ANNUAL REPORT AND ACCOUNTS

2013

TRANQUILIDADE

BEST LARGE NON-LIFE INSURER

BRAND OF EXCELLENCE

CONSUMER CHOICE IN THE INSURANCE CATEGORY

BEST CALL CENTER OF THE INSURANCE INDUSTRY

INSURER WITH THE BEST REPUTATION

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TRANQUILIDADE

01

CORPORATE OFFICERS

TRANQUILIDADE

01. CORPORATE OFFICERS

EXECUTIVE COMMITTEE

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
Horácio Lisboa Afonso
Alternate Member
Alternate Member

Official Auditor

José Manuel Macedo Pereira
Alternate
Ana Cristina Soares Valente Dourado
on behalf of KPMG e Associados

02

DIRECTORS' REPORT

TRANQUILIDADE

02. DIRECTORS' REPORT

To the Members of Companhia de Seguros Tranquilidade, SA,

Under the law and the articles of association, the Board of Directors is honoured to present to you for appraisal the Management Report and Accounts of Companhia de Seguros Tranquilidade, SA (hereinafter Tranquilidade or Company), in respect of 2013.

2.1 / Macroeconomic Framework

The year under review was marked by a recovery of global economic activity, particularly visible in the major developed economies, underpinned by a recovery of activity in Europe.

2.1.1 / International Economic Situation

The economy of the United States recorded a growth of 1.9% in 2013, slower than the previous year (2.8%), but with a more dynamic performance in the second half of the year. The progress seen in the balances of households and businesses, the recovery off the employment market, rising housing prices and the good performance of the stock market contributed to the recovery of economic activity in the second half of the year, with greater dynamism in private consumption and investment.

The recovery of economic activity resulted in an improvement of the employment market, with the jobless rate falling back from 8.1% to 6.7% of the active population. The American public deficit dropped from 9.3% to 6.5% of the GDP, reflecting the restraint in public spending and the recovery of the activity. With inflation at low levels (close to 1.5%) and with the absence of inflationary pressures, the Federal Reserve maintained throughout the year the asset acquisition (quantitative easing) programme set in 2012, at the monthly rate of 85 billion dollars, keeping the fed funds target rate between 0% and 0.25%.

In the Euro area, 2013 was marked by stabilisation of the financial and economic conditions, despite the occurrence of some adverse factors, particularly the political instability in Italy and the financial crisis of Cyprus. The greater stability of financial market conditions resulted from the sharp downturn of the systemic risks associated with the sovereign debt crisis, as well as a progressive improvement of the growth prospects of the activity. Also the new steps towards the consolidation of the banking union contributed to the improvement of confidence.

Throughout the year as a whole, the GDP of the Euro area fell by 0.4%, the result of the significant setback of activity in the first quarter. However, the second quarter was marked by positive growth and by recovery of activity, which became more vigorous up to the end of the year, and the 0.5% GDP growth in the fourth quarter should be stressed. The unemployment rate remained high, having risen on average from 11.4% to 12.1% of the active population.

Within this context, annual inflation fell from 2.5% in 2012 to 1.4% in 2013. In May, the ECB cut the refi rate by 25 basis points, from 0.75% to 0.5%, and in November, when faced with a significant deceleration of prices (with the y-o-y inflation rate falling to 0.7%), implemented a further 25 basis point reduction of the rate, to a low of 0.25%. Besides these decisions, the ECB extended until (at least) mid-2015 the unlimited provision of liquidity in refinancing operations.

On the other hand, it implemented an unprecedented forward guidance mechanism with regard to monetary policy, signalling that the refi rate would be kept low during a long time. However, the 3-month Euribor rose 6 basis points in the fourth quarter and 10 basis points over the year, to 0.287%, reflecting mainly the reduction of liquidity associated with the increase of reimbursements of LTROs by banks. The EUR appreciated nearly 4.5% against the USD, to EUR/USD 1,379.

The recovery of activity in the Euro area extended to the peripherals economies, which returned to positive growth in the second half of the year, as is the case of Spain which, although in the 2013 the GDP shrank 1.2%, showed signs of progressive stabilisation of economic activity, with quarterly variations of 0.1% and 0.3% in the third and fourth quarters, respectively.

In the USA and Europe, the recovery of growth and confidence within the context of expansionary monetary policies was particularly beneficial to the equity market. In the USA S&P 500 and NASDAQ indices recorded gains of 29.6% and 38.3%, respectively. In Europe, the DAX, CAC and the IBEX advanced 25.5%, 18% and 21.4%, respectively. With the recovery of activity and with the Reserve signalling an attenuation of quantitative easing, the yields of 10-year Treasuries and Bunds rose, in 2013, from 1.758% to 3.029% and from 1.316% to 1.929%, respectively.

2.1.2 / Domestic Economic Situation

In Portugal, the good performance of exports and a trend of stabilisation in domestic demand resulted in a recovery of activity as from the second quarter of 2013. The GDP fell by an annual 1.4% in 2013, but with positive quarterly variations as from the send quarter (1.1%, 0.3% and 0.5%) and with a return to y-o-y growth in the fourth quarter (1.6%, after 11 quarters of contraction). This intra-annual performance of economic activity coincided with a gradual improvement of household and business confidence indicators, with the European Commission's Economic Sentiment Indicator approaching its long-term average.

Portuguese economic growth continued to be conditioned by the deleveraging process underway in the various sectors. Throughout the year, private consumption and gross fixed capital formation declined in real terms (by -1.7% and -6.6%, respectively), though significantly less intense sharply in 2012 and recovering in the latter part the year.

At the annual evolution of private consumption led to an increase of net household financing capacity to a figure close to 7.5% of the GDP, underpinned by growth of the respective savings rate to nearly 13.5% of disposable income. In turn, companies are again reduced their net borrowing requirements to less that 2% of the GDP, driven by a further decline of investment.

In this connection, the economy lost about 120,000 jobs over the year, keeping the unemployment rate high (16.3% of the active population, in average annual terms, after the 15.7% seen in 2012) . The evolution of the labour market nevertheless kept in step with the intra-annual profile of economic activity. The unemployment rate fell from 17.7% to 15.3% of the active population between the first and fourth quarters of 2013, driven by the creation of nearly 130,000 jobs over the last three quarters of the year, as well as by a reduction of the active population (partly associated with high emigration).

Exports will have returned a real growth of 5.6% in 2013, with positive contributions by goods and services, with a focus on the greater production and export capacity of fuels and on the strong foeign demand directed at the tourism sector.

Together with the increase of domestic savings, this result contributed to obtaining a GDP surplus of 2.6% in the combined current and capital accounts. The recovery of activity and the fiscal consolidation measures helped to reduce the deficit of the public administrations (adjusted to the criteria of the Troika) to around 4.5%, below the target of 5.5% of the GDP.

Portugal returned to the capital markets in December 2013 with a €6.6 billion debt swap, followed in early 2014 by syndicated issues at 5 and 10 years, totalling €6.25 billion. After a high of 7.5% in July, the yield of 10 -year TBs closed the year at 6.13%, extending the downward trend early in 2014 to less than 5%. The PSI-20 index rose by around 16% in 2013.

2.1.3 / Insurance Market

In 2013 there was a significant increase in the volume of direct insurance premiums, fuelled by the growth if Life insurance.

Combined Life and Non-Life production amounted to €13,105 million, 20.1% higher than the 2012 figure (€2,194 million more).

Life business was responsible for this positive performance of the market. Premiums amounted to €9.247 million, an growth of 33.5% over the previous year. The increased demand for insurer's savings products was crucial to the good performance of the Life segment, proving the special attractiveness of its remuneration model in more volatile circumstances.

The vast majority of savings products sold by the insurers provide investors with capital and income guarantees, an element of security highly values against backgrounds such as these. Thus, capitalisation products returned a growth of more than 40.0% and new contributions to retirement savings plans (PPRs) totalled €1,548 million, up 37.9% over 2012.

In the Non-Life segment, 2013 was a year of containment, with premium volumes down in most segments. The adverse macroeconomic situation conditions demand for Non-Life insurance and increases competitive pressure on the supply side, with impact on prices.

Non-Life premiums amounted to €3,858 million (down 3.2% compared to the previous year), with emphasis on the sharp decline in the production of Workmen's Compensation (-8.0%) and also in Motor insurance (-5.8%), justified not only by the need to reduce the costs of households and firms (which has a bearing on the number and type of covers taken out) but also by the reduction of the average premium driven by the existing competitive pressure.

On the other hand, the good performance pf the Health segment is highlighted (up 3.2%), which, taking into account the economic difficulties, demonstrates growing consumer interest in insurance of this type. Multi-risk (up 1.1%) and Home (up 1.5%) insurance also continued to see an increase of production, reflecting growing sensitivity to risk management and protection in times of uncertainty.

The weight of insurance business as a proportion of the GDP rose from 6.4% in 2012 to 7.7% in 2013. The Life segment accounts for 5.5% of the GDP, with Non-Life segment accounting for 2.3% (4.1% and 2.3% in 2012, respectively).

In keeping with the provisional accounts of the insurance industry, net profits for the year were very good. The sector as a whole returned profits in the sum of €692 million, an increase of 28.0% compared to 2012.

The recovery of the capital markets allowed insurers to end the year 2013 with a growth of profits, particularly in the Life business. Prudent management of investments and a year of appreciation of capital--market assets factors decisive to this performance.

It should be noted that the 2013 results were strongly influenced by two extraordinary operations involving the assignment of Life portfolios that, in net terms, contributed €180 million to the industry's profit (the similar impact in 2012 amounted to €240 million).

The Non-Life technical results fell by 79% (from €92 million in 2012 to €19 million in 2013), mainly due to the damage caused by the storm of January 2013.

2.2 / Relevant Facts in 2013

The Portuguese economy has been in very challenging surroundings since 2008, with the emergence of the financial crisis on the international markets. In 2013, economic activity continued to be significantly conditioned by the external deleveraging and fiscal consolidation process required by the Troika agreement. Investment and private consumption fell once again. Unemployment remained high. Exports again performed well but insufficiently to counteract the downturn of domestic demand. GDP fell by -1.4% over the year, although the three last quarters were positive.

The performance of the insurance sector therefore experienced a further downturn in Non-Life (-3.2%). Life business performed well, (up 33.5%) due to the good performance of the financial products driven by the banking channel.

In the Non-Life market, with the exception of Health, all the major branches decreased. The mandatory Workmen's Compensation and Motor segments were the most affected. The Workmen's Compensation segment was down 8.0% (down 31% compared to 2008) due to the reduction of the insured payroll the ongoing strong competition among insurers. Despite the timely intervention of the Insurance Institute of Portugal directed at insurers with a view to restoring the technical balance of the segment, the process of adjustment of prices to the cost of the risk still has a long way to go to lower combined ratio of 133% seen at year-end.

Motor insurance 5.8% (down 18% compared to 2008) due to the economic environment and, again, to price-based competition between insurers. Consequently, the market's Non-Life combined ratio (104%) continued to be problematic.

In 2013, even in a difficult environment, Tranquilidade's market share and margins were seen to be resilient and balanced. Tranquilidade defended its market share, which stood at 8.3% (down 0.1 p.p. compared to 2012).

The clarity and consistency of its strategy contributed to retaining its 2nd place ranking of Non-Life and to remain the largest private insurer operating in Portugal.

On the commercial side, the existing relations and partnerships with the professionals channels continued to be consolidated:

- The Exclusive and Multibrand Partners performed in line with the market;
- Brokers grew by 4 p.p. above the market;
- The bancassurance programmes in collaboration with Banco Espírito Santo (in the Companies segments), always in healthy coexistence with Professional Partners network, contributed 17% of Tranquilidade's revenue in these segments;
- The Alternative Retail Networks grew 37% compared to 2012 and strengthened their role in Tranquilidade's retail area, particularly in Motor, contributing 9% of new revenue.

Tranquilidade's Non-Life and Life customer base in 2013 approached 647,000 customers (19,000 less than in 2012). This evolution in the number of customers was due to the effort of optimizing the claims rate, which led to greater difficulty in retaining customers and lesser dynamic in attracting new ones, in Motor insurance for the Individual segment. It therefore proved possible to lower the Motor claims rate in 2013 to 50.8% (down 3.2 p.p. from 2012), and the total value of Non-Life to 62.8% (down 1.6 p.p. from 2012).

Premiums of the Motor and Workmen's Compensation Anchor Products declined, but the latter outperformed the market, with a growth differential of 3 p.p. In the Corporate Property & Casualty (P&C) area products, despite the decrease of premiums, a positive differential of 2 p.p. of growth compared to the market was achieved.

In Life, the strategic focus on the Life Risk produced was reinforced. T-Vida grew 30.7% in the traditional products (6.1% in Life Risk), its market share up 0.7 p.p. Selection V, a network dedicated to Life business, continued to contribute strongly to the growth of Life Risk and proved to be a winner. In 2013, the approximately 100 Selection V Partners grew 39%, accounting for 41% of new Life Risk revenue.

The Assurfinance programme, solidly embodied in a network of 43 Advance Posts and in the Clube E continues to be unique in the marketplace. Tranquilidade and its Partners are a key channel for BES in terms of attracting customers (19.5% of BES customers attracted), of resources (9.5% of the variation of the stock of resources) and of real-estate divestment (13% of the BES Retail divestment). Thus, the BES products are a source of additional income for our Partners in this context of a falling insurance market.

At operating level, with a view to ongoing improvement of the quality of service to customers and partners, the Company has introduced yet another set of initiatives:

1. Launching new products and tools that simplify customer retention and equipment, namely:

   - In Individuals, with the launch of new Light Home and Vision Health products;
   - In Companies, with the consolidation of the Top Business Customers segment and follow-up of the Medium Enterprise portfolio, with the aim of improving retention.

2. Introduction of new features to the Partner work-station (SIA-net):

   - Extension of the claims tracking to the MR Establishment;
   - Implementation of control, in an automated manner, of the retention discounts granted.

3. Improved instruments for communication with Customers:

   - Continued revision and simplification of institutional outputs: offers, financial documentation and particular conditions of Workmen's Compensation, Personal Accident and Life Risk policies;
   - Launch of net insurance, allowing policyholders to consult the portfolio and claims.

The continuous investment the transverse focus by the entire organisation on improving the quality of service to customers and partners, allowed a continuation of high stakeholders service and satisfaction levels:

- The average response time for complex quotations improved to 6.1 days (down 6% compared to 2012);
- Claims opened in less than three days stood at 95% of cases in Motor, Residential and Workmen's Compensation;
- Customers recognised the excellence of claims management, with an average rating of around 8 (out of 10) and an intention to recommend always above 80% in the key products;
- The number of complaints their weight in claims continued to decline

Tranquilidade still has the ambition to be "the best choice" for customers and agents. The commitment and effort of all our employees and Partners in this allowed us, with special pride and satisfaction, to renew all the awards that we had already won in 2012, to which we added the title of "Consumer Choice". This is a rare milestone, for the scope and succession of prizes awarded by various independent institutions, which strengthens Tranquilidade's position as the benchmark of the domestic insurance market.

In 2013 Tranquilidade was considered:

- "Best Large Non-Life Insurer" in the "Banking & Insurance Awards" by Exame magazine;
- "Seal of Excellence", by Superbrands;
- "Insurer with the best reputation" at domestic level (and second in the Iberian Peninsula), by the Reputation Institute;
- "Best Call Centre of the Insurance Industry", by APCC;
- "Consumer Choice" in the insurance category.

These distinctions are a vote of confidence and Tranquilidade will do everything possible to continue to warrant them in the future.

Maintenances of monetary policies of an expansionary nature, embodied in 2013 by the major central banks, contributed to the good performance of the financial markets as a whole. Maintaining a predominantly defensive and diversified balance sheet position, Tranquilidade focused on exposure to Portuguese fixed-rate debt, both sovereign and corporate, to the detriment of issuers of the core European countries. Implementation of a tactical investment policy throughout the year allowed it to obtain a level of return significantly higher than initially established.

Tranquilidade's overall technical balance decreased from €63.8 million to €59.0 million, down 7.5%. Although the overall Non-Life claims rate improved 1.6 p.p., reinsurance costs increased and there was need to increase the provision for unexpired risks. In pursuit of the Efficiency Programme, stabilisation of operating costs was further consolidated.

Tranquilidade's net income grew by 3.1% to approximately €19 million. Tranquilidade also continued to display a strong solvency ratio, to stand separately at an estimated 593% at the end of 2013.

With regard to Tranquilidade's strategic investments, direct insurer Seguros LOGO, SA (LOGO) enhanced its triple-paly approach strategy in 2013 (Auto, Home and Health), allowing it to achieve a portfolio penetration of nearly 10% of non-Motor insurance, while keeping its market share among direct insurers above 20%. On the other hand, the LOGO continued its efforts to improve the claims rate, which has allowed it to reduce it by nearly 30 p.p. since 2010. A net loss was returned in the sum of €2.5 million, which nevertheless constitutes a 17.3% positive variation.

T-Vida's contribution was positive. The technical balance net of reinsurance balances grew from €6.5 million to €7.4 million. Net income amounted to €4.3 million in 2013, while the solvency ratio is estimated at about 158%.

2.3 / Key Variables and Business Indicators

(thousand euros)

	2013	2012	Change 13/12 %
Balance Sheet			
Investments	789,731	949,168	-16.8%
Net assets	1,000,345	1,184,609	-15.6%
Equity	358,193	327,117	9.5%
Provision for unearned premiums (DI+RA)	78,599	83,195	-5.5%
Provision for claims (DI+RA)	438,388	470,777	-6.9%
Provision for claims, net of reinsurance	399,230	430,440	-7.3%
Technical provisions (DI+RA)	545,164	578,983	-5.8%
Gains & Losses			
Gross direct insurance premiums written	319,514	333,790	-4.3%
Premiums earned, net of reinsurance	279,235	293,234	-4.8%
Cost of direct insurance claims	204,667	216,601	-5.5%
Costs of claims, net of reinsurance	188,022	203,908	-7.8%
Operating costs	66,854	66,788	0.1%
Income	22,452	25,722	-12.7%
Net income	19,020	18,457	3.1%
Indicators			
Gross premiums written/ nº of employees	480.5	494.5	-2.8%
Direct insurance claims rate	62.8%	64.4%	-1.6 p.p.
Claims rate net of reinsurance	67.3%	69.5%	-2.2 p.p.
Net Income/ gross premiums written	5.8%	5.4%	0.4 p.p.
Combined ratio net of reinsurance	102.8%	101.3%	1.5 p.p.
Solvency ratio	593.2%	525.7%	67.5 p.p.

2.4 / Tranquilidade's Business in 2013

2.4.1 / Direct Insurance Premiums

Direct insurance premiums in 2013 totalled €319,514k, a decrease of 4.3% compared to 2013. The Non-Life insurance market returned a decrease of 3.2% compared to 2012.

The trend of the evolution of the largest insurers operating in our market, with the exception of Allianz, was again negative in 2013, driven mainly by downturn of production in Motor and Work Accidents. Despite the negative performance of the premiums, Tranquilidade performed well in some segments such as Health and Multi-risk.

In Accidents and Health, Tranquilidade's production was lower than the previous year by €2,636k (-2.6%), down by €2,673k in Accidents (-4.6% versus -8.0% of the market) higher by €603k (1.6%) in Health. Multi-risk premiums increased by €616k over the previous year (1.2% versus 1.1% of the market). Motor business production fell by 8.0%, while the sector fell by 5.5% compared to the previous year.

(thousand euros)

Direct Insurance Premiums	2013	%	2012	%	Change 13/12 (%)
Accidents & health	100,215	31.4	102,851	30.8	-2.6%
Fire & other damage	63,613	19.9	64,516	19.3	-1.4%
Motor	124,041	38.8	134,847	40.4	-8.0%
Transport	7,391	2.3	6,965	2.1	6.1%
Third-party liability	11,149	3.5	11,131	3.3	0.2%
Sundry	13,105	4.1	13,480	4.0	-2.8%
Total	**319,514**	**100.0**	**333,790**	**100.0**	**-4.3%**

Tranquilidade's market share declined from 8.4% in 2012 to 8.3% in 2013 but it maintained its the 2nd position in the ranking of the Non-Life segment.

2.4.2 / Costs of Direct Insurance Claims

Total direct insurance technical provisions amounted to €204,667k in 2013, a reduction of €11.934k (-5.5%) compared to 2012.

This peformance was mainly due to the downturn of claims costs in Motor (-€8,532k, or -11.5%), in Fire and other Damage (-€5,094k, of which -€4,113k in Crops) and in Liability (-€4,637k). The decrease in claims costs is associated with a lower claims rate and adjustments of provisions for some serious accidents. On the other hand, claims costs increased in 2013 in Accident and Health (€5,134k; Workmen's Compensation €3,573k and Health €1,929k).

(thousand euros)

Direct Insurance Claims Costs	2013	2012	Change 13/12 %
Accidents & health	94,355	89,221	5.8%
Fire & other damage	37,320	42,414	-12.0%
Motor	65,600	74,132	-11.5%
Transport	2,732	3,062	-10.8%
Third-party liability	1,898	6,535	-71.0%
Sundry	2,762	1,237	123.3%
Total	**204,667**	**216,601**	**-5.5%**

The claims rate (gross cost of claims / gross premiums earned) fell 1.6 p.p. from the previous year, to 62.8%, mainly the result of the reduction under Fire & Other Damage (from 66.1% to 57.7%) and under Motor (from 54.0% to 50.8%). In Accidents and Health the claims rate rose from 86.2% to 94.3% (in Workmen's Compensation ratio rose to 105.5%, an increase of 11.5 p.p.).

(%)

Claims Costs / Gross Premiums Earned*	2013	2012
Accidents & health	94.3	86.2
Fire & other damage	57.7	66.1
Motor	50.8	54.0
Transport	36.8	45.2
Third-party liability	17.0	57.9
Sundry	20.5	9.3
Total	**62.8**	**64.4**

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

2.4.3 / Direct Insurance Technical Provisions

Direct insurance technical provisions amounted to €536,296k, a reduction of €34,673k compared to the previous year (down 6.1%). Emphasis on the Provision for Claims, which fell by €32,597k, split between the €13,296k increase under WC thousand euros the decrease of the provision allocated to other business lines in the sum of €45,893k.

(thousand euros)

Direct Insurance Technical Provisions	2013	2012	Change 13/12 %
Provisions for unearned premiums	75,950	81,254	-6.5%
Provisions for Claims	432,561	465,158	-7.0%
Workmen's compensation	201,577	188,281	7.1%
Other business	230,984	276,877	-16.6%
Other technical provisions	27,785	24,557	13.1%
Total	**536,296**	**570,969**	**-6.1%**

2.4.4 / Reinsurance Ceded

The balance of reinsurance ceded in 2013, in the sum of €25,537k, was unfavourable, compared to 2012 by €1,895k (up 8.0%), due to the greater volume of premiums paid to reinsurers.

(thousand euros)

Reinsurance Ceded	2013	2012	Change 13/12 %
Premiums	54,346	52,247	4.0%
Commissions	-7,779	-8,462	-8.1%
Claims and variation of technical provisions	-21,030	-20,143	4.4%
Result	**25,537**	**23,642**	**8.0%**

2.4.5 / Technical Balance net of Reinsurance

The technical balance net of reinsurance in 2013, in the sum of €58,998k, was down 7.5% from the previous year.

The downturn of direct insurance production and the increase of the variation of technical provisions, was greater than the improvement seen in claims costs, thus resulting in a decrease of the technical balance net of technical reinsurance in the sum of €4,806k.

By segment, the biggest drop was seen in Accident and Health with the technical balance down €10,725k (drop in production, increase in claims costs and changes in technical provisions).

On the other hand, the greatest increase was seen in Fire & Other Damage, whose technical balance net of reinsurance increased by €6,991k compared to the previous year (decrease of production and a more unfavourable reinsurance balance, though improvement of claims costs and of the variation of technical provisions).

(thousand euros)

Technical Balance, Net of Reinsurance	2013	2012	Change 13/12 %
Accidents & health	-5,989	4,736	-226.5%
Fire & other damage	8,686	1,695	412.4%
Motor	52,148	53,980	-3.4%
Transport	1,710	1,353	26.4%
Third-party liability	3,744	1,211	209.2%
Sundry	-1,301	829	-256.9%
Total	**58,998**	**63,804**	**-7.5%**

2.4.6 / Operating Costs

Total operating costs amounted to €66,854k, in line with the previous year. The performance of costs was achieved due to strong containment measures undertaken by the Company through ongoing implementation of cost efficiency plan underway.

Staff costs, in the sum of €36,136k, grew 1.6% (€573k) and Third-party supplies & services costs decreased by 2.0% (€448k).

(thousand euros)

Operating Costs	2013	2012	Change 13/12 %
Staff costs	36,136	35,563	1.6%
Third-party supplies & services	21,451	21,899	-2.0%
Taxes and charges	2,427	2,418	0.4%
Depreciation	6,170	6,230	-1.0%
Other*	670	678	-1.2%
Total	**66,854**	**66,788**	**0.1%**

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

2.4.7 / Staff

During 2013 a total of 19 new employees were taken on and 29 left, 17 of whom for pre-retirement or retirement reasons.

As a result of these movements, effective staff decreased by 1.5% compared to 2012, to 665 employees. Compared to the previous year, productivity fell as result of the decline of production, with the ratio of direct insurance premiums per employee of the permanent staff standing at €481k (€495k in 2012).

	2013	2012	Change 13/12 %
Admissions	19	21	-9.5%
Departures	29	24	20.8%
of which pre-retirement or retirement	17	17	0.0%
Total staff	665	675	-1.5%
DI Premiums /Nº of staff (thousands of euros)	**481**	**495**	**-2.8%**

2.4.8 / Investments

During 2013, the performance of the financial markets was marked by greater risk propensity by a decrease of volatility. The generally expansionary monetary policies made a decisive contribution to the performance of the markets, especially in higher-risk assets.

The European Central Bank cut its refi rate to a record low of 0.25%, while the Banks of England and of Japan maintained their quantitative-easing programmes. On the other hand, in the USA, the improvement of the economic indicators led the Federal Reserve to make a start to tapering off its bond-purchase programme in keeping with what it had previously announced in the middle of the year.

These favourable conditions, combined with the economic recovery throughout the year, allowed the major US equity indices to reach record highs. Treasury yields rose in 2013, from 1.76% to slightly above 3%, largely the result of FED's tapering programme.

In the Eurozone, the equity indices appreciated significantly and the risk premiums of the public debt of the peripheral countries contracted significantly. Ireland and Spain successfully completed their financial-aid programmes, contributing decisively to the end of the sovereign debt crisis. The prospect of less-accessible liquidity penalised the emerging markets in general.

In Portugal, the improvement of the activity indicators throughout 2013 led to a recovery of economic activity as from the 2nd quarter of the year. This performance resulted mainly from buoyant exports and the stabilisation of domestic demand, despite the fiscal consolidation process still ongoing. The more positive economic development on par with a greater propensity for risk assets in financial markets in 2013 led to a reduction of the risk premiums associated with Portuguese sovereign debt. Portugal managed to return to the debt-issue markets, and the 10-year TB yield closed the year at 6.13%, compared to nearly 7% at the end of 2012.

Maintaining a predominantly defensive and diversified balance-sheet position, Tranquilidade implemented a tactical, discontinued investment policy throughout the year, allowing it to achieve a level of return significantly higher than initially established.

Based on the macroeconomic scenario and on maintenance of the status quo of its strategic investments, the investment policy focused on exposure to fixed-rate debt, both sovereign and corporate, particularly on Portuguese issuers through issues offering a good risk/return ratio.

Broadly and chronologically speaking there were three distinct periods in implementing the policy of investment in the bond market.

The first period lasted until the first relevant date, May 22. Till then, still under the influence of Mario Draghi's promise "to do whatever it takes to preserve the euro," investors' appetite for risk brought interest rates down. During this period, the Company had a greater bonds below investment grade, both on the secondary market and on primary market, benefiting from the additional premium.

In an increasing and controlled manner, the average duration of the portfolio was extended, though never exceeding 4 years. Exposure to Portuguese public debt rose until the end of March, then fell sharply in mid-April with the Constitutional Court throwing out the 2013 State Budget and the financial crisis in Cyprus. Therefore, very considerable activity involving rotation of positions with a view to realising the potential gains already achieved. In anticipation of a continuation of low interest in the interbank rates, a part of the floating-rate portfolio was sold, reinvesting the cash generated in fixed-rate bonds providing yields to offset, during the year, the losses incurred.

On May 22, the Federal Reserve made its pre-announcement of the reduction of the monthly monetary stimulus. This change of monetary policy was considered the most important structural factor and generated a global response that extended into the summer. Given the potential acceleration of the tapering of the economic stimulus, there was an aversion to risk assets in the financial markets. During this period the Company has reduced its exposure to fixed-rate bonds, especially issues of longer duration and greater risk, and adopted a tactical and cautious stance.

The second relevant date and beginning of the third period was July 21, with the culmination of the political crisis in Portugal. The year under review was one of great volatility for Portuguese debt securities, with sharp swings both ways but with a promising ending. At the peak of the turbulence the 10-year TB yield reached 7.52%, the year's highest. At about this time, there was an unwinding of financial tensions in the Eurozone. During this stage, the Company again invested heavily in fixed-rate long-maturity issues, a strategy that provided more attractive risk premiums. The end of September saw the peak of the Company's exposure to Portuguese public debt (€113,204k, or 14% of the total investment portfolio), and from then on there was a continued decline of the associated yields.

At year-end exposure to Treasury Bonds was lower than the beginning of the year, and only held-to-maturity positions remained in the balance sheet. In contrast, exposure to Portuguese corporates had progressed substantially. There was a sharp reduction of exposure to financial issuers as a proportion of the total bond portfolio, down from 50% at the beginning of the year to around 30% at the year-end. The bond portfolio recorded a rotation (transaction volume weighted by the average portfolio) of about 6.1, the result of strong investment and divestment activity.

With regard to the other asset classes, particularly floating-rate bonds, there was a decrease of 36.6% (-€27,263k). During all the periods robust liquidity levels were maintained, both through term deposits or through other short-maturity or fast-liquidation rapid liquefaction assets, such as money market funds. The year closed with approximately €51,427k in deposits at the main Portuguese banks. Exposure to equities, almost always indirectly (ETFs or investment funds), was never very great in balance sheet terms, almost always carried at ancillary level, the main risk being the American market.

No transactions were carried out involving hedge funds or products of similar characteristics. Derivatives that were used were solely currency hedges.

In Real Estate, there was a slight decrease of the direct positions, down 1.9% (€1,359k) and an increase of positions in investment funds.

(thousand euros)

Assets Under Management [1]	2013	2012	Change 13/12 %
Bonds	**257,135**	**290,392**	**-11.5%**
Fixed-rate	209,880	215,874	-2.8%
Floating-rate	47,255	74,518	-36.6%
Equities & Investment Funds	**411,796**	**354,492**	**16.2%**
Strategic	272,151	276,865	-1.7%
Equities	-	-	-
Investment funds	139,645	77,627	79.9%
Properties	**69,225**	**70,584**	**-1.9%**
Premises	24,829	24,468	1.5%
Income	44,396	46,116	-3.7%
Liquidity	**51,427**	**108,577**	**-52.6%**
Other	**4,863**	**1,800**	**170.2%**
Total	**794,446**	**825,845**	**-3.8%**
Repo operations	-	132,459	-100.0%
Held-to-maturity assets	84,773	86,045	-1.5%

(1) Amounts determined from a management standpoint.

At the year-end the investment portfolio had decreased by €31,399k (-3.8%) compared to 2012. This was the result of the performance of the updating of the value of the strategic investments market and of the liquidity directed at payment of dividends and operating activity.

The decrease of potential gains in strategic investments amounted to approximately -€9,962k. At the year-end this class had potential gains in the order of €123,582k.

During the year, the Company eliminated the repo operations and reduced held-to-maturity investments by about -1.5% (-€1,272k).

(thousand euros)

Financial Results [1]	2013	2012	Change 13/12 %
Income	**22,452**	**25,722**	**-12.7%**
Securities	20,971	24,614	-14.8%
Properties	1,481	1,108	33.7%
Gains & Losses	**9,007**	**8,574**	**5.1%**
Securities	10,279	9,219	11.5%
Properties	-1,272	-645	97.2%
Impairments / Written Back	**-3,073**	**-12**	**25,508.3 %**
Securities	-3,073	-12	25,508.3%
Properties	-	-	-
Total	**28,386**	**34,284**	**-17.2%**

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

In terms of financial results, 2013 returned a year-on-year decrease of €5,898k (-17.2%). In 2012 a non-recurrent gain generated by the Pastor Vida sale had been recorded. Excluding this gain, there would have been a year-on-year increase in the sum of €187k.

In 2013, realised gains and losses were substantially similar to those of the previous year, despite some differences in securities (up €1,060k) and real estate (down €627k).

The greatest y-o-y change was in income generated, where there was a decrease of 12.7% (-€3,270k), the result of the decrease of dividends received and of lower liquidity remuneration rates. Also underscored is the negative performance of impairments (-€3,073k), virtually non--existent in 2012.

Return on average assets over financial result stood at 4.5% (2012: 4.9%). If we add the change recorded in the Fair Value Reserve, the return is just 3.7% (2012: 8.0%).

2.4.9 / Equity and Solvency Margin

Equity in 2013 increased by €31,076k over the previous year, to stand at €358,193k. This increase of 9.5% is justified mainly by the variation of approximately €33.5 million in the deferred tax reserve, in essence caused by the alteration of taxation applicable to gains on holdings exceeding 5% and held more than 2 years. Also underscored is the €4,582k decrease of the revaluation reserve, following the update of strategic investments.

(thousand euros)

Equity	2013	2012	Change 13/12 %
Share capital	160,000	160,000	0.0%
Revaluation reserves	118,349	89,366	32.4%
Other reserves	30,185	35,266	-14.4%
Retained earnings	30,639	24,028	27.5%
Net income	19,020	18,457	3.1%
Total	**358,193**	**327,117**	**9.5%**

The estimated solvency ratio in December 2013 (excluding the effect of dividend distribution) stood at 593.2% (up €251,858k), compared with 525.7% in 2012/up €225,129k) for 2012. A contribution to this favourable performance was made by the increase of its Constituent Elements of €24,905k. The amount of the Solvency Margin to be set aside fell by about -€1,824k.

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 the insurance business.

During 2013, it came to be known that the new Solvency II regime will come into force as from January 2016 and the transposition of Directives amending the initial Directive 2009/138/EC is scheduled for 2014 and 2015. Meanwhile, EIOPA published a set of guidelines for the preparation stage of Solvency II. These guidelines include: Pre-request for internal models; Governance system; Prospective self-assessment of risks; Submission of information to the supervisory authorities. After reviewing the guidelines, Tranquilidade will define a plan of action allowing compliance and a more gradual transition to the new mechanism.

Several measures were implemented during 2013, of which the following are highlighted:

- 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;
- Participation in the Long term guarantees assessment (LTGA) quantitative impact study;
- Greater systematisation in the procedures and calculations of the Standard Model;
- 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 sundry policies within the scope of monitoring the Solvency II programme;
- Monitoring the events anonymously reported to the Company of potentially fraudulent situations, development of procedures, applicational development and issue of periodic reports, as additional mechanisms for the control of 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 €19,020,186.87 was returned in 2013, for which we propose the following appropriation:

a) 10% of the net profit for the year in the sum of €1,902,018.69 to Legal Reserve;
b) Payment of dividends in the sum of €15,000,000.00;
c) The remainder to Retained Earnings.

2.6 / Goals for 2014

The coming year marks, for Portugal, the end of programme of intervention by the Troika. The positive signs of the economic performance of the country and of the international markets have become more consistent in recent months. Nonetheless, the Bank of Portugal's economic forecast for 2014 suggests just a slight recovery of the economy. GDP is expected to grow 0.8%, with gross fixed capital formation set to rise 1%. Public consumption will decline by 2.3% and private consumption is not yet set to grow. The jobless rate, according to the latest government forecasts, is likely to remain high, at around 15.7%.

It will be a key year for the insurance industry, one of reversal of the technical imbalance technician seen in recent years.

For 2014, the entire Tranquilidade organisation remains aligned and motivated around the vision of being the "Best Choice" of our Customers and Partners, on the basis of the 3 S's - Service, Sensitivity and Solidity in Balance and Stability.

Tranquilidade continues to have a clear vision and course, with a consistency that allows the demanding challenges of the market to be faced with confidence. The strategic priorities for 2014 are:

1. Continuing to grow organically and selectively
    - Maintaining investment in the Agents & Brokers network, consolidating the share of wallet in the Professional Partners;
    - Managing the portfolio with balance, investing in retention and equipment for Individual Customers having Home, Health and Life Risk insurance and for Corporate Customers having P&C and Life Risk insurance;
    - Enhancing the return of the synergies generated by the by three specialised networks - M Selection, V Selection and E-Club Selection - transverse to the various channels.
2. Continuing to rebalance profitability
    - Managing the balance of revenue and profitability, focusing selectively on the more profitable customer segments, improving retention and productivity in new ones;
        - Strengthening presence in the Individuals sector;
        - Ensuring competitiveness in Individuals' Motor, critical to revenue (and margin) and to the development of the distribution network;
        - Attracting companies in a more demanding manner, with greater discipline in Workmen's Compensation;
    - Continuously optimising operational efficiency to reduce operating costs;
    - Improving the return on investments;
    - Maintaining reference solvency levels.

3. Keeping up the focus on service Quality

- Continuing to invest in the team of Tranquilidade employees, consolidating a culture based on professionalism and performance;
- Maintaining the ongoing Customer and Partner satisfaction assessment programmes already in place;
- Innovating the offer, adjusting it to the new economic environment and to new customer concerns;
- Continuing to streamline internal processes to increase effectiveness and speed;
- Increasing the effectiveness of communication with customers, implementing a more direct style.

4. Consolidating international operations in Spain, Angola and Mozambique, capitalising on the skills, know-how and comparative advantages of Tranquilidade and of the BES Group.

2.7 / Closing Remarks

The Board of Directors wishes to express its gratitude to our Shareholders, 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, 04 March 2014

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
(Member)

António José Baptista do Souto
(Member)

Manrico Iachia
(Member)

António Manuel Rodrigues Marques
(Member)

Bernardo Leite Faria Espírito Santo
(Member)

03

FINANCIAL STATEMENTS

TRANQUILIDADE

03. FINANCIAL STATEMENTS

Balance Sheet (Assets) as at December 31, 2013 & 2012

(thousand euros)

ASSETS	Notes to the Accounts	31 December 2013			31 December 2012
		Gross Value	Impairment, Depreciation/ Amortisation or Adjustments	Net Value	
Cash & cash equivalents and sight deposits	8	5,878		5,878	26,158
Investments in affiliates, associates and joint ventures	7	236,144		236,144	246,096
Financial assets held for trading					2
Financial assets classified in the initial recognition at fair value through profit or loss	6	2,031		2,031	4,100
Hedge derivatives					
Available-for-sale assets	6	323,901	3,734	320,167	288,092
Loans & Receivables		**77,391**		**77,391**	**254,249**
Deposits at cedent companies	6	1		1	1
Other deposits	6	46,645		46,645	211,368
Loans	6	30,676		30,676	25,386
Receivables					
Other	6	69		69	17,494
Held-to-maturity investments	6	84,773		84,773	86,045
Land & Buildings		**73,743**	**4,518**	**69,225**	**70,584**
Land & buildings held for own use	9	29,347	4,518	24,829	24,468
Land & buildings held for income	9	44,396		44,396	46,116
Other tangible assets	10	46,582	40,744	5,838	7,245
Inventories	4 & 10	223		223	221
Goodwill	12	25,785		25,785	25,785
Other intangible assets	12	66,823	51,324	15,499	14,679
Technical Provisions for Reinsurance Ceded		**55,170**		**55,170**	**57,279**
Provisions for unearned premiums	4	16,012		16,012	16,942
Provisions for claims	4	39,158		39,158	40,337
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
Other Debtors for Insurance & Other Operations		**100,881**	**6,851**	**94,030**	**98,672**
Receivables for direct insurance operations	13	63,460	5,493	57,967	61,003
Accounts receivable for other reinsurance operations	13	10,537	207	10,330	10,205
Accounts receivable for other operations	13	26,884	1,151	25,733	27,464
Tax Assets		**6,732**		**6,732**	**313**
Current tax assets	24	338		338	313
Deferred tax assets	24	6,394		6,394	
Accruals & deferrals	13	1,459		1,459	1,439
Other items of assets					
Available-for-sale non-current assets and discontinued operating units					
Total Assets		**1,107,516**	**107,171**	**1,000,345**	**1,184,609**

THE ACCOUNTANT
Paulo Jorge Pinheiro Santos

THE ACCOUNTS MANAGER
Pedro Manuel Borges Medalhas da Silva

THE FINANCIAL & ADMINISTRATIVE MANAGER
Alexandre Miguel Varela Simões Lopes

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Balance Sheet (Liabilities & Equity) as at December 31, 2013 & 2012

(thousand euros)

LIABILITIES & EQUITY	Notes to the Accounts	31 December 2013	31 December 2012
Liability			
Technical Provisions		**545,164**	**578,983**
Provisions for unearned premiums	4	78,599	83,195
Provisions for Claims	**4**	**438,388**	**470,777**
For life insurance			
For works' accidents	4	201,588	188,290
For other businesses	4	236,800	282,487
Provision for profit-sharing	4	1,045	1,045
Provision for rate commitments			
Portfolio stabilisation provision			
Provision for claims-rate deviations	4	7,022	6,399
Provision for risks in progress	4	20,110	17,567
Other technical provisions			
Other Financial Liabilities		**291**	**153,845**
Hedge derivatives			
Subordinated debt			
Deposits received from reinsurers	5	291	357
Other	5 & 6		153,488
Liabilities for post-employment benefits & other long-term benefits		3,903	
Other Creditors for Insurance & Other Operations		**52,830**	**48,564**
Accounts payable for direct insurance operations	13	23,746	23,178
Accounts payable for other reinsurance operations	13	16,655	16,796
Accounts payable for other operations	13	12,429	8,590
Tax Liabilities		**18,325**	**53,105**
Current tax liabilities	24	18,325	27,065
Deferred tax liabilities	24		26,040
Accruals & deferrals	13	19,855	19,579
Other provisions	13	1,784	3,416
Other liabilities			
Liabilities of a group for sale classified as available-for-sale			
Total Liabilities		**642,152**	**857,492**
Equity			
Share capital	25	160,000	160,000
(Treasury shares)			
Other capital instruments			
Revaluation Reserves		**117,933**	**122,515**
For adjustment of the fair value of financial assets	26	117,933	122,515
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	416	-33,149
Other reserves	26	30,185	35,266
Retained earnings	35	30,639	24,028
Net income for the period		19,020	18,457
Total Equity		**358,193**	**327,117**
Total Liabilities & Equity		**1,000,345**	**1,184,609**

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Gains & Losses as at December 31, 2013 & 2012

(thousand euros)

PROFIT & LOSS ACCOUNT	Notes to the Accounts	31 December 2013			31 December 2012
		Technical Non-Life	Non-Technical	Total	
Premiums Earned Net of Reinsurance		**279,235**		**279,235**	**293,234**
Gross premiums written	14	328,910		328,910	341,589
Reinsurance premiums ceded	14	-54,346		-54,346	-52,247
Provisions for unearned premiums (change)	4 & 14	5,601		5,601	3,209
Provisions for unearned premiums, reinsurers' part (change)	4 & 14	-930		-930	683
Costs of Claims, Net of Reinsurance	**4**	**188,022**		**188,022**	**203,908**
Amounts paid		219,324		219,324	216,644
Gross amounts		242,463		242,463	231,538
Reinsurers' part		-23,139		-23,139	-14,894
Provision for claims (change)		-31,302		-31,302	-12,736
Gross amount		-32,481		-32,481	-8,170
Reinsurers' part		1,179		1,179	-4,566
Other technical provisions, net of reinsurance	4	3,166		3,166	-1,931
Share of profits/(losses), net of reinsurance	4				
Net Operating Costs & Expenses	**21**	**94,254**		**94,254**	**92,962**
Acquisition costs		69,714		69,714	70,967
Deferred acquisition costs (change)	4	1,005		1,005	487
Administrative costs		31,314		31,314	29,970
Reinsurance commissions and profit sharing		-7,779		-7,779	-8,462
Income	**16**	**23,079**	**75**	**23,154**	**27,086**
On interest on financial assets not carried at fair value through profit & loss		13,008	37	13,045	14,934
On interest on financial liabilities not carried at fair value through profit or loss					
Other		10,071	38	10,109	12,152
Financial Costs	**16**	**2,343**	**8**	**2,351**	**2,642**
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		2,343	8	2,351	2,642
Net Gains on Financial Assets & Liabilities Not Carried at Fair Value Through Profit or Loss	**17 & 18**	**9,716**	**-8**	**9,708**	**6,827**
On available-for-sale assets		5,716	-8	5,708	1,781
On loans & accounts receivable					
On investments held to maturity					
On financial liabilities carried at amortised cost					-8,379
Other		4,000		4,000	13,425
Net Gains on Financial Assets & Liabilities Carried at Fair Value Fhrough Profit or Loss	**17 & 18**	**390**		**390**	**2,329**
Net gains of financial assets & liabilities held for trading					1,140
Net gains on financial assets & liabilities classified in the initial recognition at fair value through profit or loss		390		390	1,189
Currency translation differences	19	181	-60	121	60
Net gains on the sale of non-financial assets not classified as available-for-sale non-current assets and discontinued operating units	17 & 18	-1,272		-1,272	-645
Impairment Losses (Net of Reversal)		**-3,058**	**5**	**-3,053**	**-110**
On available-for-sale assets	6	-3,058	-15	-3,073	-12
On loans and receivables carried at amortised cost					
On investments held to maturity					
Other	7 & 13		20	20	-98
Other technical income/costs, net of reinsurance	20	-1,605		-1,605	-1,289
Other provisions (change)	20		1,865	1,865	26
Other income/expenses	20		1,344	1,344	-3,687
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 Income Before Tax		**18,881**	**3,213**	**22,094**	**26,250**
Corporation tax for the period - Current tax	24		-1,943	-1,943	-2,983
Corporation tax for the period - Deferred tax	24		-1,131	-1,131	-4,810
Net Income For The Period		**18,881**	**139**	**19,020**	**18,457**
Earnings per share (in euros)	27			0.59	0.58

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04

STATEMENT OF COMPREHENSIVE INCOME

TRANQUILIDADE

04. STATEMENT OF COMPREHENSIVE INCOME

Statement of Comprehensive Income as at December 31, 2013 & 2012

(thousand euros)

	2013	2012
Items that May Be Reclassified to the Income Statement	**28,983**	-33,537
Change of fair value of available-for-sale assets, affiliates, associates & joint ventures	-4,582	-48,913
Change in current & deferred taxes	33,565	**15,376**
Items That Will Not Be Reclassified to the Income Statement	**-6,927**	1,894
Change of actuarial deviations recognised in reserves	-6,927	1,894
Change in current & deferred taxes	-	-
Other Comprehensive Income for the Year After Taxes	**22,056**	**-31,643**
Net Income for the Period	**19,020**	**18,457**
Total Comprehensive Income for the Period	**41,076**	**-13,186**

05

STATEMENT OF CHANGES IN EQUITY

TRANQUILIDADE

05. STATEMENT OF CHANGES IN EQUITY

Statement of Changes In Equity as at December 31, 2013 & 2012

(thousand euros)

	Share Capital	Revaluation Reserves		Deferred Tax Reserve	Other Reserves		Retained Earnings	Net income for the Period	Total
		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		Legal Reserve	Other Reserves			
Balance as at January 1, 2012	**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		-65,637							-65,637
Net gains for adjustment to fair value of available-for sale financial assets			16,724						16,724
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		0
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	0
Total Changes in Equity	**0**	**-65,637**	**16,724**	**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**	**127,360**	**-4,845**	**-33,149**	**45,598**	**-10,332**	**24,028**	**18,457**	**327,117**
Net gains for adjustment to the fair value of affiliates, associates and joint ventures		-9,952							-9,952
Net gains for adjustment to fair value of available-for sale financial assets			5,370						5,370
Adjustments for recognition of deferred taxes				33,565					33,565
Actuarial differences recognised in reserves						-6,927			-6,927
Increases of reserves for appropriation of profits					1,846		-1,846		0
Distribution of reserves/retained earnings									0
Appropriation of profits/losses							-10,000		-10,000
Transfers between equity headings not included in other lines							18,457	-18,457	0
Total Changes in Equity	**0**	**-9,952**	**5,370**	**33,565**	**1,846**	**-6,927**	**6,611**	**-18,457**	**12,056**
Net income for the period								19,020	19,020
Balance as at December 31, 2013	**160,000**	**117,408**	**525**	**416**	**47,444**	**-17,259**	**30,639**	**19,020**	**358,193**

06

STATEMENT OF CASH FLOWS

TRANQUILIDADE

06. STATEMENT OF CASH FLOWS

Statement of Cash Flows as at December 31, 2013 & 2012

(thousand euros)

	2013	2012
Cash Flow from Operating Activities	**163,876**	**97,371**
Net income for the period	19,020	18,457
Depreciation & amortisation charges for the period	6,170	6,230
Change in technical provisions for direct insurance	33,819	11,705
Change in technical provisions for reinsurance ceded	2,109	5,249
Change in other provisions	1,632	462
Change in debtors for direct insurance, reinsurance & other operations	4,642	8,435
Change in other tax assets & liabilities	41,199	7,629
Change in other assets & liabilities	123,433	47,026
Change in creditors for direct insurance, reinsurance & other operations	4,266	42,476
Cash Flow from Investing Activities	**153,596**	**137,803**
Variation of investments	135,807	119,623
Dividends received	8,582	10,820
Interest	13,689	15,603
Acquisitions of tangible & intangible assets	9,542	8,184
Disposals of tangible & intangible assets	1	3
Acquisition of real estate	350	62
Disposals of land & buildings	5,409	-
Cash Flow from Financing Activities	**10,000**	**40,000**
Dividend distribution	10,000	15,000
Distribution of reserves/retained earnings	-	25,000
Net Change in Cash & Cash Equivalents & Sight Deposits	**20,280**	**432**
Cash & cash equivalents at the start of the period	26,158	25,726
Cash & cash equivalents at the end of the period	5,878	26,158

07

NOTES TO THE FINANCIAL STATEMENTS

TRANQUILIDADE

07. NOTES TO THE FINANCIAL STATEMENTS

Notes to the Financial Statements as at December 31, 2013 & 2012

Note 1 / General Information

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

Following the two stages of privatisation at the end of 1989 and of 1990, the Company is now mainly owned by the Espírito Santo Group. It should be mentioned that the Company also 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 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 35 Company Shops, 356 Partners' Shops bearing the Tranquilidade image, of which 173 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 segment 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 products and solutions of greater relevance to its customers are as follows:

(Reporting segment - Business)

Workmen's Compensation	Fire & Other Damage	Motor
Household employee WA	Tranquilidade Home	Cars
Self-employed WA	Tranquilidade Prestige Home	Classic Cars
Employee WA	Establishment MR	2-Wheel motor
	Condominium MR	

The breakdown of the main headings of the financial statements as at December 31, 2013 & 2012, segmented by the main business lines, is as follows.

(thousand euros)

2013	Total Non-Life	Workmen's Compensation	Fire & Other Damage	Motor
Profit & Loss Headings				
Gross premiums written	328,910	55,515	64,981	131,105
Reinsurance premiums ceded	-54,346	-1,897	-30,140	-1,521
Gross premiums earned	334,511	55,574	65,533	135,969
Returns on investments	32,809	7,602	3,890	12,066
Gross cost of claims	209,982	58,434	37,318	70,850
Gross operating costs	102,033	14,852	22,837	42,782
Technical result	18,881	-11,779	-2,487	35,301
Balance Sheet Headings				
Assets allocated to representation of technical provisions	640,776	245,883	78,279	248,121
Technical provisions	545,164	209,122	66,576	211,212

(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
Reinsurance premiums ceded	-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

Additionally, the Company has operations in Portugal and Spain, the breakdown of the main items in the financial statements as at December 31, 2013 & 2012, being as follows:

(thousand euros)

2013	Total	Portugal	Spain
Profit & Loss Headings			
Gross premiums written	328,910	328,234	676
Reinsurance premiums ceded	-54,346	-54,298	-48
Gross premiums earned	334,511	333,829	682
Returns on investments	32,809	32,810	-1
Gross cost of claims	209,982	209,640	342
Gross operating costs	102,033	101,230	803
Technical result	18,881	19,607	-726
Balance Sheet Headings			
Assets allocated to representation of technical provisions	640,776	640,123	653
Technical provisions	545,164	544,608	556

(thousand euros)

2012	Total	Portugal	Spain
Profit & Loss Headings			
Gross premiums written	341,589	340,908	681
Reinsurance premiums ceded	-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

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, 2013, 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 2013, Tranquilidade adopted the IFRS and the mandatory-application interpretations for years as from January 1, 2013. 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 adopted, in the preparation of its financial statements as at December 31, 2013, the accounting standards issued by the IASB and the IFRIC interpretations of mandatory application as from January 1, 2013.

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 March 4, 2014.

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 or 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 and advances to customers - Securitised credit and Financial assets held to maturity are permitted in certain specific corcumstances.

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. 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 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:

Asset Type	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 statement of income.

The realisable value is determined as the higher of the fair value less selling costs and the value in use, the latter calculated on the basis of the present value of the estimated 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 or 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.

Intagible 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 statement of income.

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 lease contracts 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 equivalent to the present value of the future rent payments. The rents comprise (i) the financial charge debited to profit and loss and (ii) the financial amortisation of capital, which is deducted from liabilities.

Financial charges are recognised as costs over the life of the lease, in order to produce a constant periodic rate of interest on the remaining 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 will be converted into individual accounts of these employees, forming part of their individual retirement plan, according to IAS 19, the Company settled the liability.

The Company's net liability for the defined-benefit pension plan and other benefits is calculated separately 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 to determine its current value, and the discount rate corresponding to the rate of high-quality corporate bonds with a similar maturity as of date of expiry of the plan's obligations is applied. The net liability is determined after deducting the fair value of the Pension Fund's assets.

The interest income/ cost of the pension plan is calculated by the Company by multiplying the net asset/ liability involved in retirement pensions (liabilities less the fair value of the fund's assets) by the discount rate used in determining the retirement-pension liabilities as mentioned above. On this basis, the net income/ cost of interest includes interest costs associated with the retirement-pension liabilities and the expected return on the fund's assets, both measured on the basis of discount rate used in the calculation of the liabilities.

The remeasurement gains and losses, namely (i) the actuarial gains and losses resulting from differences between actuarial assumptions used and the amounts actually incurred (gains and losses of experience) and from the changes in actuarial assumptions and (ii) gains and losses arising from the difference between the expected returns on the fund's assets and the amounts obtained are recognised in equity under other comprehensive income (Other reserves).

In its statement of income the Company recognises a total net value that includes (i) the cost of the current service, (ii) the net interest income/ cost of the pension plan, (iii) the effect of early retirements, (iv) costs of past service and (v) the effects of any settlement or curtailment during the period. The net income/ cost of the pension plan is recognised as interest & similar income or interest & similar costs depending on its nature. Costs of early retirements corresponds to the increase of liabilities due to retirement before the employee reaches retirement age.

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, 2013, the Company has a defined-contribution plan for employees in service taken on by June 22, 1995, as well as for all employees 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 as a cost 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.

Corporation 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 & 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 operating segments based on the management information produced in-house.

A business operating 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 major operating 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.

Corporation tax

Determination of corporation tax requires certain interpretations and estimates. Other interpretations and estimates could result in a different amount of corporation tax, 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 corporation tax recorded in the financial statements.

Pensions & other employee benefits

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

Technical provisions

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

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

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

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

Where there are claims caused by or against policyholders, any sum paid or expected to be paid by the Company is recognised as a loss in profit or 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 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, 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, 2013, 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, 2013, 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, 2013, or for claims occurred by not yet reported.

The provision for claims is not discounted, except for life-long pensions in respect of Workmen's Compensation. The Company therefore assesses the adequacy of the liabilities on the basis of the projection of future cash flows discounted at the risk-free market interest rate. Any shortfall is recorded in the Company's profit or 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 rule also establishes that the rate to be used must be based on the predictable future return of the underlying assets after adequate prudential deduction. On this basis the Company determined that the risk-free interest rate for the maturity of the liabilities was adequate. To test the adequacy of the liabilities, the mathematical provisions of pensions not mandatorily redeemable (including future payments to the FAT) are calculated on the basis of the TV 73/77 mortality table with the interest rate of Portuguese bonds maturing at 15 years (2013: (5.93% and 2012: 6.99%) 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 Risk and Seismic Phenomena Risk.

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

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

Provision for profit-sharing

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

Provisions for reinsurance ceded

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

Changes in 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	2013			2012		
Businesses/ Groups of Businesses	UPR Gross	DAC	UPR Net	UPR Gross	DAC	UPR Net
Accidents & health	12,181	2,314	9,867	12,073	2,325	9,748
Fire & other damage	25,998	5,107	20,891	26,550	5,142	21,408
Motor	49,492	9,897	39,595	54,356	10,871	43,485
Marine, air and transport	1,983	386	1,597	1,994	373	1,621
General third-party liability	3,127	614	2,513	3,048	609	2,439
Credit and fidelity insurance	37	7	30	28	6	22
Legal protection	6	1	5	7	1	6
Assistance	4,265	853	3,412	4,600	851	3,749
Sundry	859	170	689	893	176	717
Total	**97,948**	**19,349**	**78,599**	**103,549**	**20,354**	**83,195**

The change of the direct insurance and reinsurance accepted provision for unearned premiums (UPR) is reflected in profit or loss at its gross value within 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	2013			2012		
Businesses/ Groups of Businesses	UPR Gross	DAC	UPR Net	UPR Gross	DAC	UPR Net
Accidents & health	108	-11	119	-647	-103	-544
Fire & other damage	-552	-35	-517	470	62	408
Motor	-4,864	-974	-3,890	-3,208	-452	-2,756
Marine, air and transport	-11	13	-24	203	37	166
General third-party liability	79	5	74	-164	-33	-131
Credit and fidelity insurance	9	1	8	-3	-	-3
Legal protection	-1	-	-1	-	1	-1
Assistance	-335	2	-337	49	-17	66
Sundry	-34	-6	-28	91	18	73
Total	**-5,601**	**-1,005**	**-4,596**	**-3,209**	**-487**	**-2,722**

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

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change in Gains & Losses	
	2013	2012	2013	2012
Accidents & health	734	726	8	-84
Fire & other damage	7,986	8,268	-282	484
Motor	9	-	9	-
Marine, air and transport	1,169	1,023	146	64
General third-party liability	295	254	41	-13
Credit and fidelity insurance	8	6	2	-3
Legal protection	-	-	-	-
Assistance	5,054	5,812	-758	54
Sundry	757	853	-96	181
Total	**16,012**	**16,942**	**-930**	**683**

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

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change in Gains & Losses	
	2013	2012	2013	2012
Workmen's compensation	201,588	188,290	13,164	10,897
Personal accidents & health	9,975	10,247	-187	-4,117
Fire & other damage	34,935	43,122	-8,190	12,271
Motor	162,831	199,517	-36,674	-29,096
Marine, air and transport	6,672	6,601	76	-191
General third-party liability	19,354	21,304	-2,006	1,960
Credit and fidelity insurance	42	80	-38	20
Legal protection	29	64	-36	19
Assistance	-	-	-	-
Sundry	2,962	1,552	1,410	67
Total	**438,388**	**470,777**	**-32,481**	**-8,170**

The balance of the provision for Workmen's Compensation claims includes the sum of €136,293k (2012: €128,552k) 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 2013 and 2012, was zero, and the update of the contributions to the Works Accidents Fund (FAT) in the sum of €8,8327k (2012: €7,668k).

The balance of the provision for claims includes an estimated provision in the sum of €20,336k (2012: €20,697k) in respect of claims prior to December 31, 2013, not yet reported (IBNR). It also includes an estimate in the sum of €26,094k (2012: €21,620k) 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 31.12.2012 (1)	Claims* Paid in 2013 (2)	Provision for Claims* as at 31.12.2013 (3)	Readjustments (3) + (2) - (1)
Accidents & health	198,537	33,267	168,345	3,075
Fire & other damage	43,122	19,147	16,761	-7,214
Motor				
- Third-party liability	175,538	37,033	100,322	-38,183
- Other covers	23,979	9,266	11,838	-2,875
Marine, air and transport	6,601	1,242	4,320	-1,039
General third-party liability	21,304	2,155	14,578	-4,571
Credit and fidelity insurance	80	24	42	-14
Legal protection	64	21	10	-33
Assistance	-	-	-	-
Sundry	1,552	441	785	-326
Total	**470,777**	**102,596**	**317,001**	**-51,180**

* Claims incurred in 2012 and earlier.

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

In the Motor segment the readjustments are mainly due to a process of revaluation of the provisions for claims, to ensure their adequacy taking into account the amounts paid in 2012 and the prospects for 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 ceded-reinsurance provision reflected under assets and of the respective annual change on profit or loss is as follows:

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change in Gains & Losses	
	2013	2012	2013	2012
Workmen's compensation	3,741	2,370	1,371	1,188
Personal accidents & health	167	243	-76	8
Fire & other damage	16,197	18,698	-2,501	4,616
Motor	10,439	8,778	1,661	598
Marine, air and transport	3,069	2,812	257	-371
General third-party liability	2,907	6,132	-3,225	-1,592
Credit and fidelity insurance	12	41	-29	39
Legal protection	-	-	-	-
Assistance	-	-	-	-
Sundry	2,626	1,263	1,363	80
Total	**39,158**	**40,337**	**-1,179**	**4,566**

The balance of the provision for reinsurance ceded claims includes an estimated provision in the sum of €1,193k (2012: €1,298k) in respect of claims prior to December 31, 2013, not yet reported (IBNR).

The breakdown of costs of claims in 2013 is as follows:

(thousand euros)

Businesses/ Groups of Businesses	Amounts Paid - Instalments (1)	Amounts Paid-Claims-Management Costs Imputed (2)	Change of Provision for Claims (3)	Cost of Claims (4) = (1) + (2) + (3)
Accidents & health	78,641	2,741	12,973	94,355
Fire & other damage	43,945	1,550	-8,175	37,320
Motor				
- Third-party liability	62,329	3,725	-38,830	27,224
- Other covers	34,681	1,725	1,970	38,376
Marine, air and transport	2,568	101	63	2,732
General third-party liability	3,500	427	-2,029	1,898
Credit and fidelity insurance	20	1	-35	-14
Legal protection	20	8	-36	-8
Assistance	-	-	-	-
Sundry	1,366	8	1,410	2,784
Total	**227,070**	**10,286**	**-32,689**	**204,667**
Reinsurance accepted	5,107	-	208	5,315
Grand Total	**232,177**	**10,286**	**-32,481**	**209,982**

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)	Change 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 and transport	3,139	114	-191	3,062
General third-party liability	4,090	485	1,960	6,535
Credit and 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 the provision for profit sharing is 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 in Gains & Losses	
	2013	2012	2013	2012
Accidents & health	1,045	1,045	-	-
Fire & other damage	-	-	-	-
Motor	-	-	-	-
Marine, air and transport	-	-	-	-
General third-party liability	-	-	-	-
Credit and fidelity insurance	-	-	-	-
Legal protection	-	-	-	-
Assistance	-	-	-	-
Sundry	-	-	-	-
Total	**1,045**	**1,045**	**-**	**-**

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

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change in Gains & Losses	
	2013	2012	2013	2012
Accidents & health		-	-	-
Fire & other damage	6,389	5,789	600	569
Motor		-	-	-
Marine, air and transport		-	-	-
General third-party liability		-	-	-2
Credit and fidelity insurance	560	544	16	10
Legal protection		-	-	-
Assistance		-	-	-
Sundry	73	66	7	7
Total	**7,022**	**6,399**	**623**	**584**

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

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change in Gains & Losses	
	2013	2012	2013	2012
Accidents & health	5,928	3,355	2,573	118
Fire & other damage	4,361	4,731	-370	1,858
Motor	8,786	9,167	-381	-4,036
Marine, air and transport	113	27	86	27
General third-party liability	-	-	-	-
Credit and fidelity insurance	-	-	-	-
Legal protection	1	-	1	-1
Assistance	731	230	501	-392
Sundry	190	57	133	-89
Total	**20,110**	**17,567**	**2,543**	**-2,515**

The amounts of other technical provisions net of reinsurance set out in the profit & loss account corresponds to the sum of the change set out 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 profit or loss. However, owing to the fact that setting aside provisions for clams is of necessity an uncertain process, there can be no guarantee that the actual losses will not be greater than estimated, this risk being covered by the supplementary solvency capital.

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

(thousand euros)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Provision for claims with management costs, gross of reinsurance and net of reimbursements	305,512	328,733	363,800	375,014	394,397	396,273	390,866	371,996	349,728	334,143	293,985
Accumulated payments											
One year later	106,724	91,174	105,504	100,096	98,779	94,708	95,049	95,612	84,196	86,541	
Two years later	149,681	141,526	157,627	145,308	135,925	128,265	126,542	123,604	114,185		
Three years later	185,956	176,790	191,998	171,505	160,955	150,067	146,151	145,571			
Four years later	213,367	201,716	213,580	192,108	177,757	165,044	163,441				
Five years later	235,135	220,093	230,853	206,571	189,563	178,988					
Six years later	250,333	233,869	244,762	216,254	201,297						
Seven years later	262,243	243,757	253,229	226,131							
Eight years later	269,575	250,265	261,492								
Nine years later	274,911	255,924									
Ten years later	279,695										
Final estimate of cost of claims											
One year later	327,363	338,836	354,407	366,449	366,560	369,571	347,727	341,903	306,449	279,650	
Two years later	334,297	334,918	356,147	348,138	349,376	329,811	322,459	302,186	264,242		
Three years later	332,408	333,196	354,218	338,431	316,055	314,346	289,351	270,629			
Four years later	331,075	339,341	352,070	311,532	311,642	288,448	267,625				
Five years later	343,336	336,647	331,796	313,127	290,264	270,316					
Six years later	340,872	323,690	334,384	295,603	275,312						
Seven years later	335,816	327,291	319,336	284,072							
Eight years later	341,335	313,502	312,892								
Nine years later	328,545	305,675									
Ten years later	322,396										
Accumulated surplus / (shortfall)	-16,884	23,058	50,908	90,942	119,085	125,957	123,241	101,367	85,486	54,493	

Tranquilidade has a reinsurance ceded policy based on proportional and non-proportional treaties, the aim being to reduce the impact of major risks, catastrophes and concentration The reinsurance programme in 2013 comprised proportional treaties (Quota-share and Excess) and non-proportional treaties (Excess of Claim, Catastrophe Cover and Stop Loss), as per the following table:

Business Line	Type of Reinsurance
Personal accident (loan 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)
Performance 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	Stop loss
Fire & other damage	Excess losses (xl)
General third-party liability	Excess losses (xl)
Marines (hulls)	Proportional
Marine (goods transported)	Proportional
Marine	Excess losses (xl)
Health	Share
Health	Excess losses (xl)
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 Income	
		2013	2012
Cost of claims	5% increase of the year's costs of claims, net of reinsurance	-16,633	-17,343
Expenses	10% increase of operating costs, net of reinsurance	-13,361	-13,394
Life expectancy	Decrease of 10% in mortality of current works accid. Pensioners	-1,862	-1,677

The risks of changes 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 lesser internal efficiency.

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

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 Operating 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 adopted by Tranquilidade, duly formalised in a special document, are governed by prudent risk-acceptance levels and portfolio diversification, taking the evolution of the financial markets into account.

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

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

The main responsibilities of the Overall Risk Management Committee are to analyse and check the conformity of the decisions taken by the Company with the strategy and 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. The sensitivity analysis is as follows:

(thousand euros)

Scenarios	Impact on Pre-Tax Income	
	2013	2012
10% depreciation of the value of all foreign currencies against the euro	-925	-716

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)

Scenarios	Impact on Fair-Value Reserves Before Tax	
	2013	2012
10% decrease of stock-market values	-29,438	-30,765

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)

Scenarios	Impact on Pre-Tax Income	
	2013	2012
10% decrease in the value of real estate and real estate funds	-18,982	-12,183

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 repos and 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)

Scenarios	Impact on Fair-Value Reserves Before Tax	
	2013	2012
100 b.p.decrease of the interest-rate curve - effect on assets	6,871	7,881
100 b.p.increase of the interest-rate curve - effect on assets	-6,479	-7,356

(thousand euros)

Scenarios	Impact on Pre-Tax Income	
	2013	2012
100 b.p.decrease of the interest-rate curve - effect on liabilities	-	-1,352
100 b.p. increase of the interest-rate curve - effect on liabilities	-	1,341

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	2013		2012	
	%	Value	%	Value
AAA	7%	18,189	9%	27,068
AA	6%	16,263	4%	12,432
A	5%	12,540	18%	53,061
BBB	19%	48,273	9%	27,251
BB	52%	132,821	53%	152,639
B	6%	16,399	6%	16,828
CC	0%	-	0%	1,112
Unrated	5%	12,648	0%	-
Total	**100%**	**257,133**	**100%**	**290,391**

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	2013			2012		
	%	Gross Amount	Impairment	%	Gross Amount	Impairment
Basic resources	0%	1,848	-24	1%	5,839	-25
Communications	5%	28,812	-470	2%	11,161	-470
Consumables (cyclic)	1%	3,716	-	1%	4,841	-
Consumables (non-cyclic)	2%	9,737	-180	3%	15,299	-163
Energy	1%	7,130	-	0%	-	-
Financial	52%	289,056	-667	62%	369,365	-1,037
Funds	4%	21,445	-2,393	5%	27,751	-1
Public debt	18%	99,972	-	15%	90,581	-
Industrial	1%	6,833	-	1%	8,657	-
Medicine	9%	48,823	-	8%	50,223	-
Technology	0%	-	-	0%	2,969	-
Public/ collective services	5%	28,495	-	1%	7,283	-
Other	1%	6,204	-	1%	4,371	-
Total	**100%**	**552,071**	**-3,734**	**100%**	**598,340**	**-1,696**

The figures include the headings of Investments in affiliates, associates and joint ventures, Financial assets held for trading, Financial assets classified on initial recognition at fair value through profit or loss and Available-for-sale assets, Investments held to maturity and the loan capital and ancillary capital contributions under the Loans heading. The Available-for-sale assets heading does not include real-estate investment funds for reasons of consistency with the non-inclusion in this breakdown 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 may 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 pointed out to mitigate this risk the Company prepares a cash-flow plan on a monthly basis, adjusted weekly to its cash requirements/surpluses.

The breakdown of the maturities of financial assets and liabilities as at December 31, 2013 & 2012, is as follows:

(thousand euros)

2013	< 1 Month	1-3 Months	3-12 Months	1-5 Years	> 5 Years	Without Maturity	Total
Financial assets	6,297	105,010	67,367	167,245	88,515	385,980	820,414
Financial liabilities	-	37,911	13,077	2,133	-	-	53,121
Liquid	**6,297**	**67,099**	**54,290**	**165,112**	**88,515**	**385,980**	**767,293**

(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
Liquid	**19,048**	**111,722**	**19,412**	**247,457**	**63,011**	**340,355**	**801,005**

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.

Of the main mitigation measures already in existence at Tranquilidade in the light of the risks identified above, we highlight the following:

- Existence of a Code of Conduct;
- Existence of internal rules and procedures manuals;
- Implementation of internal and external fraud prevention policies and procedures:
- Implementation of measures related with security in access to the owner-occupied properties;
- Implementation of measures related with security in accessing databases and 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:

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

Internal control system

The Internal Control System can 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 controls;
- 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, and the calculation of the respective margin involves the following components:

(thousand euros)

	2013	2012
Elements Constituting the Guarantee Fund	**302,923**	**278,018**
Solvency Margin to be Set Aside	**51,065**	**52,889**
Results from the premiums standpoint	51,065	52,889
Results from the claims standpoint	48,391	49,359
Limit result of Article 97(8)	49,054	51,883
Legal minimum Guarantee Funds	3,700	3,700
Excess/Insufficiency of the Solvency Margin	**251,858**	**225,129**
Solvency Margin Cover Rate	**593.2%**	**525.7%**

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:

(%)

	2013	2012
Claims ratio[a]	64.2%	64.6%
Acquisition ratio[b]	21.5%	20.9%
Administrative ratio[c]	9.5%	8.8%
Combined Ratio	**95.2%**	**94.3%**

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

Amounts Recoverable on Claims

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

(thousand euros)

	2013	2012
Receivables	2,758	2,867
Adjustment of doubtful loans	-1,569	-1,548
Net Total	**1,189**	**1,319**

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)

	2013	2012
Inventories	220	219

Note 5 / Other Financial Liabilities

The breakdown of this heading is as follows:

(thousand euros)

	2013	2012
Other financial liabilities		
Deposits received from reinsurers	291	357
Repurchase agreements - Amounts payable	-	149,055
Financial holdings subscribed pending settlement	-	3,037
Other	-	1,396
Book Value	**291**	**153,845**

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 figures for Other recorded in 2012 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)

	2013	2012
Available-for-sale financial assets	320,167	288,092
Investments in affiliates & associates	236,144	246,096
Term deposits	46,645	211,368
Financial assets classified at fair value through profit or loss	2,031	4,100
Financial assets held for trading	-	2
Held-to-maturity investments	84,773	86,045
Total Holdings and Financial Instruments	**689,760**	**835,703**

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)

	2013	2012
Bonds & other fixed-income securities	-	-
Public issuers'	2,031	4,100
Other issuers'	-	-
Equities	-	-
Other floating-rate securities		
Book Value	**2,031**	**4,100**
Acquisition value	1,810	4,841

As at December 31, 2013 & 2012, the Company held, of this type, compound financial instruments with embedded derivatives, in fixed--income securities, as follows:

(thousand euros)

Type of risk	2013	2012
Structured credit	2,031	4,100
Credit derivative	-	-
Total	**2,031**	**4,100**

Available-For-Sale Financial Assets

The breakdown of this type of asset is as follows:

(thousand euros)

	2013	2012
Bonds & other fixed-income securities		
Public issuers'	50,308	41,612
Other issuers'	120,021	158,634
Equities	10,193	10,219
Other floating-rate securities	139,645	77,627
Book Value	**320,167**	**288,092**

Included in 2012 were investments sold with repurchase agreements, revalued in accordance with the available-for-sale assets accounting policy, in the sum of €104,148k.

The breakdown of the final balance sheet figures as at December 31, 2013 & 2012, is as follows:

(thousand euros)

	Amortised or Acquisition Cost	Fair-Value Reserve	Impairment	Book Value
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**
Bonds & other fixed-income securities				
Public issuers'	50,402	-94	-	50,308
Other issuers'	123,761	-3,077	-663	120,021
Equities	4,697	6,174	-678	10,193
Other floating-rate securities	141,796	242	-2,393	**139,645**
Balance as at December 31, 2013	**320,656**	**3,245**	**-3,734**	**320,167**

Movements under impairment losses are as follows:

(thousand euros)

	2013	2012
Balance as at January 1	**1,696**	**8,156**
Allocations for the period	3,196	12
Cancellations for the period for sale of assets	-1,035	-6,472
Written back during the period	-123	-
Balance as at December 31	**3,734**	**1,696**

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

(thousand euros)

	2013	2012
Bonds & other fixed-income securities	-663	-
Equities & other floating-rate securities	-2,410	-12
Total	**-3,073**	**-12**

Financial Assets Held for Trading

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

(thousand euros)

	2013		2012	
	Fair Value	Notional Value	Fair Value	Notional Value
Derivatives				
Forward contracts	-	-	2	379
Options	-	-	-	-
Total	**-**	**-**	**2**	**379**

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 exchange-rate hedge contracts for its investments in foreign currency.

Though they do not provide perfect hedging, these exchange-rate hedges endeavour to cover the exchange-rate risk on the principal and interest through successive renovation throughout the year, using swap and forward mechanisms for the purpose. Where these contracts show 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)

	2013	2012
Bonds & other fixed-income securities		
Public issuers'	49,663	48,969
Other issuers'	35,110	37,076
Book Value	**84,773**	**86,045**
Book value (without accrued interest)	82,921	84,070
Acquisition value	80,134	83,134
Market value	88,229	88,685

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.

The breakdown of the final balance sheet figures as at December 31, 2013 & 2012, is as follows:

(thousand euros)

	Amortises Acquisition Cost	Impairment	Book Value
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**
Bonds & other fixed-income securities			
Public issuers'	49,663	-	49,663
Other issuers'	35,110	-	35,110
Balance as at December 31, 2013	**84,773**	**-**	**84,773**

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)	
							2012	2013	2012	2013
Of Available-for-sale financial assets	97,674	91,007	14	-8,329	119,259	7.3%	79,525	82,379	-3,730	-5,595

a) Total amounts of capital and interest not discounted; futures calculated on the basis of the forward rates 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)

	2013	2012
Available-for-Sale Financial Assets		
Impact on equity		
- For adjustments to the fair value of financial assets	3,173	2,165
- Reserve for deferred taxes	-918	-626
	2,255	**1,539**

Other Financial Assets

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

(thousand euros)

	2013	2012
Loans	30,676	25,386
Deposits at cedent companies	1	1
Resale agreements - Receivables	-	16,597
Other	69	897
Total of Other Financial Assets	**30,746**	**42,881**

In 2013 & 2012, the figures for Others are in respect of 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)

	2013	2012
Ancillary capital contributions - LOGO	21,750	19,500
Ancillary capital contributions - Europ Assistance	1,410	1,410
Loan capital - Contact Centre	1,655	277
Loan capital - Esumédica	1,000	1,000
Loan capital - Imocrescente	2,407	1,400
Loans - Corpus Christi	510	-
Loans - Imocrescente	255	-
Loans to employees	1,689	1,799
Total Loans Granted	**30,676**	**25,386**

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)

	2013		2012	
	Fair Value	Book Value	Fair Value	Book Value
Cash & cash equivalents and sight deposits	5,878	5,878	26,158	26,158
Loans & receivables	77,391	77,391	254,249	254,249
Held-to-maturity investments	88,229	84,773	88,685	86,045
Other debtors for insurance & other operations	94,030	94,030	98,672	98,672
Financial Assets at Amortised Cost	**265,528**	**262,072**	**467,764**	**465,124**
Other financial liabilities	291	291	153,845	153,845
Other creditors for insurance & other operations	52,830	52,830	48,564	48,564
Financial Liabilities at Amortised Cost	**53,121**	**53,121**	**202,409**	**202,409**

Given that are short-term assets and liabilities, a reasonable estimate of their fair value is considered to be the balance as of the reporting date, except for investments held-to-maturity for which the fair value was determined based on market prices.

Valuation Methods

The breakdown of the value of the financial instruments stratified by the measurement method used, in accordance with the levels prescribed in IFRS 13, is as follows:

(thousand euros)

	2013			Total
	Level 1	Level 2	Level 3	
Available-for-Sale Financial Assets	**304,227**	**-**	**15,940**	**320,167**
Securities & equity paper	139,645	-	-	139,645
Equities & other floating-rate securities	108	-	10,085	10,193
Bonds & other fixed-income securities				
Public issuers'	50,308	-	-	50,308
Other issuers'	114,166	-	5,855	120,021
Derivatives	-	-	-	-
Financial Assets Classified at Fair Value through Profit or Loss	**227**	**-**	**1,804**	**2,031**
Securities & equity paper	-	-	-	-
Equities & other floating-rate securities	-	-	-	-
Bonds & other fixed-income securities				
Public issuers'	-	-	-	-
Other issuers'	227		1,804	2,031
Derivatives	-	-	-	-
Held-to-Maturity Investments (at Market Prices)	**88,229**	**-**	**-**	**88,229**
Bonds & other fixed-income securities				
Public issuers'	51,952	-	-	51,952
Other issuers'	36,277	-	-	36,277
Total	**392,683**	**-**	**17,744**	**410,427**

(thousand euros)

	2012			Total
	Level 1	Level 2	Level 3	
Available-for-Sale Financial Assets	**254,596**	**16,236**	**17,260**	**288,092**
Securities & equity paper	77,627	-	-	77,627
Equities & other floating-rate securities	89	-	10,130	10,219
Bonds & other fixed-income securities				
Public issuers'	41,612	-	-	41,612
Other issuers'	135,268	16,236	7,130	158,634
Derivatives	-	-	-	-
Financial Assets Classified at Fair Value through Profit or Loss	**2,177**	**-**	**1,923**	**4,100**
Securities & equity paper	-	-	-	-
Equities & other floating-rate securities	-	-	-	-
Bonds & other fixed-income securities				
Public issuers'	-	-	-	-
Other issuers'	2,177		1,923	4,100
Derivatives	-	-	-	-
Financial Assets Held for Trading	**-**	**2**	**-**	**2**
Securities & equity paper	-	-	-	-
Equities & other floating-rate securities	-	-	-	-
Bonds & other fixed-income securities				
Public issuers'	-	-	-	-
Other issuers'	-	-	-	-
Derivatives	-	2	-	2
Held-to-Maturity Investments (at Market Prices)	**88,685**	**-**	**-**	**88,685**
Bonds & other fixed-income securities				
Public issuers'	50,727	-	-	50,727
Other issuers'	37,958	-	-	37,958
Total	**345,458**	**16,238**	**19,183**	**380,879**

The description of the levels is as follows:

- **Level 1 -** Financial instruments measured according to (unadjusted) prices available on official markets having prices quotations disclosed by entities providing transaction prices in liquid markets.

- **Level 2 -** Financial instruments measured using internal valuation methods that mainly consider parameters and variables observable in the market.

- **Level 3 -** Financial instruments measured in accordance with internal valuation methodologies considering parameters or variables not observable in the market, having a significant impact on the valuation of the instrument and prices provided by third parties whose parameters are not observable in the market.

Exposure to Sovereign Debt

As at December 31, 2013 & 2012, 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, 2013					
	Book Value	Fair Value	Fair-Value Reserve	Average Interest Rate %	Average Maturity Years	Valuation Level
Portugal						
Available-for-sale financial assets	1,468	1,468	-16	5.5%	10	1
Held-to-maturity investments	42,171	43,874	-1,399	4.1%	3	-
Total	**43,639**	**45,342**	**-1,415**			

(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**			
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**			

Note 7 / Investments in Affiliates and Associates

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

(thousand euros)

Name of Company/ Registered Office	Classification	Valuation Method	Holding (%)			Financial Data 2013			
			Direct	Voting Right	Effective	Assets	Liability	Equity	Net Income
T-Vida, Companhia de Seguros, S.A. Av. da Liberdade, 242 1250-149 Lisbon (Portugal)	Subsidiary	Fair value	100.00	100.00	100.00	852,573	784,992	67,581	4,296
Seguros LOGO, S.A. R. D. Manuel II, 290 4050-344 Porto (Portugal)	Subsidiary	Fair value	100.00	100.00	100.00	26,532	20,929	5,603	-2,481
Esumédica–Prestação de Serviços Médicos, S.A. Av. da Liberdade, 242 1250-149 Lisbon (Portugal)	Subsidiary	Fair value	100.00	100.00	100.00	1,028	2,674	-1,646	-19
Tranquilidade Moçambique Companhia de Seguros, S.A. Rua da Sé, nº 114, 1º andar, Porta 111 Distrito Urbano 1 MAPUTO	Subsidiary	Fair value	99.996	100.00	100.00	2,106	1,518	588	-528
Tranquilidade Moçambique Companhia de Seguros Vida, S.A. Rua da Sé, nº 114, 1º andar, Porta 111 Distrito Urbano 1 MAPUTO	Subsidiary	Fair value	99.997	100.00	100.00	1,393	411	982	-437
Espírito Santo Contact Center, S.A. Av. Infante D. Henrique, 343 - C 1800-218 Lisbon (Portugal)	Subsidiary	Fair value	55.42	55.42	55.42	8,630	6,829	1,801	253
Advancecare – Gestão e Serviços de Saúde, S.A. Av. da Liberdade, 49 a 57, 1º 1250-139 Lisbon (Portugal)	Subsidiary	Fair value	51.00	51.00	51.00	10,502	2,877	7,625	2,234
Tranquilidade - Corporação Angolana de Seguros, S.A. Edifício ESCOM, Rua Marechal Brós Tito, nº 35 15ºD LUANDA	Associate company	Fair value	49.00	49.00	49.00	14,520	13,069	1,451	15
Europ Assistance, S.A. Av. Álvares Cabral, 41 - 3º e 4º 1250-015 Lisbon (Portugal)	Associate company	Fair value	47.00	47.00	47.00	49,185	33,862	15,323	4,040
BES, Companhia de Seguros, S.A. Av. Columbano Bordalo Pinheiro, 75, 8º 1070-061 Lisbon (Portugal)	Associate company	Fair value	25.00	25.00	25.00	116,330	86,116	30,214	6,993

The 55.42% holding in in Espírito Santo Contact Center, SA, for the purposes of consolidated accounts is increased to 56.30%, taking into account the indirect holding via BES, Companhia de Seguros, SA.

The investments as at December 31, 2013, are segregated as follows by company and composition of the book value:

(thousand euros)

	Acquisition Cost	Fair-Value Reserve	Impairment	Book Value
Advancecare	486	36,914	-	37,400
BES Seguros	3,759	12,341	-	16,100
ES Contact Center	1,846	4,254	-	6,100
Esumédica	445	855	-	1,300
Europ Assistance	4,222	27,668	-	31,890
LOGO	20,000	-	-	20,000
Tranquilidade - Corp. Angolana Seguros	7,318	-900	-	6,418
Tranquilidade - Moçambique Seguros	1,361	-149	-	1,212
Tranquilidade - Moçambique Seguros Vida	1,810	-186	-	1,624
T-Vida	77,489	36,611	-	114,100
Total	**118,736**	**117,408**	**-**	**236,144**

Changes of the value of the holdings during 2013 were as follows:

(thousand euros)

	Opening Book Value	Acquisitions, Capital Increases and Disposals	Impairment	Fair Value Reserve	Closing Book Value
Advancecare	39,000	-	-	-1,600	37,400
BES Seguros	18,600	-	-	-2,500	16,100
ES Contact Center	4,000	-	-	2,100	6,100
Esumédica	1,100	-	-	200	1,300
Europ Assistance	24,500	-	-	7,390	31,890
LOGO	20,000	-	-	-	20,000
Tranquilidade - Corp. Angolana Seguros	6,810	-	-	-392	6,418
Tranquilidade - Moçambique Seguros	1,276	-	-	-64	1,212
Tranquilidade - Moçambique Seguros Vida	1,710	-	-	-86	1,624
T-Vida	129,100	-	-	-15,000	114,100
Total	**246,096**	**-**	**-**	**-9,952**	**236,144**

In measuring the holdings, and in accordance with the levels prescribed in IFRS 13, the internal level 3 valuation methods were used, i.e., internal valuations considering parameters or variables not observable in the market, having a significant impact on the valuation of the instrument and prices provided by third parties whose parameters are not observable in the market.

Note 8 / Cash, Cash Equivalents & Sight Deposits

The balance of this heading is as follows:

(thousand euros)

	2013	2012
Cash in hand	400	294
Deposits at credit institutions	5,478	25,864
Total	**5,878**	**26,158**

Note 9 / Land & Buildings

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

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

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 owner-occupied to the extent that they are used in the Company’s operating activity, and as investment properties in other cases. There are some that, used for both purposes, are classified as mixed, and each part is analysed and measured separately. The valuers responsible for the valuation of the assets are duly certified for the purpose and are registered with the CMVM.

Fair-value model

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

(thousand euros)

Investment Properties - Income-Generating Buildings	2013	2012
Net Balance as at January 1	**46,116**	**46,501**
Increases thru acquisition	350	62
Increases thru improvements	164	198
Transfers	4,444	-
Written off/Sales	-5,409	-
Variations of fair value	-1,269	-645
Net Balance as at December 31	**44,396**	**46,116**

All income properties held by the Company are intended to generate rents, even if for some reason rent is not charged; there are therefore no properties for the sole purpose of appreciation. The breakdown of the investment properties in keeping with their ability to generate rent is as follows:

(thousand euros)

	2013	2012
Properties that generate rental income	35,837	35,577
Properties that generate no rental income	8,559	10,539
Total	**44,396**	**46,116**

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

(thousand euros)

	2013	2012
Rental Income	**1,481**	**1,108**
Operating Costs	**282**	**352**
- on properties that generate rental income	149	159
- on properties that do not generate rental income	133	193

The rental income referred to above includes a rent of about €248k per annum, for a defined period (i.e., 2019) in respect of commercial premises, subject to renegotiation with the tenant thereafter.

Cost model

The breakdown of the Owner-occupied properties headings is as follows:

(thousand euros)

	2013	2012
Gross Value	**29,347**	**28,500**
Accumulated depreciation and impairments	-4,518	-4,032
Net Balance as at December 31	**24,829**	**24,468**

Movements under Owner-occupied properties in both years is as follows:

(thousand euros)

Tangible Assets - Own Service Buildings	2013	2012
Net Balance as at January 1	**24,468**	**24,726**
Increases thru acquisition	-	-
Increases thru improvements	847	205
Transfers	-	-
Written off/sales	-	-
Impairments-[(allocation)/use]	-	-
Depreciation charges for the period	-486	-463
Net Balance as at December 31	**24,829**	**24,468**

Note 10 / Other Tangible Fixed Assets and Inventories

Besides the owner-occupied properties 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)

	2013	2012
Equipment	**43,442**	**42,050**
Office equipment	4,508	4,433
Machines & tools	1,701	1,673
Hardware	32,536	31,681
Fixtures & fittings	1,950	1,950
Leased buildings expenditure	1,429	995
Transport material	868	868
Other tangible fixed assets	450	450
Fixed Assets in Progress	**3,140**	**4,807**
Accumulated Depreciation	**-40,744**	**-39,612**
Impairments	**-**	**-**
Total	**5,838**	**7,245**

The breakdown of movements in net value, under this heading, is as follows:

(thousand euros)

	Equipment	Fixed Assets in Progress	Total
Balance as at January 1, 2012	2,464	3,842	6,306
Additions	1,316	965	2,281
Transfers	-	-	-
Depreciation charges for the period	-1,339	-	-1,339
Written off/Sales	-3	-	-3
Balance as at December 31, 2012	2,438	4,807	7,245
Additions	1,417	2,777	4,194
Transfers	-	-4,444	-4,444
Depreciation charges for the period	-1,156	-	-1,156
Written off/Sales	-1	-	-1
Balance as at December 31, 2013	2,698	3,140	5,838

Mention is also made of the fact that there are other assets, related with salvage, which, in 2013, amount to €220k (2012: €219k).

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, 2013 & 2012, is as follows:

(thousand euros)

	2013		
	Non-Life Insurance	Not Allocated	Total
Cash & cash equivalents	4,272	1,606	5,878
Land & buildings	69,225	-	69,225
Investments in affiliates, associates and joint ventures	228,744	7,400	236,144
Financial assets held for trading	-	-	-
Financial assets classified in the initial recognition at fair value through profit & loss	2,031	-	2,031
Hedge derivatives	-	-	-
Available-for-sale financial assets	319,309	858	320,167
Loans and receivables	73,907	3,484	77,391
Held-to-maturity investments	84,773	-	84,773
Other tangible assets	-	5,838	5,838
Other assets	-	198,898	198,898
Total	**782,261**	**218,084**	**1,000,345**

(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**

Note 12 / Intangible Assets

All intangible assets are measures 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.

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

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

(thousand euros)

	2013	2012
Goodwill	**25,785**	**25,785**
Other Intangibles	**66,823**	**61,475**
Software development costs	49,901	45,004
Software	11,198	10,752
Intangibles in progress	5,724	5,719
Accumulated Depreciation	**-51,324**	**-46,796**
Impairments	-	-
Total	**41,284**	**40,464**

Movements in both years is as follows:

(thousand euros)

	Goodwill	Other Intangibles	Software Development Costs	Software	Intangibles in Progress	Total
Balance as at January 1, 2012	**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**
Additions	-	5,348	116	446	4,786	5,348
Depreciation for the year	-	-4,528	-3,803	-725	-	-4,528
Impairments	-	-	-	-	-	-
Transfers	-	-	4,781	-	-4,781	-
Balance as at December 31, 2013	**25,785**	**15,499**	**8,160**	**1,615**	**5,724**	**41,284**

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

(thousand euros)

	2013	2012
Depreciation of Intangible Assets for the Period:	**-4,528**	**-4,428**
Costs of claims, net of reinsurance		
Amounts paid - gross amounts	1,130	1,114
Net operating costs & expenses		
Acquisition costs	2,327	2,310
Administrative costs	1,062	997
Financial costs		
Other	9	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)

	2013	2012
Gross Assets	**63,460**	**66,772**
Policyholders		
- receipts pending collection	52,176	56,571
- reimbursement of claims	8,110	8,081
Insurance brokers	451	228
Co-insurers	2,723	1,892
Adjustments	**-5,493**	**-5,769**
Receipts pending collection	-3,686	-4,028
Doubtful debt	-1,807	-1,741
Net Assets	**57,967**	**61,003**

Reimbursements demanded in respect of payments made as a result of claims occurring during the guarantees suspension period and not yet received amount to €2,758k (2012: €2,867k).

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

(thousand euros)

	2013	2012
Gross Assets	**10,537**	**10,467**
Reinsurers	9,375	10,063
Reinsured	1,162	404
Adjustments	**-207**	**-262**
Doubtful debt	-207	-262
Net Assets	**10,330**	**10,205**

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

(thousand euros)

	2013	2012
Gross Assets	**26,884**	**28,304**
Related entities	31	27
Advances to suppliers of goods & services	77	-
IFADAP	10,685	12,415
FAT	1,203	945
Management on account of IDS and principals	1,848	1,839
Performance bonds	657	755
Rents & other amounts pending collection	587	1,246
Staff	445	433
Other receivables	11,351	10,644
Adjustments	**-1,151**	**-840**
Doubtful debt	-1,151	-840
Net Assets	**25,733**	**27,464**

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)

	2013	2012
Adjustment of Receipts Pending Collection		
Balance as at January 1	4,028	4,314
Allocations for the period	-	-
Use for the year	-342	-286
Balance as at 31 December 2013	3,686	4,028
Adjustment of Doubtful Loans		
Balance as at January 1	2,843	2,459
Allocations for the period	322	384
Use for the year	-	-
Balance as at December 31	3,165	2,843

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

(thousand euros)

	2013	2012
Accrued Income	**215**	**245**
- Services rendered	215	245
Deferred Costs	**1,244**	**1,194**
- Insurance	41	14
- Rents	6	-
- Acquisition costs	1,197	1,180
Total	1,459	1,439

Liabilities and provisions

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

(thousand euros)

	2013	2012
Policyholders (return premiums payable)	5,499	2,948
Insurance brokers		
- Commissions payable	4,435	4,808
- Current accounts	1,982	1,322
Co-insurers	11,830	14,100
Total	23,746	23,178

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

(thousand euros)

	2013	2012
Reinsurers	16,554	16,647
Reinsured	101	149
Total	16,655	16,796

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

(thousand euros)

	2013	2012
Related entities	858	441
Suppliers of leased goods	463	1,692
Other suppliers of goods & services	4,261	1,516
Management on account of IDS and principals	1	-
IFADAP	1,670	1,692
WA pensions	1,246	1,053
Other payables	3,930	2,196
Total	12,429	8,590

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

(thousand euros)

	2013	2012
Deferred Income	**42**	**335**
- Rents	42	335
Accrued Costs	**19,813**	**19,244**
- Staff costs (subsidies, charges & bonuses)	7,558	6,209
- Acquisition costs (incentives & commissions)	3,713	3,745
- Third-party supplies & services	8,435	8,908
- Taxes	107	382
Total	19,855	19,579

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

(thousand euros)

	2013	2012
Taxes	1,784	3,416
Total	1,784	3,416

(thousand euros)

	2013	2012
Balance as at January 1	**3,416**	**2,954**
Allocations for the period	233	488
Use for the year	-1,865	-26
Balance as at December 31	1,784	3,416

The positive change of Other provisions is 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 Corporation tax (IRC) from 2006 to 2009, in respect of tax losses on a corporate merger and of the reinvestment of tax gains resulting from the sale of a financial holding. This change is included under costs by nature of expense to be allocated.

In December 2013, as part of the tax-debt settlement programme entailing a reduction of charges, amounts were paid that gave rise to a significant reduction of the associated interest accrued up to the date of settlement.

Note 14 / Insurance Contract Premiums

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

(thousand euros)

Businesses/ Groups of Businesses	Gross Premiums Written		UPR Variation		Premiums Earned	
	2013	2012	2013	2012	2013	2012
Accidents & health	100,598	102,940	108	-647	100,490	103,587
Fire & other damage	64,981	64,962	-552	470	65,533	64,492
Motor	131,105	142,029	-4,864	-3,208	135,969	145,237
Marine, air and transport	7,698	7,003	-11	203	7,709	6,800
General third-party liability	11,393	11,139	79	-164	11,314	11,303
Credit and fidelity insurance	51	40	9	-3	42	43
Legal protection	13	14	-1	-	14	14
Assistance	10,499	10,891	-335	49	10,834	10,842
Sundry	2,572	2,571	-34	91	2,606	2,480
Total	**328,910**	**341,589**	**-5,601**	**-3,209**	**334,511**	**344,798**

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

(thousand euros)

Businesses/ Groups of Businesses	Reinsurance Premiums Written		UPR variation		Reinsurance Premiums Earned	
	2013	2012	2013	2012	2013	2012
Accidents & health	3,745	3,279	8	-84	3,737	3,363
Fire & other damage	30,140	28,758	-282	484	30,422	28,274
Motor	1,521	1,611	9	0	1,512	1,611
Marine, air and transport	4,416	3,747	146	64	4,270	3,683
General third-party liability	1,495	1,370	41	-13	1,454	1,383
Credit and fidelity insurance	16	14	2	-3	14	17
Legal protection	-	-	-	-	-	-
Assistance	10,627	10,993	-758	54	11,385	10,939
Sundry	2,386	2,475	-96	181	2,482	2,294
Total	**54,346**	**52,247**	**-930**	**683**	**55,276**	**51,564**

Details of some amounts in respect of not-life insurance and reinsurance accepted, for 2013, are as follows:

(thousand euros)

Businesses/ Groups of Businesses	Gross Premiums Written	Gross Premiums Earned	Gross Cost of Claims	Gross Operating Costs	Balance of Reinsurance
Accidents & health	100,215	100,111	94,355	27,715	1,226
Fire & other damage	63,613	64,699	37,320	22,720	-10,743
Motor					
- Third-party liability	82,548	85,978	27,224	25,302	1,685
- Other covers	41,493	43,104	38,376	15,401	-547
Marine, air and transport	7,391	7,435	2,732	1,947	-2,142
General third-party liability	11,149	11,161	1,898	3,945	-4,451
Credit and fidelity insurance	50	42	-14	16	-23
Legal protection	13	13	-8	7	-
Assistance	10,499	10,833	-	2,104	-10,322
Sundry	2,543	2,575	2,784	585	581
Total	**319,514**	**325,951**	**204,667**	**99,742**	**-24,736**
Reinsurance accepted	9,396	8,560	5,315	2,291	-801
Grand Total	**328,910**	**334,511**	**209,982**	**102,033**	**-25,537**

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)

	2013	2012
Interest	**13,091**	**15,158**
Available-for-sale financial assets	4,180	3,285
Financial assets classified at fair value through profit or loss	46	224
Financial assets held for trading	-	-
Held-to-maturity investments	5,492	5,663
Deposits, loans & other assets	3,373	5,986
Rents	**1,481**	**1,108**
Land & buildings	1,481	1,108
Dividends	**8,582**	**10,820**
Investments in affiliates, associates and joint ventures	8,514	10,102
Available-for-sale financial assets	68	718
Total	**23,154**	**27,086**

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

(thousand euros)

	2013	2012
Bonds & other fixed-income securities		
Public issuers'	4,197	3,724
Other issuers'	5,521	5,448
Equities	8,566	10,586
Other floating-rate securities	16	234
Properties	1,481	1,108
Deposits	3,243	5,658
Loans & other assets	130	328
Total	**23,154**	**27,086**

The breakdown of Financial costs is as follows:

(thousand euros)

	2013	2012
Costs imputed to the investments function	1,367	926
Interest on repurchase agreements	702	1,364
Direct operating costs	282	352
Total	**2,351**	**2,642**

Note 17 / Gains & Losses Realised on Investments

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

(thousand euros)

	2013			2012		
	Gain	Loss	Balance	Gain	Loss	Balance
Financial - Not at Fair Value through Profit or Loss	**13,916**	**-4,208**	**9,708**	**19,025**	**-12,198**	**6,827**
Available-for-sale financial assets	9,916	-4,208	5,708	5,600	-3,819	1,781
Held-to-maturity investments	-	-	-	-	-	-
Investments in affiliates, associates and joint ventures	4,000	-	4,000	13,425	-8,379	5,046
Financial - at Fair Value Through Profit or Loss	**16**	**-600**	**-584**	**1,280**	**-1,046**	**234**
Financial assets at fair value through profit or loss	16	-600	-584	140	-1,046	-906
Financial assets held for trading	-	-	-	1,140	-	1,140
Non-Financial	-	-3	-3	-	-	-
Land & buildings - own use	-	-	-	-	-	-
Land & buildings - held for income	-	-3	-3	-	-	-
Total	**13,932**	**-4,811**	**9,121**	**20,305**	**-13,244**	**7,061**

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)

	2013			2012		
	Gain	Loss	Balance	Gain	Loss	Balance
Financial - At Fair Value	**974**	**-**	**974**	**2,924**	**-829**	**2,095**
Financial assets classified at fair value through profit or loss						
- Debt securities	974	-	974	2,924	-829	2,095
Non-Financial	**1,150**	**-2,419**	**-1,269**	**618**	**-1,263**	**-645**
Land & buildings - held for income	1,150	-2,419	-1,269	618	-1,263	-645
Total	**2,124**	**-2,419**	**-295**	**3,542**	**-2,092**	**1,450**

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)

	2013			2012		
	Gain	Loss	Balance	Gain	Loss	Balance
Available-for-sale financial assets	322	-102	220	372	-302	70
Financial assets held for trading	-	-39	-39	202	-209	-7
Other	81	-141	-60	8	-11	-3
Total	**403**	**-282**	**121**	**582**	**-522**	**60**

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)

	2013	2012
Other Technical Income	**1,018**	**1,105**
Co-insurance management commissions	220	230
Claims management charges	-	5
Remuneration for services - IFADAP	4	-
Management on account of claims	794	871
Other Technical Expense	**2,623**	**2,394**
Co-insurance management commissions	572	348
Management on account of claims	2,051	2,046
Value of Gains & Losses	**-1,605**	**-1,289**

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

(thousand euros)

	2013	2012
Other Non-Technical Income	**6,248**	**3,918**
Reimbursement of taxes	31	7
Corrections & adjustments	1,712	967
Other gains	3,169	1,281
Interest & other financial gains	42	59
Services rendered	249	425
Gains on disposal of tangible assets	-	1
Own work capitalised	1,045	1,179
Other Non-Technical Expense	**4,904**	**7,605**
Donations	16	45
Sponsorship	309	293
Gifts for customers	485	381
Fines	24	42
Subscriptions	11	7
Contractual terminations	1,330	2,565
Bad debt	109	-
Corrections & adjustments	476	1,435
Other expenses	1,515	1,851
Banking services & default interest	629	986
Value of Gains & Losses	**1,344**	**-3,687**

The breakdown of the balance of Other provisions is as follows:

(thousand euros)

	2013	2012
Taxes	1,865	26
Value of Gains & Losses	**1,865**	**26**

The significant income for 2013 of Other provisions is the result of the fact that, in December 2013, as part of the tax-debt settlement programme entailing a reduction of charges, amounts were paid that gave rise to a significant reduction of the associated interest accrued up to the date of settlement.

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 & loss account, in that they are distributed to the Company's four main functions and are reflected in and distributed to the following headings:

- Claims Function: Claims costs - Gross amounts paid;
- 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, 2013 & 2012, is as follows:

(thousand euros) (%)

2013	Cost of Claims		Acquisition Costs		Administrative Costs		Cost of Investments		Total	
Staff costs	6,235	17%	14,872	41%	14,650	41%	379	1%	36,136	100%
Third-party supplies & services	2,707	13%	7,601	35%	10,650	50%	493	2%	21,451	100%
Taxes	-	0%	-	0%	2,427	100%	-	0%	2,427	100%
Depreciation	1,338	22%	2,928	47%	1,775	29%	129	2%	6,170	100%
Provisions for contingencies & liabilities	-	0%	-	0%	-	0%	-	0%	-	0%
Other costs	6	2%	11	3%	5	1%	366	94%	388	100%
Total	**10,286**	**15%**	**25,412**	**38%**	**29,507**	**44%**	**1,367**	**2%**	**66,572**	**100%**

(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%**

Staff costs are detailed in Note 22.

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

(thousand euros)

	2013	2012
Electricity and water	510	525
Fuel	328	364
Office material, stationery, etc.	111	139
Gift articles	1,503	809
Office equipment & property maintenance	238	296
Hardware maintenance	1,794	1,740
Rents	2,080	2,157
Operational rental of vehicles & other rentals	1,123	1,180
Travel & entertainment costs	1,389	1,293
Telephone communications and networks	449	887
Post	1,373	1,252
Insurance	106	97
Retainers & fees	363	321
Advertising & marketing	1,356	1,766
Cleaning, hygiene & comfort	422	392
Guards & security	264	320
Outsourcing, consultancy & specialised work	4,516	4,543
Software services & development	1,569	1,671
Subscriptions to APS	235	248
Premium collection	822	818
Broker training	320	345
Temporary work	176	249
Other sundry supplies & services	404	487
Total	**21,451**	**21,899**

The breakdown of Taxes and charges is as follows:

(thousand euros)

	2013	2012
VAT borne	126	180
ISP levy	772	806
FAT levy	783	737
Municipal property tax	32	15
MAI levy (Civil Governments)	586	572
Portuguese Green Card Office levy	54	55
Other taxes, fees and licenses	74	53
Total	**2,427**	**2,418**

The breakdown of Depreciation charges is as follows:

(thousand euros)

	2013	2012
Software development costs	3,803	3,805
Software	725	623
Hardware	440	277
Premises	486	463
Office equipment & machines	242	240
Fixtures & fittings	26	298
Finance leasing	118	442
Other equipment	330	82
Total	**6,170**	**6,230**

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

(thousand euros)

	2013	2012
Provisions for taxes	-	13
Interest on reinsurers' deposits	19	-
Interest on financial leases	23	44
Securities' custody & management and other commissions	346	269
Total	**388**	**326**

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

(thousand euros)

	2013	2012
Acquisition costs		
Brokerage remuneration	36,732	36,529
Costs imputed	25,412	26,527
Other acquisition costs	7,570	7,911
Deferred acquisition costs (change)	1,005	487
Administrative costs		
Brokerage remuneration	1,807	1,883
Costs imputed	29,507	28,087
Reinsurance commissions & profit-sharing	-7,779	-8,462
Total	**94,254**	**92,962**

Note 22 / Staff Costs

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

	2013	2012
Senior managers	20	22
Managers	77	78
Co-ordinators	132	133
Technicians	182	177
Specialists	253	259
Ancillary staff	6	6
Total	**670**	**675**

These numbers must be increased by 5 employees assigned to the Spain branch.

Staff costs are detailed as follows:

(thousand euros)

	2013	2012
Remuneration - Corporate officers	2,068	1,871
Remuneration - Personnel	25,372	25,803
Charges on remuneration - Corporate officers	193	146
Charges on remuneration - Personnel	5,516	5,516
Post-employment benefits - Defined-benefit pension plans	724	358
Mandatory insurance	1,008	764
Social welfare costs	902	824
Training	233	231
Other staff costs	120	50
Total	**36,136**	**35,563**

As at December 31, 2013 & 2012, the Company had no loans or advances extended to corporate officers.

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

The fees billed during 2013 by the Official Auditor within the scope of the legal audit of the accounts amounted to €72k.

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 to its Directors old-age and disability retirement 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 came to alter 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 will be 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 considered in the actuarial studies as at December 31, 2013 & 2012, used to determine the updated value of the employees' pensions and health benefits are as follows:

	2013	2012
Financial Assumptions		
Wage growth rates	1% - 2.5% (*)	0% - 2.5% (*)
Pension growth rate	0% - 2.5% (*)	0% - 2.5% (*)
Rates of return of the fund	3.75%	3.26% - 4,25% (*)
Early-retirement pension growth rate	1% - 2.5% (*)	1.00%
Discount rate	3.75%	3.26% - 4,25% (*)
Demographic Assumptions and Valuation Methods		
Mortality table	GKF 95	GKF 95
Disability table	Suisse Re 2001	Suisse Re 2001
Actuarial valuation method	Project Unit Credit Method	

(*) In respect of liabilities towards directors.

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

As at 31 December 2013 & 2012, the number of participants covered by the benefits plan was as follows:

	2013	2012
In service	8	319
Retired	212	194
Total	**220**	**513**

As at December 31, 2013 & 2012, the breakdown of amounts recognised in the balance sheet is as follows:

(thousand euros)

	2013			2012		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Net Assets/ (Liabilities) Recognised in the Balance Sheet						
Liabilities as at December 31	-36,848	-649	-37,497	-33,342	-315	-33,657
Balance of the fund on December 31	33,594	-	33,594	37,307	-	37,307
Net Assets/ (Liabilities) in the Balance Sheet as at December 31	**-3,254**	**-649**	**-3,903**	**3,965**	**-315**	**3,650**

Additionally, Tranquilidade transferred part of its retirement pension liabilities through the acquisition of life insurance policies from T-Vida, Companhia de Seguros, SA. The number of employees covered by these policies stood at 352 (2012: 379), and the total liability amounts to €11,032k (2012: €11,633k).

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

(thousand euros)

	2013			2012		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Liabilities as at January 1	**33,342**	**315**	**33,657**	**37,864**	**552**	**38,416**
Transfers to the defined-contribution fund	-	-	-	-4,839	-	-4,839
Alteration of the plan	-	146	146	-	-146	-146
Cost of current service	1,820	29	1,849	559	2	561
Interest cost	-	-	-	1,708	17	1,725
Actuarial (gains) and losses on liabilities	5,323	258	5,581	1,857	3	1,860
Pensions paid by the fund	-3,637	-	-3,637	-3,807	-	-3,807
Benefits paid by the Company	-	-99	-99	-	-113	-113
Transfers from other funds	-	-	-	-	-	-
Liabilities as at December 31	**36,848**	**649**	**37,497**	**33,342**	**315**	**33,657**

The evolution of the value of the pension fund in 2013 & 2012 is as follows:

(thousand euros)

	2013			2012		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Balance of the Fund on January 1	**37,307**	**-**	**37,307**	**40,417**	**-**	**40,417**
Alteration of the plan	-	-	-	-4,839	-	-4,839
Real return of the fund						
Expected return of the fund	1,270	-	1,270	1,782	-	1,782
Actuarial gains & losses	-1,346	-	-1,346	3,754	-	3,754
Contributions paid by the fund's participants	-	-	-	-	-	-
Pensions paid by the fund	-3,637	-	-3,637	-3,807	-	-3,807
Transfers from other funds	-	-	-	-	-	-
Balance of the Fund on December 31	**33,594**	**-**	**33,594**	**37,307**	**-**	**37,307**

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

(thousand euros)

	2013			2012		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Deviations Recognised in Reserves as at 1 January	**11,026**	**234**	**11,260**	**12,923**	**231**	**13,154**
Actuarial (gains) & losses						
- on liabilities	5,323	258	5,581	1,857	3	1,860
- on the plan's assets	1,346	-	1,346	-3,754	-	-3,754
Deviations Recognised in Reserves as at 31 December	**17,695**	**492**	**18,187**	**11,026**	**234**	**11,260**

The evolution of assets receivable/ liabilities deliverable in 2013 and 2012 is as follows:

(thousand euros)

	2013			2012		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
(Assets)/ Liabilities Receivable or Payable as at January 1	**-3,965**	**315**	**-3,650**	**-2,553**	**552**	**-2,001**
Alteration of the plan	-	146	146	-	-146	-146
Actuarial gains & losses on liabilities	5,323	258	5,581	1,857	3	1,860
Actuarial gains & losses of the funds	1,346	-	1,346	-3,754	-	-3,754
Charges for the year:						
- Cost of current service	-	-	-	559	2	561
- Net interest costs in the balance of the cover of liabilities	550	29	579	1,708	17	1,725
- Expected return of the fund	-	-	-	-1,782	-	-1,782
Contributions made in the period and pensions paid by the Company	-	-99	-99	-	-113	-113
(Assets)/ Liabilities Receivable or Payable as at December 31	**3,254**	**649**	**3,903**	**-3,965**	**315**	**-3,650**

The breakdown of the costs for the period incurred with retirement pensions and health benefits is as follows:

(thousand euros)

	2013			2012		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Cost of current service	1,820	29	1,849	559	2	561
Net interest costs in the balance of the cover of liabilities	-1,270	-	-1,270	-74	17	-57
Alteration of the plan	-	146	146	-	-146	-146
Costs for the Period	**550**	**175**	**725**	**485**	**-127**	**358**

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

(thousand euros)

	2013	2012
Land & buildings	7,734	7,934
Equities & other floating-rate securities	8,770	12,315
Fixed-income securities	31,429	36,235
Balances with credit institutions	1,776	2,001
Fund debtors & creditors	-191	584
Interest receivable	561	1,033
Amount transferable on cut-off of the plan	-	-5,658
Total	**50,079**	**54,444**

The values of assets disclosed above are entirely related to the Pension Fund of the Tranquilidade and BES-Vida Group, of which associate Tranquilidade accounts for about 67.1% (2012: 68.5%) of the total of the fund.

The sensitivity analysis and its impacts on the accumulated post-employment benefits liability, taking its main conditioning factors into account, is as follows:

(thousand euros)

	2013		2012	
	+25 p.p.	-25 p.p.	+25 p.p.	-25 p.p.
Change of the discount rate of the liabilities	-544	567	-	-
Change in the evolution of the pensions	248	-248	-	-

Note 24 / Corporation 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 corporation 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 2013 and 2012 was performed on the basis of the nominal tax rate plus the municipal surcharge, totalling 31.44%, the nominal rate approved as of the reporting date. The Company has been subject to annual inspections by the DGCI (Directorate General of Taxation), whose latest report refers to 2011 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 tax losses 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 purpose, as follows:

(thousand euros)

Period	Brought Forward	Used	Carried Forward	Last Year for Use
2011	24,431	12,213	12,218	2015

The breakdown of current tax assets and liabilities reported in 2013 and 2012 is as follows:

(thousand euros)

	2013		2012	
	Current Tax Assets	Current Tax Liabilities	Current Tax Assets	Current Tax Liabilities
Corporation tax	41	8,834	41	16,904
Tax withheld at source	-	878	-	1,685
Value added tax	61	244	61	39
Other taxes & levies	77	7,361	74	7,478
Social security contributions	159	888	137	840
Local authority taxes	-	120	-	120
Total	**338**	**18,325**	**313**	**27,065**

The significant reduction of the corporation tax figures is due to the fact that in December 2013, within the scope of tax-debt settlement programme with a reduction of charges, amounts have been liquidated relating to the possibly unfavourable decision on the use of tax deductions in determining the corporation tax for 2006 to 2009, relating to tax losses of a business merger.

The breakdown of deferred tax assets and liabilities recognised in the 2013 and 2012 balance sheets is as follows:

(thousand euros)

Headings	Assets		Liabilities		Liquid	
	2013	2012	2013	2012	2013	2012
Investments	1,344	385	-	-33,149	1,344	-32,764
Post-employment benefits	65	89	-	-	65	89
Technical provisions	-	-	-	-	-	-
Doubtful debt provision	44	64	-	-	44	64
Tax losses	2,810	4,969	-	-	2,810	4,969
Properties	1,295	560	-	-	1,295	560
Other non-deductible costs	1,336	1,200	-500	-158	836	1,042
Total	**6,894**	**7,267**	**-500**	**-33,307**	**6,394**	**-26,040**

As at December 31, 2013, and in the light of legislative changes enacted at the end of the year in the matter of corporation tax, about the rates and rules in force after January 1, 2014, the Company altered the rates used in the calculation of deferred taxes, as follows:

- From 28.94% to 0% due to the change of taxation applicable to capital gains above 5% and held for more than two years holdings, which came to be exempt (decrease of about €31 million)
- From 28.94% to 27.5%, associated with temporary differences (reduction of about €90k)
- From 25.0% to 23.0%, associated with tax losses brought forward (reduction of about €245k).

Current and deferred taxes in 2013 & 2012 were recognised as follows:

(thousand euros)

2013	Fair-Value Reserve	Gains & Losses	Total
Current Tax	**-**	**-1,943**	**-1,943**
Corporation tax estimate		-1,522	-1,522
Autonomous tax		-421	-421
Deferred Tax	**33,565**	**-1,131**	**32,434**
Investments	33,565	543	34,108
Post-employment benefits		-24	-24
Tangible/ intangible assets		-	-
Technical provisions		-	-
Bonuses/ profit sharing		-	-
Doubtful debt provision		-20	-20
Tax losses		-2,159	-2,159
Properties held for sale		735	735
Other non-deductible costs		-206	-206
Total	33,565	-3,074	30,491

(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
Tangible/ intangible assets		-	-
Technical provisions		-455	-455
Bonuses/ profit sharing		-	-
Doubtful debt provision		-	-
Tax losses		-3,581	-3,581
Properties held for sale		659	659
Other non-deductible costs		488	488
Total	15,376	-7,793	7,583

Reconciliation of the tax rate is as follows:

(thousand euros)

	2013	2012
Pre-tax income	22,094	26,250
Tax rate	31.44%	31.44%
Tax Determined on the Basis of the Official Rate	**-6,946**	**-8,253**
Dividends excluded from taxation	2,665	3,320
Tax benefits	176	166
Other income & costs excluded from taxation	1,464	-482
Differences in capital gains accepted for tax purposes	-12	-1,739
Autonomous Tax	-421	-805
Tax Recognised in Profit or Loss	-3,074	-7,793

Note 25 / Share Capital

Tranquilidade's share 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.

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 reserves

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 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 IAS 19 - Employee Benefits, Tranquilidade recognises actuarial gains against reserves.

The breakdown of the reserves as at December 31, 2013 & 2012, is as follows:

(thousand euros)

	2013	2012
Fair value of financial assets reserve	117,933	122,515
Deferred tax reserve	416	-33,149
Other reserves	30,185	35,266
- Legal reserve	47,444	45,598
- Actuarial deviations reserve	-18,187	-11,260
- Free reserves	928	928
Reserves	**148,534**	**124,632**

On December 31, 2013, and in the light of legislative alterations at the year-end in respect of corporation tax, on the rates and rules in force after January 1, 2014, the Company altered the rates used in the calculation of deferred taxes, affecting the Reserve, the greater impact being the reduction from 28.94% to 0% depending on the alteration of the taxation applicable to gains exceeding 5% on holdings held for more than two years, which came to be exempt (reduction of about €31 million).

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)

	2013	2012
Investments in affiliates, associates and joint ventures	117,408	127,360
Floating-rate securities	6,416	5,447
Fixed-income securities	-5,891	-10,292
Fair-Value Reserves	**117,933**	**122,515**

The breakdown of the net fair value reserve as at December 31, 2013 & 2012, is as follows:

(thousand euros)

	2013	2012
Amortised cost of available-for-sale investments	320,656	290,048
Acquisition costs of investments in affiliates, associates and joint ventures	118,736	118,736
	439,392	**408,784**
Impairment	-3,734	-1,696
Amortised/ acquisition cost net of impairment	435,658	407,088
Fair value of available-for-sale investments	320,167	288,092
Investments in affiliates, associate and joint ventures	236,144	246,096
	556,311	**534,188**
Gross revaluation reserve (Fair value - cost)	120,653	127,100
Revaluation reserve for securities transferred to Held-to-maturity investments	-2,720	-4,585
Deferred & current taxes	416	-33,149
Revaluation Reserve Net of Taxes	**118,349**	**89,366**

Movement under the net fair value reserve as at December 31, 2013 & 2012, is as follows:

(thousand euros)

	2013	2012
Balance as at January 1	**89,366**	**122,903**
Changes in fair value, including variations on disposal	-2,544	-55,373
Impairment recognised during the year	-2,038	6,460
Variation of deferred taxes recognised during the year	33,565	15,376
Balance as at December 31	**118,349**	**89,366**

Note 27 / Earnings Per Share

Earnings per share for the years ended December 31, 2013 & 2012, are as follows:

	2013	2012
Net income for the period (in thousands of euros)	19,020	18,457
Number of shares (year-end)	32,000,000	32,000,000
Earnings Per Share (in euros)	**0.59**	**0.58**

Note 28 / Dividend Per Share

The Company's sole equityholder is Partran – Sociedade Gestora de Participações Sociais, SA, to which, in 2013 and 2012, the undernoted dividends were assigned and paid, resulting in the following dividends per share:

	2013	2012
Dividend (in euro '000s)	10,000	40,000
Number of shares (beginning of the period)	32,000,000	32,000,000
Dividend Per Share (in euros)	**0.31**	**1.25**

The 2012 figures include payment of an interim dividend of €5,000k, an ordinary dividend payment of €10,000k, and a payment of €25,000k as an extraordinary distribution of assets Article 31 of the Companies Code.

Note 29 / Transactions Between Related Parties

The whole of Tranquilidade's share capital is held by Partran, Sociedade Gestora de Participações Sociais, SGPS, SA, having its registered office at rua de São Bernardo, 62, 1200-826 Lisbon, which prepares consolidated accounts. The accounts of both entities are 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, 2013 & 2012, 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)

	2013				2012			
	Assets	Liabilities	Costs	Income	Assets	Liabilities	Costs	Income
ADVANCECARE	-	679	4,619	1,166	-	310	4,196	1,105
BANCO ESPÍRITO SANTO	25,255	1,892	3,965	7,901	150,595	152,005	3,903	10,351
BES SEGUROS	8	-	-	1,828	7	34	-	983
BES VIDA	67	-	-	112	63	6	-	115
BESI	2	-	-	-	17	-	-	-
BESLEASING	520	337	-	8	496	805	44	13
BEST	1	-	-	-	1	-	-	-
CORPUS CHRISTI	500	-	-	44	-	-	-	-
E.S. CONTACT CENTER	1,661	11	80	86	278	1	88	158
E.S. INFORMÁTICA	-	-	223	-	-	-	36	-
E.S. INVESTMENT	2,200	14	204	26	2,200	-	135	-
E.S. FINANTIAL PRT	2,004	-	-	204	2,068	-	-	18
E.S. SAÚDE	-	-	-	27	-	-	-	27
E.S. SERVIÇOS 2, ACE	4	93	878	16	4	-	501	119
ESAF	3	-	-	20	4	-	-	492
ESEGUR	212	10	218	1,401	142	17	292	300
ESFG	-	-	26	-	-	-	94	-
ESFIL	5,253	-	-	295	3,161	-	-	-
ESGEST	-	-	79	-1	48	-	252	40
ESUMÉDICA	1,006	6	840	30	1,000	7	840	13
EUROP ASSISTANCE	1,410	1,024	-	-11,396	1,410	-	-	-11,943
GESFIMO	3	-	-	8	2	-	-	10
HOTÉIS TIVOLI	-	1	17	-	-	-	28	-
LOGO	21,770	38	6,856	6,597	19,505	7,262	8,501	7,626
MULTIPESSOAL - SERVIÇOS	50	9	171	262	58	-	239	254
MULTIPESSOAL - TRABALHO TEMPORÁRIO	-	-	-	-	-	20	-	-
SGL - SOCIEDADE GERAL LIMPEZAS	-	65	459	-	-	-	374	-
TOP ATLÂNTICO	-	-	406	-	-	1	859	-
BES AÇORES	539	-	-	-	136	-	-	-
IMOCRESCENTE	2,650	-	-	44	1,400	-	-	-
IMOPRIME	-	-	-	44				
TRQ ANGOLA	5,694	-	36	1,152	3,959	-	-	-
TRQ MOÇAMBIQUE VIDA	191	-	-	-	201	-	-	-
TRQ MOÇAMBIQUE NÃO VIDA	907	-	80	444	121	-	-	-
PASTOR VIDA	-	-	-	-	-	-	-	5,039
T-VIDA	29	224	-	4,050	22	114	-	2,700
	71,940	**4,430**	**19,157**	**14,366**	**186,898**	**160,582**	**20,382**	**17,427**

Note 30 / Statement of Cash Flows

The Statement of changes of cash & cash equivalent flows 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 amounts of the contractual commitments expressed in the balance sheet in respect of finance lease contracts are as follows:

(thousand euros)

	2013	2012
Tangible assets (gross value)	11,637	11,637
Accumulated depreciation	-11,508	-11,391
Tangible Assets (net value)	**129**	**246**
Creditors - Suppliers of Goods	**463**	**985**

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	99	231	133
Operating lease contracts	225	530	748

Note 37 / Other Information

Recently-Issued Standards and Interpretations

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

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.

As a result of IAS 19 (2011), the Company altered its accounting policy with respect to the basis of determination of income and expenses related to the defined-benefit plans. Under IAS 19 (2011), the Company determines the expense (income) of the net interest of the defined-benefit liability (asset) for the period, using the same discount rate to measure the defined-benefit liability at the beginning of the annual period, taking into alterations to the liabilities (assets) as a result of contributions and benefits paid.

Consequently, the net interest of the liability (asset) of the defined-benefit plan now comprises: (i) the interest cost of the defined benefit obligation; (ii) the income from the plan's assets; and (iii) the effect of the interest ceiling of the asset.

The changes had no impact on the Company's financial statements.

Presentation of items under OCI (other comprehensive income) - Amendment of IAS 1 - Presentation of financial statements

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

As a result of the amendment to IAS 1, the Company modified the presentation of items of Other Comprehensive Income (OCI) in the statement of comprehensive income, in order to present separately items that are to be reclassified in the future to profit or loss and those that will not be reclassified. The comparative information has been restated on the same basis.

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

OThe 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, 2013. These amendments were adopted by European Commission Regulation 1256/2012 of December 11.

The Company was not affected by the adoption of these changes.

Improvements to IFRS (2009-2011)

The 2009-2011 cycle of annual improvements issued by the IASB on May 17, 2012, and adopted by the European Commission Regulation 301/2013 of March 27, introduced alterations, with effective date of 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 that of 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 had no significant impact as a result of the adoption of this amendment.

IFRS 13 – Fair value measurement

The IASB issued on June 16, 2011, amendments to "IAS 13 - Employee Benefits", with effective application (retrospective) for periods beginning on or after January 1, 2013. This standard was adopted by European Commission Regulation 1255/2012 of December 11.

In accordance with the transitional provisions of IFRS 13, the Company adopted the new definition of fair value, as described in Note 3, prospectively. The changes had no significant impact on the measurement of the Company's assets and liabilities, but new disclosures were included in the financial statements as required by IFRS 13. For these new disclosures no were comparisons were included, in keeping with the provisions of the standard for the first year of implementation. However, to the exact extent that those disclosures were already required by other standards in force before 13 IFRS, the Company has provided relevant comparative information already disclosed under those standards.

IFRIC 20 - Stripping costs in the production phase of a surface mine

The International Financial Reporting Interpretations Committee (IFRIC) issued on October 19, 2011, "IFRIC 20 - Stripping costs in the production phase of a surface mine", with an effective date of application (retrospective) for periods beginning on or after January 1, 2013. This interpretation was adopted by European Commission Regulation 1255/2012 of December 11.

Given the nature of the Company' operations, this interpretation had no impact on the financial statements.

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

IFRS 32 (Amendment) - Financial Instruments: Presentation - offsetting between financial assets and liabilities

The IASB issued on December 16, 2011, amendments to "IAS 32 - Financial instruments: Presentation - 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 1256/2012 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, taking into account that the accounting policy adopted is in line with the guidance issued.

IFRS 27 (Amendment) - Separate financial statements

The IASB issued on May 12, 2011, amendments to "IAS 27 - Separate financial statements", with effective application (retrospective) for periods beginning on or after January 1, 2014. These amendments were adopted by European Commission Regulation 1254/2012 of December 11.

Bearing in mind that IFRS 10 addresses the control principles and sets out requirements relating to the preparation of consolidated financial statements, IAS 27 (amendment) comes to regulate solely 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).

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

IFRS 10 - Consolidated financial statements

The IASB issued on May 12, 2011, amendments to "IFRS 10 - Consolidated financial statements", with effective application (retrospective) for periods beginning on or after January 1, 2013. This standard was adopted by European Commission Regulation 1254/2012 of December 11, stipulating imperative application 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 both. 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 is assessing the impact of the introduction of this alteration though it does not expect the impact to be significant.

IFRS 11 - Joint arrangements

The IASB issued on May 12, 2011, amendments to "IFRS 11 - Joint arrangements", with effective application (retrospective) for periods beginning on or after January 1, 2013. This standard was adopted by European Commission Regulation 1254/2012 of December 11, stipulating imperative application 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 arrangement" determine the type of joint arrangement in which is involved ("joint operation" or "joint venture"), evaluating its rights and obligations.

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

The Company is assessing the impact of the introduction of this alteration though it does not expect the impact to be significant.

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

The IASB issued on May 12, 2011, amendments to "IAS 28 - Investments in associates and joint ventures", with effective application (retrospective) for periods beginning on or after January 1, 2013. These amendments were adopted by European Commission Regulation 1254/2012 of December 11, stipulating imperative application 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 significant impact from the application of this amendment to 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 application (retrospective) for periods beginning on or after January 1, 2013. This standard was adopted by European Commission Regulation 1254/2012 of December 11, stipulating imperative application after January 1, 2014.

The objective of the new standard is to require an entity to disclose information helping users of the financial statements to assess: (i) the nature and risks associated with investments in other entities and; (ii) 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.

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 amendments 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. This standard was adopted by European Commission Regulation 1374/2013 of November 20.

The Company is still assessing the impacts of the implementation of this amendment.

IFRS 36 (Amendment) - Impairment of assets: Disclosure of the recoverable amount of non-financial assets

On May 29, 2013, the IASB issued the above amendment with effective application (retrospective) for periods beginning on or after January 1, 2014. This amendment was adopted by European Commission Regulation 1374/2013 of December 19.

The purpose of the amendments was to clarify the scope of the disclosure of information about the recoverable value of assets, where such amount is based on the net fair value of the selling costs, limited to assets with impairment.

IFRS 39 (Amendment) - Financial Instruments: Novation of derivatives and continuation of hedge accounting

On June 27, 2013, the IASB issued the above amendment with effective application (retrospective) for periods beginning on or after January 1, 2014. This amendment was adopted by European Commission Regulation 1375/2013 of December 19.

The purpose of these amendments was to render more flexible the accounting requirements of a hedging derivative, in which there is a need to alter the clearing counterparty as a result of changes in laws or regulations. Such flexibility means that hedge accounting continues regardless of the alteration of the clearing counterparty ("novation"), without the amendment to the standard, would no longer be allowed.

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

IAS 19 (Amendment) - Defined benefit plans: Employee contributions

On November 21, 2013, the IASB issued the above amendment with effective application (retrospective) for periods beginning on or after January 1, 2014.

The amendment clarifies guidance where what is at issue are contributions made by employees or by third parties, relating to the services, requiring the entity make such contributions in accordance with paragraph 70 of IAS 19 (2011). Thus, such contributions are allocated using the contribution formula of the plan or on a straight-line basis.

The change reduces the complexity by introducing a simple form that allows an entity to recognise contributions made by employees or by third parties, relating to the service, that are independent of the number of years of service (such as a percentage of the salary), as a reduction of the cost of the services in the period in which the service is rendered.

IFRIC 21 - Levies

On May 20, 2013, the IASB issued this interpretation with effective application (retrospective) for periods beginning on or after January 1, 2014.

This new interpretation defines levies as a disbursement by an entity imposed by the government according to law. It confirms that an entity recognises a liability for the levy when - and only when - the specific event that triggers it, according to the law occurs.

IFRIC 21 is not expected to have impacts on the Company's financial statements.

Improvements to the IFRS (2010-2012)

The 2010-2012 cycle of annual improvements issued by the IASB on December 12, 2013, introduced alterations, with effective date of application for periods beginning on or after July 1, 2014, to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.

- **IFRS 2 - definition of vesting condition**
  The amendment clarifies the definition of "vesting condition" contained in Appendix A of IFRS 2 - Share-Based Payments, separating the definition of "performance condition" and "service condition" from vesting condition, providing a clearer description of each of the conditions.

- **IFRS 3 - Accounting for contingent consideration in a business combination**
  The purpose of the amendment is to clarify certain aspects of the accounting for contingent consideration in a business combination, including the classification of contingent consideration, taking into account whether such contingent consideration is a financial instrument or a non-financial asset or liability.

- **IFRS 8 - Operating segments aggregation and reconciliation between the total of the reportable segments' assets and the assets of the company**
  The change clarifies the criteria for aggregation and requires an entity to disclose the factors used to identify the reportable segments, when the operating segment has been aggregated. To achieve internal consistency, a reconciliation of the total of the reportable segments' assets to the total assets of an entity needs to be disclosed only when the amounts are regularly provided to the chief operating decision maker.

- **IFRS 13 - Short-term receivables and payables**
  The IASB amended the basis of completion in order to clarify that by eliminating AG 79 of IAS 39 the intention was not intended to eliminate the need to determine the present value of a short-term receivable or payable, the invoice for which was issued without interest, even if the effect is immaterial. It should be noted that paragraph 8 of IAS 8 now allows an entity not to apply accounting policies set out in the IFRS if its impact is immaterial.

- **IAS 16 and IAS 40 - Revaluation Model - Proportional reformulation of accumulated depreciation or amortisation**
  In order to clarify the calculation of accumulated depreciation or amortisation at the date of the revaluation, the IASB amended section 35 of IAS 16 and section 80 of IAS 38 in the sense that: (I) determination of the accumulated depreciation (or amortisation) is not dependent on the selection of valuation technique; and (ii) the accumulated depreciation (or amortisation) is calculated as the difference between the gross amount and the net book value.

- **IAS 24 - Related party transactions - key management personnel services**
  To resolve any concerns about identification of the costs of service of key management personnel (KMP) when these services are provided by an entity (such as en investment fund management entity), the IASB clarified that disclosures of the amounts incurred for KMP services provided by a separate management entity must be disclosed, but it is not necessary to submit the breakdown called for in paragraph 17.

Improvements to the IFRS (2011-2013)

The 2011-2013 cycle of annual improvements issued by the IASB on December 12, 2013, introduced alterations, with effective date of application for periods beginning on or after July 1, 2014, to IFRS 1, IFRS 3, IFRS 13 and IAS 40.

- **IFRS 1 - meaning of "effective IFRS"**
  The IASB has clarified that if new IFRS are not yet mandatory but allow early implementation, IFRS 1 allows, but does not require, that they be applied to the first financial statements reported under IFRS.

- **IFRS 3 - exceptions to the scope for joint ventures**
  The amendments exclude from the scope of IFRS 3, the formation of all types of joint arrangements, as defined in IFRS 11. This exception to the scope applies only to the financial statements of joint ventures or to the joint ventures themselves.

- **IFRS 13 - scope of paragraph 52 - portfolio exception**
  Paragraph 52 of IFRS 13 includes an exception to measure the fair value of groups of assets or liabilities on a net basis. The purpose of this amendment is to clarify that the exception of portfolios applies to all contracts covered by IAS 39 or IFRS 9 regardless of complying with the definitions of a financial asset or financial liability laid down in IAS 32.

- **IAS 40 - interrelationship with IFRS 3 when classifying property as investment property or owner-occupied property.**
  The objective of this amendment is to clarify that judgement is needed to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3.

IFRS 9 - Financial instruments (issued in 2009 and amended in 2010 and 2013)

IFRS 9 (2009) introduced new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduced additional requirements related to financial liabilities. IFRS 9 (2013) introduced the hedge method. 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.

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 receive 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 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 (2013) introduced new requirements for hedge accounting that it aligns more closely with risk management. The requirements also establish a greater approach of principles to hedge accounting resolving some weaknesses in contained in the hedge model of IAS 39.

The IFRS 9 effective date has not yet been established but will be determined when the phases in progress are finalised.

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 the Company’s financial statements.

Appendix 1 – Inventory of Holdings and Financial Instruments

(expressed in euros)

Identification of the Securities	Quantity	Amount of par Value	% of Value Nominal	Average Acquisition Cost	Total Value Acquisition Cost	Book Value (Including Accrued Interest)	
Designation						Unit	Total
1 - AFFILIATES, ASSOCIATES, JOINT VENTURES AND OTHER RELATED COMPANIES							
1.1 - Domestic securities							
1.1.2 - Holdings in associates							
ADVANCECARE	458,997			1.06	485,958	81.48	37,400,000
BES SEGUROS	750,000			5.01	3,758,668	21.47	16,100,000
ES CONTACT	831,251			2.22	1,846,078	7.34	6,100,000
ESUMEDICA	300,000			1.49	445,502	4.33	1,300,000
EUROPE ASSISTANCE	705,000			5.99	4,221,800	45.23	31,890,000
SEGUROS LOGO S.A.	4,000,000			5.00	20,000,000	5.00	20,000,000
T-VIDA COMPANHIA DE SEGUROS, S.A.	65,000,000			1.19	77,488,591	1.76	114,100,000
Subtotal	72,045,248				108,246,597		226,890,000
1.1.4 - Holdings in related companies							
COMPTA	306,960			1.64	503,700	0.17	52,183
ES INV PLC	1			2.77	3	1,526.60	1,527
ESAF - ACTIVOS FINANCEIROS	100			22.93	2,293	112.34	11,234
ESPIRITO SANTO SAÚDE	2,655,000			1.25	3,308,200	3.44	9,123,000
ESTELA GOLF	40			5,540.45	221,618	2,479.91	99,197
QUINTA DOS CONEGOS	140,600			3.15	443,241	4.97	698,690
Subtotal	3,102,701				4,479,055		9,985,831
1.1.8 - Debt securities of related companies							
BES PL FLOAT 12/15		2,200,000	99.97%	100.0%	2,200,021	100.0%	2,200,256
BESLEASING FACT SUBORD 22/10/14		520,000	99.53%	100.2%	521,040	99.8%	519,168
BESPL 3,375% 02/15		8,000,000	95.99%	92.4%	7,394,908	98.9%	7,913,460
BESPL 5,625% 06/14		9,100,000	98.19%	89.3%	8,126,993	101.4%	9,227,939
ES FINANCIAL 5,125% 05/30/16		2,000,000	99.75%	99.7%	1,994,355	100.2%	2,003,705
ES FINANCIER 5,25% 06/12/15		5,000,000	101.58%	101.5%	5,076,000	105.1%	5,252,692
Subtotal	0	26,820,000			25,313,317		27,117,220
Subtotal	75,147,949	26,820,000			138,038,969		263,993,050
1.2 - Foreign securities							
1.2.2 - Holdings in associates							
TRQ ANGOLA	2,450			2,986.90	7,317,897	2,619.48	6,417,715
TRQ MOÇAMBIQUE CS	49,998			27.23	1,361,260	24.24	1,211,961
TRQ MOÇAMBIQUE VIDA	66,998			27.02	1,810,332	24.24	1,624,044
Subtotal	119,446	0.00			10,489,489		9,253,721
Total	75,267,395	26,820,000			148,528,458		273,246,771
2 - OTHER							
2.1 - Domestic securities							
2.1.1 - Capital instruments and unit trusts							
2.1.1.1 - Equities							
COMP. PREVIDENTE	6			532.54	3,195	0.00	0.00
COMP. PREVIDENTE SCPF	198			109.86	21,752	317.41	62,846
FETAL	2,760			20.84	57,528	0.00	0.00
HOTEL TURISMO ABRANTES	125			0.00	0.00	0.00	0.00
MADIBEL	7,955			0.01	81	0.00	0.00
SONAGI	55,600			0.44	24,294	1.01	56,156
SONAGI AN	100			0.06	6	0.01	1
SPECTACOLOR PORTUGAL	7,500			14.66	109,986	11.70	87,735
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	0.00			216,842		206,738

(expressed in euros)

Identification of the Securities / Designation	Quantity	Amount of par Value	% of Value Nominal	Average Acquisition Cost	Total Value Acquisition Cost	Book Value (Including Accrued Interest) Unit	Total
2.1.1.3 - Investment fund units							
CIMOVEL	561,147			5.35	3,000,004	5.64	3,165,599
ES LOGISTICA	80,000			5.00	400,000	5.06	404,576
ES TRADING FUND	10,000			104.80	1,048,000	116.05	1,160,500
FUNDO DE INVEST. IMOB. CORPUS CHRISTI	12,000			997.36	11,968,314	986.89	11,842,734
FUNGEPI BES	17,920,000			2.02	36,112,384	2.01	36,013,824
FUNGEPI BES II	2,483,601			4.71	11,699,996	4.82	11,976,917
FUNGERE (UP)	1,595,600			3.18	5,075,125	2.86	4,562,299
GESPATRIMONIO RENDIMENTO	1,834,553			12.55	23,015,934	12.41	22,761,486
IMOCRESCENTE FD DE INV. IMOB. FECHADO	10,075			997.11	10,045,410	999.42	10,068,641
IMOPRIME FUNDO DE INV. IMOB. FECHADO	20,549			985.07	20,242,442	963.03	19,789,709
Subtotal	**24,527,525**	**0.00**			**122,607,608**		**121,746,285**
Subtotal	**24,649,351**	**0.00**			**122,824,451**		**121,953,024**
2.1.2 - Debt securities							
2.1.2.1 - Public debt							
PT OT 3.35% 10/15/15		16,500,000	96.05%	93.9%	15,486,622	96.8%	15,964,842
PT OT 3.6% 10/15/14		5,000,000	98.61%	96.8%	4,841,440	99.4%	4,968,641
PT OT 4.2% 10/15/16		3,000,000	95.51%	94.0%	2,819,151	96.4%	2,891,831
PT OT 4.35% 10/16/17		1,500,000	93.95%	92.5%	1,387,212	94.9%	1,422,874
PT OT 4.75% 06/14/19		3,250,000	92.10%	90.8%	2,952,227	94.7%	3,077,818
PT OT 4.8% 06/15/20		12,000,000	90.78%	89.6%	10,750,455	93.4%	11,208,172
PT OT 5.65% 02/15/24		1,400,000	95.40%	96.2%	1,347,374	99.0%	1,385,591
PT OT 6.4% 02/15/16		2,500,000	99.87%	99.8%	2,495,323	105.5%	2,636,708
Subtotal	0	**45,150,000**			**42,079,803**		**43,556,476**
2.1.2.3 - Other issuers'							
PARPUBLICA 3.567% 09/22/2020		100,000	81.07%	84.0%	83,990	82.0%	82,047
ASCENDI GROUP 6.75% 07/15		1,000,000	100.00%	100.0%	1,000,000	103.4%	1,033,842
BANCO BPI 3.25% 01/15		4,500,000	96.37%	92.9%	4,178,456	99.5%	4,476,925
BCP 04/14 5.625%		3,500,000	98.39%	90.2%	3,158,472	102.3%	3,581,627
BCP 3.75% 10/16		3,000,000	90.10%	84.6%	2,538,122	91.0%	2,729,125
EDP FINANCE 4.125% 01/21		9,000,000	101.09%	99.3%	8,932,770	101.6%	9,139,532
EDP FINANCE 4.75% 09/16		1,021,000	105.69%	104.6%	1,067,864	106.9%	1,091,830
EDP FINANCE 4.75% 09/26/2016		3,000,000	105.69%	103.4%	3,103,454	106.9%	3,208,119
EDP FINANCE 4.875% 09/20		4,000,000	105.44%	104.0%	4,160,800	106.9%	4,276,367
GALP ENERGIA 4.125% 01/19		3,000,000	101.31%	99.4%	2,983,290	101.7%	3,051,475
GALP ENERGIA SGPS FLOAT 18		2,500,000	102.10%	101.9%	2,546,750	102.4%	2,559,125
PORTUCEL SA 5.375% 20-19		1,000,000	106.20%	101.9%	1,019,300	106.9%	1,068,739
PORTUGAL TELECOM 4.625% 05/20		10,000,000	102.13%	101.0%	10,102,000	105.1%	10,510,274
PORTUGAL TELECOM 5.875% 04/18		10,000,000	109.25%	108.3%	10,827,000	113.5%	11,345,942
REFER 4% 03/16/15		5,000,000	96.44%	89.8%	4,488,529	99.6%	4,980,937
REN FINANCE 4.75%		5,000,000	103.60%	102.5%	5,126,000	104.6%	5,229,001
SEMAPA 20/04/2016		700,000	95.00%	99.5%	696,500	95.3%	667,365
VERSE 1 SNR 4.172% 16/02/17		1,744,920	100.07%	100.0%	1,744,920	100.2%	1,748,973
EMASA		5,000	0.00%	0.0%	0.00	0.0%	0.00
P.CAVALEIROS		17,500	0.00%	0.0%	0.00	0.0%	0.00
V.AGROS		4,000	0.00%	0.0%	0.00	0.0%	0.00
V.TÊXTIL		7,500	0.00%	0.0%	0.00	0.0%	0.00
Term Dep. EUR BES					301,171		311,106
Term Dep. EUR MG					23,275,185		23,289,389
Term Dep. EUR CXGERALDEP					500,000		500,033
Term Dep. EUR BBVA					22,500,000		22,544,343
Subtotal	0	**68,099,920**			**114,334,573**		**117 426 116,00**
Subtotal	0	**113,249,920**			**156,414,375**		**160,982,592**
Total	**24,649,351**	**113,249,920**			**279,238,826**		**282,935,615**

(expressed in euros)

Identification of the Securities Designation	Quantity	Amount of par Value	% of Value Nominal	Average Acquisition Cost	Total Value 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**		**0.00**
2.2.1.3 - Investment fund units							
2BCAPITAL LUXEMBOURG SICAR	100			1,000.00	100,000	980.87	98,087
ES RENDIMENTO PLUS	500,000			8.07	4,036,700	8.08	4,041,900
EUROFIN SICAV SIF	14,529			1,000.01	14,529,552	911.98	13,250,526
INCOMETRIC FUND	92,081			5.43	500,013	5.44	500,921
L&C UK PUBLIC SECTOR REAL ESTATE	6			901.49	5,421	217.79	1,310
L&C UK REAL ESTATE	14			1,190.68	16,911	394.61	5,604
Subtotal	**606,731**	**0.00**			**19,188,596**		**17,898,348**
Subtotal	**734,471**	**0.00**			**19,188,596**		**17,898,348**
2.2.2 - Debt securities							
2.2.2.1 - Public debt							
BELGIUM KINGDOM 2.25% 06/22/23		500,000	97.44%	97.8%	489,050	98.6%	493,118
BOTS 0% 02/28/14		7,500,000	99.92%	99.9%	7,491,669	99.9%	7,494,300
BUNDES 0% 06/13/14		5,000,000	99.95%	99.9%	4,996,300	100.0%	4,997,500
BUNDES 2.25% 14		5,000,000	100.55%	100.7%	5,032,500	102.2%	5,108,620
BUNDESOBL 2.25% 04/10/2015		1,000,000	100.43%	100.8%	1,007,937	102.1%	1,020,655
DEUTSCHLAND REPUB 1.5% 05/15/23		2,100,000	96.62%	97.7%	2,050,866	97.5%	2,047,988
FRANCE OAT 2.25% 05/24		2,700,000	97.22%	97.8%	2,641,148	97.5%	2,633,095
IRISH GOVT 4.6% 04/16		2,000,000	93.01%	90.1%	1,802,880	96.3%	1,925,025
LETRAS DEL TESORO 0% 02/21/14		7,500,000	99.93%	99.9%	7,493,206	99.9%	7,494,450
NETHERLANDS GOVT 1.75% 07/23		700,000	95.89%	96.6%	676,265	96.7%	676,867
NETHERLANDS GOVT 2.5% 01/17		1,250,000	99.54%	99.4%	1,242,259	101.9%	1,274,178
NETHERLANDS GOVT 3.25% 07/15		750,000	101.54%	102.6%	769,520	103.0%	772,847
REPUBLIC OF AUSTRIA 1.75% 10/23		1,000,000	95.45%	96.5%	965,175	96.7%	966,820
SPGB 4.4% 10/31/23		2,400,000	101.96%	102.0%	2,449,000	102.7%	2,464,688
Subtotal	**0**	**39,400,000**			**39,107,775**		**39,370,150**
2.2.2.2 - Other public issuers'							
EFSF 1.625% 02/15		5,000,000	101.38%	101.6%	5,077,750	102.8%	5,142,459
EFSF 2.75% 12/16		2,500,000	99.79%	99.7%	2,493,049	100.0%	2,499,641
EUROPEAN INVEST BANK FLOAT 01/09/15		5,000,000	100.20%	100.3%	5,013,000	100.3%	5,014,749
FADE 3.375% 03/19		4,000,000	101.61%	102.3%	4,092,800	102.4%	4,096,908
GENERALITAT DE CATALUNYA 4.75% 06/18		200,000	101.87%	93.0%	185,950	104.6%	209,210
Subtotal	**0**	**16,700,000**			**16,862,549**		**16,962,967**
2.2.2.3 - Other issuers'							
A2A SPA 4.5% 11/19		3,300,000	107.78%	107.6%	3,551,460	108.2%	3,570,067
ATLANTIA 2.875% 02/21		1,000,000	99.98%	99.2%	991,720	100.5%	1,004,782
BANCO SABADELL 2.5% 12/16		3,000,000	99.92%	99.8%	2,993,250	100.1%	3,002,882
DOURM 1 A		503,595	82.86%	99.2%	499,755	82.9%	417,336
ELENIA FINANCE 2.875% 12/20		2,000,000	98.91%	99.8%	1,996,740	99.0%	1,980,425

(expressed in euros)

Identification of the Securities / Designation	Quantity	Amount of par Value	% of Value Nominal	Average Acquisition Cost	Total Value Acquisition Cost	Book Value (Including Accrued Interest) Unit	Book Value (Including Accrued Interest) Total
ERSTE BANK 19/07/2017		6,000,000	96.00%	100.5%	6,029,281	96.2%	5,773,675
EUTELSAT 2.625% 01/20		2,000,000	99.15%	99.3%	1,986,590	99.3%	1,985,502
FIAT FINANCE 6.75% 10/19		1,500,000	107.88%	105.4%	1,580,250	109.3%	1,639,762
FINMEC FINANCE 4.5% 01/21		200,000	98.62%	98.1%	196,213	98.9%	197,879
HIPOT 5 A2		225,397	80.24%	97.9%	220,663	80.3%	180,932
HSH NORDBANK AG 14/02/2017		5,000,000	76.50%	100.0%	5,001,109	76.6%	3,831,645
ITALCEMENTI FINANCE 6.625% 03/20		200,000	108.44%	104.7%	209,459	113.6%	227,298
KION 2006-1 A		384,503	85.22%	98.1%	377,332	85.3%	327,983
LEV FIN CAP II 02/09/2016		1,625,121	110.67%	97.6%	1,585,468	111.0%	1,803,609
LTR INVEST FLOAT 10/16		4,000,000	88.94%	100.0%	4,000,035	88.9%	3,557,600
LTR INVEST FLOAT 10/2016		2,000,000	88.94%	100.0%	2,000,062	88.9%	1,778,800
MAGEL 3 A		451,957	76.99%	98.6%	445,630	77.0%	348,150
MERRILL LYNCH & CO 14/09/2018		10,000,000	93.55%	99.9%	9,991,944	93.6%	9,358,905
NATL CAPITAL INSTRUMENTS PERP		1,200,000	92.40%	102.7%	1,232,460	92.4%	1,108,883
PELIC 2 A		191,038	90.43%	98.6%	188,322	90.5%	172,796
PELICAN 3 A		723,266	73.48%	97.5%	705,095	73.5%	531,601
PETROLEOS MEXICANOS 3.125 11/20		1,500,000	100.98%	99.4%	1,490,370	101.3%	1,518,991
REFER 4.25 06-12/2021		500,000	78.46%	69.8%	349,184	78.7%	393,343
RENAULT 3.625% 09/18		2,000,000	102.77%	102.8%	2,056,400	103.8%	2,075,839
ROYAL BK SCOTLAND 49		4,500,000	83.75%	101.6%	4,572,126	84.0%	3,778,063
SANTANDER ISSUANCES 23/03/2017		3,000,000	95.04%	100.1%	3,003,896	95.0%	2,851,471
TELECOM ITALIA 4% 01/21/20		4,000,000	99.24%	100.7%	4,027,848	103.3%	4,133,984
TELECOM ITALIA 4.875% 09/25/20		200,000	102.37%	99.0%	198,018	103.7%	207,327
TELECOM ITALIA 5.25% 02/22		100,000	101.94%	101.5%	101,539	106.6%	106,602
THEME 4 A		583,243	80.96%	97.2%	566,971	81.0%	472,477
UNICREDIT SPA 2.25% 12/16		1,000,000	100.65%	100.0%	999,970	100.7%	1,007,445
C.ÁGUAS DA BEIRA		110	0.00%	0.0%	0.00	0.0%	0.00
C.MOÇAMBIQUE		120	0.00%	0.0%	0.00	0.0%	0.00
HIDRO E REVUE		24	0.00%	0.0%	0.00	0.0%	0.00
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**	**62,888,374**			**63,149,159**		**59,346,057**
Subtotal	**0**	**118,988,374**			**119,119,483**		**115,679,175**
Total	**734,471**	**118,988,374**			**138,308,079**		**133,577,523**
Total	**25,383,822**	**232,238,294**			**417,546,905**		**416,513,138**
3 - GRAND TOTAL	**100,651,217**	**259,058,294**			**566,075,363**		**689,759,909**

08

DISCLOSURE OF REMUNERATION POLICIES

TRANQUILIDADE

08. DISCLOSURE OF 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 the 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 when it is held.

b) Term of office of the Remuneration Committee

Pursuant to Article 23 of the articles of association, the Remuneration Committee sets conditions and limits within which the fixed and variable remuneration of the Tranquilidade directors is determined.

The Remuneration Committee currently comprises of two members elected by the General Meeting of March 28, 2012, for a term of four years, ending in 2015.

c) Composition of the Remuneration Committee

Ricardo Espírito Santo Silva Salgado
Degree in Economics from Instituto Superior de Ciências Económicas e Financeiras of Universidade Técnica de Lisboa. Deputy-chair of the Board of Directors and CEO of Banco Espírito Santo, Chair of the Board of Directors of the firms Espírito Santo Financial Group, SA, Bespar - SGPS, SA and Partran, SGPS, SA. Member of the International Institute of Banking Studies since 2003 and its president from October 2005 to December 2006. Banco Bradesco (Brazil) Director since 2003. Member of the Board of Directors of Human Resources and Compensation Committee and of the Nominating and Governance Committee of NYSE Euronext.

José Manuel Pinheiro Espírito Santo Silva
Degree in Economics, majoring Company Management and Administration from the University of Évora (former Instituto de Estudos Superiores de Évora). Chair of Banque Privée Espírito Santo SA, executive director of Banco Espírito Santo and deputy-chair of Espírito Santo Financial Group, SA.

A representative of the Remuneration Committee attends each General Meeting.

d) External consultants

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

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 chair 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 one performs the duties of chairman. 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 chair of the Board of Directors

The chair of the Board of Directors receives a fixed remuneration paid fourteen times a year.

1.6. Remuneration of Non-Executive Members of the Board of Directors

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

In compliance with the recommendation under point IV.10 of Circular 6/2010, of April 1, of the Insurance Institute of Portugal, the non--executive members of the Board of Directors are not assigned any variable remuneration, only the only fixed remuneration laid down in the preceding paragraph.

Members who hold positions in management bodies of companies in a controlling and/or group relationship with Tranquilidade or carry out specific duties at the indication of the Board of Directors may be remunerated by these companies or by Tranquilidade, in keeping with the importance of the duties performed.

1.7. Remuneration of members of the Executive Committee

a) Equal remuneration

Without prejudice to the provisions of Article 23(1) of the articles of association, all members of the Executive Committee receive the same remuneration, except the Chairman. Only the variable part may differ among 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 set each year by the Remuneration Committee by the end of March, based on the appraisal of the previous year's performance or, in the absence thereof, directly at the General Meeting.

c) Remuneration limits

The fixed component shall have the limits established by the Remuneration Committee or the General Meeting, and it may about to as much as 80% of the Total Annual Remuneration and cannot be less than 40% thereof.

Without prejudice to the foregoing, the amount to be distributed among the members of the governing bodies by way of variable remuneration, as and when attributed, is subject at all times to the limit stipulated in Article 23(3) of the articles of association, set at 5% of the net profit for the period.

d) Balance in the remuneration

The variable part shall constitute, on average, about 40% of the remuneration, though it may amount at the outside to about 60% of the total remuneration.

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

e) Definition criteria of the variable component, 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, namely the Net profit for the year, the Return on equity and the Combined ratio.

The amount 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 amounts considered and the risk-tolerance levels established, no need was seen to defer a part of the variable component of the remuneration. It is paid in full in a lump sum in cash following 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 other forms of remuneration of the members of the Tranquilidade Executive Committee.

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

Other than the fixed and variable remuneration described in this remuneration policy, there are no other forms of remuneration of the members of the Tranquilidade 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 Tranquilidade Executive Committee related with termination of their duties.

j) Contractual limitations to the compensation payable on unfair dismissal 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 Tranquilidade 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 - Key Characteristics

The chair of the Board of Directors and Directors with executive duties are entitled to a retirement pension or retirement pension supplement if they hold or have held that position at performed that role at Companhia de Seguros Tranquilidade.

To this end, a pension fund has been set up, called the "Tranquilidade Directors Pension Fund" managed by ESAF - Espírito Santo Fundos de Pensões, SA, of which all directors with executive functions and the chair of the Board of Directors are participants.

The main characteristics of the pension plan contained in the deed of constitution of the pension fund signed between the Management Entity and the Associates (Tranquilidade) are as follows:

a) The right to a pension or retirement supplement matures, in case of old age, on the date on which the Director reaches the normal retirement age for Social Security purposes, currently set at 65, or any younger age that is possible in keeping with Social Security rules, and also in the event of disability;

b) The right to a retirement pension or pension supplement can be brought forward to the date on which the Directors come to be aged fifty-five, provided they have performed these duties at Tranquilidade during the period of pensionable time set for the purpose in the Charter of the Pension Fund;

c) The retirement-pension supplement may exist for the purpose of topping up any pensions granted by any other social security scheme.

Pensions or pension supplements to be granted, from which the annual retirement pension granted by social security and/ or any financial company, or under workmen's compensation will always be deducted, shall never exceed the pensionable salary of the Director in question. For the purpose, the pensionable salary is the average gross monthly salary of the last 36 months preceding the date on which the director retires, multiplied by 12.

The regulation governing the directors' right to an old-age or disability pension or pension supplement was subject to review and approval at the General Meeting held on November 1, 2013.

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 by mutual agreement requires, in the matter of the amounts involved, the prior approval of the Remuneration Committee.

4. Table of Remuneration Paid to Members of Tranquilidade's Corporate Officers during 2013

(thousand euros)

	Remuneration		Total
	Fixed	Variable	
Executive Committee			**973.5**
Pedro Guilherme Beauvillain de Brito e Cunha (chair)	219.9	-	219.9
Augusto Tomé Pires Fernandes Pedroso	188.4	-	188.4
António Miguel Natário Rio-Tinto	188.4	-	188.4
Miguel Maria Pitté Reis da Silveira Moreno	188.4	-	188.4
Nuno Miguel Pombeiro Gomes Diniz Clemente	188.4	-	188.4
Board of Directors			**375.2**
Rui Manuel Leão Martinho (chair)	73.5	-	73.5
Miguel Luís Kolback da Veiga	49.0	-	49.0
António José Baptista do Souto	49.0	-	49.0
Manrico Iachia	49.0	-	49.0
António Manuel Rodrigues Marques	105.7	-	105.7
Bernardo Leite Faria Espírito Santo	49.0	-	49.0
Board of Auditors			**100.4**
Alexandre Paixão Coelho (chair)	70.0	-	70.0
Rui Manuel Duarte Sousa da Silveira	16.6	-	16.6
António Ricardo Espírito Santo Bustorff	11.0	-	11.0
Horácio Lisboa Afonso	2.8	-	2.8
Total Remuneration	**1,449.1**	**0.0**	**1,449.1**

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 to 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 sundry senior staff 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) Term of office 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 – Chair
Pedro Guilherme Beauvillain de Brito e Cunha – CEO
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 are used in defining the remuneration policy applicable to Tranquilidade's corporate officers.

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) Remuneration limits

The fixed part will have the limits fixed by the Board of Directors and, on average, will amount in the Company to approximately 85% 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.

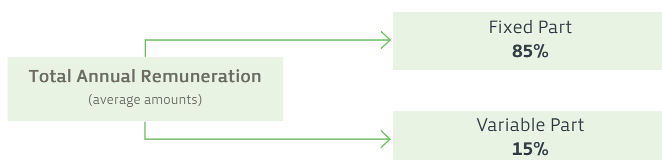
c) Balance in the remuneration

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 Key Employee forms part, in accordance with Tranquilidade's performance scoring model as approved by the Board of Directors.

d) Variable component definition criteria and its time of payment



The 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 a 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;
- Negotiating ability;
- Knowledge of the 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 shall also apply to the other Companhia de Seguros Tranquilidade employees not considered under the criteria defined in point 1 hereunder (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 shall also apply in relation to employees of other insurance companies of the Tranquilidade Group and respective affiliates abroad, subject in the latter case to possible adjustments to local laws as seen to be necessary.

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

Detailed description of the recommendations set out in Insurance Institute of Portugal Circular 6/2010 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;	✓		There is no recourse, in this context, to the provision of services by external 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 Ration, taking also into account at all times 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.	✓		

Recommendation		Complies	Does Not Comply	Comments
IV.	**Management Body – Executive Members (continuation)**			
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.
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;		✗	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;		✗	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;		✗	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;		✗	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.		✗	NNot 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 - Indemnities 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.		✗	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.
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.		✗	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.	✓		

Recommendation		Complies	Does Not Comply	Comments
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.		✗	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.		✗	Not applicable in view of the reply to the preceding point.
V.	**Employees' Remuneration – Key Employees**			
V.8.	Employees performing tasks associated with key functions shall be remunerated in the light of the achievement of the objectives associated with their duties, regardless of the performance of the areas under their control, the remuneration to provide a reward adequate to the importance of the exercise of the duties.	✓		
V.9	In particular, actuarial duties and the actuary in charge shall be remunerated in a manner in keeping with their role at the institution and not in respect of its performance.	✓		
VI.	**Appraisal of the Remuneration Policies**			
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 Employee Remuneration Policy of Companhia de Seguros Tranquilidade in relation to T-Vida, Companhia de Seguros, SA, and Seguros LOGO, SA. In future, compliance therewith shall also be assessed by the control functions in relation to other companies subject to ISP supervision, in which Companhia de Seguros Tranquilidade, SA has a qualifying holding.
VII.2	Adoption of these recommendations shall be ensured in respect of all remuneration paid to each employee by the those institutions that are a part of the same insurance group or financial conglomerate.	✓		
VII.3	The key functions of the parent company shall perform at least once a year, in articulation with each other, an assessment of the remuneration practices of the affiliates abroad, in the light of the recommendations of this Circular, especially in respect of their effect on the management of the institution's risk and capital.	✓		
VII.4.	The key functions shall submit to the management body of the parent company and to its general meeting or, should one exist, to the remuneration committee, a report on the results of the assessment to which the preceding number refers, detailing in particular the measures required to correct any insufficiencies in the light of these recommendations.	✓		

09

LEGAL CERTIFICATION OF ACCOUNTS AND BOARD OF AUDITORS' REPORT AND OPINION

TRANQUILIDADE

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, 2013, (which shows a total of €1,000,345k and total equity in the sum of €358,193k, including a net profit of €19,020k), 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, 2013, 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 17, 2014

José Manuel Macedo Pereira

BOARD OF AUDITORS' REPORT AND OPINION

To the Members of
COMPANHIA DE SEGUROS TRANQUILIDADE, S.A.,

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 S.A.**, in respect of the year ended December 31, 2013, 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 2013, both through the analysis of the accounting and management information documents, with which we were regularly provided, and through the additional clarification we requested of the Board and of the Company's services entrusted with operational responsibility. We also relied on the support of the Internal Audit, Overall Risk Management, Internal Control and Compliance departments, from which we obtained all the requested co-operation. We also performed the checks we considered necessary in the circumstances, bearing in mind the statutory and legal obligations with which were are charged.

We were thus able to determine that the Company's management 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 in the present situation of the economy.

As stated in paragraph 2.4.9 of the Management Report, on December 31, 2013, Equity amounted to €358.2 million, an increase of €31.1 million for the year then ended.

In this connection, attention is drawn to the positive impact of about €33.5 million on the Deferred tax reserve, caused by the alteration of taxation applicable to gains on holdings exceeding 5% and held during more than 2 years.

The estimated solvency ratio as at December 31, 2013, stood at 593.2% (525.7% in 2012).

The Board of Auditors continued to monitor with particular interest the process of implementation of the Solvency II Programme , which takes place until January 2016 and directives are expected to be transposed in 2014/2015 that will amend the original Directive 2009/138/EC.

In keeping with our duty, we also (i) checked the accounting records and the corresponding supporting documents and (ii) performed an assessment of the accounting policies and valuation criteria adopted by the Company, for which we relied on to co-operation 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 2012-2015.

On termination of 2013 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, 2013.

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 17, 2014, issued by the said Official Auditor regarding the financial statements with which 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 March 4, 2014, and the other accounting documents for the year ended December 31, 2013, presented by the Board of Directors; and

b) the Board of Directors' proposal for the appropriation of the 2013 net profit in the sum of €19,020,186.87, under the terms set out in point 2.5 of the Management Report referred to above.

Lisbon, March 21, 2014

The Board of Auditors

Alexandre da Paixão Coelho - Chairman
Rui Manuel Duarte Sousa da Silveira - Member
Horácio Lisboa Afonso - Member

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