2012

Annual Report and

Accounts

2012

TRANQUILIDADE

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Tranquilidade

Companhia de Seguros
TRANQUILIDADE, S.A.
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TRANQUILIDADE

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TRANQUILIDADE

01. Corporate Officers

Best Major Non-Life Insurer

BANCA & SEGUROS
Exame
2012

Tranquilidade was distinguished the “Best Major Non-Life-Insurer” by Exame magazine. This is now the fourth time the Company has been distinguished since the initiative was created in 2000.

01. Corporate Officers

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
Bernardo Leite Faria Espírito Santo

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
Alexandre da Paixão Coelho
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
on behalf of KPMG e Associados

Peter de Brito e Cunha
Chairman

Tomé Pedroso

Miguel Rio-Tinto

Miguel Moreno

Nuno Clemente

Executive Committee

TRANQUILIDADE

02. Directors' Report

Insurer having the Best Reputation

REPUTATION INSTITUTE

Tranquilidade is ranked by the Reputation Institute as one of the 30 companies with the best reputation in Portugal, and it ranks first in the domestic insurance industry and second in the Iberian area.

02. Directors' Report

To the Members of Companhia de Seguros Tranquilidade, S.A.

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, S.A. (hereinafter Tranquilidade or Company), in respect of 2012.

2.1. Macroeconomic Framework

The year under review was marked by a slowdown of global economic activity and a downturn of the GDP in the Eurozone. The major contributions to this were the restrictive fiscal policies and the private-sector deleveraging in the leading developed economies, the cooling-off of demand and fears of a hard landing in China, and the uncertainty associated with the debt crisis in the Eurozone. This last factor was particularly noticeable in the first half of the year due to political and fiscal instability in Greece and also to a growing contagion of the crisis to economies such as Spain or Italy.

2.1.1. International Economic Situation

In the Eurozone, despite the slowdown in economic activity and the downturn of GDP, the second half of the year was, however, marked by stabilisation of the financial markets and a retreat of fears of fragmentation of the Eurozone, in this case expressed in a significant reduction of the spreads on the public debt of the peripheral economies against Germany.

Besides some progress towards greater financial and fiscal integration, this improvement resulted primarily from the creation by the ECB, of the Outright Monetary Transactions, which opened up the way to the possibility of buying unlimited debt of Eurozone economies, complementing a possible formal financial assistance programme, the ESM (European Stability Mechanism).

The greater risk propensity globally also resulted from the effects of highly expansionary monetary policies by major central banks, in a context of low inflationary pressures. Emphasis is given to the increase of quantitative easing by the US Federal Reserve, through the so-called QE3, besides the ECB's long-term financing operations and the quantitative easing by the central banks of England and Japan.

After a final cut of 25 bps in July, the ECB maintained its refi rate unchanged at 0.75% up to the year-end. Over the year as a whole the 3-month Euribor fell from 1.356% to 0.187% and the euro rose 1.8% against the dollar, to EUR/USD 1.32.

In the US the S&P500 index gained 13.4%. In Europe, the DAX and CAC40 recorded annual gains of 29.1% and 15.2%, respectively. Although performing less favourably over the year as a whole (up 2.9% and down 4.7%, respectively), the PSI-20 and IBEX gained 8.7% and 5.95%, respectively, in the 4th quarter.

Reflecting the general sentiment throughout the year, crude prices (Brent) fell between the 1st and 2nd quarters from USD 123.8 to USD 97/barrel, recovering as from the summer to close the year at USD 111.9/barrel, an increase of about 4% compared to the price at the end of 2011.

The United States GDP grew 2% in 2012, a slight increase over the previous year, although the pattern of activity proved uneven throughout the year. Private consumption grew moderately, with a trend of improving household sentiment. Productive investment weakened, reflecting low business confidence and considerable uncertainty about the fiscal framework. Exports were relatively lively in the first six months of the year, losing momentum in the second half of the year, particularly due to the Eurozone crisis.

The effects were seen not only in North American foreign trade, and the uncertainties that have permeated the region – private sector involvement in the pardon of Greek debt, parliamentary elections in Greece, French presidential elections, the fall of the Dutch government, instability in the Spanish financial system and the rumours of a bail-out request by this country – certainly contributed to the appreciation of the dollar during the first half and to the recovery of Treasuries (seen as a refuge asset). The greater stability of the Eurozone following the strong commitment of the ECB to the defence of the euro weakened the momentum of the dollar and interrupted the gains of the fixed-rate market in the second half of the year.

The housing market, one of the most affected by the recession that sharply weakened household wealth and private consumption, showed signs of recovery in 2012. The labour market, in turn, likewise behindhand in recovering, also improved, although without the dynamism required to allow a speedy drop of the jobless rate. From 1st to the 2nd half, net job creation increased from 14 thousand jobs per month on average, to 160 thousand per month, reducing the unemployment rate from 8.3% to 7.8% of the active population, between the beginning and end of 2012.

The lack of a strong upturn in activity and persistent resistance to a rapid drop of the unemployment rate led the monetary authority to strengthen its expansionary policy in a context of well-contained inflationary expectations and in a year when presidential elections conditioned the effect of fiscal policy. The Federal Reserve decided in June to extend the Twist Operation until the end of the year, lengthening the average maturity of the assets held in its balance sheet, ensuring that the Fed Funds rate remain between 0% and 0.25% up to the end of 2014.

2.1.2. Domestic Economic Situation

In Portugal, the economic situation in 2012 was mainly marked by the implementation of the economic and financial adjustment programme. The ongoing deleveraging in the private sector, coupled with a strongly restrictive fiscal policy and the cooling of activity in the Eurozone, contributed to a real downturn of the GDP by 3.2%, with significant declines in consumption and investment and an increase of unemployment to close to 16% of the active population.

Household spending fell 5.6%, reflecting the sharp drop in disposable income (3.6% in real terms) and the increase of savings to slightly more than 11% of disposable income. In a context of increasing uncertainty about fiscal policy and the prospects for development of the activity, the economic agents cut back their expenditure and increased their respective savings, driven by a sense of caution. Private consumption was also penalised by a relatively high inflation (2.8% in average annual terms), driven by the increase of indirect taxes.

Investment, in turn, again fell sharply, down 15.2% (down 13.8% the previous year) across all sectors of the economy. This aggregate was penalised not only by tight financing conditions, but also by a decrease in demand for credit by households and businesses alike. The deleveraging effort and, in the case of companies, the negative outlook for demand were been instrumental to this.

Though continuing to slow, particularly towards the end of the year, exports continued to perform well, with an annual growth of over 3% in real terms. Sales abroad were naturally penalised by recessive situation in the Eurozone (especially in Spain), but returned double-digit growth to markets outside the European Union.

This performance, combined with a sharp drop in imports (over 7%) and an increase in domestic savings, resulted in a marked improvement of the external balance, from a shortfall of 5.1% of GDP in 2011 to a surplus of 0.8% of GDP at end-2012. All sectors contributed to this performance, with households and the financial sector increasing their net financing capacity and the non-financial companies and local and central government reducing their net borrowing requirements.

The public deficit is expected to have stood close to the (revised) target of 5% of the GDP in 2012, despite the significant deviation of revenue compared to budgeted figures (about €880 million in the case of central government and Social Security). A contribution to this will have been made by a decline in expenditure sharper than initially planned, partly the result of additional savings connected with spending on wages, acquisition of goods and services, investment spending and net interest expense. With regard to the extraordinary measures, but on the revenue side, budget execution in 2012 benefited primarily from a non-recurring revenue associated with the concession of the public airport management services to the firm ANA. Government debt also maintained an upward trend, to stand at 120% of the GDP, 12 p.p. more than in 2011.

The positive assessments of the implementation of the adjustment programme and the stabilising action of the ECB contributed to a gradual improvement of the financial conditions faced by the Portuguese economy, seen in a significant reduction of public-debt yields and credit spreads, and also in the reopening of the wholesale debt markets for companies and banks alike.

The yield on 10-year Treasury Bonds peaked at 17.4% in late January 2012, closing the year at around 7% (and with the downward trend continuing at the beginning of 2013). The greater openness of foreign investors to the Portuguese economy was reflected also in the good results of the privatisation programme implemented, with total revenues of around €5.5 billion euros, above expectations.

2.1.3. Insurance Market

After the unparalleled downturn of direct insurance production in 2011, which dropped to a figure lower than in 2005, it continued to decline, though less sharply, during 2012. Premiums written amounted to €10,911 million, a decline of €831 million (7.1%) from the preceding year.

The negative performance of the insurance market was mainly due to the downturn in Life insurance, although Non-Life production also fell. With premiums of €6,924 million and a negative growth rate of 8.9%, the Life segment again lost weight in total production (74.5% in 2010 to 64.7% in 2011 and 63.5% in 2012).

The fall in household disposable income, with the consequent reduction in the volume of savings contributed to the decline of products having a more financial and saving-for-retirement component. PPR (Retirement Savings Plans) production, which, in addition to these factors, was also affected by the reduction of tax incentives, was lower than the previous year by 14.1%. The performance of risk products was more in line with the overall performance of economic activity (down 2.0% compared to 2011).

The production of the Non-Life segment also decreased, more so in those segments more sensitive to macroeconomic variables. Premium volume amounted to €3,987 million (down 3.8% from the previous year), though Health segment performed well (up 2.2%), reflecting growing consumer interest in this type of protection. The Multi-risk business lines (up 1.7%), especially Home insurance, continued to see an increase of production, reflecting growing sensitivity to risk management and protection in times of uncertainty.

With a remarkable drop in production, Workmen's Compensation (down 10.6%) reflected not only the reduction of employment and containment of the wage bill of the economy, but also a further reduction of pricing. Production of Motor insurance also fell sharply (down 5.4%), the result of household and company need to cut costs and also of the reduction of the average premium driven by competitive pressure.

The weight of insurance business as a proportion of the GDP fell from 6.86% in 2011 to 6.40% in 2012. The Life segment accounts for 4.06% of GDP and Non-Life 2.34% (4.44% and 2.42% in 2011, respectively).

Despite the reduction in insurance production, and according to the provisional accounts of the insurance industry, net profits were very good. The industry as a whole generate pre-tax profits of around €876 million, which was subject to a tax burden of nearly €334 million (effective rate higher than 38%), resulting in an overall net profit in the order of €540 million , compared with about €10 million in 2011.

A major contribution to this result was made by the recovery of the capital markets in 2012, particularly in the debt segment. The financial component will have amounted to €720 million (€313 million in 2011) and the technical component to -€180 million (-€303 million in 2011). It should be noted that the 2012 result is influenced by an extraordinary operation involving the assignment of a Life-risk portfolio in the sum of €240 million. Excluding the effect of this extraordinary operation the industry's overall result would amount to €380 million.

The Life segment, more sensitive to financial-market volatility, benefited most from this evolution, generating a technical-account result higher than the previous year by €800 million.

The Non-Life segment, too, contributed to the good performance development of results in 2012, with an increase of €40 million in the technical-account result, making good use of the evolution of the financial component.

2.2. Relevant Facts in 2012

Since the beginning of the financial crisis on international markets in 2008, the Portuguese insurance market has contracted.

In 2012, the Portuguese economic situation worsened with the continuing sovereign-debt crisis, the contraction of credit to the economy, the continued fiscal consolidation, tax increases, cuts in salaries and allowances, reduction of investment and an unprecedented level of unemployment.

The insurance industry has not been immune to this crisis and fell sharply in Non-Life (3.8%) and Life (8.9%).

In the Non-Life market, the mandatory Workmen's Compensation and Motor insurance lines were the most affected.

Workmen's Compensation declined 10.6% due to increased bankruptcies and reduction of the insured payroll. At the same time, increased competition among insurers continued to cause a decrease of the rates charged, reaching worrying levels for the sector.

Motor insurance declined 5.4% due to the downgrade of the covers taken out, to the increasing the number of uninsured vehicles on the road and also to the competitive pressure on prices among insurers.

This price pressure has interrupted the process of price adjustment of compulsory insurance to the cost of the risk that had gradually occurred in the marketplace. Consequently, the market claims rate deteriorated and the Non-Life combined ratio remained above 100%.

In 2012, despite the difficult environment, Tranquilidade resisted firmly. It demonstrated once again that it was travelling along a consistent path. Tranquilidade achieved a market share of 8.4%(up 0.3 p.p. compared to 2011), standing second in the Non-Life ranking , making it the largest private insurer operating in Portugal.

All channels outperformed the market:

- The Exclusive Partner network grew 3 p.p. above the market;
- The Multibrand Partner network also grew 3 p.p. above the market;
- Brokers grew 6 p.p. above the market;
- The bancassurance collaborative programs with Banco Espírito Santo (in the Companies segments), always in healthy coexistence with the Professional Partners network, contributed 15% of Tranquilidade's revenue in these segments;
- The Alternative Retail Networks, with a 78% increase of premiums compared to 2011, made a very good contribution to the performance of Tranquilidade's retail area, particularly in Motor business, which now accounts for 4% of new revenue generated.

Throughout the year, Tranquilidade extended its Non-Life and Life customer base, which now amounts to approximately 666,000 customers (up around 9,700). All customer segments returned growth above or in line with the market: Individuals (up 2 p.p.), Businesses (≈ 0 p.p.) and Companies (up 5 p.p.).

Though they decreased, the anchor products, Motor and Workmen's Compensation, outperformed the market with a growth differential of +5 p.p. and +4 p.p. respectively. The products of the Property & Casualty (P&C) area were another successful bid by Tranquilidade, with a growth differential over the market of 4 p.p., in Fire & Other Damage and 7 p.p. in Third-Party Liability.

Investment in Life Risk Products also bore fruit and is yet another example of the comprehensive range that makes Tranquilidade stand out in the marketplace. This strategy allowed T-Vida to grow 3% in Life Risk.

The Assurfinance programme, well supported by a network of 44 Advanced Posts (joint stores of the Tranquilidade Partners and BES) and by the E-Club with more than 400 Partners, continues to be a success story in generating synergies at the level of the Financial Group in the Retail segment. Tranquilidade and its Partners are a great asset of BES both in attracting custom (21% of the custom attracted by BES) and also in attracting resources (9% of the change of the BES stock of resources).

At operating level, with a view to ongoing improvement of the service provided to Customers and Partners, the Company has implemented a set of measures in areas of greater improvement potential where satisfaction is lower:

1. Focus on developing long-term partnerships with Professional Agents and Brokers:
   - Maintenance of the investment in the Distribution Partners service platforms;
   - Creation of Selection M (a network of Partners more dedicated to the Medium Enterprise segment);
   - Permanent presence in the field of all the network-support commercial structures, of the 1st-line managers and of the Executive Committee directed at understanding market trends and areas of potential improvement.

2. Constant attention to matching the price to the cost of the risk, to controlling erosion of the portfolio and to maintaining productivity in new contracts, key factors for the improvement of the overall technical balance.

3. Improvement and innovation of the offer. together with enhancement of equipment-development (customer-loyalty) tools, such as:
   - For individuals, the launch of the new Car and Home solution and review of the Health range;
   - For Enterprises, redefinition of the strategic sectors, review of the Third-Party Liability range and a focus on P&C products, along with the extension to this customer segment of the equipment alerts to the Partners.

4. Introduction of new functions to the Partner work station (SIA-net):
   - Group policies management in the creation and modification of insured objects, in auto fleets and health;
   - Automated loading of vacation sheets;
   - Implementation of the automated current account;
   - Automation of payments to Partners via NIB (bank account number).

5. Review of the contents of contractual and commercial communication with customers:
   - Institutional outputs have been reviewed and simplified, including insurance applications, financial documentation and the particular conditions of Motor and Multi-Risk Home insurance;
   - The contents of customer communication have been revised in respect of claims.

The heavy investment in recent years in improving service quality for customers and partners, allied to a culture of service throughout the entire organisation, has enabled Tranquilidade to achieve excellent market ratings for service quality and customer satisfaction:

- The average response time to complex quotes improved to 6.5 days (down 45% since 2010);
- In 95% of cases, claims processes are opened in less than 3 days for the Motor, Home and Workmen's Compensation anchor products;
- Customers report a high level of satisfaction with claims management, with an average rating of around 8 (out of 10). The degree of recommendation by our customers is over 80% in every major business line;
- The percentage of complaints regarding claims continues to fall.

Tranquilidade is particularly proud about the various distinctions received during 2012.

Tranquilidade was named the "Best Large Non-Life Insurer" in the "Banking & Insurance Prizes" by Exame magazine, a prize we have won for the fourth time since its inception in 2000. Tranquilidade was also elected "Superbrand", a distinction that confirms it as mark of excellence. And, at the start of the year, it was also distinguished by the Reputation Institute as the insurer with the best reputation nationally (and second in the Iberian Peninsula) and by the APCC with the "Best Call Centre of the Insurance Sector Prize". This recognition by customers and independent sources testifies the success of Tranquilidade's strategy.

In pursuit of the Efficiency Programme, the reduction of operating costs was further consolidated (down 1.0%, or €0.6 mn) involving reductions of taxes and levies (4.8%) and of depreciation (5.9%), and also personnel downsizing, allowing a 1.4% decrease of staff costs compared to 2011, and it is expected to lead to further savings in 2013.

As a result of proper implementation of the Efficiency Programme, the Company was able to reduce its operating-cost structure by 24.5% over the past five years, a success that also contributed to the recent distinctions it has been awarded.

However, the Company believes that this favourable performance of operating costs has not come to an end and will continue in the coming years.

Over 2012 as a whole, the financial markets ended up performing quite well. Tranquilidade's investment policy, which did not change significantly compared to those implemented the previous year, focused on active management of the fixed-rate bonds portfolio and short-term placements, and on careful management of strategic investments.

In an environment of low interest rates and strong support by the central banks, the demand for attractive returns led to a sharp fall of the interest rates implicit in the debt of the peripheral countries. Throughout the year, the company managed this component in a controlled manner, having invested in liquid securities of Portuguese issuers, notably by buying fixed-rate corporate and government debt. This strategy proved to be right, allowing the company to increase realised and potential gains, particularly due to the gains achieved on the Portuguese public debt.

With regard to Tranquilidade's strategic investments, direct insurer LOGO, S.A., made price-list adjustments during 2012, with a view to ensuring the technical balance of the operation. As a result, its customer base decreased to 113,000 (down 5.8%) and premiums fell by 9%, which resulted in a 0.1 p.p. reduction of its overall market share and of 2.2 p.p. among the direct insurers, a market in which it now ranks third. A net loss was returned in the sum of €3 million, a positive variation of 30.3%.

The year under review was also the first full year of "Movida", the T-Vida programme designed to increase the specialisation of our Partners network in the Life business. The Selection V Partners grew 83% in terms of new Life revenue. Very good results were achieved, which are set to be further consolidated in 2013.

The overall technical balance increased from €60.3 million to €63.8 million, up 5.8%. Net income amounted to €18.5 million, a decrease of 45.5% compared to 2011 resulting from the sale of Tranquilidade's holding in Pastor Vida. Tranquilidade continues to have a strong solvency ratio, standing individually at 526% at the end of 2012.

The year under review was yet another one in which Tranquilidade's performance in the market was outstanding. This good performance was based on the full alignment of the organisation with the goal of continuing to consistently implement its vision based on three Ss - Service, Sensitivity and Solidity in Balance and Stability. For 2013, the entire organisation will remain focused and motivated to continue along this path.

2.3. Key Variables and Business Indicators

(thousand euros)

	2012	2011	CHG 12/11 %
Balance Sheet			
Investments	949,168	1,095,857	-13.4%
Net assets	1,184,609	1,314,070	-9.9%
Equity	327,117	380,303	-14.0%
Provision for unearned premiums (DI+RA)	83,195	85,917	-3.2%
Provision for claims (DI+RA)	470,777	477,829	-1.5%
Provision for claims, net of reinsurance	430,440	442,058	-2.6%
Technical provisions (DI+RA)	578,983	590,688	-2.0%
Gains & Losses			
Gross direct insurance premiums written	333,790	338,018	-1.3%
Premiums earned, net of reinsurance	293,234	296,340	-1.0%
Cost of direct insurance claims	216,601	222,479	-2.6%
Costs of claims, net of reinsurance	203,908	215,994	-5.6%
Operating costs	66,787	67,434	-1.0%
Income	25,723	28,521	-9.8%
Net result	18,457	33,878	-45.5%
Indicators			
Gross premiums written/ N° of employees	494.5	498.6	-0.8%
Direct Insurance claims rate	64.4%	66.1%	-1.7 p.p.
Claims rate net of reinsurance	69.5%	72.9%	-3.4 p.p.
Net profit/ Gross premiums written	5.4%	9.8%	-4.4 p.p.
Combined ratio net of reinsurance	101.3%	101.8%	-0.5 p.p.
Solvency ratio	526.0%	671.0%	-145 p.p.

2.4. Tranquilidade's Business in 2012

2.4.1. Direct Insurance Premiums

The total volume of direct insurance premiums amounted to €333,790k in 2012, a decrease of 1.3% over the previous year. The Non-Life insurance market returned a negative variation of 3.8% compared to 2011.

Despite the negative performance of premiums, Tranquilidade managed to outperform the market average in significant segments. With the exception of Allianz, the largest insurance companies that operate in our market again returned a negative trend during 2012, primarily the result of a downturn of Motor and Workmen's Compensation production.

In Accidents and Health, Tranquilidade's production was less than the previous year's by €4,641k (4.3%), with negative variations in Workmen's Compensation of €3,350k (5.5%), performances in both cases better than those of the market (down 5.4% and 10.6% respectively). Multi-risks production performed very well, up €3,352K compared to the previous year (up 7.0% vs. the market's 1.7%). Motor insurance production fell by 2.5%, while the sector as a whole was 5.4% down over the previous year.

(thousand euros)

Direct Insurance Premiums	2012	%	2011	%	CHG 12/11 (%)
Accidents & health	102,851	30.8	107,492	31.8	-4.3%
Fire & other damage	64,516	19.3	62,127	18.4	3.8%
Motor	134,847	40.4	138,316	40.9	-2.5%
Transport	6,965	2.1	6,994	2.1	-0.4%
Third-party liability	11,131	3.3	10,459	3.1	6.4%
Sundry	13,480	4.1	12,630	3.7	6.7%
Total	**333,790**	**100.0**	**338,018**	**100.0**	**-1.3%**

Tranquilidade's market share rose to 8.4% in 2012, compared to 8.1% in 2011, the Company rising to second in the ranking of the Non-Life segment.

2.4.2. Direct Insurance Claims Costs

Total direct-insurance claims costs in 2012 amounted to €216,601k, a decrease of €5,878k (2.6%) compared to 2011.

This performance was mainly due to the reduction of Motor claims costs (down €21,232K, or 22.3%). In all the other business-line groups, with the exception of Transport, claims costs increased in 2012, especially Accidents and Health (up €4,301k); Workmen's Compensation (up €8,061k); and Fire and Other Damage (up €7,120k, due to the increased number of claims and adjustments of provisions for serious accidents, especially in Multi-risks).

(thousand euros)

Costs of Direct Insurance Claims	2012	2011	CHG 12/11 %
Accidents & health	89,221	84,920	5.1%
Fire & other damage	42,414	35,294	20.2%
Motor	74,132	95,364	-22.3%
Transport	3,062	3,510	-12.8%
Third-party liability	6,535	2,274	187.4%
Sundry	1,237	1,117	10.7%
Total	**216,601**	**222,479**	**-2.6%**

The claims rate (gross claims costs/ gross premiums earned) fell 1.7 p.p. compared to the previous year to 64.4% due to the decrease under Motor insurance (from 69.5% to 54.0%). In Accidents and Health the claims ratio rose from 78.5% to 86.2% (in Workmen's Compensation the ratio rose 18.1 p.p. to 94.0%) and in Fire and Other Damage from 57.3% to 66.1%.

(%)

Costs of Claims/ Gross Premiums Earned *	2012	2011
Accidents & health	86.2	78.5
Fire & other damage	66.1	57.3
Motor	54.0	69.5
Transport	45.2	49.5
Third-party liability	57.9	21.3
Sundry	9.3	9.4
Total	**64.4**	**66.1**

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

2.4.3. Direct Insurance Technical Provisions

Direct insurance technical provisions in 2012 amounted to €570,969k, a reduction of €11,246k compared to last time (down 1.9%). Emphasis is given to the Provision for Claims, down €7,475k, split between an increase of €11,062k for Workmen's Compensation and a reduction of the provision allocated to other business lines in the sum of €18,537k.

(thousand euros)

Technical Provisions - Direct Insurance	2012	2011	CHG 12/11 %
Provisions for unearned premiums	81,254	83,534	-2.7%
Provisions for claims	465,158	472,633	-1.6%
Workmen's compensation	188,281	177,219	6.2%
Other lines	276,877	295,414	-6.3%
Other technical provisions	24,557	26,048	-5.7%
Total	**570,969**	**582,215**	**-1.9%**

2.4.4. Reinsurance Ceded

The balance of reinsurance ceded in 2012 in the sum of €23,642k performed well compared to 2011, up €3,873k (14.1%) due to greater recovery of commissions and indemnities.

(thousand euros)

Reinsurance Ceded	2012	2011	CHG 12/11 %
Premiums	52,247	49,918	4.7%
Commissions	-8,462	-7,340	15.3%
Claims and variation of technical provisions	-20,143	-15,063	33.7%
Result	**23,642**	**27,515**	**-14.1%**

2.4.5. Technical Balance Net of Reinsurance

The technical balance net of reinsurance in 2012, in the sum of €63,804k, grew by 5.9% over the previous year.

Though penalised by the downturn of direct-insurance production and the smaller contribution of changes in technical provisions, the improvement in claims costs and the positive contribution of the reinsurance balance led to a rise in the technical balance net of reinsurance of €3,531k.

By business line, the largest increase occurred in Motor insurance, whose technical balance net of reinsurance grew by €24,378k over the previous year (fall in production, but improvement of claims costs and reinsurance balance).

On the other hand, the biggest drop was seen in Accidents and Health with the technical balance down €12,809k (production downturn, rising claims costs and changes in technical provisions, reinsurance recovery).

(thousand euros)

Technical Balance, Net of Reinsurance	2012	2011	CHG 12/11 %
Accidents & health	4,736	17,545	-73.0%
Fire & other damage	1,695	5,750	-70.5%
Motor	53,980	29,602	82.4%
Transport	1,353	1,814	-25.4%
Third-party liability	1,211	5,129	-76.4%
Sundry	829	433	91.5%
Total	**63,804**	**60,273**	**5.9%**

2.4.6. Operating Costs

Total operating expenses decreased 1.0% in 2012 (€647k), to stand at €66,787k. The decrease of costs was achieved owing to the strong containment measures undertaken by the Company through ongoing implementation of the cost-efficiency reduction programme in progress.

Staff costs fell by 1.4% (€511k), in line with the reduction of the Company's staff, while the cost of Third-party Supplies & Services increased 3.5%.

(thousand euros)

Operating Costs	2012	2011	CHG 12/11 %
Staff costs	35,563	36,074	-1.4%
Third-party supplies & services	21,899	21,149	3.5%
Taxes and charges	2,418	2,539	-4.8%
Depreciation	6,230	6,621	-5.9%
Other*	677	1,051	-35.6%
Total	**66,787**	**67,434**	**-1.0%**

* Includes provisions for contingencies & liabilities, interest expense, commissions and other investment costs.

2.4.7. Staff

During 2012 a total of 21 new employees were taken on and 24 left, 17 of whom for pre-retirement or retirement reasons.

As a result of these movements staff numbers fell 0.4% compared to 2011, to stand at 675. Compared to the previous year, productivity decreased as result of the downturn of production, with the ratio of direct insurance premiums per employee of the permanent staff standing at €495k (€499k in 2011).

	2012	2011	CHG 12/11 %
Admitted	21	23	-8.7%
Left	24	34	-29.4%
of which pre-retirement or retirement	17	15	13.3%
Total staff in service	675	678	-0.4%
DI Premiums / N° of Employees (thousand euros)	**495**	**499**	**-0,8%**

2.4.8. Investments

Over 2012 as a whole, the financial markets ended up by performing fairly well, better than expected considering the risks that were awaited and the environment of little global economic growth.

The sovereign-debt crisis in Europe persisted, spreading to the economies of Central Europe, and there was even concern as to the continuity of the euro, while uncertainty remained as to the conduct of fiscal policy in the USA. These facts, allied to others of a similar nature, gave rise to periods of high volatility, which, however, did not prevent strong performance of financial assets, riskier assets in particular.

The support provided by the central banks, through expansionary, unconventional policies, determined a significant reduction of the risks, ultimately driving the sharp appreciation of the financial assets. In the USA, the Federal Reserve (Fed) once again implemented additional bond-purchase plans (quantitative easing), and keeping interest-rate expectations at virtually zero till mid-2015. Towards the year-end the Fed announced a strengthening of the expansionary stance of monetary policy, linking future decisions on interest rates to the unemployment rate (below 6.5%) and to the inflation rate (inflation expectations within a time horizon of two years under 2.5%). Throughout the year, in the Eurozone, the European Central Bank (ECB) implemented measures to combat the public-debt crisis in the Eurozone, particularly through the interest-rate cut to 0.75%, the provision of liquidity to banks with a three-year maturity (LTROs) in March and through the bond-purchase plan with maturities up to three years (Outright Monetary Transactions) announced in September.

On the bond markets, 2012 was again marked by the European debt crisis. In March, Greece successfully made a voluntary swap of bonds held by private creditors in order to reduce the debt burden, with the goal of reaching a debt to GDP ratio of 120% by 2020. However, near the end of the year this goal seemed difficult to achieve and lower rates and longer maturities were agreed for repayment of the loans with the official creditors (European Union and International Monetary Fund), in order to make the country's long-term debt sustainable. Spain, too, also came under the spotlight of the markets and, in June, made a request for financial support to recapitalise its banking industry. Needs were determined in the sum of about €54 billion, significantly less than the €100 billion originally foreseen, Banco Bankia accounting for much of the recapitalisation effort. Contrary to expectations at the beginning of the second half, the recapitalisation of the Spanish financial sector avoided a bail-out request by the Kingdom of Spain, for the country was able to finance itself in the markets successfully.

The equity markets had a good year in 2012 despite the European debt crisis and the weak economic dynamics in Europe. The markets showed similar gains, with the Eurostoxx 50 (Europe) index up by about 13%, a performance better than that of the USA (S&P500 up 11%), where, throughout the year, the dynamics of the economic activity were better. Emerging markets rose 15% (MSCI Emerging Markets), driven especially by the demand for risk assets. This similar performance of different regions was largely the result of the strongly expansionary policies of central banks, which sharply increased the liquidity of the financial markets, leading to positive returns on shares despite the generally unfavourable macroeconomic environment.

In 2013, global economic growth is expected to remain slightly positive. Macroeconomic indicators, especially in Europe, are set to continue to be influenced by the process of fiscal consolidation and by the deleveraging process. The significant narrowing of spreads, particularly in the peripheral countries in 2012 limits the potential return in 2013.

At Tranquilidade, the investment strategy implemented in 2012 did not change significantly compared to that of the previous year. The investment policy focused primarily on investment in fixed-rate bonds, short-term placements and in particular management of strategic investments.

During a stage of increased investment in international expansion of the business of the Tranquilidade insurance group, the guideline of the entire investment process was to maximise the return on investments, focusing on the financial solvency of the company and consequently of the economic group.

Given the considerable macroeconomic uncertainty seen in late 2011 in respect of the Eurozone, the company adopted a well-though-out strategy during the first quarter of 2012, with emphasis on investment in short-term placements, taking advantage of the high interest rates associated therewith, and in bonds and treasury bills maturing in 2012.

This position was progressively altered over the first half. During this period, the company played an active role in the primary market, benefiting from the attractive premium on new issues. Complementing this, it extended slightly the maturity of its exposure to certain issuers to take advantage of the favourable yield-curve slope of the debt. These operations also allowed the credit level of the bond portfolio to be mitigated by investing in core issuers.

At the end of the first half, with the heightening of sovereign debt crisis in several peripheral European countries, particularly Spain, the credit market entered a period of greater volatility, the company's strategy having been adjusted accordingly. In this way gains were realised on securities that had appreciated significantly, especially those issued in 2012 on the primary market. In the first half, a number of transactions were carried out to protect the portfolio from a phase of greater uncertainty.

The statements by the ECB president to the effect that the central bank would do whatever it took to preserve the euro, accompanied by a decline of the interest rate to an historic low of 0.75%, lent new stimulus to the market, a momentum further increased by the third Quantitative Easing programme by the Federal Reserve in the USA.

In this environment of very low interest rates and support by the central banks, demand for attractive returns was very beneficial for risk assets. This climate of risk appetite extended to the bond market that, in the wake of the sharp fall of interest rates implicit in the public debt of the peripheral countries, led to strong gains on the bond market.

Throughout the year the company actively managed this component and invested in liquid securities of Portuguese issuers, notably by buying fixed-rate corporate and public-debt bonds. This strategy proved to be the right one, allowing the company to increase realised and potential gains, particularly due to the gains achieved on Portuguese public debt.

At the same time, the investment strategy continued to focus particularly on liquidity management, despite the increase of exposure by 14.9% (up €14,055k). Throughout the year, the company kept its liquidity level steadily above 10% of the total portfolio. Through this procedure it took advantage of the leveraged return on existing term deposits, and used it occasionally as protection against the volatility of the financial markets.

The company lowered its exposure to floating-rate bonds slightly (0.8%), having sold during the year, cumulatively, about €8.3 million (net of acquisitions), in order to protect the profitability of the associated low money-market interest rates, and reduce exposure per issuer. The reduction of potential losses justified the remaining increase of the investment in this class. In fixed-rate bonds, which are subject to active management, investment increased by 7.7% (€15,371k). Additionally, and as protection against possible interest-rate hikes, the average maturity of the bonds was kept under 4 years. At the end of the year, the average rating of the bond portfolio was higher than that of Portugal, with a focus on the financial sector and government.

The company had a practically immaterial exposure to the equity market (directly or via investment funds), standing at the year-end at less than 1% of the total portfolio. Transactions throughout the year, and in the year-end balance sheet, mainly involved the North American equity markets.

Investment in alternative assets, including private equity and cash placements at the year-end totalled €21,110 k. No transactions were carried out involving hedge funds or products of similar characteristics.

In Real Estate, either directly or through investment funds, there was a decrease of €24,887k (33.6%). During the past year, the real estate investment policy called for partial conversion of Premises and Income Properties to investment funds, with a view to allowing their gradual sale, reducing exposure to mitigate the effects on convergence to Solvency II.

In strategic terms, emphasis is given to the sale of the shareholding in Spanish insurer Pastor Vida, following the merger between Banco Popular and Banco Pastor, the partner in the Pastor Vida operation. In investment terms, this heading has decreased by €146,136k (34.5%).

(thousand euros)

Assets Under Management [1]	2012	2011	CHG 12/11 %
Bonds	**290,392**	**275,622**	**5.4%**
Fixed-rate	215,874	200,503	7.7%
Floating-rate	74,518	75,119	-0.8%
Equities & Investment Funds	**354,492**	**510,060**	**-30.5%**
Strategic	276,865	423,001	-34.5%
Equities	-	163	-100.0%
Mutual funds	27,750	12,775	117.2%
Real-estate funds	49,877	74,121	-32.7%
Real Estate	**70,584**	**71,227**	**-0.9%**
Premises	24,468	24,726	-1.0%
Held for income	46,116	46,501	-0.8%
Liquidity	108,577	94,522	14.9%
Other	1,800	1,815	-0.8%
Total	**825,845**	**953,246**	**-13.4%**
Repo operations	132,459	144,509	-8.3%
Held-to-maturity assets	86,045	107,589	-20.0%

(1) Amounts determined from a management standpoint.

The investment portfolio at the year-end decreased by €127,401k (13.4%) compared to 2011. This was due mainly to the reduction of strategic investments, with the sale of Pastor Vida, the resultant proceeds having been channelled to equityholder dividend payment.

During the year, the company decreased the net value carried under repo operations, closing the year with an amount allocated to these operations of approximately €132,459k.

In the wake of Regulatory Standard 4/2011-R, of June 2, issued by the ISP, Tranquilidade ended 2012 with €86,045k (down 20.0%) under Investments held to maturity.

(thousand euros)

Financial Results [1]	2012	2011	CHG 12/11 %
Income	**25,723**	**28,521**	**-9.8%**
Securities	24,614	26,192	-6.0%
Real estate	1,109	2,329	-52.4%
Gains & Losses	**8,571**	**19,559**	**-56.2%**
Securities	9,216	19,433	-52.6%
Real estate	-645	126	-611.9%
Impairments/ Written Back	**-12**	**-6,236**	**-99.8%**
Securities	-9	-6,236	-99.9%
Real estate	-3	-	0.0%
Total	**34,282**	**41,844**	**-18.1%**

(1) Amounts determined from a management standpoint.
Includes costs and income from financial repo operations, valuation of financial liabilities and derecognition of contingent liabilities.

Financial results for 2012, show a y-o-y decrease of €7,562k (18.1%), and this difference occurred mainly under Gains & Losses. The 2011 figures were affected by the derecognition of the financial liability under Pastor Vida and by the sale of the holding in ESAF GSPS, both non-recurring events. The previous year, 2011, had been marked by an impairment of the Greek public debt in the sum of €4,542k.

In 2012 net realised gains on the sale of fixed-rate bonds amounted to €5,114k. On the other hand, the strategy of reducing nominal exposure to floating-rate bonds led to a realised book loss totalling €1,414k.

Emphasis is given to the decline of income generated, down 9.8% due to lower interest rates and a lower average investment portfolio, despite a greater volume of dividends from strategic investments.

The return on average assets over the financial result stood at 4.9% (2011: 5.7%). If we add the change recorded in the Fair Value Reserve, the return is 8.0% (2011: 14.4%). The reduction of potential losses on bonds amounted to €16,095k.

2.4.9. Equity and Solvency Margin

Equity in 2012 fell by €53,186k from the previous year, to stand at €327,117k. This decrease of 14.0% is justified mainly by the negative change in the sum of €33.5 million in the Revaluation Reserve, essentially the result of the cancellation of reserves relating to holdings sold and of the negative change in the sum of €15.4 million in Net Income.

The solvency ratio stood at 526%, compared to 671% for 2011. The decrease of the Eligible Elements in the sum of €79,592k, which includes Equity, contributed to this unfavourable performance, with a focus on the change under Revaluation Reserve – Fair value. The amount of the Solvency Margin to be set aside fell by about €394k.

(thousand euros)

Equity	2012	2011	CHG 12/11 %
Equity capital	160,000	160,000	0.0%
Revaluation reserves	89,366	122,903	-27.3%
Other reserves	35,266	29,984	17.6%
Retained earnings	24,028	33,538	-28.4%
Net profit/(loss)	18,457	33,878	-45.5%
Total	**327,117**	**380,303**	**-14.0%**

2.4.10 Risk Management, Internal Control System and Compliance

Based on the framework provided by Directive 2009/138/EC of the European Parliament and the Council of November 25 concerning insurance and reinsurance business (Solvency II), Tranquilidade continued, during 2012, the work of adapting to the new Solvency II mechanism, which will require substantial changes in insurance business.

It can be expected, however, that this Directive may come to be substantially amended, both in its scope, and also regarding the deadline for its transposition, with the publication of the Omnibus II Directive during 2013.

This notwithstanding, several measures were implemented during 2012, of which the following are highlighted:

- Implementation and development of tools for the calculation of economic capital under the Partial Internal Model;
- 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;
- Analysis, systematisation and in-house disclosure of pre-consultation papers, with emphasis on the documents relating to Quantitative Report Templates (QRT), Own Risk and Solvency Assessment (ORSA) and Solvency Financial Condition Report (SFCR);
- Reviewing and updating 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;
- Definition, formalisation and monitoring of various policies, in particular, in addition to existing policies, the access controls and management policy and the investment management policy;
- Monitoring events reported to the Company through whistle-blowing of fraudulent situations and preparation of additional procedures to control the operational risk related with fraud.

In the matter of Solvency II, the measures called for in the previously--defined Solvency II (Roadmap) programme were also tracked and monitored.

2.5. Proposal for the Appropriation of Profit

A net profit in the sum of €18,457,216.49 was returned in 2012, for which we propose the following appropriation:

a) 10% of the net profit for the year in the sum of €1,845,721.65 to Legal Reserve;
b) Payment of dividends in the sum of €15,000,000.00;
c) The remainder to Retained Earnings.

The proposed appropriation includes payment of the interim dividend in the sum of €5,000,000.00 during 2012, so only the additional €10,000,000.00 will be paid following approval of this present proposal.

2.6. Goals for 2013

The coming year is again one of uncertainty as far as the performance of the capital markets is concerned. Despite the positive signs of the adjustment programmes of the Eurozone countries under Troika intervention, the economic crisis seems far from over.

In 2013, for the 3rd consecutive year, the Government will continue to implement restrictive fiscal measures aimed at controlling the deficit. According to the forecasts of various bodies, the GDP is set to decline by 2%. Public consumption is expected to drop 2% to 3% and Gross Fixed Capital Formation between 8% and 9%. The unemployment rate is also set to stand at 17% to 18%, contributing to an expected 4% reduction of private consumption. Companies will also be affected by financing difficulties and the downturn of business generated by the reduction of public and private consumption.

The economic situation thus embodies very demanding challenges for insurance business. However, Tranquilidade has set a clear course and strategic priorities to be able to continue along its safe commercial path:

1. Continuing to grow organically and selectively

   - Keeping up its investment in the Agents and Brokers network, consolidating the share of wallet of the Professional Partners;

   - Careful management of the portfolio, with a particular focus on retaining custom in Motor Insurance and Workmen's Compensation; additionally, efforts will continue to be directed at attracting more customers, particularly through the Car and Home solution for individuals and the integrated solutions for companies;

   - Taking advantage of synergies with BES.

2. Continuing to rebalance returns

   - Managing the balance of revenue and profitability, improving customer retention and maintaining the productivity of new business, while continuity will be lent to the process of matching prices and cost-of-risk (the launch of the new Workmen's Compensation price list, with price differentiation by geographic area and levels of capital insured is an example of this policy);

   - Working on operational efficiency, looking for ongoing rationalisation of the operating-costs base;

   - Improving the return on investments;

   - Maintaining benchmark solvency levels.

3. Continuing to improve service quality and sensitivity and proximity to Customers and Partners

   - Keeping up the ongoing Customer- and Partner-satisfaction evaluation programmes already in place;

   - Ensuring full use of all the tools available to optimise the Partner and Customer service;

   - Ongoing innovation in products and services, especially adjusting to the (new) economic context;

   - Onpoing review of all communication with Customers.

4. Enhancing international expansion in Spain, Angola and Mozambique, where the Company can take advantage of its skills, know-how and comparative advantages.

In short, against this globally adverse economic background and in a competitive environment that continues to degrade prices, Tranquilidade, ever based on principles of rigour and solidity, will consistently continue to follow its clear vision and strategy in its domestic operation.

International operations will continue to go ahead in the field during 2013, in a reasoning of monitoring the operations of our Customers in foreign markets of high growth potential, such as Spain, Angola and Mozambique.

2.7. Closing Remarks

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

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

Lisbon, February 5, 2013

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)

Bernardo Leite Faria Espírito Santo
(Director)

TRANQUILIDADE

03. Financial Statements

Brand of Excellence

Tranquilidade was elected “Superbrand”, a distinction that confirms it as a brand of excellence in the national context and recognise the success of the strategy adopted by the Company.

03. Financial Statements

Balance Sheet (Assets) as at December 31, 2012 and 2011

(thousand euros)

ASSETS	Notes to the Accounts	December 31, 2012			December 31, 2011
		Gross Value	Impairment, Depreciation/ Amortisation or Adjustments	Net Value	
Cash & cash equivalents and sight deposits	8	26,158	-	26,158	25,726
Investments in affiliates, associates and joint ventures	7	246,096	-	246,096	380,890
Financial assets held for trading		2	-	2	-
Financial assets classified in the initial recognition at fair value through profit or loss	6	4,100	-	4,100	4,617
Hedge derivatives		-	-	-	-
Available-for-sale assets	6	289,788	1,696	288,092	260,901
Loans and Receivables		**254,249**	**-**	**254,249**	**270,633**
Deposits at cedent companies	6	1	-	1	1
Other deposits	6	211,368	-	211,368	216,020
Loans granted	6	25,386	-	25,386	33,501
Receivables		-	-	-	-
Other	6	17,494	-	17,494	21,111
Investments held to maturity	6	86,045	-	86,045	107,589
Land & Buildings		**74,616**	**4,032**	**70,584**	**71,227**
Land & buildings held for own use	9	28,500	4,032	24,468	24,726
Land & buildings held for income	9	46,116	-	46,116	46,501
Other tangible assets	10	46,857	39,612	7,245	6,306
Inventories	10	221	-	221	212
Goodwill	12	25,785	-	25,785	25,785
Other intangible assets	12	61,475	46,796	14,679	13,232
Technical Provisions for Reinsurance Ceded		**57,279**	**-**	**57,279**	**52,030**
Provisions for unearned premiums	4	16,942	-	16,942	16,259
Provisions for claims	4	40,337	-	40,337	35,771
Provision for profit-sharing		-	-	-	-
Provision for rate commitments		-	-	-	-
Portfolio stabilisation provision		-	-	-	-
Other technical provisions		-	-	-	-
Assets for post-employment benefits & other long-term benefits	23	3,650	-	3,650	2,001
Other Debtors for Insurance & Other Operations		**105,543**	**6,871**	**98,672**	**90,237**
Receivables for direct insurance operations	13	66,772	5,769	61,003	56,552
Accounts receivable for other reinsurance operations	13	10,467	262	10,205	8,746
Accounts receivable for other operations	13	28,304	840	27,464	24,939
Tax Assets		**313**	**-**	**313**	**403**
Current tax assets	24	313	-	313	403
Deferred tax assets		-	-	-	-
Accruals & deferrals	13	1,439	-	1,439	2,281
Other items of assets		-	-	-	-
Available-for-sale non-current assets and discontinued operating units		-	-	-	-
Total Assets		**1,283,616**	**99,007**	**1,184,609**	**1,314,070**

THE ACCOUNTANT
Paulo Jorge Pinheiro Santos

THE ACCOUNTS MANAGER
Pedro Manuel Borges Medalhas da Silva

THE FINANCIAL AND ADMINISTRATIVE MANAGER
Alexandre Miguel Varela Simões Lopes

THE BOARD OF DIRECTORS
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Balance Sheet (Liabilities and Equity) as at December 31, 2012 and 2011

(thousand euros)

LIABILITIES & EQUITY	Notes to the Accounts	December 31, 2012	December 31, 2011
Liabilities			
Technical Provisions		**578,983**	**590,688**
Provisions for unearned premiums	4	83,195	85,917
Provisions for Claims	**4**	**470,777**	**477,829**
For life insurance		-	-
For works' accidents	4	188,290	177,221
For other businesses	4	282,487	300,608
Provision for profit-sharing	4	1,045	1,045
Provision for rate commitments		-	-
Portfolio stabilisation provision		-	-
Provision for claims-rate deviations	4	6,399	5,815
Provision for unexpired risks	4	17,567	20,082
Other technical provisions		-	-
Other Financial Liabilities		**153,845**	**168,097**
Hedge derivatives		-	-
Subordinated debt		-	-
Deposits received from reinsurers	5	357	158
Other	5 e 6	153,488	167,939
Liabilities for post-employment benefits and other long-term benefits		-	-
Other Creditors for Insurance & Other Operations		**48,564**	**91,040**
Accounts payable for direct insurance operations	13	23,178	22,688
Accounts payable for other reinsurance operations	13	16,796	14,712
Accounts payable for other operations	13	8,590	53,640
Tax Liabilities		**53,105**	**60,824**
Current tax liabilities	24	27,065	24,219
Deferred tax liabilities	24	26,040	36,605
Accruals & deferrals	13	19,579	20,164
Other provisions	13	3,416	2,954
Other liabilities		-	-
Liabilities of a group for sale classified as available-for-sale		-	-
Total Liabilities		**857,492**	**933,767**
Equity		**-**	**-**
Equity capital	25	160,000	160,000
(Treasury shares)		-	-
Other capital instruments		-	-
Revaluation Reserves		**122,515**	**171,428**
For adjustment of the fair value of financial assets	26	122,515	171,428
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	-33,149	-48,525
Other reserves	26	35,266	29,984
Retained earnings	35	24,028	33,538
Net profit/(loss) for the period		18,457	33,878
Total Equity		**327,117**	**380,303**
Total Liabilities & Equity		**1,184,609**	**1,314,070**

THE ACCOUNTANT
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António Manuel Rodrigues Marques
Bernardo Leite Faria Espírito Santo

Profit and Loss as at December 31, 2012 and 2011

(thousand euros)

PROFIT & LOSS ACCOUNT	Notes to the Accounts	December 31, 2012 Technical Non-Life	Non--Technical	Total	December 31, 2011
Premiums Earned Net of Reinsurance		**293,234**	**-**	**293,234**	**296,340**
Gross premiums written	14	341,589	-	341,589	347,212
Ceded reinsurance premiums	14	-52,247	-	-52,247	-49,918
Provisions for unearned premiums (change)	4 & 14	3,209	-	3,209	-1,660
Provisions for unearned premiums, reinsurers' part (change)	4 & 14	683	-	683	706
Costs of Claims, Net of Reinsurance	**4**	**203,908**	**-**	**203,908**	**215,994**
Amounts paid		216,644	-	216,644	237,251
Gross amounts		231,538	-	231,538	253,452
Reinsurers' part		-14,894	-	-14,894	-16,201
Provision for claims (change)		-12,736	-	-12,736	-21,257
Gross amount		-8,170	-	-8,170	-23,100
Reinsurers' part		-4,566	-	-4,566	1,843
Other technical provisions, net of reinsurance	4	-1,931	-	-1,931	-7,639
Share of profits/(losses), net of reinsurance	4		-	-	-
Net Operating Costs & Expenses	**21**	**92,962**	**-**	**92,962**	**93,398**
Acquisition costs		70,967	-	70,967	70,621
Deferred acquisition costs (change)	4	487	-	487	42
Administrative costs		29,970	-	29,970	30,075
Reinsurance commissions and profit sharing		-8,462	-	-8,462	-7,340
Income	**16**	**27,062**	**24**	**27,086**	**29,992**
On interest on financial assets not carried at fair value through profit & loss		14,910	24	14,934	16,244
On interest on financial liabilities not carried at fair value through profit or loss		-	-	-	-
Other		12,152	-	12,152	13,748
Financial Costs	**16**	**2,642**	**-**	**2,642**	**3,221**
On interest on financial assets not carried at fair value through profit or loss				-	-
On interest on financial liabilities not carried at fair value through profit or loss				-	-
Other		2,642	-	2,642	3,221
Net Gains on Financial Assets & Liabilities Not Carried at Fair Value Through Profit or Loss	**17 & 18**	**15,206**	**-8 379**	**6,827**	**3,062**
On available-for-sale assets		1,781	-	1,781	5,163
On loans & receivables		-	-	-	-
On investments held to maturity		-	-	-	55
On financial liabilities carried at amortised cost		-	-8,379	-8,379	-2,156
Other		13,425	-	13,425	-
Net Gains on Financial Assets & Liabilities Carried at Fair Value Through Profit or Loss	**17 & 18**	**2,329**	**-**	**2,329**	**16,357**
Net gains of financial assets & liabilities held for trading		1,140	-	1,140	-3,399
Net gains on financial assets & liabilities classified in the initial recognition at fair value through profit or loss		1,189	-	1 189	19,756
Currency translation differences	19	63	-3	60	14
Net gains on the sale of non-financial assets not classified as available-for-sale non-current assets and discontinued operating units	17 & 18	-645	-	-645	126
Impairment Losses (Net of Reversal)		**-9**	**-101**	**-110**	**-5,804**
On available-for-sale assets	6	-9	-3	-12	-6,236
On loans and receivables carried at amortised cost		-	-	-	-
On investments held to maturity		-	-	-	-
Other	7 & 13	-	-98	-98	432
Other technical income/costs, net of reinsurance	20	-1,289	-	-1,289	-1,253
Other provisions (change)	20	-	26	26	337
Other income/expenses	20	-	-3,687	-3,687	-5,479
Negative goodwill recognised immediately in profit or 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 Before Tax		**38,370**	**-12,120**	**26,250**	**28,718**
Corporation tax for the period - Current tax	24	-	-2,983	-2,983	-827
Corporation tax for the period - Deferred tax	24	-	-4,810	-4,810	5,987
Net Income For The Period		**38,370**	**-19,913**	**18,457**	**33,878**
Earnings per share (in euros)	27			0.58	1.06

THE ACCOUNTANT
Paulo Jorge Pinheiro Santos

THE ACCOUNTS MANAGER
Pedro Manuel Borges Medalhas da Silva

THE FINANCIAL AND ADMINISTRATIVE MANAGER
Alexandre Miguel Varela Simões Lopes

THE BOARD OF DIRECTORS
Rui Manuel Leão Martinho
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
Bernardo Leite Faria Espírito Santo

04. Statement of Comprehensive Income

Best Call Center of the Insurance Industry

Tranquilidade was distinguished by the Portuguese Contact Centers Association (APCC) for the quality of its Contact Center - Customer Line. The Company came first in the ranking of the APCC Best Awards 2012, the industry's biggest prizes, recognised for its service of excellence.

04. Statement of Comprehensive Income

Statement of Comprehensive Income as at December 31, 2012 and 2011

(thousand euros)

	2012	2011
Net profit/ (loss) for the period	18,457	33,878
Change in fair value of available-for-sale assets, affiliates, associates & joint ventures	-48,913	62,798
Change in current & deferred taxes	15,376	-17,570
Actuarial differences recognised in reserves	1,894	2,665
Total Comprehensive Income	**-13,186**	**81,771**

05. Statement of Changes in Equity

Best Major Non-Life Insurer

BANCA & SEGUROS Exame 2012

Tranquilidade was distinguished the "Best Major Non-Life-Insurer" by Exame magazine. This is now the fourth time the Company has been distinguished since the initiative was created in 2000.

05. Statement of Changes in Equity

Statement of Changes in Equity as at December 31, 2012 and 2011

(thousand euros)

		Revaluation Reserves			Other Reserves				
	Equity Capital	For Adjustments to the Fair Value of Investments in Affiliates, Associates and Joint Ventures	For Adjustments to the Fair Value of Available-For-Sale Financial Assets	**Deferred Tax Reserve**	Legal Reserve	Other Reserves	**Retained Earnings**	**Net Income for the Period**	**Total**
Balance as at January 1, 2011	**160,000**	**115,927**	**-7,297**	**-30,955**	**41,047**	**-14,891**	**27,466**	**12,235**	**303,532**
Net gains for adjustment to the fair value of affiliates, associates and joint ventures		77,070							77,070
Net gains for adjustment to fair value of available-for sale financial assets			-14,272						-14,272
Adjustments for recognition of deferred taxes				-17,570					-17,570
Actuarial differences recognised in reserves						2,665			2,665
Increases of reserves for appropriation of profits					1,163		-1,163		-
Transfers between equity headings not included in other lines							12,235	-12,235	-
Total Changes in Equity	**-**	**77,070**	**-14,272**	**-17,570**	**1,163**	**2,665**	**11 072**	**-12,235**	**47,893**
Net profit/ (loss) for the period								33,878	33,878
Interim dividend							-5,000		-5,000
Balance as at December 31, 2011	**160,000**	**192,997**	**-21,569**	**-48,525**	**42,210**	**-12,226**	**33,538**	**33,878**	**380,303**
Net gains for adjustment to the fair value of affiliates, associates and joint ventures		4,717							4,717
Net gains for adjustment to fair value of available-for sale financial assets			-53,630						-53,630
Adjustments for recognition of deferred taxes				15,376					15,376
Actuarial differences recognised in reserves						1,894			1,894
Increases of reserves for appropriation of profits					3,388		-3,388		-
Distribution of reserves/ retained earnings							-25,000		-25,000
Appropriation of profits/ losses							-10,000		-10,000
Transfers between equity headings not included in other lines							33,878	-33,878	-
Total Changes in Equity	**-**	**4,717**	**-53,630**	**15,376**	**3,388**	**1,894**	**-4,510**	**-33,878**	**-66,643**
Net income for the period								18,457	18,457
Interim dividend							-5,000		-5,000
Balance as at December 31, 2012	**160,000**	**197,714**	**-75,199**	**-33,149**	**45,598**	**-10,332**	**24,028**	**18,457**	**327,117**

06. Statement of Cash Flows

Insurer having the Best Reputation

REPUTATION INSTITUTE

Tranquilidade is ranked by the Reputation Institute as one of the 30 companies with the best reputation in Portugal, and it ranks first in the domestic insurance industry and second in the Iberian area.

06. Statement of Cash Flows

Statement of Cash Flows as at December 31, 2012 and 2011

(thousand euros)

	2012	2011
Cash Flow from Operating Activities	**-97,371**	**212,443**
Net income for the period	18,457	33,878
Depreciation & amortisation charges for the year	6,230	6,621
Change in technical provisions for direct insurance	-11,705	-28,929
Change in technical provisions for reinsurance ceded	-5,249	1,137
Variation of other provisions	462	319
Change in debtors for direct insurance, reinsurance and other operations	-8,435	-1,407
Change in other tax assets & liabilities	-7,629	10,632
Change in other assets & liabilities	-47,026	205,561
Change in creditors for direct insurance, reinsurance and other operations	-42,476	-15,369
Cash Flow from Investing Activities	**137,803**	**-189,160**
Variation of investments	119,623	-244,703
Dividends received	10,820	11,130
Interest	15,603	16,352
Acquisitions of tangible & intangible assets	-8,184	-9,133
Disposals of tangible & intangible assets	3	-
Acquisition of real estate	-62	-
Disposal of land & buildings	-	37,194
Cash Flow from Financing Activities	**-40,000**	**-5,000**
Dividend distribution	-15,000	-5,000
Distribution of reserves/ retained earnings	-25,000	-
Net Change in Cash & Cash Equivalents & Sight Deposits	**432**	**18,283**
Cash & cash equivalents at the start of the period	25,726	7,443
Cash & cash equivalents at the end of the period	26,158	25,726

TRANQUILIDADE

07. Notes to the Financial Statements

Brand of Excellence

Tranquilidade was elected “Superbrand”, a distinction that confirms it as a brand of excellence in the national context and recognise the success of the strategy adopted by the Company.

07. Notes to the Financial Statements

Notes to the Financial Statements as at December 31, 2012 and 2011

Note 1 - General Information

Companhia de Seguros Tranquilidade, S.A., (hereinafter 'Tranquilidade' or 'Company') is the result of the transformation into a mainly state--owned public limited company 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 in Portugal is divided operationally into 22 commercial zones, supported by a total of 398 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 own shops, 360 Partners' Shops bearing the Tranquilidade image, of which 183 are Exclusive and 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 operating segments in which the Company offers more relevant products and solutions to its customers are as follows:

(Report segment - Business)

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 breakdown of the main headings of the financial statements as at December 31, 2012 & 2011, segmented by the main business lines, is as follows:

(thousand euros)

2012	Total Non-Life	Workmen's Compensation	Fire & Other Damage	Motor
Profit & Loss Headings				
Gross premiums written	341,589	58,075	64,962	142,029
Ceded reinsurance premiums	-52,247	-1,574	-28,758	-1,611
Gross premiums earned	344,798	58,411	64,492	145,237
Returns on investments	41,364	4,031	7,317	24,286
Gross cost of claims	223,368	54,865	42,462	80,843
Gross operating costs	101,424	15,356	22,071	42,429
Technical result	38,370	-8,709	-5,332	49,147
Balance Sheet Headings				
Assets allocated to representation of technical provisions	643,177	215,086	83,371	280,127
Technical provisions	578,983	193,619	75,050	252,169

(thousand euros)

2011	Total Non-Life	Workmen's Compensation	Fire & Other Damage	Motor
Profit & Loss Headings				
Gross premiums written	347,212	61,344	62,232	147,349
Ceded reinsurance premiums	-49,918	-1,665	-26,122	-1,655
Gross premiums earned	345,552	61,683	61,659	146,100
Returns on investments	21,233	11,354	1,449	7,108
Gross cost of claims	230,352	46,797	34,878	103,674
Gross operating costs	100,738	15,499	21,303	42,690
Technical result	14,567	16,165	-6,973	6,934
Balance Sheet Headings				
Assets allocated to representation of technical provisions	607,603	186,774	61,676	295,413
Technical provisions	590,688	181,574	59,958	287,190

Additionally, the Company has operations in Portugal and Spain, and the breakdown of the main headings of the financial statements at December 31, 2012 & 2011 is as follows:

(thousand euros)

2012	Total	Portugal	Spain
Profit & Loss Headings			
Gross premiums written	341,589	340,908	681
Ceded reinsurance premiums	-52,247	-52,205	-42
Gross premiums earned	344,798	344,107	691
Returns on investments	41,364	41,357	7
Gross cost of claims	223,368	223,161	207
Gross operating costs	101,424	100,983	441
Technical result	38,370	38,350	20
Balance Sheet Headings			
Assets allocated to representation of technical provisions	643,177	642,818	359
Technical provisions	578,983	578,660	323

(thousand euros)

2011	Total	Portugal	Spain
Profit & Loss Headings			
Gross premiums written	347,212	346,498	714
Ceded reinsurance premiums	-49,918	-49,863	-55
Gross premiums earned	345,552	344,831	721
Returns on investments	21,233	21,222	11
Gross cost of claims	230,352	230,161	191
Gross operating costs	100,738	100,331	407
Technical result	14,567	14,474	93
Balance Sheet Headings			
Assets allocated to representation of technical provisions	607,603	607,295	308
Technical provisions	590,688	590,389	299

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

Bases of Presentation

Tranquilidade's financial statements now presented refer to the year ended December 31, 2012, 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 IFRS.

In 2012, Tranquilidade adopted the IFRS and the mandatory-application interpretations for years as from January 1, 2012. 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, the Company has adopted, in the preparation of its financial statements as at December 31, 2012, the accounting standards issued by the IASB and the IFRIC interpretations of mandatory application as from January 1, 2012.

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

The accounting policies described hereunder have been applied consistently for 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 or loss, available--for-sale financial assets and rental properties. 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 February 5. 2013.

Main 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 or 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 or 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;
  - Financial assets that are designated as available-for-sale at the time of their initial recognition;
  - Financial assets that do not fall within the other categories.
- Loans and receivables, which includes sums receivable related with direct insurance operations, reinsurance ceded and transactions related with insurance contracts and other transactions.
- Financial assets held to maturity, which includes non-derivative financial assets with fixed or determinable payments and fixed maturity for which the Company has the intent and ability to hold to maturity and were not assigned to any other category of financial assets. Any reclassification or sale of financial assets recognised in this category that is not undertaken close to maturity requires the Company to reclassify this entire portfolio as available-for-sale financial assets and the Company will, during two years, be unable to classify any financial asset in this category.

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 where classified as financial assets at fair value though profit or loss, in which case these costs are recognised in profit or loss.

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

Financial assets held to maturity are recognised at their fair value on their initial recognition and are subsequently measured at amortised cost. Interest is calculated using the effective interest rate method.

Subsequent measurement

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

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

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

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 a revision of IAS 39 - Classification 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 or 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.

Additionally, transfers of financial assets recognised in the available-for-sale financial assets category to the categories of Loans & advances to customers - Securitised credit and Financial assets held to maturity are permitted in certain specific circumstances.

The Company adopted this possibility for a set of financial assets, as described in Note 6.

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 or loss.

A financial asset or group of financial assets is impaired where there is objective evidence of impairment as a result of one or more events occurring after its initial recognition, such as: (i) for securities representing equity capital, ongoing depreciation or significant reduction of their price, and (ii) for debt securities, where this event (or events) impact(s) on the estimated future cash flows of the financial asset or group of assets, which can be estimated reasonably.

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 or 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 or loss for the period.

The fair value of derivative financial 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.

Assets ceded with repurchase agreement

Securities sold under repurchase agreements (repos) at a fixed price or a price that equals the selling price plus the interest inherent in the term of the transactions are not derecognised. The corresponding liability is included in amounts payable to other credit institutions or customers as appropriate. The difference between the selling price and the repurchase price is treated as interest and accrued over the Life of the agreement through the effective interest rate method.

Securities purchased under agreements to resell (reverse repos) for a fixed price or a price that equals the purchase price plus interest inherent in the term of the transaction are not recognised, and the purchase price is recorded as loans to other credit institutions or customers as appropriate. The difference between the purchase price and the resale price is treated as interest and is accrued over the Life of the agreement through the effective interest rate method.

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. These 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 transaction date. Monetary assets and liabilities expressed in foreign currency are translated into euros at the exchange rate ruling on the balance sheet date. The resultant currency translation differences are recognised in profit & loss except where 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	40
Hardware	3 to 6
Furniture & materials	6 to 10
Fixtures & fittings	5 to 10
Machines & tools	4 to 8
Transport equipment	4
Other equipment	3 to 10

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 income statement.

The realisable value is determined as the higher of its fair value less selling costs and 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 do not, in the main, exceed 5 years.

All other charges related with IT services are recognised as costs as and when incurred.

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 income statement.

Leasing

The Company classifies lease transactions as finance leases or operating 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 operating leases.

In operating leases, payments made by the Company in the light of operating 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 recorded 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 ceded-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 CBA 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.

On December 23, 2011, a new Insurance Collective Bargaining Agreement was approved, altering a previously-defined set of benefits.

Of the changes resulting from the new Collective Bargaining Agreement, the following are noteworthy: (i) with respect to post-employment benefits, workers in service taken on by June 22, 1995, are no longer covered by a defined-benefit plan and come to be covered by a defined--contribution plan, (ii) compensation of 55% of base monthly salary payable in 2012 and (iii) length-of-service bonus equal to 50% of the salary when the employee completes one or more multiples of 5 years with the Company.

With regard to the amendment of the plan and taking into account that the value of the fully-funded liabilities for past services in respect of old-age pensions payable to current employees was converted into individual accounts of these employees, forming part of their individual retirement plan, according to IAS 19, the Company settled the liability.

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 market 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.

The costs of early retirement are recognised in profit & loss at the time that the early retirement is approved and announced.

Actuarial gains and losses are recognised with a contra-entry under reserves.

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.

On each reporting date 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.

Defined-contribution plan

For defined contribution plans, the liabilities relating to the benefit attributable to the Company's employees are recognised as cost for the year when they fall due.

As at December 31, 2012, the Company has a contributory defined-contribution plan for employees in service taken on by June 22, 1995, as well as for all workers who meet the conditions set out in the new Collective Bargaining Agreement, making annual contributions taking into account the individual remuneration of each employee.

Length-of-service bonus

The length-of-service bonus is 50% of the salary when the employee completes one or more multiples of 5 years with the Company. The length-of-service bonus is determined using the same methodology and assumptions as those of post-employment benefits.

Any actuarial deviations are recorded and taken to profit or loss when incurred.

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 profit & loss 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 or loss except where they are directly related with items recognised directly in equity, in which case they are also recorded with a contra-entry under equity.

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

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

Deferred taxes are calculated, in accordance with the 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 rates approved or substantially approved on the balance sheet date in each jurisdiction that are expected to be applied when the temporary differences are reversed.

Deferred tax liabilities are recognised for all temporary differences.

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

Provisions

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

Recognition of interest

Results in respect of interest on available-for-sale financial assets and financial assets at fair value though profit or 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 operating segments

The Company determines and presents 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 its business 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.

There may therefore 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 of 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 unexpired risks, (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 policies 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, 2012, 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, 2012, 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, 2012, or for claims occurred but 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 4.7% and management charges of 1.5%, and the TD 88/90 mortality table for Redeemable Pensions using an interest rate of 5.25% and management charges of 0%.

The standard 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 (2012: 6.99%& and 2011: 14.12%) and management charges of 1.5%.

Provision for unexpired risks

The provision for unexpired risks 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 unexpired risks 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 ratio.

Provision for claims-rate deviations

The provision for claims-rate 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 Peril and Earthquake Phenomena Peril.

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

For the Earthquake Phenomena Peril it is calculated 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 direct insurance and reinsurance accepted unearned premiums reserve (UPR) reflected in liabilities net of deferred acquisition costs (DAC) is as follows:

(thousand euros)

Balance Sheet	2012			2011		
Businesses/ Groups of Businesses	UPR Gross	DAC	UPR Net	UPR Gross	DAC	UPR Net
Accidents & health	12,073	2,325	9,748	12,720	2,428	10,292
Fire & other damage	26,550	5,142	21,408	26,080	5,080	21,000
Motor	54,356	10,871	43,485	57,564	11,323	46,241
Marine, air & transport	1,994	373	1,621	1,791	336	1,455
General third-party liability	3,048	609	2,439	3,212	642	2,570
Credit & fidelity insurance	28	6	22	31	6	25
Legal protection	7	1	6	7	-	7
Assistance	4,600	851	3,749	4,551	868	3,683
Sundry	893	176	717	802	158	644
Total	**103,549**	**20,354**	**83,195**	**106,758**	**20,841**	**85,917**

The variation of the direct insurance and reinsurance accepted provision 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)

Gains & Losses	2012			2011		
Businesses/ Groups of Businesses	UPR Gross	DAC	UPR Net	UPR Gross	DAC	UPR Net
Accidents & health	-647	-103	-544	-676	-158	-518
Fire & other damage	470	62	408	573	2	571
Motor	-3,208	-452	-2,756	1,249	60	1,189
Marine, air & transport	203	37	166	-91	-23	-68
General third-party liability	-164	-33	-131	-200	-40	-160
Credit & fidelity insurance	-3	-	-3	-10	-2	-8
Legal protection	-	1	-1	-1	-1	-
Assistance	49	-17	66	633	84	549
Sundry	91	18	73	183	36	147
Total	**-3,209**	**-487**	**-2,722**	**1,660**	**-42**	**1,702**

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

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change of Gains & Losses	
	2012	2011	2012	2011
Accidents & health	726	810	-84	-74
Fire & other damage	8,268	7784	484	195
Motor	-	-	-	-
Marine, air & transport	1,023	959	64	107
General third-party liability	254	267	-13	-105
Credit & fidelity insurance	6	9	-3	-9
Legal protection	-	-	-	-
Assistance	5,812	5,758	54	447
Sundry	853	672	181	145
Total	**16,942**	**16,259**	**683**	**706**

The breakdown of the provision for direct insurance and reinsurance claims reflected under liabilities and the respective annual change in the profit or loss is as follows:

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change of Gains & Losses	
	2012	2011	2012	2011
Workmen's compensation	188,290	177,221	10,897	861
Personal accidents & health	10,247	14,314	-4,117	-1,956
Fire & other damage	43,122	30,865	12,271	-3,788
Motor	199,517	227,746	-29,096	-17,530
Marine, air & transport	6,601	6,778	-191	293
General third-party liability	21,304	19,339	1,960	-1,496
Credit & fidelity insurance	80	36	20	-525
Legal protection	64	45	19	-98
Assistance	-	-	-	-
Sundry	1,552	1,485	67	1,139
Total	**470,777**	**477,829**	**-8,170**	**-23,100**

The balance of the provision for Workmen's Compensation claims includes the sum of €128,552k (2011: €121,187k) 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 2012 and 2011, was zero, and the update of the contributions to the Workmen's Compensation Fund in the sum of €7,668k (2011: €7,244k).

The balance of the provision for claims includes an estimated provision in the sum of €20,696k (2011: 21,471k) in respect of claims prior to December 31, 2012, not yet reported (IBNR). It also includes an estimate in the sum of €21,620k (2011: €17,203k) 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 31/12/2011 (1)	Claims* Paid in 2012 (2)	Provision for Claims* as at 31/12/2012 (3)	Readjustments (3) + (2) - (1)
Accidents & health	191,535	34,582	158,090	1,137
Fire & other damage	30,865	14,917	15,948	-
Motor				-
- Third-party liability	194,985	35,677	134,089	-25,219
- Other covers	32,761	9,371	8,254	-15,136
Marine, air & transport	6,778	1,839	4,354	-585
General third-party liability	19,339	3,012	16,699	372
Credit & fidelity insurance	36	4	42	10
Legal protection	45	19	43	17
Assistance	-	-	-	-
Sundry	1,485	981	125	-379
Total	**477,829**	**100,402**	**337,644**	**-39,783**

* Claims incurred in 2011 and earlier.

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

In Motor insurance, the readjustments are mainly due to a process of revaluation of provisions for claims, rendering it more adequate in the light of the amounts paid in 2012 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.

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

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change of Gains & Losses	
	2012	2011	2012	2011
Workmen's compensation	2,370	1,182	1,188	884
Personal accidents & health	243	235	8	18
Fire & other damage	18,698	14,082	4,616	407
Motor	8,778	8,180	598	-3,162
Marine, air & transport	2,812	3,183	-371	143
General third-party liability	6,132	7,724	-1,592	-1,029
Credit & fidelity insurance	41	2	39	-5
Legal protection	-	-	-	-
Assistance	-	-	-	-
Sundry	1,263	1,183	80	901
Total	**40,337**	**35,771**	**4,566**	**-1,843**

The balance of the provision for ceded reinsurance claims includes an estimated provision in the amount of €1,298k (2011: €1,108k) in respect of claims prior to December 31, 2012, not yet reported (IBNR).

The breakdown of costs of claims in 2012 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	79,659	2,789	6,773	89,221
Fire & other damage	28,870	1,318	12,226	42,414
Motor				
- Third-party liability	62,015	4,191	-20,651	45,555
- Other covers	35,415	1,979	-8,817	28,577
Marine, air & transport	3,139	114	-191	3,062
General third-party liability	4,090	485	1,960	6,535
Credit & fidelity insurance	11	2	20	33
Legal protection	13	11	19	43
Assistance	-	-	-	-
Sundry	1,087	7	67	1,161
Total	**214,299**	**10,896**	**-8,594**	**216,601**
Reinsurance accepted	6,343	-	424	6,767
Grand Total	**220,642**	**10,896**	**-8,170**	**223,368**

The breakdown of costs of claims in 2011 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	83,238	2,777	-1,095	84,920
Fire & other damage	37,171	1,392	-3,269	35,294
Motor				
- Third-party liability	70,310	4,354	-20,679	53,985
- Other covers	37,494	2,101	1,784	41,379
Marine, air & transport	3,112	105	293	3,510
General third-party liability	3,358	390	-1,474	2,274
Credit & fidelity insurance	97	2	-525	-426
Legal protection	18	15	-98	-65
Assistance	-	-	-	-
Sundry	465	4	1,139	1,608
Total	**235,263**	**11,140**	**-23,924**	**222,479**
Reinsurance accepted	7,049	-	824	7,873
Grand Total	**242,312**	**11,140**	**-23,100**	**230,352**

The breakdown of the provision for profit sharing reflected under liabilities and the respective annual change in profit or loss is as follows:

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change of Gains & Losses	
	2012	2011	2012	2011
Accidents & health	1,045	1,045	-	-
Fire & other damage	-	-	-	-
Motor	-	-	-	-
Marine, air & transport	-	-	-	-
General third-party liability	-	-	-	-
Credit & fidelity insurance	-	-	-	-
Legal protection	-	-	-	-
Assistance	-	-	-	-
Sundry	-	-	-	-
Total	**1,045**	**1,045**	**-**	**-**

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

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change of Gains & Losses	
	2012	2011	2012	2011
Accidents & health	-	-	-	-
Fire & other damage	5,789	5,220	569	519
Motor	-	-	-	-
Marine, air & transport	-	-	-	-
General third-party liability	-	2	-2	-
Credit & fidelity insurance	544	534	10	108
Legal protection	-	-	-	-
Assistance	-	-	-	-
Sundry	66	59	7	6
Total	**6,399**	**5,815**	**584**	**633**

The breakdown of the provision for unexpired risks reflected under liabilities and the respective annual change in profit or loss is as follows:

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change of Gains & Losses	
	2012	2011	2012	2011
Accidents & health	3,355	3,237	118	-5,540
Fire & other damage	4,731	2,873	1,858	2,112
Motor	9,167	13,203	-4,036	-4,348
Marine, air & transport	27	-	27	-6
General third-party liability	-	-	-	-
Credit & fidelity insurance	-	-	-	-39
Legal protection	-	1	-1	-1
Assistance	230	622	-392	-334
Sundry	57	146	-89	-116
Total	**17,567**	**20,082**	**-2,515**	**-8,272**

The amounts of Other technical provisions net of reinsurance expressed in profit or loss correspond to the sum of the change expressed hereabove in the provision for direct insurance claims rate deviations and the provision for unexpired direct insurance risks tables.

Nature and Extent of Specific Insurances Risks

The specific insurance risk is the risk inherent in marketing insurance contracts, in product design and 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, that issue technical opinions and that issue 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 results. 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)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Provision for Claims with management costs, net of reinsurance and net of reimbursements	302,579	305,512	328,733	363,800	375,014	394,397	396,273	390,866	371,996	349,728	334,143
Accumulated payments											
One year later	108,328	106,724	91,174	105,504	100,096	98,779	94,708	95,049	95,612	84,196	
Two years later	162,811	149,681	141,526	157,627	145,308	135,925	128,265	126,542	123,604		
Three years later	194,772	185,956	176,790	191,998	171,505	160,955	150,067	146,151			
Four years later	223,751	213,367	201,716	213,580	192,108	177,757	165,044				
Five years later	245,653	235,135	220,093	230,853	206,571	189,563					
Six years later	263,670	250,333	233,869	244,762	216,254						
Seven years later	275,464	262,243	243,757	253,229							
Seven years later	284,198	269,575	250,265								
Nine years later	289,737	274,911									
Ten years later	293,832										
Final estimate of costs of claims											
One year later	313,397	327,363	338,836	354,407	366,449	366,560	369,571	347,727	341,903	306,449	
Two years later	325,422	334,297	334,918	356,147	348,138	349,376	329,811	322,459	302,186		
Three years later	331,367	332,408	333,196	354,218	338,431	316,055	314,346	289,351			
Four years later	331,221	331,075	339,341	352,070	311,532	311,642	288,448				
Five years later	329,943	343,336	336,647	331,796	313,127	290,264					
Six years later	347,740	340,872	323,690	334,384	295,603						
Seven years later	345,961	335,816	327,291	319,336							
Seven years later	344,154	341,335	313,502								
Nine years later	350,775	328,545									
Ten years later	338,073										
Accumulated surplus/(deficit)	-35,494	-23,033	15,231	44,464	79,411	104,133	107,825	101,515	69,810	43,279	

Tranquilidade has a reinsurance 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 2012 comprised proportional treaties (Quota-share and Excess), and non-proportional treaties (Excess of Loss, Catastrophe Cover and Stop Loss), as per the following table:

Business Line	Type of Reinsurance
Personal accidents (credit protection)	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 & other damage	Excess Losses (XL)
Fire & other damage	Excess Losses (XL)
Fire & other damage	Stop Loss
Fire & other damage (aggregate)	Excess Losses (XL)
General third-party liability	Excess Losses (XL)
Marine (hull)	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	
		2012	2011
Cost of claims	5% increase of the year's costs of claims, net of reinsurance	-17,343	-17 606
Expenses	10% increase of operating costs, net of reinsurance	-13,394	-13 159
Longevity	10% decrease of the mortality of present works accidents pensioners	-1, 677	-1,587

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 actual 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 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 is also closely related with the mismatching-risk 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, with spread risk and the concentration risk.

Market-risk management lies within the scope of the Financial Policy, under the rules of allocation of assets by class and type of issue, and is undertaken through the Financial Committee structure. The investment policies employed 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 draw up tolerance indicators based on the models and to monitor variations of the indicators;
- To draw up 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 policy 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.

For this purpose, it should also be pointed out that Investment Policy in force at the Company defined by the Finance Committee, in conjunction with the limits set by the Overall Risk Management Committee and there is therefore effective segregation of competence in this matter.

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. Business growth in Angola and Mozambique justifies change compared to last year. The sensitivity analysis is as follows:

(thousand euros)

Area of Analysis	Scenarios	Impact on Pre-Tax Profit	
		2012	2011
Currency	10% depreciation of the value of all foreign currencies against the euro	-716	-46

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	
		2012	2011
Equities	10% decrease of stock-market values	-30,765	-43,594

Real-estate risk

The real-estate risk is caused by the volatility of real-estate market prices. The sensitivity analysis is as follows:

(thousand euros)

Area of Analysis	Scenarios	Impact on Pre-Tax Profit	
		2012	2011
Real estate	10% decrease of the values of real estate and investment funds	-12,183	-14,667

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	
		2012	2011
Interest rate	100 b.p.decrease of the interest-rate curve - Effect on Liabilities	7,881	6,507
	100 b.p. increase of the interest-rate curve - Effect on Liabilities	-7,356	-6,202

(thousand euros)

Area of Analysis	Scenarios	Impact on Pre-Tax Profit	
		2012	2011
Interest rate	100 b.p.decrease of the interest-rate curve - Effect on Liabilities	-1,352	-363
	100 b.p. increase of the interest-rate curve - Effect on Liabilities	1,341	350

Spread risk

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

(thousand euros)

Rating	2012		2011	
	%	Value	%	Value
AAA	9%	27,068	12%	34,361
AA	4%	12,432	4%	10,414
A	18%	53,061	16%	43,555
BBB	9%	27,251	28%	77,351
BB	53%	152,639	37%	102,669
B	6%	16,828	2%	5,828
CC	0%	1,112	1%	1,446
Unrated	0%	-	0%	-
Total	**100%**	**290,391**	**100%**	**275,624**

These figures do not include deposits, repos and reverse repos because they are understood to lie outside the scope of analysis for the risk involved.

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	2012			2011		
	%	Gross Value	Impairment	%	Gross Value	Impairment
Basic resources	1%	5,839	-25	0%	815	-25
Communications	2%	11,161	-470	1%	8,802	-461
Consumables (cyclic)	1%	4,841	-	1%	5,941	-163
Consumables (non-cyclic)	3%	15,299	-163	1%	7,764	-
Energy	0%	-	-	0%	-	-
Financial	62%	369,365	-1,037	70%	505,911	-1,201
Funds	5%	27,751	-1	2%	14,539	-1,764
Public debt	15%	90,581	-	14%	103,213	-4,542
Industrial	1%	8,657	-	1%	5,760	-
Medicine	8%	50,223	-	7%	49,842	-
Technology	0%	2,969	-	0%	-	-
Public/ collective services	1%	7,283	-	2%	14,776	-
Other	1%	4,371	-	0%	2,356	-
Total	**100%**	**598,340**	**-1,696**	**100%**	**719,719**	**-8,156**

The figures include the headings of Investments in affiliates, associates and business combinations, Financial assets held for trading, Investments held to maturity, Financial assets classified on initial recognition at fair value through profit or loss and Available-for-sale financial assets, and loan capital and 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, in this analysis, too, of investments in Land & buildings.

These figures do not include deposits, repos and reverse repos because they are understood to lie outside the scope of analysis for the risk involved.

Liquidity risk

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

It should be noted that for purposes of mitigating this risk, the Company draws up a cash plan for cash on a monthly basis, adjusted weekly for its cash needs/ surpluses.

The breakdown of the maturities of financial assets and liabilities as at December 31, 2012 & 2011, is as follows:

(thousand euros)

2012	< 1 Month	1-3 Months	3-12 Months	1-5 Years	> 5 Years	Without Maturity	Total
Financial assets	20,444	145,143	183,620	250,841	63,011	340,355	1,003,414
Financial liabilities	1,396	33,421	164,208	3,384	-	-	202,409
Net	**19,048**	**111,722**	**19,412**	**247,457**	**63,011**	**340,355**	**801,005**

(thousand euros)

2011	< 1 Month	1-3 Months	3-12 Months	1-5 Years	> 5 Years	Without Maturity	Total
Financial assets	14,814	346,448	170,659	207,633	72,665	328,374	1,140,593
Financial liabilities	859	195,132	59,827	3,319	-	-	259,137
Net	**13,955**	**151,316**	**110,832**	**204,314**	**72,665**	**328,374**	**881,456**

Credit risk

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

One of the control procedures involves systematic monitoring of the amounts and age of overdue premiums.

In the selection of reinsurers and securities issuers their ratings are taken into account and their evolution is periodically monitored throughout the year.

Operational risk and reputational risk

Operational risk is the risk of major 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 professional malpractice (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 systems failures;
- 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 external fraud 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;
- Training of employees who interact directly with 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 consists of 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. These 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, consisting of 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, consisting of 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 managers were appointed. 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.

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)

	2012	2011
Elements Constituting the Guarantee Fund	**278,018**	**357,610**
Solvency Margin to be Sest Aside	**52,889**	**53,283**
Result from the premiums standpoint	52,889	53,283
Result from the claims standpoint	49,359	48,056
Limit result of article 97.8	51,883	49,399
Legal minimum guarantee funds	3,700	3,500
Excess/ Insufficiency of the Solvency Margin	**225,129**	**304,327**
Solvency Margin Cover Rate	**526%**	**671%**

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 Company stemming from claims associated with the insurance in question.

Business Ratios

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

(%)

	2012	2011
Claims ratio [a)]	64.6%	64.8%
Acquisition ratio [b)]	20.9%	20.4%
Administrative ratio [c)]	8.8%	8.7%
Combined Ratio	**94.3%**	**93.9%**

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)

	2012	2011
Receivables	2,867	2,820
Adjustment of doubtful debt	-1,548	-1,380
Net Total	**1,319**	**1,440**

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)

	2012	2011
Inventories	219	210

Note 5 – Other Financial Liabilities

The breakdown of this heading is as follows:

(thousand euros)

	2012	2011
Other financial liabilities		
Deposits received from reinsurers	357	158
Derivatives	-	2
Repurchase agreements - amounts payable	149,055	167,078
Financial holdings subscribed pensing settlement	3,037	-
Other	1,396	859
Book Value	**153,845**	**168,097**

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 figures for Other carried in 2012 & 2011 have 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)

	2012	2011
Available-for-sale financial assets	288,092	260,901
Investments in affiliates & associates	246,096	380,890
Term deposits	211,368	216,020
Financial assets classified at fair value through profit or loss	4,100	4,617
Financial assets held for trading	2	-
Held-to-maturity investments	86,045	107,589
Total Holdings and Financial Instruments	**835,703**	**970,017**

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 or 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 that (i) these financial assets are managed and their performance measured on the basis of their fair value, and/or that (ii) these assets contain embedded derivative instruments.

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

(thousand euros)

	2012	2011
Bonds & other fixed-income securities		
Public issuers'	-	-
Other issuers'	4,100	4,617
Equities	-	-
Other floating-rate securities	-	-
Book Value	**4,100**	**4,617**
Acquisition value	4,841	7,437

As at December 31, 2012 & 2011, the Company held, of this type, compound financial instruments with embedded derivatives, in fixed--income securities, as follows:

(thousand euros)

Type of Risk	2012	2011
Structured credit	4,100	4,617
Credit derivative	-	-
Total	**4,100**	**4,617**

Available-for-Sale Financial Assets

The breakdown of this type of asset is as follows:

(thousand euros)

	2012	2011
Bonds & other fixed-income securities		
Public issuers'	41,612	34,021
Other issuers'	158,634	129,397
Equities	10,219	10,587
Other floating-rate securities	77,627	86,896
Book Value	**288,092**	**260,901**

Included in 2012 are investments sold with repurchase agreements, revalued in accordance with the available-for-sale assets accounting policy, in the sum of €104,148k (2011: €108,152k).

The breakdown of the final balance sheet figures as at December 31, 2012 & 2011, is as follows:

(thousand euros)

	Amortised or Acquisition Cost	Fair-Value Reserve	Impairment	Book Value
Bonds & other fixed-income securities				
Public issuers'	38,717	-153	-4,543	34,021
Other issuers'	150,209	-19,778	-1,034	129,397
Equities	4,976	6,426	-815	10,587
Other floating-rate securities	90,269	-1,609	-1,764	86,896
Balance as at December 31, 2011	**284,171**	**-15,114**	**-8,156**	**260,901**
Bonds & other fixed-income securities				
Public issuers'	41,982	291	-661	41,612
Other issuers'	165,005	-5,998	-373	158,634
Equities	4,696	6,184	-661	10,219
Other floating-rate securities	78,365	-737	-1	77,627
Balance as at December 31, 2012	**290,048**	**-260**	**-1,696**	**288,092**

Movements under impairment losses are as follows:

(thousand euros)

	2012	2011
Balance as at January 1	**8,156**	**5,724**
Allocations for the year	12	6,236
Cancellations for the year for sale of assets	-6,472	-3,804
Written back during the year	-	-
Balance as at December 31	**1,696**	**8,156**

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

(thousand euros)

	2012	2011
Bonds & other fixed-income securities	-	-5,044
Equities & other floating-rate securities	-12	-1,192
Total	**-12**	**-6,236**

Financial Assets Held for Trading

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

(thousand euros)

	2012		2011	
	Fair Value	Notional Value	Fair Value	Notional Value
Derivatives				
Forward contracts	2	379	-2	406
Options	-	-	-	-
Total	**2**	**379**	**-2**	**406**

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 several currency hedge contracts for its investments in foreign currency.

Though they do not provide perfect cover, these currency 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. When, as in 2011, the contracts have a negative fair value, they are carried under liabilities under Other financial liabilities - Other.

Held-to-Maturity Investments

The breakdown of this type of asset is as follows:

(thousand euros)

	2012	2011
Bonds & other fixed-income securities		
Public issuers'	48,969	66,155
Other issuers'	37,076	41,434
Book Value	**86,045**	**107,589**
Book value (without accrued interest)	84,070	105,442
Acquisition value	83,134	104,095
Market value	86,710	85,133

Included in 2012 are investments sold with repurchase agreements, revalued in accordance with the Held-to-maturity investments accounting policy, in the sum of €60,950k (2011: €86,158k).

The breakdown of the final balance sheet figures as at December 31, 2012 & 2011, is as follows:

(thousand euros)

	Amortised or Acquisition Cost	Impairment	Book Value
Bonds & other fixed-income securities			
Public issuers'	66,155	-	66,155
Other issuers'	41,434	-	41,434
Balance as at December 31, 2011	**107,589**	**-**	**107,589**
Bonds & other fixed-income securities			
Public issuers'	48,969	-	48,969
Other issuers'	37,076	-	37,076
Balance as at December 31, 2012	**86,045**	**-**	**86,045**

During 2011 the Company transferred securities in the sum of €91,007k to Held-to-maturity investments, as shown in the following table:

(thousand euros)

	On Transfer Date									
			Fair-Value Reserve							
	Acquisition Value	Book Value	Positive	Negative	Value of Future Cash Flows (a)	Effective Rate (b)	Market Value (year-end)		Accumulated Amortised Fair Value Reserve (year-end)	
							2011	2012	2011	2012
Of Available-for-sale financial assets	97,674	91,007	14	-8,329	119,259	7.3%	73,207	79,525	-1,860	-3,730

(a) Total amounts of principal and interest, not discounted; future interest rates calculated on the basis of the forward rate stemming from the yield curve as of the transfer date.
(b) The effective rate was calculated based on the forward rates stemming from the yield curve as of the transfer date; the maturity considered is the minimum between the call date, where applicable, and the asset's maturity date.

Should the securities not have been reclassified, the impact on Tranquilidade's financial statements would have been as follows:

(thousand euros)

	2012	2011
Available-for-Sale Financial Assets		
Impact on equity		
- For adjustments to the fair value of financial assets	2,165	-20,292
- Reserve for deferred taxes	-626	5,872
	1,539	**-14,420**

Other Financial Assets

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

(thousand euros)

	2012	2011
Loans granted	25,386	33,501
Deposits with cedent companies	1	1
Resale agreements - receivables	16,597	21,111
Other	897	-
Total of Other Financial Assets	**42,881**	**54,613**

As at December 31, 2012, the figures for Others are in respect of 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)

	2012	2011
Ancillary capital contributions - T-Vida	-	12,500
Ancillary capital contributions - LOGO	19,500	17,500
Ancillary capital contributions - Europ Assistance	1,410	1,410
Loan capital - Contact centre	277	277
Loan capital - Esumédica	1,000	-
Loan capital - Imocrescente	1,400	-
Loans to employees	1,799	1,814
Total Loans Granted	**25,386**	**33,501**

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)

	2012		2011	
	Fair Value	Book Value	Fair Value	Book Value
Cash & cash equivalents and sight deposits	26,158	26,158	25,726	25,726
Loans and receivables	254,249	254,249	270,633	270,633
Held-to-maturity investments	88,685	86,045	87,280	107,589
Other debtors for insurance & other operations	98,672	98,672	90,237	90,237
Financial Assets at Amortised Cost	**467,764**	**465,124**	**473,876**	**494,185**
Other financial liabilities	153,845	153,845	168,095	168,095
Other creditors for insurance & other operations	48,564	48,564	91,040	91,040
Financial Liabilities at Amortised Cost	**202,409**	**202,409**	**259,135**	**259,135**

Since these are short-term assets and liabilities, their balance on the reporting date is considered a reasonable estimate of their fair value.

Valuation Methods

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

(thousand euros)

	2012			
	Level 1	Level 2	Level 3	Total
Securities & equity paper	77,627	-	-	77,627
Equities & other floating-rate securities	89	-	256,226	256,315
Bonds & other fixed-income securities	265,102	16,236	9,053	290,391
Derivatives	-	2	-	2
Total	**342,818**	**16,238**	**265,279**	**624,335**

(thousand euros)

	2011			
	Level 1	Level 2	Level 3	**Total**
Securities & equity paper	86,896	-	-	86,896
Equities & other floating-rate securities	273	-	391,204	391,477
Bonds & other fixed-income securities	215,252	54,660	5,712	275,624
Derivatives	-	-	-	-
Total	**302,421**	**54,660**	**396,916**	**753,997**

As at December 31, 2012 & 2011, the figures of Shares & other floating-rate securities include Investments in affiliates, associates and joint ventures.

The description of the levels is as follows:

Level 1 - Financial instruments measured using market or providers' prices;

Level 2 - Financial instruments measured using valuation techniques that mainly consider observable market data;

Level 3 - Financial instruments measured using valuation techniques essentially considering unobservable market data having a significant impact on the measurement of the instrument.

Exposure to Sovereign Debt

As at December 31, 2012 & 2011, the Company's exposure to the sovereign debt of countries of the European Union subject to bail-out is as follows:

(thousand euros)

Issuer/ Portfolio	December 31, 2012					
	Book Value	Fair Value	Fair-Value Reserve	Average Interest Rate (%)	Average Maturity Years	Valuation Level
Portugal						
Available-for-sale financial assets	21,208	21,208	223	2.5%	2	1
Held-to-maturity investments	41,522	42,567	-	4.1%	4	-
	62,730	**63,775**	**223**			
Greece						
Available-for-sale financial assets	-	-	-	-	-	-
Held-to-maturity investments	-	-	-	-	-	-
	-	-	-			
Ireland						
Available-for-sale financial assets				-	-	-
Held-to-maturity investments	1,872	2,165	-	4.6%	3	-
	1,872	**2,165**	**-**			
Total	**64,602**	**65,940**	**223**			

(thousand euros)

Issuer/ Portfolio	December 31, 2011					
	Book Value	Fair Value	Fair-Value Reserve	Average Interest Rate (%)	Average Maturity Years	Valuation Level
Portugal						
Available-for-sale financial assets	3,989	3,989	-156	5.0%	1	1
Held-to-maturity investments	58,765	45,894	-	2.9%	4	-
	62,754	**49,883**	**-156**			
Greece						
Available-for-sale financial assets	1,446	1,446	-	6.0%	7	1
Held-to-maturity investments	-	-	-	0%	-	-
	1,446	**1,446**	**-**			
Ireland						
Available-for-sale financial assets	-	-	-	0%	-	-
Held-to-maturity investments	1,823	1,850		4.6%	4	-
	1,823	**1,850**	**-**			
Total	**66,023**	**53,179**	**-156**			

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	Holding (%) Voting Right	Holding (%) Effective	Financial Data 2012 Assets	Financial Data 2012 Liabilities	Financial Data 2012 Equity	Financial Data 2012 Net Result
T-Vida, Companhia de Seguros, S.A. Av. da Liberdade, 230 1250-149 Lisboa (Portugal)	Subsidiary	Fair Value	100.00	100.00	100.00	865,913	800,739	65,174	4,530
Seguros LOGO, S.A. R. D. Manuel II, 290 4050-344 Porto (Portugal)	Subsidiary	Fair Value	100.00	100.00	100.00	29,439	23,650	5,789	-2,999
Esumédica–Prestação de Serviços Médicos, S.A. Av. da Liberdade, 242 1250-149 Lisboa (Portugal)	Subsidiary	Fair Value	100.00	100.00	100.00	1,211	2,839	-1,628	-53
Tranquilidade Moçambique Companhia de Seguros, S.A. Rua da Sé, nº 114, 1º andar, Porta 111 Distrito Urbano 1	Subsidiary	Fair Value	99.996	100.00	100.00	1,468	337	1,131	-246
Tranquilidade Moçambique Companhia de Seguros Vida, S.A. Rua da Sé, nº 114, 1º andar, Porta 111 Distrito Urbano 1	Subsidiary	Fair Value	99.997	55.42	55.42	1,622	159	1,463	-381
Espírito Santo Contact Center, S.A. Av. Infante D. Henrique, 343 - C 1800-218 Lisboa (Portugal)	Subsidiary	Fair Value	55.42	51.00	51.00	6,544	4,927	1,617	241
Advancecare – Gestão e Serviços de Saúde, S.A. Av. da Liberdade, 49 a 57, 1º 1250-139 Lisboa (Portugal)	Subsidiary	Fair Value	51.00	49.00	49.00	10,338	2,751	7,588	2,312
Tranquilidade - Corporação Angolana de Seguros, S.A. Edificio ESCOM, Rua Marechal Brós Tito, nº 35 15ºD LUANDA	Associate Company	Fair Value	49.00	47.00	47.00	8,197	6,726	1,471	-4,398
Europ Assistance, S.A. Av. Álvares Cabral, 41 - 3º e 4º 1250-015 Lisboa (Portugal)	Associate Company	Fair Value	47.00	25.00	25.00	50,053	35,048	15,005	2,797
BES, Companhia de Seguros, S.A. Av. Columbano Bordalo Pinheiro, 75, 8º 1070-061 Lisboa (Portugal)	Associate Company	Fair Value	25.00	25,00	25,00	120,243	90,066	30,177	6,831

For the purpose of consolidated accounts, the 55.42% holding in Espírito Santo Contact Center, S.A., is increased to 56.30%, taking into account the indirect holding via BES, Companhia de Seguros, S.A..

During 2012, in terms of changes to the structure of holdings, the following are highlighted:

- The start to operations in Africa of the insurers having holdings of almost 100% in Tranquilidade Moçambique - Companhia de Seguros, S.A., and Tranquilidade Moçambique - Companhia de Seguros Vida, S.A., and of 49% in Tranquilidade - Corporação Angolana de Seguros, S.A.;
- Sale of 50% stake in Pastor Vida, S.A. de Seguros y Reaseguros, have originated an effect gross of tax on the 2012 results amounting to €6,525k.

Investments as at December 31, 2012, are segregated as follows by company and composition of the book value:

(thousand euros)

	Acquisition Value	Fair-Value Reserve	Impairment	Book Value
Advancecare	486	38,514	-	39,000
BES Seguros	3,759	14,841	-	18,600
ES Contact Center	1,846	2,154	-	4,000
Esumédica	445	655	-	1,100
Europ Assistance	4,222	20,278	-	24,500
LOGO	20,000	-	-	20,000
Tranquilidade Corp. Angolana Seguros	7,318	-508	-	6,810
Tranquilidade Moçambique Seguros	1,361	-85	-	1,276
Tranquilidade Moçambique Seguros Vida	1,810	-100	-	1,710
T-Vida	77,489	51,611	-	129,100
Total	**118,736**	**127,360**	**-**	**246,096**

Changes to the value of the holdings during 2012 were as follows:

(thousand euros)

	Opening Book Value	Acquisitions, Equity Capital Increases & Disposals	Impairment	Fair-Value Reserve	Closing Book Value
Advancecare	39,400	-	-	-400	39,000
BES Seguros	21,800	-	-	-3,200	18,600
ES Contact Center	4,700	-	-	-700	4,000
Esumédica	1,100	-	-	-	1,100
Europ Assistance	24,790	-	-	-290	24,500
LOGO	20,000	-	-	-	20,000
Pastor Vida	150,000	-150,000	-	-	-
Tranquilidade Corp. Angolana Seguros	-	7,318	-	-508	6,810
Tranquilidade Moçambique Seguros	-	1,361	-	-85	1,276
Tranquilidade Moçambique Vida	-	1,810	-	-100	1,710
T-Vida	119,100	-	-	10,000	129,100
Total	**380,890**	**-139,511**	**-**	**4,717**	**246,096**

Note 8 - Cash, Cash Equivalents & Sight Deposits

The balance of this heading is as follows:

(thousand euros)

	2012	2011
Cash in hand	294	1,095
Deposits at credit institutions	25,864	24,631
Total	**26,158**	**25,726**

Note 9 - Land & Buildings

Measurement of real-estate assets is undertaken using the cost model for premises and the fair-value model for rental properties. 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 changes 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 rental 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	2012	2011
Net Balance as at January 1	**46,501**	**65 814**
Additions through acquisition	62	-
Additions through betterments	198	236
Transfers	-	3,640
Written off/ Sold	-	-23,552
Changes to fair value	-645	363
Net Balance as at December 31	**46,116**	**46,501**

The aim of all rental properties held by the Company is to obtain rents, even if for some reason no rent is charged. There are therefore no properties held for the sole purpose of appreciation. The breakdown of rental properties in keeping with their ability to generate income is as follows:

(thousand euros)

	2012	2011
Properties that generate rental income	35,577	40,875
Properties that do not generate rental income	10,539	5,626
Total	**46,116**	**46,501**

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

(thousand euros)

	2012	2011
Rental Income	**1,108**	**2,328**
Operating Costs	**352**	**532**
- of real estate generating rental income	159	491
- of real estate not generating rental income	193	41

Included in the above rental income, there is a lease for about €240k per annum, for a defined period (i.e., 2019), in respect of commercial premises, subject to renegotiation with the tenant after that period.

Cost model

The breakdown of the Premises headings is as follows:

(thousand euros)

	2012	2011
Gross Value	**28,500**	**28,295**
Accumulated depreciation & impairments	-4,032	-3,569
Net Balance as at December 31	**24,468**	**24,726**

Movements under Premises in both years is as follows:

(thousand euros)

Tangible Assets - Premises	2012	2011
Net Balance as at January 1	24,726	37,839
Additions through acquisition	-	-
Additions through betterments	205	227
Transfers	-	-260
Written off/ sold	-	-13,642
Impairments - [(allocation) / use]	-	1,270
Depreciation for the year	-463	-708
Net Balance as at December 31	24,468	24,726

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)

	2012	2011
Equipment	42,050	40,766
Office equipment	4,433	4,412
Machines & tools	1,673	1,643
Hardware	31,681	31,152
Fixtures & fittings	1,950	1,950
Expenditure on rented buildings	995	726
Transport equipment	868	439
Other tangible fixed assets	450	444
Fixed Assets in Progress	4,807	3,842
Accumulated Depreciation	-39,612	-38,302
Impairments	-	-
Total	7,245	6,306

Movements under this heading are as follows:

(thousand euros)

	Equipment	Fixed Assets in Progress	Total
Balance as at January 1, 2011	2,862	3,168	6,030
Additions	1,013	4,054	5,067
Transfers	-	-3,380	-3,380
Depreciation for the year	-1,411	-	-1,411
Written off / sold	-	-	-
Balance as at December 31, 2011	2,464	3,842	6,306
Additions	1,316	965	2,281
Transfers	-	-	-
Depreciation for the year	-1,339	-	-1,339
Written off/ sold	-3	-	-3
Balance as at December 31, 2012	2,438	4,807	7,245

Mention is also made of the fact that there are other assets, related with salvage, which, in 2012, amount to €219k (2011: €210k).

Note 11 - Allocation of Investments and Other Assets

In accordance with current legal provisions, the Company is obliged to allocate investments and other assets for 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, 2012 & 2011, is as follows:

(thousand euros)

	2012		
	Non-Life Insurance	Not Allocated	Total
Cash & cash equivalents	25,370	788	26,158
Land & buildings	70,584	-	70,584
Investments in affiliates, associates and joint ventures	240,996	5,100	246,096
Financial assets held for trading	2	-	2
Financial assets classified in the initial recognition at fair value through profit & loss	4,100	-	4,100
Hedge derivatives	-	-	-
Available-for-sale financial assets	287,193	899	288,092
Loans and receivables	251,837	2,412	254,249
Held-to-maturity investments	86,045	-	86,045
Other tangible assets	-	7,245	7,245
Other assets	-	202,038	202,038
Total	966,127	218,482	1,184,609

(thousand euros)

	2011		
	Non-Life Insurance	Not Allocated	Total
Cash & cash equivalents	23,879	1,847	25,726
Land & buildings	71,227	-	71,227
Investments in affiliates, associates and joint ventures	375,090	5,800	380,890
Financial assets held for trading	-	-	-
Financial assets classified in the initial recognition at fair value through profit & loss	4,617	-	4,617
Hedge derivatives	-	-	-
Available-for-sale financial assets	259,974	927	260,901
Loans and receivables	268,212	2,421	270,633
Held-to-maturity investments	107,589	-	107,589
Other tangible assets	-	6,306	6,306
Other assets	-	186,181	186,181
Total	1,110,588	203,482	1,314,070

Note 12 - Intangible Assets

All intangible assets are valued using the cost method. 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.

The Goodwill is 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)

	2012	2011
Goodwill	**25,785**	**25,785**
Other Intangible Assets	**61,475**	**55,600**
Software development costs	45,004	40,819
Software	10,752	9,823
Intangibles in progress	5,719	4,958
Accumulated Depreciation	**-46,796**	**-42,368**
Impairments	**-**	**-**
Total	**40,464**	**39,017**

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, 2011	**25,785**	**13,668**	**7,849**	**1,971**	**3,848**	**39,453**
Additions	-	4,066	286	170	3,610	4,066
Depreciation for the year	-	-4,502	-3,820	-682	-	-4,502
Impairments	-	-	-	-	-	-
Transfers	-	-	2,370	130	-2,500	-
Balance as at December 31, 2011	**25,785**	**13,232**	**6,685**	**1,589**	**4,958**	**39,017**
Additions	-	5,903	192	507	5,204	5,903
Depreciation for the year	-	-4,428	-3,805	-623	-	-4,428
Impairments	-	-	-	-	-	-
Transfers	-	-28	3,994	421	-4,443	-28
Balance as at December 31, 2012	**25,785**	**14,679**	**7,066**	**1,894**	**5,719**	**40,464**

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

(thousand euros)

	2012	2011
Amortisation of Intangible Assets for the Year	**-4,428**	**-4,502**
Costs of claims, net of reinsurance		
Amounts paid - gross amounts	1,114	1,139
Net operating costs & expenses		
Acquisition costs	2,310	2,347
Administrative costs	997	1,009
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)

	2012	2011
Gross Assets	**66,772**	**62,315**
Policyholders		
- Receipts pending collection	56,571	52,622
- Reimbursement of claims	8,081	6,913
Insurance brokers	228	297
Co-insurers	1,892	2,483
Adjustments	**-5,769**	**-5,763**
Receipts pending collection	-4,028	-4,314
Doubtful debt	-1,741	-1,449
Net Assets	**61,003**	**56,552**

Reimbursements demanded in respect of payments made as a result of claims occurring during the guarantees-suspension period and not yet received amount to €2,867k (2011: €2,820k).

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

(thousand euros)

	2012	2011
Gross Assets	**10,467**	**8,969**
Reinsurers	10,063	8,965
Reinsured	404	4
Adjustments	**-262**	**-223**
Doubtful debt	-262	-223
Net Assets	**10,205**	**8,746**

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

(thousand euros)

	2012	2011
Gross Assets	**28,304**	**25,726**
Related entities	27	20
IFADAP	12,415	11,309
FAT	945	922
Management on account of IDS and principals	1,839	2,794
Bonds	755	1,036
Rents & other amounts pending collection	1,246	567
Staff	433	462
Other amounts pending collection	10,644	8,616
Adjustments	**-840**	**-787**
Doubtful debt	-840	-787
Net Assets	**27,464**	**24,939**

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)

	2012	2011
Adjustment of Receipts Pending Collection		
Balance as at January 1	4,314	4,462
Allocations for the year	-	-
Use for the year	-286	-148
Balance as at December 31	**4,028**	**4,314**
Adjustment of Doubtful Debt		
Balance as at January 1	2,459	2,743
Allocations for the year	384	-
Use for the year	-	-284
Balance as at December 31	**2,843**	**2,459**

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

(thousand euros)

	2012	2011
Accrued Income	**245**	**815**
- Services rendered	245	815
Deferred costs	**1,194**	**1,466**
- Insurance	14	195
- Acquisition expense	1,180	1,271
Total	**1,439**	**2,281**

Liabilities and provisions

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

(thousand euros)

	2012	2011
Policyholders (return premiums payable)	2,948	3,272
Insurance brokers		
- Commissions payable	4,808	4,628
- Current accounts	1,322	945
Co-insurers	14,100	13,843
Total	**23,178**	**22,688**

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

(thousand euros)

	2012	2011
Reinsurers	1,647	14,065
Reinsured	149	647
Total	**16,796**	**14,712**

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

(thousand euros)

	2012	2011
Related entities	441	415
Suppliers of leased goods	1,692	1,648
Other suppliers of goods & services	1,516	2,136
IFADAP	1,692	1,671
Works accident pensions	1,053	1,363
Financial holdings pending settlement	-	44,621
Other payables	2,196	1,786
Total	**8,590**	**53,640**

The amount of financial holdings pending settlement in 2011 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 reduction stems from the sale of the financial holding and the corresponding derecognition of debt.

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

(thousand euros)

	2012	2011
Deferred Income	**335**	**291**
- Rents	335	291
Accrued Costs	**19,244**	**19,873**
- Staff costs (subsidies, charges & bonuses)	6,209	5,933
- Acquisition costs (incentives & commissions)	3,745	4,247
- Third-party supplies & services	8,908	9,304
- Taxes	382	389
Total	**19,579**	**20,164**

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

(thousand euros)

	2012	2011
Taxes	3,416	2,954
Total	**3,416**	**2,954**

(thousand euros)

	2012	2011
Balance as at January 1	**2,954**	**2,635**
Allocations for the year	488	656
Decrease of the provision	-26	-337
Balance as at December 31	**3,416**	**2,954**

The change under 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, 2008 and 2009, 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. This change is included in costs by nature to be imputed.

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 Change		Premiums Earned	
	2012	2011	2012	2011	2012	2011
Accidents & health	102,940	107,492	-647	-676	103,587	108,168
Fire & other damage	64,962	62,232	470	573	64,492	61,659
Motor	142,029	147,349	-3,208	1,249	145,237	146,100
Marine, air & transport	7,003	7,014	203	-91	6,800	7,105
General third-party liability	11,139	10,459	-164	-200	11,303	10,659
Credit & fidelity insurance	40	54	-3	-10	43	64
Legal protection	14	16	-	-1	14	17
Assistance	10,891	10,295	49	633	10,842	9,662
Sundry	2,571	2,301	91	183	2,480	2,118
Total	**341,589**	**347,212**	**-3,209**	**1,660**	**344,798**	**345,552**

The breakdown of gross premiums, change of the unearned premiums reserve, (UPR) and of reinsurance ceded, is as follows:

(thousand euros)

Businesses/ Groups of Businesses	Gross Reinsurance Premiums		UPR Variation		Premiums Earned	
	2012	2011	2012	2011	2012	2011
Accidents & health	3,279	3,591	-84	-74	3,363	3,665
Fire & other damage	28,758	26,122	484	195	28,274	25,927
Motor	1,611	1,655	-	-	1,611	1,655
Marine, air & transport	3,747	3,756	64	107	3,683	3,649
General third-party liability	1,370	1,720	-13	-105	1,383	1,825
Credit & fidelity insurance	14	23	-3	-9	17	32
Legal protection	-	-	-	-	-	-
Assistance	10,993	11,000	54	447	10,939	10,553
Sundry	2,475	2,051	181	145	2,294	1,906
Total	**52,247**	**49,918**	**683**	**706**	**51,564**	**49,212**

The breakdown of some amounts in respect of Non-Life insurance and reinsurance accepted, for 2012, is as follows:

(thousand euros)

	Gross Premiums Written	Gross Premiums Earned	Gross Cost of Claims	Gross Operating Costs	Balance of Reinsurance
Accidents & health	102,851	103,530	89,221	28,498	1,319
Fire & other damage	64,516	64,166	42,414	21,990	-9,872
Motor					
- Third-party liability	89,844	91,459	45,555	24,943	-56
- Other covers	45,003	45,847	28,577	15,521	-522
Marine, air & transport	6,965	6,765	3,062	1,844	-1,496
General third-party liability	11,131	11,298	6,535	3,983	-2,552
Credit & fidelity insurance	40	43	33	18	14
Legal protection	14	14	43	6	-
Assistance	10,891	10,842	-	2,011	-9,452
Sundry	2,535	2,444	1,161	536	-828
Total	**333,790**	**336,408**	**216,601**	**99,350**	**-23,445**
Reinsurance accepted	7,799	8,390	6,767	2,074	-197
Grand Total	**341,589**	**344,798**	**223,368**	**101,424**	**-23,642**

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)

	2012	2011
Interest	**15,158**	**16,534**
Available-for-sale financial assets	3,285	3,496
Financial assets classified at fair value through profit or loss	224	290
Financial assets held for trading	-	-
Held-to-maturity investments	5,663	6,745
Deposits, loans & other assets	5,986	6,003
Rents	**1,108**	**2,328**
Land & buildings	1,108	2,328
Dividends	**10,820**	**11,130**
Investments in affiliates, associates and joint ventures	10,102	10,024
Available-for-sale financial assets	718	1,106
Total	**27,086**	**29,992**

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

(thousand euros)

	2012	2011
Bonds & other fixed-income securities		
Public issuers'	3,724	4,134
Other issuers'	5,448	6,396
Equities	10,586	10,817
Other floating-rate securities	234	313
Real estate	1,108	2,328
Deposits	5,658	5,978
Loans & other assets	328	26
Total	**27,086**	**29,992**

The breakdown of Financial costs is as follows:

(thousand euros)

	2012	2011
Costs imputed to the investments function	**926**	**1,217**
Interest on repurchase agreements	1,364	1,472
Direct operating costs	352	532
Total	**2,642**	**3,221**

Note 17 - Gains & 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)

	2012			2011		
	Gain	Loss	Balance	Gain	Loss	Balance
Financial - Not at Fair Value Through Profit & Loss	**19,025**	**-12,198**	**6,827**	**11,541**	**-8,479**	**3,062**
Available-for-sale financial assets	5,600	-3,819	1,781	11,486	-6,323	5,163
Held-to-maturity investments	-	-	-	55	-	55
IInvestments in affiliates, associates and joint ventures	13,425	-8,379	5,046	-	-2,156	-2,156
Financial - At Fair Value Through Profit & Loss	**1,280**	**-1,046**	**234**	**21,182**	**-3,497**	**17,685**
Financial assets classified at fair value through profit or loss	140	-1,046	-906	21,182	-98	21,084
Financial assets held for trading	1,140	-	1,140	-	-3,399	-3,399
Non-financial	**618**	**-1,263**	**-645**	**3,049**	**-2,923**	**126**
Land & buildings - own use	-	-	-	1,303	-997	306
Land & buildings - Held for income	618	-1,263	-645	1,746	-1,926	-180
Total	**20,923**	**-14,507**	**6,416**	**35,772**	**-14,899**	**20,873**

Note 18 - Gains & 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)

	2012			2011		
	Gain	Loss	Balance	Gain	Loss	Balance
Financial - at Fair Value	**2,924**	**-829**	**2,095**	**-**	**-1,328**	**-1,328**
Financial assets classified at fair value through profit or loss						
- Debt securities	2,924	-829	2,095	-	-1,328	-1,328
Non-financial	**-**	**-**	**-**	**-**	**-**	**-**
Land & buildings - held for income	-	-	-	-	-	-
Total	**2,924**	**-829**	**2,095**	**-**	**-1,328**	**-1,328**

Note 19 - Gains & 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 or loss.

The balance is broken down as follows:

(thousand euros)

	2012			2011		
	Gain	Loss	Balance	Gain	Loss	Balance
Available-for-sale financial assets	372	-302	70	70	-53	17
Financial assets held for trading	202	-209	-7	28	-22	6
Other	8	-11	-3	3	-12	-9
Total	**582**	**-522**	**60**	**101**	**-87**	**14**

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)

	2012	2011
Other Technical Income	**1,105**	**511**
Co-insurance management commissions	230	200
Claims management fees	5	19
Remuneration for services - IFADAP	-	5
Management on account of claims	870	287
Other Technical Expense	**2,394**	**1,764**
Co-insurance management commissions	348	202
Management on account of claims	2,046	1,562
Value of Gains & Losses	**-1,289**	**-1,253**

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

(thousand euros)

	2012	2011
Other Non-Technial Income	**3,918**	**2,740**
Reimbursement of taxes	7	-
Corrections & adjustments	967	1,117
Other gains	1,281	434
Interest & other financial gains	59	55
Services rendered	425	271
Gains on the sale of tangible assets	1	15
Own work capitalised	1,179	848
Other Non-Technical Expense	**7,605**	**8,219**
Donations	45	15
Sponsorship	293	307
Gifts to customers	381	419
Fines	42	4
Subscriptions	7	7
Contractual rescissions	2,565	2,061
Bad debt	-	386
Corrections & adjustments	1,435	1,058
Other expenses	1,851	3,170
Banking services & default interest	986	792
Value of Gains & Losses	**-3,687**	**-5,479**

The breakdown of Other provisions is as follows:

(thousand euros)

	2012	2011
Liability for compulsory works	-	250
Taxes	26	87
Principals (International Claims)	**26**	**337**

Note 21 - Sundry Costs by Function and Nature of Expense

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

- Claims Function: Claims costs - Amounts paid gross;
- Acquisition Function: Operating costs and expenses – Acquisition costs;
- Administrative Function: Operating costs and expenses – Administrative costs;
- Investment Function: Financial costs - Other.

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

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

The breakdown of these expenses and their distribution using the classification based on their function as at December 31, 2012 & 2011, is as follows:

(thousand euros) (%)

2012	Cost of Claims		Acquisition Costs		Administrative Costs		Cost of Investments		Total	
Staff costs	6,260	18%	14,982	42%	13,980	39%	341	1%	35,563	100%
Third-party supplies & services	3,268	15%	8,490	39%	9,883	45%	258	1%	21,899	100%
Taxes	-	0%	-	0%	2,418	100%	-	0%	2,418	100%
Depreciation	1,357	22%	3,032	49%	1,783	29%	58	1%	6,230	100%
Provisions for contingencies & liabilities	-	0%	-	0%	13	100%	-	0%	13	100%
Other costs	11	4%	23	7%	10	3%	269	86%	313	100%
Total	**10,896**	**16%**	**26,527**	**40%**	**28,087**	**42%**	**926**	**1%**	**66,436**	**100%**

(thousand euros) (%)

2011	Cost of Claims		Acquisition Costs		Administrative Costs		Cost of Investments		Total	
Staff costs	6,284	17%	14,617	41%	14,860	41%	313	1%	36,074	100%
Third-party supplies & services	3,437	16%	8,526	40%	8,855	42%	331	2%	21,149	100%
Taxes	-	0%	-	0%	2,539	100%	-	0%	2,539	100%
Depreciation	1,400	21%	3,127	47%	1,859	28%	235	4%	6,621	100%
Provisions for contingencies & liabilities	-	0%	-	0%	106	100%	-	0%	106	100%
Other costs	19	5%	40	10%	16	4%	338	82%	413	100%
Total	**11,140**	**17%**	**26,310**	**39%**	**28,235**	**42%**	**1 217**	**2%**	**66,902**	**100%**

Staff costs are detailed in Note 22. The breakdown of Third-party supplies & services is as follows:

(thousand euros)

	2012	2011
Electricity & water	525	437
Fuel	364	342
Office material, stationery, etc.	139	117
Gift articles	809	343
Office equipment & furniture maintenance	296	337
Hardware maintenance	1,740	1,407
Rents	2,157	1,324
Operational rental of vehicles & other rentals	1,180	1,235
Travel & entertainment costs	1,293	1,502
Telephone communications & networks	887	1,086
Post	1,252	1,204
Insurance	97	110
Retainers & fees	321	462
Advertising & marketing	1,766	1,684
Cleaning, hygiene & comfort	392	436
Guards & security	320	295
Outsourcing, consultancy & specialised work	4,543	5,045
Software services & development	1,671	1,735
Subscriptions to APS	248	238
Premium collection	818	801
Training brokers	345	328
Temporary work	249	256
Other sundry supplies & services	487	425
Total	**21,899**	**21,149**

The breakdown of Taxes and charges is as follows:

(thousand euros)

	2012	2011
VAT borne	180	270
ISP charge	806	816
FAT charge	737	718
FGA charge	-	-
Municipal property tax	15	40
Civil Governments' charge	572	589
Portuguese Green Card Office charge	55	57
Other taxes, charges & licences	53	49
Total	**2,418**	**2,539**

The breakdown of Depreciation and charges is as follows:

(thousand euros)

	2012	2011
Software development costs	3,805	3,820
Software	623	682
Hardware	277	205
Premises	463	708
Office equipment & machines	240	299
Fixtures & fittings	298	245
Finance leasing	442	648
Other equipment	82	14
Total	**6,230**	**6,621**

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

(thousand euros)

	2012	2011
Provisions for taxes	13	106
Interest on reinsurers' deposits	-	31
Finance leasing interest	44	75
Safekeeping commission, securities' custody & other commissions	269	307
Total	**326**	**519**

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

(thousand euros)

	2012	2011
Acquisition costs		
Brokerage remuneration	36,529	36,398
Costs imputed	26,527	26,310
Other acquisition costs	7,911	7,913
Deferred acquisition costs (change)	487	42
Administrative costs		
Brokerage remuneration	1,883	1,840
Costs imputed	28,087	28,235
Reinsurance commissions & profit-sharing	-8,462	-7,340
Total	**92,962**	**93,398**

Note 22 - Staff Costs

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

	2012	2011
Senior managers	22	23
Managers	78	56
Co-ordinators	133	151
Technicians	177	181
Specialists	259	262
Administrative staff	6	5
Total	**675**	**678**

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

(thousand euros)

	2012	2011
Remuneration - corporate officers	1,871	1,718
Remuneration - personnel	25,803	25,703
Charges on remuneration - corporate officers	146	133
Charges on remuneration - personnel	5,516	5,489
Post-employment benefits - defined-benefit pension plans	358	1,121
Mandatory insurance	764	696
Social welfare costs	824	912
Training	231	232
Other staff costs	50	70
Total	**35,563**	**36,074**

As at December 31, 2012 & 2011, 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.

Fees billed during 2012 by the Official Auditor within the scope of the legal audit of the accounts amounted to €42k.

Note 23 - Obligations Involving Employee Benefits

Retirement pensions and health benefits

As explained in the accounting policies, the Company assumed the liability of paying its employees old-age and disability pensions and death benefits under the terms established in the Collective Insurance Workers' Collection Bargaining Agreement (CBA). The benefits provided for in the pension plans are those that are covered by the Insurance Business Collective Bargaining Agreement (CBA) for employees taken on by June 22, 1995.

Additionally, it assumed liability for paying benefits to its Directors old-age and disability pensions and death benefits. There is also a plan covering a number of health benefits for employees in service and pre--retirees up to normal retirement age.

On December 23, 2011, a new Collective Bargaining Agreement for Insurance Workers, that alters a previously defined set of benefits. These employees are no longer covered by a defined-benefit plan and now have a defined-contribution plan.

With regard to the amendment of the plan and taking into account that the value of the fully-funded liabilities for past services in respect of old-age pensions payable to current employees was converted into individual accounts of these employees, forming part of their individual retirement plan, according to IAS 19, the Company settled the liability.

Since the deviations have been recognised in reserves, the Company will have no additional impact on profit or loss and reserves as a result of actual liquidation of the plan.

The actuarial valuation of the retirement pensions and health benefits is performed annually at Tranquilidade, the most recent one with reference to December 31, 2012.

The main assumptions used in the actuarial studies as at December 31, 2012 & 2011, to determine the updated value of the employees' pensions and health benefits are as follows:

	2012	2011
Financial Assumptions		
Wage growth rates	0%- 2.5% (*)	3.25%- 3.75% (*)
Pension growth rate	0% - 2.5% (*)	0.75% - 3.75% (*)
Rates of return of the fund	3.26%-4.25% (*)	5.40%-4.94% (*)
Early-retirement pension growth rate	1.00%	2.25%
Discount rate	3.26%-4.25% (*)	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 reporting 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)

	2012		2011	
	+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	22	-22	21	-21

As at 31 December 2012 & 2011, the number of participants covered by the benefits plan was as follows:

	2012	2011
In service	319	320
Retired	194	219
Total	**513**	**539**

As at December 31, 2012 & 2010, the breakdown of amounts recognised in the balance sheet is as follows:

(thousand euros)

	2012			2011		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Net Assets/ (Liabilities) Recognised in the Balance Sheet						
Liabilities as at December 31	-33,342	-315	-33,657	-37,864	-552	-38,416
Balance of the fund on December 31	37,307	-	37,307	40,417	-	40,417
Net Assets/ (Liabilities) in the Balance Sheet as at December 31	**3,965**	**-315**	**3,650**	**2,553**	**-552**	**2,001**

Additionally, Tranquilidade transferred part of its retirement-pension liabilities through the acquisition of Life insurance policies from T-Vida, Companhia de Seguros, S.A.. The number of employees covered by these policies stands at 379 (2010: 402) and the total amount of the liabilities is €11,633k (2011: €12,488k).

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

(thousand euros)

	2012			2011		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Liabilities as at January 1	**37,864**	**552**	**38,416**	**43,110**	**798**	**43,908**
Transfers to defined-contribution fund	-4,839	-146	-4,985	-	-	-
Cost of current service	559	2	561	883	3	886
Interest cost	1,708	17	1,725	2,235	40	2,275
Actuarial (gains) and losses on liabilities	1,857	3	1,860	-4,512	-177	-4,689
Pensions paid by the fund	-3,807	-	-3,807	-3,852	-	-3,852
Benefits paid by the Company	-	-113	-113	-	-112	-112
Liabilities as at December 31	**33,342**	**315**	**33,657**	**37,864**	**552**	**38,416**

The evolution of the value of the pension fund in 2012 & 2011 is as follows:

(thousand euros)

	2012			2011		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Balance of the Fund on January 1	**40,417**	**-**	**40,417**	**42,343**	**-**	**42,343**
Alteration of the plan	-4,839	-	-4,839	-	-	-
Real return of the fund						
Expected return of the fund	1,782	-	1,782	2,040	-	2,040
Actuarial gains & losses	3,754	-	3,754	-2,026	-	-2,026
Contributions paid by fund participants	-	-	-	1,912	-	1,912
Pensions paid by the fund	-3,807	-	-3,807	-3,852	-	-3,852
Balance of the Fund on December 31	**37,307**	**-**	**37,307**	**40,417**	**-**	**40,417**

The evolution of actuarial deviations recognised in the reserve is as follows:

(thousand euros)

	2012			2011		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Deviations Recognised in Reserves as at 1 January	**12,923**	**231**	**13,154**	**15,409**	**408**	**15,817**
Actuarial (gains) & losses						
- on liabilities	1,857	3	1,860	-4,512	-177	-4,689
- on the plan's assets	-3,754	-	-3,754	2,026	-	2,026
Deviations Recognised in Reserves as at 31 December	**11,026**	**234**	**11,260**	**12,923**	**231**	**13,154**

The evolution of assets receivable/ liabilities deliverable in 2012 and 2011 is as follows:

(thousand euros)

	2012			2011		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
(Assets)/ Liabilities Receivable or Payable as at January 1	**-2,553**	**552**	**-2,001**	**767**	**798**	**1,565**
Alteration of the plan	-	-146	-146			
Actuarial gains & losses on liabilities	1,857	3	1,860	-4,512	-177	-4,689
Actuarial gains & losses of the funds	-3,754	-	-3,754	2,026	-	2,026
Charges for the year:						
-Cost of current service	559	2	561	883	3	886
-Interest cost	1,708	17	1,725	2,235	40	2,275
-Expected return of the fund	-1,782	-	-1,782	-2,040	-	-2,040
Contributions paid during the year and pensions paid by the Company	-	-113	-113	-1,912	-112	-2,024
(Assets)/ Liabilities Receivable or Payable as at December 31	**-3,965**	**315**	**-3,650**	**-2,553**	**552**	**-2,001**

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

(thousand euros)

	2012			2011		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Cost of current service	559	2	561	883	3	886
Interest cost	1,708	17	1,725	2,235	40	2,275
Expected return of the fund	-1,782	-	-1,782	-2,040	-	-2,040
Alteration of the plan	-	-146	-146	-	-	-
Costs for the Year	**485**	**-127**	**358**	**1,078**	**43**	**1,121**

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

(thousand euros)

	2012	2011
Land & buildings	7,934	7,935
Equities & other floating-rate securities	12,315	12,645
Fixed-income securities	36,235	34,253
Balances with credit institutions	2,001	1,449
Fund debtors & creditors	584	-226
Interest receivable	1,033	595
Amount transferable on cut-off of the plan	-5,658	-
Total	**54,444**	**56,651**

The figures for assets disclosed above are all in respect of the Tranquilidade Group and BES-Vida Pension Fund, of which associate Tranquilidade accounts for about 68.5% (2011: 71.3%) of the total of the fund.

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

(thousand euros)

	2012		2011		2010		2009		2008	
	Retirement Pensions	Health Benefits	Retirement Pensions	Health Benefits	Retirement Pensions	Health Benefits	Retirement Pensions	Health Benefits	Retirement Pensions	Health Benefits
Liabilities	-33,342	-315	-37,864	-552	-43,110	-798	-45,323	-751	-44,250	-705
Balance of the funds	37,307	-	40,417	-	42,343	-	45,010	-	43,087	-
Net Assets/ (Liabilities) in the Balance Sheet	**3,965**	**-315**	**2,553**	**-552**	**-767**	**-798**	**-313**	**-751**	**-1,163**	**-705**

Note 24 - Income Tax

The Company is subject to the tax legislation enacted by the IRC Code (Corporation 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 2012 & 2011 has been made on the basis of the nominal tax rate plus the municipal surcharge, totalling 31.44% and 28.94%, the nominal rates approved on the reporting date. The Company has been subject to annual inspections by the DGCI (Directorate General of Taxation), whose latest report refers to 2010 and contains no significant adjustments to the tax returns submitted till then. 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.

The Company returned a tax loss in 2011, giving rise to deferred tax assets on these tax losses carried forward, taking into account the estimates of recoverability within the time allowed for the the purpose in respect of each year, as follows:

(thousand euros)

Year	Brought Forward	Used	Carried Forward	Last Year for Use
2010	13,767	13,767	-	2,014
2011	20,386	556	19,830	2,015
Total	**34,153**	**14,323**	**19,830**	

The breakdown of current tax assets and liabilities reported in 2012 and 2011 is as follows:

(thousand euros)

	2012		2011	
	Current Tax Assets	Current Tax Liabilities	Current Tax Assets	Current Tax Liabilities
Income tax	41	16,904	7	14,759
Tax withheld at source	-	1,685	-	719
Value added tax	61	39	155	177
Other taxes & charges	74	7,478	103	7,613
Social security contributions	137	840	138	831
Local government rates	-	120	-	120
Total	**313**	**27,065**	**403**	**24,219**

The breakdown of deferred tax assets and liabilities recognised in the 2012 and 2011 balance sheets is as follows:

(thousand euros)

Headings	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
Investments	385	2,400	-33,149	-48,619	-32,764	-46,219
Post-employment benefits	89	90	-	-	89	90
Technical provisions	-	455	-	-	-	455
Doubtful debt provision	64	64	-	-	64	64
Tax losses	4,969	8,550	-	-	4,969	8,550
Real estate	560	-	-	-99	560	-99
Other non-deductible costs	1,200	554	-158	-	1,042	554
Total	**7,267**	**12,113**	**-33,307**	**-48,718**	**-26,040**	**-36,605**

The 2011 figures include amounts related to the deferral for 5 years of the tax impacts resulting from the transition to the IFRS, a process that came to an end at the end of 2012. Current and deferred taxes in 2012 & 2011 were recognised as follows:

(thousand euros)

2012	Fair-Value Reserve	Gains & Losses	Total
Current Tax	**-**	**-2,983**	**-2,983**
Corporation tax estimate	-	-2,178	-2,178
Autonomous tax	-	-805	-805
Deferred Tax	**15,376**	**-4,810**	**10,566**
Investments	15,376	-1,920	13,456
Post-employment benefits	-	-1	-1
Technical provisions	-	-455	-455
Tax losses	-	-3,581	-3,581
Property with intent to sell	-	659	659
Other non-deductible costs	-	488	488
Total	**15,376**	**-7,793**	**7,583**

(thousand euros)

2011	Fair-Value Reserve	Gains & Losses	Total
Current Tax	**-**	**-827**	**-827**
Corporation tax estimate	-	-	-
Autonomous tax	-	-827	-827
Deferred Tax	**-17,570**	**5,987**	**-11,583**
Investments	-17,570	805	-16,765
Post-employment benefits	-	3,205	3,205
Technical provisions	-	-455	-455
Doubtful debt provision	-	-5	-5
Tax losses	-	5,652	5,652
Property with intent to sell	-	-3,363	-3,363
Other non-deductible costs	-	148	148
Total	**-17,570**	**5,160**	**-12,410**

Reconciliation of the tax rate is as follows:

(thousand euros)

	2012	2011
Pre-tax income	26,250	28,718
Tax rate	31.44%	28.94%
Tax Determined on the Basis of the Official Rate	**-8,253**	**-8,311**
Dividends excluded from taxation	3,320	1,799
Tax benefits	166	148
Other income & costs excluded from taxation	-482	-646
Capital gains tax accepted for tax purposes	-1,739	12,997
Autonomous tax	-805	-827
Current + Deferred Tax	**-7,793**	**5,160**

Note 25 - Equity Capital

Tranquilidade's equity capital in the sum of €160 million, represented by 32 million shares each of a par value of €5, is fully subscribed and paid up. During 2011 an increased of the equity capital was subscribed in the sum of €75 million, €25 million having been paid up. During 2012 a resolution was passed to cancel the part still to be paid up, in the sum of €50 million, because the economic rationale that led to its subscription no longer existed.

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 or 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 or loss at the time the gains & losses that gave rise to them are recognised.

Deferred taxes are calculated, in 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 rates approved or substantially approved on the balance sheet date in each jurisdiction that are expected to be applied when the temporary differences are reversed.

Free reserves

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

Actuarial deviations reserve

According to one of the options provided for in IAS 19 - Employee Benefits, Tranquilidade recognises actuarial gains against reserves.

The breakdown of the reserves as at December 31, 2012 & 2011, is as follows:

(thousand euros)

	2012	2011
Fair value of financial assets reserve	122,515	171,428
Reserve for deferred taxes	-33,149	-48,525
Other reserves	35,266	29,984
- Legal reserve	45,598	42,210
- Actuarial deviations reserve	-11,260	-13,154
- Free reserves	928	928
Reserves	**124,632**	**152,887**

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)

	2012	2011
Investments in affiliates, associates and joint ventures	127,360	192,997
Floating-rate securities	5,447	4,818
Fixed-income securities	-10,292	-26,387
Fair-Value Reserve	**122,515**	**171,428**

The net fair value reserve as at December 31, 2012 & 2011, is as follows:

(thousand euros)

	2012	2011
Amortised cost of available-for-sale investments	290,048	284,171
Acquisition costs of investments in affiliates, associates and joint ventures	118,736	187,893
	408,784	**472,064**
Impairment	-1,696	-8,156
Net amortised/ acquisition impairment cost	407,088	463,908
Fair value of available-for-sale investments	288,092	260,901
Investments in affiliates, associate and joint ventures	246,096	380,890
	534,188	**641,791**
Gross revaluation reserve (fair value - cost)	127,100	177,883
Revaluation reserve for securities transferred to Held-to-maturity investments	-4,585	-6,455
Deferred & current taxes	-33,149	-48,525
Revaluation Reserve Net of Taxes	**89,366**	**122,903**

Movement under the net fair value reserve as at December 31, 2012 & 2011, is as follows:

(thousand euros)

	2012	2011
Balance as at January 1	**122,903**	**77,675**
Fair-value variations, including variation for disposals	-55,373	65,230
Impairment recognised during the year	6,460	-2,432
Variation of deferred taxes recognised during the year	15,376	-17,570
Balance as at December 31	**89,366**	**122,903**

Note 27 – Earnings Per Share

Earnings per share for the years ended December 31, 2012 & 2011, are as follows:

	2012	2011
Net income for the period (in thousands of euros)	18,457	33,878
Number of shares (year-end)	32,000,000	32,000,000
Earnings Per Share (in euros)	**0.58**	**1.06**

Note 28 – Dividends Per Share

The Company's sole equityholder is Partran – Sociedade Gestora de Participações Sociais, S.A., to which, in 2012 and 2011, the following dividends were attributed and paid, resulting in the following dividends per share:

	2012	2011
Dividend (in euro '000s)	40,000	5,000
Number of shares (beginning of the period)	32,000,000	32,000,000
Dividend Per Share (in euros)	**1.25**	**0.16**

The figures for 2011 and 2012 include the payment of interim dividends in the sum of €5,000k each year.

In 2012 the figure stated includes an ordinary dividend payment of €10,000k, and a payment of €25,000k involving an extraordinary distribution of assets under Article 31 of the Companies Code.

Note 29 - Transactions Between Related Parties

The whole of Tranquilidade's issued capital is held by Partran, Sociedade Gestora de Participações Sociais, SGPS, S.A., 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, 2012 & 2011, 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)

	2012				2011			
	Assets	Liabilities	Costs	Income	Assets	Liabilities	Costs	Income
ADVANCECARE	-	310	4,196	1,105	12	321	3,984	906
BANCO ESPÍRITO SANTO	150,595	152,005	3,903	10,351	127,381	168,715	7,536	21,458
BES SEGUROS	7	34	-	983	11	-	-	1,227
BES VIDA	63	6	-	115	66	-	-	177
BESI	17	-	-	-	10,536	-	-	-
BESLEASING	496	805	44	13	393	1,515	75	15
BEST	1	-	-	-	4	-	-	-
E.S. CONTACT CENTER	278	1	88	158	294	22	121	110
E.S. INFORMÁTICA	-	-	36	-	-	-	6	-
E.S. INNOVATION	-	-	-	-	-	1	-	-
E.S. INVESTMENT	2,200	-	135	-	-	-	320	-
E.S. FINANTIAL PRT	2,068	-	-	18	2,068	-	-	-
E.S. SAÚDE	-	-	-	27	1	-	-	67
E.S. SERVIÇOS 2, ACE	4	-	501	119	-	44	565	14
ESAF	4	-	-	492	2	-	-	814
ESEGUR	142	17	292	300	129	12	279	292
ESFG	-	-	94	-	-	-	2,473	365
ESFIL	3,161	-	-	-	2,898	-	3	179
ESGEST	48	-	252	40	14	-	198	-
ESUMÉDICA	1,000	7	840	13	-	4	840	-
EUROP ASSISTANCE	1,410	-	-	-11,943	1,410	-	-	-11,843
GESFIMO	2	-	-	10	2	-	-	12
HERDADE DA COMPORTA	-	-	-	7	-	-	-	6
HOTÉIS TIVOLI	-	-	28	-	-	-	32	-
LOGO	19,505	7,262	8,501	7,626	17,514	7,646	11,123	9,012
MULTIPESSOAL-SERVIÇOS	58	-	239	254	63	-	251	198
MULTIPESSOAL-TRABALHO TEMPORÁRIO	-	20	-	-	-	22	-	-
SGL - SOCIEDADE GERAL LIMPEZAS	-	-	374	-	-	32	417	-
TOP ATLÂNTICO	-	1	859	-	-	69	1,101	-
BES AÇORES	136	-	-	-	-	-	-	-
IMOCRESCENTE	1,400	-	-	-	-	-	-	-
TRQ ANGOLA	3,959	-	-	-	-	-	-	-
TRQ MOÇAMBIQUE VIDA	201	-	-	-	-	-	-	-
TRQ MOÇAMBIQUE NÃO VIDA	121	-	-	-	-	-	-	-
PASTOR VIDA	-	-	-	5,039	-	-	-	3,113
T-VIDA	22	114	-	2,700	12,502	71	-	4,600
	186,898	**160,582**	**20,382**	**17,427**	**175,300**	**178,474**	**29,324**	**42,877**

Note 30 - Statement of Cash Flows

Statement of changes of flows of cash & cash equivalents 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 operating lease contracts in respect of transport material.

The breakdown of contractual commitments carried in the balance sheet in respect of finance lease contracts is as follows:

(thousand euros)

	2012	2011
Tangible assets (gross value)	11,637	11,552
Accumulated depreciation	-11,391	-10,949
Tangible Assets (Net Value)	**246**	**603**
Creditors - Suppliers of Goods	**985**	**1,647**

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	153	368	464
Operating lease contracts	223	585	895

Note 37 – Other Information

Recently-Issued Standards and Interpretations

Standards, amendments and interpretations effective on or after January 1, 2012

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:

IFRS 7 (Amended) - Financial Instruments: Disclosures - Transfers of financial assets

The International Accounting Standards Board (IASB) issued on October 7, 2010, amendments to the "IFRS 7 - Financial Instruments: Disclosures - Transfers of financial assets ", with effective date of application for periods beginning on or after July 1, 2011. These changes were adopted by European Commission Regulation 1205/2011 of November 22.

The amendments require an improvement in the disclosure of information about transfers of financial assets enabling users of the financial statements:

- To understand the relationship between a transferred financial asset that has not been derecognised for accounting in all its fullness and the associated liability, and
- To assess the nature of the continuing involvement and the risks associated with the derecognised financial assets.

The changes also came to require additional disclosures if a disproportionate amount of transfer transactions of financial assets occurs towards the end of the period.

The Company did not have any significant impact from the adoption of these amendments.

IAS 12 (Amendment) - Deferred tax - recovery of underlying assets

The IASB issued on December 20, 2010, an amendment to "IAS 12 - Deferred Taxes - Recovery of Underlying Assets" (and repealed "SIC 21 - Income Taxes - Recovery of Revalued Non-depreciable assets"), with effective date of application for periods beginning on or after January 1, 2012. These amendments were adopted by European Commission Regulation 1255/2012 of December 11.

Following the amendment to IAS 12, deferred taxes relating to investment properties are to be measured assuming that the book value of investment properties recorded on the basis of the fair value model in accordance with "IAS 40 - Investment Properties" will be fully recovered through the sale. Previously, one could assume that the book value of the investment property would be recovered by the sale or use, depending on the intention of the governing body.

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

The Company decided not to opt for early application of the following standards and/ or interpretations adopted by the European Union

Presentation of items in other comprehensive income - Amendment of IAS 1 - Presentation of Financial Statements

The IASB issued on June 16, 2011, amendments to "IAS 1 - Presentation of Financial Statements", with effective application (retrospective) for periods beginning on or after July 1, 2012. This amendment was adopted by European Commission Regulation (EU) 475/2012, of June 5.

The amendment allows an entity to continue to present two separate statements, an income statement and a comprehensive income statement (the latter beginning with the results and including other comprehensive income), but imposes:

- Separate presentation of items of other comprehensive income that may be reclassified to profit or loss and of those that cannot be reclassified to profit or loss;
- An entity presenting the items of other comprehensive income before the tax effect must also allocate the tax effect to the two subcategories listed in the preceding point; and
- Alter the name "Statement of comprehensive income" to "Statement of income and other comprehensive income", even tough another name may be used.

The changes affect only the presentation and have no impact on the financial position or performance of the Company.

IAS 19 (Amendment) - Employee benefits

The IASB issued on June 16, 2011, amendments to "IAS 19 - Employee Benefits", with effective application (retrospective) for periods beginning on or after January 1, 2013. These amendments were adopted by European Commission Regulation (EU) 475/2012 of June 5, 2012.

The IASB made a number of changes to IAS 19. This set of changes ranges from fundamental changes such as the removal of the option for the corridor mechanism and the concept of expected returns on the plan's assets to simple clarifications and text readjustment.

Additionally, the changes will impact on the net expense of the benefit because the expected return on plan's assets will be calculated using the same interest rate applicable to the discount of the defined-benefit obligation. This situation will have no impact on the Company's financial statements.

IFRS 7 (Amended) - Financial Instruments: Disclosures - Offsetting financial assets and liabilities

The IASB has issued on December 16, 2011, amendments to "IFRS 7 - Financial Instruments: Disclosures - Offsetting financial assets and liabilities", with effective date of application (retrospective) for periods beginning on or after January 1, 2013. These amendments were adopted by European Commission Regulation 1255/2012 of December 11.

The amendments now require an entity to disclose information about the amounts offset in the statement of financial position and the nature and extent of offsetting rights and similar agreements (e.g., collateral).

The new disclosures apply to all recognised financial instruments that are offset in accordance with IAS 32 Financial Instruments: Presentation. The disclosures are also applicable to recognised financial instruments that are subject to a master offset agreement or similar agreement, whether they have or have not been offset in accordance with IAS 32.

The Company expects that the adoption of the amendments to the IFRS will come to require more extensive disclosures about offset rights.

IAS 32 (Amended) - Financial instruments: Presentation - offsetting between financial assets and liabilities

The IASB issued on December 16, 2011, amendments to "IFRS 7 - Financial Instruments: Disclosures - Offsetting financial assets and liabilities", with effective date of application (retrospective) for periods beginning on or after January 1, 2014. These amendments were adopted by European Commission Regulation 1255/2012 of December 11.

The changes introduced now add implementation guidelines to resolve inconsistencies in practical application. The new guidelines clarify that the phrase "current legally enforceable right to offset " means that the right to offset may not be contingent, in the light of future events, and must be legally enforceable in the normal course of business, in the event of default and of insolvency or bankruptcy of the entity and all counterparties.

These implementing guidelines also specify the characteristics of the gross settlement systems so as to be equivalent settlement on a net basis.

The Company does not expect any significant impact from the adoption of these amendments.

IAS 27 (Amended) - Separate financial statements

The IASB issued on May 12, 2011, amendments to "IAS 27 - Separate Financial Statements", with effective date of application (prospectively) for periods beginning on or after January 1, 2014. These amendments were adopted by European Commission Regulation 1255/2012 of December 11.

Mindful of the review process of the definition of the consolidation perimeter, IAS 27 (amended) will only regulate separate accounts. The changes aimed, firstly, to clarify the disclosures required by an entity preparing separate financial statements, now required to disclose the main place (and country of its registered office) where the business of the more significant subsidiaries, associates and joint ventures takes place and, if applicable, of the parent company.

The previous version required only disclosure of the country or residence or seat of such entities. On the other hand, the date of entry into force and the need to adopt all the consolidation rules simultaneously were aligned (IFRS 10, IFRS 11, IFRS 12, IFRS 13 and amendments to IAS 28).

This change will have no impact on financial statements.

IFRS 10 – Consolidated financial statements

The IASB issued on May 12, 2011, amendments to "IAS 27 - Separate Financial Statements", with effective date of application (retrospective) for periods beginning on or after January 1, 2013. This standard was adopted by European Commission Regulation 1254/2012 of December 11, having allowed it to be imperatively applicable after January 1, 2014.

IFRS 10 repeals part of IAS 27 and SIC 12, and introduces a single control model that determines whether an investment must be consolidated. The new control concept involves the evaluation of power, the exposure to variability in returns and the connection between the two. An investor controls an investee when it is exposed (or has rights) to the variability in the returns generated by its involvement with the investee and may take possession of them through the power held over the investee (*de facto* control).

The investor considers to what extent it controls the relevant business of the investee, taking into account the new control concept. The evaluation must be made in each reporting period since the relationship between power and exposure to variability in the returns can change over time.

Control is usually assessed on the legal entity, but it can also be evaluated on specific assets and liabilities of an investee (referred to as "silos").

The new standard introduces other changes such as: i) the requirements for subsidiaries within the scope of the consolidated financial statements of transfer from IAS 27 to this standard and ii) increase the disclosures required, including specific disclosures about the structured entities, whether or not consolidated.

The Company does not expect any impact on its financial statements.

IFRS 11 - Joint arrangements

The IASB issued on May 12, 2011, amendments to "IAS 11 - Joint Arrangements", with effective date of application (retrospective) for periods beginning on or after January 1, 2013. This standard was adopted by European Commission Regulation 1254/2012 of December 11, having allowed it to be imperatively applicable after January 1, 2014.

This new standard, which repeals IAS 31 and SIC 13, defines "joint control", introducing the control model defined in IFRS 10 and requires an entity that is a party to a "joint agreement" determine the type of joint arrangement in which is involved ("joint operation" or "joint venture"), evaluating their respective rights and obligations, and account them accordingly.

IFRS 11 removes the option of proportionate consolidation for jointly--controlled entities. In turn, jointly-controlled entities that meet the criteria of "joint venture" must be accounted for using the equity method (IAS 28).

The Company does not expect any impact on its financial statements.

IAS 28 (Amendment) - Investments in associates and joint ventures

The IASB has issued on May 12, 2011, amendments to "IAS 28 - Investments in Associates and Joint Ventures", with effective date of application (prospective) for periods beginning on or after January 1, 2013. These amendments were was adopted by European Commission Regulation 1254/2012 of December 11, having allowed them to be imperatively applicable after January 1, 2014.

As a result of the new IFRS 11 and IFRS 12, IAS 28 has been amended and is now designated IAS 28 - Investments in Associates and Joint Ventures, and it governs the application of the equity method applicable both to joint ventures and to associates.

The Company does not expect any impact on its financial statements.

IFRS 12 - Disclosure of interests in other entities

The IASB issued on May 12, 2011, amendments to "IFRS 12 - Disclosure of Interests in Other Entities", with effective date of application (retrospective) for periods beginning on or after January 1, 2013. This standard was adopted by European Commission Regulation 1254/2012 of December 11, having allowed it to be imperatively applicable after January 1, 2014.

The aim of the new standard is to require an entity to disclose information that helps users of financial statements to assess: a) the nature and risks associated with investments in other entities and b) the effects of such investments on the financial position, performance and cash flows.

IFRS 12 includes disclosure requirements for all forms of investment in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles.

The Company is still assessing the impact of full implementation of IFRS 12 in line with the adoption of IFRS 10 and IFRS 11.

IFRS 13 – Fair value measurement

The IASB issued on May 12, 2011, amendments to "IFRS 13 – Fair value measurement", with effective date of application (retrospective) for periods beginning on or after January 1, 2013. This standard was adopted by European Commission Regulation 1255/2012 of December 11.

IFRS 13 provides a single source of guidance on how to obtain measurement of fair value and replaces all the guidelines currently dispersed throughout the IAS/IFRS. With limited exceptions, IFRS 13 is applied when the fair-value measurement or its disclosure is required or permitted by other IAS/IFRS.

The Company is currently reviewing its methodology for determining the fair value for the purpose of determining the impact of this standard, if any.

Although most of the disclosures required by IFRS 13 relating to financial assets and liabilities were in force, the adoption of IFRS 13 will require the Company to provide additional disclosures. These include disclosure of the fair value hierarchy for non-financial assets/ liabilities, and disclosures about fair value categorised as level 3.

Standards, amendments and interpretations issued but not yet in effect for the Company

Investment Entities - Amendments to IFRS 10, IFRS 12 and IAS 27 (issued on October 31, 2012)

The changes made apply to a particular class of businesses that are qualified as "investment entities". The IASB defines the term "investment entity" as an entity whose business purpose is to invest funds with the goal of obtaining a capital gain, income or both. An investment entity must also evaluate its performance in the investment at fair value. Such entities may include private equity , venture capital or development capital organisations, pension funds, health funds and other investment funds.

The amendments provide for elimination of the duty of consolidation under IFRS 10, and require such entities to measure the subsidiaries in question at fair value through profit or loss rather than consolidating them. The changes also define a set of disclosures applicable to such investment entities.

The changes apply to periods beginning on or after January 1, 2014, with voluntary early adoption. This option enables investment entities to apply the new changes when IFRS 10 come into force on January 1, 2013.

The Company does not expect any impact of the application of this amendment on its financial statements.

Improvements to IFRS (2009-2011)

The annual improvements of the 2009-2011 cycle issued by the IASB on May 17, 2012 introduced amendments, with effective date of the application (retrospective) for periods beginning on or after January 1, 2013 to IFRS 1 , IAS 1, IAS 16, IAS 32, IAS 34 and IFRIC 2.

- IAS 1 - Presentation of financial statements
  The improvements clarify the difference between voluntary additional comparative information and the minimum comparative information required. Generally, the minimum comparative information required is relative to the previous period.

- IAS 16 - Property, plant and equipment
  IAS 16 was amended to clarify the concept of service equipment that may meet the definition of tangible fixed assets and is therefore not accounted for in inventories.

- IAS 32 - Financial Instruments and IFRIC 2
  These standards have been adjusted to clarify that taxes related to the distribution of dividends to equityholders follow the treatment recommended in "IAS 12 - Income Taxes", thus avoiding any interpretation that could mean a different application.

- IAS 34 - Interim financial report
  The amendments to IAS 34 allows an alignment of the disclosure requirements for the total assets of the segments with the total liabilities, in interim periods. These improvements also allow the interim information to be consistent with the annual information regarding the modifications to the designation of the income statement and other comprehensive income.

The Company will not be affected by the adoption of these changes.

IFRS 9 - Financial Instruments (issued in 2009 and amended in 2010)

IFRS 9 (2009) introduced new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduced additional requirements related to financial liabilities. IASB currently has a project under way to make limited changes to the classification and measurement contained in IFRS 9 and new requirements for dealing with the impairment of financial assets and hedge accounting.

The requirements of IFRS 9 (2009) constitutes a significant change from the current requirements of IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset is measured at amortised cost if it is held within the business model whose objective is to hold the asset in order to collect the contractual cash flows and the terms of its cash flows give rise to collections, on specified dates, related only to the nominal amount and interest in force. All other financial assets are measured at fair value. The standard eliminates the existing categories currently in IAS 39, "held to maturity", "available for sale" and "accounts receivable and payable".

For an investment in equity instruments that is not held for trading, the standard allows an irrevocable designation, on initial recognition, on an instrument-by-instrument basis, of presentation of the fair--value movements in other comprehensive income (OCI). No amount recognised in OCI shall be reclassified to profit or loss at any future date. However, dividends generated by such investments are recognised as income in profit or loss rather than OCI, unless they clearly represent partial recovery of the investment cost.

Investments in equity instruments, the entity which fails to designate the presentation of fair-value movements in OCI shall be measured at fair value with movements recognised in profit or loss.

The standard requires that derivatives embedded in contracts whose host (master contract) is a financial asset within the scope of application of the standard shall not be separated; on the contrary, the hybrid financial instrument is assessed in its entirety in order to determine whether it is measured at amortised cost or at fair value.

IFRS 9 (2010) introduces a new requirement applicable to financial liabilities designated at fair value, by option, and comes to enforce the separation of the change in fair value component attributable to the credit risk of the entity and its presentation in OCI rather than in profit or loss. Except for this change, IFRS 9 (2010) transposes in general the classification and measurement guidelines contained in IAS 39 for financial liabilities, with no substantial changes. IFRS 9 becomes effective for annual periods beginning on or after January 1, 2015, early adoption permitted being permitted. The IASB decided to introduce limited changes to IFRS 9 in order to accommodate the practical issues and other aspects.

The Company made a start to a process of assessment of the potential effects of this standard but is awaiting the outcome of the announced changes, before completing the its assessment. Given the nature of the Company's business it can be expected that this standard will have a material impact on its 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	 Total
1 - AFFILIATES, ASSOCIATES, JOINT VENTURES AND OTHER RELATED COMPANIES							
1.1 - Domestic Securities							
1.1.1 - Holdings in affiliates							
1.1.2 - Holdings in associates							
ADVANCECARE	458,997			1.06	485,958.14	84.97	39,000,000.00
BES SEGUROS	750,000			5.01	3,758,668.00	24.80	18,600,000.00
ES CONTACT	831,251			2.22	1,846,077.58	4.81	4,000,000.00
ESUMEDICA	300,000			1.49	445,502.00	3.67	1,100,000.00
EUROPE ASSISTANCE	705,000			5.99	4,221,800.00	34.75	24,500,000.00
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	1.99	129,100,000.00
Subtotal	**72,045,248**				**108,246,596.72**		**236,300,000.00**
1.1.4 - Holdings in related companies							
COMPTA	306,960			1.64	503,699.84	0.11	33,765.60
ES INV PLC	1			2.77	2.77	1,526.60	1,526.60
ESAF - ACTIVOS FINANCEIROS	100			22.93	2,293.30	112.34	11,234.04
ESPIRITO SANTO SAÚDE	2,655,000			1.25	3,308,200.00	3.44	9,123,000.00
ESTELA GOLF	40			5,540.45	221,618.00	3,223.00	128,920.00
QUINTA DOS CONEGOS	140,600			3.15	443,241.40	5.07	712,417.40
Subtotal	**3,102,701**				**4,479,055.31**		**10,010,863.64**
1.1.8 - Debt securities of related companies							
BES PL 5.875% 11/15		12,400,000.00	102.48%	100.3%	12,433,245.00	103.3%	12,813,550.19
BES PL FLOAT 12/15 HTM		2,200,000.00	99.95%	100.0%	2,200,020.52	100.0%	2,199,656.93
BESLEASING FACT SUBORD 22/10/14		520,000.00	95.14%	100.2%	521,040.00	95.5%	496,416.99
BESPL 3.375% 02/15 HTM REPO		8,000,000.00	92.70%	92.4%	7,394,908.20	95.6%	7,650,849.40
BESPL 3.375% 02/15 REPO		2,000,000.00	98.05%	99.9%	1,998,878.00	101.0%	2,019,647.54
BESPL 3.875% 01/21/2015		3,000,000.00	97.63%	98.9%	2,965,910.96	101.3%	3,038,479.92
BESPL 5.625% 06/14 HTM		9,100,000.00	94.36%	89.3%	8,126,993.01	97.6%	8,883,933.71
Subtotal		**37,220,000.00**			**35,640,995.69**		**37,102,534.68**
Subtotal	**75,147,949**	**37,220,000.00**			**148,366,647.72**		**283,413,398.32**
1.2 - Foreign Securities							
1.2.2 - Holdings in associates							
TRQ ANGOLA	2,450			2,986.90	7,317,897.10	2,779.72	6,810,320.41
TRQ MOZAMBIQUE CS	49,998			27.23	1,361,259.95	25.52	1,276,148.27
TRQ MOÇAMBIQUE VIDA	66,998			27.02	1,810,331.96	25.52	1,710,038.69
Subtotal	**119,446**				**10,489,489.01**		**9,796,507.37**
1.2.8 - Debt securities of related companies							
ES FINANCIAL 8% 07/26/13 HTM		2,000,000.00	99.93%	100.0%	2,000,000.00	103.4%	2,067,879.78
ESPIRITO SANTO FINANCIER 7% 05/31/13		3,000,000.00	101.25%	99.8%	2,992,500.00	105.4%	3,160,623.29
Subtotal		**5,000,000.00**			**4,992,500.00**		**5,228,503.07**
Subtotal	**119,446**	**5,000,000.00**			**15,481,989.01**		**15,025,010.44**
Total	**75,267,395**	**42,220,000.00**			**163,848,636.73**		**298,438,408.76**
2 - OTHER							
2.1 - Domestic securities							
2.1.1 - Capital instruments and unit trustso							
2.1.1.1 - Equities							
COMP. PREVIDENTE	6			532.54	3,195.23	0.00	0.00
COMP. PREVIDENTE SCPF	198			109.86	21,752.48	317.41	62,846.34
FETAL	2,760			20.84	57,528.12	0.00	0.00
HOTEL TURISMO ABRANTES	125			0.00	0.00	2.75	343.21
MADIBEL	7,955			0.01	80.88	0.00	0.00
SONAGI	55,600			0.44	24,293.86	1.00	55,600.00
SONAGI AN	100			0.06	5.51	0.01	1.00
SPECTACOLOR PORTUGAL	7,500			14.66	109,986.38	11.89	89,170.18
CASSEL	200			0.00	0.00	0.00	0.00
COMUNDO	2,008			0.00	0.00	0.00	0.00
ILIDIO MONTEIRO CONSTRUÇÕES	41,675			0.00	0.00	0.00	0.00
PORTO CAVALEIROS, SGPS	2,483			0.00	0.00	0.00	0.00
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	**121,826**				**216,842.46**		**207,960.73**

(expressed in euros)

Identification of the Securities	Quantity	Amount of Par Value	% of Par Value	Average Acquisition Cost	Total Acquisition Cost	Book Value (Including Accrued Interest)	
Designation						Unit	Total
2.1.1.3 - Investment fund units							
BANCO BIC TESOURARIA	272,188			5.51	1,500,000.00	5.60	1,525,231.82
CIMOVEL	561,147			5.35	3,000,004.09	5.37	3,012,629.90
ES LOGISTICA	80,000			5.00	400,000.00	5.00	400,000.00
ES TRADING FUND	10,000			104.80	1,048,000.00	104.28	1,042,800.00
FUNDO DE INVEST. IMOB. CORPUS CHRISTI	11,650			997.51	11,620,936.46	992.51	11,562,701.89
FUNGERE (UP)	1,595,600			3.18	5,075,124.92	3.17	5,059,168.92
IMOCRESCENTE FD DE INV IMOB FECHADO	10,075			997.11	10,045,409.87	994.23	10,016,417.09
IMOPRIME FUNDO DE INV IMOB FECHADO	20,695			974.26	20,162,642.94	956.44	19,793,815.81
Subtotal	**2,561,355**				**52,852,118.28**		**52,412,765.43**
Subtotal	**2,683,181**				**53,068,960.74**		**52,620,726.16**
2.1.2 - Debt securities							
2.1.2.1 - Public debt							
BT 0% 03/21/14 REPO		8,250,000.00	96.83%	96.2%	7,935,551.19	96.8%	7,988,475.00
PT OT 3.35% 10/15/15		1,000,000.00	98.26%	97.6%	975,750.00	99.0%	989,667.12
PT OT 3.35% 10/15/15 HTM REPO		16,500,000.00	94.02%	93.9%	15,486,621.89	94.7%	15,629,163.96
PT OT 3.35% 10/15/15 REPO		2,000,000.00	98.26%	97.6%	1,952,860.91	99.0%	1,979,334.25
PT OT 3.6% 10/15/14		2,000,000.00	100.28%	98.1%	1,962,000.00	101.0%	2,020,689.04
PT OT 3.6% 10/15/14 HTM REPO		5,000,000.00	96.96%	96.8%	4,841,439.90	97.7%	4,885,773.60
PT OT 4.2% 10/15/16		2,175,000.00	98.22%	95.2%	2,069,512.50	99.1%	2,155,447.35
PT OT 4.2% 10/15/16 HTM REPO		3,000,000.00	94.08%	94.0%	2,819,150.54	95.0%	2,848,948.24
PT OT 4.35% 10/16/17 HTM REPO		1,500,000.00	92.58%	92.5%	1,387,211.51	93.5%	1,402,325.81
PT OT 4.45% 06/15/18		200,000.00	92.66%	84.1%	168,286.00	95.1%	190,162.33
PT OT 4.75% 06/14/19 HTM REPO		3,250,000.00	90.93%	90.8%	2,952,226.75	93.6%	3,041,007.58
PT OT 4.8% 06/15/20 HTM REPO		12,000,000.00	89.68%	89.6%	10,750,455.23	92.3%	11,079,419.65
PT OT 4.95% 10/25/23		100,000.00	84.25%	74.2%	74,150.00	85.2%	85,158.63
PT OT 6.4% 02/15/16 HTM REPO		2,500,000.00	99.83%	99.8%	2,495,322.70	105.4%	2,635,610.91
PT OT 6.4% 02/15/2016		1,327,492.00	103.78%	101.4%	1,346,740.63	109.4%	1,452,019.09
PT OT 6.4% 02/15/2016 REPO		672,508.00	103.79%	101.4%	682,085.04	109.5%	736,220.66
Subtotal		**61,475,000.00**			**57,899,364.79**		**59,119,423.22**
2.1.2.2 - Other public issuers							
PARPUBLICA 3.5% 07/13		3,100,000.00	98.75%	98.9%	3,065,000.00	100.4%	3,113,567.81
Subtotal		**3,100,000.00**			**3,065,000.00**		**3,113,567.81**
2.1.2.3 - Other issuers							
BANCO BPI 3.25% 01/15 HTM REPO		4,500,000.00	93.12%	92.9%	4,178,455.56	96.2%	4,330,673.47
BANIF FINANCE 22/12/2016		2,000,000.00	55.56%	100.2%	2,004,000.00	55.6%	1,111,916.50
BCP 04/14 5.625% HTM		3,500,000.00	93.74%	90.2%	3,158,472.48	97.7%	3,418,878.14
BCP 3.75% 10/16 HTM		3,000,000.00	87.01%	84.6%	2,538,121.53	87.9%	2,636,683.78
BCP 9.25% 10/14		1,300,000.00	106.50%	106.5%	1,384,500.00	108.5%	1,410,526.71
BCP PL FLOAT 02/13		100,000.00	99.28%	94.7%	94,700.00	99.4%	99,383.83
BRISA 6.875% 04/18 REPO		2,500,000.00	105.31%	99.5%	2,487,157.60	107.0%	2,675,793.75
CXGD 3.625% 07/14 REPO		3,000,000.00	99.54%	100.5%	3,014,987.49	101.2%	3,034,795.07
CXGD 4.25% 01/20 REPO		2,500,000.00	91.93%	99.8%	2,494,282.55	95.9%	2,396,536.89
CXGD 5.125% 02/14		3,300,000.00	100.88%	102.9%	3,397,066.12	105.3%	3,474,895.49
CXGD 5.625% 12/15		2,000,000.00	102.78%	99.7%	1,993,280.00	103.2%	2,063,821.92
EDP FINANCE 3.25% 03/15 REPO		3,000,000.00	100.03%	99.7%	2,991,396.46	102.6%	3,078,215.76
EDP FINANCE 4.75% 09/26/2016 REPO		3,000,000.00	103.00%	103.4%	3,103,453.62	104.2%	3,127,479.45
EDP FINANCE 5.5% 02/14 REPO		1,000,000.00	102.93%	99.3%	993,279.04	107.7%	1,076,886.61
PORTUGAL TELECOM 5.875% 04/18		200,000.00	103.26%	99.3%	198,670.88	104.5%	208,924.38
PORTUGAL TELECOM 5.875% 04/18 REPO		10,000,000.00	103.26%	99.5%	9,947,097.54	104.5%	10,447,895.84
REFER 4% 03/16/15 HTM		5,000,000.00	93.72%	89.8%	4,488,529.39	96.9%	4,845,039.82
SEMAPA 20/04/2016		700,000.00	89.25%	99.5%	696,500.00	89.6%	627,208.40
EMASA		5,000.00	0.00%	0.0%	0.00	0.0%	0.00
P.CAVALEIROS		17,500.00	0.00%	0.0%	0.00	0.0%	0.00
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
Dep Prazo EUR BES					71,823,162.36		71,865,282.70
Dep Prazo EUR MG					36,022,165.53		36,303,723.67
Dep Prazo EUR CXGERALDEP					70,000,000.00		70,007,291.67
Dep Prazo EUR BCP					5,526,561.27		5,526,561.27
Dep Praz EUR Barclays					5,000,000.00		5,122,787.50
Dep Prazo EUR BBVA					22,500,000.00		22,542,008.70
Subtotal		**50,634,000.00**			**260,035,839.42**		**261,433,211.32**
Subtotal		**115,209,000.00**			**321,000,204.21**		**323,666,202.35**
Total	**2,683,181**	**115,209,000.00**			**374,069,164.95**		**376,286,928.51**

(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
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**
2.2.1.3 - Investment fund units								
2BCAPITAL LUXEMBOURG SICAR		100			1,000.00	100,000.00	989.55	98,955.00
DBX S&P 500 EUR HEDGED ETF		120,000			21.10	2,532,457.02	21.33	2,559,720.00
ES RENDIMENTO PLUS		1,675,600			7.48	12,525,947.80	7.46	12,499,808.44
EUROFIN SICAV SIF		7,265			1,000.01	7,264,776.08	961.62	6,985,909.66
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		5,602			545.50	3,055,999.55	542.24	3,037,736.39
	Subtotal	**1,808,597**	**0.00**			**25,512,823.61**		**25,214,825.04**
	Subtotal	**1,936,337**	**0.00**			**25,512,823.61**		**25,214,825.04**
2.2.2 - Debt securities								
2.2.2.1 - Public debt								
BONOS Y OBLIG DEL ESTADO 5.85% 01/22			900,000.00	104.13%	101.0%	909,030.06	109.5%	985,315.57
BTPS 5.5% 11/22			100,000.00	108.29%	107.9%	107,920.00	109.2%	109,194.11
BUNDES 1.75% 06/14/13 REPO			9,000,000.00	100.71%	100.9%	9,077,670.00	101.7%	9,149,751.37
BUNDESOBL 2.25% 04/10/2015 HTM REPO			1,000,000.00	100.77%	100.8%	1,007,936.61	102.4%	1,024,006.01
FRANCE OAT 4% 10/25/13 REPO			1,000,000.00	103.17%	102.9%	1,028,918.49	103.9%	1,039,042.47
IRISH GOVT 4.6% 04/16 HTM REPO			2,000,000.00	90.36%	90.1%	1,802,880.36	93.6%	1,871,936.21
LUXEMBOURG GOVT 3.75% 12/04/13 REPO			1,500,000.00	103.22%	102.6%	1,539,177.61	103.5%	1,552,548.75
NETHERLANDS GOVT 2.5% 01/17 HTM REPO			1,250,000.00	99.39%	99.4%	1,242,258.68	101.8%	1,272,406.67
NETHERLANDS GOVT 3.25% 07/15 HTM REPO			750,000.00	102.52%	102.6%	769,519.84	104.0%	780,204.74
NETHERLANDS GOVT 4.25% 07/13 REPO			5,000,000.00	102.21%	102.5%	5,123,981.40	104.2%	5,208,640.42
	Subtotal	**0**	**22,500,000.00**			**22,609,293.05**		**22,993,046.32**
2.2.2.2 - Other public issuers								
COMUNIDAD MADRID 4.75% 03/15			100,000.00	97.82%	93.5%	93,500.00	101.5%	101,460.84
EFSF 2.75% 12/16 HTM REPO			2,500,000.00	99.73%	99.7%	2,493,048.93	99.9%	2,498,026.38
EUROPEAN INVEST BANK 3.625% 10/15/13 REPO			2,000,000.00	102.72%	102.0%	2,040,803.36	103.5%	2,069,906.94
GENERALITAT DE CATALUNYA 3.875% 04/15			200,000.00	91.27%	85.6%	171,250.00	94.1%	188,230.41
PARPUBLICA 4.191% 10/14			500,000.00	98.53%	96.8%	484,150.00	99.4%	497,045.64
	Subtotal	**0**	**5,300,000.00**			**5,282,752.29**		**5,354,670.21**
2.2.2.3 - Other issuers								
ABERTIS 4.625% 10/16 REPO			8,000,000.00	105.23%	102.4%	8,193,710.45	106.2%	8,497,228.49
AIR FRANCE - KLM 6.25% 01/18			700,000.00	104.38%	99.5%	696,157.00	104.7%	732,662.67
ALLIED IRISH BANKS 5.625% 11/12/14			200,000.00	100.72%	99.4%	198,700.00	101.5%	202,958.27
ASCENDI FINANCING 8.75% 07/13 HTM			1,000,000.00	99.91%	100.0%	1,000,000.00	104.3%	1,043,006.86
BANK OF IRELAND 4.625% 04/13			100,000.00	100.00%	93.8%	93,825.00	103.4%	103,383.22
BANKIA SA FLOAT 13			100,000.00	96.28%	85.3%	85,300.00	96.3%	96,285.53
BASF 1.5% 10/18 REPO			4,000,000.00	101.97%	102.0%	4,078,560.00	102.3%	4,093,598.91
BBVA 3.5% 12/17 REPO			3,000,000.00	100.19%	100.0%	3,000,000.00	100.4%	3,013,223.33
CARREFOUR 1.875% 12/17			500,000.00	100.09%	99.6%	498,065.00	100.2%	500,758.22
CORP PROP INV 7,18% 09/01/2013			500.00	78908.59%	85730.9%	428,654.31	80722.6%	403,612.75

(valores em euros)

Identification of the Securities	Quantity	Amount of Par Value	% of Par Value	Average Acquisition Cost	Total Acquisition Cost	Book Value (Including Accrued Interest)	
Designation						Unit	Total
DAIMLER 1.75% 01/20 REPO		4,000,000.00	99.83%	99.3%	3,972,800.00	100.0%	4,000,871.23
DEXIA CREDIT LOCAL 5.375% 07/14		50,000.00	101.94%	86.0%	43,000.00	104.3%	52,169.17
DOURM 1 A		553,732.61	72.14%	99.2%	549,510.42	72.2%	399,525.01
ERSTE BANK 19/07/2017		7,000,000.00	90.69%	100.4%	7,031,229.42	90.9%	6,363,873.25
FIAT 7.75% 10/16		100,000.00	105.93%	102.2%	102,150.00	107.5%	107,522.47
GE CAPITAL EUR FUND FLOAT 05/17/21 REPO		2,000,000.00	92.18%	99.6%	1,992,766.11	92.2%	1,844,536.89
GOLDMAN SACHS FLOAT 01/30/17 REPO		8,000,000.00	94.85%	99.9%	7,988,343.00	94.9%	7,595,244.00
GOLDMAN SACHS FLOAT 05/23/16 REPO		3,000,000.00	95.92%	100.0%	2,998,707.76	96.0%	2,879,430.00
HBOS PLC 09/01/2016		5,500,000.00	96.48%	100.5%	5,527,821.64	96.5%	5,308,628.42
HIPOT 5 A2		239,395.23	73.00%	97.9%	234,367.93	73.0%	174,826.40
HSH NORDBANK AG 14/02/2017		5,000,000.00	90.18%	100.0%	5,001,108.56	90.3%	4,515,246.17
IBM CORP 1.375% 11/19/19		3,000,000.00	98.81%	98.9%	2,967,800.00	99.0%	2,968,926.57
JP MORGAN 12/10/2015		3,000,000.00	96.92%	100.3%	3,009,900.00	97.1%	2,911,583.33
KFW 0.875% 11/15/13 REPO		2,000,000.00	100.67%	100.3%	2,006,506.99	100.8%	2,015,645.48
KION 2006-1 A		502,224.62	60.00%	98.1%	492,858.50	60.1%	301,713.21
LEV FIN CAP II 02/09/2016		1,886,233.39	101.58%	97.6%	1,840,209.29	102.0%	1,923,150.75
LLOYDS FLOAT 20 03/12/2020		3,000,000.00	72.38%	100.0%	3,000,300.00	72.5%	2,176,448.08
LTR INVEST FLOAT 10/16		4,000,000.00	100.00%	100.0%	4,000,035.00	100.1%	4,003,925.33
LTR INVEST FLOAT 10/2016		2,000,000.00	100.00%	100.0%	2,000,061.73	100.1%	2,001,962.67
MAGEL 3 A		503,690.40	69.66%	98.6%	496,638.74	69.7%	351,063.42
MAPFRE SA 5.125% 11/15		100,000.00	104.68%	100.0%	100,000.00	105.3%	105,315.85
MERRILL LYNCH & CO 14/09/2018		10,000,000.00	87.13%	99.9%	9,991,944.00	87.2%	8,715,961.39
METRO FINANCE 2.25% 05/18 REPO		1,000,000.00	101.84%	99.5%	994,880.00	102.0%	1,019,632.88
MONTE DEI PASCHI SIENA 4.125% 11/13		100,000.00	99.61%	97.3%	97,250.00	100.2%	100,174.07
MORGAN STANLEY FLOAT 04/13/16 REPO		5,000,000.00	94.92%	99.9%	4,993,394.74	95.1%	4,752,543.06
NATL CAPITAL INSTRUMENTS PERP		2,000,000.00	98.29%	102.7%	2,054,100.00	98.3%	1,965,983.13
PELIC 2 A		218,926.80	82.84%	98.6%	215,814.38	82.9%	181,407.88
PELICAN 3 A		777,602.82	62.00%	97.5%	758,066.55	62.0%	482,221.92
PSA FINANCE 4.25% 02/16		100,000.00	102.80%	95.7%	95,712.00	106.4%	106,399.73
RABOBANK 4.25% 04/14 REPO		2,000,000.00	104.94%	103.1%	2,062,477.74	107.9%	2,158,496.11
REFER 4% 03/16/15		100,000.00	90.44%	90.6%	90,625.00	93.6%	93,621.08
ROYAL BK SCOTLAND 49		4,500,000.00	98.61%	101.6%	4,572,126.00	98.8%	4,446,499.40
SANTANDER CONSUMER 3.25% 06/14		100,000.00	100.66%	99.9%	99,947.00	100.8%	100,753.95
SANTANDER CONSUMER FLOAT 09/28/2016 REPO		4,000,000.00	92.13%	100.1%	4,003,414.77	92.1%	3,685,595.33
SANTANDER ISSUANCES 23/03/2017		3,000,000.00	83.13%	100.1%	3,003,895.80	83.1%	2,494,039.33
SOCIETE GENERALE 1% 12/19/17		4,000,000.00	99.85%	99.8%	3,991,340.00	99.9%	3,995,235.07
THEME 4 A		678,024.94	60.71%	97.2%	659,108.04	60.8%	411,961.23
UNICREDIT SPA 3.375% 01/18 REPO		1,000,000.00	100.88%	99.7%	996,870.00	101.1%	1,010,629.32
XSTRATA FINANCE 2.375% 11/18		1,000,000.00	100.12%	99.6%	996,080.00	100.4%	1,003,882.88
ISLANDSBANKI 25/11/2013		1,000,000.00	0.00%	100.9%	1,008,768.51	0.0%	0.00
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
HIDRO E REVUE		24.00	0.00%	0.0%	0.00	0.0%	0.00
Subtotal	**0**	**113,610,584.81**			**114,314,901.38**		**107,413,363.71**
Subtotal	**0**	**141,410,584.81**			**142,206,946.72**		**135,761,080.24**
Total	**1,936,337**	**141,410,584.81**			**167,719,770.33**		**160,975,905.28**
2.3 - Trading derivatives							
Currency forwards							1,920.90
Subtotal	**0**	**0.00**			**0.00**		**1,920.90**
Total	**4,619,518**	**256,619,584.81**			**541,788,935.28**		**537,264,754.69**
3 - GRAND TOTAL	**79,886,913**	**298,839,584.81**			**705,637,572.01**		**835,703,163.45**

08. Disclosure of the Remuneration Policies

Best Call Center of the Insurance Industry

Tranquilidade was distinguished by the Portuguese Contact Centers Association (APCC) for the quality of its Contact Center - Customer Line. The Company came first in the ranking of the APCC Best Awards 2012, the industry's biggest prizes, recognised for its service of excellence.

08. Disclosure of the Remuneration Policies

This disclosure involves the following 3 components:

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

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

1. Remuneration Policy

1.1. 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 Tranquilidade directors is determined.

At this time the Remuneration Committee comprises two members elected by the General Meeting held on March 28, 2012, for a four-year term ending 2015.

c) Composition of the Remuneration Committee

Ricardo Espírito Santo Silva Salgado
Degree in Economics at Instituto Superior de Ciências Económicas e Financeiras of the Universidade Técnica de Lisboa. 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, S.A., Bespar - SGPS, S.A., and Partran, SGPS, S.A.. 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
Degree in Economics with specialisation in Business Management and Administration Direction and Business Administration at the University of Évora (formerly Instituto de Estudos Superiores de Évora). Chair of Banque Privée Espírito Santo, S.A., executive director of Banco Espírito Santo and deputy-chairman of Espírito Santo Financial Group, S.A..

A representative of the Remuneration Committee attends all General Meetings.

d) External consultants

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

1.2. 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.

1.3. 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 chairs the Board. Its members are remunerated through payment of a fixed monthly sum paid 12 times a year.

1.4. Remuneration of the Official Auditor

The Official Auditor is remunerated in accordance with the conditions legally determined on the basis of 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.

1.5. 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.

1.6. 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.

Pursuant to the recommendation provided for in section IV.10 of Insurance Institute of Portugal Circular 6/2010, of April 1, the non-executive members of the Board of Directors are not assigned any variable remuneration, earning only the fixed remuneration provided for 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.

1.7. 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

The limits of the fixed part fixed by the Remuneration Committee or by the General Meeting shall be neither more than 80% nor less than 40% of the Total Annual Remuneration.

Without prejudice to the foregoing, the amount to be distributed among the corporate officers, as and when awarded, 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 remuneration component will vary each year, depending on the degree of fulfilment of the main annual objectives set out in the annual budget, as approved by the Board of Directors.

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

The variable remuneration is in respect of short-term performance. The variable remuneration is calculated at the beginning of each 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 Income for the Period, 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.

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 a stock option has not been considered in this remuneration policy. Consequently, there are no plans to award Tranquilidade shares or stock options or those of any other Group company to the members of the Executive Committee.

f) Performance assessment criteria

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

- Net Income for the period;
- Return on equity;
- Combined ratio.

Without prejudice to the analysis of the foregoing indicators, the assessment process shall 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 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 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 unfair of a director 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.

2. 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, S.A., 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) 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) Right to the retirement pension or pension supplement can be brought forward to the date on which Directors reach the age of fifty-five, provided they have performed these duties at Tranquilidade for a minimum of nine years, consecutive or interpolated;

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

Pensions and pension supplements to be awarded, from which the annual retirement pension granted by social security and/ or any financial company shall be deducted, shall not exceed the pensionable salary of the Director in question. For the purpose, 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' pension or pension complement for old age or disability entitlement were appraised and approved by the General Meeting held on February 27, 2007.

By virtue of the entry into force of the new collective bargaining agreement applicable to the insurance business, the pension fund regulations are currently being adjusted accordingly, the changes being currently being apprised by the Insurance Institute of Portugal. Once these amendments are approved, they will be submitted to the General Meeting Assembly as stipulated in article 24 of the articles of association.

3. 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.

4. Table of Remuneration Paid to Tranquilidade's Corporate Officers During 2012

(thousand euros)

	Remuneration		
	Fixed	Variable	Total
Executive Committee			**2,198.8**
Pedro Guilherme Beauvillain de Brito e Cunha (chairman)	219.9	291.7	511.6
Augusto Tomé Pires Fernandes Pedroso	188.4	233.4	421.8
António Miguel Natário Rio-Tinto	188.4	233.4	421.8
Miguel Maria Pitté Reis da Silveira Moreno	188.4	233.4	421.8
Nuno Miguel Pombeiro Gomes Diniz Clemente	188.4	233.4	421.8
Board of Directors			**355.3**
Rui Manuel Leão Martinho (chairman)	73.5	-	73.5
Miguel Luís Kolback da Veiga	45.7	-	45.7
António José Baptista do Souto	45.7	-	45.7
Manrico Iachia	45.7	-	45.7
António Manuel Rodrigues Marques	109.7	-	109.7
Bernardo Leite Faria Espírito Santo	35.0	-	35.0
Board of Auditors			**88.2**
Alexandre Paixão Coelho (chairman)	55.0	-	55.0
Rui Manuel Duarte Sousa da Silveira	16.6	-	16.6
António Ricardo Espírito Santo Bustorff	16.6	-	16.6
Total Remuneration	**1,417.0**	**1,225.3**	**2,642.3**

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, S.A., and Seguros LOGO, S.A.), the costs stemming from this fact having been duly imputed.

Key Employee Remuneration Policy

1. 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, Assistant Manager, Service Manager or Head 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 of April 1;

c) To all employees occupying 1st level management posts (Top Managers) and Board of Directors' Advisers, regardless of the area in which they work.

because it is understood that - besides the members of the governing bodies - these professionals, 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.

2. 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 capital required.

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 Tinto – 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
Bernardo Leite Faria Espírito Santo

d) External Consultants

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

3. 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 in the Company to approximately 84% of the Total Annual Remuneration.

In individual terms, the weight of the variable remuneration to be considered for each year shall not exceed 30% of the total 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.

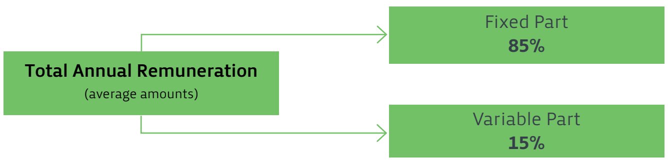
c) Balance in the remuneration

The fixed part is on average, for all the Company's employees, about 85% of the total remuneration, the remaining 15% awarded 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 vary, 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 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 Annual Variable Remuneration (AVR) is related to short-term performance and will have, on average, a weight of approximately 15% of the Total Annual Remuneration.

The maximum AVR 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.

Bearing in mind the characteristics inherent in the remuneration structure in force, the maximum considered and the established risk--tolerance levels, it was not considered necessary to defer a portion of the AVR, which is paid in full on one occasion in cash after approval of the accounts for the year 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 AVR comprising stock option in the Company has not been considered in the present remuneration policy. Consequently, there are no plans to award shares or stock options in respect of shares in Tranquilidade or any other Group company.

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.

4. 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 the CBA for the insurance industry and in the internal regulations;

b) Life Insurance, as defined in the CBA for the insurance industry;

c) Establishment of individual supplemental retirement plans as defined by in the CBA for the insurance industry.

5. Broadening the Scope of this 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 1 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 of April 1, 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 – Statement 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 of April 1, adopted and not adopted.

Recommendation		Complies	Does Not Comply	Comments
I.	**General Principles**			
I.1	Adoption of a remuneration policy (RP) 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 (RP)**			
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 of 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 and its implementation each year, 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 shall 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 to provision of external services by consultants.
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.	✓		
IV.	**Management Body - Executive Members**			
IV.1	The remuneration shall include a variable component, its determination dependent on an assessment of performance in keeping with predetermined, measurable criteria, including non-financial criteria, that take into account: individual performance, real growth of the institution, wealth actually created, protection of the customers interests, long-term sustainability, risks assumed and compliance with the rules applicable to the business;		✗	At this stage, the assessment criteria are based solely on the following management indicators: - Net income 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 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, appreciation of which is dependent on medium- and long-term performance;		✗	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.

Recommendation		Complies	Does Not Comply	Comments
IV.	**Management Body - Executive Members (continuation)**			
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 the increasing proportion of its weight relative to the fixed component;		X	Not applicable in view of the response to point IV.4.
IV.6	Absence of contracts concluded 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 on the benefit generated by the shares in question;		X	Not applicable in view of the response to point IV.3.
IV.8	Where 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.	✓		
IV.	**Management Body - Indemnity in the Event of Dismissal**			
IV.11	Definition of adequate legal instruments to ensure that the compensation established 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.	✓		
V.2	Substantial payment of a 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 on regulated.
V.	**Employee Remuneration – Variable Remuneration Allocation Criteria**			
V3.	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 award 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.	**Key Employee Remuneration – 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.

Recommendation		Complies	Does Not Comply	Comments
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 of the capital of the institution;	✓		
VI.3	The key departments shall present to the management body and the AGM or, if any, the remuneration committee, a report on the results of the assessment to which number VI.1 refers, detailing in particular the measures required to correct any insufficiencies in the light of these recommendations.	✓		
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--Employees Remuneration Policy of Companhia de Seguros Tranquilidade, S.A., in respect of T-Vida, Companhia de Seguros, S.A., and Seguros LOGO, S.A.. 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, S.A., 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 form 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.	✓		

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

Best Major Non-Life Insurer

BANCA & SEGUROS
Exame
2012

Tranquilidade was distinguished the "Best Major Non-Life-Insurer" by Exame magazine. This is now the fourth time the Company has been distinguished since the initiative was created in 2000.

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, 2012, (which shows a total of €1,184,609k and total equity in the sum of €327,117k, including a net profit of €18,457k), the Profit & Loss Account, the Statement of Comprehensive Income, the Statement of Cash Flows 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, 2012, the results of its operations and its cash flows during the year then ended, in accordance with accounting practices generally accepted for the insurance industry in Portugal.

REPORT ON OTHER LEGAL REQUIREMENTS

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

Lisbon, March 12, 2013

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, 2012, 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 regularly monitored the Company's business and its management throughout 2012, 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 and Compliance 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.

In this way we found with satisfaction that the Company continued to adopt a policy of rational use of resources and cost control, its operational and financial activities governed by a risk-minimisation policy particularly recommended at this juncture.

Equity in 2012 fell by €53,186k from the previous year, to stand at €327,117k. This decrease is primarily the result of the changes in the Revaluation Reserve and also by the reduction of the Net Income as explained in paragraph 2.4.9 of the Management Report. The solvency ratio stood at 526%, compared to 671% for 2011.

Our activity in 2012 dealt with particular interest and detail with the planning and implementation of the measures directed at adapting 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 Overall Risk Management, Internal Control, Compliance and Internal Audit, aimed at adoption of 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 of recent years, 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 2012-15.

On termination of 2012 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, 2012.

In due course and pursuant to Article 452.1 of the Companies Code, the Board of Auditors also appraised the content of the Legal Certification of the Accounts dated March 12, 2013, issued by the said Official Auditor regarding the financial statements with it is 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 February 5, 2013, and the other accounting documents for the period ended December 31, 2012, 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 2012 net income in the sum of €18,457,216.49 under the terms set out in point 2.5 of the Management Report referred to above.

Lisbon, March 15, 2013

The Board of Auditors

Alexandre da Paixão Coelho – Chairman
Rui Manuel Duarte Sousa da Silveira – Member
António Ricardo Espírito Santo Bustorff – Member