BANCO ESPÍRITO SANTO, S.A.

Public Traded Company

Headquarters: Avenida da Liberdade, n.º 195, 1250 – 142 Lisboa - Portugal

Registered in Lisbon C.R.C. no. 500 852 367

Share Capital: EUR 5.040.124.063,26

ACTIVITY AND RESULTS OF

BANCO ESPÍRITO SANTO GROUP

AND BANCO ESPÍRITO SANTO

9 MONTHS OF 2013

(Unaudited financial information under IFRS as implemented by the European Union)

(According to article 9 of CMVM regulation nº 5/2008)

This report is 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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I. MANAGEMENT REPORT

BANCO ESPÍRITO SANTO GROUP ACTIVITY AND RESULTS IN 9M13

- Commercial banking income picks up, rising by 15% in 3Q13, to EUR 482,7 million, from EUR 419.8 million in 2Q13, when it had grown by 7% QoQ (from EUR 393.7 million).
- Further reinforcement of BES Group's liquidity: the loan to deposits ratio reached 129% (Dec.12: 137%); debt securities decreased to 16% of assets (Dec.12: 18%); gross funding from the ECB amounts to EUR 9,5 billion (Dec.12: EUR 10.3 billion), or 11,9% of assets (Dec.12: 12.3%); the pool of collaterals eligible for rediscount with the ECB reached EUR 23,8 billion (Dec.12: EUR 22.3 billion).
- Significant increase in total customer funds (+3.6%), especially deposits, which grew by EUR 2,8 billion (+8.3%) YoY.
- Customer loans dropped by 1.6% YoY, reflecting the amortisation of mortgage loans and lack of demand for credit, namely investment oriented credit. Corporate loans decreased by 1.2%; in the exporting sector loans to corporate winners grew by 2.8% .
- The harsh repercussions from the execution of the economic and financial assistance programme, namely the increase of corporate insolvencies and unemployment, have hit the performance of the Portuguese financial sector, including BES Group. The 9M13 banking income dropped by 23.7%, to EUR 1,430 million, with impairment costs reaching EUR 1,069 million (+42.1%), leading to a net loss of EUR 381 million. On the other hand the provision charge dropped to EUR 321 million, from EUR 507 million in the 2Q13.
- The international area's net income reached EUR 30.9 million, underpinned by a 1.1% YoY increase in commercial banking income. Except for the Luxembourg branch, which reported net income of EUR 2.5 million, the recently launched new units have not yet given a positive contribution to the Group's results.
- Operating costs are in line with the cost-cutting programme implemented in the domestic area (EUR 100 million reduction over the 2013-2015 period): on a comparable basis, total operating costs dropped by 1.1%, with domestic costs falling by 4.8%, supported by reductions in both staff costs (-4.7%) and suppliers and external services (-5.0%).
- The overdue loans (>90 days) ratio increased to 5.6% (Dec.12: 3.9%) and the credit at risk ratio reached 11.3% (Dec.12: 9.4%). Provision charges were consequently increased to 2.08% of gross loans (1.81% in 3Q13), from 1.62% in FY12. Balance Sheet credit provisions increased to EUR 3,3 billion (+28.3% YoY).
- The coverage of overdue loans (>90 days) and credit at risk was 118.2% (Dec.12: 136.9%) and 58.5%, respectively. The Provisions for Credit / Gross Loans ratio continued to rise, reaching 6.6% (Dec.12: 5.3%).

- As regards the recovery of credit at risk, 57% of loans to individuals and companies are collateralised by real guarantees, which are proactively enforced, driving up the value of real estate assets on the balance sheet to EUR 2,1 billion (the real estate is conservatively valued at the moment of foreclosure). The sales of these assets reached EUR 293 million (+47%) in Sep.13, with no relevant additional losses (a target real estate sale value of EUR 400 million was established for FY13).
- The Core Tier I ratio was 10.5%, remaining above the Bank of Portugal's minimum requirement (10%), and 9.7% under the EBA criteria (minimum required: 9%).

MAIN INDICATORS

	30-Sep-13	30-Sep-12	Change
ACTIVITY (euro million)			
Total Assets (1)	92 948	95 506	-2,7%
Net Assets	79 855	81 866	-2,5%
Gross Loans	49 978	50 811	-1,6%
Customer Deposits	35 999	33 240	8,3%
Core Capital - BoP	6 184	6 765	-8,6%
Core Capital - EBA	5 730	6 299	-9,0%
SOLVENCY			
Solvency Ratios (2)			
- CORE TIER I - BoP	10,5%	10,7%	-0,2 pp
- CORE TIER I - EBA	9,7%	10,0%	-0,3 pp
- *TIER I*	10,2%	10,5%	-0,3 pp
- TOTAL	11,2%	11,1%	0,1 pp
LIQUIDITY (euro million)			
ECB funds (net) (3)	9 248	9 783	-535
Repoable Assets	23 795	24 330	-535
Loan/deposits ratio (4) (%)	129%	142%	-13 pp
ASSET QUALITY			
Overdue loans + 90 days / Gross loans	5,6%	3,8%	1,8 pp
Coverage of Overdue Loans + 90 days	118,2%	135,3%	-17,1 pp
Credit at Risk	11,3%	9,3%	2,0 pp
Provisions for Credit / Gross loans	6,6%	5,1%	1,5 pp
Cost of risk (5)	2,08%	1,62%	0,46 pp
RESULTS & PROFITABILITY			
Net income (EUR mn)	-381,0	90,4	....
ROE (6)	-6,9%	1,6%	....
ROA	-0,61%	0,15%	....
EFFICIENCY			
Cost to Income	59,1%	45,1%	14,0 pp
Cost to Income (ex markets)	65,2%	55,1%	10,1 pp
BRANCH NETWORK			
Retail Network	780	780	0
- Domestic	647	674	-27
- International	133	106	27

(1) Net Assets + Asset Management + Other off-balance sheet liabilities + Securitised Credit
(2) Accroding to IRB Foundation; preliminary September 2013 data
(3) ncludes funds from and placements with the ECB System; positive = net borrowing; negative = net lending
(4) Ratio calculated according to BoP definition for the Funding & Capital Plan
(5) P&L provisions / Gross Loans
(6) Annualised Net Income

1. ECONOMIC OVERVIEW

The third quarter of 2013 was marked by a moderate recovery of global growth, with positive signs coming from all the main economies. The quarter started with an increase in financial markets volatility, resulting, on the one hand, from political and military tensions in Syria, which drove up the price of oil (with Brent rising by close to 7%, to USD 109/barrel), and on the other from the uncertainty surrounding the reduction of monetary stimuli by the US Federal Reserve. The Fed's decision, on 18 September, to delay this tapering of quantitative easing, contributed to an improvement of investors' sentiment and to an increase in risk propensity towards the end of the quarter.

In the US the Dow Jones, Nasdaq and S&P500 indices advanced in the quarter by 1.5%, 10.8% and 4.7%, respectively, while in Europe the DAX, CAC40 and IBEX gained 8%, 10.8% and 18.3%. In the eurozone, sentiment was also boosted by the ECB's unprecedented 'forward guidance' policy, which signalled that key interest rates would stay low for a long period of time. The 3-month Euribor remained stable during the period, at around 0.22%. The Fed's postponement of QE tapering and positive activity signs in the eurozone contributed to the euro's appreciation during the quarter (4% against the dollar, to EUR/USD 1.353). The Fed's decision also benefited the emerging markets' assets, which had been under strong pressure in the preceding months. In Brazil, the Bovespa index gained 10.3% in the quarter. In China, signs of growth stabilisation (GDP grew by 7.8% YoY) supported a 9.9% rise in the Shanghai Composite index.

In Portugal, GDP is reckoned to have registered a new positive increase in the quarter (of close to 0.5%, after reaching 1.1% in the second quarter), supported by the strong performance of exports (of services in particular) and a slowdown in the contraction of domestic demand. From January to September the Bank of Portugal's coincident indicator of economic activity fell by 1.5% YoY. The increase in domestic savings permitted an improvement in the net lending position of the economy, with the external accounts reaching an estimated surplus of 2.5% of GDP in the period of January to July. A spell of political instability and difficulties in the fiscal consolidation process drove up the yield on the 10-year Portuguese public debt securities up to 7.51% in early July. The stabilisation of the political scenario and a new positive review of the Economic and Financial Adjustment Process by the IMF/EC/ECB subsequently allowed the 10-year yield curve to subside to around 6.3% at the beginning of the fourth quarter. The PSI-20 followed the European trend, gaining 7.1% in the quarter.

2. RESULTS

The economic and financial adjustment process under way in Portugal continued to dictate the performance of the domestic financial sector in the third quarter of 2013.

Income Statement

EUR million

	Sep,13	Sep,12	Change	
			absolute	relative
Net Interest Income	767,2	906,8	- 139,6	-15,4%
+ Fees and Commissions	529,0	626,3	- 97,3	-15,5%
= **Commercial Banking Income**	**1 296,2**	**1 533,1**	**- 236,9**	**-15,5%**
+ Capital Markets and Other Results	133,6	341,8	- 208,2	-60,9%
= **Banking Income**	**1 429,8**	**1 874,9**	**- 445,1**	**-23,7%**
- Operating Costs	844,8	845,3	- 0,5	-0,1%
= **Net Operating Income**	**585,0**	**1 029,6**	**- 444,6**	**-43,2%**
- Provisions	1 068,7	752,3	316,4	42,1%
Credit	779,5	618,9	160,6	25,9%
Securities	91,7	32,5	59,2	...
Other	197,5	100,9	96,6	95,7%
= **Income before Taxes and Minorities**	**- 483,7**	**277,3**	**- 761,0**	**...**
- Income Tax	- 128,5	104,3	- 232,8	...
- Special Tax on Banks	19,5	20,9	- 1,4	-6,6%
= **Income Before Minorities**	**- 374,7**	**152,1**	**- 526,8**	**...**
- Minority Interests	6,3	61,7	- 55,4	-89,7%
= **Net Income**	**- 381,0**	**90,4**	**- 471,4**	**...**

Main developments in BES Group's income statement in 3Q13:

- Commercial banking income: despite its 15.5% YoY reduction, a recovery trend is visible throughout the year, driven by both net interest income and fees and commissions;

Commercial banking Income

	3Q13		2Q13		1Q13
	€mn	Δ %(1)	€mn	Δ %(1)	€mn
Net Interest Income	296,8	19%	248,5	12%	221,9
+ Fees and Commissions	185,9	9%	171,3	-	171,8
= **Commercial Banking Incor**	**482,7**	**15%**	**419,8**	**7%**	**393,7**

(1) comparing to quarter before

- Capital markets and other results: positive in 9M13, though 60.9% below the previous year's, which had benefitted from a significant reduction in sovereign yields; as a result of national and international instability factors in the financial markets, the area posted a EUR 35.3 million loss in 3Q13, contrasting with the EUR 108.9 million and EUR 60 million net profits in 2Q13 and 1Q13, respectively;
- Operating costs: in line with the plan in the domestic area (4.8% reduction on a comparable basis) and 1.1% reduction at consolidated level (comparable basis) despite the international expansion;
- Reinforcement of provisions: provisions reached EUR 1.068,7 million (+42.1%), reflecting the impact of the economic recession and high unemployment on clients' creditworthiness and the value of collaterals associated to recovered loans; however, the 3Q provision charge (EUR 321.4 million) was lower than the 2Q charge (EUR 507.2 million).

Domestic and International Activity

The international area continues to provide a relevant cushion to the effects of the domestic recession. Driven by a 1.1% increase in commercial banking income, the international net income reached EUR 30.9 million, despite the impacts of the global economic slowdown and the situation of crisis in some of the countries where the Group operates. The Net Operating Income reached EUR 207.0 million in 9M13 (EUR 281.6 million in 9M12). The EUR 157.8 million provisioning cost (more than double the cost in the 9M12) prevented the international units from posting a more significant performance and contribution to the consolidated results.

The domestic banking income reflects the negative impacts of the economic recession and sovereign risk on commercial banking income and capital markets results. Operating costs were reduced by 3.3% (4.8% on a comparable basis), in line with the ongoing cost rationalisation plan, while impairments were reinforced by 34.0%, which is less than in 1H13 (+76.6%). The result was a net loss of EUR 411.9 million.

Domestic and International Income Statement

EUR million

	DOMESTIC			INTERNATIONAL		
	Sep,13	Sep,12	Change	Sep,13	Sep,12	Change
Net Interest Income	411,5	636,1	-35,3%	355,7	270,7	31,4%
+ Fees and Commissions	389,2	407,1	-4,4%	139,8	219,2	-36,2%
= Commercial Banking Income	**800,7**	**1 043,2**	**-23,2%**	**495,5**	**489,9**	**1,1%**
+ Capital Markets and Other Results	141,8	288,7	-50,9%	- 8,2	53,1	...
= Banking Income	**942,5**	**1 331,9**	**-29,2%**	**487,3**	**543,0**	**-10,3%**
- Operating Costs	564,5	583,9	-3,3%	280,3	261,4	7,2%
= Net Operating Income	**378,0**	**748,0**	**-49,5%**	**207,0**	**281,6**	**-26,5%**
- Provisions	910,9	679,7	34,0%	157,8	72,6	...
Credit	647,6	555,3	16,6%	131,9	63,6	...
Securities	88,8	29,2	...	2,9	3,3	-12,5%
Other	174,5	95,2	83,2%	23,0	5,7	...
= Income before Taxes and Minorities	**- 532,9**	**68,3**	**...**	**49,2**	**209,0**	**-76,5%**
- Income Tax	- 124,7	47,7	...	- 3,8	56,6	...
- Special Tax on Banks	19,5	20,9	-6,8%	-	-	-
= Income Before Minorities	**- 427,7**	**- 0,3**	**...**	**53,0**	**152,4**	**-65,2%**
- Minority Interests	- 15,8	1,1	...	22,1	60,6	-63,5%
= Net Income	**- 411,9**	**- 1,4**	**...**	**30,9**	**91,8**	**-66,3%**

Main developments at BES Group's international operations: recovery in the United Kingdom driven by the expansion of wholesale funding; positive performance in the USA, France/Luxembourg and Macau; positive evolution in Africa, recovering from the previous quarters' performance; and losses in Spain, translating the provisioning costs in light of the economic recession in Iberia. The other international units mainly include those still in a start-up phase.

Breakdown of international results by geography

EUR million

	Sep,13	Sep,12	Change
Africa[1]	17,2	42,3	- 25,1
Brazil	6,4	9,9	- 3,5
Spain	-29,0	20,9	....
STRATEGIC TRIANGLE	**-5,4**	**73,1**	**- 78,5**
United Kingdom	25,4	16,4	9,0
USA	7,4	4,5	2,9
France/Luxdembourg	6,4	3,4	3,0
Macao	3,5	3,1	0,4
Other[2]	- 6,4	- 8,7	2,3
TOTAL	**30,9**	**91,8**	**- 60,9**

(1) includes Angola, Mozambique, Cape Verde, Libya and Algeria

(2) includes Venezuela, Poland, Italy and India

2.1 Net interest income

The 15.4% YoY reduction in Net Interest Income, to EUR 767.2 million, was driven by a large number of factors, including the domestic recession, the adjustment of the balance sheet to the financial constraints dictated by the Economic and Financial Adjustment Programme, and the repricing of assets and liabilities in light of the historically low levels of the Euribor. Even so, Net Interest Income increased by 19% QoQ in 3Q13, to EUR 296.8 million, confirming the recovery achieved in 2Q13 (+12% QoQ).

The reduction in Net Interest Income throughout the year has been price driven: while the volume of the interest earning business remained close to EUR 69 billion, the average interest rate on financial assets (credit, securities and other placements) fell by 51 bps YoY, to 4.77%, largely surpassing the drop in the average rate of financial liabilities (-25bps, to 3.28%), leading to a 26bps contraction in the margin (from 1.75% to 1.49%).

Net interest income and Net interest margin

EUR million

	Sep,13			Sep,12		
	Average Balance	Avg Rate (%)	NII	Average Balance	Avg Rate (%)	NII
Interest Earnings Assets	69 050	4,77	2 464	69 384	5,28	2 740
Customer Loans	50 102	4,66	1 746	50 443	5,08	1 918
Other Assets	18 948	5,07	718	18 941	5,80	822
Other	-	-	-	-	-	-
Interest Earning Assets & Other	**69 050**	**4,77**	**2 464**	**69 384**	**5,28**	**2 740**
Interest Bearing Liabilities	66 000	3,44	1 697	68 791	3,56	1 833
Deposits	36 277	2,79	758	34 012	3,17	806
Other Liabilities	29 723	4,22	939	34 779	3,95	1 027
Other	3 050	-	-	593	-	-
Interest Bearing Liabilities & Other	**69 050**	**3,28**	**1 697**	**69 384**	**3,53**	**1 833**
NIM/NII		**1,49**	**767**		**1,75**	**907**
Euribor 3 M - average		**0,21%**			**0,70%**	

As in the previous quarters, NII management continued to be pursued amidst an adverse scenario marked by the following constraints: restricted access to the medium and long term financial markets; the need to reduce funding from the ECB within a context of inexistence of an interbank market; fierce competition over corporate, institutional and retail customer funds; poor performance of the economy with a negative impact on asset quality; the lack of measures oriented to the economic stimulus and consequently weak demand for credit; and benchmark interest rates maintained at historical lows.

In this context revenues and costs had the following performance:

- interest received totalled EUR 2 464 million, with the YoY decline in its average rate (- 51 bps, from 5.28% to 4.77%) nearly matching the drop in the 3-month Euribor (-49bps). The average spread implicit in the loan book increased to 4.45% (9M12: 4.38%).
- the cost of funding was EUR 1 697 million, with the average rate on deposits dropping by 38bps YoY, to 2.79%, while the average rate on debt securities and other interest bearing liabilities increased by 27bps, to 4.22%. The fact that the rate on interest bearing liabilities dropped by 25bps only essentially translates the need to replace EUR 2,2 billion of the average funding from the ECB (relative to the average in 9M12) for higher-cost liabilities, as well as the strains on customer funding in a context of strong restrictions on access to the capital markets.

2.2 Fees and Commissions

Fees and commissions decreased by 15.5%, translating the deleveraging programme as well as the weak performance of the economy. Excluding the cost of the guarantees provided by the Portuguese State and the non recurrent fees booked in 2012, the reduction is 1.8% only.

Fees and Commissions

EUR million

	Sep,13	Sep,12	Change	
			absolute	relative
Collections	12,4	12,8	-0,4	-3,3%
Securities	54,4	54,9	-0,5	-0,8%
Guarantees	101,2	102,3	-1,1	-1,1%
Account management	57,4	59,4	-2,0	-3,4%
Commissions on loans and other [1]	117,6	118,2	-0,6	-0,5%
Documentary credit	88,1	66,0	22,1	33,6%
Asset management [2]	66,8	58,2	8,6	14,7%
Cards	26,4	31,0	-4,6	-14,9%
Bancassurance	20,3	36,3	-16,0	-44,1%
Other Services [3]	-15,6	87,2	-102,8	...
TOTAL	**529,0**	**626,3**	**-97,3**	**-15,5%**
State Guarantees	*45,3*	*42,4*		
BESA non-recurrent Commissions	-	*84,0*		
TOTAL comparável	**574,3**	**584,7**	**-10,4**	**-1,8%**

[1] Includes commissions on loans, project finance, export financing and factoring
[2] Includes investment funds and discretionary management
[3] Includes costs with State Guarantees

The sharpest reductions occurred in fees and commissions more directly linked to the domestic corporate business, namely on collections, loans, guarantees provided and corporate and project finance. Commission income from credit cards and account management (commissions on current accounts, transfers, and payment orders) were also harmed by the increase of unemployment and the impact on families of the austerity policies. Commissions on bancassurance products (saving and non-life insurance products) also decreased, though picking up from the previous quarters (1Q: EUR 5.7 million; 2Q: EUR 5.6 million; 3Q: EUR 9.0 million).

Asset management fees were up by 14.7% YoY, driven by the expansion of investment funds and portfolio discretionary management activities. Commissions on documentary credits increased, underpinned by the improvement of the exporting sector.

2.3 Capital markets and other results

Capital markets and other results totalled EUR 133.6 million, which compares with EUR 341.8 million in 9M12.

Capital markets and other results

EUR million

	Sep,13	Sep,12	Change
Interest rate, Credit and FX	**17,8**	**564,0**	**-546,2**
Interest rate	96,6	516,0	-419,4
Credit	-31,7	-4,7	-27,0
FX and Other	-47,1	52,7	-99,8
Equity	**57,3**	**-128,9**	**186,2**
Trading	1,8	-199,8	201,6
Dividends	55,5	70,9	-15,4
Other Results	**58,5**	**-93,3**	**151,8**
TOTAL	**133,6**	**341,8**	**-208,2**

The second and third quarters of 2013 were marked by fears about the withdrawal of incentives by the FED and by social instability in a number of emerging countries, leading investors to consider that these markets did not offer an adjusted risk premium and in turn resulting in a sharp devaluation of these countries' assets and currencies.

The positive results achieved by BES Group are mainly explained by the divestment policy pursued, which mainly focused on the interest rate area, and by the dividends received on shares in the available for sale portfolio.

"Other Results" includes EUR 182 million (gross) of the reinsurance of BES Vida's individual life risk portfolio under the agreement entered at the end of 1H13.

2.4 Operating costs

Operating costs totalled EUR 844.8 million, dropping by EUR 0.5 million YoY; excluding the impact of the new consolidations, operating costs would have fallen by 1.1%.

Operating costs

EUR million

	Sep,13	Sep,12	Change absolute	Change relative
Staff Costs	429,5	439,9	-10,4	-2,4%
Administrative Costs	335,5	324,9	10,6	3,3%
Depreciation	79,8	80,5	-0,7	-0,8%
TOTAL	**844,8**	**845,3**	**-0,5**	**-0,1%**
Excluding new consolidations	*831,0*	*839,9*	*-8,9*	*-1,1%*
Domestic	564,5	583,9	-19,4	-3,3%
Excluding new consolidations	*550,7*	*578,5*	*-27,8*	*-4,8%*
International	280,3	261,4	18,9	7,2%

Domestic costs continued to shrink, dropping by 3.3% (-EUR 19.4 million), or by 4.8% (-EUR 27.8 million) excluding the impact of the new consolidations. International costs increased by 7.2%, mainly reflecting the costs of expansion in the Angolan market (opening of 21 new units since the beginning of the year), though slowing down compared to 1H13 (-9.3%) as a result of the extension of the Group's cost-cutting effort to its units abroad.

Staff Costs

EUR million

	Sep,13	Sep,12	Change absolute	Change relative
Remunerations	343,2	352,6	-9,4	-2,6%
Pensions, Long term service benefits & Other	86,3	87,3	-1,0	-1,1%
TOTAL	**429,5**	**439,9**	**-10,4**	**-2,4%**
Excluding new Consolidations	*425,5*	*437,4*	*-11,9*	*-2,7%*
Domestic	278,2	290,3	-12,1	-4,2%
Excluding new Consolidations	*274,2*	*287,8*	*-13,6*	*-4,7%*
International	151,3	149,6	1,7	1,1%

Domestic staff costs continued to drive the reduction in total staff costs (down by 4.2% or 4.7% without the impact of the new consolidations), which was underpinned by the reduction on variable remunerations and number of employees (by 121 employees). The international staff costs increased by 1.1% as a result of activity expansion into new geographies or within countries where the Group already operates and consequent increase in the workforce (by 334 employees).

The general administrative costs increased by 3.3%, with international administrative costs rising by 16.7% while domestic costs decreased by 1.9%. Amortisation and depreciation, amounting to EUR 79.8 million, were slightly lower than in 9M12 (EUR 80.5 million), having increased by 10% in the international area (which still needed to invest in tangible and intangible assets) and decreased by 5% in the domestic area as a result of the streamlining measures implemented and the closure of 27 branches since the end of September 2012.

Gradual cost-cutting plan

In light of the challenges currently faced by the financial sector and the country's economic and financial context, BES Group has launched a programme aimed at gradually streamlining and reducing operating costs. The programme will be implemented in 2013-2015 and is expected to generate savings of EUR 100 million in the period, of which 3% in 2013, 5% in 2014 and 6% in 2015. The reduction achieved in domestic costs in the first nine months of the year permit to anticipate that the target for 2013 will be surpassed.

2.5 Efficiency

Efficiency indicators continued to be harmed by the reduction in both commercial banking income and total banking income, notwithstanding the reduction in domestic operating costs:

Efficiency

	Sep,13	Sep,12	Change
Cost to Income	59,1%	45,1%	14,0 p.p.
Cost to Income (ex-markets)	65,2%	55,1%	10,1 p.p.

2.6 Provisions

The Group recognised impairment costs of EUR 1 068.7 million in 9M13, which represents a YoY increase of 42.1%. The costs in 3Q13 (EUR 321.4 million) were lower than in 2Q13 (EUR 507.2 million).

The credit provision charge totalled EUR 779.5 million (+25.9% YoY), while provisions for securities were EUR 91.7 million, provisions for foreclosed real estate assets were EUR 128.6 million and provisions for impairments in other assets stood at EUR 68.9 million. The provision charge for securities, real estate assets and other assets includes EUR 45 million that were originally linked to credit operations.

Provision charge

EUR million

	Sep,13	Sep,12	Change	
			absolute	relative
Credit Provisions	779,5	618,9	160,6	25,9%
Securities Provisions	91,7	32,5	59,2	...
Foreclosed Assets	128,6	24,6	104,0	...
Other Provisions	68,9	76,3	-7,4	-9,7%
TOTAL	**1 068,7**	**752,3**	**316,4**	**42,1%**

In September 2013, provisions for credit registered in the Balance Sheet stood at EUR 3 307 million (+ 28.3% YoY), lifting the credit provisions/gross customer loans ratio to 6.6% (Sep.12: 5.1%).

Credit provisions

EUR million

	Sep,13	Sep,12	Change absolute	Change relative
Gross Loans	49 978	50 811	- 833	-1,6%
Credit Provisioning Charge (1Q13)	779,5	618,9	160,6	25,9%
Provisions for credit	3 306,7	2 577,1	729,6	28,3%
Provision Charge (annualised)	2,08%	1,62%	0,46 pp	
Provisions for credit / Gross Loans	6,6%	5,1%	1,5 pp	

The credit provision charge in 9M13 (2.08%) was 46bps higher than in 9M12 (1.62%), but lower than in 1H13 (2.16%).

2.7 Profitability

The Group's return on equity (ROE) and return on assets (ROA) continue to be harmed by the demanding provisioning effort required in view of the deterioration of credit risk and the devaluation of certain assets as a result of the domestic recession.

Profitability(1)

	Sep,13	Sep,12
Return on Equity	-6,85%	1,62%
Return on Assets	-0,61%	0,15%

(1) annualised data

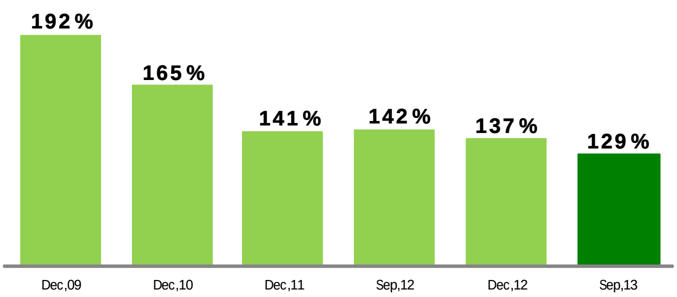
3. ACTIVITY

3.1. General overview

In the course of 2013 BES Group's activity has focused on reinforcing the balance sheet, with the following main results: (i) sustained improvement of the loan to deposits ratio, both YoY and relative to December 2012, backed by the deployment of the deleveraging programme; (ii) reduction in the weight of debt securities in the Group's funding structure and increase in the more stable funding component (deposits and life insurance products); (ii) maintaining buffers at capitalisation levels in order to ensure compliance with the regulatory ratios and hence the Group's strategic autonomy.

At the end of September 2013 the Loan/Deposits ratio had dropped to 129%, down by 8pp on the end of 2012 and by 13pp YoY. This was due to a strong increase in customer deposits acquisition (up by 8.3%, i.e. EUR 2.8 billion) combined with a EUR 0.8 billion reduction in gross customer loans.

Loan/Deposits Ratio [1]



[1] Calculated under the terms of BoP Funding & Capital Plan

Customer funds acquisition was indeed one of the key aspects of the period, with relevant increases in on-balance sheet customer funds (+5.3%) and bancassurance funds (+22.8%), driving up total customer funds by EUR 1.9 billion (+3.6% YoY), to EUR 56.2 billion.

Assets, Credit and Customer Funds

EUR million

	30-Sep-13	31-Dec-12	30-Sep-12	Change Sep,13/Sep,12 absolute	Change Sep,13/Sep,12 relative	Change Absolute Sep,13/Dec,12
Total Asstes [1]	**92 948**	**97 765**	**95 506**	**-2 558**	**-2,7%**	**-4 817**
Net Assets	**79 855**	**83 691**	**81 866**	**-2 011**	**-2,5%**	**-3 836**
Customer Loans (gross)	**49 978**	**50 399**	**50 811**	**- 833**	**-1,6%**	**- 421**
Loans to Individuals	13 384	13 762	13 768	- 384	-2,8%	- 378
- Mortgage	10 893	11 134	11 318	- 425	-3,7%	- 241
- Other Loans to Individuals	2 491	2 628	2 450	41	1,6%	- 137
Corporate Lending	36 594	36 637	37 043	- 449	-1,2%	- 43
(incl. transfer to restrucutring funds)	*1 367*	*1 324*	*1 330*	*37*	*2,8%*	*43*
Total Customer Funds	**56 158**	**56 188**	**54 211**	**1 947**	**3,6%**	**- 30**
On-Balance Sheet Customer Funds	45 587	44 785	43 293	2 294	5,3%	802
Deposits	35 999	34 540	33 240	2 759	8,3%	1 459
Debt Securities placed with Clients [2]	4 281	5 254	5 730	-1 449	-25,3%	- 973
Life Insurance	5 307	4 991	4 323	984	22,8%	316
Off-Balance Sheet Customer Funds	10 571	11 403	10 918	- 347	-3,2%	- 832
Loans/Deposits[3]	**129%**	**137%**	**142%**	**-13** p.p.		**-8** p.p.

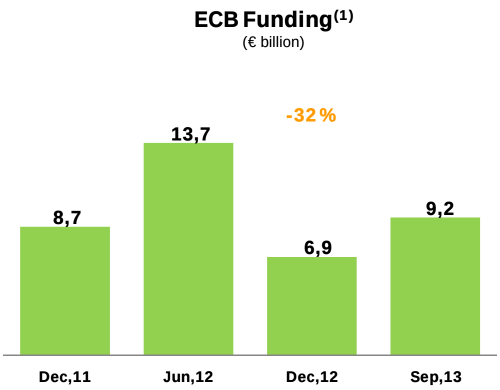
[1] Net Assets + Asset Management + Off-Balance sheet items + Non consolidated Secuiritised credit

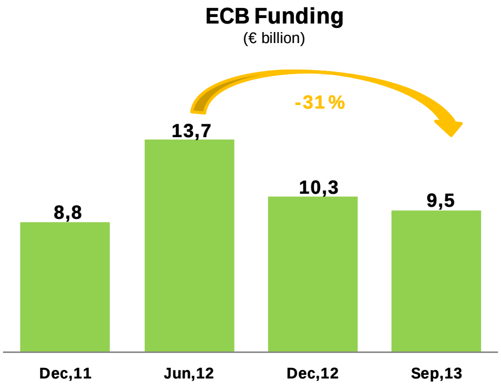
[2] Includes funds associated with consolidated securitisations and commercial paper

[4] Ratio calculated based on the definition of BoP

The EUR 421 million credit portfolio contraction in the 9M13 (vs. Dec.12) was mainly driven by the reduction in Loans to individuals (-EUR 378 million) due to the retrenchment of demand and the amortisation of mortgage loans, in so far as corporate loans remained broadly at the 2012 year-end level. Loans to Winner SME's were up 2.8% YoY reflecting BES Group support to the exporting sector.

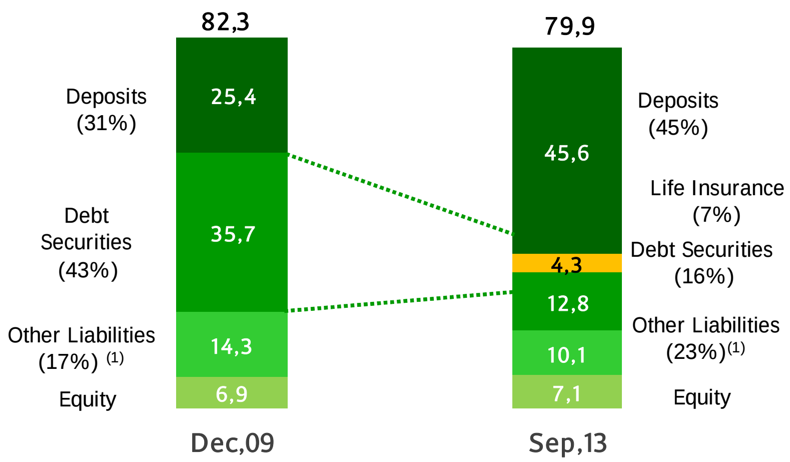
As to other funding components, net funding from the ECB decreased by ca. 32% since the peak attained in June 2012, to EUR 9.2 billion. The increase in net funding versus Dec.12 is explained by the use of deposits held by the Group with the ECB, which dropped from EUR 3.4 billion (Dec.12) to EUR 0.3 billion (Sep.13).





In the first nine months of 2013, the structure of liabilities and equity continued to evolve along the previous lines, i.e., towards an increase in the share of customer deposits and lower reliance on the financial markets, thus making financial management more autonomous and less dependent on cyclical fluctuations in the debt markets.

Structure of liabilities and equity



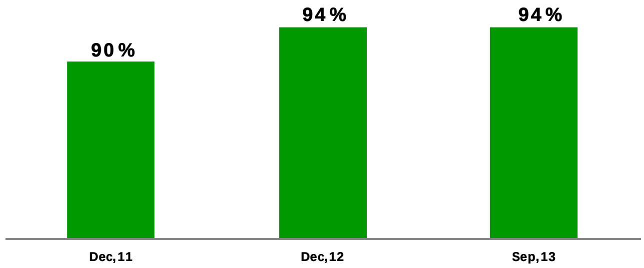
(1) Includes ECB facilities

In September 2013 deposits remained as the main asset financing source (45%, or 52% if including customer funds in the form of life insurance products), while debt securities accounted for 16% only - a marked reversal since the end of 2009 (immediately before the escalation of the eurozone crisis at the start of 2010) when debt securities accounted for 43% and deposits for 31% only of the total asset financing sources.

The increase in customer funds as an asset financing source positively reflected on the stable funding ratio, which rose to 94%

Net Stable Funding Ratio [1]

(1) Calculated under the Funding & Capital Plan



Domestic and International Activity

The international units sought to benefit from the dynamics of the economies where they operate, namely the emerging economies: assets grew by 2.3% and the loan portfolio by 7.2%. Total customer funds decreased YoY by 8.0%, driven by the debt securities placed with institutional clients.

Domestic and International Activity

EUR million

	Domestic			International		
	30-Sep-2013	30-Sep-2012	Change	30-Set-13	30-Set-12	Change
Total Assets [1]	64 544	67 652	-4,6%	28 404	27 854	2,0%
Assets	54 334	56 907	-4,5%	25 521	24 959	2,3%
Loans to Customers (gross)	37 299	38 978	-4,3%	12 679	11 833	7,2%
Total Customer Funds	41 619	38 414	8,3%	14 539	15 797	-8,0%
Loans / Deposits [2]	131%	141%	-10 p.p.	124%	145%	-22 p.p

[1] Net Assets + Asset Management + Off-Balance sheet liabilities+ Non consolidated secuiritised credit

[2] Ratio calculated under the BoP definition

3.2 Main business areas (Operating Segments)

BES Group overview

The BES Group develops its activity supported by a set of value propositions aimed at meeting the needs of its diverse client base: companies, institutions and individual clients. Its decision-making centre is located in Portugal, which is also its main market of operation.

The historic links with Africa and South America, notably with Angola, Brazil and Venezuela, the internationalisation of Portuguese companies, the growing interdependence of the Iberian economies and the large communities of Portuguese nationals established across various continents have provided the basis for the international expansion of BES Group

When monitoring the performance of each business area, the Group considers the following Operating Segments:

- Domestic Commercial Banking, which includes the Retail, Corporate, Institutional and Private Banking sub segments)
- International Commercial Banking
- Investment Banking
- Asset Management
- Life Insurance (since the acquisition of BES Vida in May 2012)
- Markets and Strategic Investments
- Corporate Centre

Each segment is directly supported by dedicated structures, as well as by those central units whose activity is most closely related to each of these segments. These structures run individual monitoring of each operational unit of the Group (considered from the viewpoint of an investment centre) while the Executive Committee defines strategies and commercial plans for each Operating Segment.

As a complement to this, the Group uses a second segmentation of its activity and results according to geographical criteria, separating the performance of the units located in Portugal (Domestic Area) from that achieved by the units abroad (International Area).

3.2.1 Retail

This segment includes activity with individuals and small businesses, most notably deposit taking, sale of saving products, commissions for account management, cards and other means of payment, insurance products, investment funds, brokerage of securities, custody services, mortgage credit, consumption credit and financing of small businesses.

Retail Banking

	Sep,13	Sep,12	Change
			EUR million
BALANCE SHEET			
Customer Loans (gross)	14 898	15 921	-6,4%
Customer Funds	13 165	12 228	7,7%
INCOME STATEMENT			
Commercial Banking Income	471,5	439,2	7,4%
Capital Mkts & Other Results	27,9	25,8	8,4%
Banking Income	499,4	464,9	7,4%
Operating Costs	288,7	310,7	-7,1%
Provisions	47,3	55,4	-14,6%
Income Before Tax	163,4	98,8	65,4%
Cost to Income	57,8%	66,8%	-9,0 pp

This business area was supported by a network of 647 branches in Portugal at the end of 3Q13 (net reduction of 19 branches since the beginning of the year). This streamlining process permitted to achieve a 7.1% YoY reduction in operating costs. The network includes 43 on-site branches resulting from partnerships with insurance agents under the Assurfinance programme.

Total retail customer funds increased by 7.9% YoY. On-balance sheet customer funds increased by 7.7% YoY, underpinned by the strong growth of deposits (+EUR 1,079 million YoY). The growth of retail customer funds, which is particularly expressive if considering the financial hardships currently faced by the Portuguese families, is explained by the Group's capacity to devise added value solutions for its clients, even in very adverse market situations, and the trust placed by the clients in the BES brand.

The growth of Retail customer funds was also supported by an influx of new clients: a total of 67.4 thousand new clients were acquired in the period as a result of coordinated action between the branch network and other client acquisition channels, in particular the Cross-segment and Assurfinance programmes, as well as the external promoters, which maintained a decisive contribution to the commercial performance of Retail. Total client acquisition in 9M13, including the international units, reached 117.2 thousand clients.

The Retail area maintains a constant and dynamic management of the customer funds margin in order to protect banking income growth. In 9M13 the segment's banking income grew by 7.4% YoY, underpinned by the expressive increase in customer funds combined with the streamlining of the net interest margin, which improved by 61 bps, to 2.84%. The increase in banking income, allied to reductions in costs and in impairment losses, allowed the area to increase pre-tax earnings to EUR 163.4 million.

During the period the area maintained its selective loan granting policies, and achieved significant results in cross-selling, where commercial results are supported by a wide range of innovative products, services and tools. Growth was particularly significant in several areas of insurance production, namely health insurance, where the launch of the 'Essential' formula drove a nearly two-fold YoY increase in sales of new policies, and life insurance, where sales increased by 17.7% YoY.

The **Direct Channels** continued to play a key role in the relationship with the clients, providing the following: (i) access to the entire range of services, account enquiries and transactions which can be done remotely; (ii) sale of a range of products, namely saving and insurance products, which can be acquired directly through the internet, with the support of a phone operator, or by scheduling a meeting with the branch or account manager; (iii) integration of the CRM platforms between the branch, BESnet and BESdirecto, where the customised offers provided at the time the client interacts with the remote channel have proved very successful, confirming their adjustment to the clients' needs, and (iv) free of charge family budget tool which automatically classifies all account movements and generates targets, thus supporting household saving efforts. The internet banking service for individual clients – BESnet – achieved a 7.8% YoY increase (to 371 thousand) in the number of frequent users, maintaining its leading position in terms of internet banking penetration in Portugal, with a share of 45% of the customer base (according to the latest Marktest data), while the number of logins reached 29.4 million (+19.6% YoY). According to Marktest's latest data on compared user satisfaction with internet banking systems, BESnet achieved the highest level of satisfaction, remaining the undisputed leader in the annual averages for all the eight assessment criteria (security, design, available services, ease of use, availability, page loading speed, transaction execution speed, and global satisfaction with the service). The BESmobile service maintained strong growth, with the number of very frequent users reaching 56 thousand at the end of 3Q13. Marktest data have also confirmed BES's leadership in the use of this channel by clients for whom BES is the first Bank.

In the first nine months of 2013 **Banco BEST** reached EUR 2.2 billion in customer assets under custody, and posted net earnings of EUR 8.6 million, a YoY increase of 33%.

This year Banco Best has been awarded three prizes that confirm its success as innovation leader in the offer of financial products and services in Portugal: "Best Site/Mobile App for E-commerce" in the "Navegantes XXI 2013" awards by ACEPI (the Portuguese Electronic Commerce and Interactive Advertising Association), which distinguish the best e-commerce and digital marketing projects. Considered one of the most comprehensive mobile banking services in the Portuguese market, Banco Best's Mobile Banking service offers not only all current banking operations but also an all-inclusive stock market mobile service, allowing online monitoring of the main global stock exchanges and trading on more than 1,200 securities. (ii) "Best B2B site" (ACEPI), also part of ACEPI's "Navegantes XXI 2013" awards – the 'B2B' and 'White Label' solutions were the winners in the "best B2B eCommerce site" category. Through these services Banco BEST acts as a global provider of wealth management services, being the only exporter in Portugal of banking services and technology. (iii) "Best Technological Projects in Portugal" (CIO Awards 2013) – the 'Best Guru" search engine was considered the best technological project developed in Portugal in the 2013 edition of the CIO awards promoted by IDC, the world leader in market intelligence. 'Best Guru" is an innovating investment search engine providing easy, fast and direct access to Banco Best's vast asset management and trading portfolio which comprises more than 2,000 investment funds from 40 fund managers, ca. 1,800 certificates, more than 1,000 equities traded in the main international markets as well as bonds and ETFs from all over the world.

The situation of crisis in Portugal and in the Azores region has been harming the activity of **Banco Espírito Santo dos Açores**. With customer loans contracting and problem loans increasing, the Bank has been forced to step up credit monitoring and recovery measures. On the other hand, the Bank has acquired new clients and increased its market share by promoting the signature of new protocols with regional companies and institutions. Customer funds dropped by 3% as a result of increased demand for off-balance sheet products, while customer loans contracted by 6%. Assets totalled EUR 443 million at the end of 3Q13. The Bank posted a net loss for the period of EUR 1.6 million, mainly resulting from a sharp drop in Net interest income and a strong credit provisioning effort.

3.2.2 Corporate and Institutional Clients

This business area includes the business with large and medium-sized companies, as well as with institutional and municipal clients. BES Group holds a significant position in the Corporate and Institutional Clients segment as a result of its support to the development of the national business community, where it targets companies with a good risk profile, innovative characteristics and a focus on exports.

Corporate and Institutional Clients

EUR million

	Sep,13	Sep,12	Change
BALANCE SHEET			
Customer Loans (gross)	20 960	21 212	-1,2%
Customer Funds	9 563	10 919	-12,4%
INCOME STATEMENT			
Commercial Banking Income	451,2	391,5	15,3%
Capital Mkts & Other Results	9,9	6,4	54,2%
Banking Income	461,1	397,9	15,9%
Operating Costs	44,5	46,6	-4,4%
Provisions	493,6	373,5	32,1%
Income Before Tax	-77,0	-22,2	-246,9%
Cost to Income	9,6%	11,7%	-2,1 pp

This business area's results continue to be affected by the impact of overdue loan ratios, leading to the need to reinforce the segment's credit provisions. To counter this effect, the Group has taken action at various levels: (i) intensification of risk prevention practices, namely by increasing the collateralisation of both new loans and the loan portfolio; ii) regular revision of pricing policies for both credit spreads and interest rates on customer funds and elimination of commissioning discounts and exemptions; and (iii) optimisation of the cost basis. The action taken at the pricing policy level allowed for a 15.9% YoY increase in the segment's banking income, while the cost restructuring measures resulted in a 4.4% YoY reduction in operating costs.

Ever committed to adding value to the activity of its corporate clients, BES's International Premium Unit (IPU) is exclusively dedicated to these companies' internationalisation. A unique structure in the market for the last five years, the IPU focuses its activity on supporting the medium-sized companies, while also assisting small companies looking to internationalise their businesses.

The key factor behind the IPU's differentiation lies in its know-how about the specific characteristics of each country, which is achieved through the organisation of its bankers in geography-specific desks, which on the one hand liaise with the network of bankers working in BES's international units, and on the other, rely on the relations established with a vast network of correspondent banks to provide to the clients a wide range of international trade solutions and help them set up their businesses across the various countries.

In order to stay abreast of companies' evolving needs in their path towards internationalisation, the Group has sought to widen its international offer, while also resorting to strategic partners when such proves important to the clients. Along these lines, as from November 2013 the 'BES Fine Trade', a tool that identifies potential export markets for globally tradable goods, will be available online to the Portuguese companies.

The International Premium Unit's commitment to introducing its clients to new markets and reinforcing their ties to existing connections continues to rely on the organisation of trade missions. This year BES has already set up trade missions to Indonesia, Timor, Algeria and Poland, which, despite their differences in terms of trade relations with Portugal, have in common a huge potential for the Portuguese companies.

BES has also just recently launched a pre-export financing product that will allow clients to make the necessary acquisitions to manufacture the goods to be exported. In addition, the Bank has also established a partnership with COFACE, a world leader in credit insurance, for the distribution of export credit insurance products.

Given the existing economic interconnection within the Iberian market, client acquisition and business development are supported by close cooperation between domestic and Spanish commercial networks: 125 new Iberian corporate clients were acquired in the first nine months of 2013 and ca. 50% of all the Iberian companies with good risk profile are BES Group clients.

In terms of support to Innovation and Entrepreneurship, the Bank remains extremely active on two fronts: at banking level – BES already supports more than 300 clients with a truly innovative profile -, and at investment level, through Espírito Santo Ventures.

In the third quarter of 2013 Espírito Santo Ventures made two investments in projects that had previously been distinguished with BES-Innovation Awards (bringing up to four the number of investments in projects having won this important initiative of support to innovation promoted by BES). In fact, BES Group has been showing a holistic capacity to be present throughout the various development stages of innovative start-ups. Both projects (one from the Coimbra University and the other from the Minho University) are co-investments with other partners and also involve the taking of equity holdings by professors in the respective fields.

BES actively promotes the various PME Investe, PME Crescimento and Investe QREN credit lines, all of them important tools to support the national SMEs' investment and growth, under which it has approved to date EUR 3,030 million of loans. In the main lines currently in force - PME Crescimento 2013 and Investe QREN -, BES is market leader with shares of 21% (EUR 372 million) and 49% (EUR 46 million), respectively, also leading in the specific line for exporting companies - PME Crescimento 2013 Exportadoras – with a share of 40.3% (EUR 159 million).

In the current market context, supporting companies' cash management continues to deserve particular attention. In this area, BES is the undisputed market leader in Factoring Solutions, with a market share of 23.7% that represents EUR 1,346 million of credit under management.

"BES Express Bill", a solution exclusively developed by BES to manage companies' payments and receipts, has been extremely important as a critical source of liquidity and a booster of confidence in business dealings. So far, more than 13,000 companies have subscribed to "BES Express Bill", with ca. EUR 2.5 billion in facilities approved (guaranteeing the advancing of payments of more than EUR 13 billion per year).

The internet banking service for corporate clients - **BESnetwork** – reached 61.5 thousand frequent users in 3Q13 (a YoY increase of 8.4%), while the number of logins rose by 30.2% YoY, to 14 million. In 2013 and for the second consecutive year BESmobile earned the Global Finance magazine's award for 'best Mobile Banking services in Europe'. The results were announced in July and also ranked BES as the 'Best Corporate/Institutional Internet Bank in Portugal' (for the fourth time and the third in a row), confirming the quality and versatility of its BESnetwork service.

3.2.3 Private Banking

This area is dedicated to the business with private high net worth clients, covering all products associated with these clients, notably deposits, discretionary management, custody services, brokerage of securities and insurance products.

Private Banking

EUR million

	Sep,13	Sep,12	Change
BALANCE SHEET			
Customer Loans (gross)	877	958	-8,5%
Customer Funds	1 650	1 637	0,8%
INCOME STATEMENT			
Commercial Banking Income	101,1	73,8	37,1%
Capital Mkts & Other Results	9,6	4,6	107,5%
Banking Income	110,7	78,4	41,3%
Operating Costs	12,7	13,4	-5,1%
Provisions	4,1	2,6	58,1%
Income Before Tax	93,9	62,4	50,6%
Cost to Income	11,5%	17,1%	-5,6 pp

In this important business area, total customer funds grew by 1.8% YoY, with on-balance-sheet customer funds increasing by 0.8% YoY and deposits by 1.6% YoY.

The segment's pre-tax profit increased to EUR 93.9 million in 9M13. This improvement translates the measures taken during the year to enhance the customer funds margin (which led to a 41.3%. increase in banking income) combined with the streamlining of the structure of operating costs (which fell by 5.1% YoY).

3.2.4 International Commercial Banking

This segment includes the retail units operating abroad, which develop their banking activity (excluding investment banking and asset management) with both individual and corporate clients.

The segment maintained a globally positive performance during 3Q13. Customer funds increased by 20.4%, largely driven by bond issues placed with institutional clients, while customer loans grew by 8.2%, underpinned by the intensification of business in BES's subsidiary in Angola. Translating the reduction of banking income, and the increase in operating costs (+14.7%) and provisions (+115.8%), the pre-tax profit for the period was 61.2 million, which is lower than in 3Q12.

International Commercial Banking

EUR million

	Sep,13	Sep,12	Change
BALANCE SHEET			
Customer Loans (gross)	12 064	11 151	8,2%
Customer Funds	10 654	8 847	20,4%
INCOME STATEMENT			
Commercial Banking Income	423,5	389,8	8,7%
Capital Mkts & Other Results	-5,3	46,2	-111,5%
Banking Income	418,2	435,9	-4,1%
Operating Costs	191,8	167,2	14,7%
Provisions	165,2	76,6	115,8%
Income Before Tax	61,2	192,2	-68,2%
Cost to Income	45,9%	38,3%	7,5 pp

Notwithstanding the persistent climate of economic and financial instability in Spain and the world, BES **Spain Branch** maintained a positive performance during the third quarter of 2013. Main highlights in the period: (i) further expansion of the network, with branch openings in Madrid and Barcelona adding on to those opened in the previous quarter; ii) customer deposits increased by 71.1% YoY (+50.0% since the end of 2012) while customer loans rose by 3.0% only – this validates the deployment of the branch's policy aimed at reinforcing its self-sufficiency in terms of funding; (iii) the volume of off-balance sheet exposures (guarantees) remained flat at around EUR 1 300 million, which is in line with the trend in the previous months; iv) the international corporate activity support volume stabilised at around EUR 900 million; v) the number of clients, mostly in retail and private banking (+52.0%), increased by 49.3% YoY, which is ca. 9 800 more than in December 2012; and (vi) continued implementation of the prudent credit risk management policy, involving a strong reinforcement of provisions in light of the evolution and direct and indirect effects of the economic situation. This permitted to maintain the rising trend of credit spreads, thus easing the pressure on the cost of liabilities due to intense deposit-taking competition within the Spanish banking system. Operating income totalled EUR 44.9 million, backed by the increase in banking income (+4.7%) combined with the reduction of costs (-2.7%).

BES London Branch (United Kingdom) concentrates its activity in wholesale banking in the European market. During the first nine months of 2013 assets remained close to EUR 5.2 billion, underpinned by the EMTN programme, though reflecting a significant reduction in on-balance sheet customer funds. Customer deposits remained at the 2012 year-end level, while customer loans decreased both YoY (-9%) and compared to the end of 2012 (-7%). Despite the adverse context banking income increased by 39% YoY, to EUR 38.9 million. Pursuing the work carried out in 2012, the structure of costs continued to be streamlined, leading to a 10% YoY reduction in costs.

At the end of 9M13 **Espírito Santo Bank** (Miami/USA) showed a strong balance sheet characterised by high quality assets and solid capital and liquidity ratios. Compared with the end of 2012, assets increased by USD 104 million, deposits by USD 96 million, to USD 607.7 million, and customer loans by USD 78 million, to USD 529.9 million. Despite the positive developments shown by South Florida's residential market, the Bank maintained its safe and conservative standards in credit assessment. The Bank has focused its activity, on the one hand, on promoting the acquisition of second homes in South Florida by non-resident individuals – an attractive and low risk market segment -, and on the other on supporting exports to Latin America, guaranteed or insured by US Eximbank (Export-Import Bank of the United States) and other developed countries' Export Credit Agencies. In 2013 ES Bank was confirmed its "5 star" ranking, Bauer Financial's highest classification, which was awarded for the first time in 2012 on the grounds of its asset quality and liquidity and solvency levels. Assets under management reached USD 1.4 billion on 30 September 2013.

BES New York Branch (USA) concentrates its activity in wholesale banking, mainly in the US and Brazil. The persistence during the first nine months of 2013 of restrictions on access to market liquidity required from the Bank extreme prudence in business development, an effort for further deleveraging in line with the Group's international strategy guidelines (the loan book was reduced by 24% YoY), and focus on risk monitoring and management. The Branch posted net income for the period of EUR 4.4 million.

Banco Espírito Santo de Angola pursued the implementation of its new Strategic Plan which aims to redefine the business model along the following lines: (i) evolution towards a banking model focusing on the higher value segments of corporate clients (top corporate) and individual clients (top private), the plan is to broaden the offer so as to allow penetration into new corporate segments (oil companies and SMEs) and retail segments (affluent segment), viewing an increase in the number of active clients; (ii) expansion of the network, opening new branches and corporate centres over a 2-year period; (iii) commercial strategy overhaul: implementation of marketing and communication media focused on the offer and the creation of a new model of commercial dynamics; and iv) development of a multichannel strategy permitting to extend the reach of client acquisition efforts and the provision of innovative services. This strategic repositioning entailed the following steps: creation of an Oil Companies Division that will develop a value proposition for this business segment; opening of 21 new branches; definition of a new targets and incentives system aligned to the new business model; and launch of a campaign to attract new customer funds. BESA continued to deserve international recognition, being considered by the Global Finance magazine as the 'Best Bank in Angola' in 2012, the 'Best Trade Finance Bank' and the 'Best Foreign Exchange Provider'. At the end of 9M13 BESA's assets totalled EUR 8 383 million, a YoY rise of 6% that was driven by a 17% increase in the credit portfolio, to EUR 5 751 million. Over the same period customer funds increased by 8%. Banking income dropped by 14% YoY, to EUR 208 million, essentially through the reduction in fees and commissions (the 9M12 banking income included non-recurrent commission income). Net interest income grew by 76%, to EUR 192 million, while operating costs increased by 21%. BESA posted net income for the period of EUR 48.6 million, a result that reflects the reduction in fees and commissions and the reinforcement of provisions to provide for the growth of credit.

BES Cape Verde focuses on local corporate banking activity, where it mainly targets public sector companies, subsidiaries of Portuguese companies with interests in Cape Verde, and the local affluent market. In the first nine months of 2013 the Bank continued to increase its business volume (+15% vs. Dec.12), closing the period with assets of EUR 157 million.

Banco Espírito Santo do Oriente (Macau) maintained a positive performance in corporate banking and trade finance, underpinned by the trade flows between the Popular Republic of China and the Portuguese speaking countries where BES Group has a strategic position. The Bank's documentary transactions business (e.g. L/C Advising/Forfaiting/Discount) remained strong, supported by continuous commercial and operational action undertaken in cooperation with BES's International area and by the good relations held with the main Chinese Banks, with which it has entered instrumental agreements viewing the development of this type of business. The growth and stability of customer funds achieved over the last few years remain a key priority in the current context: the initiatives developed by the Bank targeting the various client segments resulted in a 57% YoY increase in deposits. Notwithstanding the deceleration of global economic activity, the gross income for the period increased by 13% YoY.

In the first nine months of 2013 **Banque Espírito Santo et de la Vénétie** (France) reported gross operating income of EUR 14.3 million, which represents a YoY increase of 16%, and banking income of EUR 34.8 million (+10%). Operating costs were up by 6% YoY, driven by the investments made, the reinforcement of support functions and the outsourcing of services. The Bank reported a pre-tax profit for the period of EUR 6.6 million.

In June 2013 BES increased its stake in **Moza Banco** (Mozambique) to 49%. During the third quarter Moza Banco continued to deploy its commercial expansion plan, opening 3 new branches that increased the network to 23 units. Activity continued to grow at a strong pace: in local currency, assets increased by 102% YoY, while deposits and customer loans grew by 118% and 107%, respectively.

BES Venezuela Branch, opened in January 2012, has been focusing its activity on the establishment of closer ties with the Portuguese resident community and the local large companies and institutions. At the end of 3Q13 the branch's total assets amounted to EUR 159 million, notwithstanding the currency devaluation occurred at the start of the year.

BES Luxembourg Branch, also opened in January 2012, has been acting as a platform for business with the Portuguese emigrant community in the country as well as in neighbouring countries in central Europe, while offering the Group's global client base the possibility to do business in a safe and credible market. In September 2013 the branch had total assets of EUR 870 million, reporting a net profit for the period of EUR 2.5 million.

In Libya, now in a phase of political, social, and economic consolidation, **Aman Bank** is gradually resuming the implementation of its commercial plans and the reinforcement of its operations so as to be able to seize the growth opportunities arising in the country. The branch increased total assets by 12% in 9M13, posting a net profit of EUR 4.2 million in the period.

3.2.5 Investment Banking

Investment banking includes advisory services in project finance, mergers and acquisitions, restructuring and consolidation of liabilities, preparation and public or private placement of shares, bonds and other fixed-income and equity instruments, stock broking and other investment banking services. In addition, the bank offers traditional banking services to corporate and institutional clients.

Investment Banking

EUR million

	Sep,13	Sep,12	Change
BALANCE SHEET			
Customer Loans (gross)	2 146	2 296	-6,5%
Customer Funds	2 050	1 022	100,5%
INCOME STATEMENT			
Commercial Banking Income	139,0	155,9	-10,8%
Capital Mkts & Other Results	38,7	36,7	5,5%
Banking Income	177,7	192,6	-7,7%
Operating Costs	127,2	130,2	-2,3%
Provisions	35,2	30,9	14,1%
Income Before Tax	15,3	31,5	-51,5%
Cost to Income	71,6%	67,6%	4,0 pp

The current context of the global economy has continued to impose constraints on the investment banking business at both domestic and international level. However, BES Investimento (BESI) intensified its activity in some of the most important emerging markets, leading several transactions in Mexico, Poland and Brazil that helped to mitigatethe activity downturn in the more developed markets. Banking income, amounting to EUR 177.7 million, was 7.7% lower than in 3Q12, while operating costs dropped by 2.3%. The pre-tax results continued to be penalised by the increase in credit impairments, dropping by 51.5% YoY, to EUR 15.3 million. The international area accounted for 58% of banking income. Activity in Mexico – one of the more promising markets in Latin America where BESI has a presence – has recently shown strong growth.
Main operations concluded in 3Q13:

- **Mergers and Acquisitions** – i) In Portugal, BESI provided advisory services to Zon on the merger process with Optimus (EV of EUR 2373 million) and concluded the advisory services to Parpública on the sale of a 95% stake in ANA to Vinci (total EV of EUR 3080 million); (ii) in Brazil, the Bank concluded the advisory services provided to the shareholders of Eletromidia on the sale of a 80% stake in this company to HIG Capital; and (iii) in Poland, BESI advised the shareholders of BIK Group on its sale to Syntaxis.

- **Project Finance and Securitisation** – (i) in Brazil, BESI was Mandated Lead Arranger and Lender on the structuring of a BRL 40 million bridge loan to Ecovix - Engevix Construções Oceânicas, S.A. for investment in the Rio Grande shipyard, and BNDES Onlending Agent on a BRL 120 million loan to ViaBahia Concessionária de Rodovias (ii) and in Mexico BESI acted as Issuer of a Standby Letter of Credit for a road construction project of ICA (MXN 200 million).

- **Acquisition Finance & Other Lending** – BESI acted (i) in Portugal, as Mandated Lead Arranger on a USD 4.9 million loan to Soares da Costa América, and on a EUR 55 million financing following the restructuring of SAG's balance sheet; (ii) in Brazil, as Lender on a USD 20 million bilateral loan to CYMI MASA and on a BRL 100 million Export Credit Note issued by IESA.In Poland, BESI continued to support the development of its local and international clients' businesses, participating, among others, in the issuance of bank guarantees to Remontowa Shipbuilding, for a total amount of EUR 96 million.

- **Equity Capital Markets** – BESI acted in the United Kingdom as Joint Bookrunner on the placement of 17 million shares of Sports Direct.com, for a total amount of GBP 112.2 million.

- **Debt Capital Markets** - BESI acted (i) in Iberia, as Joint Lead Manager on a EUR 750 million bond issue by EDP Finance BV and as Co-Lead Manager on a EUR 1500 million bond issue by Bank of America; (ii) in Brazil, as Sole Lead Manager on its first Real Estate Securitization transaction structured for Gaia Agro related to Suzano real estate credits, in the amount of BRL 24 million; and (iii) in Mexico, as Joint Bookrunner of a USD 500 million bond issue by TV Azteca.

- **Brokerage** – BESI maintained a prominent position in Portugal (3rd place with a 6.3% market share) and Spain (8th place with a 4.6% market share). The Bank reached the 23rd position in Brazil's Bovespa ranking, with a market share of 0.9%, and the 18th position in the Polish brokers' ranking, with a market share of 1.6%.

- **Private Equity** – two minority investments were closed for a total of EUR 4.65 million in Epedal, a manufacturer of components for the automotive industry, and in Ramos Ferreira, S.A. a specialised provider of electrical installation services.

BESI's activity was internationally recognized and the Bank was considered: (i) 'Best Investment Bank in Portugal', by the World Finance magazine; (ii) 'Best M&A House in Portugal', by the EMEA Finance magazine; and (iii) 'Best Investment Bank in Portugal', by the Euromoney magazine.

3.2.6 Asset Management

This segment includes all the asset management activities of the Group, essentially conducted by Espírito Santo Activos Financeiros (ESAF), within Portugal and abroad (Spain, Luxembourg, Angola, and Brazil).
ESAF's product range covers mutual funds, real estate funds and pension funds, besides providing discretionary and portfolio management services.

Asset Management

EUR million

	Sep,13	Sep,12	Change
ASSETS UNDER MANAGEMENT	15 727	14 452	8,8%
INCOME STATEMENT			
Banking Income	43,8	46,7	-6,3%
Operating Costs	12,8	13,0	-1,1%
Provisions	1,2	1,1	2,1%
Income Before Tax	29,8	32,6	-8,7%
Cost to Income	29,3%	27,7%	1,6 pp

This business area has been improving in the course of 2013, with assets under management growing by 8.8%. At domestic level this was driven by growth in asset management (+21%) and real estate investment funds (+6.5%). The international volume under management dropped by 0.4%, despite the increase in Luxembourg, currently accounting for ca. 18% of total assets under management.
Asset management results were positive, at EUR 29.8 million, though decreasing by 8.7% YoY as a result of the constraints that have been weighing on the Portuguese markets and assets.

3.2.7 Life Insurance

This business area comprises the activity developed by BES Vida, Companhia de Seguros, which provides both traditional and unit-linked insurance products as well as pension plans.

Life Insurance

EUR million

	Sep,13	Sep,12	Change
BALANCE SHEET			
Customer Funds	4 281	4 323	-1,0%
INCOME STATEMENT			
Gross Margin of Insurance Business	313,8	133,7	134,7%
Operating Costs	8,6	5,4	59,3%
Provisions	0,4	3,0	-86,7%
Net Income	211,9	89,7	136,2%

BES Vida's contribution to the Group's 9M13 results is influenced by the reinsurance transaction occurred at the end of 1H13. The company posted strong activity growth, with production rising to EUR 1,453.6 million, representing an 80% YoY increase in premium volume that was driven by growth in unit-linked products and pension plans. In addition, claims volume registered a sharp contraction (-47.3% YoY) due to the reduction in financial products' redemption volume and the smaller amount of financial products coming to maturity.

3.2.8 Markets and Strategic Holdings

This segment includes the global financial management activity of the Group, namely raising and placement of funds in the financial markets, as well as investment in and risk management of credit, interest rate, FX and equity instruments, whether of a strategic nature or as part of current trading activity. It also includes activity with non-resident institutional investors, as well as any activities arising from strategic decisions impacting the entire Group.

Markets and Strategic Holdings

EUR million

	Sep,13	Sep,12	Change
INCOME STATEMENT			
Banking Income	-594,8	124,8	....
Operating Costs	47,8	39,1	22,2%
Provisions	321,7	209,1	53,8%
Income Before Tax	-964,3	-123,4	....

Reflecting the reduction of funding from the ECB and its replacement for medium and long term debt issues, and also the establishment of spreads on strategic products sold to domestic corporate and retail clients that did not take into account the market's volatile conditions, the segment reported negative banking income. This, combined with an increase in impairments in securities, real estate assets obtained through credit recoveries, and other assets, that raised the respective cost to EUR 321.7 million, explains the net loss of EUR 964.3 million reported in the period.

4. FINANCIAL STRENGTH AND OTHER INDICATORS

4.1. Asset Quality

The table below summarises the evolution of credit, overdue loans, credit at risk, provisions for impairment losses and overdue loans ratios and provisions ratios.

Asset Quality

	30-sep-2013	31-Dec-12	30-Sep-12	Change absolute	Change relative
EUR million					
Gross loans	49 978	50 399	50 811	- 421	-0,8%
Overdue Loans	3 004	2 185	2 122	819	37,5%
Overdue Loans +90d	2 797	1 966	1 905	831	42,3%
Credit at risk (1)	5 657	4 758	4 726	899	18,9%
Provisions for Credit	3 307	2 692	2 577	615	22,8%
Indicators (%)					
Overdue Loans / Gross Loans	6,0	4,3	4,2	1,7 p.p.	
Overdue Loans +90d / Gross Loans	5,6	3,9	3,8	1,7 p.p.	
Credit at risk (1) / Gross Loans	11,3	9,4	9,3	1,9 p.p.	
Coverage of Overdue Loans	110,1	123,2	121,5	-13,1 p.p.	
Coverage of Overdue Loans + 90d	118,2	136,9	135,3	-18,7 p.p.	
Coverage of Credit at risk (1)	58,5	56,6	54,5	1,9 p.p.	
Provisions for Credit / Gross Loans	6,6	5,3	5,1	1,3 p.p.	
Cost of Risk	2,08	1,62	1,62	0,46 p.p.	

(1) According to Instruction 23/2011 of Bank of Portugal. Credit at risk includes: a) total value of credit with capital or interest past due by 90 days or more; b) other restructured credit, where the principal or interest payments were past due by more than 90 days and have been capitalized or refinanced without full coverage by collaterals or the interest fallen due have not been fully paid by the debtor and c) credits of an insolvent or bankrupt debtor.

The Overdue loans + 90 days ratio increased to 5.6% (Dec.12: 3.9%), while credit at risk represents 11.3% of gross loans (Dec.12: 9.4%), with a provision coverage (excluding collaterals and guarantees) of 58.5% (Dec.12: 56.6%).

The Provisions for Credit / Gross Loans ratio continued to be reinforced, reaching 6.6% (Dec.12: 5.3%).

The asset quality deterioration was sharpest in corporate credit, rising to 7.3% (Dec.12: 5.2%) and other loans to individuals and consumer credit, where it reached 8.3% (Dec.12: 7.4%), and lowest in mortgage credit, where the ratio was 1.0%.

Overdue Loans

Finalidade	30-Sep2013	31-Dec2012	30-Sep-2012	Change
Overdue Loans	6,0%	4,3%	4,2%	1,7
Individuals	2,4%	2,2%	1,9%	0,2
- Mortgage	1,0%	0,9%	0,9%	0,1
- Other Purposes	8,3%	7,4%	6,6%	0,9
Corporate	7,3%	5,2%	5,0%	2,1

According to the statistics published by the Bank of Portugal (August 2013), the Group's overdue loan ratios compare favourably with those of the Portuguese banking sector, where corporate overdue loans stand at 10.2% (BES Group: 7.3%), mortgage overdue loans at 2.1% (BES Group: 1.0%) and other loans to individuals overdue loans at 12.5% (BES Group: 8.3%).

BES Group BES Group has in place a effective recovery process, namely involving the execution of real guarantees through foreclosures. Foreclosed assets thus totalled EUR 2.1 billion, included in 'Non current assets held for sale'. These assets are initially booked at fair value based on the immediate sale value (ISV) of the property as determined at the time by an independent expert. In subsequent periods these real estate assets are subject to regular revaluations and whenever the new ISV is lower than balance sheet value, provisions for impairment losses are created or reinforced. The table below shows the distribution of these assets by the domestic and international areas.

Foreclosed Assets

EUR million

	30-Sep-2013	30-Jun-13	31-Dec-2012
Domestic	2 386	2 185	1 965
International	139	138	120
Gross Value	**2 525**	**2 323**	**2 085**
Provisions	403	290	240
Net Value	**2 121**	**2 033**	**1 845**

The Group actively promotes the sale of these properties, namely through various internal and external sales channels and innovative sale promotion strategies adapted to each channel and target market. With a sales target of EUR 400 million in full 2013, in 9M13 2,277 such properties were sold for a gross balance sheet value of EUR 293 million, which represents a YoY increase of 47%. No material gains or losses were determined on these sales.

	Jan to Sep		Change
	2013	2012	
Sold Premises	2 277	1 269	79%
Proceeds (€mn)	293	199	47%
Gains/Losses (€mn)	1	- 1	-

4.2 Liquidity, Solvency and Financial Strength

4.2.1 Liquidity

Europe registered some instability during the quarter, namely in Italy and Portugal, and also in the run-up to the German elections due to fears about the continuity of the German policy vis-à-vis Europe. In addition, fears about the possible end of quantitative easing in the US drove up interest rates, with a widespread contagion effect on the European yields.

In Portugal, the resignation of the Minister of State and Finance and the Minister of State and Foreign Affairs triggered a political crisis that threatened to overthrow the government. In addition, the postponement of the Troika's 8th review drove the yields on the 10-year treasury bonds up to 7.51% (in July), casting doubts in the markets about the capacity of the Portuguese Government to fulfil the Adjustment Programme. The normalisation of the political situation, a 1.1% increase of GDP in the 2nd quarter and other signs of stabilisation in the Portuguese economy subsequently contributed to an improvement in market sentiment. Yields subsided, with the 10-year TBs coming down to close to 6% and the Portuguese banks' 5-year CDs falling by nearly 200bps until reaching a new peak in September 2013.

In Europe there was a general improvement in market sentiment, with yields declining during the summer.

The ECB maintained its monetary policy unchanged during the third quarter, keeping the benchmark rate at 0.5% and the rate on the deposit facility at 0%. According to the ECB, inflation expectations in the eurozone remained firmly anchored and therefore interest rates are expected to remain low for an extended period of time, given the broad-based weakness in the economy and subdued monetary dynamics.

Taking into account the current level of the deposit facility rate and the need for efficient balance sheet and net interest margin management, BES Group reduced its placements with the ECB by ca. EUR 1 billion in 3Q13, thus increasing its net funding position from EUR 8.3 billion (Jun.13) to EUR 9.2 billion.

At the end of September the portfolio of repoable securities amounted to EUR 23.8 billion, of which EUR 21.0 billion were eligible for rediscount with the European Central Bank. This amount includes exposure to Portuguese sovereign debt of EUR 5.3 billion (of which EUR 1.8 billion maturing in less than one year). BES Group's other peripheral European sovereign exposures totalled EUR 1.6 billion (of which EUR 0.8 billion maturing in less than one year), including EUR 1.3 billion of Spanish public debt, EUR 219 million of Italian public debt, EUR 57 million of Greek public debt and no Irish public debt.

4.2.2 Solvency

BES Group's solvency ratios are currently calculated under the Basel II regulations. From 1Q09 onwards BES Group has been authorised by the Bank of Portugal to use the Internal Ratings Based (IRB) approach for credit risk and the Standardised Approach – TSA method for operational risk.
Under the Portuguese banking regulations (Bank of Portugal Notice 3/2011) the Portuguese banks should report a Core Tier I ratio of 10%. On the other hand, since June 30th, 2012, European banks, including Portuguese banks, should post a Core Tier I of 9%, calculated according to the definition established by the European Banking Authority (EBA).

Basel III Recommendations

At the end of 3Q10, the Basel Committee on Banking Supervision made several decisions regarding the functioning of the global financial system, that have resulted in a set of recommendations, named Basel III. Banks will have a transitory period (from January 1st, 2013 to January 1st, 2019) to comply with the approved rules, aimed at strengthening financial institutions and preventing new financial crises in the future.
Basel III rules have established the following regulatory framework to be gradually implemented by January 1st, 2019:

- minimum Core Tier 1 of 7%, o.w. 4.5% minimum common equity and 2.5% capital conservation buffer);
- minimum Tier 1 of 8.5%, o.w. 6.0% minimum and 2.5% capital conservation buffer;
- total solvency ratio of 10.5%;
- introduction of a countercyclical buffer, ranging from 0% to 2.5% of common equity, under conditions to be defined by the national regulatory authorities;
- transitory period defined for the absorption of deductions to capital not eligible under BIS III and for the new deductions to capital;
- definition of the leverage and liquidity ratios (short and long term) in certain conditions, to be defined.

On June 26th, 2013 the European Parliament and the Council approved Regulation (EU) no. 575/2013 and Directive 2013/36/EU, respectively on the prudential requirements for credit institutions and investment firms and on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, in light of the recommendations of the Basel Committee on Banking Supervision.

While the new regulations must yet be transposed to the Portuguese legal framework, BES Group continues to follow the development process of the future regulatory framework, as well as all the efforts carried out to define the final rules for new capital ratios.

Solvency ratios

The table below provides the relevant information about risk weighted assets, regulatory capital and solvency ratios under the BISII IRB approach.

Risk Weighted Assets, Eligible Capital and Regulatory Capital

EUR million

	30-Sep-13	31-Dec-2012
Risk Weighted Assets (A)	**59 061**	**61 681**
Banking Book	53 903	56 484
Trading Book	1 464	1 503
Operational Risk	3 694	3 694
Regulatory Capital		
Core Tier I (B)	**6 184**	**6 471**
Core Tier I EBA (B')	**5 730**	**6 092**
Tier I (C)	**6 050**	**6 439**
Tier II and Deductions	546	518
TOTAL (D)	**6 596**	**6 957**
Core Tier I (B/A)	**10,5%**	**10,5%**
Core Tier I EBA (E/A)	**9,7%**	**9,9%**
Tier I (C/A)	**10,2%**	**10,4%**
Solvency Ratio (D/A)	**11,2%**	**11,3%**

Core Tier I capital decreased by EUR 287 million in the reporting period, mainly through the incorporation of the period's results, this being in part offset by the reduction in intangible assets and goodwill, which include the impact of the BES Vida reinsurance operation.

Risk weighted assets decreased by EUR 2.4 billion due to the general activity reduction and consequent decrease in assets (by EUR 3.8 billion since Dec. 12), and also the risk mitigation measures implemented. The Core Tier ratio stands at 10.5%, above the Bank of Portugal's requirement (minimum of 10%); under the EBA calculation method, the Core Tier I ratio is 9.7%, which is also above the minimum 9% established by the European authority.

4.3 Bank of Portugal Reference Indicators

The table below lists the reference indicators under Bank of Portugal instruction no. 16/2004, as amended by instructions nos. 16/2008, 23/2011 and 23/2012, for September 2013 and September 2012.

Bank of Portugal Reference Indicators

%

	30-Sep-2013	30-Sep-2012
SOLVENCY (g)		
Regulatory Capital / RWA [a]	11,2	11,1
Tier I / RWA[a]	10,2	10,5
Core Tier I / RWA [a]	10,5	10,7
ASSET QUALITY		
Overdue & Doubtful Loans [b] / Gross Loans [c]	6,7	4,7
Overdue & Doubtful Loans net of Provisions [c]/ Net Loans[c]	0,1	-0,4
Credit at Risk[c/f] / Gross Loans[c]	11,3	9,3
Credit at Risk net of Provisions [c/f]/ Net Loans [c]	5,0	4,5
PROFITABILITY		
Income before Tax and Minorities / Average net Assets	-0,8	0,4
Banking Income [d]/Average Net Assets	2,3	3,0
Income before Tax and Minorities/ Average Equity[e]	-8,8	5,0
EFFICIENCY		
General Admin Costs [d]+ Depreciation / Banking Income [d]	59,1	45,1
Staff Costs / Banking Income [d]	30,0	23,5
TRANSFORMATION		
(Gross Loans[c]- Credit Impairments[c] / Customer Deposits [f]	129	142

(a) Under IRB Foundation

(b) According to BoP Circular Letter nº 99/2003/DSB

(c) According to BoP Instruction 22/2011

(d) According to BoP instruction 16/2004

(e) Includes Minority Interests

(f) According to BoP instruction nº23/2004

(g) September 2013 preliminary data

The indicators show: (i) solvency ratios comply with the Bank of Portugal's recommended minimum levels; (ii) credit quality indicators deteriorated; iii) profitability indicators reflect the net loss reported in the period; (iv) efficiency levels deteriorated due to the reduction in banking income; and (v) the transformation ratio improved.

5. Activity and Results of Banco Espírito Santo

5.1. Business Performance and Asset Quality

BES activity has been impacted by the economic and financial adjustment programme in Portugal, which drove to the registration of a EUR 4.4 billion year-on-year drop in assets, driven by the EUR 2.2 billion and Eur 2.1 billion reduction in the loans to individuals and available for sale assets portfolio respectively.

On the funding side, deposits increased by EUR 1.7 billion, or +5.8%, while bank funding (which includes operations with the ECB) decreased by EUR 3.5 billion. On-balance sheet customer funds were up 3.4% year-on-year, underpinned by deposits growth, with total customer funds rising by 1.4% year-on-year to EUR 50.6 billion.

Activity Indicators

EUR million

	30-Sep-2013	30-Sep-2012	Change	
			absolute	relative
Net Assets	**64 483**	**68 795**	**-4 312**	**-6,3%**
Customer Loans (gross)	**38 871**	**40 421**	**-1 550**	**-3,8%**
Loans to Individuals	9 934	10 369	- 435	-4,2%
- Mortgage	7 947	8 285	- 338	-4,1%
- Other Loans to Individuals	1 987	2 084	- 97	-4,7%
Corporate Lending	28 937	30 052	-1 115	-3,7%
Total Customer Funds	**50 560**	**49 874**	**686**	**1,4%**
On-Balance Sheet Customer Funds	34 492	33 363	1 129	3,4%
Deposits	31 908	30 169	1 739	5,8%
Debt Securities placed with Clients	2 584	3 194	- 610	-19,1%
Off-Balance Sheet Customer Funds	16 068	16 511	- 443	-2,7%

In the 9M2013 the overdue loans ration (>90 days) increased to 6.68% (Dec.12: 4.58%) with the corresponding provision coverage off 113.2%. The ratio of provisions to total credit (outstanding and overdue), has been consistently increasing, reaching 7.56% (up from 5.72% in Sep.12).

Asset Quality

	30-Sep-2013	31-Dec-2012	30-Sep-2012	Change	
				absolute	relative
EUR million					
Gross loans	38 871	39 269	40 421	- 398	-1,0%
Overdue Loans	2787,9	2003,0	1922,9	784,9	39,2%
Overdue loans + 90 days	2596,8	1798,4	1733,6	798,4	44,4%
Provisions for credit	2938,7	2402,1	2310,2	536,61	22,3%
(%)					
Overdue loans / Gross loans	7,17	5,10	4,76	2,07 p.p.	
Overdue loans + 90 days / Gross loans	6,68	4,58	4,29	2,10 p.p.	
Provisions for credit / Overdue loans	105,4	119,9	120,1	-14,5 p.p.	
Provisions for credit / Overdue loans + 90 days	113,2	133,6	133,3	-20,4 p.p.	
Provisions for credit / Customer loans	7,56	6,12	5,72	1,44 p.p.	

5.2. Results

BES's net loss of Eur 682.1 million was influenced by the reinforcement of provisions for impairments and by losses in the financial operations line.

Income Statement

EUR million

	Sep,13	Sep,12	Change	
			absolute	relative
Net Interest Income	264,7	517,8	-253,1	-48,9%
+ Fees and Commissions	375,9	332,0	43,9	13,2%
= **Commercial Banking Income**	**640,6**	**849,8**	**-209,2**	**-24,6%**
+ Capital Markets and Other Results	-92,8	463,0	-555,8	....
= **Banking Income**	**547,8**	**1312,8**	**-765,0**	**-58,3%**
- Operating Costs	557,7	571,9	-14,2	-2,5%
= Net Operating Income	**-9,9**	**740,9**	**-750,8**	**-101,3%**
- Provisions	827,6	581,0	246,6	42,4%
Credit	647,9	499,1	148,8	29,8%
Securities	124,2	43,9	80,3	182,9%
Other	55,5	38,0	17,5	45,8%
= Income before Taxes and Minorities		**159,9**	**-997,4**	**....**
- Income Tax	-173,9	46,1	-220,0	....
- Special Tax on Banks	18,5	19,9	-1,4	-7,0%
= **Net Income**	**-682,1**	**93,9**	**-776,0**	**....**

Banking income fell by 58.3% relative to September 2012, driven by reductions in both net interest income (-48.9%), and in capital markets and other results, which posted a loss of EUR 92.8 million vis-à-vis a gain of EUR 463.0 million posted in the 9M2012. On the other hand, fees and commissions increased 13.2% while operating costs were reduced by 2.5%, underpinned by staff costs and administrative costs. Provisions were reinforced by EUR 827.6 million, or 42.4% year-on-year, of which 78% were provisions for loan impairments.

6. BES Own shares

Transactions involving the Bank's own shares in the nine months of 2013 related exclusively to those carried out by the BES Vida, Companhia de Seguros, which held shares in BES.

Own Shares

	Nº of shares	Price per share (euros)	Total (EUR thousand)
Balance at the begining of the year	10 388 056	0,673	6 991
Shares acquired until September	2 154 826	0,893	1 925
Shares disposed until September	(12 197 591)	0,661	(8 058)
Balance at september 30 2013	**345 291**	**2,483**	**858**

Detailed information about movements in own shares is provided in Note 44 to the Financial Statements.

RESPONSIBILITY FOR THE INFORMATION

The form and content of this report comply with the regulatory requirements applicable to the publication of quarterly accounts, their preparation being the exclusive responsibility of the Board of Directors of Banco Espírito Santo, S.A., Sociedade Aberta.

Lisbon, 25 October 2013

The Board of Directors

Ricardo Espírito Santo Silva Salgado,
Vice-Chairman of the Board of Directors and Chairman of the Executive Committee

Amílcar Carlos Ferreira de Morais Pires,
Member of the Board of Directors and of the Executive Committee

BANCO ESPÍRITO SANTO, S.A.

CONSOLIDATED BALANCE SHEET AS OF 30 SEPTEMBER 2013

	Sep,12 (eur '000)	Dec,12 (eur '000)	Sep,13 (eur '000)
ASSETS			
Cash and deposits at Central Banks	1 182 971	1 377 541	1 018 402
Deposits with banks	617 188	681 077	787 650
Financial assets held for trading	3 994 222	3 925 399	2 962 178
Financial assets at fair value through profit or loss	3 059 302	2 821 553	3 758 042
Available-for-sale financial assets	12 025 480	10 755 310	12 067 351
Loans and advances to banks	2 519 765	5 426 518	1 105 116
(of which of the European system of Central Banks)	*(649 994)*	*(3 350 000)*	*(199 998)*
Loans and advances to customers	48 233 765	47 706 392	46 670 985
(Provisions)	*(2 577 118)*	*(2 692 342)*	*(3 306 735)*
Held-to-maturity investments	972 402	941 549	1 233 848
Financial assets with repurchase agreements	-	-	-
Hedging derivatives	483 150	516 520	366 579
Non-current assets held for sale	2 175 579	3 277 540	3 527 346
Investment properties	393 618	441 988	396 239
Other tangible assets	946 659	931 622	932 053
Intangible assets	514 660	555 326	435 019
Investments in associates	586 687	580 982	539 087
Current income tax assets	21 205	24 648	20 508
Deferred income tax assets	672 085	728 905	983 152
Reinsurance Technical Provisions	3 424	3 804	9 711
Other assets	3 463 830	2 994 154	3 041 658
Direct and Indirect Insurance Creditors	7 822	567	8 272
Other	3 456 008	2 993 587	3 033 386
TOTAL ASSETS	**81 865 992**	**83 690 828**	**79 854 924**
LIABILITIES			
Deposits from central banks	11 223 536	10 893 320	9 726 796
(of which of the European System of Central Banks)	*(10 472 529)*	*(10 279 382)*	*(9 549 016)*
Financial liabilities held for trading	2 187 384	2 122 025	1 428 843
Other financial liabilities at fair value through profit or loss	-	-	-
Deposits from banks	5 072 467	5 088 658	5 357 516
Due to customers	33 239 763	34 540 323	35 999 222
Debt securities	15 107 529	15 424 061	11 962 047
Financial liabilities to transferred assets	-	-	-
Hedging derivatives	117 906	125 199	134 640
Investment contracts	2 655 427	3 413 563	3 760 750
Non current liabilities held for sale	156 243	175 945	152 660
Provisions	214 815	236 950	186 380
Technical provisions	1 667 598	1 577 408	1 546 300
Current income tax liabilities	78 083	221 199	108 859
Deferred income tax liabilities	162 805	154 015	157 860
Capital instruments	-	-	-
Other subordinated loans	838 851	839 816	830 500
Other liabilities	1 384 259	1 145 602	1 424 005
Direct and Indirect Insurance Creditors	25 227	2 040	36 850
Other liabilities	1 359 032	1 143 562	1 387 155
TOTAL LIABILITIES	**74 106 666**	**75 958 084**	**72 776 378**
EQUITY			
Capital	5 040 124	5 040 124	5 040 124
Share Premium	1 068 986	1 069 517	1 068 116
Other capital instruments	29 376	29 295	29 224
Treasury stock	(8 515)	(6 991)	(858)
Preference shares	193 024	193 289	166 342
Fair value reserve	(631 579)	(686 666)	(878 403)
Other reserves and retained earnings	1 330 181	1 328 630	1 402 704
Profit for the period attributable to equity holders of the bank	90 416	96 101	(380 958)
Prepaid dividends	-	-	-
Minority interests	647 313	669 445	632 255
TOTAL EQUITY	**7 759 326**	**7 732 744**	**7 078 546**
TOTAL LIABILITIES AND EQUITY	**81 865 992**	**83 690 828**	**79 854 924**

Chief Account The Board of Directors

BANCO ESPÍRITO SANTO, S.A.

CONSOLIDATED INCOME STATEMENT AS OF 30 SEPTEMBER 2013

	Sep,12 (eur '000)	Sep,13 (eur '000)
Interest and similar income	3 025 521	2 618 521
Interest expense and similar charges	2 118 718	1 851 311
Net Interest Income	**906 803**	**767 210**
Dividend income	70 928	55 523
Fee and Commission income	742 573	658 550
Fee and Commission expense	142 062	148 893
Net gains from financial assets at fair value through profit or loss	(15 567)	(200 613)
Net gains from available-for-sale financial assets	332 361	263 984
Net gains from foreign exchange differences	(4 213)	3 497
Net gains/ (losses) from sale of other assets	(34 432)	(2 984)
Insurance earned premiums net of reinsurance	40 096	105 190
Claims incurred net of reinsurance	236 983	172 356
Change on the technical provision net of reinsurance	196 808	223 131
Other operating income and expense	(11 116)	(145 057)
Operating income	**1 845 196**	**1 407 182**
Staff costs	439 816	429 540
General and administrative expenses	324 942	335 481
Depreciation and amortisation	80 524	79 768
Provisions impairment net of reversals	31 547	(25 303)
Loans impairment net of reversals	618 851	779 528
Impairment on other financial assets net of reversals	32 691	91 624
Impairment on other assets net of reversals	69 203	222 853
Negative consolidation differences	-	-
Equity accounted earnings	8 771	3 206
Net income before income tax and minorities	**256 393**	**(503 103)**
Income tax		
Current tax	86 523	119 759
Deferred Tax	17 755	(248 301)
Net income	**152 115**	**(374 561)**
ow: profit after taxes of discontinued operations	(1 976)	431
Minority interests	61 699	6 397
Consolidated net income for the period	**90 416**	**(380 958)**

Chief Account

The Board of Director:

BANCO ESPÍRITO SANTO, S.A.

INDIVIDUAL BALANCE SHEET AS OF 30 SEPTEMBER 2013

EUR thousand

	Sep,13			Sep,12
	amount before provisions, impairment and depreciations	provisions, impairment and depreciations	Net amount	
ASSETS				
Cash and deposits at Central Banks	308 048	-	308 048	469 959
Deposits with banks	271 989	-	271 989	228 470
Financial assets held for trading	1 282 159	-	1 282 159	1 989 357
Financial assets at fair value through profit or loss	3 158 494	-	3 158 494	1 588 584
Available-for-sale financial assets	8 864 136	350 060	8 514 076	10 598 000
Loans and advances to banks	5 300 855	31	5 300 824	6 604 108
Customer loans	38 871 437	2 570 333	36 301 104	38 545 940
Held-to-maturity investments	927 349	25 546	901 803	724 691
Repurchase agreements	-	-	-	-
Derivatives for risk management purposes	316 176	-	316 176	439 383
Non-current assets held for sale	1 595 510	223 801	1 371 709	1 154 413
Invesment properties	-	-	-	-
Proprety and equipment	1 077 452	752 030	325 422	348 852
Intangible assets	677 650	573 053	104 597	109 411
Investments in associates	2 494 468	398 887	2 095 581	2 050 503
Current income tax assets	1 512	-	1 512	653
Deferred income tax assets	1 011 223	-	1 011 223	772 533
Other assets	3 331 659	113 850	3 217 809	3 169 979
TOTAL ASSETS		**5 007 591**	**64 482 526**	**68 794 836**
LIABILITIES				
Deposits from Central Banks	9 300 950	-	9 300 950	10 424 178
Financial liabilities held for trading	1 158 927	-	1 158 927	1 688 225
Other financial liabilities at fair value through profit or loss	-	-	-	-
Deposits from banks	5 324 778	-	5 324 778	7 678 443
Due to customers	31 908 097	-	31 908 097	30 169 291
Debt securities issued	8 266 961	-	8 266 961	9 109 004
Financial liabilities to transferred assets	692 986	-	692 986	1 044 343
Derivatives for risk management purposes	86 648	-	86 648	71 234
Non core liabilities held for sale	-	-	-	-
Provisions	499 903	-	499 903	581 170
Current income tax liabilities	31 313	-	31 313	9 494
Defered income tax liabilities	118 522	-	118 522	154 761
Equity instruments	-	-	-	-
Subordinated debt	797 470	-	797 470	791 022
Other liabilities	793 192	-	793 192	720 540
TOTAL LIABILITIES		-	**58 979 747**	**62 441 705**
EQUITY				
Share capital	5 040 124	-	5 040 124	5 040 124
Share premium	1 060 220	-	1 060 220	1 061 090
Other equity instruments	220 658	-	220 658	225 795
Treasury stock	(801)	-	(801)	(801)
Fair value reserve	(932 902)	-	(932 902)	(705 397)
Other reserves and retained earnings	797 604	-	797 604	638 373
Profit for the year	(682 124)	-	(682 124)	93 947
Dividends paid	-	-	-	-
TOTAL EQUITY	**5 502 779**	-	**5 502 779**	**6 353 131**
TOTAL LIABILITIES AND EQUITY	**5 502 779**	**-**	**64 482 526**	**68 794 836**

Chief Account	The Board of Directors

BANCO ESPÍRITO SANTO, S.A.

INDIVIDUAL INCOME STATEMENT AT SEPTEMBER 30 2013

EUR thousand

	Sep,13	Sep,12
Interest and similar income	1 695 177	2 275 180
Interest expense and similar charges	1 430 473	1 757 330
Net Interest Income	**264 704**	**517 850**
Dividend income	66 687	63 703
Fee and comission income	582 469	485 366
Fee and comission expense	216 413	163 926
Net gains from financial assets at fair value through profit or loss	(224 024)	(103 795)
Net gains from available-for-sale financial assets	100 692	400 183
Net gains from foreign exchange differences	(10 751)	(23 078)
Net gains from sale of other assets	(5 207)	(21 721)
Other operating income and expense	(28 855)	138 410
Operating Income	**529 302**	**1 292 992**
Staff costs	264 066	268 357
General and administrative expenses	232 851	240 322
Depreciation and amortisation	60 796	63 236
Provisions impairment net of reversals	(45 306)	12 616
Loans impairment net of reversals	675 936	498 025
Impairment on other financial assets net of reversals	124 224	43 905
Impairment on other assets net of reversals	72 714	26 448
Net Income Before Tax	**(855 979)**	**140 083**
Income tax	**(173 855)**	46 136
Current tax	5 214	44 828
Deferred tax	(179 069)	1 308
Net Income	**(682 124)**	**93 947**
ow: net income after discontinued operations	(1 323)	(1 921)

Chief Account

The Board of Directors

II. CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

GRUPO BANCO ESPÍRITO SANTO

CONSOLIDATED INCOME STATEMENT
FOR THE PERIODS OF THREE AND NINE MONTHS ENDED AS AT 30 SEPTEMBER 2013 AND 2012

(in thousands of euro)

	Notes	Period of 3 months ended as at		Period of 9 months ended as at	
		30.09.2013	30.09.2012	30.09.2013	30.09.2012
Interest and similar income	5	892 498	958 008	2 618 521	3 025 521
Interest expense and similar charges	5	595 674	658 848	1 851 311	2 118 718
Net interest income		**296 824**	**299 160**	**767 210**	**906 803**
Dividend income		2 772	(29 647)	55 523	70 928
Fee and commission income	6	236 059	216 737	658 550	742 573
Fee and commission expenses	6	(54 593)	(50 166)	(148 893)	(142 062)
Net gains / (losses) from financial assets at fair value through profit or loss	7	(38 209)	684	(200 613)	(15 567)
Net gains / (losses) from available-for-sale financial assets	8	23 104	247 367	263 984	332 361
Net gains / (losses) from foreign exchange differences	9	5 252	(3 344)	3 497	(4 213)
Net gains/ (losses) from the sale of other assets	10	1 142	(9 458)	(2 984)	(34 180)
Insurance earned premiums net of reinsurance	11	90 213	23 362	105 190	40 096
Claims incurred net of reinsurance	12	(49 887)	(160 717)	(172 356)	(236 983)
Change on the technical reserves net of reinsurance	13	(51 346)	136 158	223 131	196 808
Other operating income and expense	14	(22 454)	4 703	(145 057)	78 470
Operating income		**438 877**	**674 839**	**1 407 182**	**1 935 034**
Staff costs	15	140 008	148 304	429 540	439 816
General and administrative expenses	17	114 542	110 753	335 481	324 942
Depreciation and amortisation	30 and 31	27 269	26 768	79 768	80 524
Provisions net of reversals	40	4 474	30 869	(25 303)	31 547
Loans impairment net of reversals and recoveries	25	226 432	266 850	779 528	618 851
Impairment on other financial assets net of reversals and recoveries	23, 24 and 26	38 939	13 826	91 624	32 691
Impairment on other assets net of reversals and recoveries	28, 31 and 34	51 615	14 360	222 853	69 203
Operating expenses		**603 279**	**611 730**	**1 913 491**	**1 597 574**
Gains on disposal of investments in subsidiaries and associates	1	-	-	-	(252)
Losses arising on business combinations achieved in stages	1 and 55	-	-	-	(89 586)
Share of profit of associates	32	2 117	1 489	3 206	8 771
Profit before income tax		**(162 285)**	**64 598**	**(503 103)**	**256 393**
Income tax					
Current tax	41	10 910	41 624	119 759	86 523
Deferred tax	41	(36 548)	(38 869)	(248 301)	17 755
		(25 638)	**2 755**	**(128 542)**	**104 278**
Profit for the year		**(136 647)**	**61 843**	**(374 561)**	**152 115**
Attributable to equity holders of the Bank		**(143 503)**	**64 959**	**(380 958)**	**90 416**
Attributable to non-controlling interest	45	**6 856**	**(3 116)**	**6 397**	**61 699**
		(136 647)	**61 843**	**(374 561)**	**152 115**
Earnings per share of profit attributable to the equity holders of the Bank					
Basic (in Euro)	18	-0.04	0.02	-0.10	0.03
Diluted (in Euro)	18	-0.04	0.02	-0.10	0.03

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

GRUPO BANCO ESPÍRITO SANTO

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIODS OF THREE AND NINE MONTHS ENDED AS AT 30 SEPTEMBER 2013 AND 2012

(in thousands of euro)

	Period of 3 months ended as at		Period of 9 months ended as at	
	30.09.2013	30.09.2012	30.09.2013	30.09.2012
Profit for the period				
Attributable to equity holders of the Bank	(143 503)	64 959	(380 958)	90 416
Attributable to non-controlling interest	6 856	(3 116)	6 397	61 699
	(136 647)	**61 843**	**(374 561)**	**152 115**
Other comprehensive income for the period				
Items that wont be reclassified into the Income Statement				
Long-term benefit	4	(17 712)	(12 293)	(64 466)
Income taxes on actuarial gains and losses from defined benefit obligations	(855)	(855)	(2 563)	(2 563)
	(851)	(18 567)	(14 856)	(67 029)
Items that may be reclassified into the Income Statement				
Exchange differences	(50 671)	(26 513)	(44 816)	(7 817)
Income taxes on exchange differences on translating foreign operations	20 855	4 856	5 896	2 719
	(29 816)	(21 657)	(38 920)	(5 098)
Available-for-sale financial assets				
Gains/ (losses) arising during the period	(11 629)	502 695	(55 533)	925 785
Reclassification adjustments for gains/ (losses) included in the profit or loss	15 872	(233 203)	(171 024)	(297 601)
Deferred taxes	12 375	(61 379)	70 244	(106 953)
	16 618	208 113	(156 313)	521 231
Total comprehensive income/(loss) for the period	**(150 696)**	**229 732**	**(584 650)**	**601 219**
Attributable to equity holders of the Bank	**(140 475)**	**246 444**	**(574 639)**	**543 704**
Attributable to non-controlling interest	**(10 221)**	**(16 712)**	**(10 011)**	**57 515**
	(150 696)	**229 732**	**(584 650)**	**601 219**

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

GRUPO BANCO ESPÍRITO SANTO

CONSOLIDATED BALANCE SHEET
AS AT 30 SEPTEMBER 2013 AND AT 31 DECEMBER 2012

(in thousands of euro)

	Notes	30.09.2013	31.12.2012
Assets			
Cash and deposits at central banks	19	1 018 402	1 377 541
Deposits with banks	20	787 650	681 077
Financial assets held for trading	21	2 962 178	3 925 399
Other financial assets at fair value through profit or loss	22	3 758 042	2 821 553
Available-for-sale financial assets	23	12 067 351	10 755 310
Loans and advances to banks	24	1 105 116	5 426 518
Loans and advances to customers	25	46 670 985	47 706 392
Held-to-maturity investments	26	1 233 848	941 549
Derivatives for risk management purposes	27	366 579	516 520
Non-current assets held for sale	28	3 527 346	3 277 540
Investment properties	29	396 239	441 988
Property and equipment	30	932 053	931 622
Intangible assets	31	435 019	555 326
Investments in associates	32	539 087	580 982
Current income tax assets		20 508	24 648
Deferred income tax assets	41	983 152	728 905
Technical reserves of reinsurance ceded	33	9 711	3 804
Other assets	34	3 041 658	2 994 154
Debtors from the insurance business		8 272	567
Other assets		3 033 386	2 993 587
Total Assets		**79 854 924**	**83 690 828**
Liabilities			
Deposits from central banks	35	9 726 796	10 893 320
Financial liabilities held for trading	21	1 428 843	2 122 025
Deposits from banks	36	5 357 516	5 088 658
Due to customers	37	35 999 222	34 540 323
Debt securities issued	38	11 962 047	15 424 061
Derivatives for risk management purposes	27	134 640	125 199
Investment contracts	39	3 760 750	3 413 563
Non-current liabilities held for sale	28	152 660	175 945
Provisions	40	186 380	236 950
Technical reserves of direct insurance	33	1 546 300	1 577 408
Current income tax liabilities		108 859	221 199
Deferred income tax liabilities	41	157 860	154 015
Subordinated debt	42	830 500	839 816
Other liabilities	43	1 424 005	1 145 602
Creditors from insurance operations		36 850	2 040
Other liabilities		1 387 155	1 143 562
Total Liabilities		**72 776 378**	**75 958 084**
Equity			
Share capital	44	5 040 124	5 040 124
Share premium	44	1 068 116	1 069 517
Other equity instruments	44	29 224	29 295
Treasury stock	44	(858)	(6 991)
Preference shares	44	166 342	193 289
Other reserves, retained earnings and other comprehensive income	45	524 301	641 964
Profit for the period attributable to equity holders of the Bank		(380 958)	96 101
Total Equity attributable to equity holders of the Bank		**6 446 291**	**7 063 299**
Non-controlling interest	45	632 255	669 445
Total Equity		**7 078 546**	**7 732 744**
Total Equity and Liabilities		**79 854 924**	**83 690 828**

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

GRUPO BANCO ESPÍRITO SANTO

GRUPO BANCO ESPÍRITO SANTO

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIODS ENDED AS AT 30 SEPTEMBER 2013, 31 DECEMBER 2012 AND 30 SEPTEMBER 2012

(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	**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	-	-	-	-	-	522 042	-	522 042	-	522 042	(811)	521 231
Other comprehensive income appropriate from associates, net of taxes	-	-	-	-	-	-	(67 132)	(67 132)	-	(67 132)	103	(67 029)
Exchange differences, net of taxes	-	-	-	-	-	-	(1 622)	(1 622)	-	(1 622)	(3 476)	(5 098)
Profit for the period	-	-	-	-	-	-	-	-	90 416	90 416	61 699	152 115
Total comprehensive income in the period	**-**	**-**	**-**	**-**	**-**	**522 042**	**(68 754)**	**453 288**	**90 416**	**543 704**	**57 515**	**601 219**
Capital increase	1 009 892	(12 677)	-	-	-	-	-	-	-	997 215	-	997 215
- issue of 2 556 688 387 nnew shares	*1 009 892*	-	-	-	-	-	-	-	-	*1 009 892*	-	*1 009 892*
- Costs with capital increase	-	*(12 677)*	-	-	-	-	-	-	-	*(12 677)*	-	*(12 677)*
Purchase of preference shares (see Note 44)	-	-	-	-	(18 889)	-	7 248	7 248	-	(11 641)	-	(11 641)
Transfer to reserves	-	-	-	-	-	-	(108 758)	(108 758)	108 758	-	-	-
Dividends on preference shares, net of taxes **(b)**	-	-	-	-	-	-	(10 996)	(10 996)	-	(10 996)	-	(10 996)
Variations of treasury stock (see Note 44)	-	-	-	(7 518)	-	-	-	-	-	(7 518)	-	(7 518)
Interest of other equity instruments, net of taxes **(b)**	-	-	-	-	-	-	(2 650)	(2 650)	-	(2 650)	-	(2 650)
Other movements	-	-	(129)	-	-	-	-	-	-	(129)	-	(129)
Other changes in minority interest (see Note 45)	-	-	-	-	-	-	-	-	-	-	1 351	1 351
Balance as at 30 september 2012	**5 040 124**	**1 068 986**	**29 376**	**(8 515)**	**193 024**	**76 867**	**621 735**	**698 602**	**90 416**	**7 112 013**	**647 313**	**7 759 326**
Other comprehensive income												
Changes in fair value, net of taxes	-	-	-	-	-	93 983	-	93 983	-	93 983	833	94 816
Actuarial deviations, net of taxes	-	-	-	-	-	-	(106 039)	(106 039)	-	(106 039)	18	(106 021)
Other comprehensive income appropriate from associates							(9 800)	(9 800)	-	(9 800)	-	(9 800)
Exchange differences, net of taxes	-	-	-	-	-	-	(35 317)	(35 317)	-	(35 317)	(13 554)	(48 871)
Profit for the period	-	-	-	-	-	-	-	-	5 685	5 685	(37 964)	(32 279)
Total comprehensive income in the period	**-**	**-**	**-**	**-**	**-**	**93 983**	**(151 156)**	**(57 173)**	**5 685**	**(51 488)**	**(50 667)**	**(102 155)**
Capital increase	-	531	-	-	-	-	-	-	-	531	-	531
- costs with capital increase	-	*531*	-	-	-	-	-	-	-	*531*	-	*531*
Purchase of preference shares (see Note 44)	-	-	-	-	265	-	(2 770)	(2 770)	-	(2 505)	-	(2 505)
Purchase of other capital instruments	-	-	(210)	-	-	-	-	-	-	(210)	-	(210)
Transactions with non-controlling interests	-	-	-	-	-	-	497	497	-	497	-	497
Dividends on preference shares, net of taxes **(a)**	-	-	-	-	-	-	4 859	4 859	-	4 859	-	4 859
Variations of treasury stock (see Note 44)	-	-	-	1 524	-	-	-	-	-	1 524	-	1 524
Interest of other equity instruments, net of taxes **(b)**	-	-	-	-	-	-	786	786	-	786	-	786
Changes on Consolidated Perimeter (See note 45)	-	-	-	-	-	-	-	-	-	-	74 293	74 293
Other movements	-	-	129	-	-	-	(2 837)	(2 837)	-	(2 708)	-	(2 708)
Other changes in minority interest (see Note 45)	-	-	-	-	-	-	-	-	-	-	(1 494)	(1 494)
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**
Other comprehensive income												
Changes in fair value, net of taxes	-	-	-	-	-	(161 807)	-	(161 807)	-	(161 807)	5 494	(156 313)
Actuarial deviations, net of taxes	-	-	-	-	-	-	(14 866)	(14 866)	-	(14 866)	10	(14 856)
Exchange differences, net of taxes	-	-	-	-	-	-	(17 008)	(17 008)	-	(17 008)	(21 912)	(38 920)
Profit for the period	-	-	-	-	-	-	-	-	(380 958)	(380 958)	6 397	(374 561)
Total comprehensive income in the period	**-**	**-**	**-**	**-**	**-**	**(161 807)**	**(31 874)**	**(193 681)**	**(380 958)**	**(574 639)**	**(10 011)**	**(584 650)**
Purchase of preference shares (see Note 44)	-	-	-	-	(26 947)	-	6 629	6 629	-	(20 318)	-	(20 318)
Transactions with non-controlling interests	-	-	-	-	-	-	(17 500)	(17 500)	-	(17 500)	-	(17 500)
Transfer to reserves	-	-	-	-	-	-	96 101	96 101	(96 101)	-	-	-
Dividends on preference shares, net of taxes **(a)**	-	-	-	-	-	-	(7 221)	(7 221)	-	(7 221)	-	(7 221)
Variations of treasury stock (see Note 44)	-	-	-	6 133	-	-	-	-	-	6 133	-	6 133
Interest of other equity instruments, net of taxes **(b)**	-	-	-	-	-	-	(1 991)	(1 991)	-	(1 991)	-	(1 991)
Other movements	-	(1 401)	(71)	-	-	-	-	-	-	(1 472)	-	(1 472)
Other changes in minority interest (see Note 45)	-	-	-	-	-	-	-	-	-	-	(27 179)	(27 179)
Balance as at 30 September 2013	**5 040 124**	**1 068 116**	**29 224**	**(858)**	**166 342**	**9 043**	**515 258**	**524 301**	**(380 958)**	**6 446 291**	**632 255**	**7 078 546**

[a] 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).

[b] 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).

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

GRUPO BANCO ESPIRITO SANTO

GRUPO BANCO ESPÍRITO SANTO

CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIODS ENDED AS AT 30 SEPTEMBER 2013 AND 30 SEPTEMBER 2012

(in thousands of euro)

	Notes	30.09.2013	30.09.2012
Cash flows from operating activities			
Interest and similar income received		2 375 577	2 828 921
Interest expense and similar charges paid		(1 669 378)	(2 195 206)
Fees and commission received		660 597	750 940
Fees and commission paid		(154 957)	(147 343)
Insurance premiums		(25 984)	(180 840)
Recoveries on loans previously written off		7 570	16 522
Cash payments to employees and suppliers		(690 294)	(723 072)
		503 131	**349 922**
Changes in operating assets and liabilities:			
Deposits with central banks		1 855 322	584 304
Financial assets at fair value through profit or loss		(1 332 265)	473 708
Loans and advances to banks		1 177 513	1 401 322
Deposits from banks		269 662	(1 181 130)
Due to customers		(98 959)	(294 115)
Loans and advances to customers		1 436 002	(1 003 656)
Derivatives for risk management purposes		66 175	218 643
Other operating assets and liabilities		228 736	175 235
Net cash from operating activities before income tax		**4 105 317**	**724 233**
Income taxes paid		(109 551)	(37 034)
Net cash from operating activities		**3 995 766**	**687 199**
Cash flows from investing activities			
Acquisition of subsidiaries and associates	1	(34 277)	(30 232)
Sale of subsidiaries and associates	1	63 330	54 122
Dividends received		59 783	74 351
Acquisition of available-for-sale financial assets		(40 672 618)	(52 200 417)
Sale of available-for-sale financial assets		39 799 471	52 199 733
Held to maturity investments		(284 643)	482 569
Issued insurance investment contracts		210 175	2 599 702
Purchase of tangible and intangible assets and investment properties		(88 150)	(549 923)
Sale of tangible and intangible assets and investment properties		3	410
Net cash from investing activities		**(946 926)**	**2 630 315**
Cash flows from financing activities			
Capital increase		-	995 276
Acquisition of preference shares		(20 318)	(11 641)
Bonds issued		3 860 506	10 529 848
Bonds paid		(7 209 729)	(14 383 192)
Subordinated debt paid		(9 025)	(214 483)
Treasury stock		6 133	(7 518)
Interest from other equity instruments		(2 655)	(2 650)
Dividends paid on preference shares		(9 628)	(10 996)
Net cash from financing activities		**(3 384 716)**	**(3 105 356)**
Net changes in cash and cash equivalents		**(335 876)**	**212 158**
Cash and cash equivalents at the beginning of the period		**2 024 533**	**1 542 251**
Effect of exchange rate changes on cash and cash equivalents		(21 843)	2 707
Net changes in cash and cash equivalents		(335 876)	212 158
Cash and cash equivalents at the end of the period		**1 666 814**	**1 757 116**
Cash and cash equivalents includes:			
Cash	19	220 752	286 799
Deposits at Central Banks	19	797 650	896 172
of which, restricted balances		(139 238)	(43 043)
Deposits with banks	20	787 650	617 188
Total		**1 666 814**	**1 757 116**

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 30 September 2013

(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 30 September 2013, the Bank's subsidiary BES Finance, Ltd had also 166 thousands 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 780 branches throughout Portugal (31 December 2012: 775), 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 into 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 Espírito 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 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	60.28%	Full consolidation
Fundo de Capital de Risco - ES Ventures III	2009	2009	Portugal	Venture capital fund	61.35%	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	83.67%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - BES II	2011	2012	Portugal	Real estate fund	94.54%	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
Prediloc Capital – Fundo Especial de Investimento Imobiliáro Fechado	2006	2012	Portugal	Real estate fund	100.00%	Full consolidation
Imogestão – Fundo de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund	100.00%	Full consolidation
Arrábida - Fundo Especial de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund	98.83%	Full consolidation
Invesfundo VII – Fundo de Investimento Imobiliário Fechado	2008	2013	Portugal	Real estate fund	95.86%	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	Real estate	10.00% a)	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
Tranquilidade Corporação Angolana de Seguros, S.A.	2007	2012	Angola	Insurance	10.91% b)	Equity method
Edenred Portugal, SA	1984	2013	Portugal	Services provider	50.00%	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.

b) Sub-Groups:

	Established	Acquired	Headquartered	Activity	% economic interest	Consolidation method
Banco Espírito Santo de Investimento, SA (BESI)	**1983**	**-**	**Portugal**	**Investment bank**	100.00%	**Full consolidation**
Espírito Santo Investments PLC	1996	1996	Ireland	Non-bank finance company	100.00%	Full consolidation
BRB Internacional, S.A.	2001	2001	Spain	Entertainment	25.00%	Equity method
Prosport - Com. Desportivas, S.A.	2001	2001	Spain	Sporting goods trading	25.00%	Equity method
Apolo Films, SL	2001	2001	Spain	Entertainment	25.15%	Equity method
Cominvest- SGII, S.A.	1993	1993	Portugal	Real estate	98.59%	Full consolidation
ESSI Investimentos SGPS, SA	1998	1998	Portugal	Holding company	100.00%	Full consolidation
Salgar Investments	2007	2007	Spain	Services provider	45.62%	Equity method
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
Lusitania Capital, S.A.P.I. de C.V., SOFOM, E.N.R.	2013	2013	Mexico	Non-bank finance company	100.00%	Full consolidation
MCO2 - Sociedade gestora de Fundos de Investimento Mobiliário, S.A.	2008	2008	Portugal	Asset management - investment funds	25.00%	Equity method
Espírito Santo Capital - Sociedade de Capital de Risco, SA (ESCAPITAL)	1988	1996	Portugal	Venture capital fund	100.00%	Full consolidation
SES Iberia	2004	2004	Spain	Asset management - investment funds	50.00%	Full consolidation
2bCapital Luxembourg S.C.A SICAR	2011	2011	Luxembourg	Investment fund	42.12%	Equity method
Fundo Espírito Santo IBERIA I	2004	2004	Portugal	Venture capital fund	45.25%	Equity method
HLC - Centrais de Cogeração, S.A.	1999	1999	Portugal	Services provider	24.50%	Equity method
Coporgest, SA	2002	2005	Portugal	Services provider	25.00%	Equity method
Synergy Industry and Technology, S.A.	2006	2006	Spain	Holding company	26.00%	Equity method
Espírito Santo Investment Holding, Limited	2010	2010	United Kingdom	Holding company	100.00%	Full consolidation
Execution Noble (Hong Kong) Limited	2005	2010	China	Brokerage house	100.00%	Full consolidation
Execution Noble & Company Limited	1990	2010	United Kingdom	Advisory on investments	100.00%	Full consolidation
Execution Noble Limited	2000	2010	United Kingdom	Brokerage house	100.00%	Full consolidation
Execution Noble Holdings LLC - U.S. Holding	2002	2010	USA	Holding company	100.00%	Full consolidation
Noble Advisory India Private Ltd	2008	2010	India	Research Services Provider	100.00%	Full consolidation
Execution Noble Research	2003	2010	United Kingdom	Research Services Provider	100.00%	Full consolidation
Clear Info-Analytic Private Ltd	2004	2010	India	Research Services Provider	100.00%	Full consolidation
Espírito 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
FI Multimercado Treasury	2005	2005	Brazil	Investment fund	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	80.00%	Full consolidation
BES Securities do Brasil, SA	2000	2000	Brazil	Brokerage house	80.00%	Full consolidation
Gespar Participações, Ltda.	2001	2008	Brazil	Holding company	80.00%	Full consolidation
Fundo FIM BES Moderado	2004	2009	Brazil	Investment fund	80.00%	Full consolidation
Fundo BES Absolute Return	2002	2009	Brazil	Investment fund	79.07%	Full consolidation
2BCapital, SA	2005	2005	Brazil	Venture capital fund	45.00%	Equity method
2B Capital Luxembourg General Partners S.à r.l.	2011	2011	Luxembourg	Asset management - investment funds	45.00%	Equity method
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	Cape Verde	Commercial banking	99.99%	Full consolidation
Moza Banco, SA	2008	2010	Mozambique	Commercial banking	49.00%	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
Espírito 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	Holding company	89.99%	Full consolidation
ESAF - International Distributors Associates, Ltd	2001	2001	British Virgin Islands	Asset management - investment funds	89.99%	Full consolidation

	Established	Acquired	Headquartered	Activity	% economic interest	Consolidation method
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 Espírito Santo et de la Vénétie, SA (ES Vénétie)	1927	1993	France	Commercial banking	42.69%	Equity method
Fundo de Capital de Risco - ES Ventures II	**2006**	**2006**	**Portugal**	**Venture capital fund**	**60.28%**	**Full consolidation**
Atlantic Ventures Corporation	2006	2006	USA	Holding company	60.28%	Full consolidation
Sousacamp, SGPS, SA	2007	2007	Portugal	Holding company	23.57%	Equity method
Global Active - SGPS, SA	2006	2006	Portugal	Holding company	26.92%	Equity method
Outsystems, SA	2007	2007	Portugal	IT Services	17.66% b)	Equity method
Coreworks - Proj. Circuito Sist. Elect., SA	2006	2006	Portugal	IT Services	19.51% b)	Equity method
Multiwave Photonics, SA	2003	2008	Portugal	IT Services	12.51% b)	Equity method
Bio-Genesis	2007	2007	Brazil	Holding company	18.04% b)	Equity method
YDreams - Informática, SA	2000	2009	Portugal	IT Services	28.93%	Equity method
Fundo de Capital de Risco - ES Ventures III	**2009**	**2009**	**Portugal**	**Venture capital fund**	**61.35%**	**Full consolidation**
Nutrigreen, SA	2007	2009	Portugal	Services provider	12.27% b)	Equity method
Advance Ciclone Systems, SA	2008	2009	Portugal	Treatment and elimination of residues	24.54%	Equity method
Watson Brown, HSM, Ltd	1997	2009	United Kingdom	Recycling rubber	22.02%	Equity method
Domática, Electrónica e Informática, SA	2002	2011	Portugal	IT Services	18.04% 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
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	99.70%	Full consolidation
Caravela Balanced Fund	2006	2012	Luxembourg	Investment fund	54.95%	Full consolidation
ES Plano Dinâmico	2008	2012	Portugal	Investment fund	97.88%	Full consolidation
ES Arrendamento	2009	2012	Portugal	Investment fund	100.00%	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
Esconcessions Spain Holding BV	2013	2013	Netherlands	Holding company	71.66%	Full consolidation
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 special purpose entities, as follows:

	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).

As at 30 September 2013, the consolidation of these entities had the following impact on the Group's accounts:

(in thousands of euro)

	30.09.2013	31.12.2012
Deposits with banks	178 103	195 586
Available-for-sale financial assets	3 371 381	3 803 343
Due to costumers (net of impairment)	652 522	703 797

The main changes in the Group structure that occurred during the nine months period ended 30 September 2013 are highlighted as follows:

- Subsidiaries

- During the first half of 2013, BESI acquired the remaining share capital of Espírito Santo Investment Holding, Limited becoming to hold 100% of the share capital of the Company;

- Associates (see Note 32)

- In June 2013, following the sale of the business associated with BES À La Card meal banking card, the Bank acquired a 50% interest in Edenred Portugal, S.A., this company being currently included in the consolidated financial statements under the equity method;
- As at June 30, 2013 Bes África acquired 23.9% of Moza Banco share capital by an amount of euro 24 856 thousands, becoming to hold 49% of this subsidiary.

The main changes in the Group structure that occurred during the nine month period ended 30 September 2012 are highlighted as follows:

- Subsidiaries (see Note 54)

- In May 2012, BES acquired an additional 50% of the capital of BES Vida, becoming to hold the total share capital of the company and started to consolidate this entity under the full consolidation method;

- Associates (see Note 32)

- In April 2012, ES Capital acquired 42.99% of 2BCapital Luxembourg S.C.A SICAR, for the amount of euro 854 thousands. In May 2012, following the capital increase of the company, ES Capital invested an additional euro 15.6 million;
- In June 2012, ES Concessões transferred its shareholding in SCUTVIAS – Autoestradas da Beira Interior, SA and Portivas – Portagem de Vias, SA to Ascendi Group, SGPS, SA, this operation generated a loss in the amount of euro 296 thousands.

During the nine months period ended as at 30 September 2013 and 2012, the movements regarding acquisitions and disposals of investments in subsidiaries and associates are presented as follows:

(thousands of euro)

	30.09.2013						
	Acquisitions			Disposals			
	Acquisition cost	Other investments (a)	Total	Disposal value	Other reimbursements (a)	Total	Gains/(losses) from sales/disposals
Subsidiaries							
BES África	-	28 000	28 000	-	-	-	-
BES Açores	-	654	654	-	-	-	-
ES Tech Ventures	-	6 500	6 500	-	-	-	-
Fundo BES Absolute Return	-	-	-	-	(4)	(4)	-
Fundo FIM BES Moderado	-	-	-	-	(29)	(29)	-
Espírito Santo Securities India	-	1 753	1 753	-	-	-	-
Espírito Santo Investment Holding, Limited	20 281	11 714	31 995	-	-	-	-
Lusitania Capital, S.A.P.I. de C.V., SOFOM, E.N.R.	-	59	59	-	-	-	-
Espírito Santo Serviços Financeiros DTVM, SA	222	1 973	2 195	-	-	-	-
BES Activos Financeiros, Ltda	-	1 316	1 316	-	-	-	-
R Consult Participações, Ltda	-	-	-	-	(143)	(143)	-
R Invest, Ltda	-	-	-	-	(23)	(23)	-
ESSI Comunicações SGPS, SA	-	-	-	-	(50)	(50)	-
FI Multimercado Treasury	58	-	58	-	-	-	-
	20 561	51 969	72 530	-	(249)	(249)	-
Associates							
Moza Banco	-	24 856	24 856	-	-	-	-
Autopista Perote Xalapa	-	-	-	(60 201)	-	(60 201)	-
Domática	-	350	350	-	-	-	-
Espírito Santo Iberia I	958	-	958	-	(73)	(73)	-
Edenred	8 113	-	8 113	(3 129)	-	(3 129)	-
	9 071	25 206	34 277	(63 330)	(73)	(63 403)	-
	29 632	**77 175**	**106 807**	**(63 330)**	**(322)**	**(63 652)**	**-**

(a) Capital increase and loans to companies

(thousands of euro)

	30.09.2012						
	Acquisitions			Disposals			
	Acquisition 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)
Fundo FIM BES Moderado	-	11 743	11 743	-	(13 073)	(13 073)	-
Fundo BES Absolute Return	-	4 373	4 373	-	(4 363)	(4 363)	-
Espírito Santo Securities India	-	4 094	4 094	-	-	-	-
Espírito Santo Investment Holding, Limited	914	-	914	-	-	-	-
ESSI Fin, SGPS, S.A.	-	-	-	(421)	-	(421)	-
	225 914	20 210	246 124	(421)	(17 436)	(17 857)	(89 586)
Associates							
Moza Banco	-	2 093	2 093	-	-	-	-
Empark	-	-	-	-	(2 584)	(2 584)	-
Portvias	-	-	-	(1 067)	-	(1 067)	590
Scutvias	-	-	-	(49 783)	-	(49 783)	(886)
Ascendi Group	-	11 462	11 462	-	-	-	-
Coreworks	-	-	-	-	(286)	(286)	-
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)	-
MRN - Manutenção de Rodovias Nacionais, SA **(c)**	-	-	-	-	(11)	(11)	-
	854	29 378	30 232	(54 122)	(7 292)	(61 414)	(252)
	226 768	**49 588**	**276 356**	**(54 543)**	**(24 728)**	**(79 271)**	**(89 838)**

(a) Capital increase and loans to companies

(b) Entity that became part of the Group's consolidation scope.

(c) Entity that is no longer part of the Group's consolidation scope, due to the loss of significant influence, becoming to be recorded in the available-for-sale portfolio.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUTING PRINCIPLES

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.

These interim consolidated financial statements for the nine months period ended 30 September 2013 have been prepared in accordance with International Financial Reporting Standards ("IFRS") IAS 34 – Interim Financial Reporting and do not include all the information required in the preparation of a complete set of consolidated financial statements which will be prepared for the year ending 31 December 2013.

The accounting policies applied by the Group in the preparation of its consolidated financial statements for the period ended 30 June 2013 are consistent with the ones used in the preparation of the annual consolidated financial statements for the year ended 31 December 2012, except for the adoption of IFRS 13 'Fair Value Measurement', IAS 19 (Revised) 'Employee Benefits' (2011) and of the changes to IAS 1 'Presentation of Financial Statements' as described below:

- IFRS 13 Fair Value Measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively. Notwithstanding the above, the change had no significant impact on the measurement of the Group's assets and liabilities.

- IAS 1 Presentation of Financial Statements - Presentation of items of other comprehensive income

As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in its consolidated statement of other comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information has also been re-presented accordingly.

The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities and comprehensive income of the Group.

- IAS 19 (Revised) Employee Benefits (2011)

As a result of IAS 19 (2011), the Group has changed its accounting policy with respect to the basis for determining the income or expense related to defined benefit. Under IAS 19 (2011), the Group determines the net interest expense (income) for the period on the net defined benefit liability (asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) at the beginning of the annual period. Consequently, the net interest expense (income) includes interest cost on the defined benefit obligation net of a theoretical return on the plan assets, both calculated using the discount rate applied in the determination of the defined benefit obligation.

Previously, the Group determined interest income on plan assets based on their long-term rate of expected return.

The adoption of IAS 19 (Revised) had no significant impact on the measurement of the Group's assets and liabilities.

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 included for in the consolidated financial statements up to May 2012 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 thousands, 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 25 October 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 interest

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 its 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.

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 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.

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 Group determines the net interest expense (income) for the period on the net defined benefit liability (asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) at the beginning of the annual period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest expense (income) includes interest cost on the defined benefit obligation net of a theoretical return on the plan assets, both calculated using the discount rate applied in the determination of the defined benefit obligation.

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.

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.

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.

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 center 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 619 branches in Portugal and with branches in London, New York, Spain (28 branches), Nassau, Cayman Islands, Cape Verde, Venezuela, Luxembourg and Madeira Free Zone and 10 representation offices – with BES Investmento (investment banking); BES Angola (61 branches); BES Açores (17 branches); Banco BEST (10 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 Center. 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 center), 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:

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 centers 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 centers. 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 of BES. 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 and 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 business segment covers the activities undertaken by BES Vida, which sells traditional insurance, annuity and retirement savings plans targeted at customers of BES Group.

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 centers. 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)

	Period of 9 months ended as at 30.09.2013									
	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	334 790	258 031	88 326	336 195	62 643	1 440	113 150	(427 365)	-	767 210
Other operating income	164 458	203 061	22 398	81 793	113 733	42 313	200 619	(188 403)	-	639 972
Total operating income	499 248	461 092	110 724	417 988	176 376	43 753	313 769	(615 768)	-	1 407 182
Operating expenses	336 010	538 080	16 798	357 003	162 402	13 985	9 012	369 439	110 762	1 913 491
Includes:										
Provisions/Impairment	*47 316*	*493 594*	*4 085*	*165 227*	*35 226*	*1 173*	*417*	*321 661*	*-*	*1 068 699*
Gains on disposal of investments in subsidiaries and associates	-	-	-	-	-	-	-	-	-	-
Share of profit of associates	-	-	-	200	500	-	-	2 506	-	3 206
Profit before income tax and non-controlling interests	**163 238**	**(76 988)**	**93 926**	**61 185**	**14 474**	**29 768**	**304 757**	**(982 701)**	**(110 762)**	**(503 103)**
Intersegment operating income										*-*
Total Net Assets	**15 295 391**	**21 727 103**	**1 745 553**	**23 021 014**	**6 283 275**	**211 503**	**7 609 237**	**3 961 848**	**-**	**79 854 924**
Total Liabilities	**15 043 703**	**21 804 091**	**1 651 670**	**21 353 807**	**5 609 286**	**28 004**	**7 198 878**	**86 939**	**-**	**72 776 378**
Investments in associates	-	-	-	8 693	58 460	-	-	471 934	-	539 087

(in thousands of euro)

	Period of 9 months ended as at 30.09.2012									
	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	286 162	188 778	62 230	226 025	75 317	2 483	77 874	(12 066)	-	906 803
Other operating income	178 612	209 117	16 139	209 731	115 979	44 236	55 824	198 593	-	1 028 231
Total operating income	464 774	397 895	78 369	435 756	191 296	46 719	133 698	186 527	-	1 935 034
Operating expenses	366 167	420 088	15 983	243 725	161 060	14 102	8 376	248 227	119 846	1 597 574
Includes:										
Provisions/Impairment	*55 433*	*373 530*	*2 583*	*76 574*	*30 878*	*1 149*	*3 002*	*209 144*	*-*	*752 293*
Gains on disposal of investments in subsidiaries and associates	-	-	-	-	(6)	-	-	(246)	-	(252)
Gains arising on business combinations achieved in stages	-	-	-	-	-	-	-	(89 586)	-	(89 586)
Share of profit of associates	-	-	-	180	384	-	-	8 207	-	8 771
Profit before income tax and non-controlling interests	**98 607**	**(22 193)**	**62 386**	**192 211**	**30 614**	**32 617**	**125 322**	**(143 325)**	**(119 846)**	**256 393**
Intersegment operating income	*4 870*	*20 281*	*7*	*89 173*	*(10 642)*	*(7 889)*	*(299)*	*(74 947)*	*-*	*20 554*
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

* - Amounts refer to the year ended as at 31 December 2012

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

(in thousands of euro)

	30.09.2013										
	Portugal	Spain	France / Luxembourg	United Kingdom	United States of America	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit for the period	(411 818)	(29 032)	6 394	25 434	7 410	6 439	14 640	1 321	3 501	(5 247)	(380 958)
Net assets	54 333 974	5 689 920	945 635	5 122 233	1 010 344	2 454 393	8 440 798	204 207	378 469	1 274 951	79 854 924
Capital expenditure (Property and equipment)	6 512	2 147	-	684	125	3 994	55 342	3	-	342	69 149
Capital expenditure (Intangible assets)	17 862	2 129	-	515	25	750	143	321	181	3 139	25 065

(in thousands of euro)

	30.09.2012										
	Portugal	Spain	France / Luxembourg	United Kingdom	United States of America	Brazil	Angola	Cape Verde	Macao	Other	**Total**
Net profit for the period	(1 402)	20 871	3 355	16 374	4 490	9 904	39 662	1 907	3 104	(7 849)	90 416
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

* - Amounts refer to the year ended as at 31 December 2012

NOTE 5 – NET INTEREST INCOME

This balance is analysed as follows:

(in thousands of euro)

	Period of nine months ended as at	
	30.09.2013	30.09.2012
Interest and similar income		
Interest from loans and advances	1 745 706	1 917 925
Interest from financial assets at fair value through profit or loss	188 904	194 149
Interest from deposits with banks	43 715	51 201
Interest from available-for-sale financial assets	285 956	443 127
Interest from held-to-maturity financial assets	303 823	361 519
Interest from derivatives for risk management purposes	34 416	37 081
Other interest and similar income	16 001	20 519
	2 618 521	**3 025 521**
Interest expense and similar charges		
Interest from debt securities	620 820	645 465
Interest from amounts due to customers	761 100	805 641
Interest from deposits from central banks and other banks	261 625	328 611
Interest from subordinated debt	148 337	276 586
Interest from derivatives for risk management purposes	52 828	53 263
Other interest expense and similar charges	6 601	9 152
	1 851 311	**2 118 718**
	767 210	**906 803**

Interest from loans and advances includes an amount of euro 77 703 thousands (30 September 2012: euro 56 904 thousands) 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)

	Period of nine months ended as at	
	30.09.2013	30.09.2012
Fee and commission income		
From banking services	339 867	429 817
From guarantees granted	198 440	169 171
From transactions with securities	49 317	47 413
From commitments assumed to third parties	18 901	27 144
Other fee and commission income	52 025	69 028
	658 550	**742 573**
Fee and commission expenses		
From banking services rendered by third parties	63 580	63 096
From transactions with securities	16 356	22 794
From guarantees received	54 455	43 275
Other fee and commission expenses	14 502	12 897
	148 893	**142 062**
	509 657	**600 511**

Fee and commission expenses from guarantees received includes as at 30 September 2013, the amount of euro 45.3 million (30 September 2012: euro 42.4 million) related with the guarantees received from the Portuguese government in relation with the debt issued by the Group.

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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)

	Period of nine months ended as at					
	30.09.2013			30.09.2012		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Bonds and other fixed income securities						
Issued by government and public entities	70 471	140 324	(69 853)	447 639	258 094	189 545
Issued by other entities	10 798	11 014	(216)	8 237	24 997	(16 760)
Shares	36 649	48 402	(11 753)	32 532	42 528	(9 996)
Other variable income securities	451	183	268	241	269	(28)
	118 369	**199 923**	**(81 554)**	**488 649**	**325 888**	**162 761**
Derivative financial instruments						
Exchange rate contracts	2 226 978	2 248 793	(21 815)	892 210	905 114	(12 904)
Interest rate contracts	4 471 866	4 576 448	(104 582)	4 227 691	4 154 624	73 067
Equity/Index contracts	1 932 666	1 914 512	18 154	846 870	838 796	8 074
Credit default contracts	400 404	430 837	(30 433)	573 259	596 648	(23 389)
Other	20 914	15 744	5 170	44 840	12 228	32 612
	9 052 828	**9 186 334**	**(133 506)**	**6 584 870**	**6 507 410**	**77 460**
	9 171 197	**9 386 257**	**(215 060)**	**7 073 519**	**6 833 298**	**240 221**
Financial assets at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	14 482	6 931	7 551	41 966	6 574	35 392
Issued by other entities	37 737	28 671	9 066	87 820	23 110	64 710
Shares	6 420	5 776	644	107	4 299	(4 192)
Other variable income securities	74 642	68 707	5 935	71 753	162 361	(90 608)
	133 281	**110 085**	**23 196**	**201 646**	**196 344**	**5 302**
Other financial assets(1)	34 855	10 727	24 128	16 659	17 462	(803)
Financial liabilities(1)	202 728	235 605	(32 877)	232 982	493 269	(260 287)
	370 864	**356 417**	**14 447**	**451 287**	**707 075**	**(255 788)**
	9 542 061	**9 742 674**	**(200 613)**	**7 524 806**	**7 540 373**	**(15 567)**

(1) Includes the fair value change of hedged assets and liabilities or at fair value option.

As at 30 September 2013, this balance includes a negative effect of euro 29.0 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 (30 September 2012: negative effect of euro 2.0 million).

NOTE 8 – NET GAINS FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

This balance is analysed as follows:

(in thousands of euro)

	Period of nine months ended as at					
	30.09.2013			30.09.2012		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by government and public entities	247 098	19 395	227 703	544 101	25 206	518 895
Issued by other entities	7 039	5 692	1 347	64 656	38 057	26 599
Shares	32 672	3 569	29 103	42 350	249 482	(207 132)
Other variable income securities	12 236	6 405	5 831	6 708	12 709	(6 001)
	299 045	**35 061**	**263 984**	**657 815**	**325 454**	**332 361**

During the nine month period ended 30 September 2013, the Group sold at market prices through the overall stock exchange 13.4 million ordinary shares of EDP. These transactions generated a realised net gains of euro 10.3 million.

During the nine month period ended 30 September 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 an aggregate realised net loss of euro 224.9 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)

	Period of nine months ended as at					
	30.09.2013			30.09.2012		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange translation	695 404	691 907	3 497	815 249	819 462	(4 213)
	695 404	**691 907**	**3 497**	**815 249**	**819 462**	**(4 213)**

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 thousands of euro)

	Period of nine months ended as at	
	30.09.2013	30.09.2012
Loans and advances to customers	(6 335)	(25 424)
Non current assets held for trade	607	(2 783)
Other	2 744	(5 973)
	(2 984)	**(34 180)**

As at 30 September 2012, Loans and advances to customers include a loss of euro 20.1 million related to the sale of euro 178.0 million of credits realized within the deleverage program of the Group. During the nine month period ended 30 September 2013 the Group did not register any material gains or losses.

NOTE 11 – INSURANCE EARNED PREMIUMS, NET OF REINSURANCE

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

(in thousands of euro)

	Period of nine months ended as at	
	30.09.2013	30.09.2012
Gross written premiums	147 314	41 810
Reinsurance premiums ceded	(42 281)	(1 498)
Net premiums written	105 033	40 312
Change in the provision for unearned premiums, net of reinsurance	157	(216)
Earned premiums, net of reinsurance	105 190	40 096

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

(in thousands of euro)

	Period of nine months ended as at	
	30.09.2013	30.09.2012
Annuities	-	217
Risk contracts	44 526	24 865
Saving contracts with profit sharing	102 788	16 728
	147 314	41 810

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)
	Period of nine months ended as at	
	30.09.2013	30.09.2012
Claims paid		
Gross amount	(186 433)	(239 468)
Reinsurance share	3 144	1 604
	(183 289)	(237 864)
Change in claims outstanding reserve		
Gross amount	8 752	563
Reinsurance share	2 181	318
	10 933	881
	(172 356)	(236 983)

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)
	Period of nine months ended as at	
	30.09.2013	30.09.2012
Mathematical reserves	33 460	195 035
Reserve for participating features	(1 108)	(2 109)
Other technical reserves	157	2 851
Reserve for reinsurance	5 744	1 031
Commissions and participating features from reinsurance	184 878	-
	223 131	196 808

Commissions and reinsurance profit sharing includes the net upfront fee, resulting from the signing of a reinsurance treaty in which BES Vida reinsures the life insurance risk portfolio at 100%, including all insurance policies in force as at 30 June 2013.

From this date, BES Vida will cede to the reinsurer all premiums and claims associated with the policies included in this treaty. The Company will perform the servicing of these contracts, as well as the distribution of the respective products.

Under this treaty, BES Vida received an upfront fee, having transferred all the risks and benefits associated with these contracts. On that basis, the risk of (i) life, (ii) disability, and (iii) cancellation of contracts were transferred. As such the upfront fee is recognized on the present date, net of the respective in Value in force of the portfolio recognized as an asset, at the date of acquisition of BES Vida (see notes 31 and 54).

NOTE 14 – OTHER OPERATING INCOME AND EXPENSES

This balance is analysed as follows:

(in thousands of euro)

	Period of nine months ended as at	
	30.09.2013	30.09.2012
Other operating income / (expenses)		
IT related business	2 047	4 573
Gains on repurchase of Group debt securities (see Notes 38 and 42)	(8 667)	90 451
Non recurring gains on credit operations	7 570	16 522
Non recurring gains on advisory services	1 906	3 794
Direct and indirect taxes	(12 229)	(11 720)
Other operating expenses resulting from the activity of held for sale companies	(52 779)	6 943
Contributions to the deposits guarantee fund	(9 484)	(7 534)
Contribution for the Resolution Fund	(7 697)	-
Contributions to the banking sector	(19 456)	(20 933)
Membership and donations	(5 032)	(6 572)
Other	(41 236)	2 946
	(145 057)	78 470

NOTE 15 – STAFF COSTS

This balance is analysed as follows:

(in thousands of euro)

	Period of nine months ended as at	
	30.09.2013	30.09.2012
Wages and salaries	327 347	336 533
Remuneration	325 518	333 805
Long-term service benefits (see Note 16)	1 829	2 728
Mandatory social charges	71 712	74 432
Pension costs (see Note 16)	12 764	10 096
Other costs	17 717	18 755
	429 540	**439 816**

As at 30 September 2013, other costs include the amount of euro 694 thousands (30 September 2012: euro 1 126 thousands) related with the variable remuneration plan on financial instruments (PRVIF) of BES in accordance with the accounting policy described in Note 2.16. The details of this plan implemented by the Group are presented in Note 16.

As at 30 September 2013 and 2012, the number of employees of the Group is analysed as follows:

	30.09.2013	30.09.2012
BES employees	6 627	6 689
Financial sector subsidiaries employees	3 482	3 207
Financial sector group entities employees	**10 109**	**9 896**

NOTE 16 – EMPLOYEE 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.

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 transferred to the Social Security.

The periodic costs can be analysed as follows:

(in thousands of euro)

	Period of nine months ended as at	
	30.09.2013	**30.09.2012**
Service cost	12 764	12 910
Interest cost	980	(2 814)
Net benefit cost	**13 744**	**10 096**

In compliance with the previously mentioned on the Note 2.16, from 1st of January 2013 and following the revision of IAS 19 – Employees Benefits, the income/expenses from interest became to be recognised by their net value under the interest (income/expense) and similar caption.

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.

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 2013, the Group registered, against liabilities, a cost of euro 694 thousands (30 September 2012: euro 1 126 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 30 September 2013 and 31 December 2012, the Group's liabilities regarding this benefits amount to euro 28 120 thousands and euro 28 691 thousands, respectively (see Note 43). The costs incurred in the first nine months of 2013 with long-term service benefits amounted to euro 1829 thousands (30 September 2012: euro 2 728 thousands).

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)

	Period of nine months ended as at	
	30.09.2013	**30.09.2012**
Rental costs	56 814	54 321
Advertising costs	20 299	25 542
Communication costs	33 637	34 553
Maintenance and related services	17 606	16 582
Travelling and representation costs	24 271	22 427
Transportation	5 578	6 134
Insurance costs	6 589	6 364
IT services	47 570	49 076
Independent work	6 120	5 910
Temporary work	3 472	3 778
Electronic payment systems	8 105	9 323
Legal costs	14 105	13 404
Consultants and external auditors	23 967	16 957
Water, energy and fuel	9 098	8 813
Consumables	3 943	4 552
Other costs	54 307	47 206
	335 481	**324 942**

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

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)

	Period of nine months ended as at 30.09.2013	Year ended as at 31.12.2012	Period of nine months ended as at 30.09.2012
Profit attributable to the equity holders of the Bank [1]	(397 206)	92 578	80 492
Weighted average number of ordinary shares (thousands)	4 017 928	3 096 971	2 789 985
Weighted average number of treasury stock (thousands)	(978)	(11 910)	(11 664)
Weighted average number of ordinary shares outstanding (thousands)	4 016 950	3 085 061	2 778 321
Basic earnings per share attributable to equity holders of the Bank (in euro)	(0.10)	0.03	0.03

[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 30 September 2013 and 31 December 2012, this balance is analysed as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Cash	220 752	303 538
Deposits at central banks		
Bank of Portugal	81 402	26 136
Other central banks	716 248	1 047 867
Sub-Total	797 650	1 074 003
Total	**1 018 402**	**1 377 541**

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 80 020 thousands (31 December 2012: euro 26 136 thousands). 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. As at 30 September 2013 these deposits have earned interest at an average rate of 0.61% (31 December 2012: 0.89%).

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 30 September 2013, was included in the observation period from 11 September 2013 to 8 October 2013, which corresponded to an average minimum cash requirements of euro 277.8 million.

NOTE 20 – DEPOSITS WITH BANKS

As at 30 September 2013 and 31 December 2012, this balance is analysed as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Deposits with banks in Portugal		
Repayable on demand	231 332	138 854
Uncollected cheques	179 378	107 354
	410 710	**246 208**
Deposits with banks abroad		
Repayable on demand	338 524	392 183
Uncollected cheques	7 239	8 962
Other	31 177	33 724
	376 940	**434 869**
	787 650	**681 077**

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 30 September 2013 and 31 December 2012, this balance is analysed as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	1 065 928	1 347 806
Issued by other entities	322 415	259 203
Shares	29 632	51 911
Other variable income securities	746	2 014
	1 418 721	**1 660 934**
Derivatives		
Derivative financial instruments with positive fair value	1 543 457	2 264 465
	2 962 178	**3 925 399**
Financial liabilities held for trading		
Derivative financial instruments with negative fair value	1 424 201	2 121 229
Short sales	4 642	796
	1 428 843	**2 122 025**

As at 30 September 2013 and 31 December 2012 the analysis of the securities held for trading by the period to maturity, is presented as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Up to 3 months	53 143	138 710
3 to 12 months	139 884	130 677
1 to 5 years	1 032 893	757 798
More than 5 years	162 426	576 127
Undetermined	30 375	57 622
	1 418 721	**1 660 934**

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.

As at 30 September 2013 and 31 December 2012, the exposure to peripheral Euro zone countries public debt is analysed in Note 51 - Risk Management.

As at 30 September 2013 and 31 December 2012, derivative financial instruments can be analysed as follows:

(in thousands of euro)

	30.09.2013			31.12.2012		
	Notional	Fair Value		Notional	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forward						
- buy	2 075 491	18 647	8 044	1 217 845	6 968	12 443
- sell	2 073 040			1 226 399		
Currency Swaps						
- buy	2 645 301	3 026	1 643	3 357 723	1 753	2 002
- sell	2 638 307			3 344 104		
Currency Futures [a)]	2 556 619	-	-	278 317	-	-
Currency Interest Rate Swaps						
- buy	61 676	15 519	12 986	118 945	25 690	18 343
- sell	63 369			115 406		
Currency Options	4 663 317	42 816	43 641	2 414 534	41 415	46 846
	16 777 120	**80 008**	**66 314**	**12 073 273**	**75 826**	**79 634**
Interest rate contracts						
Forward Rate Agreements	600 000	216	-	200 000	-	16
Interest Rate Swaps	25 512 470	1 333 378	1 201 503	30 649 333	1 953 058	1 812 560
Swaption - Interest Rate Options	87 000	96	96	363 000	1 556	1 556
Interest Rate Caps & Floors	3 469 466	28 867	27 717	4 918 557	40 843	38 562
Interest Rate Futures [a)]	4 379 999	-	-	3 784 771	-	-
Interest Rate Options	878 116	349	349	1 903 388	1 341	1 341
Future Options [a)]	7 226 951	-	-	-	-	-
	42 154 002	**1 362 906**	**1 229 665**	**41 819 049**	**1 996 798**	**1 854 035**
Contratos sobre ações/indices						
Equity / Index Swaps	1 054 643	32 982	36 366	664 516	86 202	24 936
Equity / Index Options	928 996	24 988	71 166	2 712 479	60 726	131 146
Equity / Index Futures [a)]	36 341	-	-	96 583	-	-
Future Options [a)]	380 010	-	-	82 234	-	-
	2 399 990	**57 970**	**107 532**	**3 555 812**	**146 928**	**156 082**
Credit default contracts						
Credit Default Swaps	1 497 549	42 573	20 690	2 774 780	44 913	31 478
Total	**62 828 661**	**1 543 457**	**1 424 201**	**60 222 914**	**2 264 465**	**2 121 229**

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

As at 30 September 2013 and 31 December 2012, the analysis of trading derivatives by the period to maturity is presented as follows:

(in thousands of euro)

	30.09.2013		31.12.2012	
	Notional	Fair value (net)	Notional	Fair value (net)
Up to 3 months	21 036 740	(1 596)	13 956 784	71 133
3 to 12 months	8 327 977	(4 218)	9 998 962	(46 401)
1 to 5 years	18 439 351	38 380	18 719 605	21 460
More than 5 years	15 024 593	86 690	17 547 563	97 044
	62 828 661	**119 256**	**60 222 914**	**143 236**

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

This balance is analysed as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Bonds and other fixed income securities		
Issued by government and public entities	1 199 290	515 994
Issued by other entities	1 344 215	1 118 425
Shares and other variable income securities	1 214 537	1 187 134
	3 758 042	**2 821 553**

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 30 September 2013 and 31 December 2012, the analysis of the financial assets at fair value through profit or loss by the period to maturity is presented as follows:

NOTE 23 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 30 September 2013 and 31 December 2012, 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	6 882 130	14 399	(71 234)	-	6 825 295
Issued by other entities	2 519 292	49 513	(63 696)	(29 499)	2 475 610
Shares	1 530 012	125 721	(60 957)	(192 763)	1 402 013
Other variable income securities	1 429 179	15 466	(16 093)	(64 119)	1 364 433
Balance as at 30 september 2013	**12 360 613**	**205 099**	**(211 980)**	**(286 381)**	**12 067 351**
Bonds and other fixed income securities					
Issued by government and public entities	4 405 389	-	-	-	4 405 389
Issued by other entities	3 887 038	266 574	(79 726)	(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**

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

As at 30 September 2013, 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 changes occurred in impairment losses of available-for-sale financial assets are presented as follows:

(in thousands of euro)

	Period of nine months ended as at 30.09.2013	Period of three months ended as at 31.12.2012	Period of nine months ended as at 30.09.2012
Balance at the beginning of the period	237 967	198 207	168 282
Charge for the period	103 984	66 134	37 099
Charge off	(42 373)	(23 257)	(5 169)
Write back for the period	(11 024)	(1 586)	(2 339)
Exchange differences and other	(2 173)	(1 531)	334
Balance at the end of the period	**286 381**	**237 967**	**198 207**

As at 30 September 2013 and 31 December 2012, the analysis of available-for-sale assets by the period to maturity is presented as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Up to 3 months	2 099 189	2 859 487
3 to 12 months	1 879 748	1 263 814
1 to 5 years	2 435 837	1 227 774
More than 5 years	3 093 140	3 114 316
Undetermined	2 559 437	2 289 919
	12 067 351	10 755 310

The main equity exposures that contribute to the fair value reserve, as at 30 September 2013 and 31 December 2012, can be analysed as follows:

(in thousands of euro)

30.09.2013					
Description	**Acquisition cost**	**Fair value reserve**		**Impairment**	**Book value**
		Positive	**Negative**		
Portugal Telecom	346 678	-	(46 836)	-	299 842
EDP- Energias de Portugal	147 933	49 670	-	-	197 603
Banque Marocaine du Commerce Extérieur	81 004	3 295	-		84 299
	575 615	**52 965**	**(46 836)**	-	**581 744**

(in thousands of euro)

Description	31.12.2012				
	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**

During the first nine months of 2013, the Group sold at market prices 13.4 million ordinary shares of EDP. These transactions generated a realised net gain of euro 10.3 million.

During the first semester of 2012, the Group sold at market prices through the overall stock exchange 92.9 million ordinary shares of EDP and 113.0 million ordinary shares of Portugal Telecom. These transactions generated an aggregate realised net loss of euro 181.2 million.

NOTE 24 – LOANS AND ADVANCES TO BANKS

As at 30 September 2013 and 31 December 2012, this balance is analysed as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Loans and advances to banks in Portugal		
Deposits at central banks	199 998	3 350 000
Deposits at other banks	15 633	39 372
Loans	114 137	127 581
Very short term deposits	22 694	34 085
Other loans and advances	5 010	84 474
	357 472	**3 635 512**
Loans and advances to banks abroad		
Deposits	141 686	833 223
Very short term deposits	101 926	148 696
Loans	398 302	703 798
Other loans and advances	106 002	105 653
	747 916	**1 791 370**
Impairment losses	(272)	(364)
	1 105 116	**5 426 518**

The main loans and advances to banks in Portugal, as at 30 September 2013, bear interest at an average annual interest rate of 1.46% (31 December 2012: 1.73%). The main loans and advances to banks abroad bear interest at an average annual interest rate of 0.24%.

As at 30 September 2013 and 31 December 2012, the analysis of loans and advances to banks by the period to maturity is presented as follows:

(in thousands of euro)	30.09.2013	31.12.2012
Up to 3 months	700 060	5 063 107
3 to 12 months	132 375	96 652
1 to 5 years	21 897	79 623
More than 5 years	251 032	187 427
Undetermined	24	73
	1 105 388	**5 426 882**

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

(in thousands of euro)	Period of nine months ended as at 30.09.2013	Period of three months ended as at 31.12.2012	Period of nine months ended as at 30.09.2012
Balance at the beginning of the period	364	398	219
Charge for the period	133	158	1 208
Write back for the period	(220)	(181)	(1 026)
Exchange differences and other	(5)	(11)	(3)
Balance at the end of the period	**272**	**364**	**398**

NOTE 25 – LOANS AND ADVANCES TO CUSTOMERS

As at 30 September 2013 and 31 December 2012, this balance is analysed as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Domestic loans		
Corporate		
Loans	12 775 983	12 605 085
Commercial lines of credits	4 910 275	5 247 361
Finance leases	2 293 776	2 560 544
Discounted bills	329 391	454 624
Factoring	1 110 950	1 412 476
Overdrafts	45 396	76 303
Other loans	128 288	310 168
Retail		
Mortgage loans	9 790 148	10 067 167
Consumer and other loans	1 533 497	1 726 910
	32 917 704	**34 460 638**
Foreign loans		
Corporate		
Loans	9 169 319	8 593 536
Commercial lines of credits	2 049 913	2 181 087
Finance leases	68 662	69 732
Discounted bills	55 007	145 877
Factoring	42 344	52 494
Overdrafts	649 531	581 680
Other loans	275 353	458 646
Retail		
Mortgage loans	994 706	964 525
Consumer and other loans	750 779	705 091
	14 055 614	**13 752 668**
Overdue loans and interest		
Up to 3 months	207 661	219 416
From 3 months to 1 year	788 200	608 075
From 1 to 3 years	1 260 311	791 568
More than 3 years	748 230	566 369
	3 004 402	**2 185 428**
	49 977 720	**50 398 734**
Impairment losses	(3 306 735)	(2 692 342)
	46 670 985	**47 706 392**

As at 30 September 2013, the balance loans and advances to customers (net of impairment) includes an amount of euro 3 371.4 million (31 December 2012: euro 3 803.3 million) related to securitised loans following the consolidation of the securitisation vehicles (see Notes 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 30 September 2013, loans and advances include euro 5 556.0 million of mortgage loans that collateralise the issue of covered bonds (31 December 2012: euro 5 605.1 million) (see Note 38).

As at 30 September 2013 and 31 December 2012, the analysis of loans and advances to customers by the period to maturity is presented as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Up to 3 months	7 736 593	7 932 875
3 to 12 months	5 243 345	6 143 518
1 to 5 years	10 192 461	10 058 945
More than 5 years	23 800 919	24 077 968
Undetermined	3 004 402	2 185 428
	49 977 720	**50 398 734**

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

(in thousands of euro)

	Period of nine months ended as at 30.09.2013	Period of three months ended as at 31.12.2012	Period of nine months ended as at 30.09.2012
Balance at the beginning of the period	2 692 342	2 577 118	2 167 444
Charge for the period	1 101 254	264 029	752 124
Charge off	(92 676)	(59 004)	(149 490)
Write back of the period	(321 726)	(68 048)	(133 273)
Unwind of discount	(77 703)	(21 386)	(56 904)
Exchange differences and other	5 244	(367)	(2 783)
Balance at the end of the period	**3 306 735**	**2 692 342**	**2 577 118**

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 30 September 2013 and 31 December 2012, the detail of loans and advances to customers and impairment losses can be analysed as follows:

(in thousands of euro)

	30.09.2013						
	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	13 141 013	2 731 028	23 452 564	182 847	36 593 577	2 913 875	33 679 702
Mortgage loans	2 282 676	165 824	8 610 773	8 922	10 893 449	174 746	10 718 703
Consumers loans - other	553 583	182 240	1 937 111	35 874	2 490 694	218 114	2 272 580
Total	15 977 272	3 079 092	34 000 448	227 643	49 977 720	3 306 735	46 670 985

(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

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 first nine months of 2013 in relation to these loans amounted to euro 545.0 million (31 December 2012: euro 825.4 million), which includes the effect of the unwind of discount in connection with overdue loans.

The Group requires that some credit operations be collateralised, in order to mitigate credit risk. The most common types 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)

	30.09.2013		31.12.2012	
	Credit Value	Fair Value collateral	Credit Value	Fair Value collateral
Mortgage loans				
Mortgages	10 701 497	10 676 804	10 951 831	10 930 789
Pawns	3 659	3 480	4 739	4 570
Not collateralised	188 293	-	177 252	-
	10 893 449	10 680 284	11 133 822	10 935 359
Individuals loans				
Mortgages	302 236	284 289	310 561	291 897
Pawns	397 620	303 688	585 020	388 748
Not collateralised	1 790 838	-	1 732 199	-
	2 490 694	587 977	2 627 780	680 645
Companies loans				
Mortgages	9 248 082	8 207 713	10 034 387	9 122 921
Pawns	4 931 777	3 264 469	6 884 077	3 562 838
Not collateralised	22 413 718	-	19 718 668	-
	36 593 577	11 472 182	36 637 132	12 685 759
Total	**49 977 720**	**22 740 443**	**50 398 734**	**24 301 763**

NOTE 26 – HELD-TO-MATURITY INVESTMENTS

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

(in thousands of euro)

	30.09.2013	31.12.2012
Bonds and other fixed income securities		
Issued by government and public entities	340 079	295 271
Issued by other entities	919 315	685 389
	1 259 394	**980 660**
Impairment losses	(25 546)	(39 111)
	1 233 848	**941 549**

As at 30 September 2013 and 31 December 2012, the analysis of held-to-maturity investments by the period to maturity is presented as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Up to 3 months	291 748	14 715
3 to 12 months	32 848	175 566
1 to 5 years	418 948	230 854
More than 5 years	515 850	559 525
	1 259 394	**980 660**

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

NOTE 27 – DERIVATIVES FOR RISK MANAGEMENT PURPOSES

As at 30 September 2013 and 31 December 2012, the fair value of the derivatives for risk management purposes can be analysed as follows:

(in thousands of euro)

	30.09.2013			31.12.2012		
	Hedging	Risk management	Total	Hedging	Risk management	Total
Derivatives for risk management purposes						
Derivatives for risk management purposes - assets	127 770	238 809	366 579	153 897	362 623	516 520
Derivatives for risk management purposes - liabilities	(64 218)	(70 422)	(134 640)	(43 581)	(81 618)	(125 199)
	63 552	**168 387**	**231 939**	**110 316**	**281 005**	**391 321**
Fair value component of assets and liabilities being hedged						
Financial assets						
Loans and advances to customers	46 398	-	46 398	22 391	-	22 391
	46 398	-	**46 398**	**22 391**	-	**22 391**
Financial liabilities						
Deposits from banks	(52 529)	-	(52 529)	(67 996)	-	(67 996)
Due to customers	(587)	(61 023)	(61 610)	(787)	(90 099)	(90 886)
Debt securities issued	(23 200)	42 153	18 953	(38 472)	47 631	9 159
	(76 316)	**(18 870)**	**(95 186)**	**(107 255)**	**(42 468)**	**(149 723)**
	(29 918)	**(18 870)**	**(48 788)**	**(84 864)**	**(42 468)**	**(127 332)**

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).

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 30 September 2013, the ineffectiveness of the fair value hedge operations amounted to euro 9.0 million (30 September 2012: income of euro 0.2 million) and was recognised in the income statement. BES Group evaluates on an ongoing basis the effectiveness of the hedges.

As at 30 September 2013, the fair value of the financial liabilities at fair value through profits and losses, includes a negative cumulative effect of euro 138.1 million (31 December 2012: positive cumulative effect of euro 167.1 million) attributable to the Group’s own credit risk.

As at 30 September 2013 and 31 December 2012, the analysis of derivatives for risk management purposes by the period to maturity is presented as follows:

(in thousands of euro)

	30.09.2013		31.12.2012	
	Notional	Fair Value	Notional	Fair Value
Up to 3 months	981 719	2 003	1 674 024	13 571
3 to 12 months	9 525 677	41 825	2 361 702	25 889
1 to 5 years	5 502 386	100 856	7 205 288	205 686
More than 5 years	1 208 934	87 255	984 230	146 175
	17 218 716	**231 939**	**12 225 244**	**391 321**

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

As at 30 September 2013 and 31 December 2012, this balance is analysed as follows:

(in thousands of euro)

	30.09.2013		31.12.2012	
	Assets	Liabilities	Assets	Liabilities
Assets and liabilities of subsidiaries acquired exclusively for resale purposes	**686 744**	**152 660**	**731 767**	**175 945**
Property held for sale	3 249 047	-	2 843 378	-
Equipment	15 467	-	2 524	-
Other	6 600	-	3 501	-
	3 271 114	-	2 849 403	-
Impairment losses	(430 512)		(303 630)	
	2 840 602	-	**2 545 773**	-
	3 527 346	**152 660**	**3 277 540**	**175 945**

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.

As at 30 September 2013, the amount of property held for sale includes euro 20 915 thousands (31 December 2012: euro 21 598 thousands) related to discontinued branches, in relation to which the Group recognised an impairment loss amounting to euro 10 585 thousands (31 December 2012: euro 11 193 thousands).

The changes occurred in impairment losses are presented as follows:

(in thousands of euro)

	Period of nine months ended as at	Period of three months ended as at	Period of nine months ended as at
	30.09.2013	31.12.2012	30.09.2012
Balance at the beginning of the period	303 630	173 840	181 449
Changes in the consolidation scope	-	116 654	-
Charge/ Write back of the period	196 480	7 865	32 313
Charge off	(85 478)	2 508	(32 172)
Exchange differences and others	15 880	2 763	(7 750)
Balance at the end of the period	**430 512**	**303 630**	**173 840**

The changes occurred during the period ended as at 30 September 2013 and 31 December 2012 in non-current assets held for sale (excluding the assets of subsidiaries acquired exclusively with the purpose of being sold in the short term), are presented as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Balance at the beginning of the period	2 849 403	1 536 884
Changes in the consolidation scope	115 971	530 343
Additions	562 382	996 260
Sales	(291 774)	(218 735)
Other	35 132	4 651
Balance at the end of the period	**3 271 114**	**2 849 403**

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.

The balance Net gains/(losses) from the sale of other assets – non-current assets held for sale includes a realized gain in the amount of 884 thousands (31 December 2012: loss of euro 5 914 thousands) as a result of the real estate sales occurred in the first nine months of 2013.

NOTE 29 – INVESTMENT PROPERTIES

The movement in investment properties for the period ended 30 September 2013 can be analysed as follows:

(thousands of euro)

	30.09.2013	31.12.2012
Balance at the beginning of the period	441 988	-
Change in the scope of consolidation [a)]	-	446 135
Improvements	323	748
Other	(46 072)	(4 895)
	396 239	441 988

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

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.

NOTE 30 – PROPERTY AND EQUIPMENT

As at 30 September 2013 and 31 December 2012, this balance is analysed as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Property		
For own use	486 544	472 650
Improvements in leasehold property	231 066	228 098
Other	643	1 139
	718 253	701 887
Equipment		
Computer equipment	295 646	308 497
Fixtures	140 968	142 759
Furniture	133 963	131 075
Security equipment	44 774	42 469
Office equipment	35 603	34 961
Motor vehicles	15 315	12 627
Other	1 986	6 135
	668 255	678 523
Other	621	624
	1 387 129	1 381 034
Work in progress		
Improvements in leasehold property	128	344
Property for own use	400 018	396 237
Equipment	2 194	2 092
Other	47	54
	402 387	398 727
	1 789 516	1 779 761
Accumulated depreciation	(857 463)	(848 139)
	932 053	931 622

The movement in this balance was as follows:

(in thousands of euros)

	Property	Equipment	Other	Work in progress	Total
Acquisition cost					
Balance as at 31 December 2011	**686 681**	**651 863**	**643**	**326 485**	**1 665 672**
Acquisitions	4 193	19 296	-	113 219	136 708
Disposals	(16 818)	(5 851)	-	-	(22 669)
Transfers **(a)**	17 122	2 199	-	(24 791)	(5 470)
Exchange differences and other **(b)**	13 664	3 946	(17)	(6 265)	11 328
Balance as at 30 September 2012	**704 842**	**671 453**	**626**	**408 648**	**1 785 569**
Acquisitions	1 217	8 319	-	2 556	12 092
Disposals	(3 473)	(6 714)	(16)	(850)	(11 053)
Transfers **(a)**	5 737	2 810		(9 801)	(1 254)
Exchange differences and other	(6 436)	2 655	14	(1 826)	(5 593)
Balance as at 31 December 2012	**701 887**	**678 523**	**624**	**398 727**	**1 779 761**
Acquisitions	17 962	16 969	-	34 218	69 149
Disposals	(4 386)	(23 535)	-	(3)	(27 924)
Transfers **(a)**	2 182	1 627	-	(5 810)	(2 001)
Exchange differences and other	608	(5 329)	(3)	(24 745)	(29 469)
Balance as at 30 September 2013	**718 253**	**668 255**	**621**	**402 387**	**1 789 516**
Depreciation					
Balance as at 31 December 2011	**288 649**	**525 076**	**269**	-	**813 994**
Depreciation	16 350	30 021	8	-	46 379
Disposals	(16 814)	(5 650)	-	-	(22 464)
Transfers **(a)**	(843)	(365)	-	-	(1 208)
Exchange differences and other **(b)**	(216)	2 453	(28)	-	2 209
Balance as at 30 September 2012	**287 126**	**551 535**	**249**	-	**838 910**
Depreciation	5 656	9 885	2	-	15 543
Disposals	(1 853)	(2 115)	-	-	(3 968)
Transfers **(a)**	(267)	(48)	-	-	(315)
Exchange differences and other	(309)	(1 768)	46	-	(2 031)
Balance as at 31 December 2012	**290 353**	**557 489**	**297**	-	**848 139**
Depreciation	16 077	28 535	7	-	44 619
Disposals	(4 386)	(23 535)	-	-	(27 921)
Transfers **(a)**	(478)	(198)	-	-	(676)
Exchange differences and other	(643)	(6 028)	(27)	-	(6 698)
Balance as at 30 September 2013	**300 923**	**556 263**	**277**	-	**857 463**
Net amount as at 30 September 2013	**417 330**	**111 992**	**344**	**402 387**	**932 053**
Net amount as at 31 December 2012	**411 534**	**121 034**	**327**	**398 727**	**931 622**
Net amount as at 30 September 2012	**417 716**	**119 918**	**377**	**408 648**	**946 659**

(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.

NOTE 31 – INTANGIBLE ASSETS

As at 30 September 2013 and 31 December 2012, this balance is analysed as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Goodwill	**312 226**	**313 665**
Value In Force [a]	-	**109 937**
Internally developed		
Software	68 250	58 186
Acquired to third parties		
Software	660 065	645 010
Other	937	951
	661 002	**645 961**
Work in progress	**33 793**	**33 701**
	1075 271	**1161 450**
Accumulated amortisation	(630 537)	(596 345)
Impairment losses	(9 715)	(9 779)
	435 019	**555 326**

[a] related to BES Vida; under the reinsurance operation of the life insurance portfolio, the remaining amount was booked under Other liabilities (see note 43)

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

(in thousands of euro)

	30.09.2013	31.12.2012
Subsidiaries		
BES Vida	234 574	234 574
ES Investment Holding [a]	47 404	48 567
ES Gestion	2 459	2 459
Aman Bank	16 046	16 046
Concordia	1 692	1 756
Others	2 158	2 370
Other cash-generating units		
Leasing e Factoring	7 893	7 893
	312 226	**313 665**
Impairment losses	(9 715)	(9 779)
	302 511	**303 886**

[a] Company that holds Execution Noble

In 2012, the Group acquired control of BES Vida and determined at acquisition date the fair value of the acquired assets and liabilities. The fair value of assets and liabilities included the amount of 107 768 thousands euros (76 515 thousands euros, net of tax) related to the value in force of life insurance individual risk portfolio, which was recognized as an intangible asset (see Note 54). This asset will be amortized over the remaining life of the acquired contracts.

However, considering the reinsurance treaty signed in 2013 and described in Note 13, which reinsures the entire portfolio of life insurance individual risk portfolio at 100%, including all policies in force in the Group as at 30 June 2013, transferring to the reinsurer all the risks and benefits associated with these contracts, the respective value in force in the net amount of 137 476 thousands euros was derecognised. The value in force of the remaining force acquired contracts, in the net amount of 25 380 thousands euros, possesses the nature of liability and, as such, was transferred to other liabilities (see Note 43).

The costs incurred by the Group unit specialized on the implementation of IT solutions, which will bring future economic benefits, are included in the intangible assets internally developed (see Note 2.14).

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 2011	**97 739**	**658 113**	**917**	**26 413**	**783 182**
Acquisitions:					
Internally developed	-	-	-	5 755	5 755
Acquired from third parties **(a)**	310 370	7 182	-	12 416	329 968
Disposals	-	(1 421)	-	(106)	(1 527)
Transfers	-	11 835	-	(11 835)	-
Exchange differences and other **(b) (c)**	(17 508)	9 792	35	(231)	(7 912)
Balance as at 30 September 2012	**390 601**	**685 501**	**952**	**32 412**	**1109 466**
Acquisitions:					
Internally developed	-	54	-	2 502	2 556
Acquired from third parties **(a)**	34 141	4 351	-	11 736	50 228
Disposals	-	7	-	3	10
Transfers	-	14 420	-	(14 420)	-
Exchange differences and other	(1 140)	(1 137)	(1)	1 468	(810)
Balance as at 31 December 2012	**423 602**	**703 196**	**951**	**33 701**	**1161 450**
Acquisitions:					
Internally developed	-	-	-	6 064	6 064
Acquired from third parties	-	6 568	-	12 433	19 001
Disposals **(d)**	(137 476)	(490)	-	-	(137 966)
Transfers **(d)**	25 380	17 325	-	(17 325)	25 380
Exchange differences and other	720	1 716	(14)	(1 080)	1 342
Balance as at 30 September 2013	**312 226**	**728 315**	**937**	**33 793**	**1075 271**
Amortisations					
Balance as at 31 December 2011	-	**542 344**	**878**	-	**543 222**
Amortisations of the period	-	34 110	35	-	34 145
Disposals	-	(1 322)	-	-	(1 322)
Exchange differences and other **(e)**	-	8 995	-	-	8 995
Balance as at 30 September 2012	-	**584 127**	**913**	-	**585 040**
Amortisations of the period	-	12 006	1	-	12 007
Disposals	-	4	-	-	4
Exchange differences and other	-	(707)	1	-	(706)
Balance as at 31 December 2012	-	**595 430**	**915**	-	**596 345**
Amortisations of the period	-	35 147	2	-	35 149
Disposals	-	(489)	-	-	(489)
Exchange differences and other	-	(468)	-	-	(468)
Balance as at 30 September 2013	-	**629 620**	**917**	-	**630 537**
Impairment					
Balance as at 31 December 2011	**9 628**	-	-	-	**9 628**
Exchange differences and other	138	-	-	-	138
Balance as at 30 September 2012	**9 766**	-	-	-	**9 766**
Exchange differences and other	13	-	-	-	13
Balance as at 31 December 2012	**9 779**	-	-	-	**9 779**
Exchange differences and other	(64)	-	-	-	(64)
Balance as at 30 September 2013	**9 715**	-	-	-	**9 715**
Net amount as at 30 September 2013	**302 511**	**98 695**	**20**	**33 793**	**435 019**
Net amount as at 31 December 2012	**413 823**	**107 766**	**36**	**33 701**	**555 326**
Net amount as at 30 September 2012	**380 835**	**101 374**	**39**	**32 412**	**514 660**

(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) Parcial sale of the VIF in relation to the control acquisition over BES Vida, under the reinsurance operation of the life insurance portfolio, the remaining amount was booked under Other liabilities (see Note 43)
(e) 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	
	30.09.2013	31.12.2012	30.09.2013	31.12.2012	30.09.2013	31.12.2012	30.09.2013	30.09.2012	30.09.2013	30.09.2012
BES VIDA	-	-	-	-	-	-	-	-	-	-
ES VÉNÉTIE	1 387 550	1 616 961	1 216 979	1 444 715	170 571	172 246	50 999	58 676	1 900	6 700
LOCARENT	258 198	285 740	247 309	277 404	10 889	8 336	63 829	71 164	964	2 000
BES SEGUROS	114 119	120 243	85 688	89 039	28 431	31 204	50 330	49 797	4 344	4 081
ESEGUR	36 601	39 121	24 209	28 526	12 392	10 595	37 695	42 472	1 095	400
FUNDO ES IBERIA	14 951	13 894	96	169	14 855	13 725	410	415	(27)	(20)
SCI GEORGES MANDEL	11 156	11 271	30	9	11 126	11 262	957	720	455	447
BRB INTERNACIONAL	13 576	12 883	12 739	12 407	837	476	1 048	854	(239)	(651)
AUTOPISTA PEROTE-XALAPA	-	650 179	-	521 167	-	129 012	-	-	-	(381)
ASCENDI GROUP	4 056 000	4 056 000	3 656 000	3 656 000	400 000	400 000	140 000	109 000	28 000	14 700
EMPARK	775 664	782 872	660 841	651 074	114 823	131 798	119 085	13 419	(1 820)	(3 524)
AUVISA - AUTOVIA DE LOS VIÑEDOS	216 000	216 000	222 000	222 000	(6 000)	(6 000)	14 000	7 665	(4 000)	(2 073)
UNICRE	308 384	305 005	177 432	179 941	130 952	125 064	151 182	169 428	10 863	8 133
MOZA BANCO	325 479	186 719	292 513	154 683	32 966	32 036	32 245	8 942	(1 010)	(2 855)
RODI SINKS & IDEAS	43 670	43 446	20 351	20 537	23 319	22 909	11 880	6 939	696	1 359

Note: Information adjusted for consolidation purposes

(in thousands of euro)

	Participation Cost			Economic Interest			Book Value			Share of profits of associates		
	30.09.2013	31.12.2012	30.09.2012	30.09.2013	31.12.2012	30.09.2012	30.09.2013	31.12.2012	30.09.2012	30.09.2013	31.12.2012	30.09.2012
BES VIDA **a)**	-	-	-	-	-	-	-	-	-	-	2 761	2 761
ES VÉNÉTIE	42 293	42 293	42 293	42.69%	42.69%	42.69%	72 957	73 672	72 235	811	4 403	2 860
LOCARENT	2 967	2 967	2 967	50.00%	50.00%	50.00%	5 755	4 478	4 181	482	1 298	1 000
BES SEGUROS	3 749	3 749	3 749	25.00%	25.00%	25.00%	7 105	7 798	6 706	1 086	1 743	1 020
ESEGUR	9 634	9 634	9 634	44.00%	44.00%	44.00%	12 296	11 506	11 420	482	262	176
FUNDO ES IBERIA	7 087	7 087	7 087	38.69%	38.67%	38.67%	7 062	5 649	5 662	507	261	276
SCI GEORGES MANDEL	2 401	2 401	2 401	22.50%	22.50%	22.50%	2 503	2 534	2 502	102	133	101
BRB INTERNACIONAL	10 659	10 659	10 659	25.00%	25.00%	25.00%	209	119	171	90	(216)	(164)
AUTOPISTA PEROTE-XALAPA **b)**	-	36 678	36 678	-	14.33%	14.33%	-	30 802	27 752	-	3 647	(103)
ASCENDI GROUP	179 772	179 772	179 772	28.66%	28.66%	28.66%	150 819	186 955	194 487	-	6 566	6 683
EMPARK **b)**	52 429	52 429	52 429	15.92%	15.92%	15.92%	47 771	50 090	51 029	(1 526)	(2 193)	(1 165)
AUVISA - AUTOVIA DE LOS VIÑEDOS	41 056	41 056	41 056	35.83%	35.83%	35.83%	34 792	34 792	34 463	-	(2 531)	(2 859)
UNICRE **b)**	11 497	11 497	11 497	17.50%	17.50%	17.50%	22 917	21 886	21 079	1 901	1 970	1 423
MOZA BANCO	37 647	12 791	11 893	49.00%	25.10%	25.10%	37 218	12 234	11 937	(279)	(826)	(717)
RODI SINKS & IDEAS	1 240	1 240	1 240	24.81%	24.81%	24.81%	8 349	8 129	7 912	220	194	97
Others	148 774	140 507	139 996				129 331	130 338	135 151	(671)	(9 160)	(2 618)
	551 205	**554 760**	**553 351**				**539 087**	**580 982**	**586 687**	**3 206**	**8 312**	**8 771**

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

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)

	30.09.2013	31.12.2012
Balance at the beginning of the period	580 982	806 999
Disposals	(63 403)	(58 905)
Acquisitions (see Note 1)	34 277	32 418
Share of profit of associates	3 206	8 312
Fair value reserve from investments in associates	-	43 084
Dividends received	(4 260)	(3 423)
Changes in the consolidation scope	-	(243 790)
Exchange differences and other	(11 715)	(3 713)
Balance at the end of the period	**539 087**	**580 982**

The changes in consolidation scope in 2012 arise from the full consolidation of BES Vida from 1 May 2012, which up to that date was included in the consolidated financial statements following the equity method (see Note 54).

NOTE 33 – TECHNICAL RESERVES

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

(in thousands of euro)

	30.09.2013			31.12.2012		
	Direct insurance	Reinsurance ceded	Total	Direct insurance	Reinsurance ceded	Total
Unearned premiums reserve	2 461	-	2 461	2 618	-	2 618
Life mathematical reserve	1 511 619	(5 873)	1 505 746	1 545 079	(129)	1 544 950
Claims outstanding reserve	24 158	(3 804)	20 354	27 447	(1 621)	25 826
Reserve for participating features	8 062	(34)	8 028	2 264	(2 054)	210
	1 546 300	(9 711)	1 536 589	1 577 408	(3 804)	1 573 604

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)

	30.09.2013			31.12.2012		
	Direct insurance	Reinsurance ceded	Total	Direct insurance	Reinsurance ceded	Total
Traditional	28 753	(5 873)	22 880	31 979	(129)	31 850
Saving contracts with profit sharing	1 482 866	-	1 482 866	1 513 100	-	1 513 100
	1 511 619	(5 873)	1 505 746	1 545 079	(129)	1 544 950

The claims outstanding reserve is analysed as follows:

(in thousands of euro)

	30.09.2013			31.12.2012		
	Direct insurance	Reinsurance ceded	Total	Direct insurance	Reinsurance ceded	Total
Traditional	13 898	(3 804)	10 094	14 316	(1 621)	12 695
Saving contracts with profit sharing	10 260	-	10 260	13 131	-	13 131
	24 158	(3 804)	20 354	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 434 thousands for claims incurred before 30 September 2013 (31 December 2012: euro 429 thousands), but not reported (IBNR).

The movements on the claims outstanding reserve of direct insurance business are analyzed as follows:

(in thousands of euro)

	30.09.2013			31.12.2012		
	Direct insurance	Reinsurance ceded	Total	Direct insurance	Reinsurance ceded	Total
Balance at the beginning of the period	**27 447**	**(1 621)**	**25 826**	-	-	-
Change in the scope of consolidation	-	-	-	30 194	(1 257)	28 937
Plus incurred claims						
Current year	73 543	354	73 897	362 235	(1 101)	361 134
Prior years	(12 323)	(11 289)	(23 612)	1 830	(117)	1 713
Less paid claims related to						
Current year	(60 111)	7 829	(52 282)	(361 834)	640	(361 194)
Prior years	(4 398)	923	(3 475)	(4 978)	214	(4 764)
Balance at the end of the period	**24 158**	**(3 804)**	**20 354**	**27 447**	**(1 621)**	**25 826**

The reserve for bonuses 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 bonuses and rebates for the period ended as at 30 September 2013 and 31 December 2012 is as follows:

(in thousands of euro)

	30.09.2013			31.12.2012		
	Direct insurance	Reinsurance ceded	Total	Direct insurance	Reinsurance ceded	Total
Balance at the beggining of the period	2 264	(2 054)	210	-	-	-
Changes in the scope of consolidation	-	-	-	1 326	(804)	522
Amounts paid	(559)	2 421	1 862	(170)	187	17
Estimated attributable amounts	6 357	(401)	5 956	1 108	(1 437)	(329)
Balance at the end of the period	8 062	(34)	8 028	2 264	(2 054)	210

As at 30 September 2013, the provision for rate commitments, which refers to the result obtained in the liability adequacy test, is null. This test was performed by taking in considerations the most accurate estimates at the date of the balance sheet, in compliance with the accounting policy mentioned in Note 3.

NOTE 34 – OTHER ASSETS

As at 30 September 2013 and 31 December 2012, the balance other asset is analysed as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Deposits placed with futures contracts	1 587 364	1 664 467
Recoverable government subsidies on mortgages loans	36 029	38 658
Public sector	162 702	144 697
Debtors from the insurance business	8 272	567
Sundry debtors	675 201	635 668
Accrued income	56 732	48 415
Deferred acquisition costs	132 869	114 766
Assets recognised on pensions	-	14 602
Gold, other precious metals, numismatics, and other liquid assets	9 937	10 834
Stock exchange transactions pending settlement	246 501	154 257
Other transactions pending settlement	125 889	216 216
Other assets	150 266	185 994
	3 191 762	**3 229 141**
Impairment losses	**(150 104)**	**(234 987)**
	3 041 658	**2 994 154**

Sundry debtors include loans to companies in which the Group has a non-controlling interest, as follows:

- euro 100 million related with loans to Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (31 December 2012: euro 100 million);
- euro 69.6 million of loans to entities within the Group's venture capital business, of which euro 48.5 million are provided for (31 December 2012: euro 67.2 million, of which euro 30.7 million were provided for); and
- 87.2 million of loans and junior securities following the transfer of loans/assets to companies and specialized funds, of which euro 83.4 million are provided for (31 December 2012: euro 94.3 million, of which euro 87.7 million were provided for).

As at 30 September 2013, the balance prepayments and deferred costs includes the amount of euro 75 817 thousands (31 December 2012: euro 64 901 thousands) 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)

	Period of nine months ended as at 30.09.2013	Period of three months ended as at 31.12.2012	Period of nine months ended as at 30.09.2012
Balance at the beginning of the period	234 987	95 430	47 861
Charge for the period	28 538	149 226	44 916
Charge off	(96 578)	(239)	(116)
Write back of the period	(2 165)	(5 401)	(8 026)
Other	(14 678)	(4 029)	10 795
Balance at the end of the period	**150 104**	**234 987**	**95 430**

NOTE 35 – DEPOSITS FROM CENTRAL BANKS

The balance deposits from central banks is analysed as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
From the European System of Central Banks		
Deposits	199 016	129 382
Other funds	9 350 000	10 150 000
	9 549 016	**10 279 382**
From other Central Banks		
Deposits	177 780	613 938
	177 780	**613 938**
	9 726 796	**10 893 320**

As at 30 September 2013, Other funds from the European System of Central Banks includes euro 9 358 million (31 December 2012: euro 10 156 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 National Bank.

As at 30 September 2013 and 31 December 2012 the analysis of deposits from banks by the period to maturity is presented as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Up to 3 months	605 609	150 206
1 to 5 years	9 121 187	10 743 114
	9 726 796	**10 893 320**

NOTE 36 – DEPOSITS FROM BANKS

The balance deposits from banks is analysed as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Domestic		
Deposits	440 817	383 720
Very short term funds	118 351	40 172
Repurchase agreements	-	66 579
Other funds	7 066	4 487
	566 234	**494 958**
International		
Deposits	699 067	504 679
Loans	2 844 960	2 315 433
Very short term funds	158 289	194 475
Repurchase agreements	888 490	1 311 162
Other funds	200 476	267 951
	4 791 282	**4 593 700**
	5 357 516	**5 088 658**

As at 30 September 2013 and 31 December 2012 the analysis of deposits from banks by the period to maturity is presented as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Up to 3 months	3 152 680	2 363 813
3 to 12 months	928 590	1 327 967
1 to 5 years	630 585	669 591
More than 5 years	645 661	727 287
	5 357 516	**5 088 658**

NOTE 37 – DUE TO CUSTOMERS

The balance due to customers is analysed as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Repayable on demand		
Demand deposits	10 521 304	10 458 336
Time deposits		
Time deposits	22 378 086	21 719 358
Other	73 407	56 391
	22 451 493	**21 775 749**
Savings accounts		
Pensioners	233 837	28 022
Other	2 018 393	1 645 970
	2 252 230	**1 673 992**
Other funds		
Repurchase agreements	420 712	242 150
Other	353 483	390 096
	774 195	**632 246**
	35 999 222	**34 540 323**

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

(in thousands of euro)

	30.09.2013	31.12.2012
Repayable on demand	10 521 304	10 458 336
Term liabilities		
Up to 3 months	11 065 599	11 024 506
From 3 months to 1 year	9 904 927	6 517 198
From1 to 5 years	4 327 285	6 169 147
More than 5 years	180 107	371 136
	25 477 918	**24 081 987**
	35 999 222	**34 540 323**

NOTE 38 – DEBT SECURITIES ISSUED

The balance debt securities issued is analysed as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Euro Medium Term Notes (EMTN)	8 438 220	10 033 382
Certificates of deposit	325 067	612 033
Bonds	1 186 666	2 366 119
Covered bonds	899 209	864 100
Other	1 112 885	1 548 427
	11 962 047	**15 424 061**

As at 30 September 2013, 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 2012: euro 4 750 million).

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 4 040 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	Interest rate	Rating	
							Moody's	DBRS
BES Covered bond 3.375%	1 000 000	857 712	17-11-2009	17-02-2015	Annually	3.375%	Baa3	AL
BES Covered bond DUE JUL 17	1 000 000	-	07-07-2010	09-07-2017	Annually	6 month Euribor + 0.60%	Baa3	AL
BES Covered bond 21/07/2017	1 000 000	35	21-07-2010	21-07-2017	Annually	6 month Euribor + 0.60%	Baa3	AL
BES Covered bond DUE 4.6%	40 000	41 462	15-12-2010	26-01-2017	Annually	Fixed rate 4.6%	Baa3	AL
BES Covered bond HIPOT. 2018	1 000 000	-	25-01-2011	25-01-2018	Annually	6 month Euribor + 0.60%	Baa3	AL
	4 040 000	**899 209**						

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 30 September 2013, the mortgage loans that collateralise these covered bonds amount to euro 5 556.0 million (31 December 2012: euro 5 605.1 million) (see Note 25).

The changes occurred in debt securities issued during the first nine months of 2013 are analysed as follows:

(in thousands of euro)

	Balance as at 31.12.2012	Issues	Repayments	Net repurchase	Other movements a)	Balance as at 30.09.2013
Euro Medium Term Notes (EMTN)	10 033 382	1 050 853	(2 253 284)	(268 772)	(123 959)	8 438 220
Certificates of deposit	612 033	-	(284 140) b)	-	(2 826)	325 067
Bonds	2 366 119	-	(1 174 823)	4 242	(8 872)	1 186 666
Covered bonds	864 100	-	-	49 910	(14 801)	899 209
Other	1 548 427	2 809 653	(3 275 650)	1 221	29 234	1 112 885
	15 424 061	**3 860 506**	**(6 987 897)**	**(213 399)**	**(121 224)**	**11 962 047**

[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 until 30 September 2013, the Group has recognised a loss in the amount of euro 8.4 million (30 September 2012: gain of euro 50.3 million) (see Notes 14 and 42).

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

(in thousands of euro)

	30.09.2013	31.12.2012
Up to 3 months	1 036 464	2 466 103
3 to 12 months	2 742 378	1 345 865
1 to 5 years	4 955 013	7 367 491
More than 5 years	3 228 192	4 244 602
	11 962 047	**15 424 061**

The main characteristics of debt securities issued during the first nine months of 2013, are presented as follows:

(in thousands of euro)

			30.09.2013			
Issuer	Designation		Currency	Book value	Maturity	Interest rate
BES	BES 4.75% 2018		EUR	485 098	2018	Fixed rate: 4.75%
BES (Luxembourg branch)	BES Luxembourg 3.5% 02/01/43		EUR	48 895	2043	Fixed rate - 3.5%
BES (Luxembourg branch)	BES Luxembourg 3.5% 23/01/43		EUR	42 381	2043	Fixed rate - 3.5%
BES (Luxembourg branch)	BES Luxembourg 3.5% 19/02/2043		EUR	81 755	2043	Fixed rate - 3.5%
BES (Luxembourg branch)	BES Luxembourg 3.5% 18/03/2043		EUR	56 157	2043	Fixed rate - 3.5%
Grupo BESI	ESIP DEC2015 FTD CRD LKD	a)	EUR	4 601	2015	b)
Grupo BESI	ESIP AUTOCALL JAN20 EQL	a)	EUR	474	2020	c)
Grupo BESI	ESIP SX5E BOOSTER JAN2016	a)	EUR	2 417	2016	SX5E Linked
Grupo BESI	ESIP SX5E BULLISH JAN2016	a)	EUR	2 579	2016	SX5E Linked
Grupo BESI	BESI MAR2018 FTD CRD LKD	a)	EUR	3 166	2018	h)
Grupo BESI	BESI MAR2016 FTD CRD LKD USD	a)	USD	2 025	2016	h)
Grupo BESI	ESIP 4Y AUTOCALL FEB2017 EQL	a)	EUR	10 179	2017	d)
Grupo BESI	ESIP 2Y AUTOCALL BES EQL FEB2015	a)	EUR	933	2015	BES Linked
Grupo BESI	ESIP BULLISH IBERIA MAR2016	a)	EUR	4 537	2016	e)
Grupo BESI	ESIP TURKISH LIRA EQL MAR2018	a)	EUR	2 945	2018	EUR/TRY Linked
Grupo BESI	ESIP 3Y WIN MAR2016	a)	EUR	1 776	2016	f)
Grupo BESI	ESIP BARCLAYS 2Y EQL MAR2015	a)	EUR	692	2015	BARCLAYS Linkked
Grupo BESI	ESIP CLN GALP MAR2018	a)	EUR	5 752	2018	EUR GALP CLN Linked
Grupo BESI	ESIP 3Y AUTOCAL IBERIA EQL MAR16	a)	EUR	1 654	2016	e)
Grupo BESI	ESIP BASKET+NOTES APR2016	a)	EUR	1 434	2016	Baskets of Equities: Coca-Cola, France Telecom, Vivendi and YUM
Grupo BESI	ESIP BULLISH PAISES PERIF APR16	a)	EUR	959	2016	Baskets of Index PSI20, MIB and IBEX30
Grupo BESI	ESIP AC INDICES GLOBAIS APR16	a)	EUR	1 692	2016	Baskets of Index Eurostoxx, SP500 and Nikkei
Grupo BESI	ESIP USD CLN GALP MAR2018	a)	USD	7 422	2018	USD GALP CLN Linked
Grupo BESI	ESIP 3Y AC SAN TELE REP APR2016	a)	EUR	979	2016	g)
Grupo BESI	ESIP APPLE EQL APR2015	a)	EUR	981	2015	Apple Linked
Grupo BESI	ESIP BULLISH EUROSTOXX APR2016	a)	EUR	1 261	2016	Eurostoxx Linked
Grupo BESI	ESIP BULLISH EWZ APR2016	a)	EUR	900	2016	EWZ Linked
Grupo BESI	ESIP BULLISH HSCEI APR2016	a)	EUR	936	2016	HSCEI Linked
Grupo BESI	BES INVESTIMENTO DO 2.90000 29/05/2014		USD	7 665	2014	3.00%
Grupo BESI	ESIP 3Y AC ENER. EOLICA MAY16	a)	EUR	2 742	2016	EDP & Iberdrola Linked
Grupo BESI	ESIP 3Y WIN MAY16	a)	EUR	1 607	2016	Baskets of Index Eurostoxx, SP500 and Nikkei
Grupo BESI	ESIP AC REPSOL JUN2014	a)	EUR	1 778	2014	Repsol Linked
Grupo BESI	ESIP CLN PT INT FIN 3.5Y DEC16	a)	EUR	11 128	2016	Credit Linked Note Portugal Telecom
Grupo BESI	ESIP FEB16 BULLISH ES AFRICA LKD	a)	EUR	1 316	2018	Espirito Santo Africa Linked
Grupo BESI	ESIP WRC BBVA SAN MAY2014	a)	EUR	1 030	2014	BBVA & Santander Linked
Grupo BESI	ESIP CLN TELECOM ITALIA JUNE16	a)	EUR	5 918	2016	Credit Linked Note Telecom Italia
Grupo BESI	ESIP 3Y AC BBVA JUN16	a)	EUR	634	2016	BBVA Linked
Grupo BESI	ESIP 3Y AC GALP&REPSOL JUN16	a)	EUR	1 279	2016	GALP and REPSOL Linked
Grupo BESI	ESIP USD CLN ESFPORTUGA 3Y MAY16	a)	USD	5 254	2016	ESFP CLN
Grupo BESI	ESIP CLN ESFPORTUGAL 3Y MAY16	a)	EUR	6 400	2016	ESFP CLN
Grupo BESI	ESIP 3Y BULLISH REINO UNID JUN16	a)	EUR	826	2016	UKX Linked
Grupo BESI	ESIP CLN ESFPORTUGAL 3Y N MAY16	a)	EUR	7 237	2016	ESFP CLN
Grupo BESI	ESIP 3Y BULLISH BRAZ REAL JUN16	a)	EUR	1 636	2016	EUR/BRL Linked
Grupo BESI	ESIP PT INT. FINANCE DEC16	a)	EUR	2 756	2016	PT CLN
Grupo BESI	ESIP 3Y AC ENERGIA IBERICA JUN16	a)	EUR	2 560	2016	GALP and REPSOL Linked
Grupo BESI	ESIP FTD TI, ENEL, PT CLN SEP16	a)	EUR	1 400	2016	TELECOM ITALIA, ENEL, PT CLN
Grupo BESI	ESIP FTD BRISA, EDP, PT CL SEP16	a)	EUR	2 023	2016	BRISA, EDP, PT CLN
Grupo BESI	ESIP 3Y AC BBVA EQL JUL16	a)	EUR	1 412	2016	j)
Grupo BESI	ESIP 3Y RENDIMENTO UK EQL JUL16	a)	EUR	883	2016	n)
Grupo BESI	ESIP CLN PTI FIN SEP2018	a)	EUR	14 748	2018	p)
Grupo BESI	ESIP USD CLN ASCENDI JUL2015	a)	USD	3 940	2015	s)
Grupo BESI	ESIP USD CLN ESFIL AUG14	a)	USD	8 838	2014	t)
Grupo BESI	ESIP USD CLN PT JUN2018	a)	USD	1 399	2018	u)
Grupo BESI	ESIP USD TARN USDTRY JUL2018	a)	USD	646	2018	v)
Grupo BESI	ESIP 1Y REPSOL AC AUG14	a)	EUR	1 442	2014	i)
Grupo BESI	ESIP 2Y AC BBVA AUG15	a)	EUR	616	2015	j)
Grupo BESI	ESIP 3Y AC SX7P AUG2016	a)	EUR	1 555	2016	k)
Grupo BESI	ESIP 3Y AC MULTICH ECOMM AUG2016	a)	EUR	593	2016	l)
Grupo BESI	ESIP 4Y LEVERAGE EURIBOR AUG2017	a)	EUR	2 624	2017	o)
Grupo BESI	ESIP CLN TELECOM ITALIA SEP2018	a)	EUR	18 468	2018	q)
Grupo BESI	ESIP 2Y AC REPSOL SEP15	a)	EUR	705	2015	i)
Grupo BESI	ESIP 3Y CLN BRISA SEP16	a)	EUR	2 130	2016	m)
Grupo BESI	ESIP CLN THYSSENKRUPP SEP2018	a)	EUR	12 656	2018	r)
Grupo BESI	LCA - Letra de Crédito do Agro		BRL	66 575	2013 - 2014	CDI 87% to 101%
Grupo BESI	LCI - Letra de Crédito Imobiliário		BRL	3 474	2013 - 2014	CDI 91% to 98%
Grupo BESI	LF - Letra Financeira		BRL	11 464	2015 - 2018	CDI 116% to 117%
ESPLC	BES1013_13E BESESPLC07/10/2013		EUR	150 249	2013	0.72%
ESPLC	BES1013_17E BESESPLC04/10/2013		EUR	130 216	2013	0.73%
ESPLC	BES1113_18E BESESPLC13/11/2013		EUR	123 115	2013	0.73%
ESPLC	BES1113_19E BESESPLC15/11/2013		EUR	127 111	2013	0.73%
ESPLC	BES1113_20E BESESPLC27/11/2013		EUR	120 079	2013	0.72%

a) emissions with embedded derivatives or at fair value options
b) Indexed to basket of Loan FTD: Telecom Italia, EDP, Portugal Telecom.
c) Indexed to basket of Equities Repsol, BSCH, Nestle.
d) Indexed to basket of Equities EDP, Portugal Telecom and GALP.
e) Indexed to basket of Index PSI20 and IBEX.
f) Indexed to basket of Indexes Ishares MSCI Brazil Index Fund, Russian Depositary Index USD, S&P ASX 200.
g) Indexed to basket of Equities BBVA, BSCH and Repsol.
h) Indexed to basket of Loan FTD: Arcelor Mittal, Telefonica and Intesa SPA.
i) Indexed to Equity Repsol
j) Indexed to Equity BBVA.
k) Indexed to Index SX7P.
l) Indexed to basket of Equities Amazon, Ebay e Fedex.
m) 6% + Brisa CLN.
n) Indexed to Index UKX.
o) Indexed to 3 months Euribor
p) 7.45% + Portugal Telecom CLN
q) 5.90% + Telecom Italia CLN
r) 5.50% + THYSSENKRUPP CLN
s) 6% + Ascendi CLN
t) 4.25% + ESFIL CLN
u) 7.35% + Portugal Telecom CLN
v) 8.5% + USD/TRY FX Linked

NOTE 39 – INVESTMENT CONTRACTS

The liabilities arising from investment contracts are analysed as follows:

(in thousands of euros)

	30.09.2013	31.12.2012
Fixed rate investment contracts	2 400 704	1 298 933
Investment contracts in which the financial risk is borne by the policyholder	1 360 046	2 114 630
	3 760 750	3 413 563

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 during the first nine months of 2013 is analysed as follows:

(in thousands of euros)

	30.09.2013	31.12.2012
Balance at the beggining of the period	1 298 933	-
Change in the consolidation scope	-	376 975
Net deposits received	1 198 303	1 057 880
Benefits paid	(154 992)	(143 288)
Change on the deferred acquisition costs	(1 926)	(10 601)
Technical interest charged	60 386	17 967
Balance at the end of the period	2 400 704	1 298 933

The movement in the liabilities arising out from the investment contracts in which the financial risk is borne by the policyholder during the first nine months of 2013 is analysed as follows:

(in thousands of euros)

	30.09.2013	31.12.2012
Balance at the beggining of the period	2 114 630	-
Change in the consolidation scope	-	1 916 883
Net deposits received	163 818	260 993
Benefits paid	(995 640)	(220 506)
Changes in financial liabilities at fair value through profit or loss	-	(2 176)
Technical result	77 238	159 436
Balance at the end of the period	1 360 046	2 114 630

NOTE 40 – PROVISIONS

As at 30 September 2013 and 31 December 2012, the balance of provisions presents the following movements:

(in thousands of euros)

	Period of nine months ended as at	Period of three months ended as at	Period of nine months ended as at
	30.09.2013	31.12.2012	30.09.2012
Balance at the beggining of the period	**236 950**	**214 815**	**190 450**
Change in the consolidation scope	-	-	16 945
Charge/ Write back of the year	(25 303)	25 431	31 547
Charge off	(1 194)	(1 373)	(16 581)
Exchange differences and others	(24 073)	(1 923)	(7 546)
Balance at the end of the period	**186 380**	**236 950**	**214 815**

Provisions for an amount of euro 186 380 thousands (31 December 2012: euro 236 950 thousands) 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 55.3 million (31 December 2012: euro 60.3 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 43.3 million as at 30 September 2013 (31 December 2012: euro 67.7 million) were established to cover these losses;
- Contingencies for ongoing tax processes. To cover these contingencies, the Group maintains provisions of approximately euro 30.6 million (31 December 2012: euro 36.1 million);
- The remaining balance of approximately euro 57.2 million (31 December 2012: euro 72.9 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.

As at 30 September 2013, the 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").

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 for the first nine month ended as at 30 September 2013 and 31 December 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 30 September 2013 and 31 December 2012 can be analysed as follows:

(in thousands of euro)

	Assets		Liabilities		Net	
	30.09.2013	31.12.2012	30.09.2013	31.12.2012	30.09.2013	31.12.2012
Financial instruments	105 678	74 257	(69 275)	(106 717)	36 403	(32 460)
Loans and advances to customers impairment	462 948	402 750	-	-	462 948	402 750
Property and equipment	-	271	(8 780)	(8 901)	(8 780)	(8 630)
Intangible assets	102	102	-	-	102	102
Investments in subsidiaries and associates	-	-	(109 842)	(163 986)	(109 842)	(163 986)
Provisions	54 302	54 356	-	-	54 302	54 356
Pensions	235 722	257 901	(35 507)	(35 507)	200 215	222 394
Long-term service benefits	7 549	7 726	-	-	7 549	7 726
Debt securities issued	293	-	-	(1 010)	293	(1 010)
Other	7 798	16 815	-	(4 117)	7 798	12 698
Tax losses brought forward	174 304	80 654	-	296	174 304	80 950
Deferred tax asset / (liability)	**1 048 696**	**894 832**	**(223 404)**	**(319 942)**	**825 292**	**574 890**
Assets / liabilities compensation for deferred taxes	(65 544)	(165 927)	65 544	165 927	-	-
Deferred tax asset / (liability), net	**983 152**	**728 905**	**(157 860)**	**(154 015)**	**825 292**	**574 890**

The changes in deferred taxes were recognised as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Balance at the beginning of the period	574 890	601 624
Recognised in the income statement	248 301	52 434
Recognised in fair value reserve	2 026	(56 617)
Recognised in equity - other comprehensive income	3 333	9 882
Recognised in other reserves	(2 056)	(30 280)
Changes in the scope of consolidation	-	(291)
Exchange differences and other	(1 202)	(1 862)
Balance at the end of the period (Assets/ (Liabilities))	**825 292**	**574 890**

The deferred tax recognised in the income statement and reserves, during the nine months period ended 30 September 2013 and the year 2012 is analysed as follows:

(in thousands of euro)

	30.09.2013		31.12.2012	
	Recognised in (profit) /loss	Recognised in reserves	Recognised in (profit) /loss	Recognised in reserves
Financial Instruments	(66 837)	(2 026)	(16 371)	60 205
Loans and advances to customers impairment	(60 198)	-	(69 029)	-
Property and equipment	150	-	(153)	-
Investments in subsidiaries and associates	(48 167)	(5 977)	81 689	(3 528)
Provisions	54	-	(20 343)	-
Pensions	3 525	2 644	4 005	(6 354)
Long-term service benefits	177	-	459	-
Debt securities issued	(1 303)	-	1 214	-
Other	2 291	1 407	(1 633)	-
Tax losses brought forward	(77 993)	649	(32 272)	26 692
Deferred taxes	(248 301)	(3 303)	(52 434)	77 015
Current taxes	119 759	(67 674)	135 350	43 390
Total tax recognised (profit) /loss	**(128 542)**	**(70 977)**	**82 916**	**120 405**

The current tax accounted for in reserves as at 30 September 2013 in the amount of euro 67 674 thousands, relates with unrealised losses recognised in the fair value reserve associated with the insurance activity (31 December 2012: euro 59 247 thousands related with unrealised gains). As at 31 December 2012, the current tax accounted for in reserves, also included a tax credit of euro 7 773 thousands from negative equity changes (primarily related to pension funds benefits).

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

(in thousands of euro)

	30.09.2013		31.12.2012	
	%	Amount	%	Amount
Profit before taxes		**(503 103)**		**202 752**
Banking levy		19 456		27 910
Profit before tax for the tax rate reconciliation		**(483 647)**		**230 662**
Statutory tax rate	25.0		31.5	
Income tax calculated based on the statutory tax rate		(120 912)		72 659
Tax-exempt dividends	1.8	(8 934)	2.5	(12 147)
Tax-exempt profits (off shore)	3.3	(15 894)	6.7	(32 449)
Diferences of tax rates between subsidiaries	(4.6)	22 128	-	-
Net Income in consolidated Investment Funds	(5.9)	28 764	(1)	2 803
Tax-exempt gains	(0.8)	3 634	(13.2)	63 887
Non-taxable share of profit in associates	0.2	(801)	0.5	(2 410)
Non deductible costs	(2.0)	9 742	(4.2)	20 375
Changes in estimates	8.4	(40 515)	12.4	(59 968)
Non deductible losses arising from subsidiaries acquisition	0.0	-	(6.9)	33 230
Other	1.2	(5 754)	0.6	(3 064)
	...	**(128 542)**	**...**	**82 916**

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 30 September 2013, the Group recongnised a cost of euro 19,5 million (30 September 2012: euro 20,9 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)

	30.09.2013	31.12.2012
Bonds	766 540	774 473
Perpetual Bonds	63 960	65 343
	830 500	839 816

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

(in thousands of euro)

Issuer	Designation	30.09.2013 Currency	Issue Date	Amount Issued	Carrying amount	Interest Rate	Maturity	
BES Finance	Subordinated perpetual bonds	EUR	2002	30 843	23 603	3.06%	2013	a)
BES Finance	Subordinated perpetual bonds	EUR	2004	95 767	19 963	4.50%	2015	a)
BES Finance	Bonds	EUR	2008	20 000	20 169	8.73%	2018	
BESI	Bonds	BRL	2007	21 134	18 534	CDI 100%+1.3%	2014	
BESI	Bonds	BRL	2008	8 416	8 266	CDI 100%+1.3%	2015	
BESI	Bonds	BRL	2008	673	926	IPCA 100%+8.3%	2015	
BESI	Bonds	BRL	2008	1 010	1 031	CDI 100%+1.3%	2015	
BESI	Bonds	EUR	2005	60 000	11 063	Euribor 3M + 0.95%	2015	
BESI	Bonds	EUR	2003	10 000	268	Indexed to CMS	2033	
BES	Bonds	EUR	2004	25 000	22 679	Euribor 6M + 1.25%	2014	
BES	Bonds	EUR	2008	41 550	3 875	Euribor 3M + 1%	2018	
BES	Bonds	EUR	2008	638 450	596 968	Euribor 3M + 8.5%	2019	
BES	Bonds	EUR	2008	50 000	50 080	Euribor 3M + 1.05%	2018	
BES	Bonds	EUR	2011	8 174	8 790	Fixed rate 10%	2021	
BES Vida	Bonds	EUR	2002	45 000	23 891	Euribor 3M + 2.20%	2022	
BES Vida	Subordinated perpetual bonds	EUR	2002	45 000	20 394	Euribor 3M + 2.50%	2013	a)
				1 101 017	830 500			

a) Call option date

The changes occurred in subordinated debt during the first nine months of 2013 are analysed as follows:

(in thousands of euro)

	Balance as at 31.12.2012	Issues	Repayments	Net Repurchases	Other movements [a]	Balance as at 30.09.2013
Bonds	774 473	-	(1 945)	(5 697)	(291)	766 540
Perpetual Bonds	65 343	-	-	(1 149)	(234)	63 960
	839 816	**-**	**(1 945)**	**(6 846)**	**(525)**	**830 500**

[a] Other movements include accrued interest, fair value and foreign exchange translation adjustments

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 until 30 September 2013, the Group has recognised a loss in the amount of euro 0.2 million (30 September 2012: gain of euro 40.2 million) (see Notes 14 and 38).

NOTE 43 – OTHER LIABILITIES

As at 30 September 2013 and 31 December 2012, the balance other liabilities is analysed as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Creditors		
Public sector	129 246	135 693
Deposit accounts	159 406	173 955
Sundry creditors		
Creditors from transactions with securities	73 417	89 357
Suppliers	140 478	49 619
Creditors from factoring operations	7 553	3 509
Creditors from insurance operations	36 850	2 040
Other sundry creditors	288 177	228 052
	835 127	**682 225**
Accrued expenses		
Long-term service benefits (see Note 16)	28 120	28 691
Other accrued expenses	208 679	127 430
	236 799	**156 121**
Deferred income	**35 368**	**22 267**
Other sundry liabilities		
Stock exchange transactions pending settlement	216 107	92 363
Foreign exchange transactions pending settlement	4 532	19 999
Other transactions pending settlement	90 693	172 627
	311 332	**284 989**
Net liabilities with retirement pensions	**5 379**	-
	1 424 005	**1 145 602**

As at 30 September 2013, the Deferred income includes the amount of 25 380 thousands euros relating to the value in force of the remaining contracts acquired of BES Vida, after the reinsurance transaction of life insurance risk portfolio held in the first nine months of 2013 (see Notes 13 and 31). This amount will be amortised against income over the remaining life of the respective contracts.

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 30 September 2013, 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	
	30.09.2013	31.12.2012
BESPAR - Sociedade Gestora de Participações Sociais, S.A.	35.29%	35.29%
Credit Agricole, S.A. (France)	10.81%	10.81%
Silchester International Investors Limited (United Kingdom)	5.68%	5.76%
Bradport, SGPS, S.A. (1)	4.83%	4.83%
Capital Research and Management Company (USA)	4.24%	-
PT Prestações - Mandatária de Aquisições e Gestão de Bens, S.A.(2)	2.09%	2.09%
Espírito Santo Financial Group, S.A. (Luxembourg)	0.89%	0.74%
Other	36.17%	40.48%
	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.

Preference shares

The BES Finance issued 450 thousands non-voting preference shares, which were listed in the Luxembourg stock Exchange in July 2003. In March 2004, 150 thousands 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 388 thousands preference shares, issued by BES Finance, of which 197 thousands were acquired in scope of the exchange offer over securities referred to above.
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.

During the first nine months of 2013, the Group acquired 26 947 thousands of preference shares, leading to the recognition of a gain (net of tax) of euro 6 629 thousands. As at 30 September 2013 there were 166 thousands preference shares in circulation with a book value of euro 166,3 millions.

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 period ended as at 30 September 2013, share premiums are represented by euro 1 068 116 thousands 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.

As a result of the exchange offer over securities in 2011, other equity instruments issued by BES reduced by an amount of euro 240 448 thousands and Non-controlling interests issued by BESI reduced by an amount of euro 46 269 thousands.

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	Dec/10	EUR	26 217	8.50%	15/Mar and 14/Sep	From Sep/15
BES	Dec/10	USD	3 007	8.00%	15/Mar and 14/Sep	From Sep/15
			29 224			
BESI [1]	Oct/10	EUR	3 681	8.50%	20/Apr and 20/Oct	From Oct/15
			32 905			

[1] BESI issue is included in the balance non-controlling interest (see Note 45)
[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 period ended 30 September 2013, the Group made an interest payment in the amount of euro 2 655 thousands, 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:

	30.09.2013		31.12.2012	
	Number of shares	Amount (thousands of euro)	Number of shares	Amount (thousands of euro)
Transactions under PRVIF				
Opening balance [1]	275 291	801	342 475	997
Shares sold [2]	-	-	(67 184)	(196)
	275 291	801	275 291	801
Other Transactions				
Opening balance	10 112 765	6 190	-	-
Changes in the scope of consolidation [3]	-	-	68 333 226	43 515
Shares acquired [4]	2 154 826	1 925	11 268 161	5 409
Shares sold [4]	(12 197 591)	(8 058)	(69 488 622)	(42 734)
	70 000	57	10 112 765	6 190
Balance in the end of the period/exercise	345 291	858	10 388 056	6 991

[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 became part/left to be part of BES Vida portfolio.

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 2011	**(515 827)**	**70 652**	**(445 175)**	**(641 315)**	**92**	**85 000**	**1 361 868**	**805 645**	**360 470**
Acquisition of preference shares **(a)**	-	-	-	-	-	-	7 248	7 248	7 248
Actuarial Deviations	-	-	-	(67 132)	-	-	-	(67 132)	(67 132)
Interest of other equity instruments	-	-	-	-	-	-	(2 650)	(2 650)	(2 650)
Dividends from preference shares	-	-	-	-	-	-	(10 996)	(10 996)	(10 996)
Changes in fair value	628 449	(106 407)	522 042	-	-	-	-	-	522 042
Exchange differences	-	-	-	-	(1 622)	-	-	(1 622)	(1 622)
Transfer to reserves	-	-	-	-	-	-	(108 758)	(108 758)	(108 758)
Balance as at 30 September 2012	**112 622**	**(35 755)**	**76 867**	**(708 447)**	**(1 530)**	**85 000**	**1 246 712**	**621 735**	**698 602**
Acquisition of preference shares **(a)**	-	-	-	-	-	-	(2 770)	(2 770)	(2 770)
Actuarial Deviations	-	-	-	(106 039)	-	-	-	(106 039)	(106 039)
Interest of other equity instruments	-	-	-	-	-	-	786	786	786
Dividends from preference shares	-	-	-	-	-	-	4 859	4 859	4 859
Changes in fair value	119 014	(25 031)	93 983	-	-	-	-	-	93 983
Exchange differences	-	-	-	-	(35 317)	-	-	(35 317)	(35 317)
Transactions with non-controlling interests	-	-	-	-	-	-	497	497	497
Other comprehensive income of associates appropriate	-	-	-	-	-	-	(9 800)	(9 800)	(9 800)
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**
Acquisition of preference shares **(a)**	-	-	-	-	-	-	6 629	6 629	6 629
Actuarial Deviations	-	-	-	(14 866)	-	-	-	(14 866)	(14 866)
Interest of other equity instruments	-	-	-	-	-	-	(1 991)	(1 991)	(1 991)
Dividends from preference shares	-	-	-	-	-	-	(7 221)	(7 221)	(7 221)
Changes in fair value	(232 051)	70 244	(161 807)	-	-	-	-	-	(161 807)
Exchange differences	-	-	-	-	(17 008)	-	-	(17 008)	(17 008)
Transfer to reserves	-	-	-	-	-	12 197	83 904	96 101	96 101
Transactions with non-controlling interests	-	-	-	-	-	-	(17 500)	(17 500)	(17 500)
Balance as at 30 September 2013	**(415)**	**9 458**	**9 043**	**(829 352)**	**(53 855)**	**97 197**	**1 301 268**	**515 258**	**524 301**

(a) - value net tax

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

(in thousands of euro)

	30.09.2013	31.12.2012
Balance at the beginning of the period	**170 850**	**(445 175)**
Changes in fair value	(56 024)	1 177 565
Disposals during the period	(263 883)	(600 206)
Impairment recognised during the period	87 856	99 308
Increase in share capital of subsidiaries [(a)]	-	70 796
Deferred taxes recognised in reserves during the period	70 244	(131 438)
Balance at the end of the period	**9 043**	**170 850**

[(a)] BES Vida

Non-controlling Interests

Non-controlling interests by subsidiary are analysed as follows:

(in thousands of euro)

	30.09.2013		31.12.2012	
	Balance sheet	Income statement	Balance sheet	Income statement
BES ANGOLA	402 262	19 561	396 369	25 554
BESI [a)]	3 681	-	3 681	-
AMAN BANK	37 312	2 520	34 974	1 745
ES CONCESSÕES	23 884	(3 769)	25 868	(5 673)
FCR VENTURES II	18 190	(1 143)	17 676	499
BES Securities	4 668	(164)	5 480	(147)
BES Investimento do Brasil	30 843	456	32 886	2 292
ESAF	13 927	1 505	12 887	1 991
BES AÇORES	17 141	(989)	18 018	530
Espirito Santo Investment Holding	-	(1 520)	3 967	(4 607)
BEST	21 244	3 086	18 161	2 989
FCR VENTURES III	17 556	(2 454)	17 043	(1 855)
FUNGEPI	47 751	(8 116)	56 537	(570)
Others	(6 204)	(2 576)	25 898	987
	632 255	**6 397**	**669 445**	**23 735**

a) Corresponds to the issued amount of other equity instruments (see Note 44).

The movements in non-controlling interests as at 30 September 2013 and 31 December 2012 are analysed as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Non-controlling interests at the beginning of the period	**669 445**	**588 447**
Changes in the scope of consolidation	(6 616)	74 293
Increase/ (decrease) in share capital of subsidiaries	(11 249)	13 527
Dividends paid	(1 271)	(2 924)
Changes in fair value reserve	-	22
Exchange differences and other	(24 451)	(27 655)
Profit for the year/period	6 397	23 735
Non-controlling interests at the end of the period	**632 255**	**669 445**

NOTE 46 – OFF-BALANCE SHEET ITEMS

As at 30 September 2013 and 31 December 2012, this balance can be analysed as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Contingent liabilities		
Guarantees and stand by letters of credit	7 588 237	8 023 520
Assets pledged as collateral	20 939 923	21 632 555
Open documentary credits	4 123 888	3 776 399
Other	346 075	531 757
	32 998 123	**33 964 231**
Commitments		
Revocable commitments	6 629 040	5 462 823
Irrevocable commitments	2 030 056	3 280 971
	8 659 096	**8 743 794**

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

As at 30 September 2013, 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 11.8 billion (31 December 2012: euro 13.5 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 16.4 million (31 December 2012: euro 20.8 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 2012: euro 82.6 million);

- Securities pledged as collateral to the European Investment Bank in the amount of euro 1 452.5 million (31 December 2012: euro 1 822.5 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)

	30.09.2013	31.12.2012
Securities and other items held for safekeeping on behalf of customers	53 140 933	54 335 220
Assets for collection on behalf of clients	253 856	294 295
Securitised loans under management (servicing)	2 521 861	2 671 390
Other responsibilities related with banking services	8 298 081	8 784 286
	64 214 731	**66 085 191**

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 30 September 2013 and 31 December 2012, the amount of the investment funds managed by the Group is analysed as follows:

(in thousands of euro)

	30.09.2013	31.12.2012
Securities investment funds	5 065 142	5 115 043
Real estate investment funds	1 148 666	1 075 678
Pension funds	1 854 359	1 783 359
Bancassurance	98 086	89 662
Portfolio management	745 415	1 960 206
Others	1 659 540	1 378 639
	10 571 208	**11 402 587**

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:

Group BES Associates companies
Tranquilidade Corporação Angolana de Seguros, S.A.
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
2B Capital Luxembourg General Partners SARL
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
Empark Aparcamientos y Servicios SA
Ascendi Group, SGPS, SA
Autovia De Los Vinedos, 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
Enkrott SA
Rodi Sinks & Ideas, SA
Palexpo - Imagem Empresarial, SA
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
Edenred Portugal, S.A.
MOZA BANCO

ESFG's subsidiaries, associates and related entities
Espirito Santo Financial Group, SA
Espirito Santo Financial (Portugal), SGPS, SA
Bespar - Sociedade Gestora de Participações Sociais, SA
Partran - Sociedade Gestora de Participações Sociais, SA
Companhia de Seguros Tranquilidade, SA
T - Vida, Companhia de Seguros, SA
Fundo de Investimento Imobiliário Fechado Corpus Christi
IMOPRIME - Fundo de Investimento Imobiliário Fechado (a)
IMOCRESCENTE - Fundo de Investimento Imobiliário Fechado (a)
Fundo Especial de Investimentos Imôbiliario Fechado (Fundes)
Seguros Logo, SA
Esumédica - Prestação de Cuidados Médicos, SA
Europe Assistance - Companhia Portuguesa de Seguros de Assistência, SA
Advancecare - Gestão e Serviços de Saúde, SA
Tranquilidade Moçambique Vida
Tranquilidade Moçambique Não Vida
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 Apio 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
Esfil - Espírito Santo Financiére, S.A. (Luxemburgo)
Esfil - Espírito Santo Financiére, S.A. (Luxemburgo) sucusal de Pully
Adepa Global Services
Dassa Investments S.A.
Banque Privée Espírito Santo
Banque Privée Espírito Santo Sucursal Portugal
ES Wealth Management
Key Space Investments LLC
ES Bank (Panama), SA
ES Bankers (Dubai) Limited
ESFG International, Ltd
Tranquilidade Corporação Angolana de Seguros, S.A.
SCA Mandel Partners
Banque Espirito Santo et de la Vénétie, SA
Marignan Gestion, SA
Société Lyonnaise de Marchands de Biens
BESV Courtage SA
AOC Patrimoine, SA
Goupe CFCA SAS
Société 45 Avenue Georges Mandel, SA
E.S. Contact Center - Gestão de Call Centers, SA
BANCO DELLE TRE VENEZIE SPA
BES, Companhia de Seguros , 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
Espirito 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 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
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

ESFG's subsidiaries, associates and related entities	ESFG's subsidiaries, associates and related entities
Agência Receptivo Praia do Forte, Ltda	TA DMC Brasil - Viagens e Turismo, SA
Praia do Forte Operadora de Turismo, Ltda	Agência de Viagens Tagus, S.A.
Grupo Proyectos y Servicios Sarrion, SA	Construtora do Tamega Madeira SA
Quinray Technologies Corp.	Construtora do Tamega Madeira SGPS SA
Quinta da Areia - Sociedade Agrícola Quinta da Areia, SA	Terras de Bragança Participações, Ltda
Sociedade Agricola Quinta D. Manuel I, SA	Timeantube Comércio e Serviços de Confecções, Ltda
Recigreen - Reciclagem e Gestão Ambiental, SA	Tivoli Gare do Oriente - Sociedade de Gestão Hoteleira, S.A.
Recigroup - Industrias de Reciclagem, SGPS, SA	TOP A DMC Viajes, SA
Recipav - Engenharia e Pavimentos, Unipessoal, Lda	Top Atlântico - Viagens e Turismo, SA
Recipneu - Empresa Nacional de Reciclagem de Pneus, Lda	Top Atlântico DMC, SA
Santa Mónica - Empreendimentos Turísticos, SA	Transcontinental - Empreendimentos Hoteleiros, SA
Saramagos S/A Empreendimentos e Participações	Turifonte, Empreendimentos Hoteleiros, SA
Société Congolaise de Construction et Travaux Publiques, SARL	Turistrader - Sociedade de Desenvolvimento Turístico, SA
Series - Serviços Imobiliários Espirito Santo, SA	Ushuaia - Gestão e Trading Internacional Limited
Sociedade Gestora do Hospital de Loures, SA	Sociedade Agricola Turistica e Imobiliária Várzea Lagoa, SA
Sintra Empreendimentos Imobiliários, Ltda	Viveiros da Herdade da Comporta - Produção de Plantas Ornamentais, Lda
Sisges, SA Desenvolvimento de Projectos de Energia	Ribeira do Marchante, Administração de Bens Móveis e Imóveis, S.A.
Solférias - Operadores Turísticos, Lda	Casa da Saudade, Administração de Bens Móveis e Imóveis, S.A.
Sopol - Concessões, SGPS, SA	Angra Moura-Sociedade de Administração de Bens,S.A.
Sotal - Sociedade de Gestão Hoteleira, S.A.	Sociedade de Administração de Bens - Casa de Bons Ares, S.A.
Space - Sociedad Peninsular de Aviación, Comércio e Excursiones, SA	ACRO, Sociedade Gestora de Participações Sociais, S.A.
Suliglor - Imobiliária do Sul, SA	Diliva, Sociedade de Investimentos Imobiliários, S.A.

For the nine month period ended as at 30 September 2013 and for the year ended as at 31 December 2012, the balances and transactions with related parties are presented as follows:

(in thousands of euro)

	30.09.2013					31.12.2012				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Associates companies										
BES VÉNÉTIE	100 137	303	5 603	1 720	-	726 910	623	5 627	2 705	-
ASCENDI GROUP SGPS	332 285	26 169	25 611	16 074	146	299 462	3 781	28 364	11 278	2
LOCARENT	117 329	2 242	-	919	7 316	129 818	3 723	-	2 692	11 006
AENOR DOURO	271 896	2 354	13 470	6 663	-	271 887	3 461	11 000	8 985	-
NANIUM	30 925	1 586	18 331	149	-	35 327	4 272	18 349	306	4
EMPARK	48 999	-	4 690	1 884	-	49 179	-	4 684	3 872	246
ASCENDI PINHAL INTERIC	119 665	9 194	16 374	2 888	-	98 356	2 051	15 374	3 073	-
PALEXPO	407	-	26	9	-	7 266	124	26	537	-
BES SEGUROS	47	18 234	-	336	15	630	18 456	-	415	16
ESEGUR	7 347	3	2 271	827	264	7 680	3	2 105	1 055	430
ES CONTACT CENTER	1 233	-	40	42	-	1 858	-	43	90	874
UNICRE	2	14	-	-	-	26	2	-	1	-
OTHERS	64 831	85 242	10 324	2 512	440	58 358	24 459	11 508	12 278	1 250
	1 095 103	**145 341**	**96 740**	**34 023**	**8 181**	**1 686 757**	**60 955**	**97 080**	**47 287**	**13 828**

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.

For the nine month period ended as at 30 September 2013 and for the year ended as at 31 December 2012, the total amount of assets and liabilities of BES Group with ESFG (Bank holding) and related companies, is as follows:

(in thousands of euro)

	30.09.2013								
	Assets								
	Loans and advances to banks	Loans	Securities	Other	Total	Guarantees	Liabilities	Income	Expenses
Shareholders									
ES FINANCIAL GROUP	-	-	61 974	116	62 090	-	137	199	253
ESF PORTUGAL	-	-	706	-	706	-	80	898	-
BESPAR	-	-	-	-	-	-	193	-	-
GRUPO CRÉDIT AGRICOLE	71 528	4	1 013	68	72 613	918	237	7	-
Subsidiaries, associates from shareholders					-			-	-
PARTRAN	-	-	-	-	-	-	9	-	-
ESPÍRITO SANTO FINANCIÉRE, SA	-	7 405	20 196	-	27 601	-	206 726	36	-
COMPANHIA SEGUROS TRANQUILIDADE	-	73 016	-	367	73 383	21 470	45 479	1 794	1 015
BANQUE PRIVÉE ESPÍRITO SANTO	15 713	-	-	7	15 720	7 580	46 046	277	252
ES BANK PANAMA	106 443	-	-	-	106 443	624	14 742	2 094	-
ES SAUDE	-	17 065	49 787	26	66 878	4 006	13 299	291	-
T - VIDA	-	42 444	216 016	93	258 553	-	145 270	594	135
ESUMÉDICA	-	923	-	6	929	4	84	38	58
EUROP ASSISTANCE	-	-	-	-	-	25	3 468	36	18
Other					-				
ES IRMÃOS	-	1 587	-	-	1 587	-	1	54	-
OPWAY	-	6 672	-	2 206	8 878	44 762	1 224	194	-
CONSTRUCCIONES SARRION	-	15 960	-	-	15 960	8 115	-	81	-
ESPÍRITO SANTO RESOURCES	-	-	-	9	9	-	471	33	165
OTHERS	23 613	52 435	26 266	286	102 600	9 133	24 887	6 415	2 189
TOTAL	**217 297**	**217 511**	**375 958**	**3 184**	**813 950**	**96 637**	**502 353**	**13 041**	**4 085**

(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**

As at 30 September 2013, 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 3 162 thousands (31 December 2012: euro 4 047 thousands).

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 30 June 2013 and 31 December 2012, 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.

NOTE 49 – SECURITISATION TRANSACTIONS

As at 30 September 2013, 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	338 445	Mortgage loans (subsidised regime)
Lusitano Mortgages No.2 plc	November 2003	1 000 000	337 372	Mortgage loans (subsidised and general regime)
Lusitano Mortgages No.3 plc	November 2004	1 200 000	491 024	Mortgage loans (general regime)
Lusitano Mortgages No.4 plc	September 2005	1 200 000	564 794	Mortgage loans (general regime)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	790 226	Mortgage loans (general regime)
Lusitano SME No.1 plc	01 October 2006	862 607	190 820	Loans to small and medium entities
Lusitano Mortgages No.6 plc	July 2007	1 100 000	731 099	Mortgage loans (general regime)
Lusitano Project Finance No.1, FTC	December 2007	1 079 100	125 005 (1)	Project Finance Loans
Lusitano Mortgages No.7 plc	September 2008	1 900 000	1 739 687	Mortgage loans (general regime)
Lusitano Leverage finance No. 1 BV	February 2010	516 534 (2)	65 183	Leverage Finance Loans
Lusitano Finance N.º 3	November 2011	657 981	320 818	Retail loans
IM BES Empresas 1	November 2011	485 000	286 202	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.

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 30 September 2013						
Cash and deposits at central banks	1 018 402	-	-	-	1 018 402	1 018 402
Deposits with banks	787 650	-	-	-	787 650	787 650
Financial assets held for trading	-	1 173 886	1 785 660	2 632	2 962 178	2 962 178
Other Financial assets at fair value through profit or loss	-	2 096 614	1 447 332	214 096	3 758 042	3 758 042
Available-for-sale financial assets	6 953 [a)]	7 547 456	3 434 806	1 078 136	12 067 351	12 067 351
Loans and advances to banks	1 105 116	-	-	-	1 105 116	1 105 116
Loans and advances to customers	46 016 450	-	654 535	-	46 670 985	43 911 665
Held-to-maturity investments	1 233 848	-	-	-	1 233 848	1 146 597
Derivatives for risk management purposes	-	-	366 579	-	366 579	366 579
Financial assets	**50 168 419**	**10 817 956**	**7 688 912**	**1 294 864**	**69 970 151**	**67 123 580**
Deposits from central banks	9 726 796	-	-	-	9 726 796	9 726 796
Financial liabilities held for trading	-	-	1 428 843	-	1 428 843	1 428 843
Deposits from banks	4 716 857	-	640 659	-	5 357 516	5 186 106
Due to customers	26 696 527	-	9 302 695	-	35 999 222	35 999 222
Debt securities issued	8 946 215	-	3 015 832	-	11 962 047	11 596 911
Derivatives for risk management purposes	-	-	134 640	-	134 640	134 640
Investment contracts	2 400 704	-	1 360 046	-	3 760 750	2 963 165
Subordinated debt	830 231	-	269	-	830 500	776 041
Financial liabilities	**53 317 330**	**-**	**15 882 984**	**-**	**69 200 314**	**67 811 724**
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
Financial assets held for trading	-	1 484 112	2 441 287	-	3 925 399	3 925 399
Other 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
Investment contracts	1 298 933	-	2 114 630	-	3 413 563	3 615 405
Subordinated debt	839 553	-	263	-	839 816	811 686
Financial liabilities	**56 016 007**	**-**	**16 430 958**	**-**	**72 446 965**	**72 997 385**

[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 2013 and 2012, have no significant impact to the Group consolidated financial statements.

The movements of the financial assets valued based on non-observable market information, during the first nine months of 2013, can be analysed as follows :

(in thousands of euro)

	30.09.2013	31.12.2012
Balance at the beggining of the year	1 239 277	263 194
Acquisitions	214 885	989 342
Disposals	(153 238)	(17 604)
Transfers	13 506	6 593
Changes in value	(19 566)	(2 248)
Balance at the end of the period	1 294 864	1 239 277

The main assumptions and inputs used in the valuation models of financial assets and liabilities at amortized cost are presented 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)

	30.09.2013	31.12.2012
Deposits with banks	2 490 418	3 799 129
Financial assets held for trading	2 931 800	3 871 474
Other financial assets at fair value through profit or loss	2 543 505	1 634 419
Available-for-sale financial assets	9 300 905	8 462 104
Loans and advances to customers	46 670 985	47 706 392
Held-to-maturity investments	1 233 848	941 549
Derivatives for risk management purposes	366 579	516 520
Other assets	611 758	480 754
Guarantees granted	7 588 237	8 023 520
Stand by letters of credit	4 123 888	3 776 399
Irrevocable commitments	2 030 056	3 280 971
Credit risk associated to the credit derivatives reference entities	268 744	489 884
	80 160 723	**82 983 115**

The analysis of the risk exposure by sector of activity, as at 30 September 2013 and 31 December 2012, can be analysed as follows:

(in thousands of euro)

	30.09.2013									
	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	466 009	(36 101)	7 703	-	-	7 111	-	-	-	30 977
Mining	268 820	(11 662)	5 506	7 143	-	12 653	(764)	-	-	36 609
Food, beverage and tobacco	936 601	(64 599)	27 033	41 710	-	15 592	(52)	4 626	-	74 719
Textiles	335 356	(37 219)	885	-	-	9 047	(3 957)	-	-	13 576
Shoes	66 099	(7 617)	131	-	-	499	(499)	-	-	2 272
Wood and cork	146 036	(29 431)	373	55 332	-	55 726	(1 329)	-	-	7 201
Printing and publishing	399 396	(28 275)	4 714	-	-	35 325	(11 923)	-	-	70 210
Refining and oil	3 105	(130)	470	15 535	-	39 561	-	-	-	6 014
Chemicals and rubber	629 479	(19 194)	19 483	23 865	-	15 439	(13 128)	-	-	123 856
Non-metallic minerals	328 311	(29 630)	749	-	-	12 730	(7 586)	-	-	20 839
Metallic products	925 764	(50 867)	7 240	7 211	8 120	2 185	-	-	-	165 279
Production of machinery, equipment and electric	283 548	(10 037)	2 980	15 183	-	15 626	(3 582)	-	-	131 150
Production of transport material	137 486	(5 431)	1 885	37 544	-	34 726	(108)	-	-	72 919
Other transforming industries	397 829	(32 213)	1 228	43 570	-	151 143	(16 483)	-	-	37 240
Electricity, gas and water	1 374 258	(21 227)	144 898	23 530	-	308 840	(1 359)	-	-	456 491
Construction	3 717 507	(512 939)	307 827	135 283	-	269 298	(1 687)	4 112	-	2 138 977
Wholesale and retail	3 292 963	(411 596)	9 463	106 042	-	99 080	(22 627)	3 782	-	479 836
Tourism	1 452 975	(136 363)	6 924	12 318	-	45 703	(390)	-	-	92 126
Transports and communications	2 174 479	(71 122)	221 747	131 595	-	212 165	(3 330)	5 809	-	1 048 947
Financial activities	3 747 054	(172 026)	738 403	1 613 271	358 459	2 823 202	(107 492)	773 428	(14 589)	266 987
Real estate activities	5 631 190	(483 007)	29 350	71 982	-	303 603	(4 511)	1 303	-	309 188
Services provided to companies	4 751 450	(412 449)	322 775	94 811	-	781 294	(37 792)	39 406	-	1 308 578
Public services	1 652 071	(25 397)	1 071 319	1 199 290	-	6 825 295	-	340 079	-	201 520
Non-profit organisations	3 324 596	(302 143)	27 922	122 737	-	270 439	(47 778)	86 849	(10 957)	438 991
Mortgage loans	10 893 449	(174 746)	-	-	-	-	-	-	-	7
Consumers loans	2 490 694	(218 114)	-	-	-	-	-	-	-	50 573
Other	151 195	(3 200)	1 170	90	-	7 450	(4)	-	-	3 155
TOTAL	**49 977 720**	**(3 306 735)**	**2 962 178**	**3 758 042**	**366 579**	**12 353 732**	**(286 381)**	**1 259 394**	**(25 546)**	**7 588 237**

(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	(167 019)	-	-	-	-	-	-	-	9
Consumers loans	2 627 780	(180 039)	-	-	-	-	-	-	-	70 704
Other	141 253	(15 272)	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**

As at 30 September 2013 and 31 December 2012, the analysis of the loan portfolio by rating is as follows:

(in million of euro)

Rating/Scoring models	Internal scale	30.09.2013		31.12.2012	
		Credit amount	(%)	Credit amount	(%)
Large companies	[aaa;a-]	8	0.02%	8	0.02%
	[bbb+;-bbb-]	2 157	4.32%	2 313	4.59%
	[bb+;bb-]	4 515	9.03%	4 997	9.91%
	[b+;b-]	6 399	12.80%	8 080	16.02%
	ccc+	1 839	3.68%	1 277	2.53%
Medium enterprises	8-9	460	0.92%	535	1.06%
	10-11	482	0.96%	532	1.06%
	12-13	521	1.04%	632	1.25%
	14-15	477	0.95%	438	0.87%
	16-17	486	0.97%	567	1.13%
	18-19	421	0.84%	342	0.68%
	20-21	369	0.74%	347	0.69%
	22-23	210	0.42%	294	0.58%
	24-25	1 498	3.00%	1 659	3.29%
Small enterprises	A	58	0.12%	71	0.14%
	B	341	0.68%	305	0.61%
	C	538	1.08%	620	1.23%
	D	267	0.53%	311	0.62%
	E	149	0.30%	251	0.50%
	F	507	1.01%	557	1.11%
Mortgage loans	01	1 193	2.39%	1 196	2.37%
	02	4 387	8.78%	4 341	8.61%
	03	1 454	2.91%	1 492	2.96%
	04	693	1.39%	710	1.41%
	05	504	1.01%	503	1.00%
	06	492	0.98%	488	0.97%
	07	622	1.24%	679	1.35%
	08	793	1.59%	953	1.88%
Private individuals	01	76	0.15%	86	0.17%
	02	68	0.14%	66	0.13%
	03	130	0.26%	130	0.26%
	04	248	0.50%	312	0.62%
	05	120	0.24%	136	0.27%
	06	175	0.35%	198	0.39%
	07	150	0.30%	144	0.29%
	08	136	0.27%	109	0.22%
	09	192	0.38%	260	0.52%
	10	3	0.01%	4	0.01%
No internal rating/scoring loans		16 839	33.69%	14 456	28.68%
TOTAL		**49 978**	**100.00%**	**50 399**	**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)

	30.09.2013	31.12.2012
Exchange Risk	5 854	3 399
Interest rate risk	6 556	8 793
Shares and commodities	9 467	15 026
Volatility	5 350	7 112
Credit Spread	4 883	13 887
Diversification effect	(8 822)	(10 105)
Total	**23 290**	**38 112**

Group has a VaR of euro 23 290 thousands (31 December 2012: euro 38 112 thousands), 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)

	30.09.2013						
	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 with banks	2 895 239	407 369	2 451 197	22 203	-	881	13 588
Loans and advances to customers	49 025 760	-	32 102 939	6 057 100	2 895 430	6 188 128	1 782 163
Securities	18 905 604	7 233 119	3 552 084	1 370 432	1 984 758	1 718 398	3 046 814
Technical Reserves of Reinsurance ceded	-	-	-	-	-	-	-
Total			**38 106 220**	**7 449 735**	**4 880 188**	**7 907 407**	**4 842 565**
Deposits from Banks	14 923 875	-	13 398 100	702 640	263 577	305 640	253 918
Due to customers	35 429 407	-	22 343 903	4 213 736	4 872 517	3 980 846	18 404
Securities issue	12 559 056	-	3 099 768	555 575	1 921 265	4 603 951	2 378 496
Investiments contracts	3 760 750	1 360 047	-	-	-	1 550 605	850 097
Technical Reserves of Direct Insurance	1 546 300	30 766	14 920	362 767	-	734 932	402 916
Total			**38 856 691**	**5 834 718**	**7 057 359**	**11 175 974**	**3 903 831**
GAP (assets - liabilities)	(3 642 460)		(750 471)	1 615 016	(2 177 170)	(3 268 568)	938 733
Off Balance sheet	(11 783)		(8 255 387)	(4 485 559)	8 235 195	4 568 340	(74 372)
Structural GAP	**(3 654 243)**		**(9 005 858)**	**(2 870 543)**	**6 058 024**	**1 299 772**	**864 361**
Accumulated GAP			**(9 005 858)**	**(11 876 401)**	**(5 818 377)**	**(4 518 604)**	**(3 654 243)**

(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 with banks	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
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
Investment contracts	3 319 944	545 779	25 622	371 293	-	1 671 301	705 950
Technical Reserves of Direct Insurance	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)**	**(2 163 525)**	**(1 750 775)**	**(1 917 073)**	**(2 464 796)**

The following table presents the average balances, interests and average interest rates in relation to the Group's major assets and liabilities categories, for the nine months period ended 30 September 2013 and for the year ended as at 31 December 2012:

(in thousands of euro)

	30.09.2013			31.12.2012		
	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	4 437 569	199 279	6.00%	4 885 099	192 458	3.94%
Loans and advances to customers	50 101 600	1 745 706	4.66%	50 315 715	2 527 274	5.02%
Securities	14 511 206	518 598	4.78%	14 242 252	850 845	5.97%
Differencial applications	-	-	-	-	-	-
Financial Assets	**69 050 376**	**2 463 583**	**4.77%**	**69 443 065**	**3 570 577**	**5.14%**
Monetary Liabilities	15 349 730	261 625	2.28%	17 566 965	419 167	2.39%
Due to consumers	36 276 591	758 169	2.79%	34 029 787	1 037 769	3.05%
Other	14 373 986	676 579	6.29%	16 564 422	933 133	5.63%
Differencial liabilities	3 050 069	-	-	1 281 892	-	-
Financial Liabilities	**69 050 376**	**1 696 373**	**3.28%**	**69 443 066**	**2 390 069**	**3.44%**
Net interest income		**767 210**	**1.49%**		**1 180 508**	**1.70%**

Foreign Exchange Risk

In relation to foreign exchange risk, the breakdown of assets and liabilities by currency as at 30 September 2013 and 31 of December of 2012, is analysed as follows:

(in thousands of euro)

		30.09.2013				31.12.2012			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	United Stades Dollars	(375 304)	579 123	(23 775)	180 044	(802 201)	842 328	32 097	72 224
GBP	Great Britain Pounds	335 358	(320 692)	(3 350)	11 316	466 168	(467 042)	(1 057)	(1 931)
BRL	Brazillian real	149 622	(143 357)	(25 499)	(19 234)	187 801	(183 686)	(4 738)	(623)
DKK	Danish Krone	(983)	1 140	-	157	21 947	(21 579)	-	368
JPY	Japanese yene	30 703	(24 803)	(7 716)	(1 816)	27 297	5 171	(40 166)	(7 698)
CHF	Swiss franc	22 094	(25 643)	3 003	(546)	9 944	(6 962)	(1 286)	1 696
SEK	Swedish krone	(12 322)	12 816	62	556	7 403	(7 778)	(53)	(428)
NOK	Norwegian krone	**(70 220)**	**68 421**	**1 828**	29	(49 539)	49 807	69	337
CAD	Canadian Dollar	5 377	(2 559)	(1 616)	1 202	22 866	(23 290)	(7 227)	(7 651)
ZAR	Rand	(9 486)	9 428	-	(58)	(5 569)	4 475	497	(597)
AUD	Australian Dollar	11 815	(9 674)	(635)	1 506	(8 510)	10 124	17	1 631
AOA	Kwanza	(102 680)	(74 160)	-	(176 840)	(53 208)	-	-	(53 208)
CZK	Czach koruna	(327)	396	-	69	5	-	-	5
MXN	Mexican Peso	56 050	(57 556)	-	(1 506)	63 789	(75 772)	9 338	(2 645)
	Others	(85 216)	30 006	90 284	35 073	16 727	45 008	34 626	96 361
		(45 519)	**42 886**	**32 586**	**29 952**	**(95 080)**	**170 804**	**22 117**	**97 841**

Note: asset / (liability)

Exposure to peripheral Eurozone countries public debt

As at 30 September 2013 and 31 December 2012 the exposure to public debt from peripheral Eurozone countries which are monitored by the Group is analysed as follows:

(in thousands of euro)

	30.09.2013					
	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	926 540	875 241	24 664	4 398 141	52 661	6 277 247
Spain	97 414	504 809	(55)	790 552	-	1 392 720
Greece	-	5 325	-	52 109	-	57 434
Irland	-	-	-	-	-	-
Italy	-	553	-	218 897	-	219 450
Hungary	-	-	-	-	-	-
	1 023 954	1 385 928	24 609	5 459 699	52 661	7 946 851

[1] Net values: receivable/(payable)

(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)

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)

	30.09.2013					
	Nominal Amount	Market value	Accrued interest	Book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**4 700 023**	**4 324 081**	**74 060**	**4 398 141**	-	**(57 693)**
Maturity up to 1 year	1 303 440	1 288 499	79	1 288 578	-	(2 650)
Maturity exceeding 1 year	3 396 583	3 035 582	73 981	3 109 563	-	(55 043)
Spain	**762 321**	**777 440**	**13 112**	**790 552**	-	**3 392**
Maturity up to 1 year	354 379	352 407	277	352 684	-	215
Maturity exceeding 1 year	407 942	425 033	12 835	437 868	-	3 177
Greece	**105 003**	**50 853**	**1 256**	**52 109**	-	**(3 369)**
Maturity up to 1 year	-	-	-	-	-	-
Maturity exceeding 1 year	105 003	50 853	1 256	52 109	-	(3 369)
Italy	**220 000**	**218 698**	**199**	**218 897**	-	**328**
Maturity up to 1 year	210 000	208 245	105	208 350	-	17
Maturity exceeding 1 year	10 000	10 453	94	10 547	-	311
	5 787 347	**5 371 072**	**88 627**	**5 459 699**	-	**(57 342)**
Financial assets held for trading						
Portugal	149 272	134 826	3 419	138 245	-	-
Spain	44 967	49 698	1 584	51 282	-	-
	194 239	**184 524**	**5 003**	**189 527**	-	-
Financial assets at fair value						
Portugal	774 624	724 561	12 435	736 996	-	-
Spain	455 330	453 520	7	453 527	-	-
Greece	10 104	5 205	120	5 325	-	-
Italy	546	547	6	553	-	-
	1 240 604	**1 183 833**	**12 568**	**1 196 401**	-	-
Financial assets held to maturity						
Portugal	57 000	55 897	1 755	52 661	-	-
	57 000	**55 897**	**1 755**	**52 661**	-	-

(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	-	-
Ireland	24 000	24 051	844	24 894	-	-
	161 000	**150 482**	**2 560**	**153 041**	-	-

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 2013 was characterized by the maintenance of the trend that market was recovering, lead by the reduction of risk aversion and the decrease of the peripheral countries sovereign debts yields sustained by the central banks strong expansionist policies. Within this context, on February a significant number of banks reimbursed the LTRO (Long Term Refinancing Operation) granted on December 2011, in the amount of 137 billions of euros. Bes Group reimbursed in advance euro 1 billion in relation with the referred credit operation.

Taking advantage of the favorable conditions, the Group went to the international capital markets with one senior debt emission, not guaranteed, with 5 years maturity, in the amount of euro 500 million, anticipating some reimbursements that were due during 2013 (euro 1.9 billions).

However, the impasse resulting from the Italian elections, as well as the measures announced in relation to the Cyprus request for financial aid and the political instability in Portugal, brought uncertainty to the market agents, leading again to an uncertainty climate and risk aversion, and as a consequence the increase of the spreads on the peripheral European countries loans.

In the second quarter of 2013, BCE reduced the reference rate (to 0.5%) and the deposit facility rate (to 0%) on 25 b.p.. Therefore, considering the deposit facility rate and the need to improve the management of the balance sheet and the net interest income, the Group decided to reduce it's BCE investments by euro 1 000 millions during the third quarter and, as a result, increased it's net exposure from 8.3mM€ (June 2013) to 9.2mM€.

At the end of the first nine months of 2013, the value of the portfolio of assets eligible for rediscount operations was euro 23.8 billions, of which euro 21.0 billions with the European Central Bank.

The overall exposure to liquidity risk is assessed through reports that provide not only identify the negative mismatch, but also how to make coverage an a dynamic basis.

(millions of euro)

	30.09.2013						
	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 at central banks	316	407	-	-	-	-	-
Loans and advances to banks	3 925	2 217	53	161	22	-	35
Loans and advances to customers	42 797	294	805	1 958	1 033	1 727	36 225
Securities	29 282	2 419	1 164	1 842	1 175	3 293	18 488
Technical Reserves of reinsurance ceded	345	-	318	-	-	-	-
Other Assets, net	2 130	1 005	5	25	19	115	1 059
Off Balance sheet (Commitments and Derivatives)	7 750	707	477	332	342	503	190
Total		**7 049**	**2 822**	**4 318**	**2 591**	**5 638**	**55 997**
LIABILITIES							
Deposits from banks, central banks and other loans	15 329	2 386	852	777	532	561	10 237
Due to customers	37 137	284	1 329	1 367	264	258	31 508
Securities	13 264	359	12	745	384	2 180	8 802
Investments contracts	3 475	167	2	15	195	149	3 232
Technical Reserves of Direct Insurance	1 495	51	14	28	27	25	1 401
Other short-term liabilities	1 929	1 422	241	-	-	7	55
Off Balance sheet (Commitments and Derivatives)	11 130	727	591	416	390	515	8 124
Total		**5 396**	**3 041**	**3 348**	**1 792**	**3 695**	**63 359**
GAP (Assets - Liabilities)		**1 653**	**(218)**	**969**	**798**	**1 943**	
Accumulated GAP		**1 653**	**1 434**	**2 404**	**3 202**	**5 145**	
Buffer > 12 months							**3 462**

(millions 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
Technical Reserves of reinsurance ceded	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
Technical Reserves of Direct Insurance	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**

The one year cumulative gap went from euro 9 429 million in December 2012 to euro 5 145 million in September 2013. These amounts include BES Vida.

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 30 September 2013, BES Group one year liquidity gap was -6.3, which compares with -1.7 as at 31 December 2012. It should be noted 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 Institute ("Instituto de Seguros de Portugal"), that 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.

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.

Reserving

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.

Claim management

The risk associated to the claim management procedures has it origin on the possibility that an increase responsibility may occur, by insufficient or deficient quality of the data used in the provision calculation process, or increase in the expenses related to the litigations management, as an consequence of a insufficient management of the referred procedures.

In relation to this type of risk, there are clear and formalized rules in that define the procedures and controls in the claims management procedures.

Reinsurance

BES Vida celebrates reinsurance contracts in order to limit its exposure to risk. Reinsurance may be performed for each single insurance contract (optional reinsurance), namely when the coverage level required by the insurer exceeds subscription internal limits, or based in the portfolio (reinsurance to be treated), in which the individual exposures from the insured are within the internal limits, but there is a unacceptable risk due to the accumulation of claims.

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% and 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% to 2%
Insurance mixed		
Up to September 1998	GKM 80	4%
After October 1998	GKM 80	3%

(*) In the year of 2013 the technical rate was 3% (2012: 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

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, 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
- Deductions (D): 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 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 30 September 2013 and 31 December 2012, the main movements occurred in BOF are as follows:

(millions of euro)

	30.09.2013	31.12.2012
Balance at the beggining of the period	**6 439**	**6 171**
Capital increase	-	995
Hybrid instuments	(27)	(19)
Elegible reserves and retained earnings (excluding fair value reserves)	(367)	42
Non-controlling interest, excluding hybrids	(25)	2
Goodwill	116	(166)
Changes on actuarial Losses	(24)	(526)
Recognition of the impact of adopting IFRS	(5)	(12)
Deduction in connection with investments held in banking and insurance entities	(75)	(164)
Fair value reserves with an impact in BOF	(18)	142
Other effects	36	(26)
Balance at the end of the period	**6 050**	**6 439**

The capital adequacy of BES Group as at 30 September 2013 and 31 December 2012 is presented as follows:

(millions of euro)

		30.09.2013	31.12.2012
A - Capital Requirements			
Share Capital, Issue Premium and Treasury stock		6 101	6 074
Elegible reserves and retained earnings (excluding fair value reserves)		870	1 237
Non-controlling interest		562	587
Intangible assets		(132)	(141)
Changes on actuarial Losses		(765)	(741)
Goodwill		(390)	(506)
Fair value reserves with an impact on BOF		(70)	(52)
Recognition of the impact of adopting IFRS		8	13
Basic own funds excluding preference shares (Core Tier I)	**(A1)**	**6 184**	**6 471**
Hybrid instuments, elegible for Tier I		199	226
Deductions in connection with investments held in banking and insurance entities		(333)	(258)
Own Funds for the determination of the EBA Core Tier I ratio	**(C)**	**5 730**	**6 092**
Basic own funds (Tier I)	**(A2)**	**6 050**	**6 439**
Positive fair value reserves (45%)		69	47
Eligible subordinated debt		791	801
Deductions in connection with investments held in banking and insurance entities		(234)	(258)
Complementary own funds (Tier II)		**626**	**590**
Deductions		**(80)**	**(72)**
Eligible own funds	**(A3)**	**6 596**	**6 957**
B- Risk Weighted Assets			
Calculated according Notice 5/2007 (Credit Risk)		53 904	56 484
Calculated according Notice 8/2007 (Market Risk)		1 625	1 503
Calculated according Notice 9/2007 (Operational Risk)		3 694	3 694
Risk Weighted Assets Total	**(B)**	**59 223**	**61 681**
C- Prudential Ratios			
Core Tier 1	(A1 / B)	10.4%	10.5%
Core Tier 1 EBA	(C / B)	9.7%	9.9%
Tier 1	(A2 / B)	10.2%	10.4%
Solvency Ratio	**(A3 / B)**	**11.1%**	**11.3%**

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

Over the last years, 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

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 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 non-controlling interest (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 and in the first nine months of 2013, 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 the great majority of the financial assets transferred under these operations, was derecognized from the Group balance sheet, considering that the group has transferred substantially all the risks and rewards of ownership, 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 underwrited by BES Group shall entitle to a contingent positive amount if the assets transferred value, when sold, exceeds the amount of senior securities plus its remuneration. 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 differential 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, the Group subscribed:

• equity instruments, representing the share capital of the parent companies' which 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 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)

	Amounts at transfer date							
	Amount of the assets transferred			Securities subscribed				
	Net assets transferred	Transfer amount	Result of the transfer	Shares (senior securities)	Junior securities	Total	Impairment	Net amount
As at 31 December 2012								
Tourism Recovery Fund, FCR	282 121	282 121	-	256 892	34 906	291 798	(34 906)	256 892
FLIT SICAV	252 866	254 547	1 681	235 318	23 247	258 565	(23 247)	235 318
Discovery Portugal Real Estate Fund	96 196	93 208	(2 988)	96 733	-	96 733	-	96 733
Vallis Construction Sector Fund	66 272	66 272	-	81 002	21 992	102 994	(21 992)	81 002
As at 30 September 2013								
Vallis Construction Sector Fund	16 981	16 981	-	1 606	2 874	4 480	(2 874)	1 606
FLIT SICAV	75 835	74 135	(1 700)	52 135	-	52 135	-	52 135
Discovery Portugal Real Estate Fund	48 697	42 275	(6 422)	49 793	-	49 793	-	49 793
Tourism Recovery Fund, FCR	9 719	9 719	-	-	-	-	-	-
	848 687	**839 258**	**(9 429)**	**773 479**	**83 019**	**856 498**	**(83 019)**	**773 479**

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 for these transactions amounts to approximately euro 83.0 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 pool of assets transferred by other banks, through the subscribed shares of the parent companies.

There was however an operation with the company FLITPTREL VIII in relation to which, by the fact that the acquiring company substantial holds assets transferred by BES Group and considering the holding of junior securities, the variability 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.

NOTE 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.

As at 1 May 2012, the balance sheet of BES-Vida included in the BES Group consolidated financial statements can be analysed as follows:

BES VIDA Balance sheet 01.05.2012	
	(in thousands 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	107 768
Technical reserves of reinsurance ceded	2 512
Income tax assets	112
Other assets	178 712
	5 417 595
Liabilities	
Technical reserves	1 880 631
Investment contracts	3 053 344
Other financial liabilities	194 434
Income tax liabilities	33 469
Other liabilities	40 291
	5 202 169
Equity	
Share Capital	50 000
Other reserves and retained earnings	165 426
	215 426
	5 417 595

The fair value of recognised identifiable assets acquired and liabilities assumed include, under Intangible assets, the amount of euro 107 768 thousands (euro 76 515 thousands 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 acquired contracts.

The goodwill recognized as a result of this acquisition amounts to approximately euro 234 574 thousands and is detailed as follows:

	%	in thousands of euro
Goodwill as the excess of:		
Consideration paid		225 000
Fair value, determined at the aquisition date, of the 50% interest previously held in BES Vida		225 000
		450 000
Over:		
Fair value of identifiable assets and liabilities acquired	100	215 426
Goodwill		234 574

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 equity interest in BES Vida	(18 790)
Recognition in the income statement of the fair value reserve of BES Vida appropriated by BES on the consolidation up to 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 first half of 2012 which can be determined, detailed as follows:

- measurement of the 50% share capital already held by the Group in the amount of euro -89.6 million; effect of eliminating intra-group transactions amounting to euro 35.5 million, bringing 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 approximately euro 2 761 thousands.

NOTE 55 – SUBSEQUENT EVENTS

- On 2 October, BES informed the market that, through its subsidiary AVISTAR, SGPS, S.A., signed a memorandum of understanding setting out the basis and principles for a proposed merger of PT, OI and Oi Holding Companies, as well as the conditions for such operation.

- On 14 October, BES informed the market about a notification that had received from BlackRock regarding the acquisition of shares in the 9th October 2013 which resulted in a change of interest in BES. After the operation BlackRock holds 80 441 859 shares, corresponding to a 2.00% stake in BES share capital.