2010
Annual Report

TRANQUILIDADE

VALTER VINAGRE
b. 1954, Portugal
Da série Variações para um fruto, "S/ título #19", 2003
Silver Dye Bleach Print (Ilfochrome)
102,5 x 127,5cm • Edition 1/3
Courtesy by the Artist

TRANQUILIDADE

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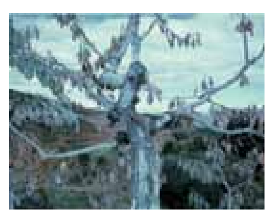
COMPANHIA DE SEGUROS TRANQUILIDADE

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

VALTER VINAGRE b. 1954, Portugal
Da série Variações para um fruto,
"S/ título #1", 2003
Silver Dye Bleach Print (Ilfochrome)
43 cm x 45,5cm
Unique print
Courtesy by the Artist

01 Corporate Offices



01 Corporate Offices

General Meeting
Chairman
Luís Frederico Redondo Lopes
Secretary
Nuno Miguel Matos Silva Pires Pombo

Board of Directors
Chairman
Rui Manuel Leão Martinho
Members
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
Miguel Luís Kolback da Veiga
António José Baptista do Souto
Manrico Iachia
António Manuel Rodrigues Marques

Executive Committee
Chairman
Pedro Guilherme Beauvillain de Brito e Cunha
Members
Augusto Tomé Pires Fernandes Pedroso
António Miguel Natário Rio-Tinto
Miguel Maria Pitté Reis da Silveira Moreno
Nuno Miguel Pombeiro Gomes Diniz Clemente

Board of Auditors
Chairman
José Manuel Ruivo da Pena
Members
Rui Manuel Duarte Sousa da Silveira
António Ricardo Espírito Santo Bustorff
Alternate Member
José Ramos Teles de Matos

Official Auditor
José Manuel Macedo Pereira
Alternate
Ana Cristina Soares Valente Dourado em representação de KPMG e Associados

Executive Committee

Peter Brito e Cunha
Chairman

Tomé Pedroso

Miguel Rio-Tinto

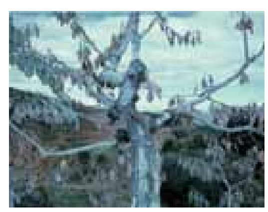
Miguel Moreno

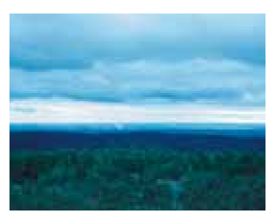
Nuno Clemente

VALTER VINAGRE b. 1954, Portugal
Da série Variações para um fruto,
“S/ título #2”, 2003
Silver Dye Bleach Print (Ilfochrome)
102,5 x 127,5cm
Unique print
Courtesy by the Artist

TRANQUILIDADE

02 Directors' Report





02 Directors' Report

To the Members of Tranquilidade Companhia de Seguros, SA,

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 (hereinafter Tranquilidade or Company), in respect of 2010.

2.1 – Macroeconomic Framework

The year under review was marked by the sovereign-risk crisis within the Euro Area, particularly as a result of the very considerable imbalance of the Greek public accounts and of the difficulties of the financial sector in Ireland. Concerns as to the need for the financial support of the EU and of the IMF extending to other countries spread to the peripheral economies of the Euro Area, Portugal and Spain in particular, penalising their borrowing conditions.

Despite the concern as to financial instability, 2010 was also marked by good performance of the activity in the main economic areas, with staggered impacts of the monetary and budget policies being felt on domestic demand and, above all, on international trade flows. In 2010, following the negative figures seen in 2009, GDP grew by 3.6% in Germany, 1.7% in the Euro Area and 2.8% in the USA. The main emerging economies continued to be very dynamic, with growths of 10.3% in China and 7.5% in Brazil.

2.1.1 – International Economic Situation

Following the 2.6% downturn of the GDP in 2009, and despite an economic situation marked by several uncertainties and contingencies, the economy of the USA grew by 2.9% in 2010. In annualised terms, GDP growth slowed from 5.0% in the 4th quarter of 2009 to just 1.7% in the 2nd quarter of 2010. The jobless rate remained high (9.5% of the active population at the end of the 1st half), though showing a downward trend throughout the year.

The high unused production capacity contributed to a downward trend of inflation over the period under review. At the beginning of summer, concerns as to another possible recession and the additional risks of deflation became more visible.

In respect of the budget, the Obama administration announced new stimuli for domestic demand, while maintaining a substantial part of the fiscal stimuli of the previous Bush administration, for an estimated total of more than USD 800 billion. The last quarter of the year interrupted the downward trend of market interest rates, with the better prospects for economic activity generating concern as to inflationary pressures caused by the expansionist monetary policy.

However, in addition to the extraordinary injections of liquidity, the Fed signalled no intention of making a start to a cycle of Fed Funds rate increases, keeping the target between 0% and 0.25% throughout 2010.

During 2010, the economy of the Euro Area consolidated the trend of recovery of activity begun in the second half of 2009, which put an end to the period of recession begun in the 2nd quarter of 2008. The GDP therefore grew by 1.7% following the 4.1% contraction seen in 2009. At the bottom of this recovery was the strong performance of exports, driven by more dynamic international trade flows and, in particular, by demand from emerging nations.

Also particularly strong was the performance of activity during the 2nd quarter, growing by 1.0% over the quarter, benefiting from the stimulus provided by the various expansionist policies. Nevertheless, the base of the recovery gradually enlarged and there was also a recovery of private consumption and an attenuation of the downturn experienced by investment (investment in equipment showed some growth over the previous year), in step with an improvement of confidence and with a progressive normalisation of borrowing conditions in the core markets.

Recovery of activity in the Euro Area as a whole was not uniform, however, and attention is drawn to the heterogeneity of the performance of the Member States. Noteworthy was the performance of the German economy, which grew by 3.6% in 2010, the biggest rate of growth since unification, with a powerful contribution by exports and by investment in equipment. This performance contrasts with the slowdown and even downturn seen in some of the peripheral economies of the Economic and Monetary Union. In this connection, emphasis is given to the downturn of the Greek, Irish and Spanish economies, the first of which by more than 4.0%, especially as a result of the major budget-consolidation effort under way in the country.

With regard to prices, the average annual inflation rate was 1.4%, an increase of the figure of 0.3% in 2009, largely the result of energy, transport and food prices. The underlying inflation rate, which excludes these components, decreased compared to the previous year, reflecting the absence of inflationary pressures imposed by demand. This also stemmed from the high unused production capacity and from the increase of the jobless rate to 10.0% of the active population.

In this connection, the European Central Bank kept its refi rate at 1.0% over the year, a rate unchanged since May 2009. In parallel, the monetary authority provided ample liquidity to the banking system, though operations injecting unlimited liquidity at 3 months and also, as from May, buying public debt securities on the secondary market. This was designed to reduce the tensions observed in some markets, particularly clear to see in the sovereign-debt markets of some peripheral States.

2.1.2 – Domestic Economic Situation

The year under review was marked by a deterioration of the borrowing conditions faced by the Portuguese economy as a result of greater investor risk aversion in respect of the periphery of the Euro Area and, above all, in the wake of the downgrade of the Republic (by two notches, to A-) in April by one of the leading rating agencies.

Despite a solid situation as far as solvency is concerned, Portuguese banks came to confront an adverse situation abroad in accessing liquidity. They were forced into greater recourse to the ECB's liquidity-injection operations and were obliged to adjust their conditions in financing domestic economic activity, making them more restrictive. In any case, despite the poor performance of consumption and investment during the second half of the year, the Portuguese economy returned a 1.4% growth in 2010, outperforming expectations and driven largely by dynamic exports.

Within the contest of the sovereign-risk crisis of the Euro Area, budget policy in 2010 (particularly during the last quarter) was marked by the adoption of highly restrictive measures designed to reduce the deficit from 9.3% of the GDP in 2009 to 4.6% in 2011 These measures included an increase of the tax burden on income and on consumption, with emphasis, in the latter case, of the increase of the VAT rate from 20% to 21% in July and from 21% to 23% in January 2011.

On the spending side, the emphasis is on the announcement of wage reductions and a freeze on taking on civil servants, besides cuts to social and investment spending. In 2010 the Public Administration deficit fell to a figure of approximately 6.9% of the GDP (below the initial estimate of 7.3%, benefiting from extraordinary revenue of about 1.1% of the GDP caused by the transfer from the Portugal Telecom pension fund to the public pensions system). Public debt increased from 76.1% to 82.1% of the GDP, though still below the Euro Area average of 84.1%.

The increase of the average annual unemployment rate from 9.5% to 10.8% of the active population and the prospects of a reduction of disposable income penalised consumer confidence, determining a slowdown of domestic demand towards the end of the year. However, over 2010 as a whole, private consumption grew by 1.9%, particularly as a result of bringing forward consumption decisions ahead of the VAT increases referred to earlier.

This effect was especially clear to see in the acquisition of consumer durables (vehicles in particular). In average annual terms, consumer inflation rose from -0.8% to 1.4%, with an acceleration of prices more visible during the closing months of the year, stemming largely form the increase of energy prices. Year-on-year inflation stood at 2.5% in December.

The deterioration of expectations in the light of the evolution of domestic and foreign demand, the considerable uncertainty and the more restrictive borrowing conditions led to a new downturn of investment (down by some 6.0%, following the 14.0% drop in 2009). The downturn of capital spending was common to every sector – households, companies and public administration.

Exports grew by approximately 8.8.%, following the 11.7% downturn seen the previous year. The main contribution to this performance was exports of manufactured products, which took advantage of the recovery of demand and of industrial activity worldwide, especially in Portugal's main trading partners in the Euro Area (with emphasis on Germany, with its 3.6% GDP growth). Foreign orders placed with Portuguese industry were growing strongly at the year-end (nearly 50.0% in nominal and y-o-y terms).

The good performance of exports and the progressive adjustment of domestic demand (driving imports down) contributed to a reduction of the foreign deficit. In 2010, the combined balance of the current and capital accounts, which reflects the net foreign borrowing requirements of the economy fell from 9.4% to 8.5% of the GDP.

2.1.3 – Insurance Market

Following the 5.3% downturn of the production of the insurance industry in 2009, insurance business returned to growth in 2010. Premiums written amounted to €16,341 million, a growth of 12.6% over the preceding year.

Fundamental to this was the performance of the Life segment. With premiums standing at €12,173 million, a growth rate of 17.2%, the Life segment accounts for some 75% of the total production of the industry. The growth of the Life segment, achieved against a background of great instability of the financial markets, reflects savers' appetite for low-risk investment. Capitalisation products returned sharp growth (23.3%) and, despite the announced limitation as to tax deductions, PPRs continued to attract investors, with contributions increasing once again in 2010 (3.4%).

In the Non-Life segment premium volume stood at €4,168 million, up 0.9% over 2009, a significant progress taking into account the decline that was predominant during the two previous years. In 2010 the emphasis is on the growth of the Health line (6.5%), reflecting ongoing concern as to access to health care, while Multi-risks and Third-party Liability were also up by 3.5% and 4.2% respectively.

Workmen's compensation insurance continues to decline (4.1%), reflecting the situation of the employment market.

It was against this background that Motor insurance began to recover from the sharp decreases seen since 2007 and, in 2010, there was a positive, though modest, variation (0.4%).

The weight of insurance business in the GDP grew from 8.87% in 2009 to 9.72% in 2010, the highest figure ever achieved in the Portuguese market. The Life segment accounts for 7.24% of the GDP, with Non-Life segment accounting for 2.48% (6.35% and 2.53% in 2009, respectively).

According to the provisional accounts of the insurance industry, operating profits amounted to around €420 million in 2010, the Life segment accounting for €390 million, driven by prudent, effective policies for the management of the investment portfolio, now estimated at about €50 billion. Under pressure by high average claims rates, the Non-Life segment continued to return modest profitability.

2.2 – Relevant Facts in 2010

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

With a framework of economic crisis, 2010 showed some positive signs, with the Non-Life segment growing slightly (0.9%) and the Life segment growing more sharply (17.2%), reversing the downward trend of the previous year.

In the Non-Life market, despite the adoption of corrective measures in the pricing of the mandatory lines - Motor and Workmen's Compensation – by most of the major insurers, this was not yet sufficient to improve the profitableness of the sector. In fact, claims' rates are still high and, in the main business lines, such as Motor, Workmen's Compensation and Fire & Other Damage, they have deteriorated when compared to 2009.

In 2010, Tranquilidade returned consistent growth, outperforming the market throughout the year, and performed even better during the last quarter.

Tranquilidade's ambition is to become the preferred company of professional brokers, and it has launched a number of measures that were determinant to the good performance achieved:

- Focus on the development of stable relations with multi-brand and exclusive Professional Partners:
  - In Motor, simplification of the sales process, granting the broker full autonomy to simplify the sale and to help attract custom, while ensuring effective application of a fair price in the light of each risk;
  - Focus on proximity with the Partners through restructuring of the internal commercial network, now more agile and sales-oriented, and on more permanent presence of the Company's entire structure for its Partners;
  - Improvement of the Brokers' service platform as a result of the said commercial reorganisation of the internal network and of the extension of the front-line service functions;
- Priority focus in the necessary effort to correct prices, both through price-list adjustments and through more careful application of the scoring by the Partners' network, which provided results in 2010:
  - the average premium of new Motor insurance increased by 8%;
  - the average premium of new Workmen's Compensation insurance also rose by 8%;
- Continuation of the effort to retain policies in the portfolio, through segmental price review, leading to a drastic reduction of the cancellation rate n Motor to around 25%;
- Innovation of the offer through the launch of the Light and Extra-Care options in Health at the beginning of the year and of the new Condominium Multi-risk during the last quarter.

At commercial level Tranquilidade showed that it was able to manage the fair balance between the short and the long term, to create value within the context of a particularly adverse market:

- 6% growth, as opposed to the stagnation of the market, allowing a 0.3 p.p. recuperation.

- All channels performed positively:

  - Growth exceeded 10% in the multi-brand and exclusive brokers network;
  - The brokers grew by approximately 7%;
  - The bancassurance programmes with Banco Espírito Santo (in the Companies and Private Individuals segments) now account for 13% of Tranquilidade's revenue.

- Throughout the year Tranquilidade consistently enlarged its customer base, now standing at approximately 650,000 (up 19,000);

- All customer segments grew: Individuals (5.7%), Businesses (3.7%) and Companies (8.1%);

- The anchor products, Motor and Workmen's Compensation and the strategic Health product were very dynamic, determinant to the food performance of income;

- The Assurfinance programme, now firmly rooted in a network of 44 Advanced Posts (shops shared by Tranquilidade and BES brokers), simplified its process of attracting custom and lined up with the priority of attracting resources from BES, with considerable success.

At operative level the Company simultaneously implemented a number of alterations that improved the quality of the service provided to customers and brokers:

- Motor claims tracking was created and Claims Management capacity was improved:

  - Autonomy was granted to the brokers, giving them the capacity to open Motor claims;
  - The possibility was provided of visualising and monitoring the status of a process throughout the entire claims settlement process;
  - The possibility of scheduling inspections was extended to the brokers;
  - The cover of the population now able to schedule inspections for the following day was increased to 95%.

- The portfolio of products that can be issued at the brokers (SIA-net) was extended through the online system provided by the Company, and the alterations functions were extended to the entire range of products of the Individuals segment;

- A brokers' service dashboard was launched, monitored at the highest level, allowing systematic, ongoing performance assessment and control in the critical service processes.

This investment led to results in 2010. There was concrete progress in the professionalism and quality of the service, with a 50% improvement of the service at the Call Centres, of response times to requests for quotations and of response times to customer complaints.

In continuing the Efficiency Programme, operating costs were sharply lower (down 5.0% or €3.7 million), through the contribution of the reductions of staff costs (1.6%), third-party supplies & services (8.5%) and other operating costs (28.8%).

With regard to Tranquilidade's strategic investments, direct insurer LOGO, SA, launched in 2008, which operates solely via the telephone, Internet and kiosks channels, achieved 115,000 customers. Logo rose to second in the ranking of the Motor business of the direct insurers, increasing its share of the Motor market by 02.5 percentage points. The business plan for this new business predicts that the break-even point will be achieved in 2013.

At international level, the Company acquired 50% of Pastor Vida in Spain. This acquisition is part of the Company's internationalisation strategy. It has allowed Tranquilidade to make its mark at Iberian level, and it will take advantage of the Group's multi-channel know-how . Through the acquisition of Pastor Vida, Tranquilidade has become the first Portuguese insurer to acquire a relevant holding in and to take control of the management of an insurer in a market as highly competitive as Spain's.

Financial results increased from €20.4 million to €27.9 million, a 37.0% increase, making a very positive contribution to net profit. Tranquilidade continues to have a strong solvency ratio, standing, on an individual basis, at 537% at the end of 2010, driven by the €75,000 contributed-capital increase at the year-end as a result of the acquisition of 50% of Pastor Vida in Spain.

As a result of this performance and solidity, Tranquilidade improved its rating in 2010, maintaining the "A-" notation granted by Fitch, unmatched in the market, though improving its outlook from "negative" to "stable".

2.3 – Main Variables & Business Indicators

(thousand euros)

	2010	2009	Change 10/09 %
Balançe Sheet			
Investments	911,062	783,684	16.3
Net assets	1,121,209	978,279	14.6
Equity	318,749	252,439	26.3
Provision for unearned premiums (DI+RA)	84,215	80,053	5.2
Provision for claims (DI+RA)	500,821	520,020	-3.7
Provision for claims, net of reinsurance	463,207	485,189	-4.5
Technical provisions (DI+RA)	619,617	625,572	-1.0
Gains & Losses			
Gross direct insurance premiums written	327,532	308,579	6.1
Premiums earned, net of reinsurance	284,991	277,881	2.6
Cost of direct Insurance claims	210,895	200,362	5,3
Costs of claims, net of reinsurance	201,014	190,169	5.7
Operating costs	69,888	73,605	-5.0
Income	22,709	18,318	24.0
Net profit/(loss)	11,635	9,217	26.2
Indicators			
Gross premiums written / N° of employees	475.4	432.2	10.0
Direct Insurance claims rate	65.4%	63.6%	1.8 p.p.
Claims rate net of reinsurance	70.5%	68.4%	2.1 p.p.
Net profit/ Gross premiums written	3.5%	2.9%	0.6 p.p.
Combined ratio net of reinsurance	104.9%	102.2%	2.7 p.p.
Solvency ratio	573.2%	361.1%	212 p.p.

2.4 – The Business of Tranquilidade in 2010

2.4.1 – Direct Insurance Premiums

Direct insurance premiums in 2010 totalled €327,532k, an increase of 6.1% compared to 2009. The Non-Life insurance market grew by just 0.9% over the previous year.

Emphasis is given to the evolution of the Motor line, with performances clearly better than the market average, returning a growth of 7.0%, compared to the figure of 0.4% for the market. This good performance stems from the firm policy of price increases suited to the risk that Tranquilidade has been developing in the highly competitive context of the direct channel, which has returned very high growths (over 20.0% in 2010).

Despite the negative situation of the economy, Workmen's Compensation premiums at Tranquilidade grew by 5.0% compared to the previous year, standing out from most insurers where production was down by an average of 4.1%. As with Motor, in the Workmen's Compensation segment, too, the effect of the price increases is beginning to be felt on Tranquilidade's production.

The good performance is also underscored of Accidents & Health (up 6.5%, with emphasis on Health which grew by 11.5%), Fire & Other Damage (up 3.7%) and Third-party liability (up 9.9%), above the market averages (at 0.2% 2.8% and 4.2% respectively).

(thousand euros)

Direct Insurance Premiums	2010	%	2009	%	Change 10/09 %
Accidents & health	103,389	31,6	97,048	31.4	6.5
Fire & other damage	61,511	18,8	59,297	19.2	3.7
Motor	133 945	40,9	125,185	40,6	7.0
Transport	6,956	2.1	7,193	2.3	-3.3
Third-party liability	10,915	3.3	9,936	3.2	9.9
Sundry	10,816	3.3	9,920	3.2	9.0
Total	**327,532**	**100.0**	**308,579**	**100.0**	**6.1**

Tranquilidade's market share rose to 8.1% in 2010, compared to 7.5% in 2009, and the Company continues to rank 4th in the Non-Life segment. In the group of the 4 biggest Non-Life insurers Tranquilidade was the only one to increase its market share in 2010.

2.4.2 – Costs of Direct Insurance Claims

The cost of direct insurance claims amounted to €210,895k, an increase of about €10,533k, or 5.3% more than in 2009.

The more significant changes were under Accidents & Health (up €16,460k) owing to the increase of Workmen's Compensation claims, and under Other Damage (up €9,819k) owing to bad weather during the year (with emphasis on the disaster in Madeira and on the storms in mainland Portugal) and also as a result of major claims involving large sums under Industrial Multi-risks.

On the other hand, we would underscore the good performance under Motor, in which the cost of claims fell (€10,661k) as a result of the reduction of claims-management costs.

(thousand euros)

Costs of Direct Insurance Claims	2010	2009	Change 10/09 %
Accidents & health	80,150	63,690	25.8
Fire & other damage	40,861	32,042	27.5
Motor	81,629	92,290	-11,6
Transport	2,503	7,223	-65.3
Third-party liability	4,613	4,655	-0.9
Sundry	1,139	462	146,5
Total	**210,895**	**200,362**	**5.3**

The claims rate (cost of claims / gross premiums earned) rose 1.8 p.p. from the previous year, to 65.4%, essentially the result of the increase observed under Accidents & Health (from 65.8% to 78.2%) and under Fire & Other Damage (from 53.8% to 67.5%). In Motor, the claims rate fell from 70.4% to 62.1%.

(%)

Costs of Claims / Gross Premiums Earned *	2010	2009
Accidents & health	78.2	65.8
Fire & other damage	67.5	53.8
Motor	62.1	70.4
Transport	36.3	94.9
Third-party liability	43.3	46.9
Sundry	10.9	4.6
Total	**65.4**	**63.6**

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

2.4.3 – Direct Insurance Technical Provisions

Direct insurance technical provisions amounted to €611,728k, a reduction of €7,226k compared to last time. Emphasis is given to the reduction of the Provision for Claims, down €20,327k as a result of the performance of the claims rate, particularly in Motor.

(thousand euros)

Technical Provisions - Direct Insurance	2010	2009	Change 10/09 %
Provisions for unearned premiums	81,964	77,982	5.1
Provisions for claims	496,450	516,777	-3.9
Workmen's compensation	175,701	168,977	4.0
Other lines	320,749	347,800	-7.8
Other technical provisions	33,314	24,195	37.7
Total	**611,728**	**618,954**	**-1.2**

2.4.4 – Reinsurance Ceded

The balance of reinsurance ceded in the sum of €18,121k, was more favourable in 2010 than in 2009 by €742k. The volume of premiums ceded in 2010 was greater than in the previous year, and indemnities received were greater than in 2009.

(thousand euros)

Reinsurance Ceded	2010	2009	Change 10/09 %
Premiums	47,582	43,216	10.1
Commissions	-10,296	-8,597	19.8
Claims and variation of technical provisions	-19,165	-15,756	21.6
Result	**18,121**	**18,863**	**-3.9**

2.4.5 – Technical Balance Net of Reinsurance

The technical balance net of reinsurance in 2010, in the sum of €51,403k, fell by 23.3% over the previous year. Despite the greater volume of direct insurance premiums and of the fact that the reinsurance balance was better in 2010, the other direct-insurance components (acquisition costs, cost of claims and changes of technical provisions) penalised the technical balance net of reinsurance.

The biggest reduction was in Accidents & Health, in which the technical balance net of reinsurance decreased by €15.595k over the previous year. The technical balance also decreased under Fire & Other Damage, by about 56.9%. On the other hand, under Motor, as a result of the better claims rate, the technical balance net of reinsurance rose by 30% in 2010.

(thousand euros)

Technical Balance, Net of Reinsurance	2010	2009	Change 10/09 %
Accidents & health	7,860	23,455	-66.5
Fire & other damage	5,440	12,633	-56.9
Motor	34,299	26,380	30.0
Transport	1,653	1,620	2.0
Third-party liability	3,654	4,329	-15.6
Sundry	-1,503	-1,363	-10.3
Total	**51,403**	**67,054**	**-23.3**

2.4.6 – Operating Costs

Total operating costs fell 5.0% to €69,888k in 2010. The decrease of cost was achieved owing to the strong containment measures undertaken by the Company through ongoing implementation of the cost-reduction programme begun in 2007.

Staff costs decreased by 1.6% (€620k), in line with the reduction of the Company's staff. Costs of Third-party supplies & services fell by 8.5% and Depreciation by 9.3%, generating savings of €2,023k and €743k respectively.

(thousand euros)

Operating Costs	2010	2009	Change 10/09 %
Staff costs	37,163	37,783	-1.6
Third-party supplies & services	21,910	23,933	-8.5
Taxes and charges	2,433	2,297	5.9
Depreciation	7,229	7,972	-9.3
Other *	1,153	1,620	-28.8
Total	**69,888**	**73,605**	**-5.0**

* Includes Provisions for contingencies & liabilities, Interest expense. Commissions and Other investment costs.

2.4.7 – Staff

During 2010 a total of 27 new employees were taken on and 52 left, 24 of whom for pre-retirement or retirement reasons.

As a result of these movements the staff fell 3.5% compared to 2009, to 689 employees. Compared to the previous year, increased fell as result of the growth of production, with the ratio of direct insurance premiums per employee of the permanent staff standing at €475k (€432k in 2009).

	2010	2009	Change 10/09 %
Admitted	27	22	22.7
Left	52	58	-10.3
of which pre-retirement or retirement	24	26	-7.7
Total Staff in service	689	714	-3.5
DI Premiums / N° of Employees (thousand euros)	**475**	**432**	**10.0**

2.4.8 – Investments

The year under review was marked by a recovery of the global economy following the sharp slowdown in 2009, the emerging economies showing greater dynamism than the developed economies. In 2010, global economic growth is set to have stood around 3.6%, with China and India in the lead and Europe's peripheral countries returning the worst performances of the developed economies.

Of the developed economics, the spotlight is on the German and American. In the USA, GDP growth in 20010 is estimated at 2.9%, a remarkable recovery from the fall observed in 2009 (2.6%). At the outset this performance was the result of the cyclic factor of re-establishing inventories, followed by a recovery of household consumption and the good performance of the export sector. It is estimated that Germany, Europe's biggest economy, will have grown by about 3.6% during the year, the best figure of the past two decades. The German economy was driven by the powerful export sector, which took advantage of the fall of the euro and of the economic recovery of its trading partners, the Asian in particular.

The year was also marked by the sovereign-debt crisis of Europe's peripheral countries, namely Greece, Portugal, Ireland and Spain and, to a lesser extent, Italy and Belgium. Greece was the first victim of the financial markets, left as it was without access to borrowing on the primary bond-issue market, leading in May to financial aid by the EU and the IMF totalling €110 billion up to the end of 2013. Subsequently, the European Financial Stabilisation Fund was set up to finance countries of the Euro Area in difficulties, totalling €750 billion (€500 billion by the EU and €250 by the IMF).

This plan was put into effect for the first time in November, in the agreement secured by Ireland for financial aid for the country in the sum of €85 million for an average term of 7 years. Throughout the year the yields of Portugal's public debt oscillated sharply, having even broken through the 7% barrier defined as the limit for the request for financial aid, though it did not call into question the country's ability to borrow on the bond market.

The European Central Bank kept its interest rate unchanged at 1% throughout the year. Owing to the sovereign-debt crisis of the peripheral countries, the ECB was obliged to maintain its liquidity-injection operations for banks, involving unlimited sums, and to make a start to a sovereign-bond purchase programme designed to normalise the market and lend it liquidity. The Euribor rates rose during the year, approaching the ECB's refi rate owing to the normalisation of the interbank market and of the liquidity conditions within European banking.

During 2010 the equity markets were subject to greater regional differences, and the disparities were more closely linked to the nationality of the companies than is customary. Europe's peripheral markets were severely penalised by the sovereign-debt crisis, with the PSI 20 index down 10% and the Spanish IBEX 35 down about 16%. On the other hand, Germany returned quite a good performance (up 16% in 2010) driven mainly by the export sector and industrial companies, which were subject to demand from the emerging markets for their goods and services.

The emerging markets (MSCI Emerging Markets up 16.4% in 010) and the USA (S&P 500 up 12.8% over the year) performed clearly better than Europe, driven by their greater economic growth and also by the considerable liquidity of the market, which was of benefit to risk assets and to these markets in particular.

Tranquilidade's financial policy was centred on investment in, and on rotation of, fixed-rate bonds and liquidity. Throughout the year management of the investment in the equity market, mostly via investment funds, was undertaken with a view to reducing the volatility of these investments. During the year a part of the investment in direct-return properties was transferred to real estate funds. In 2010 attention is drawn to the strategic decision to acquire 50% of Spanish insurer Pastor Vida in December.

In the bond segment preference was given to investments in fixed-date issued on the primary market, with short maturities (3 to 5 years), the main goal being to keep the average rating of the portfolio at A2/A. Floating-rate bonds were therefore sold in stages, reducing exposure per issue and increasing the average yield of the portfolio. The weight of the fixed-rate bond portfolio, with its considerable rotation, was increased through investment throughout the year, particularly in European debt, accounting for 60% of the total bond portfolio at the year-end.

During the last quarter of the year the liquidity level rose sharply with a view to reducing exposure to credit-market volatility and to take advantage of the high returns on term deposits paid by Portugal's main banking institutions. At the end of the year liquidity accounted for over 25% of the total portfolio (excluding Strategic Investments).

(thousand euros)

Assets Under Management	2010	2009	Change 10/09 %
Bonds	**271,375**	**342,234**	**-20.7**
Fixed-rate	159,339	146,510	8.8
Floating-rate	112,036	195,724	-42.8
Equities & Investment Funds	**400,904**	**223,622**	**79.3**
Strategic	355,296	209,767	69.4
Shares	310	2,534	-87.8
Mutual funds	20,737	11,038	87.9
Real-estate funds	24,561	283	8,578,8
Real Estate	**103,653**	**128,331**	**-19.2**
Premises	37,839	40,239	-6.0
Held for Income	65,814	88,092	-25.3
Liquidity	139,055	92,299	50.7
Other	1,940	2,081	-6.8
Total	**916,927**	**788,567**	**16.3**

Financial results in 2010 amounted to €27,901k, an increase of €7,541k (37.0%) over the previous year. This increase was the result of a gains realised on the rotation and sale of fixed-rate bonds, up €6,210k and on the increase of the dividends on the strategic investments. The strategy of reduction of the level of exposure to floating-rate bonds led to a realised book loss totalling €1,617k.

The financial yield amounted to 4.1%, compared to the figure of 3.1% for 2009. The overall yield in 2010, including potential gains, was 14.2%, as a result of the appreciation of the strategic investments by more than €65 million.

(thousand euros)

Financial Profit/(loss)	2010	2009	Change 10/09 %
Income	**22,709**	**18,318**	**24.0**
Securities	19,965	15,865	25.8
Real estate	2,744	2,453	11.9
Gains & Losses	**8,087**	**3,053**	**164.9**
Securities	6,638	2,072	220.4
Real estate	1,449	981	47.7
Impairments / Written Back	**-2,895**	**-1,011**	**186.4**
Securities	-2,636	-1,011	160.7
Real estate	-259	-	-
Total	**27,901**	**20,360**	**37.0**

2.4.9 – Equity and Solvency Margin

Equity in 2010 grew by €66,310k from the previous year, to stand at €318,749k. This increase is mainly justified by the increase of the Revaluation Reserve of participated companies and by the increase of equity capital from €135 million to €210 million, of which €160 million have been paid up.

Equity rose by €55,551k, partly the result of the partial paying up of the equity capital and partly by the valuation at market prices of the participated companies. In this connection, attention is called to the change under Deferred tax reserve, down €17,626k.

The solvency ratio stood at 573%, compared to 361% for 2009. A contribution to this good performance was made by the increase of Eligible Elements in the sum of €100,874k, with a focus on the change of the Revaluation Reserve – Fair value. The amount of the Solvency Margin to be set aside fell by about €2,457k.

(thousand euros)

Equity	2010	2009	Change 10/09 %
Contributed capital	160,000	135,000	18.5
Revaluation reserves	77,675	39,750	95.4
Other reserves	41,973	41,052	2.2
Retained earnings	27,466	27,420	0.2
Net profit/(loss)	11,635	9,217	26.2
Total	**318,749**	**252,439**	**26.3**

2.4.10 – Risk Management, Internal Control and Compliance

On the basis of the framework provided by Directive 2009/138/EC of the European Parliament and of the Council, of November 25, in respect of access to insurance and reinsurance business and to its exercise (Solvency II) to be transposed by the Member States by October 31, 2012, the Consultation Papers published by EIOPA and other regulations published, Tranquilidade went ahead, in 2010, with the work of adaptation to the new Solvency II legislation, which implies substantial alterations to insurance business.

In this connection, several measures were developed, of which the following are underscored:

- Implementation of tools designed to calculate economic capital within the scope of the Partial Internal Model now at the development stage;
- Active involvement in the work groups of the Insurance Institute of Portugal and of the Portuguese Insurers Association about matters relating to the evolution of the Solvency II project;
- Performance of the QIS 5 – (quantitative impact study) on the application of the Solvency II rules to the calculation of the economic capital of the insurers, with subsequent analysis and internal discussion of the results at the Overall Risk management Committee;
- Revision and updating of the internal control system, including mapping of processes, risks, controls and improvement opportunities that had been identified;
- Systematisation and periodic monitoring of the status of implementation of the recommendations set out and approved within the scope of the internal control system;
- Responding to the stress test questionnaires under the terms requested of the Company by the Insurance Institute of Portugal;
- Definition, formalisation and monitoring of the various policies, specifically, besides other existing ones, the one connected with the Remuneration of Corporate Officers and also with the investment-risk policy;
- Creation, in accordance with the definitions of the Anti-Fraud Policy, of mechanisms for anonymous whistle-blowing in respect of potentially fraudulent situations.

In the matter of Solvency II a plan was also drawn up for the implementation of the Solvency II Roadmap, complete with details and calendar of the main measures to be undertaken during the coming two years, which was communicated to the Insurance Institute of Portugal.

2.5 - Proposal for the Appropriation of Results

A net profit in the sum of €11,635,423.99 was returned in 2010, for which we propose the following appropriation:

a) 10% of the net profit for the year in the sum of €1,163,542.40 to Legal Reserve;
b) The remainder to Retained Earnings.

2.6 - Objectives for 2011

The coming year is set to see a certain recovery at international level, although uncertainty as to the evolution of the capital markets will condition the insurance industry insofar as financial activities are concerned.

In Portugal the situation of the economy is seen to be more difficult. The government's restrictive budget measures for 2011, directed at rebalancing the public accounts, provide prospects of a 1% decrease of the GDP and of an increase of the jobless rate to 11%, bringing even greater restrictions to already weakened households and companies.

In this connection, Tranquilidade will continue to focus on its strategic priorities:

1. Organic growth, increasing its weight in the present Partners and consolidating the move into new partners;

2. Rebalancing profitability, ensuring that prices of new products and those of the portfolios of the main business lines evolve in a progressive and balanced manner;

3. Improving service quality, particularly through extending to a broader product base the connected with brokers' claims management;

4. Deepening international development in those markets in which the Company can make good use of its skills, know-how and competitive advantages;

5. An ongoing search for greater operational efficiency, so as to be able to continue to reduce the operating-cost base.

In growth, the international operations are set to go ahead quickly during 2011, in a reasoning of accompanying the BES operations in foreign markets of high structural growth potential, such as Angola.

In conclusion, against this generally adverse economic background and in a climate of insurance industry prices that are still degraded, Tranquilidade, based at all times on principles of rigour and solidity, will continue to follow a clear course and vision in its domestic operations and to take advantage of international growth opportunities.

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.

Following the retirement of director Eduardo Antunes Stock in March 2010, we would take this opportunity to thank him and to extol the professionalism with which he always defended Companhia de Seguros Tranquilidade in performing his duties.

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, 15 March 2011

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)

Miguel Maria Pitté Reis da Silveira Moreno
(Director and member of the Executive Committee)

Nuno Miguel Pombeiro Gomes Diniz Clemente
(Director and member of the Executive Committee)

Miguel Luís Kolback da Veiga
(Director)

António José Baptista do Souto
(Director)

Manrico Iachia
(Director)

António Manuel Rodrigues Marques
(Director)

VALTER VINAGRE b. 1954, Portugal
Da série Variações para um fruto,
"S/ título #3", 2003
Silver Dye Bleach Print (Ilfochrome)
102,5 x 127,5cm
Unique print
Courtesy by the Artist

TRANQUILIDADE

03 Financial Statements

Balance Sheet (Assets) as at December 31, 2010 & 2009

(thousand euros)

ASSETS	Notes to the Accounts	2010 Gross Value	2010 Impairment, Depreciation / Amortisation or Adjustments	2010 Net Value	2009
Cash & cash equivalents and sight deposits	8	7,443		7,443	8,150
Investments in affiliates, associates and joint ventures	7	301,835	480	301,355	165,497
Held-for-trading financial assets					
Financial assets classified in the initial recognition at fair value through profit & loss	6	6,459		6,459	6,572
Hedge derivatives					
Available-for-sale financial assets	6	343,923	5,724	338,199	367,027
Loans and Receivables		**161,395**		**161,395**	**116,257**
Deposits at cedent companies	6	1		1	1
Other deposits	6	131,243		131,243	84,892
Loans granted	6	28,459		28,459	28,850
Receivables					
Other	6	1,692		1,692	2,514
Investments held to maturity					
Land & Buildings		**110,082**	**6,429**	**103,653**	**128,331**
Land & buildings held for own use	9	44,268	6,429	37,839	40,239
Land & buildings held for income	9	65,814		65,814	88,092
Other tangible assets	10	43,065	37,035	6,030	3,410
Inventories	10	255		255	323
Goodwill	12	25,785		25,785	25,785
Other tangible assets	12	51,534	37,866	13,668	13,939
Technical Provisions for Reinsurance Ceded		**53,167**		**53,167**	**48,225**
Provisions for unearned premiums	4	15,553		15,553	13,394
Provisions for claims	4	37,614		37,614	34,831
Provision for profit-sharing					
Provision for rate commitments					
Portfolio stabilisation provision					
Other technical provisions					
Assets for post-employment benefits & other long-term benefits	23	13,652		13,652	13,524
Other Debtors for Insurance & Other Operations		**96,035**	**7,205**	**88,830**	**77,305**
Receivables for direct insurance operations	13	58,589	5,539	53,050	52,445
Accounts receivable for other reinsurance operations	13	8,677	259	8,418	5,192
Accounts receivable for other operations	13	28,769	1,407	27,362	19,668
Tax Assets		**378**		**378**	**2,091**
Current tax assets	24	378		378	2,091
Deferred tax assets					
Accruals & deferrals	13	940		940	1,843
Other items of assets					
Available-for-sale non current assets and discontinued operating units					
Total Assets		**1,215,948**	**94,739**	**1,121,209**	**978,279**

THE ACCOUNTANT
Paulo Jorge Pinheiro Santos

THE MANAGER ACCOUNTS
Pedro Manuel Borges Medalhas da Silva

THE FINANCIAL & ADMINISTRATIVE MANAGER
Luís Miguel Matos de Amaral Maria Ribeiro

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Balance Sheet (Liabilities & Equity) December 31, 2010 & 2009

(thousand euros)

LIABILITIES & EQUITY	Notes	2010	2009
Liabilities			
Technical Provisions		**619,617**	**625,572**
Provisions for unearned premiums	4	84,215	80,053
Provisions for Claims	**4**	**500,821**	**520,020**
For life insurance			
For works' accidents	4	175,703	168,979
For other businesses	4	325,118	351,041
Provision for profit-sharing	4	1,045	1,080
Provision for rate commitments			
Portfolio stabilisation provision			
Provision for claims-rate deviations	4	5,182	4,654
Provision for risks in progress	4	28,354	19,765
Other technical provisions			
Other Financial Liabilities		**1,975**	**513**
Hedge derivatives			
Subordinated debt			
Deposits received from reinsurers	5	579	503
Other	6	1,396	10
Liabilities for post-employment benefits and other long-term benefits			
Other Creditors for Insurance Operation and Other Operations		**106,409**	**40,450**
Accounts payable for direct insurance operations	13	20,275	21,079
Accounts payable for other reinsurance operations	13	12,449	11,273
Accounts payable for other operations	13	73,685	8,098
Tax Liabilities		**50,167**	**39,680**
Current tax liabilities	24	25,144	26,564
Deferred tax liabilities	24	25,023	13,116
Accruals & deferrals	13	21,657	17,797
Other provisions	13	2,635	1,828
Other liabilities			
Liabilities of a group for sale classified as available-for-sale			
Total Liabilities		**802,460**	**725,840**
Equity			
Contributed capital	25	160,000	135,000
(Treasury shares)			
Other capital instruments			
Revaluation Reserves		**108,630**	**53,079**
For adjustments to the fair value of financial assets	26	108,630	53,079
For revaluation of land & 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	-30,955	-13,329
Other reserves	26	41,973	41,052
Retained earnings	35	27,466	27,420
Net profit/loss) for the period		11,635	9,217
Total Equity		**318,749**	**252,439**
Total Liabilities & Equity		**1,121,209**	**978,279**

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Profit & Loss for the Years Ended December 31, 2010 & 2009

(thousand euros)

PROFIT & LOSS ACCOUNT	Notes	2010 Technical Non-Life	2010 Non-Technical	2010 Total	2009
Premiums Earned Net of Reinsurance		**284,991**		**284,991**	**277,881**
Gross premiums written	14	335,854		335,854	314,812
Reinsurance premium ceded	14	-47,582		-47,582	-43,216
Provisions for unearned premiums (change)	4 & 14	-5,440		-5,440	5,777
Provisions for unearned premiums, reinsurers' part (change)	4 & 14	2,159		2,159	508
Costs of Claims, Net of Reinsurance	**4**	**201,014**		**201,014**	**190,169**
Amounts paid		224,550		224,550	200,918
Gross amounts		238,774		238,774	216,350
Reinsurers' part		-14,224		-14,224	-15,432
Provision for claims (change)		-23,536		-23,536	-10,749
Gross amount		-20,753		-20,753	-10,933
Reinsurers' part		-2,783		-2,783	184
Other technical provisions, net of reinsurance	4	9,117		9,117	745
Share of profits/(losses), net of reinsurance	4	-35		-35	270
Net Operating Costs & Expenses	**21**	**91,408**		**91,408**	**91,268**
Acquisition costs		72,016		72,016	65,295
Deferred acquisition costs (change)	4	-1,278		-1,278	1,345
Administrative costs		30,966		30,966	33,224
Reinsurance commissions and profit sharing		-10,296		-10,296	-8,596
Income	**16**	**22,687**	**22**	**22,709**	**18,318**
On interest on financial assets not carried at fair value through profit & loss		10,982		10,982	12,759
On interest on financial liabilities not carried at fair value through profit & loss					
Other		11,705	22	11,727	5,559
Financial Costs	**16**	**1,972**	**1**	**1,973**	**1,981**
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		1,972	1	1,973	1,981
Net Gains on Financial Assets & Liabilities not Carried at Fair Value through Profit & Loss	**17 & 18**	**4,043**	**-258**	**3,785**	**3,536**
On available-for-sale assets		4,043	-258	3,785	3,689
On loans & receivables					-153
On investments held to maturity					
On financial liabilities carried at amortised cost					
Other					
Net Gains on Financial Assets & Liabilities not Carried at Fair Value Through Profit & Loss	**17 & 18**	**2,943**		**2,943**	**-1,450**
Net gains on financial assets & liabilities held for trading		3,023		3,023	
Net gains on financial assets & liabilities classified in the initial recognition at fair value through profit & loss		-80		-80	-1,450
Currency translation differences	19	-87	-3	-90	-21
Net gains on the sale of non-financial assets not classified as available-for-sale non-current assets and discontinued operating units	17 & 18	1,449		1,449	981
Impairment Losses (Net of Reversal)		**-2,894**	**-336**	**-3,230**	**-1,734**
On available-for-sale assets	6	-2,635	-1	-2,636	-531
On loans and receivables carried at amortised cost					
On investments held to maturity					
Other	7 & 13	-259	-335	-594	-1,203
Other technical income/costs, net of reinsurance	20	-1,211		-1,211	-575
Other provisions (change)	20		100	100	
Other income/expenses	20		-1,696	-1,696	-343
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		**8,445**	**-2,172**	**6,273**	**12,160**
Income tax for the year - Current tax	24		-357	-357	-2,968
Income tax for the period - Deferred tax	24		5,719	5,719	25
Net Profit/(Loss) For The Period		**8,445**	**3,190**	**11,635**	**9,217**
Earnings Per Share (in euros)	**27**			**0.36**	**0.34**

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VALTER VINAGRE b. 1954, Portugal
Da série Variações para um fruto,
"S/ título #4", 2003
Silver Dye Bleach Print (Ilfochrome)
102,5 x 127,5cm
Unique print
Courtesy by the Artist

04 Comprehensive Income Statement

04 Comprehensive Income Statement

Comprehensive Income Statement as at December 31, 2010 & 2009

(thousand euros)

	2010	2009
Net profit/(loss) for the period	11,635	9,217
Variation of the fair value of available-for-sale assets, affiliates, associates & joint ventures	55,551	30,450
Variation of current & deferred taxes	-17,626	-7,673
Total Comprehensive Income	**49,560**	**31,994**

VALTER VINAGRE b. 1954, Portugal
Da série Variações para um fruto,
"S/ título #5" , 2003
Silver Dye Bleach Print (Ilfochrome)
102,5 x 127,5cm
Unique print
Courtesy by the Artist

05 Statement of Changes in Equity

05 Statement of Changes in Equity

Statement of Changes in Equity as at December 31, 2010 & 2009

(thousand euros)

		Revaluation Reserves			Other Reserves				
	Contributed 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 Period	Total
Balance as at January 1, 2009	**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		0
Transfers between equity headings									
not included in other lines						10,059	-10,059	0	
Total Changes in Equity	**0**	**20,482**	**9,968**	**-7,673**	**1,006**	**0**	**9,053**	**-10,059**	**22,777**
Net profit for the period								9,217	9,217
Balance as at December 31, 2009	**135,000**	**59,715**	**-6,636**	**-13,329**	**40,124**	**928**	**27,420**	**9,217**	**252,439**
Increases/reductions of equity capital	25,000								25,000
Net gains for adjustment to the fair value									
of affiliates, associates and joint ventures		56,212							56,212
Net gains for adjustment to the fair value									
of available-for sale financial assets			-661						-661
Adjustments for recognition of deferred taxes				-17,626					-17,626
Increases of reserves for appropriation of profits					921		-921		0
Appropriation of profits/losses							-8,250		-8,250
Transfers between equity headings									
not included in other lines						9,217	-9,217	0	
Total changes in equity	25,000	56,212	-661	-17,626	921	0	46	-9,217	54,675
Net profit for the period								11,635	11,635
Balance as at December 31, 2010	**160,000**	**115,927**	**-7,297**	**-30,955**	**41,045**	**928**	**27,466**	**11,635**	**318,749**

VALTER VINAGRE b. 1954, Portugal
Da série Variações para um fruto,
"S/ título #6", 2003
Silver Dye Bleach Print (Ilfochrome)
102,5 x 127,5cm
Unique print
Courtesy by the Artist

TRANQUILIDADE

06 Cash-Flow Statement

06 Cash-Flow Statement

Cash-Flow Statement as at December 31, 2010 & 2009

(thousand euros)

	2010	2009
Cash Flow from Operating Activities	**117,097**	**35,423**
Net profit/(loss) for the period	11,635	9,217
Depreciation & amortisation charges for the year	7,229	7,972
Variation of technical provisions for direct insurance	-5,954	-13,661
Variation of technical provisions for reinsurance ceded	-4,942	-324
Variation of liabilities for investment contracts	-	-
Variation of other provisions	807	594
Variations of debtors for direct insurance, reinsurance and other operations	-11,527	9,021
Variation of other assets & liabilities for taxes	12,200	9,113
Variation of other assets & liabilities	41,690	19,938
Variation of creditors for direct insurance, reinsurance and other operations	65,959	-6,447
Cash Flow from Investing Activities	**-134,554**	**-50,859**
Variation of investments	-170,930	-58,187
Dividends received	8,719	2,991
Interest	10,156	13,646
Acquisitions of tangible & intangible assets	-9,285	-9,491
Disposals of tangible & intangible assets	8	182
Acquisition of real estate	-	-
Disposal of land & buildings	26,778	-
Cash Flow from Financing Activities	**16,750**	**-**
Dividend distribution	-8,250	-
Equity capital subscription	25,000	-
Net Variation of Cash & Cash Equivalents	**-707**	**-15,436**
Cash & cash equivalents at the start of the period	8,150	23,586
Cash & cash equivalents at the end of the period	7,443	8,150

VALTER VINAGRE b. 1954, Portugal
Da série Variações para um fruto,
"S/ título #7", 2003
Silver Dye Bleach Print (Ilfochrome)
102,5 x 127,5cm
Unique print
Courtesy by the Artist

TRANQUILIDADE

07 Notes to the Financial Statements

Notes to the Financial Statements as at December 31, 2010 & 2009

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 22 commercial zones, is supported by a total of 364 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 38 Company shops, 74 franchised shops and 252 agents' shops bearing the Tranquilidade image, of which 44 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 - Condominium	

The main headings of the financial statements as at December 31, 2010 & 2009, segmented by the main business lines, are as follows.

(thousand euros)

2010	Total Non-Life	Workmen's Compensation	Fire & Other Damage	Motor
Profit & Loss Headings				
Gross premiums written	335,854	59,054	61,568	142,180
Reinsurance premium ceded	-47,582	-2,051	-24,079	-1,680
Gross premiums earned	330,414	58,951	60,640	139,233
Returns on investments	26,169	5,433	2,893	14,739
Gross cost of claims	218,021	45,303	40,827	88,836
Gross operating costs	101,704	15,550	21,861	42,628
Technical result	8,445	-2,731	-6,450	18,560
Balance Sheet Headings				
Assets allocated to representation of technical provisions	593,425	177,876	57,986	295,388
Technical provisions	619,617	185,727	60,545	308,426

(thousand euros)

2009	Total Non-Life	Workmen's Compensation	Fire & Other Damage	Motor
Profit & Loss Headings				
Gross premiums written	314,812	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
Returns on investments	19,684	2,789	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

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

(thousand euros)

2010	Total	Portugal	Spain
Profit & Loss Headings			
Gross premiums written	335,854	335,159	695
Reinsurance premium ceded	-47,582	-47,527	-55
Gross premiums earned	330,414	329,715	699
Returns on investments	26,169	26,161	8
Gross cost of claims	218,021	217,799	222
Gross operating costs	101,704	101,284	420
Technical result	8,445	8,419	26
Balance Sheet Headings			
Assets allocated to representation of technical provisions	593,425	593,121	304
Technical provisions	619,617	619,314	303

(thousand euros)

2009	Total	Portugal	Spain
Profit & Loss Headings			
Gross premiums written	314,812	314,117	695
Reinsurance premiums ceded	-43,216	-43,165	-51
Gross premiums earned	320,589	319,879	710
Returns on investments	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

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

Basis of Presentation

Tranquilidade's financial statements now presented refer to the year ended December 31, 2010, 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 2010, Tranquilidade adopted the IFRS and the mandatory-application interpretations for years as from January 1, 2010. 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, 2010, the accounting standards issued by the IASB and the IFRIC interpretations of mandatory application as from January 1, 2010.

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 2010 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 the 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 all periods presented in the financial statements.

The financial statements are expressed in thousands of euros, rounded to the nearest thousand, and they 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 liability 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 in accordance with the New Plan of Accounts for Insurance Companies 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 valued solely using these sources of information. The actual results may differ from the estimates.

These financial statements were approved at a meeting of the Board of Directors held on March 15, 2011.

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 where:
  - Such financial assets are managed, valued 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;
  - The financial assets are 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 & 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 for the year.

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 carried at fair value, though any variations are recognised under reserves, in that part belonging to the shareholder, 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 profit & loss.

Currency fluctuations associated with these investments are also recognised in reserves, in the case of equities, and in profit & 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 in respect of which the fair value cannot be measured 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 such an 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.

When there is evidence of impairment of available-for-sale financial assets, the potential loss accumulated under reserves, corresponding to the difference between acquisition cost and present fair value, less any impairment loss of the asset previously recognised in profit & loss, is transferred to profit & 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 on their trade date at their fair value. 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 embedded in other financial instruments are treated separately where 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 & loss. These embedded derivatives are recorded at fair value and variations are recognised in profit & loss.

Financial liabilities

An instrument is classified as a financial liability where there is a contractual obligation for its settlement to be made by paying cash or another financial asset, regardless 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 rate ruling on the date of the transaction. 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 classified 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 in accordance with the accrual accounting principle.

Land is not depreciated. 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
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 an asset might be impaired, IAS 36 requires that its recoverable value be estimated, and an impairment loss recognised in the event that the net value of an asset exceeds its recoverable value. Impairment losses are recognised in the profit & loss account.

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. Changes 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, usually 3 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 recorded 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 charges related with IT services are recognised as costs as and when incurred.

Leasing

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 acquisition cost of the leased property, which is the present value of the 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 costs over the life of the lease in order to produce a periodic interest rate on the outstanding balance of the liability for each period.

Cash & cash equivalents

Cash & cash equivalents includes amounts recorded 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.

Bonuses

Employees' variable remunerations are recorded in costs for the period to which they refer.

Liability for holiday pay and holiday bonus

This provision is 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 current taxes and deferred taxes. Income taxes are recognised in profit & loss except where they are related with items recognised directly in equity, in which case there is also 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.

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. accordance with the liabilities method based on the balance sheet, on the temporary differences between the book values of the assets and liabilities and their tax basis, using the tax rate 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 or 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(loss 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 doubtful debt, in keeping with the criteria established by the ISP.

Report by segments

The Company determines and presented operational segments based on the management information produced in-house.

An operational business segment is an identifiable component of the Company that is intended to provide an individual product or service or a group of related products or services, within a specific economic environment, and is subject to risks and benefits that can be differentiated from others operating in different economic environments.

The Company controls their activity through the main operational segments referred to in Note 2.

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 that the 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.

The use of alternative methodologies and 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 valuation methodologies based on discounted future cash flows taking into account market conditions, the time effect, the yield curve and volatility factors. These methods may require the use of assumptions or judgements in estimating the fair value.

Consequently, the use of other methods or different assumptions or judgements in applying a given model could give rise to financial results different from 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 period.

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.

In this way there may be corrections to the taxable income as a result of differences in the interpretation of tax legislation. Nevertheless, the Company's Board of Directors is convinced that there will be no significant corrections to the income tax recorded in the 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 cost 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 an 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 determination of premiums written before the end of the year but 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 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, 2010, 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, 2010, 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, 2010, 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 (2010: 6.91& and 2009:4.47%) and management charges of 1.5%.

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 period or periods (unearned premiums) and of premiums enforceable not yet processed in respect of contracts in force, by a ratio based on the sum of the claims ratios, expenses and ceding less the investments ration.

Provision for claims-rate 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.

It is calculated the Earthquake Phenomena Peril through application of a risk factor defined by the ISP for each seismic zone to the capital withheld 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 reserve for direct insurance and reinsurance accepted unearned premiums (UPR) reflected in liabilities net of deferred acquisition costs (DAC) is as follows:

(thousand euros)

Balance Sheet	2010			2009		
Businesses/ Groups of Businesses	UPR Gross	DAC	UPR Net	UPR Gross	DAC	UPR Net
Accidents & health	13,396	2,586	10,810	12,517	2,403	10,114
Fire & other damage	25,507	5,078	20,429	24,579	4,883	19,696
Motor	56,315	11,263	45,052	53,368	10,554	42,814
Marine, air & transport	1,882	359	1,523	1,816	346	1,470
General third-party liability	3,412	682	2,730	3,155	629	2,526
Credit & fidelity insurance	41	8	33	52	10	42
Legal protection	8	1	7	9	1	8
Assistance	3,918	784	3,134	3,635	676	2,959
Sundry	619	122	497	527	103	424
Total	**105,098**	**20,883**	**84,215**	**99,658**	**19,605**	**80,053**

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

(thousand euros)

Balance Sheet	2010			2009		
Businesses/ Groups of Businesses	UPR Gross	DAC	UPR Net	UPR Gross	DAC	UPR Net
Accidents & health	879	183	696	274	19	255
Fire & other damage	928	195	733	-290	-40	-250
Motor	2,947	709	2,238	-5,118	-1,143	-3,975
Marine, air & transport	66	13	53	-416	-86	-330
General third-party liability	257	53	204	8	4	4
Credit & fidelity insurance	-11	-2	-9	-10	-2	-8
Legal protection	-1	-	-1	-1	-1	-
Assistance	283	108	175	-292	-109	-183
Sundry	92	19	73	68	13	55
Total	**5,440**	**1,278**	**4,162**	**-5,777**	**-1,345**	**-4,432**

The breakdown of reserve 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	
	2010	2009	2010	2009
Accidents & health	884	209	675	25
Fire & other damage	7,589	6,930	659	383
Motor	-	-	-	-
Marine, air & transport	852	846	6	-361
General third-party liability	372	308	64	-12
Credit & fidelity insurance	18	25	-7	-4
Legal protection	-	-	-	-
Assistance	5,311	4,637	674	408
Sundry	527	439	88	69
Total	**15,553**	**13,394**	**2,159**	**508**

The breakdown of reserve 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	
	2010	2009	2010	2009
Workmen's compensation	175,703	168,979	5,640	-8,031
Personal accidents & health	16,261	14,104	1,918	1,718
Fire & other damage	34,653	33,790	911	1,346
Motor	245,823	274,845	-29,308	-7,832
Marine, air & transport	6,484	7,405	891	-226
General third-party liability	20,858	19,297	1,535	2,133
Credit & fidelity insurance	550	1,077	-524	84
Legal protection	143	148	-5	-5
Assistance	-	-	-	-
Sundry	346	375	-29	-120
Total	**500,821**	**520,020**	**-20,753**	**-10,933**

The balance of the provision for Workmen's Compensation claims includes the sum of €122,049k (2009: €124,009k) 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 2010 and 2009, was zero, and the update of the contributions to the Works Accidents Fund (FAT) in the sum of €5,891k (2009: €6,887).

The balance of the provision for claims includes an estimated provision in the sum of €25,204k (2009: €29,834k) in respect of claims prior to December 31, 2010, not yet reported (IBNR). It also includes an estimate in the sum of €12,830k (2009: €8,918k) for management charges in respect of the settlement of reported claims pending.

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

(thousand euros)

Businesses/ Groups of Businesses	Provision for Claims as at 31/12/2009 (1)	Claims* Paid in 2010 (2)	Provision for Claims as at 31/12/2010 (3)	Readjustments (3) + (2) - (1)
Accidents & health	183,083	29,714	141,146	-12,223
Fire & other damage	33,790	20,211	17,186	3,607
Motor				-
- Third-party liability	250,438	44,710	168,228	-37,500
- Other covers	24,407	10,810	11,367	-2,230
Marine, air & transport	7,405	2,260	4,543	-602
General third-party liability	19,297	1,859	17,863	425
Credit & fidelity insurance	1,077	400	550	-127
Legal protection	148	23	122	-3
Assistance	-	-	-	-
Sundry	375	361	177	163
Total	**520,020**	**110,348**	**361,182**	**-48,490**

* Claims in year 2009 & 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 2010 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	
	2010	2009	2010	2009
Workmen's compensation	298	28	270	-3
Personal accidents & health	217	188	29	-336
Fire & other damage	13,675	12,081	1,594	1,141
Motor	11,342	10,065	1,277	-1,468
Marine, air & transport	3,040	3,602	-562	-887
General third-party liability	8,753	8,518	235	1,479
Credit & fidelity insurance	7	19	-12	-
Legal protection	-	-	-	-
Assistance	-	-	-	-
Sundry	282	330	-48	-110
Total	**37,614**	**34,831**	**2,783**	**-184**

The balance of the provision for reinsurance ceded claims includes an estimated provision in the sum of €1,022k (2009: €924k) in respect of claims prior to December 31, 2010, not yet reported (IBNR).

The breakdown of costs of claims in 2010 is as follows:

(thousand euros)

Businesses/ Groups of Businesses	Amounts Paid - Instalments (1)	Amounts Paid - Claims Management Costs Imputed (2)	Variation of Provision for Claims (3)	Cost of Claims (4) = (1) + (2) + (3)
Accidents & health	69,578	3,014	7,558	80,150
Fire & other damage	38,502	1,398	961	40,861
Motor				
- Third-party liability	71,120	4,618	-36,483	39,255
- Other covers	34,174	2,251	5,949	42,374
Marine, air & transport	3,276	116	-890	2,502
General third-party liability	2,685	348	1,581	4,614
Credit & fidelity insurance	504	2	-524	-18
Legal protection	12	17	-5	24
Assistance	-	-	-	-
Sundry	1,159	3	-29	1,133
Total	**221,010**	**11,767**	**-21,882**	**210,895**
Reinsurance accepted	5,997	-	1,129	7,126
Grand Total	**227,007**	**11,767**	**-20,753**	**218,021**

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

(thousand euros)

Businesses/ Groups of Businesses	Amounts Paid - Instalments (1)	Amounts Paid - Claims Management Costs Imputed (2)	Variation of Provision for Claims (3)	Cost of Claims (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 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	
	2010	2009	2010	2009
Accidents & health	1,045	1,080	-35	270
Fire & other damage	-	-	-	-
Motor	-	-	-	-
Marine, air & transport	-	-	-	-
General third-party liability	-	-	-	-
Credit & fidelity insurance	-	-	-	-
Legal protection	-	-	-	-
Assistance	-	-	-	-
Sundry	-	-	-	-
Total	**1,045**	**1,080**	**-35**	**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	
	2010	2009	2010	2009
Accidents & health	-	-	-	-
Fire & other damage	4,701	4,202	499	463
Motor	-	-	-	-
Marine, air & transport	-	-	-	-
General third-party liability	2	10	-8	-8
Credit & fidelity insurance	426	394	32	-
Legal protection	-	-	-	-
Assistance	-	-	-	-
Sundry	53	48	5	6
Total	**5,182**	**4,654**	**528**	**461**

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	
	2010	2009	2010	2009
Accidents & health	8,777	3,703	5,074	186
Fire & other damage	761	1,138	-377	-1,187
Motor	17,551	13,975	3,576	643
Marine, air & transport	6	12	-6	6
General third-party liability	-	-	-	-
Credit & fidelity insurance	39	-	39	-
Legal protection	2	2	-	1
Assistance	956	728	228	486
Sundry	262	207	55	149
Total	**28,354**	**19,765**	**8,589**	**284**

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 Specific Insurances Risks

The specific insurance risk 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 Catastrophic 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)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Provision for claims with management costs, net of reinsurance and net of reimbursements	276,399	299,101	302,579	305,512	328,733	363,800	375,014	394,397	394,186	387,150	367,309
Accumulated payments											
One year later	106,206	105,824	108,328	106,724	91,174	105,504	100,096	98,779	94,708	95,049	
Two years later	147,272	157,869	162,811	149,681	141,526	157,627	145,308	135,925	128,265		
Three years later	185,976	197,820	194,772	185,956	176,790	191,998	171,505	160,955			
Four years later	215,921	222,164	223,751	213,367	201,716	213,580	192,108				
Five years later	234,821	246,876	245,653	235,135	220,093	230,853					
Six years later	252,471	264,938	263,670	250,333	233,869						
Seven years later	267,296	280,214	275,464	262,243							
Seven years later	279,416	289,301	284,198								
Nine years later	285,953	296,163									
Ten years later	291,307										
Final estimate of costs of claims											
One year later	277,599	303,180	313,397	327,363	338,836	354,407	366,449	352,929	369,571	347,727	
Two years later	283,207	306,243	325,422	334,297	334,918	356,147	345,157	349,376	329,811		
Three years later	283,966	314,450	331,367	332,408	333,196	352,713	338,431	316,239			
Four years later	303,872	317,872	331,221	331,075	338,491	352,070	311,533				
Five years later	306,526	318,261	329,943	342,831	336,647	331,796					
Six years later	306,563	318,259	347,022	340,872	323,690						
Seven years later	306,112	338,585	345,961	335,816							
Seven years later	324,328	338,097	344,154								
Nine years later	324,479	336,497									
Ten years later	323,451										
Accumulated surplus/(deficit)	-47,052	-37,396	-41,575	-30,304	5,043	32,004	63,481	78,158	64,375	39,423	

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 2010 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)
Fire	Stop Loss
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 sensitivity analysis of the insurance risk, taking its main conditioning factors into account, is as follows:

(thousand euros)

Area of Analysis	Scenarios	Impact on Pre-Tax Profit	
		2010	2009
Cost of claims	5% increase of the year's costs of claims, net of reinsurance	-18,732	-16,832
Expenses	10% increase of operating costs, net of reinsurance	-13,701	-13,409
Longevity	10% decrease of the mortality of present works accidents pensioners	-1,614	-1,500

The risks of variations in the cost of claims and in general expenses stems from the influence exercised on these headings either by greater occurrence of facts generating costs, inflation or by 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 adequacy of 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. In this connection the management of the sundry risks to which the Company is subject is also monitored, and plans of action are proposed to the Board of Directors as and where warranted.

In 2010 the investment policy, for which the Financial Committee is responsible. was dealt with in close co-operation with the Overall Risk Management Committee, which defines the risk policy for the in vestments.

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 2010	Impact on Pre-Tax Profit 2009
Currency	10% depreciation of the value of all foreign currencies against the euro	-45	-43

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 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 2010	Impact on Reserves at Fair Value Before Tax 2009
Shares	10% decrease of stock-market values	-37,173	-21,869

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 78.5% 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 2010	Impact on Pre-Tax Profit 2009
Real estate	10% decrease of the values of real estate and investment funds	-13,604	-13,354

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.

(thousand euros)

Area of Analysis	Scenarios	Impact on Reserves at Fair Value before Tax 2010	Impact on Reserves at Fair Value before Tax 2009
Interest rate	100 b.p.decrease of the interest-rate curve - Effect on assets	7,606	7,422
	100 b.p.increase of the interest-rate curve - Effect on assets	-7,205	-7,056

(thousand euros)

Area of Analysis	Scenarios	Impact on Pre-Tax Profit 2010	Impact on Pre-Tax Profit 2009
Interest rate	100 b.p.decrease of the interest-rate curve - Effect on liabilities	-	-8,963
	100 b.p. increase of the interest-rate curve - Effect on liabilities	-	-

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 69% 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	2010		2009	
	%	value	%	value
AAA	5%	12,707	4%	14,515
AA	13%	34,725	7%	24,547
A	51%	139,390	62%	210,019
BBB	24%	65,740	23%	78,355
BB	6%	16,324	3%	10,468
B	0%	-	1%	4,339
CC	1%	2,744	0%	-
Unrated	0%	-	0%	-
Total	**100%**	**271,630**	**100%**	**342,243**

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	2010 %	2010 Gross Value	2010 Impairment	2009 %	2009 Gross Value	2009 Impairment
Basic resources	0%	812	-25	0%	2,224	-25
Communications	1%	4,658	-424	6%	37,455	-
Consumables (cyclic)	1%	6,136	-607	1%	4,345	-
Consumables (non-cyclic)	1%	7,662	-	0%	880	-38
Energy	0%	2,814	-	1%	7,150	-81
Financial	73%	474,817	-1,034	66%	375,542	-15,272
Funds	3%	19,294	-	2%	9,690	-
Public debt	8%	53,118	-	2%	14,278	-
Industrial	1%	4,788	-	10%	49,609	-
Medicine	8%	50,288	-	7%	40,988	-
Technology	0%	-	-	0%	1,355	-
Public / collective services	2%	14,975	-	4%	25,939	-
Other	1%	9,386	-3,302	1%	7,515	-460
	100%	**648,748**	**-5,392**	**100%**	**576,970**	**-15,876**

The figures include the headings of Investments in affiliates, associates and business combinations, Financial assets held for trading, Financial assets classified on initial recognition at fair value through profit & loss and Available-for-sale financial assets, and the loan capital and the ancillary capital contributions under Loans granted. Real estate investment funds are excluded from the Available-for-sale assets for reasons to do with coherence with the non-inclusion, here too, of investments in Land & buildings.

Liquidity risk

This is the risk that the insurance 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.

During 2010, additional procedures were defined within the scope of the Overall Risk Management Committee to mitigate this risk. 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, 2010 & 2009, is as follows:

(thousand euros)

2010	< 1 Month	1-3 Months	3-12 Months	1-5 Years	> 5 Years	Without Maturity	Total
Financial assets	891	142,775	15,287	107,050	144,312	493,366	903,681
Financial liabilities	254	-	-	-	63,646	44,484	108,384
Net	**637**	**142,775**	**15,287**	**107,050**	**80,666**	**448,882**	**795,297**

(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**

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.

A standard procedure involves systematic monitoring of the amounts and age of overdue payments.

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

Operational risk and reputational 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, and it can be subdivided into the following categories:

- Intentional bad professional conduct (Internal Fraud);
- Illicit activities carried on by third parties (External Fraud);
- Practices related with human resources and safety at work;
- Customers, products and commercial practices;
- External events causing damage to physical assets;
- Interruption of the business and failure of systems;
- Risks related with business processes.

As the main mitigation measures at Tranquilidade and in the light of the risks detailed above we would underscore the following:

- Implementation of internal and externalfraud prevention policies and procedures:
- Implementation of measures related with security in access to the premises;
- Implementation of measures related with security in accessing the databases and the information systems;
- Definition and implementation of the human resources management policy;
- Existence of training programmes covering knowledge recycling;
- Raining of employees who interact directly with the customers;
- Implementation and documentation of a disaster recovery plan and performance of periodic tests and simulation in respect of the plan;
- Implementation and documentation of a business continuity plan, as well as procedures allowing the recuperation of critical business activities and functions, including those performed by subcontracted entities.

Additionally, the legal risk also forms part of the operational risk. The legal-risk concept includes, among others, exposure to fines or other penalties resulting from supervisory activities, as well as other types of compensation.

As the main measures implemented at Tranquilidade to mitigate the legal risk, besides those already mentioned, we would underscore the following:

- Existence / formalisation of several policies transverse to the entire Company in the matters of fraud prevention, human resources, outsourcing, subscription or claims management, in which the legal risk is specifically addressed;
- Existence of formal procedures to monitor compliance with the various legal deadlines to which Tranquilidade is subject.

Of more specific scope, we would also emphasise the existence of formal procedures within the scope of the claims-management process, particularly in claims settlement, so as to ensure that the law is complied with.

The reputational risk is defined as the risk that the insurance company may incur losses as a result of deterioration of its reputation or position in the marketplace owing to a negative perception of its image among its customers, counterparts, equityholders or supervisory authorities, as well as among the general public.

As a rule, the reputational risk can arise from situations such as:

- Possible failures by service-provider entities;
- Failures or difficulties occurring during the claims-management process, giving rise to deterioration of the relations between the insurance company and the policyholders, beneficiaries or injured third parties;
- Failures associated with the subscription process, impacting on relations with the customers throughout the entire existing business cycle.

In this connection, of Tranquilidade's main measures in dealing with the reputational risk the following are underscored:

- A code of conduct that has been implemented and disclosed;
- Formal procedures in the field of claims management;
- A database of contracts of greater value closed with external entities.

Internal control system

The Internal 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 System 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 the granularity is greater.

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 of 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:

- A first level represented by the various Tranquilidade divisions (Operational Units), which are areas responsible for risk-management operationalisation and for the 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.

Additionally, Tranquilidade keeps a record of operating losses, centred on the Overall Risk & Internal Control Division, in which records are kept of the more relevant losses detected, providing yet another form of monitoring the operational risk and the possibility of taking corrective measures or defining new controls to prevent or reduce the likelihood of occurrence of similar new incidents in the future.

In this connection, the Company is at this time analysing the possibility of acquiring a tool of greater potential, with a greater degree of automation, which will allow access to every area of the Company in accordance with the existing profile definition.

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)

	2010	2009
Elements constituting the guarantee fund	**296,678**	**195,804**
Solvency margin to be set aside	**51,762**	**54,219**
Result from the premiums standpoint	51,254	49,447
Result from the claims standpoint	47,829	48,742
Limit result of article 97.8	51,762	54,219
Legal minimum guarantee funds	3,500	3,500
Excess/Insufficiency of the solvency margin	**244,916**	**141,585**
Solvency margin cover rate	**573%**	**361%**

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:

(%)

	2010	2009
Claims ratioa [a)]	69.1%	64.5%
Acquisition ratio [b)]	21.1%	21.2%
Administrative ratio [c)]	9.2%	10.6%
Combined Ratio	**99.4%**	**96.3%**

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 collect them are included under the following headings and involve the following amounts:

(thousand euros)

	2010	2009
Rceivables	2,557	1,991
Adjustment of doubtful debt	-1,000	-757
Net Total	**1,557**	**1,234**

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)

	2010	2009
Inventories	252	321

Note 5 – Other Financial Liabilities

The breakdown of this heading is as follows:

(thousand euros)

	2010	2009
Other financial liabilities		
Deposits received from reinsurers	579	503
Derivatives	254	10
Other	1,142	-
Book Value	**1,975**	**513**

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.

The breakdown of the Derivatives figures is provided in Note 6. The figure for Others carried in 2010 has to do with creditor bank balances that arose as a result of optimised financial management, taking into account the amount of payment means issued but not yet cashed.

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)

	2010	2009
Available-for-sale financial assets	338,199	367,027
Investments in affiliates & associates	301,355	165,497
Term deposits	131,243	84,892
Financial assets classified at fair value through profit & loss	6,459	6,572
Financial assets held for trading	-	-
Total Holdings and Financial Instruments	**777,256**	**623,988**

Appendix 1 takes into consideration €254k 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)

	2010	2009
Bonds & other fixed-income securities		
Public issuers'	-	-
Other issuers'	6,459	6,572
Shares	-	-
Other floating-rate securities	-	-
Book Value	**6,459**	**6,572**
Acquisition value	7,951	7,985

As at December 31, 2010 & 2009, 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	
	2010	2009
Structured credit	6,446	6,560
Credit derivative	13	12
	6,459	**6,572**

Available-for-sale financial assets

The breakdown of this type of asset is as follows:

(thousand euros)

	2010	2009
Bonds & other fixed-income securities		
Public issuers'	53,118	13,278
Other issuers'	212,053	322,393
Shares	24,559	16,894
Other floating-rate securities	48,469	14,462
Book Value	**338,199**	**367,027**

The breakdown of the final balance sheet figures as at December 31, 2010 & 2009, is as follows:

(thousand euros)

	Amortised or Acquisition Cost	Fair-Value Reserve	Impairment	Book Value
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**
Bonds & other				
fixed-income securities				
Public issuers'	58,605	-5,487		53,118
Other issuers'	236,620	-20,231	-4,336	212,053
Shares	7,665	17,470	-576	24,559
Other floating-rate securities	48,330	951	-812	48,469
Balance as at December 31, 2010	**351,220**	**-7,297**	**-5,724**	**338,199**

Movements under impairment losses are as follows:

(thousand euros)

	2010	2009
Balance as at January 1	**16,208**	**16,135**
Allocations for the year	3,356	1,581
Cancellations for the year for sale of assets	-13,120	-458
Written back during the year	-720	-1,050
Balance as at December 31	**5,724**	**16,208**

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

(thousand euros)

	2010	2009
Bonds & other fixed-income securities	-2,583	970
Equities & other floating-rate securities	-53	-1,501
	-2,636	**-531**

Held-for-trading financial assets

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

(thousand euros)

Rating	2010		2009	
	Fair Value	Notional Value	Fair Value	Notional Value
Derivatives				
Forward contracts	-254	200	-10	530

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 2010 & 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)

	2010	2009
Loans granted	28,459	28,850
Deposits with cedent companies	1	1
Other	1,692	2,514
Total of Other Financial Assets	**30,152**	**31,365**

The figure for Others corresponds to financial transactions pending settlement, taking their value dates into account.

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

(thousand euros)

	2010	2009
Ancillary Capital Contributions - T-Vida	12,500	20,000
Ancillary Capital Contributions - LOGO	12,400	3,900
Ancillary Capital Contributions - Europ Assistance	1,080	1,080
Loan capital - ES Saúde	-	1,250
Loan capital - Contact centre	277	277
Loan capital - Esumédica	262	262
Loans to employees	1,940	2,081
Total Loans Granted	**28,459**	**28,850**

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)

	2010		2009	
	Fair Value	Book Value	Fair Value	Book Value
Cash & cash equivalents and sight deposits	7,443	7,443	8,150	8,150
Loans and receivables	161,395	161,395	116,257	116,257
Other debtors for insurance & other operations	88,830	88,830	77,305	77,305
Financial Assets at Amortised Cost	**257,668**	**257,668**	**201,712**	**201,712**
Other financial liabilities	1,721	1,721	503	503
Other creditors for insurance operations and other operations	106,409	106,409	40,450	40,450
Financial Liabilities at Amortised Cost	**108,130**	**108,130**	**40,953**	**40,953**

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)

2010	Level 1	Level 2	Level 3	Level 4	Total
Securities & equity paper	48,468	-	-	-	48,468
Equities & other floating-rate securities	578	-	325,337	-	325,915
Bonds & other fixed-income securities	192,041	73,129	6,460	-	271,630
Derivatives	-	-	-	-	-
Total	**241,087**	**73,129**	**331,797**	**-**	**646,013**

(thousand euros)

2009	Level 1	Level 2	Level 3	Level 4	Total
Securities & equity paper	14,463	-	-	-	14,463
Equities & other floating-rate securities	2,753	-	179,637	-	182,390
Bonds & other fixed-income securities	250,399	91,844	-	-	342,243
Derivatives	-	-	-	-	-
Total	**267,615**	**91,844**	**179,637**	**-**	**539,096**

The description of the levels is as follows:

Level 1:
Financial intruments measured using makert 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 (%) Direct	Voting Right	Effective	2010 Financial Data 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	941,574	874,686	66,888	5,140
Seguros Logo, SA R. D. Manuel II, 290 • 4050-344 Porto (Portugal)	Subsidiary	"Fair Value"	100.00	100.00	100.00	27,016	21,779	5,237	-7,988
Pastor Vida, SA, de Seguros y Reaseguros Paseo de Recoletos, 19 • 28004 Madrid (Spain)	Subsidiary	"Fair Value"	50.00	50.00	50.00	206,071	159,519	46,552	6,225
Advancecare – Gestão e Serviços de Saúde, SA Praça Jose Queirós, 1 - 4°• 1800-237 Lisbon (Portugal)	Subsidiary	"Fair Value"	51.00	51.00	51.00	9,335	2,447	6,888	2,082
Espírito Santo Contact Center, SA Av. Infante D. Henrique, 343 - C • 1800-218 Lisbon (Portugal)	Subsidiary	"Fair Value"	56.30	56.30	56.30	8,071	6,139	1,932	162
Esumédica–Prestação de Serviços Médicos, SA Av. da Liberdade, 242 • 1250-149 Lisbon (Portugal)	Subsidiary	"Fair Value"	75.00	75.00	75.00	1,367	2,873	-1,506	170
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	120,374	96,862	23,512	3,891
Europ Assistance, SA Av. Álvares Cabral, 41 - 3° e 4° • 1250-015 Lisbon(Portugal)	Associate Company	"Fair Value"	24.00	24.00	24.00	39,883	26,597	13,286	1,475

During 2010, in terms of alterations to the structure of the holdings, emphasis is given to the acquisition of insurer Pastor Vida in December. It should also be mentioned that the Company has a 75% stake in Fiduprivate, SA, a company that did not present accounts in 2010.

The investments as at December 31, 2010, are segregated as follows by company and composition of the book value:

(thousand euros)

	Acquisition Value	Fair-Value Reserve	Impairment	Book Value
Advancecare	486	38,724	-	39,210
BES Seguros	3,759	17,704	-	21,463
ES Contact Center	1,846	2,658	-	4,504
Esumédica	445	380	-	825
Europ Assistance	1,757	2,450	-	4,207
Pastor Vida	79,646	-	-	79,646
Fiduprivate	480	-	-480	-
LOGO	20,000	-	-	20,000
T-Vida	77,489	54,011	-	131,500
	185,908	115,927	-480	301,355

Alterations to the value of the holdings during 2010 were as follows:

(thousand euros)

	Opening Book Value	Acquisitions, Equity Capital Increases & Disposals	Impairment	Fair-Value Reserve	Closing Book Value
Advancecare	25,546	-	-	13,664	39,210
BES Seguros	21,625	-	-	-162	21,463
ES Contact Center	2,308	-	-	2,196	4,504
Esumédica	2,550	-	-	-1,725	825
Europ Assistance	4,368	-	-	-161	4,207
Pastor Vida	-	79,646	-	-	79,646
Fiduprivate	-	-	-	-	-
LOGO	20,000	-	-	-	20,000
T-Vida	89,100	-	-	42,400	131,500
	165,497	**79,646**	**-**	**56,212**	**301,355**

In December 2010 Tranquilidade acquired insurer Pastor Vida, having made partial payment in the sum of €16 million, the remainder of the price of this acquisition to be paid in agreed periods of 5 and 10 years, on the basis of fixed amounts and of variable amounts determined in the light of the agreed management goals.

Note 8 - Cash, Cash Equivalents & Sight Deposits

The balance of this heading is as follows:

(thousand euros)

	2010	2009
Caixa	891	465
Deposits at credit institutions	6,552	7,685
	7,443	**8,150**

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	2010	2009
Net Balance as at January 1	**88,092**	**86,942**
Additions through acquisition	-	-
Additions through betterments	127	151
Transfers	265	18
Written off / Sold	-24,242	-
Changes to fair value	1,572	981
Net Balance as at December 31	**65,814**	**88,092**

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

(thousand euros)

	2010	2009
Rental Income	**2,744**	**2,453**
Operating Costs	**555**	**430**
- of real estate generating rental income	525	404
- of real estate not generating rental income	30	26

Cost model

The breakdown of the Premises headings is as follows:

(thousand euros)

	2010	2009
Gross Value	**44,268**	**46,268**
Accumulated depreciation & impairments	-6,429	-6,029
Net Balance as at December 31	**37,839**	**40,239**

Movements under Premises in both years is as follows:

(thousand euros)

Tangible Assets - Premises	2010	2009
Net Balance as at January 1	**40,239**	**39,719**
Additions through acquisition	-	-
Additions through betterments	743	557
Transfers	-	682
Written off / Sold	-2,536	-
Impairments - [(allocation) / use]	132	-
Depreciation for the year	-739	-719
Net Balance as at December 31	**37,839**	**40,239**

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)

	2010	2009
Equipment	**39,897**	**38,903**
Office equipment	4,312	4,576
Machines & tools	1,623	1,570
Hardware	30,687	29,530
Fixtures & fittings	1,950	1,917
Expenditure on rented buildings	551	344
Transport equipment	331	523
Other tangible fixed assets	443	443
Fixed Assets in Progress	**3,168**	**573**
Accumulated Depreciation	**-37,035**	**-36,066**
Impairments	**-**	**-**
Total	**6,030**	**3,410**

Movements under this heading are as follows:

(thousand euros)

	Equipment	Fixed Assets in Progress	Total
Balance as at January 1, 2009	**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**
Additions	1,747	2,860	4,607
Transfers	-	-265	-265
Depreciation for the year	-1,714	-	-1,714
Written off / Sold	-8	-	-8
Blance as at December 31, 2010	**2,862**	**3,168**	**6,030**

Mention is also made of the fact that there are other assets, related with salvage, which, in 2010, amount to €255k (2009: €323k).

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, 2010 & 2009, is as follows:

(thousand euros)

	2010		
	Non-Life Insurance	Not Allocated	Total
Cash & cash equivalents	5,683	1,760	7,443
Land & buildings	103,653	-	103,653
Investments in affiliates, associates and joint ventures	296,026	5,329	301,355
Held-for-trading financial assets	-	-	-
Financial assets classified in the initial recognition at fair value through profit & loss	6,459	-	6,459
Hedge derivatives	-	-	-
Available-for-sale financial assets	334,288	3,911	338,199
Loans and receivables	159,492	1,903	161,395
Held-to-maturity investments	-	-	-
Other tangible assets		6,030	6,030
Other assets		196,675	196,675
Total	**905,601**	**215,608**	**1,121,209**

(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**

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)

	2010	2009
Goodwill	**25,785**	**25,785**
Other Intangible Assets	**51,534**	**47,029**
Software development costs	38,163	34,776
Software	9,523	9,383
Intangibles in progress	3,848	2,870
Accumulated Depreciation	**-37,866**	**-33,090**
Impairments	**-**	**-**
Total	**39,453**	**39,724**

Movements 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, 2009	**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**
Additions		4,678	172	140	4,366	4,678
Depreciation for the year		-4,775	-4,119	-656	-	-4,775
Impairments		-	-	-	-	-
Transfers		-174	3,214	-	-3,388	-174
Balance as at December 31, 2010	**25,785**	**13,668**	**7,849**	**1,971**	**3,848**	**39,453**

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

(thousand euros)

	2010	2009
Amortisation of Intangible Assets for the Year	**-4,775**	**-5,440**
Costs of claims, net of reinsurance		
Amounts paid - Gross amounts	1,207	1,349
Net operating costs & expenses		
Acquisition costs	2,502	2,835
Administrative costs	1,059	1,249
Financial costs		
Other	7	7

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)

	2010	2009
Gross Assets	**58,589**	**58,228**
Policyholders		
- receipts pending collection	49,470	49,283
- reimbursement of claims	6,776	5,145
Insurance brokers	323	415
Co-insurers	2,020	3,385
Adjustments	**-5,539**	**-5,783**
Receipts pending collection	-4,462	-4,973
Doubtful debt	-1,077	-810
Net Assets	**53,050**	**52,445**

Reimbursements demanded in respect of payments made as a result of claims occurring during the guarantees suspension period and not yet received amount to €2,557k (2009: €1,991k).

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

(thousand euros)

	2010	2009
Gross Assets	**8,677**	**5,436**
Reinsurers	8,669	5,126
Reinsured	8	310
Adjustments	**-259**	**-244**
Doubtful debt	-259	-244
Net Assets	**8,418**	**5,192**

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

(thousand euros)

	2010	2009
Gross Assets	**28,769**	**20,511**
Related entities	380	534
Real-estate operations	-	1,001
IFADAP	8,793	5,278
FAT	902	892
Management on account of IDS and principals	5,139	3,557
Bonds	1,669	1,315
Rents & other amounts pending collection	1,197	966
Staff	702	498
Other amounts pending collection	9,987	6,470
Adjustments	**-1,407**	**-843**
Doubtful debt	-1,407	-843
Net Assets	**27,362**	**19,668**

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)

	2010	2009
Adjustment of Receipts Pending Collection		
Balance as at January 1	4,973	4,645
Allocations for the year	-	328
Use for the year	-511	-
Balance as at December 31	**4,462**	**4,973**
Adjustment of Doubtful Debt		
Balance as at January 1	1,897	1,502
Allocations for the year	846	395
Use for the year	-	-
Balance as at December 31	**2,743**	**1,897**

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

(thousand euros)

	2010	2009
Accrued Income	**91**	**1,295**
- Profit reinsurance commission	-	895
- Services rendered	91	400
Deferred Costs	**849**	**548**
- Insurance	157	280
- Rents	17	10
- Acquisition expense	675	258
Total	**940**	**1,843**

Liabilities and provisions

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

(thousand euros)

	2010	2009
Policyholders (return premiums payable)	4,113	5,402
Insurance brokers		
- Commissions payable	4,227	4,123
- Current accounts	1,646	2,833
Co-insurers	10,289	8,721
Total	**20,275**	**21,079**

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

(thousand euros)

	2010	2009
Reinsurers	11,891	11,263
Reinsured	558	10
Total	**12,449**	**11,273**

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

(thousand euros)

	2010	2009
Related entities	940	334
Suppliers of leased goods	2,442	2,600
Other suppliers of goods & services	2,132	995
Investment operations pending settlement	-	4
IFADAP	1,320	884
Works Accident Pensions	1,332	1,410
Financial holdings pending settlement	63,646	-
Other payables	1,873	1,871
Total	**73,685**	**8,098**

The amount of financial holdings pending settlement in 2010 has to do with the outstanding amount in respect of the acquisition of insurer Pastor Vida, scheduled for payment in the agreed periods of 5 and 10 years, on the basis of fixed amounts and of variable amounts determined in the light of the agreed management goals.

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

(thousand euros)

	2010	2009
Deferred Income	**103**	**239**
- Rents	103	239
Accrued Costs	**21,554**	**17,558**
- Staff costs (subsidies, charges & bonuses)	6,673	7,114
- Acquisition costs (incentives & commissions)	5,541	3,950
- Third-party supplies & services	8,959	6,143
- Taxes	381	351
Total	**21,657**	**17,797**

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

(thousand euros)

	2010	2009
Taxes	2,385	1,478
Liability for compulsory works	250	250
Principals' dunning actions	-	100
Total	**2,635**	**1,828**

(thousand euros)

	2010	2009
Balance as at January 1	**1,828**	**1,234**
Allocations for the year	907	594
Use for the year	-100	-
Balance as at December 31	**2,635**	**1,828**

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.

The negative change under Other provisions has to do with a reclassification to Adjustment of debts for impairment.

Note 14 - Insurance Contract Premiums

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

(thousand euros)

Businesses/ Groups of Businesses	Gross Premiums Written		UPR Variation		Premiums Earned	
	2010	2009	2010	2009	2010	2009
Accidents & health	103,389	97,048	879	274	102,510	96,774
Fire & other damage	61,568	59,401	928	-290	60,640	59,691
Motor	142,180	131,270	2,947	-5,118	139,233	136,388
Marine, air & transport	6,956	7,193	66	-416	6,890	7,609
General third-party liability	10,915	9,947	257	8	10,658	9,939
Credit & fidelity insurance	89	106	-11	-10	100	116
Legal protection	17	20	-1	-1	18	21
Assistance	8,617	7,961	283	-292	8,334	8,253
Sundry	2,123	1,866	92	68	2,031	1,798
Total	**335,854**	**314,812**	**5,440**	**-5,777**	**330,414**	**320,589**

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

(thousand euros)

Businesses/ Groups of Businesses	Gross Premiums Written		UPR Variation		Premiums Earned	
	2010	2009	2010	2009	2010	2009
Accidents & health	4,306	3,020	675	25	3,631	2,995
Fire & other damage	24,079	22,516	659	383	23,420	22,133
Motor	1,680	1,600	-	-	1,680	1,600
Marine, air & transport	3,651	3,692	6	-361	3,645	4,053
General third-party liability	1,895	1,713	64	-12	1,831	1,725
Credit & fidelity insurance	52	68	-7	-4	59	72
Legal protection	-	-	-	-	-	-
Assistance	9,953	8,966	674	408	9,279	8,558
Sundry	1,966	1,641	88	69	1,878	1,572
Total	**47,582**	**43,216**	**2,159**	**508**	**45,423**	**42,708**

Details of some amounts in respect of not-life insurance and reinsurance accepted, for 2010, 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	103,389	102,510	80,150	28,844	1,091
Fire & other damage	61,511	60,556	40,861	21,850	-6,957
Motor					
- Third-party liability	91,125	90,680	39,255	26,111	763
- Other covers	42,820	40,732	42,374	14,237	-533
Marine, air & transport	6,956	6,890	2,502	1,860	-1,974
General third-party liability	10,915	10,654	4,614	4,036	-1,437
Credit & fidelity insurance	89	100	-18	33	-51
Legal protection	17	18	24	10	-
Assistance	8,617	8,334	-	1,958	-8,430
Sundry	2,093	2,000	1,133	468	-471
Total	**327,532**	**322,474**	**210,895**	**99,407**	**-17,999**
Reinsurance accepted	8,322	7,940	7,126	2,297	-121
Grand Total	**335,854**	**330,414**	**218,021**	**101,704**	**-18,120**

Note 16 – Investment Income/Revenue and Expenditure

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)

	2010	2009
Interest	**11,246**	**12,874**
Available-for-sale financial assets	9,388	8,919
Financial assets classified at fair value through profit & loss	263	115
Financial assets held for trading		
Deposits, loans & other assets	1,595	3,840
Rents	**2,744**	**2,453**
Land & buildings	2,744	2,453
Dividends	**8,719**	**2,991**
Investments in affiliates, associates and joint ventures	7,876	1,943
Available-for-sale financial assets	843	1,048
Total	**22,709**	**18,318**

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

(thousand euros)

	2010	2009
Bonds & other fixed-income securities		
Public issuers'	1,654	453
Other issuers'	7,997	8,581
Shares	8,631	2,836
Other floating-rate securities	89	155
Real estate	2,744	2,453
Deposits	1,557	3,733
Loans & other assets	37	107
Total	**22,709**	**18,318**

The breakdown of the Financial costs heading is as follows:

(thousand euros)

	2010	2009
Costs imputed to investments	1,328	1,416
Direct operating costs	645	565
Total	**1,973**	**1,981**

Note 17 - Profits 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)

	2010			2009		
	Gain	Loss	Balance	Gain	Loss	Balance
Financial - Not at Fair Value Through Profit & Loss	**7,048**	**-3,263**	**3,785**	**7,238**	**-3,702**	**3,536**
Available-for-sale financial assets	7,048	-3,263	3,785	7,238	-3,549	3,689
Investments in affiliates, associates and joint ventures	-	-	-	-	-	-
Loans and receivables	-	-	-	-	-153	-153
Financial - At Fair Value Through Profit & Loss	**3,024**	**-**	**3,024**	**1**	**-196**	**-195**
Financial assets classified at fair value through profit & loss	1	-	1	1	-196	-195
Financial assets held for trading	3,023	-	3,023	-	-	-
Non-Financial	**580**	**-703**	**-123**	**-**	**-**	**-**
Land & buildings - Own use	250	-125	125	-	-	-
Land & buildings - Held for income	330	-578	-248	-	-	-
Total	**10,652**	**-3,966**	**6,686**	**7,239**	**-3,898**	**3,341**

Note 18 - Profits and Losses Stemming from 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)

	2010			2009		
	Gain	Loss	Balance	Gain	Loss	Balance
Financial - At Fair Value	**-**	**-81**	**-81**	**-**	**-1,255**	**-1,255**
Available-for-sale financial assets - Derivatives	-	-	-	-	-	-
Financial assets classified at fair value through profit & loss - Debt securities	-	-81	-81	-	-1,255	-1,255
Non-Financial	**3,149**	**1,577**	**1,572**	**4,296**	**-3,315**	**981**
Land & buildings - Held for income	3,149	-1,577	1,572	4,296	-3,315	981
Total	**3,149**	**-1,658**	**1,491**	**4,296**	**-4,570**	**-274**

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)

	2010			2009		
	Gain	Loss	Balance	Gain	Loss	Balance
Available-for-sale financial assets	514	-858	-344	51	-61	-10
Financial assets held for trading	570	-313	257	19	-23	-4
Other	1	-4	-3	8	-15	-7
Total	**1,085**	**-1,175**	**-90**	**78**	**-99**	**-21**

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)

	2010	2009
Other Technical Income	**353**	**855**
Co-insurance management commissions	282	204
Claims management fees	5	43
Remuneration for services - IFADAP	6	7
Management on account of claims	60	601
Other Technical Expense	**1,564**	**1,430**
Co-insurance management commissions	433	278
Management on account of claims	1,131	1,152
Value of Gains & Losses	**-1,211**	**-575**

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

(thousand euros)

	2010	2009
Other Non-Technical Income	**3,819**	**5,819**
Reimbursement of taxes	142	878
Corrections & adjustments	866	429
Other gains	895	2,308
Interest & other financial gains	82	271
Services rendered	574	532
Gains on the sale of tangible assets	37	3
Own work capitalised	1,223	1,398
Other Non-Technical Expense	**5,515**	**6,162**
Donations	21	126
Sponsorship	309	288
Gifts to customers	397	312
Fines	17	13
Subscriptions	7	13
Contractual rescissions	1,406	2,105
Bad debt	3	29
Corrections & adjustments	303	710
Other expenses	2,004	2,447
Banking services & default interest	1,048	119
Value of Gains & Losses	**-1,696**	**-343**

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, 2010 & 2009, is as follows:

(thousand euros) (%)

2010	Cost of Claims		Acquisition Costs		Administrative Costs		Cost of Investments		Total	
Staff costs	6,457	17%	14,788	40%	15,573	42%	345	1%	37,163	100%
Third-party supplies & services	3,754	17%	8,771	40%	9,031	41%	354	2%	21,910	100%
Taxes	-	0%	-	0%	2,433	100%	-	0%	2,433	100%
Depreciation	1,536	21%	3,423	47%	2,017	28%	253	3%	7,229	100%
Provisions for contingencies & liabilities	-	0%	-	0%	53	100%	-	0%	53	100%
Other costs	20	4%	42	9%	17	4%	376	83%	455	100%
Total	**11,767**	**17%**	**27,024**	**39%**	**29,124**	**42%**	**1,328**	**2%**	**69,243**	**100%**

(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	-	0%	-	0%	2,297	100%	-	0%	2,297	100%
Depreciation	1,676	21%	3,719	47%	2,324	29%	253	3%	7,972	100%
Provisions for contingencies & liabilities	-	0%	-	0%	594	100%	-	0%	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%**

Staff costs are detailed in Note 22.

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

(thousand euros)

	2010	2009
Electricity & water	389	459
Fuel	316	289
Office material, stationery, etc.	178	205
Gift articles	443	304
Office equipment & furniture maintenance	355	300
Hardware maintenance	1,509	1,278
Rents	1,189	1,314
Operational rental of vehicles & other rentals	1,343	1,385
Travel & entertainment costs	1,611	1,180
Telephone communications & networks	905	1,296
Post	1,470	1,728
Insurance	115	131
Retainers & fees	584	569
Advertising & marketing	1,907	1,899
Cleaning, hygiene & comfort	419	482
Guards & security	262	284
Outsourcing, consultancy & specialised work	5,048	6,863
Software services & development	1,791	1,660
Subscriptions to APS	224	237
Premium collection	743	674
Training brokers	402	418
Temporary work	199	225
Other sundry supplies & services	508	753
Total	**21,910**	**23,933**

The breakdown of Taxes and charges is as follows:

(thousand euros)

	2010	2009
VAT borne	265	231
ISP charge	791	745
FAT charge	686	673
FGA charge	-	-
Municipal property tax	55	52
Civil governments' charge	526	480
Portuguese green card office charge	52	74
Other taxes, charges & licences	58	42
Total	**2,433**	**2,297**

The breakdown of Depreciation and charges is as follows:

(thousand euros)

	2010	2009
Software development costs	4,119	4,787
Software	656	653
Hardware	185	150
Premises	740	719
Office equipment & machines	337	307
Fixtures & fittings	209	279
Finance leasing	968	1,033
Other equipment	15	44
Total	**7,229**	**7,972**

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

(thousand euros)

	2010	2009
Provisions for taxes	53	594
Interest on reinsurers' deposits	16	20
Finance leasing interest	80	98
Safekeeping commission, securities' custody & other commissions	359	344
Total	**508**	**1,056**

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

(thousand euros)

	2010	2009
Acquisition costs		
Brokerage remuneration	35,228	31,200
Costs imputed	27,024	27,516
Other acquisition costs	9,764	6,580
Deferred acquisition costs (change)	-1,278	1,345
Administrative costs		
Brokerage remuneration	1,842	1,769
Costs imputed	29,124	31,455
Reinsurance commissions & profit-sharing	-10,296	-8,597
Total	**91,408**	**91,268**

Note 22 - Staff Costs

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

	2010	2009
Management	58	62
Technical personnel	182	175
Technical-administrative personnel	261	301
Sales personnel	157	139
IT personnel	24	30
General support personnel	6	6
Electricians	1	1
Total	**689**	**714**

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

(thousand euros)

	2010	2009
Remuneration - Corporate officers	1,711	1,781
Remuneration - Personnel	25,804	26,596
Charges on remuneration - Corporate officers	109	138
Charges on remuneration - Personnel	5,472	5,576
Post-employment benefits - Defined-benefit pension plans	1,712	1,857
Mandatory insurance	1,141	729
Social welfare costs	930	864
Training	218	169
Other staff costs	66	73
Total	**37,163**	**37,783**

As at December 31, 2010 & 2009, the Company had no loans or advances extended to corporate officers.

The remuneration policies in respect of the corporate officers and of key employees are presented under Disclosure of the Remuneration Policies at the end of this Report and Accounts.

The fees billed during 2010 by the Official Auditor within the scope of the legal audit of the accounts amounted to €40.5k.

Note 23 - Obligations Involving Employee Benefits

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, 2010.

The main assumptions used in the actuarial studies as at December 31, 2010 & 2009 to determine the update value of the employees' pensions and health benefits are as follows:

	2010	2009
Financial Assumptions		
Wage growth rates	3.25% - 3.75% (*)	3.25% - 3.75% (*)
Pension growth rate	0.75% - 3.75% (*)	0.75% - 3.75% (*)
Rates of return of the fund	5.15% - 4.73% (*)	5.19% - 4.74% (*)
Medical-costs growth rates	5.00%	5.00%
Early-retirement pension growth rate	2.25%	2.25%
Discount rate	5.50%	5.50%
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)

	2010		2009	
	+1 p.p.	-1 p.p.	+1 p.p.	-1 p.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	20	-20	19	-19

As at 31 December 2010 & 2009, the number of participants covered by the benefits plan was as follows:

(thousand euros)

	2010	2009
In service	336	393
Retired	241	233
	577	**626**

As at December 31, 2010 & 2009, the breakdown of amounts recognised in the balance sheet is as follows:

(thousand euros)

	2010			2009		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Net Assets/ (Liabilities) Recognised in the Balance Sheet Liabilities as at December 31	**-43,110**	**-798**	**-43,908**	**-45,323**	**-751**	**-46,074**
Balance of the Fund on December 31	**42,343**	**-**	**42,343**	**45,010**	**-**	**45,010**
Assets/ (liabilities) to be received from/delivered to the fund	-767	-798	-1,565	-313	-751	-1,064
Actuarial deviations deferred as at December	3114,822	395	15,217	14,312	276	14,588
Net assets/ (Liabilities) in the Balance Sheet as at December 31	**14,055**	**-403**	**13,652**	**13,999**	**-475**	**13,524**

Additionally, Tranquilidade transferred part of its retirement-pension liabilities through the acquisition of life insurance policies from T-Vida, Companhia de Seguros, SA. The number of employees covered by these policies stands at 415 (2009: 441) and the total amount of the liabilities is €14,708k (2009: €15,306k).

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

(thousand euros)

	2010			2009		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Liabilities as at January 1	**45,323**	**751**	**46,074**	**44,250**	**705**	**44,955**
Cost of current service	890	3	893	1,173	3	1,176
Interest cost	2,376	38	2,414	2,404	37	2,441
Actuarial (gains) and losses in liabilities	-670	132	-538	1,700	136	1,836
Pensions paid by the fund	-4,809	-	-4,809	-4,164	-	-4,164
Benefits paid by the Company	-	-126	-126	-40	-130	-170
Transfers from other funds	-	-	-	-	-	-
Liabilities as at December 31	**43,110**	**798**	**43,908**	**45,323**	**751**	**46,074**

The evolution of the value of the pension fund in 2010 & 2009 is as follows:

(thousand euros)

	2010			2009		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Balance of the Fund on January 1	**45,010**	**-**	**45,010**	**43,087**	**-**	**43,087**
Real return of the fund						
Expected return of the fund	2,195	-	2,195	2,374	-	2,374
Actuarial gains & losses	-1,767	-	-1,767	1,313	-	1,313
Contributions paid by fund participants	1,714	-	1,714	2,400	-	2,400
Pensions paid by the fund	-4,809	-	-4,809	-4,164	-	-4,164
Transfers from other funds	-	-	-	-	-	-
Balance of the fund on December 31	**42,343**	**-**	**42,343**	**45,010**	**-**	**45,010**

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

(thousand euros)

	2010			2009		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Actuarial Deviations Deferred as at January 1	**14,312**	**276**	**14,588**	**14,534**	**145**	**14,679**
Actuarial (gains) & losses						
- on liabilities	-670	132	-538	1,700	136	1,836
- on the plan's assets	1,767	-	1,767	-1,313	-	-1,313
Amortisation for the year	-587	-13	-600	-609	-5	-614
Actuarial Deviations Deferred as at December 31	**14,822**	**395**	**15,217**	**14,312**	**276**	**14,588**

The evolution of assets receivable/ liabilities deliverable in 2010 and 2009 is as follows:

(thousand euros)

	2010			2009		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
(Assets)/ Liabilities Receivable or Payable as at January 1	**313**	**751**	**1,064**	**1,163**	**705**	**1,868**
Actuarial gains and losses on liabilities	-670	132	-538	1,700	136	1,836
Actuarial gains & losses of the funds	1,767	-	1,767	-1,313	-	-1,313
Charges for the year:						
- Cost of current service	890	3	893	1,173	3	1,176
- Interest cost	2,376	38	2,414	2,404	37	2,441
- Expected return of the fund	-2,195	-	-2,195	-2,374	-	-2,374
Contributions paid during the year and pensions paid by the Company	-1,714	-126	-1,840	-2,440	-130	-2,570
(Assets)/ Liabilities Receivable or Payable as at December 31	**767**	**798**	**1,565**	**313**	**751**	**1,064**

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

(thousand euros)

	2010			2009		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Cost of current service	890	3	893	1,173	3	1,176
Interest cost	2,376	38	2,414	2,404	37	2,441
Expected return of the fund	-2,195	-	-2,195	-2,374	-	-2,374
Amortisation for the year	587	13	600	609	5	614
Costs for the Year	**1,658**	**54**	**1,712**	**1,812**	**45**	**1,857**

The breakdown of balance sheet assets/(liabilities) is as follows:

(thousand euros)

	2010			2009		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
As at January 1	13,999	-475	13,524	13,371	-560	12,811
Costs for the year	-1,658	-54	-1,712	-1,812	-45	-1,857
Contributions paid during the year and pensions paid by the Company	1,714	126	1,840	2,440	130	2,570
As at December 31	**14,055**	**-403**	**13,652**	**13,999**	**-475**	**13,524**

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

(thousand euros)

	2010	2009
Land & buildings	8,061	8,096
Equities & other floating-rate securities	8,502	17,978
Fixed-income securities	40,575	34,080
Balances with credit institutions	1,189	2,133
Fund debtors & creditors	-64	-565
Interest receivable	819	441
	59,084	**62,163**

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 71.7% (2009: 72.4%) of the total of the fund.

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

(thousand euros)

	2010		2009		2008		2007		2006	
	Retirement Pensions	Health Benefits	Retirement Pensions	Health Benefits	Retirement Pensions	Health Benefits	Retirement Pensions	Health Benefits	Retirement Pensions	Health Benefits
Liabilities	-43,110	-798	-45,323	-751	-44,250	-705	-51,346	-534	-52,346	-586
Balance of the funds	42,343	-	45,010	-	43,087	-	47,311	-	46,120	-
Liabilities (Under/Over Financed)	**-767**	**-798**	**-313**	**-751**	**-1,163**	**-705**	**-4,035**	**-534**	**-6,226**	**-586**
Actuarial (gains)/losses not recognised	14,822	395	14,312	276	14,534	145	11,952	-119	9,116	-147
Net assets/ (liabilities) recognised in the balance sheet	14,055	-403	13,999	-475	13,371	-560	7,917	-653	2,890	-733

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 tax 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 2010 & 2009 has been made on the basis of a nominal tax rate plus the municipal surcharge, totalling 28.94% and 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 years. Subsequent tax returns 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 €40,780k;
- Reinvestment of gains on the sale of a financial holding, in the sum of €28,754k.

Deferred tax assets and liabilities reported in 2010 and 2009 are detailed as follows:

(thousand euros)

	2010		2009	
	Current Tax Assets	Current Tax Liabilities	Current Tax Assets	Current Tax Liabilities
Income tax	5	14,791	6	16,921
Tax withheld at source	-	866	-	766
Value added tax	155	210	1,894	-
Other taxes & charges	90	8,340	82	7,990
Social security contributions	128	817	109	767
Local government rates	-	120	-	120
	378	**25,144**	**2,091**	**26,564**

The breakdown of deferred tax assets and liabilities recognised in the 2010 and 2009 balance sheets is as follows:

(thousand euros)

Headings	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
Investments	1,690	1,679	-31,145	-13,588	-29,455	-11,909
Post-employment benefits	193	240	-3,308	-3,022	-3,115	-2,782
Technical provisions	910	1,249	-	-	910	1,249
Doubtful debt provision	69	52	-	-	69	52
Tax losses	2,898	-	-	-	2,898	-
Real estate	3,264	-	-	-	3,264	-
Other non-deductible costs	406	274	-	-	406	274
Total	**9,430**	**3,494**	**-34,453**	**-16,610**	**-25,023**	**-13,116**

The figures for 2010 and 2009 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 2010 & 2009 were recognised as follows:

(thousand euros)

2010	Fair-Value Reserve	Profit & Loss	Total
Current Tax	**-**	**-357**	**-357**
Corporate income tax estimate		-	-
Autonomous tax		-357	-357
Deferred Tax	**-17,626**	**5,719**	**-11,907**
Investments	-17,626	80	-17,546
Post-employment benefits		-333	-333
Technical provisions		-339	-339
Doubtful debt provision		17	17
Tax losses		2,898	2,898
Real estate		3,264	3,264
Other non-deductible costs		132	132
Total	**-17,626**	**5,362**	**-12,264**

(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
Technical provisions		-417	-417
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)

	2010	2009
Profit/(loss) before tax	6,273	12,160
Tax rate	28.94%	26.44%
Tax Determined on the Basis of the Official Rate	**-1,815**	**-3,215**
Dividends excluded from the taxation	2,495	524
Tax benefits	159	143
Other income & costs excluded from taxation	1,557	-217
Deferred tax asset not previously recognised	3,323	129
Autonomous Tax	-357	-307
Current + Deferred Tax	**5,362**	**-2,943**

The impact of the alteration of the rate from 26.44% to 28.94% on the 2010 net profit can be determined solely by the effect on the calculation of deferred taxes, since no current tax was calculated for 2010.

This alteration had a positive effect on net profit in the sum of €262k, calculated on the basis of the net situations subject to deferred tax assets and liabilities, of which €20k have to doe with those situations brought forward from 2009.

The positive effects referred to above are due to the fact that there are more situations of deferred tax assets.

Note 25 - Equity Capital

Tranquilidade's equity capital in the sum of €210 million, represented by 42 million shares each of a par value of €5, is fully subscribed but only €160 million has been paid up. Of the capital increase undertaken in December 2010 in the sum of €75 million. Only €25 million were paid up, the remainder of the amount to be paid up by 2015.

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 loses or to increase equity capital. In accordance with Portuguese legislation, the legal reserve has to be credited each year with at least 10% of the year's net profit until it equals the issued capital.

Fair-value reserve

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

Deferred tax reserves

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

Deferred taxes are calculated. accordance with the liabilities method based on the balance sheet, on the temporary differences between the book values of the assets and liabilities and their tax basis, using the tax rate approved or substantially approved on the balance sheet date in each jurisdiction that 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, 2010 & 2009, is as follows:

(thousand euros)

	2010	2009
Reserves for financial assets at fair value	108,630	53,079
Reserve for deferred taxes	-30,955	-13,329
Other reserves	41,973	41,052
- Legal reserve	41,045	40,124
- Free reserves	928	928
Reserves	**119,648**	**80,802**

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)

	2010	2009
Investments in affiliates, associates and joint ventures	115,927	59,715
Floating-rate securities	18,421	7,762
Fixed-income securities	-25,718	-14,398
Fair-Value Reserve	**108,630**	**53,079**

The net fair value reserve as at December 31, 2010 & 2009, is as follows:

(thousand euros)

	2010	2009
Amortised cost of available-for-sale investments	351,220	389,871
Acquisition costs of investments in affiliates, associates and joint ventures	185,908	106,262
	537,128	**496,133**
Impairment	-6,204	-16,688
Net Amortised/Acquisition Impairment Cost	**530,924**	**479,445**
Fair value of available-for-sale investments	338,199	367,027
Investments in affiliates, associate and joint ventures	301,355	165,497
	639,554	**532,524**
Gross revaluation reserve (Fair value - cost)	108,630	53,079
Deferred & current taxes	-30,955	-13,329
Revaluation Reserve Net of Taxes	**77,675**	**39,750**

Movement under the net fair value reserve as at December 31, 2010 & 2009, is as follows:

(thousand euros)

	2010	2009
Balance as at January 1	**39,750**	**16,973**
Fair-value variations, including variation for disposals	46,592	31,460
Impairment recognised during the year	8,959	-1,010
Variation of deferred taxes recognised during the year	-17,626	-7,673
Balance as at December 31	**77,675**	**39,750**

Note 27 – Earnings Per Share

Earnings per share for the years ended December 31, 2010 & 2009, are as follows:

	2010	2009
Net profit/(loss) for the period (in thousands of euros)	11,635	9,217
Number of shares (year-end)	32,000,000	27,000,000
Earnings per Share (in euros)	**0.36**	**0.34**

It should be mentioned that in 2010 there are 10 million shares each of a par value of €5, not yet paid up, while the number of shares subscribed is 42 million.

Note 28 – Dividends Per Share

The Company's sole equityholder is Partran – Sociedade Gestora de Participações Sociais, SA, to which, in 2010 and 2009, the following dividends were attributed and paid, resulting in the following dividends per share:

	2010	2009
Dividends (in euro '000s)	8,250	-
Number of shares (beginning of the period)	27,000,000	27,000,000
Earnings per Share (in euros)	**0.31**	**-**

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 and included within the consolidation perimeter of ESFG - Espírito Santo Financial Group.

Relations between parent company Tranquilidade and its associates cover 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, 2010 & 2009, 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)

	2010				2009			
	Assets	Liabilities	Costs	Income	Assets	Liabilities	Costs	Income
ADVANCECARE	-	304	3,698	1,410	10	265	3,264	777
BANCO ESPÍRITO SANTO	88,897	1,226	1,770	5,084	62,346	513	1,157	3,600
BES SEGUROS	8	14	-	1,463	296	66	-	888
BES VIDA	80	52	-	137	439	102	-	194
BESI	7,257	-	-	-	-	-	-	-
BESLEASING	523	2,442	87	224	19,710	2,600	98	-
BEST	50	-	-	-	-	-	-	-
E.S. CONTACT CENTER	288	-	86	66	277	-	131	52
E.S. INFORMÁTICA	-	-	34	-	-	-	-	-
E.S. INVESTMENT	2,201	-	339	27	-	-	-	-
E.S. RECUPERAÇÃO CRÉDITO, ACE	-	-	-	96	-	-	-	131
E.S. SAÚDE	6	-	-	55	1,255	-	-	57
E.S. SERVIÇOS 2, ACE	-	38	573	-	-	-	-	-
ESAF	3	-	-	726	-	-	-	808
ESEGUR	80	-	235	252	92	-	273	234
ESFG	3,448	-	-	484	5,317	-	-	-
ESFIL	2,985	-	-	135	3,070	-	-	-
ESGEST	-	-	163	-	8	-	300	-
ESUMÉDICA	414	-	-	-	391	-	-	-
EUROP ASSISTANCE	1,080	-	-	395	1,080	-	-	336
GESFIMO	3	-	-	34	-	-	-	41
HERDADE DA COMPORTA	-	-	-	32	-	-	-	21
HOTÉIS TIVOLI	-	-	28	-	-	-	-	-
LOGO	12,775	6,470	9,689	7,887	4,437	4,488	6,424	5,317
MULTIPESSOAL-SERVIÇOS	-	-	39	176	-	-	73	-
MULTIPESSOAL-TRABALHO TEMPORÁRIO	-	-	163	186	-	8	188	-
SGL - SOCIEDADE GERAL LIMPEZAS	-	31	453	-	-	37	480	-
TOP ATLÂNTICO	-	17	690	-	-	9	395	-
T-VIDA	12,505	636	-	4,700	20,240	63	-	-
	132,603	**11,230**	**18,047**	**23,569**	**118,968**	**8,151**	**12,783**	**12,456**

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)

	2010	2009
Tangible assets (gross value)	11,353	10,542
Accumulated depreciation	-10,400	-9,681
Tangible Assets (Net Value)	**953**	**862**
Creditors - Suppliers of Goods	**2,442**	**2,600**

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

(thousand euros)

	Up to 3 Months	4 to 12 Months	>1-5 Years
Finance lease contracts	202	716	1,524
Operational lease contracts	212	531	1,075

With regard to Investment Funds (Private Equity), the Company has assumed liabilities in the sum of €5.86 million. These are sums payable in respect of investments having a duration of approximately ten 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-Issued Standards and Interpretations

Adopted by the Company

In the preparation of the financial statements as at December 31, 2010, the Company adopted the following accounting standards and interpretations of mandatory application as from January 1, 2010:

Standards, alterations and interpretations effective on or as from January 1, 2010

Recently issued accounting standards and interpretations that have recently come into force and have been applied by the Company in the preparation of its financial statements are as follows:

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 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 had no impacts stemming from the adoption of this standard.

IFRS 1 (amended) – 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 of IAS 27 – Consolidated and separate financial statements are effective for periods 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 had no impacts stemming from the adoption of this standard.

IFRS 3 (revised) – Business combinations and IAS 27) - Consolidated and separate financial statements

In January 2008 the International Accounting Standards Board (IASB) issued IFRS 3 (Revised) – Business combinations, mandatorily applicable as from January 1, 2009, early application being allowed.

The main impacts of the amendment to these rules involve: (i) treatment of partial acquisitions, in which the non-controlling interests (previously know 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 the non-controlling interests of the fair value of the net assets acquired (as required at present); (ii) step acquisitions in which the new rules require, at the time of calculation of the goodwill, 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 amendments of IAS 27 mean that even though the accumulated losses in a subsidiary will come to be attributed to the non-controlling interests (recognition of non-controlling interests) and that, on disposal of a subsidiary tending to loss of control, any non-controlling interest retained is measured at fair value on disposal date.

The Company had no impacts stemming from the adoption of this standard.

IFRIC 12 – Service concession arrangements

The International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 12 – Service Concession Arrangements in July 2007. It was adopted by the European Union on March 25, 2009. This interpretation is mandatory for periods beginning on or after March 25, 2009. IFRIC 12 applies to public-private service concession arrangements. This standard will apply only to situations where the Concessor: a) controls or governs the services provided by the operator; and b) controls the residual interests in the infrastructures when the contract expires.

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

IFRIC 17 – Distributions of non-cash assets to owners

In November 2008, the International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 17 – Distributions of non-cash assets to owners, with mandatory effective application for periods beginning on or after July 1, 2009, though its early adoption is allowed.

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, the difference between that and their book value being recognised in profit & loss on their distribution.

The Company had no impact on its financial statements from the adoption of this interpretation.

IFRIC 18 – Transfer of assets from customers

In November 2008, the International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 18 – Transfer of assets from customers, with mandatory effective application for periods beginning on or after July 1, 2009, though its early adoption is allowed.

This interpretation is intended to clarify the accounting treatment of agreements closed whereby an entity receives assets from customers for its own use and with a view to subsequently establishing the customers' link to a network or to granting 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);
- Recognition of income; and
- The accounting of the transfer of cash by customers.

The Company had no impact on its financial statements from the adoption of this interpretation.

Annual Improvement Project

In May 2008, as mentioned earlier, the IASB published the Annual Improvement Project, which amended certain standards that are in force. However, the effective date of the alterations varies according to the standard in question, with emphasis on:

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.

The Company had no impact on its financial statements from the adoption of this standard.

Standards, alterations and interpretations issued but not year in effect for the Company

IFRS 9 - Financial instruments

In November 2009, the International Accounting Standards Board (IASB) issued IFRS 9 – Financial instruments part I; Classification and measurement, mandatorily applicable as from January 1, 2013, early application being allowed. This standard was altered in October 2010. IFRS 9 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 may 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 fair-value reserves. The gains and losses thus recognised may not be recycled through profit and loss. 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 period.

- The exception to hold investments in capital instruments whose fair value cannot be determined reliably and related derivatives, as provided for in IAS 39, is not permitted in IFRS 9.

- Alterations of fair value attributable to the credit risk of financial liabilities classified under the Fair Value option are recognised in (OCI). The other changes of fair value associated with these financial liabilities will be recognised in profit & loss. The amounts carried under OCI cannot be transferred to profit & loss.

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

IFRS 7 - Financial instruments disclosures - Transfers of financial assets

In October 2010, the International Accounting Standards Board (IASB) issued IFRS 7 – Financial instruments: Disclosures – Transfers of financial assets, mandatorily applicable as from July 1, 2011, early application being allowed. This alteration has not yet been adopted by the European Union.

The aim of the required alterations of disclosures about operations involving transfers of financial assets, particularly financial-asset securitisations, is to ensure that users of the financial statements may be able to assess the risk and impacts associated with these operations on the financial statements.

APPENDIX 1 – Inventory of Holdings and Financial Instruments

(expressed in euros)

Identification of the Securities – Designation	Quantity	Amount of Par Value	% of Par Value	Average Acquisition Cost	Total Acquisition Cost	Book Value (including accrued interest) – Unit	Book Value (including accrued interest) – Total
1 - AFFILIATES, ASSOCIATES, JOINT VENTURES AND OTHER RELATED COMPANIES							
1.1 - Domestic Securities							
1.1.2 - Holdings in associates							
ADVANCECARE	458,997			1.06	485,958.14	85.43	39,210,370.34
BES SEGUROS	750,000			5.01	3,758,668.00	28.62	21,462,499.98
ES CONTACT CENTER	831,251			2.22	1,846,077.58	5.42	4,504,272.00
ESUMEDICA	225,000			1.98	445,500.00	3.67	824,999.99
EUROP ASSISTANCE	360,000			4.88	1,756,800.00	11.69	4,206,959.99
FIDUPRIVATE	18,750			25.60	480,050.77	0.00	0.00
PASTOR VIDA	4,550,000			17.50	79,646,000.00	17.50	79,646,000.00
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	2.02	131,499,999.95
1.1.4 - Holdings in related companies							
COMPTA	306,960			1.64	503,699.84	0.35	107,436.00
ES INV PLC	1			2.77	2.77	1,750.47	1,750.47
ESAF - ACTIVOS FINANCEIROS	117,500			22.93	2,694,626.91	112.34	13,199,999.65
ESPIRITO SANTO SAÚDE	2,655,000			1.25	3,308,200.00	3.76	9,989,999.99
ESTELA GOLF	20			8,580.90	171,618.00	4,198.94	83,978.81
QUINTA DOS CONEGOS	140,600			3.15	443,241.40	3.68	517,041.77
Subtotal	**79,414,079**	**0.00**			**193,029,034.41**		**325,255,308.94**
1.1.8 - Debt securities of related companies							
BESLEASING FACT SUBORD 22/10/14	520,000.00	100.00%	100.2%	521,040.00	100.5%	522,516.66	
Espirito Santo 12/15	2,200,000.00	100.00%	98.8%	2,173,430.49	100.1%	2,201,326.29	
Subtotal	**0**	**2,720,000.00**			**2,694,470.49**		**2,723,842.95**
Total	**79,414,079**	**2,720,000.00**			**195,723,504.90**		**327,979,151.89**
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
BRISA (PRIVATIZ)	35,000			5.16	180,718.13	5.18	181,195.00
CASSEL	200			0.00	0.00	0.00	0.00
COMP. PREVIDENTE	6			532.54	3,195.23	580.19	3,481.13
COMP. PREVIDENTE SCPF	198			109.86	21,752.48	408.84	80,949.58
COMUNDO	2,008			0.00	0.00	0.00	0.00
FETAL	2,760			20.84	57,528.12	6.57	18,121.60
HOTEL TURISMO ABRANTES	125			0.00	0.00	1.19	148.94
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
SONAE SGPS	165,000			0.88	145,965.15	0.78	128,370.00
SONAGI	55,600			0.44	24,293.86	2.90	161,240.00
SONAGI AN	100			0.06	5.51	0.01	1.00
SPECTACOLOR PORTUGAL	7,500			14.66	109,986.38	11.47	86,001.24
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	**323,126**	**0.00**			**543,525.74**		**659,508.49**
2.1.1.3 - Investment fund units							
ES ROCK FELLER GLOBAL	16,551			141.43	2,340,781.06	140.95	2,332,836.67
ES TRADING FUND	97,000			107.97	10,473,090.00	107.84	10,460,480.00
ESP SANTO INFRASTRUCTURE FUND I	1,425			983.13	1,401,390.61	1,012.52	1,443,284.10
ESPÍRITO SANTO VENTURES III	50,000,000			0.01	500,000.00	0.01	508,000.00
EXPLORER II	104			25,047.63	2,616,675.54	34,643.00	3,619,084.92
EXPLORER III	16			25,000.00	389,400.00	24,565.00	382,624.44
FUNDO DE INVEST. IMOB. CORPUS CHRISTI	4,496			1,000.00	4,496,000.00	998.59	4,489,660.64
FUNGEPI BES	3,725,000			3.28	12,204,962.50	3.27	12,174,790.00
FUNGERE (UP)	756,868			5.22	3,952,827.85	4.19	3,171,125.55
IMOCRESCENTE FD DE INV IMOB FECHADO	5,430			1,000.00	5,430,000.00	980.40	5,323,572.00
IMOPRIME FUNDO DE INV IMOB FECHADO	2,574			968.16	2,492,055.93	986.99	2,540,512.26
Subtotal	**54,609,464**	**0.00**			**46,297,183.49**		**46,445,970.58**
Subtotal	**54,932,590**	**0.00**			**46,840,709.23**		**47,105,479.07**

(expressed in euros)

Identification of the Securities / Designation	Quantity	Amount of Par Value	% of Par Value	Average Acquisition Cost	Total Acquisition Cost	Book Value (including accrued interest) Unit	Book Value (including accrued interest) Total
2.1.2 - Debt securities							
2.1.2.1 - Public debt							
PORT OT 4.75% 06/14/19		3,250,000.00	88.69%	97.0%	3,153,377.50	91.3%	2,967,014.04
PT OT 3.35% 10/15/15		16,500,000.00	90.18%	97.4%	16,071,864.29	90.9%	14,996,307.54
PT OT 4.2% 10/15/16		3,000,000.00	91.36%	99.0%	2,970,900.00	92.2%	2,767,380.82
PT OT 4.8% 06/15/20		12,000,000.00	87.57%	93.8%	11,251,350.00	90.2%	10,822,438.36
PT OT 5% 06/15/12		4,000,000.00	101.09%	103.6%	4,144,600.00	103.8%	4,152,641.10
PT OT 3.6% 10/15/14		5,000,000.00	93.85%	97.3%	4,862,500.00	94.6%	4,730,472.60
PT OT 4.35% 10/16/17		1,500,000.00	89.94%	101.5%	1,522,500.00	90.8%	1,362,686.30
Subtotal	**0**	**45,250,000.00**			**43,977,091.79**		**41,798,940.76**
2.1.2.3 - Other issuers							
BANIF FINANCE 22/12/2016		2,000,000.00	80.20%	100.2%	2,004,000.00	80.2%	1,604,802.40
BANCO BPI 3.25% 01/15/2015		4,500,000.00	87.03%	99.5%	4,478,355.00	90.2%	4,056,801.22
BCP PL 3.75% 06/11		6,250,000.00	96.81%	98.9%	6,181,625.00	98.8%	6,177,310.79
BCPPL 2.375% 01/18/2012		3,500,000.00	92.09%	99.8%	3,492,930.00	94.3%	3,302,144.18
BCP 04/14 5.625%		3,500,000.00	85.41%	105.7%	3,700,200.00	89.3%	3,125,351.65
BCP 3.75% 10/16		3,000,000.00	80.56%	99.6%	2,987,100.00	81.4%	2,442,795.41
BCP PL FLOAT 02/11		4,000,000.00	99.37%	99.0%	3,958,800.00	99.6%	3,982,217.34
BESPL 3.375% 02/15		10,000,000.00	86.61%	99.9%	9,989,173.49	89.5%	8,954,416.44
BESPL 3.875% 01/21/2015		3,000,000.00	81.94%	98.9%	2,965,910.96	85.6%	2,567,764.64
BESPL 5.625% 06/14		9,100,000.00	87.44%	106.1%	9,658,994.96	90.7%	8,249,695.13
CIMPOR 4,5 04-05/2011		3,000,000.00	100.08%	100.9%	3,025,500.00	102.8%	3,083,027.14
CXGD 4.25% 01/27/2020		2,500,000.00	77.75%	99.6%	2,489,025.00	81.7%	2,042,127.91
CXGD 3.625% 07/14		3,000,000.00	91.31%	101.4%	3,042,600.00	92.9%	2,787,796.07
CXGD 5.125% 02/14		3,300,000.00	92.24%	106.1%	3,500,690.00	96.7%	3,190,009.19
EDP FINANCE 325% 03/15		3,000,000.00	92.24%	99.4%	2,982,480.00	94.8%	2,844,758.76
EDP FINANCE 475% 09/16		3,000,000.00	94.34%	105.7%	3,171,500.00	95.6%	2,867,784.45
EMASA		5,000.00	0.00%	0.0%	0.00	0.0%	0.00
MONTPI 03/05/2012		2,000,000.00	85.50%	100.0%	1,999,190.40	85.7%	1,714,176.00
MONTPI 31012011		1,000,000.00	99.62%	98.9%	988,750.00	99.8%	998,347.58
P.CAVALEIROS		17,500.00	0.00%	0.0%	0.00	0.0%	0.00
REFER 4% 03/16/15		5,000,000.00	88.64%	101.8%	5,087,500.00	91.8%	4,591,079.11
SEMAPA 20/04/2016		700,000.00	99.55%	99.5%	696,500.00	100.1%	700,452.20
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					12,638,170.82		12,685,563.96
T>erm Dep.EUR BANIF					6,000,000.00		6,069,033.33
Term Dep. EUR BBVA					12,500,000.00		12,637,763.89
Term Dep. EUR BCP					11,075,842.61		11,135,492.29
Term Dep. EUR BES					58,903,171.36		59,044,167.75
Term Dep. EUR BESI					7,195,000.00		7,216,235.25
Term Dep. EUR CXGERALDEP					6,000,000.00		6,036,033.34
Term Dep. EUR MG					16,405,304.72		16,418,597.26
Subtotal	**0**	**75,384,000.00**			**207,118,314.32**		**200,525,744.68**
Subtotal	**0**	**120,634,000.00**			**251,095,406.11**		**242,324,685.44**
Total	**54,932,590**	**120,634,000.00**			**297,936,115.34**		**289,430,164.51**
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
FOMENTO PREDIAL MOÇAMBIQUE	50			0.00	0.00	0.00	0.00
HIDRO ELECT CATUMBELA	200			0.00	0.00	0.00	0.00
NAVANG	448			0.00	0.00	0.00	0.00
NOCAL (CERVEJAS)	2,508			0.00	0.00	0.00	0.00
PETRANGOL	200			0.00	0.00	0.00	0.00
SENA SUGAR ESTATES LTD	77,375			0.00	0.00	0.00	0.00
SOC TURISMO MOÇAMBIQUE	100			0.00	0.00	0.00	0.00
SONEFE	573			0.00	0.00	0.00	0.00
SOTUL (ULTRAMAR)	8,000			0.00	0.00	0.00	0.00
Subtotal	**127,740**	**0.00**			**0.00**		**0.00**

(expressed in euros)

Identification of the Securities — Designation	Quantity	Amount of Par Value	% of Par Value	Average Acquisition Cost	Total Acquisition Cost	Book Value (including accrued interest) — Unit	Book Value (including accrued interest) — Total
2.2.1.3 - Investment fund units							
DYNAMIC ALPHA CAT:I	10,000			100.00	1,000,000.00	97.66	976,600.00
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
UBAM NEUBERGER BERMAN US EQUITY	2,043			489.38	999,999.58	496.32	1,014,180.78
Subtotal	**12,074**	**0.00**			**2,033,642.74**		**2,023,476.33**
Subtotal	**139,814**	**0.00**			**2,033,642.74**		**2,023,476.33**
2.2.2 - Debt securities							
2.2.2.1 - Public debt							
HELLENIC REPUBLI GG 5,5 20/08/14		2,250,000.00	76.18%	109.2%	2,457,725.00	78.2%	1,759,142.47
HELLENIC REPUBLIC 4.3 20/03/12		750,000.00	91.58%	103.7%	777,994.75	94.9%	712,119.86
HELLENIC REPUBLIC 6.25% 06/19/20		4,000,000.00	66.30%	98.9%	3,957,680.00	71.4%	2,854,054.79
IRISH GOVT 4.6% 04/16		2,000,000.00	85.38%	105.9%	2,118,400.00	88.6%	1,772,378.08
REPUBLIC OF AUSTRIA 3.2% 02/17		4,000,000.00	102.46%	105.3%	4,212,000.00	105.5%	4,221,139.72
Subtotal	**0**	**13,000,000.00**			**13,523,799.75**		**11,318,834.92**
2.2.2.3 - Other issuers							
ABERTIS INFRA 4.625% 10/16		8,000,000.00	92.32%	104.0%	8,320,000.00	93.3%	7,464,452.49
ALSTOM 2.875% 10/15		200,000.00	97.88%	99.8%	199,682.00	98.6%	197,137.55
BANCA LOMBARDA 19/12/2016		3,000,000.00	93.31%	100.3%	3,007,503.00	93.4%	2,800,798.00
BANESTO FINANCIAL 3% 09/17/12		3,000,000.00	97.94%	100.0%	2,999,760.00	98.8%	2,964,120.41
BBVA SENIOR FINANCE 2.75% 09/12		4,000,000.00	98.13%	99.8%	3,993,880.00	99.0%	3,958,969.43
BBVA SUB CAPITAL UNIP 03/04/2017		3,000,000.00	89.38%	100.0%	3,001,340.70	89.7%	2,689,868.17
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	74.99%	100.2%	2,004,000.00	75.3%	1,506,684.34
CAJA ZARAGOZA ARAGON 25/04/2019		4,000,000.00	83.11%	100.2%	4,008,000.00	83.4%	3,334,676.33
CAJASTUR 3.5% 10/13		1,000,000.00	96.93%	100.0%	999,640.00	97.7%	977,341.79
CORP PROP INV 7,18% 09/01/2013		500.00	83471.79%	85730.9%	428,654.31	85262.9%	426,314.68
CORP SERV GROUP 10% 04/29/2011		1,667.00	987.51%	1506.8%	25,118.66	1004.3%	16,741.55
CREDIT SUISSE 2.875% 09/24/15		1,500,000.00	98.53%	99.7%	1,495,530.00	99.3%	1,489,462.77
DEXIA MUNICIPAL AGENCY 2.75% 01/16		1,500,000.00	97.47%	100.0%	1,499,760.00	98.2%	1,473,053.34
DOURM 1 A		657,252.73	82.81%	98.0%	644,107.67	82.8%	544,491.40
ENI SPA 5% 01/28/16		2,500,000.00	107.95%	109.8%	2,744,975.00	112.6%	2,814,073.46
ERSTE BANK 19/07/2017		7,000,000.00	97.37%	100.4%	7,031,229.42	97.6%	6,835,331.26
ESPIRITO SANTO FIN GRP 6.875% 10/21/19		5,000,000.00	67.63%	104.3%	5,215,024.28	69.0%	3,448,116.44
ESPIRITO SANTO FINANCIER 4.5% 05/31/11		3,000,000.00	96.86%	102.1%	3,063,600.00	99.5%	2,984,830.68
GAS NATURAL CAP 4.375% 11/16		2,000,000.00	94.66%	102.3%	2,045,000.00	95.4%	1,907,281.84
GAS NATURAL CAP 5.25% 7/9/2014		4,450,000.00	101.65%	106.1%	4,719,744.00	104.2%	4,635,423.64
GE CAP EUR FUND 17/05/2021		2,000,000.00	86.85%	99.8%	1,996,200.00	87.0%	1,740,069.78
GOLDMAN SACHS 23/05/2016		3,000,000.00	95.67%	99.9%	2,996,681.40	95.8%	2,874,483.07
GOLDMAN SACHS 30/01/2017		8,000,000.00	95.15%	100.0%	8,003,374.80	95.4%	7,631,365.60
HBOS PLC 09/01/2016		5,500,000.00	97.91%	100.5%	5,527,821.64	98.0%	5,391,207.98
HIDRO E REVUE		24.00	0.00%	0.0%	0.00	0.0%	0.00
HIPOT 5 A2		302,018.81	77.68%	97.9%	295,676.42	77.8%	234,904.08
HSBC FINANCE CORP 28/10/2013		4,000,000.00	95.98%	100.2%	4,008,000.00	96.2%	3,848,248.89
HSH NORDBANK AG 14/02/2017		5,000,000.00	96.38%	100.0%	5,001,108.56	96.6%	4,827,971.97
HYPOVEREINSBANK 07/06/2011		3,000,000.00	98.94%	103.6%	3,106,701.00	100.4%	3,011,485.50
ING BANK 2.25% 08/15		2,000,000.00	97.46%	99.9%	1,998,040.00	98.2%	1,964,179.10
ISLANDSBANKI 25/11/2013		1,000,000.00	0.00%	100.9%	1,008,768.51	0.0%	0.00
JP MORGAN 12/10/2015		3,000,000.00	97.07%	100.3%	3,009,900.00	97.4%	2,921,198.97
KION 2006-1 A		832,732.70	68.01%	98.1%	817,202.86	68.2%	568,334.10
LEV FIN CAP II 02/09/2016		1,936,207.29	82.23%	97.6%	1,888,963.83	82.8%	1,603,260.96
LLOYDS FLOAT 20 03/12/2020		6,000,000.00	80.50%	100.9%	6,052,800.71	80.7%	4,843,072.00
MACQUARIE BANK 06/12/2016		3,000,000.00	95.07%	100.3%	3,009,000.00	95.2%	2,854,938.75
MAGEL 3 A		597,198.15	86.19%	98.6%	588,837.38	86.3%	515,632.35
MERRILL LYNCH 30/05/2014		4,000,000.00	95.88%	99.7%	3,987,880.00	96.0%	3,839,883.82
MERRILL LYNCH & CO 14/09/2018		10,000,000.00	90.45%	99.9%	9,991,944.00	90.5%	9,052,298.67
MORGAN STANLEY 13/04/2016		5,000,000.00	93.74%	99.9%	4,997,002.15	94.0%	4,702,023.75
NATL CAPITAL INSTRUMENTS PERP		2,000,000.00	99.58%	102.7%	2,054,100.00	99.6%	1,991,899.82
NAVIO COMP CLN ITAMI 05/10/11		9,650.00	100.04%	100.2%	9,669.30	135.9%	13,117.43
PELIC 2 A		276,637.12	88.12%	98.9%	273,594.10	88.2%	243,916.50
PELICAN 3 A		889,667.84	71.00%	97.6%	868,315.82	71.1%	632,121.26
PREPS LIMITED 2006 B1 18/07/2015		6,000,000.00	44.80%	100.0%	6,000,009.23	45.7%	2,743,708.67
RED ELECTRICA 3.5% 10/16		2,000,000.00	98.04%	99.4%	1,987,480.00	98.9%	1,977,181.37
ROYAL BK SCOTLAND 49		5,000,000.00	90.63%	101.6%	5,080,140.00	91.0%	4,550,458.83
SANTANDER CONSUMER 28/09/2016		4,000,000.00	88.08%	100.5%	4,018,020.00	88.1%	3,523,654.67
SANTANDER ISSUANCES 23/03/2017		3,000,000.00	97.89%	100.1%	3,003,895.80	97.9%	2,937,570.20
TELEFONICA 3.661% 18/09/2017		2,000,000.00	95.04%	100.0%	2,000,000.00	96.1%	1,921,983.89
TELEFONICA 5.496% 04/01/2016		2,000,000.00	106.13%	109.2%	2,184,469.83	110.3%	2,205,023.28
THAMES WATER UTC 3.25% 11/16		750,000.00	98.55%	99.9%	749,355.00	99.0%	742,566.10
THEME 4 A		921,956.50	65.00%	97.2%	896,233.92	65.2%	600,843.15

(expressed in euros)

Identification of the Securities Designation		Quantity	Amount of Par Value	% of Par Value	Average Acquisition Cost	Total Acquisition Cost	Book Value (including accrued interest) Unit	Total
UNICREDIT SPA 2.625% 10/15			3,000,000.00	95.09%	99.6%	2,987,610.00	95.9%	2,877,206.13
VOLKSWAGEN INT FIN 14/03/2016			5,000,000.00	92.93%	100.0%	5,000,000.00	93.0%	4,649,871.67
	Subtotal	**0**	**160,825,742.14**			**162,845,345.30**		**146,504,851.88**
	Subtotal	**0**	**173,825,742.14**			**176,369,145.05**		**157,823,686.80**
	Total	**139,814**	**173,825,742.14**			**178,402,787.79**		**159,847,163.13**
2.3 - Trading derivatives								
Currency forwards								-253,992.68
	Total	**0**	**0.00**			**0.00**		**-253,992.68**
	Total	**55,072,404**	**294,459,742.14**			**476,338,903.13**		**449,023,334.96**
3 - Grand Total		**134,486,483**	**297,179,742.14**			**672,062,408.03**		**777,002,486.85**

VALTER VINAGRE b. 1954, Portugal
Da série Variações para um fruto,
"S/ título #8", 2003
Silver Dye Bleach Print (Ilfochrome)
102,5 x 127,5cm
Unique print
Courtesy by the Artist

TRANQUILIDADE

08 Disclosure of the Remuneration Policies

08. Disclosure of the Remuneration Policies

This disclosure involves the three following components:

- Policy governing the remuneration of members of the management and supervisory bodies;
- Policy governing the remuneration of 'key employees';
- Appendix I – Declaration of Compliance, under Article 4.1 of Insurance Institute of Portugal Regulatory Rule 5/2010-R, of April 1.

Policy Governing the Remuneration of Members of the Management and Supervisory Bodies

1. Background

Following enactment of Act 28/2009 of June 19, financial or public-interest companies, which also includes Companhia de Seguros Tranquilidade, must submit every year to the General Meeting a proposal as to the Remuneration Policy for the members of its management and supervisory bodies, and must also disclose it in its annual accounting documents.

Within the specific scope of insurance business, the act was subject, during 2010, to rules and regulations involving the publication of Regulatory Rule 5/2010-R by the Insurance Institute of Portugal and Circular 6/2010 by this entity, both dated April 1, enlarging the content of the act and its scope of application.

Specifically, these regulations led to a number of duties in the matter of disclosure that have to be taken into account, as well as numerous recommendations as to the process of drawing up and approving the proposal and as to its content.

In keeping with the practice implemented the previous year and with a view to ensuring fulfilment of these new obligations, this present remuneration policy is therefore formalised in respect of 2011 for the corporate officers of Companhia de Seguros Tranquilidade, SA.

2. Main aspects of the regulations

As a backcloth of these regulations there is an assumption that cannot be applied equally to all financial or public-interest institutions or, in particular to Companhia de Seguros Tranquilidade, and that is that improper remuneration policies will have led these institutions to assume excessive risks, thus causing significant losses during the financial crisis that began in 2007.

In order to endeavour to put a halt to such 'inadequacies', the regulations propose or impose:

a) The aggregate and individual remuneration of the members of the management and supervisory bodies;

b) Creation of mechanisms with a view to discouraging excessive risk-taking, allowing an alignment of the interests of these corporate officers with the medium- and long-term interests of the Company and its equityholders, based on performance assessment;

c) Creation of maximum limits for the fixed and variable parts of the remuneration, mutually in balance, the fixed component to be adequate to allowing application of a fully flexible policy as to the variable component;

d) Inclusion of mechanisms to limit the variable component in the event of profits showing a marked deterioration of the Company's performance during the latest period determined or where it can be expected during the year in progress;

e) The possibility of deferring over time payment of a part of the variable remuneration;

f) The possibility of payment of part of the variable remuneration in financial instruments.

3. Remuneration practices

Tranquilidade's Remuneration Committee and its General Meeting have always considered that the remuneration policy followed to date has been correct and adequate to the strategic goals of the Company and of its Equityholders.

Indeed, the remuneration of corporate officers has always been approved by the Remuneration Committee and/or by the General Meeting, their decisions having complied with applicable legislation, with due regard for practices that have been seen to be good in the light of the results presented by Tranquilidade to its equityholder.

The decisions taken in the matter of approval of the remuneration of corporate officers also also characterised as having due regard for several principles, with emphasis on the following:

- Consistency of remuneration practices in respect of the Company's strategies, results and financial capabilities;
- Alignment of remuneration practices with the interests of the equityholders;
- Alignment of remuneration practices with those of the domestic market.

The excesses alleged to have existed at other institutions did not occur at Tranquilidade. A fact that contributed to this was that, taking into account its equityholder structure, which plays a major role in its management, and the remarkable stability of the composition of its corporate offices, Tranquilidade is characterised as having adequate risk control and an absence of short-term policies that would bring about major risks for the Company.

4. Remuneration policy

4.1. Remuneration policy approval process

a) Approval

The remuneration policy for Tranquilidade's corporate officers is proposed, under Article 23 of the articles of association, by the Remuneration Committee, and is subject to appraisal by the General Meeting.

b) Mandate of the Remuneration Committee

Under Article 23 of the articles of association, the Remuneration Committee defines the limits and conditions under which the fixed and variable remuneration of the corporate officers is determined.

At this time the Remuneration Committee comprises two members elected by the General Meeting held on April 2, 2008, for a four-year term ending in 2011.

c) Composition of the Remuneration Committee

Ricardo Espírito Santo Silva Salgado
Deputy-chairman of the Board of Directors and chairman of the Executive Committee of Banco Espírito Santo, and chairman of the Boards of Directors of Espírito Santo Financial Group, SA, Bespar - SGPS, SA, and Partran, SGPS, SA. Member of the International Banking Studies Institution since 2003, and its president from October 2005 to December 2006. Director of Banco Bradesco (Brazil) since 2003. Member of the Board of Directors of the Human Resources and Compensation Committee and of the Nominating and Governance Committee of the NYSE Euronext.

José Manuel Pinheiro Espírito Santo Silva
Chairman of Banque Privée Espírito Santo, SA, executive director of Banco Espírito Santo and deputy-chairman of Espírito Santo Financial Group, SA.

A representative of the Remuneration Committee attends each General Meeting.

d) External Consultants

No services by external consultants are used in defining the remuneration policy applicable to Tranquilidade's corporate officers.

4.2. Remuneration of the members of the Board of the General Meeting

Under Article 12 of the articles of association, the Board of the General Meeting comprises a chairman and a secretary. Its members are remunerated through payment of a sum fixed by the General Meeting on the day it is held.

4.3. Remuneration of the members of the Board of Auditors

Under Article 26 of the articles of association, the Board of Auditors comprises three members, of whom one performs the duties of chairman. Its members are remunerated through payment of a fixed monthly sum 12 times a year.

4.4. Remuneration of the Official Auditor

The Official Auditor is remunerated in accordance with the conditions legally determined on Article 59 and 60 of Decree-Law 487/99 of November 16, as amended by Decree-Law 224/2008 of November 20.

The fees are proposed by the Official Auditor and are approved by the Board of Directors, with the support of the opinion of the Board of Auditors.

4.5. Remuneration of the chairman of the Board of Directors

The chairman of the Board of Directors earns a fixed remuneration paid fourteen times a year.

In addition to the fixed remuneration, in keeping with the approved remuneration policy, the chairman of the Board of Directors may also be paid a variable remuneration under Article 23.3 of the articles of association.

4.6. Remuneration of the non-executive members of the Board of Directors

The non-executive members of the Board of Directors earn a fixed remuneration paid fourteen times a year.

For 2011, and in compliance with Point IV.10 of Insurance Institute of Portugal Circular 6/2010, the non-executive members of the Board of Directors are not paid any variable remuneration, and therefore earn the fixed remuneration as defined in the preceding paragraph.

Members performing duties for management bodies of companies in a controlling and/or group relationship with Tranquilidade, or who perform specific functions by indication of the Board of Directors may be remunerated by the companies in question or by Tranquilidade, in keeping with the relevance of the duties performed.

4.7. Remuneration of the members of the Executive Committee

a) Equality of remuneration

Without prejudice to the provisions of Article 23.1 of the articles of association, all members of the Executive Committee earn the same remuneration, with the exception of the chief executive officer. Only the variable part may differ between the various members of the Executive Committee.

b) Composition of the remuneration

The remuneration comprises a fixed and a variable part. The remuneration of the members of the Executive Committee is fixed each year by the Remuneration Committee by the end of March, on the basis of the assessment of the performance during the previous year, or in the absence thereof, directly by the General Meeting.

c) Limits of the remuneration

On average, the variable part shall amount to around 40% of the remuneration, though it may be as much as 60% of total remuneration.

Without prejudice to the foregoing, the amount to be distributed among the corporate officers, as and when attributed, is subject at all times to the limit stipulated in Article 23.3 of the articles of association, which is 5% of the net profit for the period.

d) Balance in the remuneration

On average, the variable part shall amount to around 40% of the remuneration, though it may be as much as 60% of total remuneration.

In any case, the exact amount of the variable component of the remuneration will oscillate, each year, in the light of the degree of fulfilment of the main goals for the year, as set out in the year's budget, approved as such be the Board of Directors.

e) Variable component definition criteria, limitation mechanism and time of payment

The variable remuneration is in respect of short-term performance.

The variable remuneration is calculated at the beginning of the year by the Remuneration Committee in the light of compliance with the main goals set out in the previous year's budget, approved by the Board of Directors, the net profit for the year, the return on equity and the combined ratio.

The value of the variable remuneration is proportional to the degree of compliance with the management indicators referred to earlier.

For 2011, taking into account the characteristics inherent in the remuneration structure in force for the members of the Executive Committee, the maximum figures considered and the tolerance to the defined risks, no need was seen to defer a part of the variable component of the remuneration. It was paid in full in a lump sum in cash following the approval of the accounts for the period in question.

Likewise, taking into account the fact that the Company has a single equityholder and its securities are not listed on regulated markets, the possibility of a part of the variable component comprising stock option in the Company has not been considered in the present remuneration policy. Consequently, there are no plans for 2011 to award shares or stock options in respect of Tranquilidade or any other Group company to the members of the Executive Committee.

f) Performance assessment criteria

The assessment of the member of the Executive Committee is based on the following management indicators:

- Net profit/(loss) for the period;
- Return on Equity;
- Combined Ratio.

Without prejudice to the analysis of the foregoing indicators, the assessment process will always take into account the adequacy both of the Company's equity in the light of its risk, and also of the technical provisions.

g) System of annual bonuses and of other non-pecuniary benefits

Other than the fixed and variable remuneration described in this remuneration policy, there are no other forms of remuneration of the members of the Executive Committee.

h) Remuneration paid in the form of profit sharing and/or payment of bonuses, and the reasons why such bonuses and/or profit sharing were granted.

Other than the fixed and variable remuneration described in this remuneration policy, there are no other forms of remuneration of the members of the Executive Committee.

i) Indemnities paid or owed to former executive directors in respect of termination of their duties during the year

No indemnities were paid or are owed to former members of the Executive Committee related with termination of their duties.

j) Contractual limitations to the compensation payable on the dismissal of a director without due cause, and its relationship with the variable component of the remuneration.

There are no agreements fixing the amounts payable to members of the Executive Committee in the event of unfair dismissal.

k) Estimated amount of the non-pecuniary benefits considered as remuneration not covered by the preceding situations

No non-pecuniary benefits of import are attributed to the members of the Executive Committee.

5. Complementary pension or early retirement scheme – main characteristics

Directors are entitled to a retirement pension or retirement-pension complement if they are or have been directors of Companhia de Seguros Tranquilidade.

For the purpose a pension fund has been set up, the "Tranquilidade Directors' Pension Fund", managed by ESAF – Espírito Santo Fundos de Pensões, SA, in which all Tranquilidade directors are participants.

The main characteristics of the Pension Plan set out in the contract establishing the pension fund signed by the management entity and the associates (Tranquilidade) are as follows:

a) The right to the retirement pension or pension complement falls due, in the event of old age, on the date the director reaches the normal retirement age for Social Security purposes, currently 65, or any lesser age possible in accordance with the Social Security rules, or in the event of disability;

b) The right to the retirement pension or pension complement may be brought forward to the date on which the directors reach the age of fifty-five, provided their have occupied the post at Tranquilidade for a minimum of 9 years, consecutive or interpolated, while the exercise of duties as a member of the Board of Management of Tranquilidade Seguros, EP, also counts for length-of-service purposes;

c) There may be a retirement-pension complement to complete any retirement mechanism granted by any other social security scheme.

In any event, the pensions or pension complements to be awarded shall be no greater that the pensionable salary of the director in question, though it may be less. The pensionable salary is one hundred per cent of the average gross salary of the 36 months prior to the date on which the director retires, multiplied by 12.

The regulations governing the directors' entitlement o a pension or pension complement for old age or disability were appraised and approved by the General Meeting held on February 27, 2007.

6. Payments in respect of dismissal or termination by agreement of the duties of Directors

No payments are provided for in the event of dismissal of directors, and any termination my mutual agreement requires, in the matter of the amounts involved, the prior approval of the Remuneration Committee.

7. Table of the remuneration paid to Tranquilidade's corporate officers during 2010

(thousand euros)

	Total Remuneration		Total
	Fixed	Variable	
Executive Committee			**1,488.1**
Pedro Guilherme Beauvillain de Brito e Cunha (chairman)	164.8	135.7	300.5
Augusto Tomé Pires Fernandes Pedroso	188.4	108.5	296.9
António Miguel Natário Rio-Tinto	188.4	108.5	296.9
Miguel Maria Pitté Reis da Silveira Moreno	188.4	108.5	296.9
Nuno Miguel Pombeiro Gomes Diniz Clemente	188.4	108.5	296.9
Board of Directors			**472.3**
Rui Martinho Leão (chairman)	73.5	20.3	93.8
Eduardo Antunes Stock	39.6	21.0	60.6
Miguel Luís Kolback da Veiga	33.4	21.0	54.4
António José Baptista do Souto	33.4	21.0	54.4
Manrico Iachia	33.4	21.0	54.4
António Manuel Rodrigues Marques	133.7	21.0	154.7
Board of Auditors			**85.1**
José Manuel Ruivo da Pena (chairman)	21.1	-	21.1
Rui Manuel Duarte Sousa da Silveira	16.6	-	16.6
António Ricardo Espírito Santo Bustorff	47.4	-	47.4
Total Remuneration	**1,350.5**	**695.0**	**2,045.5**

The figures shown include the fixed or variable remuneration earned by the members of the management bodies for the performance of their duties at the other Tranquilidade Group companies (T-Vida, Companhia de Seguros, SA, and Seguros Logo, SA).

In the specific case of Companhia de Seguros Tranquilidade, SA, the variable remuneration attributed in 2010 to corporate officers totalled about €460k, or 4.99% of the 2009 individual net profit.

Director Eduardo Antunes Stock terminated his duties on March 30, 2010, and his seat was not filled by another director.

The remuneration paid in 2010 to António Ricardo Espírito Santo Bustorff, in the capacity of member of the Board of Auditors of other Tranquilidade Group companies, includes €14k in respect of remuneration concerning 2009.

Effective as from 2011, non-executive directors will no longer earn variable remuneration.

Key employee remuneration policy

1. Background

Following enactment of Act 28/2009 of June 19, financial or public-interest companies, which also includes Companhia de Seguros Tranquilidade by virtue of the provisions of Decree-Law 225/2008 of November 20, must submit every year to the General Meeting for appraisal a proposal as to the Remuneration Policy for the members of its management and supervisory bodies, and must also disclose it in its annual accounting documents.

Within the specific scope of insurance business, the act was subject, during 2010, to rules and regulations involving the publication of Regulatory Rule 5/2010-R by the Insurance Institute of Portugal and Circular 6/2010 by this entity, both dated April 1, enlarging the content of the act and its scope of application.

These regulations determined the specific duty of disclosure of the remuneration policy applicable to employees of insurance company subject to supervision by the Insurance Institute of Portugal who, while not members of their respective management or supervisory bodies, earn variable remuneration and exercise their activity within the scope of key functions or other activities that could materially impact on the institution's risk profile.

With a view to ensuring fulfilment of this new obligation this remuneration policy is therefore formalised for 2011, applicable to those employees performing key functions, as defined in Point I.3(e) of Circular 6/2010, as well as those exercising an activity impacting materially of the Company's risk profile, which, for the purpose of this policy, are those set out in Point 4(b) hereunder (Bounds of the scope of application of the Remuneration Policy).

2. Main aspects of the new regulations

Publication of Insurance Institute of Portugal Standard 5/2010 of April 1, complementing the obligations provided for in Act 28/2009 of June 19, came to impose on public-interest entities, as is the case of Companhia de Seguros Tranquilidade, new obligations not only in respect of the Policy of Remuneration of the Members of the Management and Supervisory Bodies, but also in respect of the Remuneration of employees performing key functions at the Company or whose professional activity could impact in the Institution's risk profile.

More demanding in respect of the scope and content, Standard 5/2010 thus came to require that the information to be disclosed in respect of the Remuneration Policy in force at the Company should cover, in the specific case of "Key Employees", the following aspects:

a) The way in which the remuneration is so structured as to allow the alignment of the interests of these employees with the long-term interests of the company, as well as the way in which it is based on an assessment of performance and discourages taking excessive risks;

b) The decision process used in the definition of the remuneration policy;

c) Relationship between the fixed and the variable remuneration and the limits applicable to the variable remuneration;

d) Criteria for the definition of the variable remuneration as well as those for the deferral of the respective payment and the minimum period of deferral.

In turn, Insurance Institute of Portugal Circular 6/2010 of April 1, came to establish recommendations on the content of the remuneration policy, recommending in particular that:

a) The fixed part of the remuneration of Key Employees, which also includes a variable part, constitute a sufficiently large part of the total remuneration that will allow application of the fully flexible policy in respect of the variable component of the remuneration, including the possibility of no payment of any variable part;

b) The variable component of the remuneration of the Key Employees be subject to a maximum limit;

c) A substantial part of the variable component be paid in financial instruments whose appreciation is dependent on the medium- and long-term performance of the institution;

d) Quantification of the variable component of the remuneration also take into account non-financial criteria and depend, in part, on the collective performance of the unit of which the employees is a part;

e) The part of the remuneration that varies in the light of performance be attributed in accordance with predetermined, measurable criteria based on a multi-year framework;

f) Payment of a part of the variable remuneration be deferred;

g) The amount of the variable remuneration of those employees performing control functions be dependent on meeting the goals associated with their duties and not those of the areas under their control;

h) The remuneration policy be reviewed at least annually in an independent manner by the institution's control entities in articulation with each other.

Even though these recommendations are not of an injunctive nature, Tranquilidade's Board of Directors must, by virtue of Article 4.3 of Regulatory Rule 5/2010-R referred to earlier, send to the Insurance Institute of Portugal, each year, a declaration as to the conformity of the remuneration policy with these recommendations, from a standpoint of comply or explain.

3. Remuneration practices

Tranquilidade's Board of Directors has always considered that the remuneration policy followed to date in respect of its employees, particular those that perform key functions or duties that could impact on the Company's risk profile, have been correct and suited to the strategic objectives both of the Company itself and of the equityholder group of which it is a part.

The decisions taken in this connection are marked by due regard for several principles, with emphasis on the following:

- Consistency of remuneration practices in respect of the Company's strategies, results and financial capabilities;
- Alignment of remuneration practices with the annual employee performance assessment criteria;
- Alignment of remuneration practices with those of the domestic market and, in particular, of the insurance industry.

Tranquilidade has not therefore been affected by the remuneration ills related with the financial crisis that gave rise to several national rulings on remuneration for the financial institutions.

Nevertheless, with a view to ensuring constant alignment with the market's best practices, Tranquilidade will seek to adjust, to the proper extent, to the indications set out in Insurance Institute of Portugal Circular 6/2010 in respect of the actual content of the policy – which have, let it be said, a nature of mere recommendations, directed at the institutions from a comply or explain standpoint.

To this end, and on the basis of the annual assessment of the Tranquilidade remuneration structure, and also on the basis of the recently-created regulations, the Tranquilidade Board of Directors thus formalises, through this document, the remuneration policy applicable to its Key Employees, enshrining the following essential pillars:

a) Promotion of balance between the fixed and variable components of the total remuneration, establishing maximum limits for both forms of remuneration;

b) Definition of the actual amount of the variable remuneration in the light of the performance assessment to be performed each year by the Board of Directors.

At Tranquilidade, for 2011, taking into account the characteristics inherent in the remuneration structure in force, the maximum figures considered and the tolerance to the defined risks, no need was seen to defer a part of the variable component of the remuneration. It is paid in full in a lump sum in cash following the approval of the accounts for the period in question.

Likewise, because the Company has a single equityholder and its shares are not listed on regulated markets, the possibility of paying a part of the variable component in options of the Company's shares has not been considered in this remuneration policy.

4. Bounds of the scope of application of the remuneration policy

Under Insurance Institute of Portugal Standard 5/2010, this Remuneration Policy applies not only:

a) To those employees who perform key functions, understood to be all those who perform management duties within the scope of the risk-management and internal-control systems (Co-ordinator Manager, Assistance Manager, Service Manager or Head of the Office of the Overall Risk Management and Internal Control Office, and of the Audit Division, but also.

b) To those employees who perform management duties in the actuarial field, as well as the Chief Actuary, as stated in the recommendation of point V.9 of Insurance Institute of Portugal Circular 6/2010;

c) To all employees having level 1 management duties (Top Managers) and Advisers of the management body, regardless of the area in which they perform their duties, since the understanding is that – besides the corporate officers – these professionals are, in the specific case of Tranquilidade, employees whose performance has a material impact on the Company's risk profile.

For the purpose of this remuneration policy, the set of employees considered above will be known generically as Key Employees.

5. Remuneration policy approval process

a) Approval

The Key Employees' remuneration policy is assessed and approved by the Board of Directors at the proposal of the director responsible for human resources.

In drawing up the proposal for the remuneration policy an active role is played by several managers of the Company's major divisions, the Personnel Division in particular. The proposal is also assessed by the Overall Risk and Internal Control Division with a view to determining its possible impact on risk management and internal control.

Lastly, the Executive Committee approves the final fixing of the remuneration.

b) Mandate of the Board of Directors

Under the law and the articles of association, fixing the remuneration of Tranquilidade's Key Employees is entrusted to the Board of Directors within the scope of the management of its personnel policy and of the incentives policy, with a view to meeting the Company's strategic goals.

c) Composition of the Board of Directors

Rui Manuel Leão Martinho – Chairman
Pedro Guilherme Beauvillain de Brito e Cunha – Chairman of the Executive Committee
Augusto Tomé Pires Fernandes Pedroso – Executive Committee
António Miguel Natário Rio Into – Executive Committee

Miguel Maria Pitté Reis da Silveira Moreno – Executive Committee
Nuno Miguel Pombeiro Gomes Diniz Clemente – Executive Committee
António José Baptista do Souto
Miguel Luís Kolback da Veiga
Manrico Iachia
António Manuel Rodrigues Marques

d) External consultants

No services by external consultants were used in defining the remuneration policy applicable to Tranquilidade's corporate officers.

6. Remuneration

a) Composition of the remuneration

The remuneration comprises a fixed and a variable part. The Company's overall remuneration policy is reviewed each year by the Board of Directors by the end of May.

As a result, the fixed remuneration is revised each year in accordance with the company's results and indicators such as the inflation rate and the rate of increase of the collective bargaining agreement (CBA) for insurance business, while a variable component is also defined by the end of May each year, based an the assessment of the previous year's performance.

b) Limits of the remuneration

The fixed part will have the limits fixed by the Board of Directors and, on average, will amount to approximately 84% of the Total Annual Remuneration. The fixed part comprises the basic salary and several complements that are attributed to all Company employees, such as length-of-service bonus and other subsidies.

The variable part for 2011 is set to amount, on average, to 16% of the Total Annual Remuneration, while the maximum, considered individually, may not exceed 20% of the total remuneration.

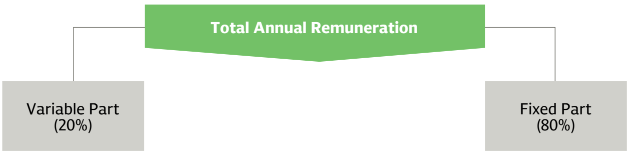
c) Balance in the remuneration

The fixed part may represent, on average, 80% of the total remuneration, the remaining 20% being attributed as the variable part.

This is in keeping with the recommendations of Insurance Institute of Portugal Circular 6/2010, which encourage a high percentage for the fixed component compared to the variable component of the remuneration.

The exact amount of the variable part will oscillate, each year, in the light of the degree to which the main goals for the year are met, both the individual goals (quantitative and qualitative) and those of the unit of which the Key Employee forms part, in accordance with Tranquilidade's performance scoring model as approved by the Board of Directors.

d) Variable component definition criteria and its time of payment



The Variable Annual Remuneration (VAR) is in respect of short-term performance and will have a weight of approximately 20% of the Total Annual Remuneration.

The maximum VAR is calculated at the start of each year by the Board of Directors, determined on the basis of the Objectives and Incentives System (OIS) associated with the division / area of which the employee forms part, in the light of the degree of compliance with the main objectives approved by the Board of Directors, as gauged by the Development Assessment.

The VAR is paid in cash during the period next following the reference date of the results.

e) Performance assessment criteria

Assessment of employees covered by this remuneration policy is based on the variables listed hereunder.

i. Variables taken into account in the assessment of Key Employees working in the commercial areas:

- Results-orientation with careful risk management;
- Team Spirit;
- Strategic Vision;
- Planning, Organisation and Control;
- Customer Orientation;
- Trading Capacity;
- Knowledge of Products and Services.

ii. Variables taken into account in the assessment of Key Employees working in the central areas:

- Results-orientation with careful risk management;
- Team Spirit;
- Strategic Vision;
- Planning, Organisation and Control.

7. Other benefits attributed to "Key Employees"

Besides the fixed and variable remuneration described in this remuneration policy, Key Employees earn the following benefits:

a) Health insurance as defined in Clause 61 of the CBA for the insurance industry;

b) Life assurance as defined in Clause 64 of the CBA for the insurance industry;

c) With regard to employees taken on by the Company prior to June 22, 1995, payment of a pre-retirement benefit or retirement pension, under the terms of Clauses 52 et seq. of the CBA for the insurance industry, as stated in the next point.

8. Main characteristics of the complementary pension schemes attributed to the employees

Under the terms of Clauses 51 et seq. of the collective bargaining agreement (CBA) for the insurance industry, Companhia de Seguros Tranquilidade, SA, employees taken on by the insurer up to June 22, 1995 are entitled to a retirement pension or pension complement under the terms of the said CBA and of the regulations of the pension fund known as the Tranquilidade Pension Fund, managed by ESAF – Espírito Santo Fundos de Pensões, SA.

Key Employees taken on prior to June 22 1995 are therefore covered by this pension fund, the main characteristics of which are detailed hereunder:

a) In the event of retirement for age reasons, a pension complement corresponding to the difference between 80% of the last salary and a percentage (between 30% and 80%, depending of the number of years of contributions to social security) of the average of the salaries of the best 5 of the last 10 years;

b) In the event of retirement for disability the percentage of the last salary varies between 50% and 80% in the light of the number of years in insurance business;

c) In either case, these pensions are updated annually through application of the CPI excluding housing. Application of these formulae cannot lead to total pensions received being greater that the minimum net salary the employee would receive if he had continued in service.

9. Enlargement of the scope of application of the remuneration policy

Save decision to the contrary taken by the Board of Directors, this Remuneration Policy will also apply to the other Companhia de Seguros Tranquilidade employees not considered under the criteria defined in point 4 hereabove (Bounds of the scope of application of the Remuneration Policy).

Likewise, and for the purposes of Chapter VII, Financial Groups of Insurance Institute of Portugal Circular 6/2010, this Remuneration Policy will also apply to the employees of the other insurance companies of the Tranquilidade Group and their affiliates abroad. without prejudice, in the latter case, to such adjustments to local legislation as may be necessary.

Appendix I – Declaration of Compliance (Article 4.1 of Insurance Institute of Portugal Standard 5/2010-R, of April 1)

Detailed description of the recommendations set out in Insurance Institute of Portugal Circular 6/2010, adopted and not adopted.

Recommendation	Comply	Does Not Comply	Comments
I. General Principles			
I.1 Adoption of a remuneration policy consistent with effective risk management and control that will prevent excessive exposure to risk, will prevent potential conflicts of interests and will be coherent with the long-term objectives, values and interests of the Institution, and particularly with the growth and profitability prospects and with customer protection;	√		
I.2 Appropriateness of the Remuneration Policy (RP) in the light of the size, nature and complexity of the business, especially with regard to the risks assumed or to be assumed;	√		
I.3 Adoption of a clear, transparent and adequate structure in respect of the definition, implementation and monitoring of the RP that will objectively identify the employees involved in the process as well as their responsibilities and competences.	√		
II. Approval of the Remuneration Policy			
II.1 Approval of the RP by a Remuneration Committee or, if its existence is not viable or is not warranted (size, nature or complexity of the Institution) by the General Meeting;	√		
II.2 Approval by the Board of Directors of the RP applicable to the employees;	√		
II.3 Involvement in the definition of the RP by persons of functional independence and adequate technical capabilities, in order to avoid conflicts of interest and to allow an independent value judgement to be made;	√		
II.4 The RP shall be transparent and accessible to all the Institution's employees. The RP shall also be formalised in a separate document, duly updated, stating the changes made and the reasons therefor, and the previous versions shall be kept on file;	√		
II.5 Disclosure of the assessment process to the employees prior to the period of time covered by its application.	√		
III. Remuneration Committee (RC)			
III.1 Should one exist, the RC shall review the RP each year and its implementation, so as to allow a reasoned, independent value judgement to be made about the RP in the light of the recommendations (Circular 6/2010), particularly as to its effect on the management of the Institution's risks and capital;	√		
III.2 The members of the RC shall be independent with regard to the management body and shall meet the requirements of competence and professional qualifications appropriate to the performance of their duties;	√		
III.3 Should the RC make use of external services (consultants), it should not hire a natural or corporate person who provides or has provided services, during the previous three years, to any structure dependent on the management body or to the management body itself or has a present relationship with a consultant of the institution. This recommendation is also applicable to any natural or corporate person related with them by an employment or provision of services contract;	√		In this connection there shall be no recourse by consultants to external services;
III.4 The RC shall inform the equityholders, each year, as to the performance of its duties and shall be present at the AGM at which the Remuneration Policy is on the agenda;	√		
III.5 The RC shall meet at least once a year and shall write up minutes of every meeting held.	√		

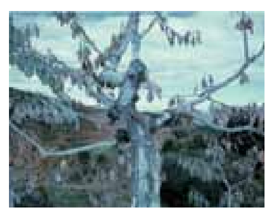
Recommendation	Comply	Does Not Comply	Comments
IV. Management Body - Executive Members			
IV.1 The remuneration shall include a variable component, its termination dependent on an assessment of performance in keeping with predetermined, measurable criteria, including non-financial criteria, that take into account: individual performance, the real growth of the institution, the wealth actually created, protection of the customers interests, long-term sustainability, risks assumed and compliance with the rules applicable to the business.;		X	At this stage, the assessment criteria are based solely on the following management indicators: - Net profit/(loss) for the period; - Return on Equity; - Combined Ratio, Also taken into account at all times are the adequacy of the equity to the level of risk and the technical provisions set aside No non-financial criteria are used in the assessment of the performance of the Executive Directors
IV.2 Adequacy of the fixed and variable components, the fixed component to account for a sufficiently high proportion of the total remuneration; The variable component shall be subject to a maximum limit.	√		
IV.3 Payment of a substantial part of the variable component in financial instruments issued by the institution, the appreciation of which is dependent on medium- and long-term performance;		X	Not applicable, on account of the equityholder structure of Companhia de Seguros Tranquilidade, as well as of the fact that its shares are not listed on regulated markets.
IV.4 Deferral of a substantial part of the variable component during a minimum of 3 years, its payment dependent of the institution's good performance;		X	Bearing in mind the weight of the maximum amounts considered for the variable remuneration, as well as the defined risk-tolerance levels, deferral of a part of the variable component of the remuneration was not considered necessary.
IV.5 The variable component subject to deferral shall be determined in direct proportion to its weight compared to the fixed component;		X	Not applicable in view of the response to point IV.4.
IV.6 Absence of contracts closed by members of the management body the effect of which is to mitigate the variability of the established remuneration;	√		
IV.7 Retaining, up to the end of the tenure, the value of the shares attributed under the variable component, up to the limit of twice the total annual remuneration, unless required to pay taxes resulting from the benefit of the shares in question;		X	Not applicable in view of the response to point IV.3.
IV.8 When the variable remuneration includes allocation of options, the start of the exercise period shall be deferred during no less than 3 years;		X	Not applicable in view of the response to point IV.3.
IV.9 Following the exercise referred to in the preceding point (IV.8), the executive members of the management body shall retain a certain number of shares up to the end of their tenure, the number to be fixed.		X	Not applicable in view of the response to point IV.3.
IV. Management Body - Non-Executive Members			
IV.10 The remuneration of the non-executive members of the management body shall not include any component whose value depends on the performance or value of the institution.		X	Although there is no payment of variable remuneration to the non-executive members of the Board of Directors, in respect of the chairman of the Board of Directors there is the possibility that the annual remuneration may include a variable component.
IV. Management Body - Indemnity in the event of dismissal			
IV.11 Definition of adequate legal instruments to ensure that the compensation establishes for any unfair dismissal of a member of the management body will not be paid if the dismissal or termination by mutual agreement is the result of inadequate performance by the member in question.	√		No compensation has been established for any form of unfair dismissal of a member of the management body.
V. Employee Remuneration – Relationship between Fixed and Variable Remuneration			
V.1 If the employees' remuneration includes a variable component it must be adequately in balance with the fixed component, taking into account, in particular, the performance, the responsibilities and the duties of each individual. The fixed remuneration shall account for a sufficiently important part of the total remuneration. The variable component shall be subject to a maximum limit.	√		

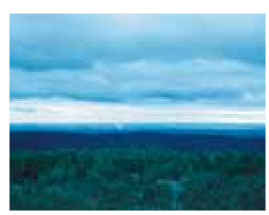
Recommendation	Comply	Does Not Comply	Comments
V.2 Payment of a substantial variable part in financial instruments issued by the institution, the appreciation of which depends on the medium- and long-term performance of the institution, subject to a retention policy aligned with the long-term interests of the Institution.		X	Not applicable, on account of the equityholder structure of Companhia de Seguros Tranquilidade, as well as of the fact that its shares are not listed in regulated markets.
V. Employee Remuneration – Variable Remuneration Allocation Criteria			
V.3. Performance assessment must take into account not only individual performance but also the collective performance of the unit of the structure in which the employee is involved and of the institution itself. It must include relevant non-financial criteria, such as regard for the rules and procedures applicable to the business carried on, especially the internal-control rules and those relating to relations with customers.	√		
V.4 The criteria governing the attribution of the variable remuneration in the light of performance must be predetermined and measurable, based on a multi-year framework of three to five years, in order to ensure that the assessment process is based on long-term performance.		X	The criteria used are predetermined and measurable. They are not related to a multi-year framework since the understanding is that this component has little weight in the overall amount and concerns the meeting or otherwise of annual goals.
V.5 The variable remuneration, including the deferred part of this remuneration, shall be paid or shall constitute a vested right if it is sustainable in the light of the financial situation of the institution as a whole and is warranted in the light of the performance of the employee in question and of the structure unit of which he is a part. The whole of the variable remuneration shall, generally speaking, be severely reduced in the event of decrease of the performance or negative performance of the institution.	√		
V. Employee Remuneration (Key Functions)– Deferral of Variable Remuneration			
V.6. A significant part of the variable remuneration shall be deferred for a period not less that three years and its payment shall be dependent on future performance criteria, measured on the basis of criteria suited to the risk, which take into account the risks associated with the activity on the basis of which it is awarded.		X	The little weight of this component does not warrant its deferral.
V.7. The part of the variable remuneration subject to deferral under the terms of the preceding number shall be determined in growing proportion to its relative weight compared to the fixed component of the remuneration. The percentage deferred shall increase significantly in proportion to the seniority or responsibilities of the employee.		X	Not applicable in view of the response to the preceding point.
V. Employees' Remuneration – Key Employees			
V.8 Employees performing tasks associated with key functions shall be remunerated in the light of the achievement of the objectives associated with their duties, regardless of the performance of the areas under their control, the remuneration to provide a reward adequate to the importance of the exercise of the duties.	√		
V.9 In particular, actuarial duties and the actuary in charge shall be remunerated in a manner in keeping with their role at the institution and not in respect of its performance.	√		
VI. Assessment of the Remuneration Policy			
VI.1 The remuneration policy shall be submitted to independent internal assessment at least annually, performed by key departments of the institution in articulation with each other.	√		
VI.2 The assessment called for in the preceding number shall include, in particular, an analysis of the institution's remuneration policy and of its implementation in the light of the recommendations of this Circular, especially in respect of its effect on the management of the risks and capital of the institution.	√		
VI.3 The key functions shall present to the management body, the AGM or, if any, the remuneration committee, a report on the results of the analysis to which number VI.1 refers, retailing in particular the measures required to correct any insufficiencies in the light of these recommendations.	√		

Recommendation	Comply	Does Not Comply	Comments
VII. Financial Groups			
VII.1 The parent company of an insurance Group or financial conglomerate subject to supervision by the ISP on the basis of its consolidated situation shall ensure that all its affiliates, including those abroad, implement mutually consistent remuneration policies, based on these recommendations.	√		These principles are duly enshrined in the Key-Personnel Remuneration Policy of Companhia de Seguros Tranquilidade, SA, in respect of T-Vida, Companhia de Seguros, SA, and Seguros LOGO, SA. In the future compliance therewith will also be assessed by the control functions with regard to the other companies subject to ISP supervision in which Companhia de Seguros Tranquilidade, SA, has a qualified holding.
VII.2 Adoption of these recommendations shall be ensured in respect of all remuneration paid to each employee by the those institutions that are a part of the same insurance group or financial conglomerate.	√		
VII.3 The key functions of the parent company shall perform at least once a year, in articulation with each other, an assessment of the remuneration practices of the affiliates abroad, in the light of the recommendations of this Circular, especially in respect of their effect on the management of the institution's risk and capital.	√		
VII.4. The key functions shall submit to the management body of the parent company and to its general meeting or, should one exist, to the remuneration committee, a report on the results of the assessment to which the preceding number refers, detailing in particular the measures required to correct any insufficiencies in the light of these recommendations.	√		

VALTER VINAGRE b. 1954, Portugal
Da série Variações para um fruto,
"S/ título #9", 2003
Silver Dye Bleach Print (Ilfochrome)
102,5 x 127,5cm
Unique print
Courtesy by the Artist

09 Legal Certification of Accounts and Board of Auditors' Report and Opinion





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, 2010, (which shows a total of €1,121,209k and total equity in the sum of €318,749k, including a net profit of €11,635k), the Profit & Loss Account, the Comprehensive Income Statement, 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, 2010, the results of its operations and its cash flows during the period then ended, in accordance with accounting practices generally accepted for the insurance industry in Portugal.

Report on other legal requirements

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

Emphasis

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

   - As stated in Note 25 (Capital) of the Notes to the Accounts, Tranquilidade's capital, in the sum of € 210 million is fully subscribed but only €160 million have been paid up. Of the capital increase undertaken in December 210 in the sum of €75 million, only €25 million were paid up, the remainder of the amount to be paid up by 2015.

Lisbon, March 22nd 2011

signed
José Manuel Macedo Pereira

Board of Auditors' 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 Board of Auditors, 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, 2010, 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 2010, 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 Overall 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 to adopt a policy of rational use of resources and of cost control, employing in its operational and financial activity a policy of minimisation of the risks, especially recommendable in the present situation of the economy, reflected, in particular, in an increase of its equity by €66.3 million when compared to the previous year, and also of the solvency ratio from 361% in 2009 to 573% in 2010.

Our activity in 2010 went into, in great detail, the planning and implementation of the measures being implemented up to 2012 to adapt the Company to the new Solvency II mechanism and to its consequences on insurance business, particularly the developments under way within the Company in the areas of risk management, internal control, compliance and internal audit, aimed at the adoption by the Company of the best policies and practices generally accepted internationally and in keeping with applicable regulatory requirements.

Additionally, we regularly monitored the Executive Committee's efforts to continue to implement, in a balanced manner, a strategy of internationalisation and of growth of the Company's share of the domestic market, in parallel with the adoption of a prudent management policy directed at minimising the inevitable effects of the serious international financial crisis that began in 2007, the developments of which have negatively and significantly affected every sector of activity, the insurance industry in particular,, both in Portugal and practically the entire world.

As is our duty, 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 2010 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, 2010. In due course and under Article 452.1 of the Companies Code, the Board of Auditors also appraised the Legal Certification of the 2010 Accounts, dated March 22, 2011, 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 in keeping with the respective conclusions, we are of the opinion that the General Meeting of Companhia de Seguros Tranquilidade, SA, approve:

a) the Management Report dated March 15, 2011, and the other accounting documents for the period ended December 31, 2010, which include the Annual Report and Accounts presented by the Board of Directors; and

b) the Board of Directors' proposal for the appropriation of the 2010 net profit in the sum of €11,635,423.99 under the terms set out in point 2.5 of the Management Report referred to above.

Lisbon, March 25, 2011

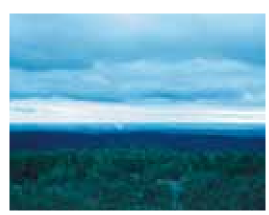
The Board of Auditors

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

VALTER VINAGRE b. 1954, Portugal
Da série Variações para um fruto,
“S/ título #10”, 2003
Silver Dye Bleach Print (Ilfochrome)
102,5x 127,5cm
Unique print
Courtesy by the Artist

TRANQUILIDADE

10 Management Staff



10 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

Talent Management Consultancy
Filipe Antero Rogenes Barreto Infante

Audit Division
Dinora Clara Feijão Margalho Botelho

Retail Commercial Division
Filipe Antero Rogenes Barreto Infante

North Regional Division
António Fernandes da Silva

Centre Regional Division
Fernando José Feijão Oliveira Santana

South Regional Division
Ana Cristina Branco Marques

Medium Enterprise Division
João Maria Sousa C. Ferreira do Amaral

Assurfinance & Life Division
Vítor Hugo Zão Barros Peixoto

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

Personnel Division 1)

Overall Risk & Internal Control Divisions
Luís António Jardim Franco

Claims Division 1)

Technical Division
João Carlos Dores Candeias Barata

1) Pending appointment

EMANUEL BRÁS b. 1967, Portugal
"#25 lugares de afecção", 2004
Digital Chromogenic Print
(LightJet Lambda Process)
80 x 80 cm
Edition 2/5
Courtesy by the Artist

11 Shop Network

11 Shop Network

Lisbon Airport

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E-mail: alges@tranquilidade.pt

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E-mail: almada@tranquilidade.pt

Amadora

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E-mail: amadora@tranquilidade.pt

Aveiro

Rua Dr. Alberto Souto, 30 • 3800-148 Aveiro
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2010
Annual Report

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

PHOTOS
Banco Espírito Santo Collection

DESIGN AND DEVELOPMENT
Linha 21 Marketing e Publicidade

BERNHARD HEIDL
b. 1951 – Germany
"SeaZen", 2008
Digital Chromogenic Print
60x90cm • Edition : 1/5+ 1 AP
Courtesy by the Artist