RELATÓRIO ANUAL
annual report

09

INTEGRATION

THE PHILOSOPHY BEHIND EVERY ACTION OF THE COMPANY

Action. And we are not just talking about some title that represents a portion of a company. We mean everything that is done. Take **transformation**, for instance. To make it different from what it was, to grow, to evolve. Our association with Itaú Unibanco, in 2009, thereby assuming the auto and home insurance business, expanded our leadership in auto insurances and also led us to the top of the home insurance segment.

Diversification is making something different and Porto Seguro is an example of this in its business, with innovative, differentiated products and operations in segments ranging from insurance policies to financial products. This action is also present in **multiplication**, whether of the company's added value or results being delivered, which are increasingly consistent, ensuring continuous profitability to shareholders. **Consideration** is translated into the countless actions concerning social, economic, and environmental responsibility with regard to human relationships, the promotion of culture, and learning.

These are Porto Seguro's actions. This is a company that is always on the move in order to create increasingly more integration and a better future for all of the engaged audiences.

MESSAGE FROM THE PRESIDENT

The year of 2009 was a milestone in the Corporation's history. The most important event was the creation of Itaú Auto and Home Insurance with the association of Banco Itaú Unibanco with our holding. By creating the new company, Porto Seguro S.A. expanded its auto insurance leadership and became the leading company in the home insurance segment.

We have ended the 2009 FY with around 3.5 million insured vehicles and a total of over 8.6 million items covered by the Corporation's products, which represents a 34.9% growth over the previous year. Absent Itaú Auto & Home Insurance, this growth would be of 6.8% over the previous year. We posted a revenue growth across the board: total revenue increased by 20.3% and premium gains were up 19.8%, with Itaú Auto & Home Insurance. Revenue for pool service delivery grew by 10.6%; revenue with credit operations was up 90.8%; and revenue with monitoring service delivery registered a 16.4% increase. We reached a net profit of BRL 328.4 million and net worth of BRL 3.12 billion, with a 59.2% increase over the previous year. Absent Itaú Auto & Home Insurance, net profit would be BRL 289.3 million and net worth would be BRL 2.14 billion, with a 9.4% increase over the previous year.

In the following report, we show the portfolio performance with an emphasis on auto, with a 24.5% growth over 2008. Without adding the figures deriving from the incorporation of Itaú Auto & Home Insurance, growth would correspond to 12.6%. We also highlight the work of our Insurance Brokers regarding the growth we reached in the other portfolios as well as other Corporation segments, such as Portoseg, Protection & Monitoring, Pool, and so forth.

In 2009, we launched the Friendlier Traffic Campaign to encourage São Paulo City drivers to look for a more harmonious coexistence in heavy city traffic. We also highlight Cidade Portinho Seguro Auto, a project that aims to show children the importance of upholding the traffic laws from the very start and was completely revamped, from its structure to its recreational activities. Furthermore, we have social and environmental projects in our campaigns, products, and services such as those involving the use of bicycles – Bike Serviços, UseBike, and Felisa –, electric bicycles, and also the recycling of cooking oil, batteries and cards, which help extend the notion of environmental protection to our clients and society.

Finally, we would like to emphasize the development of tools to strengthen relationships with all of our audiences, such as the revamping of Porto Vias, a traffic portal with several resources to help drivers in São Paulo and Rio de Janeiro as well as quality-of-life programs for employees, training courses for service providers, and benefits to policyholders, such as discounts for cultural venues, events and restaurants.

We would also like to seize this opportunity to thank our dedicated employees and providers, who have always strived to exceed expectations in our service.

Jayme Garfinkel
Porto Seguro President

transformation

reinventing action, always.

to turn into something different, to grow, to evolve, continuously

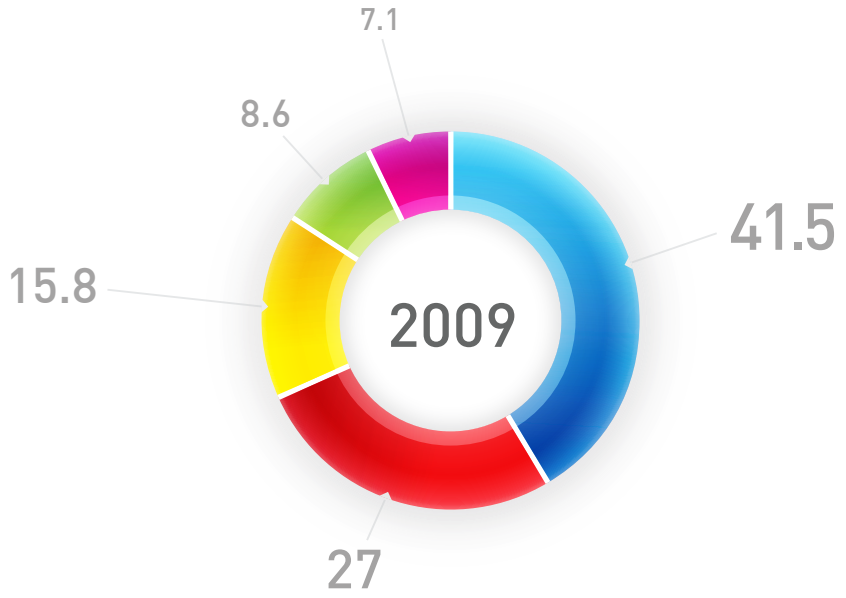
Throughout its history, Porto Seguro became a conglomerateof companies that operates differently in all the insurance businesses for both individuals and corporations. Thereupon, it turned its product and service portfolio into complete solutions that are able to meet different types of audiences with different needs. This helps insurance brokers to operate as advisors to their clients, providing proper and customized solutions and establishing long-term relationships of trust.

CORPORATE PROFILE

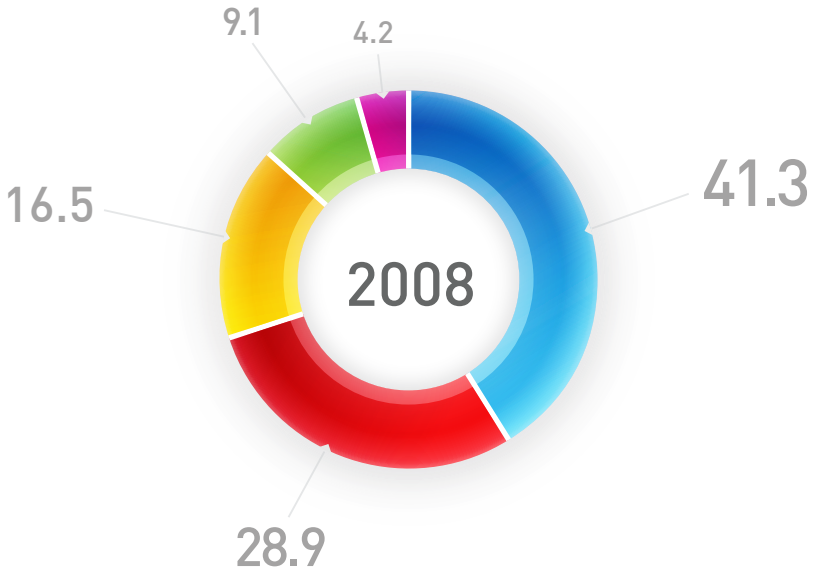
Porto Seguro is a group of companies, product and corporate departments that is able to offer solutions for several needs in only one product, with innovative benefits that add value to the brand and the client's quality of life. Its products, which are divided in insurance and financial products, are easily connected in order to build effective results to meet personal and organizational needs, as well as integrating the broker as a distinguished consultant.

Value Added

2009 / 2008 (%)



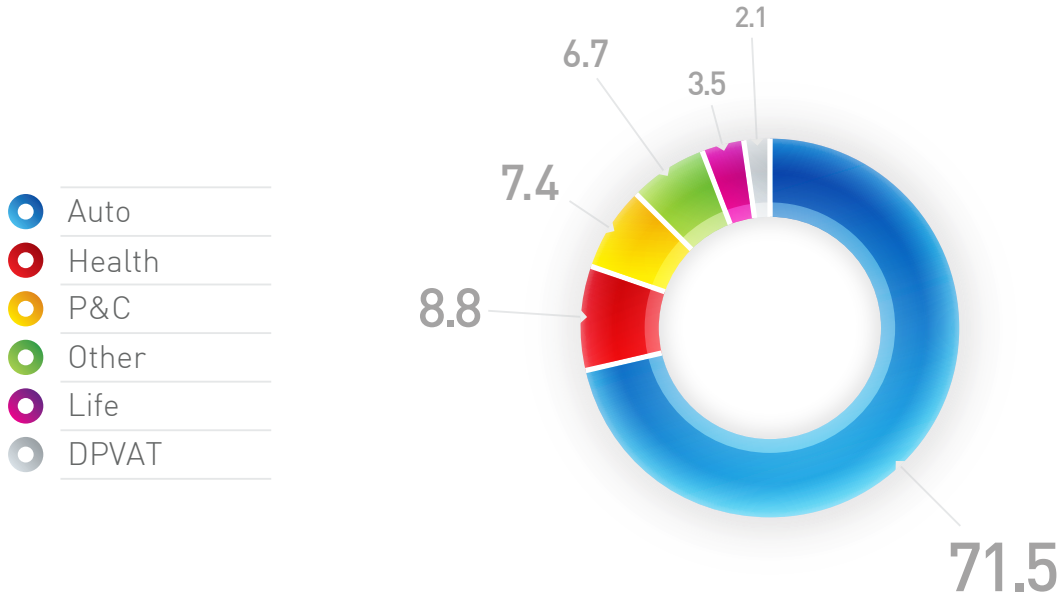
- Human Resources
- Government
- Reinvestment of Profits
- Dividends and Interest on Capital
- Interest and Ren



Fonte: Porto Seguro

Insurance Products of the Company

DISTRIBUTION OF SEGMENTS (%)



Includes VGBL and Uruguay / **Source: Porto Seguro**

Result Table

TOTAL REVENUE (R$ MILLION)

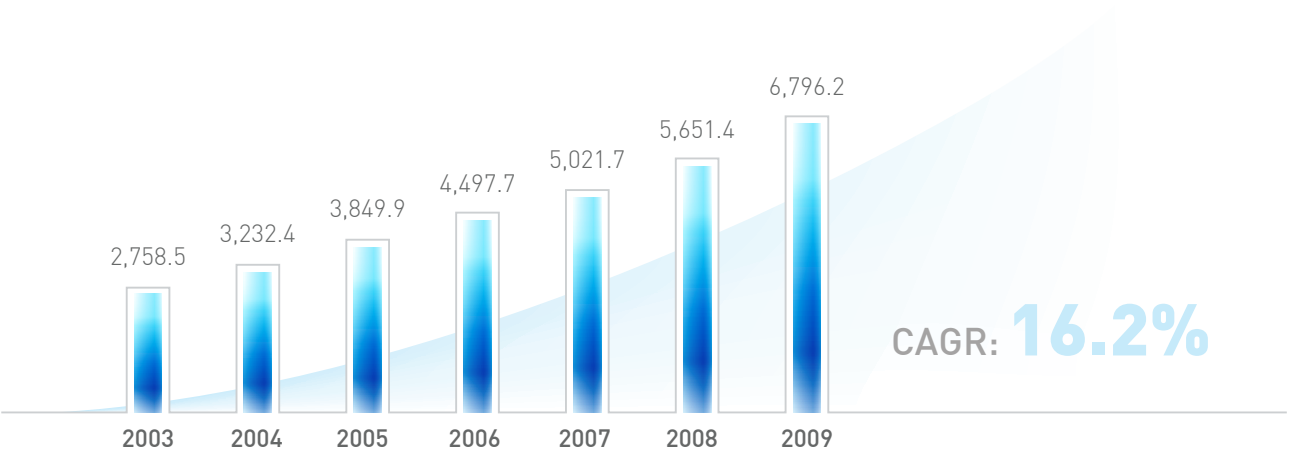
	2009	2008	CHG (%)
Total Written Premiums	5,779.4	4,825.0	19.8
Pension Plan Contribution	125.1	115.4	8.4
Surveillance Services	60.3	51.8	16.4
Consortium	114.2	103.3	10.6
Credit Operations	146.0	76.5	90.8
Other	37.2	20.5	81.5
Net Financial Results	534.0	458.9	16.4
TOTAL	**6,796.2**	**5,651.4**	**20.3**

Source: Porto Seguro

CORPORATE PROFILE

Evolution

TOTAL REVENUE (R$ MILLION)



Source: Porto Seguro

BUSINESS STRATEGY

Porto Seguro integrates ever-growing companies, which are strategically based on four pillars: an institutional profile that favors branding; a consistent outreach to policyholders and brokers in several phases of the purchase; innovative products and services; and a model for adverse selection and IT.

CORPORATE GOVERNANCE

Porto Seguro's shares are traded in the "New Market". The New Market is a special segment in the São Paulo Stock Exchange (BOVESPA, acronyms in Portuguese), which is destined exclusively for companies that meet minimum requirements and agree on subjecting themselves to distinguished 'corporate governance' regulations.

- Division of the capital stock exclusively in common stocks;
- Shares that represent at least 25% of capital stock must be outstanding (those cannot be held by the majority shareholder);
- In the alienation of the controlling interest, notwithstanding successive sales, the business must meet the following: the same conditions that are offered to the majority stockholder must be extended to the minority stockholders at the same price (tag-along);
- The Board of Directors, with at least 5 members, with a unified tenure of up to two years;
- Starting from the second accounting period after having joined in the New Market, the financial statements shall mandatorily be disclosed also in English and compliant with "US GAAP" or "IFRS" international standards;;
- The corporate events schedule must be disclosed annually;
- Leaving the New Market is contingent on performing an IPO, at a fair price;
- Joining the Market Arbitration Panel (CAM, for its acronyms in Portuguese).

diversification

innovation and differentiation action,

working in segments, ranging from **insurance policies** to financial products

Which other company is as widely recognized as Porto Seguro in the insurance market when it comes to innovation and creativity? Porto Seguro consolidated not only a complete range of products and services, but also turned it into something different, which made our brand present in the everyday lives of an increasing number of clients. Today, we operate in segments that range from auto and health insurance to private pensions to consortiums to surveillance and monitoring. The association with Itaú Unibanco in 2009 also helped us expand Porto Seguro's in the market. Our investment in developing new products and services while improving them consistently is living proof of the actions deriving from our philosophy.

2009 HIGHLIGHTS

Premium Life Insurance Porto Seguro

The new product was developed so that clients are able to leverage their policies on an everyday basis and redeem compensation in his or her lifetime, not only in setbacks.

Porto Seguro Consórcio Auto

In order to help clients purchase the car of their dreams, Porto Seguro Consórcio Auto launched the Auto Flex Plan, which enables the member to exchange his vehicle for a brand new or pre-owned cars, with lower fees, installments and term. The plan provides for installments that enable complementing the amount that is required to exchange the used car and purchase the new one.

Porto Bike Assistance

Porto Bike Assistance, a new service for policyholders, was released to make services available to clients who need to have their bicycles repaired..

Auto Center for Motorcycles

Porto Seguro Auto opened a specific auto center to carry out repairs and maintenance services in motorcycles.

Friendlier Traffic Campaign

This campaign encourages drivers to avoid an aggressive behavior and value more tolerant attitudes in traffic. It is supported by several performers.

Revamping – Porto Vias

The Porto Seguro Auto service reports in real time which is the best way among previously registered routes. On the portal, the company's clients and nonclients in São Paulo and Rio de Janeiro rely on several search functionalities for the best way on an everyday basis.

Porto Seguro Mechanical Warranty

This insurance covers the costs of parts and labor resulting from mechanical, electrical, or electronic malfunction in engines and transmission, thus avoiding unexpected expenses with such incidents. It is sold in the Greater São Paulo Area, Campinas, and Santos.

Revamping – Professional Equipment Pool

First marketed for dental equipment only, it covers equipment in Health Care, such as physical therapy, radiotherapy, and medical specialties in general.

Porto Seguro Garden

The insurance covers hail-induced damages in eggplant, cucumber, and tomato crops, in addition to losses resulting from quality detriment.

Revamping - Porto Seguro Orchard

The insurance offers basic coverage in case of hail and it now comprehends atemoya and mango crops as well, in addition to the ones that were already covered: plums, persimmon fruits, figs, guava fruits, apples, nectarines, pears, peaches, and grapes.

Porto Seguro Simpler Transportation

The insurance is aimed at small and midsize trucking companies.

Porto Seguro Life Insurance and Private Pension

The new Free Benefits Life Plan (VGBL, acronyms in Portuguese) was released and it enables policyholders to apply their resources in several funds and includes family protection coverage, the option of hiring funeral assistance, besides exclusive services to help minor beneficiaries while they are studying.

The insurance offers a number of benefits and services, from parking lot discounts to free dealership programs. Over 1.5 million clients all over Brazil. Among the releases in 2009 are: the mechanical warranty coverage, which can also be hired as an insurance; a bicycle assistance service for emergency repairs, Motorbike Dealership programs and the redevelopment of the PortoVias website. Besides that, we have the Campaign for a More Friendly Traffic (Campanha Trânsito Mais Gentil, in Portuguese) in São Paulo State, which offers a 5% discount in hiring or renewing auto insurance for drivers whose license is clean.

Result Table

	2009	2008	VAR (%)
Written Premiums (R$ million)	2,783.0	2,538.9	9.6
Loss Ratio (%) - Var (p.p.)	51.6	49.2	2.4
Insured Vehicles (thousand)	1,765.4	1,572.6	12.3

Source: Porto Seguro

AUTO – AZUL SEGUROS

The Azul Seguros auto insurance is an option that combines good pricing and quality service. It is aimed at people who look for the solidity of the Porto Seguro brand, but a more economical option.

Result Table

AUTO

	2009	2008	CHG (%)
Written Premiums (R$ million)	714.6	566.1	26.2
Loss Ratio (%) - Var (p.p.)	70.5	69.8	1.7
Insured Vehicles (thousand)	618.4	513.6	20.4

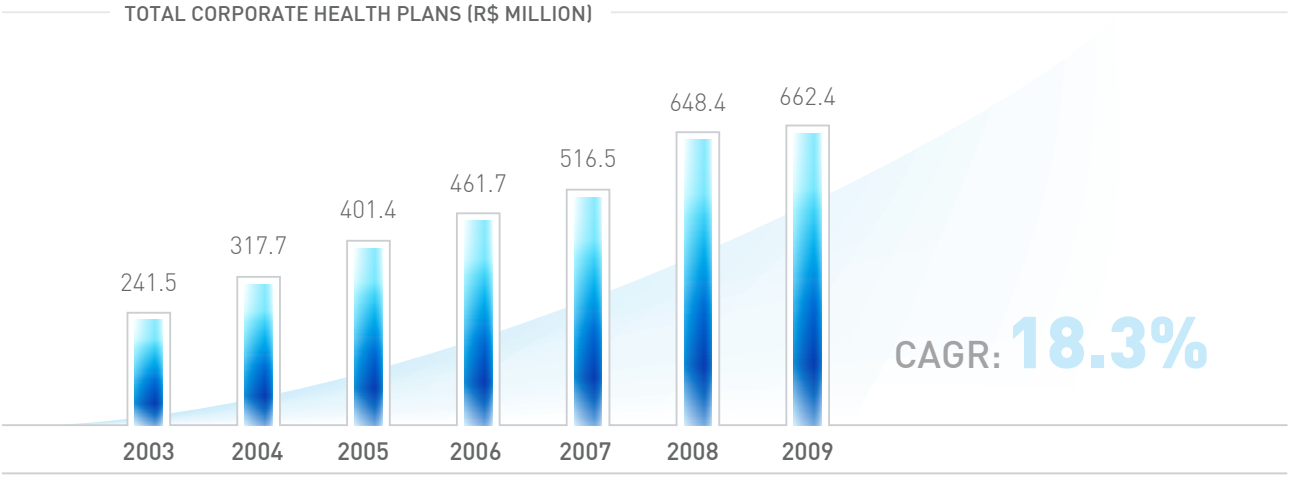
Source: Porto Seguro

HEALTH AND DENTAL

The health of employees of SMBs is targeted by this product. Quality-of-life operations and a focus on disease prevention result in a better cost control and, therefore, a fair price for policyholders. By using a network of associated dentists, Porto Seguro also offers dental insurance with an aim to complement traditional health insurance.

Written Premiums

TOTAL CORPORATE HEALTH PLANS (R$ MILLION)



Source: Porto Seguro

Result Table

LIFE INSURANCE

	2009	2008	CHG (%)
Written Premiums (R$ million)	276.8	267.1	3.6
Loss Ratio (%) - Var (p.p.)	34.6	29.2	5.4
Lives Insured (thousand)	2,290.0	2,205.0	3.9

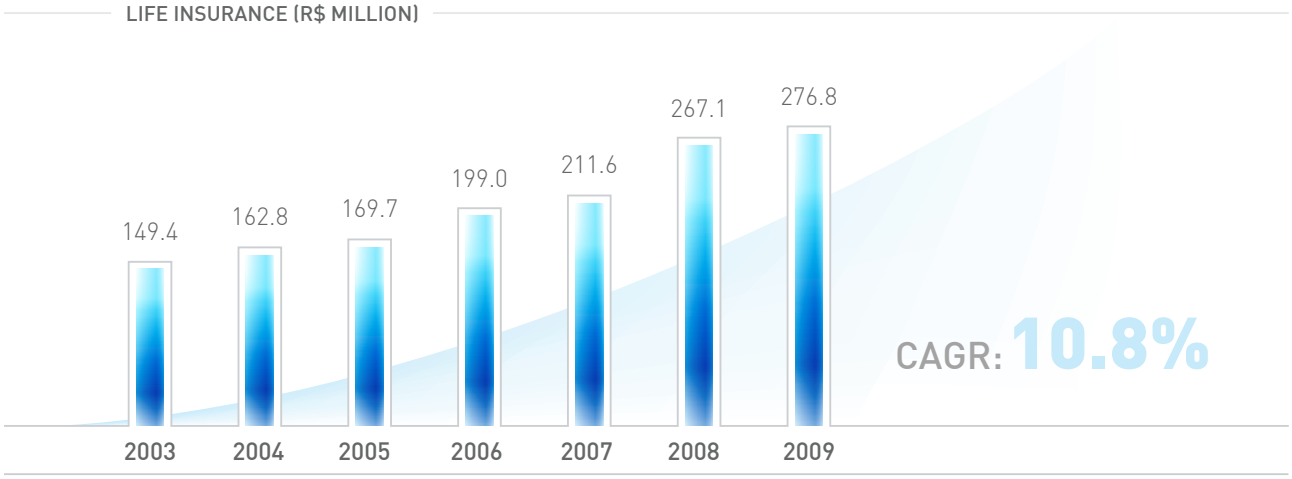
Source: Porto Seguro

LIFE AND PRIVATE PENSION

Porto Seguro developed life insurance and private pension plan products to meet the needs of those clients who care for their wellness and the future of their families. We employ brokers to offer you VGBL (Free Benefits Life Plan), PGBL (Free Benefits Generator Plan) and traditional life insurance products, for both companies and individuals. In 2009, we released Futuro Garantido VGBL, which makes possible for the policyholders to invest their money in various funds and includes family protection coverage, the option of hiring funeral assistance, and also offers exclusive services to help beneficiary children while they study.

Written Premiums

LIFE INSURANCE (R$ MILLION)



Source: Porto Seguro

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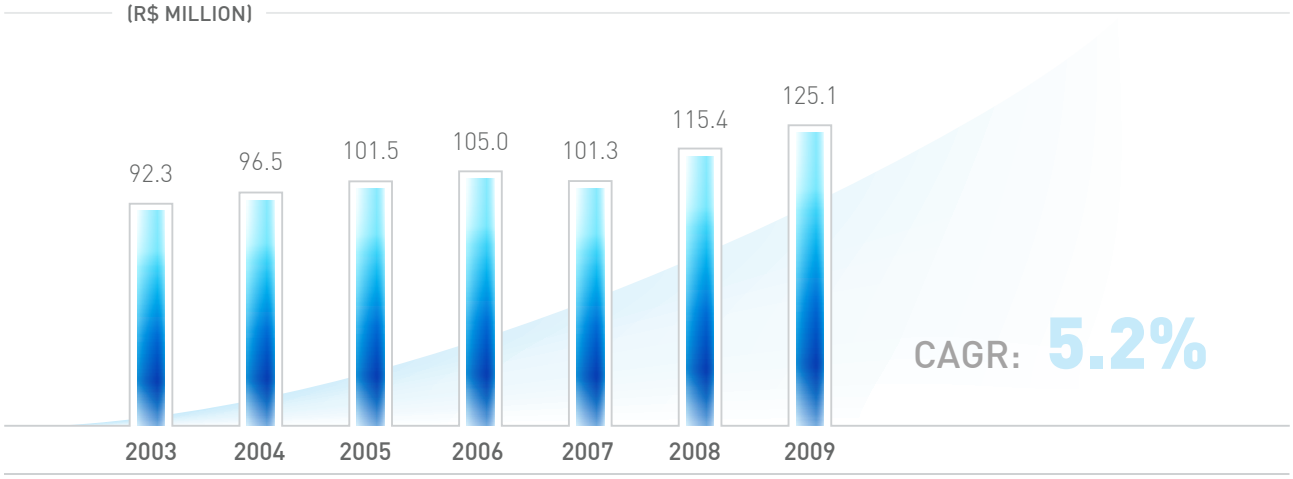
LIFE AND PRIVATE PENSION

Pension Plan Contributions

(R$ MILLION)



AS OF 2007, PENSION PORTABILITY IS NOT INCLUDED IN THE CONTRIBUTION INCOME GROUP.
Source: Porto Seguro

Result Table

PENSION PLAN AND VGBL

	2009	2008	CHG (%)
Pension Plan Contribution (R$ million)	125.1	115.4	8.4
Premiums - VGBL (R$ million)	92.6	70.9	30.6
Mathematical Reserves (R$ million)	1,209.6	1,007.8	20.0
Total active participants (thousand)	133.6	123.3	8.4

AS OF 2007, PENSION PORTABILITY IS NOT INCLUDED IN THE CONTRIBUTION INCOME GROUP.
Source: Porto Seguro

BASIC BUSINESSES

Porto Seguro offers a wide range of equity insurances, for protecting both individual and company equity. Among them, we highlight:

- Home Insurance
- Company Insurance
- Building Insurance
- Landlord Insurance
- Car Dealer Insurance
- Parking Lot Insurance
- Bar and Restaurant Insurance
- Hotel and Inn Insurance
- Engineering Risks
- Guarantee of Contractual Obligations
- Agricultural – Garden
- Agricultural – Orchard

Result Table

COMMERCIAL	2009	2008	CHG (%)
Written Premiums (R$ thousand)	158.9	143.8	10.5
Loss Ratio (%) - Var (p.p.)	42.3	41.3	1.0

BUILDING	2009	2008	CHG (%)
Written Premiums (R$ thousand)	15.8	21.5	(26.5)
Loss Ratio (%) - Var (p.p.)	59.6	57.7	1.9

HOME INSURANCE - PORTO SEGURO	2009	2008	CHG (%)
Written Premiums (R$ thousand)	68.1	74.8	(9.0)
Loss Ratio (%) - Var (p.p.)	54.3	53.1	2.3

OTHER	2009	2008	CHG (%)
Written Premiums (R$ thousand)	26.8	20.5	30.7
Loss Ratio (%) - Var (p.p.)	22.5	24.7	(2.2)

TOTAL PORTO P&C	**2009**	**2008**	**CHG (%)**
Written Premiums (R$ thousand)	**269.6**	**260.6**	**3.5**
Loss Ratio (%) - Var (p.p.)	**45.3**	**44.8**	**0.5**

AUTO AND HOME INSURANCE	2009	2008	CHG (%)
Written Premiums (R$ thousand)	62.7	-	-
Loss Ratio (%) - Var (p.p.)	25.5	-	-

TOTAL P&C WITH ITAÚ AUTO AND HOME INSURANCE	**2009**	**2008**	**CHG (%)**
Written Premiums (R$ thousand)	**332.3**	**260.6**	**27.5**
Loss Ratio (%) - Var (p.p.)	**40.8**	**44.8**	**(4.0)**

Source: Porto Seguro

TRANSPORTATION

To small and midsized carriers, Porto Seguro offers its Transportation insurance. The distinguishing points of this product are:

- Support centers in the main Brazilian roads for first service in case of incidence of road accident.
- Specialized assistance for hazardous cargo (chemicals, fuel, etc), in case of road accident inside the Brazilian territory.
- Cargo protection service, in case of road accident.
- Monitored transportation: Risk management service.
- Release of a provision of Cargo Assistance, with specialized assistance for cleaning, containment and removal of chemicals that can pollute roads in case of road accidents involving the transported cargo.

Result Table

	2009	2008	CHG (%)
Written Premiums (R$ thousand)	84,379.0	92,511.0	-9.6
Insured Item	3,885.0	3,898.0	-0.3

Source: Porto Seguro

ITAÚ AUTO AND HOME INSURANCE

seguro auto e residência

In 2009, with the partnership between Porto Seguro and Itaú Unibanco, Itaú Auto & Home Insurance was created. The company sells auto and home products. With this partnership, Porto Seguro expanded its leadership in the auto insurance segment and became the leader in the home insurance portfolio.

Result Table

AUTO

	2009	2008	VAR (%)
Written Premiums (R$ million)	367.4	-	-
Loss Ratio (%) - Var (p.p.)	70.0	-	-
Insured Vehicles (thousand)	1,150.2	-	-

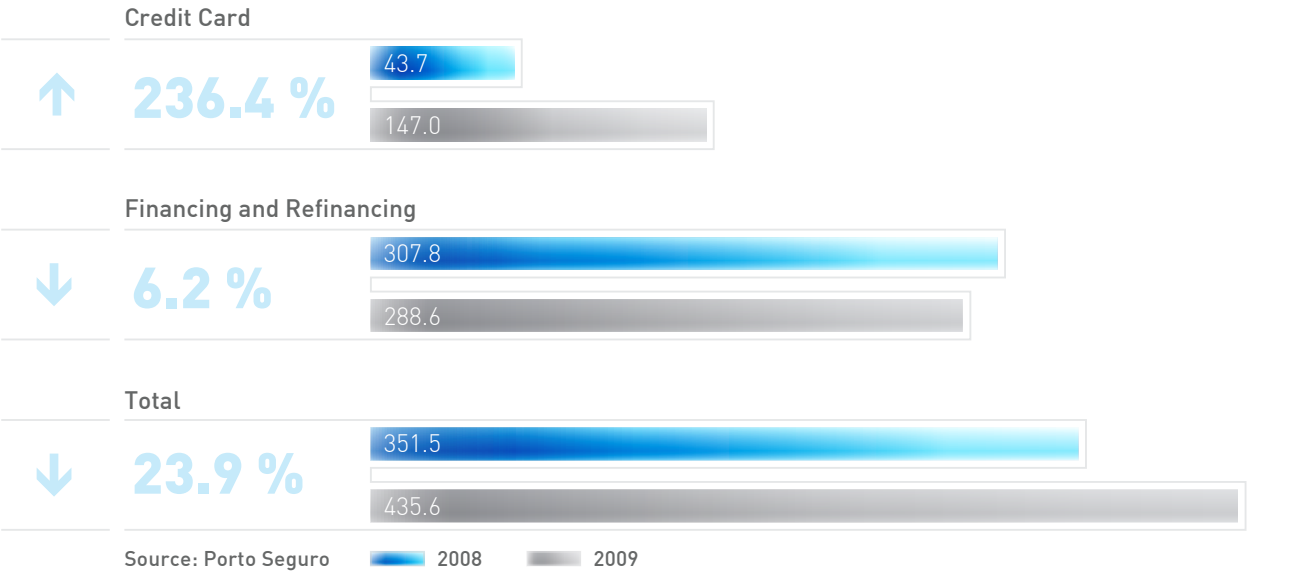
Source: Porto Seguro

FINANCING AND CREDIT CARD

Through Portoseg, its financial subsidiary, the Company both finances and refinances cars, payday loans and personal credit, in addition to the Porto Seguro Visa credit card, in three versions, all of them international. With this product, the client amasses points that generate discounts when buying auto insurance, among other services.

Credit Portfolio

(R$ MILLION)



Result Table

PORTOSEG

	2009	2008	VAR (%)
Revenues from Credits Operation (R$ million)	146.0	76.5	90.8

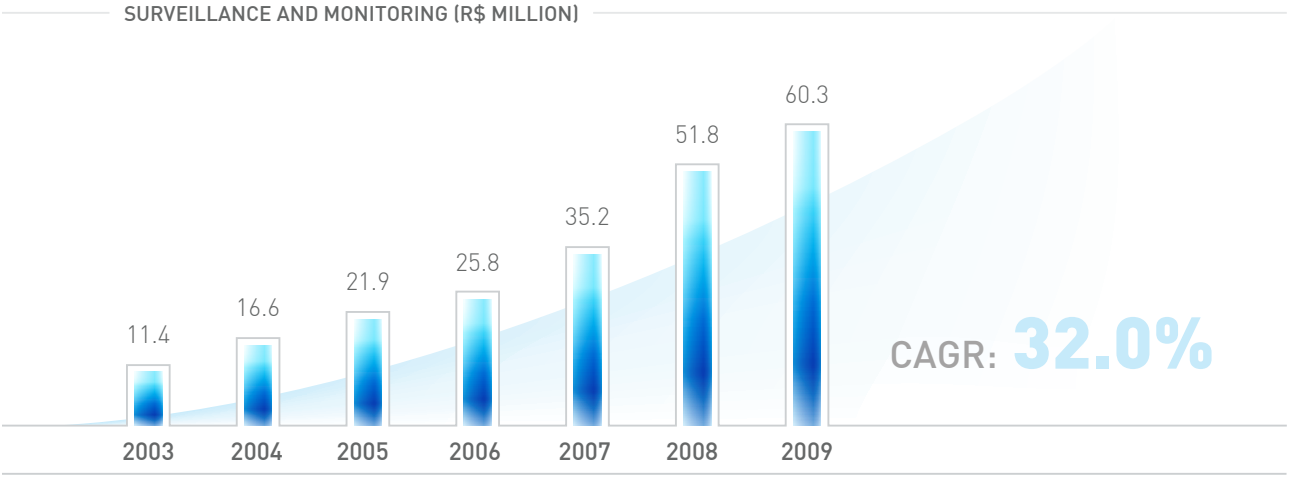
Source: Porto Seguro

SURVEILLANCE AND MONITORING

Protection & Monitoring services are intended for businesses and homes. Surveillance cameras, alarms, presence sensors, among other equipment relying on a specific support team, are sold. For monitoring cars, Porto Seguro has developed the DAF-V, which both tracks and blocks the car if it is stolen.

Revenue from Surveillance Services

SURVEILLANCE AND MONITORING (R$ MILLION)



Source: Porto Seguro

Result Table

	2009	2008	CHG (%)
Revenues from Surveillance Services (R$ million)	60.3	51.8	16.4
Clients (thousand)	18.0	14.4	25.0

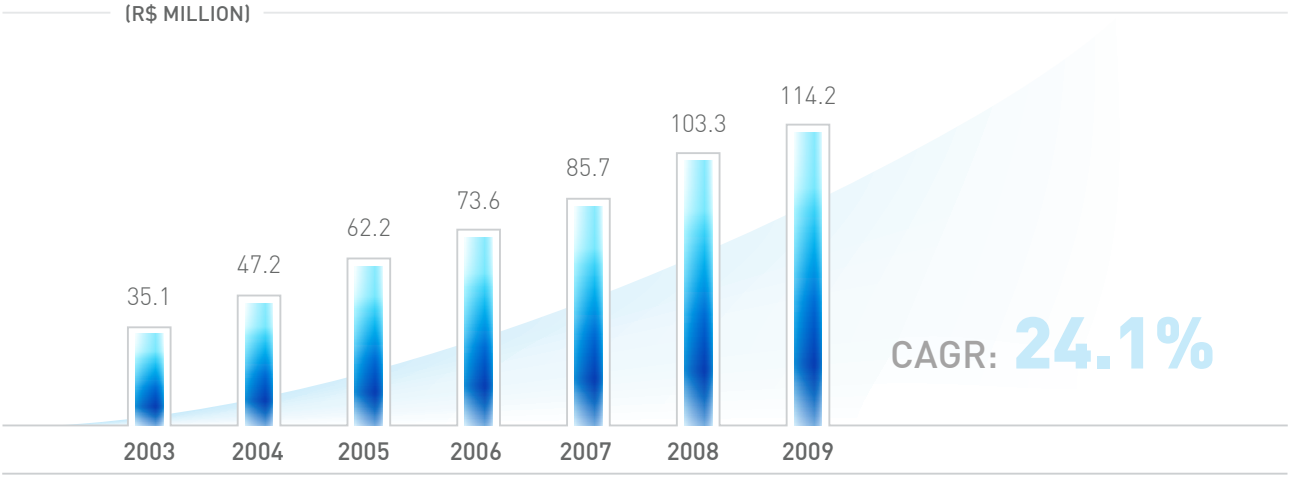
Source: Porto Seguro

CONSORTIUM

Porto Seguro has a real-estate and auto pools. The Company manages groups of people who bring together their resources for buying goods. The participants make monthly payments and groups may last up to 15 years for real estate and 5 years for cars. We highlight the release of the Auto Flex Pool, with a lower term, lower installments, and lower fees; and the revamping of the Professional Equipment Pool, which was initially marketed for dental equipment only, encompasses Healthcare, Physical Therapy, Radiotherapy, and General Medicine equipment.

Revenue from Consortium Services

(R$ MILLION)



Source: Porto Seguro

Result Table

	2009	2008	CHG (%)
Revenues from Consortium operation (R$ million)	114.2	103.3	10.6
Consortium Members (thousand)	55.0	50.1	9.8

Source: Porto Seguro

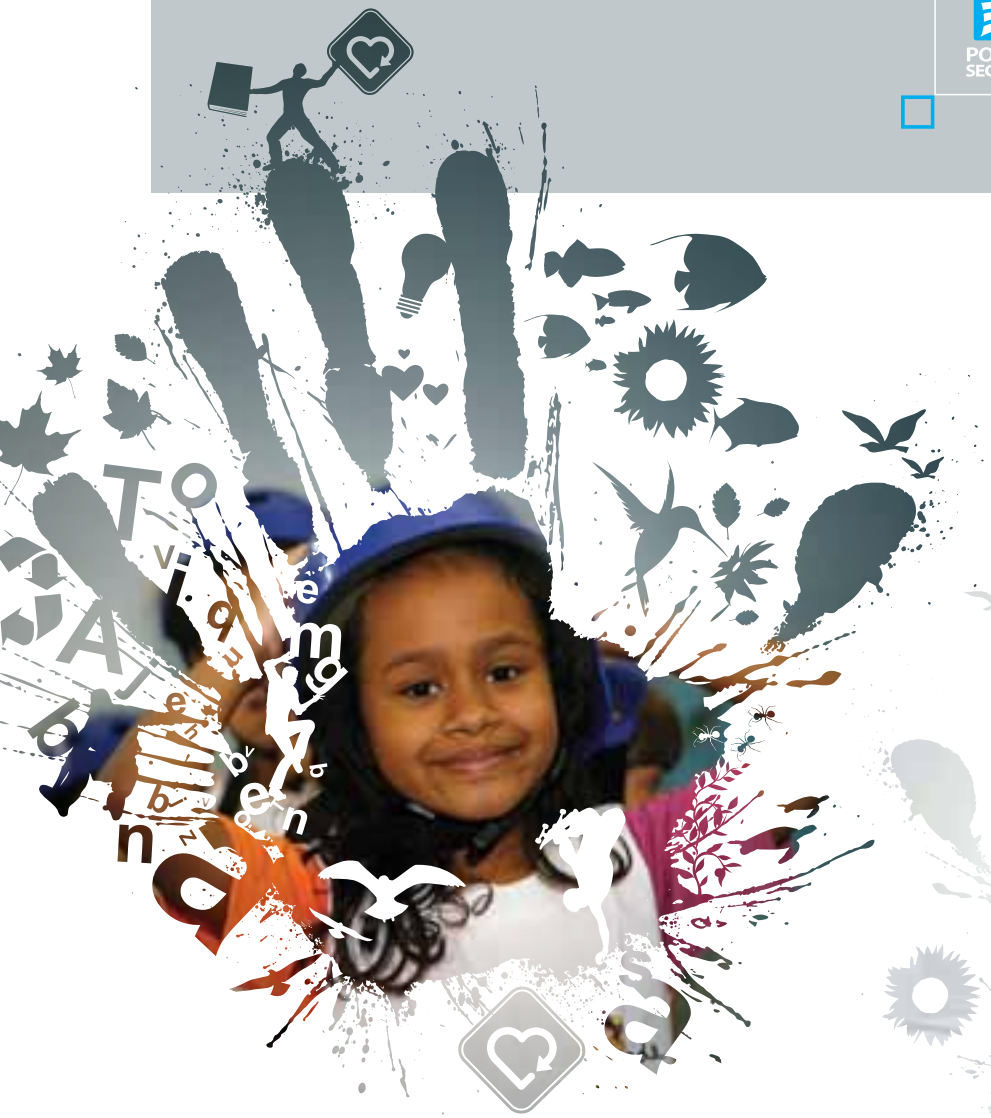
SERVICES

Porto Seguro Services is a new product that provides residential and business condominia with a range of services in the Greater São Paulo area. There are four service-delivery categories: Outsourced Employees, Periodic Maintenance, Emergency Repairs, and Additional Services.

Result Table

	2009	2008	CHG (%)
Written Premiums (R$ thousand)	4,367.0	147.0	96.6

Source: Porto Seguro



consideration

commitment action, striving to grow along with people, in a conscious and sustainable manner.

Sustainability is being increasingly discussed at companies. But actions speak louder than words. At Porto Seguro, the commitment to effective and diversified actions is what turns into reality the social, economic, and environmental responsibility in our company. Examples? "Ride a Bike", a partnership between Porto Seguro and Estapar to encourage the use of bicycles, with the installation of bicycle parking spaces in the network's parking lots and subway stations as well. Or take the "Kinder Traffic Campaign", which encourages kindness as a way to generate and multiply peace in traffic. These and other actions have won the hearts and minds of the community, thus actively contributing to a better world.

MANAGEMENT

Executive Officers

- Jayme Brasil Garfinkel – *Executive Chairman*
- Alexandre Peev – *nvestors Relations Officer*
- Marcelo Barroso Picanço – *Officer*

Board of Directors

- Jayme Brasil Garfinkel – *Chairman*
- Pedro Moreira Salles – *Vice-Chairman*
- Casimiro Blanco Gomez – *Advisor*
- José Castro de Araújo Andrade Rudge – *Advisor*
- Mario Urbinati – *Advisor*
- Fernando Kasinski Lottenberg – *Independent Advisor*
- Pedro Luiz Cerize – *Independent Advisor*

Jayme Brasil Garfinkel holds a bachelor's degree in Civil Engineering from the University of São Paulo Polytechnic School (1970) and graduate degree in Business Administration from the Getulio Vargas Foundation (1975). He joined Porto Seguro in 1972 as an Assistant to the Director and went on to become Vice Chairman in 1978. Currently, he is the Chairman of the Board of Directors and CEO of Porto Seguros S.A. while acting as CEO in both subsidiaries and holdings. He was a member of CNSP from 1987 to 1991, President of the Insurance, Pension and Compounding Companies' Union of the State of São Paulo from 1989 to 1990. He is currently the President of the Brazilian Private Insurance & Compounding Company Federation (Fenaseg, acronyms in Portuguese) and the Executive Vice President of the Brazilian General, Life, Health Insurance, Private Pensions and Compounding (CNSeg, acronyms in Portuguese).

Pedro Moreira Salles earned a magna-cum-laude bachelor's degree in Economics and History from the University of California, Los Angeles. He attended the Graduate Program in International Relations at Yale and the Owner/President Management program at Harvard. He is currently the incumbent Chairman of the Board of Itaú Unibanco Holding S.A., a position he has been holding since January 2009, and Vice Chairman of the Board of Banco Itaú BBA S.A., a position he has been holding since February 2009.

Casimiro Blanco Gomez holds a bachelor's degree in Accounting (1972) and Economics (1974) from the School of Economic Science of São Paulo (Brazil) and a graduate degree in Controlling (1980) from the Getulio Vargas Foundation. He joined Porto Seguro as an accountant in 1974 and went on to become Senior Controlling Officer in 1983. From 2000 and 2010, he was the incumbent Vice President. He was also the Vice President of Porto Seguro Vida, Vice President of Azul Seguros, Vice President of Porto Seguro Saúde, Director of Portopar Distribuidora de Títulos e Valores Mobiliários, and Director of Porto Seguro Uruguay. Since 1992, he has been the Director of the Insurance Company Union of São Paulo State and its President from 2001 to 2003. He was also a member of the Accounting & Tax Commission of the Insurance, Pension & Compounding Union of São Paulo State and the Brazilian Private Insurance & Compounding Company Federation (FENASEG, acronyms in Portuguese). He was also a contributor to the Brazilian Private Insurance Board (CNSP, acronyms in Portuguese) in several studies. Currently, he is the incumbent Vice Chairman of the leading pool insurer DPVAT S/A and a member of the Insurance Protection Board, both from the Brazilian Insurance Confederation.

José Castro Araújo Rudge holds a bachelor's degree in Business Administration from the School of Administration (FAA, acronyms in Portuguese). Currently, besides being a member of the Board of Directors of Porto Seguro S.A., he acts as: Executive Vice President of Itaú Unibanco S.A., a position he has been holding since April 2009, CEO of Itauseg Saúde S.A., a position he has been holding since March 2009, Managing Director of Itaú Seguros S.A., a position he has been holding since February 2009, Executive Vice President and Vice Chairman of the Board of Directors of Itauseg Participações S.A., positions he has been holding since April 2009 and Managing Director of Cia. Itaú de Capitalização, a position he has been holding since March 2009.

Mario Urbinati holds a technical diploma in Accounting from the Escola Frederico Ozanam (1977). He joined Porto Seguro in 1978 as an Accountant and became a Controlling Manager. In 1988, he became Controlling Associate Director, being in charge of Accounting, Planning, Analysis, and Statistics. He was a Director at Porto Seguro and the Executive Vice President and Life and Private Pension Director of Porto Seguro Vida, Executive Vice President of Azul Seguros, Director of Porto Seguro Saúde and Director of Porto Seguro Uruguay. In 2003, he was a member of the Accounting and Finance Committee in the Insurance, Pension and Compounding Company Union of São Paulo State, the Administration and Finance Committee, and the Life & Private Pension Committee, both from FENASEG.

Fernando Kasinski Lottenberg holds a bachelor's degree in Law from the University of São Paulo, a Master's degree in Philosophy and General Theory of Law, and a PhD in Public International Law, both from the University of São Paulo. He is a Corporate Law attorney.

Pedro Luiz Cerize holds a cum-laude bachelor's degree in Business Administration from the Getulio Vargas Foundation of São Paulo (FGV/SP, acronyms in Portuguese), with an MBA in Finance from the Brazilian Capital Market Institute (IBMEC, acronyms in Portuguese). He has worked for Corretora Socopa, Banco Fator, and Banco BBA Creditanstalt. He is a Founding Partner and a Co-Manager at Skopos Administradora de Recursos. Currently, he is a member of the Board of Porto Seguro S.A., Fertilizantes Fosfatados S.A. – Fosfertil, and COSAN S.A. Indústria e Comércio.

Alexandre Peev holds a degree in Mechanical Engineering and Business Administration with an MBA in Finance. He started his career at Porto Seguro in his capacity as Technical Coordinator, being in charge of training sessions for the Company's operational and technical staffs. Afterwards, he took on the position of HR Coordinator, developing management indicators and coordinating the HR management systems. He was the Company's Strategic Planning & Suggestion Program Administrative Coordinator. Then, he went on to become the Manager for that department. He also became Manager of Investor Relations, Organizational Processes, Corporate Project Management, and Business Intelligence Systems. The departments he managed remain under his responsibility. He is currently Porto Seguro S.A.'s CFO.

Marcelo Picanço holds a bachelor's degree in Electronic Engineering from the Aeronautical Institute of Technology (ITA, acronyms in Portuguese) and a Master's degree in Administration from COPPEAD at the University of Rio de Janeiro (UFRJ, acronyms in Portuguese). He attended an MBA program at Wharton School (University of Pennsylvania) as a foreign exchange student. He joined the corporation in July 2006 as the CFO of Porto Seguro Cia. de Seguros Gerais, Executive Director of Portoseg S.A., Portopar and Crediporto Promotora de Serviços. Before joining the company, he was a Financial Services Director at Booz Allen Hamilton consulting company.

Porto Seguro considered the following actions in 2009:

Social Action Group

In 2009, 46,703 people from the community were serviced by the volunteering programs through targeted actions and donations. Branches joined the Volunteering Program, benefiting 35 social organizations all over Brazil. Seven professional-training groups graduated in other Brazilian states, where we have taught 121 young people from the communities surrounding the Ceará, Pernambuco, Rio de Janeiro, Santos and Rio Grande do Sul branches. Out of these young people, 23 were introduced to the labor market.

Professional Training

Casa Campos Elísios Melhor offers training courses for formal and informal labor. As a complement of household income, Casa offers general handcraft, baking and beauty courses, with 518 graduated students and 45 people working in course-related fields. Within the professional scope together with Porto Seguro's areas, 235 people attended courses related to the Corporation's activities and 78 people were introduced to the labor market..

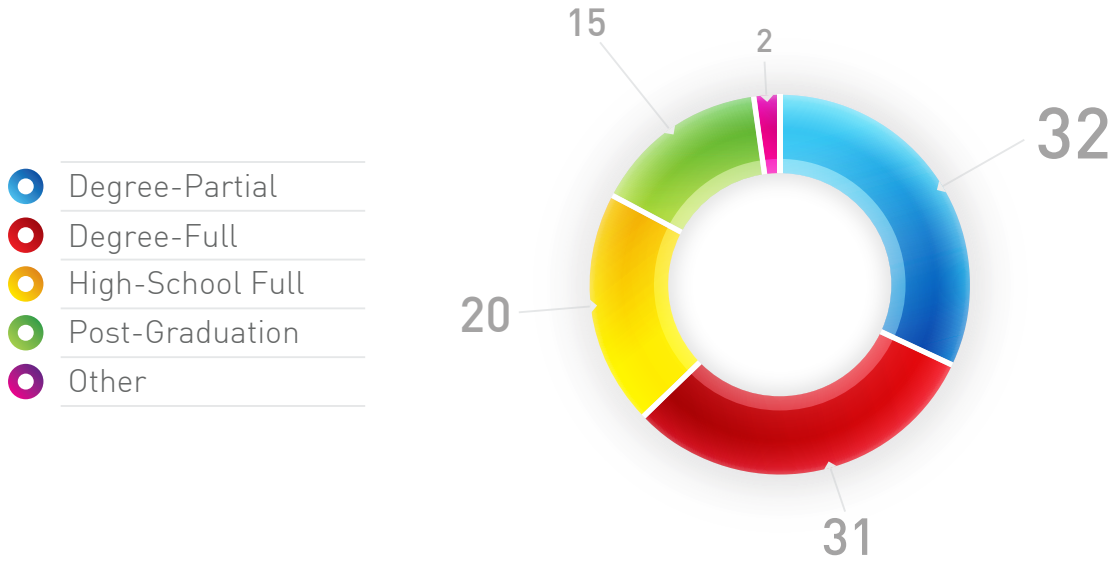
Cidade Portinho Seguro

Cidade Portinho Seguro was completely revamped and became exclusively itinerant. New characters were incorporated to the little gang, which interacts with children by using videos, comic books and the www.cidadeportinho.com.br website. It has serviced 36,226 children in 27 cities of São Paulo State and countryside, in addition to Recife (Pernambuco State, Brazil), and Resende (Rio de Janeiro State, Brazil).

Personnel Development

The Company and its subsidiaries ended 2009 with 8,913 employees. By acknowledging the importance of education and professional training, the Company invested around BRL 2.4 million in granting academic and language-learning scholarships to 873 recipients, who make up around 9.9% of staff.

Education
(%)



Source: Porto Seguro

CULTURAL RESPONSIBILITY

Fostering concerts, drama, cinema, and sports is one of the guidelines according to which Porto Seguro guides itself to merge with the Brazilian cultural development.

Porto Seguro Photography Awards

Photography & Time was the theme of the IX edition, with 1,575 people and a total of 9,176 works registered.

Shows

In 2009, 612 projects were sponsored, such as plays, exhibitions, concerts, movies and lectures, among others, aimed at adults and children all over Brazil, thereby benefiting the audience with price discounts and promotions. These include: Hairspray, A Alma Imoral [The Immoral Soul], Avenue Q, Querido Mundo [Dear World], O Homem das Cavernas [The Cave Man], among others.

ENVIRONMENTAL RESPONSIBILITY

In 2009, environmental responsibility projects were carried out through effective actions at the corporate level and around the community where it operates.

Cooking Oil Recycling Campaign

Education and awareness campaign on the vegetable oil problems and what can be done to avoid contaminating the water – a renewable resource, with much higher costs for treatment than protection. The oil collected is aimed at producing biodiesel, a renewable fuel. In 2009, the campaign collected over 8,000 l of oil for recycling in the Greater São Paulo area, Campinas, Santos, and Rio de Janeiro.

Plastic Card & and Battery Recycling Campaign

After being collected and properly stored, these materials are forwarded to companies specialized in reprocessing. From plastic and magnetic cards, elements are removed to manufacture plastic, cement and paving. From batteries, salts and oxides are removed to produce refractory materials. In 2009, 180 kilos of plastic cards were recycled, as well as 4 tons of batteries in the Grande São Paulo area.

Bike Assistance

In order to protect the environment, streamline service and quality of life, Porto Seguro launched the Bike Assistance service. Cyclists deliver services to the Auto policyholders if problems can be solved on-site without the need for tow, such as: tire change, empty tank, battery charging, minor defects, among others. The use of bicycles for service aims to contribute to reducing carbon dioxide (CO^2), the main pollutant emitted to the atmosphere by cars. The deployment of this service avoided the emissions of nearly 10.86 tons of CO^2 to the atmosphere..

Bike Inspection

Bike Inspection is a new way of providing inspection services by using bicycles as means of transportation in order to value quality of life and respect for the environment. With more mobility, this service helps all auto policyholders of São Paulo City that request at-home inspection. The insurance broker of each policyholder schedules a date. By implementing Bike Inspection, average emissions of 218 kg of CO^2/ month were avoided.

Ride a Bike

An expansion of the project with the installation of bicycle parking lots in some subway stations of São Paulo City with connections for policyholders between the places that already exist in the Estapar parking lot chain. The project aims to make available, free of charge, bicycles to be used by the auto and Porto Seguro Visa card policyholders, besides bicycle racks so that clients can have a safe place to store them (Estapar Chain). When using the subway, the first hour is free for users. After this period, there is a BRL 2.00 fine per hour. In addition to spreading the use of bicycles as a means of transportation, this action encourages policyholders to adopt healthier habits.

Water & Power Consumption Reduction Program

Porto Seguro adopts practical measures on an everyday basis that enable the reduction of up to 26% of nominal power consumption. These measures include fixed times to turn on / turn off the air-conditioner and power; replacement of incandescent lamps with PL lamps; education of employees and providers regarding best practices in computer use and printing; implementation of energy transformation devices, such as capacitors, for power factor correction, thus eliminating excess power costs. Another measure that avoided the waste of natural resources was the implementation of flow regulators in the entire hydraulic environment of properties. With that, the Corporation was able to achieve 20% savings of all the water being used in its estate.

Car Pollutant Emissions Reduction Program

The program offers, at no cost to policyholders, an analysis of the pollutants in their cars at the Auto Centers. The inspection analyzes the frequency and types of the necessary maintenance to align cars with regulations. Since its deployment, the program has already carried out over 36,960 inspections, with its fixed and mobile line.

Dom Bosco Project

The Dom Bosco Project organizes the work of street garbage collectors who gather waste in order to obtain a better purchase price. In addition, the Project provides collectors with shelter. In 2009, 26.96 tons of waste were collected by 14 sheltered collectors.

GLOSSARY

- **ANS:** National Agency for Additional Health Products.
- **Policy:** Insurance contract that lays down the rights and duties of insurance companies and the insured parties.
- **Mean applications:** yearly mean value of assets of financial investments with fixed and variable revenues.
- **AXA Brasil:** AXA Seguros do Brasil S.A.
- **Azul Seguros:** Azul Companhia de Seguros Gerais, the new name of AXA Seguros do Brasil S.A.
- **BACEN:** Brazilian Central Bank.
- **Commissions:** Commissions of sales and distribution payable to brokers, financial institutions, and other insurance companies.
- **Company:** Porto Seguro S.A.
- **Brokers:** Insurance brokers who are authorized to sell insurances in Brazil.
- **CDI:** Interbank Deposit Certificate. May be obtained at BACEN's website.
- **DPVAT:** Compulsory Insurance against Personal Damages caused by Automotive Land Vehicles.
- **Combined index:** The sum of loss indexes, the DA index, and the commission index.
- **DA index:** Quotient obtained by dividing administrative expenses and taxes by the total of written premiums.
- **Commission index:** quotient obtained by dividing the total commercialization expenses by the total written premiums.
- **Loss index:** quotient obtained by dividing the total registered losses by the total written premiums.
- **PGBL:** An insurance plan that yields free benefits.
- **Porto Seguro:** Porto Seguro General Insurance Company.
- **Porto Seguro Consortia:** Porto Seguro Consortia Administration Ltd.
- **Porto Seguro Protection and Monitoring:** Porto Seguro Protection and Monitoring Ltd.
- **Porto Seguro Health:** Porto Seguro – Health Insurance Plc.
- **Porto Seguro Uruguay:** Porto Seguro – Seguros del Uruguay Plc.
- **Porto Seguro Life:** Porto Seguro Life and Retirement Plc.
- **Portopar:** Portopar Distributor of Bonds and Securities Ltd.
- **Portoseg:** Portoseg S.A. – Credit, Financing and Investment.
- **Premium:** Compensation the insured owes the insurance.
- Written premiums: Total premiums underwritten during that period.
- **Earned premiums:** The part of insurance premiums that matches the elapsed policy covering period.
- **Profitability of medium applications:** financial profits divided by total medium financial applications with fixed and variable revenues.
- **Loss:** Event that gives insurants the right to receive indemnities paid by the insurance company.
- **Paid losses:** Total expenses related to indemnities, regulation and liquidation of losses, liquids from reinsurance recuperations, saved and repayments.
- **Financial Subsidiaries:** Porto Seguro Consortia, Portoseg, and Portopar.
- **SUSEP:** Superintendence for Private Insurances.
- **VGBL:** Life Generator of Free Benefits: product that opens a redeemable savings account.

GENERAL INFORMATION

Shares in Brazil

Banco Custodiante – Banco Itaú S.A.

Corporate Outreach Management

Av. Brigadeiro Faria Lima, 3400 – 10º andar
Itaim Bibi – 04538-133 – São Paulo – SP – Brazil
Note: Shareholder service is carried out by the Bank's branches

Independent Auditors

PRICEWATERHOUSECOOPERS
Av. Francisco Matarazzo, 1400 – Torre Torino
Água Branca – 05001-903 – São Paulo – SP – Brazil

Investor Relations

Investor Relations Board
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Publications & Information

All relevant facts, result announcements, and any other Company's market communications are simultaneously disclosed at Brazilian Securities and Exchange Commission (CVM, acronyms in Portuguese) and Bovespa and the IR area on the Company's website (www.portoseguro.com.br). Afterwards, they are forwarded by e-mail to the people who have subscribed to receive such information. The financial statements in full are published on an annual basis in O Estado de São Paulo and Diário Oficial do Estado de São Paulo, which are Brazilian newspapers. Quarterly financial statements, press releases, presentations, relevant facts and shareholders' notices are available at the IR area of Porto Seguro's website (www.portoseguro.com.br). Other corporate information can also be found at Bovespa (www.bovespa.com.br) and the Brazilian Securities and Exchange Commission (www.cvm.gov.br).

multiplication

investing and adding up efforts' action, ensuring positive results and the continuous growth of the Company.

A company's action aims to multiply its value. To provide positive results that generate new investments, and, in turn, new actions to ensure the company's continuous growth, thus creating a virtuous cycle that benefits not only shareholders, but also employees, suppliers, and the communities where we operate. Porto Seguro is aware of the importance that results have for the continuous progress of its operations and its engaged audiences. Therefore, Porto Seguro invests in its business constantly to multiply any positive effects.

BALANCE SHEETS AT DECEMBER 31 – ASSETS
(IN THOUSANDS OF REAIS)

	Note	Parent company		Consolidated	
		2009	2008	2009	2008
Current assets		***427,206***	***187,692***	***9,632,091***	***5,566,813***
Cash and cash equivalents		14	27	38,040	26,578
Financial investments	5	415,614	174,182	6,135,567	3,372,542
Written premiums	7	—	—	1,638,252	1,002,593
Deferred selling expenses	8	—	—	605,192	399,685
Credit operations	9 (a)	—	—	246,830	199,632
Securities and credits receivable	9 (b)	—	—	574,598	303,891
Dividends and interest receivable	29	2,548	4,295	—	—
Taxes and contributions	10 (a)	7,016	9,013	42,028	39,269
Other accounts receivable	11	2,014	175	238,167	168,181
Reinsurance and retrocession expenses		—	—	14,508	5,807
Other assets	12	—	—	98,909	48,635
Non-current assets		***2,806,555***	***1,878,522***	***1,890,411***	***2,200,509***
Long-term receivables		***100***	***100***	***1,200,814***	***1,522,787***
Financial investments	5	—	—	326,010	756,420
Taxes and contributions	10 (a)	—	—	15,968	7,402
Deferred income tax and social contribution	10 (c)	—	—	439,472	323,029
Credit operations	9 (a)	—	—	114,084	131,276
Other accounts receivable	11	100	100	9,803	7,489
Change in other assets	8	—	—	2,134	2,427
Judicial deposits	13	—	—	293,343	294,744
Investments		***2,802,042***	***1,874,009***	***18,920***	***19,917***
Investments in subsidiaries	14 (a)	2,825,873	1,897,840	—	—
Acquisition of investments – negative goodwill	14 (b)	(23,831)	(23,831)	—	—
Investments in IRB – Brasil Resseguros S.A.		—	—	8,428	8,428
Properties for rent		—	—	9,194	10,174
Other		—	—	1,298	1,315
Fixed assets	15 (a)	—	—	621,732	628,357
Intangible assets	15 (b)	4,413	4,413	48,495	29,448
Total assets		***3,233,761***	***2,066,214***	***11,522,502***	***7,767,322***

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

BALANCE SHEETS AT DECEMBER 31 – LIABILITIES AND SHAREHOLDERS' EQUITY
(IN THOUSANDS OF REAIS)

	Note	Parent company		Consolidated	
		2009	2008	2009	2008
Current liabilities		***102,720***	***90,617***	***7,270,437***	***4,751,886***
Accounts payable	16	—	144	778,138	442,342
Accrued liabilities	17	495	450	495	450
Obligations for acceptances of exchange bills	21	—	—	91,144	93,485
Loans	21	—	—	39,859	33,683
Interbank deposits	21	—	—	179,161	74,171
Provision for vacations and related charges		—	—	46,382	34,370
Taxes and contributions	10 (b)	790	733	170,253	108,007
Interest on capital and dividends payable	29	101,435	89,290	101,435	89,290
Third-party deposits	18	—	—	32,842	54,366
Commissions on premiums written		—	—	285,873	203,539
Other insurance debts payable	19	—	—	53,667	36,787
Unearned premiums reserve	20 (a)	—	—	2,997,650	1,861,208
Unexpired risks reserve	20 (a)	—	—	14,436	14,807
Mathematical reserve – insurance	20 (a)	—	—	323,904	235,223
Mathematical reserve – pension plan	20 (b)	—	—	885,671	772,628
Unsettled claims/unpaid benefits	20 (a)	—	—	978,531	480,873
Reserve for claims incurred but not reported (IBNR)	20 (a)	—	—	166,714	113,559
Benefits granted	20 (b)	—	—	29,436	24,222
Contribution deficiency reserve	20 (b)	—	—	36,786	31,531
Premium deficiency reserve	20 (a)	—	—	1,499	1,220
IRB – Brasil Resseguros S.A.		—	—	15,525	9,811
Other reserves	20 (c)	—	—	41,036	36,314
Non-current liabilities		***3,978***	***11,489***	***1,100,438***	***1,026,920***
Long-term liabilities					
Accounts payable		—	—	6,331	6,438
Accrued liabilities	17	1,483	1,800	1,483	1,800
Loans	21	—	—	—	50,605
Interbank deposits	21	—	—	—	16,533
Deferred income tax and social contribution	10 (c)	—	—	41,771	42,168
Unearned premiums reserve	20 (a)	—	—	14,233	15,129
Unexpired risks reserve	20 (a)	—	—	1	182
Benefits granted	20 (b)	—	—	757	1,147
Legal obligations	22	2,495	9,689	1,008,012	872,926
Labor and civil contingencies	22	—	—	27,850	19,992
Deferred income		—	—	23,831	23,831
Minority interest		***—***	***—***	***733***	***577***
Shareholders' equity	***23***	***3,127,063***	***1,964,108***	***3,127,063***	***1,964,108***
Capital		1,870,000	920,000	1,870,000	920,000
Capital reserve		47,412	47,412	47,412	47,412
Revaluation reserve		132,706	134,358	132,706	134,358
Adjustments of securities		4,014	2,399	4,014	2,399
Carrying value adjustments		(189)	1,529	(189)	1,529
Revenue reserves		1,073,120	881,872	1,073,120	881,872
Treasury shares		—	(23,462)	—	(23,462)
Total liabilities and shareholders' equity		***3,233,761***	***2,066,214***	***11,522,502***	***7,767,322***

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

STATEMENTS OF INCOME – YEARS ENDED DECEMBER 31
(IN THOUSANDS OF REAIS)

	Note	Parent company		Consolidated	
		2009	2008	2009	2008
Income					
Written premiums	24	—	—	5,779,445	4,825,012
Pension plan contributions		—	—	125,090	115,374
Service revenues – Porto Seguro Proteção e Monitoramento		—	—	60,298	51,757
Service revenues – Porto Consórcio		—	—	114,153	103,316
Service revenues – Crediporto		—	—	6,609	5,243
Service revenues – Integração		—	—	4,337	3,385
Service revenues – Porto Seguro Serviços		—	—	4,367	147
Service revenues – Porto Seguro Atendimento		—	—	3,841	—
Service revenues – other		—	—	3,399	1,761
Credit operations		—	—	145,983	76,441
Other income – Portopar		—	—	10,771	6,656
Other operating income	28 (a)	—	—	289,423	199,902
Equity in the earnings of subsidiaries	*14 (a)*	*348.542*	*295.273*	—	—
		348.542	*295.273*	*6.547.716*	*5.388.994*
Expenses					
Reinsurance premiums ceded		—	—	(36,918)	(18,739)
Change in technical reserves – insurance		—	—	(379,066)	(355,666)
Change in technical reserves – pension plan		—	—	(120,805)	(109,535)
Pension plan benefits		—	—	(7,019)	(5,673)
Retained claims	25	—	—	(3,088,099)	(2,467,778)
Selling		—	—	(1,182,249)	(1,032,151)
Cost of services rendered – Porto Seguro Proteção e Monitoramento		—	—	(32,083)	(31,760)
Cost of services rendered – Integração		—	—	(3,499)	(3,087)
Cost of services rendered – Porto Seguro Serviços		—	—	(11)	(128)
Financial intermediation		—	—	(29,114)	(25,575)
Allowance for doubtful accounts – financial expenses		—	—	(89,098)	(22,924)
Other operating expenses	28 (b)	—	—	(355,071)	(282,678)
Administrative	26 (a)	(19,238)	(1,901)	(1,060,187)	(887,433)
Taxes	26 (b)	(10,957)	(9,763)	(188,493)	(140,537)
Amortization of goodwill	15 (b)	—	(528)	—	(528)
		(30,195)	*(12,192)*	*(6,571,712)*	*(5,384,192)*
Operating profit (loss) before financial and property income		*318,347*	*283,081*	*(23,996)*	*4,802*
Financial results					
Financial income	27 (a)	10,274	10,324	723,357	623,751
Financial expenses	27 (b)	(205)	(1,184)	(189,434)	(164,753)
		10,069	*9,140*	*533,923*	*458,998*

STATEMENTS OF INCOME – YEARS ENDED DECEMBER 31
(IN THOUSANDS OF REAIS)

	Note	Parent company		Consolidated	
		2009	2008	2009	2008
Property income					
Income from properties for rent		—	—	3.949	3.343
Operating profit		*328.416*	*292.221*	*513.876*	*467.143*
Income before income tax and social contribution		*328.416*	*292.221*	*513.876*	*467.143*
Income tax and social contribution	*10 (d)*	*—*	*(2.046)*	*(105.011)*	*(111.836)*
Current		—	(2.046)	(221.454)	(184.445)
Deferred		—	—	116.443	72.609
Income before profit sharing		*328.416*	*290.175*	*408.865*	*355.307*
Employees and management profit sharing		*—*	*—*	*(80.283)*	*(64.992)*
Income before minority interest		*328.416*	*290.175*	*328.582*	*290.315*
Minority interest				*(166)*	*(140)*
Net income for the year		*328.416*	*290.175*	*328.416*	*290.175*
Number of shares (thousand)	*23 (a)*	*327.642*	*230.643*		
Net income per share – R$		*1,00*	*1,26*		

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY - YEARS ENDED DECEMBER 31, 2009 AND 2008
(IN THOUSANDS OF REAIS)

	Note	Capital	Capital reserve	Revaluation reserve for properties of subsidiaries	Adjustments of securities	Carrying value adjustments	Revenue reserves		Treasury shares	Retained earnings	Total
							Legal	Statutory			
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	23 (b)	—	—	—	—	—	14.509	—	—	(14,509)	—
Statutory reserve	23 (b)	—	—	—	—	—	—	173,693	—	(173,693)	—
Interest on capital											
R$0.448 per common share (R$0.380 net of income tax)		—	—	—	—	—	—	—	—	(103,218)	(103,218)
At December 31, 2008		***920,000***	***47,412***	***134,358***	***2,399***	***1,529***	***108,678***	***773,194***	***(23,462)***	***—***	***1,964,108***
Cancellation of shares issued by the Company		—	—	—	—	—	—	(23,462)	23,462	—	—
Capital increase											
Capital increase – General and Extraordinary Meeting held on November 30, 2009	23 (a)	950,000	—	—	—	—	—	—	—	—	950,000
Adjustment of securities		—	—	—	1,615	—	—	—	—	—	1,615
Exchange variation of investees located abroad		—	—	—	—	(1,718)	—	—	—	—	(1,718)
Carrying value adjustments		—	—	—	—	—	—	—	—	492	492
Revaluation reserve for properties of subsidiaries											
Realization by depreciation		—	—	(1,652)	—	—	—	—	—	1,652	—
Net income for the year		—	—	—	—	—	—	—	—	328,416	328,416
Legal reserve	23 (b)	—	—	—	—	—	16,421	—	—	(16,421)	—
Statutory reserve	23 (b)	—	—	—	—	—	—	198,289	—	(198,289)	—
Interest on capital	23 (c)	—	—	—	—	—	—	—	—	(115,850)	(115,850)
R$ 0.4752 per common share (R$ 0.4040 net of income tax)											
At December 31, 2009		***1,870,000***	***47,412***	***132,706***	***4,014***	***(189)***	***125,099***	***948,021***	***—***	***—***	***3,127,063***

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

STATEMENTS OF CASH FLOWS – YEARS ENDED DECEMBER 31, 2009 AND 2008
(IN THOUSANDS OF REAIS)

	Parent company		Consolidated	
	2009	2008	2009	2008
Cash flows from operating activities				
Net income for the year	***328,416***	***290,175***	***328,416***	***290,175***
Depreciation and amortization	—	—	100,034	74,260
Amortization of goodwill	—	528	—	528
Equity in the earnings of subsidiaries	(348,542)	(295,273)	—	—
Monetary restatements on contingent liabilities and judicial deposits	—	—	43,792	469
Results on sale of fixed assets	—	—	705	(345)
Change in allowance for doubtful accounts	—	—	(17)	9,340
Adjusted net income	***(20,126)***	***(4,570)***	***472,930***	***374,427***
(Increase) decrease in assets				
Change in investments	(241,432)	(174,173)	(2.332,615)	(153,308)
Change in written premiums	—	—	(635,642)	(180,780)
Change in deferred selling expenses	—	—	(205,214)	(60.137)
Change in credit operations	—	—	(30,006)	(95,774)
Change in securities and credits receivable	—	—	(270,707)	(367,931)
Change in dividends receivable	1,747	153,194	—	—
Change in taxes and contributions	1,997	(3,316)	38,927	3,325
Change in other accounts receivable	(1,839)	(170)	(72,300)	(10,981)
Change in reinsurance and retrocession expenses	—	—	(8,701)	—
Change in other assets	—	—	(50,274)	(10,170)
Change in deferred income tax and social contribution	—	—	(116,443)	(72,609)
Change in judicial deposits	—	—	31,212	612
	(239,527)	***(24,465)***	***(3,651,763)***	***(947,753)***
Increase (decrease) in liabilities				
Change in accounts payable	(16)	17	335,689	319,871
Change in accrued liabilities	(272)	(11,446)	(272)	(11,446)
Change in interbank deposits	—	—	88,457	13,867
Change in obligations for acceptances of exchange bills	—	—	(2,341)	40,228
Change in loans	—	—	(44,429)	20,925
Change in vacations and related charges	—	—	12,012	5,430
Change in taxes and contributions	57	726	165,320	127,905
Change in third-party deposits	—	—	(21,524)	(10,144)
Change in commissions on premiums written	—	—	82,334	97,346
Change in other debts payable	—	—	22,594	7,395
Change in technical reserves - insurance and reinsurance	—	—	1,902,611	517,535
Change in deferred income tax and social contribution	—	—	(397)	(4,012)
Change in legal obligations	(7,194)	1,371	61,483	17,905
Change in labor and civil contingencies	—	—	7,858	(9,393)
Change in adjustments of securities	—	—	(103)	(6,602)
Change in minority interest	—	—	156	102
	(7,425)	***(9,332)***	***2,609,448***	***1,126,912***

STATEMENTS OF CASH FLOWS – YEARS ENDED DECEMBER 31, 2009 AND 2008
(IN THOUSANDS OF REAIS)

	Parent company		Consolidated	
	2009	2008	2009	2008
Income tax and social contribution paid	—	—	(152,815)	(150,694)
Withholding income tax on dividends received	—	—	(511)	(401)
	—	—	(153,326)	(151,095)
Net cash provided by (used in) operating activities	***(267,078)***	***(38,367)***	***(722,711)***	***402,491***
Cash flows from investing activities				
Interest on capital and dividends received	422,770	250,829	—	—
Sale of fixed assets	—	—	12,876	18,710
Acquisition of investments - goodwill	—	(4,940)	—	(4,940)
Acquisition of fixed assets	—	—	(107,036)	(220,517)
Acquisition of investments	(52,000)	(40,309)	—	—
Investment in intangible assets	—	—	(17,929)	(21,809)
Net cash provided by (used in) investing activities	***370,770***	***205,580***	***(112,089)***	***(228,556)***
Cash flows from financing activities				
Treasury shares	—	(23,462)	—	(23,462)
Acquisition of investments	—	—	950,000	—
Distribution of interest on capital and dividends	(103,705)	(143,728)	(103,738)	(143,755)
Net cash provided by (used in) financing activities	***(103,705)***	***(167,190)***	***846,262***	***(167,217)***
Increase (decrease) in cash and cash equivalents	***(13)***	***23***	***11,462***	***6,718***
Cash and cash equivalents at the beginning of the year	27	4	26,578	19,860
Cash and cash equivalents at the end of the year	14	27	38,040	26,578

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

STATEMENTS OF VALUE ADDED – YEARS ENDED DECEMBER 31, 2009 AND 2008
(IN THOUSANDS OF REAIS)

	Parent company		Consolidated	
	2009	2008	2009	2008
Income	—	—	***6,303,685***	***5,221,637***
Revenues from insurance operations	—	—	5,779,445	4,825,012
Revenues from pension plan operations	—	—	125,090	115,374
Service revenues	—	—	197,004	165,609
Other	—	—	290,278	150,806
Allowance for doubtful accounts	—	—	(88,132)	(35,164)
Expenses of financial intermediation	—	—	***(29,114)***	***(22,925)***
Change in technical reserves	—	—	***(499,871)***	***(465,201)***
Insurance operations	—	—	(379,066)	(355,666)
Pension plan operations	—	—	(120,805)	(109,535)
Net operating revenues	—	—	***5,774,700***	***4,733,511***
Benefits and Claims	—	—	***3,095,118***	***2,473,451***
Claims	—	—	3,088,099	2,467,778
Expenses with benefits	—	—	(7,019)	(5,673)
Inputs acquired from third parties	***18,744***	***1,628***	***1,832,065***	***1,540,636***
Materials, energy and other	(1,028)	(1,132)	(545,364)	(387,098)
Cost of products and goods sold and services rendered	—	(496)	(11,745)	(6,544)
Third-party services, net commissions	(17,716)	—	(1,276,538)	(1,158,664)
Change in deferred selling expenses	—	—	10,602	11,992
Loss/recovery of asset values	—	—	(9,020)	(322)
Gross value added	***(18,744)***	***(1,628)***	***847,517***	***719,424***
Depreciation, amortization and depletion	—	***(528)***	***(100,034)***	***(74,788)***
Net value added generated by the entity	***(18,744)***	***(2,156)***	***747,483***	***644,636***
Value added received/ceded through transfer	***358,816***	***305,597***	***599,698***	***489,693***
Financial income	10,274	10,324	707,986	610,943
Equity in the earnings of subsidiaries	348,542	295,273	—	—
Other	—	—	(108,288)	(121,250)
Total value added to distribute	***340,072***	***303,441***	***1,347,181***	***1,134,329***
Distribution of value added	***340,072***	***303,441***	***1,347,181***	***1,134,329***
Personnel	***412***	***287***	***557,864***	***468,520***
Direct remuneration	412	287	331,875	263,236
Benefits	—	—	200,414	184,924
Government Severance Indemnity Fund for Employees (FGTS)	—	—	25,575	20,360
Taxes and contributions	***11,059***	***11,824***	***365,074***	***327,547***
Federal	11,059	11,824	353,540	322,608
State	—	—	169	1,771
Municipal	—	—	11,365	3,168
Third-party capital remuneration	***185***	***1,155***	***95,661***	***47,947***
Interest	185	1,155	82,463	37,043
Rentals	—	—	13,198	10,904
Shareholders' capital remuneration	***328,416***	***290,175***	***328,582***	***290,315***
Dividends	115,850	103,218	115,850	103,218
Earnings reinvested	212,566	186,957	212,566	186,957
Minority interest in earnings reinvested	—	—	166	140

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

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008

(IN THOUSANDS OF REAIS UNLESS OTHERWISE INDICATED)

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 surveillance of asset protection systems; and (d) activities related or supplementary to insurance activities and the other activities described above. On August 23, 2009, the Company and its subsidiaries signed an association agreement with Itaú Unibanco Holding S.A. ("Itaú Unibanco"), with the purpose of merging their residential and automobile insurance operations, as well as establishing an operational agreement with Itaú Unibanco for exclusive offer and distribution of residential and automobile insurance products to customers of the Itaú Unibanco network in Brazil and Uruguay ("Association"). The General Meetings of the companies that authorized the Association are pending approval of the Superintendency of Private Insurance (SUSEP), which previously approved the Association through Susep/Gabin Circular Letter 111/2009. The Association is also pending approval of the Brazilian Anti-trust System (SBDC). On November 30, 2009, Porto Seguro S.A. approved the merger of ISAR Holding Ltda. ("ISAR Holding") into itself. Up to the merger, ISAR Holding was the parent company of Itaú Seguros de Auto e Residência S.A., which received the assets and liabilities of Itaú Seguros S.A. related to residential and automobile insurance activities. On the same date, the companies of the Itaú Unibanco Group became shareholders of Porto Seguro Itaú Unibanco Participações ("Psiupar"), to which all shares issued by Porto Seguro S.A. received due to the merger were transferred. Accordingly, Itaú Unibanco Group now holds approximately 43% of the capital of Psiupar and, indirectly, 30% of the capital of Porto Seguro S.A. 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 casualty and personal insurance. (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 and 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, acquired on December 22, 1994 to operate mainly in automobile insurance. (iv) Porto Seguro - Seguro Saúde S.A. ("Porto Seguro Saúde") - Controlled by Porto Seguro (99.98%), 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. (vi) Itaú Seguros de Auto e Residência S.A. (current name of Uaseg Seguros S.A. pending approval by SUSEP) ("ISa+r") - This corporation is a direct subsidiary of the Company since November 30, 2009. Its objective is 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%), established on July 20, 1976 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%), established on November 9, 2001. Its main objective is to finance the acquisition of assets, services, working capital and credit card operations. (iii) Portopar Distribuidora de Títulos e Valores Mobiliários Ltda. ("Portopar") - A direct subsidiary of the Company (99.99%), established on April 8, 1991 basically 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, with the main purpose of rendering services related to electronic protection and surveillance. (ii) Portoserv Promotora de Serviços Ltda. ("Portoserv") - A direct subsidiary of the Company (99.50%), established on April 18, 1979, with the main purpose of providing services related to the agency, promotion, support, and management of sales. (iii) Crediporto Promotora de Serviços Ltda. ("Crediporto") - A direct subsidiary of the Company (99.80%), established on November 1, 2006, with the main purpose of providing loans and financing for consumption. (iv) Integração Assessoria e Informática Ltda. ("Integração") - A direct subsidiary of the Company (99.98%), acquired on January 2, 2008, which develops, distributes, advises, maintains, grants license or right of use for computer programs. (v) Portomed - Porto Seguro Serviços Médicos Ltda. ("Portomed") - A direct subsidiary of the Company (99.93%), acquired on December 31, 2007, with the main purpose of providing health medical control programs and health outpatient services. (vi) Porto Seguro Serviços S/A ("Porto Seguro Serviços") - A direct subsidiary of the Company (99.00%), established on February 14, 2008 to provide services related, supplementary or connected to insurance activities. (vii) Porto Seguro Atendimento S.A. ("Porto Seguro Atendimento") - A subsidiary of Porto Seguro Serviços (99.00%), established on March 20, 2009 basically to provide telemarketing, call center and general services. (viii) Franco S.A. Corretagem de Seguros ("Franco") - A subsidiary controlled by Azul Seguros (99.99%), with the purpose of providing technical services related to brokerage and insurance management.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
(IN THOUSANDS OF REAIS UNLESS OTHERWISE INDICATED)

2. Consolidation Criteria

The consolidation process of balance sheet and statement of income accounts corresponds to the horizontal sum of asset, liability, income and expense account balances, according to their nature, considering the following eliminations and procedures: **a)** Elimination of participations in capital and reserves between the companies. **b)** Elimination of current account balances and other assets and/or liabilities between consolidated companies. **c)** Elimination of income and expenses 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 upon consolidation to align accounting practices of Porto Seguro S.A.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
(IN THOUSANDS OF REAIS UNLESS OTHERWISE INDICATED)

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 rules 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 the accounting practices issued by the Brazilian Accounting Pronouncements Committee (CPC), when applicable and approved by the regulatory bodies. The preparation of financial statements requires management to make use of judgment to determine and record accounting estimates. Significant assets and liabilities subject to these estimates and assumptions comprise, among others, adjustments to the allowance for doubtful accounts, deferred income tax and social contribution and 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. **Accounting pronouncements and interpretations of standards that are not yet effective.** The accounting pronouncements and interpretations of standards listed below were published and are mandatory for years beginning on or after January 1, 2010. In addition, other pronouncements and interpretations were also published, which alter the accounting practices adopted in Brazil, within the process of convergence with international standards. The standards below are only those that could (or should) more significantly affect the Company's financial statements. Under the terms of these new standards, the figures for 2009, presented herein, should be restated for comparison purposes when the 2010 financial statements are prepared. The Company did not elect early adoption of these standards for the year ended December 31, 2009. **(a) Pronouncements:** • CPC 11 - Insurance Contracts The Company is currently analyzing the possible impacts of this new regulation on the operations of its subsidiaries and does not expect significant effects other than those required in the financial information disclosure • CPC 15 - Business Combinations The Company is currently analyzing the possible impacts of this new regulation on its operations, and identified the necessity of eliminating unamortized negative goodwill, in accordance with the Brazilian accounting practice - See Notes 4 item (f) and 14 item (b) • CPC 22 - Segment Information • CPC 26 - Presentation of Financial Statements CPCs 22 and 26 establish changes in the format of the financial statement presentation • CPC 32 - Taxes on Profit CPC 32 establishes the necessity of recording a provision for long-term taxes payable relative to the land revaluation balance • CPC 33 - Employee Benefits **(b) Interpretations:** • ICPC 08 - Accounting for Proposed Dividends This interpretation establishes that only minimum mandatory dividends should be considered liabilities of the Company, and any additional amount should be maintained in shareholders' equity.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
(IN THOUSANDS OF REAIS UNLESS OTHERWISE INDICATED)

4. Significant Accounting Practice

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 up to the financial statement date. (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 remain in the plan, and are reflected in the "Deferred selling expenses" account. The subsidiaries Porto Seguro, Azul Seguros and ISa+r 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 agreed index variation and 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 purchases made by their holders. 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, Porto Seguro Serviços, Porto Seguro Atendimento and Franco. (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 acquisition 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 current market value, with variations in market value recorded to income for the period. **(d)** Judicial deposits are monetarily restated and presented as a deduction from the corresponding liability, if any. **(e)** Investments in subsidiaries are accounted for based on the equity method, with the equity in results recognized in income for the year as operating income (or expense). In the event of exchange variation of investments in subsidiaries located abroad, which operate with a different functional currency, 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 results of subsidiaries, unrealized gains or transactions between the Company and its subsidiaries are eliminated proportionately to the Company's interest. 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 or for probable realization 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 amount and book value of the shareholders' equity of the acquired company. Goodwill and negative goodwill are attributed to expected future profitability. Negative goodwill is recorded in investments and is amortized only when the investment is sold. Future profitability goodwill is recorded as an intangible asset and as from 2009 is no longer amortized, although still being subject to periodical impairment testing. **(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 No. 11638/07, the subsidiaries Porto Seguro, Porto Seguro Vida, Azul Seguros and Porto Consórcio adopted the revalued net book value at December 31, 2007 as the new cost 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 retained earnings if the land is sold. Depreciation is calculated on the straight-line method, in accordance with the rates disclosed in Note 15 item (a). Gains and losses on sales are determined by comparing the sales amounts with the book value and are included in the statement of income. 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 15 item (b). Ongoing 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. 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 15 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 15 item (b). **(i)** Impairment of assets Fixed assets and other non-current assets, including goodwill and intangible assets, are reviewed to identify evidence of impairment annually, and also whenever events or alterations in 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 by 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 overdue for more than 60 days, based on history of losses and default risks of each insurance line; (ii) for the subsidiary Portoseg, the allowance is recorded by applying the minimum percentage of provision required by BACEN Resolution No. 2682/99. **(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 coinsurance adjustments. An additional reserve for unsettled claims (IBNER) is recorded to cover reported claims whose amounts are subject to changes during 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 the claim notice, through the presentation of the medical bill or the service provider's advice. (v) The

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
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4. Significant Accounting Practice (continuation)

reserve for claims incurred but not reported (IBNR) for the casualty, life and health lines is calculated on estimated claims not yet reported to the Company based on a technical actuarial note. The IBNR reserve for the DPVAT (mandatory insurance against personal injury caused by automotive vehicles) line is recognized pursuant to CNSP Resolution No. 192/08. (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 computed 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 atypical and 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 lumpsum 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 a technical actuarial note. (iii) The reserve for administrative expenses (PDA) is recognized to meet current and future operating expenses when benefits are paid to participants. The subsidiary Porto Seguro Vida also recognizes 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, including accrued charges and monetary variations, 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%. 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 land 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, are fully recognized in the financial statements and monetarily adjusted in accordance with current tax legislation (SELIC interest rate). **(q)** For corporate reporting purposes, interest on capital is usually 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.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
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5. Financial Investments – Consolidated

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

				2009	2008
Trading securities	Insurance companies	Pension plans	Other activities	Consolidated	Consolidated
Open funds					
Fixed-income securities					
Investment fund quotas	48,892	—	48,229	97,121	727,365
Retained funds – Brazilian Reinsurance Institute (IRB)	392	10	—	402	756
Other investments	298	—	—	298	286
	49,582	*10*	*48,229*	*97,821*	*728,407*
Variable-income securities					
Investment fund quotas	—	—	—	—	1,777
Total open funds	49,582	10	48,229	97,821	730,184
Exclusive funds					
Fixed-income securities					
Financial Treasury Bills (LFTs)	1,680,387	357,689	353,742	2,391,818	822,666
National Treasury Bills (LTNs)	1,655,378	213,462	119,487	1,988,327	827,679
National Treasury Notes (NTNs) – series B	54,860	739	1,153	56,752	444,352
National Treasury Notes (NTNs) – series C	—	281,946	—	281,946	230,561
National Treasury Notes (NTNs) – series F	233,203	161,706	—	394,909	—
Private securities	103,920	124,505	49,625	278,050	119,187
Variable-income securities					
Shares of publicly-held companies	16,242	31,047	6,791	54,080	61,945
Total exclusive funds	*3,743,990*	*1,171,094*	*530,798*	*5,445,882*	*2,506,390*
Derivative financial instruments (i)	*—*	*384*	*414*	*798*	*23,712*
Total trading securities	*3,793,572*	*1,171,488*	*579,441*	*5,544,501*	*3,260,286*

(i) See Note 6 item (vi).

				2009	2008
Available-for-sale securities	Insurance companies	Pension plans	Other activities	Consolidated	Consolidated
Own portfolio					
Fixed-income securities					
Private securities	461,447	18,482	47,526	527,455	534,877
Financial Treasury Bills (LFTs)	133,663	255,958	—	389,621	333,799
Total own portfolio	*595,110*	*274,440*	*47,526*	*917,076*	*868,676*
Total available-for-sale securities	*595,110*	*274,440*	*47,526*	*917,076*	*868,676*
Total financial investments	*4,388,682*	*1,445,928*	*626,967*	*6.461,577*	*4,128,962*
Current				*6,135,567*	*3,372,542*
Non-current				*326,010*	*756,420*
Derivative financial instruments (liabilities)	—	—	—	—	5,067

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5. Financial Investments – Consolidated (continuation)

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

	2009			2008		
	Amortized cost	Adjustment to market value	Value market	Amortized cost	Adjustment to market value	Value market
Private securities	525,239	2,216	527,455	535,399	(522)	534,877
Financial Treasury Bills (LFTs)	389,922	(301)	389,621	334,019	(220)	333,799
Total	***915,161***	***1,915***	***917,076***	***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, and the government securities related to Seguradora Líder are valued at PU550 of SELIC. Investment fund quotas are valued based on the price of the quota disclosed by the fund's manager at the balance sheet dates.

(c) Securities adjustments:

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

	Consolidated	
	2009	2008
Private securities	2,216	(522)
Financial Treasury Bills (LFTs)	(301)	(220)
Subtotal	***1,915***	***(742)***
(–) Tax effects (40%)	(766)	252
Other investments – Porto Seguro Uruguay	***2,865***	***2,889***
Total net of tax effects	***4,014***	***2,399***

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5. Financial Investments – Consolidated (continuation)

(d) Breakdown of the investment portfolio by maturity:

						2009
	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	97,121	—	—	—	—	97,121
Retained funds – IRB	402	—	—	—	—	402
Other investments	298	—	—	—	—	298
Total open funds	***97,821***	**—**	**—**	**—**	**—**	***97,821***
Exclusive funds						
Fixed-income securities						
Financial Treasury Bills (LFTs)	—	1,514,482	49,637	—	827,699	2,391,818
National Treasury Bills (LTNs)	—	—	—	—	1,988,327	1,988,327
National Treasury Notes (NTNs) – series B	—	—	—	—	56,752	56,752
National Treasury Notes (NTNs) – series C	—	—	—	—	281,946	281,946
National Treasury Notes (NTNs) – series F	—	9,458	—	—	385,451	394,909
Private securities	—	7,585	222,264	28,446	19,755	278,050
Variable-income securities						
Shares of publicly-held companies	54,080	—	—	—	—	54,080
Total exclusive funds	***54,080***	***1,531,525***	***271,901***	***28,446***	***3,559,930***	***5,445,882***
Derivative financial instruments	—	—	—	—	798	798
Total trading securities	***151,901***	***1,531,525***	***271,901***	***28,446***	***3,560,728***	***5,544,501***
Available-for-sale securities						
Own portfolio						
Fixed-income securities						
Private securities	—	—	372,828	136,145	18,482	527,455
Financial Treasury Bills (LFTs)	—	4,617	31,580	24,504	328,920	389,621
Total own portfolio	**—**	***4,617***	***404,408***	***160,649***	***347,402***	***917,076***
Total available-for-sale securities	—	4,617	404,408	160,649	347,402	917,076
Total financial investments	***151,901***	***1,536,142***	***676,309***	***189,095***	***3,908,130***	***6,461,577***

(i) "Trading securities" are included in current assets, regardless of their maturity, in conformity with current law.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
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6. Financial Instruments

(a) Overview: The investment policy of the Company and its subsidiaries is aligned with the internal evaluation criteria of each business segment and related risk profiles. The funds are allocated according to insurance, private pension, consortium and credit market legislation, especially the composition of technical reserves for insurance and pension plan lines, and the policy of monitoring assets and liabilities (the Asset and Liability Management - ALM). For the effective fund allocation, the Company uses mechanisms to evaluate and monitor operations, with established limits based on quantitative and qualitative information. The main risks arising from transactions of the Company and its subsidiaries are related to interest rates, credit and liquidity. The management of such risks involves various controls, policies and strategies deemed appropriate by management. Assets in portfolio or in investment funds are valued at market value, using prices and indices disclosed by ANDIMA, the Brazilian Stock, Commodities and Futures Exchange (BM&FBOVESPA), the Clearing House for the Custody and Financial Settlement of Securities (CETIP) and BACEN. **(b) Derivative financial instruments: (i) Policy for the use of derivative financial instruments:** The derivative financial instruments are used to hedge portfolios and liabilities or reflect positions in the spot market, and are not designed to comply with hedge accounting requirements. Transactions are recorded at market value, and realized gains and losses are recognized in the statement of income for the period. The Company and its subsidiaries operate in accordance with the investment policies, following the Board of Directors instructions, the regulations and best corporate governance practices, with the purpose of protecting capital and ensuring business profitability. The risk management of Porto Seguro S.A. is guided by principles such as independence and shared decisions, and is codified in policies, procedures and goals. In respect of the investment policy of the Company and its subsidiaries, all the transactions related to these instruments are traded and recorded through the Commodities and Futures Exchange or the over-the-counter market. The main counterparty in transactions involving financial instruments is BM&FBOVESPA, except for swap transactions carried out by Portoseg, which are recorded in the CETIP with a financial institution as a counterparty. Derivative transactions carried out through BM&FBOVESPA are guaranteed by federal government securities. Swap transactions of Portoseg have no guarantees. The 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 in the accumulated interest rate in the period, and for the remote scenario, we use a 50% increase, according to legal determination of CVM 475. Portoseg's portfolio swap falls due on July 30, 2010, with the assets of the operations indexed to exchange variation and liabilities indexed to Interbank Deposit Certificate (CDI), in order to neutralize the foreign currency exposure (US dollar) of Portoseg's funding in the same amounts and liabilities as the swap. 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. **(ii) Objectives and strategies of risk management:** The Company and its subsidiaries operate in derivative markets in order to meet their increasing customers' needs and comply with their risk management policy. The use of derivative financial instruments aims at the protection against fluctuations in 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 two pillars; the first is the preparation and the constant review of macroeconomic and market scenarios (for different timeframes), and the second refers to the analysis of 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. The use of any derivative financial instrument goes through this risk control process, with periodical monitoring after the allocation is defined. The credit risk is the possibility that the counterparty of a financial transaction does not honor its contractual obligations, which may generate loss to the Company. With the purpose of mitigating credit risk, the Company seeks to do business only with companies of good credit quality, in accordance with the main rating agencies. In this respect, the Bank Credit Certificate (CCB) of Banco ABN AMRO, which is part of the Company's lending portfolio, is classified by Fitch Ratings in the maximum rate, "AAA", as well as by Standard & Poors in the rate "Br.AAA". In addition, the Company continuously monitors possible credit concentrations that may increase the Company's exposure to credit risk. The liquidity risk management has the purpose of controlling different mismatches of settlement terms of the Company's assets and liabilities, as well as the liquidity of financial instruments used in the management of the financial positions. The knowledge and monitoring of these risks are crucial, mainly so the Company is able to settle transactions securely and on a timely basis. Accordingly, the liquidity risk management involves a set of controls, with ongoing evaluation of positions assumed and financial instruments used. **(iii) Activities in the market:** The Company participates in various entities 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$ 234,421, are described in item (vi). Of the positions in derivative financial instruments, Porto Seguro Vida has 85.3% of the notional value in item (vi) related to swap of IGP-M with average maturity of 2.1 years, and risk associated to the interest rate 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 inflation index plus a fixed rate and "payer" 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 rates for the same maturities, thus eliminating the risk of mismatch of interest rates. The accumulated effects up to the end of December 2009 of transactions related to IGP-M swap are stated in item (vi). The positive effects resulted from the compliance with the strategic objectives of the transaction, the purpose of which is to reduce risk exposure. Of the positions in derivative financial instruments, Portoseg has 14.7% of the notional value in item (vi), related to Swap of foreign currency with maturity of 0.6 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 "payer" of interest rates. The operation also contemplates a Bank Credit Certificate (CCB) contract, in which the company is payer 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 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&FBOVESPA) and the Clearing House for the Custody and Settlement of Securities (CETIP). The guarantees involved comply with criteria defined by BM&FBOVESPA. For these guarantees public securities acquired for this purpose are pledged. **(iv) *IGP-M Swap*:** Porto Seguro Vida: Swap IGP-M transactions in which the company is "receiver" of an index plus a predefined rate and "payer" 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 an accumulated average interest rate of 11.97% for the remaining term of the swap. In this scenario, the company would pay R$ 28,366. In the possible and remote scenarios for the sensitive analysis of the fair value of the position due to interest rate fluctuations, the variation would be between 14.96% and 17.96%, respectively, with payments of R$ 35,458 and R$ 42,204. This is only the liability position of the operation, but the contracts will be settled by the difference between asset and liability positions. We should consider that the possible effect of the increase in interest rates on the liability position will be offset by the increase in the asset position in federal government securities with a similar index (SELIC), acquired to hedge this exposure. **(v) *Foreign currency swap*:** Portoseg: Foreign currency swap transactions in which the company is "receiver" of exchange variation and "payer" of one day interest rate. According to the characteristics of the transaction (swap in conjunction with a CCB), the risk is associated to the asset position of the interest rates in the market, due to the risk of an increase in this index. We estimate an accumulated interest rate of 9.51% for the remaining term of the swap. In this scenario, the subsidiary would pay R$ 3,940. In the possible and remote scenarios for the sensitive analysis of the fair value of the position due to interest rate fluctuations, the variation would be between 11.89% and 14.27%, respectively, with payments of R$ 4,926 and R$ 5,911. It is worth mentioning that the subsidiary is not exposed to the exchange variation because it has a CCB, which is an integral part of the transaction, therefore eliminating the exchange variation exposure. The effect of the increase in interest rates is offset by the pricing of the credit area in the determination of lending rates, inherent to the activities of the companies of the segment.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
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6. Financial Instruments (continuation)

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

	2009			2008		
	Notional reference value (cost)	Fair Value	Effect on income for the year	Notional reference value (cost)	Fair Value	Effect on income for the year
Description						
Swap contracts						
Asset position (total)	***234,421***	***279,805***	***798***	***254,415***	***295,776***	***23,712***
Foreign currency (USD) + Exchange Coupon	34,421	41,436	414	54,415	84,289	23,712
IGPM rate + fixed rate	200,000	238,369	384	200,000	211,487	—
Liability position (total)	***234,421***	***279,007***	***—***	***254,415***	***277,131***	***(5,067)***
Floating rate (CDI)	34,421	41,022	—	54,415	60,577	—
Floating rate (CDI)	200,000	237,985	—	200,000	216,554	(5,067)

(vii) Sensitivity analysis of financial instruments on assets and liabilities at fair value through profit or loss:

	Risk	Probable scenario	Possible scenario 25%	Remote scenario 50%
Operation				
Swap IGP-M + fixed rate	CDI% increase	28,366	35,458	42,204
Floating rate (CDI)	CDI% increase	3,940	4,926	5,911

Counterparty: security dealers.

Guarantees: 100% in federal government securities.

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7. Premiums Receivable

	Consolidated					
	2009			2008		
	Premiums receivable form policy holders	Allowance for doubtful accounts	Premiums receivable – net	Premiums receivable form policy holders	Allowance for doubtful accounts	Premiums receivable – net
Automobile	1,295,086	(1,750)	1,293,336	797,463	(1,449)	796,014
Casualty	236,352	(2,440)	233,912	100,399	(591))	99,808
Transportation	19,657	(3,265)	16,392	21,751	(8,019)	13,732
Life	74,670	(6,587)	68,083	69,262	(2,829)	66,433
Health	13,269	(5,308)	7,961	17,375	(5,596)	11,779
Uruguay	21,032	(2,464)	18,568	17,468	(2,641)	14,827
	1,660,066	***(21,814)***	***1,638,252***	***1,023,718***	***(21,125)***	***1.002.593***

Breakdown by maturity

	2009	2008
Not yet due	1,552,206	933,292
Past due up to 30 days	69,934	52,146
Past due from 31 to 60 days	10,996	13,280
Past due from 61 to 90 days	5,063	5,426
Past due from 91 to 120 days	6,253	3,321
Past due for more than 120 days	15,614	16,253
	1,660,066	1,023,718
Allowance for doubtful accounts	(21,814)	(21,125)
	1,638,252	***1,002,593***

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8. Deferred Selling Expenses

	Consolidated	
	2009	2008
Automobile	485,701	322,437
Property	74,564	38,822
Financial risks	25,458	23,274
Personal	16,639	12,716
Health	935	1,136
Transportation	1,038	489
Liability	621	532
Other	2,370	2,706
	607,326	*402,112*
Current	*605,192*	*399,685*
No-current	*2,134*	*2,427*

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
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9. Lending Operations and Notes and Credits Receivable

Operations of the subsidiary Portoseg are of the following types:

(a) By type of operation:

	Consolidated	
	2009	**2008**
Loans	48,128	48,534
Financing	240,443	259,211
Credit card (i)	146,859	43,767
Check discount	173	—
	435,603	351,512
Allowance for doubtful accounts	(74,689)	(20,604)
	360,914	***330,908***
Current	***246,830***	***199,632***
Non-current	***114,084***	***131,276***

(i) Refer to receivables from holders of credit cards billed.

(b) Notes and credits receivable:

	Consolidated	
	2009	**2008**
Credit card transactions (ii)	577,485	303,891
Allowance for doubtful accounts	(2,887)	—
	574,598	***303,891***

(ii) Refer to receivables from holders of credit cards not yet due or not billed. These amounts are classified as credits with loan characteristics with a corresponding entry in accounts payable to merchants. See Note 16.

(c) By risk level — **2009**

Risk level	% Required provision	Loans	Financing	Credit card	Check discount	Total	Provision
A	0.5	37,539	199,389	632,114	173	869,215	4,346
B	1	1,212	10,058	10,706	—	21,976	220
C	3	1,103	10,879	7,062	—	19,044	571
D	10	1,691	5,988	7,221	—	14,900	1,490
E	30	1,065	3,202	8,242	—	12,509	3,753
F	50	1,052	2,195	7,891	—	11,138	5,569
G	70	425	1,259	7,248	—	8,932	6,253
H	100	4,041	7,473	43,860	—	55,374	55,374
Total		***48,128***	***240,443***	***724,344***	***173***	***1,013,088***	***77,576***

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
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9. Lending Operations and Notes and Credits Receivable (continuation)

(c) By risk level — **2008**

Risk level	% Required provision	Loans	Financing	Credit card	Total	Provision
AA	0	—	—	303,891	303,891	–
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***	***347,658***	***655,403***	***20,604***

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
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10. Taxes and Contributions – Assets and Liabilities

(a) Taxes recoverable	Parent company		Consolidated	
	2009	2008	2009	2008
Current assets				
Income tax	6,593	8,800	25,612	30,328
Social contribution	423	213	12,954	6,764
Other	—	—	3,462	2,177
	7,016	*9,013*	*42,028*	*39,269*
Non-current assets				
Social Investment Fund (FINSOCIAL) (i)	—	—	3,204	3,204
National Institute of Social Security (INSS) – independent contractors (i)	—	—	1,336	1,896
Supplementary State Income Tax (AIRE) (i)	—	—	130	130
Income tax	—	—	906	748
Social contribution	—	—	337	315
Social Contribution on Revenues (COFINS)	—	—	7,668	—
Social Integration Program (PIS)	—	—	2,387	1,109
	—	—	*15,968*	*7,402*

(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. The lawsuit resulted in a final favorable judgment and the Federal Government was ordered to refund the overpayment in ten installments, through a bond to pay court-ordered debt. In spite of the favorable final decision, the installments 5 through 8 were attached for PIS purposes. The subsidiary is pleading the release of these installments. **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 Federal Government was ordered to refund the overpayment in ten installments, through a bond to pay court-ordered debt. Eight installments were released up to date. In spite of the favorable final decision, the installments 6 and 7 were attached for PIS purposes. The installment 8 was released on June 26, 2009. The subsidiary is pleading the release of the attached installments. **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 installments, through a bond to pay courtordered debt. To date, five (5) installments were released.

(b) Taxes and contributions payable	Parent company		Consolidated	
	2009	2008	2009	2008
Current liabilities				
IOF on insurance premiums	—	—	105,678	60,350
Contributions to INSS and to the Government Severance Indemnity Fund for Employees (FGTS)	8	6	14,496	13,394
Income tax	—	530	9,118	993
Social contribution	—	192	5,612	299
Withholding Income Tax (IRRF)	193	4	12,963	22,081
Services tax (ISS) withheld at source	—	—	3,223	2,641
PIS and COFINS contributions	462	1	7,664	1,622
Other (i)	127	—	11,499	6,627
	790	*733*	*170,253*	*108,007*

(i) Refers mainly to taxes of the subsidiary Porto Seguro Uruguay of R$ 6,726 (2008 – R$ 3,810).

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
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10. Taxes and Contributions – Assets and Liabilities (continuation)

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

Long-term receivables	Parent company		Consolidated	
Temporary differences (i)	**2009**	**2008**	**2009**	**2008**
Provision for legal obligations – COFINS	—	—	329,669	235,482
Provision for legal obligations – PIS and INSS	—	—	46,711	30,211
Provision for contingencies – other (ii)	—	—	56,742	36,696
Provision – civil contingencies	—	—	6,350	2,276
Provision for legal obligations – CSLL rate increase	—	—	—	18,364
Tax provision – tax losses	10,772	9,694	10,772	9,694
Valuation allowance – tax losses	10,772	9,694	(10,772)	(9,694)
	—	*—*	***439,472***	***323,029***

(i) Tax credits are recorded in assets and were determined according to current legislation. Management, based on estimated results and other factors, expects the realization of tax credits according to the following assumptions: (a) Provision for legal obligations: realized considering lawsuits basically involving tax claims, which realization estimate depends on the outcome of the lawsuit; (b) Allowance for doubtful accounts: realized depending on the legal deductibility terms, in accordance with Law 9430/96, after legal measures for collection have been exhausted. Possible recoveries of or reduction in loss involve the decrease in provision; therefore, amounts should be excluded from the taxable base; (c) Provision for contingent liabilities: realized considering lawsuits basically involving labor claims, which realization estimate depends on the progress of the lawsuit.

(ii) Refers mainly to allowances for doubtful accounts and labor claims.

Long-term liabilities	Consolidated	
Nature	**2009**	**2008**
Income tax and social contribution on future realization of revaluation reserve	40,958	42,052
Income tax and social contribution on the effects of securities adjusted to market values	813	116
	41,771	***42,168***

(d) Reconciliation of income tax and social contribution expenses

	Parent company		Consolidated	
	2009	**2008**	**2009**	**2008**
Profit before IRPJ, CSLL and profit sharing	328,416	292,221	513,876	467,143
Standard rate – % (i)	34%	34%	40%	40%
Computation of IRPJ and CSLL expenses according to the standard rate	***(111.661)***	***(99.355)***	***(205.550)***	***(186.857)***
IRPJ and CSLL effect on permanent differences				
Equity in the earnings of subsidiaries	118,504	100.393	—	—
Interest on capital	(551)	(521)	45,780	35,103
Rate increase from 9% to 15% of CSLL	—	—	27,995	18,364
Employees profit sharing	—	—	24,689	11,543
Tax incentives	—	—	3,742	3,419
Dividends received	—	—	1,941	641
Non-deductible expenses, net of non-taxable income	—	(180)	(7,133)	(2,428)
Tax loss offset	—	—	7,002	—
Other	—	24	(3,477)	8,379
IRPJ and CSLL	***6,292***	***361***	***(105,011)***	***(111,836)***
IRPJ and CSLL effect on temporary differences				
COFINS	—	—	94,187	41,856
PIS and INSS	—	—	16,500	9,345
Rate increase from 9% to 15% of CSLL	—	—	(18,364)	18,364
Civil contingencies	—	—	4,074	205
Other	(6,292)	(2,407)	20,046	2,839
Total deferred IRPJ and CSLL	***(6,292)***	***(2,407)***	***116,443***	***72,609***
Current IRPJ and CSLL	—	(2,046)	(221,454)	(184,445)
IRPJ and CSLL expenses	***—***	***(2,046)***	***(105,011)***	***(111,836)***

(i) See Note 22 item (a).

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11. Other Receivables

	Parent company		Consolidated	
	2009	2008	2009	2008
Current assets				
Commissions on policies in process of issue (i)	—	—	127,183	94,664
Receivables from IRB	—	—	30,484	13,685
Notes and credits receivable – credit card	—	—	5,788	126
Advances to employees	—	—	13,459	5,227
Checks to regularize/undeposited checks	—	—	10,591	12,492
Accounts receivable from policyholders	—	—	7,862	11,410
DPVAT agreement	—	—	7,630	3,848
Accounts receivable	—	—	8,217	7,078
Prepaid expenses	102	122	5,209	3,320
Advances to agents	—	—	3,063	3,118
Administrative advances	—	—	4,156	3,302
Advances to suppliers	—	—	63	127
Others	177	53	14,462	9,784
	279	***175***	***238,167***	***168,181***
Non-current assets				
Advances to employees	—	—	3,154	2,732
Credits receivable	—	—	2,672	1,849
Advances to agents	—	—	110	1,653
Other	100	100	3,867	1,255
	100	***100***	***9,803***	***7,489***

(i) These are represented by payment of commissions to brokers on policies in process of issue.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
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12. Other Assets

	Consolidado	
	2009	2008
Salvages for sale (i)	91,460	37,667
Supplies	5,850	7,575
GPS equipment	303	346
Assets received from third parties (ii)	1,296	3,047
	98,909	***48,635***

(i) Refers to salvages arising from total indemnifications in car accidents and recovery of stolen vehicles, recorded at estimated realizable value. The increase is mainly due to the association with Itaú Unibanco Holding S.A.

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

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13. Judicial Deposits

	Consolidated	
	2009	**2008**
Income tax and social contribution (i)	202,691	186,771
Offset of tax loss – income tax basis (ii)	20,307	47,607
Claims	49,236	44,830
CSLL	7,327	6,919
INSS – independent contractors	8,889	5,561
Property Transfer Tax (ITBI)	2,981	2,712
Other	1,912	344
	293,343	***294,744***

(i) Refers to the deductibility of taxes and contributions in the IRPJ and CSLL calculation basis.

(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.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
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14. Investment in Subsidiaries – Parent Company

(a) Investments in subsidiaries are as follows:

Description	Porto Seguro	Azul Seguros	ISa+r (i)	Proteção e Monito-ramento	Porto Consórcio	Portoseg	Portopar	Portoserv	Crediporto	Integração	Serviços	Portomed	Total
Capital	680,000	79,000	944,673	16,984	29,500	130,000	1,500	200	500	60	2,100	150	1,884,667
Ownership interest (%)	100.00	99.71	100.00	99.98	99.99	99.98	99,99	99.50	99.80	100.00	99.00	99.93	
Shareholders' equity of subsidiaries	1,341,769	214,627	976,317	30,784	118,033	128,970	11,798	938	328	452	2,539	14	2,826,568
Investment in shareholders' equity	1,341,769	214,004	976,317	30,777	118,022	128,948	11,796	934	328	452	2,513	14	2,825,873
Subsidiaries' net income (loss) for the year	225,950	52,692	39,167	5,874	31,088	(8,874)	4,033	134	(42)	370	652	30	351,075
Book value of the investment in the parent company – balances at December 31, 2008	1,500,711	173,721	—	26,515	92,430	93,509	9,703	801	369	81	—	—	1,897,840
Equity in the earnings of subsidiaries – year	225,950	52,540	37,158	5,873	31,086	(8,881)	3,699	133	(42)	370	626	30	348,542
Loss on December 31, 2008	—	—	—	—	—	—	—	—	—	—	(113)	(16)	(129)
Adjustment of the securities of subsidiaries	1,534	(46)	—	—	126	—	—	—	—	—	—	—	1,615
Carrying value adjustment	(1,718)	493	—	—	—	—	—	—	—	—	—	—	(1,225)
Capital increase/payment	—	—	950,000	—	—	50,000	—	—	—	—	2,000	—	1,002,000
Interest on capital/dividends	(384,709)	(12,703)	(10,841)	(1,611)	(5,620)	(5,681)	(1,605)	—	—	—	—	—	(422,769)
Balances at December 31, 2009	***1,341,769***	***214,005***	***976,317***	***30,777***	***118,022***	***128,948***	***11,796***	***934***	***328***	***452***	***2,513***	***14***	***2,825,873***

(i) The difference in equity in the earnings of subsidiaries refers to securities adjustments.

	Ownership interest – % 2009 and 2008
Indirect subsidiaries	
Porto Seguro Vida	99.97
Porto Seguro Saúde	99.99
Porto Seguro Uruguay	100.00
Porto Seguro Atendimento	99.00
Franco	99.99

(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" (Consolidated) and as a reduction in the investment account in the Parent company.

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15. 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, 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)
Net book 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***
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
Acquisition	15,201	1	17,420	11,782	–	4,886	2,757	20,809	685	73,541	33,495	107,036
Transfer	(2,079)	27,112	1,096	(5,230)	5,241	159	(150)	(706)	(8,313)	17,130	(25,144)	(8,014)
Disposal	–	–	(215)	(2,776)	(749)	(332)	(990)	(7,800)	(118)	(12,980)	–	(12,980)
Depreciation/depletion/amortization	–	(4,942)	(16,231)	(2,644)	(3,398)	(3,938)	(2,908)	(58,075)	(531)	(92,667)	–	(92,667)
At December 31, 2009	***166,407***	***214,023***	***50,141***	***16,042***	***8,848***	***24,199***	***9,659***	***75,262***	***3,316***	***567,897***	***53,835***	***621,732***
Total cost	166,407	231,513	129,545	38,257	12,246	47,628	15,874	179,577	7,818	828,865	53,835	882,700
Accumulated depreciation	–	(17,490)	(79,404)	(22,215)	(3,398)	(23,429)	(6,215)	(104,315)	(4,502)	(260,968)	–	(260,968)
Net book value	***166,407***	***214,023***	***50,141***	***16,042***	***8,848***	***24,199***	***9,659***	***75,262***	***3,316***	***567,897***	***53,835***	***621,732***
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.

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15. Fixed and Intangible Assets – Consolidated (continuation)

(b) Intangible assets

	Development of systems	Other intangible assets	Goodwill on acquisition of investment (i)	Intangível total
At December 31, 2007	***16,970***	***12,316***	—	***29,286***
Acquisition	17,040	357	4,940	22,337
Transfer	(7,264)	(6,839)	—	(14,103)
Disposal	(3)	(103)	—	(106)
Amortization	(6,643)	(795)	(528)	(7,966)
At December 31, 2008	***20,100***	***4,936***	***4,412***	***29,448***
Total cost	57,079	4,953	4,940	66,972
Amortização acumulada	(36,979)	(17)	(528)	(37,524)
Net book value	***20,100***	***4,936***	***4,412***	***29,448***
At December 31, 2008	20,100	4,936	4,412	29,448
Acquisition	16,406	1,523	—	17,929
Transfer	4,330	4,641	—	8,971
Disposal	(36)	—	—	(36)
Amortization	(7,028)	(339)	—	(7,367)
At December 31, 2009	***33,772***	***10,761***	***4,412***	***48,945***
Total cost	70,298	11,303	4,940	86,541
Accumulated amortization	(36,526)	(542)	(528)	(37,596)
Net book value	***33,772***	***10,761***	***4,412***	***48,945***
Annual amortization rates – %	20	10 à 20	10.69	

(i) On January 2, 2008 the shareholding control of Integração Assessoria e Informática was acquired, with a goodwill based on expected future profitability. Goodwill was amortized up to December 2008. As from January 2009, goodwill is no longer be amortized; there will be only the impairment testing required by the CPC Technical Pronouncement 01.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
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16. Accounts Payable

	Consolidated	
	2009	2008
Credit card transactions (i)	580,575	314,713
Suppliers	69,061	50,982
Uncleared checks	31,252	18,692
Profit sharing	70,316	46,333
Refund to consortium members	7,344	6,273
Provision for fidelity credit card	5,777	942
Other	13,813	4,407
	778,138	***442,342***

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

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17. Payables – Parent Company

These refer to amounts payable by the parent company arising from the acquisition of Integração, to be paid in five annual installments as from January 2009, the last falling due on January 2, 2013. The amount of each installment is adjusted by the accumulated variation of the SELIC rate.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
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18. 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.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
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19. Other Insurance Debts Payable

	Consolidated	
	2009	**2008**
Assistance services	21,573	12,638
Accounts payable – DPVAT	10,418	10,219
Provision for operating expenses	4,286	5,030
Deferred commissions – Reinsurance	2,736	—
Premiums to be refunded	3,560	4,180
Agents and correspondents	1,628	251
Insurance companies	513	518
Bonus expenses – Porto Socorro	508	356
Other	8,445	3,595
	53,667	***36,787***

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
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20. Technical Reserves – Insurance and Pension Plan – Consolidated

(a) Insurance	Unearned premium reserv		Unsettled claims/ umpaid benefits		Claims incurred but not reported (IBNR)	
	2009	2008	2009	2008	2009	2008
Automobile	2,556,128	1,583,494	649,756	211,603	80,047	28,566
DPVAT	—	—	129.291	91,975	6,463	7,792
Property	273,647	138,101	42,907	27,483	6,348	1,567
Financial risks	102,798	89,449	17,109	20,566	4,813	2,737
Health	10,932	12,705	16,011	11,787	46,999	53,534
Personal	29,793	26,150	53,639	55,255	19,620	17,038
Liability	4,411	3,409	16,838	18,776	376	519
Transportation	5,338	2,247	11,497	13,442	905	659
Other	7,948	1,733	13,165	2,193	1,104	1,056
	2,990,995	***1,857,288***	***950,213***	***453,080***	***166,675***	***113,468***
Porto Seguro Uruguay	***20,888***	***19,049***	***28,318***	***27,793***	***39***	***91***
	3,011,883	***1,876,337***	***978,531***	***480,873***	***166,714***	***113,559***
Current	***2,997,650***	***1,861,208***	***978,531***	***480,873***	***166,714***	***113,559***
Non-current	***14,233***	***15,129***	—	—	—	—

	Premium deficiency reserve (PIP)		Unexpired risk reserve (PRNE)		Mathematical reserve-insurance	
	2009	2008	2009	2008	2009	2008
Personal	1,499	1,220	14,437	14,989	26,580	34,283
VGBL	—	—	—	—	297,324	200,940
	1,499	***1,220***	***14,437***	***14,989***	***323,904***	***235,223***
Current	***1,499***	***1,220***	***14,436***	***14,807***	***323,904***	***235,223***
Non-current	—	—	***1***	***182***	—	—

(b) Pension plan	Consolidated	
	2009	2008
Opening balance	827,574	680,140
Contributions	125,090	115,374
Benefit and redemption expenses	(104,050)	(51,865)
Monetary restatement and interest	98,189	108,386
Other movements	4,424	(24,461)
Closing balance	***951,227***	***827,574***
Of which:		
Mathematical reserve – pension plan	885,671	772,628
Vested benefits – pension plan	28,770	23,415
Contribution deficiency reserve (PIC)	36,786	31,531
	951,227	***827,574***
Vested benefits – health	1,423	1,954
	952,650	***829,528***
Current	951,893	828,381
Non-current	***757***	***1,147***

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20. Technical Reserves – Insurance and Pension Plan – Consolidated (continuation)

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

	Other reserves (i)	
	2009	**2008**
VGBL	18,903	11,285
Property	11,428	8,686
Personal	2,852	7,078
Transportation	3,590	3,904
DPVAT	3,140	3,878
Automobile	1,039	1,245
Liability	1	2
Other	83	236
Total	***41,036***	***36,314***

(i) Other reserve balances refer to:

	2009	**2008**
Risk fluctuation reserve	17,216	13,733
Administrative expenses reserve	15,054	9,728
Redemption reserve and other amounts	3,807	5,277
Commercial strategy reserve (i)	304	2,736
Extended guarantee reserve (ii)	1,905	2,473
Legal obligations reserve	1,023	953
Premium supplementary reserve	1,204	889
Other	523	525
	41,036	***36,314***

(i) The purpose of this reserve is to estimate the net premium of Individual Life policies offered free of charge to policyholders of other insurance lines of this Insurance Company, according to Technical Actuarial Notes approved by SUSEP.
(ii) Refers to the Extended Guarantee Insurance, sold in the Extended Guarantee line, with the purpose of recording commercial premiums retained during the period between the date on which the contract came into force and the date of risk coverage began.

(d) Technical reserve guarantee: In accordance with current rules, the following assets were provided as guarantees to SUSEP and ANS:

	2009	**2008**
Casualty and group life	4,094,868	2,405,827
Pension plans	989,302	847,492
Life with a surviving beneficiary clause	331,119	254,744
Health	75,365	79,980
Total technical reserves	***5,490,654***	***3,588,043***
(–) Transactions with reinsurance companies	(40,812)	(16,950)
(–) Retained funds and reserves – IRB	(402)	(756)
(–) Credit rights (i)	(1,221,681)	(742,787)
Amount to be guaranteed	***4,227,759***	***2,827,550***
Government fixed income securities	389,621	485,255
Private fixed income securities	339,568	75,579
Investment fund quotas	2,996,680	1,797,834
Specially constituted fund quotas	716,861	514,895
Technical reserve guarantees	***4,442,730***	***2,873,563***

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

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20. Technical Reserves – Insurance and Pension Plan – Consolidated (continuation)

(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							
	2002	2003	2004	2005	2006	2007	2008	2009
Reserves for claims at the end of the prior year	***260.9***	***320.2***	***444.2***	***473.7***	***467.5***	***519.0***	***522.0***	***494.4***
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
Reported claims	***1.274,0***	***1.450,0***	***1.625,6***	***1.923,7***	***2.017,1***	***2.153,9***	***2.449,3***	***2.737,3***
Current year	1,237.9	1,407.7	1,581.5	1,861.8	1,940.2	2,084.9	2,310.9	2,519.1
Prior years	36.1	42.3	44.1	61.9	76.9	69.0	138.4	218.2
Payments	***1,214.7***	***1,326.1***	***1,596.2***	***1,929.9***	***1,965.7***	***2,150.8***	***2,477.0***	***2,699.5***
Current year	1,056.6	1,142.0	1,386.7	1,700.9	1,750.1	1,891.9	2,207.8	2,334.0
Prior years	158.1	184.1	209.5	229.0	215.6	258.9	269.2	365.5
Reserves for claims at the end of the year	***320.2***	***444.2***	***473.7***	***467.5***	***519.0***	***522.0***	***494.4***	***532.3***
Reinsurance ceded	12.5	22.0	24.2	18.5	21.6	21.3	15.3	25.1
Reserves for claims, net of reinsurance	307.7	422.2	449.5	449.0	497.4	500.7	479.1	507.2

Does not include reserves of Porto Seguro Uruguay, Porto Seguro Vida, ISa+r, 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							
	2001	2002	2003	2004	2005	2006	2007	2008
Reserves for claims (i), (ii)	***246.8***	***307.7***	***422.2***	***449.5***	***449.0***	***497.4***	***500.7***	***479.1***
Amount cumulative and paid up to								
One year later	158.1	184.1	209.5	229.0	215.6	258.9	269.2	365.5
Two years later	165.8	193.5	221.3	240.2	264.0	296.5	311.5	—
Three years later	172.0	199.4	231.9	246.8	292.8	325.1	—	—
Four years later	176.3	206.0	240.0	271.3	317.3	—	—	—
Five years later	181.5	211.4	260.3	293.3	—	—	—	—
Six years later	187.2	228.4	279.4	—	—	—	—	—
Seven years later	200.6	245.0	—	—	—	—	—	—
Eight years later	214.4	—	—	—	—	—	—	—
Reserves recalculated								
One year later	89.7	104.9	143.0	162.6	169.5	159.6	136.3	150.2
Two years later	82.3	91.2	138.4	146.3	139.2	117.9	126.9	—
Three years later	71.2	92.1	124.0	120.9	104.0	111.1	—	—
Four years later	73.6	81.6	101.4	91.1	97.2	—	—	—
Five years later	63.7	63.1	77.3	85.2	—	—	—	—
Six years later	47.6	64.8	71.8	—	—	—	—	—
Seven years later	51.7	60.5	—	—	—	—	—	—
Eight years later	48.0	—	—	—	—	—	—	—
Cumulative excess (deficiency)	***(15.6)***	***2.3***	***71.0***	***70.9***	***34.6***	***61.3***	***62.4***	***(36.6)***

(i) Net of reinsurance and other exclusions.

(ii) Does not include reserves of Porto Seguro Uruguay, Porto Seguro Vida, ISa+r, 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).

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21. Fund Raising and Borrowings and Onlendings – Consolidated

Fund raising and borrowings and onlendings mature as follows:

			2009	2008
	Up to 3 months	3 to 12 months	Total	Total
Obligations for acceptances and issue of securities	61,768	29,376	91,144	93,485
Loans (i)	—	39,859	39,859	84,288
Interbank deposits	60,852	118,309	179,161	90,704
Total	***122,620***	***187,544***	***310,164***	***268,477***
Current			310,164	201,339
Non-current			—	***67,138***

(i) Refer to a contract linked to the US dollar at the nominal value of R$ 34,421 related to a derivative instrument to hedge against exchange risk exposure, whereby the effective cost remains linked to CDI rate variation.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
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22. 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 periodically updated 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	
	2009	2008	2009	2008
a) Legal obligations	55,367	48,911	1,621,155	1,350,872
(–) Judicial deposits	(52,872)	(39,222)	(613,143)	(477,946)
	2,495	*9,689*	*1,008,012*	*872,926*
b) Labor claims	—	—	14,357	18,474
(–) Judicial deposits	—	—	(6,807)	(6,585)
	—	*—*	*7,550*	*11,889*
c) Civil claims	—	—	23,641	11,026
(–) Judicial deposits	—	—	(3,341)	(2,923)
	—	*—*	*20,300*	*8,103*
Total	*2,495*	*9,689*	*1,035,862*	*892,918*

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

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

	Consolidado					
	2009			2008		
	Legal Obligations	Contingencies		Legal Obligations	Contingencies	
	Tax	Labor	Civil	Tax	Labor	Civil
Opening balance	1,350,872	18,474	11,026	1,143,031	28,057	9,878
Additions	175,477	2,901	15,722	163,565	2,526	2,753
Reversals (*)	(14,583)	(7,018)	(3,445)	(46,111)	(12,109)	(1,981)
Monetary restatement	109,389	—	338	90,387	—	376
Closing balance	*1,621,155*	*14,357*	*23,641*	*1,350,872*	*18,474*	*11,026*
(–) Judicial deposits	*(613,143)*	*(6,807)*	*(3,341)*	*(477,946)*	*(6,585)*	*(2,923)*
Net provision	*1,008,012*	*7,550*	*20,300*	*872,926*	*11,889*	*8,103*
Number of proceedings	100	480	1,257	98	393	383

(*) See item (a) below.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
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22. Contingent Liabilities and Legal Obligations – Taxes and Social Security (continuation)

(a) Legal obligations – tax and social security – Composition by nature	Parent company		Consolidated	
(i) Balance of provisions:	2009	2008	2009	2008
COFINS	45,572	40,186	956,910	811,089
PIS	9,795	8,725	247,267	218,531
INSS - independent contractors	—	—	142,385	129,663
Social contribution – deducted from tax basis	—	—	165,663	143,158
Social contribution – rate dif. 6%	—	—	41,377	18,236
Income tax loss offset	—	—	32,741	—
Income tax	—	—	24,441	22,691
Provision for Employee Food Benefit Program (PAT)	—	—	4,362	1,696
Other	—	—	6,009	5,808
Total tax contingencies	***55,367***	***48,911***	***1,621,155***	***1,350,872***
(–) Judicial deposits	***(52,872)***	***(39,222)***	***(613,143)***	***(477,946)***
Net provision	***2,495***	***9,689***	***1,008,012***	***872,926***

(ii) Description of the current situation of the judicial proceedings: **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 on financial revenues. Considering the appeals filed by the Federal Government, which are pending judgment, the Company maintains the provisions on insurance premium revenues. The lawsuit filed by Porto Seguro Saúde had an unfavorable outcome, against which the Company filed special and extraordinary appeals, currently pending judgment. The Company deposits in court the amounts under discussion monthly. With the enactment of Law No. 11941, of May 27, 2009, Law No. 9718/98 was revoked in relation to the increase of PIS and COFINs calculation basis. Accordingly, as from May 2009, the subsidiary no longer provides the amounts related to COFINS on other revenues. In the lawsuit filed by Azul Seguros, the subsidiary currently awaits decision on the request for clarification of the decision against the ruling which denied the appeal filed by the subsidiary in the recordings of the aforementioned extraordinary appeal. **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 the provision for the period under discussion in this lawsuit amounting to R$ 35,962 was reversed (into tax and financial expenses of R$ 11,283 and R$ 24,679, respectively). Currently, the appeal filed by the subsidiary awaits judgment. The lawsuit filed by the subsidiary Porto Seguro Vida is in court of appeals awaiting judgment. The subsidiary opted for the debt payment in installments program in November 2009; therefore, it partially discontinued the lawsuit in relation to 1995. The lawsuit filed by the subsidiary Azul Seguros is pending judgment of appeal. In the lawsuit discussing the Constitutional Amendment 10/96, the decision was as to partial validity. The amounts have their enforceability suspended in view of judicial deposits. The subsidiaries Porto Seguro and Porto Seguro Vida currently await judgment as to 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 pending judgment. In the lawsuit discussing the Constitutional Amendment 17/97, the decision was as to partial validity. The amounts of Porto Seguro Vida have their enforceability suspended in view of judicial deposits. The subsidiaries Porto Seguro and Porto Seguro Vida filed special and extraordinary appeals, currently pending judgment in the High Court of Justice (STJ) and STF, respectively. In the lawsuit filed by the subsidiary Azul Seguros, the decision deemed the claims valid. Currently the lawsuit is pending judgment of special and extraordinary appeals. 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. Currently, the appeals filed by the subsidiaries are pending judgment, and the amounts discussed are being deposited in courts. The lawsuit filed by the subsidiary Porto Seguro Saúde was deemed groundless and, against such decision, the special and extraordinary appeals were filed, now awaiting judgment. The subsidiary has deposited in court the amounts discussed. 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 pending judgment. With the enactment of Law No. 11941 on May 27, 2009, paragraph 1 of article 3 of Law No. 9718/98 was revoked in relation to the PIS and COFINS calculation basis increase. Accordingly, as from May 2009, the subsidiaries Porto Seguro, Porto Seguro Vida, Porto Seguro Saúde and Azul Seguros no longer provide the amounts related to PIS on other revenues. **PIS and COFINS – revenues from interest on capital:** The Company has filed a lawsuit to challenge the legality and constitutionality of sole paragraph of article 1 of Decree No. 5164/04, which addresses the levy of PIS and COFINS on amounts received as interest on capital. This lawsuit was deemed groundless and the Company has filed an appeal on the merits of the case, which is pending judgment. The amounts have their enforceability suspended in view of judicial deposits. **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 are in the appeals stage pending judgment. The amounts have their enforceability suspended in view of monthly judicial deposits. 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**

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22. Contingent Liabilities and Legal Obligations – Taxes and Social Security (continuation)

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) calculation basis. The lawsuit filed by the subsidiaries Porto Seguro and Porto Seguro Vida obtained a favorable sentence and an unfavorable decision, against which the subsidiaries filed special and extraordinary appeals, currently pending judgment. The enforceability of the tax is suspended in view of the interlocutory injunction which will be valid up to the end of judgment of the extraordinary appeal. The lawsuit filed by Porto Seguro Saúde to authorize the CSLL deduction in the IRPJ and CSLL basis was deemed valid. The Federal Government filed an appeal on 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%. With the enactment of Law 11941/2009, the subsidiaries opted for the debt payment in installments program in November 2009 and currently await approval of discontinuation of the lawsuits, with entitlement to the benefits established in the fiscal amnesty. (See item (b) below). **Deductibility of taxes and contributions from the 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, the action was deemed groundless, denying the injunctions pleaded. The Company and its subsidiary await judgment of the appeals. The lawsuits filed by the subsidiary Porto Seguro Saúde were deemed groundless, against which special and extraordinary appeals pending judgment were filed. The lawsuits filed by the subsidiary Portopar were deemed groundless. Currently the subsidiary awaits judgment of the appeals. **Employee Food Benefit Program (PAT):** AThe subsidiaries Porto Seguro, Porto Seguro Vida, Porto Seguro Saúde, Porto Consórcio and Azul Seguros filed for a writ of mandamus in order to discuss in court the limited maximum cost per meal established by a non-statutory regulation and the change in system described in Law 6321/76, which established the deduction of expenses with PAT from the IR calculation basis (taxable income), not directly from IR payable, thus not considering the IR surtax. The lawsuit filed by the subsidiaries Porto Seguro, Porto Seguro Vida and Porto Seguro Saúde was deemed valid. Currently, the appeals filed by the Federal Government await judgment. In the lawsuit filed by the subsidiary Porto Consórcio, the decision deems all claims valid. Currently, the appeals filed by the Federal Government await judgment. In the lawsuit filed by the subsidiary Azul Seguros, the preliminary injunction was rejected. The subsidiary filed an appeal on the merits of the case against such decision, which is pending judgment. **CPMF:** The subsidiary Portopar filed for a writ of mandamus to ensure the unquestionable right to fully offset the amounts unduly paid as CPMF in the period from January 1, 2004 to March 30, 2004, according to article 74 of Law No. 9430/96, with the revised wording of Law No. 10637/2002. The claim had a favorable outcome, granting the writ. On July 20, 2009, the provision of R$ 533 was reversed. Currently, the subsidiary awaits judgment of the appeal filed by the Federal Government. **Tax loss offset: T**he subsidiary Porto Seguro discussed provisions established by Law No. 8981/95, exclusively as to the limitation of tax loss offset in 30% of adjusted net income, and deposited in court the related amount. With the enactment of Law 11941/2009, the subsidiary opted for the debt payment in installments program in November 2009 and currently await approval of discontinuation of the lawsuits, with entitlement to the benefits established in the fiscal amnesty.

(b) Debt payment in installments program: In November 2009, the subsidiaries Porto Seguro, Porto Seguro Vida, Porto Seguro Saúde, Azul Seguros, Porto Consórcio, Portoseg and Portopar opted for the debt payment in installment program established by Law No. 11941/09 and Provisional Measure No. 470/2009, through a special payment in installment system to settle their tax and social security obligations. The general conditions of this payment in installments are summarized as follows: (i) Payment in cash. (ii) Scope of debts payable in installments:

	Restated principal amount	Interest	Total
Increase in CSLL from 9% to 15%	39,305	—	39,305
Tax loss offset	12,043	20,698	32,741
INSS – Law No. 9876/99	10,626	1	10,627
INSS – Complementary Law No. 84/96	2,801	2,240	5,041
INSS – NFLD 32.708.049-3	1,001	1,165	2,166
Balance sheet monetary restatement	107	180	287
Constitutional Amendment No. 01/94	27	43	70
Improper offset – 1996	7	14	21
	65,917	***24,341***	***90,258***

(c) 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. 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$ 7,322 for which no provision is necessary, according to the expectations of the subsidiaries' legal advisors (possible loss). In 2009 the criteria used to determine the probability of unfavorable outcomes of labor claims were reviewed, through retrospective studies, and aligned with our external legal counsel to reflect the best estimate of provisions, in addition to being monitored by our internal controls. This change resulted in the reversal of R$ 7,018 of the provision at December 31, 2009.

(d) Civil contingencies: The subsidiaries Porto Seguro, Azul Seguros, Porto Consórcio, Porto Proteção, Portoseg, Porto Seguro Saúde and ISa+r are parties to various civil lawsuits with several different objectives, direct or indirectly related to the subsidiaries' business. In addition to the provisions recorded, there are other contingent liabilities, amounting to R$ 21,760, for which no provision is necessary, according to the expectations of the subsidiaries' legal advisors (possible loss).

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23. Shareholders' Equity – Parent Company

(a) Capital : Subscribed and paid-up capital is R$ 1,870,000, comprising 327,641,730 common nominative book-entry shares, with no par value. On November 30, 2009, the Company's capital increased due to the merger of ISAR Holding Ltda., as of November 10, 2009, from R$ 920,000 to R$ 1,870,000, R$ 950,000 of which was paid through issue of 98,292,519 common nominative book-entry shares, with no par value.

(b) Reserves: (i) Capital reserves: 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 "Share premium" account, totaling R$ 47,412. **(ii) Revaluation reserve:** This reserve was recorded in prior years as a result of fixed asset revaluations based on appraisal reports issued by experts. This reserve, proportionally to depreciation of revalued assets, was transferred to retained earnings, totaling R$ 1,652 (2008 - R$ 1,864), which 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. **(v) Treasury shares and share repurchase program:** On March 27, 2009 the Extraordinary General Meeting approved the cancellation of 1,293,600 common shares, with no par value, held in treasury up to February 2009, in the amount of R$23,462, already deducted from revenue reserves. After the cancellation the Company has 229,349,211 common shares. On February 17, 2009 the Board of Directors approved a new share repurchase program, with the same conditions of the prior program, for a period of up to 365 days as from February 18, 2009 and the limit of 7,000,000 common shares, corresponding to 8.18% of the total shares of this class outstanding in the market, which is 85,540,930. To date, there was no repurchase.

(c) Interest on capital: In conformity with Law 9249/95, the Company's Board of Directors Meeting held on October 16, 2009 and December 21, 2009 approved the distribution of interest on capital to shareholders, calculated based on the Long-term Interest Rate (TJLP) variation and included in the minimum mandatory dividend. In compliance with tax legislation, the amounts related to interest on capital totaling R$ 93,026, corresponding to R$ 0.4056 for each one of the 229,349 thousand shares, the income tax of which will be withheld at the rate of 15% (R$ 0.3448 per share, net of withholding income tax), and totaling R$ 22,824, corresponding to R$ 0.0697 for each one of the 327,642 thousand shares, the income tax of which will be withheld at the rate of 15% (R$ 0.0592 per share, net of withholding income tax) were recorded as financial expenses. However, for financial statement purposes, interest on capital is presented as distribution of net income for the year and, accordingly, was reclassified to shareholders' equity at the gross value, since the tax benefits derived therefrom are recorded in the statement of income for the year.

(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.

	2009	2008
Net income for the year	328,416	290,175
(–) Legal reserve – 5%	16,421	14,509
	311,995	***275,666***
Realization of revaluation reserve	1,652	1,864
Primary profit to determine dividend	***313,647***	***277,530***
Minimum mandatory dividends	***78,412***	***69,383***
Interest on capital proposed (net of IRRF)	***98,473***	***87,735***

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24. Gross Earned Premiums – Consolidated

Gross earned 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:

	2009	2008
Automobile	3,865,048	3,104,970
DPVAT	205,323	162,045
Health	662,385	648,371
Personal	276,848	267,068
Property	332,310	260,596
Transportation	84,379	92,511
Liability	8,863	8,283
Financial risks	179,882	158,019
Other	15,569	3,829
Porto Seguro Uruguay	56,224	48,469
	5,686,831	***4,754,161***
VGBL premiums	***92,614***	***70,851***
	5,779,445	***4,825,012***

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25. Retained Claims – Consolidated

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 %	
	2009	2008	2009	2008
Automobile	2,043,891	1,520,862	56.7	52.3
DPVAT	179,801	131,235	86.8	81.8
Health	502,208	518,574	75.6	80.2
Personal	90,838	71,354	34.6	29.2
Property	128,077	98,440	40.8	44.3
Transportation	43,860	43,636	53.8	48.1
Liability	1,062	3,543	14.1	42.6
Financial risks	75,384	57,803	45.6	47.4
Other	881	3,505	22.5	142.0
Porto Seguro Uruguay	22,097	18,826	42.7	40.0
	3,088,099	***2,467,778***	***57.6***	***55.4***

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26. General and Administrative Expenses

(a) Administrative expenses – insurance and other

	Parent company		Consolidated	
	2009	2008	2009	2008
Personnel	494	347	518,148	457,932
Third-party services	17,716	496	151,814	105,885
Facilities and operations	235	258	251,206	224,795
Advertising and legal publications	—	—	81,106	68,277
Donations and contributions	16	11	11,791	10,733
DPVAT agreement	—	—	17,635	11,642
Other	777	789	28,487	8,169
	19,238	***1,901***	***1,060,187***	***887,433***

(b) Tax expenses – insurance and other

	Parent company		Consolidated	
	2009	2008	2009	2008
COFINS	8,928	7,961	142,342	112,854
PIS	1,938	1,728	25,434	22,256
Reversal of provision for PIS(i)	—	—	—	(11,283)
ICMS (ii)	—	—	282	1,770
Other	91	74	20,435	14,940
	10,957	***9,763***	***188,493***	***140,537***

(i) See Note 22 item (a)(ii). (ii) Refers to taxes on GPS sales of the subsidiary Porto Seguro Proteção e Monitoramento.

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27. Financial Results

(a) Income

	Parent company		Consolidated	
	2009	2008	2009	2008
Investment fund quotas	9,626	8,102	437,519	385,449
Insurance transactions (i)	—	—	157,694	138,119
PGBL/VGBL transactions	—	—	61,505	37,351
Judicial deposit monetary variations	—	—	29,826	29,787
Other	648	2,222	36,813	33,045
	10,274	*10,324*	*723,357*	*623,751*

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

(b) Expenses

	Parent company		Consolidated	
	2009	2008	2009	2008
Pension plan transactions	—	—	36,425	71,518
PGBL/VGBL transactions	—	—	61,764	36,868
Monetary variations on provision for long-term taxes	—	—	73,702	54,935
Reversal of PIS restatement (ii)	—	—	—	(24,679)
Insurance transactions	—	—	14,630	14,086
CPMF (iii)	—	—	(533)	921
Other	205	1,184	3,446	11,104
	205	*1,184*	*189,434*	*164,753*
Financial result	*10,069*	*9,140*	*533,923*	*458,998*

(ii) See Note 22 item (a)(ii). (iii) As from January 2008, this contribution is no longer due. In 2009 there was a reversal in the subsidiary Portopar, as explained in Note 22 item (a) (ii).

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
(IN THOUSANDS OF REAIS UNLESS OTHERWISE INDICATED)

28. Other Operating Income and Expenses

(a) Income

	Consolidated	
	2009	**2008**
Collection of policy costs	209,861	166,998
Income – insurance	29,004	21,384
Other income – credit card	24,574	3,094
Arrears interest and fine – credit card	12,554	2,127
Income – pension plan (i)	7,156	4,992
Other	6,274	1,307
	289,423	***199,902***

(i) Refers to administrative fee charged for fund management services, at a percentage defined in each fund.

(b) Expenses

	Consolidated	
	2009	**2008**
Expenses with anti-theft devices	125,843	88,304
Risk inspection and preventive actions	45,946	41,688
Supervision and collection	37,265	35,234
Bonus expenses – Porto Socorro	34,665	23,749
Social charges on insurance transactions	27,473	20,253
Electronic transmission	22,726	27,602
Allowance for doubtful accounts	2,357	10,838
Production expenses	7,594	9,568
Attorney's fees	3,633	5,070
Civil contingencies	3,030	912
Other	44,539	19,460
	355,071	***282,678***

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
(IN THOUSANDS OF REAIS UNLESS OTHERWISE INDICATED)

29. Related Parties

The commercial transactions between the Company and its subsidiaries are carried out under usual market prices and conditions, and have been eliminated on consolidation. The main transactions are the following: (i) Administrative fees 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.

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

	Parent company	
	2009	2008
Assets		
Current assets		
Dividends receivable – Azul Seguros	2,548	4,295
Dividends receivable – ISa+r	1,753	—
Long-term receivables		
Other credits receivable – Porto Serviços	100	100
	4,383	***4,395***
Liabilities		
Current liabilities		
Interest on capital and dividends payable	101,435	89,290
	101,435	***89,290***

			Consolidated	
	Income		Expenses	
Statement of income	2009	2008	2009	2008
Direct subsidiaries				
Porto Seguro	102,066	95,693	—	—
Azul Seguros	—	—	43,143	35,338
Porto Seguro Proteção e Monitoramento	—	—	7,937	8,326
Porto Consórcio	—	—	8,660	10,579
Portoserv	—	—	1,248	959
Portoseg	—	—	5,770	2,948
Portopar	—	—	1,289	909
Crediporto	—	—	546	(172)
Portomed	—	—	2,085	73
Serviços	—	—	244	129
Atendimento			106	—
Indirect subsidiaries			—	—
Porto Seguro Vida			11,579	14,259
Porto Seguro Saúde			19,459	22,345
	102,066	***95,693***	***102,066***	***95,693***

(b) Transactions with the key management personnel include board members, officers and members of the executive committee, as follows:
(i) The remuneration paid or payable related to services is as follows:

	Parent company		Consolidated	
	2009	2008	2009	2008
Directors' fees and social charges	494	346	14,723	14,601
Profit sharing – management	—	—	32,157	29,974
	494	***346***	***46,880***	***44,575***

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
(IN THOUSANDS OF REAIS UNLESS OTHERWISE INDICATED)

30. Employee Benefits

(a) Pension plan: As from 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 on 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, 2009, the entity had 2,415 (2,307 in 2008) active participants who contributed with a total of R$ 4,591 (R$ 4,303 in 2008).

(b) Other benefits

	Consolidated	
	December	
	2009	2008
Food and meal vouchers	63,617	57,840
Health and dental plan	32,357	29,879
Transportation vouchers	8,319	8,292
Tuition	2,840	2,794
Child daycare assistance	3,260	2,896
	110,393	***101,701***

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
(IN THOUSANDS OF REAIS UNLESS OTHERWISE INDICATED)

31. 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**	**2009**	**2008**
Buildings	Any damage to buildings, installations and machinery and equipment	128,704	188,103
Vehicles	Fire, theft and collision – optional civil liability	10,154	13,605
		138,858	***201,708***

(b) Additional capital based on the underwriting risk of insurance companies: On December 26, 2006 SUSEP disclosed the CNSP Resolutions No. 155 and No. 158, which established the capital allocation rules of underwriting risks of the various insurance lines, and also established the criteria of the regulatory agency concerning the possible capital deficiency of insurance companies, to be effective as from January 2008. In December 2007 SUSEP issued CNSP Resolution No. 178 and SUSEP Circular Letter No. 355 revoking Resolution No. 158 and increasing the period for attaining the minimum capital from three to four years. For 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, Azul Seguros and ISa+r comply with these rules. Therefore, no capital contribution is necessary.

REPORT OF THE AUDIT COMMITTEE

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, 2009 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, 2009 were prepared in accordance with the accounting practices adopted in Brazil, and recommends their approval by the Board of Directors.

São Paulo, February 3, 2010.

Carlos Atushi Nakamuta
Lie Uema do Carmo

Fernando Kasinski Lottenberg
Tereza Cristina Grossi Togn

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, 2009 and 2008, 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, 2009 and 2008, 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.

São Paulo, February 3, 2010.

PRICEWATERHOUSECOOPERS

Auditores Independentes

CRC 2SP000160/O-5

Edison Arisa Pereira

Accountant CRC 1SP127241/O-0

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