II. CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012 AND CORRESPONDING NOTES

These financial statements are a free translation into English of the original Portuguese version.
In case of doubt or misinterpretation the Portuguese version will prevail.

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1. Consolidated Financial Statements and Notes to the Financial Statement

GRUPO BANCO ESPÍRITO SANTO

CONSOLIDATED INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(in thousands of euro)

	Notes	31.12.2012	31.12.2011
Interest and similar income	5	3 914 109	4 084 862
Interest expense and similar charges	5	2 733 601	2 903 271
Net interest income		**1 180 508**	**1 181 591**
Dividend income		72 604	167 701
Fee and commission income	6	975 062	888 646
Fee and commission expenses	6	(181 144)	(130 546)
Net gains / (losses) from financial assets at fair value through profit or loss	7	(59 408)	(178 904)
Net gains / (losses) from available-for-sale financial assets	8	600 206	(68 770)
Net gains / (losses) from foreign exchange differences	9	(23 788)	(32 645)
Net gains/ (losses) from the sale of other assets	10	(42 159)	(91 680)
Insurance earned premiums net of reinsurance	11	62 257	-
Claims incurred net of reinsurance	12	(362 973)	-
Change on the technical reserves net of reinsurance	13	301 423	-
Other operating income and expense	14	109 562	357 803
Operating income		**2 632 150**	**2 093 196**
Staff costs	15	598 883	587 475
General and administrative expenses	17	442 120	433 753
Depreciation and amortisation	30 and 31	108 074	107 926
Provisions net of reversals	40	56 978	6 860
Loans impairment net of reversals and recoveries	25	814 832	600 616
Impairment on other financial assets net of reversals and recoveries	23, 24 and 26	106 727	73 251
Impairment on other assets net of reversals and recoveries	28, 31 and 34	220 893	167 602
Operating expenses		**2 348 507**	**1 977 483**
Gains on disposal of investments in subsidiaries and associates	1	383	1 795
Losses arising on business combinations achieved in stages	1 and 55	(89 586)	-
Share of profit of associates	32	8 312	(175 231)
Profit before income tax		**202 752**	**(57 723)**
Income tax			
Current tax	41	135 350	72 147
Deferred tax	41	(52 434)	(133 666)
		82 916	**(61 519)**
Profit for the year		**119 836**	**3 796**
Attributable to equity holders of the Bank		**96 101**	**(108 758)**
Attributable to non-controlling interest	45	**23 735**	**112 554**
		119 836	**3 796**
Earnings per share of profit attributable to the equity holders of the Bank			
Basic (in Euro)	18	0,03	(0,04)
Diluted (in Euro)	18	0,03	(0,04)

The following notes form an integral part of these interim consolidated financial statements

GRUPO BANCO ESPÍRITO SANTO

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(in thousands of euro)

	31.12.2012	31.12.2011
Profit for the period		
Attributable to equity holders of the Bank	96 101	(108 758)
Attributable to non-controlling interest	23 735	112 554
	119 836	**3 796**
Other comprehensive income for the period		
Long-term benefit	(191 647)	44 015
Income taxes on actuarial gains and losses from defined benefit obligations	18 597	(13 093)
Exchange differences	(57 216)	11 981
Income taxes on exchange differences on translating foreign operations	3 247	(2 712)
Other comprehensive income appropriate from associates	(9 800)	(8 053)
	(236 819)	32 138
Available-for-sale financial assets		
Gains/ (losses) arising during the period	1 248 383	(631 336)
Reclassification adjustments for gains/ (losses) included in the profit or loss	(500 898)	126 561
Deferred taxes	(131 438)	69 226
	616 047	(435 549)
Total comprehensive income/(loss) for the period	**499 064**	**(399 615)**
Attributable to equity holders of the Bank	**492 216**	**(523 227)**
Attributable to non-controlling interest	**6 848**	**123 612**
	499 064	**(399 615)**

The following notes form an integral part of these interim consolidated financial statements

GRUPO BANCO ESPÍRITO SANTO

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2012 AND AT 31 DECEMBER 2011

(in thousands of euro)

	Notes	31.12.2012	31.12.2011
Assets			
Cash and deposits at central banks	19	1 377 541	1 090 439
Deposits with banks	20	681 077	580 813
Financial assets held for trading	21	3 925 399	3 434 639
Other financial assets at fair value through profit or loss	22	2 821 553	1 963 989
Available-for-sale financial assets	23	10 755 310	11 482 866
Loans and advances to banks	24	5 426 518	3 282 576
Loans and advances to customers	25	47 706 392	49 043 382
Held-to-maturity investments	26	941 549	1 541 182
Derivatives for risk management purposes	27	516 520	510 090
Non-current assets held for sale	28	3 277 540	1 646 683
Investment properties	29	441 988	-
Property and equipment	30	931 622	851 678
Intangible assets	31	555 326	230 332
Investments in associates	32	580 982	806 999
Current income tax assets		24 648	28 692
Deferred income tax assets	41	728 905	712 157
Technical reserves of reinsurance ceded	33	3 804	-
Other assets	34	2 994 154	3 030 855
Total Assets		**83 690 828**	**80 237 372**
Liabilities			
Deposits from central banks	35	10 893 320	10 013 713
Financial liabilities held for trading	21	2 122 025	2 125 253
Deposits from banks	36	5 088 658	6 239 360
Due to customers	37	34 540 323	34 206 162
Debt securities issued	38	15 424 061	18 452 648
Derivatives for risk management purposes	27	125 199	238 633
Investment contracts	39	3 413 563	-
Non-current liabilities held for sale	28	175 945	140 950
Provisions	40	236 950	190 450
Technical reserves of direct insurance	33	1 577 408	-
Current income tax liabilities		221 199	44 937
Deferred income tax liabilities	41	154 015	110 533
Subordinated debt	42	839 816	961 235
Other liabilities	43	1 145 602	1 321 023
Total Liabilities		**75 958 084**	**74 044 897**
Equity			
Share capital	44	5 040 124	4 030 232
Share premium	44	1 069 517	1 081 663
Other equity instruments	44	29 295	29 505
Treasury stock	44	(6 991)	(997)
Preference shares	44	193 289	211 913
Other reserves, retained earnings and other comprehensive income	45	641 964	360 470
Profit for the period attributable to equity holders of the Bank		96 101	(108 758)
Total Equity attributable to equity holders of the Bank		**7 063 299**	**5 604 028**
Non-controlling interest	45	669 445	588 447
Total Equity		**7 732 744**	**6 192 475**
Total Equity and Liabilities		**83 690 828**	**80 237 372**

The following notes form an integral part of these interim consolidated financial statements

GRUPO BANCO ESPÍRITO SANTO

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(in thousands of euro)

	Share capital	Share premium	Other equity instruments	Treasury stock	Preference shares	Other reserves, retained earnings and other comprehensive income			Profit for the period attributable to equity holders of the Bank	Total equity attributable to equity holders of the Bank	Non-controlling interest	Total equity
						Fair value reserve	Other reserves, retained earnings and other comprehensive income	Total				
Balance as at 31 december 2011 (restated)	**3 500 000**	**1 085 398**	**269 953**	**-**	**600 000**	**(9 580)**	**307 666**	**298 086**	**556 901**	**6 310 338**	**538 701**	**6 849 039**
Other comprehensive income												
Changes in fair value, net of taxes	-	-	-	-	-	(435 595)	-	(435 595)	-	(435 595)	46	(435 549)
Actuarial deviations, net of taxes	-	-	-	-	-	-	29 567	29 567	-	29 567	1 355	30 922
Other comprehensive income appropriate from associates	-	-	-	-	-	-	(8 053)	(8 053)	-	(8 053)	-	(8 053)
Exchange differences, net of taxes	-	-	-	-	-	-	(388)	(388)	-	(388)	9 657	9 269
Profit for the period	-	-	-	-	-	-	-	-	(108 758)	(108 758)	112 554	3 796
Total comprehensive income in the period	**-**	**-**	**-**	**-**	**-**	**(435 595)**	**21 126**	**(414 469)**	**(108 758)**	**(523 227)**	**123 612**	**(399 615)**
Capital increase	530 232	(3 735)	(240 448)	-	(197 446)	-	54 673	54 673	-	143 276	(46 269)	97 007
- issue of 294 573 418 new shares	*530 232*	-	-	-	-	-	-	-	-	*530 232*	-	*530 232*
	-	-	*(240 448)*	-	*(197 446)*	-	*54 673*	*54 673*	-	*(383 221)*	*(46 269)*	*(429 490)*
- Costs with capital increase	-	*(3 735)*	-	-	-	-	-	-	-	*(3 735)*	-	*(3 735)*
Purchase of preference shares (see Note 44)	-	-	-	-	(190 641)	-	50 975	50 975	-	(139 666)	-	(139 666)
Trasactions with non-controlling interests	-	-	-	-	-	-	3 630	3 630	-	3 630	(10 102)	(6 472)
Transfer to reserves	-	-	-	-	-	-	409 946	409 946	(409 946)	-	-	-
Dividends on ordinary shares **(a)**	-	-	-	-	-	-	-	-	(146 955)	(146 955)	-	(146 955)
Dividends on preference shares, net of taxes **(b)**	-	-	-	-	-	-	(25 717)	(25 717)	-	(25 717)	-	(25 717)
Variations of treasury stock (see Note 44)	-	-	-	(997)	-	-	-	-	-	(997)	-	(997)
Interest of other equity instruments, net of taxes **(c)**	-	-	-	-	-	-	(15 478)	(15 478)	-	(15 478)	-	(15 478)
Other movements	-	-	-	-	-	-	(1 176)	(1 176)	-	(1 176)	-	(1 176)
Other changes in minority interest (see Note 45)	-	-	-	-	-	-	-	-	-	-	(17 495)	(17 495)
Balance as at 31 december 2011	**4 030 232**	**1 081 663**	**29 505**	**(997)**	**211 913**	**(445 175)**	**805 645**	**360 470**	**(108 758)**	**5 604 028**	**588 447**	**6 192 475**
Other comprehensive income												
Changes in fair value, net of taxes	-	-	-	-	-	616 025	-	616 025	-	616 025	22	616 047
Actuarial deviations, net of taxes	-	-	-	-	-	-	(173 171)	(173 171)	-	(173 171)	121	(173 050)
Other comprehensive income appropriate from associates	-	-	-	-	-	-	(9 800)	(9 800)	-	(9 800)	-	(9 800)
Exchange differences, net of taxes	-	-	-	-	-	-	(36 939)	(36 939)	-	(36 939)	(17 030)	(53 969)
Profit for the period	-	-	-	-	-	-	-	-	96 101	96 101	23 735	119 836
Total comprehensive income in the period	**-**	**-**	**-**	**-**	**-**	**616 025**	**(219 910)**	**396 115**	**96 101**	**492 216**	**6 848**	**499 064**
Capital increase	1 009 892	(12 146)	-	-	-	-	-	-	-	997 746	-	997 746
- issue of 2 556 688 387 new shares	*1 009 892*	-	-	-	-	-	-	-	-	*1 009 892*	-	*1 009 892*
- costs with capital increase	-	*(12 146)*	-	-	-	-	-	-	-	*(12 146)*	-	*(12 146)*
Purchase of preference shares (see Note 44)	-	-	-	-	(18 624)	-	4 478	4 478	-	(14 146)	-	(14 146)
Purchase of other capital instruments	-	-	(210)	-	-	-	-	-	-	(210)	-	(210)
Transactions with non-controlling interests	-	-	-	-	-	-	497	497	-	497	-	497
Transfer to reserves	-	-	-	-	-	-	(108 758)	(108 758)	108 758	-	-	-
Dividends on preference shares, net of taxes **(b)**	-	-	-	-	-	-	(6 137)	(6 137)	-	(6 137)	-	(6 137)
Variations of treasury stock (see Note 44)	-	-	-	(5 994)	-	-	-	-	-	(5 994)	-	(5 994)
Interest of other equity instruments, net of taxes **(c)**	-	-	-	-	-	-	(1 864)	(1 864)	-	(1 864)	-	(1 864)
Changes on Consolidated Perimeter (See note 45)	-	-	-	-	-	-	-	-	-	-	74 293	74 293
Other movements	-	-	-	-	-	-	(2 837)	(2 837)	-	(2 837)	-	(2 837)
Other changes in minority interest (see Note 45)	-	-	-	-	-	-	-	-	-	-	(143)	(143)
Balance as at 31 december 2012	**5 040 124**	**1 069 517**	**29 295**	**(6 991)**	**193 289**	**170 850**	**471 114**	**641 964**	**96 101**	**7 063 299**	**669 445**	**7 732 744**

(a) Corresponds to a dividend per share of euro 0.126 distributed to the ordinary shares outstanding in 2011.

(b) Corresponds to a preferred dividend, based on an annual interest rate of 5.58%, related to preference shares issued by BES Finance (see Note 44).

(c) Corresponds to a conditioned interest payable semi-annually and calculated based on an annual rate of 8.5% (amounts issued in euro) and 8.0% (amounts issued in U.S. dollars) related to perpetual bonds issued by BES (see Note 44).

GRUPO BANCO ESPÍRITO SANTO

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(in thousands of euro)

	Notes	31.12.2012	31.12.2011
Cash flows from operating activities			
Interest and similar income received		3 866 756	3 891 906
Interest expense and similar charges paid		(2 761 592)	(2 911 344)
Fees and commission received		980 751	894 674
Fees and commission paid		(188 981)	(143 472)
Insurance premiums		(301 802)	-
Recoveries on loans previously written off		21 900	26 553
Contributions to pensions' fund		(86 410)	(92 467)
Cash payments to employees and suppliers		(845 776)	(1 088 677)
		684 846	**577 173**
Changes in operating assets and liabilities:			
Deposits with central banks		(2 475 433)	3 315 365
Financial assets at fair value through profit or loss		1 433 434	(173 894)
Loans and advances to banks		1 225 370	(290 655)
Deposits from banks		(1 296 220)	(171 308)
Loans and advances to customers		(388 936)	332 334
Due to customers		320 144	3 313 699
Derivatives for risk management purposes		226 558	(142 821)
Other operating assets and liabilities		(416 008)	(746 285)
Net cash from operating activities before income tax		**(686 245)**	**6 013 608**
Income taxes paid		(94 908)	46 890
Net cash from operating activities		**(781 153)**	**6 060 498**
Cash flows from investing activities			
Acquisition of subsidiaries and associates	1	(257 418)	(98 191)
Sale of subsidiaries and associates	1	51 613	5 565
Dividends received		76 027	171 894
Acquisition of available-for-sale financial assets		(69 490 051)	(47 352 062)
Sale of available-for-sale financial assets		72 942 251	47 680 028
Held to maturity investments		648 712	394 549
Issued insurance investment contracts		200 849	-
Purchase of tangible and intangible assets and investment properties		(532 483)	(145 361)
Sale of tangible and intangible assets and investment properties		7 489	507
Net cash from investing activities		**3 646 989**	**656 929**
Cash flows from financing activities			
Capital increase		997 746	-
Acquisition of preference shares		(11 430)	(41 841)
Bonds issued		13 218 398	9 095 624
Bonds paid		(16 529 485)	(14 422 787)
Subordinated debt issued		-	8 174
Subordinated debt paid		(210 096)	(989 458)
Treasury stock		(5 994)	(997)
Interest from other equity instruments		(2 809)	(21 801)
Dividends paid on ordinary shares		-	(146 955)
Dividends paid on preference shares		(10 997)	(25 717)
Net cash from financing activities		**(2 554 667)**	**(6 545 758)**
Net changes in cash and cash equivalents		**311 169**	**171 669**
Cash and cash equivalents at the beginning of the period		**1 542 251**	**1 341 403**
BES Vida full consolidation impact	54	198 648	-
Effect of exchange rate changes on cash and cash equivalents		(27 535)	29 179
Net changes in cash and cash equivalents		311 169	171 669
Cash and cash equivalents at the end of the period		**2 024 533**	**1 542 251**
Cash and cash equivalents includes:			
Cash	15	303 538	278 179
Deposits at Central Banks	15	1 074 003	812 260
of which, restricted balances		(34 085)	(129 001)
Deposits with banks	16	681 077	580 813
Total		**2 024 533**	**1 542 251**

The following notes form an integral part of these interim consolidated financial statements

Grupo Banco Espírito Santo

Notes to the Consolidated Financial Statements as at 31 December 2012

(Amounts expressed in thousands of euro, except when indicated)

NOTE 1 – ACTIVITY AND GROUP STRUCTURE

Banco Espírito Santo, S.A. (Bank or BES) is a commercial bank headquartered in Portugal, Avenida da Liberdade, no. 195, Lisbon. The Bank is authorised by the Portuguese authorities, central banks and other regulatory authorities, to operate in Portugal and in the countries where its international branches are located.

BES's foundation dates back to the last quarter of the 19th century. The Bank began its operations as a commercial bank in 1937, following the merger of Banco Espírito Santo and Banco Comercial de Lisboa, from which resulted Banco Espírito Santo e Comercial de Lisboa. On 6 July 1999, the Bank changed its name to Banco Espírito Santo, S.A.. BES is the core of a financial group – BES Group – which includes the Bank and a number of financial entities located in Portugal and abroad.

BES is listed on the NYSE Euronext Lisbon. As at 31 December 2012, the Bank's subsidiary BES Finance, Ltd had also 193 thousand preference shares listed on the Luxembourg Stock Exchange.

Since 1992, BES is part of the Espírito Santo Group, therefore its financial statements are consolidated by BESPAR SGPS, S.A., headquartered in Rua de São Bernardo, no. 62, Lisbon, and as well by Espírito Santo Financial Group, S.A. (ESFG), with headquarters in Luxembourg.
BES Group has a network of 775 branches throughout Portugal (31 December 2011: 801), international branches in London, Spain, New York, Nassau, Cayman Islands, Cape Verde, Venezuela and Luxembourg, a branch in the Madeira Free Trade Zone and ten representative offices overseas.

Group companies where the Bank has a direct or indirect holding greater or equal to 20%, over which the Bank exercises control or has significant influence, and that were included in the consolidated financial statements, are as follows:

a) Subsidiaries consolidated directly by the Bank:

	Established	Acquired	Headquartered	Activity	% economic interest	Consolidation method
BANCO ESPÍRITO SANTO, SA (BES)	1937	-	Portugal	Commercial banking		
Banco Espírito Santo de Investimento, SA (BESI)	1993	1997	Portugal	Investment bank	100,00%	Full consolidation
BES-Vida, Companhia de Seguros, SA (BES VIDA)	1993	2006	Portugal	Insurance	100,00%	Full consolidation
Aman Bank for Commerce and Investment Stock Company	2003	2010	Libya	Commercial banking	40,00% a)	Full consolidation
Avistar, SGPS, SA	2009	2009	Portugal	Holding company	100,00%	Full consolidation
Espírito Santo Servicios, SA	1996	1997	Spain	Insurance	100,00%	Full consolidation
Espírito Santo Activos Financieros, SA	1988	2000	Spain	Asset management	95,00%	Full consolidation
Espírito Santo Vanguarda, SL	2011	2011	Spain	Services provider	100,00%	Full consolidation
Banco Espírito Santo dos Açores, SA (BAC)	2002	2002	Portugal	Commercial banking	57,53%	Full consolidation
BEST - Banco Electrónico de Serviço Total, SA (BEST)	2001	2001	Portugal	Internet banking	66,00%	Full consolidation
BES África, SGPS, SA	2009	2009	Portugal	Holding company	100,00%	Full consolidation
Banco Espírito Santo Angola, SA (BESA)	2001	2001	Angola	Commercial banking	51,94%	Full consolidation
BESAACTIF - Sociedade Gestora de Fundos de Investimento, SA	2008	2008	Angola	Asset management - Investment funds	63,70%	Full consolidation
BESAACTIF Pensões - Sociedade Gestora de Fundos de Pensões, SA	2009	2009	Angola	Asset management - Pension funds	63,70%	Full consolidation
Banco Espírito Santo do Oriente, SA (BESOR)	1996	1996	Macau	Commercial banking	99,75%	Full consolidation
Espírito Santo Bank (ESBANK)	1963	2000	USA	Commercial banking	99,99%	Full consolidation
BES Beteiligungs, GmbH (BES GMBH)	2006	2006	Germany	Holding company	100,00%	Full consolidation
BIC International Bank Ltd. (BIBL)	2000	2000	Cayman Islands	Commercial banking	100,00%	Full consolidation
Parsuni - Sociedade Unipessoal, SGPS	2004	2005	Portugal	Holding company	100,00%	Full consolidation
Praça do Marquês - Serviços Auxiliares, SA (PÇMARQUÊS)	1990	2007	Portugal	Real estate	100,00%	Full consolidation
Espírito Santo, plc. (ESPLC)	1999	1999	Ireland	Non-bank finance company	99,99%	Full consolidation
ESAF - Espírito Santo Activos Financeiros, S.G.P.S., SA (ESAF)	1992	1992	Portugal	Holding company	89,99%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	2000	2000	Portugal	Holding company	100,00%	Full consolidation
Banco Espirito Santo North American Capital Limited Liability Co. (BESNAC)	1990	1990	USA	Financing vehicle	100,00%	Full consolidation
BES Finance, Ltd. (BESFINANCE)	1997	1997	Cayman Islands	Issue of preference shares and other securities	100,00%	Full consolidation
ES, Recuperação de Crédito, ACE (ESREC)	1998	1998	Portugal	Financing vehicle	99,15%	Full consolidation
ES Concessões, SGPS, SA (ES CONCESSÕES)	2002	2003	Portugal	Holding company	71,66%	Full consolidation
Espírito Santo - Informática, ACE (ESINF)	2006	2006	Portugal	Services provider	82,28%	Full consolidation
Espírito Santo Prestação de Serviços, ACE 2 (ES ACE2)	2006	2006	Portugal	Services provider	88,26%	Full consolidation
ESGEST - Esp. Santo Gestão Instalações, Aprov. e Com., SA (ESGEST)	1995	1995	Portugal	Services provider	100,00%	Full consolidation
Espírito Santo e Comercial de Lisboa, Inc. (ESCLINC)	1982	1997	USA	Representation office	100,00%	Full consolidation
Espírito Santo Representações, Ltda. (ESREP)	1996	1996	Brazil	Representation office	99,99%	Full consolidation
Quinta dos Cónegos - Sociedade Imobiliária, SA (CÓNEGOS)	1991	2000	Portugal	Real estate	81,00%	Full consolidation
Fundo de Capital de Risco - ES Ventures II	2006	2006	Portugal	Venture capital fund	60,09%	Full consolidation
Fundo de Capital de Risco - ES Ventures III	2009	2009	Portugal	Venture capital fund	61,54%	Full consolidation
Fundo de Capital de Risco - BES PME Capital Growth	2009	2009	Portugal	Venture capital fund	100,00%	Full consolidation
Fundo FCR PME / BES	1997	1997	Portugal	Venture capital fund	55,07%	Full consolidation
Fundo Gestão Património Imobiliário - FUNGEPI - BES	1997	2012	Portugal	Real estate fund	81,09%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - BES II	2011	2012	Portugal	Real estate fund	85,78%	Full consolidation
FUNGERE - Fundo de Gestão de Património Imobiliário	1997	2012	Portugal	Real estate fund	97,24%	Full consolidation
ImoInvestimento – Fundo Especial de Investimento Imobiliário Fechado	2012	2012	Portugal	Real estate fund	100,00%	Full consolidation
BESA Valorização – Fundo de Investimento Imobiliário Fechado	2012	2012	Angola	Real estate fund	51,94%	Full consolidation
FLITPTREL VIII, SA	2011	2011	Portugal	Ventures tourism developments	10,00% a) c)	Full consolidation
OBLOG Consulting, SA	1993	1993	Portugal	Software development	66,63%	Full consolidation
BES, Companhia de Seguros, SA (BES SEGUROS)	1996	1996	Portugal	Insurance	25,00%	Equity method
Société Civile Immobilière du 45 Avenue Georges Mandel (SCI GM)	1995	1995	France	Real estate	22,50%	Equity method
ESEGUR - Espírito Santo Segurança, SA (ESEGUR)	1994	2004	Portugal	Security	44,00%	Equity method
Locarent - Companhia Portuguesa de Aluguer de Viaturas, SA (LOCARENT)	1991	2003	Portugal	Renting	50,00%	Equity method
Banco Delle Tre Venezie, Spa	2006	2007	Italy	Commercial banking	20,00%	Equity method
Nanium, SA	1996	2010	Portugal	Industry	41,06%	Equity method
Ascendi Douro - Estradas do Douro Interior, SA	2008	2010	Portugal	Motorway concession	18,57% b)	Equity method
Ascendi Pinhal Interior - Estradas do Pinhal Interior, SA	2010	2010	Portugal	Motorway concession	18,57% b)	Equity method
UNICRE - Instituição Financeira de Crédito, SA	1974	2010	Portugal	Non-bank finance company	17,50% b)	Equity method
Ijar Leasing Argélie	*2011*	*2011*	Algeria	*Leasing*	*35,00%*	Equity method

a) These companies were fully consolidated, as the Group exercises control over their activities.
b) The percentage in the table above represents the Group's economic interest. These companies were accounted for following the equity method, as the Group exercises a significant influence over them.
c) Entity created for the disposal of assets operation occurred during the year (see Note 53)

b) Sub-Groups

	Established	Acquired	Headquartered	Activity	% economic interest	Consolidation method
Banco Espírito Santo de Investimento, SA (BESI)	**1993**	**1997**	**Portugal**	**Investment bank**	**100.00%**	**Full consolidation**
Espírito Santo Capital - Sociedade de Capital de Risco, SA (ESCAPITAL)	*1988*	*1996*	*Portugal*	*Venture capital*	*100.00%*	*Full consolidation*
SES Iberia	*2004*	*2004*	*Spain*	*Asset management*	*50.00%*	*Full consolidation*
HLC - Centrais de Cogeração, SA	*1999*	*1999*	*Portugal*	*Services provider*	*24.50%*	*Equity method*
Coporgest, SA	*2002*	*2005*	*Portugal*	*Services provider*	*25.00%*	*Equity method*
Synergy Industry and Technology, SA	*2006*	*2006*	*Spain*	*Holding company*	*26.00%*	*Equity method*
Salgar Investments	*2007*	*2007*	*Spain*	*Services provider*	*45.05%*	*Equity method*
2BCapital Luxembourg S.C.A SICAR	*2011*	*2011*	*Luxembourg*	*Investment fund*	*45.00%*	*Equity method*
ESSI Comunicações SGPS, SA	*1998*	*1998*	*Portugal*	*Holding company*	*100.00%*	*Full consolidation*
ESSI SGPS, SA	*1997*	*1997*	*Portugal*	*Holding company*	*100.00%*	*Full consolidation*
Espírito Santo Investment Sp. Z.o.o.	*2005*	*2005*	*Poland*	*Services provider*	*100.00%*	*Full consolidation*
Espírito Santo Securities India	*2011*	*2011*	*India*	*Brokerage house*	*75.00%*	*Full consolidation*
Espírito Santo Investment Holding, Limited	*2010*	*2010*	*United Kindom*	*Holding company*	*68.40%*	*Full consolidation*
Execution Holding, Limited	*2010*	*2010*	*United Kindom*	*Holding company*	*68.40%*	*Full consolidation*
MCO2 – Sociedade Gestora de Fundos de Investimento Mobiliário, SA	*2008*	*2008*	*Portugal*	*Asset management - investment funds*	*25.00%*	*Equity method*
Espírito Santo Investments PLC	*1996*	*1996*	*Ireland*	*Non-bank finance company*	*100.00%*	*Full consolidation*
ESSI Investimentos SGPS, SA	*1998*	*1998*	*Portugal*	*Holding company*	*100.00%*	*Full consolidation*
Polish Hotel Capital SP	*2008*	*2008*	*Poland*	*Services provider*	*33.00%*	*Equity method*
Espirito Santo Investimentos, SA	*1996*	*1999*	*Brazil*	*Holding company*	*100.00%*	*Full consolidation*
BES Investimento do Brasil, SA	*2000*	*2000*	*Brazil*	*Investment Bank*	*80.00%*	*Full consolidation*
2BCapital, SA	*2005*	*2005*	*Brazil*	*Holding company*	*45.00%*	*Equity method*
BES Securities do Brasil, SA	*2000*	*2000*	*Brazil*	*Brokerage house*	*80.00%*	*Full consolidation*
Gespar Participações, Ltda.	*2001*	*2001*	*Brazil*	*Holding company*	*80.00%*	*Full consolidation*
BES Activos Financeiros, Ltda	*2004*	*2004*	*Brazil*	*Asset management*	*85.00%*	*Full consolidation*
Espírito Santo Serviços Financeiros DTVM, SA	*2009*	*2010*	*Brazil*	*Asset management*	*79.32%*	*Full consolidation*
FI Multimercado Treasury	*2005*	*2005*	*Brazil*	*Investment fund*	*80.00%*	*Full consolidation*
R Invest, Ltda	*2001*	*2009*	*Brazil*	*Services provider*	*80.00%*	*Full consolidation*
R Consult Participações, Ltda	*1998*	*2009*	*Brazil*	*Services provider*	*80.00%*	*Full consolidation*
BRB Internacional, SA	*2001*	*2001*	*Spain*	*Entertainment*	*24.93%*	*Equity method*
Prosport - Com. Desportivas, SA	*2001*	*2001*	*Spain*	*Sporting goods trading*	*25.00%*	*Equity method*
Apolo Films, SL	*2001*	*2001*	*Spain*	*Entertainment*	*25,15%*	*Equity method*
Cominvest- SGII, SA	*1993*	*1993*	*Portugal*	*Real Estate*	*49.00%* a)	*Full consolidation*
Fundo Espírito Santo IBERIA I	*2004*	*2004*	*Portugal*	*Venture capital fund*	*38.67%*	*Equity method*
Fundo FIM BES Moderado	*2004*	*2009*	*Brazil*	*Investment fund*	*55.96%*	*Full consolidation*
Fundo BES Absolute Return	*2002*	*2009*	*Brazil*	*Investment fund*	*43.62%* a)	*Full consolidation*
BES Beteiligungs, GmbH (BES GMBH)	**2006**	**2006**	**Germany**	**Holding company**	**100.00%**	**Full consolidation**
Bank Espírito Santo International, Ltd. (BESIL)	*1983*	*2002*	*Cayman Islands*	*Commercial banking*	*100.00%*	*Full consolidation*
BES África, SGPS, SA (BES ÁFRICA)	**2006**	**2006**	**Portugal**	**Holding company**	**100.00%**	**Full consolidation**
Banco Espírito Santo Cabo Verde, SA	*2010*	*2010*	*CapeVerde*	*Commercial banking*	*99.99%*	*Full consolidation*
Moza Banco, SA	*2008*	*2010*	*Mozambique*	*Commercial banking*	*25.10%*	*Equity method*
ESAF - Espírito Santo Activos Financeiros, S.G.P.S., SA (ESAF)	**1992**	**1992**	**Portugal**	**Holding company**	**89.99%**	**Full consolidation**
Espírito Santo Fundos de Investimento Mobiliário, SA	*1987*	*1987*	*Portugal*	*Asset management - investment funds*	*89.99%*	*Full consolidation*
Espírito Santo International Management, SA	*1995*	*1995*	*Luxembourg*	*Asset management - investment funds*	*89.81%*	*Full consolidation*
Espírito Santo Fundos de Investimento Imobiliário, SA	*1992*	*1992*	*Portugal*	*Asset management - investment funds*	*89.99%*	*Full consolidation*
Espírito Santo Fundo de Pensões, SA	*1989*	*1989*	*Portugal*	*Asset management - investment funds*	*89.99%*	*Full consolidation*
Capital Mais - Assessoria Financeira, SA	*1998*	*1998*	*Portugal*	*Asset management - investment funds*	*89.99%*	*Full consolidation*
Espirito Santo International Asset Management, Ltd.	*1998*	*1998*	*British Virgin Islands*	*Asset management - investment funds*	*44.10%*	*Equity method*
Espírito Santo Gestão de Patrimónios, SA	*1987*	*1987*	*Portugal*	*Asset management - investment funds*	*89.99%*	*Full consolidation*
ESAF - Espírito Santo Participações Internacionais, SGPS, SA	*1996*	*1996*	*Portugal*	*Asset management - investment funds*	*89.99%*	*Full consolidation*
ESAF - International Distributors Associates, Ltd	*2001*	*2001*	*British Virgin Islands*	*Asset management - investment funds*	*89.99%*	*Full consolidation*
ES Tech Ventures, S.G.P.S., SA (ESTV)	**2000**	**2000**	**Portugal**	**Holding company**	**100.00%**	**Full consolidation**
ES Ventures - Sociedade de Capital de Risco, SA	*2005*	*2005*	*Portugal*	*Venture capital fund*	*100.00%*	*Full consolidation*
Yunit Serviços, SA	*2000*	*2000*	*Portugal*	*Management of internet portals*	*33,33%*	*Equity method*
FCR Espírito Santo Ventures Inovação e Internacionalização	*2011*	*2011*	*Portugal*	*Venture capital fund*	*50.00%*	*Equity method*
Fundo Bem Comum, FCR	*2011*	*2011*	*Portugal*	*Venture capital fund*	*20.00%*	*Equity method*
Espírito Santo Contact Center, Gestão de Call Centers, SA (ESCC)	*2000*	*2000*	*Portugal*	*Call centers management company*	*41.67%*	*Equity method*
Banque Espirito Santo et de la Vénétie, SA (ES Vénétie)	*1927*	*1993*	*France*	*Commercial banking*	*42.69%*	*Equity method*

	Established	Acquired	Headquartered	Activity	% economic interest	Consolidation method
Fundo de Capital de Risco - ES Ventures II	**2006**	**2006**	**Portugal**	**Venture capital fund**	**60.09%**	**Full consolidation**
Atlantic Ventures Corporation	*2006*	*2006*	*USA*	*Holding company*	*60.09%*	*Full consolidation*
Sousacamp, SGPS, SA	*2007*	*2007*	*Portugal*	*Holding company*	*23.50%*	*Equity method*
Global Active - SGPS, SA	*2006*	*2006*	*Portugal*	*Holding company*	*26.84%*	*Equity method*
Outsystems, SA	*2007*	*2007*	*Portugal*	*IT Services*	*17.60%* b)	*Equity method*
Coreworks - Proj. Circuito Sist. Elect., SA	*2006*	*2006*	*Portugal*	*IT Services*	*19.45%* b)	*Equity method*
Multiwave Photonics, SA	*2003*	*2008*	*Portugal*	*IT Services*	*12.47%* b)	*Equity method*
Bio-Genesis	*2007*	*2007*	*Brazil*	*Holding company*	*17.98%* b)	*Equity method*
YDreams - Informática, SA	*2000*	*2009*	*Portugal*	*IT Services*	*28.84%*	*Equity method*
Fundo de Capital de Risco - ES Ventures III	**2009**	**2009**	**Portugal**	**Venture capital fund**	**61.54%**	**Full consolidation**
Nutrigreen, SA	*2007*	*2009*	*Portugal*	*Services provider*	*12.31%* b)	*Equity method*
Advance Ciclone Systems, SA	*2008*	*2009*	*Portugal*	*Treatment and elimination of residues*	*19.69%* b)	*Equity method*
Watson Brown, HSM, Ltd	*1997*	*2009*	*United Kingdom*	*Recycling rubber*	*22.09%*	*Equity method*
Domática, Electrónica e Informática, SA	*2002*	*2011*	*Portugal*	*IT Services*	*14.51%* b)	*Equity method*
Fundo FCR PME / BES	**1997**	**1997**	**Portugal**	**Venture capital fund**	**55.07%**	**Full consolidation**
Mobile World - Comunicações. SA	*2009*	*2009*	*Portugal*	*Telecommunications*	*26.98%*	*Equity method*
MMCI - Multimédia, SA	*2008*	*2008*	*Portugal*	*Holding company*	*26.98%*	*Equity method*
TLCI 2 - Soluções Integradas de Telecomunicações, SA	*2006*	*2006*	*Portugal*	*Telecommunications*	*26.98%*	*Equity method*
Enkrott SA	*2006*	*2006*	*Portugal*	*Management and water treatment*	*16.52%* b)	*Equity method*
Palexpo - Imagem Empresarial, SA	*2009*	*2009*	*Portugal*	*Furniture manufacturing*	*27.26%*	*Equity method*
Rodi - Sinks & Ideas, SA	*2006*	*2006*	*Portugal*	*Metal industry*	*24.81%*	*Equity method*
Espírito Santo Activos Financieros, SA	**1988**	**2000**	**Spain**	**Asset management**	**95.00%**	**Full consolidation**
Espírito Santo Gestión, SA, SGIIC	*2001*	*2001*	*Spain*	*Asset management*	*95.00%*	*Full consolidation*
Espírito Santo Pensiones, S.G.F.P., SA	*2001*	*2001*	*Spain*	*Asset management - pension funds*	*95.00%*	*Full consolidation*
Espírito Santo Bank (ESBANK)	**1963**	**2000**	**USA**	**Commercial banking**	**99.99%**	**Full consolidation**
ES Financial Services, Inc.	*2000*	*2000*	*USA*	*Brokerage house*	*99.99%*	*Full consolidation*
Tagide Properties, Inc.	*1991*	*1991*	*USA*	*Real estate*	*99.99%*	*Full consolidation*
Espírito Santo Representaciones	*2003*	*2003*	*Uruguai*	*Representation office*	*99.99%*	*Full consolidation*
ES Investment Advisors, Inc.	*2011*	*2011*	*USA*	*Investment consulting*	*99.99%*	*Full consolidation*
BES-Vida, Companhia de Seguros, SA (BES VIDA)	**1993**	**2006**	**Portugal**	**Insurance**	**100.00%**	**Full consolidation**
Caravela Defensive Fund	*2006*	*2012*	*Luxembourg*	*Investment fund*	*99.19%*	*Full consolidation*
Caravela Balanced Fund	*2006*	*2012*	*Luxembourg*	*Investment fund*	*54.95%*	*Full consolidation*
ES Plano Dinâmico	*2008*	*2012*	*Portugal*	*Investment fund*	*98.15%*	*Full consolidation*
ES Rendimento Dinâmico	*2008*	*2012*	*Portugal*	*Investment fund*	*68.92%*	*Full consolidation*
ES Arrendamento	*2009*	*2012*	*Portugal*	*Investment fund*	*100.00%*	*Full consolidation*
ES Eurobond	*1995*	*2012*	*Luxembourg*	*Investment fund*	*52.77%*	*Full consolidation*
Orey Reabilitação Urbana	*2006*	*2012*	*Portugal*	*Investment fund*	*77.32%*	*Full consolidation*
Fimes Oriente	*2004*	*2012*	*Portugal*	*Investment fund*	*100.00%*	*Full consolidation*
ES Concessões, SGPS, SA (ES CONCESSÕES)	**2002**	**2003**	**Portugal**	**Holding company**	**71.66%**	**Full consolidation**
ES Concessions International Holding, BV	*2010*	*2010*	*Netherlands*	*Holding company*	*71.66%*	*Full consolidation*
Empark - Aparcamientos y Servicios, SA	*1968*	*2009*	*Spain*	*Management of parking lots*	*15.92%* b)	*Equity method*
ES Concessions Latam, BV	*2011*	*2011*	*Netherlands*	*Holding company*	*71.66%*	*Full consolidation*
Concesionaria Autopista Perote-Xalapa, CV	*2008*	*2008*	*Mexico*	*Motorway concession*	*14.33%* b)	*Equity method*
Ascendi Group SGPS, SA	*2010*	*2010*	*Portugal*	*Holding company*	*28.66%*	*Equity method*
Auvisa - Autovia de los Viñedos, SA	*2003*	*2010*	*Spain*	*Motorway concession*	*35.83%*	*Equity method*

a) These companies were fully consolidated, as the Group controls its activities.

b) The percentage in the table above represents the Group's economic interest. These companies were accounted for under the equity method, as the Group exercises a significant influence over them, in accordance with the accounting policy described in Note 2.2.

Additionally, in accordance with SIC 12, the Group consolidates the following special purpose entities:

	Established	Acquired	Headquartered	% economic interest	Consolidation method
Lusitano SME No.1 plc (*)	2006	2006	Ireland	100%	Full Consolidation
Lusitano Mortgages No.6 plc (*)	2007	2007	Ireland	100%	Full Consolidation
Lusitano Project Finance No.1, FTC (*)	2007	2011	Portugal	100%	Full Consolidation
Lusitano Mortgages No.7 plc (*)	2008	2008	Ireland	100%	Full Consolidation
Lusitano Leverage Finance No. 1 BV (*)	2010	2010	Netherlands	100%	Full Consolidation
Lusitano Finance No. 3 (*)	2011	2011	Portugal	100%	Full Consolidation
IM BES Empresas 1 (*)	2011	2011	Spain	100%	Full Consolidation
CLN Magnolia Finance 2038	2008	2008	Ireland	100%	Full Consolidation

(*) Entities set-up in the scope of securitisation transactions (See Note 43).

The consolidation of these entities had the following impact on the Group's accounts:

(in thousands of euro)

	31.12.2012	31.12.2011
Deposits with banks	195 586	572 182
Other financial assets at fair value through profit or loss	71 651	-
Available-for-sale financial assets	-	306 380
Due to costumers (net of impairment)	3 803 343	5 828 664
Debt securities issued	703 797	951 660

The main changes in the Group structure that occurred in 2012 are highlighted as follows:

- Subsidiaries

- In May 2012, BES acquired the remaining 50% of BES Vida sahre capital, by the amount of euro 225 000 thousand, holding the total share capital of the company and started to consolidate this entity under the full consolidation method (see Note 54);
- In November 2012, the Group acquired units of Fungepi, Fungere and Imoinvestimento, which since that date are part of the Group's consolidation perimeter.

- Associates (see Note 32)

- In April 2012, ES Capital acquired 42.99% of 2BCapital Luxembourg S.C.A SICAR by the amount of euro 854 thousand; in May 2012 there was a capital increase, through which ES Capital invested an additional euro 15 619 thousand in the company;
- In June 2012, ES Concessões transferred its shareholdings in SCUTVIAS - Autoestradas da Beira Interior, SA and Portvias - Portagem de Vias, SA to Ascendi Group, SGPS, SA, incurring in a loss of euro 2 170 thousand;
- In December 2012, BESI sold its shareholding in Polish Hotel Company, Sp, generating a gain of euro 2 509 thousand;

During the years 2012 and 2011, the movements regarding acquisitions and disposals of investments in subsidiaries and associates are presented as follows:

(in thousands of euro)

	31.12.2012						
	Acquisitions			Disposals			
	Acquisiton cost	Other investments (a)	Total	Disposal value	Other reimbursements (a)	Total	Gains/(losses) from sales/disposals
Subsidiaries							
BES Vida (b)	225 000	-	225 000	-	-	-	(89 586)
	225 000	-	225 000	-	-	-	(89 586)
Associates							
Moza Banco	-	2 991	2 991	-	-	-	-
Empark	-	-	-	-	(2 584)	(2 584)	-
Portvias	-	-	-	(1 067)	-	(1 067)	913
Scutvias	-	-	-	(49 783)	-	(49 783)	(3 083)
Ascendi Group	-	11 462	11 462	-	-	-	-
Coreworks	-	-	-	-	(286)	(286)	0
Sousacamp	-	-	-	-	(3 700)	(3 700)	-
Fin Solutia	-	-	-	(1 219)	-	(1 219)	(6)
2B Capital Luxembourg	854	15 619	16 473	-	-	-	-
Nova Figfort	-	-	-	(719)	-	(719)	-
Sopratutto Cafés	-	-	-	(1 334)	-	(1 334)	50
Ydreams	-	204	204	-	(711)	(711)	-
MCO2	113	1 175	1 288	-	-	-	
MRN - Manutenção de Rodovias Nacionais, SA (c)	-	-	-	-	(11)	(11)	-
Polish Hotel Company	-	-	0	2 509	-	2 509	2 509
	967	31 451	32 418	(51 613)	(7 292)	(58 905)	383
	225 967	**31 451**	**257 418**	**(51 613)**	**(7 292)**	**(58 905)**	**(89 203)**

(in thousands of euro)

	31.12.2011						
	Acquisitions			Disposals			
	Acquisiton cost	Other investments (a)	Total	Disposal value	Other reimbursements (a)	Total	Gains/(losses) from sales/disposals
Subsidiaries							
ESAF - Espírito Santo Activos Financeiros SGPS	13 189	-	13 189	(1 305)	-	(1 305)	1 305
ESAF - Alternative Asset Management, Ltd	-	-	-	-	-	-	-
Execution Noble	23 943	-	23943	-	-	-	-
ES Concessões	808	24 692	25500	-	-	-	-
ES Financial Services	1 979	-	1979	-	-	-	-
	39 919	24 692	64 611	(1 305)	-	(1 305)	1 305
Associates							
BES Vida	-	62 500	62 500	-	-	-	-
Moza Banco	8 018	1 782	9 800	-	-	-	-
Watson Brown	68	2 938	3 006	-	-	-	-
Ijar Leasing Algérie	12 361	-	12 361	-	-	-	-
Esumédica	-	-	-	-	-	-	380
Ascendi Group	-	4 969	4 969	-	-	-	-
Europ Assistance	-	-	-	(2 465)	-	(2 465)	110
Rua Bonita	-	-	-	-	(818)	(818)	-
Global Active	-	87	87	-	-	-	-
FCR ES Ventures Inovação e Internacionalização	5 000	-	5 000	-	-	-	-
Fundo Bem Comum, FCR	500	-	500	-	-	-	-
Autopista Perote-Xalapa	-	1 622	1 622	-	-	-	-
Ydreams	-	352	352	-	-	-	-
Nutrigreen	-	-	-	-	(1 500)	(1 500)	-
Domática	1000	-	1000	-	-	-	-
	26 947	74 250	101 197	(2 465)	(2 318)	(4 783)	490
	66 866	**98 942**	**165 808**	**(3 770)**	**(2 318)**	**(6 088)**	**1 795**

(a) capital increase and loans to companies.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

In accordance with Regulation (EC) no. 1606/2002, of 19 July from the European Council and Parliament, and its adoption into Portuguese Law through Decree-Law no. 35/2005, of 17 February and Regulation no. 1/2005 from the Bank of Portugal, Banco Espírito Santo, S.A. ("BES" or "the Bank") is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

IFRS comprise accounting standards issued by the International Accounting Standards Board ("IASB") and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body.

The consolidated financial statements for year ended 31 December 2012 were prepared in accordance with the IFRS effective and adopted by the EU until 31 December 2012.

The accounting policies applied by the Group in the preparation of its consolidated financial statements for the year ended 31 December 2012 are consistent with the ones used in the preparation of the annual consolidated financial statements as at and for the year ended 31 December 2011.

In addition and as described in Note 55, in the preparation of the Consolidated Financial Statements as at 31 December 2012, the Group adopted the accounting standards issued by IASB and IFRIC interpretations, effective since 1 January 2012.
The accounting policies adopted by the Group in the preparation of the Consolidated Financial Statements are in accordance with those described in that note. The adoption of these new standards and interpretations had no material effect in the Group's Consolidated Financial Statements.

The accounting standards and interpretations recently issued but not yet effective and that the Group has not yet adopted in the preparation of its financial statements can also be analysed in Note 55.

Moreover and as referred to in Note 1, the Group acquired, in May 2012, the remaining 50% of BES Vida share capital and the control over its activities. Therefore, from that date, BES Vida, which previously qualified as an associate and was accounted for in the consolidated financial statements up to 2011 under the equity method, is now being fully consolidated by the Group. Further details are provided in Note 54.

These consolidated financial statements are expressed in thousands of euro, rounded to the nearest thousand, and have been prepared under the historical cost convention, except for the assets and liabilities accounted at fair value, namely, derivative contracts, financial assets and financial liabilities at fair value through profit or loss, available-for-sale financial assets, recognised assets and liabilities that are hedged, in a fair value hedge, in respect of the risk that is being hedged.

The preparation of financial statements in conformity with IFRS requires the application of judgement and the use of estimates and assumptions by management that affects the process of applying the Group's accounting policies and the reported amounts of income, expenses, assets and liabilities. Actual results in the future may differ from those reported. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

These consolidated financial statements were approved in the Board of Directors meeting held on 1 March 2013.

2.2. Basis of consolidation

These consolidated financial statements comprise the financial statements of BES and its subsidiaries ("the Group" or "BES Group"), and the results attributable to the Group from its associates.

These accounting policies have been consistently applied by the Group companies, during all the periods covered by the consolidated financial statements.

Subsidiaries

Subsidiaries are entities over which the Group exercises control. Control is presumed to exist when the Group owns more than one half of the voting rights. Additionally, control also exists when the Group has the power to, directly or indirectly, govern the financial and operating policies of the entity, so as to obtain benefits from its activities, even if its shareholding is equal or less than 50%. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases.

Accumulated losses of a subsidiary are attributed proportionally to the owners of the parent and to the non-controlling interest even if this results in non-controlling interest having a deficit balance.

In a business combination achieved in stages (step acquisition) where control is obtained, the Group remeasures its previously held non-controlling interest in the acquiree at its acquisition date fair value and recognises the resulting gain or loss in the income statement when determining the respective goodwill. At the time of a partial sale, from which arises a loss of control of a subsidiary, any remaining non-controlling interest retained is remeasured to fair value at the date the control is lost and the resulting gain or loss is recognised against the income statement.

Associates

Associates are entities over which the Group has significant influence over the company's financial and operating policies but not its control. Generally when the Group owns more than 20% of the voting rights it is presumed that it has significant influence. However, even if the Group owns less than 20% of the voting rights, it can have significant influence through the participation in the policy-making processes of the associated entity or the representation in its executive board of directors.

Investments in associates are accounted for under the equity method from the date on which significant influence is transferred to the Group until the date that significant influence ceases. The book value of the investments in associates includes the value of the respective goodwill determined on acquisition and is presented net of impairment losses.

In a step acquisition that results in the Group obtaining significant influence over an entity, any previously held stake in that entity is remeasured to fair value through the income statement when the equity method is first applied.

If the Group's share of losses of an associate equals or exceeds its interest in the associate, including any long-term interest, the Group discontinues the application of the equity method, except when it has a legal or constructive obligation of covering those losses or has made payments on behalf of the associate.

Gains or losses on sales of shares in associate companies are recognised in the income statement even if that sale does not result in the loss of significant influence.

Special purpose entities ("SPE")

The Group consolidates certain special purpose entities ("SPE"), specifically created to accomplish a narrow and well defined objective, when the substance of the relationship with those entities indicates that they are controlled by the Group, regardless the percentage of equity held.

The evaluation of the existence of control is made based on the criteria established by SIC 12 – Consolidation Special Purpose Entities, which can be summarised as follows:

- In substance, the activities of the SPE are being conducted in accordance with the specific needs of the Group's business, so that the Group obtains the benefits from these activities;
- In substance the Group has the decision-making powers to obtain the majority of the benefits from the activities of the SPE;
- In substance, the Group has rights to obtain the majority of the benefits of the SPE, and therefore may be exposed to the inherent risks of its activities;
- In substance, the Group retains the majority of residual or ownership risks related to the SPE so as to obtain the benefits from its activities.

Investment funds managed by the Group

As part of the asset management activity, the Group manages investment funds on behalf of the unitholders. The financial statements of these funds are not consolidated by the Group except in the cases where control is exercised over its activity based on the criteria established by SIC 12. It is assumed that there is control over a fund when the Group holds more than 50% of the units.

Goodwill

Goodwill resulting from business combinations that occurred until 1 January 2004 was offset against reserves, according to the option granted by IFRS 1, adopted by the Group on the date of transition to the IFRS.

Goodwill resulting from business combinations that occurred from 1 January 2004 until 31 December 2009 was accounted under the purchase method. The acquisition cost was measured as the fair value, at the acquisition date, of the assets and equity instruments given and liabilities incurred or assumed plus any costs directly attributable to the acquisition.

Goodwill represents the difference between the cost of acquisition and the fair value of the Group's share of identifiable net assets, liabilities and contingent liabilities acquired.

For acquisitions on or after 1 January 2010, in accordance with IFRS 3 – Business Combinations, the Group measures goodwill as the fair value of the consideration transferred including the fair value of any previously held non-controlling interests in the acquire, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Transaction costs are expensed as incurred.

At the acquisition date, the non-controlling interests are measured at their proportionate interest in the fair value of the net identifiable assets acquired and of the liabilities assumed, without the correspondent portion of goodwill. As a result, the goodwill recognised in these consolidated financial statements corresponds only to the portion attributable to the equity holders of the Bank.

In accordance with IFRS 3 – Business Combinations, goodwill is recognised as an asset at its cost and is not amortised. Goodwill relating to the acquisition of associates is included in the book value of the investment in those associates determined using the equity method. Negative goodwill is recognised directly in the income statement in the period the business combination occurs.

The recoverable amount of the goodwill recognised as an asset is reviewed annually, regardless of whether there is any indication of impairment. Impairment losses are recognised directly in the income statement.

The recoverable amount corresponds to the higher of its fair value less costs to sell and its value in use. In determining value in use, estimated futures cash flows are discounted using a rate that reflects market conditions, time value and business risks.

Transactions with non-controlling interests

Acquisitions of non-controlling interest are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such a transaction. Any difference between the consideration paid and the amount of non-controlling interest acquired is accounted for as a movement in equity.

Similarly, sales of non-controlling interest and dilutions from which does not result a loss of control, are accounted for as transactions with equity holders in their capacity as equity holders and therefore no gain or loss is recognised in the income statement. Any difference between the sale proceeds and the recognised amount of non-controlling interest in the consolidated financial statements is accounted for as a movement in equity.

Gains or losses on a dilution or on sale of a portion of an interest, from which results a loss of control, are accounted for by the Group in the income statement.

Foreign currency translation

The financial statements of each of the Group entities are prepared using their functional currency which is defined as the currency of the primary economic environment in which that entity operates. The consolidated financial statements are prepared in euro, which is BES's functional and presentation currency.

The financial statements of each of the Group entities that have a functional currency different from the euro are translated into euro as follows:

- Assets and liabilities are translated into the functional currency using the exchange rate prevailing at the balance sheet date;
- Income and expenses are translated into the functional currency at approximate rates of the rates ruling at the dates of the transactions;
- The exchange differences resulting from the translation of the equity at the beginning of the period using the exchange rates at the beginning of the period and at the balance sheet date are accounted for against reserves net of deferred taxes. The exchange differences arising from the translation of income and expenses at the rates ruling at the dates of the transactions and at the balance sheet date are accounted for against reserves. When the entity is sold such exchange differences are recognised in the income statement as a part of the gain or loss on sale.

Balances and transactions eliminated in consolidation

Inter-company balances and transactions, including any unrealised gains and losses on transactions between Group companies, are eliminated in preparing the consolidated financial statements, unless unrealised losses provide evidence of an impairment loss that should be recognised in the consolidated financial statements.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment loss.

2.3. Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to euro at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities in a foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to euro at the foreign exchange rates ruling at the dates the fair value was determined. The resulting exchange differences are accounted for in the income statement, except if related to equity instruments classified as available-for-sale, which are accounted for in equity, within the fair value reserve.

2.4. Derivative financial instruments and hedge accounting

Classification

Derivatives for risk management purposes includes (i) hedging derivatives and (ii) derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss that were not classified as being hedging derivatives.
All other derivatives are classified as trading derivatives.

Recognition and measurement

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is re-measured on a regular basis and the resulting gains or losses on re-measurement are recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses of the derivatives designated as hedging instruments depends on the nature of the risk being hedged and of the hedge model used.

Fair values are obtained from quoted market prices, in active markets, if available or are determined using valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

Derivatives traded in organised markets, namely futures and some options, are recognised as trading derivatives, being marked to market on a daily basis and the resulting gains or losses are recognised directly in the income statement. Once the fair value changes on these derivatives are settled daily through the margin accounts held by the Group, these derivatives do not present any fair value on the balance sheet. The margin accounts are included under the caption Other assets (see Note 34) and comprise the minimum collateral mandatory for open positions.

Hedge accounting

- Classification criteria

Hedge accounting is used for derivative financial instruments designated as hedging instruments, provided the following criteria are met:

(i) At the inception of the hedge, the hedge relationship is identified and documented, including the identification of the hedged item and of the hedging instrument and the evaluation of the effectiveness of the hedge;

(ii) The hedge is expected to be highly effective, both at the inception of the hedge and on an ongoing basis;

(iii) The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis;

(iv) For cash flows hedges, the cash flows are highly probable of occurring.

- Fair value hedge

In a fair value hedge, the book value of the hedged asset or liability, determined in accordance with the respective accounting policy, is adjusted to reflect the changes in its fair value that are attributable to the risks being hedged. Changes in the fair value of the derivatives that are designated as hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the risk being hedged.

If the hedge no longer meets the criteria for hedge accounting, the derivative financial instrument is transferred to the trading portfolio and the hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised to the income statement over the period to maturity.

- Cash Flow hedge

When a derivative financial instrument is designated as a hedge of the variability in highly probable future cash flows, the effective portion of changes in the fair value of the hedging derivatives is recognised in equity. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect the income statement. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in equity at that time is recognised in the income statement when the hedged transaction also affects the income statement. When a hedged transaction is no longer expected to occur, the cumulative gain or loss reported in equity is recognised immediately in the income statement and the hedging instrument is reclassified for the trading portfolio.

Embedded derivatives

Derivatives that are embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

2.5. Loans and advances to customers

Loans and advances to customers include loans and advances originated by the Group, which are not intended to be sold in the short term. Loans and advances to customers are recognised when cash is advanced to borrowers.
Loans and advances to customers are derecognised from the balance sheet when (i) the contractual rights to receive their cash flows have expired, (ii) the Group has transferred substantially all risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Group has transferred the control over the assets.

Loans and advances to customers are initially recorded at fair value plus transaction costs and are subsequently measured at amortised cost, using the effective interest rate method, less impairment losses.

In accordance with the documented strategy for risk management, the Group contracts derivative financial instruments to manage certain risks of a portion of the loan portfolio, without applying, however, the provisions of hedge accounting as mentioned in Note 2.4. These loans are measured at fair value through profit or loss, in order to eliminate a measurement inconsistency resulting from measuring loans and derivatives for risk management purposes on different basis (accounting mismatch). This procedure is in accordance with the accounting policy for classification, recognition and measurement of financial assets at fair value through profit or loss, as described in Note 2.6.

Impairment

The Group assesses, at each balance sheet date, whether there is objective evidence of impairment within its loan portfolio. Impairment losses identified are recognised in the income statement, and are subsequently reversed through the income statement if, in a subsequent period, the amount of the impairment losses decreases.

A loan or a loan portfolio, defined as a group of loans with similar credit risk characteristics, is impaired when: (i) there is objective evidence of impairment as a result of one or more events that occurred after its initial recognition and (ii) that event (or events) has an impact on the estimated future cash flows of the loan or of the loan portfolio, that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for each loan. In this assessment the Group uses the information that feeds the credit risk models implemented and takes into consideration the following factors:

- the aggregate exposure to the customer and the existence of non-performing loans;
- the viability of the customer's business model and its capability to trade successfully and to generate sufficient cash flow to service their debt obligations;
- the extent of other creditors' commitments ranking ahead of the Group;
- the existence, nature and estimated realisable value of collaterals;
- the exposure of the customer within the financial sector;
- the amount and timing of expected recoveries.

When loans have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit risk characteristics for the purpose of evaluating the impairment on a portfolio basis (collective assessment). Loans that are assessed individually and found to be impaired are not included in a collective assessment for impairment.

If an impairment loss is identified on an individual basis, the amount of the impairment loss to be recognised is calculated as the difference between the book value of the loan and the present value of the expected future cash flows (considering the recovery period), discounted at the original effective interest rate. The carrying amount of impaired loans is reduced through the use of an allowance account. If a loan has a variable interest rate, the discount rate for measuring the impairment loss is the current effective interest rate determined under the contract rules.

The changes in the recognised impairment losses attributable to the unwinding of discount are recognised as interest and similar income.
The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.
For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics, taking in consideration the Group's credit risk management process. Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans in the Group and historical loss experience. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group with the purpose of reducing any differences between loss estimates and actual loss experience.

When a loan is considered by the Group as uncollectible and an impairment loss of 100% was recognised, it is written off against the related allowance for loan impairment.

2.6. Other financial assets

Classification
The Group classifies other financial assets at initial recognition in the following categories:

- Financial assets at fair value through profit or loss

This category includes: (i) financial assets held for trading, which are those acquired principally for the purpose of selling in the short term or that are owned as part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking and (ii) financial assets that are designated at fair value through profit or loss at inception.

The Group classifies, at inception, certain financial assets at fair value through profit or loss when:

- Such financial assets are managed, measured and their performance evaluated on a fair value basis;
- Such financial assets are being hedged (on an economical basis), in order to eliminate an accounting mismatch; or
- Such financial assets contain an embedded derivative.

Note 27 include a summary of the assets and liabilities that were classified at fair value trough profit or loss at inception.

The structured products acquired by the Group corresponding to financial instruments containing one or more embedded derivatives meet the above mentioned conditions, and, in accordance, are classified under the fair value through profit or loss category.

- Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold until its maturity and that are not classified, at inception, as at fair value through profit or loss or as available-for-sale.

- Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets (i) intended to be held for an indefinite period of time, (ii) designated as available-for-sale at initial recognition or (iii) that are not classified in the other categories referred to above.

Initial recognition, initial measurement and derecognition

Purchases and sales of: (i) financial assets at fair value through profit or loss, (ii) held-to-maturity investments and (iii) available-for-sale financial assets, are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, in which case these transaction costs are directly recognised in the income statement.

Financial assets are derecognised when (i) the contractual rights to receive their cash flows have expired, (ii) the Group has transferred substantially all risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Group has transferred the control over the assets.

Subsequent measurement

Financial assets at fair value through profit or loss are subsequently carried at fair value and gains and losses arising from changes in their fair value are included in the income statement in the period in which they arise.

Available-for-sale financial assets are also subsequently carried at fair value. However, gains and losses arising from changes in their fair value are recognised directly in equity, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Foreign exchange differences arising from equity investments classified as available-for-sale are also recognised in equity, while foreign exchange differences arising from debt investments are recognised in the income statement. Interest, calculated using the effective interest rate method and dividends are recognised in the income statement.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method, net of any impairment losses recognised. The fair values of quoted investments in active markets are based on current bid prices. For unlisted securities the Group establishes fair value by using (i) valuation techniques, including the use of recent arm's length transactions, discounted cash flow analysis and option pricing models and (ii) valuation assumptions based on market information.

Reclassifications between categories
The Group only reclassifies non-derivative financial assets with fixed or determinable payments and fixed maturities, from the available-for-sale financial assets category to the held-to-maturity investments category, if it has the intention and ability to hold those financial assets until maturity.

Reclassifications between these categories are made at the fair value of the assets reclassified on the date of the reclassification. The difference between this fair value and the respective nominal value is recognised in the income statement until maturity, based on the effective interest rate method. The fair value reserve at the date of the reclassification is also recognised in the income statement, based on the effective interest rate method.

Impairment
The Group assesses periodically whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after their initial recognition, such as: (i) for equity securities, a significant or prolonged decline in the fair value of the security below its cost, and (ii) for debt securities, when that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets, that can be reliably estimated.

For held-to-maturity investments, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (considering the recovery period) discounted at the financial asset's original effective interest rate and are recognised in the income statement. The carrying amount of the impaired assets is reduced through the use of an allowance account. If a held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For held-to-maturity investments if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the income statement.

If there is objective evidence that an impairment loss on available-for-sale financial assets has been incurred, the cumulative loss recognised in equity – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is taken to the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed through the income statement up to the acquisition cost if the increase is objectively related to an event occurring after the impairment loss was recognised, except in relation to equity instruments, in which case the reversal is recognised in equity.

2.7. Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) at a fixed price or at the sales price plus a lender's return are not derecognised. The corresponding liability is included in amounts due to banks or to customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method.

Securities purchased under agreements to resell (reverse repos) at a fixed price or at the purchase price plus a lender's return are not recognised, being the purchase price paid recorded as loans and advances to banks or customers, as appropriate. The difference between purchase and resale price is treated as interest and accrued over the life of the agreements using the effective interest rate method.

Securities lent under lending agreements are not derecognised being classified and measured in accordance with the accounting policy described in Note 2.6. Securities borrowed under borrowing agreements are not recognised in the balance sheet.

2.8. Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, independently from its legal form.

Non-derivatives financial liabilities include deposits from banks and due to customers, loans, debt securities, subordinated debt and short sales. Preference shares issued are considered to be financial liabilities when the Group assumes the obligation of reimbursement and/or to pay dividends.

The financial liabilities are recognised (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest rate method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

The Group designates, at inception, certain financial liabilities as at fair value through profit or loss when:

- Such financial liabilities are being hedged (on an economical basis), in order to eliminate an accounting mismatch; or
- Such financial liabilities contain embedded derivatives.

The structured products issued by the Group meet the above mentioned conditions and, in accordance, are classified under the fair value through profit or loss category.

The fair value of quoted financial liabilities is based on the current price. In the absence of a quoted price, the Group establishes the fair value by using valuation techniques based on market information, including the own credit risk of the issuer.

If the Group repurchases debt issued, it is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement.

2.9. Financial Guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument, namely the payment of principal and/or interests.

Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee is issued. Subsequently financial guarantees are measured at the higher of (i) the fair value recognised on initial recognition or (ii) any financial obligation arising as a result of the guarantees at the balance sheet date. Any increase in the liability relating to guarantees is taken to the income statement.

The financial guarantee contracts issued by the Group normally have a stated maturity date and a periodic fee, usually paid in advance on a quarterly basis. This fee varies depending on the counterparty risk, the amount and the time period of the contract. Therefore, the fair value of the financial guarantee contracts issued by the Group, at the inception date, equal the initial fee received, which is recognised in the income statement over the period to which it relates. The subsequent periodic fees are recognised in the income statement in period to which they relate.

2.10. Equity instruments

An instrument is classified as an equity instrument when it does not contain a contractual obligation to deliver cash or another financial asset, independently from its legal form, being a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to the issue of equity instruments are recognised under equity as a deduction from the proceeds. Amounts paid or received related to acquisitions or sales of equity instruments are recognised in equity, net of transaction costs.

Distributions to holders of an equity instrument are debited directly to equity as dividends, when declared.

Preference shares issued are considered as equity instruments if the Group has no contractual obligation to redeem and if dividends, non cumulative, are paid only if and when declared by the Group.

2.11. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.12. Non-current assets held-for-sale

Non-current assets or disposal groups (groups of assets to be disposed of together and related liabilities that include at least a non-current asset) are classified as held for sale when their carrying amounts will be recovered principally through sale (including those acquired exclusively with a view to its subsequent disposal), the assets or disposal groups are available for immediate sale and is highly probable.

Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is brought up to date in accordance with the applicable IFRS. Subsquently, these assets or disposal group are measured at the lower of their carrying amount or fair value less costs to sell.

In the scope of its activity, the Group incurs in the risk from failure of the borrower to repay all the amounts due. In case of loans and advances with mortgage collateral, the Group acquires the asset held as collateral in exchange from loans. In accordance with the requirements of *Regime Geral das Instituições de Crédito e Sociedades Financeiras* (RGICSF), banks are prevented, unless authorised by the Bank of Portugal, from acquiring property that is not essential to their daily operations (no. 1 of article 112 of RGICSF) being able to acquire, however, property in exchange for loans granted by the Group. This property must be sold within 2 years, period that may be extended by written authorization from the Bank of Portugal and in conditions to be determined by this authority (no. 114 of art of RGICSF).

It is Group's objective to immediately dispose all property acquired in exchange for loans. This property is classified as non-current assets held-for-sale and initially recognised at the lower of its fair value less costs to sell and the carrying amount of the loans. Subsequently, this property is measured at the lower of its carrying amount and the corresponding fair value less costs to sell and is not depreciated. Any subsequent write-down of the acquired property to fair value is recorded in the income statement.

Property valuations are performed in accordance with one of the following methodologies, which are applied in accordance with the specific situation of the asset:

a) Market Method
The Market Comparison Criteria takes as reference transaction values of similar and comparable property to the property under valuation, obtained through market searching carried out in the zone.

b) Income Method
Under this method, the property is valued based on the capitalization of its net income, discounted for the present moment, through the discounted cash-flows method.

c) Cost Method
This method separates the value of property on its basic components: Urbane Ground Value and Urbanity Value; Construction value; and Indirect Costs Value.

The valuations are performed by independent specialized entities. The valuation reports are analysed internally with the gauging of processes adequacy, by comparing the sales values with the reevaluated values.

2.13. Property and equipment

Property and equipment are measured at cost less accumulated depreciation and impairment losses. The value includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group. All other repairs and maintenance are charged to the income statement during the period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method over their estimated useful lives, as follows:

	Number of years
Buildings	35 to 50
Improvements in leasehold property	10
Computer equipment	4 to 5
Furniture	4 to 10
Fixtures	5 to 10
Security equipment	4 to 10
Office equipment	4 to 10
Motor vehicles	4
Other equipment	5

When there is an indication that an asset may be impaired, IAS 36 requires that its recoverable amount is estimated and an impairment loss recognised when the net book value of the asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.
The recoverable amount is determined as the greater of its net selling price and value in use which is based on the net present value of future cash flows arising from the continuing use and ultimate disposal of the asset.

2.14. Intangible assets

The costs incurred with the acquisition, production and development of software are capitalised, as well as the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis during their expected useful lives, which is usually between three to six years.

Costs that are directly associated with the development of identifiable specific software applications and that will probably generate economic benefits beyond one year, are recognised as intangible assets. These costs include employee costs from the Group companies specialised in IT directly associated with the development of the referred software.

All remaining costs associated with IT services are recognised as an expense as incurred.

2.15. Leases

The Group classifies its lease agreements as finance leases or operating leases taking into consideration the substance of the transaction rather than its legal form, in accordance with IAS 17 – Leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

Operating leases

Payments made under operating leases are charged to the income statement in the period to which they relate.

Finance leases

- As lessee

Finance lease contracts are recorded at inception date, both under assets and liabilities, at the cost of the asset leased, which is equal to the present value of outstanding lease instalments. Instalments comprise (i) an interest charge, which is recognised in the income statement and (ii) the repayment of principal, which is deducted from liabilities. Financial charges are recognised as costs over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of liability for each period.

- As lessor

Assets leased out are recorded in the balance sheet as loans granted, for the amount equal to the net investment made in the leased assets.

Interest included in instalments charged to customers is recorded as interest income, while repayments of principal also included in the instalments, is deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

2.16. Employee benefits

Pensions

Arising from the signing of the “Acordo Colectivo de Trabalho” (ACT) and subsequent amendments resulting from the 3 tripartite agreements as described in Note 13, the Bank and other Group entities set up pension funds and other mechanisms to cover the liabilities with pensions on retirement and disability, widows’ pension and health-care benefits.

The pension liabilities and health care benefits are covered by funds that are managed by ESAF – Espírito Santo Fundos de Pensões, S.A., a Group’s subsidiary.

The pension plans of the Group are classified as defined benefit plans, since the criteria to determine the pension benefit to be received by employees on retirement are predefined and usually depend on factors such as age, years of service and level of salary.

In the light of IFRS 1 and until 2011, the Group decided to adopt, at transition date (1 January 2004), IAS 19 retrospectively and has recalculated the pension and other post-retirement benefits obligations and the corresponding actuarial gains and losses, to be deferred in accordance with the corridor method allowed by this accounting standard. In December 2011, as described in Note 16, the Group changed retrospectively the accounting policy related to actuarial gains and losses recognition, adjusting the opening balance sheet and comparative values, starting to recognise, as allowed under paragraph 93A of IAS 19 “Employee Benefits”, the actuarial deviations under other comprehensive income.

The liability with pensions is calculated semi-annually by the Group, as at 31 December and 30 June for each plan individually, using the projected unit credit method, and is reviewed annually by qualified independent actuaries. The discount rate used in this calculation is determined based on market rates of emissions associated with high quality corporate bonds, denominated in the currency in which benefits will be paid and with a similar maturity to the date of termination of the plan.

The expected return on plan assets is based on the long term expected return for each asset class within the portfolio of the pension funds and takes in consideration the investment strategy determined for the funds.

Actuarial gains and losses determined semi-annually and resulting from (i) the differences between financial and actuarial assumptions used and real values obtained and (ii) the changes in actuarial assumptions, are recognised under share capital in the balance other comprehensive income.

At each period, the Group recognises as a cost in the income statement a net total amount that comprises (i) the service cost, (ii) the interest cost, (iii) the expected return on plan assets, (iv) effect early retirement, and (v) effect of settlement or curtailment occurred during the period. Early retirement costs corresponds to an increase on the liabilities due to the fact the employee retires before reaching 65 years of age.

Past service costs (and negative past service costs) are recognised in the income statement, on a straight line basis, over the vesting period. To the extent that the benefits vest immediately on the date of the introduction of, or change to, the pension plan, past service costs (and negative past service costs) are recognised in the income statement immediately.

The Group makes payments to the funds in order to maintain its solvency and to comply with the following minimum levels: (i) the liability with pensioners shall be totally funded at the end of each year, and (ii) the liability related to past services cost with employees in service shall be funded at a minimum level of 95%.

Semiannually, the Group assesses for each plan separately, the recoverability of any recognised asset in relation to the defined benefit pension plans, based on the expectation of reductions in future contributions to the funds.

Health care benefits

The Group provides to its banking employees health care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides to its beneficiaries services and/or contributions on medical assistance expenses, diagnostics, medicines, hospital confinement and surgical operations, in accordance with its financing availability and internal regulations.

The annual contribution of the Group to SAMS amounts to 6.5% of the total annual remuneration of employees, including, among others, the holiday and Christmas subsidy.

The measurement and recognition of the Group's liability with post-retirement healthcare benefits is similar to the measurement and recognition of the pension liability described above. These benefits are covered by the Pension Fund which at present covers all responsibilities with pensions and health care benefits.

Long-term service benefits

In accordance with the ACT "Acordo Colectivo de Trabalho" for the banking sector, the Group has assumed the commitment to pay to current employees that achieve 15, 25 and 30 years of service within the Group, long-term service premiums corresponding, respectively, to 1, 2 and 3 months of their effective monthly remuneration earned at the date the premiums are paid.

At the date of early retirement or disability, employees have the right to a premium proportional to what they would earn if they remained in service until the next payment date.

These long-term service benefits are accounted for by the Group in accordance with IAS 19 as other long-term employee benefits.

The liability with long-term service benefits is calculated semi-annually, at the balance sheet date, by the Group using the projected unit credit method. The actuarial assumptions used are based on the expectations about future salary increases and mortality tables. The discount rate used in this calculation was determined based on the same methodology described for pensions.

In each period the increase in the liability for long-term service premiums, including actuarial gains and losses and past service costs is charged to the income statement.

Variable remuneration payment plan on financial instruments (PRVIF)

Following the recommendations of the Supervising and Regulatory authorities, on the shareholders General Meeting, held in 6 April 2010 it was approved a new remuneration policy for the Executive Committee members. This policy consists in giving to the Executive Committee members a fixed remuneration, which should represent approximately 45% of the total remuneration, and a variable component representing around 55% of the total remuneration. The variable remuneration shall have two components: one associated with short-term performance and another with medium-term performance. Half of the short-term component must be paid in cash and the remaining 50% should be paid over a three years period, with half of these payments to be made in cash and the remaining through the attribution of shares. The medium-term component has associated a share options program with the exercise of the options set at 3 years from the date of its attribution.

The execution of PRVIF regarding the total remunerations in cash, number of shares and options attributable to each Executive Committee member will be determined by the Remuneration Committee.

Regarding the first scheme, the attribution of PRVIF shares to the beneficiaries is performed on a deferred basis over a period of three years (1st year: 33%; 2nd year: 33% and 3rd year: 34%) and is subject to the achievement of a Return on Equity (ROE) greater than or equal to 5%.

Regarding the attribution of options to the beneficiaries is also performed by the Remuneration Committee, and the exercise price is equal to the single average of the closing prices of BES shares on NYSE Euronext Lisbon during the 20 days preceding the day of attribution of the options, plus 10%. The option can only be exercised at maturity and the beneficiary may choose between the physical settlement or the financial settlement of the options.

PRVIF provides for the granting of options on BES shares to the Bank Top Management. The options are granted by the Board of Directors to the beneficiaries in identical terms to those explained above for the attribution of options to the members of the Executive Committee.

PRVIF is accounted for under IFRS rules (IFRS 2 and IAS 19).

Bonus to employees and to the Board of Directors
In accordance with IAS 19 Employee benefits, the bonus payment to employees and to the Board of Directors is recognised in the income statement in the period to which they relate.

2.17. Income tax

Income tax for the period comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Income tax recognised directly in equity relating to fair value re-measurement of available-for-sale financial assets and cash flow hedges is subsequently recognised in the income statement when gains or losses giving rise to the income tax are also recognised in the income statement.
Current tax is the tax expected to be paid on the taxable profit for the period, calculated using tax rates enacted or substantively enacted at the balance sheet date at each jurisdiction.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax basis, and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in any jurisdiction and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences except for goodwill, not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that probably they will not reverse in the foreseeable future. Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be deducted.

The Group offsets deferred taxes assets and liabilities for each subsidiary, whenever (i) the subsidiary has a legally enforceable right to set off current tax assets against current tax liabilities, and (ii) they relate to income taxes levied by the same taxation authority. This offset is therefore performed at each subsidiary level, being the deferred tax asset presented in the consolidated balance sheet the sum of the subsidiaries' amounts which present deferred tax assets and the deferred tax liability presented in the consolidated balance sheet the sum of the subsidiaries' amounts which present deferred tax liabilities.

2.18. Provisions

Provisions are recognised when: (i) the Group has present legal or constructive obligation, (ii) it is probable that settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

When the effect of the passage of time (discount) is material, the provision corresponds to the net present value of the expected future payments, discounted at an appropriate rate considering the risk associated to the obligation.

Restructuring provisions are recognised when the Group has approved a detailed and formal restructuring plan and such restructuring either has commenced or has been announced publicly.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net costs of continuing with the contract.

2.19. Interest income and expense

Interest income and expense are recognised in the income statement under interest and similar income and interest expense and similar charges for all non-derivative financial instruments measured at amortised cost and for the available-for-sale financial assets, using the effective interest rate method. Interest income arising from non-derivative financial assets and liabilities at fair value through profit or loss is also included under interest and similar income or interest expense and similar charges, respectively.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is calculated at inception and it is not subsequently revised, except in what concerns financial assets and liabilities with a variable interest rate. In this case the effective interest rate is periodically revised, having in consideration the impact of the change in the reference interest rate in the estimated future cash-flows.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and commissions paid or received that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. In the case of financial assets or groups of similar financial assets for which an impairment loss was recognised, interest income is calculated using the interest rate used to measure the impairment loss.

For derivative financial instruments, except for derivatives for risk management purposes (see Note 2.4), the interest component of the changes in their fair value is not separated out and is classified under net gains/(losses) from financial assets and financial liabilities at fair value through profit or loss. The interest component of the changes in the fair value of derivatives for risk management purposes is recognised under interest and similar income or interest expense and similar charges.

2.20. Fee and commission income

Fees and commissions are recognised as follows:

- Fees and commissions that are earned on the execution of a significant act, as loan syndication fees, are recognised as income when the significant act has been completed;
- Fees and commissions earned over the period in which the services are provided are recognised as income in the period the services are provided;
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest rate method.

2.21. Dividend income

Dividend income is recognised when the right to receive payment is established.

2.22. Segmental reporting

The Group adopted IFRS 8 – Segmental reporting, for the disclosure of the financial information by operating segments (see Note 4).

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

The results of the operating segments are periodically reviewed by the Management for decisions taking purposes. The Group prepares on a regular basis, financial information regarding the operating segments, which is reported to the Management.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

2.23. Earnings per share

Basic earnings per share is calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, excluding the average number of ordinary shares purchased by the Group and held as treasury stock.

For the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to assume conversion of all dilutive potential ordinary shares, such as convertible debt and share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

2.24. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the inception date, including cash, deposits with banks and deposits at Central Banks.

Cash and cash equivalents exclude restricted balances with central banks.

2.25. Investment properties

The Group classifies as investment property the property held to earn rentals or for capital appreciation or both. Investment property is recognised initially at cost, including transaction costs that are directly attributable expenditures, and subsequently at their fair value. Changes in the fair value determined at each balance sheet date are recognised in the income statement. Investment property is not amortised.

Subsequent expenditure is capitalised only when it is probable that it will give rise to future economic benefits in excess of the originally assessed standard of performance of the asset.

2.26. Insurance contracts

The Group issues contracts that contain insurance risk, financial risk or a combination of both insurance and financial risk. A contract, under which the Group accepts significant insurance risk from another party, by agreeing to compensate that party on the occurrence of a specified uncertain future event, is classified as an insurance contract.

A contract issued by the Group without significant insurance risk, but on which financial risk is transferred with discretionary participating features is classified as investment contract recognised and measured in accordance with the accounting policies applicable to insurance contracts (IFRS 4). A contract issued by the Group that transfers only financial risk, without discretionary participating features, is classified as an investment contract and accounted for as a financial instrument (IAS 39).

The financial assets held by the Group to cover the liabilities arising under insurance and investment contracts are classified and accounted for in the same way as other Group financial assets.

Insurance contracts and investment contracts with discretionary participating features are recognised and measured as follows:

Premiums

Gross written premiums are recognised for as income in the period to which they respect, in accordance with the accrual accounting principle. Reinsurance premiums ceded are accounted for as expense in the period to which they respect in the same way as gross written premiums.

Unearned premium reserve

The reserve for unearned gross written premiums and reinsurance ceded premiums reflects the part of the written premiums before the end of the period for which the risk period continues after the end of the period. This reserve is calculated using the pro-rata temporis method applied to each contract in force.

Acquisition costs

Acquisition costs that are directly or indirectly related to the selling of insurance and investment contracts with discretionary participating features are capitalized and deferred through the life of the contracts. Deferred acquisition costs are subject to recoverability testing at the time of the insurance policy or investment contract is issued and subject to impairment test (liability adequacy test) at each reporting date.

Claims reserves

Claims outstanding reflects the estimated total outstanding liability for reported claims and for incurred but not reported claims (IBNR). Reserves for both reported and not reported claims are estimated by management based on experience and available data using statistical methods. Claims reserves are not discounted.

Life assurance reserve

The life assurance reserve reflects the present value of the Group's future obligations arising from life policies (insurance contracts and investment contracts with discretionary participating features) written and is calculated in accordance with recognised actuarial methods within the scope of applicable legislation.

Reserve for bonus and rebates

The reserve for bonus and rebates corresponds to the amounts attributed to policyholders or beneficiaries of insurance or investment contracts, in the form of profit participation, which have not yet been specifically allocated and included in the life assurance reserve.

Shadow accounting

In accordance with IFRS 4, the unrealised gains and losses on the assets covering liabilities arising out from insurance and investment contracts with discretionary participating features are attributable to policyholders, to the extent that it is expected that policyholders will participate on those unrealised gains and losses when they became realised in accordance with the terms of the contracts and applicable legislation, by recording those amounts under liabilities.

Liability adequacy test

At each reporting date, the Group performs a liability adequacy test to the insurance and investment contracts with discretionary participating features liabilities. The assessment of the liabilities is performed using the best estimate of future cash flows under each contract, discounted at a risk free rate. The liability adequacy test is performed product by product or aggregate basis when contracts are subject to broadly similar risks and managed as a single portfolio. Any deficiency determined, if exists, is recognised directly through income.

Unearned premium reserve

The reserve for unearned gross written premiums and reinsurance ceded premiums reflects the part of the written premiums before the end of the period for which the risk period continues after the end of the period.

NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

IFRS set forth a range of accounting treatments and require management to apply judgement and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies, are discussed in this section in order to improve understanding of how their application affects the Group's reported results and related disclosure. A broader description of the accounting policies applied by the Group is shown in Note 2 to the Consolidated Financial Statements.

Because in many cases there are other alternatives to the accounting treatment chosen by management, the Group's reported results would differ if a different treatment were chosen. Management believes that the choices made are appropriate and that the financial statements present the Group's financial position and results fairly in all material aspects.

3.1. Impairment of available-for-sale financial assets

The Group determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost or when it has identified an event with impact on the estimated future cash flows of the assets. This determination requires judgement based on all available relevant information, including the normal volatility of the financial instruments prices. Considering the high volatility of the markets, the Group has considered the following parameters when assessing the existence of impairment losses:

(i) Equity securities: significant decline in market value in relation to the acquisition cost or market value below the acquisition cost for a prolonged period;
(ii) Debt securities: objective evidence of events that have an impact on the estimated future cash flows of these assets.

In addition, valuations are generally obtained through market quotation or valuation models that may require assumptions or judgement in making estimates of fair value.

Alternative methodologies and the use of different assumptions and estimates could result in a higher level of impairment losses recognised with a consequent impact in the income statement of the Group.

3.2. Fair value of derivatives and other assets and liabilities at fair value

Fair values are based on listed market prices if available; otherwise fair value is determined either by dealer price quotations (both for that transaction or for similar instruments traded) or by pricing models, based on net present value of estimated future cash flows which take into account market conditions for the underlying instruments, time value, yield curve and volatility factors. These pricing models may require assumptions or judgements in estimating fair values.

Consequently, the use of a different model or different assumptions or judgements in applying a particular model may have produced different financial results from the ones reported.

3.3. Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment on a regular basis, as described in Note 2.5.

The evaluation process in determining whether an impairment loss should be recorded in the income statement is subject to numerous estimates and judgements. The frequency of default, risk ratings, loss recovery rates and the estimation of both the amount and timing of future cash flows, among other factors, are considered in making this evaluation.

Alternative methodologies and the use of different assumptions and estimates could result in a different level of impairment losses with a consequent impact in the consolidated income statement of the Group.

3.4. Goodwill impairment

Goodwill recoverable amount recognised as an asset of the Group is revised annually regardless the existence of impairment losses.

For this purpose, the carrying amount of the business units of the Group for which goodwill has been recognised is compared with the respective recoverable amount. A goodwill impairment loss is recognised when the carrying amount of the business unit exceeds the respective recoverable amount.

In the absence of an available market value, the recoverable amount is determined using cash flows/ dividends predictions, applying a discount rate that includes a risk premium appropriated to the business unit being tested.

Changes in the expected cash flows and in the discount rate may lead to different conclusions from those that led to the preparation of these financial statements.

3.5. Securitisations and special purpose entities (SPE)

The Group sponsors the formation of special purpose entities (SPEs) primarily for asset securitisation transactions.
The Group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Group does control an SPE, it makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question (see Note 2.2).

The determination of the SPEs that needs to be consolidated by the Group requires the use of estimates and assumptions in determining the respective expected residual gains and losses and which party retains the majority of such residual gains and losses. Different estimates and assumptions could lead the Group to a different scope of consolidation with a direct impact in net income.

3.6. Held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement.

In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value instead of amortised cost.

Held-to-maturity investments are subject to impairment tests made by the Group. The use of different assumptions and estimates could have an impact on the income statement of the Group.

3.7. Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant interpretations and estimates are required in determining the worldwide amount for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Different interpretations and estimates would result in a different level of income taxes, current and deferred, recognised in the period.

The Tax Authorities are entitled to review the Bank and its subsidiaries located in Portugal's determination of annual taxable earnings, for a period of four years or six years in case there are tax losses brought forward. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Board of Directors of the Bank, and those of its subsidiaries, are confident that there will be no material tax assessments within the context of the financial statements.

3.8. Pension and other employees' benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, estimated returns on investment, and other factors that could impact the cost and liability of the pension plan.
Changes in these assumptions could materially affect these values.

3.9. Insurance and investment contracts liabilities

Insurance and investment contracts liabilities represent liabilities for future insurance policy benefits. Insurance reserves for traditional life insurance, annuities, and workmen's compensation policies have been calculated based upon mortality, morbidity, persistency and interest rate assumptions applicable to those coverages. The assumptions used reflect the Groups' and market experience and may be revised if it is determined that future experience will differ substantially from that previously assumed. Insurance and investment contracts liabilities include: (i) life mathematical reserve, (ii) reserve for bonus and rebates, (iii) claims reserves, (iv) unexpired risk reserve and (v) unearned premiums reserve. Claims reserves include estimated provisions for both reported and unreported claims incurred and related expenses.

When claims are made by or against policyholders, any amounts that the Group pays or expects to pay are recorded as losses. The Group establishes reserves for payment of losses for claims that arise from its insurance and investment contracts.

In determining their insurance reserves and investment contracts liabilities, the Group's insurance companies perform a continuing review of their overall positions, their reserving techniques and their reinsurance coverage. The reserves are also reviewed periodically by qualified actuaries.

The Group maintains property and casualty loss reserves to cover the estimated ultimate unpaid liability for losses with respect to both reported and not reported claims incurred as of the end of each accounting year.

Claims reserves do not represent an exact calculation of liability, but instead represent estimates, generally using actuarial valuations/techniques. These reserve estimates are expectations of what the ultimate settlement of claims is likely to cost based on an assessment of facts and circumstances then known, a review of historical settlement patterns, estimates of trends in claims severity, frequency, legal theories of liability and other factors. Variables in the reserve estimation process can be affected by both internal and external events, such as changes in claims handling procedures, economic inflation, legal trends and legislative changes. Many of these items are not directly quantifiable, particularly on a prospective basis. Additionally, there may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the insurer. Reserve estimates are continually reviewed in a regular ongoing process as historical loss experience develops and additional claims are reported and settled.

NOTE 4 – SEGMENT REPORTING

BES Group activities are focused on the financial sector and are directed to companies, institutionals and private customers. The Group's decision centre is in Portugal, which makes it its privileged market. The historical link with Brazil and Africa, the globalization of the Portuguese companies and the Portuguese emigration to several countries, led to an internationalisation of the Group, which already has an international structure contributing significantly to the Group's activities and results.

The Group's products and services includes deposits, loans to retail and corporate customers, fund management, broker and custodian services, investment banking services and the commercialization of life and non-life insurance products. Additionally, the Group makes short, medium and long term investments in the financial and currency exchange markets with the objective of taking advantages from the prices changes or to have a return from its available resources.

The Group has BES as its main operating unit - with 636 branches in Portugal and with branches in London, New York, Spain (25 branches), Nassau, Cayman Islands, Cape Verde, Venezuela, Luxembourg and Madeira Free Zone and 15 representation offices – with BES Investmento (investment banking); BES Angola (41 branches); BES Açores (18 branches); Banco BEST (11 branches); Espírito Santo Bank; BES Oriente; Aman Bank; BES Vénétie; Espírito Santo Activos Financeiros (ESAF); BES Seguros (non life insurance) and BES Vida, among other companies.

When evaluating the performance by business area, the Group considers the following Operating Segments: (1) Domestic Commercial Banking, including Retail, Corporate, Institutional and Private Banking; (2) International Commercial Banking; (3) Investment Banking; (4) Asset Management; (5) Life insurance; (6) Capital Markets and Strategic Investments; and (7) Corporative Centre. Each segment includes the BES structures that directly or indirectly relate to it, and also the other units of the Group whose activities are most related to one of these segments. In addition to the individual evaluation of each operating unit of the Group (considered as an investment centre), the Executive Committee defines strategies, commercial programs and performance evaluation for each operating segment.

Complementary, the Group uses a second segmentation of its activities and results according to geographic criteria, segregating the activity and the results generated from the units located in Portugal (domestic activities) from the units located abroad (international activities).

4.1. Operating Segments Description

Each of the operating segments includes the following activities, products, customers and Group structures:

Domestic Commercial Banking

This operating segment includes all the banking activity with corporate and institutional customers developed in Portugal, based in the branch offices network, corporate centres and other channels and includes the following:

a) ***Retail:*** corresponds to all activity developed by BES in Portugal with private customers and small businesses, fundamentally originated by the branches network, agent network and electronic channels. The financial information of the segment relates to, among other products and services, mortgage loans, consumer credit, financing the clients' activity, deposits repayable on demand and term deposits, retirement plans and other insurance products to private customers, commissions over account management and electronic payments, the investment funds cross-selling and brokerage and custodian services.

b) *Corporate and Institutional:* includes BES activities in Portugal with small, medium and large companies, through its commercial structure dedicated to this segment, which includes 24 corporate centres. Also includes activities with institutional and municipal customers. The main products considered on this segment are: discounted bills, leasing, factoring and short and long term loans; includes deposits and guarantees, custodian services, letters of credit, electronic payments management and other services.

c) *Private Banking:* includes *private banking* activity of BES, all profit, loss and assets and liabilities associated to customers classified as *private* by BES. The main products considered on this segment are: deposits; discretionary management, selling of investment funds, custodian services, brokerage services and insurance products.

International Commercial Banking

This operating segment includes the units located abroad, which banking activities are focused on corporate and retail customers, excluding investment banking and asset management, which are integrated in the corresponding segments.

Among the units comprising this segment are BES Angola and Spain, London, New York, Cape Verde, Luxembourg and Venezuela branches. The main products included in this segment are deposits, credit, leveraged finance, structured trade finance and project finance operations. This segment, in the context of the funding strategy, has been assuming a relevant role, mainly within institutional customers.

Investment Banking

Includes assets, liabilities, profits and losses of the operating units that consolidate in BES Investimento, which comprises all the investment banking activities of the Group originated in Portugal and abroad. In addition to the lending activity, deposits and other forms of funding, it includes Project Finance advisory services, mergers and acquisitions, restructuring and debt consolidation, initial public offerings (shares and bonds), brokerage and other investment banking services.

Asset Management

This segment includes the asset management activities developed by ESAF in Portugal and abroad (Spain, Brazil, Angola e Luxembourg). ESAF's products includes all types of funds - investment funds, real estate funds and pension funds, and also includes discretionary management services and portfolio management.

Life Insurance

This segment includes the activities of BES-Vida, through the sale of traditional and investment insurances and retirement plans to BES customers.

Capital Markets and strategic investments

This segment includes the financial management of the Group, namely the investments in capital markets instruments (equity and debt), whether they are integrated in trading, fair value, available for sale or held to maturity financial assets portfolios. Also included in this segment is the Group's investment in non-controlling strategic positions, as well as all the activity inherent to interest rate and exchange rate risk management, long and short positions on financial instruments management, which allow the Group to take advantage of the price changes in those markets where these instruments are exchanged.

Corporative centre
This area does not correspond to an operating segment. It refers to an aggregation of corporative structures acting throughout the entire Group, such as, areas related to the Board of Directors, Compliance, Planning, Financial and Accounting, Risk management, Investor Relations, Internal Audit, Organization and Quality, among others.

4.2. Allocation criteria of the activity and results to the operating segments

The financial information presented for each segment was prepared in accordance with the criteria followed for the preparation of internal information analysed by the decision makers of the Group, as required by IFRS.

The accounting policies applied in the preparation of the financial information related with the operating segments are consistent with the ones used in the preparation of these consolidated financial statements, which are described in Note 2, being also adopted the following principles:

Measurement of profit or loss from operating segments
The Group uses net income before taxes as the measure of profit or loss for evaluating the performance of each operating segment.

Autonomous Operating Segments
As mentioned above, each operating unit (branches abroad, affiliated and associated entities) is evaluated separately, as these units are considered investment centres. Additionally, considering the characteristics of the business developed by these units, they are fully included in one of the operating segments, assets, liabilities, equity, income and expenses.

BES structures dedicated to segments
BES activity comprises most of its operating segments and therefore its activity is disaggregated.

For the purpose of allocating the financial information, the following principles are used: (i) the origin of the operation, i.e., the operation is allocated to the same segment as the commercial structure that originated it, even though, in a subsequent phase, the group makes a strategic decision in order to securitize some of these originated assets; (ii) the allocation of a commercial margin to mass-products, established in a high level when the products are launched; (iii) the allocation of a margin directly negotiated by the commercial structures with the clients for non-mass-products; (iv) the allocation of direct costs from commercial and central structures dedicated to the segment; (v) the allocation of indirect cost (central support and IT services) determined in accordance with specific drivers and with the Cost Based Approach (CBA) model; (vi) the allocation of credit risk determined in accordance with the impairment model; (vii) the allocation of the Bank total equity to the capital markets and strategic investments segment.

The transactions between the independent and autonomous units of the Group are made at market prices; the price of the services between the structures of each unit, namely the price established for funding between units, is determined by the margins process referred above (which vary in accordance with the strategic relevance of the product and the balance between funding and lending); the remaining internal transactions are allocated to the segments in accordance with CBA without any margin from the supplier; the strategic decisions and/ or of exceptional nature are analysed on a case by case basis, being the income and/ or costs generally allocated to the capital markets and strategic investments segment.

The interest rate risk, exchange risk, liquidity risk and others, except for credit risk, are included in the Financial Department, whose mission is to make the Bank's financial management. The related activity and results are included in Capital Markets and Strategic Investments segment.

Interest and similar income/expense

Since the Group's activities are exclusively related to the financial sector, the major income results from the difference between interest received on assets and interest paid from liabilities. This situation and the fact that the segments evaluation is based on negotiated margins or determined previously to each product, leads to the results on the intermediation activity being presented, as permitted by IFRS 8 paragraph 23, as the net value of interest under the designation of Financial Income.

Consolidated Investments under the Equity Method

Investments in associated companies consolidated under the equity method are included in Capital Markets and Strategic Investments segment, in case of BES associates. For other companies of the Group, the same entities are included in the segment they relate to.

Non current assets

Non current assets, according to IFRS 8, include Other Tangible Assets and Intangible Assets. BES includes these assets on the Capital Markets and Strategic Investments segment; the non current assets held by the subsidiaries are allocated to the segment in which these subsidiaries develop their business.

Income taxes

Income tax is a part of the Group net income but does not affect the evaluation of most of the Operating Segments. Deferred tax assets and liabilities are included in the Capital Markets and Strategic Investments segment.

Post Employment Benefits

Assets under post employment benefits are managed in a similar way to deferred income taxes assets, and are included in the Capital Markets and Strategic Investments segment. The factors that influence the amount of responsibilities and the amount of the funds assets correspond, mainly, to external elements; it is Group's policy not to include these factors on the performance evaluation of the operating segments, which activities relate to customers.

Domestic and International Areas

In the disclosure of financial information by geographical areas, the operating units that integrate the International Area are: BES Angola and its branches, BES África, Aman Bank, BES Oriente, Espírito Santo Bank, BES Cape Verde; Espírito Santo Vénétie, Banco Delle Tre Venezie, Moza Bank, Ijar Leasing Argélie and the branches in London, Spain, New York, Cape Verde, Venezuela and Luxembourg and the operating units located abroad from BES Investimento and ESAF.

The financial elements related to the international area are presented in the financial statements of those units with the respective consolidation and elimination adjustments.

The primary segments reporting are presented as follows:

(in thousands of euro)

	31.12.2012									
	Retail	Corporate and Institutional	Private banking	International commercial banking	Investment banking	Asset management	Insurance	Capital markets and strategic investments	Corporative centre	**Total**
Net interest income	397 594	196 006	92 834	300 543	94 844	3 015	115 902	(20 230)	-	1 180 508
Other operating income	244 968	276 208	27 098	271 979	164 289	61 727	123 555	281 818	-	1 451 642
Total operating income	642 562	472 214	119 932	572 522	259 133	64 742	239 457	261 588	-	2 632 150
Operating expenses	482 861	702 036	20 421	446 406	222 262	20 796	8 816	282 072	162 837	2 348 507
Includes:										
Provisions/Impairment	*74 513*	*640 964*	*2 429*	*205 524*	*46 205*	*3 119*	*418*	*226 258*	-	*1 199 430*
Gains on disposal of investments in subsidiaries and associates	-	-	-	-	2 503	-	-	(2 120)	-	383
Gains arising on business combinations achieved in stages	-	-	-	-	-	-	-	(89 586)	-	(89 586)
Share of profit of associates	-	-	-	272	336	-	-	7 704	-	8 312
Profit before income tax and non-controlling interests	**159 701**	**(229 822)**	**99 511**	**126 388**	**39 710**	**43 946**	**230 641**	**(104 486)**	**(162 837)**	**202 752**
Intersegment operating income	*4 799*	*31 248*	*11*	*87 861*	*(13 361)*	*(13 921)*	*(953)*	*(66 720)*	-	*28 964*
Total Net Assets	**15 633 394**	**23 032 898**	**1 491 100**	**22 096 488**	**6 484 489**	**189 948**	**6 657 573**	**8 104 938**	**-**	**83 690 828**
Total Liabilities	**15 542 145**	**23 032 898**	**1 491 149**	**20 607 324**	**5 745 347**	**23 622**	**6 385 553**	**3 130 046**	**-**	**75 958 084**
Investments in associates	-	-	-	8 539	57 456	-	-	514 987	-	580 982

(in thousands of euro)

	31.12.2011									
	Retail	Corporate and Institutional	Private banking	International commercial banking	Investment banking	Asset management	Insurance	Capital markets and strategic investments	Corporative centre	**Total**
Net interest income	347 682	161 543	60 918	471 289	76 858	2 359	-	60 942	-	1 181 591
Other operating income	227 124	267 504	25 066	92 303	156 561	49 103	-	93 944	-	911 605
Total operating income	574 806	429 047	85 984	563 592	233 419	51 462	-	154 886	-	2 093 196
Operating expenses	489 709	355 316	19 112	304 043	222 795	18 491	-	399 681	168 336	1 977 483
Includes:										
Provisions/Impairment	*67 382*	*290 378*	*(270)*	*102 005*	*44 187*	*(950)*	-	*345 596*	-	*848 328*
Gains on disposal of investments in subsidiaries and associates	-	-	-	-	-	1 305	-	490	-	1 795
Share of profit of associates	-	-	-	64	4 753	-	-	(180 048)	-	(175 231)
Profit before income tax and non-controlling interests	**85 097**	**73 731**	**66 872**	**259 613**	**15 377**	**34 276**	**-**	**(424 353)**	**(168 336)**	**(57 723)**
Intersegment operating income	*4 169*	*33 844*	*32*	*(115 220)*	*(10 106)*	*(18 900)*	-	*173 652*	-	*67 471*
Total Net Assets	**17 092 934**	**22 910 839**	**2 341 794**	**18 890 876**	**6 578 612**	**173 869**	**-**	**12 248 448**	**-**	**80 237 372**
Total Liabilities	**17 016 100**	**22 910 839**	**2 341 835**	**17 483 049**	**5 938 314**	**30 006**	**-**	**8 324 754**	**-**	**74 044 897**
Investments in associates	-	-	-	-	51 980	-	-	755 019	-	806 999

The secondary segment information is prepared in accordance with the geographical distribution of the Group's business units, as follows:

(in thousands of euro)

	31.12.2012									
	Portugal	Spain	France / Luxembourg	United Kingdom	United States of America	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit for the year	8 416	15 825	6 293	19 232	5 868	11 088	31 680	1 756	3 982	(8 039)	96 101
Net assets	59 175 822	4 652 643	464 238	5 944 423	1 393 230	2 439 976	7 970 699	208 048	446 385	995 364	83 690 828
Capital expenditure (Property and equipment)	9 929	2 939	976	388	44	305	126 709	181	-	7 329	148 800
Capital expenditure (Intangible assets)	375 338	4 318	51	887	149	901	382	444	-	6 038	388 508

(in thousands of euro)

	31.12.2011										
	Portugal	Spain	France / Luxembourg	United Kingdom	United States of America	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit for the year	(269 562)	9 888	7 416	18 627	14 334	20 442	91 712	1 133	2 449	(5 197)	(108 758)
Net assets	59 249 764	5 302 492	76 237	3 575 449	1 391 250	2 645 743	6 866 988	144 852	249 876	734 721	80 237 372
Capital expenditure (Property and equipment)	20 802	3 204	-	267	203	1 163	59 682	720	409	19 307	105 757
Capital expenditure (Intangible assets)	38 892	4 502	-	3 082	655	143	884	211	3	410	48 782

NOTE 5 – NET INTEREST INCOME

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Assets/ Liabilities at Amortised Cost and Available-for-Sale Financial Assets	Assets/ Liabilities at Fair Value Through Profit or Loss	Total	Assets/ Liabilities at Amortised Cost and Available-for-Sale Financial Assets	Assets/ Liabilities at Fair Value Through Profit or Loss	Total
Interest and similar income						
Interest from loans and advances	2 518 907	8 367	2 527 274	2 661 047	17 379	2 678 426
Interest from financial assets at fair value through profit or loss	-	255 529	255 529	-	185 934	185 934
Interest from deposits with banks	61 876	3 749	65 625	71 287	2 572	73 859
Interest from available-for-sale financial assets	538 988	-	538 988	455 874	-	455 874
Interest from held-to-maturity financial assets	45 014	-	45 014	91 067	-	91 067
Interest from derivatives for risk management purposes	-	459 012	459 012	-	581 873	581 873
Other interest and similar income	22 667	-	22 667	17 829	-	17 829
	3 187 452	726 657	3 914 109	3 297 104	787 758	4 084 862
Interest expense and similar charges						
Interest from debt securities	824 832	37 481	862 313	667 253	162 916	830 169
Interest from amounts due to customers	1 004 605	33 164	1 037 769	1 001 816	35 956	1 037 772
Interest from deposits from central banks and other banks	408 139	11 028	419 167	444 824	15 432	460 256
Interest from subordinated debt	70 820	-	70 820	77 017	-	77 017
Interest from derivatives for risk management purposes	-	343 532	343 532	-	498 057	498 057
	2 308 396	425 205	2 733 601	2 190 910	712 361	2 903 271
	879 056	301 452	1 180 508	1 106 194	75 397	1 181 591

Interest from loans and advances includes an amount of euro 78 290 thousand (31 December 2011: euro 51 487 thousand) related to the unwind of discount regarding the impairment losses of loans and advances to customers that are overdue (see Note 25).

Interest from derivatives for risk management purposes includes, in accordance with the accounting policy described in Notes 2.4 and 2.19, interests from hedging derivatives and from derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss in accordance with the accounting policies described in Notes 2.5, 2.6 and 2.8.

NOTE 6 – NET FEE AND COMMISSION INCOME

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Fee and commission income		
From banking services	561 103	476 424
From guarantees granted	227 836	215 951
From transactions with securities	60 560	69 873
From commitments assumed to third parties	35 152	42 789
Other fee and commission income	90 411	83 609
	975 062	888 646
Fee and commission expenses		
From banking services rendered by third parties	80 796	81 105
From transactions with securities	26 568	25 285
From guarantees received	59 735	9 119
Other fee and commission expenses	14 045	15 037
	181 144	130 546
	793 918	758 100

Fee and commission expenses from guarantees received includes as at 31 December 2012, the amount of euro 58.5 million (31 December 2011: euro 8 million) related with the guarantees received from the Portuguese government in relation with the debt issued by the Group.

NOTE 7 – NET GAINS / (LOSSES) FROM FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Gains	Losses	Total	Gains	Losses	Total
Trading assets and liabilities						
Bonds and other fixed income securities						
Issued by government and public entities	943 283	723 240	220 043	70 069	51 928	18 141
Issued by other entities	11 495	26 016	(14 521)	29 627	23 287	6 340
Shares	43 840	47 740	(3 900)	88 509	61 914	26 595
Other variable income securities	320	270	50	377	769	(392)
	998 938	797 266	201 672	188 582	137 898	50 684
Derivative financial instruments						
Exchange rate contracts	1 040 055	1 038 856	1 199	1 874 587	1 903 162	(28 575)
Interest rate contracts	4 958 027	4 910 937	47 090	6 245 494	6 178 005	67 489
Equity/Index contracts	1 342 519	1 325 590	16 929	2 058 038	2 108 643	(50 605)
Credit default contracts	753 554	783 848	(30 294)	845 621	865 810	(20 189)
Other	104 652	(44 482)	149 134	215 463	178 914	36 549
	8 198 807	8 014 749	184 058	11 239 203	11 234 534	4 669
Other financial assets and liabilities at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	64 235	2 642	61 593	-	-	-
Issued by other entities	183 334	109 685	73 649	114 644	129 836	(15 192)
Shares	2 025	5 792	(3 767)	5 027	358	4 669
Other securities of variable income	119 647	189 055	(69 408)	80 108	343 179	(263 071)
	369 241	307 174	62 067	199 779	473 373	(273 594)
Other financial assets [1]						
Loans and Advances to costumers	8 768	9 406	(638)	25 921	33 538	(7 617)
	8 768	9 406	(638)	25 921	33 538	(7 617)
Financial liabilities [1]						
Deposits from Banks	1 091	25 228	(24 137)	21 702	48 665	(26 963)
Due to costumers	57 034	168 007	(110 973)	314 522	272 512	42 010
Debt Securities issued	71 173	267 531	(196 358)	95 669	63 762	31 907
Life Insurance products	71 859	247 914	(176 055)	-	-	-
Subordinated Debt	2 715	1 759	956	-	-	-
	203 872	710 439	(506 567)	431 893	384 939	46 954
	581 881	1 027 019	(445 138)	657 593	891 850	(234 257)
	9 779 626	9 839 034	(59 408)	12 085 378	12 264 282	(178 904)

[1] Includes the fair value change of hedged assets and liabilities or at fair value option.

As at 31 December 2012, this balance includes a negative effect of euro 35.2 million related to the change in fair value of financial liabilities designated at fair value through profit or loss attributable to the Group's credit risk component (31 December 2011: positive effect of euro 50.9 million).

In accordance with the accounting policies followed by the Group, financial instruments are initially recognised at fair value. The best evidence of the fair value of the instrument at inception is deemed to be the transaction price. However, in particular circumstances, the fair value of a financial instrument at inception, determined based on a valuation techniques, may differ from the transaction price, namely due to the existence of a built-in fee, originating a *day one profit*.

The Group recognises in the income statement the gains arising from the built-in fee (*day one profit*), generated, namely, on the trading of foreign exchange financial products, considering that the fair value of these instruments at inception and on subsequent measurements is determined only based on observable market data and reflects the Group access to the wholesale market.

In 2012, the gains recognised in the income statement arising from the built-in fee amounted to approximately euro 14 587 thousand (2011: euro 14 161 thousand).

NOTE 8 – NET GAINS / (LOSSES) FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by government and public entities	813 802	23 738	790 064	12 585	10 502	2 083
Issued by other entities	77 000	62 316	14 684	12 771	39 337	(26 566)
Shares	46 523	250 272	(203 749)	240 591	290 227	(49 636)
Other variable income securities	13 564	14 357	(793)	9 072	3 723	5 349
	950 889	**350 683**	**600 206**	**275 019**	**343 789**	**(68 770)**

During 2012, the Group sold at market prices through the overall stock exchange 96.4 million ordinary shares of EDP and 260.7 million ordinary shares of Portugal Telecom. These transactions generated a realised net loss of euro 224.9 million.

During the year ended 31 December 2011, the Group sold at market prices through the stock exchange 81.6 million ordinary shares of Bradesco, 165.4 million ordinary shares of EDP and 113.8 million ordinary shares of Portugal Telecom. These transactions generated a realised net gain of euro 40.0 million.

Related party transactions are described in Note 48.

NOTE 9 – NET GAINS / (LOSSES) FROM FOREIGN EXCHANGE DIFFERENCES

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange translation	948 205	971 993	(23 788)	1 327 568	1 360 213	(32 645)
	948 205	**971 993**	**(23 788)**	**1 327 568**	**1 360 213**	**(32 645)**

This balance includes the exchange differences arising on translating monetary assets and liabilities at the exchange rates ruling at the balance sheet date in accordance with the accounting policy described in Note 2.3.

NOTE 10 – NET GAINS / (LOSSES) FROM THE SALE OF OTHER ASSETS

This balance is analysed as follows:

(in thousand of euro)

	31.12.2012	31.12.2011
Loans and advances to customers (*deleverage*)	(39 507)	(89 774)
Non current assets held for trade	(5 917)	(4 828)
Other	3 265	2 922
	(42 159)	(91 680)

As at 31 December 2012, Loans and advances to customers include a loss of euro 29.6 million related to the sale of euro 262 million of credits realized within the deleverage program of the Group (31 December 2011: euro 77.5 million).

NOTE 11 – INSURANCE EARNED PREMIUMS, NET OF REINSURANCE

The insurance earned premiums, net of reinsurance, can be analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Gross written premiums	64 491	-
Reinsurance premiums ceded	(2 347)	-
Net premiums written	62 144	-
Change in the provision for unearned premiums, net of reinsurance	113	-
Earned premiums, net of reinsurance	62 257	-

Gross written premiums from life insurance business are analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Risk contracts	39 632	-
Saving contracts with profit sharing	24 859	-
	64 491	-

The reinsurance premiums ceded respect to cover the risk of death and longevity of contracts made in the traditional segments.

In accordance with IFRS 4, the contracts issued by the Group for which there is only a transfer of financial risk, with no discretionary participating features, are classified as investment contracts and accounted for as financial liabilities.
Contracts for which the investment risk is borne by insurance contracts and fixed rate without profit are not accounted for as premiums.

NOTE 12 – CLAIMS INCURRED, NET OF REINSURANCE

Claims incurred, net of reinsurance are analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Claims paid		
Gross amount	(366 812)	-
Reinsurance share	2 621	-
	(364 191)	-
Change in claims outstanding reserve		
Gross amount	854	-
Reinsurance share	364	-
	1 218	-
	(362 973)	-

NOTE 13 – CHANGE IN THE TECHNICAL RESERVES, NET OF REINSURANCE

The change in the technical reserves, net of reinsurance is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Mathematical reserves	298 451	-
Reserve for bonus and rebates	(1 108)	-
Other thechnical reserves	2 964	-
Reserve for reinsurance	1 116	-
	301 423	-

NOTE 14 – OTHER OPERATING INCOME AND EXPENSES

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Other operating income / (expenses)		
IT related business	5 689	6 028
Gains on repurchase of Group debt securities (see Notes 38 and 42)	113 721	470 735
Non recurring gains on credit operations	21 900	26 553
Non recurring gains on advisory services	4 299	2 586
Direct and indirect taxes	(43 054)	(47 589)
Contributions to the deposits guarantee fund	(10 372)	(6 463)
Membership and donations	(8 252)	(7 744)
Losses arising from the transfer, to the social security, of the pensioners' defined benefit obligations	-	(107 173)
Other	25 631	20 870
	109 562	**357 803**

Direct and indirect taxes include an amount of euro 27.9 million relating to the cost with the introduction of a Contribution of the Banking sector (31 December 2011: euro 30.5 million), created by Law No. 55-A/2010, of 31 December (see Note 41).
As at 31 December 2012, the caption Other operating income includes a gain of euro 21.8 million related with the negative past service cost (gain) which arose from the change introduced by Decree Law 133/2012 to the calculation method for the death allowance, as explained in Note 16.

Also under Other operating income, as at 31 December 2012, is included the gain of euro 10.3 million arising from the termination of the exclusive distribution agreement established between ESAF and Banco Pastor, as explained in Note 31.

As at 31 December 2011, this balance includes a cost in the amount of euro 24.4 million related with the Investors Compensations Scheme.

NOTE 15 – STAFF COSTS

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Wages and salaries	462 683	447 591
Remuneration	459 681	447 033
Long-term service benefits (see Note 16)	3 002	558
Mandatory social charges	103 579	94 253
Pension costs (see Note 16)	8 544	21 025
Other costs	24 077	24 606
	598 883	**587 475**

As at 31 December 2012, other costs include the amount of euro 489 thousand related with the variable remuneration plan on financial instruments (PRVIF) of BES in accordance with the accounting policy described in Note 2.16. (31 December 2011: euro 286 thousands) The details of this plan implemented by the Group are presented in Note 16.

The salaries and other benefits attributed to the key management personnel of Group are analysed as follows:

(in thousands of euro)

	Board of Directors	Audit Committee	Other Key Management	Total
31 December 2012				
Salaries and other short-term benefits	5 523	364	13 589	19 476
Bonus	1 946	-	1 670	3 616
Sub total	7 469	364	15 259	23 092
Pension costs	2 794	-	1 782	4 576
Long service benefits and other	27	-	45	72
Total	10 290	364	17 086	27 740
31 December 2011				
Salaries and other short-term benefits	5 827	739	13 509	20 075
Bonus	3 501	-	3 359	6 860
Sub total	9 328	739	16 868	26 935
Pension costs	6 358	2	1 146	7 506
Long service benefits and other	275	-	100	375
Total	15 961	741	18 114	34 816

Other key management personnel include board members of BES subsidiaries, the top management and the Advisors to the Board of Directors of the Bank.

As at 31 December 2012 and 2011, loans granted by BES Group to its key management personnel, amounted to euro 28 883 thousand and euro 28 183 thousand, respectively.

As at 31 December 2012 and 2011, the number of employees of the Group is analysed as follows:

	31.12.2012	31.12.2011
BES employees	6 675	6 704
Financial sector subsidiaries employees	3 269	3 159
Financial sector group entities employees	9 944	9 863

By professional category, the number of BES Group employees, is analysed as follows:

	31.12.2012	31.12.2011
Senior management	1 189	1 137
Management	1 060	994
Specific functions	4 186	4 027
Administrative functions and other	3 509	3 705
	9 944	9 863

NOTA 16 – EMPLOYEES BENEFITS

Pension and health-care benefits

In compliance with the collective labor agreement (ACT) for the banking sector established with the unions, the Bank undertook the commitment to grant its employees, or their families, pension on retirement and disability, and widows' pension. Pension payments consist of a rising percentage based on years of service, applicable to each year's negotiated salary table for the active work force.

As at 30 December 1987, the Bank estabilished a pension fund to cover the above mentioned liabilities with pension payments. Later, after obtaining the authorisation from the Portuguese Insurance Institute, the Bank has changed the pension fund contract in order to allow the coverage of all pension liabilities, health care benefits and, in 2009, the death allowance. The pensions funds in Portugal are managed by ESAF – Espírito Santo Fundo de Pensões, S.A.

However, it should be noted that in what concerns the banking subsidiaries, the employees hired after 31 March 2008 are covered by the Portuguese Social Security scheme.

Additionally, with the publication of Decree-Law n.1-A / 2011 of January 3, all banking sector employees beneficiaries of "CAFEB – Caixa de Abono de Família dos Empregados Bancários" were integrated into the General Social Security Scheme from 1 January 2011, which assumed the protection of banking sector employees in the contingencies of maternity, paternity and adoption and even old age, remaining under the responsibility of the banks the protection in sickness, disability, survivor and death.

Retirement pensions of banking employees integrated into the General Social Security Regime continue to be calculated according to the provisions of ACT and other conventions. Banking employees, however, are entitled to receive a pension under the general regime, which amount takes into account the number of years of discounts for that scheme. Banks are responsible for the difference between the pension determined in accordance with the provisions of ACT and that the one that the banking employees are entitled to receive from the General Social Security Regime.

The contribution rate to the Social Security Regime is 26.6%, 23.6% paid by the employer and 3% paid by the employees, instead of Caixa de Abono de Família dos Empregados Bancários (CAFEB), abolished by the same law. In consequence of this change, the pension rights of active employers is to be covered under the terms defined by the General Social Security Regime, taking into account the length of service from 1 January 2011 until retirement. The differential required to support the guaranteed pension in terms of the ACT is paid by the Banks.

Notwithstanding, the integration leads to a decrease in the actual present value of total benefits reported to the normal retirement age (VABT) to be borne by the pension fund, after considering the future contributions to be made by the bank and the employees to the social security regime. Since there was no reduction in benefits on a beneficiary's perspective and the liabilities for past services remained unchanged, the Group has not recorded in its financial statements any impact in terms of the actuarial calculatins at 31 December 2010, arising from the integration of its workers in the Social Security Scheme. The resulting gain will be deferred over the average working life until the employees reach the normal retirement age.

At the end of 2011 following the third tripartite agreement established between the Portuguese Government, the Portuguese Banking Association and the banking sector employees unions, it was decided to transfer to the Social Security Regime the banks liabilities with pension in payment as at 31 December, 2011.

The tripartite agreement established, provides for the transfer to the Social Security sphere of the liabilities with pensions in payment as of 31 December 2011 at constant values (0% discount rate). The responsibilities relating to updates of pensions value, other pension benefits in addition to those to be borne by the Social Security, health-care benefits, death allowance and deferred survivor pensions, will remain in the sphere of responsibility of the banks with the correspondent funding being provided through the respective pension funds.

The banks pension funds assets, specifically allocated to the cover of the transferred liabilities were also be transferred to the Social Security.

Being thus a definitive and irreversible transfer of the liabilities with pensions in payment (even if only on a portion of the benefit), the conditions set out in IAS 19 ‘Employee benefits’ underlying the concept of settlement were met, as the obligation with pension in payment as at 31 December, 2011 extinguished at the date of transfer. On this basis, the impacts derived from this transfer were recognized in the income statement in 2011.

The key actuarial assumptions used to calculate pension liabilities are as follows:

	Assumptions			Actual	
	31.12.2012				
	1st through 4th year	5th and subsequent years	31.12.2011	31.12.2012	31.12.2011
Actuarial Assumptions					
Expected return of plan assets	5,50%		5,50%	-2,37%	-7,38%
Discount rate	4,50%		5,50%	-	-
Pensions increase rate	0,00%	0,75%	1,00%	-0,56%	-0,70%
Salaries increase rate	1,00%	1,75%	2,25%	1,02%	1,10%
Mortality table men	TV 73/77 - 1 year				
Mortality table woman	TV 88/90				

Disability decreases are not considered on the liabilities calculation. The determination of the discount rate as at 31 December 2012 was based on: (i) the evolution of the main indexes related with high quality corporate bonds and (ii) the duration of liabilities.

The number of persons covered by the plan is as follows:

	31.12.2012	31.12.2011
Employees	5 311	6 007
Pensioners	5 734	5 706
TOTAL	**11 045**	**11 713**

The application of IAS 19 on responsibilities and coverage levels reportable to 31 December 2012 and 2011 is presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Net Assets / (liabilities) recognised in the balance sheet		
Total obligations	(1 206 283)	(1 077 864)
Pensioners	(448 265)	(397 857)
Employees	(758 018)	(680 007)
Coverage		
Fair value of plan assets	1 220 885	1 184 878
Net assets in balance sheet (see Note 34)	14 602	107 014
Acumulated actuarial deviations recognised in other comprehensive income	1 078 732	886 964

In accordance with the accounting policy described in Note 2.16 – Employees Benefits, the Group liability with pensions is calculated semi-annually.

In accordance with the accounting policy described in Note 2.16 and following the requirements of IAS 19 – Employees benefits, the Group assesses at each balance sheet date and for each plan separately, the recoverability of the recognised assets in relation to the defined benefit pension plans based on the expectation of reductions in future contributions to the funds.

The changes in the defined benefit obligation can be analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Defined benefit obligation at the beginning of the period	1 077 864	2 205 366
Service cost	12 012	17 242
Interest cost	58 994	117 091
Plan participants' contribution	3 259	3 267
Actuarial (gains) / losses:		
- changes in actuarial assumptions	65 366	(201 792)
- experience adjustments	40 300	(110 266)
Pensions paid by the fund	(27 481)	(112 555)
Transfer to the Social Security regime of the liabilities with pensions in payment	-	(853 839)
Costs with negative past services	(21 813)	-
Exchange differences and other	(2 218)	13 350
Defined benefit obligation at the end of the period	1 206 283	1 077 864

During the year ended 31 December 2012, following the amendment to Decree Law 133/2012 which determines the calculation method for the death allowance, there was a reduction on the defined benefit obligation with this benefit, in the amount of euro 21.8 million, which qualifies as a negative past cost (a gain). On this basis and in accordance with the accounting policy described in Note 2.18, this gain should be recognized in the income statement during the vesting period. Considering that this benefit is already vested (given that the employee or retiree is entitled to the benefit in full without the need to comply with any service condition), the Group recognized the gain in the income statement.

Under the third tripartite agreement mentioned above and the subsequent transfer to the Social Security sphere of the banks liabilities with pensions in payment as at 31 December 2011, there was a reduction of liabilities, measured based on the actuarial assumptions used in preparing the financial statements and consistent with IAS 19, in the amount of euro 853.8 million.

However, under the agreement, the value of assets to be transferred to the Social Security in return for the transfer of the liabilities with pensions in payment was determined on a settlement perspective, as it is a definitive and irreversible transfer of these responsibilities and corresponded to the value thereof, and it was estimated based on a discount rate of 4% (instead of the 5.5% rate used for the purpose of preparing the financial statements). Thus, the amount payable by the Group to the State amounted to euro 961 million, which led to the recognition in 2011 in the income statement of cost in the amount of euro 107.2 million, corresponding to the differential of the discount rates mentioned above.

Of the total payable amount (euro 961 million), euro 853.8 million were borne by the Pension Fund and euro 107.2 million directly by the Group. At the end of December 2011, 55% of the amount outstanding was paid, and the remaining was paid in June of 2012.

The change in the fair value of the plan assets for the years ended 31 December 2012 and 2011 is analysed as follows:

(in thousand of euro)

	31.12.2012	31.12.2011
Fair value of plan assets at the beginning of the period	1 184 878	2 206 313
Actual return on plan assets	(24 299)	(154 735)
Group contributions	86 410	92 467
Plan participants' contributions	3 259	3 267
Pensions paid by the fund	(27 481)	(112 555)
Transfer to the Social Security regime of the liabilities with pensions in payment	-	(853 839) (1)
Exchange differences and other	(1 882)	3 960
Fair value of plan assets at the end of the period	1 220 885	1 184 878

(1) 55% of this amount was paid to State in 2011, and the remaining was also recognized in 2011 as a liability in the Pension Fund and paid in 2012.

The fair value of plan assets can be analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Shares	178 654	371 270
Fixed income securities	335 192	136 212
Real estate	370 769	657 856
Other	336 270	403 767
Amounts payable to the Social Security	-	(384 227)
Total	1 220 885	1 184 878

The real estate assets rented to BES Group and securities issued by Group companies which are part of the plan assets are analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Shares	1 200	1 288
Fixed income securities	6 382	339
Real estate	298 022	217 802
Total	305 604	219 429

The pension fund holds participation units of ES Ventures III Fund, which is fully consolidated in the Group.

As at 31 December 2012, the pension fund holds participation units of ES Ventures III Fund, which is fully consolidated in the Group.

During the year ended 31 December 2011 the Group sold 18 520 and 4 830 units of Fungepi Fund and Fungere Fund to the Group pensions funds, by a global amount of euro 80.0 million, not incurring in any material loss or gain (see Note 48).
During the year ended 31 December 2012 the Group acquired 49 779 and 37 115 thousands units of Fungere Fund and Fungepi Fund to the Group pensions funds, by a global amount of euro 158.1 million and euro 87.2 million, respectively (see Note 1).

The changes in the accumulated actuarial gains and losses are analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Accumulated actuarial (gains) and losses recognised in other comprehensive income at the beginning of the period	886 964	930 979
Actuarial (gains) / losses		
- changes in actuarial assumptions	65 366	(201 792)
- experience adjustments	127 103	157 777
Other	(701)	-
Accumulated actuarial (gains) and losses recognised in other comprehensive income at the end of the period	1 078 732	886 964

The net benefit cost can be analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Service cost	12 012	17 242
Interest cost	58 994	117 091
Expected return on plan assets	(62 504)	(113 308)
Other	42	-
Net benefit cost	**8 544**	**21 025**

In the years ended in 31 December 2012 and 2011, the changes in the net assets/ (liabilities) recognised in the balance sheet is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
At the beginning of the period	107 014	947
Net periodic benefit cost	(8 544)	(21 025)
Actuarial (gains)/ losses recognised on other comprehensive income	(191 768)	44 015
Contributions of the period and pensions paid by the Group	86 410	92 467
Other (a)	21 490	(9 390)
At the end of the period	**14 602**	**107 014**

(a) In 2012, this amount includes a profit of euro 21.8 million related to the liability decrease with death subsidy.

The evolution of the defined benefit obligations, fair value of plan assets and of the experience adjustments gains/ (losses) in the past 5 years, is presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008
Defined benefit obligation	(1 206 283)	(1 077 864)	(2 205 366)	(2 125 202)	(2 064 874)
Fair value of plan asssets	1 220 885	1 184 878	2 206 313	2 198 280	2 056 627
(Un) / over funded liabilities	**14 602**	**107 014**	**947**	**73 078**	**(8 247)**
(Gains)/losses from experience adjustments arising on defined benefit oblig	40 300	(110 266)	25 201	51 583	23 510
(Gains)/losses from experience adjustments arising on plan assets	86 803	268 043	66 895	(90 994)	727 214

Variable remuneration payment plan on financial instruments (PRVIF)

Following the recommendations of the Supervising and Regulatory authorities, on the shareholders General Meeting, held in 6 April 2011 it was approved a new remuneration policy for the Executive Committee members. This policy consists in giving to the Executive Committee members a fixed remuneration, which should represent approximately 45% of the total remuneration, and a variable component representing around 55% of the total remuneration. The variable remuneration shall have two components: one associated with short-term performance and another with medium-term performance. Half of the short-term component must be paid in cash and the remaining 50% should be paid over a three years period, with half of these payments to be made in cash and the remaining through the attribution of shares. The medium-term component has associated a share options program with the exercise of the options set at 3 years from the date of its attribution.

Regarding the first scheme, the attribution of PRVIF shares to the beneficiaries is performed on a deferred basis over a period of three years (1st year: 33%; 2nd year: 33% and 3rd year: 34%) and is subject to the achievement of a Return on Equity (ROE) greater than or equal to 5%.

Regarding the attribution of options to the beneficiaries is also performed by the Remuneration Committee, and the exercise price is equal to the single average of the closing prices of BES shares on NYSE Euronext Lisbon during the 20 days preceding the day of attribution of the options, plus 10%.

The option can only be exercised at maturity and the beneficiary may choose between the physical settlement or the financial settlement of the options.

The plans' initial fair value was calculated using an option valuation model with the following assumptions:

	Option valuation assumption	
	1st attribution	2nd attribution
Inicial reference date	12.04.2011	12.10.2012
Final reference date	31.03.2014	15.01.2016
Rights granted to employees	2 250 000	6 280 045
Reference price (in euro)	3,47	0,67
Interest rate	2,31%	0,67%
Volatility	40,0%	65,00%
Inicial fair value of the plan (in thousands of euro)	1 130	1 940

PRVIF is accounted for in accordance with the applicable IFRS rules (IFRS 2 and IAS 19). During 2012, the Group registered, against liabilities, a cost of euro 489 thousand (31 December 2011: euro 286 thousands) related to the amortization of the initial options premium granted

Long-term service benefits

As referred in Note 2.16, for employees that achieve certain years of service, the Bank pays long term service premiums, calculated based on the effective monthly remuneration earned at the date the premiums are due. At the date of early retirement or disability, employees have the right to a premium proportional to that they would earn if they remained in service until the next payment date.

As at 31 December 2012 and 2011, the Group's liabilities regarding this benefits amount to euro 28 691 thousand and euro 27 477 thousand, respectively (see Note 37). The costs incurred in the year ended 31 December 2012 with long-term service benefits amounted to euro 3 002 thousand (31 December 2011: euro 558 thousand).

The actuarial assumptions used in the calculation of the liabilities are those presented for the calculation of pensions (when applicable).

NOTE 17 – GENERAL AND ADMINISTRATIVE EXPENSES

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Rental costs	71 788	69 347
Advertising costs	34 476	35 271
Communication costs	45 766	46 373
Maintenance and related services	21 752	18 465
Travelling and representation costs	31 676	32 639
Transportation	7 894	8 708
Insurance costs	8 232	8 297
IT services	66 632	65 841
Independent work	7 863	7 434
Temporary work	5 346	6 677
Electronic payment systems	10 836	12 479
Legal costs	19 745	19 933
Consultants and external auditors	28 251	25 699
Water, energy and fuel	12 275	10 755
Consumables	5 358	5 370
Other costs	64 230	60 465
	442 120	**433 753**

The balance other costs includes, among others, specialised services with security, information, databases, costs with training and external suppliers.

The outstanding lease installments related to the non-cancelable operational leasing contracts were as follows:

	(in thousands of euro)	
	31.12.2012	31.12.2011
Up to 1 year	8 903	9 133
1 to 5 years	10 451	13 575
	19 354	**22 708**

The fees invoiced during the years 2012 and 2011 by the statutory auditors, according to art. 508.-F of "Código das Sociedades Comerciais", are presented as follows:

	(in thousands of euro)	
	31.12.2012	31.12.2011
Audit fees	2 709	2 604
Audit related fees	1 148	1 544
Tax consultancy services	650	591
Other services	309	949
Total invoices services	**4 816**	**5 688**

NOTE 18 – EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

	(in thousands of euro)	
	31.12.2012	31.12.2011
Profit attributable to the equity holders of the Bank [1]	90 073	(44 305)
Weighted average number of ordinary shares (thousands)	3 096 971	1 187 255
Weighted average number of treasury stock (thousands)	(11 910)	(257)
Weighted average number of ordinary shares outstanding (thousands)	3 085 061	1 186 998
Basic earnings per share attributable to equity holders of the Bank (in euro)	0,03	(0,04)

[1] Net profit for the period adjusted by the dividend from preference shares and from perpetual bonds interest, and results form the repurchase of preference shares.

Diluted earnings per share

The diluted earnings per share is calculated considering the profit attributable to the equity holders of the Bank and the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

The diluted earnings per share are not different from the basic earning per share as the outstanding plans of PRVIF do not have a dilutive effect.

NOTE 19 – CASH AND DEPOSITS AT CENTRAL BANKS

As at 31 December 2012 and 31 December 2011, this balance is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Cash	303 538	278 179
Deposits at central banks		
Bank of Portugal	26 136	110 045
Other central banks	1 047 867	702 215
	1 074 003	812 260
	1 377 541	1 090 439

The deposits at Central Banks include mandatory deposits with the Bank of Portugal intended to satisfy legal minimum cash requirements, for an amount of euro 26 136 thousand (31 December 2011: euro 110 045 thousand). According to the European Central Bank Regulation (CE) no. 1745/2003, of 12 September 2003, minimum cash requirements kept as deposits with the Bank of Portugal earn interest, and correspond to 1% of deposits and debt certificates maturing in less than 2 years, excluding deposits and debt certificates of institutions subject to the European System of Central Banks' minimum reserves requirements. During 2012, these deposits have earned interest at an average rate of 0.89% (31 December 2011: 1.25%).

The fulfilment of the minimum cash requirements for a given period of observation is monitored taking into account the value of bank deposits with the Bank of Portugal during the referred period. The balance of the bank account with the Bank of Portugal as at 31 December 2012, was included in the observation period from 12 December 2012 to 15 January 2013, which corresponded to an average minimum cash requirements of euro 282.9 million.

NOTE 20 – DEPOSITS WITH BANKS

As at 31 December 2012 and 31 December 2011, this balance is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Deposits with banks in Portugal		
Repayable on demand	107 354	153 662
Uncollected cheques	138 854	58 384
	246 208	212 046
Deposits with banks abroad		
Repayable on demand	392 183	198 751
Uncollected cheques	8 962	4 466
Other	33 724	165 550
	434 869	368 767
	681 077	580 813

Uncollected cheques in Portugal and abroad were sent for collection during the first working days following the reference dates.

NOTE 21 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 31 December 2012 and 31 December 2011, this balance is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	1 347 806	888 797
Issued by other entities	259 203	286 843
Shares	51 911	41 268
Other variable income securities	2 014	727
	1 660 934	**1 217 635**
Derivatives		
Derivative financial instruments with positive fair value	2 264 465	2 217 004
	3 925 399	**3 434 639**
Financial liabilities held for trading		
Derivative financial instruments with negative fair value	2 121 229	2 124 388
Short sales	796	865
	2 122 025	**2 125 253**

As at 31 December 2012 and 2011 the analysis of the securities held for trading by the period to maturity, is presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Up to 3 months	138 710	93 686
3 to 12 months	130 677	225 924
1 to 5 years	757 798	200 443
More than 5 years	576 127	655 587
Undetermined	57 622	41 995
	1 660 934	**1 217 635**

In accordance with the accounting policy described in Note 2.6, securities held for trading are those which are bought to be traded in the short-term, regardless of their maturity.

The securities pledged as collateral by the Group are analysed in Note 46.

As at 31 December 2012 and 2011, financial assets held-for-trading analysed by quoted and unquoted securities, are presented as follows:

(in thousands of euro)

	31.12.2012 Quoted	31.12.2012 Unquoted	31.12.2012 Total	31.12.2011 Quoted	31.12.2011 Unquoted	31.12.2011 Total
Securities						
Bonds and other fixed income securities						
Issued by govermment and public entities	1 347 806	-	1 347 806	852 761	36 036	888 797
Issued by other entities	94 157	165 046	259 203	109 400	177 443	286 843
Shares	40 135	11 776	51 911	40 191	1 077	41 268
Other variable income securities	2 014	-	2 014	727	-	727
	1 484 112	176 822	1 660 934	1 003 079	214 556	1 217 635

As at 31 December 2012, the exposure to public debt from peripheral Eurozone countries is presented in Note 51 – Risk Management.

As at 31 December 2012 and 2011, derivative financial instruments can be analysed as follows:

(in thousands of euro)

	31.12.2012 Notional	31.12.2012 Fair Value Assets	31.12.2012 Fair Value Liabilities	31.12.2011 Notional	31.12.2011 Fair Value Assets	31.12.2011 Fair Value Liabilities
Trading derivatives						
Exchange rate contracts						
Forward						
- buy	1 217 845	6 968	12 443	1 460 151	27 672	13 605
- sell	1 226 399			1 458 214		
Currency Swaps						
- buy	3 357 723	1 753	2 002	2 442 950	12 416	11 602
- sell	3 344 104			2 431 893		
Currency Futures [a]	278 317	-	-	58 503	-	-
Currency Interest Rate Swaps						
- buy	118 945	25 690	18 343	168 995	28 497	26 259
- sell	115 406			162 074		
Currency Options	2 414 534	41 415	46 846	3 578 304	90 389	90 729
	12 073 273	75 826	79 634	11 761 084	158 974	142 195
Interest rate contracts						
Forward Rate Agreements	200 000	-	16	380 000	1 047	1 982
Interest Rate Swaps	30 649 333	1 953 058	1 812 560	34 581 122	1 712 479	1 656 756
Swaption - Interest Rate Options	363 000	1 556	1 556	2 747 936	5 003	5 157
Interest Rate Caps & Floors	4 918 557	40 843	38 562	7 690 395	51 553	47 305
Interest Rate Futures [a]	3 784 771	-	-	3 573 796	-	-
Interest Rate Options	1 903 388	1 341	1 341	1 893 560	25 473	31 714
	41 819 049	1 996 798	1 854 035	50 866 809	1 795 555	1 742 914
Equity / index contracts						
Equity / Index Swaps	664 516	86 202	24 936	843 911	50 453	51 122
Equity / Index Options	2 712 479	60 726	131 146	2 095 919	60 833	102 179
Equity / Index Futures [a]	96 583	-	-	152 706	-	-
Future Options [a]	82 234	-	-	32 089	-	-
	3 555 812	146 928	156 082	3 124 625	111 286	153 301
Credit default contracts						
Credit Default Swaps	2 774 780	44 913	31 478	3 559 588	151 189	85 978
Total	60 222 914	2 264 465	2 121 229	69 312 106	2 217 004	2 124 388

a) Derivatives traded in organised markets, whose fair value is settled daily through the margin accounts.

As at 31 December 2012 the fair value of derivative financial instruments included the net amount of euro 21.1 million (31 December 2011: net amount of euro 43.5 million) related to the positive fair value of the embedded derivatives, as described in Note 2.4.

As at 31 December 2011 and 2010, the analysis of trading derivatives by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2012		31.12.2011	
	Notional	Fair value (net)	Notional	Fair value (net)
Up to 3 months	13 956 784	71 133	11 431 250	(42 515)
3 to 12 months	9 998 962	(46 401)	11 664 854	(1 334)
1 to 5 years	18 719 605	21 460	27 576 010	23 078
More than 5 years	17 547 563	97 044	18 639 992	113 387
	60 222 914	143 236	69 312 106	92 616

NOTE 22 – OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Bonds and other fixed income securities		
Issued by government and public entities	515 994	-
Issued by other entities	1 118 425	127 731
Shares and other variable income securities	1 187 134	1 836 258
	2 821 553	1 963 989

In light of IAS 39 and in accordance with the accounting policy described in Note 2.6, the Group designated these financial assets at fair value through profit or loss, in accordance with the documented risk management and investment strategy, considering that these financial assets (i) are managed and evaluated on a fair value basis and/or (ii) have embedded derivatives.

As at 31 December 2011 and 2010, the analysis of the financial assets at fair value through profit or loss by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Up to 3 months	486 789	385 546
3 to 12 months	239 972	400
1 to 5 years	224 257	1 278 221
More than 5 years	733 700	69 810
Undetermined	1 136 835	230 012
	2 821 553	1 963 989

Regarding quoted or unquoted securities, the balance financial assets at fair value through profit or loss, is presented as follows:

(in thousands of euro))

	31.12.2012			31.12.2011		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income securities						
Issued by government and public entities	515 994	-	515 994	-	-	-
Issued by other entities	272 936	845 489	1 118 425	15 885	111 846	127 731
Shares and Other variable income securities	599 049	588 085	1 187 134	13 719	1 822 539	1 836 258
	1 387 979	1 433 574	2 821 553	29 604	1 934 385	1 963 989

The significant increase in this caption during 2012, arises mainly on the full consolidation of BES Vida from 1 May 2012, as referred in Note 54.

NOTE 23 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31 December 2012 and 31 December 2011, this balance is analysed as follows:

(in thousands of euro)

	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Bonds and other fixed income securities					
Issued by government and public entities	4 205 940	201 152	(1 703)	-	4 405 389
Issued by other entities	4 086 487	65 422	(78 023)	(17 171)	4 056 715
Shares	1 557 346	82 153	(45 387)	(185 190)	1 408 922
Other variable income securities	908 326	16 472	(4 908)	(35 606)	884 284
Balance as at 31 december 2012	**10 758 099**	**365 199**	**(130 021)**	**(237 967)**	**10 755 310**
Bonds and other fixed income securities					
Issued by government and public entities	4 813 456	666	(124 908)	-	4 689 214
Issued by other entities	5 634 799	34 146	(154 615)	(11 094)	5 503 236
Shares	1 195 790	41 200	(184 153)	(132 088)	920 749
Other variable income securities	393 790	4 057	(3 080)	(25 100)	369 667
Balance as at 31 December 2011	**12 037 835**	**80 069**	**(466 756)**	**(168 282)**	**11 482 866**

[1] Acquisition cost relating to shares and other variable income securities and amortised cost relating to debt securities.

As at 31 December 2012, the exposure to debt of peripheral countries in the euro area is analysed in Note 51 – Risk Management.

In accordance with the accounting policy described in Note 2.6, the Group assesses periodically whether there is objective evidence of impairment on the available-for-sale financial assets, following the judgment criteria's described in Note 3.1.

The securities pledged as collateral by the Group are analysed in Note 46. As at 31 December 2011, the available for sale securities portfolio includes the amount of euro 306.4 million related with securitization operations (see Note 1).

The changes occurred in impairment losses of available-for-sale financial assets are presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Balance at the beginning of the year	168 282	159 232
Charge for the year	103 233	64 573
Charge off	(28 426)	(51 363)
Write back of the year	(3 925)	(6 782)
Exchange differences and others	(1 197)	2 622
Balance at the end of the year	**237 967**	**168 282**

As at 31 December 2012 and 2011, the analysis of available-for-sale assets by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Up to 3 months	2 859 487	4 915 609
3 to 12 months	1 263 814	1 386 299
1 to 5 years	1 227 774	2 001 542
More than 5 years	3 114 316	1 887 667
Undetermined	2 289 919	1 291 749
	10 755 310	**11 482 866**

The main equity exposures that contribute to the fair value reserve, as at 31 December 2012 and 2011, can be analysed as follows:

(in thousands of euro)

31.12.2012					
Description	Acquisition cost	Fair value reserve		Impairment	Book value
		Positive	Negative		
Portugal Telecom	346 637	-	(10 757)	-	335 880
EDP- Energias de Portugal	173 826	24 447	-	-	198 273
Banque Marocaine du Commerce Extérieur	81 004	-	(15 813)	-	65 191
	601 467	**24 447**	**(26 570)**	**-**	**599 344**

(in thousands of euro)

31.12.2011					
Description	Acquisition cost	Fair value reserve		Impairment	Book value
		Positive	Negative		
Portugal Telecom	603 298	-	(151 041)	-	452 257
EDP- Energias de Portugal	200 664	-	(24 077)	-	176 587
Banque Marocaine du Commerce Extérieur	2 376	5 454	-	(348)	7 482
	806 338	**5 454**	**(175 118)**	**(348)**	**636 326**

Following the market transactions with Portugal Telecom shares, the portfoloio average price has reduced significantly. The unrealized losses presented in the fair value reserve at year end, represent a recent decline in value that occurred after the Group having recognized positive fair value reserves in the third and fourth quarter of 2012. The unrealized losses recorded at year end do not exceed 3.1% of the portfolio.

In prior years the Group recorded an impairment loss regarding Banque Marocaine du Commerce Exterieur, which price has subsequently recovered, allowing the recognition of a positive fair value reserve of euro 5.454 thousand as at 31 December 2011. During 2012, there was a decline in the fair value, which consumed the existing positive reserves and resulted in an unrealized loss, representing 19.52% of the investment average cost, recognized in reserves. As at 31 December 2012, it was considered that there is no objective evidence of impairment in this investment.

During the year ended 31 December 2012, the Group sold at market prices 96.4 million ordinary shares of EDP, and 260.7 million ordinary shares of Portugal Telecom. These transactions generated a realised net loss of euro 224.9 million (see Note 8).

During the year ended 31 December 2011, the Group sold at market prices 81.6 million ordinary shares of Bradesco, 165.4 million ordinary shares of EDP and 113.8 million ordinary shares of Portugal Telecom. These transactions generated a realised net gain of euro 40.0 million.

The analysis of the available-for-sale financial assets by quoted and unquoted securities is presented as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	3 111 938	1 293 451	4 405 389	2 839 437	1 849 777	4 689 214
Issued by other entities	785 750	3 270 965	4 056 715	750 832	4 752 404	5 503 236
Shares	787 178	621 744	1 408 922	688 015	232 734	920 749
Other variable income securities	323 810	560 474	884 284	126 111	243 556	369 667
	5 008 676	5 746 634	10 755 310	4 404 395	7 078 471	11 482 866

NOTE 24 – LOANS AND ADVANCES TO BANKS

As at 31 December 2012 and 2011, this balance is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Loans and advances to banks in Portugal		
Deposits at central banks	3 350 000	-
Deposits at other banks	39 372	94 925
Loans	127 581	711 963
Very short term deposits	34 085	18 105
Other loans and advances	84 474	1 247
	3 635 512	826 240
Loans and advances to banks abroad		
Deposits	833 223	1 170 236
Very short term deposits	148 696	36 343
Loans	703 798	777 027
Other loans and advances	105 653	472 949
	1 791 370	2 456 555
Impairment losses	(364)	(219)
	5 426 518	3 282 576

The main loans and advances to banks in Portugal, as at 31 December 2012, bear interest at an average annual interest rate of 1.73% (31 December 2011: 2.22%). The main loans and advances to banks abroad bear interest at an average annual interest rate of 0.88%.

As at 31 December 2012 and 2011, the analysis of loans and advances to banks by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Up to 3 months	5 063 107	2 830 270
3 to 12 months	96 652	68 715
1 to 5 years	79 623	118 916
More than 5 years	187 427	264 705
Undetermined	73	189
	5 426 882	**3 282 795**

The changes occurred during the year in impairment losses of loans and advances to banks are presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Balance at the beginning of the year	219	244
Charge for the year	1 366	406
Write back for the year	(1 207)	(446)
Exchange differences and other	(14)	15
Balance at the end of the year	**364**	**219**

NOTE 25 – LOANS AND ADVANCES TO CUSTOMERS

As at 31 December 2012 and 2011, this balance is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Domestic loans		
Corporate		
Loans	12 605 085	13 717 319
Commercial lines of credits	5 247 361	5 312 532
Finance leases	2 560 544	2 937 632
Discounted bills	454 624	512 259
Factoring	1 412 476	1 451 226
Overdrafts	76 303	27 075
Other loans	310 168	370 395
Retail		
Mortgage loans	10 067 167	10 556 061
Consumer and other loans	1 726 910	1 890 811
	34 460 638	36 775 310
Foreign loans		
Corporate		
Loans	8 593 536	7 958 147
Commercial lines of credits	2 181 087	2 105 017
Finance leases	69 732	67 019
Discounted bills	145 877	113 044
Factoring	52 494	23 036
Overdrafts	581 680	525 849
Other loans	458 646	451 515
Retail		
Mortgage loans	964 525	956 733
Consumer and other loans	705 091	689 507
	13 752 668	12 889 867
Overdue loans and interest		
Up to 3 months	219 416	142 390
From 3 months to 1 year	608 075	365 141
From 1 to 3 years	791 568	680 178
More than 3 years	566 369	357 940
	2 185 428	1 545 649
	50 398 734	51 210 826
Impairment losses	(2 692 342)	(2 167 444)
	47 706 392	49 043 382

As at 31 December 2012, the balance loans and advances to customers (net of impairment) includes an amount of euro 3 803.3 million (31 December 2011: euro 5 828.7 million) related to securitised loans following the consolidation of the securitisation vehicles (see Note 1 and 49), according to the accounting policy described in Note 2.2. The liabilities related to these securitisations are booked under debt securities issued (see Notes 38 and 49).

As at 31 December 2012, loans and advances include euro 5 605.1 million of mortgage loans that collateralise the issue of covered bonds (31 December 2011: euro 5 305.9 million) (see Note 38).

As at 31 December 2012 and 2011, the analysis of loans and advances to customers by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Up to 3 months	7 932 875	7 695 413
3 to 12 months	6 143 518	6 006 109
1 to 5 years	10 058 945	11 376 077
More than 5 years	24 077 968	24 587 578
Undetermined	2 185 428	1 545 649
	50 398 734	51 210 826

The changes occurred in impairment losses of loans and advances to customers are presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Balance at the beginning of the year	2 167 444	1 776 988
Charge for the year	1 016 153	895 416
Charge off	(208 494)	(158 578)
Write back of the year	(201 321)	(294 800)
Unwind of discount	(78 290)	(51 487)
Exchange differences and other	(3 150)	(95)
Balance at the end of the year	**2 692 342**	**2 167 444**

The unwind of discount represents the interest on overdue loans, recognised as interest and similar income, as impairment losses are calculated using the discounted cash flows method.

As at 31 December 2012 and 31 December 2011, the detail of loans and advances to customers and impairment losses can be analysed as follows:

(in thousands of euro)

	31.12.2012						
	Loans with impairment losses calculated on an individual basis		Loans with impairment losses calculated on a portfolio basis		Total		
	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	Net Loans Impairment
Corporate loans	12 510 484	2 195 708	24 126 648	149 576	36 637 132	2 345 284	34 291 848
Mortgage loans	2 362 525	160 135	8 771 297	6 884	11 133 822	167 019	10 966 803
Consumers loans - other	585 945	168 948	2 041 835	11 091	2 627 780	180 039	2 447 741
Total	15 458 954	2 524 791	34 939 780	167 551	50 398 734	2 692 342	47 706 392

(in thousands of euro)

	31.12.2011						
	Loans with impairment losses calculated on an individual basis		Loans with impairment losses calculated on a portfolio basis		Total		
	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	Net Loans Impairment
Corporate loans	13 552 504	1 776 056	23 332 728	77 781	36 885 232	1 853 837	35 031 395
Mortgage loans	2 181 624	146 301	9 428 488	12 718	11 610 112	159 019	11 451 093
Consumers loans - other	538 378	143 144	2 177 104	11 444	2 715 482	154 588	2 560 894
Total	16 272 506	2 065 501	34 938 320	101 943	51 210 826	2 167 444	49 043 382

The impairment calculated on an individual basis corresponds to the impairment related to loans with objective evidence of impairment and to loans classified as "Higher Credit Risk." The objective evidence of impairment occurs when there is a default event, i.e., from the moment that a significant change occurs in the lender-borrower relationship and the lender is subject to a loss. The "Higher Credit Risk " corresponds to loans without objective evidence of impairment but that present higher risk signs (e.g. customers with overdue loans; litigations; higher risk rating / scoring; allocated to the Companies Monitoring Department).

The interest recognised as interest and similar income during the year ended 31 December 2012 in relation to these loans amounted to euro 825.4 million (31 December 2011: euro 759.0 million), which includes the effect of the unwind of discount in connection with overdue loans.

The Group carries out a renegotiation of a loan in order to maximize its recovery. A loan is renegotiated in accordance with selective criteria, based on the analysis of the overdue circumstances, or when there is a high risk that the loan will become overdue, and the client has made a reasonable effort to fulfill the contractual conditions previously agreed and is expected to have the capacity to meet the new terms agreed. The renegotiation normally includes the maturity extension, changes in the payment dates defined and / or amendment of the contracts' covenants. Whenever possible, the renegotiation includes obtaining new collaterals. The renegotiated loans are still subject to an impairment analysis resulting from the revaluation of the new expected cash flows, based in the new contract terms, updated at the original effective interest rate and taking into account the new collaterals.

As at 31 December 2012, loans and advances (excluding overdue loans and interest) includes euro 221 416 thousand of renegotiated loans (31 December 2011: euro 178 017 thousand). At the same date, the impairment regarding these renegotiated loans amounted to euro 16 363 thousand (31 December 2011: euro 17 137 thousand). The related interest recognized in the income statement amounted to euro 9 940 thousand (31 December 2011: euro 8 440 thousand).

The Group requires that some credit operations be collateralised, in order to mitigate credit risk. The more common type of collaterals held are mortgages and securities. The fair value of these collaterals is determined at the date the loan is advanced to customers, being periodically reassessed.

The collateral received regarding credit operations can be analysed as follows:

(in thousands of euro)

	31.12.2012		31.12.2011	
	Credit Value	Fair Value collateral	Credit Value	Fair Value collateral
Mortgage loans				
Mortgages	10 951 831	10 930 789	11 325 239	11 306 989
Pawns	4 739	4 570	4 845	6 360
Not collateralised	177 252	-	280 028	-
	11 133 822	10 935 359	11 610 112	11 313 349
Individuals loans				
Mortgages	310 561	291 897	299 256	289 356
Pawns	585 020	388 748	679 981	487 877
Not collateralised	1 732 199	-	1 736 245	-
	2 627 780	680 645	2 715 482	777 233
Companies loans				
Mortgages	10 034 387	9 122 921	10 489 853	9 489 188
Pawns	6 884 077	3 562 838	6 016 400	4 080 184
Not collateralised	19 718 668	-	20 378 979	-
	36 637 132	12 685 759	36 885 232	13 569 372
Total	50 398 734	24 301 763	51 210 826	25 659 954

Loans and advances to customers by interest rate type are analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Fixed interest rate	8 126 913	6 955 398
Variable interest rate	42 271 821	44 255 428
	50 398 734	51 210 826

An analysis of finance leases by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Gross investment in finance leases, receivable		
Up to 1 year	432 202	491 511
From 1 to 5 years	1 130 447	1 410 375
More than 5 years	1 373 116	1 535 201
	2 935 765	3 437 087
Unearned future finance income on finance leases		
Up to 1 year	68 859	110 457
From 1 to 5 years	157 217	294 738
More than 5 years	79 413	27 241
	305 489	432 436
Net investment in finance leases		
Up to 1 year	363 343	381 054
From 1 to 5 years	973 230	1 115 637
More than 5 years	1 293 703	1 507 960
	2 630 276	3 004 651
Impairment	(144 097)	(97 190)
	2 486 179	2 907 461

As at 31 December 2012 and 2011 there are no finance leases which represent individually more than 5% of the total minimum lease payments. There are no finance leases with contingent rents.

NOTE 26 – HELD-TO-MATURITY INVESTMENTS

The held-to-maturity investments can be analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Bonds and other fixed income securities		
Issued by government and public entities	295 271	805 437
Issued by other entities	685 389	768 061
	980 660	1 573 498
Impairment losses	(39 111)	(32 316)
	941 549	1 541 182

As at 31 December 2012 and 2011, the analysis of held-to-maturity investments by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Up to 3 months	14 715	401 785
3 to 12 months	175 566	283 473
1 to 5 years	230 854	273 232
More than 5 years	559 525	615 008
	980 660	1 573 498

The analysis of the held-to-maturity investments by quoted and unquoted securities is presented as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income securities						
Issued by government and public entities	292 678	2 593	295 271	803 589	1 848	805 437
Issued by other entities	158 769	526 620	685 389	207 661	560 400	768 061
	451 447	529 213	980 660	1 011 250	562 248	1 573 498

The changes occurred in impairment losses of held-to-maturity investments are presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Balance at the beginning of the year	32 316	50 094
Charge for the year	7 260	15 500
Charge off	(467)	(33 131)
Exchange differences and other	2	(147)
Balance at the end of the year	**39 111**	**32 316**

The securities pledged as collateral by the Group are analysed in Note 46.

During the year ended 31 December 2008, the Group has reclassified non-derivative financial assets to the held-to-maturity investments category for an amount of euro 767.2 million, as follows:

(in thousands of euro)

	Acquisition value	On the transfer date					Market value in December 2008
		Book Value	Fair value Reserve		Value of future cash flows a)	Effective rate b)	
			Positive	Negative			
Available-for-sale financial assets	551 897	522 715	424	(29 607)	701 070	5,75%	485 831
Financial assets held for trading	243 114	244 530	-	-	408 976	11,50%	237 295
Bonds and other fixed-income securities	**795 011**	**767 245**	**424**	**(29 607)**	**1 110 046**		**723 126**

a) Undiscounted capital and interest cash-flows; future interest is calculated based on the forward rates at the date of reclassification.

b) Effective interest rate was calculated based on the forward interest rates at the date of reclassification; the maturity considered was the minimum between the call date, when applicable, and the maturity date of the financial asset.

If the reclassification of financial assets had not occurred, the impact in the financial statements of the Group would be as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Assets and liabilities at fair value through profit or loss		
Effect on the profit and loss	947	(1.347)
Tax effect	(73)	183
	874	(1.164)
Available-for-sale financial assets		
Effect on the fair value reserve	(3.780)	(16.329)
Tax effect	1.191	4.308
	(2.589)	(12.021)

The reclassification of financial assets held-for-trading as held-to-maturity investments was performed following the amendment to IAS 39 Financial instruments: recognition and measurement and IFRS 7 Financial instruments: disclosures, adopted by the Regulation (EU) n.º 1004/2008 issued in 15 October 2008. This reclassification was made due to the market conditions following the international financial crisis that characterised the year 2008, which was considered to be one of the rare circumstances justifying the application of the amendment to IAS 39.

Following the publication by the Bank of Portugal, in May 2011 OF Notice no. 3/2011, which has established new minimum levels for the Core Tier 1 ratio (9% at 31 December 2011 and 10% in 31 December 2012) and bearing in mind the need to achieve, from 2014, a stable funding ratio of 100%, according to the Memorandum of Economic and Financial Policies established between the Portuguese Government, the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF, the Group has decided during the second half of 2011 to sell a significant portion of the held-to-maturity investments portfolio. Under this decision, the securities to be sold were transferred to the available-for-sale financial assets portfolio and valued at market.

Taking into account that the reclassification and subsequent sale of those securities is attributable to the significant increase in the industry regulatory capital requirements, it qualifies as an exception to the taiting rules as established under paragraph AG 22 of IAS 39 'Financial Instruments: Recognition and Measurement'. On these basis and once the Group has the intention and ability to hold the remaining securities until their maturity, they remained classified on the held-to-maturity investments portfolio.

The effects of the securities reclassification in the Group consolidated financial statements, at the transfer date, can be analysed as follows:

(in thousands of euro)

Held-to-maturity investments				Available-for-sale financial assets			
Acquisition Value	Fair value Reserves a)	Impairment	Book value	Acquisition Value	Fair value Reserves	Impairment	Book value
584 923	(6 138)	(50)	578 735	584 923	(13 590)	(50)	571 283

a) Remaining value of the fair value reserves at the transfer date for the held-to-maturity investments portfolio occurred with reference to 1 June 2008.

NOTE 27 – DERIVATIVES FOR RISK MANAGEMENT PURPOSES

As at 31 December 2012 and 31 December 2011, the fair value of the derivatives for risk management purposes can be analysed as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Hedging	Risk management	Total	Hedging	Risk management	Total
Derivatives for risk management purposes						
Derivatives for risk management purposes - assets	153 897	362 623	516 520	210 027	300 063	510 090
Derivatives for risk management purposes - liabilities	(43 581)	(81 618)	(125 199)	(82 208)	(156 425)	(238 633)
	110 316	**281 005**	**391 321**	**127 819**	**143 638**	**271 457**
Fair value component of assets and liabilities being hedged						
Financial assets						
Loans and advances to customers	22 391	-	22 391	23 839	-	23 839
	22 391	**-**	**22 391**	**23 839**	**-**	**23 839**
Financial liabilities						
Deposits from banks	(67 996)	-	(67 996)	(56 254)	-	(56 254)
Due to customers	(787)	(90 099)	(90 886)	(838)	22 751	21 913
Debt securities issued	(38 472)	47 631	9 159	(38 497)	154 872	116 375
	(107 255)	**(42 468)**	**(149 723)**	**(95 589)**	**177 623**	**82 034**
	(84 864)	**(42 468)**	**(127 332)**	**(71 750)**	**177 623**	**105 873**

As mentioned in the accounting policy described in Note 2.4, derivatives for risk management purposes include hedging derivatives and derivatives contracted to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss (and that were not classified as hedging derivatives).

Hedging derivatives

As at 31 December 2012 and 2011, the fair value hedge relationships present the following features:

(in thousands of euro)

31.12.2012

Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative (2)	Changes in the fair value of the derivative in the year	Fair value component of the hedged item (1)	Changes in the fair value of the hedged item in the year (1)
Interest Rate Swap/ Currency Interest Rate Swap	Loans and advances to customers	Interest rate and FX	529 897	(23 884)	(179)	22 391	(638)
Interest Rate Swap	Deposits from banks	Interest rate	174 000	64 725	13 779	(67 996)	(11 744)
Interest Rate Swap	Due to customers	Interest rate	4 417	2 174	(50)	(787)	51
Equity / Interest Rate Swap	Debt security issued	Interest rate / Quote	1 656 777	67 301	4 929	(38 472)	(3 685)
			2 365 091	**110 316**	**18 479**	**(84 864)**	**(16 016)**

(1) Attributable to the hedged risk
(2) Includes accrued interest

(in thousands of euro)

31.12.2011							
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative [2]	Changes in the fair value of the derivative in the year	Fair value component of the hedged item [1]	Changes in the fair value of the hedged item in the year [1]
Interest Rate Swap/ Currency Interest Rate Swap	Loans and advances to customers	Interest rate and FX	740 420	(20 614)	(36 705)	23 839	(7 617)
Interest Rate Swap	Due to customers	Interest rate	4 417	1 978	(1 060)	(838)	918
Interest Rate Swap	Deposits from banks	Interest rate	186 300	53 435	28 658	(56 254)	(26 963)
Interest Rate Swap	Debt security issued	Interest rate	3 924 826	93 020	45 639	(38 497)	(13 344)
			4 855 963	127 819	36 532	(71 750)	(47 006)

[1] Attributable to the hedged risk
[2] Includes accrued interest

Changes in the fair value of the hedged items mentioned above and of the respective hedging derivatives are recognised in the income statement under net gains/ (losses) from financial assets and financial liabilities at fair value through profit or loss (See Note 7).

As at 31 December 2012, the ineffectiveness of the fair value hedge operations amounted to euro 2.5 million (31 December 2011: euro 10.5 million) and was recognised in the income statement. BES Group evaluates on an ongoing basis the effectiveness of the hedges.

Other derivatives for risk management purposes

Other derivatives for risk management purposes includes derivatives held to hedge assets and liabilities at fair value through profit and loss in accordance with the accounting policies described in Notes 2.5, 2.6 and 2.8 and that the Group did not classify as hedging derivatives.

The book value of financial assets and financial liabilities at fair value through profit and loss can be analysed as follows:

(in thousands of euro)

31.12.2012								
		Derivative			Assets/liabilities associated			
Derivative	Financial assets/liabilities economically hedged	Notional	Fair Value	Changes in the fair value during the year	Fair Value	Changes in the fair value during the year	Book Value	Reimbursement amount at maturity date [1]
	Liabilities							
Interest Rate Swap	Due to customers	7 540 000	179 038	67 206	(90 099)	(111 024)	8 791 778	8 712 699
Interest Rate Swap/ FX Forward	Debt security issued	1 485 628	97 092	28 745	69 217	(53 029)	303 386	370 714
Credit Default Swap	Debt security issued	346 845	5 810	44 774	(22 202)	(53 860)	376 308	358 728
Equity Swap	Debt security issued	405 155	(3 662)	15 813	2 985	(24 257)	339 252	357 237
Equity Option	Debt security issued	82 525	2 727	13	(2 369)	(5 339)	125 874	131 828
		9 860 153	281 005	156 551	(42 468)	(247 509)	9 936 598	9 931 206

(in thousands of euro)

31.12.2011								
		Derivative			Assets/liabilities associated			
Derivative	Financial assets/liabilities economically hedged	Notional	Fair Value	Changes in the fair value during the year	Fair Value	Changes in the fair value during the year	Book Value	Reimbursement amount at maturity date [1]
	Liabilities							
Interest Rate Swap	Due to customers	5 858 000	130 251	46 477	18 824	41 092	7 296 870	7 315 694
Interest Rate Swap/ FX Forward	Debt security issued	1 822 391	77 431	34 408	120 593	6 971	278 702	395 878
Credit Default Swap	Debt security issued	205 778	(33 905)	(37 349)	22 287	14 560	219 839	238 524
Equity Swap	Debt security issued	947 585	(33 873)	(25 271)	15 371	23 203	334 881	349 886
Equity Option	Debt security issued	78 719	3 734	3 285	548	517	107 521	110 039
		8 912 473	143 638	21 550	177 623	86 343	8 237 813	8 410 021

As at 31 December 2011, the fair value of the financial liabilities at fair value through profits and losses, includes a positive cumulative effect of euro 167.1 million (31 December 2011: positive cumulative effect of euro 202.3 million) attributable to the Group's own credit risk. The change in fair value attributable to the Group's own credit risk resulted in the recognition, in 2012, of a loss amounting to euro 35.2 million (31 December 2011: profit of euro 50.9 million) (see Note 7).

As at 31 December 2012 and 2011, the analysis of derivatives for risk management purposes by the period to maturity, can be analysed as follows:

(in thousands of euro)

	31.12.2012		31.12.2011	
	Notional	Fair Value	Notional	Fair Value
Up to 3 months	1 674 024	13 571	3 014 403	24 059
3 to 12 months	2 361 702	25 889	2 688 223	38 159
1 to 5 years	7 205 288	205 686	7 024 951	82 709
More than 5 years	984 230	146 175	1 040 859	126 530
	12 225 244	391 321	13 768 436	271 457

NOTE 28 – NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE

As at 31 December 2012 and 31 December 2011, this balance is analysed as follows:

(in thousands of euro)

	31.12.2012		31.12.2011	
	Assets	Liabilities	Assets	Liabilities
Assets and liabilities of subsidiaries acquired exclusively for resale purposes	731 767	175 945	291 248	140 950
Property held for sale	2 843 378	-	1 531 180	-
Equipment	2 524	-	2 203	-
Other	3 501	-	3 501	-
	2 849 403	-	1 536 884	-
Impairment losses	(303 630)		(181 449)	-
	2 545 773	-	1 355 435	-
	3 277 540	175 945	1 646 683	140 950

The amounts presented refer to (i) investments in entities controlled by the Group, which have been acquired exclusively with the purpose of being sold in the short term, and (ii) assets acquired in exchange for loans and discontinued branches available for immediate sale.

Assets / liabilities of subsidiaries acquired for resale primarily reflect assets and liabilities of companies acquired by the Group on loan restructuring operations and that the Group intends to sell within one year. However, given the current market conditions it was not possible to sell them within the expected time frame, but the sales effort and, in some cases, negotiations with potential buyers are still ongoing.

As at 31 December 2012, the amount of property held for sale includes euro 21 598 thousand (31 December 2011: euro 16 392 thousand) related to discontinued branches, in relation to which the Group recognised an impairment loss amounting to euro 11 193 thousand (31 December 2011: euro 7 699 thousand).

The changes occurred in impairment losses are presented as follows:

(thousands of euro)

	31.12.2012	31.12.2011
Balance at the beginning of the year	181 449	89 825
Changes in the consolidation scope	116 654	-
Charge/ Write back of the year	40 178	123 062
Charge off	(29 664)	(31 057)
Exchange differences and others	(4 987)	(381)
Balance at the end of the year	**303 630**	**181 449**

The changes occurred during 2012 and 2011 in non-current assets held for sale are presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Balance at the beginning of the year	1 536 884	642 952
Changes in the consolidation scope	530 343	-
Additions	996 260	1 077 644
Sales	(218 735)	(190 452)
Other	4 651	6 740
Balance at the end of the year	**2 849 403**	**1 536 884**

The Group has implemented a plan for the immediate sale of non-current assets held for sale. However, given the current market conditions it was not possible, in some situations, to sell them within the expected time frame. However, the Group continues to work towards the achievement of the sales plan established.

Following the sales occurred in 2012, the Group realised a loss amounting to euro 5 914 thousand (31 December 2011: euro 4 828 thousand).

NOTE 29 – INVESTMENT PROPERTIES

The movement in investment properties for the period ended 30 December 2012 can be analysed as follows:

(thousands of euro)

	31.12.2012	31.12.2011
Balance at the beginning of the period	-	-
Change in the scope of consolidation [a)]	446 135	-
Improvements	748	-
Other	(4 895)	-
	441 988	-

[a)] Related with the entry of BES Vida, Fungere and Fungepi into the Group consolidation perimeter.

The significant increase in this caption in 2012, arises mainly on the full consolidation of BES Vida from 1 May 2012, as referred in Note 54.

The carrying amount of investment property is the fair value of the properties as determined by a registered and independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values were determined having regard to recent market transactions for similar properties in the same locations as the Group's investment property when available.

Investment property includes a number of commercial properties that are leased to third parties. Most lease contracts do not have a specified term being possible for the lessee to cancel at any time. However, for a small portion of commercial properties leased to third parties on average the leases contain an initial non-cancellable period of 10 years. Subsequent renewals are negotiated with the lessee.

The investment properties fair value increase of euro 2.9 million, and the rental income from investment property amounting to euro 3.2 million are recognised in "Other operating income".

The direct operating costs, including maintenance and repair, arising from investment properties leased during 2012 and from investment properties that were not leased during 2012 amounted to euro 0.7 million and euro 0.2 million, respectively.

NOTE 30 – PROPERTY AND EQUIPMENT

As at 31 December 2012 and 2011, this balance is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Property		
For own use	472 650	445 236
Improvements in leasehold property	228 098	240 603
Other	1 139	842
	701 887	686 681
Equipment		
Computer equipment	308 497	292 982
Fixtures	142 759	140 216
Furniture	131 075	128 340
Security equipment	42 469	38 043
Office equipment	34 961	35 597
Motor vehicles	12 627	11 756
Other	6 135	4 929
	678 523	651 863
Other	624	643
	1 381 034	1 339 187
Work in progress		
Improvements in leasehold property	344	1 422
Property for own use	396 237	318 160
Equipment	2 092	6 643
Other	54	260
	398 727	326 485
	1 779 761	1 665 672
Accumulated depreciation	(848 139)	(813 994)
	931 622	851 678

The movement in this balance was as follows:

(in thousands of euro)

	Property	Equipment	Other	Work in progress	Total
Acquisition cost					
Balance as at 31 December 2010	685 065	632 107	765	261 934	1 579 871
Acquisitions	6 380	22 184	(106)	77 299	105 757
Disposals	(4 680)	(12 077)	-	(4)	(16 761)
Transfers **(a)**	(168)	8 311	(21)	(13 794)	(5 672)
Exchange differences and other **(b)**	84	1 338	5	1 050	2 477
Balance as at 31 December 2011	686 681	651 863	643	326 485	1 665 672
Acquisitions	5 410	27 615	-	115 775	148 800
Disposals	(20 291)	(12 565)	(16)	(850)	(33 722)
Transfers **(a)**	22 859	5 009	-	(34 592)	(6 724)
Exchange differences and other **(b)**	7 228	6 601	(3)	(8 091)	5 735
Balance as at 31 December 2012	701 887	678 523	624	398 727	1 779 761
Depreciation					
Balance as at 31 December 2010	274 409	496 173	252	-	770 834
Acquisitions	21 233	40 487	9	-	61 729
Disposals	(4 571)	(11 995)	-	-	(16 566)
Transfers **(a)**	(1 355)	(48)	-	-	(1 403)
Exchange differences and other **(b)**	(1 067)	459	8	-	(600)
Balance as at 31 December 2011	288 649	525 076	269	-	813 994
Acquisitions	22 006	39 906	10	-	61 922
Disposals	(18 667)	(7 765)	-	-	(26 432)
Transfers **(a)**	(1 110)	(413)	-	-	(1 523)
Exchange differences and other **(b)**	(525)	685	18	-	178
Balance as at 31 December 2012	290 353	557 489	297	-	848 139
Net amount as at 31 December 2012	411 534	121 034	327	398 727	931 622
Net amount as at 31 December 2011	398 032	126 787	374	326 485	851 678

(a) Property and equipment transferred to the balance other assets, referring to discontinued branches transferred to the balance non-current assets held for sale.
(b) Includes euro 8 743 thousand from property, euro 7 919 thousand from equipment and euro 6 647 thousand of accumulated depreciation related to the inclusion of BES Vida in the consolidation scope.

The balance Equipment – Motor vehicles includes equipment acquired under finance lease agreements, whose payment schedule is as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Gross investment in finance leases, payable		
Up to 1 year	16	15
1 to 5 years	-	16
	16	31
Overdue interest		
Up to 1 year	1	3
1 to 5 years	-	1
	1	4
Overdue loans		
Up to 1 year	15	12
1 to 5 years	-	15
	15	27

NOTE 31 – INTANGIBLE ASSETS

As at 31 December 2012 and 2011, this balance is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Goodwill	313 665	97 739
Value In Force [(a)]	109 937	-
Internally developed		
Software	58 186	47 644
Acquired to third parties		
Software	645 010	610 469
Other	951	917
	645 961	611 386
Work in progress	33 701	26 413
	1161 450	783 182
Accumulated amortisation	(596 345)	(543 222)
Impairment losses	(9 779)	(9 628)
	555 326	230 332

[(a)] related to BES Vida

The balance internally developed software includes the costs incurred by the Group in the development and implementation of software applications that will generate economic benefits in the future (see Note 2.14).

Goodwill is registered in accordance with the accounting policy described in Note 2.2. and is presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Subsidiaries		
BES Vida	234 574	-
ES Investment Holding [(a)]	48 567	47 449
ES Gestion [(b)]	2 459	22 142
Aman Bank	16 046	16 046
Concordia	1 756	1 605
Other	2 370	2 604
Other cash-generating units		
Leasing and Factoring	7 893	7 893
	313 665	97 739
Impairment losses	(9 779)	(9 628)
	303 886	88 111

[(a)] Company that holds Execution Noble

[(b)] As at 31 December, 2011 this balance includes the amount of euro 2 459 thousand and euro 19 683 thousand related to Inversión Bank and Gespastor, respectively, companies which were incorporated by fusion in ES Gestion, after the acquisition.

Goodwill and Value in Force of BES Vida, were calculated at the date of the acquisition of control (See Note 54). As at 31 December 2011, this entity was accounted for, in the consolidated financial statements of the Group, under the equity method being the respective goodwill included in the book value of the investment (see Note 32).

ES Investment Holding Limited

The recoverable amount of ES Investment Holding Limited has been determined using cash flow/dividends predictions based on (i) the financial budget approved by management covering a nine-year period, (ii) a terminal growth rate in line with the estimated nominal growth for the country where the company is located and (iii) a discount rate of 10.71% including a risk premium appropriated to the estimated future cash-flows.

The nine-year period for estimating the future cash-flows reflect the fact that the company was acquired in late 2010 and its business strategy is being redefined. It is expected that the company achieves a maturity stage only at the end of that time period.

Based on the above assumptions, the recoverable amount exceeded the carrying amount including goodwill.

ES Gestion

On 7 October 2011, Banco Popular and Banco Pastor announced their intention to begin a merger process. The merger of Banco Popular with Banco Pastor had a significant impact on the implementation of the exclusive distribution agreement established in 2010 between Banco Pastor and ESAF - Espirito Santo Financial Assets SGPS, SA (through ES Gestion), which included indemnity clauses in favor of the Group. During May 2012, ESAF (through ES Gestion) and Banco Pastor signed a termination contract, having the Group received a compensation, calculated based on the rules established on the distribution agreement, amounting to euro 30 million. The goodwill related to the acquisition of Gespastor in 2010 (subsequently merged into ES Gestion), amounting to euro 19.7 million, was written-off. The net gain of euro 10.3 million was recognised in 2012, under Other operation income (see Note 14).

Aman Bank

On 31 December 2011, the Group recognised an impairment of euro 8 023 thousand in goodwill recorded on the date of acquisition of Aman Bank. The impairment reflects the changes of the estimated future cash flows expected by the Group in this entity as a result of the political situation lived in Libya during 2011.

In 2012, this entity showed a positive trend, thus there was no need to reinforce the impairment loss recognised.

The movement in this balance was as follows:

(in thousands of euro)

	Goodwill and Value In Force	Software	Other	Work in progress	Total
Acquisition cost					
Balance as at 31 December 2010	**95 616**	**600 037**	**1 312**	**35 732**	**732 697**
Acquisitions:					
Internally developed	-	-	-	9 178	9 178
Acquired from third parties	-	12 521	-	27 083	39 604
Disposals	-	(360)	(409)	-	(769)
Transfers	-	45 088	-	(45 088)	-
Variação cambial e outros movimentos	2 123	827	14	(492)	2 472
Balance as at 31 December 2011	**97 739**	**658 113**	**917**	**26 413**	**783 182**
Acquisitions:					
Internally developed	-	54	-	8 257	8 311
Acquired from third parties **(a)**	344 511	11 533	-	24 152	380 196
Disposals	-	(1 414)	-	(103)	(1 517)
Transfers	-	26 255	-	(26 255)	-
Exchange differences and other **(b) (c)**	(18 648)	8 655	34	1 237	(8 722)
Balance as at 31 December 2012	**423 602**	**703 196**	**951**	**33 701**	**1161 450**
Amortisations					
Balance as at 31 December 2010	**-**	**496 211**	**1 149**	**-**	**497 360**
Amortisations of the period	-	46 068	129	-	46 197
Disposals	-	(57)	(409)	-	(466)
Exchange differences and other	-	122	9	-	131
Balance as at 30 June 2011	**-**	**542 344**	**878**	**-**	**543 222**
Amortisations of the period	-	46 116	36	-	46 152
Disposals	-	(1 318)	-	-	(1 318)
Exchange differences and other **(d)**	-	8 288	1	-	8 289
Balance as at 31 December 2012	**-**	**595 430**	**915**	**-**	**596 345**
Impairment					
Balance as at 31 December 2010	**1 800**	**-**	**-**	**-**	**1 800**
Impairment losses	8 023	-	-	-	8 023
Exchange differences and other	(195)	-	-	-	(195)
Balance as at 31 December 2011	**9 628**	**-**	**-**	**-**	**9 628**
Exchange differences and other	151	-	-	-	151
Balance as at 31 December 2012	**9 779**	**-**	**-**	**-**	**9 779**
Net amount as at 31 December 2012	**413 823**	**107 766**	**36**	**33 701**	**555 326**
Net amount as at 31 December 2011	**88 111**	**115 769**	**39**	**26 413**	**230 332**

(a) Goodwill and VIF relates to BES Vida control acquisition.
(b) Includes euro 19 682 thousands regarding Gespastor goodwill derecognition.
(c) Includes euro 8 917 thousands from BES Vida control acquisition (see Note 54).
(d) Includes euro 8 791 thousands from BES Vida control acquisition (see Note 54).

NOTE 32 – INVESTMENTS IN ASSOCIATES

The financial information concerning associates is presented in the following table:

(in thousands of euro)

	Assets		Liabilities		Equity		Income		Profit/(Loss) for the period	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
BES VIDA	-	5 658 690	-	5 601 926	-	56 764	-	390 722	-	(107 968)
ES VÉNÉTIE	1 616 961	1 636 829	1 444 715	1 471 545	172 246	165 284	75 012	67 785	10 315	10 000
LOCARENT	285 740	321 581	277 404	314 938	8 336	6 643	94 213	97 798	2 595	3 017
BES SEGUROS	120 243	131 184	89 039	111 531	31 204	19 653	66 537	66 344	6 971	3 324
ESEGUR	39 121	41 679	28 526	31 524	10 595	10 155	50 980	54 478	595	600
EUROP ASSISTANCE	-	-	-	-	-	-	-	-	-	1 456
FUNDO ES IBERIA	13 894	14 252	169	266	13 725	13 986	466	298	(106)	(1 198)
SCI GEORGES MANDEL	11 271	11 292	9	11	11 262	11 281	957	980	591	610
BRB INTERNACIONAL	12 883	14 899	12 407	12 596	476	2 303	1 243	3 525	(589)	84
AUTOPISTA PEROTE-XALAPA	650 179	441 723	521 167	308 586	129 012	133 137	-	-	(6 634)	(223)
ASCENDI GROUP	4 056 000	3 945 239	3 656 000	3 561 239	400 000	384 000	140 000	99 266	28 000	127 257
EMPARK	782 872	773 857	651 074	626 861	131 798	146 996	166 594	182 274	(7 171)	357
AUVISA - AUTOVIA DE LOS VIÑEDOS	216 000	248 201	222 000	214 586	(6 000)	33 615	14 000	12 791	(4 000)	1 494
UNICRE	305 005	307 856	179 941	194 012	125 064	113 844	231 070	241 045	11 256	8 745
MOZA BANCO	186 719	92 737	154 683	64 908	32 036	27 829	21 760	11 720	(3 289)	595
RODI SINKS & IDEAS	43 446	45 211	20 537	24 196	22 909	21 015	19 528	16 719	1 609	902
SCUTVIAS	-	718 866	-	647 086	-	71 780	-	116 590	-	12 663

Note: Information adjusted for consolidation purposes

(in thousands of euro)

	Participation Cost		Economic Interest		Book Value		Share of profits of associates	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
BES VIDA **a)**	-	537 497	-	50.00%	-	200 000	2 761	(193 261)
ES VÉNÉTIE	42 293	42 293	42.69%	42.69%	73 672	70 700	4 403	4 269
LOCARENT	2 967	2 967	50.00%	50.00%	4 478	3 632	1 298	1 509
BES SEGUROS	3 749	3 749	25.00%	25.00%	7 798	4 911	1 743	831
ESEGUR	9 634	9 634	44.00%	44.00%	11 506	11 312	262	264
EUROP ASSISTANCE	-	-	-	-	-	-	-	335
FUNDO ES IBERIA	7 087	8 708	38.67%	38.69%	5 649	5 262	261	(292)
SCI GEORGES MANDEL	2 401	2 401	22.50%	22.50%	2 534	2 538	133	137
BRB INTERNACIONAL	10 659	10 659	25.00%	24.93%	119	335	(216)	92
AUTOPISTA PEROTE-XALAPA **b)**	36 678	36 678	14.33%	14.33%	30 802	26 628	3 647	209
ASCENDI GROUP **b)**	179 772	168 310	28.66%	28.66%	186 955	169 900	6 566	7 130
EMPARK **b)**	52 429	55 013	15.92%	15.92%	50 090	54 661	(2 193)	(698)
AUVISA - AUTOVIA DE LOS VIÑEDOS	41 056	41 056	35.83%	35.83%	34 792	38 304	(2 531)	(5)
UNICRE **b)**	11 497	11 497	17.50%	17.50%	21 886	19 923	1 970	1 530
MOZA BANCO	12 791	9 800	25.10%	25.10%	12 234	11 178	(826)	149
RODI SINKS & IDEAS	1 240	1 240	24.81%	24.81%	8 129	7 528	194	-
SCUTVIAS **b)**	-	50 669	-	15.93%	-	50 669	-	-
OTHERS	140 507	130 103			130 338	129 518	(9 160)	2 570
	554 760	**1 122 274**			**580 982**	**806 999**	**8 312**	**(175 231)**

a) In May 2012, BES acquired the remaining 50% of BES Vida share capital, becoming fully consolidated in BES (see Note 54).

b) Although the Group's economic interest is less than 20%, this entities were consolidated under the equity method, as the Group exercises a significant influence over their activities.

The movement occurred in this balance is presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Balance at the beginning of the year	806 999	961 908
Disposals	(58 905)	(2 021)
Acquisitions (see Note 1)	32 418	98 191
Share of profit of associates	8 312	(38 956)
Impairment of associates	-	(136 275)
Fair value reserve from investments in associates	43 084	(58 128)
Dividends received	(3 423)	(4 193)
Changes in the consolidation scope	(243 790)	-
Exchange differences and other	(3 713)	(13 527)
Balance at the end of the year	**580 982**	**806 999**

The changes in consolidation scope in the first semester of 2012, arises mainly on the full consolidation of BES Vida from 1 May 2012, as referred in Note 54.

During the year ended in 31 December 2011, the Group recognised an impairment in the amount of euro 136 275 thousand regarding the investment in BES Vida, corresponding to the difference between the carrying amount of the investment and the estimated recoverable amount. The recoverable amount of BES Vida, as at 31 December 2011, was determined based on the Appraisal Value method. This methodology derives from Market Consistent Embbeded Value and market value attributable to the new business. Market Consistent Embbeded Value is a specific method of evaluating life insurance companies to determine the fair value of its contracts portfolio (insurance contracts and investment contracts) and is consistent with the general principles of the method of discounted future profits.

NOTE 33 – TECHNICAL RESERVES

The direct insurance and reinsurance ceded technical reserves are analysed as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Direct insurance	Reinsurance ceded	Total	Direct insurance	Reinsurance ceded	Total
Unearned premiums reserve	2 618	-	2 618	-	-	-
Life mathematical reserve	1 545 079	(129)	1 544 950	-	-	-
Claims outstanding reserve	27 447	(1 621)	25 826	-	-	-
Reserve for bonus and rebates	2 264	(2 054)	210	-	-	-
	1 577 408	(3 804)	1 573 604	-	-	-

This caption arises on the full consolidation of BES Vida from 1 May 2012, as referred in Note 54.

In accordance with IFRS 4, the contracts issued by the Group for which there is only a transfer of financial risk, with no discretionary profit sharing, are classified as investment contracts and accounted for as financial liabilities (see Note 39).

The life mathematical reserve is analysed as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Direct insurance	Reinsurance ceded	Total	Direct insurance	Reinsurance ceded	Total
Annuities	-	-	-	-	-	-
Traditional	31 979	(129)	31 850	-	-	-
Saving contracts with profit sharing	1 513 100	-	1 513 100	-	-	-
	1 545 079	(129)	1 544 950	-	-	-

The claims outstanding reserve is analysed as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Direct insurance	Reinsurance ceded	Total	Direct insurance	Reinsurance ceded	Total
Annuities	-	-	-	-	-	-
Traditional	14 316	(1 621)	12 695	-	-	-
Saving contracts with profit sharing	13 131	-	13 131	-	-	-
	27 447	(1 621)	25 826	-	-	-

The claims outstanding reserve represents unsettled claims occurred before the balance sheet date and include an estimated provision in the amount of euro 429 thousand for claims incurred before 31 December 2012, but not reported (IBNR).
The movements on the claims outstanding reserve of direct insurance business are analyzed as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Direct insurance	Reinsurance ceded	Total	Direct insurance	Reinsurance ceded	Total
Balance at the beginning of the period	-	-	-	-	-	-
Change in the scope of consolidation	30 194	(1 257)	28 937	-	-	-
Plus incurred claims	-					
Current year	362 235	(1 101)	361 134	-	-	-
Prior years	1 830	(117)	1 713	-	-	-
Less paid claims related to						
Current year	(361 834)	640	(361 194)	-	-	-
Prior years	(4 978)	214	(4 764)	-	-	-
Balance at the end of the period	**27 447**	**(1 621)**	**25 826**	**-**	**-**	**-**

The reserve for bonus and rebates corresponds to the amounts attributed to policyholders or beneficiaries of insurance and investment contracts with profit sharing, in the form of profit participation, which have not yet been specifically allocated and included in the life mathematical reserve.

The movement in the reserve for bonus and rebates for the year ended 31 December 2012 is as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Direct insurance	Reinsurance ceded	Total	Direct insurance	Reinsurance ceded	Total
Balance at the beggining of the period	-	-	-	-	-	-
Changes in the scope of consolidation	1 326	(804)	522	-	-	-
Amounts paid	(170)	187	17	-	-	-
Estimated attributable amounts	1 108	(1 437)	(329)	-	-	-
Balance at the end of the period	2 264	(2 054)	210	-	-	-

The provision for rate commitments refers to the result obtained in the liability adequacy test.

NOTE 34 – OTHER ASSETS

As at 31 December 2012 and 2011, the balance other assets is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Debtors		
Deposits placed with futures contracts	1 664 467	1 605 033
Recoverable government subsidies on mortgages loans	38 658	48 892
Debtors for unrealised capital of subsidiaries	7 000	7 000
Public sector	144 697	136 749
Debtors from the insurance business	567	-
Sundry debtors	628 668	629 030
	2 484 057	2 426 704
Impairment losses on debtors	(234 987)	(47 861)
	2 249 070	2 378 843
Other assets		
Gold, other precious metals, numismatics, and other liquid assets	10 834	11 122
Other assets	185 994	84 700
	196 828	95 822
Accrued income	48 415	52 718
Deferred acquisition costs	114 766	122 849
Other sundry assets		
Foreign exchange transactions pending settlement	16 179	2 489
Stock exchange transactions pending settlement	154 257	171 918
Other transactions pending settlement	200 037	99 202
	370 473	273 609
Assets recognised on pensions	14 602	107 014
	2 994 154	3 030 855

The sundry debtors' amount includes:

- euro 100 million related with loans to Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (31 December 2011: euro 100 million);

- euro 67.2 million of loans to entities within the Group's venture capital business, of which euro 30.7 million are provided for (31 December 2011: euro 70.5 million, of which euro 8.3 million were provided for);

- and 94.3 million of loans and junior securities, following the transfer of loans/assets to companies and specialized funds, of which euro 87.7 million are provided for (31 December 2011: euro 36.2 million, of which euro 23.0 million were provided for).

The impairment losses on debtors caption includes also an amount of euro 86.6 million related to the impairment of international assets in the carbon market.

As at 31 December 2012, the balance prepayments and deferred costs includes the amount of euro 64 901 thousand (31 December 2011: euro 66 199 thousand) related to the difference between the nominal amount of loans granted to Group's employees under the collective labour agreement for the banking sector (ACT) and their respective fair value at grant date, calculated in accordance with IAS 39. This amount is charged to the income statement over the lower period between the remaining maturity of the loan granted, and the estimated remaining service life of the employee.

The stock exchange transactions pending settlement refer to transactions with securities on behalf of third parties, recorded on trade date and pending settlement, in accordance with the accounting policy described in Note 2.6.

The movements occurred in impairment losses are presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Balance at the beginning of the year	47 861	15 047
Charge of the year	194 142	39 165
Charge off	(355)	(2 916)
Write back of the year	(13 427)	(2 648)
Other	6 766	(787)
Balance at the end of the year	**234 987**	**47 861**

NOTE 35 – DEPOSITS FROM CENTRAL BANKS

The balance deposits from central banks is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
From the European System of Central Banks		
Deposits	129 382	22 204
Other funds	10 150 000	8 764 000
	10 279 382	**8 786 204**
From other Central Banks		
Inter-bank money market	-	21 650
Deposits	613 938	1 205 859
	613 938	**1 227 509**
	10 893 320	**10 013 713**

As at 31 December 2012, Other funds from the European System of Central Banks includes euro 10 156 million (31 December 2011: euro 8 764 million), covered by securities pledged as collaterals (see Note 46).

As at 31 December 2012, the balance Deposits from other Central Banks includes the amount of euro 431 million related to deposits with Angola Central Bank (31 December 2011: euro 1 098 million).

As at 31 December 2012 and 2011 the analysis of deposits from banks by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Up to 3 months	804 630	4 610 827
3 to 12 months	-	401 497
1 to 5 years	10 088 690	5 001 389
	10 893 320	10 013 713

NOTE 36 – DEPOSITS FROM BANKS

The balance deposits from banks is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Domestic		
Deposits	383 720	481 579
Very short term funds	40 172	251 045
Repurchase agreements	66 579	170 850
Other funds	4 487	5 279
	494 958	908 753
International		
Deposits	504 679	854 289
Loans	2 315 433	2 206 392
Very short term funds	194 475	121 259
Repurchase agreements	1 311 162	1 847 600
Other funds	267 951	301 067
	4 593 700	5 330 607
	5 088 658	6 239 360

As at 31 December 2012, this balance includes the amount of euro 212 million (31 December 2011: 219 million) related to deposits recognised on the balance sheet at fair value through profit or loss (see Note 27).

As at 31 December 2012 and 2011 the analysis of deposits from banks by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Up to 3 months	2 363 813	3 304 307
3 to 12 months	1 327 967	343 026
1 to 5 years	669 591	1 760 271
More than 5 years	727 287	831 756
	5 088 658	6 239 360

NOTE 37 – DUE TO CUSTOMERS

The balance due to customers is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Repayable on demand		
Demand deposits	10 458 336	8 573 096
Time deposits		
Time deposits	21 719 358	23 397 235
Other	56 391	110 210
	21 775 749	23 507 445
Savings accounts		
Pensioners	28 022	15 049
Other	1 645 970	1 470 261
	1 673 992	1 485 310
Other funds		
Repurchase agreements	242 150	267 801
Other	390 096	372 510
	632 246	640 311
	34 540 323	34 206 162

This balance includes the amount of euro 8 792 million (31 December 2011: euro 7 297 million) of deposits recognised in the balance sheet at fair value through profit or loss (see Note 27).

The analysis of the amounts due to customers by the period to maturity is as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Repayable on demand	10 458 336	8 573 096
Term liabilities		
Up to 3 months	11 024 506	14 310 762
From 3 months to 1 year	6 517 198	6 556 146
From1 to 5 years	6 169 147	4 640 082
More than 5 years	371 136	126 076
	24 081 987	25 633 066
	34 540 323	34 206 162

NOTE 38 – DEBT SECURITIES ISSUED

The balance debt securities issued is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Euro Medium Term Notes (EMTN)	10 033 382	9 735 468
Certificates of deposit	612 033	644 103
Bonds	1 305 299	3 258 824
Covered bonds	864 100	933 732
Other	2 609 247	3 880 521
	15 424 061	18 452 648

As at 31 December 2012, bonds issued by the Group includes the amount of euro 4 750 million of debt securities issued with a guarantee from the Portuguese Republic (31 December 2011: euro 1 572 million).

This balance includes the amount of euro 1 488 million (31 December 2011: euro 1 234 million) related with debt securities issued at fair value through profit or loss (see Note 27).

Under the covered bonds programme, which has a maximum amount of 10 000 million, the Group issued covered bonds for a total amount of euro 4 590 million. The main characteristics of these issues are as follows:

Description	Nominal value (in thousands of euro)	Book value (in thousands of euro)	Issue date	Maturity date	Interest payment	Taxa de Juro	Rating	
							Moody's	DBRS
BES Obrigações hipotecárias 3,375%	1 000 000	821 922	17/11/2009	17/02/2015	Annually	3.375%	Baa3	AL
BES Obrigações hipotecárias DUE JUL 1'	1 050 000	-	07/07/2010	09/07/2017	Annually	6 month Euribor + 0.60%	Baa3	AL
BES Obrigações hipotecárias 21/07/2017	1 250 000	29	21/07/2010	21/07/2017	Annually	6 month Euribor + 0.60%	Baa3	AL
BES Obrigações hipotecárias DUE 4,6%	40 000	42 149	15/12/2010	26/01/2017	Annually	Fixed rate 4,6%	Baa3	AL
BES Obrigações hipotecárias HIPOT. 201	1 250 000	-	25/01/2011	25/01/2018	Annually	6 month Euribor + 0.60%	Baa3	AL
	4 590 000	864 100						

These covered bonds are guaranteed by a cover assets pool, comprised of mortgage credit assets and limited classes of other assets, that the issuer of mortgage covered bonds shall maintain segregated and over which the holders of the relevant covered bonds have a statutory special creditor privilege. These conditions are set up in Decree-Law no. 59/2006, Regulations 5/2006, 6/2006, 7/2006 and 8/2006 of the Bank of Portugal and Instruction 13/2006 of the Bank of Portugal.

As at 31 December 2012, the mortgage loans that collateralise these covered bonds amount to euro 5 605.1 million (31 December 2011: euro 5 305.9 million) (see Note 25).

The changes occurred in debt securities issued during 2012 are analysed as follows:

(in thousands of euro)

	31.12.2011	Issues	Repayments	Net repurchase	Other movements a)	31.12.2012
Euro Medium Term Notes (EMTN)	9 735 468	4 682 456	(3 370 609)	(1 355 014)	341 081	10 033 382
Certificates of deposit	644 103	-	(31 077) b)	-	(993)	612 033
Bonds	3 258 824	30 000	(1 991 107)	84 402	(76 820)	1 305 299
Covered bonds	933 732	-	-	(76 054)	6 422	864 100
Other	3 880 521	8 505 942	(9 526 639)	(189 293)	(61 284)	2 609 247
	18 452 648	**13 218 398**	**(14 919 432)**	**(1 535 959)**	**208 406**	**15 424 061**

a) Other movements include accrued interest, corrections by hedging operations, fair value adjustments and foreign exchanges differences.

b) Certificates of deposit are presented at the net value, considering their short term maturity.

In accordance with the accounting policy described in Note 2.8, debt issued repurchased by the Group is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement. Following the repurchases performed, as at 31 December 2012 and 31 December 2011, the Group recognised a gain of euro 74.1 million and of euro 155.3 million respectively (see Note 14 and 42).

The analysis of debt securities issued by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Up to 3 months	2 466 103	6 038 482
3 to 12 months	1 345 865	761 034
1 to 5 years	7 367 491	7 693 938
More than 5 years	4 244 602	3 959 194
	15 424 061	**18 452 648**

The main characteristics of debt securities issued during the year ended 31 December 2012, are presented as follows:

(in thousands of euro)

			31.12.2012				
Issuer	Designation		Currency	Issue date	Book value	Maturity	Interest rate
BES	BES DUE 2013		EUR	2007	398 329	2013	Euribor 3 months + 0.125%
BES	BES DUE JUN 14		EUR	2007	375 554	2014	Euribor 3 months + 0.125%
BES	BES ER 4% ABR05	a)	EUR	2005	1 817	2013	ixed rate 4.14% on 1st, 2nd and 8th years + swap rate from 3rd to 7th years
BES	BES-E.RENDA 4%	a)	EUR	2005	1 712	2013	ixed rate 4.15% on 1st, 2nd and 8th years + swap rate from 3rd to 7th years
BES	BES 5,625% 2014		EUR	2009	1 359 732	2014	Fixed rate- 5.63%
BES	BES 3,375%		EUR	2009	821 922	2015	Fixed rate3.375%
BES	BES DUE 02/2013		EUR	2009	685 983	2013	Euribor 3 months + 1%
BES	BES DUE 3,875%		EUR	2010	436 458	2015	Fixed rate3.875%
BES	BES 21/07/2017		EUR	2010	29	2017	Euribor 6 months + 0.60%
BES	BES DUE 4,6%		EUR	2010	42 149	2017	Fixed rate4.6%
BES	BES DUE JULY 16		EUR	2011	59 708	2016	Fixed rate6.875%
BES	BES PORTUGAL NO	a)	EUR	2011	19 578	2014	Euribor 6 months + 3.5%
BES	BES PORTUGAL	a)	EUR	2011	21 986	2014	Euribor 6 months + 3.5%
BES	BES 3% 16/12/20		EUR	2011	59 938	2021	Fixed rate3%
BES	BES DUE FEV.14		EUR	2012	113 367	2014	Fixed rate6.5%
BES	BES 4 ANOS 7%		EUR	2012	126 782	2016	Fixed rate7%
BES	BES 6,9% 2024		EUR	2012	68 281	2024	Fixed rate6.9%
BES	BES 26/10/2015		EUR	2012	50 358	2015	Euribor 6 months + 3.85%
BES	BES 5,875% 2015		EUR	2012	738 815	2015	Fixed rate: 5.875%
BES (Cayman Branch)	BES CAYMAN ZC 02/18/2028		EUR	2003	13 603	2028	Zero Coupon - Efective rate 5.50%
BES (Cayman Branch)	BES CAYMAN Step Up 08/27/13		EUR	2003	57 452	2013	StepUp (1º cupão 3.00%)
BES (Cayman Branch)	BES CAYMAN Step Up 09/02/13		EUR	2003	77 461	2013	StepUp (1º cupão 3.00%)
BES (Cayman Branch)	BES CAYMAN Step Up 10/07/13		EUR	2003	77 437	2013	StepUp (1º cupão 3.10%)
BES (Cayman Branch)	BES CAYMAN - Zero cupon		EUR	2003	32 513	2028	Zero Coupon - Efective rate 5.81%
BES (Cayman Branch)	BIC CAYMAN 23 2001		EUR	2001	78 140	2013	Fixed rate- 6.03%
BES (Cayman Branch)	BIC CAYMAN 25 2001		EUR	2001	78 816	2014	Fixed rate- 6.02%
BES (Cayman Branch)	BIC CAYMAN 27 2001		EUR	2001	48 061	2015	Fixed rate- 6.09%
BES (Spain Branch)	Mortgage Bonds	a)	EUR	2008	153 762	2014	Fixed rate4.5%
BES (Spain Branch)	Mortgage Bonds	a)	EUR	2008	80 369	2014	Fixed rate4%
BES (Spain Branch)	Mortgage Bonds	a)	EUR	2008	86 167	2016	Fixed rate4.25%
BES (Spain Branch)	Pagaré		EUR	2012	600	2013	Fixed rate4.42%
BES (Spain Branch)	Pagaré		EUR	2012	5 986	2013	Fixed rate4.26%
BES (Spain Branch)	Pagaré		EUR	2012	499	2013	Fixed rate4.26%
BES (Spain Branch)	Pagaré		EUR	2012	996	2013	Fixed rate4.23%
BES (Spain Branch)	Pagaré		EUR	2012	699	2013	Fixed rate3.71%
BES (Spain Branch)	Pagaré		EUR	2012	499	2013	Fixed rate3.6%
BES (Spain Branch)	Pagaré		EUR	2012	550	2013	Fixed rate3.6%
BES (Spain Branch)	Pagaré		EUR	2012	849	2013	Fixed rate3.61%
BES (Spain Branch)	Pagaré		EUR	2012	499	2013	Fixed rate3.58%
BES (Spain Branch)	Pagaré		EUR	2012	2 097	2013	Fixed rate3.61%
BES (Spain Branch)	Pagaré		EUR	2012	596	2013	Fixed rate3.68%
BES (Spain Branch)	Pagaré		EUR	2012	599	2013	Fixed rate3.58%
BES (Spain Branch)	Pagaré		EUR	2012	749	2013	Fixed rate3.58%
BES (Spain Branch)	Pagaré		EUR	2012	1 098	2013	Fixed rate3.61%
BES (Spain Branch)	Pagaré		EUR	2012	549	2013	Fixed rate3.59%
BES (Spain Branch)	Pagaré		EUR	2012	748	2013	Fixed rate3.61%
BES (Spain Branch)	Pagaré		EUR	2012	498	2013	Fixed rate3.61%
BES (Spain Branch)	IM BES EMPRESAS 1 FTA BONO A		EUR	2011	129 769	2043	Eur 1 m + 0.3%
BES (London Branch)	Certificates of deposits		EUR	2011	13 994	2013	4.13% - 4.87%
BES (London Branch)	Certificates of deposits		USD	2011	597 448	2013	4.79% - 5.47%
BES (London Branch)	EMTN Series 1		EUR	2012	140 085	2014	Nominal rate 6.5%
BES (London Branch)	EMTN Series 2		EUR	2012	109 713	2016	Nominal rate7%
BES (London Branch)	EMTN Series 3		EUR	2012	137 879	2022	Nominal rate5%
BES (London Branch)	EMTN Series 4		EUR	2012	46 240	2014	Nominal rate6.5%
BES (London Branch)	EMTN Series 5		EUR	2012	39 784	2016	Nominal rate7%
BES (London Branch)	EMTN Series 6		EUR	2012	199 234	2022	Nominal rate5%
BES (London Branch)	EMTN Series 7		EUR	2012	148 644	2019	Nominal rate5%
BES (London Branch)	EMTN Series 8		EUR	2012	43 395	2015	Nominal rate6.75%
BES (London Branch)	EMTN Series 9		EUR	2012	215 207	2015	Nominal rate6.75%
BES (London Branch)	EMTN Series 10		EUR	2012	554 081	2019	Nominal rate5%
BES (London Branch)	EMTN Series 11		EUR	2012	66 367	2015	Nominal rate6.75%
BES (London Branch)	EMTN Series 12		EUR	2012	330 243	2019	Nominal rate5%
BES (London Branch)	EMTN Series 13		EUR	2012	329 510	2019	Nominal rate5%
BES (London Branch)	EMTN Series 14		EUR	2012	329 300	2019	Nominal rate5%
BES (London Branch)	EMTN Series 15		EUR	2012	23 744	2014	Nominal rate5.5%
BES (Luxembourg Branch)	BES Luxembourg 5.75% 28/06/17		EUR	2012	19 703	2017	Nominal rate- 5.75%
BES (Luxembourg Branch)	BES Luxembourg 3% 21/06/22		USD	2012	88 645	2022	Nominal rate- 3%
BES (New York Branch)	Certificados de depósito		USD	2011	591	2013	4.41% - 5.53%
ES Concessões	Papel Comercial		EUR	2012	73 500	2013	Fixed rate6.1440%
BES Finance	EMTN 37		EUR	2004	30 476	2029	Zero Coupon - Efective rate 5.30%
BES Finance	EMTN 39		EUR	2005	100 090	2015	Euribor 3 months + 0.23%
BES Finance	EMTN 40	a)	EUR	2005	163 551	2035	xed from 1st to 4th year to fixed rate 6.00% ; indexed to swap rate after 4th y
BES Finance	EMTN 56		EUR	2009	36 686	2043	Zero Coupon
BES Finance	EMTN 57		EUR	2009	34 556	2044	Zero Coupon
BES Finance	EMTN 58		EUR	2009	32 580	2045	Zero Coupon
BES Finance	EMTN 59		EUR	2009	42 403	2042	Zero Coupon
BES Finance	EMTN 60		EUR	2009	47 484	2040	Zero Coupon
BES Finance	EMTN 61		EUR	2009	44 898	2041	Zero Coupon
BES Finance	EMTN 62		EUR	2009	78 482	2039	Zero Coupon - Fixed rate3%
BES Finance	EMTN 63		EUR	2009	34 984	2039	Fixed rate3%
BES Finance	Exchangeable Bonds (Bradesco)	a)	USD	2010	350 939	2013	Fixed rate1.625%
BES Finance	Exchangeable Bonds (EDP)	a)	EUR	2010	392 753	2015	Fixed rate3%
BES Finance	Exchangeable Bonds	a)	USD	2012	317 128	2015	Fixed rate3.5%
BES Finance	EMTN 64		EUR	2009	5 352	2040	Fixed rate3%
BES Finance	EMTN 65		EUR	2010	28 190	2040	Fixed rate3%
BES Finance	EMTN 66		EUR	2010	83 869	2041	Fixed rate3%
BES Finance	EMTN 67		EUR	2010	63 906	2041	Fixed rate3%
BES Finance	EMTN 69		EUR	2010	3 892	2042	Fixed rate3%
BES Finance	EMTN 70		EUR	2010	98 568	2042	Fixed rate3%
BES Finance	EMTN 71		EUR	2010	22 855	2043	Fixed rate3%

(in thousands of euro)

			31.12.2012				
Issuer	Designation		Currency	Issue date	Book value	Maturity	Interest rate
BES Finance	EMTN 72		EUR	2010	43 284	2044	Fixed rate3%
BES Finance	EMTN 73		EUR	2010	17 386	2046	Fixed rate3%
BES Finance	EMTN 79		EUR	2010	40 172	2047	Fixed rate3%
BES Finance	EMTN 80		EUR	2010	1 573	2048	Fixed rate3%
BES Finance	EMTN 81	a)	EUR	2010	6 881	2015	Fixed rate3.19%
BES Finance	EMTN 82	a)	EUR	2010	6 724	2015	Fixed rate3.19%
BES Finance	EMTN 83	a)	EUR	2010	6 723	2015	Fixed rate3.19%
BES Finance	EMTN 84	a)	EUR	2010	6 934	2015	Fixed rate3.19%
BES Finance	EMTN 85	a)	EUR	2010	6 671	2015	Fixed rate3.19%
BES Finance	EMTN 91	a)	EUR	2011	14 768	2013	Fixed rate4.75%
BES Finance	EMTN 92	a)	EUR	2011	15 728	2013	Fixed rate4.75%
BES Finance	EMTN 93	a)	EUR	2011	15 728	2013	Fixed rate4.75%
BES Finance	EMTN 94	a)	EUR	2011	15 678	2013	Fixed rate4.75%
BES Finance	EMTN 95	a)	EUR	2011	14 768	2013	Fixed rate4.75%
BES Finance	EMTN 96	a)	EUR	2011	9 053	2015	Fixed rate5.75%
BES Finance	EMTN 97	a)	EUR	2011	8 943	2015	Fixed rate5.75%
BES Finance	EMTN 98	a)	EUR	2011	9 382	2015	Fixed rate5.75%
BES Finance	EMTN 99	a)	EUR	2011	9 382	2015	Fixed rate5.75%
BES Finance	EMTN 100	a)	EUR	2011	9 382	2015	Fixed rate5.75%
BES Finance	EMTN 101	a)	EUR	2011	14 153	2013	Fixed rate4.51%
BES Finance	EMTN 102	a)	EUR	2011	15 164	2013	Fixed rate4.51%
BES Finance	EMTN 103	a)	EUR	2011	15 164	2013	Fixed rate4.51%
BES Finance	EMTN 104	a)	EUR	2011	14 658	2013	Fixed rate4.51%
BES Finance	EMTN 105	a)	EUR	2011	14 557	2013	Fixed rate4.51%
BES Finance	EMTN 106	a)	EUR	2011	9 720	2015	Fixed rate5.51%
BES Finance	EMTN 107	a)	EUR	2011	9 556	2015	Fixed rate5.51%
BES Finance	EMTN 108	a)	EUR	2011	10 860	2015	Fixed rate5.51%
BES Finance	EMTN 109	a)	EUR	2011	10 860	2015	Fixed rate5.51%
BES Finance	EMTN 110	a)	EUR	2011	10 860	2015	Fixed rate5.51%
BES Finance	EMTN 111		USD	2011	1 652	2038	Fixed rate3%
BES Finance	EMTN 112	a)	EUR	2011	52 443	2014	Fixed rate6%
BES Finance	EMTN 113	a)	EUR	2011	68 899	2021	Fixed rate5%
BES Finance	EMTN 114	a)	EUR	2011	28 082	2021	Fixed rate5%
BESI	BESI OBCXR.ACCRUAL TARN MAR2016		EUR	2006	1 069	2016	Fixed rate6% + Range Accrual
BESI	BESI OB CX RENDIM STEP UP APR14		EUR	2006	4	2014	Fixed rateCrescente
BESI	BES INVEST BRASIL 5.625% MAR2015		USD	2010	342 310	2015	Fixed rate- 5.625%
BESI	BESI BRASIL 1050 MAR2013		BRL	2010	510	2013	Fixed rate- 10.5%
BESI	BESI SEP2014 EQL LINKED	a)	EUR	2010	3 630	2014	aj)
BESI	BESI SEP2014 ORIENTE IV EQL	a)	EUR	2010	12 612	2014	ao)
BESI	BESI 1.8% GOLD APR2015	a)	EUR	2011	1 832	2015	Fixed rate1.8% + Indexed to Gold
BESI	BESI CLN PORTUGUESE REP OCT2014	a)	EUR	2012	7 109	2014	Portuguese Republic CLN
BESI	BESI BRASIL AG.CAYMAN 400 MAY2013		USD	2012	7 739	2013	Fixed rate- 4%
BESI	BESI BRASIL AG.CAYMAN 400 JUN2013		USD	2012	5 381	2013	Fixed rate- 4%
BESI	BESI MAR2013 CONVER SP500	a)	EUR	2012	704	2013	SPX500 VIX Linked
BESI	49-LCA - Letter		BRL	2012	35 785	2013	90% - 98.6% do CDI
BESI	53-LF LetterFIN		BRL	2010	47 231	2015	100% - 116.5% do CDI
ES Investment Plc	ESIP OUT24 ESFP LINKED CMS NOTE		EUR	2004	5 251	2024	Fixed rate+ Indexed to CMS
ES Investment Plc	ESIP CALL RANGE ACCRUAL MAY2015		EUR	2005	1 258	2015	Range accrual
ES Investment Plc	ESIP RANGE ACCRUAL JUN15		EUR	2005	239	2015	Range accrual
ES Investment Plc	ESIP EUR LEVERAGE SNOWBALL JUL15		EUR	2005	1 265	2015	Fixed rate+ Snowball h)
ES Investment Plc	ESIP AGO05 SEP35 CALLABLE INV FL		EUR	2005	10 393	2035	Euribor 12 months + i)
ES Investment Plc	ESIP LEVERAGE SNOWBALL SEP2015		EUR	2005	2 424	2015	Fixed rate+ Snowball h)
ES Investment Plc	ESIP CALL RANGE ACCRUAL NOV2017	a)	EUR	2005	1 216	2017	Range accrual
ES Investment Plc	ESIP 30CMS-2CMS LKD NOTE NOV2036	a)	EUR	2005	17 361	2036	Fixed rate7.44% + Indexed to CMS
ES Investment Plc	ESIP EUR12M+16 BP APR2016		EUR	2006	4 040	2016	Euribor 12M
ES Investment Plc	ESIP JAN2017 INDEX BASKET LKD	a)	EUR	2007	7 007	2017	j)
ES Investment Plc	ESIP MAY14 EQUITY BASKT LINKED	a)	USD	2007	1 376	2014	p)
ES Investment Plc	ESIP DEC2015 BASKET LINKED	a)	EUR	2007	34	2015	Indexed to BBVA. Credit Agricole and Fortis
ES Investment Plc	ESIP BARCLAYS LKD ZC MAR2016	a)	EUR	2008	543	2016	ZC + g)
ES Investment Plc	ESIP BARCLAYS LKD 6.30% MAR2016	a)	EUR	2008	147	2016	Fixed rate6.30% + g)
ES Investment Plc	ESIP APR2013 AEGON SHARE LKD	a)	EUR	2008	2 869	2013	Indexed to AEGON
ES Investment Plc	ESIP JUN2013 CARBON NOTES	a)	EUR	2008	3 744	2013	an)
ES Investment Plc	ESIP LACAIXA EUR3M+2% MAR2011	a)	EUR	2009	2 428	2016	EURIBOR3M +2% + g)
ES Investment Plc	ESIP JUL2014 INFLATION LINKED	a)	EUR	2009	1 452	2014	Indexed to Inflação
ES Investment Plc	ESIP FEB2020 EQL LINKED	a)	EUR	2009	10	2020	ad)
ES Investment Plc	ESIP CLN 5.45% OCT2014	a)	EUR	2009	96	2014	g)
ES Investment Plc	ESIP OCT2014 EQL	a)	EUR	2009	965	2014	Indexed to Gazprom. Nokia e DU PONT
ES Investment Plc	ESIP CIMPOR CLN EUR3M DEC2014	a)	EUR	2009	3 760	2014	g)
ES Investment Plc	ESIP FTD IBERIA 5.95% DEC2014	a)	EUR	2009	165	2014	g)
ES Investment Plc	ESIP FTD IBERIA II 5.5% DEC2014	a)	EUR	2009	4 853	2014	g)
ES Investment Plc	ESIP USD FTD IBERIA 5.5% DEC2014	a)	USD	2009	3 667	2014	g)
ES Investment Plc	ESIP DEC2014 SX5E LINKED	a)	EUR	2009	3 285	2014	Indexed to DJ Eurostoxx 50
ES Investment Plc	ESIP BRAZIL EQL LINKED	a)	EUR	2009	3 540	2014	al)
ES Investment Plc	ESIP BSKT MERC EMERG EQL FEB2014	a)	EUR	2010	2 694	2014	d)
ES Investment Plc	ESIP WORST SOFT CMDT MAR2013	a)	EUR	2010	1 210	2013	k)
ES Investment Plc	ESIP DJ US REAL EST LKD MAR2015	a)	EUR	2010	1 572	2015	Indexed to Ishares DJ US Real State Index fund
ES Investment Plc	ESIP SOFT COMMODIT LKD APR2013	a)	EUR	2010	2 102	2013	o)
ES Investment Plc	ESIP USDEUR FX LKD MAY2015	a)	EUR	2010	287	2015	Indexed to EUR/USD
ES Investment Plc	ESIP CRDAGRI CL EUR6M+1.15 JUN15	a)	EUR	2010	2 517	2015	Euribor 6M ACT/360
ES Investment Plc	ESIP EDP BCP PT LKD JUN2013	a)	EUR	2010	1 369	2013	w)
ES Investment Plc	ESIP FTD CRD LINKED JUN2015	a)	EUR	2010	4 570	2015	x)
ES Investment Plc	ESIP BRAZIL EQL MAY2016	a)	EUR	2010	3 307	2016	ac)
ES Investment Plc	ESIP SX5E MAY14 EQL	a)	EUR	2010	1 729	2014	Indexed to Eurostoxx
ES Investment Plc	ESIP JUN2013 BASKET LINKED	a)	EUR	2010	3 674	2013	5.70% + af)
ES Investment Plc	ESIP BES RENDIM CRD LKD JUN2013	a)	EUR	2010	19 697	2013	ag)
ES Investment Plc	ESIP TELECOM LKD JUL2013	a)	EUR	2010	8 670	2013	ah)
ES Investment Plc	ESIP BASKET LKD JUL2013	a)	EUR	2010	3 799	2013	ai)
ES Investment Plc	ESIP BASKET LKD JUL2014	a)	EUR	2010	1 387	2014	ai)
ES Investment Plc	ESIP AUG13 RANGE ACCRUAL	a)	EUR	2010	1 002	2013	Range accrual
ES Investment Plc	ESIP AUG2013 EURUSD FX LINKED	a)	EUR	2010	767	2013	Indexed to Câmbio
ES Investment Plc	ESIP SEP2013 CURRENCIES LINKED	a)	EUR	2010	906	2013	ap)
ES Investment Plc	ESIP SEP15 DIGITAL	a)	USD	2010	1 115	2015	Digital US Libor 3M
ES Investment Plc	ESIP JAN2011 DOW JONES INDUS LKD	a)	EUR	2010	1 136	2013	Indexed to INDU
ES Investment Plc	ESIP ASIA INDEX LKD SEP2014	a)	EUR	2010	1 557	2014	ab)
ES Investment Plc	ESIP EDP PT CGD CRDLKD DEC2013	a)	EUR	2010	6 966	2013	v)
ES Investment Plc	ESIP GOLD LKD OCT2013	a)	EUR	2010	1 383	2013	Indexed to Gold
ES Investment Plc	ESIP EDP CRDLKD DEC2013	a)	EUR	2010	4 593	2013	Euribor 6m + 3.5% +Indexed to EDP
ES Investment Plc	ESIP NOV2013 SAN BBVA EQL LINKED	a)	EUR	2010	1 664	2013	Indexed to BSCH e BBVA
ES Investment Plc	ESIP NOV2013 SANTANDER LKD	a)	EUR	2010	937	2013	Indexed to BSCH
ES Investment Plc	ESIP SAN BBVA LINKED NOV2013	a)	EUR	2010	2 152	2013	Indexed to BSCH and BBVA

(in thousands of euro)

			31.12.2012				
Issuer	Designation		Currency	Issue date	Book value	Maturity	Interest rate
ES Investment Plc	ESIP DEC2013 SAN BBVA EQL LINKED	a)	EUR	2010	931	2013	Indexed to BSCH and BBVA
ES Investment Plc	ESIP NOV2013 ASIA PACIF BSKT LKD	a)	EUR	2010	2 394	2013	u)
ES Investment Plc	ESIP NOV2013 AMERLATIN BSKT LKD	a)	EUR	2010	1 839	2013	t)
ES Investment Plc	ESIP DEC2015 CREDLINKED BSCH	a)	EUR	2011	1 570	2015	Indexed to BBVA, Credit Agricole and Fortis
ES Investment Plc	ESIP CABAZ BRASIL LKD FEB14	a)	EUR	2011	1 675	2014	b)
ES Investment Plc	ESIP FEB16 5A EXPOSIC AFRICA LKD	a)	EUR	2011	1 177	2016	c)
ES Investment Plc	ESIP EXPOSIÇAO EURUSD LKD FEB14	a)	EUR	2011	1 216	2014	FX EUR/USD Linked
ES Investment Plc	ESIP DUAL5%+AFRICA LKD FEB15	a)	EUR	2011	1 158	2015	s)
ES Investment Plc	ESIP 2 ANOS EURUSD LKD FEB13	a)	EUR	2011	1 438	2013	FX EUR/USD Linked
ES Investment Plc	ESIP SX5E LKD FEB14	a)	EUR	2011	342	2014	Eurostoxx Linked
ES Investment Plc	ESIP CLN EDP MAR2014	a)	EUR	2011	10 820	2014	7% + CLN EDP
ES Investment Plc	ESIP WORST DIG COMM EQL MAR2013	a)	EUR	2011	822	2013	e)
ES Investment Plc	ESIP MAR14 BES EURUSD LINKED	a)	EUR	2011	1 488	2014	FX USD/BRL Linked
ES Investment Plc	ESIP APR2015 BES ENERGIA LINKED	a)	EUR	2011	10 135	2015	Espirito Santo Rockefeller Global Linked
ES Investment Plc	ESIP MAR14 EURCHF LINKED	a)	EUR	2011	1 364	2014	FX EUR/CHF Linked
ES Investment Plc	ESIP CLN SANTANDER MAR2014	a)	EUR	2011	6 260	2014	6.35% + CLN BSCH SUB
ES Investment Plc	ESIP EDP MAR2014 CLN	a)	EUR	2011	16 053	2014	6.5% + CLN EDP
ES Investment Plc	ESIP SX5E SPX LKD MAR2016	a)	EUR	2011	1 658	2016	Eurostoxx Linked
ES Investment Plc	ESIP APR2015 BES ENERGIA LKD	a)	USD	2011	2 592	2015	Espirito Santo Rockefeller Global Linked
ES Investment Plc	ESIP MAR2014 TEF FTE LINKED	a)	EUR	2011	607	2014	Telefonica e France Telecom Linked
ES Investment Plc	ESIP APRIL2014 HEALTH CARE LKD	a)	EUR	2011	8 020	2014	Health Care Select Sector SPDR Fund Linked
ES Investment Plc	ESIP APR2013 EURUSD LKD	a)	EUR	2011	2 469	2013	FX EUR/USD Linked
ES Investment Plc	ESIP SX5E SPX LKD APR2014	a)	EUR	2011	2 388	2014	SX5E e SPX Linked
ES Investment Plc	ESIP HEALTH CARE LKD APR2014	a)	EUR	2011	2 300	2014	f)
ES Investment Plc	ESIP TEF PT LKD 26APR2014	a)	EUR	2011	467	2014	Telefonica e Portugal Telecom Linked
ES Investment Plc	ESIP EDP CLN JUN2014	a)	EUR	2011	13 940	2014	7% + CLN EDP
ES Investment Plc	ESIP STEP-UP APR2013	a)	EUR	2011	1 204	2013	Fixed STEP-UP Rate
ES Investment Plc	ESIP TEF PT LKD APR2014	a)	EUR	2011	462	2014	Telefonica e Portugal Telecom Linked
ES Investment Plc	ESIP EUR CLN JUN2014	a)	EUR	2011	10 250	2014	6.75% + CLN PT
ES Investment Plc	ESIP BES MOMENTUM JUN2015	a)	EUR	2011	6 737	2015	Espirito Santo Momentum Fund Linked
ES Investment Plc	ESIP BSCH CLN JUN2014	a)	EUR	2011	6 183	2014	6.1% + CLN BSCH
ES Investment Plc	ESIP BES PROTECÇAO JUN2014	a)	EUR	2011	52 823	2014	m)
ES Investment Plc	ESIP BRAZIL NOTES LKD MAY2011	a)	EUR	2011	3 949	2016	FX EUR/BRL Linked
ES Investment Plc	ESIP BES 5ANOS EFIC ENERG JUNE16	a)	EUR	2011	3 049	2016	r)
ES Investment Plc	ESIP PETROBRAS CLN JUN2014	a)	USD	2011	2 284	2014	3-Month USD libor + 3.70% + CLN PETROBRAS
ES Investment Plc	ESIP PT II CLN JUN2014	a)	EUR	2011	8 170	2014	7% + CLN PT
ES Investment Plc	ESIP TEF PT JUN2014	a)	EUR	2011	750	2014	Telefonica e Portugal Telecom Linked
ES Investment Plc	ESIP JAN2013 BES BRASIL 18M	a)	EUR	2011	7 467	2013	EWZ Linked
ES Investment Plc	ESIP SANTANDER CLN JUN2014	a)	EUR	2011	2 898	2014	6.4% + CLN BSCH
ES Investment Plc	ESIP BES PROTECÇAO II JUN2014	a)	EUR	2011	24 818	2014	Inflation and Euribor 12M Liked
ES Investment Plc	ESIP EUR PRICING POWER 5Y JUL14	a)	EUR	2011	1 816	2016	z)
ES Investment Plc	ESIP 2Y BULLISH CAB VS USD JUL13	a)	EUR	2011	1 451	2013	Fx linked
ES Investment Plc	ESIP ASCENDI CLN JUL2013	a)	USD	2011	5 063	2013	7,25% + Ascendi CLN
ES Investment Plc	ESIP SX5E JUL15 EQL	a)	EUR	2011	1 510	2015	Eurostoxx Linked
ES Investment Plc	ESIP AUG14 ES ROCKEFELLERGLO LKD	a)	EUR	2011	940	2014	Espírito Santo Rockfeller Linked
ES Investment Plc	ESIP BARCLAYS CLN SEP2014	a)	EUR	2011	2 981	2014	6% + Barclays CLN
ES Investment Plc	ESIP AUG14 INFLATION LKD	a)	EUR	2011	41 261	2014	Inflation Linked
ES Investment Plc	ESIP AUG2014 ALEMANHA EQL LINKED	a)	EUR	2011	513	2014	q)
ES Investment Plc	ESIP ESFP CLN JUL2013	a)	USD	2011	5 550	2013	ESFP CLN
ES Investment Plc	ESIP BRL FXL LINKED SEP2016	a)	EUR	2011	1 636	2016	Fx linked
ES Investment Plc	ESIP SEP14 TRY LKD	a)	EUR	2011	1 594	2014	Fx linked
ES Investment Plc	ESIP BANCO POPULAR CLN SEP2014	a)	EUR	2011	3 391	2014	8,75% + POPULAR CLN
ES Investment Plc	ESIP BCO POPULAR CLN SEP2014	a)	EUR	2011	1 798	2014	8,75% + POPULAR CLN
ES Investment Plc	ESIP SEP2014 INFLATION+EURIBOR	a)	EUR	2011	29 076	2014	Inflation and Euribor 12M Liked
ES Investment Plc	ESIP SEP2014 PSI20 EQL 4	a)	EUR	2011	2 926	2014	PSI20 Linked
ES Investment Plc	ESIP DEC2013 BES4%GLOBAL LINKED	a)	EUR	2011	29 366	2015	aq)
ES Investment Plc	ESIP BCO POPULAR CRDLK SEP2014	a)	EUR	2011	7 755	2014	9.40% + Banco Popular CLN
ES Investment Plc	ESIP OCT2014 WORLD INVESTM EQL 3	a)	EUR	2011	1 835	2014	j)
ES Investment Plc	ESIP PT CLN DEC2014	a)	EUR	2011	22 569	2014	11% + PT CLN
ES Investment Plc	ESIP AUTOCALLABLE 2014	a)	EUR	2011	2 679	2014	ar)
ES Investment Plc	ESIP TELECOM ITALIA CLN DEC2014	a)	EUR	2011	5 628	2014	7.25% + Telecom Italia CLN
ES Investment Plc	ESIP EDP USD CLN DEC2014	a)	USD	2011	1 613	2014	8.5% + EDP CLN
ES Investment Plc	ESIP AUTOCALL HIGH DIVD DEC2014	a)	EUR	2011	1 874	2014	at)
ES Investment Plc	ESIP WORLD INVESTMENT II DEC2014	a)	EUR	2011	1 023	2014	j)
ES Investment Plc	ESIP TELEFONICA CLN DEC2014	a)	EUR	2011	4 862	2014	7.15% + Telefonica CLN
ES Investment Plc	ESIP PORTUGUESE REP CLN DEC2021	a)	EUR	2011	25 643	2021	6% + Portuguese Republic CLN
ES Investment Plc	ESIP UTILITIES SHS DEC2018	a)	EUR	2011	508	2018	au)
ES Investment Plc	ESIP UTILIT FINANCIALS SHS DEC18	a)	EUR	2011	2 460	2018	n)
ES Investment Plc	ESIP PT CRDLKD DEC2013	a)	EUR	2012	16 473	2013	7.75% + PT CLN
ES Investment Plc	ESIP EWZ EQL JAN2015	a)	EUR	2012	1 001	2015	EWZ Linked
ES Investment Plc	ESIP FEB16 EMP NORDICAS EQL	a)	EUR	2012	1 993	2016	y)
ES Investment Plc	ESIP AUG2014 CABAZ MOEDAS 12-14	a)	EUR	2012	7 408	2014	av)
ES Investment Plc	ESIP CABAZMOEDA VS EUR FEB15 FXL	a)	EUR	2012	754	2015	av)
ES Investment Plc	ESIP EMPRES CHINESAS FEB2017 EQL	a)	EUR	2012	1 437	2017	aw)
ES Investment Plc	ESIP EDP MAR2014 CLN 2	a)	EUR	2012	14 569	2014	6.9% + EDP CLN
ES Investment Plc	ESIP TWIN WIN EURUSD MAR2015	a)	EUR	2012	1 037	2015	EUR/USD Linked
ES Investment Plc	ESIP LUXURY GOODS LKD MAR2015	a)	EUR	2012	1 619	2015	ax)
ES Investment Plc	ESIP PSI20 LKD MAR2015	a)	EUR	2012	3 443	2015	PSI20 Linked
ES Investment Plc	ESIP DUAL UPGRADE MAR2014	a)	EUR	2012	1 560	2014	ay)
ES Investment Plc	ESIP DIG CPN EURIBOR 3M MAR2015	a)	EUR	2012	1 685	2015	Digital EURIBOR 3M
ES Investment Plc	ESIP APR2019 RECOV BASKET LINKED	a)	EUR	2012	175	2019	az)
ES Investment Plc	ESIP BBVA LKD APR2013	a)	EUR	2012	2 472	2013	BBVA Linked
ES Investment Plc	ESIP APR2015 PSI20 LINKED	a)	EUR	2012	1 334	2015	PSI20 Linked
ES Investment Plc	ESIP APR2020 BES PROTECÇAO LKD	a)	EUR	2012	340	2020	Inflation Linked
ES Investment Plc	ESIP BBVA LINKED APR2013	a)	EUR	2012	1 038	2013	BBVA Linked
ES Investment Plc	ESIP PT 3YR CREDIT LKD JUN15	a)	EUR	2012	10 613	2015	7.75% + PT CLN
ES Investment Plc	ESIP BBVA LKD MAY2013	a)	EUR	2012	1 075	2013	BBVA Linked
ES Investment Plc	ESIP PT 3YR CREDIT LINKED JUN15	a)	EUR	2012	14 482	2015	7.75% + PT CLN
ES Investment Plc	ESIP BES TECNOLOGIA JUN2015 EQL	a)	EUR	2012	4 791	2015	ba)
ES Investment Plc	ESIP SANTANDER JUN2015	a)	EUR	2012	779	2015	BSCH Linked
ES Investment Plc	ESIP EXPOSIÇAO PETROLEO JUN2015	a)	EUR	2012	565	2015	Brent Linked
ES Investment Plc	ESIP BES EXPOS PETROLE JUN15 EQL	a)	EUR	2012	2 278	2015	Brent Linked
ES Investment Plc	ESIP RECOV BSKT LINKED JUN2019	a)	EUR	2012	758	2019	bb)
ES Investment Plc	ESIP EDP 3YR CREDIT LINKED JUN15	a)	EUR	2012	15 853	2015	8% + EDP CLN
ES Investment Plc	ESIP SANTANDER JUL15 EQL	a)	EUR	2012	806	2015	BSCH Linked
ES Investment Plc	ESIP SX5E JUN15 EQL	a)	EUR	2012	60	2015	SX5E Linked
ES Investment Plc	ESIP EQUITY LKD AUG2016	a)	EUR	2012	3 740	2016	l)
ES Investment Plc	ESIP EDP 3YR II CREDIT LKD JUN15	a)	EUR	2012	13 058	2015	8% + EDP CLN
ES Investment Plc	ESIP JUL15 EQL	a)	EUR	2012	839	2015	SPX500 Linked
ES Investment Plc	ESIP TELECOM ITALIA CLN SEP2015	a)	EUR	2012	4 754	2015	7% + TELECOM ITALIA CLN

(in thousands of euro)

Issuer	Designation		Currency	Issue date	Book value	Maturity	Interest rate
			31.12.2012				
ES Investment Plc	ESIP E-COMMERCE EQTY LKD AUG2016	a)	EUR	2012	4 545	2016	ak)
ES Investment Plc	ESIP PT TELECO CLN SEP2015	a)	EUR	2012	6 751	2015	7% + PT CLN
ES Investment Plc	ESIP SEP2015 EDP LKD	a)	USD	2012	1 602	2015	7.45% + EDP CLN
ES Investment Plc	ESIP SEP2015 CRESCIM IMOBILI LKD	a)	EUR	2012	3 475	2015	IYR Linked
ES Investment Plc	ESIP EDP CLN SEP2015	a)	EUR	2012	8 369	2015	6.25% + EDP CLN
ES Investment Plc	ESIP BRL EQL SEP2017	a)	EUR	2012	3 306	2017	EUR/BRL Linked
ES Investment Plc	ESIP BES EXP COMMOD AGRICOL EQL4	a)	EUR	2012	8 500	2014	o)
ES Investment Plc	ESIP COMMOD AGRICOL EQL5 OCT2015	a)	EUR	2012	4 665	2015	k)
ES Investment Plc	ESIP BASKET LINKED OCT2019	a)	EUR	2012	399	2019	am)
ES Investment Plc	ESIP BRAZILIAN NOTES IV OCT2017	a)	EUR	2012	1 665	2017	EUR/BRL Linked
ES Investment Plc	ESIP IBERIA NOV2015	a)	EUR	2012	2 206	2015	IBEX+PSI20 Linked
ES Investment Plc	ESIP TURKISH LIRA EQL6 OCT2015	a)	EUR	2012	1 547	2015	EUR/TRY Linked
ES Investment Plc	ESIP BASKET OCT2019 EQL2	a)	EUR	2012	1 282	2019	REP e BSCH Linked
ES Investment Plc	ESIP NOV2013 BARCLAYS LKD	a)	EUR	2012	1 092	2013	Barclays Linked
ES Investment Plc	ESIP COMMODITIES NOV2015	a)	EUR	2012	4 021	2015	bc)
ES Investment Plc	ESIP SX5E AUTOCALL NOV2015	a)	EUR	2012	2 366	2015	SX5E Linked
ES Investment Plc	ESIP DEC2015 CRDLKD EUR FTD TELE	a)	EUR	2012	13 977	2015	bd)
ES Investment Plc	ESIP DEC2012 BASKET FTD	a)	EUR	2012	1 497	2015	be)
ES Investment Plc	ESIP DEC2016 AUTOCALL BRASIL	a)	EUR	2012	6 881	2016	bf)
ES Investment Plc	ESIP DEC2015 SX7P LINKED	a)	EUR	2012	940	2015	SX7P Linked
ES Investment Plc	ESIP DEC2017 EDP PT TEL.ITAL LK	a)	EUR	2012	1 934	2017	bg)
ES Investment Plc	ESIP DEC2015 CRDLKD EDP	a)	EUR	2012	986	2015	5.25% + EDP CLN
ES Investment Plc	ESIP DEC2015 CRDLKD EDP PT	a)	EUR	2012	3 832	2015	6.50% + EDP PT CLN
ES Investment Plc	ESIP DEC2015 CRDLKD EDP PT TLCM	a)	EUR	2012	1 873	2017	bg)
ES Investment Plc	ESIP DEC2017 RENAULT PT LINKED	a)	EUR	2012	4 164	2017	8.65% + RENAULT PT CLN
BESIL	BESIL STEP UP 09/02/13		EUR	2003	1 882	2013	Fixed rate- 6.44%
BESIL	BESIL STEP UP 10/07/13		EUR	2003	1 766	2013	Fixed rate- 6.44%
ESPLC	BES0513_23E BESESPLC23/05/2013		EUR	2012	29 822	2013	Fixed rate1.764%
ESPLC	BES0113_44E BESESPLC11/01/2013		EUR	2012	25 247	2013	Fixed rate3.2%
ESPLC	BES0113_50E BESESPLC04/01/2013		EUR	2012	150 266	2013	Fixed rate0.75%
ESPLC	BES0113_51E BESESPLC08/01/2013		EUR	2012	130 222	2013	Fixed rate0.75%
ESPLC	BES0113_52E BESESPLC07/01/2013		EUR	2012	20 111	2013	Fixed rate3.5%
ESPLC	BES0113_54E BESESPLC14/02/2013		EUR	2012	123 100	2013	Fixed rate0.70%
ESPLC	BES0113_55E BESESPLC18/02/2013		EUR	2012	127 101	2013	Fixed rate0.70%
ESPLC	BES0113_56E BESESPLC25/02/2013		EUR	2012	120 077	2013	Fixed rate0.70%
ESPLC	BES0113_53E BESESPLC06/11/2013		USD	2012	27 474	2013	Fixed rate4.45%
ESPLC	BES0313_59E BESESPLC11/03/2013		EUR	2012	160 047	2013	Fixed rate0.70%
ESPLC	BES0313_60E BESESPLC15/03/2013		EUR	2012	140 035	2013	Fixed rate0.70%
Lusitano Mortgage no. 6	Class A Mortgage Backed Floating Rate Notes		EUR	2007	520 802	2060	Euribor + 0.20%
Lusitano Mortgage no. 6	Class B Mortgage Backed Floating Rate Notes		EUR	2007	6 501	2060	Euribor + 0.30%
Lusitano Mortgage no. 6	Class C Mortgage Backed Floating Rate Notes		EUR	2007	10 003	2060	Euribor + 0.45%
Lusitano SME no. 1	Class A asset backed floating rate notes		EUR	2006	100 590	2028	Euribor + 0.15%
Lusitano SME no. 1	Class B asset backed guaranteed floating rate notes		EUR	2006	35 941	2028	Euribor + 0.05%
Lusitano SME no. 1	Class C asset backed floating rate notes		EUR	2006	29 960	2028	Euribor + 2.20%
					15 424 061		

a) Liabilities at fair value through profit and loss or with embedded derivatives.
b) Indexed to a basket composed byPetrobras, Companhia Siderurgia Nacional, Vale SA, Itau Unibanco and Banco Bradesco shares.
c) Indexed to a basket composed by MSCI Daily TR Net Emerging Markets Egypt USD and FTSE/JSE Africa TOP40 index.
d) Indexed to basket composed by Ericsson, Komatsu, Santander, Sanofi-Aventis and ABB LTD shares.
e) Indexed to a basket of Commodities composed by Copper, Oil, Sugar, e Gold.
f) Indexed to a basket composed by Gilead sciences, Celgene corp, Mylan Inc,Teva Pharmaceutical Ind Ltd and Amgen Inc shares.
g) Indexed to credit risk
h) Indexed to previous cupon + spread - Euribor
i) Indexed to reverse floater
j) Indexed to a basket composed by Dow Jones Eurostoxx 50, S&P 500 and Nikkei 225 index.
k) Indexed to a basket composed by Commodities Corn, Wheat e Soybean.
l) Indexed to a basket composed by Vodafone, Sanofi, Novasrtis e McDonald's shares.
m) 4% + Indexed to Eurostat Consumer Price Index (CPI) (excl. Tobaco) for the Eurozone
n) Indexed to a basket composed by Telefonica, Santander, Deutsche Bank and Deutsche Telecom shares.
o) Indexed to a basket of Commodities Corn, Wheat e Sugar
p) Indexed to a basket composed by BBVA e BSCH shares.
q) Indexed to a basket composed by Daimler, DB, E.ON shares.
r) Indexed to a basket Philips, Siemens, Iberdrola e Veolia shares.
s) 5% + Indexed to a basket composed by MSCI Daily TR Net Emerging Markets Egypt USD and FTSE/JSE Africa TOP40 index.
t) Indexed to a basket composed by MSCI Brasil, Chile and Mexico index.
u) Indexed to a basket composed HSCEI, MSCI India, KOSPI200 and SP ASX500 index.
v) Indexed to EDP, PT and CGD loans.
w) Indexed to a basket composed by EDP, BCP e PT shares.
x) Indexed to a Credit (First to default) about Santander, PT INT FIN, EDP and Brisa.
y) Indexed to a basket composed by Telenor, Aker Solutions, Tele2 and Volvo shares.
z) Indexed to a basket composed by Oracle, SAP, Caterpillar, Komatsu, BHP Billiton and Mitsubishi shares.
aa) Indexed to a basket composed by BBVA, REPSOL e ENEL shares.
ab) Indexed to a basket HSCEI, MSCI India, MSCI Taiwan and SP ASX200 index.
ac) Indexed to a basket composed by Petrobras, Gerdau, Vale, Itau Unibanco and Banco Bradesco shares.
ad) Indexed to a basket composed by France Telecom e Deutsche Telekom shares.
ae) Indexed to a basket composed by Eurostoxx, SP500, Nasdaq100 and iShare MSCI Brazil Fund index.
af) Indexed to Brisa, EDP, PT e Credit Agricole loans.
ag) Indexed to PT, EDP e Brisa loans.
ah) Indexed to a basket composed by Telefonica, Deutsche Telecom and Vodafone shares.
ai) Indexed to a basket composed by Louis Vuitton, Nokia, Bayer and EON shares.
aj) Indexed to a basket composed by Eurostoxx50, SP500, Nasdaq100 and EWZ index.
ak) Indexed to a basket composed by Amazon, Ebay, Fedex and United Parcel Services shares.
al) Indexed to a basket composed by Petrobras, Companhia Siderurgia Nacional, Itau Unibanco and Banco Bradesco shares.
am) Indexed to a basket composed by Nestle, Roche, Deutsche Telecom and Societe Generale shares.
an) Indexed to a basket composed by Petroleo Brasileiro, Banco Bradesco, Companhia Vale Rio Doce shares.
ao) Indexed to a basket composed byTOPIX, HANG SENG, HSCEI, NIFTY, KOSPI2 and MSCI Singapore index.
ap) Indexed to a basket composed by EUR/AUD, EUR/CAD, EUR/NZD, EUR/INR currency.
aq) 4%+ Barclays Capital Armour EUR 7% Index
ar) Indexed to a basket composed by Ambev, TAM, Brasil Foods, Itau Unibanco, Gerdau and Cia Energética de Minas Gerais shares.
as) Indexed to a basket composed by Telefonica, Banco Santander, BBVA and Banco Popular shares.
at) Indexed to a basket composed by Vodafone Group PLC, Sanofi, Novartis AG and MacDonald's Corp shares.
au) Indexed to a basket composed by Telefonica, Iberdrola, ENI spa and Deutsche Telecom shares.
av) Indexed to a basket composed by EUR/USD; EUR/NOK and EUR/SEK currency.
aw) Indexed to a basket composed by China Life Insurance Co, Petrochina Co and China Mobile LTD shares.
ax) Indexed to a basket composed by Anglo American, Cie Financiere Richemont, Porsche, Pernod Ricard, LVMH Moet Hennessy shares.
ay) Indexed to a basket composed by FedEX, Macy's, Harley Davidson, Red Hat and Swiss RE shares.
az) Indexed to a basket composed by Telefonica, BNP Paribas, Vodafone Group PLC and E.ON shares.
ba) Indexed to a basket composed by HTC, Panasonic and Samsung shares.
bb) Indexed to a basket composed by Telefonica, Repsol, Santander and France Telecom shares.
bc) Indexed to a basket of Commodities Copper, Gold and Palladium
bd) Indexed to Portugal Telecom, Telefonica and Telecom Italia loans.
be) Indexed to a basket Gás Natural, Renault and Telecom Italia loans.
bf) Indexed to a basket Petroleo Brasileiro, Companhia Vale Rio Doce, Itau Unibanco and BRF Brasil Foods SA shares.
bg) Indexed to a basket Portugal Telecom, EDP and Telecom Italia loans.

NOTE 39 – INVESTMENT CONTRACTS

The liabilities arising from investment contracts are analysed as follows:

(in thousands of euros)

	31.12.2012	31.12.2011
Fixed rate investment contracts	1 298 933	-
Investment contracts in which the financial risk is borne by the policyholder	2 114 630	-
	3 413 563	-

The significant increase in this caption in 2012, arises mainly on the full consolidation of BES Vida from 1 May 2012, as referred in Note 54.

In accordance with IFRS 4, the insurance contracts issued by the Group for which there is only a transfer of financial risk, with no discretionary participating features, are classified as investment contracts.

The movement in the liabilities arising out from the investment contracts with fixed rate is analysed as follows:

(in thousands of euros)

	31.12.2012	31.12.2011
Balance at the beggining of the period	-	-
Change in the consolidation scope	376 975	-
Net deposits received	1 016 704	-
Benefits paid	(144 049)	-
Technical interest charged	49 303	-
Balance at the end of the period	1 298 933	-

The movement in the liabilities arising out from the investment contracts in which the financial risk is borne by the policyholder is analysed as follows:

(in thousands of euros)

	31.12.2012	31.12.2011
Balance at the beggining of the period	-	-
Change in the consolidation scope	1 868 167	-
Net deposits received	253 300	-
Benefits paid	(193 124)	-
Technical result	186 287	-
Balance at the end of the period	2 114 630	-

NOTE 40 – PROVISIONS

As at 31 December 2012 and 31 December 2011, the balance of provisions presents the following movements:

(in thousands of euros)

	31.12.2012	31.12.2011
Balance at the beggining of the year	**190 450**	**214 706**
Change in the consolidation scope	16 945	-
Charge/Write back of the year	56 978	6 860
Charge off	(17 954)	(35 678)
Exchange differences and others	(9 469)	4 562
Balance at the end of the year	**236 950**	**190 450**

Provisions for an amount of euro 236 950 thousand (31 December 2011: euro 190 450 thousand) are intended to cover certain contingencies related to the Group's activities, the more relevant being as follows:

- Contingencies in connection with the exchange, during 2000, of Banco Boavista Interatlântico shares for Bradesco shares. The Group has provisions for an amount of approximately euro 60.3 million (31 December 2011: euro 61.4 million) to cover these contingencies;
- Contingencies in connection with legal processes established following the bankruptcy of clients which might imply losses for the Group. Provisions for an amount of euro 67.7 million as at 31 December 2012 (31 December 2011: euro 22.5 million) were established to cover these losses;
- Contingencies for ongoing tax processes. To cover these contingencies, the Group maintains provisions of approximately euro 36.1 million (31 December 2011: euro 36 million);
- The remaining balance of approximately euro 72.9 million (31 December 2011: euro 70.6 million), is maintained to cover potential losses in connection with the normal activities of the Group, such as frauds, robbery and on-going judicial cases.

NOTE 41 – INCOME TAXES

The Bank and its subsidiaries domiciled in Portugal are subject to taxation in accordance with the corporate income tax code (IRC) and to local taxes.

Income taxes (current or deferred) are recognised in the income statement except in cases where the underlying transactions have been reflected in equity items. In these situations, the corresponding tax is also charged to equity, not affecting the net profit for the year.

The 2012 current tax calculation for the Group's entities covered by the Portuguese tax legislation, used an IRC and City surcharge ("Derrama Municipal") rate of 26.5%, according to Law no. 107-B/2003, of 31 December and Law no. 2/2007, of 15 January (which approved the Local Finance Law, "Lei das Finanças Locais"), plus an additional fee up to 5% on the State surcharge ("Derrama Estadual") over taxable income above 10 million, according to Law No. 64-B/2011, of 30 December (2012 State Budget Law, "Lei do Orçamento do Estado para 2012").

Additionally, in the 2012 income tax calculation was considered the Decree-Law no. 127/2011, of 31 December, which regulates the transfer of pension benefits responsibilities to the National Social Security and that, in conjunction with Article 183 of Law no. 64-B/2011, of 30 December (2012 State Budget Law), established a special tax deductibility for expenses and other changes in equity arising from such transfer:

- The negative equity variation from the accounting policy change on recognizing actuarial gains and losses which were previously deferred, will be fully deductible in equal parts during 10 years from 1 January 2012. This impact is recorded in equity;
- The settlement effect (determined by the difference between the liability measured in accordance with the IAS 19 criteria and the criteria established in the agreement) will be fully deductible, from 1 January 2012, for purposes of determining taxable income, in equal parts, according to the average life expectancy of pensioners whose responsibilities were transferred (16 years in case of BES). This impact is recorded in the income statement.

Deferred tax assets arising from the transfer of pension benefits responsibilities and the accounting policy change on recognizing actuarial gains and losses will be recovered during 10 and 16 years, through equity and income statement, respectively.

The 2011 current tax calculation used an IRC and City surcharge ("Derrama Municipal") rate of 26.5%, according to Law no. 107-B/2003, of 31 December and Law no. 2/2007 , of 15 January (which approved the Local Finance Law, "Lei das Finanças Locais"), plus an additional fee of 2.5% on the State surcharge ("Derrama Estadual") provided for under the additional Stability and Growth Program measures ("Programa de Estabilidade e Crescimento (PEC)") approved by Law no. 12-A/2010, of 30 June.

Regarding current tax, the offshore branch located in Madeira Free Trade Zone, in accordance with Article 33 of the Statute of Fiscal Benefits, had an exemption in corporate tax until 31 December 2012. For the purposes of this exemption, it is considered that at least 85% of taxable income of the entire business of the Bank results from activities performed outside the institutional framework of Madeira Free Zone.

Deferred taxes are calculated based on tax rates anticipated to be in force at the temporary differences reversal date, which corresponds to the rates enacted or substantively enacted at the balance sheet date.

To the extent that the change in rates provided by Law 64-B/2011 of 30 December 2011 (State Budget Law for 2012), applies only to the years ended 2012 and 2013 and it is estimated that in these years no reversal of temporary differences with significant net effect will occur, it was not taken into account in the calculation of the deferred taxes as at 31 December 2011 and 2012. Thus, for the years in question, deferred tax was calculated based on the aggregate rate of 29%, resulting from the sum of IRC (25%), City surcharge (1.5%) and State surcharge (2.5%) rates above referred. Deferred tax assets relating to tax losses is determined based on the income tax rate of 25%.

The Portuguese Tax Authorities are entitled to review the annual tax return of the Group subsidiaries domiciled in Portugal for a period of four years. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Board of Directors of the Group subsidiaries domiciled in Portugal are confident that there will be no material differences arising from tax assessments within the context of the financial statements.

Income taxes of the Group's entities located abroad are subject to the tax laws prevailing in the respective countries where they operate.

The deferred tax assets and liabilities recognised in the balance sheet as at 31 December 2012 and 2011 can be analysed as follows:

(in thousands of euro)

	Assets		Liabilities		Net	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Financial instruments	74 257	111 815	(106 717)	(95 910)	(32 460)	15 905
Loans and advances to customers impairment	402 750	333 721	-	-	402 750	333 721
Property and equipment	271	285	(8 901)	(9 068)	(8 630)	(8 783)
Intangible assets	102	102	-	-	102	102
Investments in subsidiaries and associates	-	-	(163 986)	(54 572)	(163 986)	(54 572)
Provisions	54 356	33 357	-	-	54 356	33 357
Pensions	257 901	290 150	(35 507)	(39 825)	222 394	250 325
Long-term service benefits	7 726	8 185	-	-	7 726	8 185
Debt securities issued	-	204	(1 010)	-	(1 010)	204
Other	16 815	7 645	(4 117)	(2 052)	12 698	5 593
Tax losses brought forward	80 654	17 587	296	-	80 950	17 587
Deferred tax asset / (liability)	**894 832**	**803 051**	**(319 942)**	**(201 427)**	**574 890**	**601 624**
Assets / liabilities compensation for deferred taxes	(165 927)	(90 894)	165 927	90 894	-	-
Deferred tax asset / (liability), net	**728 905**	**712 157**	**(154 015)**	**(110 533)**	**574 890**	**601 624**

The Group has evaluated the deferred taxes recoverability considering the expectation of future taxable profits.

The Group does not recognise deferred tax assets on tax losses brought forward by certain subsidiaries, because it is not expectable that they will be recovered in a foreseeable future. A detail of the tax losses brought forward for which no deferred tax assets were recognised, is presented as follows:

(in thousands of euro)

Deadline to deduction	Tax losses brought forward	
	31.12.2012	31.12.2011
2011	-	6 235
2012	1 155	1 155
2013	826	826
2014	-	58 216
	1 981	66 432

The changes in deferred taxes were recognised as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Balance at the beginning of the period	601 624	425 026
Recognised in the income statement	52 434	133 666
Recognised in fair value reserve (1)	(56 617)	74 738
Recognised in equity - other comprehensive income	9 882	(15 551)
Recognised in other reserves	(30 280)	(29 189)
Changes in the scope of consolidation	(291)	-
Exchange differences and other	(1 862)	12 934
Balance at the end of the period (Assets/ (Liabilities))	**574 890**	**601 624**

(1) The amount recognised in the consolidated statement of comprehensive income as at 31 December 2011 includes, additionally, the deferred tax recognised on the fair value reserves of associates in the amount of euro 5 512 thousands (costs).

The deferred tax recognised in the income statement and reserves, during 2012 and 2011 is analysed as follows:

(in thousands of euro)

	31.12.2012		31.12.2011	
	Recognised in (profit) /loss	Recognised in reserves	Recognised in (profit) /loss	Recognised in reserves
Financial Instruments	(16 371)	60 205	8 959	(74 738)
Loans and advances to customers impairment	(69 029)	-	(81 141)	-
Property and equipment	(153)	-	(456)	-
Investments in subsidiaries and associates	81 689	(3 528)	(17 523)	2 712
Provisions	(20 343)	-	289	-
Pensions	4 005	(6 354)	(22 680)	12 839
Health care - SAMS	-	-	202	-
Long-term service benefits	459	-	(33)	-
Debt securities issued	1 214	-	(28 018)	-
Other	(1 633)	-	4 830	1 083
Tax losses brought forward	(32 272)	26 692	1 905	28 106
Deferred taxes	(52 434)	77 015	(133 666)	(29 998)
Current taxes	135 350	(75 104)	72 147	4 497
Total	**82 916**	**1 911**	**(61 519)**	**(25 501)**

The current tax accounted for in reserves during 2012 includes, a tax credit of euro 5 553 thousands on State and City surcharges related with the pension benefits tax regime impact in accordance with Article 183 of Law no. 64-B/2011, of 30 December and an IRC tax credit of euro 7 773 thousands from negative equity changes (primarily related to pension benefits) and euro 59 247 thousand of non realised gains in fair value reserve in assurance activity.

The reconciliation of the income tax rate can be analysed as follows:

(in thousands of euro)

	31.12.2012		31.12.2011	
	%	Amount	%	Amount
Profit before taxes		**202 752**		**(57 723)**
Banking levy		27 910		30 489
Profit before tax for the tax rate reconciliation		**230 662**		**(27 234)**
Statutory tax rate	31.5		29.0	
Income tax calculated based on the statutory tax rate		72 659		(7 898)
Tax-exempt dividends	(5.3)	(12 147)	...	(36 677)
Tax-exempt profits (off shore)	(14.1)	(32 449)	...	(82 728)
Tax-exempt gains	27.7	63 887	...	58 886
Non-taxable share of profit in associates	(1.0)	(2 410)	(6.9)	1 879
Non deductible costs	8.8	20 375	...	39 410
Utilization of tax losses brought forward for which no deferred tax assets had been constituted	(26.0)	(59 968)	...	(27 678)
Non deductible losses arising from subsidiaries acquisition	14.4	33 230	...	-
Other	(0.1)	(261)	24.6	(6 713)
	...	82 916	...	(61 519)

Following the Law No. 55-A/2010 of 31 December, was established a Banking levy, which is not elegible as a tax cost, and whose regime was extende by Law no. 64-B/2011, of 30 December. As at 31 December 2012, the Group recongnised a cost of euro 27.9 million (31 December 2011: euro 30.5 million, which was included in Other operating income and expenses – Direct and indirect taxes (see Note 14).

NOTE 42 – SUBORDINATED DEBT

The balance subordinated debt is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Bonds	774 473	815 019
Perpetual Bonds	65 343	146 216
	839 816	961 235

The main features of the subordinated debt are presented as follows:

(in thousands of euro)

		31.12.2012						
Issuer	Designation	Currency	Issue Date	Amount Issued	Carrying amount	Interest Rate	Maturity	
BES Finance	Subordinated perpetual bonds	EUR	2002	30 843	23 642	Euribor 3M + 2.83%	2013	a)
BES Finance	Subordinated perpetual bonds	EUR	2004	95 767	20 439	4.50%	2015	a)
BES Finance	Bonds	EUR	2008	20 000	20 169	Euribor 3M + 1%	2018	
BESI	Bonds	BRL	2008	1 683	1 888	1.30%	2013	
BESI	Bonds	BRL	2007	21 134	20 349	1.30%	2014	
BESI	Bonds	BRL	2008	10 099	11 628	1.30%	2015	
BESI	Bonds	EUR	2005	60 000	16 885	5.33%	2015	
BESI	Bonds	EUR	2003	10 000	263	5.50%	2033	
BES	Bonds	EUR	2004	25 000	22 594	Euribor 6M + 1.25%	2014	
BES	Bonds	EUR	2008	41 550	3 548	Euribor 3M + 1%	2018	
BES	Bonds	EUR	2008	638 450	595 214	Euribor 3M + 8.5%	2019	
BES	Bonds	EUR	2008	50 000	50 050	Euribor 3M + 1.05%	2018	
BES	Bonds	EUR	2011	8 174	8 234	Fixed rate 10%	2021	
BES Vida	Bonds	EUR	2002	45 000	23 651	Euribor 3M + 2.20%	2022	
BES Vida	Subordinated perpetual bonds	EUR	2002	45 000	21 262	Euribor 3M + 2.50%	2013	a)
				1 102 700	839 816			

a) Call option date

The changes occurred in subordinated debt during 2012 are analysed as follows:

(in thousands of euro)

	Balance as at 31 December 2011	Repayments	Net Repurchases	Other movements (a)	Balance as at 31 December 2012
Bonds	815 019	(9 547)	(57 323)	26 324	774 473
Perpetual Bonds (b)	146 216	-	(103 599)	22 726	65 343
	961 235	(9 547)	(160 922)	49 050	839 816

a) Other movements include accrued interest, fair value and foreign exchange translation adjustments and the amount of euro 48 605 thousands related with BES Vida integration.

b) In the issues were considered the amounts corresponding to debt replacements previously repurchased by the Group.

In accordance with the accounting policy described in Note 2.8, debt issued repurchased by the Group is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement. Following the repurchases performed during 2012, the Group has recognised a gain in the amount of euro 39.6 million (2011: euro 315.4 million) (see Note 14 and 38).

NOTE 43 – OTHER LIABILITIES

As at 31 December 2012 and 31 December 2011, the balance other liabilities is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Creditors		
Public sector	135 693	172 523
Deposit accounts	173 955	112 543
Sundry creditors		
Creditors from transactions with securities	89 357	87 439
Suppliers	49 619	50 306
Creditors from factoring operations	3 509	2 770
Creditors from insurance operations	2 040	-
Other sundry creditors	228 052	211 647
	682 225	637 228
Accrued expenses		
Long-term service benefits (see Note 16)	28 691	27 477
Other accrued expenses	127 430	165 924
	156 121	193 401
Deferred income	22 267	36 829
Other sundry liabilities		
Stock exchange transactions pending settlement	92 363	315 181
Foreign exchange transactions pending settlement	19 999	23 947
Other transactions pending settlement	172 627	114 437
	284 989	453 565
	1 145 602	1 321 023

The stock exchange transactions pending settlement refer to transactions with securities on behalf of third parties, recorded on trade date and pending settlement, in accordance with the accounting policy described in Note 2.6.

NOTE 44 – SHARE CAPITAL, SHARE PREMIUM, TREASURY STOCK AND PREFERENCE SHARES

Ordinary shares

As at 31 December 2012, the Bank's share capital in the amount of euro 5 040.1 million, was represented by 4 017 928 471 ordinary shares, which were subscribed and fully paid by the following entities:

	% Capital	
	31.12.2012	31.12.2011
BESPAR - Sociedade Gestora de Participações Sociais, S.A.	35.29%	35.00%
Credit Agricole, S.A.	10.81%	8.63%
Bradport, SGPS, S.A. (1)	4.83%	4.83%
Silchester International Investors Limited	5.76%	5.67%
Espírito Santo Financial Group, S.A.	0.74%	2.27%
PT Prestações - Mandatária de Aquisições e Gestão de Bens, S.A.(2)	2.09%	2.09%
Outros	40.48%	41.51%
	100.00%	100.00%

(1) Portuguese Law company wholly owned by Banco Bradesco (Brazil), to which are attributable the voting rights.

(2) Company fully and indirectly dominated by Portugal Telecom, SGPS, SA.

On May 2012, BES issued 2 556 688 387 ordinary shares at an issue price of euro 0,395 each, totaling euro 1 009.9 million, fully subscribed and paid. The new shares are fungible with all other shares of the issuer and give their holders the same rights as other existing shares before the capital increase. The capital increase did not cause significant changes in the shareholder structure of reference of BES.

In the year ended 31 December 2011, the Bank made a capital increase through an exchange offer (OPT) over securities issued by Banco Espírito Santo, Banco Espírito Santo de Investimento and BES Finance.

As a result of the exchange offer, which took place in November 2011, a total of 294 573 418 new ordinary BES shares at the price of Euro 1.80 per share and 81 736 subordinated bonds with €100 par value each were be issued:

Issuer	Nature	Nominal amount	Counterparty	
			Bonds issued by BES	Cash bonds issued
BES	Undated deeply subordinated notes with conditional interest	€ 238,400,000	128,527,730	70,400
		USD 2 727 000	992,857	1,918
BES INVESTIMENTO	Undated deeply subordinated notes with conditional interest	€ 46,269,000	25,180,367	9,418
BES FINANCE	*Undated Subordinated Notes*	€ 184,214,000	72,960,255	not applicable
	Non-cumulative guaranteed step-up preference shares series A	€ 197,446,000	66,912,209	not applicable
	TOTAL	€ 668,308,530	294,573,418	81,736

The impact of this transaction in the Group share capital is presented as follows:

	(in million of euro)
Capital	530
Share premium	(4)
Preference shares	(197)
Other equity instruments	(240)
Other reserves and retained earnings	55
Profit for the year	38
Non-controlling interests	(46)
Total Equity	**136**

Preference shares

The BES Finance issued 450 thousand non-voting preference shares, which were listed in the Luxembourg stock Exchange in July 2003. In March 2004, 150 thousand preference shares were additionally issued forming a single series with the existing preference shares, in a total amount of euro 600 million. The face value of these shares is euro 1 000 and is wholly (but not partially) redeemable by option of the issuer at its face value, as at 2 July 2014, subject to prior approvals of BES and Bank of Portugal. During the year ended 31 December 2011, the Group acquired 338 thousand preference shares, issued by BES Finance, of which 197 thousand were acquired in scope of the exchange offer over securities referred to above. The Group recorded a capital gain, net of taxes in the amount of euro 105.6 million recognised in other reserves.

In the year ended 31 December 2012, the Group acquired 19 000 preference shares, having recorded a net gain in the amount of euro 4.5 million recognised in Other reserves. In the year ended 31 December 2012, there were 193 thousands preference shares outstanding with a value of euro 193.3 million.

These preference shares pay an annual non cumulative preferred dividend, if and when declared by the Board of Directors of the issuer, of 5.58% per annum on nominal value. The dividend is paid on 2 July of each year, beginning 2 July 2004 and ending 2 July 2014.

If the issuer does not redeem these preference shares on 2 July 2014, the dividend applicable rate will be the 3 months Euribor plus 2.65%, with payments on 2 January, 2 April, 2 July and 2 October of each year, if declared by the Board of Directors of the issuer.

BES unconditionally guarantees dividends and principal repayment related to the above mentioned issue, until the limit of the dividends previously declared by the Board of Directors of the issuer.

These shares rank lower than any BES liability, and *pari passu* relative to any preference shares that may come to be issued by the Bank.

Share Premiums

In the year ended 31 December 2012, share premiums are represented by euro 1 069 517 thousand related to the premium paid by the shareholders following the share capital increases.

Other equity instruments

The Group issued during 2010, perpetual subordinated bonds with interest conditioned in the total amount of euro 320 million, of which euro 270 million were issued by BES and the remaining euro 50 million by BESI. These bonds have an interest conditioned non-cumulative, payable only if and when declared by the Board of Directors.

Other equity instruments issued by BES reduced by an amount of euro 240 448 thousand and Non-controlling interests issued by BESI reduced by an amount of euro 46 269 thousand.
These bonds are subordinated in respect of any liability of BES and BESI and pari passu in respect of any subordinated bonds with identical characteristics that may be issued by the Bank. Given their characteristics, these obligations are considered as equity instruments in accordance with the accounting policy described in Note 2.10.

The main characteristics of these equity instruments are presented as follows:

(in thousands of euro)

Issuer	Issue date	Currency	Book Value	Interest rate	Coupon date	Reimbursement possibility (2)
BES	Dez/10	EUR	26,217	8.50%	15/Mar and 14/Sep	From Sep/15
BES	Dez/10	USD	3,078	8.00%	15/Mar and 14/Sep	From Sep/15
			29,295			
BESI (1)	Out/10	EUR	3,681	8.50%	20/Apr and 20/Oct	From Oct/15
			32,976			

(1) BESI issue is included in the balance non-controlling interest (see Note 39)

(2) The reimbursement of these securities may be performed in full, but not partially, at the option of the issuer, subject to prior approval of the Bank of Portugal.

During the year ended 31 December 2012, the Group made an interest payment in the amount of euro 2 809 thousand, which was recorded as a deduction to equity.

Treasury stock

During 2011, BES acquired own shares under PRVIF (see Note 16).
As at 27 January 2012, BES sold 67 184 shares, following the retirement of two directors to whom had been assigned 33 592 shares on the distribution of results in 2010, according to PRVIF approved by the General Meeting held on 6 April 2010 and in accordance with the proposal of the Board on the acquisition and disposal of own shares approved at the General Meeting on 31 March 2011.

The movement in treasury stocks is analysed as follows:

	31.12.2012		31.12.2011	
	Number of shares	Amount (thousands of euro)	Number of shares	Amount (thousands of euro)
Transactions under PRVIF				
Opening balance	342 475	997	-	-
Shares acquired (1)	-	-	342 475	997
Shares sold (2)	67 184	(196)	-	-
	275 291	801	342 475	997
Other transactions				
Opening balance	-	-	-	-
Changes in the scope of consolidation (3)	68 333 226	43 515	-	-
Shares acquired	11 268 161	5 409	-	-
Shares sold	69 488 622	(42 734)	-	-
	10 112 765	6 190	-	-
Balanced as at 31 December 2012	10 388 056	6 991	342 475	997

(1) Shares acquired under PRVIF, at a price of 2.909 euro per share.

(2) Shares sold under PRVIF, at a price of 1.315 euro per share in January 2012.

(3) Respects to BES shares in BES Vida portfolio, following the control acquisition in May 2012.

(4) Shares acquired/sold that composed/left to be part of portfolio of BES Vida.

NOTE 45 – FAIR VALUE RESERVE, OTHER RESERVES AND RETAINED EARNINGS AND NON-CONTROLLING INTEREST

Legal reserve

The legal reserve can only be used to absorb accumulated losses or to increase the amount of the share capital. Portuguese legislation applicable to the banking sector (Article 97 of Decree-Law no. 298/92, 31 December) requires that 10% of the profit for the year be transferred to the legal reserve until it is equal to the share capital.

Fair value reserve

The fair value reserve represents the amount of the unrealized gains and losses arising from securities classified as available-for-sale, net of impairment losses recognised in the income statement in the year/previous years. The amount of this reserve is shown net of deferred taxes and non-controlling interests.

The changes in these balances were as follows:

(in thousands of euro)

	Fair value reserve			Other comprehensive income, other reserves and retained earnings					
	Available for-sale financial assets	Deferred tax reserves	Total fair value reserve	Actuarial deviations (net of taxes)	Exchange differences (net of taxes)	Legal reserve	Other reserves and retained earnings	Total Other reserves and retained earnings	Total
Balance as at 31 December 2010 (Reported)	**(11 291)**	**1 711**	**(9 580)**	**-**	**480**	**59 000**	**919 068**	**978 548**	**968 968**
Accounting policy change	-	-	-	(670 882)	-	-	-	(670 882)	(670 882)
Balance as at 31 December 2010 (Restated)	**(11 291)**	**1 711**	**(9 580)**	**(670 882)**	**480**	**59 000**	**919 068**	**307 666**	**298 086**
Acquisition of preference shares **(a)**	-	-	-	-	-	-	105 648	105 648	105 648
Actuarial Deviations	-	-	-	29 567	-	-	-	29 567	29 567
Interest of other equity instruments	-	-	-	-	-	-	(15 478)	(15 478)	(15 478)
Dividends from preference shares	-	-	-	-	-	-	(25 717)	(25 717)	(25 717)
Changes in fair value	(504 536)	68 941	(435 595)	-	-	-	-	-	(435 595)
Exchange differences	-	-	-	-	(388)	-	-	(388)	(388)
Transfer to reserves	-	-	-	-	-	26 000	383 946	409 946	409 946
Acquired/sold subsidiaries	-	-	-	-	-	-	3 630	3 630	3 630
Other comprehensive income of associates appropriate	-	-	-	-	-	-	(8 053)	(8 053)	(8 053)
Other variations	-	-	-	-	-	-	(1 176)	(1 176)	(1 176)
Balance as at 31 December 2011	**(515 827)**	**70 652**	**(445 175)**	**(641 315)**	**92**	**85 000**	**1 361 868**	**805 645**	**360 470**
Acquisition of preference shares **(a)**	-	-	-	-	-	-	4 478	4 478	4 478
Actuarial Deviations	-	-	-	(173 171)	-	-	-	(173 171)	(173 171)
Interest of other equity instruments	-	-	-	-	-	-	(1 864)	(1 864)	(1 864)
Dividends from preference shares	-	-	-	-	-	-	(6 137)	(6 137)	(6 137)
Changes in fair value	747 463	(131 438)	616 025	-	-	-	-	-	616 025
Exchange differences	-	-	-	-	(36 939)	-	-	(36 939)	(36 939)
Transfer to reserves	-	-	-	-	-	-	(108 758)	(108 758)	(108 758)
Purchase and sale of subsidiaries	-	-	-	-	-	-	(9 800)	(9 800)	(9 800)
Other comprehensive income from associates	-	-	-	-	-	-	497	497	497
Other variations	-	-	-	-	-	-	(2 837)	(2 837)	(2 837)
Balance as at 31 December 2012	**231 636**	**(60 786)**	**170 850**	**(814 486)**	**(36 847)**	**85 000**	**1 237 447**	**471 114**	**641 964**

(a) - value net tax

The fair value reserve is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Amortized cost of financial assets available for sale	10 758 099	12 037 835
Accumulated impairment recognized	(237 967)	(168 282)
Amortized cost of financial assets available for sale, net of impairment	10 520 132	11 869 553
Fair value of financial assets available for sale	10 755 310	11 482 866
Gains / (losses) recognized potential in the fair value reserve	235 178	(386 687)
Fair value reserves associated with assets transferred to assets held to maturity	(3 249)	(4 088)
Deffered tax	(60 786)	57 737
Gains / (losses) of associated companies recognized potential in the fair value reserve	2 054	(112 861)
Total fair value reserve	173 197	(445 899)
Non-controlling interests	(2 347)	724
Fair value reserve attributable to shareholders of the Bank	**170 850**	**(445 175)**

The movement in the fair value reserve, net of deferred taxes, impairment losses and non-controlling interest is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Balance at the beginning of the year	(445 175)	(9 580)
Changes in fair value	1 177 565	(631 097)
Disposals during the year	(600 206)	68 770
Impairment recognised during the year	99 308	57 791
Increase in share capital of subsidiaries (a)	70 796	-
Deferred taxes recognised in reserves during the year	(131 438)	68 941
Balance at the end of the year	**170 850**	**(445 175)**

[(a)] BES Vida

Non-controlling Interests

Non-controlling interests by subsidiary are analysed as follows:

(in thousands of euro)

	31.12.2012		31.12.2011	
	Balance sheet	Income statement	Balance sheet	Income statement
BES ANGOLA	396 369	25 554	382 073	116 448
BESI [a)]	3 681	-	3 731	-
AMAN BANK	34 974	1 745	34 145	(2 978)
ES CONCESSÕES	25 868	(5 673)	34 840	1 314
FCR VENTURES II	17 676	499	21 239	(6 567)
BES Securities	5 480	(147)	13 191	1 252
BES Investimento do Brasil	32 886	2 292	31 922	4 538
ESAF	12 887	1 991	12 640	2 318
BES AÇORES	18 018	530	16 909	2 075
Espirito Santo Investment Holding [b)]	3 967	(4 607)	4 729	(7 347)
BEST	18 161	2 989	14 117	2 679
FCR VENTURES III	17 043	(1 855)	13 403	(2 582)
FUNGEPI	56 537	(570)	-	-
Other	25 898	987	5 508	1 404
	669 445	23 735	588 447	112 554

The movements in non-controlling interests in the year ended 31 December 2012 and 2011 are analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Non-controlling interests at the beginning of the period	**588 447**	**538 701**
Changes in the scope of consolidation	74 293	(44 052)
Increase/ (decrease) in share capital of subsidiaries	13 527	33 950
Other equity instruments issue/ (reimbursement)	-	(46 269)
Dividends paid	(2 924)	(4 170)
Changes in fair value reserve	22	46
Exchange differences and other	(27 655)	(2 313)
Profit for the year	23 735	112 554
Non-controlling interests at the end of the period	**669 445**	**588 447**

NOTE 46 – OFF-BALANCE SHEET ITEMS

As at 31 December 2012 and 2011, this balance can be analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Contingent liabilities		
Guarantees and stand by letters of credit	8 023 520	8 376 006
Assets pledged as collateral	21 632 555	12 874 708
Open documentary credits	3 776 399	2 941 114
Other	531 757	482 426
	33 964 231	24 674 254
Commitments		
Revocable commitments	5 462 823	5 843 661
Irrevocable commitments	3 280 971	4 216 289
	8 743 794	10 059 950

Guarantees and standby letters of credits are banking operations that do not imply any out-flow by the Group.

As at 31 December 2012, the balance assets pledged as collateral include:

- Securities pledged as collateral to the Bank of Portugal in the scope of a liquidity facility collateralised by securities for an amount of euro 13.5 billion (31 December 2011: euro 11.1 billion);
- Securities pledged as collateral to the Portuguese Securities and Exchange Commission (CMVM) in the scope of the Investors Indemnity System (Sistema de Indemnização aos Investidores) in the amount of euro 20.8 million (31 December 2011: euro 19.4 million);
- Securities pledged as collateral to the Deposits Guarantee Fund (Fundo de Garantia de Depósitos) for an amount of euro 82.6 million (31 December 2011: euro 65.1 million);
- Securities pledged as collateral to the European Investment Bank in the amount of euro 1 822.5 million (31 December 2011: euro 1 213.5 million).

The above mentioned securities pledged as collateral are booked in the available-for-sale portfolio and they can be executed in case the Group does not fulfil its obligations under the terms of the contracts.

Documentary credits are irrevocable commitments by the Group, in the name of its clients, to pay or order to pay a certain amount to a supplier of goods or services, within a determined term, against the exhibition of the expedition documentation of the goods or service provided. The condition of irrevocable consists of the fact that the terms initially agreed can only be changed or cancelled with the agreement of all parties.

Revocable and irrevocable commitments represent contractual agreements to extend credit to the Group's customers (eg. unused credit lines). These agreements are, generally, contracted for fixed periods of time or with other expiration requisites and usually require the payment of a commission. Substantially, all credit commitments require that clients maintain certain conditions verified at the time when the credit was granted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the client and its business, like any other commercial operation. When necessary, the Group require that these operations are collateralised. As it is expected that the majority of these operations will mature without any use of funds, these amounts do not represent necessarily future out-flows.

Additionally, the off-balance sheet items related to banking services provided are as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Securities and other items held for safekeeping on behalf of customers	54 335 220	57 749 398
Assets for collection on behalf of clients	294 295	270 997
Securitised loans under management (servicing)	2 671 390	2 875 874
Other responsibilities related with banking services	8 784 286	7 619 322
	66 085 191	68 515 591

NOTE 47 – ASSETS UNDER MANAGEMENT

In accordance with the legislation in force, the fund management companies and the depositary bank are jointly liable before the participants of the funds for the non fulfilment of the obligations assumed under the terms of the Law and the management regulations of the funds.

As at 31 December 2012 and 2011, the amount of the investment funds managed by the Group is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Securities investment funds	5 115 043	4 633 217
Real estate investment funds	1 075 678	1 202 987
Pension funds	1 783 359	2 154 923
Bancassurance (a)	89 662	3 478 338
Portfolio management	1 960 206	877 812
Others	1 378 639	1 366 597
	11 402 587	13 713 874

(a) - Along with the first full consolidation of BES Vida, the Bancassurance Vida products became part of Grupo BES balance sheet.

The amounts recognised in these accounts are measured at fair value determined at the balance sheet date.

NOTE 48 – RELATED PARTIES TRANSACTIONS

The entities considered to be BES Group related parties together with the subsidiaries referred in Note 1, as defined by IAS 24, are as follows:

Grupo BES Associates companies
Fin Solutia - Consultoria e Gestão de Créditos, SA
Polish Hotel Capital SP
MCO2 – Sociedade Gestora de Fundos de Investimento Mobiliário
Hlc - Centrais de Cogeração, SA
Coporgest
Synergy Industry and Technology, S.A.
Salgar Investments
2BCapital, SA
2B Capital Luxembourg S.C.A SICAR
Espírito Santo IBERIA I
Apolo Films SL
Brb Internacional, S.A.
Prosport, SA
Banque Espirito Santo et de la Vénétie, SA
YUNIT - Serviços, SA
E.S. Contact Center - Gestão de Call Centers, SA
Fundo de Capital de Risco Espírito Santo Ventures Inovação e Internacionalização
Fundo Bem Comum FCR
Esiam - Espirito Santo International Asset Management, Ltd
Société 45 Avenue Georges Mandel, SA
BES, Companhia de Seguros , SA
Locarent - Companhia Portuguesa de Aluguer de Viaturas, SA
Esegur - Empresa de Segurança, SA
Ascendi Group, SGPS, SA
Empark Aparcamientos y Servicios SA
Concesionaria Autopista Perote-Xalapa, CV
Autovia De Los Vinedos, SA
MRN - Manutenção de Rodovias Nacionais, SA
Portvias - Portagem de Vias, SA
Scutvias - Autoestradas da Beira Interior , SA
SOUSACAMP, SGPS, SA
GLOBAL ACTIVE - GESTÃO P.S.SGPS, SA
OUTSYSTEMS, SA
Coreworks - Proj. Circuito Sist. Elect., SA
Multiwave Photonics, SA
BIO-GENESIS
YDreams - Informática, SA
Nutrigreen, S.A.
Advance Ciclone Systems, SA
WATSON BROWN HSM, Ltd
Domática, Electrónica e Informática, SA
MMCI - Multimédia, SA
Mobile World - Comunicações, SA
Sopratutto Café , SA
Enkrott SA
Rodi Sinks & Ideas, SA
Palexpo - Imagem Empresarial, SA
Nova Figfort - Têxteis, Lda
TLCI 2 - Soluções Integradas de Telecomunicações, SA
BANCO DELLE TRE VENEZIE SPA
NANIUM , SA
IJAR LEASING ALGÉRIE
Ascendi Pinhal Interior Estradas do Pinhal Interior, SA
Ascendi Douro Estradas do Douro Interior, SA
Unicre - Cartão Internacional de Crédito, SA
MOZA BANCO

ESFG's subsidiaries, associates and related entities
Bespar - Sociedade Gestora de Participações Sociais, SA
Banque Privée Espírito Santo
Banque Privée Espírito Santo Sucursal Portugal
ES Bank (Panama), SA
ES Bankers (Dubai) Limited
Espirito Santo Financial (Portugal), SGPS, SA
Espirito Santo Financial Group, SA
ESFG International, Ltd
Esfil - Espírito Santo Financiére, S.A. (Luxemburgo)
Espírito Santo International SA
Espírito Santo Saúde SGPS, S.A.
Clínica Parque dos Poetas, SA
Cliria - Hospital Privado de Aveiro, SA
ES Saúde - Residência com Serviços Senior, S.A.
Espírito Santo - Unidades de Saúde e de Apoio à Terceira Idade, S.A.
Genomed, Diagnóstico de Medicina Molecular, SA
HCI - Health Care International, Inc
HME Gestão Hospitalar
Hospital da Arrábida - Gaia, SA
Hospital da Luz - Centro Clínico da Amadora, SA
Hospital da Luz, SA
Hospor - Hospitais Portugueses, SA
Instituto de Radiologia Dr. Idálio de Oliveira - Centro de Radiologia Médica, S.A.
RML - Residência Medicalizada de Loures, SGPS, SA
Surgicare - Unidades de Saúde, SA
Vila Lusitano - Unidades de Saúde, SA
Key Space Investments LLC
Marignan Gestion, SA
Omnium Lyonnais de Participations Industrielles, SA
Partran - Sociedade Gestora de Participações Sociais, SA
Société Antillaise de Gestion Financiére, S.A. - SAGEFI
Société Lyonnaise de Marchands de Biens
Companhia de Seguros Tranquilidade, SA
T - Vida, Companhia de Seguros, SA
Seguros Logo, SA
Advancecare - Gestão e Serviços de Saúde, SA
Pastor Vida, S.A de Seguros y Reaseguros
Esumédica - Prestação de Cuidados Médicos, SA
Europe Assistance - Companhia Portuguesa de Seguros de Assistência, SA
BESV Courtage SA
AOC Patrimoine, SA
ES Consultancy Singapore

ESFG's subsidiaries, associates and related entities
Group Credit Agricole
Saxo Bank
The Atlantic Company (Portugal) - Turismo e Urbanização, SA
Agribahia, S/A
Atr - Actividades Turisticas e Representações, Lda
Aveiro Incorporated
Beach Heath Investments, Ltd
Companhia Agricola Botucatu, SA
Casas da Cidade - Residências Sénior, SA
Cerca da Aldeia - Sociedade Imobiliária, SA
Cimenta - Empreendimentos Imobiliários, SA
Cidadeplatina - Construção SA
Clarendon Properties, Inc.
Clube de Campo da Comporta - Actividades Desportivas e Lazer, Lda
Club de Campo Villar Ollala, SA
Clup Vip - Marketing de Acontecimentos, SA
Clube Residencial da Boavista, SA
Companhia Brasileira de Agropecuária Cobrape
Coimbra Jardim Hotel - Sociedade de Gestão Hoteleira, S.A.
Construcciones Sarrión, SL
Ganadera Corina Campos y Haciendas, S/A
E.S.B. Finance Ltd
Eastelco - Consultoria e Comunicação, SA
E.S. Asset Administration, Ltd.
Espírito Santo Cachoeira Desenvolvimento Imobiliário Ltda
ES Comercial Agrícola, Ltda
Espírito Santo Guarujá Desenvolvimento Imobiliário Ltda
ES Holding Administração e Participações, S/A
Espírito Santo Hotéis, SGPS, SA
Espirito Santo Industrial (BVI), SA
Espírito Santo Indaiatuba Desenvolvimento Imobiliário Ltda
Espirito Santo Industrial, SA
Espírito Santo Industrial (Portugal) - SGPS, SA
Espirito Santo Irmãos - Sociedade Gestora de Participações Sociais, SA
Espírito Santo Itatiba Desenvolvimento Imobiliário Ltda
Espírito Santo Primavera Desenvolvimento Imobiliário Ltda
ES Private Equity, Ltd
Espirito Santo Property (Brasil) S/A
Espírito Santo Services, SA
Espirito Santo Tourism, Ltd
Espirito Santo Tourism (Europe), SA
Espírito Santo Venture Ltd
Espírito Santo Viagens - Sociedade Gestora de Participações Sociais, SA
ES Viagens e Turismo, Lda
Espírito Santo Viagens - Consultoria e Serviços, SA
Escae Consultoria, Administração e Empreendimento, Ltda
Escopar - Sociedade Gestora de Participações Sociais, SA
ESDI Administração e Participações Ltda
Esger - Empresa de Serviços e Consultoria, SA
Espirito Santo International (BVI), SA
E.S. International Overseas, Ltd.
Esim - Espirito Santo Imobiliário, SA
E.S. - Espírito Santo, Mediação Imobiliária, S.A.
Espirito Santo Property SA
Espirito Santo Property Holding, SA
Espírito Santo Property España, S.L.
Espart - Espirito Santo Participações Financeiras, SGPS, SA
Espirito Santo Resources, Ltd
Espirito Santo Resources (Portugal), SA
E.S. Resources Overseas, Ltd
Espírito Santo Resources SA
Estoril Inc
Euroamerican Finance Corporation, Inc.
Euroamerican Finance SA
Euroatlantic, Inc.
Fafer - Empreendimentos Turisticos e de Construção, SA
Fimoges - Sociedade Gestora de Fundos de Investimento Imobiliário, SA
GES Finance Limited
Gesfimo - Espirito Santo, Irmãos, Soc. Gestora de Fundos de Investimento Imobiliários,SA
Gestres - Gestão Estratégica Espirito Santo, SA
Goggles Marine, Ltd
Sociedade Agricola Golondrina, S/A
HDC - Serviços de Turismo e Imobiliário, SA
Herdade da Boina - Sociedade Agrícola, SA
Herdade da Comporta - Actividades Agro Silvícolas e Turísticas, SA
Hoteis Tivoli, SA
Hotelagos, SA
Hospital Residêncial do Mar, SA
I.A.C. UK, Limited
Inter-Atlântico, S/A
Iber Foods - Produtos Alimentares e Biológicos, SA
Imopca, SA
Lote Dois - Empreendimentos Turisticos SA
Luzboa, SA
Luzboa Um, SA
Luzboa Dois, SA
Luzboa Três, SA
Luzboa Quatro, SA
BEMS, SGPS, SA
Margrimar - Mármores e Granitos, SA
Marinoteis - Sociedade de Promoção e Construção de Hoteis, SA
Marmetal - Mármores e Materiais de Construção, SA
Metal - Lobos Serralharia e Carpintaria, Lda
Multiger - Sociedade de Gestão e Investimento Imobiliário, SA
Mundo Vip - Operadores Turísticos, SA
Net Viagens - Agência de Viagens e Turismo, SA
Novagest Assets Management, Ltd
Opca Angola, SA
Opca Moçambique, Lda
Opcatelecom - Infraestuturas de Comunicação, SA

ESFG's subsidiaries, associates and related entities
OPWAY - Engenharia, SA
OPWAY Imobiliária, SA
OPWAY - SGPS, SA
Pavi do Brasil - Pré-Fabricação, Tecnologia e Serviços, Lda.
Pavicentro - Pré-Fabricação, SA
Pavilis - Pré-Fabricação, SA
Paviseu - Materiais Pré-Fabricados, SA
Pavitel, SARL
Personda - Sociedade de Perfurações e Sondagens, SA
Placon - Estudos e Projectos de Construção, Lda
Pojuca, SA
Pontave - Construções, SA
Agência Receptivo Praia do Forte, Ltda
Praia do Forte Operadora de Turismo, Ltda
Grupo Proyectos y Servicios Sarrion, SA
Quinray Technologies Corp.
Quinta da Areia - Sociedade Agrícola Quinta da Areia, SA
Sociedade Agricola Quinta D. Manuel I, SA
Recigreen - Reciclagem e Gestão Ambiental, SA
Recigroup - Industrias de Reciclagem, SGPS, SA
Recipav - Engenharia e Pavimentos, Unipessoal, Lda
Recipneu - Empresa Nacional de Reciclagem de Pneus, Lda
Santa Mónica - Empreendimentos Turísticos, SA
Saramagos S/A Empreendimentos e Participações
Société Congolaise de Construction et Travaux Publiques, SARL
Series - Serviços Imobiliários Espirito Santo, SA
Sociedade Gestora do Hospital de Loures, SA
Sintra Empreendimentos Imobiliários, Ltda

ESFG's subsidiaries, associates and related entities
Sisges, SA Desenvolvimento de Projectos de Energia
Solférias - Operadores Turísticos, Lda
Sopol - Concessões, SGPS, SA
Sotal - Sociedade de Gestão Hoteleira, S.A.
Space - Sociedad Peninsular de Aviación, Comércio e Excursiones, SA
Suliglor - Imobiliária do Sul, SA
TA DMC Brasil - Viagens e Turismo, SA
Agência de Viagens Tagus, S.A.
Construtora do Tamega Madeira SA
Construtora do Tamega Madeira SGPS SA
Terras de Bragança Participações, Ltda
Timeantube Comércio e Serviços de Confecções, Ltda
Tivoli Gare do Oriente - Sociedade de Gestão Hoteleira, S.A.
TOP A DMC Viajes, SA
Top Atlântico - Viagens e Turismo, SA
Top Atlântico DMC, SA
Transcontinental - Empreendimentos Hoteleiros, SA
Turifonte, Empreendimentos Hoteleiros, SA
Turistrader - Sociedade de Desenvolvimento Turístico, SA
Ushuaia - Gestão e Trading Internacional Limited
Sociedade Agricola Turistica e Imobiliária Várzea Lagoa, SA
Viveiros da Herdade da Comporta - Produção de Plantas Ornamentais, Lda
Ribeira do Marchante, Administração de Bens Móveis e Imóveis, S.A.
Casa da Saudade, Administração de Bens Móveis e Imóveis, S.A.
Angra Moura-Sociedade de Administração de Bens,S.A.
Sociedade de Administração de Bens - Casa de Bons Ares, S.A.
ACRO, Sociedade Gestora de Participações Sociais, S.A.
Diliva, Sociedade de Investimentos Imobiliários, S.A.

As at 31 December 2012 and 2011, the balances and transactions with related parties are presented as follows:

(in thousands of euro)

	31.12.2012					31.12.2011				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Associates companies										
BES VIDA [a]	-	-	-	-	-	1 355 845	293 741	-	25 805	1 875
BES VÉNÉTIE	726 910	623	5 627	2 705	-	865 066	139 834	11 794	2 665	125
ASCENDI GROUP SGPS	299 462	3 781	28 364	11 278	2	188 129	8 337	29 358	16 025	7
LOCARENT	129 818	3 723	-	2 692	11 006	142 280	312	-	4 708	10 354
AENOR DOURO	271 887	3 461	11 000	8 985	-	247 956	1 898	12 000	11 202	18
NANIUM	35 327	4 272	18 349	306	4	42 044	2 752	18 387	971	-
EMPARK	49 179	-	4 684	3 872	246	40 080	-	-	2 675	-
ASCENDI PINHAL INTERIOR	98 356	2 051	15 374	3 073	-	33 732	10 686	15 374	1 505	103
SCUTVIAS	7 147	-	6 545	2 631	3 083	8 840	-	6 868	2 967	-
PALEXPO	7 266	124	26	537	-	6 800	75	-	495	-
BES SEGUROS	630	18 456	-	415	16	23	12 578	-	119	11
ESEGUR	7 680	3	2 105	1 055	430	2 620	219	2 197	922	142
ES CONTACT CENTER	1 858	-	43	90	874	2 196	-	43	114	961
UNICRE	26	2	-	1	-	1	10 008	-	-	280
OTHERS	58 358	24 459	11 508	12 278	1 250	40 059	20 417	7 697	4 223	2 953
	1 693 904	**60 955**	**103 625**	**49 918**	**16 911**	**2 975 671**	**500 857**	**103 718**	**74 396**	**16 829**

[a] Since May 2012 BES Vida was fully consolidaded in Grupo BES.

Balances and transactions with the above referred entities relate mainly to loans and advances and deposits in the scope of the banking activity of the Group. The liabilities relate mainly to bank deposits taken.

As at 31 December 2012 and 2011, the total amount of assets and liabilities of BES Group with ESFG (Bank holding) and related companies, is as follows:

(in thousands of euro)

	31.12.2012								
	Assets								
	Loans and advances to banks	Loans	Securities	Other	Total	Guarantees	Liabilities	Income	Expenses
Shareholders									
ES FINANCIAL GROUP	548	-	40 632	2	41 182	-	28	1 186	-
ESF PORTUGAL	-	-	72 666	-	72 666	-	109	2 349	-
BESPAR	-	-	-	-	-	-	386	-	-
GRUPO CRÉDIT AGRICOLE	973	108	1 016	110	2 207	1 080	271	10	-
Subsidiaries, associates from shareholders									
PARTRAN	-	-	-	-	-	-	22	-	-
ESPÍRITO SANTO FINANCIÉRE, SA	-	7 579	-	-	7 579	-	153	-	-
COMPANHIA SEGUROS TRANQUILIDADE	-	150 150	-	520	150 670	21 979	116 657	1 582	1 200
BANQUE PRIVÉE ESPÍRITO SANTO	15 794	-	-	11	15 805	8 018	32 904	503	351
ES BANK PANAMA	135 000	-	-	-	135 000	-	35 512	10 139	-
ES SAUDE	-	18 484	45 112	64	63 660	24 269	13 140	464	2
T - VIDA	-	55 560	9 291	163	65 014	-	98 611	492	364
ESUMÉDICA	-	1 000	-	-	1 000	4	24	80	81
EUROP ASSISTANCE	-	24	-	34	58	25	2 749	57	-
Other									
ES IRMÃOS	-	104 570	-	-	104 570	-	1	4 708	-
OPWAY	-	3 645	-	2 686	6 331	48 029	35 089	362	225
CONSTRUCCIONES SARRION	-	16 527	-	-	16 527	8 745	-	233	-
ESPÍRITO SANTO RESOURCES	-	11	-	19	30	-	2 359	51	221
OTHERS	-	62 048	20 971	1 075	84 094	17 294	32 368	5 162	2 438
TOTAL	152 315	419 706	189 688	4 684	766 393	129 443	370 383	27 378	4 882

(in thousands of euro)

	31.12.2011								
	Assets								
	Loans and advances to banks	Loans	Securities	Other	Total	Guarantees	Liabilities	Income	Expenses
Shareholders									
ES FINANCIAL GROUP	-	-	4 715	695	5 410	-	696	3 367	-
ESF PORTUGAL	-	-	78 810	-	78 810	-	451	1 385	-
BESPAR	-	-	-	-	-	-	729	-	-
GRUPO CRÉDIT AGRICOLE	1 046	5	-	57	1 108	1 150	460	23	-
Subsidiaries, associates from shareholders									
PARTRAN	-	-	-	-	-	-	14	-	-
ESPÍRITO SANTO FINANCIÉRE, SA	-	173 644	-	-	173 644	-	154	-	-
COMPANHIA SEGUROS TRANQUILIDADE	-	167 298	3	426	167 727	21 155	102 166	1 173	1 306
BANQUE PRIVÉE ESPÍRITO SANTO	40 550	-	-	19	40 569	7 874	27 059	523	364
ES BANK PANAMA	384 087	-	-	-	384 087	-	719	9 045	25
ES SAUDE	-	22 479	31 253	35	53 767	24 870	23 873	746	25
T - VIDA	-	85 983	275 778	183	361 944		96 250	200	28
ESUMÉDICA (a)	-	1 949	-	3	1 952	4	-	114	52
EUROP ASSISTANCE (b)	-	15	-	18	33	8	1 835	44	-
Other									
ES IRMÃOS	-	99 341	-	-	99 341	-	1	5 242	-
OPWAY	-	14 133	-	1 279	15 412	47 642	13 073	287	-
CONSTRUCCIONES SARRION	-	25 800	-	-	25 800	10 765	-	-	-
ESPÍRITO SANTO RESOURCES	-	1	-	23	24	-	901	56	224
OTHERS	26 558	47 330	3 737	1 061	78 686	22 293	30 390	6 671	602
TOTAL	452 241	637 978	394 296	3 799	1 488 314	135 761	298 771	28 876	2 626

As at 31 December 2012, loans granted by BES Group to the members of the Board of Directors of ESFG that are not simultaneously members of the Board of Directors of BES, amounted to euro 4 047 thousand (31 December 2011: euro 4 911 thousand).

All transactions with related parties are made on an arms length basis, under the fair value principle.

Credits granted to members of the Board of Directors correspond to operations under the BES core business, being excluded from the nr. 1, 2, 3 and 4 of article 397 of the Código das Sociedades Comerciais.

However, credit granted by the Group to members of the Board of Directors of credit institutions are under the scope of article 85 of the Regime Geral das Instituições de Crédito e Sociedades Financeiras (RGICSF) being these operations subject to reporting to the Bank of Portugal, under the terms of Instruction nr. 17/2011, of August 2011.

- It cannot be granted credit to executive members of the Board of Directors and to the Fiscal Board (including first degree relatives), with the exception of operations (i) with a social purpose, (ii) under the company policies, or (iii) resulting from the use of credit cards in conditions similar to the ones applied to the general clients with similar risk profile. All these exception are included in nr. 4 of article 85 of RGICSF;

- Credit operations with non-executive members of the Board of Directors are subject to approval by a majority of at least two thirds of the remaining Board Members and can only be granted with the approval of the Fiscal Board, in accordance with nr. 8 of article 85 of RGICSF;

- The credit is granted and approved at market prices and the Board Member involved in the operation cannot intervene in the decision making process.

All credits granted to Board Members fulfill the above mentioned requirements.

All credits granted to related parties are included in the impairment model, being subject to provisions in the same manner that the commercial credits granted by the Group. As at 31 December 2012 and 2011, none of the credits granted to related parties were subject to individual impairment. However, these credits are subject to an impairment evaluation on a portfolio basis, as referred in Note 2.5 – Loans and advances to customers.

The breakdown of the remuneration of key personnel is decriminalized in Note 15.

During the year ended 31 December 2011 the Group sold 18 520 and 4 830 units of the Fungepi Fund and Fungere Fund to the Group pensions funds, by a global amount of euro 80.0 million, not incurring in any material loss or gain (See note 16).

In 2012 the Group acquired:

(i) to the Group pension funds 49 779 and 37 115 thousand units of the Fungere Fund and Fungepi Fund, by the amount of euro 158.1 million and euro 87.2 million, respectively;
(ii) to ESPART 50% of the company Greenwoods, 100% of Quinta D. Manuel I and 100% of the company Várzea da Lagoa by the amount of euro 50.7 million;
(iii) to OPWAY 100% of the company Quinta da Areia and several properties y the amount of euro 43.1 million euros; and
(iv) to Rio Forte Investments, SA 64,206 units of the Fimes Oriente Fund by the amount of euro 103.3 million.

NOTE 49 – SECURITISATION TRANSACTIONS

As at 31 December 2012, the outstanding securitisation transactions performed by the Group were as follows:

(in thousands of euro)

Designation	Initial date	Original amount	Current amount	Asset securitised
Lusitano Mortgages No.1 plc	December 2002	1 000 000	362 957	Mortgage loans (subsidised regime)
Lusitano Mortgages No.2 plc	November 2003	1 000 000	362 304	Mortgage loans (subsidised and general regime)
Lusitano Mortgages No.3 plc	November 2004	1 200 000	521 143	Mortgage loans (general regime)
Lusitano Mortgages No.4 plc	September 2005	1 200 000	596 623	Mortgage loans (general regime)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	828 363	Mortgage loans (general regime)
Lusitano SME No.1 plc	01 October 2006	862 607	239 278	Loans to small and medium entities
Lusitano Mortgages No.6 plc	July 2007	1 100 000	757 723	Mortgage loans (general regime)
Lusitano Project Finance No.1 , FTC	December 2007	1 079 100	131 526 (1)	Project Finance Loans
Lusitano Mortgages No.7 plc	September 2008	1 900 000	1 797 397	Mortgage loans (general regime)
Lusitano Leverage finance No. 1 BV	February 2010	516 534 (2)	129 666	Leverage Finance Loans
Lusitano Finance N.º 3	November 2011	657 981	434 362	Retail loans
IM BES Empresas 1	November 2011	485 000	375 770	Loans to small and medium entities

(1) In March 2011, the credit portfolio associated to this securitisation was partially sold, with the remaining (domestic credit) been to "Lusitano Project Finance Nº. 1 FTC".

(2) This securitisation includes the amount of euro 382 062 thousand of mortgage loans from BES and an amount of euro 134 472 thousand of mortgage loans from BESI and BES Vénétie,

As permitted by IFRS 1, the Group has applied the derecognition requirements of IAS 39 for the transactions entered into after 1 January 2004. Therefore, the assets derecognised until that date, in accordance with the previous accounting policies, were not restated in the balance sheet.

The assets sold in the securitisation transactions Lusitano Mortgages No.3, Lusitano Mortgages No.4 and Lusitano Mortgages No.5, performed after 1 January 2004, were derecognised considering that the Group has transferred substantially all the risks and rewards of ownership.

In accordance with SIC 12, the Group fully consolidates Lusitano SME No. 1, plc, Lusitano Mortgages No.6 plc, Lusitano Project Finance No. 1 FTC and Lusitano Mortgages No.7 plc as it retains the majority of the risks and rewards associated with the activity of these SPE's. Therefore, the respective assets and liabilities are included in the consolidated balance sheet of the Group. The other securitisation vehicles are not included in the consolidated financial statements of the Group as it has not retained the majority of the risks and rewards of ownership.

In 2011 there were two securitization transactions: loans to households (Lusitano Finance Nº3) with loan originated by BES and other of corporate loans (IM BES Empresas 1) with loans originated by BES Spanish branch. During 2010 it was set-up two securitization operations of corporate loans (Lusitano Leverage Finance Nº1) which includes loans from BES London Branch, BESI and ES Vénétie and other of corporate loans and commercial paper (Lusitano SME Nº2), and the latter been repaid in March 2012. These loans were not derecognised considering that the group has not transferred substantially all the risks and rewards of ownership.

The main characteristics of these transactions, as at 31 December 2012, can be analysed as follows:

(in thousands of euro)

Designation	Notes issues	Issue amount (per value)	Current amount (per value)	Securities held by BES (per value)	Maturity Date	*Rantings (inicial)*				*Ratings (actual)*			
						Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.1 plc	Class A	915 000	265 866	87	December 2035	AAA	Aaa	AAA	-	A	Baa3	A-	-
	Class B	32 500	32 500	-	December 2035	AA	Aa3	AA	-	A	Baa3	A-	-
	Class C	25 000	25 000	3 000	December 2035	A	A2	A	-	A	Ba1	A-	-
	Class D	22 500	22 500	-	December 2035	BBB	Baa2	BBB	-	BBB+	Ba3	BB	-
	Class E	5 000	5 000	-	December 2035	BB	Ba1	BB	-	BB+	B2	B-	-
	Class F	10 000	10 000	-	December 2035	-	-	-	-	-	-	-	-
Lusitano Mortgages No.2 plc	Class A	920 000	279 078	4 277	December 2036	AAA	Aaa	AAA	-	A	Baa3	A-	-
	Class B	30 000	30 000	12 500	December 2046	AA	Aa3	AA	-	A	Baa3	BBB	-
	Class C	28 000	28 000	5 000	December 2046	A	A3	A	-	A	Ba2	BB-	-
	Class D	16 000	16 000	4 000	December 2046	BBB	Baa3	BBB	-	BBB+	B1	B	-
	Class E	6 000	6 000	-	December 2046	BBB-	Ba1	BB	-	BB	B3	B-	-
	Class F	9 000	9 000	-	December 2046	-	-	-	-	-	-	-	-
Lusitano Mortgages No.3 plc	Class A	1 140 000	465 202	3 836	December 2047	AAA	Aaa	AAA	-	A	Ba1	A-	-
	Class B	27 000	17 833	-	December 2047	AA	Aa2	AA	-	A	Ba3	BBB	-
	Class C	18 600	12 285	-	December 2047	A	A2	A	-	BBB	B2	BB-	-
	Class D	14 400	9 511	-	December 2047	BBB	Baa2	BBB	-	BB-	Caa1	B-	-
	Class E	10 800	9 270	-	December 2047	-	-	-	-	-	-	-	-
Lusitano Mortgages No.4 plc	Class A	1 134 000	511 939	7 449	December 2048	AAA	Aaa	AAA	-	BBB-	Ba1	A-	-
	Class B	22 800	21 553	-	December 2048	AA	Aa2	AA	-	BBB-	Ba3	BB+	-
	Class C	19 200	18 150	3 309	December 2048	A+	A1	A+	-	BBB-	B2	B+	-
	Class D	24 000	22 687	4 500	December 2048	BBB+	Baa1	BBB+	-	CCC	Caa3	B-	-
	Class E	10 200	10 200	1 320	December 2048	-	-	-	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	739 478	5 589	December 2059	AAA	Aaa	AAA	-	BBB-	Ba1	A-	-
	Class B	26 600	25 494	-	December 2059	AA	Aa2	AA	-	BBB-	B1	A-	-
	Class C	22 400	21 469	-	December 2059	A	A1	A	-	BB-	B3	BB+	-
	Class D	28 000	26 836	5 271	December 2059	BBB+	Baa2	BBB	-	CCC	Ca	B+	-
	Class E	11 900	11 900	1 700	December 2059	-	-	-	-	-	-	-	-
Lusitano SME No.1 plc	Class A	759 525	105 165	4 614	December 2028	AAA	-	AAA	-	BBB	-	A-	-
	Class B	40 974	35 931	-	December 2028	AAA	-	AAA	-	AAA	-	AAA	-
	Class C	34 073	29 880	-	December 2028	BB	-	BB	-	CCC	-	B	-
	Class D	28 035	24 585	24 585	December 2028	-	-	-	-	-	-	-	-
	Class E	8 626	8 626	8 626	December 2028	-	-	-	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	570 131	49 413	March 2060	AAA	Aaa	AAA	-	A	Ba1	A-	-
	Class B	65 450	65 450	58 950	March 2060	AA	Aa3	AA	-	A	Ba1	A-	-
	Class C	41 800	41 800	31 800	March 2060	A	A3	A	-	BBB	B1	A-	-
	Class D	17 600	17 600	17 600	March 2060	BBB	Baa3	BBB	-	B	B3	BB	-
	Class E	31 900	31 900	31 900	March 2060	BB	-	BB	-	CCC	-	B-	-
	Class F	22 000	22 000	22 000	March 2060	-	-	-	-	-	-	-	-
Lusitano Project Finance No.1 FTC		198 101	139 139	139 139	March 2025	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	1 316 460	1 316 459	October 2064	-	-	AAA	AAA	-	-	A-	AAH
	Class B	294 500	294 500	294 500	October 2064	-	-	BBB-	-	-	-	BB-	-
	Class C	180 500	180 500	180 500	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	57 000	October 2064	-	-	-	-	-	-	-	-
Lusitano Leverage finance No. 1 B	Class A	352 000	-	-	January 2020	-	-	AAA	-	-	-	AAA	-
	Class C	206 800	21 850	20 633	January 2020	-	-	-	-	-	-	-	-
	Class X	21 850	191 293	146 109	January 2020	-	-	-	-	-	-	-	-
Lusitano SME No.2	Class A	1 107 300	-	-	March 2012	-	Aaa	-	AAA	-	-	-	-
	Class B	369 100	-	-	March 2012	-	A2	-	A (low)	-	-	-	-
	Class C	466 300	-	-	March 2012	-	-	-	-	-	-	-	-
	Class D	38 900	-	-	March 2012	-	-	-	-	-	-	-	-
Lusitano Finance N.º 3	Class A	450 700	269 279	269 279	November 2029	-	-	-	-	-	-	-	-
	Class B	207 200	207 200	207 200	November 2029	-	-	-	-	-	-	-	-
	Class C	20 000	20 000	20 000	November 2029	-	-	-	-	-	-	-	-
IM BES Empresas 1	Class A	242 500	129 769	-	November 2043	-	AAA	-	-	-	A3	-	
	Class B	242 500	242 500	242 500	November 2043	-	Caa2	-	-	-	Caa2	-	

NOTE 50 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of financial assets and liabilities, for the Group, is analysed as follows:

(in thousands of euro)

	Amortised Cost	Fair Value: Quoted Market Prices	Fair Value: Valuation models based on observable market information	Fair Value: Valuation models based on non-observable market information	Book Value	Fair Value
Balance as at 31 December 2012						
Cash and deposits at central banks	1 377 541	-	-	-	1 377 541	1 377 541
Deposits with banks	681 077	-	-	-	681 077	681 077
Other financial assets held for trading	-	1 484 112	2 441 287	-	3 925 399	3 925 399
Financial assets at fair value through profit or loss	-	1 387 979	1 153 990	279 584	2 821 553	2 821 553
Available-for-sale financial assets	8 605 [a]	5 008 676	4 778 336	959 693	10 755 310	10 755 310
Loans and advances to banks	5 426 518	-	-	-	5 426 518	5 426 518
Loans and advances to customers	47 194 030	-	512 362	-	47 706 392	44 684 122
Held-to-maturity investments	941 549	-	-	-	941 549	879 265
Derivatives for risk management purposes	-	-	516 520	-	516 520	516 520
Financial assets	**55 629 320**	**7 880 767**	**9 402 495**	**1 239 277**	**74 151 859**	**71 067 305**
Deposits from central banks	10 893 320	-	-	-	10 893 320	10 893 320
Financial liabilities held for trading	-	-	2 122 025	-	2 122 025	2 122 025
Deposits from banks	4 476 381	-	612 277	-	5 088 658	4 898 506
Due to customers	25 743 341	-	8 796 982	-	34 540 323	34 540 323
Debt securities issued	12 764 479	-	2 659 582	-	15 424 061	15 990 921
Derivatives for risk management purposes	-	-	125 199	-	125 199	125 199
Subordinated debt	839 553	-	263	-	839 816	811 686
Financial liabilities	**54 717 074**	**-**	**14 316 328**	**-**	**69 033 402**	**69 381 980**
Balance as at 31 December 2011						
Cash and deposits at central banks	1 090 439	-	-	-	1 090 439	1 090 439
Deposits with banks	580 813	-	-	-	580 813	580 813
Other financial assets held for trading	-	1 003 079	2 431 560	-	3 434 639	3 434 639
Financial assets at fair value through profit or loss	-	29 604	1 924 698	9 687	1 963 989	1 963 989
Available-for-sale financial assets	14 260 [a]	4 404 395	6 810 704	253 507	11 482 866	11 482 866
Loans and advances to banks	3 282 576	-	-	-	3 282 576	3 282 576
Loans and advances to customers	48 454 185	-	589 197	-	49 043 382	45 864 208
Held-to-maturity investments	1 541 182	-	-	-	1 541 182	1 359 782
Derivatives for risk management purposes	-	-	510 090	-	510 090	510 090
Financial assets	**54 963 455**	**5 437 078**	**12 266 249**	**263 194**	**72 929 976**	**69 569 402**
Deposits from central banks	10 013 713	-	-	-	10 013 713	10 013 713
Financial liabilities held for trading	-	-	2 125 253	-	2 125 253	2 125 253
Deposits from banks	5 481 596	-	757 764	-	6 239 360	5 373 851
Due to customers	26 904 037	-	7 302 125	-	34 206 162	34 206 162
Debt securities issued	14 393 295	-	4 059 353	-	18 452 648	15 788 713
Derivatives for risk management purposes	-	-	238 633	-	238 633	238 633
Subordinated debt	961 235	-	-	-	961 235	843 750
Financial liabilities	**57 753 876**	**-**	**14 483 128**	**-**	**72 237 004**	**68 590 075**

[a] Assets at acquisition cost net of impairment losses. These assets refer to equity instruments issued by non-quoted entities in relation to which no recent transactions were identified or is not possible to estimate reliably its fair value.

BES Group determines the fair value of its financial assets and liabilities in accordance with the following hierarchy:

Quoted market prices – this category includes financial assets with available quoted market prices in official markets and with dealer prices quotations provided by entities that usually provide transaction prices for these assets/liabilities traded in active markets.

Valuation models based on observable market information – consists on the use of internal valuation techniques, namely discounted cash flow models and option pricing models which imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instrument. Notwithstanding, the Group uses observable market data such as interest rate curves, credit spreads, volatility and market indexes. Includes also instruments with dealer price quotations but which are not traded in active markets.

Valuation models based on non-observable market information – consists on the use of internal valuation models or quotations provided by third parties but which imply the use of non-observable market information. Changes in the parameters used in 2012 and 2011, have no significant impact to the Group consolidated financial statements.

The movements of the financial assets valued based on non-observable market information, during 2012, can be analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Balance at the beggining of the year	263 194	213 434
Acquisitions	989 342	98 499
Disposals	(17 604)	(9 171)
Transfers	6 593	10 956
Changes in value	(2 248)	(50 524)
Balance at the end of the year	1 239 277	263 194

The main assumptions and inputs used during the years ended 2011 and 2010 in the valuation models are presented as follows:

Interest rate curves

The short term rates presented reflect benchmark interest rates for the money market, being that for the long term the presented values represent the swap interest rate for the respective periods:

(%)

	31.12.2012			31.12.2011		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	0.0700	0.1000	0.4700	0.3250	0.1100	0.4300
1 month	0.1759	0.2300	0.4600	1.0240	0.2953	0.7604
3 months	0.1870	0.4150	0.4800	1.3560	0.5810	1.0900
6 months	0.3200	0.4400	0.6200	1.6170	0.8085	1.3400
9 months	0.3178	0.5900	0.7900	1.7910	0.9659	1.5900
1 year	0.3200	0.3260	0.5411	1.4175	0.6770	1.0850
3 years	0.4700	0.4765	0.7783	1.3750	0.8225	1.3601
5 years	0.7650	0.8260	1.0169	1.7240	1.2260	1.5624
7 years	1.1250	1.2435	1.3563	2.0690	1.6335	1.8619
10 years	1.5700	1.7500	1.8560	2.3870	2.0160	2.2940
15 years	2.0184	2.2800	2.4135	2.6750	2.3715	2.6525
20 years	2.1715	2.5020	2.7230	2.6920	2.4960	2.8322
25 years	2.2203	2.6240	2.8800	2.6250	2.5460	2.9426
30 years	2.2413	2.6880	2.9535	2.5610	2.5870	2.9920

Credit spreads

The credit spreads used by the Group on the valuation of the credit derivatives are disclosed on a daily basis by Markit representing observations constituted for around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spreads behaviour in the market throughout the year, is presented as follows:

(basis points)

Index	Series	1 year	3 years	5 years	7 years	10 years
Year 2012						
CDX USD Main	19	33.02	58.73	95.39	118.68	136.14
iTraxx Eur Main	18	-	76.38	117.43	141.58	154.60
iTraxx Eur Senior Financial	18	-	-	142.44	-	174.98
Year 2011						
CDX USD Main	17	60.25	93.98	120.03	128.87	137.62
iTraxx Eur Main	16	-	153.99	173.38	177.50	179.25
iTraxx Eur Senior Financial	16	-	-	275.25	-	275.25

Interest rates volatility

The values presented below, refer to the implied volatilities (at the money) used for the valuation of the interest rate options:

(%)

	31.12.2012			31.12.2011		
	EUR	USD	GBP	EUR	USD	GBP
1 year	197.18	66.60	54.10	51.08	76.51	53.15
3 years	84.70	72.90	64.90	52.92	77.70	67.00
5 years	67.50	63.22	60.80	50.31	67.85	62.90
7 years	52.90	51.03	49.60	44.19	56.34	52.30
10 years	39.70	42.33	37.20	38.00	47.78	39.70
15 years	31.43	35.80	27.80	32.42	42.36	29.70

Exchange rate and volatility

Presented below are the exchange rates (European Central bank) at the balance sheet date and the implied volatilities (at the money) for the main currencies used on the derivatives valuation:

Exchange Rates	31.12.2012	31.12.2011	Volatility (%)				
			1 month	3 months	6 months	9 months	12 months
EUR/USD	1.3194	1.2939	8.18	8.33	8.70	9.04	9.20
EUR/GBP	0.8161	0.8353	5.63	5.85	6.28	6.65	6.83
EUR/CHF	1.2072	1.2156	2.10	3.05	3.70	4.52	4.85
EUR/NOK	7.3483	7.7540	4.95	5.23	5.55	5.91	6.08
EUR/PLN	4.0740	4.4580	6.60	7.05	7.85	8.35	8.75
EUR/RUB	40.3295	41.7650	7.78	8.17	8.35	8.90	9.23
USD/BRL [a]	2.0491	1.8671	9.33	9.55	9.80	10.10	10.40
USD/TRY [b]	1.7850	1.8882	5.70	6.68	7.70	8.43	8.95

[a] Calculation based in EUR/USD and EUR/BRL exchange rates

[b] Calculation based in EUR/USD and EUR/TRY exchange rates

Concerning the exchange rates, the Group uses in the valuation models the spot rate observed in the market at the time of the valuation.

Equity index

In the table below, is presented the evolution of the main market equity indexes and the respective volatilities used for the valuation of equity derivatives:

	Quote			Historical volatility		Implied volatility
	31.12.2012	31.12.2011	% change	1 month	3 months	
DJ Euro Stoxx 50	2 636	2 317	13.8	11.11	17.02	18.12
PSI 20	5 655	5 494	2.9	12.60	15.40	-
IBEX 35	8 168	8 566	- 4.7	13.68	21.34	-
FTSE 100	5 898	5 572	5.8	8.83	11.42	13.64
DAX	7 612	5 898	29.1	11.10	14.26	15.34
S&P 500	1 426	1 258	13.4	12.28	12.28	16.15
BOVESPA	60 952	56 754	7.4	17.96	18.31	20.34

The methods and assumptions used in estimating the fair values of financial assets and liabilities measured at amortised cost in the balance sheet are analysed as follows:

Cash and deposits at central banks, Deposits with banks and Loans and advances to banks

Considering the short term nature of these financial instruments, carrying value is a reasonable estimate of its fair value.

Loans and advances to customers

The fair value of loans and advances to customers is estimated based on the discount of the expected future cash flows of capital and interest, assuming that the installments are paid on the dates that have been contractually defined. The expected future cash flows of loans with similar credit risk characteristics are estimated collectively. The discount rates used by the Group are current interest rates used in loans with similar characteristics.

Held-to-maturity investments
The fair values of these financial instruments are based on quoted market prices, when available. For unlisted securities the fair value is estimated by discounting the expected future cash-flows.

Deposits from central banks and Deposits from banks
Considering the short term nature of these financial instruments, carrying value is a reasonable estimate of its fair value

Due to customers
The fair value of these financial instruments is estimated based on the discount of the expected future cash flows of capital and interest, assuming that the installments are paid on the dates that have been contractually defined. The discount rates used by the Group are the current interest rates used in instruments with similar characteristics. Considering that the applicable interest rates to these instruments are floating interest rates and that the period to maturity is substantially less than one year, the difference between fair value and book value is not significant.

Debt securities issued and Subordinated debt
The fair value of these instruments is based on market prices, when available. When not available, the Group estimates its fair value by discounting the expected future cash-flows.

NOTE 51 – RISK MANAGEMENT

A qualitative outlook of the risk management at the Group is presented below:

Credit risk
Credit risk represents the potential financial loss arising from the failure of a borrower or counterparty to honour its contractual obligation. Credit risk is essentially present in traditional banking products – loans, guarantees granted and contingent liabilities – and in trading products – swaps, forwards and options (counterparty risk). Regarding credit default swaps, the net exposure between selling and buying positions in relation to each reference entity, is also considered as credit risk to the Group. The credit default swaps are accounted for at fair value in accordance with the accounting policy described in Note 2.4.

Credit portfolio management is an ongoing process that requires the interaction between the various teams responsible for the risk management during the consecutive stages of the credit process. This approach is complemented by the continuous introduction of improvements in the methodologies, in the risk assessment and control tools, as well as in procedures and decision processes.

The risk profile of BES Group is analysed on a regular basis by the risk committees, especially in what concerns the evolution of credit exposures and monitoring of credit losses.

BES Group credit risk exposure is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Deposits with banks	3 799 129	4 675 649
Financial assets held for trading	3 871 474	3 392 644
Other financial assets at fair value through profit or loss	1 634 419	127 731
Available-for-sale financial assets	8 462 104	10 192 450
Loans and advances to customers	47 706 392	49 043 382
Held-to-maturity investments	941 549	1 541 182
Derivatives for risk management purposes	516 520	510 090
Other assets	480 754	682 779
Guarantees granted	8 023 520	8 376 006
Stand by letters of credit	3 776 399	2 941 114
Irrevocable commitments	3 280 971	4 216 289
Credit risk associated to the credit derivatives reference entities	489 884	165 573
	82 983 115	**85 864 889**

The analysis of the risk exposure by sector of activity, as at 31 December 2012 and 2011, can be analysed as follows:

(in thousands of euro)

	31.12.2012									
	Loans and advances to customers		Financial assets held for trading	Other financial assets at fair value through profit and loss	Derivatives for risk management purposes	Available-for-sale financial assets		Held-to-maturity investments		Guarantees granted
	Gross amount	Impairment				Gross amount	Impairment	Gross amount	Impairment	
Agriculture	434 485	(27 152)	14 202	-	-	10 725	(6)	-	-	36 677
Mining	309 229	(11 966)	3 742	11 708	-	12 969	(675)	-	-	53 656
Food, beverage and tobacco	974 407	(50 542)	25 727	2 685	-	10 395	(52)	-	-	102 293
Textiles	316 309	(31 090)	862	-	-	10 425	(3 958)	-	-	12 779
Shoes	63 359	(6 843)	38	-	-	499	(499)	-	-	2 063
Wood and cork	147 345	(23 121)	480	2 236	-	4 366	(1 330)	-	-	7 466
Printing and publishing	331 889	(15 601)	6 683	-	-	11 968	(11 968)	-	-	84 260
Refining and oil	6 976	(45)	4 817	3 385	-	11 618	-	-	-	5 425
Chemicals and rubber	616 899	(14 149)	20 744	1 471	-	24 009	(13 276)	-	-	102 280
Non-metallic minerals	363 449	(28 435)	431	-	-	13 103	(7 958)	-	-	20 152
Metallic products	877 138	(48 939)	14 592	194	-	2 407	-	-	-	155 603
Production of machinery, equipment and electric	280 584	(11 883)	3 079	584	-	31 249	(5 632)	-	-	120 022
Production of transport material	113 698	(9 677)	630	10 741	14	33 298	(3 438)	-	-	34 662
Other transforming industries	389 355	(27 340)	1 611	2 642	-	31 758	(11 280)	-	-	38 449
Electricity, gas and water	1 458 334	(11 032)	155 360	23 846	-	687 307	-	-	-	487 693
Construction	4 429 927	(368 417)	416 606	57 643	-	27 858	(1 688)	-	-	2 292 619
Wholesale and retail	3 188 671	(289 276)	10 810	1 366	-	33 764	(15 430)	1 537	-	546 904
Tourism	1 453 173	(91 215)	14 625	65 301	-	39 439	(379)	-	-	101 949
Transports and communications	2 152 159	(46 964)	291 175	18 483	-	271 487	(8 916)	9 894	-	1 010 767
Financial activities	3 952 138	(123 257)	1 045 792	1 901 531	516 506	3 650 620	(70 301)	526 584	(20 794)	161 474
Real estate activities	6 249 967	(431 611)	52 371	70 000	-	201 741	(1 891)	1 299	-	456 531
Services provided to companies	4 749 180	(369 927)	344 883	91 424	-	1 156 930	(33 197)	39 139	-	1 484 414
Public services	954 941	(22 959)	1 361 185	515 994	-	4 405 389	-	295 271	-	227 198
Non-profit organisations	2 682 267	(268 571)	133 128	38 356	-	303 008	(46 089)	106 936	(18 317)	402 493
Mortgage loans	11 133 822	(169 114)	-	-	-	-	-	-	-	9
Consumers loans	2 627 780	(191 270)	-	-	-	-	-	-	-	70 704
Other	141 253	(1 946)	1 826	1 963	-	6 945	(4)	-	-	4 978
TOTAL	**50 398 734**	**(2 692 342)**	**3 925 399**	**2 821 553**	**516 520**	**10 993 277**	**(237 967)**	**980 660**	**(39 111)**	**8 023 520**

(in thousands of euro)

	31.12.2011									
	Loans and advances to customers		Financial assets held for trading	Other financial assets at fair value through profit and loss	Derivatives for risk management purposes	Available-for-sale financial assets		Held-to-maturity investments		Guarantees granted
	Gross amount	Impairment				Gross amount	Impairment	Gross amount	Impairment	
Agriculture	435 935	(17 077)	11 803	-	-	11 315	(3 087)	-	-	45 525
Mining	215 006	(9 788)	3 869	-	-	1 027	(546)	-	-	19 408
Food, beverage and tobacco	909 823	(44 215)	11 537	-	-	22 286	(52)	-	-	93 689
Textiles	315 807	(28 171)	1 906	-	-	20 103	(2 238)	-	-	15 482
Shoes	71 989	(5 842)	459	-	-	515	(499)	-	-	2 040
Wood and cork	159 555	(24 975)	812	-	-	1 372	-	-	-	6 879
Printing and publishing	340 289	(6 638)	5 272	-	-	123 364	(1 989)	-	-	89 423
Refining and oil	29 233	(191)	3 204	-	-	4 154	-	-	-	6 997
Chemicals and rubber	631 525	(11 442)	11 156	-	-	56 770	(13 389)	-	-	95 474
Non-metallic minerals	435 583	(18 446)	475	-	-	37 764	(7 548)	-	-	26 912
Metallic products	845 522	(35 765)	1 324	-	-	500	-	-	-	122 800
Production of machinery, equipment and electric	278 209	(7 037)	2 381	-	-	62 612	(7 113)	-	-	162 205
Production of transport material	332 333	(14 200)	504	-	-	585	(108)	-	-	29 431
Other transforming industries	379 173	(23 987)	2 350	-	-	35 792	(8 413)	-	-	44 328
Electricity, gas and water	1 607 225	(9 554)	92 584	-	-	526 959	(1 855)	-	-	626 046
Construction	4 694 390	(236 134)	344 306	56 000	-	153 446	(1 687)	-	-	2 566 951
Wholesale and retail	3 260 235	(257 343)	19 263	-	-	315 889	(15 203)	-	-	537 255
Tourism	1 571 254	(60 542)	17 522	-	-	2 874	(379)	-	-	96 906
Transports and communications	1 895 253	(85 982)	305 527	-	-	537 632	(8 915)	9 865	-	985 644
Financial activities	2 844 493	(141 628)	1 052 404	1 695 543	510 090	1 938 549	(25 239)	618 975	(21 393)	164 929
Real estate activities	6 864 981	(304 001)	65 606	70 000	-	285 634	(1 776)	-	-	465 535
Services provided to companies	4 449 412	(217 566)	213 640	104 436	-	2 014 190	(29 923)	-	-	1 689 810
Public services	1 062 578	(22 593)	889 770	-	-	4 689 214	-	805 437	-	244 897
Non-profit organisations	3 016 419	(264 537)	368 585	38 010	-	790 406	(35 392)	139 221	(10 923)	144 089
Mortgage loans	11 610 112	(160 473)	-	-	-	-	-	-	-	39
Consumers loans	2 715 482	(155 292)	-	-	-	-	-	-	-	91 311
Other	239 010	(4 025)	8 380	-	-	18 196	(2 931)	-	-	2 001
TOTAL	**51 210 826**	**(2 167 444)**	**3 434 639**	**1 963 989**	**510 090**	**11 651 148**	**(168 282)**	**1 573 498**	**(32 316)**	**8 376 006**

As at 31 December 2012 and 2011, the analysis of the loan portfolio by rating is as follows:

(in million of euro)

Rating/Scoring models	Internal scale	31.12.2012 Credit amount	31.12.2012 (%)	31.12.2011 Credit amount	31.12.2011 (%)
Large companies	[aaa;a-]	8	0.02%	77	0.15%
	[bbb+;-bbb-]	2 313	4.59%	2 535	4.95%
	[bb+;bb-]	4 997	9.91%	4 697	9.17%
	[b+;b-]	8 080	16.02%	8 601	16.80%
	ccc+	1 277	2.53%	1 806	3.53%
Medium enterprises	8-9	535	1.06%	692	1.35%
	10-11	532	1.06%	656	1.28%
	12-13	632	1.25%	859	1.68%
	14-15	438	0.87%	576	1.12%
	16-17	567	1.13%	596	1.16%
	18-19	342	0.68%	575	1.12%
	20-21	347	0.69%	457	0.89%
	22-23	294	0.58%	345	0.67%
	24-25	1 659	3.29%	1 016	1.98%
Small enterprises	A	71	0.14%	91	0.18%
	B	305	0.61%	365	0.71%
	C	620	1.23%	878	1.71%
	D	311	0.62%	382	0.75%
	E	251	0.50%	216	0.42%
	F	557	1.11%	515	1.01%
Mortgage loans	01	1 196	2.37%	1 107	2.16%
	02	4 341	8.61%	4 259	8.32%
	03	1 492	2.96%	1 632	3.19%
	04	710	1.41%	814	1.59%
	05	503	1.00%	574	1.12%
	06	488	0.97%	510	1.00%
	07	679	1.35%	696	1.36%
	08	953	1.88%	1 101	2.15%
Private individuals	01	86	0.17%	101	0.20%
	02	66	0.13%	117	0.23%
	03	130	0.26%	156	0.30%
	04	312	0.62%	328	0.64%
	05	136	0.27%	208	0.41%
	06	198	0.39%	244	0.48%
	07	144	0.29%	168	0.33%
	08	109	0.22%	144	0.28%
	09	260	0.52%	232	0.45%
	10	4	0.01%	3	0.01%
No internal rating/scoring loans		14 456	28.68%	12 882	25.15%
TOTAL		**50 399**	**100.00%**	**51 211**	**100.00%**

Market risk

Market risk is the possible loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates, share prices, commodities prices, volatility and credit spread.

The market risk management is integrated with the balance sheet management through the Asset and Liability Committee (ALCO). This committee is responsible for defining policies for the structuring and composition of the balance sheet, and for the control of exposures to interest rate, foreign exchange and liquidity risk.

The main measure of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) valuation criteria is used. BES's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year. As a complement to VaR stress testing has been developed, allowing to evaluate the impact of potential losses higher than the ones considered by VaR.

(in thousands of euro)

	31.12.2012			
	December	Annual average	Maximum	Minimum
Exchange Risk	3 399	11 272	13 723	3 399
Interest rate risk	8 793	18 426	28 532	8 793
Shares and commodities	15 026	14 439	11 127	15 026
Volatility	7 112	7 222	7 173	7 112
Credit Spread	13 887	40 212	71 556	13 887
Diversification effect	(10 105)	(17 030)	(20 347)	(10 105)
Total	**38 112**	**74 541**	**111 764**	**38 112**

(in thousands of euro)

	31.12.2011			
	December	Annual average	Maximum	Minimum
Exchange Risk	4 872	9 254	11 634	4 872
Interest rate risk	10 764	11 404	14 863	10 764
Shares and commodities	13 554	19 209	12 042	13 554
Volatility	14 291	30 073	57 979	14 291
Credit Spread	15 170	10 434	11 170	15 170
Diversification effect	(11 132)	(15 638)	(19 020)	(11 132)
Total	**47 519**	**64 736**	**88 668**	**47 519**

Group has a VaR of euro 38 112 thousand (31 December 2011: euro 47 519 thousand), for its trading positions.

Following the recommendations of Basel II (Pilar 2) and Instructions nº19/2005, of the Bank of Portugal BES Group calculates its exposure to interest rate risk based on the methodology of the Bank of International Settlement (BIS), classifying all balance and off-balance balances which are not part of the trading portfolio, by repricing intervals.

(in thousands of euro)

	31.12.2012						
	Eligible amounts	Non sentitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Cash and deposits	7 492 060	438 713	6 664 597	269 579	103 370	15 754	46
Loans and advances to customers	49 673 250	-	29 712 842	8 957 736	2 736 210	5 965 359	2 301 103
Securities	16 725 064	7 367 973	4 002 972	1 359 061	1 058 477	1 742 554	1 194 026
Debt securities issued	3 804	3 804	-	-	-	-	-
Total			**40 380 411**	**10 586 376**	**3 898 057**	**7 723 668**	**3 495 175**
Deposits from Banks	15 867 594	-	14 182 895	525 694	648 472	270 027	240 506
Due to customers	34 031 479	-	22 337 278	2 929 281	3 066 320	5 685 175	13 424
Securities issue	15 858 652	-	5 139 450	752 979	279 880	6 547 539	3 138 805
Investments contracts	3 319 944	545 779	25 622	371 293	-	1 671 301	705 950
Debt securities issued	1 547 697	1 531 105	-	-	-	5 904	10 689
Total			**41 685 244**	**4 579 247**	**3 994 673**	**14 179 946**	**4 109 373**
GAP (assets - liabilities)	(2 464 796)		(1 304 833)	6 007 129	(96 616)	(6 456 278)	(614 198)
Off Balance sheet			(6 114 471)	(751 350)	509 366	6 289 980	66 475
Structural GAP	**(2 464 796)**		**(7 419 305)**	**5 255 779**	**412 750**	**(166 298)**	**(547 723)**
Accumulated GAP			**(7 419 305)**	**5 255 779**	**5 668 529**	**5 502 231**	**4 954 509**

(in thousands of euro)

	31.12.2011						
	Eligible amounts	Non sentitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Loans and advances to customers	4 787 662	278 179	4 234 688	42 487	4 952	226 340	1 016
Securities	49 095 349	-	33 287 221	10 443 084	2 274 857	1 797 421	1 292 766
Debt securities issued	16 064 643	4 340 115	7 021 587	1 587 333	1 484 844	1 090 437	540 327
Total			**44 543 496**	**12 072 904**	**3 764 653**	**3 114 198**	**1 834 109**
Deposits from banks	16 216 997	-	13 706 517	603 595	680 262	912 891	313 732
Due to customers	33 576 964	-	22 615 631	3 158 141	3 421 871	4 284 310	97 011
Securities issue	19 086 330	-	9 370 785	711 284	245 487	6 266 941	2 491 833
Total			**45 692 933**	**4 473 020**	**4 347 620**	**11 464 142**	**2 902 576**
GAP (assets - liabilities)	(3 550 931)		(1 149 437)	7 599 884	(582 967)	(8 349 944)	(1 068 467)
Off Balance Sheet	-		(5 810 719)	(1 737 590)	1 788 949	5 545 617	213 743
Structural GAP	**(3 550 931)**		**(1 149 437)**	**7 599 884**	**(582 967)**	**(8 349 944)**	**(1 068 467)**
Accumulated GAP			**(1 149 437)**	**7 599 884**	**7 016 917**	**(1 333 027)**	**(2 401 494)**

Sensitivity analysis to the interest rate risk of the bank prudential portfolio are performed, based on the duration model approach and considering several scenarios of movements of the yield curve at all interest rate levels.

(in thousands of euro)

	31.12.2012				31.12.2011			
	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year
At 31 December	(85 483)	85 483	(34 138)	34 138	175 371	(175 371)	102 191	(102 191)
Average of the year	(22 320)	22 320	(976)	976	239 334	(239 334)	132 845	(132 845)
Maximum for the year	(124 700)	124 700	60 383	(60 383)	336 477	(336 477)	179 158	(179 158)
Minimum for the year	13 477	(13 477)	22 242	(22 242)	175 371	(175 371)	102 191	(102 191)

The following table presents the average balances, interests and interest rates in relation to the Group's major assets and liabilities categories, for the period ended 31 December 2012 and 2011:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Average balance for the year	Interest for the year	Average interest rate	Average balance for the year	Interest for the year	Average interest rate
Monetary assets	4 885 099	192 458	3.94%	5 413 930	170 403	3.15%
Loans and advances to customers	50 315 715	2 527 274	5.02%	51 519 608	2 678 426	5.20%
Securities	14 242 252	850 845	5.97%	13 333 830	737 976	5.53%
Differencial applications	-	-	-	11 481	-	-
Financial Assets	69 443 066	3 570 577	5.14%	70 278 848	3 586 805	5.10%
Monetary Liabilities	17 566 965	419 167	2.39%	16 511 041	460 256	2.79%
Due to consumers	34 029 787	1 037 769	3.05%	32 534 704	1 037 772	3.19%
Other	16 564 422	933 133	5.63%	21 233 104	907 186	4.27%
Differencial liabilities	1 281 892	-	-	-	-	-
Financial Liabilities	69 443 066	2 390 069	3.44%	70 278 848	2 405 214	3.42%
Net interest income		1 180 508	1.70%		1 181 591	1.68%

Foreign Exchange Risk

In relation to foreign exchange risk, the breakdown of assets and liabilities by currency as at 31 December 2012 and 31 of December of 2011, is analysed as follows:

(in thousands of euro)

		31.12.2012				31.12.2011			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	United Stades Dollars	(802 201)	842 328	32 097	72 224	(661 275)	835 766	41 845	216 336
GBP	Great Britain Pounds	466 168	(467 042)	(1 057)	(1 931)	480 536	(476 598)	(80)	3 858
BRL	Brazillian real	187 801	(183 686)	(4 738)	(623)	210 597	(200 379)	16 357	26 575
DKK	Danish Krone	21 947	(21 579)	-	368	216	(3 720)	-	(3 504)
JPY	Japanese yene	27 297	5 171	(40 166)	(7 698)	(8 799)	17 400	(10 271)	(1 670)
CHF	Swiss krone	9 944	(6 962)	(1 286)	1 696	53 075	(48 646)	(1 291)	3 138
SEK	Swedish krone	7 403	(7 778)	(53)	(428)	(2 138)	1 305	182	(651)
NOK	Norwegian krone	(49 539)	49 807	69	337	(3 251)	1 030	(54)	(2 275)
CAD	Canadian Dollar	22 866	(23 290)	(7 227)	(7 651)	40 169	(62 399)	456	(21 774)
ZAR	Rand	(5 569)	4 475	497	(597)	(602)	(715)	2 637	1 320
AUD	Australian Dollar	(8 510)	10 124	17	1 631	98 577	(101 357)	3 106	326
AOA	Kwanza	(53 208)	-	-	(53 208)	(228 429)	-	-	(228 429)
CZK	Czach koruna	5	-	-	5	3 804	302	(2 247)	1 859
MXN	Mexican Peso	63 789	(75 772)	9 338	(2 645)	61 971	(81 497)	3 215	(16 311)
	Others	16 727	45 008	34 626	96 361	(6 276)	(54 170)	80 319	19 873
		(95 080)	170 804	22 117	97 841	38 175	(173 678)	134 174	(1 329)

Exposure to peripheral Eurozone countries public debt

As at 31 December 2012 and 31 December 2011 the exposure to public debt from peripheral Eurozone countries which are monitored by the Group is analysed as follows:

(in thousands of euro)

	31.12.2012					
	Loans and Advances to Customers	Financial Assets held for trading at fair value	Derivatives instruments [1]	Available-for-sale financial assets	Held-to-maturity investments	Total
Portugal	935 771	592 985	31 143	2 468 941	128 147	4 156 987
Spain	111 121	568	(76)	605 499	-	717 112
Greece	-	3 439	-	-	-	3 439
Irland	-	-	-	-	24 894	24 894
Italy	-	6 225	-	21 290	-	27 515
Hungary	-	-	-	-	-	-
	1 046 892	603 217	31 067	3 095 730	153 041	4 929 947

[1] Net values: receivable/payable

(in thousands of euro)

	31.12.2011					
	Loans and Advances to Customers	Financial Assets held for trading at fair value	Derivatives instruments [1]	Available-for-sale financial assets	Held-to-maturity investments	Total
Portugal	876 702	123 852	69 714	2 820 649	-	3 890 917
Spain	132 418	563	1 989	4 096	-	139 066
Greece	-	-	(265)	-	-	(265)
Irland	-	-	(1 069)	-	-	(1 069)
Italy	-	-	(2 865)	-	-	(2 865)
Hungary	-	-	-	-	-	-
	1 009 120	124 415	67 504	2 824 745	-	4 025 783

[1] Net values: receivable/payable

All the exposures presented above, except loans and advances to customers, are recorded in the Group's balance sheet at fair value, which is based on market quotations or, in relation to derivatives, based on valuation techniques with observable market data. Loans and advances to customers are recorded at amortized cost net of impairment losses.

A detailed exposure regarding securities recorded in financial assets available-for-sale, financial assets held for trading, financial assets at fair value through profit or loss and held to maturity investments can be analysed as follows:

(in thousands of euro)

31.12.2012	Nominal Amount	Market value	Accrued interest	Book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**2 669 666**	**2 421 241**	**47 700**	**2 468 941**	**-**	**191 142**
Maturity up to 1 year	187 331	186 135	113	186 248	-	498
Maturity exceeding 1 year	2 482 335	2 235 106	47 587	2 282 693	-	190 644
Spain	**616 092**	**597 401**	**8 098**	**605 499**	**-**	**2 190**
Maturity up to 1 year	389 350	383 681	325	384 006	-	796
Maturity exceeding 1 year	226 742	213 720	7 773	221 493	-	1 394
Italy	**20 000**	**20 867**	**423**	**21 290**	**-**	**478**
Maturity up to 1 year	-	-	-	-	-	-
Maturity exceeding 1 year	20 000	20 867	423	21 290	-	478
	3 305 758	**3 039 509**	**56 221**	**3 095 730**	**-**	**193 810**
Financial assets held for trading						
Portugal	158 946	141 676	3 807	145 483	-	-
Spain	304	302	-	302	-	-
	159 250	**141 978**	**3 807**	**145 785**	**-**	**-**
Financial assets at fair value						
Portugal	523 775	439 544	7 958	447 502	-	-
Spain	260	259	7	266	-	-
Greece	129 655	3 439	-	3 439	-	-
Italy	5 969	6 224	1	6 225	-	-
	659 659	**449 466**	**7 966**	**457 432**	**-**	**-**
Financial assets held to maturity						
Portugal	137 000	126 431	1 716	128 147	-	-
Irland	24 000	24 051	844	24 894	-	-
	161 000	**150 482**	**2 560**	**153 041**	**-**	**-**

(in thousands of euro)

31.12.2011	Nominal Amount	Market value	Accrued interest	Book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**3 187 790**	**2 780 693**	**39 726**	**2 820 649**	**-**	**(124 406)**
Maturidade até 1 ano	2 069 941	2 040 481	14 542	2 055 236	-	(16 736)
Maturidade superior 1 ano	1 117 849	740 212	25 184	765 413	-	(107 670)
Spain	**4 036**	**4 027**	**69**	**4 096**	**-**	**(9)**
Maturidade até 1 ano	4 014	4 004	68	4 072	-	(4)
Maturidade superior 1 ano	22	23	1	24	-	(5)
	3 191 826	**2 784 720**	**39 795**	**2 824 745**	**-**	**(124 415)**
Financial assets held for trading						
Portugal	126 208	120 458	3 394	123 852	-	-
Spain	568	563	-	563	-	-
	126 776	**121 021**	**3 394**	**124 415**	**-**	**-**

Liquidity risk

Liquidity risk derives from the potential inability to fund assets while satisfying commitments on due dates and from potential difficulties in liquidating positions in portfolio without incurring in excessive losses.

The liquidity risk can be divided into two types:

- Assets liquidity (market liquidity risk) – unable to sell a particular asset due to lack of liquidity in the market, which results in extending the bid / offer spread or applying a haircut to the market value.

- Funding (funding liquidity risk) - unable to, within the desired timeframe and currency, fund assets in the market and / or refinance debt that is due. This inability can be reflected by a significant increase of the financing cost or the requirement of collateral to obtain funds. The difficulty of (re) financing can lead to asset sales, even incurring in significant losses. The risk of (re) financing should be minimized through adequate diversification of funding sources and maturities.

The first half of 2012 was marked by the by the stabilization of the impression and financial markets conditions. The main contributions for this stabilization are presented as follows:

- The actions of the European Central Bank that besides de reduction of the reference rate from 1.5% to 1% in the final of the year 2011, held two liquidity operations with a maturity of three years (LTRO), extended the eligibility criteria for the assets pledged as collateral in monetary policy operations and reduced the threshold of minimum reserves in European Central Bank from 2% to 1%. These measures allowed an increase of the available market liquidity, when it was predicted to occur several major debt maturities in the banking sector;
- The Greek debt restructuring, although it not completely dissipated the Eurozone peripherical economies sovereign debt crisis.
- The results of the European Council at the end of June and the statements of the ECB President to support the Euro in July;
- The resolutions adopted at the ECB meeting in September, especially the details of the new program for purchasing government debt (Outright Monetary Transactions - "OMT").

The last measure had a key role for reducing the systemic risk and represents an important step for stabilizing the Eurozone. Consequently, in the fourth quarter of 2012, the yields of sovereign debt of peripheral countries experienced sharp declines and the yields on Portuguese public debt showed levels lower than those observed when applying for financial help in April 2011.

At year end, the portfolio value of assets eligible for rediscount operations was euro 22.3 thousands million, of which euro 19.4 thousand million with the European Central Bank.

Aiming to assess the overall exposure to liquidity risk is assessed through reports that provide not only identify the negative mismatch, how to make coverage and dynamic basis.

(in thousands of euro)

	31.12.2012						
	Eligible amounts	Up to 7 days	From 7 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year
ASSETS							
Cash and deposits with banks	420	420	-	-	-	-	-
Loans and advances to banks and central banks	7 072	5 614	504	607	223	95	30
Loans and advances to customers	43 500	561	1 170	1 411	1 501	2 291	36 566
Securities	25 684	2 601	1 140	2 226	889	1 500	17 328
Debt securities issues	4	4	-	-	-	-	-
Other Assets, net	1 816	1 816	-	-	-	-	-
Off Balance sheet (Commitments and Derivatives)	6 570	313	139	268	454	513	4 883
Total		**11 329**	**2 953**	**4 512**	**3 067**	**4 399**	**58 807**
LIABILITIES							
Deposits from banks, central banks and other loans	16 110	2 092	515	680	479	770	11 573
Due to customers	33 789	594	957	1 974	731	138	29 396
Securities	15 862	176	441	1 936	927	278	12 103
Investments contracts	3 320	21	1	83	63	162	2 989
Debt securities issues	1 548	10	5	14	28	71	1 418
Other short-term liabilities	1 589	1 589	-	-	-	-	-
Off Balance sheet (Commitments and Derivatives)	10 188	330	201	417	624	520	8 096
Total		**4 812**	**2 120**	**5 104**	**2 852**	**1 939**	**65 575**
GAP (Assets - Liabilities)		**6 515**	**833**	**(593)**	**214**	**2 459**	
Accumulated GAP		**6 515**	**7 348**	**6 755**	**6 970**	**9 429**	
Buffer > 12 months							**581**

(in thousands of euro)

	31.12.2011						
	Eligible amounts	Up to 7 days	From 7 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year
ASSETS							
Cash and deposits with banks	436	436	-	-	-	-	-
Loans and advances to banks and central banks	4 509	2 368	823	1 037	42	8	232
Loans and advances to customers	48 372	614	1 610	1 800	1 652	2 543	40 152
Securities	19 307	536	1 727	2 193	727	474	13 650
Debt securities issues	-	-	-	-	-	-	-
Other Assets, net	3 779	3 779	-	-	-	-	-
Off Balance sheet (Commitments and Derivatives)	6 141	217	175	535	856	475	3 883
Total		**7 950**	**4 335**	**5 565**	**3 277**	**3 500**	**57 917**
LIABILITIES							
Deposits from banks, central banks and other loans	16 535	3 642	2 319	2 457	583	462	7 072
Due to customers	33 259	85	1 065	1 987	531	1 067	28 524
Securities	19 124	30	2 774	2 944	555	209	12 612
Investments contracts	-	-	-	-	-	-	-
Debt securities issues	-	-	-	-	-	-	-
Other short-term liabilities	1 683	1 683	-	-	-	-	-
Off Balance sheet (Commitments and Derivatives)	12 224	282	292	754	939	541	9 415
Total		**5 722**	**6 450**	**8 142**	**2 608**	**2 279**	**57 623**
GAP (Assets - Liabilities)		**2 229**	**(2 116)**	**(2 578)**	**668**	**1 221**	
Accumulated GAP		**2 229**	**113**	**(2 465)**	**(1 797)**	**(575)**	
Buffer > 12 months							**2 752**

The one year cumulative gap went from euro -575 million in December 2011 to euro 9 429 million in December 2012. It should be noted that as at 31 December 2012 this amount includes BES Vida. This positive change reflects the liquidity risk management conservative orientation with the liquidation of assets and extension of liabilities.

Additionally, and in accordance with Instruction no. 13/2009 of Bank of Portugal, the liquidity gap is defined by the indicator [(Net Assets - Volatile Liabilities) / (Assets - Net assets) * 100] on each residual cumulative maturity scale. Net assets include cash and net securities and volatile liabilities include issuances, commitments, derivatives and other liabilities. This indicator allows a characterization of the wholesale risk of the institutions.

As at 31 December 2012, BES Group one year liquidity gap was -1.7, which compares to -15.0 from the same period last year and is in line with other banks in Portugal (-5.4 in June 2012). This reflects a positive change, as previously mentioned, with the liquidation of assets and extension of liabilities. Note that the above figures, calculated in accordance with Instruction no. 13/2009 of Bank of Portugal, do not include BES Vida, whose activity is regulated by the Portuguese Insurance Authority (“Instituto de Seguros de Portugal”), which establishes exposure limits for diversification and prudential spread.

In order to try to anticipate possible constraints, BES Group considers extreme scenarios in terms of liquidity (moderate and severe), different timeframes and different impact areas (systemic, specific to the Bank and combined). For example, in the systemic scenario is simulated the closure of the wholesale market, while in the specific scenario to the Bank is simulated the run-off of customer deposits from retail and non-retail, with different severity levels.

As at 31 December 2012, the net assets buffer (consisting of deposits at central banks and securities available in the pool of assets rediscountable at ECB) exceeded cash outflows arising from the application of stress tests.

In January 2013, under the Basel III framework, the Bank of International Settlements published new legislation regarding the Liquidity Coverage Ratio (LCR). As at 31 December 2012, the Group has met on this ratio the limit set for 2015.

Operational risk

Operational risk represents the risk of losses resulting from failures in internal procedures, people behaviors, information systems and external events. It is understood, therefore, operational risk as the sum of the following risks: operational, information systems, compliance and reputation.

To manage operational risk, it was developed and implemented a system that standardizes, systematizes and regulates the frequency of actions with the objective of identification, monitoring, controlling and mitigation of risk. The system is supported at organizational level by a unit within the Global Risk Department, exclusively dedicated to this task, and by representatives designated by each of the relevant departments and subsidiaries.

Insurance business specific risk (life insurance)

<u>Underwriting</u>

There are written rules that establish the guidelines to consider in the risk acceptance, and which were based on the analysis performed over several portfolio indicators to enable matching the best possible price to the risk. The information provided by the Company's reinsurers is also taken into account and the underwriting policies are defined by business segment.

<u>Pricing</u>

The Company aims to set prices sufficient and adequate to cover all commitments (outstanding claims, expenses and cost of capital).

Upstream, the price suitability is tested through techniques of realistic cash flow projections and downstream, the profitability of each product or group of products is monitored annually when calculating the Market Consistent Embedded Value.

There are metrics and guidelines defined by the Company setting out the minimum requirements for profitability of any new product, as well as to perform sensitivity analysis. The calculation of the Market Consistent Embedded Value is conducted once a year by the Company and reviewed by external consultants.

<u>Reserving</u>

In general, the Company's policy is prudential and uses recognized actuarial methods fulfilling the legislation in force. The main policy objective is to record appropriate and adequate reserves so that the Company meets all its future liabilities. For each line of business, the Company records reserves within their liabilities for future claims and segregate assets to represent these reserves. This requires the preparation of estimates and the use of assumptions that may affect the assets and liabilities amounts in future years.

Such estimates and assumptions are periodically evaluated, including through statistical analysis of historical internal and / or external data. The adequacy of estimated liabilities for the insurance activity is reviewed annually. If the technical reserves are not sufficient to cover the present value of expected future cash flows (claims, costs and commissions), the insuffciencty is immediately recognized through additional reserves.

Insurance specific risk

Biometric risks

Biometric risks include the risks of longevity, mortality and disability. The longevity risk covers the uncertainty in the ultimate loss due to policyholders living longer than expected and can arise for example, in annuities. The longevity risk is managed through pricing, underwriting policy and by regularly reviewing the mortality tables used to set prices and create reserves in compliance. The mortality risk is linked to an increase of the mortality rate which may have an impact on insurances that guarantee capital in the event of death. This risk is mitigated through underwriting policies, regular review of the mortality tables used and reinsurance. The disability risk covers the uncertainty of actual losses due to disability rates higher than expected.

The sensitivity of the portfolio to biometric risks is analyzed through realistic cash flow projections - Market Consistent Embedded Value Model.

Non-collection risk

The non-collection risk relates to the risk of nonpayment of premiums and cancellation of policies. The redemption and cancellation rates are monitored regularly in order to monitor its impact on the Company's portfolio. The portfolio's sensitivity to this risk is analyzed through realistic cash flow projectios - Market Consistent Embedded Value Model.

The main assumptions used by type of contract are as follows:

	Mortality Table	Technical rate
Retirements savings plans and capitalization products		
Up to December 1997	GKM 80	4%
From January 1998 to February 1999	GKM 80	3.25%
From July 1999 to February 2003	GKM 80	2.25% e 3%
From Mars 2003 to December 2003	GKM 80	2.75%
After January 2004	GKM 80	Set per calendar year (*)
Insurance in case of life		
Rents		
Up to June 2002	TV 73/77	4%
From July 2002 to December 2003	TV 73/77	3%
From January 2004 to August 2006	GKF 95	3%
After September 2006	GKM - 3 years	2%
Other insurance		
Insurance in case of death		
Up to December 2004	GKM 80	4%
After January 2005	GKM 80	0% a 2%
Insurance mixed		
Up to September 1998	GKM 80	4%
After October 1998	GKM 80	3%

(*) In the years of 2012 and 2011 the technical rate was 2%

For liability adequacy test purposes, the mortality assumptions are based on best estimates derived from portfolio experience investigations. Future cash flows are evaluated and discounted at government bonds rate.

The mortality assumptions used are as follows:

Mortality Table	
Rents	GRM 95
Savings and Other contracts	30% GKM 80

The following table shows the sensitivity analyzes in Market Consistant Embedded Value of insurance activity:

(in thousands of euro)

	31-12-2012
10% growth in redemptions	(3 873)
Decrease of 10% in redemptions	4 896
5% growth in mortality rate (life except rents)	(1 789)
Decrease of 5% in mortality rate (life except rents)	2 055

The following table presents the sensitivity analysis on the impact net of tax reserves and gains and losses from changes in the interest rate without risk and the market value of the shares of insurance activity:

(in thousands of euro)

	31-12-2012	
	Profit for the period	Reserve net taxes
100 pb growth in risk-free rate	1 701	(55 632)
Decrease of 100 pb in risk-free rate	(1 819)	60 249
Devaluation of 10% in the market value of the shares	-	(30 219)
10% appreciation in the market value of the shares	-	30 219

Capital management and solvability ratio

The main objective of the Group capital management is to ensure compliance with the Group's strategic objectives in terms of capital adequacy, respecting and enforcing the minimum capital requirements set by supervisors.

The definition of the strategy in terms of capital adequacy is made by the Executive Committee and is integrated in the global goals of the Group.

The Group is subject to Bank of Portugal supervision that, under the capital adequacy Directive from the CE, establishes the prudential rules to be attended by the institutions under its supervision. These rules determine a minimum solvability ratio in relation to the requirements of the assumed risks that institutions have to fulfill.
In the scope of the implementation of the new capital accord Basel II, and using the permission granted by the new prudential regime established by Decree-Law 103/2007 and Decree-Law 104/2007, the Group was authorized to use, starting 31 March 2009, the approach based in the use of internal models for credit risks (Foundation Internal Rating Based Approach – IRBF) for credit risk and the Standardized Approach – TSA) for operational risk.

- The capital elements of BES Group are divided into: Basic Own Funds, Complementary Own Funds and Deductions, as follows:
- *Core Tier I*: This category includes mainly the share capital, share premiums, elegible reserves, the net profit for the year retained when certified and non-controlling interests. The fair value reserves are excluded except for the deduction of negative fair value reserves associated with shares or other equity instruments, is also deductible to Core Tier I the following balance shets amounts goodwill, intangible assets, negative actuarial deviations arising from liabilities with post-employment benefits to employees above the prudential corridor limit and, where applicable, the net loss for the period.
- Basic Own Funds (BOF): In addition to the amounts considered as Core Tier I, this category includes the preference shares and hybrid capital instruments. It can be deducted from capital half of the value converted into equity, above 10%, in financial institutions and insurance companies. Following the implementation of the IRB method for credit risk, is now also adjusted 50% of the expected loss amount for exposures on the part that exceeds the sum of value adjustments and existing reserves.
- Complementary Own Funds (COF): Essentially incorporates the subordinated eligible debt and 45% of the positive fair value reserve associated with equity securities. The book value of investments in banking and insurance associates is deducted in 50% of its value and since 2009, is also deducted 50% of the expected losses of the risk positions less any existing provisions, following the application of the IRBF method for credit risk

- <u>Deductions (D)</u>: Essentially incorporates the prudential amortization of assets received as a recovery of non-performing loans.

Additionally there are several rules that limit the composition of the capital basis. The prudential rules determine that the COF cannot exceed the BOF. Also, some components of the COF (Lower Tier II) cannot exceed 50% of the BOF.

In December 2008, the Bank of Portugal issued the Notice 11/2008, establishing a transitory period of four years, from December 2009 to December 2012, for the recognition of the actuarial gains/losses determined in 2008, deducted from the expected return of the fund plan assets for the same year. This transitory period ended in December 2012 coinciding with the last prudential depreciation.

In May 2011 and in the context of the negotiation of the Financial Assistance Programme to Portugal – with the European Commission, the European Central Bank and the International Monetary Fund – the Bank of Portugal issued the Notice 3/2011, establishing new minimum levels of solvency to be followed by the financial groups subject to its supervision. Therefore, Portuguese credit institutions must reach a Core Tier I ratio of no less than 9% by 31 December 2011 and 10% by 31 December 2012.
At the same time, european banks must reach a Core Tier I ratio of 9% as defined by the European Banking Authority (EBA).

As at 31 December 2012 and 2011, the main movements occurred in BOF are as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Balance at the beggining of the period	**6 171**	**6 040**
Capital increase (exchange of hybrid instruments for capital)	-	521
Capital increase	998	-
Hybrid instuments	(19)	(675)
Elegible reserves and retained earnings (excluding fair value reserves)	42	(119)
Non-controlling interest, excluding hybrids	2	94
Goodwill	(166)	139
Changes on actuarial Losses	(526)	144
Recognition of the impact of adopting IFRS	(12)	(13)
Deduction in connection with investments held in banking and insurance entities	(165)	202
Fair value reserves with an impact in BOF	142	(164)
Other effects	(29)	2
Balance at the end of the period	**6 438**	**6 171**

The capital adequacy of BES Group as at 31 December 2012 and 2011 is presented as follows:

(in thousands of euro)

		31.12.2012	31.12.2011
A - Capital Requirements			
Share Capital, Issue Premium and Treasury stock		6 074	5 106
Elegible reserves and retained earnings (excluding fair value reserves)		1 237	1 195
Minority Interest		587	585
Intangible assets		(141)	(142)
Changes on actuarial Losses		(741)	(215)
Goodwill		(506)	(340)
Fair value reserves with an impact on BOF		(52)	(194)
Recognition of the impact of adopting IFRS		13	25
Basic own funds excluding preference shares (Core Tier I)	**(A1)**	**6 471**	**6 020**
Hybrid instuments, elegible for Tier I		226	245
Deductions in connection with investments held in banking and insurance entities		(259)	(94)
Own Funds for the determination of the EBA Core Tier I ratio	**(C)**	**6 091**	**-**
Basic own funds (Tier I)	**(A2)**	**6 438**	**6 171**
Positive fair value reserves (45%)		47	25
Eligible subordinated debt		801	923
Deductions in connection with investments held in banking and insurance entities		(259)	(90)
Complementary own funds (Tier II)		**589**	**858**
Deductions		**(72)**	**(59)**
Eligible own funds	**(A3)**	**6 955**	**6 970**
B- Risk Weighted Assets			
Calculated according Notice 5/2007 (Credit Risk)		56 454	59 705
Calculated according Notice 8/2007 (Market Risk)		1 503	1 742
Calculated according Notice 9/2007 (Operational Risk)		3 694	3 938
Risk Weighted Assets Total	**(B)**	**61 651**	**65 385**
C- Prudential Ratios			
Core Tier 1	(A1 / B)	10,5%	9,2%
Core Tier 1 EBA	(C / B)	9,9%	-
Tier 1	(A2 / B)	10,4%	9,4%
Solvency Ratio	**(A3 / B)**	**11,3%**	**10,7%**

Financing and capitalization plans (2011 - 2015)

According to the Memorandum of Economic and Financial Policies signed between the Portuguese Government and the European Commission (EC), European Central Bank (ECB) and International Monetary Fund (IMF), Portuguese banks, and financial holding companies that consolidate Portuguese banking subsidiaries, have to quarterly develop financing and capitalization plans for the period from 2011 to 2015, in order to achieve the following objectives:

- The loans to deposits ratio should reach a maximum value of 120% from December 2014, inclusive;
- The stable funding ratio should be 100% from December 2014, inclusive;
- The Core Tier I ratio should be 10% as at 31 December 2012 as established in Notice 3/2011 of Bank of Portugal.

Additionally, the financing plans should consider that the dependence of domestic funds from its branches and subsidiaries abroad should be minimized; must reduce its funding dependence from the ECB; consider a progressive access to the short-term market and a progressive opening of the medium and long term market from the fourth quarter of 2013; and should be supported by commercial policies to support the Portuguese economy sectors, namely the small and medium enterprises.

In order to prepare the initial plan and the quarterly reviews, projections on the relevant domestic macroeconomic variables, of GDP growth in the geographic areas of greatest relevance to the activities of the banks and further projections of interest rates and other reference parameters necessary for drawing up the plans are provided by the Bank of Portugal in conjunction with the EC/ECB/IMF. In the context of the plan for the period in reference, it is also noted the fact that the same is being object of a stress test exercise where the banks should, in a extreme scenario, present a Core Tier I ratio higher than 6% during the period (2011-2015).

NOTE 52 – CONTRACTUAL COMMITMENTS

Securitization transactions
During the year 2011 and 2012, the securitization transactions originated by BES suffered successive rating downgrades, following the downgrades attributed by various rating agencies to the Portuguese Republic and Portuguese banks. Traditionally, these operations include in their structures different risk protection mechanisms, namely the substitution of counterparties when credit ratings fall below minimum levels required by rating agencies or by triggering corrective actions enabling the mitigation of the exposure risk to those counterparties.

In addition, BES acted as swap counterparty in two of its operations (Lusitano Mortgage No.6 and Lusitano Mortgage No.7). The performance of these functions in securitization transactions is restricted to entities that meet the minimum rating levels established by the rating agencies. Therefore, following the downgrades, BES position in the operation Lusitano Mortgage No.6 was transferred to a financial institution that meets the eligibility criteria of the agencies and in the operation Lusitano Motgage No.7, the Group preceded to the restructuring of the operation.

Additionally, following the Portuguese Republic downgrade by Moody's in February 2012, this agency set the maximum rating attributable to bonds issued in securitized operations as Baa1. Thus, the operation of securitization of small and medium enterprises settled by BES in December 2010 – Lusitano SME No.2 – lost the eligibility for rediscount at ECB and BES chose to exercise the call option in 23th March 2012.

Covered Bonds
The issues of covered bonds also suffered a strong impact caused by the downgrade of the Portuguese Republic and the Portuguese banks. As a result, BES could no longer be the counterparty in interest rate swaps transactions and proceeded to its transfer and, in some cases, to its cancelation.

Contract Support Annex (CSA)
BES has a set of contracts negotiated with counterparties with who trades derivative in the OTC market. CSA takes the form of collateral agreement established between two parties dealing with each other derivatives Over-the-Counter, with the main objective to provide protection against credit risk, establishing for the purpose a set of rules regarding the collateral. Derivatives transactions are regulated by the International Swaps and Derivatives Association (ISDA) and have a minimum margin of risk that may change according to the parties rating.

NOTE 53 – ASSETS TRANSFER

As part of the restructuring process of the Portuguese real estate sector, several initiatives have been launched in order to create financial, operational and management conditions to revitalize the sector. Accordingly, the Government, in close liaison with the business and the financial sector, including the BES Group, encouraged the creation of companies and specialized funds that, through merger, consolidation and integrated management, would obtain the required synergies to recover the sector. Pursuing the goals established, were created companies (parent companies), where BES Group has minority interests (in partnership with other banks that also have a minority interest), and which in turn now hold almost all of the capital of certain subsidiaries (subsidiaries of those parent companies) in order to acquire certain real estate bank loans.

During 2012, BES transferred financial assets (mainly corporate loans) to the subsidiaries of the parent companies. These entities are responsible for managing the assets received as collateral, which after the transfer of loans are received in exchange for the loans, and have the goal to implement a plan to increase its value.

These acquiring entities (the subsidiaries of the parent companies) have a specific management structure, fully autonomous from the banks, selected on the date of their incorporation and have the following main responsibilities:

- define the entity's purpose;
- administer and manage on an exclusive and independent way the assets acquired, determine objectives and investment policy and the manner to conduct the entity's management and affairs.

The acquiring entities are predominantly financed through the issuance of senior equity instruments fully underwritten by the parent company. The amount of capital represented by senior securities equals the fair value of the underlying asset, determined through a negotiation process based on evaluations made by both parties. These securities are remunerated at an interest rate that reflects the risk of the company holding the assets. Additionally, the funding can be supplemented through banks underwriting of junior capital instruments equal to the difference between the book value of the loans transferred and the fair value based on the senior securities valuation. These junior instruments, when signed by BES Group will be entitled to a contingent positive amount if the assets transferred value, when sold, exceeds the amount of senior securities plus its remuneration. Normally, the amount of the junior security is limited to a maximum of 25% of the total amount resulting from the senior and junior securities issued.

Given that these junior securities reflect a different assessment of the assets transferred, based on valuation performed by independent bodies and a negotiation process between the parties, they are fully provided for in the Group's balance sheet.

Therefore, following the transfer of assets occurred in 2012, the Group subscribed:

- equity instruments, representing the parent companies' share capital on which the cash flows that will enable its recovery come from a wide range of assets transferred by the various banks. These securities are recorded under financial assets available for sale and are measured at market value with valuation regularly reported by those parent companies whose accounts are audited at the end of each year;

- junior instruments issued by the acquiring companied (the subsidiaries of the parent companied) which are fully provided for thus reflecting the best impairment estimation of the financial assets transferred.

The instruments subscribed by BES Group clearly resulted in a minority position in the capital of the parent companies and of its subsidiaries.

In this context, having no control but being exposed to some risk and rewards of ownership in relation to the transferred assets through the securities as referred above, the Group, in accordance with IAS 39.21, conducted an analysis in order to compare the exposure to the variability of risks and rewards of the transferred assets before and after the operation and concluded that it has not retained substantially all the risks and rewards of ownership. Additionally, and considering that also has no control has been retained, it proceeded in accordance with IAS 93.20c (i) to the derecognition of the assets transferred and the recognition of the assets received in return, as shown in the following table:

(in thousands of euro)

	Values at the date of transfer							
	Values ??associated with the Assignment of Assets			Securities subscription				
	Net Assets Transfer	Transfer Value	Income from Transfer	Securities (senior titles)	Securities (junior titles)	Total	Impairment	Net Profit
Tourism Recovery Fund, FCR	282 121	282 121	-	256 891	34 906	291 797	(34 906)	256 891
FLIT SICAV	252 866	254 547	1 682	235 304	23 247	258 551	(23 247)	235 304
Discovery Portugal Real Estate Fund	96 196	93 208	(2 988)	96 812	-	96 812	-	96 812
Vallis Construction Sector Fund	66 272	66 272	-	81 002	21 992	102 994	(21 992)	81 002
	697 455	696 148	(1 307)	670 009	80 145	750 154	(80 145)	670 009

As showed in the table above, the junior securities underwritten specifically as part of the transfer of assets are fully provided for. The provision amount recorded in 2012 following these transactions amounts to approximately euro 80.1 million.

Although the junior securities are fully provided for, the Group also maintains an indirect exposure to the assets transferred through its minority interest in the parent companies capital and therefore, in all pool of assets that resulted from the various assets transfers performed by the banks (shareholders of the parent companies).

Almost all of the financial assets transferred in these operations were derecognised from the Group's balance sheet as there was a transfer, to third parties, of substantially all risks and rewards of ownership, as well as the respective control.

There was however an operation with the company FLITPTREL VIII in which, as the acquiring company substantial holds assets transferred by BES Group and considering the holding of junior securities, the variability of the test resulted in a substantial exposure to all risks and benefits. In this circumstance, the operation, amounting to euro 60 million, remained recognized in the Group's balance sheet under Other assets.

NOTA 54 – BUSINESS COMBINATIONS

BES VIDA

Until 30 April 2012, BES held a 50% interest in BES-Vida, Companhia de Seguros, S.A. (BES Vida), a life insurance company, which distributes its products in Portugal and Spain, through BES branch network. Crédit Agricole owned the remaining 50 % and controlled its activities.

As referred in Note 1, in May 2012, BES acquired, from Credit Agricole, the remaining 50% of the share capital of BES Vida with the objective of leveraging the marketing of BES Vida's insurance products.

Following this acquisition, BES became to hold the entire share capital of BES Vida and has the management control over its activities. Therefore, BES Vida, which qualified as an associated and was included in the consolidated financial statements of BES following the equity method, has become a subsidiary and is being fully consolidated since May 2012.

The total investment amounted to euro 225 million euro, paid in cash and BES Vida reimbursed, in October 2012, the additional paid-in capital amounting to euro 125 million.

This transaction was accounted for in accordance with the provisions of paragraph 42 of IFRS 3 related with business combination achieved in stages, which requires any previously held equity interest in the acquire, to be remeasured to fair value at the acquisition date and the resulting gain or loss to be recognised in the income statement. The amounts recognised in the fair value reserve up to the date in which control in acquired, are required to be recycled to the income statement.

Moreover, in accordance with paragraph 45 of IFRS 3, this acquisition was accounted on a provisional basis, due to fact that the transaction took place in May 2012 and the Group currently is in the process of concluding the fair value of the assets and liabilities acquired namely in what concerns deferred taxes related with losses carry forward existing at acquisition date which are subject to the approval of Tax Authorities. The eventual impact of this situation is a decrease in goodwill in the amount of euro 33 million and a corresponding increase in deferred tax assets by the same amount. The Group has until 30 April 2013 to conclude this process.

As at 1 May 2012, the balance sheet of BES-Vida included in the BES Group consolidated financial statements can be analysed as follows:

The Balance Sheet of BES Vida reported on 1 May 2012, including the consolidated financial statements of BES can be analysed as follows:

	(in thousand of euro)
Assets	
Cash and deposits with banks	198 648
Other financial assets at fair value through profit or loss	2 759 100
Available-for-sale financial assets	1 917 328
Held-to-maturity investments	159 551
Property and equipment	93 864
Intangible assets	76 641
Technical reserves of reinsurance ceded	2 512
Income tax assets	112
Other assets	178 712
	5 386 468
Liabilities	
Technical reserves	1 880 631
Investment contracts	3 053 344
Other financial liabilities	194 434
Income tax liabilities	2 342
Other liabilities	40 291
	5 171 042
Equity	
Share Capital	50 000
Other reserves and retained earnings	165 426
	215 426
	5 386 468

The fair value of recognised identifiable assets acquired and liabilities assumed include, under Intangible assets, the amount of euro 107 768 thousand (euro 76 515 thousand net of assets) related to the present value of the business in force acquired related to life insurance contracts (Value in Force). This asset will be amortised over the remaining lifetime of the contracts.

The goodwill recognized as a result of this acquisition amounts to about euro 234 574 thousands and is detailed as follows:

	%	in thousands of euro
Goodwill as the excess of:		
Consideration transferred		225 000
Aquisition date fair value of the 50% interest previously held in BES Vida		225 000
		450 000
Over:		
Fair value of identifiable assets and liabilities acquired [(1)]	100	215 426
Goodwill determined on a provisional basis		234 574

[(1)] mensured on a provisional basis

The goodwill is attributable mainly to the potential growth of the market where BES-Vida operates.

The impact in the income statement of measuring at fair value the previously held equity interest in BES Vida, representing 50% of its share capital, following the requirements of paragraph 42 of IFRS 3, can be analysed as follows:

	in thousands of euro
50% interest previously held in BES Vida	
Fair value	225 000
Book value	243 790
Loss on remeasurement of the previously held in BES Vida	(18 790)
Recognition in the income statement of the accumulated fair value reserve of BES Vida appropriated on consolidation up the acquisition date	(70 796)
Loss arising from the acquisition of control in BES Vida	(89 586)

The impact of fully consolidating BES Vida resulted in a gain of euro 68.7 million included in the Group's profit for the year, detailed as follows:

- measurement of the 50% share capital already held by the Group in the amount of euro -89.6 million; which deducted from the intra-group transactions amounting to euro 35.5 million, brings the total impact in the first full consolidation to euro -54.1 million, net of taxes;

- Appropriation trough the equity method of the net profit generated by BES Vida from 1 January to 30 April 2012, amounting to euro 2.8 million; and

- Appropriation through the consolidation method of the net profit generated by BES Vida from 1 May until 31 December 2012, net of consolidation adjustments, amounting to euro 120.0 million.

If BES Vida had been fully consolidated since 1 January 2012, the net profit for the period would be higher by about euro 2 761 thousands.

NOTE 55 – RECENTLY ISSUED PRONOUNCEMENTS

Recently issued pronouncements already adopted by the Group

In the preparation of the consolidated financial statements for the year ended 31 December 2012, the Group adopted the following standards and interpretations that are effective since 1 January 2012:

IFRS 7 (amended) – Financial Instruments: Disclosures – Transfers of Financial Assets

The International Accounting Standards Board (IASB), issued on 7th October 2010, amendments to "IFRS 7 – Disclosures – Transfers of Financial Assets", effective for annual periods beginning on or after 1st July 2011. Those amendments were endorsed by EU Commission Regulation 1205/2011, 22nd November.

The amendment requires enhanced disclosures about transfers of financial assets that enable users of financial statements:

- To understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liability; and
- To evaluate the nature of, and risks associated with, the entity´s continuing involvement in derecognised financial.

The amendments also required additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

The adoption of this amendment by the Group had no impact on its financial statements.

IAS 12 (amended) – Deferred Tax: Recovery of Underlying Assets

The IASB, issued on 20th December 2010, amendments to "IAS 12 – Income Tax – Recovery of Underlying Assets" (and withdraw SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets), effective for annual periods beginning on or after 1st January 2012. Those amendments were endorsed by EU Commission Regulation 1255/2012, 11th December.

The amendments to IAS 12 provide that, the deferred tax related to investment properties are measured with the presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale. Before the amendment, entities were allowed to consider that the carrying amount of investment proprieties would be recovered either through use or sale, depending on management intention.

The adoption of this amendment by the Group had no impact on its financial statements.

Recently issued pronouncements yet to be adopted by the Group

The new standards and interpretations that have been issued, but that are not yet effective and that the Group has not yet applied, are analysed below. The Group will apply these standards when they are effective.

Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 – Presentation of Financial Statements

The IASB, issued on 16th June 2011, amendments to "IAS 1 – Presentation of Financial Statements", effective (with retrospective application) for annual periods beginning on or after 1st January 2012. Those amendments were endorsed by EU Commission Regulation 475/2012, 5th June.

The changes retain the entity's option to present profit or loss and other comprehensive income in two statements, however requires:

- to present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss; and
- an entity that presents items of other comprehensive income before related tax effects will also have to allocate the aggregated tax amount between the two subcategories.
- change the title to "statement of profit or loss and other comprehensive income" - although other titles could be used;

The amendments affect presentation only and have no impact on the Group's financial position or performance.

IAS 19 Revised – Employee Benefits

The IASB, issued on 16th June 2011, amendments to "IAS 19 – Employee Benefits", effective (with retrospective application) for annual periods beginning on or after 1st January 2012. Those amendments were endorsed by EU Commission Regulation 475/2012, 5th June.

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group made a voluntary change in the accounting police related to actuarial gains and losses arising from its post employment benefits which from 2011 are charged to equity, under other comprehensive income.

However, the amended standard will impact the net benefit expenses as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation.

IFRS 7 (Amended) - Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities

The IASB, issued on 16th December 2011, amendments to "IFRS 7 – Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. Those amendments were endorsed by EU Commission Regulation 1256/2012, 11th December.

These amendments required an entity to disclose information about what amounts have been offset in the statement of financial position and the nature and extend of rights to set-off and related arrangements (e.g. collateral arrangements).
The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

The Group is evaluating the impact of adopting this interpretation on its financial statements.

IAS 32 (Amended) - Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities

The IASB, issued on 16th December 2011, amendments to "IAS 32 – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities", effective (with retrospective application) for annual periods beginning on or after 1st January 2014. Those amendments were endorsed by EU Commission Regulation 1256/2012, 11th December.

The IASB amended IAS 32 to add application guidance to address the inconsistent application of the standard in practice. The application guidance clarifies that the phrase 'currently has a legal enforceable right of set-off' means that the right of set-off must not be contingent on a future event and must be legally enforceable in the normal course of business, in the event of default and in the event of insolvency or bankruptcy, of the entity and all of the counterparties.

The application guidance also specifies the characteristics of gross settlement systems in order to be considered equivalent to net settlement.

The Group is not expecting a significant impact from the adoption of the amendment to IAS 32.

IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine

The International Financial Reporting Interpretations Committee (IFRIC), issued on 19th October 2011, "IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. Those amendments were endorsed by EU Commission Regulation 1255/2012, 11th December.

Give the nature of the Group´s operation, this interpretation does not have any impact on the financial stamtents.

IAS 27 (Revised) – Separate Financial Statements

The IASB, issued on 12th May 2011, amendments to "IAS 27 – Separate Financial Statements", effective (with prospective application) for annual periods beginning on or after 1st January 2014. Those amendments were endorsed by EU Commission Regulation 1254/2012, 11th December.

Taking in consideration that IFRS 10 addresses the principles of controls and the requirements relating to the preparation of consolidated financial statements, IAS 27 was amended to cover exclusively separate financial statements.

The amendments aimed, on one hand, to clarify the disclosures required by an entity preparing separate financial statements so that the entity would be required to disclose the principal place of business (and country of incorporation, if different) of significant investments in subsidiaries, joint ventures and associates and, if applicable, of the parent.

The previous version required the disclosure of the country of incorporation or residence of such entities.

On the other hand, it was aligned the effective dates for all consolidated standards (IFRS10, IFRS11, IFRS12, IFRS13 and amendments to IAS 28).

The Group expects no impact from the adoption of this amendment on its financial statements.

IFRS 10 Consolidated Financial Statements

The IASB, issued on 12th May 2011, "IFRS 10 Consolidated Financial Statements", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

IFRS 10, withdraw one part of IAS 27 and SIC 12, and introduces a single control model to determine whether an investee should be consolidated.
The new concept of control involves the assessment of power, exposure to variability in returns and a linkage between the two. An investment controls an investee when it is exposed, or has rights, to variability returns from its involvement with the investee and is able to affect those returns through its power over the investee (facto control).

The investor considers whether it controls the relevant activities of the investee, taking into consideration the new concept. The assessment should be done at each reporting period because the relation between power and exposure variability in returns may change over the time.

Control is usually assessed over a legal entity, but also can be assessed over only specified assets and liabilities of an investee (referred to as silo).

The new standard also introduce other changes such as: i) accounting requirements for subsidiaries in consolidation financial statements are carried forward from IAS 27 to this new standards and ii) enhanced disclosures are requires, including specific disclosures for consolidated and unconsolidated structured entities.

The group has not carried out a thorough analysis of the impacts of the application of this standard. Given the introduction of a new control model the Group may need to change its consolidation conclusion in respect of its investees.

IFRS 11 – Joint Arrangements

The IASB, issued on 12th May 2011, "IFRS 11 Joint arrangemnts", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

IFRS 11, withdraw IAS 31 and SIC 13, defines “joint control” by incorporating the same control model as defined in IFRS 10 and requires an entity that is part of a “join arrangement” to determine the nature of the joint arrangement (“joint operations” or ”joint ventures”) by assessing its rights and obligations.

IFRS 11 removes the option to account for joint ventures using the proportionate consolidation. Instead, joint arrangements that meet the definition of “joint venture” must be account for using the equity method (IAS 28).

The Group expects no impact form the adoption of this amendment on its financial statements.

IAS 28 (Revised) – Investments in Associates and Joint Ventures

The IASB, issued on 12th May 2011, “IAS 28 Investments in Associates and Joint Ventures”, effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed as IAS 28 Investments in Associates and Joint ventures, and describes the application of the entity method to investments in joint ventures and associates.

The Group expects no impact form the adoption of this amendment on its financial statements.

IFRS 12 – Disclosures of Interest in Other Entities

The IASB, issued on 12th May 2011, “IFRS 12 Disclosures of Interests in Other Entities”, effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

The objective of this new standard is to require an entity to disclose information that enables users of its financial statements to evaluate: (a) the nature of, and risks associated with, its interests in other entities; and (b) the effects of those interests on its financial position, financial performance and cash flows.

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

The Group is yet assessing the full impact of the new IFRS 12 in line with the adoption of IFRS 10 and IFRS 11.

IFRS 13 – Fair Value Measurement

The IASB, issued on 12th May 2011, “IFRS 13 fair value Measurement”, effective (with prospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1255/2012, 11th December.

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs.

The Group is currently reviewing its methodologies for determining fair values.

Although many of IFRS 13 disclosures requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Group to provide additional disclosures, These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorized in Level 3.

Investment Entities – Amendments to IFRS 10, IFRS12 and IAS 8 (issued by IASB on 31st October 2012)

The amendments apply to a particular class of business that qualify as investment entities. The IASB uses the term 'investment entity' to refer to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds.

The amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

The amendments are effective from 1 January 2014 with early adoption permitted. This option allows investment entities to apply the Investment Entities amendments at the same time they first apply the rest of IFRS 10.

The Group does not expect any major impact from the adoption of this amendment on its financial statements.

Improvements to IFRS (2009-2011)

The annual improvements cycle 2009-2011, issued by IASB on 17th May 2012, introduce amendments, with effective date on, or after, 1st January 2013, to the standards IFRS1, IAS1, IAS16, IAS32, IAS34 and IFRIC2.

IAS 1 Presentation of Financial Statements
This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment
This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory

IAS 32 Financial Instruments, Presentation and IFRIC 2
The improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes, avoid any interpretation that may mean any either application.

IAS 34 Interim Financial Reporting
The amendments align the disclosure requirement for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures in relation to the changes of profit and loss account and other comprehensive income.

The Group is evaluating the impact on the adoption of these improvements.

IFRS 9 Financial instruments (issued in 2009 and revised in 2010)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project of make limits amendments to the classification and measurement requirements of IFRS 9 and new requirements to address the impairment of financial assets and hedge accounting

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables.

For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognized in profits or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment.

Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognized in profit or loss.
The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instruments is assessed in its entirety as to whether it should be amortised cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities form IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues.

The Group has commenced the process of evaluating the potential effect of this standard but is awaiting finalization of the limited amendments before the evaluation can be completed. Given the nature of the Group's operation, this standard is expected to have a pervasive impact on the Group's financial statements.

NOTE 55 – SUBSEQUENT EVENTS

Banco Espírito Santo issued during January 2013 euro 500 million senior unsecured debt under the Euro Medium Term Notes Programme. The notes have a maturity of 5 years and will pay a coupon of 4.75%. The order book reached ca. Eur 3.0 bn, with the participation of more than 280 national and international investors.

On January 11 BES issued a notification about the acquisition of a qualified shareholding in Banco Espirito Santo, S.A. by *Wellington Management Company, LLP (Wellington Management).* The qualified shareholding represents an aggregate of 2.02% of the voting rights corresponding to 81 297 790 shares in Banco Espirito Santo, S.A. ("BES"), by virtue of the acquisition, on 8 January 2013, of 2 446 594 shares in BES carried out on market by Wellington Management on behalf of clients with which Wellington Management has entered into an agreement for the exercise of the respective voting rights. No individual client of Wellington Management holds a shareholding representing 2% or more of the voting rights in BES. Wellington Management Company is an Asset Manager, with approximately USD 748 billion in client assets under management and serves as an investment advisor to more than 2 100 institutions located in over 50 countries.

As at 30 January 2013, BES early reimbursed euro 1.0 billion of the BCE's Long Term Refinancing Operation.

2. Appendix - Adoption of the Financial Stability Forum (FSF) and Committee of European Banking Supervisors (CEBS) Recommendations concerning the Transparency of Information and the Valuation of Assets

(Bank of Portugal's Circular Letters no. 97/2008/DSB, of 3 December and no. 58/2009/DSB of 5 August)

In its Circular Letter no. 58/2009/DSB of 5 August 2009, the Bank of Portugal reiterated "the need for institutions to maintain adequate compliance with the recommendations of the Financial Stability Forum (FSF), as well as those issued by the Committee of European Banking Supervisors (CEBS), concerning the transparency of information and the valuation of assets, taking into account the proportionality principle", as set out in Circular Letters no. 46/08/DSBDR of 15 July 2008 and no. 97/08/DSB of 3 December 2008.

The Bank of Portugal recommends the inclusion in the reporting documents of a specific chapter or annex exclusively dedicated to the issues dealt with in the CEBS and FSF recommendations.

This chapter aims to ensure compliance with the Bank of Portugal's recommendation, including references to where the information provided may be found within the body of the Management Report or in the Notes to the Financial Statements for fiscal years 2011 and 2012.

I. BUSINESS MODEL

1. Description of the Business Model

A description of the Group's business model is provided in Item 4 of the Management Report. The performance of the main business areas (operational segments) of the Group is also presented in Note no. 4[1].

2. Strategy and Objectives

A detailed description of the Group's strategy and objectives is provided in Item 1 of the Management Report and in Note no. 51, under Funding and Capitalisation Plans (2011—2015). The securitisation transactions are detailed in Note 49.

3., 4. and 5. Activities developed and contribution to the business

Item 4 of the Management Report and Note no. 4 contain information about the activity and contribution to the business.

II. RISK AND RISK MANAGEMENT

6. and 7. Description and Nature of the Risks Incurred

Item 6 of the Management Report describes how the risk management function is organised within BES

Group.

[1] The numbering refers to the Notes to the Consolidated Financial Statements.

Note 51 contains diverse information that in total allows the market to form a thorough perception about the risks incurred by the Group and the management mechanisms in place to monitor and control such risks.

III. IMPACT OF THE PERIOD OF FINANCIAL TURMOIL ON THE RESULTS

8.,9., 10 and 11. Qualitative and quantitative description of the results and comparison of impacts between periods

Activity during 2011 was conducted in a climate of deterioration of Portugal's economic situation, with a negative impact on risk. Consequently the Group reinforced provisions by a total of EUR 848.3 million (EUR 314.7 million more than in 2010). The situation of the financial markets and sovereign risk context also impacted the fair value reserve, whose value decreased by EUR 504.5 million.

These adverse economic and financial conditions persisted during 2012 across Europe and in particular in Portugal, causing a further deterioration of credit risk. BES Group consequently increased provisions by EUR 1,199.4 (EUR 351.1 million more than in 2011).The situation in the financial markets and sovereign risk context, influenced by the effects of the monetary policy measures implemented by the ECB, had a positive impact on the value of financial assets, leading to a EUR 747.5 increase in the fair value reserve.

12. Decomposition of realised and non realised write-downs

The profit and loss of assets and liabilities held for trading and of assets at fair value and assets available for sale are detailed by financial instrument in Notes 7 and 8. In addition, non realised gains and losses on assets available for sale are detailed in Notes 23 and 45, while the most significant positions are decomposed in Note 23.

13. Financial turmoil and the price of the BES share

Item 1 of the 2012 Management Report presents the evolution of the BES share price and the factors that influenced its performance. Item III.8 of the 2012 Corporate Governance Report presents the BES share price performance in 2012.

14. Maximum loss risk

Item 6 of the Management Report and Note 51 contain the relevant information about potential losses in market stress situations.

15. Debt issued by the Group and results

Note 50 contains information on the impact of debt revaluation and the methods used to calculate this impact on the results.

IV. LEVEL AND TYPE OF EXPOSURES AFFECTED BY THE PERIOD OF TURMOIL

16. Nominal and fair value of exposures

17. Credit risk mitigators

18. Information about the Group's exposures

In 2011 and 2012 the turmoil resulted from the deterioration of sovereign risk in the Euro Zone peripheral countries.

As at December 31st, 2011 BES Group's total exposure to these countries' public debt was EUR 2,950 million (of which EUR 2,945 million to Portugal and EUR 5 million to Spain) to which was associated a negative fair value reserve of EUR 124.4 million. The Group had no exposure to Italian, Irish, Greek or Hungarian public debt as of that date.

At the end of 2012 BES Group's exposure to Portuguese public debt totalled EUR 3,190 million, to which was associated a negative fair value reserve of EUR 191.1 million. As regards exposures to public debt of other peripheral European countries, BES Group had EUR 606 million of Spanish debt (positive fair value reserve of EUR 2.2 million), EUR 28 million of Italian debt (positive fair value reserve of EUR 0.5 million), EUR 25 million of Irish debt and EUR 3 million of Greek debt.

19. Movement in exposures between periods

Note 51 contains diverse information comparing the exposures and results in 2011 and 2012. The disclosed information is considered sufficient, given the detail and quantification provided.

20. Non consolidated exposure

All the structures related to securitisation operations originated by the Group are presented in Note 49. None of the SPEs were consolidated due to the market turbulence.

21. Exposure to monoline insurers and quality of the assets insured

The Group does not have exposures to monoline insurers.

V. ACCOUNTING POLICIES AND VALUATION METHODS

22. Structured Products

These situations are described in Note 2 – Main accounting policies.

23. Special Purpose Entities (SPEs) and consolidation

Disclosure available in Notes 2 and 49.

24. and 25. Fair value of financial instruments

See the comments to item 16 of this Appendix. Notes 2 and 50 contain the conditions for utilisation of the fair value option as well as the methodology used to value the financial instruments.

VI. OTHER RELEVANT ASPECTS OF DISCLOSURE

26. Description of the disclosure policies and principles

The BES Group, within the context of accounting and financial information disclosure, aims to satisfy all the regulatory requirements, defined by the accounting standards or by the supervisory and regulatory entities.

At the same time, the Group aims to meet the best market practices in information disclosure, balancing the cost of preparing the relevant information with the benefit that it may provide to the users.

From the information made available to the Group's shareholders, clients, employees, supervisory entities and the public in general, we highlight the Annual, Interim and Quarterly Management Reports, the Financial Statements and the respective Notes, and the Corporate Governance Report.

The management reports and financial statements, released on a quarterly basis, are prepared under IFRS that comply with the highest degree of disclosure and transparency and facilitate comparison to other domestic and international banks.

The Corporate Governance Report provides a detailed view about the governing structure of the Group.

The Sustainability Report, which forms an integral part of the Annual Management Report, conveys the Group's perspective about social responsibility in the context of the numerous challenges that the modern world faces, whether of an environmental or social nature, or pertaining to innovation and entrepreneurship.

A detailed description of all the means used by the Group to communicate with the financial community and the public in general is provided in item III.16 of the 2012 Corporate Governance Report.

3. Auditors' Report on the Consolidated Financial Statements

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A.
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AUDITORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS

(ISSUED BY THE STATUTORY AUDITOR, A CMVM REGISTERED AUDITOR)

(This report is a free translation to English from the original Portuguese version)

Introduction

1. In accordance with the applicable legislation, we present our Audit Report on the consolidated financial information included in the Report of the Board of Directors and in the accompanying consolidated financial statements as at and for the year ended 31 December 2012, of **Banco Espírito Santo, S.A.**, which comprise the consolidated balance sheet as at 31 December 2012 (showing total assets of Euro 83,690,828 thousand and total equity attributable to the equity holders of the Bank of Euro 7,063,299 thousand, including a net gain attributable to the equity holders of the Bank of Euro 96,101 thousand), the consolidated statements of income, of comprehensive income, of cash flows and of changes in equity for the year then ended, and the corresponding notes.

Responsibilities

2. The Board of Directors is responsible for:

   a) the preparation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, that present fairly, the consolidated financial position of the Group of companies included in the consolidation, the consolidated results of its operations, its consolidated comprehensive income, its consolidated changes in equity and its consolidated cash flows;

   b) maintaining historical financial information, prepared in accordance with generally accepted accounting principles which is complete, true, current, clear, objective and lawful as required by the Portuguese Securities Code ("Código dos Valores Mobiliários");

   c) the adoption of adequate accounting policies and criteria;

   d) maintaining an appropriate system of internal control; and

   e) the communication of any relevant matter that may have influenced the activity of the bank and its subsidiaries, their financial position or results.

KPMG

3. Our responsibility is to verify the consolidated financial information included in the above referred documents, namely as to whether it is complete, true, current, clear, objective and lawful as required by the "Código dos Valores Mobiliários", in order to issue a professional and independent report based on our audit.

Scope

4. We conducted our audit in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. Accordingly our audit included:
   - verification that the financial statements of the companies included in the consolidation have been properly audited and, in those significant cases in which they were not, verification, on a test basis, of the information underlying the figures and its disclosures contained therein, and an assessment of the estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;
   - verification of the consolidation procedures and of the application of the equity method;
   - evaluation of the appropriateness of the accounting policies used and of their disclosure, taking into account the applicable circumstances;
   - assessing the applicability of the going concern basis of accounting;
   - assessment of the appropriateness of the overall presentation of the consolidated financial statements; and
   - assessment of whether the consolidated financial information is complete, true, current, clear, objective and lawful.

5. Our audit also included the verification that the consolidated financial information included in the Board of Directors report is consistent with the consolidated financial statements, as well as the verification of the disclosures required by numbers 4 and 5 of the article 451, of the Portuguese Companies Code ("Código das Sociedades Comerciais").

6. We believe that our audit provides a reasonable basis for our opinion.

KPMG

Opinion

7. In our opinion, the consolidated financial statements referred to above present fairly in all material respects the consolidated financial position of **Banco Espírito Santo, S.A.** as at 31 December 2012, the consolidated results of its operations, consolidated comprehensive income, consolidated changes in equity and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, and the information contained therein is complete, true, current, clear, objective and lawful.

Report on Other Legal Requirements

8. It is also our opinion that the consolidated financial information included in the Executive Board of Directors report is consistent with the consolidated financial statements and that the Report on Corporate Governance includes the information required by the article 245.º-A of the Portuguese Securities Market Code ('CVM').

Lisbon, 4 March 2013

KPMG & Associados,
Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)
represented by
Sílvia Cristina de Sá Velho Corrêa da Silva Gomes (ROC n.º 1131)

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4. Report of the Audit Committee

BANCO ESPIRITO SANTO
Comissão de Auditoria

REPORT OF THE AUDIT COMMITTEE ON ITS SUPERVISORY ACTIVITY AND OPINION ON THE MANAGEMENT REPORT, UNCONSOLIDATED AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2012

To the Shareholders

As required by the Portuguese law, following our appointment at the General Assembly of 22 March 2012, we present our Report which comprises a summary of the activity performed by the Audit Committee (*Comissão de Auditoria)* during the year 2012 and our opinion on both (i) the Management Report of the Board of Directors and the Unconsolidated and Consolidated Financial Statements prepared by the Management of **Banco Espírito Santo, S.A.** for the year ended 31 December 2012, and (ii) the related Board of Directors' proposal for the allocation of the unconsolidated net profit for the financial year 2012.

The Audit Committee, within its powers as supervisory board, has regularly monitored major developments of the bank's management and activity, followed the Board of Directors' discussions regarding the business of the bank and evaluated the adequacy and efficiency of the systems of internal control, as well as of the risk management, internal audit and compliance functions.

As part of our duties, we have also overlooked the work carried out by the statutory and external auditors, KPMG & Associados, Sociedade de Revisores Oficiais de Contas, S.A., which included (i) the verification of the accounting records and related supporting documents, and (ii) the appropriateness of the accounting policies and procedures underlying the abovementioned financial statements, as well as (iii) the verification that the financial information contained in the Management Report is in conformity with that in the remaining financial reporting documents.

Furthermore, we have reviewed the Audit Reports issued by the abovementioned bank's auditors on the Unconsolidated and Consolidated Financial Statements of **Banco Espírito Santo, S.A.** for the year ended 31 December 2012, including their unqualified professional opinions dated 4 March 2013 on those financial statements, with which we concur.

We have also reviewed the Management Report of the Board of Directors which describes the bank's activity during the financial year 2012, both on an unconsolidated and consolidated basis, and was prepared in conformity with the applicable legal, regulatory, and statutory requirements.

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BANCO ESPÍRITO SANTO, S.A., Sociedade Aberta. Sede: Avenida da Liberdade, n.º 195, 1250-142 Lisboa. n.º 500 852 367, de pessoa colectiva e de matrícula, na Conservatória do Registo Comercial de Lisboa. Capital Social: € 5.040.124.003,26

BANCO ESPIRITO SANTO

Comissão de Auditoria

As required under paragraph 1-c) of Article 245º of the Portuguese Securities Code (*Código de Valores Mobiliários*), the Audit Committee members individually declare that, to the best of their knowledge:

a) the financial information contained in the Management Report of the Board of Directors, Unconsolidated and Consolidated Financial Statements and other annual reporting documents as required by law or regulation was drawn up in accordance with the applicable accounting standards, giving a true and fair view of assets and liabilities, financial position and annual results of **Banco Espírito Santo, S.A.** and of the companies included in the consolidation; and

b) the Management Report of the Board of Directors explains faithfully the development, performance, and position of the bank and other undertakings included in the consolidation, and contains a description of their main risks and uncertainties.

All considered above, we are of the opinion that the Annual General Meeting should approve:

a) The Management Report of the Board of Directors and the related Unconsolidated and Consolidated Financial Statements of the bank for the financial year ended 31 December 2012;

b) The Board of Directors' proposal, included in the Management Report, for the allocation of the unconsolidated net profit for the financial year 2012, amounting to 121.961.308,14 Euros.

Lisbon, 4 March 2013

The Audit Committee

Horácio Lisboa Afonso (Chairman)

João de Faria Rodrigues

Pedro João Reis de Matos Silva

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