ESPIRITO SANTO INVESTMENT BANK

2012 Annual Report



BANCO ESPÍRITO SANTO DE INVESTIMENTO, S.A.

Edifício Quartzo - Rua Alexandre Herculano nº 38 - 1269-161 Lisboa - Portugal
Registered Share Capital: 326 269 000 euros
Registered with Lisbon Commercial Registry Office Corporate Registration and Tax Payer Number 501 385 932

CONSOLIDATED FINANCIAL STATEMENTS

AND CORRESPONDING NOTES

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

1. CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement for the years ended 31 December 2012 and 2011

(in thousands of euro)

	Notes	31.12.2012	31.12.2011
Interest and similar income	5	342 182	384 161
Interest expense and similar charges	5	247 643	307 664
Net interest income		**94 539**	**76 497**
Dividend income		625	1 061
Fee and commission income	6	126 661	158 779
Fee and commission expenses	6	(25 551)	(27 312)
Net gains / (losses) from financial assets at fair value through profit or loss	7	55 333	86 805
Net gains / (losses) from available-for-sale financial assets	8	57 080	47 658
Net gains / (losses) from foreign exchange differences	9	(37 148)	(71 502)
Net gains / (losses) from the sale of other assets	10	(3 300)	(24 071)
Other operating income and expense	11	(7 069)	(12 555)
Operating income		**261 170**	**235 360**
Staff costs	12	111 399	109 218
General and administrative expenses	14	58 876	63 866
Depreciation and amortisation	25 and 26	5 778	5 519
Provisions net of reversals	34	8 104	7 425
Loans impairment net of reversals and recoveries	21	32 855	32 798
Impairment on other financial assets net of reversals and recoveries	19, 20 and 22	4 627	3 040
Impairment on other assets net of reversals and recoveries	28	615	906
Operating expenses		**222 254**	**222 772**
Share of profit of associates	27	97	2 574
Profit before income tax		**39 013**	**15 162**
Income tax			
Current tax	35	17 584	4 110
Deferred tax	35	887	1 779
		18 471	**5 889**
Profit for the year		**20 542**	**9 273**
Attributable to equity holders of the Bank		**22 028**	**9 061**
Attributable to non-controlling interest	39	**(1 486)**	**212**
		20 542	**9 273**
Basic Earnings per Share (in Euro)	15	0.42	0.16
Diluted Earnings per Share (in Euro)	15	0.42	0.16

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

The Chief Accountant

The Board of Directors

Consolidated Statement of Comprehensive Income for the years ended 31 December 2012 and 2011

(in thousands of euro)

	31.12.2012	31.12.2011
Profit for the year		
Attributable to equity holders of the Bank	22 028	9 061
Attributable to non-controlling interest	(1 486)	212
	20 542	**9 273**
Other comprehensive income for the year		
Long-term benefit	(2 329)	5 445
Exchange differences	(32 903)	(21 682)
Other comprehensive income appropriate from associates	(623)	-
	(35 855)	**(16 237)**
Available-for-sales financial assets		
Gains / (losses) arising during the year	63 847	37 106
Reclassification adjustments for gains / (losses) included in the profit or loss	(52 110)	(44 627)
Deferred taxes	(2 637)	(4 238)
Exchange differences	(512)	-
	8 588	**(11 759)**
Total comprehensive income/(loss) for the year	**(6 725)**	**(18 723)**
Attributable to equity holders of the Bank	**947**	**(11 855)**
Attributable to non-controlling interest	**(7 672)**	**(6 868)**
	(6 725)	**(18 723)**

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

Consolidated Balance Sheet as at 31 December 2012 and 2011

(in thousands of euro)

	Notes	31.12.2012	31.12.2011
Assets			
Cash and deposits at central banks	16	1 202	1 893
Deposits with banks	17	40 717	75 716
Financial assets held for trading	18	2 439 729	1 977 051
Available-for-sale financial assets	19	485 917	303 220
Loans and advances to banks	20	243 755	246 691
Loans and advances to customers	21	2 187 524	2 257 945
Held-to-maturity investments	22	107 202	727 998
Derivatives for risk management purposes	23	60 022	88 071
Non-current assets held for sale	24	1 159	1 255
Other tangible assets	25	17 904	20 315
Intangible assets	26	74 349	69 565
Investments in associates	27	51 073	35 226
Current income tax assets		3 323	3 464
Deferred income tax assets	35	53 703	49 177
Other assets	28	714 284	702 198
Total Assets		**6 481 863**	**6 559 785**
Liabilities			
Deposits from central banks	29	151 087	64 007
Financial liabilities held for trading	18	751 715	791 761
Deposits from banks	30	2 020 686	2 452 209
Due to customers	31	967 374	859 247
Debt securities issued	32	1 382 888	1 299 619
Financial liabilities associated to transferred assets	33	29 665	31 498
Derivatives for risk management purposes	23	57 031	127 582
Provisions	34	22 392	23 663
Current income tax liabilities		18 135	8 666
Deferred income tax liabilities	35	25 053	18 624
Subordinated debt	36	66 058	90 304
Other liabilities	37	283 774	186 187
Total Liabilities		**5 775 858**	**5 953 367**
Equity			
Share capital	38	326 269	226 269
Share premium	38	8 796	8 796
Other equity instruments	38	3 731	3 731
Fair value reserve	39	2 968	(5 779)
Other reserves, retained earnings and other comprehensive income	39	266 681	285 018
Profit for the year attributable to equity holders of the Bank		22 028	9 061
Total Equity attributable to equity holders of the Bank		**630 473**	**527 096**
Non-controlling interest	39	75 532	79 322
Total Equity		**706 005**	**606 418**
Total Equity and Liabilities		**6 481 863**	**6 559 785**

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

The Chief Accountant

The Board of Directors

Consolidated Statement of Changes in Equity for the years ended 31 December 2012 and 2011

(in thousands of euro)

	Capital	Share premium	Other equity instruments	Fair value reserve	Other reserves, retained earnings and other comprehensive income	Profit for the year attributable to equity holders of the Bank	Total equity attributable to equity holders of the Bank	Non-controlling interest	Total equity
Balance as at 31 December 2010 (Restated)	**180 000**	**8 796**	**50 000**	**3 819**	**244 599**	**60 375**	**547 589**	**80 727**	**628 316**
Other comprehensive income									
Changes in fair value, net of taxes	-	-	-	(9 598)	-	-	(9 598)	(2 161)	(11 759)
Actuarial gains / (losses) from defined benefit obligations, net of taxes	-	-	-	-	5 445	-	5 445	-	5 445
Exchange differences, net of taxes	-	-	-	-	(16 763)	-	(16 763)	(4 919)	(21 682)
Profit for the year	-	-	-	-	-	9 061	9 061	212	9 273
Total comprehensive income in the year	**-**	**-**	**-**	**(9 598)**	**(11 318)**	**9 061**	**(11 855)**	**(6 868)**	**(18 723)**
Capital increase	46 269	-	-	-	-	-	46 269	-	46 269
Transfer to reserves	-	-	-	-	60 375	(60 375)	-	-	-
Reimbursment of other equity instruments	-	-	(46 269)	-	-	-	(46 269)	-	(46 269)
Interest of other equity instruments, net of taxes (see Note 38)	-	-	-	-	(3 175)	-	(3 175)	-	(3 175)
Other changes in non-controlling interest (see Note 39)	-	-	-	-	(5 463)	-	(5 463)	5 463	-
Balance as at 31 December 2011	**226 269**	**8 796**	**3 731**	**(5 779)**	**285 018**	**9 061**	**527 096**	**79 322**	**606 418**
Other comprehensive income									
Changes in fair value, net of taxes	-	-	-	9 259	-	-	9 259	(159)	9 100
Actuarial gains / (losses) from defined benefit obligations, net of taxes	-	-	-	-	(2 329)	-	(2 329)	-	(2 329)
Other comprehensive income appropriate from associates	-	-	-	-	(623)	-	(623)	-	(623)
Exchange differences, net of taxes	-	-	-	(512)	(26 876)	-	(27 388)	(6 027)	(33 415)
Profit for the year	-	-	-	-	-	22 028	22 028	(1 486)	20 542
Total comprehensive income in the year	**-**	**-**	**-**	**8 747**	**(29 828)**	**22 028**	**947**	**(7 672)**	**(6 725)**
Capital increase	100 000	-	-	-	-	-	100 000	-	100 000
Transfer to reserves	-	-	-	-	9 061	(9 061)	-	-	-
Interest of other equity instruments, net of taxes (see Note 38)	-	-	-	-	(225)	-	(225)	-	(225)
Other changes in non-controlling interest (see Note 39)	-	-	-	-	2 655	-	2 655	3 882	6 537
Balance as at 31 December 2012	**326 269**	**8 796**	**3 731**	**2 968**	**266 681**	**22 028**	**630 473**	**75 532**	**706 005**

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

Consolidated Cash Flow Statement for the years ended 31 December 2012 and 2011

(in thousands of euro)

	Notes	31.12.2012	31.12.2011
Cash flows from operating activities			
Interest and similar income received		407 581	384 161
Interest expense and similar charges paid		(272 235)	(301 437)
Fees and commission received		126 420	158 779
Fees and commission paid		(14 194)	(27 313)
Cash payments to employees and suppliers		(171 546)	(173 084)
		76 026	**41 106**
Changes in operating assets and liabilities:			
Deposits with Central Banks		679	10 188
Deposits from Central Banks		78 681	337 928
Financial assets and liabilities held for trading		(432 396)	125 867
Loans and advances to banks		1 017	(200 597)
Deposits from banks		(434 380)	138 593
Loans and advances to customers		10 176	(57 677)
Due to costumers		119 305	(471 548)
Derivatives for risk management purposes		28 527	12 211
Other operating assets and liabilities		51 812	(111 950)
Net cash from operating activities before income tax		**(500 553)**	**(175 879)**
Income taxes paid		(4 722)	(3 593)
		(505 275)	**(179 472)**
Cash flows from investing activities			
Acquisition of subsidiaries and associates		(16 473)	-
Sale of subsidiaries and associates		3 764	-
Dividends received		625	1 061
Acquisition of available-for-sale financial assets		(684 317)	(24 078)
Sale of available-for-sale financial assets		566 074	409 804
Held-to-maturity investments		543 783	(27 516)
Acquisition of tangible and intangible assets		(7 991)	(10 845)
Sale of tangible and intangible assets		1 201	2 874
		406 666	**351 300**
Cash flows from financing activities			
Capital increase		100 000	-
Capital subsidiaries increase		8 585	-
Bonds issued		310 331	904 369
Bonds paid		(330 934)	(1 049 847)
Subordinated debt paid		(23 188)	-
Interest from other equity instruments		(225)	-
Dividends paid on ordinary shares by subsidiaries		(971)	-
Net cash from financing activities		**63 598**	**(145 478)**
Net changes in cash and cash equivalents		**(35 011)**	**26 350**
Cash and cash equivalents at the beginning of the year		75 735	49 385
Cash and cash equivalents at the end of the year		40 724	75 735
		(35 011)	**26 350**
Cash and cash equivalents includes:			
Cash	16	7	19
Deposits with banks	17	40 717	75 716
Total		**40 724**	**75 735**

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

2. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Banco Espírito Santo de Investimento, S.A.

NOTE 1 – ACTIVITY AND GROUP STRUCTURE

Banco Espírito Santo de Investimento, S.A. (Bank or BESI) is an investment bank headquartered in Portugal, Rua Alexandre Herculano, no. 38 in Lisbon. The Bank is authorized by the Portuguese authorities, central banks and other regulatory authorities, to operate in Portugal and in the countries where its international branches are located.

The company was established in February 1983 as a foreign investment in Portugal under the name FINC – Sociedade Portuguesa Promotora de Investimentos, S.A.R.L. During 1986 the company was integrated into the Espírito Santo Group under the designation of Espírito Santo – Sociedade de Investimentos, S.A..

In order to enlarge the scope of its business, the company obtained permission from the Portuguese authorities to operate as an investment bank. This involved the publication of Order-in-Council no. 366/92, 23 November, published in the Diário da República – Series II – no. 279, 3 December. The activity as an investment bank started under the name of Banco ESSI, S.A., on 1 April, 1993.

During 2000, Banco Espírito Santo, S.A. (BES) acquired all of the share capital of BES Investimento in order to reflect in its consolidated financial statements all the synergies generated by both institutions.

BESI currently operates through its headquarters in Lisbon, branches in London, Warsaw, New York and Madrid and through its subsidiaries in Brazil, Ireland, Poland, United Kingdom and India.

BESI financial statements are consolidated by Banco Espírito Santo, S.A., headquartered at Avenida da Liberdade, no. 195, Lisbon, and by Espírito Santo Financial Group, S.A. (ESFG), with headquarters in Luxembourg.

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:

	Established	Acquired	Headquartered	Activity	% economic interest	Consolidation method
Banco Espírito Santo de Investimento, SA (BESI)	**1983**	**-**	**Portugal**	**Investment bank**	**100%**	**Full consolidation**
Espírito Santo Capital - Sociedade de Capital de Risco, SA (ESCAPITAL)	1988	1996	Portugal	Venture capital	100%	Full consolidation
SES Iberia	2004	2004	Spain	Asset management - Funds	50%	Full consolidation
HLC - Centrais de Cogeração, S.A.	1999	1999	Portugal	Services provider	24%	Equity method
Coporgest, SA	2002	2005	Portugal	Real Estate / Finance	25%	Equity method
Synergy Industry and Technology, S.A.	2006	2006	Spain	Holding company	15%	Equity method (a)
Salgar Investments	2007	2007	Spain	Real Estate / Finance	45%	Equity method
ESSI Comunicações SGPS, SA	1998	1998	Portugal	Holding company	100%	Full consolidation
ESSI SGPS, SA	1997	1997	Portugal	Holding company	100%	Full consolidation
Espirito Santo Investment Sp.z.o.o.	2005	2005	Poland	Services provider	100%	Full consolidation
Espirito Santo Securities India	2011	2011	India	Brokerage House	75%	Full consolidation
MCO2 - Sociedade gestora de Fundos de Investimento Mobiliário, S.A.	2008	2008	Portugal	Asset management - Funds	25%	Equity method
Espírito Santo Investment Holding, Limited	2010	2010	United Kingdom	Holding company	68%	Full consolidation
Execution Holdings Limited	2010	2010	United Kingdom	Holding company	68%	Full consolidation
Execution Noble Holdings LLC - U.S. Holding	2002	2010	USA	Holding company	68%	Full consolidation
Noble Group Holdings Limited	2006	2010	Ilha Man	Holding company	68%	Full consolidation
Noble Advisory India Private Ltd	2008	2010	India	Research Services provider	68%	Full consolidation
Noble Group Limited	2000	2010	Scotland	Holding company	68%	Full consolidation
Noble Financial Holdings Limited	1980	2010	Scotland	Holding company	68%	Full consolidation
Execution Noble Limited	2000	2010	United Kingdom	Brokerage House	68%	Full consolidation
Noble Fund Advisors Limited	1997	2010	Scotland	Asset management - Funds	68%	Full consolidation
Noble Venture General Partner Limited	2003	2010	Jersey	General Partner	68%	Full consolidation
Clear Capital Group Limited	2007	2010	United Kingdom	Holding company	68%	Full consolidation
Execution Noble (Hong Kong) Limited	2005	2010	China	Brokerage House	68%	Full consolidation
Execution Noble & Company	1990	2010	Scotland	Advisory on investments	68%	Full consolidation
Execution Noble Research	2003	2010	United Kingdom	Research Services provider	68%	Full consolidation
Clear Info-Analytic Private Ltd	2004	2010	India	Research Services provider	68%	Full consolidation
Espírito Santo Investments PLC	1996	1996	Ireland	Non-bank finance company	100%	Full consolidation
ESSI Investimentos SGPS, SA	1998	1998	Portugal	Holding company	100%	Full consolidation
Polish Hotel Capital SP	2008	2008	Poland	Restaurants	33%	Equity method
Espirito Santo Investimentos, SA	1996	1999	Brazil	Holding company	100%	Full consolidation
BES Investimento do Brasil, SA	2000	2000	Brazil	Investment bank	80%	Full consolidation
2BCapital, SA	2005	2005	Brazil	Venture capital	45%	Equity method
2B Capital Luxembourg General Partners S.À R.L.	2011	2011	Luxembourg	Asset management - Funds	45%	Equity method
BES Securities do Brasil, SA	2000	2000	Brazil	Brokerage House	80%	Full consolidation
Gespar Participações, Ltda.	2001	2008	Brazil	Holding company	80%	Full consolidation
Fundo FIM BES Moderado	2004	2009	Brazil	Investment fund	42%	Full consolidation (b)
Fundo BES Absolute Return	2002	2009	Brazil	Investment fund	24%	Full consolidation (b)
BES Activos Financeiros, Ltda	2004	2004	Brazil	Asset management - Funds	40%	Full consolidation (b)
Espírito Santo Serviços Financeiros DTVM, SA	2009	2010	Brazil	Asset management - Funds	79%	Full consolidation
FI Multimercado Treasury	2005	2005	Brazil	Investment fund	80%	Full consolidation
R Invest, Ltda	2001	2009	Brazil	Financial intermediation	80%	Full consolidation
R Consult Participações, Ltda	1998	2009	Brazil	Financial intermediation	80%	Full consolidation
BRB Internacional, S.A.	2001	2001	Spain	Entertainment	25%	Equity method
Prosport - Com. Desportivas, S.A.	2001	2001	Spain	Sporting goods trading	25%	Equity method
Apolo Films, SL	2001	2001	Spain	Entertainment	25%	Equity method
Cominvest- SGII, S.A.	1993	1993	Portugal	Real Estate	49%	Full consolidation (b)
Fundo Espírito Santo IBERIA I	2004	2004	Portugal	Venture capital fund	39%	Equity method
2bCapital Luxembourg S.C.A SICAR	2011	2011	Luxembourg	Investment fund	42%	Equity method

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

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

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

Associates (see Note 27)

- In April 2012, ESSI FIN, SGPS, S.A. sold their share capital position in Fin Solutia - Cons. Gestão de Créditos, S.A., which corresponded to a total loss of euro 7 thousand;
- In April 2012, ES Capital acquired an additional participation in 2BCapital Luxembourg S.C.A SICAR by the amount of euro 854 thousand; in May 2012 there was a capital increase, through which ES Capital invested the remaining amount of euro 15 649 thousand in the company, which corresponds to a total amount of euro 16 473 thousand and to a share capital of 42.12%;
- In July 2012, ESSI FIN, SGPS, SA was settled; and
- In December 2012, ESSI S.G.P.S., S.A. sold its shareholding in Polish Hotel Company (PHC), generating a gain of euro 2 509 thousand.

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

(in thousands of euro)

	31.12.2012						
	Acquisitions			Disposals			
	Acquisition cost	Other investments (a)	Total	Disposal value	Other reimbursements (b)	Total	Gain /(losses) from sales/disposals
Subsidiaries							
Fundo FIM BES Moderado	21 375	-	21 375	22 283	-	22 283	-
Fundo BES Absolute Return	8 171	-	8 171	8 035	-	8 035	-
Espírito Santo Securities India	-	4 094	4 094	-	-	-	-
Espírito Santo Investment Holding, Limited	914	-	914	-	-	-	-
ESSI Fin, SGPS, S.A.	-	-	-	-	421	421	-
Espírito Santo Investment Sp, Z.o.o.	-	-	-	-	1 221	1 221	-
	30 460	**4 094**	**34 554**	**30 318**	**1 642**	**31 960**	**-**
Associates							
2bCapital Luxembourg S.C.A SICAR	-	16 473	16 473	-	30	30	-
Fin Solutia - Consultoria e Gestão de Créditos, SA	-	-	-	1 225	-	1 225	(7)
Polish Hotel Company (PHC)	-	-	-	2 509	-	2 509	2 509
	-	**16 473**	**16 473**	**3 734**	**30**	**3 764**	**2 502**
Total	**30 460**	**20 567**	**51 027**	**34 052**	**1 672**	**35 724**	**2 502**

(a) Capital increases, share premiums, and other equity instruments
(b) Capital decreases, share premiums, and other equity instruments

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

In accordance with Regulation (EC) no. 1606/2002, of 19 July 2002 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 de Investimento, S.A. (Bank, BESI or Group) is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

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

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

The accounting policies applied by the Group in the preparation of its consolidated financial statements for the year ended 31 December 2012 are consistent with the ones used in the preparation of the annual consolidated financial statements as at and for the year ended 31 December 2011. However, as allowed under paragraph 93A of IAS 19 "Employee Benefits", in 2011 the Group changed its accounting policy related to actuarial gains and losses determination in post employment benefits, becoming to recognise the actuarial differences under other comprehensive income, from the previous corridor method.

Additionally, as described in Note 44, in the preparation of the financial statements as at 31 December 2012, the Group adopted the accounting standards issued by the IASB and IFRIC interpretations, effective since 1 January 2012. The accounting policies adopted by the Group in the preparation of the Consolidated Financial Statements are in accordance with those described in that note. The adoption of these standards and interpretations by the Group in 2012 had no material effect in the Group's Consolidated Financial Statements.

The accounting standards and interpretations recently issued but not yet effective can also be analysed in Note 44.

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

The preparation of financial statements in conformity with NCA requires the application of judgment 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 financial statements are disclosed in Note 3.

These consolidated financial statements were approved in the Board of Directors meeting held on 14 March 2013.

2.2. Basis of consolidation

These consolidated financial statements comprise the financial statements of BES and its subsidiaries ("the Group" or "BESI 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.

Investment funds managed by the Group

As part of the asset management activity, the Group manages investment funds on behalf of the holders of the participation units. 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. Control is presumed to exist when the Group owns more than 50% of the participation units of the fund.

Goodwill

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

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

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

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

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

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

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

Transactions with non-controlling interest

Acquisitions of non-controlling interest are accounted 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 the Group'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 disposed 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 date 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 28) 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.

During 2012, the BESI Group did not owned any hedging instrument that could be classified as cash flow hedge.

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.

Impairment

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

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

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

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

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

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

The changes in the recognised impairment losses attributable to the unwinding of discount are recognised as interest and similar income.

The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

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

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

2.6. Other financial assets

Classification

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

- Financial assets at fair value through profit or loss

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

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

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

Note 18 includes a summary of the assets and liabilities that were classified at fair value trough profit or loss at inception.

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

- **Held-to-maturity investments**

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

- **Available-for-sale financial assets**

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

Initial recognition, initial measurement and derecognition

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

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

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

Subsequent measurement

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

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

Held-to-maturity investments are carried at amortised cost using the effective interest rate method, net of any impairment losses recognised.

The fair value 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. For the financial assets that have evidence of impairment, it is determined the respective recoverable amount, and the impairment losses are booked against the income statement.

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 financial asset 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 of the balance sheet. The corresponding liability is included in amounts due to banks or to customers, as appropriate. The difference between the 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 on the balance sheet, 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 received 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 of 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 incurred 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.

Financial guarantee contracts issued by the Group normally have a stated maturity date and a periodic fee, usually paid in advance depending on the counterparty risk, the amount and the period of the contract. Therefore, the fair value of the financial guarantee contracts issued by the Group, at the inception date, is approximately null due to the fact that the conditions accorded are on a market basis. So, the amount is recognised on the settlement date equals 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 of the 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.

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 amount will be recovered principally through sale (including those acquired exclusively with the intention to its subsequent disposal), the assets or disposal groups are available for immediate sale and it 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.

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 equipament	4 to 5
Fixtures	5 to 12
Furniture	4 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 eight years.

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

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

2.15. Leases

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

Operating leases

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

Finance leases

- As lessee

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

- As lessor

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

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

2.16. Employee benefits

Pensions

Arising from the signing of the "Acordo Colectivo de Trabalho" (ACT) and subsequent amendments resulting from the 3 tripartite agreements as described in Note 13, the Bank and other Group entities set up pension funds and other mechanisms to cover the liabilities with pensions on retirement and disability, widows' pension and health-care benefits. The pension liabilities and health care benefits are covered by funds that are managed by ESAF – Espírito Santo Fundos de Pensões, S.A., a Group's subsidiary.

The pension plans of the Group are classified as defined benefit plans, since the criteria to determine the pension benefit to be received by employees on retirement are predefined and usually depend on factors such as age, years of service and level of salary. In the hands of IFRS 1 and until 2011, the Group decided to adopt, at transition date (1 January 2004), IAS 19 retrospectively and has recalculated the pension and other post-retirement benefits obligations and the corresponding actuarial gains and losses, to be deferred in accordance with the corridor method allowed by this accounting standard. In December 2011, as described in Note 16, the Group changed retrospectively the accounting policy related to actuarial gains and losses recognition, adjusting the opening balance sheet and comparative values, starting to recognise, as allowed under paragraph 93A of IAS 19 "Employee Benefits", the actuarial deviations under other comprehensive income.

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

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

Actuarial gains and losses determined annually and resulting from (i) the differences between financial and actuarial assumptions used and real values obtained (experience gains and losses) ,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%.

Annually, 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 by the Group in accordance with IAS 19, as well as other long-term employee benefits.

The liability with long-term service benefits is calculated 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.

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 taxes

Income taxes 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.

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 directly related to the transaction. 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, such 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 are 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.

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 (market to market) or valuation models (market to model) 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 transactions 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 portfolio 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 fair value. A goodwill impairment loss is recognised when the carrying amount of the business unit exceeds the respective fair value.

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. 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.

3.6. Income taxes

The Group is subject to pay 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's and its subsidiaries located in Portugal determination of annual taxable earnings, for a period of four years or six years in case there are tax losses carried 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.

3.7. 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.

NOTE 4 - SEGMENT REPORTING

4.1. Operating Segments Description

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

Project Finance

The main functions of the Project Finance segment are (a) to take part in non-recourse and limited-recourse operations, related to investment projects that involve, among other contractual models, service concessions and public-private partnerships; and (b) to deliver to BES Group clients high quality services and technical innovation in matters of advisory and arranging and lending, providing access to the best financing structures in the best market conditions. This segment also manages the Project Finance projects portfolio in which BES Group takes part. This segment is also responsible for the development of the securitisation activity, having as major functions (a) the participation in the origination and structuring of securitization operations for BES Group and clients; and (b) the development of optimal financing structures through off-balance, asset-based

and limited recourse formats with recourse to the capital markets as the preferential way to obtain funds to finance the clients' projects in the best market conditions.

Acquisition Finance

This segment main function is to support the BES Group clients in acquisition operations through structured funding operations, namely leverage buy-out and management buy-out operations and in non-recourse or releverage assets financing operations. In these operations the Bank's objective is to be the Mandated Lead Arranger and to have the underwriting agreement and, depending on the deal characteristics, the Bank carries out the operation syndication.

Corporate Finance

In connection with Customer's Management, this segment main function consists in the organization and implementation of mergers and acquisitions (M&A) operations and companies' valuations, in order to support Management activities in the consolidation of the Bank's international operations with emphasis in M&A cross-border with Spain, Brazil, United Kingdom, Poland and USA, and any other country where the Group may be present.

Capital Market

This segment includes the organization, restructuring and implementation of debt and equity products, directed and structured to markets.

The origination of operations segment, develops the organization, installation and the placing on the stock exchange of companies in privatisation processes, Initial Public Offers (IPOs), capital increases, Public Acquisition Offers, Private Placements and BlockTrades, as well as equity-linked products, such as convertible bonds and equity derivatives for company clients.

In terms of debt, this segment is responsible for structuring and assembly several types of debt, such as, senior debt issues to markets, high yield issues, private placement of corporate client´s debt or state entities or public and municipal companies, hybrid products, project finance bonds and commercial paper. This segment also establishes lending operations that includes the structuring and placing of debt issues.

Fixed Income

This segment is divided in two different business areas:

- Distribuition and Trading

This business area is responsible for (a) providing trading operations to clients of Portuguese public debt, foreign debt, other securities from Euromarket and corporate debt products; and (b) placing debt products structured by the Capital Markets segment in national and foreign institutional investors.

- Risk management

This business area is responsible for the study, set-up and management of new structured products (derivatives) related with the operations mentioned above, as well as hedging products structured to mitigate foreign exchange rate risk and interest rate risk related with Assets and Liabilities for the Bank and its clients.

Global Markets

The main function of this segment is to optimize the risk/return ratio of the Bank´s own portfolio of interest rates, exchanges, stock and other financial instruments.

Equities

This segment mission is the development of trading and sales activities in organized markets where the Bank is present, such as Portugal, Spain, Brazil, Poland and New York.

This segment integrates, although completely segregated, an equity research unit that is responsible for developing studies, following up and producing information about the main companies of the Iberian Market, with focus for the companies which compose the indexes PSI20 and IBEX35.

Treasury

This segment comprises the tasks of (a) Bank's Balance Sheet Management (interest rate risk's management and liquidity risk's management in compliance with the directives of Assets and Liabilities Committee – ALCO); (b) Management of Debt issuing and Bank's liabilities pricing; (c) Management of Portfolio Investment Bank's Fixed Income (following the criteria of diversification, quality and return, aiming to rebalance the balance sheet risks and provide a stable revenue) and (d) internal Transfer Pricing (in order to grant the proper allocation of costs of the funds to the various business centers originators.

Capital Structured Advisory

This segment is specialized in general capital advisory by helping companies assess their capital structures and consult in debts restructuring.

Corporative Center

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, Strategic planning, Financial and Accounting, Risk management, Clients, among others.

Others

Includes all the other segments that exist in the Group's Management Information Model that, in accordance with IFRS 8, are not required to be presented as an individual segment (Mid Cap Financial Advisory, Asset Management, Private Equity, Private Banking, Treasury and other profit centers).

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.

BESI's structures dedicated to segments

BESI's activity of BESI comprises most of its operating segments and therefore its activity is disaggregated accordingly.

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 assets; (ii) the allocation of direct costs from commercial and central structures dedicated to the segment; (iii) the allocation of indirect cost (central support and IT services) determined in accordance with specific drivers and with the internal management information model; (iv) the allocation of credit risk determined in accordance with the impairment model.

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 the internal management information model.

The services rendered by the several Corporative Centre units are established in Service Level Agreements (SLA's).

Interest and similar income / expenses

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 the segment Other, in case of BESI associates. For other associated companies of the Group, those same entities are included in the segment they relate to.

Non-current assets

The segment Corporative Centre includes the non-current assets, according to IFRS 8, which includes Other Tangible Assets, Intangible Assets, properties and other assets arising from recovered loans not in the scope of non-current assets held for sale.

Deferred Tax Assets

Income tax is a part of the Group's net income but does not affect the evaluation of most of the Operating Segments. Deferred tax assets are included in the Corporative Centre 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 Corporative Centre segment. The factors that influence the amount of responsibilities and the amount of the fund's 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 the branches from London, Spain, Poland and New York and the subsidiaries that are consolidated (see Note 1).

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

Retrospective information

In 2009, the Group adopted IFRS 8 – Operating Segments, which differ substantially from the rules employed until this date in the preparation of the financial statements.

31.12.2012

(in thousands of euro)

	Project Finance	Acquisition Finance	Corporate Finance	Capital Market	Fixed Income	Global Markets	Equities	Treasury	Capital Structured Advisory	Corporative Center	Others	Total
Net interest income	15 300	12 941	(1)	(320)	3 680	(44 801)	557	83 856	1 406	-	21 921	94 539
Fees and commissions	16 151	7 811	22 452	13 655	232	(718)	34 451	(3 511)	1 315	-	12 696	104 534
COMMERCIAL BANKING INCOME	**31 451**	**20 752**	**22 451**	**13 335**	**3 912**	**(45 519)**	**35 008**	**80 345**	**2 721**	**-**	**34 617**	**199 073**
Capital markets and other results	(4 322)	(159)	(1 319)	(189)	22 842	61 208	(2 043)	4 899	(2 928)	-	(15 796)	62 193
Other intersegment operating income	3 718	448	(583)	507	(3 534)	(316)	(1 819)	3 714	(2 622)	-	487	-
BANKING INCOME	**30 847**	**21 041**	**20 549**	**13 653**	**23 220**	**15 373**	**31 146**	**88 958**	**(2 829)**	**-**	**19 308**	**261 266**
Operating expenses	**6 515**	**1 731**	**11 689**	**5 877**	**6 127**	**7 800**	**44 370**	**1 106**	**1 241**	**77 539**	**12 058**	**176 053**
Staff costs	3 780	1 175	8 004	3 879	3 531	3 804	25 512	649	895	52 194	7 976	111 399
Other administrative costs	2 215	521	3 384	1 816	2 446	3 809	17 500	431	329	22 711	3 714	58 876
Depreciations and amortisations	520	35	301	182	150	187	1 358	26	17	2 634	368	5 778
OPERATING INCOME	**24 332**	**19 310**	**8 860**	**7 776**	**17 093**	**7 573**	**(13 224)**	**87 852**	**(4 070)**	**(77 539)**	**7 250**	**85 213**
Provisions/Impairment	**(436)**	**(23)**	**(891)**	**(1)**	**(245)**	**(60)**	**(58)**	**492**	**(31 757)**	**(7 933)**	**(5 288)**	**(46 200)**
Credit impairment	(588)	291	(2)	(1)	-	-	(6)	(1)	(31 773)	(774)	(1)	(32 855)
Securities impairment	-	-	-	-	-	-	-	357	-	(681)	(4 290)	(4 614)
Net provisions and other impairment	152	(314)	(889)	-	(245)	(60)	(52)	136	16	(6 478)	(997)	(8 731)
Profit before income tax	**23 896**	**19 287**	**7 969**	**7 775**	**16 848**	**7 513**	**(13 282)**	**88 344**	**(35 827)**	**(85 472)**	**1 962**	**39 013**
Total Net Assets	1 284 725	567 522	-	37 526	216 963	2 921 917	51 893	651 722	364 928	384 272	395	6 481 863
Total Liabilities	-	29 665	-	-	117 810	-	-	5 278 633	-	349 355	395	5 775 858
Investment in Associates	-	-	-	-	-	-	-	-	-	-	51 073	51 073

31.12.2011

(in thousands of euro)

	Project Finance	Acquisition Finance	Corporate Finance	Capital Market	Fixed Income	Global Markets	Equities	Treasury	Capital Structured Advisory	Corporative Center	Others	Total
Net interest income	15 880	17 366	11	154	2 932	(36 999)	518	39 082	251	-	37 303	76 497
Fees and commissions	19 449	8 515	32 070	21 877	2 088	(10)	38 913	1 147	609	-	11 560	136 218
COMMERCIAL BANKING INCOME	**35 329**	**25 881**	**32 081**	**22 031**	**5 020**	**(37 009)**	**39 431**	**40 229**	**860**	**-**	**48 863**	**212 715**
Capital markets and other results	(461)	(128)	(2 680)	(650)	25 671	31 423	(1 641)	(41 349)	(3)	-	15 037	25 219
Other intersegment operating income	516	3 794	(6)	(4 031)	332	172	(2 376)	767	-	-	832	-
BANKING INCOME	**35 384**	**29 547**	**29 395**	**17 350**	**31 023**	**(5 414)**	**35 414**	**(353)**	**857**	**-**	**64 732**	**237 934**
Operating expenses	**7 413**	**2 071**	**10 493**	**6 053**	**6 326**	**8 027**	**47 687**	**1 055**	**1 028**	**75 687**	**12 763**	**178 603**
Staff costs	4 674	1 396	7 491	3 765	3 631	4 000	29 704	714	698	44 971	8 174	109 218
Other administrative costs	2 604	626	2 799	2 205	2 572	3 924	16 945	326	315	27 234	4 316	63 866
Depreciations and amortisations	135	49	203	83	123	103	1 038	15	15	3 482	273	5 519
OPERATING INCOME	**27 971**	**27 476**	**18 902**	**11 297**	**24 697**	**(13 441)**	**(12 273)**	**(1 408)**	**(171)**	**(75 687)**	**51 969**	**59 331**
Provisions/Impairment	**2 971**	**(33 061)**	**(600)**	**-**	**(1 276)**	**(870)**	**(22)**	**(159)**	**(25)**	**(4 682)**	**(6 445)**	**(44 169)**
Credit impairment	1 941	(32 578)	(100)	-	-	-	(30)	-	6	(738)	(1 299)	(32 798)
Securities impairment	-	-	-	-	-	-	-	(85)	-	-	(2 946)	(3 031)
Net provisions and other impairment	1 030	(483)	(500)	-	(1 276)	(870)	8	(74)	(31)	(3 944)	(2 200)	(8 340)
Profit before income tax	**30 942**	**(5 585)**	**18 302**	**11 297**	**23 421**	**(14 311)**	**(12 295)**	**(1 567)**	**(196)**	**(80 369)**	**45 524**	**15 162**
Total Net Assets	1 315 647	927 690	-	34 881	217 917	2 660 263	58 167	530 284	18 978	806 908	(10 950)	6 559 785
Total Liabilities	-	31 498	-	-	129 001	-	-	5 555 728	-	248 091	(10 951)	5 953 367
Investment in Associates	-	-	-	-	-	-	-	-	-	-	35 226	35 226

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

(in thousands of euro)

	31.12.2012				
	Portugal	Rest of Europe	Latin America	Asia	Total
Profit for the year (1)	84 161	(61 637)	1 407	(1 903)	22 028
Net assets	2 213 976	1 731 839	2 532 476	3 572	6 481 863
Capital expenditure					
Tangible assets	374	450	340	711	1 875
Intangible assets	3 883	942	1 049	242	6 116

(1) Profit for the year attributable to equity holders of the Bank, after the removal of intragroup transactions

(in thousands of euro)

	31.12.2011				
	Portugal	Rest of Europe	Latin America	Asia	Total
Profit for the year (1)	(7 239)	(10 234)	26 534	-	9 061
Net assets	3 140 026	776 108	2 643 651	-	6 559 785
Capital expenditure					
Tangible assets	398	1 616	1 162	-	3 176
Intangible assets	6 553	973	143	-	7 669

(1) Profit for the year attributable to equity holders of the Bank, after the removal of intragroup transactions

NOTE 5 - NET INTEREST INCOME

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Assets/ Liabilities at Amortised Cost and Available-for-Sale Financial Assets	Assets/ Liabilities at Fair Value Through Profit or Loss	Total	Assets/ Liabilities at Amortised Cost and Available-for-Sale Financial Assets	Assets/ Liabilities at Fair Value Through Profit or Loss	Total
Interest and similar income						
Interest from loans and advances	122 666	-	122 666	123 775	-	123 775
Interest from deposits with banks	5 294	-	5 294	5 157	-	5 157
Interest from derivatives for risk management purposes	-	28 074	28 074	-	21 205	21 205
Interest from available-for-sale financial assets	31 857	-	31 857	21 294	-	21 294
Interest from financial assets at fair value through profit or loss	-	130 304	130 304	-	163 196	163 196
Interest from held-to-maturity financial assets	22 918	-	22 918	47 397	-	47 397
Other interest and similar income	1 069	-	1 069	2 137	-	2 137
	183 804	**158 378**	**342 182**	**199 760**	**184 401**	**384 161**
Interest expense and similar charges						
Interest from deposits from central banks and other banks	92 852	-	92 852	135 341	-	135 341
Interest from derivatives for risk management purposes	-	24 240	24 240	-	21 472	21 472
Interest from debt securities	45 772	24 589	70 361	39 747	21 822	61 569
Interest from amounts due to customers	53 767	-	53 767	82 623	-	82 623
Interest from subordinated debt	4 328	-	4 328	6 382	-	6 382
Other interest and similar charges	2 095	-	2 095	277	-	277
	198 814	**48 829**	**247 643**	**264 370**	**43 294**	**307 664**
	(15 010)	**109 549**	**94 539**	**(64 610)**	**141 107**	**76 497**

Interest from loans and advances includes an amount of euro 14 305 thousand (31 December 2011: euro 22 071 thousand) related to interest from impaired loans contracts.

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 interests 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 policy described in Notes 2.6 and 2.8.

NOTE 6 - NET FEE AND COMMISSION INCOME

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Fee and commission income		
From banking services	55 824	82 262
From commitments assumed to third parties	6 517	8 180
From transactions with securities	64 320	68 337
	126 661	**158 779**
Fee and commission expenses		
From banking services rendered by third parties	4 777	8 261
From transactions with securities	20 700	19 051
From guarantees received	74	-
	25 551	**27 312**
	101 110	**131 467**

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

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Gains	Losses	Total	Gains	Losses	Total
Trading Asses and Liabilities						
Bonds and other fixed income securities						
Issued by government and public entities	804 404	716 436	87 968	62 765	28 369	34 396
Issued by other entities	10 244	1 875	8 369	13 651	5 685	7 966
Shares	37 184	28 704	8 480	62 749	60 792	1 957
Other variable income securities	-	-	-	195	212	(17)
	851 832	**747 015**	**104 817**	**139 360**	**95 058**	**44 302**
Derivative Financial Instruments						
Exchange rate contracts	762 797	752 250	10 547	1 183 742	1 154 293	29 449
Interest rate contracts	1 268 037	1 297 403	(29 366)	1 429 756	1 421 213	8 543
Equity/Index contracts	326 063	307 392	18 671	154 103	175 706	(21 603)
Credit default contracts	110 289	65 176	45 113	23 249	44 216	(20 967)
Other	-	24	(24)	36	922	(886)
	2 467 186	**2 422 245**	**44 941**	**2 790 886**	**2 796 350**	**(5 464)**
	3 319 018	**3 169 260**	**149 758**	**2 930 246**	**2 891 408**	**38 838**
Financial liabilities at fair value through profit or loss (1)						
Deposits from Banks	1 014	-	1 014	215	235	(20)
Debt Securities issued	2 433	98 828	(96 395)	51 206	6 665	44 541
Subordinated Debt	2 715	1 759	956	3 501	55	3 446
	6 162	**100 587**	**(94 425)**	**54 922**	**6 955**	**47 967**
	3 325 180	**3 269 847**	**55 333**	**2 985 168**	**2 898 363**	**86 805**

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

As at 31 December 2012, this balance includes a negative effect of euro 10 285 thousand (31 December 2011: positive effect of euro 3 626 thousand) 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 (see Note 23).

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

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by government and public entities	57 742	885	56 857	-	-	-
Issued by other entities	274	50	224	2 451	3 145	(694)
Shares	-	1	(1)	48 372	-	48 372
Other variable income securities	-	-	-	-	20	(20)
	58 016	**936**	**57 080**	**50 823**	**3 165**	**47 658**

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

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange translation	58 476	(95 624)	(37 148)	84 524	(156 026)	(71 502)
	58 476	**(95 624)**	**(37 148)**	**84 524**	**(156 026)**	**(71 502)**

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

As at 31 December 2012 this balance includes an amount of euro 6 537 thousand (31 December 2011: euro 25 135 thousand) related to losses recognized due to the sale of loans and advances to customers.

NOTE 11 – OTHER OPERATING INCOME AND EXPENSES

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Other customer's services	3 424	4 751
Direct and indirect taxes	(7 138)	(9 791)
Losses arising from the transfer to Social Security of the pensioners' defined benefit obligation	-	(438)
Other operating income / expenses	(3 355)	(7 077)
	(7 069)	**(12 555)**

Direct and indirect taxes includes an amount of euro 1 187 thousand relating to the cost related with the introduction of a Banking levy, created by Law No. 55-A/2010 of 31 December (31 December 2011: euro 1 525 thousand). (see Note 35).

NOTE 12 - STAFF COSTS

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Wages and salaries		
Remuneration	85 873	84 924
Long term service benefits (see Note 13)	200	165
Pension costs (see Note 13)	1 767	1 683
Other mandatory social charges	12 932	12 286
Other costs	10 627	10 160
	111 399	**109 218**

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

(in thousands of euro)

	Board of Directors	Other Key Management	Total
2012			
Salaries and other short term benefits	4 314	6 668	10 982
Long term service benefits	45	28	73
Bonus	568	4 417	4 985
Total	**4 927**	**11 113**	**16 040**
2011			
Salaries and other short term benefits	5 854	3 612	9 466
Long term service benefits	64	14	79
Bonus	2 086	2 629	4 714
Total	**8 004**	**6 255**	**14 259**

Other key management personnel includes Senior Management and advisors of the Board of Directors.

As at 31 December 2012 and 2011, the loans granted by BESI Group to the Board of Directors amounted to euro 286 thousand and euro 322 thousand, respectively.

The number of employees of BESI Group, by professional category, is analysed as follows:

	31.12.2012	31.12.2011
Senior management	404	402
Management	4	4
Specific functions	367	382
Administrative functions	67	72
Auxiliary functions	11	10
	853	**870**

NOTE 13 – EMPLOYEE BENEFITS

Pension and health care benefits

In compliance with the collective labour agreement (ACT) for the banking sector established with the unions, the Group's companies 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. However, it should be noted that in what concerns these Group companies, the employees hired after 31 March 2008 are recovered 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 in the General Social Security Scheme from 1 January 2011, which started to assume 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 is 26.6%, 23.6% paid by the employer and 3% paid by the employee, instead of Caixa de Abono de Família dos Empregados Bancários (CAFEB), abolished by the same law. In consequence of this change, the pension rights of active employers is to be covered under the terms defined by the General Social Security Regime, taking into account the length of service from 1 January 2011 until retirement. The differential required to support the guaranteed pension in terms of the ACT is paid by the Banks.

Notwithstanding, the integration leads to an effective decrease in the present value of total benefits reported to the normal retirement age (VABT) to be borne by the pension fund. Since there was no reduction in benefits from the perspective of the beneficiary on the date of integration, the past service liability remained unchanged at 31 December 2010.

Taking into account that the basis for calculating benefits under the ACT and RGSS plans are based on different formulas, there is the possibility of obtaining a gain, when the value of the liabilities to be covered by the pension fund at retirement is lower than responsibilities on 31 December 2010, being this gain deferred on a linear basis over the average working life until the employees reach the normal retirement age.

At the end of 2011 following the third tripartite agreement established between the Portuguese Government, the Portuguese Banking Association and the banking sector employees unions, it was decided to transfer to transfer to the Social Security sphere 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 financial institutions with the correspondent funding being provided through the respective pension funds.

The financial institutions pension funds assets allocated to the cover of the transferred liabilities were also transmitted 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 are met, as the obligation with pension in payment as at 31 December 2011, extinguished at the date of transfer. On this basis, the impacts derived from this same transfer were recognized in the income statement.

In 1998, Banco Espírito Santo and the Group's subsidiaries in Portugal, where BESI is included, decided to set up an autonomous open-up pension fund – Fundo de Pensões Aberto GES – to fund complementary pension benefits of pensioners and employees in service.

The pension funds in Portugal are managed by ESAF – Espírito Santo Fundo de Pensões, S.A..

	Assumptions		
	31.12.2012		31.12.2011
	1st through 4th year	5th year and subsequent years	
Financial assumptions			
Expected return of plan assets	4.50%		5.50%
Discount rate	4.50%		5.50%
Pensions increase rate	0.00%	0.75%	1.00%
Salaries increase rate	1.00%	1.75%	2.25%
Demographic assumptions and valuation methods			
Mortality table			
Men		TV 73/77 - 1 year	
Women		TV 88/90	
Actuarial method		Project Unit Credit Method	

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

	31.12.2012	31.12.2011
Employees	227	240
Pensioners	20	20
Widows and other direct relatives	7	7
TOTAL	**254**	**267**

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

(in thousands of euro)

	31.12.2012			31.12.2011		
	Pension plans	Health-care benefits	Total	Pension plans	Health-care benefits	Total
Assets / (liabilities) recognised in the balance sheet						
Liabilities as at 31 December						
Pensioners	2 939	191	3 130	3 612	301	3 913
Employees	37 452	1 890	39 342	29 070	1 398	30 468
	40 391	**2 081**	**42 472**	**32 682**	**1 699**	**34 381**
Fair value of plan assets as at 31 December			**50 870**			**46 686**
Excess / deficit of coverage			8 398			12 305
Deferred past service costs			10 873			12 175
Asset/(liabilities) recognised in the balance sheet as at 31 December (see Note 28)			**19 271**			**24 480**
Accumulated net actuarial losses recognised in other compreensive income			3 630			160

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

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

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

(in thousands of euro)

	31.12.2012			31.12.2011		
	Pension plans	Health-care benefits	Total	Pension plans	Health-care benefits	Total
Defined benefit obligation as at 1 January	**32 682**	**1 699**	**34 381**	**31 009**	**2 015**	**33 024**
Service cost	987	32	1 019	1 701	121	1 822
Interest cost	1 459	76	1 535	1 659	110	1 769
Plan participants' contribution	148	-	148	156	-	156
Actuarial (gains) / losses:	5 365	274	5 639	(13 265)	(535)	(13 800)
- changes in actuarial assumptions	5 837	274	6 111	(4 300)	(279)	(4 579)
- experience adjustments	(472)	-	(472)	(8 965)	(256)	(9 221)
Pensions paid by the fund	(250)	-	(250)	(667)	-	(667)
Defined benefit obligation related to benefits granted during the year	-	-	-	12 275	-	12 275
Other	-	-	-	(186)	(12)	(198)
Defined benefit obligation as at 31 December	**40 391**	**2 081**	**42 472**	**32 682**	**1 699**	**34 381**

Under the third tripartite agreement mentioned above and the subsequent transfer to the Social Security Regime of the Group's liabilities with pensions in payment as at 31 December 2011, there was a reduction of liabilities, measured based on the actuarial assumptions used in preparing the financial statements are consistent with IAS 19, for an amount of euro 3.8 million.

Under the agreement mentioned above, the value of assets to be transferred to the Social Security in return for the transfer of the liabilities with pension payment, was determined on a settlement perspective, as it is a definitive and irreversible transfer of these responsibilities and corresponded to the value thereof, and it was estimated based on a discount rate of 4% (instead of the 5.5% rate used for the purpose of preparing the financial statements). Thus, the amount payable by the Bank to the State amounted to euro 4 million, which led to the recognition in 2011 in the income statement a cost in the amount of euro 438 thousand, corresponding to the differential of the discount rates mentioned above.

Of the total payable amount (euro 4 million), about euro 3.8 million were borne by the Pension Fund and euro 438 thousand directly by the Group. At the end of December 2011, 55% of the amount outstanding was paid, and the remaining should be paid in the first half of 2012.

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

(in thousands of euro)

	31.12.2012	31.12.2011
Fair value of plan assets as at 1 January	**46 686**	**35 164**
Actual return on plan assets	4 364	(4 199)
Bank contributions	-	16 447
Plan participants' contributions	148	156
Pensions paid by the fund	(250)	(667)
Other	(78)	(215)
Fair value of plan assets as at 31 December	**50 870**	**46 686**

The assets of the fund by type of asset as at 31 December 2012 and 2011 can be analysed as follows:

	% Portfolio	
	2012	**2011**
Bonds	38.88%	35.91%
Shares	48.39%	33.85%
Liquidity	1.05%	26.10%
Real Estate	1.93%	0.00%
Other	9.75%	4.14%
Total	100.00%	100.00%

As at 31 December 2012 and 2011, the fund did not have any securities issued by Group entities.

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

(in thousands of euro)

	31.12.2012	31.12.2011
Accumulated net actuarial losses as at 1 January	**160**	**7 853**
- Changes in actuarial assumptions	6 111	(4 579)
- Experience adjustments	(2 747)	(3 114)
Other	106	-
Accumulated net actuarial losses as at 31 December	**3 630**	**160**

The net periodic benefit cost can be analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Service cost	1 019	1 822
Interest cost	1 535	1 769
Expected return on plan assets	(2 089)	(1 908)
Past services liabilities depreciation	1 302	-
Net benefit cost	**1 767**	**1 683**

The changes in the assets recognized in the balance sheet can be analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Balance as at 1 January	**24 480**	**2 140**
Net periodic benefit cost	(1 767)	(1 683)
Actuarial Gains/Losses recognised on other comprehensive income	(3 364)	7 693
Contributions of the year and pensions paid by the Group	-	16 603
Other	(78)	(273)
Balance as at 31 December	**19 271**	**24 480**

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

(in thousands of euro)

	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008
Defined benefit obligation					
Pension plans	(40 391)	(32 682)	(31 009)	(28 910)	(27 722)
Health-care benefits	(2 081)	(1 699)	(2 015)	(1 879)	(1 802)
	(42 472)	(34 381)	(33 024)	(30 789)	(29 524)
Fair value of plan assets	50 870	46 686	35 164	32 711	27 752
(Un)/over funded liabilities	**8 398**	**12 305**	**2 140**	**1 922**	**(1 772)**
(Gains)/Losses from experience adjustments arising on defined benefit obligation					
Pension plans	(472)	(8 965)	(650)	449	(168)
Health-care benefits	-	(256)	(87)	(11)	-
(Gains)/Losses from experience adjustments arising on plan assets	(2 275)	6 107	109	(2 255)	7 983

Long-term service benefits

At 31 December 2012 and 2011, the Group's liabilities and costs incurred related to long-term service benefits can be analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Liabilities as at 1 January	**1 914**	**1 845**
Cost of the year (see Note 12)	200	166
Benefits paid	(127)	(97)
Liabilities as at 31 December	**1 987**	**1 914**

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

These liabilities related to long-term service benefits are included in the balance Other liabilities (see Note 37).

NOTE 14 - GENERAL AND ADMINISTRATIVE EXPENSES

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Rental costs	9 702	10 688
Advertising costs	1 714	2 549
Communication costs	15 446	16 094
Travelling and representation costs	8 601	9 403
Maintenance and related services	1 429	1 285
Insurance costs	528	638
Legal expenses	464	1 248
Specialised services		
IT services	5 765	5 214
Temporary work	259	493
Independent work	1 871	1 778
Other specialised services	8 205	8 117
Other costs	4 892	6 359
	58 876	**63 866**

The balance Other specialised services includes, among others, costs with external auditors and consultants and tax consultants. The balance Other costs includes security and surveillance expenses, training costs and costs with external suppliers.

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

(in thousands of euro)

	31.12.2012	31.12.2011
Up to 1 year	1 413	1 232
1 to 5 years	1 695	2 025
	3 108	**3 257**

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

(in thousands of euro)

	31.12.2012	31.12.2011
Audit fees (BESI)	82	81
Audit fees (subsidiaries)	665	238
Audit related fees	170	450
Tax consultancy services	249	189
Other services	50	-
Total invoices services	**1 216**	**958**

NOTE 15 - EARNINGS PER SHARE

Basic earnings per share

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

(in thousands of euro)

	31.12.2012	31.12.2011
Profit attributable to the equity holders of the Bank [1]	21 803	6 044
Weighted average number of ordinary shares outstanding (thousands)	**51 391**	**36 659**
Basic earnings per share attributable to equity holders of the Bank (in euro)	**0.42**	**0.16**

[1] Net profit for the year attributable to the equity holders of the Bank adjusted by the interest paid in relation to the other equity instruments (which are booked agains reserves).

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.

As at 31 December 2012 and 2011, the Bank had issued instruments although they have no effect. Therefore, the diluted earnings per share are equal to the basic earnings per share.

The weight average number of shares in 2012 reflects the share capital increase performed during September.

NOTE 16 - CASH AND DEPOSITS AT CENTRAL BANKS

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

(in thousands of euro)

	31.12.2012	31.12.2011
Cash	7	19
Deposits at central banks		
Bank of Portugal	916	1 301
Other central banks	279	573
	1 195	**1 874**
	1 202	**1 893**

The deposits at Central Banks – Bank of Portugal include mandatory deposits intended to satisfy legal minimum cash requirements. According to the European Central Bank Regulation (CE) no. 2818/98, of 1 December 1998, minimum cash requirements kept as deposits with the Bank of Portugal earn interest, and correspond to 2% 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 31 December 2012, these deposits have earned interest at an average rate of 0.75% (31 December 2011: 1.00%).

The fulfillment of the minimum mandatory requirements for a given period of observation is implemented taking into account the value of bank deposits with the Bank of Portugal during the referred period. The balance of the bank account with the Bank of Portugal as at 31 December 2012, was included in the maintenance period of 12 December 2012 to 15 January 2013, which corresponded to an average mandatory reserve of euro 1 040 thousand.

NOTE 17 - DEPOSITS WITH BANKS

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

(in thousands of euro)

	31.12.2012	31.12.2011
Deposits with banks in Portugal		
Repayable on demand	15 711	27 798
	15 711	**27 798**
Deposits with banks abroad		
Repayable on demand	25 006	47 918
	25 006	**47 918**
	40 717	**75 716**

NOTE 18 - FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

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

(in thousands of euro)

	31.12.2012	31.12.2011
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	1 201 560	760 310
Issued by other entities	321 277	348 662
Shares	36 100	24 279
Other variable income securities	2 014	727
	1 560 951	1 133 978
Derivatives	878 778	843 073
	2 439 729	**1 977 051**
Financial liabilities held for trading		
Securities		
Short sales	795	865
Derivatives	750 920	790 896
	751 715	**791 761**

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

(in thousands of euro)

	31.12.2012	31.12.2011
Up to 3 months	19 457	45 027
3 to 12 months	185 882	106 982
1 to 5 years	804 247	263 987
More than 5 years	513 251	692 976
Undetermined	38 114	25 006
	1 560 951	**1 133 978**

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

The short selling balance represents securities sold by the Group, that were acquired in an operation of purchases under resell agreements.

In accordance with the accounting policy described in Note 2.7 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.

If these securities were sold, the Group recognizes a financial liability in the same amount of the assets fair value, and shall be returned in the scope of the resellment agreement.

As at 31 December 2012, the balance Financial Assets held for trading includes the amount of euro 3 782 thousand pledged as collateral by the Group.

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

(in thousands of euro)

	31.12.2012			31.12.2011		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by govermment and public entities	5 524	1 196 036	1 201 560	760 310	-	760 310
Issued by other entities	939	320 338	321 277	-	348 662	348 662
Shares	35 852	248	36 100	24 279	-	24 279
Other variable income securities	2 014	-	2 014	727	-	727
Total	**44 329**	**1 516 622**	**1 560 951**	**785 316**	**348 662**	**1 133 978**

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

(in thousands of euro)

	31.12.2012			31.12.2011		
	Nocional	Fair value		Nocional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate contracts						
Forward		-	4 058		11 524	-
- buy	766 533			723 340		
- sell	767 756			724 694		
Currency Swaps		397	-		573	-
- buy	71 720			126 339		
- sell	71 288			125 919		
Currency Futures	278 316	-	-	58 029	-	-
Currency Interest Rate Swaps		4 696	14 820		183	10 095
- buy	39 128			19 112		
- sell	39 244			20 192		
Currency Options	523 601	2 206	2 249	1 490 382	10 528	13 069
	2 557 586	**7 299**	**21 127**	**3 288 007**	**22 808**	**23 164**
Interest rate contracts						
Interest Rate Swaps	12 714 339	817 543	677 284	27 058 289	717 895	656 640
Swaption - Interest Rate Options	-	-	-	341 000	-	-
Interest Rate Caps & Floors	3 960 970	20 836	19 892	4 525 524	20 473	19 542
Interest Rate Futures	3 784 772	-	-	3 573 796	-	-
Interest Rate Options	1 903 388	1 341	1 341	1 893 558	25 473	31 715
Future Options	-	-	-	-	-	-
	22 363 469	**839 720**	**698 517**	**37 392 167**	**763 841**	**707 897**
Equity / Index contracts						
Equity / Index Swaps	240 195	20 907	20 445	472 980	41 479	43 151
Equity / Index Options	142 194	8 899	8 822	208 579	8 705	8 395
Equity / Index Futures	37 036	-	-	142 690	-	-
	419 425	**29 806**	**29 267**	**824 249**	**50 184**	**51 546**
Credit default contracts						
Credit Default Swaps	159 617	1 953	2 009	221 636	6 240	8 289
	159 617	**1 953**	**2 009**	**221 636**	**6 240**	**8 289**
Total	**25 500 097**	**878 778**	**750 920**	**41 726 059**	**843 073**	**790 896**

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

(in thousands of euro)

	31.12.2012		31.12.2011	
	Assets	Liabilities	Assets	Liabilities
Up to 3 months	23 656	16 164	20 270	13 989
3 to 12 months	33 920	25 141	34 433	30 160
1 to 5 years	234 261	147 998	221 793	229 429
More than 5 years	586 941	561 617	566 577	517 318
	878 778	**750 920**	**843 073**	**790 896**

NOTE 19 - AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

(in thousands of euro)

	Cost (1)	Fair value reserve		Impairment	Book value
		Positive	Negative		
Bonds and other fixed income securities					
Issued by government and public entities	238 241	3 783	(622)	-	241 402
Issued by other entities	147 862	543	(3 627)	(2 274)	142 504
Shares	22 574	4 037	-	(3 221)	23 390
Other variable income securities	89 664	1 292	(1 577)	(10 758)	78 621
Balance as at 31 December 2012	**498 341**	**9 655**	**(5 826)**	**(16 253)**	**485 917**
Bonds and other fixed income securities					
Issued by government and public entities	4 495	-	(579)	-	3 916
Issued by other entities	217 135	200	(9 609)	(2 319)	205 407
Shares	16 401	2 931	(2 064)	(2 078)	15 190
Other variable income securities	85 007	3 266	(1 449)	(8 117)	78 707
Balance as at 31 December 2011	**323 038**	**6 397**	**(13 701)**	**(12 514)**	**303 220**

(1) Acquisition cost relating to shares and other variable income securities and amortised cost relating to debt securities.

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)

	31.12.2012	31.12.2011
Balance as at 1 January	12 514	22 589
Charge for the year	6 179	3 099
Charge off	(1 124)	(13 263)
Write back for the year	(1 209)	(68)
Exchange differences and other	(107)	157
Balance as at 31 December	**16 253**	**12 514**

The balance Available-for-sale Financial Assets includes: euro 251 509 thousand of securities pledged as collateral by the Group.

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

(in thousands of euro)

	31.12.2012	31.12.2011
Up to 3 months	19 139	7 888
3 to 12 months	33 421	14 499
1 to 5 years	80 636	139 475
More than 5 years	250 710	47 461
Undetermined	102 011	93 897
	485 917	**303 220**

As at 31 December 2012 and 2011, the analysis of the available-for-sale financial assets by quoted and unquoted securities is presented as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	241 402	-	241 402	3 916	-	3 916
Issued by other entities	50 334	92 170	142 504	35 841	169 566	205 407
Shares	7 706	15 684	23 390	6 626	8 564	15 190
Other variable income securities	26 148	52 473	78 621	10 492	68 215	78 707
Total book value	**325 590**	**160 327**	**485 917**	**56 875**	**246 345**	**303 220**

NOTE 20 - LOANS AND ADVANCES TO BANKS

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

(in thousands of euro)

	31.12.2012	31.12.2011
Loans and advances to banks in Portugal		
Other loans and advances	1 899	1 054
	1 899	**1 054**
Loans and advances to banks abroad		
Deposits	1 177	-
Sales with repurchase agreements	213 643	217 727
Other loans and advances	27 274	28 140
	242 094	**245 867**
	243 993	**246 921**
Impairment losses	(238)	(230)
	243 755	**246 691**

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

(in thousands of euro)

	31.12.2012	31.12.2011
Up to 3 months	181 998	230 774
3 to 12 months	61 995	15 093
1 to 5 years	-	1 054
	243 993	**246 921**

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

(in thousands of euro)

	31.12.2012	31.12.2011
Balance as at 1 January	230	211
Charge for the year	30	71
Write back for the year	(16)	(63)
Exchange differences and other	(6)	11
Balance as at 31 December	**238**	**230**

NOTE 21 - LOANS AND ADVANCES TO CUSTOMERS

This balance as at 31 December 2012 and 2011 is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Domestic loans		
Corporate		
Commercial lines of credit	1 346	19 088
Loans	580 813	728 679
Overdrafts	28	28
Other loans	258 570	61 498
Retail		
Mortgage loans	492	671
	841 249	**809 964**
Foreign loans		
Corporate		
Loans	1 380 152	1 466 171
Other loans	68 201	60 326
Retail		
Other loans	4 898	6 926
	1 453 251	**1 533 423**
Overdue loans and interest		
Up to 3 months	2 295	5 075
More than 3 months	12 769	13 877
	15 064	**18 952**
	2 309 564	**2 362 339**
Impairment losses	(122 040)	(104 394)
	2 187 524	**2 257 945**

As at 31 December 2012, the balance loans and advances to customers (net of impairment) includes an amount of euro 29 665 thousand related to an operation of securitization Lusitano Leverage Finance (31 December 2011: euro 31 498 thousand).

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

(in thousands of euro)

	31.12.2012	31.12.2011
Up to 3 months	433 166	70 342
3 to 12 months	226 252	402 417
1 to 5 years	664 227	674 415
More than 5 years	970 855	1 196 213
Undetermined	15 064	18 952
	2 309 564	**2 362 339**

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

(in thousands of euro)

	31.12.2012	31.12.2011
Balance as at 1 January	104 394	72 077
Charge for the year	42 974	84 757
Charge off	(15 287)	-
Write back for the year	(10 119)	(51 959)
Exchange differences and other	78	(481)
Balance as at 31 December	**122 040**	**104 394**

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

(in thousands of euro)

	31.12.2012	31.12.2011
Fixed interest rate	214 402	163 854
Variable interest rate	2 095 162	2 198 485
	2 309 564	**2 362 339**

The balance loans and advances to customers includes euro 153 600 thousand pledged as collateral by the Group.

NOTE 22 – HELD-TO-MATURITY INVESTMENTS

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

(in thousands of euro)

	31.12.2012	31.12.2011
Bonds and other fixed income securities		
Issued by government and public entities	36 906	656 043
Issued by other entities	70 296	72 312
Impairment losses	-	(357)
	107 202	**727 998**

The balance held-to-maturity investments includes euro 159 thousand pledged as collateral by the Group.

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

(in thousands of euro)

	31.12.2012	31.12.2011
Up to 3 months	-	318 464
3 to 12 months	35 908	301 051
1 to 5 years	15 215	47 066
More than 5 years	56 079	61 417
	107 202	**727 998**

As at 31 December 2012 and 2011 held-to-maturity investments analysed by quoted and unquoted securities are presented as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income securities						
Issued by government and public entities	-	36 906	36 906	656 044	-	656 044
Issued by other entities	11 924	58 372	70 296	-	71 954	71 954
	11 924	**95 278**	**107 202**	**656 044**	**71 954**	**727 998**

As at 31 December 2012, the fair value of the held-to-maturity investments amounts to euro 103 917 thousand (31 December 2011: euro 724 446 thousand).

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

(in thousands of euro)

	31.12.2012	31.12.2011
Balance as at 1 January	357	356
Charge for the year	-	1
Write back for the year	(357)	-
Balance as at 31 December	**-**	**357**

During the year ended 31 December 2008, the Group has reclassified securities from held for trading portfolio to held-to-maturity category, in accordance with the accounting policy described in Note 2.6.

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

(in thousands of euro)

	31.12.2012	31.12.2011
Assets and liabilities at fair value through profit or loss		
Effect on the profit and loss	947	(1 347)
Tax effect	(73)	183
	874	**(1 164)**

During the years 2012 and 2011, no transfers were made from or to this category of assets.

NOTE 23 – DERIVATIVES FOR RISK MANAGEMENT PURPOSES

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

(in thousands of euro)

	31.12.2012	31.12.2011
Derivatives for risk management purposes with positive fair value (assets)		
Interest rate contracts	7 960	6 225
Equity / Index contracts	37 318	76 591
Other contracts	14 744	5 255
	60 022	**88 071**
Derivatives for risk management purposes with negative fair value (liabilities)		
Interest rate contracts	2 184	4 781
Equity / Index contracts	41 000	73 974
Other contracts	13 847	48 827
	57 031	**127 582**
	2 991	**(39 511)**

The balance Derivatives for risk management purposes includes hedging derivatives and derivatives contracted with the purpose of managing the risk of certain financial assets and liabilities designated at fair value through profit or loss (and that were not classified as hedging derivatives).

a) Hedging Derivatives

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

(in thousands of euro)

			31.12.2012				
Derivative	Hedged item	Hedged risk	Nocional	Fair value of derivative [2]	Changes in the fair value of the derivative in the year	Fair value component of the hedged item [1]	Changes in the fair value of the hedged item in the year [1]
Interest Swap / Equity Swap	Debt securities issued	Interest rate	75 699	3 258	4 741	(3 829)	(5 270)
Interest Swap	Subordinated debt	Interest rate	215	46	1 620	(48)	956
Interest Swap	Deposits from banks	Interest rate	-	-	-	-	1 014
			75 914	**3 304**	**6 361**	**(3 877)**	**(3 300)**

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

(in thousands of euro)

			31.12.2011				
Derivative	Hedged item	Hedged risk	Nocional	Fair value of derivative [2]	Changes in the fair value of the derivative in the year	Fair value component of the hedged item [1]	Changes in the fair value of the hedged item in the year [1]
Interest Rate Swaps	Debt securities issued	Interest rate	78 330	(1 463)	(734)	215	(731)
Interest Rate Swaps	Deposits from banks	Interest rate	6 600	1 035	457	(1 014)	(131)
			84 930	**(428)**	**(277)**	**(799)**	**(862)**

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

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

b) Other derivatives for risk management purposes

Other derivatives for risk management purposes includes derivatives held to hedge assets and liabilities at fair value through profit and loss in accordance with the accounting policies described in Notes 2.4, 2.6 and 2.8 and that the Group did not classified as hedging derivatives. The book value of assets and liabilities at fair value through profit and loss can be analysed as follows:

(in thousands of euro)

31.12.2012								
Financial liabilities economically hedged	Derivative	Derivative			Liabilities associated			
		Nocional	Fair Value	Changes in the fair value during the year	Fair Value	Changes in the fair value during the year	Book Value	Reimbursement amount at maturity date
Debt securities issued	Credit Default Swap	380 740	(4 317)	44 774	(22 202)	(53 858)	376 308	358 728
Debt securities issued	Equity Swap	435 645	(3 683)	15 813	2 985	(24 257)	339 252	357 237
Debt securities issued	Interest Swap	31 573	2 472	75	(2 499)	(7 671)	33 838	34 644
Debt securities issued	Fx Option	44 772	782	161	(835)	(463)	11 057	12 941
Debt securities issued	Equity Option	129 919	4 433	(148)	(1 534)	(4 876)	114 817	118 887
		1 022 649	**(313)**	**60 675**	**(24 085)**	**(91 125)**	**875 272**	**882 437**

(in thousands of euro)

31.12.2011								
Financial liabilities economically hedged	Derivative	Derivative			Liabilities associated			
		Nocional	Fair Value	Changes in the fair value during the year	Fair Value	Changes in the fair value during the year	Book Value	Reimbursement amount at maturity date
Debt securities issued	Equity/ Index Swap	516 213	2 572	(25 271)	15 371	23 203	334 881	349 886
Debt securities issued	Credit Default Swap	127 331	(48 306)	(37 779)	22 287	14 514	219 839	238 524
Debt securities issued	Interest Rate Swap	36 349	1 870	(1 897)	6 289	8 871	42 546	45 867
Debt securities issued	Equity Options	105 301	4 228	2 903	1 124	1 032	91 926	95 061
Debt securities issued	FX Options	18 992	553	382	(576)	(515)	15 595	14 978
		804 186	**(39 083)**	**(61 662)**	**44 495**	**47 105**	**704 787**	**744 316**

As at 31 December 2012, the fair value component of the financial liabilities at fair value through profits and losses, attributable to the Group's own credit risk, amounts to euro 973 thousand of cumulative losses (31 December 2011: euro 10 574 thousand of cumulative profit).

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

(in thousands of euro)

31.12.2012	Nocional		Fair Value	
	Hedging derivatives	Other derivatives for risk management purposes	Hedging derivatives	Other derivatives for risk management purposes
Up to 3 months	-	23 886	-	419
3 to 12 months	4 500	156 413	234	(163)
1 to 5 years	40 083	795 170	(57)	7 643
More than 5 years	31 331	47 180	3 127	(8 212)
	75 914	**1 022 649**	**3 304**	**(313)**

(in thousands of euro)

31.12.2011	Nocional		Fair Value	
	Hedging derivatives	Other derivatives for risk management purposes	Hedging derivatives	Other derivatives for risk management purposes
Up to 3 months	-	66 905	-	(1 068)
3 to 12 months	13 683	118 725	186	20 297
1 to 5 years	41 653	586 216	526	(58 312)
More than 5 years	29 594	32 340	(1 140)	-
	84 930	**804 186**	**(428)**	**(39 083)**

NOTE 24 – NON-CURRENT ASSETS AND HELD FOR SALE

As at 31 December 2012 and 2011, the amount registered in this balance refers to the properties held for sale which are owned by Cominvest – SGII, SA, a subsidiary of the Group.

The selling of non-current assets allowed the Group to obtain gains of euro 160 thousand during 2012.

NOTE 25 – OTHER TANGIBLE ASSETS

This balance as at 31 December 2012 and 2011 is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Property		
For own use	643	646
Improvements in leasehold property	9 669	7 892
	10 312	**8 538**
Equipment		
Computer equipment	11 996	10 746
Fixtures	4 073	3 464
Furniture	3 953	3 862
Office equipment	2 307	2 326
Motor vehicles	891	1 789
Security equipment	378	379
Other	91	85
	23 689	**22 651**
	34 001	**31 189**
Work in progress		
Improvements in leasehold property	22	29
Equipment and other	661	5 290
	683	**5 319**
	34 684	**36 508**
Accumulated depreciation	(16 780)	(16 193)
	17 904	**20 315**

The movement in this balance was as follows:

(in thousands of euro)

	Property	Equipment	Work in progress	Total
Acquisition cost				
Balance as at 31 December 2010	**9 288**	**19 490**	**6 978**	**35 756**
Acquisitions	161	1 707	1 308	3 176
Disposals	(1 051)	(1 779)	(4)	(2 834)
Transfers	189	2 688	(2 877)	-
Exchange differences and other	(49)	545	(86)	410
Balance as at 31 December 2011	**8 538**	**22 651**	**5 319**	**36 508**
Acquisitions	362	1 193	320	1 875
Disposals	(22)	(3 107)	-	(3 129)
Transfers	1 398	3 604	(4 925)	77
Exchange differences and other	36	(652)	(31)	(647)
Balance as at 31 December 2012	**10 312**	**23 689**	**683**	**34 684**
Depreciation				
Balance as at 31 December 2010	**3 658**	**11 806**	**-**	**15 464**
Depreciation of the year	1 414	2 275	-	3 689
Disposals	(1 051)	(1 788)	-	(2 839)
Exchange differences and other	(698)	577	-	(121)
Balance as at 31 December 2011	**3 323**	**12 870**	**-**	**16 193**
Depreciation of the year	934	2 940	-	3 874
Disposals	(19)	(2 933)	-	(2 952)
Transfers	96	(96)	-	-
Exchange differences and other	(4)	(331)	-	(335)
Balance as at 31 December 2012	**4 330**	**12 450**	**-**	**16 780**
Net amount as at 31 December 2012	**5 982**	**11 239**	**683**	**17 904**
Net amount as at 31 December 2011	**5 215**	**9 781**	**5 319**	**20 315**

NOTE 26 – INTANGIBLE ASSETS

This balance as at 31 December 2012 and 2011 is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Goodwill	60 346	59 465
Acquired to third parties		
Software	17 468	16 133
Other	950	915
	18 418	**17 048**
Work in progress	9 514	6 519
	88 278	**83 032**
Accumulated amortisation	(13 929)	(13 467)
	(13 929)	**(13 467)**
	74 349	**69 565**

The movement in this balance was as follows:

(in thousands of euro)

	Goodwill	Software	Other	Work in progress	Total
Acquisition cost					
Balance as at 31 December 2010	**59 184**	**13 514**	**915**	**1 975**	**75 588**
Acquisitions:					
Acquired from third parties	-	828	-	6 841	7 669
Disposals	-	(35)	-	-	(35)
Transfers	-	1 703	-	(1 703)	-
Exchange differences and other	281	123	-	(594)	(190)
Balance as at 31 December 2011	**59 465**	**16 133**	**915**	**6 519**	**83 032**
Acquisitions:					
Acquired from third parties	-	892	-	5 224	6 116
Disposals	-	(1 414)	-	(103)	(1 517)
Transfers	-	2 048	-	(2 125)	(77)
Exchange differences and other	881	(191)	35	(1)	724
Balance as at 31 December 2012	**60 346**	**17 468**	**950**	**9 514**	**88 278**
Amortisations					
Balance as at 31 December 2010	**-**	**10 899**	**753**	**-**	**11 652**
Amortisations of the year	-	1 704	126	-	1 830
Disposals	-	(35)	-	-	(35)
Exchange differences and other	-	20	-	-	20
Balance as at 31 December 2011	**-**	**12 588**	**879**	**-**	**13 467**
Amortisations of the year	-	1 868	36	-	1 904
Disposals	-	(1 317)	-	-	(1 317)
Exchange differences and other	-	(125)	-	-	(125)
Balance as at 31 December 2012	**-**	**13 014**	**915**	**-**	**13 929**
Net amount as at 31 December 2012	**60 346**	**4 454**	**35**	**9 514**	**74 349**
Net amount as at 31 December 2011	**59 465**	**3 545**	**36**	**6 519**	**69 565**

NOTE 27 – INVESTMENTS IN ASSOCIATES

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

(in thousands of euro)

	Assets		Liabilities		Equity		Profits		Profit / (loss) for the year	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Fundo Espírito Santo IBERIA I	13 957	13 965	168	12	13 789	13 953	1 511	2 101	(164)	(703)
BRB Internacional, S.A.	12 833	14 899	11 160	12 596	1 673	2 303	1 258	3 537	(859)	84
2bCapital Luxembourg Sicar	38 737	-	34	-	38 703	-	1	-	(409)	-

(in thousands of euro)

	Participation Cost		% held		Book Value		Share of profits of associates	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Fundo Espírito Santo IBERIA I	7 087	10 530	39%	39%	5 647	5 387	260	(272)
BRB Internacional, S.A.	10 659	10 659	25%	25%	119	335	(216)	21
2bCapital Luxembourg Sicar	16 473	-	42%	-	16 301	-	(172)	-
Other	16 240	18 417	-	-	29 006	29 504	225	2 825
	50 459	**39 606**			**51 073**	**35 226**	**97**	**2 574**

The movement occurred in this balance is presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Balance at the beginning of the year	35 226	35 335
Acquisitions	16 473	30
Disposals and other reimbursements	(1 255)	-
Share of profit of associates	97	2 574
Other comprehensive income from associates	(623)	-
Changes in the consolidation scope	1 288	(2 713)
Exchange differences and other	(133)	-
Balance at the end of the year	**51 073**	**35 226**

NOTE 28 – OTHER ASSETS

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

(in thousands of euro)

	31.12.2012	31.12.2011
Debtors		
Collateral deposits placed	444 379	500 678
Loans to companies in which the Group has a non-controlling interest	3 787	5 492
Public sector	651	802
Deposits placed with futures contracts	17 939	21 645
Sundry debtors	43 865	28 157
	510 621	556 774
Impairment losses on debtors	(5 902)	(5 612)
	504 719	**551 162**
Other assets		
Gold, other precious metals, numismatics, and other liquid assets	881	1 129
Other assets	5 448	4 964
	6 329	**6 093**
Accrued income	**320**	**862**
Prepayments and deferred costs	**6 142**	**18 036**
Other sundry assets		
Foreign exchange transactions pending settlement	3 132	2 219
Stock exchange transactions pending settlement	55 910	60 400
Other transactions pending settlement	118 461	38 946
	177 503	**101 565**
Assets recognised on pensions	**19 271**	**24 480**
	714 284	**702 198**

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

The movements occurred in impairment losses are presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Balance at the begining of the year	5 612	5 496
Charge for the year	2 240	4 106
Charge off	(329)	(723)
Write back for the year	(1 625)	(3 200)
Exchange differences and other	4	(67)
Balance at the end of the year	**5 902**	**5 612**

NOTE 29 – DEPOSITS FROM CENTRAL BANKS

As at 31 December 2012 this balance in the amount of euro 151 087 thousand (31 December 2011: euro 64 007 thousand) relates to deposits from the Bank of Portugal.

NOTE 30 – DEPOSITS FROM BANKS

The balance deposits from banks is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Domestic		
Inter-bank money market	623 693	646 373
Very short term funds	61 424	-
Loans	287 863	379 641
Repurchase Agreements	5 485	17 607
Other funds	239 297	369 456
	1 217 762	**1 413 077**
No estrangeiro		
Deposits	30	-
Loans	17 715	19 601
Repurchase Agreements	720 716	927 855
Other funds	64 463	91 676
	802 924	**1 039 132**
	2 020 686	**2 452 209**

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

(in thousands of euro)

	31.12.2012	31.12.2011
Up to 3 months	1 671 172	2 087 314
3 to 12 months	8 333	1 371
1 to 5 years	281 265	326 365
More than 5 years	59 916	37 159
	2 020 686	**2 452 209**

NOTE 31 – DUE TO CUSTOMERS

The balance due to customers is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Repayable on demand		
Demand deposits	9 772	4 271
Time deposits		
Time deposits	839 759	725 424
Other funds		
Repurchase agreements	117 810	129 001
Other deposits	19	108
Other	14	443
	117 843	**129 552**
	967 374	**859 247**

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

(in thousands of euro)

	31.12.2012	31.12.2011
Repayable on demand	9 786	4 714
With agreed maturity		
Up to 3 months	266 891	373 585
3 to 12 months	138 560	142 000
1 to 5 years	552 137	338 948
	957 588	854 533
	967 374	**859 247**

NOTE 32 – DEBT SECURITIES ISSUED

The balance debt securities issued is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Euro Medium Term Notes	1 280 491	1 225 121
Cash bonds	16 999	5 039
Other bonds	83 019	66 560
Certificates of deposit	2 379	2 899
	1 382 888	**1 299 619**

The fair value of the portfolio of debt securities issued is presented on Note 42.

This balance includes the amount of euro 875 272 thousand (31 December 2011: euro 704 787 thousand) related with debt securities issued recorded in the balance sheet at fair value through profit or loss (see Note 23).

During the year ended 31 December 202, the Group issued debt securities amounting to euro 310 331 thousand (31 December 2011: euro 904 369 thousand) and reimbursed euro 330 934 thousand (31 December 2011: euro 1 049 847 thousand).

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

(in thousands of euro)

	31.12.2012	31.12.2011
Up to 3 months	39 472	61 385
3 to 12 months	162 071	175 281
1 to 5 years	1 112 794	1 004 513
More than 5 years	68 551	58 440
	1 382 888	**1 299 619**

The main characteristics of debt securities issued as at 31 December 2012 are presented as follows:

(in thousands of euro)

					31.12.2012		
Issuer	Designation		Currency	Issue date	Book value	Maturity	Interest rate
BESI	BESI CERT DUALREND+EUSTOXX AUG14	a)	EUR	2006	2 379	2014	Fixed rate 6,6743% + Indexed to DJ Eurostoxx 50
ESIP	ESIP OUT24 ESFP LINKED CMS NOTE		EUR	2004	5 927	2024	Fixed rate + Indexed to CMS
ESIP	ESIP CALL RANGE ACCRUAL MAY2015		EUR	2005	1 258	2015	Range accrual
ESIP	ESIP RANGE ACCRUAL JUN15		EUR	2005	243	2015	Range accrual
ESIP	ESIP RANGE ACCRUAL AUG2013		EUR	2005	4 637	2013	Fixed rate 4,75% + Range accrual
ESIP	ESIP BESLEAS&INFLAT LINK MAY15	a)	EUR	2005	9 305	2015	Indexed to HIPC Ex-Tobacco + g)
ESIP	ESIP EUR LEVERAGE SNOWBALL JUL15		EUR	2005	1 264	2015	Fixed rate + Snowball h)
ESIP	ESIP AG005 SEP35 CALLABLE INV FL		EUR	2005	10 393	2035	Euribor 12 months + i)
ESIP	ESIP LEVERAGE SNOWBALL SEP2015		EUR	2005	3 291	2015	Fixed rate + Snowball h)
ESIP	ESIP CALL RANGE ACCRUAL NOV2017	a)	EUR	2005	2 190	2017	Range accrual
ESIP	ESIP 30CMS-2CMS LKD NOTE NOV2036	a)	EUR	2005	17 361	2036	Fixed rate 7,44% + Indexed to CMS
ESIP	ESIP EUR12M+16 BP APR2016		EUR	2006	4 040	2016	Euribor 12 months
ESIP	ESIP JAN2017 INDEX BASKET LKD	a)	EUR	2007	7 131	2017	j)
ESIP	ESIP MAY14 EQUIT BASKT LINKED	a)	USD	2007	1 377	2014	p)
ESIP	ESIP BCP FIN CRD LKD DEC2015	a)	EUR	2007	4 287	2015	g)
ESIP	ESIP DEC2015 BASKET LINKED	a)	EUR	2007	34	2015	Indexed to BBVA, Credit Agricole and Fortis
ESIP	ESIP BARCLAYS LKD ZC MAR2016	a)	EUR	2008	2 682	2016	ZC + g)
ESIP	ESIP BARCLAYS LKD 6.30% MAR2016	a)	EUR	2008	2 664	2016	Fixed rate 6,30% + g)
ESIP	ESIP BARCLAYS LKD EUR3M MAR2016	a)	EUR	2008	1 274	2016	Euribor 3M +2,20% + g)
ESIP	ESIP APR2013 AEGON SHARE LKD	a)	EUR	2008	2 869	2013	Indexed to AEGON
ESIP	ESIP JUN2013 CARBON NOTES	a)	EUR	2008	3 744	2013	an)
ESIP	ESIP JUL2014 EQL LINKED	a)	EUR	2008	984	2014	Indexed to DT, TEF and France Telecom
ESIP	ESIP OCT2014 EQL LINKED	a)	EUR	2008	3 571	2014	Indexed to BBVA and Deutsche Bank
ESIP	ESIP OCT2014 BANKS EQL LINKED	a)	EUR	2008	2 712	2014	Indexed to BBVA and Santander
ESIP	ESIP OCT2014 EQL LINKED 2	a)	EUR	2008	824	2014	Indexed to BBVA and Santander
ESIP	ESIP DEC2014 EQL LINKED	a)	EUR	2008	513	2014	Indexed to BNP and Credit Agricole
ESIP	ESIP DEC2013 SPANISH EQL LINKED	a)	EUR	2008	239	2013	Indexed to BBVA and Repsol
ESIP	ESIP FIXED AMOUNT + AMORT NOV22	a)	EUR	2009	2 077	2022	Fixed amount
ESIP	ESIP LACAIXA EUR3M+2% MAR2016	a)	EUR	2009	2 428	2016	Euribor 3 months +2% + g)
ESIP	ESIP JUN2013 EQL LINKED	a)	EUR	2009	-	2013	aa)
ESIP	ESIP JUL2014 INFLATION LINKED	a)	EUR	2009	1 694	2014	Indexed to inflation
ESIP	ESIP FEB2020 EQL LINKED	a)	EUR	2009	10	2020	ad)
ESIP	ESIP SEP2014 OCIDENTE II EQL	a)	EUR	2009	9 301	2014	ae)
ESIP	ESIP CLN 5.45% OCT2014	a)	EUR	2009	9 260	2014	g)
ESIP	ESIP OCT2014 EQL	a)	EUR	2009	965	2014	Indexed to Gazprom, Nokia and DU PONT
ESIP	ESIP FTD IBERIA 5.95% DEC2014	a)	EUR	2009	14 651	2014	g)
ESIP	ESIP FTD IBERIA II 5.5% DEC2014	a)	EUR	2009	4 853	2014	g)
ESIP	ESIP USD FTD IBERIA 5.5% DEC2014	a)	USD	2009	3 666	2014	g)
ESIP	ESIP CIMPOR CLN EUR3M DEC2014	a)	EUR	2009	4 319	2014	g)
ESIP	ESIP DEC2014 SX5E LINKED	a)	EUR	2009	3 286	2014	Indexed to DJ Eurostoxx 50
ESIP	ESIP BRAZIL EQL LINKED	a)	EUR	2009	3 540	2014	al)
ESIP	ESIP BSKT MERC EMERG EQL FEB2014	a)	EUR	2010	2 745	2014	d)
ESIP	ESIP WORST SOFT CMDT MAR2013	a)	EUR	2010	1 210	2013	k)
ESIP	ESIP DJ US REAL EST LKD MAR2015	a)	EUR	2010	1 568	2015	Indexed to Ishares DJ US Real State Index fund
ESIP	ESIP SOFT COMMODIT LKD APR2013	a)	EUR	2010	2 353	2013	o)
ESIP	ESIP USDEUR FX LKD MAY2015	a)	EUR	2010	287	2015	Indexed to EUR/USD
ESIP	ESIP CRDAGRI CL EUR6M+1.15 JUN15	a)	EUR	2010	2 517	2015	Euribor 6M ACT/360
ESIP	ESIP EDP BCP PT LKD JUN2013	a)	EUR	2010	1 369	2013	w)
ESIP	ESIP FTD CRD LINKED JUN2015	a)	EUR	2010	5 834	2015	x)
ESIP	ESIP BES RENDIM CRD LKD JUN2013	a)	EUR	2010	19 796	2013	ag)
ESIP	ESIP BRAZIL EQL MAY2016	a)	EUR	2010	3 307	2016	ac)
ESIP	ESIP SX5E MAY14 EQL	a)	EUR	2010	1 730	2014	Indexed to Eurostoxx
ESIP	ESIP JUN2013 BASKET LINKED	a)	EUR	2010	3 673	2013	5,70% + af)
ESIP	ESIP TELECOM LKD JUL2013	a)	EUR	2010	8 670	2013	ah)
ESIP	ESIP BASKET LKD JUL2013	a)	EUR	2010	3 799	2013	ai)
ESIP	ESIP BASKET LKD JUL2014	a)	EUR	2010	1 387	2014	ai)
ESIP	ESIP SEP2013 CURRENCIES LINKED	a)	EUR	2010	907	2013	ap)
ESIP	ESIP AUG13 RANGE ACCRUAL	a)	EUR	2010	1 002	2013	Range accrual
ESIP	ESIP AUG2013 EURUSD FX LINKED	a)	EUR	2010	767	2013	Indexed to exchange rate
ESIP	ESIP SEP15 DIGITAL	a)	USD	2010	1 115	2015	Digital US Libor 3M
ESIP	ESIP JAN2011 DOW JONES INDUS LKD	a)	EUR	2010	1 135	2013	Indexed to INDU
ESIP	ESIP ASIA INDEX LKD SEP2014	a)	EUR	2010	1 557	2014	ab)
ESIP	ESIP EDP PT CGD CRDLKD DEC2013	a)	EUR	2010	7 018	2013	v)
ESIP	ESIP TEF PTLKD APR2014	a)	EUR	2011	462	2014	Indexed to Telefonica and Portugal Telecom
ESIP	ESIP GOLD LKD OCT2013	a)	EUR	2010	1 504	2013	Indexed to gold
ESIP	ESIP EDP CRDLKD DEC2013	a)	EUR	2010	4 593	2013	Euribor 6 months + 3,5% +Indexed to EDP
ESIP	ESIP NOV2013 SAN BBVA EQL LINKED	a)	EUR	2010	1 664	2013	Indexed to BSCH and BBVA
ESIP	ESIP DEC2015 CREDLINKED BSCH	a)	EUR	2011	1 570	2015	Indexed to BBVA, Credit Agricole and Fortis
ESIP	ESIP NOV2013 SANTANDER LKD	a)	EUR	2010	937	2013	Indexed to BSCH
ESIP	ESIP SAN BBVA LINKED NOV2013	a)	EUR	2010	2 152	2013	Indexed to BSCH and BBVA
ESIP	ESIP DEC2013 SAN BBVA EQL LINKED	a)	EUR	2010	930	2013	Indexed to BSCH and BBVA
ESIP	ESIP NOV2013 ASIA PACIF BSKT LKD	a)	EUR	2010	2 394	2013	u)
ESIP	ESIP NOV2013 AMERLATIN BSKT LKD	a)	EUR	2010	1 839	2013	t)
ESIP	ESIP CABAZ BRASIL LKD FEB14	a)	EUR	2011	1 675	2014	b)
ESIP	ESIP FEB16 5A EXPOSIC AFRICA LKD	a)	EUR	2011	1 177	2016	c)
ESIP	ESIP EXPOSIÇAO EURUSD LKD FEB14	a)	EUR	2011	1 245	2014	Indexed to FX EUR/USD
ESIP	ESIP DUAL5%+AFRICA LKD FEB15	a)	EUR	2011	1 158	2015	s)
ESIP	ESIP 2 ANOS EURUSD LKD FEB13	a)	EUR	2011	1 438	2013	Indexed to FX EUR/USD
ESIP	ESIP CLN EDP MAR2014	a)	EUR	2011	10 820	2014	7% + CLN EDP
ESIP	ESIP WORST DIG COMM EQL MAR2013	a)	EUR	2011	822	2013	e)
ESIP	ESIP SX5E LKD FEB14	a)	EUR	2011	1 296	2014	Indexed to Eurostoxx
ESIP	ESIP MAR14 BES USDBRL LINKED	a)	EUR	2011	1 488	2014	Indexed to USD/BRL
ESIP	ESIP APR2015 BES ENERGIA LINKED	a)	EUR	2011	10 203	2015	Indexed to Espirito Santo Rockefeller Global
ESIP	ESIP MAR14 EURCHF LINKED	a)	EUR	2011	1 516	2014	FX EUR/CHF Linked

(in thousands of euro)

					31.12.2012		
Issuer	Designation		Currency	Issue date	Book value	Maturity	Interest rate
ESIP	ESIP CLN SANTANDER MAR2014	a)	EUR	2011	6 417	2014	6,35% + CLN BSCH SUB
ESIP	ESIP EDP MAR2014 CLN	a)	EUR	2011	16 053	2014	6,5% + CLN EDP
ESIP	ESIP SX5E SPX LKD MAR2016	a)	EUR	2011	1 658	2016	Indexed to Eurostoxx
ESIP	ESIP APRIL2014 HEALTH CARE LKD	a)	EUR	2011	8 020	2014	Indexed to Health Care Select Sector SPDR Fund
ESIP	ESIP APR2015 BES ENERGIA LKD	a)	USD	2011	2 593	2015	Indexed to Espirito Santo Rockefeller Global
ESIP	ESIP APR2013 EURUSD LKD	a)	EUR	2011	2 469	2013	Indexed to FX EUR/USD
ESIP	ESIP SX5E SPX LKD APR2014	a)	EUR	2011	2 388	2014	Indexed to SX5E and SPX
ESIP	ESIP HEALTH CARE LKD APR2014	a)	EUR	2011	2 653	2014	f)
ESIP	ESIP MAR2014 TEF FTE LINKED	a)	EUR	2011	606	2014	Indexed to Telefonica and France Telecom
ESIP	ESIP TEF PT LKD 26APR2014	a)	EUR	2011	467	2014	Indexed to Telefonica and France Telecom
ESIP	ESIP EDP CLN JUN2014	a)	EUR	2011	14 824	2014	7% + CLN EDP
ESIP	ESIP STEP-UP APR2013	a)	EUR	2011	1 204	2013	Fixed rate STEP-UP
ESIP	ESIP EUR PT CLN JUN2014	a)	EUR	2011	10 250	2014	6,75% + CLN PT
ESIP	ESIP BES MOMENTUM JUN2015	a)	EUR	2011	6 789	2015	Indexed to Espirito Santo Momentum Fund
ESIP	ESIP BSCH CLN JUN2014	a)	EUR	2011	6 183	2014	6,1% + CLN BSCH
ESIP	ESIP BES PROTECÇAO JUN2014	a)	EUR	2011	52 823	2014	m)
ESIP	ESIP JAN2013 BES BRASIL 18M	a)	EUR	2011	7 467	2013	Indexed to EWZ
ESIP	ESIP BRAZIL NOTES LKD MAY2016	a)	EUR	2011	3 949	2016	Indexed to EUR/BRL
ESIP	ESIP BES 5ANOS EFIC ENERG JUNE16	a)	EUR	2011	3 049	2016	r)
ESIP	ESIP PETROBRAS CLN JUN2014	a)	USD	2011	2 284	2014	3-Month USD libor + 3,70% + CLN PETROBRAS
ESIP	ESIP PT II CLN JUN2014	a)	EUR	2011	8 171	2014	7% + CLN PT
ESIP	ESIP TEF PT JUN2014	a)	EUR	2011	750	2014	Indexed to Telefonica and Portugal Telecom
ESIP	ESIP SANTANDER CLN JUN2014	a)	EUR	2011	2 898	2014	6,4% + CLN BSCH
ESIP	ESIP BRL FXL LINKED SEP2016	a)	EUR	2011	1 636	2016	Indexed to Fx
ESIP	ESIP BES PROTECÇAO II JUN2014	a)	EUR	2011	24 818	2014	Indexed to Inflation and Euribor 12 months
ESIP	ESIP EUR PRICING POWER 5Y JUL14	a)	EUR	2011	1 816	2016	z)
ESIP	ESIP 2Y BULLISH CAB VS USD JUL13	a)	EUR	2011	1 452	2013	Indexed to Fx
ESIP	ESIP ASCENDI CLN JUL2013	a)	USD	2011	5 063	2013	7,25% + Ascendi CLN
ESIP	ESIP AUG14 ES ROCKEFELLERGLO LKD	a)	EUR	2011	940	2014	Indexed to Espirito Santo Rockefeller Global
ESIP	ESIP BARCLAYS CLN SEP2014	a)	EUR	2011	2 981	2014	6% + Barclays CLN
ESIP	ESIP SX5E JUL15 EQL	a)	EUR	2011	1 510	2015	Indexed to Eurostoxx
ESIP	ESIP SEP14 TRY LKD	a)	EUR	2011	1 594	2014	Indexed to Fx
ESIP	ESIP AUG14 INFLATION LKD	a)	EUR	2011	41 262	2014	Indexed to Inflation
ESIP	ESIP AUG2014 ALEMANHA EQL LINKED	a)	EUR	2011	513	2014	q)
ESIP	ESIP ESFP CLN JUL2013	a)	USD	2011	5 551	2013	ESFP CLN
ESIP	ESIP BANCO POPULAR CLN SEP2014	a)	EUR	2011	3 391	2014	8,75% + POPULAR CLN
ESIP	ESIP BCO POPULAR CLN SEP2014	a)	EUR	2011	1 798	2014	8,75% + POPULAR CLN
ESIP	ESIP SEP2014 INFLATION+EURIBOR	a)	EUR	2011	29 076	2014	Indexed to inflation and Euribor 12 months
ESIP	ESIP SEP2014 PSI20 EQL 4	a)	EUR	2011	2 926	2014	Indexed to PSI20
ESIP	ESIP DEC2013 BES4%GLOBAL LINKED	a)	EUR	2011	29 367	2015	aq)
ESIP	ESIP BCO POPULAR CRDLK SEP2014	a)	EUR	2011	7 755	2014	9,40% + Banco Popular CLN
ESIP	ESIP OCT2014 WORLD INVESTM EQL 3	a)	EUR	2011	1 835	2014	j)
ESIP	ESIP AUTOCALLABLE 2014	a)	EUR	2011	2 771	2014	ar)
ESIP	ESIP PT CLN DEC2014	a)	EUR	2011	23 415	2014	11% + PT CLN
ESIP	ESIP TELECOM ITALIA CLN DEC2014	a)	EUR	2011	5 628	2014	7,25% + Telecom Italia CLN
ESIP	ESIP NOV2011 SPANISH NOTES	a)	EUR	2011	-	2016	as)
ESIP	ESIP AUTOCALL HIGH DIVD DEC2014	a)	EUR	2011	1 935	2014	at)
ESIP	ESIP EDP USD CLN DEC2014	a)	USD	2011	1 613	2014	8,5% + EDP CLN
ESIP	ESIP WORLD INVESTMENT II DEC2014	a)	EUR	2011	1 023	2014	j)
ESIP	ESIP TELEFONICA CLN DEC2014	a)	EUR	2011	4 915	2014	7,15% + Telefonica CLN
ESIP	ESIP PORTUGUESE REP CLN DEC2021	a)	EUR	2011	25 643	2021	6% + Portuguese CLN
ESIP	ESIP PT CRDLKD DEC2013	a)	EUR	2012	16 473	2013	7,75% + PT CLN
ESIP	ESIP EWZ EQL JAN2015	a)	EUR	2012	1 001	2015	Indexed to EWZ
ESIP	ESIP UTILITIES SHS DEC2018	a)	EUR	2011	508	2018	au)
ESIP	ESIP UTILIT FINANCIALS SHS DEC18	a)	EUR	2011	2 460	2018	n)
ESIP	ESIP FEB16 EMP NORDICAS EQL	a)	EUR	2012	1 993	2016	y)
ESIP	ESIP AUG2014 CABAZ MOEDAS 12-14	a)	EUR	2012	7 409	2014	av)
ESIP	ESIP CABAZMOEDA VS EUR FEB15 FXL	a)	EUR	2012	754	2015	av)
ESIP	ESIP EMPRES CHINESAS FEB2017 EQL	a)	EUR	2012	1 437	2017	aw)
ESIP	ESIP TWIN WIN EURUSD MAR2015	a)	EUR	2012	1 037	2015	Indexed to EUR/USD
ESIP	ESIP EDP MAR2014 CLN 2	a)	EUR	2012	14 569	2014	6,9% + EDP CLN
ESIP	ESIP LUXURY GOODS LKD MAR2015	a)	EUR	2012	1 619	2015	ax)
ESIP	ESIP PSI20 LKD MAR2015	a)	EUR	2012	3 443	2015	Indexed to PSI20
ESIP	ESIP DUAL UPGRADE MAR2014	a)	EUR	2012	1 560	2014	ay)
ESIP	ESIP DIG CPN EURIBOR 3M MAR2015	a)	EUR	2012	1 685	2015	Digital EURIBOR 3M
ESIP	ESIP BBVA LKD APR2013	a)	EUR	2012	2 472	2013	Indexed to BBVA
ESIP	ESIP APR2015 PSI20 LINKED	a)	EUR	2012	1 334	2015	Indexed to PSI20
ESIP	ESIP APR2019 RECOV BASKET LINKED	a)	EUR	2012	175	2019	az)
ESIP	ESIP APR2020 BES PROTECÇAO LKD	a)	EUR	2012	1 557	2020	Indexed to inflation
ESIP	ESIP PT 3YR CREDIT LKD JUN15	a)	EUR	2012	10 718	2015	7,75% + PT CLN
ESIP	ESIP BBVA LINKED APR2013	a)	EUR	2012	1 038	2013	Indexed to BBVA
ESIP	ESIP BBVA LKD MAY2013	a)	EUR	2012	1 075	2013	Indexed to BBVA
ESIP	ESIP PT 3YR CREDIT LINKED JUN15	a)	EUR	2012	14 498	2015	7,75% + PT CLN
ESIP	ESIP SANTANDER JUN2015	a)	EUR	2012	779	2015	Indexed to BSCH
ESIP	ESIP EXPOSIÇAO PETROLEO JUN2015	a)	EUR	2012	599	2015	Indexed to Brent
ESIP	ESIP SANTANDER LKD MAY2015	a)	EUR	2012	133	2015	Indexed to BSCH
ESIP	ESIP BES EXPOS PETROLE JUN15 EQL	a)	EUR	2012	2 278	2015	Indexed to Brent
ESIP	ESIP BES TECNOLOGIA JUN2015 EQL	a)	EUR	2012	4 791	2015	ba)
ESIP	ESIP EDP 3YR CREDIT LINKED JUN15	a)	EUR	2012	16 014	2015	8% + EDP CLN
ESIP	ESIP SANTANDER II LKD MAY2015	a)	EUR	2012	41	2015	Indexed to BSCH
ESIP	ESIP SX5E JUN15 EQL	a)	EUR	2012	88	2015	Indexed to SX5E
ESIP	ESIP SANTANDER JUL15 EQL	a)	EUR	2012	806	2015	Indexed to BSCH

(in thousands of euro)

					31.12.2012		
Issuer	Designation		Currency	Issue date	Book value	Maturity	Interest rate
ESIP	ESIP EQUITY LKD AUG2016	a)	EUR	2012	3 740	2016	l)
ESIP	ESIP EDP 3YR II CREDIT LKD JUN15	a)	EUR	2012	13 191	2015	8% + EDP CLN
ESIP	ESIP EUROSTOXX50 LKD AUG2015	a)	EUR	2012	132	2015	Indexed to SX5E
ESIP	ESIP SPX500 JUL15	a)	EUR	2012	839	2015	Indexed to SPX500
ESIP	ESIP RECOV BSKT LINKED JUN2019	a)	EUR	2012	759	2019	bb)
ESIP	ESIP TELECOM ITALIA CLN SEP2015	a)	EUR	2012	4 846	2015	7% + TELECOM ITALIA CLN
ESIP	ESIP E-COMMERCE EQTY LKD AUG2016	a)	EUR	2012	4 545	2016	ak)
ESIP	ESIP PT TELECO CLN SEP2015	a)	EUR	2012	6 751	2015	7% + PT CLN
ESIP	ESIP SEP2015 EDP LKD	a)	USD	2012	1 602	2015	7,45% + EDP CLN
ESIP	ESIP SEP2015 CRESCIM IMOBILI LKD	a)	EUR	2012	3 633	2015	Indexed to IYR
ESIP	ESIP BES EXP COMMOD AGRICOL EQL4	a)	EUR	2012	8 500	2014	o)
ESIP	ESIP COMMOD AGRICOL EQL5 OCT2015	a)	EUR	2012	4 665	2015	k)
ESIP	ESIP EDP CLN SEP2015	a)	EUR	2012	8 737	2015	6,25% + EDP CLN
ESIP	ESIP EUR BRL SEP2017	a)	EUR	2012	3 306	2017	Indexed to EUR/BRL
ESIP	ESIP BASKET LINKED OCT2019	a)	EUR	2012	399	2019	am)
ESIP	ESIP COMMODITIES NOV2015	a)	EUR	2012	4 021	2015	bc)
ESIP	ESIP BRAZILIAN NOTES IV OCT2017	a)	EUR	2012	1 665	2017	Indexed to EUR/BRL
ESIP	ESIP IBERIA NOV2015	a)	EUR	2012	2 386	2015	Indexed to IBEX+PSI20
ESIP	ESIP TURKISH LIRA EQL6 OCT2015	a)	EUR	2012	1 641	2015	Indexed to EUR/TRY
ESIP	ESIP BASKET OCT2019 EQL2	a)	EUR	2012	1 282	2019	Indexed to REP e BSCH
ESIP	ESIP SX5E AUTOCALL NOV2015	a)	EUR	2012	2 519	2015	Indexed to SX5E
ESIP	ESIP NOV2013 BARCLAYS LKD	a)	EUR	2012	1 092	2013	Indexed to Barclays
ESIP	ESIP DEC2015 CRDLKD EUR FTD TELE	a)	EUR	2012	13 973	2015	bd)
ESIP	ESIP DEC2012 BASKET FTD	a)	EUR	2012	1 497	2015	be)
ESIP	ESIP DEC2016 AUTOCALL BRASIL	a)	EUR	2012	6 881	2016	bf)
ESIP	ESIP DEC2015 SX7P LINKED	a)	EUR	2012	940	2015	Indexed to SX7P
ESIP	ESIP DEC2017 EDP PT TEL.ITAL LK	a)	EUR	2012	1 934	2017	bg)
ESIP	ESIP DEC2015 CRDLKD EDP	a)	EUR	2012	986	2015	5,25% + EDP CLN
ESIP	ESIP DEC2015 CRDLKD EDP PT	a)	EUR	2012	3 832	2015	6,50% + EDP PT CLN
ESIP	ESIP DEC2015 CRDLKD EDP PT TLCM	a)	EUR	2012	1 873	2017	bg)
ESIP	ESIP DEC2017 RENAULT PT LINKED	a)	EUR	2012	4 718	2017	8,65% + RENAULT PT CLN
BESI	BESI SEP2014 EQL LINKED	a)	EUR	2010	3 630	2014	aj)
BESI	BESI SEP2014 ORIENTE IV EQL	a)	EUR	2010	12 612	2014	ao)
BESI	BESI 1.8% GOLD APR2015	a)	EUR	2011	1 832	2015	Fixed rate 1,8% + indexed to gold
BESI	BESI CLN REP PORTUGUESA OCT2014	a)	EUR	2012	7 110	2014	Potuguese republic CLN
BESI	BESI MAR2013 CONVER SP500 VIX	a)	EUR	2012	704	2013	Indexed to SPX500 VIX
BESI	BESI FIXED RATE DEC15	a)	EUR	2012	-	2015	Fixed rate 5,875%
BESI	BESI MAY2015 EURIBOR3M+4%	a)	EUR	2012	-	2015	Euribor 3M +4%
BESI	BESI OBCX R.ACCRUAL TARN MAR2016	a)	EUR	2006	1 066	2016	Fixed rate 6% + Range Accrual
BESI	BESI OB CX RENDIM STEP UP APR14	a)	EUR	2006	3 572	2014	Growing fixed rate
BSI BRASIL	BESI BRASIL 1050 MAR2013	a)	USD	2010	509	2013	Fixed rate - 10,5%
BSI BRASIL	BESI BRASIL AG.CAYMAN 400 MAY2013	a)	USD	2012	7 739	2013	Fixed rate - 4%
BSI BRASIL	BESI BRASIL AG.CAYMAN 400 JUN2013	a)	USD	2012	9 260	2013	Fixed rate - 4%
BSI BRASIL	BES INVEST BRASIL 5.625% MAR2015	a)	USD	2010	342 542	2015	Fixed rate- 5,625%
BSI BRASIL	LCA - Letra de Crédito do agro LCA 1	a)	BRL	2012	36	2013	96% do CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 2	a)	BRL	2012	45	2013	96,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 3	a)	BRL	2012	1 465	2013	94% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 4	a)	BRL	2012	169	2013	92,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 5	a)	BRL	2012	283	2013	98% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 6	a)	BRL	2012	352	2013	94,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 7	a)	BRL	2012	125	2013	92% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 8	a)	BRL	2012	357	2013	94,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 9	a)	BRL	2012	221	2013	94% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 10	a)	BRL	2012	223	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 11	a)	BRL	2012	38	2013	95% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 12	a)	BRL	2012	1 065	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 13	a)	BRL	2012	442	2013	92% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 14	a)	BRL	2012	49	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 15	a)	BRL	2012	94	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 16	a)	BRL	2012	278	2013	92% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 17	a)	BRL	2012	114	2013	96,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 18	a)	BRL	2012	228	2013	97% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 19	a)	BRL	2012	43	2013	97% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 20	a)	BRL	2012	130	2013	96,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 21	a)	BRL	2012	223	2013	92,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 22	a)	BRL	2012	7 250	2013	97% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 23	a)	BRL	2012	19	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 24	a)	BRL	2012	61	2013	94% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 25	a)	BRL	2012	95	2013	96,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 25	a)	BRL	2012	95	2013	96,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 27	a)	BRL	2012	197	2013	96,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 28	a)	BRL	2012	61	2013	96,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 29	a)	BRL	2012	670	2013	91% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 30	a)	BRL	2012	307	2013	91% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 31	a)	BRL	2012	381	2013	95% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 32	a)	BRL	2012	296	2013	91% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 33	a)	BRL	2012	16	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 34	a)	BRL	2012	1 481	2013	94% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 35	a)	BRL	2012	114	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 36	a)	BRL	2012	54	2013	95% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 37	a)	BRL	2012	22	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 38	a)	BRL	2012	22	2013	96% CDI

(in thousands of euro)

					31.12.2012		
Issuer	Designation		Currency	Issue date	Book value	Maturity	Interest rate
BSI BRASIL	LCA - Letra de Crédito do agro LCA 39	a)	BRL	2012	3 516	2013	94% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 40	a)	BRL	2012	4 070	2013	94% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 41	a)	BRL	2012	196	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 42	a)	BRL	2012	15	2013	97,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 43	a)	BRL	2012	227	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 44	a)	BRL	2012	196	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 45	a)	BRL	2012	114	2013	98% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 46	a)	BRL	2012	38	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 47	a)	BRL	2012	57	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 48	a)	BRL	2012	41	2013	96,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 49	a)	BRL	2012	369	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 50	a)	BRL	2012	89	2013	92% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 51	a)	BRL	2012	43	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 52	a)	BRL	2012	187	2013	91% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 53	a)	BRL	2012	89	2013	97% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 54	a)	BRL	2012	22	2013	93% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 55	a)	BRL	2012	1 125	2013	97,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 56	a)	BRL	2012	19	2013	93% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 57	a)	BRL	2012	15	2013	93% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 58	a)	BRL	2012	584	2013	92% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 59	a)	BRL	2012	194	2013	98,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 60	a)	BRL	2012	21	2013	97,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 61	a)	BRL	2012	23	2013	95% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 62	a)	BRL	2012	50	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 63	a)	BRL	2012	232	2013	98,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 64	a)	BRL	2012	34	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 65	a)	BRL	2012	201	2013	98% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 66	a)	BRL	2012	175	2013	98% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 67	a)	BRL	2012	3 176	2013	97,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 68	a)	BRL	2012	766	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 69	a)	BRL	2012	427	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 70	a)	BRL	2012	132	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 71	a)	BRL	2012	155	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 72	a)	BRL	2012	228	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 73	a)	BRL	2012	25	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 74	a)	BRL	2012	132	2013	94% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 75	a)	BRL	2012	11	2013	90% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 76	a)	BRL	2012	11	2013	90% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 77	a)	BRL	2012	23	2013	98,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 78	a)	BRL	2012	188	2013	98,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 79	a)	BRL	2012	150	2013	98,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 80	a)	BRL	2012	30	2013	98,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 81	a)	BRL	2012	75	2013	98,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 82	a)	BRL	2012	64	2013	98,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 83	a)	BRL	2012	204	2013	98,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 84	a)	BRL	2012	6	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 85	a)	BRL	2012	37	2013	98,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 86	a)	BRL	2012	6	2013	96% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 87	a)	BRL	2012	224	2013	94% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 88	a)	BRL	2012	19	2013	98% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 89	a)	BRL	2012	19	2013	98,6% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 90	a)	BRL	2012	37	2013	98,6% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 91	a)	BRL	2012	5	2013	97% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 92	a)	BRL	2012	45	2013	98,5% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 93	a)	BRL	2012	76	2013	97% CDI
BSI BRASIL	LCA - Letra de Crédito do agro LCA 94	a)	BRL	2012	454	2014	97,5% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 1	a)	BRL	2011	1 362	2013	110,5% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 2	a)	BRL	2011	-	2013	110% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 3	a)	BRL	2011	-	2013	110% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 4	a)	BRL	2011	1 302	2013	112,5% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 5	a)	BRL	2011	343	2013	112,5% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 6	a)	BRL	2010	4 748	2013	112% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 7	a)	BRL	2010	2 826	2013	112% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 8	a)	BRL	2010	113	2013	112% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 9	a)	BRL	2010	226	2013	112% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 10	a)	BRL	2010	113	2013	112% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 11	a)	BRL	2010	339	2013	112% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 12	a)	BRL	2010	2 261	2013	112% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 13	a)	BRL	2010	3 052	2013	112% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 14	a)	BRL	2010	226	2013	112% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 15	a)	BRL	2011	186	2013	100% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 16	a)	BRL	2011	2 227	2013	100% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 17	a)	BRL	2011	1 299	2013	100% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 18	a)	BRL	2011	371	2013	100% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 19	a)	BRL	2011	186	2013	100% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 20	a)	BRL	2012	500	2014	114% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 21	a)	BRL	2012	317	2014	114,5% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 22	a)	BRL	2012	119	2014	114,5% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 23	a)	BRL	2012	117	2014	114,5% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 24	a)	BRL	2012	784	2014	100% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 25	a)	BRL	2012	560	2014	100% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 26	a)	BRL	2012	112	2014	100% CDI

(in thousands of euro)

					31.12.2012		
Issuer	Designation		Currency	Issue date	Book value	Maturity	Interest rate
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 27	a)	BRL	2012	896	2014	100% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 28	a)	BRL	2012	224	2014	100% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 29	a)	BRL	2012	21 591	2014	113% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 30	a)	BRL	2012	153	2014	114,5% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 31	a)	BRL	2012	188	2014	115% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 32	a)	BRL	2012	112	2014	115% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 33	a)	BRL	2012	114	2015	116,5% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 34	a)	BRL	2012	114	2015	116,5% CDI
BSI BRASIL	LF LETRA FINANCEIRA BES INVESTIMENTO 35	a)	BRL	2012	150	2015	116,5% CDI
					1 382 888		

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

NOTE 33 – FINANCIAL LIABILITIES ASSOCIATED TO TRANSFERED ASSETS

This balance in the amount of euro 29 665 thousand (31 December 2011: euro 31 498 thousand) refers to liabilities associated to assets not derecognised in securitisation operations.

NOTE 34 – PROVISIONS

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

(in thousands of euro)

	Other provisions
Balance as at 1 January 2011	**23 768**
Charge for the year	11 831
Write back for the year	(4 406)
Charge off	(1 400)
Exchange differences and other	(6 130)
Balance as at 31 December 2011	**23 663**
Charge for the year	8 307
Write back for the year	(203)
Exchange differences and other	(9 375)
Balance as at 31 December 2012	**22 392**

These provisions are intended to cover certain contingencies related to the Group's activities, including contingencies related to ongoing tax processes.

NOTE 35 – INCOME TAXES

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

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

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

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

- The negative equity variation from the accounting policy change on recognizing actuarial gains and losses which were previously deferred, will be fully deductible in equal parts during 10 years from 1 January 2012. This impact is recorded in equity;

- The settlement effect (determined by the difference between the liability measured in accordance with the IAS 19 criteria and the criteria established in the agreement) will be fully deductible, from 1 January 2012, for purposes of determining taxable income, in equal parts, according to the average life expectancy of pensioners whose responsibilities were transferred. This impact is recorded in the income statement.

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

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 Bank for a period of four years, or six years in case of tax losses carried 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 Bank's Board of Directors is confident that there will be no material differences arising from tax assessments within the context of the consolidated financial statements.

The activity of branches abroad is incorporated in BESI accounts for determining the taxable profit. Although, the profit of those branches is subject to taxation in the countries where they are established, local taxes are deductible to the taxes to be paid in Portugal, in accordance with art. 91º of "Código do IRC", when applicable.

The profit of the branches is subject to the following tax rates:

Branch	Tax Rate
London	24%
Madrid	30%
Warsaw	19%
New York	45.95%

The subsidiaries established outside Portugal, namely in Brazil, Ireland and India, are subject to taxation in accordance with the local corporate income tax code. The subsidiary in Ireland is subject to a nominal tax rate of 12.5% and the subsidiaries in Brazil are subject to nominal tax rates between 34% and 40%. In India the nominal tax rate is 32.45%.

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

(in thousands of euro)

	Assets		Liabilities		Net	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Derivative financial instruments	2 211	3 214	(32 857)	(26 772)	(30 646)	(23 558)
Financial assets available-for-sale	-	3 129	(552)	-	(552)	3 129
Loans and advances to customers	35 705	28 939	-	-	35 705	28 939
Investments in subsidiaries and associates	-	-	(1 239)	(1 218)	(1 239)	(1 218)
Provisions	14 264	12 995	-	(146)	14 264	12 849
Pensions	129	2 183	(5)	(6)	124	2 177
Other	838	-	(1 380)	(1 648)	(542)	(1 648)
Tax losses brought forward	11 536	9 883	-	-	11 536	9 883
Deferred tax asset / (liability)	**64 683**	**60 343**	**(36 033)**	**(29 790)**	**28 650**	**30 553**
Assets / liabilities compensation for deferred taxes	(10 980)	(11 166)	10 980	11 166	-	-
Deferred tax asset / (liability), net	**53 703**	**49 177**	**(25 053)**	**(18 624)**	**28 650**	**30 553**

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

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

(in thousands of euro)

	31.12.2012	31.12.2011
Balance at the beginning of the year	30 553	24 208
Recognised in the income statement	(887)	(1 779)
Recognised in fair value reserve	(2 637)	4 238
Recognised in other reserves	-	2 996
Exchange differences and other	1 621	890
Balance at the end of the year	**28 650**	**30 553**

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

(in thousands of euro)

	31.12.2012		31.12.2011	
	Recognised in (profit) /loss	Recognised in reserves	Recognised in (profit) /loss	Recognised in reserves
Deferred Taxes				
Derivative financial instruments	7 598	-	16 977	-
Financial assets available-for-sale	-	2 637	-	(4 238)
Loans and advances to customers	(6 766)	-	(10 779)	-
Investments in subsidiaries and associates	21	-	105	-
Provisions	(1 416)	-	(3 332)	-
Pensions	(129)	-	-	-
Other	2 934	-	2 511	(1 737)
Tax losses brought forward	(1 355)	-	(3 703)	(1 259)
	887	2 637	1 779	(7 234)
Current Taxes	17 584	-	4 110	-
Total recognised taxes	**18 471**	**2 637**	**5 889**	**(7 234)**

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

(in thousands of euro)

	31.12.2012		31.12.2011	
	%	Amount	%	Amount
Profit before taxes and non-controlling interest		**39 013**		**15 162**
Statutory tax rate	31.5		29.0	
Income tax calculated based on the statutory tax rate		12 289		4 397
Difference on the subsidiaries statutory tax rates	5.9	2 302	23.5	3 565
Tax-exempt dividends	(0.4)	(157)	(0.8)	(127)
Profits in units with most favorable tax regimes	(1.0)	(373)	-	-
Tax-exempt gains	(3.0)	(1 160)	(26.6)	(4 028)
Tax-exempt profits	-	-	0.7	101
Non-taxable share of profit in associates	0.1	56	(1.0)	(146)
Autonomous tributation	-	-	-	-
Changes in estimates	-	-	(2.8)	(426)
Changes in tax-rate related to deferred taxes	(0.3)	(103)	(12.4)	(1 887)
Unrecognised deferred tax assets related to tax losses generated in the year	14.4	5 613	(1.3)	(202)
Tax losses used for which no deferred tax assets were recognised	0.0	(9)	(9.7)	(1 475)
Tax benefits	(0.8)	(327)	(1.3)	(202)
Non deductible costs	11.4	4 428	54.8	8 303
Other	(10.5)	(4 088)	(13.1)	(1 984)
	47.3	**18 471**	**39.0**	**5 889**

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 extended by Law no. 64-B/2011, of 30 December. As at 31 December 2012, the Group recongnised an expense of euro 1 187 thousand (31 December 2011: euro 1 525 thousand, which was included in Other operating income and expenses – Direct and indirect taxes (see Note 11).

NOTE 36 – SUBORDINATED DEBT

The balance subordinated debt is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Other subordinated debt		
Cash bonds	66 058	90 304
	66 058	**90 304**

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

(in thousands of euro)

		31.12.2012					
Issuer	Designation	Currency	Issue Date	Amount Issued	Carrying amount	Interest Rate	Maturity
BESI	BESI SUBORDINADAS OCT2033 5.5%	EUR	2003	215	263	Indexed to CMS	2033
BESI	BESI CAIXA SUB DEC15	EUR	2005	60 000	-	Euribor 3m + 0.95%	2015
ESIP	ESIP LOWER TIER II DEC15	EUR	2005	60 000	31 930	Euribor 3m + 0.95%	2015
BSI BRASIL	VBES IA001	BRL	2007	55 000	20 350	1.300	2014
BSI BRASIL	VBES IA002	BRL	2008	25 000	9 478	1.300	2015
BSI BRASIL	VBES IA003	BRL	2008	5 000	1 888	1.300	2013
BSI BRASIL	VBES IA005	BRL	2008	2 000	1 019	1.300	2015
BSI BRASIL	VBES IA006	BRL	2008	3 000	1 130	1.300	2015
					66 058		

(in thousands of euro)

		31.12.2011					
Issuer	Designation	Currency	Issue Date	Amount Issued	Carrying amount	Interest Rate	Maturity
BESI	BESI SUBORDINADAS OCT2033 5.5%	EUR	2003	10 000	9 954	Indexed to CMS	2033
BESI	BESI CAIXA SUB DEC15	EUR	2005	60 000	-	Euribor 3m + 0.95%	2015
ESIP	ESIP LOWER TIER II DEC15	EUR	2005	60 000	42 494	Euribor 3m + 0.95%	2015
BSI BRASIL	VBES IA001	BRL	2007	55 000	22 790	1.300	2014
BSI BRASIL	VBES IA002	BRL	2008	25 000	10 734	1.300	2015
BSI BRASIL	VBES IA003	BRL	2008	5 000	2 138	1.300	2013
BSI BRASIL	VBES IA005	BRL	2008	2 000	918	1.300	2015
BSI BRASIL	VBES IA006	BRL	2008	3 000	1 276	1.300	2015
					90 304		

During the years ended 31 December 2012 and 2011, no subordinated debt was issued by the Group, nevertheless during 2012 was reimbursed an amount of euro 23 188 thousand of subordinated debt. In 2011 no subordinated debt was reimbursed.

NOTE 37 – OTHER LIABILITIES

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

(in thousands of euro)

	31.12.2012	31.12.2011
Creditors		
Public sector	9 175	9 481
Sundry creditors		
Creditors from transactions with securities	54 052	66 277
Suppliers	1 621	1 778
Other sundry creditors	38 685	13 837
	103 533	**91 373**
Accrued expenses		
Long-term service benefits (see Note 13)	1 987	1 832
Other accrued expenses	16 638	18 258
	18 625	**20 090**
Deferred income	**1 790**	**1 596**
Other sundry liabilities		
Stock exchange transactions pending settlement	54 343	60 208
Foreign exchange transactions pending settlement	1 780	-
Other transactions pending settlement	103 703	12 920
	159 826	**73 128**
	283 774	**186 187**

As at 31 December 2012 and 2011 the balance stock exchange transactions pending settlement represents the net balance of the acquisition and disposal orders, pending of settlement, issued by the Group and its subsidiaries.

NOTE 38 – SHARE CAPITAL, SHARE PREMIUM, TREASURY STOCK AND PREFERENCE SHARES

Ordinary shares

On 29 June 2009, the Bank issued 22 million shares, with a nominal value of euro 5 each, being the share capital represented by 36 million shares with a nominal value of euro 5 each, which are subscribed and fully paid by Banco Espírito Santo, S.A..

At the end of the year 2011, the Bank made a capital increase in the amount of euro 46 269 thousands, through the issue of 9 253 800 shares with a nominal value of euro 5 each, which were subscribed and paid by Banco Espírito Santo, S.A., through a contribution in kind, of 46 269 perpetual subordinated bonds with conditioned interest issued by BESI with a nominal value of euro 1 000 each.

On 10 September 2012, the Bank performed another capital increase in the amount of euro 100 000 thousand, through the issue of 20 000 000 shares with a nominal value of euro 5 each, which were fully subscribed by Banco Espírito Santo, S.A..

Share Premium

As at 31 December 2012 and 2011, the share premium in the amount of euro 8 796 thousand, refer to the capital increase occurred during July 1998.

Other equity instruments

The Bank issued during October 2010, perpetual subordinated bonds with interest conditioned in the total amount of euro 50 million.

These bonds have an interest conditioned non-cumulative, payable only if and when declared by the Board of Directors. This conditioned interest corresponds to the application of an annual rate of 8.5% over the nominal value, payable semiannually. The reimbursement of these securities may be made in full, but not partially, after 15 September 2015, depending only on BESI option and the prior approval of Bank of Portugal. Given their characteristics, these obligations are considered as equity instruments in accordance with the accounting policy described in Note 2.10.

During the year ended 31 December 2012, the Group paid interest in the amount of euro 317 thousand (31 December 2011: 4 250), booked as a deduction in reserves. Additionally, during 2011, other equity instruments reimbursements were performed in an amount of euro 46 269 thousand.

These bonds are subordinated in respect of any liability of BESI and pari passu in respect of any subordinated bonds with identical characteristics that may be issued by the Bank.

NOTE 39 – FAIR VALUE RESERVE, OTHER RESERVES AND RETAINED EARNINGS AND NON-CONTROLLING INTEREST

Legal reserve, fair value reserve and other reserves

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 must be transferred to the legal reserve until it is equal to the share capital.

The fair value reserve represents the amount of the unrealised 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 presented net of income taxes.

During the year ended 31 December 2012 and 2011 the changes in these balances were as follows:

(in thousands of euro)

	Fair value reserve			Other reserves and retained earnings				
	Available for-sale financial assets	Income tax reserves	Total fair value reserve	Legal reserve	Actuarial gains and (losses) (net of taxes)	Exchange differences	Other reserves and retained earnings	Total Other reserves and retained earnings
Balance as at 31 December 2010 (restated)	**7 252**	**(3 433)**	**3 819**	**58 296**	**(5 676)**	**23 960**	**168 019**	**244 599**
Actuarial gains from defined benefit obligation, net of taxes	-	-	-	-	5 445	-	-	5 445
Interest on other equity instruments	-	-	-	-	-	-	(3 175)	(3 175)
Changes in fair value	(13 513)	4 744	(8 769)	-	-	-	-	-
Exchange differences	(1 603)	774	(829)	(1 219)	-	(15 544)	-	(16 763)
Transfer to reserves	-	-	-	8 089	-	-	52 286	60 375
Non-controlling interest	-	-	-	-	-	-	(5 463)	(5 463)
Balance as at 31 December 2011	**(7 864)**	**2 085**	**(5 779)**	**65 166**	**(231)**	**8 416**	**211 667**	**285 018**
Actuarial gains from defined benefit obligation, net of taxes	-	-	-	-	(2 329)	-	-	(2 329)
Interest on other equity instruments	-	-	-	-	-	-	(225)	(225)
Reclassification	-	-	-	(27 113)	-	-	27 113	-
Changes in fair value	11 826	(2 567)	9 259	-	-	-	-	-
Exchange differences	(501)	(11)	(512)	-	-	(26 876)	-	(26 876)
Transfer to reserves	-	-	-	-	-	-	9 061	9 061
Other comprehensive income of associates appropriate	-	-	-	-	-	-	(623)	(623)
Non-controlling interest	-	-	-	-	-	-	2 655	2 655
Saldo em 31 de Dezembro de 2012	**3 461**	**(493)**	**2 968**	**38 053**	**(2 560)**	**(18 460)**	**249 648**	**266 681**

The fair value reserve net of deferred taxes and non-controlling interest is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Balance at the beginning of the year	**(5 779)**	**3 819**
Changes in fair value	12 769	(7 417)
Disposals during the year	(1 444)	-
Deferred taxes recognised in reserves during the year	(2 578)	(2 181)
Balance at the end of the year	**2 968**	**(5 779)**

Non-controlling interest

Non-controlling interests by subsidiary are analysed as follows:

(in thousands of euro)

	31.12.2012		31.12.2011	
	Balance sheet	Income statement	Balance sheet	Income statement
BES Investimento do Brasil	32 886	2 292	31 922	4 538
BES Securities	5 480	(147)	13 191	1 253
Bes Absolute Return	10 044	807	9 664	740
Bes Multimercado	-	-	721	721
Bes FIM Moderado	10 926	967	9 448	252
Espirito Santo Investment Holding Limited	3 967	(4 607)	4 730	(7 347)
Other	12 229	(798)	9 646	55
	75 532	**(1 486)**	**79 322**	**212**

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

(in thousands of euro)

	31.12.2012	31.12.2011
Non-controlling interest at the beginning of the year	**79 322**	**80 727**
Changes in the scope of consolidation	(3 732)	-
Increase in share capital of subsidiaries	8 585	2 890
Dividends paid	(971)	(2 234)
Changes in fair value reserve	(159)	(923)
Exchange differences and other	(6 027)	(1 350)
Profit for the year	(1 486)	212
Non-controlling interests at the end of the year	**75 532**	**79 322**

NOTE 40 – OFF-BALANCE SHEET ITEMS

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

(in thousands of euro)

	31.12.2012	31.12.2011
Contingent liabilities		
Guarantees and stand by letters of credit	627 511	714 777
Assets pledged as collateral	339 595	141 540
	967 106	**856 317**
Commitments		
Irrevocable commitments	104 202	141 906
	104 202	**141 906**

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

Irrevocable commitments represent contractual agreements to extend credit to 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.

Notwithstanding the particular characteristics of these contingent liabilities and commitments, the analysis of these operations follows the same basic principles of any one another commercial operation, namely the solvency of the underlying client and business, being that the Group requires these operations to be adequately covered by collaterals when needed. Considering that is expected that the majority of these contingent liabilities and commitments expire without having being used, the indicated amounts do not represent necessarily future cash-flow needs.

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

- Securities pledged as collateral to the Bank of Portugal (i) for the use of the money transfer system (Sistema de Pagamento de Grandes Transacções) in the amount of euro 25 000 thousand (31 December 2011: euro 18 000 thousand) and (ii) in the scope of a liquidity facility collateralised by securities in the amount of euro 266 317 thousand (the total amount of securities eligible for rediscount at the Bank of Portugal as at 31 December 2012 and 31 December 2011 amounted euro 234 891 thousand and euro 37 582 thousand respectively.

- 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 1 813 thousand (31 December 2011: euro 1 813 thousand);
- Securities pledged as collateral to the Deposits Guarantee Fund (Fundo de Garantia de Depósitos) for an amount of euro 100 thousand (31 December 2011: euro 80 thousand).

Additionally, the liabilities accounted for off-balance sheet and related to banking services provided are as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Liabilities related to services provided		
Securities and other items held for safekeeping on behalf of customers	6 522 795	6 273 217
Other responsabilities related with banking services	3 864 674	3 316 989
	10 387 469	**9 590 206**

NOTE 41 – RELATED PARTIES TRANSACTIONS

As at 31 December 2012 and 2011, the balances and transactions from BESI Group with related parties from ESFG Group (holding) are presented as follows:

(in thousands of euro)

	31.12.2012						
	Assets						
	Loans and advances to banks	Securities	Total	Guarantees	Liabilities	Income	Expenses
Banco Espírito Santo, S.A.	10 805	83 894	94 699	385 725	1 215 991	59 678	94 408
BES Finance, Ltd.	-	3 244	3 244	-	-	6	-
ESF(P)	-	15 032	15 032	-	4	1 326	1 313
ESFG	-	4 893	4 893	-	11	1 177	-
Espírito Santo Saúde SGPS, S.A.	-	-	-	-	-	101	-
ESEGUR - Espírito Santo Segurança, SA	-	-	-	-	-	-	239
Espírito Santo, plc.	-	-	-	-	-	17 245	2 384
ES Concessões, SGPS, SA	-	-	-	-	-	75	-
Banque Espirito Santo et de la Vénétie, SA	-	-	-	-	30	199	-
BEST - Banco Electrónico de Serviço Total, SA	-	-	-	-	-	56	4 526
BES Vida, Companhia de Seguros, S.A.	-	-	-	-	-	832	435
Fundo FCR PME	-	-	-	-	7 996	442	186
Locarent - Companhia Portuguesa de Aluguer de Viaturas, SA	-	-	-	-	-	-	1 246
Banco Espírito Santo Angola, SA	2 380	-	2 380	-	-	-	131
Banco Espírito Santo Cabo Verde, SA	-	-	-	-	21 973	-	216
Banque Privée Espírito Santo	15 034	-	15 034	-	10 148	108	685
Empark Aparcamientos y Servicios S.A.	-	-	-	-	-	1 392	819
Espírito Santo Gestión, SA, SGIIC	-	-	-	-	-	498	-
Espírito Santo Services, S.A.	-	-	-	-	-	68	1 673
ESFG International, Ltd	-	940	940	-	-	329	-
Fundo de Capital de Risco - ES Ventures III	-	2 286	2 286	-	-	-	-
Fundo Capital Risco Vent II	-	1 310	1 310	-	-	-	-
Lusitano Leverage Finance N 1 BV	-	30 980	30 980	-	-	-	-
Sintra Empreendimentos Imob Ltda	-	-	-	-	-	-	1 058
Advance Ciclone Systems, S.A.	-	-	-	-	-	2 657	-
Ascendi Group, SGPS, S.A.	-	-	-	-	-	1 029	-
ES Financial Services, Inc.	-	-	-	-	-	428	926
Others	-	685	685	54	85	1 720	1 967
TOTAL	**28 219**	**143 264**	**171 483**	**385 779**	**1 256 238**	**89 366**	**112 212**

(in thousands of euro)

	31.12.2011						
	Assets						
	Loans and advances to banks	Securities	Total	Guarantees	Liabilities	Income	Expenses
Banco Espírito Santo, S.A.	112 215	115 958	228 173	368 078	1 310 005	95 724	125 074
BES Finance, Ltd.	-	3 231	3 231	-	-	-	-
ESF(P)	-	20 635	20 635	-	-	170	-
ESFG	-	4 878	4 878	-	-	-	-
Espírito Santo Saúde SGPS, S.A.	-	-	-	-	-	348	-
ESCOM	-	-	-	-	-	289	-
ESEGUR - Espírito Santo Segurança, SA	-	-	-	-	-	-	9
Espírito Santo, plc.	-	-	-	-	-	87 711	2 440
ES Concessões, SGPS, SA	-	-	-	-	-	143	-
Banque Espirito Santo et de la Vénétie, SA	-	-	-	-	-	39	-
BEST - Banco Electrónico de Serviço Total, SA	-	-	-	-	2 233	432	13
BES Vida, Companhia de Seguros, S.A.	-	-	-	-	16 108	290	-
Fundo FCR PME	-	-	-	-	7 864	403	-
Locarent - Companhia Portuguesa de Aluguer de Viaturas, SA	-	-	-	-	-	-	104
Banco Espírito Santo Angola, SA	2 970	-	2 970	-	-	-	-
TOTAL	**115 185**	**144 702**	**259 887**	**368 078**	**1 336 210**	**185 549**	**127 640**

NOTE 42 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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)

		Fair Value				
	Amortised Cost	Quoted Market Prices	Valuation models based on observable market information	Valuation models based on non-observable market information	Book Value	Fair Value
Balance as at 31 December 2012						
Cash and deposits at central banks	1 202	-	-	-	1 202	1 202
Deposits with banks	40 717	-	-	-	40 717	40 717
Financial assets at fair value through profit or loss	-	44 329	2 338 808	56 592	2 439 729	2 439 729
Available-for-sale financial assets	1 571	325 590	90 109	68 647	485 917	485 917
Loans and advances to banks	243 755	-	-	-	243 755	243 755
Loans and advances to customers	2 187 524	-	-	-	2 187 524	2 187 524
Held-to-maturity investments	107 202	-	-	-	107 202	103 917
Derivatives for risk management purposes	-	-	60 022	-	60 022	60 022
Financial assets	**2 581 971**	**369 919**	**2 488 939**	**125 239**	**5 566 068**	**5 562 783**
Deposits from central banks	151 087				151 087	151 087
Financial liabilities held for trading	-	-	751 715	-	751 715	751 715
Deposits from banks	2 020 686	-	-	-	2 020 686	2 020 686
Due to customers	967 374	-	-	-	967 374	967 374
Debt securities issued	447 110	-	935 778	-	1 382 888	1 391 107
Financial liabilities associated to transferred assets	29 665	-	-	-	29 665	29 665
Derivatives for risk management purposes	-	-	57 031	-	57 031	57 031
Subordinated debt	65 795	-	263	-	66 058	64 091
Financial liabilities	**3 681 717**	**-**	**1 744 787**	**-**	**5 426 504**	**5 432 756**
Balance as at 31 December 2011						
Cash and deposits at central banks	1 893	-	-	-	1 893	1 893
Deposits with banks	75 716	-	-	-	75 716	75 716
Financial assets at fair value through profit or loss	-	785 316	1 191 735	-	1 977 051	1 977 051
Available-for-sale financial assets	-	56 875	219 241	27 104	303 220	303 220
Loans and advances to banks	246 691	-	-	-	246 691	246 691
Loans and advances to customers	2 257 945	-	-	-	2 257 945	2 257 945
Held-to-maturity investments	727 998	-	-	-	727 998	724 446
Derivatives for risk management purposes	-	-	88 071	-	88 071	88 071
Financial assets	**3 310 243**	**842 191**	**1 499 047**	**27 104**	**5 678 585**	**5 675 033**
Deposits from central banks	64 007	-	-	-	64 007	64 007
Financial liabilities held for trading	-	-	791 761	-	791 761	791 761
Deposits from banks	2 452 209	-	-	-	2 452 209	2 452 209
Due to customers	859 247	-	-	-	859 247	859 247
Debt securities issued	544 626	-	754 993	-	1 299 619	1 287 842
Financial liabilities associated to transferred assets	31 498	-	-	-	31 498	31 498
Derivatives for risk management purposes	-	-	127 582	-	127 582	127 582
Subordinated debt	80 350	-	9 954	-	90 304	72 600
Financial liabilities	**4 031 937**	**-**	**1 684 290**	**-**	**5 716 227**	**5 686 746**

BESI 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.

Valuation models based on observable market information – this category includes the financial instruments: (i) with dealer prices quotations provided by entities that usually provide transaction prices for these assets/liabilities traded in active markets and (ii) 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.

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.

The movements of the financial assets valued based on non-observable market information, during 2012 and 2011, can be analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Balance at the beginning of the year	27 104	29 544
Acquisitions	109 708	1 561
Disposals	(13 605)	-
Changes in value	2 032	(4 001)
Balance at the end of the year	125 239	27 104

The main assumptions and inputs used during the years ended 2012 and 2011 in the valuation models are presented as follows:

Interest rate curves

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

(%)

	31.12.2012			31.12.2011		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	0.07	0.10	0.47	0.33	0.11	0.43
1 month	0.18	0.23	0.46	1.02	0.30	0.76
3 months	0.19	0.42	0.48	1.36	0.58	1.09
6 months	0.32	0.44	0.62	1.62	0.81	1.34
9 months	0.32	0.59	0.79	1.79	0.97	1.59
1 year	0.32	0.33	0.54	1.42	0.68	1.09
3 years	0.47	0.48	0.78	1.38	0.82	1.36
5 years	0.77	0.83	1.02	1.72	1.23	1.56
7 years	1.13	1.24	1.36	2.07	1.63	1.86
10 years	1.57	1.75	1.86	2.39	2.02	2.29
15 years	2.02	2.28	2.41	2.68	2.37	2.65
20 years	2.17	2.50	2.72	2.69	2.50	2.83
25 years	2.22	2.62	2.88	2.63	2.55	2.94
30 years	2.24	2.69	2.95	2.56	2.59	2.99

Credit Spreads

The credit spreads used by the Group on the valuation of the credit derivatives are disclosed on a daily basis by Bloomberg in the end of each day constituted for renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spreads behavior in the market throughout the year, is presented as follows:

(basis points)

Index	Series	1 year	3 year	5 year	7 year	10 year
Year 2012						
CDX USD Main	**19**	33,02	58,73	95,39	118,68	136,14
iTraxx Eur Main	**18**	-	76,38	117,43	141,58	154,60
iTraxx Eur Senior Financial	**18**	-	-	142,44	-	174,98
Year 2011						
CDX USD Main	**17**	60,25	93,98	120,03	128,87	137,62
iTraxx Eur Main	**16**	-	153,99	173,38	177,50	179,25
iTraxx Eur Senior Financial	**16**	-	-	275,25	-	275,25

Interest rates volatility

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

(%)

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

Exchange rate and volatility

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

			Volatility (%)				
Exchange Rates	31.12.2012	31.12.2011	1 month	3 months	6 months	9 months	1 year
EUR/USD	1.31940	1.29390	8.18	8.33	8.70	9.04	9.20
EUR/GBP	0.81610	0.83530	5.63	5.85	6.28	6.65	6.83
EUR/CHF	1.20720	1.21560	2.10	3.05	3.70	4.52	4.85
EUR/NOK	7.34830	7.75400	4.95	5.23	5.55	5.91	6.08
EUR/PLN	4.07400	4.45800	6.60	7.05	7.85	8.35	8.75
EUR/RUB	40.32950	41.76500	7.78	8.17	8.35	8.90	9.23
USD/BRL a)	2.04911	1.86715	9.33	9.55	9.80	10.10	10.40
USD/TRY b)	1.78498	1.88824	5.70	6.68	7.70	8.43	8.95

a) Calculation based in EUR/USD and EUR/BRL exchange rates
b) Calculation based in EUR/USD and EUR/TRY exchange rates

Equity index

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

	Quote			Historical volatility (%)		Implied volatility (%)
	31.12.2012	31.12.2011	% change	1 month	3 months	
DJ EURO STOXX 50	2 636	2 317	13.8	11.11	17.02	18.12
PSI 20	5 655	5 494	2.9	12.60	15.40	-
IBEX 35	8 168	8 566	-4.7	13.68	21.34	-
FTSE 100	5 898	5 572	5.9	8.83	11.42	13.64
DAX	7 612	5 898	29.1	11.10	14.26	15.34
S&P 500	1 426	1 258	13.4	12.28	12.28	16.15
BOVESPA	60 952	56 754	7.4	17.96	18.31	20.34

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

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

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

Loans and advances to customers

The fair value of loans and advances to customers is estimated based on the discount of the expected future cash flows of capital and interest, assuming that the installments are paid on the dates that have been contractually defined.

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 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. 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 Bank estimates its fair value by discounting the expected future cash-flows.

NOTE 43 – RISK MANAGEMENT

A qualitative outlook of the risk management at the Group BESI is presented bellow.

Risk control and risk management provides an active support to management, being one of the strategic mainstays supporting BESI's balanced and sustained development.

BESI's risk management has the following objectives:

- To identify, quantify and monitor the different types of risk, progressively applying uniform and consistent principles and methodologies;
- To fine-tuning tools to support the structuring of transactions and develop internal techniques of performance assessment and core capital optimization;
- To assume a proactive attitude in the management of events of significant delay or definitive non performance of contractual obligations.

Credit Risk

Credit risk represents the potential financial loss arising from the failure of a borrower or counterparty to honor 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).

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.

The BESI's risk profile is periodically monitored, especially in what concerns the evolution of credit exposure and credit lines. Are equally subject to daily analysis the observance of approved credit limits and the correct functioning of the mechanisms associated to credit approval.

Grupo BESI credit risk exposure is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Deposits with banks	285 667	324 281
Financial assets held for trading	2 401 615	1 952 045
Available-for-sale financial assets	383 906	209 323
Loans and advances to customers	2 187 524	2 257 945
Held-to-maturity investments	107 202	727 998
Derivatives for risk management purposes	60 022	88 071
Other assets	269 905	201 520
Guarantees granted	627 511	714 777
Irrevocable commitments	104 202	141 906
Credit risk associated to the credit derivatives reference entities	4 501	7 025
Total	**6 432 055**	**6 624 891**

Risk concentration

The analysis of loans and advances to customers and other financial assets by sector of activity, as at 31 December 2012 and 2011, can be analysed as follows:

(in thousands of euro)

	31.12.2012						
	Loans and advances to customers				Financial assets held for trading	Available-for-sale financial assets	
	Gross Amount		Impairment		Gross Amount	Gross Amount	Impairment
	Outstanding Loans	Overdue Loans	Outstanding Loans	Overdue Loans			
Agriculture	8 340	-	681	-	640	3	-
Mining	18 353	-	-	-	1 872	-	-
Food, beverage and tobacco	66 835	-	941	-	2 563	-	-
Transforming industries - Textiles and the clothing industry	-	-	-	-	29	8 185	1 718
Paper industry	-	-	-	-	1 586	-	-
Chemicals and rubber	34 132	-	324	-	10 028	680	-
Non-metallic minerals	21 374	-	449	-	-	-	-
Metallic products	24 171	-	1 114	-	4 720	571	-
Production of machinery, equipment and electric devices	40 867	-	-	-	748	-	-
Transforming Industry - Manufacture of transport equipment	-	-	-	-	196	-	-
Other transforming industries	-	-	-	-	4	-	-
Transforming industries - Repairing, Maintenance, Equipment and Machinery	787	-	-	-	928	-	-
Electricity, gas and water	420 833	46	3 202	-	57 083	1	-
Collection, purification and distrib. of water, sanitation, waste manag. and cleaning	24 321	-	35	-	277	-	-
Construction	237 512	12 458	2 082	1 147	99 858	2 913	-
Real estate activities	25 485	-	-	-	2 621	-	-
Wholesale and retail; repair of motor vehicles and motorcycles	90 364	24	6	-	946	-	-
Transports	292 237	-	1 141	-	163 693	-	-
Tourism	39 153	464	3 016	26	1 346	-	-
Printing and publishing	62 081	-	-	-	422	-	-
Information activities	7 994	-	-	-	-	-	-
Radio and television broadcast	7 264	-	-	-	105 098	-	-
Communication activities	19 517	-	151	-	11 265	3 151	-
IT Consulting	-	-	-	-	13 085	12	-
Monetary intermediation	-	406	149	-	506 727	37 369	-
Holding companies	395 814	-	41 509	-	55 462	45 118	1 074
Other financial and insurance activities	39 380	81	242	20	21 401	158 490	13 032
Real estate activities	119 762	-	28 585	-	8 782	-	-
Services provided to companies	110 181	244	1 770	229	99 691	3 965	244
Administrative activities and suporting services	-	-	-	-	42 735	-	-
Travelling activities	31 596	317	740	3	8 105	-	-
Renting activities	63 364	-	29 997	-	1 311	-	-
Public services	-	-	-	-	24 448	178 002	-
Regional Public Administration and Local	-	-	-	-	2 499	63 475	-
Central Government (Activities Support and Management)	-	-	-	-	1 178 266	-	-
Human health activities and social suport	22 811	-	-	-	10 291	110	110
Artistics, sports and recreative activities	24 377	-	2 658	-	553	125	75
Other	40 195	1 024	1 567	256	450	-	-
Mortgage loans	492	-	-	-	-	-	-
Retail	4 908	-	-	-	-	-	-
TOTAL	**2 294 500**	**15 064**	**120 359**	**1 681**	**2 439 729**	**502 170**	**16 253**

(in thousands of euro)

	31.12.2011						
	Loans and advances to customers				Financial assets held for trading	Available-for-sale financial assets	
	Gross Amount		Impairment		Gross Amount	Gross Amount	Impairment
	Outstanding Loans	Overdue Loans	Outstanding Loans	Overdue Loans			
Agriculture	-	-	-	-	368	-	-
Mining	20 625	-	2 363	-	1 157	-	-
Food, beverage and tobacco	50 054	-	-	-	619	-	-
Wood and cork	720	-	217	-	-	-	-
Paper industry	-	-	-	-	343	5 029	-
Refining and oil	-	-	-	-	525	4 154	-
Chemicals and rubber	55 839	168	-	2	-	-	-
Non-metallic minerals	29 213	-	-	-	-	-	-
Metallic products	2 264	-	143	-	16	-	-
Production of machinery, equipment and electric devices	44 037	-	-	-	-	-	-
Other transforming industries	2 088	-	-	-	-	-	-
Electricity, gas and water	475 875	249	1 196	1	13 590	5 859	1 855
Collection, purification and distribution of water, sanitation, waste management and cleaning	15 509	-	-	-	-	600	-
Construction	293 001	83	-	-	54 508	-	-
Real estate activities	401	116	-	-	9 700	-	-
Wholesale and retail; repair of motor vehicles and motorcycles	90 069	-	1 429	-	2 621	-	-
Transports	171 649	20	-	-	186 268	-	-
Tourism	43 369	2 082	2 820	1 271	3 254	-	-
Printing and publishing	25 311	-	-	-	-	-	-
Information activities	3 406	-	-	-	690	-	-
Radio and television broadcast	12 402	-	-	-	-	-	-
Communication activities	87 747	12 427	501	4 343	9 519	-	-
IT Consulting	-	-	-	-	13 864	-	-
Monetary intermediation	-	-	-	-	518 520	88 365	-
Holding companies	156 278	283	33 567	3	51 715	-	-
Other financial and insurance activities	171 922	-	-	-	2 439	97 673	7 090
Real estate activities	142 658	18	28 562	-	9 919	-	-
Services provided to companies	61 899	183	1 340	46	9 319	-	-
Administrative activities and suporting services	20 139	-	-	-	14 671	-	-
Travelling activities	24 859	-	-	-	5 833	-	-
Renting activities	76 910	-	21 756	-	-	-	-
Public services	-	-	-	-	760 310	3 916	-
Human health activities and social suport	23 418	-	-	-	426	-	-
Artistics, sports and recreative activities	22 205	1 761	3 268	4	4 107	-	-
Other	218 849	1 562	1 546	16	299 854	110 138	3 569
Non-profit organisations	-	-	-	-	2 897	-	-
Mortgage loans	671	-	-	-	-	-	-
TOTAL	**2 343 387**	**18 952**	**98 708**	**5 686**	**1 977 051**	**315 734**	**12 514**

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 or share prices.

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. BESI'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 millions of euro)

	31.12.2012				31.12.2011			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Exchange Risk	0,71	1,96	5,32	0,78	3,42	3,69	5,82	2,95
Interest rate risk	2,59	3,93	4,53	2,29	7,56	6,41	8,12	5,47
Shares and commodities	1,78	1,74	3,24	1,38	1,99	2,38	2,43	2,77
Diversification effect	-2,11	-3,05	-5,96	-1,96	-5,06	-4,81	-5,46	-5,49
Total	**2,97**	**4,58**	**7,13**	**2,49**	**7,91**	**7,67**	**10,91**	**5,70**

At the year-end, Group BESI had a VaR of euro 2.97 million for its trading positions which represents a decrease of 62% when compared to previous year.

Following the recommendations of Basel II (Pilar 2) and Instruction nº19/2005, of the Bank of Portugal, Group BESI 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 millions of euro)

	31.12.2012						
	Eligible amounts	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Cash and deposits	1	1	-	-	-	-	-
Loans and advances to banks	285	31	195	59	-	-	-
Loans and advances to customers	2 258	99	1 298	815	4	8	34
Securities	594	106	91	108	17	29	243
Collaterals deposits placed	444	-	444	-	-	-	-
Off-balance sheet	75	-	-	12	21	27	15
Total		**237**	**2 028**	**994**	**42**	**64**	**292**
Deposits from banks	151	-	151	-	-	-	-
Due to customers	2 021	47	1 679	-	-	280	15
Deposits	849	5	829	15	-	-	-
Repo´s with clients	118	-	118	-	-	-	-
Debt securities issued and subordinated debt	1 449	38	440	73	85	752	61
Other capital instruments	4	-	-	-	-	-	4
Collaterals deposits placed	5	-	5	-	-	-	-
Off-balance sheet	76	-	26	32	5	13	-
Total		**90**	**3 248**	**120**	**90**	**1 045**	**80**
GAP (assets - liabilities)		**147**	**(1 220)**	**874**	**(48)**	**(981)**	**212**

(in millions of euro)

	31.12.2011						
	Eligible amounts	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Cash and deposits	2	2	-	-	-	-	-
Loans and advances to banks	322	46	272	-	4	-	-
Loans and advances to customers	2 258	48	1 174	675	314	15	32
Securities	1 033	89	459	65	304	93	23
Collaterals deposits placed	501	-	501	-	-	-	-
Off-balance sheet	98	-	3	12	36	30	17
Total		**185**	**2 409**	**752**	**658**	**138**	**72**
Deposits from banks	64	-	64	-	-	-	-
Due to customers	2 453	160	2 268	3	5	17	-
Deposits	730	-	720	2	8	-	-
Repo´s with clients	129	-	129	-	-	-	-
Debt securities issued and subordinated debt	1 390	-	521	49	80	674	66
Other capital instruments	4	-	-	-	-	-	4
Collaterals deposits placed	6	-	6	-	-	-	-
Off-balance sheet	98	-	35	46	4	13	-
Total		**160**	**3 743**	**100**	**97**	**704**	**70**
GAP (assets - liabilities)		**25**	**(1 334)**	**652**	**561**	**(566)**	**2**

* The amounts in risk are at nominal value

The model used to monitor the sensitivity of Group BESI to interest rate risk is based on the duration model and considers parallel scenarios.

(in millions of euro)

	31.12.2012		31.12.2011	
	Parallel increase of 100 pb	Parallel descrease of 100 pb	Parallel increase of 100 pb	Parallel descrease of 100 pb
As at 31 December	0,7	(0,7)	22,6	(22,6)
Average for the year	3,8	(3,8)	23,5	(23,5)
Maximum for the year	8,7	2,8	26,6	(20,2)
Minimum for the year	(2,8)	(8,7)	20,2	(26,6)

The following table presents the average balances, interests and interest rates in relation to the BESI's major assets and liabilities categories, for the years ended 31 December 2012 and 2011:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Average balance for the year	Interest for the year	Average interest rate	Average balance for the year	Interest for the year	Average interest rate
Monetary assets	336 806	5 294	1,57%	316 494	5 157	1,63%
Loans and advances to customers	2 219 525	122 666	5,53%	2 201 681	123 775	5,62%
Securities	2 087 292	185 079	8,87%	2 378 069	231 887	9,75%
Other	476 427	1 069	0,22%	358 453	2 136	0,60%
Financial assets	**5 120 050**	**314 108**	**6,13%**	**5 254 697**	**362 955**	**6,91%**
Monetary Liabilities	2 278 661	92 852	4,07%	2 375 079	135 341	5,70%
Due to customers	948 156	53 767	5,67%	1 149 210	82 623	7,19%
Debt securities issued	1 418 030	69 586	4,91%	1 262 215	66 143	5,24%
Other funds	809 691	3 364	0,42%	683 748	2 351	0,34%
Financial liabilities	**5 454 538**	**219 569**	**4,03%**	**5 470 252**	**286 458**	**5,24%**
Net interest income		**94 539**	**2,12%**		**76 497**	**1,67%**

Concerning the foreign exchange risk, the distribution of the assets and liabilities by currency as at 31 of December of 2012 and 2011, is analysed as it follows:

(in thousands of euro)

		31.12.2012			31.12.2011		
		Spot	Forward	Net exposure	Spot	Forward	Net exposure
USD	United States Dollars	47 681	(41 320)	6 361	52 119	(76 673)	(24 554)
GBP	Great Britain Pounds	88 585	(90 001)	(1 416)	74 276	(73 715)	561
BRL	Brazilian real	128 253	(125 758)	2 495	137 462	(135 950)	1 512
JPY	Japanese yene	161	-	161	(311)	-	(311)
CHF	Swiss franc	891	-	891	617	(972)	(355)
PLN	Polac zloty	10 556	(10 857)	(301)	(353)	-	(353)
CAD	Canadian Dollars	2 973	(2 953)	20	4 188	(9 320)	(5 132)
AUD	Australian Dollars	7	-	7	-	-	-
INR	Indian rupee	4 068	-	4 068	-	-	-
	Others	121	6	127	848	(970)	(122)
		283 296	**(270 883)**	**12 413**	**268 846**	**(297 600)**	**(28 754)**

Note: asset /(liability)

As at 31 December 2012 and 31 December 2011 the exposure to public debt from peripheral Eurozone countries which are monitored by BESI is analysed as follows:

(in thousands of euro)

	31.12.2012					
	Loans and advances to customers	Financial assets held for trading at fair value	Derivative instruments [1]	Available-for-sale financial assets	Held-to-maturity investments	Total
Portugal	-	3 782	-	10 678	-	14 460
Spain	-	303	-	156 190	-	156 493
	-	**4 085**	**-**	**166 868**	**-**	**170 953**

[1] Net values: receivable/payable

(in thousands of euro)

	31.12.2011					
	Loans and advances to customers	Financial assets held for trading at fair value	Derivatives for risk management purposes [1]	Available-for-sale financial assets	Held-to-maturity investments	Total
Portugal	-	-	-	3 916	-	3 916
Spain	-	564	-	-	-	564
Ireland	-	-	(1 069)	-	-	(1 069)
	-	**564**	**(1 069)**	**3 916**	**-**	**3 411**

[1] Net values: receivable/payable

All the exposures presented above, except loans and advances to customers and held-to-maturity investments, 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.

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 can be analysed as follows:

(in thousands of euro)

	31.12.2012					
	Nominal Amount	Market value	Accrued interest	Book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**14 024**	**10 209**	**469**	**10 678**	**-**	**1 846**
Maturity up to 1 year	124	126	2	128	-	11
Maturity exceeding 1 year	13 900	10 083	467	10 550	-	1 835
Spain	**150 000**	**150 101**	**6 089**	**156 190**	**-**	**1 605**
Maturity exceeding 1 year	150 000	150 101	6 089	156 190	-	1 605
	164 024	**160 310**	**6 558**	**166 868**	**-**	**3 451**
Financial assets held for trading						
Portugal	3 750	3 754	28	3 782	-	-
Spain	305	303	-	303	-	-
	4 055	**4 057**	**28**	**4 085**	**-**	**-**

(in thousands of euro)

	31.12.2011					
	Nominal Amount	Market value	Accrued interest	Book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**4 400**	**3 733**	**183**	**3 916**	**-**	**(579)**
Maturity up to 1 year	2 100	2 054	57	2 111	-	(64)
Maturity exceeding 1 year	2 300	1 679	126	1 805	-	(515)
	4 400	**3 733**	**183**	**3 916**	**-**	**(579)**
Financial assets held for trading						
Spain	568	562	2	564	-	-
	568	**562**	**2**	**564**	**-**	**-**

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.

Liquidity management is centralized at the Financial Department. The purpose of liquidity management is to maintain adequate liquidity levels to meet short, medium and long term funding needs. The Bank prepares specific reports that allow the identification of negative mismatch and permits their dynamic coverage.

In addition, the Bank calculates the liquidity ratios in accordance with the Bank of Portugal rules.

Consolidated Liquidity Indicators

(in thousands of euro)

	31.12.2012	31.12.2011
Accumulated mismatch [1]	(733 182)	(699 905)
Net assets buffer [2]	1171 523	807 642
Global liquidity	**438 341**	**107 737**

[1] Accumulated mismatch corresponds to the diference between assets and liabilities with maturity date less than one year.

[2] The net assets buffer reflects the assets with maturity over one year that can be given as collateral to obtain liquidity, namelly assets that can be given as collateral on loan operations with Central Banks (less haircuts), excluding those assets which are being used as collateral for loan operations with maturity of over one year.

Operational Risk

Operational risk represents the risk of losses resulting from failures in internal procedures, people behaviours, information systems and external events.

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.

Capital management and solvability ratio

The Group's main goals from capital management are (i) to allow the adequate growth of activities through the generation of enough capital to support the increase of assets, (ii) fulfilment of the minimum requirements defined by the supervision authorities in terms of capital adequacy and (iii) to ensure the fulfilment of BESI strategic goals in respect to capital adequacy matters.

The definition of the strategy in terms of capital adequacy is made by the Executive Committee and is integrated in the global goals of BESI.

BESI is subject to Bank of Portugal supervision, which 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 fulfil.

In the scope of the implementation of the new capital accord Basel II, the Bank was authorized to use, starting 28 November 2008, the approach based in the use of internal models for credit risks (Internal Rating Based Approach – IRB) for credit risk and the Standardized Approach – TSA) for operational risk.

Currently for the purpose of the reporting to the Bank of Portugal, the Bank presents the solvency ratios in accordance with standard method for credit risk and the basic indicator method for operational risk.

The capital elements of Group BESI are divided into: Basic Own Funds, Complementary Own Funds and Deductions, as follows:

Basic Own Funds (Tier I): This category includes the realized capital, the eligible reserves, the retained earnings of the year and non-controlling interest. Are deducted by the correspondent book value the amounts related to goodwill, intangible assets, unrealised losses recognised under the fair value reserve and associated with equity securities, 50% of the book value of investments in banking and insurance associates over 10%.

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 by 50% of its value.

Deductions: 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 Tier I. Also, some components of the COF (Lower Tier II) cannot exceed 50% of the BOF.

In April 2007, Bank of Portugal issued Regulation 4/2007, which changed the rules to determine capital requirements. This regulation changed the treatment of the investments in banking and insurance entities that began to be deducted in 50% to the BOF and 50% to the COF. Previously, these investments were included in the deductions made to the total capital requirements.

At 2012 and 2011, the main movements occurred in Tier I are as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Balance at the beginning of the year	**489 294**	**503 260**
Capital increase	100 000	46 269
Other capital instruments	-	(46 269)
Other reserves and retained earnings	(16 008)	8 612
Changes on actuarial losses	-	1 707
Non-controlling interest	(4 928)	(4 315)
Fair value reserves with an impact in BOF	478	(446)
Intangible assets	(4 936)	(5 426)
Deductions to BOF	10 542	(14 098)
Balance at the end of the year	**574 442**	**489 294**

The capital adequacy of BESI as at 31 December 2012 and 31 December 2011 is presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Total consolidated assets	6 481 863	6 559 785
Risk weight assets	4 947 401	5 493 073
Weight percentage	76.33%	83.60%
Own funds requirements	395 792	439 446
Own funds requirements - Banking book	291 451	330 074
Own funds requirements - Trading book	66 552	71 327
Own funds requirements - Settlement risk	2	0
Own funds requirements - Operational risk	37 788	38 045
Eligible own funds	596 144	522 258
Basic own funds (Core Tier I)	575 484	500 877
Basic own funds	574 442	489 294
Complementary own funds	21 727	32 989
Deductions	(25)	(25)
Excess	200 352	82 812
Solvency ratio	**12.0%**	**9.5%**
TIER I ratio	**11.6%**	**8.9%**
CORE TIER I ratio	**11.6%**	**9.1%**

NOTE 44 – RECENTLY ISSUED PRONOUNCEMENTS

Recently issued pronouncements already adopted by the Group

In the preparation of the consolidated financial statements for the year ended 31 December 2012, the Group adopted the following standards and interpretations that are effective since 1 January 2012:

IFRS 7 (amended) – Financial Instruments: Disclosures – Transfers of Financial Assets

The International Accounting Standards Board (IASB), issued on 7th October 2010, amendments to "IFRS 7 – Disclosures – Transfers of Financial Assets", effective for annual periods beginning on or after 1st July 2011. Those amendments were endorsed by EU Commission Regulation 1205/2011, 22nd November.

The amendment requires enhanced disclosures about transfers of financial assets that enable users of financial statements:

- To understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liability; and

- To evaluate the nature of, and risks associated with, the entity´s continuing involvement in derecognised financial.

The amendments also required additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

The adoption of this amendment by the Group had no impact on its financial statements.

IAS 12 (amended) – Deferred Tax: Recovery of Underlying Assets

The IASB, issued on 20th December 2010, amendments to "IAS 12 – Income Tax – Recovery of Underlying Assets" (and withdraw SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets), effective for annual periods beginning on or after 1st January 2012. Those amendments were endorsed by EU Commission Regulation 1255/2012, 11th December.

The amendments to IAS 12 provide that, the deferred tax related to investment properties are measured with the presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale. Before the amendment, entities were allowed to consider that the carrying amount of investment proprieties would be recovered either through use or sale, depending on management intention.

The adoption of this amendment by the Group had no impact on its financial statements.

Recently issued pronouncements yet to be adopted by the Group

The new standards and interpretations that have been issued, but that are not yet effective and that the Group has not yet applied, are analysed below. The Group will apply these standards when they are effective.

Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 – Presentation of Financial Statements

The IASB, issued on 16th June 2011, amendments to "IAS 1 – Presentation of Financial Statements", effective (with retrospective application) for annual periods beginning on or after 1st January 2012. Those amendments were endorsed by EU Commission Regulation 475/2012, 5th June.

The changes retain the entity's option to present profit or loss and other comprehensive income in two statements, however requires:

- to present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss;
- an entity that presents items of other comprehensive income before related tax effects will also have to allocate the aggregated tax amount between the two subcategories; and
- change the title to "statement of profit or loss and other comprehensive income" - although other titles could be used.

The amendments affect presentation only and have no impact on the Group's financial position or performance.

IAS 19 Revised – Employee Benefits

The IASB, issued on 16th June 2011, amendments to "IAS 19 – Employee Benefits", effective (with retrospective application) for annual periods beginning on or after 1st January 2012. Those amendments were endorsed by EU Commission Regulation 475/2012, 5th June.

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group made a voluntary change in the accounting police related to actuarial gains and losses arising from its post employment benefits which from 2011 are charged to equity, under other comprehensive income.

However, the amended standard will impact the net benefit expenses as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation.

IFRS 7 (Amended) - Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities

The IASB, issued on 16th December 2011, amendments to "IFRS 7 – Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. Those amendments were endorsed by EU Commission Regulation 1256/2012, 11th December.

These amendments required an entity to disclose information about what amounts have been offset in the statement of financial position and the nature and extend of rights to set-off and related arrangements (e.g. collateral arrangements).

The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

The Group is evaluating the impact of adopting this interpretation on its financial statements.

IAS 32 (Amended) - Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities

The IASB, issued on 16th December 2011, amendments to "IAS 32 – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities", effective (with retrospective application) for annual periods beginning on or after 1st January 2014. Those amendments were endorsed by EU Commission Regulation 1256/2012, 11th December.

The IASB amended IAS 32 to add application guidance to address the inconsistent application of the standard in practice. The application guidance clarifies that the phrase 'currently has a legal enforceable right of set-off' means that the right of set-off must not be contingent on a future event and must be legally enforceable in the normal course of business, in the event of default and in the event of insolvency or bankruptcy, of the entity and all of the counterparties.

The application guidance also specifies the characteristics of gross settlement systems in order to be considered equivalent to net settlement.

The Group is not expecting a significant impact from the adoption of the amendment to IAS 32.

IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine

The International Financial Reporting Interpretations Committee (IFRIC), issued on 19th October 2011, "IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. Those amendments were endorsed by EU Commission Regulation 1255/2012, 11th December.

Give the nature of the Group´s operation, this interpretation does not have any impact on the financial statements.

IAS 27 (Revised) – Separate Financial Statements

The IASB, issued on 12th May 2011, amendments to "IAS 27 – Separate Financial Statements", effective (with prospective application) for annual periods beginning on or after 1st January 2014. Those amendments were endorsed by EU Commission Regulation 1254/2012, 11th December.

Taking in consideration that IFRS 10 addresses the principles of controls and the requirements relating to the preparation of consolidated financial statements, IAS 27 was amended to cover exclusively separate financial statements.

The amendments aimed, on one hand, to clarify the disclosures required by an entity preparing separate financial statements so that the entity would be required to disclose the principal place of business (and country of incorporation, if different) of significant investments in subsidiaries, joint ventures and associates and, if applicable, of the parent.

The previous version required the disclosure of the country of incorporation or residence of such entities.

On the other hand, it was aligned the effective dates for all consolidated standards (IFRS10, IFRS11, IFRS12, IFRS13 and amendments to IAS 28).

The Group expects no impact from the adoption of this amendment on its financial statements.

IFRS 10 Consolidated Financial Statements

The IASB, issued on 12th May 2011, "IFRS 10 Consolidated Financial Statements", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

IFRS 10, withdraw one part of IAS 27 and SIC 12, and introduces a single control model to determine whether an investee should be consolidated.

The new concept of control involves the assessment of power, exposure to variability in returns and a linkage between the two. An investment controls an investee when it is exposed, or has rights, to variability returns from its involvement with the investee and is able to affect those returns through its power over the investee (facto control).

The investor considers whether it controls the relevant activities of the investee, taking into consideration the new concept. The assessment should be done at each reporting period because the relation between power and exposure variability in returns may change over the time.

Control is usually assessed over a legal entity, but also can be assessed over only specified assets and liabilities of an investee (referred to as silo).

The new standard also introduce other changes such as: i) accounting requirements for subsidiaries in consolidation financial statements are carried forward from IAS 27 to this new standards and ii) enhanced disclosures are requires, including specific disclosures for consolidated and unconsolidated structured entities.

The group has not carried out a thorough analysis of the impacts of the application of this standard. Given the introduction of a new control model the Group may need to change its consolidation conclusion in respect of its investees.

IFRS 11 – Joint Arrangements

The IASB, issued on 12th May 2011, "IFRS 11 Joint arrangemnts", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

IFRS 11, withdraw IAS 31 and SIC 13, defines "joint control" by incorporating the same control model as defined in IFRS 10 and requires an entity that is part of a "join arrangement" to determine the nature of the joint arrangement ("joint operations" or "joint ventures") by assessing its rights and obligations.

IFRS 11 removes the option to account for joint ventures using the proportionate consolidation. Instead, joint arrangements that meet the definition of "joint venture" must be account for using the equity method (IAS 28).

The Group expects no impact form the adoption of this amendment on its financial statements.

IAS 28 (Revised) – Investments in Associates and Joint Ventures

The IASB, issued on 12th May 2011, "IAS 28 Investments in Associates and Joint Ventures", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed as IAS 28 Investments in Associates and Joint ventures, and describes the application of the entity method to investments in joint ventures and associates.

The Group expects no impact form the adoption of this amendment on its financial statements.

IFRS 12 – Disclosures of Interest in Other Entities

The IASB, issued on 12th May 2011, "IFRS 12 Disclosures of Interests in Other Entities", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

The objective of this new standard is to require an entity to disclose information that enables users of its financial statements to evaluate: (a) the nature of, and risks associated with, its interests in other entities; and (b) the effects of those interests on its financial position, financial performance and cash flows.

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special vehicles and other off balance sheet vehicles.

The Group is yet assessing the full impact of the new IFRS 12 in line with the adoption of IFRS 10 and IFRS 11.

IFRS 13 – Fair Value Measurement

The IASB, issued on 12th May 2011, "IFRS 13 fair value Measurement", effective (with prospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1255/2012, 11th December.

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs.

The Group is currently reviewing its methodologies for determining fair values.

Although many of IFRS 13 disclosures requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorized in Level 3.

Investment Entities – Amendments to IFRS 10, IFRS12 and IAS 8 (issued by IASB on 31st October 2012)

The amendments apply to a particular class of business that qualify as investment entities. The IASB uses the term 'investment entity' to refer to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organizations, venture capital organizations, pension funds, sovereign wealth funds and other investment funds.

The amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

The amendments are effective from 1 January 2014 with early adoption permitted. This option allows investment entities to apply the Investment Entities amendments at the same time they first apply the rest of IFRS 10.

The Group does not expect any major impact from the adoption of this amendment on its financial statements.

Improvements to IFRS (2009-2011)

The annual improvements cycle 2009-2011, issued by IASB on 17th May 2012, introduce amendments, with effective date on, or after, 1st January 2013, to the standards IFRS1, IAS1, IAS16, IAS32, IAS34 and IFRIC2.

IAS 1 - Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 - Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 - Financial Instruments, Presentation and IFRIC 2

The improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes, avoid any interpretation that may mean any either application.

IAS 34 - Interim Financial Reporting

The amendments align the disclosure requirement for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures in relation to the changes of profit and loss account and other comprehensive income.

The Group is evaluating the impact on the adoption of these improvements

IFRS 9 Financial instruments (issued in 2009 and revised in 2010)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project of make limits amendments to the classification and measurement requirements of IFRS 9 and new requirements to address the impairment of financial assets and hedge accounting

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables.

For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognized in profits or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment.

Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognized in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instruments is assessed in its entirety as to whether it should be amortised cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities form IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues.

The Group has commenced the process of evaluating the potential effect of this standard but is awaiting finalization of the limited amendments before the evaluation can be completed. Given the nature of the Group's operation, this standard is expected to have a pervasive impact on the Group's financial statements.

Report and Opinion of the Supervisory Board

Banco Espírito Santo de Investimento, S.A.

for the financial year 2012

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

To the Shareholder of
Banco Espírito Santo de Investimento, S.A.

In accordance with the applicable legislation, we hereby present our report of the audit performed by the Supervisory Board on the Annual Management Report, individual and consolidated financial statements and the proposed allocation of results presented by the Board of Directors of Banco Espírito Santo de Investimento, S.A. (from here on "BESI") for the year ended December 31st, 2012.

During the financial year of 2012, BESI´s Supervisory Board, as part of its designated functions, followed, in accordance with the law and the company's statutes, the development of BESI's management and business activities, namely:

(i) assessed the adequacy and efficiency of risk management, internal controls and internal auditing systems and procedures;
(ii) attended Board of Directors meetings whenever invited;
(iii) reviewed management information documents submitted to the Supervisory Board by the Board of Directors;
(iv) monitored the verification of accounting records and underlying support documentation;
(v) assessed accounting policies and valuation criteria adopted by BESI; and
(vi) held meetings, whenever necessary, with the Official Auditor, on the assessment of the accounting policies and valuation criteria adopted by BESI, who always provided the information deemed necessary.

In accordance with the applicable legislation, the Supervisory Board also assessed the Auditor´s Report prepared by the Official Auditor on the individual and consolidated financial statements and was also made aware of the individual and consolidated Statutory Audit Report ("Certificação Legal de Contas") on the financial statements (individual and consolidated) for the financial year 2012, in which no qualifications or emphasis were expressed, and with which the Supervisory Board agrees.

The Supervisory Board was also made aware of the findings issued in the Audit Report prepared by an international auditing company.

The Supervisory Board also analysed the Management Report submitted by the Board of Directors and considers that the report complies with the applicable legal and statutory requirements and elucidates the main aspects of BESI's activities in 2012, both individual and consolidated terms.

The Supervisory Board recognises that the results presented are a consequence of the adverse environment at national and international levels.

Due to the mentioned above, the Supervisory Board is the opinion that the following should be approved:

- The Management Report and other documents relating to the individual and consolidated financial statements as at and for the financial year ended on December 31st, 2012;
- The proposal submitted by the Board of Directors on the allocation of the individual net profits for the financial year ended 2012, in the amount of EUR 18.249.803,09.

Lisbon, March 19th, 2013

THE SUPERVISORY BOARD

José Manuel Macedo Pereira (Chairman)
Tito Manuel das Neves Magalhães Basto
Mário Paulo Bettencourt de Oliveira

Declaration of Conformity on the Financial Information Presented

The present declaration is submitted under the terms of line c) of n.º 1 of Article 245 of the Securities Market Code (CVM).

The Supervisory Board does hereby declare that, to the best of its knowledge:

- The information referred in line a) of n.º 1 of Article 245 of the Securities Market Code, as at December 31st, 2012 was prepared in accordance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, the financial situation and the results of BESI and the companies included within its consolidated perimeter; and
- The management report faithfully details the evolution of business, the performance and the position of BESI and the companies included within its consolidated perimeter and contain a description of the main risks and uncertainties faced within the framework of ongoing activities.

Lisbon, March 19th, 2013

THE SUPERVISORY BOARD

José Manuel Macedo Pereira (Chairman)
Tito Manuel das Neves Magalhães Basto
Mário Paulo Bettencourt de Oliveira

BANCO ESPÍRITO SANTO DE INVESTIMENTO, S.A.

Statutory Audit and Auditor's Report

(Consolidated Accounts)

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

INTRODUCTION

1. In accordance with the applicable legislation, we hereby present the Statutory Audit and Auditor's Report on the financial information contained in the Management Report and corresponding Consolidated Financial Statements for the financial year ending on December 31, 2012, of "**BANCO ESPÍRITO SANTO DE INVESTIMENTO, S.A.",** which comprise: the consolidated balance sheet (which reports consolidated assets of 6,481,863 thousand euros and total equity attributable to the equity holder of the Bank of 630,473 thousand euros, including a consolidated net profit for the year attributable to the equity holder of the Bank of 22,028 thousand euros), the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity for the year then ended and the corresponding Notes.

RESPONSIBILITIES

2. The Board of Directors is responsible for:

   a) the preparation of consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, that present a true and fair view of the financial position of the companies included within the scope of consolidation, consolidated profits and losses, consolidated comprehensive income, consolidated changes in equity and consolidated cash flows positions;

   b) the historical financial information, prepared in accordance with generally accepted accounting standards and which must be complete, true and fair, to date, transparent, objective and lawful, in accordance with the Securities Market Code;

   c) adopting appropriate accounting policies and criteria;

   d) maintaining an adequate internal control system; and

   e) disclosing any relevant fact that may have affected the operations, financial situation or results of the companies included within the scope of consolidation.

3. We are responsible for auditing the financial information included in the financial statements, for determining whether it is complete, true and fair, to date, transparent, objective and lawful, as required by the Securities Market Code, and for issuing a professional and independent report based on our audit.

SCOPE

4. Our audit was performed in accordance with applicable Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors (Ordem dos Revisores Oficiais de Contas), which require us to plan and perform our audit so as to obtain reasonable assurance that the consolidated financial statements are free of material misstatements. Our audit therefore included:

   - an examination, on a test sample basis, of evidence for the amounts and disclosures in the financial statements and an assessment of the estimates used, based on the judgements and criteria defined by the Board of Directors, in the preparation of the financial statements;
   - a verification as to whether the consolidation rules and the application of the equity method have been consistently applied;
   - an assessment of whether the accounting policies adopted were appropriate to the circumstances of the Bank and that these were adequately disclosed;
   - a verification as to whether the going-concern assumption is applicable;
   - an assessment as to whether the financial statements present a sufficient representation of the Bank's overall financial situation; and
   - an assessment as to whether the consolidated financial information is complete, true and fair, to date, transparent, objective and lawful.

5. Our audit included an examination that the consolidated financial information disclosed in the Management Report are consistent with the amounts presented in the financial statements.

6. We consider that the audit carried out provides a reasonable basis to express our opinion.

OPINION

7. In our opinion, the consolidated financial statements referred to above present a true and fair view, in all material respects, of the consolidated financial position of "**BANCO ESPÍRITO SANTO DE INVESTIMENTO, S.A."** as at December 31, 2012, the consolidated results of its operations, its consolidated comprehensive income, its consolidated changes in equity and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and that all the information included is complete, true, to date, transparent, objective and lawful.

REPORT ON OTHER LEGAL REQUIREMENTS

8. It is also our opinion that the information contained in the management report is in accordance with the consolidated financial statements of the year.

Lisbon, March 18, 2013

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Amável Alberto Freixo Calhau

Representing:

"Amável Calhau, Ribeiro da Cunha e Associados

- Sociedade de Revisores Oficiais de Contas -"

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AUDITORS' REPORT

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

Introduction

1 We have audited the consolidated financial statements of Banco Espírito Santo de Investimento, S.A., which comprise the consolidated balance sheet as at 31 December 2012 (showing total consolidated assets of Euro 6 481 863 thousand and total equity attributable to the equity holders of the Bank of Euro 630 473 thousand, including a net profit for the year attributable to the equity holders of the Bank of Euro 22 028 thousand), the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and the corresponding Notes to the accounts.

Responsibilities

2 The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, that present fairly, in all material respects, the consolidated financial position of the Bank, the consolidated results of its operations, its consolidated comprehensive income, its consolidated cash flows and its consolidated changes in equity; the adoption of adequate accounting policies and criteria and maintaining an appropriate system of internal control.

3 Our responsibility is to issue a professional and independent report based on our audit.

Scope

4 Our audit was performed in accordance with the Technical Standards, and Guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. Accordingly our audit included:

- verification that the financial statements of the companies included in the consolidation have been properly audited and, in those significant cases in which they were not, verification, on a test basis, of the information underlying the figures and its disclosures contained therein, and an assessment of the estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A., a Portuguese company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG & Associados - S.R.O.C., S.A. Capital Social: 3.120.000 Euros - Pessoa Colectiva Nº PT 502 161 078 - Inscrito na O.R.O.C. Nº 189 - Inscrito na C.M.V.M. Nº 9093

Matriculada na Conservatória do registo Comercial de Lisboa sob o PT 502 161 078

- verification of the consolidation procedures and of the application of the equity method;
- evaluating the appropriateness of the accounting policies used and of their disclosure, taking into account the applicable circumstances;
- assessing the applicability of the going concern basis of accounting; and
- assessment of the appropriateness of the overall presentation of the consolidated financial statements.

5 Our audit also included the verification that the consolidated financial information contained in the Annual Report of the Board of Directors is consistent with the consolidated financial statements presented.

6 We believe that our audit provides a reasonable basis for our opinion.

Opinion

7 In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the consolidated financial position of Banco Espírito Santo de Investimento, S.A. as at 31 December 2012, the consolidated results of its operations, its consolidated comprehensive income, its consolidated changes in equity and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

Report on Other Legal Requirements

8 It is also our opinion that the consolidated financial information included in the Board of Directors report is consistent with the consolidated financial statements for the period.

Lisbon, 18th March 2013

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)
Represented by
Fernando Gustavo Duarte Antunes (ROC n.º 1233)

INDIVIDUAL FINANCIAL STATEMENTS

AND CORRESPONDING NOTES

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

1. Individual Financial Statements

Income Statement for the years ended 31 December 2012 and 2011

(in thousands of euro)

	Notes	31.12.2012	31.12.2011
Interest and similar income	4	112 054	86 847
Interest expense and similar charges	4	90 455	77 797
Net interest income		**21 599**	**9 050**
Dividend income		152	22
Fee and commission income	5	57 592	70 424
Fee and commission expense	5	(13 403)	(11 178)
Net gains from financial assets at fair value through profit or loss	6	42 241	22 842
Net gains from available-for-sale financial assets	7	57 078	36 300
Net (losses) from foreign exchange differences	8	(2 599)	(16 244)
Net (losses) from sale of other financial assets	9	(2 624)	(4 615)
Other operating income and expense	10	(860)	(5 527)
Operating income		**159 176**	**101 074**
Staff costs	11	52 480	47 522
General and administrative expenses	13	32 517	34 651
Depreciation and amortisation	23 and 24	3 745	2 965
Provisions net of reversals	31	15 362	(1 440)
Loans impairment net of reversals and recoveries	20	24 337	31 067
Impairment on other financial assets net of reversals and recoveries	18 and 19	3 290	1 000
Impairment on other assets net of reversals and recoveries	26	646	606
Operating expenses		**132 377**	**116 371**
Profit before income tax		**26 799**	**(15 297)**
Income tax			
Current tax	32	(16 065)	(1 238)
Deferred tax	32	7 516	7 158
Profit for the year		**18 250**	**(9 377)**
Basic Earnings per Share (in Euro)	14	0.35	-0.34
Diluted Earnings per Share (in Euro)	14	0.35	-0.34

The following notes form an integral part of these individual financial statements.

Chief Accountant

The Board of Directors

Statement of Comprehensive Income for the years ended 31 December 2012 and 2011

(in thousands of euro)

	31.12.2012	31.12.2011
Profit for the year	18 250	(9 377)
Other comprehensive income for the year		
Long-term benefit	(2 329)	4 817
Available-for-sale financial assets		
Gains/ (losses) arising during the year	66 703	29 948
Reclassification adjustments for gains/ (losses) included in the profit or loss	(53 783)	(35 309)
Deferred taxes	(3 679)	2 640
	9 241	(2 721)
Total comprehensive income/ (loss) for the year	**25 162**	**(7 281)**

The following notes form an integral part of these individual financial statements.

Balance Sheet as at 31 December 2012 and 2011

(in thousands of euro)

	Notes	31.12.2012	31.12.2011
Assets			
Cash and deposits at central banks	15	1 067	1 854
Deposits with banks	16	23 522	36 376
Financial assets held for trading	17	840 486	872 579
Available-for-sale financial assets	18	339 974	106 769
Loans and advances to banks	19	149 284	175 207
Loans and advances to customers	20	896 245	876 777
Held-to-maturity investments	21	37 431	39 730
Derivatives for risk management purposes	22	2 305	649
Other tangible assets	23	13 141	16 701
Intangible assets	24	12 684	8 796
Investments in subsidiaries and associates	25	4 480	4 480
Current income tax assets		3 206	2 770
Deferred income tax assets	32	36 650	35 231
Other assets	26	1 024 532	1 079 147
Total Assets		**3 385 007**	**3 257 066**
Liabilities			
Deposits from central banks	27	151 087	64 007
Financial liabilities held for trading	17	714 730	733 963
Deposits from banks	28	1 242 642	1 507 011
Due to customers	29	196 518	230 814
Debt securities issued	30	293 495	23 570
Derivatives for risk management purposes	22	529	949
Provisions	31	26 401	25 659
Current income tax liabilities		16 688	5 187
Deferred income tax liabilities	32	2 138	2 373
Subordinated debt	33	60 284	70 222
Other liabilities	34	230 852	268 701
Total Liabilities		**2 935 364**	**2 932 456**
Equity			
Share capital	35	326 269	226 269
Share premium	35	8 796	8 796
Other equity instruments	35	3 731	3 731
Fair value reserve	36	1 159	(8 082)
Other reserves, retained earnings and other comprehensive income	36	91 438	103 273
Profit/ (loss) for the year		18 250	(9 377)
Total Equity		**449 643**	**324 610**
Total Equity and Liabilities		**3 385 007**	**3 257 066**

The following notes form an integral part of these individual financial statements.

Chief Accountant

The Board of Directors

Statement of Changes in Equity for the years ended 31 December 2012 and 2011

(in thousands of euro)

	Share capital	Share premium	Other equity instruments	Reserves, retained earnings and other comprehensive income			Profit for the year	Total equity
				Fair value reserve	Other reserves, retained earnings and other comprehensive income	Total		
Balance as at 31 December 2010 (restated)	**180 000**	**8 796**	**50 000**	**(5 361)**	**73 934**	**68 573**	**27 697**	**335 066**
Other comprehensive income								
Changes in fair value, net of taxes	-	-	-	(2 721)	-	(2 721)	-	(2 721)
Actuarial gains / (losses) from defined benefit obligation, net of taxes	-	-	-	-	5 459	5 459	-	5 459
Profit for the year	-	-	-	-	-	-	(9 377)	(9 377)
Total comprehensive income in the year	**-**	**-**	**-**	**(2 721)**	**5 459**	**2 738**	**(9 377)**	**(6 639)**
Capital increase	46 269	-	-	-	-	-	-	46 269
Transfer to reserves	-	-	-	-	27 697	27 697	(27 697)	-
Reimbursment of other equity instruments	-	-	(46 269)	-	-	-	-	(46 269)
Interests on other equity instruments, net of taxes **(a)**	-	-	-	-	(3 175)	(3 175)	-	(3 175)
Other movements	-	-	-	-	(642)	(642)	-	(642)
Balance as at 31 December 2011	**226 269**	**8 796**	**3 731**	**(8 082)**	**103 273**	**95 191**	**(9 377)**	**324 610**
Other comprehensive income								
Changes in fair value, net of taxes	-	-	-	9 241	-	9 241	-	9 241
Actuarial gains / (losses) from defined benefit obligation, net of taxes	-	-	-	-	(2 329)	(2 329)	-	(2 329)
Profit for the year	-	-	-	-	-	-	18 250	18 250
Total comprehensive income in the year	**-**	**-**	**-**	**9 241**	**(2 329)**	**6 912**	**18 250**	**25 162**
Capital increase	100 000	-	-	-	-	-	-	100 000
Transfer to reserves	-	-	-	-	(9 377)	(9 377)	9 377	-
Interests on other equity instruments, net of taxes **(a)**	-	-	-	-	(225)	(225)	-	(225)
Other movements	-	-	-	-	96	96	-	96
Balance as at 31 December 2012	**326 269**	**8 796**	**3 731**	**1 159**	**91 438**	**92 597**	**18 250**	**449 643**

(a) Corresponds to a conditioned interest payable semi-annually and calculated based on an annual rate of 8.5% (amounts issued in euro) related to the perpetual subordinated bonds issued by BESI (see Note 35)

The following notes form an integral part of these individual financial statements.

Cash Flow Statement for the years ended 31 December 2012 and 2011

(in thousands of euro)

	Notes	31.12.2012	31.12.2011
Cash flows from operating activities			
Interest and similar income received		112 054	86 847
Interest expense and similar charges paid		(98 558)	(75 650)
Fees and commission received		57 592	70 424
Fees and commission paid		(13 403)	(11 178)
Cash payments to employees and suppliers		(84 997)	(82 173)
		(27 312)	**(11 730)**
Changes in operating assets and liabilities:			
Deposits with central banks		774	10 168
Financial assets at fair value through profit or loss		53 993	351 731
Loans and advances to banks		25 923	312 326
Deposits from central banks		87 080	(200 597)
Deposits from banks		(264 369)	(146 255)
Loans and advances to customers		(22 544)	74 944
Due to customers		(34 296)	(220 563)
Derivatives for risk management purposes		3 672	4 529
Other operating assets and liabilities		(20 151)	(329 836)
Net cash from operating activities before income tax		**(197 230)**	**(155 283)**
Income taxes paid		(5 000)	(923)
		(202 230)	**(156 206)**
Cash flows from investing activities			
Acquisition of subsidiaries and associates		-	(1 000)
Dividends received		152	22
Acquisition of available-for-sale financial assets		(1 047 458)	(12 366)
Sale of available-for-sale financial assets		871 331	195 352
Held-to-maturity investments		2 299	2 315
Acquisition of tangible and intangible assets		(5 524)	(9 081)
Sale of tangible and intangible assets		2 118	207
		(177 082)	**175 449**
Cash flows from financing activities			
Proceeds from issue of bonds		278 286	1 875
Reimbursement of bonds		(11 841)	(5 422)
Capital increase		100 000	-
Net cash from financing activities		**366 445**	**(3 547)**
Net changes in cash and cash equivalents		**(12 867)**	**15 696**
Cash and cash equivalents at the beginning of the year		36 392	20 696
Cash and cash equivalents at the end of the year		23 525	36 392
		(12 867)	**15 696**
Cash and cash equivalents includes:			
Cash	15	3	16
Deposits with banks	16	23 522	36 376
Total		**23 525**	**36 392**

The following notes form an integral part of these individual financial statements.

2. Notes to the Individual Financial Statements

Banco Espírito Santo de Investimento, S.A.

NOTE 1 - ACTIVITY

Banco Espírito Santo de Investimento, S.A. (the Bank or BESI) is an investment bank headquartered in Portugal, Rua Alexandre Herculano, no. 38, in Lisbon. The Bank is authorized by the Portuguese authorities, central banks and other regulatory authorities, to operate in Portugal and in the countries where its international branches are located.

The company was established in February 1983 as a foreign investment in Portugal under the name FINC – Sociedade Portuguesa Promotora de Investimentos, S.A.R.L. During 1986 the company was integrated into the Espírito Santo Group under the designation of Espírito Santo – Sociedade de Investimentos, S.A.

In order to enlarge the scope of its business, the company obtained permission from the Portuguese authorities to operate as an investment bank. This involved the publication of Order-in-Council no. 366/92, November 23, published in the Diário da República – Series II – no. 279, December 3. The activity as an investment bank started under the name Banco ESSI, S.A., on April 1, 1993.

BESI currently operates through its headquarters in Lisbon, branches in London, Madrid, Warsaw and New York and through its subsidiaries in Brazil, Ireland, Poland, United Kingdom and India.

During 2000, Banco Espírito Santo, S.A. (BES) acquired all of the share capital of BES Investimento in order to reflect in its consolidated financial statements all the synergies generated by both institutions.

BESI financial statements are consolidated by Banco Espírito Santo, S.A., headquartered at Avenida da Liberdade, no 195, Lisbon and by Espírito Santo Financial Group, S.A. (ESFG), with headquarters in Luxembourg.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

In accordance with Regulation (EC) no. 1606/2002 of 19 July 2002 from the European Council and Parliament, and its adoption into Portuguese Law through Decree-Law no. 35/2005, of 17 February 2005 and Regulation no. 1/2005 from the Bank of Portugal, Banco Espírito Santo de Investimento, S.A. (BESI or the Bank) is required to prepare its financial statements in accordance with Adjusted Accounting Standards (NCA), as established by the Bank of Portugal.

NCA are composed by all the standards included in the International Financial Reporting Standards (IFRS) as adopted for use in the EU, with the exception of issues regulated by the Bank of Portugal such as loans impairment and recognition in retained earnings of the adjustments related to pensions during the transition period.

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 individual financial statements as at and for the year ended 31 December 2012 were prepared in accordance with Adjusted Accounting Standards (NCA), which includes the IFRS adopted by the EU until 31 December 2012.

The accounting policies applied by the Bank in the preparation of these financial statements as at 31 December 2012 are consistent with the ones used in the preparation of the annual financial statements as at 31 December 2011. However, as allowed under paragraph 93A of IAS 19 “Employee Benefits”, in 2011 the Bank changed its accounting policy related to actuarial gains and losses determination in post employment benefits, becoming to recognise the actuarial differences under other comprehensive income, from the previous corridor method.

Additionally, as described in Note 41, in the preparation of the financial statements as at 31 December 2012, the Bank adopted the accounting standards issued by the IASB and IFRIC interpretations, effective since 1 January 2012. The accounting policies adopted by the Bank in the preparation of the Individual Financial Statements are in accordance with those described in that note. The adoption of these standards and interpretations by the Bank had no material effect in the Bank’s Individual Financial Statements.

The accounting standards and interpretations recently issued but not yet effective, and that the Bank has not yet adopted in the preparation of its financial statements can also be analysed in Note 41.

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

The preparation of financial statements in conformity with NCA requires the application of judgment and the use of estimates and assumptions by management that affects the process of applying the Bank'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 financial statements are disclosed in Note 3.

These individual financial statements were approved in the Board of Directors meeting held on 14 March 2013.

2.2. 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.

2.3. 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 Bank, these derivatives do not present any fair value on the balance sheet.

The margin accounts are included under the caption Other assets (see Note 26) 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.

During the years covered by these financial statements the Bank did not have any transactions classified as cash flow hedge.

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.

2.4. Loans and advances to customers

Loans and advances to customers include loans and advances originated by the Bank, 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 Bank 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 Bank 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.

Impairment

The Bank 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) have an impact on the estimated future cash flows of the loan or of the loan portfolio, that can be reliably estimated.

The Bank first assesses whether objective evidence of impairment exists individually for each loan. In this assessment the Bank 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 Bank;
- 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 Bank'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 Bank and historical loss experience. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank with the purpose of reducing any differences between loss estimates and actual loss experience.

According to NCA, loans value should be adjusted on prudent and righteousness criteria in order to reflect at all time its realisable value. This impairment adjustment must be equal or greater than the determined under the regulation no. 3/95, from the Bank of Portugal, which establishes the minimum reference values for generic and specific provisions.

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

2.5. Other financial assets

Classification

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

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

Note 17 includes a summary of the assets and liabilities that were classified at fair value trough profit or loss at inception.

The structured products acquired by the Bank 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 Bank'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 Bank 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 Bank 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 Bank 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 value of quoted investments in active markets are based on current bid prices. For unlisted securities the Bank 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 Bank 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

In accordance with NCA, the Bank assesses periodically whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment the recoverable amount of the asset is determined and impairment losses are recognised through the income statement.

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. 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.

2.6. 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 of the balance sheet. The corresponding liability is included in amounts due to banks or to customers, as appropriate. The difference between the 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 on the balance sheet, 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 2.5. securities received under borrowing agreements are not recognised in the balance sheet.

2.7. Financial liabilities

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

Non-derivatives financial liabilities include deposits from banks and due to customers, loans, debt securities, subordinated debt and short sales.

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 Bank 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 Bank 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 Bank establishes the fair value by using valuation techniques based on market information, including the own credit risk of the issuer.

If the Bank 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.

2.8. Financial Guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss incurred 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.
Financial guarantee contracts issued by the Bank 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 Bank, at the inception date, is approximately null due to the fact that the conditions accorded are on a market basis, so the amount recognised on the settlement date equals 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.

2.9. 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.

2.10. 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.

2.11. 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 the intention to its subsequent disposal), the assets or disposal groups are available for immediate sale and is highly probable.

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

2.12. 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 Bank. 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
Fixtures	5 to 12
Furniture	4 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.

2.13. 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 eight 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.

2.14. Leases

The Bank 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.

2.15. Employee benefits

Pensions

Arising from the signing of the Collective Labor Agreement - “Acordo Colectivo de Trabalho” (ACT) - and subsequent amendments resulting from the 3 tripartite agreements as described in Note 12, the Bank 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.

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

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

On an annually basis, at the year-end, the liability with pensions is calculated 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 was determined with reference to market rates associated with high-quality corporate bonds issues, denominated in the currency in which benefits will be paid and with a maturity similar to the expiry date of the plan obligations.

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

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

Past service expenses related with the conception of a defined benefit plan, amendments or a existing one, are deferred through the period up to the benefits become vested.

At each period, the Bank 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 of early retirement, and (v) effect of settlement or curtailment occurred during the period. Early retirement costs correspond to an increase on the liabilities due to the fact the employee retires before reaching 65 years of age.

The Bank performs 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%.

Annually, the Bank 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 Bank 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 Bank 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 Bank's liability with post-retirement healthcare benefits is similar to the measurement and recognition of the pension liability previously 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 Bank has assumed the commitment to pay to current employees which achieve 15, 25 and 30 years of service within the Bank, 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 Bank in accordance with IAS 19, as well as other long-term employee benefits.

The liability with long-term service benefits is calculated by the Bank on an annual basis, at the balance sheet date, 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.

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.

2.16. Income taxes

Income taxes 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 computed using the balance sheet liability method, based in the 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, 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 in order to be deducted temporary differences.

2.17. Provisions

Provisions are recognised when: (i) the Bank 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 Bank 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 Bank 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.

2.18. 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 Bank 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 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.

2.19. Fee and commission income

Fees and commissions are recognised as follows:

- Fees and commissions that are earned on the execution of a significant act, such 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 related to;
- 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.

2.20. Dividend income

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

2.21. Segmental reporting

According to paragraph 4 of IFRS 8 – Operating Segments, the Bank is exempted to submit a report on an individual basis by segment, since the individual financial statements are presented together with the consolidated financial statements.

2.22. 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 year, excluding the average number of ordinary shares purchased by the Bank 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.

2.23. 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.

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

NCA set forth a range of accounting treatments and require management to apply judgment 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 Bank's reported results and related disclosure. A broader description of the accounting policies employed by the Bank is shown in Note 2 to the Financial Statements.

Because in many cases there are other alternatives to the accounting treatment chosen by management, the Bank'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 Bank's financial position and results fairly in all material respects.

3.1. Impairment of available-for-sale financial assets

The Bank 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 judgment based on all available relevant information, including the normal volatility of the financial instruments prices. Considering the high volatility of the markets, the Bank 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 (marl to market) or valuation models (mark to model) that may require assumptions or judgment 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 Bank.

3.2. Fair value of derivatives

Fair values are based on listed market prices if available; otherwise fair value is determined either by dealer price quotations (both for that transactions 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 Bank reviews its loan portfolios to assess impairment on a regular basis, as described in Note 2.4, in accordance with the minimum reference values for generic and specific provisions, determined under the regulation no. 3/95, from the Bank of Portugal.

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

3.4 Held-to-maturity investments

The Bank 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 judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

If the Bank 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 Bank. The use of different assumptions and estimates could have an impact on the income statement of the Bank.

3.5. Income Taxes

The Bank is subject to pay 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' determination of annual taxable earnings, for a period of four years or six years in case there are tax losses carried 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, are confident that there will be no material tax assessments within the context of the financial statements.

3.6. 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.

NOTE 4 – NET INTEREST INCOME

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Assets/Liabilities at Amortised Cost and Available-for-Sale Financial	Assets/Liabilities at Fair Value Through Profit or Loss	Total	Assets/Liabilities at Amortised Cost and Available-for-Sale Financial	Assets/Liabilities at Fair Value Through Profit or Loss	Total
Interest and similar income						
Interest from loans and advances	28 559	-	28 559	35 154	-	35 154
Interest from financial assets at fair value through profit or l	-	5 129	5 129	-	2 679	2 679
Interest from deposits with banks	2 835	-	2 835	4 989	-	4 989
Interest from available-for-sale financial assets	16 371	-	16 371	6 560	-	6 560
Interest from derivatives for risk management purposes	-	56 987	56 987	-	33 442	33 442
Interest from held-to-maturity financial assets	1 134	-	1 134	1 422	-	1 422
Other interest and similar income	1 039	-	1 039	2 601	-	2 601
	49 938	**62 116**	**112 054**	**50 726**	**36 121**	**86 847**
Interest expense and similar charges						
Interest from debt securities	-	7 394	7 394	162	287	449
Interest from amounts due to customers	2 851	-	2 851	6 731	-	6 731
Interest from deposits from central banks and other banks	22 530	-	22 530	34 893	-	34 893
Interest from derivatives for risk management purposes	-	56 541	56 541	-	33 599	33 599
Interest from subordinated debt	1 041	-	1 041	1 848	-	1 848
Other expense and similar charges	98	-	98	277	-	277
	26 520	**63 935**	**90 455**	**43 911**	**33 886**	**77 797**
	23 418	**(1 819)**	**21 599**	**6 815**	**2 235**	**9 050**

Interest from derivatives for risk management purposes includes, in accordance with the accounting policy described in Notes 2.3 and 2.18, 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 and 2.7.

NOTE 5 – NET FEE AND COMMISSION INCOME

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Fee and commission income		
From banking services	29 676	34 593
From guarantees granted	2 758	4 484
From transactions made on behalf of third parties	25 158	31 347
	57 592	70 424
Fee and commission expense		
For banking services rendered by third parties	1 295	1 687
For operations rendered by third parties	12 030	9 485
From guarantees received	78	4
Other fee and comission expenses	-	2
	13 403	11 178
	44 189	**59 246**

NOTE 6 – NET GAINS FROM FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Gains	Losses	Total	Gains	Losses	Total
Trading assets and liabilities						
Bonds and other fixed income securities						
Issued by government and public entities	35 543	4 483	31 060	10 173	4 827	5 346
Issued by other entities	9 271	1 410	7 861	12 124	5 406	6 718
Shares	25 085	22 345	2 740	40 579	43 715	(3 136)
Other variable income securities	319	270	49	195	212	(17)
	70 218	**28 508**	**41 710**	**63 071**	**54 160**	**8 911**
Derivative financial instruments						
Exchange rate contracts	9 360	15 552	(6 192)	27 460	25 035	2 425
Interest rate contracts	392 629	382 527	10 102	492 358	484 070	8 288
Equity/Index contracts	249 980	253 082	(3 102)	153 740	151 664	2 076
Credit default contracts	40 585	40 138	447	61 642	60 538	1 104
Other	-	24	(24)	-	875	(875)
	692 554	**691 323**	**1 231**	**735 200**	**722 182**	**13 018**
Financial liabilities at fair value through profit or loss (1)						
Deposits from banks	1 014	2	1 012	216	132	84
Debt securities issued	211	2 879	(2 668)	2 849	1 527	1 322
Other subordinated debt	2 715	1 759	956	-	493	(493)
	3 940	**4 640**	**(700)**	**3 065**	**2 152**	**913**
	766 712	**724 471**	**42 241**	**801 336**	**778 494**	**22 842**

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

As at 31 December 2012, this balance includes a positive effect of euro 230 thousand (31 December 2011: positive effect of euro 417 thousand) related to the change in fair value of financial liabilities designated at fair value through profit or loss attributable to the entity's credit risk component (see Note 22).

NOTE 7 – NET GAINS FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by government and public entities	57 742	885	56 857	-	-	-
Issued by other entities	222	-	222	2 242	3 134	(892)
Equity instruments	-	1	(1)	37 192	-	37 192
	57 964	**886**	**57 078**	**39 434**	**3 134**	**36 300**

NOTE 8 – NET (LOSSES) FROM FOREIGN EXCHANGE DIFFERENCES

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange translation	27 552	30 151	(2 599)	18 205	34 449	(16 244)
	27 552	30 151	(2 599)	18 205	34 449	(16 244)

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 2.2

NOTE 9 – NET (LOSSES) FROM THE SALE OF OTHER ASSETS

As at 31 December 2012 this balance includes an amount of euro 3 075 thousand (31 December 2011: euro 4 632 thousand) related to losses recognized due to the sale of loans and advances to customers.

NOTE 10 – OTHER OPERATING INCOME AND EXPENSES

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Other customer's services	1 642	670
Direct and indirect taxes	(2 106)	(2 956)
Loss arising from the transfer to the Social Security of the liabilities with pensions in payment	-	(439)
Other operating income / expenses	(396)	(2 802)
	(860)	(5 527)

The direct and indirect taxes balance includes an amount of euro 1 187 thousand related with the Banking levy (31 December 2011: euro 1 525 thousand), created by the Law Nº55-A/2010, of 31 December (see Note 32).

NOTE 11 – STAFF COSTS

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Wages and salaries	39 234	36 137
Remuneration	39 034	35 971
Long-term service benefits (see Note 12)	200	166
Pension costs (see Note 12)	1 767	2 071
Mandatory social charges	5 328	5 572
Other costs	6 151	3 742
	52 480	**47 522**

The costs with salaries and other benefits attributed to BESI key management personnel are analysed as follows:

(in thousands of euro)

	Board of Directors	Other Key Management	Total
2012			
Salaries and other short-term benefits	3 950	3 785	7 735
Long service benefits and other	45	28	73
Bonus	497	2 311	2 808
Total	**4 492**	**6 124**	**10 616**
2011			
Salaries and other short-term benefits	5 492	3 213	8 705
Long service benefits and other	64	14	78
Bonus	1 943	2 629	4 572
Total	**7 499**	**5 856**	**13 355**

Other key management includes Senior Management and advisors of the Board of Directors.
As at 31 December 2012 and 2011, the loans granted to the Board of Directors of BESI amounted to euro 286 thousand and euro 322 thousand, respectively.

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

	31.12.2012	31.12.2011
Senior management	256	264
Management	4	4
Specific functions	150	153
Administrative functions	34	34
Auxiliary functions	11	10
	455	**465**

NOTE 12 – EMPLOYEE BENEFITS

Pension and health care benefits

In compliance with the collective labor agreement (ACT) for the banking sector established with the unions, the Bank undertook the commitment to grant its employees, or their families, pension on retirement and disability, and widows' pension.

Pension payments consist of a rising percentage based on years of service, applicable to each year's negotiated salary table for the active work force hired until 31 March 2008. 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 in 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 is 26.6%, 23.6% paid by the employer entity and 3% paid by the employee, 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 employees are to be covered under the terms defined by the General Social Security Regime, taking into account the length of service from 1 January 2011 until retirement. The differential required to support the guaranteed pension in terms of the ACT is paid by the Banks.

Notwithstanding, the integration leads to an effective decrease in the present value of total benefits reported to the normal retirement age (VABT) to be borne by the pension fund. Since there was no reduction in benefits from the perspective of the beneficiary on the date of integration, the past service liability remained unchanged at 31 December 2010.

Taking into account that the basis for calculating benefits under the ACT and RGSS plans are based on different formulas, there is the possibility of obtaining a gain, when the value of the liabilities to be covered by the pension fund at retirement is lower than responsibilities on 31 December 2010, being this gain deferred on a linear basis over the average working life until the employees reach the normal retirement age.

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

Under this tripartite agreement was transferred to the SS sphere the pension's liabilities 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 financial institutions with the correspondent funding being provided through the respective pension funds.

The financial institutions pension funds assets allocated to the cover of the transferred liabilities were also transmitted to the Social Security.

Being 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 are met, as the obligation with pension in payment as at December 31, 2011 extinguished at the date of transfer. On this basis, the impacts derived from this same transfer were recognized in the income statement.

In 1998, Banco Espírito Santo and the Group's subsidiaries in Portugal, where BESI is included, decided to set up an autonomous open-up pension fund – the Fundo de Pensões Aberto GES – to fund complementary pension benefits of pensioners and employees in service. After obtained the necessary authorization from the Portuguese Insurance Institute BESI has changed the Pension Fund contract in order to allow the coverage of all pension liabilities, health care benefits and the death allowance.

The pension funds in Portugal are managed by ESAF – Espírito Santo Fundo de Pensões, S.A.

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

	Assumptions		
	31.12.2012		
	1st through 4th year	5th and subsequent years	31.12.2011
Financial assumptions			
Expected return of plan assets	4.50%		5.50%
Discount rate	4.50%		5.50%
Pensions increase rate	0.00%	0.75%	1.00%
Salaries increase rate	1.00%	1.75%	2.25%
Demographic assumptions and valuation methods			
Mortality table			
Men	TV 73/77 - 1 year		
Women	TV 88/90		
Actuarial method	Project Unit Credit Method		

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

	31.12.2012	31.12.2011
Employees	227	240
Pensioners	20	20
Widows and other direct relatives	7	7
TOTAL	**254**	**267**

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

(in thousands of euro)

	31.12.2012			31.12.2011		
	Pension plans	Health-care benefits	Total	Pension plans	Health-care benefits	Total
Net Assets/ (Liabilities) recognised in the balance sheet						
Liabilities as at 31 December						
Pensioners	2 939	191	3 130	3 612	301	3 913
Employees	37 452	1 890	39 342	29 070	1 398	30 468
	40 391	**2 081**	**42 472**	**32 682**	**1 699**	**34 381**
Fair value of plan assets as at 31 December			**50 870**			**46 686**
Excess / deficit of coverage			8 398			12 305
Deferred past service costs			10 873			12 175
Net Asset recognised in the balance sheet as at 31 December (see Note 26)			**19 271**			**24 480**
Accumulated net actuarial losses recognised in other compreensive income			**3 630**			**160**

In accordance with the accounting policy described in Note 2.15, BESI liability with pensions is calculated annually.

In accordance with the accounting policy described in Note 2.15 and following the requirements of IAS 19 – Employees benefits, the Bank assesses at each balance sheet date, 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 fund.

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

(in thousands of euro)

	31.12.2012			31.12.2011		
	Pension plans	Health-care benefits	Total	Pension plans	Health-care benefits	Total
Defined benefit obligation as at 1 January	**32 682**	**1 699**	**34 381**	**30 824**	**2 004**	**32 828**
Service cost	987	32	1 019	1 700	120	1 820
Interest cost	1 459	76	1 535	1 659	110	1 769
Plan participants' contribution	148	-	148	156	-	156
Actuarial (gains) / losses:	5 365	274	5 639	(13 265)	(535)	(13 800)
- changes in actuarial assumptions	5 837	274	6 111	(4 300)	(279)	(4 579)
- experience adjustments	(472)	-	(472)	(8 965)	(256)	(9 221)
Pensions paid by the fund	(250)	-	(250)	(667)	-	(667)
Defined benefit obligation related to benefits granted during the year	-	-	-	12 275	-	12 275
Defined benefit obligation as at 31 December	**40 391**	**2 081**	**42 472**	**32 682**	**1 699**	**34 381**

Under the agreement mentioned above, the value of assets transferred to the Social Security in return for the transfer of the liabilities with pension in payment was determined on a settlement perspective, as it was a definitive and irreversible transfer of these responsibilities and corresponded to the value thereof, and it was estimated based on a discount rate of 4% (instead of the 5.5% rate used for the purpose of preparing the financial statements).

Thus, the amount payable by the Bank to the State amounted to euro 4 million, which led to the recognition in 2011 in the income statement a cost in the amount of euro 438 thousand, corresponding to the differential of the discount rates mentioned above.

Of the total payable amount (euro 4 million), about euro 3.8 million were borne by the Pension Fund and euro 438 thousand directly by the Bank. At the end of December 2011, 55% of the amount outstanding was paid in 2011, and the remaining was paid in June of 2012.

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

(in thousands of euro)

	31.12.2012	31.12.2011
Fair value of plan assets as at 1 January	**46 686**	**34 956**
Actual return on plan assets	4 364	(4 199)
Bank contributions	-	16 447
Plan participants' contributions	148	156
Pensions paid by the fund	(250)	(667)
Other	(78)	(7)
Fair value of plan assets as at 31 December	**50 870**	**46 686**

The assets of the fund by type of asset as at 31 December 2012 and 2011 can be analysed as follows:

	% Portfolio	
	2012	**2011**
Bonds	38.88%	35.91%
Shares	48.39%	33.85%
Other	9.75%	4.14%
Real estate	1.93%	0.00%
Liquidity	1.05%	26.10%
Total	100.00%	100.00%

As at 31 December 2012 and 2011, the fund did not have any securities issued by Group entities.

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

(in thousands of euro)

	31.12.2012	**31.12.2011**
Accumulated net actuarial losses as at 1 January	**160**	**7 873**
- Changes in actuarial assumptions	6 111	(4 579)
- Experience adjustments	(2 747)	(3 114)
Other	106	(20)
Accumulated net actuarial losses as at 31 December	**3 630**	**160**

The net periodic benefit cost can be analysed as follows:

(in thousands of euro)

	31.12.2012	**31.12.2011**
Service cost	1 019	1 820
Interest cost	1 535	1 769
Expected return on plan assets	(2 089)	(1 908)
Past services liabilities depreciation	1 302	-
Net benefit cost	**1 767**	**1 681**

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

(in thousands of euro)

	31.12.2012	31.12.2011
Balance as at 1 January	**24 480**	**2 128**
Net periodic benefit cost	(1 767)	(1 681)
Actuarial gains/losses recognised in other comprehensive income	(3 364)	7 693
Contributions of the year and pensions paid by the Bank	-	16 447
Other	(78)	(107)
Balance as at 31 December	**19 271**	**24 480**

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

(in thousands of euro)

	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008
Defined benefit obligation					
Pension plans	(40 391)	(32 682)	(30 824)	(28 738)	(27 648)
Health-care benefits	(2 081)	(1 699)	(2 004)	(1 868)	(1 797)
	(42 472)	(34 381)	(32 828)	(30 606)	(29 445)
Fair value of plan asssets	50 870	46 686	34 956	32 520	27 648
(Un)/over funded liabilities	**8 398**	**12 305**	**2 128**	**1 914**	**(1 797)**
(Gains)/losses from experience adjustments arising on defined benefit obligation					
Pension plans	(472)	(8 965)	(611)	374	(190)
Health-care benefits	-	(256)	(79)	(15)	(49)
(Gains)/losses from experience adjustments arising on plan assets	(2 275)	6 107	84	(2 258)	7 940

Long-term service benefits

As referred in Note 2.15, 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.

At 31 December 2012 and 2011, the Bank's liabilities and costs incurred related to long-term service benefits can be analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Liabilities as at 1 January	**1 831**	**1 757**
Cost of the year (see Note 11)	200	165
Benefits paid	(126)	(91)
Liabilities as at 31 December	**1 905**	**1 831**

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

These liabilities related to long-term service benefits are included in the balance Other liabilities (see Note 34).

NOTE 13 – GENERAL AND ADMINISTRATIVE EXPENSES

This balance is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Rental costs	5 404	6 172
Advertising costs	682	1 704
Communication costs	6 815	6 132
Travelling and representing costs	5 511	6 091
Maintenance and related services	1 137	1 133
Insurance costs	322	353
Legal costs	44	132
Specialised Services	10 543	10 600
IT Services	3 689	3 824
Temporary work	196	379
Independent work	1 712	1 837
Security and surveillance	247	251
Information services	326	363
Other specialised services	4 373	3 946
Other costs	2 059	2 334
	32 517	**34 651**

The balance Other specialised services includes, among others, costs with data bank and recruitment.

The outstanding lease instalments related to the non-cancellable operational leasing contracts were as follows:

	% Portfolio	
	2012	**2011**
Bonds	38.88%	35.91%
Shares	48.39%	33.85%
Other	9.75%	4.14%
Real estate	1.93%	0.00%
Liquidity	1.05%	26.10%
Total	100.00%	100.00%

The fees invoiced during the years 2012 and 2011 by the statutory auditors, according to art. 66º.-A of "Código das Sociedades Comerciais", were, during the years ended 31 December 2012 and 2011, euro 82 thousand and euro 81 thousand, respectively.

NOTE 14 – EARNINGS PER SHARE

Basic earnings per share

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

(in thousands of euro)

	31.12.2012	31.12.2011
Profit attributable to equity holders of the Bank	18 025	(12 395)
Weighted average number of ordinary shares outstanding (thousands)	**51 391**	**36 659**
Basic earnings per share attributable to equity holders of the Bank (in euro)	**0,35**	**-0,34**

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.

As at 31 December 2012 and 2011, the Bank did not have any dilutive potential ordinary shares. Therefore, the diluted earnings per share are equal to the basic earnings per share.

NOTE 15 – CASH AND DEPOSITS AT CENTRAL BANKS

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

(in thousands of euro)

	31.12.2012	31.12.2011
Cash	3	16
Deposits at central banks		
Bank of Portugal	916	1 301
Other central banks	148	537
	1 064	**1 838**
	1 067	**1 854**

The deposits at Central Banks include mandatory deposits with the Bank of Portugal intended to satisfy legal minimum cash requirements In the amount of euro 9 168 thousand. According to the European Central Bank Regulation (CE) no. 2818/98, of 1 December 1998, minimum cash requirements kept as deposits with the Bank of Portugal earn interest, and correspond to 2% 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 31 December 2012, these deposits have earned interest at an average rate of 0.75% (31 December 2011: 1.00%).

The fulfillment of the minimum mandatory requirements for a given period of observation is implemented taking into account the value of bank deposits with the Bank of Portugal during the referred period. The balance of the bank account with the Bank of Portugal as at 31 December 2012, was included in the maintenance period of 12 December 2012 to 15 January 2013, which corresponded to an average mandatory reserve of euro 1 040 thousand.

NOTE 16 – DEPOSITS WITH BANKS

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

(in thousands of euro)

	31.12.2012	31.12.2011
Deposits with banks in Portugal		
Repayable on demand	14 495	27 214
	14 495	**27 214**
Deposits with banks abroad		
Repayable on demand	9 027	9 162
	9 027	**9 162**
	23 522	**36 376**

NOTE 17 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

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

(in thousands of euro)

	31.12.2012	31.12.2011
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	5 524	678
Issued by other entities	37 261	57 207
Shares	26 705	20 283
Other variable income securities	2 013	727
	71 503	78 895
Derivatives	768 983	793 684
	840 486	**872 579**
Financial liabilities held for trading		
Derivatives	714 730	733 963
	714 730	**733 963**

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

(in thousands of euro)

	31.12.2012	31.12.2011
Financial assets held for trading		
Up to 3 months	7 129	28 509
3 to 12 months	3 153	14 031
1 to 5 years	31 062	15 295
More than 5 years	1 440	50
Undetermined	28 719	21 010
	71 503	**78 895**

In accordance with the accounting policy described in Note 2.5, securities held for trading are those which are bought to be traded in the short-term, regardless of their maturity.

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

(in thousands of euro)

	31.12.2012			31.12.2011		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income securities						
Issued by government and public entities	5 524	-	5 524	678	-	678
Issued by other entities	-	37 261	37 261	-	57 207	57 207
Shares	26 705	-	26 705	20 283	-	20 283
Other variable income securities	2 013	-	2 013	727	-	727
Book value	34 242	37 261	71 503	21 688	57 207	78 895

The balance financial assets held for trading includes: euro 3 782 thousand of securities pledged as collateral by the Bank (31 December 2011: euro 5 600 thousand).

During 2012 and 2011, BESI did not book provisions for country risks.

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

(in thousands of euro)

	31.12.2012			31.12.2011		
	Nocional	Fair value		Nocional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate contracts						
FX Swaps and Fxforward	939 339	-	2 139	1 105 329	939	-
CIRS	107 915	6 091	6 115	100 820	1 216	1 024
FX Options	280 686	951	1 034	802 468	3 835	4 209
	1 327 940	**7 042**	**9 288**	**2 008 617**	**5 990**	**5 233**
Interest rate contracts						
Interest Rate Swaps	23 489 325	637 147	580 894	11 772 020	583 758	522 644
Swaptions	-	-	-	170 500	-	-
Interest Rate Caps & Floors	3 949 800	19 196	19 124	4 305 524	18 905	18 810
Interest Rate Options	158 405	-	-	751 217	-	-
	27 597 530	**656 343**	**600 018**	**16 999 261**	**602 663**	**541 454**
Equity / Index contracts						
Equity / Index Swaps	1 026 243	67 983	67 547	1 087 280	115 688	117 366
Equity / Index Options	348 193	12 592	12 592	398 697	13 282	12 558
Equity / Index Futures	36 182	-	-	141 579	-	-
	1 410 618	**80 575**	**80 139**	**1 627 556**	**128 970**	**129 924**
Credit default contracts						
Credit Default Swaps	461 810	25 023	25 285	467 520	56 061	57 352
	461 810	**25 023**	**25 285**	**467 520**	**56 061**	**57 352**
Total	**30 797 898**	**768 983**	**714 730**	**21 102 954**	**793 684**	**733 963**

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

(in thousands of euro)

	31.12.2012		31.12.2011	
	Assets	Liabilities	Assets	Liabilities
Up to 3 months	13 151	15 323	23 538	20 959
3 to 12 months	27 160	27 084	40 834	42 974
1 to 5 years	212 359	202 192	230 725	220 948
More than 5 years	516 313	470 131	498 587	449 082
	768 983	**714 730**	**793 684**	**733 963**

NOTE 18 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

(in thousands of euro)

	Cost (1)	Fair value reserve		Impairment losses	Book Value
		Positive	Negative		
Bonds and other fixed income securities					
Issued by government and public enti	229 703	3 782	(622)	-	232 863
Issued by other entities	74 480	428	(1 299)	-	73 609
Shares	2 792	111	-	(770)	2 133
Other variable income securities	38 400	606	(1 311)	(6 326)	31 369
Balance as at 31 December 2012	**345 375**	**4 927**	**(3 232)**	**(7 096)**	**339 974**
Bonds and other fixed income securities					
Issued by government and public enti	4 312	-	(579)	-	3 733
Issued by other entities	82 288	130	(9 281)	-	73 137
Shares	3 920	-	(257)	(1 200)	2 463
Other variable income securities	32 170	200	(1 208)	(3 726)	27 436
Balance as at 31 December 2011	**122 690**	**330**	**(11 325)**	**(4 926)**	**106 769**

(1) Acquisiton cost relating to shares and other variable income securities and amortised cost relating to debt s

In accordance with the accounting policy described in Note 2.5, 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)

	31.12.2012	31.12.2011
Balance as at 1 January	4 926	16 545
Charge for the year	3 295	991
Charge off	(1 125)	(12 610)
Balance as at 31 December	**7 096**	**4 926**

The balance Available-for-sale Financial Assets includes: euro 251 509 thousand of securities pledged as collateral by the Bank (31 December 2011: euro 26 450 thousand) (see Note 37).

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

(in thousands of euro)

	31.12.2012	31.12.2011
Available-for-sale financial assets		
Up to 3 months	19 124	7 479
3 to 12 months	18 804	5 776
1 to 5 years	32 072	27 330
More than 5 years	236 471	36 285
Undetermined	33 503	29 899
	339 974	**106 769**

As at 31 December 2012 and 2011, the analysis of the available-for-sale financial assets by quoted and unquoted securities is presented as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income						
Issued by government and public entities	232 863	-	232 863	3 733	-	3 733
Issued by other entities	39 427	34 182	73 609	35 252	37 885	73 137
Shares	1 238	895	2 133	1 575	888	2 463
Other variable income securities	24 458	6 911	31 369	8 747	18 689	27 436
Book value	297 986	41 988	339 974	49 307	57 462	106 769

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

(in thousands of euro)

2012	Cost (1)	Fair value reserve		Impairment losses	Book Value
Description		Positive	Negative		
OBRIGACOES TESOURO 4.1% APR37	6 029	1 659	-	-	7 688
BONOS DEL ESTADO 5.85% JAN22	98 254	346	-	-	98 600
BONOS DEL ESTADO 4.1% JUL2018	34 178	401	-	-	34 579
BONOS DEL ESTADO 4.7% JUL41	16 065	857	-	-	16 922
BANCAJA INT CAVALE EU3M+20 JAN16	1 998	-	(283)	-	1 715
MAGEL 4 A EUR3M+14 PERPET	2 000	-	(295)	-	1 705
LUSIT LEVERAGE FIN 1 SUB JAN2020	31 711	-	(731)	-	30 980
Other	155 140	1 664	(1 923)	(7 096)	147 785
	345 375	**4 927**	**(3 232)**	**(7 096)**	**339 974**

(1) Acquisition cost relating to shares and amortised cost relating to debt securities

(in thousands of euro)

2011	Cost (1)	Fair value reserve		Impairment losses	Book Value
Description		Positive	Negative		
OBRIGACOES TESOURO 6.4% FEB2016	2 194	-	(515)	-	1 679
BANCO COM PORT 5.625% APR2014	4 994	-	(1 476)	-	3 518
BANCO COM PORT EUR3M+90 FEB2013	12 864	-	(3 049)	-	9 815
BANCO COM PORT EUR3M+130 MAR2013	4 977	-	(1 327)	-	3 650
BANCAJA INT CAVALE EU3M+20 JAN16	1 999	-	(451)	-	1 548
MAGEL 4 A EUR3M+14 PERPET	2 170	-	(819)	-	1 351
BES 1.625% APR2013	3 014	-	(576)	-	2 438
Other	90 478	330	(3 112)	(4 926)	82 770
	122 690	**330**	**(11 325)**	**(4 926)**	**106 769**

(1) Acquisition cost relating to shares and amortised cost relating to debt securities

NOTE 19 – LOANS AND ADVANCES TO BANKS

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

(in thousands of euro)

	31.12.2012	31.12.2011
Loans and advances to banks in Portugal		
Other loans and advances	761	-
	761	**-**
Loans and advances to banks abroad		
Sales with repurchase agreements	117 312	128 568
Other loans and advances	31 449	46 869
	148 761	**175 437**
Impairment losses	(238)	(230)
	149 284	**175 207**

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

(in thousands of euro)

	31.12.2012	31.12.2011
Up to 3 months	147 972	175 437
3 months up to 1 year	789	-
	148 761	**175 437**

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

(in thousands of euro)

	31.12.2012	31.12.2011
Balance as at 1 January	230	211
Charge for the year	29	72
Write back for the year	(16)	(63)
Exchange differences and other	(5)	10
Balance as at 31 December	**238**	**230**

NOTE 20 – LOANS AND ADVANCES TO CUSTOMERS

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

(in thousands of euro)

	31.12.2012	31.12.2011
Domestic loans		
Corporate		
Commercial lines of credit	1 346	519
Loans	566 230	713 722
Overdrafts	28	28
Other loans	258 570	61 553
Retail		
Mortgage loans	492	671
	826 666	**776 493**
Foreign loans		
Corporate		
Commercial lines of credits	13 423	19 385
Loans	148 566	149 009
Retail		
Other loans	1 539	817
	163 528	**169 211**
Overdue loans and interest		
Up to 90 days	1 978	3 868
More than 90 days	2 055	167
	4 033	**4 035**
	994 227	**949 739**
Impairment losses	**(97 981)**	**(72 962)**
	896 246	**876 777**

Additionally as at 31 December 2012 the Bank has a provision for general banking risks in the amount of euro 23 635 thousand (31 December 2011: euro 25 623 thousand) which in accordance to NCA is presented as a liability (see Note 31).

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

(in thousands of euro)

	31.12.2012	31.12.2011
Up to 3 months	264 563	17 443
3 to 12 months	47 462	113 824
1 to 5 years	189 354	216 872
More than 5 years	488 814	597 565
Undetermined	4 033	4 035
	994 226	**949 739**

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

(in thousands of euro)

	31.12.2012	31.12.2011
Balance as at 1 January	72 962	42 218
Charge for the year	25 168	61 379
Charge off	(14 016)	-
Write back for the year	(831)	(30 312)
Transfers	14 583	(206)
Exchange differences and other	115	(117)
Balance as at 31 December	**97 981**	**72 962**

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

(in thousands of euro)

	31.12.2012	31.12.2011
Fixed interest rate	151 780	126 372
Variable interest rate	842 446	823 367
	994 226	**949 739**

NOTE 21 – HELD-TO-MATURITY INVESTMENTS

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

(in thousands of euro)

	31.12.2012	31.12.2011
Bonds and other fixed income securities		
Issued by other entities	37 431	39 730
	37 431	**39 730**

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

(in thousands of euro)

	31.12.2012	31.12.2011
More than 5 years	37 431	39 730
	37 431	**39 730**

As at 31 December 2012, the fair value of the held-to-maturity investments amounts to euro 36 383 thousand (31 December 2011: euro 37 117 thousand).

As at 31 December 2012 and 2011, held-to-maturity investments analysed by quoted and unquoted securities, are presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Quoted	1 299	1 373
Unquoted	36 132	38 357
	37 431	**39 730**

The Bank assessed, with reference to 31 December 2012 the existence of objective evidence of impairment in the held-to-maturity investments portfolio and investments did not identify any events with impact in the recoverable amount of the future cash flows of those.

The balance of held to maturity investments includes: euro 159 thousand of securities pledged as collateral by the Bank (31 December 2011: euro 1 556 thousand).

NOTE 22 – DERIVATIVES FOR RISK MANAGEMENT PURPOSES

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

(in thousands of euro)

	31.12.2012	31.12.2011
Derivatives for risk management purposes (Assets)	2 305	649
Derivatives for risk management purposes (Liabilities)	529	949
	1 776	**(300)**

The balance Derivatives for risk management purposes includes hedging derivatives and derivatives contracted with the purpose of managing the risk of certain financial assets and liabilities designated at fair value through profit or loss (and that were not classified as hedging derivatives).

a) Hedging Derivatives

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

(in thousands of euro)

			31.12.2012				
Derivative	Hedged item	Hedged risk	Nocional	Fair value of derivative [2]	Changes of the fair value of the derivative in the year	Fair value component of the hedged item [1]	Changes of the fair value of the hedged item in the year [1]
Interest Rate Swaps	Debt securities issue	Interest rate	9 365	46	1 307	(396)	(969)
Interest Rate Swaps	Subordinated Debt	Interest rate	215	46	1 620	(48)	956
Interest Rate Swaps	Deposits from banks	Interest rate	-	-	-	-	1 012
			9 580	**92**	**2 927**	**(444)**	**999**

(1) Atributable to hedged risk
(2) Includes accrued interest

(in thousands of euro)

			31.12.2011				
Derivative	Hedged item	Hedged risk	Nocional	Fair value of derivative [2]	Changes of the fair value of the derivative in the year	Fair value component of the hedged item [1]	Changes of the fair value of the hedged item in the year [1]
Interest Rate Swaps	Debt securities issued	Interest rate	4 710	265	371	(652)	213
Interest Rate Swaps	Deposits from banks	Interest rate	6 600	1 035	457	(1 014)	(131)
			11 310	**1 300**	**828**	**(1 666)**	**82**

(1) Atributable to hedged risk
(2) Includes accrued interest

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

b) Other derivatives for risk management purposes

Other derivatives for risk management purposes includes derivatives held to hedge assets and liabilities at fair value through profit and loss in accordance with the accounting policies described in Notes 2.5, 2.6 and 2.8 and that the Bank did not classified as hedging derivatives. The book value of assets and liabilities at fair value through profit and loss can be analysed as follows:

(in thousands of euro)

31.12.2012								
		Derivative			Liability associated			
Financial Liabilities economically hedged	Derivative	Nocional	Fair Value	Changes in the fair value during the year	Fair Value	Changes in the fair value during the year	Book Value	Reimbursement amount at maturity date
Debt securities issued	Index swap	28 654	1 684	3 284	(1 580)	(1 699)	25 869	27 449
		28 654	**1 684**	**3 284**	**(1 580)**	**(1 699)**	**25 869**	**27 449**

(in thousands of euro)

31.12.2011								
		Derivative			Liability associated			
Financial Liabilities economically hedged	Derivative	Nocional	Fair Value	Changes in the fair value during the year	Fair Value	Changes in the fair value during the year	Book Value	Reimbursement amount at maturity date
Debt securities issued	Index swap	19 874	(1 600)	(3 146)	1 203	2 538	18 670	19 874
		19 874	**(1 600)**	**(3 146)**	**1 203**	**2 538**	**18 670**	**19 874**

As at 31 December 2012, the fair value component of the financial liabilities at fair value through profits and loss, attributable to the Banks's own credit risk, amounts to euro 229 thousand of cumulative profits (31 December 2011: euro 575 thousand).

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

(in thousands of euro)

31.12.2012				
	Nocional		Fair value	
	Hedging derivatives	Other derivatives for risk management purposes	Hedging derivatives	Other derivatives for risk management purposes
Up to 3 months	-	2 415	-	(107)
3 to 12 months	-	7 500	-	24
1 to 5 years	18 730	45 788	46	1 767
Mora than 5 years	430	-	46	-
	19 160	**55 703**	**92**	**1 684**

(in thousands of euro)

	31.12.2011			
	Nocional		Fair value	
	Hedging derivatives	Other derivatives for risk management purposes	Hedging derivatives	Other derivatives for risk management purposes
3 to 12 months	6 600	-	1 035	-
Mora than 5 years	4 710	19 874	265	(1 600)
	11 310	**19 874**	**1 300**	**(1 600)**

NOTE 23 – PROPERTY, PLANT AND EQUIPMENT

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

(in thousands of euro)

	31.12.2012	31.12.2011
Property		
For own use	643	643
Improvements in leasehold property	6 725	7 753
	7 368	**8 396**
Equipment		
Computer equipment	10 050	7 221
Furniture	3 281	3 193
Office equipment	1 034	1 035
Fixtures	3 865	2 733
Motor vehicles	87	98
Security equipment	325	325
Other	89	81
	18 731	**14 686**
	26 099	**23 082**
Work in progress		
Property	22	30
Equipment	661	5 289
	683	**5 319**
	26 782	**28 401**
Accumulated depreciation	(13 641)	(11 700)
Balance as at 31 December	**13 141**	**16 701**

The movement in this balance was as follows:

(in thousands of euro)

	Property	Equipment	Work in progress	Total
Acquisiton cost				
Balance as at 31 December 2010	**8 079**	**10 639**	**6 978**	**25 696**
Acquisitions	121	444	1 304	1 869
Transfers	189	2 688	(2 877)	-
Other movements	7	915	(86)	836
Balance as at 31 December 2011	**8 396**	**14 686**	**5 319**	**28 401**
Acquisitions	58	209	320	587
Disposals	(1 784)	(334)	-	(2 118)
Transfers	698	4 170	(4 925)	(57)
Other movements	-	-	(31)	(31)
Balance as at 31 December 2012	**7 368**	**18 731**	**683**	**26 782**
Depreciation				
Balance as at 31 December 2010	**2 614**	**7 027**	**-**	**9 641**
Depreciation of the year	667	1 392	-	2 059
Balance as at 31 December 2011	**3 281**	**8 419**	**-**	**11 700**
Depreciation of the year	647	1 993	-	2 640
Disposals	-	(315)	-	(315)
Other movements	(365)	(19)	-	(384)
Balance as at 31 December 2012	**3 563**	**10 078**	**-**	**13 641**
Net balance as at 31 December 2012	**3 805**	**8 653**	**683**	**13 141**
Net balance as at 31 December 2011	**5 115**	**6 267**	**5 319**	**16 701**

NOTE 24 – INTANGIBLE ASSETS

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

(in thousands of euro)

	31.12.2012	31.12.2011
Acquired to third parties		
Software	14 211	11 766
Other	916	916
	15 127	**12 682**
Work in progress	9 067	6 519
	24 194	**19 201**
Accumulated depreciation	(11 510)	(10 405)
Balance as at 31 December	**12 684**	**8 796**

The movement in this balance was as follows:

(in thousands of euro)

	Software	Other	Work in progress	Total
Acquisition cost				
Balance as at 31 December 2010	**9 573**	**916**	**1 976**	**12 465**
Acquisitions:				
Acquired from third parties	371	-	6 841	7 212
Transfers	1 703	-	(1 703)	-
Other movements	119	-	(595)	(476)
Balance as at 31 December 2011	**11 766**	**916**	**6 519**	**19 201**
Acquisitions:				
Acquired from third parties	537	-	4 400	4 937
Transfers	1 908	-	(1 850)	58
Other movements	-	-	(2)	(2)
Balance as at 31 December 2012	**14 211**	**916**	**9 067**	**24 194**
Depreciation				
Balance as at 31 December 2010	**8 746**	**753**	**-**	**9 499**
Depreciation of the year	780	126	-	906
Balance as at 31 December 2011	**9 526**	**879**	**-**	**10 405**
Depreciation of the year	1 069	36	-	1 105
Balance as at 31 December 2012	**10 595**	**915**	**-**	**11 510**
Net balance as at 31 December 2012	**3 616**	**1**	**9 067**	**12 684**
Net balance as at 31 December 2011	**2 240**	**37**	**6 519**	**8 796**

NOTE 25 – INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

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

(in thousands of euro)

	31.12.2012				31.12.2011			
	Number of shares	% held by the Bank	Par value (Euro)	Acquisition cost	Number of shares	% held by the Bank	Par value (Euro)	Acquisition cost
BRB INTERNACIONAL	133 000	19.00%	5.00	8 103	133 000	19.00%	5.00	8 103
PRO SPORT	1 900	19.00%	6.02	189	1 900	19.00%	6.02	189
APOLO FILMS	16 508	19.00%	6.01	582	16 508	19.00%	6.01	582
COMINVEST	375 000	25.00%	5.00	2 089	375 000	25.00%	5.00	2 089
COPORGEST	10 000	5.00%	5.00	50	10 000	5.00%	5.00	50
ESSI COMUNICACÕES SGPS,S.A.	10 000	100.00%	5.00	50	10 000	100.00%	5.00	50
ESSI INVESTIMENTOS, SGPS,S.A.	410 000	100.00%	5.00	2 050	210 000	100.00%	5.00	2 050
ESPIRITO SANTO INVESTMENT PLC	164 994	100.00%	5.00	825	164 994	100.00%	5.00	825
				13 937				13 937
Impairment losses				(9 457)				(9 457)
				4 480				**4 480**

NOTE 26 – OTHER ASSETS

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

(in thousands of euro)

	31.12.2012	31.12.2011
Debtors		
Collateral deposits placed	444 379	500 679
Deposits placed with futures contracts	17 939	20 895
Loans to companies in which the Bank has a non-controlling interest and subordinated assets	360 805	330 732
Public sector	62	100
Sundry debtors	13 027	-
	836 212	852 406
Impairment losses on debtors	(5 666)	(5 410)
	830 546	**846 996**
Other assets		
Gold, other precious metals, numismatics, and other liquid assets	6	1 129
Other assets	5 001	4 361
	5 007	**5 490**
Accrued income		
Accrued interest of assets available for sale	8 987	983
Other accrued income	705	1 594
	9 692	**2 577**
Prepayments and deferred costs	**14 161**	**15 628**
Other sundry assets		
Foreign exchange transactions pending settlement	1 705	109 889
Stock exchange transactions pending settlement	55 913	61 523
Other transactions pending settlement	88 237	12 564
	145 855	**183 976**
Assets recognised on pensions (see Note 12)	19 271	24 480
	1 024 532	**1 079 147**

The stock exchange transactions pending settlement refer to transactions with securities, recorded on trade date and pending settlement, in accordance with the accounting policy described in Note 2.5.

The movements occurred in impairment losses are presented as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Balance as at 1 January	5 410	5 401
Charge for the year	2 082	3 804
Charge off	(329)	(723)
Write back for the year	(1 436)	(3 198)
Exchange differences and other	(61)	126
Balance as at 31 December	**5 666**	**5 410**

NOTE 27 – DEPOSITS FROM CENTRAL BANKS

This balance includes a Money Market operation with the Bank of Portugal in the amount of euro 150 000 thousand (31 December 2011: euro 64 thousand) and an accrued interest to date in the amount of euro 1 thousand (31 December 2011: euro 7 thousand).

NOTE 28 – DEPOSITS FROM BANKS

The balance deposits from banks is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Domestic		
Inter-bank money market	623 692	646 372
Very short term deposits	61 424	-
Deposits	287 863	378 628
Repurchase agreements	5 486	17 607
Other funds	239 297	369 248
	1 217 762	**1 411 855**
International		
Deposits	63	8
Loans	-	3 894
Repurchase agreements	75	99
Other funds	24 742	91 155
	24 880	**95 156**
	1 242 642	**1 507 011**

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

(in thousands of euro)

	31.12.2012	31.12.2011
Up to 3 months	949 291	1 209 477
1 to 5 years	281 265	283 545
More than 5 years	12 086	13 989
	1 242 642	**1 507 011**

NOTE 29 – DUE TO CUSTOMERS

The balance due to customers is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Repayable on demand		
Demand deposits	21 407	18 654
Time deposits		
Time deposits	57 269	82 608
Savings accounts		
Repurchase agreements	117 809	129 001
Other deposits	19	108
Other	14	443
	117 842	**129 552**
	196 518	**230 814**

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

(in thousands of euro)

	31.12.2012	31.12.2011
Repayable on demand	21 407	19 097
With agreed maturity		
Up to 3 months	160 090	211 717
3 to 12 months	15 021	-
	175 111	**211 717**
	196 518	**230 814**

NOTE 30 – DEBT SECURITIES ISSUED

The balance debt securities issued is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Cash Bonds	4 640	5 039
Other bonds	286 476	15 553
Certificates of deposit	2 379	2 978
	293 495	**23 570**

The fair value of the portfolio of Debt securities issued is presented on Note 39.

This balance includes the amount of euro 25 869 thousand (31 December 2011: euro 18 670 thousand) related with debt securities issued recorded in the balance sheet at fair value through profit or loss (see Note 22).

During the year ended in 2012, BESI issued debt securities amounting to euro 558 286 thousand (31 December 2011: euro 1 875 thousand) and reimbursed euro 2 056 thousand (31 December 2011:euro 5 422 thousand).

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

(in thousands of euro)

	31.12.2012	31.12.2011
3 to 12 months	704	-
1 to 5 years	292 791	23 570
	293 495	**23 570**

The main characteristics of debt securities issued as at 31 December 2012, are presented as follows:

(in thousands of euro)

		31.12.2012					
Entity	Description	Currency	Issue date	Issue amount	Book Value	Maturity	Interest Rate
BESI	BESI OBCX R.ACCRUAL TARN MAR2016	EUR	29/03/2006	4 913	1 069	29/03/2016	Fixed rate 6% + Range Accrual
BESI	BESI OB CX RENDIM STEP UP APR14	EUR	31/03/2006	3 458	3 572	01/04/2014	Fixed Rate (step-up)
BESI	BESI CERT DUALREND+EUSTOXX AUG14	EUR	25/08/2006	3 013	2 379	26/08/2014	Fixed rate 6.6743% + Indexed to DJ Eurostoxx 50
BESI	BESI SEP2014 EQL LINKED	EUR	27/07/2010	3 500	3 630	05/09/2014	Indexed to a basket composed by Eurostoxx50, SP500, Nasdaq100 and EWZ Index
BESI	BESI SEP2014 ORIENTE IV EQL	EUR	27/07/2010	12 500	12 612	05/09/2014	Indexed to a basket composed by TOPIX, HANG SENG, HSCEI, NIFTY, KOSPI2 and MSCI Singapore Index
BESI	BESI 1.8% GOLD APR2015	EUR	03/10/2011	1 875	1 832	05/09/2014	Fixed rate 1.8%
BESI	BESI CLN REP PORTUGUESA OCT2014	EUR	29/03/2012	7 500	7 110	15/10/2014	Portuguese Republic CLN
BESI	BESI MAR2013 CONVER SP500	EUR	19/09/2012	785	704	19/03/2013	SPX500 VIX Linked
BESI	BESI FIXED RATE DEC15	EUR	12/12/2012	300 000	250 530	18/12/2015	Fixed rate 5,875%
BESI	BESI MAY2015 EURIBOR3M+4%	EUR	07/05/2012	250 000	10 057	11/05/2015	Euribor 3M + 4%
Total				**587 544**	**293 495**		

NOTE 31 – PROVISIONS

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

(in thousands of euro)

	General banking risk provisions	Other provisions	Total
Balance as at 31 December 2010	**27 359**	**5 731**	**33 090**
Charge for the year	5 593	4 700	10 293
Write back for the year	(7 401)	(4 332)	(11 733)
Transfers	206	(1 400)	(1 194)
Charge off	-	(1 400)	(1 400)
Exchange differences and other	(134)	(3 263)	(3 397)
Balance as at 31 December 2011	**25 623**	**36**	**25 659**
Charge for the year	16 262	2 683	18 945
Write back for the year	(3 582)	-	(3 582)
Transfers	(14 583)	-	(14 583)
Exchange differences and other	(85)	47	(38)
Balance as at 31 December 2012	**23 635**	**2 766**	**26 401**

Other provisions are intended to cover certain contingencies related to the Bank's activities, including contingencies related to ongoing tax processes.

NOTE 32 – INCOME TAXES

The Bank is subject to taxation in accordance with the corporate income tax code (IRC) and to local taxes.

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

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

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

- The negative equity variation from the accounting policy change on recognizing actuarial gains and losses which were previously deferred, will be fully deductible in equal parts during 10 years from 1 January 2012. This impact is recorded in equity;

- The settlement effect (determined by the difference between the liability measured in accordance with the IAS 19 criteria and the criteria established in the agreement) will be fully deductible, from 1 January 2012, for purposes of determining taxable income, in equal parts, according to the average life expectancy of pensioners whose responsibilities were transferred (16 years in case of BES). This impact is recorded in the income statement.

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

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 Bank for a period of four years, or six years in case of tax losses carried 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 Bank's Board of Directors is confident that there will be no material differences arising from tax assessments within the context of the financial statements.

The activity of branches abroad is incorporated in BESI accounts for determining the taxable profit. Although, the profit of those branches is subject to taxation in the countries where they are established, local taxes are deductible to the taxes to be paid in Portugal, in accordance with art. 91º of "Código do IRC", when applicable. The profit of the branches is subject to the following tax rates:

Branch	Tax Rate
London	24%
Madrid	30%
Warsaw	19%
New York	45.95%

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

(in thousands of euro)

	Assets		Liabilities		Net	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Available for sale financial assets	-	3 143	(536)	-	(536)	3 143
Loans and advances to customers	35 705	28 938	-	-	35 705	28 938
Investments in subsidiaries and associates	-	-	(1 239)	(1 218)	(1 239)	(1 218)
Provisions	816	967	-	-	816	967
Pensions	129	2 183	-	-	129	2 183
Other	-	-	(363)	(1 155)	(363)	(1 155)
Deferred tax asset / (liability), net	**36 650**	**35 231**	**(2 138)**	**(2 373)**	**34 512**	**32 858**

The changes in deferred taxes were recognised as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Balance as at 1 January	32 858	20 796
Recognised in the income statement	7 516	7 158
Recognised in fair value reserve	(3 679)	2 640
Recognised in other reserves	(2 183)	1 259
Exchange differences and other	-	1 005
Balance as at 31 December	34 512	32 858

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

(in thousands of euro)

	31.12.2012		31.12.2011	
	Recognised in (income)/ expenses	Recognised in reserves	Recognised in (income)/ expenses	Recognised in reserves
Deferred taxes				
Available for sale financial assets	-	3 679	-	(2 640)
Loans and advances to customers	(6 766)	-	(10 779)	-
Investments in subsidiaries and associates	21	-	105	-
Provisions	151	-	552	-
Pensions	(129)	(2 183)	-	-
Tax losses	-	-	2 964	(1 259)
Others	(793)	-	-	-
	(7 516)	1 496	(7 158)	(3 899)
Current taxes	16 065	-	1 238	-
Total	**8 549**	**1 496**	**(5 920)**	**(3 899)**

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

(in thousands of euro)

	31.12.2012		31.12.2011	
	%	Amount	%	Amount
Profit before taxes		**26 799**		**(15 297)**
Statutory tax rate	31.5		29.0	
Income tax calculated based on the statutory tax rate		8 442		(4 436)
Branches income taxes	0.2	56	1.0	(146)
Autonomous tributation	2.6	690	(4.9)	753
Changes in estimates	(2.8)	(740)	11.8	(1 799)
Utilization of tax losses brought forward for which no deferred tax assets had been constituted	-	-	9.6	(1 475)
Tax benefits	(0.2)	(63)	0.3	(52)
Non deductible costs	2.2	595	(6.6)	1 015
Other	(1.6)	(431)	(1.4)	220
	31.9	**8 549**	**38.7**	**(5 920)**

Following the Law No. 55-A/2010 of 31 December, was established a Banking levy, which is not eligible as a tax cost, and whose regime was extendeds by Law no. 64-B/2011, of 30 December. As at 31 December 2012, the Bank recognised an expense of euro 1 187 thousand (31 December 2011: euro 1 525 thousand, which was included in Other operating income and expenses – Direct and indirect taxes (see Note 10).

NOTE 33 – SUBORDINATED DEBT

The balance subordinated debt is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Cash Bonds	60 284	70 222
	60 284	**70 222**

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

(in thousands of euro)

		31.12.2012				
Issuer	Designation	Issue date	Amount issued	Book Value	Interest rate	Maturity
BESI	BESI SUBORDINADAS OCT2033 5.5%	2003	215	263	Indexed to CMS	2033
BESI	BESI CAIXA SUB DEC15	2005	60 000	60 000	3 Months Euribor + 0.95%	2015
Sub-total				**60 263**		
Accrued interest				21		
				60 284		

(in thousands of euro)

Issuer	Designation	31.12.2012 Issue date	Amount issued	Book Value	Interest rate	Maturity
BESI	BESI SUBORDINADAS OCT2033 5.5%	2003	10 000	10 178	Euribor 3M	2033
BESI	BESI CAIXA SUB DEC15	2005	60 000	60 000	3 Months Euribor + 0.95%	2015
Sub-total				**70 178**		
Accrued interest				44		
				70 222		

During the years ended 31 December 2012 and 2011, subordinated debt were not issued by BESI, and during 2012 was reimbursed an amount of euro 9 785 thousand of subordinated debt.

NOTE 34 – OTHER LIABILITIES

As at 31 December 2012 and 2011, the balance Other Liabilities is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Creditors		
Public sector	4 347	3 638
Sundry creditors		
Creditors from transactions with securities	54 052	61 123
Suppliers	1 621	1 777
Other sundry creditors	4 639	11 055
	64 659	**77 593**
Accrued expenses		
Long-term service benefits (see Note 12)	1 905	1 832
Other accrued expenses	6 568	8 076
	8 473	**9 908**
Deferred income	**1 467**	**1 110**
Other sundry liabilities		
Stock exchange transactions pending settlement	51 070	58 379
Foreign exchange transactions pending settlement	1 370	106 539
Other transactions pending settlement	103 813	15 172
	156 253	**180 090**
	230 852	**268 701**

As at 31 December 2012 and 2011 the balance stock exchange transactions pending settlement represents the net balance of the acquisition and disposal orders issued by the Bank, pending settlement.

NOTE 35 – SHARE CAPITAL, SHARE PREMIUM, TREASURY STOCK AND PREFERENCE SHARES

Ordinary shares

On 29 June 2009, the Bank issued 22 million shares, with a nominal value of euro 5 each, being the share capital represented by 36 million shares with a nominal value of euro 5 each, which are subscribed and fully paid by Banco Espírito Santo, S.A..

At the end of the year 2011, the Bank made a capital increase in the amount of euro 46 269 thousand, through the issue of 9 253 800 shares with a nominal value of euro 5 each, which were subscribed and paid by Banco Espírito Santo, S.A., through a contribution in kind, of 46 269 perpetual subordinated bonds with conditioned interest issued by BESI with a nominal value of euro 1 000 each.

On 10 September 2012, the Bank performed another capital increase in the amount of euro 100 000 thousand, through the issue of 20 000 000 shares with a nominal value of euro 5 each, which were fully subscribed by Banco Espírito Santo, S.A..

Share Premium

As at 31 December 2012 and 2011, the share premium in the amount of euro 8 796 thousand, refer to the capital increase occurred during July 1998.

Other equity instruments

The Bank issued during October 2010, perpetual subordinated bonds with interest conditioned in the total amount of euro 50 million.

These bonds have an interest conditioned non-cumulative, payable only if and when declared by the Board of Directors. This conditioned interest corresponds to the application of an annual rate of 8.5% over the nominal value, payable semiannually. The reimbursement of these securities may be made in full, but not partially, after 15 September 2015, depending only on BESI option and the prior approval of Bank of Portugal. Given their characteristics, these obligations are considered as equity instruments in accordance with the accounting policy described in Note 2.9.

During the year of 2012, the Bank paid interest in the amount of euro 317 thousand (31 December 2011: euro 4 250 thousand), booked as a deduction in reserves.

These bonds are subordinated in respect of any liability of BESI and pari passu in respect of any subordinated bonds with identical characteristics that may be issued by the Bank.

NOTE 36 – FAIR VALUE RESERVE, OTHER RESERVES AND RETAINED EARNINGS

Legal reserve, fair value reserve and other reserves

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 must be transferred to the legal reserve until it is equal to the share capital.

The fair value reserve represents the amount of the unrealised 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 presented net of income taxes.

During the year ended 31 December 2012 and 2011, the changes in these balances were as follows:

(in thousands of euro)

	Fair value reserve			Other reserves and retained earnings			
	Available for-sale financial assets	Income tax reserves	Total fair value reserve	Legal reserve	Actuarial gains and (losses) (net of taxes)	Other reserves and retained earnings	Total Other reserves and retained earnings
Balance as at 31 December 2010	**(4 992)**	**(369)**	**(5 361)**	**35 318**	**(5 690)**	**44 306**	**73 934**
Actuarial gains from defined benefit obligations, net of taxes	-	-	-	-	5 459	-	5 459
Changes in fair value	(6 233)	3 512	(2 721)	-	-	-	-
Transfer to reserves	-	-	-	2 735	-	24 962	27 697
Interest in other equity instruments	-	-	-	-	-	(3 175)	(3 175)
Other	-	-	-	-	-	(642)	(642)
Balance as at 31 December 2011	**(11 225)**	**3 143**	**(8 082)**	**38 053**	**(231)**	**65 451**	**103 273**
Actuarial gains from defined benefit obligations, net of taxes	-	-	-	-	(2 328)	-	(2 328)
Changes in fair value	12 920	(3 679)	9 241	-	-	-	-
Transfer to reserves	-	-	-	-	-	(9 377)	(9 377)
Interest in other equity instruments	-	-	-	-	-	(225)	(225)
Other	-	-	-	-	-	95	95
Balance as at 31 December 2012	**1 695**	**(536)**	**1 159**	**38 053**	**(2 559)**	**55 944**	**91 438**

The fair value reserve is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Amortised cost of available-for-sale financial assets	345 375	122 533
Accumulated impairment losses recognised	(7 096)	(4 926)
Amortised cost of available-for-sale financial assets, net of impairment	338 279	117 607
Fair value of available-for-sale financial assets	339 974	106 769
Net unrealised gains/(losses) recognised in the fair value reserve	1 695	(10 838)
Deferred taxes	(536)	2 756
Balance as at 31 December	**1 159**	**(8 082)**

The movement in the fair value reserve, net of deferred taxes during 2012 and 2011 is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Balance as at 1 January	**(8 082)**	**(4 992)**
Changes in fair value	12 920	(6 233)
Deferred taxes recognised in reserves during the year	(3 679)	3 143
Balance as at 31 December	**1 159**	**(8 082)**

NOTE 37 – OFF-BALANCE SHEET ITEMS

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

(in thousands of euro)

	31.12.2012	31.12.2011
Contingent liabilities		
Guarantees and stand by letters of credit	1 572 266	1 466 339
Assets pleged as collateral	324 210	125 494
	1 896 476	**1 591 833**
Commitments		
Irrevocable commitments	107 393	113 287
	107 393	**113 287**

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

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

Securities pledged as collateral to the Bank of Portugal (i) for the use of the money transfer system (Sistema de Pagamento de Grandes Transacções) in the amount of euro 25 000 thousand (31 December 2011: euro 18 000 thousand) and (ii) in the scope of a liquidity facility collateralised by securities in the amount of euro 266 317 thousand (the total amount of securities eligible for rediscount at the Bank of Portugal as at 31 December 2012 and 31 December 2011 amounted euro 234 891 thousand and euro 79 426 thousand respectively.

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 1 813 thousand (31 December 2011: euro 1 813 thousand).

Securities pledged as collateral to the Deposits Guarantee Fund (Fundo de Garantia de Depósitos) for an amount of euro 100 thousand (31 December 2011: euro 80 thousand).
Irrevocable commitments represent contractual agreements to extend credit to Bank'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.

Notwithstanding the particular characteristics of these contingent liabilities and commitments, the analysis of these operations follows the same basic principles of any one another commercial operation, namely the solvency of the underlying client and business, being that the Bank requires these operations to be adequately covered by collaterals when needed. Considering that is expected that the majority of these contingent liabilities and commitments expire without having being used, the indicated amounts do not represent necessarily future cash-flow needs.

Additionally, the liabilities accounted for off-balance sheet and related to banking services provided are as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Liabilities related to services provided		
Assets for collection	6 522 794	6 273 217
Other responsabilities related with services provided	2 890 915	2 238 044
	9 413 709	**8 511 261**

NOTE 38 – 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)

		Measured at Fair Value				
	Amortised cost	Quoted Market Prices	Valuation models based on observable market information	Valuation models based on non-observable market information	Book Value	Fair Value
Balance as at 31 December 2012						
Cash and deposits at central banks	1 067	-	-	-	1 067	1 067
Deposits with banks	23 522	-	-	-	23 522	23 522
Financial assets at fair value through profit or loss	-	34 242	806 244	-	840 486	840 486
Available-for-sale financial assets	-	297 986	34 181	7 806	339 973	339 973
Loans and advances to banks	149 284	-	-	-	149 284	149 284
Loans and advances to customers	896 245	-	-	-	896 245	896 245
Held-to-maturity investments	37 431	-	-	-	37 431	36 383
Derivatives for risk management purposes	-	-	2 305	-	2 305	2 305
Financial assets	**1 107 549**	**332 228**	**842 730**	**7 806**	**2 290 313**	**2 289 265**
Deposits from central banks	151 087	-	-	-	151 087	151,087
Financial liabilities held for trading	-	-	714 730	-	714 730	714 730
Deposits from banks	1 242 642	-	-	-	1 242 642	1 242 642
Due to customers	196 518	-	-	-	196 518	196 518
Debt securities issued	-	-	293 495	-	293 495	-
Derivatives for risk management purposes	-	-	529	-	529	529
Subordinated debt	60 021	-	263	-	60 284	54 215
Financial liabilities	**1 650 268**	**-**	**1 009 017**	**-**	**2 659 285**	**2 359 721**
Balance as at 31 December 2011						
Cash and deposits at central banks	1 854	-	-	-	1 854	1 854
Deposits with banks	36 376	-	-	-	36 376	36 376
Financial assets at fair value through profit or loss	-	21 688	850 891	-	872 579	872 579
Available-for-sale financial assets	-	49 307	39 095	18 367	106 769	106 769
Loans and advances to banks	175 207	-	-	-	175 207	175 207
Loans and advances to customers	876 777	-	-	-	876 777	876 777
Held-to-maturity investments	39 730	-	-	-	39 730	37 117
Derivatives for risk management purposes	-	-	649	-	649	649
Financial assets	**1 129 944**	**70 995**	**890 635**	**18 367**	**2 109 941**	**2 107 328**
Deposits from central banks	64 007	-	-	-	64 007	64,007
Financial liabilities held for trading	-	-	733 963	-	733 963	733 963
Deposits from banks	1 507 011	-	-	-	1 507 011	1 507 011
Due to customers	230 814	-	-	-	230 814	230 814
Debt securities issued	-	-	23 570	-	23 570	23 570
Derivatives for risk management purposes	-	-	949	-	949	949
Subordinated debt	60 044	-	10 178	-	70 222	50 799
Financial liabilities	**1 861 876**	**-**	**768 660**	**-**	**2 630 536**	**2 611 113**

BESI 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 Bank 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 financial statements.

The movements of the financial assets valued based on non-observable market information, during 2012 and 2011, can be analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Balance as at 1 January	18 367	22 536
Acquisitions	1 205	832
Changes in fair value	(1 415)	(5 001)
Disposals	(10 351)	-
Balance as at 31 December	**7 806**	**18 367**

The main assumptions and inputs used during the years ended 2012 and 2011 in the valuation models are presented as follows:

Interest rate curves

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

(%)

	31.12.2012			31.12.2011		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	0.07	0.10	0.47	0.33	0.11	0.43
1 month	0.18	0.23	0.46	1.02	0.30	0.76
3 months	0.19	0.42	0.48	1.36	0.58	1.09
6 months	0.32	0.44	0.62	1.62	0.81	1.34
9 months	0.32	0.59	0.79	1.79	0.97	1.59
1 year	0.32	0.33	0.54	1.42	0.68	1.09
3 years	0.47	0.48	0.78	1.38	0.82	1.36
5 years	0.77	0.83	1.02	1.72	1.23	1.56
7 years	1.13	1.24	1.36	2.07	1.63	1.86
10 years	1.57	1.75	1.86	2.39	2.02	2.29
15 years	2.02	2.28	2.41	2.68	2.37	2.65
20 years	2.17	2.50	2.72	2.69	2.50	2.83
25 years	2.22	2.62	2.88	2.63	2.55	2.94
30 years	2.24	2.69	2.95	2.56	2.59	2.99

Credit spreads

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

Credit

(basis points)

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

Interest rates volatility

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

(%)

	31.12.2012			31.12.2011		
	EUR	USD	GBP	EUR	USD	GBP
1 year	197.18	66.60	54.10	51.08	76.51	53.15
3 years	84.70	72.90	64.90	52.92	77.70	67,00
5 years	67.50	63.22	60.80	50.31	67.85	62.90
7 years	52.90	51.03	49.60	44.19	56.34	52.30
10 years	39.70	42.33	37.20	38,00	47.78	39.70
15 years	31.43	35.80	27.80	32.41	42.35	29.70

Exchange rate and volatility

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

			Volatility (%)				
Exchange Rates	31.12.2012	31.12.2011	1 month	3 months	6 months	9 months	1 year
EUR/USD	1.3194	1.2939	8.18	8.33	8.70	9.04	9.20
EUR/GBP	0.8161	0.8353	5.63	5.85	6.28	6.65	6.83
EUR/CHF	1.2072	1.2156	2.10	3.05	3.70	4.52	4.85
EUR/NOK	7.3483	7.7540	4.95	5.23	5.55	5.91	6.08
EUR/PLN	4.0740	4.4580	6.60	7.05	7.85	8.35	8.75
EUR/RUB	40.3295	41.7650	7.78	8.17	8.35	8.90	9.23
USD/BRL [a)]	2.0491	1.8671	9.33	9.55	9.80	10.1	10.4
USD/TRY [b)]	1.7850	1.8882	5.70	6.68	7.70	8.43	8.95

a) Calculation based in EUR/USD and EUR/BRL exchange rates

b) Calculation based in EUR/USD and EUR/TRY exchange rates

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

Equity index

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

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

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

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

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

Loans and advances to customers

The fair value of loans and advances to customers is estimated based on the discount of the expected future cash flows of capital and interest, assuming that the installments are paid on the dates that have been contractually defined.

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 and interests.

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 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 Bank estimates its fair value by discounting the expected future cash-flows and interests.

NOTE 39 – RISK MANAGEMENT

A qualitative outlook of the risk management at the BESI is presented bellow.

Risk control and risk management provides an active support to management, being one of the strategic mainstays supporting BESI's balanced and sustained development.

BESI's risk management has the following objectives:

To identify, quantify and monitor the different types of risk, progressively applying uniform and consistent principles and methodologies;

To fine-tuning tools to support the structuring of transactions and develop internal techniques of performance assessment and core capital optimization;

To assume a proactive attitude in the management of events of significant delay or definitive non performance of contractual obligations.

Credit Risk

Credit risk represents the potential financial loss arising from the failure of a borrower or counterparty to honor 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 Bank. The credit default swaps are accounted for at fair value in accordance with the accounting policy described in Note 2.3.

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.

The BESI's risk profile is periodically monitored, especially in what concerns the evolution of credit exposure and credit lines. Are equally subject to daily analysis the observance of approved credit limits and the correct functioning of the mechanisms associated to credit approval.

BESI credit risk exposure is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Deposits with banks and loans and advances to banks	173 870	213 421
Financial assets held for trading	811 768	851 569
Available-for-sale financial assets	306 472	76 870
Loans and advances to customers	896 245	876 777
Held-to-maturity investments	37 431	39 730
Derivatives for risk management purposes	2 305	649
Other assets	580 153	578 468
Guarantees granted and stand by letters of credit	1 572 266	1 466 339
Irrevocable commitments	107 393	113 287
Credit risk associated to the credit derivatives reference entities	4 501	7 025
	4 492 404	**4 224 135**

Risk concentration

The analysis of loans and advances to customers and other financial assets by sector of activity, as at 31 December 2012 and 2011, can be analysed as follows:

(in thousands of euro)

	31.12.2012						
	Loans and advances to customers				Financial assets held for trading	Available-for-sale financial assets	
	Gross amount		Impairment		Gross amount	Gross amount	Impairment
	Outstanding loans	Overdue loans	Outstanding loans	Overdue loans			
Mining	-	-	-	-	290	-	-
Food, beverage and tobacco	5,906	-	-	-	25	-	-
Wood and cork	8,907	-	-	-	1 585	-	-
Non-metallic minerals	20,446	-	(11)	(1)	-	-	-
Metallic products	1,399	1	(1 025)		1	-	-
Electricity, gas and water	182,763	46	(4 613)	(1)	18 426	-	-
Collection, purification and distrib. of water, sanitation, waste manag. a	-	-	-	-	-	680	-
Real estate promotion	-	-	-	-	2 191	-	-
Construction	8 540	3 628	(23)	(903)	16 373	-	-
Wholesale and retail; repair of motor vehicles and motorcycles	10 339	24	-	-	-	-	-
Transports	238 056	-	(1 183)	-	3 456	-	-
Tourism	-	4	(46)	-	-	-	-
Printing and publishing	20 618	-	(8)	-	-	-	-
Information activities	1 656	-	-	-	-	-	-
Radio and television broadcast	7 264	-	-	-	-	-	-
Communication activities	8 923	-	(163)	-	5 803	3 030	-
Information activities	-	-	-	-	-	3	-
Monetary intermediation	-	-	(10)	-	679 259	32 853	(5 933)
Holding companies	321 703	-	(25 486)	-	8 669	-	-
Financial activities	25 611	-	(155)	-	6 967	21 954	-
Real estate activities	71 316	81	(31 097)	(20)	-	3 673	-
Consulting services	37 306	244	(30 581)	(229)	-	-	-
Public services	-	-	-	-	5 523	232 862	-
Arts, entretainment, sports and recreation activities	18 345	-	(1 992)	-	4 403	-	-
Other service activities	593	5	(282)	(152)	87 515	52 015	(1 163)
Mortgage loans	492	-	-	-	-	-	-
Retail loans	11	-	-	-	-	-	-
TOTAL	**990 194**	**4 033**	**(96 675)**	**(1 306)**	**840 486**	**347 070**	**(7 096)**

(in thousands of euro)

	31.12.2011						
	Loans and advances to customers				Financial assets held for trading	Available-for-sale financial assets	
	Gross amount		Impairment		Gross amount	Gross amount	Impairment
	Outstanding loans	Overdue loans	Outstanding loans	Overdue loans			
Mining	-	-	-	-	2	-	-
Food, beverage and tobacco	-	-	-	-	14	-	-
Wood and cork	-	-	(217)	-	-	-	-
Refining and oil	-	-	-	-	525	-	-
Transforming industries - Chemicals and rubber	34 587	168	-	(2)	-	-	-
Non-metallic minerals	23 603	-	-	-	-	-	-
Metallic products	-	-	(30)	-	-	-	-
Electricity, gas and water	154 789	174	(1 195)	(1)	11 013	832	-
Collection, purification and distribution of water, sanitation, waste management	-	-	-	-	-	600	-
Construction	33 714	45	-	-	-	-	-
Real estate activities	401	116	-	-	-	-	-
Wholesale and retail; repair of motor vehicles and motorcycles	1 984	-	-	-	-	-	-
Transports	115 325	-	-	-	2 854	-	-
Tourism	5 885	268	(27)	-	-	-	-
Printing and publishing	25 311	-	-	-	-	-	-
Information activities	3 406	-	-	-	690	-	-
Radio and television broadcast	10 228	-	-	-	-	-	-
Communication activities	6 307	-	(165)	-	9 509	-	-
Monetary intermediation	-	-	-	-	728 059	31 624	-
Holding companies	119 435	283	(19 488)	(3)	44 509	-	-
Financial activities	110 723	-	-	-	2 162	34 081	(4 472)
Real estate activities	68 506	-	(27 627)	-	-	-	-
Services provided to companies	50 096	183	-	(46)	-	-	-
Renting activities	18 336	-	(21 749)	-	-	-	-
Public services	-	-	-	-	678	3 733	-
Arts, entretainment, sports and recreation activities	17 020	1 236	(2 383)	(4)	4 107	-	-
Other service activities	145 377	1 562	-	(25)	65 559	40 825	(454)
International organisms and other extra-territorial activities	-	-	-	-	2 898	-	-
Mortgage loans	671	-	-	-	-	-	-
TOTAL	**945 704**	**4 035**	**(72 881)**	**(81)**	**872 579**	**111 695**	**(4 926)**

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 or share prices.

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. BESI'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 millions of euro)

	31.12.2012				31.12.2011			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Exchange risk	0.4	1.08	4.03	0.41	1.09	1.58	0.99	1.09
Interest rate risk	2.03	2.89	3.6	2.26	3.78	3.66	3.37	3.78
Shares	1.74	1.57	3.1	1.31	1.86	2.18	4.84	1.86
Diversification effect	-1.59	-1.98	-4.66	-1.62	-3.13	-2.07	-1.95	-3.13
Total	**2.58**	**3.56**	**6.07**	**2.36**	**3.60**	**5.35**	**7.25**	**3.60**

At the year-end, BESI had a VaR of euro 3.6 million for its trading positions which represents a decrease of 35% when compared to previous year.

Following the recommendations of Basel II (Pilar 2) and Instruction nº19/2005, of the Bank of Portugal BESI 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 millions of euro)

	31.12.2012						
	Elegible amounts	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Cash	1	1	-	-	-	-	-
Loans and advances to banks	173	23	149	-	1	-	-
Loans and advances to customers	994	96	486	371	-	8	34
Securities	386	34	34	48	5	26	239
Collateral deposits placed	444	-	444	-	-	-	-
Off-balance sheet	127	-	21	37	25	28	15
Total	**2 125**	**154**	**1 134**	**456**	**31**	**62**	**288**
Deposits from central banks	151	-	-	-	-	151	-
Deposits from banks	1 243	8	949	-	-	280	5
Due to customers	79	22	42	15	-	-	-
Repo´s with clients	118	-	118	-	-	-	-
Debt securities issued and subordinated	351	-	71	-	0	280	-
Other equity instruments	4	-	-	-	-	-	4
Collateral deposits placed	5	-	5	-	-	-	-
Off-balance sheet	127	-	26	32	25	29	15
Total	**2 078**	**30**	**1 211**	**47**	**25**	**740**	**24**
GAP (Assets - Liabilities)	**47**	**124**	**(77)**	**409**	**6**	**(678)**	**264**

* Amounts presented at its nominal value

(in millions of euro)

	31.12.2011						
	Elegible amounts	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Cash	2	2	-	-	-	-	-
Loans and advances to banks	212	36	176	-	-	-	-
Loans and advances to customers	950	109	285	415	97	12	32
Securities	146	31	44	36	-	14	21
Collateral deposits placed	501	-	501	-	-	-	-
Off-balance sheet	157	-	32	41	36	31	17
Total	**1 968**	**178**	**1 038**	**492**	**133**	**57**	**70**
Deposits from central banks	64	-	64	-	-	-	-
Deposits from banks	1 508	87	1 396	3	5	17	-
Due to customers	101	20	78	2	1	-	-
Repo´s with clients	129	-	129	-	-	-	-
Debt securities issued and subordinated	95	-	60	-	10	25	-
Other equity instruments	4	-	-	-	-	-	4
Collateral deposits placed	6	-	6	-	-	-	-
Off-balance sheet	157	-	39	46	24	31	17
Total	**2 064**	**107**	**1 772**	**51**	**40**	**73**	**21**
GAP (Assets - Liabilities)	**(96)**	**71**	**(734)**	**441**	**93**	**(16)**	**49**

The model used to monitor the sensitivity of BESI to interest rate risk is based on the duration model and considers parallel scenarios.

(in millions of euro)

	31.12.2012		31.12.2011	
	Parallel increase of 100 bp	Parallel descrease of 100 bp	Parallel increase of 100 bp	Parallel descrease of 100 bp
As at 31 December	(12.8)	12.8	(1.8)	1.8
Average for the year	(11.5)	11.5	0.3	(0.3)
Maximum for the year	(4.1)	20.5	7.0	6.0
Minimum for the year	(20.5)	4.1	(6.0)	(7.0)

The following table presents the average balances, interests and interest rates in relation to the BESI's major assets and liabilities categories, for the years ended 31 December 2012 and 2011:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Average balance for the year	Interest for the year	Average interest rate	Average balance for the year	Interest for the year	Average interest rate
Monetary assets	306 062	2 835	0.93%	353 519	7 747	2.19%
Loans and advances to customers	768 994	28 559	3.71%	841 456	35 154	4.18%
Securities	407 110	24 120	5.92%	436 411	10 355	2.44%
Financial assets	**1 482 166**	**55 514**	**3.75%**	**1 631 386**	**53 256**	**3.26%**
Monetary liabilities	1 528 488	22 531	1.47%	1 578 469	34 893	2.21%
Due to customers	224 939	2 851	1.27%	346 116	6 731	1.94%
Other funds	255 862	8 533	3.34%	94 899	2 582	2.72%
Financial liabilities	**2 009 289**	**33 915**	**1.69%**	**2 019 484**	**44 206**	**2.19%**
Net interest income		**21 599**	**2.06%**		**9 050**	**1.08%**

Concerning the foreign exchange risk, the distribution of the assets and liabilities by currency as at 31 of December of 2012 and 2011, is analysed as it follows:

(in thousands of euro)

		31.12.2012			31.12.2011		
		Spot	Forward	Net exposure	Spot	Forward	Net exposure
USD	US DOLAR	(3 211)	41 320	38 109	74 974	2 420	77 394
GBP	POUNDS	(72 410)	74 934	2 524	(74 181)	73 715	(466)
BRL	BRAZILIAN REAL	(739)	125 758	125 019	(74)	135 950	135 876
JPY	YEN	(161)	-	(161)	311	-	311
CHF	SUISS FRANC	(891)	-	(891)	1 708	972	2 680
PLN	POLISH ZLOTY	(9 635)	10 857	1 222	1 052	-	1 052
CAD	CANADIAN DOLLAR	(3 039)	2 953	(86)	19 141	(14 029)	5 112
	OTHER	(117)	-	(117)	(841)	977	136
		(90 203)	**255 822**	**165 619**	**22 090**	**200 005**	**222 095**

Note: asset / (liability)

As at 31 December 2012 and 31 December 2011 the exposure to public debt from peripheral Eurozone countries which are monitored by BESI is analysed as follows:

(in thousands of euro)

	31.12.2012					
	Loans and advances to customers	Financial Assets held for trading at fair value	Derivatives instruments [1]	Available-for-sale financial assets	Held-to-maturity investments	Total
Portugal	-	3 782	-	10 678	-	14 460
Spain	-	303	-	156 190	-	156 493
	-	**4 085**	**-**	**166 868**	**-**	**170 953**

(1) Net values: receivable/(payable)

(in thousands of euro)

	31.12.2011					
	Loans and advances to customers	Financial assets held for trading	Derivatives for risk management purposes [1]	Available-for-sale financial assets	Held-to-maturity investments	Total
Portugal	-	-	-	3 916	-	3 916
Spain	-	564	-	-	-	564
Irland	-	-	(1 069)	-	-	(1 069)
	-	**564**	**(1 069)**	**3 916**	**-**	**3 411**

(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.
A detailed exposure regarding securities recorded in financial assets available-for-sale, financial assets held for trading, financial assets at fair value through profit or loss and held-to-maturity investments can be analysed as follows:

(in thousands of euro)

	31.12.2012					
	Nominal Amount	Market value	Accrued interest	Book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**14 024**	**10 209**	**469**	**10 678**	**-**	**1 846**
Maturity up to 1 year	124	126	2	128	-	11
Maturity exceeding 1 year	13 900	10 083	467	10 550	-	1 835
Spain	**150 000**	**150 101**	**6 089**	**156 190**	**-**	**1 605**
Maturity exceeding 1 year	150 000	150 101	6 089	156 190	-	1 605
	164 024	**160 310**	**6 558**	**166 868**	**-**	**3 451**
Financial assets held for trading						
Portugal	3 750	3 754	28	3 782	-	-
Spain	305	303	-	303	-	-
	4 055	**4 057**	**28**	**4 085**	**-**	**-**

(in thousands of euro)

	31.12.2011					
	Nominal Amount	Market value	Accrued interest	Book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**4 400**	**3 733**	**183**	**3 916**	**-**	**(579)**
Maturity up to 1 year	2 100	2 054	57	2 111	-	(64)
Maturity exceeding 1 year	2 300	1 679	126	1 805	-	(515)
	4 400	**3 733**	**183**	**3 916**	**-**	**(579)**
Financial assets held for trading						
Spain	568	562	2	564	-	-
	568	**562**	**2**	**564**	**-**	**-**

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.

Liquidity management is centralized at the Financial Department. The purpose of liquidity management is to maintain adequate liquidity levels to meet short, medium and long term funding needs. The Bank prepares specific reports that allow the identification of negative mismatch and permits their dynamic coverage.

In addition, the Bank calculates the liquidity ratios in accordance with the Bank of Portugal rules.

Individual Liquidity Indicators

(in thousands of euro)

	31.12.2012	31.12.2011
Accumulated mismatch [1]	(186 529)	(652 273)
Net assets buffer [2]	126 405	65 001
Global Liquidity	(60 124)	(587 272)

(1) Accumulated mismatch corresponds to the difference between assets and liabilities with maturity date less than one year.
(2) The net assets buffer reflects the assets with maturity over one year that can be given as collateral to obtain liquidity, namely assets that can be given as collateral on loan operations with Central Banks (less haircuts), excluding those assets which are being used as collateral for loan operations with maturity of over one year.

Operational Risk

Operational risk represents the risk of losses resulting from failures in internal procedures, people behaviors, information systems and external events.

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.

Capital management and solvability ratio

BESI's main goals from capital management are (i) to allow the adequate growth of activities through the generation of enough capital to support the increase of assets, (ii) fulfillment of the minimum requirements defined by the supervision authorities in terms of capital adequacy and (iii) to ensure the fulfillment of BESI strategic goals in respect to capital adequacy matters.

The definition of the strategy in terms of capital adequacy is made by the Executive Committee and is integrated in the global goals of BESI.
BESI is subject to Bank of Portugal supervision, which. 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, the Bank was authorized to use, starting 28 November 2008, the approach based in the use of internal models for credit risks (Internal Rating Based Approach – IRB) for credit risk and the Standardized Approach – TSA) for operational risk.

Currently for the purpose of the reporting to the Bank of Portugal, the Bank presents the solvency ratios in accordance with standard method for credit risk and the basic indicator method for operational risk.

The capital elements of BESI are divided into: Basic Own Funds, Complementary Own Funds and Deductions, as follows:

Basic Own Funds (Tier I): This category includes the realized capital, the eligible reserves, the retained earnings of the year and non-controlling interest. Are deducted by the correspondent book value the amounts related to goodwill, intangible assets, unrealised losses recognised under the fair value reserve and associated with equity securities, 50% of the book value of investments in banking and insurance associates over 10% and negative actuarial deviations from employees' benefits up to 31 December 2008 and the expected but not realised return on the pension plan assets referring to 2008 are deducted in full.

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 by 50% of its value.

Deductions: 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 Tier I. Also, some components of the COF (Lower Tier II) cannot exceed 50% of the BOF.

In April 2007, Bank of Portugal issued Regulation 4/2007, which changed the rules to determine capital requirements. This regulation changed the treatment of the investments in banking and insurance entities that began to be deducted in 50% to the BOF and 50% to the COF. Previously, these investments were included in the deductions made to the total capital requirements.

In December 2008, the Bank of Portugal issued the Notice 11/2008, establishing a transitory period of four years, from December 2009 to December 2012, for the recognition of the actuarial gains/losses determined in 2008, deducted from the expected return of the fund plan assets for the same year.

At 2012 and 2011, the main movements occurred in Tier I are as follows:

(in thousand of euro)

	Dec 12	Dec 11
Balance at the beginning of the year	317 635	338 123
Capital increase	100 000	46 269
Other equity instruments	-	(46 269)
Reserves and retained earnings	(9 275)	(2 416)
Changes on actuarial losses	-	1 707
Changes in fair value of available-for-sale financial assets	109	(708)
Intangible assets	(3 888)	(5 830)
Deductions	14 142	(13 241)
Balance at the end of the year	**418 723**	**317 635**

The capital adequacy of BESI as at 31 December 2012 and 31 December 2011 is presented as follows:

(in thousand of euro)

	Dec 12	Dec 11
Total Assets	3 385 007	3 257 066
Risk weighted Assets	2 810 552	3 414 527
Weight Percentage	83.03%	104.83%
Own funds requirement	224 844	273 162
Own funds requirement - Banking Book	175 712	217 539
Own funds requirement - Trading Book	32 202	38 904
Own funds requirement - Settlement risk	2	0
Own funds requirement - Operational Risk	16 929	16 719
Elegible own funds	443 708	358 931
Basic own funds (CORE TIER I)	415 040	318 717
Basic own funds (TIER I)	418 723	317 635
Complementary own funds	25 010	41 321
Deductions	(25)	(25)
Excess	218 864	85 769
Solvency ratio	**15.8%**	**10.5%**
TIER I	**14.9%**	**9.3%**
CORE TIER I	**14.8%**	**9.3%**

NOTE 40 – RECENTLY ISSUED PRONOUNCEMENTS

RECENTLY ISSUED PRONOUNCEMENTS ALREADY ADOPTED BY THE BANK

In the preparation of the consolidated financial statements for the year ended 31 December 2012, the Bank adopted the following standards and interpretations that are effective since 1 January 2012:

IFRS 7 (amended) – Financial Instruments: Disclosures – Transfers of Financial Assets

The International Accounting Standards Board (IASB), issued on 7th October 2010, amendments to "IFRS 7 – Disclosures – Transfers of Financial Assets", effective for annual periods beginning on or after 1st July 2011. Those amendments were endorsed by EU Commission Regulation 1205/2011, 22nd November.

The amendment requires enhanced disclosures about transfers of financial assets that enable users of financial statements:

- To understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liability; and
- To evaluate the nature of, and risks associated with, the entity´s continuing involvement in derecognised financial.

The amendments also required additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

The adoption of this amendment by the Bank had no impact on its financial statements.

RECENTLY ISSUE PRONOUNCEMENTS YET TO BE ADOPTED BY THE BANK

The new standards and interpretations that have been issued, but that are not yet effective and that the Bank has not yet applied, are analysed below. The Bank will apply these standards when they are effective.

Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 – Presentation of Financial Statements

The IASB, issued on 16th June 2011, amendments to "IAS 1 – Presentation of Financial Statements", effective (with retrospective application) for annual periods beginning on or after 1st January 2012. Those amendments were endorsed by EU Commission Regulation 475/2012, 5th June.

The changes retain the entity's option to present profit or loss and other comprehensive income in two statements, however requires:

- to present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss; and;
- an entity that presents items of other comprehensive income before related tax effects will also have to allocate the aggregated tax amount between the two subcategories;
- change the title to "statement of profit or loss and other comprehensive income" - although other titles could be used.

The amendments affect presentation only and have no impact on the Bank's financial position or performance.

IAS 19 Revised – Employee Benefits

The IASB, issued on 16th June 2011, amendments to "IAS 19 – Employee Benefits", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. Those amendments were endorsed by EU Commission Regulation 475/2012, 5th June.

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Bank made a voluntary change in the accounting police related to actuarial gains and losses arising from its post employment benefits which from 2011 are charged to equity, under other comprehensive income.

However, the amended standard will impact the net benefit expenses as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation.

The Bank is evaluating the impact of adopting this interpretation on its financial statements

IFRS 7 (Amended) - Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities

The IASB, issued on 16th December 2011, amendments to "IFRS 7 – Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. Those amendments were endorsed by EU Commission Regulation 1256/2012, 11th December.

These amendments required an entity to disclose information about what amounts have been offset in the statement of financial position and the nature and extend of rights to set-off and related arrangements (e.g. collateral arrangements).

The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

The Bank is evaluating the impact of adopting this interpretation on its financial statements.

IAS 32 (Amended) - Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities

The IASB, issued on 16th December 2011, amendments to "IAS 32 – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities", effective (with retrospective application) for annual periods beginning on or after 1st January 2014. Those amendments were endorsed by EU Commission Regulation 1256/2012, 11th December.

The IASB amended IAS 32 to add application guidance to address the inconsistent application of the standard in practice. The application guidance clarifies that the phrase 'currently has a legal enforceable right of set-off' means that the right of set-off must not be contingent on a future event and must be legally enforceable in the normal course of business, in the event of default and in the event of insolvency or bankruptcy, of the entity and all of the counterparties.

The application guidance also specifies the characteristics of gross settlement systems in order to be considered equivalent to net settlement.

The Bank is not expecting a significant impact from the adoption of the amendment to IAS 32.

IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine

The International Financial Reporting Interpretations Committee (IFRIC), issued on 19th October 2011, "IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. Those amendments were endorsed by EU Commission Regulation 1255/2012, 11th December.

Give the nature of the Group´s operation, this interpretation does not have any impact on the financial stamtents.

IFRS 10 – Consolidated Financial Statements

The IASB, issued on 12th May 2011, "IFRS 10 Consolidated Financial Statements", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

IFRS 10, withdraw one part of IAS 27 and SIC 12, and introduces a single control model to determine whether an investee should be consolidated.

The new concept of control involves the assessment of power, exposure to variability in returns and a linkage between the two. An investment controls an investee when it is exposed, or has rights, to variability returns from its involvement with the investee and is able to affect those returns through its power over the investee (facto control).

The investor considers whether it controls the relevant activities of the investee, taking into consideration the new concept. The assessment should be done at each reporting period because the relation between power and exposure variability in returns may change over the time.

Control is usually assessed over a legal entity, but also can be assessed over only specified assets and liabilities of an investee (referred to as silo).

The new standard also introduce other changes such as: i) accounting requirements for subsidiaries in consolidation financial statements are carried forward from IAS 27 to this new standards and ii) enhanced disclosures are requires, including specific disclosures for consolidated and unconsolidated structured entities.

The group has not carried out a thorough analysis of the impacts of the application of this standard. Given the introduction of a new control model the Bank may need to change its consolidation conclusion in respect of its investees.

IFRS 11 – Joint Arrangements

The IASB, issued on 12th May 2011, "IFRS 11 Joint arrangements", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, which allows a delayed on mandatory application for 1st January 2014.

IFRS 11, withdraw IAS 31 and SIC 13, defines "joint control" by incorporating the same control model as defined in IFRS 10 and requires an entity that is part of a "join arrangement" to determine the nature of the joint arrangement ("joint operations" or "joint ventures") by assessing its rights and obligations.

IFRS 11 removes the option to account for joint ventures using the proportionate consolidation. Instead, joint arrangements that meet the definition of "joint venture" must be account for using the equity method (IAS 28).

The Bank expects no impact form the adoption of this amendment on its financial statements.

IAS 28 (Revised) – Investments in Associates and Joint Ventures

The IASB, issued on 12th May 2011, "IAS 28 Investments in Associates and Joint Ventures", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, which allows a delayed on mandatory application for 1st January 2014.

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed as IAS 28 Investments in Associates and Joint ventures, and describes the application of the entity method to investments in joint ventures and associates.

The Bank expects no impact form the adoption of this amendment on its financial statements.

IFRS 12 – Disclosures of Interest in Other Entities

The IASB, issued on 12th May 2011, "IFRS 12 Disclosures of Interests in Other Entities", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, which allows a delayed on mandatory application for 1st January 2014.

The objective of this new standard is to require an entity to disclose information that enables users of its financial statements to evaluate: (a) the nature of, and risks associated with, its interests in other entities; and (b) the effects of those interests on its financial position, financial performance and cash flows.

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special vehicles and other off balance sheet vehicles.

The Bank is yet assessing the full impact of the new IFRS 12 in line with the adoption of IFRS 10 and IFRS 11.

IFRS 13 – Fair Value Measurement

The IASB, issued on 12th May 2011, "IFRS 13 fair value Measurement", effective (with prospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1255/2012, 11th December.

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs.

The Bank is currently reviewing its methodologies for determining fair values.

Although many of IFRS 13 disclosures requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorized in Level 3.

Investment Entities – Amendments to IFRS 10, IFRS12 and IAS 8 (issued by IASB on 31st October 2012)

The amendments apply to a particular class of business that qualify as investment entities. The IASB uses the term 'investment entity' to refer to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds.

The amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

The amendments are effective from 1 January 2014 with early adoption permitted. This option allows investment entities to apply the Investment Entities amendments at the same time they first apply the rest of IFRS 10.

The Bank does not expect any major impact from the adoption of this amendment on its financial statements.

Improvements to IFRS (2009-2011)

The annual improvements cycle 2009-2011, issued by IASB on 17th May 2012, introduce amendments, with effective date on, or after, 1st January 2013, to the standards IFRS1, IAS1, IAS16, IAS32, IAS34 and IFRIC2.

IAS 1 - Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 - Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 - Financial Instruments, Presentation and IFRIC 2

The improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes, avoid any interpretation that may mean any either application.

IAS 34 - Interim Financial Reporting

The amendments align the disclosure requirement for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures in relation to the changes of profit and loss account and other comprehensive income.

The Bank is evaluating the impact on the adoption of these improvements.

IFRS 9 Financial instruments (issued in 2009 and revised in 2010)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project of make

limits amendments to the classification and measurement requirements of IFRS 9 and new requirements to address the impairment of financial assets and hedge accounting.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables.

For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognized in profits or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment.

Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognized in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instruments is assessed in its entirety as to whether it should be amortised cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities form IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues.

The Bank has commenced the process of evaluating the potential effect of this standard but is awaiting finalization of the limited amendments before the evaluation can be completed. Given the nature of the Bank's operation, this standard is expected to have a pervasive impact on the Bank's financial statements.

Report and Opinion of the Supervisory Board

Banco Espírito Santo de Investimento, S.A.

for the financial year 2012

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

To the Shareholder of
Banco Espírito Santo de Investimento, S.A.

In accordance with the applicable legislation, we hereby present our report of the audit performed by the Supervisory Board on the Annual Management Report, individual and consolidated financial statements and the proposed allocation of results presented by the Board of Directors of Banco Espírito Santo de Investimento, S.A. (from here on "BESI") for the year ended December 31st, 2012.

During the financial year of 2012, BESI´s Supervisory Board, as part of its designated functions, followed, in accordance with the law and the company's statutes, the development of BESI's management and business activities, namely:

(i) assessed the adequacy and efficiency of risk management, internal controls and internal auditing systems and procedures;
(ii) attended Board of Directors meetings whenever invited;
(iii) reviewed management information documents submitted to the Supervisory Board by the Board of Directors;
(iv) monitored the verification of accounting records and underlying support documentation;
(v) assessed accounting policies and valuation criteria adopted by BESI; and
(vi) held meetings, whenever necessary, with the Official Auditor, on the assessment of the accounting policies and valuation criteria adopted by BESI, who always provided the information deemed necessary.

In accordance with the applicable legislation, the Supervisory Board also assessed the Auditor´s Report prepared by the Official Auditor on the individual and consolidated financial statements and was also made aware of the individual and consolidated Statutory Audit Report ("Certificação Legal de Contas") on the financial statements (individual and consolidated) for the financial year 2012, in which no qualifications or emphasis were expressed, and with which the Supervisory Board agrees.

The Supervisory Board was also made aware of the findings issued in the Audit Report prepared by an international auditing company.

The Supervisory Board also analysed the Management Report submitted by the Board of Directors and considers that the report complies with the applicable legal and statutory requirements and elucidates the main aspects of BESI's activities in 2012, both individual and consolidated terms.

The Supervisory Board recognises that the results presented are a consequence of the adverse environment at national and international levels.

Due to the mentioned above, the Supervisory Board is the opinion that the following should be approved:

- The Management Report and other documents relating to the individual and consolidated financial statements as at and for the financial year ended on December 31st, 2012;
- The proposal submitted by the Board of Directors on the allocation of the individual net profits for the financial year ended 2012, in the amount of EUR 18.249.803,09.

Lisbon, March 19th, 2013

THE SUPERVISORY BOARD

José Manuel Macedo Pereira (Chairman)
Tito Manuel das Neves Magalhães Basto
Mário Paulo Bettencourt de Oliveira

Declaration of Conformity on the Financial Information Presented

The present declaration is submitted under the terms of line c) of n.º 1 of Article 245 of the Securities Market Code (CVM).

The Supervisory Board does hereby declare that, to the best of its knowledge:

- The information referred in line a) of n.º 1 of Article 245 of the Securities Market Code, as at December 31st, 2012 was prepared in accordance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, the financial situation and the results of BESI and the companies included within its consolidated perimeter; and
- The management report faithfully details the evolution of business, the performance and the position of BESI and the companies included within its consolidated perimeter and contain a description of the main risks and uncertainties faced within the framework of ongoing activities.

Lisbon, March 19th, 2013

THE SUPERVISORY BOARD

José Manuel Macedo Pereira (Chairman)
Tito Manuel das Neves Magalhães Basto
Mário Paulo Bettencourt de Oliveira

BANCO ESPÍRITO SANTO DE INVESTIMENTO, S.A.

Statutory Audit and Auditor's Report

(Individual Accounts)

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

INTRODUCTION

1. In accordance with the applicable legislation, we hereby present the Statutory Audit and Auditor's Report on the financial information contained in the Management Report and corresponding Financial Statements for the financial year ending on December 31, 2012, of "**BANCO ESPÍRITO SANTO DE INVESTIMENTO, S.A.**", which comprise: the balance sheet (which reports assets of 3,385,007 thousand euros and total equity attributable to the equity holder of the Bank of 449,043 thousand euros, including a net profit for the year attributable to the equity holder of the Bank of 18,250 thousand euros), the statement of income, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended and the corresponding Notes.

RESPONSIBILITIES

2. The Board of Directors is responsible for:

   a) the preparation of financial statements in accordance with Adjusted Accounting Standards (NCA) endorsed by the Bank of Portugal, which follow the International Financial Reporting Standards (IFRS) as adopted by the European Union, with the exception of items included in the Amendments to the NCA nos. 1/2005 (clauses 2 and 3) and 4/2005 (clause 2) issued by the Bank of Portugal, and that these financial statements present a true and fair view of the financial position of the Bank and the results of its operations, changes in equity and cash flows positions;

   b) the historical financial information, prepared in accordance with generally accepted accounting standards and which must be complete, true and fair, to date, transparent, objective and lawful, in accordance with the Securities Market Code;

   c) adopting appropriate accounting policies and criteria;

   d) maintaining an adequate internal control system; and

   e) disclosing any relevant fact that may have affected the operations, financial situation or results of the Bank.

3. We are responsible for auditing the financial information included in the financial statements, for determining whether it is complete, true and fair, to date, transparent, objective and lawful, as required by the Securities Market Code, and for issuing a professional and independent report based on our audit.

SCOPE

4. Our audit was performed in accordance with applicable Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors (*Ordem dos Revisores Oficiais de Contas*), which require us to plan and perform our audit so as to obtain reasonable assurance that the financial statements are free of material misstatements. Our audit therefore included:

   - an examination, on a test sample basis, of evidence for the amounts and disclosures in the financial statements and an assessment of the estimates used, based on the judgments and criteria defined by the Board of Directors, in the preparation of the financial statements;
   - an assessment of whether the accounting policies adopted were appropriate to the circumstances of the Bank and that these were adequately disclosed;
   - a verification as to whether the going-concern assumption is applicable;
   - an assessment as to whether the financial statements present a sufficient representation of the Bank's overall financial situation; and
   - an assessment as to whether the financial information is complete, true and fair, to date, transparent, objective and lawful.

5. Our audit included an examination that the financial information disclosed in the Management Report are consistent with the amounts presented in the financial statements.

6. We consider that the audit carried out provides a reasonable basis to express our opinion.

OPINION

7. In our opinion, the financial statements referred to above present a true and fair view, in all material respects, of the financial position of "**BANCO ESPÍRITO SANTO DE INVESTIMENTO, S.A.**" as at December 31, 2012, the results of its operations, comprehensive income, changes in equity and cash flows for the year then ended in accordance with the Adjusted Accounting Standards (NCA) as endorsed by the Bank of Portugal and that all the information included is complete, true, to date, transparent, objective and lawful.

REPORT ON OTHER LEGAL REQUIREMENTS

8. It is also our opinion that the information contained in the management report is in accordance with the financial statements of the year.

Lisbon, March 18, 2013

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Amável Alberto Freixo Calhau

representing:

"Amável Calhau, Ribeiro da Cunha e Associados

- Sociedade de Revisores Oficiais de Contas -"

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A.
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Portugal

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AUDITORS' REPORT

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

Introduction

1 We have audited the financial statements of Banco Espírito Santo de Investimento, S.A., which comprise the balance sheet as at 31 December 2012 (showing total assets of Euro 3 385 007 thousand and total equity of Euro 449 643 thousand, including a net profit for the year of Euro 18 250 thousand), the statements of income, of comprehensive income, of changes in equity and of cash flows for the year then ended and the corresponding Notes to the accounts.

Responsibilities

2 The Board of Directors is responsible for the preparation of financial statements in accordance with the Adjusted Accounting Rules ("NCA") defined by the Bank of Portugal, that present fairly, in all material respects, the financial position of the Bank, the results of its operations, its comprehensive income, its cash flows and its changes in equity; the adoption of adequate accounting policies and criteria and maintaining an appropriate system of internal control.

3 Our responsibility is to issue a professional and independent report based on our audit.

Scope

4 Our audit was performed in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. Accordingly our audit included:

- verification, on a test basis, of the information underlying the figures and its disclosures contained therein, and an assessment of the estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;
- evaluating the appropriateness of the accounting policies used and of their disclosure, taking into account the applicable circumstances;
- assessing the applicability of the going concern basis of accounting; and
- assessment of the appropriateness of the overall presentation of the financial statements.

KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A., a Portuguese company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG & Associados - S.R.O.C., S.A. Capital Social: 3.120.000 Euros - Pessoa Colectiva Nº PT 502 161 078 - Inscrito na O.R.O.C. Nº 189 - Inscrito na C.M.V.M. Nº 9093

Matriculada na Conservatória do registo Comercial de Lisboa sob o PT 502 161 078

5 Our audit also included the verification that the financial information contained in the Annual Report of the Board of Directors is consistent with the financial statements presented.

6 We believe that our audit provides a reasonable basis for our opinion.

Opinion

7 In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Banco Espírito Santo de Investimento, S.A. as at 31 December 2012, the results of its operations, its comprehensive income, its cash flows and its changes in equity for the year then ended in accordance with the NCA's defined by the Bank of Portugal.

Report on Other Legal Requirements

8 It is also our opinion that the financial information included in the Board of Directors report is consistent with the financial statements for the year.

Lisbon, 18th March 2013

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)
Represented by
Fernando Gustavo Duarte Antunes (ROC n.º 1233)

ANNEX I – SHARES AND BONDS HELD BY THE MEMBERS OF THE BOARD OF DIRECTORS AND THE SUPERVISORY BODIES

(Annex referred to in paragraph 5 of Article 447 of the Portuguese Companies Code)

Shareholders/ Bondholders	Securities	Securities held as of 31/12/2011	Transactions in 2012				Securities held as of 31/12/2012
			Date	Acquisitions	Disposals	Unit Price (EUR)	
Ricardo Espírito Santo Silva Salgado	BES Shares	1,384,333	11-05-2012	2,422,582		0.395	3,806,915
José Maria Espírito Santo Silva Ricciardi	BES Shares	21,789	11-05-2012	38,130		0.395	
			24-07-2012		29,919	0.482	30,000
Francisco Ravara Cary	-						
Rafael Caldeira de Castel-Branco Valverde	BES 5.625% 2014 Bonds	2		0	0		2
Miguel António Igrejas Horta e Costa	-						
Ricardo Abecassis Espírito Santo Silva	BES Shares	50,000	24-04-2012	20,000		0,553	
			11-05-2012	88,621		0,395	
			16-05-2012	1,379		0,549	160,000
	BES 5.625% Bonds	0	14-06-2012	50,000		91%	50,000
Amílcar Carlos Ferreira de Morais Pires	BES Shares	40,276	11-05-2012	294,449		0.395	334,725
	BES DUE 3.875% 2015 Bonds	5		0	0		5
	BES DUE 5.625% 2014 Bonds	5		0	0		5
Bernard Marcel Fernand Basecqz	ESFG 5.05% Conv 2025 Bonds	2		0	0		2
	BES 5.625% 2014 Bonds	1		0	0		1
Bernardo Ernesto Simões Moniz da Maia (1)	BES Shares	634,888	20-04-2012		50,000	0.583	
			23-04-2012		70,000	0.556	
			24-04-2012		360,000	0.563	
			25-04-2012		138,000	0.571	
			11-05-2012	1,702,801		0.395	
			23-05-2012		169,976	0.494	
			29-05-2012		27,980	0.480	
			30-05-2012		100,000	0.455	
			31-05-2012		280,000	0.454	
			01-06-2012		80,000	0.443	
			04-06-2012		8,830	0.445	
			04-06-2012		140,000	0.458	
			05-06-2012		400,003	0.488	
			06-06-2012		115,187	0.534	
			07-06-2012		181,941	0.524	215,772
Christian Georges Jacques Minzolini	-						
Diogo Luis Ramos de Abreu	BES 3.875% 2015 Bonds	1		0	0		1
Duarte José Borges Coutinho Espírito Santo Silva	BES Shares	131,655	11-05-2012	230,396		0.395	362,051
	BES Finance Ltd. 2035 Bonds	125		0	0		125
Félix Aguirre Cabanyes	-						
João Filipe Espírito Santo de Brito e Cunha	-						
José Manuel Pinheiro Espirito Santo Silva	BES Shares	367,008	11-05-2012	642,263		0.395	1,009,271
	BES 5.625% DUE 2014 Bonds	4		0	0		4
Luis Miguel Pina Alves Luna Vaz	-						
Moses Dodo	BESI Brasil SR NT 5.625% 2015 Bonds	2,500		0	0		2,500
Paulo José Lameiras Martins	-						
Tiago Vaz Pinto Cyrne de Castro	BES Shares	4,484	11-05-2012	7,846	0	0.395	12,330
	BES 3.875% 2015 Bonds	2		0	0		2
	BES 5.625% 2014 Bonds	1		0	0		1
	BESI Brasil Shares	1		0	0		1
Frederico dos Reis de Arrochela Alegria	BES Shares	691	11-05-2012	1,209		0.395	1,900
	BES 5.625% 2014 Bonds	50		0	0		50
	BES 3.875% 2015 Bonds	50		0	0		50
	BES eur 3m+0,15% Float 2014 Bonds	100		0	0		100
Phillipe Gilles Fernand Guiral	-						
Nicholas Mark Finegold (2)	ES Investment Holdings Limited Shares	4,524,727		0	0		4,524,727
Pedro Mosqueira do Amaral	BES Shares	70,000	11-05-2012	122,500		0.395	192,500
José Manuel Macedo Pereira	-						
Tito Manuel das Neves Magalhães Basto	-						
Mário Paulo Bettencourt de Oliveira	-						
Amável Calhau, Ribeiro da Cunha & Associados - SROC	-						
Nuno Espírito Santo Leite de Faria	BES Shares	238	11-05-2012	421		0.395	659

(1) Directly and through companies where he has management responsabilities
(2) Directly and through Family Trust

ANNEX II - SHAREHOLDER

(Annex referred to in paragraph 4 of Article 448 of the Portuguese Companies Code)

Shareholder	% of Capital
Banco Espírito Santo, S.A.	100%

The Bank's share capital was increased by EUR 100,000,000.00 and fully subscribed by the Sole Shareholder Banco Espírito Santo, S.A. There were no additional transactions involving the Bank's shares in 2012.

ANNEX III - ADOPTION OF THE FINANCIAL STABILITY FORUM (FSF) AND COMMITTEE OF EUROPEAN BANKING SUPERVISORS (CEBS) RECOMMENDATIONS ON TRANSPARENCY OF INFORMATION AND VALUATION OF ASSETS

(Bank of Portugal's Circular Letters no. 97/2008/DSB, of 3 December and no. 58/2009/DSB of 5 August)

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

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

This chapter aims to ensure compliance with the Bank of Portugal's recommendation, including references to where the information provided may be found within the Management Report or in the Notes to the Financial Statements for fiscal years 2011 and 2012.

I. BUSINESS MODEL

1. Description of the Business Model

A description of Banco Espírito Santo de Investimento's business model is provided in Point 2 of the Management Report "Activity Review". The performance of the main business areas (operational segments) is also presented in Note 4[1].

2. Strategy and Objectives

A description of Banco Espírito Santo de Investimento'strategies and objectives is provided in Point 2 of the Management Report "Activity Review".

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

Point 2 of the Management Report and Note 4 contain information about the activities engaged by the Bank and their contribution to the business.

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

II. RISK AND RISK MANAGEMENT

6. and 7. Description and Nature of the Risks Incurred

Point 4 of the Management Report "Integrated Risk Management" describes how the risk management function is organised at Banco Espírito Santo de Investimento.

Note 43 contains diverse information that allows the market to form a thorough perception about the risks incurred by Banco Espírito Santo de Investimento and the management mechanisms in place to monitor and control such risks.

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

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

The activity during 2011 and 2012 was conducted in a climate of deterioration of the overall economic situation in Europe and in Portugal in particular, with a negative impact on risk. Consequently in 2012 Banco Espírito Santo de Investimento reinforced the level of provisions by a total of EUR 46.2 million (EUR 44.1 million in 2011).

12. Decomposition of realised and non realised write-downs

Profits and losses in financial assets and liabilities held for trading, in financial assets and liabilities at fair value through profit or loss and in assets available for sale are detailed by financial instruments in Notes 7 and 8. Additionally, non realised gains and losses on assets available for sale are detailed in Notes 19 and 39, while the most significant positions are detailed in Note 19.

13. Impact of the financial turmoil on the Bank's share price.

Not applicable to Banco Espírito Santo de Investimento.

14. Maximum loss risk

Point 4 of the Management Report "Integrated Risk Management" and Note 43 contain the relevant information about potential losses in market stress situations.

15. Debt issued by Banco Espírito Santo de Investimento and results

Note 42 contains information on the impact on results of a debt revaluation and the methods used to calculate this impact.

IV. LEVEL AND TYPE OF EXPOSURES AFFECTED BY THE PERIOD OF FINANCIAL TURBULENCE

16. Nominal and fair value of exposures

17. Credit risk mitigators

18. Information about Banco Espírito Santo de Investimento's exposures

The turbulence that occurred in 2011 and 2012 resulted from the deterioration of sovereign risk in the peripheral euro zone countries.

As at December 31st, 2011 Banco Espírito Santo de Investimento's total exposure to the public debt of these countries (Portugal, Spain, Greece and Ireland) was EUR 9,928,496 (of which EUR 3,915,501 to Portugal, EUR 0 to Greece, EUR 989,423 to Spain, and EUR 5,023,572 to Ireland).

As at December 31st, 2012 the Bank's total exposure to these countries' public debt was EUR 170,953,027 (of which EUR 14,460,326 to Portugal, EUR 0 to Greece, EUR 156,492,701 to Spain, and EUR 0 to Ireland).

19. Movement in exposures between periods

Note 43 contains diverse information comparing the exposures to markets and the results in 2011 and 2012. The disclosed information is considered sufficient, given the detail and quantitative information provided.

20. Non-consolidated exposures

Not applicable to Banco Espírito Santo de Investimento.

21. Exposure to monoline insurers and quality of assets insured

Banco Espírito Santo de Investimento does not have exposures to monoline insurers.

V. ACCOUNTING POLICIES AND VALUATION METHODS

22. Structured Products

These situations are described in Note 2 – Summary of Significant Accounting Principles.

23. Special Purpose Entities (SPEs) and consolidation

Not applicable to Banco Espírito Santo de Investimento.

24. and 25. Fair value of financial instruments

See the comments to item 16 of this annex. Notes 2 and 42 refer to the conditions for utilisation of the fair value option as well as the methodology used in the valuation of financial instruments.

VI. OTHER RELEVANT ASPECTS OF DISCLOSURE

26. Description of the disclosure policies and principles

Banco Espírito Santo de Investimento, within the context of its accounting and financial information disclosure policy, aims to satisfy all the regulatory requirements, defined by the accounting standards or by the supervisory and regulatory entities.

From the information made available to the Bank's shareholder, clients, employees, supervisory entities and the public in general, we highlight the Management Report, the Financial Statements and the respective Notes, and the Market Discipline report.

The Management Report and Financial Statements, released on a semi-annual basis, are prepared using the International Financial Reporting Standards (IFRS) that comply with the highest degree of disclosure and transparency and facilitate comparison to other domestic and international banks.

The Market Discipline report is mainly of a prudential nature and aims to comply with the disclosure requirements foreseen in Pillar III of the Basel II Accord.

Banco Espírito Santo de Investimento issues statements concerning material market events, as considered necessary.

ANNEX IV – CORPORATE GOVERNANCE STRUCTURES AND PRACTICES

(Article 245-A (4) of the Securities Code)

- **Qualified holdings in the company's share capital**

  The share capital of Banco Espírito Santo de Investimento, S.A. (the "Bank") is fully owned by Banco Espírito Santo, S.A..

- **Identification of the shareholders that detain special rights and a description of those rights**

  The Bank's share capital is entirely represented by ordinary shares.

- **Eventual restrictions on voting rights, such as limitations on the voting rights dependent on holding a certain number or percentage of shares, deadlines imposed on the right to vote, or key rights of patrimonial content**

  Shareholders or groups of shareholders who hold a minimum of one hundred shares at least five days prior to the date of the Bank's Annual General Meeting are eligible for participation in the meeting. Each one hundred shares are entitled to one vote.

- **Rules governing the appointment and replacement of members of the management body and the amendment of the articles of association**

  The members of the Board of Directors are elected by the Annual General Meeting. There are no specific rules concerning the replacement of Board Members. Any replacements shall be made in accordance with the terms set out in the Companies Code.

  There are no specific rules concerning changes to the Bank's articles of association. Any such changes shall be made under the general terms foreseen in the Companies Code.

- **Powers of the management body, particularly as regards to resolutions on capital increase**

  The Board of Directors does not hold at present any powers to resolve on capital increases since the statutory provision regarding this issue expired as a result of the last capital increase decided by the Single Shareholder.

- **Key features of the internal control and risk management systems implemented in the Company in relation to the financial reporting process**

  - Internal Control System

  The Bank has in place an effective internal control system which is managed by the Compliance Department.

  The Compliance Department, together with the heads of the relevant processes, is responsible for maintaining all the Bank's internal control system documentation, and for guaranteeing an overall perspective and integrated management of the entire internal control system of the Banco Espírito Santo

de Investimento Group, thus contributing for the reliability of the financial information, the protection of assets and the adequate prevention of risks.

The Compliance Department is also responsible for internal reporting, as well as for external reporting to the various national and international regulatory authorities, thus ensuring an overall perspective and integrated management of the internal control system.

- Risk control system

At the Banco Espírito Santo de Investimento Group, the risk function is organised in such a way as to cover the credit, market, liquidity, interest rate, exchange rate, operational, and compliance risks.

The risk profile is defined at the Banco Espírito Santo Group level. It is the responsibility of the Bank's Executive Committee to ensure and supervise compliance with this profile, guaranteeing that the Bank possesses the necessary skills and resources to meet the established objectives.

The main units dedicated to the prevention of risk in the Bank's activity are the Credit and Risk Management Committees, the Risk Department, the Compliance Department and the Internal Audit Department (the risk control system is explained in detail in Point 4 "Integrated Risk Management", of the Management Report).

At the operational level, the Bank's risk analysis and risk control teams work closely and in coordination with BES's Global Risk Department, which centralises the Risk function of the Banco Espírito Santo Group at domestic and international levels, covering every category of risk: credit, market, liquidity, interest rate, balance sheet and operational.

Within this relationship, the investment banking risk management function is guided on the following principles:

- permanent and ongoing assessment of risk;
- pre-established tolerance limits which take into account solvency levels and risk/return optimisation;
- risk analysis, quantification, control and monitoring by entities that are independent from the business areas;
- use of different methodologies, namely internal and external ratings (the latter supplied by the leading international rating agencies), VaR and sensitivity and exposure analyses;
- analysis of the specific factors for each market where the Bank operates, as well as for each portfolio (trading, investment or held to maturity).

Risk control and supervision are carried out by the Bank's Executive Committee, which delegates the setting of rules and procedures and the approval of transactions to the Credit and Risk Management Committee, and the definition and monitoring of balance sheet and liquidity management policies to the Assets and Liabilities Committee (ALCO).

ANNEX V – BANK OF PORTUGAL REFERENCE INDICATORS

(Notice 23/2011 of Bank of Portugal)

Bank of Portugal Reference Indicators (Consolidated basis)	2011	2012
SOLVENCY		
Regulatory Capital / Risk Weighted Assets	9,5%	12,0%
TIER I / Risk Weighted Assets	8,9%	11,6%
Core Tier I / Risk Weighted Assets	9,1%	11,6%
ASSET QUALITY		
Overdue and Doubtful Loans / Gross Loans	0,81%	0,65%
Overdue and Doubtful Loans net of Impairments / Total Net Loans	0,76%	0,61%
Credit at Risk / Gross Loans	8,69%	9,84%
Credit at Risk (net) / Net Loans	5,55%	5,74%
PROFITABILITY		
Income before Taxes and Minorities / Average Total Equity	2,4%	6,0%
Banking Income / Average Net Assets	3,5%	4,0%
Income before Taxes and Minorities / Average Net Assets	0,2%	0,6%
EFFICIENCY		
Staff Costs + General and Administrative Expenses + Depreciation / Banking Income	75,1%	67,4%
Staff Costs/ Banking Income	45,9%	42,6%
TRANSFORMATION RATIO		
(Gross Loans - Provisions) / Costumer Deposits	309,4%	257,5%

Bank of Portugal Reference Indicators (Individual basis)	2011	2012
SOLVENCY		
Regulatory Capital / Risk Weighted Assets	10,5%	15,8%
TIER I / Risk Weighted Assets	9,3%	14,9%
Core Tier I / Risk Weighted Assets	9,3%	14,8%
ASSET QUALITY		
Overdue and Doubtful Loans / Gross Loans	0,42%	0,41%
Overdue and Doubtful Loans net of Impairments / Total Net Loans	0,45%	0,30%
Credit at Risk / Gross Loans	11,53%	12,28%
Credit at Risk (net) / Net Loans	4,19%	2,69%
PROFITABILITY		
Income before Taxes and Minorities / Average Total Equity	-4,6%	7,3%
Banking Income / Average Net Assets	2,9%	4,8%
Income before Taxes and Minorities / Average Net Assets	-0,4%	0,8%
EFFICIENCY		
Staff Costs + General and Administrative Costs + Depreciation / Banking Income	84,2%	55,8%
Staff Costs/ Banking Income	47,0%	33,0%
TRANSFORMATION RATIO		
(Gross Loans - Provisions) / Costumer Deposits	839,7%	1108,9%

ANNEX VI – REMUNERATION OF THE BOARD OF DIRECTORS AND SUPERVISORY BOARD MEMBERS AND RELEVANT STAFF (SENIOR MANAGING DIRECTORS AND CONTROL FUNCTIONS STAFF, AS PER THE DEFINITON OF NOTICE 5/2008 OF BANK OF PORTUGAL)

In accordance with Law no. 28/2009, of 19th, June, the remuneration paid by Banco Espírito Santo de Investimento, S.A. or by its subsidiaries, to each of the Members of the Board of Directors and Supervisory Bodies during 2012 was as follows:

Board of Directors

(EUR)

Executive Members of the Board of Directors	BESI and Branches			Subsidiaries			Total		
	Fixed Remuneration	Variable Remuneration	Total Remuneration	Fixed Remuneration	Variable Remuneration	Total Remuneration	Fixed Remuneration	Variable Remuneration	Total Remuneration
José Maria Espírito Santo Silva Ricciardi	459,668	0	459,668			0	459,668	0	459,668
Francisco Ravara Cary	357,152	60,991	418,143			0	357,152	60,991	418,143
Rafael Caldeira de Castel-Branco Valverde [a]	362,247	42,509	404,756			0	362,247	42,509	404,756
Miguel António Igrejas Horta e Costa	312,657	6,637	319,294			0	312,657	6,637	319,294
Ricardo Abecassis Espírito Santo Silva	0	0	0	363,371	71,126	434.497 [b]	363,371	71,126	434,497
Christian Georges Jacques Minzolini	34,531	20,940	55,471	260,966		260.966 [c]	295,497	20,940	316,437
Diogo Luís Ramos de Abreu	294,371	15,956	310,327			0	294,371	15,956	310,327
Luís Miguel Pina Alves Luna Vaz	174,471	59,386	233,857	160,312		160.312 [d]	334,783	59,386	394,169
Paulo José Lameiras Martins	294,330	59,335	353,665			0	294,330	59,335	353,665
Tiago Vaz Pinto Cyrne de Castro	295,742	30,756	326,498			0	295,742	30,756	326,498
Félix Aguirre Cabanyes	311,063	122,230	433,293			0	311,063	122,230	433,293
Moses Dodo	382,744	68,560	451.304 [e]			0	382,744	68,560	451,304
Frederico dos Reis de Arrochela Alegria	294,969	9,891	304,860			0	294,969	9,891	304,860
Aggregate Total	**3,573,944**	**497,190**	**4,071,134**	**784,649**	**71,126**	**855,775**	**4,358,593**	**568,316**	**4,926,910**

a) It includes a service award according to Union Agreement ("ACT") for the banking sector amounting to € 45,077.00

b) payment of BRL 1,089,889.75 converted at the average 2012 rate (2.5084)

c) payment of PLN 1,092,060.20 converted at the average 2012 rate (4.1847)

d) payment of GBP 130,000.00 converted at the average 2012 rate (0.8109)

e) payment of USD 579,835.38 converted at the average 2012 rate (1.2848)

Deferred Variable Remuneration in 2012

(EUR)

Executive Members of the Board of Directors	2011 Cash Amount to be paid in 2014 and 2015	2011 Non-Cash Amount to be paid in 2014 and 2015	2011 MTVR (non-cash) to be paid in 2015	2012 Cash Amount	2012 Non-Cash Amount	2012 MTVR (non-cash) to be paid in 2016
José Maria Espírito Santo Silva Ricciardi			75,000.00			100,000.00
Francisco Ravara Cary			50,000.00			100,000.00
Rafael Caldeira de Castel-Branco Valverde			50,000.00			100,000.00
Miguel António Igrejas Horta e Costa			50,000.00			100,000.00
Ricardo Abecassis Espírito Santo Silva			50,000.00			100,000.00
Christian Georges Jacques Minzolini			50,000.00			100,000.00
Diogo Luís Ramos de Abreu			50,000.00			100,000.00
Luís Miguel Pina Alves Luna Vaz			50,000.00			100,000.00
Paulo José Lameiras Martins			50,000.00			100,000.00
Tiago Vaz Pinto Cyrne de Castro			50,000.00			100,000.00
Félix Aguirre Cabanyes			50,000.00			100,000.00
Moses Dodo			50,000.00			100,000.00
Frederico dos Reis de Arrochela Alegria			50,000.00			100,000.00
Aggregate Total	**0.00**	**0.00**	**675,000.00**	**0.00**	**0.00**	**1,300,000.00**

All deferred payments are dependent on the verification of the assumptions related to the performance of the Bank that are defined in the Remuneration Policy in force.

The non-executive Members of the Board of Directors:

Ricardo Espírito Santo Silva Salgado;
Amílcar Carlos Ferreira de Morais Pires;
Bernard Marcel Fernand Basecqz;
Bernardo Ernesto Simões Moniz da Maia;
Duarte José Borges Coutinho Espírito Santo Silva;
João Filipe Espírito Santo de Brito e Cunha;
José Manuel Pinheiro Espírito Santo Silva;
Nicholas Mark Finegold;
Pedro Mosqueira do Amaral; e
Philippe Gilles Fernand Guiral,

did not receive any fixed or variable remuneration paid by Banco Espírito Santo de Investimento, S.A. or by its subsidiaries for the duties they performed during the year of 2012.

Supervisory Board

(EUR)

Supervisory Board Members	BESI and Branches Total Remuneration
José Manuel Macedo Pereira	12,000.00
Tito Manuel das Neves Magalhães Basto	9,000.00
Mário Paulo Bettencourt de Oliveira	9,000.00

The Deputy Member of the Supervisory Board, Nuno Espírito Santo Leite de Faria, did not receive any fixed or variable remuneration paid by Banco Espírito Santo de Investimento, S.A. or its subsidiaries for the duties performed during the year of 2012.

Statutory Auditor

(EUR)

Statutory Auditor	BESI and Branches Total Remuneration
Amável Calhau, Ribeiro da Cunha & Associados, SROC	82,000.00

Relevant Staff

As per the definiton of Notice 10/2011 (article no. 2) of Bank of Portugal

(EUR)

Staff	Fixed Remuneration	Variable Remuneration	Deferred Remuneration	BESI and Branches Total Remuneration
Senior Managing Directors	4,335,324.88	1,775,246.07	222,348.48	6,332,919.44
Risk Control	482,946.43	90,069.84		573,016.26
Compliance	556,540.95	84,832.06		641,373.01
Internal Audit*	-	-	-	-

* Internal Audit activity is developed by Internal Audit Department of Banco Espírito Santo, S.A.

ANNEX VII – AFFIDAVIT ON THE REMUNERATION POLICY OF THE BOARD OF DIRECTORS AND SUPERVISORY BOARD MEMBERS

Remuneration Committee of Banco Espírito Santo de Investimento S.A.

STATEMENT ON THE REMUNERATION POLICY OF THE MEMBERS OF THE BOARD OF DIRECTORS AND SUPERVISORY BOARD

(to be submitted to the 2013 Annual General Meeting)

Law No. 28/2009 of June 19th has imposed on public interest entities, whose scope includes credit institutions, the obligation to submit every year to the general meeting of shareholders, for approval, a statement on the remuneration policy of the members of the management and supervisory bodies.

The 2010 Annual General Meeting approved the remuneration policy of the members of the Board of Directors and Supervisory Board of Banco Espírito Santo de Investimento, S.A. (the "Remuneration Policy").

Following the enactment of Decree-Law no. 88/2011, of June 20th and publication of Bank of Portugal's Notice no. 10/2011, the Remuneration Committee suggested certain amendments to the Remuneration Policy, such amendments having been approved by the 2012 Annual General Meeting.

Based on its assessment of BESI's remuneration structure, in 2013 the Remuneration Committee concluded that the Remuneration Policy was generally up-to-date, only suggesting minor changes, which are duly indicated.

Considering the above, Banco Espírito Santo de Investimento's Remuneration Committee proposes that the General Meeting approve the «Statement on the Remuneration Policy of the Members of the Board of Directors and Supervisory Board» attached hereto.

Lisbon, March 20th, 2013

The Remuneration Committee of

Banco Espírito Santo de Investimento

(illegible signature)

_____

(Jorge Abreu)

(illegible signature)

_____

(José Manuel Galvão Teles)

(illegible signature)

_____

(Jacques dos Santos)

REMUNERATION POLICY OF THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES

I. KEY REGULATORY ASPECTS

From the end of 2009 to early 2010, new rules and recommendations were published on the remuneration of corporate bodies, namely Law 28/2009, of June 19th, a new Corporate Governance Code, the Portuguese Securities Market Commission (CMVM) Regulation no. 1/2010, Bank of Portugal's Notice no. 1/2010 and its Circular Letter no. 2/2010/DSB.

In line with these regulatory developments, the General Meeting of April 5th, 2010 approved the Remuneration Policy for the Members of the Board of Directors and Supervisory Board submitted by the Remuneration Committee of Banco Espírito Santo de Investimento ("Bank").

The publication in 2011 of Decree-Law no. 88/2011, of June 20th, and the release early in 2012 of Bank of Portugal Notice no. 10/2011, imposed new requirements regarding remuneration, including the obligation to set up an advisory committee – the Remuneration Advisory Committee – responsible for preparing decisions and submitting proposals concerning remuneration. This new framework made it necessary to introduce adjustments to the Remuneration Policy, such adjustments having been approved by the Remuneration Committee on March 20th, 2012, and by the General Meeting on March 21st, 2012.

In March 2013 the Remuneration Policy was again amended in order to include the legal duties of the Remuneration Committee. These amendments were approved by the Remuneration Committee on March 20, 2013.

II. REMUNERATION POLICY FOR THE MEMBERS OF THE BANK'S BOARD OF DIRECTORS AND SUPERVISORY BOARD

1. Approval of the remuneration policy

1.1 Approval

The remuneration policy of the Bank's management and supervisory bodies is approved by the Remuneration Committee and the General Meeting.

The publication of Decree-Law no. 88/2011, of June 20th, and Bank of Portugal Notice no. 10/2011 made it obligatory to set up a remuneration advisory committee (an advisory body formed by non executive directors), with responsibility for preparing decisions regarding remuneration, including decisions with implications on the institution's risks and risk management, which must be taken by the Remuneration Committee and the General Meeting.

1.2 Remuneration Advisory Committee – responsibilities, mandate and composition

The Remuneration Advisory Committee is an advisory body with the following main responsibilities:

(i) Draw up proposals and recommendations on the setting of the remuneration of the members of the Board of Directors and Supervisory Board, and of the officers with the highest total remuneration in the Company;

(ii) Assess the executive Board Members in accordance with the criteria set out in the Remuneration Policy;

(iii) Provide all necessary assistance and issue recommendations to support the approval process of the Company's general remuneration policy;

(iv) Resort to external consultancy services, in an adequate manner and proportionally to the size and complexity of the institution in question, or to internal consultancy services about matters under its competence;

(v) Test the capacity of the remuneration system implemented to react to external and internal events, using various possible scenarios and backtesting the model used for the purpose;

(vi) Ensure that a revision is made, at least once a year, of the company's remuneration policy and of its implementation, with the objective of guaranteeing:

i) that the policy is effectively implemented;

ii) that the payments made are adequate and consistent with the institution's risk profile and long-term objectives;

iii) that the policy complies with the legislation and regulations in force as well as with applicable national and international principles and recommendations.

(vii) Report to the General Meeting on the exercise of its functions once a year, including a reasoned opinion on the adequacy of the remuneration policy and any amendments which it may deem necessary;

(viii) Attend the general meetings in which the remuneration policy is included in the agenda, and provide any information requested by the general meeting.

The Remuneration Advisory Committee was elected by the General Meeting of March 16th, 2012 for the current 2009-2012 mandate, and is composed of the following non executive members of the Board of Directors:

Chairman: Ricardo Espírito Santo Silva Salgado;

José Manuel Pinheiro Espírito Santo Silva

Amílcar Carlos Ferreira de Morais Pires

The 2013 annual general meeting will elect a new Committee for the 2013-2016 mandate.

1.3 Remuneration Committee – responsibilities, mandate and composition

Under the terms of Article 18 of the Bank's bylaws, it is up to the Remuneration Committee to establish the remuneration of the members of the Board of Directors and Supervisory Board.

The remuneration of the members of the Board of Directors and Supervisory Board is set by the Remuneration Committee up to the end of April of each year, based on the principles and rules laid down in this Policy and upon a proposal submitted by the Remuneration Advisory Committee.

The Remuneration Committee was elected by the General Meeting of April 5th, 2010 for the current 2009-2012 mandate, and is composed of the following members:

Chairman: José Manuel Galvão Teles

Jorge de Abreu

Jacques dos Santos

The 2013 annual general meeting will elect a new Committee for the 2013-2016 mandate.

1.4. External Consultants, coordination with BES and other intervenients

The Remuneration Policy of the members of the Board of Directors and Supervisory Board approved by the Remuneration Committee and by the Annual General Meeting of April 5th, 2010, followed the guidelines established by Banco Espírito Santo, SA, with the support of surveys conducted by Mercer Ldt, an external consultancy firm.

The Remuneration Policy and subsequent amendments were drawn up through close coordination between the Remuneration Advisory Committee, the Remuneration Committee, and members of the control functions and human resources teams.

2. Remuneration of the members of the Supervisory Board

The members of the Supervisory Board receive a fixed monthly remuneration paid twelve times per year. This remuneration is established every year by the Remuneration Committee, upon a proposal of the Remuneration Advisory Committee.

3. Remuneration of the members of the Board of Directors

3.1. Non Executive Members of the Board of Directors

The non executive members of the Board of Directors are not remunerated for the exercise of their functions.

Non executive Directors who hold executive positions in the management body of companies controlled by the Bank, or who carry out specific functions assigned to them by the Board of Directors, may be remunerated by these companies in accordance with the nature of the functions performed, however the total remuneration received shall comply with the present Remuneration Policy.

3.2. Members of the Executive Committee

3.2.1 Criteria for determining the remuneration

Fixed remuneration is determined by the position held by each of the members (Chairman, Vice-Chairman, or Director) and by length of service in that position.

In the case of executive directors responsible for branches and/or subsidiaries abroad, fixed remuneration also takes into consideration local market practices for identical positions in similar financial institutions.

3.2.2. Composition of the remuneration

The remuneration of the executive directors consists of a fixed component and a variable component. The fixed component comprises the salary plus the fringe benefits that are attributed to all the employees of the Bank, such as seniority payments or other allowances; the variable component comprises cash, shares or equivalent instruments, and options.

3.2.3. Remuneration limits

The variable remuneration is subject to various limits:

(i) the variable component of the individual remuneration of executive directors shall not surpass on average 60% of their total remuneration;

(ii) the increase in the total variable remuneration in each year shall not surpass the increase in the Bank's consolidated net earnings in that year;

(iii) at least 50% of the variable remuneration shall be paid in shares, equivalent instruments, and/or stock options;

(iv) at least 50% of the variable remuneration shall be subject to deferral, and shall only be paid if the Bank's consolidated results are positive.

3.2.4. Balanced remuneration

The fixed component of the remuneration shall represent at least 40% of the total remuneration. The remainder, subject to an average maximum limit of 60% of the total, shall be attributed as a variable component. The exact amount of the variable component shall vary in each year in accordance with the level of achievement of the main annual objectives set in the annual budget, as approved by the Board of Directors.

3.2.5. Types of variable remuneration

The variable component is divided into two sub-components:

(i) one component linked to short term performance (the Annual Variable Remuneration); and

(ii) another component linked to medium term performance (the Medium Term Variable Remuneration.

3.2.6. Annual Variable Remuneration

The Annual Variable Remuneration («AVR») is linked to short term performance and will represent up to 50% of the Total Annual Remuneration.

The AVR is calculated at the beginning of each year, based on performance in the previous year. It is determined by the Remuneration Committee, upon a proposal of the Remuneration Advisory Committee, in accordance with the assessment of the short term performance of each individual Executive Committee member and of the Bank as a whole, and with the level of achievement of the main annual objectives set in the annual budget for the previous year, as approved by the Board of Directors (***vide point 3.3.0* - performance assessment criteria)**.

The AVR is divided into two parts with the same value:

(i) an upfront portion (the "Upfront AVR"), which is paid in cash after the accounts for the year in question have been approved; and

(ii) a deferred portion (the "Deferred AVR") that is paid through the attribution of shares or equivalent instruments in three annual equal instalments (1/3,1/3,1/3) over the three years following that in which it was determined.

Payment of each of the Deferred AVR instalments is conditional upon the Bank posting positive consolidated results.

3.2.7. Medium Term Variable Remuneration

The Medium Term Variable Remuneration ("MTVR") is linked to Medium Term Performance and will correspond to up to 10% of the Total Annual Remuneration.

The MTVR is calculated at the beginning of each year by the Remuneration Committee, upon a proposal of the Remuneration Advisory Committee. It is calculated based on the previous year's assessment and in accordance with the medium term performance of each individual Executive Committee member and of the Bank as a whole, and with the level of achievement of the main objectives set for the ongoing economic cycle.

The MTVR consists in the attribution of acquisition rights and/or options on shares in the Bank or equivalent instruments (instruments issued by the Bank whose value is linked to the book value of the shares), which can only be exercised three years after their date of attribution. The Remuneration Advisory Committee shall establish an amount in euro corresponding to a certain number of acquisition rights and/or options.

The MTVR will be linked to the sustainability of the Bank's indicators, and calculated in accordance with the global return afforded to the shareholders over three years, such return deriving from dividends paid added to the increase in the Bank's book value per share, corrected for the effects of any capital increases made by the shareholders, in cash or in kind.

3.2.8. Regulation on the Attribution of Shares and/or Options and/or other Financial Instruments

The rules on attribution of shares, share rights, equivalent instruments and options to the members of the Executive Committee are set out in a specific Regulation (the Variable Remuneration Plan Based on Financial Instruments for the members of the Executive Committee of Banco Espírito Santo de Investimento), which is attached hereto.

3.2.9. Mechanisms of Limitation of the Variable Remuneration

The Variable Remuneration is subject to the following general limitations:

(i) the average variable remuneration of the executive directors shall not exceed on average 60% of their total remuneration;

(ii) the increase in the total variable remuneration in each year shall not be higher than the increase in the Bank's net consolidated earnings in that year;

(iii) at least 50% of the variable remuneration shall be paid in shares and/or equivalent instruments, thus being limited by the book value performance of the Bank's shares;

(iv) at least 50% of the variable remuneration is subject to deferral over a 3-year period;

(v) outstanding instalments on the deferred variable remuneration shall not be paid if the Bank's consolidated results are not positive.

3.3.0. Performance Assessment Criteria

The executive directors' performance is assessed based on the following indicators:

Net Income for the year – this indicator translates the contribution to shareholders from the earnings generated in each year;

Return on Equity (ratio of net income to equity) – this indicator measures the net income generated with the funds invested by the shareholders;

Total Shareholder Return – this indicator reflects the change in the Bank's shareholders' equity added of dividends distributed and deducted of the impacts from any capital increases, in cash or in kind.

Individual performance of each member of the Executive Committee – this permits to identify the relative contribution of each executive director to the Bank's overall results; it is objectively assessed through the analysis of the performance of the functions and departments under their responsibility, as well as from their individual contribution to decisions taken collectively.

Core Tier 1 Ratio – the main indicator used to measure solvency from the regulatory standpoint.

Compliance with the main rules applying to the institution's activity – this is assessed by the Internal Control functions to identify any lack of conformity in the areas of risk, internal audit and compliance and the measures implemented to remedy such inadequacies, which are reported to the Bank of Portugal.

3.3.1. Criteria concerning the retention by the Executive Directors of Shares or Equivalent Instruments attributed to them

Up to the end of their term of office, the members of the Executive Committee shall hold, up to twice the value of the total annual remuneration, the shares or equivalent instruments that were acquired by virtue of the payment of the variable remuneration, with the exception of those that must be sold for the payment of taxes on gains obtained from said shares or equivalent instruments.

3.3.2. Criteria governing agreements on the Shares or Equivalent Instruments attributed

The acquisition of shares or equivalent instruments by the Bank after the established retention period and before their admission to trading is foreseen. The shares shall be purchased by the Bank at book value (with reference to the last financial year) within a maximum of 20 days after the end of the period of retention.

3.3.3. Main parameters and rationale for any annual bonus scheme and any other non-cash benefits

There are no other forms of remuneration in place besides the fixed and variable remuneration described in this Remuneration Policy.

3.3.4. Remuneration paid in the form of a share in the profits and/or the payment of bonuses and the rationale behind the act of awarding such bonuses and/or share in profits

There are no other forms of remuneration in place besides the fixed and variable remuneration described in this Remuneration Policy.

3.3.5. Compensation paid or owed to former executive directors in relation to early contract termination

No such compensation was paid or is owed.

3.3.6. Contractual limitations on compensation due for directors' dismissal without due cause and relationship with the variable component of the remuneration

There are no agreements in place that establish amounts to be paid to members of the Executive Committee in case of dismissal without due cause.

3.3.7. Main characteristics of the supplementary pension or early retirement schemes set up for directors, with indication of whether such schemes were submitted to the general meeting for assessment

Directors resident in Portugal and/or those covered by the Collective Wage Agreement for the banking sector ("ACT") are entitled to receive retirement pensions or complementary pension benefits for old age or disability, due to disease or invalidity, or on reaching 65 years of age, under the following terms:

(i) the right to receive a retirement pension or complementary pension benefits falls due on reaching sixty five years of age, or thirty five years of professional activity, or in the event of disability, in accordance with the terms of clause 137 of the ACT.

(ii) the complementary pension benefits are described hereinbelow.

In any case, retirement pensions or complementary pension benefits shall never exceed the professional salary of the board member in question, although they may be of a lower amount. The pensionable salary grossly corresponds to one hundred percent of the last total annual gross fixed remuneration earned by the board member in question.

The Bank's Pension Fund's Complementary Plan covers the executive directors who meet all of the following conditions: they are covered by the benefits system set forth in the Collective Wage Agreement ("ACT") for the banking system (i.e., they are covered by the pension fund's basic plan); on reaching 65 years of age they have completed 20 full years at the service of BES Group or Espírito Santo Financial Group; they are in the service of the Bank at the time of retirement (namely due to old age or invalidity, and early or late retirement). In this complementary plan, the pensionable salary corresponds to the basic salary plus seniority payments, added of fixed supplements (allowance for fixed working hours exemption and/or supplementary subsidy).

This Complementary Plan was approved by the General Meeting of January 17th, 2012.

3.3.8. An estimate of the non-cash benefits considered as remuneration which do not fall under the categories listed above

There are no non-cash benefits attributed to the members of the Board of Directors.

4. Rules applicable to all the members of the Board of Directors.

4.1. Payments for dismissal or voluntary termination of directors

No such payments were made.

4.2. Amounts paid in 2012 to the members of the Board of Directors and Supervisory Board, including amounts paid on any basis by other companies in a group relationship or exercising control over the company

See attached table.

Annex

Board of Directors

(EUR)

Executive Members of the Board of Directors	BESI and Branches			Subsidiaries			Total		
	Fixed Remuneration	Variable Remuneration	Total Remuneration	Fixed Remuneration	Variable Remuneration	Total Remuneration	Fixed Remuneration	Variable Remuneration	Total Remuneration
José Maria Espírito Santo Silva Ricciardi	459,668	0	459,668			0	459,668	0	459,668
Francisco Ravara Cary	357,152	60,991	418,143			0	357,152	60,991	418,143
Rafael Caldeira de Castel-Branco Valverde [a]	362,247	42,509	404,756			0	362,247	42,509	404,756
Miguel António Igrejas Horta e Costa	312,657	6,637	319,294			0	312,657	6,637	319,294
Ricardo Abecassis Espírito Santo Silva	0	0	0	363,371	71,126	434.497 [b]	363,371	71,126	434,497
Christian Georges Jacques Minzolini	34,531	20,940	55,471	260,966		260.966 [c]	295,497	20,940	316,437
Diogo Luís Ramos de Abreu	294,371	15,956	310,327			0	294,371	15,956	310,327
Luís Miguel Pina Alves Luna Vaz	174,471	59,386	233,857	160,312		160.312 [d]	334,783	59,386	394,169
Paulo José Lameiras Martins	294,330	59,335	353,665			0	294,330	59,335	353,665
Tiago Vaz Pinto Cyrne de Castro	295,742	30,756	326,498			0	295,742	30,756	326,498
Félix Aguirre Cabanyes	311,063	122,230	433,293			0	311,063	122,230	433,293
Moses Dodo	382,744	68,560	451.304 [e]			0	382,744	68,560	451,304
Frederico dos Reis de Arrochela Alegria	294,969	9,891	304,860			0	294,969	9,891	304,860
Aggregate Total	**3,573,944**	**497,190**	**4,071,134**	**784,649**	**71,126**	**855,775**	**4,358,593**	**568,316**	**4,926,910**

a) It includes a service award according to Union Agreement ("ACT") for the banking sector amounting to € 45,077.00

b) payment of BRL 1,089,889.75 converted at the average 2012 rate (2.5084)

c) payment of PLN 1,092,060.20 converted at the average 2012 rate (4.1847)

d) payment of GBP 130,000.00 converted at the average 2012 rate (0.8109)

e) payment of USD 579,835.38 converted at the average 2012 rate (1.2848)

Deferred Variable Remuneration in 2012

(EUR)

Executive Members of the Board of Directors	2011 Cash Amount to be paid in 2014 and 2015	2011 Non-Cash Amount to be paid in 2014 and 2015	2011 MTVR (non-cash) to be paid in 2015	2012 Cash Amount	2012 Non-Cash Amount	2012 MTVR (non-cash) to be paid in 2016
José Maria Espírito Santo Silva Ricciardi			75,000.00			100,000.00
Francisco Ravara Cary			50,000.00			100,000.00
Rafael Caldeira de Castel-Branco Valverde			50,000.00			100,000.00
Miguel António Igrejas Horta e Costa			50,000.00			100,000.00
Ricardo Abecassis Espírito Santo Silva			50,000.00			100,000.00
Christian Georges Jacques Minzolini			50,000.00			100,000.00
Diogo Luís Ramos de Abreu			50,000.00			100,000.00
Luís Miguel Pina Alves Luna Vaz			50,000.00			100,000.00
Paulo José Lameiras Martins			50,000.00			100,000.00
Tiago Vaz Pinto Cyrne de Castro			50,000.00			100,000.00
Félix Aguirre Cabanyes			50,000.00			100,000.00
Moses Dodo			50,000.00			100,000.00
Frederico dos Reis de Arrochela Alegria			50,000.00			100,000.00
Aggregate Total	**0.00**	**0.00**	**675,000.00**	**0.00**	**0.00**	**1,300,000.00**

All deferred payments are dependent on the verification of the assumptions related to the performance of the Bank that are defined in the Remuneration Policy in force.

(EUR)

Supervisory Board Members	BESI and Branches Total Remuneration
José Manuel Macedo Pereira	12,000.00
Tito Manuel das Neves Magalhães Basto	9,000.00
Mário Paulo Bettencourt de Oliveira	9,000.00

(EUR)

Statutory Auditor	BESI and Branches Total Remuneration
mável Calhau, Ribeiro da Cunha & Associados, SROC	82,000.00

VARIABLE REMUNERATION PLAN BASED ON FINANCIAL INSTRUMENTS FOR THE MEMBERS OF THE EXECUTIVE COMMITTEE OF BANCO ESPÍRITO SANTO DE INVESTIMENTO, S.A.

Whereas:

1. The Remuneration Policy of the Members of the Bank's Management and Supervisory Bodies ("Remuneration Policy") foresees, among others, that the variable remuneration of the executive directors be determined by the Remuneration Committee at the start of each year based on the performance assessment of each executive director and the evolution of the sustainability and growth indicators of Banco Espírito Santo de Investimento, S.A. ("Bank");

2. In accordance with the Remuneration Policy, the variable remuneration comprises:

   (i) a short-term component representing up to 50% of the total annual remuneration, of which half is paid in cash and the other half in shares in the Bank and/or equivalent instruments; and

   (ii) a medium-term component representing up to 10% of the total annual remuneration, consisting of acquisition rights and/or options on shares in the Bank and/or equivalent instruments;

3. The attribution to the members of the Executive Committee of the referred two components of the variable remuneration in kind should be regulated.

The present **Variable Remuneration Plan Based on Financial Instruments** is hereby approved and shall be governed by the following clauses:

VARIABLE REMUNERATION PLAN BASED ON FINANCIAL INSTRUMENTS FOR THE MEMBERS OF THE EXECUTIVE COMMITTEE OF BANCO ESPÍRITO SANTO DE INVESTIMENTO, S.A.

Section I

General Provisions

Article 1

Definitions

In the present Plan the expressions listed below shall have the meanings indicated:

- «Shares»: the Bank's ordinary shares;
- «Beneficiaries»: the members of the Bank's Executive Committee;
- «Attribution Date»: the date of attribution of Shares, Equivalent Instruments or Options to each Beneficiary, which shall be fixed until April 30th of each year;
- «Acquisition Right»: the right attributed to a Beneficiary to acquire free of charge one or more Bank shares and/or Equivalent Instruments;
- «Equivalent Instruments»: securities issued by the Bank whose value is linked to the book value of the Shares;
- «Financial Instruments»: Shares, Equivalent Instruments, Acquisition Rights and Options;
- «Option»: right granted to a Beneficiary to acquire by purchase one or more Bank Shares or Equivalent Instruments;
- «Plan»: the present Variable Remuneration Plan Based on Financial Instruments for the executive members of the Bank's Board of Directors;
- «Remuneration Policy»: the remuneration policy for the Bank's corporate bodies in force at each time;
- «Book Value»: the unit value per share, corresponding to the value of the consolidated equity per share (excluding minority interests or other regulatory capital elements not owned by the shareholders) as per the audited consolidated balance sheet in the last financial year, as adjusted for dividends distributed or reserves set up, capital increases, or other operations with a direct repercussion on the value of the Bank's equity, occurred after the end of the last financial year;

Article 2

General Design of the Plan

1. Under the terms of the Remuneration Policy, the Remuneration Committee may, every year:
   a) Attribute to the Beneficiaries a short-term variable remuneration in kind, payable in the form of Shares or Equivalent Instruments; and/or
   b) Attribute to the Beneficiaries a medium-term variable remuneration in kind, payable through Acquisition Rights and Options to be exercised in the medium term.
2. The Plan regulates the terms of attribution of the Financial Instruments to the Beneficiaries.

Article 3

Attribution of Financial Instruments

1. On the Attribution Date the Remuneration Committee shall set the number and type of Financial Instruments (Shares, Equivalent Instruments, Acquisition Rights and Options) to be attributed to each Beneficiary, based on the assessment of the Beneficiary's performance in the previous year.
2. Performance assessment shall be conducted under the terms and based on the factors foreseen in the Remuneration Policy.
3. Based on the assessment made, the Remuneration Committee may decide not to attribute any Financial Instruments in any given year or years.
4. The attribution of the Financial Instruments to each Beneficiary shall be made by contract, as per the draft attached to this Plan.

Section II

Short-Term Variable Remuneration in kind

Article 4

Attribution of Shares and/or Equivalent Instruments

1. The Short-Term Variable Remuneration in kind consists of Shares or Equivalent Instruments attributed by the Remuneration Committee to the Beneficiaries on the Attribution Date.
2. The Remuneration Committee shall set the number of Shares or Equivalent Instruments to be attributed to each Beneficiary, in accordance with the provisions of the Remuneration Policy, and under the following terms:
   - *Shares or Equivalent Instruments Attributed = Amount in Euro / unit book value of the Shares;*
   - *Amount in Euro = amount determined by the Remuneration Committee to be attributed to each beneficiary on the Attribution Date.*

3. The number of Shares or Equivalent Instruments shall be divided into 3 equal lots, with payment being deferred over three annual instalments subsequent to the Attribution Date, the first falling due in the year following that of the Attribution Date.
4. Payment of each of the lots is conditional upon the non occurrence of a structural deterioration in the Bank's performance (which, among others shall be deemed to exist if the Bank posts consolidated net losses), and it shall be for the Remuneration Committee to ascertain that there is such a structural deterioration.

Article 5

Policy on the Retention of Shares or Equivalent Instruments

The Beneficiaries shall hold, until the end of their term of office, up to a minimum of twice the value of the total annual remuneration, the Shares or Equivalent Instruments, with the exception of those that must be sold for the payment of taxes on the gains of said Shares or Equivalent Instruments.

Article 6

Acquisition of Shares or Equivalent Instruments

1. As soon as they cease to be subject to retention, the Shares or Equivalent Instruments shall obligatorily be purchased by the Bank at Book Value (with reference to the last financial year) within a maximum of 20 business days of the end of the retention period.
2. If on the date when the retention period ends the Shares are admitted to trading on the stock exchange, the Beneficiary may opt for not selling the Shares to the Bank.

Section III

Medium-Term Variable Remuneration

Article 7

Composition and Setting of the Medium-Term Variable Remuneration

1. The Medium-Term Variable Remuneration is comprised of Acquisition Rights and Options.
2. On the Attribution Date the Remuneration Committee shall attribute to each Beneficiary an amount in Euro corresponding to a certain number of Acquisition Rights and Options.
3. The Remuneration Committee shall determine the number of Acquisition Rights and Options in accordance with the following terms:
   - *Acquisition Rights and Options = Amount in Euro / Unit Book Value of the Shares;*
   - *Amount in Euro = amount determined by the Remuneration Committee to be attributed to each Beneficiary on the Attribution Date.*

Article 8

Acquisition Rights

1. The Acquisition Rights entitle the Beneficiary to, three years after the Attribution Date, acquire, free of charge, Shares or Equivalent Instruments, providing that on the exercise date of such rights the Book Value of the Shares is at least 10% higher than on Attribution Date.
2. The Acquisition Rights that are not exercised on the exercise date shall lapse.

Article 9

Options

1. The Options entitle the Beneficiary to, three years after the Attribution Date, acquire Shares or Equivalent Instruments in exchange for payment, providing that on that date the Book Value of the Shares is at least 10% higher than on Attribution Date.
2. The exercise price of the Options shall correspond to the Book Value on the Attribution Date of the Options.
3. The Options that are not exercised on the exercise date shall lapse.

Article 10

Procedure for the Attribution of Acquisition Rights and Options

1. Up to the end of April of each year the Remuneration Committee shall determine the number of Acquisition Rights to be attributed to each Beneficiary. The Beneficiary shall be entitled to receive four Options per each Acquisition Right attributed.
2. On the same date in which it decides on the number of Acquisition Rights to be attributed, the Remuneration Committee shall also establish the following elements:

   a) the amount of the Variable Remuneration allocated to the attribution of Acquisition Rights;

   b) the number of Acquisition Rights to be attributed;

   c) the exercise date of the Acquisition Rights;

   d) the Book Value on Attribution Date;

   e) the number of Options to be attributed;

   f) the Exercise Price of the Options;

   g) the maturity/exercise date of the Options.

Article 11

Exercise of the Options

1. Providing the conditions for exercise are met, each Beneficiary may exercise the Options at Maturity, notifying the Bank for the purpose in writing.
2. Once the Beneficiary has exercised the Options, he/she shall pay the respective price within a maximum of 40 business days of the notification date.

Article 12

Policy on the Retention of Shares or Equivalent Instruments

resulting from the Acquisition Rights and Options

The Beneficiaries shall hold, until the end of their term of office, up to a minimum of twice the value of the total annual remuneration, the Shares or Equivalent Instruments acquired through the exercise of Acquisition Rights and Options, with the exception of those that must be sold for the payment of taxes on the gains of said Shares or Equivalent Instruments.

Article 13

Acquisition of Shares or Equivalent Instruments

1. As soon as they cease to be subject to retention, the Shares or Equivalent Instruments acquired through the exercise of Acquisition Rights and Options shall obligatorily be purchased by the Bank at Book Value (with reference to the last financial year) within a maximum of 20 business days of the end of the retention period.
2. If the Shares are admitted to trading on the stock exchange, each Beneficiary may opt for not selling the Shares to the Bank.

Section IV

Sundry

Article 14

Changes to the Plan on the Remuneration Policy of the Executive Members of the Board of Directors

1. Should exceptional circumstances occur and be recognised as such by the Remuneration Committee, including by way of example changes in the Bank's share capital, mergers, splits, stock splits, or changes in the dividend policy, the Committee has the powers to make the changes it may deem necessary to maintain the fairness of the Plan in each year, including to change the total number of Shares, Equivalent Instruments, or Options, or the Exercise Price of the Options.
2. In case of a capital increase through incorporation of reserves with issuance of new shares, the number of Shares or Equivalent Instruments subject to Options shall be increased pro rata, without that leading to any change in the purchase or selling prices foreseen hereinabove.

Article 15

Exclusion of Beneficiaries

1. The Remuneration Committee may decide to exclude Beneficiaries in the following cases:
   a) failure to comply in due time with the obligations assumed under this Regulation and Contracts, namely obligations to pay the price;
   b) termination of the Board member's term in office prior to the end of his/her mandate.
   c) suspension of function as a result of some fact for which the Beneficiary is responsible;
   d) application of disciplinary sanctions to the Beneficiary.

Article 16

Death and Permanent Disability of Beneficiaries

1. In case of death of a Beneficiary during the period in which the Plan is in force, the right to receive the Shares, Equivalent Instruments or Options not yet attributed is transferred to his/her heirs.
2. In the case of the Options, the Remuneration Committee may determine that they can be exercised prior to maturity, upon a substantiated written request made by the heirs of the Beneficiary.
3. The same rule shall apply, with the necessary adaptations, in case of incapacity or permanent disability that is verified under the terms of the law.

Article 17

Limitations to transferability

Except in the case of succession by death, none of the rights resulting from the status of Beneficiary may be transferred for any reason. The Beneficiaries also undertake not to promise to transfer, provide as guarantee or create liens or encumbrances on these rights, or else enter any agreements concerning such rights viewing the avoidance or limitation of the variable nature of the remuneration.

Article 18

Taxes, charges and fees

1. The Bank shall bear all the transaction expenses due for the transfer of Shares or Equivalent Instruments to the Beneficiaries.
2. Each Beneficiary shall bear all the taxes and charges due by him/her as a result of attribution and/or transfer to him/her of Shares, Equivalent Instruments, or Options.

Article 19

Arbitration

1. Any dispute arising from the attribution of Shares and Options to the Beneficiaries, or from application of the Plan, shall be definitively resolved through arbitration.
2. The sole arbitrator shall be the person who is the Chairman of the Bank's Supervisory Board at the time the arbitration proceedings commence, and his/her decision shall be final and not capable of being appealed against.
3. The Court of Arbitration shall have its seat in Lisbon, and it shall follow the rules set forth in the Arbitration Regulations of the Arbitration Centre of the Portuguese Chamber of Commerce and Industry (Centro de Arbitragem Comercial da Associação Comercial de Lisboa).

APPENDIX: DRAFT CONTRACT ON THE ATTRIBUTION OF BANCO ESPÍRITO SANTO DE INVESTIMENTO, S.A. FINANCIAL INSTRUMENTS TO BOARD MEMBERS BY WAY OF VARIABLE REMUNERATION

Contract on

THE ATTRIBUTION OF BANCO ESPÍRITO SANTO DE INVESTIMENTO, S.A. FINANCIAL INSTRUMENTS TO BOARD MEMBERS BY WAY OF VARIABLE REMUNERATION

__/04/____

By and between:

First party:

BANCO ESPÍRITO SANTO DE INVESTIMENTO, S.A., with registered office in Lisbon, at Rua Alexandre Herculano, number 38, with share capital, fully paid up, of EUR 226,269,000.00, with tax and commercial registration number 501,385,932, registered in the Commercial Registry Office of Lisbon, hereinafter referred to as BANK;

AND

Second Party:

..... (full Name, marital status, taxpayer number, address) hereinafter referred to as BENEFICIARY;

Whereas:

a) The Bank has approved a variable remuneration policy based in part on the attribution of Shares or Equivalent Instruments (securities representative of Bank shares whose value corresponds to the Book Value of the shares), Acquisition Rights and Options to the executive members of the Board of Directors;

b) That the rules applied to the variable remuneration in financial instruments are present in the Variable Remuneration Plan on the Financial Intruments of the executive members of the Board of Directors;

c) the Beneficiary is a member of the Executive Committee;

d) the Remuneration Committee, at its meeting of ……., resolved to appoint the Second Party as a Beneficiary to the Variable Remuneration Plan based on Financial Instruments, attributing to him/her:

(i) ……. Shares/ Equivalent Instruments by way of Deferred Short-Term Variable Remuneration; and, by way of Medium-Term Variable Remuneration:

(ii) …….. Acquisition Rights, and

(iii) ……. Options;

this contract is hereby entered into and shall be governed by the following clauses:

Clause 1

"Shares/Equivalent Instruments"

1. The Beneficiary is entitled to receive from the Banco Espírito Santo de Investimento, S.A. Shares/Equivalent Instruments, in 3 annual consecutive equal instalments, in the following amounts and on the following dates:

   - April ____: …. Shares/Equivalent Instruments;
   - April ____: …. Shares/Equivalent Instruments;
   - April ____: …. Shares/Equivalent Instruments.

2. This acquisition shall not be made against payment, and it shall be subject to all other terms and conditions set forth in the Plan attached to this Contract.

Clause 2

"Acquisition Rights"

1. The Beneficiary is entitled to receive from the Bank _____ Acquisition Rights on Shares/Equivalent Instruments.

2. The exercise date of the Acquisition Rights on Shares/Equivalent Instruments is _____ _____.

3. All other terms and conditions foreseen in the Plan attached to this Contract shall apply.

Clause 3

"Options"

1. The Beneficiary is entitled to receive from the Bank _____ Options on Shares/Equivalent Instruments.

2. The exercise period for the Options shall be _____ and the exercise price _____.

3. All other terms and conditions foreseen in the Plan attached to this Contract shall apply.

Clause 4

"Retention Obligation"

The Beneficiary undertakes to hold, until the end of his/her term of office, up to a minimum of twice the value of the total annual remuneration, the Shares or Equivalent Instruments which he/she acquires by way of variable remuneration, with the exception of those that must be sold for the payment of taxes on the gains of said Shares or Equivalent Instruments.

Clause 5

"Changes"

Any changes to the terms of this contract shall only be valid if made in writing.

Clause 6

Communications

1. All communications between the Parties relating to this Contract shall be made in writing to the following addresses:

   a) Banco Espírito Santo de Investimento, S.A.

   Address: Rua Alexandre Herculano, nº 38

   1269-161 Lisboa

   Facsimile no.: 00.351.21.330.95.00

   C/o

b) .....

Address:

Facsimile no:

2. The communications made under the terms of the preceding paragraph shall be effective in accordance with Article 224 (1) of the Civil Code and shall be considered as made on the date they are received, or, if outside regular business hours (8:30/18:30), on the immediately succeeding business day.

Done in Lisbon on April _____, _____, in two originals, one for Banco Espírito Santo de Investimento, S.A. and the other for _____ .

On behalf of BANCO ESPÍRITO SANTO DE INVESTIMENTO, S.A.

_____ _____

[full name]

Appendix – Variable Remuneration Plan Based on Financial Instruments for the members of the Executive Committee of Banco Espírito Santo de Investimento, S.A.

ANNEX VIII – EXCERPTS FROM MINUTES OF THE ANNUAL GENERAL MEETING HELD ON MARCH 21, 2013

Excerpts from Minutes Number Seventy Three of the Annual General Shareholders' Meeting of Banco Espírito Santo de Investimento, S.A., held on March 21st, 2013, relating to the approval of the Annual Report and Accounts for the financial year ended 2012 and the earnings distribution proposal for the year of 2012.

"On March twenty first in the year two thousand and thirteen at 15:30 the Annual General Meeting of BANCO ESPÍRITO SANTO DE INVESTIMENTO, S.A., with tax and commercial registration number 501,385,932, registered in the Commercial Registry Office of Lisbon, and share capital, fully paid up, of three hundred twenty six million, two hundred sixty nine thousand euros, was held at its registered office in Lisbon, at Edifício Quartzo, Rua Alexandre Herculano, number thirty eight, with the following Agenda:

POINT ONE: Resolve on the Management Report, and the remaining individual reporting documents relative to financial year 2012.

POINT TWO: Resolve on the Consolidated Management Report, the consolidated accounts and the remaining consolidated reporting documents relative to financial year 2012.

POINT THREE: Resolve on the Earnings Distribution Proposal.

[…]

POINT ONE of the Agenda was introduced and the representative of the Sole Shareholder approved the Bank´s Management Report and the Individual Financial Statements relative to financial year two thousand and twelve.

Moving to **POINT TWO** of the Agenda, the representative of the Sole Shareholder approved the Bank's Consolidated Management Report and Consolidated Financial Statements relative to financial year two thousand and twelve.

Following on to **POINT THREE** of the Agenda, the following proposal for the earnings distribution, previously approved at the meeting of the Board of Directors as of March 14th, 2013, was submitted to the General Meeting:

"Considering that the income statement of Banco Espírito Santo de Investimento, S.A. for the year ended December 31st, 2012 shows a net profit of EUR 18,249,803.09 (eighteen million two hundred forty nine thousand eight hundred and three euros and nine cents), the Board of Directors submits to the General Meeting the following earnings distribution proposal:

a) to the legal reserve: EUR 1,824,980.31 (one million eight hundred twenty four thousand nine hundred eighty euros and thirty one cents);
b) to other reserves and retained earnings: EUR 16,424,822.78 (sixteen million four hundred twenty four thousand eight hundred twenty two euros and seventy eight cents)."

This proposal proceeded to the vote and was approved by the Sole Shareholder.

[…]

There being no further matters to discuss, the meeting was declared closed at 16:00, and in record whereof these minutes have been drawn up and will be signed by the representative of the Sole Shareholder, the Chairman of the General Meeting, and myself as Secretary of the General Meeting's Board responsible for the drafting of the minutes."