TRANQUILIDADE

2011 Annual Report and Accounts

Companhia de Seguros TRANQUILIDADE, S.A.
Av. da Liberdade, 242
1250-149 Lisbon / Portugal
Registered at the Lisbon Registry of Companies
VAT: 500 940 231
www.tranquilidade.pt

TRANQUILIDADE

COMPANHIA DE SEGUROS TRANQUILIDADE

Contents

TRANQUILIDADE

COMPANHIA DE SEGUROS TRANQUILIDADE

01

Corporate Offices

01
Corporate Offices

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

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

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

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

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

Executive Committee

Peter Brito e Cunha
Chairman

Tomé Pedroso

Miguel Rio-Tinto

Miguel Moreno

Nuno Clemente

02

Directors' Report

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 2011.

2.1. Macroeconomic Framework

The year under review was marked mainly by the difficulties surrounding the Euro Area debt crisis. Besides concerns as to a default by Greece, contagion to peripheral economies such as Spain and Italy was on the horizon and also to cure economies such as France and Austria. The decline of confidence and increased risk aversion associated with financial instability in the Euro Area resulted in a drying-up of liquidity in money and credit markets, a particularly noticeable effect from August / September. In this connection, EU leaders agreed at the end of the year to strengthen the rules of consolidation and budgetary control.

The fears of contagion by the debt crisis, particularly in terms of the financial sector, was also reflected in the equity markets, with significant falls in the main European indices. In the US, the Fed's more aggressive monetary policy and the relatively good outlook for economic activity resulted in a less unfavourable performance of the major equity indices.

2.1.1. International Economic Situation

The US GDP grew 1.7% in 2011, slowing from 3.0% the previous year, reflecting the negative impacts of some external shocks on the American economy. These included the effects on production resulting from the earthquake in Japan, the rising price of oil or the effects of the European debt crisis. The less buoyant investment (the annual growth of which decreased from 17.9% to 4.7%) and a contraction of government consumption (-2.1%) were the main reasons for this performance, since private consumption performed relatively well (2.2% growth in 2011, following the 2010 figure of 2.0%).

Given the lack of support from equity markets and the housing market, which traditionally underpin household consumption, the growth of this aggregate resulted mainly from an improvement in the employment market and the downward trend in the savings rate. Over the year as a whole, more than 1.6 million new jobs were created and the unemployment rate fell from 9.6% to 9.0% of the workforce between the first and last month of the year. In turn, the savings rate dropped from 5.2% to 4.0% of disposable income over the same period.

Annual inflation ended the year at 3.0%, above the target defined by the monetary authority (2.0%), but with a clearly downward trend and with expectations of price growth in the medium term. In this context, the Federal Reserve continued until the end of 1st half, the second quantitative easing (QE2) programme, involving the acquisition of USD 600 billion of long-term Treasuries and maintained the fed funds target rate at historically low levels (ranging from 0% to 0.25%). The relative lack of drive of the upturn of activity led the Federal Reserve to adopt additional monetary policy measures in the second half of 2011, and, inter alia, it announced its intention of keeping the reference interest rates at exceptionally low levels until at least mid-2013.

In the Euro Area, after a significant acceleration at the beginning of the year thanks to strong growth of investment, particularly investment in construction benefiting from favourable weather conditions, the economy has slowed gradually over 2011, and activity slowed during the 4th quarter. Annual growth of the Euro Area stood at 1.5%, decelerating from the figure of 1.9% the previous year.

Although the growth of the area's main economy, Germany, has been strong (3.0% over the year), the performance was very heterogeneous among the Member States, with much of the Euro Area retuning a much more restrained, growth, with negative annual GDP variations in Greece and Portugal, and growths of less than 1.0% in Spain and Italy. The very considerable sharp fiscal consolidation effort had a more restrictive effect on the activity in these economies.

The slowdown seen during the year was due not only to the strong fiscal consolidation effort (in aggregate terms, the Euro Area deficit fell from 6.2% of the GDP in 2010 to 4.1% of the GDP in 2011), and also to the slowdown of private consumption in a context of deteriorating employment market conditions (the jobless rate rose to 10.4% of the workforce). Exports also slowed, reflecting the downturn of foreign demand, especially from the emerging economies, and the appreciation of the euro during the first half of the year.

The increase of uncertainty and the tensions in the financial markets, particularly the public debt market, and the drying-up of liquidity in the interbank money market, especially as from the summer, penalised the confidence of the economic agents and hampered the banks' funding at European level, against a background of increasing links between the evolution of public-debt markets and the banking industry. The recapitalisation requirements of European banks and the greater difficulties of the banks in accessing the money and credit markets led to a tightening in lending to households and businesses, likewise contributing to moderation of consumption and investment.

In terms of prices, the average annual inflation rate was 2.7%, following the 2010 figure of 1.6%, an increase primarily due to the impact of soaring energy prices (with emphasis on for the price of fuel and food).

The risk that the price increases could, in time, be reflected in rising wages led the European Central Bank to raise its refi rate from 1.0% to 1.5% in two stages, in April and July. However, the deterioration of the growth scenario and the sharp drop in confidence observed, especially as from the summer, in a context of absence of significant inflationary pressures, led the European monetary authority to reduce the refi rate in November and December, back to 1.0%.

With regard to the unconventional monetary policy measures, intended to minimise tensions and instability in the financial markets, the ECB has provided ample liquidity to the banking system, undertaking liquidity-providing operations up to unlimited amounts for periods of 1 week and 1 month at a fixed rate and of 3 months at the average rate that prevailed during the period. Additionally, the monetary authority announced two new long-term liquidity-injection operations (3 years), in the amounts requested by the banks and at the average rate of main refinancing operations in force during the corresponding period.

2.1.2. Domestic Economic Situation

In Portugal, 2011 was marked by the contagion effects of the Euro Area debt crisis and by the start to the execution of the financial adjustment programme. The deterioration of borrowing costs associated with increasing investor risk aversion was further aggravated in Portugal by the down revisions of the sovereign-deb rating (which closed 2011 at BBB- in the case of the S&P notation and at Ba2 in that of Moody's). The yield on 10-year public debt securities rose from 6.6% to 13.36% over the year, with the spread against German debt securities increasing 789 basis points to 1,153 basis points.

The financial adjustment programme agreed with the IMF/EU/ECB, involving funding the Portuguese economy in an overall amount of €78 billion, began to be implemented in May 2011, having received two favourable appraisals reviews by the official creditors. In terms of fiscal consolidation, the public deficit fell from 9.8% of GDP to close to 4.0% of GDP. Although this performance benefited from extraordinary measures (in particular, the partial transfer of the banks' pension funds), it also results from a major effort to reduce state expenditure, with a growth rate lower than budgeted, and good tax-revenue execution, in line with forecast.

There has also been significant progress in structural reforms in an environment of political and social stability. Among them: (i) changes in the labour market, which increase flexibility and tend to reduce costs per unit produced, with positive impacts on competitiveness, (ii) reform of the rental market, favouring mobility, debt reduction and and absorption of the supply of housing, and (iii) improvement of the competitive environment, through the privatisation programme, the end of thegolden shares, a new competition law in line with European practice, the reform of the transport sector, the introduction of more competition rules in telecommunications and in electricity and reform of justice, in this case including greater flexibility in insolvency and company recovery proceedings.

The fiscal consolidation measures contributed to a contraction of domestic demand in 2011, with declines in public and private consumption (around 3.0% in annual average terms) and in investment (close to 11.0%). Exports of goods and services continued to grow well, however, (around 7.0% in real terms), with an increasing proportion of sales to emerging markets in Africa, Latin America and Asia. This trend in exports eased the annual fall of the GDP, which stood at 1.5% in 2011.

This performance by exports, allied to the deleveraging under way among the various sectors of the economy, also contributed to a significant reduction of the external deficit, from 8.8% of the GDP to around 6.1% of the GDP, and, in 2012, a further reduction is expected to around 2.0% of the GDP. The net external liabilities of the Portuguese economy has also decreased, to stand at an estimated figure close to 103% of the GDP, compared to a maximum of 110% of the GDP observed in 2009.

2.1.3. Insurance Market

Following the growth in the previous year, 2011 was a year of unparalleled contraction in direct insurance production, which below the volume in 2005. Premiums written amounted to €11,666 million, a decline of €4,674 million (down 28.6%) from the preceding year.

The production of Life insurance was factor underling this negative performance. With premiums of €7,533 million and a variation rate of -38.1%, the share of total production of the Life segment decreased by almost 10 p.p. (74.5% in 2010 to 64.6% in 2011). Underlying this performance was the marketing of Life business financial products, bancassurance products in particular.

The great borrowing requirements of the banks led the respective financial groups to focus on marketing products that attract savings to their balance sheets (mainly term deposits), to the detriment of others that essentially generate commission income, such as insurance products and investment funds. The decline of household disposable income and changes to the tax incentives on the PPRs (retirement savings plans) also contributed to the negative results of Life business.

In the Non-Life segment the decrease of production was relatively marginal, affecting to a greater extent those business lines more sensitive to economic variables, though not inhibiting the moderate growth of others. The volume of premiums amounted to €4,133 million (-0.9% compared to the previous year), with a positive focus on Health business (up 1.5%), demonstrating growing consumer interest in this type of protection although the difficult economic situation face by households and businesses condition growth. The Multi-risk business lines (up 2.3%), Housing and Commerce in particular, have maintained a growth rate consistent with the trend of recent years, showing a greater concern for protection in times of uncertainty.

Workmen's Compensation continues to perform negatively (down 3.7%), reflecting the reduction of employment and the wage restraint of the economy. The volume of premiums of Motor business has been basically stagnant (down 0.8%).

The weight of insurance business in the GDP decreased from 9.25% in 2010 to 6.48% in 2011. The Life segment accounts for 4.18% of the GDP, with Non-Life segment accounting for 2.29% (6.89% and 2.36% in 2010, respectively).

According to the provisional accounts of the insurance industry, net profit in 2011 amounted to €43 million, compared to €414 million in 2010. This decline in profitability of insurance business naturally affected Life business, which accounts for about 80% of the investment portfolio managed by the industry, strongly affected by the adverse capital markets. The technical component was relatively stable since the decrease in premiums and the increase of the amounts paid, especially on redemptions and maturities, were offset by a reduction of the mathematical reserves provision.

Although dot of the dimension of the Life business, the fall of the financial component (down 42.8%) also affected the result of Non-Life segment. The technical account balance improved (up 29.4%) over the previous year as a result of containment of claims costs.

2.2. Relevant Facts in 2011

Recent years have been a very adverse period for the insurance industry, and this can be seen in the absence of strong growth and the sharp deterioration of the industry's margin, which shows no signs of significant correction.

In a context of worsening economic crisis, 2011 reflected the real difficulties both of companies and of households, with Non-Life market decreasing slightly (down 0.9%) and Life market sharply lower (down 38.1%), contrary to the positive signs that were predicted the previous year.

In the Non-Life market, despite the continuing adoption of corrective measures for the prices of the mandatory-insurance lines – Motor and Workmen's Compensation – by the bigger insurers as a whole, the industry profitability remains at unhealthy levels. Indeed, the industry's combined ratio remains above 100% and claims rates remain high in the more important lines, such as Motor and Workmen's Compensation insurance, the latter having deteriorated very sharply compared to 2010.

In 2011, Tranquilidade maintained the growth momentum seen in 2010, consistently outperforming the market, leading to an increase of its market share.

Tranquilidade materialised its ambition of becoming the company preferred by the Professional Brokers, based on three fundamental tenets – Service, Sensitivity and Solidity – and further developed a set of initiatives launched in previous years that were crucial to the good performance achieved:

- Focus on development of stable, lasting relationships with Professional Partners, both exclusive and multi-brand, especially through investment in the Broker-service platforms (in the simulation and issue systems, in claims management and in the financial processes);

- Alignment across the entire organisation for ongoing improvement of the service and proximity to Partners, coupled with a permanent presence in the field by all the commercial network-support structures, by the 1st-line managers and by the Executive Committee;

- Priority attention to the necessary effort to correct prices, both through tariff adjustments, and by greater care in the effective implementation of scoring by the network of Partners, which in 2011 has consolidated the positive results already achieved in 2010:

  - The average premium of new motor insurance increased by 7%;
  - The average premium of new Workmen's Compensation insurance also rose, by 4%;

- Continued effort to rebalance profitability by adjusting prices to the cost of risk on renewal of policies in the portfolio, keeping erosion in well-controlled in Motor insurance;

- Improvement and innovation of the offer, together with a strengthening of tools for the development of the equipment – especially the launch of the new travel insurance, the multi-risk housing variant with no excess, and the 'light' option in health for the Business segment, as well as the provision of equipment warnings to the Agents and extending the bankarisation discount to companies.

At the commercial level, Tranquilidade stayed faithful to the principle of fair balance in management between the short and long term, so necessary for sustained value creation in a particularly adverse market situation:

- The 3.2% increase allowed a 0.4 p.p. recovery of market share compared to 2010 and a 0.7 p.p. accumulated recovery since 2009;

- All channels performed well:

  - In the Multibrand and Exclusive Agents network, growth was approximately 6%;
  - Brokers grew by about 5%;
  - The Bancassurance programmes with Banco Espírito Santo (the Companies and Private Individuals), always in good harmony with the Professional Partners network, accounted for 13% of Tranquilidade's revenue;

- Tranquilidade extended its customer base consistently throughout the year, now standing at about 660,000, an increase of approximately 12,500 new customers;

- All customer segments, with the exception of Business, grew: Individuals (+4.1%), Businesses (+0.0%) and Companies (+4.3%);

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

- The Assurfinance programme, strongly supported by the network that now has 43 Advanced Posts Outposts (joint Tranquilidade Agents and BES outlets) and by the E Club with over 400 Agents, continues to be a successful example of generating synergies at the level of the Financial Group, both in number of customers (19% of the BES BES) and in attracting funds (9% of the variation of BES's resources).

The operating level, the Company intensified the initiatives launched the previous year, with a view to enhancing the service-quality provided to Customers and Agents:

- Extending the capabilities of claims management to the Multi-risk and Workmen's Compensation anchor products to enhance claims management:

  - Service was extended to the Agents giving them the ability to open Multi-risk and Workmen's Compensation claims and also the possibility of visualising and monitoring the state of the process throughout the entire cycle of settling Workmen's Compensation claims;

- Introduction of new tools to simplify and speed up sales from the Agent's own workstation (SIA-net):

  - The the number of simulators available was enlarged as was the portfolio of products that can be issued and altered locally, covering the full spectrum of the Individuals and Businesses segments products;
  - A new group policy management tool was launched;
  - The system to attract customers to BES was automated, via tight integration with the process of opening a bank account;

- Introduction of new devices that make financial processes more agile and transparent, including:

  - Online provision of actual balance of the account;
  - The Life and Non-Life statements have been dematerialised;
  - The management of receipts and green cards has been dematerialised;

- Continuation improvements to response times to requests for quotations and to complaints, the number of which decreased once more in 2011.

All this investment has enabled significant progress in the satisfaction levels of Agents and Customers, as shown by the evolution of our in-house polls and independent sectoral studies such as BASEF and ECSI.

In continuing the Efficiency Programme, operating costs were sharply lower (down 2.7% or €1.9 million), through the contribution of the reductions of staff costs (-1.3%), third-party supplies & services (-3.5%) and depreciation (-8.4%).

In the second half of 2011, the bases were launched of the Movida programme, intended to increase the specialisation of our Agents network in Life business, with a particularly strong commercial bent and ambition, to be implemented in the coming years to provide value-added solutions in Life, Risk, Welfare and Retirement.

With regard to Tranquilidade's strategic investments, direct insurer Logo, SA, launched in 2008, which operates solely via the telephone, Internet and kiosks channels, achieved 120,183 customers. Logo retained its second place in the ranking of direct insurers in Motor business, with an increase of 0.2 p.p. of the Motor market share, despite price increases directed at achieving a better balance between growth and profitability. The business plan for this new business is expected to reach the break-even point in 2013.

The overall technical balance increased from €51.4 million to €60.3 million, an increase of 17.3%, contributing decisively to net profit. Tranquilidade still has a strong solvency ratio, standing, individually, at 671% at the end of 2011, through the enhancement of strategic investments.

Based on the pillars of Service, Sensitivity and Solidity, 2011 will be remembered as a successful year for Tranquilidade.

2.3. Main Variables & Business Indicators

(thousand euros)

	2011	2010	CHANGE 11/10 (%)
Balance Sheet			
Investments	1,095,857	911,061	20.3
Net assets	1,314,070	1,107,557	18.6
Equity	380,303	303,532	25.3
Provision for unearned premiums (DI+RA)	85,917	84,215	2.0
Provision for claims (DI+RA)	477,829	500,821	-4.6
Provision for claims, net of reinsurance	442,058	463,207	-4.6
Technical provisions (DI+RA)	590,688	619,617	-4.7
Gains & Losses			
Gross direct insurance premiums written	338,018	327,532	3.2
Premiums earned, net of reinsurance	296,340	284,991	4.0
Cost of direct Insurance claims	222,479	210,895	5.5
Costs of claims, net of reinsurance	215,994	201,014	7.5
Operating costs	67,434	69,288	-2.7
Income	28,521	22,709	25.6
Net profit	33,878	12,235	176.9
Indicators			
Gross premiums written / N° of employees	498.6	475.4	4.9
Direct Insurance claims rate	66.1%	65.4%	0.7 p.p.
Claims rate net of reinsurance	72.9%	70.5%	2.4 p.p.
Net profit/ Gross premiums written	9.8%	3.6%	6.1 p.p.
Combined ratio gross of reinsurance	93.9%	99.2%	-5.3 p.p.
Combined ratio net of reinsurance	101.8%	104.7%	-2.9 p.p.
Solvency ratio	671.0%	573.0%	98 p.p.

2.4. The Business of Tranquilidade in 2011

2.4.1. Direct Insurance Premiums

The total volume of direct insurance premiums amounted to €338,018k in 2011, a growth of 3.2% over the previous year. The Non-Life insurance market returned a negative variation of 0.9% compared to 2010.

In a context of a moderately negative performance of the Non-Life insurance market, Tranquilidade's production performed well, with variations well above the market average in significant segments. The major insurers operating in our market returned a negative performance in 2011, mainly the result of production downturns in Motor and Workmen's Compensation insurance. However, Tranquilidade performed well, increasing direct insurance premiums by €10,486k in 2011, the result of the firm strategy into increase prices suited to the risk.

In Accident and Health insurance, Tranquilidade's production was higher than the previous year by €4,103k (4.0%), with variations under Workmen's Compensation, up €2,290k (3.9%) and Health, up €2,504k (7.0%), far above the industry average (-3.7% and +1.5% respectively). Multi-risk production also performed very well, up €2,154k over the previous year (up 4.7% vs, the market's 2.3%), as did Motor business with a growth of 3.3%, against the sector's decline of 0.8%.

(thousand euros)

Direct Insurance Premiums	2011	%	2010	%	Chg 11/10 (%)
Accidents & health	107,492	31.8	103,389	31.6	4.0
Fire & other damage	62,127	18.4	61,511	18.8	1.0
Motor	138,316	40.9	133,945	40.9	3.3
Transport	6,994	2.1	6,956	2.1	0.5
Third-party liability	10,459	3.1	10,915	3.3	-4.2
Sundry	12,630	3.7	10,816	3.3	16.8
Total	**338,018**	**100.0**	**327,532**	**100.0**	**3.2**

Tranquilidade's market share rose to 8.2% in 2011, compared to 7.8% in 2010, and the Company continues to rank 4th in the Non-Life segment.

As in the previous year, within the group of the four biggest Non-Life insurers, Tranquilidade was the only one that increased its market share in 2011.

2.4.2. – Costs of Direct Insurance Claims

The total cost of claims in direct insurance business in 2011 amounted to €222,479k, up by around €11,584k (5.5%) compared to 2010. This deterioration was due to the increase in costs of Motor claims (up €13,735k, or 16.8%) and in Accident and Health claims (up €4,770k, or 6.0%), particularly in work-related accidents (up €1,174k) and health (up €4,118k).

On the positive side, the focus is on the decrease of Fire & Other Damage claims (down €5,567k, or 13.6%). It should be noted that 2010 had been severely affected by the storms (with emphasis on the Madeira disaster and on the storms in Mainland Portugal), an also be major claims involving large amounts in Industrial Multi-Risk.

(thousand euros)

Costs of Direct Insurance Claims	2011	2010	Chg 11/10 (%)
Accidents & health	84,920	80,150	6.0
Fire & other damage	35,294	40,861	-13.6
Motor	95,364	81,629	16.8
Transport	3,510	2,502	40.3
Third-party liability	2,274	4,614	-50.7
Sundry	1,117	1,139	-1.9
Total	**222,479**	**210,895**	**5.5**

The claims rate (cost of gross claims / gross premiums earned) rose 0.7 p.p. from the previous year, to 66.1%, essentially the result of the increase observed under Accidents & Health (from 78.2% to 78.5%) and under Fire & Other Damage (from 62.1% to 69.5%). In Fire & Other Damage Motor, the claims rate fell from 67.5% to 57.3%.

(%)

Costs of Claims / Gross Premiums Earned *	2011	2010
Accidents & health	78.5	78.2
Fire & other damage	57.3	67.5
Motor	69.5	62.1
Transport	49.5	36.3
Third-party liability	21.3	43.3
Sundry	9.4	10.9
Total	**66.1**	**65.4**

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

On the other hand, the largest fall was seen in Motor with the technical balance down €4,697k (despite the growth of production, claims costs, the change in the provision for unexpired risks and reinsurance balance penalised this line).

(thousand euros)

Technical Balance, Net of Reinsurance	2011	2010	Chg 11/10 (%)
Accidents & health	17,545	7,860	123.2
Fire & other damage	5,750	5,440	5.7
Motor	29,602	34,299	-13.7
Transport	1,814	1,653	9.7
Third-party liability	5,129	3,654	40.4
Sundry	433	-1,503	128.8
Total	**60,273**	**51,403**	**17.3**

2.4.3. Direct Insurance Technical Provisions

Direct insurance technical provisions in 2011 amounted to €582,215K, a reduction of €29,513k compared to last time (down 4.8%). Emphasis is given to the reduction under the Provision for Claims by €25,335k and under the provision for unexpired risks by €7,899k.

(thousand euros)

Technical Provisions - Direct Insurance	2011	2010	Chg 11/10 (%)
Provisions for unearned premiums	83,534	81,964	1.9
Provisions for claims	472,633	496,450	-4.8
Workmen's compensation	177,219	175,701	0.9
Other lines	295,414	320,749	-7.9
Other technical provisions	26,048	33,314	-21.8
Total	**582,215**	**611,728**	**-4.8**

2.4.4. Reinsurance Ceded

The balance of reinsurance ceded in 2011 in the sum of €27,514k worsened by €9.393k (51.8%), owing to the lesser recovery of commissions and indemnities and to a greater volume of premiums ceded.

(thousand euros)

Reinsurance Ceded	2011	2010	Chg 11/10 (%)
Premiums	49,918	47,582	4.9
Commissions	-7,340	-10,296	-28.7
Claims and variation of technical provisions	-15,064	-19,166	-21.4
Result	**27,514**	**18,121**	**51.8**

2.4.5. Technical Balance Net of Reinsurance

The technical balance net of reinsurance in 2011, in the sum of €60,273, grew by 17.3% over the previous year.

Though penalised by the higher claims' costs and by the reinsurance balance, the increase of production, a lesser volume of acquisition costs and the change in technical provisions allowed a €8,870k increase of the technical balance net or reinsurance.

In terms of groups of business lines, Accidents & Health returned the biggest increase, the technical balance net of reinsurance having risen €9,685k over the previous year (increased production and greater recovery of the provision for unexpired risks).

2.4.6. Operating Costs

Total operating expenses decreased 2.7% in 2011 (€1,854k), to stand at €67,434k. The decrease of cost was achieved owing to the strong containment measures undertaken by the Company through ongoing implementation of the cost-efficiency reduction programme in progress.

Staff costs decreased by 1.3% (€489k), in line with the reduction of the Company's personnel. Costs of Third-party supplies & services fell by 3.5% and Depreciation by 8.4%, generating savings of €761k and €608k respectively.

(thousand euros)

Operating Costs	2011	2010	Chg 11/10 (%)
Staff costs	36,074	36,563	-1.3
Third-party supplies & services	21,149	21,910	-3.5
Taxes and charges	2,539	2,433	4.4
Depreciation	6,621	7,229	-8.4
Other *	1,051	1,153	-8.8
Total	**67,434**	**69,288**	**-2.7**

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

2.4.7. Staff

During 2011 a total of 23 new employees were taken on and 34 left, 15 of whom for pre-retirement or retirement reasons.

As a result of these movements the staff fell 1.6% compared to 2010, to 678 employees. Compared to the previous year, productivity increased as result of the growth of production, with the ratio of direct insurance premiums per employee of the permanent staff standing at €499k (€475k in 2010).

	2011	2010	Chg 11/10 (%)
Admitted	23	27	-14.8
Left	34	52	-34.6
of which pre-retirement or retirement	15	24	-37.5
Total staff in service	678	689	-1.6
DI Premiums / nº of Employees (thousand euros)	**499**	**475**	**5.1**

2.4.8. Investments

The year under review was marked by the European debt crisis and its impact on the “real economy”, particularly in Europe, due to the restriction of credit to companies and individuals, and the global economic slowdown. Emerging economies were not immune and were exposed through exports and capital flows which, being directed less to these economies, conditioned their growth.

Of the developed economics, the spotlight is on America and Germany. In the US, despite the slowdown in growth expected for 2011, the worst scenarios that predicted a further downturn were set aside. Over the year as a whole GDP growth is set to have stood at 1,7%, a slowdown compared to 3% the previous year. The labour market was more dynamic, especially toward the end of the year, with job creation of jobs rising to the highest figures since the crisis of 2008-09, the jobless rate falling to 9,0%, compared to 9.6% at the end of 2010.

In Europe, the debt crisis penalised growth in 2011, a pressure that was felt in the central economies after the summer, with increasing pressure on Spain and Italy, overshadowing growth expectations for the end of 2011 and first half of 2012. In individual terms, Germany is expected to have grown by nearly 3% in 2011, while the economies of Portugal and Greece are set to return negative growth over the year as a whole.

The year was marked by the European sovereign debt crisis and political indecision as to the necessary measures to be adopted to overcome it. With increasing yields and State’s considerable difficulty in borrowing from international markets, Portugal had to resort, in April, to a loan from the IMF/EU/ECB amounting to €78 billion. In the summer, with the sudden increase of Italian and Spanish yields, the crisis spread to the countries of the European centre, making the European debt crisis systemic and possibly putting the single currency project into question. The debt crisis has also had its political impact, with the governments of Portugal, Ireland, Spain, Greece and Italy changing during 2011.

The year was also marked by successive rating cuts by the three major ratings agencies (S&P, Fitch and Moody’s) of the sovereign issuers and European banks, with Portugal’s rating being cut successively to the category of non-investment grade. The US has also not escaped this trend and lost the AAA rating by S&P.

The European Central Bank (ECB) raised its refi rate twice by the summer, from 1% to 1.5%, reacting to rising inflation that reached stood at 3% in annual terms mid-year. However, the spread of the European debt crisis to the core economies and the inherent risks to economic growth led the ECB to reverse its policy and reset the interest rate to its historic low of 1% during the last quarter of the year under its new governor Mario Draghi. Given the existing constraints in the interbank market, the ECB adopted a series of unconventional measures, including the provision of liquidity in three-year operations, relaxation of the rules of acceptance of collateral, a new programme to buy mortgage bonds and a reduction of the amount of mandatory reserves kept at the ECB.

On the equity markets, performance in 2011 was negative overall, the US market having returned the best performance by remaining unchanged (as measured by the S&P 500 index). In Europe the situation was much more serious as a result of the flight of investment (Eurostoxx 50 down 17%). Portugal was severely penalised (PSI 20 down 27.6%), especially after having fallen back on the IMF/EU/ECB loan.

Even those emerging markets that have better growth prospects in the medium/long term did not escape the falls (MSCI EM down 20.4%). The stock markets were penalised by the European debt crisis during 2011 and by the scenarios of a possible breakdown of the Euro Area or the departure of some of its Member States. The summer months were particularly harsh for returns, with the spread of the crisis to Spain and Italy severely penalising investor sentiment.

Tranquilidade’s financial policies focused on investment in fixed-rate bonds and short-term placements. At the end of the year, with the worsening of public-debt crisis in Europe, investment was channelled to the public debt of the core European countries having an AAA rating. Liquidity was kept at robust levels, as a precautionary measure and to take advantage of the high remuneration of term deposits with major national banking institutions.

The stock market continued to account for a very small share of the investment portfolio with the gradual reduction of exposure, accounting for less than 1% of the total portfolio at the year-end. In Real Estate, there was a partial conversion of Premises and Properties held for income to investment funds, thus contributing to the preparation of the Balance Sheet for the convergence to Solvency II. In strategic terms, the focus is on the increased participation in Europe Assistance (24% to 47%) and the disposal of the majority non-core holding in ESAF SGPS.

In the bond segment the policy continued to be directed at relatively short maturities of 3 to 5 years, at keeping the average rating of the average portfolio at A2/A at the phased sale of floater bonds (down 32.4%) to reduce exposure per issuer and for sectoral diversity. During the first quarter of the year, with the increase of the spread on Portugal’s credit, exposure to domestic issuers also increased, having implicit rates of return (yields) greater than the average of the investment portfolio and maintaining the average rating of the portfolio.

Following Portugal’s loan application and the subsequent rating cut in respect of Portuguese issuers, the levels of investment in domestic issuers were maintained, now focused on short-term opportunities, that is, bonds maturing at less than 1 year, and especially on primary market issues of Treasury Bills maturing between 3 and 6 months with yields close to 5%. The successive downgrades of Portugal led to the a deterioration of the average portfolio rating and, towards the year-end, investment increased significantly in core European issuers with AAA-AA ratings with short maturities (up to 2 years).

(thousand euros)

Assets Under Management (1)	2011	2010	Chg 11/10 (%)
Bonds	**275,622**	**271,375**	**1.6**
Fixed-rate	200,503	159,339	25.8
Floating-rate	75,119	112,036	-33.0
Equities & investment funds	**510,060**	**400,904**	**27.2**
Strategic	423,001	355,296	19.1
Shares	163	310	-47.4
Mutual Funds	12,775	20,737	-38.4
Real-estate Funds	74,121	24,561	201.8
Real estate	**71,227**	**103,653**	**-31.3**
Premises	24,726	37,839	-34.7
Held for income	46,501	65,814	-29.3
Liquidity	94,522	139,055	-32.0
Other	1,815	1,940	-6.4
Total	**953,246**	**916,927**	**4.0**
Repo operations	144,509	0	
Held-to-maturity assets	107,589	0	

(1) Amounts determined from a management standpoint

The investment portfolio at the year-end shows a growth of €36,319k (4.0%) compared to 2010. This reflects the appreciation of Strategic Investments, of which emphasis is given to the appreciation of the insurer Pastor Vida. At the end of the year liquidity accounted for about 18% of the total portfolio (excluding Strategic Investments).

With the worsening of the sovereign-debt crisis, the majority of Portuguese banks was forced to increase borrowing from the ECB, giving as collateral assets ceded by the insurance companies forming part of their Economic Group. For insurance companies, these operations, called repos, are considered low-risk operations, generating greater profitability and more effective management of investment portfolios. Tranquilidade started using these instruments in the first quarter of 2011, ending the year with a net worth allocated to these operations of about €144,509k.

Regulatory Standard 4/2011-R of June 2 issued by the ISP, has allowed assets classified as "Held-to-maturity assets to be carried at amortised cost. This rule promotes the consistence of the prudential mechanism with the new financial reporting principles, while ensuring an adequate level of protection of insurance policyholders and beneficiaries. Tranquilidade has adopted this procedure retroactively as from January 1, 2011, ending the year with €107,589k carried under this class.

(thousand euros)

Financial Results [1]	2011	2010	Chg 11/10 (%)
Income	28,521	22,709	25.6
Securities	26,192	19,965	31.2
Real estate	2,329	2,744	-15.1
Gains & losses	19,567	8,087	142.0
Securities	19,441	6,638	192.9
Real estate	126	1,449	-91.3
Impairments / written back	-6,236	-2,895	115.4
Securities	-6,236	-2,636	136.6
Real estate	0	-259	-100.0
Total	**41,852**	**27,901**	**50.0**

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

In terms of financial activity, 2011 shows an increase of the financial result in the sum of €13,951k (up 50.0%) compared to 2010. Among other facts, this is the result of the increase in dividends received on the Strategic Investments and the gain realised on the partial sale of shares held under ESAF SGPS.

The year was marked negatively by the impairment recorded under the public debt of Greece, amounting to €5,044k, and by the reduction of net gains realised on the sale of other securities and properties. The strategy of reduction of exposure to floating-rate bonds led to a realised book loss totalling €2,529k.

Financial profitability amounted to 5.7%, compared to 4.1% in 2010. Overall profitability in 2011, including potential losses, was 14.4%, resulting from the revaluation of strategic investments.

2.4.9. Equity and Solvency Margin

Equity in 2011 grew by €76,771k from the previous year, to stand at €380,303k. This 25.3% increase is mainly the result of the €45.2 million growth of the Revaluation Reserve, due to appreciation of the market values of the subsidiaries and the €21.6 million variation of Net Profit.

The solvency ratio stood at 671%, compared to 573% for 2010. The increase of the Eligible Elements in the sum of €60,932k, which includes Equity, contributed to this good performance, with a focus on the increase of the Revaluation Reserve – Fair value. The amount of the Solvency Margin to be set aside increased by about €1,521k.

(thousand euros)

Equity	2011	2010	Chg 11/10 (%)
Equity capital	160,000	160,000	0.0
Revaluation reserves	122,903	77,675	58.2
Other reserves	29,984	26,156	14.6
Retained earnings	33,538	27,466	22.1
Net profit	33,878	12,235	176.9
Total	**380,303**	**303,532**	**25.3**

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 25 November concerning the insurance and reinsurance business (Solvency II), Tranquilidade continued, during 2011, the work of adapting to the new Solvency II mechanism, which will require substantial changes in the insurance business.

It is expected, however, that this directive may be substantially altered, both in its scope and also in the deadline for transposition, with the publication of the Omnibus II Directive at the end of the first half of 2012.

This notwithstanding, several measures were developed during 2011, of which the following are highlighted:

- implementation and development of tools for the calculation of economic capital under the Partial Internal Model;
- active involvement in the work groups of the Insurance Institute of Portugal and of the Portuguese Insurers Association about matters relating to the evolution of the Solvency II project;
- reviewing and updating the internal control system, including mapping of processes, risks, controls and improvement opportunities that had been identified;
- systematisation and periodic monitoring of the status of implementation of the recommendations set out and approved within the scope of the internal control system;
- definition, formalisation and monitoring of various policies, specifically, in addition to others, those concerning the Remuneration of Corporate Officers and Key Employees the Human Resources policy, the Claims Management policy and the Reinsurance policy;
- Monitoring of potentially fraudulent situations reported to the Company through by whistle-blowers.

In Solvency II the measures called for in the in the Solvency II (Roadmap) implementation plan previously defined were tracked and monitored.

2.5. Proposal for the Appropriation of Profit

A net profit in the sum of €33,877,603.35 was returned in 2011, for which we propose the following appropriation:

a) 10% of the net profit for the year in the sum of €3,387,760.34 to Legal Reserve;
b) payment of dividends in the sum of €15,000,000.00;
c) the remainder to Retained Earnings.

The proposed appropriation includes the payment of the interim dividend in the sum of €5,000,000.00 during 2011, so only the additional €10,000,000.00 will be paid following approval of this present proposal.

2.6. Objectives for 2012

The coming year is one of uncertainty as regards the evolution of the international capital markets, owing to the difficulties encountered by the major developed countries have in overcoming the problems of the financial markets at global level and the debt crisis which affects the Euro Area above all. This will the insurance sector with regard to financial activities.

In Portugal, the economic situation involves very difficult challenges for Insurance Business. The government's restrictive budget measures for 2012, resulting from the memorandum of understanding signed with the Troika, provide prospects of a 3.3% GDP contraction and an increase of the jobless rate to 14.5%, which will bring even greater restrictions to households and business income.

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

1. Organic growth, gaining weight in the current Partners and consolidating the move into new Professional Partners, through attracting customers and, above all, ensuring their loyalty;

2. A rebalance of profitability, continuing to adjust the prices of new contracts and of the portfolio to the cost of the risk in a progressive and balanced manner;

3. Improvement of the quality of service, proximity and sensitivity to the market, notably through improving and extending the offer to a broader portfolio of products in the matter of claims-handling at the Agents;

4. Continuity of the consistent focus on innovative approaches to the market, notably through the "Movida" Assurfinance and BES Companies programmes, as sources of value for Customers and Agents;

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

6. Ongoing quest for greater operational efficiency, to allow continued rationalisation of the working-cost base to meet the development challenges taken on.

In growth, international operations are set to go ahead quickly in the field during 2012, in a reasoning of accompanying the BES operations in foreign markets of high structural growth potential, such as Angola and Mozambique.

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

2.7. Closing Remarks

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

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

Lisbon, 8 March 2012

The Board of Directors

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

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

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

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

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

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

Miguel Luís Kolback da Veiga
(Director)

António José Baptista do Souto
(Director)

Manrico Iachia
(Director)

António Manuel Rodrigues Marques
(Director)

03

Financial Statements

Balance Sheet (Assets) as at December 31, 2011 and 2010, and January 1, 2010

(thousand euros)

ASSETS	Notes to the Accounts	December 31, 2011 Gross Value	December 31, 2011 Impairment, Depreciation / Amortisation or Adjustments	December 31, 2011 Net Value	December 31 2010	January 01 2010
Cash & cash equivalents and sight deposits	8	25,726		25,726	7,443	8,150
Investments in affiliates, associates and joint ventures	7	380,890		380,890	301,355	165,497
Held-for-trading financial assets						
Financial assets classified in the initial recognition at fair value through profit or loss	6	4,617		4,617	6,459	6,572
Hedge derivatives						
Available-for-sale assets	6	269,057	8,156	260,901	338,199	367,027
Loans & Accounts Receivable		**270,633**		**270,633**	**161,395**	**116,257**
Deposits at cedent companies	6	1		1	1	1
Other deposits	6	216,020		216,020	131,243	84,892
Loans granted	6	33,501		33,501	28,459	28,850
Receivables						
Other	6	21,111		21,111	1,692	2,514
Investments held to maturity	6	107,589		107,589		
Land & Buildings		**74,796**	**3,569**	**71,227**	**103,653**	**128,331**
Land & buildings held for own use	9	28,295	3,569	24,726	37,839	40,239
Land & buildings held for income	9	46,501		46,501	65,814	88,092
Other tangible assets	10	44,608	38,302	6,306	6,030	3,410
Inventories	10	212		212	255	323
Goodwill	12	25,785		25,785	25,785	25,785
Other tangible assets	12	55,600	42,368	13,232	13,668	13,939
Technical Provisions for Reinsurance Ceded		**52,030**		**52,030**	**53,167**	**48,225**
Provisions for unearned premiums	4	16,259		16,259	15,553	13,394
Provisions for claims	4	35,771		35,771	37,614	34,831
Provision for profit-sharing						
Provision for rate commitments						
Portfolio stabilisation provision						
Other technical provisions						
Assets for post-employment benefits & other long-term benefits	23	2,001		2,001		
Other Debtors for Insurance & Other Operations		**97,010**	**6,773**	**90,237**	**88,830**	**77,305**
Receivables for direct insurance operations	13	62,315	5,763	56,552	53,050	52,445
Accounts receivable for other reinsurance operations	13	8,969	223	8,746	8,418	5,192
Accounts receivable for other operations	13	25,726	787	24,939	27,362	19,668
Tax Assets		**403**		**403**	**378**	**2,091**
Current tax assets	24	403		403	378	2,091
Deferred tax assets						
Accruals & deferrals	13	2,281		2,281	940	1,843
Other items of assets						
Available-for-sale non current assets and discontinued operating units						
Total Assets		**1,413,238**	**99,168**	**1,314,070**	**1,107,557**	**964,755**

THE ACCOUNTANT
Paulo Jorge Pinheiro Santos

THE ACCOUNTS MANAGER
Pedro Manuel Borges Medalhas da Silva

THE FINANCIAL & ADMINISTRATIVE MANAGER
Alexandre Miguel Varela Simões Lopes

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

Balance Sheet (Liabilities and Equity) as at December 31, 2011 and 2010, and January 1, 2010

(thousand euros)

LIABILITIES & EQUITY	Notes to the Accounts	December 31 2011	December 31 2010	January 01 2010
Liabilities				
Technical Provisions		**590,688**	**619,617**	**625,572**
Provisions for unearned premiums	4	85,917	84,215	80,053
Provisions for Claims	**4**	**477,829**	**500,821**	**520,020**
for life insurance				
for works' accidents	4	177,221	175,703	168,979
for other businesses	4	300,608	325,118	351,041
Provision for profit-sharing	4	1,045	1,045	1,080
Provision for rate commitments				
Portfolio stabilisation provision				
Provision for claims-rate deviations	4	5,815	5,182	4,654
Provision for unexpired risks	4	20,082	28,354	19,765
Other technical provisions				
Other Financial Liabilities		**168,097**	**1,975**	**513**
Hedge derivatives				
Subordinated debt				
Deposits received from reinsurers	5	158	579	503
Other	5 & 6	167,939	1,396	10
Liabilities for post-employment benefits and other long-term benefits			1,565	1,064
Other Creditors for Insurance Operations and Other Operations		**91,040**	**106,409**	**40,450**
Accounts payable for direct insurance operations	13	22,688	20,275	21,079
Accounts payable for other reinsurance operations	13	14,712	12,449	11,273
Accounts payable for other operations	13	53,640	73,685	8,098
Tax Liabilities		**60,824**	**50,167**	**39,680**
Current tax liabilities	24	24,219	25,144	26,564
Deferred tax liabilities	24	36,605	25,023	13,116
Accruals & deferrals	13	20,164	21,657	17,797
Other provisions	13	2,954	2,635	1,828
Other liabilities				
Liabilities of a group for sale classified as available-for-sale				
Total Liabilities		**933,767**	**804,025**	**726,904**
Equity				
Equity capital	25	160,000	160,000	135,000
(Treasury shares)				
Other capital instruments				
Revaluation Reserves		**171,428**	**108,630**	**53,079**
For adjustments to the fair value of financial assets	26	171,428	108,630	53,079
For revaluation of land & premises				
For revaluation of intangible assets				
For revaluation of other tangible assets				
For adjustments to the fair value of cash-flow hedge instruments				
For adjustments to the fair value of net investment hedges in foreign currency				
For currency translation differences				
Deferred tax reserve	26	-48,525	-30,955	-13,329
Other reserves	26	29,984	26,156	26,464
Retained earnings	35	33,538	27,466	36,637
Net profit/(loss) for the period		33,878	12,235	
Total Equity		**380,303**	**303,532**	**237,851**
Total Liabilities & Equity		**1,314,070**	**1,107,557**	**964,755**

THE ACCOUNTANT
Paulo Jorge Pinheiro Santos

THE ACCOUNTS MANAGER
Pedro Manuel Borges Medalhas da Silva

THE FINANCIAL & ADMINISTRATIVE MANAGER
Alexandre Miguel Varela Simões Lopes

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

Profit & Loss for the Years Ended December 31, 2011 and 2010

(thousand euros)

PROFIT & LOSS ACCOUNT	Notes to the Accounts	December 31, 2011 Technical Non-Life	Non--Technical	Total	December 31 2010
Premiums Earned Net of Reinsurance		**296,340**		**296,340**	**284,991**
Gross premiums written	14	347,212		347,212	335,854
Reinsurance premium ceded	14	-49,918		-49,918	-47,582
Provisions for unearned premiums (variation)	4 & 14	-1,660		-1,660	-5,440
Provisions for unearned premiums, reinsurers' part (change)	4 & 14	706		706	2,159
Costs of Claims, Net of Reinsurance	4	**215,994**		**215,994**	**201,014**
Amounts paid		237,251		237,251	224,550
Gross amounts		253,452		253,452	238,774
Reinsurers' part		-16,201		-16,201	-14,224
Provision for claims (change)		-21,257		-21,257	-23,536
Gross amount		-23,100		-23,100	-20,753
Reinsurers' part		1,843		1,843	-2,783
Other technical provisions, net of reinsurance	4	-7,639		-7,639	9,117
Share of profits/(losses), net of reinsurance	4				-35
Net Operating Costs & Expenses	21	**93,398**		**93,398**	**90,808**
Acquisition costs		70,621		70,621	72,016
Deferred acquisition costs (change)	4	42		42	-1,278
Administrative costs		30,075		30,075	30,366
Reinsurance commissions and profit sharing		-7,340		-7,340	-10,296
Income	16	**29,986**	**6**	**29,992**	**22,709**
On interest on financial assets not carried at fair value through profit & loss		16,238	6	16,244	10,982
On interest on financial liabilities not carried at fair value through profit & loss					
Other		13,748		13,748	11,727
Financial Costs	16	**3,220**	**1**	**3,221**	**1,973**
On interest on financial assets not carried at fair value through profit & loss					
On interest on financial liabilities not carried at fair value through profit & loss					
Other		3,220	1	3,221	1,973
Net Gains on Financial Assets & Liabilities Not Carried at Fair Value Through Profit & Loss	17 & 18	**5,218**	**-2,156**	**3,062**	**3,785**
On available-for-sale assets		5,163		5,163	3,785
On loans & receivables					
On investments held to maturity		55		55	
On financial liabilities carried at amortised cost			-2,156	-2,156	
Other					
Net Gains on Financial Assets & Liabilities Not Carried at Fair Value Through Profit & Loss	17 & 18	**-4,825**	**21,182**	**16,357**	**2,943**
Net gains on financial assets & liabilities held for trading		-3,399		-3,399	3,023
Net gains on financial assets & liabilities classified in the initial recognition at fair value through profit & loss		-1,426	21,182	19,756	-80
Currency translation differences	19	23	-9	14	-90
Net gains on the sale of non-financial assets not classified as available-for-sale non-current assets and discontinued operating units	17 & 18	**126**		**126**	**1,449**
Impairment Losses (Net of Reversal)		**-6,075**	**271**	**-5,804**	**-3,230**
On available-for-sale assets	6	-6,075	-161	-6,236	-2,636
On loans and receivables carried at amortised cost					
On investments held to maturity					
Other	7 & 13	432		432	-594
Other technical income/costs, net of reinsurance	20	-1,253		-1,253	-1,211
Other provisions (change)	20		337	337	100
Other income/expenses	20		-5,479	-5,479	-1,696
Negative goodwill recognised immediately in profit & loss					
Gains & losses on associates and joint ventures carried using the equity method					
Gains & losses on non-current assets (or groups for sale) classified as available-for-sale					
Net Profit Before Tax		**14,567**	**14,151**	**28,718**	**6,873**
Income tax for the year - Current tax	24		-827	-827	-357
Income tax for the period - Deferred tax	24		5,987	5,987	5,719
Net Profit/(Loss) for the Period		**14,567**	**19,311**	**33,878**	**12,235**
Earnings per Share (in euros)	27			**1.06**	**0.38**

THE ACCOUNTANT
Paulo Jorge Pinheiro Santos

THE ACCOUNTS MANAGER
Pedro Manuel Borges Medalhas da Silva

THE FINANCIAL & ADMINISTRATIVE MANAGER
Alexandre Miguel Varela Simões Lopes

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

04

Comprehensive Income Statement

04
Comprehensive Income Statement

Comprehensive Income Statement as at December 31, 2011 and 2010

(thousand euros)

	2011	2010
Net profit/(loss) for the period	33,878	12,235
Variation of the fair value of available-for-sale assets, affiliates, associates & joint ventures	62,798	55,551
Variation of current & deferred taxes	-17,570	-17,626
Actuarial differences recognised in reserves	2,665	-1,229
Total Comprehensive Income	**81,771**	**48,931**

05

Statement of Changes in Equity

Statement of Changes in Equity as at December 31, 2011 and 2010

(thousand euros)

		Revaluation Reserves			Other Reserves				
	Equity Capital	For Adjustments to the Fair Value of Investments in Affiliates, Associates and Joint Ventures	For Adjustments to the Fair Value of Available-For-Sale Financial Assets	**Deferred Tax Reserve**	Legal Reserve	Other Reserves	**Retained Earnings**	**Net Profit/ (Loss) for the Period**	**Total**
Balance as at December 31, 2009 (opening balance sheet)	**135,000**	**59,715**	**-6,636**	**-13,329**	**40,124**	**928**	**27,420**	**9,217**	**252,439**
Accounting policy changes (IAS 8)						-14,588			-14,588
Balance as at January 1, 2010 (amended opening balance)	**135,000**	**59,715**	**-6,636**	**-13,329**	**40,124**	**-13,660**	**36,637**	**0**	**237,851**
Increases/reductions of equity capital	25,000								25,000
Net gains for adjustment to the fair value of affiliates, associates and joint ventures		56,212							56,212
Net gains for adjustment to the fair value of available-for sale financial assets			-661						-661
Adjustments for recognition of deferred taxes				-17,626					-17,626
Actuarial differences recognised in reserves						-1,229			-1,229
Increases of reserves for appropriation of profits					921		-921		0
Distribution of profits							-8,250		-8,250
Total Changes in Equity	**25,000**	**56,212**	**-661**	**-17,626**	**921**	**-1,229**	**-9,171**	**0**	**53,446**
Net profit for the period								12,235	12,235
Balance as at December 31, 2010	**160,000**	**115,927**	**-7,297**	**-30,955**	**41,045**	**-14,889**	**27,466**	**12,235**	**303,532**
Net gains for adjustment to the fair value of affiliates, associates and joint ventures		77,070							77,070
Net gains for adjustment to the fair value of available-for sale financial assets			-14,272						-14,272
Adjustments for recognition of deferred taxes				-17,570					-17,570
Actuarial differences recognised in reserves						2,665			2,665
Increases of reserves for appropriation of profits					1,163		-1,163		0
Transfers between equity headings not included in other lines							12,235	-12,235	0
Total Changes in Equity	**0**	**77,070**	**-14,272**	**-17,570**	**1,163**	**2,665**	**11,072**	**-12,235**	**47,893**
Net profit for the period								33,878	33,878
Interim dividend							-5,000		-5,000
Balance as at December 31, 2011	**160,000**	**192,997**	**-21,569**	**-48,525**	**42,208**	**-12,224**	**33,538**	**33,878**	**380,303**

06

Cash-Flow Statement

06
Cash-Flow Statement

Cash-Flow Statement as at December 31, 2011 and 2010

(thousand euros)

	2011	2010
Cash Flow From Operating Activities	**212,443**	**117,097**
Net profit/(loss) for the period	33,878	11,635
Depreciation & amortisation charges for the year	6,621	7,229
Variation of technical provisions for direct insurance	-28,929	-5,955
Variation of technical provisions for reinsurance ceded	1,137	-4,942
Variation of other provisions	319	807
Variations of debtors for direct insurance, reinsurance and other operations	-1,407	-11,525
Variation of other assets & liabilities for taxes	10,632	12,200
Variation of other assets & liabilities	205,561	41,689
Variation of creditors for direct insurance, reinsurance and other operations	-15,369	65,959
Cash Flow From Investing Activities	**-189,160**	**-134,554**
Variation of investments	-244,703	-170,930
Dividends received	11,130	8,719
Interest	16,352	10,156
Acquisitions of tangible & intangible assets	-9,133	-9,285
Disposals of tangible & intangible assets	-	8
Disposal of land & buildings	37,194	26,778
Cash Flow From Financing Activities	**-5,000**	**16,750**
Dividend distribution	-5,000	-8,250
Equity capital subscription	-	25,000
Net Change in Cash & Cash Equivalents & Sight Deposits	**18,283**	**-707**
Cash & cash equivalents at the start of the period	7,443	8,150
Cash & cash equivalents at the end of the period	25,726	7,443

07

Notes to the Financial Statements

Notes to the Financial Statements as at December 31, 2011 and 2010

Note 1 - General Information

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

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

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

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

The Company currently operates through its Lisbon and Porto offices and through a branch in Spain. The distribution network in Portugal is divided operationally into 22 commercial zones, supported by a total of 388 physical points of sale geographically spread across the whole of mainland Portugal and the autonomous regions (Azores and Madeira). By type, the physical network comprises 38 own shops, 350 Partners' Shops bearing the Tranquilidade image, of which 180 are Exclusive and 43 are shared with Banco Espírito Santo branches.

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

Note 2 - Information by Segments

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

The operating segments in which the Company offers more relevant products and solutions to its customers are as follows:

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

The main headings of the financial statements as at December 31, 2011 & 2010, segmented by the main business lines, are as follows:

(thousand euros)

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

(thousand euros)

2010	Total Non-Life	Workmen's Compensation	Fire & Other Damage	Motor
Profit & Loss Headings				
Gross premiums written	335,854	59,054	61,568	142,180
Ceded reinsurance premiums	-47,582	-2,051	-24,079	-1,680
Gross premiums earned	330,414	58,951	60,640	139,233
Returns on investments	26,169	5,433	2,893	14,739
Gross cost of claims	218,021	45,303	40,827	88,836
Gross operating costs	101,104	15,458	21,732	42,377
Technical result	8,445	-2,731	-6,450	18,560
Balance Sheet Headings				
Assets allocated to representation of technical provisions	593,425	177,876	57,986	295,388
Technical provisions	619,617	185,727	60,545	308,426

Additionally, the Company has operations in Portugal and Spain, and the breakdown of the main headings of the financial statements at December 31, 2011 & 2010 is as follows:

(thousand euros)

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

(thousand euros)

2010	Total	Portugal	Spain
Profit & Loss Headings			
Gross premiums written	335,854	335,159	695
Ceded reinsurance premiums	-47,582	-47,527	-55
Gross premiums earned	330,414	329,715	699
Returns on investments	26,169	26,161	8
Gross cost of claims	218,021	217,799	222
Gross operating costs	101,104	100,684	420
Technical result	8,445	8,419	26
Balance Sheet Headings			
Assets allocated to representation of technical provisions	593,425	593,121	304
Technical provisions	619,617	619,314	303

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, 2011, and have been prepared in accordance with the Insurance Companies Accounting Plan ("PCES 07") issued by the ISP and approved by Regulatory Standard 4/2007-R of April 27, as subsequently amended by Standard 20/2007-R of December 31, and also in accordance with the rules governing the accounting of the operations of insurance companies, as established by the ISP.

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

In 2011, Tranquilidade adopted the IFRS and the mandatory-application interpretations for years as from January 1, 2011. These standards are detailed in Note 37. In accordance with the transitory provisions of these standards and interpretations, comparative figures are presented in respect of the new disclosures required.

Additionally, as described in Note 37, the Company has adopted, in the preparation of its financial statements as at December 31, 2011, the accounting standards issued by the IASB and the IFRIC interpretations of mandatory application as from January 1, 2011.

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 & loss, available--for-sale financial assets and real-estate held for income. Other financial assets and liabilities as well as non-financial assets and liabilities are carried at amortised cost or historic cost.

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

The estimates and assumptions used are based on the most recent information available, acting as support for judgements on the value of assets and liabilities valued solely using these sources of information. The actual results may differ from the estimates.

These financial statements were approved at a meeting of the Board of Directors held on March 8, 2012.

Principal Accounting Principles and Valuation Criteria Adopted

Investments in affiliates & associates

Subsidiaries

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

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

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

Associates

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

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

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

Financial assets

Classification

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

- Financial assets at fair value through profit & loss, which includes:

  - Held-for-trading financial assets, which are those acquired with the main objective of being traded in the short term;

  - Financial assets designated at the time of their initial recognition at fair value, with variations recognised in profit & loss, particularly where:
    - Such financial assets are managed, valued and analysed in-house on the basis of their fair value;
    - Such designation eliminates any inconsistency of recognition and measurement (accounting mismatch);
    - Such financial assets contain embedded derivatives.

- Available-for-sale financial assets, which includes:

  - Non-derivative financial assets the intention of which is to be held for an indeterminate period;
  - The financial assets are designated as available-for-sale at the time of their initial recognition;
  - Financial assets that do not fall within other categories.

- Loans and receivables, which includes sums receivable related with direct insurance operations, reinsurance ceded and transactions related with insurance contracts and other transaction.

- Financial assets held to maturity, which includes non-derivative financial assets with fixed or determinable payments and fixed maturity for which the Company has the intent and ability to hold to maturity and were not assigned to any other category of financial assets. Any reclassification or sale of financial assets recognised in this category that is not undertaken close to maturity requires the Company to reclassify this entire portfolio as available-for-sale financial assets and the Company will, during two years, be unable to classify any financial asset in this category.

Recognition, initial measurement and derecognition

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

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

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

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 & loss are carried at their fair value, and variations are recognised in profit & loss

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

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

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

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

Financial instruments in respect of which the fair value cannot be measured reliably are carried at acquisition cost.

Transfers between categories

In October 2008 the IASB issued 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 & 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.

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 & 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 & loss.

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

Derivative financial instruments

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

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

Embedded derivatives

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

Assets ceded with under repurchase agreement

Securities sold under repurchase agreements (repos) at a fixed price or a price that equals the sale price plus interest inherent in the term of the transaction 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 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 date of the transaction. Monetary assets and liabilities expressed in foreign currency are translated into euros at the exchange rate ruling on the balance sheet date. The resultant currency translation differences are recognised in profit & loss except where classified as cash-flow hedges or net investment hedges, in which case the currency translation differences are recognised under reserves.

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

Tangible assets

The Company's other tangible assets are carried at cost less accumulated depreciation and impairment losses. Subsequent costs incurred with the tangible assets are recognised only if it is probable that they will generate future economic benefit for the Company. All maintenance and repair costs are recognised as a cost in accordance with the accrual accounting principle.

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

Type of Assets	Number of Years
Premises	36 to 49
Hardware	3
Furniture & materials	6 to 10
Fixtures & fittings	5 to 10
Machines & tools	4 to 8
Transport equipment	4
Other equipment	3 to 8

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

Where there is an indication that an asset might be impaired, IAS 36 requires that its recoverable value be estimated, and an impairment loss recognised in the event that the net value of an asset exceeds its recoverable value.

Impairment losses are recognised in the profit & loss account.

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

Investment properties

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

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

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

Intangible assets

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

Costs directly related with the development of software by the Company, which is expected to generate future economic benefits over a period of more than one year are recognised and recorded as intangible assets. These costs are written down on a straight-line basis over the expected useful lives of these assets, which does 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 profit & loss account.

Leasing

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

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

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

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

The financial charges are recognised as costs over the life of the lease in order to produce a periodic interest rate on the outstanding balance of the liability for each period.

Cash & cash equivalents

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

Reinsurance

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

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

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

Employee benefits

Pensions - Defined-benefit plan

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

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

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

On December 23, 2011, 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 salary payable monthly 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 will settle the liability.

As mentioned above, the Company, in accordance with the options allowed by IAS 19 Employee Benefits, opted for to change the accounting policy related to recognition of actuarial deviations and now recognises actuarial deviations against reserves.

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

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

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

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

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

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.

Actuarial deviations are recorded and taken to profit & loss when incurred.

Health benefits

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

Bonuses

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

Liability for holiday pay and holiday bonus

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

Income tax

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

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

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

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

Deferred tax liabilities are recognised for all temporary differences.

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

Provisions

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

Recognition of interest

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

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

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

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

Dividends received

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

Earnings per share

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

Offsetting financial instruments

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

Adjustments of receipts pending collection and of doubtful debt

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

Report by operating segments

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

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

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

Main Estimates and Judgements used in the Preparation of the Financial Statements

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

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

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

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

The alternatives analysed hereunder are presented only to help readers to understand the financial statements and are not intended to suggest that other alternatives or estimates are more appropriate.

Impairment of available-for-sale financial assets

The Company determines that there is impairment of its available--for-sale assets where there is an ongoing or significant devaluation of their fair value. Determination of an ongoing or significant devaluation requires judgement.

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

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

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

Fair value of derivative financial instruments

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

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

Income tax

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

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

In this way there may be corrections to the taxable income as a result of differences in the interpretation of tax legislation. Nevertheless, the Company's Board of Directors is convinced that there will be no significant corrections to the income tax recorded in the financial statements.

Pensions & other employee benefits

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

Technical provisions

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

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

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

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

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

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

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

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

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

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

Alteration of accounting policies

Until December 31, 2010, Tranquilidade deferred certain actuarial deviations in accordance with the corridor method.

Under the corridor method, actuarial gains and losses not recognised that exceed 10% of the greater of the present value of liabilities and the fair value of fund's assets were recognised against profit & loss over the remaining useful life of the employees in service.

According to one of the options set out in IAS 19 Employee Benefits, Tranquilidade opted to make a change in accounting policy and now recognises actuarial deviations against reserves.

In accordance with IAS 8, this change in accounting policy is presented for comparative purposes from January 1, 2010, recognising as of this date the whole of the actuarial deviations in reserves. On this basis, Other reserves includes, with effect as from January 1, 2010, a restatement resulting from this change.

Under this option the effects in profit & loss resulting from the annual amortisation of the actuarial deviations under the previous method were also derecognised.

The breakdown of the impacts on the balance sheet and profit and loss account, taking into account only those items that change, is as follows:

(thousand euros)

	After Policy Alteration		Before Policy Alteration		Effect	
	Dec 31 2010	Jan 1 2010	Dec 31 2010	Jan 1 2010	Dec 31 2010	Jan 1 2010
In the Balance Sheet						
- Assets for post-employment benefits & other long-term benefits	-	-	13,651	13,525	-13,651	-13,525
Total Assets	**0**	**0**	**13,651**	**13,525**	**-13,651**	**-13,525**
- Liabilities for post-employment benefits and other long-term benefits	1,566	1,063	-	-	1,566	1,063
Total Liabilities	**1,566**	**1,063**	**0**	**0**	**1,566**	**1,063**
- Other reserves	26,156	26,464	41,973	41,052	-15,817	-14,588
- Retained earnings	27,466	36,637	27,466	36,637	-	-
- Net profit for the year	12,235	-	11,635	-	600	-
Total Equity	**65,857**	**63,101**	**81,074**	**77,689**	**-15,217**	**-14,588**
Total Liabilities and Equity	**67,423**	**64,164**	**81,074**	**77,689**	**-13,651**	**-13,525**
In Profit & Loss						
Net Operating Costs & Expenses	**90,808**		**91,408**		**-600**	
- Administrative expenses	30,366		30,966		-600	
Net Profit for the Period	**12,235**		**11,635**		**600**	

Note 4 - Nature and Extent of the Headings and of the Risks Resulting from Insurance Contracts and Reinsurance Assets

Provision of Information Allowing an Identification and Explanation of the Amounts Indicated in the Financial Statements Resulting from Insurance Contracts

Accounting principals adopted in respect of insurance contracts

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

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

Recognition of costs & income

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

Premiums

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

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

Provisions for unearned premiums

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

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

Acquisition costs

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

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

Provisions for claims

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

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

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

In Workmen's Compensation a Mathematical Provisions is also set aside for claims occurred up to December 31, 2011, 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, 2011, 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, 2011, or for claims occurred by not yet reported.

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

Mathematical provision

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

The TV 73/77 mortality table is applied to Non-Redeemable Pensions using an interest rate of 4.7% 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 (2011: 14.12% and 2010:6.91%) 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 ration.

Provision for claims-rate deviations

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

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

It is calculated the Earthquake Phenomena Peril through application of a risk factor defined by the ISP for each seismic zone to the capital withheld by the Company.

Provision for profit-sharing

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

Provisions for reinsurance ceded

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

Variations of direct insurance and reinsurance technical provisions

The breakdown of the 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	2011			2010		
Businesses/ Groups of Businesses	UPR Gross	DAC	UPR Net	UPR Gross	DAC	UPR Net
Accidents & health	12,720	2,428	10,292	13,396	2,586	10,810
Fire & other damage	26,080	5,080	21,000	25,507	5,078	20,429
Motor	57,564	11,323	46,241	56,315	11,263	45,052
Marine, air & transport	1,791	336	1,455	1,882	359	1,523
General third-party liability	3,212	642	2,570	3,412	682	2,730
Credit & fidelity insurance	31	6	25	41	8	33
Legal protection	7	-	7	8	1	7
Assistance	4,551	868	3,683	3,918	784	3,134
Sundry	802	158	644	619	122 497	
Total	**106,758**	**20,841**	**85,917**	**105,098**	**20,883**	**84,215**

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

(thousand euros)

Gains & Losses	2011			2010		
Businesses/ Groups of Businesses	UPR Gross	DAC	UPR Net	UPR Gross	DAC	UPR Net
Accidents & health	-676	-158	-518	879	183	696
Fire & other damage	573	2	571	928	195	733
Motor	1,249	60	1,189	2,947	709	2,238
Marine, air & transport	-91	-23	-68	66	13	53
General third-party liability	-200	-40	-160	257	53	204
Credit & fidelity insurance	-10	-2	-8	-11	-2	-9
Legal protection	-1	-1	-	-1	-	-1
Assistance	633	84	549	283	108	175
Sundry	183	36	147	92	19	73
Total	**1,660**	**-42**	**1,702**	**5,440**	**1,278**	**4,162**

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

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change of Gains & Losses	
	2011	2010	2011	2010
Accidents & health	810	884	-74	675
Fire & other damage	7,784	7,589	195	659
Motor	-	-	-	-
Marine, air & transport	959	852	107	6
General third-party liability	267	372	-105	64
Credit & fidelity insurance	9	18	-9	-7
Legal protection	-	-	-	-
Assistance	5,758	5,311	447	674
Sundry	672	527	145	88
Total	**16,259**	**15,553**	**706**	**2,159**

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

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change of Gains & Losses	
	2011	2010	2011	2010
Workmen's compensation	177,221	175,703	861	5,640
Personal accidents & health	14,314	16,261	-1,956	1,918
Fire & other damage	30,865	34,653	-3,788	911
Motor	227,746	245,823	-17,530	-29,308
Marine, air & transport	6,778	6,484	293	-891
General third-party liability	19,339	20,858	-1,496	1,535
Credit & fidelity insurance	36	550	-525	-524
Legal protection	45	143	-98	-5
Assistance	-	-	-	-
Sundry	1,485	346	1,139	-29
Total	**477,829**	**500,821**	**-23,100**	**-20,753**

The balance of the provision for Workmen's Compensation claims includes the sum of €121,187k (2010: €122,049k) 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 2011 and 2010, was zero, and the update of the contributions to the Works Accidents Fund (FAT) in the sum of €7,244k (2010: €5,891k).

The balance of the provision for claims includes an estimated provision in the sum of €21,471k (2010: €25,204k) in respect of claims prior to December 31, 2011, not yet reported (IBNR). It also includes an estimate in the sum of 17,203k (2010: €12,830k) 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 31/12/2010 (1)	Claims* Paid in 2011 (2)	Provision for Claims* as at 31/12/2011 (3)	Readjustments (3) + (2) - (1)
Accidents & health	191,964	36,795	153,202	-1,967
Fire & other damage	34,653	18,141	14,568	-1,944
Motor		-		
- Third-party liability	214,925	42,143	149,579	-23,203
- Other covers	30,898	10,440	16,639	-3,819
Marine, air & transport	6,484	1,681	4,694	-109
General third-party liability	20,858	2,717	16,638	-1,503
Credit & fidelity insurance	550	68	36	-446
Legal protection	143	29	31	-83
Assistance	-	-	-	-
Sundry	346	462	233	349
Total	**500,821**	**112,476**	**355,620**	**-32,725**

* Claims in 2010 & earlier

In the Accidents and Health lines group (Workmen's Compensation in particular), and also in the Motor line, the readjustments are mainly due to a process of re-evaluation of the provisions for claims to bring them into line with the amounts paid in 2011 and those expected in the future. The other readjustments stem from routine claims management and are not significant in the light of the overall amount of the provision set aside for claims.

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

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change of Gains & Losses	
	2011	2010	2011	2010
Workmen's compensation	1,182	298	884	270
Personal accidents & health	235	217	18	29
Fire & other damage	14,082	13,675	407	1,594
Motor	8,180	11,342	-3,162	1,277
Marine, air & transport	3,183	3,040	143	-562
General third-party liability	7,724	8,753	-1,029	235
Credit & fidelity insurance	2	7	-5	-12
Legal protection	-	-	-	-
Assistance	-	-	-	-
Sundry	1,183	282	901	-48
Total	**35,771**	**37,614**	**-1,843**	**2,783**

The balance of the provision for reinsurance ceded claims includes an estimated provision in the sum of €1,108k (2010: €1,022k) in respect of claims prior to December 31, 2011, not yet reported (IBNR).

The breakdown of costs of claims in 2011 is as follows:

(thousand euros)

Businesses/ Groups of Businesses	Amounts Paid - Instalments	Amounts Paid - Claims Management Costs Imputed	Variation of Provision for Claims	Cost of Claims
	(1)	(2)	(3)	(4) = (1) + (2) + (3)
Accidents & health	83,238	2,777	-1,095	84,920
Fire & other damage	37,171	1,392	-3,269	35,294
Motor				
- Third-party liability	70,310	4,354	-20,679	53,985
- Other covers	37,494	2,101	1,784	41,379
Marine, air & transport	3,112	105	293	3,510
General third-party liability	3,358	390	-1,474	2,274
Credit & fidelity insurance	97	2	-525	-426
Legal protection	18	15	-98	-65
Assistance	-	-	-	-
Sundry	465	4	1,139	1,608
Total	**235,263**	**11,140**	**-23,924**	**222,479**
Reinsurance accepted	7,049	-	824	7,873
Grand Total	**242,312**	**11,140**	**-23,100**	**230,352**

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

(thousand euros)

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

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

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change of Gains & Losses	
	2011	2010	2011	2010
Accidents & health	1,045	1,045	-	-35
Fire & other damage	-	-	-	-
Motor	-	-	-	-
Marine, air & transport	-	-	-	-
General third-party liability	-	-	-	-
Credit & fidelity insurance	-	-	-	-
Legal protection	-	-	-	-
Assistance	-	-	-	-
Sundry	-	-	-	-
Total	**1,045**	**1,045**	**-**	**-35**

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

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change of Gains & Losses	
	2011	2010	2011	2010
Accidents & health	-	-	-	-
Fire & other damage	5,220	4,701	519	499
Motor	-	-	-	-
Marine, air & transport	-	-	-	-
General third-party liability	2	2	-	-8
Credit & fidelity insurance	534	426	108	32
Legal protection	-	-	-	-
Assistance	-	-	-	-
Sundry	59	53	6	5
Total	**5,815**	**5,182**	**633**	**528**

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

(thousand euros)

Businesses/ Groups of Businesses	Balance Sheet Balance		Change of Gains & Losses	
	2011	2010	2011	2010
Accidents & health	3,237	8,777	-5,540	5,074
Fire & other damage	2,873	761	2,112	-377
Motor	13,203	17,551	-4,348	3,576
Marine, air & transport	-	6	-6	-6
General third-party liability	-	-	-	-
Credit & fidelity insurance	-	39	-39	39
Legal protection	1	2	-1	-
Assistance	622	956	-334	228
Sundry	146	262	-116	55
Total	**20,082**	**28,354**	**-8,272**	**8,589**

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

Nature and Extent of Specific Insurances Risks

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

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

Succinctly, the more relevant control mechanisms are:

- Delegation of Competences formally defined for the various processes;
- Segregation of functions between the areas that undertake risk analysis, that draw up price lists, 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 policy-issue processes and in claims management;
- Procedures involving case-by-case checks, exceptions reports and audits;
- Cecruiting and training policy suited to the responsibilities and technical complexity of the various functions.

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

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

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

(thousand euros)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Provision for claims with management costs, net of reinsurance and net of reimbursements	299,101	302,579	305,512	328,733	363,800	375,014	394,397	394,186	387,150	367,309	344,258
Accumulated payments											
One year later	105,824	108,328	106,724	91,174	105,504	100,096	98,779	94,708	95,049	95,612	
Two years later	157,869	162,811	149,681	141,526	157,627	145,308	135,925	128,265	126,542		
Three years later	197,820	194,772	185,956	176,790	191,998	171,505	160,955	150,067			
Four years later	222,164	223,751	213,367	201,716	213,580	192,108	177,757				
Five years later	246,876	245,653	235,135	220,093	230,853	206,571					
Six years later	264,938	263,670	250,333	233,869	244,762						
Seven years later	280,214	275,464	262,243	243,757							
Seven years later	289,301	284,198	269,575								
Nine years later	296,163	289,737									
Ten years later	299,839										
Final estimate of costs of claims											
One year later	303,180	313,397	327,363	338,836	354,407	366,449	366,560	369,571	347,727	341,903	
Two years later	306,243	325,422	334,297	334,918	356,147	348,138	349,376	329,811	322,459		
Three years later	314,450	331,367	332,408	333,196	354,218	338,431	316,055	314,346			
Four years later	317,872	331,221	331,075	339,341	352,070	311,532	311,642				
Five years later	318,261	329,943	343,336	336,647	331,796	313,127					
Six years later	318,259	347,740	340,872	323,690	334,384						
Seven years later	339,400	345,961	335,816	327,291							
Seven years later	338,097	344,154	341,335								
Nine years later	336,497	350,775									
Ten years later	344,509										
Accumulated surplus/(deficit)	-45,408	-48,196	-35,823	1,442	29,416	61,887	82,755	79,840	64,691	25,406	

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 2011 comprised proportional treaties (Quota-share and Excess), and non-proportional treaties (Excess of Loss, Catastrophe Cover and Stop Loss), as per the following table:

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

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

(thousand euros)

Area of Analysis	Scenarios	Impact on Pre-Tax Profit	
		2011	2010
Cost of claims	5% increase of the year's costs of claims, net of reinsurance	-17,606	-18,732
Expenses	10% increase of operating costs, net of reinsurance	-13,159	-13,701
Longevity	10% decrease of the mortality of present works accidents pensioners	-1,587	-1,614

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

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

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

Nature and Extent of the Market Risk, Credit Risk, Liquidity Risk and Operational Risk

Market risk

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

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

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

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

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

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

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

(thousand euros)

Area of Analysis	Scenarios	Impact on Pre-Tax Profit	
		2011	2010
Currency	10% depreciation of the value of all foreign currencies against the euro	-46	-45

Equities risk

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

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

(thousand euros)

Area of Analysis	Scenarios	Impact on Reserves at Fair Value Before Tax	
		2011	2010
Shares	10% decrease of stock-market values	-43,594	-37,173

Real-estate risk

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

(thousand euros)

Area of Analysis	Scenarios	Impact on Pre-Tax Profit	
		2011	2010
Real estate	10% decrease of the values of real estate and investment funds	-14,667	-13,604

Interest-rate risk

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

A scenario of rising interest rates is the one that implies loss of value for the Company.

(thousand euros)

Area of Analysis	Scenarios	Impact on Reserves at Fair Value Before Tax	
		2011	2010
Interest rate	100 b.p.decrease of the interest-rate curve		
	- Effect on assets	6,507	7,606
	100 b.p.increase of the interest-rate curve		
	- Effect on assets	-6,202	-7,205

(thousand euros)

Area of Analysis	Scenarios	Impact on Pre-Tax Profit	
		2011	2010
Interest rate	100 b.p.decrease of the interest-rate curve		
	- Effect on liabilities	-363	-
	100 b.p. increase of the interest-rate curve		
	- Effect on liabilities	350	-

Spread risk

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

(thousand euros)

Rating	2011		2010	
	%	Value	%	Value
AAA	12%	34,361	5%	12,707
AA	4%	10,414	13%	34,725
A	16%	43,555	51%	139,390
BBB	28%	77,351	24%	65,740
BB	37%	102,669	6%	16,324
B	2%	5,828	0%	-
CC	1%	1,446	1%	2,744
Unrated	0%	-	0%	-
Total	**100%**	**275,624**	**100%**	**271,630**

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	2011			2010		
	%	Gross Value	Impairment	%	Gross Value	Impairment
Basic resources	0%	815	-25	0%	812	-25
Communications	1%	8,802	-461	1%	4,658	-424
Consumables (cyclic)	1%	5,941	-163	1%	6,136	-607
Consumables (non-cyclic)	1%	7,764	-	1%	7,662	-
Energy	0%	-	-	0%	2,814	-
Financial	70%	505,911	-1,201	73%	474,817	-1,034
Funds	2%	14,539	-1,764	3%	19,294	-
Public debt	14%	103,213	-4,542	8%	53,118	-
Industrial	1%	5,760	-	1%	4,788	-
Medicine	7%	49,842	-	8%	50,288	-
Technology	0%	-	-	0%	-	-
Public / collective services	2%	14,776	-	2%	14,975	-
Other	0%	2,356	-	1%	9,386	-3,302
	100%	**719,719**	**-8,156**	**100%**	**648,748**	**-5,392**

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

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

Liquidity risk

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

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

The breakdown of the maturities of financial assets and liabilities as at December 31, 2011 & 2010, is as follows:

(thousand euros)

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

(thousand euros)

2010	< 1 Month	1-3 Months	3-12 Months	1-5 Years	> 5 Years	Without Maturity	Total
Financial assets	2,583	203,800	32,630	145,972	144,312	374,384	903,681
Financial liabilities	1,396	27,959	11,621	3,762	63,646	-	108,384
Net	**1,187**	**175,841**	**21,009**	**142,210**	**80,666**	**374,384**	**795,297**

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 carried out and their evolution over the years is periodically undertaken.

Operational risk and reputational risk

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

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

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

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

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

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

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

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

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

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

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

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

Internal Control System

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

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

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

- Identification of the relevant business units and processes, considering the associated risk;
- Documentation of significant processes, including objectives, main activities, risks and associated controls;
- Appraisal of the design of the controls and determination of the associated opportunities for improvement. The improvements may involve a strengthening of existing controls or implementation of new ones;
- Performance of effectiveness tests on the controls that are identified, confirmation of existing deficiencies and preparation of a correction plan;
- Preparation of the Risk Policy Plan.

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

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

- A second level, represented by the Overall Risk and Internal Control Division, plays a supervisory role, its main responsibilities being systematisation of the rules, policies and monitoring of the risk-management, internal-control and compliance system;

- A third level, represented by the Internal Audit Division and the External Audit, is charged with independent auditing in the field of risk management, its main goal being to ensure that the controls are effective.

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

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

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

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

Solvency

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

(thousand euros)

	2011	2010
Elements Constituting the Guarantee Fund	**357,610**	**296,678**
Solvency Margin to be Sest Aside	**53,283**	**51,762**
Result from the premiums standpoint	53,283	51,254
Result from the claims standpoint	48,056	47,829
Limit result of Article 97.8	49,399	51,762
Legal minimum Guarantee Funds	3,500	3,500
Excess/Insufficiency of the Solvency Margin	**304,327**	**244,916**
Solvency Margin Cover Rate	**671%**	**573%**

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:

(%)

	2011	2010
Claims ratio [a]	64.8%	69.1%
Acquisition ratio [b]	20.4%	21.1%
Administrative ratio [c]	8.7%	9.0%
Combined Ratio	**93.9%**	**99.2%**

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)

	2011	2010
Receivables	2,820	2,557
Adjustment of doubtful debt	-1,380	-1,000
Net Total	**1,440**	**1,557**

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)

	2011	2010
Inventories	210	252

Note 5 – Other Financial Liabilities

The breakdown of this heading is as follows:

(thousand euros)

	2011	2010
Other financial liabilities		
Deposits received from reinsurers	158	579
Derivatives	2	254
Repurchase agreements - Amounts payable	167,078	-
Other	859	1,142
Book Value	**168,097**	**1,975**

Deposits received from reinsurers represent the amount of bond posted by reinsurers as a result of acceptance of risks and of the receipt of premiums arising from the reinsurance-ceded business. The breakdown of the Derivatives figures is provided in Note 6.

The figures for Other carried in 2010 & 2011 has to do with creditor bank balances that arose as a result of optimised financial management, taking into account the amount of payment means issued but not yet cashed.

Note 6 - Financial Instruments

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

(thousand euros)

	2011	2010
Available-for-sale financial assets	260,901	338,199
Investments in affiliates & associates	380,890	301,355
Term deposits	216,020	131,243
Financial assets classified at fair value through profit & loss	4,617	6,459
Financial assets held for trading	-	-
Held-to-maturity investments	107,589	-
Total Holdings and Financial Instruments	**970,017**	**777,256**

Appendix 1 takes into consideration €2k in respect of derivative financial instruments having a negative value that, for balance-sheet purposes, are carried under liabilities.

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

Financial assets at fair value through profit & loss

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

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

(thousand euros)

	2011	2010
Bonds & other fixed-income securities		
Public issuers	-	-
Other issuers	4,617	6,459
Shares	-	-
Other floating-rate securities	-	-
Book Value	**4,617**	**6,459**
Acquisition value	7,437	7,951

As at December 31, 2011 & 2010, the Company held, of this type, compound financial instruments with embedded derivatives, in fixed--income securities, as follows:

(thousand euros)

Type of Risk	Book Value 2011	Book Value 2010
Structured credit	4,617	6,446
Credit derivative	-	13
Total	**4,617**	**6,459**

Available-for-sale financial assets

The breakdown of this type of asset is as follows:

(thousand euros)

	2011	2010
Bonds & other fixed-income securities		
Public issuers	34,021	53,118
Other issuers	129,397	212,053
Shares	10,587	24,559
Other floating-rate securities	86,896	48,469
Book Value	**260,901**	**338,199**

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

The breakdown of the final balance sheet figures as at December 31, 2011 & 2010, is as follows:

(thousand euros)

	Amortised or Acquisition Cost	Fair-Value Reserve	Impairment	Book Value
Bonds & other fixed-income securities				
Public issuers	58,605	-5,487	-	53,118
Other issuers	236,620	-20,231	-4,336	212,053
Shares	7,665	17,470	-576	24,559
Other floating-rate securities	48,330	951	-812	48,469
Balance as at December 31, 2010	**351,220**	**-7,297**	**-5,724**	**338,199**
Bonds & other fixed-income securities				
Public issuers	38,717	-153	-4,543	34,021
Other issuers	150,209	-19,778	-1,034	129,397
Shares	4,976	6,426	-815	10,587
Other floating-rate securities	90,269	-1,609	-1,764	86,896
Balance as at December 31, 2011	**284,171**	**-15,114**	**-8,156**	**260,901**

Movements under impairment losses are as follows:

(thousand euros)

	2011	2010
Balance as at January 1	**5,724**	**16,208**
Allocations for the year	6,236	3,356
Cancellations for the year for sale of assets	-3,804	-13,120
Written back during the year	-	-720
Balance as at December 31	**8,156**	**5,724**

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

(thousand euros)

	2011	2010
Bonds & other fixed-income securities	-5,044	-2,583
Equities & other floating-rate securities	-1,192	-53
	-6,236	**-2,636**

Held-for-trading financial assets

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

(thousand euros)

Rating	2011		2010	
	Fair Value	Notional Value	Fair Value	Notional Value
Derivatives				
Forward contracts	-2	406	-254	200
Options	-	-	-	-
Total	**-2**	**406**	**-254**	**200**

Investments made by the Company are predominantly in euros, although its portfolio does contain some transactions expressed in other currencies. In this way, though always with the authorisation of its Financial Committee, the Company entered into some currency hedge contracts for its investments in foreign currency.

Though they do not provide perfect cover, these currency hedges endeavour to cover the exchange rate on the capital and interest through successive renovation throughout the year, using swap and forward mechanisms for the purpose. Since, in 2011 & 2010, 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)

	2011	2010
Bonds & other fixed-income securities		
Public issuers	66,155	-
Other issuers	41,434	-
Book Value	**107,589**	**-**
Book value (without accrued interest)	105,442	-
Acquisition value	104,095	-
Market value	85,133	-

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

The breakdown of the final balance sheet figures as at December 31, 2011 & 2010, is as follows:

(thousand euros)

	Amortised or Acquisition Cost	Impairment	Book Value
Bonds & other fixed-income securities			
Public issuers	-	-	-
Other issuers	-	-	-
Balance as at December 31, 2010	**-**	**-**	**-**
Bonds & other fixed-income securities			
Public issuers	66,155	-	66,155
Other issuers	41,434	-	41,434
Balance as at December 31, 2011	**107,589**	**-**	**107,589**

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 as at 31/12/2011	Fair Value Reserve Amortised by 31/12/2011
Of available-for-sale financial assets	97,674	91,007	14	-8,329	119,259	7.3%	73,207	-1,860

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

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

(thousand euros)

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

Other financial assets

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

(thousand euros)

	2011	2010
Loans granted	33,501	28,459
Deposits with cedent companies	1	1
Resale agreements - Receivables	21,111	-
Other	-	1,692
Total of Other Financial Assets	**54,613**	**30,152**

As at December 31, 2010, the figures for Others correspond to financial transactions pending settlement, taking their value dates into account.

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

(thousand euros)

	2011	2010
Ancillary Capital Contributions - T-Vida	12,500	12,500
Ancillary Capital Contributions - Logo	17,500	12,400
Ancillary Capital Contributions - Europ Assistance	1,410	1,080
Loan capital - Contact Center	277	277
Loan capital - Esumédica	-	262
Loans to employees	1,814	1,940
Total Loans Granted	**33,501**	**28,459**

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)

	2011		2010	
	Fair Value	Book Value	Fair Value	Book Value
Cash & cash equivalents and sight deposits	25,726	25,726	7,443	7,443
Loans and receivables	270,633	270,633	161,395	161,395
Held-to-maturity investments	87,280	107,589	-	-
Other debtors for insurance & other operations	90,237	90,237	88,830	88,830
Financial Assets at Amortised Cost	**473,876**	**494,185**	**257,668**	**257,668**
Other financial liabilities	168,095	168,095	1,721	1,721
Other creditors for insurance operations and other operations	91,040	91,040	106,409	106,409
Financial Liabilities at Amortised Cost	**259,135**	**259,135**	**108,130**	**108,130**

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

Valuation methods

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

(thousand euros)

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

(thousand euros)

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

As at December 31, 2011 & 2010, the values of Shares & other floating--rate securities include investments in subsidiaries, associates and joint ventures.

The description of the levels is as follows:

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

Exposure to sovereign debt

With reference to December 31, 2011 & 2010, the Company's exposure to the sovereign debt of European Union countries in a bail-out situation is as follows:

(thousand euros)

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

(thousand euros)

Issuer / Portfolio	December 31, 2010					
	Book Value	Fair Value	Fair-Value Reserve	Average Interest Rate (%)	Average Maturity (Years)	Valuation Level
Portugal						
Available-for-sale financial assets	41,799	41,799	-2,918	4.1%	5	1
Held-to-maturity investments	-	-	-	-	-	-
	41,799	**41,799**	**-2,918**			
Greece						
Available-for-sale financial assets	5,325	5,325	-397	5.8%	7	1
Held-to-maturity investments	-	-	-	-	-	-
	5,325	**5,325**	**-397**			
Ireland						
Available-for-sale financial assets	1,772	1,772	-2,077	4.6%	5	1
Held-to-maturity investments	-	-	-	-	-	-
	1,772	**1,772**	**-2,077**			
Total	**48,897**	**48,897**	**-5,391**			

Note 7 - Investments in Affiliates and Associates

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

(thousand euros)

Company Name / Registered Office	Classification	Valuation Method	Holding (%) Direct	Voting Right	Effective	2011 Financial Data Assets	Liabilities	Equity	Net Result
T-Vida, Companhia de Seguros, S.A.									
Av. da Liberdade, 230 • 1250-149 Lisboa (Portugal)	Subsidiary	Fair Value	100.00	100.00	100.00	902,978	840,083	62,895	3,013
Seguros Logo, S.A.									
R. D. Manuel II, 290 • 4050-344 Porto (Portugal)	Subsidiary	Fair Value	100.00	100.00	100.00	31,744	25,725	6,019	-4,300
Pastor Vida, S.A. de Seguros y Reaseguros									
Paseo de Recoletos, 19 • 28004 Madrid (Espanha)	Subsidiary	Fair Value	50.00	50.00	50.00	201,445	151,375	50,070	10,078
Advancecare – Gestão e Serviços de Saúde, S.A.									
Praça José Queirós, nº 1 - 4º • 1800-237 Lisboa (Portugal)	Subsidiary	Fair Value	51.00	51.00	51.00	9,867	2,677	7,190	2,015
Espírito Santo Contact Center, S.A.									
Av. Infante D. Henrique, 343 - C • 1800-218 Lisboa (Portugal)	Subsidiary	Fair Value	55.42	55.42	55.42	7,946	6,570	1,376	-556
Esumédica–Prestação de Serviços Médicos, S.A.									
Av. da Liberdade, 242 • 1250-149 Lisboa (Portugal)	Subsidiary	Fair Value	100.00	100.00	100.00	1,006	2,580	-1,574	-68
BES, Companhia de Seguros, S.A.									
Av. Columbano Bordalo Pinheiro, 75, 8º • 1070-061 Lisboa (Portugal)	Associate company	Fair Value	25.00	25.00	25.00	114,790	93,889	20,901	4,621
Europ Assistance, S.A.									
Av. Álvares Cabral, 41 - 3º e 4º • 1250-015 Lisboa (Portugal)	Associate company	Fair Value	47.00	47.00	47.00	43,834	31,732	12,102	1,715

The 55.42% holding the 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.

During 2011, in terms of changes to the holdings structure, emphasis is given to the increase of the holding in Europ Assistance, SA, to 47% in Esumédica – Prestação de Serviços Médicos, SA, to 100%, through the acquisitions of 23% and 25% respectively.

It should also be mentioned that Fiduprivate, SA, in which the Company had a 75% stake, was subject to winding-up proceedings in 2011.

Investments as at December 31, 2011, are segregated as follows by company and composition of the book value:

(thousand euros)

	Acquisition Value	Fair-Value Reserve	Impairment	Book Value
Advancecare	486	38,914	-	39,400
BES Seguros	3,759	18,041	-	21,800
ES Contact Center	1,846	2,854	-	4,700
Esumédica	445	655	-	1,100
Europ Assistance	4,222	20,568	-	24,790
Pastor Vida	79,646	70,354	-	150,000
Logo	20,000	-	-	20,000
T-Vida	77,489	41,611	-	119,100
Total	**187,893**	**192,997**	**-**	**380,890**

Alterations to the value of the holdings during 2011 were as follows:

(thousand euros)

	Opening Book Value	Acquisitions, Equity Capital Increases & Disposals	Impairment	Fair-Value Reserve	Closing Book Value
Advancecare	39,210	-	-	190	39,400
BES Seguros	21,463	-	-	337	21,800
ES Contact Center	4,504	-	-	196	4,700
Esumédica	825	-	-	275	1,100
Europ Assistance	4,207	2,465	-	18,118	24,790
Pastor Vida	79,646	-	-	70,354	150,000
Logo	20,000	-	-	-	20,000
T-Vida	131,500	-	-	-12,400	119,100
Total	**301,355**	**2,465**	**-**	**77,070**	**380,890**

Note 8 - Cash, Cash Equivalents & Sight Deposits

The balance of this heading is as follows:

(thousand euros)

	2011	2010
Cash in hand	1,095	891
Deposits at credit institutions	24,631	6,552
Total	**25,726**	**7,443**

Note 9 - Land & Buildings

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

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

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

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

Fair-value model

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

(thousand euros)

Investment Properties - Rental Buildings	2011	2010
Net balance as at January 1	**65,814**	**88,092**
Additions through acquisition	-	-
Additions through betterments	236	127
Transfers	3,640	265
Written off / Sold	-23,552	-24,242
Changes to fair value	363	1,572
Net balance as at December 31	**46,501**	**65,814**

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

(thousand euros)

	2011	2010
Properties that generate rental income	40,875	60,251
Properties that do not generate rental income	5,626	5,563
Total	**46,501**	**65,814**

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

(thousand euros)

	2011	2010
Rental income	**2,328**	**2,744**
Operating costs	**532**	**645**
- of real estate generating rental income	491	607
- of real estate not generating rental income	41	38

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

Cost model

The breakdown of the Premises headings is as follows:

(thousand euros)

	2011	2010
Gross Value	**28,295**	**44,268**
Accumulated depreciation & impairments	-3,569	-6,429
Net Balance as at December 31	**24,726**	**37,839**

Movements under Premises in both years is as follows:

(thousand euros)

Tangible Assets - Premises	2011	2010
Net Balance as at January 1	**37,839**	**40,239**
Additions through acquisition	-	-
Additions through betterments	227	743
Transfers	-260	-
Written off / Sold	-13,642	-2,536
Impairments - [(Allocation) / Use]	1,270	132
Depreciation for the year	-708	-739
Net Balance as at December 31	**24,726**	**37,839**

Note 10 - Other Tangible Fixed Assets and Inventories

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

(thousand euros)

	2011	2010
Equipment	**40,766**	**39,897**
Office equipment	4,412	4,312
Machines & tools	1,643	1,623
Hardware	31,152	30,687
Fixtures & fittings	1,950	1,950
Expenditure on rented buildings	726	551
Transport equipment	439	331
Other tangible fixed assets	444	443
Fixed assets in progress	**3,842**	**3,168**
Accumulated depreciation	**-38,302**	**-37,035**
Impairments	**-**	**-**
Total	**6,306**	**6,030**

Movements under this heading are as follows:

(thousand euros)

	Equipment	Fixed Assets in Progress	Total
Balance as at January 1, 2010	**2,837**	**573**	**3,410**
Additions	1,747	2,860	4,607
Transfers	-	-265	-265
Depreciation for the year	-1,714	-	-1,714
Written off / Sold	-8	-	-8
Balance as at December 31, 2010	**2,862**	**3,168**	**6,030**
Additions	1,013	4,054	5,067
Transfers	-	-3,380	-3,380
Depreciation for the year	-1,411	-	-1,411
Written off / Sold	-	-	-
Balance as at December 31, 2011	**2,464**	**3,842**	**6,306**

Mention is also made of the fact that there are other assets, related with salvage, which, in 2011, amount to €210k (2010: €255k).

Note 11 - Allocation of Investments and Other Assets

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

The indication of which assets are and are not allocated to the insurance portfolios managed by the Company as at December 31, 2011 & 2010, is as follows:

(thousand euros)

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

(thousand euros)

	2010		
	Non-Life Insurance	Not Allocated	Total
Cash & cash equivalents	5,683	1,760	7,443
Land & buildings	103,653	-	103,653
Investments in affiliates, associates and joint ventures	296,026	5,329	301,355
Held-for-trading financial assets	-	-	-
Financial assets classified in the initial recognition at fair value through profit & loss	6,459	-	6,459
Hedge derivatives	-	-	-
Available-for-sale financial assets	334,288	3,911	338,199
Loans and receivables	159,492	1,903	161,395
Held-to-maturity investments	-	-	-
Other tangible assets		6,030	6,030
Other assets		183,023	183,023
Total	**905,601**	**201,956**	**1,107,557**

Note 12 - Intangible Assets

All intangible assets are valued at 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)

	2011	2010
Goodwill	**25,785**	**25,785**
Other intangible assets	**55,600**	**51,534**
Software development costs	40,819	38,163
Software	9,823	9,523
Intangibles in progress	4,958	3,848
Accumulated depreciation	**-42,368**	**-37,866**
Impairments	**-**	**-**
Total	**39,017**	**39,453**

Movements in both years is as follows:

(thousand euros)

	Goodwill	Other Intangible Assets	Software Development Costs	Software	Intangibles in Progress	Total
Balance as at January 1, 2010	**25,785**	**13,939**	**8,582**	**2,487**	**2,870**	**39,724**
Additions		4,678	172	140	4,366	4,678
Depreciation for the year		-4,775	-4,119	-656	-	-4,775
Impairments		-	-	-	-	-
Transfers		-174	3,214	-	-3,388	-174
Balance as at December 31, 2010	**25,785**	**13,668**	**7,849**	**1,971**	**3,848**	**39,453**
Additions		4,066	286	170	3,610	4,066
Depreciation for the year		-4,502	-3,820	-682	-	-4,502
Impairments		-	-	-	-	-
Transfers		-	2,370	130	-2,500	-
Balance as at December 31, 2011	**25,785**	**13,232**	**6,685**	**1,589**	**4,958**	**39,017**

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

(thousand euros)

	2011	2010
Amortisation of Intangible Assets For The Year	**-4,502**	**-4,775**
Costs of claims, net of reinsurance		
Amounts paid - Gross amounts	1,139	1,207
Net operating costs & expenses		
Acquisition costs	2,347	2,502
Administrative costs	1,009	1,059
Financial Costs		
Other	7	7

Note 13 – Other Assets, Liabilities, Adjustments and Provisions

Assets and adjustments

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

(thousand euros)

	2011	2010
Gross assets	**62,315**	**58,589**
Policyholders		
- receipts pending collection	52,622	49,470
- reimbursement of claims	6,913	6,776
Insurance brokers	297	323
Co-insurers	2,483	2,020
Adjustments	**-5,763**	**-5,539**
Receipts pending collection	-4,314	-4,462
Doubtful debt	-1,449	-1,077
Net Assets	**56,552**	**53,050**

Reimbursements demanded in respect of payments made as a result of claims occurring during the guarantees-suspension period and not yet received amount to €2,820k (2010: €2,557k).

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

(thousand euros)

	2011	2010
Gross assets	**8,969**	**8,677**
Reinsurers	8,965	8,669
Reinsured	4	8
Adjustments	**-223**	**-259**
Doubtful debt	-223	-259
Net Assets	**8,746**	**8,418**

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

(thousand euros)

	2011	2010
Gross assets	**25,726**	**28,769**
Related entities	20	380
IFADAP	11,309	8,793
FAT	922	902
Management on account of IDS and Principals	2,794	5,139
Bonds	1,036	1,669
Rents & other amounts pending collection	567	1,197
Staff	462	702
Other amounts pending collection	8,616	9,987
Adjustments	**-787**	**-1,407**
Doubtful debt	-787	-1,407
Net Assets	**24,939**	**27,362**

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)

	2011	2010
Adjustment of receipts pending collection		
Balance as at January 1	**4,462**	**4,973**
Allocations for the year	-	-
Use for the year	-148	-511
Balance as at December 31	**4,314**	**4,462**
Adjustment of doubtful debt		
Balance as at January 1	**2,743**	**1,897**
Allocations for the year	-	846
Use for the year	-284	-
Balance as at December 31	**2,459**	**2,743**

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

(thousand euros)

	2011	2010
Accrued income	**815**	**91**
- Services rendered	815	91
Deferred costs	**1,466**	**849**
- Insurance	195	157
- Rents	0	17
- Acquisition expense	1271	675
Total	**2,281**	**940**

Liabilities and provisions

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

(thousand euros)

	2011	2010
Policyholders (return premiums payable)	3,272	4,113
Insurance brokers		
- Commissions payable	4,628	4,227
- Current accounts	945	1,646
Co-insurers	13,843	10,289
Total	**22,688**	**20,275**

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

(thousand euros)

	2011	2010
Reinsurers	14,065	11,891
Reinsured	647	558
Total	**14,712**	**12,449**

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

(thousand euros)

	2011	2010
Related entities	415	940
Suppliers of leased goods	1,648	2,442
Other suppliers of goods & services	2,136	2,132
IFADAP	1,671	1,320
Works accident pensions	1,363	1,332
Financial holdings pending settlement	44,621	63,646
Other payables	1,786	1,873
Total	**53,640**	**73,685**

The amount of financial holdings pending settlement in 2010 & 2011 has to do with the outstanding amount in respect of the acquisition of insurer Pastor Vida, scheduled for payment in the agreed periods of 5 and 10 years, on the basis of fixed amounts and of variable amounts determined in the light of the agreed management goals. The reduction reflects the evolution of factors determinant to the calculation of the variable amounts in the light of the objectives.

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

(thousand euros)

	2011	2010
Deferred income	**291**	**103**
- Rents	291	103
Accrued costs	**19,873**	**21,554**
- Staff costs (subsidies, charges & bonuses)	5,933	6,673
- Acquisition costs (incentives & commissions)	4,247	5,541
- Third-party supplies & services	9,304	8,959
- Taxes	389	381
Total	**20,164**	**21,657**

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

(thousand euros)

	2011	2010
Taxes	2,954	2,385
Liability for compulsory works	-	250
Total	**2,954**	**2,635**

(thousand euros)

	2011	2010
Balance as at January 1	**2,635**	**1,828**
Allocations for the year	656	907
Decrease of the provision	-337	-100
Balance as at December 31	**2,954**	**2,635**

The change under Other provisions is solely the result of the tax component in respect of compensatory interest payable in the event of an unfavourable decision as to the use of tax deduction in determining Income tax (IRC) for 2006, 2007, 2008 and 2009, in respect of tax losses on a corporate merger and as to the reinvestment of tax gains resulting from the sale of a financial holding. This change is included in costs by nature to be imputed.

The negative change under Other provisions is primarily in respect of settling the litigation inherent in a situation of coercive works.

Note 14 - Insurance Contract Premiums

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

(thousand euros)

Businesses/ Groups of Businesses	Gross Premiums Written		UPR Variation		Premiums Earned	
	2011	2010	2011	2010	2011	2011
Accidents & health	107,492	103,389	-676	879	108,168	102,510
Fire & other damage	62,232	61,568	573	928	61,659	60,640
Motor	147,349	142,180	1,249	2,947	146,100	139,233
Marine, air & transport	7,014	6,956	-91	66	7,105	6,890
General third-party liability	10,459	10,915	-200	257	10,659	10,658
Credit & fidelity insurance	54	89	-10	-11	64	100
Legal protection	16	17	-1	-1	17	18
Assistance	10,295	8,617	633	283	9,662	8,334
Sundry	2,301	2,123	183	92	2,118	2,031
Total	**347,212**	**335,854**	**1,660**	**5,440**	**345,552**	**330,414**

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

(thousand euros)

Businesses/ Groups of Businesses	Gross Premiums Written		UPR Variation		Premiums Earned	
	2011	2010	2011	2010	2011	2010
Accidents & health	3,591	4,306	-74	675	3,665	3,631
Fire & other damage	26,122	24,079	195	659	25,927	23,420
Motor	1,655	1,680	-	-	1,655	1,680
Marine, air & transport	3,756	3,651	107	6	3,649	3,645
General third-party liability	1,720	1,895	-105	64	1,825	1,831
Credit & fidelity insurance	23	52	-9	-7	32	59
Legal protection	-	-	-	-	-	-
Assistance	11,000	9,953	447	674	10,553	9,279
Sundry	2,051	1,966	145	88	1,906	1,878
Total	**49,918**	**47,582**	**706**	**2,159**	**49,212**	**45,423**

The breakdown of some amounts in respect of non-life insurance and reinsurance accepted, for 2011, is 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	107,492	108,168	84,920	28,727	-314
Fire & other damage	62,126	61,590	35,294	21,292	-10,702
Motor					
- Third-party liability	92,250	92,168	53,985	24,886	-2,908
- Other covers	46,066	45,007	41,379	15,011	-568
Marine, air & transport	6,994	7,093	3,510	1,790	-1,002
General third-party liability	10,459	10,659	2,274	3,854	-2,297
Credit & fidelity insurance	54	64	-426	24	-1
Legal protection	16	17	-65	7	-
Assistance	10,295	9,662	-	1,871	-9,235
Sundry	2,266	2,084	1,608	466	-17
Total	**338,018**	**336,512**	**222,479**	**97,928**	**-27,044**
Reinsurance accepted	9,194	9,040	7,873	2,810	-470
Grand Total	**347,212**	**345,552**	**230,352**	**100,738**	**-27,514**

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)

	2011	2010
Interest	**16,534**	**11,246**
Available-for-sale financial assets	3,496	9,388
Financial assets classified at fair value through profit & loss	290	263
Financial assets held for trading	-	-
Held-to-maturity investments	6,745	-
Deposits, loans & other assets	6,003	1,595
Rents	**2,328**	**2,744**
Land & buildings	2,328	2,744
Dividends	**11,130**	**8,719**
Investments in affiliates, associates and joint ventures	10,024	7,876
Available-for-sale financial assets	1,106	843
Total	**29,992**	**22,709**

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

(thousand euros)

	2011	2010
Bonds & other fixed-income securities		
Public issuers	4,134	1,654
Other issuers	6,396	7,997
Shares	10,817	8,631
Other floating-rate securities	313	89
Real estate	2,328	2,744
Deposits	5,978	1,557
Loans & other assets	26	37
Total	**29,992**	**22,709**

The breakdown of Financial costs is as follows:

(thousand euros)

	2011	2010
Costs imputed to the investments function	1,217	1,328
Interest on repurchase agreements	1,472	-
Direct operating costs	532	645
Total	**3,221**	**1,973**

Note 17 - Gains & Losses Realised on Investments

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

(thousand euros)

	2011			2010		
	Gain	Loss	Balance	Gain	Loss	Balance
Financial - Not at Fair Value Through Profit & Loss	**11,541**	**-8,479**	**3,062**	**7,048**	**-3,263**	**3,785**
Available-for-sale financial assets	11,486	-6,323	5,163	7,048	-3,263	3,785
Held-to-maturity investments	55	-	55	-	-	-
Investments in affiliates, associates and joint ventures	-	-2,156	-2,156	-	-	-
Financial - At Fair Value Through Profit & Loss	**21,182**	**-3,497**	**17,685**	**3,024**	**-**	**3,024**
Financial assets classified at fair value through profit & loss	21,182	-98	21,084	1	-	1
Financial assets held for trading	-	-3,399	-3,399	3,023	-	3,023
Non-Financial	**3,049**	**-2,923**	**126**	**580**	**-703**	**-123**
Land & buildings - Own use	1,303	-997	306	250	-125	125
Land & buildings - Held for income	1,746	-1,926	-180	330	-578	-248
Total	**35,772**	**-14,899**	**20,873**	**10,652**	**-3,966**	**6,686**

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)

	2011			2010		
	Gain	Loss	Balance	Gain	Loss	Balance
Financial - At Fair Value	**-**	**-1,328**	**-1,328**	**-**	**-81**	**-81**
Financial assets classified at fair value through profit & loss - Debt securities	-	-1,328	-1,328	-	-81	-81
Non-financial	**-**	**-**	**-**	**3,149**	**-1,577**	**1,572**
Land & buildings - Held for income	-	-	-	3,149	-1,577	1,572
Total	**-**	**-1,328**	**-1,328**	**3,149**	**-1,658**	**1,491**

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 & loss.

The balance is broken down as follows:

(thousand euros)

	2011			2010		
	Gain	Loss	Balance	Gain	Loss	Balance
Available-for-sale financial assets	70	-53	17	514	-858	-344
Financial assets held for trading	28	-22	6	570	-313	257
Other	3	-12	-9	1	-4	-3
Total	**101**	**-87**	**14**	**1,085**	**-1,175**	**-90**

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)

	2011	2010
Other Technical Income	**511**	**353**
Co-insurance management commissions	200	282
Claims management fees	19	5
Remuneration for services - IFADAP	5	6
Management on account of claims	287	60
Other Technical Expense	**1,764**	**1,564**
Co-insurance management commissions	202	433
Management on account of claims	1,562	1,131
Value of Gains & Losses	**-1,253**	**-1,211**

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

(thousand euros)

	2011	2010
Other Non-Technical Income	**2,740**	**3,819**
Reimbursement of taxes	-	142
Corrections & adjustments	1,117	866
Other gains	434	895
Interest & other financial gains	55	82
Services rendered	271	574
Gains on the sale of tangible assets	15	37
Own work capitalised	848	1,223
Other Non-Technical Expense	**8,219**	**5,515**
Donations	15	21
Sponsorship	307	309
Gifts to customers	419	397
Fines	4	17
Subscriptions	7	7
Contractual rescissions	2,061	1,406
Bad debt	386	3
Corrections & adjustments	1,058	303
Other expenses	3,170	2,004
Banking services & default interest	792	1,048
Value of Gains & Losses	**-5,479**	**-1,696**

The breakdown of the Financial costs heading is as follows:

(thousand euros)

	2011	2010
Liability for compulsory works	250	-
Taxes	87	-
Principals (International Claims)	-	100
Value of Gains & Losses	**337**	**100**

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 4 main functions and are reflected in and distributed to the following headings:

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

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

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

The breakdown of these expenses and their distribution using the classification based on their function as at December 31, 2011 & 2010, is as follows:

(thousand euros) (%)

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

(thousand euros) (%)

2010	Cost of Claims		Acquisition Costs		Administrative Costs		Cost of Investments		Total	
Staff costs	6,457	18%	14,788	40%	14,973	41%	345	1%	36,563	100%
Third-party supplies & services	3,754	17%	8,771	40%	9,031	41%	354	2%	21,910	100%
Taxes	-	0%	-	0%	2,433	100%	-	0%	2,433	100%
Depreciation	1,536	21%	3,423	47%	2,017	28%	253	3%	7,229	100%
Provisions for contingencies & liabilities	-	0%	-	0%	53	100%	-	0%	53	100%
Other costs	20	4%	42	9%	17	4%	376	83%	455	100%
Total	**11,767**	**17%**	**27,024**	**39%**	**28,524**	**42%**	**1,328**	**2%**	**68,643**	**100%**

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

(thousand euros)

	2011	2010
Electricity & water	437	389
Fuel	342	316
Office material, stationery, etc.	117	178
Gift articles	343	443
Office equipment & furniture maintenance	337	355
Hardware maintenance	1,407	1,509
Rents	1,324	1,189
Operational rental of vehicles & other rentals	1,235	1,343
Travel & entertainment costs	1,502	1,611
Telephone communications & networks	1,086	905
Post	1,204	1,470
Insurance	110	115
Retainers & fees	462	584
Advertising & marketing	1,684	1,907
Cleaning, hygiene & comfort	436	419
Guards & security	295	262
Outsourcing, consultancy & specialised work	5,045	5,048
Software services & development	1,735	1,791
Subscriptions to APS	238	224
Premium collection	801	743
Training brokers	328	402
Temporary work	256	199
Other sundry supplies & services	425	508
Total	**21,149**	**21,910**

The breakdown of Taxes and charges is as follows:

(thousand euros)

	2011	2010
VAT borne	270	265
ISP charge	816	791
FAT charge	718	686
Municipal property tax	40	55
Civil Governments' charge	589	526
Portuguese Green Card Office charge	57	52
Other taxes, charges & licences	49	58
Total	**2,539**	**2,433**

The breakdown of Depreciation and charges is as follows:

(thousand euros)

	2011	2010
Software development costs	3,820	4,119
Software	682	656
Hardware	205	185
Premises	708	740
Office equipment & machines	299	337
Fixtures & fittings	245	209
Finance leasing	648	968
Other equipment	14	15
Total	**6,621**	**7,229**

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

(thousand euros)

	2011	2010
Provisions for taxes	106	53
Interest on reinsurers' deposits	31	16
Finance leasing interest	75	80
Safekeeping commission, securities' custody & other commissions	307	359
Total	**519**	**508**

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

(thousand euros)

	2011	2010
Acquisition Costs		
Brokerage remuneration	36,398	35,228
Costs imputed	26,310	27,024
Other acquisition costs	7,913	9,764
Deferred acquisition costs (change)	42	-1,278
Administrative costs		
Brokerage remuneration	1,840	1,842
Costs imputed	28,235	28,524
Reinsurance commissions & profit-sharing	-7,340	-10,296
Total	**93,398**	**90,808**

Note 22 - Staff Costs

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

	2011	2010
Management	57	58
Technical personnel	182	182
Technical-administrative personnel	245	261
Sales personnel	165	157
IT personnel	24	24
General support personnel	4	6
Electricians	1	1
Total	**678**	**689**

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

(thousand euros)

	2011	2010
Remuneration - Corporate officers	1,525	1,605
Remuneration - Personnel	25,896	25,910
Charges on remuneration - Corporate officers	133	109
Charges on remuneration - Personnel	5,489	5,472
Post-employment benefits - Defined-benefit pension plans	1,121	1,112
Mandatory insurance	696	1,141
Social welfare costs	912	930
Training	232	218
Other staff costs	70	66
Total	**36,074**	**36,563**

As at December 31, 2011 & 2010, 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 2011 by the Official Auditor within the scope of the legal audit of the accounts amounted to €42k.

Note 23 - Obligations Involving Employee Benefits

Retirement pensions and health benefits

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

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

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

With regard to the amendment of the plan and taking into account that the value of the fully-funded liabilities for past services in respect of old-age pensions payable to current employees will be converted into individual accounts of these employees, forming part of their individual retirement plan, according to IAS 19, the Company will settle the liability during 2012.

Since the deviations have been recognised in reserves, the Company will have no additional impact on profit & loss and reserves resulting from the actual settlement of the plan.

An actuarial valuation of the retirement pensions and health benefits is performed annually at Tranquilidade, the most recent one with reference to December 31, 2011.

The main assumptions used in the actuarial studies as at December 31, 2011 & 2010 to determine the update value of the employees' pensions and health benefits are as follows:

	2011	2010
Financial Assumptions		
Wage growth rates	3.25%- 3.75% (*)	3.25%- 3.75% (*)
Pension growth rate	0.75% - 3.75% (*)	0.75% - 3.75% (*)
Rates of return of the fund	5.40%-4.94% (*)	5.15%-4.73% (*)
Medical-costs growth rates	5.00%	5.00%
Early-retirement pension growth rate	2.25%	2.25%
Discount rate	5.50%	5.50%
Demographic Growth Rates and Valuation Methods		
Mortality Table	GKF 95	GKF 95
Disability Table	Suisse Re 2001	Suisse Re 2001
Actuarial valuation method	Project Unit Credit Method	

(*) In respect of liabilities towards directors

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

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

(thousand euros)

	2011		2010	
	+1 p.p.	-1 p.p.	+1 p.p.	-1 p.p.
Aggregate of the cost of current services and of the interest cost for the year	1	-1	1	-1
Accumulated post-employment benefits obligation	21	-21	20	-20

As at 31 December 2011 & 2010, the number of participants covered by the benefits plan was as follows:

	2011	2010
In service	320	336
Retired	219	241
Total	**539**	**577**

As at December 31, 2011 & 2010, the breakdown of amounts recognised in the balance sheet is as follows:

(thousand euros)

	2011			2010		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Net assets/ (liabilities) recognised in the balance sheet						
Liabilities as at December 31	-37,864	-552	-38,416	-43,110	-798	-43,908
Balance of the fund on December 31	40,417	-	40,417	42,343	-	42,343
Net assets/ (liabilities) in the balance sheet as at December 31	**2,553**	**-552**	**2,001**	**-767**	**-798**	**-1,565**

Additionally, Tranquilidade transferred part of its retirement-pension liabilities through the acquisition of life insurance policies from T-Vida, Companhia de Seguros, SA. The number of employees covered by these policies stands at 402 (2010: 415) and the total amount of the liabilities is €14,395k (2010: €14,708k).

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

(thousand euros)

	2011			2010		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Liabilities as at January 1	**43,110**	**798**	**43,908**	**45,323**	**751**	**46,074**
Cost of current service	883	3	886	890	3	893
Interest cost	2,235	40	2,275	2,376	38	2,414
Actuarial (gains) and losses in liabilities	-4,512	-177	-4,689	-670	132	-538
Pensions paid by the fund	-3,852	-	-3,852	-4,809	-	-4,809
Benefits paid by the Company	-	-112	-112	-	-126	-126
Transfers from other funds	-	-	-	-	-	-
Liabilities as at December 31	**37,864**	**552**	**38,416**	**43,110**	**798**	**43,908**

The evolution of the value of the pension fund in 2011 & 2010 is as follows:

(thousand euros)

	2011			2010		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Balance of the Fund on January 1	**42,343**	**-**	**42,343**	**45,010**	**-**	**45,010**
Real return of the fund						
Expected return of the fund	2,040	-	2,040	2,195	-	2,195
Actuarial gains & losses	-2,026	-	-2,026	-1,767	-	-1,767
Contributions paid by fund participants	1,912	-	1,912	1,714	-	1,714
Pensions paid by the fund	-3,852	-	-3,852	-4,809	-	-4,809
Transfers from other funds	-	-	-	-	-	-
Balance of the fund on December 31	**40,417**	**-**	**40,417**	**42,343**	**-**	**42,343**

The evolution of actuarial deviations recognised in reserves is as follows:

(thousand euros)

	2011			2010		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Deviations Recognised in Reserves as at 1 January	**15,409**	**408**	**15,817**	**14,312**	**276**	**14,588**
Actuarial (gains) & losses						
- On liabilities	-4,512	-177	-4,689	-670	132	-538
- On the plan's assets	2,026	-	2,026	1,767	-	1,767
Amortisation for the year	-	-	-	-	-	-
Curtailment cost	-	-	-	-	-	-
Deviations Recognised in Reserves as at 31 December	**12,923**	**231**	**13,154**	**15,409**	**408**	**15,817**

The evolution of assets receivable/ liabilities deliverable in 2011 and 2010 is as follows:

(thousand euros)

	2011			2010		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
(Assets)/ Liabilities Receivable or Payable as at January 1	**767**	**798**	**1,565**	**313**	**751**	**1,064**
Actuarial gains and losses on liabilities	-4,512	-177	-4,689	-670	132	-538
Actuarial gains & losses of the funds	2,026	-	2,026	1,767	-	1,767
Charges for the year:						
- Cost of current service	883	3	886	890	3	893
- Interest cost	2,235	40	2,275	2,376	38	2,414
- Expected return of the fund	-2,040	-	-2,040	-2,195	-	-2,195
Contributions paid during the year and pensions paid by the Company	-1,912	-112	-2,024	-1,714	-126	-1,840
(Assets)/ liabilities receivable or payable as at December 31	**-2,553**	**552**	**-2,001**	**767**	**798**	**1,565**

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

(thousand euros)

	2011			2010		
	Retirement Pensions	Health Benefits	Total	Retirement Pensions	Health Benefits	Total
Cost of current service	883	3	886	890	3	893
Interest cost	2,235	40	2,275	2,376	38	2,414
Expected return of the fund	-2,040	-	-2,040	-2,195	-	-2,195
Amortisation for the year	-	-	-	-	-	-
Costs for the Year	**1,078**	**43**	**1,121**	**1,071**	**41**	**1,112**

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

(thousand euros)

	2010	2009
Land & buildings	7,935	8,061
Equities & other floating-rate securities	12,645	8,502
Fixed-income securities	34,253	40,575
Balances with credit institutions	1,449	1,189
Fund debtors & creditors	-226	-64
Interest receivable	595	819
Total	**56,651**	**59,084**

The figures for assets disclosed above are all in respect of the Tranquilidade Group and BES-Vida Pension Fund, of which associate Tranquilidade accounts for about 71.3% (2010: 71.7%) of the total of the fund.

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

(thousand euros)

	2011		2010		2009		2008		2007	
	Retirement Pensions	Health Benefits	Retirement Pensions	Health Benefits	Retirement Pensions	Health Benefits	Retirement Pensions	Health Benefits	Retirement Pensions	Health Benefits
Liabilities	-37,864	-552	-43,110	-798	-45,323	-751	-44,250	-705	-51,346	-534
Balance of the funds	40,417	-	42,343	-	45,010	-	43,087	-	47,311	-
Net Assets/ (liabilities) Recognised in the Balance Sheet	**2,553**	**-552**	**-767**	**-798**	**-313**	**-751**	**-1,163**	**-705**	**-4,035**	**-534**

Note 24 - Income Tax

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

Calculation of the current tax for 2011 and 2010 has been made on the basis of a nominal tax rate plus the municipal surcharge, totalling about 28.94%, the nominal rate approved on the balance-sheet date. The Company has been subject to annual inspections by the DGCI (Directorate General of Taxation), whose latest report refers to 2009 and contains no significant adjustments to the tax returns submitted in previous years. Subsequent tax returns are subject to inspection and possible adjustment by the Tax Authorities during a period of four years.

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

- Fiscal reporting of the merger, in the sum of €40,780k;
- Reinvestment of gains on the sale of a financial holding, in the sum of €28,754k.

The Company returned tax losses in 2010 and 2011, giving rise to deferred tax assets on these tax losses carried forward, taking into account the estimates of recoverability within the time allowed for the the purpose in respect of each year, as follows:

(thousand euros)

Year	Brought Forward	Used	Carried Forward	Last Year for Use
2010	13,767	-	13,767	2014
2011	20,433	-	20,433	2015
Total	**34,200**	**-**	**34,200**	

Deferred tax assets and liabilities reported in 2011 and 2010 are detailed as follows:

(thousand euros)

	2011		2010	
	Current Tax Assets	Current Tax Liabilities	Current Tax Assets	Current Tax Liabilities
Income tax	7	14,759	5	14,791
Tax withheld at source	-	719	-	866
Value added tax	155	177	155	210
Other taxes & charges	103	7,613	90	8,340
Social security contributions	138	831	128	817
Local government rates	-	120	-	120
	403	**24,219**	**378**	**25,144**

The breakdown of deferred tax assets and liabilities recognised in the 2011 and 2010 balance sheets is as follows:

(thousand euros)

Headings	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
Investments	2,400	1,690	-48,619	-31,145	-46,219	-29,455
Post-employment benefits	90	193	-	-3,308	90	-3,115
Technical provisions	455	910	-	-	455	910
Doubtful debt provision	64	69	-	-	64	69
Tax losses	8,550	2,898	-	-	8,550	2,898
Real estate	-	3,264	-99	-	-99	3,264
Other non-deductible costs	554	406	-	-	554	406
Total	**12,113**	**9,430**	**-48,718**	**-34,453**	**-36,605**	**-25,023**

The 2011 and 2010 figures include amounts in respect of the deferral over 5 years of the impact on taxation stemming from the transition to the IFRS. Current and deferred taxes in 2011 & 2010 were recognised as follows:

(thousand euros)

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

(thousand euros)

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

Reconciliation of the tax rate is as follows:

(thousand euros)

	2011	2010
Pre-tax profit/(loss)	28,718	6,274
Tax rate	28.94%	28.94%
Tax Determined on the Basis of the Official Rate	**-8,311**	**-1,816**
Dividends excluded from taxation	1,799	2,495
Tax benefits	148	159
Other income & costs excluded from taxation	-646	1,558
Deferred tax asset not previously recognised	12,997	3,323
Autonomous tax	-827	-357
Current + Deferred Tax	**5,160**	**5,362**

Note 25 - Equity Capital

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

Note 26 - Reserves

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

Legal reserve

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

Fair-value reserve

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

Deferred tax reserves

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

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

Free reserves

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

Actuarial deviations reserve

According to one of the options set out in IAS 19 Employee Benefits, Tranquilidade opted to make a change in accounting policy and now recognises actuarial deviations against reserves. In accordance with IAS 8, this change in accounting policy is presented for comparative purposes from January 1, 2010, recognising as of this date the whole of the actuarial deviations in reserves. On that basis, as mentioned in Note 3, the heading Other reserves includes, effective January 1, 2010, a restatement resulting from the said change.

The breakdown of the reserves as at December 31, 2011, 2010 & 2009 is as follows:

(thousand euros)

	2011	2010	2009
Reserves for financial assets at fair value	171,428	108,630	53,079
Reserve for deferred taxes	-48,525	-30,955	-13,329
Other reserves	29,984	26,156	26,464
- Legal reserve	42,210	41,045	40,124
- Actuarial deviations reserve	-13,154	-15,817	-14,588
- Free reserves	928	928	928
Reserves	**152,887**	**103,831**	**66,214**

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)

	2011	2010
Investments in affiliates, associates and joint ventures	192,997	115,927
Floating-rate securities	4,818	18,421
Fixed-income securities	-26,387	-25,718
Fair-Value Reserve	**171,428**	**108,630**

The Breakdown of the net fair value reserve as at December 31, 2011 & 2010, is as follows:

(thousand euros)

	2011	2010
Amortised cost of available-for-sale investments	284,171	351,220
Acquisition costs of investments in affiliates, associates and joint ventures	187,893	185,908
	472,064	537,128
Impairment	-8,156	-6,204
Net amortised/acquisition impairment cost	463,908	530,924
Fair value of available-for-sale investments	260,901	338,199
Investments in affiliates, associate and joint ventures	380,890	301,355
	641,791	639,554
Gross revaluation reserve (Fair value - cost)	177,883	108,630
Securities revaluation reserve transferred to held-to-maturity investments	-6,455	-
Deferred & current taxes	-48,525	-30,955
Revaluation Reserve Net of Taxes	**122,903**	**77,675**

Movement under the net fair value reserve as at December 31, 2011 & 2010, is as follows:

(thousand euros)

	2011	2010
Balance as at January 1	**77,675**	**39,750**
Fair-value variations, including variation for disposals	65,230	46,592
Impairment recognised during the year	-2,432	8,959
Variation of deferred taxes recognised during the year	-17,570	-17,626
Balance as at December 31	**122,903**	**77,675**

Note 27 – Earnings per Share

Earnings per share for the years ended December 31, 2011 & 2010, are as follows:

	2011	2010
Net profit/(loss) for the period (in thousands of euros)	33,878	12,235
Number of shares (year-end)	32,000,000	32,000,000
Earnings per Share (in euros)	**1.06**	**0.38**

It should be mentioned that in 2011 there are 10 million shares each of a par value of €5, not yet paid up, while the number of shares subscribed is 42 million.

Note 28 – Dividends per Share

The Company's sole equityholder is Partran – Sociedade Gestora de Participações Sociais, SA, to which, in 2011 and 2010, the following dividends were attributed and paid, resulting in the following dividends per share:

	2011	2010
Dividend (in thousands of euros)	5,000	8,250
Number of shares (beginning of the period)	32,000,000	27,000,000
Dividend per Share (in euros)	**0.16**	**0.31**

The dividend shown in 2011 refers to a payment of an interim dividend for this year.

Note 29 - Transactions Between Related Parties

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

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

As at December 31, 2011 & 2010, 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)

	2011				2010			
	Assets	Liabilities	Costs	Income	Assets	Liabilities	Costs	Income
ADVANCECARE	12	321	3,984	906	-	304	3,698	1,410
BANCO ESPÍRITO SANTO	127,381	168,715	7,536	21,458	88,897	1,226	1,770	5,084
BES SEGUROS	11	-	-	1,227	8	14	-	1,463
BES VIDA	66	-	-	177	80	52	-	137
BESI	10,536	-	-	-	7,257	-	-	-
BESLEASING	393	1,515	75	15	523	2,442	87	224
BEST	4	-	-	-	50	-	-	-
E.S. CONTACT CENTER	294	22	121	110	288	-	86	66
E.S. INFORMÁTICA	-	-	6	-	-	-	34	-
E.S. INNOVATION	-	1	-	-				
E.S. INVESTMENT	-	-	320	-	2,201	-	339	27
E.S. FINANTIAL PRT	2,068	-	-	-	-	-	-	-
E.S. RECUPERAÇÃO CRÉDITO, ACE	-	-	-	-	-	-	-	96
E.S. SAÚDE	1	-	-	67	6	-	-	55
E.S. SERVIÇOS 2, ACE	-	44	565	14	-	38	573	-
ESAF	2	-	-	814	3	-	-	726
ESEGUR	129	12	279	292	80	-	235	252
ESFG	-	-	2,473	365	3,448	-	-	484
ESFIL	2,898	-	3	179	2,985	-	-	135
ESGEST	14	-	198	-	-	-	163	-
ESUMÉDICA	-	4	840	-	414	-	-	-
EUROP ASSISTANCE	1,410	-	-	312	1,080	-	-	395
GESFIMO	2	-	-	12	3	-	-	34
HERDADE DA COMPORTA	-	-	-	6	-	-	-	32
HOTÉIS TIVOLI	-	-	32	-	-	-	28	-
LOGO	17,514	7,646	11,123	9,012	12,775	6,470	9,689	7,887
MULTIPESSOAL-SERVIÇOS	63	-	251	198	-	-	39	176
MULTIPESSOAL-TRABALHO TEMPORÁRIO	-	22	-	-	-	-	163	186
SGL - SOCIEDADE GERAL LIMPEZAS	-	32	417	-	-	31	453	-
TOP ATLÂNTICO	-	69	1,101	-	-	17	690	-
PASTOR VIDA	-	-	-	3,113				
T-VIDA	12,502	71	-	4,600	12,505	636	-	4,700
	175,300	**178,474**	**29,324**	**42,877**	**132,603**	**11,230**	**18,047**	**23,569**

Note 30 - Cash-Flow Statement

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

Note 31 - Commitments

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

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

(thousand euros)

	2011	2010
Tangible assets (gross value)	11,552	11,353
Accumulated depreciation	-10,949	-10,400
Tangible Assets (Net Value)	**603**	**953**
Creditors - Suppliers of Goods	**1,647**	**2,442**

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	217	517	913
Operational lease contracts	166	445	650

With regard to Investment Funds (Private Equity), the Company has assumed liabilities in the sum of €5.16 million. These are sums payable in respect of investments having a duration of approximately ten years, the investment effort being centred on the first five years. The assets of this fund are to be invested in the acquisition of holdings and/or in projects of high growth and appreciation potential.

Note 37 – Other Information

Recently-issued standards and interpretations

Standards, amendments and interpretations effective on or after January 1, 2011

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

IFRS 7 - Financial instruments Disclosures - Transfers of financial assets

The International Accounting Standards Board (IASB) issued in October 2010, IFRS 7 - Financial Instruments: Disclosures - Transfers of financial assets, with mandatory application for periods starting as from July 1, 2011, early adoption permitted.

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

Annual Improvement Project

In May 2010 the IASB published the Annual Improvement Project, introducing 11 amendments to 7 standards. The effective date of the changes, the possibility of early adoption and application requirements on transition are defined in each standard. Most changes were mandatory as from January 1, 2011.

Adoption of these amendments to existing standards has had no significant impact on the financial statements.

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

IFRS 9 - Financial instruments

The International Accounting Standards Board (IASB) issued in November 2009, IFRS 9 - Financial Instruments Part I: Classification and measurement, with mandatory application for periods starting as from January 1, 2013, with early adoption permitted. This standard was amended in October 2010. IFRS 9 has not yet been adopted by the European Union.

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

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

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

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

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

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

The Company is examining the possible impacts of this standard.

IFRS 10 – Consolidated financial statements

In May 2011, the International Accounting Standards Board (IASB) issued IFRS 10 – Consolidated financial statements mandatorily applicable as from January 1, 2013, early application being allowed

This standard introduces a new approach in determining which investments should be consolidated (full consolidation method), replacing IAS 27 - Consolidated and separate financial statements and SIC 12 - Consolidation of SPEs. Thus, it presents a new definition of control and requirements for its application.

An investor has control over a subsidiary when it is exposed , or has the right, to variable returns arising from its involvement in the subsidiary and has the ability to influence these returns owing to its power over the subsidiary. The concept of de facto control was introduced.

Two main objectives were included in this standard:

- Introduction of a single consolidation model for all types of entities, ensuring that an entity consolidates all entities it controls;

- Introduction of more extensive disclosure requirements, particularly on the investments that the entity does not consolidate.

The Company is examining the possible impacts of this standard.

IFRS 11 - Joint arrangements

In May 2011, the International Accounting Standards Board (IASB) issued IFRS 11 – Joint Arrangements mandatorily applicable as from January 1, 2013, early application being allowed

This standard replaces the previous IAS 31, keeping the same definition of a joint arrangement. However, two new categories of joint arrangements were introduced: (i) Joint operations; and (ii) Joint ventures.

The main changes introduced by this standard were:

- The structure of joint arrangements is no longer a critical factor for the accounting model to be followed. Classification of a joint arrangement requires identification and evaluation of the structure, legal form, the contractual agreement and other facts and circumstances;

- Introduction of mandatory application of the equity method to a joint venture, thus eliminating the option of proportionate consolidation method.

The Company is examining the possible impacts of this standard.

IFRS 12 - Disclosure of interests in other entities

In May 2011, the International Accounting Standards Board (IASB) issued IFRS 12 – Disclosure of interests in other entities mandatorily applicable for periods starting as from January 1, 2013, early application being allowed.

More detailed disclosures about involvement with entities that they consolidate (subsidiaries) and those they do not consolidate, namely:

- The nature and risks associated with interests in other entities;

- The effects of such interests on the financial position, results of operations and cash flows of the reporting entity.

The Company is examining the possible impacts of this standard.

IFRS 13 – Fair value measurement

In May 2011, the International Accounting Standards Board (IASB) issued IFRS 13 – Fair value measurement mandatorily applicable for periods starting as from January 1, 2013, early application being allowed

This standard presents a revised concept of fair value and sets new information-disclosure requirements. Thus, the main aspects considered are:

- Principles that underlie the determination of fair value;

- Appropriate valuation techniques and the three levels of hierarchy of fair values;

- More extensive requirements with respect to the information to be disclosed.

The Company is examining the possible impacts of this standard.

IAS 27 - Separate financial statements

In May 2011, the International Accounting Standards Board (IASB) issued IAS 27 – Separate financial statements mandatorily applicable for periods starting as from January 1, 2013, early application being allowed

This IAS 27 (2011) standard introduces no changes to the application requirements of IAS 27 within the scope of separate financial statements, but merely only clarifies: (i) that an entity that prepares separate financial statements must will follow all relevant rules of the IFRS, and (ii) the disclosure-requirement needs.

The Company is examining the possible impacts of this standard.

IAS 28 - Investments in associates and joint ventures

In May 2011, the International Accounting Standards Board (IASB) issued IAS 28 – Investments in associates and joint ventures mandatorily applicable for periods starting as from January 1, 2013, early application being allowed.

This standard replaces IAS 28 (2003) and describes the accounting treatment to be adopted by entities in respect of investments in associatesand joint ventures, thus defining the accounting requirements for application of the equity method for both investments.

IFRS 11 determines the type of joint arrangements in which an entity is involved, and once it has been determined that there is an interest in a joint venture, an entity applies the equity method in consolidated accounts according to IAS 28 (revised 2011). IFRS 12 describes the requirements for disclosure of information.

The Company is examining the possible impacts of this standard.

IFRS 7 (Amendment) - Disclosures - Offsetting assets and liabilities

In May 2011, the International Accounting Standards Board (IASB) issued an amendment of IFRS 7 – Disclosures - Offsetting financial assets and liabilities mandatorily applicable for periods starting as from January 1, 2013, early application being allowed.

This standard amended the information-disclosure requirements so that users of financial statements can assess the effect or potential effect of the presentation of net financial assets and liabilities on the financial position of an entity.

The Company is examining the possible impacts of this amended standard.

IAS 32 (Amended) - Offsetting financial assets and liabilities

In May 2011, the International Accounting Standards Board (IASB) issued and amendment of IFRS 32 – Offsetting financial assets and liabilities mandatorily applicable for periods starting as from January 1, 2014, early application being allowed.

This amendment replaced paragraph AG38 of IAS 32 by new paragraphs AG38A-AG38F regarding the conditions required to present financial assets and liabilities in a net form, in the financial position of an entity: (i) the criterion that an entity has the legal right to make the settlement for the net amounts recognised, and (ii) the criterion that an entity intends to settle the net amounts or to realise the assets and settle the liabilities simultaneously.

The Company is examining the possible impacts of this amended standard.

Appendix 1 – Inventory of Holdings and Financial Instruments

(expressed in euros)

Identification of the Securities – Designation	Quantity	Amount of Par Value	% of Par Value	Average Acquisition Cost	Total Acquisition Cost	Book Value (including accrued interest) – Unit	Book Value (including accrued interest) – Total
1 - AFFILIATES, ASSOCIATES, JOINT VENTURES AND OTHER RELATED COMPANIES							
1.1 - Domestic Securities							
1.1.1 - Holdings in affiliates							
1.1.2 - Holdings in associates							
ADVANCECARE	458,997			1.06	485,958.14	85.84	39,400,000.00
BES SEGUROS	750,000			5.01	3,758,668.00	29.07	21,800,000.00
ES CONTACT CENTER	831,251			2.22	1,846,077.58	5.65	4,700,000.00
ESUMEDICA	300,000			1.49	445,502.00	3.67	1,100,000.00
EUROPE ASSISTANCE	705,000			5.99	4,221,800.00	35.16	24,790,000.00
PASTOR VIDA	4,550,000			17.50	79,646,000.00	32.97	150,000,000.00
SEGUROS LOGO SA	4,000,000			5.00	20,000,000.00	5.00	20,000,000.00
T-VIDA COMPANHIA DE SEGUROS, SA	65,000,000			1.19	77,488,591.00	1.83	119,100,000.00
1.1.4 - Holdings in related companies							
COMPTA	306,960			1.64	503,699.84	0.14	42,974.40
ES INV PLC	1			2.77	2.77	1,526.60	1,526.60
ESAF - ACTIVOS FINANCEIROS	100			22.93	2,293.30	112.34	11,234.04
ESPIRITO SANTO SAÚDE	2,655,000			1.25	3,308,200.00	3.52	9,342,000.00
ESTELA GOLF	20			8,580.90	171,618.00	3,306.70	66,134.07
QUINTA DOS CONEGOS	140,600			3.15	443,241.40	5.22	734,011.69
Subtotal	**79,697,929**	**0.00**			**192,321,652.03**		**391,087,880.80**
1.1.8 - Debt securities of related companies							
BESLEASING FACT SUBORD 22/10/14	520,000.00	74.90%	100.2%	521,040.00	75.5%	392,546.64	
BES PL 3.75% 01/12 HTM	2,750,000.00	99.53%	96.5%	2,653,750.00	103.1%	2,834,844.43	
BES PL FLOAT 12/15 HTM	2,200,000.00	100.02%	100.0%	2,200,020.52	100.1%	2,202,101.54	
BESPL 3375% 02/15 HTM REPO	8,000,000.00	89.64%	88.4%	7,072,714.29	92.6%	7,405,430.29	
BESPL 3.375% 02/15 REPO	2,000,000.00	75.30%	99.9%	1,998,110.35	78.3%	1,565,437.50	
BESPL 3.875% 01/21/2015	3,000,000.00	71.68%	98.9%	2,965,910.96	75.3%	2,260,051.64	
BESPL 5.625% 06/14 HTM	9,100,000.00	90.88%	89.3%	8,126,993.01	94.1%	8,567,010.11	
ES FINANCIAL 8% 07/26/13 HTM	2,000,000.00	99.93%	100.0%	2,000,000.00	103.4%	2,067,653.71	
Subtotal	**0**		**29,570,000.00**			**27,538,539.13**	**27,295,075.86**
Subtotal	**79,697,929**		**29,570,000.00**			**219,860,191.16**	**418,382,956.66**
1.2 - Foreign Securities							
1.2.8 - Debt securities of related companies							
ESPIRITO SANTO FINANCIER 7% 05/31/13	0	3,000,000.00	92.50%	99.8%	2,992,500.00	96.6%	2,897,786.88
Subtotal	**0**	**3,000,000.00**			**2,992,500.00**		**2,897,786.88**
Total	**79,697,929**	**32,570,000.00**			**222,852,691.16**		**421,280,743.54**
2 - OTHER							
2.1 - Domestic securities							
2.1.1 - Capital instruments and unit trusts							
2.1.1.1 - Equities							
BCP	1,200,000			0.28	330,274.29	0.14	163,200.00
COMP. PREVIDENTE	6			532.54	3,195.23	580.19	3,481.13
COMP. PREVIDENTE SCPF	198			109.86	21,752.48	340.38	67,395.37
FETAL	2,760			20.84	57,528.12	0.00	0.00
HOTEL TURISMO ABRANTES	125			0.00	0.00	2.75	343.21
MADIBEL	7,955			0.01	80.88	0.00	0.00
SONAGI	55,600			0.44	24,293.86	1.20	66,720.00
SONAGI AN	100			0.06	5.51	0.01	1.00
SPECTACOLOR PORTUGAL	7,500			14.66	109,986.38	11.68	87,608.62
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	**1,321,826**	**0.00**			**547,116.75**		**388,749.33**
2.1.1.3 - Investment fund units							
BANCO BIC TESOURARIA	100,361			4.98	500,000.00	5.11	512,826.17
ES LOGISTICA	1,113,700			5.00	5,568,500.00	5.00	5,568,500.00
ES ROCK FELLER GLOBAL	8,000			149.41	1,195,251.61	132.50	1,059,974.83
ES TRADING FUND	27,000			109.99	2,969,730.00	98.57	2,661,390.00

(expressed in euros)

Identification of the Securities Designation	Quantity	Amount of Par Value	% of Par Value	Average Acquisition Cost	Total Acquisition Cost	Book Value (including accrued interest) Unit	Total
ESP SANTO INFRASTRUCTURE FUND I	1,832			972.35	1,781,190.45	1,006.12	1,843,048.58
ESPÍRITO SANTO VENTURES III	84,729,304			0.01	847,293.04	0.01	819,332.37
EXPLORER II	110			25,045.24	2,754,265.79	27,363.00	3,009,153.16
EXPLORER III	12			25,000.00	296,000.00	24,029.00	284,503.36
FUNDO DE INVEST. IMOB. CORPUS CHRISTI	4,496			1,000.00	4,496,000.00	996.68	4,481,073.28
FUNGEPI BES	6,226,747			3.20	19,917,348.15	3.06	19,048,241.75
FUNGERE (UP)	4,524,787			4.19	18,952,913.39	3.96	17,930,825.92
IMOCRESCENTE FD DE INV IMOB FECHADO	9,114			997.61	9,092,172.12	991.11	9,032,976.54
IMOPRIME FUNDO DE INV IMOB FECHADO	19,247			980.12	18,864,441.74	936.62	18,027,125.14
Subtotal	**96,764,710.00**	**0.00**			**87,235,106.29**		**84,278,971.10**
2.1.2 - Debt securities							
2.1.2.1 - Public debt							
BT 0% 01/20/12 HTM		1,000,000.00	99.80%	98.3%	982,747.15	99.8%	997,978.39
BT 0% 02/17/12 HTM		7,000,000.00	99.47%	97.2%	6,801,660.70	99.5%	6,963,094.68
BT 0% 03/23/12 HTM		10,000,000.00	99.01%	97.2%	9,722,693.61	99.0%	9,901,165.74
PT OT 3.35% 10/15/15 HTM		16,500,000.00	92.09%	91.0%	15,015,702.08	92.8%	15,310,424.86
PT OT 3.6% 10/15/14 HTM		5,000,000.00	95.38%	94.5%	4,724,565.07	96.1%	4,806,776.45
PT OT 4.2% 10/15/16 HTM		3,000,000.00	92.72%	92.0%	2,758,812.54	93.6%	2,808,166.10
PT OT 4.35% 10/16/17 HTM		1,500,000.00	91.28%	90.6%	1,358,322.23	92.2%	1,382,804.18
PT OT 4.75% 06/14/19 HTM		3,250,000.00	89.83%	89.3%	2,903,636.54	92.5%	3,005,394.89
PT OT 4.8% 06/15/20 HTM		12,000,000.00	88.64%	88.2%	10,580,591.26	91.3%	10,954,658.40
PT OT 5% 06/15/12		4,000,000.00	97.00%	102.1%	4,082,991.19	99.7%	3,988,743.17
PT OT 6.4% 02/15/16 HTM		2,500,000.00	99.77%	99.7%	2,493,237.93	105.4%	2,634,606.47
Subtotal	**0**	**65,750,000.00**			**61,424,960.30**		**62,753,813.33**
2.1.2.3 - Other Issuers							
BANCO BPI 3.25% 01/15 HTM		4,500,000.00	90.08%	88.6%	3,987,411.94	93.2%	4,195,705.16
BANIF FINANCE 22/12/2016		2,000,000.00	55.45%	100.2%	2,004,000.00	55.5%	1,110,334.00
BCP 04/14 5.625% HTM		3,500,000.00	89.56%	87.6%	3,067,367.30	93.5%	3,272,330.86
BCP 3.75% 10/16 HTM		3,000,000.00	84.16%	82.2%	2,466,745.43	85.0%	2,551,012.56
BCP PL 2.375% 01/18/2012		3,500,000.00	99.50%	99.9%	3,496,718.11	101.8%	3,561,595.68
BCP PL 3.625% 01/12 HTM		2,500,000.00	99.64%	97.4%	2,435,444.01	103.1%	2,578,108.61
CXGD 3.625% 07/14		3,000,000.00	80.08%	101.0%	3,030,278.37	81.7%	2,450,952.38
CXGD 4.25% 01/20		2,500,000.00	65.34%	99.7%	2,493,152.51	69.3%	1,731,940.41
CXGD 5.125 02/14		3,300,000.00	88.50%	104.4%	3,443,969.17	92.9%	3,066,457.19
DOURM 1 A		601,631.77	58.29%	99.3%	597,590.16	58.3%	350,961.94
EDP FINANCE 3.25% 03/15		3,000,000.00	84.00%	99.5%	2,985,485.74	86.6%	2,597,254.10
EDP FINANCE 4.75% 09/26/2016		3,000,000.00	82.80%	104.9%	3,145,904.60	84.0%	2,521,317.05
MONTPI 03/05/2012		2,000,000.00	92.47%	100.0%	2,000,023.55	92.8%	1,855,292.78
PORTUGAL TELECOM INT5.625% 02/16		5,000,000.00	81.00%	99.6%	4,977,577.30	86.0%	4,301,198.63
REFER 4% 03/16/15 HTM		5,000,000.00	91.18%	89.8%	4,488,529.39	94.3%	4,717,335.50
SEMAPA 20/04/2016		700,000.00	99.70%	99.5%	696,500.00	100.3%	702,282.00
EMASA		5,000.00	0.00%	0.0%	0.00	0.0%	0.00
P.CAVALEIROS		17,500.00	0.00%	0.0%	0.00	0.0%	0.00
V.AGROS		4,000.00	0.00%	0.0%	0.00	0.0%	0.00
V.TÊXTIL		7,500.00	0.00%	0.0%	0.00	0.0%	0.00
Term Dep. EUR BES				55,226,339.36		55,270,761.65	
Term Dep. EUR MG				17,233,436.21		17,253,001.30	
Term Dep. EUR CXGERALDEP				99,850,000.00		99,854,853.82	
Term Dep. EUR BESI				10,425,985.25		10,470,036.50	
Term Dep. EUR BCP				10,521,174.68		10,634,423.43	
Term Dep. EUR BBVA				22,500,000.00		22,537,341.07	
Subtotal	**0**	**47,135,631.77**			**261,073,633.08**		**257,584,496.62**
Subtotal	**0**	**112,885,631.77**			**322,498,593.38**		**320,338,309.95**
Total	**98,086,536**	**112,885,631.77**			**410,280,816.42**		**405,006,030.38**
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

(expressed in euros)

Identification of the Securities Designation	Quantity	Amount of Par Value	% of Par Value	Average Acquisition Cost	Total Acquisition Cost	Book Value (including accrued interest) Unit	Book Value (including accrued interest) Total
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							
L&C UK PUBLIC SECTOR REAL ESTATE	9			901.49	8,365.74	881.00	8,175.59
L&C UK REAL ESTATE	21			1,190.68	25,277.42	1,155.00	24,519.96
UBAM NEUBERGER BERMAN US EQUITY	5,529			542.56	2,999,999.80	467.40	2,584,414.45
Subtotal	**5,560**	**0.00**			**3,033,642.96**		**2,617,110.00**
Subtotal	**133,300**	**0.00**			**3,033,642.96**		**2,617,110.00**
2.2.2 - Debt securities							
2.2.2.1 - Public debt							
BOTS 0% 01/31/12		3,750,000.00	99.99%	99.8%	3,744,321.12	100.0%	3,749,437.50
BUNDESOBL 2.25% 04/10/2015 HTM		1,000,000.00	101.09%	101.2%	1,012,259.93	102.7%	1,027,229.30
FRENCH TREASURY 2.25% 02/16		1,000,000.00	101.84%	102.2%	1,022,352.24	103.8%	1,037,712.50
HELLENIC REPUBLIC 5.5% 08/20/14		2,250,000.00	22.59%	78.9%	1,776,068.55	24.6%	553,244.26
HELLENIC REPUBLIC 6.25% 06/19/20		4,000,000.00	19.00%	99.0%	3,959,869.94	22.3%	893,196.72
IRISH GOVT 4.6% 04/16 HTM		2,000,000.00	87.90%	86.6%	1,731,260.52	91.1%	1,822,577.28
LETRAS 0% 01/20/12		3,750,000.00	99.90%	99.9%	3,746,008.43	99.9%	3,746,250.00
LETRAS 0% 03/23/12		1,000,000.00	99.49%	99.0%	990,200.00	99.5%	994,850.00
LUXEMBOURG GOVT 3.75% 12/04/13		1,500,000.00	105.13%	105.4%	1,580,579.73	105.4%	1,581,213.75
NETHERLANDS GOVT 2.5% 01/17 HTM		1,250,000.00	99.25%	99.2%	1,240,008.13	100.6%	1,256,915.77
NETHERLANDS GOVT 3.25% 07/15 HTM		750,000.00	103.48%	103.9%	779,049.48	105.0%	787,328.96
NETHERLANDS GOVT 4.25% 07/13		5,000,000.00	106.26%	106.2%	5,308,000.00	108.2%	5,410,871.58
Subtotal	**0**	**27,250,000.00**			**26,889,978.07**		**22,860,827.62**
2.2.2.2 - Other public issuers							
EFSF 2.75% 07/16		2,000,000.00	102.91%	102.6%	2,052,798.22	104.2%	2,083,561.11
EFSF 2.75% 12/16 HTM		2,500,000.00	99.66%	99.6%	2,490,957.68	99.9%	2,496,274.36
EUROPEAN INVEST BANK 2.5% 07/15/15		3,000,000.00	101.89%	102.6%	3,078,878.24	103.1%	3,091,908.33
EUROPEAN INVEST BANK 3.625% 10/15/13		2,000,000.00	104.12%	104.5%	2,090,783.66	104.9%	2,097,806.94
EUROPEAN UNION 3.625% 04/06/16		3,000,000.00	106.85%	107.1%	3,211,854.55	109.6%	3,286,760.42
Subtotal	**0**		**12,500,000.00**		**12,925,272.35**		**13,056,311.16**
2.2.2.3 - Other issuers							
PELIC 2 A		147,922.84	66.57%	98.6%	145,829.97	66.6%	98,584.20
PELICAN 3 A		829,991.02	71.00%	97.5%	809,448.23	71.1%	589,867.61
ABERTIS 4.625% 10/16		8,000,000.00	96.07%	103.4%	8,274,733.80	97.1%	7,764,052.46
ASCENDI FINANCING 8.75% 07/13 HTM		1,000,000.00	99.91%	100.0%	1,000,000.00	104.2%	1,042,180.01
BBVA SUB CAPITAL UNIP 03/04/2017		3,000,000.00	87.51%	100.0%	3,001,340.70	88.0%	2,638,547.17
CAISSE AMORT 1.75% 11/13		1,500,000.00	100.19%	100.0%	1,499,654.26	100.4%	1,505,949.02
CAJA CASTILLA 02/11/2016		2,000,000.00	75.13%	100.2%	2,004,000.00	75.6%	1,511,244.61
CAJA ZARAGOZA ARAGON 25/04/2019		4,000,000.00	86.15%	100.2%	4,008,000.00	86.5%	3,460,289.44
CORP PROP INV 7,18% 09/01/2013		500.00	83693.48%	85730.9%	428,654.31	85543.2%	427,715.95
DEXIA MUNICIPAL AGENCY 2.75% 01/16		1,500,000.00	93.05%	100.0%	1,500,285.53	95.6%	1,434,204.66
ENEL FINANCE 4.625% 06/15		1,000,000.00	101.03%	99.9%	998,911.30	101.9%	1,019,026.11
ERSTE BANK 19/07/2017		7,000,000.00	97.53%	100.4%	7,031,229.42	97.9%	6,854,907.11
GAS NATURAL 4.375% 11/16		2,000,000.00	97.90%	101.9%	2,037,370.39	98.6%	1,972,065.19
GAS NATURAL 5.25% 07/14		4,450,000.00	102.18%	104.5%	4,649,091.12	104.7%	4,658,493.44
GE CAPITAL EUR FUND FLOAT 05/17/21		2,000,000.00	78.38%	99.6%	1,992,300.37	78.6%	1,571,731.56
GOLDMAN SACHS FLOAT 01/30/17		8,000,000.00	87.27%	99.9%	7,991,757.08	87.6%	7,008,292.44
GOLDMAN SACHS FLOAT 05/23/16		3,000,000.00	88.63%	100.0%	3,000,403.68	88.8%	2,664,637.93
HBOS PLC 09/01/2016		5,500,000.00	80.63%	100.5%	5,527,821.64	80.8%	4,442,714.83
HIPOT 5 A2		253,935.56	49.96%	97.9%	248,602.91	50.1%	127,237.35
HSH NORDBANK AG 14/02/2017		5,000,000.00	99.21%	100.0%	5,001,108.56	99.4%	4,972,238.94
JP MORGAN 12/10/2015		3,000,000.00	94.52%	100.3%	3,009,900.00	95.0%	2,848,839.93
KFW 1.75% 08/04/14		4,000,000.00	101.81%	101.3%	4,050,254.10	102.5%	4,101,372.22
KFW 3.125% 04/08/16		1,700,000.00	107.03%	105.8%	1,798,104.53	109.2%	1,857,202.78
KION 2006-1 A		671,557.97	57.28%	98.1%	659,033.90	57.6%	387,114.47
LEV FIN CAP II 02/09/2016		1,931,714.49	76.68%	97.6%	1,884,580.65	77.5%	1,496,282.86
LLOYDS FLOAT 20 03/12/2020		5,500,000.00	56.51%	101.0%	5,552,750.71	56.7%	3,120,944.91
MAGEL 3 A		546,566.40	51.43%	98.6%	538,914.47	51.6%	282,227.77
MERRILL LYNCH & CO 14/09/2018		10,000,000.00	74.13%	99.9%	9,991,944.00	74.2%	7,422,336.00
MORGAN STANLEY FLOAT 04/13/16 REPO		5,000,000.00	85.91%	99.8%	4,992,267.50	86.3%	4,317,337.78
NATL CAPITAL INSTRUMENTS PERP		2,000,000.00	92.76%	102.7%	2,054,100.00	92.8%	1,855,502.87
PELIC 2 A		98,615.20	66.57%	98.9%	97,530.44	66.6%	65,722.78
RABOBANK 4.25% 04/14		2,000,000.00	105.29%	105.4%	2,108,600.54	108.3%	2,165,596.11
RED ELECTRICA 3.5% 10/16		2,000,000.00	99.57%	99.6%	1,991,837.08	100.4%	2,007,636.83

(Expressed in euros)

Identification of the Securities / Designation	Quantity	Amount of Par Value	% of Par Value	Average Acquisition Cost	Total Acquisition Cost	Book Value (including accrued interest)	
						Unit	Total
ROYAL BK SCOTLAND 49		5,000,000.00	85.80%	101.6%	5,080,140.00	86.3%	4,316,517.83
SANTANDER CONSUMER FLOAT 09/28/2016		4,000,000.00	75.28%	100.2%	4,009,761.05	75.3%	3,012,361.33
SANTANDER ISSUANCES 23/03/2017		3,000,000.00	99.48%	100.1%	3,003,895.80	99.5%	2,985,577.27
TELEFONICA EM 3.661% 09/18/2017		2,000,000.00	92.47%	100.1%	2,002,234.21	93.5%	1,870,265.68
TELEFONICA EM 5.496% 04/01/2010		2,000,000.00	102.21%	107.8%	2,156,620.72	106.3%	2,126,469.84
THEME 4 A		794,648.52	56.93%	97.2%	772,477.83	57.2%	454,202.00
UNICREDIT SPA 2.625% 10/15		3,000,000.00	90.85%	99.7%	2,990,169.49	91.3%	2,738,625.00
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**	**119,425,706.01**			**120,904,428.80**		**105,196,116.29**
Subtotal	**0**	**159,175,706.01**			**160,719,679.22**		**141,113,255.07**
Total	**133,300**	**159,175,706.01**			**163,753,322.18**		**143,730,365.07**
2.3 - Trading derivatives							
Currency forwards						-2,217.94	
Total	**0**	**0.00**			**0.00**		**-2,217.94**
Total	**98,219,836**	**272,061,337.78**			**574,034,138.60**		**548,734,177.51**
3 - Grand Total	**177,917,765**	**304,631,337.78**			**796,886,829.76**		**970,014,921.05**

08

Disclosure of the Remuneration Policies

08
Disclosure of the Remuneration Policies

This disclosure involves the following 3 components:

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

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

Background

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

In the specific context of the insurance business, this issue was subject to regulatory developments during 2010, the Insurance Institute of Portugal having published Regulatory Standard 5/2010-R and Circular 6/2010, both dated April 1.

Specifically, these regulations led to a number of duties in the matter of public disclosure, as well as numerous recommendations as to the process of drawing up and approving the policy and as to its content.

Based on this legal and regulatory framework, Remuneration Policy of the Governing Bodies of Companhia de Seguros Tranquilidade, SA, for 2012 is therefore drawn up, which in general maintains the procedures and principles defined in the previous year's policy.

1. Remuneration practices

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

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

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

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

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

2. Remuneration policy

2.1. Remuneration policy approval process

a) Approval

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

b) Mandate of the Remuneration Committee

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

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

c) Composition of the Remuneration Committee

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

José Manuel Pinheiro Espírito Santo Silva
Degree in Economics, specialised in Company Management, at Universidade de Évora (formerly Instituto de Estudos Superiores de Évora). Chairman of Banque Privée Espírito Santo, SA, executive director of Banco Espírito Santo and deputy-chairman of Espírito Santo Financial Group, SA.

A representative of the Remuneration Committee attends each General Meeting.

d) External Consultants

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

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

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

2.3. 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.

2.4. 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.

2.5. Remuneration of the Chairman of the Board of Directors

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

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

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

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

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

2.7. Remuneration of the Members of the Executive Committee

a) Equality of remuneration

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

b) Composition of the remuneration

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

c) Limits of the remuneration

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

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

d) Balance in the remuneration

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

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

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

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

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

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

For 2012, taking into account the characteristics inherent in the remuneration structure in force for the members of the Executive Committee, the maximum figures considered and the tolerance to the defined risks, no need was seen to defer a part of the variable component of the remuneration. It was paid in full in a lump sum in cash following the approval of the accounts for the period in question.

Likewise, taking into account the fact that the Company has a single equityholder and its securities are not listed on regulated markets, the possibility of a part of the variable component comprising stock option in the Company has not been considered in the present remuneration policy. Consequently, there are no plans for 2012 to award shares or stock options in respect of Tranquilidade or any other Group company to the members of the Executive Committee.

f) Performance assessment criteria

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

- Net profit/(loss) for the period;
- Return on equity;
- Combined ratio.

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

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

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

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

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

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

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

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

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

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

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

3. Complementary pension or early retirement scheme – Main characteristics

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

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

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

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

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

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

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

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

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

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

5. Table of remuneration paid to Tranquilidade's Corporate Officers during 2011

(thousand euros)

	Remuneration		Total
	Fixed	Variable	
Executive Committee			**1,488.2**
Pedro Guilherme Beauvillain de Brito e Cunha (chairman)	164.9	135.7	300.6
Augusto Tomé Pires Fernandes Pedroso	188.4	108.5	296.9
António Miguel Natário Rio-Tinto	188.4	108.5	296.9
Miguel Maria Pitté Reis da Silveira Moreno	188.4	108.5	296.9
Nuno Miguel Pombeiro Gomes Diniz Clemente	188.4	108.5	296.9
Board of Directors			**328.0**
Rui Martinho Leão (chair)	73.5	20.3	93.8
Miguel Luís Kolback da Veiga	33.5	-	33.5
António José Baptista do Souto	33.5	-	33.5
Manrico Iachia	33.5	-	33.5
António Manuel Rodrigues Marques	133.7	-	133.7
Board of Auditors			**71.1**
José Manuel Ruivo da Pena (chair)	21.1	-	21.1
Rui Manuel Duarte Sousa da Silveira	16.6	-	16.6
António Ricardo Espírito Santo Bustorff	33.4	-	33.4
Total Remuneration	**1,297.3**	**590.0**	**1,887.3**

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

Compared to 2010, in 2011 there was a decrease of 8.42% of the total remuneration paid to members of the governing bodies, down from €2,045.5k to €1,887.3k.

In the specific case of Companhia de Seguros Tranquilidade, SA, the variable remuneration attributed in 2011 to corporate officers totalled about €355k, or 3.05% of the 2010 separate net profit.

Key employee remuneration policy

Background

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

Specifically with regard to insurance business, this issue was subject to regulatory developments during 2010, the Insurance Institute of Portugal having published Regulatory Standard 5/2010-R and Circular 6/2010, both dated April 1.

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

More demanding than Act 28/2009, as to its scope and content, Insurance Institute of Portugal Regulatory Standard 5/2010, of April 1, requires that the information disclosed in relation to remuneration policy in force at the company for "Key Employees," cover the following aspects:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Based on the legal and regulatory framework briefly defined above, this Remuneration Policy for “Key Employees” of Companhia de Seguros Tranquilidade, SA, for 2012 is drawn up, which maintains in full the procedures and principles set out in the previous year’s policy, taking into account their timeliness and also the result of independent internal review conducted as recommended in Circular 6/2010.

1. Remuneration practices

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

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

- Consistency of remuneration practices in respect of the Company’s strategies, results and financial capabilities;

- Alignment of remuneration practices with the annual employee performance assessment criteria;

- Alignment of remuneration practices with those of the domestic market and, in particular, of the insurance industry.

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

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

Accordingly, the Tranquilidade Board of Directors formalise through this document the remuneration policy applicable to its “Key Employees”, establishing the following essential pillars:

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

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

At Tranquilidade, for 2012, as in 2011, taking into account the characteristics inherent in the remuneration structure in force, the maximum figures considered and the tolerance to the defined risks, no need was seen to defer a part of the variable component of the remuneration. It is paid in full in a lump sum in cash following the approval of the accounts for the period in question.

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

2. Delimitation of the scope of application of the remuneration policy

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

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

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

c) To all employees in 1st level management (Top of 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.

3. Remuneration policy approval process

a) Approval

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

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

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

b) Mandate of the Board of Directors

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

c) Composition of the Board of Directors

Rui Manuel Leão Martinho – Chairman
Pedro Guilherme Beauvillain de Brito e Cunha – Chairman of the Executive Committee
Augusto Tomé Pires Fernandes Pedroso – Executive Committee
António Miguel Natário Rio Into – Executive Committee
Miguel Maria Pitté Reis da Silveira Moreno – Executive Committee
Nuno Miguel Pombeiro Gomes Diniz Clemente – Executive Committee
António José Baptista do Souto
Miguel Luís Kolback da Veiga
Manrico Iachia
António Manuel Rodrigues Marques

d) External Consultants

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

4. Remuneration

a) Composition of the remuneration

The remuneration comprises a fixed and a variable part.

The Company's overall remuneration policy is reviewed each year by the Board of Directors by the end of May.

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

b) Limits of the remuneration

The fixed part will have the limits fixed by the Board of Directors and, on average, will amount to approximately 84% of the Total Annual Remuneration.

The fixed part comprises the basic salary and several complements that are attributed to all Company employees, such as length-of-service bonus and other subsidies.

The variable part for 2012 is set to amount, on average, to 16% of the Total Annual Remuneration, while the maximum, considered individually, may not exceed 20% of the total remuneration.

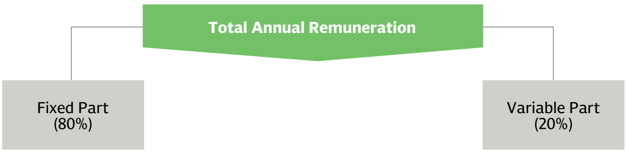
c) Balance in the remuneration

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

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

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

d) Variable component definition criteria and its time of payment



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

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

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

e) Performance assessment criteria

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

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

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

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

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

5. 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.

6. Extension of the scope of application of the Remuneration Policy

Save decision to the contrary taken by the Board of Directors, this Remuneration Policy will also apply to the other Companhia de Seguros Tranquilidade employees not considered under the criteria defined in point 2 hereabove (Bounds of the scope of application of the Remuneration Policy).

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

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

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

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

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

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

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

09

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

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, 2011, (which shows a total of €1,314,070k and total equity in the sum of €380,303k, including a net profit of €33,878k), the Profit & Loss Account, the Comprehensive Income Statement, the Cash-Flow Statement and the Statement of Changes in Equity for the year then ended, and the Notes to the Accounts. These financial statements have been prepared in accordance with accounting practices generally accepted for the insurance industry in Portugal.

RESPONSIBILITIES

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

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

SCOPE

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

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

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

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

OPINION

7. In my opinion, the said financial statements truly and fairly present, in all materially relevant aspects the financial situation of COMPANHIA DE SEGUROS TRANQUILIDADE, SA, as at December 31, 2011, the results of its operations and its cash flows during the period then ended, in accordance with accounting practices generally accepted for the insurance industry in Portugal.

REPORT ON OTHER LEGAL REQUIREMENTS

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

EMPHASIS

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

- As mentioned in note n° 3 (Change in Accounting Policies) of the Notes to the Financial Statements, up to December 31, 2010, the Company deferred any actuarial deviations determined in accordance with the corridor method. According to one of the options set out in IAS 19 (Employee Benefits), the Company opted to alter its accounting policy and now recognises actuarial deviations against reserves.

- The change in accounting policy in accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), is presented for comparative purposes as from January 1, 2010, recognising as of that date, under Reserves, all actuarial deviations deferred. Thus, the comparative Balance Sheet and Profit & Loss Account were restated and the Company recorded a decrease in equity as at 1 January 2010 and December 31, 2010 in the sum of €14,588k and €15,217k, respectively, while for the net profit as at December 31, 2010 there was an increase of €600k.

- As mentioned in note n° 23 (Employee Benefit Obligations) of the Notes to the Financial Statements, the adoption in December 2011, the new Insurance Workers Collective Bargaining Agreement amends a previously defined set of benefits, and employees are no longer covered by a defined-benefit plan and now have a defined-contribution plan.

Lisbon, March 12, 2012

José Manuel Macedo Pereira

Board of Auditors' Report and Opinion

To the Members of
COMPANHIA DE SEGUROS TRANQUILIDADE, SA,

Under the law and the articles of association, it is our duty to present to you for appraisal the Report on the supervisory activity undertaken by the Board of Auditors , as well as our Opinion on the Report, the Accounts and the proposal for the appropriation of profit presented by the Board of Directors of **COMPANHIA DE SEGUROS TRANQUILIDADE, SA**, in respect of the year ended December 31, 2011, and also our appraisal of the respective Legal Certification of the Accounts issued in due course by the Company's Official Auditor.

Within the scope of our duties we have regularly monitored the Company's business and its management throughout 2011, both through appraisal of the accounting and management information documents with which we were provided on a regular basis, and also by means of the complementary clarification that we requested of the Board, the Executive Committee, the Overall Risk Management Committee and the Company's services charged with operational responsibility, particularly the Internal Audit, Internal Control and Risk Management functions, from which we always received all the co-operation we requested, and also by means of such verification measures as we considered necessary to the fulfilment of our legal and statutory obligations.

We thus found, with satisfaction, that the Company has continued to adopt a policy of rational use of resources and of cost control, employing in its operational and financial activity a policy of minimisation of the risks, especially recommendable in the present situation of the economy, reflected, in particular, in an increase of its equity by €76.8 million when compared to the previous year, and also of the solvency margin from 573% in 2010 to 671% in 2011.

Our activity in 2011 went into, in great detail, the planning and implementation of the measures being implemented up to 2013 to adapt the Company to the new Solvency II mechanism and to its consequences on insurance business, particularly the developments under way within the Company in the areas of risk management, internal control, compliance and internal audit, aimed at the adoption of the best policies and practices generally accepted internationally and in keeping with applicable regulatory requirements.

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

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

On termination of 2011 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, 2011.

At the proper time and pursuant to Article 452.1 of the Companies Code, the Board of Auditors also appraised the Legal Certification of Accounts for 2011, dated March 12, 2012, containing not only the view issued without reserves by the Official Accountant on the financial statements, with which we agree, but also a timely call of attention of users of the Company's financial statements :

- the significant effects on the financial statements for 2011 and 2010 of the amendment in 2011 of the accounting policy that had been adopted by the Company for recognition of actuarial deviations related with the calculation of workers' retirement pension liabilities for pensions, as referred to in detail in Notes 3 and 23 of the Notes to Financial Statements;

- the fact that on December 23, 2011, a new Insurance Workers Collective Bargaining Agreement was approved, introducing several amendments to the employment benefits that were in force, in particular, with regard to retirement pensions and health benefits.

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 8, 2012, and the other accounting documents for the period ended December 31, 2011, which include the Annual Report and Accounts presented by the Board of Directors; and

b) the Board of Directors' proposal for the appropriation of the 2011 net profit in the sum of €33,877,603.35 under the terms set out in point 2.5 of the Management Report referred to above.

Lisbon, March 14, 2012

The Board of Auditors

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

10

Management Staff

10
Management Staff

Assurfinance Consultancy
Vítor Hugo Zão Barros Peixoto

Consultancy for Claims with Personal Injury
Luís Espírito Santo Silva Ricciardi

Marketing and Commercial Consultancy
Filipe Antero Rogenes Barreto Infante

International Development Consultancy
Artur João de Carvalho Fonseca Duarte

Talent Management Consultancy
Filipe Antero Rogenes Barreto Infante

Audit Division
Dinora Clara Feijão Margalho Botelho

Retail Commercial Division
Filipe Antero Rogenes Barreto Infante

North Regional Division
António Fernandes da Silva

Centre Regional Division
Fernando José Feijão Oliveira Santana

South Regional Division
Ana Cristina Branco Marques

Medium Enterprise Division
João Maria Sousa C. Ferreira do Amaral

Assurfinance & Life Division
Vítor Hugo Zão Barros Peixoto

Financial & Administrative Division
Alexandre Miguel Varela Simões Lopes

Large Customers, Brokers and Private Division
José Paulo Castro Trigo

Marketing Division
Filipe Antero Rogenes Barreto Infante

Organisation & Systems Division
José Manuel Mendes Esteves Serra Vera

Personnel Division (1)

Overall Risk & Internal Control Divisions
Luís António Jardim Franco

Claims Division (1)

Technical Division
João Carlos Dores Candeias Barata

(1) Pending appointment

11

Shop Network

11
Shop Network

Lisbon Airport

Aeroporto da Portela • 1700-998 Lisboa
Tel.: 218 452 170 • Fax: 218 452 179
E-mail: aeroportolisboa@tranquilidade.pt

Algés

Av. dos Combatentes da Grande Guerra, 7-9 • 1495-039 Algés
Tel.: 214 118 910 • Fax: 214 118 919
E-mail: alges@tranquilidade.pt

Almada

Rua D. Nuno Álvares Pereira, 1 A • 2800-170 Almada
Tel.: 212 735 120 • Fax: 212 735 129
E-mail: almada@tranquilidade.pt

Amadora

Av. Cardoso Lopes, 18 A • 2700-159 Amadora
Tel.: 214 985 730 • Fax: 214 985 739
E-mail: amadora@tranquilidade.pt

Aveiro

Rua Dr. Alberto Souto, 30 • 3800-148 Aveiro
Tel.: 234 400 510 • Fax: 234 400 529
E-mail: aveiro@tranquilidade.pt

Braga

Av. da Liberdade, 570 • 4710-249 Braga
Tel.: 253 203 270 • Fax: 253 203 289
E-mail: braga@tranquilidade.pt

Bragança

Rua 5 de Outubro, 28, r/c dto. • 5300-112 Bragança
Tel.: 273 310 170 • Fax: 273 310 179
E-mail: braganca@tranquilidade.pt

Cascais

Rua Frederico Arouca, 45 A, Lj 1 • 2750-355 Cascais
Tel.: 214 823 800 • Fax: 214 823 809
E-mail: cascais@tranquilidade.pt

Castelo Branco

Av. Gen. Humberto Delgado,62 • 6000-267 Castelo Branco
Tel.: 272 349 520 • 272 349 529
E-mail: castelobranco@tranquilidade.pt

Coimbra

Av. Fernão Magalhães, 441, r/c • 3800-177 Coimbra
Tel.: 239 851 980 • Fax: 239 851 989
E-mail: coimbra@tranquilidade.pt

Espinho

Rua 20, 534 • 4500 Espinho
Tel.: 227 331 270 • Fax: 227 331 279
E-mail: espinho@tranquilidade.pt

Évora

Praça do Giraldo, 30-32 • 7000-508 Évora
Tel.: 266 730 640 • Fax: 266 730 649
E-mail: evora@tranquilidade.pt

Faro

Rua Batista Lopes, 21, r/c • 8000-225 Faro
Tel.: 289 880 060 • Fax: 289 880 069
E-mail: faro@tranquilidade.pt

Funchal

Rua Cón. Jerónimo Dias Leite, Edif. Marina Fórum • 9000-052 Funchal
Tel.: 291 201 860 • Fax: 291 201 869
E-mail: funchal@tranquilidade.pt

Gondomar

Rua 5 de Outubro, 139 • 4420-086 Gondomar
Tel.: 224 663 870 • Fax: 224 663 879
E-mail: gondomar@tranquilidade.pt

Guarda

Largo Dr. João de Almeida, 24 • 6300-965 Guarda
Tel.: 271 205 020 • Fax: 271 205 029
E-mail: guarda@tranquilidade.pt

Guimarães

Rua Teixeira de Pascoaes, 71 A • 4800-513 Guimarães
Tel.: 253 439 610 • Fax:253 439 619
E-mail: guimaraes@tranquilidade.pt

Leiria

Rua Anzebino Cruz Saraiva, 251, Lt3, Quinta de São Miguel
2400-098 Leiria
Tel.: 244 860 340 • Fax: 244 860 349
E-mail: leiria@tranquilidade.pt

Lisboa (Central)

Av. da Liberdade, 242 • 1250-149 Lisboa
Tel.: 213 503 500 • Fax: 213 503 584
E-mail: lisboa@tranquilidade.pt

Lisboa (Praça de Londres)

Praça de Londres, 10 B • 100-192 Lisboa
Tel.: 218 428 820 • Fax: 218 428 829
E-mail: pracalondres@tranquilidade.pt

Matosinhos

Av. da República, 371 • 4450-242 Matosinhos
Tel.: 229 396 550 • 229 396 559
E-mail: matosinhos@tranquilidade.pt

Montijo

Av. Luís de Camões, 28 B, r/c • 2870-163 Montijo
Tel.: 212 309 580 • Fax: 212 309 589
E-mail: montijo@tranquilidade.pt

Odivelas

Av. Prof. Dr. Augusto Abreu Lopes, 43 A-C • 2675-301 Odivelas
Tel.: 219 344 780 • Fax: 219 344 789
E-mail: odivelas@tranquilidade.pt

Penafiel

Av. Sacadura Cabral, 76-78 • 4560-480 Penafiel
Tel.: 255 710 680 • Fax: 255 710 699
E-mail: penafiel@tranquilidade.pt

Ponta Delgada

Rua Machado Santos, 32 • 9500-083 Ponta Delgada
Tel.: 296 301 390 • Fax: 296 301 399
E-mail: pontadelgada@tranquilidade.pt

Portimão

Estrada do Alvor, Edif. S. Sebastião, Lt 6, Lj 1 • 8500-521 Portimão
Tel.: 282 410 030 • Fax: 282 410 039
E-mail: portimao@tranquilidade.pt

Porto

Rua D. Manuel II, 290 • 4050-344 Porto
Tel.: 226 082 000 • Fax: 226 009 814
E-mail: portol@tranquilidade.pt

Sacavém

Av. S. José, 38 A • 2685-108 Sacavém
Tel.: 219 409 880 • Fax: 219 409 889
E-mail: sacavem@tranquilidade.pt

Santarém

Rua Serpa Pinto, 99 • 2000-046 Santarém
Tel.: 243 303 320 • Fax: 256 200 329
E-mail: santarem@tranquilidade.pt

Setúbal

Praça do Bocage, 101 • 2900-276 Setúbal
Tel.: 265 520 280 • Fax: 265 520 289
E-mail: setubal@tranquilidade.pt

Tomar

Alameda 1° de Março, 50 • 2300-431 Tomar
Tel.: 249 310 870 • Fax: 249 310 879
E-mail: tomar@tranquilidade.pt

Torres Vedras

Rua Santos Bernardes, 26 • 2560-365 Torres Vedras
Tel.: 261 334 420 • Fax: 261 334 429
E-mail: torresvedras@tranquilidade.pt

Viana do Castelo

Rua de Aveiro, 119, r/c dto. • 4900-495 Viana do Castelo
Tel.: 258 806 360 • Fax: 258 806 369
E-mail: vianacastelo@tranquilidade.pt

Vila Franca de Xira

Praça Afonso de Albuquerque, 25 • 2600-093 Vila Franca de Xira
Tel.: 263 286 540 • Fax: 263 286 549
E-mail: vilafrancaxira@tranquilidade.pt

Vila Nova de Famalicão

Rua Adriano Pinto Basto, 216, r/c • 4760-114 Vila Nova de Famalicão
Tel.: 252 501 960 • 252 501 969
E-mail: vilanovafamalicao@tranquilidade.pt

Vila Nova de Gaia

Praceta 25 de Abril, 146 • 4430-257 Vila Nova de Gaia
Tel.: 223 773 100 • Fax: 223 773 109
E-mail: vilanovagaia@tranquilidade.pt

Vila Real

Av. 1º de Maio, 257 • 5000-651 Vila Real
Tel.: 259 302 480 • Fax: 259 302 489
E-mail: vilareal@tranquilidade.pt

Viseu

Rua D. Francisco Alexandre Lobo, 29-33 • 3500-071 Viseu
Tel.: 232 484 640 • Fax: 232 484 649
E-mail: viseu@tranquilidade.pt

Customer Help Line

707 24 07 07

www.tranquilidade.pt

infogeral@tranquilidade.pt

VALTER VINAGRE
b. 1954, Portugal
Da série Variações para um fruto,
"S/ titulo #13", 2003
Silver Dye Bleach Print (Ilfochrome)
102,5 x 127,5cm
Unique print
Courtesy by the artist