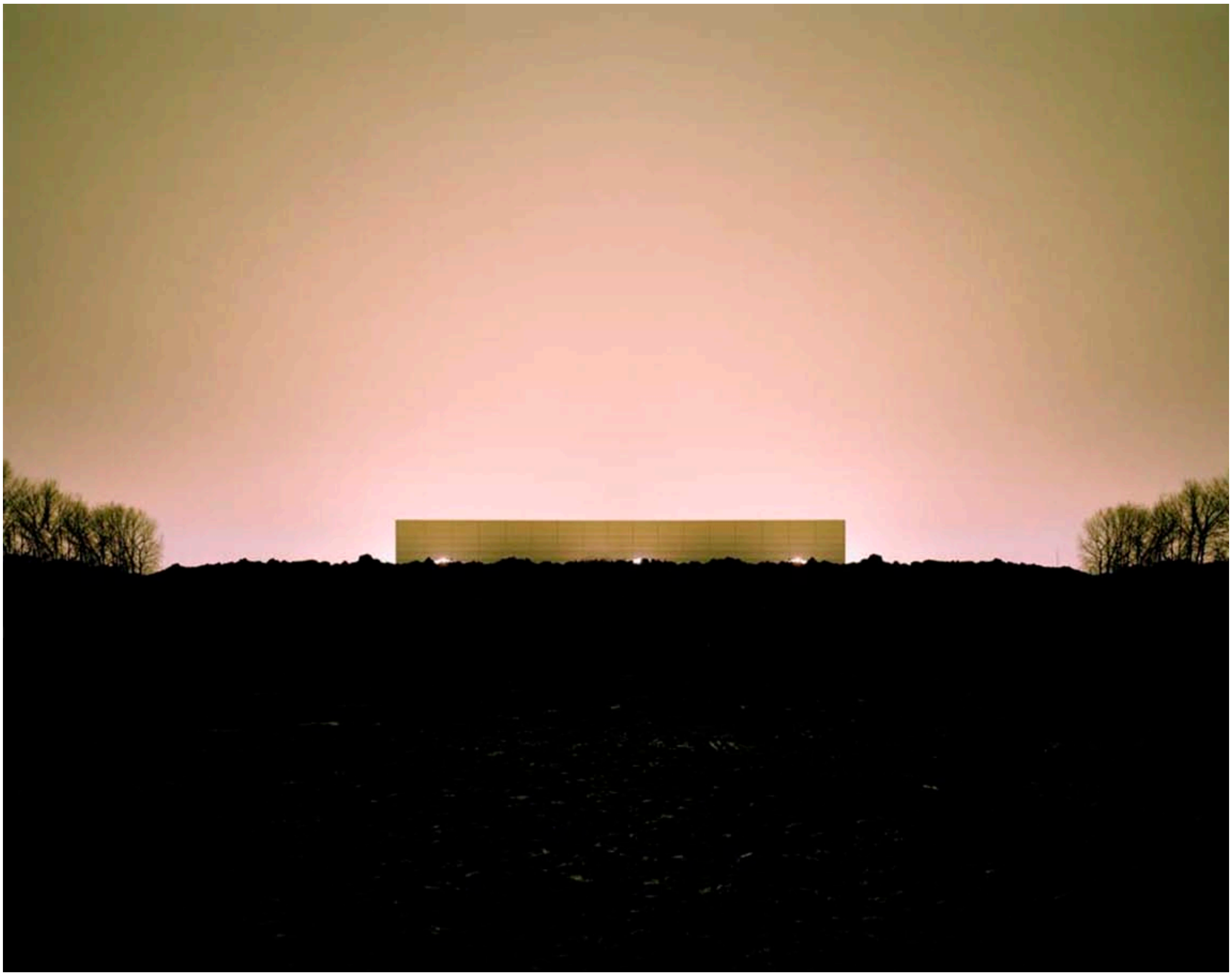


TRANQUILIDADE 08
ANNUAL REPORT

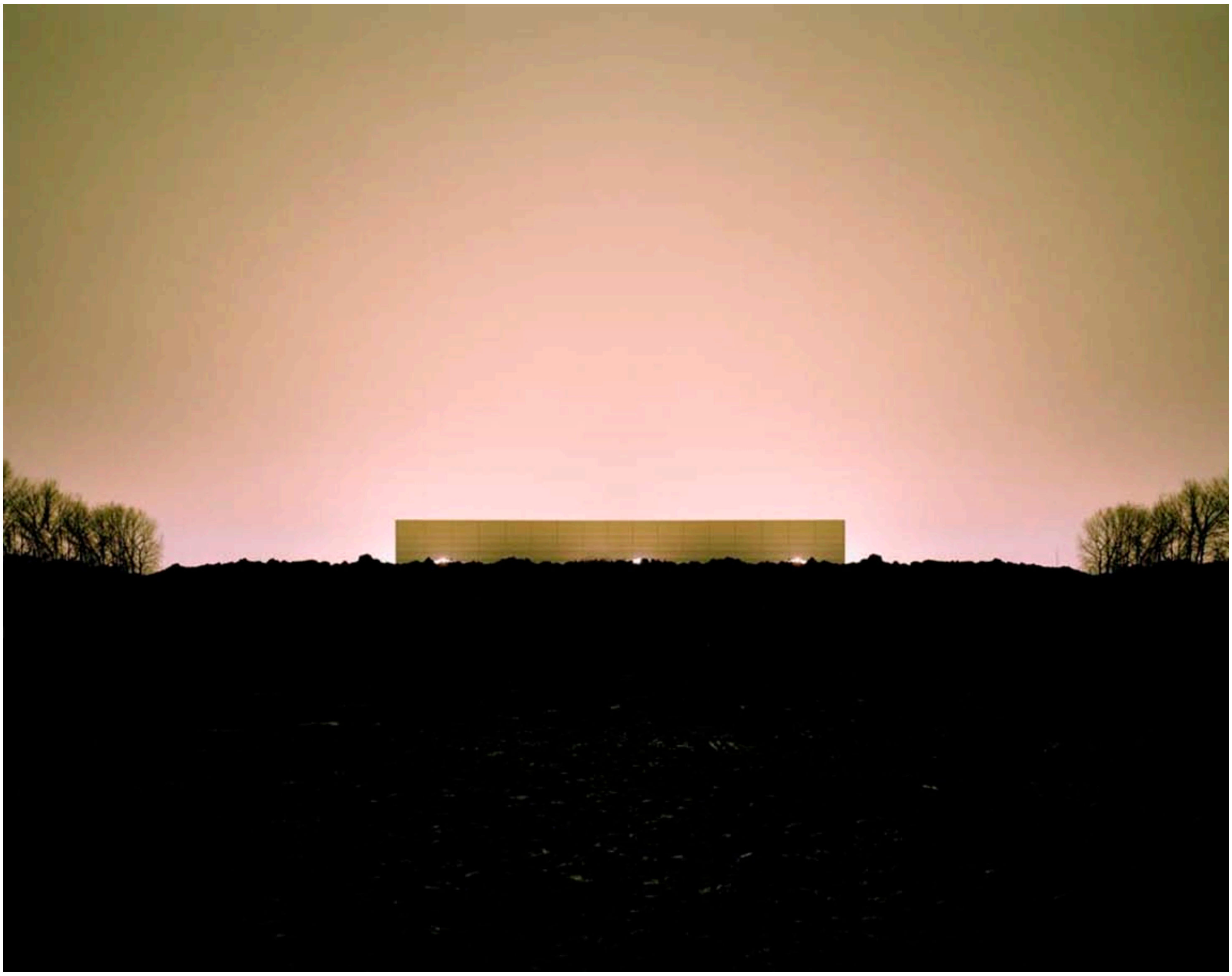
TRANQUILIDADE

CHRISTOPHER WILLIAMS
Kiev 88, 4.6 lbs. (2.1 Kg)
Manufacturer: Zavod Arsenal Factory, Kiev, Ucrânia.
Date of Production: 1983-87 Douglas M. Parker Studio, Glendale, Califórnia.
March 28, 2003 (NR. 1,2,3), 2003
Triptych, Three framed dye transfer prints
Each photograph: 16 x 20 inches,
40.6 x 50.8 cm

Courtesy David Zwirner, New York

The photographs illustrating this year's Annual Report are taken from the BES art collection which Banco Espírito Santo has been amassing since 2004 from the recent work of leading contemporary artists in Portugal and abroad.

BES art COLECÇÃO BANCO ESPÍRITO SANTO



EDGAR MARTINS
Untitled, from the series The Diminishing Present (chapter 2), 2005
Chromogenic Process (C-Print) mounted on aluminium · 75 x 85 cm
Edition 1/5 + 1 AP

Courtesy the Artist

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 640 . VAT 500940231

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GERARD CASTELLO LOPES
1925, Vichy, France
Porto, 1989
Gelatin silver print
50 x 40 cm

Courtesy the Artist

01
COMPANY OFFICERS

TRANQUILIDADE

Company Officers

General Meeting

Luís Frederico Redondo Lopes
(Chairman)

Nuno Miguel Matos Silva Pires Pombo
(Secretary)

Board of Directors

Rui Manuel Leão Martinho
(Chairman)

Pedro Guilherme Beauvillain de Brito e Cunha
(Director)

Augusto Tomé Pires Fernandes Pedroso
(Director)

António Miguel Natário Rio-Tinto
(Director)

Miguel Maria Pitté Reis da Silveira Moreno
(Director)

Nuno Miguel Pombeiro Gomes Diniz Clemente
(Director)

Eduardo Antunes Stock
(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

Miguel Maria Pitté Reis da Silveira Moreno

Nuno Miguel Pombeiro Gomes Diniz Clemente

Audit Board

José Manuel Ruivo da Pena
(Chairman)

Rui Manuel Duarte Sousa da Silveira
(Member)

António Ricardo Espírito Santo Bustorff
(Member)

José Ramos Teles de Matos
(Alternate Member)

Official Auditor

José Manuel Macedo Pereira

Ana Cristina Soares Valente Dourado
representing KPMG
e Associados
(Alternate Auditor)

Executive Board

Peter Brito e Cunha

(Chairman)

Tomé Pedroso

Miguel Rio-Tinto

Miguel Moreno

Nuno Clemente

ELGER ESSER
1967, Stuttgart, Germany, *Baie de la Somme, France*, 2005
Chormogenic Process (C-Print), mounted on Duasec • 181 x 242 cm
Edition 3/7

Courtesy Sonnabend Gallery

02 DIRECTORS' REPORT

TRANQUILIDADE

Director's 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 2008.

2.1 Economic Background

2.1.1 The International Economic Situation

The financial year of 2008 was marked by the continuation and worsening of the subprime mortgage crisis in the United States, which gradually spread into a generalized crisis of confidence, with repercussions for the financial systems and for the economy worldwide.

Growing perception of liquidity and solvency risks (as a number of financial institutions in the United States and Europe filed for bankruptcy, and others lost their independence) resulted in institutions being almost entirely reluctant to accept exposure to each other's risks in the money and credit markets. The shortage of credit facilities from the private sector reached its peak at the end of the third quarter and the start of the fourth, despite aggressive intervention by the authorities to get the markets back to functioning normally.

In the Euro Zone, the Euribor 3 month rate rose from 4.684% to a peak of 5.393% (in early October), ending the year at 2.892%, after reductions in leading rates and substantial injections of liquidity into the money market by the European Central Bank (ECB). Increased uncertainty (especially in relation to the financial sector) and expectations of a slowdown in the economy sent the main share indexes into rapid decline, in both the US and the Euro Zone.

A high level of volatility was also visible in the commodities market. During the first half of the year, oil prices climbed significantly, reaching a level close to USD 150/barrel in July. The rise in prices was driven by strong demand from emerging markets, difficulties in expanding global supply and, in particular, an increase in demand of a speculative nature.

Expectations of a slowdown in demand and, later, the growing probability of a scenario of global recession pulled the rug from under the speculative demand and brought the price per barrel down sharply, with oil closing the year at prices slightly over USD 40. The same readjustment was observed in non-energy commodities, thereby contributing to a significant drop in inflation (and expectations of inflation) at the end of the year.

A tighter monetary and financial environment, the shortage of liquidity in the capital markets, the sharp rise in commodities prices and inflation in the first half of the year and, last but not least, a significant deterioration in business confidence indexes all contributed to a slowdown, or even contraction, in the main developed economies. Although their prospects for growth remained more favourable than for Europe and the United States, the emerging markets were also hit by the global slump in confidence, affecting both the economy in general and above all the financial markets.

The Euro Zone economy slowed significantly in 2008, with growth dropping to 0.8%, down from 2.6% in 2007. It should be stressed that positive growth was recorded only in the first quarter, and the economy contracted in the remaining quarters, especially towards the end of the year.

Economic performance in the Euro Zone was increasingly influenced by the growing restrictions on credit, by negative equity caused by losses on share markets and by the widespread climate of uncertainty which gradually took hold.

There was a clear deterioration in business and consumer sentiment, with the respective indexes dropping to all-time lows in the final months of the year. As a result, it was essentially internal demand which led the slowdown, with growth falling to 0.7%, after 2.4% in 2007. Exports and imports also slowed over the year, with exports being hit by the slump in world trade and by the strong euro during the first half of the year and imports keeping pace with the fall-off in internal demand.

Despite this economic situation, the annual average unemployment rate held steady at the same level as in 2007, at 7.5% of the working population, although it visibly deteriorated towards the end of the year (8.1% in the final quarter). In terms of prices, annual average inflation rose from 2.1% to 3.4%, due to the sharp rise in the oil price on international markets, especially during the first half of 2008. However, the year-on-year rate dropped significantly in the final quarter, standing at 1.6% in December.

In a more restrictive monetary and financial environment, after raising its leading interest rate in July by 25 base points to 4.25%, the ECB slashed its rate between October and December by a total of 175 base points, to 2.5%. The euro fell by 4.3% against the dollar over the year as a whole, closing the period at EUR/USD 1.3953.

In the first half of the year, the euro had gained in value, reaching a high of EUR/USD 1.5590 IN April before readjusting downwards in the second half.

2.1.2 The Portuguese Economy

Although not directly exposed to the subprime mortgage crisis, the Portuguese economy felt in 2008 the negative impact of the crisis of confidence in the international financial system, of rising commodity prices (in the first half of the year) and of the slowdown in external demand. In this context, annual growth in GDP slipped from 1.9% to 0% and the economy recorded two consecutive quarters of economic contraction in the second half of the year.

This was caused primarily by an abrupt slowdown in exports, for which annual growth tumbled from 7.5% to 0.4%, and by the drop in investment, down by 0.5% over the year, after growth of 3.1% in the previous year. The cooling of exports was due above all to the worsening economic situation in Spain, the United Kingdom, the Unite States, Germany and France, which are Portugal prime trading partners.

However, Portuguese exports to less traditional destinations continued to flourish. These new export markets are to be found in Angola and North Africa, and to a lesser extent in certain Asian and Latin American economies. The slump in exports affected both goods and services.

Gross fixed capital formation was constrained above all by the increasingly restrictive monetary and financial environment (with a widespread increase in lending spreads for corporate and household borrowers) and by worsening expectations of future demand, visible in the downward trend in the main business confidence indexes over the year.

Growth in consumer spending held relatively steady over 2008 as a whole, at 1.4%. This represents growth in excess of GDP and suggests a further decline in household savings, which were down to around 5.5% of GDP. Despite the downwards trend in consumer confidence indexes, household spending appears to have been sustained in the second half of the year by the slowdown in inflation and falling interest rates.

The annual average rate of inflation rose from 2.5% to 2.6% in 2008, but the year-on-year variation in prices stood at only 0.8% at the end of the year. The annual average unemployment rate fell from 8.0% to 7.6% of the working population, reflecting growth slightly above potential in the last two years. However, unemployment started to creep upwards in the final quarter of 2008 (to 7.8%), in line with the stagnation in the economy in the second half of the year.

The public spending deficit was again reduced in 2008, from 2.6% to 2.2% of GDP. At the same time, the slowdown in exports and continued sustained growth in imports contributed to an increase in the combined deficit of the current and capital account balances (i.e. the net borrowing requirements of the Portuguese economy) from 8,3% to 10.0% of GDP.

2.1.3 The Insurance Market

The serious crisis in the financial market, which spread into all sectors of the economy, also affected the insurance industry.

A evolução negativa do mercado de capitais, condicionou a valorização The negative performance of the capital markets undermined the value of the sector's investment portfolio and the resulting potential losses affected the results for the period. In certain instances, equity needed to be bolstered to maintain insurers' solvency margins at prudent levels.

Stagnation in the Portuguese economy combined with a decline in prices (due to increasingly intense competition) resulted in a historical drop in the overall value of non-life premiums.

Total underwriting, for life and non-life business, stood at 15,336 million euros in 2008, up by 11.5% on the previous year, thanks to strong performance by life business. With total premiums of 11,012 million euros and year-on-year growth of 17.5%, the life segment made the largest contribution to positive evolution of the insurance market in 2008.

Contributions to retirement savings schemes recorded the best performance, with growth of 45.2%. This type of product, together with other long term savings products marketed by insurance companies, is increasingly popular with savers and may actually have benefited from the current crisis situation in the financial markets, attracting savings to products presenting a lower risk. At the same time, redemptions of life insurance policies with a capitalization component have also tended to rise – sums paid out in 2008 were up by more than 40%.

The non-life segment, with total premiums of 4,324 million euros, presented negative growth of -1.3% in relation to the previous year. The main contributors to this trend were motor insurance (down by 6.9%, due to the downward trend in average premiums and also the change in the way contributions to the Vehicle Guarantee Fund are calculated) and employers' liability (down by 2.8%, due to lower tariffs and the economic downturn).

Many of the other non-life segments recorded growth, as in health insurance (up by 10.5%), reflecting the continuing concern with access to health care, and credit and bond insurance (up by 14.4%), reflecting the increased demand for this type of guarantee, in the current economic situation.

The insurance industry's contribution to GDP rose from 8.45% in 2007 to 9.15% in 2008, an all time high. The life segment contributed 6.57% of GDP, whilst non-life contributed 2.58% (5.75% and 2.69% respectively in 2007). The non-life claims rate worsened in 2008, especially for employers' liability and health, where the rate remained very high at close to 80%.

In terms of the legal and regulatory framework for the insurance sector, the most important development in 2008 was the publication of the new Insurance Contract Law. Although this only took effect at the start of 2009, considerable work was required in 2008 to prepare for the change in the legal rules.

Other projects are currently being prepared, notably Solvency II, for which studies have been carried out in various markets, including, in 2008, QIS 4, which recorded very positive participation from the Portuguese insurance market.

2.2 Major Developments in 2008

Since 2006, the non-life insurance market has been hit by the slowdown in economic growth, and has felt the influence of the new Collection Law. The combination of these two factors has resulted in increased competition and a high level of customer turnover.

In view of this market situation, Tranquilidade has adopted measures to increase customer loyalty, cutting average premiums per customer and forgoing a number of large contracts where the pressure of competition wore down its profit margin.

In 2008, Tranquilidade developed its segment-oriented approach to customers, increasing investment in units geared to medium sized corporate clients and private customers. It also continued to invest in its network of franchised shops, which grew to a total of 71 shops by the end of the year. In partnership with Banco Espírito Santo it also expanded its network of outposts to 42.

In the course of 2008 Tranquilidade set itself a fresh challenge for the three-year period 2008-2010: the Triathlon Programme, with the aim of achieving growth in business and reducing the company's cost structure.

To the same end, Tranquilidade has stepped up its commitment to customer service resources, providing an online service for local consultation, issuing and amendment of policies, in order to achieve a substantial increase in the number of brokers with the capacity for local execution of operations. This system has made it possible to increase the proportion of decentralized policy issuing and to obtain a substantial reduction in average issue times. By year-end 2008, 76% of all policies were issued online by agents.

In terms of following through sales efforts, in addition to continued tests for the new procedure for remote support for some of the brokers, the first steps were taken towards a new programme for maximising commercial effectiveness and productivity in the field. The size of sales teams has been optimized and a programme has been launched for developing best sales practices.

In terms of products, Tranquilidade embarked on a major process of revamping its range for the business segment, whilst continuing to improve its products for motor, comprehensive and health insurances for private customers.

Another aspect of the Tirathlon programme involves increasing operational efficiency and reducing costs. In this area Tranquildiade completed in 2008 a substantial alteration to its IT infrastructure, abandoning the mainframe platform and implementing a distributed platform.

Following up the Strategic Action Plan for 2005-2007, known as the Turbo Programme, Tranquilidade launched its direct insurer LOGO, SA at the start of 2008. This company operates exclusively through telephone and internet channels, offering motor insurance only at this initial stage.

In the field of claims management, the company has followed up the development and deployment of resources allowing it to improve effectiveness and efficiency in this area, primarily through dematerialization of the documentation circuits and provision of management support tools.

The measures implemented allowed it to cut operating costs in 2008 by approximately 11 million euros, representing a reduction of 12.5% in relation to 2007.

At 31 December 2008, Tranquilidade maintained its A- rating awarded by Fitch Ratings.

2.3 Leading Variables and Business Indicators

('000 euros)

	2008	2007	VAR 08/07 (%)
Balance Sheet			
Investment	740,464	770,623	-3.9
Net assets	956,185	1,004,934	-4.9
Shareholders' funds	220,445	266,171	-17.2
Provision for unearned premiums (DI + IR)	84,485	94,773	-10.9
Provision for claims (DI + IR)	530,264	528,486	0.3
Provision for claims, net of reinsurance	495,249	493,813	0.3
Underwriting provisions (DI + IR)	639,233	634,802	0.7
Profit and Loss Account			
Gross premiums written (direct insurance)	334,031	361,974	-7.7
Premiums written, net of reinsurance	307,777	314,019	-2.0
Cost of claims (direct insurance)	229,654	224,366	2.4
Cost of claims, net of reinsurance	213,087	213,045	0.0
Operating costs	77,334	88,412	-12.5
Earnings	29,451	28,998	1.6
Net profits	10,059	22,842	-56.0
Indicators			
Gross premiums written/No. employees	445.4	445.2	0.0
Claims rate (direct insurance)	65.9%	62.1%	+3.8 p.p.
Claims rate net of reinsurance	69.2%	67.8%	+1.4 p.p.
Pro-forma net profits/Gross premiums written	3.0%	6.3%	-3.3 p.p.
Combined ratio, net of reinsurance	106.4%	101.7%	+4.7 p.p.
Solvency ratio	320.0%	273.9%	+46.1 p.p.

2.4 Tranquilidade: Operations in 2008

2.4.1 Direct Insurance Premiums

Direct insurance premiums stood at 334,031 thousand euros in 2008, down by 7.7% from 2007. The non-life insurance market also experienced a decline in direct underwriting, down by 1.3%.

The effect of the downturn in the economy in 2008 was felt most strongly in the non-life segment, and especially in motor and employers' liability insurance, with reductions in average premiums and downwards price adjustments.

At Tranquilidade, the drop in underwriting was due essentially to the performance of motor insurance, which contracted by 15.5% in relation to the previous year. Fierce competition in prices, the decline in average premiums and the introduction of automatic procedures for premium payments were the main factors in this reduction in premiums. The man insurers operating in the Portuguese market all experienced a similar tendency in motor insurance, and it was the smaller insurance companies who succeeded in attracting more customers. The market as a whole contracted by 6.9%.

The reduction of 3.2% in accidents and health insurance reflects the downturn in personal accident business (52.0%, due to internal reorganization in the Espírito Santo Insurance Group, which had an impact on this area of business), partially offset by successful performance in employers' liability and health insurance, with above-market growth (respectively + 0.5% as opposed to market decline of – 2.8% and + 20.9% as compared to market growth of 10.5%).

Tranquilidade also recorded good performance in the fire and other damage sector, where its growth of 5.0% was higher than the rate of 3.7% for the market as a whole. These good results were achieved thanks to significant growth in cross-selling in retail channels and the positive contribution of business units geared to medium sized companies and major clients, and brokers.

It should be noted that, excluding motor underwriting and the transfer of one personal accidents insurance contract to another Espírito Santo Group insurer, Tranquilidade would have recorded year-on-year growth in 2008 of 3.6%.

('000 euros)

DIRECT INSURANCE PREMIUMS	2008	%	2007	%	VAR 08/07 (%)
Accidents and health	100,050	30.0	103,313	28.5	-3.2
Fire and other damage	59,202	17.7	56,388	15.6	5.0
Motor	145,132	43.4	171,792	47.5	-15.5
Transport	8,640	2.6	8,761	2.4	-1.4
Civil liability	10,446	3.1	10,058	2.8	3.9
Other	10,561	3.2	11,662	3.2	-9.4
TOTAL	**334,031**	**100.0**	**361,974**	**100.0**	**-7.7**

Tranquilidade has a market share of 7.8%, and remains the fourth largest company in terms of non-life premiums. The other three largest insurers also saw their market share decline in 2008.

2.4.2 Cost of Claims – Direct Insurance

The cost of claims on direct insurance totalled 229,654 thousand euros, representing an increase of approximately 5,288 thousand euros, in other words, +2.4% in relation to 2007. Excluding the effect of the provisions adequacy test (-5,242 thousand euros in 2007 and +6,071 thousand euros in 2008) the cost of claims was down by 2.0% in 2008.

The most significant variations were those recorded in fire and other damage (+15,931 thousand euros) and in accidents and health (+8,008 thousand euros). The cost of claims came down for motor insurance, in relation to the previous year, by 16,951 thousand euros.

('000 euros)

COST OF CLAIMS - DIRECT INSURANCE	2008	2007	VAR 08/07 (%)
Accidents and health	69,373	61,365	13.1
Fire and other damage	37,733	21,802	73.1
Motor	114,385	131,336	-12.9
Transport	4,997	5,064	-1.3
Civil liability	2,325	3,668	-36.6
Other	841	1,131	-25.6
TOTAL	**229,654**	**224,366**	**2.4**

The claims rate (cost of claims / gross premiums written) was up by 3.8 p.p. in relation to the previous year, standing at 65.9%, due essentially to the increase in the fire and other damage group (up from 39.1% to 63.7%).

The high claims rate in this group was most visible in multiple risk products and reflects the bad weather at the start of the year and the occurrence of a number of significantly large claims. The claims rate for the motor sector, at 72.3%, was down by 3.4 p.p. on the previous year – despite the erosion of premiums it was possible to bring down the claims rate through measures taken to optimize the cost of claims.

COST OF CLAIMS / GROSS PREMIUMS EARNED*	2008	2007
Accidents and health	69,2	60,1
Fire and other damage	63,7	39,1
Motor	72,3	75,7
Transport	56,9	57,4
Civil liability	22,0	39,1
Other	7,4	10,0
TOTAL	**65,9**	**62,1**

(*) Cost of claims with costs allocated as % of premiums earned.

2.4.3 Underwriting Provisions – Direct Insurance

Underwriting provisions for direct insurance stood at 635,094 thousand euros, representing an increase of 735 thousand euros. The reduction in the provision for unearned premiums was more than offset by the increase in the provision for unexpired risks, due to the performance of the claims rate, principally in multiple risk and motor business.

('000 euros)

UNDERWRITING PROVISIONS	2008	2007	VAR 08/07 (%)
Provision for unearned premiums	83,208	94,703	-12.1
Provisions for claims	528,672	528,177	0.1
Employers' liability	177,284	179,636	-1.3
Other areas	351,388	348,541	0.8
Other underwriting provisions	23,214	11,479	102.2
TOTAL	**635,094**	**634,359**	**0.1**

2.4.4 Outwards Reinsurance

The outwards reinsurance balance stood at 15,529 thousand euros, and was consequently more favourable in 2008 than in 2007, by 9,831 thousand euros.

The drop in premiums transferred reflected a reduction in business lines with a large reinsurance component (personal accident).

('000 euros)

OUTWARDS REINSURANCE	2008	2007	VAR 08/07 (%)
Premiums	41,698	48,125	-13.4
Commissions	-8,394	-10,692	-21.5
Claims and variation in underwriting provisions	-17,775	-12,072	47.2
RESULT	**15,529**	**25,361**	**-38.8**

2.4.5 Underwriting Balance Net of Reinsurance

The underwriting balance net of reinsurance stood at 57,471 thousand euros, down by 28% in relation to the previous year, under the negative influence of the reduction in underwriting, the increased cost of claims and the provision for unexpired risks.

The largest decline was in motor business, where the underwriting balance net of reinsurance was down by 14,195 thousand euros, in comparison with the previous year. Also in accidents and health and fire and other damage, the underwriting balance fell by 13.1% and 37.0%, respectively.

('000 euros)

UNDERWRITING BALANCE, NET OF REINSURANCE	2008	2007	VAR 08/07 (%)
Accidents and health	22,941	26,388	-13.1
Fire and other damage	10,266	16,290	-37.0
Motor	16,828	31,023	-45.8
Transport	1,961	2,161	-9.3
Civil liability	5,342	4,027	32.7
Other	133	-98	235.7
TOTAL	**57,471**	**79,791**	**-28.0**

2.4.6 Operational Costs

Total operational costs were down by 12.5%, standing at 77,334 thousand euros in 2008. The reduction in costs was achieved thanks to forceful containment measures adopted by the company, in the form of staff costs, negotiation of collection costs, contracts with suppliers and a reduction in IT costs.

Accordingly, in 2008, personnel costs were brought down by 7.4% and third party supplies and services by 16.4%, resulting in savings of 3,086 thousand euros and 4,969 thousand euros, respectively.

The reduction in taxes was due to the fact that the Vehicle Guarantee Fund ceased to recorded under costs in 2008.

('000 euros)

OPERATING COSTS	2008	2007	VAR 08/07 (%)
Personnel costs	38,386	41,472	-7.4
Third party supplies and services	25,290	30,259	-16.4
Taxes and charges	2,931	6,033	-51.4
Depreciation	8,786	8,652	1.5
Other *	1,941	1,996	-2.8
TOTAL	**77,334**	**88,412**	**-12.5**

(*) Includes Provisions for Risks and Charges, Interest Expense, Commissions and Other Investment Costs

2.4.7 Personnel

Tranquilidade took on 29 new employees in 2008, with 92 workers leaving the company, including 50 due to early retirement and retirement.

This resulted in a reduction in the permanent workforce of 7.7%. In terms of productivity, direct insurance premiums per permanent employee stood at 445,374 euros.

	2008	2007	VAR 08/07 (%)
Employees hired	29	29	0.0
Employees leaving	92	92	0.0
of which on early retirement or retirement	50	37	35.1
Total workforce	750	813	-7.7
Premiums / no. of employees	**445,374**	**445,233**	**0.0**

2.4.8 Investment

The financial year of 2008 was marked by an unprecedented crisis in the international financial markets and a sharp slowdown in the economy worldwide.

The main stock exchanges recorded considerable losses, in the order of 50% in most cases. Globalization has meant that no country has been left untouched by the wave of deleverage, with the financial sector the worst affected.

In the course of 2008, as the crisis which started in the subprime sector in 2007 continued to spread, credit markets found themselves in increasing disarray. In corporate debt issues, spreads tended to widen, especially after Lehman Brothers was declared insolvent, due to the growing perception of the deterioration in the capacity of companies to honour their liabilities.

Extreme uncertainty as to the extent and duration of the crisis sent short term interest rates climbing, which undermined the financing of the economy. The situation was at its most acute at the start of the fourth quarter, after which the spread between Euribor rates and leading rates started to return to normal.

The turmoil and volatility experienced in the financial markets in 2008 had an impact on Tranquilidade's financial operations. The situation required a significant shift in the financial strategy mapped out at the start of the year. These changes included reduction in exposure to the equity market to close to zero at the end of 2008 and the keeping of high levels of liquidity.

The overall impact on financial results in 2008 was negative, due to impairments on bond positions and losses on the disposal of equity positions regarded as trading securities, offset by positive gains on the disposal of a number non-core financial holdings.

The company built up its floating rate bond portfolio during the first quarter, seeking primarily to maintain an average portfolio rating of A2/A. From November onwards, the company invested in fixed rate bonds with 3/5year maturities, accompanied by measures for reducing maturities on its portfolio assets.

This was accompanied by efforts to increase exposure to liquidity, and most investments were made at the top interbank market rates with a maturity of six months – investments with an average yield of 6.4%.

A further development in 2008 was the increase in the share capital of insurance subsidiaries (T-Vida and LOGO, increases of 50,000 thousand euros) and the valuation of Tranquilidade Group companies at market value.

Equity was brought down by 8,525 thousand euros by the sharp rise in credit spreads, with an impact on potential losses in the bond segment.

('000 euros)

ASSETS UNDER MANAGEMENT	2008	2007	VAR 08/07 (%)
Bonds	268,251	272,446	-1.5
Shares and investment funds	198,264	287,994	-31.2
Shares and investment funds - Strategic	193,356	218,663	-11.6
Shares and investment funds - Trading	4,908	69,331	-92.9
Property	126,661	127,241	-0.5
Liquidity	165,795	120,335	37.8
Other	2,096	2,171	-3.5
TOTAL	**761,067**	**810,187**	**-6.1**

The yield on average assets stood at 4.0%, as compared with 4.3% in 2007. This decline was caused by the negative effect of impairments in bond positions, although this effect was partially offset by gains realized on the disposal of non-core financial holdings. If we exclude the effect of these impairments, the yield obtained in 2008 would have been 5.9%.

('000 euros)

FINANCIAL PROFITS	2008	2007	VAR 08/07 (%)
Earnings	29,451	28,998	1.6
Securities	26,892	25,947	3.6
Property	2,559	3,051	-16.1
Gains and losses	16,313	6,639	145.7
Securities	15,513	5,820	166.5
Property	800	819	-2.3
Impairment	15,602	1,862	737.9
Securities	15,602	534	2 821.7
Property		1,328	
TOTAL	**30,162**	**33,775**	**-10.7**

2.4.9 Equity and Solvency Margin

Equity was down by 45,726 thousand euros in 2008 in relation to the previous year, at 233,306 thousand euros due, in the main, to the reduction in the revaluation reserve (through adjustment to the fair value of financial assets).

This effect was caused by alteration of the valuation criteria for companies included in the consolidated account of the Tranquilidade Group, from acquisition value to fair value, offsetting the potential losses on the bond portfolio.

The solvency ratio improved from 320.0% from 273.9% in 2007. This was due in part to growth in equity components, and in particular then variation in the revaluation reserve – fair value.

('000 euros)

EQUITY	2008	2007	VAR 08/07 (%)
Share capital	135,000	135,000	0.0
Revaluation reserves (net of deferred taxes)	16,973	54,758	-69.0
Other reserves	40,046	37,699	6.2
Retained earnings	18,367	15,872	15.7
Net profits	10,059	22,842	-56.0
TOTAL	**220,445**	**266,171**	**-17.2**

2.4.10 Internal Control

A number of important projects were implemented in 2008 for monitoring legal impacts in terms of compliance and risk management, and for adapting to future challenges which will require substantial changes in the insurance business. Examples of these are:

- Start-up of the Economic Capital internal models project;
- Membership of ISP and APS working parties on issues relating to progress on Solvency II.
- QIS 4 – Quantitative Impact Study on application of Solvency II rules to calculating the economic capital of insurance companies;
- Review of the company's internal control system;
- Drafting of reports on Tranquilidade's risk policy;
- Design and compilation of the operating risk data base;
- Launch and training for operating risk areas;

In terms of new legislation, the company focussed on following through implementation of the new Insurance contract law, and also studied and implemented the new law on the prevention of money laundering.

2.5 Proposal for Allocation of Profits

The company recorded profits of 10,059,341.17 euros in 2008, for which we propose the following allocation:

a) 10% of profits for the period, 1,005,934.12 euros, to the Legal Reserve;

b) The remainder to Other Reserves.

2.6 Objectives for 2009

The prospects for 2009 point to recession in most advanced economies, low growth in emerging market economies, a reduction in international trade and continued constraints on credit.

Despite efforts by the monetary authorities to inject liquidity, the global economic outlook is strongly pessimistic, dominated by the threat of recession and deflation.

The capital markets are therefore expected to remain highly volatile, and the insurance industry faces another difficult year as regards its financial operations.

Economic and financial constraints combined with an aggressive market are expected to cause a significant reduction in tariffs, requiring the company to achieve further cost cuts, in order to bring down its expense ratio.

Tranquilidade will therefore move forward with its three-year plan designed to provide additional decentralized operating capacity and to improve the productivity of its teams.

With regard to sales, Tranquilidade will invest in five main aspects in the next few years:

1. Increasing its commercial effectiveness in non-life business, leveraging the Group's range of life and assurfinance products;

- Techniques for measuring commercial/sales productivity

- Implementation of best practices in sales methodologies

2. Optimization of customer retention (Auto);

3. Developing nationwide coverage, increasing the company's presence in more multi-brand points of sale;

4. Continued development of segmented market approaches, moving into the business segment in a more structured way;

5. Providing customers with a constantly improving service.

Over the course of its history, Tranquilidade has supported various sectors of the community, with a view to helping to build a better, fairer and more sustainable society.

In 2008, the company continued to foster the values associated with sustainability, designing a new sustainability architecture known as Tranquilidade Value.

This type of contribution is part of our sustainability architecture – Tranquilidade Value – based around the following focal points:

- "Team Value" – Building common objectives and sharing knowledge:

- "Social Value" – Developing and improving the existing social responsibility strategy, creating routines for relations with the community:

- "Environment Value" – Raising the environmental awareness of the internal and external public;

- "Culture Value" – Continuing to support and promote cultural development in Portugal;

- "Sport Value" – We aim to play a key role in the progress of Portuguese sport.

In 2009, the company is set to complete and implement capacity geared to control and mitigation of overall risk, with implementation of its Business Continuity Plan and the Support models for the Solvency II requirements.

In the field of risk policy, the company plans to work on the following in 2009:

- Internal models for economic capital, encompassing all Tranquilidade Group companies;

- Definition and identification of indicators and measurement techniques for monitoring overall risks;

- Development of reporting models for operational risk;

- Identification and monitoring of the main compliance risks.

2.7 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 record our appreciation of the work of the Supervisory Board and the Official Auditor, and our thanks to the Portuguese Insurance Institute and the Portuguese Association of Insurance Companies for their co-operation in their respective fields.

Lisbon, 03 March 2009

The Board of Directors

Rui Manuel Leão Martinho
(Chairman of the Board of Directors)

Pedro Guilherme Beauvillain de Brito e Cunha
(Director and Chairman of the Executive Board)

Augusto Tomé Pires Fernandes Pedroso
(Director and Member of the Executive Board)

António Miguel Natário Rio-Tinto
(Director and Member of the Executive Board)

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Eduardo Antunes Stock
(Director)

Miguel Luís Kolback da Veiga
(Director)

António José Baptista do Souto
(Director)

Manrico Iachia
(Director)

António Manuel Rodrigues Marques
(Director)

GERARD CASTELLO LOPES
Lisboa, 1998
Gelatin silver print
40 x 50 cm

Courtesy the Artist

03
FINANCIAL STATEMENTS

TRANQUILIDADE

Financial Statements

Balance Sheet at 31 December 2008 and 2007

('000 euros)

ASSETS	Notes	2008 Gross	2008 Impairment, Depreciation/ Amortization or Adjustments	2008 Net	2007
Cash and cash equivalents and sight deposits	8	23,586		23,586	41,158
Investments in subsidiaries, associates and joint venture	7	133,006		133,006	105,490
Trading assets	6	35		35	
Financial assets classified on initial recognition at fait value through profit or loss	6	4,538		4,538	21,151
Hedging derivatives					
Available-for-sale financial assets	6	324,488	16,135	308,353	364,733
Loans and receivables		**167,871**		**167,871**	**152,008**
Deposits made under assumed reinsurance contracts	6	1		1	2
Other deposits	6	119,315		119,315	81,004
Loans	6	45,336		45,336	71,002
Accounts receivable					
Other	6	3,219		3,219	
Held-to-maturity investments					
Land and buildings		**131,971**	**5,310**	**126,661**	**127,241**
Land and buildings in own use	9	45,029	5,310	39,719	44,337
Investment property	9	86,942		86,942	82,904
Other tangible assets	10	37,782	34,416	3,366	3,974
Inventories	10	396		396	507
Goodwill	12	25,785		25,785	25,785
Other intangibel assets	12	40,853	27,650	13,203	12,607
Underwriting provisions - outwards reinsurance		**47,901**		**47,901**	**48,024**
Provision of unearned premiums	4	12,886		12,886	13,351
Provision for claims	4	35,015		35,015	34,673
Provision for profit sharing					
Provision for rate commitments					
Provision for portfolio stability					
Other underwriting provisions					
Assets for post-employment benefits and other long term benefits	23	12,811		12,811	7,264
Other debtors for insurance and other operations		**92,472**	**6,147**	**86,325**	**92,836**
Accounts receivable - direct insurance operations	13	55,312	5,356	49,956	50,157
Accounts receivable - other reinsurance operations	13	6,552	238	6,314	7,647
Accounts receivable - other operations	13	30,608	553	30,055	35,032
Tax assets		**418**		**418**	**686**
Current tax assets	24	418		418	686
Deferred tax assets					
Accruals and deferrals	13	1,930		1,930	1,470
Other asset accounts					
Non-current assets held for sale and discontinued business units					
TOTAL ASSETS		**1,045,843**	**89,658**	**956,185**	**1 004,934**

THE CHARTERED ACCOUNTANT

Paulo Jorge Pinheiro Santos

THE MANAGER ACCOUNTS

Pedro Manuel Borges Medalhas da Silva

THE FINANCIAL AND ADMINISTRATIVE MANAGER

Luís Miguel Matos de Amaral Maria Ribeiro

THE BOARD OF DIRECTORS

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Eduardo Antunes Stock
Miguel Luís Kolback da Veiga
Antonio José Baptista do Souto
Manrico Iachia
António Manuel Rodrigues Marques

Balance Sheet at 31 December 2008 and 2007

('000 euros)

LIABILITIES AND EQUITY	Notes	2008	2007
LIABILITIES			
Underwriting provisions		**639,233**	**634,802**
Provision for unearned premiums	4	84,485	94,773
Provision for claims	**4**	**530,264**	**528,486**
Life			
Employers' liability	4	177,286	179,637
Other insurance business	4	352,978	348,849
Provision for profit sharing	4	810	540
Provision for rate commitments			
Provision for portfolio stability			
Provision for claims rate deviations	4	4,193	3,753
Provision for unexpired risks	4	19,481	7,250
Other underwriting provisions			
Other financial liabilities		**806**	**663**
Hedging derivatives			
Subordinated liabilities			
Deposits received from reinsurers	5	806	663
Other			
Liabilities for post-employment benefits and other long term benefits			
Accounts payable for insurance and other operations		**46,897**	**45,650**
Accounts payable - direct insurance operations	13	20,195	21,419
Accounts payable - other reinsurance operations	13	10,870	11,250
Accounts payable - other operations	13	15,832	12,981
Tax liabilities		**28,893**	**39,609**
Current tax liabilities	24	23,425	21,471
Deferred tax liabilities	24	5,468	18,138
Accruals and deferrals	13	18,677	17,372
Other provisions	13	1,234	667
Other liabilities			
Liabilities for a group for disposal classified as held for sale			
TOTAL LIABILITIES		**735,740**	**738,763**
EQUITY			
Share capital	25	135,000	135,000
(Own shares)			
Other capital instruments			
Revaluation reserves		**22,629**	**73,174**
For adjustments to fair value of financial assets	26	22,629	73,174
For revaluation of land and buildings in own use			
For revaluation of intangible assets			
For revaluation of other tangible assets			
For adjustment to fair value of hedging instruments in cash flow hedges			
For adjustments to fair value of hedge for net foreign current investments			
Exchange rate differents			
Deferred taxes reserve	26	-5,656	-18,416
Other reserves	26	40,046	37,699
Retained earnings	35	18,367	15,872
Profit for the period		10,059	22,842
TOTAL EQUITY		**220,445**	**266,171**
TOTAL LIABILITIES AND EQUITY		**956,185**	**1 004,934**

THE CHARTERED ACCOUNTANT

Paulo Jorge Pinheiro Santos

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Profit and Loss Account at 31 December 2008 and 2007

('000 euros)

PROFIT AND LOSS ACCOUNT	Notes	2008 Underwriting Non-Life	2008 Non-Underwriting	2008 Total	2007
Premiums written net of reinsurance		**307,777**		**307,777**	**314,019**
Gross premiums written	14	337,144		337,144	362,380
Outward reinsurance premiums	14	-41,698		-41,698	-48,125
Provision for unearned premiums (variation)	4 e 14	12,796		12,796	-975
Provision for unearned premiums, reinsurers' share (variation)	4 e 14	-465		-465	739
Cost of claims, net of reinsurance	**4**	**213,087**		**213,087**	**213,045**
Paid		212 029		212,029	193,216
Gross		229,466		229,466	205,718
Reinsurers' share		-17,437		-17,437	-12,502
Provision for claims (variation)		1,058		1,058	19,829
Gross		1,861		1,861	18,661
Reinsurers' share		-803		-803	1,168
Ohter underwriting provisions, net of reinsuranceo	4	12,670		12,670	3,154
Profit sharing, net of reinsurance	4	270		270	270
Net operating costs and expenses	**21**	**99,506**		**99,506**	**103,853**
Acquisition costs		71,811		71,811	76,198
Deferred acquisition costs (variation))	4	2,508		2,508	-895
Administrative costs		33,581		33,581	39,242
Commissions and profit sharing (reinsurance)		-8,394		-8,394	-10,692
Earnings	**16**	**28,540**	**911**	**29,451**	**28,998**
Interest on financial assets not valued at fair value through profit or loss		21,559	90	21,649	20,198
Interest on financial liabilities not valued at fair value through profit or loss					
Other		6,981	821	7,802	8,800
Financial expense	**16**	**2,102**	**4**	**2,106**	**2,318**
Interest on financial assets not valued at fair value through profit or loss					
Interest on financial liabilities not valued at fair value through profit or loss					
Other		2,102	4	2,106	2,318
Net gains on financial assets and liabilities not valued at fair value through profit or loss	**17**	**13,385**	**2,178**	**15,563**	**5,635**
Available-for-sale assets		13,385	2,178	15,563	5,875
Loans and accounts receivable					
Assets held to maturity					
Financial liabilities valued at amortized cost					
Others					-240
Net gains on financial assets and liabilities valued at fair value through profit or loss	17	-52		-52	218
Net gains on trading assets and liabilities					
Net gains on financial assets and liabilities classified on initial recognition as at fair value through profit or loss		-52		-52	218
Exchange rate differences	19	2		2	-33
Net gains on disposal of non-financial assets not classified as non-current assets held for sale and discontinued business units	17	800		800	819
Impairment losses (net of reversal)		**-15,039**	**-563**	**-15,602**	**-1,862**
On available-for-sale assets	6	-15,039	-563	-15,602	-534
On loans and accounts receivable valued at amortized cost					
On assets held to maturity					
On others	9				-1,328
Other underwriting earnings/expense, net of reinsurance	20	-659		-659	-558
Other provisions (variation)	20				55
Other earnings/expense	20		1,720	1,720	2,178
Negative goodwill recognized immediately on gains and losses					
Gains and losses of associates and joint ventures entered in account by equity method					
Gains and losses on non-current assets (or groups for disposal) classified as held for sale					
NET PRE-TAX PROFITS		**7,119**	**4,242**	**11,361**	**26,829**
Tax on income for the period - Current taxes	24		-1,543	-1,543	-1,545
Tax on income for the period - Deferred taxes	24		241	241	-2,442
NET PROFIT FOR THE PERIOD		**7,119**	**2,940**	**10,059**	**22,842**

THE CHARTERED ACCOUNTANT

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GERARD CASTELLO LOPES
Sines, 1958
Gelatin silver print
50 x 40 cm

Courtesy the Artist

04
STATEMENT OF CHANGES IN EQUITY

TRANQUILIDADE

Statement of Changes in Equity

Statement of Changes in Equity at 31 December 2008 and 2007

('000 euros)

		Revaluation Reserves			Other Reserves				
	Share Capital	For adjustments in the fair value of investments in subsidiaries, associates and joint ventures	For adjustments to the fair value of available-for-sale financial assets	Deferred Taxes Reserve	Legal reserve	Other reserves	Retained Earnings	Profit for the Period	TOTAL
Balance at 1 January 2007 (opening balance)	**135,000**	**0**	**17,405**	**-4,209**	**-21,049**	**928**	**-62,105**	**153,939**	**262,007**
Changes to accounting policies (IAS 8)		38,049		-10,104					27,945
Balance at 1 January 2007 (modified opening balance)	**135,000**	**38,049**	**17,405**	**-14,313**	**-21,049**	**928**	**-62,105**	**153,939**	**289,952**
Net gains from adjustments to the fair value of subsidiaries, associates and joint ventures		32,689							**32,689**
Net gains from adjustments to the fair value of available-for-sale financial assets			-14,969						**-14,969**
Adjustments for recognition of deferred taxes				-4,103					**-4,103**
Increases in reserves through allocation of profits					15,722		-15,722		**0**
Distribution of profits/losses							-60,240		**-60,240**
Transfers between equity items not included in other lines							153,939	-153,939	**0**
Total changes in equity	**0**	**32,689**	**-14,969**	**-4,103**	**15,722**	**0**	**77,977**	**-153,939**	**-46,623**
Net profits for the period								22,842	**22,842**
Balance at 31 December 2007	**135,000**	**70,738**	**2,436**	**-18,416**	**36,771**	**928**	**15,872**	**22,842**	**266,171**
Net gains from adjustments to the fair value of subsidiaries, associates and joint ventures		-31,505							**-31,505**
Net gains from adjustments to the fair value of available-for-sale financial assets			-19,040						**-19,040**
Adjustments for recognition of deferred taxes				12,760					**12,760**
Increases in reserves through allocation of profits					2,347		-2,347		**0**
Distribution of profits/losses							-18,000		**-18,000**
Transfers between equity items not included in other lines							22,842	-22,842	**0**
Total changes in equity	**0**	**-31,505**	**-19,040**	**12,760**	**2,347**	**0**	**2,495**	**-22,842**	**-55,785**
Net profits for the period								10,059	**10,059**
Balance at 31 December 2008	**135,000**	**39,233**	**-16,604**	**-5,656**	**39,118**	**928**	**18,367**	**10,059**	**220,445**

GERARD CASTELLO LOPES
Quinta da Mitra, 1986
Gelatin silver print
50 x 40 cm

Courtesy the Artist

05
STATEMENT OF CASH FLOWS

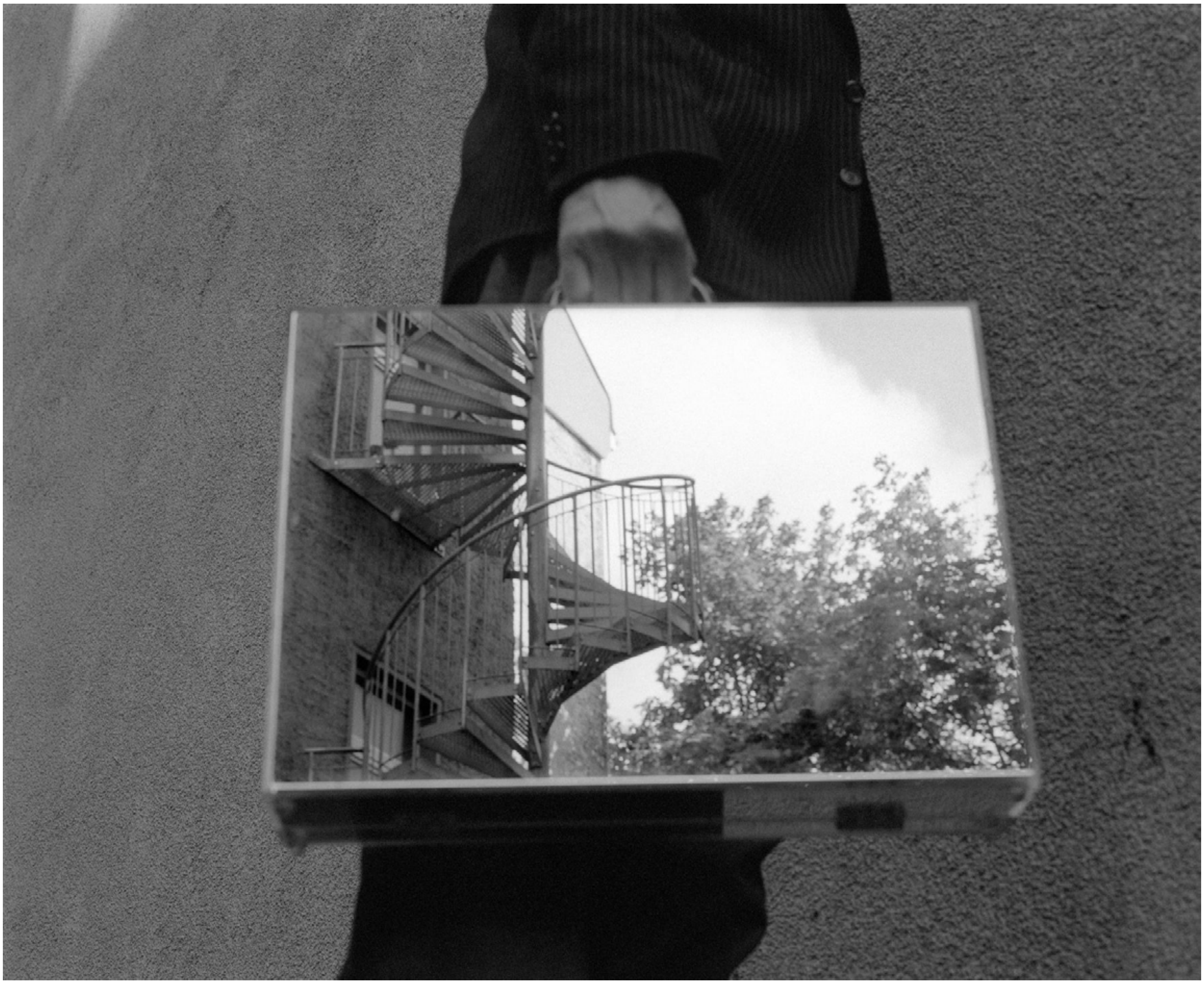
TRANQUILIDADE

Statement of Cash Flows

Statement of Cash Flows at 31 December 2008 and 2007

('000 euros)

	2008	2007
Cash flows from operating activities	**-25,020**	**17,261**
Net profits for the period	10,059	22,842
Depreciation and amortization for the period	8,786	7,927
Variation in underwriting provisions - direct insurance	4,430	28,619
Variation in underwriting provisions - outwards reinsurance	123	429
Variation in other provisions	567	-2,100
Variations in debtors for direct insurance, reinsurance and other operations	6,510	-21,069
Variation in other tax assets and liabilities	-10,448	-15,818
Variation in other assets and liabilities	-46,294	4,436
Variation in creditors for direct insurance, reinsurance and other operations	1,247	-8,005
Cash flows from investing activities	**25,448**	**35,401**
Variation in investments	29,580	32,277
Acquisition of tangible and intangible assets	-8,232	-11,276
Disposal of tangible and intangible assets	1,655	2,829
Acquisition of property	-3,779	-
Disposal of land and buildings	6,224	11,571
Cash flows from financing activities	**-18,000**	**-64,239**
Distribution of dividends	-18,000	-64,239
Net variation in cash and cash equivalents	**-17,572**	**-11,577**
Opening cash and cash equivalents	41,158	52,735
Closing cash and cash equivalents	23,586	41,158



RUI CALÇADA BASTOS
Untitled #43/06, 2006
Digital Chromogenic Print (LightJet Lambda Process) · 85 x 110 cm
Edition 2/3

Courtesy Vera Cortês

06 NOTES TO THE FINANCIAL STATEMENTS

TRANQUILIDADE

Note 1 - General Information

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 with a majority public holding, 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 in 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 has head offices and its principal place of business at Av. da Liberdade, 242, in Lisbon, and is registered with the Lisbon Companies Registry with corporate person no. 500940231. It carries on insurance and reinsurance business in Portugal in all non-life underwriting sectors (except for credit insurance), under the supervision of the Portuguese Insurance Institute (PII) and with permit no. 1037.

In terms of direct premiums, its most significant underwriting sectors are motor insurance and accident and health insurance.

The Company currently operates through two offices in Lisbon and Oporto and a branch office in Spain. Its distribution network has a total of 334 physical points of sale located in various regions of the country, through 48 own branches, 71 franchised shops and 215 agents' shops using the Tranquilidade image, of which 42 are points of sale shares with Banco Espírito Santo.

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.

Note 2 - Segment Reporting

Tranquilidade operates in all areas of non-life insurance, for which it has been authorized by the PII, and its underwriting policies and rules are designed to obtain the maximum benefit from segmentation of the tariffs for different products, for either personal or business clients, and to use all available sources of information to assess the quality of physical, financial and moral risks.

Segment reporting is by business and geographical segment, in which the most relevant products and solutions offered by the Company to its customers are as follows:

Segment reporting - business

Employers' Liability	Fire and Other Damage	Motor
EL Domestic servants	Tranquilidade Casa	Motor cars
EL Self-employed	Tranquilidade Casa Prestígio	Vintage motor cars
EL Employees	MR General	Motor 2 Wheels
	MR Shop	Vehicle fleets
	MR Restaurants and Hotels	
	MR Services	
	MR Industrial	

MR - Multiple Risk

Breakdown of the main items of the financial statements at 31 December 2008 and 2007 by the principal business segments:

('000 euros)

2008	Total Non-Life	Employers' Liability	Fire and Other Damage	Motor
Profit and loss items				
Gross premiums written	337,144	62,650	59,296	148,123
Outwards reinsurance premiums	-41,698	-434	-22,057	-1,808
Gross premiums written	349,940	63,127	59,292	159,584
Earnings from investments	25,534	-436	3,321	19,452
Gross cost of claims	231,327	40,649	37,731	116,156
Gross operating costs	107,900	15,899	21,098	49,825
Underwiriting result	7,119	4,884	-1,867	2,116
Balance sheet items				
Assets allocated to represent underwriting provisions	627,253	179,427	57,308	335,494
Underwriting provisions	639,233	182,854	58,402	341,901

('000 euros)

2007	Total Non-Life	Employers' Liability	Fire and Other Damage	Motor
Profit and loss items				
Gross premiums written	362,380	62,350	56,681	171,792
Outwards reinsurance premiums	-48,125	-433	-19,398	-2,406
Gross premiums written	361,405	62,067	56,082	173,605
Earnings from investments	30,574	9,769	2,365	15,572
Gross cost of claims	224,379	37,874	21,791	131,310
Gross operating costs	114,545	16,553	22,760	51,895
Underwiriting result	23,712	6,909	1,936	12,747
Balance sheet items				
Assets allocated to represent underwriting provisions	674,985	196,667	55,118	362,844
Underwriting provisions	634,802	184,959	51,836	341,244

Breakdown of the main items of the financial statements at 31 December 2008 and 2007 by the geographical segments:

('000 euros)

2008	Total	Portugal	Spain
Profit and loss items			
Gross premiums written	337,144	336,395	749
Outwards reinsurance premiums	-41,698	-41,651	-47
Gross premiums written	349,940	349,199	741
Earnings from investments	25,534	25,527	7
Gross cost of claims	231,327	231,011	316
Gross operating costs	107,900	107,511	389
Underwiriting result	7,119	7,109	10 0
Balance sheet items			
Assets allocated to represent underwriting provisions	627,253	626,897	356
Underwriting provisions	639,233	638,877	356

('000 euros)

2007	Total	Portugal	Spain
Profit and loss items			
Gross premiums written	362,380	361,666	714
Outwards reinsurance premiums	-48,125	-48,074	-51
Gross premiums written	361,405	360,727	678
Earnings from investments	30,574	30,564	10
Gross cost of claims	224,379	224,173	206
Gross operating costs	114,545	114,199	346
Underwiriting result	23,712	23,603	109
Balance sheet items			
Assets allocated to represent underwriting provisions	674,985	674,622	363
Underwriting provisions	634,802	634,474	328

Note 3 - Basis of Preparation of the Financial Statements and Accounting Policies

Basis of Presentation

The financial statements of Tranquilidade presented herewith relate the financial year ended 31 December 2008 and have been drawn up in accordance with the Plan of Accounts for Insurance Companies ("PAIC 07"), issued by the PII and approved by Regulatory Standard 4/2007-R, of 27 April, and subsequent amendments set out in Standard 20/2007-R of 31 December, and also in accordance with the rules on the accounting of the operations of insurance companies established by the PII.

This new Plan of Accounts has introduced the International Financial Accounting Standards (IFRS) in force as adopted in the European Union, except for the measurement criteria for liabilities resulting from insurance contracts as defined in IFRS 4 – Insurance Contracts. The IFRS include the accounting standards issued by the International Accounting Standards Board (IASB) and the interpretations issued by the Internacional Financial Reporting Interpretation Committee (IFRIC), and by the respective predecessor bodies.

The Company has adopted IFRS 7 – Financial Instruments: Disclosures, as well as IAS 1 (amended) – Presentation of financial statements – Capital disclosure requirements. These standards, application of which is mandatory as of 1 January 2007, had an impact on the disclosures made, but had not effect on the Company's equity. In accordance with the transitional rules for these standards, comparative figures are presented for the new disclosures required.

In addition, as from 2008 the Company has adopted IAS 39/IFRS 7 – Reclassification of Financial Instruments and IFRIC 14/IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The adoption of these interpretations had no effect on the Company's financial statements.

The accounting policies described below were applied in a consistent manner in the periods presented in the financial statements.

The financial statements are expressed in thousands of euros, rounded up/down to the closest one thousand, and are prepared on the basis of the historical cost convention, except for assets and liabilities stated at fair value, specifically derivative financial instruments, financial assets and liabilities at fair value through profit or loss, available for sale financial assets and investment property. Other financial assets and liabilities, together with non-financial assets and liabilities, are stated at amortized or historical cost.

The preparation of financial statements in accordance with the New Accounting Plan for Insurance Companies requires the Company to make judgements and estimates and to use assumptions which affect the application of accounting policies and the value of income, costs, assets and liabilities.

These estimates and assumptions are based on the most recent information available, serving as the basis for judgements on the value of assets and liabilities whose valuation is not supported by other sources. The real results may differ from the estimates.

These financial statements were approved at the meeting of the Board of Directors of 3 March 2008.

Transition to the New Plan of Accounts

In preparing the financial statements as at 31 December 2008 and in determining the adjustments in accordance with the IFRS, except for the measurement criteria in IFRS 4, the Company decided to adopt a number of transitional rules established in IFRS 1 – First Time Adoption of International Financial Reporting Standards.

Consequently, the transition date was 1 January 2005, the date of transition to the IFRS for the purposes of reporting to shareholders.

A description of how the transition to the New Plan of Accounts affected the Company's financial performance is provided in Note 35.

The Main Accounting Principles and Valuation Criteria Adopted

Investments in subsidiaries and associates

Subsidiaries

Undertakings are classified as subsidiaries when the Company exercises control over them, which control is normally presumed when the Company is able to exercise a majority of voting rights.

Control may also exist when the Company has powers, directly or indirectly, to manage the financial and operational policy of a given undertaking in order to obtain benefits from its activities, even if its percentage holding in the undertaking is less than 50%.

In accordance with IAS 39, the Company opted to value investments in subsidiaries at their fair value.

Associates

The Company classifies as associates all undertakings over which it has the power to exercise significant influence over its financial and operating policies, albeit without having control of the undertaking.

It is normally presumed that the Company exercises significant influence when it is able to exercise more than 20% of the voting rights in the associate. Even when it holds less than 20% of the voting rights, the Company may exercise significant influence through participation in the management fo the associate or membership of Boards of Directors with executive powers.

In accordance with IAS 39, the Company opted to value investments in associates at their fair value.

Financial Assets

Classification

The Company classifies its financial assets at the start of each transaction in consideration of the underlying intention, using the following categories:

- Financial assets at fair value through profit or loss, which include:
  - Trading securities, which are acquired with the primary objective of being traded in the short term;
  - Financial assets designated at the moment of initial recognition at fair value with changes recognized in income, namely when:
    - These financial assets are managed, valued and analyzed internally on their basis of their fair value;
    - Such designation eliminates an accounting mismatch;
    - These financial assets contain embedded derivatives.
- Available-for-sale financial assets, which include:
  - Non-derivative financial assets where there is the intention of maintaining them for an indeterminate period of time;
  - Financial assets which are designated as available for sale on initial recognition;
  - Financial assets not falling into the other categories.
- Loans and accounts receivable, including receivables relating to direct insurance operations, outwards reinsurances and transactions relating to insurance contracts and other transactions.

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 recognized at the trade date, i.e. the date on which the Company commits itself to acquiring or selling the asset.

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

These assets are derecognized when (i) the Company's contractual rights to receipt of its cash flows expire or (ii) the Company has substantially transferred all the risks and benefits associated with holding the assets.

Subsequent measurement

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

Held-for-sale investments are also recorded at fair value, although the respective variations are recognized in reserves, until the investments are derecognized or 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 the investments are also recognized 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 recognized in income.

The fair value of listed financial assets is the respective bid price. If unlisted, the Company estimates the fair value using (i) valuation methodologies, such as the use of the prices of recent and similar transactions carried out under market conditions, discounted cash flow techniques and option valuation models customized to reflect the particularities and circumstances of the instrument, and (ii) valuation assumptions based on market reports.

Loans and accounts receivable are subsequently valued at amortized cost, on the basis of the effective interest rate method.

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

Transfers between categories

In October 2008 the IASB issued the reviewed IAS 39 – Reclassification of Financial Instruments (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7: Financial Instruments Disclosures).

This amendment permits an entity to transfer financial assets at fair value through profit or loss to portfolios of available-for-sale financial assets, Loans and accounts receivable or to held-to-maturity financial assets, provided these financial assets conform to the characteristics of each category. The Company has not adopted this possibility.

Impairment

The Company 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 income.

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

In accordance with the Company's policies, a depreciation of 30% in the fair value of an equity instrument is deemed a significant depreciation and a period of 1 year is deemed to constitute continued depreciation of the fair value below acquisition cost.

When there is evidence of impairment in available-for-sale financial assets, the accrued potential losses in reserves, corresponding to the difference between acquisition cost and the current fair value, less any impairment loss on the asset previously recognized in income is transferred to income.

If in a subsequent period, the value of the impairment loss decreases, the impairment loss previously recognized is reversed against the profit or loss of the period until the acquisition cost is reinstated if the increase is objectively related to an event occurred after recognition of the impairment loss, except for shares and other equity instruments, where the reversal of impairment is recognized in reserves.

Derivative financial instruments

Derivative financial instruments are recognized at the trade date at their fair value. Subsequently, the fair value of derivative financial instruments is reassessed on a regular basis, and the gains or losses resulting from such revaluation are recorded directly in the profit or loss for the period.

The fair value of derivative financial instruments corresponds to their market value, when available, or is determined on the basis of valuation techniques including discounted cash flow models and option valuation models, as appropriate.

Embedded derivatives

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

Financial liabilities

An instrument is classified as a financial liability when there is a contractual obligation for it to be settled through delivery of cash or another financial asset, irrespective of its legal form. Non-derivative financial liabilities include loans, creditors – direct insurance and reinsurance operations and other liabilities. These financial liabilities are recorded (i) initially at fair value less transaction costs incurred and (ii) subsequently at amortized costs, using the effective rate method.

Foreign currency operations

Foreign currency operations are translated at the exchange rate ruling at the trade date. Monetary assets and liabilities expressed in foreign currency are translated into euros at the exchange rate ruling on the balance sheet date. Exchange rate differences resulting from such translation are recognized in income, except when classified as cash flow hedges or net investment hedges, when the resulting foreign exchange variations are recognized in reserves.

Non-monetary assets and liabilities recorded at historical cost, expressed in foreign currency, are translated at the exchange rate ruling at the trade date. Non-monetary assets and liabilities expressed in foreign currency recorded at fair value are translated at the exchange rate ruling at the date when the fair value was determined.

Tangible assets

The Company's tangible assets are valued at cost less respective accrued depreciation and impairment losses.

Subsequent costs on tangible assets are recognized only if it is likely that they will result in future economic benefits for the Company. All maintenance and repair expenses are recognized as a cost, on the accruals basis.

Land is not depreciated. The depreciation of tangible assets is calculated on a straight line basis, using the following depreciation rates which reflect the expected useful life of the assets:

Type of 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
Transport equipment	4
Other equipment	3 a 8

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

When there is an indication that an asset may be impaired, IAS 36 requires that its recoverable value be estimated, and an impairment loss has to be recognized whenever the net value of an asset exceeds its recoverable value. Impairment losses are recognized in the income statement.

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

Investment properties

The Company classifies as investment properties any immovable property held for rental or capital growth or both.

Investment properties are recognized initially at acquisition cost, including directly related transaction costs, and subsequently at their fair value. Variations in fair value determined at each balance sheet date are recognized in income. Investment property is not depreciated.

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

Intangible assets

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

Costs directly related to development of software by the Company, where it is to be expected that they will generate future economic benefits during more than one financial year, are recognized and recorded as intangible assets. These costs are depreciated on a straight line basis over the expected useful life of the assets, which in most cases is no longer than 5 years.

All other expenditures relating to IT services are recognized as costs when they occur.

Leases

The Company classifies lease operations as finance leases or operating leases, in accordance with their substance and not their legal form, complying with the criteria set down in IAS 17 – Leases.

Operations are classified as finance leases when the risks and rewards incident to ownership of an asset are transferred to the lessee. All other lease operations are classified as operating leases.

In operating leases, payments made by the company under operating leases are recorded under costs in the periods to which they relate.

Finance leases are recorded at their starting date, in assets and liabilities, at the acquisition cost of the leased property, which is equivalent to the current value of future rentals. Rentals comprise: (i) the financial charged which is debited from profit or loss, and (ii) the financial depreciation of capital which is deducted from liabilities.

Financial charges are recognized as costs over the lease period, in order to produce a constant periodic interest rate on the outstanding liability balance in each period.

Cash and cash equivalents

Cash and cash equivalents include securities stated in the valance with a maturity of less than three months from the balance sheet date, as well as cash and sight deposits with credit institutions.

Reinsurance

Reinsurance contracts are reviewed in order to determine whether the respective contractual provisions presuppose the transfer of a significant insurance risk. Reinsurance contracts which do not presuppose the transfer of significant insurance risks are accounted for by the deposit method and stated under loans as financial assets or liabilities related to reinsurance activity. Amounts received or paid under these contracts are accounted for as deposits using the effective interest rate method.

In the course of its business, Tranquilidade assumes and/or cedes business. Amounts receivable in relation to reinsurance business include balances receivable from insurance companies and reinsurers relating to liabilities ceded. Amounts payable to reinsurers are calculated in accordance with the pre-set contractual provisions.

The accounting principles applicable to liabilities relating to inwards reinsurance, in connection with insurance contracts which presuppose a significant insurance risk, are treated in the same way as for direct insurance contracts.

Employee benefits

Pensions – Defined benefit plan

The Company has accepted liability to pay its employees old age and invalidity retirement pensions, on terms established in the Insurance Workers Collective Agreement (CEA).

The benefits provided for in the pension plans are those covered by the "CEA Plan – Insurance Industry Collective Employment Agreement (CEA)"

The Company's liabilities for retirement pensions (defined benefits plan) are calculated annually, on the date of close of the accounts, by the Company, individually for each plan.

The current service costs, together with the return expected on the plan assets less the unwinding of the plan liabilities, are recorded against operating costs.

The Company's liabilities for retirement pensions are calculated on the basis of the Projected Unit Credit Method, individually for each plan, by estimating the value of the future benefits which each employee should receive in exchange for his service in the current period and in past periods. The benefit is discounted in order to determine its current value and the fair value of any plan assets must be deducted. The discounted rate used in this calculated is determined on the basis of market rates for corporate bonds with good quality ratings, denominated in the currency in which the benefits will be paid and with a maturity similar to the expiry date of the plan obligations.

In keeping with the corridor method, accrued deferred actuarial gains and losses at the start of the year in excess of 10% of the greatest of total liabilities and the value of the fund, also with reference to the start of the year, are allocated to income during a period which shall not exceed the average remaining working life of workers covered by the plan.

Charges relating to early retirement, together with the corresponding actuarial gains and losses, are recognized in profit or loss at the time when the early retirement is approved and announced.

The plan is financed annually by contributions from the Company to cover projected liabilities for pensions, including complementary benefits when appropriate. Minimum funding for pensions currently payable is 100% and 95% for the past services of current workers.

On each reporting date the Company assesses, individually for each plan, the recoverability of any surplus in the fund, based on the prospect of future contributions which may be needed.

Health benefits

The Company has also granted medical care benefits for its current workers and those on early retirement through to retirement age. The company's obligations with regard to health benefits attributable to early retirees through to retirement age are calculated and recorded in a similar way to liabilities for pensions.

Bonus

The variable remuneration for employees is accounted for in the income statement of the period to which it relates.

Liability for holiday pay and allowances

Included under accruals and deferrals on the liabilities side, this corresponds to approximately 2 months' pay and respective charges, based on figures for the period in question, and serves to recognize the legal liabilities existing at the end of each period to employees for their services rendered up to such date, to be settled later.

Tax on profits

Taxes on profits comprise current taxes and deferred taxes. Taxes on profits are recognized in income, except when they are related to items recognized directly in equity, in which case they are also stated against equity.

Taxes recognized in equity resulting from the revaluation of available-for-sale investments are subsequently recognized in income when the gains or losses which gave rise to them are recognized in income.

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 rate of tax approved or substantially approved in each jurisdiction.

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

Deferred tax liabilities are recognized for all temporary differences.

Deferred tax assets are recognized only insofar as it may be expected that taxable profits will exist in future such as may absorb the deductible temporary differences (including reportable fiscal losses).

Provisions

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

Recognition of interest

Profit or loss relating to interest on available-for-sale financial assets and financial assets at fair value through profit or loss are recognized in specific profit and loss accounts.

The amortized cost is calculated using the effective rate method, and its impact recorded under investment income.

The effective rate of interest is the rate which discounts estimated future payments or receipts during the expected life of the financial instrument.

For the purpose of calculating the effective interest rate, future cash flows are estimated considering all the contractual terms of the financial instrument (for example, early payment options), but not considering any possible future credit losses. The calculation includes charges included in the effective interest rate, transaction costs and all premiums and discounts directly relating to the transaction.

Dividend income

Dividend income is recognized when received.

Profits per share

Basic profits per share are calculated by dividing the Company's net profits by the weighted average number of ordinary shares in issue.

Offsetting of financial instruments

Financial assets and liabilities are presented in the balance sheet at their net value when there is the legal possibility of offsetting amounts already recognized and when there is the intention of settling on a net basis or to realize the asset and settle the liability simultaneously.

Adjustments to outstanding premiums and doubtful debts

The value of these adjustments is calculated on the basis of the premiums outstanding and doubtful debts, applying the criteria established by the PII.

Segment reporting

A business segment is a set of assets and operations subject to specific risks and rewards differing 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 rewards differing from other segments operating in other economic environments.

Principal Estimates and Judgements Used in Preparing the Financial Statements

The IFRS lay down a series of accounting procedures and require the Board of Directors to use its judgement and to make the estimates necessary in order to decide what accounting treatment is most appropriate.

The principal accounting estimates and judgements used in applying the accounting principles by the Company are analyzed below, in order to provide a better understanding of how their application affects the results reported by the Company and their disclosure.

Considering that in many situations there are alternatives to the accounting treatment adopted by the Board of Directors, the results reported by the Company could have been different had a different form of treatment been chosen.

The Board of Directors considers that the choices made are appropriate and that the financial statements present in an adequate manner the financial position of the Company and its operations in all materially relevant aspects.

The alternatives considered below are presented merely to help the reader to understand the financial statements, and are not intended to suggest that other alternatives or estimates are more appropriate.

Impairment of available-for-sale financial assets

The Company deems impairment to exist to its available-for-sale assets when there is a continued or significant depreciation in their fair value. Determination of what constitutes continued of significant depreciation requires judgement.

In accordance with Company policies, a depreciation of 30% in the fair value of an equity instrument is regarded as significant depreciation and a period of one year is considered as continued depreciation of the fair value below acquisition cost, for equity instruments and events which alter the future estimated cash flows for debt securities.

In addition, valuations are obtained through market prices or valuation models which require the use of given assumptions or judgments in setting estimates of fair value.

The use of alternative methodologies and the use of different assumptions and estimates could result in a different level of impairment losses recognized, with a consequent impact on the Company's results.

Fair value of derivative financial instruments

The fair value is based on listed market prices, when available, or, in the absence of a listed price, on the use of the prices for recent similar transactions, carried out under market conditions, or on the basis of valuation methodologies based on discounted future cash flow techniques, considering the market conditions, the effect of time, the yield curve and volatility factors. These methodologies may require the use of assumptions or judgements in estimating the fair value.

Consequently, the use of different methodologies or different assumptions or judgements in applying a particular model could give rise to financial results different from those reported.

Taxes on profits

Assessment of taxes on profits requires certain interpretations and estimates. Other interpretations and estimates could result in a different level of taxes on profits, current and deferred, recognized in the period.

Under the fiscal legislation in force, the Tax Authorities are able to review the calculation of taxable income by the Company for a period of four years.

There may accordingly be corrections to the taxable income, resulting mainly from differences in the interpretation of fiscal legislation. However, the Board of Directors believes there will be no significant adjustments to the taxes on profits recorded in the financial statements.

Pensions and other employee benefits

The assessment of liabilities for retirement pensions requires the use of assumptions and estimates, including the use of actuarial projections, estimated investment yields and other factors which may have an impact on pension plan costs and liabilities. Changes to these assumptions could have a significant impact on the amounts assessed.

Underwriting provisions

Underwriting provisions, including provisions for claims, correspond to future liabilities deriving from contracts.

Underwriting provisions for accident and health products have been determined on the basis of various assumptions, in particular mortality, longevity and interest rates, applicable to each of the covers including a margin of risk and uncertainty.

The assumptions used are based on the past experience of the company and the market. These assumptions may be reviewed if it is considered that future experience shows them to be no longer appropriate.

The underwriting provisions deriving from insurance contracts include (i) provision for profit sharing, (ii) provision for unearned premiums, (iii) provision for unexpired risks, (iv) liabilities adequacy test, (v) provision for reported and unreported claims including the respective settlement expenses.

When there are claims caused by or against policy holders, any amount paid or which is estimated to be paid by the Company is recognized as a loss under income.

The Company establishes provisions for the payment of claims under insurance contracts. In assessing the underwriting provisions deriving from insurance contracts, the Company periodically assesses its liabilities using actuarial methodologies and taking the respective reinsurance cover into account.

Provisions are periodically reviewed by qualified actuaries. The Company records non-life claims provisions to cover the estimate of the ultimate cost of reported and unreported claims at each balance sheet date.

Claims provisions do not represent an exact calculation of the value of the liability, but rather an estimate resulting from the application of actuarial assessment techniques. These estimated provisions correspond to the Company's expectation of what the ultimate cost of settling the claims will be, based on assessment of the facts and circumstances known at this date, on a review of historical settlement patterns, on an estimate of trends in terms of the claims rate, liability theories and other factors.

Variables used in estimating provisions may be affected by internal and/or external events, in particular changes in claims management processes, inflation and changes in the law. Many of these events are not directly quantifiable, especially on a prospective basis.

In addition, there may be a significant time gap between the moment the insured event occurs (accident/damage) and the moment when this event is reported to the Company. Provisions are regularly reviewed in a continuous process as and when additional information is received and liabilities are settled.

Changes in Accounting Policies

Up to 2008, holdings in subsidiaries and associates were valued at acquisition cost, since adoption of the IFRS on 01 January 2005.

As from 2008, these assets are now stated at fair value, in accordance with the option provided in IAS 27 and 28, and this is now the accounting criterion adopted by the Company.

This change in accounting policy was applied retrospectively to the financial information for 2007, as stipulated in IAS 8, in order to assure the comparability of financial information.

The studies carried out to determine the fair value were based on macro-economic assumptions and the weighted average cost of capital, in accordance with the sector to which each company belongs.

The valuation methods adopted were the discounted cash flow and discounted dividends method, except for the holding in T-Vida, where specific actuarial techniques were used to determine its fair value.

In relation to the financial holding in Logo, given that the company started trading in 2008, which increases the degree of uncertainty in its future projections, it was considered that the most appropriate way of determining its fair value was to record the holding at the value of the capital invested.

The impact on the financial statements, looking only at the items affected, is detailed in the following table:

('000 euros)

	Valuation at Acquisition Cost		Valuation at Fair Value		Effect of Change of Policy	
	2008	2007	2008	2007	2008	2007
- Investments in subsidiaries, associates and joint ventures	93,773	34,752	133,006	105,490	39,233	70,738
- Deferred tax assets	4,449	303	0	0	-4,449	-303
Total assets	**921,401**	**934,499**	**956,185**	**1,004,934**	**34,784**	**70,435**
- Deferred tax liabilities	0	0	5,468	18,138	5,468	18,138
Total liabilities	**730,272**	**720,625**	**735,740**	**738,763**	**5,468**	**18,138**
- Revaluation reserves for adjustments to fair value of financial assets	-16,604	2,436	22,629	73,174	39,233	70,738
- Deferred taxes reserve	4,261	25	-5,656	-18,416	-9,917	-18,441
Total equity	**191,129**	**213,874**	**220,445**	**266,171**	**29,316**	**52,297**
Total Liabilities and Equity	**921,401**	**934,499**	**956,185**	**1,004,934**	**34,784**	**70,435**

Note 4 - Nature and Extent of Accounts and Risks Deriving from Insurance Contracts and Reinsurance Assets

Provision of information which can identify and explain the amounts indicated in the financial statements as deriving from insurance contracts

Accounting policies adopted in relation to insurance contracts

The Company issues contracts which include insured risk. An insurance contract exists when one of the parties accepts a significant risk from the other party (policy holder) and agrees to compensate him if a future specific and uncertain event affects him adversely.

Insurance contracts are measured in accordance with the following principles:

Recognition of cost and income

Cost and income are recorded in the period to which they relate, irrespective of when paid or received, on the accruals basis.

Premiums

Gross premiums written on direct insurance, inwards reinsurance and outwards reinsurance are recorded respectively as income and costs, in the period to which they refer, irrespective of the moment of receipt or payment.

Note 14 provides a quantitative analysis of direct and outwards reinsurance premiums.

Provision for unearned premiums

The provision for unearned premiums is based on the assessment of premiums written up to the end of the period, but with effect after such date.

Under Standards 19/94-R and 3/96-R of the PII, 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 respective acquisition costs, in relation to contracts in force.

Acquisition costs

Acquisition costs which are directly or indirectly related to the sale of contracts are capitalized and deferred to the lifetime of the contracts. Deferred acquisition costs are subject to recoverability tests at the time of issue of contracts and subject to impairment tests at the balance sheet date.

Deferred acquisition costs are depreciated over the normal period for which premiums for these contracts are earned. In accordance with Standards no. 19/94-R e 3/96-R of the PII, the deferral of these costs is limited to 20% of the provision for unearned premiums.

Provision for claims

The provision for claims corresponds to the cost of claims occurred and not yet settled, to the estimated liability for claims incurred but not reported (IBNR) and to the direct and indirect costs associated with settlement of claims at the end of the period. The provision for claims reported and unreported is estimated by the Company on the basis of past experience, available information and application of statistical methods.

In order to determine this provision, an analysis is conducted of the claims outstanding at the end of each period and consequent estimate of the liability existing on such date. In accident and health business not relating to pensions and motor insurance, the average cost method is applied. The average cost method is also used to calculate the provisions for claims management costs.

For the IBNR, with the exception of motor, health and third party business, a flat rate of 6% is applied to the value of the cost of claims for the period in relation to claims declared, in order to provide for the liability for claims reported after the close of the period. For health, third party and motor business, actuarial estimates were made, based on triangulations of amounts paid, taking into account the specific characteristics of each area of business.

A mathematic provision is also made for employers' liability business, for claims incurred up to 31 December 2008 involving payments of pensions already confirmed by the Employment Courts or under conciliation agreements reached, and an estimate is made of pension liabilities for claims recorded up to 31 December 2008 for which a final ruling or agreement is pending.

Mathematical provisions for claims incurred, involving payment of pensions for life in accidents and health business, are calculated using actuarial assumptions referring to recognized actuarial methods and employment law in force.

In addition, a mathematical provision is also considered for pension liabilities on claims incurred in relation to potential permanent incapacity of claimants undergoing treatment at 31 December 2008 or claims incurred but not reported.

The claims provision is not discounted, except for life pensions for employers' liability business, and the Company therefore assesses the adequacy of liabilities on the basis of the projection of future cash flows, discounted at the risk-free market interest rate. Any shortfall, if any, is recorded in the Company's income when determined.

Mathematical provision

The purpose of mathematical provisions is to record the current value of the Company's future liabilities with regard to insurance contracts issued and are calculated on the basis of actuarial methods recognized under the applicable legislation in force.

At the end of the first half of 2008, the Company altered the underwriting basis for employers' liability insurance, in accordance with Standard 15/2000 of 23 November of the PII. In keeping with this standard, mathematical provisions for employers' liability are to be calculated using a prudent underwriting rate, taking into account the duration of the liabilities and the nature of the risks; the mortality table and other assumptions are required to be adequate and prudent.

Accordingly, for non-redeemable pensions, the GKF 80 mortality table applies with an interest rate of 5.085% and management fees of 3%, and for redeemable pensions, the mortality table is TD 88/90, with an interest rate of 5.25% and a management fee of 0%.

The standard also lays down that the rate to be used should have as its benchmark the foreseeable future yield on the underlying assets after prudential and adequate deduction. On this basis, the Company determined that the risk-free interest rate for the maturity of the liabilities was appropriate.

For the purposes of the liabilities adequacy test, the mathematical provisions for pensions not obligatorily redeemable (including future payments to the FAT) are calculated on the basis of the GKF 80 mortality table with the interest rate of Portuguese bonds with a maturity of 15 years (4.24% at 31.12.2008), and management fees of 3%.

Provision for unexpired risks

The provision for unexpired risks corresponds to the estimated amount needed to provide for likely compensation payments and charges after the end of the period in excess of the value of unearned premiums, premiums receivable in relation to contracts in force and premiums which are renewed in January of the following year.

In keeping with PII requirements, the value of the provision to be constituted for unexpired risks should be equal to the sum of gross premiums written imputable to the following period(s) (unearned premiums) and premiums receivable but not yet processed in relation to contracts in force, multiplied by a ratio based on the sum of the claims rate, expense and ceding ratio less the investment ratio.

Provision for claims rate deviation

The provision for claims rate deviation is intended to provide for exceptionally high claims in areas of insurance business in which, in view of their nature, larger fluctuations are expected, and is constituted for bond insurance, nuclear insurance and seismic insurance.

For bond and nuclear insurance, this provision is constituted when the underwriting result for these business areas is positive. This provision is calculated on the basis of the specific rates established by the PII, applied to the underwriting result.

For seismic insurance, the provision is calculated by applying a risk factor, defined by the PII for each seismic zone, to the insured sum retained by the Company.

Provision for profit sharing

The provision for profit sharing corresponds to amounts allocated to the insured or contract beneficiaries, in the form of profit sharing, and not yet distributed.

Provisions for outwards reinsurance

Provisions for outwards reinsurance are determined by applying the criteria described above for direct insurance. Depending on whether the reinsurance relates to direct insurance or inwards reinsurance, the claims provision is to be calculated in keeping with the provisions of the rules in force.

Variations in underwriting provisions for direct insurance and reinsurance

The following table provides a breakdown of the provision for unearned premiums (PUP) for direct insurance and inwards reinsurance reflected in liabilities net of deferred acquisition costs (DAC):

('000 euros)

Business Areas/Groups	2008			2007		
	Gross PUP	DAC	Net PUP	Gross PUP	DAC	Net PUP
Accidents and health	12,243	2,384	9,859	12,435	2,395	10,040
Fire and other damage	24,869	4,923	19,946	24,865	4,936	19,929
Motor	58,486	11,697	46,789	69,948	13,989	55,959
Maritime, air and transport	2,232	432	1,800	2,374	465	1,909
General third party	3,147	625	2,522	3,331	650	2,681
Credit and bond	62	12	50	125	25	100
Legal protection	10	2	8	12	2	10
Assistance	3,927	785	3,142	4,742	916	3,826
Miscellaneous	459	90	369	399	80	319
Total	**105,435**	**20,950**	**84,485**	**118,231**	**23,458**	**94,773**

The variation in the provision for unearned premiums (PUP) for direct insurance and inwards reinsurance is reflected in the profit and loss account at its gross value within the group of premiums earned and the value of deferred acquisition costs (DAC) in the group of operating costs and gains, and breaks down as follows:

('000 euros)

Business Areas/Groups	2008			2007		
	Gross PUP	DAC	Net PUP	Gross PUP	DAC	Net PUP
Accidents and health	-192	-11	-181	1,170	197	973
Fire and other damage	4	-13	17	600	117	483
Motor	-11,462	-2,292	-9,170	-1,812	316	-2,128
Maritime, air and transport	-142	-33	-109	-63	-10	-53
General third party	-184	-25	-159	711	130	581
Credit and bond	-63	-13	-50	-73	-10	-63
Legal protection	-2	-	-2	-1	-	-1
Assistance	-815	-131	-684	441	153	288
Miscellaneous	60	10	50	2	2	-
Total	**-12,796**	**-2,508**	**-10,288**	**975**	**895**	**80**

The provision for unearned premiums for outwards reinsurance reflected in assets and the respective annual variation in the profit and loss account breaks down as follows:

('000 euros)

Business Areas/Groups	Balance Sheet Balance		Variation in Profit and Loss Account	
	2008	2007	2008	2007
Accidents and health	184	213	-29	-217
Fire and other damage	6,547	6,306	241	221
Motor	-	-	-	-
Maritime, air and transport	1,207	1,426	-219	107
General third party	320	276	44	180
Credit and bond	29	89	-60	-61
Legal protection	-	-	-	-
Assistance	4,229	4,761	-532	508
Miscellaneous	370	280	90	1
Total	**12,886**	**13,351**	**-465**	**739**

The claims provision for direct insurance and inwards reinsurance reflected in liabilities and the respective annual variation in the profit and loss account breaks down as follows:

('000 euros)

Business Areas/Groups	Balance Sheet Balance		Variation in Profit and Loss Account	
	2008	2007	2008	2007
Employers' liability	177,286	179,637	-2,210	2,448
Accidents and health	12,329	12,891	-570	1,510
Fire and other damage	32,393	27,766	4,600	-1,585
Motor	281,780	281,376	203	14,934
Maritime, air and transport	7,664	6,710	901	348
General third party	17,152	17,728	-586	569
Credit and bond	1,012	1,628	-375	155
Legal protection	154	79	75	-97
Assistance	-	-	-	-
Miscellaneous	494	671	-177	379
Total	**530,264**	**528,486**	**1,861**	**18,661**

The balance of the claims provision for employers' liability includes the sum of 129,591 thousand euros (2007: 129,676 thousand euros) relating to the mathematical provision for employers' liability. The balance of the mathematical provision includes the result obtained from the liabilities adequacy test amounting to 7,376 thousand euros (2007: 1,304 thousand euros) and an adjustment to contributions to the Accidents at Work Fund of 6,995 thousand euros (2007: 6,554 thousand euros).

The balance of the claims provision includes an estimated provision of 24,900 thousand euros (2007: 25,270 thousand euros) relating to claims incurred prior to 31 December 2008 but not reported (IBNR). It also includes an estimate of 8,208 thousand euros (2007: 5,980 thousand euros) for management fees for settlement of pending claims, declared and undeclared.

The following table provides a breakdown of the provision for claims incurred in prior periods and respective readjustments, using the format required by the PII for Annex 2:

('000 euros)

Business Areas/Groups	Provision for Claims at 31.12.2007 (1)	Claims* Paid in 2008 (2)	Provision for Claims* at 31.12.2008 (3)	Readjustments (3) + (2) - (1)
Accidents and health	192,529	33,495	146,421	-12,613
Fire and other damage	27,766	10,969	12,203	-4,594
Motor	-	-	-	-
- Third party	253,789	53,653	199,984	-152
- Other cover	27,586	7,487	1,415	-18,684
Maritime, air and transport	6,710	2,600	4,063	-47
General third party	17,728	1,993	15,042	-693
Credit and bond	1,628	329	1,009	-290
Legal protection	79	52	134	107
Assistance	-	-	-	-
Miscellaneous	671	742	266	337
Total	**528,486**	**111,320**	**380,537**	**-36,629**

* Claims incurred in 2007 and previously

In accidents and insurance business (principally in employers' liability), and also in motor insurance, re-adjustments are due primarily to a process of revaluation of claims provisions designed to bring them into line with amounts paid in 2008 and future prospects. In the fire and other damage sector, more than 50% of re-adjustments are explained by the closing of three claims procedures with costs lower than originally envisaged. The other re-adjustments are due to normal claims management, and are not significant in relation to the total value of the claims provision constituted.

The claims provision for outwards reinsurance stated under assets and the respective annual variation in the profit and loss account breaks down as follows:

('000 euros)

Business Areas/Groups	Balance Sheet Balance		Variation in Profit and Loss Account	
	2008	2007	2008	2007
Employers' liability	31	27	4	-2
Accidents and health	524	396	128	-190
Fire and other damage	10,940	7,914	3,487	-262
Motor	11,533	14,460	-2,927	-959
Maritime, air and transport	4,489	3,539	950	168
General third party	7,039	7,772	-733	-244
Credit and bond	19	41	-22	-19
Legal protection	-	-	-	-
Assistance	-	-	-	-
Miscellaneous	440	524	-84	340
Total	**35,015**	**34,673**	**803**	**-1,168**

The balance of the claims provision for outwards reinsurance includes an estimated provision of 1,277 thousand euros (2007: 727 thousand euros) for claims incurred prior to 31 December 2008 but not reported (IBNR).

The following table provides a breakdown of the cost of claims in 2008, using the format required by the PII:

('000 euros)

Business Areas/Groups	Amounts Paid-Instalments	Amounts Paid-Management Costs Imputed	Variation in Claims Provisions	Cost of Claims
	(1)	(2)	(3)	(4) = (1) + (2) + (3)
Accidents and health	67,786	4,367	-2,780	69,373
Fire and other damage	31,998	1,134	4,602	37,734
Motor	-	-	-	
- Third party	81,292	5,737	11,500	98,529
- Other cover	26,463	2,076	-12,683	15,856
Maritime, air and transport	3,894	193	909	4,996
General third party	2,514	305	-494	2,325
Credit and bond	326	3	-374	-45
Legal protection	35	22	74	131
Assistance	-	-	-	-
Miscellaneous	928	3	-176	755
Total	**215,236**	**13,840**	**578**	**229,654**
Inwards reinsurance	390	-	1,283	1,673
Grand Total	**215,626**	**13,840**	**1,861**	**231,327**

The following table provides a breakdown of the cost of claims in 2007, using the format required by the PII:

('000 euros)

Business Areas/Groups	Amounts Paid- Instalments (1)	Amounts Paid- Management Costs Imputed (2)	Variation in Claims Provisions (3)	Cost of Claims (4) = (1) + (2) + (3)
Accidents and health	52,818	4,613	3,960	61,391
Fire and other damage	22,141	1,235	-1,584	21,792
Motor	-	-	-	
- Third party	85,309	6,148	9,437	100,894
- Other cover	22,916	2,004	5,496	30,416
Maritime, air and transport	4,483	233	341	5,057
General third party	2,778	334	568	3,680
Credit and bond	299	5	156	460
Legal protection	27	31	-97	-39
Assistance	-	-	-	-
Miscellaneous	332	4	378	714
Total	**191,103**	**14,607**	**18,655**	**224,365**
Inwards reinsurance	8	-	6	14
Grand Total	**191,111**	**14,607**	**18,661**	**224,379**

The provision for profit sharing stated under liabilities and the respective annual variation in the profit and loss accounts breaks down as follows:

('000 euros)

Business Areas/Groups	Balance Sheet Balance		Variation in Profit and Loss Account	
	2008	2007	2008	2007
Accidents and health	810	540	270	270
Fire and other damage				
Motor				
Maritime, air and transport				
General third party				
Credit and bond				
Legal protection				
Assistance				
Miscellaneous				
Total	**810**	**540**	**270**	**270**

The provision for claims rate deviations stated under liabilities and the respective annual variation in the profit and loss account breaks down as follows:

('000 euros)

Business Areas/Groups	Balance Sheet Balance		Variation in Profit and Loss Account	
	2008	2007	2008	2007
Accidents and health	-	-	-	-
Fire and other damage	3,739	3,307	432	402
Motor	-	-	-	-
Maritime, air and transport	-	-	-	-
General third party	18	64	-46	-1
Credit and bond	394	344	50	-
Legal protection	-	-	-	-
Assistance	-	-	-	-
Miscellaneous	42	38	4	3
Total	**4,193**	**3,753**	**440**	**404**

The provision for unexpired risks stated under liabilities and the respective annual variation in the profit and loss account breaks down as follows:

('000 euros)

Business Areas/Groups	Balance Sheet Balance		Variation in Profit and Loss Account	
	2008	2007	2008	2007
Accidents and health	3,517	2,235	1,282	1,711
Fire and other damage	2,325	834	1,491	824
Motor	13,332	3,910	9,422	-38
Maritime, air and transport	6	5	1	-12
General third party	-	-	-	-
Credit and bond	-	19	(19)	19
Legal protection	1	1	-	1
Assistance	242	227	15	227
Miscellaneous	58	19	39	18
Total	**19,481**	**7,250**	**12,231**	**2,750**

The values of other underwriting provisions net of reinsurance stated in the profit and loss account correspond to the sum of the variation stated above in the table for claims rate deviation for direct insurance and the provision for unexpired risks (direct insurance).

Nature and Extent of Specific Insurance Risks

The specific insurance risk corresponds to the risk inherent in the marketing of insurance contracts, product design and the setting of tariffs, in the underwriting process and the constitution of provisions for liabilities and management of claims and reinsurance. In non-life insurance, the risk bay be subdivided into premium risk, reserves risk and catastrophic risk.

Processes relating to underwriting, constitution of provisions and reinsurance are duly documented with regard to the main activities, risks and controls in the risk policy report.

Briefly, the most important controls in place are as follows:

• Delegation of formally defined powers for different processes;

• Separation of powers between divisions responsible for risk analysis, for setting tariffs and issuing technical opinions and for issuing policies;

• Limited access to different software in keeping with the respective user profile;

• Digitalization of documentation in issue procedures and claims management;

• Procedures for ad hoc meetings, exception reports and audits;

• Recruitment and training policy geared to responsibilities and the technical complexity of different functions.

The level of provisions is monitored on a monthly basis, with the main focus on claims provisions for which regular sufficiency analyses are carried out, with implementation of assessment models using stochastic models.

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

The following table presents the evolution of the claims provision for direct insurance with management costs, including reinsurance and net of reimbursements, excluding mathematical provisions for employers' liability business, comparing actual costs with those previously estimated:

('000 euros)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Provision for claims with management costs incl. reinsurance and net of reimbursement	250,434	276,399	299,101	302,579	305,512	328,733	363,800	375,014	394,397	394,186
Accrued payments										
One year later	91,432	106,206	105,824	108,328	106,724	91,174	105,504	100,096	98,779	
Two years later	133,023	147,272	157,869	162,811	149,681	141,526	157,627	145,308		
Three years later	161,289	185,976	197,820	194,772	185,956	176,790	191,998			
Four years later	191,913	215,921	222,164	223,751	213,367	201,716				
Five years later	215,087	234,821	246,876	245,653	235,135					
Six years later	229,519	252,471	264,938	263,670						
Seven years later	241,548	267,296	280,214							
Eight years later	252,513	279,416								
Nine years later	262,582									
Final estimate of cost of claims										
One year later	253,045	277,599	303,180	313,397	327,363	338,836	354,407	366,449	352,929	
Two years later	249,244	283,207	306,243	325,422	334,297	334,918	356,147	345,157		
Three years later	251,544	283,966	314,450	331,367	332,408	333,196	352,713			
Four years later	256,286	303,872	317,872	331,221	331,075	338,491				
Five years later	277,384	306,526	318,261	329,943	342,831					
Six years later	280,619	306,563	318,259	347,022						
Seven years later	281,055	306,112	338,585							
Eight years later	280,690	324,328								
Nine years later	295,051									
Accrued surplus / (deficit)	-44,617	-47,929	-39,485	-44,442	-37,320	-9,758	11,087	29,856	41,467	

Tranquilidade has an outwards reinsurance policy based on proportional and non-proportional treaties, with the objective of reducing the impact of peak risks, catastrophic risk and the risk of concentration. The reinsurance programme in 2008 comprises proportional treaties – quota share and excess – and non-proportional treaties – excess of loss and catastrophic cover, as shown in the following table:

Area of Business	Type of Reinsurance
Personal accident (consumer credit)	Quota share
Personal accident	Excess of loss (XL)
Employers' liability	Excess of loss (XL)
Motor (third party)	Excess of loss (XL)
Motor (own damage)	Excess of loss (XL)
Bonds	Quota share
Bonds (fidelity)	Quota share
Engineering	Proportional
Fire (simple risk)	Proportional
Fire (condominium)	Proportional
Fire (industrial establishment & risk)	Proportional
Fire (natural disasters)	Excess of loss (XL)
Fire	Excess of loss (XL)
General third party	Excess of loss (XL)
Maritime (hull)	Proportional
Maritime (hull-fleets)	Proportional
Maritime (goods carried)	Proportional
Maritime	Excess of loss (XL)
Health	Quota share
Assistance	Quota share

The sensitivity analysis for insurance risk is as follows, taking into account the main constraints:

('000 euros)

Area of Analysis	Scenarios	Impact on Pre-Tax Profits	
		2008	2007
Cost of claims	Increase of 5% on cost of claims for period, net of reinsurance	-18,500	-18,000
Expenses	Increase of 10% on operating costs, net of reinsurance	-14,900	-15,800
Longevity	Reduction of 10% in mortality of current Employers' liability pensioners	-1,600	-1,400

The risk of variations in the cost of claims and overheads derives from the influence exercised on these accounts by the increased occurrence of cost generating events, inflation or reduction in internal efficiency.

The risk of longevity covers the uncertainty of effective losses deriving from insured person living longer than expected and may be relevant, for example, in mathematical pensions in employers' liability insurance.

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

Nature and Extent of Market Risk, Credit Risk, Liquidity Risk and Operating Risk

Market risk

Market risk results from the volatility in the market prices of financial instruments and also includes the risks associated with the use of derivative financial instruments and is strongly related to the risk of mismatching between assets and liabilities. It encompasses exchange rate risk, equity risk, property risk, interest rate risk, spread risk and concentration risk.

Management of market risk falls within the scope of financial policy and the rules on the allocation of assets by class and type of issuer, powers for which are assigned to the Financial Committee. The investment policies adopted by Tranquilidade are based on prudent levels of risk acceptances and portfolio diversification, in view of the evolution of financial markets.

With the introduction of the Overall Risk Management Committee, economic and financial risk working parties have been set up with the following main objectives:

- To set guidelines for the introduction of integrated risk management models, together with economic capital models, approved by the Executive Board;

- To validate, from a technical perspective, the modelling of underwriting risks and financial risks as proposed by the Overall Risk Management and Internal Control Division and approved by the Executive Board;

- To develop tolerance indicators based on models and to monitor variations in indicators;

- To develop risk control procedures considering the risk appetite and the respective tolerances defined by the Executive Board;

- To define integrated risk mitigation strategies, as part of a process of adjusting assets and liabilities for analysis by the Overall Risk Management Committee.

The main responsibilities of the Overall Risk Management Committee are to examine and assure that the decisions taken by the Company are in line with the strategy and policies established for risk management, internal control and compliance. The committee also monitors the management of the different risks to which the Company is subject and proposes plans of action to the Executive Board as and when appropriate.

Coordination is to be increased in 2009 between the Financial Committee, responsible for the investment policy, and the Overall Risk Management Committee.

Exchange rate risk

The exchange rate risk derives from the volatility of Euro exchange rates. Exposure to this risk is residual, due to the low value of foreign currency assets and the existence of a hedging mechanism which mitigates most of this risk.

As a result of this, the sensitivity analysis points to a loss which is immaterial to the company, as shown in the following table:

('000 euros)

Area of Analysis	Scenarios	Impact on Pre-Tax Profits	
		2008	2007
Exchange rate	Depreciation of 10% in value of all foreign currencies in relation to euro	-3	-700

Equities risk

Equities risk derives from the volatility of market prices for shares and seeks to measure only the systematic risk, as the non-systematic risk is considered in concentration risk.

Equity securities held by the company (together with investment funds totally or partially composed of these securities) and the Company's holding in other undertakings are exposed to this risk.

The sensitivity risk is shown in the following table:

('000 euros)

Area of Analysis	Scenarios	Impact on Pre-Tax Profits	
		2008	2007
Shares	Drop of 10% in stock exchange prices	-19,200	-28,900

Property risk

Property risk derives from the volatility of property market prices. Properties owned by the company represent more than 97.5% of the assets exposed to this risk, and remaining relating to units in property funds.

The sensitivity risk is shown in the following table:

('000 euros)

Area of Analysis	Scenarios	Impact on Pre-Tax Profits	
		2008	2007
Property	Drop of 10% in value of property and property funds	-13,200	-13,500

Interest rate risk

Interest rate risk exists for all assets and liabilities whose value is sensitive to alterations in the time structure or volatility of interest rates. The assets most exposed to this risk are bonds, principally variable rate bonds. Liabilities are exposed through not obligatorily redeemable pensions in employers' liability business, due to the execution of liability adequacy tests.

A scenario of falling rates is selected because the variation in the interest rate curve has a greater impact on provisions than on assets:

('000 euros)

Area of Analysis	Scenarios	Impact on Pre-Tax Profits	
		2008	2007
Interest rate	Reduction of 100 b.p. in interest rate curve - effect on assets	3,200	2,500

('000 euros)

Area of Analysis	Scenarios	Impact on Pre-Tax Profits	
		2008	2007
Interest rate	Reduction of 100 b.p. in interest rate curve - effect on liabilities	-11,300	-10,300

Spread risk

The spread risk reflects the volatility of credit spreads along the entire risk-free interest rate curve. Securities exposed to this risk are primarily corporate bonds (around 93% of total), although this risk also exists in structured credit. Exposure to credit derivatives is immaterial.

The breakdown by rating of this type of bonds shows that around 70% of the portfolio exposed to this risk is composed of securities from issuers with a rating equal or superior to "A". This mix has shown no tendency to deteriorate, thanks to the investment policy established at Tranquilidade.

('000 euros)

Rating	2008		2007	
	%	Amount	%	Amount
AAA	5%	14,715	1%	2,943
AA	14%	37,707	19%	43,614
A	51%	136,724	55%	122,663
BBB	24%	64,891	23%	50,408
BB	5%	12,420	2%	4,382
B	0%	0	0%	0
CCC	0%	320	0%	22
Unrated	1%	1,440	0%	0
Total	**100%**	**268,217**	**100%**	**224,032**

Concentration risk

Concentration risk refers to the additional volatility existing in highly concentrated portfolios and to partial or permanent losses due to default by issuers. The following table shows the breakdown by economic sector:

('000 euros)

Business Sector	Financial Assets Classified on Initial Recognition at Fair Value Through Profit or Loss					
	2008			2007		
	%	Gross	Impairment	%	Gross	Impairment
Basic resources	0.0%	0	0	0.0%	0	0
Communications	0.0%	0	0	0.0%	0	0
Consumables (cyclical)	0.0%	0	0	0.0%	0	0
Consumables (non-cyclical)	0.0%	0	0	0.0%	0	0
Energy	0.0%	0	0	0.0%	0	0
Financial	100.0%	4,538	0	100.0%	21,151	0
Funds	0.0%	0	0	0.0%	0	0
Public debt	0.0%	0	0	0.0%	0	0
Industrial	0.0%	0	0	0.0%	0	0
Medicine	0.0%	0	0	0.0%	0	0
Technology	0.0%	0	0	0.0%	0	0
Public services	0.0%	0	0	0.0%	0	0
Other	0.0%	0	0	0.0%	0	0
Total	**100.0%**	**4,538**	**0**	**100.0%**	**21,151**	**0**

('000 euros)

Business Sector	Available-for-Sale Financial Assets					
	2008			2007		
	%	Gross	Impairment	%	Gross	Impairment
Basic resources	0.3%	1,094	0	0.1%	413	0
Communications	12.2%	39,740	-218	10.0%	36,479	-156
Consumables (cyclical)	3.5%	11,212	0	0.0%	0	0
Consumables (non-cyclical)	0.3%	1,001	0	0.9%	3,468	0
Energy	1.0%	3,275	0	0.3%	976	0
Financial	67.3%	218,486	-15,270	44.5%	162,831	-408
Funds	1.9%	6,263	-216	15.4%	56,141	-24
Public debt	0.0%	0	0	13.2%	48,415	0
Industrial	2.3%	7,505	0	1.1%	4,044	-25
Medicine	0.3%	970	0	0.0%	0	0
Technology	0.0%	0	0	0.0%	0	0
Public services	4.5%	14,575	0	4.5%	16,544	0
Other	6.3%	20,367	-431	10.0%	36,399	-364
	100.0%	**324,488**	**-16,135**	**100.0%**	**365,710**	**-977**

Liquidity risk

This risk derives from the possibility of insurance companies not having assets with sufficient liquidity to satisfy the requirements of monetary flows needed to honour their obligations to policy holders and other creditors as and when they mature.

To this end, the Company draws up a monthly cash plan, adjusted each week to its capital requirements/surpluses.

The following tables provide a breakdown of the maturity of financial and non-financial assets and liabilities at 31 December 2008 and 2007:

('000 euros)

2008	< 1 Month	1-3 Months	3-12 Months	1-5 Years	> 5 Years	No Maturity	Total
Financial assets	435	175,207	8,019	116,583	133,995	289,475	723,714
Non-financial assets						232,471	232,471
Total assets	**435**	**175,207**	**8,019**	**116,583**	**133,995**	**521,946**	**956,185**
Financial liabilities						47,703	47,703
Non-financial liabilities						688,037	688,037
Total liabilities	**-**	**-**	**-**	**-**	**-**	**735,740**	**735,740**
Net	**435**	**175,207**	**8,019**	**116,583**	**133,995**	**-213,794**	**220,445**

('000 euros)

2007	< 1 Month	1-3 Months	3-12 Months	1-5 Years	> 5 Years	No Maturity	Total
Financial assets	122,162	-	-	2,266		560,112	684,540
Non-financial assets						320,394	320,394
Total assets	**122,162**	**-**	**-**	**2,266**	**-**	**880,506**	**1,004,934**
Financial liabilities						46,312	46,312
Non-financial liabilities						692,451	692,451
Total liabilities	**-**	**-**	**-**	**-**	**-**	**738,763**	**738,763**
Net	**122,162**	**0**	**0**	**2,266**	**0**	**141,743**	**266,171**

Credit risk

Credit risk corresponds to the possible losses due to default or deterioration in the credit levels of counterparties which are mitigating existing risk, such as reinsurance or derivative contracts, amounts receivable from brokers, and other exposures to credit not considered in the spread risk.

Although legislation on debt collection has reduced this risk, the company monitors amounts and the vintage of debts on a regular basis.

In selecting reinsurers and in issuers of securities, minimum rating levels have been set, and the company regularly monitors the evolution of ratings of entities in its portfolio.

Operational risk

This corresponds to the risk of significant loses resulting from inadequacy or failures in processes, people and systems. Legal risk is also considered within operational risk.

• Internal control system

The internal control system can be defined as a set of control activities designed to implement the policies and procedures defined at the Company. As such, internal control represents the represents the implementation of control activities for risks of non-compliance with the policies and procedures defined, in particular in terms of operations and compliance.

Accordingly, the risks considered by the internal control system fall within the scope of the operational risks considered by the risk management system, albeit with a higher level of detail.

The working approach to the internal control system adopted comprises the following phases:

- Identification of relevant business units and processes, considering the associated risk;
- Documentation of significant processes including objectives, main activities, associated risks and controls;
- Assessment of the design of controls and identification of the associated opportunities for improvement;
- Effectiveness tests for the controls identified, confirmation of existing shortcomings and drafting of a correction plan;
- Drafting of the Risk Policy Report.

The organizational structure, or governance model, supporting development of the Company's risk management and internal control is based on a model with three lines of defence:

- At the first level, the structure is represented by the different Tranquilidade Divisions, which are the areas responsible for putting risk management and the respective controls into operation;
- At the second level, represented by the Overall Risk Management and Internal Control Division, the model has a supervisory role, and primarily takes responsibility for issuing systematic rules and policies and monitoring the risk management, internal control and compliance management system;
- At the third level, represented by the Internal Audit Division and the External Audit, the structure offers independent auditing of risk management, with the prime aim of assuring the effectiveness of controls.

In the context of the internal control system, managers have been identified with responsibility for these processes, with the primary function of assuring that the system is sufficiently robust in order to be able to minimize the occurrence of direct or indirect financial losses.

The internal control system at Tranquilidade has been duly formalized in the Risk Policy Report, in keeping with the requirements of PII Standard 14/2005-R, of 29 November, which includes the following sections, amongst others:

- Processes;
- Managers and process interlocutors;
- Principal activities;
- Risks: probability of occurrence, estimated impact in terms of risk exposure;
- Controls;
- Assessment of controls;
- Recommendations.

Solvency

Tranquilidade monitors solvency in accordance with Regulatory Standard 6/2007-R of 27 April, of the PII and the calculation of the solvency margin involves the following components:

('000 euros)

	2008	2007
Elements making up guarantee fund	177,104	151,583
Solvency margin to be constituted	55,343	55,343
Result from perspective of premiums	54,208	55,343
Result from perspective of claims	50,763	51,350
Maximum result Article 97.8	55,343	54,927
Minimum legal guarantee fund	3,200	3,200
Surplus/shortfall in solvency margin	121,761	96,240
Solvency margin coverage rate	320%	274%

Adequacy of Premiums and Provisions

In relation to the adequacy of premiums, an annual analysis is conducted of the underwriting bases and the actuarial principles and rules used to construct the tariffs for the insurance products. This involve verifying, within what may reasonably be foreseen, the adequacy of premiums charged on a prudent actuarial basis in order to guarantee commitments, accepted by the insurer, deriving from claims on the insurance contracts in question.

Business Ratios

Leading business ratios:

%	2008	2007
a) Claims rate	70.0%	63.1%
b) Acquisition ratio	22.0%	20.8%
c) Administrative ratio	10.0%	10.8%
Combined ratio	**102.0%**	**94.7%**

a) (Cost of claims+ costs imputed+ variation in underwriting provisions
+ Other costs – underwriting earnings) / premiums earned.
b) (Brokerage commissions on acquisition + costs imputed
+ variation in deferred acquisition costs) / gross premiums written
c) (Administrative brokerage commissions + costs imputed) / gross premiums written

Amounts Recoverable in Respect of Claims

Amounts recoverable in respect of payments made for claims, deriving from the acquisition of rights or obtaining of ownership, and the risk of non-collection of these amounts are included in the items and accounts indicated below:

('000 euros)	2008	2007
Accounts receivable	1,691	2,239
Adjustment of doubtful debts	(640)	(619)
Net total	**1,051**	**1,620**

In respect of cases where the Company obtains legal ownership of the insured goods (salvage), the amounts are contained in the following item and are as follows:

('000 euros)	2008	2007
Inventories	393	504

Note 5 - Other Financial Liabilities

Deposits received from reinsurers represent the value of bonds provided by reinsurers, as a consequence of accepting risks and receiving premiums on operations originated by outwards reinsurance business.

('000 euros)	2008	2007
Other financial liabilities		
Deposits received from reinsurers	806	663
Balancece sheet value	**806**	**663**

Note 6 - Financial Instruments

The detailed inventory of financial holdings and instruments is presented at the end of these notes in Annex 1, in keeping with the format and scope required by the PII. The composition of this inventory may be summarized as follows:

('000 euros)	2008	2007
Available-for-sale financial assets	308,353	364,733
Investments in subsidiaries and associates	133,006	105,490
Term deposits	119,315	81,004
Financial assets classified at fair value through profit or loss	4,538	21,151
Trading securities	35	-
Total holdings and financial instruments	**565,247**	**572,378**

Investments in subsidiaries and associates are set out in Note 7, and this Note 6 deals with other financial instruments.

Financial Assets at Fair Value Through Profit or Loss

As a consequence of application of IAS and in accordance with the option taken and the documented risk management strategy, the Company has classified in this item securities where it considers that (i) these financial assets are managed and their performance is assessed on a fair value basis and/or (ii) these assets contained embedded derivative instruments.

The balance of this type of assets is shown in the following table. It should be noted that the reduction of approximately 79% was due primarily to the disposal of positions.

('000 euros)	2008	2007
Bonds and other fixed yield securities		
Public issuers	-	-
Other issuers	4,538	21,151
Shares	-	-
Other floating rate securities	-	-
Balance sheet value	**4,538**	**21,151**
Acquisition value	4,690	21,568

At 31 December 2008, the Company held compound financial instruments in this category, with derivatives embedded in fixed yield securities, as follows:

Type of Risk	Balance Sheet Value ('000 euros)
Structured credit	4,526
Credit derivative	12
	4,538

Available-for-Sale Financial Assets

The balance for this category of assets breaks down as follows:

('000 euros)

	2008	2007
Bonds and other fixed yield securities		
Public issuers	-	48,415
Other issuers	286,285	202,829
Shares	15,970	57,321
Other floating rate securities	6,098	56,168
Balance sheet value	**308,353**	**364,733**

Final balance sheet amounts at 31 December 2008 and 2007 break down as follows:

('000 euros)

	Amortized or Acquisition Cost	Fair Value Reserve	Impairment	Balance Sheet Value
Bonds and other fixed yield securities				
Public issuers	50,192	-1,777	-	48,415
Other issuers	214,875	-12,046	-	202,829
Shares	41,106	17,192	-977	57,321
Other floating rate securities	57,101	-933	-	56,168
Balance at 31 December 2007	**363,274**	**2,436**	**-977**	**364,733**
Bonds and other fixed yield securities				
Public issuers	-	-	-	-
Other issuers	322,953	-22,349	-14,319	286,285
Shares	11,145	6,456	-1,631	15,970
Other floating rate securities	6,994	-711	-185	6,098
Balance at 31 December 2008	**341,092**	**-16,604**	**-16,135**	**308,353**

Movements in impairment losses are presented as follows:

('000 euros)

	2008	2007
Balance at 1 January	**977**	**1,970**
Allocations for the period	15,602	533
Use in the period	-444	-1,526
Balance at 31 December	**16,135**	**977**

Impairments recorded in gains and losses through adjustment of the fair value in investments, broken down in to the respective categories, are as follows:

('000 euros)

	2008	2007
Bonds and other fixed yield securities		
Public issuers	-	-
Other issuers	-14,318	-
Shares and other floating rate securities	-1,284	-533
	-15,602	**-533**

Trading Securities

The balance for this category of assets breaks down as follows:

('000 euros)

	2008		2007	
	Fair Value	Notional Value	Fair Value	Notional Value
Derivatives				
Forwards	35	480	-	-
Options	-	-	-	-
TOTAL	**35**	**480**	**-**	**-**

The Company's investments are predominantly in euros, although its portfolio also contains a number of operations expressed in other currencies.

Accordingly, and in all cases with the authorization of its Financial Committee, the Company has taken out a number of exchange rate hedges for the respective foreign currency investments.

Although these exchange rate hedges do not offer perfect cover, the seek to hedge against the exchange rate risk on principal and interest, through successive renewals over the year, using swap and forward mechanisms for this purpose.

Other Financial Assets

In addition to the financial instruments described above, the company also has other assets, as follows:

('000 euros)

	2008	2007
Loans	45,336	71,002
Deposits with reinsurance companies	1	2
Other	3,219	-
Total other financial assets	**48,556**	**71,004**

The amount for loans relates to a number of accessory capital payments and other loans and shareholder loans granted, as follows:

('000 euros)

	2008	2007
Accessory capital subscription - T-Vida	37,500	57,500
Accessory capital subscription - Advancecare	2,548	2,548
Shareholder loans - ES Saúde	2,500	8,500
Shareholder loans - Contact Center	277	102
Shareholder loans - Esumédica	262	262
Shareholder loans - Quinta dos Cónegos	153	153
Advances to employees	2,096	1,937
Total lending	**45,336**	**71,002**

Fair Value of Financial Assets and Liabilities Recorded at Amortized Cost

The fair value of financial assets recorded at amortized cost breaks down as follows:

('000 euros)

	2008		2007	
	Fair Value	Notional Value	Fair Value	Notional Value
Cash and cash equivalents and sight deposits	23,586	23,586	41,158	41,158
Loans and accounts receivable	167,871	167,871	152,008	152,008
Other debtors - insurance and other operations	86,325	86,325	92,836	92,836
FINANCIAL ASSETS AT AMORTIZED COST	**277,782**	**277,782**	**286,002**	**286,002**
Other financial assets	806	806	663	663
Other creditors - insurance and other operations	46,896	46,896	45,650	45,650
FINANCIAL LIABILITIES AT AMORTIZED COST	**47,702**	**47,702**	**46,313**	**46,313**

Considering that these are short term assets and liabilities, the balance at the balance sheet date is considered a reasonable estimate of the respective fair value.

Note 7 - Investments in Subsidiaries and Associates

In the presentation of its individual financial statements Tranquilidade has the following set of investments:

Company Name / Registered Offices			Holding (%)			Financial Data 2008 ('000 euros)			
	Classification	Valuation Method	Direct	Voting Rights	Effective	Assets	Liabilities	Equity	Net Profit
T-Vida, Companhia de Seguros, S.A. Av. da Liberdade, 230 • 1250-149 Lisboa (Portugal)	Subsidiary	Fair value	100.00	100.00	100.00	830,355	758,017	72,338	-13,205
Seguros Logo, S.A. R. D. Manuel II, 290 • 4050-344 Porto (Portugal)	Subsidiary	Fair value	100.00	100.00	100.00	16,890	7,773	9,117	-10,890
Advancecare – Gestão e Serviços de Saúde, S.A. Av. da Liberdade, 49 a 57, 1º • 1250-139 Lisboa (Portugal)	Subsidiary	Fair value	51.00	51.00	51.00	13,966	2,518	11,448	2,433
Espírito Santo Contact Center, S.A. Av. Infante D. Henrique, 343 - C • 1800-218 Lisboa (Portugal)	Subsidiary	Fair value	56.30	56.30	56.30	8,208	6,369	1,839	121
Esumédica–Prestação de Serviços Médicos, S.A. Av. da Liberdade, 242 • 1250-149 Lisboa (Portugal)	Subsidiary	Fair value	75.00	75.00	75.00	1,617	2,591	-974	-690
Fiduprivate, S.A. Rua Dr. Brito Câmara, 7 • 9000-039 Funchal (Portugal)	Subsidiary	Fair value	75.00	75.00	75.00	379	148	231	-335
BES, Companhia de Seguros, S.A. Av. Columbano Bordalo Pinheiro, 75, 8º • 1070-061 Lisboa (Portugal)	Associate	Fair value	25.00	25.00	25.00	115,709	93,266	22,443	3,908
Europ Assistance, S.A. Av. Álvares Cabral, 41 - 3º e 4º • 1250-015 Lisboa (Portugal)	Associate	Fair value	24.00	24.00	24.00	32,072	23,254	8,818	1,581

The change in the accounting policy for investments in subsidiaries, with the shift from valuation at acquisition cost to fair value, generated an increase in the value of this class of assets of 39.2 million euros at 31 December 2008, recorded against a gross positive effect on the fair value reserve, as follows:

('000 euros)

	Acquisition Value	Fair Value Reserve	Balance Sheet Value
Advancecare	486	23,683	24,169
Bes Seguros	3,759	16,566	20,325
ES Contact Center	1,846	1,202	3,048
Esumédica	445	267	712
Europe Assistance	1,757	2,515	4,272
Fiduprivate	480	-	480
LOGO	20,000	-	20,000
T-Vida	65,000	-5,000	60,000
	93,773	**39,233**	**133,006**

To allow for comparative analysis of this change in the accounting policy, the effect at 31 December 2007 is as follows:

('000 euros)

	Acquisition Value	Fair Value Reserve	Balance Sheet Value
Advancecare	485	23,589	24,074
Bes Seguros	3,759	16,241	20,000
ES Contact Center	325	670	995
Esumédica	446	-33	413
Europe Assistance	1,757	2,371	4,128
Fiduprivate	480	-	480
LOGO	7,500	-	7,500
T-Vida	20,000	27,900	47,900
	34,752	**70,738**	**105,490**

The overall change in the value of holdings over the course of 2008 was as follows:

('000 euros)

	Balance Sheet Value	Disposals	Acquisitionss / Increases in Capital	Fair Value Reserve	Balance Sheet Value
Advancecare	24,074	-	-	95	24,169
Bes Seguros	20,000	-	-	325	20,325
ES Contact Center	995	-	1,521	532	3,048
Esumédica	413	-	-	299	712
Europe Assistance	4,128	-	-	144	4,272
Fiduprivate	480	-	-	-	480
LOGO	7,500	-	12,500	-	20,000
T-Vida	47,900	-	45,000	-32,900	60,000
	105,490	**-**	**59,021**	**-31,505**	**133,006**

Over the course of 2008, Tranquilidade subscribed the entire capital increases in LOGO (5 million euros) and T_Vida (45 million euros), as well as paying up, in relation to LOGO, the remaining part of the share capital outstanding from 2007 (7.5 million euros).

The Company acquired shares in E.S. Contact Center, with a value of 1,521,103 euros increasing its holding in the company from 20.42% to 56.30%. Shares were also acquired in Advancecare, with a value of 490 euros increasing the percentage holding from 50.99% to 51.00%.

Note 8 - Cash and Cash Equivalents and Sight Deposits

The balance in this account breaks down as follows:

('000 euros)

	2008	2007
Cash	435	881
Banks	23,151	40,277
	23,586	**41,158**

Note 9 - Land and Buildings

Property assets are valued using the cost model for property in own use and the fair value model for investment property. Irrespective of the measurement model, regular valuations are conducted of all property.

These valuations are conducted through combined weighting of the “Comparative Market” and “Yield” valuation methods, and the respective amounts lead to changes in the fair value of investment properties and serve to test impairment to tangible assets (property in own use).

The comparative market method is used at all times, on the basis of market evidence, obtained from prospecting the market in property comparable to that being valued, with values being based on similar property transactions.

Property is classified as being in the Company’s own use when involved in its operations and as investment property in other cases. There are properties which, because their use is divided, are classified as mixed, and each part is analyzed and valued separately.

The valuers responsible for valuing assets are duly qualified for this purpose, and registered with the Securities Market Commission.

Fair value model

Balances and movements in investment properties in both periods break down as follows:

('000 euros)

Invesment Properties - Buildings Let	2008	2007
Net balance at 1 January	**82,904**	**80,909**
Additions due to acquisition	2,951	-
Additions due to betterments	436	365
Transfers	-144	3,711
Write-offs/sales	-115	-2,081
Variations in fair value	910	-
Net balance at 31 December	**86,942**	**82,904**

Amounts recognized in income for earnings and costs relating to investment properties are as follows:

('000 euros)

	2008	2007
Rental income	**2,554**	**3,051**
Operating costs	**439**	**530**
- on property generating rental income	415	522
- on property not generating rental income	24	8

Cost model

The balance of the accounts for Property in Own Use breaks down as follows:

('000 euros)

	2008	2007
Gross value	**45,029**	**50,313**
Accrued depreciation and impairment	-5,310	-5,976
Net balance at 31 December	**39,719**	**44,337**

Changes in Property in Own Use in both periods breaks down as follows:

('000 euros)

Tangible Assets - Buildings in Own Use	2008	2007
Net balance at 1 January	**44,337**	**58,895**
Additions due to acquisition		-
Additions due to betterments	828	688
Transfers	-4	-3,561
Write-offs / Sales	-6,109	-9,490
Impairment - [(Allocation) / Use]	903	-1,328
Depreciation for the period	-236	-867
Net balance at 31 December	**39,719**	**44,337**

Note 10 - Other Tangible Fixed Assets and Inventories

In addition to the property in own use referred to in the preceding item, the Company also owns other tangible fixed assets valued using the cost model. These assets break down as follows:

('000 euros)

Tangible Assets - Buildings in Own Use	2008	2007
Equipment	37,520	37,428
Office furniture and equipment	4,410	4,286
Machinery and tools	1,353	1,890
IT equipment	28,871	27,555
Interior fittings	1,697	1,964
Expenses on rented buildings	223	-
Vehicles and transport	523	743
Other tangible fixed assets	443	990
Fixed assets under construction	**262**	**-**
Accrued depreciation	**-34,416**	**-33,454**
Impairment	**-**	**-**
	3,366	**3,974**

Movements in this item break down as follows:

('000 euros)

	Equipment	Fixed Assets Under Construction	Total
Balance at 1 January 2007	**4,208**	**-**	**4,208**
Additions	2,048		2,048
Transfers	-		-
Depreciation in the period	358		358
Write-offs/Sales	-2,640		-2,640
Balance at 31 December 2007	**3,974**	**-**	**3,974**
Additions	1,846	262	2,108
Transfers	-99	-	-99
Depreciation in the period	-962	-	-962
Write-offs/Sales	-1,655	-	-1,655
Balance at 31 December 2008	**3,104**	**262**	**3,366**

It should be noted that the Company has other assets, fundamentally related to salvage situations, which in 2008 represent 396 thousand euros (2007: 507 thousand euros).

Note 11 - Allocation of Investments and Other Assets

In accordance with the legal rules in force, the Company is required to allocate investments and other assets for the total of underwriting provisions, in accordance with the limits established by the PII:

The following tables indicate which assets are allocated and not allocated to the insurance portfolios operated by the Company, at 31 December 2008 and 2007:

('000 euros)

	2008		
	Non-Life Insurance	Not Allocated	Total
Cash and cash equivalents	19,933	3,653	23,586
Land and buildings	126,661	-	126,661
Investments in subsidiaries, associates and joint ventures	128,766	4,240	133,006
Trading securities	35	-	35
Financial assets classified on initial recognition at fair value through profit or loss	4,538	-	4,538
Hedging derivatives	-	-	-
Available-for-sale financial assets	300,295	8,058	308,353
Loans and accounts receivable	162,837	5,034	167,871
Held-to-maturity investments	-	-	-
Other tangible assets	-	3,366	3,366
Other assets	-	188,769	188,769
		-	
	743,065	**213,120**	**956,185**

('000 euros)

	2007		
	Non-Life Insurance	Not Allocated	Total
Cash and cash equivalents	38,616	2,542	41,158
Land and buildings	127,241	-	127,241
Investments in subsidiaries, associates and joint ventures	103,603	1,887	105,490
Trading securities	-	-	-
Financial assets classified on initial recognition at fair value through profit or loss	21,151	-	21,151
Hedging derivatives			
Available-for-sale financial assets	352,850	11,883	364,733
Loans and accounts receivable	150,427	1,581	152,008
Held-to-maturity investments	-	-	-
Other tangible assets	-	3,974	3,974
Other assets	-	189,179	189,179
	793,888	**211,046**	**1,004,934**

Note 12 - Intangible Assets

All intangible assets are valued using the cost method, and there are no cases of assets generated internally. The estimated useful lives are finite: 5 years for IT development expenses and 3 years for software, with depreciation calculated on a straight line basis.

Goodwill represents the positive difference between the acquisition cost of Companhia de Seguros ESIA and the fair value attributable to the respective net assets acquired, and this goodwill is not depreciated, in accordance with IFRS – Business Combinations, as the recoverable value shows no signs of impairment.

The balance of goodwill and other intangibles accounts breaks down as follows:

('000 euros)

	2008	2007
Goodwill	**25,785**	**25,785**
Other intangibles	**40,853**	**34,728**
IT application development expenses	30,701	25,660
Software	8,276	7,099
Intangibles in progress	1,876	1,969
Accrued depreciation	**-27,650**	**-22,121**
Impairment	**-**	**-**
	38,988	**38,392**

Movements in both periods break down as follows:

('000 euros)

	Goodwill	Other Intangibles	IT applications Development Expenses	Software	Intangibles in Progress	Total
Balance at 1 January 2007	**25,785**	**12,341**	**10,773**	**1,378**	**190**	**38,126**
Additions		5,734	1,102	129	4,503	5,734
Depreciation in the period		-5,468	-5,132	-336	-	-5,468
Impairment		-	-	-	-	-
Transfers		-	2,724	-	-2,724	-
Balance at 31 December 2007	**25,785**	**12,607**	**9,467**	**1,171**	**1,969**	**38,392**
Additions		6,125	1,633	1,177	3,315	6,125
Depreciation in the period		-5,529	-5,214	-315	-	-5,529
Impairment		-	-	-	-	-
Transfers		-	3,408	-	-3,408	-
Balance at 31 December 2008	**25,785**	**13,203**	**9,294**	**2,033**	**1,876**	**38,988**

Depreciation of intangible assets breaks down as follows by items in the profit and loss account:

('000 euros)

	2008	2007
Depreciation in the period intangible assets	**5,529**	**5,468**
Cost of claims, net of reinsurance		
Amounts paid - Gross	1,389	1,374
Net operating cost and expense		
Acquisition costs	2,969	2,930
Administrative expense	1,169	1,161
Financial expense		
Other	2	3

Note 13 - Other Assets, Liabilities, Adjustments and Provisions

Assets and adjustments

The balance for accounts receivable – direct insurance operations breaks down as follows:

('000 euros)

	2008	2007
Gross assets	**55,312**	**57,424**
Policy holders		
- premiums outstanding	47,483	46,762
- reimbursement of claims	4,400	4,367
Insurance brokers	328	279
Co-insurers	3,101	6,016
Adjustments	**-5,356**	**-7,267**
Premiums outstanding	-4,645	-6,582
Doubtful debts	-711	-685
Net assets	**49,956**	**50,157**

Reimbursement demanded in relation to payments made for claims incurred during the guarantee suspension period and not yet received amount to 1,691 thousand euros (2007: 2.239 thousand euros).

The balance for accounts receivable – reinsurance operations breaks down as follows:

('000 euros)

	2008	2007
Gross assets	**6,552**	**8,361**
Reinsurers	6,024	8,360
Reinsured	528	1
Adjustments	**-238**	**-714**
Doubtful debts	-238	-714
Net assets	**6,314**	**7,647**

The balance for accounts receivable – other operations breaks down as follows:

('000 euros)

	2008	2007
Gross assets	**30,608**	**35,504**
Related entities	1,791	527
Property operations	11,024	11,108
IFADAP	4,965	10,779
ELF	3,884	864
Management on behalf of IDS and represented companies	2,135	1,746
Bonds	1,291	1,448
Rentals and other amounts collectible	448	999
Personnel	440	510
Other amounts receivable	4,630	7,523
Adjustments	**-553**	**-472**
Doubful debts	-553	-472
Net assets	**30,055**	**35,032**

Amounts relating to property operations relate to amounts owing at the end of each periods, resulting from the sale of property, and in relation to both 2007 and 2008 the respective settlements were made at the start of the following periods.

Movement in both periods in relation to Adjustments in assets breaks down as follows:

('000 euros)

	2008	2007
Adjustments for outstanding premiums		
Balance at 1 January	6,582	7,472
Allocations in the period		
Use in the period	-1,937	-890
Balance at 31 December	**4,645**	**6,582**
Adjustment to doubtful debts		
Balance at 1 January	1,871	3,238
Allocations in the period	107	-
Use in the period	-476	-1,367
Balance at 31 December	**1,502**	**1,871**

The balance for accruals and deferrals (assets side) breaks down as follows:

('000 euros)

	2008	2007
Accrued income	**1,772**	**1,315**
- Profit commission on reinsurance	995	1,315
- Services rendered	777	
Deferred expense	**158**	**155**
- Insurance	142	128
- Rentals	16	27
Total	**1,930**	**1,470**

Liabilities and provisions

The liabilities balance for accounts payable – direct insurance operations breaks down as follows:

('000 euros)

	2008	2007
Policy holders (rebates payable)	4,510	3,505
Insurance brokers		
- Commissions payable	4,118	4,154
- Current accounts	2,128	2,401
Co-insurers	9,439	11,359
Total	**20,195**	**21,419**

The liabilities balance for accounts payable – reinsurance operations breaks down as follows:

('000 euros)

	2008	2007
Reinsurers	10,860	11,230
Reinsured	10	20
Total	**10,870**	**11,250**

The liabilities balance for accounts payable - other operations breaks down as follows:

('000 euros)

	2008	2007
Related entities	318	298
Suppliers of goods under finance leases	3,091	2,958
Other suppliers of goods and seervices	2,765	4,620
ELF	3,021	
Investment operations to be settled	2,700	0
IFADAP	763	1,633
EL Pensions	1,189	1,306
Other amounts payable	1,985	2,166
Total	**15,832**	**12,981**

The balance for accruals and deferrals (liabilities side) breaks down as follows:

('000 euros)

	2008	2007
Deferred income	**233**	**238**
- Rentals	233	238
Accrued costs	**18,444**	**17,134**
- Personnel costs (allowances, charges and bonus)	4,933	7,149
- Acquisition costs (incentives and commissions)	6,114	5,610
- Third party supplies and services	7,397	4,375
Total	**18,677**	**17,372**

The liabilities balance for other provisions and respective movements break down as follows:

('000 euros)

	2008	2007
Taxes	884	317
Liability for mandatory works	250	250
Legal proceedings for represented companies	100	100
Total	**1,234**	**667**

('000 euros)

	2008	2007
Balance at 1 January	667	350
Allocations in the period	567	317
Use in the period	-	-
Balance at 31 December	**1,234**	**667**

The variation is entirely explained by the variation in the taxes on compensatory interest payable in the event of an unfavourable decision on the use of fiscal deductions in the determination of corporation tax (ITC) for 2006 and 2007, relating to fiscal losses on a business merger and reinvestment of fiscal gains resulting from the sale of a financial holding.

Note 14 - Insurance Contract Premiums

Gross premiums written, the variation in the provision for unearned premiums (PUP) and premiums earned, on direct insurance and inwards reinsurance, break down as follows:

('000 euros)

Business Areas/Groups	Gross Premiums Written		PUP Variation		Premiums Earned	
	2008	2007	2008	2007	2008	2007
Accidents and health	100,050	103,313	-193	1,170	100,243	102,143
Fire and other damage	59,296	56,681	4	600	59,292	56,080
Motor	148,123	171,792	-11,461	-1,813	159,584	173,605
Maritime, air and transport	8,640	8,761	-142	-62	8,782	8,823
General third party	10,446	10,170	-184	711	10,630	9,459
Credit and bond	120	123	-63	-73	184	196
Legal protection	22	24	-2	-1	24	25
Assistance	8,721	9,975	-815	441	9,536	9,534
Miscellaneous	1,726	1,541	60	2	1,665	1,539
Total	**337,144**	**362,380**	**-12,796**	**975**	**349,940**	**361,405**

Gross premiums written, the variation in the provision for unearned premiums (PUP) and premiums earned, on outwards reinsurance, break down as follows:

('000 euros)

Business Areas/Groups	Gross Premiums Written		PUP Variation		Premiums Earned	
	2008	2007	2008	2007	2008	2007
Accidents and health	1,974	9,437	-29	-217	2,003	9,654
Fire and other damage	22,057	19,398	241	221	21,816	19,177
Motor	1,808	2,406	-	-	1,808	2,406
Maritime, air and transport	4,578	5,173	-219	107	4,797	5,066
General third party	1,690	1,328	44	180	1,646	1,148
Credit and bond	72	77	-60	-61	132	138
Legal protection	-	-	-	-	-	-
Assistance	7,906	8,961	-532	508	8,438	8,453
Miscellaneous	1,613	1,345	90	1	1,523	1,344
Total	**41,698**	**48,125**	**-465**	**739**	**42,163**	**47,386**

The breakdown of certain amounts relating to non-life insurance and inwards reinsurance in 2008 is as follows, in the format required by the PII for Annex 4:

('000 euros)

Business Areas/Groups	Gross premiums Written	Gross premiums Earned	Gross Cost of Claims	Gross Operating Costs	Reinsurance Balance
Accidents and health	100,050	100,243	69,373	28,043	2,328
Fire and other damage	59,202	59,195	37,733	21,081	-2,687
Motor	-	-	-	-	-
- Third party	103,521	113,110	98,529	32,889	-2,303
- Other cover	41,611	45,033	15,856	16,101	-657
Maritime, air and transport	8,640	8,782	4,997	2,411	-955
General third party	10,446	10,590	2,325	4,183	-1,975
Credit and bond	120	184	-45	56	-119
Legal protection	22	24	132	13	-
Assistance	8,721	9,536	-	1,877	-8,436
Miscellaneous	1,698	1,647	754	388	-488
Total	**334,031**	**348,344**	**229,654**	**107,042**	**-15,292**
Inwards reinsurance	3,113	1,596	1,673	858	-237
Grand Total	**337,144**	**349,940**	**231,327**	**107,900**	**-15,529**

Note 16 - Investment Earnings/Revenue and expense

As políticas contabilísticas adoptadas para o reconhecimento de réditos e Accounting policies adopted for recognition of revenues and expenditure relating to investments are described in Note 3.

The balance of the account for Earnings, broken down in to the different types of revenue, is as follows:

('000 euros)

	2008	2007
Interest	**22,185**	**21,337**
Available-for-sale financial assets	16,852	17,755
Financial assets classified at fair value through profit or loss	536	1,139
Trading securities	-	-
Deposits, loans and other assets	4,797	2,443
Rentals	**2,559**	**3,051**
Land and buildings	2,559	3,051
Dividends	**4,707**	**4,610**
Investments in subsidiaries, associates and joint ventures	2,870	3,581
Available-for-sale financial assets	1,837	1,029
Total	**29,451**	**28,998**

The balance of the account for Earnings, broken down by type of asset, is as follows:

('000 euros)

	2008	2007
Bonds and other fixed rate securities		
Public issuers	1,856	1,323
Other issuers	15,532	17,571
Shares	4,411	4,569
Other floating rate securities	296	41
Property	2,559	3,051
Deposits	4,607	861
Loans and other assets	190	1,582
Total	**29,451**	**28,998**

The balance of the account for Financial expenditure breaks down as follows:

('000 euros)

	2008	2007
Costs imputed to investment function	1,548	1,659
Direct operating costs	558	659
Total	**2,106**	**2,318**

Note 17 - Realized Gains and Losses on Investments

Amounts recorded in net gains on financial and non-financial assets and liabilities, broken down by the respective categories, are as follows:

('000 euros)

	2008			2007		
	Gain	Loss	Balance	Gain	Loss	Balance
Financial - not at fair value	**30,194**	**-14,631**	**15,563**	**9,170**	**-3,533**	**5,637**
Available-for-sale financial assets	30,194	-14,631	15,563	9,115	-3,239	5,876
Investments in subsidiaries, associates and joint ventures	-	-	-	55	-294	-239
Financial - at fair value	**81**	**-593**	**-512**	**409**	**-215**	**194**
Financial assets classified at fair value through profit or loss	81	-593	-512	409	-215	194
Non-financial	**434**	**-544**	**-110**	**1,778**	**-960**	**818**
Land and buildings - own use	359	-544	-185	846	-924	-78
Land and buildings - Investment	75	-	75	932	-36	896
Total	**30,709**	**-15,768**	**14,941**	**11,357**	**-4,708**	**6,649**

Note 18 - Gains and Losses on Fair Value Adjustments on Investments

Gains and losses from fair value adjustments on investments break down as follows:

('000 euros)

	2008			2007		
	Gain	Loss	Balance	Gain	Loss	Balance
Financial - at fair value	**460**	**0**	**460**	**23**	**0**	**23**
Trading securities						
Derivatives	35	-	35		-	-
Financial assets classified at fair value through profit or loss						
Debt securities	425	-	425	23	-	23
Non-financial	**4,768**	**-3,858**	**910**	**-**	**-**	**-**
Land and buildings - Investment	4,768	-3,858	910	-	-	-
Total	**5,228**	**-3,858**	**1,370**	**23**	**-**	**23**

Note 19 - Exchange Rate Gains and Losses

This account includes the gains and losses deriving from exchange rate revaluation of monetary assets and liabilities expressed in foreign currency in accordance with the accounting policy described in Note 3, except for those resulting from financial instruments at fair value through profit or loss.

The balance breaks down as follows:

('000 euros)

	2008			2007		
	Gain	Loss	Balance	Gain	Loss	Balance
Available-for-sale financial assets	74	-62	12	11	-50	-39
Trading securities	60	-70	-10			-
Others	1	-1	-	7	-1	6
Total	**135**	**-133**	**2**	**18**	**-51**	**-33**

Note 20 - Other Earnings, Expenses and Variation in Other Provisions

The balance in the account for Other underwriting earnings/expense, net of reinsurance breaks down as follows:

('000 euros)

	2008	2007
Other underwriting income	**1,294**	**704**
Co-insurance management fees	257	198
Claims management charges	110	130
Remuneration for services - IFADAP	7	5
Management on account of claims	920	371
Other underwriting expense	**1,953**	**1,262**
Co-insurance management fees	70	379
Management on account of claims	1,883	883
Value of gains and losses	**-659**	**-558**

The balance on the account for Other earnings/expense breaks down as follows:

('000 euros)

	2008	2007
Other non-underwriting income	**7,046**	**6,454**
Tax rebates	458	422
Corrections and adjustments	316	4,211
Other gains	3,317	787
Interest and other financial gains	221	127
Services rendered	397	-
Gains on disposal of tangible assets	31	18
Adjustments for doubtful debts	364	-
Adjustments for unearned premiums	1,942	889
Other non-underwriting expense	**5,326**	**4,276**
Donations	92	100
Sponsorship	273	265
Gifts to customers	274	288
Fines	32	40
Membership subscriptions	93	149
Reorganization costs	1,668	-
Bad debts	114	67
Corrections and adjustments	1,548	2,559
Other expense	1,088	457
Banking services and interest for late payment	144	203
Adjustments for bad debts	-	148
Value of gains and losses	**1,720**	**2,178**

The balance on the account for Other provisions (variation) breaks down as follows:

('000 euros)

	2008	2007
Taxes	-	55
Value of gains and losses	**-**	**55**

Note 21 - Miscellaneous Expenditure by Function and Nature

Costs recorded in cost categories are not stated directly in the profit and loss account, as they are shared between the insurer's four main functions and therefore entered and shared between the following items:

- Claims function: Cost of claims – Gross amounts paid;
- Acquisition function: Operating costs and expenses – Acquisition costs;
- Administrative function: Operating costs and expenditure – Administrative costs;
- Investment function: Financial expenditure - Other;

The process of imputing costs to categories is based on the following criteria, depending on the individual case:

- % of time dedicated to each function by the cost centre;
- % of use of IT resources;
- % of persons allocated to each function.

The following table presents a breakdown of these expenses using the classifications based on function, at 31 December 2008 and 2007:

('000 euros) (%)

2008	Cost of Claims		Acquisition Costs		Administrative Costs		Cost of Investments		Total	
Personnel costs	7,238	19%	15,726	41%	15,065	39%	357	1%	38,386	100%
Third party supplies and services	4,712	19%	9,912	39%	10,345	41%	321	1%	25,290	100%
Taxes	-	0%	-	0%	2,931	100%	-	0%	2,931	100%
Depreciation	1,843	21%	4,111	47%	2,584	29%	248	3%	8,786	100%
Provision for risks and charges	-	0%	-	0%	567	100%	-	0%	567	100%
Other costs	48	6%	103	13%	44	5%	622	76%	817	100%
Total	**13,841**	**18%**	**29,852**	**39%**	**31,536**	**41%**	**1,548**	**2%**	**76,777**	**100%**

('000 euros) (%)

2007	Cost of Claims		Acquisition Costs		Administrative Costs		Cost of Investments		Total	
Personnel costs	8,112	20%	18,123	44%	14,868	36%	369	1%	41,472	100%
Third party supplies and services	4,498	15%	11,899	39%	13,390	44%	472	2%	30,259	100%
Taxes	-	0%	6,034	100%	-	0%	-	0%	6,034	100%
Depreciation	1,943	22%	4,318	50%	2,371	27%	20	0%	8,652	100%
Provision for risks and charges	17	4%	28	7%	337	88%	1	0%	383	100%
Other costs	38	4%	82	9%	36	4%	798	84%	954	100%
Total	**14,608**	**17%**	**40,484**	**46%**	**31,002**	**35%**	**1,660**	**2%**	**87,754**	**100%**

The amount for personnel costs is analyzed in Note 22.

The amount for Third Party Supplies and Services breaks down as follows:

('000 euros)

	2008	2007
Electricity and water	504	433
Fuel	346	246
Office furniture and equipment, forms and other	204	298
Articles for gifts	212	253
Maintenance of office furniture and equipment	301	489
Maintenance of IT equipment	1,590	1,839
Rentals	802	800
Rental of vehicles and other rentals	1,182	1,202
Travel and entertainment expenses	1,269	1,572
Telephone calls and networks	1,989	1,561
Postage	2,021	2,180
Insurance	153	169
Fees and retainers	531	600
Advertising and marketing	1,960	3,435
Cleaning, hygiene and comfort	439	428
Surveillance and security	283	313
Outsourcing, consultancy and specialist work	7,272	6,900
IT services and development	2,165	4,232
APS membership subscription	267	340
Colleciotn of premiums	707	1,282
Brokers training	343	420
Casual employees	285	410
Other miscellaneous services and supplies	465	857
Total	**25,290**	**30,259**

The amount for Taxes and charges breaks down as follows:

('000 euros)

	2008	2007
VAT paid	217	211
PII charge	766	831
ELF charge	681	678
VGF charge	598	3,497
Municipal property tax	50	90
Civil Government charge	504	622
Charge for the Portuguese Green Card Office	62	62
Other taxes, charges and licenses	53	43
Total	**2,931**	**6,034**

The amount for depreciation breaks down as follows:

('000 euros)

	2008	2007
IT applications development expenses	5,214	5,132
IT equipment and applications	451	375
Property in own use	716	864
Administrative equipment and machinery	277	325
Interior fittings	522	405
Finance leases	1,569	1,502
Other equipment	37	49
Total	**8,786**	**8,652**

The amount for the Provision for risks and charges and other costs breaks down as follows:

('000 euros)

	2008	2007
Provision for taxes	567	317
Interest on reinsurers' deposits	60	76
Interest on finance leases	197	158
Fees for custody and management of securities and other charges	560	720
Other costs	-	66
Total	**1,384**	**1,337**

The amount for net operating costs and expenses breaks down as follows:

('000 euros)

	2008	2007
Acquisition costs		
Brokerage remuneration	33,348	33,332
Costs imputed	29,852	34,451
Other acquisition costs	8,611	8,415
Deferred acquisition costs (variation)	2,508	-895
Administrative expense		
Brokerage remuneration	2,045	2,206
Costs imputed	31,536	37,036
Reinsurance commissions and profit sharing	-8,394	-10,692
Total	**99,506**	**103,853**

Note 22 - Personnel Costs

The average number of employees in the Company's service by occupational category breaks down as follows:

	2008	2007
Management	61	62
Underwriting staff	191	201
Underwriting-administrative staff	341	375
Sales staff	153	172
IT staff	32	35
General support staff	8	8
Electricians	1	1
Total	**787**	**854**

In addition to these figures, the Company has 4 employees working at its branch office in Spain.

The amount stated for personnel costs breaks down as follows:

('000 euros)

	2008	2007
Remuneration - officers	1,321	1,252
Remuneration - employees	27,789	30,940
Charges on remuneration - officers	123	119
Charges on remuneration - employees	5,730	5,964
Post-employment benefits - Defined benefit pension plans	1,615	1,224
Mandatory insurance	746	786
Social expenses	837	883
Trainnig	147	251
Other personnel expense	78	53
Total	**38,386**	**41,472**

The variation indicated is due above all to the effects of the programme of staff cuts and the reduction in employee bonuses.

At 31 December 2008 and 2007 the Company had granted no credits to members of the Board of Directors

Note 23 - Obligations Relating to Employee Benefits

Retirement pensions and health benefits

As stated in Note 3, Tranquilidade has established defined benefits plans for its employees and directors, providing coverage for early retirement, death, old age and invalidity. There is also a plan offering a range of health benefits for current employees and those on early retirement, up to the normal retirement age.

The actuarial assessment of retirement pension benefits and health benefits at Tranquilidade is carried out annually, the last having been conducted with reference to 31 December 2008.

The main assumptions considered in the actuarial studies, for 31 December 2008 and 2007, used to determine the discounted value of pensions and health benefits for employees, are as follows:

	2008	2007
Financial assumptions		
Salary escalation rates	3.5%- 4% (*)	3.5%- 4% (*)
Pension escalation rates	1.25% - 4% (*)	1.25% - 4% (*)
Fund yield	6% - 5.7% (*)	6% - 5.7% (*)
Rate of growth in early retirement	2.50%	2.50%
Discount rate	5.75%	5.25%
Demographic assumptions and valuation methods		
Mortality table	GKF 95	GKF 95
Invalidity table	Suisse Re 2001	Suisse Re 2001
Actuarial valuation method	*Project Unit Credit Method*	

(*) Relating to liabilities in respect of directors

In keeping with the accounting policy described in Note 3, the discount rate used to estimate liabilities for retirement pensions and health benefits corresponds to the market rates at the balance sheet date for top rated corporate bonds.

At 31 December 2008 and 2007, the number of participants covered by the benefits plan was as follows:

	2008	2007
Current employees	440	483
Pensioners	220	189
	660	**672**

At 31 December 2008 and 2007, the amounts recognized in the balance sheet broke down as follows:

('000 euros)

	2008			2007		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Net assets/ (liabilities) recognized in the balance sheet						
Liabilities at 31 December	-44,250	-705	-44,955	-51,346	-534	-51,880
Balance of fund at 31 December	43,087	-	43,087	47,311	-	47,311
Assets/ (liabilities) receivable/payable to fund	**-1,163**	**-705**	**-1,868**	**-4,035**	**-534**	**-4,569**
Deferred actuarial deviations at 31 December	14,534	145	14,679	11,952	-119	11,833
Net assets/ (liabilities) in the balance at 31 December	**13,371**	**-560**	**12,811**	**7,917**	**-653**	**7,264**

In addition, Tranquilidade has transferred part of its liabilities for retirement pensions by acquiring life insurance policies from T-Vida, Companhia de Seguros, S.A. These policies cover 476 employees (2007: 483), and the total value of the liabilities stands at 16,073 thousand euros (2007: 16,367 thousand euros).

Liabilities for retirement pensions and health benefits broke down as follows, in 2008 and 2007:

('000 euros)

	2008			2007		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Liabilities at 1 January	**51,346**	**534**	**51,880**	**52,346**	**586**	**52,932**
Cost of current services	1,335	4	1,339	1,175	5	1,180
Interest cost	2,632	25	2,657	2,424	28	2,452
Actuarial (gains) and losses on liabilities	-3,242	260	-2,982	2,161	22	2,183
Pensions paid by fund	-4,303	-	-4,303	-3,038	-	-3,038
Benefits paid by Company	-37	-118	-155	-1,324	-107	-1,431
Transfers from other funds	-3,481	-	-3,481	-2,398	-	-2,398
Liabilities at 31 December	**44,250**	**705**	**44,955**	**51,346**	**534**	**51,880**

The value of the pension fund in 2008 and 2007 broke down as follows:

('000 euros)

	2008			2007		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Balance of fund at 1 January	**47,311**	**-**	**47,311**	**46,120**	**-**	**46,120**
Actual yield on fund						
Expected return on fund	2,742	-	2,742	2,540	-	2,540
Actuarial gains and losses	-6,189	-	-6,189	-813	-	-813
Contributions paid by fund participants	7,007	-	7,007	4,900	-	4,900
Pensions paid by fund	-4,303	-	-4,303	-3,038	-	-3,038
Transfers from other funds	-3,481	-	-3,481	-2,398	-	-2,398
Balance of fund at 31 December	**43,087**	**-**	**43,087**	**47,311**	**-**	**47,311**

Actuarial deviations deferred on the balance sheet broke down as follows:

('000 euros)

	2008			2007		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Deferred actuarial deviations at 1 January	**11,952**	**-119**	**11,833**	**9,116**	**-147**	**8,969**
Actuarial (gains) and losses						
- on liabilities	-3,242	260	-2,982	2,161	22	2,183
- on plan assets	6,189	-	6,189	813	-	813
Depreciation in the period	-365	4	-361	-138	6	-132
Deferred actuarial deviations at 31 December	**14,534**	**145**	**14,679**	**11,952**	**-119**	**11,833**

Assets receivable/liabilities payable broke down as follows in 2008 and 2007:

('000 euros)

	2008			2007		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
(Assets)/ Liabilities receivable or payable at 1 January	**4,035**	**534**	**4,569**	**6,226**	**586**	**6,812**
Actuarial gains and losses on liabilities	-3,242	260	-2,982	2,161	22	2,183
Actuarial gains and losses on funds	6,189	-	6,189	813	-	813
Charges in the period:						
- Cost of current services	1,335	4	1,339	1,175	5	1,180
- Interest expense	2,632	25	2,657	2,424	28	2,452
- Expected return on fund	-2,742	-	-2,742	-2,540	-	-2,540
Contributions made in the year and pensions paid by the Company	-7,044	-118	-7,162	-6,224	-107	-6,331
(Assets)/ Liabilities receivable or payable at 31 December	**1,163**	**705**	**1,868**	**4,035**	**534**	**4,569**

Costs for the period relating to retirement pensions and health benefits break down as follows:

('000 euros)

	2008			2007		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Cost of current services	1,335	4	1,339	1,175	5	1,180
Interest expense	2,632	25	2,657	2,424	28	2,452
Expected yield from fund	-2,742	-	-2,742	-2,540	-	2,540
Depreciation for the period	365	-4	361	138	-6	132
Costs in the period	**1,590**	**25**	**1,615**	**1,197**	**27**	**1,224**

Assets/(liabilities) on the balance sheet broke down as follows:

('000 euros)

	2008			2007		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
At 1 January	7,917	-653	7,264	2,890	-733	2,157
Cost in the period	-1,590	-25	-1,615	-1,197	-27	-1,224
Contributions made in the year and pensions paid by the Company	7,044	118	7,162	6,224	107	6,331
At 31 December	**13,371**	**-560**	**12,811**	**7,917**	**-653**	**7,264**

Pension fund assets broke down as follows:

('000 euros)

	2008	2007
Land and buildings	8,191	8,191
Shares and other floating rate securities	9,565	23,493
Fixed rate securities	25,946	18,335
Bank deposits	8,983	8,425
Fund debtors and creditors	22	13
Interest receivable	758	277
	53,465	**58,734**

The figures for assets disclosed above relate entirely to the Tranquilidade Group + BES-Vida Pension Fund, with Tranquilidade accounting for approximately 81% of this fund.

Liabilities and balances on funds in the last five years:

('000 euros)

	2008		2007		2006		2005		2004	
	Retirement Pensions	Health Benefits	Retirement Pensions	Health Benefits	Retirement Pensions	Health Benefits	Retirement Pensions	Health Benefits	Retirement Pensions	Health Benefits
Liabilities	-44,250	-705	-51,346	-534	-52,346	-586	-44,134	-773	-43,763	-873
Balance of funds	43,087	-	47,311	-	46,120	-	45,630	-	45,000	-
(Under)/over financed liabilities	**-1,163**	**-705**	**-4,035**	**-534**	**-6,226**	**-586**	**1,496**	**-773**	**1,237**	**-873**
Unrecognized actuarial (gains)/losses	14,534	145	11,952	-119	9,116	-147	10,925	-30	9,252	-
Net assets/ (liabilities) on the balance sheet	13,371	-560	7,917	-653	2,890	-733-	12,421	-803	10,489	-873

Note 24 - Income Taxes

The Company is subject to the taxation rules contained in the Corporation Tax (IRC) Code. In addition, the concept of deferred taxes, resulting from temporary differences between accounting results and results accepted by the tax authorities for the purposes of corporation tax, is applicable whenever there is a reasonable likelihood that these taxes will be paid or recovered in future.

Current taxes for 2008 and 2007 were calculated on the basis of a nominal tax rate (incl. municipal tax) of 26.44% for 2008 and 26.5% for 2007, corresponding to the nominal rates approved at the balance sheet date.

The Company's tax returns have been subject to annual inspection by the Directorate-General of Taxes. The latest report refers to 2005, containing no significant adjustments to returns filed in previous years.

The Company's self-assessment returns for the financial years of 2006 onwards are subject to inspection and possible adjustment by the tax authorities for a period of four years.

As approval is still pending from the tax authorities, the carrying over of fiscal losses by ESIA – Inter-Atlântico, with a value of 42,886 thousand euros, was not considered in the accounts for the purpose of estimating tax payable.

Current tax assets and liabilities reported in 2008 and 2007 break down as follows:

('000 euros)

	2008		2007	
	Current Tax Assets	Current tax Liabilities	Current Tax Assets	Current Tax Liabilities
Income taxes	11	14,494	84	10,960
Withholding taxes	0	833	0	981
Value added tax	242	0	438	147
Other taxes and charges	70	7,225	55	8,522
Social security contributions	95	753	109	741
Local authority taxes	0	120	0	120
	418	**23,425**	**686**	**21,471**

Deferred tax assets and liabilities recognized in the balance sheet in 2008 and 2007 break down as follows:

('000 euros)

ITEMS	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
Investments	1,330	2,123	-6,002	-20,972	-4,672	-18,849
Post-employment benefits	276	823	-2,926	-3,029	-2,650	-2,206
Tangible/intangible assets	-	183	-	-192	-	-9
Underwriting provisions	1,666	2,083	-	-	1,666	2,083
Bonuses/Profit sharing	-	817	-	-	-	817
Provision for doubtful debts	25	26	-	-	25	26
Other non-deductible costs	163	-	-	-	163	-
Total	**3,460**	**6,055**	**-8,928**	**-24,193**	**-5,468**	**-18,138**

The figures for 2008 include amounts corresponding to deferral for five years of the impacts on tax of transition to the IFRS.

Current and deferred taxes in the financial year of 2008 were recognized as follows:

('000 euros)

2008	Fair Value Reserve	Other Reserve	Gains and Losses	Total
Current taxes	**-**	**331**	**-1,543**	**-1,212**
Estimate Corporation Tax (IRC)		331	-1,161	-830
Separate taxation			-382	-382
Deferred taxes	**12,760**	**-331**	**241**	**12,670**
Investments	12,760	86	1,331	14,177
Post-employment benefits			-444	-444
Tangible/intangible assets			9	9
Underwriting provisions		-417	-	-417
Bonuses/Profit sharing			-817	-817
Provision for doubtful debts			-1	-1
Other non-deductible costs			163	163
Total	**12,760**	**-**	**-1,302**	**11,458**

The following table presents the reconciliation of the rate of tax:

('000 euros)

	2008	2007
Pre-tax profits	11,362	26,830
Rate of tax	26.44%	26.50%
Tax determined in accordance with official rate	**-3,004**	**-7,110**
Dividends excluded from taxation	1,165	1,218
Fiscal benefits	165	178
Other income and costs excluded from taxation	-1,020	-1,644
Deferred tax assets not previously recognized	1,774	3,574
Separate taxation	-382	-203
Current and deferred taxes	**-1,302**	**-3,987**

Note 25 - Capital

Companhia de Seguros Tranquilidade, S.A. has share capital of 135 million euros represented by 27 million shares with a nominal value of 5 euros each, fully paid up in cash.

Note 26 - Reserves

Equity includes various types of reserves, whose nature and purpose are as follows:

Legal reserve

The legal reserve may only be used to cover accrued losses or to increase share capital. Under Portuguese legislation, the legal reserve should be credited each year with no less than 10% of the annual net profits, until it comes up to the level of the issued share capital.

Fair value reserves

Fair value reserves represent the potential gains and losses on the portfolio of available-for-sale investments, net of impairment recognized in income for the period and/or prior periods.

Deferred taxes reserves

Deferred taxes recognized in equity deriving from revaluation of available-for-sale investments are subsequently recognized in income as and when the gains and losses which gave rise to them are recognized in income.

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

Free reserves

Free reserves are created by a decision adopted at the general meeting to allocate profits obtained in the period or retained earnings.

At 31 December 2008 and 2007, reserves broke down as follows:

('000 euros)

	2008	2007
Fair value reserve for financial assets	22,629	73,174
Deferred taxes reserve	-5,656	-18,416
Other reserves	40,046	37,699
- Legal reserve	39,118	36,771
- Free reserves	928	928
Reserves	**57,019**	**92,457**

The gross fair value reserve breaks down as follows by asset type:

('000 euros)

	2008	2007
Investments in subsidiaries, associates and joint ventures	39,233	70,738
Floating rate securities	5,745	16,259
Fixed rate securities	-22,349	-13,823
Fair value reserves	**22,629**	**73,174**

The net fair value reserve breaks down as follows at 31 December 2008 and 2007:

('000 euros)

	2008	2007
Amortized cost of available-for-sale investments	341,092	363,274
Acquisition cost of investments in subsidiaries, associates and joint ventures	93,773	34,752
	434,865	**398,026**
Impairment	-16,135	-977
Amortized/acquisition cost net of impairment	418,730	397,049
Fair value of available-for-sale investments	308,353	364,733
Fair value of investments in subsidiaries, associates and joint ventures	133,006	105,490
	441,359	**470,223**
Gross revaluation reserve (Fair value - cost)	22,629	73,174
Deferred and current taxes	-5,656	-18,416
Revaluation reserve net of tax	**16,973**	**54,758**

Movements in each equity reserve are described in the statement of changes in equity, presented at the start of the report and accounts, together with the financial statements and statement of cash flows.

Note 27 - Earnings per Share

Earnings per share at 31 December 2008 and 2007 were as follows:

('000 euros)

	2008	2007
Net profit for the period	10,059	22,842
Number of shares	27,000,000	27,000,000
Earnings per share (in euros)	**0.37**	**0.85**

Note 28 - Dividends per Share

The company's social shareholder is Partran – Sociedade Gestora de Participações Sociais, S.A., to which dividends of 18 million euros were attributed and paid in 2008.

Note 29 - Transactions Between Related Parties

Tranquilidade is wholly owned by Partran, Sociedade Gestora de Participações Sociais, S.G.P.S., S.A. with registered offices at Rua de S. Bernardo, 62 – 1200 826 Lisboa, which draws up consolidated accounts.

The accounts of these entities are included within the consolidated accounts of the ESFG - Espírito Santo Financial Group.

The relationships between the parent company Tranquilidade and its associates cover various business areas, and the most significant operations and services involved relate to rentals, IT services, life and non-life insurance, marketing of insurance, reinsurance, management of heal insurance, medical services and call centre services.

At 31 December 2008 and 2007 Tranquilidade's total assets and liabilities relating to operations with associates and related companies were as follows:

('000 euros)

	2008				2007			
	Assets	Liabilities	Costs	Income	Assets	Liabilities	Costs	Income
BANCO ESPÍRITO SANTO, S.A.	37,252	2,039	1,048	3,668	44,338	1,906	1,128	10,841
T-VIDA	39,030	-	-	1,750	58,184	-	-	2,450
LOGO	725	-	2,915	1,847	-	-	-	-
ES CONTACT CENTER	277	38	1,097	104	102	-	1,624	110
ESUMÉDICA	353	-	-	-	263	226	-	-
ESSAUDE	2,515	-	-	110	8,500	-	-	-
ESSEGUR	74	22	296	881	107	-	471	909
BES VIDA	1,171	-	-	195	1,071	-	-	112
FUNDAÇÃO ESPIRITO SANTO SILVA	-	-	-	-	-	-	-	78
ESPIRITO SANTO ACE	-	-	-	121	-	-	-	121
ADVANCECARE	9	969	3,117	-	-	1,472	2,265	-
PARTRAN	-	-	-	-	-	-	-	-
BES LEASING	65	3,091	415	166	-	2,958	200	175
SGL	-	4	321	-	-	86	430	-
BES SEGUROS	71	-	-	1,076	-	207	-	974
ESAF	20	-	-	764	-	-	-	359
ES RESOURCE	-	-	-	-	-	-	-	169
EUROP ASSISTANCE	-	-	-	120	-	-	-	216
ESCOM	-	-	-	-	-	-	-	108
GESFIMO	-	-	-	20	-	-	-	50
ESFG	-	-	-	-	-	-	337	-
TOP ATLÂNTICO	-	32	436	-	-	-	-	-
HERDADE DA COMPORTA	-	-	-	30	-	-	-	-
QUINTA DOS CÓNEGOS	153	-	-	-	-	-	-	-
	81,715	**6,195**	**9,645**	**10,852**	**113,748**	**6,872**	**6,865**	**18,217**

Note 30 - Statement of Cash Flows

The statement of variations in flows of cash and cash equivalents, drawn up on an indirect basis of the source and use of funds, is presented at the start of the report and accounts, together with the financial statements and the statement of changes in equity.

Note 31 - Commitments

Amounts stated for contractual commitments for acquisition of assets through finance leases relate to IT equipment and vehicles, and break down as follows:

('000 euros)

	2008	2007
Tangible assets (gross)	9,989	9,110
Accrued depreciation	-8,656	-7,212
Tangible assets (net)	1,333	1,898
Creditors - suppliers of assets	**3,091**	**2,958**

The maturity of future rentals on finance leases breaks down as follows:

('000 euros)

	Up to 3 Months	4 to 12 Months	+1 to 5 Years
Finance leases	252	773	2,066

In September 2008 the Company concluded a contract for purchase of a property for future use as an investment property, with a down payment of 1 million euros. A further 2.25 million euros is still payable under this contract, falling due on the date of the deed of transfer and when planning permission is obtained, which is expected to take place by June 2009.

The company has liabilities of 4.5 million euros relating to investment funds (Private Equity). These are investments with a duration of ten to twelve years, with the investment efforts concentrated in the first five years. The assets of these funds are to be invested in acquisition of holdings or projects with high potential for growth and gains in value.

Note 35 - Adjustments for Transition to the New Accounting System

In preparing its opening balance, the comparative information for the period ended 31 December 2008 and 31 December 2007, the Company adjusted the amounts previous reported, which had been prepared in keeping with the accounting principles established in the previous Plan of Accounts for Insurance Companies ("PAIS 94") and other rules issued by the PII.

The main impacts on equity of transition at 31 December 2007 break down as follows:

('000 euros)

IFRS1 Adjustments Impact on Equity	Capital	Reserves	Retained Earnings	Net Profit	Equity
Balances at 31 December 2007	**135,000**	**39,273**	**1,286**	**23,474**	**199,033**
IAS 19 - Pensions and other benefits			12,594	-1,164	11,430
IAS 19 - Bonuses - profit sharing			-	-3,052	-3,052
IAS 16 + IAS 38 - Tangible/Intangible fixed assets			-502	538	36
IAS 40 + IAS 16 - Property		-8,851	6,886	-2,252	-4,217
IAS 39 + IAS 27 - Financial investments		-18,602	7,704	1,632	-9,266
IFRS 3 - Goodwill on acquisition of ESIA		25,785			25,785
IAS 37 - Underwriting provisions			-13,407	5,548	-7,859
IAS 12 - Deferred taxes on adjustments		2,555	1,311	-1,882	1,984
Balances at 1 January 2008	**135,000**	**40,160**	**15,872**	**22,842**	**213,874**

The main impacts on equity of transition at 31 December 2006 break down as follows:

('000 euros)

IFRS1 Adjustments Impact on Equity	Capital	Reserves	Retained Earnings	Net Profit	Equity
Balances at 31 December 2006	**135,000**	**22,394**	**-75,980**	**157,228**	**238,642**
IAS 19 - Pensions and other benefits			12,775	-181	12,594
IAS 19 - Bonuses - profit sharing			33	-4,033	-4,000
IAS 16 + IAS 38 - Tangible/Intangible fixed assets			-627	525	-102
IAS 40 + IAS 16 - Property		-11,057	9,896	-3,411	4,572
IAS 39 + IAS 27 - Financial investments		921	7,094	610	8,625
IFRS 3 - Goodwill on acquisition of ESIA		25,785			25,785
IAS 37 - Underwriting provisions			-17,847	4,442	-13,405
IAS 12 - Deferred taxes on adjustments		-2,870	2,551	-1,241	-1,560
Balances at 1 January 2007	**135,000**	**35,173**	**-62,105**	**153,939**	**262,007**

Effective transposition for the purposes of reporting to the PII, effected at 31 December 2007, with comparative information as at 31 December 2006, was carried out considering the financial statements which the company had drawn up under the IFRS since 2005 for the purposes of reporting to the shareholder.

The adjustments made are explained as follows:

IAS 19 – Pensions and other employee benefits

Os custos com pensões eram reflectidos de acordo com as contribuições efectivas para os respectivos fundos. De acordo com a opção permitida pelo IFRS 1, na transição, efectuou-se o recálculo dos ganhos e perdas actuariais a diferir, de acordo com o método do *corredor*. Os ganhos e perdas actuariais, incluindo as alterações de pressupostos actuariais e financeiros, foram diferidos de acordo com o método do corredor.

IAS 19 – Distribution of profits

Under the previous accounting policies, employee bonuses were recognized through profit sharing. Under IAS 19, employee bonuses are not considered as a personnel cost and are recorded in the period to which they relate. On this basis, the estimated amounts for bonuses for each year and paid in the following period were adjusted as applicable.

IAS 38 – Intangible fixed assets

Under the previous accounting policies, the Company capitalized certain costs relating to internal IT development projects, which were depreciated over five years. For the purposes of converting the account, and in keeping with the provisions of IAS 38, costs yet to be depreciated were adjusted against retained earnings.

IAS 40 – Investment property

Under the previous accounting policies, property was stated at fair value, determined on the basis of valuations carried out by independent experts, at least every five years. Under the IFRS, investment properties are carried at fair value, with potential gains and losses recorded against income. The Company valued its property at the transition date.

IAS 16 – Property in own use

Under the previous accounting policies, property was carried at fair value, determine on the basis of valuations carried out by independent experts, at least every five years.

In accordance with the option adopted by the Company, property in own use is carried at acquisition cost and depreciated in accordance with its expected useful life. In addition, property is subject to impairment tests to determine whether there are permanent losses of value in these assets which should be recorded in the financial statements. Capitalization of betterments is only permitted when they lead to an increase in the fair value of the property.

At the transition date, in accordance with one of the options of IFRS 1, the Company opted to carry at fair value all the property in its own use. The properties were valued by an independent entity which determined the useful life of each property, the amount attributable to the land and the respective depreciation.

IAS 39 - Fair value investments AFS/FVO

Fixed rate securities

Under the previous accounting policies, fixed rate securities were stated at acquisition cost, except for securities allocated to the investment portfolio for life insurance where the investment risk is borne by the policy holder. Interest was allocated to periods on the basis of the nominal value and interest rate applicable to the period. The premium or discount was stated against income or costs over the period through to maturity.

For the purposes of conversion, fixed and floating rate securities have been classified in the categories of available-for-sale financial assets or financial assets classified on initial recognition at fair value through profit or loss, and stated at fair value, with potential gains and losses recorded in reserves or income.

Derivatives

Under local accounting policies, derivatives were valued in accordance with the same rules as for the underlying financial assets. Under IAS 39, derivatives are carried at fair value with potential gains and losses recognized in income.

Embedded derivatives

For hybrid financial instruments which include a principal contract and an embedded derivatives, under IAS 39 the embedded derivatives must be separated from the principal contracts and stated at fair value with gains and losses recognized in income. Alternatively, hybrid financial instruments may be carried at overall fair value with gains and losses recognized in income; this option has been adopted by the Company.

Impairment

In addition, under IAS 39, financial assets classified as available-for-sale financial assets are subject to impairment tests in accordance with adequate criteria, in order to reflect in income any permanent losses in value.

Recovery of realized gains and losses

Under the previous accounting policies, realized gains and losses were determined on the basis of the balance sheet value for the previous period. Under IAS 39, realized gains and losses are determined by the difference between the sale price and the acquisition/amortized cost. On this basis, the Company has recalculated its revaluation reserves in order to obtain the difference between the fair value and the historical acquisition cost.

IAS 27 – Valuation of investments in subsidiaries

Under the previous accounting policies, investments in subsidiaries and associates were valued on the basis of appropriation of the corresponding share in the share capital.

IAS 27 lays down that investments in subsidiaries may be recorded in the separate of the parent company at acquisition value or fair value. The option for valuing subsidiaries and associate at acquisition costs also requires an impairment test to be carried out in accordance with the criteria defined in IAS 36.

The Company has opted to record holdings in subsidiaries and associates at acquisition cost.

IFRS 3 - Goodwill

Under the previous accounting policies, the goodwill determined on acquisition of ESIA by Tranquilidade was written of against reserves, after authorization from the PII. Under IFRS 3, the goodwill is to be recorded as an asset subject to an impairment test.

IAS 37 - Provisions

The Company has implemented procedures for discounting and adjusting liabilities for pensions under employers' liability insurance, on the basis of the best estimate of future cash flows associated with the contracts, complementing the natural recording of liabilities on a cash basis, using for this purpose an actuarial process using a risk-free interest rate.

IAS 12 – Deferred taxes

Under IAS 12, all deferred tax assets and liabilities are to be recognized in the balance sheet:

- Deferred tax liabilities are recognized for all taxable temporary differences;
- Deferred tax assets are only recorded to the extent to which they are recoverable in future.

The adjustment made corresponds to 26.5% of total adjustments, except that relating to the goodwill on acquisition of ESIA.

NOTA 37 - Other Information

Recently Issued Accounting Standards and Interpretations

Below we describe recently issued accounting standards and interpretations not yet in force and which the Company has not yet applied in preparing its financial statements:

IAS 1 (Amended) - Presentation of financial statements

In September 2007 the International Accounting Standards Board (IASB) issued an amended version of IAS 1 – Presentation of Financial Statements, application of which is mandatory as from 1 January 2009, early adoption being permitted.

Changes in relation to the current text of IAS 1:

- The statement of financial position (formerly called the balance sheet) must be presented for the current period and the comparative period. Under the amended IAS 1, the statement of financial position has also to be presented for the start of the comparative period whenever an entity makes a retroactive restatement in the comparative accounts as the result of a change in accounting policy, correction of an error or reclassification of an item in the financial statements. In these cases, three statements of financial position are required, as compared to the two statements formerly.

- As a result of the changes imposed by this revision, the users of financial statements will more easily be able to distinguish between variations in Group equity resulting from transactions with shareholders, as shareholders (e.g. dividends, transactions with treasury shares) and transactions with third parties, which are summarized in the statement of comprehensive income.

In view of the nature of these changes (disclosures), the impact expected by the Company will be felt solely in terms of presentation, although at 31 December 2008 the exact content of these changes had not yet been determined.

IAS 23 (Amended) – Borrowing costs

In March 2007 the International Accounting Standards Board (IASB) issued a revised version of IAS 23 – Borrowing Costs, application of which is mandatory as from 1 January 2009, early adoption being permitted.

This standard defines that borrowing costs directly attributable to the cost of acquisition, construction or production of an asset (eligible asset) are capitalized as part of the respective cost. Accordingly, the option of these costs being recognized immediately as an expense is removed.

The Company does not expect any impact from the introduction of this alteration.

IAS 32 (Revised) – Financial Instruments: presentation – puttable instruments and obligations arising on liquidation

In February 2008 the International Accounting Standards Board (IASB) issued a revised version of IAS 32 – Puttable instruments and obligations arising on liquidation, application of which is mandatory as from 1 January 2009.

In accordance with the current requirements of IAS 32, if a financial instrument gives the holder the right to put the instrument back to the issuer for cash or another financial asset, that instrument is classified as a financial liability. As a result of this review, certain financial instruments which currently meet the requirements for classification as financial liabilities will be reclassified as equity instruments if (i) they represent a residual interest in the net assets of an entity, (ii) the belong to a class of instruments subordinate to any other class of instruments issued by the entity, and (iii) in the event of all the instruments in this class being subject to the same terms and conditions. An alteration has also been made to IAS 1 – Presentation of Financial Statements adding a new requirement for the presentation of puttable financial instruments and obligations arising from liquidation.

The Company does not expect any impact from adoption of this standard.

IAS 39 (Amended) - Financial instruments: recognition and measurement – eligible hedged items

The International Accounting Standards Board (IASB) has issued and amendment to IAS 39 – Financial instruments: recognition and measurement – eligible hedged items, a application of which is mandatory as from 1 July 2009.

This amendment clarifies the application of the existing principles which determine which risks or which cash flows are eligible for inclusion in a hedge.

The Company does not expect any impact from adoption of this standard.

IFRS 1 (Amended) – First time adoption of the international financial reporting standards and IAS 27 – consolidated and separate financial statements

The changes to IFRS 1 First time adoption of the international financial reporting standards and IAS 27 Consolidated and separate financial statements take effect as from 1 January 2009.

These changes allow entities adopting the IFRS for the first time in the preparation of their individual accounts to adopt as the deemed cost of their investments in subsidiaries, joint ventures and associates the respective fair value at the date of transition to IFRS or the balance sheet value determined within the previous accounting framework.

The Company does not expect any impact from adoption of this standard.

IFRS 2 (Amended) - Share-based payment: vesting conditions

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

The Company does not expect any impact from adoption of this standard.

IFRS 3 (Revised) – Business concentrations and IAS 27 (amended) Consolidated and separate financial statements

In January 2008 the International Accounting Standards Board (IASB) issued IFRS 3 (Revised) – Business Concentrations, application of which is mandatory for periods starting on or after 1 July 2009, early application being permitted.

The main impacts of the changes to these standards relate to: (i) the treatment of partial acquisitions, in which noncontrolling interests (previously called minority interests) may be measured at fair value (which also implies recognition of the goodwill attributable to noncontrolling interest) or as a portion of the fair value of the net assets acquired attributable to the noncontrolling interests (as currently required); (ii) step acquisition, where the new rules require, on calculation of goodwill, the revaluation of the fair value of any noncontrolling interest held prior to acquisition resulting in the obtaining of control; (iii) recording of costs directly related to acquisition of a subsidiary which are not directly imputed to income; (iv) contingent prices where changes in estimates over time are now recorded in income and do not affect goodwill and (v) alterations to the percentages of subsidiaries held which do no result in loss of control, which are now recorded as changes in equity.

In addition, the changes to IAS 27 also mean that the accrued losses on a subsidiary will not be attributed to non-controlling interests (recognition of negative noncontrolling interests) and that, on disposal of a subsidiary, resulting in loss of control, any noncontrolling interest retained is measured at fair value as determined at the disposal date.

The Company does not expect any significant impacts from adoption of this standard.

IFRS 8 – Operating segments

The International Accounting Standards Board (IASB) issued IFRS 8 – Operating segments on 30 November 2006, which was then approved by the European Commission on 21 November 2007. Application of this standard is mandatory for periods starting on or after 1 January 2009.

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 major customers. This standard specifies how entities are to report their information in their annual financial statements, and will consequently alter IAS 34 – Interim Financial Reporting, with regard to the information to be selected for interim financial reporting. An entity will also have to make a description of the information presented by segment, namely results and operations, as well as a brief description of how the segments are constructed.

In view of the nature of these alterations (disclosures), the impact anticipated by the Company will be felt solely in terms of presentation, although at 31 December 2008 the exact impact of these changes had not yet been determined.

IFRIC 12 – Service concession arrangements

In July 2007, the International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 12 – Service Concession Arrangements, application of which is mandatory as from 1 January 2008, early application being permitted.

Endorsement from the European Union is still awaited, and expected during the first quarter of 2009. IFRIC 12 applies to public-private service concession arrangements. This standard only applies to situation where the grantor i) controls or regulates the services provided by the operator, and ii) controls the residual interests in the infrastructures, at the end of the term of the arrangement.

In view of the nature of the contracts covered by this standard, no impact is estimated on the Company.

IFRIC 13 – Customer loyalty programmes

In July 2007, the International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 13 Customer Loyalty Programmes, taking mandatory effect for periods starting on or after 1 July 2008, early adoption being permitted.

This interpretation applies to customer loyalty programmes, where customers are assigned credits as part of a sale or of the provision of a service and the customers can exchange these credits in future for free or discounted services or goods. Given that it is not possible with the information available to determine the exact impact of this standard, no estimate is presented. However, the Company is gathering information to allow it to determine precisely any possible impacts.

The Company does not expect any impact from adoption of this standard.

IFRIC 15 – Agreements for the construction of real estate

IFRIC 15 - Agreements for the construction of real estate – takes effect for periods starting on or after 1 January 2009.

This interpretation contains guidelines for determining whether an agreement for construction of real estate comes under IAS 18 Revenue or IAS 11 Construction Contracts, and IAS 18 may be expected to be applicable to wider range of transactions.

The Company does not expect any impact from adoption of this standard.

IFRIC 16 – Hedges of a net investment in a foreign operation

In July 2008, the International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 16 - hedges of a net investment in a foreign operation, which takes mandatory effect in periods starting on or after 1 October 2008, early adoption being permitted.

This interpretation clarifies that:

- hedges of an investment in a foreign operation can only be applied to exchange rate differences deriving from the translation of the financial statements of subsidiaries in their functional currency to the functional currency of the parent company, and only for an amount equal to or less than the net assets of the subsidiary;

- the hedge instrument may be contracted by any Company entity, except the entity to which the hedge relates; and

- when the hedged subsidiary is sold, the accrued gain or loss relating to the effective hedge component is reclassified into income.

This interpretation permits an entity which uses the step consolidation method to choose an accounting policy which makes it possible to determine the accrued currency translation adjustment which is reclassified into profit or loss on the disposal of the subsidiary, just as it would do if it had adopted the direct consolidation method. This interpretation is to be applied prospectively.

The Company does not expect any impact from adoption of this standard.

IFRIC 17 – Distributions of non-cash assets to owners

In November 2008 the International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 17 – Distributions of non-cash assets to owners, with mandatory application in periods starting as from 1 July 2009, early adoption being permitted.

This interpretation sets out to clarify the accounting treatment of distributions of non-cash assets to owners. It lays down that distributions of non-cash assets are to be recorded at fair value, the difference in relation to the balance sheet value of the asset distributed being recognized in incomeon distribution.

The Company does not expect any significant impacts on its financial statements from adoption of this standard.

IFRIC 18 – Transfers of assets from customers

In November 2008 the International Financial Reporting Interpretations Committee (IFRIC) issue IFRIC 18 – Transfers of assets from customers, application of which is mandatory in periods starting on or after 1 July 2009, early adoption being permitted.

This interpretation sets out to clarify the accounting treatment of agreements whereby an entity receives a customer's assets for its own use and with a view to subsequently linking the customers to a network or providing customers with ongoing access to the supply of goods or services.

The interpretation clarifies:

- the terms on which an item of assets falls within the scope of this interpretation;
- recognition of the asset and its initial measurement;
- identification of the identifiable services (one or more services in exchange for the asset transferred);
- recognition of income;
- accounting for the transfer of cash from customers.

The Company does not expect any impact on its financial statements from adoption of this standard.

Annual Improvement Project

In May 2008, the IASB published the Annual Improvement Project altering certain standards then in force. The effective date of the alterations varies from standard to standards, with application being mandatory for most in 2009.

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

- Alteration of IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations, with effect for periods starting on or after 1 July 2009. This alteration has clarified that all the assets and liabilities of a subsidiary should be classified as non-current assets held for sale under IFRS 5 if there is a plans for partial disposal of the subsidiary resulting in a loss of control. The Company does not expect any impact from adoption of this alteration;
- Alteration of IAS 1 - Presentation of financial statements, taking effect as from 1 January 2009. The alteration clarifies that only certain financial instruments classified as trading instruments, and not all, are examples of current assets and liabilities. The Company does expect any impact from adoption of this alteration;
- Alteration to IAS 16 - Property, plant and equipment, taking effect as from 1 January 2009. The alteration sets rules for classifying (i) revenues from the disposal of assets held for rental and subsequently sold and (ii) the same assets during the time from termination of the lease to the date of disposal. The Company does not expect any significant impact from adoption of this alteration;
- Alteration to IAS 19 - Employee benefits, taking effect as from 1 January 2009. The alterations made clarify (i) the concept of the negative past service cost resulting from alteration of the defined benefits plan, (ii) the interaction between the expected return on assets and the plan administration costs, and (iii) the distinction between short and medium and long term benefits. The Company does not expect any significant impact from the adoption of this alteration;
- Alteration to IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance, taking effect as from 1 January 2009. This Alteration establishes that benefits from the obtaining of government loans at below-market interest should be measured as the difference between the fair value of the liability at the date of contracting, determined under IAS 39 Financial instruments: Recognition and measurement of the value received. This benefit should subsequently be recorded in accordance with IAS 20. The Company does not expect any impact from adoption of this alteration;
- Alteration to IAS 23 - Borrowing Costs, taking effect as from 1 January 2009. The concept of borrowing costs has been altered so as to clarify that these costs should be determined in accordance with the effective rate method prescribed in IAS 39 Financial instruments: recognition and measurement, thereby eliminating the inconsistency between IAS 23 and IAS 39. The Company does not expect any impact from the adoption of this alteration;
- Alteration to IAS 27 - Consolidated and separate financial statements, taking effect as from 1 January 2009. The alteration made to this standard means that in cases where investment in a subsidiary is recorded at fair value in the individual accounts, in accordance with IAS 39 Financial instruments: recognition and measurement, and this investment qualifies for classification as a non-current asset held for sale in accordance with IFRS 5 Non-current assets held for sale and discontinued operations, it should continue to be measured under the terms of IAS 39. This alteration will have no impact on the Company's financial statements insofar as, in the respective separate accounts, investments in subsidiaries are stated at acquisition cost in accordance with IAS 27;
- Alteration to IAS 28 - Investments in Associates, taking effect as from 1 January 2009. The alterations made to IAS 28 were designed to clarify that (i) an investment in an associate should be treated as a single asset for the purposes of impairment tests to be carried out under IAS 36 Impairment of assets, (ii) any impairment loss to be recognized should not be allocated to specific assets, namely to good will and, (iii) that reversals of impairment are recorded as an adjustment to the balance sheet value of the associate provided that, and insofar as, the recoverable value of the investment increases;
- Alteration to IAS 38 Intangible assets, with effect as from 1 January 2009. This alteration has determined that an expense with deferred cost, incurred in the context of promotional or advertising activities, can only be recognized in the balance sheet when an advance payment has been made for goods or services which will be received at a future date. Recognition should occur when the entity has the right of access to the goods and the services are received. This alteration is not expected to have a significant impact on the Company's accounts;
- Alteration to IAS 39 - Financial instruments: recognition and measurement, with effect as from 1 January 2009. These alterations consisted fundamentally of (i) clarifying that it is possible to reclassify instruments out from and into the category of at fair value through profit or loss in the case of derivatives whenever they start or end a hedging relationship in the form of a hedge for cash flow or new investment in an associate or subsidiary, (ii) alteration of the

definition of financial instruments at fair value through profit or loss with regard to the category of the trading category, laying down that in the case of portfolios of financial instrument managed jointly or for which there is evidence of recent activities with a view to realizing short term gains, these portfolios should be classified as held for trading on first recognition, (iii) alteration of the requirements for documentation and effectiveness testing for hedges established in relation to the operating segments determined through application of IFRS 8 Operating Segments, and (iv) clarifying that measurement of a financial liability at amortized cost, after interruption of the respective fair value hedge, should be effected on the basis of the new effective rate calculated at the date of interruption of the hedging relationship. The Company does not expect any significant impact from adoption of this alteration;

- Alteration to IAS 40 - Investment properties, taking effect as from 1 January 2009. As a result of this alteration, properties being built or developed with a view to subsequent use as investment properties will now be included under IAS 40 (having previously fallen under IAS 16 Property, Plant and Equipment). Such property under construction may now be recorded at fair value unless this cannot be reliably measured, in which case it is to be recorded at acquisition cost. The Company does not expect any impact from adoption of this alteration.

Annex 1 - Inventory of Holdings and Financial Instruments

(euros)

IDENTIFICATION OF SECURITIES / DESIGNATION	Quantity	Nominal Value	% of Nominal Value	Average Acquisition Value	Total Acquisition Value	Balance Sheet Value Unit	Balance Sheet Value Total
1 - SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND OTHER RELATED COMPANIES							
1.1 - Portuguese securities							
1.1.1 - Holdings in subsidiaries							
1.1.2 - Holdings in associates							
ADVANCECARE	458,997			1.06	485,958.14	52.66	24,168,681.00
BES SEGUROS	750,000			5.01	3,758,668.00	27.10	20,325,000.00
ES CONTACT	831,251			2.22	1,846,077.58	3.67	3,047,920.00
ESUMEDICA	225,000			1.98	445,500.00	3.17	712,500.00
EUROPE ASSISTANCE	360,000			4.88	1,756,800.00	11.87	4,272,000.00
FIDUPRIVATE	18,750			25.60	480,050.77	25.60	480,050.77
SEGUROS LOGO SA	4,000,000			5.00	20,000,000.00	5.00	20,000,000.00
T-VIDA COMPANHIA DE SEGUROS, SA	65,000,000			1.00	65,000,000.00	0.92	60,000,000.00
1.1.3 - Holdings in joint ventures							
1.1.4 - Holdings in related companies							
BES BANCO ESPIRITO SANTO	264,755			10.12	2,679,923.63	6.53	1,729,114.91
COMPTA	306,960			1.64	503,699.84	0.36	110,505.60
ES INV PLC	1			2.77	2.77	1.27	1.27
ESAF - ACTIVOS FINANCEIROS	117,500			22.93	2,694,626.91	24.42	2,869,610.60
ESPIRITO SANTO SAÚDE	2,655,000			1.25	3,308,200.00	3.62	9,600,000.00
ESTELA GOLF	20			8,580.90	171,618.00	7,432.73	148,654.64
QUINTA DOS CONEGOS	140,600			3.15	443,241.40	2.95	415,407.18
sub-total	**75,128,834**	**0.00**			**103,574,367.04**		**147,879,445.97**
1.1.8 - Debt securities issued by related companies							
BEF 07/11	6,000,000,00		100.00%	100.9%	6,053,196.00	102.8%	6,165,726.00
BES BESPLFLOAT 05/10	2,000,000,00		96.95%	99.8%	1,996,110.00	97.6%	1,952,240.12
BESLEASING FACTORING 22/11/2010	50,950,00		100.00%	100.0%	50,950.00	100.5%	51,215.88
BESPLFloat 03/12	3,500,000,00		97.32%	96.0%	3,360,000.00	97.4%	3,410,188.83
Espirito Santo 12/15	2,200,000,00		98.20%	98.2%	2,160,500.00	98.3%	2,162,803,19
sub-total	**0**	**13,750,950.00**			**13,620,756.00**		**13,742,174.02**
Total	**75,128,834**	**13,750,950.00**			**117,195,123.04**		**161,621,619.99**
2 - OTHERS							
2.1 - Portuguese securities							
2.1.1 - Equity instruments and units in funds							
2.1.1.1 - Shares							
ARGOGEST	1,300			0.00	0.00	0.00	0.00
CASSEL	200			0.00	0.00	0.00	0.00
CIRES	247,500			1.28	316,959.90	1.54	381,150.00
COMP. PREVIDENTE	6			532.54	3,195.23	934.23	5,605.38
COMP. PREVIDENTE SCPF	198			109.86	21,752.48	223.86	44,324.75
COMUNDO	2,008			0.00	0.00	0.00	0.00
EDP RENOVA	62,500			7.92	495,102.09	5.00	312,687.50
FETAL	2,760			20.84	57,528.12	7.03	19,407.46
HOTEL TURISMO ABRANTES	125			0.00	0.00	2.82	352.49
ILIDIO MONTEIRO CONSTRUÇÕES	41,675			0.00	0.00	0.00	0.00
IMPRESA, SGPS	58,332			4.51	263,307.13	0.84	48,998.88
MADIBEL	7,955			0.01	80.88	0.00	1.00

(euros)

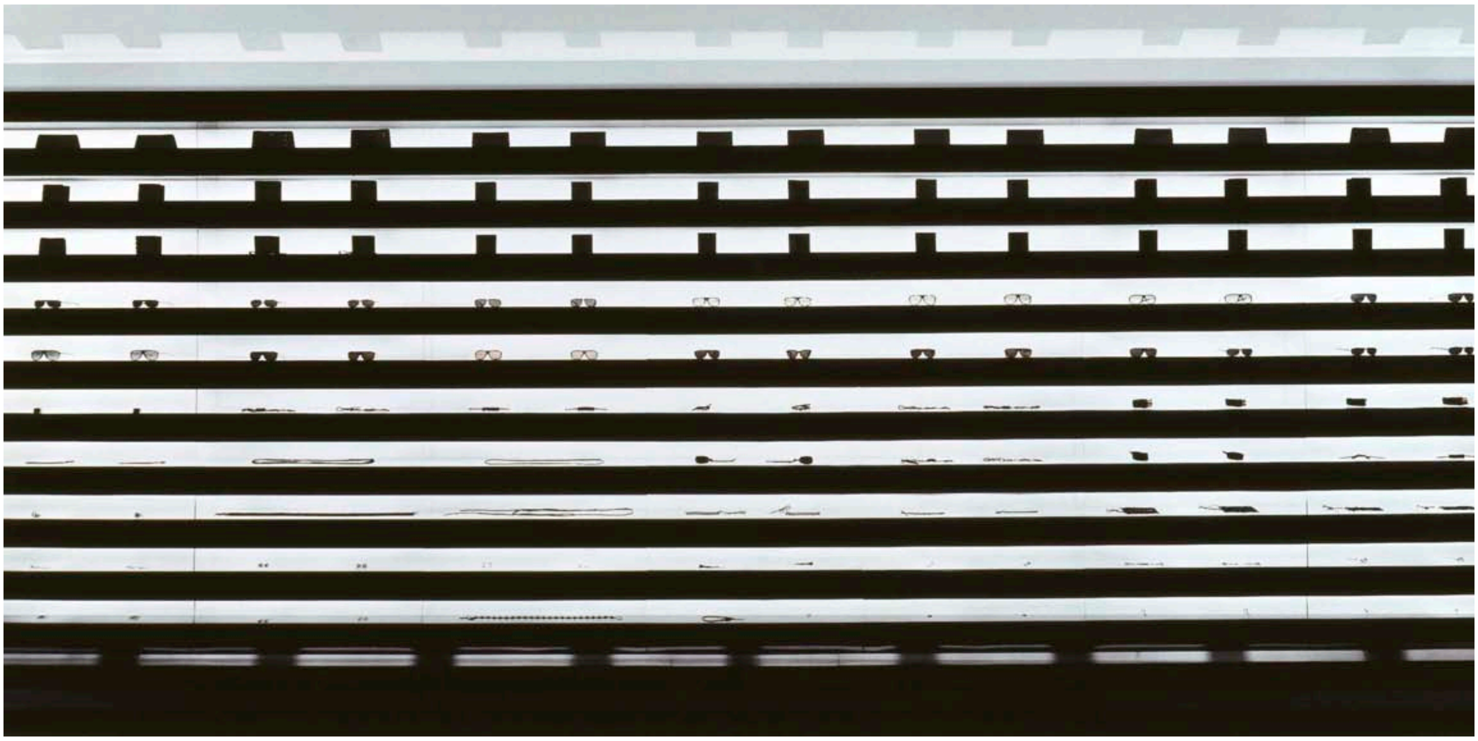
IDENTIFICATION OF SECURITIES / DESIGNATION	Quantity	Nominal Value	% of Nominal Value	Average Acquisition Value	Total Acquisition Value	Balance Sheet Value Unit	Balance Sheet Value Total
PORTO CAVALEIROS, SGPS	2,483			0.00	0.00	0.00	0.00
SONAGI	55,600			0.44	24,293.86	3.16	175,696.00
SONAGI AN	100			0.06	5.51	0.01	1.00
SPECTACOLOR PORTUGAL	7,500			14.66	109,986.38	12.16	91,186.67
TELLUS	1,200			0.00	0.00	0.00	0.00
VILATÊXTIL SOC IND TÊXTIL	16			0.00	0.00	0.00	0.00
sub-total	**491,458**	**0.00**			**1,292,211.58**		**1,079,411.13**
2.1.1.3 - Units in investment funds							
ESP SANTO INFRASTRUCTURE FUND I	560			1,011.65	566,524.44	1,010.66	565,969.60
EXPLORER II	76			25,065.57	1,901,975.54	25,004.61	1,897,349.81
FUNGERE (UP)	756,868			5.22	3,952,827.85	4.29	3,246,963.72
sub-total	**757,504**	**0.00**			**6,421,327.83**		**5,710,283.13**
sub-total	**1,248,962**	**0.00**			**7,713,539.41**		**6,789,694.26**
2.1.2.3 - Other issuers							
Cert Dep EUR BES AFS					9,500,000.00		9,500,000.00
Dep Prazo EUR BES					710,000.00		711,108.99
Dep Prazo EUR MG					36,004,444.19		36,687,178.46
Dep Prazo EUR CXGERALDEP					70,474,287.93		71,499,873.46
Dep Prazo EUR BCP					10,237,143.97		10,416,976.47
ABBEY NATL TREAS 08/10		3,250,000.00	99.06%	99.9%	3,246,912.50	99.5%	3,234,140.91
BANIF FINANCE 22/12/2016		2,000,000.00	86.80%	100.2%	2,004,000.00	86.9%	1,737,916.00
BCP FINANCE BANK 21/12/16		1,500,000.00	80.06%	90.8%	1,362,000.00	80.2%	1,202,309.17
BCP Finance Float/10		500,000.00	98.52%	98.6%	493,000.00	99.4%	497,104.89
BCPPL FL 08-05/10		3,000,000.00	97.95%	99.8%	2,994,270.00	98.4%	2,951,395.16
Banco BPI Flt.01/10		2,300,000.00	99.28%	98.9%	2,273,550.00	100.2%	2,304,463.28
CAIXA GERAL DEPO Float /2007 - 19/05/2009		5,000,000.00	99.00%	98.8%	4,937,500.00	100.1%	5,005,575.00
CXGD 6.25 99-10/2009		2,500,000.00	100.40%	100.5%	2,512,500.00	101.8%	2,544,246.58
CXGD FLOAT 08-05/10		3,650,000.00	99.49%	100.0%	3,648,613.00	100.0%	3,650,642.95
EMASA		5,000.00	0.00%	0.0%	0.00	0.0%	0.00
IBESM 6.375% 25/11/11		2,500,000.00	105.46%	100.8%	2,520,000.00	106.1%	2,652,319.18
ING BANK NV 8/11		3,000,000.00	99.50%	99.9%	2,995,830.00	100.0%	2,999,710.59
LUSITANO GLB CDO PLC 1D 12/05/15		23.26	10698500.02%	11508970.4%	2,676,480.13	10698500.0%	2,488,000.37
MONTPI 03/05/2012		2,000,000.00	95.37%	100.0%	1,999,190.40	96.2%	1,923,603.33
P.CAVALEIROS		17,500.00	0.00%	0.0%	0.00	0.0%	0.00
Pcomercial BIAL PORTELA&CIA - 1ª ED		968,109.24	100.00%	100.0%	968,109.24	100.2%	969,840.86
Pcomercial SONAE DIST - 48ª ED		4,537,459.41	100.00%	100.0%	4,537,459.41	100.2%	4,544,923.53
Pcomercial SONAE DIST 47ª EM		2,625,057.34	100.00%	100.0%	2,625,057.34	100.0%	2,625,773.69
Pcomercial TDUARTE - 29ª ED		5,011,576.87	100.00%	100.0%	5,011,576.87	100.1%	5,017,375.27
REN 6 3/8 12/13		2,000,000.00	101.91%	99.6%	1,991,940.00	102.3%	2,045,435.62
SEMAPA 20/04/2016		700,000.00	100.61%	99.5%	696,500.00	101.9%	713,323.80
V.AGROS		4,000.00	0.00%	0.0%	0.00	0.0%	0.00
V.TÊXTIL		7,500.00	0.00%	0.0%	0.00	0.0%	0.00
sub-total	**0**	**47,076,226.12**			**176,420,364.98**		**177,923,237.56**
sub-total	**0**	**47,076,226.12**			**176,420,364.98**		**177,923,237.56**
Total	**1,248,962**	**47,076,226.12**			**184,133,904.39**		**184,712,931.82**
2.2 - Foreign securities							
2.2.1 - Equity instruments and units in funds							
2.2.1.1 - Shares							
BANCO SANTANDER CENTRAL HISPANO	143			0.88	126.00	6.74	963.82
C BUZI	2,000			0.00	0.00	0.00	0.00

(euros)

IDENTIFICATION OF SECURITIES / DESIGNATION	Quantity	Nominal Value	% of Nominal Value	Average Acquisition Value	Total Acquisition Value	Balance Sheet Value Unit	Balance Sheet Value Total
C IND MATOLA	2,200			0.00	0.00	0.00	0,00
C MOÇAMBIQUE	3,000			0.00	0.00	0.00	0,00
C RESSEGURO MOÇAMBIQUE	250			0.00	0.00	0.00	0,00
C SEG NAUTICUS	500			0.00	0.00	0.00	0,00
C SEG TRANQUILIDADE DE MOÇAMBIQUE	9,750			0.00	0.00	0.00	0,00
CADA (AGRICULTURA)	2,100			0.00	0.00	0.00	0,00
COMP ALGODÕES MOÇAMBIQUE	1,900			0.00	0.00	0.00	0,00
COMP SEG A NACIONAL	15,986			0.00	0.00	0.00	0,00
CONTINENTAL MORTAGE INVESTORS	600			0.00	0.00	0.00	0,00
FOMENTO PREDIAL MOÇAMBIQUE	50			0.00	0.00	0.00	0,00
HIDRO ELECT CATUMBELA	200			0.00	0.00	0.00	0,00
NAVANG	448			0.00	0.00	0.00	0,00
NOCAL (CERVEJAS)	2,508			0.00	0.00	0.00	0,00
PETRANGOL	200			0.00	0.00	0.00	0,00
SENA SUGAR ESTATES LTD	77,375			0.00	0.00	0.00	0,00
SOC TURISMO MOÇAMBIQUE	100			0.00	0.00	0.00	0,00
SONEFE	573			0.00	0.00	0.00	0,00
SOTUL (ULTRAMAR)	8,000			0.00	0.00	0.00	0,00
VIVENDI UNIVERSAL	700			30.13	21,089.91	23.27	16,285,50
sub-total	**128,583**	**0.00**			**21,215.91**		**17,249,32**
2.2.1.3 - Units in investment funds							
EASYETF GLOBAL TITANS 50	1,500			34.98	52,476.22	14.56	21,840,00
LPR MULTI STRATEGIES FUND	443			1,129.41	500,000.00	711.00	314,766,83
sub-total	**1,943**	**0.00**			**552,476.22**		**336,606,83**
sub-total	**130,526**	**0.00**			**573,692.13**		**353,856,15**
2.2.2 - Debt securities							
2.2.2.3 - Other issuers							
ACAFP FLOAT 04/15/10		5,000,000.00	98.72%	100.0%	4,997,600.00	100.0%	4,999,757.08
ALPHA-SIRES LTD 04/02/09		2,000,000.00	100.45%	100.2%	2,004,000.00	101.9%	2,037,785.00
BANCA LOMBARDA 19/12/2016		3,000,000.00	94.00%	100.3%	3,007,503.00	94.1%	2,823,555.00
BANCO SABADELL 05/09/10		3,000,000.00	101.12%	99.9%	2,996,670.00	104.4%	3,130,586.30
BANCO SABADELL 25/05/2016		2,000,000.00	83.61%	100.4%	2,007,156.30	84.0%	1,680,842.00
BBVA SUB CAPITAL UNIP 03/04/2017		3,000,000.00	79.00%	100.0%	3,001,340.70	80.4%	2,410,873.25
BVBK Float 05/09		700,000.00	99.23%	99.6%	697,410.00	99.8%	698,294.80
C.MOÇAMBIQUE		120.00	0.00%	0.0%	0.00	0.0%	0.00
C.ÁGUAS DA BEIRA		110.00	0.00%	0.0%	0.00	0.0%	0.00
CAJA CASTILLA 02/11/2016		2,000,000.00	40.00%	100.2%	2,004,000.00	41.0%	819,043.89
CAJA ZARAGOZA ARAGON 25/04/2019		4,000,000.00	78.75%	100.2%	4,008,000.00	79.7%	3,189,314.11
CANDI 2006-1 A2		2,500,000.00	95.26%	98.5%	2,462,500.00	95.7%	2,393,502.29
CIT GROUP INC 30/11/2011		6,000,000.00	81.90%	100.4%	6,026,428.80	82.3%	4,935,628.43
COMPAGNIE ST GOBAIN 11/04/2012		2,900,000.00	84.50%	100.1%	2,901,848.11	85.8%	2,487,436.58
CORP PROP INV 7,18% 09/01/2013		500.00	71854.57%	85730.9%	428,654.31	73574.3%	367,871.43
CORP SERV GROUP 10% 04/29/2011		1,667.00	787.40%	1506.8%	25,118.66	802.6%	13,378.78
CRDIT Var 07/14		2,000,000.00	98.50%	98.5%	1,970,000.00	99.5%	1,990,002.33
CSSE NAT C.EPARG P 4,5% 12/14/10		99,952.00	95.65%	92.0%	91,979.38	95.9%	95,813.58
DEUTSCHE TELEKOM 23/05/2012		2,000,000.00	94.06%	101.0%	2,019,030.00	94.5%	1,890,657.67
DEUTSCHE TELEKOM INT 28/03/2012		5,500,000.00	97.07%	100.1%	5,507,808.63	97.1%	5,340,404.21
DOURM 1 A		821,537.81	85.19%	98.0%	805,107.05	85.3%	700,623.23
DRESDNER BANK 4,3% 04/01/09		2,500,000.00	98.00%	100.0%	2,500,389.71	101.0%	2,525,000.00
DRSDNR Float 10		2,000,000.00	99.95%	100.0%	2,000,000.00	101.4%	2,028,489.28
Deutsche Bk 09/22/15		4,000,000.00	76.96%	95.4%	3,815,600.00	77.0%	3,081,682.01
ERICSSON L M TEL 27/06/2014		1,400,000.00	86.46%	99.8%	1,397,452.00	86.5%	1,210,937.93
ERSTE BANK 19/07/2017		8,000,000.00	92.60%	100.4%	8,033,178.07	93.7%	7,496,547.60
GE CAP EUR FUND 17/05/2021		3,000,000.00	87.00%	99.8%	2,994,492.60	87.5%	2,626,309.33
GE FL 08-08/2009		2,000,000.00	97.35%	100.1%	2,001,400.00	98.1%	1,961,900.98
GOLDMAN SACHS 02/02/2015		4,000,000.00	88.56%	101.0%	4,038,400.00	89.4%	3,576,624.44

(euros)

IDENTIFICATION OF SECURITIES / DESIGNATION	Quantity	Nominal Value	% of Nominal Value	Average Acquisition Value	Total Acquisition Value	Balance Sheet Value Unit	Balance Sheet Value Total
GOLDMAN SACHS 30/01/2017		8,000,000.00	85.98%	100.0%	8,003,374.80	86.9%	6,950,190.22
GOLDMAN SACHS 04/02/2013		4,000,000.00	90.62%	100.0%	3,999,082.20	91.4%	3,656,869.87
GOLDMAN SACHS 23/05/2016		3,000,000.00	86.01%	99.9%	2,996,681.40	86.5%	2,594,283.70
HALIFAX PLC PERPETUAL		2,000,000.00	94.99%	101.4%	2,027,547.00	95.2%	1,904,348.40
HBOS PLC 09/01/2016		5,500,000.00	94.42%	100.5%	5,527,821.64	94.8%	5,211,934.93
HIDRO E REVUE		24.00	0.00%	0.0%	0.00	0.0%	0.00
HIPOT 5 A2		379,359.51	95.69%	97.9%	371,392.96	96.0%	364,343.91
HMI 2006-1X 3A2		2,500,000.00	93.12%	98.8%	2,470,000.00	94.3%	2,356,921.26
HSBC FINANCE CORP 28/10/2013		4,000,000.00	90.00%	100.2%	4,008,000.00	90.9%	3,636,679.11
HSH NORDBANK AG 14/02/2017		5,000,000.00	95.66%	100.0%	5,001,108.56	96.3%	4,812,873.89
HYPOVEREINSBANK 07/06/2011		3,000,000.00	83.50%	103.6%	3,106,701.00	87.2%	2,614,968.75
ISLANDSBANKI 25/11/2013		1,000,000.00	8.00%	100.9%	1,008,768.51	8.0%	80,000.00
JOHN DEERE BANK 31/03/2011		3,500,000.00	100.00%	100.0%	3,499,225.00	100.0%	3,500,000.00
JP MORGAN 12/10/2015		3,000,000.00	91.03%	100.3%	3,009,900.00	92.3%	2,769,357.80
KAUPTHING BANK HF 17/08/2012		3,000,000.00	8.00%	99.5%	2,985,408.90	8.0%	240,000.00
KION 2006-1 A		1,234,860.81	85.72%	98.1%	1,211,831.58	86.9%	1,072,940.23
LEHMAN BROS HOLD 05/02/2014		2,000,000.00	12.00%	100.1%	2,001,992.19	12.0%	240,000.00
LEHMAN BROS HOLD 19/05/2016		10,000,000.00	12.00%	99.9%	9,994,113.46	12.0%	1,200,000.00
MACQUARIE BANK 06/12/2016		3,000,000.00	58.50%	100.3%	3,009,000.00	58.8%	1,763,372.92
MAGEL 3 A		794,581.65	87.66%	98.6%	783,457.50	88.2%	700,940.42
MERRILL LYNCH 30/05/2014		4,000,000.00	94.12%	99.7%	3,987,880.00	94.5%	3,779,140.78
MERRILL LYNCH & CO 14/09/2018		10,000,000.00	89.96%	99.9%	9,991,944.00	90.1%	9,014,225.56
MONTPI 19/09/2011		3,000,000.00	96.22%	100.2%	3,004,797.60	96.3%	2,889,915.00
MORGAN STANLEY 01/03/2013		2,500,000.00	86.80%	100.3%	2,507,684.28	87.1%	2,178,663.58
MORGAN STANLEY 13/04/2016		7,500,000.00	82.01%	99.9%	7,495,503.23	83.3%	6,245,954.87
NAB 4.75 08-03/2011		750,000.00	100.58%	99.9%	749,325.00	104.6%	784,236.03
NATL CAPITAL INSTRUMENTS PERP		2,000,000.00	63.65%	102.7%	2,054,100.00	63.7%	1,273,437.89
NATL GRID PLC 18/01/2012		10,000,000.00	97.65%	100.5%	10,049,859.60	98.8%	9,876,822.22
NAVIO COMP CLN ITAMI 05/10/11		9,650.00	100.00%	100.2%	9,669.30	1284%	12,387.92
OTE Plc Float 11/09		3,500,000.00	99.89%	98.9%	3,459,750.00	100.4%	3,513,086.11
PELIC 2 A		396,359.88	100.00%	98.9%	391,999.92	100.2%	396,978.54
PELICAN 3 A		1,109,701.69	76.95%	97.6%	1,083,068.85	77.1%	855,553.86
PERNOD RICARD 06/06/2011		1,000,000.00	98.50%	100.5%	1,004,505.00	98.8%	987,895.14
PREPS LIMITED 2006 B1 18/07/2015		6,000,000.00	100.00%	100.0%	6,000,009.23	102.8%	6,166,996.00
ROYAL BK SCOTLAND 49		5,000,000.00	93.12%	101.6%	5,080,140.00	94.6%	4,728,689.81
Repsol Float 02/12		3,000,000.00	98.20%	95.6%	2,869,320.00	98.8%	2,962,803.75
SANTANDER CONSUMER 28/09/2016		4,000,000.00	80.00%	100.5%	4,018,020.00	80.0%	3,201,113.67
SANTANDER ISSUANCES 23/03/2017		3,000,000.00	80.19%	100.1%	3,003,895.80	80.3%	2,407,981.33
SNSBNK FLT 08-06/10		2,500,000.00	94.82%	99.9%	2,497,625.00	95.2%	2,379,953.40
TELECOM ITALIA FINANCE 12/06/12		4,000,000.00	90.87%	100.0%	4,000,809.23	91.2%	3,646,623.89
THEME 4 A		1,276,279.15	100.00%	97.2%	1,240,670.96	100.7%	1,284,766.68
TITIM FL 07-06/10		1,350,000.00	96.23%	98.3%	1,327,212.00	96.5%	1,302,464.70
VIVENDI 10/03/2011		4,700,000.00	97.14%	100.5%	4,724,814.89	98.6%	4,632,868.20
VODAFONE 05/09/2013		9,000,000.00	96.33%	100.5%	9,048,761.40	96.6%	8,697,459.50
VODAFONE 06/06/2014		4,000,000.00	85.47%	100.0%	4,000,000.00	85.8%	3,430,123.89
VODAFONE 13/01/2012		6,000,000.00	95.26%	100.7%	6,042,360.60	96.5%	5,791,536.50
VOLKSWAGEN BANK FLT 21/12/2015		2,000,000.00	100.00%	100.1%	2,002,727.46	100.1%	2,001,906.67
VOLKSWAGEN INT FIN 14/03/2016		5,000,000.00	100.31%	100.0%	5,000,000.00	100.5%	5,024,437.81
VOLVO TREASURY AB FLOAT 07/26/10		4,000,000.00	100.10%	99.0%	3,959,920.00	101.0%	4,041,465.33
WB FL 06-08/2011		3,200,000.00	87.69%	94.7%	3,030,400.00	88.5%	2,832,021.33
sub-total	**0**	**252,124,703.50**			**252,395,247.37**		**218,524,396.90**
sub-total	**0**	**252,124,703.50**			**252,395,247.37**		**218,524,396.90**
Total	**130,526**	**252,124,703.50**			**252,968,939.50**		**218,878,253.05**
2.3 - Trading derivatives							
Currency forwards							34,634.73
Total	**0**	**0.00**			**0,00**		**34,634.73**
Total	**1,379,488**	**299,200,929.62**			**437,102,843,89**		**403,625,819.60**
3 - GRAND TOTAL	**76,508,322**	**312,951,879.62**			**554,297,966,93**		**565,247,439.59**



ANDREAS GURSKY
Monika Sprüth & Philomene Magers
Dior Homme, 2004
Chromogenic Process
(C-Print) · 187 x 371.3 cm
Edition 6/6

Courtesy the Artist

07
LEGAL ACCOUNTS CERTIFICATE AND REPORT AND OPINION OF THE AUDIT BOARD

TRANQUILIDADE

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 2008 (which records a balance sheet total of 956,184,616 euros and total equity of 220,444,977 euros, including a net profit of 10,059,341 euros), the Profit and Loss Account, the Statement of Cash Flows and the Statement of Changes in Equity 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 misstatement. 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, based on judgements and criteria defined by the Directors and used 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; and
   - 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 2008, 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.

REMARKS

9. Without affecting the opinion expressed in paragraph 7, I would like to draw attention to the following situations:

   a) As stated in no. 3 (alteration of accounting policies) of the Notes to the Financial Statements, the Company altered the procedures in 2008 for valuing its investments in subsidiaries and associates, in accordance with the option permitted in IAS 27 and 28, and these assets are now stated at fair value. This change in accounting policy was applied retroactively to the financial information for 2007, as stipulated in IAS 8, in order to assure that the financial information is duly comparable.

   The new valuation methods adopted were the discounted cash flow method and the discounted dividends method, with the following exceptions:

   (i) the holding in T-Vida, Companhia de Seguros, SA, for which actuarial techniques were used to determine its fair value, and also

   (ii) the financial holding in Seguros Logo, SA, which, as this is an entity which started up operations in 2008, was stated at the value of the capital invested, as this was regarded as the most appropriate form of determining its fair value in view of the circumstances.

   As stated in the same note, and complemented by no. 7 (investments in subsidiaries and associates) of the Notes to the 2008 Financial Statements, this change in accounting policy resulted:

   (i) in an increase of 39,233,097 euros in the value of these assets, entered against a positive effect of the same amount in the Revaluation reserve in respect of adjustments to the fair value of investments in subsidiaries and associates;

   (ii) an increase in equity of 29,316,072 euros.

   b) No. 3 (Transition to the new Plan of Accounts) and no. 35 (Adjustments for Transition to the New Accounting Rules) of the Notes to the Financial Statements disclose the effects of first-time application, in the financial year ended 31 December 2008, of the new accounting rules for insurance companies (Regulatory Standards nos. 4/2007 and 20/2007 of the Portuguese Insurance Institute), which implemented the International Financial Reporting Standards, as adopted by the European Union, except for the criteria for measurement of liabilities resulting from insurance contracts as defined in IFRS 4 – Insurance Contracts.

   The overall impact on Equity of the transition from 31 December 2007 to 01 January 2008 totalled 14,841,363 euros.

Lisbon, 05 March 2009

José Manuel Macedo Pereira

To the Shareholders of
Companhia de Seguros Tranquilidade, SA

As required by the law and the articles of association, we are pleased to submit for your consideration out report on the activities of the Audit Board and our Opinion on the Report, Account and proposal for allocation of profits presented by the Board of Directors of Companhia de Seguros Tranquilidade, SA for the financial year ended 31 December 2008 and also our assessment of the respective Legal Accounts Certificate as duly issued by the Company's Official Auditor.

In the course of our duties we regularly monitored the Company's affairs and management over the course of 2008, both through analysis of management and accounting reports which were regularly provided to us, and through additional explanations which we requested from the directors, the executive board and company departments, who collaborated fully on all occasions, and also through checks we deemed necessary to assure compliance with our duties under the law and the articles of association.

We are therefore pleased to record that the Company continues to pursue a policy of rational use of resources and cost controls, and that in its operational and financial activities it has kept to a policy of minimizing the risks involved in its activities. Throughout 2008 we paid special attention not only to (i) developments underway within the Company in the fields of risk management and the internal control system, with a view to equipping the company to respond satisfactorily to the specific challenges currently facing the sector, in keeping with best international practice and complying with the applicable regulatory requirements, but also (ii) the Company's efforts to minimize, as far as possible, the unavoidable effects of the serious international economic and financial crisis which has had a significant negative impact on all business sectors, and in particular on the insurance sector, both in the Portugal and practically throughout the entire world.

After the end of the period we assessed the Report and Accounts drawn up by the Directors and submitted to us, and found that the Report complies with the requirements of the law and the articles of association and sets out the main developments in the Company's activities over the course of the year.

As was our duty, we also monitored (i) the checking of accounting records and the corresponding source documents and (ii) assessment of the accounting policies and valuation criteria adopted by the Company, these being the specific responsibilities of Dr. José Manuel Macedo Pereira, the Official Auditor appointed by the General Meeting to audit and legally certify the Company's accounts. As required by Article 452.1 of the Companies Code, the Audit Board also assessed the Legal Accounts Certificate for the financial year of 2008, issued on 5 March 2009 without reservation by the said Official Auditor, with which we are in agreement.

We should point out that the Legal Accounts Certificate contains two remarks, drawing attention to the most significant impact on the 2008 financial statements of the changes introduced in 2008 with regard to:

(i) the valuation criterion adopted for subsidiary and associated companies, which is now based on the fair value of the respective investment; and also

(ii) the accounting policies underlying the Financial Statements, which for the first time reflect the new accounting rules applicable to insurance companies in Portugal, based on the International Financial Reporting Standards, as adopted by the European Union, in accordance with Regulatory Standards 4/2007 and 20/2007 of the Portuguese Insurance Institute.

As a result of our audit activities as summarized above, and the respective findings, we recommend that the General Meeting of Companhia de Seguros Tranquilidade, SA should approve:

a) the Report and financial statements for the financial year ended 31 December 2008, submitted by the Board of Directors;

b) the proposal from the Board of Directors for allocation of the net profits for 2008 of 10,059,341.17 euros.

Lisbon, 6 March 2009

The Audit Board

José Manuel Ruivo de Pena – Chairman
Rui Manuel Duarte Sousa da Silveira – Member
António Ricardo Espírito Santo Bustorff – Member

GERARD CASTELLO LOPES
Lisboa, 1998
Gelatin silver print · 40 x 50 cm

Courtesy the Artist

08
SENIOR MANAGEMENT

TRANQUILIDADE

Senior Management

Assurfinance Office

Vítor Hugo Zão Barros Peixoto

Bodily Harm Claims Office

Luís Espírito Santo Silva Ricciardi

Marketing and Sales Office

Filipe Antero Rogenes Barreto Infante

International Development Office

Artur João de Carvalho Fonseca Duarte

Audit Department

Vanda Maria Jesus Ferreira Belo

Northern Operations Department

António Fernandes da Silva

Southern Operations Department

Luís Fernando Rodrigues Gonzaga Machado

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 Customers Department

José Paulo Castro Trigo

Marketing Department

Filipe Antero Rogenes Barreto Infante

Organization and Systems Department

José Manuel Mendes Esteves Serra Vera

Personnel Department

José Ramos Teles de Matos

Overall Risk and Internal Control Department

Luís António Jardim Franco

Claims Department

Luís Manuel Cunha Martinho

Underwriting Department

João Carlos Dores Candeias Barata

THOMAS DEMAND
Gangway, 2001
Chromogenic Process
(C-Print) mounted on Diasec
225 x 180 cm ·
Edition 3/6

Courtesy 303 Gallery, New York

09
BRANCH NETWORK

TRANQUILIDADE

Branch Network

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