(A free translation of the original in Portuguese)

Porto Seguro S.A.

Financial Statements at December 31, 2008 and 2007 and Report of Independent Auditors

(A free translation of the original in Portuguese)

Report of Independent Auditors

To the Management and Shareholders
Porto Seguro S.A.

1 We have audited the accompanying balance sheets of Porto Seguro S.A. ("Company") and the consolidated balance sheets of Porto Seguro S.A. and its subsidiaries as of December 31, 2008 and 2007, and the related statements of income, of changes in shareholders' equity, of cash flows and of value added of Porto Seguro S.A., as well as the related consolidated statements of income, of cash flows and of value added for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

2 We conducted our audits in accordance with approved Brazilian auditing standards, which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audit taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the Company, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

3 In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of Porto Seguro S.A. and Porto Seguro S.A. and its subsidiaries at December 31, 2008 and 2007, and the results of operations, the changes in shareholders' equity, the cash flows and values added of Porto Seguro S.A., as well as the consolidated results of operations and the consolidated cash flows and values added for the years then ended, in accordance with accounting practices adopted in Brazil.

4 As mentioned in Note 3, in connection with the changes in the accounting practices adopted in Brazil during 2008, the financial statements for the previous year, presented for comparison purposes, were adjusted and have been restated as set forth in Accounting Standards and Procedures (NPC) No. 12 - Accounting Practices, Changes in Accounting Estimates and Correction of Errors.

5 The accounting practices adopted in Brazil differ from the international accounting standards in certain respects. The information related to the nature and effect of these differences is shown in Note 36 to the financial statements.

São Paulo, March 27, 2009

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Ricardo Baldin
Contador CRC 1SP110374/O-0

(A free translation of the original in Portuguese)

Porto Seguro S.A.

Management Report

Dear Shareholders,

We submit to your appreciation the Management Report and the corresponding financial statements, with the opinion of independent auditors, referring to the years ended December 31, 2008 and 2007.

Management message

Despite so many changes in international and national markets, 2008 was a year of investments for us. We invested in the creation and improvement of products and services to better serve our clients, expanded our operations to several places in São Paulo's interior and to other states in Brazil, invested in technology to improve and make the insurance brokers' activities more efficient, in addition to facilitating the issuance of proposals and consultations to policies of its portfolio. We also developed channels to strengthen relations with all our publics, such as the preparation of a new corporate website, with renewed information structure and design, as well as quality of life programs to employees, training for service providers, emphasizing the Learning Workshop of Porto Socorro, and benefits to policy holders, with discounts in culture events and restaurants.

We concluded 2008 with approximately 2 million vehicles insured and over 6 million items covered by the Corporation's products, which represents a growth of 33.6% in relation to the prior year. We have experienced a revenue growth in all products: total revenues increased 15.8%, written premiums increased 17.9%, revenues from consortium services increased 20.5%, revenues from credit operations increased 47.4% and revenues from monitoring services increased 47.2%. Our net income was R$290.2 million, and our shareholders' equity was R$1,963.7 million, an increase of 8.2% in relation to the prior year.

In the report below, we demonstrate the performance of the insurance portfolio, with emphasis on the automobile segment, which increased 12.5% in relation to the prior year, and on the growth in other insurance lines and loan and financing segments, which indicates that the insurance brokers, our exclusive distribution channel, are increasingly diversifying their business with clients.

The social and environmental projects also reached new proportions and are present in our campaigns, products and services, such as those involving the use of bicycles (Bike Socorro, UseBike, etc.), in addition to recycling campaigns of cooking vegetable oil, batteries and cards that contribute to the expansion of the environment preservation concept to all our clients and the society.

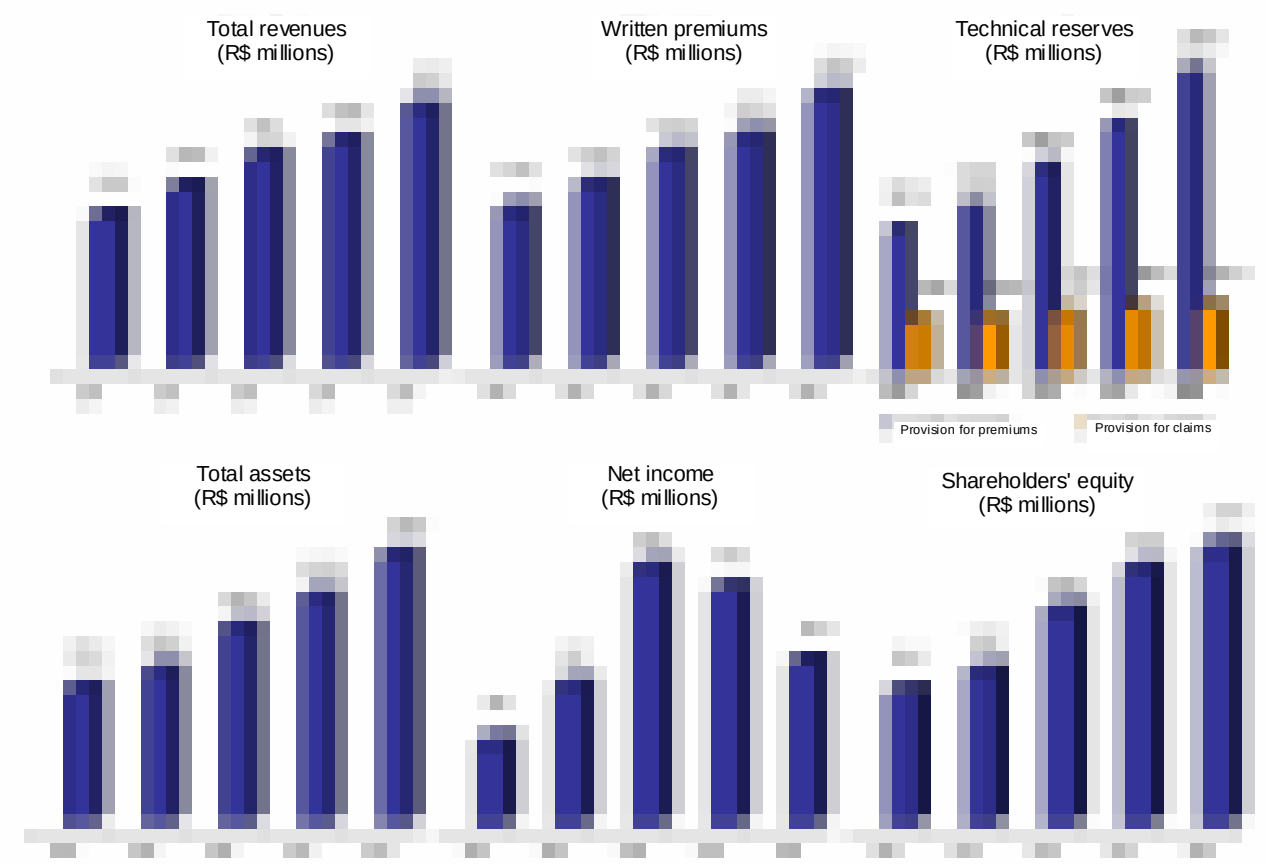
Insurance and pension plan markets

The insurance market, segment in which the main subsidiaries of the Company operate, reached R$ 44.5 billion in written premiums, in accordance with the statistics disclosed by the Superintendency of Private Insurances (SUSEP), representing an increase of 15.9% over the R$ 38.4 billion in 2007,

not considering the Free Benefit Generating Life Plans (VGBL) premiums. The automobile segment, which represents 22.6% of written premiums in the sector, increased 13.2%, totaling R$ 15.4 billion. The individual segment (life insurance excluding VGBL) presented an increase of 14.2%, representing 17.8% of written premiums for the sector, occupying the second position in written premiums, totaling R$ 12.1 billion. The property insurance segment, which represents 9.3% of the sector, presented an increase of 12.3% in relation to 2007, totaling R$ 6.4 billion of written premiums.

The complementary pension plan sector raised R$ 13.4 billion of contributions in 2008, which represents an increase of 8.1% in relation to the R$ 12.4 billion in 2007. The VGBL segment (free benefit generating life plans) increased 16.8% in relation to 2007, totaling R$ 23.6 billion.

Economic and financial performance



In the topics below, the expressions "in 2008" and "in 2007" refer to the balances and indices computed by the Company in the periods from January 1 to December 31, 2008 and January 1 to December 31, 2007, respectively.

Total revenues

The Company's total revenues, including net financial income and revenues from rental of properties, totaled R$5,636.7 million in 2008, with an increase of R$769.9 million or 15.8% in relation to the R$4,866.8 million in 2007.

	Total revenues - R$ million		
	2008	**2007**	**Change - % 2007 - 2008**
Premiums written (i)	4,796.7	4,084.9	17.4
Pension plan contributions	115.4	101.3	13.9
Revenues from service rendering - Consortium	103.3	85.7	20.5
Credit operations - Portoseg	76.5	51.9	47.4
Revenues from service rendering - Monitoring	51.8	35.2	47.2
Other revenues - Portopar	6.7	10.5	(36.2)
Revenues from service rendering - Crediporto	5.2	1.7	205.9
Revenues from service rendering - Integration	3.4	-	-
Revenues from service rendering - Portoserv	1.4	0.5	180.0
Revenues from service rendering - Portomed	0.4	-	-
Revenues from service rendering - Services	0.1	-	-
Net financial income	444.2	484.0	(8.2)
Rental properties	3.3	4.2	(21.4)
Total revenues without Provision for Unearned Premiums of Existing But Not Issued Risks (RVNE) (i)	**5,608.4**	**4,859.9**	**15.4**
RVNE (ii)	**28.3**	**6.9**	**310.1**
Total revenues	**5,636.7**	**4,866.8**	**15.8**

(i) Total premium and revenues, net of RVNE.

(ii) The increase refers to the change in RVNE calculation, excluding cancellation effects, as determined by SUSEP.

Written premiums

The Company's written premiums totaled R$ 4,754.1 million in 2008, with an increase of R$ 719.2 million or 17.8% in relation to the R$ 4,034.9 million in 2007, not considering VGBL plans.

	Written premiums - R$ million		
Premiums per segment	**2008**	**2007**	**Change - % 2007 - 2008**
Porto Seguro Auto	2,538.9	2,410.2	5.3
Azul Seguros Auto	566.1	349.5	62.0
Total Auto	**3,105.0**	**2,759.7**	**12.5**
Health	648.4	516.5	25.5
Personal	267.1	211.6	26.2
Property	264.5	210.0	26.0
Transportation	92.5	68.7	34.6
Financial risks	158.0	94.0	68.1
Liabilities	8.2	7.1	15.5
Motorvehicle Mandatory Insurance (DPVAT)	162.0	128.6	26.0
Porto Seguro Uruguay	48.4	38.7	25.1
Total written premiums without VGBL	**4,754.1**	**4,034.9**	**17.8**
VGBL premiums	70.9	56.9	24.6
Total written premiums	**4,825.0**	**4,091.8**	**17.9**

. Automobile Insurance Segment - Porto Seguro - written premiums in the automobile insurance segment totaled R$2,538.9 million in 2008, an increase of R$128.7 million or 5.3% over the R$2,410.2 million in 2007, which resulted from the growth of 7.2% in the insured vehicle fleet to 1,572.6 thousand in 2008 over the 1,467.1 thousand in 2007, partially offset by the reduction of 1.7% in the average annual premium to R$1,614.45 in 2008 over the R$1,642.80 in 2007, which resulted from a more competitive scenario and geographical expansion into regions outside the Greater São Paulo, where the risk is lower.

. Automobile Insurance Segment - Azul Seguros - written premiums in the automobile insurance segment were R$566.1 million in 2008, an increase of R$216.6 million or 62.0% over the R$349.5 million in 2007, which was mainly due to the 61.3% increase in the insured vehicle fleet to 513.6 thousand in 2008 over the 318.5 thousand in 2007, and to the 0.5% increase in the average annual premium to R$1,102.32 in 2008, over the R$1,097.37 in 2007.

. Health Insurance Segment - written premiums in the health insurance segment totaled R$648.4 million in 2008, an increase of R$131.9 million or 25.5% over the R$516.5 million in 2007, which results from the 23.0% increase in the number of lives insured to 483.9 thousand in 2008 over the 393.4 thousand in 2007, and the 2.0% increase in the average annual premium to R$1,339.77 in 2008 over the R$1,312.94 in 2007.

. Personal Insurance Segment - written premiums in the personal insurance segment were R$267.1 million in 2008, an increase of R$55.5 million or 26.2% in relation to the R$211.6 million in 2007, which was due to (i) the increase in number of lives insured in partnership with mass segments as from September 2007, totaling R$4.1 million and 536.2 thousand lives insured up to December 2008; (ii) the increase of 54.4% in the number of lives insured to 2,994.2 thousand in 2008 over the 1,939.7 thousand in 2007, partially offset by the 12.7% decrease in the average annual premium to R$ 107.64 in 2008 over the R$ 123.36 in 2007, due to the increase in corporate insurance portfolio, which has a lower annual premium.

Pension plan contributions

Revenues from pension plan contributions totaled R$ 115.4 million in 2008, with an increase of R$ 14.1 million or 13.9% in relation to the R$ 101.3 million in 2007, resulting from the 15.0% growth in the number of participants to 123.3 thousand in 2008, in relation to the 107.2 thousand of the prior year, partially offset by the decrease of 1.0% in the average annual contribution to R$ 935.86 in 2008 in relation to the R$ 944.94 of the prior year.

Revenues from service rendering - monitoring

Revenues from electronic monitoring services totaled R$ 51.8 million in 2008, with an increase of R$ 16.6 million or 47.2% in relation to the R$ 35.2 million in 2007, due to: (i) the sales of Global Positioning System (GPS) equipment, which started to be traded as from September 2007, totaling R$ 9.4 million in 2008 or 80.8% in relation to the R$ 5.2 million in 2007; and (ii) a 26.3% growth in the number of clients to 14.4 thousand in 2008 in relation to the 11.4 thousand of the prior year, and the increase of 11.9% in average annual revenue from service rendering to R$ 2,931.55 in 2008 in relation to the R$ 2,619.07 of the prior year.

Revenues from service rendering - consortium

Revenues from consortium management services totaled R$ 103.3 million in 2008, an increase of R$ 17.6 million or 20.5% in relation to the R$ 85.7 million in 2007, resulting mainly from the increase of 11.8% in the number of managed consortium quotas to 50.1 thousand in 2008 in relation to the 44.8 thousand of the prior year.

Credit operations

Revenues from credit operations totaled R$76.5 million in 2008, an increase of R$24.6 million or 47.4% in relation to the R$51.9 million in 2007, resulting mainly from the increase of 41.9% in the portfolio of managed credit operations to R$351.5 million in 2008, in relation to the R$247.7 million of the prior year.

Other revenues - Portopar

Portopar revenues from financial management totaled R$6.7 million in 2008, a decrease of R$3.8 million or 36.2% in relation to the R$10.5 million in 2007.

Reinsurance premiums ceded

Expenses with reinsurance premiums ceded totaled R$ 18.7 million in 2008, an increase of R$0.8 million or 4.5% over the R$ 17.9 million in 2007.

Changes in technical reserves

Expenses with technical reserves varied as follows:

	Expenses with technical provisions - R$ million		
	2008	**2007**	**Change - % 2007 - 2008**
Unearned premiums reserve	281.1	215.8	30.3
Pension plan reserve	109.5	101.7	7.7
Mathematical reserve	74.3	62.8	18.3
Unexpired risk reserve	(1.2)	7.1	(116.9)
Risk fluctuation reserve	1.8	7.1	(74.6)
Other reserves	(0.3)	1.6	(118.8)
Total changes in technical reserves	**465.2**	**396.1**	**17.4**

Claims

Expenses with retained claims totaled R$2,454.6 million in 2008, an increase of R$ 472.5 million or 23.8% over the amount of R$ 1,982.1 million in 2007, mainly in the auto and health portfolios, as follows:

. Auto: The increase is due to the 16.8% growth in the insured vehicle fleet, as well as the heavy rainfalls occurred mainly in the first quarter of 2008.

. Health: It is a result of the growth in portfolio, considering that the corporate health care has no grace period.

	Retained claims - R$ million			Claims ratio%	
Portfolio	**2008**	**2007**	**Change%**	**2008**	**2007**
Porto Seguro Auto	1,208.6	1,093.5	10.5	49.2	48.0
Azul Seguros Auto	312.5	200.5	55.9	68.8	64.5
Health	505.4	364.9	38.5	78.2	70.8
Personal	71.3	70.0	1.9	29.2	36.3
Property	101.9	70.8	43.9	45.9	40.6
Transportation	43.6	26.5	64.5	48.1	41.0
Financial risks	57.8	33.8	71.0	47.4	46.4
Liabilities	3.5	5.0	(30.0)	42.6	41.7
DPVAT	131.2	100.5	30.5	81.8	79.2
Porto Seguro Del Uruguay	18.8	16.6	13.3	40.0	44.8
Total	**2,454.6**	**1,982.1**	**23.8**	**55.1**	**52.4**

Selling expenses

Selling expenses totaled R$ 1,030.0 million in 2008, an increase of R$ 186.8 million or 22.2% over the amount of R$ 843.2 million in 2007.

Insurance selling expenses totaled R$ 989.5 million in 2008, an increase of R$180.2 million or 22.3% over the amount of R$ 809.3 million in 2007. The percentage of insurance selling expenses over earned premiums was 22.2% in 2008 and 21.4% in 2007, an increase of 0.8 percentage point, due to sales campaigns.

Tax and administrative expenses

The Company's administrative expenses totaled R$ 926.0 million in 2008, an increase of R$ 195.7 million or 26.8% over the amount of R$ 730.3 million in 2007. This variation is due mainly to the publicity and communication expenses and the increase of R$ 86.0 million or 22.6% with own staff, due to the 5.5% salary increase resulting from the collective bargaining agreement and the 12.0% increase in staff numbers, due to the business expansion.

Tax expenses totaled R$ 140.5 million in 2008, an increase of R$ 18.2 million, or 14.9%, over the amount of R$ 122.3 million in 2007.

In 2008, the percentage of total administrative expenses and tax expenses of the insurance companies over earned premiums was 21.2%, an increase of 0.9 percentage point in relation to the 20.3% in 2007.

Financial results

Financial income totaled R$ 678.8 million in 2008, an increase of R$ 18.3 million, or 2.8%, over the R$ 660.5 million in 2007, resulting from: (i) the R$ 17.8 million or 3.7% decrease in income from financial investments, which totaled R$ 466.7 million in 2008, in relation to the R$484.5 million in 2007, arising from the decrease in the effective rate to 11.49% in 2008, in relation to the 12.57% in 2007, partially offset by the 5.4% increase in average financial investments to R$4,062.1 million in 2008, in relation to the R$3,855.2 million in 2007; and (ii) the R$ 36.8 million or 21.0% increase in other financial income, which totaled R$ 212.1 million, in relation to the R$175.3 million in 2007, resulting mainly from the R$21.6 million increase in the price-level restatement of judicial deposits as from August 2007 (contingent tax deductibility lawsuits) to R$ 29.8 million, in relation to the R$ 8.2 million in 2007, and the R$ 9.9 million increase in insurance operations to R$ 143.7 million, in relation to the R$ 133.8 million in 2007.

Financial expenses totaled R$234.5 million in 2008, an increase of R$58.6 million, or 33.3%, in relation to the R$175.9 million in 2007, mainly due to: (i) the R$24.2 million increase in private pension operations; (ii) the R$51.2 million increase resulting from a increase in expenses with funds raising (Portoseg), which is a result of the increase of the credit portfolio; and (iii) partially offset by the decrease in Tax on Bank Account Outflows (CPMF) of R$25.9 million.

Other operating income (expenses)

. Other operating income totaled R$ 194.6 million in 2008, an increase of R$ 39.1 million or 25.1% over the amount of R$ 155.5 million in 2007. This variation is mainly due to the R$ 25.8 million or 18.2% increase in revenues from policy costs.

. Other operating expenses totaled R$ 265.0 million in 2008, an increase of R$ 76.0 million or 40.2% over the R$ 189.0 million in 2007. This variation is mainly due to the increase in expenses with risk inspection (vehicle monitoring) and to the increase in allowance for doubtful accounts.

IRPJ and CSLL

Expenses with Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL) totaled R$ 111.8 million in 2008, a decrease of R$ 82.0 million, or 42.3%, over the R$ 193.8 million in 2007. The effective IRPJ and CSLL rate in 2008 and 2007 was 23.9% and 27.6%, respectively.

Profit sharing

The Company and its subsidiaries grant to their employees and administrators a share of profit. The profit sharing allocated to employees depends on the achievement of operating goals and specific objectives, which are established and agreed on at the beginning of each year.

Profit sharing totaled R$ 65.0 million in 2008, with a reduction of R$ 24.7 million, or 27.5%, in relation to the R$ 89.7 million in the prior year, arising mainly from the 30.3% decrease in income before profit sharing, which totaled R$ 355.3 million in 2008 in relation to the R$ 509.7 million in the prior year.

Net income and shareholders' equity

Net income

Net income totaled R$ 290.2 million in 2008, with a decrease of 30.9% over the R$ 419.9 million obtained in 2007.

Profit per share was R$ 1.26 in 2008, with a decrease of 30.9% over the R$ 1.82 in 2007, already considering the new number of shares for comparison purposes.

Combined index - insurance

The combined index (retained claims, selling, administrative and tax expenses compared to premiums earned) was 98.6% in 2008, an increase of 4.4 percentage points over the 94.2% in 2007. The increase was mainly due to the increase in claims ratio of 2.6 percentage points, administrative and tax expenses of 1.0 percentage point and selling expenses of 0.8 percentage point.

The amplified combined index, which also considers the financial result, was 89.8% in 2008, representing an increase of 6.3 percentage points in relation to the 2007 index, which was 83.5%.

Shareholders' equity

The Company's net equity reached R$ 1,964.1 million in 2008, an increase of R$ 150.0 million, or 8.3%, in relation to the R$ 1,814.1 million in 2007.

Dividends and interest on capital

In accordance with the by-laws, shareholders are entitled to minimum mandatory dividends of 25%, which is determined at the end of the year, calculated on the adjusted net income.

The Board of Directors' meeting held on December 19, 2008 approved the credit of interest on capital amounting to R$ 87.7 million, net of income tax.

Investments

The Company invested R$ 242.3 million in 2008. Of the total invested, R$ 34.9 million were allocated to land, construction and buildings and R$ 207.4 million were allocated to IT equipment and systems, trackers, furniture, equipment, vehicles and other investments.

Product and service innovation

In 2008, the Company continued to expand its product and service lines, introducing innovations. The outstanding items are:

Porto Seguro Services: Porto Seguro Services is a new product that provides a range of services to residential and commercial condominiums of Greater São Paulo. It comprises four service rendering categories: outsourced employees, periodical maintenances, emergency repairs and supplementary services.

Reformed dental insurance: In order to provide more services and commodity to the policy holders and related network, Porto Seguro Saúde reformed the Porto Seguro Dental Insurance. The product is available for companies with the minimum of 15 people, in the categories small and medium-sized entities (SMEs) (15 to 99 people) and Corporate (more than 100 people), that can be contracted in Gold, Silver or Bronze plans. The product also includes the following advantages: experts in all areas, free choice of dentists, assistance to special patients, assistance services in travels, among others.

Porto Seguro Classified Advertising: This is the new interactive channel developed by Porto Seguro for purchasers and sellers of automobiles to advertise, also enabling the trading of Seguro Auto and Vehicle Financing. The Porto Seguro Classified Advertising may be used by individuals (not storekeepers) interested in purchase or sale of vehicles, even if these are not insured by the Company.

Guarantees of contractual obligations: This insurance covers contracts related to several areas, such as civil construction, supply of goods and products, service rendering and customs clearance. It can be contracted by direct and indirect government agencies, which need to offer guarantees in bidding and competition processes (as established by Law No. 8666/93), and also by private companies, to minimize risks of obligations not performed by suppliers, service providers, contractors, among others.

Consortium for dental equipment: Porto Seguro Dental Consortium is the first consortium in Brazil developed to facilitate the acquisition of equipment to set up and modernize dental clinics.

Super Services in Online Insurance Broker: This comprises several services available to help the insurance brokers to manage the client portfolio and make the various procedures of the automobile product more efficient.

Porto Seguro Agriculture: This insurance indemnifies fruit crop damages caused by hailstorm, thus ensuring to the insured rural producers the expected return for the crop.

Two-in-one Financing: Porto Seguro Financing launched again this product with changes to provide a more simple contracting process for the broker trading.

Tow truck for motorcycles: Porto Seguro Auto developed a specific tow truck for two-wheel vehicles to make the removal process more efficient in case of mechanical failure or accident.

Porto Seguro Customized Transportation: This insurance is designed for small companies of highway freight transport, in which the policy holder can contract several types of coverage in only one product.

Corporate governance and capital market

The Company follows the best corporate governance practices, and strongly supports the principles of transparency, equity and respect for its shareholders creating conditions for the development and maintenance of long-term relationships with its investors. The objective of the continuous improvement of our actions in the investors' relationship area is to enhance the permanent communication channel between the Company and stakeholders: shareholders, regulatory agencies, brokers, employees and community, among others.

The Company's shares are traded in the New Market (code PSSA3) of the São Paulo Stock Exchange (BOVESPA), a special segment exclusively for companies which meet certain minimum requirements and comply with defined standards of corporate governance. The corporate governance practices recommended by the Brazilian institute of Corporate Governance (IBGC) adopted by the Company are:

. Issue only of common shares.

. "One share equals one vote" policy.

. Contracting independent auditors to analyze balance sheets and financial statements. These independent auditors are not contracted to render any other service in order to guarantee total independence.

. By-laws are clear about: (i) the manner in which general meetings are called; (ii) the attributes of the Board of Directors and the Executive Directors; (iii) the system for voting, election, replacement and mandate of the members of the Board of Directors and Executive Directors.

. Transparency in the disclosure of the Management Report.

. Meeting call notices and related documentation are available as from the date of first call notice, with agenda details, without the use of an 'other matters' item and always with the objective of holding the meetings at a time and place compatible with the presence of the greater possible number of shareholders.

. Prohibition of the use of privileged information and definition of a relevant information disclosure policy.

. Dispersion of free float shares to provide liquidity.

. Designation of committees; in the Company's case, the Audit Committee.

. The Board of Directors must include at least 20% of independent members (with no links to the Company and the controlling shareholder).

. Board members experienced in operating and financial matters.

. Access available to the shareholders' agreement, if any, to all other partners of the Company.

. The by-laws provide for the obligation of resolving, through arbitration in the Market Arbitration Chamber, any dispute or controversy that may arise between the Company, shareholders, administrators and members of the Statutory Audit Board.

Audit Committee

The main responsibilities of the Audit Committee are to evaluate, monitor and recommend, in an independent manner: (i) full compliance with the legal and normative requirements and rules applicable to Porto Seguro S.A. and its subsidiaries, considering the particularities of each company, in addition to internal policies and regulations; (ii) the internal control systems of Porto Seguro S.A. and its subsidiaries; (iii) the financial statements of Porto Seguro S.A. and its subsidiaries; (iv) the work performed by the internal and external auditors and (v) the correction or improvement of policies, practices and procedures identified within the ambit of its activities.

Arbitration Chamber

Pursuant to the statutory provisions, the Company is bound to the arbitration of the Market Arbitration Chamber, in accordance with the Commitment Clause in its by-laws.

Marketing

Help Desk Campaign - Advertising campaign of Auto insurance to disclose the Help Desk benefit, a service that offers assistance for the verification of computer or notebook problems. It is available in São Paulo and other states, such as Rio de Janeiro, Espírito Santo, Ceará, Bahia, Rio Grande do Sul, Paraná, Santa Catarina and Goiás.

UseBike Campaign - Advertising campaign in São Paulo to disclose the UseBike benefit to Auto and Porto Seguro Visa Card policy holders. The purpose is to stimulate clients to use bicycle as a mean of transportation and leisure to benefit to quality of life and the environment.

Awards

The Company received several awards in 2008. The main ones are:

. Companies which most respect the consumer - Consumidor Moderno magazine.

. Top of Mind 2008 - Top Classe A - Instituto DataFolha.

. 50 best general insurance companies, 3rd place, Valor Econômico newspaper.

. Balance Sheets 2008 Award- Auto Insurance, Gazeta Mercantil newspaper.

. 100 Companies in New Market Bovespa Brazil.

. Trusted Brands Trophy - Seleções 2008 magazine.

. The Best Insurance Groups in Brazil Award - Health Segment.

. The Best Insurance Groups in Brazil Award - Auto Segment.

. Ibest 2008 - Insurance Category.

. Gaivota de Ouro Trophy, Best Automobile Insurance Portfolio.

. Gaivota de Ouro Trophy, Best Assistance to Insurance Brokers.

. Pop List, 1st place, O Popular newspaper (State of Goiânia).

. Dat Top of Mind 2008 Award - Property Security Category.

. Top Tri Vale Award, most remembered insurance company, RDM magazine (State of Mato Grosso).

. Folha Top of Mind 2008 Award, Folha de São Paulo newspaper.

. Best Transportation Companies Award, Insurance Company Category.

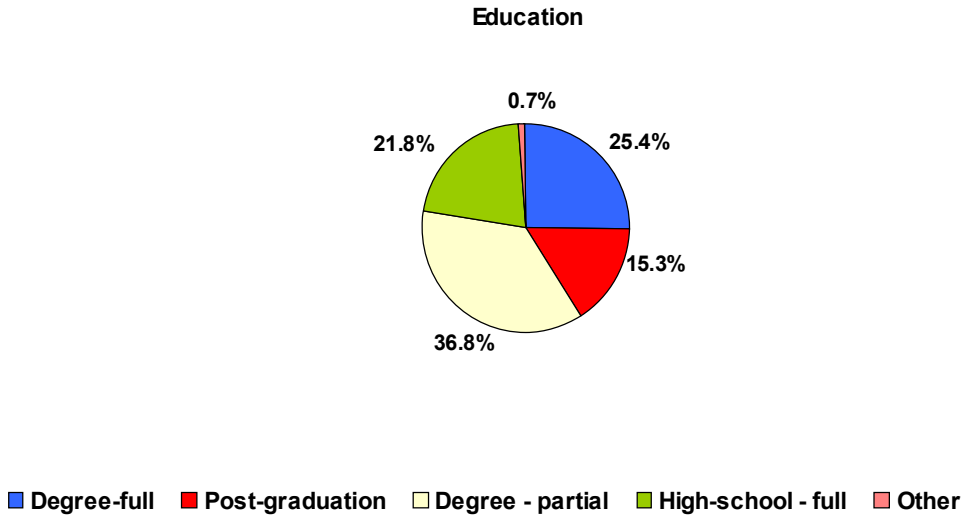
Value added

In 2008, the value added of the Company totaled R$ 1,134.3 million, a decrease of 11.4% over the R$ 1,280.5 million of 2007, distributed as follows:



People development

The Company and its subsidiaries had 7,270 employees at the end of 2008. Recognizing the 'importance of education and professional formation, the Company invested approximately R$ 1.2 million in 2008 in scholarships for graduate and language courses granted to 863 scholars who represent approximately 11.8% of the staff.



Training - In 2008, the Company invested R$ 4.7 million in training its staff in the administrative, technical, and commercial areas and also in distance learning. Among the programs, of special interest are the partnerships with the National Service for Commercial Training (SENAC), Social Training Teaching (ESPRO), National Service for Industrial Training (SENAI) and National Insurance School (FUNENSEG).

131,386 class-hours were invested in face-to-face courses, with 15,961 participants, among employees and service providers. 168,867 class-hours were attended by insurance brokers, with 29,050 participations.

Distance learning had 29,185 training hours, comprising 10,752 employees. 7,509 training hours were completed by insurance brokers, with 2,716 participations.

In addition to the internal training, external programs including courses, lectures and conventions were provided by market institutions. In this kind of program, we invested 10,059 hours, with the participation of 538 employees, who exchanged their experiences with people from other companies.

For Technical Certification, 10,516 in-company class-hours were held, through a partnership with FUNENSEG, with the participation of 473 employees and service providers. Also, 464 employees received certification for time in position through the National Federation of the Private Insurance and Capitalization Companies (FENASEG).

First job - the Company adopted, as from 2003, the "Jovem Aprendiz" program to incentive the application of Law 10097 of December 2000, and of Decree 5598, of December 2005, which altered the Consolidation of the Labor Laws (CLT) to permit the contracting of youngsters from 14 to 24 years old. In 2008, 129 youngsters were hired.

Campaign of suggestions - Since 1987 the Company has a communication channel to receive suggestions from employees and others. The objective of this campaign is to contribute to the improvement of processes. In 2008, we received 3,653 suggestions, an increase of 37.5% in relation to the prior year.

Training brokers - Besides face-to-face and distance trainings for brokers, Porto Seguro provides resources and installations for their development.

Social Projects

Social and environmental responsibility - Within the ambit of social actions, we emphasize the activity of the "Grupo de Ação Social". In 2008, 1,330 employees volunteered to participate in the actions promoted by the Group, which served approximately 30,271 thousand needy people through individual actions, donations, and education, entertainment and quality of life lectures.

Some of the institutions served by the Company's projects are the following: Centro Promocional Dino Bueno, Casa de Convivência São Vicente de Paulo, Creche Campos Elísios, Casa de Solidariedade, Creche São Miguel Arcanjo - Moinho, Oficina Profissionalizante do Clube de Mães, Abrigo Dom Bosco, Paróquia Sagrado Coração de Jesus, Creche Salesianos e Amparo Maternal, Abrigo Estrela do Amanhã, Associação Amigos em Cristo, Associação Cantinho que Encontrei, Abrigo Lar Vicentino, Associação Povo de Rua, Associação Asa Branca, Casa Lar Novo Mundo, Lar Vivência Feliz, Círculo

da Fraternidade Sta. Ana, Creche Lar Doce Irmão Benedito, Lar Escola São Francisco, Creche Aconchego, Creche Lar Santa Teresinha, Casa dos Meninos, Creche Irmã Amélia, Creche Maranata, Abrigo Beija-Flor - RJ, Fundo da Solidariedade - Santos, Projeto Novo Caminhar - PE, ONG Mais Criança - RS, Creche Irmã Maria Ângela - Campinas, Lar Nossa Senhora das Graças - Jundiaí, Abrigo Amor de Mãe - Marília, Casa do Caminho - DF, Sociedade Beneficente Educativa "Voz da Verdade" - MT, Casa da Mãe Gestante - MS, Casa da Vovó Túlia - MS, Projeto CADE, Lar de Nice, Orfanato Vila Acalanto and Projeto LEMDA.

Donation campaigns - Throughout the year, donation campaigns were developed all over Brazil. In 2008, the donations totaling 82,305 include, among others, clothes and shoes, toys, school supplies, personal hygiene items and food.

Casa Campos Elísios Melhor - In 2005, Casa Campos Elísios Melhor was inaugurated. It is a space destined to revenue generation and education for the community of the Campo Elíseos in São Paulo. The purpose of the space is to provide for the neighborhood access to art and education, sport, entertainment and professional training. We point out the following projects: Painting and Bodywork Programs, Mechanics and Electro-electronics, Production of Breads, Pizzas, Snacks and Sweet Products, in partnership with SENAI; Workshops of Fabric Painting, Cold Porcelain, Marquetry, Decoupagè, Macramé and Bijoux; IT Courses, Administrative Techniques and Telemarketing - Sales; Hairdressing Salon School, Manicure and Afro Hair Dressing; sport sessions and playful and educational workshops for children and physical exercises for the elderly. In 2008, 1,026 adults and children participated in these projects. Casa Campos Elísios Melhor also has the Reading Space, which offers access to culture and education to the neighborhood.

Portinho Seguro City - It was inaugurated ten years ago in the Mooca neighborhood, city of São Paulo. It is an educational space which provides to the children who visit it an opportunity to develop, at an early age, the respect for traffic regulations. In 2008, approximately 25 thousand children went to Portinho Seguro City. With the purpose of bringing the importance of traffic education to children in other cities, an itinerant Portinho City was created five years ago, which served approximately 45 thousand children in 25 cities of Brazil.

Quality of Life

The Corporation believes that the employee satisfaction is also a result of his/her quality of life. Therefore, the Company provides opportunities for the promotion of good relationships between its employees, their colleagues and family members. Seven years ago, the Company implemented the Quality of Life Program and, four years ago, opened its doors to receive the employee's family and allow them to know his/her everyday work life.

The Company gives to its employees the opportunity to show their musical and art talents. We should point out the Porto Seguro Choir which is formed by a group of 55 employees and has existed for 12 years. There were also events promoting the integration between the employees, such as Carnival,

June Parties, Winter Festival, Friendship Games, Knowing Porto, Fraternal Party and Remembrance Party, the latter dedicated to the employees who have been working for over a decade in the Company, totaling 12,958 participants.

Institutional and cultural projects

The Company appreciates the Brazilian culture and sponsors shows and theater plays, and also supports cinema and sports. In 2008, 390 projects were sponsored among theater plays, exhibitions, shows, movie sessions and lectures, among others, targeted to adults and children, all over Brazil, benefiting the public with discounts and promotions. We point out the following:

Bossa'50 Exhibition- Sponsorship of the Bossa'50 Exhibition, in the Bienal pavilion, in Ibirapuera Park. With free admission for everyone, the exhibition celebrated the 50 years of an important Brazilian movement which fascinated generations, through interactivity with music, fashion, design and photography.

"Mar de Gente" Play - Sponsorship of Cia. Teatrodança Ivaldo Bertazzo. The play presents five texts discussing human evolution based on cultural, philosophic and scientific references, how we are part of today's world and our possibilities of surviving in the future. Cia. Teatrodança Ivaldo Bertazzo was founded in January 2007, from the project Dance Community ("Dança Comunidade"), formed by young dancers from the outskirts of São Paulo.

"Consumindo 68"- The show was part of the Exhibition 68: Rebels and Dreamers ("68: Rebeldes e Utópicos"), carried out by the Ministry of Culture, which relived the year of 1968 and its main historical events.

Porto Seguro Photo Award - The Award is destined to Brazilian photographers or foreign ones resident in Brazil. In 2008, the theme was "Portrait - the Brazilian image", which intended to stimulate a reflection on this type of representation of a person (which may also include self-portrait) by comparing the "ingenuous realism" - that still permeates the social imagination - and a "critical realism", as well as to analyze its several social uses (for judicial, personal or scientific purposes, etc.). In 2008, more than 1,360 photographers took part in the Award, which comprised 25 Brazilian states.

Environment

In 2008, we carried out projects of environmental responsibility through effective actions in the Corporation and in the surrounding community. The main projects are:

Abrigo Dom Bosco Project - Support to 27 recyclable material collectors of Abrigo Dom Bosco, providing revenue generation and social inclusion in benefit of environmental preservation.

Partnership with Vira-lata Project - Partnership with Vira-lata Cooperative for the correct disposal of recyclable material produced by the Corporation. More than 520 metric tons were recycled, resulting in social inclusion of 30 cooperative members and revenue generation for 120 cooperative members.

Learning with Toys Project - Environmental Education Project in Schools which, through educative tasks and books, teaches seven to eleven-year-old children to reduce, reuse and recycle materials. The purpose is to encourage reading, education and environmental awareness. Approximately 1,680 children were served, with 1,654 participations and awards with environmental books.

Incentive to responsible consumption - Stimulus to responsible consumption by replacing plastic bags with cloth bags. The action involved the distribution of 12,735 cloth bags.

Environmental education for employees - With the purpose of reinforcing the environmental education process for employees, lectures were given, emphasizing themes such as responsible consumption, sustainability and preservation of Amazonia, and social bazaars, with the participation of institutions that, through the transformation of recyclable materials into handcrafted products, develop revenue generation in their communities.

Environmental education for the community - Guidelines for the conservation of the neighborhood were provided to commercial establishments, with tips about recycling, cleaning and waste separation.

Waste selective collection - This process has been adopted in the Company for five years and, in 2008, it collected approximately 120 metric tons of paper, cardboard and plastic.

Conservation of public squares - Porto Seguro committed itself to maintaining the green areas of six locations in São Paulo capital: flower bed of the Manoel Monteiro de Araújo Street, in Vila Jaguará; David Raw Square, in the Pacaembu Avenue region; Carvalho Pinto Avenue, in Penha, central flower bed of Rio Branco Avenue, from Eduardo Prado Street to Duque de Caxias Avenue; Princesa Isabel Square and Largo Coração de Jesus Square, in the region of Campos Elíseos; and central bed flower of Gal. Edgar Faccó Avenue, in Pirituba.

Earth Time ("Hora da Terra") - An action about awareness. This was the purpose for which Porto Seguro created the Earth Time. Every day, under sunny or partially cloudy weather, from 11:30 a.m. to 1:30 p.m., the lights of the Head Office Complex are turned off. The objective is to help the planet using less energy. With the economy of light, Porto Seguro also intends to save resources. Since the implementation of the program, 34,500 kWh/month were already saved, which corresponds to the electric energy used by 190 families in São Paulo during one month.

Management of Automotive Waste - Implementation of an Automotive Waste Management System at the Porto Seguro's Automotive Centers and Related Garages. Hazardous waste is recycled and/or disposed in industrial landfills, minimizing the environmental impacts. The automotive discards, thus avoiding repacking and sending to landfills. In 2008, 152 metric tons of automotive discards (iron, tyres and bumpers) were recycled.

Program for the reduction of water and electric power consumption: Porto Seguro adopts everyday practical measures which resulted in the reduction of up to 26% of the electric power nominal consumption.

Ecological air-conditioning: The majority of the Company's air-conditioning equipment has towers fed by water tables. Therefore, although this requires more chemical treatment, potable water is saved. Also, the Company adopts ecological cooling gas, which is not aggressive to the environment, in its air-conditioning equipment.

Vegetable Cooking Oil Campaign - Greater São Paulo, Campinas and Santos: Campaign for the education and raising of awareness on the problems generated by vegetable oil and on what it is possible to do to avoid the contamination of water, a renewable asset, for which treatment costs are much higher than conservation costs. The oil collected is used for the production of biodiesel, a renewable fuel. The campaign, which started in October 2008, has already collected 814 liters for recycling.

Campaign for the Reduction of Automobile Pollutant Emissions - Greater São Paulo - The campaign took place in the second half of 2007 and provided, with no cost to the policy holders in Greater São Paulo, an analysis of pollutant gases in vehicles in the Automotive Centers. The inspection analyzes the types and frequency of maintenance which are necessary to adapt vehicles to emission standards. Since its implementation, the campaign already made more than 15,000 inspections.

EcoCheck-Up Campaign - São Paulo's Interior and Coast - The objective of this campaign is to analyze the vehicle pollutants, serving the policy holders of Campinas, Americana, Limeira, Santos and other cities in São Paulo's interior and coast. In 2008, 5,505 vehicles were inspected.

Bike Help ("Bike Socorro"): In order to preserve the environment, make assistance more efficient and provide quality of life, Porto Seguro launched the service Bike Help. Cyclists give assistance to Auto policy holders in cases that can be solved in the place, without the need of removal, such as tyre change, lack of fuel, battery charge and simple breakdowns, among others. The use of bicycles for assistance aims at contributing to the reduction of carbon dioxide (CO2), the main pollutant emitted into the atmosphere by automobiles. The implementation of this service avoided the emission of approximately 10.86 metric tons of CO2 into the atmosphere.

Bike Inspection ("Bike Vistoria"): Bike Inspection is a new manner of providing inspection service, using bicycle as a mean of transportation, with the purpose of valuing the quality of life and respecting the environment. The service reaches all Auto policy holders of the city of São Paulo who require inspection at home with more mobility. The inspection is scheduled by the insurance broker of each policy holder. With the implementation of Bike Inspection, the average emission of 218kg of CO2/month is avoided.

UseBike: Expansion of this project with the inclusion of bicycle parking areas in some subway stations (Metrô) in São Paulo connected with the existing locations of Estapar Parking Network. The project aims at making available, free of charges, bicycles for the use of Auto and Porto Seguro Visa Card policy holders, in addition to cycle racks for the proper parking of bicycles (Estapar Parking Network). In the case of Metrô, the first hour is free of charge and, after this period, a fine of R$2.00 is charged for each hour. In addition to disseminating the use of the bicycle as a means of transportation, the action encourages policy holders to adopt more healthy habits.

CVM Instruction No. 381/03

In order to comply with CVM Instruction No. 381 of January 14, 2003, we inform that the Company did not contract services other than the external audit from PricewaterhouseCoopers Auditores Independentes.

Perspectives

In 2008, the Brazilian Gross Domestic Product (GDP) grew 5.6% up to the third quarter, and expectation of growth for 2009 is approximately 1.5%, according to recent market estimates. In the insurance market, considering the expected slowdown in automobile industry activity level and activities in general, the industry's regulatory body and representative agencies estimate a slight growth in relation to 2008.

The context of international and national financial instability requires that the Company be cautious in subscription, risk management and opportunities. The main challenge to maintain the position as one of the leaders in the automobile insurance segment, which is the most significant one in the insurance market, is to focus efforts on modernization of operating and management processes, on sales channels to strengthen the relationship with insurance brokers, and also on the permanent search for technological innovations, which continuously change the ways of relationship with the clients, insurance brokers, investors, governments and society in general.

The increase in competition requires changes in concepts and approaches, i.e., new ways of thinking, performing, establishing and strengthening relationships, as well as assuming positions. In 2009, the Company will continue its pursuit of growth with profitability, maintaining conservative subscriptions through profitable product lines in favorable geographical areas. The insurance market growth, the investments and the improvement in assistance processes to insurance brokers and clients and the management of administrative costs are strategies which must contribute to revenue generation for 2009.

Thanks

We take this opportunity to express our appreciation to brokers and clients for their support and trust and to the employees and others for their constant dedication. We also want to thank the authorities related to our activities, mainly the Superintendency of Private Insurances (SUSEP), the National Supplementary Health Plan Agency (ANS), the Brazilian Central Bank (BACEN), IRB - Brasil Resseguros S.A. and the Brazilian Securities Commission (CVM), through their representatives.

São Paulo, February 17, 2009.

Management

(A free translation of the original in Portuguese)

Porto Seguro S.A.

Audit Committee Report

The Audit Committee of Porto Seguro S.A., instituted by its Board of Directors, is made up of independent members, in accordance with the best corporate governance practices applicable to companies whose shares are traded in the New Market of the São Paulo Stock Exchange (BOVESPA) and in compliance with the requirements of legislation, particularly Resolution 118/04 of the National Council of Private Insurance (CNSP) and Resolution 3198/04 of the Brazilian Central Bank (BACEN).

The activities of the Audit Committee cover all the companies of the Porto Seguro Conglomerate, starting from Porto Seguro S.A., a publicly-held company that controls the companies that make up the Conglomerate.

Management is responsible for the preparation, presentation and integrity of the financial statements of Porto Seguro S.A. and its subsidiaries, as well as for the implementation and maintenance of adequate internal controls considering the complexity of their operations, in order to comply with accounting practices adopted in Brazil and the standards and rules issued by the National Council of Private Insurance (CNSP), the Brazilian Central Bank (BACEN), the Superintendency of Private Insurance (SUSEP), the National Supplementary Health Plan Agency (ANS) and the Brazilian Securities Commission (CVM).

PricewaterhouseCoopers Auditores Independentes is responsible for the audit of the financial statements of Porto Seguro S.A. and its subsidiaries, including the consolidated financial statements. As a result of this audit, which was conducted in accordance with the audit standards generally adopted in Brazil, the Independent Auditors issue an opinion about whether they represent fairly, in all material respects, the financial position of Porto Seguro S.A. and its subsidiaries, in accordance with the accounting practices adopted in Brazil and the standards issued by the regulatory organs mentioned above.

The main responsibilities of the Audit Committee are to evaluate, monitor and recommend, in an independent manner: (i) full compliance with the legal and normative requirements and rules applicable to Porto Seguro S.A. and its subsidiaries, considering the particularities of each company, in addition to internal policies and regulations; (ii) the internal control systems of Porto Seguro S.A. and its subsidiaries; (iii) the financial statements of Porto Seguro S.A. and its subsidiaries; (iv) the work performed by the internal and external auditors and (v) the correction or improvement of policies, practices and procedures identified within the ambit of its activities.

Based on the provisions of its mandate, the Audit Committee developed the following activities during the year, among others: (a) analysis and approval of the annual internal audit activities plan; (b) holding of meetings with several areas of the organization; (c) request, analysis and

monitoring of information and reports about the structure and operation of the internal control and risk management environments; (d) evaluation of the level of the work carried out by the internal and external audit, as well as of the independence policy adopted; (e) request and analysis of documents related to the accounting and financial aspects of the Conglomerate, the judicial processes in progress, the controls used and their effectiveness and the external audit recommendations, and also the analysis of the standards specifically applicable to the sectors in which Porto Seguro S.A. and its subsidiaries operate and the compliance with these standards.

The Committee met with the Independent Auditors and was informed of the opinion issued on the financial statements related to the year ended December 31, 2008 of Porto Seguro S.A. and its subsidiaries.

Therefore, the Audit Committee, based on the results of its activities developed during the year, understands that the audited financial statements referring to the year ended December 31, 2008 were prepared in accordance with the accounting practices adopted in Brazil, and recommends their approval.

São Paulo, February 17, 2009.

Carlos Atushi Nakamuta

Fernando Kasinski Lottenberg

Lie Uema do Carmo

Porto Seguro S.A.

Balance Sheets at December 31

In thousands of reais

(A free translation of the original in Portuguese)

Assets	Note	Parent company 2008	Parent company 2007	Consolidated 2008	Consolidated 2007
Current assets		187,692	163,304	5,549,863	5,381,435
Cash and cash equivalents		27	4	26,578	19,860
Financial investments	5	174,182	9	3,372,542	3,921,938
Written premiums	7	-	-	1,002,593	831,153
Deferred selling expenses	8	-	-	399,685	340,983
Credit operations	9	-	-	199,632	133,515
Other credits	10	-	-	405,740	37,809
Dividends and interest receivable	32	4,295	157,489	-	-
Taxes and contributions	11(a)	9,013	5,697	39,269	14,313
Other accounts receivable	12	175	105	55,189	43,399
Other assets	13	-	-	48,635	38,465
Non-current assets		1,878,522	1,802,602	2,200,509	1,212,474
Long-term receivables		100	-	1,522,787	687,461
Financial investments	5	-	-	756,420	53,716
Taxes and contributions	11(a)	-	-	7,402	6,847
Deferred income tax and social contribution	11(c)	-	-	323,029	250,420
Credit operations	9	-	-	131,276	101,619
Other accounts receivable	12	100	-	7,489	8,298
Deferred selling expenses	8	-	-	2,427	992
Judicial deposits	14	-	-	294,744	265,569
Investments		1,874,009	1,802,601	19,917	21,103
Investments in subsidiaries	15(a)	1,897,840	1,826,432	-	-
Acquisition of investments - negative goodwill	15(b)	(23,831)	(23,831)	-	-
Investments in IRB - Brasil Resseguros S.A.		-	-	8,428	8,428
Properties for rent		-	-	10,174	11,162
Other		-	-	1,315	1,513
Fixed assets	16(a)	-	-	628,357	482,241
Intangible assets	16(b)	4,413	1	29,448	21,669
Total assets		2,066,214	1,965,906	7,750,372	6,593,909

Liabilities and shareholders' equity	Note	Parent company 2008	Parent company 2007	Consolidated 2008	Consolidated 2007
Current liabilities		90,617	143,517	4,734,936	3,738,235
Accounts payable	17	144	14	442,342	126,982
Accrued liabilities	18	450	13,696	450	13,696
Obligations for acceptances of exchange bills	22	-	-	93,485	11,208
Loans	23	-	-	33,683	42,367
Interbank deposits	24	-	-	74,171	24,582
Provision for vacations and related charges		-	-	34,370	28,940
Taxes and contributions	11(b)	733	7	108,007	102,361
Interest on capital and dividends payable	32	89,290	129,800	89,290	129,800
Third-party deposits	19	-	-	54,366	64,958
Commissions on premiums written		-	-	203,539	106,193
Other insurance debts payable	20	-	-	36,787	30,299
Unearned premiums reserve	21(a)	-	-	1,855,401	1,580,844
Unexpired risks reserve	21(a)	-	-	14,807	16,132
Mathematical reserve - insurance	21(a)	-	-	229,647	157,372
Mathematical reserve - pension plan	21(b)	-	-	778,204	645,271
Unsettled claims/ unpaid benefits	21(a)	-	-	469,730	475,254
Reserve for claims incurred but not reported (IBNR)	21(a)	-	-	113,559	96,763
Benefits granted	21(b)	-	-	24,222	18,021
Contribution deficiency reserve	21(b)	-	-	31,531	22,611
Premium deficiency reserve	21(a)	-	-	1,220	1,236
IRB - Brasil Resseguros S.A.		-	-	9,811	8,904
Other reserves	21(c)	-	-	36,314	34,441
Non-current liabilities		11,489	8,318	1,026,920	1,017,297
Long-term liabilities					
Accounts payable		-	-	6,438	1,927
Accrued liabilities	18	1,800	-	1,800	-
Obligations for acceptances of exchange bills	22	-	-	-	42,049
Loans	23	-	-	50,605	20,996
Interbank deposits	24	-	-	16,533	52,255
Deferred income tax and social contribution	11(c)	-	-	42,168	40,307
Unearned premiums reserve	21(a)	-	-	15,129	4,286
Unexpired risks reserve	21(a)	-	-	182	80
Benefits granted	21(b)	-	-	1,147	1,247
Legal obligations	25	9,689	8,318	872,926	824,765
Labor and civil contingencies	25	-	-	19,992	29,385
Deferred income		-	-	23,831	23,831
Minority interest		-	-	577	475
Shareholders' equity	26	1,964,108	1,814,071	1,964,108	1,814,071
Capital		920,000	800,000	920,000	800,000
Capital reserve		47,412	47,412	47,412	47,412
Revaluation reserve		134,358	142,459	134,358	142,459
Adjustments of securities		2,399	11,580	2,399	11,580
Carrying value adjustments		1,529	(1,050)	1,529	(1,050)
Revenue reserves		881,872	813,670	881,872	813,670
Treasury shares		(23,462)	-	(23,462)	-
Total liabilities and shareholders' equity		2,066,214	1,965,906	7,750,372	6,593,909

The accompanying notes are an integral part of these financial statements.

Porto Seguro S.A.

Statements of Income
Years Ended December 31
In thousands of reais

(A free translation of the original in Portuguese)

	Note	Parent company		Consolidated	
		2008	2007	2008	2007
Income					
Written premiums	27	-	-	4,825,012	4,091,785
Pension plan contributions		-	-	115,374	101,341
Service revenues - Porto Seguro Proteção e Monitoramento		-	-	51,757	35,167
Service revenues - Porto Consórcio		-	-	103,316	85,707
Service revenues - Portoserv		-	-	1,368	531
Service revenues - Crediporto		-	-	5,243	1,676
Service revenues - Integração		-	-	3,385	-
Service revenues - Portomed		-	-	393	-
Service revenues - Porto Seguro Serviços		-	-	147	-
Credit operations		-	-	76,498	51,916
Other income		-	-	6,656	10,515
Other operating income	31(a)	-	-	194,605	155,467
Equity in the earnings of subsidiaries	15(a)	295,273	430,639	-	-
		295,273	430,639	5,383,754	4,534,105
Expenses					
Reinsurance premiums ceded		-	-	(18,739)	(17,883)
Change in technical reserves - insurance		-	-	(355,666)	(294,430)
Change in technical reserves - pension plan		-	-	(109,535)	(101,686)
Pension plan benefits		-	-	(5,673)	(4,178)
Retained claims	28	-	-	(2,454,554)	(1,982,055)
Selling		-	-	(1,030,048)	(843,154)
Cost of services rendered - monitoring		-	-	(31,760)	(22,318)
Cost of services rendered - integration		-	-	(3,087)	-
Cost of services rendered - services		-	-	(128)	-
Financial intermediation		-	-	(22,925)	(12,145)
Other operating expenses	31(b)	-	(220)	(264,968)	(188,951)
Administrative	29(a)	(1,901)	(1,767)	(926,041)	(730,272)
Taxes	29(b)	(9,763)	(8,374)	(140,537)	(122,340)
Amortization of goodwill	15(b)	(528)	-	(528)	-
		(12,192)	(10,361)	(5,364,189)	(4,319,412)
Operating profit before financial and property income		283,081	420,278	19,565	214,693
Financial results					
Financial income	30(a)	10,324	1,341	678,775	660,541
Financial expenses	30(b)	(1,184)	(1,680)	(234,540)	(175,864)
		9,140	(339)	444,235	484,677
Property income					
Income from properties for rent		-	-	3,343	4,176
Operating profit		292,221	419,939	467,143	703,546
Income before income tax and social contribution		292,221	419,939	467,143	703,546
Income tax and social contribution	11(d)	(2,046)	-	(111,836)	(193,810)
Current		(2,046)	-	(184,445)	(248,310)
Deferred		-	-	72,609	54,500
Income before profit sharing		290,175	419,939	355,307	509,736
Employees and management profit sharing		-	-	(64,992)	(89,682)
Income before minority interest		290,175	419,939	290,315	420,054
Minority interest		-	-	(140)	(115)
Net income for the year		290,175	419,939	290,175	419,939
Number of shares (thousand)	35(c)	230,643	76,881		
Net income per share - R$		1.26	5.46		

The accompanying notes are an integral part of these financial statements.

Porto Seguro S.A.

Statements of Changes in Shareholders' Equity
Years Ended December 31, 2008 and 2007
In thousands of reais

(A free translation of the original in Portuguese)

	Note	Capital	Capital reserve	Revaluation reserve for properties of subsidiaries	Adjustments of securities	Carrying value adjustments	Revenue reserves: Legal	Revenue reserves: Statutory	Treasury shares	Retained earnings	Total
At December 31, 2006		516,772	47,412	138,834	8,476		73,176	744,913			1,529,583
Adjustments introduced by Law No. 11638/07 (Note 3)										(1,125)	(1,125)
Adjusted opening balance		516,772	47,412	138,834	8,476	-	73,176	744,913	-	(1,125)	1,528,458
Capital increase											
Capital increase - General Meeting held on March 31, 2007		283,228						(283,228)			
Adjustment of securities											
in subsidiaries					3,104						3,104
Prior-year adjustments in subsidiaries										(398)	(398)
Revaluation reserve for properties of subsidiaries											
Constitution				4,875							4,875
Realization by depreciation				(1,250)						1,250	
Net income for the year										419,864	419,864
Adjustments introduced by Law No. 11638/07 (Note 3)										75	75
Adjusted net income for the year										419,939	419,939
Legal reserve	(26 c)						20,993			(20,993)	
Statutory reserve	(26 c)							257,816		(257,816)	
Dividends - R$0.70 per common share										(53,817)	(53,817)
Interest on capital											
R$1.146 per common share (R$0.974 net of income tax)	(26 d)									(88,090)	(88,090)
At December 31, 2007		800,000	47,412	142,459	11,580	-	94,169	719,501	-	(1,050)	1,814,071
Acquisition of shares issued by the Company									(23,462)		(23,462)
Capital increase											
Capital increase - General Meeting held on March 31, 2008		120,000						(120,000)			
Adjustment of securities					(9,181)						(9,181)
Exchange variation of investees located abroad						1,529					1,529
Prior-year adjustments in subsidiaries										431	431
Revaluation reserve for properties of subsidiaries											
Realization by depreciation				(1,864)						1,864	
Rate increase - social contribution				(6,237)							(6,237)
Net income for the year										290,175	290,175
Legal reserve	(26 c)						14,509			(14,509)	
Statutory reserve	(26 c)							173,693		(173,693)	
Interest on capital											
R$0.448 per common share (R$0.380 net of income tax)	(26 d)									(103,218)	(103,218)
At December 31, 2008		920,000	47,412	134,358	2,399	1,529	108,678	773,194	(23,462)	-	1,964,108

The accompanying notes are an integral part of these financial statements.

Porto Seguro S.A.

Statements of Cash Flows
Years Ended December 31, 2008 and 2007
In thousands of reais (A free translation of the original in Portuguese)

	Parent company		Consolidated	
	2008	**2007**	**2008**	**2007**
Cash flows from operating activities				
Net income for the year	290,175	419,939	290,175	419,939
Prior-year adjustments	-	-	-	(398)
Depreciations	-	-	66,822	33,892
Amortizations	-	-	7,438	4,020
Amortization of goodwill	528		528	-
Equity in the earnings of subsidiaries	(295,273)	(430,639)	-	-
Results on sale of fixed assets	-	-	(345)	(1,165)
Adjusted net income	(4,570)	(10,700)	364,618	456,288
(Increase) decrease in assets				
Change in investments	(174,173)	40,519	(153,308)	(276,762)
Change in writeen premiums	-	-	(171,440)	(109,960)
Change in deferred selling expenses	-	-	(60,137)	(56,317)
Change in credit operations	-	-	(95,774)	(125,601)
Change in other credits	-	-	(367,931)	(6,140)
Change in dividends receivable	153,194	(54,298)	-	-
Change in taxes and contributions	(3,316)	(1,698)	3,325	38,009
Change in other accounts receivable	(170)	7	(10,981)	18,226
Change in other assets	-	-	(10,170)	(4,405)
Change in deferred income tax and social contribution	-	-	(72,609)	(54,500)
Change in judicial deposits	-	-	(29,175)	(184,282)
	(24,465)	(15,470)	(968,200)	(761,732)
Increase (decrease) in liabilities				
Change in accounts payable	17	14	319,871	6,084
Change in accrued liabilities	(11,446)	1,299	(11,446)	1,299
Change in interbank deposits	-	-	13,867	76,837
Change in obligations for acceptances of exchange bills	-	-	40,228	16,924
Change in loans	-	-	20,925	51,145
Change in vacations and related charges	-	-	5,430	4,802
Change in taxes and contributions	726	(4)	127,905	195,176
Change in third-party deposits	-	-	(10,144)	(14,405)
Change in commissions on premiums written	-	-	97,346	8,930
Change in other debts payable	-	-	7,395	11,072
Change in technical reserves - insurance and reinsurance	-	-	517,535	440,114
Change in deferred income tax and social contribution	-	-	(4,012)	553
Change in legal obligations	1,371	6,543	48,161	29,534
Change in labor and civil contingencies	-	-	(9,393)	(5,349)
Change in securities adjustments	-	-	(6,602)	3,104
Change in minority interest	-	-	102	86
	(9,332)	7,852	1,157,168	825,906
Income tax and social contribution paid	-	-	(150,694)	(219,393)
Withholding income tax on dividends received	-	-	(401)	(362)
	-	-	(151,095)	(219,755)
Net cash generated by (used in) operating activities	(38,367)	(18,318)	402,491	300,707
Cash flows from investing activities				
Interest on capital and dividends received	250,829	188,603	-	-
Sale of fixed assets	-	-	18,710	4,130
Acquisition of investments - goodwill	(4,940)	-	(4,940)	-
Acquisition of fixed assets	-	-	(220,517)	(128,933)
Acquisition of investments	(40,309)	(16,499)	-	-
Deferred charges	-	-	(21,809)	(15,636)
Net cash generated by (used in) investing activities	205,580	172,104	(228,556)	(140,439)
Cash flows from financing activities				
Treasury shares	(23,462)	-	(23,462)	-
Distribution of interest on capital and dividends	(143,728)	(153,957)	(143,755)	(153,987)
Net cash used in financing activities	(167,190)	(153,957)	(167,217)	(153,987)
Increase (decrease) in cash and cash equivalents	23	(171)	6,718	6,281
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	4	175	19,860	13,579
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	27	4	26,578	19,860

Porto Seguro S.A.

Statements of Value Added
Years Ended December 31
In thousands of reais (A free translation of the original in Portuguese)

	Parent company		Consolidated	
	2008	**2007**	**2008**	**2007**
Income	-	-	5,221,637	4,387,207
Revenues from insurance operations	-	-	4,825,012	4,091,785
Revenues from pension plan operations	-	-	115,374	101,341
Service revenues	-	-	165,609	123,081
Other	-	-	150,806	87,224
Allowance for doubtful accounts	-	-	(35,164)	(16,224)
Expenses of financial intermediation	-	-	(22,925)	(12,145)
Change in technical reserves	-	-	(465,201)	(396,116)
Insurance operations	-	-	(355,666)	(294,430)
Pension plan operations	-	-	(109,535)	(101,686)
Net operating revenues	-	-	4,733,511	3,978,946
Benefits and claims	-	-	(2,460,227)	(1,986,233)
Claims	-	-	(2,454,554)	(1,982,055)
Expenses with benefits and redemptions	-	-	(5,673)	(4,178)
Inputs acquired from third parties	(1,628)	(1,669)	(1,553,860)	(1,217,404)
Materials, energy and other	(1,132)	(1,163)	(400,322)	(267,785)
Cost of products and goods sold and services rendered	(496)	(506)	(6,544)	(28,223)
Third-party services, net commissions	-	-	(1,158,664)	(972,174)
Change in deferred selling expenses	-	-	11,992	50,899
Loss/recovery of asset values	-	-	(322)	(121)
Gross value added	(1,628)	(1,669)	719,424	775,309
Depreciation, amortization and depletion	(528)	-	(74,788)	(37,912)
Net value added generated by the entity	(2,156)	(1,669)	644,636	737,397
Value added received/ceded through transfer	305,597	431,980	489,693	543,123
Financial income	10,324	1,341	610,943	650,832
Equity in the earnings of subsidiaries	295,273	430,639	-	-
Other	-	-	(121,250)	(107,709)
Total value added to distribute	303,441	430,311	1,134,329	1,280,520
Distribution of value added	303,441	430,311	1,134,329	1,280,520
Personnel	287	243	468,520	419,258
Direct remuneration	287	243	263,236	219,213
Benefits	-	-	184,924	180,580
Government Severance Indemnity Fund for Employees (FGTS)	-	-	20,360	19,465
Taxes and contributions	11,824	8,829	327,547	401,268
Federal	11,824	8,829	322,608	396,833
State	-	-	1,771	1,037
Municipal	-	-	3,168	3,398
Third-party capital remuneration	1,155	1,300	47,947	39,940
Interest	1,155	1,300	37,043	31,758
Rentals	-	-	10,904	8,182
Shareholders' capital remuneration	290,175	419,939	290,315	420,054
Dividends	103,218	141,907	103,218	141,907
Earnings reinvested	186,957	278,032	186,957	278,032
Minority interest in earnings reinvested	-	-	140	115

The accompanying notes are an integral part of these financial statements.

(A free translation of the original in Portuguese)

Porto Seguro S.A.

Supplementary information to the financial statements

Social Responsibility Report
Years Ended December 31 - Unaudited
In thousands of reais

	2008			2007		
1 - Calculation basis			Amount			Amount
Net revenue (NR)			5,189,149			4,378,638
Operating income (OI)			290,175			419,939
Gross payroll (GP)			468,520			419,258
2 - Internal Social Indicators	Amount	% on GP	% on NR	Amount	% on GP	% on NR
Food	50,922	10.87%	0.98%	38,415	9.16%	0.88%
Compulsory social charges	86,760	18.52%	1.67%	70,094	16.72%	1.60%
Private pension fund	4,256	0.91%	0.08%	3,264	0.78%	0.07%
Health	25,923	5.53%	0.50%	20,487	4.89%	0.47%
Occupational security and health	2,007	0.43%	0.04%	1,785	0.43%	0.04%
Education	2,570	0.55%	0.05%	2,478	0.59%	0.06%
Culture	95	0.02%	0.00%	95	0.02%	0.00%
Professional training and development	5,032	1.07%	0.10%	7,188	1.71%	0.16%
On-site day care or day-care assistance	2,671	0.57%	0.05%	2,490	0.59%	0.06%
Employees' profit sharing	33,956	9.51%	0.86%	44,566	10.63%	1.02%
Other	-	0.00%	0.00%	-	0.00%	0.00%
Total - internal social indicators	214,192	45.04%	4.07%	190,862	44.42%	4.25%
3 - External Social Indicators	Amount	% on GP	% on NR	Amount	% on GP	% on NR
Education	2,790	0.96%	0.05%	1,691	0.40%	0.04%
Culture	4,784	1.65%	0.09%	5,387	1.28%	0.12%
Health and sanitation	-	0.00%	0.00%	-	0.00%	0.00%
Sport	581	0.20%	0.01%	1,000	0.24%	0.02%
Fight against hunger and food security	-	0.00%	0.00%	-	0.00%	0.00%
Other	-	0.00%	0.00%	-	0.00%	0.00%
Total contributions to society	8,155	0.00%	0.00%	8,078	1.92%	0.18%
Taxes (excluding social charges)	258,482	89.08%	4.98%	346,685	82.56%	7.92%
Total - external social indicators	266,637	89.08%	4.98%	354,763	84.48%	8.10%
4 - Environmental Indicators	Amount	% on GP	% on NR	Amount	% on GP	% on NR
Investments related to the Company's production/operation	-	0.00%	0.00%	-	0.00%	0.00%
Investments in external programs and/or projects	170	0.06%	0.00%	145	0.03%	0.00%
Total environmental investments	170	0.06%	0.00%	145	0.03%	0.00%
As to the establishment of "annual goals" to minimize waste and the general consumption in production/operation, as well as to increase the efficient use of natural resources, the company	(x) has no established goals ( ) complies (51 to 75%) complies (0 to 50%) ( ) complies (76 to 100%)		( )	(x) has no established goals ( ) complies (51 to 75%) complies (0 to 50%) ( ) complies (76 to 100%)		( )

Porto Seguro S.A.

Supplementary information to the financial statements

Social Responsibility Report
Years Ended December 31 - Unaudited
In thousands of reais **(continued)**

5 - Employees Indicators	2008	2007
Number of employees at the end of the period	7,649	7,124
Number of employees hired during the period	2,118	1,893
Number of outsourced employees	7,564	5,638
Number of interns	7	34
Number of employees older than 45	637	701
Number of female employees	3,923	3,559
% of management positions held by women	52.20%	35.87%
Number of negro employees	692	446
% of management positions held by negro employees	1.1%	2.0%
Number of employees with disabilities or employees with special needs	234	154

6 - Relevant Information on the exercise of business citizenship	2008			Goals for 2009		
Ratio between the highest and lowest salary in the company	39			38		
Total number of occupational accidents	29			28		
The social and environmental projects developed by the company were defined by:	( ) directors	(x) directors and managers	( )all employees	( ) directors	(x) directors and managers	( )all employees
The occupational safety and health standards were defined by :	( ) directors and managers	( )all employees	(x)all + Cipa*	( ) directors and managers	( )all employees	(x)all + Cipa*
As to freedom of unionization, collective bargaining rights and internal employee representation, the company:	( )does not interfere	( ) complies with the ILO** standards	(x) encourages and complies with ILO	( )does not interfere	( ) complies with the ILO** standards	(x) encourages and complies with ILO
Private pension fund benefits are extended to:	( ) directors	( ) directors and managers	(x)all employees	( ) directors	( ) directors and managers	(x)all employees
Employees' profit sharing program includes:	( ) directors	( ) directors and managers	(x)all employees	( ) directors	( ) directors and managers	(x)all employees
When selecting suppliers, the same ethical, social and environmental responsibility standards adopted by the company:	( ) are not considered	(x) are suggested	( ) are required	( ) are not considered	(x) are suggested	( ) are required
As to the participation of employees in voluntary work programs, the company:	( ) does not interfere	( ) supports	(x) organizes and supports	( ) does not interfere	( ) supports	(x) organizes and supports
Total number of consumers' complaints and criticisms:	in the company 31837	in Procon*** 235	in courts 1915	in the company 27168	in Procon 226	in courts 3429
% of complaints and criticisms solved:	in the company 100%	in Procon 100%	in courts 19.37%	in company 100%	in Procon 100%	in courts 30.53%
Total value added to distribute (in thousands of R$):	In 2008: 1,134,329			In 2007: 1,280,520		
Distribution of value added (DVA****):	28.9% government	41.3% employees	9.1% shareholders 4.2 % third parties 16.5% retained	31.3% government	32.7% employees	10.1% shareholders 3.1 % third parties 22.8% retained

7 - Other information
- Porto Seguro S.A. - National Corporate Taxpayers' Registry (CNPJ). 02.149.205/0001-69. Details, comments and projects are shown in the Company's Management Report, disclosed together with the financial statements.
- For further information: Celso Damadi - Telephone: (11) 3366-1722 -e-mail: celso.damadi@portoseguro.com.br
- This company does not use child or slave work, is not involved in prostitution or sexual exploitation of children and adolescents, and is not involved in corruption.
- Our company values and respects internal and external diversity.

* Internal Accident Prevention Committee
** International Labor Organization
*** Consumer Protection and Defense Foundation
**** Statements of Value Added

1 Operations

Porto Seguro S.A. (the "Company") is a publicly-held corporation established to participate, as a shareholder or partner, in other domestic or foreign companies that operate in: (a) all types of insurance activities; (b) activities restricted to financial institutions and equivalent companies, including, without limitation, consortium management; (c) rendering of services and sale of equipment for electronic monitoring of asset protection systems; and (d) activities related or supplementary to insurance activities and the other activities described above.

The activities of the Company's subsidiaries are as follows:

(a) Insurance

(i) Porto Seguro Companhia de Seguros Gerais ("Porto Seguro") - This corporation is a subsidiary of the Company (all shares, except one), established on September 6, 1945, and authorized to operate by Decree No. 20138 of December 6, 1945. Its objective is to operate in property, liability, hulls, automobile, transportation, financial risks, personal and rural insurance, in any of their types.

(ii) Porto Seguro Vida e Previdência S.A. ("Porto Seguro Vida") - Controlled by Porto Seguro (99.97%), this corporation was established on December 23, 1986 to operate in personal insurance, as well as the establishment and operation of annuity and lump-sum pension plans.

(iii) Porto Seguro - Seguros del Uruguay S.A. ("Porto Seguro Uruguay") - This corporation is a wholly-owned subsidiary of Porto Seguro and was established on December 23, 1994 to operate mainly in automobile insurance.

(iv) Porto Seguro - Seguro Saúde S.A. ("Porto Seguro Saúde") - Controlled by Porto Seguro (99.99%), this corporation was established on June 12, 2001 to operate as a specialized insurer in the health insurance line.

(v) Azul Companhia de Seguros Gerais ("Azul Seguros") - This corporation is a direct subsidiary of the Company (99.71%), acquired on November 28, 2003 to operate in the casualty and personal insurance lines.

(b) Finance companies and consortiums

(i) Porto Seguro Administradora de Consórcios Ltda. ("Porto Consórcio") - A direct subsidiary of the Company (99.99%), acquired on October 27, 2004 to manage consortiums for the acquisition of assets and properties.

(ii) Portoseg S.A. - Crédito, Financiamento e Investimento ("Portoseg") - A direct subsidiary of the Company (99.98%), acquired on October 27, 2004 to finance the acquisition of assets, services and working capital, as well as to carry out all transactions permitted for this type of financial institution.

(iii) Portopar Distribuidora de Títulos e Valores Mobiliários Ltda. ("Portopar") - A direct subsidiary of the Company (99.99%), acquired on October 27, 2004 to manage investment funds and financial assets.

(c) Service providers

(i) Porto Seguro Proteção e Monitoramento Ltda. ("Porto Seguro Proteção e Monitoramento") - A direct subsidiary of the Company (99.98%), established on January 9, 1998 to purchase, sell, rent, grant as a free lease, install and maintain any equipment related to technology and the electro-electronic systems of asset, house, industry and commercial installations protection, as well as to render services using the electronic surveillance technology of IT systems for remote asset protection through coded signals issued by the mentioned systems to the control center so that it can notify the public security entities, and to manage service rendered in relation to these activities. The company also participates in other companies as partner or shareholder.

(ii) Portoserv Promotora de Serviços Ltda. ("Portoserv") - A direct subsidiary of the Company (99.50%), acquired on October 23, 2006 to provide any and all services related to the agency, promotion, support, and management of sales (cash or credit), economic and administrative services on behalf of third parties to private entities.

(iii) Crediporto Promotora de Serviços Ltda. ("Crediporto") - A direct subsidiary of the Company (99.80%), established on November 1, 2006, to provide (a) services related to identification of target groups and to act as service provider to obtain credits and financing for consumption, for individuals and corporate entities, with officially accredited entities; (b) services related to the sending of consumer financing requests to specialized institutions; (c) analysis of consumer credit and customer data files; (d) data processing, including the operations agreed by financial institutions; (e) business development and advisory services; (f) collection and out-of-court billing services and customer data information services for third parties, and (g) participation in other companies as partner or shareholder.

(iv) Integração Assessoria e Informática Ltda. ("Integração") - A direct subsidiary of the Company (100.00%), acquired on January 2, 2008, to develop, distribute, advise, maintain, grant license or right of use of computer programs (administrative software).

(v) Portomed - Porto Seguro Serviços Médicos Ltda. ("Portomed") - A direct subsidiary of the Company (99.93%), acquired on December 31, 2007, to provide (a) health outpatient services, including chemotherapy, pursuant to the legal provisions; (b) the preparation and implementation of labor health medical control programs in companies, the preparation and implementation of health risk prevention programs in the work place and other activities related to labor medical care, pursuant to the legal provisions.

(vi) Porto Seguro Serviços S/A ("Porto Seguro Serviços") - A direct subsidiary of the Company (99.00%), established on February 14, 2008, to provide (a) risk and insurance claim inspection; (b) assistance services, including removal and emergency repair services for vehicles; (c) certification of vehicle origin and maintenance situation; (d) developing and hosting Internet sites of advertising, business relationship, sales fostering for vehicles and other chattels and properties, and forwarding agent services and other services related to the mentioned activities; (e) maintenance, conservation and repair of equipment and properties of any nature; (f) technical support, maintenance or coordination of technology services; (g) assistance services to individuals or corporations, including, but not limited to, travel (in Brazil and abroad), funeral, home, condominiums, companies; and home education assistance; medical and/or hospital assistance; tourist and cultural advisory ; (h) services related to the representation, promotion, fostering and management of service or product sales and support of any nature to individuals and corporate entities; (i) management of service providers operating in the activities described in the items above; and (j) investment in other companies, domestic or foreign, simple or corporate, as partner or shareholder.

2 Consolidation Criteria

The main consolidation procedures may be described as follows:

(a) Elimination of assets and liabilities account balances between consolidated companies.

(b) Elimination of capital investments, reserves and retained earnings of subsidiaries.

(c) Elimination of income and expense balances arising from intercompany transactions.

(d) The minority interest amounts are shown separately in the consolidated financial statements.

(e) The financial statements of Porto Seguro Uruguay are prepared in accordance with the accounting practices generally accepted in Uruguay, which do not differ significantly from the accounting practices adopted by the Company, except for the balance sheet monetary restatement, which was eliminated to align accounting practices.

3 Presentation of Financial Statements

The financial statements of the Company and its subsidiaries have been prepared and are being presented in accordance with Brazilian accounting practices, based on provisions of the Brazilian Corporation Law and the complementary provisions of the Brazilian Securities Commission (CVM), in addition to the accounting guidelines issued by the National Council of Private Insurance (CNSP), Superintendency of Private Insurance (SUSEP), National Supplementary Health Plan Agency (ANS), National Monetary Council (CMN), Brazilian Central Bank (BACEN), and also the accounting practices issued by the Brazilian Accounting Pronouncements Committee (CPC).

Pursuant to SUSEP Circular Letters, changes were introduced in the accounting and financial statements of insurance, reinsurance, capitalization and open pension plan companies. The main changes are:

(i) A new manner of accounting for Life Insurance/VGBL Redemption. This expense, up to the issuance of Circular Letter No. 003/08, was recognized in a statement of income account and, as from March 2008, began to be recorded in a balance sheet account.

(ii) A new manner of accounting for DPVAT (Motorvehicle Mandatory Insurance) consortium premiums transferred to the Public Integrated Health System (SUS). These expenses, up to the issuance of SUSEP Circular Letter No. 356/07, were recognized in the ceded reinsurance premiums account and, as from January 2008, began to be recorded net of the premiums issued account.

(iii) Prepaid Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL), previously recorded in "Tax and social security credits" - assets, are now recorded in "Taxes and contributions" - liabilities.

The financial statements referring to December 31, 2007 have been adjusted, where possible, for comparison purposes.

The preparation of financial statements requires the Management to make use of judgment to determine and record the accounting estimates. Significant assets and liabilities subject to these estimates and assumptions comprise, among others, adjustments in the allowance for doubtful accounts, deferred income tax and social contribution, technical and contingency reserves. The transactions involving these estimates may be settled by amounts which differ from those estimated due to the inaccuracy inherent to their determination process. The Company reviews these estimates and assumptions on a periodical basis.

Alterations to the Brazilian Corporation Law for 2008

Law 11638 was enacted on December 28, 2007, and altered by Provisional Measure (MP) 449 of December 4, 2008, amending and introducing new provisions to the Brazilian Corporation Law. The main purpose of this Law and MP was to amend the Brazilian Corporation Law to allow the process of convergence of the accounting practices adopted in Brazil with those included in the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). The application of this Law and MP is mandatory for the annual financial statements for the years that began on or after January 1, 2008.

Part of the alterations promoted by the Law is already adopted by the Company and its subsidiaries (i) voluntarily, such as the presentation of the Statements of Cash Flows and of Value Added or (ii) as a result of the requirements of BACEN, SUSEP and ANS, for the adoption of classification and mark-to-market criterion of financial instruments (Note 6).

With the effectiveness of the referred Law and MP, certain alterations were regulated by some of the regulatory agencies to be applied by the Companies. SUSEP, through Circular Letter SUSEP/DECON/GAB No. 01/09, and ANS, through Normative Resolution No. 184 of December 19, 2008, require the application of the provisions established by the Law and MP in the preparation of the financial statements for 2008.

The changes in the Brazilian Corporation Law had the following principal impacts on the Company's financial statements:

(a) Financial instruments - trading and available-for-sale securities are already stated at market value due to the requirements of BACEN, SUSEP and ANS. See Note 4 item (b).

(b) Adjustment to present value - SUSEP, through Circular Letter No. 379/2008, defined that the adjustment to present value would not be applied to any account related to insurance, reinsurance, pension plan and capitalization transactions. Most of other long-term receivables and liabilities accounts are already stated at present value, such as financial investments, judicial deposits, technical reserves, contingencies and legal obligations.

(c) Derivative financial instruments - the Company and its subsidiaries, began to record the derivative financial instruments, if any, at fair value. See Note 4 item (c).

(d) Revaluation - the management opted to maintain the revaluation reserve outstanding balances until their effective realization. In the future, if the revalued amounts cannot be recovered, this balance will be decreased, according to SUSEP Circular Letter No. 356/07, which approved the CPC technical pronouncement No. 01 - Impairment of assets, item 58. See Note 4 item (g).

(e) Investments abroad - the effect arising from the exchange variation on investments in the subsidiary Porto Seguro Uruguay is now recorded in the account "Carrying value adjustments", in shareholders' equity. See Note 4 item (e).

(f) Impairment of assets - the Company and its subsidiaries verified the recovery level of amounts recorded in fixed assets, intangible assets and deferred charges, which will be reviewed on a periodical basis.

(g) Reclassifications: (i) expenditures recorded in deferred charges related to logistical systems were reclassified to intangible assets; (ii) the portion of goodwill recognized based on expected future income in the acquisition of the subsidiary Integração was reclassified to intangible assets; and (iii) expenditures that cannot be reclassified to other groups of accounts were written off against the account "Retained earnings", net of tax effects.

As permitted by the CPC pronouncement 13 - First-time adoption of Law No. 11638/07 and MP No. 449/08, the Company's management opted to restate the comparative figures to comply with the Accounting Standards and Procedures (NPC) No. 12 - Accounting Practices, Changes in Estimates and Correction of Errors. The changes in accounting practices described above affected the shareholders' equity and the result for 2007 as presented below:

	Shareholders' equity	Result for
	2007	2007
Balance originally presented	1,815,121	419,864
(e) Exchange variation of investments abroad	(1,050)	695
(f) Impairment of assets	-	(620)
Balance adjusted by Law 11638/07	1,814,071	419,939

4 Significant Accounting Practices

The significant accounting practices adopted by the Company and its subsidiaries to record their transactions are as follows:

(a) The result of operations is recorded on the accrual basis of accounting and includes income, charges and monetary or exchange rate variations, at official indices or rates.

(i) Insurance - revenues from insurance premiums are recorded and deferred over the policy or invoice periods through the constitution of unearned premium reserves. Commissions and other acquisition costs are deferred and amortized over the term of the insurance policy or the estimated period policyholders or participants remain in the plan, and are reflected in the "Deferred selling expenses" account. The subsidiaries Porto Seguro and Azul Seguros account for premium revenue estimates for policies which are in the process of being issued, as well as the related commissions.

(ii) Finance Companies - the loans and other credit transactions (operations with loan characteristics) are recorded at present value, calculated on a "pro rata die" basis, based on the index variation and on the agreed interest rate, being accrued up to the 60th day of delay in payment; after the 60th day, the recognition in the result occurs upon the effective receipt of the installments. The credit card transactions include the amounts receivable, arising from the purchase made by their owners. The resources corresponding to these amounts are classified in accounts payable - credit card transactions.

(iii) Consortium - The management fee, due by consortium participants, is recognized as revenue when the installments are received. Commissions on consortium share sales are recognized in the statement of income when consortium shares are sold, as required by BACEN. Other revenues and expenses are accounted for on the accrual basis.

(iv) The revenues from services rendered are recognized on the accrual basis and refer to the subsidiaries Porto Seguro Proteção e Monitoramento, Portoserv, Crediporto, Integração, Portomed and Porto Seguro Serviços.

(v) Pension plans - The revenues from contributions to pension plans and Free Benefit Generating Life Plans (VGBL) are recognized upon the effective receipt of the premium installments. Commissions and other acquisition costs are deferred over the estimated period participants remain in the plan, and are reflected in the "Deferred selling expenses" account. The expenses with technical reserves are recorded simultaneously to the recognition of the related revenues.

(b) Financial investments in securities classified as "Trading securities" are stated at cost, plus income earned up to the balance sheet dates, and adjusted to market value, with the related income, gains and losses recorded in income for the period. The investments in securities classified as "Available-for-sale securities" are stated at cost, plus income earned, which is recorded in income for the period, and adjusted to market value, with the adjustment recorded in a separate caption in shareholders' equity, net of taxes, and included in income for the period in which the effective realization occurs.

(c) Derivative financial instruments are initially stated at market value on the date a derivative agreement is signed and, subsequently, are recalculated at their market value, with variations in market value recorded to income.

Although the subsidiaries Porto Seguro Vida and Portoseg use derivatives as hedges, they do not apply hedge accounting.

(d) Judicial deposits are monetarily restated and presented as a deduction from the corresponding liability when they cannot be redeemed, unless there is a favorable outcome for the entity in the dispute.

(e) Investments in subsidiaries are accounted for and evaluated based on the equity method, recognized in income for the year as operating income (or expense). In the event of exchange variation of investments in subsidiary located abroad, changes in the value of an investment exclusively arising from the exchange variation are recorded in the account "Carrying value adjustments", in the Company's shareholders' equity, and are recorded in income for the year only when the investment is sold or written down as a loss. To calculate equity in the earnings of subsidiaries, unrealized gains or transactions between the Company and its subsidiaries are eliminated proportionately to the Company's interest; unrealized losses are also eliminated, unless the transaction provides evidences of permanent loss (impairment) of the asset transferred. The participation in IRB Brasil Resseguros S.A. and in Seguradora Líder dos Consórcios do Seguro DPVAT is recorded at cost. For other investments, provisions for adjustment to market value are established, when applicable.

When necessary, the accounting practices of subsidiaries are altered to be consistent with the practices adopted by the Company.

(f) Goodwill or negative goodwill on the acquisition of an investment is calculated as the difference between the purchase value and book value of the shareholders' equity of the acquired company. Goodwill or negative goodwill is recorded in investments and subdivided into the future profitability category, represented by the difference between fair value of assets and liabilities and the purchase amount.

The portion based on expected future income is amortized over the term, extension and proportion of the estimated results, not exceeding ten years. Negative goodwill is amortized only when the investment is sold.

(g) Fixed assets are stated at acquisition cost. Land and buildings are stated at the revalued amount at December 31, 2007, based on appraisals made at December 22, 2006 by independent appraisers, net of the subsequent depreciation for buildings. As authorized by

Law No. 11638/07 and CPC Pronouncement 13 - First-time adoption of Law 11638/07, the subsidiaries Porto Seguro, Porto Seguro Vida, Azul Seguros and Porto Consórcio adopted the revalued residual value at December 31, 2007 as the new cost value of the buildings and land. The portion of revaluation reserve referring to buildings is transferred (realized) to retained earnings in the same proportion as the buildings are depreciated. The portion of revaluation reserve on land will only be transferred (realized) to the retained earnings when the land is sold.

Depreciation is calculated on the straight-line method, in accordance with the rates disclosed in Note 16 item (a). Land is not depreciated.

Gains and losses on sales are determined by comparing the sales amounts with the book value and are included in the result. When the revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(h) Intangible assets

(i) Computer programs (software) - Software licenses acquired are capitalized and amortized over their estimated useful life, at the rates described in Note 16 item (b). Expenditures of software development or maintenance are expensed as incurred. Expenditures directly associated with identifiable and unique software, controlled by the Company and which will probably generate economic benefits greater than the costs for more than one year, are recognized as intangible assets. Direct expenditures include remuneration of the software development team and the appropriate portion of related general expenses. Expenditures for development of software recognized as assets are amortized using the straight-line method over the useful lives, at the rates described in Note 16 item (b).

(ii) Other intangible assets - The acquisition costs of patents, trademarks, licenses and exploration rights are capitalized and amortized using the straight-line method over the useful lives, at the rates described in Note 16 item (b). Intangible assets are not revalued.

(i) Impairment of assets

Fixed assets and other non-current assets, including goodwill and intangible assets, are reviewed to identify evidence of unrecoverable losses annually, and also whenever events or alterations in the circumstances indicate that the book value may not be recoverable. In this case, the recoverable value is calculated to verify if there is any loss. In the event of loss, it is recognized at the amount in which the book value of the asset exceeds its recoverable value, which is the higher between the net sales price and the value in use of an asset. For evaluation purposes, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(j) Other current assets and long-term receivables are stated at cost, including, when applicable, income earned and provisions for losses.

(k) Allowances for doubtful accounts are recorded at amounts considered sufficient to cover potential losses on the realization of receivables, as follows: (i) for the subsidiaries operating in the insurance segment, the allowance is recorded on premiums receivable from risks expired overdue for more than 60 days, based on history of losses and default risks of each insurance line. This change in practice had an effect of R$ 329 in income, net of tax effects; (ii) for the subsidiary Portoseg, the allowance is recorded based on the minimum percentage of provision required by BACEN Resolution No. 2682/99, based on the analysis of outstanding transactions, taking into account the economic situation and specific and overall portfolio risks.

(l) Technical reserves related to the insurance and pension plan activities

Technical reserves are recognized in compliance with the requirements and criteria established by the CNSP, SUSEP and ANS, as follows:

Casualty (automobile, transportation, property, etc.),
life and health insurance lines

(i) The unearned premium reserve (PPNG) is calculated on a daily "pro rata" basis, based on retained premiums, and is intended to provide for the portion of the latter corresponding to the unexpired risk period, starting on the calculation base date, for casualty, group life, personal accidents and health insurance lines.

(ii) The unexpired risk reserve (PRNE) is calculated on a daily "pro rata" basis, based on net retained premiums, and is intended to provide for the portion of the latter corresponding to the unexpired risk period, starting on the calculation base date, for individual life insurance.

(iii) The unearned premium reserve for risks in force but not issued (PPNG - RVNE) is intended to estimate the portion of unearned premiums related to risks assumed by the Company and that are in the process of being issued, in accordance with the methodology provided for in the Technical Actuarial Notes (NTA) in the casualty and life lines.

(iv) The reserve for unsettled claims (PSL) is based on estimates of indemnities payable, made upon the receipt of notices of claims, net of ceded coinsurance and reinsurance adjustments. An additional reserve for unsettled claims (IBNER) is recorded to cover reported claims whose amounts are subject to changes in the claim analysis process. This reserve is calculated based on a technical actuarial note, for the casualty and life lines. For health insurance, PSL is constituted based on claims payable calculated upon the receipt of claim notice, through the presentation of the medical bill or the service provider advice.

(v) The reserve for claims incurred but not reported (IBNR) for the casualty, life and health lines is calculated on estimated claims occurred but not reported to the Insurer based on a technical actuarial note. The IBNR reserve for the DPVAT (mandatory insurance against personal injury caused by automotive land vehicles) line is recognized pursuant to CNSP Resolution 174/07.

(vi) The premium deficiency reserve (PIP) for the life insurance portfolio is recognized to cover the insufficiency arising from the impossibility of applying the fee adjustment in the existing contracts due to a court decision. This reserve is calculated based on a technical actuarial note.

(vii) The legal obligation reserve (POL) for the life insurance portfolio is recorded with the objective of covering the difference, if positive, between the PPNG calculated through the minimum parameters provided for in current law and the PPNG calculated based on premiums practiced. This reserve is calculated based on a technical actuarial note.

(viii) The risk fluctuation reserve (POR) is recognized for the purpose of stabilizing the result and reducing impacts on risk rates, upon the occurrence of major claims, in the business, residential and condominium, and national and international transport insurance lines. This reserve is calculated based on a technical actuarial note.

(ix) The complementary provision for premiums (PCP) is recorded monthly with the objective of complementing PPNG, considering all the risks, issued or not issued, in accordance with current law. It is estimated based on the insurance line, and its calculation basis is the initial and final date of the risk validity and the retained commercial premium. The provision amount, if positive, will be the difference between the average sum of the daily amounts for the month they are recorded and the recorded PPNG, for the casualty and life insurance lines.

(x) The mathematical reserve for vested benefits (PMBC) for the health insurance line is recognized based on the estimate of future medical and hospital expenses of the policyholders who are receiving a remission benefit. This reserve is calculated based on a technical actuarial note.

(xi) The reserve for administrative expenses (PDA) is recorded for the purpose of covering the administrative deficit, through the resources originating from the administrative results of the DPVAT computed monthly.

Pension plans

(i) The mathematical reserves for unvested benefits (PMBaC) and vested benefits (PMBC) represent the amount of obligations assumed with the participants of annuity and lump-sum pension plans, structured under the capitalization and allocation of coverage capitals financial methods, and of life insurance with a surviving beneficiary clause. These reserves are calculated based on technical actuarial notes.

(ii) The contribution deficiency reserve (PIC), calculated based on an actuarial valuation, is recognized to cover deviations related to technical bases of mathematical reserves for PMBaC and PMBC and is calculated based on technical actuarial notes.

(iii) The reserve for administrative expenses (PDA) is recognized to meet current and future operating expenses when benefits are paid to participants. In June 2006, the subsidiary Porto Seguro Vida also began recognizing this reserve for plans which are still in the contribution stage. This reserve is calculated based on technical actuarial notes.

(iv) The unexpired risk reserve (PRNE) is calculated on a daily "pro rata" basis, based on net contributions received in the month, and is intended to accrue the portion of the contribution corresponding to the unexpired risk period, starting on the calculation base date.

(m) Commissions on premiums written are recorded in current liabilities on the accrual basis. These commissions are due to insurance brokers when the respective insurance premium is received. The Tax on Financial Transactions (IOF) on premiums receivable, recorded in current liabilities as a corresponding entry to "Premiums receivable", is withheld and paid when the premium is received.

(n) Other current and non-current liabilities are stated at known or estimated amounts, plus accrued charges and monetary variations incurred, when applicable.

(o) Income tax and social contribution

Income tax is calculated at the base rate of 15%, plus 10% surtax on annual taxable income exceeding R$ 240. The provision for social contribution is calculated at the rate of 15% (Note 25(a)). The provisions for deferred income tax and social contribution on temporary differences and the revaluation reserve of fixed assets (buildings) are recorded and the amounts are transferred to taxes payable in current liabilities, upon the realization or disposal of assets. Deferred income tax and social contribution on lands are not recognized because there is no expectation of realization or disposal of these assets, in accordance with current rules.

(p) Contingent assets and liabilities and legal obligations - taxes and social security

(i) Contingent assets - not recognized, except when management has full control of the situation of a certain future event, which although not yet occurred depends only on it, or when there are real guarantees or favorable, final and unappealable court decisions, which qualify the favorable outcome as practically certain.

(ii) Contingent liabilities - recognized taking into consideration: (a) the opinion of the legal counsel; (b) the cause of action; (c) the similarity with previous lawsuits; (d) the complexity of the case and the position of courts; whenever the loss may result in outflows of funds to settle the obligations and the amounts involved can be reliably measured.

(iii) Legal obligations - taxes and social security: these arise from lawsuits related to tax obligations, whose legality or constitutionality is being challenged, and which, regardless of the evaluation of the likelihood of a favorable outcome, have their amounts fully recognized in the financial statements and are monetarily adjusted in accordance with current tax legislation (SELIC interest rate).

(q) For corporate reporting purposes, interest on own capital is stated as an allocation of income directly in shareholders' equity. The rate used to calculate interest on capital is limited to the variation of the Long-term Interest Rate (TJLP) for the applicable period and is computed on the higher of: (i) 50% of the Company's net income (after deducting the Social Contribution on Net Income (CSLL) and before considering the aforementioned allocation and any deductions related to income tax); and (ii) 50% of the Company's retained earnings and revenue reserves.

5 Financial Investments

(a) Breakdown of the investment portfolio by nature of securities:

				2008	2007
Trading securities	**Insurance companies**	**Pension plans**	**Other activities**	**Consolidated**	**Consolidated**
Open funds					
Fixed-income securities					
Investment fund quotas	389,732	72,968	264,665	727,365	1,326,711
Retained funds - Brazilian Reinsurance Institute (IRB)	740	16	-	756	586
Other investments	286	-	-	286	271
	390,758	72,984	264,665	728,407	1,327,568
Variable-income securities					
Investment fund quotas	1,511	-	266	1,777	93,557
Total open funds	392,269	72,984	264,931	730,184	1,421,125
Exclusive funds					
Fixed-income securities					
Financial Treasury Bills (LFTs)	546,799	275,629	238	822,666	327,382
National Treasury Bills (LTNs)	627,614	200,065	-	827,679	989,583
National Treasury Notes (NTNs) - series B	362,465	81,887	-	444,352	606,067
National Treasury Notes (NTNs) - series C	-	230,561	-	230,561	183,350
Private securities	32,706	86,481	-	119,187	87,527
Variable-income securities					
Shares of publicly-held companies	44,795	17,150	-	61,945	29,546
Total exclusive funds	1,614,379	891,773	238	2,506,390	2,223,455
Own portfolio					
Variable-income securities					
Shares of publicly-held companies	-	-	-	-	335
Total own portfolio	-	-	-	-	335
Derivative financial instruments	-	-	23,712	23,712	-
Total trading securities	2,006,648	964,757	288,881	3,260,286	3,644,915

				2008	2007
Available-for-sale securities	**Insurance companies**	**Pension plans**	**Other activities**	**Consolidated**	**Consolidated**
Own portfolio					
Fixed-income securities					
Private securities	474,195	17,813	42,869	534,877	-
Financial Treasury Bills (LFTs)	103,922	229,877	-	333,799	73,709
National Treasury Notes (NTNs) - series C	-	-	-	-	257,030
Total own portfolio	578,117	247,690	42,869	868,676	330,739
Total available-for-sale securities	578,117	247,690	42,869	868,676	330,739
Total financial investments	2,584,765	1,212,447	331,750	4,128,962	3,975,654
Current				3,372,542	3,921,938
Non-current				756,420	53,716
Derivative financial instruments (liabilities)	-	5,067	-	5,067	-

(b) Breakdown of available-for-sale securities comparing the cost value to the market value

	Consolidated		
	2008		
	Restated cost	**Adjustment to market value**	**Market value**
Private securities	535,399	(522)	534,877
Financial Treasury Bills (LFTs)	334,019	(220)	333,799
Total	869,418	(742)	868,676

The market value of government securities is based on the "unit market price" disclosed by the National Association of Financial Market Institutions (ANDIMA) at the balance sheet dates.

Investment fund quotas are valued based on the price of the quota disclosed by the fund's manager at the balance sheet dates.

To better reflect the management's current intention, the government securities Financial Treasury Bills (LFTs) and the Bank Deposit Certificates (CDB) were reclassified from "trading securities" to "available-for-sale securities."

(c) Adjustments of securities

Adjustments to market value of available-for-sale securities are presented in shareholders' equity as follows:

	Consolidated
	2008
Private securities	(522)
Financial Treasury Bills (LFTs)	(220)
Subtotal	(742)
(i) Tax effects	252
Other investments - Uruguay	2,889
Total net of tax effects	2,399

(d) Breakdown of the investment portfolio by maturity

						2008
	Without maturity	**1 to 30 days**	**31 to 180 days**	**181 to 360 days**	**Over 360 days**	**Total**
Trading securities (i)						
Open funds						
Fixed-income securities						
Investment fund quotas	727,365	-	-	-	-	727,365
Retained funds - IRB	756	-	-	-	-	756
Other investments	286	-	-	-	-	286
	728,407	-	-	-	-	728,407
Variable-income securities						
Investment fund quotas	1,777	-	-	-	-	1,777
Total outstanding funds	730,184	-	-	-	-	730,184

	2008					
	Without maturity	1 to 30 days	31 to 180 days	181 to 360 days	Over 360 days	Total
Exclusive funds						
Fixed-income securities						
Financial Treasury Bills (LFTs)	-	205,376	4,640	-	612,650	822,666
National Treasury Bills (LTNs)	-	807	-	-	826,872	827,679
National Treasury Notes (NTNs) - series B	-	-	9	-	444,343	444,352
National Treasury Notes (NTNs) - series C	-	-	-	-	230,561	230,561
Private securities	-	-	-	-	119,187	119,187
Variable-income securities						
Shares of publicly-held companies	-	61,945	-	-	-	61,945
Total exclusive funds	-	268,128	4,649	-	2,233,613	2,506,390
Derivative financial instruments	-	-	-	-	23,712	23,712
Total trading securities	730,184	268,128	4,649	-	2,257,325	3,260,286
Available-for-sale securities						
Own portfolio						
Fixed-income securities						
Private securities	-	-	-	-	534,877	534,877
Financial Treasury Bills (LFTs)	-	4,362	21,844	24,725	282,868	333,799
Total own portfolio	-	4,362	21,844	24,725	817,745	868,676
Total available-for-sale securities	-	4,362	21,844	24,725	817,745	868,676
Total financial investments	730,184	272,490	26,493	24,725	3,075,070	4,128,962

(i) Securities classified as "trading securities" are included in current assets, regardless of their maturity, as provided by current law.

6 Derivative financial instruments

(a) Policy for the use of derivative financial instruments

The transactions with derivative financial instruments are permitted by the investments policy of the Company and its subsidiaries only for hedge purposes. The use of these instruments is linked to the protection against fluctuations in market interest rates and their effects on the portfolio of Federal Internal Public Debt Securities. The Company and its subsidiaries do not use all the derivative financial instruments, as defined in article 2, paragraph 1, of the CVM Instruction 550/2008, i.e., forward contracts, options, swap options, swaps with anticipatory breach of contract, flexible options, derivatives and other products and operations structured with exotic derivatives. They are used only for asset and liability hedging purposes.

The protection of liabilities is permitted and used in the absence, even partial due to the market liquidity, of federal public securities issued by the National Treasury linked to restatement indices compatible with the liabilities.

In respect to the investments policy of the Company and its subsidiaries, all the transactions related to these instruments are traded and recorded through the Futures and Commodities Exchange or the over-the-counter market. All counter parties involved in these transactions are Brokerage Firms, authorized to operate in the following Markets: Spot, Forward, Futures, Options, Available, Commodities or Financial Assets. The guarantees given in derivative operations are 100% Federal Government Securities.

The determination criteria, methods and assumptions applied in the calculation of fair value were established through the forward structure of interest rate, considering that for swap vertices a linear interpolation is used between interest rates. Sensitivity analysis was calculated through accumulated rates over the term of the contract, considering that for the possible scenario, we use a 25% increase on accumulated interest rate in the period, and for the remote scenario, we use a 50% increase, according to legal determination.

Portoseg swaps fall due on July 24, 2009 and July 30, 2010, with no currency exposure (US dollar or yen), because the liabilities of operations are indexed at interest rate; therefore, the same methodology mentioned above is used for analysis of probable, possible and remote amounts.

In the General Market Price Index (IGP-M) swap transaction, there is no financial institution involved, since the contract is registered in the BM&F clearing house. The outstanding position and the clearing guarantee margins of the contracts are with Brokerage Firms, authorized to operate by the CVM.

The transactions related to these instruments are constantly monitored, within predefined limits and pursuant to the internal fund allocation policies established by the Investment Committee.

(b) Objectives and strategies of risk management

The use of derivative financial instruments aims at the protection against oscillations of the interest rates, reduction of volatility and also liabilities protection.

The risk management associated to these transactions is supported by a structured and disciplined process of management supported by three main pillars; the first is the preparation of vision and scenarios (for different times), the second refers to the analysis of risks in a wide sense, and herein described as market risk, through criteria to evaluate these transactions that

take into account the stress testing analysis of alternative scenarios *vis-à-vis* the risk policy adopted, with constant monitoring of the transactions carried out ("Value at Risk - VaR"), and finally the third pillar relates to the macro-allocation definition.

The use of any derivative financial instrument goes through this risk control process, with periodical monitoring after the allocation definition.

Transactions related to liabilities are equally included in this process, with definition through the timing of settlement of assets and liabilities (Asset and Liability Management (ALM)).

(c) Activities in the market

The Company comprises various companies and segments of activity. The notes in this caption apply to the subsidiaries Porto Seguro Vida and Portoseg. The volumes related to the transactions with derivative financial instruments, in the amount of R$ 272,064, are described in item (f).

Of the positions in derivative financial instruments, Porto Seguro Vida has 77.7% of the notional value in item (f) related to Swap of IGP-M with average maturity of 3.4 years, and risk associated to the interest rates variation. The operation is intended to reflect a security that remunerates its actuarial liability at the same index contracted by the participant. According to the characteristics of the contract, the company is "receiver" of an inflationary index plus a fixed coupon and "donator" of interest rates. Aiming at the protection against oscillations in the interest rates of the debtor contract, the company opted for acquiring securities remunerated at the market interest rate for the same maturities, thus eliminating the risk of mismatch of interest rates.

The accumulated effects up to the end of 2008 of transactions related to IGP-M Swap are stated in item (f). The positive effects resulted from the compliance with the strategic objectives, preserving the interest of the Company and its subsidiaries and reducing risk exposure.

The criterion for the determination of fair value is the daily valuation of the Swap contract of the assets and liabilities accounts through the prices of the Futures and Commodities Exchange (BM&F). The guarantees involved comply with criteria defined by BM&F. For these guarantees public securities acquired for this purpose are pledged.

Of the positions in derivative instruments, Portoseg CFI has 22.3% of the notional value in item (f), related to Swap of Foreign Currency with average maturity of 1.5 year and risk associated to the interest rate variation. The operation aims at creating alternative channels for raising

funds for the loan operations of the finance company, that is expanding its operations. According to the contract characteristics, the company is "receiver" of exchange variation and "donator" of interest rates. The operation also contemplates a Bank Credit Certificate (CCB) contract, in which the company is donator of exchange variation, therefore annulling the exchange risk exposure, leaving the cost of the operation to Portoseg linked only to a percentage of CDI.

The accumulated effects up to the end of 2008 of transactions related to Swap of Currencies are stated in item (f). The positive effects resulted from the compliance with the strategic objectives, preserving the interest of the Company and its subsidiaries and reducing risk exposure.

The criterion for determination of fair value is the daily valuation of the Swap contract of the assets and liabilities accounts through the prices of the Clearing House for the Custody and Settlement of Securities (CETIP). The company and its subsidiaries do not have to give guarantees in this operation. The cost of the operation is limited to the percentage agreed of the interest rates up to maturity.

(d) IGP-M Swap

Porto Seguro Vida: Swap IGP-M transactions in which the Company is "receiver" of an index plus a predefined rate and "donator" of one day interest rate.

According to the characteristics of the transaction, the risk is associated to the liability position of the interest rates in the market, due to the risk of an increase in this index. We estimate that in a probable scenario for the weighted average maturity of 3.2 years, the accumulated DI rate is 48.6%. In this case, the liability of the contract would have an increase to settle of R$ 103,508. In the possible and remote scenarios, the accumulated DI rates are 62.47% and 73.19%, respectively, with increase to settle of R$ 124,944 and R$ 146,380. It is worth mentioning that this is only the liability position of the operation, and the contracts will be settled by the difference between asset and liability positions. However, we should consider that the possible effect of the increase in interest rates in the liability position will be offset by the increase in the asset position in federal government securities with the same index (CDI), acquired to hedge this exposure.

(e) Foreign Currency SWAP

Portoseg: Foreign currency Swap transactions in which the subsidiary is "receiver" of exchange variation and "donator" of one day interest rate.

According to the characteristics of the transaction, the risk is associated to "donator" position of interest rates in the market, due to the risk of an increase in this index. We estimate that in a probable scenario for the weighted average maturity of 1.3 year, the accumulated CDI rate is 22.8%. In this case, the company should pay R$ 13,804. The possible and remote scenarios are of 28.7% and 32.0%, respectively, with payments of R$ 15,617 and R$ 17,431. However, it is worth mentioning that the company is not exposed to the exchange variation. This is the reason why the company has a Bank Credit Certificate, which is an integral part of the transaction, therefore annulling the exchange variation exposure. The effect of the increase in interest rates is offset by the pricing of the credit assignment area in the determination of financing rates, inherent to the activities of the companies of the segment.

(f) The amounts of the derivative financial instruments are summarized below:

			2008
Description	**Notional reference value**	**Fair value**	**Effect in income for the year**
Swap contracts			
Asset position	254,415	272,064	23,712
Foreign currency	54,415	60,577	23,712
Specific rates (fixed or floating)	200,000	211,487	-
Liability position	254,415	300,843	(5,067)
Foreign currency	54,415	84,289	-
Specific rates (fixed or floating)	200,000	216,554	(5,067)

(g) Sensitivity analysis on liability - effect of fair value variation

Operation	**Risk**	**Probable scenario**	**Possible scenario - 25%**	**Remote scenario - 50%**
IGPM Swap	CDI% increase	103,508	124,944	146,380
Swap Portoseg	CDI% increase	13,804	15,617	17,431

Counter party: brokerage firms.

Guarantees: 100% of federal government securities.

7 Premiums receivable

	Consolidated					
	2008			2007		
	Premiums receivable from policy holders	Allowance for doubtful accounts	Premiums receivable - net	Premiums receivable from policy holders	Allowance for doubtful accounts	Premiums receivable - net
Automobile	797,463	(1,449)	796,014	676,856	(413)	676,443
Casualty	100,399	(591)	99,808	70,216	(150)	70,066
Transportation	21,751	(8,019)	13,732	15,645	(5,809)	9,836
Life	69,262	(2,829)	66,433	54,265	(2,405)	51,860
Health	17,375	(5,596)	11,779	17,391	(5,093)	12,298
Uruguay	17,468	(2,641)	14,827	12,490	(1,840)	10,650
	1,023,718	(21,125)	1,002,593	846,863	(15,710)	831,153

Breakdown by maturity

	2008	2007
Not yet due	933,292	788,705
Past due up to 30 days	52,146	34,537
Past due from 31 to 60 days	13,280	5,225
Past due from 61 to 90 days	5,426	2,317
Past due from 91 to 120 days	3,321	987
Past due for more than 120 days	16,253	15,092
	1,023,718	846,863
Allowance for doubtful accounts	(21,125)	(15,710)
	1,002,593	831,153

8 Deferred Selling Expenses

	Consolidated	
	2008	**2007**
Automobile	322,437	287,261
Property	38,822	28,876
Financial risks	23,274	13,653
Personal	12,716	6,147
Health	1,136	889
Liability	532	523
Transportation	489	394
Other	2,706	4,232
	402,112	341,975
Current	399,685	340,983
Non-current	2,427	992

9 Lending Operations

(a) By type of operation

	Consolidated	
	2008	**2007**
Loans	48,534	40,573
Financing	259,211	207,170
Credit card	43,767	-
	351,512	247,743
Allowance for doubtful accounts	(20,604)	(12,609)
	330,908	235,134
Current	199,632	133,515
Non-current	131,276	101,619

(b) By risk level

					2008	
Risk level	**Provision required**	**Loans**	**Financing**	**Credit card**	**Total**	**Provision**
A	0.5	38,293	219,202	22,912	280,407	1,402
B	1	2,209	11,341	4,782	18,332	183
C	3	1,978	11,018	4,776	17,772	533
D	10	966	5,229	4,248	10,443	1,045
E	30	780	2,421	3,269	6,470	1,941
F	50	453	1,408	1,742	3,603	1,801
G	70	537	1,130	953	2,620	1,834
H	100	3,318	7,462	1,085	11,865	11,865
Total		48,534	259,211	43,767	351,512	20,604

10 Other Credits

	Consolidated	
	2008	**2007**
Commissions in process (i)	94,664	30,461
Credit card transactions (ii)	303,891	-
Credits receivable from IRB	2,542	4,724
DPVAT agreement	3,848	1,965
Credits receivable from other insurance companies	795	659
	405,740	37,809

(i) Represented by payments of commissions to brokers for policies in the process of issuance.

(ii) Refers mainly to amounts receivable from credit cards members not yet due or not invoiced. These amounts have as contra entry accounts payable to associated establishments. See Note 17.

11 Taxes and Contributions - Assets and Liabilities

(a) Taxes recoverable

	Parent company		Consolidated	
	2008	**2007**	**2008**	**2007**
Current assets				
Income tax	8,800	5,623	30,328	11,205
Social contribution	213	74	6,764	1,501
Social Integration Program (PIS) surcharge	-	-	320	164
Other	-	-	1,857	1,443
	9,013	5,697	39,269	14,313
Non-current assets				
Social Security Fund (FINSOCIAL) (i)	-	-	3,204	3,204
National Institute of Social Security (INSS) - independent contractors (i)	-	-	1,896	1,896
Supplementary State Income Tax (AIRE) (i)	-	-	130	406
Income tax	-	-	748	1,012
Social contribution	-	-	315	323
PIS	-	-	1,109	6
	-	-	7,402	6,847

(i) Contingent assets

FINSOCIAL

The subsidiary Porto Seguro filed a claim for refund of overpayment of amounts collected by and paid to the Federal Government as FINSOCIAL for the period from February 1989 to October 1990. The lawsuit resulted in a favorable judgment and the Federal Government was ordered to refund the overpayment in ten annual installments, through a bond to pay court-ordered debt. The installments 5 through 8 were attached for PIS purposes; however, on August 8, 2008, this was dismissed upon judgment of merit. The Federal Government filed an appeal against this decision, which is pending judgment.

National Institute of Social Security (INSS) - independent contractors

The subsidiary Porto Seguro filed a claim for refund of overpayment because of the 20% contribution to the National Social Security Institute (INSS) levied on payments to independent contractors, day workers, and officers. The lawsuit resulted in a favorable judgment and the INSS was ordered to refund the overpayment in ten annual installments, through a bond to pay court-ordered debt. The installments 6 and 7 were attached for PIS purposes; however on August 8, 2008, this was dismissed upon judgment of merit. The Federal Government filed an appeal against this decision, which is pending judgment.

Supplementary State Income Tax (AIRE)

The subsidiaries Porto Seguro, Porto Seguro Vida and Porto Consórcio filed a claim for refund of overpayment because of the amounts collected by and paid to the State of São Paulo as AIRE. The lawsuit resulted in a favorable judgment, and the State Government was ordered to refund the overpayment in ten annual installments, through a bond to pay court-ordered debt. Until now, 4 installments were released, deposited in checking accounts kept by the subsidiaries; the last one was received on December 26, 2008.

(b) Taxes and contributions payable

	Parent company		Consolidated	
	2008	**2007**	**2008**	**2007**
Current liabilities				
IOF on insurance premiums	-	-	60,350	49,151
Contributions to INSS and to the Government Severance Indemnity Fund for Employees (FGTS)	6	5	13,394	10,639
Income tax	530	-	993	2,127
Social contribution	192	-	299	14,138
Withheld Income Tax (IRRF) (i)	4	2	22,081	17,093
Services tax (ISS) withheld at source	-	-	2,641	2,043
PIS and COFINS contributions	1	-	1,622	1,568
Other	-	-	6,627	5,602
	733	7	108,007	102,361

(i) Refers mainly to withholding income tax on interest on capital.

(c) Deferred income tax and social contribution - non-current

Long-term receivables

	Parent company		Consolidated	
Temporary differences	**2008**	**2007**	**2008**	**2007**
Provision for contingencies - COFINS	-	-	235,482	193,626
Provision for contingencies - PIS and INSS	-	-	30,211	20,866
Provision for contingencies - Other (i)	-	-	38,972	35,928
Provision for contingencies - rate increase	-	-	18,364	-
Tax provision - tax loss	9,694	10,421	9,694	10,421
Provision for losses on tax credits	(9,694)	(10,421)	(9,694)	(10,421)
	-	-	323,029	250,420

(i) Refers mainly to allowances for doubtful debts, labor claims and civil contingencies.

Long-term liabilities

	Consolidated	
Nature	**2008**	**2007**
Income tax and social contribution on future realization of revaluation reserve	42,052	36,549
Income tax and social contribution on the effects of securities adjusted to market values	116	3,758
	42,168	40,307

(d) Reconciliation of income tax and social contribution expenses

	Parent company		Consolidated	
	2008	**2007**	**2008**	**2007**
Profit before IRPJ, CSLL and profit sharing	292,221	419,939	467,143	703,546
Standard rate - % (i)	34	34	40	34
Computation of IRPJ and CSLL expenses according to the standard rate	(99,355)	(142,779)	(186,857)	(239,206)
IRPJ and CSLL effect on permanent differences				
Equity in the earnings of subsidiaries	100,393	146,415	-	-
Interest on capital	(521)	-	35,103	30,383
Rate increase from 9% to 15% of CSLL	-	-	18,364	-
Employees profit sharing	-	-	11,543	16,616
Tax incentives	-	-	3,419	6,207
Dividends received	-	2	641	467
Non-deductible expenses, net of non-taxable income	(180)	-	(2,428)	(5,072)
Other	24	-	8,379	(3,206)
IRPJ and CSLL expenses	361	3,638	(111,836)	(193,811)
IRPJ and CSLL effect on temporary differences				
COFINS	-	-	41,856	35,668
PIS and INSS	-	-	9,345	12,672
Rate increase from 9% to 15% of CSLL	-	-	18,364	-
Other	(2,407)	(3,638)	3,044	6,160
Total deferred IRPJ and CSLL	(2,407)	(3,638)	72,609	54,500
Current IRPJ and CSLL	(2,046)	-	(184,445)	(248,311)
IRPJ and CSLL expenses	(2,046)	-	(111,836)	(193,811)

(i) See Note 25 item (a).

(e) Transition Tax Regime

In order to calculate income tax and social contribution on net income for 2008, companies may opt for the Transition Tax Regime (RTT), in which legal entities are allowed to eliminate the accounting effects of Law 11638/07 and MP 449/08, through records in the Taxable Income Assessment Book (LALUR) or auxiliary controls, without any modification to the commercial accounting records. The option for this regime must be declared upon the filing of the Corporate Income Tax Return (DIPJ) for 2008.

The financial statements for the year ended December 31, 2008 were prepared taking into consideration management's best estimates, which, at the moment, indicate the option for the RTT.

12 Other Receivables

	Parent company		Consolidated	
	2008	**2007**	**2008**	**2007**
Current assets				
Receivables	-	-	7,078	8,647
Checks to regularize/ undeposited checks	-	-	12,492	6,679
Advances to employees	-	-	5,353	4,049
Receivables from policyholders	-	-	11,410	5,840
Prepaid expenses	122	103	3,320	2,645
Administrative advances	-	-	3,302	7,196
Advances to forwarding agents	-	-	3,118	1,577
Advances to suppliers	-	-	127	128
Other	53	2	8,989	6,638
	175	105	55,189	43,399
Non-current assets				
Advances to employees	-	-	2,732	2,377
Credits receivable	-	-	1,849	3,342
Advances to forwarding agents	-	-	1,653	1,468
Other	100	-	1,255	1,111
	100	-	7,489	8,298

13 Other Assets

	Consolidated	
	2008	**2007**
Salvages for sale (i)	37,667	26,233
Supplies	7,575	4,436
GPS equipment	346	6,969
Assets received from third parties (ii)	3,047	827
	48,635	38,465

(i) Refers to salvages arising from total loss in car accidents and recovery of stolen vehicles, recorded at estimated realizable value.

(ii) Refers to assets received as payment in kind, as well as to assets which have been repossessed and are intended for sale.

14 Judicial Deposits

	Consolidated	
	2008	**2007**
Income tax and social contribution (i)	162,288	143,171
Offset of tax loss - income tax basis (ii)	47,607	42,126
Claims	44,830	34,268
IRPJ	24,483	29,733
CSLL	6,919	10,132
INSS - independent contractors	5,561	3,477
Other	3,056	2,662
	294,744	265,569

(i) Refers to the deductibility of taxes and contributions in the IRPJ and CSLL calculation basis, and also to rate difference - from 9% to 15%. See Note 25 item (a).

(ii) Refers to tax losses up to 1994, fully offset in 1995, in non-compliance with the legal limit of 30% of profit for the year.

15 Investment in Subsidiaries - Parent Company

(a) Investments in subsidiaries are as follows:

	Porto Seguro	Azul Seguros	Porto Seguro Proteção e Monitoramento	Porto Consórcio	Portoseg	Portopar	Portoserv	Crediporto	Integração	Portomed	Serviços	Total
Capital	610,000	75,045	16,984	29,500	80,000	1,500	200	500	60	150	100	814,039
Ownership interest (%)	100.00	99.71	99.98	99.99	99.98	99.99	99.50	99.80	100.00	99.93	99.00	
Shareholders' equity of subsidiaries	1,500,711	174,226	26,521	92,439	93,525	9,704	805	370	81	(16)	(114)	1,898,252
Investment in shareholders' equity	1,500,711	173,720	26,515	92,431	93,509	9,703	801	369	81	-	-	1,897,840
Subsidiaries' net income (loss) for the year	221,907	47,834	1,741	22,652	(720)	2,709	147	(49)	21	(166)	(214)	295,862
Book value of the investment in the parent company - balances at December 31, 2007	1,516,700	139,038	25,774	73,922	60,254	9,671	655	418	-	-	-	1,826,432
Equity in the earnings of subsidiaries - year	221,907	47,695	1,741	22,650	(720)	2,259	147	(49)	21	(166)	(212)	295,273
Prior-year adjustments	1,051	-	-	-	(620)	-	-	-	-	-	-	431
Adjustment of the securities of subsidiaries	(9,058)	(80)	-	(43)	-	-	-	-	-	-	-	(9,181)
Adjustment of rate increase - CSLL	(5,873)	(364)	-	-	-	-	-	-	-	-	-	(6,237)
Carrying value adjustment	1,529	-	-	-	-	-	-	-	-	-	-	1,529
Interest on capital/dividends	(225,545)	(12,569)	(1,000)	(4,100)	(5,404)	(2,227)		-	-	-	-	(250,845)
Capital increase/payment	-	-	-	-	40,000	-	-	-	60	-	-	40,060
Balances at December 31, 2008	1,500,711	173,720	26,515	92,429	93,510	9,703	802	369	81	-	-	1,897,840

	Holding - %
	2008 and 2007
Indirect subsidiaries	
Porto Seguro Vida	99.97
Porto Seguro Saúde	99.99
Porto Seguro Uruguay	100.00

(b) Negative goodwill

On November 28, 2003, the Company acquired the shareholding control of Azul Seguros with a negative goodwill of R$ 23,831, which was recorded under "Deferred income" in liabilities (Consolidated) and as a reduction in the investment account in the Parent company.

16 Fixed and Intangible Assets - Consolidated

(a) Fixed assets

	Land (i)	Buildings (ii)	IT equipment	Equipment	Equipment held by third parties	Furniture, machinery and fixtures	Vehicles	Tracking equipment	Other fixed assets	Total in operation	Construction in progress	Total
At December 31, 2006	128,400	185,988	25,134	11,227	3,933	15,698	5,601	207	1,362	377,550	10,213	387,763
Acquisition	24,600	2,101	16,000	2,008	-	5,995	5,746	58,510	1,483	116,443	14,036	130,479
Transfer	(2,007)	2,007	10	19	-	(6)	(73)	-	(1,170)	(1,220)	-	(1,220)
Disposal	(445)	278	(32)	(48)	-	(10)	(1,000)	-	-	(1,257)	-	(1,257)
Depreciation/depletion/amortization	-	(4,401)	(12,644)	(2,124)	301	(3,343)	(1,871)	(8,505)	(1,305)	(33,892)	-	(33,892)
Other movements	-	-	-	(9)	-	(47)	(350)	-	(4)	(410)	-	(410)
Revaluation	339	439	-	-	-	-	-	-	-	778	-	778
At December 31, 2007	150,887	186,412	28,468	11,073	4,234	18,287	8,053	50,212	366	457,992	24,249	482,241
Total cost	150,887	195,192	89,132	30,702	7,149	37,979	11,409	58,510	2,243	583,203	24,249	607,452
Accumulated depreciation	-	(8,780)	(60,664)	(19,629)	(2,915)	(19,692)	(3,356)	(8,298)	(1,877)	(125,211)	-	(125,211)
Residual value	150,887	186,412	28,468	11,073	4,234	18,287	8,053	50,212	366	457,992	24,249	482,241
At December 31, 2007	150,887	186,412	28,468	11,073	4,234	18,287	8,053	50,212	366	457,992	24,249	482,241
Acquisition	10,919	533	31,728	17,104	-	9,298	7,009	119,187	1,210	196,988	23,529	220,517
Transfer	(8,466)	9,340	1,041	(3,476)	4,886	35	(408)	(869)	9,948	12,031	(2,294)	9,737
Disposal	(55)	-	(59)	(7,391)	-	(461)	(1,283)	(8,443)	376	(17,316)	-	(17,316)
Depreciation/depletion/amortization	-	(4,433)	(13,107)	(2,400)	(1,366)	(3,735)	(2,421)	(39,053)	(307)	(66,822)	-	(66,822)
At December 31, 2008	153,285	191,852	48,071	14,910	7,754	23,424	10,950	121,034	11,593	582,873	45,484	628,357
Total cost	153,285	204,281	116,544	37,064	11,404	45,349	15,555	168,113	19,799	771,394	45,484	816,878
Accumulated depreciation	-	(12,429)	(68,473)	(22,154)	(3,650)	(21,925)	(4,605)	(47,079)	(8,206)	(188,521)	-	(188,521)
Residual value	153,285	191,852	48,071	14,910	7,754	23,424	10,950	121,034	11,593	582,873	45,484	628,357
Annual depreciation rates - %		2.5	20	10	10	10	20	33.33				

(i) This item is not depreciated.
(ii) Weighted average rate was used for this item.

(b) Intangible assets

	2008			2007	
	Cost	Accumulated depreciation	Net	Net	Annual amortization rate - %
Development of systems	49,485	30,920	18,565	18,263	20
Installation expenses	-	-	-	1,133	20
Other intangible assets	6,942	471	6,471	2,273	10 to 20
Goodwill in acquisition of investments (i)	4,940	528	4,412	-	10.69
Total	61,367	31,919	29,448	21,669	

(i) On January 2, 2008, the shareholding control of Integração was acquired, with a goodwill arising from expected future income. Amortization in 2008 considers a ten-year term.

17 Accounts Payable

	Consolidated	
	2008	2007
Credit card transactions (i)	314,713	-
Profit sharing	46,333	80,604
Suppliers	50,982	27,500
Uncleared checks	18,692	5,401
Refund to consortium members	6,273	6,082
Other	5,349	7,395
	442,342	126,982

(i) Refers mainly to amounts payable to associated establishments arising from credit card transactions.

18 Accrued Liabilities - Parent Company

These refer to amounts payable by the parent company arising from the acquisitions of Azul Seguros and Integração, as follows:

	2008	2007
Azul Seguros (i)	-	13,696
Integração (ii)	2,250	-
	2,250	13,696
Current	450	13,696
Non-current	1,800	-

(i) On June 30, 2008, the last installment related to the acquisition of Axa Seguros do Brasil S.A. was paid.

(ii) The payment will be made in five installments, the last falling due on January 2, 2013. The amount of each installment will be adjusted by the accumulated variation of the SELIC rate.

19 Third-party Deposits - Consolidated

Third-party deposits mainly refer to amounts received from policyholders for the settlement of insurance policies in the process of issuance and the receipt of insurance premiums which are being processed.

20 Other Insurance Debts Payable

	Consolidated	
	2008	2007
Assistance services	12,638	10,826
Accounts payable - DPVAT	10,219	5,570
Provision for operating expenses	5,030	4,679
Premiums to be refunded	4,180	2,829
Insurance companies	518	468
Bonus expenses - Porto Socorro	356	-
Agents and correspondents	251	2,349
Other	3,595	3,578
	36,787	30,299

21 Technical Reserves - Insurance and Pension Plan - Consolidated

(a) Insurance

	Unearned premium reserve		Unsettled claims/ unpaid benefits (*)		Claims incurred but not reported (IBNR)	
	2008	2007	2008	2007	2008	2007
Automobile	1,582,453	1,388,184	213,778	248,998	28,566	32,772
DPVAT	-	-	91,927	61,877	7,792	3,532
Property	134,576	102,850	25,791	24,963	1,567	1,618
Financial risks	88,699	53,784	19,517	14,806	2,737	1,767
Health	12,705	10,516	11,787	18,333	53,534	37,117
Personal	26,015	9,232	46,079	52,151	17,038	16,617
Liabilities	3,370	3,618	11,355	12,066	519	429
Transportation	2,238	1,746	13,346	14,408	659	831
Other	1,425	1,223	8,357	6,694	1,056	2,000
	1,851,481	1,571,153	441,937	454,296	113,468	96,683
Porto Seguro Uruguay	19,049	13,977	27,793	20,958	91	80
	1,870,530	1,585,130	469,730	475,254	113,559	96,763
Current	1,855,401	1,580,844	469,730	475,254	113,559	96,763
Non-current	15,129	4,286	-	-	-	-

	Premium deficiency reserve (PIP)		Unexpired risk reserve (PRNE)		Mathematical reserve - insurance	
	2008	2007	2008	2007	2008	2007
Personal	1,220	1,236	14,989	16,212	28,707	33,007
VGBL	-	-	-	-	200,940	124,365
	1,220	1,236	14,989	16,212	229,647	157,372
Current	1,220	1,236	14,807	16,132	229,647	157,372
Non-current	-	-	182	80	-	-

(*) The reserve for unsettled claims is presented net of ceded coinsurance and reinsurance effects. The claims under judicial dispute, in the amount of R$ 185,475 (December 2007 - R$ 181,130) are recorded under the caption "Unsettled claims/unpaid benefits" in current liabilities, based on estimates made by the legal counsel and the legal departments of the subsidiaries and on the technical areas' historical experience for each insurance line, as shown below:

	Consolidated	
Loss risk	**2008**	**2007**
Probable	77,933	75,497
Possible	103,485	100,220
Remote	4,057	5,413
	185,475	181,130
Number of processes	10,421	10,134

(b) Technical reserves - pension plan

	Consolidated	
	2008	**2007**
Opening balance	685,123	557,360
Contributions	115,374	101,341
Benefit and redemption expenses	(51,865)	(43,381)
Monetary variation and interest	108,386	84,162
Other movements	(23,868)	(14,359)
Closing balance	833,150	685,123
Of which		
Mathematical reserve - pension plan	778,204	645,271
Vested benefits - pension plan	23,415	17,241
Contribution deficiency reserve	31,531	22,611
	833,150	685,123
Vested benefits - health insurance	1,954	2,027
	835,104	687,150
Current	833,957	685,903
Non-current	1,147	1,247

(c) Other reserves - insurance and pension plan - Consolidated

	Other reserves (i)	
	2008	**2007**
Personal	7,078	8,574
Properties	8,686	8,900
Transportation	3,904	3,279
VGBL	11,285	11,016
DPVAT	3,878	1,894
Automobile	1,245	729
Liabilities	2	1
Other	236	48
Total	36,314	34,441

(i) Balances considered as other reserves refer to:

	2008	**2007**
Risk fluctuation reserve	13,733	14,796
Administrative expenses reserve	9,728	14,777
Redemption reserve and other amounts	5,277	114
Commercial strategy reserve	2,736	-
Extended guarantee reserve	2,473	1,168
Legal obligations reserve	953	2,638
Premium supplementary reserve	889	665
Other	525	283
	36,314	34,441

(d) Technical reserve guarantee

In accordance with current rules, the following assets were linked to SUSEP and ANS:

	2008	2007
Casualty and group life	2,388,877	2,101,568
Pension plans	847,492	698,225
Life with a surviving beneficiary clause	254,744	185,772
Health	79,980	67,993
Total technical reserves	3,571,093	3,053,558
(-)Retained funds and reserves IRB	(756)	(586)
(-)Credit rights (i)	(742,787)	(665,316)
Amount to be guaranteed	2,827,550	2,387,656
Government fixed income bonds	485,255	419,163
Investment fund quotas	1,873,413	1,649,374
Specially constituted fund quotas	514,895	362,626
Technical reserve guarantees	2,873,563	2,431,163

(i) Refers to installments not yet due comprising premiums receivable and unexpired insurance risks.

(e) Changes in reserves for claims in years after their establishment (in millions of reais)

The summarized reconciliation of the Company's reserves for claims is as follows:

	Reserves for claims (i)							
	December 31							
	2001	2002	2003	2004	2005	2006	2007	2008
Reserves for claims at the end of the prior year	239.7	260.9	320.2	444.2	473.7	467.5	519.0	522.0
Reinsurance ceded	16.0	14.1	12.5	22.0	24.2	18.5	21.6	21.3
Reserves for claims, net of reinsurance	223.7	246.8	307.7	422.2	449.5	449.0	497.4	500.7
Reported claims	1,131.4	1,274.0	1,450.0	1,625.6	1,923.7	2,017.1	2,153.9	2,449.3
Current year	1,100.8	1,237.9	1,407.7	1,581.5	1,861.8	1,940.2	2,084.9	2,310.9
Prior years	30.6	36.1	42.3	44.1	61.9	76.9	69.0	138.4
Payments	1,110.2	1,214.7	1,326.1	1,596.2	1,929.9	1,965.8	2,150.8	2,477.0
Current year	972.8	1,056.6	1,142.0	1,386.7	1,690.2	1,724.8	1,864.1	2,152.8
Prior years	137.4	158.1	184.1	209.5	239.7	241.0	286.7	324.2
Reserves for claims at the end of the year	260.9	320.2	444.2	473.7	467.5	519.0	522.1	494.3
Reinsurance ceded	14.1	12.5	22.0	24.2	18.5	21.6	21.3	15.3
Reserves for claims, net of reinsurance	246.8	307.7	422.2	449.5	449.0	497.4	500.7	479.1

(i) Do not include reserves of Porto Seguro Uruguay, Porto Seguro Vida, DPVAT and retrocession.

The table below shows the development of claims payment. The line "Cumulative excess (deficiency)" reflects the difference between the last recalculated reserve amount and the reserve amount originally established. The purpose of this table is to show the consistency of the Company's' policy related to reserves for claims.

	Reserves and payments							
	December 31							
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Reserves for claims (i), (ii)	223.7	246.8	307.7	422.2	449.5	449.0	497.4	500.7
Amount cumulative and paid up to								
One year later	137.5	158.1	184.1	209.5	239.7	241.0	286.7	324.2
Two years later	143.6	165.8	193.5	221.3	250.9	289.4	324.2	-
Three years later	147.2	172.0	199.4	231.9	257.5	318.1	-	-
Four years later	151.2	176.3	206.0	240.0	282.0	-	-	-
Five years later	154.0	181.5	211.4	260.3	-	-	-	-
Six years later	159.3	187.2	228.4	-	-	-	-	-
Seven years later	159.8	200.6	-	-	-	-	-	-
Eight years later	171.0	-	-	-	-	-	-	-
Reserves recalculated								
One year later	73.9	89.7	104.9	143.0	162.6	169.5	159.6	136.3
Two years later	70.7	82.3	91.2	138.4	146.3	139.2	117.9	-
Three years later	64.6	71.2	92.1	124.0	120.9	104.0	-	-
Four years later	55.9	73.6	81.6	101.4	91.1	-	-	-
Five years later	58.7	63.7	63.1	77.3	-	-	-	-
Six years later	50.5	47.6	64.8	-	-	-	-	-
Seven years later	36.9	51.7	-	-	-	-	-	-
Eight years later	41.4	-	-	-	-	-	-	-
Cumulative excess (deficiency)	11.3	(5.5)	14.5	84.6	76.4	26.9	55.3	40.2

(i) Net of reinsurance and other exclusions.

(ii) Do not include reserves of Porto Seguro Uruguay, Porto Seguro Vida, DPVAT and retrocession. The inclusion of these reserves may distort the information presented in the table above, considering that these reserves are not material (e.g., Porto Seguro Uruguay and retrocession), are not applicable (e.g., Porto Seguro Vida) or are calculated based on different methodologies (e.g., DPVAT).

22 Obligations for Acceptances of Exchange Bills - Consolidated

These balances refer to funds raised through floating-rate securities (Bills of Exchange) from local Financial Institutions, monthly remunerated at 102.0%, 102.5%, 107.0% and 109.0% of the variation of the Interbank Deposit Certificate (CDI), composed as follows:

Date				
Funding	**Maturity**	**Original amount**	**2008**	**2007**
12.08.06	05.08.08	5,000	-	5,643
01.19.07	06.11.08	5,000	-	5,565
CDI factor (102.0%)		10,000	-	11,208
05.25.07	05.25.09	20,000	24,073	21,360
09.04.07	05.25.09	20,000	23,316	20,689
CDI factor (102.5%)		40,000	47,389	42,049
12.19.08	12.19.09	10,000	10,038	-
12.19.08	12.19.09	10,000	10,038	-
CDI factor (107.0%) (i)		20,000	20,076	-
09.18.08	03.17.09	25,000	26,020	-
CDI factor (109.0%)		25,000	26,020	-
		95,000	93,485	53,257
Current			93,485	11,208
Non-current			-	42,049

(i) See Note 32 item (b).

23 Obligations for Borrowings and Onlendings - Consolidated

These balances refer to two loan agreements in the amount of R$ 19,994 and R$ 34,421, indexed to Yen variation and bearing interest of 1.3882% p.a and to the US dollar with interest of 5.676% p.a., respectively, linked to two swap agreements whose monthly yield is 102.5% and 107.3% of the CDI, comprised as follows:

Funding	Maturity	Original amount	Balance at December 31, 2008 (i)	2008	2007
06.20.07	06.13.08	40,000	-	-	42,367
08.08.07	07.24.09	19,994	33,683	33,683	20,996
06.13.08	07.30.10	34,421	50,605	50,605	-
		94,415	84,288	84,288	63,363
Current				33,683	42,367
Non-current				50,605	20,996

(i) The contracts negotiated on August 8, 2007 and June 13, 2008 had a difference receivable of R$ 23,712 at December 31, 2008. (See Note 5)

24 Interbank Deposits - Consolidated

Represent funds obtained through interbank deposits from local finance institutions, monthly remunerated at 102.5%, 103.0%, 103.5% and 108.0% of the variation of the Interbank Deposit Certificate (CDI), composed as follows:

Date				
Funding	**Maturity**	**Original amount**	**2008**	**2007**
10.11.06	02.01.08	5,000	-	5,762
11.16.06	03.14.08	5,000	-	5,693
12.26.06	12.26.08	2,000	-	2,246
01.05.07	01.05.09	3,000	3,784	3,357
01.18.07	01.19.09	10,000	12,555	11,141
02.27.07	02.16.09	10,000	12,395	10,998
03.29.07	09.19.08	10,000	-	10,881
04.20.07	04.09.09	8,000	9,739	8,642
CDI factor (102.5%)		53,000	38,473	58,720
12.07.07	11.26.09	18,000	20,429	18,117
CDI factor (103.0%)		18,000	20,429	18,117
02.01.08	01.21.10	14,800	16,534	-
CDI factor (103.5%)		14,800	16,534	
11.13.08	02.11.09	15,000	15,268	-
CDI factor (108.0%)		15,000	15,268	
		100,800	90,704	76,837
Current			74,171	24,582
Non-current			16,533	52,255

25 Contingent Liabilities and Legal Obligations - Taxes and Social Security

The Company and its subsidiaries are parties to lawsuits involving tax contingencies and labor and civil claims. Provisions for losses arising from these lawsuits are estimated and restated by Management, based on the opinion of the Company's legal department and external legal advisors.

(i) The balances of the provisions constituted are as follows:

	Parent company		Consolidated	
	2008	**2007**	**2008**	**2007**
(a) Legal obligations	48,911	35,749	1,350,872	1,143,031
(-) Judicial deposits	(39,222)	(27,431)	(477,946)	(318,266)
	9,689	8,318	872,926	824,765
(b) Labor claims			18,474	28,057
(-) Judicial deposits			(6,585	(5,902
			11,889	22,155
(c) Civil claims			11,026	9,878
(-) Judicial deposits			(2,923)	(2,648)
			8,103	7,230
Total liabilities provisioned	9,689	8,318	892,918	854,150

Contingent liabilities and legal obligations are presented net of related judicial deposits, in accordance with CVM Resolution No. 489/05.

(ii) The changes in contingent liabilities were as follows:

	Consolidated					
	2008			2007		
	Legal obligations	Contingencies		Legal obligations	Contingencies	
	Tax	Labor	Civil	Tax	Labor	Civil
Opening balance	1,143,031	28,057	9,878	959,394	31,487	6,696
Additions	163,565	2,526	2,753	139,068	3,505	4,929
Reversals (*)	(46,111)	(12,109)	(1,981)	(26,780)	(6,935)	(1,747)
Monetary restatement	90,387	-	376	71,349	-	-
Closing balance	1,350,872	18,474	11,026	1,143,031	28,057	9,878
(-) Judicial deposits	(477,946)	(6,585)	(2,923)	(318,266)	(5,902)	(2,648)
Net provision	872,926	11,889	8,103	824,765	22,155	7,230
Number of processes	98	393	383	88	295	430

(*) See item (a) below.

(a) Legal obligations - tax and social security - composition by nature

	Parent company		Consolidated	
	2008	2007	2008	2007
COFINS	40,186	29,372	811,089	664,561
PIS	8,725	6,377	218,531	221,381
INSS - independent contractors	-	-	129,663	115,728
Social contribution	-	-	143,158	111,476
Social contribution - rate dif. 6%	-	-	18,236	-
Income tax	-	-	22,691	16,154
Other	-	-	7,504	13,731
Total tax contingencies	48,911	35,749	1,350,872	1,143,031
(-)Judicial deposits	(39,222)	(27,431)	(477,946)	(318,266)
Net provision	9,689	8,318	872,926	824,765

COFINS

With the enactment of Law No. 9718/98, insurance and pension plan companies, among others, became subject to Social Contribution on Revenues (COFINS) levied on their revenues, at the rate of 3% as from February 1999, and at the rate of 4% after the enactment of Law No. 10684/03.

The subsidiaries Porto Seguro, Porto Seguro Vida, Porto Seguro Saúde and Azul Seguros challenged this taxation in court, as well as the tax basis established by Law No. 9718/98, which considered billings to be equivalent to gross revenue.

On June 28, 2006, in a lawsuit filed by the subsidiaries Porto Seguro and Porto Seguro Vida, the Federal Supreme Court (STF) rendered a final and unappealable decision, disallowing the levy of COFINS on revenues other than those from services provided and sales of goods. Accordingly, in October 2006, the subsidiaries reversed the portion of the provisions related to COFINS levied on those revenues.

The subsidiaries Porto Seguro and Porto Seguro Vida are, at present, awaiting the ruling of: a) the appeal against the order which denied continuance to the extraordinary appeal filed by the Federal Government, which aims at contesting, in the same court recordings of the final and unappealable decision, the extension of effects of the decision issued by the STF; b) the appeal also filed by the Federal Government, due to the decision issued in March 2008 denying the preliminary injunction pleaded by the Federal Government as a complaint; and c) the opposition to the appeal of the Federal Government, filed on June 18, 2008 by the subsidiaries.

Although the balance of accounting provision related to the contribution on insurance premiums revenues is maintained during the legal terms for appeals, this amount is not being deducted for income tax and social contribution purposes.

In the lawsuit filed by Porto Seguro Saúde, the subsidiary currently awaits decision on the extraordinary appeal filed by the Federal Government on July 16, 2008, which is a result of the dismissal of the previous appeal. The company continues to deposit in court the amounts under discussion monthly.

In the lawsuit filed by the subsidiary Azul Seguros, the STF declared, with respect to this actual case, the unconstitutionality of the paragraph 1 of article 3 of Law No. 9718/98, disallowing, therefore, the levy of COFINS on revenues not included in billings; such decision supported the partial approval of the extraordinary appeal filed by the subsidiary. At present, the appeal

requesting clarification of the decision against the ruling which denied the appeal filed by the subsidiary in the recordings of the aforementioned extraordinary appeal is pending judgment.

PIS

The subsidiaries Porto Seguro, Porto Seguro Vida, Porto Seguro Saúde and Azul Seguros are challenging the levy of the Social Integration Program (PIS) contribution, introduced under the provisions of Constitutional Amendments 01/94, 10/96 and 17/97 and Law No. 9718/98, changing the tax basis and the rate, which began to be calculated on gross operating revenue.

In the lawsuit discussing the Constitutional Amendment 01/94, the court decision was partially favorable for the subsidiary Porto Seguro. Upon the issue of abridgment 8 and the decision of STF in relation to the statute of limitations for social contributions, on August 29, 2008, all provision for the period under discussion in this lawsuit amounting to R$ 28,999 was reversed (to tax and financial expenses in the amount of R$ 8,763 and R$ 20,236, respectively). The interlocutory appeal against denial of the extraordinary and special appeals filed by the subsidiary awaits judgment. The lawsuit filed by the subsidiary Porto Seguro Vida is in court of appeals awaiting judgment of appeal on the partially favorable ruling.

The lawsuit filed by the subsidiary Azul Seguros is pending judgment in higher court.

In the lawsuit discussing the Constitutional Amendment 10/96, the decision was as to partially validity, against which the subsidiaries Porto Seguro and Porto Seguro Vida, as well as the Federal Government, filed appeals on the merits of the case.

The amounts which did not had their enforceability suspended were deposited in courts. Although the lawsuit is still ongoing, in October 2007 the subsidiaries Porto Seguro and Porto Seguro Vida obtained a favorable ruling in an administrative procedure which recognized the application of the statute of limitations for 1996 and, therefore, they reversed the portion of accounting provisions, related to the period, in the amount of R$ 21,665 (reversed to tax and financial expenses in the amount of R$ 7,061 and R$ 14,604, respectively).

On February 14, 2008, the appeal on the merits of the case filled by the subsidiaries was deemed partially valid; however, the request for the judicial deposit release was denied. The appeal on the merits of the case filed by the Federal Government was denied. The subsidiaries filed appeals requesting clarification of the decision on May 5, 2008, which were denied on August 22, 2008. Currently, the subsidiaries await judgment of special and extraordinary appeals filed on December 4, 2008.

In the lawsuit filed by the subsidiary Azul Seguros, the decision deemed the claims valid.

Against such outcome, the Federal Government filed an appeal on the merits of the case, which is still pending judgment.

In the lawsuit discussing the Constitutional Amendment 17/97, the decision was as to partially validity, against which the subsidiaries Porto Seguro and Porto Seguro Vida filed special and extraordinary appeals, pending judgment in the High Court of Justice (STJ) and STF, respectively. The amounts which did not had their enforceability suspended were deposited in courts. Although the lawsuit is still ongoing, in October 2007 the subsidiary Porto Seguro obtained a favorable ruling in an administrative procedure which recognized the application of the statute of limitations for the period from January to February 1998 and, therefore, reversed the portion of accounting provisions, related to the period, in the amount of R$ 4,075 (reversed to tax and financial expenses in the amount of R$ 1,516 and R$ 2,559, respectively) and, in July 2008, the company obtained a favorable ruling in an administrative procedure which recognized the application of the statute of limitations for the period from March to May 1998 and, therefore, reversed the portion of accounting provisions, related to the period, in the amount of R$ 6,963 (reversed to tax and financial expenses in the amount of R$ 2,520 and R$ 4,443, respectively).

In the lawsuit filed by the subsidiary Azul Seguros, the decision deemed the claims valid, and the final and unappealable decision was issued on August 16, 2006. Currently the lawsuit is under the settlement phase, for the calculation of amounts to be released to the subsidiary and the amount to be paid to the Federal Government.

In the lawsuit discussing the Law No 9718/98 filed by the subsidiaries Porto Seguro and Porto Seguro Vida, the decision deemed the claims valid and determined that the recordings return to the lower court for a new judgment, which was published on February 28, 2008, recognizing that the subsidiaries may pay PIS without the increase in calculation basis introduced by article 3, paragraph 1, of Law No. 9718/98, in effect as from the base period of 2000. Appeal requesting clarification of the decision was filed with the purpose of amending the judgment, since the decision resulted in a material error when determining the inclusion of revenue from premiums in the PIS calculation basis, which was denied on March 13, 2008. The Federal Government filed an appeal on the merits of the case on December 6, 2007, against which the subsidiaries filed counter-arguments on March 14, 2008, which are pending judgment. On September 4, 2008, a request for advance relief was filed in the recordings of appeal to maintain the PIS contribution enforceability suspended. On November 14, 2008, the request for advance relief was deemed groundless, and the petition for reconsideration was filed on November 21, 2008. At present, judgment is awaited.

The lawsuit filed by the subsidiary Porto Saúde was deemed groundless and, against such decision, the appeal on the merits of the case was filed. Now it awaits judgment in the appeal court.

In the lawsuit filed by the subsidiary Azul Seguros, the decision deemed the claim partially valid. The Federal Government filed special and extraordinary appeals against such decision, which are still pending judgment.

PIS and COFINS - revenues from interest on capital

The Company has filed a lawsuit to challenge the legality and constitutionality of sole paragraph, article 1 of Decree No. 5164/04, which addresses the levy of PIS and COFINS on amounts received as interest on capital. On November 27, 2006 this lawsuit was deemed groundless and the Company has filed an appeal on December 6, 2006, which is pending judgment.

National Institute of Social Security (INSS) - independent contractors

The subsidiaries Porto Seguro, Porto Seguro Vida, Porto Seguro Saúde and Portopar are discussing in court social security contribution amounts, and requesting the suspension of this contribution on the compensation of independent contractors, proprietors and day workers, under Law No. 9876/99, since they understand that the additional 2.5% payment, instituted only for financial institutions, is improper. The claims were deemed groundless and, currently, the lawsuits related to the subsidiaries Porto Seguro Vida, Porto Seguro Saúde and Portopar are in the appeal court, pending judgment. The subsidiary Porto Seguro awaits decision on special and extraordinary appeals filed.

In the lawsuit filed by the subsidiary Azul Seguros, the amounts related to the contribution are being deposited in court for tax suspension purposes. The subsidiary filed an appeal on the merits of the case against the unfavorable decision, and is awaiting judgment.

Social Contribution on Net Income (deductibility from the Corporate Income Tax (IRPJ) calculation basis)

The subsidiaries Porto Seguro, Porto Seguro Vida and Porto Seguro Saúde are challenging the legality and constitutionality of Law No. 9316/96, which prohibited the deduction of social contribution on net income from the Corporate Income Tax (IRPJ) basis.

Porto Seguro and Porto Seguro Vida obtained an injunction and a favorable sentence to deduct the social contribution on net income recorded as expense in the period from 1997 up to 1998 from the IRPJ calculation basis. The Government filed an appeal which was approved for the purpose of fully reversing the judgment.

Against such decision the subsidiaries filed special appeal - deemed groundless, and an interlocutory appeal was filed against the latter decision, which was also denied - and extraordinary appeal, that is pending judgment. The enforceability of the tax is suspended in view of the interlocutory injunction granted in the STF.

The lawsuit filed by Porto Seguro Saúde to authorize the CSLL deduction in IR and CSLL basis was deemed valid. The Federal Government filed an appeal of the merits of the case, which is pending judgment.

Social contribution (rate difference - 9% to 15% of CSLL)

The subsidiaries Porto Seguro, Porto Seguro Vida, Porto Seguro Saúde, Azul Seguros, Portoseg and Portopar are challenging the legality and constitutionality of Provisional Measure No. 413/2008 which increased the social contribution rate for financial institutions and insurance companies from 9% to 15%. The request for preliminary injunction was dismissed, and an interlocutory appeal filed against such decision was also denied. On January 8, 2009, the injunction was refused. The subsidiaries await publication of the ruling to file the appeal on the merits of the case. The subsidiaries deposited in court the amounts under discussion.

In the lawsuit filed by the subsidiary Azul Seguros, a preliminary injunction was denied. An interlocutory appeal was filed, which was later converted into an interlocutory appeal to be judged only in case of unfavorable decision in lower court, which is still pending judgment. In July 2008, the subsidiary filed a request for reconsideration due to the conversion of the appeal, which is pending judgment.

Deductibility of taxes and contributions from IRPJ and CSLL calculation bases

The subsidiaries Porto Seguro, Porto Seguro Vida, Porto Seguro Saúde and Portopar are challenging the constitutionality of the law which prohibited the deduction of taxes and contributions being discussed in court from IRPJ and CSLL calculation bases by the accrual method.

In the lawsuit filed by the subsidiaries Porto Seguro and Porto Seguro Vida, a preliminary order to allow the payment of PIS according to the Complementary Law 07/70 was obtained. The preliminary order was repealed with the issuance of decision which denied the relief pleaded. The subsidiaries filed an appeal on the merits of the case on June 18, 2007, which was accepted only in its devolutive effect, and now is pending judgment. On September 4, 2008,

the subsidiaries filed a petition in appeal recordings, in order to obtain an advance relief and to obtain an authorization for the release of excess deposits. The claim was denied, and an appeal was filed against such decision. The decision of not authorizing the deposit release was maintained. An appeal requesting clarification of the decision was filed, and on December 18, 2008 it was dismissed. The subsidiaries await the publication of the decision to file an appeal.

The lawsuits filed by the subsidiary Porto Seguro Saúde were deemed groundless, against which appeals on the merit of the case were filed and denied. Against such decision, special and extraordinary appeals were filed, in order to emend the judgment, with the devolution of recordings to the original court for new decisions, whose admissibility is pending in court.

The lawsuits filed by the subsidiary Portopar were deemed groundless. Appeals on the merit of the case were filed, received only in devolutive effect. On August 12, 2008, the subsidiary filed a preemptive claim in judgment of the matter, which, however, is still pending judgment.

Employee Food Benefit Program (PAT)

The subsidiaries Porto Seguro, Porto Seguro Vida, Porto Seguro Saúde, Porto Consórcio and Azul Seguros brought a writ of security in order to discuss in court the limitation of maximum cost per meal established by the non-statutory regulation and the change in system provided for in Law No. 6321/76, which determines the deduction of expenses with PAT from the IR calculation basis (taxable income) and not directly from the income tax due, not considering, therefore, the additional income tax surcharge.

In the lawsuit filed by the subsidiaries Porto Seguro, Porto Seguro Vida, Porto Seguro Saúde and Porto Consórcio, the decision denying the preliminary injunction for the suspension of the enforceability of IRPJ with PAT amounts deducted up to the final judgment of the matter was published on December 17, 2008. The subsidiaries filed an appeal requesting clarification of the decision on December 18, 2008, to correct omission of decision, in order to allow the deduction of double the expenses with PAT, for the calculation of taxable income. On December 19, 2008, the decision accepting the appeals requesting clarification of the decision was published, thus setting aside the preliminary injunction.

The subsidiary Azul Seguros awaits the decision related to the preliminary injunction.

ICMS on salvage

The subsidiary Porto Seguro is discussing in court the enforceability of ICMS on sale of salvage, established by the Decree No. 45490/00 of the State of São Paulo. On April 1, 2008, the Company obtained a favorable ruling on the non-payment of ICMS on sale of salvage.

Therefore, the Company reversed the portion of accounting provisions related to the aforementioned lawsuit in the amount of R$ 10,149 (reversed to operating, administrative and financial expenses in the amounts of R$ 6,099, R$ 2,001 and R$ 2,049, respectively).

(b) Labor contingencies

The subsidiaries Porto Seguro, Porto Seguro Vida, Porto Seguro Saúde, Azul Seguros, Proteção e Monitoramento and Porto Consórcio are parties to various labor lawsuits, and the most frequent claims refer to overtime, overtime effects and weekly remunerated rest period, termination pay, salary equalization and undue deductions.

In addition to the provisions recorded, there are other contingent liabilities, amounting to R$ 15,788 for which no provision needs to be recorded, according to the expectations of the subsidiaries' legal advisors (possible loss).

In 2008, the criteria used for determining the possibility of unfavorable outcome of labor claims were reviewed, through retrospective studies, and aligned with our external legal counsel, to reflect the best reserve estimate, and will be monitored through our internal controls. This change caused a decrease in balance at December 31, 2008 in the amount of R$ 12,109.

(c) Civil contingencies

The subsidiaries Porto Seguro, Azul Seguros, Porto Consórcio, Porto Proteção, Portoseg and Porto Seguro Saúde are parties to various civil lawsuits that are either directly or indirectly related to the subsidiaries' businesses.

In addition to the provisions recorded, there are other contingent liabilities, amounting to R$ 15,480, for which no provision needs to be recorded, according to the expectations of the subsidiaries' legal advisors (possible loss).

26 Shareholders' Equity - Parent Company

(a) Capital

At December 31, 2008, subscribed and paid-up capital is R$ 920,000, divided into 230,642,811 common nominative book-entry shares, with no par value. The Ordinary and Extraordinary General Meeting held on March 28, 2008 approved the capital increase from R$ 800,000 to R$ 920,000, through use of part of the statutory revenue reserve in the amount of R$ 120,000.

(b) Treasury shares

Share Repurchase Program

On February 15, 2008, the Board of Directors approved the share repurchase program, with the following conditions:

(i) Objective - acquisition of shares to be maintained in treasury and later sold or cancelled without reducing the capital;

(ii) Number - up to 9,000,000 common shares, corresponding to 9.07% of the total outstanding shares of this class, that is 99,260,860 shares, taking into consideration the stock split;

(iii) Price - the acquisition will be carried out on the trading floor of the São Paulo Stock Exchange, at the market values on date of acquisition, throughout the repurchase term;

(iv) Closing - the Company closed the share purchase program on February 13, 2009, with term of 365 days. 1,293,600 common shares were acquired, as follows:

Month	Common shares	Volume traded	Minimum price	Average price	Maximum price
April	462,800	8,129	16.87	17.56	18.25
May	319,700	5,990	18.55	18.74	18.90
June	171,100	3,292	18.85	19.24	19.46
July	150,000	2,663	17.70	17.76	17.85
August	190,000	3,388	17.55	17.83	18.00
	1,293,600	23,462	-	18.15	-

Note: No shares were sold, and the market value at December 31, 2008 closed at R$ 13.05.

On February 17, 2009, the Board of Directors approved the renewal of the share repurchase program, with the same conditions of the prior program, with term of up to 365 days as from February 18, 2009 and the maximum number of 7,000,000 common shares, corresponding to 8.18% of the total outstanding shares of this class, that is 85,540,930, taking into consideration the stock split.

(c) Reserves

(i) Capital Reserve

In November and December 2004, 6,881,216 shares were issued at the unit value of R$ 18.75, of which R$ 6.89 were allocated to the "Premium on subscription of shares" account, totaling R$ 47,412.

(ii) Revaluation reserve

This reserve was recorded due to the fixed assets revaluations based on appraisal reports.

The realization of this reserve, proportional to the depreciation of the revalued assets, was transferred to retained earnings in the amount of R$ 1,864 (R$ 1,250 in 2007). This amount will be considered in the calculation of minimum mandatory dividends. Management decided for the maintenance of the existing balances in the revaluation reserve until the effective realization, as set forth in Law No. 11638/07.

(iii) Legal reserve

The legal reserve is established through the appropriation of 5% of net income for the year, in accordance with Article 193 of the Brazilian Corporation Law.

(iv) Statutory reserve

The purpose of this account is to record the portion relating to the unrealized profits for each year in respect of the adjustment of investments in subsidiaries under the equity method, recorded in subsidiaries under the caption "Statutory reserve". This reserve is intended to maintain total shareholders' equity at an adequate amount to comply with the legal requirements of the solvency margin and the coverage of non-operating liabilities of subsidiaries.

(d) Dividends

Pursuant to the Company's by-laws, shareholders are entitled to receive minimum dividends of 25% of adjusted net income for the year. The payment of mandatory dividends can be limited to the amount of net income realized, under the terms of the law. The payment of Interest on Capital (JCP) is imputed to the minimum mandatory dividends.

	2008	2007
Net income for the year	290,175	419,939
(-) Legal reserve - 5%	14,509	20,997
	275,666	398,942
Prior-year adjustments	-	(398)
Realization of the revaluation reserve	1,864	-
Minimum profit to determine dividend	277,530	398,544
Minimum mandatory dividends	69,383	99,636
Proposed interest on capital (net of income tax)	87,735	74,876
Proposed dividends	-	53,817
	87,735	128,693

The Board of Directors' meeting held on December 19, 2008 approved the distribution of interest on capital, in the amount of R$ 103,218. This amount corresponds to R$ 0.448 per share, from which tax at the rate of 15% will be withheld at source, except for the shareholders who prove that they are exempt. The interest on capital, net of withholding income tax, amounts to R$ 0.380 per share.

27 Gross Written Premiums - Consolidated

Gross written premiums comprise issued insurance premiums, net of cancellations, refunds, and premiums ceded to other insurance companies. The amounts of the principal insurance lines are as follows:

	2008	2007
Automobile	3,104,970	2,759,683
DPVAT	162,045	128,561
Health	648,371	516,477
Personal	267,068	211,626
Property	260,596	207,260
Financial risks	158,019	93,992
Transportation	92,511	68,704
Liabilities	8,283	7,037
Other	3,829	2,836
Porto Seguro Uruguay	48,469	38,671
	4,754,161	4,034,847
VGBL premiums	70,851	56,938
	4,825,012	4,091,785

28 Retained Claims

Retained claims comprise reported indemnities, net of reinsurance and coinsurance recovery, salvage and reimbursements. The amounts of the principal insurance lines are as follows:

	Retained claims		Claims ratio - %	
	2008	2007	2008	2007
Automobile	1,520,862	1,293,971	52.3	50.0
DPVAT	131,235	100,625	81.8	79.2
Health	505,350	364,863	78.2	70.8
Personal	71,354	69,927	29.2	36.6
Property	98,440	69,040	44.3	40.6
Financial risks	57,803	33,787	47.4	46.4
Transportation	43,636	26,462	48.1	41.0
Liabilities	3,543	4,970	42.6	41.7
Other	3,505	1,833	142.0	70.1
Porto Seguro Uruguay	18,826	16,577	40.0	44.8
	2,454,554	1,982,055	55.1	52.4

29 General and Administrative Expenses

(a) Administrative expenses - insurance and other

	Parent company		Consolidated	
	2008	2007	2008	2007
Personnel	347	297	466,478	380,474
Third-party services	496	505	121,875	81,716
Facilities and operations	258	349	257,167	186,584
Advertising and legal publications	-	-	73,580	53,702
Recovered expenses (i)	-	-	(18,926)	(7,342)
Donations and contributions	11	19	10,620	10,578
Fines (ii)	5	4	(1,269)	14,004
Other	784	593	16,516	10,556
	1,901	1,767	926,041	730,272

(i) Refer to recovery of expenses from unconsolidated related parties, with items of common use.

(ii) Refer mainly to reversal of fine on ICMS on salvage in the amount of R$ 2,001 and, in 2007, mainly refer to fine arising from judicial deposit related to PIS lawsuit in the amount of R$ 9,843.

(b) Tax expenses - insurance and other

	Parent company		Consolidated	
	2008	2007	2008	2007
COFINS	7,961	6,835	112,854	98,218
PIS	1,728	1,484	22,256	19,938
Reversal PIS provision (i)	-	-	(11,283)	(8,577)
ICMS (ii)	-	-	1,770	-
Other	74	55	14,940	12,761
	9,763	8,374	140,537	122,340

(i) See Note 25 item (a).

(ii) Refers to taxes on GPS sales of the subsidiary Porto Seguro Proteção e Monitoramento which began in September 2007.

30 Financial Results

(a) Income

	Parent company		Consolidated	
	2008	2007	2008	2007
Investment fund quotas	8,102	1,341	428,908	454,603
Insurance transactions (i)	-	-	144,204	133,792
PGBL transactions	-	-	37,351	29,851
Judicial deposit monetary restatement	-	-	29,787	8,165
Other	2,222	-	38,525	34,130
	10,324	1,341	678,775	660,541

(i) Refer mainly to charges on insurance premium installments appropriated over the installment period.

(b) Expenses

	Parent company		Consolidated	
	2008	**2007**	**2008**	**2007**
Monetary variations on provision for long-term taxes	-	-	54,935	47,605
Reversal of PIS restatement (ii)	-	-	(24,679)	(17,163)
Pension plan transactions	-	-	108,386	84,162
Insurance transactions	-	-	7,036	9,847
CPMF (iii)	-	380	921	26,812
Fund raising costs (iv)	-	-	69,558	18,347
Other	1,184	1,300	18,383	6,254
	1,184	1,680	234,540	175,864
Financial result	9,140	(339)	444,235	484,677

(ii) See Note 25 item (a).

(iii) As from January 2008, this contribution is no longer levied.

(iv) Refer to funds from acceptances and issue of securities, borrowings and interbank deposits of Portoseg.

31 Other Operating Income and Expenses

(a) Income

	Consolidated	
	2008	**2007**
Collection of policy costs	166,998	141,236
Other	27,607	14,231
	194,605	155,467

(b) Expenses

	Consolidated	
	2008	**2007**
Risk inspection and preventive actions	43,587	40,356
Expenses with anti-robbery device	71,696	28,252
Supervision and collection	35,229	30,973
Electronic transmission	27,602	16,541
Social charges on insurance transactions	20,253	22,502
Production costs	12,176	4,634
Constitution of allowance for doubtful accounts	11,389	4,527
Attorney's fees	7,050	8,484
Bonus expenses - Porto Socorro	5,896	4,113
Civil contingencies	1,368	3,260
Other	28,722	25,309
	264,968	188,951

32 Related Parties

The commercial transactions of the Company and its subsidiaries are carried out under usual market prices and conditions, and have been eliminated on the consolidation. The main transactions are the following:

(i) Administrative accounts charged by the subsidiary Porto Seguro for the use of physical structure and personnel.

(ii) Rentals of buildings charged by the subsidiaries Porto Seguro and Porto Seguro Vida.

(iii) Rendering of health insurance services by the subsidiary Porto Saúde.

(iv) Rendering of monitoring services by the subsidiary Porto Seguro Proteção e Monitoramento.

(v) Fund raising by the subsidiary Portoseg from members of the Board of Directors (see item (b)).

(vi) Fund raising by the subsidiary Portoseg from Porto Seguro S/A in the amount of R$ 18,078, with remuneration of 107.0% of the CDI.

(a) The balances receivable and payable regarding related-party transactions are shown below:

	Parent company	
	2008	**2007**
Assets		
Dividends receivable		
Porto Seguro	-	138,939
Azul Seguros	4,295	9,180
Porto Seguro Proteção e Monitoramento	-	505
Porto Consórcio	-	4,317
Portoseg	-	3,274
Portopar	-	1,274
	4,295	157,489
Liabilities		
Interest on capital and dividends payable		
Shareholders	89,290	129,800
	89,290	129,800

	Consolidated			
	Income		Expenses	
Statement of income	**2008**	**2007**	**2008**	**2007**
Direct subsidiaries				
Porto Seguro	95,693	78,601	-	-
Azul Seguros		-	35,338	9,729
Porto Seguro Proteção e Monitoramento		-	8,326	6,989
Porto Consórcio		-	10,579	9,542
Portoserv		-	959	9
Portoseg		-	2,948	4,474
Portopar		-	909	877
Crediporto		-	(172)	197
Portomed		-	73	-
Serviços		-	129	-
Indirect subsidiaries				
Porto Seguro Vida		-	14,259	9,977
Porto Seguro Saúde		-	22,345	36,807
	95,693	78,601	95,693	78,601

(b) Transactions with the key management personnel, which comprises board members, officers and members of the executive committee.

(i) The remuneration paid or payable related to services is as follows:

	Parent company		Consolidated	
	2008	**2007**	**2008**	**2007**
Profit sharing - management	-	-	31,039	45,116
Management fees	287	243	10,874	10,101
Salaries and social charges	59	55	3,727	3,470
Retirement and pension plans	-	-	38	38
	346	298	45,678	58,725

(ii) Funds from exchange acceptances: refer to the issuance of 2 floating-rate securities (Bills of Exchange) to key management members, monthly restated at 107.0% of the CDI rate, comprised as follows:

Funding	Maturity	Principal	Balance at December 31, 2008
12.19.08	12.19.09	10,000	10,038
12.19.08	12.19.09	10,000	10,038
Total 107.0% remuneration		20,000	20,076

During 2008 securities with remuneration between 102.5% and 109.0% of the CDI rate were issued to the market; consequently, the securities contracted with related parties are aligned with the interest practiced with the market.

33 Financial Instruments

(a) Overview

The investment portfolio of the Company and its subsidiaries follows the internal evaluation criteria related to each business segment. This evaluation considers the need to allocate funds in conformity with legislation for insurance, pension fund, consortium, and credit markets. In

this connection, the composition of technical reserves for the insurance and pension fund segments, as well as the monitoring of assets and liabilities (Asset and Liability Management (ALM)) should be highlighted. For the allocation of funds, the Company has a manager performance measurement and monitoring mechanism, with limits established based on qualitative and quantitative information.

The pre-selection of new managers is effected through a due diligence process to obtain detailed information on the manager, such as technical and operating issues. Comparative manager performance analyses are also included in this context.

These procedures are part of the Company's investment strategy, which seeks the best managers for each type of asset, in line with the profitability goals and respecting the risk limits previously established. The Investment Committee is the forum where the guidelines on fund allocation and management are continuously assessed and updated.

(b) Risk management

Considering the actual asset position by type of investment on the last business day of December 2008, the investment portfolio of the Company and its subsidiaries is mostly exposed to interest rate fluctuations in the domestic market and, to a lesser extent, to expected inflation. The level of exposure is related to variations in asset prices due to changes in market expectations. Changes in market expectations are monitored on a daily basis together with the related areas.

(c) Derivative financial instruments

Derivative transactions in investment funds whose quotas are all held by the Company and its subsidiaries are restricted and allowed in accordance with the law. These transactions involve operations related to interest futures contracts (DI) traded on BM&F BOVESPA.

The transactions related to these instruments are constantly monitored, within predefined limits and pursuant to the internal fund allocation policies established by the Investment Committee.

The criteria adopted to evaluate these transactions take into account the stress testing analysis of alternative scenarios *vis-à-vis* the risk policy adopted, with constant monitoring of the transactions carried out - Value at Risk (VaR)

Asset pricing is performed directly within the investment funds in accordance with the criteria accepted by ANBID's (National Association of Investment Banks) self-regulation code, complying with generally accepted mark-to-market criteria. Pricing takes into account the price

database of the National Association of Open Market Institutions (ANDIMA) and the BM&F BOVESPA. (See Note 6)

(d) Other transactions

Transactions with private risk and variable-income transactions are allowed. In these specific cases, monitoring is made by the Investment Strategy department and is restricted to the limit defined by the Investment Committee.

34 Employee Benefits

(a) Pension plan

On June 23, 1994, the subsidiaries Porto Seguro, Porto Seguro Vida, Porto Seguro Saúde, Porto Consórcio, Porto Seguro Proteção e Monitoramento, Portoseg and Portopar implemented a variable contribution pension plan for their employees, through Portoprev - Porto Seguro Previdência Complementar, a nonprofit, private pension fund.

Under this plan's regulations, the main funds are represented by contributions from the plan's sponsors and participants, and the yield of the investments of such funds. Contributions made by participants vary from 1% to 6% of each participant's salary and the sponsor's contribution corresponds to 100% of the participant's contribution.

At December 31, 2008, the entity had 2,307 (2,159 in 2007) active participants who contributed with a total of R$ 4,303 (R$ 3,495 in 2007).

(b) Other benefits

	Consolidated	
	2008	**2007**
Food and meal vouchers	57,840	47,061
Health and dental plan	29,879	23,635
Transportation vouchers	8,292	7,470
Tuition	2,794	2,684
Child daycare assistance	2,896	2,727
	101,701	83,577

35 Other Information - Consolidated

(a) Insurance coverage

The insurance practices of the Company and its subsidiaries consider mainly the concentration of risks and their significance, and insurance coverage is considered sufficient by management taking into account the nature of operations. The insurance coverage is as follows:

		Amount insured	
Items	**Type of insurance**	**2008**	**2007**
Buildings	Any damage to buildings, installations of machinery and equipment	188,103	171,039
Vehicles	Fire, theft and collision - optional civil liability	13,605	16,843
		201,708	187,882

(b) Additional capital based on the subscription risk of insurance companies

CNSP and SUSEP, through CNSP Resolution No. 155/2006 and No. 158/2006, amended by SUSEP Circular Letter No. 355/2007, determine the constitution of a Minimum Required Capital for insurance operations in the country.

For the effect of the mentioned Resolutions, the following concepts will be considered:

Minimum required capital: capital amount which the insurance company should maintain, at any time, to guarantee its operations, equivalent to the sum of the Base Capital and the Additional Capital;

Base capital: fixed amount of capital which the insurance company should maintain, at any time.

The base capital to guarantee the insurance companies' operations in the whole country is R$ 15,000,000.00 (fifteen million reais).

Additional capital: variable amount of capital which the insurance company should maintain, at any time, to guarantee the risks inherent to its operations.

The subsidiaries Porto Seguro and Azul Seguros comply with these rules. Therefore, no capital contribution is necessary.

(c) Stock split

The Ordinary and Extraordinary General Meeting held on March 28, 2008 approved the stock split of shares representing the Company's capital, through the issuance of 2 new book-entry nominative common shares, with no par value, for each existing share. Accordingly, capital becomes represented by 230,642,811 book-entry nominative common shares, with no par value. Shares resulting from this split will be entitled, under equal conditions, to all benefits, including dividends and capital remunerations which may be declared by the Company.

	Shareholders' equity February 29, 2008	Number of shares	Equity value (unit)	Market value
Before the stock split	1,845,977	76,881	24.01	53.20
After the stock split	1,845,977	230,643	8.00	17.73

36 Summary of the Differences between the Accounting Practices Adopted in Brazil and the International Accounting Standards - Consolidated

The Company's accounting records and its consolidated financial statements are prepared and presented in accordance with accounting practices adopted in Brazil ("BR GAAP"), which differ in some respects from International Financial Reporting Standards (IFRS).

First time adoption of IFRS

The Company's consolidated financial statement reconciliations for the year ended December 31, 2006 were the first annual reconciliations that comply with IFRS.

The Company applied the First Time Adoption of International Financial Reporting Standards (IFRS 1), in preparing these consolidated financial statement reconciliations. The Company's transition date was January 1, 2005.

However, in accordance with IFRS 1, an entity's first IFRS financial statements are the first annual financial statements in which the entity adopts IFRS, by an explicit and unreserved

statement in those financial statements of compliance with IFRS. This reconciliation is not a full set of financial statements and, therefore, is not considered to be financial statements in accordance with IFRS. When the Company prepares the first annual financial statements in accordance with IFRS, probably as from 2010, the possibility cannot be excluded that the figures in this accompanying reconciliation may have to be adjusted due to, for example, the transition date may not be the same as the date used for preparing this reconciliation or amended or additional standards or interpretations may be issued by the IASB that may impact the financial statements.

IFRS 1 allows some exemptions from full retrospective application of certain standards. In the preparation of these consolidated financial statement reconciliations under IFRS 1, the Company applied the mandatory exemptions and some of the optional exemptions from full retrospective application of IFRS.

The Company applied the requirements of IFRS 4, *Insurance Contracts*, which made it possible for certain accounting practices used in BR GAAP to remain unchanged, after meeting certain minimum IFRS standards, such as the classification of contracts and the test on the adequacy of liabilities (*Liability Adequacy Test*, as defined in IFRS 4), mandatory for the contracts that meet the definition of insurance contract under IFRS. The adjustments resulting from the application of IFRS 4 are detailed in our reconciliations of net income and shareholders' equity (items p and q).

The Company decided to apply the following optional exemptions from full retrospective application:

Business combinations that took place prior to the date of transition to IFRS

IFRS 1 permits that business combinations that took place prior to the transition date do not have to be recognized in accordance with IFRS 3 (*Business combinations*). This exemption releases first-time adopters of IFRS from having to gather financial information which had not been obtained for business combinations with an acquisition date prior to the transition date. The Company applied the business combination exemption under IFRS 1 and, consequently, has used IFRS 3 to evaluate all the business combinations taking place after January 1, 2005. (See Note(o) included below in this reconciliation relating to the acquisition of the subsidiary Integração on January 2, 2008).

Fair value or revaluation as deemed cost of fixed assets

According to IFRS 1, a Company may, at the date of transition to IFRS, measure an item of fixed assets at its fair value, or use the revaluation value of Property, Plant and Equipment (PP&E), which, as from this date, becomes the new cost of the asset.

The Company used this IFRS 1 exemption and the revaluation value of fixed assets was used as the deemed cost at the date of transition to IFRS.

A summary of the main accounting practices that differ from those of the IFRS is as follows:

(a) Cost of policy issuance, prior inspection and other selling expenses

According to local regulations, only commissions and certain acquisition costs are deferred in accordance with the period in which policies are in effect or the estimated period policyholders or participants remain in the plan. In accordance with IFRS 4, an insurer may, at the transition date, change certain accounting policies related to the measurement of insurance contracts and acquisition costs if, and only if, this change makes the financial statements more relevant to the economic decision- making needs of the users.

Consequently, the Company's management decided to change, at the first adoption, its accounting policy for the evaluation of deferred selling expenses, to include other expenses in addition to the expenses which had been deferred under BR GAAP. The Company considered as deferred selling expenses the expenses which are directly related to the sale and renewal of insurance policies. Therefore, for IFRS purposes, this category includes the expenses incurred with previous inspection and installation of security devices on the date of issuance of policies, administrative expenses, personnel expenses, benefits and productivity bonuses, among others, which can be measured in a reliable manner, are directly linked to the acquisition of new insurance contracts and will generate economic benefits to the Company in future periods. These expenses are recorded in the Company's financial systems in a detailed manner. Deferred selling expenses are amortized in accordance with the periods in which the related policies are effective, which substantially correspond to the expiry term of the insurance risk transferred to the Company under these contracts.

In compliance with the requirements of IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*, the Company retrospectively recorded the effect of this change in accounting practice in the shareholders' equity of the opening IFRS balance sheet at January 1, 2005.

(b) Accounting treatment of security devices

In the financial statements under BR GAAP, the expenses incurred with security devices (whose assets are owned by the Company) were charged to profit and loss on the date on which they were incurred and installed. As from 2007, the Company started to defer the expenses incurred with security devices in accordance with IAS 16 in its financial statements under BR GAAP. For IFRS purposes, the security devices are recognized pursuant to IAS 16 (*Property, Plant & Equipment)* and depreciated over the useful economic lives of this equipment, which approximate the average term the policyholder remains with the Company (36 months), directly related to the period over which future economic benefits will flow to the Company.

(c) Complementary Provision for Premiums (PCP)

In accordance with regulations of the sector, the Complementary Provision for Premiums (PCP) is recorded in order to supplement the Unearned Premium Reserve (PPNG), considering all the risks, issued or not, under the terms of current legislation. This provision is estimated based on the insurance line and its calculation basis is the initial and final date of the risk validity and the retained commercial premium. The amount of this provision, if positive, will be the difference between the average sum of the daily amounts for the month in which they are recorded and the recorded PPNG.

Although IFRS 4 permits the Company to continue to use excessive prudence in the measurement of insurance contracts at the date of transition to IFRS, which sometimes occurs under BR GAAP, on a consistent basis, according to IFRS, the set up of provisions for potential losses arising from contracts not effective at the closing date of the balance sheet or provisions for equalization of risks for contracts whose risk has already expired is not allowed. Accordingly, the mentioned provision was reversed for IFRS purposes.

(d) Legal Obligation Reserve (POL)

In accordance with regulations of the sector, the Legal Obligation Reserve (POL) for the life insurance portfolio is recorded for the purpose of covering a tariff adjustment not characterized as a deficiency in the existing contracts subject to this possibility, showing the use of excessive caution in the evaluation of these contracts.

Under IFRS 4, an insurer does not need to change the accounting practices adopted under BR GAAP to eliminate effects arising from the use of excessive prudence in the measurement of insurance contracts. However, an insurer may change its BR GAAP accounting practices for

insurance contracts only if this change makes the financial statements more relevant and not less reliable to the needs involved in the decision-making of the users of the financial statements. Consequently, management decided to change the accounting practice used in the calculation of the POL recorded for the life insurance portfolio to eliminate this excess of prudence in the measurement of the contracts.

At January 1, 2005, there were no balances in this provision that would require a retrospective adjustment under IFRS, based on the requirements of IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*.

(e) Costs and revenues at the origination of credit transactions (Transaction Costs)

Under BR GAAP, the Company recognizes revenues from fees charged for the origination of credit transactions for customers and the costs related to these transactions directly in the statement of income for the period, on the date the credit is granted to customers.

IFRS requires the use of the effective interest method, where the effective interest rate is the rate that discounts the cash flows of future payments or receipts over the term of the contract. The Company included all the revenues, transaction costs and other premiums or discounts which will be paid or received between the parties to the contract and are an integral part of the effective interest rate (as required by IAS 39). Consequently, all transaction costs and revenues were considered in the calculation of the effective interest rate and deferred in accordance with IFRS standards.

(f) Impairment of financial assets

Under BR GAAP, the Company uses the regulatory criteria established by the Brazilian Central Bank (BACEN) and the Superintendence of Private Insurance (SUSEP) to set up provisions for credit risks at amounts deemed sufficient to cover potential losses on the realization of credit transactions and issued premiums receivable.

The Company performed recoverability tests on these financial assets (impairment test in accordance with IAS 39) on the dates of preparation of the reconciliation to IFRS, where the model used was the "incurred loss model" which provides for the existence of objective evidence of impairment and separate recoverability tests for items which are significant on an individual basis and show objective evidence of impairment and collective tests for credits which are not significant on an individual basis and credits which are significant on an individual basis but show no objective evidence of impairment. The Company prepared

discounted cash flows by using the effective interest rate (as defined in IAS 39), taking into consideration the fair value of collateral linked to the contracts for individual and collective impairment tests, when applicable. In 2008, the Company adopted the "incurred loss model" criterion in BRGAAP for future application.

(g) Reversal of negative goodwill on acquisition of investments

Under BR GAAP, negative goodwill is not amortized. This negative goodwill is only realized upon sale/write-off or extinguishment of the investment.

In accordance with IFRS 3 - *Business Combinations,* the negative goodwill recorded in the balance sheet of January 1, 2005 should be fully written-off and, therefore, the corresponding adjustment was made to the opening IFRS balance sheet against the retained earnings account. Negative goodwill (as defined in IFRS) does not meet the definition of a present obligation of IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets.* Furthermore, IFRS 3 requires that the residual negative goodwill arising from a transaction that qualifies as a business combination (as defined in IFRS 3) be recorded as a gain directly in the statement of income for the year, after the revaluation and identification of the assets, liabilities and contingent liabilities of the acquiree and an evaluation of the cost of the business combination.

The effect of the negative goodwill determined under BR GAAP in 2003 on the acquisition of the subsidiary Azul Seguros is included as a reconciliation item of shareholders' equity.

(h) Reversal of dividends proposed above the minimum mandatory amount pending approval of the Ordinary General Meeting

Under BR GAAP, dividends proposed by management are immediately accrued in the financial statements regardless of approval at the Annual Shareholders' Meeting.

Under IFRS, proposed dividends may only be recognized as liabilities and accrued if they fulfill the criterion of a present obligation provided for in IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets*. Consequently, considering that proposed dividends and interest on capital are usually approved at the Ordinary General Meeting in the year subsequent to the financial statements, for IFRS purposes only the minimum dividend provided for in the Company's by-laws is subject to accrual.

(i) Reversal of goodwill on the acquisition of investments

In accordance with BR GAAP, up to December 31, 2008, goodwill originated from business combinations, based on estimates of future results, should be amortized.

According to IFRS 3 - Business Combinations, the goodwill originated from business combinations (as defined in the international standard) should not be amortized and should be evaluated as regards impairment on each reporting date, or when there is objective evidence (or indicators) that the test should be carried out.

On January 2, 2008, the Company acquired 100.00% of the shareholding of the subsidiary Integração, through the payment of R$ 5,000 (at market value). The shareholding of this subsidiary passed to the Company on January 2, 2008, when assets and liabilities at market fair value, totaling R$ 60, were assumed. The transaction was considered as a business combination according to IFRS 3 with IFRS goodwill of R$ 4,940. The effect of the reversal of goodwill amortization recorded under BR GAAP during the year ended December 31, 2008 is recorded as a reconciliation item in result and shareholders' equity.

(j) Tax effect of items recorded directly in shareholders' equity

Under BR GAAP, entities may pay interest on capital to their shareholders instead of dividends, giving it the same accounting treatment as that of dividends. Brazilian tax legislation allows these entities to deduct the amount of this payment, for income tax and social contribution purposes, up to a predetermined limit. Under BR GAAP, although the interest on capital is reclassified to equity as if this is dividend, the related tax effect is kept in the income statement.

Management, after analyzing IAS 12 - *Income Taxes*, which requires that the tax effects of items that affected the shareholders' equity of an entity also be recorded in the shareholders' equity, concluded that the tax effects of payments of interest on capital in the year should be recognized directly in shareholders' equity under IFRS.

(k) Deferred income tax and social contribution on IFRS adjustments

IAS 12 requires the recognition of deferred income tax and social contribution on all taxable or deductible temporary differences, except for deferred taxes arising from the initial recognition

of goodwill, or the initial recognition of a liability or asset which does not qualify as a business combination and, at the transition date, does not affect the statement of income and the profit (or loss) for tax purposes.

The deferred income tax and social contribution adjustments calculated on the IFRS adjustments were reflected in the reconciliation.

(l) Social contribution - rate difference

Deferred tax assets and liabilities must be recognized at the rates estimated by the entity for application in the period of asset realization or liability settlement, based on rates (and tax legislation) which were enacted or substantially enacted at the balance sheet date.

In 2008, the social contribution rate of financial institutions and insurers went from 9% to 15%. The Company challenges the legality and constitutionality of the related provisional measure and, therefore, in BR GAAP did not record the total deferred tax asset arising from rate increase, according to practice adopted by the Brazilian financial institutions and insurers.

Such difference adjustment is recorded in the reconciliation.

(m) Minority interest in subsidiaries

Under BR GAAP, the balance of minority interest in subsidiaries is disclosed separately in liabilities, as an intermediary account, between the deferred income account and shareholders' equity.

IFRS, IAS 27 - *Consolidated and Separate Financial Statements* and IAS 1 - *Presentation of Financial Statements* require the balance of minority interest in subsidiaries to be presented as an integral part of shareholders' equity in the consolidated IFRS financial statements. Consequently, the Company included the balance of minority interest as a reconciliation item to IFRS.

(n) Deferred income tax and social contribution on revaluation of land

Under BR GAAP, the provision for taxes levied on the Revaluation Reserve is not recorded for assets that will not be realized through depreciation, amortization or depletion, or without expected realization through write-off or sale.

Under IFRS, through SIC Interpretation 21 - *Recovery of Revalued Non-depreciable Assets*, a deferred tax asset or liability arising from the revaluation of a non-depreciable asset, pursuant to IAS 16 - *Property, Plant and Equipment,* should be measured on the basis of the tax consequences that would follow from the recovery of the carrying amount of the asset through sale, regardless of the basis used to evaluate it, and, consequently, deferred income tax should be recognized on the revaluation of non-depreciable assets.

The tax effect on the land revalued was included as a reconciliation item of shareholders' equity.

(o) Earnings per share

Under BR GAAP, the earnings per share are calculated based on the number of outstanding shares as of the balance sheet date. Under IFRS, the Company calculates the earnings per share in accordance with IAS 33 - *Earnings per Share*, which provides for the calculation of Basic and Diluted earnings per share. Basic earnings per share are calculated by dividing the available net income by the weighted average number of outstanding shares during the period. Diluted earnings per share are calculated in a similar manner, except that they include the effect of any dilutive potential common shares, which may include securities convertible into shares, stock option plans, among others. The Company does not have any potential common shares that may have a dilutive effect on the calculation of earnings per share as of December 31, 2008 and 2007. Accordingly, the calculation presented below is valid for both basic and diluted earnings per share.

	2008	2007
Net income available to controlling shareholders	292,224	396,186
Weighted average number of outstanding shares for the year	230,643	76,881
Earnings per share - R$	1.27	5.15

(p) Reconciliation of net income

Ref.		2008	2007
	Net income for the year under BR GAAP	290,175	419,491
	Adjustments to reconcile BR GAAP to IFRS		
(a)	Cost of issuance of policies, previous inspections and other selling expenses	7,371	7,863
(b)	Accounting treatment of security devices	(2,273)	(6,757)
(c)	Complementary Provision for Premiums (PCP)	223	103
(d)	Legal Obligation Reserve (POL)	(1,685)	2,638
(e)	Costs and revenues at the origination of credit transactions	(1,521)	2,382
(f)	Impairment of financial assets	-	3,832
(i)	Reversal of goodwill amortization on acquisition of investments	528	-
(j)	Tax effect of items recorded directly in the shareholders' equity	(35,094)	(29,951)
(k)	Effect of deferred income tax and social contribution on IFRS adjustments	(899)	(3,421)
(l)	Effect of social contribution rate difference	35,400	-
(m)	Minority interest	140	115
	Net income for the year under IFRS	292,365	396,295
	Attributable to		
	Controlling shareholders	292,224	396,186
	Minority interest	141	109

(q) Reconciliation of shareholders' equity

Ref.		2008	2007
	Shareholders' equity under BR GAAP	1,963,660	1,814,071
	Adjustments to reconcile BR GAAP to IFRS		
(a)	Cost of issuance of policies, previous inspections and other selling expenses	56,262	48,891
(b)	Accounting treatment of security devices	742	3,015
(c)	Complementary Provision for Premiums (PCP)	886	663
(d)	Legal Obligation Reserve (POL)	953	2,638
(e)	Costs and revenues at the origination of credit transactions	1,036	2,557
(f)	Impairment of financial assets	3,973	3,973
(g)	Reversal of negative goodwill on the acquisition of investments	23,831	23,831
(h)	Reversal of proposed dividends above the minimum mandatory amount	33,815	42,289
(i)	Reversal of goodwill on the acquisition of investments	528	-
(k)	Deferred income tax and social contribution on IFRS adjustments	(28,375)	(28,570)
(l)	Effect of social contribution rate difference	35,400	-
(n)	Deferred income tax and social contribution on land revaluation	(25,091)	(25,091)
(m)	Minority interest	577	475
	Shareholders' equity under IFRS	2,068,197	1,888,742
	Attributable to		
	Controlling shareholders	2,067,549	1,888,241
	Minority interest	648	501

(r) Changes in shareholders' equity under IFRS

	2008	2007
Opening balance	1,888,742	1,599,597
Net income for the year under IFRS	292,365	396,295
Prior-year adjustments	(17)	(28)
Adjustment to securities in subsidiaries	(9,181)	3,104
Acquisition of own shares	(23,462)	-
Minimum mandatory dividends (including interest on capital)	(69,403)	(99,618)
Complementary dividends paid - prior years	(42,289)	(44,475)
Revaluation of properties of subsidiaries	-	4,875
Deferred income tax and social contribution on land revaluation	-	91
Tax effect of items recorded directly in the shareholders' equity	35,094	29,951
Adjustment of exchange variation on investments abroad	2,579	(1,050)
Adjustment for tax rate increase in subsidiaries	(6,237)	-
Adjustment to minority interest	6	-
Closing balance	2,068,197	1,888,742
Attributable to		
Controlling shareholders	2,067,549	1,888,241
Minority interest	648	501

(s) IAS 16 - Property, plant and equipment

As required by the international accounting standard (IAS 16), the changes in PP&E were disclosed, as shown in Note 16.

(t) Risk management

The Company is exposed to financial risks through its financial assets and liabilities, as well as to obligations related to its insurance contracts.

In addition to the information disclosed in Note 33 the Company is exposed to the following risks:

. Risks relating to Brazil

The Brazilian government has exerted, and continues to exert, significant influence on the Brazilian economy. This influence, as well as the Brazilian political and economic

conditions, could have a direct impact on the Company's businesses, financial position, results of operations and perspectives.

. **Market risk**

The Brazilian insurance market is highly competitive. The Company mainly competes based on its experience, the strength of its relationships with customers and brokers, its reputation, the premiums charged and products offered, the promptness in the payment of claims, its general financial capacity and the breadth of its businesses (both in terms of size and geographic location). The Company also competes with insurance companies that belong to the same economic group as some of the largest Brazilian banks. Some of these competitors have more financial, marketing, management and distribution resources than the Company. More specifically, the competitors that belong to the groups led by large banks can distribute their products through extensive branch networks. The Company believes it will continue to face ever-growing competition from its current competitors and new market players. Therefore, the Company cannot ensure that it will be able to increase or maintain its market share in the product lines in which it competes. Furthermore, an increase in competition may lead to a decrease in the demand for the Company's products or an increase in the expenses with the acquisition and retention of customers, which may have a material adverse impact on the Company's growth and profitability. The regulatory system under which the Company operates and potential changes in this system may have a material adverse impact on the Company's businesses, financial position, results of operations and perspectives.

. **Interest rate risk**

The Brazilian government's actions, including changes in the base interest rate, interventions in the foreign exchange market and efforts to adjust or, in extreme cases, to set the value of the local currency, may lead to economic uncertainties in Brazil. Should there be a high-inflation scenario in Brazil in the future, the Company may not be able to adjust the prices charged to customers to offset the adverse impacts of inflation on its cost structure.

. **Liquidity risk**

Liquidity risk is the risk of a mismatch between financial flows of assets and liabilities and its consequences on the financial capacity of the Company to acquire assets and honor its obligations. The Company's product lines are highly concentrated in the State of São Paulo. Accordingly, an economic downturn or the occurrence of a natural or manmade disaster in the State of São Paulo could have a material adverse impact on the Company's financial position, results of operations and prospects, as well as on the market price of the common shares issued by the Company.

. Risks related to insurance contracts

By accepting the risk arising from the insurance contracts, the Company is subject to the occurrence and payment of claims.

The main risk the Company faces under its insurance contracts is the occurrence of a large number of claims or payments of significant amounts in excess of those expected and accrued.

The occurrence of claims is random and the actual number and amount of claims may vary from year to year from the estimate made through statistical calculations.

Should the retained claims exceed the technical reserves, the Company's financial situation and results of operations may be significantly and adversely affected.

The Company's concentration on the car insurance sector can make it more susceptible to adverse conditions in the car insurance market. Due to this concentration, the impacts of unfavorable conditions affecting the car insurance sector would be harder on the Company than on its competitors that have less concentrated portfolios.

. Underwriting risks

The Company is exposed to certain underwriting risks:

(a) The Company's results of operations and financial situation depend on the ability of accurately evaluating potential losses related to the risks that the Company underwrites. Should the retained claims exceed the Company's expectations, there may be a significant increase in its technical reserves and a decrease in its profitability, including operating losses.

(b) Changes in the practices of the sector and legal and social conditions may lead to unexpected and unintentional matters related to claims and coverage. These matters may adversely impact the businesses, financial situation, results of operations and prospects of the Company, either extending the coverage beyond the Company's intention upon the underwriting of risks, or increasing the number or size of claims covered.

(c) It is possible that various clauses of the policies, such as limitations or exclusions of coverage, negotiated to limit risks, are not accepted by the courts as the Company intends. There is no certainty that all these loss limitation methods will be effective.

(d) The Company may be held responsible for liabilities of the Financial Subsidiaries should the Brazilian Central Bank take on the management of, intervene in or dissolve the Financial Subsidiaries controlled by the Company. Brazilian legislation authorizes the Brazilian Central Bank to take on the management of, intervene in or dissolve financial institutions in the event of insolvency, reckless management and noncompliance with Brazilian banking laws and regulations. The Brazilian legislation also sets forth that, in any of these situations, the managers and controlling shareholders will be jointly liable for the net capital deficiency of the institution until the completion of the investigation and final determination of those responsible for the liabilities. The Company may be held responsible for liabilities of the insurance companies should the Superintendence of Private Insurance (SUSEP) or the National Supplementary Health Plan Agency (ANS) take on the management of, intervene in or dissolve any of these companies. The Brazilian legislation authorizes the SUSEP and the ANS to intervene in or dissolve insurance, capitalization and open private pension companies should they take actions which are harmful to the policies on insurance, fail to record reserves or funds required by the regulations, have debts with the Brazilian Institute of Reinsurance (IRB) or go bankrupt. The Brazilian legislation also sets forth that, in any of these situations, the managers and controlling shareholders will be jointly liable for the net capital deficiency of the insurance company and the assets of the latter will be unavailable until the completion of the investigation and final determination of those responsible for the liabilities.

(u) Business segments

The Company is mainly engaged in the following activities:

. Activities in all lines of insurance.

. Activities restricted to financial institutions and equivalent companies, including, without limitation, consortium management.

. Provision of services and sale of equipment for electronic monitoring of asset protection systems.

The insurance activities account for approximately 93.0% of the Company's consolidated revenues.

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