TRANQUILIDADE

09 Annual Report and Accounts

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The illustrations included in this report are reproductions of some pieces of the BES art Photography collection which the Bank has been building since 2004 with recent works from renowned international and Portuguese contemporary artists.

PHOTOS: **Colecção Banco Espírito Santo**

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SZE TSUNG LEONG b. 1970, American / British
"From the Horizons Series. Odoi, Nishi-Izu, Shizuoka, Japan" 2008,
C-print 71,12 x 121,92 cm, Edition: 2/5+2AP.
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SZE TSUNG LEONG b. 1970, American / British
"From the Horizons Series, Rio Tejo", 2006
C-print, 60,96 x 111,76 cm, Edition: 2/5+2AP.
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TRANQUILIDADE

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PEDRO DUARTE BENTO b. 1976 - Portugal, **“Afternoon by the Pool, 2009”**, (from the series ‘When we were Youngsters’).
Lambda print on paper Fuji Archive Crystal, mounted on PVC 100 x 100 cm. Edition: 1/3 + 2 AP © Pedro Duarte Bento

COMPANHIA DE SEGUROS TRANQUILIDADE

Companhia de Seguros TRANQUILIDADE, S.A.
Av. da Liberdade, nº 242
1250 – 149 Lisbon / Portugal
Registered at the Lisbon
Registry of Companies
VAT: 500 940 231

TRANQUILIDADE

BETTINA POUSTTCHI b. 1971 Mainz - Germany, **“Hetley Time” 2008**. Photography 180 x 225 cm. Edition: 2/6+2AP. Courtesy Buchmann Galerie

01 CORPORATE OFFICERS

TRANQUILIDADE

01 CORPORATE OFFICERES

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Secretary
Nuno Miguel Matos Silva Pires Pombo

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Rui Manuel Leão Martinho
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Pedro Guilherme Beauvillain de Brito e Cunha
Augusto Tomé Pires Fernandes Pedroso
António Miguel Natário Rio-Tinto
Miguel Maria Pitté Reis da Silveira Moreno
Nuno Miguel Pombeiro Gomes Diniz Clemente
Eduardo Antunes Stock
Miguel Luís Kolback da Veiga
António José Baptista do Souto
Manrico Iachia
António Manuel Rodrigues Marques

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Official Auditor

José Manuel Macedo Pereira
Alternate
Ana Cristina Soares Valente Dourado representing
KPMG e Associados

Executive Committee

Peter Brito e Cunha
(Chairman)

Tomé Pedroso

Miguel Rio-Tinto

Miguel Moreno

Nuno Clemente

ROBERT ADAMS b. 1937, New Jersey, USA, "**Golden Colorado**", **1968-71**. Vintage silver print 33 x 28 cm © Robert Adams

02 DIRECTORS' REPORT

TRANQUILIDADE

02 DIRECTORS' REPORT

Shareholders,

Under the law and the articles of association, the Board of Directors is honoured to present to you for appraisal the Management Report and Accounts of Companhia de Seguros Tranquilidade, SA, in respect of 2009.

2.1 MACROECONOMIC FRAMEWORK

Taken as a whole, 2009 was marked by the sharp drop or slowdown of activity in the principal economic areas in the wake of the global financial crisis begun in 2007. This evolution was largely determined by a significant deterioration of the confidence of the economic agents, reflected in falling demand and in the collapse of international trade flows during the first half of the year. The recession took place against a background of lesser liquidity in the financial markets and, as a result of this, in a more restrictive climate insofar as the criteria governing the financing of economic activity were concerned.

In response, the authorities put into practice aggressive financial stabilisation and growth stimulus programmes. These included the reduction of refi rates to levels close to zero, mass injection of liquidity into the financial system (for example, through the acquisition of public and private debt securities by the central banks) and, at budget policy level, fiscal stimulus of consumption of durables and an increase of public spending on infrastructure.

As a result of the aggressiveness of these stimuli, there were, during the second half, particularly in the 4th quarter, clear signs of an acceleration of global activity and of financial stabilisation. The latter was reflected in a gradual narrowing of the money and credit market spreads, mirroring the decline of risk aversion and the greater confidence of the economic agents in the normalisation of the financial sector.

2.1.1 THE INTERNATIONAL ECONOMIC SITUATION

The economy of the Euro Area performed differently in the first half and the second half of the year. The 1st half was marked by a sharp downturn of activity (2.4% and 0.2% y-o-y drops in the first two quarters), in the wake of the recession begun in the 2nd quarter of 2008, with sharp downturns of exports and investment. This performance must be viewed within the context of the consequences of the financial crisis, which peaked in September and October 2008. The contraction of liquidity and the sharp deterioration of confidence during the closing months of 2008 led to a widespread decline of confidence and demand, which, in turn, was reflected in a sharp downturn of foreign demand (with an especially negative impact on Germany, with its expected fall of GDP of nearly 5.0% in 2009, the worst on record since World War Two). Several economies of the Euro Area still continued to suffer the effects of recession in the housing sector, which enlarged the negative adjustment of demand. Over the year as a whole the GDP of the Euro Area fell by close to 4.0%.

The 3rd and 4th quarters, however, were marked by a return of activity to growth (y-o-y variations of 0.4% and 0.6% respectively) following five consecutive quarters of downturn. This better performance was driven by a recovery of exports, by the favourable effect of restocking investments (stimulating industrial activity) and by the monetary and budget stimuli implemented by the authorities. The performance of domestic demand remained weak, however, marked by restrictions to consumer credit and to private investment, by worsening conditions if the employment market (with a progressive rise of unemployment to 10.0% of the active population at the year-end) and by an increase of savings as a precaution.

With regard to prices, average annual inflation was marginally higher than 0% (after 3.3% in 2008), the result of an absence of upward pressure on prices on the demand side and of energy prices, through the statistical effect arising from the fall of oil prices compared to 2008. Against this background, the European Central Bank continued to lower its refi rates until May. The European monetary authority cut its refi rate on two occasions by 50 basis points in January and March, and twice by 25 basis points, in April and May This rate was cut from 4.25% to 1% since October 2008. The ECB also lowered its liquidity-injection and deposit rates by 125 and 175 basis points respectively between January and May. Additionally, it provided ample liquidity for the banking system, with emphasis on three unlimited liquidity-injection operations at 12 months (which amounted to about €614 billion), the first two at a fixed rate of 1% and the third at a rate indexed to the interest rate on refinancing operations.

The implementation of expansionist monetary policies by the national governments, directed at stimulating domestic demand, led to a considerable worsening of public accounts. The budget deficit of the Euro Area as a whole increased from 2.0% to about 6% of the GDP. In this connection attention is drawn to the public deficits of Greece, Ireland and Spain, standing above 10.0% of the GDP. This evolution led to a deterioration of the sovereign risk (increase of the yields of the respective public debt securities), which penalised Greece and Ireland in particular (whose ratings were downgraded at the year-end), and also of other 'peripheral' economies of the Euro Area (Italy, Spain and Portugal, with the outlook for the ratings of the latter two being revised down).

2.1.2 DOMESTIC ECONOMIC SITUATION

Reflecting the effects of the global economic recession, the Portuguese economy returned a 2.7% decline of its GP in 2009. This performance was not as bad as that seen among Portugal's main partners in the European Union, however (there were GDP falls of 3.7% in Spain, 5.0% in Germany, 2.8% in France and 4.5% in the United Kingdom). Besides the lesser intensity of the recession, Portugal was one of the first EU countries to come out of the cycle of negative GDP variations, as from the 2nd quarter.

This performance was the result of the fact that demand was not affected, to the extent seen in other economies, by the strong negative wealth-effects associated with corrections to the real-estate market or by instability within the financial system. In this connection, the recession suffered by the Portuguese economy in 2009 was the result, in particular, of the downturn of foreign demand, as well as of a natural deterioration of household and company confidence, with its negative impact on consumption and, especially on investment. Both these aggregates were also affected by the more restrictive criteria governing the financing of economic activity, the result of the lesser liquidity available on the international financial markets.

Thus, over 2009 as a whole, exports fell by 12.3%, following a 0.5% downturn the previous year. This decline was common to most goods and services and to the main export destinations within the European Union. Reflecting the downturn of domestic demand, imports fell by 10.7% over the year, following a 2.1% growth in 2008.

The worsening expectations as to the evolution of foreign demand, the considerable uncertainty and the lesser availability of credit weighed decisively on the evolution of investment, down by a real 12.6%. In addition to fixed-capital spending, this performance was also the result of the reduction of stock levels, which accentuated the negative contribution of investment to GDP. Thus, company investment will have fallen by a real figure of around 15.0%, not offset by the sharp increase of public investment (by about 13.0%), the main source of budget stimulus of economic activity (public consumption returned a real increase of 2.0%. Household investment in housing accentuated the downward trend seen the previous year, falling by about 12.0%.

The decline of confidence and the increase of household uncertainty was also reflected in a drop of private consumption by about 0.8%. This occurred despite the increase of disposable household income, the result of falling interest rates and, above all, of the increase of state transfers, largely explained by the cautious attitude of households. The year under review was therefore marked by a significant increase of the savings rate to just above 8.0% of disposable income. This increase put a halt to the downward trend of household savings observed since 2002. The negative evolution of private consumption was the result of the sharp downturn of consumption of consumer durables, in that spending on non-durable goods grew marginally.

Household purchasing power benefitted from negative inflation in 2009. In average annual terms inflation fell from 2.6% to -0.8%. This reflected, in the first place, a statistical effect associated with the sharp increase of raw-material prices (oil in particular) during 2008). But it is likewise the reflection of the recession of the economy in 2009, which strongly restricted company power to fix prices.

The general decline of economic activity quickly led to an increase of the number of unemployed and the jobless rate rose to an historic high in 2009, to stand at 9.5%, a 1.9 p.p. increase over 2008.

Notwithstanding the negative performance of exports, 2009 was marked by a correction of the combined balance of the current and capital account, or foreign deficit, down from 10.5% to a figure of about 8.3% of the GDP. This reflects the process of deleverage undertaken by the private sector in 2009, as well as the decrease of the energy deficit. The reduction of the private sector borrowing requirements was accompanied by an increase of the public sector borrowing requirements, particularly as a result of the budget stimuli to economy activity, though also reflecting the effects of the low stage of the economic cycle in the public accounts. In this connection, the public deficit rose from 2.7% to 9.3% of the GDP.

2.1.3 INSURANCE MARKET

The combination of worsening macroeconomic performance in 2009 and a more competitive climate in the insurance industry conditioned the insurable mass and gave rise to aggressive pricing practices.

Despite the improvement seen in financial results stemming from the sharp appreciation of the investment portfolios, thanks to the good year for the markets in 2009, the insurance industry was affected by the downturn of economic activity.

The industry's good performance in terms of financial results was not accompanied in operational terms. According to the latest estimates, the insurers operating on the Portuguese market returned an overall net profit in the sum of €300 million in 2009, compared to a net loss of €30 million in 2008 and a net profit of €660 million in 2007. Equity amounted to € 4.3 billion, a 39% increase, generating a return on equity of 8.7%.

In production terms, 2009 was a negative year both for Life and for Non-Life insurance. Life and Non-Life premiums totalling €14,559 million were 5.0% down compared to the previous year. Production of the Life segment, with premiums in the order of €10,427 million, fell by 5.3%, despite the fact that there was an increase of disposable household income in 2009 and also of the respective savings rate. It is assumed that, in a context of recovery of the equities segment of the capital market, part of the savings was redirected to other higher-risk placements.

Emphasis is given to the PPRs (Retirement Savings Plans), which have become increasingly popular in long-term savings, their contribution growing by 27.6%. Products of this type account for 30% of the Life premiums and for 22% of total insurance production.

The decrease of the volume of Non-Life premiums had already been felt in 2008, but it was more pronounced in 2009: -1.4% in 2008 and -4.4% in 2009, for a production of €4,132 million. This reduction is the result both of the negative performance of the economy and also of the competitive climate in the marketplace, leading to heavy pressure on premiums. The Workmen's Compensation and Motor lines, the two biggest of the Non-Life segment, accounting for 57% of the Non-Life market, were especially affected by these factors, with production down 9.1% and 8.0% respectively.

Emphasis is given to the good performance of Health insurance, reflecting the ongoing concern as to access to health care, even though it, too, had a more modest growth than in previous years, 9.6% in 2008 and 3.5% in 2009.

The weight of insurance business in the GDP fell from 9.21% in 2008 to 8.83% in 2009, though it did remain above the 2007 figure (8.45%). The Life segment made a 6.32% contribution to GDP, with Non-Life segment contributing 2.51% (6.61% and 2.60% in 2008, respectively). The Non-Life claims rate worsened in 2009 to 73.4%, compared to 70.9% in 2008.

2.2 RELEVANT FACTS IN 2009

Recent years have been a very difficult period for the insurance industry, as seen in weak growth and in the sharp decline of margins.

In a context of crisis, 2009 was particularly complicated, with a downturn of the market both in Non-Life (4.4%) and in Life (5.3%).

The widespread strategy of low prices, especially in the mandatory lines – Motor and Workmen's Compensation – as a means of acquiring business in a very highly competitive market (further accentuated by the new 2006 legal framework), had a negative effect on the industry's profitability. This competitive climate was the main reason for the sharp deterioration of profits, with the industry's Non-Life Technical Result declining 41.9% from 2008 to 2009.

The dynamics of the Non-Life business differed between the 1st and the 2nd halves, and Tranquilidade returned a growth in the latter that outperformed the market.

The measures take to reverse the very negative trend of the 1st half were seen to be effective:

- Sharp focus on the multi-brand and exclusive professional agents;
- Greater efforts directed at keeping policies in the portfolio through a segmented price revisions;
- Greater control over discounts, with a consequent increase of the average Motor premium of nearly 5% as from August;
- Review of the offer directed at the Businesses segment, with the launch of the new Establishment Multi-risk as from September and segment energising campaigns.

Tranquilidade showed that it had the capacity to overcome the difficulties through implementation of adequate, effective measures:

- After 15 months of losing customers, Tranquilidade put a stop to the problem in May and began to recoup customers in July;

- In Motor, cancellation rates fell back to nearly 20% (from a level of nearly 40% at the end of 2008);

- Strategic products such as Multi-risk and Health showed consistent growth throughout the year;

- Medium Enterprises performed particularly well, returning a growth of 3.6% in the 2nd half (compared to a drop of 10.4% in the 1st half), while Businesses grew by 1.3% during the last quarter of the year.

Aware that sustainable success depends on the capacity to respond to customers and agents, the Company implemented, simultaneously, a number of measures at operating level that allowed an improvement of the service quality provided:

- The issue of contracts at the brokers (SIA-net) through the online system provided by the Company remains close to 90%, while the range of products that can be issued using the system was extended to include the new Establishment Multi-risk.

- Average response times for the commercial area and the technical division to provide quotes fell greatly in 2009, to stand at approximately 3 days; functional reorganisation likewise allowed the commercial teams to be freed in terms of time allocated to their priority commercial duties.

- New customer-attendance metrics were created for the Call Centre and for the commercial structure, which returned very satisfactory service levels.

- Complaint Response Times fell drastically as from October.

Implementation of the Efficiency Programme meant that operating costs were expressively lower (down 4.8% or €3.7 million), as were staff costs (-1.6%), third-party supplies & services (-5.4%) and other operating costs (-13.0%).

With regard to its strategic investments, direct insurer LOGO, SA., which operates exclusively via the telephone and Internet channels, launched in 2008, evolved very well, with a positive variation of 0.4 p.p. in its share of the Motor market. Logo is outperforming all the key indicators of its business plan.

As a result of this performance and solidity, Tranquilidade has been successful in maintaining, as of December 31, 2009, its "A-" Rating, defined by Fitch Ratings, unmatched in the market.

2.3 MAIN VARIABLES & BUSINESS INDICATORS

(thousand euros)

	2009	2008	Change 09/08 (%)
Balance Sheet			
Investments	783,684	740,464	5.8
Net Assets	978,279	956,185	2.3
Equity	252,439	220,445	14.5
Provision for Unearned Premiums (DI+RA)	80,053	84,485	-5.2
Provision for Claims (DI+RA)	520,020	530,264	-1.9
Provision for Claims, Net of Reinsurance	485,189	495,249	-2.0
Technical Provisions (DI+RA)	625,572	639,233	-2.1
Gains & Losses			
Gross Direct Insurance Premiums Written	308,579	334,031	-7.6
Premiums Earned, Net of Reinsurance	277,881	307,777	-9.7
Cost of Direct Insurance Claims	200,362	229,654	-12.8
Costs of Claims, Net of Reinsurance	190,169	213,087	-10.8
Operating Costs	73,605	77,334	-4.8
Income	18,318	29,451	-37.8
Net Profit/Loss	9,217	10,059	-8.4
Indicators			
Gross Premiums Written / Nº of Employees	432.2	445.4	-3.0
Direct Insurance Claims Rate	63.6%	65.9%	-2.3 p.p.
Claims Rate Net of Reinsurance	68.4%	69.2%	-0.8 p.p.
Net profit/ Gross Oremiums Written	3.0%	3.0%	-
Combined Ratio Net of Reinsurance	102.2%	106.4%	-4.2 p.p.
Solvency Ratio	361.1%	320.0%	+58.8 p.p.

2.4 THE BUSINESS OF TRANQUILIDADE IN 2009

2.4.1 DIRECT INSURANCE PREMIUMS

Direct insurance premiums in 2009 totalled €308.579k, a decrease of 7.6% compared to 2008. Direct insurance production of the Non-Life insurance market also fell by 4.4%.

The worsening performance of the macroeconomy in 2009 conditioned the evolution of the insurable mass and affected the Non-Life segment, Motor and Workmen's Compensation in Particular, with declines of the average premium and aggressive pricing policies.

At Tranquilidade, the downturn of production was essentially due to the performance of the Motor line, down 13.7% from the previous year, and of the Workmen's Compensation line, where premiums fell by 10.2%. The situation of the economy, the competition by the "direct channel" and by the smaller insurers - pressure to cut prices - were factors that influenced the evolution of the Motor line. In Workmen's Compensation the difficulties experienced by the business fabric were partly at the root of the downturn of production in this line. The performance of the bigger insurers operating in our market was similar, both in Motor and in Workmen's Compensation and, of the smaller insurers, just a small number managed to attract a greater number of customers. The total market decreased 8.0% in Motor and 9.1% in Workmen's Compensation.

Tranquilidade performed well in Personal Accidents and Health, with growths above the market average (up 7.9% vs. 4.5% for the market and 9.4% vs. 3.5% for the market, respectively).

(thousand euros)

DIRECT INSURANCE PREMIUMS	2009	%	2008	%	Change 09/08 (%)
Accidents & Health	97,048	31.4	100,050	30.0	-3.0
Fire & Other Damage	59,297	19.2	59,202	17.7	0.2
Motor	125,185	40.6	145,132	43.4	-13.7
Transport	7,193	2.3	8,640	2.6	-16.7
Third-party Liability	9,936	3.2	10,446	3.1	-4.9
Sundry	9,920	3.3	10,561	3.2	-6.1
TOTAL	**308,579**	**100.0**	**334,031**	**100.0**	**-7.6**

Tranquilidade has a market share of 7.5%, continuing to rank 4th in Non-Life premiums. The 3 other bigger insurers also lost market share in 2009.

2.4.2 COSTS OF DIRECT INSURANCE CLAIMS

The cost of direct insurance claims amounted to €200,362k, a reduction of about €29,292k. or 12.8% less than in 2008.

The more significant variations were observed in Motor (down €22,095k), Accidents & Health (down €5,683k) and Fire & Other Damage (down €5,691k).

(thousand euros)

COSTS OF DIRECT INSURANCE CLAIMS	2009	2008	Change 09/08 (%)
Accidents & Health	63,690	69,373	-8.2
Fire & Other Damage	32,042	37,733	-15.1
Motor	92,290	114,385	-19.3
Transport	7,223	4,997	44.5
Third-party Liability	4,655	2,325	100.2
Sundry	462	841	-45.1
TOTAL	**200,362**	**229,654**	**-12.8**

The claims rate (cost of claims / gross premiums earned) fell 2.3 p.p. from the previous year, to 63.6%, essentially the result of the reduction observed under Fire & Other Damage (from 63.7% to 53.8%), under Accidents & Health (from 69.2% to 65.8%) and under Motor (from 72.3% to 70.4%).

(%)

COSTS OF CLAIMS / GROSS PREMIUMS EARNED *	2009	2008
Accidents & Health	65.8	69.2
Fire & Other Damage	53.8	63.7
Motor	70.4	72.3
Transport	94.9	56.9
Third-party Liability	46.9	22.0
Sundry	4.6	7.4
TOTAL	**63.6**	**65.9**

* costs of claims with costs imputed as a % of premiums earned

2.4.3 DIRECT INSURANCE TECHNICAL PROVISIONS

Direct insurance technical provisions amounted to €618,954k, a reduction of €16,139k. Emphasis is given to the reduction of the Provision for Claims, down €11,894k as a result of the performance of the claims rate, particularly in Multi-risk and Motor.

(thousand euros)

TECHNICAL DIRECT INSURANCE PROVISIONS	2009	2008	Change 09/08 (%)
Provision for Unearned Premiums	77,982	83,208	-6.3
Provision for Claims	516,777	528,671	-2.2
Workmen's Compensation	168,977	177,284	-4.7
Other Lines	347,800	351,387	-1.0
Other Technical Provisions	24,195	23,214	4.2
TOTAL	**618,954**	**635,093**	**-2.5**

2.4.4 REINSURANCE CEDED

The balance of reinsurance ceded in the sum of €18,863k, was more unfavourable in 2009 than in 2008 by €3,334k.

The volume of premiums ceded was greater than in the previous year, while indemnities received were less than in 2008.

(thousand euros)

REINSURANCE CEDED	2009	2008	Change 09/08 (%)
Premiums	43,216	41,698	3.6
Commissions	-8,597	-8,394	2.4
Claims and Variation of Technical Provisions	-15,756	-17,775	-11.4
RESULT	**18,863**	**15,529**	**21.5**

2.4.5 TECHNICAL BALANCE NET OF REINSURANCE

The technical balance net of reinsurance in 2009, in the sum of €67,054k, grew by 16.7% over the previous year. Though penalised by the downturn of direct insurance production and by the balance of reinsurance ceded, the decline of costs of direct insurance claims and of the provision for risks in progress allowed an increase of the technical balance net of reinsurance

The biggest increase was in Motor, in which the technical balance net of reinsurance increased by €9,552k over the previous year. In Accidents & Health and in Fire & Other Damage, too, the technical balance grew by 2.2% and 23.1% respectively.

(thousand euros)

TECHNICAL BALANCE, NET OF REINSURANCE	2009	2008	Change 09/08 (%)
Accidents & Health	23,455	22,941	2.2
Fire & Other Damage	12,633	10,266	23.1
Motor	26,380	16,828	56.8
Transport	1,620	1,961	-17.4
Third-party Liability	4,329	5,342	-19.0
Sundry	-1,363	133	-1,124.8
TOTAL	**67,054**	**57,471**	**16.7**

2.4.6 OPERATING COSTS

Total operating costs fell 4.8% to €73,605k in 2009. The decrease of costs was achieved owing to the strong containment measures implemented by the Company, especially in terms of the reduction of human resources, the negotiation of collection costs, the contracts with suppliers and the reduction of IT costs and projects.

In this connection, in 2009 Staff Costs decreased 1.6% and Third-party Supplies & Services 5.4%, generating savings of €603k and €1,357k respectively.

(thousand euros)

OPERATING COSTS	2009	2008	Change 09/08 (%)
Staff Costs	37,783	38,386	-1.6
Third-party Supplies & Services	23,933	25,290	-5.4
Taxes and Charges	2,297	2,931	-21.6
Depreciation	7,972	8,786	-9.3
Other *	1,620	1,941	-16.5
TOTAL	**73,605**	**77,334**	**-4.8**

* Includes Provisions for Contingencies & Liabilities, Interest Expense, Commissions and Other Investment Costs

2.4.7 STAFF

During 2009 a total of 22 new employees were taken on and 58 left, 26 of whom for pre-retirement or retirement reasons.

As a result of this, staff numbers fell by 4.8%. Compared to the previous year, productivity fell as result of the decline of premiums written, the value of direct insurance premiums per employee of the permanent staff standing at €432k (€445k in 2008).

	2009	2008	Change 09/08 (%)
Admitted	22	29	-24.1
Left	58	92	-37.0
of which Pre-Retirement or Retirement	26	50	-48.0
Total Staff in Service	714	750	-4.8
DI Premiums / nº of employees (thousand euros)	**432**	**445**	**-2.9**

2.4.8 INVESTMENTS

The world's leading economies returned the biggest falls of economic activity seen since the second world war during the six months from October 2008 to March 2009. The GDP in the USA contracted, in annualised terms, by more than 6% during the 1st half of 2009.

The economic stimulus measures implemented by central banks and governments around the world, on an unprecendented scale, managed to staunch the crisis, and without this help the world's leading economies could have entered a prolonged recession – depression.

The announcement of the creation of the bad bank in the USA, to buy up the toxic assets in the banks' balance sheets, and the stress test performed by the Fed as to the capital adequacy of the North American banks in confronting the crisis, were essential to restoration of the confidence of the economic agents and of the sustainability of the financial system around the world.

The lowest point of the crisis came between March and June 2009, with the major economies returning positive GDP growths in the third quarter of 2009. To a large extent this recovery was due to re-stocking and to temporary measures to stimulate consumption, meaning that the recovery was quite vulnerable to and dependent on a continuation of large fiscal, budgetary and monetary stimulus packages, which still exist.

The equity markets returned major losses up to mid March, though since the historically low level then reached they have appreciated by more than 50%. Shares again acted as an advanced indicator of the economy, rising sharply with the prospects of the economic recession being left behind, the valuations discounting a scenario of normalisation of economic activity in the medium term and the enormous liquidity channelled to the financial markets and to risk assets.

The spreads of the corporate debt market narrowed sharply with the normalisation of the market through the re-establishment of the primary issues market (reducing the risk of default) and investors discounting a scenario of recovery rather than depression. Nevertheless, spreads remained higher than before the financial crisis, reflecting the greater perception of risk now observed in the market.

Tranquilidade's financial policy centred on investment in fixed-rate bonds and on the reduction of the high liquidity levels that existed at the beginning of the year. The return to the equity market took place in the middle of the year, though accounting for very little weight in the investment portfolio.

In the bond segment there was heavy investment in fixed-rate bonds, centred on the primary market, taking advantage of the high credit spreads at the time, with a focus on short maturities of 3 to 5 years and on keeping the average rating of the portfolio at A2/A. Floater bonds were sold in stages with a view to reducing exposure by issuer and to sectoral diversification.

(thousand euros)

ASSETS UNDER MANAGEMENT	2009	2008	Change 09/08 (%)
Bonds	**342,234**	**268,251**	**27.6**
Fixed-Rate	146,510	8,423	1,639.4
Floating-Rate	195,724	259,828	-24.7
Equities & Investment Funds	**223,622**	**198,264**	**12.8**
Strategic	209,767	193,356	8.5
Trading	9,886	2,445	304.3
Investment Funds (private equity)	3,969	2,463	61.1
Real Estate	**128,331**	**126,661**	**1.3**
Premises	40,239	39,719	1.3
Held for Income	88,092	86,942	1.3
Liquidity	92,299	165,795	-44.3
Other	2,081	2,096	-0.7
TOTAL	**788,567**	**761,067**	**3.6**

In terms of financial results, 2009 saw a decrease of the absolute value compared to 2008, in the total sum of €9,803k (down 32.5%). This reduction was the result of the extraordinary gains in 2008 on the sale of some strategic positions and of the downward movement of market interest rates, which had an unfavourable impact on the returns of the floating-rate bonds.

The year under review was also marked by the gains totalling €5,837k realised on the sale of fixed-rate bonds. The strategy of reduction of the level of exposure to floating-rate bonds led to a realised book loss totalling €3,378k.

The financial profitability amounted to 3.0%, compared to 4.0% in 2008. Overall profitability in 2009, including potential gains, stood at 6.9%.

(thousand euros)

FINANCIAL PROFIT/(LOSS)	2009	2008	Change 09/08 (%)
Income	**18,318**	**29,451**	**-37.8**
Securities	15,864	26,892	-41.0
Real Estate	2,454	2,559	-4.1
Gains & Losses	**3,053**	**16,314**	**-81.3**
Securities	2,072	15,514	-86.6
Real Estate	981	800	22.6
Impairments / Written Back	**-1,011**	**-15,602**	**-93.5**
Securities	-1,011	-15,602	-93.5
Real Estate	-	-	-
TOTAL	**20,360**	**30,163**	**-32.5**

2.4.9 EQUITY AND SOLVENCY MARGIN

Equity in 2009 increased €31,995k over the previous year's figure, to stand at €252,439k, largely the result of the increase under the Revaluation Reserve (as a result of the adjustment of the fair value of financial assets).

Equity increased €30,450k through the impact of the potential gains, of which €20,482k were generated by the valuation of the Tranquilidade Group companies at market prices. Emphasis is also give to the movement under equity of the insurance companies held (the €3,900k increase at LOGO and the €5,011k reduction at T-Vida).

The solvency ratio rose to 361.1% compared to 320.0% in 2008. A contribution to this good performance was made by the increase of Eligible Elements included under equity, with a focus on the variation of the Revaluation Reserve – Fair value.

(thousand euros)

EQUITY	2009	2008	Change 09/08 (%)
Equity Capital	135,000	135,000	0.0
Revaluation Reserves	39,750	16,973	134.2
Other Reserves	41,052	40,046	2.5
Retained Earnings	27,420	18,367	49.3
Net Profit/Loss	9,217	10,059	-8.4
TOTAL	**252,439**	**220,445**	**14.5**

2.4.10 RISK MANAGEMENT, INTERNAL CONTROL AND COMPLIANCE

Directive 2009/138/EC (Solvency II), in respect of access to insurance and reinsurance business and to their exercise, was approved in November 2009. This directive establishes rules governing:

- Access to direct insurance and reinsurance activities and their exercise within the Community;
- Supervision of insurance and reinsurance groups;
- Reorganisation and winding-up of direct insurance undertakings.

By October 31, 2012, Member States will have to transpose these legal provisions to internal law.

Tranquilidade has been gradually bringing its structure, policies and procedures into line, so as to be able to take advantage of this transition period to prepared for the new challenges that are drawing close and will imply substantial alterations in insurance business.

Therefore, several measures were taken to this end in 2009, of which we would under score the following:

- Draft development of in-house Economic Capital models;
- Inclusion in the ISP and APS work groups on matters in respect of the evolution of the Solvency II project;
- Performance of the QIS 4BIS – Quantitative Impact Study of the application of the Solvency II rules to the calculation of insurers' Economic Capital;
- Updating the internal control system, including mapping of processes, risks and controls;
- Systematisation and implementation of Risk, Management, Internal Control and Compliance reporting models;
- Definition, formalisation and monitoring of an anti-fraud policy;
- Creation of a database of contracts with outsourcers and suppliers.

As a result of the publication of sundry legislation during 2009, related with insurance business, emphasis is also given to the assessment of the impacts and the monitoring of its implementation, stemming from the alterations to the law governing access to and exercise of insurance business, from the new Labour Code, from the New Social Welfare Contributions Schemes – the coming into force of which has been postponed in the meantime – or from the legislation on the provision of information and customer and user support services via call centres.

At regulatory level, attention is called to the measures undertaken within the scope of Market Conduct, impacting on Complaint Management, to the creation of the post of Customer Ombudsman, and to the impacts stemming from the assessment of the recommendations made in Circular /7/2009.

2.5 PROPOSAL FOR THE APPROPRIATION OF PROFITS

A net profit in the sum of €9,217,425.84 was returned in 2009, for which we propose the following appropriation:

a) 10% of the net profit for the year in the sum of €921,742.58 to Legal Reserve;
b) payment of dividends in the sum of €8,250,000;
c) the remainder to Other Reserves.

2.6 OBJECTIVES FOR 2010

At international level and despite some positive signs, 2010 is expected to be a year of ongoing weak growth and of uncertainty as to the evolution of the capital markets, conditioning the insurance industry in the matter of financial activities.

In Portugal, the Non-Life insurance area has grown less than the economy and 2010 is not expected to bring about any strong growth of the market. Rather the contrary, the large deficit that obliges the adoption of a Stability and Growth Plan for the country and the prospects of rising interest rates will bring about greater restrictions for households and companies.

In this connection, Tranquilidade's response to the challenges facing the industry will be governed by the principles of rigour and solidity that have allowed the Company to maintain its rating in recent years. The approach to the market will continue to be undertaken on a segmented, selective basis, on a par with a greater focus on the multi-brand and exclusive professional agents. Internally, continuity will be lent to the project to cut costs, reducing the expense ratio.

Tranquilidade will therefore continue its upward trend seen as from the 2nd half of 2009, persisting with and deepening some of the measures that had been adopted the previous year.
Specifically, the Company's priorities in 2010 will be directed at:

1. Controlled growth above the market, though sufficiently selective in the various segments and channels not to degrade the margins;

2. The technical balance through correction of prices (and consequent improvement of the claims rate), by means of a reduction of discounts;

3. Continuation of the reorganisation programmes in progress with a view to repositioning the Company at a level of excellence in terms of service to brokers and customers.

In this way, 2010 is expected to see an acceleration of the implementation of a package of measures critical to the strengthening of the Company's solidity and agent orientation and service culture, involving:

- Improved claims management from the agent/ customer standpoint;

- Better response times to requests for quotes;

- Adoption of pricing policies providing brokers with greater autonomy;

- Reorganisation of the commercial area to increase its efficiency, through permanent monitoring by a competent, motivated in-house team provided with greater responsibility and autonomy, of the bigger, more professional agents.

In the matter of growth, Tranquilidade will develop its international expansion initiatives, in Angola in particular.

The focus of the business on this country will be based on an offer directed at the companies and private segments in keeping with the commercial strategy of BES (Banco Espírito Santo), and it can be expected that, in terms of development, it will accompany the growth of the economy in the various segments.

The Angola project is at the finalisation stage and, as of December 31, 2009, it was fully in a position for the commercial start of the operation, especially with regard to human resources, premises and information systems, which is set to take place during 2010.

2.7 CLOSING REMARKS

The Board of Directors wishes to express its gratitude to our Equityholders, Customers, Brokers and Employees for their contribution to the development of the Company.

We are also pleased to record the activity of the Audit Committee and of the Official Auditor, while we also express our thanks to the Insurance Supervisory Authority and the Portuguese Insurers Association for their co-operation in various fields of their sphere of competence.

Lisbon, February 23, 2010

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 Committee

Augusto Tomé Pires Fernandes Pedroso
Director and Member of the Executive Committee

António Miguel Natário Rio-Tinto
Director and Member of the Executive Committee

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Director and Member of the Executive Committee

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Director and Member of the Executive Committee

Eduardo Antunes Stock
Director

Miguel Luís Kolbach da Veiga
Director

António José Baptista do Souto
Director

Manrico Iachia
Director

António Manuel Rodrigues Marques
Director

CAIO REISEWITZ b. 1967, Brasil, São Paulo **"mamanguá", 2007**. C-Print on Diasec 227 x 180 cm. Edition 2/5. Courtesy Galeria Joan Prats

03 FINANCIAL STATEMENTS

TRANQUILIDADE

BALANCE SHEET (ASSETS) AS AT DECEMBER 31, 2009 AND 2008

(thousand euros)

ASSETS	Notes to the Accounts	2009 Gross Value	2009 Impairment, Depreciation / Amortisation or Adjustments	2009 Net Value	2008
Cash & cash equivalents and sight deposits	8	8,150		8,150	23,586
Investments in affiliates, associated and joint ventures	7	165,977	480	165,497	133,006
Held-for-sale financial assets	6				35
Financial assets classified in the initial recognition at fair value through profit & loss	6	6,572		6,572	4,538
Hedge derivatives					
Held-for-sale assets	6	383,235	16,208	367,027	308,353
Loans & accounts receivable		**116,257**		**116,257**	**167,871**
Deposits with cedent companies	6	1		1	1
Other deposits	6	84,892		84,892	119,315
Loans granted	6	28,850		28,850	45,336
Accounts receivable					
Other	6	2,514		2,514	3,219
Held-to-maturity investments					
Land & buildings		**134,360**	**6,029**	**128,331**	**126,661**
Land & buildings held for own use	9	46,268	6,029	40,239	39,719
Land & buildings held for income	9	88,092		88,092	86,942
Other tangible assets	10	39,476	36,066	3,410	3,366
Inventories	10	323		323	396
Goodwill	12	25,785		25,785	25,785
Other tangible assets	12	47,029	33,090	13,939	13,203
Technical provisions for reinsurance ceded		**48,225**		**48,225**	**47,901**
Provisions for unearned premiums	4	13,394		13,394	12,886
Provisions for claims	4	34,831		34,831	35,015
Provision for profit-sharing					
Rate commitment provision					
Portfolio stabilisation provision					
Other technical provisions					
Assets for post-employment benefits and other long-term benefits	23	13,524		13,524	12,811
Other debtors for insurance operation and other operations		**84,175**	**6,870**	**77,305**	**86,325**
Accounts receivable for direct insurance operations	13	58,228	5,783	52,445	49,956
Accounts receivable for other reinsurance operations	13	5,436	244	5,192	6,314
Accounts receivable for other operations	13	20,511	843	19,668	30,055
Tax assets		**2,091**		**2,091**	**418**
Current tax assets	24	2,091		2,091	418
Deferred tax assets					
Accruals & deferrals	13	1,843		1,843	1,930
Other assets					
Non-current assets held for sale and discontinued operational units					
TOTAL ASSETS		**1,077,022**	**98,743**	**978,279**	**956,185**

THE CHARTERED ACCOUNTANT
Paulo Jorge Pinheiro Santos

THE MANAGER ACCOUNTS
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BALANCE SHEET (LIABILITIES & EQUITY) AS AT DECEMBER 31, 2009 AND 2008

(thousand euros)

LIABILITIES & EQUITY	Notes to the Accounts	2009	2008
LIABILITIES			
Technical provisions		**625,572**	**639,233**
Provisions for unearned premiums	4	80,053	84,485
Provisions for claims	4	520,020	530,264
for life insurance			
for works' accidents	4	168,979	177,28
for other businesses	4	351,041	352,978
Provision for profit-sharing	4	1,080	810
Rate commitment provision			
Portfolio stabilisation provision			
Provision for claims-rate deviations	4	4,654	4,193
Provision for risks in progress	4	19,765	19,481
Other technical provisions			
Other financial liabilities		513	806
Hedge derivatives			
Subordinated debt			
Deposits received from reinsurers	5	503	806
Other		6	10
Liabilities for post-employment benefits and other long-term benefits			
Other creditors for insurance operation and other operations		**40,450**	**46,897**
Accounts payable for direct insurance operations	13	21,079	20,195
Accounts payable for other reinsurance operations	13	11,273	10,870
Accounts payable for other operations	13	8,098	15,832
Tax liabilities		**39,680**	**28,893**
Current tax liabilities	24	26,564	23,425
Deferred tax liabilities	24	13,116	5,468
Accruals & deferrals	13	17,797	18,677
Other provisions	13	1,828	1,234
Other liabilities			
Liabilities of a group for sale classified as available-for-sale			
TOTAL LIABILITIES		**725,840**	**735,740**
EQUITY			
Equity capital	25	135,000	135,000
(Treasury shares)			
Other capital instruments			
Revaluation reserves		**53,079**	**22,629**
For adjustments to the fair value of financial assets	26	53,079	22,629
For revaluation of premises			
For revaluation of intangible assets			
For revaluation of other tangible assets			
For adjustments to the fair value of cash-flow hedge instruments			
For adjustments to the fair value of net investment hedges in foreign currency			
For currency translation differences			
Deferred tax reserve	26	-13,329	-5,656
Other reserves	26	41,052	40,046
Retained earnings	35	27,420	18,367
Net profit/(loss) for the year		9,217	10,059
TOTAL SHAREHOLDERS' EQUITY		**252,439**	**220,445**
TOTAL LIABILITIES & EQUITY		**978,279**	**956,185**

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PROFIT & LOSS ACCOUNT AS AT DECEMBER 31, 2009 AND 2008

(thousand euros)

PROFIT & LOSS ACCOUNT	Notes to the Accounts	2009 Technical Account Non-Life	2009 Non-technical Account	2009 Total	2008
Premiums earned net of reinsurance		**277,881**		**277,881**	**307,777**
Gross premiums written	14	314,812		314,812	337,144
Reinsurance premium ceded	14	-43,216		-43,216	-41,698
Provisions for unearned premiums (change)	4 & 14	5,777		5,777	12,796
Provisions for unearned premiums, reinsurers' part (change)	4 & 14	508		508	-465
Costs of claims, net of reinsurance	**4**	**190,169**		**190,169**	**213,087**
Amounts paid		200,918		200,918	212,029
Gross amounts		216,350		216,350	229,466
Reinsurers' part		-15,432		-15,432	-17,437
Provision for claims (change)		-10,749		-10,749	1,058
Gross amount		-10,933		-10,933	1,861
Reinsurers' part		184		184	-803
Other technical provisions, net of reinsurance	4	745		745	12,670
Share of profits/(losses), net of reinsurance	4	270		270	270
Net operating costs & expenses	**21**	**91,268**		**91,268**	**99,506**
Acquisition costs		65,295		65,295	71,811
Deferred acquisition costs (change)	4	1,345		1,345	2,508
Administrative costs		33,224		33,224	33,581
Reinsurance commissions & profit-sharing:		-8,596		-8,596	-8,394
Income	**16**	**18,007**	**311**	**18,318**	**29,451**
On interest on financial assets not carried at fair value through profit & loss		12,749	10	12,759	21,649
On interest on financial liabilities not carried at fair value through profit & loss					
Other		5,258	301	5,559	7,802
Financial Costs	**16**	**1,979**	**2**	**1,981**	**2,106**
On interest on financial assets not carried at fair value through profit & loss					
On interest on financial liabilities not carried at fair value through profit & loss					
Other		1,979	2	1,981	2,106
Net gains on financial assets & liabilities not carried at fair value through profit & loss	**17 & 18**	**3,515**	**21**	**3,536**	**15,563**
On held-for-sale assets		3,515	174	3,689	15,56
On loans & accounts receivable			-153	-153	
On held-to-maturity investments					
On financial liabilities carried at amortised cost					
Other					
Net gains on financial assets & liabilities carried at fair value through profit & loss	**17 & 18**	**-1,450**		**-1,450**	**-52**
Net gains on financial assets & liabilities held for trading					
Net gains on financial assets & liabilities classified in the initial recognition at fair value through profit & loss		-1,450		-1,450	-52
Currency translation differences	19	-14	-7	-21	2
Net gains on the sale of non-financial assets not classified as available-for-sale non-current assets and discontinued operating units	17 & 18	981		981	800
Impairment losses (net of reversal)		**624**	**-2,358**	**-1,734**	**-13,296**
On held-for-sale assets	6	624	-1,155	-531	-15,60
On loans and accounts receivable carried at amortised cost					
On held-to-maturity investments					
Other	7 & 13		-1,203	-1,203	2,306
Other technical income/costs, net of reinsurance	20	-575		-575	-659
Other provisions (change)	20				
Other income/expenses	20		-343	-343	-586
Negative goodwill recognised immediately in profit & loss					
Gains & losses on associates and joint ventures carried using the equity method					
Gains & losses on non-current assets (or groups for sale) classified as available-for-sale					
NET PROFIT/(LOSS) BEFORE TAX		**14,538**	**-2,378**	**12,160**	**11,361**
Income tax for the year - Current tax	24		-2,968	-2,968	-1,543
Income tax for the year - Deferred tax	24		25	25	241
NET PROFIT FOR THE PERIOD		**14,538**	**-5,321**	**9,217**	**10,059**

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LEE FRIEDLANDER b. 1934, USA **“Florida”, 1963 from the series “The little Screens”**. Gelatin silver print 35,5 x 27,9 cm

04 COMPREHENSIVE INCOME STATEMENT

TRANQUILIDADE

04 COMPREHENSIVE INCOME STATEMENT

COMPREHENSIVE INCOME STATEMENT AS AT DECEMBER 31, 2009 AND 2008

(thousand euros)

COMPREHENSIVE INCOME STATEMENT	2009	2008
Net profit/(loss) for the year	9,217	10,059
Variation of the fair value of available-for-sale assets, affiliates, associates & joint ventures	30,450	-50,545
Variation of current & deferred taxes	-7,673	12,760
Total Comprehensive Income	**31,994**	**-27,726**

LEE FRIEDLANDER b. 1934, USA **“Galax, Virginia”, 1962 from the series “The little Screens”**. Gelatin silver print 27,9 x 35,5 cm

05 STATEMENT OF CHANGES IN EQUITY

TRANQUILIDADE

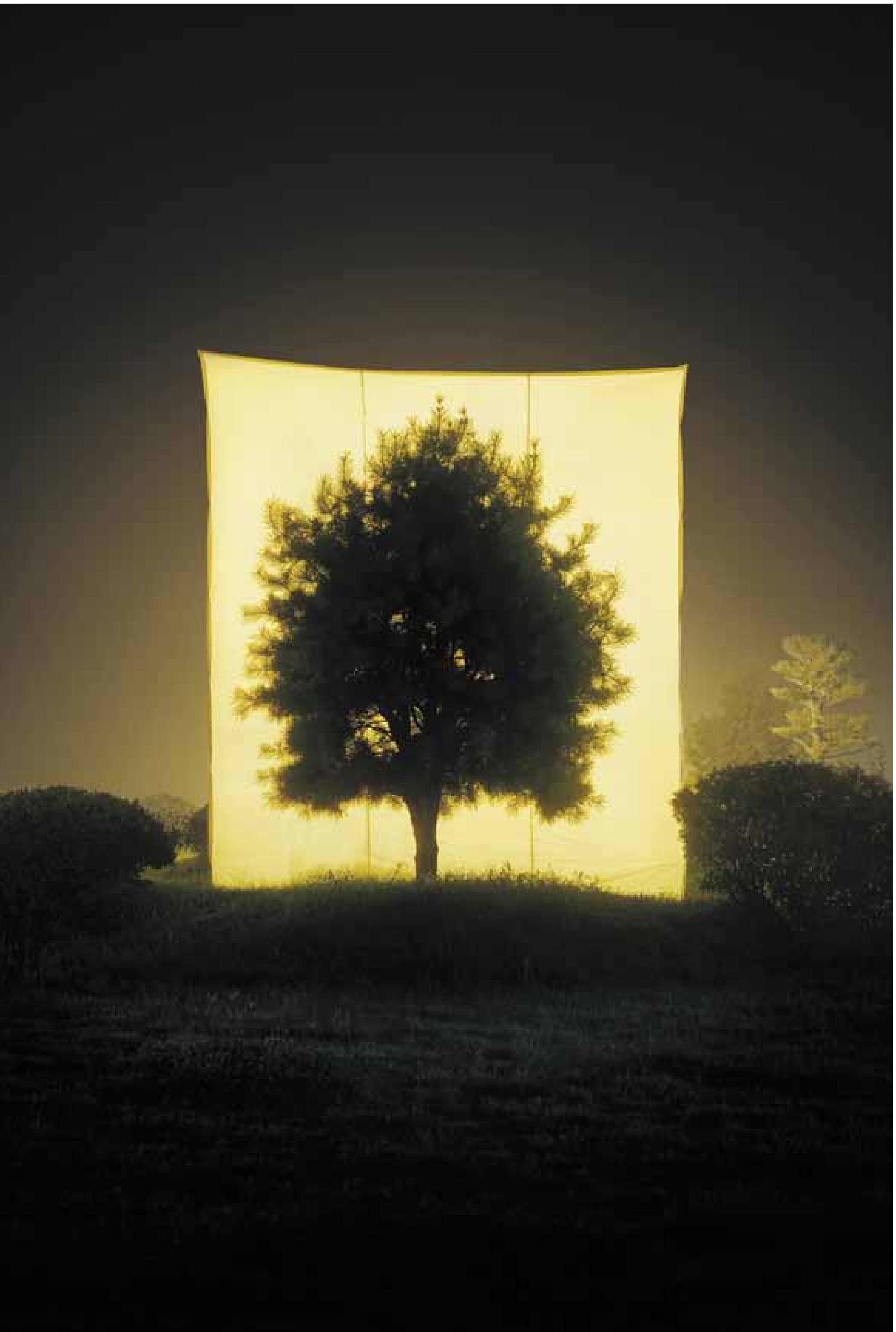
05 STATEMENT OF CHANGES IN EQUITY

STATEMENT OF CHANGES IN EQUITY AS AT DECEMBER 31, 2009 AND 2008

(thousand euros)

		Revaluation Reserves			Other Reserves				
	Equity Capital	For Adjustments to the Fair Value of Investments in Affiliates, Associates and Joint Ventures	For Adjustments to the Fair Value of Available-for-Sale Financial Assets	Deferred Tax Reserve	Legal Reserve	Other Reserves	Retained Earnings	Net Profit/ (Loss) for the Year	TOTAL
Balance as at January 1, 2008	**135,000**	**70,738**	**2,436**	**-18,416**	**36,771**	**928**	**15,872**	**22,842**	**266,171**
Net gains for adjustment to the fair value of affiliates, associates and joint ventures		-31,505							-31,505
Net gains for adjustment 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 of reserves for appropriation of profits					2,347		-2,347		-
Appropriation of profits/losses							-18,000		-18,000
Transfers between shareholders' equity headings not included in other lines							22,842	-22,842	-
Total changes in equity		**-31,505**	**-19,040**	**12,760**	**2,347**		**2,495**	**-22,842**	**-55,785**
Net profit for the period								10,059	10,059
Balance as at December 31, 2008	**135,000**	**39,233**	**-16,604**	**-5,656**	**39,118**	**928**	**18,367**	**10,059**	**220,445**
Net gains for adjustment to the fair value of affiliates, associates and joint ventures		20,482							20,482
Net gains for adjustment to the fair value of available-for sale financial assets			9,968						9,968
Adjustments for recognition of deferred taxes				7,673					-7,673
Increases of reserves for appropriation of profits					1,006			-1,006	
Appropriation of profits/losses									
Transfers between shareholders' equity headings not included in other lines					10,059		-10,059		
Total changes in equity		20,482	9,968	-7,673	1,006		9,053	-10,059	22,777
Net profit for the period							9,217		9,217
Balance at at December 31, 2009	**135,000**	**59,715**	**-6,636**	**-13,329**	**40,124**	**928**	**27,420**	**9,217**	**252,439**

MYOUNG HO LEE b. 1975, KOREAN **"Tree#11", 2005** Archival Ink-Jet Print 62,5 x 50 cm
Edition: Artist proof 1/3 © Myoung Ho Lee, Courtesy Yossi Milo Gallery, New York



06 CASH-FLOW STATEMENT

TRANQUILIDADE

06 CASH-FLOW STATEMENT

CASH-FLOW STATEMENT AS AT DECEMBER 31, 2009 AND 2008

(thousand euros)

	2009	2008
Cash flow from operating activities	**35,423**	**-7,536**
Net profit/(loss) for the year	9,217	10,059
Depreciation & amortisation charges for the year	7,972	8,786
Variation of technical provisions for direct insurance	-13,661	4,430
Variation of technical provisions for reinsurance ceded	-324	123
Variation of liabilities for investment contracts	-	-
Variation of other provisions	594	567
Variations of debtors for direct insurance, reinsurance and other operations	9,021	6,510
Variation of other assets & liabilities for taxes	9,113	-6,129
Variation of other assets & liabilities	19,938	-33,129
Variations of creditors for direct insurance, reinsurance and other operations	-6,447	1,247
Cash flow from investing activities	**-50,859**	**7,964**
Variation of investments	-41,550	12,096
Acquisitions of tangible & intangible assets	-9,491	-8,232
Disposals of tangible & intangible assets	182	1,655
Acquisition of real estate	-	-3,779
Disposal of land & buildings	-	6,224
Cash flow from financing activities	**-**	**-18,000**
Dividend distribution	-	-18,000
Equity capital subscription	-	-
Net variation of cash & cash equivalents	**-15,436**	**-17,572**
Cash & cash equivalents at the start of the period	23,586	41,158
Cash & cash equivalents at the end of the period	8,150	23,586

LUCIA KOCH b. 1966, BRASIL, **"Arquitetura de autor (Savoy), 2009"**. Photography – inkjet print on paper cotton 35 x 65 cm.
Edition: 1AP (10 + 1AP). © Lucia Koch

07 NOTES TO THE FINANCIAL STATEMENTS

TRANQUILIDADE

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2009 AND 2008

NOTE 1 - GENERAL INFORMATION

Companhia de Seguros Tranquilidade, SA, (hereinafter 'Tranquilidade' or 'Company') is the result of the transformation into a mainly state-owned sociedade anónima of the former state-owned company Tranquilidade Seguros, EP, which had been formed by the merger of Companhia de Seguros Tranquilidade, Companhia de Seguros A Nacional and Companhia de Seguros Garantia Funchalense.

Following the two stages of privatisation at the end of 1989 and of 1990, the Company is now mainly owned by the Espírito Santo Group. It should also be mentioned that the Company merged ESIA – Inter – Atlântico Companhia de Seguros, as from December 30, 2004.

The Company has its registered office and principal place of business at Av. da Liberdade, 242, Lisbon, its VAT number is 500 940 231 and it is registered at the Lisbon Registry of Companies. It carries on insurance and reinsurance business in Portugal in every Non-Life business line (with the exception of credit insurance), under the supervision of the ISP (Insurance Supervisory Authority), under authorisation nº 1037.

By volume of direct premiums, the technical lines of greater significance are Motor and Accidents & Health.

The Company currently operates through its Lisbon and Porto offices and through a branch in Spain. The distribution network, divided operationally into 24 commercial zones, is supported by a total of 348 physical points of sale geographically spread across the whole of mainland Portugal and the autonomous regions (Azores and Madeira). By type, the physical network comprises 43 Company shops, 712 franchised shops and 234 agents' shops bearing the Tranquilidade image, of which 38 are points of sale shared with Banco Espírito Santo branches.

These present notes have due regard for the order established by the Insurance Companies Accounting Plan, and it must be mentioned that numbers not shown are either not applicable for lack of figures or matters to be reported or are not relevant.

NOTE 2 - INFORMATION BY SEGMENTS

Tranquilidade does business in every Non-Life line for which it has been authorised by the ISP. Its policies and subscription rules are designed to obtain maximum benefit through segmentation of the price lists of the various products, be they for individuals or companies, using every available source of information to assess the quality of the physical, financial and moral risks.

The segments subject to reporting are the business and geographic segments, in which the products and solutions of greater relevance that the Company provides for its customers are as follows:

Workmen's Compensation	Fire & Other Damage	Motor
AT Domestic Staff	Tranquilidade Home	Cars
AT Own Account	Tranquilidade Home Prestige	Classic Cars
AT Third-party Account	MR Establishment	2-Wheeled Vehicles

MR - Multi-risk

The main headings of the financial statements as at December 31, 2009 & 2008, segmented by the main business lines, are as follows.

(thousand euros)

2009	Total Non-Life	Workmen's Compensation	Fire & Other Damage	Motor
Profit & Loss Headings				
Gross premiums written	314,811,707	56,258	59,401	131,270
Reinsurance premium ceded	-43,216	-525	-22,516	-1,600
Gross premiums earned	320,589	56,467	59,691	136,388
Investment results	19,684	5,789	1,806	10,191
Gross cost of claims	205,417	32,008	32,612	96,771
Gross operating costs	99,864	14,802	21,450	42,579
Technical result	14,538	15,541	-723	4,363
Balance Sheet Headings				
Assets allocated to representation of technical provisions	652,036	180,978	61,315	345,663
Technical provisions	625,572	173,633	58,826	331,634

(thousand euros)

2008	Total Non-Life	Workmen's Compensation	Fire & Other Damage	Motor
Profit & Loss Headings				
Gross premiums written	337,144	62,650	59,296	148,123
Reinsurance premium ceded	-41,698	-434	-22,057	-1,808
Gross premiums earned	349,940	63,127	59,292	159,584
Investment results	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
Technical result	7,119	4,884	-1,867	2,116
Balance Sheet Headings				
Assets allocated to representation of technical provisions	627,253	179,427	57,308	335,494
Technical provisions	639,233	182,854	58,402	341,901

The main headings of the financial statements as at December 31, 2009 & 2008, segmented by geographic areas, are as follows.

(thousand euros)

2009	Total	Portugal	Spain
Profit & Loss Headings			
Gross premiums written	314,812	314,117	695
Reinsurance premium ceded	-43,216	-43,165	-51
Gross premiums earned	320,589	319,879	710
Investment results	19,684	19,678	6
Gross cost of claims	205,417	205,096	321
Gross operating costs	99,864	99,456	408
Technical result	14,538	14,589	-51
Balance Sheet Headings			
Assets allocated to representation of technical provisions	652,036	651,669	367
Technical provisions	625,572	625,205	367

(thousand euros)

2008	Total	Portugal	Spain
Profit & Loss headings			
Gross premiums written	337,144	336,395	749
Reinsurance premium ceded	-41,698	-41,651	-47
Gross premiums earned	349,940	349,199	741
Investment results	25,534	25,527	7
Gross cost of claims	231,327	231,011	316
Gross operating costs	107,900	107,511	389
Technical result	7,119	7,109	10
Balance Sheet headings			
Assets allocated to representation of technical provisions	627,253	626,897	356
Technical provisions	639,233	638,877	356

NOTE 3 - BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING POLICIES

BASES OF PRESENTATION

Tranquilidade's financial statements now presented refer to the year ended December 31, 2009, and have been prepared in accordance with the Insurance Companies Accounting Plan ("PCES 07") issued by the ISP and approved by Regulatory Standard 4/2007-R of April 27, as subsequently amended by Standard 20/2007-R of December 31, and also in accordance with the rules governing the accounting of the operations of insurance companies, as established by the ISP.

This new Accounting Plan introduced the International Financial Reporting Standards (IFRS) in force as adopted within the European Union, with the exception of the measurement of liabilities resulting from insurance contracts, defined in IFRS 4 - Insurance Contracts. The IFRS include accounting standards issued by the International Accounting Standards Board ("IASB") and the interpretations issued by the International Financial Reporting Interpretation Committee ("IFRIC"), and by their antecedent entities.

In 2009, Tranquilidade adopted the IFRS and the mandatory-application interpretations for years as from January 1, 2009. These standards are detailed in Note 37. In accordance with the transitory provisions of these standards and interpretations, comparative figures are presented in respect of the new disclosures required.

Additionally, as described in Note 37, Tranquilidade has adopted, in the preparation of its financial statements as at December 31, 2009, the accounting standards issued by the IASB and the IFRIC interpretations of mandatory application as from January 1, 2009.

The accounting policies used by Tranquilidade in the preparation of the financial statements, described in this note, have been adapted accordingly. The new standards and interpretations adopted in 2009 impacted mainly on the presentation of the financial statements and on the disclosures, and comparative figures are presented in respect of the new disclosures required.

Recently-issued accounting standards and interpretations that have not yet come into force and that Tranquilidade has not yet applied in the preparation of its financial statements may also be consulted in Note 37.

The accounting policies described hereunder have been applied consistently for the periods presented in the financial statements.

The financial statements are presented in thousands of euros (€k), rounded to the nearest thousand, and have been prepared in accordance with the historic cost principle, with the exception of assets and liabilities carried at fair value, particularly derivative financial instruments, financial assets and liabilities at fair value through profit & loss, available-for-sale financial assets and real-estate held for income. Other financial assets and liabilities as well as non-financial assets and liabilities are carried at amortised cost or historic cost.

Preparation of the financial statements prepared in accordance with the new Insurance Companies Accounting Plan requires that the Company make judgements and estimates and use assumptions that affect the application of the accounting policies and the amounts of income, costs, assets and liabilities.

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

These financial statements were approved at a meeting of the Board of Directors held on February 23, 2010.

PRINCIPAL ACCOUNTING PRINCIPLES AND VALUATION CRITERIA ADOPTED

Investments in affiliates & associates

Subsidiaries

Companies over which the Company exercises control are classified as subsidiaries. This is normally presumed where the Company is empowered to exercise the majority of the voting rights.

There may also be control where the Company has direct or indirect powers to manage the financial and operational policy of a given enterprise so as to obtain benefits from its business, even though the equity that it holds may be less than 50%.

In keeping with IAS 39, the Company has opted to carry investments in subsidiaries at fair value.

Associates

All companies over which the Company has powers to exert significant influence over their financial and operational policies, though it does not exercise control over them, are classified as associates.

The company is normally presumed to exert significant influence when it is empowered to exercise more than 20% of the associate's voting rights. Even where voting rights are less than 20% the Company may exert significant influence through participation in the management of the associate or has one or more seats of the board of directors with executive powers.

In keeping with IAS 39, the Company has opted to carry investments in associates at fair value.

Financial assets

Classification

The Company classifies its financial assets at the start of each transaction, taking into account the underlying intention, in accordance with the following categories:

- Financial assets at fair value through profit & loss, which includes:
  - Held-for-trading financial assets, which are those acquired with the main objective of being traded in the short term;
  - Financial assets designated at the time of their initial recognition at fair value, with variations recognised in profit & loss, particularly when:
    - Such financial assets are managed, measured and analysed in-house on the basis of their fair value;
    - Such designation eliminates any inconsistency of recognition and measurement (accounting mismatch);
    - Such financial assets contain embedded derivatives.
- Available-for-sale financial assets, which includes
  - Non-derivative financial assets the intention of which is to be held for an indeterminate period;
  - Financial assets designated as available-for-sale at the time of their initial recognition;
  - Financial assets that do not fall within other categories.
- Loans and receivables, which includes sums receivable related with direct insurance operations, reinsurance ceded and transactions related with insurance contracts and other transaction.

Recognition, initial measurement and derecognition

Acquisitions and disposals of (i) financial assets at fair value through profit & loss; (ii) investments held to maturity; and (iii) available-for-sale financial assets are recognised on trade date, that is, on the date the Company undertakes to acquire or dispose of the asset.

Financial assets are initially recognised at their fair value plus trading costs, except when classified as financial assets at fair value though profit & loss, in which case these costs are recognised in profit & loss

These assets are derecognised where (i) the Company's contractual rights to receive their cash flows expire or (ii) the Company has transferred substantially the whole of the risks and benefits associated with holding them.

Subsequent measurement

Following initial recognition, financial assets at fair value through profit & loss are carried at their fair value, and variations are recognised in profit & loss

Available-for-sale financial assets are likewise carried at fair value, though any variations are recognised under reserves, until such time as the investments are derecognised, that is, an impairment loss is recognised, when the accumulated amount of the potential gains and losses is recorded under reserves and transferred to the profit & loss account.

Currency fluctuations associated with these investments are also recognised under reserves, in the case of equities, and under profit or loss in the case of debt instruments. Interest, calculated at the effective interest rate, and dividends are recognised in the profit & loss account.

The fair value of quoted financial assets is their current bid price. In the absence of quotation, the Company estimates the fair value using (i) valuation methodologies such as the use of prices of recent similar transaction at arm's length, discounted cash-flow techniques and customised options valuation models designed to reflect the specifics and circumstances of the instrument, and (ii) valuation assumptions based on market information.

Loans and receivables are subsequently carried at amortised cost on the basis of the effective interest-rate method.

Financial instruments for which it is not possible to measure fair value reliably are carried at acquisition cost.

Transfers between categories

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

This alteration came to allow an enterprise to transfer financial assets at fair value through profit & loss to the available-for-sale financial assets portfolio, to Loans and receivables or to financial assets held to maturity, provided such financial assets meet 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 group of financial assets shows signs of impairment. For those financial assets showing signs of impairment, the respective recoverable value is determined and impairment losses are recorded with a contra-entry in profit & loss.

A financial asset, or group of financial assets, is impaired where there is objective evidence that one or more events occurred after their initial recognition, such as (i) for securities representing capital, a continuous devaluation or one of significant value of its quotation, and (ii) for debt securities, where this event (or events) has an impact on the estimated value of the future cash flows of the financial asset, or group of financial assets, that can be reasonably estimated.

In accordance with the Company's policy, a devaluation of the fair value of a capital instrument of 30% is considered a significant devaluation and the period of 1 year is presumed an ongoing devaluation of the fair value below the acquisition cost.

Where there is evidence of impairment of available-for-sale financial assets, the potential loss accumulated under reserves, which corresponds to the difference between the acquisition cost and the present fair value, less any impairment loss on the asset previously recognised in profit and loss, is transferred to profit and loss.

If in a subsequent period the amount of the impairment loss falls, the impairment loss previously recognised is reversed and offset under profit and loss for the year until the acquisition cost is re-established, provided the increase is objectively related with an event occurring after recognition of the impairment loss, except with regard to equities and other capital instruments, in which case the reversal of the impairment is recognised in reserves.

Derivative financial instruments

Derivative financial instruments are recognised at fair value on their trade date. Subsequently, the fair value of derivative financial instruments is revalued on a regular basis, and the resultant gains or losses are recorded directly in profit & loss for the period.

The fair value of derivative instruments is their market value, where available, or is determined on the basis of valuation techniques, including discounted cash-flow models and options valuation models, as appropriate.

Embedded derivatives

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

Financial liabilities

An instrument is classified as a financial liability where there is a contractual obligation for it to be settled in cash or another financial assets irrespective of its legal form. Non-derivative financial liabilities include borrowings, creditors for direct insurance and reinsurance operations and other liabilities. Financial liabilities are recorded (i) initially at their fair value less transaction costs incurred, and (ii) subsequently at amortised cost, based on the effective rate method.

Transactions in foreign currency

Transactions in foreign currency are translated at the exchange rates ruling on transaction date. Monetary assets and liabilities expressed in foreign currency are translated into euros at the exchange rate ruling on the balance sheet date. The resultant currency translation differences are recognised in profit & loss except where classifies as cash-flow hedges or net investment hedges, in which case the currency translation differences are recognised under reserves.

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

Tangible assets

The Company's other tangible assets are carried at cost less accumulated depreciation and impairment losses.

Subsequent costs incurred with the tangible assets are recognised only if it is probable that they will generate future economic benefit for the Company. All maintenance and repair costs are recognised as a cost on an accrual accounting basis.

Land is not written down. Depreciation of tangible assets is calculated using the straight-line method at the following rates which reflect the expected useful lives of the assets:

Type of Assets	Number of years
Premises	36 to 49
Hardware	3 to 4
Furniture & materials	6 to 10
Fixtures & fittings	10
Machines & tools	4 to 8
Transport equipment	4
Other equipment	3 to 8

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

Where there is an indication that the asset could be impaired, IAS 36 requires that its recoverable value be estimated and that an impairment loss be recognised whenever the net value of an asset exceeds its recoverable value. Impairment losses are recognised in the income statement.

The realisable value is determined as the higher of its net selling price and its value in use, the latter calculated on the basis of the present value of the estimated future cash flows that are expected to be obtained from ongoing use of the asset and from its sale at the end of its useful life.

Investment properties

The Company classifies as investment properties real estate held for rental, for capital gains or both.

Investment properties are initially recognised at acquisition cost, including directly-related transaction costs, and subsequently at fair value. Variations of fair value determined on each balance-sheet date are recognised in profit & loss. Investment properties are not depreciated.

Subsequent related expenditure is capitalised where it is probable that the Company will incur future economic benefits over and above the performance level initially estimated.

Intangible assets

Costs incurred with the acquisition of software are capitalised, as are the additional expenses borne by the Company required to implement it. These costs are written down using the straight-line method over the expected useful lives of these assets (3 to 15 years).

Costs directly related with the development of software by the Company, which is expected to generate future economic benefits over a period of more than one year are recognised and carried as intangible assets. These costs are written down on a straight-line basis over the expected useful lives of these assets, which does not, in the main, exceed 5 years.

All other expenses related with the information technology services are recognised as costs as and when incurred.

Leases

The Company classifies lease transactions as finance leases or operational leases in the light of their substance and not of their legal form, complying with the criteria established in IAS 17 – Leases

Transactions in which the risks and benefits inherent in the ownership of an asset are transferred to the lessee are classified as finance leases. All other lease transactions are classified as operational leases.

In operational leases, payments made by the Company in the light of operational leases are recorded as costs during the periods to which they refer.

Finance lease contracts are recorded on their start date under assets and liabilities at the cost of acquisition of the leased asset, which is equal to the present sum of outstanding lease rents. The rents comprise (i) the financial charge debited to profit and loss and (ii) the financial amortisation of capital, which is deducted from liabilities.

The financial charges are recognised as cost over the life of the lease so as to produce a constant periodic interest rate on the remaining balance of the liability in each period.

Cash & cash equivalents

Cash & cash equivalents includes amounts carried in the balance sheet maturing at less than three months of the balance sheet date, and includes cash and balances at credit institutions.

Reinsurance

Reinsurance contracts are reviewed to determine whether the respective contractual provisions involve the transfer of a significant insurance risk. Reinsurance contracts that do not involve transfer of significant insurance risk are recorded using the deposit accounting method and are carried under loans as financial assets or liabilities related with reinsurance business. Amounts received or paid under these contracts are accounted as deposits using the effective interest-rate method.

In the course of its business Tranquilidade accepts and cedes business. Receivables or payables related with reinsurance business include balances receivable from or payable to insurance and reinsurance companies in keeping with the provisions defined in advance in the respective reinsurance treaties.

The accounting principles applicable to liabilities related with reinsurance accepted within the scope of insurance contracts that involve significant insurance risks are treated in a manner identical to that of direct insurance contracts.

Employee benefits

Pensions - Defined-benefit plan

The Company assumes liability for the payment of old-age and disability pensions to its employees under the terms established in the Insurance Employees Collective Bargaining Agreement (CBA).

The benefits provided for in the pension plans are those covered by the Pension Plan under the Insurance Business Collective Bargaining Agreement (CBA).

The Company's retirement-pension liabilities (defined-benefit plan) are calculated annually, on the accounts-closing date for each plan individually.

The costs of current services in conjunction with the expected return on the plan's assets less the unwinding of the plan's assets are recorded with a contra-entry under operating costs.

The Company's pension-fund liabilities are calculated on the basis of the Projected Unit Credit Method individually for each plan, through an estimate of the value of future benefits that each employee is to receive in exchange for his service during the current and past periods. The benefit is discounted in order to determine its present value and the fair value of any assets the plan may have is deducted. The discount rate used in this calculation is determined on the basis of the markets rates associated with bonds of companies having a good rating, denominated in the currency in which the benefits are to be paid and having a maturity similar to the end-date of the plan's obligations.

In keeping with the corridor method the deferred actuarial gains and losses accumulated at the start of the year that exceed 10% of the greater of total liabilities and of the value of the fund, also referred to the start of the year, are imputed to profit & loss over a period that cannot exceed the average remaining life in service of the workers covered by the plan.

The costs of early-retirements, as well as the corresponding actuarial gains and losses, are recognised in profit & loss when the early retirement is approved or announced.

The plan is financed each year through the Company's contributions to cover the projected pension liabilities, including complementary benefits as appropriate. The minimum financing of the liabilities is 100% for pensions under payment and 95% for the past services of personnel still in service.

In each reporting year the Company assesses for each individual plan the recoverability of any excess of the fund, based on the prospect of future contributions that may be required.

Health benefits

Additionally, the Company granted a medical-assistance benefit to its employees in service and to pre-retirees up to retirement age. The calculation and recording of the Company's obligations with health benefits attributable to pre-retirees up to retirement age is performed in a manner similar to that of pension liabilities.

Bonus

Employees' variable remunerations are recorded in profit & loss for the year to which they refer.

Liability for holiday pay and holiday bonus

Included under accruals and deferrals under liabilities, it corresponds to about 2 months of remuneration and respective charges, based on the figures for the year in question, and it is intended to recognise legal liabilities towards employees at the end of each year for services provided till then, to be settled at a later date.

Income tax

Income taxes include the current tax and the deferred tax. Income taxes are recognised in profit & loss except where they are directly related with items recognised directly in equity, in which case they are also recorded with a contra-entry under equity.

Deferred taxes recognised under equity stemming from the revaluation of available-for-sale financial assets are subsequently recognised in profit & loss at the time the gains & losses that gave rise to them are recognised.

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

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

Deferred tax liabilities are recognised for all temporary differences.

Deferred tax assets are recognised only to the extent that it can be expected that there will be taxable profits in the future able to absorb these deductible temporary differences (including tax losses brought forward).

Provisions

Provisions are recognised where (i) the Company has a present obligation, legal or constructive, (ii) it is probable that its payment will come to be demanded and (ii) a reliable estimate can be made of the value of that obligation.

Recognition of interest

Results in respect of interest on available-for-sale financial assets and financial assets at fair value though profit & loss are recorded under specific headings of gains and losses.

Calculation of the amortised cost is performed using the effective-rate method, its impact recorded under returns on investments.

The effective interest rate is the rate that discounts future payments of receipts estimated over the expected life of the financial instrument.

In calculating the effective interest rate future cash flows are estimated considering all the contract terms of the financial instrument (e.g., put options), though possible future credit losses are not considered. The calculation includes commissions constituting an integral part of the effective interest rate, transaction costs and all premiums and discounts related with the transaction.

Dividends received

Returns on capital instruments (dividends) are recognised as and when received.

Earnings per share

Basic earnings per share are calculated dividing the Company's net profit by the weighted average number of ordinary shares issued.

Offsetting financial instruments

Financial assets and liabilities are carried in the balance sheet at net value where there is a legal possibility of offsetting the amounts already recognised and there is the intention of settling them at their net value or of realising the asset and settling the liability simultaneously.

Adjustments of receipts pending collection and of doubtful debt

The amounts of these adjustments are calculated on the basis of the value of premiums pending collection and of the doubtful debt, in keeping with the criteria established by the ISP.

Reporting by segments

A business segment is a set of assets and underlying operations subject to specific risks and income different from those of other segments.

A geographic segment is a set of specific assets and income located in a specific economic environment that is subject to risks and income that differ from those of other segments operating in other economic environments.

MAIN ESTIMATES AND JUDGEMENTS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

The IFRS establish a series of accounting procedures and require the Board of Directors to make the necessary judgements and estimates to decide the most appropriate accounting procedures.

The main accounting estimates and judgements used by the Company in the application of the accounting principles are detailed as follows, with a view to improving the understanding of how their application affects the Company's reported results 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 be different had a different treatment been chosen.

The Board of Directors considers that the choices made are appropriate and the consolidated financial statements adequately present the Company's financial situation and the results of its operations in all materially relevant aspects.

The alternatives analysed hereunder are presented only to help readers 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 determines that there is impairment of its available-for-sale assets where there is an ongoing or significant devaluation of their fair value. Determination of an ongoing or significant devaluation requires judgement.

In accordance with the Company's policy, a devaluation of the fair value of a capital instrument of 30% is considered a significant devaluation and the period of 1 year is presumed an ongoing devaluation of the fair value below the acquisition cost, for capital instruments and events that alter the estimated future cash flows of debt securities.

Additionally, valuations are based on market prices or measurement models that always require the use of certain assumptions or judgements in order to establish the fair-value estimates.

Alternative methodologies and the use of different assumptions and estimates could lead to a different level of impairment losses recognised, with a consequent impact on the Company's results.

Fair value of derivative financial instruments

Fair value is based on market quotations, where available, or, in the absence of quotations, it is determined on the basis of prices of recent similar transactions realised under market conditions, or on the basis of measurement techniques based on discounted future cash flows taking into account market conditions, the time effect, the yield curve and volatility factors. These methodologies may require the use of assumptions or judgements in estimating fair value.

Consequently, the use of different methodologies or judgements in applying a given model could give rises to financial results other than those reported.

Income tax

Determination of income tax requires certain interpretations and estimates. Other interpretations and estimates could result in a different amount of income taxes, current and deferred, recognised during the year.

In keeping with current tax legislation the Tax Authorities are entitled to review the calculation of the taxable income made by the Company during a period of four years.

It is therefore possible that there will be corrections to the taxable income, mainly as a result of different interpretations of the tax law. However, the Company's Board of Directors is of the conviction that there will be no significant corrections to the income taxes recorded in the consolidated financial statements

Pensions & other employee benefits

Determination of pension liabilities requires the uses of assumptions and estimates, including the use of actuarial projections, estimated returns on investments and other factors that can impact on the costs and liabilities of the pension plan. Alterations to these assumptions could have a significant impact on the figures determined.

Technical provisions

Technical provisions including provisions for claims correspond to future liabilities stemming from the contracts

Technical provisions in respect of Accident and Health products have been determined on the basis of various assumptions, namely, mortality, longevity and interest rate, applicable to each cover, including a risk and uncertainty margin.

The assumptions used were based on the past experience of the Company and of the market. These assumptions may be reviewed in the event that future experience confirms their inadequacy.

Technical provisions arising from insurance contracts include (i) provision for profit sharing, (ii) provision for unearned premiums, (iii) provision for risks in progress, (iv) liabilities adequacy test and (v) provisions for reported and unreported claims, including their settlement costs.

Where there are claims caused or against policyholders, any sum paid or is expected to be paid by the Company is recognised as a loss in profit & loss.

The Company establishes provisions for payment of claims arising from the insurance contracts. In determining technical provisions arising from insurance contracts, the Company periodically evaluates its liabilities using actuarial methods and taking into account the respective reinsurance cover.

The provisions are periodically reviewed by qualified actuaries. The Company records provisions for claims in non-life business to cover the estimated final cist of reported and unreported claims on each balance-sheet date.

The provisions for claims do not represent an exact calculation of the amount of the liabilities, rather an estimate resulting from application of actuarial valuation techniques. These estimated provisions correspond to the Company's expectation of the ultimate cost of settling claims based on an evaluation of the facts and circumstances known at the time, on a review of the historic settlement patterns, on an estimate of trends in terms of claims frequency, on theories on liability and other factors.

Variables in the determination of the estimate of the provisions may be affected by internal and/or external events, especially alterations to claims management processes, inflation and legal alterations. Many of these events are not directly quantifiable, particularly on a prospective basis.

Additionally, there may be a significant time difference between the moment of occurrence of the insured event (claim) and the moment when this event is reported to the company. The provisions are regularly reviewed through an ongoing process as an when additional information is received and the liabilities come to be liquidated.

NOTE 4 - NATURE AND EXTENT OF THE HEADINGS AND OF THE RISKS RESULTING FROM INSURANCE CONTRACTS AND REINSURANCE ASSETS

PROVISION OF INFORMATION ALLOWING THE IDENTIFICATION AND EXPLANATION OF THE AMOUNTS INDICATED IN THE FINANCIAL STATEMENTS RESULTING FROM INSURANCE CONTRACTS

Accounting principals adopted in respect of insurance contracts

The Company issues contracts that include insured risk. There is an insurance contract when one of the parties accepts significant risk from the other (policyholder) and agrees to compensate it if a specific, uncertain future event affects it adversely.

Measurement of insurance contracts is undertaken in accordance with the following principles:

Recognition of costs & income

Costs and income are recorded during the year to which they refer, irrespective of the moment of their payment or receipt, in accordance with the accrual accounting principle.

Premiums

Gross direct insurance, accepted reinsurance and ceded reinsurance premiums written are recorded respectively as income and costs during the year to which they refer, regardless of the moment of their receipt or payment.

Quantitative analysis of direct insurance and ceded reinsurance premiums is addressed in Note 14.

Provisions for unearned premiums

The provision for Unearned Premiums is based on the evaluation of premiums written before the end of the year that are in force after that date.

In accordance with ISP Standards 19/94-R and 3/96-R, the Company has calculated this provision contract by contract, receipt by receipt, though application of the pro-rata temporis method, based on gross premiums written less the respective acquisition costs, in respect of contracts in force.

Acquisition costs

Acquisition costs directly or indirectly related with the sale of insurance contracts are capitalised and deferred over the life of the contracts. Deferred acquisition costs are subject to recoverability tests at the time of issue of the contracts and are subject to impairment tests on the balance-sheet date.

Deferred acquisition costs are written down over the period during which the premiums associated with these contracts are acquired. In accordance with ISP Standards 19/94-R and 3/96-R, the deferral of these costs is limited to 20% of the provision for unearned premiums.

Provisions for claims

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

To determine this provision an analysis is performed of claims in progress at the end of each year, with a consequent estimate of the liabilities existing as of that date. In the Workmen's Compensation, in that part in respect of pensions, and the Motor lines, the average cost method is applied. The provision for claims management costs is also calculated using the average cost method.

With the exception of the Motor, Health and Third-Party Liability lines, for IBNR a generic rate of 6% is applied to the amount of claims for the year in respect of reported claims, so as to cover liability for claims reported after the close of the year. For the Health, Third-Party Liability and Motor lines actuarial estimates have been made, based on triangulations of amounts paid, taking into account the specific characteristics of each line.

In Workmen's Compensation a Mathematical Provisions is also set aside for claims occurred up to December 31, 2009, that involve payment of pensions already approved by the Labour Court or having reached conciliation agreement, and also the estimated liabilities for pensions claims recorded up to December 31, 2009, that are pending final agreement or sentence.

Mathematical Provisions relating to claims occurred, involving payment of life-long pensions in respect of Workmen's Compensation are calculated using actuarial assumptions under recognised actuarial methods and current labour legislation.

Additionally, there is also a Mathematical provision for pension liabilities for claims occurred relating to the potential permanent disability of the injured undergoing treatment as at December 31, 2009, or for claims occurred by not yet reported.

The provision for claims is not discounted, except for life-long pensions in respect of Workmen's Compensation. The Company therefore assesses the adequacy of the liabilities on the basis of the projection of future cash flows discounted at the risk-free market interest rate. Any shortfall is recorded in the Company's profit & loss when determined.

Mathematical provision

The aim of the mathematical provisions is to record the present value of the Company's future liabilities in respect of insurance contracts issued. They are calculated on the basis of recognised actuarial methods under applicable legislation.

The TV 73/77 mortality table is applied to Non-Redeemable Pensions using an interest rate of 4.4% and management charges of 1.5%, and the TD 88/90 mortality table for Redeemable Pensions using an interest rate of 5.2% and management charges of 0%.

The rule also establishes that the rate to be used must be based on the predictable future return of the underlying assets after adequate prudential deduction. On this basis the Company determined that the risk-free interest rate for the maturity of the liabilities was adequate.
To test the adequacy of the liabilities, the mathematical provisions of pensions not mandatorily redeemable (including future payments to the FAT) are calculated on the basis of the TV 73/77 mortality table with the interest rate of Portuguese bonds maturing at 15 years (4.47% as at 31/12/2009) and management charges of 1.5%.

At the end of 2009, the Company altered the technical bases of Workmen's Compensation under Standard 15/2000 issued by the ISP on November 23. In accordance with this standard, the mathematical provisions for Workmen's Compensation must be calculated with a prudent technical rate, taking into account the duration of the liabilities and the nature of the risks, the mortality table and the other assumptions to be adequate and prudent.

Compared to 2008, the mortality table was altered, for Non-Redeemable Pensions, as was the interest rate and the management charges, the impact of these alterations involving an increase of €3 million.

Provision for risks in progress

The provision for risks in progress corresponds to the estimated amount to cover probable indemnities and costs to be borne following the year-end in excess of the amount of unearned premiums, of enforceable premiums in respect of contracts in force and of those premiums to be renewed in January of the following year.

As stipulated by the ISP, the amount of the Provision for Risks in Progress to be set aside must be equal to the product of the sum of gross premiums written imputable to a future year or years (unearned premiums) and of premiums enforceable not yet processed in respect of contracts in force, by a ration based on the sum of the claims ratios, expenses and ceding less the investments ration.

Provision for claims deviations

The provision for claims deviation is intended to meet an exceptionally high claims rate in those insurance lines that, for their nature, are expected to involve greater oscillations. It is set aside for Fidelity Insurance, Atomic Risk and Seismic Phenomena Risk.

For Fidelity Insurance and Atomic Risk this provision is set aside when the technical result of these lines is positive. This provision is calculated on the basis of specific rates established by the ISP applied to the technical result.

For the Seismic Phenomena Risk it is calculated through application of a risk factor defined by the ISP for each seismic zone to the capital retained by the Company.

Provision for profit-sharing

The provision for profit sharing corresponds to the amounts attributed to the insured of the beneficiaries of the contracts, in the form of profit-sharing not yet distributed.

Provisions for reinsurance ceded

Provisions for reinsurance ceded are determined by application of the criteria described above for direct insurance. Depending on whether the reinsurance stems from direct insurance or reinsurance accepted, the Provision for Claims is calculated in accordance with the rules in force.

Variations of direct insurance and reinsurance technical provisions

The breakdown of the provision for direct insurance and reinsurance accepted unearned premiums (PPNA) reflected in liabilities net of deferred acquisition costs (CAD) is as follows:

(thousand euros)

Balances	2009			2008		
Businesses/ Groups of Businesses	PPNA Gross	CAD	PPNA Net	PPNA Gross	CAD	PPNA Net
Accidents & Health	12,517	2,403	10,114	12,243	2,384	9,859
Fire & Other Damage	24,579	4,883	19,696	24,869	4,923	19,946
Motor	53,368	10,554	42,814	58,486	11,697	46,789
Marine, Air & Transport	1,816	346	1,470	2,232	432	1,800
General Third-party Liability	3,155	629	2,526	3,147	625	2,522
Credit & Fidelity Insurance	52	10	42	62	12	50
Legal Protection	9	1	8	10	2	8
Assistance	3,635	676	2,959	3,927	785	3,142
Sundry	527	103	424	459	90	369
Total	**99,658**	**19,605**	**80,053**	**105,435**	**20,950**	**84,485**

The variation of the provision for direct insurance and reinsurance accepted unearned premiums (PPNA) is reflected in the profit & loss account at its gross value in the Premiums written group and the amount of deferred acquisition costs (CAD) in the Operating costs & expenses group, broken down as follows:

(thousand euros)

Gains & Losses	2009			2008		
Businesses/ Groups of Businesses	PPNA Gross	CAD	PPNA Net	PPNA Gross	CAD	PPNA Net
Accidents & Health	274	19	255	-192	-11	-181
Fire & Other Damage	-290	-40	-250	4	-13	17
Motor	-5,118	-1,143	-3,975	-11,462	-2,292	-9,170
Marine, Air & Transport	-416	-86	-330	-142	-33	-109
General Third-party Liability	8	4	4	-184	-25	-159
Credit & Fidelity Insurance	-10	-2	-8	-63	-13	-50
Legal Protection	-1	-1	-	-2	-	-2
Assistance	-292	-109	-183	-815	-131	-684
Sundry	68	13	55	60	10	50
Total	**-5,777**	**-1,345**	**-4,432**	**-12,796**	**-2,508**	**-10,288**

The breakdown of provisions for unearned reinsurance ceded premiums reflected under assets and the respective annual variation in the profit & loss account is as follows:

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change of Gains & Losses	
	2009	2008	2009	2008
Accidents & Health	209	184	25	29
Fire & Other Damage	6,930	6,547	383	241
Motor	-	-	-	-
Marine, Air & Transport	846	1,207	-361	-219
General Third-party Liability	308	320	-12	44
Credit & Fidelity Insurance	25	29	4	-60
Legal Protection	-	-	-	-
Assistance	4,637	4,229	408	-532
Sundry	439	370	69	90
Total	**13,394**	**12,886**	**508**	**-407**

The breakdown of provisions for direct insurance and reinsurance claims reflected under liabilities and the respective annual variation in the profit & loss account is as follows:

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change of Gains & Losses	
	2009	2008	2009	2008
Workmen's Compensation	168,979	177,286	-8,031	-2,210
Personal Accidents & Health	14,104	12,329	1,718	-570
Fire & Other Damage	33,790	32,393	1,346	4,600
Motor	274,845	281,780	-7,832	203
Marine, Air & Transport	7,405	7,664	-226	901
General Third-party Liability	19,297	17,152	2,133	-586
Credit & Fidelity Insurance	1,077	1,012	84	-375
Legal Protection	148	154	-5	75
Assistance	-	-	-	-
Sundry	375	494	-120	-177
Total	**520,020**	**530,264**	**-10,933**	**1,861**

The balance of the provision for Workmen's Compensation claims includes the sum of €124,009k (2008: €129,591k) in respect of the mathematical provision for Workmen's Compensation. This balance of the mathematical provision includes the result obtained through the liabilities adequacy test which, in 2009, was zero (2008: €7,376k) and the update of the contributions to the Works Accidents Fund (FAT) in the sum of €6,887k (2008: €6,995k).

The balance of the provision for claims includes an estimated provision in the sum of €29,834k (2008: €24,900k) in respect of claims prior to December 31, 2009, not yet reported (IBNR). It also includes an estimate in the sum of €8,918k (2008: €8,208k) for management charges in respect of the settlement of reported claims pending.

The evolution of the provisions for claims in respect of previous years and their readjustments is as follows:

(thousand euros)

Businesses/ Groups of Businesses	Provision for Claims as at 31/12/2008 (1)	Claims* Paid in 2009 (2)	Provision for Claims as at 31/12/2009 (3)	Readjustments (3) + (2) - (1)
Accidents & Health	189,615	30,713	144,222	-14,680
Fire & Other Damage	32,393	18,749	12,781	-863
Motor			-	-
- Third-party Liability	266,560	46,950	199,447	-20,163
- Other Covers	15,220	7,168	6,535	-1,517
Marine, Air & Transport	7,664	2,493	4,424	-747
General Third-party Liability	17,152	1,586	16,729	1,163
Credit & Fidelity Insurance	1,012	131	1,063	182
Legal Protection	154	26	130	2
Assistance	-	-	-	-
Sundry	494	283	26	-185
Total	**530,264**	**108,099**	**385,357**	**-36,808**

(*) Claims in year 2008 & earlier

In the Accidents and Health lines group (Workmen's Compensation in particular), and also in the Motor line, the readjustments are mainly due to a process of re-evaluation of the provisions for claims to bring them into line with the amounts paid in 2009 and those expected in the future. The other readjustments stem from routine claims management and are not significant in the light of the overall amount of the provision set aside for claims.

In the Accidents and Health lines group , the adjustments are also due to the Workmen's Compensation line and stem from the fact that the table does not consider the financial income allocated to the Mathematical Provisions.

The breakdown of provisions for reinsurance ceded claims reflected under assets and the respective annual variation in the profit & loss account is as follows:

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change of Gains & Losses	
	2009	2008	2009	2008
Workmen's Compensation	28	31	-3	4
Personal Accidents & Health	188	524	-336	128
Fire & Other Damage	12,081	10,940	1,141	3,487
Motor	10,065	11,533	-1,468	-2,927
Marine, Air & Transport	3,602	4,489	-887	950
General Third-party Liability	8,518	7,039	1,479	-733
Credit & Fidelity Insurance	19	19	-	-22
Legal Protection	-	-	-	-
Assistance	-	-	-	-
Sundry	330	440	-110	-84
Total	**34,831**	**35,015**	**-184**	**803**

The balance of the provision for reinsurance ceded claims includes an estimated provision in the sum of €924k (2008: €1,277k) in respect of claims prior to December 31, 2009, not yet reported (IBNR).

The breakdown of costs of claims in 2009 is as follows:

(thousand euros)

Businesses/ Groups of Businesses	Amounts Paid - Instalments	Amounts Paid - Claims Management Costs Imputed	Variation of Provision for Claims	Cost of Claims
	(1)	(2)	(3)	(4) = (1) + (2) + (3)
Accidents & Health	66,268	3,733	-6,312	63,689
Fire & Other Damage	30,089	1,178	776	32,043
Motor	-	-	-	
- Third-Party Liability	69,508	5,172	-17,864	56,816
- Other Covers	24,498	2,018	8,958	35,474
Marine, Air & Transport	7,313	139	-229	7,223
General Third-party Liability	2,142	383	2,130	4,655
Credit & Fidelity Insurance	135	3	84	222
Legal protection	16	25	-5	36
Assistance	-	-	-	-
Sundry	321	3	-120	204
Total	**200,290**	**12,654**	**-12,582**	**200,362**
Reinsurance Accepted	3,406	-	1,649	5,055
Grand Total	**203,696**	**12,654**	**-10,933**	**205,417**

The breakdown of costs of claims in 2008 is as follows:

(thousand euros)

Businesses/ Groups of Businesses	Amounts Paid - Instalments	Amounts Paid - Claims Management Costs Imputed	Variation of Provision for Claims	Cost of Claims
	(1)	(2)	(3)	(4) = (1) + (2) + (3)
Accidents & Health	67,786	4,367	-2,780	69,373
Fire & Other Damage	31,998	1,134	4,602	37,734
Motor		-	-	-
- Third-Party Liability	81,292	5,737	11,500	98,529
- Other Covers	26,463	2,076	-12,683	15,856
Marine, Air & Transport	3,894	193	909	4,996
General Third-party Liability	2,514	305	-494	2,325
Credit & Fidelity Insurance	326	3	-374	-45
Legal Protection	35	22	74	131
Assistance	-	-	-	-
Sundry	927	4	-176	755
Total	**215,235**	**13,841**	**578**	**229,654**
Reinsurance Accepted	390	-	1,283	1,673
Grand Total	**215,625**	**13,841**	**1,861**	**231,327**

The breakdown of the provision for profit sharing reflected under liabilities assets and the respective annual variation in the profit & loss account is as follows:

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change of Gains & Losses	
	2009	2008	2009	2008
Accidents & Health	1,080	810	270	270
Fire & Other Damage				
Motor				
Marine, Air & Transport				
General Third-party Liability				
Credit & Fidelity Insurance				
Legal Protection				
Assistance				
Sundry				
Total	**1,080**	**810**	**270**	**270**

The breakdown of the provision for claims-rate deviation reflected under liabilities and the respective annual variation in the profit & loss account is as follows:

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change of Gains & Losses	
	2009	2008	2009	2008
Accidents & Health	-	-	-	-
Fire & Other Damage	4,202	3,739	463	432
Motor	-	-	-	-
Marine, Air & Transport	-	-	-	-
General Third-party Liability	10	18	-8	-46
Credit & Fidelity Insurance	394	394	-	50
Legal Protection	-	-	-	-
Assistance	-	-	-	-
Sundry	48	42	6	4
Total	**4,654**	**4,193**	**461**	**440**

The breakdown of the provision for risks in progress reflected under liabilities assets and the respective annual variation in the profit & loss account is as follows:

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change of Gains & Losses	
	2009	2008	2009	2008
Accidents & Health	3,703	3,517	186	1,282
Fire & Other Damage	1,138	2,325	-1,187	1,491
Motor	13,975	13,332	643	9,422
Marine, Air & Transport	12	6	6	1
General Third-party Liability	-	-	-	-
Credit & Fidelity Insurance	-	-	-	-19
Legal Protection	2	1	1	-
Assistance	728	242	486	15
Sundry	207	58	149	39
Total	**19,765**	**19,481**	**284**	**12,231**

The amounts of Other technical provisions net of reinsurance expressed in the profit & loss account corresponds to the sum of the variation expressed hereabove in the provision for direct insurance claims rate deviations and the provision for direct insurance risks in progress tables.

NATURE AND EXTENT OF RISKS SPECIFIC TO INSURANCE

The specific Risk of insurance corresponds to the risk inherent in marketing insurance contracts, in product design and the respective pricing, in the subscription process, in the provisions set aside for liabilities and in the management of claims and reinsurance. In Non-Life insurance the risk can be divided into Premiums Risk, Reserves Risk and Catastrophe Risk.

The processes of subscription, setting aside provisions and reinsurance are duly documented in the report on risk policy insofar as the main activities, risks and controls are concerned.

Succinctly, the more relevant control mechanisms are:

- Delegation of Competences formally defined for the various processes;
- Segregation of functions between the areas that undertake risk analysis, that draw up price lists and issue technical opinions, and that issue the policies;
- Limited access to the various applications in keeping with the user's profile;
- Document scanning in the issue processes and in claims management;
- Procedures involving case-by-case checks, exceptions reports and audits;
- Recruiting and training policy suited to the responsibilities and technical complexity of the various functions.

The level of provisions is monitored monthly, with a prime focus on the provisions for claims, which are subject to regular analysis as to their sufficiency. Valuation models involving stochastic models have also been implemented.

Any adjustments resulting from alterations to the provisions estimates are reflected under current operating profit & loss. However, owing to the fact that setting aside provisions for clams is of necessity an uncertain process, there can be no guarantee that the actual losses will not be greater than estimated, this risk being covered by the supplementary solvency capital.

The evolution of the provision for direct insurance claims with management costs, gross of reinsurance but net of reimbursements, excluding the mathematical provisions of the Workmen's Compensation line, comparing actual costs with previous estimates, is as follows:

(thousand euros)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Provision for claims with management costs, net of reinsurance and net of reimbursements	250 434	276 399	299 101	302 579	305 512	328 733	363 800	375 014	394 397	394 186	387 150
Accumulated payments											
One year later	91 432		105 824	108 328	106 724	91 174	105 504	100 096	98 779	94 708	
Two years later	133 023	147 272	157 869	162 811	149 681	141 526	157 627	145 308	135 925		
Three years later	161 289	185 976	197 820	194 772	185 956	176 790	191 998	171 505			
Four years later	191 913	215 921	222 164	223 751	213 367	201 716	213 580				
Five years later	215 087	234 821	246 876	245 653	235 135	220 093					
Six years later	229 519	252 471	264 938	263 670	250 333						
Seven years later	241 548	267 296	280 214	275 464							
Seven years later	252 513	279 416	289 301								
Nine years later	262 582	285 953									
Ten years later	267 596										
Final estimate of costs of claims											
One year later	253 045	599 068	303 180	313 397	327 363	338 836	354 407	366 449	352 929	369 571	
Two years later	249 244	283 207	306 243	325 422	334 297	334 918	356 147	345 157	349 376		
Three years later	251 544	283 966	314 450	331 367	332 408	333 196	352 713	338 431			
Four years later	256 286	303 872	317 872	331 221	331 075	338 491	352 070				
Five years later	277 384	306 526	318 261	329 943	342 831	336 647					
Six years later	280 619	306 563	318 259	347 022	340 872						
Seven years later	281 055	306 112	338 585	345 961							
Seven years later	280 690	324 328	338 097								
Nine years later	295 051	324 479									
Ten years later	295 428										
Accumulated surplus/(deficit)	-44 994	-48 080	-38 996	-43 382	-35 360	-7 914	11 730	36 583	45 021	24 615	

Tranquilidade has a reinsurance ceded policy based on proportional and non-proportional treaties, the aim being to reduce the impact of major risks, catastrophes and concentration The reinsurance programme in 2009 comprises proportional treaties – Quota-share and Excess of Loss, and non-proportional treaties - Excess of Claim and Catastrophe Cover, as per the following table:

Business Line	Type of Reinsurance
Personal accident (consumer credit)	Share
Personal accidents	Excess Losses (XL)
Workmen's compensation	Excess Losses (XL)
Motor (third-party liability)	Excess Losses (XL)
Motor (own damage)	Excess Losses (XL)
Bonds	Share
Fidelity insurance	Share
Engineering	Proportional
Fire (simple risks)	Proportional
Fire (condominium)	Proportional
Fire (establishment & industrial risks)	Proportional
Fire (natural disasters)	Excess Losses (XL)
Fire	Excess Losses (XL)
General third-party liability	Excess Losses (XL)
Marine (hull)	Proportional
Marine (hull-fleets)	Proportional
Marine (goods transported)	Proportional
Marine	Excess Losses (XL)
Health	Share
Assistance	Share

The analysis of the insurance sensitivity risk, taking its main conditioning factors into account, is as follows:

(thousand euros)

Area of Analysis	Scenarios	Impact on Pre-Tax Profit 2009	2008
Cost of Claims	5% increase of the year's costs of claims, net of reinsurance	-16,832	-18,500
Expenses	10% increase of operating costs, net of reinsurance	-13,409	-14,900
Longevity	10% decrease of the mortality of present Works Accidents pensioners	-1,500	-1,600

The risks of variations in the cost of claims and in general expenses stems from the influence exercised on these headings by either greater occurrence of facts generating costs, inflation or lesser internal efficiency.

The longevity risk covers uncertainty as to effective losses caused by insured people living longer than expected. It can be more relevant in, for example, the mathematical pensions in the workmen's compensation line.

The longevity risk is managed through the price, the subscription policy and regular review of the mortality tables used to define the prices and to set aside provisions accordingly. When the conclusion is that the longevity is greater than assumed in the mortality tables, supplementary provisions are set aside and the tables are updated.

NATURE AND EXTENT OF THE MARKET RISK, CREDIT RISK, LIQUIDITY RISK AND OPERATIONAL RISK

Market risk

Market risk is normally associated with the risk of loss or the occurrence of adverse alterations to the Company's financial situation. It is the result of the level or volatility of the market prices of financial instruments, and it is also closely related with the risk of mismatching between assets and liabilities.

It also includes the risks associated with the use of derivative financial instruments, as well as the exchange-rate risk, the equities risk, the real-estate risk, the interest-rate risk, the spread risk and the concentration risk.

Market-risk management lies within the scope of the Financial Policy, under rules of allocation of assets by class and type of issue, and is undertaken through the Financial Committee structure. The investment policies adopted by Tranquilidade, duly formalised in a special document, are governed by prudent risk-acceptance levels and portfolio diversification, taking the evolution of the financial markets into account

The introduction of the Overall Risk Management Committee led to the creation of economic and financial risk work groups, the main duties of which are:

- To orient the introduction of integrated risk-management models, as well as economic capital models, approved by the Executive Committee;
- To validate, from a technical standpoint, the modelling of the technical and financial risks to be drawn up by the Overall Risk and Internal Control Division and approved by the Executive Committee;
- To develop tolerance indicators based on the models and to monitor variations of the indicators;
- To develop risk-control mechanisms considering the appetite for risk and the respective tolerances defined by the Executive Committee;
- To define integrated risk-mitigation strategies, from a standpoint of adequating assets and liabilities for analysis by the Overall Risk Management Committee.

The main responsibilities of the Overall Risk Management Committee are to analyse and check the conformity of the decisions taken by the Company with the strategy and policies established for risk management, internal control and compliance. The management of the sundry risks to which the Company is subject is also monitored, and plans of action are proposed to the Executive Committee as and where warranted.

During 2009 co-ordination between the Financial Committee responsible for the investment policy and the Overall Risk Management Committee was further enhanced.

Exchange-rate risk

The exchange-rate risk stems from the volatility of exchange rates against the euro. Exposure to this risk is residual, in view of the small amounts of assets expressed in foreign currency and of the existence of a hedge mechanism to mitigate a large part of the amounts in question.

By virtue of the foregoing, the sensitivity analysis leads to a loss that is immaterial for the Company, detailed as follows:

(thousand euros)

Area of Analysis	Scenarios	Impact on Pre-Tax Profit 2009	2008
Currency	10% depreciation of the value of all foreign currencies against the euro	-43	-3

Equities risk

The equity risk stems from the volatility of the market prices of equities, and only the systematic risk is measured, in that the non-systematic risk is taken into account in the concentration risk.

Stock market securities held by the Company are exposed to this risk - as are investment funds consisting wholly or partly of such securities - and also the Company's holdings in other companies.

The sensitivity analysis is as follows:

(thousand euros)

Area of Analysis	Scenarios	Impact on Reserves at Fair Value Before Tax 2009	2008
Shares	10% decrease of stock-market values	-21,869	-19,200

Real-estate risk

The real-estate risk is caused by the volatility of real-estate market prices. The real estate owned by the Company accounts for more than 97.5% of the assets exposed to this risk, the remainder stemming from real-estate investment funds.

The sensitivity analysis is as follows:

(thousand euros)

Area of analysis	Scenarios	Impact on Pre-Tax Profit 2009	2008
Real estate	10% decrease of the values of real estate and investment funds	-13,354	-13,200

Interest-rate risk

Interest-rate risk is inherent in all assets and liabilities whose value is sensitive to alterations of the time frame or to interest-rate volatility. In risk-exposure terms, as far as assets are concerned, this applies mainly to bonds, mostly floating-rate bonds. Liabilities are exposed through Workmen's Compensation pensions, not mandatorily redeemable, by virtue of the liabilities adequacy tests performed.

A scenario of rising interest rates is the one that implies loss of value for the Company. In comparison with the previous year, when the scenario causing such losses was one of falling interest rates, the following should be underscored:

- On the assets side there is greater exposure to fixed-rate bonds with maturities longer than those in 2008, increasing the exposure of the assets to interest-rate increases;
- On the liabilities side, the increase of provisions based on a prudent rate, lower than the risk-free rates seen at the time, increases the protection provided by the provisions and reduces the impact on liabilities in scenarios of falling interest rates.

(thousand euros)

Area of Analysis	Scenarios	Impact on Reserves at Fair Value Before Tax 2009	2008
Interest Rate	100 b.p.decrease of the interest-rate curve		
	- Effect on assets	7,422	2,112
	100 b.p.increase of the interest-rate curve		
	- Effect on assets	-7,056	-2,072

(thousand euros)

Area of Analysis	Scenarios	Impact on Pre-Tax Profit 2009	2008
Interest Rate	100 b.p.decrease of the interest-rate curve		
	- Effect on liabilities	-8,963	-11,300
	100 b.p. increase of the interest-rate curve		
	- Effect on liabilities	-	9,201

Spread risk

The spread risk reflects the volatility of credit spreads across the risk-free interest-date curve. Securities exposed to this risk are mainly corporate bonds, though structured loans are also affected. Exposure to credit derivatives is immaterial.

Analysing the distribution of bonds of this type by rating, about 73% of the portfolio exposed to this risk comprise securities by issuers having a rating equal to or better that "A". This mix has no tendency to worsen, as a result of the investment policy instituted at Tranquilidade.

(thousand euros)

Rating	2009 %	2009 value	2008 %	2008 value
AAA	4%	14,515	5%	14,715
AA	7%	24,547	14%	37,707
A	62%	210,019	51%	136,72
BBB	23%	78,355	24%	64,891
BB	3%	10,468	5%	12,420
B	1%	4,339	0%	0
CCC	0%	0	0%	320
Unrated	0%	0	1%	1,440
Total	**100%**	**342,243**	**100%**	**268,217**

These figures do not include commercial paper and certificates of deposit in that they are understood to lie outside the scope of analysis of the risk in question.

Concentration risk

Concentration risk refers to the additional volatility inherent in highly concentrated portfolios and to partial or permanent losses through issuer default. The breakdown of their distribution by sectors of activity is as follows:

(thousand euros)

Sector of Activity	2009 %	2009 Gross Value	2009 Impairment	2008 %	2008 Gross Value	2008 Impairment
Basic resources	-	2,224	-25	-	1,094	-
Communications	7%	37,455	-	9%	39,740	-218
Consumables (cyclic)	1%	4,068	-	2%	11,212	-
Consumables (non-cyclic)	-	880	-38	-	1,001	-
Energy	1%	7,150	-81	1%	3,275	-
Financial	63%	350,562	-15,272	78%	356,065	-15,270
Funds	3%	15,274	-812	1%	6,263	-216
Public debt	3%	14,278	-	-	-	-
Industrial	9%	49,609	-	2%	7,505	-
Medicine	7%	39,475	-	-	970	-
Technology	-	1,355	-	-	-	-
Public / collective services	5%	25,939	-	3%	14,575	-
Other	1%	7,515	-460	4%	20,367	-431
	100.0%	**555,784**	**-16,688**	**100.0%**	**462,067**	**-16,135**

The figures include the headings of Investments in affiliates, associates and joint ventures, Financial assets held for trading, Financial assets classified on initial recognition at fair value through profit & loss and Available-for-sale financial assets.

Liquidity risk

Liquidity risk stems from the possibility that the Company will not hold assets of sufficient liquidity to meet cash-flow requirements to fulfil its obligations to policyholders and other creditors as they fall due.

For the purpose the Company prepares a cash-flow plan on a monthly basis, adjusted weekly to its cash requirements/surpluses.

The breakdown of the maturities of financial assets and liabilities as at December 31, 2009 & 2008, is as follows:

(thousand euros)

2009	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Without maturity	Total
Financial assets	465	92,576	1,534	172,714	167,995	305,524	740,808
Financial liabilities						40,963	40,963
Net	**465**	**92,576**	**1,534**	**172,714**	**167,995**	**264,561**	**699,845**

(thousand euros)

2008	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Without maturity	Total
Financial assets	435	175,207	8,019	116,583	133,995	289,475	723,714
Financial liabilities						47,703	47,703
Net	**435**	**175,207**	**8,019**	**116,583**	**133,995**	**241,772**	**676,011**

Credit risk

Credit risk corresponds to the possible losses through default or through deterioration of the counterparties' credit levels that mitigate existing risk, such as reinsurance contracts or derivatives, amounts receivable from brokers and other exposures to credit not considered in the spread risk.

With regard to the collection of insurance premiums, the evolution of receivables as well as their age are monitored on a regular basis.

In selecting reinsurers and issuers of securities, the minimum rating levels are defined and the evolution of the ratings of the portfolio entities is monitored regularly.

Operational risk

This is the risk of relevant losses stemming from inadequacy or failures in processes, people or systems, or external events, within the scope of the Company's day-to-day business. The legal risk is also considered an operational risk.

Internal Control System

The Control System may be defined as a set of control activities directed at compliance with the policies and procedures defined for the Company. As such, Internal Control represents the implementation of control activities for the risks of failure to comply with established policies and procedures, particularly with regard to operations and compliance.

In this connection, the risks presented in the Internal Control System fall within the operational risks presented under the Risk Management System, though in greater detail.

The approach to the Internal Control System adopted involves the following stages:

- identification of the relevant business units and processes, considering the associated risk;
- documentation on significant processes, including objectives, main activities, risks and associated controls;
- appraisal of the design of the controls and determination of the associated opportunities for improvement. Improvements may involve a strengthening of existing controls or implementation of new products;
- performance of effectiveness tests on the controls that are identified, confirmation of existing deficiencies and preparation of a correction plan;
- preparation of the Risk Policy Plan.

The organisational structure, or governance model, underpinning the development of the Company's risk-management and internal-control system is based on model of three lines of defence:

- at a first level, it is represented by the various Tranquilidade divisions, which are the areas responsible for the operationalisation of risk management and respective controls;
- a second level, represented by the Overall Risk and Internal Control Division, plays a supervisory role, its main responsibilities being systematisation of the rules, policies and monitoring of the risk-management, internal-control and compliance system;
- a third level, represented by the Internal Audit Division and the External Audit, is charged with independent auditing in the field of risk management, its main goal being to ensure that the controls are effective.

Within the context of the Internal Control System process heads were defined. Their main duties are to ensure that the system is sufficiently robust to minimise the occurrence of direct or indirect financial losses.

The Internal Control System at Tranquilidade is duly formalised in the Risk Policy Report defined within the scope of ISP Standard 14/2005–R of November 29, which has, among others, the following headings:

- Processes;
- Process managers and interlocutors;
- Main activities;
- Risks: probability of occurrence, estimated impact and risk-exposure level;
- Controls;
- Control assessment;
- Recommendations.

During 2009, to mitigate this risk, the Company also formalised and implemented an Anti-Fraud Policy through which the main principles and criteria were defined governing the fraudulent-situations or criminal-activities prevention and detection procedures, as were the mechanisms involving records and co-operation with police, judicial and other public authorities having responsibilities in this area.

In this connection, a start was also made to the creation of a database of losses in which all events capable of causing a loss for the Company are recorded. The aim is to monitor the risk and to allow corrective measure to be taken or new controls designed to avoid or reduce the probability of occurrence of similar events in the future.

SOLVENCY

Tranquilidade monitors solvency in accordance with ISP Regulatory Standard 6/2007-R of April 27. Calculation of the respective margin involves the following components.:

(thousand euros)

	2009	2008
Elements constituting the guarantee fund	**195,804**	**177,104**
Solvency margin to be sest aside	**54,219**	**55,343**
Result from the premiums standpoint	49,447	54,208
Result from the claims standpoint	48,742	50,763
Limit result of Article 97.8	54,219	55,343
Legal minimum Guarantee Funds	3,500	3,200
Excess/insufficiency of the solvency margin	**141,585**	**121,761**
Solvency margin cover rate	**361%**	**320%**

ADEQUACY OF PREMIUMS AND PROVISIONS

With regard to the adequacy of the premiums and provisions an annual analysis is performed of the technical bases and of the actuarial principles and rules used to construct the pricing of the insurance. To the extent reasonably predictable, a check is performed of the adequacy of the premiums charged, on a prudent actuarial basis, so as to cover the commitments assumed by the insurer stemming from claims associated with the insurance in question.

BUSINESS RATIOS

The main business ratios, gross of reinsurance, are as follows:

(%)

	2009	2008
a) Claims ratio	64.5%	70.0%
b) Acquisition ratio	21.2%	22.0%
c) Administrative ratio	10.6%	10.0%
Combined ratio	**96.3%**	**102.0%**

a) (Costs of claims + imputed costs + variation of technical provisions + Other costs - technical income) / premiums earned.
b) (Acquisition brokerage remuneration + imputed costs + variation of deferred acquisition costs) / gross premiums written
c) (Administrative brokerage remuneration + imputed costs) / gross premiums written

AMOUNTS RECOVERABLE ON CLAIMS

The amounts recoverable in respect of payments made against claims, stemming from the acquisition of rights or the obtaining of ownership, and the risk of failure to collected them are included under the following headings and involve the following amounts:

As far as acquisition of legal ownership of the insured goods is concerned, the amounts are included under the following heading and are as follows:

(thousand euros)

	2009	2008
Accounts receivable	1,991	691
Adjustment of doubtful debt	-757	-640
Net total	**1,234**	**1,051**

As far as acquisition of legal ownership of the insured goods is concerned, the amounts are included under the following heading and are as follows:

(thousand euros)

	2009	2008
Inventories	321	393

NOTE 5 - OTHER FINANCIAL LIABILITIES

Deposits received from reinsurers represent the amount of bond posted by reinsurers as a result of acceptance of risks and of the receipt of premiums arising from the reinsurance-ceded business.

(thousand euros)

	2009	2008
Other financial liabilities		
Deposits received from reinsurers	503	806
Book value	**503**	**806**

The €10k recorded in 2009 under Other financial liabilities – Other, have to do with negative figures for derivative financial instruments, the breakdown of which is provided in Note 6.

NOTE 6 - FINANCIAL INSTRUMENTS

The detailed inventory of holdings and financial assets is presented at the end of the notes to the financial statements in Appendix 1, and can be summarised as follows:

(thousand euros)

	2009	2008
Available-for-sale financial assets	367,027	308,353
Investments in affiliates & associates	165,497	133,006
Term deposits	84,892	119,315
Financial assets classified in the initial recognition at fair value through profit & loss	6,572	4,538
Held-for-sale financial assets	-	35
Holdings and financial instruments	**623,988**	**565,247**

Appendix 1 takes into consideration €10k in respect of derivative financial instruments having a negative value that, for balance-sheet purposes, are carried under liabilities.

Investments in affiliates and associates are detailed in Note 7, while information on the remaining financial instruments is provided though this Note 6.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT & LOSS

This heading includes securities that, as a result of the application of IAS 39 and in accordance with the option taken and the documented risk-management strategy, the Company considers (i) to be financial assets that are managed and their performance is measured on the basis of their fair value, and/or (ii) as containing embedded derivative instruments.

The breakdown of the balance of assets of this type is as follows:

(thousand euros)

	2009	2008
Bonds & other fixed-income securities		
Public issuers'	-	-
Other issuers'	6,572	4,538
Equities	-	-
Other floating-rate securities	-	-
Book value	**6,572**	**4,538**
Acquisition value	7,985	4,690

As at December 31, 2009 & 2008, the Company held, of this type, compound financial instruments with embedded derivatives, in fixed-income securities, as follows:

(thousand euros)

Type of Risk	Book Value 2009	Book Value 2008
Structured credit	6,560	4,526
Credit derivative	12	12
	6,572	**4,538**

AVAILABLE-FOR-SALE FINANCIAL ASSETS

The breakdown of the balance of this type of asset is as follows:

(thousand euros)

	2009	2008
Bonds & other fixed-income securities		
Public issuers'	13,278	-
Other issuers'	322,393	286,337
Shares	16,894	15,970
Other floating-rate securities	14,462	6,046
Book value	**367,027**	**308,353**

The breakdown of the final balance sheet figures as at December 31, 2009 & 2008, is as follows:

(thousand euros)

	Amortised or Acquisition Cost	Fair-Value Reserve	Impairment	Book Value
Bonds & other fixed-income securities				
Public issuers'	-	-	-	-
Other issuers'	323,005	-22,349	-14,319	286,337
Shares	11,145	6,456	-1,631	15,970
Other floating-rate securities	6,942	-711	-185	6,046
Balance as at December 31, 2008	**341,092**	**-16,604**	**-16,135**	**308,353**
Bonds & other fixed-income securities				
Public issuers'	13,441	-163		13,278
Other issuers'	349,977	-14,235	-13,349	322,393
Shares	11,405	7,536	-2,047	16,894
Other floating-rate securities	15,048	226	-812	14,462
Balance as at December 31, 2009	**389,871**	**-6,636**	**-16,208**	**367,027**

Movements under impairment losses are as follows:

(thousand euros)

	2009	2008
Balance as at January 1	**16,135**	**977**
Allocations for the year	1,581	15,602
Cancellations for the year for sale of assets	-458	-444
Written back during the year	-1,050	-
Balance as at December 31	**16,208**	**16,135**

The impairments recorded in profit & loss through adjustment of fair value in investments, segregated by the respective categories, are as follows:

(thousand euros)

	2009	2008
Bonds & other fixed-income securities	970	-14,318
Equities & other floating-rate securities	-1,501	-1,284
	-531	**-15,602**

HELD-FOR-TRADING FINANCIAL ASSETS

The breakdown of the balance of assets of this type is as follows:

(thousand euros)

	2009		2008	
	Fair Value	Notional Value	Fair Value	Notional Value
Derivatives Forward contracts	-10	530	35	480

Investments made by the Company are predominantly in euros, although its portfolio does contain some transactions expressed in other currencies.

In this way, though always with the authorisation of its Financial Committee, the Company entered into some exchange-rate hedge contracts for its investments in foreign currency.

Though they do not provide perfect cover, these exchange-rate hedges endeavour to cover the exchange rate on the capital and interest through successive renovation throughout the year, using swap and forward mechanisms for the purpose.

Since, in 2009, these contracts show a negative fair value, it is presented under Liabilities, under Other financial liabilities – Other

OTHER FINANCIAL ASSETS

Besides the financial instruments described above, the Company also has other assets, as follows:

(thousand euros)

	2009	2008
Loans granted	28,850	45,336
Deposits with cedent companies	1	1
Other	2,514	3,219
Total of other financial assets	**31,365**	**48,556**

The amount of loans has to do with ancillary capital contributions or loan capital provided, as follows:

(thousand euros)

	2009	2008
Ancillary capital contributions - T-Vida	20,000	37,500
Ancillary capital contributions - Logo	3,900	-
Ancillary capital contributions - Advancecare	-	2,548
Ancillary capital contributions - Europ Assistance	1,080	-
Loan capital - ES Saúde	1,250	2,500
Loan capital - Contact centre	277	277
Loan capital - Esumédica	262	262
Loan capital - Quinta dos Cónegos	-	153
Loans to employees	2,081	2,096
Total loans granted	**28,850**	**45,336**

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES CARRIED AT AMORTISED COST

The breakdown of the fair value of financial assets and liabilities carried at amortised cost is as follows:

(thousand euros)

	2009		2008	
	Fair Value	Notional Value	Fair Value	Notional Value
Cash & cash equivalents and sight deposits	8,150	8,150	23,586	23,586
Loans & accounts receivable	116,257	116,257	167,871	167,871
Other debtors for insurance operation and other operations	77,305	77,305	86,325	86,325
FINANCIAL ASSETS AT AMORTISED COST	**201,712**	**201,712**	**277,782**	**277,782**
Other financial liabilities	503	503	806	806
Other creditors for insurance operation and other operations	40,450	40,450	46,897	46,897
FINANCIAL LIABILITIES AT AMORTISED COST	**40,953**	**40,953**	**47,703**	**47,703**

Taking into account the fact that these are short-term assets and liabilities, their balance as at the balance-sheet date is considered a reasonable estimate of their fair value.

VALUATION METHODS

The breakdown of the value of the financial instruments stratified by the measurement method used, in accordance with the levels presented in IFRS 7, is as follows:

(thousand euros)

2009	Level 1	Level 2	Level 3	Level 4	Total
Securities & equity paper	14,462	-	-	-	14,462
Equities & other floating-rate securities	2,753	-	179,637	-	182,390
Bonds & other fixed-income securities	250,399	91,845	-	-	342,244
Derivatives	-	-	-	-	-
Total	**267,614**	**91,845**	**179,637**	**-**	**539,096**

(thousand euros)

2008	Level 1	Level 2	Level 3	Level 4	Total
Securities & equity paper	6,047	-	-	-	6,047
Equities & other floating-rate securities	2,775	-	146,201	-	148,976
Bonds & other fixed-income securities	184,378	83,838	-	22,658	290,874
Derivatives	-	-	35	-	35
Total	**193,200**	**83,838**	**146,236**	**22,658**	**445,932**

The description of the levels is as follows:

Level 1:
Financial instruments measured using market or providers' prices;
Level 2:
Financial instruments measured using valuation techniques that mainly consider observable market data;
Level 3:
Financial instruments measured using valuation techniques essentially considering unobservable market data having a significant impact on the measurement of the instrument;
Level 4:
Financial instruments measured at acquisition cost.

NOTE 7 - INVESTMENTS IN AFFILIATES AND ASSOCIATES

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

(thousand euros)

COMPANY NAME / REGISTERED OFFICE	Classification	Valuation Method	Holding (%)			Financial Data 2009			
			Holding	Voting Right	Effective	Assets	Liabilities	Equity	Net Profit/ Loss
T-Vida, Companhia de Seguros, SA									
Av. da Liberdade, 230 1250-149 Lisbon (Portugal)	Subsidiary	Fair value	100.00	100.00	100.00	868,460	787,393	81,067	5,266
Seguros Logo, SA									
R. D. Manuel II, 290 4050-344 Lisbon (Portugal)	Subsidiary	Fair value	100.00	100.00	100.00	20,278	14,713	5,565	-7,517
Advancecare – Gestão e Serviços de Saúde, SA									
Av. da Liberdade, 49 a 57, 1° 1250-139 Lisbon (Portugal)	Subsidiary	Fair value	51.00	51.00	51.00	10,822	3,048	7,774	2,845
Espírito Santo Contact Center, SA									
Av. Infante D. Henrique, 343 - C 1800-218 Lisbon (Portugal)	Subsidiary	Fair value	56.30	56.30	56.30	9,011	7,191	1,820	-14
Esumédica–Prestação de Serviços Médicos, SA									
Av. da Liberdade, 242 1250-149 Lisbon (Portugal)	Subsidiary	Fair value	75.00	75.00	75.00	1,289	2,926	-1,637	-663
Fiduprivate, SA									
Rua Dr. Brito Câmara, 7 9000-039 Lisbon (Portugal)	Subsidiary	Fair value	75.00	75.00	75.00	72	294	-222	-455
BES, Companhia de Seguros, SA									
Av. Columbano Bordalo Pinheiro, 75, 8° 1070-061 Lisbon (Portugal)	Associate company	Fair value	25.00	25.00	25.00	127,483	100,695	26,788	5,427
Europ Assistance, SA									
Av. Álvares Cabral, 41 - 3° e 4° 1250-015 Lisbon (Portugal)	Associate company	Fair value	24.00	24.00	24.00	41,694	27,050	14,644	1,881

The financial data refer to December 31, 2009, except for a Fiduprivate, where they refer to June 30, 2009.

The investments as at December 31, 2009, are segregated as follows by company and composition of the book value:

(thousand euros)

	Acquisition Value	Fair-Value Reserve	Impairment	Book Value
Advancecare	486	25,060	-	25,546
Bes Seguros	3,759	17,866	-	21,625
ES Contact Center	1,846	462	-	2,308
Esumédica	445	2,105	-	2,550
Europ Assistance	1,757	2,611	-	4,368
Fiduprivate	480	-	-480	-
LOGO	20,000	-	-	20,000
T-Vida	77,489	11,611	-	89,100
	106,262	**59,715**	**-480**	**165,497**

Alterations to the value of the holdings during 2009 were as follows:

(thousand euros)

	Opening Book Value	Acquisitions, Equity Capital Increases & Disposals	Impairment	Fair-Value Reserve	Closing Book Value
Advancecare	24,169	-	-	1,377	25,546
Bes Seguros	20,325	-	-	1,300	21,625
ES Contact Center	3,048	-	-	-740	2,308
Esumédica	712	-	-	1,838	2,550
Europ Assistance	4,272	-	-	96	4,368
Fiduprivate	480	-	-480	-	-
LOGO	20,000	-	-	-	20,000
T-Vida	60,000	12,489	-	16,611	89,100
	133,006	**12,489**	**-480**	**20,482**	**165,497**

In December 2009 Tranquilidade paid up the whole of the equity capital increase in respect of T-Vida in the sum of €12,489k.

The movement during 2009 in respect of impairment is included under Impairment Losses – Other in the profit & loss account, as justified by the process of discontinuation of the operating in question.

NOTE 8 - CASH, CASH EQUIVALENTS AND SIGHT DEPOSITS

The balance of this heading is as follows:

(thousand euros)

	2009	2008
Cash	465	435
Deposits at credit institutions	7,685	23,151
	8,150	**23,586**

NOTE 9 - LAND & BUILDINGS

Measurement of real-estate assets is undertaken using the cost model for premises and the fair-value model for properties held for income. Regardless of the measurement model, valuations are performed on all properties on a regular basis.

These valuations are performed using a weighted combination of the "Market Comparison" and "Income" valuation methods. The respective values lead to alterations of the fair value of investment properties (real estate held for income) and are used for the purpose of impairment tests of the tangible assets (premises).

The market comparison method is always used. It is based on market evidence, which involves market research on properties comparable to the one subject to valuation, the values being based on an analysis of transactions involving similar properties.

Properties are classified as premises to the extent that they are used in the Company's operating activity, and as investment properties in other cases. There are some that, used for both purposes, are classified as mixed, and each part is analysed and measured separately.

The valuers responsible for the valuation of the assets are duly certified for the purpose and are registered with the CMVM.

Fair-value model

The breakdown of balances and movements involving Investment Properties in both years is as follows:

(thousand euros)

Investment Properties - Rental Buildings	2009	2008
Net balance as at January 1	**86,942**	**82,904**
Additions through acquisition	-	2,951
Additions through betterments	151	436
Transfers	18	-144
Written off / Sold	-	-115
Changes to fair value	981	910
Net balance as at December 31	**88,092**	**86,942**

Amounts recognised in profit & loss in respect of the income and costs of investment properties are as follows:

(thousand euros)

	2009	2008
Rental income	**2,453**	**2,559**
Operating costs	**430**	**439**
- of real estate generating rental income	404	415
- of real estate not generating rental income	26	24

Cost model

The breakdown of the Premises headings is as follows:

(thousand euros)

	2009	2008
Gross value	**46,268**	**45,029**
Accumulated depreciation & impairments	-6,029	-5,310
Net balance as at December 31	**40,239**	**39,719**

Movements under Premises in both years is as follows:

(thousand euros)

Tangible Assets - Premises	2009	2008
Net balance as at January 1	**39,719**	**44,337**
Additions through acquisition	-	-
Additions through betterments	557	828
Transferred	682	-4
Written off / Sold	-	-5,629
Impairments - [(Allocation) / Use]	-	903
Depreciation for the year	-719	-716
Net balance as at December 31	**40,239**	**39,719**

NOTE 10 - OTHER TANGIBLE FIXED ASSETS AND INVENTORIES

Besides the premises referred to in the preceding point, the Company has other tangible assets measured using the cost model, details of which are as follows:

(thousand euros)

	2009	2008
Equipment	**38,903**	**37,520**
Office equipment	4,576	4,410
Machines & tools	1,570	1,353
Hardware	29,530	28,871
Fixtures & fittings	1,917	1,697
Expenditure on rented buildings	344	223
Transport equipment	523	523
Other tangible fixed assets	443	443
Fixed assets in progress	**573**	**262**
Accumulated depreciation	**-36,066**	**-34,416**
Impairments	**-**	**-**
Net assets	**3,410**	**3,366**

Movements under this heading are as follows:

(thousand euros)

	Equipment	Fixed Assets in Progress	Total
Balance as at January 1, 2008	**3,974**	**-**	**3,974**
Additions	1,846	262	2,108
Transfers	-99	-	-99
Depreciation for the year	-2,541	-	-2,541
Written off / Sold	-76	-	-76
Balance as at December 31, 2008	**3,104**	**262**	**3,366**
Additions	1,767	1,200	2,967
Transfers	-202	-889	-1,091
Depreciation for the year	-1,813	-	-1,813
Written off / Sold	-19	-	-19
Balance as at December 31, 2009	**2,837**	**573**	**3,410**

Mention is also made of the fact that there are other assets, related with salvage, which, in 2009, amount to €323k (2008: €396k).

NOTE 11- ALLOCATION OF INVESTMENTS AND OTHER ASSETS

In accordance with current legal provisions, the Company is obliged to allocate investment and other assets by the total of the technical provisions, in keeping with the limits established by the ISP.

The indication of which assets are and are not allocated to the insurance portfolios managed by the Company as at December 31, 2009 & 2008, is as follows:

(thousand euros)

	2009		
	Non-Life Insurance	Not Allocated	Total
Cash & cash equivalents	4,806	3,344	8,150
Land & buildings	128,331	-	128,331
Investments in affiliates, associates and joint ventures	160,639	4,858	165,497
Held-for-trading financial assets	-	-	-
Financial assets classified in the initial recognition at fair value through profit & loss	6,572	-	6,572
Hedge derivatives	-	-	-
Available-for-sale financial assets	362,435	4,592	367,027
Loans and receivables	111,982	4,275	116,257
Held-to-maturity investments	-	-	-
Other tangible assets	-	3,410	3,410
Other assets	-	183,035	183,035
Total	**774,765**	**203,514**	**978,279**

(thousand euros)

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

NOTE 12 - INTANGIBLE ASSETS

All intangible assets are measured using the cost method, and there are no cases of assets generated internally. The estimated useful lives are finite, standing at 5 years for software development costs and 3 years for software, amortisation being calculated on a straight-line basis.

Goodwill represents the positive difference between the acquisition cost of Companhia de Seguros ESIA and the fair value assigned to the net assets acquired. It is not amortised, in accordance with IFRS 3 – Business Combinations. The recoverable amount does not show signs of impairment.

The breakdown of the balance of Goodwill and Other intangibles headings is as follows:

(thousand euros)

	2009	2008
Goodwill	**25,785**	**25,785**
Other intangible assets	**47,029**	**40,853**
Software development costs	34,776	30,701
Software	9,383	8,276
Intangibles in progress	2,870	1,876
Accumulated depreciation	**-33,090**	**-27,650**
Impairments	-	-
Net assets	**39,724**	**38,988**

Movements under in both years is as follows:

(thousand euros)

	Goodwill	Other Intangible Assets	Software Development Costs	Software	Intangibles in Progress	Total
Balance as at January 1, 2008	**25,785**	**12,607**	**9,467**	**1,171**	**1,969**	**38,392**
Additions		6,125	1,633	1,177	3,315	6,125
Depreciation for the year		-5,529	-5,214	-315	-	-5,529
Impairments		-	-	-	-	-
Transfers		-	3,408	-	-3,408	-
Balance as at December 31, 2008	**25,785**	**13,203**	**9,294**	**2,033**	**1,876**	**38,988**
Additions		6,176	485	1,107	4,584	6,176
Depreciation for the year		-5,440	-4,787	-653		-5,440
Impairments		-	-	-	-	-
Transfers		-	3,590	-	-3,590	-
Balance as at December 31, 2009	**25,785**	**13,939**	**8,582**	**2,487**	**2,870**	**39,724**

Amortisation of intangible assets is distributed to the items of the profit & loss account as follows:

(thousand euros)

	2009	2008
Amortisation of intangible assets for the year	**5,440**	**5,529**
Costs of claims, net of reinsurance		
Amounts paid - Gross amounts	1,349	1,389
Net operating costs & expenses		
Acquisition costs	2,836	2,969
Administrative costs	1,249	1,169
Financial costs		
Other	7	2

NOTE 13 - OTHER ASSETS, LIABILITIES, ADJUSTMENTS AND PROVISIONS

Assets and adjustments

The breakdown of the balance of Receivables for direct insurance operations is as follows:

(thousand euros)

	2009	2008
Gross assets	**58,228**	**55,312**
Policyholders		
- receipts pending collection	49,283	47,483
- reimbursement of claims	5,145	4,400
Insurance brokers	415	328
Co-insurers	3,385	3,101
Adjustments	-5,783	-5,356
Receipts pending collection	-4,973	-4,645
Doubtful debt credits	-810	-711
Net assets	**52,445**	**49,956**

Reimbursements demanded in respect of payments made as a result of claims occurring during the guarantees suspension period and not yet received amount to €1,991k (2008: €1,691k).

The breakdown of the balance of Receivables for reinsurance operations is as follows:

(thousand euros)

	2009	2008
Gross assets	**5,436**	**6,552**
Reinsurers	5,126	6,024
Reinsured	310	528
Adjustments	**-244**	**-238**
Doubtful debt credits	-244	-238
Net assets	**5,192**	**6,314**

The breakdown of the balance of Receivables for other operations is as follows:

(thousand euros)

	2009	2008
Gross assets	**20,511**	**30,608**
Related entities	534	1,791
Real-estate transactions	1,001	11,024
IFADAP	5,278	4,965
FAT	892	3,884
Management on behalf of IDS and Principals	3,557	2,135
Bonds	1,315	1,291
Rents & other monetary instruments pending collection	966	448
Staff	498	440
Other receivables	6,470	4,630
Adjustments	**-843**	**-553**
Doubtful debt credits	-843	-553
Net assets	**19,668**	**30,055**

Movements in respect of adjustments to Receivables are reflected in Impairment losses – Other, in the profit & loss account, and are broken down as follows:

(thousand euros)

	2009	2008
Adjustment of receipts pending collection		
Balance as at January 1	4,645	6,582
Allocations for the year	328	-
Use for the year	-	-1,937
Balance as at December 31	**4,973**	**4,645**
Adjustment of doubtful debt credits		
Balance as at January 1	1,502	1,871
Allocations for the year	395	107
Use for the year	-	-476
Balance as at December 31	**1,897**	**1,502**

The balance of accruals and deferrals under Assets is as follows:

(thousand euros)

	2009	2008
Accrued income	1,295	1,772
- Profit reinsurance commission	895	995
- Services rendered	400	777
Deferred costs	548	158
- Insurance	280	142
- Rents	10	16
- Acquisition costs	258	-
Total	**1,843**	**1,930**

Liabilities and provisions

The breakdown of the balance of Liabilities under Payables for direct insurance operations is as follows:

(thousand euros)

	2009	2008
Policyholders (reimbursements payable)	5,402	4,510
Insurance brokers		
- Commissions payable	4,123	4,118
- Current accounts	2,833	2,128
Co-insurers	8,721	9,439
Total	**21,079**	**20,195**

The breakdown of the balance of Liabilities under Payables for reinsurance operations is as follows:

(thousand euros)

	2009	2008
Reinsurers	11,263	10,860
Reinsured	10	10
Total	**11,273**	**10,870**

The breakdown of the balance of Liabilities under Payables for other operations is as follows:

(thousand euros)

	2009	2008
Related entities	334	318
Suppliers of leased goods	2,600	3,091
Other suppliers of goods & services	995	2,765
FAT	-	3,021
Investment operations pending settlement	4	2,700
IFADAP	884	763
AT Pensions	1,410	1,189
Other payables	1,871	1,985
Total	**8,098**	**15,832**

The balance of accruals and deferrals under Liabilities is as follows:

(thousand euros)

	2009	2008
Deferred income	**239**	**233**
- Rents	239	233
Accrued costs	**17,558**	**18,444**
- Staff costs (subsidies, charges and bonuses)	7,114	6,515
- Acquisition costs (incentives & commissions)	3,950	6,138
- Third-party supplies & services	6,143	5,448
- Taxes	351	343
Total	**17,797**	**18,677**

The breakdown of Other provisions under Liabilities and the respective movements are as follows:

(thousand euros)

	2009	2008
Taxes	1,478	884
Liability for coercive works	250	250
Principals' processes in litigation	100	100
Total	**1,828**	**1,234**

(thousand euros)

	2009	2008
Balance as at January 1	**1,234**	**667**
Allocations for the year	594	567
Use during the year	-	-
Balance as at December 31	**1,828**	**1,234**

The variation of Other provisions is solely the result of the tax component in respect of compensatory interest payable in the event of an unfavourable decision as to the use of tax deduction in determining Income tax (IRC) for 2006, 2007 and 2008, in respect of tax losses on a corporate merger and as to the reinvestment of tax gains resulting from the sale of a financial holding.

NOTE 14 - INSURANCE CONTRACT PREMIUMS

The breakdown of gross premiums written, of variation of the unearned premiums provision, (PPNA) and of the earned premiums, in direct insurance and reinsurance accepted, is as follows:

(thousand euros)

Businesses/ Groups of Businesses	Gross Premiums Written		PPNA Variation		Premiums Earned	
	2009	2008	2009	2008	2009	2008
Accidents & Health	97,048	100,050	274	-192	96,774	100,242
Fire & Other Damage	59,401	59,296	290	4	59,691	59,292
Motor	131,270	148,123	-5,118	-11,462	136,388	159,585
Marine, Air & Transport	7,193	8,640	-416	-142	7,609	8,782
General Third-party Liability	9,947	10,446	8	-184	9,939	10,630
Credit & Fidelity Insurance	106	120	-10	-63	116	183
Legal Protection	20	22	-1	-2	21	24
Assistance	7,961	8,721	-292	-815	8,253	9,536
Sundry	1,866	1,726	68	60	1,798	1,666
Total	**314,812**	**337,144**	**-5,777**	**-12,796**	**320,589**	**349,940**

The breakdown of gross premiums written, of variation of the unearned premiums provision, (PPNA) and of the earned premiums, in reinsurance ceded, is as follows:

(thousand euros)

Businesses/ Groups of Businesses	Gross Premiums Written		PPNA Variation		Premiums Earned	
	2009	2008	2009	2008	2009	2008
Accidents & Health	3,020	1,974	25	29	2,995	1,945
Fire & Other Damage	22,516	22,057	383	241	22,133	21,816
Motor	1,600	1,808	-	-	1,600	1,808
Marine, Air & Transport	3,692	4,578	-361	-219	4,053	4,797
General Third-party Liability	1,713	1,690	-12	44	1,725	1,646
Credit & Fidelity Insurance	68	72	-4	-60	72	132
Legal Protection	-	-	-	-	-	-
Assistance	8,966	7,906	408	-532	8,558	8,438
Sundry	1,641	1,613	69	90	1,572	1,523
Total	**43,216**	**41,698**	**508**	**-407**	**42,708**	**42,105**

Details of some amounts in respect of not-life insurance and reinsurance accepted, for 2009, are as follows:

(thousand euros)

Businesses/ Groups of Businesses	Gross Premiums Written	Gross Premiums Earned	Gross Cost of Claims	Gross Operating Costs	Balance of Reinsurance
Accidents & Health	97,048	96,766	63,689	27,487	-833
Fire & Other Damage	59,297	59,596	32,042	21,436	-9,307
Motor	-	-	-	-	-
- Third-Party Liability	87,387	92,695	56,816	26,718	-1,247
- Other Covers	37,798	38,442	35,474	13,966	-470
Marine, Air & Transport	7,193	7,609	7,223	2,140	2,038
General Third-party Liability	9,936	9,931	4,655	4,205	-91
Credit & Fidelity Insurance	106	116	223	39	-52
Legal Protection	20	21	35	11	-
Assistance	7,961	8,254	-	1,513	-8,557
Sundry	1,832	1,767	205	434	-792
Total	**308,578**	**315,197**	**200,362**	**97,949**	**-19,311**
Reinsurance Accepted	6,234	5,392	5,055	1,915	447
Grand Total	**314,812**	**320,589**	**205,417**	**99,864**	**-18,864**

NOTE 16 - INCOME/REVENUES AND INVESTMENT SPENDING

The accounting policies adopted for the recognition of income and costs in respect of investments are addressed in Note 3.

The balance of the Income heading, segregated by the various types of income, is as follows:

(thousand euros)

	2009	2008
Interest	**12,874**	**22,185**
Available-for-sale financial assets	8,919	16,852
Financial assets classified in the initial recognition at fair value through profit & loss	115	536
Held-for-trading financial assets	-	-
Deposits, loans & other assets	3,840	4,797
Rents	**2,453**	**2,559**
Land & buildings	2,453	2,559
Dividends	**2,991**	**4,707**
Investments in affiliates, associated and joint ventures	1,943	2,870
Available-for-sale financial assets	1,048	1,837
Total	**18,318**	**29,451**

The breakdown of Income heading by type of asset is as follows:

(thousand euros)

	2009	2008
Bonds & other fixed-income securities		
Public issuers'	453	1,039
Other issuers'	8,581	16,349
Equities	2,836	4,411
Other floating-rate securities	155	296
Real estate	2,453	2,559
Deposits	3,733	4,607
Loans & other assets	107	190
Total	**18,318**	**29,451**

The breakdown of the Financial costs heading is as follows:

(thousand euros)

	2009	2008
Costs imputed to investments	1,416	1,548
Direct operating costs	565	558
Total	**1,981**	**2,106**

NOTE 17 - GAINS AND LOSSES REALISED ON INVESTMENTS

The amounts recorded under net gains of financial and non-financial assets and liabilities, segregated by category, are as follows:

(thousand euros)

	2009			2008		
	Gain	Loss	Balance	Gain	Loss	Balance
Financial - Not at fair value through profit & loss	**7,238**	**-3,702**	**3,536**	**30,194**	**-14,631**	**15,563**
Available-for-sale financial assets	7,238	-3,549	3,689	30,194	-14,631	15,563
Investments in affiliates, associated and joint ventures	-	-	-	-	-	-
Loans & accounts receivable	-	-153	-153	-	-	-
Financial - At fair value through profit & loss	**1**	**-196**	**-195**	**81**	**-593**	**-512**
Financial assets classified in the initial recognition at fair value through profit & loss	1	-196	-195	81	-593	-512
Non-financial	**-**	**-**	**-**	**434**	**-544**	**-110**
Land & buildings - Own use	-	-	-	359	-544	-185
Land & buildings - Held for income	-	-	-	75	-	75
Total	**7,239**	**-3,898**	**3,341**	**30,709**	**-15,768**	**14,941**

NOTE 18 - GAINS AND LOSSES ON ADJUSTMENTS TO THE FAIR VALUE OF INVESTMENTS

The breakdown of gains and losses stemming from adjustments to the fair value of investments is as follows:

(thousand euros)

	2009			2008		
	Gain	Loss	Balance	Gain	Loss	Balance
Financial - At fair value through profit & loss	**-**	**-1,255**	**-1,255**	**460**	**-**	**460**
Available-for-sale financial assets						
- Derivatives	-	-	-	35	-	35
Financial assets classified in the initial recognition at fair value through profit & loss						
- Debt securities	-	-1,255	-1,255	425	-	425
Non-Financial	**4,296**	**-3,315**	**981**	**4,768**	**-3,858**	**910**
Land & buildings - Held for income	4,296	-3,315	981	4,768	-3,858	910
Total	**4,296**	**-4,570**	**-274**	**5,228**	**-3,858**	**1,370**

NOTE 19 - PROFITS AND LOSSES ON CURRENCY TRANSLATION DIFFERENCES

This heading includes the results of the exchange-rate revaluation of monetary assets and liabilities expressed in foreign currency in accordance with the accounting policy described in Note 3, except those that stem from financial instruments measured at fair value though profit & loss.

The balance is broken down as follows:

(thousand euros)

	2009			2008		
	Gain	Loss	Balance	Gain	Loss	Balance
Available-for-sale financial assets	51	-61	-10	74	-62	12
Held-for-sale financial assets	19	-23	-4	60	-70	-10
Other	8	-15	-7	1	-1	-
Total	**78**	**-99**	**-21**	**135**	**-133**	**2**

NOTE 20 - OTHER INCOME, EXPENSES AND VARIATION OF OTHER PROVISIONS

The breakdown of the balance of Other technical income/expense, net of reinsurance, is as follows:

(thousand euros)

	2009	2008
Other technical income	**855**	**1,294**
Co-insurance management commissions	204	257
Claims management fees	43	110
Remuneration for services - IFADAP	7	7
Management on account of claims	601	920
Other technical expense	**1,430**	**1,953**
Co-insurance management commissions	278	70
Management on account of claims	1,152	1,883
Value of gains & losses	**-575**	**-659**

The breakdown of the Other income/expense heading is as follows:

(thousand euros)

	2009	2008
Other non-technical income	**5,819**	**4,740**
Reimbursement of taxes	878	458
Corrections & adjustments	429	316
Other gains	2,308	3,317
Interest & other financial gains	271	221
Services rendered	532	397
Gains on the sale of tangible assets	3	31
Own work capitalised	1,398	-
Other non-technical expense	**6,162**	**5,326**
Donations	126	92
Sponsorship	288	273
Gifts to customers	312	274
Fines	13	32
Subscriptions	13	93
Contractual rescissions	2,105	1,668
Bad debt	29	114
Corrections & adjustments	710	1,548
Other expense	2,447	1,088
Banking services & default interest	119	144
Value of gains & losses	**-343**	**-586**

NOTE 21 - SUNDRY COSTS BY FUNCTION AND NATURE

Costs recorded under Costs by nature of expense to be imputed are not shown directly in the profit & loss account, in that they are distributed to the insurer's four main functions and are reflected in and distributed to the following headings:

- Claims Function: Costs of claims - Gross amounts paid
- Acquisition Function: Operating costs and expenses - Acquisition costs
- Administrative Function: Operating costs and expenses - Administrative costs
- Investments Function: Financial expenses - Other

The process of imputing costs by nature of expense is in keeping with the following criteria, depending on the case:

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

The breakdown of these expenses and their distribution using the classification based on their function as at December 31, 2009 & 2008, is as follow:

(thousand euros) (%)

2009	Cost of Claims		Acquisition Costs		Administrative Costs		Cost of Investments		Total	
Staff costs	6,808	18%	14,528	38%	16,086	43%	361	1%	37,783	100%
Third-party supplies & services	4,146	17%	9,217	39%	10,133	42%	437	2%	23,933	100%
Taxes	-	-	-	-	2,297	100%	-	-	2,297	100%
Depreciation	1,676	21%	3,719	47%	2,324	29%	253	3%	7,972	100%
Provisions for contingencies & liabilities	-	-	-	-	594	100%	-	-	594	100%
Other costs	24	5%	52	11%	21	5%	365	79%	462	100%
Total	**12,654**	**17%**	**27,516**	**38%**	**31,455**	**43%**	**1,416**	**2%**	**73,041**	**100%**

(thousand euros) (%)

2008	Cost of Claims		Acquisition Costs		Administrative Costs		Cost of Investments		Total	
Staff costs	7,238	19%	15,726	41%	15,065	39%	357	1%	38,386	100%
Third-party supplies & services	4,712	19%	9,912	39%	10,345	41%	321	1%	25,290	100%
Taxes	-	-	-	-	2,931	100%	-	-	2,931	100%
Depreciation	1,843	21%	4,111	47%	2,584	29%	248	3%	8,786	100%
Provisions for contingencies & liabilities	-	-	-	-	567	100%	-	-	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%**

Staff costs are detailed in Note 22.

The breakdown of Third-party supplies & services is as follows:

(thousand euros)

	2009	2008
Electricity & water	459	504
Fuel	289	346
Office material, stationery, etc.	205	204
Gift articles	304	212
Office equipment & furniture maintenance	300	301
IT equipment maintenance	1,278	1,590
Rents	1,314	802
Operational rental of vehicles & other rentals	1,385	1,182
Travel & entertainment costs	1,180	1,269
Telephone communications & networks	1,296	1,989
Post	1,728	2,021
Insurance	131	153
Retainers & fees	569	531
Advertising & marketing	1,899	1,960
Cleaning, hygiene & comfort	482	439
Guards & security	284	283
Outsourcing, consultancy & specialised work	6,863	7,272
Software services & development	1,660	2,165
Subscriptions to APS	237	267
Premium collection	674	707
Training brokers	418	343
Temporary work	225	285
Other sundry supplies & services	753	465
Total	**23,933**	**25,290**

The breakdown of Taxes and charges is as follows:

(thousand euros)

	2009	2008
VAT borne	231	217
ISP charge	745	766
FAT charge	673	681
FGA charge	-	598
Municipal property tax	52	50
Civil Governments charge	480	504
Portuguese Green Card Office charge	74	62
Other taxes, charges & licences	42	53
Total	**2,297**	**2,931**

The breakdown of Depreciation and charges is as follows:

(thousand euros)

	2009	2008
Software development costs	4,787	5,214
Software	653	315
Hardware	150	136
Premises	719	716
Office equipment & machines	307	277
Fixtures & fittings	279	522
Finance leasing	1,033	1,569
Other equipment	44	37
Total	**7,972**	**8,786**

The breakdown of the Provision for contingencies & liabilities and for Other costs is as follows:

(thousand euros)

	2009	2008
Provisions for taxes	594	567
Interest on reinsurers' deposits	20	60
Finance leasing interest	98	197
Safekeeping commission, securities' custody & other commissions	344	560
Total	**1,056**	**1,384**

The breakdown of Net operating costs and expenses is as follows:

(thousand euros)

	2009	2008
Acquisition costs		
Brokerage remuneration	31,200	33,348
Costs imputed	27,516	29,852
Other acquisition costs	6,580	8,611
Deferred acquisition costs (change)	1,345	2,508
Administrative costs		
Brokerage remuneration	1,769	2,045
Costs imputed	31,455	31,536
Reinsurance commissions & profit-sharing:	-8,597	-8,394
Total	**91,268**	**99,506**

NOTE 22 - STAFF COSTS

The breakdown of average number of workers in the Company's service by professional category is as follows:

	2009	2008
Management	62	61
Technical personnel	175	191
Technical-administrative personnel	301	341
Sales personnel	139	153
IT personnel	30	32
General support personnel	6	8
Electricians	1	1
Total	**714**	**787**

These numbers must be increased by 4 employees assigned to the Spain branch. Staff costs are detailed as follows:

(thousand euros)

	2009	2008
Remuneration - Corporate officers	1,846	1,793
Remuneration - Personnel	26,531	27,317
Charges on remuneration - Corporate officers	138	123
Charges on remuneration - Personnel	5,576	5,730
Post-employment benefits - Defined-benefit pension plans	1,857	1,615
Mandatory insurance	729	746
Social welfare costs	864	837
Training	169	147
Other staff costs	73	78
Total	**37,783**	**38,386**

As at December 31, 2009 & 2008, the Company had no loans or advances extended to corporate officers.

In compliance with Act 28/2009 of June 19, the remuneration paid to each member of the management and supervisory bodies in 2009 was as follows:

(thousand euros)

	Total
Executive Committee	**1,138**
Pedro Guilherme Beauvillain de Brito e Cunha (chairman)	215
Augusto Tomé Pires Fernandes Pedroso	226
António Miguel Natário Rio-Tinto	264
Miguel Maria Pitté Reis da Silveira Moreno	226
Nuno Miguel Pombeiro Gomes Diniz Clemente	207
Board of Directors	**587**
Rui Manuel Leão Martinho (chairman)	88
Eduardo Antunes Stock	199
Miguel Luís Kolback da Veiga	50
António José Baptista do Souto	50
Manrico Iachia	50
António Manuel Rodrigues Marques	150
Audit Committee	**55**
José Manuel Ruivo da Pena (chairman)	21
Rui Manuel Duarte Sousa da Silveira	17
António Ricardo Espírito Santo Bustorff	17
Total	**1,780**

The Company's other corporate offices perform unremunerated duties.

NOTE 23 - EMPLOYEE BENEFIT OBLIGATIONS

Retirement pensions and health benefits

As stated in Note 3, Tranquilidade set up defined-benefits plans for its employees and directors, covering both pre-retirement, death, old-age and disability. There is also a plan covering a number of health benefits for employees in service and pre-retirees up to normal retirement age.

An actuarial valuation of the retirement benefits and health benefits is performed annually at Tranquilidade, the most recent one with reference to December 31, 2009.

The main assumptions used in the actuarial studies as at December 31, 2009 & 2008 to determine the update value of the employees' pensions and health benefits are as follows:

	2009	2008
Financial assumptions		
Wage growth rates	3.25% - 3.75% (*)	3.5% - 4% (*)
Pension growth rate	0.75% - 3.75% (*)	1.25% - 4% (*)
Rates of return of the fund	5.19% - 4.74% (*)	6% - 5.7% (*)
Medical-costs growth rates	5.00%	5.00%
Early-retirement pension growth rate	2.25%	2.50%
Discount rate	5.50%	5.75%
Demographic growth rates and valuation methods		
Mortality Table	GKF 95	GKF 95
Disability Table	Suisse Re 2001	Suisse Re 2001
Actuarial valuation method	**Project Unit Credit Method**	

(*) In respect of liabilities towards directors

In accordance with the Accounting Policy described in Note 3, the discount rate used to estimate retirement pension and health benefit liabilities is the market rate on the balance-sheet date associated with high-rating corporate bonds.

The effect of a one percentage point positive or negative variation of the growth rate of medical costs of the aggregates of the cost of current service and of interest, as well as on the accumulated post-employment benefits obligation is as follows:

(thousand euros)

	2009		2008	
	+1p.p.	-1p.p.	+1p.p.	-1p.p.
Aggregate of the cost of current services and of the interest cost for the year	1	- 1	1	-1
Accumulated post-employment benefits obligation	19	-19	18	-18

As at 31 December 2009 & 2008, the number of participants covered by the benefits plan was as follows:

(thousand euros)

	2009	2008
In service	393	440
Pensioners	233	220
	626	**660**

As at December 31, 2009 & 2008, the breakdown of amounts recognised in the balance sheet is as follows:

(thousand euros)

	2009			2008		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Net assets/ (liabilities) recognised in the balance sheet						
Liabilities as at December 31	**-45,323**	**-751**	**-46,074**	**-44,250**	**-705**	**-44,955**
Balance of the fund on December 31	**45,010**	**-**	**45,010**	**43,087**	**-**	**43,087**
Assets/ (liabilities) to be received from/delivered to the fund	-313	-751	-1,064	-1,163	-705	-1,868
Actuarial deviations deferred as at December 31	14,312	276	14,588	14,534	145	14,679
Net assets/ (liabilities) in the balance sheet as at December 31	**13,999**	**-475**	**13,524**	**13,371**	**-560**	**12,811**

Additionally, Tranquilidade transferred part of its retirement pension liabilities by taking out life insurance policies with T-Vida, Companhia de Seguros, SA. The number of employees covered by these policies stands at 441 (2008: 476), and the total liability stands at €15,306k (2008: €16,073k).

The breakdown of liabilities for retirement pensions and health benefits is as follows:

(thousand euros)

	2009			2008		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Liabilities as at January 1	**44,250**	**705**	**44,955**	**51,346**	**534**	**51,880**
Cost of current service	1,173	3	1,176	1,335	4	1,339
Interest cost	2,404	37	2,441	2,632	25	2,657
Actuarial (gains) and losses on liabilities	1,700	136	1,836	-3,242	260	-2,982
Pensions paid by the fund	-4,164	-	-4,164	-4,303	-	-4,303
Benefits paid by the Company	-40	-130	-170	-37	-118	-155
Transfers from other funds	-	-	-	-3,481	-	-3,481
Liabilities as at December 31	**45,323**	**751**	**46,074**	**44,250**	**705**	**44,955**

A evolução do valor do fundo de pensões nos exercícios de 2009 e 2008 pode ser analisada como segue:

(thousand euros)

	2009			2008		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Balance of the Fund on January 1	**43,087**	**-**	**43,087**	**47,311**	**-**	**47,311**
Real return of the fund						
Expected return of the fund	2,374	-	2,374	2,742	-	2,742
Actuarial gains & losses	1,313	-	1,313	-6,189	-	-6,189
Contributions paid by fund participants	2,400	-	2,400	7,007	-	7,007
Pensions paid by the fund	-4,164	-	-4,164	-4,303	-	-4,303
Transfers from other funds	-	-	-	-3,481	-	-3,481
Balance of the fund on December 31	**45,010**	**-**	**45,010**	**43,087**	**-**	**43,087**

The evolution of the value of the pension fund is as follows:

(thousand euros)

	2009			2008		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Actuarial deviations deferred as at January 1	**14,534**	**145**	**14,679**	**11,952**	**-119**	**11,833**
Actuarial (gains) & losses						
- on liabilities	1,700	136	1,836	-3,242	260	-2,982
- on the plan's assets	-1,313	-	1,313	6,189	-	6,189
Amortisation for the year	-609	-5	-614	-365	4	-361
Actuarial deviations deferred as at December 31	**14,312**	**276**	**14,588**	**14,534**	**145**	**14,679**

The breakdown of actuarial deviations deferred in the balance sheet is as follows:

(thousand euros)

	2009			2008		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
(Assets)/ liabilities receivable or payable as at January 1	**1,163**	**705**	**1,868**	**4,035**	**534**	**4,569**
Actuarial gains and losses on liabilities	1,700	136	1,836	-3,242	260	-2,982
Actuarial gains & losses of the funds	-1,313	-	-1,313	6,189	-	6,189
Charges for the year:						
- Cost of current service	1,173	3	1,176	1,335	4	1,339
- Interest cost	2,404	37	2,441	2,632	25	2,657
- Expected return of the fund	-2,374	-	-2,374	-2,742	-	-2,742
Contributions paid during the year and pensions paid by the Company	-2,440	-130	-2,570	-7,044	-118	-7,162
(Assets)/ liabilities receivable or payable as at December 31	**313**	**751**	**1,064**	**1,163**	**705**	**1,868**

The evolution of assets receivable/ liabilities deliverable in 2009 and 2008 is as follows:

(thousand euros)

	2009			2008		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Cost of current service	1,173	3	1,176	1,335	4	1,339
Interest cost	2,404	37	2,441	2,632	25	2,657
Expected return of the fund	-2,374	-	-2,374	-2,742	-	-2,742
Amortisation for the year	609	5	614	365	-4	361
Costs for the year	**1,812**	**45**	**1,857**	**1,590**	**25**	**1,615**

The breakdown of the year's costs incurred with retirement pensions and health benefits is as follows:

(thousand euros)

	2009			2008		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
As at January 1	13,371	-560	12,811	7,917	-653	7,264
Costs for the year	-1,812	-45	-1,857	-1,590	-25	-1,615
Contributions paid during the year and pensions paid by the Company	2,440	130	2,570	7,044	118	7,162
As at December 31	**13,999**	**-475**	**13,524**	**13,371**	**-560**	**12,811**

The breakdown of the assets of the pension fund is as follows:

(thousand euros)

	2009	2008
Land & buildings	8,096	8,191
Equities & other floating-rate securities	17,978	15,161
Fixed-income securities	34,080	25,946
Balances with credit institutions	2,133	8,983
Fund's debtors & creditors	-565	22
Interest receivable	441	758
	62,163	**59,061**

The figures for assets disclosed above are all in respect of the Tranquilidade Group + BES-Vida Pension Fund, of which associate Tranquilidade accounts for about 72.4% (2008: 73.0%) of the total of the fund.

The evolution of the funds' liabilities and balances over the past 5 years is as follows:

(thousand euros)

	2009		2008		2007		2006		2005	
	Retirement Pensions	Health Benefits	Retirement Pensions	Health Benefits	Retirement Pensions	Health Benefits	Retirement Pensions	Health Benefits	Retirement Pensions	Health Benefits
Liabilities	**-45,323**	**-751**	**-44,250**	**-705**	**-51,346**	**-534**	**-52,346**	**-586**	**-44,134**	**-773**
Balance of the funds	45,010	-	43,087	-	47,311	-	46,120	-	45,630	-
Liabilities (under)/over financed	-313	-751	-1,163	-705	-4,035	-534	-6,226	-586	1,496	-773
Actuarial (gains)/ losses not recognised	14,312	276	14,534	145	11,952	-119	9,116	-147	10,925	-30
Net assets/ (liabilities) recognised in the balance sheet	**13,999**	**-475**	**13,371**	**-560**	**7,917**	**-653**	**2,890**	**-733**	**12,421**	**-803**

NOTE 24 - INCOME TAX

The Company is subject to the tax legislation enacted by the IRC Code (Corporate Income Tax Code). Additionally, the concept of deferred taxes resulting from temporary differences between book results and results accepted by the authorities for taxation purposes is applicable whenever there is a reasonable probability that such taxes will come to be paid or recouped in the future.

Calculation of the current tax for 2009 and 2008 has been made on the basis of a nominal tax rate plus the municipal surcharge, totalling 26.44%, the nominal rate approved on the balance-sheet date.

The Company has been subject to annual inspections by the DGCI (Directorate General of Taxation), whose latest report refers to 2007 and contains no significant adjustments to the tax returns submitted in previous yeas.

The Insurer's self assessment tax returns for 2006 and subsequent years are subject to inspection and possible adjustment by the Tax Authorities during a period of four years.

Since they are pending acceptance by the tax authorities, the following tax benefits have not yet been considered for accounting purposes in the estimate of tax payable:

- Fiscal reporting of the merger, in the sum of €42,886k;
- Reinvestment of gains on the sale of a financial holding, in the sum of €28,754k.

Deferred tax assets and liabilities reported in 2009 and 2008 are detailed as follows:

(thousand euros)

	2009		2008	
	Current Tax Assets	Current Tax Liabilities	Current Tax Assets	Current Tax Liabilities
Income tax	6	16,921	11	14,494
Tax withheld at source	0	766	0	833
Value added tax	1,894	0	242	0
Other taxes & charges	82	7,990	70	7,225
Social security contributions	109	767	95	753
Local government rates	0	120	0	120
	2,091	**26,564**	**418**	**23,425**

The breakdown of Deferred tax assets and liabilities recognised in the 2009 and 2008 balance sheets is as follows:

(thousand euros)

	Assets		Liabilities		Net	
	2009	2008	2009	2008	2009	2008
Investments	1,679	1,330	-13,588	-6,002	-11,909	-4,672
Post-employment benefits	240	276	-3,022	-2,926	-2,782	-2,650
Technical provisions	1,249	1,666	-	-	1,249	1,666
Doubtful debt provision	52	25	-	-	52	25
Other non-deductible costs	274	163	-	-	274	163
Total	**3,494**	**3,460**	**-16,610**	**-8,928**	**-13,116**	**-5,468**

The figures for 2009 and 2008 include amounts in respect of the deferral over 5 years of the impact on taxation stemming from the transition to the IFRS.

Current and deferred taxes in 2009 were recognised as follows:

(thousand euros)

2009	Fair-value Reserve	Profit & Loss	Total
Current Tax	**-**	**-2,968**	**-2,968**
Corporate Income Tax Estimate		-2,661	-2,661
Autonomous tax		-307	-307
Deferred Tax	**-7,673**	**25**	**-7,648**
Investments	-7,673	436	-7,237
Post-employment benefits		-132	-132
Tangible/Intangible assets		-	-
Technical provisions		-417	-417
Bonus/Profit sharing		-	-
Doubtful debt provision		27	27
Other non-deductible costs		111	111
Total	**-7,673**	**-2,943**	**-10,616**

Reconciliation of the tax rate is as follows:

(thousand euros)

	2009	2008
Profit/(loss) before tax	12,160	11,361
Tax rate	26.44%	26.44%
Tax determined on the basis of the official rate	**-3,215**	**-3,004**
Dividends excluded from the taxation	524	1,165
Tax benefits	143	165
Other income & costs excluded from taxation	-217	-1,020
Deferred tax asset not previously recognised	129	1,774
Autonomous Tax	-307	-382
Current + Deferred Tax	**-2,943**	**-1,302**

NOTE 25 - ISSUED CAPITAL

The issued capital of Companhia de Seguros Tranquilidade, SA, in the sum of €135 million, represented by 27 million shares each of a par value of €5, is fully subscribed and paid up.

NOTE 26 - RESERVES

Under equity there are sundry types of reserves, the nature and purpose of which are as follows:

Legal reserve

The legal reserve may be used only to cover accumulated losses or to increase equity capital. According to Portuguese law, the legal reserve must be credited each year with at least 10% of the annual net profit until it equals the equity capital.

Fair-value reserves

The fair value reserves represent potential gains and losses in respect of the available-for-sale financial investments, net of the impairment recognised in profit & loss during the year or in previous years.

Deferred tax reserves

Deferred taxes recognised under equity stemming from the revaluation of available-for-sale financial assets are subsequently recognised in the income statement at the time the gains & losses that gave rise to them are recognised in the income statement.

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

Free reserves

Free reserves stem from the decision adopted by the General Meeting to appropriate profits generated during the year or brought forward.

The breakdown of the reserves as at December 31, 2009 & 2008, is as follows:

(thousand euros)

	2009	2008
Reserves for financial assets at fair value	53,079	22,629
Reserve for deferred taxes	-13,329	-5,656
Other reserves	41,052	40,046
- Legal reserve	40,124	39,118
- Free reserves	928	928
Reserves	**80,802**	**57,019**

The description of the movements of each reserve under equity is stated in the statement of changes in equity, presented at the beginning of the report and accounts in conjunction with the financial statements and the cash-flow statement.

The breakdown of the gross fair value reserve, in keeping with the type of assets, is as follows:

(thousand euros)

	2009	2008
Investments in affiliates, associated and joint ventures	59,715	39,233
Floating-rate securities	7,762	5,745
Fixed-income securities	-14,398	-22,349
Fair-value reserve	**53,079**	**22,629**

The net fair value reserve as at December 31, 2009 & 2008, is as follows:

(thousand euros)

	2009	2008
Amortised cost of available-for-sale investments	389,871	341,092
Acquisition costs of investments in affiliates, associates and joint ventures	106,262	93,773
	496,133	**434,865**
Impairment	-16,688	-16,135
Net amortised/acquisition impairment cost	**479,445**	**418,730**
Fair value of available-for-sale investments	367,027	308,353
Investments in affiliates, associate and joint ventures	165,497	133,006
	532,524	**441,359**
Gross revaluation reserve (Fair value - cost)	**53,079**	**22,629**
Deferred & current taxes	-13,329	-5,656
Revaluation reserve net of taxes	**39,750**	**16,973**

Movement in the net fair value reserve as at December 31, 2009 & 2008, is as follows:

(thousand euros)

	2009	2008
Balance as at January 1	**16,973**	**54,758**
Fair-value variations, including variation for disposals	31,460	-35,387
Impairment recognised during the year	-1,010	-15,158
Variation of deferred taxes recognised during the year	-7,673	12,760
Balance as at December 31	**39,750**	**16,973**

NOTE 27 - EARNINGS PER SHARE

Earnings per share for the years ended December 31, 2009 & 2008, are as follows:

(thousand euros)

	2009	2008
Net profit/(loss) for the year	9 217	10 059
Number of shares	27 000 000	27 000 000
Earnings per share (in euros)	**0,34**	**0,37**

NOTE 28 - DIVIDENDS PER SHARE

The Company's sole equityholder is Partran – Sociedade Gestora de Participações Sociais, SA, to which no dividends were attributed or paid in 2009.

NOTE 29 - TRANSACTIONS BETWEEN RELATED PARTIES

The whole of Tranquilidade's issued capital is held by Partran, Sociedade Gestora de Participações Sociais, SGPS, SA, having its registered office at rua de S. Bernardo, 62, 1200-826 Lisbon, which prepares consolidated accounts. The accounts of these entities are included within the consolidation perimeter of ESFG - Espírito Santo Financial Group.

Relations between parent company Tranquilidade and its associates over several business areas. The more relevant operations and services are rentals, IT services, life and non-life insurance, insurance marketing, reinsurance, insurance management in the health and medical line, and call centre services.

As at December 31, 2009 & 2008, the overall amount of Tranquilidade's assets and liabilities that refer to transactions with associate and related companies can be summarised as follows:

(thousand euros)

	2009				2008			
	Assets	Liabilities	Costs	Income	Assets	Liabilities	Costs	Income
BANCO ESPÍRITO SANTO, S.A.	62,346	513	1,157	3,600	37,252	2,039	1,048	3,668
T-VIDA	20,240	63	-	-	39,030	-	-	1,750
LOGO	4,437	4,488	6,424	5,317	725	2,627	2,915	1,847
ES CONTACT CENTER	277	-	131	52	277	38	1,097	104
ESUMÉDICA	391	-	-	-	353	-	-	-
ESSAUDE	1,255	-	-	57	2,515	-	-	110
ESSEGUR	92	-	273	234	74	22	296	881
MULTIPESSOAL - SOC. PREST SERV	-	-	73	-	-	6	58	-
BES VIDA	439	102	-	194	1,171	-	-	195
ESPIRITO SANTO ACE	-	-	-	131	-	-	-	121
ADVANCECARE	10	265	3,264	777	9	969	3,117	-
BES LEASING	19,710	2,600	98	-	65	3,091	415	166
MULTIPESSOAL - TRAB TEMPOR	-	8	188	-	-	9	228	-
SGL	-	37	480	-	-	4	321	-
BES SEGUROS	296	66	-	888	71	-	-	1,076
ESAF	-	-	-	808	20	-	-	764
EUROP ASSISTANCE	1,080	-	-	336	-	-	-	120
GESFIMO	-	-	-	41	-	-	-	20
ESFIL LUX	3,070	-	-	-	-	-	-	-
ESFG	5,317	-	-	-	-	-	-	-
ESGEST	8	-	300	-	15	-	-	300
TOP ATLÂNTICO	-	9	395	-	-	32	436	-
HERDADE DA COMPORTA	-	-	-	21	-	-	-	30
QUINTA DOS CÓNEGOS	-	-	-	-	153	-	-	-
Total	**118,968**	**8,151**	**12,783**	**12,456**	**81,730**	**8,837**	**9,931**	**11,152**

NOTE 30 - CASH-FLOW STATEMENT

The cash-flow, drawn up from an indirect standpoint of the source and application of funds, is presented at the beginning of the report and accounts, together with the financial statements and the statement of changes in equity.

NOTE 31 - COMMITMENTS

The Company has entered into finance lease contracts for the acquisition of IT equipment and transport material, as well as operational lease contracts in respect of transport material.

The contractual commitments expressed in the balance sheet in respect of finance lease contracts are as follows:

(thousand euros)

	2009	2008
Tangible assets (gross)	10 542	9 989
Accrued depreciation	-9 681	-8 656
Tangible assets (net)	**862**	**1 333**
Creditors - Suppliers of assets	**2 600**	**3 091**

The breakdown of the maturities of outstanding finance lease contract rents is as follows:

(thousand euros)

	Up to 3 months	4 to 12 months	+1 to 5 years
Finance lease contracts	277	802	1 521
Operacional lease contracts	262	571	892

A purchase and sale contract was closed in September for the acquisition of a property to be used as investment property in the future, against payment of €1 million. Still to be realised under this contract are financial commitments in the sum of €2.5 million, payable on the date the conveyance deed is signed and after approval of the licensing plans, which will predictably occur by June 2010.

With regard to Investment Funds (Private Equity), the Company has assumed liabilities in the sum of €7.15 million. These are sums payable in respect of investments having a duration of between ten and twelve years, the investment effort being centred on the first five years. The assets of this fund are to be invested in the acquisition of holdings and/or in projects of high growth and appreciation potential.

NOTE 37 - OTHER INFORMATION

RECENTLY-ISSUES STANDARDS AND INTERPRETATIONS

Adopted by the Company

In the preparation of the financial statements as at December 31, 2009, the Company adopted the following accounting standards and interpretations of mandatory application as from January 1, 2009:

IFRS 2 (amended) - Share-based payments: acquisition conditions

In January 2008 the International Accounting Standards Board (IASB) issued an amendment to IFRS 2 which came into force on January 1, 2009. This amendment to IFRS 2 (i) clarifies that the conditions of acquisition of rights inherent in a share-based payment plan are limited to service or performance conditions, (ii) introduces the concept of non-vesting conditions, and (iii) determines that any cancellation of such programmes, either by the enterprise or by third parties, has the same accounting treatment.

The adoption of this standard had no impact on the Company's financial statements.

IFRS 7 (amended) – Financial instruments: disclosures

In September 2009 the International Accounting Standards Board (IASB) issued IFRS 7 (amended) – Financial instruments: Disclosures, application of which is mandatory as from January 1, 2009. This amendment of IFRS 7 requires additional information in the disclosures (i) on the measurement of fair values, determining in particular that they must be presented at three hierarchic levels defined in the standard itself, and (ii) on the liquidity risk.

In view of the nature of these amendments the impact on the Company's financial statements was limited solely to disclosure.

FRS 8 – Operating segments

On November 20, 2006, the International Accounting Standards Board (IASB) issued IFRS 8 Operating Segments, which was adopted for use within the European Union on November 21, 2007. Application of this standard is mandatory as from January 1, 2009. IFRS 8 – Operating Segments defines the presentation of information on the operating segments of an enterprise.

This rule specifies how an enterprise should report its information in the year's financial statements and, as a consequence, amends IAS 34 – Interim financial reporting insofar as the information selected for interim financial reporting is concerned. An entity must provide a description of the information provided by segment, particularly results and transactions, and also on the way the segments are constructed..

This standard is of mandatory application by quoted companies and is not therefore mandatory for the Company.

IAS 1 (revised) – Presentation of financial statements

In September 2007 the International Accounting Standards Board (IASB) issued IAS 1 (amended) – Presentation of financial statements, application of which is mandatory as from January 1, 2009. IAS 1 (revised) requires that financial information be aggregated in the preparation of financial statements in the light of its basic characteristics and introduces the comprehensive income statement.

In the wake of the alterations imposed by this standard, users of financial statements can more easily distinguish between changes to the Group's equity stemming from transactions with equityholders (e.g., dividends, treasury-share transactions) and transactions with third parties, which are summarised in the comprehensive income statement.

Additionally, where the comparative information is rewritten or reclassified, particularly in the wake of the introduction of new accounting standards, a balance sheet has to be presented as of the start date of the comparative period included in the financial statements.

The alterations imposed by IAS 1 affected only the presentation of the Company's financial statements.

IAS 23 (revised) – Borrowing costs

In September 2007 the International Accounting Standards Board (IASB) issued IAS 23 (revised) – Borrowing costs, application of which is mandatory as from January 1, 2009. This standard requires enterprises to capitalise borrowing costs directly attributable to the cost of acquisition, construction or production of a qualifying asset as an integral part of the cost of acquisition, construction or production of that asset.

Thus, the option of recording these costs directly in profit & loss has been eliminated. Qualifying assets are those that require a substantial period of time to be ready for their intended use or for sale.

The adoption of this Standard had no impact on the Company's financial statements.

Revision of IAS 32 - Financial instruments: presentation – Puttable financial instruments and obligations arising on liquidation

In February 2008 the International Accounting Standards Board (IASB) issued a revision of IAS 32 Financial instruments: presentation – puttable financial instruments and obligations arising on liquidation, application of which is mandatory as from January 1, 2009. This alteration affects the classification of puttable financial instruments and obligations arsing on liquidation.

In accordance with the requirements of IAS 32, financial instruments (i) reimbursable in cash or settled by other financial assets or (ii) entitling their holder to demand that the issuer reacquire them (puttable instruments), are classified as financial liabilities.

The amendment of this standard, effective as from January 1, 2009, means that some instruments that qualified as financial liabilities under the previous IAS 32, now come to be recognised as capital instruments, should they have certain characteristics, in particular that: (i) they represent an ultimate residual interest in the net assts of an entity; (ii) that they are part of a class of instruments subordinated to any other class of instruments issued by the entity; and that (iii) all instruments of that class have the same terms and conditions.

The IASB also amended IAS 1 – Presentation of financial statements, having introduced additional disclosure requirements in respect of instruments of this type.

The adoption of this Standard had no impact on the Company's financial statements.

IFRIC 13 – Customer loyalty programmes

IFRIC 13 – Customer loyalty programmes was issued in July 2007 and came into force for periods starting on or after July 1, 2008. It is therefore relevant to the Group only as from January 1, 2009. This interpretation applies to customer loyalty programmes in which credits are granted to customers as an integral part of a sale or provision of services, and they may swap these credits, at some future time, for services or goods free-of-charge or at a discount.

The adoption of this standard had no significant impact on the Company's financial statements.

IFRIC 15 – Agreements for the construction of real estate

IFRIC 15 – Agreements for the construction of real estate came into force for periods starting as from January 1, 2009. This interpretation contains guidelines that allow determination as to whether a contract for the construction of immovables lies within the scope of IAS 18 - Recognition of income or of IAS 11 - Construction agreements, and it can be expected that IAS 18 will be applicable to a larger number of transactions.

The adoption of this interpretation had no impact on the Company's financial statements.

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

IFRIC 16 – Hedges of a net investment in a foreign operation is applicable to periods starting as from October 1, 2008. This interpretation is designed to clarify that:

- Hedging an investment in an operation in foreign currency may be applied only to currency translation differences stemming from the translation of the financial statements of the subsidiaries in their working currency into the working currency of the parent company, and only in a sum equal to or less than the equity of the subsidiary;
- The hedge may be contracted by any group entity except the entity that is being hedged: and
- At the time of the sale of the subsidiary that is hedged, the accumulated gain or loss in respect of the effective component of the hedge is reclassified to profit & loss.

This interpretation allows an entity that uses the step consolidation method to select an accounting policy allowing determination of the accumulated currency translation adjustment, which is reclassified to results of the sale of the subsidiary, as would be the case were the direct consolidation method used. This interpretation is of prospective application.

The adoption of this interpretation had no impact on the Company's financial statements.

Annual Improvement Project

In May 2008, the IASB published the Annual Improvement Project, which altered certain standards in force till then. The alterations affecting the Group in 2009 are as follows:

- Amendment of IAS 1 – Presentation of financial statements, effective as from January 1, 2009. The amendment clarifies that just some, and not all, of the financial instruments classified in the trading category constitute examples of current assets and liabilities. The adoption of this alteration had no impact on the Company's financial statements.

- Amendment of IAS 16 – Tangible fixed assets, effective as from January 1, 2009. The amendment determines rules of classification (i) of revenue generated by the sale of assets held for rental and subsequently sold, and (ii) of these assets during the time span between the date of termination of the rental and the sate of their sale. The adoption of this alteration had no impact on the Company's financial statements.

- Amendment of IAS 19 – Employee benefits, effective as from January 1, 2009. The amendments clarify (i) the concept of costs of past services stemming from alteration of the defined-benefits plan, (ii) the interaction between the expected return on the assets and the plan's management costs, and (iii) the distinction between short-term and long- and medium-term benefits. The adoption of this alteration had no impact on the Company's financial statements.

- Amendment of IAS 20 – Accounting for government grants and disclosure of government assistance, effective as from January 1, 2009. This amendment determines that the benefit stemming from obtaining a government loan at rates lower than market rates shall be measured as the difference between the fair value of the liability on the date it is contracted, determined in accordance with IAS 39 – Financial instruments: recognition and measurement, and the amount received. Such benefits must subsequently be recorded in accordance with IAS 20. The adoption of this alteration had no impact on the Company's financial statements.

- Amendment of IAS 23 – Borrowing costs, effective as from January 1, 2009. The concept of borrowing costs has been altered to clarify that they must be determined in accordance with the effective rate method provided for in IAS 39 – Financial instruments: recognition and measurement, thus eliminating the inconsistency between IAS 23 and IAS 39. The adoption of this alteration had no impact on the Company's financial statements.

• Amendment of IAS 27 – Consolidated and separate financial statements, effective as from January 1, 2009. The amendment of this standard determines that where an investment in a subsidiary is carried at fair value in the individual accounts, in accordance with IAS 39 – Financial instruments: recognition and measurement, and such as 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 shall continue to be measured within the scope of IAS 39. The adoption of this alteration had no impact on the Company's financial statements.

• Amendment of IAS 28 – Investments in associates, effective as from January 1, 2009. The aim of the amendments introduced to IAS 28 was to establish (i) that an investment in an associated shall be processed as a single asset for the purpose of impairment tests to be undertaken in the light of IAS 26 – Impairment of assets, (ii) that any impairment loss to be recognised shall not be allocated to specific assets, particularly to goodwill, and (iii) that reversals of impairments are recorded as an adjustment to the book value of the associate, provided and to the extent that the recoverable value of the investment increases. The adoption of this alteration had no impact on the Company's financial statements.

• Amendment of IAS 38 – Intangible fixed assets, effective as from January 1, 2009. This amendment determined that a deferred cost incurred within the context of promotional or advertising activities can be recognised in the balance sheet only where a prepayment has been made in respect of goods or services to be received at a future date. Recognition in profit & loss shall occur where the entity is entitled to access to the goods and services that are received. The adoption of this alteration had no impact on the Company's financial statements.

• Amendment of IAS 39 – Financial instruments: recognition and measurement, effective as from January 1, 2009. These amendments fundamentally consist of (i) clarifying that transfers can be made to and from the fair-value category through profit & loss in respect of derivatives in the event that they start or end in a hedge relationship in cash-flow hedge models or from a net investment in an associate or subsidiary, (ii) altering the definition of financial instruments at fair value through profit & loss in respect of the trading category, so as to establish that in the case of financial instrument portfolios managed jointly and in respect of which there is evidence of recent activities leading to the realisation of short-term gains, they must be classified as trading in their initial recognition (iii) altering the requirements of documentation and effectiveness tests in hedge relationships established at the level of operating segments determined within the scope of application of IFRS 8 – Operating segments, and (iv) clarifying that the measurement of a financial liability at amortised cost must be undertaken on the basis of the new effective rate calculated on the date of interruption of the hedge relationship. The adoption of this alteration had no impact on the Company's financial statements.

• Amendment of IAS 40– Investment properties, effective as from January 1, 2009. In the wake of this amendment, properties under construction or development with a view to their subsequent use as in investment properties come to be included within the scope of IAS 40 (previously covered by IAS 16 – Tangible fixed assets). Such properties under construction may be recorded at fair value unless it cannot be reliably measured, in which case they are recorded at acquisition cost. The adoption of this alteration had no impact on the Company's financial statements.

Not yet adopted by the Company

Recently issued accounting standards and interpretations that have not yet come into force and the Company has not yet applied in the preparation of its financial statements are as follows: The Company will adopt these standards when their application is mandatory.

IFRS 1 (revised) – First-time adoption of international financial reporting standards and IAS 27 – Consolidated and separate financial statements

The amendments of IFRS 1– First-time adoption of international financial reporting standards and IAS 27 – Consolidated and separate financial statements are effective for periods starting as from July 1, 2009.

These amendments allow entities that are adopting the IFRS for the first time in the preparation of their individual accounts adopt as the deemed cost of these investments in subsidiaries joint ventures and associates the respective fair value on the date of transition to the IFRS or the book value determined on the basis of the previous accounting reference.

The Company does not expect any impacts to arise from the adoption of this standard.

IFRS 3 (revised) – Business combinations and IAS 27 (reformatted) consolidated and separate financial statements

In January 2008 the International Accounting Standards Board (IASB) issued IFRS 3 (revised) – Business Combinations and an amendment to IAS 27 Consolidated and Separate Financial Statements.

The main impacts of the amendment to these rules involve: (i) treatment of partial acquisitions, in which the non-controlling interests (previously known as minority interests) may be measured at fair value (which implies total recognition of goodwill attributable to the non-controlling interests) or as the part attributable to the non-controlling interests of the fair value of the net assets acquired (as required at present); (ii) step acquisitions in which, at the time of calculation of the goodwill, the new rules require revaluation, offset against profit or loss, of the fair value of any non-controlling interest held prior to the acquisition leading to acquisition of control; (iii) recording costs directly related with the acquisition of a subsidiary, which come to be directly imputable to profit or loss; (iv) contingent consideration, the alteration of the estimate of which over time comes to be recorded in profit or loss and does not affect goodwill; and (v) alterations of the percentages of subsidiaries held that do not cause loss of control, which come to be recorded as changes in equity.

Additionally, the amendment to IAS 27 also means that the accumulated losses of a subsidiary will be attributed to the non-controlling interests (recognition of negative non-controlling interests) and that, at the time of disposal of a subsidiary leading to loss of control, any non-controlling interest retained is measured at fair value as determined on disposal date.

This revision of IFRS 3 and the amendment of IAS 27 are effective for periods starting on or after July 1, 2009. The Company does not expect any impacts to arise from the adoption of this standard.

IFRS 9 – Financial instruments

In November 2009, the International Accounting Standards Board (IASB) issued IFRS 9 – Financial instruments part I; Classification and measurements, mandatorily applicable as from January 1, 2013, early application being allowed. This standard has not yet been adopted by the European Union.

This standard is part of the first stage of the IASB's overall project involving the replacement of IAS 39, and it addresses the subject of financial asset classification and measurement. The main aspects considered are as follows:

- Financial assets come to be classified in two categories: at amortised cost or at fair value. The decision will be taken at the time of initial recognition of the financial assets. Their classification depends on how an entity presents these financial assets in its business-management model and on the contractual characteristics of the financial flows association with each financial asset.

- Only debt instruments whose contracted financial flows comprise solely principal and interest , that is, contain just the basic characteristics of debt, and, in the business-management model, the entity holds these financial asset for the purpose of capturing solely the respective financial flows can be measured at amortised cost. All other debt instruments are recognised at fair value.

- Capital instruments issued by third parties are recognised at fair value and subsequent variations are recorded in profit & loss. However, and entity may irrevocably elect capital instruments for which variations of fair value and realised gains or losses are recognised in profit & loss. The gains and losses thus recognised may not be recycled through profit and loss for the year. This decision is discretionary and does not mean that all capital instruments are treated in this way. Dividends received are recognised in profit and loss for the year.

The Company is assessing the impact of adoption of this standard.

IAS 39 (amended) – Financial instruments: recognition and measurement – assets and liabilities eligible for hedging

The International Accounting Standards Board (IASB) issued an amendment to IAS 39 – Financial instruments: recognition and measurement – assets and liabilities eligible for hedging, which is of mandatory application for periods starting as from July 1, 2009.

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

The Company is assessing the impact of adoption of this standard on its financial statements.

IFRIC 12 – Service concession arrangements

In July 2007, the International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 12 – Service Concession Arrangements, with mandatory effective application date on January 1, 2008, though its early adoption is allowed. The European Union adopted this interpretation only in 2009 and it is therefore of mandatory application by the Group only as from January 1, 2010.

IFRIC 12 applies to public-private services concession contracts and covers only those situations in which the concessor (i) controls or regulates the services provided by the operator, and (ii) controls the residual interests of the infrastructures on maturity of the contract..

In view of the nature of the contracts covered by this interpretation, no impact on the Company's financial statements is expected

IFRIC 17 – Distributions of non-cash assets

IFRIC 17 – Distributions of non-cash assets comes into force for periods starting as from July 1, 2009.

This interpretation is intended to clarify the accounting treatment of distributions of non-cash assets to equityholders. It therefore establishes that non-cash distributions shall be recorded at the fair value of the assets distributed, the difference between that and their book value being recognised in profit & loss on their distribution.

The Company does not expect this interpretation to impact on its financial statements.

IFRIC 18 – Transfers of assets from customers

IFRIC 18 – Transfers of assets from customers comes into force for periods starting as from July 1, 2009.

This interpretation is intended to clarify the accounting treatment of agreements closed whereby an entity received assets from customers for its own use and with a view to subsequently establishing the customers' link to a network or to granting the customers ongoing access to the supply of goods or services.

The interpretation clarifies:

- The conditions in which an asset is within the scope of this interpretation;

- The recognition of the asset and its initial measurement;

- The identification of identifiable services (one or more services in exchange for the transferred asset);

- The recognition of income;

- The accounting of the transfer of cash by customers.

The Company does not expect this interpretation to impact on its financial statements.

Annual Improvement Project

In May 2008, as mentioned earlier, the IASB published the Annual Improvement Project, which amended certain standards that are in force, and only the following alteration is yet to be implemented by the Company:

- Amendment of IFRS 5 – Non-current assets held for sale and discontinued operations, effective for periods starting as from July 1, 2009. This amendment has clarified that the whole of the assets and liabilities of a subsidiary must be classified as non-current assets held for sale in accordance with IFRS 5 if there is a plan for the partial sale of the subsidiary tending to loss of control. This standard will be prospectively adopted by the Company 2010.

APPENDIX 1 INVENTORY OF HOLDINGS AND FINANCIAL INSTRUMENTS

(euros)

Identification of the Securities / Designation	Quantity	Nominal Value	% of Nominal Value	Average Acquisition Cost	Total Acquisition Cost	Book Value (includes accrued interest) Unit	Book Value (includes accrued interest) Total
1 - AFFILIATES, ASSOCIATES, JOINT VENTURES AND OTHER RELATED COMPANIES							
1.1 - Domestic Securities							
1.1.1 - Holdings in affiliates							
1.1.2 - Holdings in associates							
ADVANCECARE	458,997			1.06	485,958.14	55.65	25,545,378.14
BES SEGUROS	750,000			5.01	3,758,668.00	28.83	21,625,000.00
ES CONTACT	831,251			2.22	1,846,077.58	2.78	2,308,107.58
ESUMEDICA	225,000			1.98	445,500.00	11.33	2,550,000.00
EUROPE ASSISTANCE	360,000			4.88	1,756,800.00	12.13	4,368,000.00
FIDUPRIVATE	18,750			25.60	480,050.77	0.00	0.00
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			1.19	77,488,591.00	1.37	89,100,000.00
1.1.4 - Holdings in related companies							
1.1.4 - Holdings in related companies							
BES BANCO ESPIRITO SANTO	260,755			10.09	2,630,184.10	4.55	1,186,695.99
COMPTA	306,960			1.64	503,699.84	0.37	113,575.20
ES INV PLC	1			2.77	2.77	1.27	1.27
ESAF - ACTIVOS FINANCEIROS	117,500			22.93	2,694,626.91	29.63	3,481,867.10
ESPIRITO SANTO SAÚDE	2,655,000			1.25	3,308,200.00	3.72	9,867,000.00
ESTELA GOLF	20			8,580.90	171,618.00	5,266.62	105,332.39
QUINTA DOS CONEGOS	140,600			3.15	443,241.40	3.79	532,635.77
Subtotal	**75,124,834**	**0.00**			**116,013,218,51**		**180,783,593.44**
1.1.8 - Debt securities of related companies							
BEF 07/11		6,000,000.00	100,00%	100.9%	6,053,196.00	101.0%	6,059,238.00
BESLEASING FACT SUBORD 22/10/14		520,000.00	100,00%	100.2%	521,040.00	100.4%	522,296.23
BESLEASING FACTORING 22/08/2012		13,000,000.00	100,44%	100.0%	13,000,000.00	100.6%	13,077,978.33
BESLEASING FACTORING 22/11/2010		50,950.00	100,44%	100.0%	50,950.00	100.6%	51,268.32
Espirito Santo 12/15		2,200,000.00	100,00%	98.2%	2,160,500.00	100.0%	2,200,779.78
Subtotal	**0**	**21,770,950.00**			**21,785,68.00**		**21,911,560.66**
Total	**75,124,834**	**21,770,950.00**			**137,798,904.51**		**202,695,154.10**
2 - OTHER							
2.1 - Domestic securities							
2.1.1 - Capital instruments and unit trusts							
2.1.1.1 - Equities							
ARGOGEST	1,300			0.00	0.00	0.00	0.00
CASSEL	200			0.00	0.00	0.00	0.00
COMP. PREVIDENTE	6			532.54	3,195.23	922.91	5,537.44
COMP. PREVIDENTE SCPF	198			109.86	21,752.48	218.23	43,209.95
COMUNDO	2,008			0.00	0.00	0.00	0.00
EDP RENOVA	62,500			7.92	495,102.09	6.62	413,750.00
FETAL	2,760			20.84	57,528.12	7.03	19,407.46
GALP ENERGIA	23,500			12.55	295,021.56	12.07	283,645.00
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
MADIBEL	7,955			0.01	80.88	0.00	0.00
PORTO CAVALEIROS, SGPS	2,483			0.00	0.00	0.00	0.00
SONAGI	55,600			0.44	24,293.86	1.90	105,640.00
SONAGI AN	100			0.06	5.51	0.01	1.00
SPECTACOLOR PORTUGAL	7,500			14.66	109,986.38	11.39	85,414.49
TELLUS	1,200			0.00	0.00	0.00	0.00
VILATÊXTIL SOC IND TÊXTIL	16			0.00	0.00	0.00	0.00
Subtotal	**209,126**	**0.00**			**1,006,966.11**		**956,957.83**
2.1.1.3 - Investment fund units							
ES RECONVERSÃO URBANA	250			1,002.87	250,716.78	1,000.55	250,138.05
ES TRADING FUND	60,612			104.76	6,349,748.74	106.56	6,458,850.95
ESP SANTO INFRASTRUCTURE FUND I	1,408			1,000.03	1,408,487.11	957.04	1,347,941.72
ESPÍRITO SANTO VENTURES III	10,000,000			0.01	100,000.00	0.01	98,200.00

(euros)

Identification of the Securities Designation	Quantity	Nominal Value	% of Nominal Value	Average Acquisition Cost	Total Acquisition Cost	Book Value (includes accrued interest) Unit	 Total
EXPLORER II	92			25,054.09	2,304,475,54	26,998.00	2,483,276.04
EXPLORER III	2			25,000.00	40,000,00	25,000.00	40,000.00
FUNGERE (UP)	756,868			5.22	3,952,827,85	4.15	3,141,002.20
Subtotal	**10,819,232**	**0.00**			**14,406,256,02**		**13,819,408.96**
Subtotal	**11,028,358**	**0.00**			**15,413,222,13**		**14,776,366.79**
2.1.2 - Debt securities							
2.1.2.1 - Public debt							
PT OT 3.2% 04/15/2011		3,000,000.00	102.23%	102.9%	3,085,800.00	104.5%	3,135,283.56
Subtotal	**0**	**3,000,000.00**			**3,085,800.00**		**3,135,283.56**
2.1.2.3 - Other issuers							
BANCO BPI 3% 07/17/12		3,000,000.00	101.02%	100.7%	3,021 300.00	102.4%	3,071,753.18
BANCO SANTANDER TOTTA 3.25% 10/14		3,600,000.00	99.30%	100.0%	3,599 028.00	99.9%	3,597,511.03
BANIF FINANCE 22/12/2016		2,000,000.00	73.70%	100.2%	2,004 000.00	73.7%	1,474,730.00
BCP 04/14 5.625%		3,500,000.00	107.48%	105.7%	3,700 200.00	111.4%	3,897,795.35
BCP 3.75% 10/16		3,000,000.00	98.96%	99.6%	2,987 100.00	99.8%	2,994,652.31
BCP FINANCE BANK 21/12/16		1,500,000.00	89.99%	90.8%	1,362 000.00	90.0%	1,350,330.83
BESPL 3.375% 02/15		10,200,000.00	98.98%	99.8%	10,183 170.00	99.4%	10,136,948.63
BESPL 5.625% 06/14		9,200,000.00	107.05%	106.5%	9,795 931.21	110.3%	10,145,309.24
BRISA 4.797 03-09/2013		2,000,000.00	104.44%	102.0%	2,040 000.00	105.7%	2,113,933.54
CXGD 3.625% 07/14		3,000,000.00	101.53%	101.4%	3,042 600.00	103.2%	3,094,582.07
CXGD 5.125% 02/14		2,300,000.00	106.69%	106.4%	2,447 890.00	111.1%	2,555,584.86
EDP FIN		3,500,000.00	100.69%	100.0%	3,501 050.00	102.7%	3,593,318.50
EMASA		5,000.00	0.00%	0.0%	0.00	0.0%	0.00
MONTEPIO GERAL 3.25% 07/12		3,000,000.00	101.37%	101.2%	3,034 800.00	102.8%	3,083,143.96
MONTPI 03/05/2012		2,000,000.00	97.22%	100.0%	1,999 190.40	97.4%	1,947,445.16
MONTPI 19/09/2011		3,000,000.00	99.32%	100.2%	3,004 797.60	99.4%	2,980,628.00
P.CAVALEIROS		17,500.00	0.00%	0.0%	0.00	0.0%	0.00
PORTEL 3.75 05-03/12		3,900 000.00	102.16%	101.5%	3,958 110.00	105.0%	4,096,548.78
PORTUGAL TEL FIN 04/30/13 6%		2,000 000.00	108.31%	106.5%	2,129 920.00	112.3%	2,246,708.54
PORTUGAL TELECOM INT FIN 5% 11/04/19		1,350,000.00	100.70%	99.6%	1,344 991.50	101.5%	1,370,423.06
SEMAPA 20/04/2016		700,000.00	99.78%	99.5%	696 500.00	100.3%	701,780.80
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
Term Dep. EUR Barclays		0.00			17,584398.38		17,589 169.03
Term Dep. EUR BCP		0.00			5,000 000.00		5,006 125.00
Term Dep. EUR BES		0.00			10,600 000.00		10,609 980.24
Term Dep. EUR BESI		0.00			20,065 506.05		20,076 100.31
Term Dep. EUR MG		0.00			31,356 883.01		31,610 699.56
Subtotal	**0**	**62,784 000.00**			**148,459 366.15**		**149,345 201.98**
Subtotal	**0**	**65,784 000.00**			**151,545 166.15**		**152,480 485.54**
Total	**11,028,358**	**65,784 000.00**			**166,958 388.28**		**167,256 852.33**
2.2 - Foreign securities							
2.2.1 - Capital instruments and unit trusts							
2.2.1.1 - Equities							
C BUZI	2,000			0.00	0.00	0.00	0.00
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
E.ON AG	15,000			28.39	425,836.40	29.05	435,750.00
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

(euros)

Identification of the Securities / Designation	Quantity	Nominal Value	% of Nominal Value	Average Acquisition Cost	Total Acquisition Cost	Book Value (includes accrued interest) Unit	Book Value (includes accrued interest) Total
NOCAL (CERVEJAS)	2,508			0.00	0.00	0.00	0.00
NOKIA OYJ	24,000			9.18	220,298.26	8.92	214,080.00
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
Subtotal	**166,740**	**0,00**			**646,134.66**		**649,830.00**
2.2.1.3 - Investment fund units							
DB X-TR SHR IBOXX EUR SOV TR	3,570			113.92	406,693.08	113.02	403,481.40
DB X-TRII EUROPE 5Y	1,920			104.88	201,361.82	107.50	206,400.00
L&C UK PUBLIC SECTOR REAL ESTATE	9			901.49	8,365.74	881.00	8,175,59
L&C UK REAL ESTATE	21			1,190.68	25,277.42	1,155.00	24,519.96
Subtotal	**5,521**	**0.00**			**641,698.06**		**642,576.95**
Subtotal	**172,261**	**0.00**			**1,287,832.72**		**1,292,406.95**
2.2.2 - Debt securities							
2.2.2.1 - Public debt							
BTPS 3.75% 12/13		2,500,000.00	104.09%	104.0%	2,600,750.00	104.3%	2,606,359.59
FRANCE O.A.T. 3 10/25/15		2,000,000.00	100.91%	100.6%	2,012,800.00	101.5%	2,029,213.70
HELLENIC REPUBLI GG 5,5 20/08/14		2,250,000.00	102.34%	109.2%	2,457,725.00	107.4%	2,416,906.85
HELLENIC REPUBLIC 4.3 20/03/12		1,500,000.00	100.59%	104.6%	1,568,700.00	104.3%	1,564,867.80
NETHERLANDS GOVT 2.75% 01/15		1,500,000.00	100.38%	99.8%	1,497,000.00	101.7%	1,525,364.38
Subtotal	**0**	**9,750,000.00**			**10,136,975.00**		**10,142,712.32**
2.2.2.3 - Other issuers							
ABB INTL FINANCE 4.625% 06/06/13		1,000,000.00	105.19%	105.4%	1,053,700.00	107.8%	1,078,222.06
ABERTIS INFRA 4.625% 10/16		8,000,000.00	103.65%	101.4%	8,113,050.00	104.6%	8,370,838.89
AIR LIQUIDE 4.375% 06/15		4,000,000.00	104.66%	104.7%	4,188,160.00	107.2%	4,287,430.78
ALSTOM 4% 09/23/14		3,000,000.00	101.63%	100.9%	3,026,580.00	102.7%	3,081,450.35
ANGLO AMERICAN CAP 4.25% 09/13		1,000,000.00	102.98%	99.8%	997,620.00	104.1%	1,040,520.93
BANCA LOMBARDA 19/12/2016		3,000,000.00	93.83%	100.3%	3,007,503.00	93.9%	2,815,982.00
BANCO SABADELL 25/05/2016		2,000,000.00	87.13%	100.4%	2,007,156.30	87.2%	1,744,590.40
BASF FIN EUROPNV 5.125% 06/15		1,000,000.00	107.98%	104.1%	1,041,480.00	110.9%	1,108,560.45
BAT INTL FINANCE 5.875% 03/15		3,000,000.00	109.51%	109.3%	3,279,190.00	114.2%	3,427,243.25
BAYER CAP COPNV 4.625% 09/14		1,000,000.00	106.09%	104.5%	1,044,800.00	107.3%	1,073,036.08
BBVA SUB CAPITAL UNIP 03/04/2017		3,000,000.00	95.08%	100.0%	3,001,340.70	95.3%	2,859,642.73
BMW FINANCE 4% 09/17/14		1,500,000.00	101.92%	101.1%	1,516,650.00	103.1%	1,546,075.12
C.ÁGUAS DA BEIRA		110.00	0.00%	0.0%	0.00	0.0%	0.00
C.MOÇAMBIQUE		120.00	0.00%	0.0%	0.00	0.0%	0.00
CAJA CASTILLA 02/11/2016		2,000,000.00	26.00%	100.2%	2,004,000.00	26.3%	525,801.67
CAJA ZARAGOZA ARAGON 25/04/2019		4,000,000.00	79.44%	100.2%	4,008,000.00	79.6%	3,185,600.44
CARREFOUR SA 5.375% 06/15		750,000.00	109.33%	107.3%	804,577.50	112.3%	842,303.98
COMPAGNIE ST GOBAIN 11/04/2012		2,900,000.00	98.37%	100.1%	2,901,848.11	98.6%	2,859,343.60
CORP PROP INV 7,18% 09/01/2013		500.00	75926.00%	85730.9%	428,654.31	77587.4%	387,936.75
CORP SERV GROUP 10% 04/29/2011		1,667.00	450.40%	1506.8%	25,118.66	466.7%	7,779.29
CSSE NAT C.EPARG P 4,5% 12/14/10		99,952.00	101.46%	92.0%	91,979.38	101.7%	101,620.79
DAIMLER AG 4.625% 09/14		1,500,000.00	103.96%	102.3%	1,535,100.00	105.5%	1,582,202.67
DANSKE BANK 3.25% 10/15		2,000,000.00	99.23%	99.5%	1,989,620.00	100.0%	1,999,768.19
Deutsche Bk 09/22/15		4,000,000.00	94.45%	95.4%	3,815,600.00	94.5%	3,778,789.21
DEUTSCHE TELEKOM 23/05/2012		2,000,000.00	99.63%	101.0%	2,019,030.00	99.8%	1,995,032.82
DEUTSCHE TELEKOM INT 28/03/2012		5,500,000.00	99.45%	100.1%	5,507,808.63	99.5%	5,470,448.78
DOURM 1 A		724,309.84	89.93%	98.0%	709,823.64	90.0%	651,566.39
DSM 4% 11/10/15		3,000,000.00	101.78%	101.2%	3,037,260.00	102.3%	3,070,295.82
E.ON INTL FIN 4.125% 03/13		250,000.00	104.70%	104.8%	261,925.00	107.9%	269,666.79
EDISON SPA 4.25% 07/14		3,000,000.00	102.70%	101.5%	3,045,300.00	104.6%	3,137,581.24
ERICSSON L M TEL 27/06/2014		1,400,000.00	96.76%	99.8%	1,397,452.00	96.8%	1,354,760.66
ERSTE BANK 19/07/2017		8,000,000.00	96.51%	100.4%	8,033,178.07	96.7%	7,739,503.51
ESPIRITO SANTO FIN GRP 6.875% 10/21/19		5,100,000.00	102.93%	101.6%	5,179,208.00	104.3%	5,317,430.79
ESPIRITO SANTO FINANCIER 4.5% 05/31/11		3,000,000.00	99.67%	102.1%	3,063,600.00	102.3%	3,070,360.27
FUND ORD BANK 3% 11/19/14		1,000,000.00	99.70%	99.9%	998,810.00	100.0%	1,000,452.05
GAS NATURAL CAP 4.375% 11/16		2,000,000.00	100.89%	102.3%	2,045,000.00	101.6%	2,032,033.04
GAS NATURAL CAP 5.25% 7/9/2014		3,500,000.00	106.82%	105.7%	3,701,040.00	109.3%	3,826,885.77
GE CAP EUR FUND 17/05/2021		3,000,000.00	83.52%	99.8%	2,994,492.60	83.6%	2,508,998.30

(euros)

Identification of the Securities	Quantity	Nominal Value	% of Nominal Value	Average Acquisition Cost	Total Acquisition Cost	Book Value (includes accrued interest)	
Designation						Unit	Total
GOLDMAN SACHS 02/02/2015		4,000,000.00	97,94%	101.0%	4,038,400.00	98,1%	3,925,250.40
GOLDMAN SACHS 04/02/2013		4,000,000.00	98,52%	100.0%	3,999,082.20	98,7%	3,947,410.27
GOLDMAN SACHS 23/05/2016		3,000,000.00	96,79%	99.9%	2,996,681.40	96,9%	2,906,945.13
GOLDMAN SACHS 30/01/2017		8,000,000.00	96,45%	100.0%	8,003,374.80	96,6%	7,730,851.73
HBOS PLC 09/01/2016		5,500,000.00	95,95%	100.5%	5,527,821.64	96,0%	5,281,839.38
HENKEL AG&CO 4.625% 03/14		750,000.00	106,36%	104.8%	785,625.00	110,0%	824,995.46
HIDRO E REVUE		24.00	0,00%	0.0%	0.00	0,0%	0.00
HIPOT 5 A2		347,358.34	88,60%	97.9%	340,063.82	88,7%	308,021.32
HSBC FINANCE CORP 28/10/2013		4,000,000.00	94,31%	100.2%	4,008,000.00	94,5%	3,779,292.09
HSH NORDBANK AG 14/02/2017		5,000,000.00	97,22%	100.0%	5,001,108.56	97,4%	4,867,663.67
HYPOVEREINSBANK 07/06/2011		3,000,000.00	97,05%	103.6%	3,106,701.00	98,7%	2,961,269.25
ISLANDSBANKI 25/11/2013		1,000,000.00	0,00%	100.9%	1,008,768.51	0,0%	0.00
JOHN DEERE BANK 31/03/2011		3,500,000.00	99,36%	100.0%	3,499,225.00	99,4%	3,477,740.00
JP MORGAN 12/10/2015		3,000,000.00	98,55%	100.3%	3,009,900.00	98,8%	2,963,985.90
KAUPTHING BANK HF 17/08/2012		3,000,000.00	23,00%	99.5%	2,985,408.90	23,0%	690,000.00
KION 2006-1 A		971,159.25	90,69%	98.1%	953,047.86	90,9%	882,609.34
LEHMAN BROS HOLD 05/02/2014		2,000,000.00	17,00%	100.1%	2,001,992.19	17,0%	340,000.00
LEHMAN BROS HOLD 19/05/2016		10,000,000.00	17,00%	99.9%	9,994,113.46	17,0%	1,700,000.00
LEV FIN CAP II 02/09/2016		1,970,267.84	79,00%	97.6%	1,922,193.30	79,6%	1,567,558.23
LLOYDS FLOAT 20 03/12/2020		6,000,000.00	83,00%	100.9%	6,052,800.71	83,2%	4,992,077.67
MACQUARIE BANK 06/12/2016		3,000,000.00	87,25%	100.3%	3,009,000.00	87,3%	2,619,755.00
MAGEL 3 A		682,884.00	76,00%	98.6%	673,323.62	76,1%	519,729.04
MERRILL LYNCH 30/05/2014		4,000,000.00	97,19%	99.7%	3,987,880.00	97,3%	3,891,122.44
MERRILL LYNCH & CO 14/09/2018		10,000,000.00	92,90%	99.9%	9,991,944.00	93,0%	9,296,278.89
MORGAN STANLEY 13/04/2016		7,500,000.00	96,31%	99.9%	7,495,50323	96,6%	7,241,893.13
NAB 4.75 08-03/2011		750,000.00	103,41%	103.9%	779,475.00	107,4%	805,475.42
NATL CAPITAL INSTRUMENTS PERP		2,000,000.00	67,46%	102.7%	2,054,100.00	67,5%	1,349,434.11
NATL GRID PLC 18/01/2012		10,000,000.00	99,45%	100.5%	10,049,859.60	99,7%	9,967,869.00
NAVIO COMP CLN ITAMI 05/10/11		9,650.00	100,00%	100.2%	9,669.30	132,1%	12,750.53
PELIC 2 A		325,341.54	87,02%	98.9%	321,762.77	87,1%	283,249.13
PELICAN 3 A		983,264.07	71,00%	97.6%	959,665.74	71,0%	698,486.32
PFE 4.75 09-06/2016		500,000.00	106,53%	107.5%	537,520.00	109,4%	546,830.33
PFIZER INC 3.625% 06/03/13		2,000,000.00	103,27%	102.7%	2,053,600.00	105,4%	2,107,325.76
PREPS LIMITED 2006 B1 18/07/2015		6,000,000.00	44,80%	100.0%	6,000,009.23	45,8%	2,746,475.33
REFER 4% 03/16/15		5,000,000.00	101,63%	101.8%	5,087,500.00	104,8%	5,240,404.11
REPSOL INTL FIN 07/22/13 5%		3,000,000.00	105,58%	105.7%	3,171,700.00	107,8%	3,234,069.86
ROYAL BK SCOTLAND 49		5,000,000.00	86,44%	101.6%	5,080,140.00	86,8%	4,338,891.94
RTE EDF TRANSPORT 4.125% 09/27/16		2,000,000.00	101,82%	102.3%	2,045,270.00	102,9%	2,057,804.80
SABMILLER PLC 4.5% 01/15		1,500,000.00	102,72%	102.1%	1,532,025.00	104,8%	1,571,745.51
SANOFI-AVENTIS 3.125% 10/14		2,000,000.00	101,26%	100.4%	2,007,600.00	101,9%	2,038,802.03
SANTANDER CONSUMER 28/09/2016		4,000,000.00	91,02%	100.5%	4,018,020.00	91,0%	3,641,098.33
SANTANDER ISSUANCES 23/03/2017		3,000,000.00	94,21%	100.1%	3,003,895.80	94,2%	2,827,041.93
SFR SA 07/12 3.375%		1,000,000.00	101,37%	100.2%	1,002,100.00	102,9%	1,029,037.72
SUEZ ENVIRONNEMENT 4.875% 04/14		1,500,000.00	105,87%	104.7%	1,570,650.00	109,4%	1,641,514.14
SWEDISH EXP CRED 3.625% 05/27/14		2,500,000.00	102,38%	102.1%	2,552,000.00	104,5%	2,613,536.96
TELECOM ITALIA FINANCE 12/06/12		4,000,000.00	98,74%	100.0%	4,000,809.23	98,8%	3,952,898.67
TELEFONICA EMIS 4.674 02/14		1,250,000.00	104,79%	103.9%	1,298,875.00	109,0%	1,362,229.28
THEME 4 A		1,115,211.23	86,36%	97.2%	1,084,096.84	86,5%	964,446.16
VIVENDI 10/03/2011		4,700,000.00	99,82%	100.5%	4,724,814.89	100,1%	4,706,196.79
VODAFONE 05/09/2013		7,000,000.00	99,37%	99.9%	6,995,907.60	99,5%	6,962,027.18
VODAFONE 06/06/2014		4,000,000.00	98,32%	100.0%	4,000,000.00	98,4%	3,935,695.47
VOLKSWAGEN BANK FLT 21/12/2015		2 000,000.00	79,81%	100.1%	2,002,727.46	79,8%	1,596,838.89
VOLKSWAGEN FIN 3.5% 12/17/10		500,000.00	101,75%	99.8%	499,115.00	101,9%	509,418.73
VOLKSWAGEN INT FIN 14/03/2016		5,000,000.00	79,81%	100.0%	5,000,000.00	79,9%	3,993,255.28
Subtotal	**0**	**267,081,819.11**			**269,710,523.56**		**242,600,893.91**
Subtotal	**0**	**276,831,819.11**			**279,847,498.56**		**252,743,606.23**
Total	**172,261**	**276,831,819.11**			**281,135,331.28**		**254,036,013.18**
2.3 - Trading Derivatives							
Currency forwards							-9 578.84
Total	**0**	**0.00**			**0.00**		**-9 578.84**
Total	**11,200,619**	**342,615,819.11**			**448,093,719.56**		**421,283,286.67**
3 - GRAND TOTAL	**86,325,453**	**364,386,769.11**			**585,892,624.07**		**623,978,440.77**

MYOUNG HO LEE b. 1975, KOREAN **"Tree#8", 2007** Archival Ink-Jet Print 62,5 x 50 cm Edition: Artist proof 1/3

08 LEGAL CERTIFICATION OF ACCOUNTS AND AUDIT COMMITTEE REPORT AND OPINION

TRANQUILIDADE

08 LEGAL CERTIFICATION OF ACCOUNTS

LEGAL CERTIFICATION OF ACCOUNTS

INTRODUCTION

1. I have audited the financial statements of COMPANHIA DE SEGUROS TRANQUILIDADE, SA, which comprise the Balance Sheet as at December 31, 2009, (which shows a total of €978,279k and total equity in the sum of €252,439k, including a net profit of €9,217k), the Profit & Loss Account, the Statement of Comprehensive Income, the Cash-Flow Statement and the Statement of Changes in Equity for the year then ended, and the Notes to the Accounts. These financial statements have been prepared in accordance with accounting practices generally accepted for the insurance industry in Portugal.

RESPONSIBILITIES

2. The Board of Directors is responsible for the preparation of financial statements that truly and fairly reflect the financial situation of the Company and the results of its transactions, as well as for the adoption of adequate accounting criteria and policies and for maintaining appropriate systems of internal control.

3. My responsibility is to express a professional, independent opinion based on my audit of the said financial statements.

SCOPE

4. My audit was performed in accordance with the Technical Rules and Auditing Directives of the Association of Official Auditors, which require that it be so planned and performed as to obtain an acceptable degree of certainty as to whether the financial statements contain any materially relevant distortions. For the purpose, the said audit includes:

    - verification, on a test basis, of the documents underlying the figures and disclosures contained in the financial statements and an evaluation of the estimates, based on judgements and criteria established by the Board of Directors, used in their preparation;
    - an appraisal of the adequacy of the accounting policies employed and of their disclosure, taking the circumstances into account;
    - verification of the applicability of the going concern principle; and
    - an appraisal as to the adequacy, in overall terms, of the presentation of the financial statements.

5. My audit also covered verification that the management report is consistent with the financial statements.

6. I believe that the audit performed provides an acceptable basis for the expression of my opinion.

OPINION

7. In my opinion, the said financial statements truly and fairly present, in all materially relevant aspects the financial situation of COMPANHIA DE SEGUROS TRANQUILIDADE, SA, as at December 31, 2009, the results of its operations and its cash flows during the year then ended, in accordance with accounting practices generally accepted for the insurance industry in Portugal.

8. I am also of the opinion that the management report is consistent with the financial statements.

Lisbon, March 8, 2010

signed
José Manuel Macedo Pereira

AUDIT COMMITTEE REPORT AND OPINION

AUDIT COMMITTEE REPORT AND OPINION

To the Members of

COMPANHIA DE SEGUROS TRANQUILIDADE, SA,

Under the law and the articles of association, it is our duty to present to you for appraisal the Report on the supervisory activity undertaken by the Audit Committee, as well as our Opinion on the Report, the Accounts and the proposal for the appropriation of profit presented by the Board of Directors of COMPANHIA DE SEGUROS TRANQUILIDADE, SA, in respect of the year ended December 31, 2009, and also our appraisal of the respective Legal Certification of the Accounts issued in due course by the Company's Official Auditor.

Within the scope of our duties we have regularly monitored the Company's business and its management throughout the year, both through appraisal of the accounting and management information documents with which we were provided on a regular basis, and also by means of the complementary clarification that we requested of the Board, the Executive Committee, the Global Risk Management Committee and the Company's services charged with operational responsibility, particularly the Internal Audit, Internal Control and Risk Management functions, from which we always received all the co-operation we requested, and also by means of such verification measures as we considered necessary to the fulfilment of our legal and statutory obligations.

We thus found, with satisfaction, that the Company has continued it policy of rational use of resources and of cost control, employing in its operational and financial activity a policy of minimisation of the risks inherent in its business, reflected, in particular, in an increase of its solvency ratio from 320% in 2008 to 361% in 2009.

Our activity during 2009 was directed with special interest, and in detail, not only at (i) the developments in progress at the Company in the areas of risk-management, internal control and compliance, designed to provide the Company with the best practices generally accepted internationally and in keeping with regulatory requirements applicable locally, but also at (ii) the Company's efforts to minimise to the extent possible the inevitable effects of the serious international financial crisis begun in 2007 that has negatively and significantly marked every sector of activity and, in particular, the insurance industry both in Portugal and practically everywhere in the world.

In the performance of our duties, we also monitored (i) the verification of the accounting records and of the respective supporting documents and (ii) the appraisal of the accounting policies and valuation criteria adopted by the Company, which are the responsibility of José Manuel Macedo Pereira, the Official Auditor, appointed by the General Meeting to perform the audit and the legal certification of the Company's accounts for 2008-11.

On termination of 2009 we appraised the respective Annual Report and Accounts drawn up by the Board of Directors and presented to us in due course, having found that they are in keeping with applicable legal and statutory requirements and mention the more relevant aspects that marked the Company's business during the year ended December 31, 2009.

In due course and under Article 452.1 of the Companies Code, the Audit Committee also appraised the Legal Certification of the 2009 Accounts, dated March 8, 2010, issued with no reserves by the said Official Auditor, with which we are in agreement.

As a result of the monitoring activities undertaken as summarised above and of the respective conclusions, we are of the opinion that the General Meeting of Companhia de Seguros Tranquilidade, SA, approve:

a) the Management Report dated February 23, 2010, and the other accounting documents for the year ended December 31, 2009, presented by the Board of Directors; and

b) the Board of Directors' proposal for the appropriation of the 2009 net profit in the sum of €9,217,425.84 under the terms set out in point 2.5 of the Management Report referred to above.

Lisbon, March 9, 2010

The Audit Committee

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

MARIA JOSÉ PALLA b. **"A Mulher Sombra 2", 2008**. Photography 75 x 56 cm. Edition: 1/5. Courtesy the Artist

09 MANAGEMENT STAFF

TRANQUILIDADE

09 MANAGEMENT STAFF

Assurfinance Consultancy
Vítor Hugo Zão Barros Peixoto

Consultancy for Claims with Personal Injury
Luís Espírito Santo Silva Ricciardi

Marketing and Commercial Consultancy
Filipe Antero Rogenes Barreto Infante

International Development Consultancy
Artur João de Carvalho Fonseca Duarte

Audit Division
Vanda Maria Jesus Ferreira Belo

Operating Division - North
António Fernandes da Silva

Operating Division - South
Luís Fernando Rodrigues Gonzaga Machado

Medium Enterprise Operating Division
João Maria Sousa C. Ferreira do Amaral

Financial & Administrative Division
Luís Miguel Matos de Amaral Maria Ribeiro

Large Customers, Brokers and Private Division
José Paulo Castro Trigo

Marketing Division
Filipe Antero Rogenes Barreto Infante

Organisation & Systems Division
José Manuel Mendes Esteves Serra Vera

Overall Risk & Internal Control Divisions
Luís António Jardim Franco

Claims Division
Luís Manuel Cunha Martinho

Technical Division
João Carlos Dores Candeias Barata

ROBERT FRANK b. 1924, Suiça **"Yellow Flower – Like a Dog, New York City", 1992**. Gelatin silver print 27,94 x 35,56 cm. Courtesy the Artist

10 SHOP NETWORK

TRANQUILIDADE

10 SHOP NETWORK

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09 Annual Report and Accounts