BANCO
ESPIRITO
SANTO

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

1ST HALF OF 2013

(Audited 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

1. BANCO ESPÍRITO SANTO GROUP ACTIVITY AND RESULTS IN 1H13

- Reflecting the sharp economic contraction in Portugal induced by the international crisis and the austerity programme imposed on the country: the loan book grew by EUR 712 million (+2.8% annualised), driven by EUR 997 million growth in the corporate segment (+5.4% annualised) while loans to individuals continued to shrink, dropping to EUR 285 million (-4.1% annualised), due to lower demand and the amortisation of mortgage loans.
- Customer deposits grew by 15.7% YoY (+EUR 5.1 billion), positively impacting the loan to deposits ratio, which dropped to 125% (Jun.12: 147%). BES Group's net funding from the ECB decreased to EUR 8.3 billion (Jun.12: EUR 13.7 billion), after the repayment in January of EUR 1.0 billion of the LTRO facility. The pool of collaterals eligible for rediscount with the ECB reached EUR 24.6 billion (Jun.12: EUR 27.0 billion).
- The economic recession and its consequences, especially for businesses, caused an increase in the number of insolvencies, directly impacting impairment levels and provisions and adversely affecting income generation: banking income dropped by 17.6% while the provision charge increased by 75.3%, leading to a net loss of EUR 237.4 million in 1H13.
- In light of the challenges faced by the financial sector and Portugal's economic and financial context, BES Group has launched a programme aimed at gradually streamlining and reducing costs. The programme will be implemented in 2013-2015 and is expected to generate savings of EUR 100 million in the period. The reduction in total staff costs was mainly driven by the decrease in domestic costs, which dropped by 3.7% (-4.6% without the impact of the new consolidations), underpinned by the reduction on variable remunerations and number of employees (by 104 employees).
- The international area's net income reached EUR 18.9 million in 1H13, with the second quarter's profit (EUR 14.5 million) improving over the first's (EUR 4.4 million) despite the activity slowdown across the various platforms and the start-up phase of the Mozambique, Venezuela and Luxembourg units. The Luxembourg branch already reported positive profitability.
- The overdue loans (>90 days) ratio increased to 5.1% (Dec.12: 3.9%) and the credit at risk ratio reached 10.7% (Dec.12: 9.4%). Provision charges were consequently increased to 2.16% of gross loans, from 1.62% in FY12. The balance of provisions for credit increased by 28.7% YoY, to EUR 3.1 billion.
- The coverage of overdue loans and credit at risk for provisions was 120.4% and 57.1%, respectively. The Provisions for Credit / Gross Loans ratio continued to rise, reaching 6.1% (Jun.12: 4.8%).
- As regards the recovery of credit at risk, 57% of loans to individuals and companies are collateralised by real guarantees, which are the value of real estate assets on the balance sheet to EUR 2.0 billion (the real estate is conservatively valued at the moment of foreclosure). The sales of these assets reached 225.5 million in 1H13 (+94%), 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 10.4%, remaining above the Bank of Portugal's minimum requirement (10%), and 9.6% under the EBA criteria (minimum required: 9%).
- At the end of 2Q13 the subsidiary BES Vida executed a monetisation transaction of its life risk portfolio under which all the inherent risks were transferred to Munich Reinsurance Company, one of the largest reinsurers in the world. The transaction had a positive impact of ca. 40 bps in the consolidated Core Tier I ratio and falls within a set of measures taken by the Group viewing the efficient management of its capital ratios.
- BES Angola General Meeting held on 28 June 2013 elected new members for the Board: Mr. António Paulo Cassoma, a personality of renown in Angola, as Chairman, and Messrs. Arlindo Narciso das Chagas and Inocêncio Francisco Miguel, as non executive members. The meeting also approved a capital increase equivalent to USD 500 million.
- On the 17th of June, BES reinforced its position in Moza Banco by acquiring 24%of the capital to Grupo Geocapital. BES now holds 49% of the share capital of Moza Banco.

Main Indicators

	30-Jun-13	30-Jun-12	Change
ACTIVITY (euro million)			
Total Assets (1)	96 388	98 041	-1,7%
Net Assets	82 646	85 292	-3,1%
Gross Loans	51 111	51 176	-0,1%
Customer Deposits	37 912	32 765	15,7%
Core Capital - BoP	6 293	6 708	-6,2%
Core Capital - EBA	5 785	6 319	-8,2%
SOLVENCY			
Solvency Ratios (2)			
- CORE TIER I - BoP	10,4%	10,5%	-0,1 pp
- CORE TIER I - EBA	9,6%	9,9%	-0,3 pp
- TIER I	10,1%	10,4%	-0,3 pp
- TOTAL	10,7%	11,1%	-0,4 pp
LIQUIDITY (euro million)			
ECB funds (net) (3)	8 251	13 679	- 5 428
Repoable Assets	24 605	26 988	- 2 383
Loan/deposits ratio (4) (%)	125%	147%	-22 pp
ASSET QUALITY			
Overdue loans + 90 days / Gross loans	5,1%	3,3%	1,8 pp
Coverage of Overdue Loans + 90 days	120,4%	144,0%	-23,6 pp
Credit at Risk	10,7%	7,9%	2,8 pp
Provisions for Credit / Gross loans	6,1%	4,8%	1,3 pp
Cost of risk (5)	2,16%	1,38%	0,78 pp
RESULTS & PROFITABILITY			
Net income (EUR mn)	-237,4	25,5	....
ROE (6)	-6,45%	0,64%	....
ROA	-0,56%	0,07%	....
EFFICIENCY			
Cost to Income	57,3%	47,0%	10,3 pp
Cost to Income (ex markets)	69,2%	52,8%	16,4 pp
BRANCH NETWORK			
Retail Network	769	781	-12
- Domestic	652	678	-26
- International	117	103	14

(1) Net Assets + Asset Management + Other off-balance sheet liabilities + Securitised Credit
(2) Accroding to IRB Foundation; preliminary June 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

2. ECONOMIC ENVIRONMENT

The second quarter of 2013 was marked by high volatility in the financial markets. This was fuelled by the uncertainty around a possible tapering of quantitative easing (QE) by the North-American Federal Reserve, which drove up the 10-year Treasuries yield from 1.85% to 2.487% in the period.

In the eurozone, the 10-year Bunds yield followed this trend, rising from 1.289% to 1.728%. This context led to the appreciation of the dollar, not only against the euro (+1.43%, to EUR/USD 1.30), but particularly against the emerging markets' currencies (namely the real, against which the dollar climbed by 10.2%, to USD/BRL 2.229). The second quarter also saw signs of a moderate recovery of activity in the US and Japan and symptoms of recession in the entire eurozone, including the peripheral economies. Liquidity circulation in the eurozone, and especially in the periphery, continued to deteriorate. The 3-month Euribor registered a marginal increase in the quarter, from 0.211% to 0.218%. In this context, in May the ECB cut the rate on the main refinancing operations by 25bps, to 0.5%, suggesting that key interest rates would be kept low for a long period of time.

The equity market benefited from this combination of activity rebound and expansionary monetary policies. However, with volatility during the period and fears about QE tapering by the Fed, the main indices showed moderate increases at the end of the quarter. In the US the S&P500 and Dow Jones advanced by 2.36% and 2.27%, respectively, while in the eurozone the DAX and CAC40 gained 2.1% and 0.2%, and the IBEX slid by 1.99%. In China, the Shanghai Composite index fell by 11.5%, reflecting the cooling of activity associated to weaker monetary policy support. In Brazil, the Bovespa index slumped by 15.78%, driven by the hike in interest rates induced by inflationary pressures, the trimming of growth expectations, and the political and social strains flaring up at the end of the quarter.

In Portugal the Treasury made a new issue of long-term public debt in May (EUR 3 billion, maturity in 2024 and 5.669% yield) which met with a favourable reaction by the market. The second quarter was also marked by some signs of an upturn in activity, mainly visible in exports, and to a smaller extent in industrial output and retail sales. GDP is thought to have registered its first positive quarterly change since 2010 (of around 0.5%). However, the rise in market interest rates linked to the expected weakening of monetary stimuli by the Fed, the difficulties arising from the fiscal consolidation process and, already at the beginning of the third quarter, the deterioration in sentiment caused by a political crisis, interrupted the downward trend of public debt yields and spreads. Against this background, the PSI-20 lost 4.56% in the quarter.

3. RESULTS

The economic and financial adjustment programme in Portugal combined with the recession, which has also been spreading across the European Union, continued to impact the performance of the Portuguese financial sector during the reporting period. The positive change which the Portuguese GDP is expected to have had in the second quarter, the dynamics of the exporting sector, which showed to have originated a surplus in the external accounts, and the slight reversal in consumption trends, are signs that Portugal may be approaching the phase of recovery from current cycle, which we believe could gradually become more solid.

Income statement

EUR million

	Jun,13	Jun,12	Change	
			absolute	relative
Net Interest Income	470,4	607,6	- 137,2	-22,6%
+ Fees and Commissions	343,1	452,0	- 108,9	-24,1%
= **Commercial Banking Income**	**813,5**	**1 059,6**	**- 246,1**	**-23,2%**
+ Capital Markets and Other Results	168,9	131,9	37,0	28,0%
= **Banking Income**	**982,4**	**1 191,5**	**- 209,1**	**-17,6%**
- Operating Costs	563,0	559,5	3,5	0,6%
= **Net Operating Income**	**419,4**	**632,0**	**- 212,6**	**-33,6%**
- Provisions	747,3	426,3	321,0	75,3%
Credit	553,1	352,0	201,1	57,1%
Securities	52,8	18,8	34,0	...
Other	141,4	55,5	85,9	...
= **Income before Taxes and Minorities**	**- 327,9**	**205,7**	**- 533,6**	**...**
- Income Tax	- 103,0	101,4	- 204,4	...
- Special Tax on Banks	13,0	14,0	- 1,0	-7,1%
= **Income Before Minorities**	**- 237,9**	**90,3**	**- 328,2**	**...**
- Minority Interests	- 0,5	64,8	- 65,3	...
= **Net Income**	**- 237,4**	**25,5**	**- 262,9**	**...**

Main points of BES Group's performance in 1H13

- increased balance sheet equilibrium, namely underpinned by improvement of transformation ratio and liquidity and adequate capitalisation levels which continue to bolster the Group's resilience and its capacity to overcome the current recessive cycle;
- revenues impacted by pressure on asset quality and the increase of impairments induced by the economic recession and the persistently high level of unemployment;
- falls in both fees and commissions and in the net interest margin, which has also been under pressure from the increase in the cost of funding as a result of high competition, the inexistence of an interbank market and the wholesale funding market's demand for high spreads;
- opportunities for trading gains narrowed by high volatility in the financial markets;
- tight management of costs, especially domestic costs, through increased rationalisation of human and material resources.

In addition, at the end of Q2, the Group, through BES Vida, reinsured its life risk portfolio. This transaction, which falls within the measures taken by the Group viewing the efficient management of its capital ratios, had a positive impact of ca. 40 bps in the consolidated Core Tier I ratio and of EUR 128 million in the Group's results. Despite this transaction's positive contribution to results, the above factors were responsible for a EUR 237.4 million loss in the period.

Domestic and International Activity

As in the previous quarter, domestic activity in the second quarter continued to suffer from the the economic recession, which impacted both banking income (-14.3%) and impairment costs (+76.6%), leading to a loss of EUR 256.3 million in 1H13.

The international area improved its performance in 2Q13, with results more than trebling compared to 1Q13 (EUR 4.4 million), to EUR 14.5 million. This was underpinned by the rebound in net interest income (+11.1% yoy vs. -2.9% in March) and the growth of banking income, which surpassed the previous quarters by 30.2%. The YoY reduction in the international results reflects not only the lower contribution of BES Angola but also the start-up of the new units abroad, namely in Mozambique (where the Group increased its stake in Moza Banco to 49%), Venezuela and Luxembourg.

Domestic and International Income Statement

EUR million

	DOMESTIC			INTERNATIONAL		
	Jun,13	Jun,12	Change	Jun,13	Jun,12	Change
Net Interest Income	261,3	419,4	-37,7%	209,1	188,2	11,1%
+ Fees and Commissions	237,1	276,0	-14,1%	106,0	176,0	-39,8%
= Commercial Banking Income	**498,4**	**695,4**	**-28,3%**	**315,1**	**364,2**	**-13,5%**
+ Capital Markets and Other Results	189,1	106,3	77,8%	- 20,2	25,6	...
= Banking Income	**687,5**	**801,7**	**-14,3%**	**294,9**	**389,8**	**-24,3%**
- Operating Costs	375,3	387,8	-3,2%	187,7	171,7	9,3%
= Net Operating Income	**312,2**	**413,9**	**-24,6%**	**107,2**	**218,1**	**-50,8%**
- Provisions	669,1	378,9	76,6%	78,2	47,4	64,9%
Credit	492,2	307,9	59,8%	60,9	44,1	38,2%
Securities	49,9	18,8	...	2,9	0,0	...
Other	127,0	52,2	...	14,4	3,3	...
= Income before Taxes and Minorities	**- 356,9**	**35,0**	**...**	**29,0**	**170,7**	**-83,0%**
- Income Tax	- 103,2	71,4	...	0,2	30,0	...
- Special Tax on Banks	13,0	14,0	-7,1%	-	-	-
= Income Before Minorities	**- 266,7**	**- 50,4**	**...**	**28,8**	**140,7**	**-79,5%**
- Minority Interests	- 10,4	2,3	...	9,9	62,5	-84,1%
= Net Income	**- 256,3**	**- 52,7**	**...**	**18,9**	**78,2**	**-75,8%**

Main developments in the performance of the geographies where the Group operates and its business units abroad: recovery in the United Kingdom driven by the expansion of wholesale funding; positive evolution in the USA; lower contribution of African operations; and economic recession in Iberia negatively impacting the Group's units in Spain.

Breakdown of international results by geography

EUR million

	Jun,13	Jun,12	Change
Africa[1]	7,7	43,0	- 35,3
Brazil	1,4	10,2	- 8,8
Spain	- 14,3	10,5	....
STRATEGIC TRIANGLE	**- 5,2**	**63,7**	**- 68,9**
United Kingdom	19,4	11,4	8,0
USA	4,7	3,9	0,8
Other	0,0	- 0,8	0,8
TOTAL	**18,9**	**78,2**	**- 59,3**

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

3.1 Net interest income

The 22.6% reduction in Net interest income, to EUR 470.4 million, was domestic driven and translates the constraints weighing on the Portuguese economy, the adjustment of the balance sheet to the existing financial restrictions, and the evolution and volatility of interest rates. In fact, though the volume of the interest earning business remained close to EUR 70 billion, the average interest rate on financial assets (credit, securities and other placements) fell by 69bps, largely surpassing the drop in the average rate of financial liabilities (-29bps YoY) and leading to a 40bps contraction in the margin (from 1.76% to 1.36%).

Net interest income and Net interest margin

EUR million

	Jun,13			Jun,12		
	Average Balance	Avg Rate (%)	NII	Average Balance	Avg Rate (%)	NII
Interest Earnings Assets	69 763	4,66	1 614	69 435	5,37	1 848
Customer Loans	50 199	4,64	1 155	50 473	5,27	1 319
Other Assets	19 564	4,73	459	18 962	5,62	529
Other	-	-	-	320	-	-
Interest Earning Assets & Other	**69 763**	**4,66**	**1 614**	**69 755**	**5,35**	**1 848**
Interest Bearing Liabilities	66 663	3,46	1 144	69 755	3,59	1 240
Deposits	36 289	2,84	511	34 353	3,27	557
Other Liabilities	30 374	4,20	633	35 402	3,89	683
Other	3 100	-	-	-	-	-
Interest Bearing Liabilities & Other	**69 763**	**3,30**	**1 144**	**69 755**	**3,59**	**1 240**
NIM/NII		**1,36**	**470**		**1,76**	**608**
Euribor 3 M - average		**0,21%**			**0,87%**	

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 inexistence of an interbank market; the need to reduce funding from the ECB; fierce competition over corporate, institutional and retail customer funds; poor performance of the economy with a negative impact on asset quality; the lack of stimuli to rekindle the economy 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 1,614 million, with the YoY declined their average rate (from 5.35% to 4.66%) nearly matching the drop in the 3-month Euribor (-69bps vs. –66bps). The average spreads implicit in the loan book had a small increase, to 4.43% (1H12: 4.40%);

- the cost of funding in 1H13 was EUR 1,144million, with the average rate on deposits dropping by 43bps YoY, to 2.84%, while the average rate on debt securities and other interest bearing liabilities increased by 31bps, to 4.20%, reflecting the reduction in the average amount of funding from the ECB (-EUR 2.4 billion) as well as the issuance of debt in the international market in 4Q12 and January 2013. The fact that the rate on interest bearing liabilities dropped by 29bps only, much less than the 3-month Euribor (-66bps) is a clear symptom of the pressure on the cost of liabilities endured by the financial sector and was the main factor behind the Net interest income reduction.

3.2 Fees and Commissions

Fees and commissions decreased by 24.1%, translating the overall activity downturn. If excluding the cost of the guarantees provided by the Portuguese State and the non recurrent fees booked in 1Q12, the reduction is less expressive (-5.6%).

Fees and Commissions

EUR million

	Jun,13	Jun,12	Change	
			Absolute	relative
Collections	8,4	8,7	-0,3	-3,6%
Securities	38,7	37,4	1,3	3,5%
Guarantees	74,8	68,9	5,9	8,6%
Account management	37,7	39,2	-1,5	-3,9%
Commissions on loans and other (1)	82,3	80,9	1,4	1,7%
Documentary credit	35,9	42,8	-6,9	-16,2%
Asset management (2)	42,9	38,5	4,4	11,4%
Cards	17,8	20,4	-2,6	-12,7%
Bancassurance	11,3	27,5	-16,2	-59,1%
Other Services (3)	-6,7	87,7	-94,4	...
TOTAL	**343,1**	**452,0**	**-108,9**	**-24,1%**
State Guarantees	*30,1*	*27,4*		
BESA non-recurrent Commissions	-	*84,0*		
TOTAL (like-for-like)	**373,2**	**395,4**	**-22,2**	**-5,6%**

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

Commissions on guarantees rose by 8.6%; commissions and fees related to capital markets (namely commissions on securities) increased by 3.5%; and asset management fees were up by 11.4% YoY due to the expansion of investment funds and portfolio discretionary management activities.

Fees and commissions more directly linked to corporate business, namely financings (collections, loans, corporate and project finance) and documentary credits, declined, reflecting the economic context as well as the deleveraging process. 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. Finally commissions on bancassurance products (saving and non-life insurance products) continued to show a negative evolution.

Service quality has long been a strategic priority for and a differentiating factor of BES Group, and its improvement has supported the increase achieved in customer satisfaction levels. The results of the European Consumer Satisfaction Index (ECSI) - an international survey recognised for its credibility conducted in various European countries - confirm the success of this strategy. In 2012 BES scored in 2nd place in the overall Portuguese banking sector ranking and in 1st place in the ranking of the five largest national banks. BES achieved high marks in the various categories analysed by the survey – Quality, Expectations, Image and Price– particularly in key variables for customer satisfaction, such as attention to service, advisory capacity, meeting of deadlines, the quality and availability of branches and direct channels, service levels and the quality/price ratio.

Moreover, BES was named for the seventh consecutive year the best provider of sub-custody services in Portugal by the Global Finance magazine, based on the following selection criteria: customer relations, quality of service, competitive pricing, smooth handling of exception items, technology platforms, post-settlement operations, backup systems and knowledge of local regulations and practices.

3.3 Capital markets and other results

Capital markets and other results totalled EUR 168.9 million, which compares with EUR 131.9 million in 1H12.

Capital markets and other results

EUR million

	Jun,13	Jun,12	Change
Interest rate, Credit and FX	**47,5**	**320,4**	**-272,9**
Interest rate	120,9	280,0	-159,1
Credit	-42,8	10,1	-52,9
FX and Other	-30,6	30,3	-60,9
Equity	**39,5**	**-91,8**	**131,3**
Trading	-13,3	-192,4	179,1
Dividends	52,8	100,6	-47,8
Other Results	**81,9**	**-96,7**	**178,6**
TOTAL	**168,9**	**131,9**	**37,0**

The second quarter of 2013 was 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. Given the prevailing economic climate at the end of the period, these countries' assets and currencies suffered a sharp devaluation.

The positive results achieved by BES Group are mainly explained by the divestment policy pursued, which mainly focused on the interest rate area.

"Other Results" includes EUR 182 million (gross) of the reinsurance of BES Vida's individual life risk portfolio.

3.4 Operating costs

Operating costs totalled EUR 563.0 million, in line with 1H12 (EUR 559.5 million), notwithstanding the impact of the international expansion and the new consolidations, without which they would have fallen by 0.5%.

Operating costs

EUR million

	Jun,13	Jun,12	Change	
			absolute	relative
Staff Costs	289,5	291,5	-2,0	-0,7%
Administrative Costs	220,9	214,2	6,7	3,2%
Depreciation	52,6	53,8	-1,2	-2,2%
TOTAL	**563,0**	**559,5**	**3,5**	**0,6%**
Excluding new consolidations	*554,4*	*557,3*	*-2,9*	*-0,5%*
Domestic	375,3	387,8	-12,5	-3,2%
Excluding new consolidations	*366,7*	*385,6*	*-18,9*	*-4,9%*
International	187,7	171,7	16,0	9,3%

Domestic costs continued to shrink, dropping by 3.2% (-EUR 12.5 million), or by 4.9% if excluding the impact of the new consolidations. International costs increased by 9.3%, mainly reflecting the costs of expansion in the Angolan market.

Staff Costs

EUR million

	Jun,13	Jun,12	Change absolute	Change relative
Remunerations	231,3	233,7	-2,4	-1,0%
Pensions, Long term service benefits & Other	58,2	57,8	0,4	0,6%
TOTAL	**289,5**	**291,5**	**-2,0**	**-0,7%**
Excluding new Consolidations	*286,9*	*290,6*	*-3,7*	*-1,2%*
Domestic	185,5	192,6	-7,1	-3,7%
Excluding new Consolidations	*182,9*	*191,7*	*-8,8*	*-4,6%*
International	104,0	98,9	5,1	5,1%

Domestic staff costs continued to drive the reduction in total staff costs, underpinned by the reduction on variable remunerations and number of employees (by 104 employees), decreased by 3.7% (-4.6% without the impact of the new consolidations).

The international staff costs increased by 5.1% as a result of the expansion of activities and consequent increase in the workforce (by 264 employees).

The general administrative costs increased by 3.2%, with international administrative costs rising by 17.2% while domestic decreased by 2.1%. Amortisation and depreciation, amounting to EUR 52.6 million, dropped from EUR 53.8 million YoY, having increased by 6.7% in the international area (which still needed to invest in tangible and intangible assets) and decreased by 5.4% in the domestic area as a result of the streamlining measures implemented and the closure of 26 branches since the end of 1H12.

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.

3.5 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

	Jun,13	Jun,12	Change
Cost to Income	57,3%	47,0%	10,3 p.p.
Cost to Income (ex-markets)	69,2%	52,8%	16,4 p.p.

3.6 Provisions

Considering the adverse economic context, the Group recognised impairment costs of EUR 747.3 million in 1H13, which represents a YoY increase of 75.3%. The credit provision charge in the period totalled EUR 553.1 million (+57.1% YoY), while provisions for securities increased EUR 52.8 million, provisions for foreclosed real estate assets by EUR 79.4 million and provisions for impairments in other assets by EUR 62.0 million.

Provision charge

EUR million

	Jun,13	Jun,12	Change	
			absolute	relative
Credit Provisions	553,1	352,0	201,1	57,1%
Securities Provisions	52,8	18,8	34,0	...
Foreclosed Assets	79,4	15,1	64,3	...
Other Provisions	62,0	40,4	21,6	53,3%
TOTAL	**747,3**	**426,3**	**321,0**	**75,3%**

The balance of provisions for credit increased to EUR 3,134 million on June 30th, 2013 (+ 28.7% YoY), lifting the credit provisions/gross customer loans ratio to 6.1% (Jun.12: 4.8%).

Credit provisions

EUR million

	Jun,13	Jun,12	Change	
			absolute	relative
Gross Loans	51 111	51 176	- 65	-0,1%
Credit Provisioning Charge (1H13)	553,1	352,0	201,1	57,1%
Provisions for credit	3 134,2	2 434,7	699,5	28,7%
Provision Charge (annualised)	2,16%	1,38%	0,78 pp	
Provisions for credit / Gross Loans	6,1%	4,8%	1,3 pp	

The credit provision charge in 1H13 (2.16%) was 78bps higher than in 1H12 (1.38%).

3.7 Profitability

The table below shows the evolution of return on equity (ROE) and return on assets (ROA):

Profitability

	Jun,13	Jun,12
Return on Equity	-6,45%	0,64%
Return on Assets	-0,56%	0,07%

(1) annualised data

The Group's profitability continues 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.

4. ACTIVITY

4.1 General overview

During the first half of 2013 the activity of the financial sector and of BES Group continued to be dictated by a process of adjustment entailing the maintenance of capital ratios above the regulatory requirements and the deployment of a deleveraging process. In this context, the loan to deposits ratio registered a clear improvement, dropping to 125%, largely underpinned by a 15.7% YoY increase (+EUR 5.1 billion) in customer deposits. Customer funds acquisition was indeed one of the key aspects of the period, with relevant increases in on-balance sheet customer funds (+11.8%), bancassurance funds (+35.7%) and asset management funds (+12.0%) driving up total customer funds by EUR 6.2billion (+11.8% YoY), to EUR 58.6 billion.

Assets, Credit and Customer Funds

EUR million

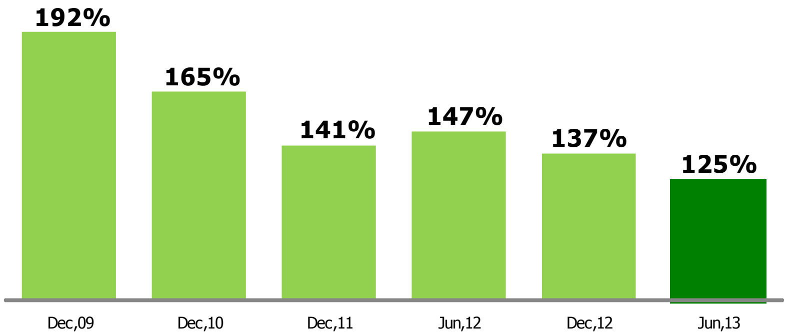
	30-Jun-13	31-Dec-2012	30-Jun-12	Change Jun,13/Jun,12 absolute	Change Jun,13/Jun,12 relative	Change absolute Jun,13/Dec,12
Total Asstes [(1)]	**96 388**	**97 765**	**98 041**	**-1 653**	**-1,7%**	**-1 377**
Net Assets	**82 646**	**83 691**	**85 292**	**-2 646**	**-3,1%**	**-1 045**
Customer Loans (gross)	**51 111**	**50 399**	**51 176**	**- 65**	**-0,1%**	**712**
Loans to Individuals	13 477	13 762	13 979	- 502	-3,6%	- 285
- Mortgage	10 974	11 134	11 412	- 438	-3,8%	- 160
- Other Loans to Individuals	2 503	2 628	2 567	- 64	-2,5%	- 125
Corporate Lending	37 634	36 637	37 197	437	1,2%	997
(incl. transfer to restrucutring funds)	*38 596*	*37 556*	*37 514*	*1 082*	*2,9%*	*1 040*
Total Customer Funds	**58 580**	**56 188**	**52 401**	**6 179**	**11,8%**	**2 392**
On-Balance Sheet Customer Funds	47 410	44 785	42 425	4 985	11,8%	2 625
Deposits	37 912	34 540	32 765	5 147	15,7%	3 372
Debt Securities placed with Clients [(2)]	4 529	5 254	5 999	-1 470	-24,5%	- 725
Life Insurance	4 969	4 991	3 661	1 308	35,7%	- 22
Off-Balance Sheet Customer Funds	11 170	11 403	9 976	1 194	12,0%	- 233
Loans/Deposits[(3)]	**125%**	**137%**	**147%**	**-22** p.p.		**-12** 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

On the other hand the credit portfolio increased by EUR 712 million (+2.8% annualised), supported by the corporate loan book, which grew by EUR 997 million (+5.4% annualised), once again highlighting the support always provided by BES Group to its corporate clients and most especially to the exporting firms. Loans to individuals continued to decrease, falling by EUR 285 million (-4.1% annualised) as a result of the contraction of demand and the amortisation of mortgage loans. On a comparable basis, i.e., adjusted for the effect of loan transfer to restructuring funds, corporate loans increased by 2.9% YoY.

The higher relative increase in deposits versus credit had a positive impact on the Group's liquidity, with the loan to deposits ratio dropping to 125% (Jun.12: 147%; Dec.12%: 137%).

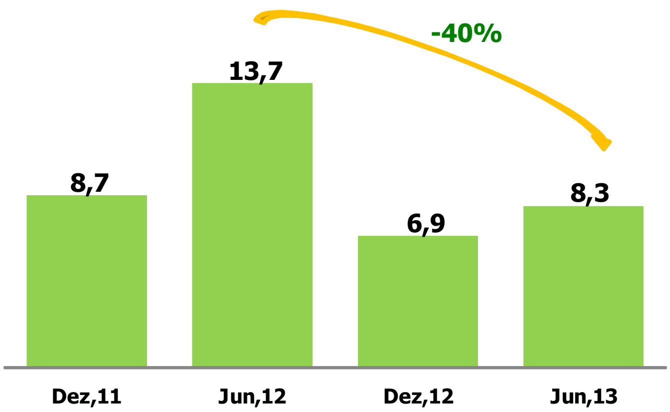
Loan to deposits ratio



(1) Calculated under the terms of BoP Funding & Capital Plan

As to other funding components, net funding from the ECB decreased by 40% since the peak attained in June 2012, to EUR 8.3 billion, thus confirming the improvement in the Group's liquidity levels already observed in the last quarters. 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 1.2 billion (Jun.13).

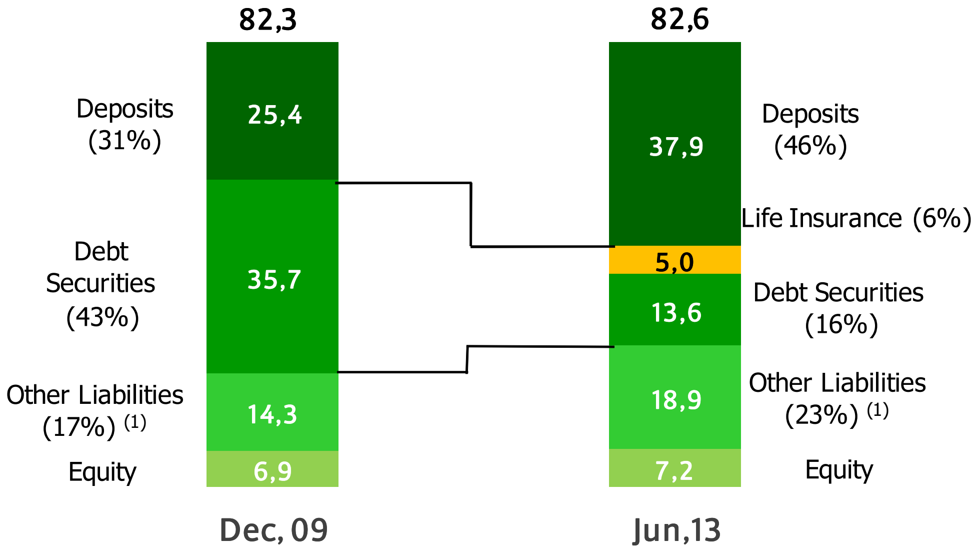
ECB Funding (1)
(Eur billion)



(1) Jun 13: funding (EUR9.5bn) Net exposure (EUR1,4bn)

In the first half 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 liquidity facilities

In June 2013 deposits further consolidated their position as the main asset financing source (46%, 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.

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 2.4% and the loan portfolio by 10.0%. Total customer funds decreased yoy 6.4%, driven by the debt securities placed with institutional clients, mainly by BES London branch.

Domestic and International Activity

EUR million

	Domestic			International		
	30-Jun-13	30-Jun-12	Change	30-Jun-13	30-Jun-12	Change
Total Assets [1]	**67 351**	**69 675**	**-3,4%**	**29 037**	**28 366**	**2,4%**
Assets	**54 496**	**59 956**	**-5,8%**	**26 150**	**25 336**	**3,2%**
Loans to Customers (gross)	**38 377**	**39 604**	**-3,1%**	**12 734**	**11 572**	**10,0%**
Total Customer Funds	**43 902**	**36 719**	**19,6%**	**14 679**	**15 682**	**-6,4%**
Loans/Deposits [2]	**125%**	**147%**	**-22** p.p.	**126%**	**146%**	**-20** p.p

(1) Net Assets + Asset Management + Off-Balance sheet liabilities+ Non consolidated secuiritised credit
(2) Ratio calculated under the BoP definition

4.2 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 and Brazil, 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).

4.2.1 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

EUR million

	Jun,13	Jun,12	Change
BALANCE SHEET			
Customer Loans (gross)	15 149	16 293	-7,0%
Customer Funds	13 304	12 611	5,5%
INCOME STATEMENT			
Commercial Banking Income	309,4	281,0	10,1%
Capital Mkts & Other Results	15,6	19,6	-20,6%
Banking Income	325,0	300,6	8,1%
Operating Costs	192,2	208,1	-7,7%
Provisions	32,0	41,6	-23,1%
Income Before Tax	100,8	50,9	98,0%
Cost to Income	59,1%	69,2%	-10,1 pp

This business area was supported by a network of 652 branches in Portugal at the end of 1H13 (net reduction of 14 branches since the start of the year). This streamlining process permitted to achieve a 7.7% 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 9.65% YoY. On-balance sheet customer funds increased by 5.5% YoY, underpinned by the strong growth of deposits (+EUR 831 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 in 1H13 was also supported by an influx of new clients: a total of 48.6 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 1H13, including the international units, reached 86.7 thousand clients, which represents a YoY increase of 13.0%.

The Retail area maintains a constant and dynamic management of the customer funds margin in order to protect banking income growth. In 1H13 the segment's banking income grew by 8.1%, underpinned by the expressive increase in customer funds combined with the streamlining of the net interest margin, which improved by 63 bps, to 2.76%. The increase in banking income, allied to reductions in costs and in impairment losses, allowed the area to increase pre-tax earnings to EUR 100.8 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 more than two-fold YoY increase in sales of new policies, and life insurance, where sales jumped by 33.8% YoY.

The use of the **Direct Channels** continued to increase: the internet banking service for individual clients – **BESnet** – achieved a 7.2% YoY increase (to 365 thousand) in the number of frequent users, maintaining its leading position in terms of internet banking penetration in Portugal, with a share of 44.9% of the customer base (according to the latest Marktest data), while the number of logins reached 19.6 million (+11.7% YoY). According to Marktest's latest data on user satisfaction with internet banking systems, BESnet achieved the highest level of satisfaction, leading in all eight assessment criteria (security, design, available services, ease of use, availability, page loading speed, transaction execution speed, global satisfaction with the internet banking service) surveyed in all monthly waves during the second quarter. The **BESmobile** service maintained strong growth, with the number of very frequent users reaching 48.3 thousand at the end of 1H13, surpassing the number of clients who use this service through telephone banking. According to Marktest data, BES has reinforced its undisputed leadership in this channel, with more than 8.6% of the clients for whom BES is the first Bank saying they have used BESmobile in the last three months. 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.

In the first half of 2013 **Banco BEST** reached EUR 2.1 billion in customer assets under custody, and posted net earnings of EUR 6.0 million, a YoY increase of 37%. Banco Best was recently 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 market 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 activity of **Banco Espírito Santo dos Açores** continued to suffer from the situation of crisis lived in the country as well as in the region, while maintaining its strategy for the acquisition of new clients and the increase of its market share, backed by the signature of new protocols with regional companies and institutions. With loan granting decelerating, the Bank stepped up measures to monitor and recover problem loans, while putting an extra effort into attracting customer funds. Hence customer deposits increased by 3.0% YoY and customer loans decreased by 6.3%. Assets totalled EUR 459 million at the end of 1H13. The Bank posted a net loss for the period of EUR 276 thousand, mainly resulting from a 37% drop in Net interest income and a EUR 1.1 million YoY increase in the credit provision charge. Banco Espírito Santo dos Açores's General Meeting approved a EUR 1,137,500.00 share capital increase, to 18,637,500.00, this operation having taken place at the end of June.

4.2.2 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

	Jun,13	Jun,12	Change
BALANCE SHEET			
Customer Loans (gross)	21 727	21 433	1,4%
Customer Funds	10 786	9 508	13,4%
INCOME STATEMENT			
Commercial Banking Income	308,8	250,7	23,2%
Capital Mkts & Other Results	7,1	5,6	25,9%
Banking Income	315,9	256,3	23,2%
Operating Costs	29,7	31,4	-5,7%
Provisions	459,6	208,6	120,3%
Income Before Tax	-173,4	16,2	....
Cost to Income	9,4%	12,3%	-2,9 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 23.2% YoY increase in the segment's banking income in 1H13, while the cost restructuring measures resulted in a 5.7% YoY reduction in operating costs.

Despite the strong contraction of demand for credit from the business sector, new loans granted by BES Group remained practically on level with loan reimbursements, keeping the loan portfolio stable during the period – a fact that mirrors the Group's support to the corporate sector and the results of its specialised service for the exporting and innovative companies.

BES Group continues to support the Portuguese companies' internationalisation processes. Working together with the Group's sales force, the International Premium Unit's geographically specialised desks coordinate this effort, providing a dynamic offer that meets the clients' requirements in each phase of their internationalisation processes.

In 2013 the Unit has been focusing its support on introducing its clients to new markets and reinforcing their ties to existing connections. In 1H13 BES successfully organised trade missions to Indonesia, Timor and Algeria and is currently preparing a mission to Poland and a visit of Libyan entrepreneurs to Portugal, to take place in 1H13. Through these trade missions, in full 2013 BES plans to support approximately 100 Portuguese companies establish direct contacts with five different markets.

Coordination between demand (high-potential external markets and segments) and supply (Portuguese companies with production capacity and quality) is essential in the preparation of these missions. 'BES Fine

Trade', a statistical survey on tradable goods conducted by ES Research to track markets with potential, segments offering opportunities and products in demand, offers entrepreneurs a global vision of their potential strategic markets. Close ties with the relevant authorities in each country (city councils, associations, diplomats) and a strong relationship with the local banks are also key to the success of these missions.
In international trade, BES Group is market leader in trade finance with a share of 30.9%, recognised over the last seven years through consecutive awards as 'BEST Trade Finance Bank' from the Global Finance magazine. This positioning is supported on the one hand by the relation of proximity with clients built by the Group's team of international bankers and, where necessary, its trade finance experts, and on the other by the ever close links maintained with a vast network of correspondent banks by the Group's experienced team of bankers specialising in financial institutions. Finally, the capacity to respond to clients across the 25 countries where BES Group operates is further reinforced through coordination with the Group's International Units, translating into rising levels of commissions income.

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: 90 new Iberian corporate clients were acquired in 1H13, and ca. 50% of all the Iberian companies with good risk profile are BES Group clients.

During 1H13 BES Group's team remained strongly engaged on providing support to Innovation and Entrepreneurship, tracking an increasingly large number of high potential opportunities, both commercial and technological, all over the country. The clear improvement in coordination within Portugal's 'Innovation Ecosystem" is starting to bear fruit, namely in terms of the quantity and quality of business leads which the Group may take up for investment or to support. More specifically, the number of investment deals closed in 1H13 was much higher than in the past, with five new Portuguese companies added to the portfolio of Espírito Santo Ventures. Over the last two years the Group's strategic bet on investment in start-ups has borne expressive results, with the number of investee companies in Portugal already reaching ca. 30.

BES has actively promoted the various PME Investe and PME Crescimento credit lines, two important tools to support the national SMEs' investment and growth, under which it has approved to date EUR 2,885 million of loans. In the case of the PME Crescimento 2013 line, BES is global leader with a share of 23.6% (EUR 279 million), as well as leader in support provided to the exporting companies, with a market share of 43.1%.

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 25,8% that represents EUR 1,659 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 2,400 million in facilities approved (guaranteeing the advancing of payments of more than EUR 12,000million per year).

The internet banking service for corporate clients - **BESnetwork** – reached 61 thousand frequent users in 1H13 (a YoY increase of 8.7%), while the number of logins rose by 13.7% YoY, to 8.4 million. In 2013 and for the second consecutive year **BESmobile** earned the award for best Mobile Banking services in Europe from the prestigious Global Finance magazine. 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.

4.2.3 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

	Jun,13	Jun,12	Change
BALANCE SHEET			
Customer Loans (gross)	935	962	-2,8%
Customer Funds	1 647	1 924	-14,4%
INCOME STATEMENT			
Commercial Banking Income	65,7	43,1	52,6%
Capital Mkts & Other Results	4,3	2,7	55,4%
Banking Income	70,0	45,8	52,8%
Operating Costs	8,4	9,0	-6,4%
Provisions	2,9	1,0	....
Income Before Tax	58,6	35,8	63,7%
Cost to Income	12,1%	19,7%	-7,6 pp

In this important business area, total customer funds grew by 5.3% YoY, underpinned by a strong increase in off-balance sheet funds (+13.8% YoY) that was driven by the clients' increasing preference for alternative investment products. In 1H13 deposits by private banking clients reversed the downward trend observed last year, growing by 10.5% since the end of 2012.

The segment's pre-tax profit increased to EUR 58.6 million. This improvement translates the measures taken during 2012 and 1H13 to enhance the customer funds margin (which led to a 52.8% increase in banking income) combined with the streamlining of the structure of operating costs (which fell by 6.4% YoY).

4.2.4 International Commercial Banking

This segment includes the retail units operating abroad, which maintained a globally positive performance during 1H13. Customer funds increased by 24.9%, largely driven by bond issues placed with institutional clients through BES London Branch, while customer loans grew by 11.4%, underpinned by the intensification of business in BES's subsidiary in Angola. Translating the reduction of banking income through the devaluation of the Venezuelan currency, and the increase in operating costs (+15.0%) and provisions (+117.8%), the pre-tax profit for the period was EUR 41.1 million, which is lower than in 1H12.

International Commercial Banking

EUR million

	Jun,13	Jun,12	Change
BALANCE SHEET			
Customer Loans (gross)	12 144	10 900	11,4%
Customer Funds	10 942	8 762	24,9%
INCOME STATEMENT			
Commercial Banking Income	261,7	293,6	-10,9%
Capital Mkts & Other Results	-12,6	17,6	-171,2%
Banking Income	249,2	311,2	-19,8%
Operating Costs	125,1	108,8	15,0%
Provisions	82,9	38,0	118,1%
Income Before Tax	41,1	164,4	-75,0%
Cost to Income	50,2%	35,0%	15,2 pp

Notwithstanding the persistent climate of economic and financial instability in Spain and the world, **BES Spain Branch** maintained a positive performance during the second quarter of 2013. Main highlights in the period: (i) expansion of the network, with branch openings in Palma de Mallorca and Logroño (where the Bank was not yet present) and two outlets in Madrid; ii) customer deposits increased by 55.5% YoY (+ 46.4% since the end of 2012) while customer loans rose by 1.0% 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 rose by 1.8%; v) the number of clients, mostly in retail and private banking (+40.7%), increased by 38.7% YoY, which is ca. 8,500 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 grew by 5.3% YoY, to EUR 28.2 million, driven by the increase in banking income (+3.7%) combined with the reduction of costs (-2.5%).

BES London Branch (United Kingdom) concentrates its activity in wholesale banking in the European market. During the first half of 2013 assets remained above EUR 5.5 billion, underpinned by the EMTN programme, though reflecting some reduction in on-balance sheet customer funds. Customer deposits, however, were 108% higher than in December 2012. On the other hand, customer loans remained practically flat, both YoY (-3.6%) and compared to the end of 2012 (-2.5%). Despite the adverse context banking income increased by 53% YoY, to EUR 27.2 million. Pursuing the work carried out in 2012, the structure of costs continued to be streamlined, leading to a 7% YoY reduction in costs.

At the end of 1H13 **Espírito Santo Bank** (Miami/USA) showed a balance sheet characterised by high quality assets and strong capital and liquidity ratios, and the highest level ever of assets, credit and deposits. Compared with the end of 2012, assets increased by USD 100 million, deposits by USD 88.7 million (+17%) and credit by USD 66.1 million (+15%). This growth was fuelled by the budding recovery of the residential market in south Florida, where the bank promoted the acquisition of second homes by non-resident individuals – an attractive and low risk market segment – while maintaining its conservative and safe assessment standards. In 2013 ES Bank was confirmed its “5 star” ranking, awarded for the first time in 2012 by Bauer Financial, on the grounds of its asset quality and liquidity and solvency levels. Assets under management reached USD 1.4 billion on 30 June 2013.

BES New York Branch (USA) concentrates its activity in wholesale banking, mainly in the US and Brazil. The persistence during 1H13 of restrictions on access to market liquidity required from the Bank extreme prudence in business development, focus on risk monitoring and management, and an effort for further deleveraging (the loan book was reduced by 24% YoY), in line with the Group’s international strategy guidelines. The Branch posted net income for the period of EUR 3.8 million.

For **Banco Espírito Santo de Angola**, the first half of 2013 was marked by the start of implementation of the 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 creation of a new model of commercial dynamics; (iv) development of a multi-channel strategy permitting to extend the reach of client acquisition efforts and the provision of innovative services. 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 1H13 BESA’s assets totalled EUR 8,489 million, a YoY rise of 12% that was driven by a 25% increase in the credit portfolio, to EUR 5,699 million. Over the same period customer funds increased by 7%. Banking income dropped by 32% YoY, to EUR 116.4 million, essentially through the reduction in fees and commissions (the 1H12 banking income included non-recurrent commission income). Net interest income grew by 27%, to EUR 99.3 million, while operating costs increased by 23%. BESA posted net income for the period of EUR 25.9 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 half of 2013 the Bank maintained its business volume practically flat (+0.5% vs. Dec.12), closing the period with assets of EUR 137 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 also reported growth in documentary transactions (e.g. L/C Advising/Forfaiting/Discount), 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 75% YoY increase in deposits in 1H13. Notwithstanding the deceleration of global economic activity, the gross income for the period increased by 31% YoY.

Banque Espírito Santo et de la Vénétie (France) reported gross operating income of EUR 8.6 million in 1H13, which represents a YoY increase of 1%. Commercial banking income rose by 1% while total banking income increased by 5% YoY, to EUR 22.5 million. Operating costs were up by 13% YoY, driven by the reorganisation of the teams dedicated to commercial operations and support and information and control systems, as well as by an increase in services provided by external consultants. Provisions, which translate the cost of risk, were reinforced by 158% YoY, reaching EUR 6.8 million. The Bank reported a net profit for the period of EUR 605 million.

In June 2013 BES increased its stake in **Moza Banco** (Mozambique) to 49%. During 1H13 Moza Banco continued to deploy its commercial expansion plan, opening three new branches that increased the network to 23 units. Activity continued to grow at a strong pace: in local currency, assets increased by 220% YoY, while deposits and customer loans grew by 290% and 241%, 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 1H13 the branch had total assets of EUR 146 million.

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 June 2013 the branch had total assets of EUR 840 million, reporting a net profit for the period of EUR 1.3 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 6% in 1H13, posting a net profit of EUR 3.1 million.

4.2.5 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

	Jun,13	Jun,12	Change
BALANCE SHEET			
Customer Loans (gross)	2 146	2 316	-7,3%
Customer Funds	1 067	1 052	1,4%
INCOME STATEMENT			
Commercial Banking Income	93,1	105,4	-11,6%
Capital Mkts & Other Results	28,2	18,0	56,5%
Banking Income	121,3	123,4	-1,7%
Operating Costs	86,3	85,8	0,6%
Provisions	26,6	14,1	88,1%
Income Before Tax	8,4	23,5	-64,1%
Cost to Income	71,1%	69,5%	1,6 pp

The macroeconomic and political context unfolding during the second quarter exerted some pressure on investment banking business. However the capital markets business area maintained its buoyancy, and BES Investimento (BESI) led the main issues made in Portugal in the period as well as several operations in Poland, the United Kingdom, Mexico and Brazil. Banking income, amounting to EUR 121.3 million, was slightly lower (1.7%) than in 1Q13 while operating costs remained practically flat YoY (+0.6%). The pre-tax results were penalised by the increase in credit impairments, dropping by 64.1% YoY, to EUR 8.4 million.

The international area accounted for 57% of banking income. With the start-up of Lusitânia Capital, SOFOM, E.N.R., a non-banking fully owned subsidiary aiming to provide financial advisory services and support to projects in local currency, and the representation and advisory activities already developed through the local representative office, BESI now has a stronger presence in Mexico, one of the region's markets currently showing good development prospects.

Main operations concluded in 2Q13:

- **Mergers and Acquisitions** – In Portugal, BESI concluded the advisory services provided to China Three Gorges on the acquisition of 49% of the share capital of EDP Renováveis Portugal and 25% of the shareholder loans to this company (total implied enterprise value for 100% - EUR 1 billion) and to Arena Atlântida on the acquisition of Pavilhão Atlântico. BESI also advised DST on the sale of an asset to a real estate investment fund. In Brazil, the Bank provided advisory services to Codimetal on the acquisition of a 70% stake in Trefinox. At the end of 1H13 BESI maintained the leadership of the Portuguese M&A market by number and value of concluded transactions and ranked second in the Iberian market, by value of concluded transactions (Bloomberg data).

- **Project Finance and Securitisation** – In Brazil, BESI granted a BRL 20 million bridge loan to ATTEND Ambiental, SPE, a 55/45 joint venture between Estre Ambiental and Sabesp for the construction and operation of a pre-treatment station of non-domestic effluents in the metropolitan region of São Paulo. The Bank also concluded the BRL 46 million long-term funding through BNDES for ViaBahia, responsible for the construction and operation of 680 kms of highways in the state of Bahia.

- **Acquisition Finance & Other Lending** – In Portugal, BESI acted as Mandated Lead Arranger on the Arena Atlântida financing for the acquisition of the Pavilhão Atlântico, now renamed Meo Arena. In Poland, the Bank continued to support the business development of its various local and international clients, mostly through the issuance of bank guarantees, which totalled zloty 71 million in 2Q13. In Brazil, the Bank participated in the pre-export financing to the Los Grobo Ceagro group, with an amount of USD 4.5 million, and in the issuance of an Export Credit Note by Belagrícola (BESI participation of BRL 20 million). BESI also completed 49 financing operations for a total of BRL 267 million (including renewals), actively supporting Iberian companies in their business' expansion to Brazil.

- **Equity Capital Markets** – BESI acted: (i): in Poland, as Joint Global Coordinator and Joint Bookrunner on the accelerated bookbuilding sale of a 25% stake in KRUK by PE Fund Entreprise Investors (zloty 251.8 million); (ii) in Brazil, as Joint Bookrunner on the BHG's follow-on offering (BRL 378 million); and (iii) in the United Kingdom, as Joint Bookrunner on the placement of 131.6 million new shares of Vertu Motors Plc (GBP 50 million) and as Sole Bookrunner of the placement of 1.2 million existing shares of Ted Baker (GBP 20 million).

- **Debt Capital Markets** - BESI acted (i) in Iberia, as Joint Lead Manager on the Portugal Telecom (EUR 1 billion) and ESFIL (EUR 200 million) bond issues, as Sole Lead Manager on ESF Portugal (EUR 80 million), Sonae Investimentos (EUR 50 million) and Ascendi (EUR 15 million) bond issues and as Joint Global Coordinator on Benfica SAD's bond offering (EUR 45 million); (ii) in Brazil, as Joint Bookrunner on the infrastructure debentures issue of Concessionária Rodovias do Tietê (BRL 1065 million) and on the bond issue of Andrade Gutierrez (USD 500 million); and (iii) in Mexico, as Sole Lead Manager on the bond issue of Crediamigo (USD 30 million).

- **Brokerage** - BESI maintained a prominent position in Portugal (3rd place with a 6.3% market share) and Spain (7th place with a 5.0% market share). The Bank reached the 25th position in Brazil's Bovespa ranking, with a market share of 1%, and the 19th position in the Polish brokers' ranking, with a market share of 1.5%.

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.

4.2.6 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

	Jun,13	Jun,12	Change
ASSETS UNDER MANAGEMENT	15 723	13 125	19,8%
INCOME STATEMENT			
Banking Income	30,0	34,1	-11,9%
Operating Costs	8,6	8,8	-1,6%
Provisions	0,1	0,8	-87,0%
Income Before Tax	21,3	24,5	-13,1%
Cost to Income	28,7%	25,7%	3,0 pp

The increase in assets under management was largely driven by growth in the real estate investment funds and portfolio discretionary management activities, and also by the activity developed in Luxembourg, which offset the reduction or stabilisation of volumes in the other business segments. International assets under management dropped by 5%, despite the increase achieved in Luxembourg.

In 2012 ESAF was named the best Asset Manager in Portugal in the Morningstar / Diário Económico awards, having also received the following accolades: (i) 'Best national bond manager'; (ii) 'Best national euro bond fund' (Espírito Santo Obrigações Europa); (iii) 'Best foreign euro bond fund' (Espírito Santo Euro Bond); and (iv) 'Best national mixed moderate euro fund' (Espírito Santo Estratégia Activa). In 2013 ESAF was distinguished in the Lipper Funds Awards in Spain and in Europe.

4.2.7 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

	Jun,13	Jun,12	Change
BALANCE SHEET			
Customer Funds	4 969	3 661	35,7%
INCOME STATEMENT			
Gross Margin of Insurance Business	300,2	40,3	....
Operating Costs	5,6	2,1	161,6%
Provisions	0,2	1,8	-86,9%
Net Income	212,6	17,4	....

BES Vida's 1H13 results are influenced by the monetisation transaction of its life risk portfolio under which all the inherent risks were transferred to a reinsurer and BES Vida maintained the management of contracts and the relations with clients. The operation had a positive impact of ca. EUR 150 million on the Company's results. The results were also boosted by an increase in insurance production, which reached EUR 851.6 million, corresponding to a YoY rise of more than 469.3% in premium volume. Moreover, production of unit-linked products and pension plans also experienced strong growth in the period, while claims volume registered a sharp contraction (-35.9%) due to the reduction in financial products' redemption volume and the smaller amount of financial products coming to maturity.

4.2.8 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

	Jun,13	Jun,12	Change
INCOME STATEMENT			
Banking Income	-429,2	79,8	....
Operating Costs	30,4	24,9	21,9%
Provisions	142,9	120,4	18,7%
Income Before Tax	-602,5	-65,5	....

Reflecting the reduction of funding from the ECB, the issue of bonds, namely in the international market at the end of 2012 and also in January 2013, and 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 in 1H13. 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 142.9 million, explains the net loss of ca. EUR 602.5 million reported in the period.

5. FINANCIAL STRENGTH AND ASSET QUALITY

5.1 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-Jun-13	31-Dec-12	30-Jun-12	Change	
				absolute	relative
EUR million					
Gross loans	51 111	50 399	51 176	712	1,4%
Overdue Loans	2 849	2 185	1 908	664	30,4%
Overdue Loans +90d	2 603	1 966	1 691	637	32,4%
Credit at risk [1]	5 485	4 758	4 049	727	15,3%
Provisions for Credit	3 134	2 692	2 435	442	16,5%
Indicators (%)					
Overdue Loans / Gross Loans	5,6	4,3	3,7	1,3 p.p.	
Overdue Loans +90d / Gross Loans	5,1	3,9	3,3	1,2 p.p.	
Credit at risk [1] / Gross Loans	10,7	9,4	7,9	1,3 p.p.	
Coverage of Overdue Loans	110,0	123,2	127,6	-13,2 p.p.	
Coverage of Overdue Loans + 90d	120,4	136,9	144,0	-16,5 p.p.	
Coverage of Credit at risk [1]	57,1	56,6	60,1	0,5 p.p.	
Provisions for Credit / Gross Loans	6,1	5,3	4,8	0,8 p.p.	
Cost of Risk	2,16	1,62	1,38	0,54 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 5.1% (Dec.12: 3.9%), while credit at risk represents 10.7% of gross loans (Dec.12: 9.4%), with a provision coverage (excluding collaterals and guarantees) of 57.1% (Dec.12: 56.6%).

The Provisions for Credit / Gross Loans ratio continued to increase, reaching 6.1% (Dec.12: 5.3%).

The asset quality deterioration was sharpest in corporate credit, rising to 6.8% (Dec.12: 5.2%) and other loans to individuals and consumer credit, where it reached 8.1% (Dec.12: 7.4%), and lowest in mortgage credit, where the ratio was 0.9%, still below the 1.0% threshold.

Overdue Loans

	30-Jun-13	31-Dec-12	30-Jun-12	Change
Overdue Loans	5,6%	4,3%	3,7%	1,3
Individuals	2,3%	2,2%	1,8%	0,1
- Mortgage	0,9%	0,9%	0,9%	0,0
- Other Purposes	8,1%	7,4%	6,0%	0,7
Corporate	6,8%	5,2%	4,4%	1,6

According to the statistics published by the Bank of Portugal (May 2013), the Group's overdue loan ratios compare favourably with those of the Portuguese banking sector, where corporate overdue loans stand at 9.8% (BES Group: 6.8%), mortgage overdue loans at 2.0% (BES Group: 0.9%) and other loans to individuals overdue loans at 12.3% (BES Group: 8.1%).

BES Group has been actively executing real guarantees through foreclosures, in light of a proactive recovery process. Foreclosed assets thus totalled EUR 2.0 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-Jun-13	31-Mar-13	31-Dec-12
Domestic	2 185	2 122	1 965
International	138	137	120
Gross Value	**2 323**	**2 259**	**2 085**
Provisions	290	267	240
Net Value	**2 032**	**1 992**	**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 1H13 1,774 such properties were sold for a gross balance sheet value of EUR 225.5 million, which represents a YoY increase of 94%. No material gains or losses were determined on these sales.

5.2 Liquidity, Solvency and Financial Strength

5.2.1 Liquidity

Faced with the persistent weakness of economic activity and the need to maintain the stimuli to the European economy, in May 2013 the ECB cut the key benchmark rate by 25bps, from 0.75% to 0.5%, with the interest rate on the deposit facility maintained at 0%. The ECB also announced it would continue to conduct 3-month refinancing operations with full allotment at least until July 2014, thus providing liquidity insurance to banks for a longer period of time.

The ECB's stimuli contributed to drive down the peripheral public debt yields, with the 10-year Portuguese sovereign debt yield narrowing to 5.5% in May, from 7% at the start of the year.

In this context, Portugal issued in May a new 10-year benchmark government bond that raised EUR 3 billion, with the order book surpassing EUR 10 billion. The issue was placed with a spread of 400bps over the mid-swap rate (5.67% yield).

In June the statements proffered by the Chairman of the US Federal Reserved provoked adverse reactions in the markets, which interpreted his remarks as meaning that the monetary stimuli would be toned down as from the second half of 2013 and reference interest rates would be raised sooner than previously expected. This caused a reversal in the downward trend of public debt yields, with the 10-year Portuguese debt yield reaching 6.4% at the end of June.

At the end of June the portfolio of repoable securities amounted to EUR 24.6 billion, of which EUR 21.8 billion were eligible for rediscount with the European Central Bank. This amount includes exposure to Portuguese sovereign debt of EUR 4.4 billion (of which EUR 1.4 billion maturing in less than one year). BES Group's other peripheral European sovereign exposures totalled EUR 2.2 billion (of which EUR 1.5 billion maturing in less than one year), including EUR 1.9 billion of Spanish public debt, EUR 218 billion of Italian public debt, EUR 48 million of Greek public debt and no Irish public debt.

Net funding from the ECB totals EUR 8.3 billion, which represents a YoY reduction of EUR 5.4 billion.

5.2.2 Solvency

BES Group's solvency ratios are 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% in December 2012. On the other hand, European banks, including Portuguese banks, should post a Core Tier I of 9% by June 30th, 2012, 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.

BES Group closely follows 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 in the European Union.

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-Jun-13	31-Dec-12
Risk Weighted Assets (A)	**60 685**	**61 681**
Banking Book	55 443	56 484
Trading Book	1 548	1 503
Operational Risk	3 694	3 694
Regulatory Capital		
Core Tier I (B)	**6 293**	**6 471**
Core Tier I EBA (B')	**5 801**	**6 092**
Tier I (C)	**6 124**	**6 439**
Tier II and Deductions	397	518
TOTAL (D)	**6 521**	**6 957**
Core Tier I (B/A)	**10,4%**	**10,5%**
Core Tier I EBA (E/A)	**9,6%**	**9,9%**
Tier I (C/A)	**10,1%**	**10,4%**
Solvency Ratio (D/A)	**10,7%**	**11,3%**

Core Tier I capital decreased by EUR 178 million in 1H13, mainly through the incorporation under capital instruments of the period's results (-EUR 237 million) and the change in negative fair value reserves (-EUR 63 million), these being in part offset by the reduction in intangible assets and goodwill (EUR 130 million), which include the impact of BES Vida reinsurance operation.

As a result of the reduction of capitals and risk weighted assets, the Core Tier ratio stands at 10.4%, meeting the Bank of Portugal's requirement (minimum of 10%); under the EBA calculation method, the Core Tier I ratio is 9.6%, which is above the minimum 9% established by the European authority.

5.3 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 June 2013 and June 2012.

%	30-Jun-13	30-Jun-12
SOLVENCY		
Regulatory Capital / RWA [a]	10,7	11,1
Tier I / RWA[a]	10,1	10,4
Core Tier I / RWA [a]	10,4	10,5
ASSET QUALITY		
Overdue & Doubtful Loans [b] / Gross Loans [c]	6,2	4,2
Overdue & Doubtful Loans net of Provisions [c]/ Net Loans[c]	0,0	-0,5
Credit at Risk[c/f] / Gross Loans[c]	10,7	7,9
Credit at Risk net of Provisions [c/f]/ Net Loans [c]	4,9	3,3
PROFITABILITY		
Income before Tax and Minorities / Average net Assets	-0,8	0,5
Banking Income [d]/Average Net Assets	2,4	2,9
Income before Tax and Minorities/ Average Equity[e]	-8,9	5,9
EFFICIENCY		
General Admin Costs [d]+ Depreciation / Banking Income [d]	57,3	47,0
Staff Costs / Banking Income [d]	29,5	24,5
TRANSFORMATION		
(Gross Loans[c]- Credit Impairments[c] / Customer Deposits [f]	125	147

(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

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.

6. Main Risks and Uncertainties in the second half of 2013

The positive evolution of Portugal's GDP in the second quarter opened expectations that this performance would be confirmed in the second half of the year.

However, the economic and financial adjustment process which Portugal is going through and the recession that has also been affecting the European Union should continue to take their toll on the performance of the national financial sector over the next six months. Hence these are the main risks and uncertainties that may affect the activity and results of BES Group during the second half of 2013: (i) the Portuguese Government's level of success in achieving the goals and commitments agreed with the EC/ECB/IMF under the Economic and Financial Policy Memorandum; (ii) the general evolution of the financial markets, namely in connection to the pace of the gradual and conditional withdrawal of stimuli by the North-American monetary authority; (iii) the ECB's conduct of the monetary policy, particularly with regard to the future evolution of benchmark interest rates; (iv) the persistence of the Portuguese banking sector's difficulties of access to the monetary and financial markets; and (v) the need to bolster the attraction of customer funds in the current context where the Portuguese banks are struggling with restricted access to the international markets.

Faced with these prospects, BES Group's activity in the second half of the year should continue to be developed according to the following guidelines:

- carrying on the commercial policies leading to the improvement of the loan to deposits ratio by promoting the attraction of customer funds and maintaining a selective loan granting policy; continue
- continued focus on prudent financial management, maintaining adequate liquidity levels and adapting asset and liability management to the country's current economic and financial situation;
- continued implementation of measures promoting an efficient balance sheet management viewing compliance with the capital ratio levels required by the Supervision Authorities;
- continued development of mechanisms to reinforce risk mitigation, perception and control;
- pursuing the provisioning policy for credit and other assets aligned to the evolution of risks;
- further developing and implementing the "Gradual Cost-Cutting Plan" outlined for the 2013-2015 period;
- maintaining support to the SMEs, in particular the exporting ones, backing their access to credit and their efforts in the search for new international markets, namely those where BES Group is present.

The attached Notes to the Financial Statements contain a description of the management approach to the main activity risks (credit, market, liquidity and operational risks) to which BES Group and BES are exposed through the regular development of their activities.

7. ACTIVITY AND RESULTS OF BANCO ESPÍRITO SANTO

7.1. Business Performance and Asset Quality

BES registered a EUR 5.7 billion year-on-year drop in assets, mainly driven by a EUR 4.4 billion reduction in the available for sale portfolio (down by EUR 4.4 billion). On the funding side, customer deposits increased by EUR 4.7 billion, while bank funding (which includes operations with the ECB) decreased by EUR 8.1 billion.

On-balance sheet customer funds were up by 13.9% year-on-year, underpinned by a 16.0% increase in deposits, with total customer funds rising by 12.0%, to EUR 53.7 billion.

Activity Indicators

Eur million

	30-Jun-13	30-Jun-12	Change	
			absolute	relative
Net Assets	**67 432**	**73 132**	**-5 700**	**-7,8%**
Customer Loans	**40 345**	**40 869**	**- 524**	**-1,3%**
Loans to individuals	10 044	10 519	- 475	-4,5%
- Mortgage	8 012	8 350	- 338	-4,0%
- Other Loans to Individuals	2 032	2 169	- 137	-6,3%
Corporate Lending	30 301	30 350	- 49	-0,2%
Total Customer Funds	**53 685**	**47 917**	**5 768**	**12,0%**
- On-Balance Sheet Customer Funds	37 402	32 828	4 574	13,9%
Deposits	34 169	29 451	4 718	16,0%
Debt Securities placed with Clients	3 233	3 377	- 144	-4,3%
-Off-Balance Sheet Customer Funds	16 283	15 089	1 194	7,9%

In terms of asset quality, the overdue loans ratio (>90 days) increased to 5.98% (Dec.12: 4.58%), with a corresponding provision coverage of 116.6%. The ratio of provisions to total credit (outstanding and overdue) has been consistently increasing, reaching 6.97% (up from 5.35% in Jun.12).

Asset Quality

	30-Jun-13	31-Dec-2012	30-Jun-12	Change absolute	Change relative
EUR million					
Customer Loans (gross)	40 345	39 269	40 869	1 076	2,7%
Overdue Loans	2635,1	2003,0	1724,0	632,1	31,6%
Overdue Loans > 90 days	2412,1	1798,4	1526,4	613,7	34,1%
Provisions for Credit	2811,8	2402,1	2184,8	409,7	17,1%
(%)					
Overdue Loans/Customer Loans (gross)	6,53	5,10	4,22	1,43 p.p.	
Overdue Loans> 90 days/ Customer Loans (gross)	5,98	4,58	3,73	1,40 p.p.	
Coverage of Overdue Loans	106,7	119,9	126,7	-13,2 p.p.	
Coverage of Overdue Loans > 90 days	116,6	133,6	143,1	-17,0 p.p.	
Provisions for Credit (Balance) / Customer Loans	6,97	6,12	5,35	0,85 p.p.	

7.2. Results

BES's results in the period, a net loss of EUR 465.8 million, translate the reinforcement of provisions for impairments in light of the increase in the number of insolvencies and unemployment, which were also responsible for a significant drop in revenues. The economic recession and a domestic context of strong financial restrictions, namely very limited access to the capital markets, the inexistence of an interbank market, fierce competition over customer funds and benchmark interest rates maintained at historical lows, inevitably impacted the quality of assets and their contribution to banking income.

Income Statement

EUR million

	Jun,13	Jun,12	Change absolute	Change relative
Net Interest Income	166,0	367,4	-201,4	-54,8%
+ Fees and Commissions	268,4	224,7	43,7	19,4%
= **Commercial Banking Income**	**434,4**	**592,1**	**-157,7**	**-26,6%**
+ Capital Markets and Other Results	-63,1	309,5	-372,6	....
= **Banking Income**	**371,3**	**901,6**	**-530,3**	**-58,8%**
- Operating Costs	371,2	381,1	-9,9	-2,6%
= **Operating Income**	**0,1**	**520,5**	**-520,4**	**-100,0%**
- Net Provisions	585,8	308,8	277,0	89,7%
Credit	492,1	277,7	214,4	77,2%
Securities	60,8	29,7	31,1	104,3%
Other	32,9	1,4	31,5	....
= **Income before Taxes**	**-585,7**	**211,7**	**-797,4**	**....**
- Taxes	-132,2	42,9	-175,1	....
- Special tax on Banks	12,3	13,3	-1,0	-7,0%
= **Net Income**	**-465,8**	**155,5**	**-621,3**	**....**

Banking income fell by 58.8% relative to June 2012, driven by reductions in both net interest income (-54.8%), and in capital markets and other results (to a loss of EUR 63.1 million). On the other hand, fees and commissions increased by 19.4% while operating costs were reduced by 2.6%. Provisions were reinforced by a total of EUR 585.8 million (+ 89.7% YoY), of which 84% were provisions for loan impairments.

8. SUNDRY DISCLOSURES

8.1 Securities issued by BES and held by BES senior officers

In compliance with Article 9 (1-a)) of CMVM regulation no. 5/2008, the table below lists the members of BES Corporate Bodies who on 30 June 2013 held securities or related financial instruments issued by BES.

Shareholdings of Board Members

Shareholder	Shares	Nº of shares as of 31/12/2012	Transactions in 1H13				Nº of shares as of 30/06/2013
			Date	Acquisitions	Disposals	Price (EUR)	
RICARDO ESPÍRITO SANTO SILVA SALGADO	BES Shares	3 806 915	-	-	-	-	3 806 915
JOSÉ MANUEL PINHEIRO ESPÍRITO SANTO SILVA	BES Shares	1 009 271	-	-	-	-	1 009 271
ANTÓNIO JOSÉ BAPTISTA DO SOUTO	BES Shares	106 081	-	-	-	-	106 081
JORGE ALBERTO CARVALHO MARTINS	BES Shares	144 058	-	-	-	-	144 058
ANÍBAL DA COSTA REIS DE OLIVEIRA	BES Shares	1 010 000					1 010 000
MANUEL FERNANDO MONIZ GALVÃO ESPÍRITO SANTO SILVA	BES Shares	6 831	-	-	-	-	6 831
JOSÉ MARIA ESPÍRITO SANTO SILVA RICCIARDI	BES Shares	30 000	-	-	-	-	30 000
RUI MANUEL DUARTE SOUSA DA SILVEIRA	BES Shares	6 366	-	-	-	-	6 366
JOAQUIM ANÍBAL BRITO FREIXIAL DE GOES	BES Shares	151 204	-	-	-	-	151 204
RICARDO ABECASSIS ESPÍRITO SANTO SILVA	BES Shares	160 000	-	-	-	-	160 000
AMÍLCAR CARLOS FERREIRA DE MORAIS PIRES	BES Shares	334 725	-	-	-	-	334 725
JOÃO EDUARDO MOURA DA SILVA FREIXA	BES Shares	131 281	-	-	-	-	131 281
PEDRO MOSQUEIRA DO AMARAL	BES Shares	192 500	-	-	-	-	192 500
HORÁCIO LUIS AFONSO	BES Shares	4 125	-	-	-	-	4 125

Bondholding of Board Members

Bondholder	Securities	Nº of Bonds as of 31/12/2012	Transactions in 1H13 Date	Acquisitions	Disposals	Price (EUR)	Nº of Bonds as of 30/06/2013
ALBERTO ALVES DE OLIVEIRA PINTO	Obrigações BES 4 anos 7% (PTBEQGOM0015)	100 000	-	-	-	-	100 000
	Obrigações BES LDN 05/12 (SCEBESOOE0608)	252 000	13-02-2013	-	252 000	92%	0
JOSÉ MANUEL PINHEIRO ESPÍRITO SANTO SILVA	Obrigações BES 5,625% DUE junho 2014	200 000	-	-	-	-	200 000
ANTÓNIO JOSÉ BAPTISTA DO SOUTO	Obrigações BES 5,625% DUE junho 2014	350 000	-	-	-	-	350 000
	Obrigações BES DUE 02/2013(PTBLMWOM0002)	350 000	30-01-2013	-	350 000	99%	0
	Obrigações BES LDN 07/12 (SCBESOOE0678)	167 000	-	-	-	-	167 000
JORGE ALBERTO CARVALHO MARTINS	Obrigações BES 2009/ 05-06-2014	250 000	-	-	-	-	250 000
ANÍBAL DA COSTA REIS DE OLIVEIRA	Obrigações BES Finance 0312 (SCBES0OE0567)	302 000	10-01-2013	-	116 000	86%	
			25-03-2013	-	186 000	87%	0
RUI MANUEL DUARTE SOUSA DA SILVEIRA	Obrigações BES LDN 05/12 (SCBES0OE0626)	108 000	28-01-2013	-	108 000	91%	0
	BES LUX 01/13 07P01 (SCBES0OE0779)	0	29-01-2013	140 000	-	71%	140 000
JOAQUIM ANÍBAL BRITO FREIXIAL DE GOES	Obrigações BES 5,625% DUE junho 2014	50 000	-	-	-	-	50 000
AMÍLCAR CARLOS FERREIRA DE MORAIS PIRES	Obrigações BES DUE 3,875% 2015	250 000	-	-	-	-	250 000
	Obrigações BES DUE 5,625% junho 2014	250 000	-	-	-	-	250 000
JOÃO EDUARDO MOURA DA SILVA FREIXA	Obrigações BES Finance 0312 (SCBES0OE0567)	233 000	25-03-2013	-	233 000	87%	0
	Obrigações BES LDN 10/12 (SCBES0OE0752)	1 069 000	-	-	-	-	1 069 000
RICARDO ABECASSIS ESPÍRITO SANTO SILVA	Obrigações BES 5,625%	50 000	-	-	-	-	50 000

For compliance with Article 14 (6 and 7) of CMVM Regulation no. 5/2008, the table below lists the transactions of BES shares or related financial instruments carried out during the first half of 2013 by other senior executives of BES or of companies having control over BES, or by persons having a close connection to the former.

Shareholding of Senior Officers

Shareholder	Shares	Nº of shares as of 31/12/2012	Transactions in 1H13				Nº of Shares as of 30/06/2013
			Date	Acquisitions	Disposals	Price (EUR)	
António Manuel Rodrigues Marques	BES Shares	133 797	-	-	-	-	133 797
António Miguel Natário Rio -Tinto	BES Shares	13 453	08-02-2013	-	13 453	0,997	0
Bernardo Leite Faria Espírito Santo	BES Shares	7 636	-	-	-	-	7 636
Isabel Maria Carvalho de Almeida Bernardino	BES Shares	176 043	-	-	-	-	176 043
João Filipe Carvalho Martins Pereira	BES Shares	45 226	-	-	-	-	45 226
João Maria de Magalhães Barros de Mello Franco	BES Shares	82 385	-	-	-	-	82 385
Jorge Daniel Lopes da Silva	BES Shares	36 423	-	-	-	-	36 423
José Alexandre Maganinho Pinto Ribeiro	BES Shares	220 000	-	-	-	-	220 000
Manuel José Dias de Freitas	BES Shares	91 767	11-03-2013	-	80 000	0,960	11 767
Paulo António Estima da Costa Gonçalves Padrão	BES Shares	18 023	-	-	-	-	18 023
Pedro Roberto Menéres Cudell	BES Shares	35 000	-	-	-	-	35 000
Rui José Costa Raposo	BES Shares	3 361	-	-	-	-	3 361
Rui Manuel Fernandes Pires Guerra	BES Shares	439 100	-	-	-	-	439 100

Also for compliance with Article 14 (6 and 7) of CMVM Regulation no. 5/2008, there follows a list of the transactions of Banco Espírito Santo S.A. shares or related financial instruments carried out during the first half of 2013 by members of its corporate bodies and other senior executives.

Transactions in the 1H13

	Date	Securities	Transaction	Nº of securitues	Price (EUR)
António Miguel Natário Rio -Tinto	08-02-2013	BES Shares	Disposal	3 599	0,997
				9 854	0,997
Manuel José Dias de Freitas	11-03-2013	BES Shares	Disposal	7 958	0,960
				72 042	0,960

8.2 Qualified Holdings in BES Share Capital

The table below lists the qualified holdings in BES share capital as at 30 June 2013, calculated under the terms of Article 20 of the Securities Code, for compliance with the provisions of Article 9 (1-c)) of CMVM Regulation no. 05/2008.

QUALIFIED STAKES		March 2013	
		N Shares	% Voting Rights
ESPIRITO SANTO FINANCIAL GROUP, S.A (Luxembourg)			
- directly		42.982.596	1,07%
- through BESPAR, SGPS, S.A (controlled by Espirito Santo Financial (Portugal), SGPS, S.A., fully owned by Espirito Santo Financial Group S.A)		1.417.916.095	35,29%
- through members of its Board of Directors and Supervisory Bodies		7.421.472	0,18%
- through companies controlled directly and indirectly and/or members of its Board of Directors and Supervisory Bodies		22.458.331	0,56%
	Total attributable	**1.490.778.494**	**37,10%**
CRÉDIT AGRICOLE, S.A (France)			
- directly		434.252.321	10,81%
	Total attributable	**434.252.321**	**10,81%**
BRADPORT, SGPS, S.A*			
- directly		194.104.165	4,83%
	Total attributable	**194.104.165**	**4,83%**
SILCHESTER INTERNATIONAL INVESTORS LIMITED (UK)			
- directly		226.727.742	5,64%
	Total attributable	**226.727.742**	**5,64%**
PORTUGAL TELECOM, SGPS, S.A			
- through PT Prestações - Mandatária de aquisições e gestão de bens, S.A.		84.109.047	2,09%
- through members of its Board of Directors and Supervisory Bodies		485.929	0,01%
	Total attributable	**84.594.976**	**2.10%**
CAPITAL RESEARCH AND MANAGEMENT			
- directly		102.979.223	2,56%
	Total attributable	**102.979.223**	**2,56%**

* Portuguese company fully owned by Banco Bradesco (Brasil)

8.3 BES Own Shares

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

Own shares

	Number of shares	Price (Eur)	Total (euro thousand)
Balance as at dec 12	10 388 056	0,673	6 991
Acquisitions in the period (1)	2 084 826	0,896	1 868
Disposals in the period (1)	12 197 591	0,661	8 058
Balance as at June, 30 2013	**275 291**	**2,909**	**801**

(1) Shares acquired/disposed that are now integrated and/or are not in BES Vida protfolio

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

8.4 Recommendations of the Financial Stability Forum (FSF) and the Committee of European Banking Supervisors (CEBS) concerning the Transparency of Information and the Valuation of Assets

In its Circular Letter no. 58/2009/DSB of 5 August 2009, the Bank of Portugal reiterated "the need for institutions to maintain adequate compliance with the recommendations of the Financial Stability Forum (FSF), as well as those issued by the Committee of European Banking Supervisors (CEBS), concerning the transparency of information and the valuation of assets, taking into account the proportionality principle", as set out in Circular Letters no. 46/08/DSBDR of 15 July 2008 and no. 97/08/DSB of 3 December 2008.

The Bank of Portugal recommends the inclusion in the reporting documents of a specific chapter or annex exclusively dedicated to the issues dealt with in the CEBS and FSF recommendations.

This chapter aims to ensure compliance with the Bank of Portugal's recommendation, including references to where the information provided may be found within the body of the Management Report or in the Notes to the Financial Statements, or, in the present case of an Interim Report, in other documents previously disclosed by BES Group, namely the 2012 Management Report and Notes to 2012 Financial Statements.

I. BUSINESS MODEL

1. Description of the business model

A detailed description of the Group's business model is provided in Item 4 of the 2012 Management Report. The performance of the Group's main business areas (operating segments) may be found in Item 4.2 of the first half of 2013 Management Report and in Note 41.

[1] The numbering refers to the Notes to the Interim Consolidated Financial Statements

2. Strategy and objectives

A detailed description of the Group's strategy and objectives is provided in Item 1 of the 2012 Management Report and Note 51 to the 2012 and first half of 2013 Financial Statements, under Funding and Capitalisation Plans (2011—2015), with no relevant changes in strategic guidelines since the publication of the reports.

The securitisation transactions are detailed in Note 49.

3., 4. and 5. Activities developed and contribution to the business

Item 4.2 of the first half of 2013 Management Report and Note no. 4 contain detailed information about the activity developed and its contribution to the business.

II. RISK AND RISK MANAGEMENT

6. and 7. Description and nature of the risks incurred

Item 6 of the 2012 Management Report describes how the Risk Management function is organised within BES Group; this information is still up to date.

Note 51 contains diverse information that in total allows the market to form a thorough perception about the risks incurred by the Group and the management mechanisms in place to monitor and control such risks.

III. IMPACT OF THE PERIOD OF FINANCIAL TURMOIL ON THE RESULTS

8., 9., 10. and 11. Qualitative and quantitative description of the results and comparison of impacts between periods

Activity during 2012 was conducted in a climate of deterioration of Portugal's economic situation, with a negative impact on risk. Consequently the Group reinforced provisions by a total of EUR 1430.0 million (EUR 609.0 million more than in 2011).

For most of the first half of 2013 activity was framed by the continued aggravation of the country's economic situation and resulting strong increase in risk. The provision charge was consequently increased to 2.16% (FY12: 1.62%). In addition, the devaluation of financial instruments' prices during the period reduced the fair value reserve by EUR 233.2 million.

12. Decomposition of realised and non realised write-downs

The profit and loss of assets and liabilities held for trading and of assets at fair value and assets available for sale are detailed by financial instrument in Notes 7 and 8. In addition, non realised gains and losses on assets available for sale are detailed in Notes 23 and 45, while the most significant positions are decomposed in Note 23.

13. Financial turmoil and the price of the BES share

Item 1 of the 2012 Management Report and item III.8 of the 2012 Corporate Governance Report present the BES share price performance in 2012. During the first half of 2013 the BES share dropped from EUR 0,895 at the start of the period to EUR 0.615 at the end of June, which represents a devaluation of 31.3%. We believe this devaluation, which mostly occurred in the latter part of the period, was associated to the uncertainty provoked by a possible tapering of quantitative easing by the North-American Federal Reserve, which affected the performance of equity markets at global level.

14. Maximum loss risk

Note 51 contains the relevant information about potential losses in market stress situations.

15. Debt issued by the Group and results

Note 50 describes the impact of debt revaluation and the methods used to calculate this impact on the Results.

IV. LEVEL AND TYPE OF EXPOSURES AFFECTED BY THE PERIOD OF TURMOIL

16. Nominal and fair value of exposures

17. Credit risk mitigators

18. Information about the Group's exposures

As at 30 June 2013 BES Group's total exposure to the peripheral Eurozone countries' public debt was EUR 6.6 billion (Dec.12: 3.9 billion), of which EUR 4.4 billion to Portugal (Dec.12: EUR 3.9 billion), EUR 1.9 billion to Spain (Dec.12: EUR 606 million), EUR 218 million to Italy (Dec.12: EUR 28 million), and EUR 48 million to Greece (Dec.12: EUR 3 million). The Group had no exposure to Irish public debt as of that date.

19. Movement in exposures between periods

Note 51 to the 2012 and first half of 2013 Financial Statements contains information comparing the exposures and results. Such information is considered sufficient taking into account the detail and quantification provided.

20. Non consolidated exposures

All the structures related to securitisation operations originated by the Group are presented in Note 49. None of the SPEs was consolidated due to the market turbulence.

21. Exposure to monoline insurers and quality of the assets insured

The Group does not have exposures to monoline insurers.

V. ACCOUNTING POLICIES AND VALUATION METHODS

22. Structured products

These situations are described in Note 2 – Main accounting policies.

23. Special Purpose Entities (SPE) and consolidation

Disclosure available in Notes 2 and 49.

24. and 25. Fair value of financial instruments

See the comments to item 16 of this Annex. Notes 2 and 50 contain the conditions for utilisation of the fair value option as well as the methodology used to value the financial instruments.

VI. OTHER RELEVANT ASPECTS OF DISCLOSURE

26. Description of the disclosure policies and principles

The BES Group, within the context of accounting and financial information disclosure, complies with all the regulatory requirements, defined by the accounting standards or by the supervisory and regulatory entities.

At the same time, the Group aims to meet the best market practices in information disclosure, balancing the cost of preparing the relevant information with the benefit that it may provide to the users.

From the information made available to the Group's shareholders, clients, employees, supervisory entities and the public in general, we highlight the Annual, Interim and Quarterly Management Reports, the Financial Statements and the respective Notes, and the Corporate Governance Report.

The management reports and financial statements, released on a quarterly basis, are prepared under IFRS that comply with the highest degree of disclosure and transparency and facilitate comparison to other domestic and international banks.

The Corporate Governance Report provides a detailed view about the governing structure of the Group.

The Social Responsibility Report, which forms an integral part of the Annual Management Report, conveys the Group's perspective about social responsibility in the context of the numerous challenges that the modern world faces, whether of an environmental or social nature, or pertaining to innovation and entrepreneurship.

The website (www.bes.pt) is used as a favoured tool for disclosing all the relevant information about BES Group.

A detailed description of all the means used by the Group to communicate with the financial community is provided in item III.16 of the 2012 Corporate Governance Report.

9. DECLARATION OF CONFORMITY WITH THE FINANCIAL INFORMATION REPORTED

In accordance with Article 246 (1-c)) of the Securities Code, the Board of Directors of Banco Espírito Santo, S.A., whose members are named hereunder, hereby declares that:

I. the individual financial statements of Banco Espírito Santo, S.A. (BES) for the six-month period ended 30 June 2013 were prepared in accordance with the Adjusted Accounting Standards (AAS), as determined by Bank of Portugal Notice no. 1/2005, of 21 February 2005;

II. the consolidated financial statements of Grupo Banco Espírito Santo, S.A. (BES Group) for the six-month period ended 30 June 2013 were prepared in accordance with the International Financial Reporting Standards (IFRS) adopted in the European Union and transposed into Portuguese legislation through Decree-Law no. 35 /2005, of 17 February;

III. to the extent of their knowledge the financial statements referred in (i) and (ii) provide a true and appropriate image of the assets, liabilities, equity and earnings of respectively BES and BES Group, in accordance with the referred Standards, and were approved by the Board of Directors during the meeting on 26 July 2013;

IV. the interim report relative to the six-month period ended 30 June 2013 refers the important events occurred during this period and their impact on the period's financial statements, describing the main risks and uncertainties foreseen for the following six months.

Lisbon, 26 July 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 JUNE 2013

	Jun,12 (eur '000)	Dec,12 (eur '000)	Jun,13 (eur '000)
ASSETS			
Cash and deposits at Central Banks	1 645 779	1 377 541	1 209 218
Deposits with banks	723 147	681 077	565 008
Financial assets held for trading	3 904 089	3 925 399	3 218 830
Financial assets at fair value through profit or loss	3 193 701	2 821 553	3 893 846
Available-for-sale financial assets	14 298 311	10 755 310	12 129 272
Loans and advances to banks	2 084 440	5 426 518	2 453 506
(of which of the European system of Central Banks)	-	*(3 350 000)*	*(1 200 000)*
Loans and advances to customers	48 740 843	47 706 392	47 976 727
(Provisions)	*(2 434 698)*	*(2 692 342)*	*(3 134 195)*
Held-to-maturity investments	1 310 181	941 549	1 025 271
Financial assets with repurchase agreements	-	-	-
Hedging derivatives	484 841	516 520	391 719
Non-current assets held for sale	2 164 049	3 277 540	3 365 181
Investment properties	385 311	441 988	393 232
Other tangible assets	864 595	931 622	954 282
Intangible assets	485 202	555 326	404 514
Investments in associates	577 263	580 982	608 300
Current income tax assets	37 894	24 648	32 926
Deferred income tax assets	665 476	728 905	935 750
Reinsurance Technical Provisions	3 097	3 804	12 082
Other assets	3 723 982	2 994 154	3 046 075
Direct and Indirect Insurance Creditors	8 564	567	352 078
Other	3 715 418	2 993 587	2 693 997
TOTAL ASSETS	**85 292 201**	**83 690 828**	**82 615 739**
LIABILITIES			
Deposits from central banks	14 355 628	10 893 320	10 041 724
(of which of the European System of Central Banks)	*(13 697 132)*	*(10 279 382)*	*(9 495 599)*
Financial liabilities held for trading	2 166 806	2 122 025	1 568 181
Other financial liabilities at fair value through profit or loss	-	-	-
Deposits from banks	5 767 090	5 088 658	5 197 142
Due to customers	32 764 762	34 540 323	37 911 655
Debt securities	15 615 163	15 424 061	12 732 272
Financial liabilities to transferred assets	-	-	-
Hedging derivatives	184 334	125 199	169 602
Investment contracts	1 844 172	3 413 563	3 474 902
Non current liabilities held for sale	165 429	175 945	155 579
Provisions	186 671	236 950	192 602
Technical provisions	1 816 956	1 577 408	1 494 592
Current income tax liabilities	44 495	221 199	123 261
Deferred income tax liabilities	135 536	154 015	171 761
Capital instruments	-	-	-
Other subordinated loans	833 727	839 816	830 932
Other liabilities	1 886 752	1 145 602	1 319 792
Direct and Indirect Insurance Creditors	11 098	2 040	22 415
Other liabilities	1 875 654	1 143 562	1 297 377
TOTAL LIABILITIES	**77 767 521**	**75 958 084**	**75 383 997**
EQUITY			
Capital	5 040 124	5 040 124	5 040 124
Share Premium	1 066 932	1 069 517	1 068 670
Other capital instruments	29 469	29 295	29 322
Treasury stock	(11 415)	(6 991)	(801)
Preference shares	193 094	193 289	167 952
Fair value reserve	(821 210)	(686 666)	(885 760)
Other reserves and retained earnings	1 339 526	1 328 630	1 399 469
Profit for the period attributable to equity holders of the bank	25 457	96 101	(237 455)
Prepaid dividends	-	-	-
Minority interests	662 703	669 445	650 221
TOTAL EQUITY	**7 524 680**	**7 732 744**	**7 231 742**
TOTAL LIABILITIES AND EQUITY	**85 292 201**	**83 690 828**	**82 615 739**

Chief Account   Board of Directors

BANCO ESPÍRITO SANTO, S.A.

CONSOLIDATED INCOME STATEMENT AS OF 30 JUNE 2013

	Jun,12 (eur '000)	Jun,13 (eur '000)
Interest and similar income	2 067 513	1 726 023
Interest expense and similar charges	1 459 870	1 255 637
Net Interest Income	**607 643**	**470 386**
Dividend income	100 575	52 751
Fee and Commission income	525 836	422 491
Fee and Commission expense	91 896	94 300
Net gains from financial assets at fair value through profit or loss	(16 251)	(162 404)
Net gains from available-for-sale financial assets	84 994	240 880
Net gains from foreign exchange differences	(869)	(1 755)
Net gains/ (losses) from sale of other assets	(24 974)	(4 126)
Insurance earned premiums net of reinsurance	16 734	14 977
Claims incurred net of reinsurance	76 266	122 469
Change on the technical provision net of reinsurance	60 650	274 477
Other operating income and expense	(15 819)	(122 603)
Operating income	**1 170 357**	**968 305**
Staff costs	291 512	289 532
General and administrative expenses	214 189	220 939
Depreciation and amortisation	53 756	52 499
Provisions impairment net of reversals	678	(29 777)
Loans impairment net of reversals	352 001	553 096
Impairment on other financial assets net of reversals	18 865	52 685
Impairment on other assets net of reversals	54 843	171 238
Negative consolidation differences	-	-
Equity accounted earnings	7 282	1 089
Net income before income tax and minorities	**191 795**	**(340 818)**
Income tax		
Current tax	44 899	108 849
Deferred Tax	56 624	(211 753)
Net income	**90 272**	**(237 914)**
ow: profit after taxes of discontinued operations	(2 582)	(3 133)
Minority interests	64 815	(459)
Consolidated net income for the period	**25 457**	**(237 455)**

Chief Account | Board of Directors

BANCO ESPÍRITO SANTO, S.A.

INDIVIDUAL BALANCE SHEET AT JUNE, 30 2013

euro thousand

	Jun,13			Jun,12
	amount before provisions, impairment and depreciations	provisions, impairment and depreciations	Net amount	
ASSETS				
Cash and deposits at Central Banks	451 915	-	451 915	905 445
Deposits with banks	176 147	-	176 147	208 357
Financial assets held for trading	1 386 109	-	1 386 109	1 968 947
Financial assets at fair value through profit or loss	3 092 980	-	3 092 980	2 057 090
Available-for-sale financial assets	9 596 514	286 708	9 309 806	13 702 088
Loans and advances to banks	6 501 392	55	6 501 337	6 434 969
Customer loans	40 344 697	2 423 904	37 920 793	39 105 280
Held-to-maturity investments	661 155	25 565	635 590	763 287
Repurchase agreements	-	-	-	-
Derivatives for risk management purposes	340 280	-	340 280	447 482
Non-current assets held for sale	1 555 691	213 581	1 342 110	1 067 709
Invesment properties	-	-	-	-
Proprety and equipment	1 074 199	744 782	329 417	357 388
Intangible assets	667 456	561 911	105 545	111 919
Investments in associates	2 494 468	398 887	2 095 581	1 950 504
Current income tax assets	1 552	-	1 552	571
Deferred income tax assets	971 608	-	971 608	757 740
Other assets	2 884 387	113 442	2 770 945	3 293 291
TOTAL ASSETS		**4 768 835**	**67 431 715**	**73 132 067**
LIABILITIES				
Deposits from Central Banks	9 254 714	-	9 254 714	13 483 066
Financial liabilities held for trading	1 248 467	-	1 248 467	1 671 848
Other financial liabilities at fair value through profit or loss	-	-	-	-
Deposits from banks	5 106 462	-	5 106 462	8 975 915
Due to customers	34 169 149	-	34 169 149	29 451 165
Debt securities issued	8 887 163	-	8 887 163	9 251 204
Financial liabilities to transferred assets	775 072	-	775 072	1 071 907
Derivatives for risk management purposes	108 218	-	108 218	93 206
Non core liabilities held for sale	-	-	-	-
Provisions	515 598	-	515 598	545 455
Current income tax liabilities	33 330	-	33 330	10 938
Defered income tax liabilities	123 987	-	123 987	138 943
Equity instruments	-	-	-	-
Subordinated debt	796 665	-	796 665	799 330
Other liabilities	683 067	-	683 067	1 305 855
TOTAL LIABILITIES		-	**61 701 892**	**66 798 832**
EQUITY				
Share capital	5 040 124	-	5 040 124	5 040 124
Share premium	1 060 774	-	1 060 774	1 059 036
Other equity instruments	220 756	-	220 756	225 958
Treasury stock	(801)	-	(801)	(801)
Fair value reserve	(916 508)	-	(916 508)	(764 371)
Other reserves and retained earnings	791 282	-	791 282	617 771
Profit for the year	(465 804)	-	(465 804)	155 518
Dividends paid	-	-	-	-
TOTAL EQUITY	**5 729 823**	-	**5 729 823**	**6 333 235**
TOTAL LIABILITIES AND EQUITY	**5 729 823**	**-**	**67 431 715**	**73 132 067**

Chief Account

The Board of Directors

BANCO ESPÍRITO SANTO, S.A.

INDIVIDUAL INCOME STATEMENT AT JUNE 30, 2013

EUR thousand

	Jun,13	Jun,12
Interest and similar income	1 154 519	1 587 623
Interest expense and similar charges	988 482	1 220 238
Net Interest Income	**166 037**	**367 385**
Dividend income	61 167	86 169
Fee and comission income	406 105	322 644
Fee and comission expense	143 242	105 022
Net gains from financial assets at fair value through profit or loss	(207 568)	(48 218)
Net gains from available-for-sale financial assets	98 363	215 261
Net gains from foreign exchange differences	(5 422)	(7 390)
Net gains from sale of other assets	536	(12 469)
Other operating income and expense	(17 056)	69 945
Operating Income	**358 920**	**888 305**
Staff costs	175 643	178 728
General and administrative expenses	155 175	159 869
Depreciation and amortisation	40 378	42 527
Provisions impairment net of reversals	(31 050)	(23 877)
Loans impairment net of reversals	500 729	290 952
Impairment on other financial assets net of reversals	60 759	29 740
Impairment on other assets net of reversals	55 319	11 970
Net Income Before Tax	**(598 033)**	**198 396**
Income tax	**(132 229)**	**42 878**
Current tax	3 140	22 422
Deferred tax	(135 369)	20 456
Net Income	**(465 804)**	**155 518**
ow: net income after discontinued operations	(925)	(2 655)

Chief Account

Board of Directors

II. INTERIM CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

GRUPO BANCO ESPÍRITO SANTO

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

(in thousands of euro)

	Notes	Period of 3 months ended as at		Period of 6 months ended as at	
		30.06.2013	30.06.2012	30.06.2013	30.06.2012
Interest and similar income	5	865 670	995 264	1 726 023	2 067 513
Interest expense and similar charges	5	617 136	682 167	1 255 637	1 459 870
Net interest income		**248 534**	**313 097**	**470 386**	**607 643**
Dividend income		50 884	63 835	52 751	100 575
Fee and commission income	6	212 968	284 066	422 491	525 836
Fee and commission expenses	6	(47 777)	(46 485)	(94 300)	(91 896)
Net gains / (losses) from financial assets at fair value through profit or loss	7	(91 915)	(13 315)	(162 404)	(16 251)
Net gains / (losses) from available-for-sale financial assets	8	79 878	144 834	240 880	84 994
Net gains / (losses) from foreign exchange differences	9	(16 928)	(33 781)	(1 755)	(869)
Net gains/ (losses) from the sale of other assets	10	2 215	(14 336)	(4 126)	(24 722)
Insurance earned premiums net of reinsurance	11	(5 075)	16 734	14 977	16 734
Claims incurred net of reinsurance	12	(50 392)	(76 266)	(122 469)	(76 266)
Change on the technical reserves net of reinsurance	13	224 160	60 650	274 477	60 650
Other operating income and expense	14	(83 545)	43 575	(122 603)	73 767
Operating income		**523 007**	**742 608**	**968 305**	**1 260 195**
Staff costs	15	143 888	148 421	289 532	291 512
General and administrative expenses	17	112 025	112 006	220 939	214 189
Depreciation and amortisation	30 and 31	26 555	27 102	52 499	53 756
Provisions net of reversals	40	(24 015)	6 901	(29 777)	678
Loans impairment net of reversals and recoveries	25	365 953	203 045	553 096	352 001
Impairment on other financial assets net of reversals and recoveries	23, 24 and 26	34 382	16 591	52 685	18 865
Impairment on other assets net of reversals and recoveries	28, 31 and 34	130 861	9 192	171 238	54 843
Operating expenses		**789 649**	**523 258**	**1 310 212**	**985 844**
Gains on disposal of investments in subsidiaries and associates	1	-	(252)	-	(252)
Losses arising on business combinations achieved in stages	1 and 55	-	(89 586)	-	(89 586)
Diferenças de consolidação negativas		-	-	-	-
Share of profit of associates	32	(744)	3 836	1 089	7 282
Profit before income tax		**(267 386)**	**133 348**	**(340 818)**	**191 795**
Income tax					
Current tax	41	65 175	3 880	108 849	44 899
Deferred tax	41	(161 812)	80 133	(211 753)	56 624
		(96 637)	**84 013**	**(102 904)**	**101 523**
Profit for the year		**(170 749)**	**49 335**	**(237 914)**	**90 272**
Attributable to equity holders of the Bank		**(175 419)**	**13 901**	**(237 455)**	**25 457**
Attributable to non-controlling interest	45	**4 670**	**35 434**	**(459)**	**64 815**
		(170 749)	**49 335**	**(237 914)**	**90 272**
Earnings per share of profit attributable to the equity holders of the Bank					
Basic (in Euro)	18	-0.04	0.00	-0.06	0.01
Diluted (in Euro)	18	-0.04	0.00	-0.06	0.01

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 SIX MONTHS ENDED AS AT 30 JUNE 2013 AND 2012

(in thousands of euro)

	Period of 3 months ended as at		Period of 6 months ended as at	
	30.06.2013	30.06.2012	30.06.2013	30.06.2012
Profit for the period				
Attributable to equity holders of the Bank	(175 419)	13 901	(237 455)	25 457
Attributable to non-controlling interest	4 670	35 434	(459)	64 815
	(170 749)	**49 335**	**(237 914)**	**90 272**
Other comprehensive income for the period				
Items that wont be reclassified into the Income Statement				
Long-term benefit	(12 297)	(48 370)	(12 297)	(48 462)
Income taxes on actuarial gains and losses from defined benefit obligations	(1 708)	-	(1 708)	-
	(14 005)	(48 370)	(14 005)	(48 462)
Items that may be reclassified into the Income Statement				
Exchange differences	(40 949)	52 731	5 855	20 404
Income taxes on exchange differences on translating foreign operations	(2 056)	(7 278)	(14 959)	(3 485)
	(43 005)	45 453	(9 104)	16 919
Available-for-sale financial assets				
Gains/ (losses) arising during the period	(144 830)	252 174	(43 904)	423 090
Reclassification adjustments for gains/ (losses) included in the profit or loss	(45 147)	(127 240)	(186 896)	(64 398)
Deferred taxes	33 611	3 690	57 869	(45 574)
	(156 366)	128 624	(172 931)	313 118
Total comprehensive income/(loss) for the period	**(384 125)**	**175 042**	**(433 954)**	**371 847**
Attributable to equity holders of the Bank	**(373 997)**	**113 886**	**(434 164)**	**297 620**
Attributable to non-controlling interest	**(10 128)**	**61 156**	**210**	**74 227**
	(384 125)	**175 042**	**(433 954)**	**371 847**

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

GRUPO BANCO ESPÍRITO SANTO

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

(in thousands of euro)

	Notes	30.06.2013	31.12.2012
Assets			
Cash and deposits at central banks	19	1 209 218	1 377 541
Deposits with banks	20	565 008	681 077
Financial assets held for trading	21	3 218 830	3 925 399
Other financial assets at fair value through profit or loss	22	3 893 846	2 821 553
Available-for-sale financial assets	23	12 129 272	10 755 310
Loans and advances to banks	24	2 453 506	5 426 518
Loans and advances to customers	25	47 976 727	47 706 392
Held-to-maturity investments	26	1 025 271	941 549
Derivatives for risk management purposes	27	391 719	516 520
Non-current assets held for sale	28	3 365 181	3 277 540
Investment properties	29	393 232	441 988
Property and equipment	30	954 282	931 622
Intangible assets	31	434 889	555 326
Investments in associates	32	608 300	580 982
Current income tax assets		32 926	24 648
Deferred income tax assets	41	935 750	728 905
Technical reserves of reinsurance ceded	33	12 082	3 804
Other assets	34	3 046 075	2 994 154
Debtors from the insurance business		352 078	567
Other assets		2 693 997	2 993 587
Total Assets		**82 646 114**	**83 690 828**
Liabilities			
Deposits from central banks	35	10 041 724	10 893 320
Financial liabilities held for trading	21	1 568 181	2 122 025
Deposits from banks	36	5 197 142	5 088 658
Due to customers	37	37 911 655	34 540 323
Debt securities issued	38	12 732 272	15 424 061
Derivatives for risk management purposes	27	169 602	125 199
Investment contracts	39	3 474 902	3 413 563
Non-current liabilities held for sale	28	155 579	175 945
Provisions	40	192 602	236 950
Technical reserves of direct insurance	33	1 494 592	1 577 408
Current income tax liabilities		123 261	221 199
Deferred income tax liabilities	41	171 761	154 015
Subordinated debt	42	830 932	839 816
Other liabilities	43	1 350 167	1 145 602
Creditors from insurance operations		22 415	2 040
Other liabilities		1 327 752	1 143 562
Total Liabilities		**75 414 372**	**75 958 084**
Equity			
Share capital	44	5 040 124	5 040 124
Share premium	44	1 068 670	1 069 517
Other equity instruments	44	29 322	29 295
Treasury stock	44	(801)	(6 991)
Preference shares	44	167 952	193 289
Other reserves, retained earnings and other comprehensive income	45	513 709	641 964
Profit for the period attributable to equity holders of the Bank		(237 455)	96 101
Total Equity attributable to equity holders of the Bank		**6 581 521**	**7 063 299**
Non-controlling interest	45	650 221	669 445
Total Equity		**7 231 742**	**7 732 744**
Total Equity and Liabilities		**82 646 114**	**83 690 828**

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

![GRUPO BANCO ESPIRITO SANTO]

GRUPO BANCO ESPÍRITO SANTO

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIODS ENDED AS AT 30 JUNE 2013, 31 DECEMBER 2012 AND 30 JUNE 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	-	-	-	-	-	313 742	-	313 742	-	313 742	(624)	313 118
Other comprehensive income appropriate from associates	-	-	-	-	-	-	(48 277)	(48 277)	-	(48 277)	(185)	(48 462)
Exchange differences, net of taxes	-	-	-	-	-	-	6 338	6 338	-	6 338	10 221	16 559
Profit for the period	-	-	-	-	-	-	-	-	25 457	25 457	64 815	90 272
Total comprehensive income in the period	-	-	-	-	-	313 742	(41 939)	271 803	25 457	297 260	74 227	371 487
Capital increase	1 009 892	(14 616)	-	-	-	-	-	-	-	995 276	-	995 276
- issue of 2 556 688 387 nnew shares	*1 009 892*	-	-	-	-	-	-	-	-	*1 009 892*	-	*1 009 892*
- Costs with capital increase	-	*(14 616)*	-	-	-	-	-	-	-	*(14 616)*	-	*(14 616)*
Purchase of preference shares (see Note 44)	-	-	-	-	(18 819)	-	7 206	7 206	-	(11 613)	-	(11 613)
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)	-	-	-	(10 418)	-	-	-	-	-	(10 418)	-	(10 418)
Interest of other equity instruments, net of taxes **(b)**	-	-	-	-	-	-	(1 409)	(1 409)	-	(1 409)	-	(1 409)
Other movements	-	(115)	(36)	-	-	-	-	-	-	(151)	-	(151)
Other changes in minority interest (see Note 45)	-	-	-	-	-	-	-	-	-	-	29	29
Balance as at 30 june 2012	5 040 124	1 066 932	29 469	(11 415)	193 094	(131 433)	649 749	518 316	25 457	6 861 977	662 703	7 524 680
Other comprehensive income												
Changes in fair value, net of taxes	-	-	-	-	-	302 283	-	302 283	-	302 283	646	302 929
Actuarial deviations, net of taxes	-	-	-	-	-	-	(124 894)	(124 894)	-	(124 894)	306	(124 588)
Other comprehensive income appropriate from associates	-	-	-	-	-	-	(9 800)	(9 800)	-	(9 800)	-	(9 800)
Exchange differences, net of taxes	-	-	-	-	-	-	(43 277)	(43 277)	-	(43 277)	(27 251)	(70 528)
Profit for the period	-	-	-	-	-	-	-	-	70 644	70 644	(41 080)	29 564
Total comprehensive income in the period	-	-	-	-	-	302 283	(177 971)	124 312	70 644	194 956	(67 379)	127 577
Capital increase	-	2 470	-	-	-	-	-	-	-	2 470	-	2 470
- costs with capital increase	-	*2 470*	-	-	-	-	-	-	-	*2 470*	-	*2 470*
Purchase of preference shares (see Note 44)	-	-	-	-	195	-	(2 728)	(2 728)	-	(2 533)	-	(2 533)
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)	-	-	-	4 424	-	-	-	-	-	4 424	-	4 424
Interest of other equity instruments, net of taxes **(b)**	-	-	-	-	-	-	(455)	(455)	-	(455)	-	(455)
Changes on Consolidated Perimeter (See note 45)	-	-	-	-	-	-	-	-	-	-	74 293	74 293
Other movements	-	115	36	-	-	-	(2 837)	(2 837)	-	(2 686)	-	(2 686)
Other changes in minority interest (see Note 45)	-	-	-	-	-	-	-	-	-	-	(172)	(172)
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	-	-	-	-	-	(175 386)	-	(175 386)	-	(175 386)	2 455	(172 931)
Actuarial deviations, net of taxes	-	-	-	-	-	-	(14 025)	(14 025)	-	(14 025)	20	(14 005)
Exchange differences, net of taxes	-	-	-	-	-	-	(7 298)	(7 298)	-	(7 298)	(1 806)	(9 104)
Profit for the period	-	-	-	-	-	-	-	-	(237 455)	(237 455)	(459)	(237 914)
Total comprehensive income in the period	-	-	-	-	-	(175 386)	(21 323)	(196 709)	(237 455)	(434 164)	210	(433 954)
Purchase of preference shares (see Note 44)	-	-	-	-	(25 337)	-	5 777	5 777	-	(19 560)	-	(19 560)
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)**	-	-	-	-	-	-	(8 035)	(8 035)	-	(8 035)	-	(8 035)
Variations of treasury stock (see Note 44)	-	-	-	6 190	-	-	(6 529)	(6 529)	-	(339)	-	(339)
Interest of other equity instruments, net of taxes **(b)**	-	-	-	-	-	-	(954)	(954)	-	(954)	-	(954)
Changes on Consolidated Perimeter (See note 45)	-	-	-	-	-	-	-	-	-	-	(24 216)	(24 216)
Other movements	-	(847)	27	-	-	-	(406)	(406)	-	(1 226)	-	(1 226)
Other changes in minority interest (see Note 45)	-	-	-	-	-	-	-	-	-	-	4 782	4 782
Balance as at 30 june 2013	5 040 124	1 068 670	29 322	(801)	167 952	(4 536)	518 245	513 709	(237 455)	6 581 521	650 221	7 231 742

[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).

GRUPO BANCO ESPÍRITO SANTO

CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIODS ENDED AS AT 30 JUNE 2013, 31 DECEMBER 2012 AND 30 JUNE 2012

(in thousands of euro)

	Notes	30.06.2013	30.06.2012
Cash flows from operating activities			
Interest and similar income received		1 566 170	1 915 739
Interest expense and similar charges paid		(1 189 994)	(1 589 770)
Fees and commission received		424 662	531 584
Fees and commission paid		(97 959)	(95 055)
Insurance premiums		(113 090)	(61 900)
Recoveries on loans previously written off		3 508	12 068
Contributions to pensions' fund		-	-
Cash payments to employees and suppliers		(503 928)	(202 567)
		89 369	**510 099**
Changes in operating assets and liabilities:			
Deposits with central banks		1 261 686	4 396 608
Financial assets at fair value through profit or loss		(1 585 798)	187 671
Loans and advances to banks		800 124	1 183 620
Deposits from banks		113 503	(475 960)
Loans and advances to customers		(1 015 840)	(518 818)
Due to customers		3 364 352	(1 465 095)
Derivatives for risk management purposes		66 155	197 681
Other operating assets and liabilities		333 199	(554 611)
Net cash from operating activities before income tax		**3 426 750**	**3 461 195**
Income taxes paid		(77 795)	(26 589)
Net cash from operating activities		**3 348 955**	**3 434 606**
Cash flows from investing activities			
Acquisition of subsidiaries and associates	1	(32 969)	(30 161)
Sale of subsidiaries and associates	1	3 129	54 122
Dividends received		55 393	102 426
Acquisition of available-for-sale financial assets		(29 534 914)	(43 229 475)
Sale of available-for-sale financial assets		28 712 890	40 915 487
Held to maturity investments		(68 195)	215 262
Issued insurance investment contracts		(18 945)	1 839 316
Purchase of tangible and intangible assets and investment properties		(93 880)	(428 361)
Sale of tangible and intangible assets and investment properties		1 183	1 333
Net cash from investing activities		**(976 308)**	**(560 051)**
Cash flows from financing activities			
Capital increase		-	995 276
Acquisition of preference shares		(19 560)	(11 613)
Bonds issued		3 133 460	8 651 605
Bonds paid		(5 792 763)	(11 533 178)
Subordinated debt issued		-	-
Subordinated debt paid		(8 229)	(214 151)
Treasury stock		(339)	(10 418)
Interest from other equity instruments		(954)	(1 409)
Dividends paid on ordinary shares		-	-
Dividends paid on preference shares		(8 035)	(10 996)
Net cash from financing activities		**(2 696 420)**	**(2 134 884)**
Net changes in cash and cash equivalents		**(323 773)**	**739 671**
Cash and cash equivalents at the beginning of the period		**2 024 533**	**1 542 251**
BES Vida full consolidation impact	54	-	-
Effect of exchange rate changes on cash and cash equivalents		(1 063)	42 631
Net changes in cash and cash equivalents		(323 773)	739 671
Cash and cash equivalents at the end of the period		**1 699 697**	**2 324 553**
Cash and cash equivalents includes:			
Cash	15	237 557	257 819
Deposits at Central Banks	15	971 661	1 387 960
of which, restricted balances		(74 529)	(44 373)
Deposits with banks	16	565 008	723 147
Total		**1 699 697**	**2 324 553**

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

Grupo Banco Espírito Santo

Notes to the interim consolidated financial statements as at 30 June 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 June 2013, the Bank's subsidiary BES Finance, Ltd had also 193 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 769 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 by the Bank:

	Established	Acquired	Headquartered	Activity	% economic interest	Consolidation method
BANCO ESPÍRITO SANTO, SA (BES)	1937	-	Portugal	Commercial banking		
Banco Espírito Santo de Investimento, SA (BESI)	1993	1997	Portugal	Investment bank	100.00%	Full consolidation
BES-Vida, Companhia de Seguros, SA (BES VIDA)	1993	2006	Portugal	Insurance	100.00%	Full consolidation
Aman Bank for Commerce and Investment Stock Company	2003	2010	Libya	Commercial banking	40.00% a)	Full consolidation
Avistar, SGPS, SA	2009	2009	Portugal	Holding company	100.00%	Full consolidation
Espírito Santo Servicios, SA	1996	1997	Spain	Insurance	100.00%	Full consolidation
Espírito Santo Activos Financieros, SA	1988	2000	Spain	Asset management	95.00%	Full consolidation
Espírito Santo Vanguarda, SL	2011	2011	Spain	Services provider	100.00%	Full consolidation
Banco Espírito Santo dos Açores, SA (BAC)	2002	2002	Portugal	Commercial banking	57,53%	Full consolidation
BEST - Banco Electrónico de Serviço Total, SA (BEST)	2001	2001	Portugal	Internet banking	66.00%	Full consolidation
BES África, SGPS, SA	2009	2009	Portugal	Holding company	100.00%	Full consolidation
Banco Espírito Santo Angola, SA (BESA)	2001	2001	Angola	Commercial banking	51.94%	Full consolidation
BESAACTIF - Sociedade Gestora de Fundos de Investimento, SA	2008	2008	Angola	Asset management - Investment funds	63.70%	Full consolidation
BESAACTIF Pensões - Sociedade Gestora de Fundos de Pensões, SA	2009	2009	Angola	Asset management - Pension funds	63.70%	Full consolidation
Banco Espírito Santo do Oriente, SA (BESOR)	1996	1996	Macau	Commercial banking	99,75%	Full consolidation
Espírito Santo Bank (ESBANK)	1963	2000	USA	Commercial banking	99.99%	Full consolidation
BES Beteiligungs, GmbH (BES GMBH)	2006	2006	Germany	Holding company	100.00%	Full consolidation
BIC International Bank Ltd. (BIBL)	2000	2000	Cayman Islands	Commercial banking	100.00%	Full consolidation
Parsuni - Sociedade Unipessoal, SGPS	2004	2005	Portugal	Holding company	100.00%	Full consolidation
Praça do Marquês - Serviços Auxiliares, SA (PÇMARQUÊS)	1990	2007	Portugal	Real estate	100.00%	Full consolidation
Espírito Santo, plc. (ESPLC)	1999	1999	Ireland	Non-bank finance company	99,99%	Full consolidation
ESAF - Espírito Santo Activos Financeiros, S.G.P.S., SA (ESAF)	1992	1992	Portugal	Holding company	89.99%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	2000	2000	Portugal	Holding company	100.00%	Full consolidation
Banco Espirito Santo North American Capital Limited Liability Co. (BESNAC)	1990	1990	USA	Financing vehicle	100.00%	Full consolidation
BES Finance, Ltd. (BESFINANCE)	1997	1997	Cayman Islands	Issue of preference shares and other securities	100.00%	Full consolidation
ES, Recuperação de Crédito, ACE (ESREC)	1998	1998	Portugal	Financing vehicle	99.15%	Full consolidation
ES Concessões, SGPS, SA (ES CONCESSÕES)	2002	2003	Portugal	Holding company	71.66%	Full consolidation
Espírito Santo - Informática, ACE (ESINF)	2006	2006	Portugal	Services provider	82.28%	Full consolidation
Espírito Santo Prestação de Serviços, ACE 2 (ES ACE2)	2006	2006	Portugal	Services provider	88.26%	Full consolidation
ESGEST - Esp. Santo Gestão Instalações, Aprov. e Com., SA (ESGEST)	1995	1995	Portugal	Services provider	100.00%	Full consolidation
Espírito Santo 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	60.68%	Full consolidation
Fundo de Capital de Risco - ES Ventures III	2009	2009	Portugal	Venture capital fund	61.14%	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	82.17%	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
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)	**1993**	**1997**	**Portugal**	**Investment bank**	**100.00%**	**Full consolidation**
Espírito Santo Capital - Sociedade de Capital de Risco, SA (ESCAPI	*1988*	*1996*	*Portugal*	*Venture capital*	*100.00%*	*Full consolidation*
SES Iberia	*2004*	*2004*	*Spain*	*Asset management*	*50.00%*	*Full consolidation*
HLC - Centrais de Cogeração, SA	*1999*	*1999*	*Portugal*	*Services provider*	*24.50%*	*Equity method*
Coporgest, SA	*2002*	*2005*	*Portugal*	*Services provider*	*25.00%*	*Equity method*
Synergy Industry and Technology, SA	*2006*	*2006*	*Spain*	*Holding company*	*26.00%*	*Equity method*
Salgar Investments	*2007*	*2007*	*Spain*	*Services provider*	*45.05%*	*Equity method*
2BCapital Luxembourg S.C.A SICAR	*2011*	*2011*	*Luxembourg*	*Investment fund*	*42.12%*	*Equity method*
ESSI Comunicações SGPS, SA	*1998*	*1998*	*Portugal*	*Holding company*	*100.00%*	*Full consolidation*
ESSI SGPS, SA	*1997*	*1997*	*Portugal*	*Holding company*	*100.00%*	*Full consolidation*
Espírito Santo Investment Sp, Z.o.o.	*2005*	*2005*	*Poland*	*Services provider*	*100.00%*	*Full consolidation*
Espírito Santo Securities India	*2011*	*2011*	*India*	*Brokerage house*	*75.00%*	*Full consolidation*
Lusitania Capital S.A.P.I. de C.V., SOFOM, E.N.R.	*2013*	*2013*	*Mexico*	*Non-bank finance company*	*100.00%*	*Full consolidation*
Espírito Santo Investment Holding, Limited	*2010*	*2010*	*United Kindom*	*Holding company*	*100.00%*	*Full consolidation*
Execution Holding, Limited	*2010*	*2010*	*United Kindom*	*Holding company*	*100.00%*	*Full consolidation*
MCO2 – Sociedade Gestora de Fundos de Investimento Mobiliá	*2008*	*2008*	*Portugal*	*Asset management - investment funds*	*25.00%*	*Equity method*
Espírito Santo Investments PLC	*1996*	*1996*	*Ireland*	*Non-bank finance company*	*100.00%*	*Full consolidation*
ESSI Investimentos SGPS, SA	*1998*	*1998*	*Portugal*	*Holding company*	*100.00%*	*Full consolidation*
Polish Hotel Capital SP	*2008*	*2008*	*Poland*	*Services provider*	*33.00%*	*Equity method*
Espirito Santo Investimentos, SA	*1996*	*1999*	*Brazil*	*Holding company*	*100.00%*	*Full consolidation*
BES Investimento do Brasil, SA	*2000*	*2000*	*Brazil*	*Investment Bank*	*80.00%*	*Full consolidation*
2BCapital, SA	*2005*	*2005*	*Brazil*	*Holding company*	*45.00%*	*Equity method*
2B Capital Luxembourg General Partners Sarl	*2011*	*2011*	*Luxembourg*	*Asset management*	*45.00%*	*Equity method*
BES Securities do Brasil, SA	*2000*	*2000*	*Brazil*	*Brokerage house*	*80.00%*	*Full consolidation*
Gespar Participações, Ltda.	*2001*	*2001*	*Brazil*	*Holding company*	*80.00%*	*Full consolidation*
BES Activos Financeiros, Ltda	*2004*	*2004*	*Brazil*	*Asset management*	*85.00%*	*Full consolidation*
FI Multimercado Treasury	*2005*	*2005*	*Brazil*	*Investment fund*	*80.00%*	*Full consolidation*
Espírito Santo Serviços Financeiros DTVM, SA	*2009*	*2010*	*Brazil*	*Asset management*	*80.00%*	*Full consolidation*
R Invest, Ltda	*2001*	*2009*	*Brazil*	*Services provider*	*80.00%*	*Full consolidation*
R Consult Participações, Ltda	*1998*	*2009*	*Brazil*	*Services provider*	*80.00%*	*Full consolidation*
BRB Internacional, SA	*2001*	*2001*	*Spain*	*Entertainment*	*24.93%*	*Equity method*
Prosport - Com. Desportivas, SA	*2001*	*2001*	*Spain*	*Sporting goods trading*	*25.00%*	*Equity method*
Apolo Films, SL	*2001*	*2001*	*Spain*	*Entertainment*	*25,15%*	*Equity method*
Cominvest- SGII, SA	*1993*	*1993*	*Portugal*	*Real Estate*	*98.59%*	*Full consolidation*
Fundo Espírito Santo IBERIA I	*2004*	*2004*	*Portugal*	*Venture capital fund*	*38.67%*	*Equity method*
Fundo FIM BES Moderado	*2004*	*2009*	*Brazil*	*Investment fund*	*84.16%*	*Full consolidation*
Fundo BES Absolute Return	*2002*	*2009*	*Brazil*	*Investment fund*	*43.61%* a)	*Full consolidation*
BES Beteiligungs, GmbH (BES GMBH)	**2006**	**2006**	**Germany**	**Holding company**	**100.00%**	**Full consolidation**
Bank Espírito Santo International, Ltd. (BESIL)	*1983*	*2002*	*Cayman Islands*	*Commercial banking*	*100.00%*	*Full consolidation*
BES África, SGPS, SA (BES ÁFRICA)	**2006**	**2006**	**Portugal**	**Holding company**	**100.00%**	**Full consolidation**
Banco Espírito Santo Cabo Verde, SA	*2010*	*2010*	*CapeVerde*	*Commercial banking*	*99.99%*	*Full consolidation*
Moza Banco, SA	*2008*	*2010*	*Mozambique*	*Commercial banking*	*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*
Espirito Santo International Asset Management, Ltd.	*1998*	*1998*	*British Virgin Islands*	*Asset management - investment funds*	*44.10%*	*Equity method*
Espírito Santo Gestão de Patrimónios, SA	*1987*	*1987*	*Portugal*	*Asset management - investment funds*	*89.99%*	*Full consolidation*
ESAF - Espírito Santo Participações Internacionais, SGPS, SA	*1996*	*1996*	*Portugal*	*Asset management - investment funds*	*89.99%*	*Full consolidation*
ESAF - International Distributors Associates, Ltd	*2001*	*2001*	*British Virgin Islands*	*Asset management - investment funds*	*89.99%*	*Full consolidation*
ES Tech Ventures, S.G.P.S., SA (ESTV)	**2000**	**2000**	**Portugal**	**Holding company**	**100.00%**	**Full consolidation**
ES Ventures - Sociedade de Capital de Risco, SA	*2005*	*2005*	*Portugal*	*Venture capital fund*	*100.00%*	*Full consolidation*
Yunit Serviços, SA	*2000*	*2000*	*Portugal*	*Management of internet portals*	*33,33%*	*Equity method*
FCR Espírito Santo Ventures Inovação e Internacionalização	*2011*	*2011*	*Portugal*	*Venture capital fund*	*50.00%*	*Equity method*
Fundo Bem Comum, FCR	*2011*	*2011*	*Portugal*	*Venture capital fund*	*20.00%*	*Equity method*
Espírito Santo Contact Center, Gestão de Call Centers, SA (ESCC)	*2000*	*2000*	*Portugal*	*Call centers management company*	*41.67%*	*Equity method*
Banque Espírito Santo et de la Vénétie, SA (ES Vénétie)	*1927*	*1993*	*France*	*Commercial banking*	*42.69%*	*Equity method*

	Established	Acquired	Headquartered	Activity	% economic interest	Consolidation method
Fundo de Capital de Risco - ES Ventures II	**2006**	**2006**	**Portugal**	**Venture capital fund**	**60.68%**	**Full consolidation**
Atlantic Ventures Corporation	*2006*	*2006*	*USA*	*Holding company*	*60.68%*	*Full consolidation*
Sousacamp, SGPS, SA	*2007*	*2007*	*Portugal*	*Holding company*	*23.73%*	*Equity method*
Global Active - SGPS, SA	*2006*	*2006*	*Portugal*	*Holding company*	*27.10%*	*Equity method*
Outsystems, SA	*2007*	*2007*	*Portugal*	*IT Services*	*17.77%* b)	*Equity method*
Coreworks - Proj. Circuito Sist. Elect., SA	*2006*	*2006*	*Portugal*	*IT Services*	*19.64%* b)	*Equity method*
Multiwave Photonics, SA	*2003*	*2008*	*Portugal*	*IT Services*	*12.60%* b)	*Equity method*
Bio-Genesis	*2007*	*2007*	*Brazil*	*Holding company*	*18.16%* b)	*Equity method*
YDreams - Informática, SA	*2000*	*2009*	*Portugal*	*IT Services*	*29.12%*	*Equity method*
Fundo de Capital de Risco - ES Ventures III	**2009**	**2009**	**Portugal**	**Venture capital fund**	**61.14%**	**Full consolidation**
Nutrigreen, SA	*2007*	*2009*	*Portugal*	*Services provider*	*12.23%* b)	*Equity method*
Advance Ciclone Systems, SA	*2008*	*2009*	*Portugal*	*Treatment and elimination of residues*	*19.56%* b)	*Equity method*
Watson Brown, HSM, Ltd	*1997*	*2009*	*United Kingdom*	*Recycling rubber*	*21.95%*	*Equity method*
Domática, Electrónica e Informática, SA	*2002*	*2011*	*Portugal*	*IT Services*	*14.42%* b)	*Equity method*
Sociedade Agrícola Turística e Imobiliária da Várzea da Lagoa, SA	*2012*	*2012*	*Portugal*	*Promoção imobiliária*	*100.00%*	*Integral*
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*	*100.00%*	*Full consolidation*
Caravela Balanced Fund	*2006*	*2012*	*Luxembourg*	*Investment fund*	*54.95%*	*Full consolidation*
ES Plano Dinâmico	*2008*	*2012*	*Portugal*	*Investment fund*	*97.79%*	*Full consolidation*
ES Arrendamento	*2009*	*2012*	*Portugal*	*Investment fund*	*100.00%*	*Full consolidation*
Espírito Santo Investments SICAV-SIF Liquidity Fund	*2012*	*2013*	*Luxembourg*	*Investment fund*	*51.13%*	*Full consolidation*
Orey Reabilitação Urbana	*2006*	*2012*	*Portugal*	*Investment fund*	*77.32%*	*Full consolidation*
Fimes Oriente	*2004*	*2012*	*Portugal*	*Investment fund*	*100.00%*	*Full consolidation*
ES Concessões, SGPS, SA (ES CONCESSÕES)	**2002**	**2003**	**Portugal**	**Holding company**	**71.66%**	**Full consolidation**
ES Concessions International Holding, BV	*2010*	*2010*	*Netherlands*	*Holding company*	*71.66%*	*Full consolidation*
Empark - Aparcamientos y Servicios, SA	*1968*	*2009*	*Spain*	*Management of parking lots*	*15.92%* b)	*Equity method*
ES Concessions Latam, BV	*2011*	*2011*	*Netherlands*	*Holding company*	*71.66%*	*Full consolidation*
Concesionaria Autopista Perote-Xalapa, CV	*2008*	*2008*	*Mexico*	*Motorway concession*	*14.33%* b)	*Equity method*
Ascendi Group SGPS, SA	*2010*	*2010*	*Portugal*	*Holding company*	*28.66%*	*Equity method*
Auvisa - Autovia de los Viñedos, SA	*2003*	*2010*	*Spain*	*Motorway concession*	*35.83%*	*Equity method*

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

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

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

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

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

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

(in thousands of euro)

	30.06.2013	31.12.2012
Deposits with banks	193 478	195 586
Due to costumers (net of impairment)	3 499 558	3 803 343
Debt securities issued	711 528	703 797

The main changes in the Group structure that occurred in 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. The acquisition cost, amounting to euro 928 thousands, was determined based on the fair value of the business transferred net of the elimination of the unrealized profit in the extent of BES interest in Edenred;
  - 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 acquisition generated an additional goodwill of euro 16 872 thousands. Following this transaction total goodwill amounts to euro 21 065 thousands and is accounted for under associates.

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

- Subsidiaries (see Note 54)
  - In May 2012, BES acquired an additional 50% of the capital of BES Vida, by an amount of euro 225 million, 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 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 six months period ended as at 30 June 2013 and 2012, the movements regarding acquisitions and disposals of investments in subsidiaries and associates are presented as follows:

(in thousands of euro)

30.06.2013	Aquisitions			Disposals			
	Aquisition price	Other investments (a)	Total	Sale Price	Other reimbursements	Total	Gain/(Loss) on disposals
Subsidiaries							
BES África	-	28 000	28 000	-	-	-	-
Espírito Santo Investment Holding	20 281	11 714	31 995	-	-	-	-
ES Tech Ventures	-	6 500	6 500	-	-	-	-
	20 281	46 214	66 495	-	-	-	-
Associates							
Moza Banco	-	24 856	24 856	-	-	-	-
Edenred	8 113	-	8 113	(3 129)	-	(3 129)	-
	8 113	24 856	32 969	(3 129)	-	(3 129)	-
	28 394	**71 070**	**99 464**	**(3 129)**	**-**	**(3 129)**	-

(in thousands of euro)

30.06.2012	Aquisitions			Disposals			
	Aquisition price	Other investments (a)	Total	Sale Price	Other reimbursements	Total	Gain/(Loss) on disposals
Subsidiaries							
BES Vida (b)	225 000	-	225 000	-	-	-	(89 586)
	225 000	-	225 000	-	-	-	(89 586)
Associates							
Moza Banco	-	2 033	2 033	-	-	-	-
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	29 318	30 172	(54 122)	(7 292)	(61 414)	(252)
	225 854	**29 318**	**255 172**	**(54 122)**	**(7 292)**	**(61 414)**	**(89 838)**

(a) Capital increases and loan to companies in which the Group has interest

(b) These companies were fully consolidated, as the Group exercises control over their activities.

(c) Company that ceased to integrate the Group consolidation perimeter, and that is currently booked on the assets held for sale portfolio.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

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

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

These interim consolidated financial statements 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 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.

- 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.

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 26 July 2013.

2.2. Basis of consolidation

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

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

Subsidiaries

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

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

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

Associates

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

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

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

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

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

Special purpose entities ("SPE")

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

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

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

- In substance, the Group retains the majority of residual or ownership risks related to the SPE so as to obtain the benefits from its activities.

Investment funds managed by the Group

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

Goodwill

Goodwill resulting from business combinations that occurred until 1 January 2004 was offset against reserves, according to the option granted by IFRS 1, adopted by the Group on the date of transition to the IFRS.
Goodwill resulting from business combinations that occurred from 1 January 2004 until 31 December 2009 was accounted under the purchase method. The acquisition cost was measured as the fair value, at the acquisition date, of the assets and equity instruments given and liabilities incurred or assumed plus any costs directly attributable to the acquisition.

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

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

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

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

The recoverable amount of the goodwill recognised as an asset is reviewed annually, regardless of whether there is any indication of impairment. Impairment losses are recognised directly in the income statement. The recoverable amount corresponds to the higher of its fair value less costs to sell and its value in use. In determining value in use, estimated futures cash flows are discounted using a rate that reflects market conditions, time value and business risks.

Transactions with non-controlling interests

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

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

Foreign currency translation

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

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

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

Balances and transactions eliminated in consolidation

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

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

2.3. Foreign currency transactions

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

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

2.4. Derivative financial instruments and hedge accounting

Classification

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

All other derivatives are classified as trading derivatives.

Recognition and measurement

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

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

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

Hedge accounting

- Classification criteria

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

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

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

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

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

- Fair value hedge

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

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

- Cash Flow hedge

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

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

Embedded derivatives

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

2.5. Loans and advances to customers

Loans and advances to customers include loans and advances originated by the Group, which are not intended to be sold in the short term. Loans and advances to customers are recognised when cash is advanced to borrowers.

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

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

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

Impairment

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

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

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

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

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

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

The changes in the recognised impairment losses attributable to the unwinding of discount are recognised as interest and similar income.
The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics, taking in consideration the Group's credit risk management process. Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans in the Group and historical loss experience. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group with the purpose of reducing any differences between loss estimates and actual loss experience.

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

2.6. Other financial assets

Classification

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

- Financial assets at fair value through profit or loss

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

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

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

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. Subsequently, these assets or disposal group are measured at the lower of their carrying amount or fair value less costs to sell.

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

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

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

a) Market Method

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

b) Income Method

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

c) Cost Method

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

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

2.13. Property and equipment

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

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

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

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

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

2.14. Intangible assets

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

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

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

2.15. Leases

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

Operating leases

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

Finance leases

- As lessee

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

- As lessor

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

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

2.16. Employee benefits

Pensions

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

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

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

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 centre is in Portugal, which makes it its privileged market. The historical link with Brazil and Africa, the globalization of the Portuguese companies and the Portuguese emigration to several countries, led to an internationalisation of the Group, which already has an international structure contributing significantly to the Group's activities and results.

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

The Group has BES as its main operating unit - with 623 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 (46 branches); BES Açores (18 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 Centre. Each segment includes the BES structures that directly or indirectly relate to it, and also the other units of the Group whose activities are most related to one of these segments. In addition to the individual evaluation of each operating unit of the Group (considered as an investment centre), the Executive Committee defines strategies, commercial programs and performance evaluation for each operating segment.

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

4.1. Operating Segments Description

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

Domestic Commercial Banking

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

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

b) ***Corporate and Institutional:*** includes BES activities in Portugal with small, medium and large companies, through its commercial structure dedicated to this segment, which includes 25 corporate centres. Also includes activities with institutional and municipal customers. The main products considered on this segment are: discounted bills, leasing, factoring and short and long term loans; includes deposits and guarantees, custodian services, letters of credit, electronic payments management and other services.

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

International Commercial Banking

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

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

Investment Banking

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

Asset Management

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

Life Insurance

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

Capital Markets and strategic investments

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

Corporative centre

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

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

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

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

Measurement of profit or loss from operating segments

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

Autonomous Operating Segments

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

BES structures dedicated to segments

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

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

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

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

Interest and similar income/expense

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

Consolidated Investments under the Equity Method

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

Non current assets

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

Income taxes

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

Post Employment Benefits

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

Domestic and International Areas

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

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

The primary segments reporting are presented as follows:

(in thousands of euro)

	Period of 6 months ended as at 30.06.2013									
	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	217 786	175 706	57 433	194 777	38 779	979	78 641	(293 715)	-	470 386
Other operating income	107 099	140 204	12 568	54 265	81 548	29 047	221 521	(148 333)	-	497 919
Total operating income	324 885	315 910	70 001	249 042	120 327	30 026	300 162	(442 048)	-	968 305
Operating expenses	224 137	489 270	11 359	208 016	112 866	8 730	5 850	173 281	76 703	1 310 212
Includes:										
Provisions/Impairment	*31 968*	*459 616*	*2 921*	*82 904*	*26 583*	*107*	*237*	*142 903*	-	*747 239*
Gains on disposal of investments in subsidiaries and associates	-	-	-	-	-	-	-	-	-	-
Share of profit of associates	-	-	-	120	420	-	-	549	-	1 089
Profit before income tax and non-controlling interests	**100 748**	**(173 360)**	**58 642**	**41 146**	**7 881**	**21 296**	**294 312**	**(614 780)**	**(76 703)**	**(340 818)**
Intersegment operating income	*424*	*16 186*	-	*98 896*	*(5 073)*	*(6 829)*	*(117)*	*(89 992)*	-	*13 495*
Total Net Assets	**15 421 842**	**24 141 712**	**1 707 739**	**23 920 990**	**6 602 285**	**208 195**	**7 384 768**	**3 258 583**	**-**	**82 646 114**
Total Liabilities	**15 232 210**	**24 315 071**	**1 649 142**	**22 240 934**	**5 918 273**	**29 994**	**6 949 966**	**(921 218)**	**-**	**75 414 372**
Investments in associates	-	-	-	8 860	57 713	-	-	541 727	-	608 300

(in thousands of euro)

	Period of 6 months ended as at 30.06.2012									
	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	182 781	115 137	35 320	156 461	45 883	1 709	30 101	40 251	-	607 643
Other operating income	117 701	141 186	10 493	154 470	76 240	32 388	10 238	109 836	-	652 552
Total operating income	300 482	256 323	45 813	310 931	122 123	34 097	40 339	150 087	-	1 260 195
Operating expenses	249 656	240 073	10 040	146 843	99 931	9 584	3 952	145 310	80 455	985 844
Includes:										
Provisions/Impairment	*41 565*	*208 625*	*1 027*	*38 017*	*14 134*	*823*	*1 806*	*120 390*	-	*426 387*
Gains on disposal of investments in subsidiaries and associates	-	-	-	-	(6)	-	-	(246)	-	(252)
Diferenças de consolidação negativas	-	-	-	-	-	-	-	(89 586)	-	(89 586)
Share of profit of associates	-	-	-	300	687	-	-	6 295	-	7 282
Profit before income tax and non-controlling interests	**50 826**	**16 250**	**35 773**	**164 388**	**22 873**	**24 513**	**36 387**	**(78 760)**	**(80 455)**	**191 795**
Intersegment operating income	*4 611*	*15 566*	*6*	*249 032*	*(7 046)*	*(7 125)*	*(420)*	*(241 199)*	-	*13 425*
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

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

(in thousands of euro)

	30.06.2013										
	Portugal	Spain	France / Luxembourg	United Kingdom	United States of America	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit for the period	(256 358)	(14 284)	(3 631)	19 361	4 685	1 425	6 028	930	2 605	1 784	(237 455)
Net assets	56 495 830	5 597 889	919 453	5 453 703	1 224 409	2 676 515	8 547 118	201 486	339 443	1 190 268	82 646 114
Capital expenditure (Property and equipment)	3 058	1 360	-	316	94	3 490	74 349	3	-	257	82 927
Capital expenditure (Intangible assets)	9 261	1 403	-	269	69	628	143	176	-	2 663	14 612

(in thousands of euro)

	30.06.2012										
	Portugal	Spain	France / Luxembourg	United Kingdom	United States of America	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit for the period	(52 736)	10 545	2 157	11 406	3 862	10 246	40 217	1 485	2 007	(3 732)	25 457
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 six months ended as at	
	30.06.2013	30.06.2012
Interest and similar income		
Interest from loans and advances	1 155 127	1 317 963
Interest from financial assets at fair value through profit or loss	126 129	121 069
Interest from deposits with banks	21 477	38 841
Interest from available-for-sale financial assets	185 209	283 698
Interest from held-to-maturity financial assets	206 893	259 720
Interest from derivatives for risk management purposes	20 352	31 522
Other interest and similar income	10 836	14 700
	1 726 023	**2 067 513**
Interest expense and similar charges		
Interest from debt securities	424 054	413 690
Interest from amounts due to customers	511 351	557 249
Interest from deposits from central banks and other banks	172 978	233 488
Interest from subordinated debt	107 844	213 949
Interest from derivatives for risk management purposes	34 998	34 782
Other interest expense and similar charges	4 412	6 712
	1 255 637	**1 459 870**
	470 386	**607 643**

Interest from loans and advances includes an amount of euro 48 501 thousands (30 June 2012: euro 37 898 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 six months ended as at	
	30.06.2013	30.06.2012
Fee and commission income		
From banking services	231 048	312 500
From guarantees granted	111 573	112 449
From transactions with securities	34 936	32 350
From commitments assumed to third parties	12 930	17 688
Other fee and commission income	32 004	50 849
	422 491	**525 836**
Fee and commission expenses		
From banking services rendered by third parties	41 650	39 947
From transactions with securities	10 671	15 058
From guarantees received	30 941	28 161
Other fee and commission expenses	11 038	8 730
	94 300	**91 896**
	328 191	**433 940**

Fee and commission expenses from guarantees received includes as at 30 June 2013, the amount of euro 30.1 million (30 June 2012: euro 27.4 million) related with the guarantees received from the Portuguese government in relation with the debt issued by the Group.

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

This balance is analysed as follows:

(in thousands of euro)

	Period of six months ended as at					
	30.06.2013			30.06.2012		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Bonds and other fixed income securities						
Issued by government and public entities	65 000	123 536	(58 536)	230 016	72 830	157 186
Issued by other entities	8 029	7 515	514	6 087	24 058	(17 971)
Shares	26 579	41 572	(14 993)	25 749	38 414	(12 665)
Other variable income securities	233	172	61	88	269	(181)
	99 841	**172 795**	**(72 954)**	**261 940**	**135 571**	**126 369**
Derivative financial instruments						
Exchange rate contracts	961 060	964 840	(3 780)	687 930	714 683	(26 753)
Interest rate contracts	3 182 208	3 278 223	(96 015)	3 204 541	3 151 572	52 969
Equity/Index contracts	1 613 947	1 614 654	(707)	542 051	543 689	(1 638)
Credit default contracts	296 609	329 263	(32 654)	378 071	407 822	(29 751)
Other	16 719	12 878	3 841	25 693	9 449	16 244
	6 070 543	**6 199 858**	**(129 315)**	**4 838 286**	**4 827 215**	**11 071**
	6 170 384	**6 372 653**	**(202 269)**	**5 100 226**	**4 962 786**	**137 440**
Financial assets at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	18 042	3 443	14 599	30 762	187	30 575
Issued by other entities	25 242	25 483	(241)	16 210	18 514	(2 304)
Shares	12 840	4 769	8 071	(1 120)	4 017	(5 137)
Other variable income securities	38 392	61 177	(22 785)	18 272	116 549	(98 277)
	94 516	**94 872**	**(356)**	**64 124**	**139 267**	**(75 143)**
Other financial assets [1]	36 319	9 204	27 115	14 950	15 598	(648)
Financial liabilities [1]	186 838	173 732	13 106	111 113	189 013	(77 900)
	317 673	**277 808**	**39 865**	**190 187**	**343 878**	**(153 691)**
	6 488 057	**6 650 461**	**(162 404)**	**5 290 413**	**5 306 664**	**(16 251)**

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

As at 30 June 2013, this balance includes a negative effect of euro 35.7 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 June 2012: positive effect of euro 12.1 million).

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

This balance is analysed as follows:

(in thousands of euro)

	Period of six months ended as at					
	30.06.2013			30.06.2012		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by government and public entities	229 924	12 165	217 759	255 763	22 333	233 430
Issued by other entities	6 101	6 082	19	53 624	34 896	18 728
Shares	21 346	3 421	17 925	37 001	200 308	(163 307)
Other variable income securities	9 790	4 613	5 177	7 964	11 821	(3 857)
	267 161	**26 281**	**240 880**	**354 352**	**269 358**	**84 994**

During 2012, the Group sold at market prices through the overall stock exchange 82.9 million ordinary shares of EDP and 113.0 million ordinary shares of Portugal Telecom. These transactions generated a realised net loss of euro 181.2 million. During the six month period ended 30 June 2013, the Group did not make any major transactions on the shares of either Portugal Telecom or EDP.

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 six months ended as at					
	30.06.2013			30.06.2012		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange translation	509 939	511 694	(1 755)	525 256	526 125	(869)
	509 939	**511 694**	**(1 755)**	**525 256**	**526 125**	**(869)**

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

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

This balance is analysed as follows:

(in thousand of euro)

	Period of six months ended as at	
	30.06.2013	30.06.2012
Loans and advances to customers	(489)	(17 412)
Non current assets held for trade	(4 412)	(3 636)
Other	775	(3 674)
	(4 126)	**(24 722)**

As at 30 June 2012, Loans and advances to customers include a loss of euro 16.2 million related to the sale of euro 108.1 million of credits realized within the deleverage program of the Group. During the six month period ended 30 June 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 six months ended as at	
	30.06.2013	30.06.2012
Gross written premiums	42 363	17 324
Reinsurance premiums ceded	(27 344)	(588)
Net premiums written	15 019	16 736
Change in the provision for unearned premiums, net of reinsurance	(42)	(2)
Earned premiums, net of reinsurance	14 977	16 734

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

(in thousands of euro)

	Period of six months ended as at	
	30.06.2013	30.06.2012
Annuities	-	372
Risk contracts	30 044	9 898
Saving contracts with profit sharing	12 319	7 054
	42 363	17 324

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 six months ended as at	
	30.06.2013	30.06.2012
Claims paid		
Gross amount	(134 876)	(81 854)
Reinsurance share	5 422	5 009
	(129 454)	(76 845)
Change in claims outstanding reserve		
Gross amount	7 802	321
Reinsurance share	(817)	258
	6 985	579
	(122 469)	(76 266)

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 six months ended as at	
	30.06.2013	30.06.2012
Mathematical reserves	85 063	58 151
Reserve for participating features	(883)	(720)
Other tecnical reserves	(42)	2 846
Reserve for reinsurance	10 045	373
Commissions and participating features from reinsurance	180 294	-
	274 477	60 650

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 six months ended as at	
	30.06.2013	30.06.2012
Other operating income / (expenses)		
IT related business	2 171	3 220
Gains on repurchase of Group debt securities (see Notes 38 and 42)	(14 808)	99 737
Non recurring gains on credit operations	3 508	12 068
Non recurring gains on advisory services	864	2 528
Direct and indirect taxes	(20 462)	(21 061)
Contributions to the deposits guarantee fund	(6 312)	(4 717)
Other operating expenses resulting from the activity of held for sale companies	(42 054)	(7 397)
Membership and donations	(3 970)	(4 390)
Other	(41 540)	(6 221)
	(122 603)	**73 767**

Direct and indirect taxes include an amount of euro 13.0 million (30 June 2012: euro 14.0 million) relating to the cost related with the introduction of a Banking levy, created by Law No. 55-A/2010, of 31 December prorogued by Law No. 64-B/2011 of 30 December and Law No. 66-B/2012 of 31 December (see Note 41).

NOTE 15 – STAFF COSTS

This balance is analysed as follows:

(in thousands of euro)

	Period of six months ended as at	
	30.06.2013	30.06.2012
Wages and salaries	220 702	222 924
Remuneration	219 494	220 736
Long-term service benefits (see Note 16)	1 208	2 188
Mandatory social charges	48 870	51 317
Pension costs (see Note 16)	8 188	4 307
Other costs	11 772	12 964
	289 532	**291 512**

As at 30 June 2013, other costs include the amount of euro 463 thousands (30 June 2012: euro 752 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 June 2013 and 2012, the number of employees of the Group is analysed as follows:

	30.06.2013	30.06.2012
BES employees	6 656	6 694
Financial sector subsidiaries employees	3 408	3 210
Financial sector group entities employees	**10 064**	**9 904**

NOTA 16 – EMPLOYEES BENEFITS

Pension and health-care benefits

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

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

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

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

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

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

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

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

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

Being thus a definitive and irreversible transfer of the liabilities with pensions in payment (even if only on a portion of the benefit), the conditions set out in IAS 19 'Employee benefits' underlying the concept of settlement were met, as the obligation with pension in payment as at 31 December, 2011 extinguished at the date of transfer.

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

	Assumptions			
	30-06-2013		31-12-2012	
	1st through 4th year	5th and subsequent years	1st through 4th year	5th and subsequent years
Actuarial Assumptions				
Expected return of plan assets	4.50%		5.50%	
Discount rate	4.50%		4.50%	
Pensions increase rate	0.00%	0.75%	0.00%	0.75%
Salaries increase rate	1.00%	1.75%	1.00%	1.75%
Mortality table men	TV 73/77 - 1 year			
Mortality table woman	TV 88/90			

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

	30.06.2013	31.12.2012
Employees	6 023	5 311
Pensioners	5 744	5 734
TOTAL	**11 767**	**11 045**

The application of IAS 19 on responsibilities and coverage levels reportable to 30 June 2013 and 31 December 2012 is presented as follows:

(in thousands of euro)

	30.06.2013	31.12.2012
Assets / (liabilities) recognised in the balance sheet		
Total obligations	**(1 207 708)**	**(1 206 283)**
Pensioners	(438 832)	(448 265)
Employees	(768 876)	(758 018)
Coverage		
Fair value of plan assets	1 202 329	1 220 885
Net assets/(liabilities) in balance sheet (see Note 34 and 43)	(5 379)	14 602
Acumulated actuarial deviations recognised in other comprehensive income	1 091 029	1 078 732

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

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

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

(in thousands of euro)

	30.06.2013	31.12.2012
Defined benefit obligation at the beginning of the period	**1 206 283**	**1 077 864**
Service cost	8 188	12 012
Interest cost	27 103	58 994
Plan participants' contribution	1 591	3 259
Actuarial (gains) / losses:		
- changes in actuarial assumptions	-	65 366
- experience adjustments	(16 393)	40 300
Pensions paid by the fund	(14 808)	(27 481)
Transfer to the Social Security regime of the liabilities with pensions in payment	-	(21 813)
Exchange differences and other	(4 256)	(2 218)
Defined benefit obligation at the end of the period	**1 207 708**	**1 206 283**

The change in the fair value of the plan assets for the six months period ended as at 30 June 2013 and for the year ended 31 December 2012 is analysed as follows:

(in thousand of euro)

	30.06.2013	31.12.2012
Fair value of plan assets at the beginning of the period	**1 220 885**	**1 184 878**
Actual return on plan assets	(1 063)	(24 299)
Group contributions	-	86 410
Plan participants' contributions	1 591	3 259
Pensions paid by the fund	(14 808)	(27 481)
Exchange differences and other	(4 276)	(1 882)
Fair value of plan assets at the end of the period	**1 202 329**	**1 220 885**

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

(in thousands of euro)

	30.06.2013	31.12.2012
Shares	209 965	178 654
Bonds	364 501	335 192
Real estate	431 289	370 769
Other	196 574	336 270
Total	**1 202 329**	**1 220 885**

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

(in thousands of euro)

	30.06.2013	31.12.2011
Shares	2 925	1 200
Bonds	2 595	6 382
Real estate	227 751	298 022
Total	**233 271**	**305 604**

During the year ended 31 December 2012 the Group acquired 49 779 and 37 115 thounsands units of Fungere Fund and Fungepi Fund to the Group pensions funds, by a global amount of euro 158.1 million and euro 87.2 million, respectively.

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

(in thousands of euro)

	30.06.2013	31.12.2012
Accumulated actuarial (gains) and losses recognised in other comprehensive income at the beginning of the period	**1 078 732**	**886 964**
Actuarial (gains) / losses		
- changes in actuarial assumptions	-	65 366
- experience adjustments	11 309	127 103
Other	988	(701)
Accumulated actuarial (gains) and losses recognised in other comprehensive income at the end of the period	**1 091 029**	**1 078 732**

The period costs can be analysed as follows:

(in thousands of euro)

	Period of six months ended as at	
	30.06.2013	30.06.2012
Service cost	8 188	6 431
Interest cost	464	(2 124)
Net benefit cost	**8 652**	**4 307**

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.

The changes in the net assets/ (liabilities) recognised in the balance sheet is analysed as follows:

(in thousands of euro)

	30.06.2013	31.12.2012
At the beginning of the period	**14 602**	**107 014**
Net periodic benefit cost	(8 652)	(8 544)
Actuarial (gains)/ losses recognised on other comprehensive income	(11 309)	(191 768)
Contributions of the period	-	86 410
Other [(a)]	(20)	21 490
At the end of the period	**(5 379)**	**14 602**

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

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

(in thousands of euro)

	30.06.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009
Defined benefit obligation	(1 207 708)	(1 206 283)	(1 077 864)	(2 205 366)	(2 125 202)
Fair value of plan asssets	1 202 329	1 220 885	1 184 878	2 206 313	2 198 280
(Un)/over funded liabilities	**(5 379)**	**14 602**	**107 014**	**947**	**73 078**
(Gains)/losses from experience adjustments arising on defined benefit oblig	(16 393)	40 300	(110 266)	25 201	51 583
(Gains)/losses from experience adjustments arising on plan assets	27 702	86 803	268 043	66 895	(90 994)

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 463 thousands (30 June 2012: euro 752 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 June 2013 and 31 December 2012, the Group's liabilities regarding this benefits amount to euro 28 226 thousands and euro 28 691 thousands, respectively (see Note 43). The costs incurred in the first semester of 2013 with long-term service benefits amounted to euro 1 208 thousands (30 June 2012: euro 2 188 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 six months ended as at	
	30.06.2013	30.06.2012
Rental costs	37 844	35 833
Advertising costs	13 654	17 395
Communication costs	22 069	23 090
Maintenance and related services	11 212	10 903
Travelling and representation costs	16 427	14 767
Transportation	3 593	4 162
Insurance costs	4 295	4 352
IT services	31 846	31 971
Independent work	3 920	4 007
Temporary work	2 331	2 467
Electronic payment systems	5 406	6 271
Legal costs	9 822	8 698
Consultants and external auditors	14 723	10 214
Water, energy and fuel	5 868	5 548
Consumables	2 589	2 914
Other costs	35 340	31 597
	220 939	**214 189**

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 six months ended as at	Year ended as at	Period of six months ended as at
	30.06.2013	31.12.2012	30.06.2012
Profit attributable to the equity holders of the Bank [1]	**(237 303)**	**92 578**	**26 078**
Weighted average number of ordinary shares (thousands)	4 017 928	3 096 971	2 176 013
Weighted average number of treasury stock (thousands)	(1 318)	(11 910)	(16 201)
Weighted average number of ordinary shares outstanding (thousands)	**4 016 610**	**3 085 061**	**2 159 812**
Basic earnings per share attributable to equity holders of the Bank (in euro)	**(0.06)**	**0.03**	**0.01**

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

(in thousands of euro)

	30.06.2013	31.12.2012
Cash	237 557	303 538
Deposits at central banks		
Bank of Portugal	12 215	26 136
Other central banks	959 446	1 047 867
	971 661	1 074 003
	1 209 218	**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 12 215 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 June 2013 these deposits have earned interest at an average rate of 0.50% (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 June 2013, was included in the observation period from 12 June 2013 to 9 July 2013, which corresponded to an average minimum cash requirements of euro 264.3 million.

NOTE 20 – DEPOSITS WITH BANKS

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

(in thousands of euro)

	30.06.2013	31.12.2012
Deposits with banks in Portugal		
Repayable on demand	81 659	138 854
Uncollected cheques	75 145	107 354
	156 804	**246 208**
Deposits with banks abroad		
Repayable on demand	375 940	392 183
Uncollected cheques	2 999	8 962
Other	29 265	33 724
	408 204	**434 869**
	565 008	**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 June 2013 and 31 December 2012, this balance is analysed as follows:

(in thousands of euro)

	30.06.2013	31.12.2012
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	1 207 959	1 347 806
Issued by other entities	344 760	259 203
Shares	41 177	51 911
Other variable income securities	1 275	2 014
	1 595 171	**1 660 934**
Derivatives		
Derivative financial instruments with positive fair value	1 623 659	2 264 465
	3 218 830	**3 925 399**
Financial liabilities held for trading		
Derivative financial instruments with negative fair value	1 552 775	2 121 229
Short sales	15 406	796
	1 568 181	**2 122 025**

As at 30 June 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)

	30.06.2013	31.12.2012
Up to 3 months	106 474	138 710
3 to 12 months	76 507	130 677
1 to 5 years	1 208 395	757 798
More than 5 years	161 343	576 127
Undetermined	42 452	57 622
	1 595 171	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 June 2013 and 31 December 2012, the exposure to peripheral Euro zone countries public debt is analysed in Note 51.

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

(in thousands of euro)

	30.06.2013			31.12.2012		
	Notional	Fair Value		Notional	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forward						
- buy	2 108 301	23 082	8 025	1 217 845	6 968	12 443
- sell	2 107 370			1 226 399		
Currency Swaps						
- buy	3 700 495	3 689	2 370	3 357 723	1 753	2 002
- sell	3 695 266			3 344 104		
Currency Futures [a)]	127 443	-	-	278 317	-	-
Currency Interest Rate Swaps						
- buy	87 425	28 127	25 059	118 945	25 690	18 343
- sell	89 233			115 406		
Currency Options	4 414 940	57 241	57 909	2 414 534	41 415	46 846
	16 330 473	**112 139**	**93 363**	**12 073 273**	**75 826**	**79 634**
Interest rate contracts						
Forward Rate Agreements	900 000	486	-	200 000	-	16
Interest Rate Swaps	27 293 576	1 378 235	1 260 037	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	3 976 442	33 918	32 485	4 918 557	40 843	38 562
Interest Rate Futures [a)]	6 950 819	-	-	3 784 771	-	-
Interest Rate Options	597 218	365	367	1 903 388	1 341	1 341
	39 805 055	**1 413 100**	**1 292 985**	**41 819 049**	**1 996 798**	**1 854 035**
Equity / index contracts						
Equity / Index Swaps	904 409	26 341	69 718	664 516	86 202	24 936
Equity / Index Options	946 037	29 086	68 302	2 712 479	60 726	131 146
Equity / Index Futures [a)]	53 223	-	-	96 583	-	-
Future Options [a)]	509 899	-	-	82 234	-	-
	2 413 568	**55 427**	**138 020**	**3 555 812**	**146 928**	**156 082**
Credit default contracts						
Credit Default Swaps	2 213 128	42 993	28 407	2 774 780	44 913	31 478
Total	**60 762 224**	**1 623 659**	**1 552 775**	**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 June 2013 and 31 December 2012, the analysis of trading derivatives by the period to maturity is presented as follows:

(in thousands of euro)

	30.06.2013		31.12.2012	
	Notional	Fair value (net)	Notional	Fair value (net)
Up to 3 months	15 057 041	(14 619)	13 956 784	71 133
3 to 12 months	9 561 562	(25 856)	9 998 962	(46 401)
1 to 5 years	19 586 268	27 070	18 719 605	21 460
More than 5 years	16 557 353	84 289	17 547 563	97 044
	60 762 224	**70 884**	**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)

	30.06.2013	31.12.2012
Bonds and other fixed income securities		
Issued by government and public entities	1 323 905	515 994
Issued by other entities	1 368 533	1 118 425
Shares and other variable income securities	1 201 408	1 187 134
	3 893 846	**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 June 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:

(in thousands of euro)

	30.06.2013	31.12.2012
Up to 3 months	518 090	486 789
3 to 12 months	1 505 905	239 972
1 to 5 years	243 659	224 257
More than 5 years	386 156	733 700
Undetermined	1 240 036	1 136 835
	3 893 846	**2 821 553**

NOTE 23 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 30 June 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	6 335 806	58 870	(53 489)	-	6 341 187
Issued by other entities	3 260 850	63 594	(61 946)	(27 712)	3 234 786
Shares	1 526 314	96 665	(94 830)	(213 980)	1 314 169
Other variable income securities	1 293 615	11 459	(22 777)	(43 167)	1 239 130
Balance as at 31 december 2012	**12 416 585**	**230 588**	**(233 042)**	**(284 859)**	**12 129 272**
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 2011	**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 June 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)

	30.06.2013	31.12.2012	30.06.2012
Balance at the beginning of the period	237 967	188 236	168 282
Charge for the period	64 133	81 774	21 459
Charge off	(7 422)	(24 382)	(4 044)
Write back for the period	(10 149)	(3 062)	(863)
Exchange differences and other	330	(4 599)	3 402
Balance at the end of the period	**284 859**	**237 967**	**188 236**

As at 30 June 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)

	30.06.2013	31.12.2012
Up to 3 months	2 298 177	2 859 487
3 to 12 months	2 276 466	1 263 814
1 to 5 years	1 899 480	1 227 774
More than 5 years	3 315 664	3 114 316
Undetermined	2 339 485	2 289 919
	12 129 272	**10 755 310**

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

(in thousands of euro)

30.06.2013					
Description	Acquisition cost	Fair value reserve		Impairment	Book value
		Positive	Negative		
Portugal Telecom	346 678	-	(77 618)	-	269 060
EDP- Energias de Portugal	173 826	41 010	-	-	214 836
Banque Marocaine du Commerce Extérieur	81 004	1 440	-	-	82 444
	601 508	**42 450**	**(77 618)**	**-**	**566 340**

(in thousands of euro)

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

During the first semester of 2012, the Group sold at market prices 82.9 million ordinary shares of EDP, and 113.0 million ordinary shares of Portugal Telecom. These transactions generated a realised net loss of euro 181.2 million.
During the six month period ended 30 June 2013, the Group did not make any major transactions on the shares of either Portugal Telecom or EDP.

NOTE 24 – LOANS AND ADVANCES TO BANKS

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

(in thousands of euro)

	30.06.2013	31.12.2012
Loans and advances to banks in Portugal		
Deposits at central banks	1 200 000	3 350 000
Deposits at other banks	266 706	39 372
Loans	114 006	127 581
Very short term deposits	20 001	34 085
Other loans and advances	1 220	84 474
	1 601 933	**3 635 512**
Loans and advances to banks abroad		
Deposits	42 940	833 223
Very short term deposits	193 759	148 696
Loans	442 133	703 798
Other loans and advances	173 042	105 653
	851 874	**1 791 370**
Impairment losses	(301)	(364)
	2 453 506	**5 426 518**

The main loans and advances to banks in Portugal, as at 30 June 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 June 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)

	30.06.2013	31.12.2012
Up to 3 months	1 946 441	5 063 107
3 to 12 months	200 081	96 652
1 to 5 years	25 871	79 623
More than 5 years	281 414	187 427
Undetermined	-	73
	2 453 807	**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)

	30.06.2013	31.12.2012	30.06.2012
Balance at the beginning of the period	364	297	219
Charge for the period	93	257	1 109
Write back for the period	(160)	(169)	(1 038)
Exchange differences and other	4	(21)	7
Balance at the end of the period	**301**	**364**	**297**

NOTE 25 – LOANS AND ADVANCES TO CUSTOMERS

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

(in thousands of euro)

	30.06.2013	31.12.2012
Domestic loans		
Corporate		
Loans	13 411 426	12 605 085
Commercial lines of credits	4 926 242	5 247 361
Finance leases	2 382 396	2 560 544
Discounted bills	407 005	454 624
Factoring	1 404 661	1 412 476
Overdrafts	43 379	76 303
Other loans	115 976	310 168
Retail		
Mortgage loans	9 885 760	10 067 167
Consumer and other loans	1 595 498	1 726 910
	34 172 343	**34 460 638**
Foreign loans		
Corporate		
Loans	9 065 937	8 593 536
Commercial lines of credits	2 135 306	2 181 087
Finance leases	72 418	69 732
Discounted bills	163 566	145 877
Factoring	56 692	52 494
Overdrafts	633 952	581 680
Other loans	272 290	458 646
Retail		
Mortgage loans	984 659	964 525
Consumer and other loans	704 555	705 091
	14 089 375	**13 752 668**
Overdue loans and interest		
Up to 3 months	246 426	219 416
From 3 months to 1 year	783 349	608 075
From 1 to 3 years	1 140 553	791 568
More than 3 years	678 876	566 369
	2 849 204	**2 185 428**
	51 110 922	**50 398 734**
Impairment losses	(3 134 195)	(2 692 342)
	47 976 727	**47 706 392**

As at 30 June 2013, the balance loans and advances to customers (net of impairment) includes an amount of euro 3 499.6 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 June 2013, loans and advances include euro 5 567.5 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 June 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)

	30.06.2013	31.12.2012
Up to 3 months	7 602 095	7 932 875
3 to 12 months	5 999 546	6 143 518
1 to 5 years	10 688 777	10 058 945
More than 5 years	23 971 300	24 077 968
Undetermined	2 849 204	2 185 428
	51 110 922	**50 398 734**

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

(in thousands of euro)

	30.06.2013	31.12.2012	30.06.2012
Balance at the beginning of the period	2 692 342	2 434 698	2 167 444
Charge for the period	790 463	571 109	445 044
Charge off	(63 546)	(162 291)	(46 203)
Write back of the period	(237 367)	(108 278)	(93 043)
Unwind of discount	(48 501)	(40 392)	(37 898)
Exchange differences and other	804	(2 504)	(646)
Balance at the end of the period	**3 134 195**	**2 692 342**	**2 434 698**

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 June 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)

	30.06.2013						
	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	12 950 413	2 611 949	24 683 833	150 754	37 634 246	2 762 703	34 871 543
Mortgage loans	2 322 003	164 045	8 652 389	8 665	10 974 392	172 710	10 801 682
Consumers loans - other	540 996	171 178	1 961 288	27 604	2 502 284	198 782	2 303 502
Total	15 813 412	2 947 172	35 297 510	187 023	51 110 922	3 134 195	47 976 727

(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 semester of 2013 in relation to these loans amounted to euro 346.1 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)

	30.06.2013		31.12.2012	
	Credit Value	Fair Value collateral	Credit Value	Fair Value collateral
Mortgage loans				
Mortgages	10 786 857	10 764 599	10 951 831	10 930 789
Pawns	5 087	4 014	4 739	4 570
Not collateralised	182 448	-	177 252	-
	10 974 392	10 768 613	11 133 822	10 935 359
Individuals loans				
Mortgages	304 898	286 243	310 561	291 897
Pawns	399 001	296 160	585 020	388 748
Not collateralised	1 798 385	-	1 732 199	-
	2 502 284	582 403	2 627 780	680 645
Companies loans				
Mortgages	9 425 461	8 390 019	10 034 387	9 122 921
Pawns	4 569 963	2 847 834	6 884 077	3 562 838
Not collateralised	23 638 822	-	19 718 668	-
	37 634 246	11 237 853	36 637 132	12 685 759
Total	**51 110 922**	**22 588 869**	**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)

	30.06.2013	31.12.2012
Bonds and other fixed income securities		
Issued by government and public entities	403 583	295 271
Issued by other entities	647 253	685 389
	1 050 836	**980 660**
Impairment losses	(25 565)	(39 111)
	1 025 271	**941 549**

As at 30 June 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)

	30.06.2013	31.12.2012
Up to 3 months	102 245	14 715
3 to 12 months	36 520	175 566
1 to 5 years	387 147	230 854
More than 5 years	524 924	559 525
	1 050 836	**980 660**

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

(in thousands of euro)

	30.06.2013	31.12.2012	30.06.2012
Balance at the beginning of the period	39 111	30 048	32 316
Charge for the period	(1 232)	9 062	(1 802)
Charge off	(12 315)	-	(467)
Exchange differences and other	1	1	1
Balance at the end of the period	**25 565**	**39 111**	**30 048**

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

NOTE 27 – DERIVATIVES FOR RISK MANAGEMENT PURPOSES

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

(in thousands of euro)

	30.06.2013			31.12.2012		
	Hedging	Risk management	Total	Hedging	Risk management	Total
Derivatives for risk management purposes						
Derivatives for risk management purposes - assets	138 535	253 184	391 719	153 897	362 623	516 520
Derivatives for risk management purposes - liabilities	(83 934)	(85 668)	(169 602)	(43 581)	(81 618)	(125 199)
	54 601	**167 516**	**222 117**	**110 316**	**281 005**	**391 321**
Fair value component of assets and liabilities being hedged						
Financial assets						
Loans and advances to customers	49 438	-	49 438	22 391	-	22 391
	49 438	**-**	**49 438**	**22 391**	**-**	**22 391**
Financial liabilities						
Deposits from banks	(57 054)	-	(57 054)	(67 996)	-	(67 996)
Due to customers	(646)	(54 732)	(55 378)	(787)	(90 099)	(90 886)
Debt securities issued	(24 340)	40 003	15 663	(38 472)	47 631	9 159
	(82 040)	**(14 729)**	**(96 769)**	**(107 255)**	**(42 468)**	**(149 723)**
	(32 602)	**(14 729)**	**(47 331)**	**(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 June 2013, the ineffectiveness of the fair value hedge operations amounted to euro 2.6 million (30 June 2012: 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 June 2013, the fair value of the financial liabilities at fair value through profits and losses, includes a positive cumulative effect of euro 131.4 million (31 December 2012: positive cumulative effect of euro 167.1 million) attributable to the Group's own credit risk.

As at 30 June 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)

	30.06.2013		31.12.2012	
	Notional	Fair Value	Notional	Fair Value
Up to 3 months	1 344 522	6 514	1 674 024	13 571
3 to 12 months	6 582 335	11 929	2 361 702	25 889
1 to 5 years	7 308 343	114 911	7 205 288	205 686
More than 5 years	1 358 377	88 763	984 230	146 175
	16 593 577	**222 117**	**12 225 244**	**391 321**

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

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

(in thousands of euro)

	30.06.2013		31.12.2012	
	Ativo	Passivo	Ativo	Passivo
Assets and liabilities of subsidiaries acquired exclusively for resale purposes	**657 925**	**155 579**	**731 767**	**175 945**
Property held for sale	3 071 747	-	2 843 378	-
Equipment	3 708	-	2 524	-
Other	3 501	-	3 501	-
	3 078 956	-	2 849 403	-
Impairment losses	(371 700)		(303 630)	
	2 707 256	**-**	**2 545 773**	**-**
	3 365 181	**155 579**	**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 June 2013, the amount of property held for sale includes euro 20 629 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:

(thousands of euro)

	30.06.2013	31.12.2012	30.06.2012
Balance at the beginning of the period	303 630	175 865	181 449
Changes in the consolidation scope	-	116 654	-
Charge/ Write back of the period	147 028	19 969	20 209
Charge off	(81 066)	(4 319)	(25 345)
Exchange differences and others	2 108	(4 539)	(448)
Balance at the end of the period	**371 700**	**303 630**	**175 865**

The changes occurred during the period ended as at 30 June 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)

	30.06.2013	31.12.2012
Balance at the beginning of the period	2 849 403	1 536 884
Changes in the consolidation scope	18 024	530 343
Additions	393 047	996 260
Sales	(221 279)	(218 735)
Other	39 761	4 651
Balance at the end of the period	**3 078 956**	**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.

Following the sales occurred in first six months of 2013, the Group realised a loss amounting to euro 4 412 thousands (31 December 2012: euro 5 914 thousands).

NOTE 29 – INVESTMENT PROPERTIES

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

(thousands of euro)

	30.06.2013	31.12.2012
Balance at the beginning of the period	441 988	-
Change in the scope of consolidation [a)]	-	446 135
Improvements	216	748
Other	(48 972)	(4 895)
	393 232	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 June 2013 and 31 December 2012, this balance is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Property		
For own use	473 824	472 650
Improvements in leasehold property	230 555	228 098
Other	1 088	1 139
	705 467	**701 887**
Equipment		
Computer equipment	293 027	308 497
Fixtures	140 563	142 759
Furniture	133 456	131 075
Security equipment	44 240	42 469
Office equipment	35 557	34 961
Motor vehicles	14 704	12 627
Other	1 543	6 135
	663 090	**678 523**
Other	624	624
	1 369 181	**1 381 034**
Work in progress		
Improvements in leasehold property	314	344
Property for own use	429 017	396 237
Equipment	2 445	2 092
Other	75	54
	431 851	**398 727**
	1 801 032	**1 779 761**
Accumulated depreciation	(846 750)	(848 139)
	954 282	**931 622**

The movement in this balance was as follows:

(milhares de euros)

	Property	Equipment	Other	Work in progress	Total
Custo de aquisição					
Balance as at 31 December 2011	**686 681**	**651 863**	**643**	**326 485**	**1 665 672**
Acquisitions	2 745	16 064	-	10 933	29 742
Disposals	(18 304)	(9 464)	(17)	-	(27 785)
Transfers **(a)**	21 638	1 595	-	(28 712)	(5 479)
Exchange differences and other **(b)**	10 414	9 338	2	7 606	27 360
Balance as at 30 June 2012	**703 174**	**669 396**	**628**	**316 312**	**1 689 510**
Acquisitions	2 665	11 551	-	104 842	119 058
Disposals	(1 987)	(3 101)	1	(850)	(5 937)
Transfers **(a)**	1 221	3 414	-	(5 880)	(1 245)
Exchange differences and other	(3 186)	(2 737)	(5)	(15 697)	(21 625)
Balance as at 31 December 2012	**701 887**	**678 523**	**624**	**398 727**	**1 779 761**
Acquisitions	780	9 357	-	72 790	82 927
Disposals	(3 521)	(22 098)	-	-	(25 619)
Transfers **(a)**	3 922	676	-	(6 110)	(1 512)
Exchange differences and other	2 399	(3 368)	-	(33 556)	(34 525)
Balance as at 30 June 2013	**705 467**	**663 090**	**624**	**431 851**	**1 801 032**
Depreciation					
Balance as at 31 December 2011	**288 649**	**525 076**	**269**	**-**	**813 994**
Acquisitions	10 943	20 034	6	-	30 983
Disposals	(17 673)	(8 984)	-	-	(26 657)
Transfers **(a)**	(846)	(362)	-	-	(1 208)
Exchange differences and other **(b)**	262	7 585	(44)	-	7 803
Balance as at 30 June 2012	**281 335**	**543 349**	**231**	**-**	**824 915**
Acquisitions	11 063	19 872	4	-	30 939
Disposals	(994)	1 219	-	-	225
Transfers **(a)**	(264)	(51)	-	-	(315)
Exchange differences and other	(787)	(6 900)	62	-	(7 625)
Balance as at 31 December 2012	**290 353**	**557 489**	**297**	**-**	**848 139**
Acquisitions	10 534	18 884	-	-	29 418
Disposals	(3 521)	(20 915)	-	-	(24 436)
Transfers **(a)**	(368)	(104)	-	-	(472)
Exchange differences and other	(152)	(5 657)	(90)	-	(5 899)
Balance as at 30 June 2013	**296 846**	**549 697**	**207**	**-**	**846 750**
Net amount as at 30 June 2013	**408 621**	**113 393**	**417**	**431 851**	**954 282**
Net amount as at 31 December 2012	**411 534**	**121 034**	**327**	**398 727**	**931 622**
Net amount as at 30 June 2012	**421 839**	**126 047**	**397**	**316 312**	**864 595**

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

(in thousands of euro)

	30.06.2013	31.12.2012
Goodwill	**311 105**	**313 665**
Value In Force [(a)]	-	**109 937**
Internally developed		
Software	65 260	58 186
Acquired to third parties		
Software	654 219	645 010
Other	952	951
	655 171	**645 961**
Work in progress	**31 586**	**33 701**
	1063 122	**1161 450**
Accumulated amortisation	(618 561)	(596 345)
Impairment losses	(9 672)	(9 779)
	434 889	**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)

	31.12.2012	31.12.2011
Subsidiaries		
BES Vida	234 574	234 574
ES Investment Holding [(a)]	46 237	48 567
ES Gestion	2 459	2 459
Aman Bank	16 046	16 046
Concordia	1 649	1 756
Other	2 247	2 370
Other cash-generating units		
Leasing and Factoring	7 893	7 893
	311 105	**313 665**
Impairment losses	(9 672)	(9 779)
	301 433	**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 30 375 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	-	-	-	3 633	3 633
Acquired from third parties **(a)**	278 032	5 287	-	8 021	291 340
Disposals	-	(1 411)	-	(104)	(1 515)
Transfers	-	6 333	-	(6 333)	-
Exchange differences and other **(b) (c)**	(18 069)	10 117	37	30	(7 885)
Balance as at 30 June 2012	**357 702**	**678 439**	**954**	**31 660**	**1 068 755**
Acquisitions:					
Internally developed	-	54	-	4 624	4 678
Acquired from third parties **(a)**	66 479	6 246	-	16 131	88 856
Disposals	-	(3)	-	1	(2)
Transfers	-	19 922	-	(19 922)	-
Exchange differences and other	(579)	(1 462)	(3)	1 207	(837)
Balance as at 31 December 2012	**423 602**	**703 196**	**951**	**33 701**	**1 161 450**
Acquisitions:					
Internally developed	-	-	-	3 659	3 659
Acquired from third parties	-	4 445	2	6 506	10 953
Disposals **(e)**	(137 476)	(443)	-	-	(137 919)
Transfers **(e)**	30 375	11 476	-	(11 476)	30 375
Exchange differences and other	(5 396)	805	(1)	(804)	(5 396)
Balance as at 30 June 2013	**311 105**	**719 479**	**952**	**31 586**	**1 063 122**
Amortisations					
Balance as at 31 December 2011	**-**	**542 344**	**878**	**-**	**543 222**
Amortizações do período	-	22 746	27	-	22 773
Abates / vendas	-	(1 310)	-	-	(1 310)
Variação cambial e outros movimentos **(d)**	-	9 161	-	-	9 161
Balance as at 30 June 2012	**-**	**572 941**	**905**	**-**	**573 846**
Amortisations of the period	-	23 370	9	-	23 379
Disposals	-	(8)	-	-	(8)
Exchange differences and other	-	(873)	1	-	(872)
Balance as at 31 December 2012	**-**	**595 430**	**915**	**-**	**596 345**
Amortisations of the period	-	23 080	1	-	23 081
Disposals	-	(443)	-	-	(443)
Exchange differences and other	-	(422)	-	-	(422)
Balance as at 30 June 2013	**-**	**617 645**	**916**	**-**	**618 561**
Impairment					
Balance as at 31 December 2011	**9 628**	**-**	**-**	**-**	**9 628**
Variação cambial e outros movimentos	79	-	-	-	79
Balance as at 30 June 2012	**9 707**	**-**	**-**	**-**	**9 707**
Exchange differences and other	72	-	-	-	72
Balance as at 31 December 2012	**9 779**	**-**	**-**	**-**	**9 779**
Exchange differences and other	(107)	-	-	-	(107)
Balance as at 30 June 2013	**9 672**	**-**	**-**	**-**	**9 672**
Net amount as at 30 June 2013	**301 433**	**101 834**	**36**	**31 586**	**434 889**
Net amount as at 31 December 2012	**413 823**	**107 766**	**36**	**33 701**	**555 326**
Net amount as at 30 June 2012	**347 995**	**105 498**	**49**	**31 660**	**485 202**

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

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	
	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	30.06.2012	30.06.2013	30.06.2012
BES VIDA	-	-	-	-	-	-	-	-	-	-
ES VÉNÉTIE	1 401 049	1 616 961	1 228 117	1 444 715	172 932	172 246	34 433	41 379	605	3 930
LOCARENT	261 821	285 740	251 445	277 404	10 376	8 336	42 499	37 531	617	1 422
BES SEGUROS	110 550	120 243	83 738	89 039	26 812	31 204	33 332	33 199	3 003	3 250
ESEGUR	38 479	39 121	27 677	28 526	10 802	10 595	26 154	23 671	340	550
FUNDO ES IBERIA	14 906	13 894	28	169	14 878	13 725	295	21	(3)	(125)
SCI GEORGES MANDEL	11 006	11 271	35	9	10 971	11 262	486	483	300	301
BRB INTERNACIONAL	12 663	12 883	11 759	12 407	904	476	481	3 537	(171)	84
AUTOPISTA PEROTE-XALAPA	650 179	650 179	521 167	521 167	129 012	129 012	-	-	-	(57)
ASCENDI GROUP	4 056 000	4 056 000	3 656 000	3 656 000	400 000	400 000	-	63 000	-	7 400
EMPARK	776 050	782 872	661 227	651 074	114 823	131 798	73 219	44 849	(1 752)	(2 118)
AUVISA - AUTOVIA DE LOS VIÑEDOS	216 000	216 000	222 000	222 000	(6 000)	(6 000)	-	3 706	-	19
UNICRE	397 644	305 005	271 874	179 941	125 770	125 064	94 839	216 355	5 681	3 631
MOZA BANCO	270 501	186 719	237 339	154 683	33 162	32 036	15 964	5 624	(1 354)	(2 388)
RODI SINKS & IDEAS	44 035	43 446	20 930	20 537	23 105	22 909	6 138	6 939	462	825

Note: Information adjusted for consolidation purposes

(in thousands of euro) ares de euros)

	Participation Cost			Economic Interest			Book Value			Share of profits of associates		
	30.06.2013	31.12.2012	30.06.2012	30.06.2013	31.12.2012	30.06.2012	30.06.2013	31.12.2012	30.06.2012	30.06.2013	31.12.2012	30.06.2012
BES VIDA a)	-	-	-	-	-	0.00%	-	-	-	-	2 761	2 761
ES VÉNÉTIE	42 293	42 293	42 293	42.69%	42.69%	42.69%	73 965	73 672	72 338	258	4 403	1 678
LOCARENT	2 967	2 967	2 967	50.00%	50.00%	50.00%	5 498	4 478	3 892	309	1 298	711
BES SEGUROS	3 749	3 749	3 749	25.00%	25.00%	25.00%	6 700	7 798	5 925	750	1 743	813
ESEGUR	9 634	9 634	9 634	44.00%	44.00%	44.00%	11 597	11 506	11 486	150	262	242
FUNDO ES IBERIA	7 087	7 087	8 708	38.67%	38.67%	38.67%	6 097	5 649	5 780	518	261	393
SCI GEORGES MANDEL	2 401	2 401	2 401	22.50%	22.50%	22.50%	2 468	2 534	2 469	68	133	68
BRB INTERNACIONAL	10 659	10 659	10 659	24.93%	25.00%	25.00%	226	119	291	107	(216)	(44)
AUTOPISTA PEROTE-XALAPA b)	36 678	36 678	36 678	14.33%	14.33%	14.33%	30 802	30 802	27 088	-	3 647	(101)
ASCENDI GROUP	179 772	179 772	179 772	28.66%	28.66%	28.66%	186 955	186 955	183 476	-	6 566	3 881
EMPARK b)	52 429	52 429	52 429	15.92%	15.92%	15.92%	48 371	50 090	52 078	(926)	(2 193)	(99)
AUVISA - AUTOVIA DE LOS VIÑEDOS	41 056	41 056	41 056	35.83%	35.83%	35.83%	34 792	34 792	37 358	-	(2 531)	34
UNICRE b)	11 497	11 497	11 497	17.50%	17.50%	17.50%	22 010	21 886	20 198	994	1 970	635
MOZA BANCO	37 707	12 791	11 833	49.00%	25.10%	25.10%	37 314	12 234	12 652	(447)	(826)	(599)
RODI SINKS & IDEAS	1 240	1 240	1 240	24.81%	24.81%	24.81%	8 198	8 129	7 725	70	194	198
Others	148 430	140 507	139 996				133 307	130 338	134 507	(762)	(9 160)	(3 289)
	587 599	**554 760**	**554 912**				**608 300**	**580 982**	**577 263**	**1 089**	**8 312**	**7 282**

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

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

The movement occurred in this balance is presented as follows:

(in thousands of euro)

	30.06.2013	31.12.2012
Balance at the beginning of the period	580 982	806 999
Disposals	(3 129)	(58 905)
Acquisitions (see Note 1)	32 969	32 418
Share of profit of associates	1 089	8 312
Fair value reserve from investments in associates	-	43 084
Dividends received	(2 642)	(3 423)
Changes in the consolidation scope	-	(243 790)
Exchange differences and other	(969)	(3 713)
Balance at the end of the period	**608 300**	**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)

	30.06.2013			31.12.2012		
	Direct insurance	Reinsurance ceded	Total	Direct insurance	Reinsurance ceded	Total
Unearned premiums reserve	2 660	-	2 660	2 618	-	2 618
Life mathematical reserve	1 460 015	(10 174)	1 449 841	1 545 079	(129)	1 544 950
Claims outstanding reserve	21 916	(803)	21 113	27 447	(1 621)	25 826
Reserve for participating features	10 001	(1 105)	8 896	2 264	(2 054)	210
	1 494 592	(12 082)	1 482 510	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)

	30.06.2013			31.12.2012		
	Direct insurance	Reinsurance ceded	Total	Direct insurance	Reinsurance ceded	Total
Traditional	29 855	(10 174)	19 681	31 979	(129)	31 850
Saving contracts with profit sharing	1 430 160	-	1 430 160	1 513 100	-	1 513 100
	1 460 015	(10 174)	1 449 841	1 545 079	(129)	1 544 950

The claims outstanding reserve is analysed as follows:

(in thousands of euro)

	30.06.2013			31.12.2012		
	Direct insurance	Reinsurance ceded	Total	Direct insurance	Reinsurance ceded	Total
Traditional	13 291	(803)	12 488	14 316	(1 621)	12 695
Saving contracts with profit sharing	8 625	-	8 625	13 131	-	13 131
	21 916	(803)	21 113	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 437 thousands for claims incurred before 30 June 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)

	30.06.2013			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	141 352	(6 581)	134 771	362 235	(1 101)	361 134
Prior years	(12 007)	(403)	(12 410)	1 830	(117)	1 713
Less paid claims related to						
Current year	(120 892)	7 646	(113 246)	(361 834)	640	(361 194)
Prior years	(13 984)	156	(13 828)	(4 978)	214	(4 764)
Balance at the end of the period	**21 916**	**(803)**	**21 113**	**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 June 2013 is as follows:

(in thousands of euro)

	30.06.2013			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	(537)	2 227	1 690	(170)	187	17
Estimated attributable amounts	8 274	(1 278)	6 996	1 108	(1 437)	(329)
Balance at the end of the period	10 001	(1 105)	8 896	2 264	(2 054)	210

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

(in thousands of euro)

	30.06.2013	31.12.2012
Debtors		
Deposits placed with futures contracts	1 398 718	1 664 467
Recoverable government subsidies on mortgages loans	36 732	38 658
Debtors for unrealised capital of subsidiaries	7 000	7 000
Public sector	143 367	144 697
Debtors from the insurance business	352 078	567
Sundry debtors	598 415	628 668
	2 536 310	2 484 057
Impairment losses on debtors	(163 322)	(234 987)
	2 372 988	**2 249 070**
Other assets		
Gold, other precious metals, numismatics, and other liquid assets	10 037	10 834
Other assets	202 355	185 994
	212 392	**196 828**
Accrued income	**60 823**	**48 415**
Deferred acquisition costs	**136 251**	**114 766**
Other sundry assets		
Foreign exchange transactions pending settlement	6 563	16 179
Stock exchange transactions pending settlement	188 186	154 257
Other transactions pending settlement	68 872	200 037
	263 621	**370 473**
Assets recognised on pensions	**-**	**14 602**
	3 046 075	**2 994 154**

Receivables from insurance operations, includes the receivable amount of 343 417 thousands euros, related to the upfront fee resulting of the signing of a reinsurance treaty, that reinsures the entire portfolio of life insurance individual risk at 100%, including all policies in force at BES Vida, with reference to 30 June 2013 (see Note 13). This amount was received in July 2013.

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 67.8 million of loans to entities within the Group's venture capital business, of which euro 47.9 million are provided for (31 December 2012: euro 67.2 million, of which euro 30.7 million were provided for)
- 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 June 2013, the balance prepayments and deferred costs includes the amount of euro 75 248 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)

	30.06.2013	31.12.2012	30.06.2012
Balance at the beginning of the period	234 987	83 986	47 861
Charge for the period	25 991	155 731	38 411
Charge off	(98 568)	(239)	(116)
Write back of the period	(1 781)	(9 650)	(3 777)
Other	2 693	5 159	1 607
Balance at the end of the period	**163 322**	**234 987**	**83 986**

NOTE 35 – DEPOSITS FROM CENTRAL BANKS

The balance deposits from central banks is analysed as follows:

(in thousands of euro)

	30.06.2013	31.12.2012
From the European System of Central Banks		
Deposits	145 599	129 382
Other funds	9 350 000	10 150 000
	9 495 599	**10 279 382**
From other Central Banks		
Deposits	546 125	613 938
	546 125	**613 938**
	10 041 724	**10 893 320**

As at 30 June 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 30 June 2013, the balance Deposits from other Central Banks includes the amount of euro 362 million related to deposits with Angola National Bank (31 December 2012: euro 431 million).

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

(in thousands of euro)

	30.06.2013	31.12.2012
Up to 3 months	930 052	150 206
1 to 5 years	9 111 672	10 743 114
	10 041 724	**10 893 320**

NOTE 36 – DEPOSITS FROM BANKS

The balance deposits from banks is analysed as follows:

(in thousands of euro)

	30.06.2013	31.12.2012
Domestic		
Deposits	348 024	383 720
Very short term funds	63 369	40 172
Repurchase agreements	14	66 579
Other funds	2 295	4 487
	413 702	**494 958**
International		
Deposits	530 988	504 679
Loans	2 725 984	2 315 433
Very short term funds	144 518	194 475
Repurchase agreements	1 152 274	1 311 162
Other funds	229 676	267 951
	4 783 440	**4 593 700**
	5 197 142	**5 088 658**

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

(in thousands of euro)

	30.06.2013	31.12.2012
Up to 3 months	2 596 851	2 363 813
3 to 12 months	1 109 461	1 327 967
1 to 5 years	855 627	669 591
More than 5 years	635 203	727 287
	5 197 142	**5 088 658**

NOTE 37 – DUE TO CUSTOMERS

The balance due to customers is analysed as follows:

(in thousands of euro)

	30.06.2013	31.12.2012
Repayable on demand		
Demand deposits	10 506 273	10 458 336
Time deposits		
Time deposits	24 772 036	21 719 358
Other	64 813	56 391
	24 836 849	**21 775 749**
Savings accounts		
Pensioners	152 350	28 022
Other	1 826 676	1 645 970
	1 979 026	**1 673 992**
Other funds		
Repurchase agreements	229 109	242 150
Other	360 398	390 096
	589 507	**632 246**
	37 911 655	**34 540 323**

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

(in thousands of euro)

	30.06.2013	31.12.2012
Repayable on demand	10 506 273	10 458 336
Term liabilities		
Up to 3 months	12 220 628	11 024 506
From 3 months to 1 year	8 561 631	6 517 198
From1 to 5 years	6 428 232	6 169 147
More than 5 years	194 891	371 136
	27 405 382	**24 081 987**
	37 911 655	**34 540 323**

NOTE 38 – DEBT SECURITIES ISSUED

The balance debt securities issued is analysed as follows:

(in thousands of euro)

	30.06.2013	31.12.2012
Euro Medium Term Notes (EMTN)	8 605 088	10 033 382
Certificates of deposit	378 720	612 033
Bonds	1 439 362	2 366 119
Covered bonds	894 750	864 100
Other	1 414 352	1 548 427
	12 732 272	**15 424 061**

As at 30 June 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	853 715	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	33	21-07-2010	21-07-2017	Annually	6 month Euribor + 0.60%	Baa3	AL
BES Covered bond DUE 4,6%	40 000	41 002	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	**894 750**						

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 June 2013, the mortgage loans that collateralise these covered bonds amount to euro 5 567.5 million (31 December 2012: euro 5 605.1 million) (see Note 25).

The changes occurred in debt securities issued during the first six 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 30.06.2013
Euro Medium Term Notes (EMTN)	10 033 382	973 807	(2 191 757)	(134 514)	(75 830)	8 605 088
Certificates of deposit	612 033	-	(231 780) b)	-	(1 533)	378 720
Bonds	2 366 119	-	(874 808)	(69 000)	17 051	1 439 362
Covered bonds	864 100	-	-	49 929	(19 279)	894 750
Other	1 548 427	2 159 653	(2 325 650)	1 221	30 701	1 414 352
	15 424 061	**3 133 460**	**(5 623 995)**	**(152 364)**	**(48 890)**	**12 732 272**

[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.

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

(in thousands of euro)

	30.06.2013	31.12.2012
Up to 3 months	1 430 452	2 466 103
3 to 12 months	2 651 481	1 345 865
1 to 5 years	5 118 776	7 367 491
More than 5 years	3 531 563	4 244 602
	12 732 272	**15 424 061**

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

(in thousands of euro)

Issuer	Designation		30.06.2013 Currency	Book value	Maturity	Interest rate
BES	BES 4.75% 2018		EUR	486 682	2018	Fixed rate: 4.75%
BES (Luxembourg branch)	BES Luxembourg 3.5% 02/01/43		EUR	71 897	2043	Fixed rate - 3.5%
BES (Luxembourg branch)	BES Luxembourg 3.5% 23/01/43		EUR	71 358	2043	Fixed rate - 3.5%
BES (Luxembourg branch)	BES Luxembourg 3.5% 19/02/2043		EUR	84 758	2043	Fixed rate - 3.5%
BES (Luxembourg branch)	BES Luxembourg 3.5% 18/03/2043		EUR	55 799	2043	Fixed rate - 3.5%
ES Investment Plc	ESIP DEC2015 FTD CRD LKD	a)	EUR	4 547	2015	b)
ES Investment Plc	ESIP AUTOCALL JAN20 EQL	a)	EUR	302	2020	c)
ES Investment Plc	ESIP SX5E BOOSTER JAN2016	a)	EUR	2 296	2016	SX5E Linked
ES Investment Plc	ESIP SX5E BULLISH JAN2016	a)	EUR	2 505	2016	SX5E Linked
ES Investment Plc	ESIP AUTOCALL EDP EQL JAN2015	a)	EUR	1 779	2015	EDP Linked
ES Investment Plc	ESIP 2Y AUTOCALL EDP EQL FEB2015	a)	EUR	1 933	2015	EDP Linked
ES Investment Plc	ESIP 2Y AUTOCAL EQL3 EDP FEB2015	a)	EUR	1 808	2015	EDP Linked
ES Investment Plc	ESIP 4Y AUTOCALL FEB2017 EQL	a)	EUR	9 042	2017	d)
ES Investment Plc	ESIP 2Y AUTOCALL BES EQL FEB2015	a)	EUR	644	2015	BES Linked
ES Investment Plc	ESIP 2Y AUTOCALL EQL REP FEB2015	a)	EUR	1 320	2015	REPSOL Linked
ES Investment Plc	ESIP BULLISH IBERIA MAR2016	a)	EUR	4 230	2016	e)
ES Investment Plc	ESIP TURKISH LIRA EQL MAR2018	a)	EUR	4 035	2018	EUR/TRY Linked
ES Investment Plc	ESIP 3Y WIN MAR2016	a)	EUR	1 683	2016	f)
ES Investment Plc	ESIP REPSOL 2Y EQTY LINKED MAR15	a)	EUR	905	2015	REPSOL Linked
ES Investment Plc	ESIP BARCLAYS 2Y EQL MAR2015	a)	EUR	458	2015	BARCLAYS Linkked
ES Investment Plc	ESIP CLN GALP MAR2018	a)	EUR	5 845	2018	EUR GALP CLN Linked
ES Investment Plc	ESIP 3Y AUTOCAL IBERIA EQL MAR16	a)	EUR	926	2016	e)
ES Investment Plc	ESIP BASKET+NOTES APR2016	a)	EUR	1 396	2016	i)
ES Investment Plc	ESIP BULLISH PAISES PERIF APR16	a)	EUR	894	2016	Baskets of Index PSI20, MIB and IBEX30
ES Investment Plc	ESIP AC INDICES GLOBAIS APR16	a)	EUR	897	2016	Baskets of Index Eurostoxx, SP500 and Nikkei
ES Investment Plc	ESIP USD CLN GALP MAR2018	a)	USD	7 768	2018	USD GALP CLN Linked
ES Investment Plc	ESIP 3Y AC SAN TELE REP APR2016	a)	EUR	875	2016	g)
ES Investment Plc	ESIP AMAZON EQL APR2014	a)	EUR	722	2014	Amazon Linked
ES Investment Plc	ESIP APPLE EQL APR2015	a)	EUR	831	2015	Apple Linked
ES Investment Plc	ESIP BULLISH EUROSTOXX APR2016	a)	EUR	1 169	2016	Eurostoxx Linked
ES Investment Plc	ESIP BULLISH EWZ APR2016	a)	EUR	854	2016	EWZ Linked
ES Investment Plc	ESIP BULLISH HSCEI APR2016	a)	EUR	874	2016	HSCEI Linked
ES Investment Plc	ESIP 3Y AC ENER. EOLICA MAY16	a)	EUR	2 410	2016	EDP & Iberdrola Linked
ES Investment Plc	ESIP 3Y WIN MAY16	a)	EUR	1 551	2016	Baskets of Index Eurostoxx, SP500 and Nikkei
ES Investment Plc	ESIP AC REPSOL 9.6% MAY2014	a)	EUR	996	2014	Repsol Linked
ES Investment Plc	ESIP AC REPSOL JUN2014	a)	EUR	1 828	2014	Repsol Linked
ES Investment Plc	ESIP CLN PT INT FIN 3.5Y DEC16	a)	EUR	11 072	2016	Credit Linked Note Portugal Telecom
ES Investment Plc	ESIP FEB16 BULLISH ES AFRICA LKD	a)	EUR	1 295	2018	Espirito Santo Africa Linked
ES Investment Plc	ESIP WRC BBVA SAN MAY2014	a)	EUR	941	2014	BBVA & Santander Linked
ES Investment Plc	ESIP CLN TELECOM ITALIA JUNE16	a)	EUR	5 938	2016	Credit Linked Note Telecom Italia
ES Investment Plc	ESIP 3Y AC BBVA JUN16	a)	EUR	585	2016	BBVA Linked
ES Investment Plc	ESIP 3Y AC GALP&REPSOL JUN16	a)	EUR	637	2016	GALP and REPSOL Linked
ES Investment Plc	ESIP USD CLN ESFPORTUGA 3Y MAY16	a)	USD	5 477	2016	ESFP CLN
ES Investment Plc	ESIP CLN ESFPORTUGAL 3Y MAY16	a)	EUR	6 398	2016	ESFP CLN
ES Investment Plc	ESIP 3Y BULLISH REINO UNID JUN16	a)	EUR	398	2016	UKX Linked
ES Investment Plc	ESIP CLN ESFPORTUGAL 3Y N MAY16	a)	EUR	7 317	2016	ESFP CLN
ES Investment Plc	ESIP 3Y BULLISH BRAZ REAL JUN16	a)	EUR	1 627	2016	EUR/BRL Linked
ES Investment Plc	ESIP PT INT. FINANCE DEC16	a)	EUR	2 432	2016	PT CLN
ES Investment Plc	ESIP 3Y AC ENERGIA IBERICA JUN16	a)	EUR	2 362	2016	GALP and REPSOL Linked
ES Investment Plc	ESIP FTD TI, ENEL, PT CLN SEP16	a)	EUR	1 377	2016	TELECOM ITALIA, ENEL, PT CLN
ES Investment Plc	ESIP FTD BRISA, EDP, PT CL SEP16	a)	EUR	1 965	2016	BRISA, EDP, PT CLN
BESI	BESI MAR2018 FTD CRD LKD	a)	EUR	3 096	2018	h)
BESI	BESI MAR2016 FTD CRD LKD USD	a)	EUR	2 107	2016	h)
BESI	BES INVESTIMENTO DO 4.00000 29/05/2014		USD	7 955	2014	2,90%
BESI	LCI - until 1 year		BRL	3 639	2014	CDI 89% to 98%
ESPLC	BES0713_09E BESESPLC04/07/2013		EUR	150 252	2013	0,72%
ESPLC	BES0713_10E BESESPLC08/07/2013		EUR	130 216	2013	0,73%
ESPLC	BES0813_11E BESESPLC13/08/2013		EUR	123 110	2013	0,70%
ESPLC	BES0813_12E BESESPLC14/08/2013		EUR	127 102	2013	0,69%
ESPLC	BES0813_13E BESESPLC28/08/2013		EUR	120 075	2013	0,70%
ESPLC	BES0913_14E BESESPLC17/09/2013		EUR	160 034	2013	0,70%
ESPLC	BES0913_15E BESESPLC18/09/2013		EUR	140 027	2013	0,69%

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) basket of Equities: Coca-Cola, France Telecom, Vivendi and YUM Brands Inc

NOTE 39 – INVESTMENT CONTRACTS

The liabilities arising from investment contracts are analysed as follows:

(in thousands of euros)

	30.06.2013	31.12.2012
Fixed rate investment contracts	1 955 128	1 298 933
Investment contracts in which the financial risk is borne by the policyholder	1 519 774	2 114 630
	3 474 902	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 is analysed as follows:

(in thousands of euros)

	30.06.2013	31.12.2012
Balance at the begginning of the period	1 298 933	-
Change in the consolidation scope	-	376 975
Net deposits received	726 048	1 057 880
Benefits paid	(104 899)	(143 288)
Change on the deferred acquisition costs	(1 800)	(10 601)
Technical interest charged	36 846	17 967
Balance at the end of the period	1 955 128	1 298 933

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

(in thousands of euros)

	30.06.2013	31.12.2012
Balance at the begginning of the period	2 114 630	-
Change in the consolidation scope	-	1 916 883
Net deposits received	132 013	260 993
Benefits paid	(763 977)	(220 506)
Changes in financial liabilities at fair value through profit or loss	-	(2 176)
Technical result	37 108	159 436
Balance at the end of the period	1 519 774	2 114 630

NOTE 40 – PROVISIONS

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

(in thousands of euro)

	30.06.2013	31.12.2012	30.06.2012
Balance at the beginning of the period	**236 950**	**186 671**	**190 450**
Change in the scope of consolidation	-	-	16 945
Charge for the period	(29 777)	56 300	678
Charge off	(956)	(2 230)	(15 724)
Exchange differences and other	(13 615)	(3 791)	(5 678)
Balance at the end of the period	**192 602**	**236 950**	**186 671**

Provisions for an amount of euro 192 602 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 44.2 million as at 30 June 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 36.1 million (31 December 2012: euro 36.1 million);
- The remaining balance of approximately euro 57.0 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 June 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 as at 31 December 2011 and 2012. Thus, for the years in question, deferred tax was calculated based on the aggregate rate of 29%, resulting from the sum of IRC (25%), City surcharge (1.5%) and State surcharge (2.5%) rates above referred. Deferred tax assets relating to tax losses is determined based on the income tax rate of 25%.

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

The deferred tax assets and liabilities recognised in the balance sheet as at 30 June 2013 and 31 December 2012 can be analysed as follows:

(in thousands of euro)

	Assets		Liabilities		Net	
	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012
Financial instruments	87 548	74 257	(70 041)	(106 717)	17 507	(32 460)
Loans and advances to customers impairment	462 261	402 750	-	-	462 261	402 750
Property and equipment	263	271	(8 820)	(8 901)	(8 557)	(8 630)
Intangible assets	102	102	-	-	102	102
Investments in subsidiaries and associates	-	-	(135 866)	(163 986)	(135 866)	(163 986)
Provisions	52 562	54 356	-	-	52 562	54 356
Pensions	243 119	257 901	(35 507)	(35 507)	207 612	222 394
Long-term service benefits	7 720	7 726	-	-	7 720	7 726
Debt securities issued	557	-	-	(1 010)	557	(1 010)
Other	8 621	16 815	-	(4 117)	8 621	12 698
Tax losses brought forward	151 470	80 654	-	296	151 470	80 950
Deferred tax asset / (liability)	**1 014 223**	**894 832**	**(250 234)**	**(319 942)**	**763 989**	**574 890**
Assets / liabilities compensation for deferred taxes	(78 473)	(165 927)	78 473	165 927	-	-
Deferred tax asset / (liability), net	**935 750**	**728 905**	**(171 761)**	**(154 015)**	**763 989**	**574 890**

The changes in deferred taxes were recognised as follows:

(in thousands of euro)

	30.06.2013	31.12.2012
Balance at the beginning of the period	574 890	601 624
Recognised in the income statement	211 753	52 434
Recognised in fair value reserve	(8 175)	(56 617)
Recognised in equity - other comprehensive income	(16 667)	9 882
Recognised in other reserves	2 685	(30 280)
Changes in the scope of consolidation	-	(291)
Exchange differences and other	(497)	(1 862)
Balance at the end of the period (Assets/ (Liabilities))	**763 989**	**574 890**

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

(in thousands of euro)

	30.06.2013		31.12.2012	
	Recognised in (profit) /loss	Recognised in reserves	Recognised in (profit) /loss	Recognised in reserves
Financial Instruments	(58 142)	8 175	(16 371)	60 205
Loans and advances to customers impairment	(59 511)	-	(69 029)	-
Property and equipment	(73)	-	(153)	-
Investments in subsidiaries and associates	(36 734)	10 500	81 689	(3 528)
Provisions	1 794	-	(20 343)	-
Pensions	2 346	12 388	4 005	(6 354)
Long-term service benefits	6	-	459	-
Debt securities issued	(1 567)	-	1 214	-
Other	792	950	(1 633)	-
Tax losses brought forward	(60 664)	(9 856)	(32 272)	26 692
Deferred taxes	(211 753)	22 157	(52 434)	77 015
Current taxes	108 849	(65 941)	135 350	43 390
Total tax recognised (profit) /loss	**(102 904)**	**(43 784)**	**82 916**	**120 405**

The current tax accounted for in reserves as at 30 June 2013 in the amount of euro 65 941 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)

	30.06.2013		31.12.2012	
	%	Amount	%	Amount
Profit before taxes		**(340 818)**		**202 752**
Banking levy		12 971		27 910
Profit before tax for the tax rate reconciliation		**(327 847)**		**230 662**
Statutory tax rate	25.0		31.5	
Income tax calculated based on the statutory tax rate		(81 962)		72 659
Tax-exempt dividends	3.3	(10 947)	3.7	(12 147)
Tax-exempt profits (off shore)	(0.9)	2 982	9.9	(32 449)
Tax-exempt gains	(1.1)	3 445	(19.5)	63 887
Non-taxable share of profit in associates	0.1	(234)	0.7	(2 410)
Non deductible costs	(2.7)	8 797	(6.2)	20 375
Changes in estimates	5.8	(18 979)	18.3	(59 968)
Non deductible losses arising from subsidiaries acquisition	0.0	-	(10.1)	33 230
Other	1.8	(6 006)	0.1	(261)
	...	**(102 904)**	**...**	**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 June 2013, the Group recongnised a cost of euro 13.0 million (31 December 2012: euro 14.0 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)

	30.06.2013	31.12.2012
Bonds	767 092	774 473
Perpetual Bonds	63 840	65 343
	830 932	**839 816**

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

(in thousands of euro)

Issuer	Designation	30.06.2013 Currency	Issue Date	Amount Issued	Carrying amount	Interest Rate	Maturity	
BES Finance	Subordinated perpetual bonds	EUR	2002	30 843	23 642	Euribor 3M + 2.83%	2013	a)
BES Finance	Subordinated perpetual bonds	EUR	2004	95 767	19 802	4.50%	2015	a)
BES Finance	Bonds	EUR	2008	20 000	20 169	Euribor 3M + 1%	2018	
BESI	Bonds	BRL	2007	21 134	19 036	1.30%	2014	
BESI	Bonds	BRL	2008	10 099	10 881	1.30%	2015	
BESI	Bonds	EUR	2005	60 000	11 063	5.33%	2015	
BESI	Bonds	EUR	2003	10 000	265	5.50%	2033	
BES	Bonds	EUR	2004	25 000	22 588	Euribor 6M + 1.25%	2014	
BES	Bonds	EUR	2008	41 550	3 868	Euribor 3M + 1%	2018	
BES	Bonds	EUR	2008	638 450	596 464	Euribor 3M + 8.5%	2019	
BES	Bonds	EUR	2008	50 000	50 077	Euribor 3M + 1.05%	2018	
BES	Bonds	EUR	2011	8 174	8 585	Fixed rate 10%	2021	
BES Vida	Bonds	EUR	2002	45 000	24 096	Euribor 3M + 2.20%	2022	
BES Vida	Subordinated perpetual bonds	EUR	2002	45 000	20 396	Euribor 3M + 2.50%	2013	a)
				1 101 017	**830 932**			

a) Call option date

The changes occurred in subordinated debt during the first six 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 30.06.2013
Bonds	774 473	-	(1 945)	(5 287)	(149)	767 092
Perpetual Bonds (b)	65 343	-	-	(1 023)	(480)	63 840
	839 816	**-**	**(1 945)**	**(6 310)**	**(629)**	**830 932**

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 June 2013, the Group has recognised a gain in the amount of euro 26 million (30 June 2012: gain of euro 39.7 million) (see Notes 14 and 38).

NOTE 43 – OTHER LIABILITIES

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

(in thousands of euro)

	30.06.2013	31.12.2012
Creditors		
Public sector	142 492	135 693
Deposit accounts	178 046	173 955
Sundry creditors		
Creditors from transactions with securities	107 761	89 357
Suppliers	31 746	49 619
Creditors from factoring operations	5 865	3 509
Creditors from insurance operations	22 415	2 040
Other sundry creditors	219 993	228 052
	708 318	**682 225**
Accrued expenses		
Long-term service benefits (see Note 16)	28 226	28 691
Other accrued expenses	201 576	127 430
	229 802	**156 121**
Deferred income	**53 186**	**22 267**
Other sundry liabilities		
Stock exchange transactions pending settlement	257 329	92 363
Foreign exchange transactions pending settlement	7 515	19 999
Other transactions pending settlement	88 638	172 627
	353 482	**284 989**
Net liabilities with retirement pensions (see Note 16)	**5 379**	**-**
	1 350 167	**1 145 602**

As at 30 June 2013, the Deferred income includes the amount of 30,375 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 half 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 June 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	
	30.06.2013	31.12.2012
BESPAR - Sociedade Gestora de Participações Sociais, S.A.	35.29%	35.29%
Credit Agricole, S.A. (França)	10.81%	10.81%
Silchester International Investors Limited (Reino Unido)	5.64%	5.76%
Bradport, SGPS, S.A. (1)	4.83%	4.83%
Capital Research and Management Company (EUA)	2.56%	-
PT Prestações - Mandatária de Aquisições e Gestão de Bens, S.A.(2)	2.09%	2.09%
Espírito Santo Financial Group, S.A. (Luxemburgo)	1.07%	0.74%
Outros	37.71%	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 semester of 2013, the Group acquired 25 337 thousands of preference shares, leading to the recognition of a gain (net of tax) of euro 5 777 thousands. As at 30 June 2013 there were 168 thousands preference shares in circulation with a book value of euro 168,0 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 June 2013, share premiums are represented by euro 1 068 670 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.

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	3 105	8.00%	15/Mar and 14/Sep	From Sep/15
			29 322			
BESI [1]	Oct/10	EUR	3 681	8.50%	20/Apr and 20/Oct	From Oct/15
			33 003			

[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 June 2013, the Group made an interest payment in the amount of euro 1 425 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:

	30.06.2013		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]	2 084 826	1 868	11 268 161	5 409
Shares sold [4]	12 197 591	(8 058)	69 488 622	(42 734)
	-	-	10 112 765	6 190
Balanced as at 30 June 2013	275 291	801	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)**	-	-	-	-	-	-	7 206	7 206	7 206
Actuarial Deviations	-	-	-	(48 277)	-	-	-	(48 277)	(48 277)
Interest of other equity instruments	-	-	-	-	-	-	(1 409)	(1 409)	(1 409)
Dividends from preference shares	-	-	-	-	-	-	(10 996)	(10 996)	(10 996)
Changes in fair value	371 812	(58 070)	313 742	-	-	-	-	-	313 742
Exchange differences	-	-	-	-	6 338	-	-	6 338	6 338
Transfer to reserves	-	-	-	-	-	-	(108 758)	(108 758)	(108 758)
Balance as at 30 June 2012	**(144 015)**	**12 582**	**(131 433)**	**(689 592)**	**6 430**	**85 000**	**1 247 911**	**649 749**	**518 316**
Acquisition of preference shares **(a)**	-	-	-	-	-	-	(2 728)	(2 728)	(2 728)
Actuarial Deviations	-	-	-	(124 894)	-	-	-	(124 894)	(124 894)
Interest of other equity instruments	-	-	-	-	-	-	(455)	(455)	(455)
Dividends from preference shares	-	-	-	-	-	-	4 859	4 859	4 859
Changes in fair value	375 651	(73 368)	302 283	-	-	-	-	-	302 283
Exchange differences	-	-	-	-	(43 277)	-	-	(43 277)	(43 277)
Transfer to reserves	-	-	-	-	-	-	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)**	-	-	-	-	-	-	5 777	5 777	5 777
Actuarial Deviations	-	-	-	(14 025)	-	-	-	(14 025)	(14 025)
Interest of other equity instruments	-	-	-	-	-	-	(954)	(954)	(954)
Dividends from preference shares	-	-	-	-	-	-	(8 035)	(8 035)	(8 035)
Changes in fair value	(233 255)	57 869	(175 386)	-	-	-	-	-	(175 386)
Exchange differences	-	-	-	-	(7 298)	-	-	(7 298)	(7 298)
Transfer to reserves	-	-	-	-	-	12 197	83 904	96 101	96 101
Movement in own shares	-	-	-	-	-	-	(6 529)	(6 529)	(6 529)
Transactions with non-controlling interests	-	-	-	-	-	-	(17 500)	(17 500)	(17 500)
Other variations	-	-	-	-	-	-	(406)	(406)	(406)
Balance as at 30 June 2013	**(1 619)**	**(2 917)**	**(4 536)**	**(828 511)**	**(44 145)**	**97 197**	**1 293 704**	**518 245**	**513 709**

(a) - value net tax

The fair value reserve is analysed as follows:

(in thousands of euro)

	30.06.2013	31.12.2012
Balance at the beginning of the period	**170 850**	**(445 175)**
Changes in fair value	(41 767)	1 177 565
Disposals during the period	(240 705)	(600 206)
Impairment recognised during the period	49 217	99 308
Increase in share capital of subsidiaries [(a)]	-	70 796
Deferred taxes recognised in reserves during the period	57 869	(131 438)
Balance at the end of the period	**(4 536)**	**170 850**

[(a)] BES Vida

Non-controlling Interests

Non-controlling interests by subsidiary are analysed as follows:

(in thousands of euro)

	30.06.2013		31.12.2012	
	Balance sheet	Income statement	Balance sheet	Income statement
BES ANGOLA	407 872	8 679	396 369	25 554
BESI [a)]	3 681	-	3 681	-
AMAN BANK	36 802	1 843	34 974	1 745
ES CONCESSÕES	23 001	(2 569)	25 868	(5 673)
FCR VENTURES II	18 251	(652)	17 676	499
BES Securities	4 967	(112)	5 480	(147)
BES Investimento do Brasil	32 785	413	32 886	2 292
ESAF	13 564	1 132	12 887	1 991
BES AÇORES	17 126	(939)	18 018	530
Espirito Santo Investment Holding	-	(1 521)	3 967	(4 607)
BEST	20 320	2 146	18 161	2 989
FCR VENTURES III	16 565	(2 265)	17 043	(1 855)
FUNGEPI	49 738	(6 795)	56 537	(570)
Other	5 549	181	25 898	987
	650 221	**(459)**	**669 445**	**23 735**

a) Corresponds to the emission of other equity instruments (see Note 42).

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

(in thousands of euro)

	30.06.2013	31.12.2012
Non-controlling interests at the beginning of the period	**669 445**	**588 447**
Changes in the scope of consolidation	(7 022)	74 293
Increase/ (decrease) in share capital of subsidiaries	(2 823)	13 527
Dividends paid	(906)	(2 924)
Changes in fair value reserve	2 455	22
Exchange differences and other	(10 469)	(27 655)
Profit for the year/period	(459)	23 735
Non-controlling interests at the end of the period	**650 221**	**669 445**

NOTE 46 – OFF-BALANCE SHEET ITEMS

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

(in thousands of euro)

	30.06.2013	31.12.2012
Contingent liabilities		
Guarantees and stand by letters of credit	7 831 396	8 023 520
Assets pledged as collateral	21 401 985	21 632 555
Open documentary credits	3 872 877	3 776 399
Other	420 417	531 757
	33 526 675	**33 964 231**
Commitments		
Revocable commitments	5 766 662	5 462 823
Irrevocable commitments	3 141 487	3 280 971
	8 908 149	**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 June 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 11.6 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 17.9 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 1 432.5 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)

	30.06.2013	31.12.2012
Securities and other items held for safekeeping on behalf of customers	52 243 962	54 335 220
Assets for collection on behalf of clients	257 271	294 295
Securitised loans under management (servicing)	2 571 968	2 671 390
Other responsibilities related with banking services	8 892 119	8 784 286
	63 965 320	**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 June 2013 and 31 December 2012, the amount of the investment funds managed by the Group is analysed as follows:

(in thousands of euro)

	30.06.2013	31.12.2012
Securities investment funds	5 500 735	5 115 043
Real estate investment funds	1 080 881	1 075 678
Pension funds	1 874 100	1 783 359
Bancassurance	99 487	89 662
Portfolio management	1 151 563	1 960 206
Others	1 463 332	1 378 639
	11 170 098	**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:

Grupo 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
Ascendi Group, SGPS, SA
Empark Aparcamientos y Servicios SA
Concesionaria Autopista Perote-Xalapa, CV
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
Bespar - Sociedade Gestora de Participações Sociais, SA
Banque Privée Espírito Santo
Banque Privée Espírito Santo Sucursal Portugal
ES Bank (Panama), SA
ES Bankers (Dubai) Limited
Espirito Santo Financial (Portugal), SGPS, SA
Espirito Santo Financial Group, SA
ESFG International, Ltd
Esfil - Espírito Santo Financiére, S.A. (Luxemburgo)
Espírito Santo International SA
Espírito Santo Saúde SGPS, S.A.
Clínica Parque dos Poetas, SA
Cliria - Hospital Privado de Aveiro, SA
ES Saúde - Residência com Serviços Senior, S.A.
Espírito Santo - Unidades de Saúde e de Apoio à Terceira Idade, S.A.
Genomed, Diagnóstico de Medicina Molecular, SA
HCI - Health Care International, Inc
HME Gestão Hospitalar
Hospital da Arrábida - Gaia, SA
Hospital da Luz - Centro Clínico da Amadora, SA
Hospital da Luz, SA
Hospor - Hospitais Portugueses, SA
Instituto de Radiologia Dr. Idálio de Oliveira - Centro de Radiologia Médica, S.A.
RML - Residência Medicalizada de Loures, SGPS, SA
Surgicare - Unidades de Saúde, SA
Vila Lusitano - Unidades de Saúde, SA
Key Space Investments LLC
Marignan Gestion, SA
Omnium Lyonnais de Participations Industrielles, SA
Partran - Sociedade Gestora de Participações Sociais, SA
Société Antillaise de Gestion Financiére, S.A. - SAGEFI
Société Lyonnaise de Marchands de Biens
Companhia de Seguros Tranquilidade, SA
T - Vida, Companhia de Seguros, SA
Seguros Logo, SA
Advancecare - Gestão e Serviços de Saúde, SA
Pastor Vida, S.A de Seguros y Reaseguros
Esumédica - Prestação de Cuidados Médicos, SA
Europe Assistance - Companhia Portuguesa de Seguros de Assistência, SA
BESV Courtage SA
AOC Patrimoine, SA
ES Consultancy Singapore

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

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

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

As at 30 June 2013 and 31 December 2012, the balances and transactions with related parties are presented as follows:

(in thousands of euro)

	30.06.2013					31.12.2012				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Associates companies										
BES VÉNÉTIE	141 747	735	5 636	6	-	726 910	623	5 627	2 705	-
ASCENDI GROUP SGPS	327 013	30 447	26 900	10 274	145	299 462	3 781	28 364	11 278	2
LOCARENT	122 316	875	-	1 479	4 776	129 818	3 723	-	2 692	11 006
AENOR DOURO	271 894	2 783	13 470	4 425	-	271 887	3 461	11 000	8 985	-
NANIUM	34 283	8 616	18 331	129	50	35 327	4 272	18 349	306	4
EMPARK	49 088	-	4 685	1 179	-	49 179	-	4 684	3 872	246
ASCENDI PINHAL INTERIOR	114 775	5 929	16 374	1 877	-	98 356	2 051	15 374	3 073	-
PALEXPO	7 238	178	26	227	-	7 266	124	26	537	-
BES SEGUROS	109	17 268	-	85	9	630	18 456	-	415	16
ESEGUR	7 235	2	2 388	548	159	7 680	3	2 105	1 055	430
ES CONTACT CENTER	1 662	-	40	40	310	1 858	-	43	90	874
UNICRE	-	28	-	-	-	26	2	-	1	-
OTHERS	65 238	69 138	10 602	1 604	204	58 358	24 459	11 508	12 278	1 250
	1 142 598	**135 999**	**98 452**	**21 873**	**5 653**	**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.

As at 30 June 2013 and 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)

	30.06.2013								
	Assets								
	Loans and advances to banks	Loans	Securities	Other	Total	Guarantees	Liabilities	Income	Expenses
Shareholders									
ES FINANCIAL GROUP	-	-	4 244	28	4 272	-	100 065	32	271
ESF PORTUGAL	-	-	99 984	75	100 059	-	4 582	868	1
BESPAR	-	-	-	-	-	-	189	-	-
GRUPO CRÉDIT AGRICOLE	1 080	91	6 966	110	8 247	1 080	362	5	-
Subsidiaries, associates from shareholders									
PARTRAN	-	-	-	-	-	-	21	-	-
ESPÍRITO SANTO FINANCIÉRE, SA	-	7 645	8 771	-	16 416	-	262 475	334	66
COMPANHIA SEGUROS TRANQUILIDADE	-	87 969	-	385	88 354	21 492	77 338	1 298	722
BANQUE PRIVÉE ESPÍRITO SANTO	16 297	-	-	6	16 303	8 235	26 635	174	182
ES BANK PANAMA	22 936	-	-	-	22 936	-	9 985	1 596	-
ES SAUDE	-	17 854	48 227	13	66 094	4 006	14 202	336	1
T - VIDA	-	42 447	161 790	1 146	205 383	-	162 296	452	69
ESUMÉDICA	-	1 000	-	6	1 006	4	78	29	49
EUROP ASSISTANCE	-	-	-	-	-	25	1 773	25	7
Other									
ES IRMÃOS	-	-	-	-	-	-	649	-	-
OPWAY	-	7 080	-	2 206	9 286	45 878	909	89	-
CONSTRUCCIONES SARRION	-	15 960	-	-	15 960	8 747	-	54	-
ESPÍRITO SANTO RESOURCES	-	-	-	9	9	-	275	22	92
Other	29 265	58 393	20 988	321	108 967	9 885	26 223	4 752	1 106
TOTAL	**69 578**	**238 439**	**350 970**	**4 305**	**663 292**	**99 352**	**688 057**	**10 066**	**2 566**

(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
OUTRAS	-	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 June 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 2 833 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 June 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	346 548	Mortgage loans (subsidised regime)
Lusitano Mortgages No.2 plc	November 2003	1 000 000	345 939	Mortgage loans (subsidised and general regime)
Lusitano Mortgages No.3 plc	November 2004	1 200 000	501 483	Mortgage loans (general regime)
Lusitano Mortgages No.4 plc	September 2005	1 200 000	575 529	Mortgage loans (general regime)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	802 469	Mortgage loans (general regime)
Lusitano SME No.1 plc	01 October 2006	862 607	208 298	Loans to small and medium entities
Lusitano Mortgages No.6 plc	July 2007	1 100 000	739 384	Mortgage loans (general regime)
Lusitano Project Finance No.1, FTC	December 2007	1 079 100	125 174 (1)	Project Finance Loans
Lusitano Mortgages No.7 plc	September 2008	1 900 000	1 759 329	Mortgage loans (general regime)
Lusitano Leverage finance No. 1 BV	February 2010	516 534 (2)	84 575	Leverage Finance Loans
Lusitano Finance N.º 3	November 2011	657 981	354 951	Retail loans
IM BES Empresas 1	November 2011	485 000	314 696	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 June 2013						
Cash and deposits at central banks	1 209 218	-	-	-	1 209 218	1 209 218
Deposits with banks	565 008	-	-	-	565 008	565 008
Other financial assets held for trading	-	1 323 369	1 891 859	3 602	3 218 830	3 218 830
Financial assets at fair value through profit or loss	-	2 217 735	1 444 764	231 347	3 893 846	3 893 846
Available-for-sale financial assets	7 447 a)	6 931 121	4 188 966	1 001 738	12 129 272	12 129 272
Loans and advances to banks	2 453 506	-	-	-	2 453 506	2 453 506
Loans and advances to customers	47 554 229	-	422 498	-	47 976 727	45 148 641
Held-to-maturity investments	1 025 271	-	-	-	1 025 271	939 111
Derivatives for risk management purposes	-	-	391 719	-	391 719	391 719
Financial assets	**52 814 679**	**10 472 225**	**8 339 806**	**1 236 687**	**72 863 397**	**69 949 151**
Deposits from central banks	10 041 724	-	-	-	10 041 724	10 041 724
Financial liabilities held for trading	-	-	1 568 181	-	1 568 181	1 568 181
Deposits from banks	4 542 225	-	654 917	-	5 197 142	5 041 068
Due to customers	28 495 993	-	9 415 662	-	37 911 655	37 911 655
Debt securities issued	9 714 108	-	3 018 164	-	12 732 272	12 481 395
Derivatives for risk management purposes	-	-	169 602	-	169 602	169 602
Investment contracts	1 955 128		1 519 774		3 474 902	3 081 527
Subordinated debt	830 667	-	265	-	830 932	779 744
Financial liabilities	**55 579 845**	**-**	**16 346 565**	**-**	**71 926 410**	**71 074 896**
Balance as at 31 December 2012						
Cash and deposits at central banks	1 377 541	-	-	-	1 377 541	1 377 541
Deposits with banks	681 077	-	-	-	681 077	681 077
Other financial assets held for trading	-	1 484 112	2 441 287	-	3 925 399	3 925 399
Financial assets at fair value through profit or loss	-	1 387 979	1 153 990	279 584	2 821 553	2 821 553
Available-for-sale financial assets	8 605 a)	5 008 676	4 778 336	959 693	10 755 310	10 755 310
Loans and advances to banks	5 426 518	-	-	-	5 426 518	5 426 518
Loans and advances to customers	47 194 030	-	512 362	-	47 706 392	44 684 122
Held-to-maturity investments	941 549	-	-	-	941 549	879 265
Derivatives for risk management purposes	-	-	516 520	-	516 520	516 520
Financial assets	**55 629 320**	**7 880 767**	**9 402 495**	**1 239 277**	**74 151 859**	**71 067 305**
Deposits from central banks	10 893 320	-	-	-	10 893 320	10 893 320
Financial liabilities held for trading	-	-	2 122 025	-	2 122 025	2 122 025
Deposits from banks	4 476 381	-	612 277	-	5 088 658	4 898 506
Due to customers	25 743 341	-	8 796 982	-	34 540 323	34 540 323
Debt securities issued	12 764 479	-	2 659 582	-	15 424 061	15 990 921
Derivatives for risk management purposes	-	-	125 199	-	125 199	125 199
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 2012 and 2011, have no significant impact to the Group consolidated financial statements.

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

(in thousands of euro)

	30.06.2013	31.12.2012
Balance at the beggining of the year	1 239 277	263 194
Acquisitions	117 984	989 342
Disposals	(130 730)	(17 604)
Transfers	36 190	6 593
Changes in value	(26 034)	(2 248)
Balance at the end of the year/period	1 236 687	1 239 277

The main assumptions and inputs used during the years ended 2011 and 2010 in the valuation models 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)

	30.06.2013	31.12.2012
Deposits with banks	2 790 175	3 799 129
Financial assets held for trading	3 176 378	3 871 474
Other financial assets at fair value through profit or loss	2 692 438	1 634 419
Available-for-sale financial assets	9 575 973	8 462 104
Loans and advances to customers	47 976 727	47 706 392
Held-to-maturity investments	1 025 271	941 549
Derivatives for risk management purposes	391 719	516 520
Other assets	532 648	480 754
Guarantees granted	7 831 396	8 023 520
Stand by letters of credit	3 872 877	3 776 399
Irrevocable commitments	3 141 487	3 280 971
Credit risk associated to the credit derivatives reference entities	472 443	489 884
	83 479 532	**82 983 115**

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

(in thousands of euro)

	30.06.2013									
	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	426 110	(27 476)	3 372	-	-	7 485	-	-	-	31 750
Mining	299 078	(11 532)	6 670	6 430	-	11 407	(724)	-	-	47 422
Food, beverage and tobacco	979 274	(44 297)	34 052	102 772	-	124 966	(52)	4 995	-	80 238
Textiles	356 521	(34 732)	1 093	-	-	9 491	(3 958)	-	-	13 241
Shoes	62 566	(7 392)	73	-	-	489	(499)	-	-	2 572
Wood and cork	146 608	(29 227)	374	25 282	-	86 326	(1 330)	-	-	6 877
Printing and publishing	399 566	(21 553)	6 100	-	-	16 971	(11 985)	-	-	74 003
Refining and oil	3 201	(105)	195	17 630	-	38 824	-	-	-	4 979
Chemicals and rubber	656 817	(17 158)	22 858	29 233	-	15 199	(12 979)	-	-	111 818
Non-metallic minerals	371 544	(30 120)	1 938	-	-	12 730	(7 586)	-	-	18 439
Metallic products	871 681	(48 873)	8 355	5 566	-	2 049	-	-	-	148 266
Production of machinery, equipment and electric devices	272 892	(9 805)	3 085	44 422	-	31 957	(3 583)	-	-	126 947
Production of transport material	120 437	(3 749)	676	29 902	-	44 717	(108)	-	-	24 514
Other transforming industries	408 077	(26 365)	628	51 249	-	61 000	(16 425)	9 494	-	42 916
Electricity, gas and water	1 563 238	(14 273)	150 673	20 083	-	414 558	(507)	-	-	472 811
Construction	3 651 972	(457 026)	326 302	182 635	-	175 527	(1 688)	4 233	-	2 324 577
Wholesale and retail	3 263 125	(369 963)	14 542	87 589	-	70 265	(22 437)	3 902	-	550 945
Tourism	1 444 438	(124 236)	4 058	27 399	-	35 954	(391)	-	-	96 883
Transports and communications	2 903 304	(58 560)	240 724	50 739	-	205 604	(25 595)	10 797	-	984 970
Financial activities	3 991 871	(178 315)	755 530	1 636 327	391 719	3 400 125	(87 655)	486 822	(14 354)	251 403
Real estate activities	5 749 051	(457 670)	30 208	71 953	-	79 333	(4 511)	1 301	-	368 374
Services provided to companies	4 653 276	(468 937)	360 395	97 348	-	774 692	(36 004)	39 223	-	1 377 786
Public services	1 618 529	(24 070)	1 214 296	1 323 905	-	6 341 187	-	403 583	-	201 215
Non-profit organisations	3 271 447	(292 995)	31 605	81 444	-	400 533	(46 838)	86 486	(11 211)	410 064
Mortgage loans	10 974 392	(172 710)	-	-	-	-	-	-	-	7
Consumers loans	2 502 284	(198 782)	-	-	-	-	-	-	-	55 223
Other	149 623	(4 274)	1 028	1 938	-	52 742	(4)	-	-	3 156
TOTAL	**51 110 922**	**(3 134 195)**	**3 218 830**	**3 893 846**	**391 719**	**12 414 131**	**(284 859)**	**1 050 836**	**(25 565)**	**7 831 396**

(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 devices	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 June 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	30.06.2013		31.12.2012	
		Credit amount	(%)	Credit amount	(%)
Large companies	[aaa;a-]	7	0.01%	8	0.02%
	[bbb+;-bbb-]	2 944	5.76%	2 313	4.59%
	[bb+;bb-]	4 556	8.91%	4 997	9.91%
	[b+;b-]	6 331	12.39%	8 080	16.02%
	ccc+	1 616	3.16%	1 277	2.53%
Medium enterprises	8-9	533	1.04%	535	1.06%
	10-11	533	1.04%	532	1.06%
	12-13	588	1.15%	632	1.25%
	14-15	458	0.90%	438	0.87%
	16-17	474	0.93%	567	1.13%
	18-19	284	0.56%	342	0.68%
	20-21	336	0.66%	347	0.69%
	22-23	225	0.44%	294	0.58%
	24-25	1 510	2.95%	1 659	3.29%
Small enterprises	A	61	0.12%	71	0.14%
	B	352	0.69%	305	0.61%
	C	563	1.10%	620	1.23%
	D	269	0.53%	311	0.62%
	E	222	0.43%	251	0.50%
	F	471	0.92%	557	1.11%
Mortgage loans	01	1 178	2.30%	1 196	2.37%
	02	4 299	8.41%	4 341	8.61%
	03	1 502	2.94%	1 492	2.96%
	04	720	1.41%	710	1.41%
	05	517	1.01%	503	1.00%
	06	505	0.99%	488	0.97%
	07	654	1.28%	679	1.35%
	08	842	1.65%	953	1.88%
Private individuals	01	93	0.18%	86	0.17%
	02	60	0.12%	66	0.13%
	03	133	0.26%	130	0.26%
	04	252	0.49%	312	0.62%
	05	123	0.24%	136	0.27%
	06	170	0.33%	198	0.39%
	07	150	0.29%	144	0.29%
	08	116	0.23%	109	0.22%
	09	219	0.43%	260	0.52%
	10	4	0.01%	4	0.01%
No internal rating/scoring loans		17 241	33.74%	14 456	28.68%
TOTAL		**51 111**	**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)

	30.06.2013	31.12.2012
Exchange Risk	10 537	3 399
Interest rate risk	8 566	8 793
Shares and commodities	13 995	15 026
Volatility	6 619	7 112
Credit Spread	15 484	13 887
Diversification effect	(11 471)	(10 105)
Total	**43 730**	**38 112**

Group has a VaR of euro 43 730 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)

	30.06.2013						
	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	4 241 133	315 701	3 761 120	149 505	610	540	13 656
Loans and advances to customers	50 175 876	-	29 723 540	8 217 542	3 170 172	6 344 448	2 720 174
Securities	18 940 562	7 027 917	3 928 330	1 134 410	2 538 967	1 657 657	2 653 282
Debt securities issued	344 980	344 980	-	-	-	-	-
Total			**37 412 990**	**9 501 457**	**5 709 749**	**8 002 645**	**5 387 113**
Deposits from Banks	15 100 226	-	13 689 645	720 753	115 450	321 139	253 239
Due to customers	37 365 854	-	23 281 121	2 882 043	5 236 882	5 930 070	35 737
Securities issue	13 343 390	-	3 386 909	343 261	2 235 073	4 797 328	2 580 819
Investiments contracts	3 474 902	1 026 962	-	-	-	1 581 115	866 824
Debt securities issued	1 494 592	29 737	14 421	350 636	-	710 356	389 443
Total			**40 372 097**	**4 296 693**	**7 587 404**	**13 340 008**	**4 126 063**
GAP (assets - liabilities)	(3 708 311)		(2 959 107)	5 204 764	(1 877 656)	(5 337 364)	1 261 050
Off Balance sheet	(3 015)		(11 410 181)	(1 103 150)	6 526 482	6 207 720	(223 886)
Structural GAP	**(3 711 326)**		**(14 369 288)**	**4 101 614**	**4 648 827**	**870 357**	**1 037 164**
Accumulated GAP			**(14 369 288)**	**(10 267 673)**	**(5 618 847)**	**(4 748 490)**	**(3 711 326)**

(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
Loans and advances to customers	7 492 060	438 713	6 664 597	269 579	103 370	15 754	46
Securities	49 673 250	-	29 712 842	8 957 736	2 736 210	5 965 359	2 301 103
Debt securities issued	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
Tecnical provision	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 interest rates in relation to the Group's major assets and liabilities categories, for the six months period ended 30 June 2013 and for the year ended as at 31 December 2012:

(in thousands of euro)

	30.06.2013			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	5 122 937	120 578	4.75%	4 885 099	192 458	3.94%
Loans and advances to customers	50 198 737	1 155 127	4.64%	50 315 715	2 527 274	5.02%
Securities	14 440 873	338 062	4.72%	14 242 252	850 845	5.97%
Differencial applications	-	-	-	-	-	-
Financial Assets	**69 762 549**	**1 613 767**	**4.66%**	**69 443 065**	**3 570 577**	**5.14%**
Monetary Liabilities	15 407 503	172 978	2.26%	17 566 965	419 167	2.39%
Due to consumers	36 289 404	511 351	2.84%	34 029 787	1 037 769	3.05%
Other	14 965 735	459 052	6.19%	16 564 422	933 133	5.63%
Differencial liabilities	3 099 906	-	-	1 281 892	-	-
Financial Liabilities	**69 762 549**	**1 143 381**	**3.31%**	**69 443 066**	**2 390 069**	**3.44%**
Net interest income		**470 386**	**1.36%**		**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 June 2013 and 31 of December of 2012, is analysed as follows:

(in thousands of euro)

		30.06.2013				31.12.2012			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	United Stades Dollars	(151 922)	194 219	195 487	237 784	(802 201)	842 328	32 097	72 224
GBP	Great Britain Pounds	425 974	(395 456)	(8 687)	21 831	466 168	(467 042)	(1 057)	(1 931)
BRL	Brazillian real	172 519	(120 060)	(53 471)	(1 012)	187 801	(183 686)	(4 738)	(623)
DKK	Danish Krone	12 339	(11 926)	-	413	21 947	(21 579)	-	368
JPY	Japanese yene	(6 504)	5 411	(1 349)	(2 442)	27 297	5 171	(40 166)	(7 698)
CHF	Swiss franc	47 840	2 586	(60 773)	(10 347)	9 944	(6 962)	(1 286)	1 696
SEK	Swedish krone	3 227	(1 351)	(1 981)	(105)	7 403	(7 778)	(53)	(428)
NOK	Norwegian krone	(88 160)	87 896	1 981	1 717	(49 539)	49 807	69	337
CAD	Canadian Dollar	3 569	(1 203)	(2 969)	(603)	22 866	(23 290)	(7 227)	(7 651)
ZAR	Rand	(6 425)	6 733	-	308	(5 569)	4 475	497	(597)
AUD	Australian Dollar	(22 679)	36 776	(11 567)	2 530	(8 510)	10 124	17	1 631
AOA	Kwanza	(54 912)	(76 967)	-	(131 879)	(53 208)	-	-	(53 208)
CZK	Czach koruna	(486)	489	-	3	5	-	-	5
MXN	Mexican Peso	64 472	(64 112)	-	360	63 789	(75 772)	9 338	(2 645)
	Others	(40 017)	50 324	21 916	32 222	16 727	45 008	34 626	96 361
		358 835	**(286 641)**	**78 587**	**150 780**	**(95 080)**	**170 804**	**22 117**	**97 841**

Exposure to peripheral Eurozone countries public debt

As at 30 June 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)

	30.06.2013					
	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	927 591	862 488	23 301	3 419 987	133 831	5 367 198
Spain	102 613	675 478	(63)	1 243 848	-	2 021 876
Greece	-	3 376	-	45 002	-	48 378
Irland	-	-	-	-	-	-
Italy	-	403	-	217 185	-	217 588
Hungary	-	-	-	-	-	-
	1 030 204	**1 541 745**	**23 238**	**4 926 022**	**133 831**	**7 655 040**

[(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 millions of euro)

	30.06.2013					
	Nominal Amount	Market value	Accrued interest	Book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**3 652 398**	**3 397 690**	**22 297**	**3 419 987**	**-**	**16 647**
Maturity up to 1 year	909 903	901 590	57	901 647	-	(725)
Maturity exceeding 1 year	2 742 495	2 496 100	22 240	2 518 340	-	17 372
Spain	**1 243 821**	**1 235 427**	**8 421**	**1 243 848**	**-**	**(4 258)**
Maturity up to 1 year	806 200	796 753	166	796 919		(1 211)
Maturity exceeding 1 year	437 621	438 674	8 255	446 929	-	(3 047)
Grécia	**105 003**	**44 279**	**723**	**45 002**	**-**	**(9 153)**
Maturidade até 1 ano	-	-	-	-	-	-
Maturidade superior 1 ano	105 003	44 279	723	45 002	-	(9 153)
Italy	**220 000**	**216 771**	**414**	**217 185**	**-**	**73**
Maturity up to 1 year	100 000	98 645	-	98 645	-	-
Maturity exceeding 1 year	120 000	118 126	414	118 540	-	73
	5 221 222	**4 894 167**	**31 855**	**4 926 022**	**-**	**3 309**
Financial assets held for trading						
Portugal	178 779	164 715	5 830	170 545	-	-
Spain	34 926	42 828	7 435	50 263	-	-
	213 705	**207 543**	**13 265**	**220 808**	**-**	**-**
Financial assets at fair value						
Portugal	662 108	684 090	7 853	691 943	-	-
Spain	630 434	625 206	9	625 215	-	-
Greece	7 568	3 324	52	3 376	-	-
Italy	400	402	1	403	-	-
	1 300 510	**1 313 022**	**7 915**	**1 320 937**	**-**	**-**
Financial assets held to maturity						
Portugal	137 000	135 523	4 585	133 831	-	-
	137 000	**135 523**	**4 585**	**133 831**	**-**	**-**

(in millions of euro)

31.12.2012	Nominal Amount	Market value	Accrued interest	Book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**2 669 666**	**2 421 241**	**47 700**	**2 468 941**	**-**	**191 142**
Maturity up to 1 year	187 331	186 135	113	186 248	-	498
Maturity exceeding 1 year	2 482 335	2 235 106	47 587	2 282 693	-	190 644
Spain	**616 092**	**597 401**	**8 098**	**605 499**	**-**	**2 190**
Maturity up to 1 year	389 350	383 681	325	384 006	-	796
Maturity exceeding 1 year	226 742	213 720	7 773	221 493	-	1 394
Italy	**20 000**	**20 867**	**423**	**21 290**	**-**	**478**
Maturity up to 1 year	-	-	-	-	-	-
Maturity exceeding 1 year	20 000	20 867	423	21 290	-	478
	3 305 758	**3 039 509**	**56 221**	**3 095 730**	**-**	**193 810**
Financial assets held for trading						
Portugal	158 946	141 676	3 807	145 483	-	-
Spain	304	302	-	302	-	-
	159 250	**141 978**	**3 807**	**145 785**	**-**	**-**
Financial assets at fair value						
Portugal	523 775	439 544	7 958	447 502	-	-
Spain	260	259	7	266	-	-
Greece	129 655	3 439	-	3 439	-	-
Italy	5 969	6 224	1	6 225	-	-
	659 659	**449 466**	**7 966**	**457 432**	**-**	**-**
Financial assets held to maturity						
Portugal	137 000	126 431	1 716	128 147	-	-
Irland	24 000	24 051	844	24 894	-	-
	161 000	**150 482**	**2 560**	**153 041**	**-**	**-**

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, 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. This movement was partly reversed on April.

At the end of the first half of 2013, the value of the portfolio of assets eligible for rediscount operations was euro 24.6 billions, of which euro 21.8 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.

(in thousands of euro)

	30.06.2013						
	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 with banks	316	316	-	-	-	-	-
Loans and advances to banks and central banks	3 925	3 585	130	31	144	2	34
Loans and advances to customers	42 797	599	794	1 461	1 860	1 617	36 466
Securities	29 282	2 580	1 454	1 658	1 573	2 949	19 068
Debt securities issues	345	-	345	-	-	-	-
Other Assets, net	2 130	738	428	-	3	125	836
Off Balance sheet (Commitments and Derivatives)	7 750	820	87	476	457	573	5 336
Total		**8 638**	**3 238**	**3 626**	**4 037**	**5 266**	**61 740**
LIABILITIES							
Deposits from banks, central banks and other loans	15 329	2 812	587	499	677	193	10 562
Due to customers	37 137	1 124	2 099	926	300	652	32 035
Securities	13 264	165	271	1 055	159	2 390	9 223
Investments contracts	3 475	33	17	44	102	251	3 027
Debt securities issues	1 495	3	5	12	23	74	1 378
Other short-term liabilities	1 929	1 325	528	-	-	1	75
Off Balance sheet (Commitments and Derivatives)	11 130	879	228	660	570	565	8 229
Total		**6 341**	**3 735**	**3 196**	**1 831**	**4 126**	**64 529**
GAP (Assets - Liabilities)		**2 297**	**(497)**	**428**	**2 206**	**1 141**	
Accumulated GAP		**2 297**	**1 800**	**2 228**	**4 434**	**5 575**	
Buffer > 12 months							**2 805**

(in thousands of euro)

	31.12.2012						
	Eligible amounts	Up to 7 days	From 7 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year
ASSETS							
Cash and deposits with banks	420	420	-	-	-	-	-
Loans and advances to banks and central banks	7 072	5 614	504	607	223	95	30
Loans and advances to customers	43 500	561	1 170	1 411	1 501	2 291	36 566
Securities	25 684	2 601	1 140	2 226	889	1 500	17 328
Debt securities issues	4	4	-	-	-	-	-
Other Assets, net	1 816	1 816	-	-	-	-	-
Off Balance sheet (Commitments and Derivatives)	6 570	313	139	268	454	513	4 883
Total		**11 329**	**2 953**	**4 512**	**3 067**	**4 399**	**58 807**
LIABILITIES							
Deposits from banks, central banks and other loans	16 110	2 092	515	680	479	770	11 573
Due to customers	33 789	594	957	1 974	731	138	29 396
Securities	15 862	176	441	1 936	927	278	12 103
Investments contracts	3 320	21	1	83	63	162	2 989
Debt securities issues	1 548	10	5	14	28	71	1 418
Other short-term liabilities	1 589	1 589	-	-	-	-	-
Off Balance sheet (Commitments and Derivatives)	10 188	330	201	417	624	520	8 096
Total		**4 812**	**2 120**	**5 104**	**2 852**	**1 939**	**65 575**
GAP (Assets - Liabilities)		**6 515**	**833**	**(593)**	**214**	**2 459**	
Accumulated GAP		**6 515**	**7 348**	**6 755**	**6 970**	**9 429**	
Buffer > 12 months							**581**

The one year cumulative gap went from euro 9 429 million in December 2012 to euro 5 575 million in June 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 June 2013, BES Group one year liquidity gap was -2.3, which compares with -1.7 as at 31 December 2012. This negative evolution does not reflect, by the ratio definition, the increase of liquidity securities with maturities over one year in portfolio. 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)

Underwriting

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.

Pricing

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 projections - 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 years of 2012 and 2011 the technical rate was 2%

For liability adequacy test purposes, the mortality assumptions are based on best estimates derived from portfolio experience investigations. Future cash flows are evaluated and discounted at government bonds rate.

The mortality assumptions used are as follows:

	Mortality Table
Rents	GRM 95
Savings and Other contracts	30% GKM 80

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 June 2013 and 31 December 2012, the main movements occurred in BOF are as follows:

(in thousands of euro)

	30.06.2013	31.12.2012
Balance at the beggining of the period	**6 439**	**6 171**
Capital increase	-	995
Hybrid instuments	(24)	(19)
Elegible reserves and retained earnings (excluding fair value reserves)	(236)	42
Non-controlling interest, excluding hybrids	(10)	2
Goodwill	122	(166)
Changes on actuarial Losses	(24)	(526)
Recognition of the impact of adopting IFRS	(3)	(12)
Deduction in connection with investments held in banking and insurance entities	(113)	(164)
Fair value reserves with an impact in BOF	(63)	142
Other effects	36	(26)
Balance at the end of the period	**6 124**	**6 439**

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

(in thousands of euro)

		30.06.2013	31.12.2012
A - Capital Requirements			
Share Capital, Issue Premium and Treasury stock		6 102	6 074
Elegible reserves and retained earnings (excluding fair value reserves)		1 001	1 237
Minority Interest		577	587
Intangible assets		(133)	(141)
Changes on actuarial Losses		(765)	(741)
Goodwill		(384)	(506)
Fair value reserves with an impact on BOF		(115)	(52)
Recognition of the impact of adopting IFRS		10	13
Basic own funds excluding preference shares (Core Tier I)	**(A1)**	**6 293**	**6 471**
Hybrid instuments, elegible for Tier I		202	226
Deductions in connection with investments held in banking and insurance entities		(371)	(258)
Own Funds for the determination of the EBA Core Tier I ratio	**(C)**	**5 803**	**6 092**
Basic own funds (Tier I)	**(A2)**	**6 124**	**6 439**
Positive fair value reserves (45%)		53	47
Eligible subordinated debt		792	801
Deductions in connection with investments held in banking and insurance entities		(371)	(258)
Complementary own funds (Tier II)		**474**	**590**
Deductions		**(77)**	**(72)**
Eligible own funds	**(A3)**	**6 521**	**6 957**
B- Risk Weighted Assets			
Calculated according Notice 5/2007 (Credit Risk)		55 443	56 484
Calculated according Notice 8/2007 (Market Risk)		1 548	1 503
Calculated according Notice 9/2007 (Operational Risk)		3 694	3 694
Risk Weighted Assets Total	**(B)**	**60 685**	**61 681**
C- Prudential Ratios			
Core Tier 1	(A1 / B)	10.4%	10.5%
Core Tier 1 EBA	(C / B)	9.6%	9.9%
Tier 1	(A2 / B)	10.1%	10.4%
Solvency Ratio	**(A3 / B)**	**10.7%**	**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

During the year 2011 and 2012, the securitization transactions originated by BES suffered successive rating downgrades, following the downgrades attributed by various rating agencies to the Portuguese Republic and Portuguese banks. Traditionally, these operations include in their structures different risk protection mechanisms, namely the substitution of counterparties when credit ratings fall below minimum levels required by rating agencies or by triggering corrective actions enabling the mitigation of the exposure risk to those counterparties.

In addition, BES acted as swap counterparty in two of its operations (Lusitano Mortgage No.6 and Lusitano Mortgage No.7). The performance of these functions in securitization transactions is restricted to entities that meet the minimum rating levels established by the rating agencies. Therefore, following the downgrades, BES position in the operation Lusitano Mortgage No.6 was transferred to a financial institution that meets the eligibility criteria of the agencies and in the operation Lusitano Motgage No.7, the Group preceded to the restructuring of the operation.

Additionally, following the Portuguese Republic downgrade by Moody's in February 2012, this agency set the maximum rating attributable to bonds issued in securitized operations as Baa1. Thus, the operation of securitization of small and medium enterprises settled by BES in December 2010 – Lusitano SME No.2 – lost the eligibility for rediscount at ECB and BES chose to exercise the call option in 23rd March 2012.

Covered Bonds

The issues of covered bonds also suffered a strong impact caused by the downgrade of the Portuguese Republic and the Portuguese banks. As a result, BES could no longer be the counterparty in interest rate swaps transactions and proceeded to its transfer and, in some cases, to its cancelation.

Contract Support Annex (CSA)

BES has a set of contracts negotiated with counterparties with who trades derivative in the OTC market. CSA takes the form of collateral agreement established between two parties dealing with each other derivatives Over-the-Counter, with the main objective to provide protection against credit risk, establishing for the purpose a set of rules regarding the collateral. Derivatives transactions are regulated by the International Swaps and Derivatives Association (ISDA) and have a minimum margin of risk that may change according to the parties rating.

NOTE 53 – ASSETS TRANSFER

As part of the restructuring process of the Portuguese real estate sector, several initiatives have been launched in order to create financial, operational and management conditions to revitalize the sector. Accordingly, the Government, in close liaison with the business and the financial sector, including BES

Group, encouraged the creation of companies and specialized funds that, through merger, consolidation and integrated management, would obtain the required synergies to recover the sector. Pursuing the goals established, were created companies (parent companies), where BES Group has minority interests (in partnership with other banks that also have a minority interest), and which in turn now hold almost all of the capital of certain subsidiaries (subsidiaries of those parent companies) in order to acquire certain real estate bank loans.

During 2012 and in the first semester 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. Normally, the amount of the junior security is limited to a maximum of 25% of the total amount resulting from the senior and junior securities issued.

Given that these junior securities reflect a 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	-	256 891	34 906	291 797	(34 906)	256 891
FLIT SICAV	252 866	254 547	1 682	235 303	23 247	258 550	(23 247)	235 304
Discovery Portugal Real Estate Fund	96 196	93 208	(2 988)	96 812	-	96 812	-	96 812
Vallis Construction Sector Fund	66 272	66 272	-	81 002	21 992	102 994	(21 992)	81 002
1st Semester 2013								
Fundo Vallis Construction Sector	16 980	16 980	-	1 607	2 874	4 481	(2 874)	1 607
FLIT SICAV	75 835	74 135	(1 700)	11 332	(7 115)	4 216	7 115	11 332
Discovery Portugal Real Estate Fund	1 331	900	(431)	4 365	-	4 365	-	4 365
Tourism Recovery Fund, FCR	-	-	-	1 249	-	1 249	-	1 249
	791 601	**788 163**	**(3 437)**	**688 561**	**75 904**	**764 464**	**(75 904)**	**688 562**

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 75.9 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.

LIMITED REVIEW REPORT
ON INTERIM CONSOLIDATED FINANCIAL INFORMATION
PREPARED BY THE CMVM REGISTERED AUDITOR

(This report is a free translation to English from the Portuguese version)

Introduction

1. In accordance with the requirements of the Código dos Valores Mobiliários ("CVM"), we present our Limited Review Report on the interim consolidated financial information for the six-months period ended 30 June 2013 of Banco Espírito Santo, S.A., ('the Bank') which includes: the Report of the Board of Directors, the consolidated balance sheet (with a total assets of 82,615,739 thousands of euro and total equity attributable to the equity holders of the Bank of 6,581,521 thousands of euro, including a net loss attributable to the equity holders of the Bank of 237,455 thousands of euro), the consolidated statements of income, of comprehensive income, of cash flows and of changes in equity for the six-months period then ended and the corresponding Notes to the accounts.

2. The amounts included in the interim financial statements and in the additional financial information were derived from the accounting records.

Responsibilities

3. The Board of Directors is responsible for:

a) the preparation of the consolidated financial statements that present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiaries, the consolidated results of its operations, its consolidated comprehensive income and its consolidated cash flows;

b) maintaining historical financial information, prepared in accordance with IAS 34 - Interim Financial Reporting which is complete, true, current, clear, objective and lawful as required by the CVM;

c) the adoption of adequate accounting policies and criteria;

d) maintaining an appropriate system of internal control; and

e) the communication of any relevant fact that may have influenced their activity, financial position or results.

4. Our responsibility is to verify the consolidated financial information included in the above referred documents, namely as to whether it is complete, true, current, clear, objective and lawful as required by the CVM, in order to issue a professional and independent report based on our review.

Scope

5. The work that we have performed was conducted with the objective of obtaining a moderate level of assurance about whether the financial information mentioned above is free of material misstatements. Our work was performed based on the Technical Standards and Review/Audit Guidelines issued by the 'Ordem dos Revisores Oficiais de Contas' (the Portuguese Institute of Chartered Accountants), and planned in accordance with that objective and included the following procedures:

a) mainly, inquiries and analytical procedures performed to review:

- the reliability of the assertions included in the interim consolidated financial information;
- the adequacy of the accounting policies adopted, considering the circumstances and the consistency of their application;
- the application of the going concern principle;
- the presentation of the interim consolidated financial information;
- if the interim consolidated financial information is complete, true, current, clear, objective and lawful; and

b) substantive tests on material non current transactions.

6. Our review also included the verification that the consolidated financial information contained in interim the Report of the Board of Directors is consistent with the remaining documents mentioned above.

7. We believe that our work provides a reasonable basis to issue our report on the interim consolidated financial information.

Conclusion

8. Based on our review, which was performed with the objective of obtaining moderate assurance, nothing has come to our attention that causes us to believe that the interim consolidated financial information for the six-months period ended 30 June 2013, is not free of material misstatements that affects its compliance with the IAS 34 - Interim Financial Reporting and that is not complete, true, current, clear, objective and lawful.

Lisbon, 14 August 2013

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (nº 189)
Represented by
Sílvia Cristina de Sá Velho Corrêa da Silva Gomes(ROC N.º 1131)