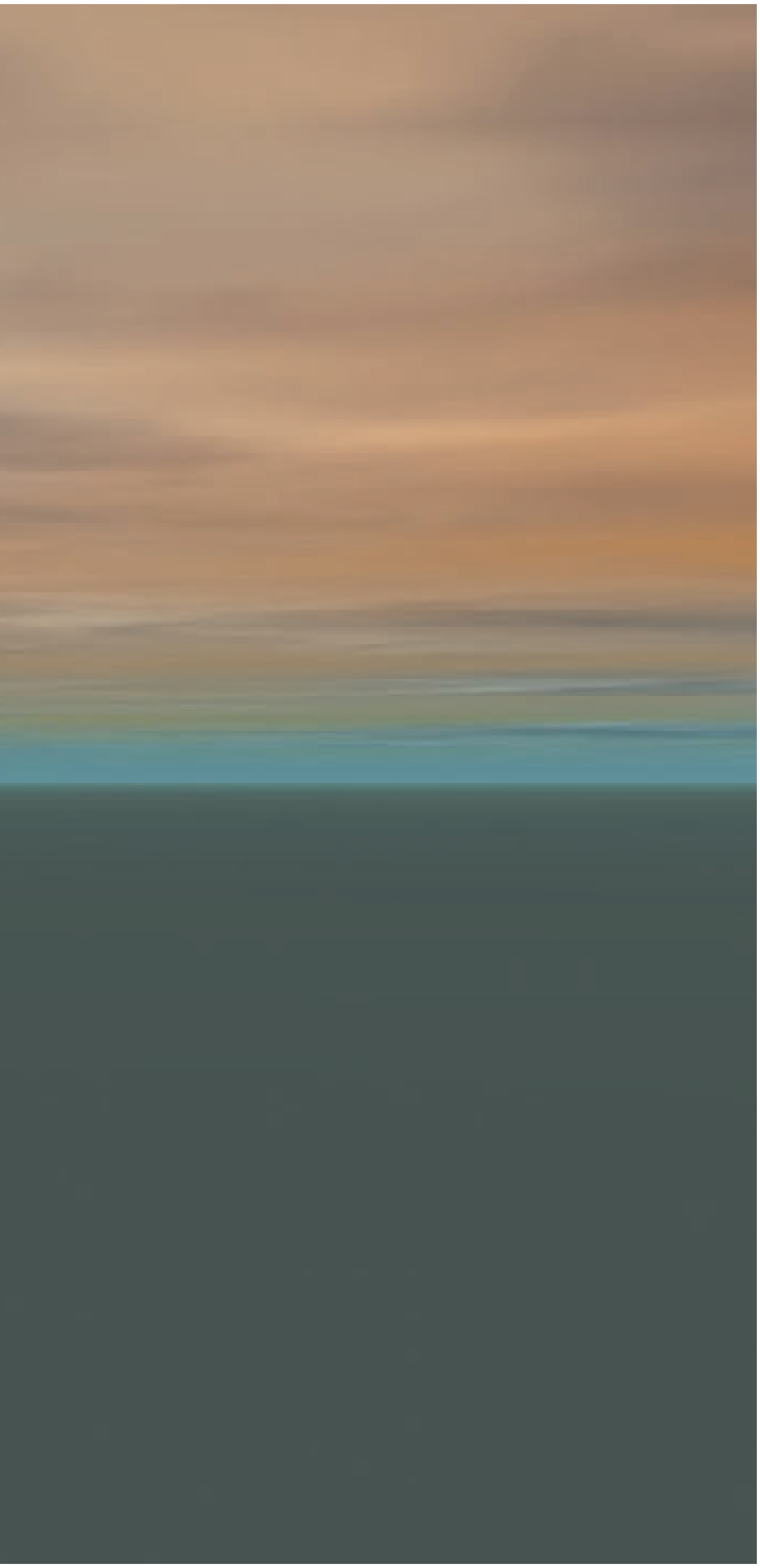


Miguel Moreno

Eduardo Stock



Colecção BESart • MATT MULLICAN
“Untitled (Default Atmosphere) #15”, 2006 • 70 x 100 cm • Digital Print



02’

DIRECTORS’ REPORT

A DYNAMIC AND CONSOLIDATED PATH,

MANAGING CONFIDENCE.

TRANQUILIDADE’06

2.0 Directors' Report

Shareholders,

As required by the law and the articles of association, the Directors are pleased to submit for your consideration the Management Report and Accounts for Companhia de Seguros Tranquilidade, SA, for the financial year of 2006.

2.1 Economic Background

2.1.1 The Portuguese Economy

According to the latest estimates from the Bank of Portugal, the Portuguese economy rallied in 2006, with growth in GDP up from 0.4% to 1.3%. The upturn in performance was based above all on strong growth in exports of goods and services, up in real terms by slightly more than 8% (0.9% in 2005). In addition to continued strong growth in GDP in Spain, which is Portugal's prime trading partner, Portugal benefited from a recovery in the Euro Zone as a whole, and in Germany in particular. There was also significant growth in exports to less traditional destinations, notably Angola. The contribution made by new exports to growth increased over the year from -0.3 p.p. to approximately 1.1 p.p.

In contrast, domestic demand made a smaller contribution to growth, dropping from 0.7 p.p. to 0.2 p.p.. Consumer spending slowed even further, with growth falling from 2.1% in 2005 to 1.2% in 2006. With disposable income lower than the expansion in consumer spending, the household savings rate came down from 9.2% to approximately 8.5% of disposable income.

Gross fixed capital formation again performed worst in the domestic demand components, although the drop was smaller in real terms than that recorded in 2005 (a reduction of 2.1% as compared with 3.8%).

Improved business confidence had a positive impact on the labour market, with the average unemployment rate down from 7.6% to 7.5% of the working population.

Public spending was down by 0.1%, due to the reduction in personnel spending and spending on goods and services. In conjunction with the drop in public investment and the sharp increase in fiscal and non-fiscal revenues, this helped to bring down the budget deficit from 6% to 4.6% of GDP, in line with the targets set in the Stability and Growth Programme.

Moderate growth in internal demand and strong performance in exports of goods and services resulting in an improvement in the joint balance of the current and capital accounts, with the net external financing needs of the Portuguese economy falling from 8.1% to 7.6% of GDP.

The average inflation rate rose from 2.3% to 3% in 2006. This was affected by a change in the statistical methodology used in calculating the retail price index, with an impact felt only in 2006. Without this alteration, the average inflation rate would have risen to only 2.5%. The upward trend in prices in 2006 was due to the increase in the price of energy goods in the first half of the year and the impact of increases in a number of indirect taxes.

The capital market performed well in 2006, in line with the trend in the leading European markets, with the PSI-20 index recording an increase of 29.8%, as compared to 13.4% in 2005.

2.1.2 Insurance Market

In the course of 2006, the Portuguese insurance industry was involved in intense political and legislative activity. In addition to major new legislation, a number of other measures have been proposed for enactment or merely for debate, and in view of their possible repercussions the insurance sector has paid close attention to all these developments.

Coinciding with a moment when the industry is committed to dealing with all the challenges, the financial year of 2006 also brought signs of a turnaround in the economic cycle in the industry, which has been characterized by a decline in underwriting and a worsening, or at least stagnation, of the claims rate.

In terms of direct underwriting, the insurance market recorded further contraction in 2006. Premiums written totalled 13,122 million euros, down by 2.5% on the previous year. The insurance industry's contribution to GDP fell to 8.6%, from a level of 9.1% in 2005.

This was due in part to the performance of the life market which shrank by 4.1%, with premiums written of 8,762 million euros. However, life products had grown by almost 50% in 2005, meaning that the growth over 204 is still significant (+ 40%). Especially important has been the growth in the contribution made by retirement savings schemes (RSS) and endowment products, which are a major component of household savings. Although representing a smaller proportion of total underwriting, life business still accounted for 67% of premiums written (68% in 2005).

The trends towards slower growth in non-life products continued in 2006. Premiums written totalled 4,360 million euros, up by 1.2% (lower than inflation), representing 33% of the total insurance market and 3% of GDP. These figures reflect a number of difficulties experienced in the recovery of the Portuguese economy, as well as adjustments to tariffs in a number of sectors, especially in those where the claims rate has improved most significantly in recent years. The largest sectors recorded very low or even negative growth, such as employers' liability (-0.5%) and motor insurance (+0.3%). In contrast, health insurance (9.7%) and personal accident insurance (+5.0%) performed well, pointing to the growing importance of this type of products as a complement to public health care provision.

2.2 Major Developments in 2006

On 27 June 2006, as part of the reorganization of the insurance holdings of Espírito Santo Financial Group, SA, Crédit Agricole, SA sold off its holding in Tranquilidade, which is now 100% owned by ESFG, through Partran.

Simultaneously, Tranquilidade no longer detains its share of 25% in BES Vida (ex- Tranquilidade Vida). In consequence of this restructuring process a new Insurer, T-Vida, emerged in the market, 100% detained by Tranquilidade. This new company, devoted to Life business, established in 28 July 2006 and having started up its activity in August 2006, has acquired from BES Vida the portfolio of policies produced by the agents channel, Branch Offices and other channels of Companhia de Seguros Tranquilidade.

After this change, the company continued with an "A" rating from Fitch Ratings.

The non-life insurance market was strongly influenced by the economic slowdown and the introduction of the new Collection Law. The combination of these two factors led to a sharp increase in competition and a high level of customer turnover.

In view of this market situation, Tranquilidade made efforts to retain its clients, cutting premiums per client, in average terms, and declining a number of business opportunities where the pressure of competition took away its profit margin.

As a result, the company ended the financial year of 2006 with a market share of 8.3%.

In the course of the year, Tranquilidade redoubled efforts to take a segmented approach to business, setting up special structures for medium-sized corporate clients and for private clients. At the same time, the Company developed its channels area in order to bring itself closer to its customers and to improve service standards; this involved creating the concept of city shops and cross-segments.

In the field of claims, the Company launched a programme in 2006 for continuous process review, making it possible to enhance the efficiency and effectiveness of claims management, combined with adoption of new management tools and methods.

Towards the end of the year, Tranquilidade adopted a new corporate image. Without changing its core values and its 136 years of history, Tranquilidade has refreshed its image and prepared itself to face the new challenges of an increasingly competitive market.

The last image make-over had taken place more than a decade previously, and 2006 offered a good opportunity for change. A brand audit followed up by analysis and debate generated a new symbol: the new shape and proportions and a brighter shade of green mean that Tranquilidade's logo now conveys the idea of safety and protection.

The new image draws its inspiration primarily from nature. This generated the concept of "natural protection", which is designed to transmit to our customers and staff feelings of rejuvenation, trust, confidence, well-being and protection.

2.3 Strategic Goals

Over the last two years, Tranquilidade has focussed on its infrastructure and on consolidating its organizational and sales model. This has taken the form of the Turbo Programme, involving a vast array of measures across the board and representing a major investment in the future.

These efforts have borne fruits and 2007 will be a year centred on growth, with both the cost and claims ratios under control, and a combined ratio under 100%, as in previous years.

The results obtained from assurfinance continue to serve as the driving force for developing our agents network and customer involvement, and the company's aim is to increase the number of agents who regularly generate assurfinance business, and thereby to extend our client base.

In terms of sales, Tranquilidade is implementing a wide range of initiatives, focussed on customers, product rate and channels:

- Further development of the client segment and relationship model, with special customized structures for each segment.

- Implementation of a customer loyalty programme, to assure that contracts are renewed, supported by a process of direct contacts or contacts through partner networks, in order to increase cross--selling and up-selling, and to augment growth and involvement with the Group.

- Development of the product range, wit new products and simplification of the existing range, making it easier and more convenient in terms of both sales and claims settlement.

- Coordination and integration of the overall product range offered by the Espírito Santo Group (non-life, life and banking products), the reby boosting standards of customer service and loyalty, taking maximum advantage of our membership of a wider financial group.

- Expansion of the company's own network, with new franchised outlets, to reach more potential customers.

- Significant growth in the proprietary/exclusive network and development of a strong team of agents.

- Exploration of alternative, non-traditional channels: direct sales, cross-segment, affinities, one-stop-shopping.

Tranquilidade has also set itself the challenge of reformulating its existing branch model (the centre of gravity for its business), so as to improve its commercial effectiveness and efficiency, to speed up decision making processes and to facilitate operating processes.

Special mention should be made of increased coordination with BES, especially through the Assurfinance programme, which has been renewed and consolidated, and which undoubtedly serves increasingly as a factor of differentiation and an attraction for clients and partners. In 2007, the Company will be clearly focussed on improving competitiveness and diversifying the range of advantages offered by the Tranquilidade universe.

In terms of the cost of claims, Tranquilidade has made continued efforts to improve effectiveness and efficiency in claims management, through constant optimization and negotiation with suppliers, and conclusion of the current reorganization programme in the claims sector.

The company is committed optimising structures and resources to bring down overheads, with a view to improving control and monitoring of the cost of external services.

Efforts will continue in 2007 to renew and promote the brand, capitalizing to the full on its benefits, in a process we expect will offer significant returns and support in achieving our corporate goals. Special attention will also be paid to developing new capabilities in risk management and internal control.

In short, the prime goal in 2007 will be to "win customers", in order to consolidate the successful achievement of our targets for 2005-2007: an increased market share, consolidation of the Assurfinance programme and continued control of the combined ratio.

2.4 Main Operating Variables and Indicators

('000 euros)

	2006	2005	Var 06/05 (%)
Balance Sheet			
Investments	753,735	583,820	29.1
Net assets	954,688	847,432	12.7
Shareholders' funds	238,642	188,588	26.5
Provision for unearned premiums (DI + IR)	94,693	96,487	-1.9
Provision for claims (DI + IR)	495,513	476,651	4.0
Provision for claims, net of reinsurance	459,672	438,388	4.9
Underwriting provisions (DI + IR)	598,325	579,755	3.2
Profit and Loss Account			
Gross premiums written (direct insurance)	361,297	365,705	-1.2
Premiums written, net of reinsurance	308,927	317,537	-2.7
Cost of claims (DI + IR)	224,652	238,718	-5.9
Cost of claims, net of reinsurance	213,923	219,435	-2.5
Net operating costs	95,854	100,796	-4.9
Pre-tax profits	197,743	26,939	634.0
Net profits	157,228	26,773	487.3
Pro-forma net profits	31,525	26,773	17.7
Indicators			
Gross premiums written/No. employees	412	428	-3.6
Claims rate (direct insurance)	62.0	65.0	-3.0 p.p.
Claims rate net of reinsurance	69.2	69.1	+0.1 p.p.
Pro-forma net profits/ Gross premiums written	8.7	7.3	+1.4 p.p.
Combined ratio, net of reinsurance	99.9	99.9	0
Solvency ratio	290.0	277.0	+13.0 p.p.

2.5 Tranquilidade's Operations

2.5.1 Direct Underwriting Premiums

Direct underwriting premiums totalled 361,297 thousand euros, down on the year by 1.2%. The effect of the new collection law, which led to cancellation of a significant number of policies, together with downwards trend in market tariffs, both made their impact felt on underwriting.

These effects were most noticeable in motor insurance, where the decline of 3.7% in premiums was significant in the total reduction in underwriting. Positive growth was recorded in accidents and health, where premiums were up on the year by 3.2% (personal accident insurance up by 12.9% and health insurance up by 8.6%), whilst comprehensive insurance also recorded growth of 3.2%, with third party insurance premiums growing by 2.2%.

Excluding motor insurance, therefore, Tranquilidade recorded growth in non-life business of 1.1%.

('000 euros)

Direct Insurance Premiums(*)	2006	%	2005	%	Var 06/05 (%)
Accidents and health	102,890	28.5	99,706	27.3	3.2
Fire and other damage	57,206	15.8	58,084	15.9	-1.5
Motor	172,105	47.6	178,643	48.8	-3.7
Transport	8,464	2.3	8,739	2.4	-3.2
Third party	8,593	2.4	8,407	2.3	2.2
Miscellaneous	12,039	3.3	12,126	3.3	-0.7
TOTAL	**361,297**	**100.0**	**365,705**	**100.0**	**-1.2**

(*) Includes Spanish office.

In comparison with 2005, Tranquilidade's market share contracted from 8.5% to 8.3%. However, the market share is still higher than in 2004 (7.9%).

2.5.2 Cost of Direct Insurance Claims

The cost of direct insurance claims totalled 224,647 thousand euros, down by approximately 14,080 thousand euros, and corresponding to a reduction of 5.9% in comparison with 2005.

The most significant variations were recorded in third party insurance (down by 9,040 thousand euros) and motor insurance (down by 7,550 thousand euros); in motor insurance, the company achieved a reduction in both the number and the average cost of claims. The cost of claims in 2006 rose only for the fire and other damage sector (up by 2,625 thousand euros) and the transport sector (up by 1,437 thousand euros).

('000 euros)

Cost of Direct Insurance Claims(*)	2006	2005	Var 06/05 (%)
Accidents and health	66,561	67,778	-1.8
Fire and other damage	25,924	23,299	11.3
Motor	124,237	131,787	-5.7
Transport	6,507	5,070	28.3
Third party	1,214	10,254	-88.2
Miscellaneous	204	539	-62.1
TOTAL	**224,647**	**238,727**	**-5.9**

(*) Includes Spanish office.

The ratio of cost of claims/gross premiums earned fell from 65% to 62%, with all groups of sectors recording a drop in ratios, except for fire and other damage and transport. The most significant reduction was in accidents and health (from 68.2% to 64.5%) and motor insurance (from 72.7% to 71.7%).

(%)

Cost of Claims / Gross Premiums Earned(*)	2006	2005
Accidents and health	64.5	68.2
Fire and other damage	45.7	40.7
Motor	71.7	72.7
Transport	78.2	56.6
Third party	14.1	117.7
Miscellaneous	1.7	4.5
TOTAL	**62.0**	**65.0**

(*) Includes Spanish office.

2.5.3 Underwriting Provisions

Underwriting provisions grew by 18,570 thousand euros, and the provision for claims in particular increased by 18,862 thousand euros.

Provision for unearned premiums	94,693	96,487	-1.9
Provision for claims	495,513	476,651	4.0
Employers' liability	163,270	154,738	5.5
Other areas	332,243	321,913	3.2
Other underwriting provisions	8,120	6,617	22.7
TOTAL	**598,325**	**579,755**	**3.2**

(*) Includes Spanish office.

2.5.4 Outwards Reinsurance

The outwards reinsurance balance increased by approximately 9,040 thousand euros over the previous year.

The increase in outwards reinsurance reflected significant growth in strategic business lines with a major reinsurance component (personal accident). The reduction in claims was due to a decrease in the number of adjustments to the cost of major motor claims.

('000 euros)

Outwards Reinsurance (*)	2006	2005	Var 06/05 (%)
Premiums	52,454	48,199	8.8
Commissions	-14,906	-12,419	20.0
Claims and variation in underwriting provisions	-11,855	-19,127	-38.0
TOTAL	25,693	16,653	54.3

(*) Includes Spanish office

Outwards reinsurance business recorded a positive balance of 44 thousand euros in 2006.

2.5.5 Outstanding Premiums

The ratio of outstanding premiums/premiums fell by 1.3 p.p. in relation to 2005, standing at 11.6% in 2006. The provision for outstanding premiums represented 17.9% of premiums in 2006 as against 15.4% in 2005, when more than 2 million euros had been released from this provision.

('000 euros)

A – Premiums	361,297	365,705	-1.2
B – Outstanding premiums	41,773	46,997	-11.1
C – Provision for outstanding premiums	7,472	7,243	3.2
Ratio B/A (%)	11.6	12.9	
Ratio C/B (%)	17.9	15.4	

(*) Includes Spanish office

2.5.6 Personnel

In the course of 2006, Tranquilidade took on 51 new employees, with 30 employees leaving, seven of which on early retirement or retirement.

This balance was due to previously outsourced tasks being taken on internally, with the costs involved offset by the reduction in third party supplies.

As a result of these movements, the workforce grew by 2.5%. In terms of productivity, the value of direct premiums per permanent employee fell by 3.6% to 412,440 euros, still higher than the figure recorded in 2004 (407,522 euros).

	2006	2005	Var 06/05 (%)
Employees hired*	51	97	-47.4
Employees leaving	30	65	-53.8
of which on Early Retirement or Retirement	7	4	75.0
Total Workforce	876	855	2.5
Premiums / no. of employees	412,440	427,726	-3.6

(*) in 2005 – of which 57 were transferred from ESIA

2.5.7 Investment

The disposal of Tranquilidade's holding in Tranquilidade Vida, as part of the reorganization of the insurance sector holdings of the Espírito Santo Financial Group, represented a landmark in the company's investment policy. The reorganization process culminated with the incorporation of a new life insurance company, under the name T-Vida, Companhia de Seguros, S.A., wholly owned by Tranquilidade.

With the disposal of Tranquilidade Vida, there was a significant increase in Tranquilidade's investment portfolio, especially in floating rate corporate debt with stable credit risk and liquidity. The investment portfolio grew in value by 18.3% over 2005, to a total of 801,949 thousand euros. Tranquilidade's financial policy remained geared to taking advantage of the favourable conditions on the market, and has involved:

- Swapping bonds, in order to increase the returns on the issues held and to achieve a more uniform average rating for the portfolio, at A3 (Moody's) / A – (S&P). Measures have also been taken to reduce investment in flat rate bonds and to cut the levels of liquidity recorded in recent years.

- A number of operations in the equities market, with a view to capital gains, taking advantage of rising share prices and positive results recorded by some of the holdings.

• A reduction in property holdings, in line with company's strategy of reducing this percentage in terms of asset allocation.

• An increase in total returns of 62 b.p., in comparison with 2005, an excluding the impact of the disposal of Tranquilidade Vida, with a MWR (money weight return) of 6.24%.

('000 euros)

Investment Portfolio (*)	2006	%	2005	%
Securities	598,666	74.7	394,295	58.2
Property *	144,389	18.0	155,540	22.9
Loans	10,671	1.3	8,500	1.3
Deposits **	48,223	6.0	119,415	17.6
TOTAL	801,949	100.0	677,750	100.0

(*) Includes Spanish office
(**) Includes sight deposits

2.5.8 Shareholders' Funds

In 2006, the Company recorded an increase in shareholders' funds of 50,055 thousand euros.

The solvency ratio rose to 290%, as against 277% in 2005.

2.5.9 Profits

Profits for 2006 stood at 157,228,261.75 euros and include the capital gain deriving from 25% of BES Vida (the former Tranquilidade Vida), obtained in the course of the reorganization process concluded on 27 June 2006.

The pro-forma net profit, excluding this disposal, stood at 31,524,512.00 euros, representing an improvement of 17.7% over the profits of 26,772,701.15 euros recorded in 2005.

We propose that the said sum of 157,228,261.75 be distributed as follows:

• 10% of the profits for the period, corresponding to 15,722,826.18 euros, to the Legal Reserve;
• 10% of the profits for the period, not considering the extraordinary profits referred to above, i.e. 3,152,451.20 euros, for distribution to the employees, under the terms of para. 1 c) of article 30 of the Articles of Association, in accordance with criteria to be defined by the Executive Board;
• 137,000,000.00 for distribution of dividends, of which an interim dividend of 76,761,000.00 euros has already been paid.
• 1,352,984.37 euros to be at the disposal of the General Meeting for the purposes and under the terms of para. 3 of article 23 and para. 2 of article 30 of the Articles of Association, and the remainder to Retained Earnings.

2.5.10 Acknowledgements

The directors would like to express their thanks and appreciation to the shareholders, customers, brokers and staff for their contribution to the company's continued development.

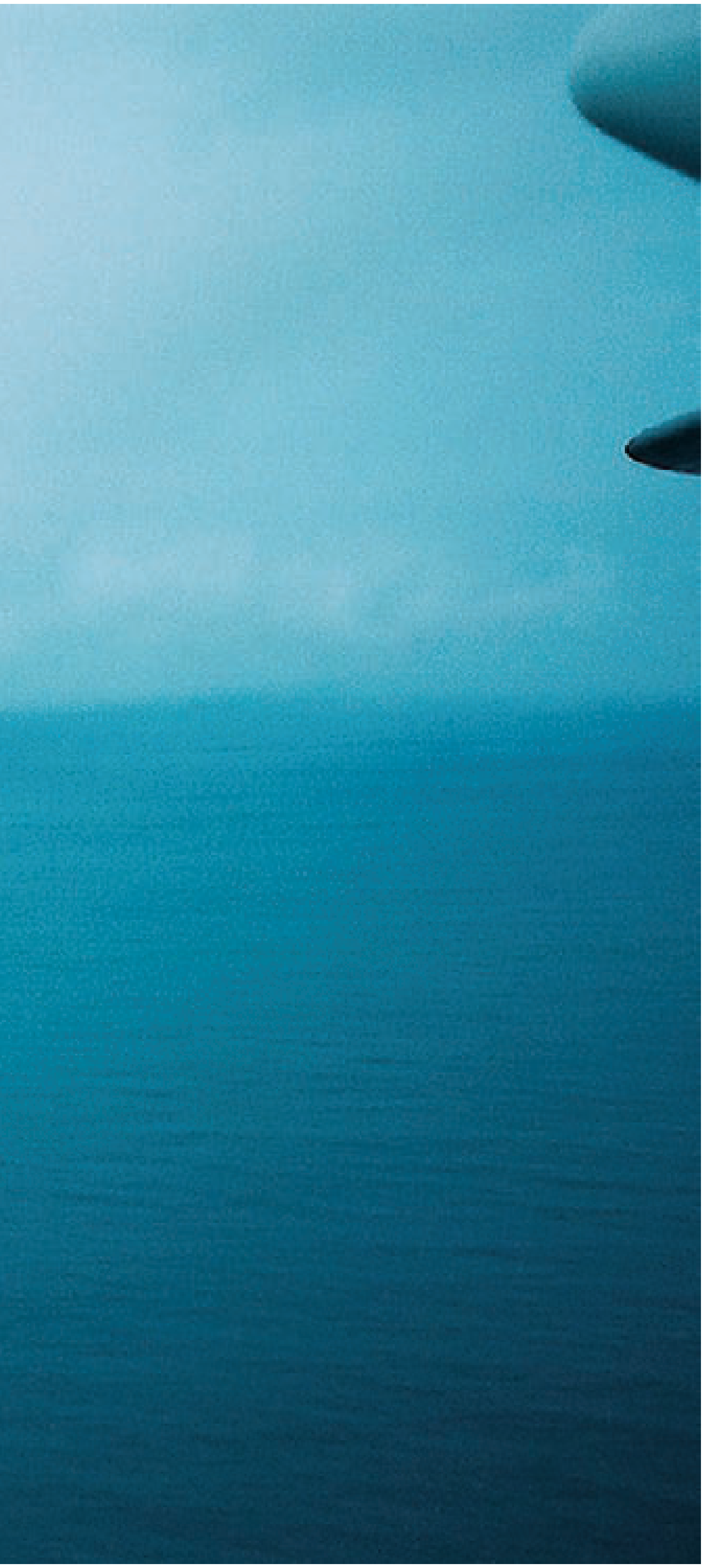
We also wish to thank the members of the Supervisory Board, and the Portuguese Insurance Institute and the Portuguese Association of Insurance Companies for their co-operation in their respective fields.

Lisbon, 21 February 2007.

The Board of Directors

Luís Frederico Redondo Lopes
(Chairman of the Directors)
Pedro Guilherme Beauvillain de Brito e Cunha
(Chairman of the Executive Board)
Augusto Tomé Pires Fernandes Pedroso
(Member of the Executive Board)
António Miguel Natário Rio-Tinto
(Member of the Executive Board)
Eduardo Antunes Stock
(Member of the Executive Board)
Miguel Maria Pitté Reis da Silveira Moreno
(Member of the Executive Board)
João Carlos Neves Ribeiro
(Member of the Executive Board)
Miguel Luís Kolback da Veiga
António José Baptista do Souto
Manrico Iachia
António Manuel Rodrigues Marques

Colecção BESart • Melik Ohanian
"Selected Recording # 075" • Lambda print mounted on Aluminum • 125 x 183cm • Unique Edition • Courtesy of the Artist and Yvon Lambert New York/Paris



03'

FINANCIAL STATEMENTS

ACHIEVEMENT.
OBJECTIVE ACCOMPLISHED
THROUGH QUALITY OF SERVICE AND
REFLECTED IN SATISFATION.

TRANQUILIDADE'06

3.0 Financial Statements

Balance Sheet as at 31 December 2006 (EUR)

Assets	2006 Gross Assets	2006 Depreciation and Provisions	2006 Net Assets	2005 Net Assets
Intangible fixed assets	30,886,027.86	19,181,261.88	11,704,765.98	12,745,425.68
Investments	753,735,367.49		753,735,367.49	583,819,787.09
Land and buildings	144,389,181.99		144,389,181.99	155,574,055.49
In own use	72,919,990.49		72,919,990.49	71,556,589.96
Rented	71,469,191.50		71,469,191.50	83,983,715.53
Fixed assets under construction and prepayments	0.00		0.00	33,750.00
Investments in group and associated undertakings	91,580,316.16		91,580,316.16	91,166,626.87
Shares in group undertakings	23,228,458.95		23,228,458.95	0.00
Bonds and other loans to group undertakings	55,786,854.25		55,786,854.25	0.00
Shares in associated undertakings	12,565,002.96		12,565,002.96	91,166,626.87
Bonds and other loans to associated undertakings	0.00		0.00	0.00
Other financial investments	517,757,230.71		517,757,230.71	337,069,820.50
Shares, other floating rate securities and units in investment fundso	61,094,413.67		61,094,413.67	28,216,633.08
Bonds and other fixed rate securities	445,991,351.21		445,991,351.21	274,911,425.03
Mortgages	1,402,337.50		1,402,337.50	1,115,178.74
Other loans	9,269,128.33		9,269,128.33	7,384,843.65
Bank deposits	0.00		0.00	25,441,740.00
Other	0.00		0.00	0.00
Deposits with reinsurance companies	8,638.63		8,638.63	9,284.23
Underwriting provisins - reinsurance	48,453,321.08		48,453,321.08	49,749,633.29
Provision for unearned premiums	12,611,866.92		12,611,866.92	11,485,919.75
Provision for claims	35,841,454.16		35,841,454.16	38,263,713.54
Profit sharing provision	0.00		0.00	0.00
Other underwriting provisions	0.00		0.00	0.00
Debtors	80,839,835.89	10,709,381.17	70,130,454.72	81,357,899.41
Direct insurance operations				
Group undertakings	0.00	0.00	0.00	0.00
Related undertakings	0.00	0.00	0.00	0.00
Other debtors	53,026,660.36	8,153,505.60	44,873,154.76	52,986,997.13
Reinsurance operations				
Group undertakings	0.00	0.00	0.00	0.00
Related undertakings	0.00	0.00	0.00	0.00
Other debtors	6,525,185.49	818,510.94	5,706,674.55	5,284,018.04
Other operations				
Group undertakings	42,836.48	0.00	42,836.48	0.00
Related undertakings	28,578.75	0.00	28,578.75	2,247,350.83
Other debtors	21,216,574.81	1,737,364.63	19,479,210.18	20,839,533.41
Capital subscribers	0.00		0,00	0.00
Other assets	96,595,988.55	39,051,361.81	57,544,626.74	104,351,384.95
Tangible fixed assets and stocks	43,860,735.39	39,051,361.81	4,809,373.58	4,963,914.18
Cash and banks	52,735,253.16		52,735,253.16	99,387,470.77
Other	0.00		0.00	0.00
Accruals and deferrals	13,119,405.26		13,119,405.26	15,407,382,81
Interest receivable	11,714,706.38		11,714,706.38	1,900,686,67
Other accruals and deferrals	1,404,698.88		1,404,698.88	13,506,696,14
Total Assets	1,023,629,946.13	68,942,004.86	954,687,941.27	847,431,513,23

THE ACCOUNTANT
Paulo Santos

THE CHIEF ACCOUNTANT
Pedro Medalhas

THE FINANCIAL AND ADMINISTRATIVE MANAGER
Luís Ribeiro

Balance Sheet as at 31 December 2006

(EUR)

Liabilities	2006	2005
Shareholders' funds	238,642,432.32	188,587,661.25
Share capital	135,000,000.00	135,000,000.00
Issue premiums	0.00	0.00
Revaluation reserves		
Regulatory revaluation	26,006,868.22	33,091,838.90
Legal revaluation	0.00	0.00
Reserves		
Legal reserve	21,048,532.34	18,371,262.34
Statutory reserve	0.00	0.00
Other reserves	-24,660,995.00	-24,660,995.00
Retained earnings	-75,980,234.99	12,853.86
Profit for the period	157,228,261.75	26,772,701.15
Subordinated liabilities	0.00	0.00
Underwriting provisions	598,325,406.54	579,754,636.71
Provision for unearned premiums	94,692,976.08	96,486,640.63
Provision for claims		
Employers' liability	163,269,913.27	154,737,902.69
Other areas	332,242,926.89	321,913,475.28
Provision for profit sharing	270,000.00	360,000.00
Provision for claims rate deviation	3,348,427.91	2,944,961.20
Other underwriting provisions	4,501,162.39	3,311,656.91
Provisions for other risks and charges	1,628,214.47	1,965,082.81
Provisions for pensions	281,732.49	383,499.00
Provisions for taxes	55,463.03	0.00
Other provisions	1,291,018.95	1,581,583.81
Deposits received from reinsurers	529,384.75	879,092.78
Creditors	90,943,563.23	63,863,915.60
Direct insurance operations		
Group undertakings	0.00	0.00
Related undertakings	0.00	0.00
Other creditors	23,343,606.10	26,837,063.17
Reinsurance operations		
Group undertakings	0.00	0.00
Related undertakings	0.00	0.00
Other creditors	15,997,109.19	9,615,071.51
Bank loans		
Group undertakings	0.00	0,00
Related undertakings	0.00	0,00
Other creditors	0.00	0,00
Government and public sector	37,289,227.93	8 620 134,48
Sundry creditors		
Group undertakings	2,410,016.42	0,00
Related undertakings	66,240.24	2 979 261,24
Other creditors	11,837,363.35	15 812 385,20
Accruals and deferrals	24,618,939.96	12 381 124,08
Total Liabilities	954,687,941.27	847 431 513,23

THE BOARD OF DIRECTORS

Luís Frederico Redondo Lopes, Pedro Guilherme Beauvillain de Brito e Cunha, Augusto Tomé Pires Fernandes Pedroso, António Miguel Natário Rio-Tinto, Eduardo Antunes Stock, Miguel Maria Pitté Reis da Silveira Moreno
João Carlos Neves Ribeiro, Miguel Luís Kolback da Veiga, António José Baptista do Souto, Manrico Iachia, António Manuel Rodrigues Marques

Profit and Loss Account as at 31 December 2006 (EUR)

Profit and Loss Account	2006			2005		
Non-life underwriting account						
Premiums written net of reinsurance						
Gross premiums written	361,381,315.86			365,735,735.12		
Outward reinsurance premiums	-52,454,269.94	308 927 045.92		-48,198,891.32	317,536,843.80	
Provision for unearned premiums (variation)	907,098.06			2,002,173.85		
Provision for unearned premiums, reinsurers' share (variation)	1,125,947.17	2 033 045.23	310,960,091.15	-156,277.76	1,845,896.09	319,382,739.89
Earnings from investments						
Income from equity holdings						
Group undertakings	0.00			0.00		
Others	2,175,000.00	2 175 000.00		0.00	0.00	
Income from other investments						
Group undertakings	0.00			0.00		
Others	22,869,774.39	22 869 774.39		19,034,688.53	19,034,688.53	
Gains on investment		162 311 875.42	187,356,649.81		8,670,372.92	27,705,061.45
Unrealised gains on investments			23,744,901.12			21,831,937.58
Other underwriting earnings, net of reinsurance			3,094,615.78			3,777,408.85
Underwriting earnings			**525,156,257.86**			**372,697,147.77**
Cost of claims, net of reinsuran ce						
Paid						
Gross	206,182,057.43			203,941,795.02		
Reinsurers' share	-13,151,195.47	193 030 861.96		-12,825,661.83	191,116,133.19	
Provision for claims (variation)						
Gross	18,470,192.81			34,776,590.66		
Reinsurers' share	2,422,259.38	20 892 452.19	213,923,314.15	-6,457,665.55	28,318,925.11	219,435,058.30
Other underwriting provisions, net of reinsurance (variation)			1,189,505.48			75,645.93
Profit sharing, net of reinsurance			-90,000.00			-45,000.00
Net operating costs						
Acquisition costs		72 335 227.43			70,649,411.17	
Deferred acquisition costs (variation)		-886 566.49			676,210.90	
Administrative costs		39 311 783.96			41,888,658.70	
Commissions and profit sharing (reinsurance)		-14 906 218.11	95,854,226.79		-12,418,605.30	100,795,675.47
Investment costs						
Cost of funds management		3 194 158.69			2,807,988.89	
Losses on investments		1 819 098.58	5,013,257.27		3,519,223.44	6,327,212.33
Unrealised losses on investments			5,888,439.90			9,683,802.98
Other underwriting costs, net of reinsurance			2,227,262.23			1,746,505.04
Provision for claims deviation (variation)			403,466.71			270,217.43
Underwriting costs			**324,409,472.53**			**338,289,117.48**
Non-life underwriting account result			**200,746,785.33**			**34,408,030.29**

THE ACCOUNTANT
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THE FINANCIAL AND ADMINISTRATIVE MANAGER
Luís Ribeiro

Profit and Loss Account as at 31 December 2006 (EUR)

Profit and Loss Account	2006			2005		
Non-underwriting account						
Result of non-life underwriting account			200,746,785.33			34,408,030.29
Earnings from investments						
Income from equity holdings						
Group undertakings	0.00			0.00		
Others	0.00	0.00		0.00	0.00	
Income from other investments						
Group undertakings	0.00			0.00		
Others	851,870.51	851,870.51		103,921.97	103,921.97	
Gains on investments		35,677.16	887,547.67		0.00	103,921.97
Unrealised gains on investments			680,989.34			0.00
Other earnings			165,233.64			214,080.57
Non-underwriting earnings			1,733,770.65			318,002.54
Investment costs						
Cost of funds management		46,685.73			10,083.16	
Losses on investments		0.00	46,685.73		348,701.53	358,784.69
Unrealised losses on investments			408,523.17			42.50
Other costs, including provisions			1,467,266.84			1,481,635.78
Non-underwriting costs			1,922,475.74			1,840,462.97
Profit from ordinary operations before tax			200,558,080.24			32,885,569.86
Extraordinary income and gains			3,511,685.12			6,316,803.24
Extraordinary costs and losses			12,073,970.80			2,196,594.93
Extraordinary results			-8,562,285.68			4,120,208.31
Allowance or use of regulatory revaluation reserve			-18,128,927.38			-12,148,092.10
Recovery of gains and losses on investments			23,876,031.78			2,081,479.32
Profits before tax			197,742,898.96			26,939,165.39
Tax on profits for the financial year			40,514,637.21			166,464.24
Net profit for the financial year			157,228,261.75			26,772,701.15

THE BOARD OF DIRECTORS

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"Rio Murtiga, Alentejo, Agosto", 2005 • 155 x 125 cm • Lambda print mounted on Aluminum

04'

NOTES TO THE FINANCIAL STATEMENTS

PROPERTY

A FIRM FOUNDATION
IN LASTING VALUES.
TRANQUILIDADE'06

4.0 Notes to the Financial Statements as at 31 December 2006

(Figures in euros)

Introduction

Companhia de Seguros TRANQUILIDADE, S.A. (referred to below as either Tranquilidade or the Company) was created as the result of the conversion into a limited liability corporation, controlled by state interests, of the former public company Tranquilidade Seguros, EP, which itself had been formed by the merger of Companhia de Seguros Tranquilidade, Companhia de Seguros A Nacional and Companhia de Seguros Garantia Funchalense. As a result of the privatisation in two phases in 1989 and 1990 a majority holding the company is now owned by the Espírito Santo Group. The company was also merged with ESIA – Inter-Atlântico Companhia de Seguros, on 30 December 2004.

The company is engaged in insurance and reinsurance business in all non-life underwriting areas (except credit insurance), and holds the relevant authorisations from the Portuguese Insurance Institute. In terms of premium revenues, the company's two main areas of business are motor insurance and health and accident insurance.

As part of a structural reorganization of the insurance holdings of the Espírito Santo Group in 2006, Tranquilidade disposed of its 25% holding in Tranquilidade Vida, which changed its name to Bes Vida. The Company then incorporated a wholly owned life insurance company, T-Vida, which started trading on 1 August 2006 and acquired Bes Vida's traditional broker's channel business portfolio.

The company currently operates through two main offices in Lisbon and Oporto, with 50 branches located around Portugal, 53 franchised shops and a branch office in Spain.

The following notes are given in accordance with the Accounting Plan for the Insurance Sector, omitting such notes as are irrelevant or for which there is nothing to report.

1 Comparative Values

Amounts recorded for 2006 are comparable in all relevant aspects with those entered in the equivalent column for 2005.

3 Form of Presentation and Principal Accounting Principles and Valuation Criteria Adopted

3.1 Presentation

The financial statements were prepared on the basis of books and accounting records kept in accordance with the Accounting Plan for the Insurance Sector approved by Standard no. 7/94-R, of 27 April, and subsequent amendments set forth in Standard no.14/95-R, of 20 July, and with the accounting standards for the operations of insurance companies established by the Portuguese Insurance Institute.

The company has not prepared a Statement of Source and Use of Funds or a Cash Flow Statement, as these statements are not required by the Portuguese Insurance Institute.

3.2 Principal accounting principles and valuation criteria

The principle accounting principles and valuation criteria adopted in preparing these financial statements are detailed below:

3.2.1 Costs and revenues

Costs and revenues are recorded in the financial year to which they relate, regardless of the date of payment or receipt; earnings from equity shares are, however, only accounted for at the time when dividends are received.

Given that direct insurance premiums are recognised as income at the date on which the respective policy is processed or renewed and that compensation payments are recorded when claims are lodged, the company makes a number of accounting calculations for costs and revenues at the end of each financial year:

3.2.1.1 Provision for unearned premiums

The provision for unearned premiums is based on an assessment of premiums written prior to the end of the financial year but remaining in force after this date.

In accordance with Standards no.19/94-R and 3/96-R of the Portuguese Insurance Institute, the company has calculated this provision contract by contract, receipt by receipt, using the pro rata temporis method, on the basis of gross premiums written, less the respective underwriting costs, in relation to the contracts in force.

3.2.1.2 Provision for claims

The provision for claims corresponds to the foreseeable value of claims outstanding or not settled at the end of the financial year, and also estimated liabilities for compensation on claims relating to dates prior to 31 December 2006 but not yet presented.

This provision is determined as follows:

a) From analysis of claims pending at the end of each financial year and the consequent estimate of the liabilities existing at this date, except for employers' liability, in the part not relating to pensions, and motor insurance, for which the provision is calculated by the average cost method. The provision for future charges is also calculated by the average cost method.

b) By application of a general rate of 6%, except for motor, health and third party business, to the value of costs in the financial year relating to declared claims, in order to provide for liabilities for claims declared after the end of the financial year. For health, third party and motor insurance, an actuarial study was conducted, taking into account the specific characteristics of the business in question.

c) By a mathematical provision intended to record the company's liabilities in respect of employers' liability insurance, for claims relating to dates prior to 31 December 2006 and which involve payment of pensions, already approved by the Labour Courts or agreed in conciliation proceedings, and also an estimate of liabilities for pensions for permanent invalidity under claims relating to dates prior to 31 December 2006 for which a final settlement or judgement has not yet been reached.

This provision also covers liabilities for pensions for potential permanent invalidity of claimants undergoing treatment as at 31 December 2006.

The mathematical provision for claims involving payment of pensions and redemptions, in relation to employers' liability insurance, is calculated on a pension by pension basis, using tables and formulae established by the PIS, the Ministry of Labour and the relevant labour legislation (see note 38).

3.2.1.3 Provision for unexpired risks

The provision for unexpired risks corresponds to the amount needed to provide against probable compensation payments and other charges after the end of the financial year.

Under the requirements of the Portuguese Insurance Institute, the provision for unexpired risks to be created should be determined by multiplying the sum of gross premiums written imputable to the following period(s) (unearned premiums) and premiums receivable and not yet written for contracts in force, by a ratio based on the sum of the claims, expenses and reinsurance ratios, from which the investment ratio is deducted.

3.2.1.4 Provision for claims rate deviations

The provision for claims rate deviations is created for bond, nuclear and seismic risk insurance.

For bonds and atomic risk, this provision is constituted when an underwriting profit is recorded. This provision is calculated on the basis of specific rates established by the Portuguese Insurance Institute multiplied by the underwriting result.

For seismic risks, the provision is calculated by multiplying the capital retained by the company by a risk factor, defined by the Portuguese Insurance Institute for each seismic zone.

3.2.1.5 Provisions for outwards reinsurance

Provisions for outwards reinsurance are determined by applying the criteria detailed above for direct insurance business. The provision for claims should be calculated with rules in force, depending on whether the reinsurance derives from direct insurance business or inwards reinsurance.

3.2.1.6 Provision for profit sharing

The provision for profit sharing includes sums intended for the policy holders or beneficiaries, in the form of profit sharing, provided such sums have not already been distributed

3.2.1.7 Brokerage commissions

Brokerage commissions are represented by the remuneration allocated contractually to brokers for obtaining premiums and are recorded as costs at the time of writing the respective premiums.

3.2.1.8 Provision for uncollected premiums and doubtful debts

This provision is calculated on the basis of premiums written but not paid and doubtful debts, using criteria established by the Portuguese Insurance Institute.

3.2.1.9 Liabilities for holiday pay and allowances

Included under accruals and deferrals under liabilities, corresponding to approximately 2 months' pay and related charges, based on the salary rates in the respective financial year, in recognition of legal liabilities to employees at the end of the financial year in respect of services rendered up to this date and to be settled later.

3.2.2 Financial investments

3.2.2.1 Floating rate securities

Floating rate securities listed on the stock exchange are valued at the lowest listed price for the last day on which they were traded. Unlisted securities are valued using the equity method.

3.2.2.2 Fixed rate securities

Fixed rate securities issued at nominal value are recorded at cost. The premium or discount on purchase is depreciated over the period up to maturity date, against profits.

In 2006, depreciation of premiums net of discounts recorded in the Profit and Loss Account amounted to 345,130 euros (2005: 475,411 euros).

3.2.2.3 Unrealised gains and losses

Unrealised gains and losses on securities resulting from the difference between the accounting value and the value determined by the valuation method referred to in 3.2.2.1 are recorded as follows:

a) Gains on securities which represent underwriting provisions are entered in the underwriting account under "unrealised gains on investments". These unrealised gains are transferred to the "regulatory revaluation reserve".

Losses are recorded under "unrealised losses on investments". The losses are offset against the "regulatory revaluation reserve".

b) Gains on unallocated securities are entered in the non-underwriting account under "unrealised gains on investments". These unrealised gains are transferred to the "regulatory revaluation reserve".

Losses are recorded under "unrealised losses on investments". The losses are offset against the "regulatory revaluation reserve".

The "regulatory revaluation reserve" may only be used for the purposes and in the order of priority indicated below:

1. - Offsetting unrealised losses on investments.

2. - Coverage of accrued losses up to the end of the financial year in which it was created.

3. - Recording realised gains on investments in the non-underwriting account "Recovery of realised gains and losses on investments" or capitalisation (see Note 3.2.2.4).

3.2.2.4 Effective gains and losses

Effective gains and losses resulting from the disposal of property and floating rate securities are recognised as profits or losses in the financial year in which they occur.

3.2.2.5 Earnings

Earnings from equity shares are entered in the accounts when the dividends are received; for bonds and other securities, earnings are allocated to the relevant period at the end of the financial year.

3.2.2.6 Land and buildings

Property rented out and in the company's own use is valued on the basis of:

a) Market value

b) Acquisition cost

Under Standard no.7/94, of 27 April, and Circular no. 41/95, of 20 July, of the Portuguese Insurance Institute, the company has recorded all property acquired up to 31 December 2006, whether rented out or in the company's own use, at its market value, except for the latest acquisitions. Under the process of transition to the International Accounting Standards, the company continued in 2006 with the policy of annual valuations adopted in 2005.

As a result of the property revaluations conducted in 2006, the respective book values were increased by 6,022,894 euros (2005: increase of 8,801,155 euros) against the Regulatory Revaluation Reserve.

In accordance with the standards of the Portuguese Insurance Institute, buildings are not depreciated.

3.2.3 Intangible fixed assets

Intangible fixed assets are valued at acquisition cost and comprise essentially expenses incurred in relation to i) design of the new information system and ii) improvements to buildings rented by the company.

Intangible fixed assets are depreciated on a monthly basis, on a straight line basis, over 3 or 5 years, respectively, as from the date when the costs were incurred.

3.2.4 Furniture and materials

These assets are recorded at historical acquisition cost and depreciated on a straight line basis using the following annual rates (except for vehicles which are depreciated using monthly rates) which satisfactorily reflect their estimated useful life:

Office furniture and equipment	12.5 a 25 %
Machines and tools	12.5 a 25 %
IT equipment	25 a 33.33 %
Interior fittings	10 a 16.66 %
Vehicles and transport	25 %
Medical equipment	12,5 a 33.33 %
Other equipment	12.5 a 33.33 %

3.2.5 Leasing contracts

Finance leases are recorded, as at the starting date, as an asset (tangible fixed assets) and as a liability (creditors), at the acquisition cost of the object leased, which corresponds to the current value of the respective rentals.

3.2.6 Liabilities for retirement pensions

Under the collective labour agreement in force in the insurance sector, the company has agreed to pay its employees contracted by the insurance industry on or before 22 June 1995 a retirement pension to supplement that paid by the social security authorities. This pension is paid in accordance with the terms of articles 51 to 60 of the Collective Labour Agreement for the Insurance Sector, as reviewed in 1995 and published in the Boletim de Trabalho e Emprego, 1st series, no. 23, of 22 June 1995. These schemes also apply to doctors and lawyers who pay social security contributions.

The company has created a pension fund to cover liabilities relating to the plan mentioned above. As from 2005 it has covered social security charges relating to early retirement pensions.

Contributions to the fund are calculated in accordance with the respective actuarial and financial plan, which is reviewed annually, in accordance with actuarial practice, and adjusted in line with pension increases, changes in the group of participants and the liabilities involved and with the company's policy of total coverage of actuarially determined liabilities.

3.2.7 Tax on profits

Tax on the profits of corporate persons (IRC) is determined on a self-assessment basis, with declarations being filled out under the terms of current tax legislation. These returns are subject to inspection and possible adjustment by the taxation authorities for a period of four years as from the financial year to which they relate. However, when there are fiscal losses to be carried over, the inspection period is extended to six years. Fiscal losses may be deducted from future taxable profits over the next six years.

When presenting its annual financial statements, the company has adopted the concept of deferred taxation, resulting from temporary differences between accounting results and those declared for taxation purposes (IRC) (see note 20).

4 Foreign Currency Operations

The values of assets and liabilities expressed in the currencies of countries not belonging to the Economic and Monetary Union (E.M.U.) were translated into euros using the last reference exchange rate fixed by the Bank of Portugal.

Differences between the rates ruling on the date of contract and those ruling at the balance sheet date have been recorded in the current results for the period.

6 Details of Group and Associated Undertakings

The company has qualifying holdings in the following companies:

T – Vida - Companhia de Seguros, SA
Registered Offices: Av. da Liberdade, 242 – 1250 – 149 Lisboa

Capital held:	100%
Share capital at 31/12/2006:	20,000,000
Shareholders' funds at 31/12/2006:	71,397,234
Net profits at 31/12/2006:	1,275,508

BES, Companhia de Seguros, SA
Registered Offices: Av. Columbano Bordalo Pinheiro, 75-11° 1070-061 Lisboa

Capital held:	25%
Share capital at 31/12/2006	15,000,000
Shareholders' funds at 31/12/2006:	21,135 088
Net profits at 31/12/2006:	4,424,787

Advancecare – Gestão e Serviços de Saúde, SA
Registered Offices: Pr. José Queiroz, 1 – Piso 4° 1800-238 Lisboa

Capital held:	50.99%
Share capital at 31/12/2006:	4,500,000
Shareholders' funds at 31/12/2006:	7,191,919
Net profits at 31/12/2006:	1,741,797

Esumédica – Prestação de Serviços Médicos, SA
Registered Offices: Av. da Liberdade, 242 1250-149 Lisboa

Capital held:	75%
Share capital at 31/12/2006:	1,500,000
Shareholders' funds at 31/12/2006:	-123,151
Net profits at 31/12/2006:	-701,920

Fiduprivate, SA
Registered Offices: Rua Dr. Brito Câmara, 7 9000-039 Funchal

Capital held:	75%
Share capital at 31/12/2006:	125,000
Shareholders' funds at 31/12/2006:	788,210
Net profits at 31/12/2006:	55,885

Cominvest – Soc. Gestão e Inv. Imobiliário, SA
Registered Offices: Edifício Quartzo, Rua Alexandre Herculano, 38 1269-161 Lisboa

Capital held:	24%
Share capital at 31/12/2006:	7,485,000
Shareholders' funds at 31/12/2006:	6,845,497
Net profits at 31/12/2006:	191,410

Espírito Santo Data Informática, SA
Registered Offices: Rua da Barruncheira, 4 2795-477 Carnaxide

Capital held:	27.05%
Share capital at 31/12/2006:	7,000,000
Shareholders' funds at 31/12/2006:	7,834,969
Net profits at 31/12/2006:	-132,570

ES Contact Center, Gestão de Call Center, SA
Registered Offices: Av. Infante D. Henrique, 343 1800-218 Lisboa

Capital held:	20.42%
Share capital at 31/12/2006:	2,988,282
Shareholders' funds at 31/12/2006:	3,425,563
Net profits at 31/12/2006:	63,024

Europ Assistance – Companhia Portuguesa de Seguros de Assistência, SA
Registered Offices: Av. Alvares Cabral, 41 – 3° 1250-015 Lisboa

Capital held:	24%
Share capital at 31/12/2006:	5,000,000
Shareholders' funds at 31/12/2006:	8,995,868
Net profits at 31/12/2006:	1,082,014

The company is wholly owned by PARTRAN Sociedade Gestora de Participações Sociais, SGPS, with registered offices at Rua S. Bernardo, 62 – 1200 826 Lisboa, which prepares consolidated accounts.

The accounts of this company are included within the consolidated accounts of the Espírito Santo Financial Group.

7 Average Number of Employees

Occupational Categories	2006
Management	58
Technical	197
Technical-Administrative	390
Sales	176
IT	37
General-Logistical	8
Electricians	1

In addition to these figures there are 4 employees allocated to the spanish branch office.

8 Staffs Costs

Account nos.	Account	2006	2005
	Remuneration		
6800	- company officers	1,064,860	839,044
6801	- employees	26,474,182	25,491,278
6802	Charges on remuneration paid	5,925,481	5,765,380
	Pensions:		
6803	- Pensions and respective charges	-	-
6804	- Premiums and pension contributions*	440,000	2,543,173

* See note 45.2

10 Intangible Fixed Assets

Intangible fixed assets are detailed in the following chart:

Description	2006	2005
I. Formation costs	0	0
II. Research and development costs	10,905,428	12,585,691
III. Expenses relating to rented property	609,631	142,237
IV. Business leases	-	-
V. Other intangible fixed assets	-	17,498
VI. Fixed assets in progress	189,707	-
TOTAL	11,704,766	12,745,426

12 Doubtful Debts

Doubtful debts total 3,737,787 euros, detailed below:

	2006	2005
Other debtors :		
Direct insurance operations	842,571	718,916
Reinsurance operations	2,076,705	1,523,113
Other operations	818,511	620,172
	3,737,787	2,862,201

15 Breakdown of Share Capital

The capital is represented by 27,000,000 book-entry registered shares with a nominal value of 5 euros each.

20 Tax on Profits

The company has been subject to annual inspections by the tax authorities, and the latest report relates to the financial year of 2004, with no significant adjustments to the returns submitted in previous years.

Given that acceptance from the tax authorities is still pending for carrying forward the fiscal balance of 42,886,243 from ESIA – Inter-Atlântico, this has still not been considered for the purposes of estimating tax payable. Considering that all fiscal losses relating to Tranquilidade were used in full in the current period and that the taxable profits estimated for the financial year of 2006 were 176,877,686 euros, the current tax is estimated at 29,640,649 euros.

The company used the concept of deferred taxation, calculating this prudently, resulting in a positive balance for deferred taxes of 35,779 euros. This figure results from a figure of 1,302,087 for deferred tax assets relating to costs and provisions not accepted, and 1,337,866 for deferred tax liabilities, relating to capital gains and losses on assets.

21 Finance Leases

The following accounts refer to finance leases:

	2006	2005
Tangible fixed assets – IT equipment	7,326,366	5,883,479
Tangible fixed assets – vehicles and transport	499,606	376,819
Accrued depreciation of fixed assets	5,624,115	4,501,094
Creditors – leasing operations	2,365,717	1,578,414

22 Inventory of Securities and Financial Holdings

See annex no.1.

22 A Valuation of Certain Financial Instruments at Fair Value

Type of Financial Instruments	Balance Sheet Value	Fair Value
Holdings in group and associated undertkings	35,793,462	35,793,462
Shares and other variable rate securities	61,094,414	76,772,709
Fixed rate securities	445,991,351	443,687,787
Derivative instruments	0	0
Total	**542,879,227**	**556,253,957**
Difference between balance sheet value and fair value	13,374,731	

The fair value of assets was determined, for fixed or variable rate securities listed on organized markets, using the last available listed price on the markets considered most representative for correct formation of the price of the assets in question. In the case of unlisted assets, the valuation models generally used by the market to value these assets were used to the extent possible. In the special case of unlisted variable rate securities, the value of the corresponding appropriable equity was used in accordance with the percentage holding, and in some cases the discounted free cash flows method was applied. Fixed rate securities were valued using the expected reimbursement value of the assets in question.

23 Financial Fixed Assets and Other Investments

Movements in fixed assets accounts (tangible and intangible) and adjustments to the value of various investment accounts.

23.1 Intangible and tangible fixed assets

Accounts	Opening Balance		Increases		Transfers and Write-offs	Disposals	Depreciation for the Period		Closing Balance (net)
	Gross	Depreciation	Acquisitions	Revaluation			Increase	Adjustments	
INTANGIBLE FIXED ASSETS									
Formation costs	290,776	290,776	0	0	281,925	0	0	281,925	0
Research and development costs	35,851,425	23,265,731	4,159,195	0	10,786,250	0	5,839,459	10,786,248	10,905,428
Expenses relating to rented buildings	526,091	383,854	868,296	0	189,810	0	400,902	189,810	609,631
Business leases	499	499	0	0	499	0	0	499	0
Other intangible fixed assets	258,523	241,025	0	0	0	0	17,498	0	0
Fixed assets in progress	0	0	380,344	0	190,637	0	0	0	189,707
Prepayments for intangible fixed assets	0	0	0	0	0	0	0	0	0
subtotal	36,927,313	24,181,885	5,407,835	0	11,449,121	0	6,257,859	11,258,482	11,704,766
TANGIBLE FIXED ASSETS									
Office furniture and equipment	4,827,526	4,029,184	204,524	0	142,458	54,771	229,389	174,366	750,614
Machines and tools	3,341,810	3,207,289	17,941	0	151,720	7,868	46,803	147,021	93,093
Computing equipment	33,890,852	30,658,804	1,873,808	0	2,449,749	9,529	1,813,776	2,434,602	3,267,406
Interior fittings	453,421	414,202	0	0	51,130	0	5,284	37,717	20,522
Vehicles and transport	633,777	362,379	122,786	0	0	123,865	272,487	121,381	119,213
Medical equipment	0	0	0	0	0	0	0	0	0
Other tangible fixed assets	1,050,155	897,487	13,612	0	11,351	0	40,638	11,271	125,561
Fixed assets under construction	0	0	0	0	0	0	0	0	0
Prepayments for tangible fixed assets	0	0	0	0	0	0	0	0	0
subtotal	44,197,541	39,569,345	2,232,672	0	2,806,408	196,033	2,408,376	2,926,359	4,376,410
Total	81,124,855	63,751,230	7,640,507	0	14,255,529	196,033	8,666,235	14,184,841	16,081,176

23.2 Land and buildings

In own use										
Land	0	0	0	0	0	0	0	0	0	0
Buildings	69,505,606	71,556,590	303,258	945,875	114,269	114,269	0	0	69,923,133	72,919,991
Rented										
Land	0	0	0	0	0	0	0	0	0	0
Buildings	61,076,785	83,983,715	444,095	5,077,020	0	0	11,384,290	18,035,639	50,136,590	71,469,191
Fixed assets under constr.	33,750	33,750	80,519	0	-114,269	-114,269	0	0	0	0
Prepayments for fixed ass.	0	0	0	0	0	0	0	0	0	0
Total	130,616,141	155,574,055	827,872	6,022,895	0	0	11,384,290	18,035,639	120,059,722	144,389,183

(9)= (1)+(3)+(5)-(7)
(10)= (2)+(3)+(4)+(6)-(8)

23.3 Investments in group and associated undertakings and other financial investments (excepting securities)

Accounts	Opening Balance (1)	Increases (2)	Reductions In Value (3)	Disposal or Repayment (4)	Closing Balance (5)
Investments in group and associated undertakings					
Loans to group undertakings		55,786,854			55,786,854
Loans to associated undertakings					
Other financial investments					
Mortgages	1,115,179	540,021	252,862		1,402,338
Other loans					
Loans on policies					
Loans on securities					
Others	7,384,844	18,209,910	16,325,625		9,269,128
Deposits with banks	25,441,740	77,154,682	102,596,422		0
Others					
Deposits with reinsurance companies	9,284	13,399	14,044		8,639
Total	**33,951,047**	**151,704,865**	**119,188,953**		**66,466,959**

24 Movements in Revaluations

Accounts	Tangible Fixed Assets	Investment	Total
Revaluation reserve			
Opening balance		33,091,839	33,091,839
Increases			
Others		24,425,890	24,425,890
Decreases			
Capitalisation			
Recovery of realised gains/losses			
(see note 3.2.2.4)		23,876,032	23,876,032
Others		7,634,829	7,634,829
Closing balance		26,006,868	26,006,868
Historical costs		657,132,730	657,132,730
Revaluations		29,656,679	29,656,679
Revalued accounting values		686,789,409	686,789,409

There are no movements in relation to tangible fixed assets.

26 Adjustments and Other Provisions

Breakdown of provisions into respective sub-accounts:

Accounts	Opening Balance	Increase	Reduction	Closing Balance
490 Adjustments of bills in collection				
4903 Other insurers	7,242,962	229,237	0	7,472,199
	7,242,962	229,237	0	7,472,199
491 Adjustments of doubtful debts				
4913 Other insurers	2,544,938	692,244	0	3,237,182
	2,544,938	692,244	0	3,237,182
492 Other Provisions				
4920 Retirement pensions	279,802		10,550	269,252
4921 Early retirement pensions	103,697		91,217	12,480
4922 Taxes	0	55,463	0	55,463
4923 Other risks and charges	1,581,584	0	290,565	1,291,019
	1,965,083	**55,463**	**392,332**	**1,628,214**

28 Statement of Extraordinary Results

Costs and Losses	Period		Income and Gains	Period	
	2006	2005		2006	2005
69100 – Donations	73,852	57,356	79100 – Tax rebates		682
69101 – Arts sponsorship	169,222	115,025	79101 – Recovery of debts		
69102 – Legal expenses			79102 – Reduction in depreciation and provisions	491,349	3,135,505
69103 – Losses on tangible fixed assets	73,379	20,567	79103 – Gains on tangible fixed assets	14,945	26,101
69104 – Gifts to clients	291,552	353,771	79107 – Prior period adjustments	1,762,823	747,616
69105 – Bad debts	352,591	267,204	79108 – Other extr. income and gains	1,242,568	2,406,899
69106 – Fines and penalties	4,663	19,023			
69107 – Membership fees	40,474	64,418			
69108 – Prior period adjustments	489,252	468,329			
69109 – Other extr. costs and losses	10,578,986	830,902			
83 – Extraordinary results	-8,562,286	4,120,208			
	3,511,685	6,316,803		3,511,685	6,316,80

33 Underwriting Provisions

Amounts relating to the following underwriting provisions:

Provision for unearned premiums	117,256,541	22,563,565	94,692,976	96,486,641
Provision for unexpired risks	4,501,162		4,501,162	3,311,657

34 Provision for Prior Period Claims, Readjustments and Claims Incurred

34.1 Breakdown of Provision for Prior Period Claims and Readjustment

Business area	Provision for Claims as at 31/12/2005 (1)	Cost of Claims* Paid During the Period (2)	Provision for Claims * as at 31/12/2006 (3)	Readjustment (3)+(2)-(1)
Life				
Non-life				
Accidents and health	164,422,861	30,329,228	135,349,151	1,255,518
Fire and other damage	28,088,970	14,150,378	10,191,418	-3,747,174
Motor				
-Third party	236,826,013	61,068,032	177,115,421	1,357,441
-Other cover	19,006,453	7,562,225	9,014,009	-2,430,219
Maritime, air and transport	6,658,662	3,523,230	3,927,228	791,796
General third party	19,026,367	2,003,563	14,898,103	-2,124,701
Credit and bonds	1,792,920	708,614	1,370,114	285,808
Legal protection	315,249	83,843	130,467	-100,938
Assistance	0	0	0	0
Miscellaneous	513,883	91,686	78,580	-343,617
	476,651,378	**119,520,799**	**352,074,492**	**-5,056,087**
	476,651,378	**119,520,799**	**352,074,492**	**-5,056,087**

(*) Claims relating to 2005 and previous years.

34.2 Breakdown of claims incurred

Direct Insurance				
Accidents and health	52,222,037	4,317,697	10,021,372	66,561,106
Fire and other damage	23,577,076	1,125,561	1,221,719	25,924,356
Motor				
- Third party	84,457,240	5,708,278	7,020,420	97,185,937
- Other cover	22,041,426	1,747,110	3,262,868	27,051,405
Maritime, air and transport	6,596,683	248,033	-337,875	6,506,842
General third party	2,795,771	321,179	-1 903,309	1,213,641
Credit and bonds	687,633	4,189	-454,346	237,476
Legal protection	37,700	48,749	-139,534	-53,085
Assistance	0	0	0	0
Miscellaneous	240,899	2,270	-223,364	19,806
Total	**192,656,466**	**13,523,066**	**18,467,951**	**224,647,484**
Reinsurance accepted	2,525	0	2,241	4,767
Grand total	**192,658,991**	**13,523,066**	**18,470,193**	**224,652,250**

35 Principal Readjustments to Breakdown of Provision for Prior Period Claims

In accident and health areas, adjustments are due principally to employers' liability business, and derive from the fact that the table does not consider the financial earnings allocated to the mathematical provisions.

In the case of fire and other damage business and other business, the adjustments result from the closing of claims closed with a cost lower than initially estimated.

There were other adjustments, relating to claims dating from previous periods, but which derive from normal claims management activity, and are not significant in comparison with the total value of the claims provision.

36 Investment Valuation

Valuation methods used for investments are described in item 3.

37 Current Value of Land and Buildings

The method used for determining the current value of land and buildings is described in item 3. The following table gives a breakdown of valuations by financial year:

Year When Last Valued	Acquisition Cost	Balance Sheet Value
2006	105,075,354	129,913,790
2005	6,258,509	7,024,270
2004	7,169,681	5,995,123
2002	97,051	100,000
2000	1,202,264	1,099,135

This table refers only to valuations conducted by valuers appointed by the Portuguese Insurance Institute; there are no valuations prior to 2000.

38 Hypotheses Considered in Calculating the Mathematical Provisions for Employers' Liability Insurance

The mathematical provisions for employers' liability business are calculated in accordance with Regulatory Standard 15/2000-R, of 23 November, i.e. applying the mortality table TD 88/90 with an interest rate of 5.25% and management fees of 0% for redeemable pensions; and the formula indicated in the same standard for non-redeemable pensions, after calculation of the mathematical reserve on the basis of the mortality table PF 60/64 with an interest rate of 6% and 4% management fees.

39 Recoveries Relating to Claims

No amounts are recorded in respect of recoveries through acquisition of the rights of policy holders in relation to third parties (subrogation - account 470). A total of 430,201 euros is recorded for property rights obtained over insured goods (salvage - account 2610).

40 Information on Non-Life Insurance

40.1 Breakdown by area of business

Business Area	Gross Premiums Written	Gross Premiums Earned	Gross Cost of Claims*	Gross Operating Costs*	Reinsurance Balance **
Direct insurance					
Accidents and health	102,890,581	103,188,623	66,561,106	27,430,248	-6,151,432
Fire and other damage	57,205,926	56,781,444	25,924,356	18,991,007	-8,423,693
Motor					
- Third party	125,239,903	126,330,244	97,185,937	36,190,483	-879,105
- Other cover	46,864,846	46,914,894	27,051,405	20,136,215	-668,257
Maritime, air and transport	8,463,786	8,324,823	6,506,842	2,439,721	1,057,191
General third party	8,592,777	8,637,080	1,213,641	3,354,961	-1,295,274
Credit and bonds	432,786	511,314	237,476	85,205	-160,721
Legal protection	28,479	29,738	-53,085	13,729	0
Assistance	9,939,847	9,961,456	0	1,748,943	-8,104,075
Miscellaneous	1,638,230	1,543,197	19,806	355,498	-1,013,420
	361,297,160	362,222,813	224,647,484	110,746,010	-25,638,785
Reinsurance accepted	84,155	65,601	4,767	14,435	-54,384
	361,381,316	362,288,414	224,652,250	110,760,445	-25,693,169

(*) Not deducting reinsurers' share
(**) Favourable to reinsurers

41 Segment Reporting

a) Reporting by business segment

70	Gross premiums written	361 381 316	60 323 010	57 263 276	172 104 749
71	Outwards reinsurance premiums	-52 454 270	-385 509	-18 006 308	-2 270 116
70+/-6110+/-6130	Gross premiums earned	362 288 414	60 238 293	56 820 259	173 245 138
74+75+76-64-65-66	Return on investments	201 313 182	8 972 772	24 590 315	143 979 196
600+601+602+603	Gross cost of claims	224 652 250	44 967 430	25 923 745	124 237 342
63	Gross operating costs	110 760 445	15 417 597	19 002 243	56 326 698
800/801	Underwriting result *	200 746 785	8 733 355	23 946 728	138 478 701
	Assets allocation to represent underwriting provisions	711 480 114	199 036 520	65 834 803	385 840 803
	Underwriting provisions	598 325 407	167 292 212	55 653 840	324 303 105

(*) Includes financial gains on disposal of 25% holding in the former Tranquilidade Vida of 158,372,089 euros.

b) Reporting by geographical segments

Accounts to be Considered	Item	Portugal	Spain
70	Gross premiums written	360,752,309	629,007
71	Outwards reinsurance premiums	-52,405,133	-49,137
70+/-6110+/-6130	Gross premiums earned	361,699,070	589,343
74+75+76-64-65-66	Return on investments	201,307,533	5,649
600+601+602+603	Gross cost of claims	224,441,241	211,010
63	Gross operating costs	110,415,039	345,406
800/801	Underwriting result *	200,741,716	5,069
	Assets allocation to represent underwriting provisions	711,100,593	379,521
	Underwriting provisions	598,006,245	319,162

43 Commissions - Direct Business

Commissions for direct business comprised:

43.1. – Brokerage and agency commissions	31,890,435	30,900,258
43.2. – Collection commissions	2,202,001	2,248,996
	34,092,436	33,149,254

44 Allocation of Investments

Land and buildings	144,389,182	-
Investments in group and ass. undertakings	82,958,440	8,621,876
Other financial investments	507,354,079	10,403,151
Deposits with reinsurance companies	8,639	-
Total 2006	734,710,340	19,025,027
Total 2005	582,925,707	860,329

45 Other Disclosures

45.1 Movements in shareholders' funds

	31.12.2005	Reduction	Increase	Transfer	31.12.2006
Capital	135,000,000	-	-	-	135,000,000
Revaluation reserves:					
Reg. revaluation reserve (see note 24)	33,091,839	-7,084,971	-	-	26,006,868
Legal revaluation	-	-	-		-
Legal reserve	18,371,262	-	-	2,677,270	21,048,532
Other reserves					
Merger reserve	-25,784,703	-	-	-	-25,784,703
Others	1,123,708	-	-	-	1,123,708
Retained earnings	12,854	-76,761,000	-	767,911	-75,980,235
Profit for the year					
2005:	26,772,701	-3,327,520	-	-23,445,181	0
2006:			157,228,262		157,228,262
Shareholders' funds	188 587 661	-87,173,491	157,228,262	-20,000,000	238,642,432

The Portuguese legislation applicable to the insurance sector requires that at least 10% of net annual profits be allocated to the legal reserve, which may not be distributed, until it reaches the level of the share capital.

The General Meeting held on 31 March 2006 resolved to distribute the net results for 2005, of 26,772,701 euros, as follows:

Legal reserve	2,677,270
Profit sharing – employees and directors	3,327,520
Retained earnings	767,911
Dividends	20,000,000
	26,772,701

The reduction of 76,761,000 euros is retained earnings refers to interin dividends paid to the shareholder Partran.

45.2 Liabilities for pensions

In accordance with the collective labour agreement in force in the insurance industry, the company has accepted liability to pay its employees old age and disability retirement pensions.

As at 31 December 2006, (i) liabilities for services rendered, determined on the basis of projected salaries and calculated on the basis of an actuarial study, covering all current employees, those on early retirement and pensioners (ii) the fund's assets and (iii) the net coverage shortfall/surfeit may be summarised as follows:

i) Total liabilities for past services	42,533,186	43,751,172
ii) Value of fund at 31 December	46,119,630	45,533,968
iii) Total coverage surfeit/shortfal	3,586,444	1,782,796

The significant increase in liabilities for the past services of current employees in 2006 was fundamentally due to the fact that liabilities for early retirement pensions and for annuities for those on early retirement were also included in this account, in line with the recommendation of the Portuguese Insurance Institute, instead of in the account for retirement and early retirement benefits.

The population covered by the fund evolved in a normal manner, with no significant alterations. In the course of the period, contributions to the fund were made on the basis of projected values, and charges for premiums and pension contributions totalled 440,000 euros (2005: 2,543,173 euros).The fund periodically acquires life annuities to cover its liabilities in respect of pensioners.

In 2006 the company maintained the actuarial assumptions for calculating its liabilities for retirement pensions, on the basis of the current value of projected salaries for employees in service, and of payments due to pensioners, using principles which are more conservative that those required by the supervisory authority, on the following basis:

Mortality table	GKF 95
Expected rate of return on fund	4.75%
Expected rate of salary growth - employees	3%
Expected rate of salary growth – directors	3.75%
Rate of growth of early retirement pensions	2%
Interest rate	3%

The company intends to carry out actuarial studies on a periodic basis, in order to review its liabilities in this area and, when appropriate, to validate the basic assumptions.

45.3 Relations with group and associated undertakings

ES Contact Center	-66,240	-182,964	-	-	1,408,699	2,122,262
BES Seguros	7,514	137,559	-	-	-	-
T-Vida	-2,404,659	-	-	-	-	-
Esumédica	-40	-	-	-	72,001	73,716
Advancecare	-5,358	-	-	-	2,079,100	2,787,861

Annex 1 – Inventory of Securities and Financial Holdings

(Figure in euros)

Name	Quantity	Nominal Value	% of Nominal Value	Average Acq. Value	Total Acquisition Value	Balance Sheet Value unit	Balance Sheet Value Total
1 - SECURITIES ISSUED BY GROUP AND ASSOCIATED UNDERTAKINGS							
1.1 - Portuguese							
1.1.1 - Holdings in group undertakings							
ADVANCECARE	458,899			1.06	485,468.14	2.44	1,119,777.82
ESUMEDICA	225,000			1.98	445,500.00	1.23	276,394.24
FIDUPRIVATE	18,750			25.60	480,050.77	36.40	682,533.89
TVIDA - COMPANHIA DE SEGUROS	20,000,000			1.00	20,000,000.00	1.06	21,149,753.00
subtotal	20,702,649				21,411,018.91		23,228,458.95
1.1.2 - Bonds issued by group undertakings							
subtotal					0.00		0.00
1.1.3 - Other securities issued by group undertakings							
subtotal	0				0.00		0.00
1.1.4 - Shares in associated undertakings							
BES SEGUROS	750,000			5.01	3,758,668.00	7.98	5,982,046.88
COMINVEST	360,000			4.41	1,589,217.49	4.56	1,642,919.22
ES CONTACT	610,107			1.06	647,409.84	1.08	661,669.50
ESDI	378,700			5.90	2,233,442.58	5.60	2,119,359.04
EUROPE ASSISTANCE	240,000			7.32	1,756,800.00	9.00	2,159,008.32
subtotal	2,338,807				9,985,537.91		12,565,002.96
1.1.5 - Bonds issued by associated undertakings							
subtotal					0.00		0.00
1.1.6 - Other securities issued by associated undertakings							
subtotal	0				0.00		0.00
subtotal	23,041,456				31,396,556.82		35,793,461.91
1.2 - Foreign							
1.2.1 - Shares in group undertakings							
subtotal	0				0,00		0.00
1.2.2 - Bonds issued by group undertakings							
subtotal					0.00		0.00
1.2.3 - Other securities issued by group undertakings							
subtotal	0				0.00		0.00
1.2.4 - Shares in associated undertakings							
subtotal	0				0.00		0.00
1.2.5 - Bonds issued by associated undertakings							
subtotal					0.00		0.00
1.2.6 - Other securities issued by associated undertakings							
subtotal	0				0.00		0.00
subtotal	0				0.00		0.00
total	23,041,456				31,396,556.82		35,793,461.91
2 - OTHER SECURITIES							
2.1 - Portuguese							
2.1.1 - Fixed rate securities							
2.1.1.1 - Public debt							
subtotal					0.00		0.00
2.1.1.2 - Other public issuers							
subtotal					0.00		0.00
2.1.1.3 - Other issuers							
BANCO PORT INVEST 11/24/2007		5,000,000.00	99.68		4,984,000.00		4,984,096.97
BANIF FINANCE 22/12/2016		2,000,000.00	100.20		2,004,000.00		2,003,990.15
BCP FINANCE BANK 21/12/16		3,000,000.00	100.11		3,003,264.54		3,003,255.60
BESLEASING FACTORING 22/08/2008		19,000,000.00	100.00		19,000,000.00		19,000,000.00
BESLEASING FACTORING 22/08/2011		2,500,000.00	100.00		2,500,000.00		2,500,000.00
BESLEASING FACTORING 22/08/2012		20,000,000.00	100.00		20,000,000.00		20,000,000.00

(Figure in euros)

Name	Quantity	Nominal Value	% of Nominal Value	Average Acq. Value	Total Acquisition Value	Balance Sheet Value unit	Balance Sheet Value Total
BESLEASING FACTORING 22/09/2007		60,000,000.00	100.00		60,000,000.00		60,000,000.00
EMASA		24,939.90	0.10		24,939.89		24.94
LUSITANO GLB CDO PLC 1D 12/05/15		3,300,000.00	98.04		3,797,960.24		3,235,386.00
P.CAVALEIROS		87,289.65	0.10		87,289.63		87.29
SEMAPA 20/04/2016		5,000,000.00	100.31		5,016,500.00		5,015,678.69
V.AGROS		19,951.92	0.10		19,951.92		19.96
V.TÊXTIL		22,445.93	0.17		22,445.91		37.41
subtotal					**120,460,352.13**		**119,742,577.01**
subtotal					**120,460,352.13**		**119,742,577.01**
2.1.2 - Variable rate securities							
2.1.2.1 - Shares							
ARGOGEST	1,300			3.84	4,987.97	3,84	4,987.97
BCP	30,800			2.62	80,651.63	2,80	86,240.00
BESLEASING FACTORING	59,427			7.59	451,035.46	7,59	450,808.56
BRISA-PRIV	5,079			8.59	43,615.07	9,45	47,996,55
CASSEL	200			4.99	997.59	4,99	997,59
CIMPOR	13,986			5.84	81,660.94	6,29	87,971,94
CIRES	247,500			1.28	316,959.90	1,45	358,875.00
COMP. PREVIDENTE	6			532.54	3,195.23	473,29	2,839.74
COMP. PREVIDENTE SCPF	198			109.86	21,752.48	205,01	40,591.13
COMPTA	306,960			1.64	503,699.84	0,86	263,985.60
COMUNDO	2,008			0.33	664.39	0,33	664.39
EDP	300,000			3.85	1,154,953.80	3,84	1,152,000.00
ESAF - ACTIVOS FINANCEIROS	117,500			22.93	2,694,626.91	25,92	3,045,326.55
ESEGUR	55,000			132.53	7,289,150.00	14,44	794,029.64
ESPIRITO SANTO SAÚDE	13,275,000			1.25	16,541,000.00	1,81	24,052,675.45
ESTELA GOLF	20			8 580.90	171,618.00	8 121,71	162,434.16
FETAL	2,760			20.84	57,528.12	20,82	57,469.15
HOTEL TURISMO ABRANTES	125			0.00	0.00	4,18	523.07
ILIDIO MONTEIRO CONSTRUÇÕES	41,675			4.99	207,873.65	4,99	207,873.65
IMPRESA, SGPS	35,567			8.19	291,460.92	4,68	166,453.56
MADIBEL	7,955			0.01	80.88	0,00	39.68
MARINOTEIS	210,000			6.53	1,370,495.93	6,52	1,369,808.02
PORTO CAVALEIROS, SGPS	2,483			6.58	16,330.65	6,58	16,330.65
PORTUCEL	44,285			2.26	100,187.32	2,40	106,284.00
QUINTA DOS CONEGOS	140,600			3.15	443,241.40	2,95	415,407.18
SONAE SGPS	56,312			1.51	84,972.04	1,51	85,031.12
SONAGI	55,600			0.44	24,293.86	1,80	100,080.00
SONAGI AN	100			0.06	5.51	0,01	1.00
SPECTACOLOR PORTUGAL	7,500			14.66	109,986.38	12,74	95,562.79
TELLUS	1,200			5.04	6,044.98	5,04	6,044.98
VILATÊXTIL SOC IND TÊXTIL	16			10.14	162.29	10,14	162.29
subtotal	**15,021,162**				**32,073,233.14**		**33,179,495.41**
2.1.2.2 - Equity paper							
subtotal	**0**				**0.00**		**0,00**
2.1.2.3 - Units in investment funds							
FUNGERE	773,553			5.22	4,039,967.13	5,17	3,999,269.01
subtotal	773,553				4,039,967.13		3,999,269.01
2.1.2.4 - Other							
subtotal	**0**				**0.00**		**0.00**
subtotal	**15,794,715**				**36,113,200.27**		**37,178,764.42**
total	**15,794,715**				**156,573,552.40**		**156,921,341.43**
2.2 - Foreign							
2.2.1 - Fixed rate securities							
2.2.1.1 - Public debt							

(Figure in euros)

Name	Quantity	Nominal Value	% of Nominal Value	Average Acq. Value	Total Acquisition Value	Balance Sheet Value unit	Balance Sheet Value Total
ITALY 2.75% 15/06/2010		50,000,000.00	100.36		50,257,000.00		50,179,487.61
subtotal					**50,257,000.00**		**50,179,487.61**
2.2.1.2 - Other public debt instruments							
subtotal					**0.00**		**0.00**
2.2.1.3 - Other issuers							
OUTRAS APLICAÇÕES DE CURTO PRAZO					479,000.00		479,000.00
ANGLO IRISH BK CORP 21/06/2016		2,000,000.00	100.20		2,004,000.00		2,003,921.79
AQUILAE 2006-1X C 17/01/2023		4,100,000.00	100.20		4,108,200.00		4,108,138.90
AUTOSTRADE SPA 06/09/2011		2,000,000.00	100.47		2,010,809.23		2,009,369.93
B SPIRES LIMITED SER 25 25/04/10		19,400,000.00	101.73		19,736,978.00		19,736,422.39
BANCA LOMBARDA 19/12/2016		3,000,000.00	100.06		3,001,881.78		3,001,875.60
BANCO SABADELL 25/05/2016		2,000,000.00	99.67		1,993,000.00		1,993,321.02
BBVA CAPITAL UNIPERS 13/10/2020		1,500,000.00	99.75		1,496,139.23		1,496,305.77
BNP PARIBAS 5,8% 10/08/2007		80,000.00	99.89		79,106.84		79,908.31
C.ÁGUAS DA BEIRA		548.68	118.18		648.44		648.44
C.MOÇAMBIQUE		598.56	125.00		748.20		748.20
CAIXA GERAL PERPETUAL 28/06/2014		3,000,000.00	100.91		3,028,244.40		3,027,248.47
CAJA CASTILLA 02/11/2016		2,000,000.00	100.20		2,004,000.00		2,003,984.47
CAM INTERNATIONAL SA 29/09/2016		2,000,000.00	100.19		2,004,000.00		2,003,898.18
COCA COLA 5,875% 08/03/2007		3,000,000.00	100.38		3,241,504.00		3,011,530.13
CORP PROP INV 7,18% 09/01/2013		500,000.00	92.45		371,790.22		350,997.54
CORP SERV GROUP 10% 04/29/2011		29,170.00	100.00		43,953.89		43,440.05
CSSE NAT C.EPARG P 4,5% 12/14/10		99,952.00	94.70		85,703.58		94,656.48
DAIMLER CHRYSLER 16/03/2010		4,000,000.00	100.04		4,001,667.36		4,001,605.65
DEUTSCHE TELEKOM 23/05/2012		2,000,000.00	100.20		2,004,000.00		2,003,936.06
DRESDNER BANK 4,3% 04/01/09		2,500,000.00	100.00		2,500,000.00		2,500,000.00
DUCHS VI X C		11,000,000.00	100.20		11,022,000.00		11,021,486.61
ERSTE BANK 19/07/2017		8,000,000.00	99.96		7,996,952.03		7,997,129.17
GOLDMAN SACHS 02/02/2015		4,000,000.00	100.89		4,038,400.00		4,035,571.14
GOLDMAN SACHS 04/02/2013		4,000,000.00	99.88		3,995,174.40		3,995,317.38
GOLDMAN SACHS 23/05/2016		3,000,000.00	99.89		2,996,681.40		2,996,795.34
HALIFAX PLC PERPETUAL		2,000,000.00	100.80		2,016,024.00		2,015,952.58
HARBM PR2X A4E		1,000,000.00	100.20		1,002,000.00		1,001,955.93
HIDRO E REVUE		119.71	100.00		119.71		119.71
HSBC FINANCE CORP 28/10/2013		4,000,000.00	100.19		4,008,000.00		4,007,793.67
HYPOVEREINSBANK 07/06/2011		3,000,000.00	103.18		3,099,787.20		3,095,312.96
ISLANDSBANKI 25/11/2013		1,000,000.00	99.76		997,491.00		997,563.48
JOHN DEERE BANK 31/03/2011		3,500,000.00	99.98		3,499,225.00		3,499,352.28
JP MORGAN 12/10/2015		3,000,000.00	100.31		3,009,900.00		3,009,184.05
KAUPTHING BANK HF 25/05/2010		4,000,000.00	98.93		3,954,693.60		3,957,308.10
KONINKLIJKE KPN NV 07/21/2009		7,000,000.00	100.58		7,041,003.90		7,040,916.19
LEHMAN BROS HOLD 19/05/2016		10,000,000.00	99.94		9,994,113.46		9,994,339.36
MORGAN STANLEY 13/04/2016		7,500,000.00	99.95		7,498,503.23		7,495,906.30
NATL CAPITAL INSTRUMENTS PERP		2,000,000.00	100.65		2,013,018.00		2,012,958.24
NATL GRID PLC 18/01/2012		8,000,000.00	100.10		8,008,104.24		8,007,763.36
NAVIO COMP CLN HERZOG 05/10/11		25,000,000.00	100.20		25,050,000.00		25,049,937.23
NAVIO COMP CLN ITAMI 05/10/11		14,000,000.00	100.20		14,028,000.00		14,027,964.85
NAVIO COMP CLN KHAN 05/10/11		7,000,000.00	100.20		7,014,000.00		7,013,982.42
NAVIO COMP LIMITED CLN 02/05/11		7,000,000.00	101.68		7,117,530.00		7,117,381.70
PREPS LIMITED 2006 B1 18/07/2015		6,000,000.00	100.00		6,000,009.23		6,000,008.77
RCI BANQUE 05/26/2009		5,000,000.00	100.55		5,027,384.70		5,027,322.39
ROCK LTD 03/22/08		14,430,000.00	101.35		14,760,783.19		14,624,552.75
ROYAL BK SCOTLAND 49		5,000,000.00	101.05		5,053,000.00		5,052,259.39
SAN PAOLO 06/28/2012		5,000,000.00	99.81		4,982,500.00		4,990,326.46
SANTANDER CONSUMER 28/09/2016		5,000,000.00	100.11		5,005,390.80		5,005,252.09
SLM CORPORATION 04/26/2011		2,500,000.00	100.00		2,500,051.50		2,500,031.79

(Figure in euros)

Name	Quantity	Nominal Value	% of Nominal Value	Average Acq. Value	Total Acquisition Value	Balance Sheet Value unit	Balance Sheet Value Total
TELECOM ITALIA FINANCE 12/06/12		9,000,000.00	100.07		9,006,300.23		9,005,926.14
TELEFONICA EMIS 25/01/2010		8,500,000.00	100.09		8,508,412.03		8,507,897.15
VIVENDI 10/03/2011		3,000,000.00	100.19		3,006,000.00		3,005,698.20
VODAFONE 05/09/2013		9,000,000.00	100.14		9,013,350.72		9,012,801.63
VODAFONE 13/01/2012		3,000,000.00	99.82		2,993,859.23		2,994,461.56
VOLKSWAGEN BANK FLT 21/12/2015		2,000,000.00	99.99		1,999,791.60		1,999,798.84
VOLKSWAGEN INT FIN 14/03/2016		5,000,000.00	100.00		5,000,000.00		5,000,000.00
subtotal					**276,452,929.57**		**276,069,286.59**
subtotal					**326,709,929.57**		**326,248,774.20**
2.2.2 - Variable rate securities							
2.2.2.1 - Shares							
ABN AMRO HOLDING NV AMSTERDAM	27,725			18.44	511,384.66	24.35	675,103.75
ACCIONA	373			136.88	51,055.73	141.10	52,630.30
AKZO NOBEL	28,000			44.02	1,232,468.80	46.21	1,293,880.00
ALTANA AG	28,500			44.01	1,254,259.02	47.00	1,339,500.00
ANTENA 3 TELEVISION	44			18.11	796.91	17.84	784.96
BAYERISCHE MOTOREN WERKE	30,400			40.76	1,239,207.61	43.70	1,328,480.00
BBV ARGENT	6,868			18.63	127,921.23	18.24	125,272.32
BNP PARIBAS	6,310			81.85	516,483.50	82.65	521,521.50
C BUZI	2,000			1.00	2,001.42	1.00	2,001.42
C IND MATOLA	2,200			2.50	5,506.74	2.50	5,506.74
C MOÇAMBIQUE	3,000			1.25	3,740.84	1.25	3,740.84
C RESSEGURO MOÇAMBIQUE	250			4.99	1,246.99	4.99	1,246.99
C SEG NAUTICUS	500			0.56	281.88	0.56	281.88
C SEG TRANQUILIDADE DE MOÇAMBIQUE	9,750			2.90	28,312.77	2.90	28,312.77
CADA (AGRICULTURA)	2,100			3.22	6,757.63	3.22	6,757.63
CAP GEMINI AS	166			34.74	5,766.84	47.55	7,893.30
CARREFOUR SA	16,850			47.64	802,777.73	45.94	774,004.75
CASINO GUICHARD PERRACHON	9,910			80.35	796,296.91	70.40	697,664.00
COMMERZBANK AG	30,000			27.11	813,228.81	28.75	862,500.00
COMP ALGODÕES MOÇAMBIQUE	1,900			0.00	1.07	0.00	1.07
COMP SEG A NACIONAL	15,986			6.18	98,780.46	6.18	98,780.46
CONTINENTAL AG	13,400			89.23	1,195,618.51	88.90	1,191,260.00
CONTINENTAL MORTAGE INVESTORS	600			2.53	1,519.88	2.53	1,519.88
CORPORATE SERVICES GROUP PLC	70,800			0.18	12,535.22	0.12	8,213.43
DJ ENERGY EX	2,006			42.10	84,445.84	41.87	83,991.22
E. ON AG	11,000			94.61	1,040,656.70	102.83	1,131,130.00
ES INV PLC	1			2.77	2.77	1.27	1.27
FOMENTO PREDIAL MOÇAMBIQUE	50			4.99	249.40	4.99	249.40
FRANCE TELECOM	52,702			25.38	1,337,430.49	20.95	1,104,106.90
GENERAL ELECTRIC CO	1,200			46.35	55,616.31	28.42	34,098.00
GRIFOLS SA	1,641			9.76	16,015.26	10.10	16,574.10
HAVAS SA	4,200			14.25	59,863.79	4.20	17,640.00
HIDRO ELECT CATUMBELA	200			4.99	997.60	4.99	997.60
HYPO REAL ESTATE HOLDING AG	19,900			45.42	903,835.19	47.74	950,026.00
KESA ELECTRICALS PLC	818			0.00	0.00	5.16	4,219.91
KING FISHER	3,578			12.74	45,601.39	3.53	12,628.24
LVMH MOET HENNESY LOUIS V	750			66.15	49,612.92	79.95	59,962.50
NAVANG	448			6.01	2,693.51	6.01	2,693.51
NESTLE SA	150			240.67	36,100.05	268.44	40,266.00
NOCAL (CERVEJAS)	2,508			0.62	1,549.53	0.62	1,549.53
NOKIA OYJ	55,000			15.48	851,649.00	15.61	858,550,00
PETRANGOL	200			2.76	552.89	2.76	552.89
PHILIPS ELECTRONICS NV	25,000			25.37	634,228.53	28.57	714,250.00

(Figure in euros)

Name	Quantity	Nominal Value	% of Nominal Value	Average Acq. Value	Total Acquisition Value	Balance Sheet Value unit	Balance Sheet Value Total
PRISA SM	35,233			12.71	447,872.07	13.21	465,427.93
ROYAL DUTCH PETROLEUM COMPANY	39,000			25.68	1,001,357.08	26.72	1,042,080.00
SANOFI AVENTIS NEW	21,094			68.42	1,443,245.49	69.95	1,475,525.30
SAPEC SA	3,000			44.10	132,289.05	90.00	270,000.00
SCHNEIDER ELECTRIC SA	14,800			81.65	1,208,466.96	84.10	1,244,680.00
SENA SUGAR ESTATES LTD	77,375			0.21	16,083.17	0.21	16,083.17
SIEMENS AG	15,000			65.39	980,828.88	75.14	1,127,100.00
SOC TURISMO MOÇAMBIQUE	100			4.99	498.80	4.99	498.80
SOGECABLE	2,326			26.00	60,467.71	27.00	62,802.00
SOL MELIA	3,829			14.99	57,391.58	15.01	57,473.29
SONEFE	573			2.39	1,366.79	2.39	1,366.79
SOTUL (ULTRAMAR)	8,000			4.99	39,903.83	4.99	39,903.83
TELECINCO	2,493			21.24	52,950.75	21.58	53,798.94
TELEFONICA, SA	132,531			13.66	1,809,968.69	16.12	2,136,399.72
THOMSON	27,911			12.29	342,995.24	14.81	413,361.91
TOTAL FINA ELF S.A.	20,000			51.73	1,034,596.56	54.65	1,093,000.00
VIVENDI UNIVERSAL	700			94.84	66,390.71	28.78	20,142.50
subtotal	892,949				22,525,725.70		23,579,989.24
2.2.2.2 - Equity paper							
subtotal	0				0,00		0,00
2.2.2.3 - Units in investment funds							
AGF MULTI	80			1,197.73	95,507.28	1,231.55	98,203.65
CA-AM VAR 4	17			5,927.14	100,939.24	6,056.37	103,140.02
CA-AM VOLAT	8			12,119.63	97,320.60	12,199.73	97,963.83
EASYETF GLOBAL TITANS 50	1,500			34.98	52,476.22	24.24	36,352.50
subtotal	1,605				346,243.34		335,660.00
2.2.2.4 - Others							
subtotal	0				0.00		0.00
subtotal	894,554				22,871,969.04		23,915,649.24
total	894,554				349,581,898.61		350,164,423.44
3 - GRAND TOTAL	39,730,725				537,552,007.84		542,879,226.78

Property Representing Underwriting Provisions - 2006

Location		No. Apartments	Inventory Value
R. CAMÉLIAS, 6 - R/C ESQ. S. DOMINGOS RANA	ABÓBODA	1	256,864
PRAÇA RAIMUNDO SOARES 21	ABRANTES	-	300,557
R. D. NUNO ÁLVARES PEREIRA, 1, RC FRACÇÃO E	ALMADA	1	133,350
R. D. NUNO ÁLVARES PEREIRA, 1, RC FRACÇÃO B	ALMADA	1	225,250
R. FOROS DA AMORA - LT G2 FR"A"	AMORA	1	220,000
CV. R. DR. A. SOUTO e R.ALBERTO S. MACHADO A, CV E RC	AVEIRO	1	414,300
R. ENG. MONIZ MAIA, BLOCO A, R/C "C"	AZAMBUJA	1	190,000
LUGAR FONTAINHAS 98, R/C , LJ 5, "Q"	BALAZAR	1	205,000
R. ELIAS GARCIA, 194, R/C - LOJA 2 "J"	BARCELOS	1	222,000
R.MIGUEL BOMBARDA 224/250-FRACÇÃO B-C/V-E	BARREIRO	1	385,854
PRAÇA DO ULTRAMAR, 1 e 1-A R/C Fr LAB	BEJA	1	400,180
PRAÇA DO ULTRAMAR, 1 e 1-A CAVE Fr EAS	BEJA	1	17,550
AV. DA LIBERDADE, 564 R/C DRT-FRACÇÃO "A"	BRAGA	1	212,100
AV. LIBERDADE, 660/672	BRAGA	10	179,422
R. 5 DE OUTUBRO 28-R/C-DRT. e C/V-DRT.	BRAGANÇA	1	229,900
R. PROF D. SALVADORA, N°. 4	BUARCOS	1	100,000
AV. GENERAL H. DELGADO, 39 - R/C Dto Fr. A	C.BRANCO	1	396,440
R. 1.º SRG PEIXOTO, N.º 3, LT 17	C.RAINHA	1	187,000
R. JOSÉ MALHOA,3/11	C.RAINHA	-	214,483
LUGAR DO MONTE, Lt 1 - LOJA 2 R/C	CALDELAS	1	200,000
URB. QUINTA NOVA BLOCO A2 LJ 1 R/C "P"	CARREGADO	1	190,294
R. FREDERICO AROUCA,45/45 A	CASCAIS	-	2,207,844
R. JOSÉ RELVAS, 11 - PAREDE	CASCAIS	-	475,000
R. JOÃO BAPTISTA CORREIA, 1-G LJ 6 RC "G"	CAST. RIBATEJO	1	153,000
AV. NAVARRO,17/20 e R.DO SOTA, 63/69	COIMBRA	-	953,063
R. FERREIRA BORGES, 75/83	COIMBRA	-	541,095
AV. NAVARRO,21/23 e R.DO SOTA, 71/79	COIMBRA	-	796,684
AV. FREI HEITOR PINTO, R/C - FRACÇÃO B	COVILHÃ	1	359,520
R. FOGUETEIROS, 529/PRCT S.GENS 285 RC "C"	CUSTOIAS	1	148,150
RUA MANUEL FERREIRA RIBEIRO 42, R/C "A"	ERMESINDE	1	182,000
R. VINTE, 534 FRACÇÃO A R/C	ESPINHO	1	274,400
AV. VALENTIM RIBEIRO, LT 2 R/C LETRA E	ESPOSENDE	1	177,000
R. REPÚBLICA, 197	F. FOZ	-	265,000
R. BATISTA LOPES 21-R/C. E	FARO	1	416,500
R. CON. JER. D. LEITE FR B	FUNCHAL	1	854,040
R. 5 OUTUBRO 129/155	GONDOMAR	1	328,950
LG. DR. JOAO ALMEIDA,29	GUARDA	-	421,260
GAVETO R TEIXEIRA PASCOAIS,FR I-LOJA 1	GUIMARAES	1	303,620
LUG. RABOLAL, R/C ESQ, LT 4, "E"	LAMEGO	1	190,000
R. ANZEBINO SARAIVA, 251 - FR "A"	LEIRIA	1	348,300
R. ANZEBINO SARAIVA, 251 - FR "B"	LEIRIA	1	198,000
R. DO ALECRIM, 51/53	LISBON	-	1 202,184
R. S. PEDRO DE ALCÂNTARA,39/49	LISBON	-	2 851,669
R. MARQUÊS DA FRONTEIRA, 84/84-C	LISBON	1	66,444
PRAÇA DE LONDRES, 6/6-B	LISBON	1	188,449
PRAÇA DE LONDRES, 7/7-B	LISBON	2	506,939
AV. DA LIBERDADE 242/242-A	LISBON	-	25 053,500
R. JOAQUIM ANTÓNIO DE AGUIAR 70/70-B	LISBON	1	526,731
R. BARTOLOMEU DE GUSMÃO,16/16-A	LISBON	1	157,007
AV. ALMIRANTE REIS,13/13-E	LISBON	-	636,301
CALÇADA DO CARRASCAL,173/173-A	LISBON	-	112,325
R. GENERAL GARCIA ROSADO, 20	LISBON	-	370,953
AV. ALMIRANTE REIS,73/73-B	LISBON	-	2,619,907

Property Representing Underwriting Provisions - 2006

Location		No. Apartments	Inventory Value
AV. INF. SANTO 349/349-D e R. SANTANA A LAPA, 156	LISBON	1	196,346
AV. MARQUÊS DE TOMAR, 100/100A	LISBON	-	878,138
AV. MARQUÊS DE TOMAR, 102	LISBON	-	1,310,602
AV. ALMIRANTE REIS,49/51	LISBON	-	1,437,224
R. DA ASSUNÇÃO 17/23 e R.DOURADORES 93/99	LISBON	-	603,919
R. AUGUSTA, 44/52	LISBON	-	1,189,959
R. AUGUSTA 54/60 e R.CONCEIÇÃO 93/99	LISBON	-	965,398
R. DO CABO,36	LISBON	-	115,279
AV. INFANTE D HENRIQUE 332-R/C E CAVE FRACÇÃO N	LISBON	1	923,979
R. RODRIGUES SAMPAIO 103/103-B	LISBON	-	3,702,500
AV. LIBERDADE,258/258-A 258/B - FRACÇÃO "A"	LISBON	1	147,600
LG. ANDALUZ 2A/2B e R EÇA DE QUEIROZ 22/22B SUBCV FRACÇÃO A	LISBON	1	312,500
PRAÇA DE LONDRES, 10-10C FRACÇÃO"O"	LISBON	1	195,040
R. DOS FANQUEIROS, 119 - 127	LISBON	-	696,405
R. ASSUNÇÃO 82-88/R. SAPATEIROS 145	LISBON	-	803,877
R. CORREIROS 97-107/R. VITORIA 50-56	LISBON	-	1,551,504
R. CONCEIÇÃO, 79-91	LISBON	-	1,021,705
R. CORREIROS 180-192/R. STA JUSTA	LISBON	-	1,157,797
R. FANQUEIROS, 116-130	LISBON	-	2,551,614
R. FANQUEIROS, 129/R. VITORIA/R. DOURADORES	LISBON	-	2,077,831
R. DA MADALENA, 199-209	LISBON	-	785,004
R. DOS DOURADORES, 64 - 82	LISBON	-	1,280,188
R. VISCONDE SEABRA 4 - 4 A	LISBON	-	2,189,510
RUA GARRETT, 53 A 67,	LISBON	-	3,891,984
R. PRATA, 94/114 e R. S. NICOLAU, 27/33	LISBON	-	5,661,014
R. PRATA, 88/92	LISBON	-	366,415
AV. ANTONIO AUGUSTO DE AGUIAR, 104 a 104-B e R. AUGUSTO DOS SANTOS, 4	LISBON	-	5,480,120
R. ALFREDO GUISADO, N.º 8 a 10-A	LISBON	-	6,327,983
R. PROFESSOR SOUSA CÂMARA,136/136-D	LISBON	4	249,984
AV. ANTONIO AUGUSTO AGUIAR,126/126-B	LISBON	1	227,618
AV. POETA MISTRAL, 2/2-A	LISBON	4	1,376,671
R. PADRE FRANCISCO 16/16-E	LISBON	8	415,043
R. AVIADOR PLÁCIDO DE ABREU, 6	LISBON	2	98,288
R. BERNARDIM RIBEIRO 44/44-B	LISBON	4	364,756
R. LUIS DEROUET 27 E R INFANTARIA DEZASSEIS 27	LISBON	5	339,529
CALÇADA DO TOJAL, 14	LISBON	3	130,474
R.TOMÁS RIBEIRO,45/45-C e AV FONT.P.MELO,34B	LISBON	4	833,218
AV. VISCONDE VALMOR,77/77-E e AV CDE VALBOM, 84/84E	LISBON	5	609,572
R. CAVALEIRO DE OLIVEIRA, 28/28-B	LISBON	2	105,926
R. SILVA CARVALHO, 226	LISBON	1	128,000
AV. DR.ANTº.CARVALHO FIGUEIREDO 21 ABC-C/V.E	LOURES	1	119,678
PÇ. QUINTA DAS POCINHAS, 59, R/C ESQ, "A" SILVARES	LOUSADA	1	127,000
QUINTA DA ORDEM LT 14 N.º 12 PISO 3 "O"	M. CANAVESES	1	160,000
URB. MAC / 3 - B.V. R/C "A"	M. CAVALEIROS	1	190,000
R. DR. CARLOS FELG., 216	MAIA	1	402,240
R.PADRE ANTÓNIO 99-R/C-DRT.-LETRA "C"	MAIA	1	173,133
AV. CARLOS OLIVEIRA, 419 3ºPISO "Q"	MAIA	1	140,000
AV. 25 ABRIL, BLOCO E, 2L CV ESQ "AN"	MALVEIRA	1	150,000
AV. PROF DR EGAS MONIZ 6 CV LJ ESQ "B"	MASSAMÁ	1	201,000
AV. REPÚBLICA, 371 R/C FRACÇÃO J	MATOSINHOS	1	333,230
AV. REPÚBLICA, 365 1.º DTO FRACÇÃO L	MATOSINHOS	1	215,260
R. MARIA PIMENTEL, LT C, R/C "AZ", B CASTANHEIRA	MIRANDELA	1	110,000
AV. LUíS DE CAMÕES,28- A 28-B FR B	MONTIJO	1	358,540

Property Representing Underwriting Provisions - 2006

Location		No. Apartments	Inventory Value
R. MOUZINHO ALBUQUERQUE, 162 RC DTO "F"	NAZARÉ	1	130,000
QT.DO MENDES,LT 109 R/C ESQ E C/V-FRACÇÃO "B"	ODIVELAS	1	436,950
QUINTA DO VILAR, RC CENTRO "B"	P. FERREIRA	1	124,201
R. MACHADO SANTOS, 32 - R/C ESQ. FR. B	P. DELGADA	1	347,350
QT. PIEDADE, C. SERRA LT 43 RC ESQ "I"	P. STA. IRIA	1	205,000
R. ANTÓNIO ARAÚJO, 65 RC "O"	PAREDES	1	226,000
AV. SACADURA CABRAL,76-R/C-FRACÇAO H	PENAFIEL	1	257,600
AV. DR. ANTÃO CARVALHO, 425-RÉGUA	PESO RÉGUA	1	151,000
ESTRADA DO ALVOR 6/6-A - R/C.C/V	PORTIMÃO	1	123,352
URBANIZAÇÃO S. SEBASTIÃO, LOTE 6	PORTIMÃO	1	292,600
R. MIGUEL BOMBARDA, 25/41	OPORTO	-	333,626
AV. ALIADOS, 1/21 e PR. LIBERDADE,114/115	OPORTO	-	2,487,419
R. D.MANUEL II 290/296/298/304/306 e R J DINIS 15/51	OPORTO	25	23,017,907
R. COSTA CABRAL, 1981, "M"	OPORTO	1	200,522
AV. DA BOAVISTA, 320/336	OPORTO	5	366,170
R. SÁ DA BANDEIRA 797/825 e R GONÇALO CRISTÓVÃO 58/59	OPORTO	41	3,501,359
R. CAMPO ALEGRE 1376-FRACÇÃO "F" e "JH"	OPORTO	2	116,844
RUA GOMES DE AMORIM, 821/823 FR A	POV.VARZIM	1	355,385
AV. DR. SÁ CARNEIRO, LOTE 2, 4-B FRACÇÃO D	QUARTEIRA	1	180,000
URB. BONS AMIGOS, LOTE 96, R/C ESQ.º "B"	RAMADA	1	250,000
RUA 6 DE MAIO, FRACÇÃO A,R/C,	RIBEIRA BRAVA	1	200,000
PRAÇA 25 DE ABRIL, 365 - FRACÇÃO "B"	S TIRSO	1	245,000
EN 1 N.ºs 890-914 MOZELOS	S. M.ª FEIRA	1	167,000
AV. S.JOSÉ, LOJA 38A-R/C-FRACÇÃO B-SACAVEM	SACAVÉM	1	324,671
R. PROF EGAS MONIZ, N.º 12	SANTIAGO CACÉM	1	200,000
BLOCO II - SÍTIO DO LIVRAMENTO - CANIÇO	SANTA CRUZ	1	265,000
R. SERPA PINTO 97/99	SANTARÉM	-	773,756
AV. 22 DEZEMBRO,5 e R.AUGUSTO CARDOSO,83	SETÚBAL	4	334,410
TRAVESSA DO SAPALINHO 1/7	SETÚBAL	-	498,798
R. FREI ANTONIO CHAGAS 16/16-C (740/1000)	SETÚBAL	3	132,543
AV. MIGUEL BOMBARDA, 27 FRACÇÃO "O"	SINTRA	1	100,463
AV. MIGUEL BOMBARDA, 27 FRACÇÃO "P"	SINTRA	1	169,838
R. OLIVEIRA JÚNIOR, 82	SJ MADEIRA	-	379,200
R. SANTOS BERNARDES,Nº26 LOJA 1 E 2-BL B	T VEDRAS	1	314,875
ALAMEDA UM MARÇO, 44/54 FRACÇÃO A	TOMAR	1	252,615
ALAMEDA UM MARÇO, 44/54 FRACÇÃO B	TOMAR	1	356,020
BR. STA LUZIA, PORTAS CARVALHO LT2 RC"A"	TRANCOSO	1	95,000
R. AVEIRO, 119 R/C DTº FR B	V CASTELO	1	317,925
LARGO JOSE AFONSO LT C - R/C DTº "B"	VIDIGUEIRA	1	165,000
R. PADRE PORFÍRIO ALVES, R/C FRACÇÃO A	VILA DO CONDE	1	260,000
AV. 1 DE MAIO, 257 R/C E S/LOJA	VILA REAL	1	345,000
RUA NOVA, LT 1, R/C-DTO, "C", JUGUEIROS,	VISEU	1	180,000
URB BOM NOME, LT 1 - BLOCO B R/C	V. DAS AVES	1	126,000
R. ADRIANO PINTO BASTOS,216 S/Nº-R/C DRT E C/V	V.N. FAMALICÃO	1	443,910
R. AUGUSTO GOMES, 102 LJ PISO 2 "CI"	V.N. GAIA	1	116,000
PRACETA 25 DE ABRIL, 146 - FRACÇÃO "DE"	V.N. GAIA	1	201,250
PRACETA 25 ABRIL, 142	V.N. GAIA	1	174,650
TOTAL			144,389,182

Colecção BESart • MATT MULLICAN
"Untitled (Default Atmosphere) #12", 2006 • 70 x 100 cm • Digital print

05’

LEGAL ACCOUNTS CERTIFICATE AND OPINION OF THE SUPERVISORY BOARD

RIGOUR.
A PRINCIPLE HARDWIRED INTO EVERYDAY.
TRANQUILIDADE’06

5.0 Legal Accounts Certificate and Opinion of the Supervisory Board

5.1 Legal Accounts Certificate

Introduction

1. I have audited the financial statements attached of Companhia de Seguros Tranquilidade, S.A., which comprise the Balance Sheet as at 31 December 2006 (which records a balance sheet total of 954,687,941 euros and total shareholders' funds of 238,642,432 euros, including a net profit 157,228,262 euros), the Profit and Loss Account for the year then ended and the respective notes to the financial statements. These financial statements have been drawn up in accordance with accounting principles generally accepted for the insurance sector in Portugal.

Responsabilidades

2. It is the Directors' responsibility to prepare financial statements which give a true and fair view of the state of affairs of the company and of the profit or loss for the period, as well as to select suitable accounting policies and criteria and maintain an appropriate system of internal control.

3. It is my responsibility to form a professional and independent opinion, based on my audit, on those statements and to report my opinion to you.

Scope

4. I conducted my audit in accordance with the Audit Standards and Recommendations of the of the Chamber of Official Auditors, which require that it be planned and performed so as to obtain a reasonable assurance that the financial statements are free from material mistatement. My audit therefore included:

- An examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements.
- An assessment of whether the accounting policies are appropriate and adequately disclosed.
- An examination to ensure that the accounts are prepared on the going concern basis.
- An assessment of the overall adequacy of the presentation of information in the financial statements.

5. My audit also included confirming that the management report accords with the financial statements.

6. I believe that my audit provides an acceptable basis on which to express my opinion on the financial statements.

Opinion

7. In my opinion, the said financial statements give a true and fair view, in all materially relevant aspects, of the state of affairs of Companhia de Seguros Tranquilidade, S.A. as at 31 December 2006, and of the Company profit in the year then ended, in accordance with accounting principles generally accepted for the insurance sector in Portugal.

8. It is also my opinion that the management report accords with the financial statements.

Lisbon, 08 de March 2007

José Manuel Macedo Pereira

5.2 Report and Opinion of the Supervisory Board

Shareholders,

As required by the law, and in the exercise of its duties under the articles of association, the Supervisory Board is pleased to submit its report and opinion on the report and accounts presented by the directors of Companhia de Seguros Tranquilidade, S.A. for the financial year ended 31 December 2006.

I. Report

1. In the course of the year we monitored the company's affairs, by examining accounting data and other information requested from the directors and departments, which gave us the co-operation we required.

The shareholder structure of the insurance holdings of the Espírito Santo Group was reorganized in June 2006. Companhia de Seguros Tranquilidade disposed of its holding in Companhia de Seguros Tranquilidade – Vida, S.A. (which changed its name to Bes-Vida, Companhia de Seguros, S.A.) and incorporated its own insurance company to operate life business, under the name T-Vida – Companhia de Seguros, S.A..

2. In the exercise of our duties:

• We checked that books, accounting records and source documents were in order;

• We verified the existence and the accounting records for the various assets or liabilities belonging to or accepted by the company, especially as regards the adequacy of the accounting policies and valuation criteria adopted, checking that they are appropriately explained in the Notes to the Financial Statements;

• We discovered no breaches of the law or articles of association.

3. We have examined the Legal Accounts Certificate issued by the Official Auditor, as required by Article 452.1 of the Companies Code, with which we are in agreement and which is deemed an integral part of this report.

4. Over the course of the year, we kept abreast of the audit conducted by a leading international audit firm, and took note of its findings.

5. We are pleased to note that the Company has recorded net profits of 157,228,262 euros, reflecting the capital gains deriving from disposal in June 2006 of the holding in Tranquilidade Vida. If this extraordinary result is excluded, the net profits would be 31,524,512 euro, representing an increase of 17.7% over the profits of 26,772,701 recorded in 2005.

II. Opinion

In view of the above, we recommend:

a) that the management report and the accounts presented by the Board of Directors be approved.

b) That the proposal for allocation of profits be approved.

Lastly, the Audit Board would like to express its thanks to the Directors and to the company departments which we contacted during the year, for cooperating with our work. Their professionalism and dedication were crucial to the successful completion of our tasks.

Lisbon, 8 March 2007

The Supervisory Board

Fernando Aguiar Branco – Chairman
António Maria Pereira – member
António Ricardo Espírito Santo Bustorff – member
José Manuel Macedo Pereira – Official Auditor – member

Colecção BESart • Olafur Eliasson
Série "Islandserie" # 19, 2003 • C-print • 60 x 90cm • Unique Edition • The Courtesy neugerriemschneider, Berlin, Tanya Bonakdar Gallery, New York

06'

SENIOR MANAGEMENT

AWAKENING SKILLS THROUGH
CONSTANT SUPPORT FOR INNOVATION
AND PROFESSIONAL DEVELOPMENT.

TRANQUILIDADE'06

6.0 Senior Management

Consultant for Assurfinance
Mário Jorge Tapada Gouveia

Consultant for Claims with Bodily Harm
Luís Espírito Santo Silva Ricciardi

Consultant for Sales
António José Machado

Service and Operations Department
José Ramos Teles de Matos

Audit Department
Joel Correia Monteiro

Northern Operations Department
Augusto Jorge Pereira Azevedo

Southern Operations Department
Paulo Jorge Santos Mariano

Médium-sized Corporate Department
João Maria Sousa C. Ferreira do Amaral

Financial and Administrative Department
Luís Miguel Matos de Amaral Maria Ribeiro

Major Clients, Brokers and Private Clients Department
José Paulo Castro Trigo

Marketing and Special Projects Department
Artur João Carvalho Fonseca Duarte

Personnel Department
José Ramos Teles de Matos

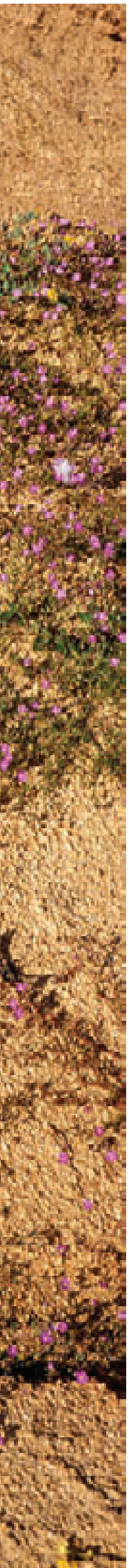
Quality and Organization Department
Vanda Maria Jesus Ferreira Belo

Overall Risk and Internal Control Department
Luís António Jardim Franco

Claims Department
Luís Manuel Cunha Martinho

Information Systems Department
José Manuel Mendes Esteves Serra Vera

Underwriting Department
João Carlos Dores Candeias Barata



Colecção BESart • Graça Sarsfield
"Foi o modo de te ver", 2004 • DurstLambda Print • 140 x 120cm (Image) • Edition: 1/3 + pa • Courtesy the Artist

07'

BRANCH NETWORK

BROAD GEOGRAPHICAL COVERAGE AND BUSINESS DIVERSITY, BUILT ON FIRM FOUNDATION OF COMPETENCE AND LASTING VALUES.

TRANQUILIDADE'06

7.0 Branch Network

Lisbon Airport
Aeroporto da Portela • 1700-998 Lisboa
Tel.: 218 452 170 • Fax: 218 452 179
E-mail: aeroportolisboa@tranquilidade.pt

Oporto Airport
Aeroporto Francisco Sá Carneiro, Moreira • 4470 Maia
Tel.: 229 437 320 • Fax: 229 437 329
E-mail: aeroportolporto@tranquilidade.pt

Algés
Av. dos Combatentes da Grande Guerra, 7-9 • 1495-039 Algés
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E-mail: alges@tranquilidade.pt

Almada
Rua D. Nuno Álvares Pereira, 1 A • 2800-170 Almada
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Amadora
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Guarda
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Maia
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Colecção BESart • Wolfgang Tillmans
"Freischwimmer 25", 2003 • Framed c-print • 182 x 243 • Edition: 1/1 •

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CONSOLIDATED REPORT AND ACCOUNTS

FLEXIBILITY AND DYNAMIS.
A CENTRAL WORKING CONCERN.
TRANQUILIDADE’06

Directors' Report

Shareholders,

As required by the law and the articles of association, the Board of Directors is pleased to submit for your consideration its Consolidated Management Report and Consolidated Accounts, drawn up in accordance with the International Financial Reporting Standards (IAS/IFRS) for Companhia de Seguros Tranquilidade, S.A. for the financial year of 2006.

1 Economic Background

The company carried on its operations in 2006 in an economic context which may be summarized as follows:

Indicators	2006	2005
GDP	1.3	0.4
Consumer spending	1.2	2.1
Public spending	-0.3	2.3
Capital expenditure	-1.7	-3.8
Exports	8.0	0.9
Imports	4.3	1.9
Inflation (RPI)	3.0	2.3
Unemployment	7.7	7.6

2 Brief Overview of the Insurance Sector

In the course of 2006, the Portuguese insurance industry was involved in intense political and legislative activity. In addition to major new legislation, a number of other measures have been proposed for enactment or merely for debate, and in view of their possible repercussions the insurance sector has paid close attention to all these developments.

Coinciding with a moment when the industry is committed to dealing with all the challenges, the financial year of 2006 also brought signs of a turnaround in the economic cycle in the industry, which has been characterized by a decline in underwriting and a worsening, or at least stagnation, of the claims rate.

In terms of direct underwriting, the insurance market recorded further contraction in 2006. Premiums written totalled 13,122 million euros, down by 2.5% on the previous year. The insurance industry's contribution to GDP fell to 8.6%, from a level of 9.1% in 2005.

This was due in part to the performance of the life market which shrank by 4.1%, with premiums written of 8,762 million euros. However, life products had grown by almost 50% in 2005, meaning that the growth over 2004 is still significant (+ 40%). Especially important has been the growth in the contribution made by retirement savings schemes (RSS) and endowment products, which are a major component of household savings. Although representing a smaller proportion of total underwriting, life business still accounted for 67% of premiums written (68% in 2005).

The trends towards slower growth in non-life products continued in 2006. Premiums written totalled 4,360 million euros, up by 1.2% (lower than inflation), representing 33% of the total insurance market and 3% of GDP. These figures reflect a number of difficulties experienced in the recovery of the Portuguese economy, as well as adjustments to tariffs in a number of sectors, especially in those where the claims rate has improved most significantly in recent years. The largest sectors recorded very low or even negative growth, such as employers' liability (-0.7%) and motor insurance (+0.3%). In contrast, health insurance (9.7%) and personal accident insurance (+5.0%) performed well, pointing to the growing importance of this type of products as a complement to public health care provision.

In general terms, the insurance industry expects an improvement in results over the previous year, due not only to the improving capital markets, but also to the effect of the reorganization processes undertaken by various companies over recent years with a view to cutting and containing costs.

3 The Companies Included in the Consolidated Accounts

The following companies are included in the consolidated accounts by the full integration and equity methods:

Parent Company

Companhia de Seguros Tranquilidade, S.A.

Group Companies (Included by full consolidation method)	Effective Holding (%)
ADVANCECARE – Gestão e Serviços de Saúde, S.A.	50.99
ESUMÉDICA – Prestação de Cuidados Médicos, S.A.	75.00
FIDUPRIVATE, S.A.	75.00
HEARTSCAN IBÉRIA - Diagnóstico Imagiológico, S.A.	63.75
T-VIDA, Companhia de Seguros, S.A.	100.00

Associated Companies (Included by the equity method)	Effective Holding (%)
BES, Companhia de Seguros, S.A.	25.00
COMINVEST – Sociedade de Gestão e Investimento Imobiliário, S.A.	24.00
ES CONTACT CENTER – Gestão de Call Centers, S.A.	20.42
ES DATA – Espírito Santo Data, S.G.P.S., S.A.	27.06
EUROP ASSISTANCE – Companhia Portuguesa de Seguros de Assistência, S.A.	24.00

4 Analysis of the Main Indicators Relating to Companies in the Consolidated Accounts in 2006

Parent Company

TRANQUILIDADE, Companhia de Seguros, S.A.

('000 euros)

Investments	761,770	608,146
Total assets	1,001,461	877,384
Shareholders' equity	264,468	196,274
Underwriting provisions	608,383	594,657
Other liabilities	82,767	71,799
Total liabilities	736,993	681,110

('000 euros)

Profit and Loss Account	2006	2005
Gross premiums written	361,381	365,736
Claims – direct insurance	206,687	228,254
Earnings from associated undertakings	182,216	1,705
Returns on investments	24,338	24,544
Other expenditure	124,358	107,554
Net profit for the period	154,343	28,170

In drawing up its financial statements for 2006, and in determining some of the transitional adjustments, Companhia de Seguros Tranquilidade decided to adopt certain transitional rules established in IFRS – First-time adoption of the International Financial Reporting Standards, with reference to preparation of comparative information and application of the IFRS, adopting the transition date of Espírito Santo Financial Group (parent company), 1 January 2004.

In December 2006, Companhia de Seguros Tranquilidade recorded net profits of 154 million euros, up by 447% over 2005.

Direct underwriting premiums totalled 361,297 thousand euros, down on the year by 1.2%. The effect of the new collection law, which led to cancellation of a significant number of policies, together with downwards trend in market tariffs, both made their impact felt on underwriting.

These effects were most noticeable in motor insurance, where the decline of 3.7% in premiums was significant in the total reduction in underwriting. Positive growth was recorded in accidents and health, where premiums were up on the year by 3.2% (personal accident insurance up by 12.9% and health insurance up by 8.6%), whilst comprehensive insurance also recorded growth of 3.2%, with third party insurance premiums growing by 2.2%.

Excluding motor insurance, therefore, Tranquilidade recorded growth in non-life business of 1.1%.

The cost of direct insurance claims totalled 206,687 thousand euros, down by approximately 21,567 thousand euros, and corresponding to a reduction of 9.4% in comparison with 2005.

The most significant variations were recorded in third party insurance (down by 9,040 thousand euros) and motor insurance (down by 7,550 thousand euros); in motor insurance, the company achieved a reduction in both the number and the average cost of claims. The cost of claims in 2006 rose only for the fire and other damage sector (up by 2,625 thousand euros) and the transport sector (up by 1,437 thousand euros).

The claims rate net of reinsurance improved from 69.1% to 67.6% in 2006. Despite this improvement in claims management, there are still opportunities for cost savings through a continuous process of review of closed claims, through changes to settlement and a new approach to negotiating claims.

Underwriting provisions totalled 608,383 thousand euros, with the provision for claims up by 2.9%.

Profits for the period totalled 154,343 thousand euros and include the gain resulting from disposal of 25% of Tranquilidade-Vida, obtained in the course of the reorganization of holdings on 27 June 2006.

The pro-forma net profits, excluding this disposal and costs relating to the early retirement programme, totalled 28,639 thousand euros which, when compared with the profits of 28,170 thousand euros recorded in 2005, represents an improvement of 1.7%.

Group Companies

The accounts of subsidiaries and associates are drawn up in accordance with the Official Plan of Accounts, and in the case of T-Vida, Companhia de Seguros, S.A., Europ Assistance – Companhia Portuguesa de Seguros de Assistência, S.A. and BES, Companhia de Seguros, S.A., with the Official Plan of Accounts for the Insurance Sector.

T-VIDA, Companhia de Seguros, S.A.

('000 euros)

Investments	400,201	n.a
Total assets	478,343	n.a
Shareholders' funds	71,397	n.a
Underwriting provisions	355,228	n.a
Liability for investment contracts	47,437	n.a
Other liabilities	1,339	n.a
Total liabilities	406,946	n.a

('000 euros)

Gross premiums written	23,838	n.a
Earnings on financial operations	746	n.a
Claims	22,518	n.a
Overheads	2,536	n.a
Net profit for the period	1,276	n.a

('000 euros)

Other Indicators	2006	2005
Amounts received under IAS 39	4,921	n.a
Premiums within the scope of IFRS 4	23,838	n.a
Total Premiums – Local Accounts	**28,759**	**n.a**
Amounts paid under IAS 39	996	n.a
Claims within the scope of IFRS 4	22,518	n.a
Total Claims – Local Accounts	**23,514**	**n.a**

n.a. - not applicable.

T-Vida, Companhia de Seguros, S.A., the new insurance company in the Espírito Santo Group, was incorporated on 28 July 2006, in order to carry on life insurance business. The company started trading on 1 August 2006, and it markets life insurance products through the brokers' and branch networks and other channels operated by Companhia de Seguros Tranquilidade. T-Vida acquired the portfolio of policies from BES-Vida for a price of 50 million euros.

As a result, the life insurance business formerly operated by Tranquilidade-Vida (now BES-Vida) through Tranquilidade's network of branches and brokers was transferred to the new company, T-Vida, which currently manages all life insurance policies, for which the guarantees and characteristics previously considered remain in force.

Under the IFRS rules, premiums on insurance contracts with significant risk and participating products are treated under IFRS 4, whilst other products (unit linked and non-participating products) are treated under IAS 39. In relation to accounts for premiums claims and variation in the mathematical provision, products treated under IAS 39 are not recorded as income and costs, but stated at their net value in "Profits on investment contracts".

For the purposes therefore of comparability with the Portuguese market, premiums written under IFRS 4 should be considered in conjunction with those received under IAS 39.

At the end of the year, T-Vida recorded total premiums (including amounts received under investment contracts) of 28,759 thousand euros, with RSS and Risk/Traditional products accounting for 60% and 29%, respectively. These products are strategic to the company in terms of loyalty and higher underwriting margins.

RSS products as a whole performed well in 2006, with the best results recorded by unit linked RSS.

The cost of claims stood at 23,514 thousand euros, with the main focus on RSS and hybrid products, with a significant level of maturities during the year and a significant annuities portfolio.

Significantly, the cost of claims due to death on risk/traditional products was substantially low in relation to the premiums generated.

Underwriting provisions and liabilities for investment contracts totalled 402,665 thousand euros.

The low level of operating costs, including staff costs, is due to the fact that the Company has adopted an operating model in which it outsources tasks in the fields of subscription and portfolio and claims management from BES-Vida.

In connection to staff costs, the company contracted four more employees at the end of the year to work in the business area.

Shareholders' funds had an initial value of 20,000 thousand euros, rising to 71,110 thousand euros at the end of the year. This was influenced by supplementary capital subscriptions of 50,000 thousand euros.

The company recorded net profits of 1,276 thousand euros.

BES, Companhia de Seguros, S.A.

('000 euros)

Investments	65,970	70,091
Total assets	88,919	79,103
Shareholders' funds	24,135	22,378
Underwriting provisions	58,377	51,537
Payables	2,562	2,580
Total liabilities	64,784	56,725

('000 euros)

Gross premiums written	62,188	61,798
Earnings on financial operations	2,730	2,719
Claims net of reinsurance	41,697	41,780
Net operating costs	12,105	11,375
Result of non-life underwriting account	6,007	5,718
Net profit for the period	4,425	4,309

As part of the process of consolidating the partnership between Espírito Santo Financial Group SA and Crédit Agricole, SA in the bancassurance sector in Portugal, Espírito Santo, Companhia de Seguros, SA (Espírito Santo Seguros) changed its name on 27 June 2006 to BES, Companhia de Seguros, SA (BES Seguros). On the same date, a 50% holding in the share capital was taken up by Crédit Agricole, SA, which took over management of the company. The remaining 50% are held by the Banco Espírito Santo Group and by Companhia de Seguros Tranquilidade, SA..

Despite these changes, BES Seguros continued to operate in the bancassurance sector, providing private banking clients with Basic non-life insurance products. Underwriting totalled 49,460 contracts, with a portfolio of approximately 337 thousand contracts in force.

Despite poor growth in gross premiums written, reflecting the trend in the wider non-life insurance market, underwriting results were healthy and control of operating costs allowed BES Seguros to record net profits in 2006 of 4,425 thousand euros, representing 7% of gross premiums written and an increase of 2% over the previous year.

The combined ratio after reinsurance stood at 94.3%, remaining at an excellent level and actually representing an improvement over the figure of 94.7% recorded in 2005.

Shareholders' funds totalled approximately 24,135 thousand euros, up by 8% from 2005.

The Tranquilidade Group has a 25% holding in the company, which has made a positive contribution to consolidated profits of 1,106 thousand euros.

ADVANCECARE – Gestão e Serviços de Saúde, S.A.

('000 euros)

Tangible fixed assets	1,238	1,315
Short term receivables	840	394
Cash and banks	5,144	3,373
Deferred tax assets	635	721
Total assets	9,025	7,154
Shareholders' funds	7,192	5,450
Short term payables	964	1,063
Total liabilities	1,833	1,704

('000 euros)

Income Statement	2006	2005
Services	10,116	9,160
Supplementary income	154	1,042
Third party supplies and services	3,585	4,152
Staff costs	4,441	4,091
Net profit for the period	1,742	1,432

Advancecare started trading 1998, and is primarily engaged in managing healthcare services. It closed the period with profits of approximately 1,742 thousand euros (22% up on 2005), due above all to an increase in business of 956 thousand euros (10% up on 2005). There was also a significant increase in the number of insured persons under Advancecare's management, and the company made a contribution of 634 thousand euros to Tranquilidade's consolidated result.

The Tranquilidade Group owns 50.99% of the share capital, and the other leading shareholders are Companhia de Seguros Vitoria, SA (24%), Münchener Ruecksversicherungs (15%), United Healthcare Corporation (10%) and Banco Espírito Santo, S.A. (0.01%).

EUROP ASSISTANCE – Companhia Portuguesa de Seguros de Assistência, S.A.

('000 euros)

Balance Sheet	2006	2005
Investments	22,626	19,676
Receivables	3,935	2,913
Total assets	28,917	23,803
Shareholders' funds	8,996	8,199
Underwriting provisions	16,356	13,588
Total liabilities	19,921	15,604

('000 euros)

Gross premiums written	25,468	22,220
Claims	16,616	14,315
Net operating costs	5,494	5,101
Result of non-life underwriting account	1,585	1,388
Net profit for the period	1,082	1,060

In 2006 Europ Assistance recorded another year of sustained growth, consolidating its position in the assistance market and maintaining a market share of close to 30%.

Premiums written totalled approximately 25,468 thousand euros, representing growth of 15% over the previous year. Premiums earned net of reinsurance grew by 13.1%.

In business terms, the company gained a number of new major clients whilst maintaining its existing client base, thanks to constant efforts to cultivate loyalty and to offer new products and solutions to respond to the needs of the market.

In terms of human resources, the company took on more staff as a direct result of its expanding business, and special attention was paid to careful recruitment of qualified employees, constant investment in training with a view to upskilling existing resources and an ongoing quest for productivity gains.

The company continued to make efforts to keep its technology up to date, in both IT and telecommunications, whilst conducting strict cost-benefit analyses.

Europ Assistance moved to new offices in 2006, as a result of growth in recent years. The new premises offer improved working conditions for all company staff and most importantly provide an operating platform which will enable the company to achieve further improvements in service standards.

There was a significant rise in claims, consolidating the trend observed in recent years. This has been due to improved public information on assistance services and to weather conditions.

More than 460,000 assistance processes were opened in 2006, and approximately 1,350,000 calls were received.

The directors continue to attach the greatest importance to the management quality system, and Europ Assistance has gained certification under ISO 9001:2000. Then new Risk Management and Internal Control System will be in place by the end of 2007.

Internationally, the Brazilian office again recorded significant profits, and the subsidiary in Argentina recorded a profit for the second year running. The new office in Chile completed its first full year of business, and naturally recorded a small loss.

The company recorded an improvement in financial results, thanks to the investment policy adopted and to the performance of the financial markets. The year was closed with net profits of 1,082 thousand euros. The company is an associate of the Tranquilidade Group which holds a 24% interest, meaning that it made a contribution of approximately 177 thousand euros to the consolidated profits.

ESUMÉDICA – Prestação de Cuidados Médicos, S.A.

('000 euros)

Balance Sheet	2006	2005
Clients – current acounts	830	705
Related undertakings	1,173	1,138
Cash and banks	58	77
Accrued income	541	782
Total assets	2,913	3,069
Shareholders' funds	(123)	579
Provisions	1,515	1,630
Short term payables	1,245	553
Total liabilities	3,036	2,490

('000 euros)

Income Statement	2006	2005
Services	4,547	4,518
Third party supplies and services	2,958	2,926
Staff costs	1,602	1,688
Net profit for the period	(702)	43

Esumédica – Prestação de Cuidados Médicos, S.A. was incorporated on 28 March 1994, with the object of providing health care services, on and off its own premises, and with the possibility of carrying on other related or complementary activities.

It currently operates through two clinical centres, one in Lisbon and one in Oporto, and through a contract network which provides services in various areas of Portugal.

The company's staff increased by 5.8% over the year in order to deal with the growth in operations, especially in occupational health.

The company continued to invest efforts in improving quality and service standards in occupational medicine and in health and safety at work, as well as launching new services.

The net loss of 702 thousand euros is due fundamentally to extraordinary costs relating to complementary retirement pensions.

The Tranquilidade Group owns a 75% holding in the company, which made a negative contribution of approximately 634 thousand euros to the consolidated profits.

HEARTSCAN IBÉRIA – Diagnóstico Imagiológico, S.A.

('000 euros)

Balance Sheet	2006	2005
Short term receivables	121	123
Total assets	127	130
Shareholders' funds	(1,447)	(1,417)
Short term payables	1,569	1,537
Total liabilities	1,574	1,547

('000 euros)

Income Statement	2006	2005
Extraordinary income and gains	5	-
Third party supplies and services	1	1
Depreciation	1	28
Tax	2	2
Extraordinary costs and losses	9	2
Net profit for the period	(30)	(50)

The company started operating in February 1998, and provides services in the field of imaging tests. It made a negative contribution of approximately 23 thousand euros to the consolidated result in 2006.

Esumédica, a Tranquilidade Group company, owns 85% of the share capital.

FIDUPRIVATE, S.A.

('000 euros)

Balance Sheet	2006	2005
Inventories	211	157
Marketable securities	399	399
Cash and banks	112	222
Total assets	927	865
Shareholders' funds	788	732
Total liabilities	139	133

('000 euros)

Income Statement	2006	2005
Services rendered and goods sold	620	751
Cost of goods sold	95	97
Third party supplies and services	100	86
Staff costs	358	416
Net profit for the period	56	145

Fiduprivate is based in the Madeira Free Trade Zone, and was incorporated in June 1994, with Tranquilidade Group holding a 75% interest. The company operates in the provision of services and corporate consultancy, and made a positive contribution of 138 thousand euros to the consolidated result.

COMINVEST – Sociedade de Gestão e Investimento Imobiliário, S.A.

('000 euros)

Investment	3,598	3,479
Receivables	50	1,315
Bank deposits	3,502	2,522
Total assets	7,150	7,316
Shareholders' funds	6,846	6,779
Total liabilities	304	537

('000 euros)

Earnings from investments	84	32
Staff costs	96	96
Depreciation and amortisation	63	60
Third party supplies and services	102	140
Other income	375	356
Net profit for the period	191	92

Cominvest – Sociedade de Gestão e Investimento Imobiliário, S.A. was incorporated on 25 July 1988, in order to let and market properties built or acquired for this purpose. As a property management company, Cominvest concentrates on residential lets.

Rents stayed very low again in 2006 and the company recorded an operating loss of 206 thousand euros, slightly larger than in the previous year.

This situation is expected to continue in future given that, despite the possibility of rising rents, any increase is unlikely to offset operating costs, especially upkeep and maintenance costs which will tend to increase as the company's property assets age.

As in previous years, the company continues to record a positive result, with cash surpluses which have been used in part to acquire further property, the remainder being applied in financial investments which yielded financial income of 84 thousand euros.

The company is an associate of the Tranquilidade Group which owns a 24% interest, and made a positive contribution to the consolidated results of 54 thousand euros.

ES CONTACT CENTER – Gestão de Call Centers, S.A.

('000 euros)

Balance Sheet	2006	2005
Cash and banks	1,293	1,174
Other assets	3,425	3,571
Total assets	5,695	5,821
Shareholders' funds	3,426	3,363
Other liabilities	2,247	2,453
Total liabilities	2,269	2,458

('000 euros)

Staff costs	5,440	5,728
Overheads	3,480	2,910
Depreciation and amortisation	562	551
Net profits for the period	64	375

ES Contact Center – Gestão de Call Centers, S.A. was incorporated on 15 June 2000 and manages call centres for remote handling of customer contacts, by telephone, email or any other form.

Clear signs of recovery in the economy failed to materialize in 2006. As a result, despite a slight increase in activity, the company recorded a small drop in turnover and a significant reduction in margins.

Financial results were positive, totalling 21 thousand euros. The liquidity generated thanks to the collection effort made it possible to make a number of investments which yielded income of 27 thousand euros over the course of the year.

The company recorded net profits of 64 thousand euros, and made a contribution of 53 thousand euros to the consolidated result.

ES DATA – Espírito Santo Data, S.G.P.S., S.A.

('000 euros)

Balance Sheet	2006	2005
Medium/long term receivables	0	444
Short term receivables	501	111
Financial investments	5,050	5,531
Cash and banks	2,418	2,365
Total assets	7,983	8,473
Shareholders' funds	7,835	8,322
Total liabilities	148	151

('000 euros)

Other operating income	220	527
Income from group companies	0	174
Extraordinary income and gains	5	106
Third party supplies and services	73	109
Staff costs	277	371
Net profit for the period	(133)	276

ES Data – Espírito Santo Data, S.G.P.S., S.A. manages holdings in other companies, as an indirect form of carrying on business.

From January to March 2006, ES Data, SGPS, S.A. concentrated on providing administrative, financial and accounting services to its subsidiaries. On 21 March 2006, the company sold its holding in E.S.Innovation which was subsequently converted into a Complementary Company Grouping.

As a result, it no longer made sense to provide shared services, and the human resources allocated to this were transferred to Oblog and the BES by the end of the year.

After the disposal of the holding in E.S.Innovation, Oblog was left as the company's sole subsidiary, with the result that the shared services were discontinued as of 31 March 2006.

No gain or loss was recorded as a result of the disposal of the holding in E.S.Innovation for its nominal value. As a result of the sale, the corresponding amounts recorded using the equity method under assets and shareholders' funds relating to E.S.Innovation were eliminated.

In 2003, part of the company's lending to Oblog Consulting, S.A. corresponding to 2,000 thousand euros, was converted into supplementary capital subscriptions, and therefore recorded as a financial investment. The same procedure was repeated with a sum of 444 thousand euros in the course of 2006.

The company is an associate of the Tranquilidade Group which holds a 27.06% interest, and made a negative contribution to the consolidated results of approximately 21 thousand euros.

5 Consolidated Operations in 2006

TRANQUILIDADE, Companhia de Seguros, S.A.

('000 euros)

Investments	996,999	442,310
Total assets	1,433,271	903,530
Shareholders' funds	268,500	205,419
Underwriting provisions	986,174	616,334
Liabilities for investment contracts	47,437	0
Other liabilities	22,245	16,479
Total liabilities	1,161,040	698,111

('000 euros)

Income Statement	2006	2005
Premiums net of reinsurance	334,113	319,383
Interest and dividend income	22,990	11,191
Earnings from investments	5,130	5,143
Claims net of reinsurance	218,300	208,971
Provision for claims net of reinsurance	3,476	31
Results of associates	18,051	9,631
Other income and expenses	22,459	14,309
Net profit for the period	168,011	37,802

Net profits for the period attributable to shareholders in the parent company total 168,011 thousand euros, which represents growth of 344.5% over the previous year. This was influenced by the gain recorded on the disposal of Tranqulidade's 25% interest in Bes-Vida.

6 Prospects for 2007

In 2007, Companhia de Seguros Tranquilidade will seek to consolidate the sustained growth in its business and at the same time to continue to control its costs and claims ratios, maintaining a combined ratio of below 100%, as in previous years.

Assurfinance results continue to drive the development of the agents' network and customer involvement, and the Company is seeking to increase the number of agents who regularly produce assurfinance business, and consequently boost customer numbers.

In business terms, Tranquilidade is currently implementing a broad set of measures focussing on clients, the product range and channels:

- Retaining clients and building up loyalty (segmentation and relationships);
- Development of product range (new products and simplification);
- Expansion of own network and alternative channels (new franchised shops).

In 2007, the company will continue to renew, affirm and raise the profile of the brand, with a view to deriving maximum advantage from this asset and achieving its objectives. Special attention will also be paid to developing new capabilities in the fields of risk management and internal control.

In short, the main objective for 2007 will be to "win customers", in order to attain the overall targets set for 2005-2007: a larger market share, consolidation of the assurfinance programme and continued control of the combined ratio.

The company is also seeking to lever its net profits, without wasting opportunities to improve the yield on its investment portfolio. A varied package of measures has been planned in this regard, involving a review of property investment and improvements to the composition of the portfolio.

Steps are being taken to consolidate the corporate culture, in order to increase staff motivation and satisfaction, through adequate pay levels, and to provide shareholders with value for their investment.

The Group's new company, T-Vida, is set to invest in its future, with the target of doubling its portfolio and significantly increasing its market share amongst insurance companies operating outside banking channels.

Lisbon, 21 March 2007

The Board of Directors

Luís Frederico Redondo Lopes
(Chairman of the Board of Directors)
Pedro Guilherme Beauvillain de Brito e Cunha
(Chairman of the Executive Board)
Augusto Tomé Pires Fernandes Pedroso
(Member of the Executive Board)
António Miguel Natário Rio-Tinto
(Member of the Executive Board)
Eduardo Antunes Stock
(Member of the Executive Board)
Miguel Maria Pitté Reis da Silveira Moreno
(Member of the Executive Board)
João Carlos Neves Ribeiro
(Member of the Executive Board)
Miguel Luís Kolback da Veiga
António José Baptista do Souto
Manrico Iachia
António Manuel Rodrigues Marques

Consolidated Financial Statements

Consolidated Balance Sheet as at 31 December 2006 and 2005

('000 euros)

	Notes	2006	2005
Assets			
Cash and cash equivalents		720	801
Due from other banks	22	65,709	124,153
Other financial assets at fair value through profit or losss	23	144,912	84,629
Available-for-sale financial assets	24	786,378	233,528
Receivables - direct insurance, reinsurance and other operations	25	84,202	80,691
Tangible assets	26	64,000	64,483
Investment property	27	80,923	92,308
Intangible assets	28	87,881	39,525
Investments in associates	29	12,431	74,880
Underwriting provisions – outwards reinsurance	30	49,406	49,750
Deferred tax assets	31	635	13,645
Current tax assets		334	667
Deferred acquisition costs	30	22,834	21,677
Other assets	32	32,905	22,793
Total Assets		**1,433,271**	**903,530**
Liabilities			
Other loans	33	1,196	-
Payables – direct insurance, reinsurance and other operations	34	61,781	56,123
Liabilities for investment contracts	35	47,437	-
Provisions	36	792	554
Underwriting provisions – direct insurance	30	986,174	616,334
Deferred tax liabilities	31	2,591	-
Current tax liabilities		38,824	8,620
Other liabilities	37	22,245	16,479
Total liabilities		**1,161,040**	**698,111**
Equity			
Capital	38	135,000	135,000
Fair value reserves	38	13,326	21,495
Other reserves and retained earnings	38	(47,837)	11,122
Net profit for the period attributable to shareholders of the parent company	38	168,011	37,802
Total equity attributable to the shareholders of the parent company		**268,500**	**205,419**
Minority interests	39	3,731	-
Total equity	**272,231**	**205,419**	
Total equity and liabilities		**1,433,271**	**903,530**

THE CHIEF ACCOUNTANT
Pedro Medalhas

THE FINANCIAL AND ADMINISTRATIVE MANAGER
Luís Ribeiro

Consolidated Income Statement for the years ended 31 December 2006 and 2005

('000 euros)

	Notes	2006	2005
Premiums earned, net of reinsurance	4	334,113	319,383
Interest and dividends	5	22,990	11,191
Income from assets at fair value through profit or loss	6	1,356	(2,642)
Income from available-for-sale financial assets	7	3,813	5,730
Foreign exchange income	8	(39)	2,055
Commission and similar income	9	77	-
Other income	10	31,634	20,335
Operating income	393,944	356,052	
Claims, net of reinsurance	11	(218,300)	(208,971)
Variation in underwriting provisions, net of reinsurance	12	(3,476)	(31)
Variation in liabilities for investment contracts	13	(623)	-
Impairment of financial assets net of reversal and recovery		568	(460)
Direct insurance commissions, net of reinsurance	15	(26,406)	(28,883)
Staff costs	16	(56,583)	(39,458)
Depreciation and amortisation		(9,399)	(9,277)
Impairment of other assets net of reversal and recovery	14	(2,880)	(446)
Third party supplies and services	18	(38,054)	(27,020)
Taxes	19	(6,215)	(6,286)
Charges on financial investments	20	(528)	(116)
Other costs	21	(9,175)	(6,026)
Operating costs	(371,071)	(326,974)	
Profit on disposal of subsidiaries and associates	2	170,442	-
Profits from associates	2	18,051	9,631
Profits before tax and minority interests		211,366	38,709
Taxes	31	(42,843)	(907)
Net profits for the period		**168,523**	**37,802**
Attributable to minority interests	39	512	-
Attributable to shareholders of the parent company		168,011	37,802
		168,523	**37,802**

THE BOARD OF DIRECTORS

Luís Frederico Redondo Lopes, Pedro Guilherme Beauvillain de Brito e Cunha, Augusto Tomé Pires Fernandes Pedroso, António Miguel Natário Rio-Tinto, Eduardo Antunes Stock, Miguel Maria Pitté Reis da Silveira Moreno
João Carlos Neves Ribeiro, Miguel Luís Kolback da Veiga, António José Baptista do Souto, Manrico Iachia, António Manuel Rodrigues Marques

Statement of Changes in Consolidated Equity
for the years ended 31 December 2006 and 2005

('000 euros)

	Capital	Fair Value Reserves	Other Reserves and Retained Earnings	Net Profit for the Period Attributable to Shareholders of the Parent Company	Total Equity Attributable to Shareholders of the Parent Company	Minority Interests	Total Equity
Balance at 1 January 2005	135,000	20,044	11,086	-	166,130	-	166,130
Transfer to reserves	-	1,451	36	-	1,487	-	1,487
Net profit for the period	-	-	-	37,802	37,802	-	37,802
Balance at 1 January 2006	135,000	21,495	11,122	37,802	205,419	-	205,419
Transfer to reserves	-	-	17,802	(17,802)	-	-	-
Other variations	-	-	-	-	-	3,219	3,219
Dividends distributed	-	-	(76,761)	(20,000)	(96,761)	-	(96,761)
Changes in fair value, net of tax	-	(8,169)	-	-	(8,169)	-	(8,169)
Net profit for the period	-	-	-	168,011	168, 011	512	168,523
Balance at 31 December 2006	135,000	13,326	(47,837)	168,011	268,500	3,731	272,231

The explanatory notes attached are an integral part of these financial statements.

THE CHIEF ACCOUNTANT
Pedro Medalhas

THE FINANCIAL AND ADMINISTRATIVE MANAGER
Luís Ribeiro

Statement of Consolidated Cash Flows

('000 euros)

	2006	2005
Cash flows from operating activities		
Net profit for the period	168,011	37,802
Adjustments for:		
Depreciation and amortisation for the period	9,399	9,277
Variation in underwriting provisions for insurance contracts	(8,289)	34,922
Variation in liabilities for investment contracts	35,376	-
Variation in provisions	(56)	(797)
Variation in underwriting provisions for outwards reinsurance	1,633	(6,302)
Impairment of financial assets net of reversal and recovery	(568)	460
Impairment of other assets net of reversal and recovery	2,880	446
Variation in deferred acquisition costs	(1,157)	676
Variation in deferred tax assets	13,487	741
Variation in deferred tax liabilities	2,591	-
Variation in fair value reserves	(8,169)	1,451
Variations in operating assets and liabilities		
Receivables – direct insurance, reinsurance and other operations	(291)	1,062
Other loans	1,116	-
Other assets	(7,595)	(87)
Other liabilities	3,874	(7,798)
Payables – direct insurance, reinsurance and other operations	3,875	(8,081)
Variation in current tax assets	453	(2)
Variation in current tax liabilities	29,811	(2,119)
	246,381	**61,651**
Cash flows from investing activities		
Effect of acquisition of assets and liabilities of undertakings acquired	(7,797)	-
Variations in financial assets at fair value through profit or loss	(58,416)	(26,323)
Variations in available-for-sale financial assets	(552,242)	(64,751)
Investments in associates	62,449	(12,408)
Acquisitions of tangible assets	(4,516)	(1,065)
Disposals of tangible assets	1,451	140
Acquisitions of intangible assets	(54,202)	(8,496)
Acquisitions of investment property	(6,651)	(12,868)
Disposals of investment property	18,036	-
Dividends paid	(96,761)	-
Bank deposits	448,456	63,878
Other variations	-	36
	(250,193)	**(61,857)**
Cash flows from financing activities		
Minority interests	3,731	-
	3,731	**-**
Net variation in cash and cash equivalents	**(81)**	**(206)**
Starting cash and cash equivalents	801	1,007
Closing cash and cash equivalents	**720**	**801**

THE BOARD OF DIRECTORS

Luís Frederico Redondo Lopes, Pedro Guilherme Beauvillain de Brito e Cunha, Augusto Tomé Pires Fernandes Pedroso, António Miguel Natário Rio-Tinto, Eduardo Antunes Stock, Miguel Maria Pitté Reis da Silveira Moreno
João Carlos Neves Ribeiro, Miguel Luís Kolback da Veiga, António José Baptista do Souto, Manrico Iachia, António Manuel Rodrigues Marques

Notes to the Consolidated Financial Statement as at 31 December 2005 and 2006

(Figures in thousand euros, except as otherwise stated)

Note 1 - Group Operations and Structure

The following table presents the Group's main subsidiaries and associates as at 31 December 2006:

('000 euros)

Name/Registered Offices	Classification	Holding				Equity	Profits 2006
		Direct	Indirect	Voting Rights	Effective		
Companhia de Seguros Tranquilidade, S.A. Av. da Liberdade, 230 1250-149 Lisboa	Parent company	-	-	-	-	264,468	154,343
T-Vida, Companhia de Seguros, S.A. Av. da Liberdade, 230 1250-149 Lisboa	Subsidiary	100.00%	-	100.00%	100.00%	71,397	1,276
Advancecare – Gestão e Serviços de Saúde, S.A. Avenida da Liberdade, 49 a 57, 1º 1250-139 Lisboa	Subsidiary	50.99%	-	50.99%	50.99%	7,192	1 742
Esumédica – Prestação de Cuidados Médicos, S.A. Avenida da Liberdade, 242 1250-149 Lisboa	Subsidiary	75.00%	-	75.00%	75.00%	(123)	(702)
Heartscan - Ibéria Diagnóstico Imagiológico, S.A. Avenida da Liberdade, 11 - 1º 1250-139 Lisboa	Subsidiary	-	63.75%	63.75%	63.75%	(1,447)	(30)
Fiduprivate, S.A. Rua Dr. Brito Câmara, 7 9000-039 Funchal	Subsidiary	75.00%	-	75.00%	75,00%	788	56
BES, Companhia de Seguros, S.A. Av. da Liberdade, 230 1250-149 Lisboa	Subsidiary	25.00%	-	25.00%	25.00%	24,135	4,425
Cominvest – Soc. Gestão e Inv. Imobiliário, S.A. Rua Alexandre Herculano, 38 1269-161 Lisboa	Associate	24.00%	-	24.00%	24.00%	6,845	191
Espírito Santo Data, SGPS, S.A. Rua da Fraternidade Operária, 5 2799-501 Carnaxide	Associate	27.05%	0.01%	27,06%	27.06%	7,835	(132)
Espírito Santo Contact Center, S.A. Av. Infante D. Henrique, 343 - C 1800-218	Associate	20.42%	-	20.42%	20.42%	3,426	64
Europ Assistance, S.A. Av. Álvares Cabral, 41 - 3º e 4º 1250-015 Lisboa	Associate	24.00%	-	24.00%	24.00%	8,996	1,082

The following changes to Group structure took place during the financial year of 2006:

- In January 2006, Tranquilidade acquired from BES-Vida, Companhia de Seguros, S.A. ("BES-Vida") its holdings in Fiduprivate, S.A., Espírito Santo Contact Center, S.A., ESDATA, S.G.P.S., S.A., Cominvest Sociedade de Gestão e Investimentos Imobiliários, S.A. and Europ Assistance, S.A.;

- In May 2006, Tranquilidade acquired from BES-Vida its holdings in Esumédica-Prestação de Cuidados Médicos, S.A. and Heartscan Ibéria - Diagnóstico Imagiológico, S.A.;

- In June 2006, Tranquilidade acquired from BES-Vida its holding in Advancecare – Gestão e Serviços de Saúde, S.A.

In June 2006, Companhia de Seguros Tranquilidade disposed of its holding in BES-Vida (the former Companhia de Seguros Tranquilidade Vida), realising a capital gain of 170,442 thousand Euros (see Note 2).

On 1 August 2006, following on from the agreements signed between BES-Vida, Companhia de Seguros, S.A., T-Vida, Companhia de Seguros, S.A., BESPAR, Sociedade Gestora de Participações Sociais, S.A., Crédit Agricole, S.A. and Banco Espírito Santo, S.A., T-Vida acquired from BES-Vida its position in the contracts brought in through the branch and brokers' network of Companhia de Seguros Tranquilidade, S.A., including all the rights, obligations and guarantees deriving from these contracts, for a price of Euros 50.000.000 (see note 40).

Note 2 - Main Accounting Policies

2.1 Basis of Presentation

Up to 31 December 2005, the financial statements of Companhia de Seguros Tranquilidade, S.A. were drawn up in accordance with the accounting principles laid down in the Plan of Accounts for Insurance Companies ("PAIC") and other rules issued by the Portuguese Insurance Institute.

The financial statements now presented for Tranquilidade relate to the financial years ending 31 December 2006 and 2005 and were drawn up in accordance with the International Financial Reporting Standards ("IFRS") as adopted in the European Union up to 31 December 2006.

The IFRS include the accounting standards issued by the International Accounting Standards Board ("IASB") and the interpretations issued by the International Financial Reporting Interpretation Committee ("IFRIC"), and by the respective predecessor bodies.

Amounts shown in these financial statements are in thousands of euros, rounded up to the nearest thousand. The statements have been drawn up in accordance with the historical cost principle, except for assets and liabilities at fair value, namely financial derivatives, financial assets and liabilities at fair value through profit or loss, available-for-sale financial assets and investment property.

The preparation of financial statements under the IFRS requires the Group to make estimates and assumptions that affect the application of accounting policies and the value of items reported under income, costs, assets and liabilities. Alterations to these assumptions or differences between the assumptions and the real situation may have an impact on current estimates and judgements. The areas where the greatest degree of judgement or complexity is involved or where significant assumptions or estimates are used in preparing the consolidated financial statements are analysed in Note 3.

These financial statements were approved at the meeting of the Board of Directors of 21 March 2007.

Transition to IFRS

In preparing the consolidated financial statements as at 31 December 2006 and in determining the transition adjustments, the Group decided to adopt certain transitional rules contained in IFRS 1 – First time adoption of International Financial Reporting Standards, relating to the preparation of comparative information and retrospective application of the IFRS. The Group adopted the transition date of Espírito Santo Financial Group (parent company), 1 January 2004.

The Group has adopted the IFRS retrospectively.

An analysis of the impacts of transition to IFRS on the Group's financial affairs and performance is presented in Note 41.

2.2 Consolidation principles

The consolidated accounts presented herewith reflect the assets, liabilities and result of Tranquilidade and its subsidiaries ("Group" or "Tranquilidade Group") and the results attributable to the Group in respect of financial holdings in associates.

Accounting policies were applied consistently across the Group.

Subsidiaries

Subsidiaries are those undertakings over which the Group exercises control. Undertakings are normally presumed to be under Group control when the Group has powers to exercise a majority of voting rights. Control may also exist when the Group has the power directly or indirectly to manage the financial and operational policy of a given undertaking so as to obtain benefits from its activities, even if its percentage equity holding in the undertaking is less than 50%.

Subsidiaries are fully consolidated from the time the Group takes control of their affairs to the moment such control ceases.

When the accrued losses of a subsidiary are greater than the minority interest in the equity capital of the subsidiary, such surplus is attributable to the Group as it is incurred. Subsequent profits obtained by the same subsidiary are recognised as income of the Group until the losses previously absorbed are recovered.

Associates

Associates are those undertakings where the Group has power to exert significant influence over their financial and operating policies, but which it does not control. It is normally presumed that the Group has significant influence when it has powers to exercise more than 20% of the voting rights. Even when the Group holds less than 20% of the voting rights, it may still have significant influence through participation in the management of the associate or through the appointment of executive directors. Investments in associates are consolidated by the equity method, from the moment the Group acquires significant influence to the moment such influence ceases.

When the value of the accrued losses incurred by an associate and attributable to the Group is equal to or greater than the book value of the holding and any other medium and long term interests in the associate, the equity method is not applied, except if the Group has the legal or constructive obligation to recognise these losses or has made payments on behalf of the associate.

Goodwill

The Group records acquisitions of subsidiary and associated undertakings using the purchase method. The acquisition cost corresponds to the fair value determined at the date of purchase of the assets transferred and the liabilities incurred or accepted, plus the costs directly attributable to the acquisition

Goodwill represents the difference between the acquisition cost of the holding determined in this manner and the fair value attributable to the net assets acquired.

Positive goodwill is recorded under assets at cost value and is not depreciated, in accordance with IFRS 3 – Business Combinations. In the case of investments in associates, goodwill is included in the respective balance sheet value determined on the basis of the equity method. Negative goodwill is recognised directly in the results for the period when the acquisition takes place.

The recoverable value of goodwill recorded under assets is estimated annually, irrespective of whether there are signs of impairment. Any impairment losses determined are recognised in the income statement.

Translation of financial statements in foreign currencies

The financial statements of each of the Group's subsidiaries and associates are drawn up in their operating currency, which is defined as the currency of the economy where these subsidiaries and associates operate. The Group's consolidated financial statements are prepared in euros, which is the operating currency of the Company, its subsidiaries and associates.

Balances and transactions eliminated in the consolidation process

Balances and transactions between Group companies, including any unrealised gains or losses resulting from intra-group operations, are eliminated during the consolidation process, except in cases where unrealised losses suggest the existence of impairment which should be recognized in the consolidated accounts.

Unrealised gains resulting from transactions with associated entities are eliminated in proportion to the Group's holding in these undertakings. Unrealised losses are also eliminated, but only where they do not suggest the existence of impairment.

2.3 Foreign currency operations

Foreign currency operations are translated at the Exchange rate ruling at the transaction date. Monetary assets and liabilities expressed in foreign currencies are translated into euros at the Exchange rate ruling on the balance sheet date. Exchange rate differences resulting from translation are recognised in the income statement.

2.4 Financial derivative instruments

Financial derivative instruments are recognised at the trade date, at their fair value. Subsequently, the fair value of financial derivatives is revalued on a regular basis, and the gains or losses resulting from such revaluation are recorded directly in the results for the period.

The fair value of financial derivatives corresponds to their market value, if any, or else is determined on the basis of valuation techniques including discounted cash flow models and option valuation models, as appropriate.

Embedded derivatives

Derivatives embedded in other financial instruments are treated separately when their economic characteristics and risks are not related to the main instrument and the main instrument is not carried at its fair value through profit or loss. These embedded derivatives are recognised at fair value with variations recognised in profit or loss.

2.5 Other financial assets

Classification

The Group classifies its other financial assets on acquisition, considering the underlying intention, using the following categories:

- **Financial assets at fair value through profit or loss**

  This category includes: (i) trading assets, which are acquired with the prime objective of trading in the short term, and (ii) financial assets designated on initial recognition as being at fair value with variations recognized in profit or loss.

  On initial recognition, the Group designates certain financial assets as being at fair value through profit or loss when:

  - These financial assets are managed, valued and analyzed internally on the basis of their fair value;
  - Such designation eliminates an accounting mismatch; or
  - Such financial assets contain embedded derivatives.

- **Available-for-sale investments**

  Available for sale investments are non-derivative financial assets which: (i) the Group intends to maintain for an indeterminate period of time, (ii) which are designated as available for sale when initially recognised or (iii) which do not fit into the above category.

Recognition, initial measurement and derecognition

Acquisitions and disposals of: (i) financial assets at fair value through profit or loss, and (ii) available-for-sale financial assets are recognised at the trade date, i.e. on the date when the Group undertakes to acquire or dispose of the asset.

Financial assets as initially recognised at their fair value plus the transaction costs, except in the case of financial assets at fair value through profit or loss, where these transaction costs are directly recognised in profit or loss.

These assets are derecognised when (i) the Group's contractual rights to receive their cash flows expire, (ii) the Group has transferred substantially all the risks and benefits associated with holding them or (iii) although it retains some but not substantially all the risks and benefits associated with holding the assets, the Group has transferred control over them.

Subsequent measurement

After initial recognition, financial assets at fair value with recognition in profit or loss are valued at their fair value, the variations being recognised in profit or loss.

Investments held for sale are also recorded at fair value, although the respective variations are recognised in reserves, until the investments are derecognised or until an impairment loss is identified, when the accrued value of the potential gains and losses recorded in reserves is transferred to profit or loss. Exchange rate variations associated with these investments are also recognised in reserves, in the case of shares, and in profit or loss, in the case of debt instruments. Interest, calculated at the effective interest rate, and dividends are also recognised in the income statement.

Investments held to maturity are valued at amortised cost, on the basis of the effective rate method and impairments losses are deducted.

The fair value of listed financial assets is the current bid price. When there is no listing, the Group estimates fair value using (i) valuation methods, such as the prices of recent similar transactions, carried out at market conditions, discounted cash flow techniques and customised option valuation models in order to reflect the particularities and circumstances of the instrument, and (ii) valuation assumptions based on market information.

Financial instruments for which the fair value cannot be reliably measured are recorded at cost.

Transfers between categoriess

In accordance with the requirements of IAS 39, the Group does not transfer financial instruments from and to the category of financial assets at fair value through profit or loss.

Impairment

The Group regularly assesses whether there is objective evidence that a financial asset, or set of financial assets, presents signs of impairment. For financial assets which present signs of impairment, the respective recoverable value is determined, and impairment losses are recorded against profit or loss.

A financial asset, or set of financial assets, is impaired whenever there is objective evidence of impairment resulting from one or more events occurring after initial recognition, such as: (i) for listed securities, continuing or significant depreciation in the listed price, and (ii) for unlisted securities, when such event (events) has an impact on the estimated value of the future cash flows of the financial asset, or set of financial assets, which may reasonably be estimated.

In the case of held-to-maturity investments, impairment losses correspond to the difference between the book value of the asset and the current value of the estimated future cash flows (considering the recovery period) discounted at the original effective interest rate of the financial asset. These assets are stated under assets, net of impairment. In the case of an asset with a variable interest rate, the interest rate to be used to determine the respective impairment rate is the current effective interest rate, determined on the basis of the rules of each contract. In relation to held-to-maturity investments, if in a subsequent period the impairment loss diminishes, and such reduction may be objectively related to an even which occurred after recognition of impairment, such impairment is reversed against the profit or loss for the period.

When there is evidence of impairment in available-for-sale financial assets, the potential loss accrued in reserves, corresponding to the difference between the acquisition cost and the current fair value, less any impairment loss on the asset previously recognised in profit or loss, is transferred to profit or loss. If in a subsequent period, the value of the impairment loss diminishes, the impairment loss previously recognised is reversed against the profit or loss of the period until the acquisition cost is restored, if the increase is objectively related to an event occurring after recognition of the impairment loss, except in the case of shares or equity instruments, in which case the reversal of impairment is recognised in reserves.

2.6 Financial liabilities

An instrument is classified as a financial liability when there is a contractual obligation for it to be settled through payment in cash or any other financial asset, irrespective of legal form.

Non-derivative financial liabilities include liabilities for investment contracts, loans, creditors for direct insurance and reinsurance operations and other liabilities. These financial liabilities are recorded (i) initially at their fair value less the transaction costs incurred and (ii) subsequently at amortised cost, on the basis of the effective interest rate method, except for liabilities for investment contracts where the investment risk is taken by the policy holders, which are carried at fair value.

2.7 Set-off of financial instruments

Financial assets and liabilities are presented in the balance sheet at their net value then there is the legal possibility of setting off the amounts already recognised and there is the intention of settling them at their net value or to realise the asset and settle the liability simultaneously.

2.8 Tangible assets

The Group's tangible assets are valued at cost less respective accrued depreciation and impairment losses. As stated in Note 2.1, at the IFRS transition date, the Group opted to consider as a cost of its property in own use the respective fair value determined at the transition date.

Subsequent costs relating to tangible assets are recognised only if it is likely that they will result in future economic benefits for the Group. All maintenance and repair expenses are recognised as costs, on an accruals basis.

Land is not depreciated. Tangible assets are depreciated on a straight line basis, at the following rates which reflect the expected useful life of the assets:

	Number of Years
Property in own use	37 a 45
IT equipment	3 a 4
Furniture and materials	6 a 10
Interior fittings	10
Machinery and tools	4 a 8
Vehicles and transport	4
Other equipment	3 a 8

The expected useful life of the assets is reviewed on each balance sheet date and adjusted, if appropriate, in accordance with the expected consumption pattern for the future economic benefits expected to be obtained from continued use of the asset.

When there are signs of possible impairment, IAS 36 requires that the recoverable value of the asset be estimated, and an impairment loss must be recognized whenever the net value of the asset exceeds its recoverable value. Impairment losses are recognized in the income statement for assets carried at cost.

The recoverable value is determined as the highest of the net sales price and the value of use, the latter being calculated on the basis of the current value of estimated future cash flows expected to be obtained from continued use of the asset and from its disposal at the end of its useful life.

2.9 Investment property

The Group classifies property held for let or for capital appreciation, or both, as investment property.

Investment property is recognised initially at acquisition cost, including the directly related transaction costs, and subsequently at fair value. Variations in fair value determined at each balance sheet date are recognised in profit or loss. The fair value of investment properties is determined through independent valuations conducted on a regular basis. Investment property is not depreciated.

Related subsequent expenditure is capitalized when it is likely that the Group will obtain future economic benefits in excess of the performance initially estimated.

2.10 Intangible assets

Value in force (VIF) is recognised as an intangible asset and is depreciated over the period in which the income associated with the policies acquired is recognised. VIF corresponds to the estimated current value of future cash flows from contracts in force at the acquisition date.

The costs incurred with the acquisition of software are capitalised, as are the additional expenses necessary for implementation of the software borne by the Group. These costs are depreciated on a straight line basis over the expected useful life of the assets (3 to 15 years).

Costs directly relating to production of IT products developed by the Group, where these products may be expected to generate future economic benefits over more than one financial year, are recognised and recorded as intangible assets.

Software development costs, recognised as assets, are depreciated on a straight line basis over the respective expected useful life, which in most cases is not greater than 3 years.

Software maintenance costs are recognised as costs when incurred.

2.11 Leases

The Group classifies lease operations as finance leases or operating leases, depending on the substance and not the legal form of the lease, in line with the criteria defined in IAS 17 – Leases. Finance leases are considered to be those where the risks and benefits of ownership are transferred to the lessee. All other leases are classified as operating leases.

Operating leases

Payments made by the Group under operating leases are recorded as costs in the periods to which they relate.

Finance leases

Finance leases are recorded at their starting date, under assets and liabilities, for the acquisition cost of the leased property, which is equivalent to the current value of the future rentals. Rentals comprise (i) the financial charge debited from results and (ii) capital repayments which are deducted from liabilities. Financial charges are recognised as costs over the lease period, in order to produce a constant periodic interest rate on the remaining liabilities in each period.

2.12 Employee benefits

Pensions

In view of the liabilities accepted by the Group in connection with the Collective Employment Contract for the Insurance Sector, the CCT Pension Fund has been set up, which is intended to cover all liabilities for old age, invalidity and survivors' pensions.

The pension plans within the Group correspond to defined benefit plans, given that they define the criteria for determining the value of the pension which the Company employees may receive during retirement, usually depending on one or more factors such as age, years of service and pay.

In the light of IFRS 1, the Group has opted at the transition date, 1 January 2004, to apply IAS 19 retrospectively, and has recalculated the actuarial gains and losses which may be deferred in the balance sheet in accordance with the corridor method provided for in IAS 19.

The Group's liabilities for retirement pensions are calculated annually by actuaries, at the date of close of the accounts, individually for each plan, on the basis of the Project Credit Unit Method. The discount rate used in this calculation is determined on the basis of the market rates associated with high rated corporate bonds, denominated in the currency in which the benefits will be paid and with a maturity similar to that of the obligations in the plan.

Actuarial gains and losses, determined annually, as the result (i) of difference between actuarial and financial assumptions used and actual amounts and (ii) changes in actuarial assumptions, are recognised as an asset or liability and the accrued value is imputed to profit or loss on the basis of the corridor method.

This method establishes that deferred actuarial gains and losses accrued at the start of the year, which are 10% greater than the greater of the total liabilities and the value of the fund, also as at the start of the year, are imputed to profit or loss during a period which cannot exceed the life of the remaining services of the employees covered by the plan. The Group has determined that actuarial deviations are depreciated over a 15 year period. Accrued actuarial gains and losses within this limit are not recognised in profit or loss.

The increase in the costs of past services deriving from retirement prior to the age of 65 years (early retirement) is recognised in profit and loss when incurred.

The Group makes payments to the fund in order to assure its solvency, and the minimum levels are fixed as follows: (i) full financing at the end of each period of actuarial liabilities for pensions payable and (ii) financing of a minimum level of 100% of the actuarial value of liabilities for the past services of current employees.

Health benefits

In addition, the Group has granted health care benefits to its current employees and to those on early retirement, up to retirement age.

The Group's obligations relating to health care benefits attributable to those on early retirement up to retirement age are calculated and recorded in broadly the same way as pensions.

Employee profit sharing

In addition, the Group has granted health care benefits to its current employees and to those on early retirement, up to retirement age.

The Group's obligations relating to health care benefits attributable to those on early retirement up to retirement age are calculated and recorded in broadly the same way as pensions.

2.13 Tax on profits

Tax on profits comprise current taxes and deferred taxes. Taxes on profits are recognised in results, except when relating to items which are recognised directly in equity accounts, in which case they are also recorded against shareholders' funds. Deferred taxes recognised in shareholders' funds deriving from revaluation of available-for-sale investments are subsequently recognised in results when the gains or losses to which they give rise are recognised in results.

Current taxes are those which are expected to be paid on the basis of the taxable income determined in accordance with the fiscal rules in force and using the tax rate approved or substantially approved in each jurisdiction.

Deferred taxes are calculated in accordance with the liabilities method on the basis of the balance sheet, on the temporary differences between the book values of assets and liabilities and their fiscal base, using tax rates approved or substantially approved at the balance sheet date in each jurisdiction and which are expected to be applied when temporary differences are reversed.

Deferred tax liabilities are recognised for all temporary taxable differences with the exception of goodwill not deductible for fiscal purposes, of the differences resulting from initial recognition of assets and liabilities which do not affect either the accounting profit or the fiscal profit, and differences relating to investments in subsidiaries insofar as they will probably not be reversed in future. Deferred tax assets are recognised only insofar as it is may be expected that taxable profits will exist in future capable of absorbing the temporary deductible differences.

2.14 Provisions

Provisions are recognised when (i) the Group has a present obligation, legal or constructive, (ii) it is likely that payment of this obligation will be required and (iii) when the value of this obligation can be reliably estimated.

2.15 Recognition of interest

Results relating to interest on financial instruments measured at amortised cost and on available-for-sale financial assets are recognised under interest and similar income using the effective rate method. Interest on financial assets at fair value through profit or loss are also included in the account for interest and similar income.

The effective interest rate is the rate which discounts precisely the future payments or receipts estimated during the expected life of the financial instrument or, when appropriate, a shorter period, for the current net balance sheet value of the financial asset or liability.

In order to calculate the effective interest rte, the future cash flow are estimated, considering all the contractual terms of the financial instrument (for instance, early payment options), not considering, however, any future credit losses. The calculation includes commissions which may be an integral part of the effective interest rate, transaction costs and all premiums and discounts directly related to the transaction.

In the case of financial assets or sets of similar financial assets for which impairment losses have been recognised, interest recorded in profit or loss is determined on the basis of the interest rate used in measuring the impairment loss.

For financial derivatives, the interest rate component relating to the variation in fair value is not separate and is classified under income from assets and liabilities at fair value through profit or loss.

2.16 Dividends received

Earnings on equity instruments (dividends) are recognised when received.

2.17 Insurance contracts

The Group issues contracts which include insurance risk, financial risk or a combination of insurance and financial risks. A contract in which the Group accepts a significant insurance risk from another part, agreeing to compensate the insured in the event of a specific uncertain future event which may adversely affect the insured is classified as an insurance contract.

A contract issued by the Group where the risk is essentially financial and where the insurance risk accepted is not significant, but where there is discretionary participation in the profits assigned to the insured, is considered as an investment contract and recognised and measured in accordance with the accounting policies applicable to insurance contracts. A contract issued by the Group which merely transfers the financial risk, without discretionary profit sharing, is recorded as a financial instrument.

Financial assets held by the Group to hedge against liabilities deriving from insurance and investment contracts are classified and accounted for in the same way as the Group's other financial assets.
Insurance contracts and participating investment contracts are recognised and measured as follows:

Premiums

Gross premiums written are recorded as income in the period to which they relate, irrespective of when they are paid or received.

Outwards reinsurance premiums are recorded as costs in the period to which they relate in the same way as gross premiums written.

Acquisition costs

Acquisition costs which are directly or indirectly related to the sale of insurance contracts are capitalised and deferred for the life of the contracts. Deferred acquisition costs are subject to recoverability tests when the contracts are issued and subject to impairment testing at the balance sheet date.

Provision for claims

The provision for claims corresponds to the costs of claims incurred and not yet settled, together with estimated liability for claims incurred but not reported. Claims incurred but no reported are estimated on the basis of past experience, using statistical methods. Provisions for claims are not discounted.

The mathematical reserves for claims incurred, involving payment of life pensions, for the employers' liability sector, are calculated using actuarial tables and formulae, established by the Portuguese Insurance Institute, with reference to recognised actuarial methods and the employment legislation in force.

Provision for unexpired risks

The provision for unexpired risks corresponds to the amount estimated as necessary to cover likely compensation and charges payable after the end of the period, in excess of the value of unearned premiums, premiums payable on the contracts in force ad premiums renewing in January of the following year.

Mathematical provision

Mathematical provisions record thee current value of the Group's future liabilities in relation to insurance and participating investment contracts issued and are calculated on the basis of actuarial methods recognised in the relevant current legislation.

Provision for profit sharing

The provision for profit sharing corresponds to the amounts allocated to insureds or beneficiaries of contracts, in the form of profit sharing, but not yet distributed, namely through inclusion in the mathematical provision for contracts.

Liability adequacy test

At the balance sheet date, the Group tests the adequacy of liabilities deriving from insurance and participating investment contracts. The adequacy of liabilities is tested on the basis of projection of the future cash flows associated with each contract, discounted at the market interest rate without risk. This assessment is carried out product by product or on an aggregated basis when the product risks are similar or managed jointly. Any deficiency found is recorded in results against the mathematical provision.

Shadow accounting

As required by IFRS 4, unrealised gains and losses on financial assets allocated to the liabilities for insurance and participating investment contracts are assigned to the policy holders, on the basis of the expectation that they will share in these unrealised gains and losses when they are realised in accordance with the relevant contractual and regulatory provisions, through recognition of a liability.

2.18 Segment reporting

A business segment is a set of assets and operations which are subject to specific risks and benefits different from other business segments.

A geographical segment is a set of assets and operations located in a specific economic environment which is subject to risks and benefits which are different from other segments which operate in other economic environments.

The Group has opted not to present segmented financial information as it is not subject to compulsory application of IAS 14 – Segment reporting. However, information is provided on premiums and claims by business segment in the respective notes to the financial statements.

2.19 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include amounts recorded in the balance sheet with a maturity of less than three months from the balance sheet date, including cash and liquid funds in banks.

Note 3 - Main Estimates and Judgements Made in Preparing the Financial Statements

The IFRS establish a series of accounting procedures and require the Board of Directors to use their judgement and to effect the estimates needed in order to decide which accounting procedure is most appropriate. Then main accounting estimates and judgements used in applying accounting principles by the Group are analysed as follows, in order to provide a clearer picture of how their application affects the results reported by the Group and disclosure of these results. A more detailed description o the main accounting policies used by the Group is provided in Note 2 to the consolidated financial statements.

Considering that in many situations there are alternatives to the accounting procedure adopted by the Board of Directors, the results reported by the Group could be different had a different procedure been chosen. The Board of Directors considers that the choices made are appropriate and that the financial statement provide a true and fair view of the state of the Group's affairs and of its operations in all materially relevant aspects.

The results of the alternatives analysed below are presented only to help the reader understand the financial statements and are not designed to suggest that other alternatives or estimates are more appropriate.

3.1 Impairment of available-for-sale financial assets

The Group determines that its available-for-sale assets are impaired when there is a continued or significant depreciation in their fair value. Determination of continued or significant depreciation requires judgement. In exercising its judgement, the Groups assesses the normal volatility of share prices, amongst other factors.

In addition, valuations are conducted through market prices or valuation models which require the use of given assumptions or judgement in establishing estimates of fair value.

Alternative methods and the use of different assumptions and estimates could result in a different level of impairment losses being recognised, with the consequent impact on the Group's results.

3.2 Fair value of financial derivatives

Fair value is based on listed market prices, when available, and for unlisted securities the fair value is determined on the basis of the prices of recent similar arm's length transactions or else on the basis of assessment methodologies, based on discounted future cash flow techniques considering the market conditions, the effect of time, the yield curve and volatility factors. These methods may require the use of assumptions or judgements in the estimation of fair value.

Consequently, the use of different methods or different assumptions or judgements in applying a given model could result in different financial results from those reported.

3.3 Special Purpose Entities

The Group does not consolidate the Special Purpose Entities under its control, Given that it can be difficult to determine whether an SPE is controlled, a judgement is made to determine whether the Group is exposed to the risks and benefits associated with the SPE activities and whether it has decision making powers in the SPE. The decision on whether an SPE should be consolidated by the Group requires the use of assumptions and estimates in order to determine the residual gains and losses and to determine who retains the majority of these gains and losses. Other assumptions and estimates could cause the Group to include/exclude different entities in/from its consolidated accounts, with a direct impact on its results.

3.4 Tax on profits

The Group is subject to payment of tax on profits in various jurisdictions. Determination of the total tax on profits requires given interpretations and estimates. There are various transactions and calculations for which determination of the final value of tax is uncertain during the normal business cycle.

Other interpretations and estimates could result in a different level of tax on profits, current and deferred, recognised in the period.

The Tax Authorities have powers to review the calculation of taxable income as self-assessed by the company and its subsidiaries, during a period of four years, or six years, in the event of there being losses to carry forward. It is therefore possible that adjustments will be made to the taxable income, resulting mainly from differences in interpretation of fiscal legislation. However, the directors of Tranquilidade and its subsidiaries are confident that there will be no significant corrections to the taxes on profits recorded in the financial statements.

3.5 Pensions and other employee benefits

Determination of liabilities for retirement pensions require the use of assumptions and estimates, including the use of actuarial projections, estimates yield on investments and other factors which may have an impact on the costs and liabilities of the pension plan. Alterations to these assumptions could have a significant impact on the figures determined.

3.6 Underwriting provisions and liabilities relating to investment contracts

Future liabilities deriving from insurance and participating investment contracts are recorded in the account for underwriting provisions. Underwriting provisions relating to traditional life products have been determined on the basis of various assumptions, including mortality, longevity and interest rate, applicable to each individual case. The assumptions used have been based on the past experience of the Group and the market. These assumptions may be reviewed if it is determined that future experience confirms that they are inappropriate. The underwriting provisions deriving from insurance and participating investment contracts include (1) mathematical provision, (2) provision for profit sharing, (3) provision for claims. The mathematical provision includes the deficiency resulting from the liability adequacy test.

When there are claims caused by or against policy holders, any amount paid or estimated to be paid by the Group is recognised as a loss in results. The Group establishes provisions for payment of claims deriving from insurance and investment contracts.

In determining the underwriting provisions deriving from insurance and participating investment contracts, the Group periodically assesses its liabilities using actuarial methods and taking the respective reinsurance coverage into account. Provisions are periodically reviewed by qualified actuaries.

Note 4 - Premiums Earned Net of Reinsurance

Premiums net of reinsurance break down as follows:

('000 euros)

	2006	2005
Gross premiums written	385,142	365,736
Premiums – outwards reinsurance	(53,062)	(48,199)
Premiums net of reinsurance	332,080	317,537
Variation in provision for unearned premiums		
net of reinsurance	2,033	1,846
Premiums earned, net of reinsurance	334,113	319,383

Gross premiums written per segment break down as follows:

('000 euros)

	2006		2005	
	Gross Premiums Written	Premiums Earned	Gross Premiums Written	Premiums Earned
Life	23,761	23,761	-	-
Non-life:				
Direct insurance				
Accidents and health	102,891	103,189	99,706	99,393
Fire and other damage	57,206	56,781	58,084	57,311
Motor	172,105	173,245	178,643	181,247
Maritime and transport	8,464	8,325	8,740	8,962
General third party	8,593	8,637	8,407	8,709
Credit and bond	433	511	564	626
Assistance	9,940	9,961	9,994	9,694
Other	1,749	1,639	1,598	1,796
Total	385,142	386,049	365,736	367,738

Outwards reinsurance premiums break down as follows:

('000 euros)

	2006		2005	
	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned
Life	608	608	-	-
Non-life:				
Direct insurance				
Accidents and health	16,010	15,837	12,110	12,322
Fire and other damage	17,949	17,738	18,543	18,233
Motor	2,270	2,270	2,027	2,027
Maritime and transport	4,577	4,487	5,074	5,126
General third party	955	1,027	1,172	1,328
Credit and bond	367	438	450	519
Other	10,326	9,531	8,823	8,802
Total	53,062	51,936	48,199	48,357

In accordance with the requirements of IFRS 4, insurance contracts issued by the Group where there is merely a transfer of financial risk without discretionary profit sharing are classified as investment contracts and accounted for as liabilities. Accordingly, contracts where the investment risk it borne by the policy holder and fixed rate non-participating contracts are not accounted for as premiums.

Note 5 - Interest and Dividens

Interest and dividends break down as follows by category of financial assets:

('000 euros)

	2006	2005
Interest		
on assets at fair value through profit or loss	4,396	2,130
on available-for-sale assets	16,817	7,918
on bank deposits	406	598
	21,619	10,646
Dividends		
from available-for-sale assets	1,371	545
	22,990	11,191

Note 6 - Income From Financial Assets at Fair Value Through Profit or Loss

Income from financial assets at fair value through profit or loss breaks down as follows:

('000 euros)

	2006			2005		
	Income	Costs	Total	Income	Costs	Total
Trading assets and liabilities						
Derivatives	1,282	(32)	1,250	132	(2,877)	(2,745)
	1,282	(32)	1,250	132	(2,877)	(2,745)
Financial assets at fair value through profit or loss						
Bonds and other fixed rate securities						
Public issuers	-	-	-	-	-	-
Other issuers	237	(186)	51	619	(516)	103
Shares	-	-	-	-	-	-
Other variable rate securities	55	-	55	-	-	-
	292	(186)	106	619	(516)	103
	1,574	**(218)**	**1,356**	**751**	**(3,393)**	**(2,642)**

Note 7 - Income From Available-For-Sale Financial Assets

Income from available-for-sale financial assets breaks down as follows:

('000 de euros)

	2006			2005		
	Income	Costs	Total	Income	Costs	Total
Bonds and other fixed rate securities						
Public issuers	1,679	(50)	1 629	4,137	(44)	4,093
Other issuers	1,083	(4,101)	(3,017)	136	(459)	(323)
Shares	5,371	(170)	5,202	1,960	-	1,960
	8,134	**(4,320)**	**3,813**	**6,233**	**(503)**	**5,730**

Note 8 - Foreign Exchange Income

This account includes the income deriving from currency revaluation of monetary assets and liabilities expressed in foreign currencies in accordance with the accounting policy described in Note 2.3.

Note 9 - Commission and Similar Income

Commission and similar income relates to commissions on the subscription and management of non-participating endowment products, namely flat rate endowment products and products where the investment risk is borne by the policy holder.

In accordance with the requirements of IFRS 4, insurance contracts issued by the Group where there is merely the transfer of a financial risk without discretionary profit sharing are classified as investment contracts and accounted for as a liability. Accordingly, contracts where the investment risk is borne by the policy holder and non-participating flat rate contracts are no longer recognised as premiums and are only the subscription and management charge on these contracts is recorded as income.

Note 10 - Other Income

The account for other income breaks down as follows:

('000 de euros)

Services	16,643	2,550
Claims management	1,346	921
Co-insurance management commissions	256	300
Income from investment property	8,784	10,277
Reduction in depreciation and provisions	735	2,787
Extraordinary income and gains	2,971	3,098
Other income	899	402
	31,634	**20,335**

Note 11 - Cost of Claims Net of Reinsurance

The cost of claims net of reinsurance breaks down as follows:

('000 euros)

	2006	2005
Claims – life	22,342	-
Claims – non-life	195,958	208,971
	218,300	**208,971**

In life business, the cost of claims net of reinsurance breaks down as follows:

('000 euros)

	2006	2005
Paid		
Gross	18,263	-
Reinsurers' share	(397)	-
	17,866	**-**
Claims provision (variation)		
Gross	4,417	-
Reinsurers' share	59	-
	4,476	**-**
	22,342	**-**

In non-life business, the cost of claims net of reinsurance breaks down as follows:

('000 euros)

Paid		
Gross	192,659	191,901
Reinsurers' share	(13,151)	(12,825)
	179,508	179,076
Claims provision (variation)		
Gross	14,028	36,353
Reinsurers' share	2,422	(6,458)
	16,450	29,895
	195,958	**208,971**

The cost of non-life claims breaks down into the different areas as follows:

('000 euros)

	2006			2005		
	Paid	Variation in Claims Provision	Total	Paid	Variation in Claims Provision	Total
Accidents and health	52,222	5,579	57,801	54,566	11,302	65,868
Fire and other damage	23,577	1,222	24,799	23,026	(870)	22,156
Motor	106,499	10,283	116,782	105,690	19,270	124,960
Maritime, air and transport	6,597	(338)	6,259	2,788	2,029	4,817
General third party	2,796	(1,903)	893	3,165	6,798	9,963
Credit and bond	688	(454)	234	1,155	(883)	272
Other	280	(361)	(81)	1,511	(1,293)	218
Total	**192,659**	**14,028**	**206,687**	**191,901**	**36,353**	**228,254**

Note 12 - Variation in Underwriting Provisions Net of Reinsurance

The variation in underwriting provisions net of reinsurance breaks down as follows:

('000 euros)

	2006	2005
Direct insurance		
Variation in mathematical provision	(1,985)	-
Variation in provision for profit sharing	90	45
Variation in provision for unexpired risks	(1,190)	(76)
	(3,085)	(31)
Outwards reinsurance		
Variation in mathematical provision	(391)	-
	(391)	-
	(3,476)	**(31)**

Note 13 - Variation in Liabilities for Investment Contracts

The variation in liabilities for investment contracts corresponds to the technical interest rate attributed to endowment contracts without discretionary profit sharing and to the appreciation/depreciation of contracts where the investment risk is taken by the policy holder.

Note 14 - Impairment of Other Assets Net of Reversal and Recovery

This account breaks down as follows

('000 euros)

	2006	2005
Property in own use (see note 26)	1,669	-
Receivables (see note 25)	1,211	446
	2,880	**446**

Note 15 - Direct Insurance Commissions, Net of Reinsurance

Direct insurance commissions net of reinsurance break down as follows:

('000 euros)

	2006	2005
Direct insurance commissions		
Acquisition commissions and other costs	39,991	38,377
Deferred acquisition costs	(887)	676
Collection commissions	2,208	2,249
Commissions on outwards reinsurance	(14,906)	(12,419)
	26,406	**28,883**

Note 16 - Staff Costs

Staff costs break down as follows:

('000 euros)

Remuneration of company officers	1,164	839
Wages and salaries	31,370	25,355
Charges on wages and salaries	6,884	5,726
Pension premiums and contributions	638	2,543
Mandatory insurance	900	853
Welfare costs	863	825
Other staff costs	1,232	22
Estimate of employee bonus	4,033	3,295
Early retirement	9,500	-
	56,584	**39,458**

As at 31 December 2006 and 2005, the Group had not granted any loans to the directors.

('000 euros)

	2006	2005
Board of Directors		
Remuneration and other benefits	1,250	937
Cost of retirement pensions	4,731	2,543
	5,981	**3,480**

As at 31 December 2006 and 2005, the employees of the Tranquilidade Group broke down as follows into occupational categories:

	2006	2005
Management	71	66
Underwriting	230	209
Underwriting-Administrative	444	438
Sales	178	181
Information technology	49	52
Medical	27	25
General support	123	127
	1,122	**1,098**

Note 17 - Employee Benefits

Retirement pensions and health benefits

As stated in Note 2.12, Group companies have established fixed benefit plans for their employees, which provision for early retirement, death, old age and invalidity. There is also a plan covering a number of health benefits for current employees and those on early retirement up to the normal retirement age.

An actuarial assessment of retirement pension benefits and health benefits is conducted annually for Group companies, the last such assessment having been conducted with reference to 31 December 2006.

The main assumptions used in actuarial studies, as at 31 December 2006 and 2005, used to determine the discounted value of staff pensions and health benefits, are as follows:

('000 euros)

	2006	2005
Financial assumptions		
Rate of salary growth	3% - 3.75%(*)	3% - 3.75%(*)
Rate of pension growth	0.75 % - 3.75% (*)	0.75 % - 3.75%
Rate of fund growth	5.8% - 5.15%(*)	5.25%
Rate of growth in early retirement pensions	2.00%	2.00%
Discount rate	4.75%	4.75%
Demographic assumptions and assessment methods		
Mortality table	GKF 95	GKF 95
Invalidity table	Swiss Re 2001	Swiss Re 2001
Actuarial valuation method	Project Unit Credit Method	

(*) In relation to liabilities to Directors.

In keeping with the accounting policy described in Note 2.12, the discount rate used to estimate liabilities relating to retirement pensions and health benefits corresponds to the market rates at the balance sheet date for highly rated corporate bonds.

At 31 December 2006 and 2005, Fund participants broke down as follows:

('000 euros)

Current employees	580	522
Pensioners	188	185
	768	707

At 31 December 2006 and 2005, amounts recognised in the balance sheet can be analysed as follows:

('000 euros)

	2006			2005		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Net assets/(liabilities) recognised in the balance sheet						
Liabilities at 31 December						
Pensioners	(14,737)	(603)	(15,340)	(23,271)	(773)	(24,044)
Assets	(38,308)	-	(38,308)	(20,863)	-	(20,863)
	(53,045)	**(603)**	**(53,648)**	**(44,134)**	**(773)**	**(44,907)**
Balance of fund at 31 December	47,835	-	47,835	45,630	-	45,630
Assets/(liabilities) receivable/payable to fund	(5,210)	(603)	(5,813)	1,496	(773)	723
Actuarial deviations deferred at 31 December	8,322	(127)	8,195	10,925	(30)	10,895
Net assets/(liabilities) in the balance sheet at 31 Decembero	**3,112**	**(730)**	**2,382**	**12,421**	**(803)**	**11,618**

Balance sheet assets and liabilities are reflected in the accounts for other assets and other liabilities, respectively (see Notes 32 and 37).

Liabilities for retirement pensions and health benefits evolved as follows:

('000 euros)

Liabilities at 1 January	**44,134**	**773**	**44,907**	**43,764**	**873**	**44,637**
Cost of current services	805	49	854	924	11	935
Interest expense	2,035	1	2,036	2,133	45	2,178
Actuarial (gains) and losses on liabilities	267	(115)	152	1,722	(30)	1,692
Pensions paid by fund	(4,343)	-	(4,343)	(4,285)	-	(4,285)
Benefits paid by Group	(178)	(121)	(299)	(124)	(126)	(250)
Early retirement pensions	9,500	-	9,500	-	-	-
Alteration to consolidation perimeter	798	16	814	-	-	-
Transfers from other funds	27	-	27	-	-	-
Liabilities at 31 December	**53,045**	**603**	**53,648**	**44,134**	**773**	**44,907**

The value of the pension fund in the financial years of 2006 and 2005 evolved as follows:

('000 euros)

	2006			2005		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Balance of fund at 1 January	**45,630**	**-**	**45,630**	**45,000**	**-**	**45,000**
Actual yield from fund						
Expected income from fund	2,482	-	2,482	2,427	-	2,427
Actuarial gains and losses	1,964	-	1,964	(12)	-	(12)
Contributions paid by fund participants	440	-	440	2,500	-	2,500
Pensions paid by fund	(4,343)	-	(4,343)	(4,285)	-	(4,285)
Alteration to consolidation perimeter	1,635	-	1,635	-	-	-
Transfers from other funds	27	-	27	-	-	-
Balance of fund at 31 December	**47,835**	**-**	**47,835**	**45,630**	**-**	**45,630**

Deferred actuarial deviations in the balance sheet evolved as follows:

('000 euros)

	2006			2005		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Deferred actuarial deviations at 1 January	**10,925**	**(30)**	**10,895**	**9,571**	**-**	**9,571**
Actuarial (gains) and losses						
- on liabilities	267	(115)	152	1,722	(30)	1,692
- on plan assets	(1,964)	-	(1,964)	12	-	12
Depreciation for the period	(252)	-	(252)	(380)	-	(380)
Alteration to consolidation perimeter	(654)	18	(636)	-	-	-
Deferred actuarial deviations at 31 December	**8,322**	**(127)**	**8,195**	**10,925**	**(30)**	**10,895**
Of which:						
Within the corridor	5,305	(60)	5,244	4,413	(77)	4,336
Outside the corridor	3,018	(67)	2,951	6,512	47	6,559

Assets receivable/liabilities payable evolved as follows in 2006 and 2005:

('000 euros)

	2006			2005		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
(Assets)/Liabilities receivable or payable at 1 January	**(1,496)**	**773**	**(723)**	**(1 236)**	**873**	**(363)**
Actuarial gains and losses on liabilities	267	(115)	152	1,722	(30)	1,692
Actuarial gains and losses on funds	(1,964)	-	(1,964)	12	-	12
Charges for the year:						
- Cost of current services	805	49	854	924	11	935
- Interest expense	2,035	1	2,036	2,133	45	2,178
- Expected income from fund	(2,482)	-	(2,482)	(2,427)	-	(2,427)
- Early retirement pensions	9,500	-	9,500	-	-	-
Contributions made during the year and pensions paid by the Group	(542)	16	(526)	(2,624)	(126)	(2,750)
Alteration to consolidation perimeter and transfers	(913)	(121)	(1,034)	-	-	-
(Assets)/Liabilities receivable or payable at 31 December	**5,210**	**603**	**5,813**	**(1,496)**	**773**	**(723)**

The cost of retirement pensions and health benefits in the period breaks down as follows:

('000 euros)

Cost of current services	805	49	854	924	11	935
Interest expense	2,035	1	2,036	2,133	45	2,178
Expected income from fund	(2,482)	-	(2,482)	(2,427)	-	(2,427)
Depreciation for the period	252	-	252	380	-	380
Early retirement pensions	9,500	-	9,500	-	-	-
Costs for the period	**10,110**	**50**	**10,160**	**1,010**	**56**	**1,066**

The relative cost of early retirement pensions includes the effect of additional amortisation of actuarial deviations.

The evolution of assets/(liabilities) on the balance sheet breaks down as follows:

('000 euros)

At 1 January	**12,421**	**(803)**	**11,618**	**10,807**	**(873)**	**9,934**
Cost for the period	(10,110)	(50)	(10,160)	(1,010)	(56)	(1,066)
Contributions made in the year and pensions paid by the Group	542	(16)	526	2,624	126	2,750
Alteration to consolidation perimeter	259	139	398	-	-	-
At 31 December	**3,112**	**(730)**	**2,382**	**12,421**	**(803)**	**11,618**

Pension fund assets break down as follows:

('000 euros)

	2006	2005
Land and buildings	10,743	8,867
Shares and other variable yield securities	22,455	22,555
Fixed yield securities	15,800	15,628
Bank deposits	2,256	3,467
Pension fund receivables and payables	61	(395)
Interest receivable	246	142
	51,561	**50,264**

It should be noted that the amounts stated above relate entirely to the Tranquilidade Group and BES-Vida Pension Fund, where Tranquilidade represents approximately 92.3% of the total. The group does not use pension fund assets. The fund does not hold securities issued by Group entities.

Note 18 - Third Party Supplies and Services

The balance of this account breaks down as follows:

('000 euros)

	2006	2005
Subcontracts	2,071	-
Electricity	343	383
Fuel	221	186
Office materials	368	180
Gifts	360	301
Upkeep and repairs	2,659	2,113
Rentals	2,630	1,223
Legal	110	116
Communication	4,206	3,095
Travel	1,404	1,356
Insurance	156	161
Advertising	3,175	2,376
Cleaning, hygiene and comfort	483	446
Security	294	388
Specialist work	13,910	11,101
Insurance activity levies	297	261
Premium collection costs	1,697	1,200
Brokers' club	527	469
Other	3,144	1,664
	38,054	**27,020**

The account for specialised work includes audit, consultancy and IT work, amongst other things.

Note 19 - Taxes and Charges

Taxes and charges break down as follows:

('000 euros)

	2006	2005
V.A.T.	225	253
Stamp duty	7	62
I.S.P. levy	880	926
E.L.F. levy	638	652
F.G.A. levy	3,649	3,590
Drains tax	3	3
Municipal property tax	95	80
Other	718	720
	6,215	**6,286**

Note 20 - Charges Relating to Financial Investments

Financial charges break down as follows:

('000 euros)

	2006	2005
Interest paid	158	111
Investment custody and management commissions	212	5
Others	158	-
	528	**116**

Note 21 - Other Costs

('000 euros)

Claims account management	1,945	1,386
Co-insurance management commissions	282	361
Donations and sponsorship	243	172
Gifts to clients	292	354
Uncollectible debts	353	267
Property upkeep and maintenance costs	974	1 050
Other costs	5,086	2,436
	9,175	**6,026**

Note 22 - Due From Banks

This item breaks down as follows, at 31 December 2006 and 2005:

('000 euros)

	2006	2005
Due from banks		
Sight deposits	65,709	98,587
Term deposits	-	25,566
	65,709	**124,153**

Note 23 - Other Financial Assets at Fair Value Through Profit or Loss

This item breaks down as follows, at 31 December 2006 and 2005:

('000 euros)

	2006	2005
Bonds and other fixed yield securities		
Other issuers	143,355	84,629
Other variable yield securities	1,557	-
Balance sheet value	**144,912**	**84,629**
Acquisition value	145,739	83,459

As at 31 December 2006, this item contained securities which the Group designated as financial assets at fair value through profit or loss on 1 January 2005, as a result of application of IAS 39.

The Group's decision to designate these financial assets as being at fair value through profit or loss, in the light of IAS 39, is in line with the Group's risk management strategy, as duly documented, considering that (i) these financial assets are managed and their performance is assessed on the basis of fair value and/or (ii) these assets contained embedded derivatives.

As at 31 December 2006 and 2005, financial assets at fair value through profit or loss broke down as follows by maturity:

('000 euros)

	2006	2005
3 months to one year	1,557	-
One to five years	129,929	11,077
More than five years	13,426	73,552
	144,912	**84,629**

The account for financial assets at fair value through profit or loss broke down as follows into listed and unlisted securities:

('000 euros)

	2006			2005		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Bonds and other fixed yield securities						
Other issuers	-	143,355	143,355	-	84,629	84,629
Other variable yield securities	1,557	-	1,557	-	-	-
	1,557	143,355	144,912	-	84,629	84,629

Note 24 - Available-For-Sale Financial Assets

The balance for this account broke down as follows at 31 December 2006 and 2005:

('000 euros)

Bonds and other fixed yield securities					
Public issuers	69,990	-	(1,120)	-	68,870
Other issuers	122,012	425	89	-	122,526
Shares	41,476	3,931	(738)	(2,537)	42,132
Other variable yield securities	-	-	-	-	-
Balance at 31 December 2005	233,478	4,356	(1,769)	(2,537)	233,528
Bonds and other fixed yield securities					
Public issuers	50,244	-	(2,109)	-	48,135
Other issuers	658,669	512	(823)	-	658,358
Shares	57,323	20,525	(628)	(1,969)	75,251
Other variable yield securities	4,707	20	(93)	-	4,634
Balance at 31 December 2006	770,943	21,057	(3,653)	(1,969)	786,378

(1) Or acquisition cost in the case of shares and other variable yield securities.

Movements in impairment losses on available-for-sale financial assets were as follows:

('000 euros)

Balance at 1 January	2,537	2,077
Allocations in the period	742	460
Reversal in the period	(1,310)	-
Closing balance at 31 December	1,969	2,537

Available-for-sale financial assets break down as follows in terms of maturity:

('000 euros)

3 months to one year	3,561	44,497
One to five years	586,230	75,922
More than five years	196,587	113,109
	786,378	233,528

Note 25 - Receivables for Direct Insurance, Reinsurance and other Operations.

The balance of this account broke down as follows at 31 December 2006 and 2005:

('000 euros)

	2006	2005
For direct insurance operations		
Policy holders	46,509	50,156
Brokers	114	194
Co-insurance	7,872	10,501
	54 495	60,851
For reinsurance operations		
Renisurers	6,521	5,893
Reinsureds	179	11
	6,700	5,904
For other operations		
Related undertakings	5,909	2,247
Other debtors	28,098	21,477
	34,007	23,724
Impairment	(10,999)	(9,788)
	84,203	**80,691**

Variation in impairment losses:

('000 euros)

Balance at 1 January	9,788	10,234
Allocations/(Use)	1,211	(446)
Closing balance	**10,999**	**9,788**

Balances for debtors for direct insurance, outwards reinsurance and other operations have a maturity of less than three months.

Note 26 - Tangible Assets

The balance of this account breaks down as follows at 31 December 2006 and 2005:

('000 euros)

	2006	2005
Property		
In own use	**63,916**	**63,806**
Equipment		
Administrative equipment	6,066	4,828
I.T. equipment	33,025	25,542
Interior fittings	1,280	453
Machines and tools	3,205	3,342
Vehicles and transport	633	634
Hospital equipment	546	-
Others	1,322	1,049
	46,077	**35,848**
Fixed assets under construction	**-**	**34**
	109,993	**99,688**
Accrued depreciation and impairment	(45,993)	(35,205)
	6, 000	**64,483**

Movements in tangible assets break down as follows::

('000 euros)

	Property	Equipment	Fixed Assets Under Construction	Total
Net balance at 1 January 2005	**62,448**	**3,864**	**83**	**66,395**
Additions	152	913	-	1,065
Depreciation in the year	(1,157)	(1,680)	-	(2,837)
Write-offs/sales	-	(91)	(49)	(140)
Net balance at 31 December 2005	**61,443**	**3,006**	**34**	**64,483**
Additions	325	4,191	-	4,516
Alterations to consolidation perimeter	-	1,674	-	1,674
Depreciation in the year	(998)	(2,555)	-	(3,553)
Write-offs/sales	(206)	(1,211)	(34)	(1,451)
Impairment	(1,669)	-	-	(1,669)
Net balance at 31 December 2006	**58,895**	**5,105**	**-**	**64,000**

Note 27 - Investiment Properties

The balance for this account as at 31 December 2006 and 2005:

('000 euros)

	2006	2005
Investment properties	80,923	92,308

Movements during the financial year of 2006:

('000 euros)

	2005	Acquisitions	Disposals	Potential Gains	2006
Investment properties	92,308	537	(18,036)	6,114	80,923

Potential gains of 6,114 thousand euros were recognised in the profits for the period ended 31 December 2006.

Note 28 - Intangible Assets

The balance of this account breaks down as follows at 31 December 2006 and 2005:

('000 euros)

Goodwill	25,811	25,785
Value in force	50,874	-
Acquired from third parties		
Formation and installation expenses	108	291
Research and development expenses	27,569	27,931
Software	6,970	8,349
Intangible fixed assets in progress	190	-
	34,837	36,571
Accrued depreciation and impairment	(23,641)	(22,831)
	87,881	**39,525**

Movements during the financial year of 2006 break down as follows:

('000 euros)

	Goodwill	Value in Force	Other Fixed Assets	Total
Balance at 1 January 2005	25,785	-	11,684	37,469
Additions	-	-	8,496	8,496
Depreciation in the year	-	-	(6,440)	(6,440)
Balance at 31 December 2005	**25,785**	**-**	**13,740**	**39,525**
Additions	26	50,874	3,302	54,202
Depreciation in the year	-	(1,324)	(4,522)	(5,846)
Balance at 31 December 2006	**25,811**	**49,550**	**12,520**	**87,881**

As stated in the accounting policies, the Group reviewed the recoverable value of goodwill and value in force (VIF) at 31 December 2006, concluding that no impairment needed to be recorded.

The outstanding balance for VIF will be depreciated as follows:

('000 euros)

	2007	2008	2009	2010	Subsequent years	Total
Depreciation	2,313	2,290	2,223	2,172	40,552	49,550

Note 29 - Investments in Associates

Financial data relating to associates is presented in the following table:

	Assets		Liabilities		Equity		Income		Net Profit for the Period		Acquisition Cost	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
BES-Vida, Companhia de Seguros, S.A.	-	6,481,971	-	6,204,830	-	277,141	-	913,672	-	34,156	-	61,976
BES, Companhia de Seguros, S.A.	88,919	79,103	64,784	56,726	24,135	22,377	60,209	59,326	4,425	4,309	3,759	3,759
Cominvest – Soc. Gestão e Inv. Imobiliário, S.A.	7,150	-	304	-	6,845	-	459	-	191	-	1,589	-
Espírito Santo Data, SGPS, S.A.	7,983	-	148	-	7,835	-	237	-	(133)	-	2,166	-
Espírito Santo Contact Center, S.A.	5,695	-	2,269	-	3,426	-	9,655	-	64	-	647	-
Europ Assistance, S.A.	28,917	-	19,921	-	8,996	-	24,631	-	1,082	-	1,757	-

	% Held		Balance Sheet Value		Profit of Associated Attributable to Group	
	2006	2005	2006	2005	2006	2005
BES-Vida, Companhia de Seguros, S.A. [(a)]	-	25.00%	-	69,285	16,681	8,554
BES, Companhia de Seguros, S.A.	25.00%	25.00%	6,034	5,595	1,106	1,077
Cominvest – Soc. Gestão e Inv. Imobiliário, S.A.	24.00%	-	1,643	-	54	-
Espírito Santo Data, SGPS, S.A.	27.06%	-	2,120	-	(20)	-
Espírito Santo Contact Center, S.A.	20.42%	-	700	-	53	-
Europ Assistance, S.A.	24.00%	-	1,934	-	177	-
			12,431	**74,880**	**18,051**	**9,631**

(a) Profits in 2006 correspond to the profit appropriated up to the date of sale.

Movement in this account was as follows:

('000 euros)

Balance at 1 January	74,880	62,472
Disposal of associates	(85,966)	-
Acquisition of holdings in associates	6,159	-
Profits of associate attributable to Group	18,051	9,631
Fair value reserve	5	2,741
Dividends	(693)	36
Other variations	(5)	-
Balance at 31 December	**12,431**	**74,880**

Note 30 - Underwriting Provisions for Direct Insurance and Outwards Reinsurance

Underwriting provisions for direct insurance and outwards reinsurance break down as follows:

('000 euros)

	2006			2005		
	Direct Insurance	Outwards Reinsurance	Total	Direct Insurance	Outwards Reinsurance	Total
Provision for unearned premiums	117,257	12,612	104,645	118,164	11,486	106,678
Mathematical provision – life business	340,382	239	340,143	-	-	-
Claims provision	519,775	36,043	483,732	494,499	38,264	456,235
Provision for profit sharing	4,260	512	3,748	360	-	360
Provision for unexpired risks	4,500	-	4,500	3,311	-	3,311
	986,174	49,406	936,768	616,334	49,750	566,584

Deferred acquisition costs, recorded in the assets, have not been deducted from the provision for unearned premiums. The balance breaks down as follows:

('000 euros)

Unearned premiums	117,257	12,612	104,645	118,164	11,486	106,678
Deferred acquisition costs	(22,564)	-	(22,564)	(21,677)	-	(21,677)
	94,693	12,612	82,081	96,487	11,486	85,001

The mathematical provision for life business breaks down as follows:

('000 euros)

Mathematical provision – life business						
Annuities	50,216	-	50,216	-	-	-
Endowment with profit sharings	290,166	239	289,927	-	-	-
	340,382	239	340,143	-	-	-
Deferred acquisition costs	(270)	-	(270)	-	-	-
	340,112	239	339,873	-	-	-

Under IFRS 4, contracts issued by the Group where is merely the transfer of a financial risk, without discretionary profit sharing, are classified as investment contracts. On this basis, at 31 December 2006 and 2005, contracts where the investment risk is borne by the policy holder and fixed rate financial contracts are classified and recorded under assets as investment contracts (see Note 35).

The provision for claims breaks down by business area as follows:

('000 euros)

	2006			2005		
	Direct Insurance	Outwards Reinsurance	Total	Direct Insurance	Outwards Reinsurance	Total
Life	10,856	202	10 654	-	-	-
Non-life						
Employers' liability	176,675	29	176,646	172,585	15	172,570
Accident and health	11,345	586	10,759	9,685	967	8,718
Fire and other damage	29,282	8,176	21,106	28,089	7,611	20,478
Motor	266,261	15,419	250,842	255,832	16,987	238,845
Maritime, air and transport	6,360	3,371	2,989	6,659	3,655	3,004
General third party	17,143	8,016	9,127	19,026	8,528	10,498
Credit and bond	1,385	60	1,325	1,793	87	1,706
Other	468	184	284	830	414	416
	519,775	36,043	483,732	494,499	38,264	456,235

The provision for claims corresponds to claims incurred but not yet paid, at the balance sheet date, and includes an estimated provision of 27,004 thousand euros (2005: 29,263 thousand euros) for claim incurred prior to 31 December 2006 but not reported (IBNR).

In addition, the claims provision includes an estimate of 5,975 thousand euros (2005: 8,023 thousand euros) for management charges in relation to settlement of claims pending and not reported.

The claims provision for employers' liability insurance includes the sum of 131,071 thousand euros (2005: 122,252 thousand euros) relating to the mathematical provision for employers' liability.

The mathematical provision for employers' liability are calculated in accordance with Regulatory Standard 15/2000-R, of 23 November, i.e. applying a mortality table of TD 88/90 with an interest rate of 5.25% and management charges of 0% for redeemable pensions, and the formula defined in the same standard for non-redeemable pensions, after calculation of the mathematical reserve on the basis of the mortality table PF 60/64 with an interest rate of 6% and 4% in management charges.

The mathematical provision includes a sum of 6,547 thousand euros (2005: 10,907 thousand euros) in relation to the increase in provisions as a consequence of the results obtained from the liability adequacy test. This test was conducted on the basis of the best estimates at the balance sheet date (see Note 2).

Movements during the period in the claims provision:

('000 euros)

	2006	2005
Balance at 1 January	494,499	448,099
Alterations to consolidation perimetero	6,271	-
Plus claims incurred:		
In the year	248,207	236,474
Previous years	(7,894)	13,867
Less amounts paid		
For the year	(103,862)	(93,001)
Previous years	(117,446)	(110,940)
Balance at 31 December	519,775	494,499

The provision for profit sharing corresponds to amounts attributed to the insured persons or beneficiaries of insurance contracts, in the form of profit sharing, which have not yet been distributed or incorporated in the mathematical provision for life business.

Movement in the provision for profit sharing in the periods ended 31 December 2006 and 2005 breaks down as follows:

('000 euros)

	2006	2005
Balance at 1 January	360	405
Alterations to consolidation perimeter	3,903	-
Paid	(90)	(45)
Amounts estimated as attributable	87	-
Balance at 31 December	**4,260**	**360**

Note 31 - Taxes

Current taxes for the financial years of 2006 and 2005 were calculated on the basis of a nominal rate of corporation and municipal tax of approximately 27.5% applicable to Group activities. This is the rate which is approved at the balance sheet dates.

Deferred taxes for 2006 were calculated on the basis of a rate of 26.5% (2005: 27.5%), the rate substantially approved at the balance sheet date, as follows from approval of the local finance law which altered the way in which the municipal corporation tax is calculated, together with the respective rate.

Tax returns filed by the company and its subsidiaries on a self-assessment basis for the financial years of 2004, 2005 and 2006 are subject to inspection and possible adjustment by the Tax Authorities during a period of four years. Additional tax may therefore be assessed due essentially to differing interpretations of fiscal law. However, the directors of Tranquilidade and its subsidiaries are confident that there will be no additional assessments with a significant impact on the financial statements.

Deferred tax assets and liabilities recognised in the balance sheet in 2006 and 2005 break down as follows:

('000 euros)

Financial assets	-	4,091	(4,271)	-	(4,271)	4,091
Intangible assets	27	173	-	-	27	173
Underwriting provisions – outwards reinsurance and direct insurance	2,631	4,098	-	-	2,631	4,098
Pensions and other employee benefits	-	-	(2,280)	(2,607)	(2,280)	(2,607)
Others	1,302	1,660	-	-	1,302	1,660
Fiscal losses to be carried forward	635	6,230	-	-	635	6,230
Deferred tax asset/(liability)	**4,595**	**16,252**	**(6,551)**	**(2,607)**	**(1,956)**	**13,645**
Set-off of deferred tax assets/liabilities	(3,960)	(2,607)	3,960	2,607	-	-
Net deferred tax assets/(liabilities)	**635**	**13,645**	**(2,591)**	**-**	**(1,956)**	**13,645**

(1) Net per Group entity

Variation in deferred taxes was recognised as follows:

('000 euros)

	2006	2005
Recognised in profit or loss	12,098	741
Recognised in reserves	4,208	-
Alteration to consolidation perimeter	(705)	-
	15,601	741

Movement in deferred taxes on the balance sheets for 2006 and 2005 breaks down as follows:

('000 euros)

	2006		2005	
Financial assets	4,154	4,208	-	-
Intangible assets	146	-	456	-
Underwriting reserves – outwards reinsurance and direct insurance	1,467	-	(359)	-
Pensions and other employee benefits	(327)	-	644	-
Others	357	-	-	-
Fiscal losses to be carried forward	6,301	-	-	-
	12,098	4,208	741	-

Tax on income reported in profit or loss in 2006 and 2005 breaks down as follows:

('000 euros)

Current taxes	30,745	166
Deferred taxes		
Origin and reversal of temporary differences	19,390	741
Fiscal losses to be carried forward	(7,292)	-
	12,098	741
Total tax recorded in profit or loss	42,843	907

Tax on income reported in reserves in 2006 and 2005 breaks down as follows:

('000 euros)

Current taxes	-	-
Deferred taxes		
Fair value reserver	4,208	-
	4,208	-
Total tax recorded in reserves	4,208	-

Reconciliation of the rate of tax:

('000 euros)

	2006		2005	
	%	Value	%	Value
Profit before tax and minority interests		211,366		38,709
Statutory rate of tax	27.5%		27.5%	
Tax calculated on basis of statutory rate of tax		58,126		10,645
Dividends exempted from taxation		(993)		(149)
Separate taxation		194		166
Alterations to estimates		-		(1,126)
Investments in subsidiaries and associates		(3,266)		(2,648)
Alteration to rate of tax		97		-
Fiscal losses used in relation to which no deferred tax asset had been recognised		(7,292)		(5,153)
Others		(4,023)		(828)
		42,843		**907**

Note 32 - Other Assets

The balance for this item at 31 December 2006 and 2005 breaks down as follows:

('000 euros)

	2006	2005
Employee benefits – long term	3,112	12,421
Assets for investment contracts	13,819	-
Mortgage loans	1,402	1,116
Other loans	9,269	7,385
Salvage	430	333
Deferred costs	526	225
Commissions receivable	1,250	1,300
Other accrued income	3,097	13
Total	**32,905**	**22,793**

Assets relating to long term employee benefits are related to liabilities accepted by the Group in relation to payment of pensions and other employee benefits (see Note 17).

Note 33 - Other Loans

Other loans relate to bank loans obtained by the subsidiaries Esumédica and Heartscan.

Note 34 - Payables for Direct Insurance, Reinsurance and Other Operations

The balance of this account at 31 December 2006 and 2005 breaks down as follows:

('000 euros)

	2006	2005
For direct insurance operations		
Policy holders	3,208	5,919
Brokers	4,494	6,414
Co-insurance	16,331	14,504
	24,033	26,837
For reinsurance operations		
Reinsurers	16,187	9,590
Reinsureds	118	25
	16,305	9,615
For other operations		
Other accounts payable	20,914	18,792
Deposits received from reinsurers	529	879
	61,781	**56,123**

Note 35 - Liabilities for Investment Contracts

As at 31 December 2006, liabilities for investment contracts break down as follows:

('000 euros)

	2006	2005
Fixed rate contracts	31,035	-
Insurance contracts where the investment risk is borne by the policy holder	16,402	-
	47,437	**-**

Under IFRS 4, contracts issued by the Group where there is merely the transfer of a financial risk, without discretionary profit sharing, are classified as investment contracts.

Movements in liabilities relating to fixed rate investment contracts break down as follows:

('000 euros)

	2006
Alteration of consolidation perimeter	30,718
Deposits received	-
Benefits paid	(246)
Underwriting interest for the year	563
Balance at 31 December	**31,035**

Movements in liabilities relating to investment contracts where the financial risk is borne by the policy holder break down as follows:

('000 euros)

Alteration of consolidation perimeter	11,951
Deposits received	4,921
Benefits paid	(750)
Underwriting interest for the year	354
Underwriting result	(74)
Balance at 31 December	**16,402**

Note 36 - Provisions

The balance for this account at 31 December 2006 and 2005 breaks down as follows:

('000 euros)

	Other provisions
Balance at 1 January 2005	**600**
Allocations	-
Write-offs	(46)
Balance at 31 December 2005	**554**
Alterations to consolidation perimeter	294
Allocations	115
Write-offs	(171)
Balance at 31 December 2006	**792**

Note 37 - Other Liabilities

The account for other liabilities at 31 December 2006 and 2005 breaks down as follows:

('000 euros)

	2006	2005
Deferred income	280	331
Employee benefits – long term	730	803
Employee benefits – short term	9,022	7,239
Commissions payable	4,673	2,956
Gratuities	1,985	2,176
ISP levy	399	439
Municipal charges	215	240
Other accrued costs	4,941	2,296
	22,245	**16,480**

The account for short term employee benefits includes the sum of 5,022 thousand euros (2005: 3,944 thousand euros) and 4,000 thousand euros (2005: 3,295 thousand euros) relating to holiday pay and respective allowances for which entitlement was acquired during the financial year and to be paid in the following year and to the estimate of the bonus for the financial year of 2006 to be allocated to employees but only paid in 2007.

Liabilities relating to long term employment benefits are related to liabilities accepted by the Group in relation to payment of pensions and other benefits (see note 17).

The account for commissions payable relates to incentives payable to brokers, brokerage fees and investment management fees.

Note 38 - Share Capital, Premiums, Fair Value Reserves and Other Reserves and Retained Earnings

Share capital

Companhia de Seguros Tranquilidade, S.A. has share capital of Euros 135,000,000, represented by 27,000,000 shares with a nominal value of 5 euros each, fully paid up in cash. The company's sole shareholder is Partran – Sociedade Gestora de Participações Sociais, S.A..

Legal reserve

The legal reserve can only be used to cover accrued losses or to increase capital. Under Portuguese legislation, no les than 10% of the annual net profits must bee transferred to the legal reserve, until it reaches the level of the issued share capital.

Fair value reserves

Fair value reserves represent the potential losses and gains relating to the portfolio of available-for-sale investments, net of impairment recognised in profit or loss in the period and/or in previous periods. The value of this reserve is presented net of deferred tax. Over the course of the financial year ended 31 December 2006, the fair value reserve and other reserves and retained earnings net of minority interests were as follows:

('000 euros)

	Fair Value Reserves			Other Reserves and Retained Earnings		
	Available-for-Sale Financial Assets	Reserves for Deferred Taxes	Total Fair Value Reserve	Legal Reserve	Other Reserves and Retained Earnings	Total Other Reserves and Retained Earnings
Balance at 1 January 2005	20,044	-	20,044	15,870	(4,784)	11,086
Transfer to reserves	-	-	-	2,501	(2,465)	36
Changes in fair value	1,451	-	1,451	-	-	-
Balance at 31 December 2005	**21,495**	**-**	**21,495**	**18,371**	**(7,249)**	**11,122**
Interim dividends	-	-	-	-	(76,761)	(76,761)
Transfer to reserves	-	-	-	2,678	15,124	17,802
Changes in fair value	(3,961)	(4,208)	(8,169)	-	-	-
Balance at 31 December 2006	**17,534**	**(4,208)**	**13,326**	**21,049**	**(68,886)**	**(47,837)**

The fair value reserve breaks down as follows at 31 December 2006 and 2005:

('000 euros)

Amortised cost of available-for-sale financial assets	770,943	233,478
Accrued recognised impairment	(1,969)	(2,537)
Amortised cost of available-for-sale financial assets net of impairment	768,974	230,941
Fair value of available-for-sale financial assets	786,378	233,528
Potential gains recognised in the fair value reserve	17,404	2,587
Fair value reserve for associated undertakings	130	18,908
Deferred taxes	(4,208)	-
Balance at 31 December 2006	**13,326**	**21,495**

Movements in the fair value reserve, net of deferred taxes and minority interests, in the financial year of 2006, were as follows:

('000 euros)

Balance at 1 January	21,495	20,044
Variation in fair value	14,821	(1,291)
Disposal of associated undertakings	(18,909)	-
Allocation/(use) of fair value reserve for associated undertakings	127	2,742
Deferred taxes recognised in reserves in the year	(4,208)	-
Balance at 31 December	**13,326**	**21,495**

Note 39 - Minority Interests

Minority interests as at 31 December 2006:

('000 euros)

	2006	
	Balance Sheet	Income Statement
Advancecare, S.A.	3,525	541
Fiduprivate, S.A.	206	(29)
Esumédica, S.A.	-	-
Heartscan, S.A.	-	-
	3,731	512

Movements in minority interests in the course of the financial year of 2006:

('000 euros)

	2006
Minority interests at 1 January	**-**
Variation in fair value reserve	-
Alteration to consolidation perimeter	3,219
Net profit for the period	512
Minority interests at 31 December	**3,731**

Note 40 - Transactions with Related Entities

Total Tranquilidade Group assets and liabilities at 31 December 2006 and 2005 relating to operations with associated and related undertakings are summarised below:

('000 euros)

Associated and Related Undertakings	2006				2005			
	Assets	Liabilities	Cost	Income	Assets	Liabilities	Cost	Income
T-Vida	-	52,405	-	-	-	-	-	-
Espírito Santo Contact Center	-	66	1,409	66	-	-	-	-
Esumédica	-	-	1,622	75	-	-	-	-
Advancecare	-	2,500	1,723	21	-	-	-	-
BES-Seguros	-	-	-	72	146	-	-	68
BES-Vida	-	-	-	-	2,124	2,990	-	2,688
BES	154,819	-	1,338	15,194	103,239	-	1,071	14,357
PARTRAN	3,239	-	-	-	-	-	-	-
ESEGUR	6,836	-	279	778	-	-	334	830
MARINOTEIS	1,370	-	-	-	-	-	-	-
ESTELA GOLF	162	-	-	-	-	-	-	-
FUNGERE	3,999	-	-	-	-	-	-	-
BES VIDA	2,286	-	-	201	-	-	-	-
GESPATRIMÓNIO	1,360	-	-	-	-	-	-	1,297
CARREFOUR	65	-	-	-	-	-	-	-
PORTUGÁLIA	25	-	-	447	-	-	-	668
MULTIPESSOAL	30	-	277	152	-	-	559	103
FUND. ESPIRITO SANTO SILVA	18	-	-	70	-	-	-	101
ESPIRITO SANTO ACE	19	-	-	109	-	-	-	150
BESLEASING	-	2,366	126	39	-	1,578	-	51
ESAF	-	-	-	133	-	-	-	19
CREDIFLASH	-	-	-	1,674	739	-	-	1 371
ES RESSOURCES	-	-	-	48	-	-	-	152
ES SAÚDE	6,000	-	-	48	6,530	-	-	-
PMLINK	-	-	-	43	-	-	-	-
CARREFOUR	-	-	-	256	-	-	-	106
ESCOM	-	-	-	127	-	-	-	127
CREDIBOM	-	-	-	144	-	-	-	245
ESGEST	-	-	-	29	-	-	-	17
HERSAL	-	-	-	33	-	-	-	-
TOP ATLANTICO	-	-	462	-	-	-	380	-
SGL	-	-	378	-	-	-	-	-
HOTEIS TIVOLI	-	-	27	-	-	-	-	-
BIC	-	-	-	-	292	-	18	565
ES COBRANÇAS	-	-	-	-	-	-	-	130
BEST	-	-	-	-	-	-	-	14
ESFG	-	-	-	-	-	-	187	12
OBLOG	-	-	-	-	-	-	473	-
ES INTERACTION	-	-	-	-	-	-	680	-
GESFIMO	-	-	-	-	-	-	-	35
SERIES	-	-	-	-	-	-	-	34
SGPICE	-	-	-	-	-	-	-	32
ESPART	-	-	-	-	-	-	-	26
MONFORTINHO	-	-	-	-	-	-	-	20
ES TOURISM	-	-	-	-	-	-	-	37
HERDADE COMPORTA	-	-	-	-	-	-	-	36
	180,228	57,337	7,641	19,759	113,070	4,568	3,702	23,291

In addition, on 1 August 2006, following on from the agreements signed between BES-Vida, Companhia de Seguros, S.A., T-Vida, Companhia de Seguros, S.A., BESPAR, Sociedade Gestora de Participações Sociais, S.A., Crédit Agricole, S.A. and Banco Espírito Santo, S.A., BES-Vida Companhia de Seguros, S.A., transferred to T-Vida its position in the contracts brought in through the branch and brokers' network of Companhia de Seguros Tranquilidade, S.A, including all the rights, obligations and guarantees deriving from the same, for a price of 50,000,000 euros.

As part of this wider operation, all the assets and liabilities associated with the contracts transferred were also transferred to T-Vida, Companhia de Seguros, S.A., at their fair value at 31 July 2007.

These assets and liabilities broke down as follows:

('000 euros)

	2006
Assets	
Due from banks	385,745
Other financial assets at fair value through profit or loss	1,867
Available-for-sale financial assets	40
Receivables – direct insurance, reinsurance and other operations	1,267
Underwriting provisions for outwards reinsurance	1,289
Other assets	553
Total assets	**390,761**
Liabilities	
Payables – direct insurance, reinsurance and other operations	274
Liabilities for investment contracts	12,061
Underwriting provisions – direct insurance	378,129
Other liabilities	297
Total liabilities	**390,761**

During the financial years ended 31 December 2006 and 2005, no additional transactions were recorded between the Group and its shareholders.

Note 41 - IFRS Transition Adjustments

As stated in Note 2.1, these are the first financial statements prepared by the Group under the International Financial Reporting Standards.

The accounting policies described in Note 2 were used in the preparation of these financial statements with regard to the period ended 31 December 2006, in the preparation of the comparative financial information for the period ended 31 December 2005, and in the preparation of the opening consolidated balance sheet in accordance with the IFRS, at 1 January 2005 (transition date).

In preparing the opening consolidated balance sheet under the IFRS and the comparative information for the financial year ended 31 December 2005, the Group adjusted the amounts previously reported which had been prepared in accordance with the accounting principles established in the Plan of Accounts for Insurance Companies ("PAIC") and other rules issued by the Portuguese Insurance Institute.

The main impacts on shareholders' funds of transition to IFRS on 1 January 2005 and 31 December 2005 are as follows:

('000 euros)

	01 Jan. 2005		
	Local Accounting Principles	Adjustments	IFRS
Capital	135,000	-	135,000
Fair value reserve	23,025	(2,981)	20,044
Other reserves and retained earnings	(3,201)	14,287	11,086
	154,824	**11,306**	**166,130**

('000 euros)

	31 Dec. 2005		
	Local Accounting Principles	Adjustments	IFRS
Capital	135,000	-	135,000
Fair value reserve	33,091	(11,596)	21,495
Other reserves and retained earnings	(6,276)	17,398	11,122
Net profit for the period	26,773	11,029	37,802
	188,588	**16,831**	**205,419**

A detailed analysis of the adjustments resulting from adoption of the IFRS at 1 January 2005 and 31 December 2005 is presented below:

('000 euros)

		1 Jan. 2005	31 Dec. 2005
Equity (local accounting principles)		154,824	188,588
IFRS adjustments			
Employees' bonus	a)	(3,075)	(3,295)
Retirement pensions	b)	10,215	12,776
Goodwill	c)	25,785	25,785
Intangible assets	d)	(2,286)	(628)
Tangible assets	e)	(944)	(1,862)
Investment property	f)	3,696	73
Investments in associates	g)	(14,006)	(9,766)
Available-for-sale financial assets	h)	3,114	6,987
Underwriting provisions	i)	(9,506)	(10,907)
Employers' Liability Fund (ELF)	j)	(6,766)	(6,941)
Provision for claims rate deviation	k)	2,674	2,944
Deferred taxes	l)	2,405	1,665
Equity - IFRS		166,130	205,419

('000 euros)

		31 Dec. 2005
Net profit for the period (local accounting principles)		26,773
IFRS adjustments		
Employees' bonus	a)	(3,295)
Retirement pensions	b)	2,561
Goodwill	c)	-
Intangible assets	d)	1,658
Tangible assets	e)	(1,168)
Investment property	f)	4,746
Investments in associates	g)	9,630
Available-for-sale financial assets	h)	(1,057)
Underwriting provisions	i)	(1,401)
Employers' Liability Fund (ELF)	j)	(175)
Provision for claims rate deviation	k)	270
Deferred taxes	l)	(740)
Net profit for the period IFRS adjusted		37,802

Analysis of the main transition adjustments made with reference to 1 January 2005 and 31 January 2005

a) Employees' bonus

Under the Group's previous accounting policies, bonuses awarded to employees were recorded as a deduction from shareholders' funds in the year in which they were paid, given that they were considered as a transfer of the dividend rights from shareholders to employees. Under the IFRS, bonuses paid to employees are recorded directly in the income statement, as a cost of the period to which they relate.

The impact of IFRS adoption resulted in a reduction in consolidated shareholders' funds of 3,295 thousand euros at 31 December 2005 (1 January 2005: 3,075 thousand euros) and in a reduction in the consolidated net profits for the year ended 31 December 2005 of 2,329 thousand euros.

b) Retirement pensions and other employee benefits

In line with the accounting policy described in note 2.12, the Group opted under IFRS 1 to apply IAS 19 retrospectively at the transition date, and recalculated the actuarial gains and losses which can be deferred in the balance sheet in accordance with the corridor method provided for in the said standard.

The previous accounting policies required the total increase in liabilities, net of the yield obtained by the funds, to be recognised in results, in each period. The surplus value of the fund was not recognised. Under IAS 19, the portion relating to actuarial deviations is deferred in accordance with the corridor method and the surplus in the fund is accounted for as an asset.

The impact of adoption of IAS 19 resulted in an increase in consolidated shareholders' funds of 12,776 thousand euros at 31 December 2005 (1 January 2005: 10,215 thousand euros) and in an increase in the consolidated net profits for the year ended 31 December 2005 of 2,561 thousand euros.

c) Goodwill

As stated in accounting policy 2.1, at the transition date, under the Group's previous accounting policy, goodwill resulting from acquisitions could be written off against reserves. Under IFRS 3 – Business Combinations, goodwill resulting from acquisitions during 2004 has been recorded under assets, resulting in an increase in shareholders' funds at 31 December 2005 and 1 January 2005 of 25,785 thousand euros.

d) Intangible assets

Under the Group's previous accounting policies, the costs of internally developed software were capitalised and depreciated over a period of 3 years.

The rules in IAS 38 mean that costs directly relating to development of software development by the Group can only be capitalized if the software can be expected to generate future economic benefits beyond the end of the financial year and if such benefits can be reliably assessed. At 31 December 2005, the impact of adoption of IAS 38 resulted in reduction of shareholders' funds by 628 thousand euros (1 January 2005: 2,286 thousand euros).

e) Tangible assets

In accordance with the option permitted by IFRS 1, the Group decided to consider as a cost of property at the transition date the respective fair value determined on the basis of valuations by independent entities.

In addition, under the Group's previous accounting policies, property was not depreciated. Under IAS 16, these assets are depreciated over their expected useful life.

The combined effect of this results in a reduction in the Group's consolidated shareholders' funds at 31 December 2005 of 1,862 thousand euros (1 January 2005: 944 thousand euros) and in an increase in the consolidated profits for the period of 1,168 thousand euros.

f) Investment properties

Under the Group's previous accounting policies, investment properties were valued at their current value, corresponding to market value determined on the basis of a valuation carried out in at least the last five years.

Under IAS 40, these properties are valued at fair value, determined through regular independent valuations. Variations in fair value are recognised in results.

Application by the Group of IAS 40 resulted in recognition of potential gains which at 31 December 2005 stood at 73 thousand euros (1 January 2005: 2,696 thousand euros).

This situation also caused an increase of 4,746 thousand euros in the profits for the period ended 31 December 2005.

g) Investments in associates

As stated in accounting policy 2.2, investments in associates are consolidated using the equity method, from the moment the Group acquires significant influence to the moment such influence ceases.

The impact of investments in associates, applying thee equity method to the financial statements of associated undertakings after adoption of the IFRS resulted in a reduction in consolidated shareholders' funds of 9,766 thousand euros at 31 December 2005 (1 January 2005: 14,006 thousand euros).

h) Available-for-sale financial assets

Under the IFRS, available-for-sale financial assets are recorded at market value and potential gains and losses are recorded in reserves, except when an impairment loss is found to exist, such loss being recorded against profit or loss. Recognised impairment losses on shares cannot be reversed through profit or loss, contrary to the procedure to be followed for other securities.

Under the PAIC, fixed rate securities were recorded at acquisition cost, with the exception of securities allocated to the investment portfolio of life insurance where the risk is borne by the policy holder. Interest was periodised on the basis of the nominal value and the interest rate applicable to the period. The premium or discount was periodised against results over the period up to maturity.

Variable rate securities were valued at their fair value at the balance sheet date. Potential gains and losses determined at the balance sheet date were recorded in shareholders' funds in the regulatory revaluation reserve. Potential losses not covered by the revaluation reserve were recognised in results.

With the adoption of IAS 39, on 1 January 2005, the net effect of recognition of potential gains and losses in the portfolio of available-for-sale securities, caused an increase in consolidated shareholders'0 funds of 3,114 thousand euros.

i) Underwriting provisions

IFRS 4 means that the Group can continue to apply its accounting policies for insurance contracts and non-participating investment contracts in accordance with the Plan of Accounts for Insurance Companies, provided it assures that the liability adequacy test is conducted.

At the transition date, the Group assessed the adequacy of the liabilities deriving from insurance contracts and non-participating investment contracts. The liability adequacy tests were conducted on the basis of projection of future cash flows associated with each contract, discounted at the market zero risk interest rate.

Application of IFRS 4 at 31 December 2005 caused a reduction in consolidated shareholders' funds of 10,907 thousand euros (1 January 2005: 9,506 thousand euros).

j) Employers' Liability Fund (ELF)

Under the regulations in force, at the end of each year the Group is required to pay a contribution to the Employers' Liability Fund (ELF) corresponding to 0.85% of the redemption value of the mathematical pensions currently being paid.

Considering that the Groups' liability takes form at the moment the pension is created, for the purposes of application of the IFRS and in accordance with the provisions of IAS 37, a provision has been created corresponding to the current value of future contributions to ELF.

The creation of this provision caused a reduction in the consolidated shareholders' funds at 31 December 2005 of 6,941 thousand euros (1 January 2005: 6,766 thousand euros) and a reduction in the consolidated profits for the period of 175 thousand euros.

k) Provision for claims rate deviation

Under the Plan of Accounts for Insurance Companies, the provision for claims rate deviations was designed to provide for exceptionally high claims rates in areas of insurance most prone by nature to greater oscillations in the claims rate.

IFRS 4 lays down that provisions for catastrophic risks and claims rate deviations are not accepted given that in accordance with conceptual foundations of the IFRS, these provisions do not fit within the definition of liability.

Application of IFRS 4 at 1 January 2005 resulted in an increase in the Group's consolidated shareholders' funds of 2,674 thousand euros.

l) Deferred taxes

Group entities have previously recognised deferred taxes on temporary differences between the accounting balance sheet prepared on the basis of these accounting policies and the fiscal balance sheet. On this basis, at the transition date, deferred taxes determined on the significant IFRS adjustments calculated at this date were also recognised.

Note 42 - Management of Operating Risk

The Group's risk management policy is described in this note.

Risk management and control are essential management tools and are therefore regarded as strategically crucial to supporting sustained corporate development in the Portuguese financial industry. Consequently, responsibility for risk management is entrusted primarily to the Executive Board, which seeks to spread the risk management culture within Tranquilidade. The principal aims of this strategy are as follows:

- identification, quantification and control of the different types of risk accepted, with gradual adoption of uniform and coherent principles and working methods in all Group entities;

• continuous contribution to improving the supporting tools for s tructuring operations and to developing internal performance assessment techniques and optimisation of the capital base;

• pro-active management of significant situations of late performance and default on contractual obligations.

Risk Management

• Specific Insurance Risk – corresponds to the risk underlying the marketing of insurance contracts.

In this field, Tranquilidade has followed a careful risk assessment policy, based on tasks designed in accordance with actuarial principles, with regular reviews.

Risks where acceptance is restricted are underwritten centrally, with due records of the conditions and of the person responsible for the decision.

Provisions are monitored on a monthly basis, with the main focus on provisions for claims. Regular analyses are conducted o the sufficiency of the company's provisions. Internal assessment models are being developed for provisions, both for direct insurance and outwards reinsurance, with the use of stochastic models.

Any adjustments resulting from changes to estimates of provisions are reflected in the current operating results. However, given that the constitution of claims provisions is a necessarily uncertain process, there can be no guarantee that the actual losses will not be greater than those estimated, this risk being covered by the supplementary solvency capital.

Claims provisions excluding mathematical provisions for employers' liability insurance are presented in the following table:

('000 euros)

Initial estimate of claims	276,399	299,101	302,579	305,512	328,733	363,800	377,848
Accrued payments							
One year later	106,206	105,824	108,328	106,724	91,174	105,504	-
Two years later	147,272	157,869	162,811	149,681	141,526	-	-
Three years later	185,976	197,820	194,772	185,956	-	-	-
Four years later	215,921	222,164	223,751	-	-	-	-
Five years later	234,821	246,876	-	-	-	-	-
Six years later	252,471	-	-	-	-	-	-
Final estimate of claims							
One year later	277,599	303,180	313,397	327,363	338,836	354,407	-
Two years later	283,207	306,243	325,422	334,297	334,918	-	-
Three years later	283,966	314,450	331,367	332,408	-	-	-
Four years later	303,872	317,872	331,221	-	-	-	-
Five years later	306,526	318,261	-	-	-	-	-
Six years later	306,563	-	-	-	-	-	-
Accrued surplus/(deficit)	**(30,164)**	**(19,160)**	**(28,642)**	**(26,896)**	**(6,185)**	**9,393**	**-**

The risk of longevity covers the uncertainty of actual losses resulting from insured persons living longer than expected and may be more relevant, for instance, in life annuities and in mathematical pensions in employers' liability insurance.

The risk of longevity is managed through the price, the subscription policy and regular review of the mortality tables used to define prices and to constitute provisions accordingly. When it is concluded that longevity is higher than assumed in the mortality tables, supplementary provisions are created and the tables are revised.

Any adjustments resulting from changes to estimates of provisions are reflected in the current operating results. However, given that the constitution of claims provisions is a necessarily uncertain process, there can be no guarantee that the actual losses will not be greater than those estimated, this risk being covered by the supplementary solvency capital.

The main assumptions used by type of contract are as follows:

	Mortality Table	Underwriting Rate
Retirements savings schemes and endowment products		
Up to December 1997	GKM 80	4%
From January 1998 to June 1999	GKM 80	3.25%
From 1 July 1999 to February 2003	GKM 80	2.25% e 3%
From 1 de March 2003 toDecember 2003	GKM 80	2.75%
After 1 January 2004	GKM 80	2.75% e 2.25%
Insurance in the event of life		
Annuities		
Up to July 2002	TV 73/77	4%
From 1 July 2002 to December 2003	TV 73/77	3%
From 1 January 2004 to September 2006	GKF 95	3%
After September 2006	GKF - 3 anos	2%
Other insurance		
Insurance in the event of death		
Up to December 2004	GKM 80	4%
After 1 January 2005	GKM 80	2%
Hybrid insurance		
Up to September 1998	GKM 80	4%
After 1 October 1998	GKM 80	3%

For the purpose of testing liability adequacy, the assumptions relating to mortality are based on the best estimates resulting from analyses of the experience in the existing portfolio. Future cash flows are assessed using the internal embedded value model and have been discounted at the zero risk interest rate.

The mortality assumptions used are as follows:

	Mortality Table
Annuities	GRM 95
Savings and other contracts	40% GKM 80

The actuarial assumptions used in calculating the current value of mathematical provisions for employers liability insurance, for the purpose of liability adequacy testing, are as follows:

Mortality table	GKF 80
Interest rate	4,06%
Management fee	3%

The maximum exposure to risk per occurrence after reinsurance and excesses per business line may be summarised as follows:

('000 euros)

Business Area	Type of Reinsurance	Coverage Limit	Net Retention
Life:			
Mortgage loans	Quota share (20%)	-	-
	Surplus	-	75,000
Other	Surplus	-	75,000
Non-life:			
Personal accident	XOL	12,200	300
Employer's liability	XOL	14,500	500
Motor (third party)	XOL	49,250	750
Motor (own damage)	XOL	4,300	750
Engineering	Quota share + surplus	11,750	1,250
Fire	Surplus	20,000	1,000
Fire (natural disasters)	XOL	130,000	10,000
Fire	XOL	8,000	2,000
General third party	XOL	3,600	150
Maritime (hull)	Surplus	3800	200
Maritime (hull) – Fleets	Surplus	4,675	275
Maritime (hull)	Surplus	3,450	150
Maritime (cargo and hull)	XOL	1,560	390
Health	Quota share	-	75%
Assistance	Quota share	-	-

• Market risk – represents the possibility of losses in the value of a given financial instrument, resulting from variation in non-controllable factors, such as interest rate and share prices.

In Tranquilidade, market risk is managed as part of financial policy, in the rules on allocation of assets by class and type of issuer, through the Financial Committee structure. This body is responsible for defining policies on allocation, and also for monitoring exposure to various risks: interest rates, exchange rates and liquidity. The Financial Committee comprises representatives of the Executive Board and the managers responsible for financial affairs.

The investment policies adopted by Tranquilidade are shaped by prudent levels of risk acceptance and portfolio diversification, in view of trends on the financial markets, namely with regard to interest rates. Financial policy, approved by the Financial Committee is designed to respond to market instability, setting minimum ratings for investments.

At 31 December 2006 and 2005, assets and liabilities break down as follows in terms of exchange rate risk, by currency:

('000 euros)

	2006			
Assets				
Due from banks	638	-	65,071	65,709
Other financial and non-financial assets	-	-	1,367,562	1,367,562
Total assets	**638**	**-**	**1,432,633**	**1,433,271**
Total liabilities	**-**	**-**	**(1,161,040)**	**(1,161,040)**
Net exposure	**638**	**-**	**271,593**	**272,231**

('000 euros)

Assets				
Due from banks	123	9	124,021	124,153
Other financial assets at fair value through profit and loss	-	79	84,550	84,629
Available-for-sale financial assets	434	-	233,094	233,528
Other financial and non-financial assets	-	-	461,220	461,220
Total assets	**557**	**88**	**902,885**	**903,530**
Total liabilities	**-**	**-**	**(698,111)**	**(698,111)**
Net exposure	**557**	**88**	**204,774**	**205,419**

- Lending risk – derives from the fact that financial losses may occur, due to default on contractual obligations established with the company.

  The publication in late 2005 of the new Collection Law has significant reduced this risk factor for insurance companies, and particularly for Tranquilidade.

  Minimum rating levels are defined when selecting reinsurers, and Tranquilidade regularly monitors evolution in ratings.

- Liquidity risk – the possibility that the company's assets will not be sufficiently liquid to provide the cash flows necessary to perform obligations.

  Tranquilidade prepares a monthly cash flow plan, adjusted each week to its capital needs/surpluses.

- Operating risk – possibility of losses due to inadequacy of failure of internal procedures.

  The routing of requests received in service areas to support areas, underwriting in areas where acceptance is restricted, production returns, checking and adjusting co-insurance movements and complain management – these are examples of processes which are regulated at Tranquilidade, supported by workflow tools. The use of this type of tool makes it possible to identify, analyse, monitor and control situations which in some case could result in losses for the company.

  In the specific case of complaints, from clients (internal and external), suppliers or other persons or organisations which have dealings with Tranquilidade, special importance is attached to management of the process which makes it possible:

  - to discover cases of sub-standard service, delays, processing errors (manual or computer), etc., normally resulting from failure to keep to the procedures defined in the Internal Rules;
  - to respond immediately to the complainant, assuring that the issue raised is dealt with quickly;
  - to resolve the matter;
  - to identify opportunities for improvements, so as to avoid potential complaints.

Internal Control

The mission of the new Overall Risk and internal Control Department is to comply with the requirements of Standard 14/2005-R. The prime responsibility of this body is therefore assure overall risk management for the company, and to management the internal control system. The Overall Risk an d Internal Control Department reports to the Executive Board and will be responsible, amongst other things, for the following:

i) In connection with Overall Risk management:

- Anticipating and identifying significant risks and their impacts.
- Analysing the risks identified and their impacts.
- Drawing up plans for avoiding/limiting/mitigating/accepting risks and implementing contingency solutions.
- Aggregating risk assessments for all business units in order to identify exposures from an integrated point of view (underwriting risk, risk of provisions, lending risk, market risk, operating risk, reputational risk, etc.).
- Developing working methods which introduce considerations concerning risk in key planning, budgeting and forecasting processes.

ii) In connection with management of the Internal Control System (ICS):

- Maintaining and coordinating evolution of the company's Internal Control System.
- Adjusting the Internal Control System to changes resulting from internal reorganization, changes in information systems, compliance, business changes.
- Continuous assessment of the Internal Control System, especially as concerns the design and effectiveness of control, proposing improvements and possible changes to the risk profile of processes.
- Coordinating with managers responsible for processes and for control at the level of Business Units, and liaison with internal and external auditors.
- Preparing and monitoring the annual plan for review and improving the ICS.

The manager responsible for the Overall Risk and Internal Control Department will also act as Money Laundering Reporting Officer. This specific responsibility will require him to coordinate and disclose internal control procedures relating to money laundering and in particular to notify the relevant authorities of operations regarded as suspect, as well as centralizing information relating to these facts.

In connection with the structural changes in the area of internal risk monitoring, an Audit and Risk Management Committee will be set up, in early 2007, to analyse and debate issues regarded as relevant in terms of internal risk to the company. The permanent members of this committee will be drawn from the Overall Risk Management and Internal Control Department, the Audit Department, the Financial and Administrative Division, the Underwriting Department and the Quality and Organization Department.

In 2006 Tranquilidade created specific committees for Business Acceptance, with responsibility for assessing and defining conditions for acceptance of risks in excess of the approved underwriting policy. Decisions are recorded in specific software, identifying the managers involved.

These committees are also responsible for:

- Assessing the profitability of the company's portfolio;
- Monitoring Tranquilidade's commercial and underwriting performance;
- Preparing prpoosals for changes to the product range.

Risk concentration

Other financial assets are divided between business sectors as follows, for the periods ended 31 December 2006 and 2005:

('000 euros)

	2006			
	Other Financial Assets at Fair Value Through Profit or Loss		Financial Assets Held for Sale	
	Gross	Impairment	Gross	Impairment
Food, drink and tobacco	-	-	2,522	-
Paper and printing	-	-	351	-
Manufacture of machinery, equip. and elec. app.	-	-	3,126	-
Other manufacturing industry	-	-	1,391	-
Electricity, gas and water	-	-	11,277	-
Wholesale and retail	-	-	13,568	-
Tourism	-	-	203	-
Transport and communication	-	-	75,700	-
Financial	47,580	-	538,593	(1,020)
Administration and public services	-	-	51,338	-
Others	97,332	-	78,278	(949)
TOTAL	144,912	-	788,347	(1,969)

('000 euros)

	2005			
	Other Financial Assets at Fair Value Through Profit or Loss		Financial Assets Held for Sale	
	Gross	Impairment	Gross	Impairment
Agriculture, forestry and fisheries	-	-	958	-
Food, drink and tobacco	-	-	5,190	(239)
Textiles and clothes	-	-	1,913	-
Chemicals and rubber	-	-	31	-
Base and precious metals	-	-	524	-
Manufacture of machinery, equip. and elec. app.	-	-	1,704	(316)
Other manufacturing industry	-	-	7,331	(45)
Electricity, gas and water	-	-	12,524	(1,392)
Construction and public works	-	-	1,403	-
Wholesale and retail	-	-	1,040	(6)
Tourism	-	-	323	-
Transport and communications	-	-	17,305	(482)
Financial	84,629	-	100,745	-
Business services	-	-	10,571	-
Administration and public services	-	-	68,946	-
Others	-	-	5,557	(57)
TOTAL	84,629	-	236,065	(2,537)

Fair value of financial assets and liabilities recorded at amortised cost

The fair value of financial assets and liabilities re corded at amortised cost, to the Group, breaks down as follows:

('000 euros)

	2006		2005	
	Balance Sheet Value	Fair Value	Balance Sheet Value	Fair Value
Cash and cash equivalents	720	720	801	801
Due from banks	65,709	65,709	124,153	124,153
Receivables- direct insurance, reinsurance and other operations	84,203	84,203	80,691	80,691
Financial assets	**150,632**	**150,632**	**205,645**	**205,645**
Other loans	1,196	1,196	-	-
Payables – direct insurance, reinsurance and other operations	61,781	61,781	56,123	56,123
Liabilities for investment contracts	47,437	47,505	-	-
Financial liabilities	**110,414**	**110,482**	**56,123**	**56,123**

The main methods and assumptions used in estimating the fair value of these financial assets and liabilities are as follows:

Cash and banks

Considering the short maturities associated with these financial instruments, the balance sheet value is regarded as a reasonable estimate of their fair value.

Other loans

Given that these are normally short term assets and liabilities, the balance at the balance sheet date is regarded as a reasonable estimate of their fair value.

Investment contracts

The fair value is estimated contract by contract, using the best estimate of the assumptions for projection of expected future cash flows and the zero risk interest rate at the issue date. The minimum guaranteed rate was considered in the estimate of fair value.

Debtors and creditors for direct insurance, reinsurance and other operations

Given that these are normally short term assets and liabilities, the balance for the various accounts, at the balance sheet date, is regarded as a reasonable estimate of their fair value.

Note 43 – Recently Issued Accounting Standards and Interpretations

Recently issued accounting standards and interpretations which have not yet taken effect, and which the Group has still not applied in preparing its financial statements, are as follows.

The Group is currently assessing the impact of adopting these standards, and has not yet concluded this analysis.

IFRS 7 Financial Instruments: Disclosures and amendment of IAS 1 Presentation of Financial Statements

On 18 August 2005, the International Accounting Standards Board (IASB) IFRS 7 Financial Instruments: Disclosures and amendment of IAS 1 Presentation of Financial Statements.

IFRS 7 introduces new requirements designed to improve the information disclosed in financial statements on financial instruments, and replaces IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions and some of the requirements of IAS 32 Financial Instruments: Disclosure and

Presentation. The amendment to IAS 1 introduces new requirements on disclosure relating to the capital structure of entities.

IFRIC 8 – Scope of application of IFRS 2

On 12 January 2006, the International Financial Reporting Committee (IFRIC) issued IFRIC 8 Scope of application of IFRS 2, which was then approved by the European Commission on 8 September 2006.

This interpretation clarifies that IFRS 2 Share-based Payments applies to situations where the entity makes share-based payments of a value which is apparently nil or residual. IFRIC 8 explains that, if the benefit granted appears to be les than the fair value of the equity instrument attributed or of the liabilities accepted, this situation normally indicates that the other benefit was or will be received, meaning that IFRS 2 applies.

This IFRIC is mandatory and applicable to annual periods starting on or after 1 May 2006.

The Group does not expect any material impact from adoption of IFRIC 8.

IFRIC 9 – Revaluation of embedded derivatives

On 12 March 2006, the International Financial Reporting Committee (IFRIC) issued IFRIC 9 Revaluation of embedded derivatives, and this was approved by the European Commission on 8 September 2006. This interpretation clarifies that the separation of embedded derivatives should only be revaluated when there are alterations to the contracts themselves.

This IFRIC is mandatory and applicable to annual periods starting on or after 1 June 2006.

The Group does not expect any material impact from adoption of IFRIC 9.

IFRIC 10 – Interim Financial Reporting and Impairment

On 20 July 2006, the International Financial Reporting Committee (IFRIC) issued IFRIC 10 Interim Reporting and Impairment, and the European Commission is expected to give its approval in the second quarter of 2007.

This IFRIC prohibits the reversal of impairment losses recognised in previous interim periods, in relation to goodwill, investments in equity instruments or financial assets recorded at cost.

This IFRIC is mandatory for periods as from 2007, and it will be applied prospectively for goodwill, investments in equity instruments or financial assets recorded at cost, as from the first adoption of IAS 36 and IAS 39.

The Group does not expect any material impact from adoption of IFRIC 10.

IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions

On 2 November 2006, the International Financial Reporting Committee (IFRIC) issued IFRIC 11 IFRS 2 – Group and Treasury Share Transactions, which is due to be approved by the European Commission during the second quarter of 2007. This IFRIC deals with two distinct issues:

1. a) Contracts where an entity assigns to its employees rights to equity instruments, and has to opt to pay them in treasury shares or else has to acquire equity instruments from another entity in order to honour its obligations to its employees;
   b) Contracts where the employees of an entity are assigned rights to equity instruments in this entity.

2. Contracts for payment in treasury shares which involve two or more entities belonging to the same Group.

This IFRIC is mandatory for periods as from 1 January 2007.

The Group does not expect any impact from adoption of IFRIC 11.

IFRS 8 – Operating Segments

On 30 November 2006, the International Accounting Standards Board (IASB) issued IFRS 8 Operating Segments, which is due for approval by the European Commission during the second half of 2007.

IFRS 8 Operating Segments defines the presentation of information on the operating segments of an entity and also on services and products, geographical areas where the entity operates and its major clients. This standard specifies how an entity should report its information in its annual financial statements, and will consequently alter IAS 34

Interim financial reporting. Entities will also have to provide a description of the information presented by segment, namely results and operations, together with a brief description of how the segments are composed. This standard is mandatory for periods starting on or after 1 January 2009.

The Group is currently assessing the impact of adoption of this standard.

Audit Report

Introduction

1. We have audited the consolidated financial statements of Companhia de Seguros Tranquilidade, S.A., which comprise the consolidated Balance Sheet as at 31 December 2006 (which records a balance sheet total of 1,433,271 thousand euros and total equity attributable to the company's shareholders of 268,500 thousand euros, including a net profit attributable to the company's shareholders of 168,011 thousand euros), the consolidated statements of income, cash flow and changes in equity for the year then ended and the respective notes to the financial statements.

Responsibilities

2. It is the Directors' responsibility to prepare consolidated financial statements, in accordance with the International Financial Reporting Standards ("IFRS") in force and adopted in the European Union, which give a true and fair view of the state of affairs of the companies included in the consolidated accounts, their consolidated profit or loss for the period and consolidated cash flows, as well as to select suitable accounting policies and criteria and maintain an appropriate system of internal control.

3. It is our responsibility to form a professional and independent opinion, based on our audit, on those statements and to report our opinion to you.

Scope

4. We conducted our audit in accordance with the Audit Standards and Recommendations of the of the Chamber of Official Auditors, which require that it be planned and performed so as to obtain a reasonable assurance that the consolidated financial statements are free from material mis-statement. Our audit therefore included:

• An assessment of the financial statement of the companies included in the consolidated accounts and of evidence relevant to the amounts and disclosures in the financial statements and an assessment of the estimates and judgements made by the Directors in the preparation of the financial statements.

• An assessment of consolidation operations and of application of the equity method.

• An assessment of whether the accounting policies are appropriate and adequately disclosed, given the circumstances.

• An examination to ensure that the accounts are prepared on the going concern basis; and

• An assessment of the overall adequacy of the presentation of information in the financial statements.

5. Our audit also included confirming that the consolidated financial information contained in the management report accords with the consolidated financial statements.

6. We believe that our audit provides an acceptable basis on which to express our opinion on the financial statements.

Opinion

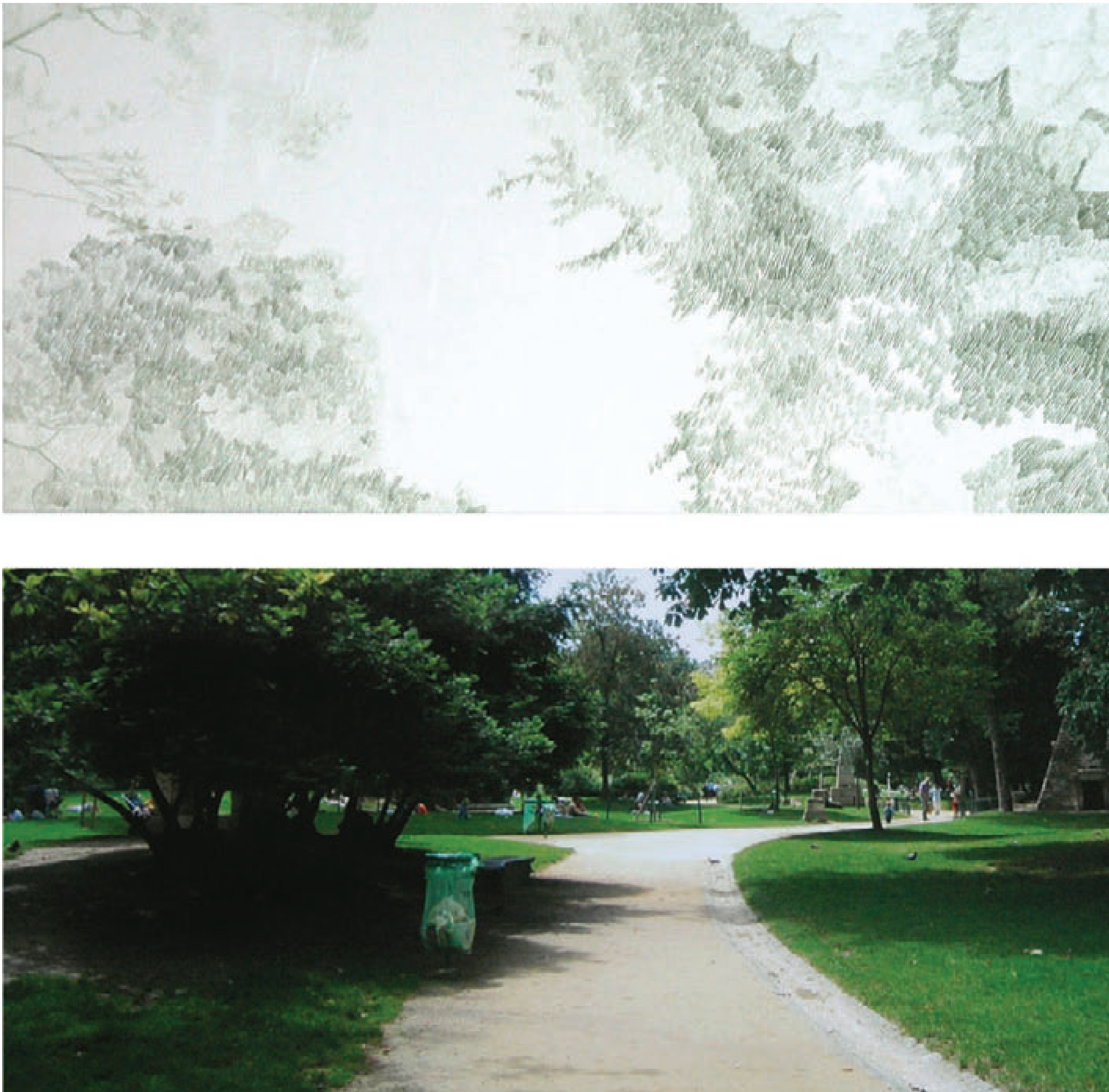
7. In our opinion, the said consolidated financial statements give a true and fair view, in all materially relevant aspects, of the consolidated state of affairs of Companhia de Seguros Tranquilidade, S.A. as at 31 December 2006, of the company's consolidated profit in the year then ended and the respective consolidated cash flows, in accordance with the International Financial Reporting Standards as adopted by the European Union.

Lisbon, 30 April 2007

KPMG & Associados - Sociedade de Revisores
Oficiais de Contas, S.A.
represented by

Ana Cristina Soares Valente Dourado
(ROC No. 1011)

VIDA



Colecção BESart • GABRIELA ALBERGARIA
“Parc monceau #73”, 2006 • Digital print, green pênsil on paper • 2 x 35 x 100cm • Unique Edition • Courtesy Vera Cortês, Agência de Arte

01'

COMPANY OFFICERS

INNOVATION AND COMPETENCE.
COMMITMENT IN EFECTIVE MANAGEMENT.

T-VIDA'06

1.0 Company Officers

General Meeting

Rui Manuel Duarte Sousa da Silveira (Chairman)
João Afonso Pereira Gomes da Silva (Secretary)

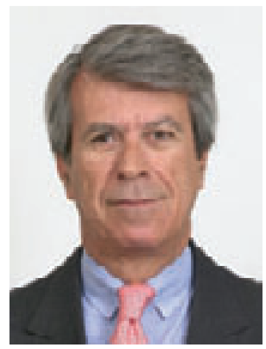
Board of Directors

Pedro Guilherme Beauvillain de Brito e Cunha (Chairman)
Augusto Tomé Pires Fernandes Pedroso (Director)
António Miguel Natário Rio-Tinto (Director)
Miguel Maria Pitté Reis da Silveira Moreno (Director)
João Carlos Neves Ribeiro (Director)

Sole Auditor

José Manuel Macedo Pereira - (R.O.C.)

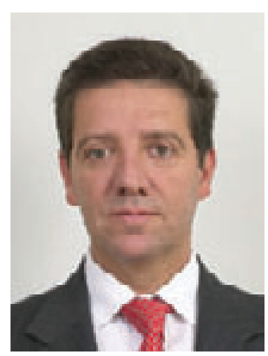
Board of Directors



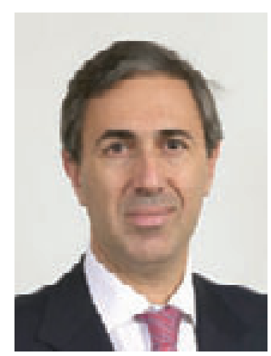
Peter de Brito e Cunha

Tomé Pedroso

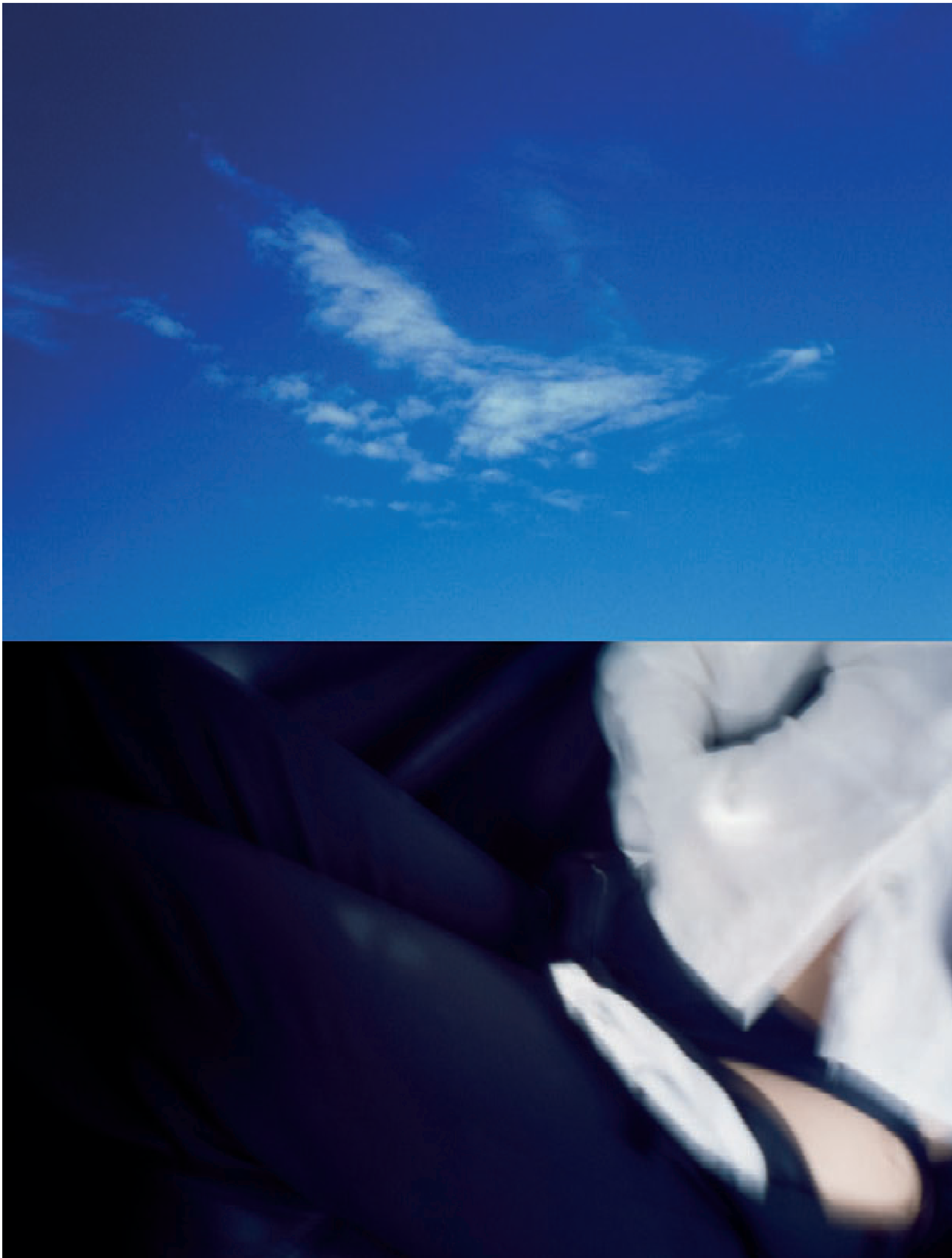
Miguel Rio-Tinto



Miguel Moreno



João Ribeiro



Colecção BESart • Julião Sarmento
“American Landscapes (9)”, 2004 • Inkjet • 111,8 x 93,8cm • Edition: 3/3 • Courtesy the Artist

02’

DIRECTORS’ REPORT

A DYNAMIC AND CONSOLIDATED.
PATH, MANAGING CONFIDENCE

T-VIDA’06

2.0 Directors' Report

Shareholders,

As required by the law and the articles of association, the Directors are pleased to submit for your consideration the Management Report and Accounts for T-Vida, Companhia de Seguros SA, for the financial year of 2006.

2.1 The New Company

T-Vida, Companhia de Seguros, S.A., the new insurance company in the Espírito Santo Group, was incorporated on 28 July 2006, in order to carry on life insurance business. The company started trading on 1 August 2006, and it markets life insurance products through the brokers' and branch networks and other channels operated by Companhia de Seguros Tranquilidade.

The company constitutes a breakaway from the former Tranquilidade-Vida, which changed its name to BES-Vida and now markets its products exclusively through BES' banking network.

As a result, the life insurance business formerly operated by Tranquilidade-Vida (now BES-Vida) through Tranquilidade's network of branches and brokers was transferred to the new company, T-Vida, which currently manages all life insurance policies, for which the guarantees and characteristics previously considered remain in force.

T-Vida will strive to position itself more competitively, with sustained energy in the constantly changing and evolving business environment of the Portuguese insurance sector. The company will seek to develop a platform of excellence, geared to three fundamental aims which sum up its mission:

- To build unique and innovative solutions, suited to the needs of Tranquilidade's clients;

- To provide responses geared wholly to the needs of Tranquilidade's commercial network;

- To develop and foster growth in this area of business, so as to build up customer loyalty.

2.2 Economic Background

2.2.1 The Portuguese Economy

According to the latest estimates from the Bank of Portugal, the Portuguese economy rallied in 2006, with growth in GDP up from 0.4% to 1.3%. The upturn in performance was based above all on strong growth in exports of goods and services, up in real terms by slightly more than 8% (0.9% in 2005). In addition to continued strong growth in GDP in Spain, which is Portugal's prime trading partner, Portugal benefited from a recovery in the Euro Zone as a whole, and in Germany in particular. There was also significant growth in exports to less traditional destinations, notably Angola. The contribution made by new exports to growth increased over the year from -0.3 p.p. to approximately 1.1 p.p.

In contrast, domestic demand made a smaller contribution to growth, dropping from 0.7 p.p. to 0.2 p.p.. Consumer spending slowed even further, with growth falling from 2.1% in 2005 to 1.2% in 2006. With disposable income lower than the expansion in consumer spending, the household savings rate came down from 9.2% to approximately 8.5% of disposable income.

Gross fixed capital formation again performed worst in the domestic demand components, although the drop was smaller in real terms than that recorded in 2005 (a reduction of 2.1% as compared with 3.8%).

Improved business confidence had a positive impact on the labour market, with the average unemployment rate down from 7.6% to 7.5% of the working population.

Public spending was down by 0.1%, due to the reduction in personnel spending and spending on goods and services. In conjunction with the drop in public investment and the sharp increase in fiscal and non-fiscal revenues, this helped to bring down the budget deficit from 6% to 4.6% of GDP, in line with the targets set in the Stability and Growth Programme.

Moderate growth in internal demand and strong performance in exports of goods and services resulting in an improvement in the joint balance of the current and capital accounts, with the net external financing needs of the Portuguese economy falling from 8.1% to 7.6% of GDP.

The average inflation rate rose from 2.3% to 3% in 2006. This was affected by a change in the statistical methodology used in calculating the retail price index, with an impact felt only in 2006. Without this alteration, the average inflation rate would have risen to only 2.5%. The upward trend in prices in 2006 was due to the increase in the price of energy goods in the first half of the year and the impact of increases in a number of indirect taxes.

The capital market performed well in 2006, in line with the trend in the leading European markets, with the PSI-20 index recording an increase of 29.8%, as compared to 13.4% in 2005.

2.2.2 The Insurance Market

In the course of 2006, the Portuguese insurance industry was involved in intense political and legislative activity. In addition to major new legislation, a number of other measures have been proposed for enactment or merely for debate, and in view of their possible repercussions the insurance sector has paid close attention to all these developments.

Coinciding with a moment when the industry is committed to dealing with all the challenges, the financial year of 2006 also brought signs of a turnaround in the economic cycle in the industry, which has been characterized by a decline in underwriting and a worsening, or at least stagnation, of the claims rate.

There was a slight drop in direct underwriting in 2006 (-2.5%) in comparison with 2005, due particularly to the influence of life business. However, we should recall that life business recorded expansion of almost 50% in 2005, contributing to unusually significant growth in insurance business as a whole (28.4%). In any case, life insurance premiums written in 2006 were 40% up on the figure recorded in 2004.

Also in the life sector, we should draw attention to the increasing contribution made by retirement and hybrid retirement/education policies, and to endowment operations, showing that these products play an important role in the long term saving strategies of Portuguese families, and are well suited to providing complementary pension cover.

The life insurance market therefore contracted slightly in 2006. Premiums were down by 4.1% over the year, with retirement products growing by 15.2% and traditional products by 4.7%. Endowment products recorded a decrease of 11.7%.

In general terms, the insurance industry expects an improvement in results over the previous year, due not only to the improving capital markets, but also to the effect of the reorganization processes undertaken by various companies over recent years with a view to cutting and containing costs.

2.3 Strategic Goals

The financial year of 2007 will be crucial in consolidating T-Vida's infrastructures, enabling the company to play a leading role in the combined operations of the Tranquilidade insurance group.

The company is committed to substantial investment in the near future, so as to obtain significant growth in the three-year period up to 2009 (doubling its business). As the first step on this road, T-Vida will seek to increase its market share amongst insurance companies working outside banking channels.

In terms of business, special attention is being paid to:

- Design of new products and revamping the existing range, with a particular view to increased competitiveness and coordination with non-life and banking products;

- Appropriate standards of service for customers and brokers;

- Consolidating the business model, creating its own commercial momentum;

- Bringing out the potential of distribution channels, by broadening the base of life producers in the Tranquilidade Brokers Network and leverage from the company's own branch offices and direct channels.

In terms of premiums, T-Vida will focus special attention on traditional products (risk and mixed), whilst retaining its commitment to retirement savings products (which offer unequalled potential for building up customer loyalty) and to its group products, offered through Tranquilidade's special departments: the Major Clients, Brokers and Private Customers Department, and the Medium Sized Corporate Department.

2.4 Main Operating Variables and Indicators.

('000 euros)

Balance Sheet	
Investments	395,961
Net assets	476,966
Shareholders' Fund	71,110
Mathematical provisions	386,802
Other liabilities	19,053

Profit and Loss Account	
Gross premiums written DI	28,759
Financial income	7,242
Cost of claims DI	23,514
Mathematical provisions DI (variation)	2,271
Profit sharing	1,249
Net profits for the period	1,029

Indicators	
Underwriting balance / Premiums	9.7%
Underwriting balance / Overheads	116.6%
Overheads / Mathematical provisions	1.5%

2.5 T-VIDA Activity

2.5.1 Premiums

RSS products as a whole performed well in 2006, with the best results recorded by unit linked RSS which ended the year at 4,798 thousand euros.

Products associated with mortgage loans totalled 979 thousand euros.

Endowment products, which are less significant in T-Vida's portfolio, recorded negative growth, especially in new issues with a flat rate single premium and a lower financial margin.

At the end of the year, T-Vida recorded total premiums of 28,759 thousand euros, with RSS and Risk/Traditional products accounting for 60% and 29%, respectively. These products are strategic to the company in terms of loyalty and higher underwriting margins.

('000 euros)

Premiums	2006
Retirement + Retirement/Education products	**17,248**
Guaranteed	12,450
Unit linked	4,798
Endowment	**3,134**
Guaranteed	3,011
Unit linked	123
Risk/Traditional	**8,377**
Risk	2,763
Mixed	2,312
Annuities	2,099
Others	1,203
TOTAL T-VIDA	**28,759**

2.5.2 Claims

('000 euros)

Claims	2006
Retirement + Retirement/Education products	**14,581**
Guaranteed	14,268
Unit linked	314
Endowment	**2,619**
Guaranteed	2,183
Unit linked	436
Risk/Traditional	**6,313**
Risk	700
Mixed	2,111
Annuities	3,201
Others	302
TOTAL T-VIDA	**23,514**

The cost of claims on retirement products was due to the large number of policies maturing in 2006.

The claims on traditional products were due essentially to annuities and mixed products, thanks to the large number of policies maturing and a significant portfolio of annuities.

Significantly, the cost of claims due to death on risk/traditional products was substantially low in relation to the premiums generated.

The total cost of claims stood at 23,365 thousand euros.

2.5.3 Mathematical Provisions

Mathematical provisions in life business are created in order to record the current value of the company's future liabilities for policies issued, and are calculated using tables and actuarial formulas which fully conform to the standards established by the Portuguese Insurance Institute.

The evolution of the mathematical provision is directly related to financial products marketed, for which there is a direct correspondence with the figure recorded in the mathematical provision. The distribution channels have made efforts to channel production to contracts with lower underwriting rates, which has brought down the minimum guaranteed rates on retirement and endowment products.

('000 euros)

Mathematical Provisions	2006
Retirement + Retirement/Education products	**217,575**
Guaranteed	202,731
Unit linked	14,844
Endowment	**57,859**
Guaranteed	56,301
Unit linked	1,558
Risk/Traditional	**111,368**
Risk	1,476
Mixed	47,374
Annuities	49,344
Others	13,175
TOTAL	**386,802**

It is relevant to note that the Company has considered retirement products as being strategic for long term returns, representing 56% of total mathematical provisions at 31.12.2006. This has permitted the company to establish itself as market leader amongst insurance companies working outside banking channels.

2.5.4 Operating Costs

The following table indicates operating costs in the financial year of 2006:

('000 euros)

Operating Costs	2006
Operating costs	1,489
Administrative costs	1,567
Investment management costs	137
Other costs	(120)
TOTAL	**3,073**

The low level of operating costs, including staff costs, is due to the fact that the Company has adopted an operating model in which it outsources tasks in the fields of subscription and portfolio and claims management from BES-Vida.

In connection to staff costs, the company contracted four more employees at the end of the year to work in the business area.

2.5.5 Financial

The investment portfolio may be summarized as follows:

('000 euros)

Assets under Management	31.12.2006	%
Shares	3,262	0.8
Investment funds	1,857	0.5
Fixed rate securities	392,360	96.6
Liquidity	6,205	1.5
Others	2,496	0.6
Total	**406,180**	**100.0**

- The company pursued a conservative financial policy in 2006 in view of market interest rate trends and expectations that possible increases could penalize a premature move to fixed rate investments.

- Initially, the company decided to invest the sum resulting from the transfer of assets (approx. 386 million euros), in floating rate bonds with an average rate of Euribor + 42 bps. The company later focussed on achieving constant improvements in the average portfolio return and at the same time on maintaining an average portfolio rating of A3 (Moodys) / A- (S&P).

- Due to the interest rate cycle in 2006, especially in the second half, when the European Central Bank was expected to continue increasing interest rates, it was decided not to invest in fixed rate euro bonds so as not to penalize future returns. As a result, during the final quarter of the year, the company invested only in a number of fixed rate bonds in USD, with exchange rate cover for the amount invested. These positions were disposed of at the end of the year.

- The company built up two equity portfolios with different risk profiles, but these portfolios are relatively small in comparison with the total portfolio.

Taking into account a potential risk which might exist at the end of the year due to the sharp rise in certain indexes over the course of 2006, investment in this class of assets was guided by prudential rules at all times.

('000 euros)

Financial Result	2006
Income	6,707
Realised gains/losses	485
Unrealised gains/losses	50
Total	**7,242**

With annualization of the income from certain flat rate securities, the yield on the total portfolio stood at 3.92%. The effective yield on floating rate securities was 8.90%.

('000 euros)

Floating rate securities	499	8.90%
Flat rate securities	6,743	3.85%
Total	**7,242**	**3.92%**

2.5.6 Shareholders' Funds

Shareholders' funds had an initial value of 20,000 thousand euros, rising to 71,110 thousand euros at the end of the year.

The variations were due to creation of a revaluation reserve with a value of 81 thousand euros, supplementary capital subscriptions of 50,000 thousand euros, and net profits of 1,029 thousand euros.

('000 euros)

Shareholders' Funds	2006
Share capital	20,000
Revaluation reserves	81
Other reserves	50,000
Net profits	1,029
Total	**71,110**

2.5.7 Proposal for Distribution of Profits

Accordingly, as required by Article 376 b) of the Companies Code, we propose that the profits be allocated as follows:

a) 10% of the Net Profits, i.e. 102,920.40 euros, to the Legal Reserve;

b) The remainder to be placed at the disposal of the General Meeting for the purposes and under the terms of the Articles of Association, with any surplus being transferred to Retained Earnings.

The Portuguese legislation applicable to the insurance sector requires that 10% of the annual net profits be allocated the legal reserve, which cannot be distributed, until it reaches the level of the share capital.

2.6 Acknowledgements

The directors wish to express their appreciation to the shareholders, to BES-Vida and Tranquilidade, for the inestimable help and support, and also to the employees, for their contribution to the development of this new company.

We also wish to express our appreciation of the work of the sole auditor, Dr. José Manuel Macedo Pereira, and also the support of the Portuguese Insurance Institute and the Portuguese Association of Insurance Companies, in their various fields of expertise.

Lisbon, 21 February 2007

The Board of Directors

Pedro Guilherme Beauvillain de Brito e Cunha (Chairman)
Augusto Tomé Pires Fernandes Pedroso
António Miguel Natário Rio-Tinto
Miguel Maria Pitté Reis da Silveira Moreno
João Carlos Neves Ribeiro

Colecção BESart • Hannah Collins
"True Stories (Lisbon 3), 2006 • digital print • 175 x 235cm • Edition: 1/3 • Courtesy the Artist

03’

FINANCIAL STATEMENTS

ACHIEVEMENT.
OBJECTIVE ACCOMPLISHED
THROUGH QUALITY OF SERVICE
AND REFLECTED IN SATISFATION

T-VIDA’06

3.0 Financial Statements

Balance Sheet as at 31 December 2006

(in euros)

Assets	2006 Gross Assets	2006 Depreciation and Adjustments	2006 Net Assets	2005 Net Assets
Intangible fixed assets	**50,081,128.00**	**1,351,043.00**	**48,730,085.00**	**N/A**
Investments	**395,961,362.00**		**395,961,362.00**	**N/A**
Land and buildings	**0.00**		**0.00**	
In own use			0.00	
Rented			0.00	
Fixed assets under construction and prepayments			0.00	
Investments in group and associated undertakings	**0.00**		**0.00**	
Shares in group undertakings			0.00	
Bonds and other loans to group undertakings			0.00	
Shares in associated undertakings			0.00	
Bonds and other loans to associated undertakings			0.00	
Other financial investments	**395,961,362.00**		**395,961,362.00**	**N/A**
Shares, other floating rate securities and units in investment funds	3,561,164.00		3,561,164.00	N/A
Bonds and other fixed rate securities	392,359,761.00		392,359,761.00	N/A
Mortgages			0.00	
Other loans	40,437.00		40,437.00	N/A
Bank deposits			0.00	
Other			0.00	
Deposits with reinsurance companies			**0.00**	
Investments for life insurance in which the investment risk is taken by the policy holder	**3,076,726.00**		**3,076,726.00**	**N/A**
Underwriting provisions for outwards reinsurance	**14,770,656.00**		**14,770,656.00**	**N/A**
Provision for unearned premiums				
Mathematical provision - life business	237,336.00		237,336.00	N/A
Provision for claims	201,508.00		201,508.00	N/A
Provision for profit sharing	512,460.00		512,460.00	N/A
Other underwriting provisions			0.00	
Underwriting provisions for life insurance where the investment risk is taken by the policy holder	13,819,352.00		13,819,352.00	N/A
Debtors	**4,490,061.00**	**123,074.00**	**4,366,987.00**	**N/A**
Direct insurance operations				
Group undertakings			0.00	
Related undertakings			0.00	
Other debtors	1,468,403.00	123,074.00	1,345,329.00	N/A
Reinsurance operations				
Group undertakings			0.00	
Related undertakings			0.00	
Other debtors	174,904.00		174,904.00	
Other operations				
Group undertakings	1,606,142.00		1,606,142.00	N/A
Related undertakings			0.00	
Other debtors	1,240,612.00		1,240,612.00	N/A
Capital subscribers			**0.00**	
Other assets	**7,086,484.00**	**34,010.00**	**7,052,474.00**	**N/A**
Tangible fixed assets and stocks	102,131.00	34,010.00	68,121.00	N/A
Cash and banks	6,984,353.00		6,984,353.00	N/A
Other	0.00			
Accruals and deferrals	**3,007,463.00**		**3,007,463.00**	**N/A**
Interest receivable	2,490,678.00		2,490,678.00	N/A
Other accruals and deferrals	516,785.00		516,785.00	N/A
Total Assets	**478,473,880.00**	**1,508,127.00**	**476,965,753.00**	**N/A**

THE ACCOUNTANT	THE CHIEF ACCOUNTANT	THE FINANCIAL AND ADMINISTRATIVE MANAGER
Jorge Rosa	Pedro Medalhas	Luís Ribeiro

Balance Sheet as at 31 December 2006 (in euros)

Liabilities	2006	2005
Shareholders' funds	71,110,171.00	N/A
Share capital	20,000,000.00	N/A
Issue premiums		
Revaluation reserves		
Regulatory revaluation	80,967.00	N/A
Legal revaluation		
Reserves		
Legal reserve		
Statutory reserve		
Other reserves	50,000,000.00	N/A
Retained earnings		
Profit for the period	1,029,204.00	N/A
Subordinated liabilities		
Fund for future allowances	35,396.00	N/A
Underwriting provisions	385,246,136.00	N/A
Provision for unearned premiums		
Mathematical provision - life business	370,400,475.00	N/A
Provision for claims		
Life	10,856,080.00	N/A
Employers' liability		
Other		
Provision for profit sharing	3,989,581.00	N/A
Provision for claims rate deviation		
Other underwriting provisions		
Underwriting provisions for life insurance where the investment risk is taken by the policy holder	16,401,812.00	N/A
Provisions for other risks and charges	0.00	
Provisions for pensions		
Provisions for taxes		
Other provisions		
Deposits received from reinsurers		
Creditors	2,833,067.00	N/A
Direct insurance operations		
Group undertakings		
Related undertakings		
Other creditors	689,169.00	N/A
Reinsurance operations		
Group undertakings		
Related undertakings		
Other creditors	308,070.00	N/A
Bank loans		
Group undertakings		
Related undertakings		
Other creditors		
Government and public sector	1,079,131.00	N/A
Sundry creditors		
Group undertakings		
Related undertakings		N/A
Other creditors	756,697.00	N/A
Accruals and deferrals	1,339,171.00	N/A
Total Liabilities	476,965,753.00	N/A

THE BOARD OF DIRECTORS

Pedro Guilherme Beauvillain de Brito e Cunha, Augusto Tomé Pires Fernandes Pedroso, António Miguel Natário Rio-Tinto, Miguel Maria Pitté Reis da Silveira Moreno, João Carlos Neves Ribeiro

Profit and Loss Account as at 31 December 2006 (in euros)

Profit and Loss Account		2006			2005	
Life underwriting account						
Premiums written net of reinsurance						
Gross premiums written		28,758,522.00			N/A	
Outwards reinsurance premiums		-4,357,547.00	24,400,975.00		N/A	N/A
Earnings from investments						
Income from equity holdings						
Group undertakings						
Others		0,00				
Income from other investments						
Group undertakings						
Others	6,415,582.00	6,415,582.00		N/A	N/A	
Gains realized on investment		**1,987,815.00**	**8,403,397.00**		**N/A**	**N/A**
Unrealized gains on investments			87,749.00			N/A
Other underwriting earnings, net of reinsurance			5,343.00			
Underwriting earnings			**32,897,464.00**			**N/A**
Claims net of reinsurance						
Paid						
Gross	19,038,061.00			N/A		
Reinsurers' share	-653,531.00	18,384,530.00		N/A	N/A	
Provision for claims (variation)						
Gross	4,475,525.00			N/A		
Reinsurers' share	59,372.00	4,534,897.00	22,919,427.00	N/A	N/A	N/A
Other underwriting provisions, net of reinsurance (variation)						
Mathematical provision for life insurance, net of reinsurance						
Gross	1,610,031.00			N/A		
Reinsurers' share	390,668.00	2,000,699.00		N/A	N/A	
Other underwriting provisions, net of reinsurance		661,256.00	2,661,955.00		N/A	N/A
Profit sharing, net of reinsurance			1,248,645.00			N/A
Net operating costs						
Acquisition costs		1,461,363.00			N/A	
Deferred acquisition costs (variation)		28,274.00			N/A	
Administrative costs		1,567,309.00			N/A	
Commissions and profit sharing (reinsurance)		-119,983.00	2,936,963.00		N/A	N/A
Investment costs						
Cost of funds management		130,459.00			N/A	
Losses on investments		1,828,868.00	1,959,327.00		N/A	N/A
Unrealized losses on investments			3,104.00			N/A
Other underwriting costs, net of reinsurance			2,998.00			
Allowances or use of funds for future allowances			35,396.00			N/A
Underwriting costs			**31,767,815.00**			**N/A**
Life underwriting account result			**1,129,649.00**			**N/A**

THE ACCOUNTANT	THE CHIEF ACCOUNTANT	THE FINANCIAL AND ADMINISTRATIVE MANAGER
Jorge Rosa	Pedro Medalhas	Luís Ribeiro

Profit and Loss Account as at 31 December 2006 (in euros)

Profit and Loss Account	2006			2005		
Non-underwriting account						
Result of life underwriting account			1,129,649.00			N/A
Result of underwriting account			**1,129,649.00**			**N/A**
Earnings from investments						
Income from equity holdings						
Group undertakings						
Others		0.00				
Income from other investments						
Group undertakings						
Others	291,779.00	291,779.00		N/A	N/A	
Gains realized on investments		**386,571.00**	**678,350.00**		**N/A**	**N/A**
Unrealized gains on investment			87,891.00			N/A
Other earnings			21,067.00			
Non-underwriting earnings			**787,308.00**			**N/A**
Investment costs						
Cost of funds management		6,521.00			N/A	
Losses on investments		59,954.00	66,475.00		N/A	N/A
Unrealized losses on investment			6,924.00			N/A
Other costs, including adjustments			83,755.00			N/A
Non-underwriting costs			**157,154.00**			**N/A**
Profit from ordinary operations before tax			**1,759,803.00**			**N/A**
Extraordinary income and gains			243,484.00			N/A
Extraordinary costs and losses			5,00			N/A
Extraordinary results			**243,479.00**			**N/A**
Allocance or use of regulatory revaluation reserve			-80,967.00			N/A
Recovery of gains or losses on investments						
Profits before tax			**1,922,315.00**			**N/A**
Tax on profits			893,111.00			N/A
Net profit for the financial year			**1,029,204.00**			**N/A**

THE BOARD OF DIRECTORS

Pedro Guilherme Beauvillain de Brito e Cunha, Augusto Tomé Pires Fernandes Pedroso, António Miguel Natário Rio-Tinto, Miguel Maria Pitté Reis da Silveira Moreno, João Carlos Neves Ribeiro

Colecção BESart • Bill Henson
“Untitled”, 2005/2006 • Type c color • photograph • CL SH483 N32 • 135 x 183cm • Edição: 2/5 • Courtesy of the artist and Roslyn Oxley9 Gallery, Sydney

04’

NOTES TO THE FINANCIAL STATEMENTS

A FIRM FOUNDATION IN
LASTING VALUES.
T-VIDA’06

4.0 Notes to the Financial Statements as at 31 December 2006

(Figures in euros)

Introduction

T-Vida – Companhia de Seguros, SA (referred to below as T-Vida, or the Company) was incorporated on 28 July 2006 with a view to carrying on life insurance business on an independent basis, as from 1 August 2006. It is wholly owned by Companhia de Seguros Tranquilidade, SA.

On 1 August 2006, the Company acquired from BES Vida its policy portfolio relating to the traditional brokers channel.

The following notes are given in accordance with the Accounting Plan for the Insurance Sector, omitting such notes as are irrelevant or for which there is nothing to report.

1 Comparative Values

There are no comparative values as the Company was incorporated during 2006.

3 Form of Presentation and Principal Accounting Principles and Valuation Criteria Adopted

1) Presentation

The financial statements were prepared on the basis of books and accounting records kept in accordance with the Accounting Plan for the Insurance Sector and with the accounting standards and principles established by the Portuguese Insurance Institute.

2) Principal accounting principles and valuation criteria

The principle accounting principles and valuation criteria adopted in preparing these financial statements are detailed below:

a) Costs and revenues

Costs and revenues are recorded in the financial year to which they relate, regardless of the date of payment or receipt.

Given that direct insurance premiums are recognised as income at the date on which the respective policy is processed or renewed and that compensation payments are recorded when claims are lodged, the company makes a number of accounting calculations for costs and revenues at the end of each financial year:

i Mathematical provision

Mathematical provisions in life business are created in order to record the current value of the company's future liabilities for policies issued, and are calculated using tables and actuarial formulas which fully conform to the standards established by the Portuguese Insurance Institute. Mathematical provisions are Zillmerized and the respective effect is written off. As at 31 December 2006 total Zillmerization stood at 270,587 euros..

ii Provision for claims

The provision for claims corresponds to the foreseeable value of claims outstanding or not settled at the end of the financial year.

This provision is calculated as follows:

a) by analysis of outstanding claims at the end of the year and the consequent estimate of the liabilities existing as of the same date;

b) by a general provision of 1% of the value of claims during the financial year, excepting payments on maturity or surrender of policies, in order to provide for liabilities relating to claims declared after the close of the financial year.

iii Mathematical provision for outwards reinsurance

The mathematical provision for outwards reinsurance is calculated by applying the criteria described above for direct insurance business, taking into account the percentage transfers and the other terms and conditions of reinsurance treaties in force.

iv Brokerage commissions

Brokerage commissions are represented by the remuneration allocated contractually to brokers for obtaining premiums and are recorded as costs at the time of issue of the respective receipts.

b) Provision for uncollected premiums

The purpose of the provision for uncollected premiums is to adjust the value of premiums due to the estimated revenues collected. This provision is calculated on the basis of premiums written more than 90 days but not paid, using percentages defined by the Portuguese Insurance Institute.

c) Provision for profit sharings

This provision corresponds to sums allocated but not yet distributed to policy holders or beneficiaries as profit sharing.

d) Financial investments

i Valuation

Floating rate securities listed on the stock exchange are recorded at market value. Unlisted securities are valued using the equity method, on the basis of the last approved balance sheet.

Fixed rate securities issued at par are recorded at cost. The difference between acquisition cost and the nominal value of the securities, comprising the premium or discount on purchase, is depreciated over the period up to maturity date, against profits.

The assets (fixed yield or variable yield) belonging to products where the investment risk is taken by the policy holder are stated at market value. Unlisted securities are valued using the valuation models appropriate for determining their fair value.

ii Earnings

Earnings from floating rate securities are entered in the accounts when received; for bonds and other securities earnings are allocated to the relevant period at the end of the financial year.

iii Unrealised gains and lossess

Gains and losses on floating rate securities resulting from the difference between the accounting value and the value determined by the valuation method referred to in i) are recorded as follows:

Securities representing underwriting provisions for with-profits life policies

Gains and losses are entered in the life underwriting account under "unrealised gains on investments" and "unrealised losses on investments", respectively.

If the difference between gains and losses is positive, it is transferred to the sub-account for the respective investment portfolio for "Fund for future allowances". Negative differences may be offset against the balance of the "Fund for future allowances" for the respective portfolio, up to the respective limit.

The "Fund for future allowances" may be used for other purposes on the following conditions:

- The fund may be drawn on for profit sharing only when each of the sub-accounts in the "fund for future allowances" represents at least 5% of the value of the respective investment portfolio both before and after drawing.

- The fund may be drawn on as necessary to ensure that none of the sub-accounts in the "fund for future allowances" exceeds 25% of the value of the respective investment portfolio.

Securities representing underwriting provisions for without-profits life insurance policies

Gains and losses are entered in the life underwriting accounts under "unrealised gains on investments" and "unrealised losses on investments", respectively.

If the difference between gains and losses is positive it is transferred to the "Regulatory revaluation reserve". If negative, it may be offset against the balance of this account, up to the respective limit.

Securities not representing underwriting provisions

Gains and losses are entered in the non-underwriting life account under "unrealised gains on investments" and "unrealised losses on investments", respectively.

If the difference between gains and losses is positive it is transferred to the "Regulatory revaluation reserve". If negative, it may be offset against the balance of this account, up to the respective limit.

The "Regulatory revaluation reserve" may only be used for the purposes and in the order of priority indicated below:

1º - Offsetting unrealised losses on investments;

2º - Coverage of accrued losses up to the end of the financial year in which it was created;

3º - Recording effective gains on investments in the non-underwriting account "Recovery of realised gains and losses on investments" or capitalisation.

Securities relating to life insurance in which the investment risk is taken by the insurer.

Gains and losses are recorded in the non-underwriting account for life insurance under “unrealised gains on investments” and “unrealised losses on investments”.

iv Effective gains and losses

Effective gains and losses resulting from the disposal of floating rate securities are recognised as profit or loss in the financial year in which they occur.

e) Intangible fixed assets

These assets are valued at acquisition cost and comprise fundamentally expenses relating to i) incorporation and formation and ii) goodwill, and are depreciated over their working life.

f) Tangible fixed assets

These assets are recorded at acquisition cost and are depreciated on a straight line basis using the following annual rates which reflect with reasonable accuracy the estimated useful life of the respective assets:

• Computer equipment	33 %

g) Liabilities for holiday pay and allowances

Included under accruals and deferrals under liabilities, corresponding to 2 months' pay and related charges, based on the salary rates in the respective financial year, in recognition of legal liabilities to employees at the end of 2006 in respect of services rendered up to this date and to be settled later.

h) Liabilities for complementary pensions

Under the collective labour agreement in force in the insurance sector, the company has agreed to pay its employees contracted by the insurance industry on or before 22 June 1995 a retirement pension to supplement that paid by the social security authorities. This pension is paid in accordance with the terms of articles 51 to 60 of the Collective Labour Agreement for the Insurance Sector, as reviewed in 1995 and published in the Boletim de Trabalho e Emprego, 1st series, no. 23, of 22 June 1995.

The company has applied to the Portuguese Insurance Institute to be included as an associate of the Tranquilidade Pension Fund.

Contributions to the fund are calculated in accordance with the respective actuarial and financial plan, which is reviewed annually, in accordance with actuarial practice, and adjusted in line with pension increases, changes in the group of participants and the liabilities involved and with the company's policy of total coverage of actuarially determined liabilities.

I) Tax on profits

Tax on the profits of corporate persons (IRC) is determined on a self-assessment basis, with declarations being filled out under the terms of current tax legislation. These returns are subject to inspection by the taxation authorities for a period of 4 years. However, when there are fiscal losses to be carried over, the inspection period is extended to 6 years.

j) Interest rate swaps and other derivatives

These operations, when carried out to hedge against the interest rate risks inherent in assets and liabilities not valued at market value, are not valued at market price. Gains or losses are entered as and when generated.

However, when these operations are carried on in products where the investment risk is borne by the policy holder, they are stated at market value or, in the absence of market value, at the fair value of these contracts determined using valuation models.

l) Foreign exchange swaps

These operations are carried out to hedge against the exchange rate risks inherent in assets and liabilities expressed in foreign currency and are translated into euros using the last reference rate fixed by the Bank of Portugal.

Differences between the exchange rate contracted and that ruling as at the balance sheet date are recorded under profits from ordinary operations before tax.

4 Foreign Currency Transactions

The values of assets and liabilities expressed in the currencies of countries not participating in Economic and Monetary Union were translated into euros using the last reference exchange rate fixed by the Bank of Portugal.

Differences between the rates ruling on the date of contract and those ruling at the balance sheet date have been recorded in the current results for the period.

7 Average Number of Employees

The average number of employees in the service of the company in 2006, broken down into rank:

Technical staff	4
TOTAL	**4**

8 Staff Costs

Staff costs in 2006:

	Accounts	2006
	Remuneration	
6800	- company officers	6,050
6801	- employees	59,203
6802	**Social charges**	14,217
	Pensions	
6803	- Pensions and related charges	0
6804	- Premiums and pension contributions	0

10 Intangible Fixed Assets

Intangible fixed assets are detailed in the following chart:

Description	2006
I. Formation costs	54,085
II. Research and development costs	
III. Expenses relating to rented property	
IV. Business leases	
V. Other intangible fixed assets*	48,676,000
VI. Fixed assets in progress	
TOTAL	48,730,085

* Acquisition of policy portfolio

12 Doubtful Debts

The value of doubtful debts recorded under "Debtors - direct insurance operations - other debtors" is 515,766 euros, corresponding to the value of premiums outstanding on risk insurance.

15 Share Capital

As at 31 December 2006 the company's share capital was represented by 20,000,000 registered shares with a nominal value of 1 euros each.

22 Inventory of Securities and Financial Holdings

See table in annex no.1.

22-A Valuation of Certain Financial Instruments at Fair Value

Type of Financial Instruments	Balance Sheet Value	Fair Value
Holdings in group and associated undertakings	0	0
Shares and other variable yield securities	5,118,331	5,118,331
Fixed yield securities	392,359,761	392,591,994
Derivatives	0	0
Total	**397,478,092**	**397,710,325**
Difference between balance sheet value and fair value	**232,233**	

The fair value of assets was determined by using, for fixed or variable yield securities listed on organized markets, the last quoted price from the markets considered most representative for a correct formation of the price for the asset in question. Unlisted assets were valued, whenever possible, using the valuation models usually used by the market for valuation of these assets. In the special case of unlisted variable yield securities, the valuation was conducted by use of the value of the corresponding shareholders' funds which may be appropriated in view of the interest owned, and in the case of fixed yield securities, the foreseeable repayment value of the asset was used.

23 Financial Fixed Assets and Other Investments

Breakdown of movements in fixed assets accounts (tangible and intangible) and in various investment accounts.

23.1 Tangible and intangible fixed assets

Items	Opening Balance		Increases		Transfers and Write-offs	Disposals	Depreciation for the Period		Closing Balance (net)
	Gross	Depreciation	Acquisitions	Revaluation			Increase	Adjustments	
INTANGIBLE FIXED ASSETS									
Formation costs			81,128				27,043		54,085
Research and development costs									
Expenses relating to rented buildings									
Goodwill									
Other intangible fixed assets			50,000,000				1,324,000		48,676,000
Fixed assets in progress									
Prepayments for intangible fixed assets									
subtotal			50,081,128				1,351,043		48,730,085
TANGIBLE FIXED ASSETS									
Office furniture and equipment									
Machines and tools									
Computing equipment			102,131				34,010		68,121
Interior fittings									
Vehicles and transport									
Medical equipment									
Other tangible fixed assets									
Fixed assets under construction									
Prepayments for tangible fixed assets									
subtotal			102,131				34,010		68,121
Total			50,183,259				1,385,053		48,798,206

23.2 Investments in group undertakings and other financial investments (except securities)

Investments in group and associated undertakings		
Loans to group undertakings		
Loans to associated undertakings		
Other financial investments		
Mortgages		
Other loans		
Loans on policies	40,437	40,437
Loans on securities		
Others		
Bank deposits		
Others		
Deposits with reinsurance companies		
Total	40,437	40,437

24 Movements in the Revaluation Reserve

Items	Tangible Fixed Assets	Investments	Total
Revaluation reserve			
Opening balance			
Increases		80,967	80,967
Others			
Reductions			
Capitalization			
Recovery of gains/losses realised			
Others			
Closing balance		80,967	80,967
Historical costs		106,505,555	106,505,555
Revaluations		80,967	80,967
Revalued accounting values		106,586,522	106,586,522

25 Fiscal Treatment of "Revaluation Reserves"

The revaluation reserve contains the legal and regulatory revaluations made in insurance operations. According to article 43 of the Corporation Tax Code, fiscal gains and losses to be calculated on the disposal of investments correspond to the difference between the acquisition value and the sale value.

Regulatory revaluations are made in accordance with investment valuation criteria and these calculations result in unrealised gains and losses, recorded in specific accounts in the accounting plan. As stipulated in article 21, paragraph b) of the Corporation Tax Code, these amounts are not subject to IRC.

26 Adjustments and Other Provisions

Accounts	Opening Balance	Increase	Reduction	Closing Balance
490-Adjustments of bills in collection				
4903 – Other insurers	0	123,074	0	123,074
491-Adjustments of doubtful debts				
4913 – Other debtors	0	0	0	0
492- Other Provisions	0	0	0	0

28 Statement of Extraordinary Results

Costs and Losses	2006	Income and Gains	2006
69100 – Donations		79100 – Tax rebate	
69101 – Arts sponsorship		79101 – Recovery of debts	
69102 – Legal expenses		79102 – Reduction in depreciation and provisions	243,232
69103 – Losses on intangible fixed assets		79103 – Gains on tangible fixed assets	
69104 – Gifts to customers	127	79107 – Prior period adjustments	
69105 – Bad debts		79108 – Other extraordinary income and gains	252
69106 – Fines and penalties	-100		
69107 – Membership fees			
69108 – Prior period adjustments			
69109 – Other extraordinary costs and losses	-22		
83 Extraordinary results	243,479		
	243,484		243,484

33 Underwriting Provisions

Mathematical provision			
Direct business	387,072,874	270,587	386,802,287
Outwards reinsurance	(237,336)	0	(237,336)
Provision for profit sharing			
Direct business	3,989,581	0	3,989,581
Outwards reinsurance	(512,460)	0	(512,460)

34 Provision for Prior Period Claims

34.1 Breakdown of provision for prior period claims and readjustments.

Given that the portfolio was acquired on 01 August 2006, this table is not applicable.

35 Readjustment of Provisions for Prior Period Claims

The readjusted values result from normal claims management.

36 Investment Valuation

See note 3 - paragraphs d) and e).

38 Basis for Calculating Mathematical Provisions

Mathematical provisions for life business are intended to record the current value of the company's future liabilities in respect of policies issued and are calculated on the basis of actuarial tables and formulae which meet the standards of the Portuguese Insurance Institute.

41 Business by Segment

a) Breakdown by business segment:

Accounts	Item	2006
70	Gross premiums written	28,758,522
71	Outwards reinsurance premiums	4,357,547
74+75+76-64-65-66	Results from investment	7,221,557
600+601+602+603	Gross claims	23,513,586
63	Gross operating costs	3,056,946
800/801	Underwriting result	1,129,649
	Underwriting provisions	401,647,948

42 Information on Life Business

Accounts		2006
Gross premiums written - direct business		28,758,522
Individual contracts	26,240,753	
Group contracts	2,517,769	28,758,522
Periodic	7,388,724	
Non-periodic	21,369,798	28,758,522
With-profits contracs	0	
Without-profits contracts	23,837,572	
Contracts where the investment risk is taken by the policy holder	4,920,950	28,758,522
Gross premiums written - outwards reinsurance		0
Reinsurance balance		-244,681

43 Commissions - Direct Business

Commissions for direct business totalled 737,538 euros.

44 Allocated and Unallocated Investments

Land and buildings	0	0
Inv. in group and ass. undertakings	0	0
Other financial investments	379,094,393	19,943,695
Deposits with reinsurance companies	0	0
Total	379,094,393	19,943,695

45 Other Disclosures

45.1 - Shareholders' funds

Accounts	2006
Capital (see Notes 14 and 15)	20,000,000
Regulatory revaluation reserve (see Notes 3 and 24)	80,967
Legal reserve	0
Other reserves	50,000,000
Retained earnings	0
Profit for the year	1,029,204
	71,110,171

The Portuguese legislation applicable to the insurance sector requires that at least 10% of net annual profits be allocated to the legal reserve, which may not be distributed, until it reaches the level of the share capital.

45.2 - Retirement pensions

As at 31 December 2006, (i) liabilities for services rendered, determined on the basis of projected salaries and calculated on the basis of an actuarial study, covering all current employees, those on early retirement and pensioners (ii) the fund's assets and (iii) the overall coverage surplus may be summarised as follows:

i)	Total liabilities for services rendered	40,475
ii)	Value of Fund at 31 December	40,475
iii)	Total coverage shortfall/surfeit	0

45.3 - Mathematical provisions, profit sharing and distribution of profits

Insurance Contracts	Profits Distributed in 2006	Profit Sharing Allocated in 2006	Mathematial Provision 2006
RSS	59,047	308,097	150,429,552
Super RSS	0	0	52,301,302
Unit Linked RSS	0	0	14,844,159
Financial	95,532	27,212	56,301,403
Endowment Unit Linked	0	0	1,557,653
PET	120,385	17,307	13,174,515
Risk	355,373	896,029	1,475,872
Mixed	0	0	47,373,514
Annuities	0	0	49,344,317
	1,162,337	1,248,645	386,802,287

45.4 - Acquisition of assets and liabilities

On 1 August 2006, following on from the reorganization of the insurance holdings of the Espírito Santo Financial Group, BES-Vida Companhia de Seguros, S.A. sold to T-Vida its contractual positions in the contracts brought in through the branch and brokers networks of Companhia de Seguros Tranquilidade, S.A., including all the rights, obligations and guarantees deriving from the same, for a price of 50,000,000 Euros.

As part of this transaction, all assets and liabilities associated with the contracts transferred were also transferred to T-Vida, Companhia de Seguros, S.A., calculated at their fair value as at 31 July 2006.

As at 1 August 2006, the assets and liabilities transferred may be broken down as follows:

Accounts	01 Aug. 2006
Assets	
Investments	40,437
Investments relating to life insurance where the risk is taken by the policy holder	1,867,411
Underwriting provisions for outwards reinsurance	1,288,844
Debtors – direct insurance operations	1,266,768
Tangible fixed assets	21,961
Cash	385,744,908
Accruals and deferrals	530,717
	390,761,046
Liabilities	
Underwriting provisions for direct insurance	378,239,034
Underwriting provisions for life insurance where the risk is taken by the policy holder	11,951,149
Creditors	
Direct insurance operations	112,745
Government and public sector	14,579
Other operations	146,285
	273,609
Accruals and deferrals	297,254
	390,761,046

Annex 1 – Inventory of Securities and Financial Holdings

(in euros)

Type	Quantity	Nominal Value	% of Nominal Value	Average Acquisition Cost	Total Acquisition Value	Balance Sheet Value	
						Unit	Total
1 - SECURITIES ISSUED BY GROUP AND ASSOCIATED UNDERTAKINGS							
1.1 - Portuguese							
1.1.1 - Shares in group undertakings							
subtotal	0				0.00		0.00
1.1.2 - Bonds issued by group undertakings							
subtotal					0.00		0.00
1.1.3 - Other securities issued by group undertakings							
subtotal	0				0.00		0.00
1.1.4 - Shares in associated undertakings							
subtotal	0				0.00		0.00
1.1.5 - Bonds issued by associated undertakings							
subtotal					0.00		0.00
1.1.6 - Other securities issued by associated undertakings							
subtotal	0				0.00		0.00
subtotal	0				0.00		0.00
1.2 - Foreign							
1.2.1 - Shares in group undertakings							
subtotal	0				0.00		0.00
1.2.2 - Bonds issued by group undertakings							
subtotal					0.00		0.00
1.2.3 - Other securities issued by group undertakings							
subtotal	0				0.00		0.00
1.2.4 - Shares in associated undertakings							
subtotal	0				0.00		0.00
1.2.5 - Bonds issued by associated undertakings							
subtotal					0.00		0.00
1.2.6 - Other securities issued by associated undertakings							
subtotal	0				0.00		0.00
subtotal	0				0.00		0.00
total	0				0.00		0.00
2 - OTHER SECURITIES							
2.1 - Portuguese							
2.1.1 - Fixed rate securities							
2.1.1.1 - Public debt							
subtotal					0.00		0.00
2.1.1.2 - Other public debt instrument							
subtotal					0.00		0.00
2.1.1.3 - Other issuers							
BANIF FINANCE 22/12/2016		2,000,000.00	100.00		2,000,000.00		2,000,000.00
BES EURO RENDA 16/04/2013		1,660,000.00	91.99		1,518,285.80		1,527,023.58
BES EURO RENDA 20/05/2013 - 1ªS		1,753,000.00	90.69		1,579,144.44		1,589,717.21
BESLEASING FACT SUBORD 22/10/14		520,000.00	100.00		520,000.00		520,000.00
BESLEASING FACTORING 22/08/2012		8,759,100.00	100.00		8,759,100.00		8,759,100.00
BESLEASING FACTORING 22/09/2007		79,030,000.00	100.00		79,030,000.00		79,030,000.00
BESLEASING FACTORING 22/09/2014		59,110,000.00	100.00		59,110,000.00		59,110,000.00
BESLEASING FACTORING 22/11/2010		13,000,000.00	100.00		13,000,000.00		13,000,000.00
CAIXA GER. DEPO29/09/2049		4,000,000.00	100.00		3,999,996.00		3,999,996.05
LUSITANO CLASSE C 04/18/10		6,000,000.00	100.14		6,009,000.00		6,008,539.00
MOD.CONT.03/08/2010		1,950,000.00	100.00		1,950,000.00		1,950,000.00
MONTPI 31012011		3,350,000.00	99.55		3,333,250.00		3,334,789.41
subtotal					180,808,776.24		180,829,165.25
subtotal					180,808,776.24		180,829,165.25

(em euros)

Type	Quantity	Nominal Value	% of Nominal Value	Average Acquisition Cost	Total Acquisition Value	Balance Sheet Value Unit	Balance Sheet Value Total
2.1.2 - Variable rate securities							
2.1.2.1 - Shares							
BCP	88,315			2.62	231,016.53	2.80	247,282.00
BRISA (PRIVATIZ)	18,259			8.53	155,678.80	9.45	172,547.55
CIMPOR 46,878	5.86				274,766.77	6.29	294,862.62
IMPRESA, SGPS	22,835			4.40	100,369.16	4.68	106,867.80
PORTUCEL INDUST	146,262			2.25	329,686.24	2.40	351,028.80
SONAE SGPS	176,363			1.51	266,592.63	1.51	266,308.13
subtotal	**498,912**				**1,358,110.13**		**1,438,896.90**
2.1.2.2 - Equity paper							
subtotal	**0**				**0.00**		**0.00**
2.1.2.3 - Units in investment funds							
ES - ACÇÕES EUROPA	29,682			11.71	347,685.51	12.86	381,709.62
ES - CAPITALIZAÇÃO	70,186			9.27	650,542.73	9.37	657,912.29
ES - OBRIGAÇÕES EUROPA	27,029			9.45	255,298.08	9.53	257,706.35
GESTÃO ACTIVA FF	41,837			6.08	254,391.38	6.21	259,838.50
subtotal	**168,733**				**1,507,917.70**		**1,557,166.76**
2.1.2.4 - Other							
subtotal	**0**				**0.00**		**0.00**
subtotal	**667,645**				**2,866,027.83**		**2,996,063.66**
total	**667,645**				**183,674,804.07**		**183,825,228.91**
2.2 - Foreign							
2.2.1 - Fixed rate securities							
2.2.1.1 - Public debt							
subtotal					**0.00**		**0.00**
2.2.1.2 - Other public debt instruments							
subtotal					**0.00**		**0.00**
2.2.1.3 - Other issuers							
AB.SPINTAB 14/05/2013		1,500,000.00	100.00		1,499,998.50		1,499,998.51
AUTOSTRADE SPA 06/09/2011		11,500,000.00	100.44		11,554,880.00		11,551,110.85
BAT HOLDINGS BV 16/05/2010		2,500,000.00	100.39		2,510,250.00		2,509,728.82
BBVA CAPITAL UNIPERS 13/10/2020		3,500,000.00	99.51		3,482,500.00		3,483,002.99
BEAR STEARNS CO 27/07/2005		4,000,000.00	100.12		4,005,080.00		4,004,920.42
BROOKLANDS 2004-1X A2 12/20/54		1,500,000.00	100.04		1,500,600.00		1,500,594.88
CAIXA GER. DEPO PARIS 29/12/2049		5,000,000.00	103.47		5,174,995.00		5,173,327.22
CAJA CASTILLA 02/11/2016		3,000,000.00	100.01		3,000,360.00		3,000,359.59
CAJA DE AHORROS MURCIA 03/15/14		2,000,000.00	100.95		2,020,100.00		2,019,009.01
CELF LOAN 06 1X C 01/11/2023		4,000,000.00	100.00		4,000,000.00		4,000,000.00
CREDIT SUISSE FIN PROD04/29/49		1,246,995.00	99.56		1,241,445.87		1,241,499.54
DAIMLER CHRYSLER 16/03/2010		3,000,000.00	99.93		2,997,900.00		2,997,969.37
DEKANIA EUROPE CDO C 27/09/37		4,000,000.00	100.00		4,000,000.00		4,000,000.00
EBS BUILDING SOCIETY 28/11/2016		5,000,000.00	99.86		4,993,150.00		4,993,211.88
EIRLES TWO 195 PERPETUAL		2,500,000.00	100.00		2,500,000.00		2,500,000.00
GE CAP EUR FUND 17/05/2021		7,500,000.00	99.15		7,434,750.00		7,436,503.38
GOLDMAN SACHS 04/02/2013		6,000,000.00	99.66		5,978,400.00		5,979,754.55
HALIFAX PLC PERPETUAL		9,500,000.00	100.89		9,585,250.00		9,584,432.01
JP MORGAN 12/10/2015		9,200,000.00	100.19		9,218,400.00		9,217,636.35
KONINKLIJKE KPN NV 07/21/2009		5,000,000.00	100.15		5,008,500.00		5,007,349.86
LEHMAN BROS HOLD 19/05/2016		10,000,000.00	99.48		9,945,250.00		9,947,531.24
LEV FIN CAP II 02/09/2016		2,000,000.00	100.96		2,020,000.00		2,019,180.22
MACQUARIE BANK 06/12/2016		1,500,000.00	99.86		1,497,945.00		1,497,962.41
MERRILL LYNCH 11/03/2008		1,054,000.00	99.69		1,050,047.50		1,050,771.80
MORGAN STANLEY 13/04/2016		10,000,000.00	99.69		9,968,000.00		9,969,346.91

(em euros)

Type		Quantity	Nominal Value	% of Nominal Value	Average Acquisition Cost	Total Acquisition Value	Balance Sheet Value	
							Unit	Total
NATEXIS BANQUES POP 26/01/2017			2,500,000.00	99.88		2,497,002.50		2,497,017.09
NATL CAPITAL INSTRUMENTS PERP			2,000,000.00	100.00		2,000,000.00		2,000,000.00
PANTHER CDO BV-X_C 20/03/2084			5,000,000.00	100.00		5,000,000.00		5,000,000.00
ROYAL BK SCOTLAND 49			10,000,000.00	100.79		10,080,000.00		10,079,239.46
SIRES CLN SIEME NESTLE 11/30/11			5,100,000.00	100.53		5,129,223.00		5,126,955.43
SIRES LTD04/11/2009			24,000,000.00	99.96		23,988,955.20		23,990,618.86
SLM CORPORATION 17/06/2013			5,000,000.00	99.90		4,994,800.00		4,995,137.13
SOLAR 19/09/2013			13,252,000.00	100.15		13,272,540.60		13,272,001.54
TELEFONICA EMIS 25/01/2010			10,000,000.00	100.01		10,001,000.00		10,000,882.68
VODAFONE 05/09/2013			8,500,000.00	99.95		8,495,270.00		8,495,447.36
VODAFONE 13/01/2012			9,900,000.00	99.88		9,887,130.00		9,888,094.61
	subtotal					211,533,723.17		211,530,595.97
	subtotal					211,533,723.17		211,530,595.97
2.2.2 - Variable rate securities								
2.2.2.1 - Shares								
ACCIONA		1,231			136.40	167,912.72	141,10	173,694.10
BANCO BILBAO VIZCAYA ARGENTARIA		20,025			18.63	373,018.66	18,24	365,256.00
DJ ENERGY EX		4,871			42.11	205,115.75	41,87	203,948.77
GRIFOLS SA		8,879			9.93	88,209.31	10,10	89,677.90
INDRA SISTEM		6,582			18.42	121,218.38	18,61	122,491.02
PIAGGIO		22,338			2.52	56,247.70	3,14	70,051.97
SOGECABLE		9,437			26.24	247,637.08	27,00	254,799.00
SOL MELIA, S.A		13,519			15.06	203,593.04	15,01	202,920.19
TELECINCO		7,100			21.29	151,177.81	21,58	153,218.00
TELEFONICA, SA		11,594			15.42	178,785.98	16,12	186,895.28
	subtotal	105,576				1,792,916.43		1,822,952.23
2.2.2.2 - Equity paper								
	subtotal	0				0.00		0.00
2.2.2.3 - Units in investment funds								
AGF MULTI		80			1,197.63	95,508.48	1,231,44	98,204.88
CA-AM VAR 4		17			5,925.75	100,933.32	6,054,95	103,133.96
CA-AM VOLAT		8			12,119.63	97,332.72	12,199,73	97,976.03
	subtotal	105				293,774.52		299,314.87
2.2.2.4 - Others								
	subtotal	0				0.00		0.00
	subtotal	105,681				2,086,690.95		2,122,267.10
	total	105,681				213,620,414.12		213,652,863.07
3 - GRAND TOTAL		773,326				397,295,218.19		397,478,091.98


FUTURO

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05’

LEGAL ACCOUNTS CERTIFICATE AND OPINION OF THE SOLE AUDITOR

RIGOUR.
A PRINCIPLE HARDWIRED
INTO EVERYDAY
T-VIDA’06

5.0 Legal Accounts Certificate and Opinion of the Sole Auditor

5.1 Legal Accounts Certificate

Introduction

1. I have audited the financial statements attached of T-VIDA, Companhia de Seguros, S.A., which comprise the Balance Sheet as at 31 December 2006 (which records a balance sheet total of 476,965,753 euros and total shareholders' funds of 71,110,171 euros, including a net profit 1,029,204 euros), the Profit and Loss Account for the year then ended and the respective notes to the financial statements. These financial statements have been drawn up in accordance with accounting principles generally accepted for the insurance sector in Portugal.

Responsibilities

2. It is the Directors' responsibility to prepare financial statements which give a true and fair view of the state of affairs of the company and of the profit or loss for the period, as well as to select suitable accounting policies and criteria and maintain an appropriate system of internal control.

3. It is my responsibility to form a professional and independent opinion, based on my audit, on those statements and to report my opinion to you.

Scope

4. I conducted my audit in accordance with the Audit Standards and Recommendations of the of the Chamber of Official Auditors, which require that it be planned and performed so as to obtain a reasonable assurance that the financial statements are free from material mis-statement. My audit therefore included:

- An examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements.

- An assessment of whether the accounting policies are appropriate and adequately disclosed.

- An examination to ensure that the accounts are prepared on the going concern basis.

- An assessment of the overall adequacy of the presentation of information in the financial statements.

5. My audit also included confirming that the management report accords with the financial statements.

6. I believe that my audit provides an acceptable basis on which to express my opinion on the financial statements.

Opinion

7. In my opinion, the said financial statements give a true and fair view, in all materially relevant aspects, of the state of affairs of T-VIDA, Companhia de Seguros, S.A. as at 31 December 2006, and of the company's profit in the year then ended, in accordance with accounting principles generally accepted for the insurance sector in Portugal.

8. It is also my opinion that the management report accords with the financial statements.

Lisbon, 9 March 2007

José Manuel Macedo Pereira

5.2 Report and Opinion of the Sole Auditor

1. Introduction

As required by the provisions of Article 420.1 g) of the Companies Code, I am pleased to submit my Report on my audit activities within T-VIDA, Companhia de Seguros, S.A., and to give my Opinion on the Management Report, Balance Sheet, Profit and Loss Account and the respective Notes to the Financial Statements for the financial year of 2006, as submitted to me by the Board of Directors.

The Company was incorporated on 28 July 2006, and started trading on 1 August 2006, as a result of the reorganization of the Espírito Santo Group's insurance sector holdings, with a view to operating life insurance business.

2. Report

2.1 Over the course of the period I monitored the Company's affairs, especially through analyses and checks of the books, accounting records and source documents. I also carried tests and other procedures, in the depth I deemed necessary.

2.2 The Board of Directors and the Company departments provided with all the information and explanations I requested.

2.3 I have examined the Management Report, which sets out the main events in the period, and also the Balance Sheet, Profit and Loss Account and the respective Notes to the Financial Statements, which I found to have been drawn up in accordance with generally accepted accounting standards, to comply with the requirements of the law and the articles of association and to provide a true picture of the state of the company's affairs.

2.4 The Annual Audit Report, which I have signed, sets out the main work carried out and the respective findings, and my Legal Accounts Certificate contains my opinion on the said financial statements.

2.5 In view of the above, I am please to issue this:

3. Opinion

I hereby recommend that the Annual General Meeting:

a) approve the Management Report, the Balance Sheet and Financial Statements for the financial year of 2006, as submitted by the Board of Directors;

b) b) approve the proposal for allocation of profits.

Lisbon, 9 March 2007

THE SOLE AUDITOR

José Manuel Macedo Pereira

TRANQUILIDADE / T-VIDA'06
ANNUAL REPORT

Photographs:
Banco Espírito Santo Collection

Design and development:
Linha 21 Marketing e Publicidade

TRANQUILIDADE

VIDA

Companhia de Seguros Tranquilidade, S.A.
Registered Office: Av. da Liberdade, 242 • 1250 - 149 Lisboa - Portugal
Registered Share Capital: 135 000 000 euros • Registered with Lisbon Registry of Companies under 610 - VAT 500 940 231

T- Vida, Companhia de Seguros , S.A.
Registered Office: Av. da Liberdade, 242 • 1250 - 149 Lisboa - Portugal
Registered Share Capital: 20 000 000 euros • Registered with Lisbon Registry of Companies and VAT 507 684 486