2012 Annual Report

GRUPO BANCO ESPIRITO SANTO

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Management Report 2012
Banco Espírito Santo Group

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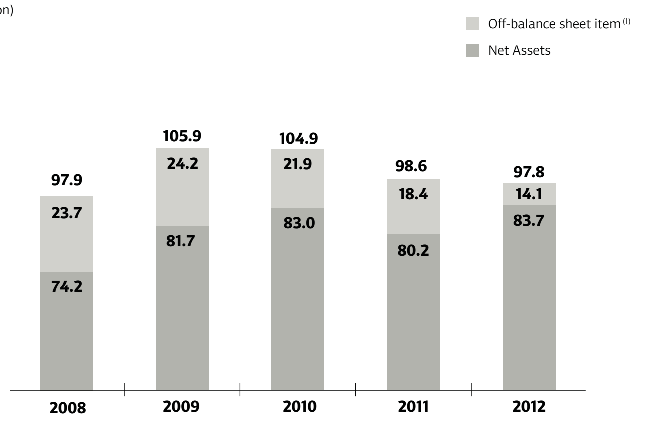
This report is a free translation into English of the original Portuguese version. In case of doubt or misinterpretation the Portuguese version will prevail.

Main Indicators *

	2008	2009	2010	2011	2012
ACTIVITY (eur million)					
Total Assets [1]	97,882	105,917	104,912	98,589	97,765
Net Assets	74,244	81,702	83,028	80,237	83,691
Customer Loans (gross)	48,198	50,531	52,606	51,211	50,399
Customer Deposits	26,387	25,447	30,819	34,206	34,540
Total Customer Funds	55,698	60,595	55,988	54,383	56,188
Core Capital - BoP	3,412	5,232	5,416	6,020	6,471
Core Capital - EBA	-	-	-	-	6,091
RESULTS/PROFITABILITY (%)					
Net Income (M€)	419.2	571.7	556.9	-108.8	96.1
Return on Equity (ROE)	10.2%	11.0%	9.4%	-0.1%	1.2%
Return on Assets (ROA)	0.59%	0.73%	0.66%	0.00%	0.12%
SOVENCY RATIOS [2]					
- CORE TIER I - BoP	6.1%	8.0%	7.9%	9.2%	10.5%
- CORE TIER I - EBA	-	-	-	-	9.9%
- TIER I	7.1%	8.3%	8.8%	9.4%	10.4%
- Total	11.3%	11.2%	11.3%	10.7%	11.3%
LIQUIDITY (eur million)					
ECB funds (net) [3]	250	- 1,760	3,929	8,677	6,897
ECB Eligible Assets (collaterals)	4,645	5,553	10,823	15,057	19,402
Loans to deposits Ratio [4]	178%	192%	165%	141%	137%
ASSET QUALITY (%)					
Overdue Loans > 90 days / Gross Loans	1.09%	1.60%	1.95%	2.74%	3.90%
Provisions / Overdue Loans > 90 Days	219.0%	191.5%	173.0%	154.5%	136.9%
Credit at Risk S.C./Total Credit	-	-	4.99%	6.59%	9.44%
Credit Provisions/Credit at Risk [5]	-	-	67.8%	64.2%	56.6%
Credit Provisions Reserve / Customer Loans (Gross)	2.38%	3.07%	3.38%	4.23%	5.34%
Cost of Risk [6]	0.57%	1.07%	0.67%	1.17%	1.62%
PRODUCTIVITY/EFFICIENCY					
Operating Costs / Total Assets (%)	1.01%	0.95%	1.07%	1.15%	1.18%
Assets per Employee (€,000)	10,945	11,898	10,641	9,996	9,832
Total Cost to Income (%)	52.2%	41.1%	46.7%	57.9%	44.6%
Cost to Income (ex-markets) (%)	57.2%	52.4%	57.0%	57.3%	57.2%
EMPLOYEES					
Total [7]	8,943	8,902	9,858	9,863	9,944
- Domestic Activity	7,546	7,388	7,584	7,588	7,477
- International Activity	1,397	1,514	2,274	2,275	2,467
BRANCH NETWORK					
Retail Network	803	799	828	801	775
- Domestic	743	734	731	701	666
- International	60	65	97	100	109
Corporate Network (domestic)	27	26	24	24	25
Private Banking Network (domestic)	28	25	22	22	23
RATING					
Long Term					
STANDARD AND POOR'S	A	A	A-	BB	BB-
MOODY'S	Aa3	A1	A2	Ba2	Ba3
DBRS	-	-	-	BBB	BBB(low)
Short Term					
STANDARD AND POOR'S	A 1	A 1	A 2	B	B
MOODY'S	P 1	P 1	P 1	NP	NP
DBRS	-	-	-	R-2(*high*)	R-2(med)

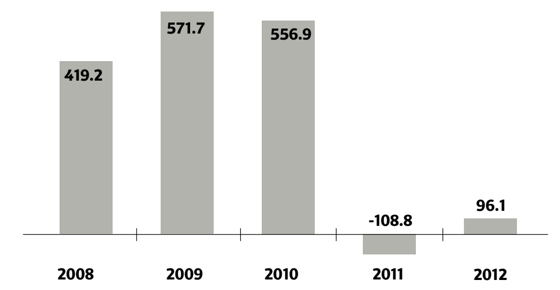
* 2008, 2009 and 2010 data adjusted according to changes in accounting policy for booking actuarial deviations.
(1) Net Assets + Asset Management + Other off-balance sheets + Securitised Credit.
(2) Calculated under IRB Foundation.
(3) Positive figure represents a borrowing position; negative figure represents a lending position.
(4) Ratio calculated under BoP Funding & Capital Plan (2011 and 2012).
(5) Acording to BoP instruction nº23/2011.
(6) P&L provisions / Gross Loans.
(7) Includes employees with permanent and fixed term contracts.

Total Assets
(eur billion)

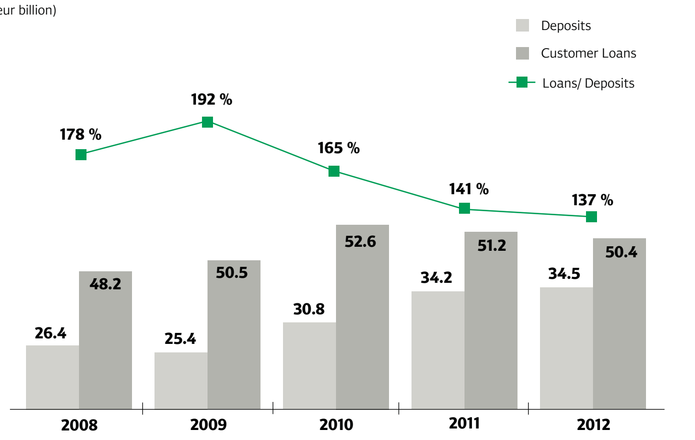


(1) Assets and Liabilities off-balance items

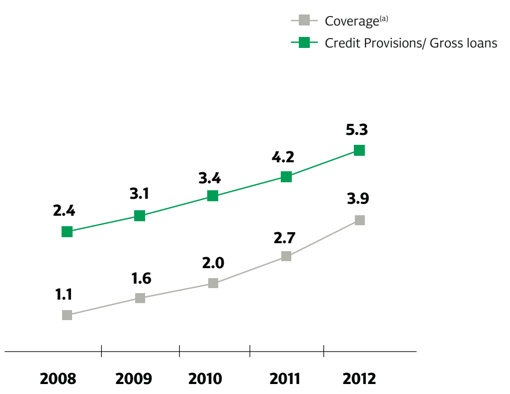
Net Income
(eur million)



Business with Clients
(eur billion)

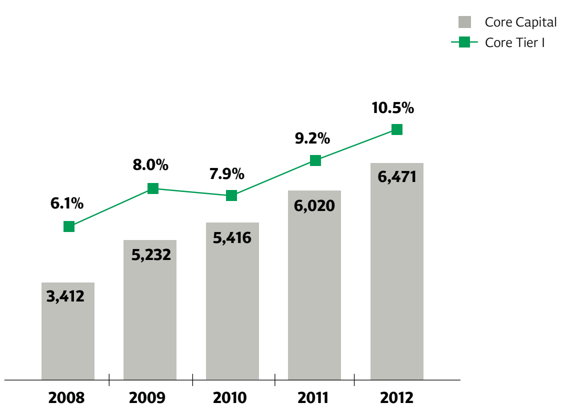


Asset Quality
(%)

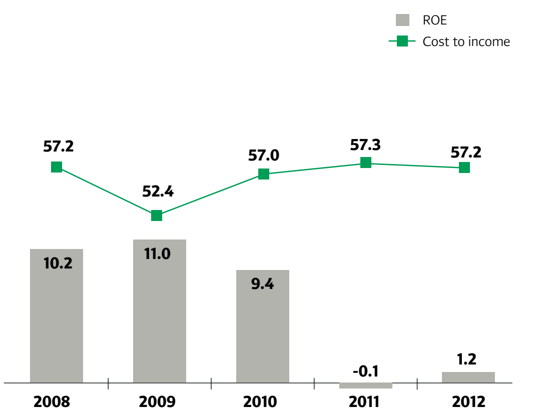


(a) Overdue Loans + 90 days/ Gross Loans

Core Capital and Core Tier I
(eur million)



Profitability and Efficiency
(%)



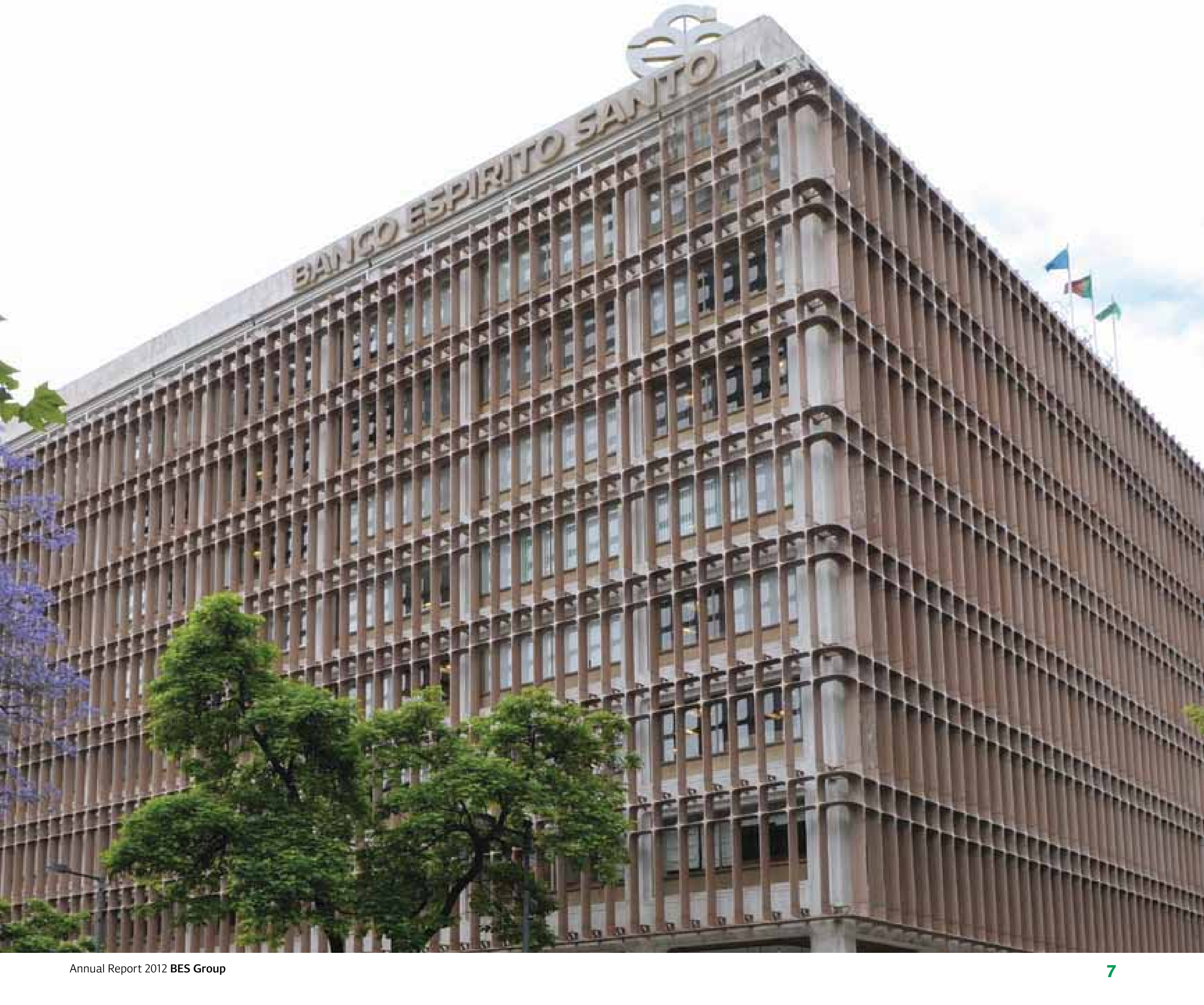
Bank of Portugal Reference Indicators

The table below lists the reference indicators established by Bank of Portugal Instruction no. 16/2004, as amended by Instructions no. 16/2008, 23/2011 and 23/2012, for both December 2012 and 2011.

Results and Profitability

		SIMBOL.	2008	2009	2010	2011	2012
	AVERAGE BALANCE (eur million)						
	Net Assets	NA	71,418	78,657	83,759	82,178	82,959
	Interest Earning Assets	IEA	61,788	68,018	72,163	70,279	69,443
	Capital and Reserves	KP	3,779	4,886	5,578	5,895	7,057
	INCOME STATEMENT (eur million)						
	Net Interest Income	NII	1,086.2	1,200.9	1,164.0	1,181.6	1,180.5
+	Fees and Commissions	FC	636.2	717.9	806.9	790.5	828.4
=	Commercial Banking Income	CBI	1,722.4	1,918.8	1,970.9	1,972.1	2,008.9
+	Capital Markets and Other results	CMR	165.7	530.6	432.9	-21.9	569.5
=	Banking Income	BI	1,888.1	2,449.4	2,403.8	1,950.2	2,578.4
+	Insurance Premiums and Costs	INS	-	-	-	-	0.7
-	Operating Costs	OC	984.7	1,006.1	1,123.1	1,129.2	1,149.1
=	Net Operating Income	OI	903.4	1,443.3	1,280.7	821.0	1,430.0
-	Net Provisions	PROV	375.8	708.8	533.6	848.3	1,199.4
=	Income before Taxes and Minorities	PBT	527.6	734.5	747.1	-27.3	230.6
-	Income Tax	T	83.5	109.8	43.7	-31.1	110.8
-	Minority Interests	MI	24.9	53.0	146.5	112.6	23.7
=	Net Income	NII	419.2	571.7	556.9	-108.8	96.1
	PROFITABILITY (%)						
	Net Interest Margin	NII/IEA	1.76	1.77	1.61	1.68	1.70
+	Return on Fees and Commissions	FC/IEA	1.03	1.06	1.12	1.12	1.19
+	Return on Capital Markets and Other Results	CM/IEA	0.27	0.78	0.60	-0.03	0.82
=	Business Margin	BI/IEA	3.06	3.60	3.33	2.77	3.71
+	Weighting of Insurance Premiums and Costs	INS/IEA	-	-	-	-	0.00
-	Weighting of Operating Costs	OC/IEA	1.59	1.48	1.56	1.61	1.65
-	Weighting of Provisions	PRO/IEA	0.61	1.04	0.74	1.21	1.73
-	Weighting of Minorities and other	(MI+IT+XR)/IEA	0.18	0.24	0.26	0.12	0.19
=	Return on Interest Earning Assets	NP/IEA	0.68	0.84	0.77	-0.15	0.14
x	Weighting of Interest Earning Assets	IEA/NA	0.87	0.86	0.86	0.86	0.84
=	Return on Assets	NP/NA	0.59	0.73	0.66	0.00	0.12
x	Placements multiplier	NA/KP	17.39	15.15	14.11	13.72	10.22
=	Return on Equity	NP/KP	10.21	11.01	9.38	-0.05	1.25

	2011	2012
SOLVENCY		
Tier I/ Risk Weighted Assets	10.7%	11.3%
Regulatory Capital / Risk Weighted Assets	9.4%	10.4%
Core Tier I / Risk Weighted Assets	9.2%	10.5%
ASSET QUALITY		
Overdue and Doubtful Loans / Gross Loans	3.6%	5.0%
Overdue and Doubtful Loans net of Impairments /Total Net Loans	-0.6%	-0.3%
Credit at Risk / Gross Loans	6.6%	9.4%
Credit at Risk (net) / Net Loans	2.5%	4.3%
PROFITABILITY		
Income before Taxes and Minorities/ Average Equity	-0.8%	2.9%
Banking Income /Average Net Assets	2.4%	3.1%
Income before Taxes and Minorities/ Average Net Assets	-0.1%	0.2%
EFFICENCY		
General Admin Costs+Depreciation/Banking Income	57.9%	44.6%
Staff Costs / Banking Income	30.1%	23.2%
TRANSFORMATION RATIO		
(Gross Loans - Provsions)/ Customer deposits	141%	137%


BANCO ESPIRITO SANTO

Jane and Louise Wilson (b.1967, Reino Unido). Oddment's room #6, 2009. 216x175 cm, C-print, aluminum, Diasec. Edition 1/4 + 2AP. ©Jane and Louise Wilson.

Management Report

Joint Message of the Chairman of the Board of Directors and the Chairman of the Executive Committee

Dear Shareholders,

2012, while being marked by the aggravation of the most serious European crisis since the last war (39/45), may also be considered as a turning point for the European financial system. The measures taken by the European Central Bank, namely the LTROs and OMTs (Long term refinancing operations and Outright Monetary Transactions) and the reduction of reference interest rates contributed to the stabilisation of the markets and to a general sentiment of confidence in the Euro Area.

On the other hand the creation of a European banking union is taking shape and should be a decisive factor for the stability and confidence in the European financial system. One of the main goals of the banking union will be to disconnect the risk of each bank from sovereign risk, thus avoiding the contagion of the sovereign debt crisis to the European banks. However, the definition of a deposit-guarantee scheme is fundamental, as well as its implementation at the same time as the banking union.

In Portugal the financial institutions have strictly met the targets established within the scope of the Financial Assistance Programme, namely the capital reinforcement targets set by the European Banking Authority (Core Tier I of 9% in June 2012) and the capital ratios established by the Bank of Portugal (10% in December 2012), and also with regard to balance sheet deleveraging and strong reinforcement of provisions. While subject to this extremely harsh regulatory framework, banks continued to finance the economy and to contribute towards the funding needs of the public companies, which were forced to reimburse the loans obtained from the international banking system due to the cuts of the sovereign rating as from 2011.

At the end of the year Banco Espírito Santo Group had surpassed the required solvency levels, reaching a Core Tier I ratio of 10.5% according to the BoP criteria and of 9.9% according to the EBA criteria. The rights issue concluded in May 2012, which raised EUR 1,010 million, with a significant impact on Core Tier I, decisively contributed to the reinforcement of solvency ratios. Banco Espírito Santo is as of today the only Portuguese bank that did not resort to the State's recapitalisation fund and hence maintained its strategic autonomy.

The balance sheet deleveraging programme initiated by the Group in the second half of 2010 – which permitted to reduce the loans to deposits ratio from 198% in June 2010 to 137% in December 2012, and heading towards the 120% recommended for December 2014 – was also key to the reinforcement of capital ratios.

When the Group initiated this programme it opted for selling international loans so as to be able to continue to finance the Portuguese companies, and in particular the exporting small and medium sized companies. By December 2012 approximately EUR 3 billion of such loans had been sold in the international markets. The Portuguese exporting sector has succeeded in maintaining sustained growth, with total exports already accounting for ca. 40% of GDP. The Portuguese businesses coped with the deceleration of the economy by diversifying not only the destination of their exports but also the range of goods exported. In 2012 exports outside the European Union already accounted for 27% of total exports, with exports of goods and services having increased as a percentage of the total.

On the whole the Portuguese private sector was capable not only of overcoming the regulatory requirements but also of weathering the scarcity of liquidity in the market resulting from the sovereign risk deterioration. Faced with a contracting domestic economy, the Portuguese companies and entrepreneurs showed a remarkable capacity for internationalisation.

In November, notwithstanding the ratings assigned to Portugal and the Portuguese banks (below investment grade), BES was the first Portuguese bank to tap the international market with a debt issue, even before the Republic. Banco Espírito Santo's issue of EUR 750 million senior unsecured debt, which reinforced its liquidity, shows the confidence placed by the market in the Bank.

In December, BES again accessed the international markets with a USD 450 million issue of exchangeable bonds linked to common shares of Banco Bradesco, and in January 2013 made another issue of senior unsecured debt in the amount of EUR 500 million. Together, these transactions generated liquidity of EUR 1.6 billion, representing an important step in the return to funding from the international capital markets.

This reinforcement of liquidity, together with other measures, permitted to pursue the gradual reduction of exposure to the ECB. The net exposure to the ECB decreased from EUR 13.6 billion in June 2012 to EUR 6.9 billion in December 2012. And in January 2013 the Group repaid in advance EUR 1.0 billion of the ECB long- term facility (LTRO).

Customer deposits continued to increase, particularly in the retail and private banking segments, where they grew by EUR 2.1 billion, or 8.3%, relative to 2011.

On the other hand, the acquisition of BES Vida, completed at the same time as the capital increase, expanded BES's offer of customer funds, with bancassurance products together with deposits already accounting for more than 60% of the funding structure.

The recovery of BES Vida's activity since BES assumed management control should be noted: the insurer has increased its market share from 6.2% in June 2012 to 20.9% in December 2012.

A total of 100 thousand new clients were acquired in the domestic market since the start of the year, with total client acquisitions, including the international units, reaching 156 thousand. The increase in deposits and client acquisition levels shows that Banco Espírito Santo continues to deserve the trust of its clients.

The rise of unemployment and the growing number of bankruptcies due to the economic recession in Portugal requires extremely strict risk management criteria, and particularly of credit risk. As a result credit provisions were reinforced by EUR 815 million, which represents a year-on-year increase of 36%. Even in these conditions, BES consistently maintains an overdue loans ratio below that of the Portuguese banking sector, reflecting the prudent management of risk that characterises BES Group.

BES Group reported a net profit for the year of EUR 96.1 million, notwithstanding the large provisioning effort.

The international area has been fundamental to counter the slowdown of domestic activity, contributing with EUR 87.6 to the year's net income. The Group's selective international expansion has allowed it to diversify its presence into geographical areas with high growth potential. In 2012 the Group consolidated its presence abroad through the opening of new units in Venezuela and Luxembourg, two countries hosting large Portuguese resident communities and sharing affinities with our country.

BES Vida's important contribution to the year's results, EUR 68.7 million, should also be stressed. Coinciding with the capital increase, BES Group acquired Crédit Agricole's 50% stake in the insurer as well as management control.

Bearing in mind that 2012 was a very difficult year, we wish to address a special word of recognition to our shareholders, who once again proved their full loyalty and trust in Banco Espírito Santo by subscribing the rights issue carried out in May. The loyalty of our core shareholders - Espírito Santo Financial Group, Crédit Agricole Group, Banco Bradesco and Portugal Telecom – who have been partners of long date of the Banco Espírito Santo Group, has permitted to maintain a stable shareholder structure, fundamental to face the current economic and financial situation. BES was nationalised for 17 years. When it was again privatised in 1991/92, it outlined the strategic guidelines that still stand today and which allowed it to attain a unique position in the Portuguese banking system

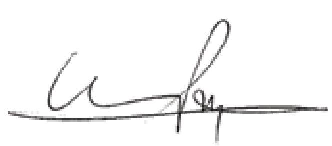
Our special recognition also goes to our clients, for their trust in Banco Espírito Santo, and to our indefatigable teams, for their high professionalism in face of such big and difficult challenges.

Finally, we thank our supervisors, the Bank of Portugal, the Portuguese Securities Market Commission (CMVM) and the Portuguese Insurance Institute, for their trust and cooperation.

Banco Espírito Santo, whose origins date back more than 143 years, continues to prove it has a consistent strategy and the ability to weather periods of extreme difficulty such as the one we are now living with wisdom, rigour and vision. We firmly believe that our management model, the consistence of our strategy, and the high level of preparedness of our teams are the cornerstones for continued value creation.

Ricardo Espírito Santo Silva Salgado

Chairman of the Executive Committee
Vice-Chairman of the Board of Directors



Alberto Oliveira Pinto

Chairman of the Board of Directors

Executive Committee

Ricardo Espírito Santo Silva Salgado
Chairman

José Manuel Pinheiro Espírito Santo Silva

António José Baptista do Souto

Jorge Alberto Carvalho Martins

José Maria Espírito Santo Silva Ricciardi

Rui Manuel Duarte Sousa da Silveira

Joaquim Aníbal Brito Freixial de Goes

Amílcar Carlos Ferreira de Morais Pires

João Eduardo Moura da Silva Freixa

Stanislas Gerard Marie Georges Ribes

1. BES Group

Mission

The activity of Banco Espírito Santo Group is to create value for its shareholders, while simultaneously seeking to meet the needs of its clients and ensure the professional fulfilment of its employees. Its first and foremost mission is to align a strategy of constant reinforcement of its competitive position in the market with absolute respect for the interests and wellbeing of its Clients and Employees. Moreover, the Bank is aware of its duty to actively contribute to the economic, social, cultural and environmental development of the country and of the communities among which it develops its activity.

A Brand with more than 140 years

1869

Creation of Caza de Câmbio specialised in national and international securities trading by José Maria Espírito Santo e Silva together with other investors.

1937

After the creation of the name Banco Espírito Santo in 1920 the Bank merged with Banco Comercial de Lisboa creating BESCL.

1975

BESCL is nationalised within the Nationalisation program in Portugal after 1974 Revolution. Espirito Santo family rebuilds its financial interests abroad and creates the Espirito Santo Group (GES).

1986

Espirito Santo Group returns to Portugal establishing BIC (Banco Internacional de Crédito in partnership with Credit Agricole) and ESSI.

1991

Espirito Santo Group regains control of BESCL during re-privatisation process. In the following years, the Bank consolidates its presence in Portugal, reinforcing market share in both retail and corporate segments.

2000-01

2000 and 2001 mark the first steps of the "strategic triangle": BES strengthens its position in Spain, enters a partnership with Banco Bradesco in Brazil and creates BES Angola.

2005

Integration of BIC into BES.

2006

BES strengthens international expansion with the merging of BES Spain and its transformation into a branch as well as opening a new branch in Cape Verde.

2009-11

BES reinforces presence in Africa: acquisition of a 40% stake in Aman Bank (Libya) and 25.1% direct stake in Moza Banco (Mozambique); establishes a partnership for a leasing co in Algeria; establishment of BES CaboVerde (BESCV).

2012

Largest Portuguese Listed Bank in Portugal with 19.6% market share domestically and pursuing a focused international expansion (present in 25 countries in 4 continents).

2013

Logotype Evolution

1869-1884 | 1897-1911 | 1911-1915 | 1916-1920 | 1920-1931 | 1932-1937 | 1937-1964 | 1965-1990 | 1990-2005 | 2005-2012

BES Group today

Banco Espírito Santo, S.A., a universal financial services group, has its decision centre in Portugal, which makes it its privileged market. In December 2012 the Group's activity in Portugal represented 71% of its total assets. With a presence in four continents, activity in 25 countries and employing more than 9,900 people, BES Group is currently the largest Portuguese listed bank by market capitalisation and the second largest private-sector bank in Portugal by total assets (EUR 3.6 billion and EUR 83.7 billion, respectively, on December 31st, 2012).

With its differentiated approaches and value propositions, BES Group offers a broad range of financial products and services that meet the specific needs of all client segments - companies, institutions and individual clients.

These include deposits, loans to companies and individuals, investment funds management, brokerage and custodian services, investment banking services, and also the sale of life and non life insurance.

Since its privatisation, BES has followed a clear and consistent strategy of organic growth in the domestic market (where its share increased from 8.5% in 1992 to 19.6% in 2012), which has benefited from the development of a market approach based on a multispecialist model. A growth strategy based on solid brand recognition and strong commercial dynamics have made BES a reference in the domestic market, and in particular in the corporate segment whit a 25% market share.

Complementing its domestic operations, BES Group develops international activities focused on countries with cultural and economic affinities with Portugal, such as Spain, Brazil and Angola. In December 2012 the international activity represented 29% of BES Group's net assets.

The know-how developed in the domestic market in corporate banking, investment banking and private banking allows the Group to export its skills and expertise to serve both local customers and those who engage in cross-border business, namely by supporting the internationalisation of Portuguese companies. In this regard, particular emphasis is placed on facilitating access to strategic markets and markets offering business opportunities and where the Group can provide support, either through its direct presence or through its partnerships with local banks.

Strategy

Banco Espírito Santo Group's main pillar for development and strategic differentiation lies on service excellence and a permanent focus on the needs of each client, whether individual, corporate or institutional.
With its differentiated value propositions, BES Group offers a broad range of financial products and services that meet the specific needs of its clients.
A solid and stable management has enabled the development of a consistent strategy oriented towards a long-term vision and based on strategic partnerships, long-standing relationships with its various stakeholders and a core group of reference shareholders since the Bank's privatisation in 1991.

These are the Group's main strategic guidelines:

- **Strengthening of its domestic positioning** through the acquisition of new clients (individual and corporate), the reinforcement of the share-of-wallet in the current client base (particularly in saving products), and the diversified offering of innovative products and services, supported by cross-selling and cross-segment initiatives, such as bancassurance and assurfinance (in partnership with Companhia de Seguros Tranquilidade);

- **Expansion of its international activities** by stronger positioning in the strategic triangle (Iberia, Brazil and Africa) and by the expansion into new markets considered strategic and offering business opportunities;

- **Support to Portuguese companies in the phase of international expansion**, through (i) partnerships with local entities; (ii) trade missions with entrepreneurs to relevant countries; (iii) recognised know-how in trade finance, a business area in which the Group has consistently been market leader in Portugal, with a share of 31% in 2012; and (i) dedicated teams and structures specialising in supporting companies in the process of internationalisation (including the International Premium Unit, which has no equal in the Portuguese banking sector);

- **Improved operating efficiency** with an efficiency ratio below 50% and a prominent position within Iberia's main financial institutions;

- **Development of long-term strategic partnerships** a fundamental link in BES Group's strategy. BES Group has a strategic joint venture with Crédit Agricole, one of its main shareholders, under which it has established cross--selling platforms, namely in the area of bancassurance. BES also maintains a strategic joint venture with Banco Bradesco, one of Brazil's main banks and also a BES shareholder. Banco Bradesco holds a 20% stake in BES Investimento Brasil, BES Group's investment banking unit in Brazil, and supports the bank's activity by sharing its knowledge of the Brazilian market – a key market in the Group's strategy for international expansion;

- **Development of a sustainability strategy** along the following dimensions: governance and ethics; corporate identity; innovation and entrepreneurship; financial inclusiveness; biodiversity and climate change; responsible citizenship. These areas have been defined on the basis of stakeholder consultation, the Group's vision and activities, and the trends for the financial sector.

Short-term strategic priorities

Banco Espírito Santo has been implementing a broad range of initiatives to tackle the financial difficulties faced by the Portuguese economy and the challenges imposed by the Financial Assistance Programme. The Bank has defined the following strategic priorities for the short-term:

- **Balance sheet deleveraging:** in the second half of 2010 BES Group initiated an ambitious balance sheet deleveraging programme with the objective of reducing the loan to deposits ratio and reinforcing its financial strength. The successful implementation of this programme permitted to reduce the loan to deposits ratio from 198% in June of 2010 to 137% on December 31st, 2012;

- **Reinforcement of solvency ratios:** in December 2011 the Group concluded debt to equity exchanges viewing the reinforcement of its capital ratios. These operations allowed BES Group to reach a core Tier I ratio of 9.2% at year-end, thus above the Bank of Portugal's requirements for that date. In May 2012 BES carried out a capital increase that made it one of the best capitalised banks in Europe while maintaining its strategic autonomy. In December 2012 the core Tier I ratio was 10.5%, standing comfortably above the 10% required by the Bank of Portugal for the end of that year;

- **Prudent risk management:** in line with its traditionally prudent stance in financial management, BES Group increased provisioning during 2012: the reinforcement of provisions for credit, securities and other totalled EUR 1,199 million, while the balance of provisions reached 5.34% of gross loans at the end of 2012;

- **Sustaining profitability for the future:** through the growth of the international business and increased efficiency. On the international front, the strategic triangle maintained an expressive contribution to BES Group's results, compensating the deceleration of domestic activity. Net income from the operations in Africa, Brazil and Spain amounted to EUR 60.7 million at the end of the year, representing 69% of the international results. To increase efficiency, several cost reduction measures were implemented, especially in Portugal, where there was a net reduction of 35 branches between the end of 2011 and the end of 2012. Domestic costs dropped by 1.4% year-on-year.

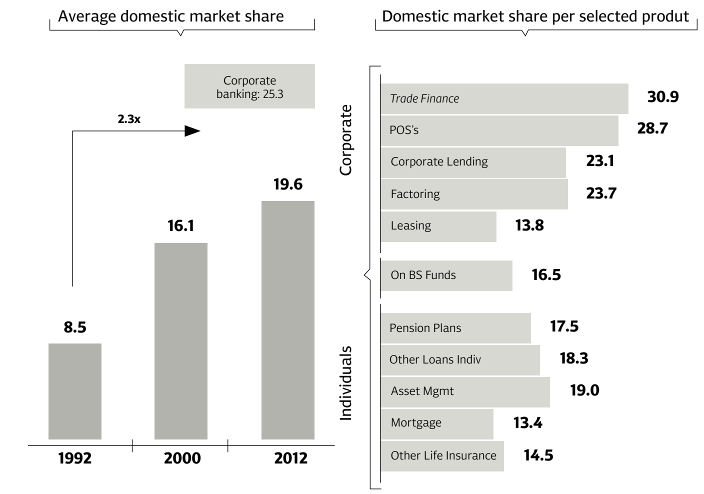
Domestic Activity

In Portugal the Group operates through a network of 666 branches, 25 Corporate Centres and 23 Private Banking Centres.

Since its privatisation in 1992 BES Group has followed a clear and consistent strategy of organic growth in the domestic market, developing an approach based on a multispecialist model. Through this growth strategy, backed by the renown of its brand and strong commercial growth in the individual and corporate client segments, the Group has been able to achieve sustained market share gains. Its average market share more than doubled between 1992 and 2012, rising from 8.5% to 19.6%.

In 2012 the Group posted a very strong market share in the corporate banking business lines, namely in trade finance, where it reached 30.9%, substantiating BES Group's important role in the internationalisation of the Portuguese companies.

Market Share - Average and by Product*
(%)



*Sources: BoP; APFIPP; ISP; ASP; APLEASE; APEF; Euronext; SIBS; SWIFT; CMVM; BES.

Distribution Channels

Distribution capacity is a key factor in the Group's competitive positioning. At December 31st, 2012, BES Group had a domestic retail network of 666 branches and a network of 109 branches abroad, of which 26 in Spain, 41 in Angola, 33 in Libya and 2 in Cape Verde. This is complemented by specialised centres fully dedicated to the corporate and private banking segments: at the end of 2012 the Group had 24 private banking centres (23 in Portugal and 1 in Angola) and 34 corporate banking centres (25 in Portugal, 7 in Spain and 2 in Angola).

The development of the domestic distribution network involved the closure of less profitable branches and continued investment in new, more efficient and flexible formats – smaller branches, onsite branches in partnership with insurance agents within the scope of the Assurfinance programme (a joint venture with Companhia de Seguros Tranquilidade) and partnerships with external promoters (ca. 3,700). At the end of 2012, these complementary networks, which give a decisive contribution to activity growth, represented 18% of customer funds growth in retail and approximately 29% of client acquisitions.

In addition to its physical presence throughout the national territory BES Group has early on developed a multi-channel approach to the clients, essentially through the internet. In 2012 the number of frequent users of BESnet, the internet banking service for individual clients, increased by 9.4% year-on-year, consolidating the Group's leading position in terms of internet banking penetration in Portugal, with a share of 43.6% of the customer base (according to Marktest), while the number of logins reached 24.6 million (+ 2.8% YoY). This multi-channel approach has been progressively enhanced and reinforced, namely through the implementation of a Customer Relationship Management (CRM) system that ensures the integration of the various client interaction channels, and also through the increasing dematerialisation of processes.

Using the most advanced technologies, BES offers its clients a number of communication channels that enable permanent contact and access to the Bank:

- **BESmobile:** specifically developed for mobile phones, this service can be used for a range of banking operations;
- **BESdirecto:** phone service used to make bank transactions and seek advice on bank products. It features different lines according to the client's profile: BESdirecto international, BESdirecto Welcome, ES Private Phone, BES 360 Line, Linha informativa T and BESdirecto Seguros (insurance);
- **BEScall:** BESnet free messaging service: "send us a message and we will call you directly";
- **BESchat:** online chat service: "talk to us".

International Activity

Its international orientation was a key feature in the development of BES Group's activity throughout its history, and the future development of this orientation is a key aspect of its growth strategy.
The historic links with Africa and South America, notably Brazil, the internationalisation of national companies, the growing interdependence of economies and the large communities of Portuguese nationals established across various continents have provided the basis for the international expansion of BES Group.
The know-how developed in the domestic market in corporate banking, investment banking and private banking allows the Group to export its skills and expertise to serve both local customers and those who do cross-border business, namely by supporting the internationalisation of Portuguese companies. In this regard, particular emphasis was placed on facilitating access to strategic markets and those where there are business opportunities and where the Group can provide support, either through its direct presence or through its partnerships with local banks.

BES International Presence

Spain

In Spain, the BES Group has operations in corporate banking, private banking and affluent banking. The Group has also developed investment banking activities in Spain, holding a leading position in the Spanish brokerage market and in mergers and acquisitions. Taking advantage of the geographical proximity to Spain, the Group has an Iberian vision of the market, facilitating and promoting exports and direct investment by Portuguese companies in Spain, and by Spanish companies in Portugal.

France

BES conducts its activity in France through Banque Espírito Santo et de la Vénétie, in which it has a 42.69% stake. The bank focuses its activity on corporate banking and the provision of financial services to Portuguese residents in France who are clients of BES in Portugal.

United Kingdom

In London, BES operates through a branch which concentrates its activity in wholesale banking, namely syndicated credit transactions, leveraged finance operations and commodities structured trade finance and, in close co-operation with BES Investimento, in project finance operations. At the end of 2010, BES Investimento acquired a 50.1% stake in Execution Noble, an international investment banking group focusing on brokerage, research, mergers and acquisitions, corporate finance, corporate brokerage and equity capital markets. Through this acquisition, the BES Group fulfilled its intention to reinforce a presence in Europe's largest financial centre, while opening an access route to emerging markets such as China and India.

Poland

The BES Group has been present in Poland since 2005, the year of the foundation of Concordia Espírito Santo Investment, now known as Espírito Santo Investment Sp. Z.o.o., a BES subsidiary that specialises in advisory services in mergers and acquisitions. In 2008, BES Investimento expanded its activities in the country, opening a branch that provides brokerage services on the Warsaw Stock Exchange.

Luxembourg

In January 2012 BES opened a Branch in Luxembourg, an important international financial centre and hosting a large community of Portuguese residents. The main aim of the new unit is to serve the Portuguese community, but also the Group's international clients.

The new branch will concentrate its activity on the corporate, private and affluent banking segments, as well as in providing financial services to the Portuguese residents in Luxembourg who are also BES clients in Portugal.

Mozambique

In January 2012 the Group acquired a 25.1% stake in Moza Banco, a Mozambican bank that opened for business in June 2008.

Moza Banco focuses its activity on the corporate, private and affluent banking segments. At the end of 2012 it had a network of 20 branches, the result of a recent expansion effort aimed at covering all the provinces in the country.

This acquisition reinforces the Group's presence in Africa and positions BES to take an active role in Mozambique's growth, both as a partner of its local business community and by providing support to the Portuguese companies operating in the country. The Group thus offers its clients a wide range of financial products, namely trade finance, financing for investment projects, cash and saving management services, and trade transactions in the domestic and international markets.

Cape Verde

The activity of BES Cabo Verde is concentrated on the local corporate market, particularly the public sector and affiliates of Portuguese groups with economic interests in Cape Verde, and on the local affluent market.

The BES Cape Verde branch continues to operate, concentrating its activity on loan granting to non resident entities.

Angola

In Angola, the BES Group conducts its activity through BES Angola (BESA), a bank incorporated under Angolan law that provides a global service to individual and corporate clients.

BES Angola operates through a network of 41 branches and sub-branches distributed by six provinces, and a private and banking centre in Luanda.

In corporate banking, BESA is supported by two corporate centres in Luanda, focusing its activity on (i) establishing commercial partnerships of mutual added value with the large and medium-sized companies operating in Angola, namely by financing the investment projects or cash needs of these companies and providing technical and legal support; and (ii) supporting foreign companies and entrepreneurs (principally from Portugal, Spain, Brazil and Germany) that are expanding their activity into Angola.

Investment banking business has also been expanding through tracking business opportunities and arranging financing solutions in the areas of project and corporate finance.

In the asset management area, BESAACTIF – Sociedade Gestora de Fundos de Investimento, the first fund management company in Angola, manages a closed-end real estate fund (and a second one is pending authorisation by the competent authorities), and BESAACTIF – Sociedade Gestora de Fundos de Pensões markets an open-ended defined contribution pension fund called BESA Opções de Reforma.

BESA has been asserting its position as a reference bank in the Angolan market, where it stands out for its profitability and efficiency levels, while being actively engaged in society and participating in Angola's reconstruction process within the scope of its sustainability policy.

Libya

BES Group operates in Libya through a 40% stake in Aman Bank, of which it has management control. Through its presence in Libya, the Group not only aims to provide support to its clients in that country but also to open access channels to the North-African markets.

Libya is in a phase of consolidation following the fall of the previous regime, and Aman Bank stands in a good position to take advantage of growth opportunities in the country. The Bank has suffered neither sanctions nor significant damage to its infrastructures, and so it continues to operate during the transition period.

United States of America

Through Espírito Santo Bank, based in Miami, BES Group conducts international private banking activities in the United States, where its main customers are the local Portuguese and Latin American communities. BES' New York branch focuses its activity in wholesale banking, mainly in the United States and Brazil. BES Investimento's New York branch distributes products in the core geographies, primarily in the areas of project finance and other structured finance activities, leveraged by its Brazilian presence, strong positioning in the capital markets business in Iberia, and reference clients in the area of project finance. BES Group's presence in New York gives it access to institutional investors in one of the world's main financial centres.

Brazil

The BES Group is present in Brazil through BES Investimento do Brasil, in which Banco Bradesco holds a 20% stake. BES Investimento do Brasil focuses its activity on the capital markets, risk management, proprietary trading, project finance, distribution of fixed income products, private equity and corporate finance.
The asset management activity in Brazil is conducted by BESAF – BES Ativos Financeiros, and securities brokerage by BES Securities.

Venezuela

The Group operates in Venezuela through the Banco Espírito Santo Venezuela Branch, a universal services bank that opened to the public in January 2012.

BES Venezuela focuses on the corporate, private and affluent banking segments, mainly targeting the large Portuguese community in the country as well as the Venezuelan companies that do business with Portugal.

The aim of the Group is to leverage on the ever closer relations between Portugal and Venezuela which is taking shape through the increasing presence of Portuguese companies in this country as well as by the signature of various bilateral agreements.

Macau

BES Representative Office

Hong Kong
BESI
Macau
BES Oriente

The BES Group is present in Macau through BES Oriente, whose main activity is to support the business operations developed by BES's clients in the region, while seeking to seize business opportunities leveraged by the expressed intent of the People's Republic of China to consider Macau as a platform for economic cooperation with Portuguese-speaking countries.

GRUPO BANCO ESPIRITO SANTO

Subsidiaries and Associates:

BES Angola, BES Oriente (Macao), BES Vénétie (France), ES Bank (USA), ES plc (Ireland), BES Cape Verde, Aman Bank (Libya), IJAR Leasing (Algeria), ES Investment Bank (Angola, Brazil, China, India, Poland, Spain, UK, USA), Moza Bank (Mozambique);

International Branches:

Spain, New York, London, Cape Verde, Venezuela, Nassau and Cayman Islands and Luxembourg;

Off-shore Branch

In Madeira.

Representative Offices:

Toronto, Lausanne, Colone, Milan, Johannesburg, Shanghai and Mexico City;

Prizes and Awards obtained in 2012

Banco Espírito Santo

Only Portuguese Bank included in the 100 Most Sustainable Corporations in the World – the Global 100

This accolade places BES amongst the 10 international banks included in the exclusive list of 100 most sustainable corporations announced every year at the World Economic Forum in Davos, bringing recognition to the Bank's sustainable management strategy.

First Portuguese bank in the Dow Jones Sustainability Indexes

The first Portuguese bank to be included in the Dow Jones Sustainability Indexes, in 2012 Banco Espírito Santo remains Portugal's only financial sector representative in this renowned sustainability index.

BES amongst the best in the European financial sector in the reference Carbon Disclosure Project

In 2012 BES advanced its position in the Carbon Disclosure Leadership Index by 12 p.p, to 94%, once again standing amongst the best in the European financial sector with regard to best practices on climate change.

First Portuguese bank in the FTSE4Good

BES is included in the prestigious FTSE4Good Index Series since 2007, an achievement that confirms its performance as a socially responsible institution.

BES elected "The best company in social responsibility" by Human Resources Portugal

For the second consecutive year Human Resources Portugal held its "The Best Company in ..." contest. In 2012 BES was elected "The best company in social responsibility".

BES named "Best Trade Finance Bank" in Portugal for the 7th consecutive year

For the seventh consecutive year Banco Espírito Santo was named best bank in Portugal in the area of Trade Finance by the Global Finance magazine.

BES obtains ISO9001 quality certification for Trade Finance area of operations

This certification enhances BES Group's strategic investment in the development of its trade finance business line, in support of the internationalisation of the Portuguese companies.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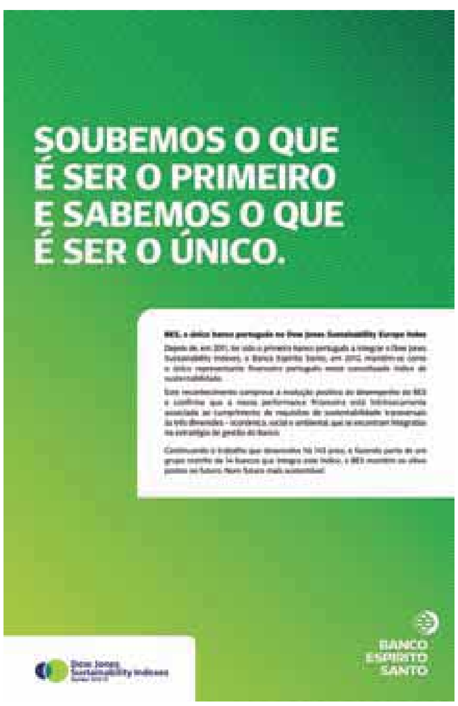
O FUTURO ESTÁ EM ACÇÃO
BES AUMENTO DE CAPITAL PARTICIPE
PERÍODO DE SUBSCRIÇÃO DE 19 DE ABRIL A 2 DE MAIO
BANCO ESPIRITO SANTO


SOUBEMOS O QUE É SER O PRIMEIRO E SABEMOS O QUE É SER O ÚNICO.
BANCO ESPIRITO SANTO


A SOLIDARIEDADE PASSA PELAS NOSSAS MÃOS.
BANCO ESPIRITO SANTO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Main Events in 2012

/ 2012

01 02 03 04 05

January

6 Banco Espírito Santo, S.A. issues EUR 1 billion bonds guaranteed by the Republic of Portugal.

February

1 Following the downgrade of the long term rating of the Portuguese Republic from BBB to BBB (low), with negative trend, DBRS also lowers Banco Espírito Santo's long-term debt & deposits rating to the same level of the sovereign rating of Portugal. The short-term debt & deposits rating is also downgraded, from R-2 (high) to R-2 (mid), with negative trend.

3 Banco Espírito Santo reports 2011 results. The Bank posts a EUR 108.8 loss for the year, underpinned by one off charges, namely the transfer of pension liabilities to the Social Security, the loss in the stake of BES Vida, and losses on the sale of international loans necessary to simultaneously continue to provide credit to Portuguese companies and to comply with the deleverage programme.

15 Standard and Poor's downgrades the sovereign ratings of the Portuguese Republic from BBB-/A-3 to BB/B (long- and short-term), with negative outlook. As a consequence, the agency also lowers BES's long-term credit rating from BB to BB-, with negative outlook, and reaffirms its short-term credit rating at B.

17 Banco Espírito Santo, S.A. issues EUR 1.5 billion bonds guaranteed by the Republic of Portugal.

March

Creation of cluBES - A club for all the individual shareholders of Banco Espírito Santo which aims to share with them all the advantages and benefits offered by BES Group's various areas of operation, namely: Health, Leisure and Sports, Art and Heritage, and Financial Products. More information available at www.clubes.bes.pt.

1 The Bank of Portugal announces the third and final global results of the Special Inspections Programme (SIP) undertaken as part of the measures and actions agreed by the Portuguese authorities for its financial system under the Programme of Economic and Financial Assistance agreed with the IMF/EU/ECB in May 2011. The evaluation confirmed that BES Group's parameters and methodologies were 'clearly adequate', the highest classification attributable under stage 3 of the SIP.

22 The General Meeting of Shareholders approves all the items in the agenda, namely: (i) the Remuneration Committee and Board of Directors' statements on the remuneration policy of BES's management and supervision bodies and remaining BES senior officers; (ii) the amendments to the Variable Remuneration Plans based on Financial Instruments applying to respectively to BES's executive directors and BES's senior officers; and (iii) the appointment of the members of the corporate bodies for the 2012-2015 term of office.

28 Following the downgrade in February of the Portuguese Republic sovereign rating from Ba2 to Ba3, Moody's announces it has concluded the review for downgrade of Portuguese banks. The long-term rating of Banco Espírito Santo is downgraded from Ba2 to Ba3, the same level of the sovereign rating. The Bank Financial Strength Rating (BFSR) is downgraded from D- (Ba3) to E+ (B1).

April

11 The Board of Directors of Banco Espírito Santo, S.A. resolves on a rights offering, which would result in the Bank issuing up to 2,556.7 million new ordinary shares at a subscription price of EUR 0.395 per share, raising gross proceeds of up to EUR 1,010 million.

On the same date the Board of Directors agrees with the Crédit Agricole Group on the acquisition of 50% of the share capital of BES Vida, Companhia de Seguros, S.A., for EUR 225 million, which will be financed with a portion of the net proceeds of the capital increase.

May

7 Awards ceremony of the BES Biodiversity Prize. The winner was the project "Preservation of the Mediterranean monk seal in Madeira", submitted by the Madeira Natural Park.

11 As a result of the rights offering BES issues 2,556,688,387 new ordinary, book-entry, registered shares with no par value. BES's share capital is increased to EUR 5,040,124,063.26, represented by 4,017,928,471 shares. The acquisition of 50% of the share capital of BES Vida, Companhia de Seguros, S.A. is completed on the same date. Following this acquisition BES holds the entire share capital and management control of BES Vida.

15 BES releases 1Q12 results. Translating the increase in the quarter's overall provision charge (+85% YoY) the Group's net income for the period is EUR 11.6 million.

16 Conference with Pavan Sukhdev on the theme "Can the company of today create the economy of tomorrow?" organised within the scope of the 6th edition of the Sustainable Future Programme.

21 Banco Espírito Santo signs 3-year Cooperation Agreement with Cáritas Portuguesa under which the bank will support this charity's actions targeting the more vulnerable layers of the Portuguese population.

06 07 08 09 10 11 12

July

12 Standard and Poor's affirms the BB- (long term) and B (short term) ratings of Banco Espírito Santo, with negative outlook, following the review of the implications on BES' capital position of its EUR 1 billion capital increase.

30 BES Group posted net income for 1H12 of EUR 25.5 million.

August

28 Extraordinary General Meeting approves the suppression of the shareholders' pre-emption rights, in case the Board of Directors resolves on a share capital increase in order to incorporate credits from the Portuguese State resulting from the potential execution of the guarantee securing the unsubordinated bonds issuance up to the amount of EUR 550,000,000.00.

The shareholders also approve the maintenance of the group relationship between the Company and BES Vida – Companhia de Seguros, S.A., and ratify the co-optation of Mr. Milton Almicar Silva Vargas, of 14 May 2012, as a member of the Board of Directors.

September

13 After becoming in 2011 the first Portuguese bank to be included in the Dow Jones Sustainability Indexes, in 2012 Banco Espírito Santo remains Portugal's only financial sector representative in this renowned sustainability index.

October

3 The European Banking Authority (EBA) and the Bank of Portugal (BoP) announce the results of the assessment of the capital exercise and fulfilment of EBA December 2011 Recommendation. Banco Espírito Santo meets the regulatory 9% Core Tier I ratio after a prudent assessment of its sovereign debt exposures in the Held-to-Maturity and Available-for Sale portfolios, reflecting current market prices.

31 Banco Espírito Santo issues EUR 750 million senior unsecured debt under the Euro Medium Term Notes Programme, marking the return to the markets of the Portuguese financial institutions. The order book reaches ca. EUR 2.7 billion, with the participation of 225 national and international investors.

November

12 Prize award ceremony of the BES National Innovation Awards. The grand prize was awarded in the category Information Technology & Services to the project 'Real time video transmission system for multiple users through a single Wi-Fi Access Point'.

13 BES Group Net income in the 3Q12 is EUR 90.4 million in the 3Q12.

28 Banco Espírito Santo launches USD 450 million exchangeable bonds due 2015 issued by BES Finance Ltd., carrying exchange rights linked to the value of the common shares of Banco Bradesco, S.A..

December

3 Banco Espírito Santo announces the results of the On-site Inspections Programme (OIP) on exposures to the construction and real estate sectors in Portugal and Spain with reference to June 30th, 2012.

5 Following the confirmation of the BBB (low) long-term rating of the Republic of Portugal, with negative trend, DBRS confirms BES's long term rating at BBB (low) and short-term rating at R-2 (mid). These ratings were removed from Under Review.

Corporate Bodies

The corporate bodies of Banco Espírito Santo are elected by the General Meeting of Shareholders.

The management of Banco Espírito Santo is entrusted to a Board of Directors responsible for exercising the broadest powers of management and representation of the company and for performing all acts as may be required and convenient in the pursuit of the Bank's activities. It is also part of the responsibilities of the Board of Directors to define, follow and monitor the implementation of the Bank's key strategic guidelines and to promote the activities of specialised committees with management or supervision responsibilities.

BES's Board of Directors consists of 26 members, of whom seven are non executive and qualified as independent. The day-to-day running of the company is delegated to an Executive Committee comprising nine members.

From the independent members of the Board of Directors, three are members of the Audit Committee and three integrate the Corporate Governance Committee and the Remuneration Advisory Committee. The Chairman of the Board of Directors is also qualified as independent.

BES's Board of Directors holds ordinary meetings at least quarterly and extraordinary meetings whenever convened by the Chairman, two directors or the Audit Committee.

Pursuant to the powers conferred to it under the law and the company's bylaws, and in accordance with its Regulation (available at www.bes.pt/ir and in Chapter II of the Corporate Governance Report), in 2012 the Board of Directors monitored, assessed and supervised the activity of the Company, in strict coordination with the Executive Committee and with no restraints.

In line with the Board of Directors' responsibility for promoting the activity of the specialised committees, the non executive directors exercise supervisory functions in the following committees:

- **Audit Committee** – consisting of three independent non-executive directors. The Report of the Audit Committee on the activities in 2012 may be found at the end of this report;

- **Corporate Governance Committee,** consisting of three independent non-executive directors;

- **Remuneration Advisory Committee,** consisting of three independent non-executive directors.

Chapter II of the Corporate Governance Report contains detailed information about the composition, powers and duties of the Audit Committee, Corporate Governance Committee, and Remuneration Advisory Committee.

In so far as the day-to-day management of the Company is delegated to the Executive Committee, the Chairman of the Board of Directors may at any time ask the Chairman of the Executive Committee to clarify matters considered relevant for the exercise of his functions or to ensure that the other Board members are informed about such matters.

In 2012, BES's non-executive directors regularly attended the meetings of the Board of Directors, and they were provided with all information considered relevant for them to effectively monitor the Company's activities. The Chairman of the Executive Committee sent all convening notices and minutes of the meetings to the Chairman of the Board of Directors.

In 2012 the Board of Directors held 8 meetings, having discussed and passed resolutions on the following main issues:

• Approval of BES Group's results for 2011 and first three, six and nine months of 2012;

• Approval of the proposed allocation of the 2011 results;

• Approval of the proposals to be submitted to the Annual General Meeting of March 22nd, 2012 concerning: (i) the Management Report, the Corporate Governance Report and the remaining consolidated and individual reporting documents relative to fiscal year 2011; and (ii) the remuneration policy of BES's senior officers and changes to the variable remuneration plan;

• Approval of the capital increase to take place in May;

• Approval of the acquisition of 50% of the share capital of Companhia de Seguros BES Vida;

• Approval of the proposals to be submitted to the Extraordinary General Meeting of August 28th, 2012 concerning: (i) the partial amendment of the articles of association, namely the amendment of Article 4; (ii) the suppression of the shareholders' pre-emption rights, in case the Board of Directors resolves on a share capital increase, pursuant to number 2, article 4 of the articles of association, in order to incorporate credits from the Portuguese State resulting from the potential execution of the guarantee securing the unsubordinated bonds issuance;

• Appointment by co-optation of Board members Milton Almicar Silva Vargas and Xavier Musca to replace Antônio Bornia and Michel Jacques Mathieu.

Given BES's status as a publicly traded company, its corporate bodies are elected at the Annual General Meeting and have their seat in the Bank's head-office. Their composition for the 2012-2015 four-year mandate is as follows:

Board of the General Meeting

Paulo de Pitta e Cunha (Chairman)
Fernão de Carvalho Fernandes Thomaz (Vice- Chairman) (1)
Nuno Miguel Matos Silva Pires Pombo (Secretary)

Board of Directors

Alberto Alves de Oliveira Pinto (Chairman)
Ricardo Espírito Santo Silva Salgado (Vice-Chairman)
Bruno Bernard Marie Joseph de Laage de Meux (Vice-Chairman)
José Manuel Pinheiro Espírito Santo Silva
António José Baptista do Souto
Jorge Alberto Carvalho Martins
Aníbal da Costa Reis de Oliveira
Manuel Fernando Moniz Galvão Espírito Santo Silva
José Maria Espírito Santo Silva Ricciardi
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
Ricardo Abecassis Espírito Santo Silva
Amílcar Carlos Ferreira de Morais Pires
Nuno Maria Monteiro Godinho de Matos
João Eduardo Moura da Silva Freixa
Pedro Mosqueira do Amaral
Isabel Maria Osório de Antas Mégre de Sousa Coutinho
João de Faria Rodrigues
Marc Olivier Tristan Oppenheim
Vincent Claude Pacaud
Rita Maria Lagos do Amaral Cabral
Stanislas Gerard Marie Georges Ribes
Horácio Lisboa Afonso
Pedro João Reis Matos Silva
Milton Almicar Silva Vargas
Xavier Musca

Audit Committee

Horácio Lisboa Afonso (Chairman)
Pedro João Reis Matos Silva
João de Faria Rodrigues

Certified Statutory Auditor ("ROC" or SA)

Revisor Oficial de Contas Efetivo, KPMG & Associados, SROC, S.A., representada por Sílvia Cristina de Sá Velho Corrêa da Silva Gomes
Revisor Oficial de Contas Suplente, Fernando Gustavo Duarte Antunes (ROC)

Company Secretary

Eugénio Fernando Quintais Lopes
Artur Miguel Marques da Rocha Gouveia (Deputy Secretary)

The Board of Directors delegates the day-to-day management of the Bank to an Executive Committee composed of the following members:

Executive Committee

Ricardo Espírito Santo Silva Salgado (Chairman)
José Manuel Pinheiro Espírito Santo Silva
António José Baptista do Souto
Jorge Alberto Carvalho Martins
José Maria Espírito Santo Silva Ricciardi
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
Amílcar Carlos Ferreira de Morais Pires
João Eduardo Moura da Silva Freixa
Stanislas Gerard Marie Georges Ribes

(1) Resigned on February 2013.

The BES Shares – Value Creation

STOCK EXCHANGE:	NYSE Euronext
ISIN:	PTBES0AM0007
BLOOMBERG CODE:	BES PL
REUTERS CODE:	BES.LS
NUMBER OF SHARES:	4,017,928,471
NOMINAL VALUE:	
SHARE CAPITAL:	EUR 5,040,124,063.26

On December 31st, 2012 the share capital of Banco Espírito Santo was EUR 5,040,124,063.26, represented by 4,017,928,471 common shares with no nominal value, listed on the NYSE Euronext.

At the end of 2012 BES continued to be the largest Portuguese listed bank, with a market cap of EUR 3,586 million (close price at December 31st, 2012: EUR 0.895).

Main Stockmarket Indicators

			Dec-11	Dec-12	Change
Share Data					
01. Number of Shares Outstanding	(thousand)		1,461,240	4,017,928	2,556,688
02. Weighted Average of Shares Outstanding(1)	(thousand)		1,187,255	3,096,971	1,909,716
03. Last Closing Price(2)	(eur)		1,350	0,895	-33.7%
04. Market Capitalisation	(eurMn)	(01x03)	1,973	3,596	82.3%
Consolidated Financial Data (year-end)					
05. Equity Attributable to Shareholders(3)	(M€)		5,604	7,063	26.0%
06. Equity Attributable to Ordinary Shares(4)	(M€)		5,363	6,841	27.6%
07. Net Income	(M€)		-108.8	96.1	....
08. Net Income Attributable to Ordinary Shares	(M€)		-3.1	92.6	....
09. Gross Dividend of Ordinary Shares	(M€)		-	-	
10. Pay Out Ratio of ordinary Shares	(%)	(09/07)	-	-	
Per Share Data					
11. Book Value per Share	(€)	(06/01)	3.67	1.70	-53.7%
12. Earnings per Share(5)	(€)	(08/02)	0.00	0.03	....
13. Gross Dividend per Share	(€)	(09/01)	-	-	-
Price as a Multiple of					
14. Book Value	PBV	(03/11)	0.37	0.53	
15. Net income	PER	(03/12)	....	29.94	
Price Return On					
16. Net Income	(%)	(12/03)	0.00	3.34	
17. Dividend (Dividend Yield)	(%)	(13/03)	-	-	

(1) Average number of ordinary shares weighted by permanence time.
(2) Source: NYSE EURONEXT LISBON.
(3) Total Equity - Minority Interests.
(4) Total Equity - Minority Interests - Preference Shares - Other Equity Instruments.
(5) Considering the weighted average number of shares for Dec. 12.

In May 2012 BES concluded a EUR 1 billion rights issue intended to meet the regulatory capital requirements established by the Bank of Portugal (Core Tier 1 of 10% in 2012) and the European Banking Authority (Core Tier of 9% in June 2012). In connection to the capital increase BES agreed with Crédit Agricole on the acquisition of 50% of the share capital of BES Vida, Companhia de Seguros, S.A., as a result of which now holds the entire share capital of BES Vida.

The capital increase subscription rights period ran from April 19th to May 2nd. During that period the price of BES shares increased by 7.3%, in contrast to the 0.1% and 3.9% losses sustained by the PSI 20 Portuguese index and the Eurostoxx Banks index, respectively. The average daily trading volume per day also increased, reaching EUR 16.1 million (EUR 10.1 million in 2011). Of the total rights, only 13.1% were traded on the stock exchange, which is suggestive of the keen interest shown by private and institutional investors in the rights issue. Even in the prevailing adverse environment, more than 86% of the shareholder base prior to the capital increase exercised their subscription rights. The capital increase was fully subscribed, with 99.3% of the total rights being exercised and a subscription rate of 133.5% of the total shares.

The core shareholders (Espírito Santo Financial Group, Crédit Agricole and Bradesco), which together hold more than 50% of BES's share capital, fully exercised their rights and maintained their stakes unchanged, thus reaffirming their confidence in the Bank.

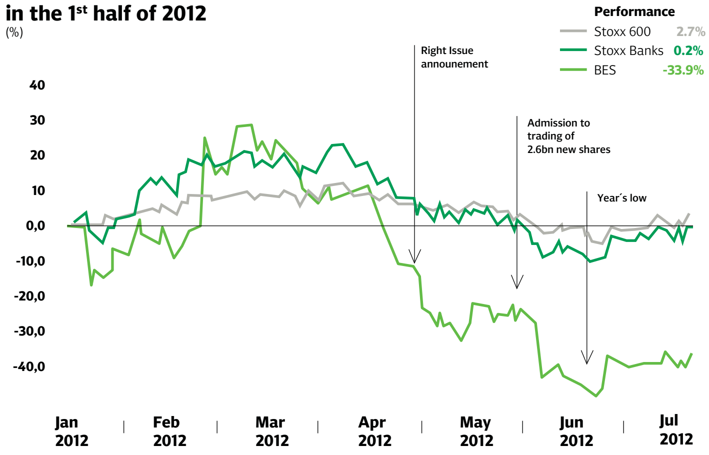
Through this operation BES became a unique case in Portugal as the first Portuguese bank to meet the regulatory capital requirements imposed by the Portuguese and European authorities, resorting exclusively to market solutions, and thus maintaining its strategic autonomy.

BES Shares performance

The first half of 2012 was marked by the contagion of the sovereign debt crisis through the South of Europe, namely to Spain and Italy, putting pressure on the equity markets and in particularly on European banks' stocks. At the end of the first half of the year the EuroStoxx Banks, the European banking sector reference index, was underperforming the markets in general, with Iberian bank stocks under pressure from negative sentiment about the region.

The BES shares, which had closed the first quarter on positive ground (+1.5%, closing price: 30 December 2011 and March 30th, 2012), initiated a downward trend in the second quarter, which further steepened after the announcement in April of the capital increase. May was especially penalising for the Portuguese stocks, and for BES this coincided with the listing of the new shares resulting from the capital increase and consequently with an increase in the shares' market liquidity. The more liquid shares in the PSI 20 index were under strong pressure, and this was particularly true for the BES shares. Having the largest stock market capitalisation and greatest liquidity from amongst the Portuguese banks, and also a large weight of foreign institutional investors, BES was consequently more exposed to market movements.

BES Shares, Euro Stoxx and Stoxx 600 in the 1st half of 2012

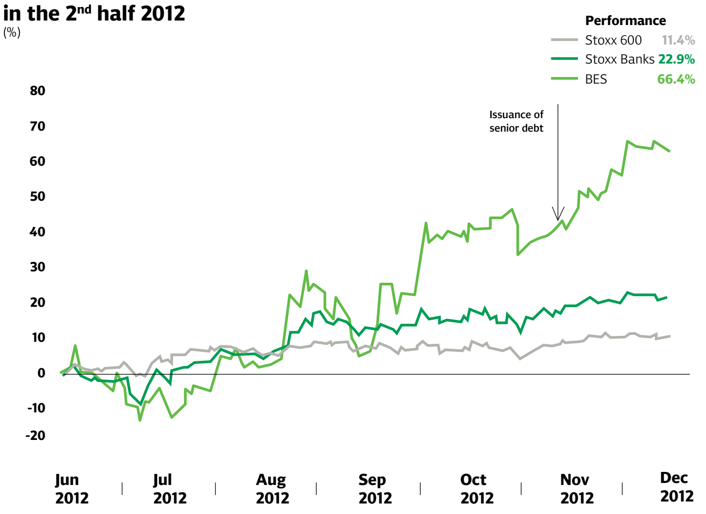


In the second half of the year, the commitment for greater integration assumed in the European Summit at the end of June and the ECB's announcement in September of a programme of debt acquisition from Member States in the secondary market (OMT programme) assuaged the sovereign debt crisis. With risks perceptions diminishing the European equity markets rallied, led by the banking sector. The Portuguese stocks were no exception, benefiting not only from signs of stabilisation in the European crisis but also by an improvement in investors' confidence in the country.

The BES shares also thrived on this climate of improved confidence within the Euro Zone: in contrast to their trend in the first half of the year the shares recovered 102% from their low (closing price on June 1st and December 31st) and closed the period outperforming the markets and the European banks by 55.0% and 43.5%, respectively (closing price on June 29th and December 31st) - a performance that confirms the confidence placed by investors in the Bank.

In November, Banco Espírito Santo was the first bank of bailled--out country to issue debt in international markets. The issuance of EUR 750 million senior unsecured debt contributed to the performance of the share in the third quarters.

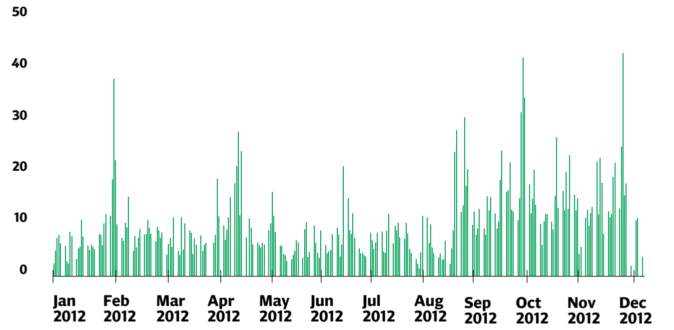
BES Shares, Euro Stoxx and Stoxx 600 in the 2nd half 2012
(%)



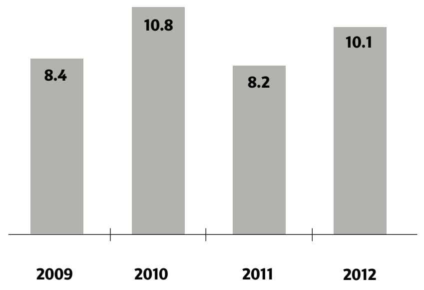
Liquidity

The average number of BES shares traded per day in 2012 was 14.8 million, up by 140.1% from 2011, when an average of 6.2 million shares were traded daily. BES became the more liquid bank in Portugal, especially following the listing in May of the new shares issued in the capital increase. The liquidity of the BES shares in 2012 as measured by their average daily trading volume was EUR 10.1 million, which represents a 23.9% increase from EUR 8.2 million in 2011.

BES Share Trading Volume in 2012 (no. of shares)



Evolution of BES Share Trading Volume
(eur million)



Shareholder Structure

After the capital increase, BESPAR, which holds the interests of Espírito Santo Financial Group and an indirect stake in Crédit Agricole, owned 35.3% of BES. Crédit Agricole, a partner of the Espírito Santo since 1986, held a direct stake of 10.8%. Banco Bradesco, a shareholder since 2000 through Bradport, and the Portugal Telecom Group, kept their interests unchanged at 4.8% and 2.1%, respectively. The free float is currently 47.0%.

Silchester, which has a qualified holding in BES since 2010, maintained the 5.8% stake it held on December 2012, corresponding to 233 million shares.

Silchester International Investors LLP is a UK based investment management firm. Silchester invests client assets in publicly traded non-US equity securities, holding more than EUR 15 million in assets under management, mainly from American institutional investors.

At December 31st, 2012, BES's main shareholders were:

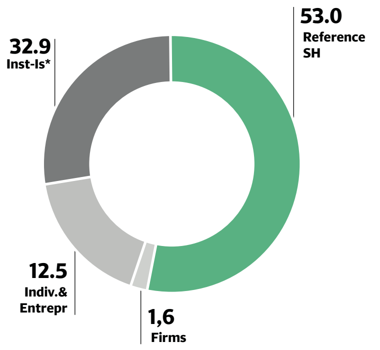
Main Shareholders

	Dec. 11	Dec. 12
BESPAR - Sociedade Gestora de Participações Sociais, S.A.	35.00	35.29
CRÉDIT AGRICOLE, S.A.	8.63	10.81
BRADPORT, SGPS, S.A.*	4.83	4.83
SILCHESTER INTERNATIONAL INVESTORS LIMITED (UK)	5.67	5.76
PORTUGAL TELECOM, SGPS, S.A. (through PT Prestações-Mandatária de aquisições e gestão de bens, S.A.)	2.09	2.09

* Portuguese firm wholly owned by Banco Bradesco (Brazil).

As of December 31st, 2012, the Bank had ca. 36,000 registered shareholders and the following shareholder structure:

Shareholder Structure as of December 31st, 2012
(%)



(*) Includes qualified holding of Silchester (5.8%).

The weight of institutional investors in BES's capital structure increased to 33% in 2012, from 30.9% in 2011 and 30.0% in 2010.

Conferences

During the year BES organised roadshows in the main European and North-American financial centres and held around 400 meetings with investors (of which 150 in connection to the capital increase). In addition, the Bank also participated in the following international conferences:

- Annual Iberian Conference promovida pelo Espírito Santo Investment Bank, in London;
- HSBC Southern European Financials Conference, in London;
- Goldman Sachs Iberian Banks Symposium, in London;
- Morgan Stanley European Financials Conference, in London;
- UBS Global Financials Conference, in New York;
- BBVA Iberian Day, in London;
- KBW European Financials Conference, in London;
- BPI Iberian Conference, in Porto;
- Portuguese Day promovido pela NYSE Euronext and Caixa BI in New York.

Dividends

The dividend proposed by the Board of Directors to the annual general meeting follows the criterion of a balanced relationship between financial strength (higher solvency ratios through retained earnings) and adequate returns to shareholders.

The Board of Directors of Banco Espírito Santo proposes, for approval by the General Meeting, that the individual net earnings of Banco Espírito Santo in 2012, in the amount of EUR 121,961,308.14, be in part allocated to the legal reserve (EUR 12,197,000.00) and the remainder (EUR 109,764,308.14) to cover the loss determined in 2011, under the terms of Article 33 of the Portuguese Companies Code.

Research on BES

A total of 14 analysts covered BES shares throughout the year 2012. The average price target based on reports published up to December 31st was EUR 0.94 per share, with an upside potential of 5% on the closing price on that date (EUR 0.895). With 50% "Buy" recommendations and 43% "Hold" recommendations in the year to December 2012, BES continued to be the bank in Iberia with the largest percentage of "Buy" recommendations.

2. Responsible Management

Involvement with the Stakeholders

BES Group regularly sounds its relevant stakeholders and makes them part of the decision-making process, either with regard to one-off initiatives or concerning the sustainability programme's policies and practices.
The biennial survey initiated in 2011 (whose results were obtained in 2012) found that the Bank addresses the main issues voiced by the different stakeholders and that the majority of the respondents is aware of the Bank's sustainability practices.

The following areas for improvement were identified:

- The sustainability effort developed should be leveraged with the clients and with the main players in society through which clients receive information;
- The communication of the main initiatives and practices of the sustainability programme should be differentiated and segmented at both the time of execution and in their reporting.

The poll also identified the following key relevant issues for the majority of the stakeholders:

- customer satisfaction;
- ethics and accountability in the relationship with the stakeholders;
- financial inclusiveness of individuals and businesses;
- eco-efficiency in the Bank's branches, premises and operations.

The Bank's approaches to all these issues as well as its targets and results are addressed throughout this report and also in the Sustainability Brochure and the website.

These findings were obtained through consultations to the more important stakeholders for the assessment of the sustainability performance, namely the employees, clients, investors, financial analysts specialised in sustainability, suppliers, nongovernmental organisations, university lecturers, the media, and organisations with an impact or influence on the sustainability agenda.

As a complement to this biennial survey of the material issues, the Bank maintains permanent dialogue and consultation mechanisms that permit to identify, manage and communicate relevant themes and expectations on an ongoing basis.

Moreover, in 2012 a working group was created with representatives of BES departments (Savings Management, Municipal and Institutional Clients, Marketing - Corporate and Institutional Clients, and Communication) and external stakeholders with which the bank has partnerships, which meets quarterly to discuss the risks and opportunities in the creation of environmentally and socially responsible products.

Employees

Banco Espírito Santo Group has a policy of upgrading its human resources, an asset in which it permanently invests. The commitment to its employees materialises in the development of their skills, their training, and the fulfilment of their expectations in alignment with the company's goals.

The Human Resources Committee is responsible for setting policies and practices for the Group's various locations and companies. One of the committee's challenges is to adapt to local cultures and communities the very policies and practices that safeguard the Bank's general principles and the pillars for human capital development, thereby promoting a healthy, balanced, competitive and results-driven working environment.

At December 31st, 2012, BES Group had 9,944 employees spread over four continents. Of these, 7,495 worked in Portugal and 2,449 abroad.

Employees Geografical Distribution

Country	Dec. 11	Dec.12
Portugal	7,557	7,495
Rest of Europe		
Spain	567	576
United Kingdom	210	189
Other	79	93
Africa	1,047	1,118
South America	197	269
North America	178	174
Asia	28	30
TOTAL	**9,863**	**9,944**

Human Capital

Gender	Men 50%			Women 50%		
Age group	<30	13%	30-50	69%	>50	18%
Staff rotation rate	8,5%					
Average hours of Training	24					
Absenteeism rate	2.6%*					

* The absenteeism rate dose not consider absences for maternity or paternity.

In light of the current socioeconomic context and the expected outlook for economic and social policies in Portugal, the Banco Espírito Santo Group has reinforced its investment in the support and benefits provided to its employees, namely through new measures to help conciliate work and family, assistance to pensioners, and health and education support, and will maintain this investment in 2013. In addition the Bank will implement an action plan to address the deficiencies detected by a survey on the psychosocial risks faced by its employees.

Stakeholder Dialogue Channels

Employees
- BES Group Annual Congress
- Human Resources Portal
- Intranet / BESweb
- Web magazine
- Itinerant Executive Committees
- Workers Committee
- Trade Union Secretariat
- Information and Consultation Procedure
- Training
- Performance Assessment
- Internal Customer Satisfaction Surveys
- Motivation Surveys
- Annual Employee Survey on the Group's Sustainability Practices
- Outdoor Actions
- E-mail box of BES' Chairman of the Executive Committee

Investors/ Shareholders
- Conference Calls
- Strategy Day
- General Meeting of Shareholders
- Valor BES newsletter
- Shareholders and Investors' dedicated mailbox
- Investor Relations Website

Customers
- Itinerant Executive Committees
- Branch network, Corporate Centres, Regional Divisions, Private Banking Centres, Service Quality Department
- Internet banking
- Complaint management system
- Contact Centre
- Communication and Advertising Campaigns
- Customer Satisfaction Surveys
- Social networks
- Annual Customer Survey on the Group's Sustainability Practices

Regulatory Authorities
- Obligatory reporting and voluntary communications
- Regular meetings
- Press releases

Media
- Regular meetings with the Executive Committee
- Press Conferences
- BES Press Trip
- Reply to daily information requests

Suppliers
- Regular meetings and contacts
- Suppliers Portal
- Annual Supplier Survey on Sustainability Practices

NGOs
- Annual meeting with environmental NGOs
- Reply to daily information requests
- Protocols and partnerships

2012 was also marked by the implementation of the policies on Human and Labour Rights and Non Discrimination and Equal Career Opportunities. Regarding the latter, the Bank was invited by the Commission for Equality in Labour and Employment (CITE) to make part of a group of companies and cooperatives from the public and private sectors with the objective of creating a forum of companies that, in face of the challenges of competitiveness incorporate into their management strategies the principles of equality between women and men. The purpose of the agreement is to create a clear commitment to promoting equality and ending all discrimination practices in the workplace. Through its Human Resources Division, which is responsible for implementing and monitoring the bank's Non Discrimination and Equal Career Opportunities policy, BES will participate in the forum to which it will present the good practices already followed and those it intends to implement.

With regard to career management, the Bank continued to promote the qualification of its employees and the internal mobility permitted by the objectives and incentives system and the assessment of performance measured by individual, team and overall results.

As a result of its human capital management practices and policies, in 2012 the Bank was named the "Most Socially Responsible Company" by Human Resources Portugal, based on a broad-based public poll. BES's annual employee satisfaction survey found that 98.1% of the respondents would recommend the bank, a striking result that translates the employees' strong commitment.

Training and Career Management

Attracting and retaining the best professionals, a training plan, internal mobility and evaluating and rewarding merit – these are the key pillars for the development and career advancement of BES Group employees.
In 2012 the Group provided an average of 24 hours of training to each employee. The training plan addressed the specific behavioural and technical requirements of the various businesses and functions within the Group.

School Branch

In 2012 the School Branch focused on reinforcing the skills of the employees of the retail commercial network, namely in the BES 360 and Small Businesses segments, and in traineeships to the central departments employees.

The traineeships programme created by the Bank for those working in these departments aims to make them familiar with the manner in which the branches interact with the clients, and to show how the input of the various central departments is important for the development of the commercial activity and the improvement of service quality.

In 2012 the School Branch training programme was attended by 242 employees from the retail commercial network and 235 from the central departments.

BES Attitude Plan

The main purpose of the BES Attitude Plan is to support and further BES Group's "Customer Focus" strategic objective through an integrated behavioural training project. In 2013 the BES Attitude Plan will use the School Branches as one of the privileged means to reinforce and enhance its teachings.

From September 2011 to October 2012 more than 3,000 employees from the retail commercial network received in-class training.

BES University

Now in its fourth year, the BES University is a reference in the development of the Group employees' skills, both in terms of structuring training (bachelor degrees, master's degrees, PHDs, post-graduations and MBAs) and in terms of specific training to address identified needs.

The Executive Master's programme, jointly developed with the Portuguese Catholic University, had its 3rd edition in 2012 and continues to be one of the initiatives most sought after by the employees and most valued by the Bank. 2012 was marked by the large number of seminars and workshops organised. These covered a wide range of themes, but were especially focused on behavioural issues, such as leadership and employee performance, and also on innovation and the new challenges faced by banks.

In 2013 the BES University will design specific training modules for Coordinating Managers, thus involving the Bank's top-line management in the high quality training provided.

Training in Human Rights

After formally establishing its Human and Labour Rights policy in 2011, in 2012 BES Group provided training on this topic to the staff of its companies in the following countries: Angola, Brazil, Spain, Portugal, India, United Kingdom, Ireland, United States, South Africa, Luxembourg, Venezuela, Switzerland, Poland and Canada.

The Group provided e-learning training translated into the official languages of each country and company not only on Human and Labour Rights but also on the BES Group Code of Conduct, stressing the practices and customs to be observed in terms of human and labour rights.

This training aimed to:

- reinforce knowledge about the fundamental rights enunciated in the United Nations Universal Declaration of Human Rights and boost identification with the commitments assumed by BES Group in its Non Discrimination and Equal Career Opportunities policy;

- foster adherence to the ethical and deontological guiding principles which the companies and employees of BES Group must follow and which are enshrined in the Group's Code of Conduct;

- stress the importance of compliance with the rules on terrorism financing and corruption prevention, with a focus on money laundering prevention and the UK Bribery Act.

Approximately 83.7% of BES Group's employees took up this challenge and completed the training made available in 2012.

This training scheme qualifies the Group's employees, teams, divisions and companies to comply with human and labour rights rules across all areas of their activity. The high attendance rate and large scope of the training also means that any deviations or breaches of the policy approved in 2011 can be denounced through the anonymous reporting channels made available by the Bank.

Satisfaction and Motivation

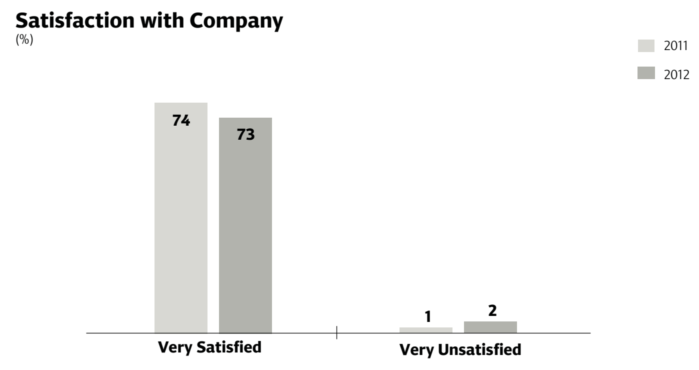
Every year BES conducts a satisfaction survey to its employees which permits to assess their level of motivation concerning the projects and tasks in which they are involved, as well as their expectations and needs.

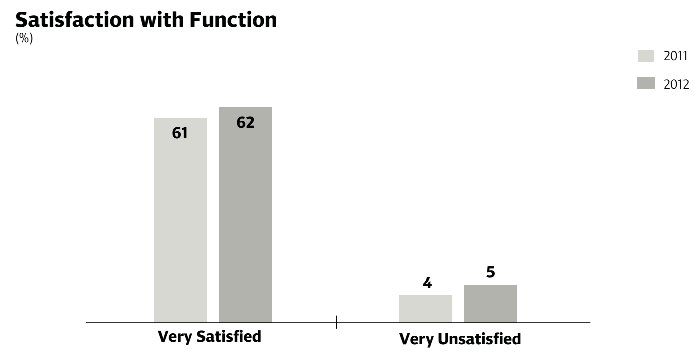
Overall, 73% of the employees responded to the questionnaire, the largest number in the last three years. In terms of results, there was a small decrease in satisfaction with the company, while 62% of the respondents replied they were "very satisfied" with their function (a 1 pp increase from 61% in 2011).

Performance assessment at BES Group

BES Group's employees are assessed according to objectives set for their professional category, function and team.

This assessment permits to identify potential talent, to determine promotions by merit or change of function, and to establish the amount of variable remunerations and bonuses. The performance assessment system continues to play a key role in the culture of merit built within the organisation, while ensuring the employees' commitment to their function and to the Bank. In 2012 85.07%(*) of the employees were assessed. The 2012 annual assessment resulted in 493 promotions by merit, 52 by change of function and 121 by seniority.





Employee Benefits

In 2012 maintained its policy concerning the attribution of allowances and assistance under its Internal Social Responsibility Programme. As in the previous year, these benefits were provided in the following areas:

- **Education support**, child benefits, school grants, scholarships and support to children and youths with special needs;
- **Senior support**, subsidies to help with expenses with senior residences, day-centres, home support and drugs or other vital provisions;
- **Health support**, participation in the payment of health expenses;
- **Help in conciliating work and family**, participation in the payment of transport expenses (travel cards) and to unemployed spouses or children through the Job Search programme.

During the year the Bank granted 288 child benefits, 137 scholarships, 153 school grants, co-paid health expenses of 49 employees and provided 41 allowances to retired employees.

(*) Data for March 4th, 2013, prior to conclusion of the performance assessment process of the Banco Espírito Santo employees.

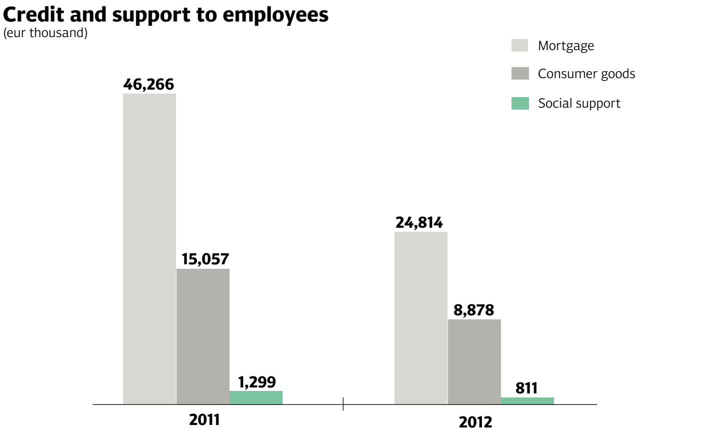
In 2012 the Bank organised the first edition of its "Used School Books Bank", a programme involving the voluntary exchange of used school books from the 1st to the 12th year. This resulted in the delivery of 2,750 books, of which 378 were given to 80 families of BES and Group companies' employees.

Also in 2012 the Bank allowed the extension of the maturity periods of the subsidised loans granted to its employees with the aim of lowering the burden of credit in their family budgets.

Taking into account the current social and economic context in Portugal, the Bank maintains its commitment not to reduce the amount of support to be granted in 2013, while increasing the amount of child support, school grants and scholarships.

In addition, the Bank will also create new support schemes, namely subsidies to children and youths with special learning needs, and the Job Search programme, which aims to help the unemployed spouses of employees in their search for a job.

Finally, in 2013 the Bank will also share in the travel card expenses of its employees.



Health and safety in the workplace

BES Group has its own healthcare services for its employees, which are provided at the Lisbon, Porto, and Oeiras (Tagus Park) clinical centres.

In 2012 these clinical centres performed 4,173 occupational medical exams (BES and BES Group companies), 24,065 medical acts (consultations, prescriptions and minor surgery) and 5,664 curative medicine nursing acts. These services also involved 557 psychiatry appointments of 121 employees, 100 psychology appointments and 13 quit smoking appointments. As part of its Risk Prevention and Control programmes, the Bank also offers cardiovascular, oncologic and sight screening consultations, as well as an 'executive check-up'.

BES Group regularly performs risk assessments of the workplaces, through safety audits, ergonomic assessments, and the identification of hazards and risks arising from the activities (IAHR).

In 2012 the Group performed 249 safety audits, 29 ergonomic assessments, 38 IAHRs and one assessment of temperature conditions.

In compliance of legal obligations, in 2012 Banco Espírito Santo provided training on health and safety in the work place, namely sessions on 'first aid and fire fighting' and 'safety also depends on you', either in class or through distance learning. During the year 471 employees attended these sessions.

To complement the assessment of the employees' physical and psychological conditions, in 2012 the Faculty of Psychology of the University of Lisbon conducted a study to assess psychosocial risks among the staff.

The information collected by the surveys will permit to draw up an action plan to address the main problems identified with a view to increasing the employees' satisfaction with the Bank and reduce absenteeism.

Conduct

In order to make the Code of Conduct more accessible and clarify some important issues, the Bank published a document called "Code of Conduct – Some Issues". The Code of Conduct is distributed to all the staff, with information and replies to frequent questions about the code also being available through the Bank's intranet.

The Compliance Department is responsible for monitoring code-related issues and for providing explanations to the employees about the applicable rules.

In 2012 the Compliance Department received 368 communications and requests for explanation about the Code of Conduct rules.

Money Laundering Prevention

Preventing money laundering and the financing of terrorism continues to be a relevant issue for the Bank, with 18 training sessions on these themes being conducted in 2012 for both management staff and the other functions. These sessions were attended by 580 employees and involved a total of 1,500 hours of training (roughly three times more than in 2011).

Thanks to the extra training provided all employees are now better prepared to identify potential cases of money laundering. In 2012 a total of 9,761 contracts were analysed, originating 417 notifications to the authorities, and 4,942 accounts were investigated, as a result of which 17 were not opened.

Human Rights Policy

After formally establishing in 2011 the Human and Labour Rights policy for all the Group companies, in 2012 the Bank approved a number of measures to accelerate its implementation:

• Assignment of Human and Labour Rights portfolio to a specific Director;

• Publication of the Human Rights policy on the websites of its subsidiaries, in the languages of the countries in question;

• Training on Human Rights issues provided to the employees of all Group companies.

In 2012 BES Group also started an assessment of this policy's results: in every subsidiary human resources managers looked into the main concerns in this area, and appraised misconducts or violations of the Human and Labour Rights policy. This assessment also involves regular visits and audits made by qualified managers to the Group's companies all over the world. Using as reference a document prepared on the basis of the United Nation's Global Compact, the Universal Declaration of Human Rights, the OECD guidelines for multinational companies and the main conventions of the International Labour Organization, these visits permit to uncover any barriers met by the employees in their daily work.

In 2012 there were no registered instances of breach of the policy or the policy procedures.

Clients

Service Quality – A Culture of Commitment to the Clients

To surpass the clients' expectations with products and services that meet their real needs, to provide a fast and efficient reply to all requests, and to deepen the involvement between employees and clients in all interactions, these are the daily concerns of BES's entire organisation.

Accordingly, the Bank monitors quality results in great detail, using among others the following instruments:

- Satisfaction surveys to clients and employees;

- Mystery client programmes to assess key moments in the client's experience with the Bank;

- Measurement of the time of response to the various requests.

This monitoring permits the ongoing identification of aspects that need to be fine-tuned and the implementation of actions for improvement, always with the objective of increasing the clients' satisfaction with the quality of the service provided.

Service Quality Diagnosis

89,000	M	Satisfaction Surveys on Attendance
	O	Satisfaction Studies Product/ Segment
	Q	Satisfaction Surveys External sources
	M	Phone Switchboard Monitoring of Unanswered calls
		Resolution of Complaints (1,000 Active Clients)
135	M	Internal Client Survey Assesses Quality of Central Services
	M	Continues Improvement Identification of Constraints/ proposals for improvement
	O	Services Levels Monitoring BES's main process and sub-processes
4,200	A	Specific Studies Critical Process, moments of truth comparison with competitions, etc.
39,800	A	Employee Satisfaction Survey Assesses the Employees Satisfaction
5,800	M	Telephone Mystery Client Assesses Quality of Phone Service in the Sales Network
3,700	M	Mystery Client Assesses Quality of Client Service in the Sales Network

A- Annual **Q**- Quarterly **M**- Monthly **D**- Daily **O**- Occasionally.

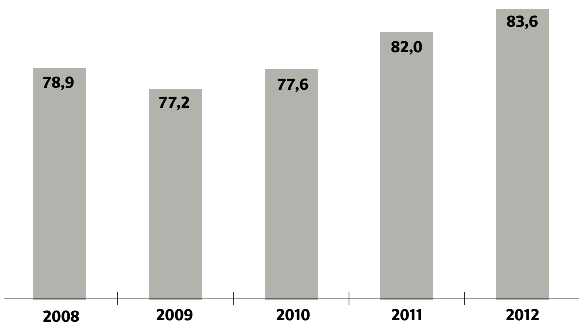
The management of complaints is also critical in Banco Espírito Santo's strategy, being viewed by all employees as an opportunity to restore a relationship of confidence with the clients and to trigger actions for improvement.

In 2012 the rate of complaints per 1,000 active clients was 0.9. According to the Bank of Portugal's "Behavioural supervision activities – interim overview" report, BES ranks among the financial institutions with the lowest level of complaints submitted by clients to the Bank of Portugal.

The results of the integrated diagnostic action conducted by the Bank are regularly communicated to all employees not only with the objective of obtaining their full involvement and internalisation of a culture of service to the client, but also to recognise good practices or improve those found less good. The best performances are therefore rewarded, both through the annual delivery of Quality and Excellence prizes and through the objectives and incentives system, in which service quality has a considerable weight.

This diagnosis model, combined with the commitment of all employees to do ever better, allowed the Bank to post the highest level of satisfaction in recent years, which reached 83.6% for individual clients.

Client Satisfaction Evolution
(%)



In the Middle market segment the percentage of "very satisfied" clients was 77.9%, corresponding to an increase of 0.5 p.p compared to the previous year, and in the Large Corporates segment it remained flat at 72.9%.

The renewal of BESnet's service quality certification according to quality standard ISO 9001 allows the Bank to continuously raise the quality and demand levels of a preferred client channel that is available around the clock.

Credit Recovery

The policy of Espírito Santo Recuperação de Crédito, ACE (ESRC) is to seek proximity to the clients and maintain regular contact with this group of stakeholders. An early diagnosis of a risk of default and the adoption of preventive measures permits to support the clients and prevent them from ever reaching a situation of actual default.

In 2012, 445 families were helped to find more appropriate solutions for meeting their obligations, of which 110 solved their problems through changes in their mortgages and 335 through changes in their consumer loans.

Through the Portuguese Association for Consumer Protection ("DECO") ESRC received 480 requests for assistance, of which approximately 30% led to the restructuring and/ or renegotiation of debts.

At the end of 2011 BES implemented an innovative programme permitting the automatic flagging of clients with warning signals that they are having difficulties to pay their monthly obligations, which improved the scope and monitoring of these situations.

Pursuing this work in 2012, in May BES reinforced this client warning process which now proactively identifies individual clients in risk of default even if still meeting their credit obligations. Over the year approximately 30,000 clients were contacted to find the best solution for each one.

These practices and works permitted to act ahead of Decree-Law 227, published in October, which made it compulsory for all credit institutions to create an action plan for the risk of default.

Suppliers

Since 2044 the Group has a unit dedicated to the relationship with the suppliers, which centralises and systemises the products and services purchasing requirements of the Bank's departments and other companies of the Group. This unit is also responsible for the process of selection, consultation, commercial assessment and negotiation with suppliers, for the e-procurement model (supported by the BUYsite application) and for strategic sourcing at Group-wide level.

The Group's Suppliers Portal (http://fornecedores.bes.pt), created in 2007, is the privileged means for interaction between suppliers and the Group companies, playing an important role as facilitator in the introduction and pre-qualification of actual and potential suppliers, as well as in the divulgation of the good purchasing practices and principles of conduct that govern the relation of the Group companies with their suppliers.

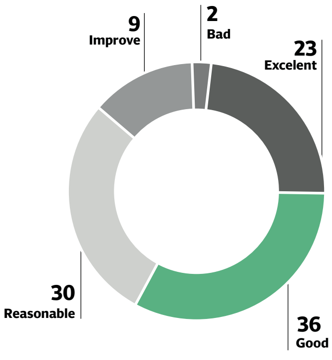
The suppliers' certification process (pre-qualification) involves a number of steps, namely the collection of relevant information about their capacities, an invitation for them to adhere to BES Group's Principles of Conduct, which were drawn up based on the United Nations' Global Compact Principles, and their subsequent subscription to these principles, and also the calculation of their social and environmental score, based on criteria such as labour, ethical, and health and safety conditions in the workplace.

In 2012 the Group decided to reinforce the obligatory nature of the registration and pre-qualification of suppliers in the Portal, covering in this stage recurrent suppliers with turnover above EUR 10,000 per year and those invited to take part in new consultation processes.

The Bank has set as a target to obtain the certification of all these suppliers until the end of the first quarter of 2013.

At the end of 2012 1,465 suppliers were registered in the Portal, of which 480 had completed the pre-qualification process, which permitted to obtain their social and environmental scoring. This scoring in now included within the criteria for contracting suppliers, and preference is given to those that share the Group's principles and good practices.

Social and Environmental Scoring
(%)



A significant share of the pre-qualified suppliers show a positive score: 23% scored "excellent", 36% "good", and only 2% scored "poor".

In order to reinforce adherence to good environmental and social practices, the Group has revised the Principles of Conduct for Suppliers, whose first version dates from 2004, and made it obligatory for suppliers to sign a "Social and Environmental Responsibility Agreement" for all new service provision contracts.

In this agreement suppliers not only state their commitment to subscribe to and follow Banco Espírito Santo Group's Principles of Conduct for Suppliers, but also to take corrective measures in case any deviation to these Principles is detected.

BES Group continues to privilege local suppliers, which not only reveals a responsible attitude but is also required due to the operational flow of each of its business units and the need to develop a relationship of proximity and partnership with the suppliers.

In line with its commitments and good practices in the relationship with the suppliers, and as was already the case in the previous years, in 2013 the Bank once again reduced the average payment period to suppliers, which decreased to 29 days (2 days less than the average in 2011).

Bearing in mind the current social and economic context, the Group reaffirms its commitment not only to continue to meet all agreed payment terms, but also to trend towards the reduction of average payment periods, thus maintaining a responsible attitude while also contributing to the suppliers' financial sustainability. It also undertakes to reinforce its purchase management policies and practices in 2013, in line with best practices. BES is already working on another two structuring projects to be implemented in 2013, namely a process to improve the efficiency and automated registration and processing of supplier invoices, and a process to allow suppliers online access to information about payments in the Suppliers Portal.

Environmental Footprint

Reducing the bank's environmental footprint remains one of the key objectives of BES's sustainability programme. This aim was corroborated by BES's main stakeholders in a survey of expectations concerning measures approved by the Executive Committee and the Sustainability Committee to reduce consumptions with an impact on the environment.

The Bank has devoted increasing financial and human resources to reduce energy consumption and CO2 emissions, and consequently its energy bill.

One year prior to the deadline set to achieve these reduction objectives, three of the four targets have already been attained. Energy consumption per employee was reduced by 21.7% in the 2008-2012 period, surpassing the target by 15 p.p., while the same was achieved in terms of CO_2 emissions, which dropped by 19%, and water consumption, where the target was surpassed by 1.1 p.p..

Paper consumption is the only one with an environment impact where no significant reduction has been achieved.

Environmental footprint: objectives and results

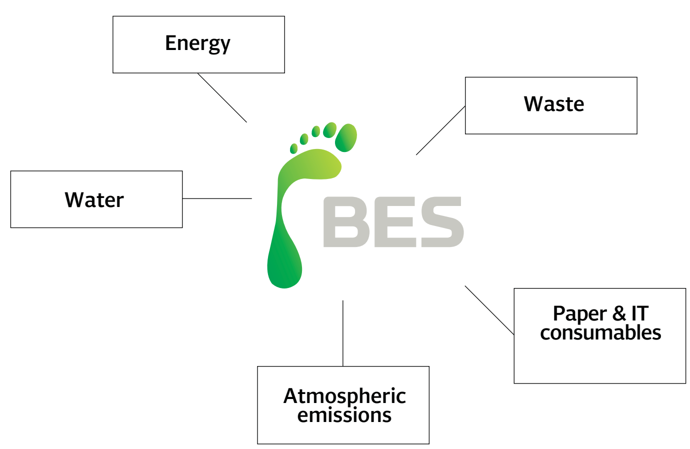
2008 – 2013 Reduction Objectives [1]	-11%	Energy CO_2 Emissions [2] Água
	-12%	Paper
Evolution 2008 - 2012	-21,7%	Energy
	-19%	CO_2 Emissions [2]
	2,1%	Paper
	-12,1%	Water

[1] Scope: BES Portugal.
[2] Emissions from the use of electricity.

In 2013 the Bank will assess its consumptions with an environmental impact and set new objectives. These will take into account the current scope and level of sophistication of the systems and processes in place in the various Group companies and countries of operation to manage, monitor and report such consumptions.

In addition, and in order to set ambitious but reachable targets, the Bank will also take into consideration the relevance of each of the consumptions in terms of operating costs and the impact on the environment.

Main Consumptions with an Environmental Impact



Energy and emissions

Energy is crucial for the Bank's efficient and safe management of operations, however its consumption may be reduced by improving ecoefficiency levels.

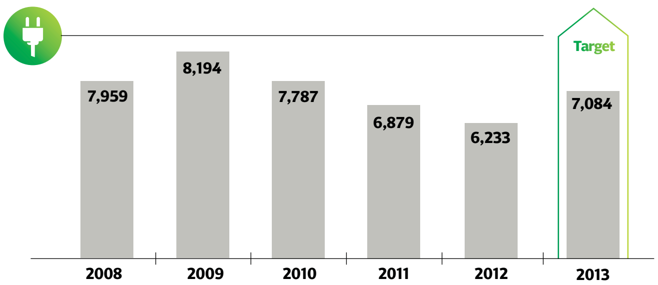
In 2011 and 2012 the Bank invested approximately EUR 1.5 million in the implementation of its "Internal Energy Efficiency Programme". Using energy and environmental monitoring equipment and an energy management software application, this pioneering projects allows BES to monitor in real time its energy consumption and the impact of the measures taken to reduce waste and inefficient consumption.

This is complemented by monitoring of the network by a 'virtual energy manager', reporting, monitoring of warning signals, and monthly training and awareness raising sessions in the branches.

As a result of this effort the Bank now has an effective and reliant monitoring system of energy consumption in all the BES operations in Portugal, thus having included within the scope of management and reporting Banco Espírito Santo dos Açores, BESI Portugal and ESAF.

In 2012 the Bank already felt the benefits of having implemented this programme, with electricity consumption per employee dropping by 21.7% relative to 2008. In absolute terms, energy consumption dropped by 9% year-on-year in 2012.

Electricity consumption per employee
(kWh/employee)

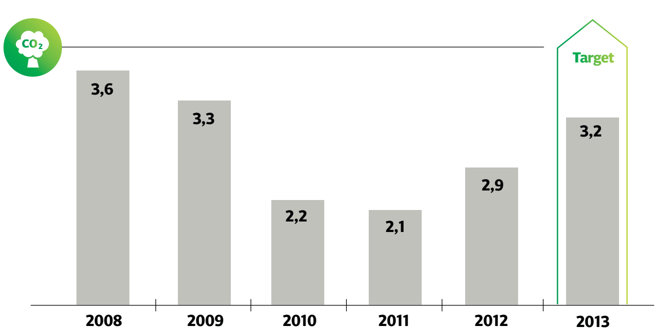


Does not include the data center's electricity consumption.

The communication and awareness raising efforts addressed to all the employees through the various communication channels also contributed to the results achieved. The communication effort was supported by the Manual of Good Energy Efficiency practices, distributed to all the staff, which has the following objectives:

- Heighten the employees' awareness to the energy efficiency, environmental and sustainability issues;
- Engage all the employees in the process of improvement of energy efficiency levels in the work place;
- Foster the adoption of recommended behaviours in the workplace.

CO_2 Emissions
(ton/employee)



Emissions arising from the use of electricity declined by approximately 21.7% compared to 2008.

Every year the Bank recruits external specialists to make an inventory of the direct and indirect emissions arising from its activity (scope 1, 2 and 3).

The Bank has a policy on business trips formally integrated within its internal regulations which aims to reduce emissions resulting from the consumption of fossil fuels and employee travels. According to this policy videoconferencing should always be considered as the first alternative to a business trip, providing this is not prejudicial to the Bank's activity.

For 2013 the Bank has assumed the commitment of promoting carpooling within its staff, for which it will:

- Create a database available to all employees through the intranet to help them organise their travel itineraries;
- Organise carpooling days to encourage this practice among the employees.

Carpooling permits to reduce scope 3 emissions, while also allowing the employees to save on travel expenses and boosting team spirit.

In addition, the attribution of travel cards to the employees has been approved. While having a social nature, this measure will also allow for a reduction in both fuel fossil consumptions and in emissions resulting from staff travel.

Carbon Disclosure Project

According to the Carbon Disclosure Project Iberia Report for 2012 (CDP), BES reached a classification of 94 percent, 12 percentage points up on 2011, an outstanding position among other companies in the financial sector, the average for which was 52 percent, making it the only financial institution in the Iberian sample to be included in the Carbon Disclosure Leadership Index (CDLI), an index that only contemplates 12 companies.

In the 2012 report BES raised its rating in the carbon performance scale from B to A-. The Carbon Performance ranking assesses the effectiveness of the organisation in terms of actions to mitigate emissions of greenhouse gases, and is expressed in six performance classes.

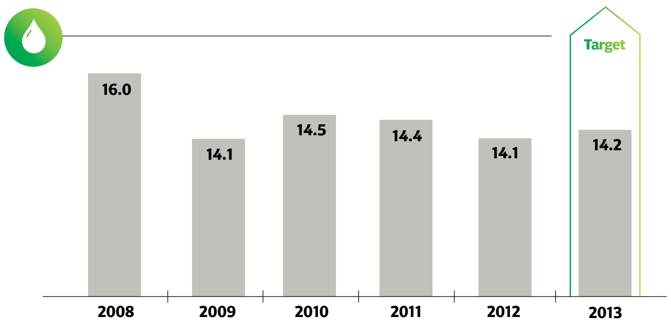
The Carbon Disclosure Project is an independent, not-for-profit organisation holding the largest public database of corporate climate change information in the world. Every year the CDP, on behalf of institutional investors, sends a questionnaire to leading listed organisations to elicit them to disclose information about their policies on climate change.

Water

In 2012 the Bank not only reached but also surpassed the water consumption target set for 2013. Water consumption decreased by 12.1% since 2008, to 14.1 m^3 per employee. In absolute terms water consumption decreased by 5.3% year-on-year.

In 2012 the Bank started to monitor water consumption by Banco Espírito Santo Açores, BESI Portugal and ESAF, after carrying out the environmental awareness raising and communication actions and that are a common practise within BES Group.

Water Consumption Per Employee
(m³/ employee)



* Note: Does not include consumptions from the Marquês de Pombal building, since these include consumptions from visitors that bias the analysis of consumption per employee that is relevant for assessing the achievement of targets

Paper and waste

Despite the dematerialisation effort undertaken in the last few years, paper remains the material most used by the Bank in its financial activity.

Paper actually permits to boost confidence levels in the Bank's relationship with its clients as well as in the regular reporting to the regulators.

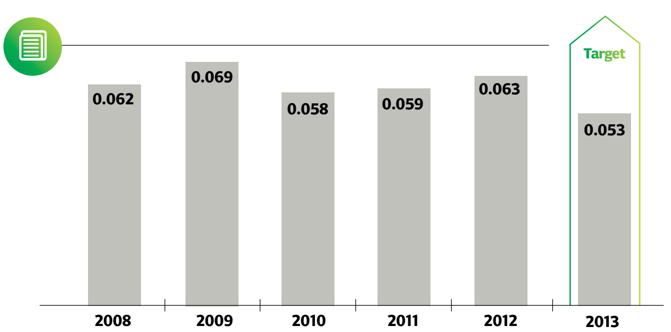
The Bank has invested in the dematerialisation of communications with the clients as an ongoing process that arises from the modernisation of the operations and leads to increased flexibility of communication. To this end, it develops initiatives aimed at proactively engaging the clients in the dematerialisation effort.

In 2012 the clients responded quite well to this effort, with the number of digital account statements and credit card statements increasing by 247,800 and 42,000, respectively, which corresponds to 36% and 29.3% of the overall number of digital statements sent by the Bank since the start of the dematerialisation process.

As to the number of digital saving deposit certificates sent through BESnet, these increased by 21,600, representing 45% of the total.

To encourage the employees' involvement in the reduction of paper consumption, the Bank has set targets to the various departments and central services. The results are compiled in an internal ranking that is regularly monitored and reported to the various departments.

White Paper Consumption
(ton/ employee)

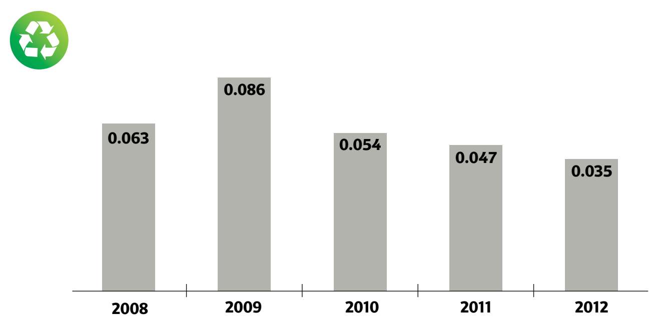


Despite the efforts undertaken, the Bank's paper consumption increased by 2.1% in relative terms since 2008, to 0.063 tonnes per employee, which in part is explained by a 4% reduction in the number of employees considered for the scope of this indicator. This indicator therefore does not reflect the actual reduction of paper consumption by 1.5% in absolute terms achieved since that year. Moreover, the increase in credit default levels and therefore in the legal and administrative paperwork obligatorily required by credit recovery processes also naturally contributed to the increase in paper consumption.

The main categories of waste produced by BES Group are paper, cardboard and other consumables such as ink and toner cartridges. All these waste items are sent for recycling by licensed companies.

Over the last five years the Bank reduced waste production by employee by 45%, a result that bears out its effort to curb consumptions and consequent production of waste.

White paper consumption for internal use
(ton/employee)



The Other BES

The Other BES aims to communicate an integrated vision of the various dimensions of BES's corporate social responsibility activities.

In 2012, BES Group invested approximately EUR 4.4 million in the five strategic areas defined for engagement and investment in society, namely Science and Innovation, Financial Literacy & Education, Biodiversity & Climate Change, Culture, and Social Support.

According to the London Benchmarking Group (LBG) method for measuring investment in the community, in 2012 the Group allocated approximately 31% of its contributions to solidarity, 60% to direct investment in the community and 4% to commercial actions. Under the patronage scheme alone, the Group provided EUR 4.1 million in financial support.

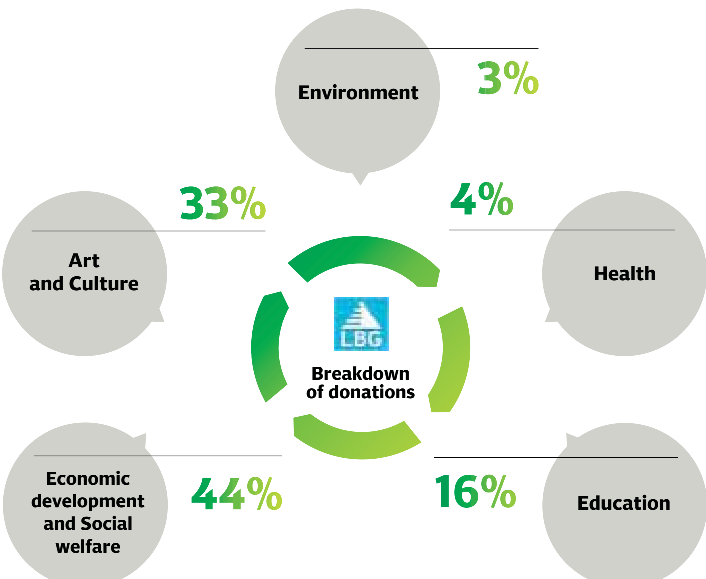
As a result of this continuous investment, BES earned the prize for "Best company in social responsibility", being selected by public voting after being shortlisted by a Panel of Advisors.

The Bank assumes the commitment to continue to invest in society in 2013, in line with the focus placed by the Group's architecture on investment in social responsibility.

Social solidarity architecture

Culture Patronage	Science and Innovation	Education and Financial Literacy	Solidarity	Biodiversity and Climate Change

* Detailed information on each initiatives available in www.bes.pt



Culture – to support the activity of institutions that promote the country's cultural progress and access to the Portuguese cultural heritage

Photography is the cultural pillar of BES's patronage policy. In 2012 the Bank organised the eighth edition of **BES Photo** and **BES Revelação** and the sixth edition of the **REFLEX - Cais|BES Photography Contest**.

The **BES Arte & Finança** multipurpose centre, inaugurated in 2009, hosts the **BESArt** photo collection which comprises some 900 works by 300 artists from all over the world. In 2012 BES Arte & Finança put on show 114 events, fulfilling its mission of involving stakeholders and the community in the sharing of cultural expressions at the core of Lisbon's financial centre.

In 2012, BES continued to provide support to museums and foundations dedicated to promoting Portuguese culture and heritage, namely the Ricardo Espírito Santo Silva Foundation, the Oriente Museum, the Aljubarrota Battle Foundation, the Elvas Contemporary Art Museum and the Photography Department of the Ar.Co arts and visual communication centre.

Science & Innovation - to identify and promote innovative solutions, encouraging the rise of new businesses and new entrepreneurs

In 2012, BES organised the 8th edition of the National Innovation Awards. A total of 110 applications were received in the categories of Clean Tech & Industrial Processes, Information Technologies and Services, Health Technologies & Biotechnology, and Natural Resources & Food, and four prizes were awarded to innovative projects making a difference in the international scenario.

The grand prize was awarded in the Information Technology & Services category, to a project which permits a 10-fold increase in the number of users with real time access to video or data content from a single Wi-Fi access point. The BES National Innovation Awards have already awarded prizes in the amount of EUR 2,670 million, and received applications from a total of 1,336 projects.

The **Science at School Prize**, a joint initiative of BES and the Ilídio Pinho Foundation, aims to contribute to the construction of a culture focused on innovation and scientific knowledge. BES has participated in this initiative for eight consecutive years. The edition organized for the 2011/2012 school year analysed a total of 670 applications and distinguished 24 Portuguese schools that submitted the more innovative projects on the theme of "Biology and Natural Resources".

With the aim of spreading innovation, in 2012 BES maintained the "BES Innovation" monthly supplement published under a partnership with the Diário Económico newspaper, as well as the "New World" daily programme under a partnership with the TSF radio station. These two initiatives allow good innovation practices to reach a wider public.

In 2012 the Bank sponsored the "Fulfil your Dream BES Contest", under a partnership with Acredita Portugal, an association dedicated to promoting a culture of entrepreneurship in Portugal. The purpose of this contest is to allow any person to put into practice an enterprising project. The contest features two categories of prizes: Start-Now, which supports commercial projects, and Social Entrepreneurship, which supports not-for profit ventures. Approximately 4.000 applications were submitted to the contest.

Financial Literacy & Education - to be an active partner of society, supporting cultural, social and educational initiatives

Financial literacy is today one of the most pressing social issues in the Portuguese society. Knowing how to use financial products to one's advantage, correctly managing one's family budget, and being capable of saving are skills that all citizens should learn, particularly in the current social and economic context. Being aware of this, BES has reinforced its effort to spread financial literacy.

Hence the Bank continued to promote its 'b-a-bes' microsite, which in 2012 reported approximately 39,500 visits, corresponding to ca. 97,000 views.

BES also continued to support the Portuguese Mathematics Olympiads, an initiative of the Portuguese Mathematics Society in which some 58,000 students from the 1st, 2nd and 3rd cycles of basic education participated in 2012.

'At the School Bench', a joint initiative of Banco Espírito Santo and the **Portuguese Mathematics Society** which has been held for the last six years, has permitted to impart financial concepts to children in the third and fourth grades of the 1st cycle. In 2012, 2,664 students from 56 schools participated in the initiative, in a total of 125 sessions. Since it first began, 'At the School Bench' has already reached 14,000 students from all over the country.

Biodiversity & Climate Change - to contribute to the protection of biodiversity and address climate change through financial activity and engagement with society

Biodiversity is one of the pillars that differentiate BES Group's approach regarding its engagement and investment in society.

The Business & Biodiversity Declaration of Commitment was once again reaffirmed in 2012 through the investment made under protocols and partnerships with renowned organisations that implement projects for biodiversity protection, education and communication, namely the Herdade da Poupa, the Ecology Educational Centre of Paul da Tornada, the Faia Brava Reserve, and the League for Nature Protection.

BES thus remains a patron of CIBIO, Porto University's Research Centre for Biodiversity and Genetic Resources, which plays an important role in Portugal in advancing scientific knowledge in the fields of biodiversity and evolutionary biology. As is previous years, in 2012 CIBIO prepared an analysis of BES Group's impacts on biodiversity, with guidelines on how to minimise these impacts. In connection to the Rio + 20 Conference, CIBIO provided information about the Bank's investment on the mitigation of and adaptation to the effects of climate change.

Under a partnership with the Expresso newspaper, BES launched the 6th edition of the Sustainable Future programme, whose aim is to place Sustainability on the national agenda. This 6th edition was marked by a conference on the theme "Can the company of today create the economy of tomorrow?", which had as main speaker Pavan Sukhdev, an Indian economist and the coordinator of "The Economics of Business and Biodiversity" project.

Solidarity – to help organisations that provide social support in areas as diverse as healthcare, the fight to hunger, poverty, and social exclusion

In 2012 BES not only maintained its already traditional partnerships with various social solidarity institutions, namely Acreditar, an association of parents and friends of children with cancer, **Novo Futuro**, an association that shelters and supports children and young people deprived of a family environment, the **Salvador Association**, which promotes the interests and rights of people with reduced mobility, and the **Donated Goods Bank**, a project that distributes non-food products donated by companies and various entities to private social solidarity institutions and people in need, but also entered a new partnership, with the Portuguese branch of **Caritas**.

Under the 3-year protocol entered with Caritas in 2012, the Bank will contribute to the Caritas Social Solidarity Fund and thus help this charity respond to the increasing number of requests for assistance received through its local offices.
In addition, BES also continued to develop the **BES Voluntary Work Programme**, which seeks to foster an attitude of responsible citizenship and solidarity among its staff, and their participation in the Bank's social solidarity initiatives. In 2012 there were 11 voluntary work actions involving 205 employees who devoted a total of 1,850 hours to help more than 1,000 people.

In 2012 BES once again innovated, creating the **BES Crowdfunding** and the **Microdonate** service. BES was the first bank in Portugal to join the internet crowdfunding movement.

BES Crowdfunding is hosted by the reference collective finance platform in Portugal, PPL Crowdfunding Portugal. In the first months since it was launched 6 funding projects were launched, with two of them reaching 100% funding.

The Microdonate service is available through BESnet and allows any BES client to round up payments in favour of social solidarity institutions or projects. The purpose of this new BES initiative is to make it easier for the clients to provide social support, thus generalising the aid given to charities known for their valuable work within the community, while also fostering the fundraising initiatives launched by these institutions.

Climate Change

Climate change is one of the major challenges faced by today's society. In 2012 the Bank pursued the work developed in this area, namely reinforcing its cooperation with the Évora University concerning the BES Renewable Energies chair, and associating itself to the Portuguese Institute of Solar Energy, which was created by the Évora University to develop and promote the solar energy sector.

In 2012 the **ES Research** department published a survey entitled "Climate Change and the Financial Sector", which was presented within the scope of the Sustainable Future programme. The survey highlights the role of the financial sector in the global combat against climate change, analysing potential risks to the Iberian Peninsula as well as identifying the sectors suffering the greatest impacts from the effects of climate change. The survey also characterises in detail the new policy instruments for post-2012, considering the problem from the standpoint of the financial sector.

3. Economic Environment

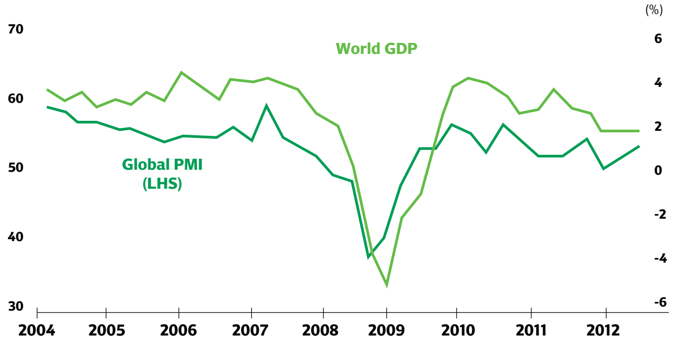
2012 was marked by the deceleration of economic activity at a global level and the contraction of GDP in the Euro Area. This was mainly the result of restrictive fiscal policies and the deleveraging of the private sector in the main advanced economies; lower demand and fears of a hard landing in China; and the uncertainty caused by the debt crisis in the Euro Area, which was particularly acute in the first half of the year due to political and fiscal instability in Greece and growing contagion of the crisis to countries such as Spain and Italy.

However, the second half of the year saw the stabilisation of the financial markets at the same time as fears about the fragmentation of the Euro Area receded, translating into the contraction of spreads against Germany of the yields of the peripheral economies' public debt securities. In addition to some progress made towards greater financial and fiscal integration, this improvement in sentiment mainly resulted from the ECB's launch of its Outright Monetary Transactions programme, which opened the possibility for unlimited purchases of Euro Area public debt securities, as a complement to a possible formal financial assistance programme under the European Stability Mechanism (ESM). Moreover, in a context of low inflationary pressures, the impact of the strongly expansionary monetary policies followed by the main central banks – reinforcement of quantitative easing by the US Federal Reserve (the so called QE3), the ECB's long-term refinancing operations, and quantitative easing by the United Kingdom's and Japan's central banks - also induced greater propensity to risk at a global level. After a last cut of 25 bps in July, the ECB maintained the key benchmark rate unchanged for the rest of the year, at 0.75%. The 3-month Euribor slid from 1.356% to 0.187% in the year, while the euro advanced by 1.8% against the dollar, to 1.32.

In this context, in the US the S&P500 index advanced by 13.4%, while in Europe the DAX and CAC40 posted annual gains of 29.1% and 15.2%, respectively. The PSI-20 and IBEX, although not performing so well in annual terms (+2.9% and -4.7%, respectively), registered sharp increases in the last quarter of the year (+8.7% and +5.95%).

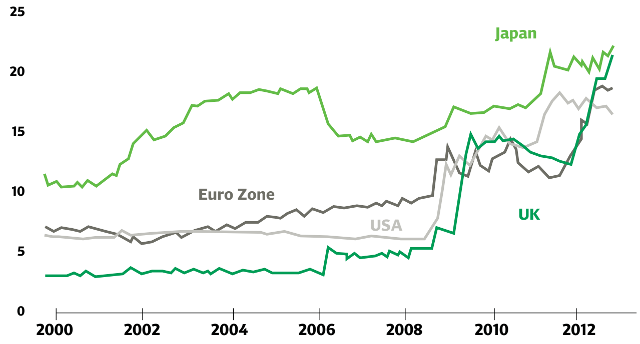
In line with the evolution of sentiment along the year, the price of crude (Brent) fell between the 1st and 2nd quarters (from USD 123.8 to USD 97/barrel), recovering as from the summer and closing the year at USD 111.9/barrel (a YoY increase of ca. 4%).

World GDP vs. Global PMI
Index (Points)



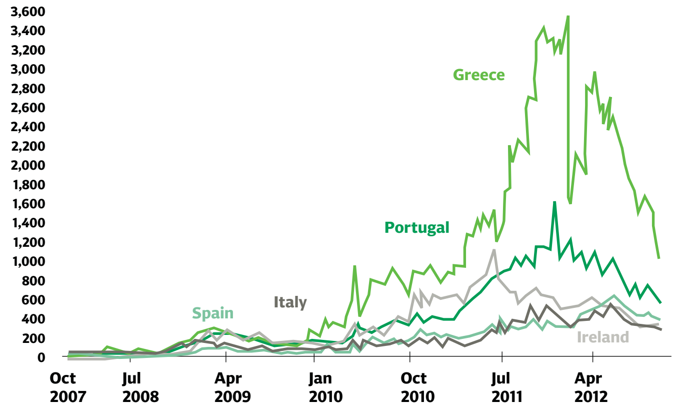
Source: *Bloomberg.*

Monetary Base
(% GDP)



Source: Bloomberg.

Yield Spreads on 10-year Government Bonds vs. Germany
Index (Points)



Source: Bloomberg.

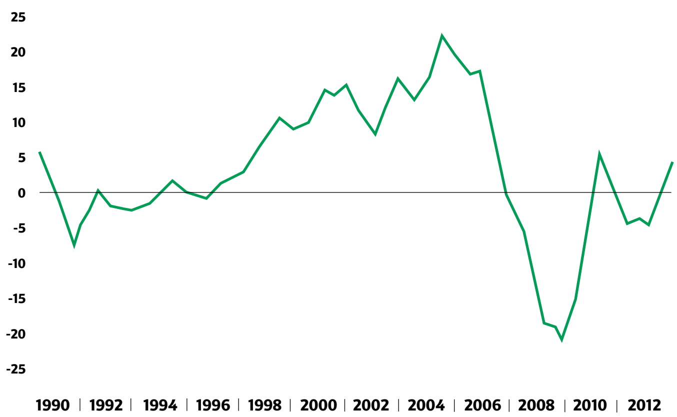
The **United States** economy grew by 2.2% in 2012, slightly picking up from 2011 but showing an irregular behaviour throughout the year. After a very robust expansion in the last quarter of 2011, economic activity cooled down in the first half of 2012, quickening up again in the third quarter and again losing speed towards the end of the year. Private consumption registered mild growth, in line with a trend improvement in household sentiment. Productive investment was weak, reflecting low business confidence levels and high uncertainty about the budget framework. Exports were quite lively during the first six months of the year yet lost pace in the second half, mainly as a result of the crisis in the Euro Area. But the impacts of the crisis were not limited to foreign trade: the uncertainty that spread through the region – private sector involvement in the Greek debt relief, parliamentary elections in Greece, presidential elections in France, the fall of the Dutch government, the instability of the Spanish financial system and rumours about a bailout request by this country – also contributed to the rise of the dollar during the first half of the year as well as to the appreciation of the Treasuries, which were seen as a safe haven. The Euro Area's stabilisation after the ECB showed strong commitment to defend the euro dimmed the glitter of the dollar and cut short the gains in the fixed rate market in the second half of the year.

The housing market, which had been one of the most penalised by the great recession, strongly eroding the wealth of families and private consumption, showed signs of an upturn in 2012. Home prices, sales of new and existing houses, housing starts, and builder confidence (National Association of Home Builders), all trended upward, though remaining at relatively low levels. On the other hand, the labour market, which was equally laggard in picking up, also showed signs of a rebound, although lacking the necessary vim to allow for a fast drop in the rate of unemployment. From the first to the second half of the year, the net creation of jobs increased by 14,000 (average monthly terms), to 160,000 per month, allowing the jobless rate to drop from 8.3% to 7.8% of the labour force between the start and the end of 2012.

The lack of a solid recovery of activity and the stubborn resistance of unemployment to come down fast led the monetary authority to deepen its expansionary policy in a context of well contained inflationary expectations and in a year when fiscal policy action was conditioned by the presidential elections. In June the Federal Reserve decided to extend the Twist Operation (increase in the average maturity of the assets held in its balance sheet) until the end of the year, guaranteeing that the fed funds rate would be kept within the interval of 0% and 0.25% until the end of 2014. In September the Fed implemented a new quantitative easing programme (QE3) involving the open-ended acquisition of mortgage-backed securities at the pace of USD 40 billion per month, while extending from 2014 to at least mid-2015 its pledge to maintain the fed funds rate unchanged. Finally, in December, with the end of the Twist Operation, it reinforced its asset purchase programme by USD 45 billion per month of long-term Treasury bonds, and initiated a new monetary policy philosophy whereby interest rates are held for as long as the jobless rate remains above 6.5% of the labour force, whilst allowing freer rein to the increase in prices (2.5%), which amounts to abandoning its prior date of 2015.

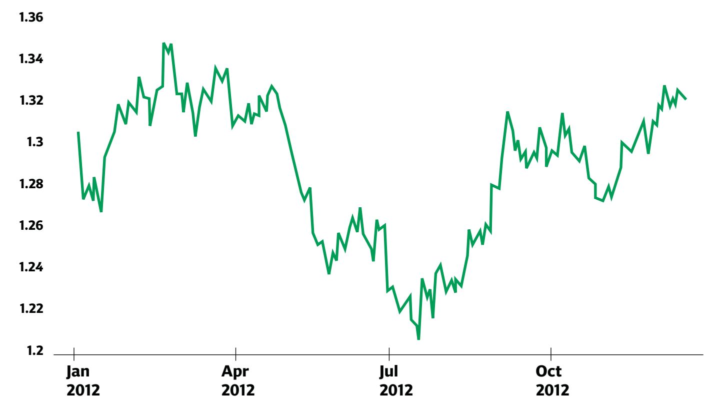
The end of 2012 was also marked by rising uncertainty – leading to increased market volatility – about an agreement on the so-called 'fiscal cliff'. The partial consensus reached in the first days of 2013 between republicans and democrats permitted to avoid a restrictive effect of more than USD 600 billion (between tax increases and automatic spending cuts) that would certainly provoke a new recession in the North-American economy in the 1st half of 2013.

Case-Shiller housing price index
(%, y-o-y)



Source: Bloomberg.

EUR/USD



Source: Bloomberg.

In **Brazil**, despite a clear stepping up of governmental interventions on the economic sphere in order to accelerate activity growth, the measures adopted actually acted, in a first moment, as a spur on domestic demand, which was already growing at a robust pace. This strategy ended up limiting the rate of expansion of the Brazilian GDP due to the poor performance of investment, which registered negative growth in 2012. Hence, after facing a slowdown of growth between 2010 and 2011, the economic agents once again saw a downturn in 2012 (1% YoY, from 2.7% in 2011), leading the government to shift its economic policy focus towards the recovery of investment over the coming years.

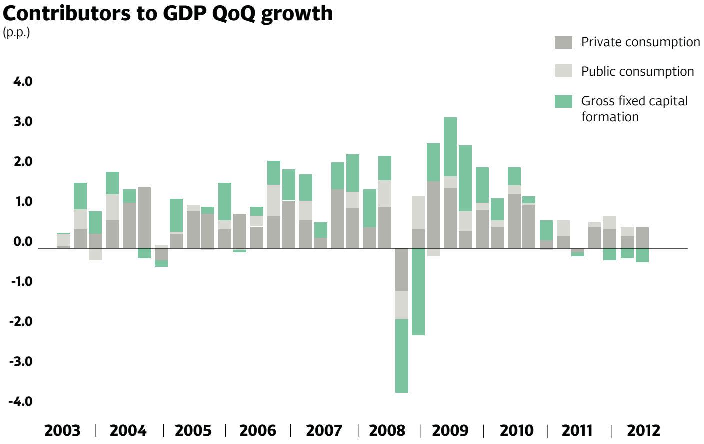
However, this shift came too late to solve the imbalance between aggregate demand and supply rates. As a result the inflationary pressures that were already present in 2011 persisted throughout 2012, causing the annual change in the consumer price index to overstep the target for the third consecutive year (average annual inflation rate of 5.4%, and 5.8% YoY at the end of 2012). This was further aggravated by poor weather conditions in important food production regions, leading to a hike in the price of these products. These inflationary strains could have been toned down by a currency appreciation trend; however, the Brazilian government opted for avoiding the strengthening of the currency as that would imply a loss of competitiveness for the domestic industry. The real thus weakened against the dollar, going from BRL/USD 1.876 at the end of 2011 to BRL/USD 2.044 at the end of 2012.

In the absence of a favourable investment dynamics within the private sector, the Federal Administration reckoned it would have to take the lead in this process and hence intensified capital expenditure, while also focusing on removing obstacles to the expansion of production capacity. However, current expenditure also increased sharply, further deteriorating the inflation scenario. The primary budget surplus fell from 3.1% to ca. 2.4% of GDP. In this context, after slashing the SELIC rate from 11% to 7.25% in seven successive cuts, in September 2012 the Central Bank interrupted the monetary easing cycle.

The doubts which the shifts in economic policy and state intervention in specific sectors (namely banks, energy utilities, oil and gas) generated among the economic agents could in part explain the relatively weak performance of the Brazilian stock market in 2012. In any case, the bright outlook for businesses standing to gain from the expansion of consumption allowed the Bovespa index to register a moderately positive increase in the year (7.4%).

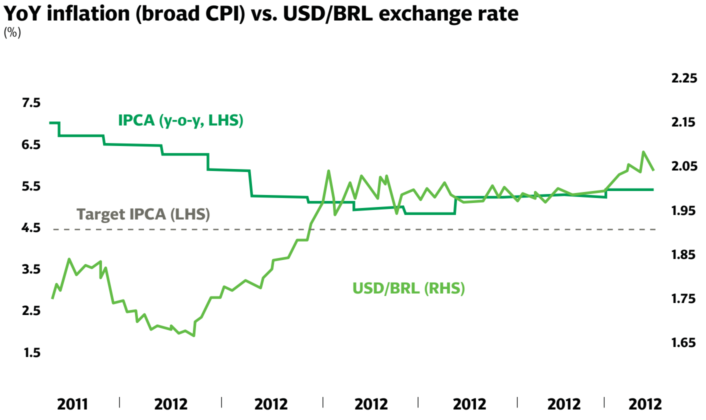
Summing up, 2012 saw important changes in domestic economic policy, and it seems that the existing obstacles to the expansion of domestic production capacity are to blame for the economic slowdown during the year. Domestic demand was buoyant but not matched by aggregate supply. These policy changes could have positive consequences in the future.

Contributors to GDP QoQ growth



Source: Bloomberg.

YoY inflation (broad CPI) vs. USD/BRL exchange rate



Source: Bloomberg.

In 2012 the **Angola** economy continued to grow at a brisk pace (ca. 7%), largely supported by the growth of the oil sector but also by the increasingly good performance of the non-oil sectors. Transports, energy and construction continued to benefit strongly from a policy of public investment. However, the diversification of the economy remains a challenge and hence the need to continue to invest in the requalification of the infrastructures, to promote price stability and to set in place favourable conditions for private investment.

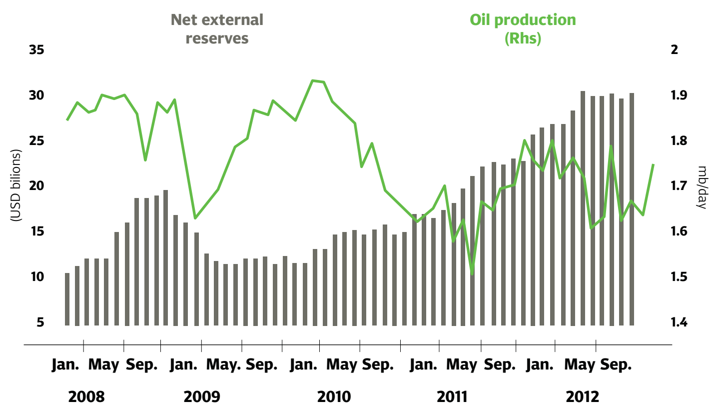
In 2012 the National Bank of Angola (NBA) cut the marginal lending facility interest rate to 11.5%, the base interest rate to 10.25% and the liquidity absorption interest rate to 1.5%. The monetary policy followed by the Angolan authorities was supported by the benign evolution of prices, with the YoY inflation rate standing at 9.02% at the end of the year.

As regards the public accounts, a fiscal surplus of 10.2% of GDP in 2011 was followed in 2012 by a surplus of 6.1%, in part underpinned by the favourable evolution of the non-oil primary fiscal balance.

Upon conclusion of the Stand-By Arrangement, the IMF continued to monitor the Angolan economy, once again recognising its good performance and the progress made. This arrangement involved a USD 1.4 billion credit facility aimed at supporting the financing of the economy and correcting the imbalance in the balance of payments (mainly resulting from falling revenues from oil exports). The IMF's assessment was globally positive, stressing the recovery of net external reserves to a balanced level, the reduction of the inflation rate, the stabilisation of interest rates, and the achievement of a scenario of exchange rate stability. The IMF also highlighted the significant progress made in terms of the transparency of the public accounts.

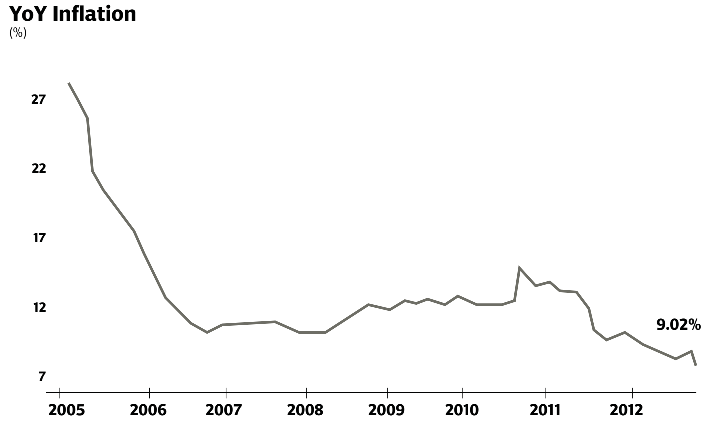
Following old IMF guidelines, the Angolan authorities have launched the Angolan Sovereign Fund ("FDSEA"), with initial capital of USD 5 billion. The fund, which will grow from further oil revenues, will be mainly used to invest in the country's infrastructures and promote the hotel and agricultural sectors, water supply, electricity supply and transport, creating the conditions to attract foreign investment. Angola's average oil production in 2012 reached 1.71 million barrels per day (mb/day), which represents a YoY increase of 2.5%. Based on the investments made in the oil sector in recent years (and resulting finds) it is estimated that the country's potential production timeframe could increase from 20 to 50 years, with the pace of output recovering to 1.9 million barrels per day in 2013.

Oil production (mb/d) and external reserves



Source: BNA and OPEC

YoY Inflation

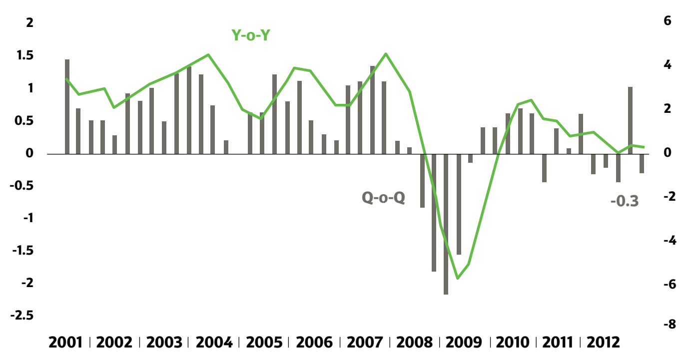


Source: BNA.

After coming out of recession in the 3rd quarter of 2012 (the stronger than expected positive impact of the Olympic Games drove up GDP growth by 0.9% QoQ) the **United Kingdom** again saw its GDP contract in the last three months of the year (-0.3% QoQ), driven by the stagnation of the financial services industry and the fact that growth in the construction sector was annulled by the retreat of industrial activity. GDP growth in the full year is thus reckoned to have been nearly flat (0.2%), the result of the austerity programme and the anaemic performance of external demand. Even though the climate of uncertainty led businesses to focus more on cost control and families on saving, domestic demand still increased. Consumption, public spending and investment are reckoned to have increased by 0.5%, 2.4%, and 1%, respectively. In line with the government's fiscal consolidation programme, the public deficit is thought to have retreated to 5.1% of GDP. On the other hand the public debt likely stood at 85.8% of GDP, above last year's, leading Standard & Poor's to put the UK's AAA sovereign rating on 'negative outlook' – the last of the three main rating agencies to show concerns about the growth of the debt and the quality of the rating. Despite the weakening of activity the labour market proved highly resilient, with the average unemployment rate receding to 8% of the labour force.

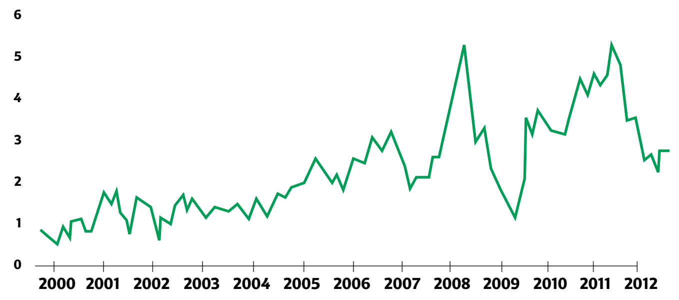
The Bank of England (BoE) maintained the benchmark rate unchanged at 0.5%, and interrupted in November its quantitative easing (QE) programme, revealing its doubts about the efficacy of a new acquisition of debt securities in rekindling the real economy. With the interruption of the programme, the BoE will maintain in its balance sheet a stock of GBP 375 billion in debt securities, financed by the issuance of central bank reserves. Despite the increase in liquidity the average inflation rate in 2012 was 2.8%, above the BoE's 2% target but lower than in 2011. This allowed for an improvement in families' real incomes and contributed to the recovery of consumption. In the bond market, the average yield on the 10-year gilts was 1.868%, with yields sharply falling in the 2nd quarter (from a peak of 2.445% to a low of 1.439%) as the deterioration of the outlook on the Euro Area and a climate of high uncertainty fostered demand for safe haven assets. The foreign exchange market showed a similar trend, with the pound strongly advancing as from the end of the 1st quarter and into the following months (from EUR/GBP 0.848 to EUR/GBP 0.777) and subsequently retreating mildly towards the average annual rate of EUR/GBP 0.811.

GDP growth
(%, Q-o-Q e Y-o-Y)



Source: Bloomberg.

YoY inflation
(%)



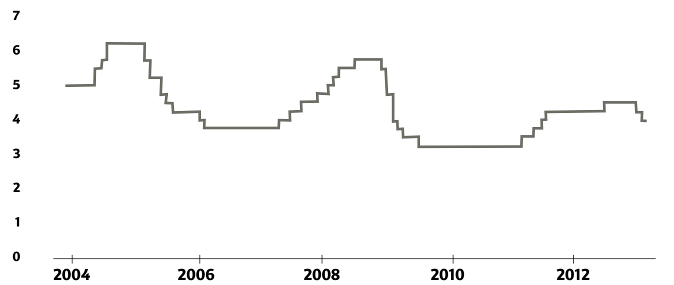
Source: Bloomberg.

The **Polish** economy continued to grow in 2012, albeit at a slower pace than in previous years. The year was critically marked by the European Football Championship: in the 1st quarter, as the main infrastructure projects for the event were concluded, GDP grew by 3.5%. Activity subsequently slackened in the following quarters, weighed down, on the external front, by the euro debt crisis, and internally, by the weakening of domestic demand. Reflecting the global economic sentiment, exports are thought to have grown by 3% YoY, losing their former glitter. However, this was in part compensated by an estimated 0.2% drop in imports, supporting a positive contribution of net exports to GDP growth. On the other hand, the negative sentiment among consumers and businesses slackened the pace of private consumption and investment, which are estimated to have grown by 1.6% and 1.7% only. This in turn contributed to worsen conditions in the labour market, with the jobless rate rising to around 10.1% of the labour force.

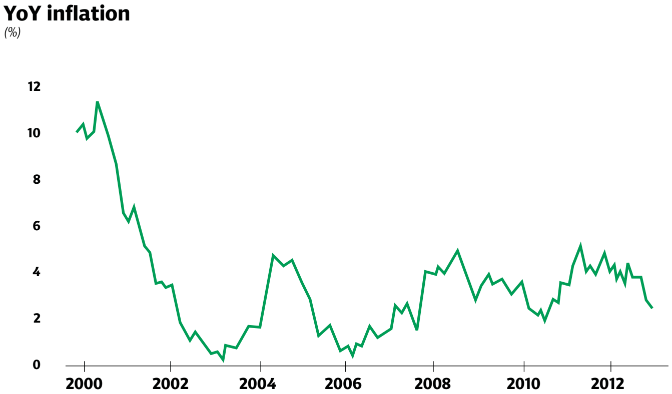
The behaviour of prices was also not consistent throughout the year. With the 2011 high inflation persisting into 2012, in May the National Bank of Poland lifted the benchmark interest rate by 25 bps, to 4.75%, in an attempt to forestall runaway inflationary expectations. However, the economic slowdown revealed by the indicators published in the second half of the year, combined with fading inflationary pressures, pushed into the background the combat to inflation and placed the highlight on activity growth. The Central Bank of Poland thus made two 25 bps cuts in the benchmark interest rate, in November and December, to 4.25%.

The zloty trended upwards in the course of 2012, trading between EUR/PLN 4.5 and EUR/PLN 4.04 - with shifts coinciding with fluctuations in investor sentiment and the periods of deterioration in the Euro Area debt crisis - and closing the year at EUR/PLN 4.08. On the public accounts front, Poland pursued its fiscal consolidation process. Even so, with the fiscal deficit standing at an estimated -3.4% of GDP and the public debt at 55.5% of GDP, it should not be possible to avoid another excessive deficit procedure.

National Bank of Poland benchmark interest rate
(%)



Source: Bloomberg.



Source: Bloomberg.

During 2012 the **Spanish** economy pursued the recessive trajectory initiated at the end of 2011. GDP fell by 1.4% in the year, with the pace of decline intensifying in the 4th quarter to 0.7%. This performance was driven by the weakening of domestic demand and in particular by the deterioration of the labour market, the deleveraging trend in the private sector (businesses and households), the fiscal consolidation effort, and restrictions on credit. Private consumption was highly penalised by rising unemployment (which reached 26% of the labour force at the end of the year) and by the reduction in households' disposable income through the decrease in wages and the increase in income taxes. The contraction of investment, and particularly of investment in equipment, reflected the worsening of business sentiment, the high indebtedness of companies, and restrictive conditions in access to credit. The adjustment in the housing sector continued during 2012, with home prices falling at an increasingly steeper pace: 9.8% in the year and 26.5% since the start of 2008. External demand also deteriorated as a result of the contraction of activity in the Euro Area, at grips with the sovereign debt crisis. However, the retraction of domestic demand and imports allowed Spain to continue to correct its external imbalance, with the current deficit dropping from 3.5% of GDP in 2011 to ca. 2% in 2012.

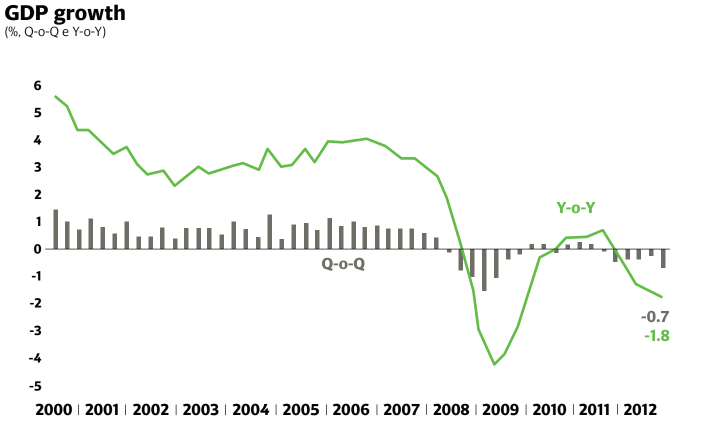
On the public accounts front, the government presented in July a set of fiscal consolidation measures, including the rise of VAT rates as from September (the general rate from 18% to 21% and the reduced rate from 8% to 10%), and also significant spending cuts, including the removal of the Christmas bonus payment. The fiscal deficit was thus reduced from 9.4% to ca. 7% of GDP, which is still above the target of 6.3%. In addition to this fiscal consolidation effort, the government has also been implementing a programme of structural reforms, namely the reform of the labour market viewing its increased flexibility.

The increase in the VAT rates in September, the increase in taxpayers' co-payment of subsidised drugs, and the rise in fuel, electricity and gas prices drove up general price levels, particularly towards the end of the year. Even so, the average annual inflation rate was 2.4%, which is lower than in 2011 (3.1%).

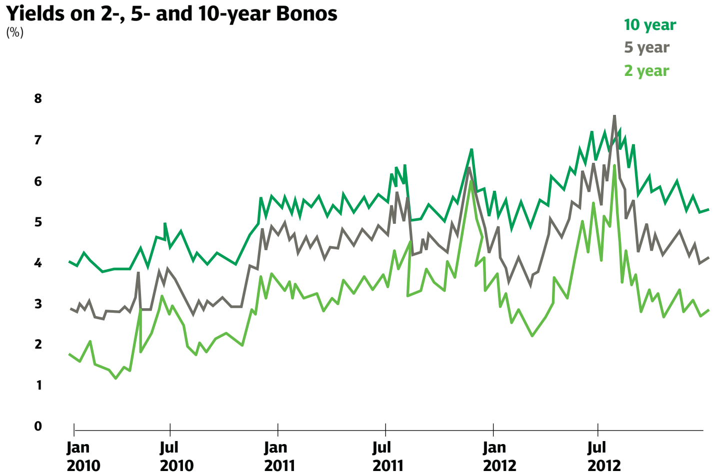
The difficulties faced by a number of Spanish banks, mainly in connection to their high exposure to toxic real estate assets, forced the government to seek external financial assistance viewing their recapitalisation through the European Financial Stability Facility (EFSF).

The Memorandum of Understanding signed on July 23rd allowed for up to EUR 100 billion for the restructuring and recapitalisation of banks, of which EUR 40 billion has been used. The programme had an overall favourable effect towards the stabilisation of the Spanish financial system. This was further helped by the European Central Bank's launch in September of a programme of purchase of public debt securities (the OMT – Outright Monetary Transactions), which stifled tensions and volatility in the financial markets, acting against the deterioration trend seen up to the summer months. The yield on the 10-year bonos in the secondary market dropped to 5.27% at the end of the year (representing a spread against the German bunds with the same maturity of 395 bps), after reaching a peak of 7.62% in July (639 bps spread against Germany). Even so, yields were still higher at the end of 2012 than at the end of 2011 (5.09%, corresponding to a spread against Germany of 326 bps).

During the year the rating agencies successively downgraded their ratings of the Kingdom of Spain: Standard & Poor's in three moves, by six notches (from AA- to BBB-), and Moody's and Fitch in two moves, by five notches (from A1 to Baa3 and from AA- to BBB, respectively).



Source: Bloomberg.



Source: Bloomberg.

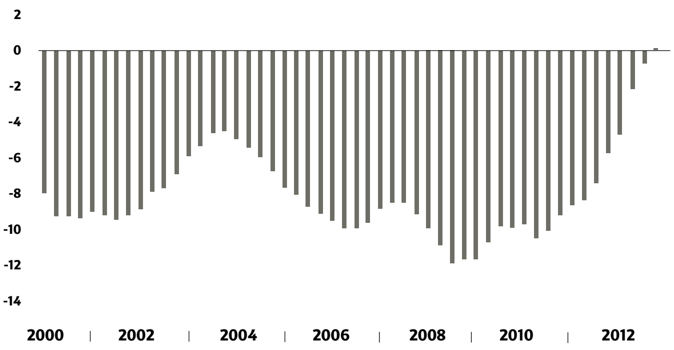
The Portuguese economy in 2012

In Portugal, the economic environment in 2012 was chiefly marked by the implementation of the economic and financial adjustment programme. The ongoing deleveraging in the financial and non-financial private sectors, combined with the cooling of economic activity in the Euro Area caused GDP to contract by 3.2%, as consumption and investment retreated sharply, while the rate of unemployment rose to close to 16% of the labour force. Household spending slumped by 5.6%, reflecting a sharp fall in disposable income (3.6% in real terms) together with an increase in savings (to slightly over 11% of the disposable income). In a context of growing uncertainty about the fiscal policy and the prospects for economic activity evolution, businesses cautiously retrenched spending and increased savings. Private consumption was further penalised by relatively high inflation (2.8% in average annual terms), which was pushed up by the increase in indirect taxes. Investment once again registered a steep fall (-15.2%; 13.8% in 2011), with drops across all institutional sectors. Investment was harmed not only by restrictive financing conditions but also by a retreat in demand for credit by families and businesses alike, translating the deleveraging effort under way, and in the case of companies, the negative outlook for demand. Though tending to slow down, particularly in the latter part of the year, exports continued to perform well, growing by more than 3% in real terms. Exports were naturally penalised by the economic downturn in the Euro Area (and particularly in Spain), but even so sales to markets outside the European Union registered two-digit growth.

The performance of exports, together with a sharp fall in imports (of more than 7%) and an increase in domestic savings, permitted a clear improvement in the external balance, which from 5.1% of GDP in 2011 flattened out at the end of 2012. All sectors contributed to this reduction in net external financing needs, with households and the financial sector increasing their net lending capacity and the non-financial companies and the general government reducing their net borrowing needs. The public deficit is reckoned to have come close to the (revised) target of 5% of GDP in 2012, notwithstanding the significant deviation from budget of revenue (ca. EUR 880 million in the case of the Central Government and Social Security). This was likely the result of a sharper than initially foreseen reduction in expenditure, in part due to additional savings on expenses with remunerations, the acquisition of goods and services, investment expenses and net interest costs. As regards extraordinary measures on the revenue side, the 2012 budget execution mainly benefitted from a non-recurrent revenue in connection to the concession of the airport management public services to ANA. The public debt continued to climb, reaching 120% of GDP, which is 12 p.p. more than in 2011.

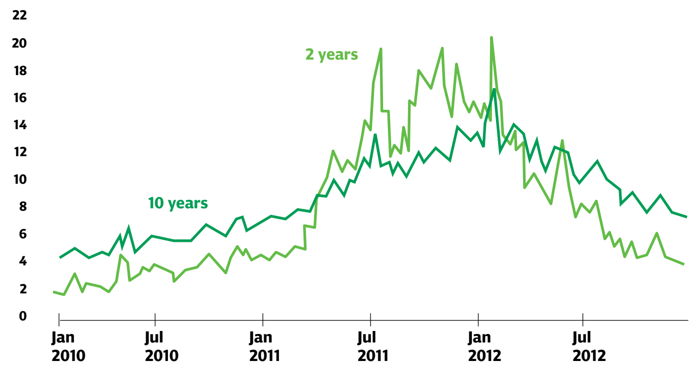
The positive reviews of the implementation of the Adjustment Programme contributed, together with the stabilising course of action undertaken by the ECB, to the gradual improvement of financial conditions in the Portuguese economy, as seen in the significant reduction of public debt yields and credit spreads and the reopening of wholesale debt markets to businesses and banks. After reaching an annual peak of close to 17.4% at the end of January 2012, the returns on the 10-year Treasury bonds dropped to ca. 7% at the end of the year and continued to trend downward through the start of 2013. The favourable execution of the privatisations programme, with total revenues of nearly EUR 5.5 billion surpassing expectations, also illustrates the growing openness of foreign investors to the Portuguese economy.

Combined current and capital account balance
(% GDP)



Source: INE.

2- and 10-year Treasury bond yields
(%)



Source: Bloomberg.

4. Commercial Activity

Banco Espírito Santo Group is a universal financial services group serving all client segments – individual, corporate and institutional. Product innovation, focus on quality service, and strong awareness to the BES brand (particularly in attributes such as solidity and trust) make the Group a reference in the national and international market.

When monitoring the performance of each business area, the Group considers the following operating segments:

• Domestic Commercial Banking, which includes the Retail, Corporate, Institutional and Private Banking sub segments;

• International Commercial Banking;

• Investment Banking;

• Asset Management;

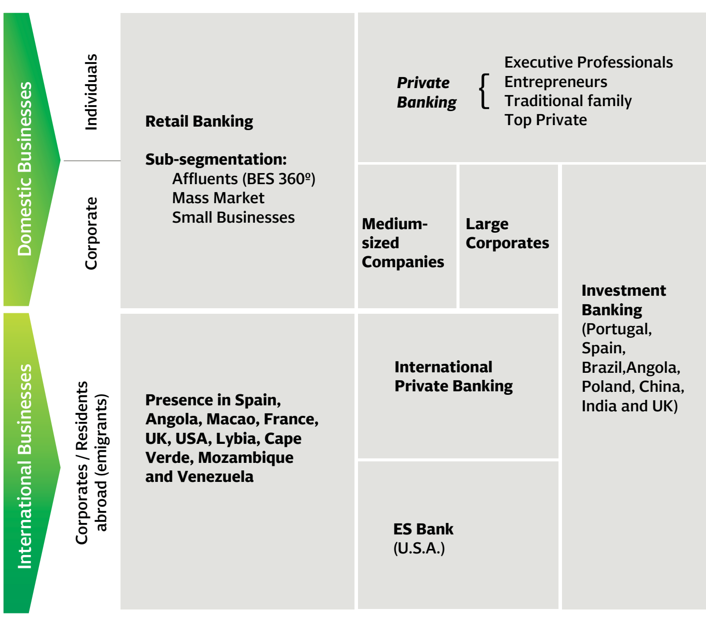
• Markets and Strategic Investments;

• Corporate Centre.

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

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

Banco Espírito Santo's segmented approach to the market permits to offer a wide range of products and services addressing the needs of each client segment.



4.1 Domestic Commercial Banking

4.1.1 Retail Banking

BES Group's approach to the retail clients is based on a diversified and distinct offer that targets the clients' financial needs. The creation of differentiated value propositions is supported by the constant development of products and services, portfolio segmentation criteria adjusted to the clients' characteristics, high service quality and effective communication.

Over the last few years BES has developed innovative value proposals for Retail, specifically for the segments of affluent clients ("BES 360º"), small businesses and independent professionals ("Small Businesses"), and individual retail clients ("Mass Market"). To serve these clients, the Bank has a network currently comprising 666 branches (representing a net reduction of 35 branches during the year).

Assurfinance

Resulting from a strategic partnership with Companhia de Seguros Tranquilidade, the Assurfinance programme offers exclusive advantages to Tranquilidade clients with no relations with BES Group who open an account with Banco Espírito Santo. As a result of the intense work developed with ca. 1,900 Tranquilidade agents, in 2012 the Assurfinance programme contributed with ca. 20,000 new clients, thus proving one of the main initiatives of the Retail area.

This partnership operates from 44 on-site branches where exclusive Tranquilidade agents share their insurance mediation activity with service to BES clients.

BES 360º: Traditional excellence in customer service

The BES 360º service is a reference proposition in financial counselling and customer monitoring for the affluent segment. This service combines high quality standards, permanent monitoring by a dedicated specialised account manager and an exclusive offer and solutions adapted to these clients' specific requirements.

The competitiveness of the value proposition offered to the BES 360º segment is supported by a number of strategic initiatives:

• The newly created remote approach to the affluent clients, together with the specialised 360º Centres, widen the scope of the value proposition to the segment, permitting a significant increase in the share-of-wallet as well as greater customer loyalty;

• The BES 360º commitments, which translate the goals of excellence in customer service into concrete objectives, ensuring a professional, strict and dedicated attitude, the efficient solving of problems and the proactive presentation of the best solutions for the needs of each client;

• The competitive offer for the segment was further enhanced by innovative health protection and leisure solutions that provide a comprehensive view and response to the affluent clients' needs;

• Innovative tools, such as the BESnet Trading platform for stockmarket trading, permit full coverage of the clients' needs.

This approach and the innovative and distinctive value proposition allowed the BES 360º segment to reach high customer satisfaction levels (90% of the clients 'very satisfied'), cementing its contribution to the growth of BES Group in a market context where liquidity is particularly important. Representing more than 50% of Retail's total customer funds, the segment constitutes a stable basis for the Group's funding.

In the affluent segment, BES Group also operates **through BEST – Banco Electrónico de Serviço Total**. In 2012 Banco Best received two awards that emphasise and reward its positioning as innovation leader in the offer of financial products and services in Portugal: (i) the prize for 'Best Site/ Mobile App for eCommerce' awarded by ACEPI, a Portuguese Electronic Commerce and Interactive Advertising Association, within the scope of its Navegantes XXI Prizes (the Mobile Banking service, available through a mobile browser at www.bancobest.pt/m, Apps for iPhone, iPad and Smartphones, and Android Tablets, was considered the most comprehensive in the Portuguese market); and (ii) a honourable mention from IDC, a market intelligence firm, for its gamification project, a digital animation where a football tournament with various rounds emulates the management of a portfolio of investment funds. Bond trading volume reported expressive growth during the year, driven by the success of the 'Bonds For All' service, which gives private investors online access to trading in a wide range of bonds, including Portuguese public debt, Portuguese corporate bonds or bonds issued by important international organisations. Trading volume through this service reached ca. EUR 268 million in 2012. In December 2011 Saxo Capital Markets UK started outsourcing its entire activity to Banco Best, including the IT platform, operations, custody services, and the settlement and trading/contracting of third-party products and services, representing a real time online offer of more than 6 thousand products in the United Kingdom. This initiative attests to the capabilities of BEST's platform to provide financial intermediation services in one of the most competitive and sophisticated financial markets in the world. In 2012 client assets under custody reached close to EUR 2.0 billion. Net income for the year was EUR 8.5 million, which represents a year-on-year increase of 20%.

Small Businesses: Focus on the effective management of Clients' working capital needs

In the current context of economic slowdown, the Small Businesses segment elected as a priority of its commercial activity to offer innovative and competitive cash management and payment and receipt solutions which allow the Clients to manage their working capital requirements more effectively, streamlining costs and the need to resort to bank credit.

Accordingly, in 2012 the segment increased its focus on the sale of the following products:

- Cash Management Solutions ("BES Small Businesses Solutions") and Point of Sale Terminals ("BES Small Businesses Packs") suiting the requirements of micro companies and independent professionals. As a result, the number of clients with active POS terminals reached 14,000, further lifting BES's market share in this product.

- The 'BES Express Bill' solution (launched in 2009 and extended to the Small Businesses segment in 2010), an innovative system for payments and receipts permitting to issue forward payment orders guaranteed by BES. In 2012 a total of EUR 100 million in credit facilities were approved, to 900 clients in this segment, which during the year used this solution to make supplier payments amounting to EUR 39 million. In addition, 2,900 clients benefited from payment orders guaranteed by BES totalling EUR 93 million.

Translating the emphasis placed on counselling and the sale of solutions to support the management of payments and receipts, assets under management in the small businesses segment increased to EUR 3,030 million.

The support provided to the partners in client firms by specialist account managers, at personal and professional level, represents one of the more distinctive features of BES's approach to the segment. An integrated vision of the clients' needs, considering the interconnected impacts between personal and business events and taking a genuine interest on seeing them succeed over the various phases of their life, make BES the partner of choice in the Small Businesses segment, while also furthering BES's ambition of achieving a high level of penetration in firms whose partners have opted for concentrating a substantial part of their assets with BES and who resort to the bank for support in their day-to-day management needs. As a result of this joint approach of partners and firms, 4,800 new partners in client firms became BES clients in 2012.

Mass Market

The intensification of economic difficulties in Portugal during 2012 led to a significant increase in unemployment and the reduction of households disposable income. In these circumstances, BES reinforced its offer of savings products and other everyday protection and safety products.

The Bank thus focused on its innovative saving solutions for individual clients, such as the **Planned Saving** offer, which fosters regular saving habits through monthly contributions starting from 10 euros, or the Micro saving product, which consists in the rounding up of payments (debit cards, direct debits and other) to save the difference. These products met with a very good response from the Portuguese families, with the number of accounts reaching more than 235,000 in 2012. Moreover, the launch of competitive medium and long-term savings products, such as the new '**Conta Rendimento CR**' (Cristiano Ronaldo income account) or the '**BES Vida Aforro**' unit-linked insurance product, supported by strong communication initiatives, decisively contributed to the increase in total customer funds in the mass market segment, which rose by 9.8% year-on-year. Finally the partnership entered with the National Association of Pharmacies, which permitted to launch direct marketing actions targeting the holders of the Pharmacy Card – offer of a free cardiovascular checkup on subscription of new saving solutions with BES – was very successful.

In the current climate of uncertainty, the Group's insurance offer focused on the essential protection of families from events liable of jeopardising their financial stability. Hence the level of subscriptions of the **BES Vida Segura** insurance product, which, at a reasonable cost, afford financial security to couples with children in case of death, serious illness or absolute or definitive disability, was quite strong.

The growing use of the direct channels for contact with the Bank remained a key trend in the mass market segment. In 2012 the internet banking service for individual clients – BESnet – achieved a 9.4% year-on-year increase in the number of frequent users, consolidating its leading position in terms of internet banking penetration in Portugal, with a share of 43.6% of the customer base (according to Marktest), while the number of logins reached 24.6 million (+ 2.8% YoY). The internet banking service for corporate clients - BESnetwork – also reported expressive growth, with the number of frequent users reaching 57,000 at the end of 2012 (+7.8% YoY), while the number of logins rose by 7.0%, to 10.8 million. BESnetwork was awarded the Global Finance prize for best Internet Banking for Businesses in Portugal.

The BESmobile service, launched in 2011, maintained strong growth: the number of very frequent users increased to 40,000, and that of irregular users (those who only need it for mobility purposes) also reached 40,000. BESmobile earned the Global Finance magazine's award for Best Mobile Internet Banking for Businesses in Europe. This service allows the partners or directors of subscriber firms to use their mobile phone to validate transactions initiated through BESnetwork.

In 2012 the Direct Channels consolidated their role in the relationship with the clients, providing the following:

- Access to the entire range of services, account enquiries and transactions which can be done remotely, maintaining the possibility to interact directly, either through the servicing platform (BESnet mail) or with a BESdirecto operator, who can connect to the branch, if necessary;

- A strong bet on the saving and investment offer, where products can either be subscribed directly by the client or by phone or chat, with help from a steam specialising in saving, credit and insurance products. The stock of term deposits subscribed through BESnet grew by 76% in 2012, reaching EUR 412 million;

- Integration of the CRM platforms between the branch, BESnet and BESdirecto, managed by the Marketing Department with the possibility of referral to the branch for commercial follow-up, and using a real time automatic decision model permitting to adjust the offer to the clients;

- Inclusion of added value functionalities, namely the "BES Family Budget", which automatically classifies expenses thus proving a valuable tool in the current economic context, in which saving and accurate planning are increasingly important.

The Group also operates in the mass market segment in the Azores, through **Banco Espírito Santo dos Açores**. The deterioration of the situation in Portugal and the measures taken by the government also impacted the Azores Autonomous Region, and therefore the activity of Banco Espírito Santo dos Açores. Loan granting decelerated (however the Bank continued to support the corporate segment and in particular the SME's with good credit ratings), while some success was achieved in problem loans monitoring and recovery. On the other hand, there was an increase in customer funds. To support its strategy for the acquisition of new clients and the increase of its market share, the Bank signed new protocols with regional companies and institutions and emphasised the assurfinance partnership project with Companhia de Seguros Tranquilidade. In addition, it stepped up commercial and social actions in order to further reinforce its position as a bank dedicated to serving the clients and society and as the only bank in Azores with its headquarters in the region.

In 2012 customer funds increased by 2.0% while customer loans declined by 2.5%, with corporate loans growing by 3.4%; assets grew to EUR 513 million. The year's net income was EUR 2.3 million, a YoY increase of 161.3% that was supported by the performance of commercial banking income and a lower provisioning effort.

Specialised Offer

In its approach to the mass market segment, Banco Espírito Santo seeks to adjust its offer to segments of the population that, on account of their ethnic, cultural or socioeconomic background, require specialised products and services.

Saving Products

According to the Bank of Portugal's "2010 survey on the financial literacy of the Portuguese population", 48% of the population does not save. In response to this concerning indicator in 2011 the Bank reinforced its investment in promoting the financial inclusiveness of its clients, creating innovative saving products and making available to all its clients, free of charge, the "Family Budget" service.

The Family Budget automatically organises and classifies all the revenue and expenditure movements in the client's account. This gives the client a real image of his budget, and more importantly, it allows him to monitor the evolution of income and expenditure and identify which expenses can be reduced in order to create some slack and thus make it easier to save.

The Planned Saving, Micro Saving and Impulse Saving solutions, strongly promoted by the entire commercial network in 2012, allowed the Bank to help their clients set up savings amounting to ca. EUR 206 million. This represents approximately 2% of the total under term deposits and saving accounts held by 632,900 individual clients with the Bank.

The results achieved signal a real change in the clients' behaviour, leading to the expectation that in the medium term many of them will subscribe saving products for higher amounts.

Planned Saving

When subscribing a planned saving product, the Client agrees to a plan of monthly contributions. The amount (10 euros minimum) and day of the contribution are chosen by the Client, who can thus fit his savings to his family budget. The Clients may also choose between planned saving plans with the duration of 1, 3, 5 or 10 years. In 2012 the number of clients who subscribed this product more than doubled, reaching approximately 265,000.

Micro Saving

Micro Saving was one of the saving mechanisms recurrently used by ca. 40,000 clients in 2012. This service allows any client to start saving by small amounts: daily expenses charged to the account are rounded up and the difference is deposited in a saving account.

Micro Donating

In 2012 the Bank once again showed its capacity to innovate: the Micro donate solution the access by private social solidarity institutions to donations made by clients. Based on the same concept used for the Micro Saving product, the Micro Donate product allows the client to round up some or all of his debits and the difference is deposited in a saving account of a charity of his choice. In order to benefit from this service, charities must enter a protocol with the Bank. In addition to channelling the donations to the institutions, the service allows the clients to receive feedback on the effect of their contributions.

Impulse Saving

The innovative feature of the Impulse Saving solution is to allow clients who have the "Save" application for smartphones to add small amounts (5 to 50 euros) to their savings, through a simple touch in the phone screen. The clients can thus save in the exact moment when they decide to do so. In 2012 approximately 2,300 clients used this service, supporting yet another innovative solution launched by BES in the market.

Microcredit

In a year marked by rising unemployment in Portugal, microcredit holds a particularly important role in fostering and supporting entrepreneurship and job creation. The mission of BES's Microcredit Office is to identify potential entrepreneurs and either support their projects through the development of business plans or refer them to other entrepreneurship support lines. The Bank widely publicises this product, either through the social networks and the internet, or in employment fora in various cities across the country, and through associations and other public or private entities in direct contact with potential entrepreneurs who have little access to the financial system.

The branch network was once again fundamental in capturing and channelling entrepreneurs to the microcredit office, representing ca. 82% of the operations approved. In addition the Bank relies on a network of partners 'on the ground', including the National Association for the Right to Credit (ANDC), a partner of BES since the product was launched, the Employment and Vocational Training Institute, and local development agencies. The credit lines made available by BES and the partnership with the ANDC permitted to finance 43% of the clients who resorted to the Bank for microcredit, the remainder being financed through the Microinvest and Invest + lines, developed by the Employment and Vocational Training Institute and jointly promoted with BES.

In 2012 microcredit started to be distributed through the network of university branches. The aim was to reinforce the offer of financial services for university students, namely with products that meet the day-to-day needs of starting up a business.

At the start of 2013 BES signed a EUR 8.75 million credit agreement with the European Investment Fund (EIF) within the scope of the European programme of support to microcredit and entrepreneurship promoted by the European Commission and the European Investment Bank.

This is the EIF's first microcredit operation in Portugal. Its purpose is to expand microcredit availability and provide access to credit outside the traditional credit provision channels. The agreement with the EIF represents another step forward in BES Group's sustainability strategy under which the Group seeks to support social and professional segments of the population with specific needs and difficult access to conventional bank loans.

In 2012, 198 microcredit loans to new entrepreneurs were approved, totalling EUR 3.08 million, which permitted to create 336 new jobs. This represents year-on-year increases of 71%, 12% and 37%, respectively.

New Residents

The current social and economic context in Portugal is leading a rising number of immigrants to leave the country, consequently reducing the amount of funds captured from this segment, which dropped by 6% year-on-year.

However, as Portugal maintains a sizeable immigrant community, the Bank continued to invest in its partnerships with immigrant associations with a view to facilitating the financial inclusiveness of the new resident families.

The Bank thus maintains the Family links card, consolidated the BESXpress China remittances service and formally established a partnership with the Ukraine International Airlines under which BES clients are given discounts on plane tickets.

Universities

The Bank has a specialised independent central unit responsible for the management of university students, which, complemented by 6 university branches and the regular branches located closed to universities, guarantee an adequate proximity to the universities segment.

In 2012 BES renewed for another 5 years the Protocol with the Tomar Polytechnic Institute, as well as the Protocol with the Coimbra Higher Nursing School. The cooperation with the Évora University within the scope of the BES Renewable Energies Chair allowed the Bank and some of its subsidiaries to associate themselves with the Portuguese Institute of Solar Energy, which develops and promotes the use of this renewable energy source. BES also supported the installation of access and payment management systems at the Évora and Trás-os-Montes e Alto Douro universities, and sponsored the rehabilitation of the Castelo Branco Polytechnic Institute's laboratories.

The BES UP Internships programme, which completed its 7th edition in 2012, continued to provide a good example of how to give students an opportunity to deepen the knowledge acquired in their courses, enrich their experience and ease their subsequent entry into the labour market. The range of internships includes training in the following areas: medicine, nursing, engineering, economics, management, law and communication

In 2012 the BES UP Internships programme received 3,000 applications and hosted 195 interns, an increase of 150% since its first year and of 4% compared to 2011. The trainees' level of satisfaction was 98%, a good result that confirms the role played by the programme in the students' integration in working life.

Today these traineeships are a reference in Portugal, covering 17 companies within and outside the BES Group universe.

In 2012, 51 'Induction to Working Life' traineeships were organised under partnerships with higher education institutions. The purpose of these traineeships, which mostly take place in the branch network, is to put students in contact with the reality of professional life.

To recognise merit and excellence, in 2012 BES awarded more than 50 prizes to students who stood out for their high classifications in higher education courses.

In the current context in which university students feel increasingly concerned about their employment prospects, BES maintained its partnership with PT/ SAPO on the BES/ SAPO University Students Employment portal, which offers a wide range of services, namely a platform for job openings, traineeships, voluntary work and opportunities for creating one's own job.

The BES UP page on Facebook, created with the purpose of reaching out to university students and bolstering communication, now has 50,000 fans, standing out as a success case and a prime means for BES to divulge its initiatives for the segment.

Senior Citizens

Banco Espírito Santo offers a range of financial services adapted to the needs of the senior population in Portugal.

The BES No. 1 account – a package of financial and healthcare services – remains a reference product for the segment.

In 2012 the Bank launched an advertising campaign to promote the BES 100% 55p+ account with the senior citizens segment. Senior clients who domicile their pensions with BES (starting from EUR 250) not only benefit from exemption from the account management fee but are also given a check up voucher to be used in pharmacies that adhered to the campaign. The BES 100% 55p+ account is a checking account adapted to the needs of the senior population which combines technical and medical home assistance services with a package of financial products and services offering the best solutions for the segment.

In line with the growing senior population in Portugal, customer funds in the segment increased by 6.5% year-on-year, to EUR 959.4 million. Customer loans grew by 0.5%, to EUR 322.4 million.

Environmental Products and Services

Being aware of the challenges posed by climate change and the loss of biodiversity, BES constantly innovates its offer of financial products and services that engage the client in adopting responsible consumption patterns consistent with sustainable development.

18.31 Account

Created in 2011, the 18.31 account aims to offer a financial service that simultaneously brings attention to climate change, in so far as the Bank neutralises the estimated emissions arising from the opening and use of the account.

BES neutralises the carbon footprint of the 18|31 account, which is measured by a specialised firm in accordance with the PAS 2050 method for assessing the lifecycle of GHG emissions associated to products and services.

In 2012, the Bank neutralised the emissions associated to a total of 77,358 18.31 accounts, corresponding to the accounts opened in 2011 plus 13,394 new accounts opened in 2012.

Thanks to this significant increase in the number of accounts, it was possible to neutralise 145 tonnes of CO_2 and obtain the e)mission neutral certified® stamp, which gives the clients the assurance that they are buying a carbon neutral product.

As in 2011, the emissions were neutralised through the financing of the Velotex project, in Brazil, which consists in the replacement of non renewable for renewable biomass. The project contributes to protect a vulnerable ecosystem and to improve the working conditions of the employees of the company in which it is developed.

BES/WWF Card

In 2012 the Bank continued to sell and promote the WWF card, the first 'biodiversity' credit card in Portugal, achieving a 50% increase in the number of cards sold.

This card was born from a partnership between BES and the Word Wildlife Fund (WWF), the world's largest independent organisation for biodiversity conservation. Today the WWF card is an example of how the commercial relationship between a financial institution and its clients can serve a dual purpose, namely the protection of biodiversity and the ecosystems and the provision of a daily use financial product.

In 2012 approximately 940 clients used this card, contributing to finance nature conservation and biodiversity preservation projects as well as projects to fight global warming.

4.1.2 Private Banking

Through 23 private banking centres in Portugal, ES Private Banking monitors high networth clients, with assets under management totalling EUR 7.6 billion at year-end.

In light of the economic and financial situation in Portugal, in 2012 the main objective of the private banking area was to consolidate the systematic regular monitoring of the affluent clients, namely with the support of investment experts, thus permitting an asset allocation adjusted to the risk profile of each client and incorporating the financial crisis scenario. The Customer Relationship Management (CRM) system helped promote this regular monitoring and joint commercial approach by investment experts and private bankers to the private banking clients.

Being part of a multi-specialist group gives the private banking area the advantage of offering its clients a wide range of global solutions in areas such as direct investment in financial assets, investment banking services or financial advisory services. Access to the Group's expert teams in these areas permits a close and global monitoring of the clients' needs. With this aim in mind, in 2012 the Group created a specialised financial advisory service targeting small and medium-sized businesses which permits to provide proactive support to the clients.

This focus on proximity to the clients also involved an effort to increase their day-to-day relationship with the Group. Among other steps taken in this direction, the Private Banking account, which already offers specific advantages to the segment's clients, was reinforced with a saving component. The newly launched range of credit cards for ES Private Banking clients - the BES Private Dual and BES Private Dual Plus cards, in the Platinum and Black versions – offers a number of advantages, namely greater convenience of use (since one card is linked to the VISA network and the other to the American Express network), as well as concierge services and the insurance products usually associated to these cards.

4.1.3 Corporate Banking and Institutional Clients

This business area focuses on the commercial relationship with large and medium-sized companies, as well as with institutional and municipal clients. Given their importance in the national business community and in the Portuguese economy in general, these clients deserve particular attention from BES Group, which strives to offer them solutions that add value to their businesses and support their initiatives..

The unit serves approximately 20,000 clients with a total financial involvement of more than EUR 30 billion in December 2012, through 25 Corporate Centres, a dedicated team of 120 corporate bankers for medium-sized companies, and two teams of 17 corporate bankers each for Large Companies, based in Lisbon and Porto. These commercial structures provide a specialised relationship banking service, supported by the multispecialist organisation model which has allowed BES Group to maintain a leading position in the segment. To uphold this leading role, the Group must keep the offer of products and services permanently adjusted to the clients' needs, giving particular attention to the solutions that support internationalisation, innovation and the financing of the Portuguese economy.

Support to Internationalisation

Within the support provided to the corporate sector in general, particular attention has been paid to the exporting companies and those that are expanding abroad. One of the main concerns has been to provide a comprehensive response to the needs of these companies. The model adopted relies on close coordination between BES' commercial team and the specialised services provided by the International Premium Unit (IPU), a solid international presence, a wide network of correspondent banks and the Bank's recognised knowhow and leadership in trade finance. As a result of this integrated approach, 43% of the Portuguese exporting companies are BES Group clients and BES's market share in trade finance has reached 31%, representing a year-on-year increase of 2.2 p.p..

The aim of the International Premium Unit is to provide specialised support services to internationalisation, effectively backing up the clients' export and direct investment processes. Acting as a link to BES Group's international units and leveraged by the Group's strong network of partner banks, the IPU combines knowledge about the international markets with financial solutions know-how to meet all kinds of requirements across the various geographies. In the satisfaction survey conducted in 2012 to clients using the IPU services, 96.7% of the respondents said these services were very important for their business and 93.3% said they would recommend them.

Given the existing economic interconnection within the Iberian market, client acquisition and business development are supported by close cooperation between domestic and Spanish commercial networks: of all the Iberian companies with good risk profile, ca. 50% are BES Group clients.

In 2012 the Group maintained its engagement in other important initiatives to support the internationalisation of Portuguese companies:

- The partnerships established with two important international banking groups for business development, especially in the areas of trade finance, corporate banking and investment banking, widened the geographical scope of client support: Ecobank, a leading bank in Sub-Saharan Africa, which is present in 32 countries, and OTP, which operates in Central and Eastern Europe;

- Participation in international business fairs, namely: Prowein, in the wine sector, held in Germany in June; Sial, a food and beverages fair held in China in May; Batimatec, in the construction and building materials sector, held in Algeria, also in May; and the FIA multi-sector trade fair (Algiers International Fair), held from May to June 2012;

• Joint promoter (with AICEP and AIP) of the 7th edition of the Forum Portugal Exporter, the largest and most important event dedicated to the exports and internationalisation of the Portuguese companies;

• Active participation in the "Portugal Exporter Club", an initiative launched within the scope of the Forum Portugal Exporter aimed at informing its members about markets and business leads in the main external markets;

• Launch of the 2nd edition of the "BES/Jornal de Negócios Exports & Internationalisation" prize, which is awarded to companies with the best performance in expanding their presence abroad and increasing exports;

• Publication, for the third consecutive year, of a regular supplement in the Expresso newspaper ("Companies and Internationalisation") with information about the strategic markets for the Portuguese companies, business opportunities in these markets, and reports from Portuguese companies that were success cases in those markets.

Support to Innovation

In 2012 the Group pursued its effort to support innovation, based on three pillars: Stimulate Innovation, Invest in Innovation, and Monitor Innovation.

• **Stimulus to Innovation** - the BES National Innovation Awards, held this year for the 8th time, are the highlight of BES's activity in this area and register an increasing number of participants. In 2012 the great winner was the project "Streambolic". In addition, the Group continued to develop communication and awareness raising initiatives through its Innovation Roadshows, which in 2012 travelled through the Minho and Estremadura regions;

• **Investment in Innovation** - this area was particularly dynamic in 2012 as a result of the works launched in 2010/2011 under the "BES – Support to the Innovative Companies" programme. In 2012 Espírito Santo Ventures, Sociedade Capital de Risco, together with national co-investors, invested ca. EUR 2.0 million in four new Portuguese start-ups. This co-investment logic permitted to expand the number of institutions and investors that support the highest potential opportunities in the country, thus reinforcing the Portuguese 'innovation ecosystem'. In addition Espírito Santo Ventures, together with a North-American co-investor fund, also subscribed the capital increase of one of its Portuguese start-up subsidiaries;

• **Monitoring Innovation** – the work launched in 2010 involving the direct cooperation between innovation specialists and the network of Corporate Centre managers was pursued in 2012, permitting to identify more than 500 innovative companies and projects at national level. This involved making more than 1,000 visits and the assessment of over 100 investment opportunities, some of which will lead to acquisitions in 2013.

Furthermore, yet other initiatives were taken to support innovation:

• 2nd edition of the Advanced Management and Innovation Programme for Entrepreneurs, jointly organised by BES and the Portuguese Catholic University in the 2nd half of 2012;

• Cooperation with key innovation hubs across the country, such as incubators and technology transfer centres;

• Direct support to start-ups through quarterly programmes in Silicon Valley;

• Organisation of meetings and conferences involving start-ups and potential investors.

Middle Market

Due to its consolidated business model and adequate geographic presence BES Group has a deep-seated knowledge and close links with the business community. These key factors of the commercial approach permit to take fast decisions and maintain a consistent credit policy, both qualities being valued by the clients.

Commercial proactivity, another important driver in this segment, combined with a competitive offer and a service of excellence – with the back-up of teams specialising in different areas of corporate banking – permit to find adequate financial solutions for each specific client. Despite the difficult market conditions, this approach has allowed the Group to attain positive results in 2012, namely:

• In Life and Disability Insurance for employees of corporate clients, the number of new policies increased by 45%;

• The cross-selling of non-life insurance products continues to provide a very good complement to the banking offer, leading to portfolio and revenue growth of 21% and 21.1%, respectively;

• In human resources solutions, such as staff recruitment, training, outsourcing and placement of temporary workers, provided under a partnership with Multipessoal, revenues grew by 21%.

Constant monitoring and prospecting for new clients viewing the identification of customers with a good risk profile continued to prove a priceless client-acquisition tool, which, allied to an innovative and competitive offer, led to the acquisition of 677 new active clients in 2012.

At Iberian level, the coordinated work between the teams of bankers of the domestic and Spanish commercial networks continued to foster client acquisitions and business development (209 new clients added in Spain and 126 in Portugal).

BES has actively promoted the various **PME Investe** and **PME Crescimento** credit lines, two important tools to support the national SMEs' investment and growth. In the specific case of the current PME Crescimento line, BES is at the lead of the support provided to the exporting companies, with loans approved totalling EUR 156 million, corresponding to a market share of 29%.

BES Express Bill

"BES Express Bill", a solution exclusively developed by BES to manage companies' payments and receipts, has been extremely important as a critical source of liquidity and a booster of confidence in business dealings. Up to the end of 2012 more than 11,000 companies have subscribed to "BES Express Bill", with ca. EUR 2.1 billion in facilities approved (guaranteeing advanced payments of more than EUR 10 billion per year).

The role of Venture Capital in BES Group

Espírito Santo Ventures invests, through venture capital funds, in technology based companies and innovative business projects with high-growth potential, original business products and concepts targeting the international market.

Espírito Santo Ventures has around EUR 250 million in assets under management invested in 45 companies that are developing worldwide leading products and services in the areas of Clean Tech, Health Care & Wellbeing and IT.

Six investments were made in 2012, four of which in Portuguese companies:

- Equigerminal: Portuguese company which is developing a test to detect all currently known variants of the equine infectious anaemia virus;
- JDCPhosphate: North-American company that developed a new process to obtain phosphoric acid, a basic component in the production of agricultural fertilizers;
- Ubiquity: North-American company specialising in customer-support online services;
- SakProject: Portuguese company with the technology to produce customised protection solutions for athletes;
- Weduc: Portuguese company which has developed a communication platform based on the social networking model for communication between parents, students, teachers and schools with full safety and privacy;
- Muzzley: Portuguese company which has developed a technology which allows interaction between smartphones and other appliances.

In April 2012 the Espírito Santo ventures II fund sold to Google its interest in TxVia, a North-American company specialising in cards and payments processing solutions.

Capital Growth Fund

The BES PME Capital Growth venture capital fund, launched in 2009, is aligned to BES Group's strategy of supporting the SMEs. It has an allocation of EUR 120 million, and was fully subscribed by BES Group. The objective of the fund is to promote the recapitalisation and restructuring of SMEs in various business sectors, which have a viable business model and the potential to grow. The fund supports these companies by acquiring a stake in their share capital or through other available instruments that ensure their financial sustainability.

Up to December 2012 the fund had invested EUR 91 million in 18 companies from different sectors, while also assisting them in pursuing their business strategy.

Fundo do Bem Comum (Common Good Fund)

BES is one of the qualified investors in the "Bem Comum" venture capital fund, which invests in the share capital of seed and start-up companies with headquarters or management in Portugal promoted by unemployed people over 40 years of age and relevant professional experience.

The Fund aims to fight unemployment among people aged 40 or more, with experience, talent and professional competence but reduced possibilities to return to the labour market.

In 2012 the fund manager pursued its strategy of identification and analysis of investment proposals, for which it invested in promoting the fund, in the selective attraction of projects in cooperation with reference institutions of the National Innovation System and in the reinforcement of mechanisms for the technical validation and anticipation of the economic performance of the applications submitted. In 2012 a total of 248 applications to the Common Good Fund were received, of which 21 were analysed by the fund manager's Board of Directors, originating a pipeline of EUR 1 million. In 2012 the Fund already held a stake in a first company and it is expected that the pipeline generated in 2012 will lead to the inclusion or more companies in 2013.

BES Agriculture Solutions

BES Agriculture Solutions offer a full range of financial products and services devised to guarantee the business sustainability of agricultural ventures. These include the support products and services for small, medium and large companies adapted to the specific needs of agricultural companies, and also innovative products specifically created for the sector in Portugal.

These Solutions comprise the following:

- Cash management solutions such as the BES Express Bill, Factoring, the advanced payment of incentives and seasonal loans;
- Through Companhia de Seguros Tranquilidade, a large offer of insurance products for the agricultural sector;
- Specialised Offer, including commodity price hedging and products that support international trade operations;
- Support to Investment through IFAP Subsidised Lines, BES Financial Facilities and the Credit Line for Agricultural Certification.

The Bank has entered protocols with leading agricultural suppliers (tractors, farming tools and irrigation systems) under which farmers may take out loans to buy new equipment under very favourable conditions: financing of up to 100% of the investment, maximum repayment period of 7 years and up to 2-year moratorium on principal repayments.

The purpose of the Credit Line for Agricultural Certification is to assist farming ventures adopt sustainable and internationally recognised agricultural production practices. Agricultural certification can increase the competitiveness and brand recognition of products in the national and international markets, which are increasingly demanding with regard to farming methods.

The Bank finances the costs of the necessary works and equipment to obtain an internationally recognised certification, such as Global Gap, LEAF or Biological Production. The certification facility is provided under a partnership with SGS, the largest and best known world certification organisation.

FAME

In 2012 BES continued to offer the FAME fund, a tool created by the Bank in 2009 to support local development through the financing of micro companies, covering municipalities across the entire country. FAME is integrated in Axis III of the Finicia programme, involving Mutual Guarantee Companies, city councils, the Institute to Support Small and Medium Sized Companies ("IAPMEI") and regional development societies. The involvement of these entities provides assurance that the support given is used more effectively, while lowering the financing risk. In 2013 BES will continue to offer this facility, negotiating with the local partners the best financing conditions in the current economic context.

BES Sustainable Environment and Energy Solutions

In 2011 BES redesigned its BES environment & energy offer in order to better adjust it to the clients' needs.

As a result, in 2012 a total of 22 operations were awarded to Yunit, representing a total investment of EUR 3.5 million.

BES's partners for the Sustainable Environment and Energy Solutions are Yunit, which manages the entire implementation process, and ISA, the strategic partner for energy efficiency audits). BES offers a credit line to finance energy efficiency and microgeneration projects, thus helping its clients invest in ecoefficiency and the production of green energy.

The following options are available:

- **Energy efficiency solutions**, development and implementation of energy consumption rationalisation plans and solutions that take into account technical and economic viability based on an energy study provided to the client.

- **Microgeneration**, offered to clients who wish to diversify their energy supply sources and become energy independent through the production of renewable energy.

Environmental Liability Bank Guarantees

Within the context of the environmental liability law, enacted by Decree-Law no. 147/2008, BES makes available to Portuguese companies bank guarantees issued in favour of the Portuguese Agency for the Environment, to cover the restoration or prevention of environmental damages, or imminent threats arising from a company's activity. These guarantees not only help the national companies to comply with the law but also to reduce the risk of environmental damages liable of undermining their competitiveness.

Corporate Banking

Corporate clients are monitored by commercial teams specialised by sectoral clusters, based in Lisbon and Porto. The segment is divided into three major areas: (i) Top Corporates; (ii) Large Companies; (iii) International Premium Unit.

Close cooperation with the area of investment banking continues to be decisive in the monitoring of the large national and multinational companies that use their subsidiaries in Portugal as a platform to enter other international markets, namely in the Community of Portuguese Speaking Countries.

The Investment Banking area's strong specialist focus and knowledge about the international markets permits to support companies' needs in areas that largely surpass the scope of traditional credit transactions, including cross-selling solutions (cash management services using electronic means of payment that complement the traditional commercial offer), trade finance and financial advisory services.

Since it was created the International Premium Unit has receives requests for internationalisation support from 1,899 companies, of which 352 resorted to the IPU for the first time in 2012.

In addition to these requests for assistance on a case-by-case basis, 464 companies with a strong foreign trade component (263 in the south of Portugal and 201 in the north) are monitored on a permanent basis by specialist corporate bankers.
The internationalisation strategy followed by BES Group, which permitted to enhance and cement its relationship with the Iberian and multinational companies in new markets through the provision of a customised and dedicated service, specialised by geographical areas, also underpinned this good performance, further reinforcing BES Group's position in the Corporate Segment.

Municipalities and Institutional Clients

Institutional Clients (municipalities, municipal companies, universities, public hospitals and third sector institutions) have the support of expert teams based in Porto, Coimbra, Lisbon, Setúbal and Faro. The specialisation of the Bank's teams and the close links established with the segment permit to develop long-term partnership activities with the institutional clients.

In the third sector, or social economy, area, the Group has signed protocols with CNIS (the National Confederation of Solidarity Institutions) and with the União das Misericórdias Portuguesas (Social Solidarity Union), offering them and their employees preferential commercial terms.

The social economy organisations are broadly represented locally across the entire country. Since 2007 the Bank has financed these organisations in the development of social equipment projects, complementing its lending activity by an offer of financial products and services adapted to their specific needs. Its consistent investment in this segment, which has a relevant weight in the Portuguese economy, make Banco Espírito Santo a reference partner for the sector.

Financial involvement with social economy institutions totalled EUR 239.6 million in 2012, representing a slight decrease of 0.07% relative to 2011. Credit declined by 6.8% year-on-year while deposits increased by 5.2%.

For the third consecutive year, in 2012 the Bank continued to assist financially an Advanced Training Course on Private Social Solidarity Institutions (IPSS) Management, taught at the Lisbon Catholic University. This initiative was created as a response to the need, which IPPS officials felt and communicated to BES, to receive practical and vocational training to help them improve the service provided to society.

In addition, and given the nature of the social economy organisations, the Bank takes a responsible attitude, referring requests for donations or for assistance in the development of new social entrepreneurship solutions to the competent bodies within its organisation.

4.2 International Commercial Banking

BES Group's International Commercial Banking activity is developed in markets with cultural and economic affinities with Portugal, and its expansion is essentially oriented to the South Atlantic Axis, namely to Africa (Angola and the Maghreb countries) and Latin America (Brazil). The Group's international presence is mainly focused on specific areas where it holds competitive advantages, exploiting markets and/or business areas with high growth potential, leveraging on the experience obtained, and in some areas the leading position, in the domestic market. Given the increasing globalisation and openness of the financial markets, BES Group's international expansion also reflects the need to obtain the economies of scale and operating efficiency gains afforded by a wider scope of operations. The Group's strategy is to serve local customers in target segments but also customers doing business on a transnational scale.

Angola

For **Banco Espírito Santo de Angola**, 2012 was marked by the preparation of its change of strategic positioning through the implementation of a business model based on: the significant expansion in quantitative and geographical terms of the traditional channels and investment in the development of the direct channels; and on the increase in the number of target clients. During the year the Bank consolidated its offer of products and services which it had been developing since the last quarter of 2001, including a new range of credit cards as well as new saving products for private banking clients, which the Bank established as its target segment. The commercial structure was expanded, involving the closure of several outlets and the opening of new branches (the retail network currently comprises 41 branches, which compares with 34 at the end of 2011). On 1 November 2012 a new closed-end real estate investment fund was approved and created. BESA continued to deserve international recognition, earning the following awards in 2012: (i) from the Global Finance magazine - 'Best Trade Finance in Angola', 'Best Foreign Exchange Provider 2012' and 'Best Bank Award' in Angola; (ii) from the World Finance magazine – 'Best Commercial Bank' in Angola; and (iii) nomination as the Official Bank of the UNESCO Planet Earth, valid for 10 years. Assets totalled EUR 7,941 million at the end of 2012 (+16% YoY). Customer funds increased by 24% year-on-year to EUR 2,758 million, while customer loans were up by 36% to EUR 5,382 million. The net profit for the year was EUR 53 million, a year-on-year reduction of 78% that was mainly driven by a 17% decrease in total banking income, to EUR 298 million, due to the performance of net interest income combined with a 35% increase in operating costs resulting from the expansion of the bank and the reinforcement of provisions.

Spain

In a climate of economic and financial instability in Spain and the world, **BES Spain Branch** maintained a positive performance. These were the main highlights in the period: (i) customer deposits increased by 8.7% year-on-year while customer loans decreased by 6.3% – this reflects the success of the branch's policy aimed at reinforcing its self-sufficiency in terms of funding; (ii) the volume of offbalance sheet exposures (guarantees) increased by 3.4%; (iii) the international corporate activity support volume rose by 11.3%; (iv) the number of clients, mostly in retail and private banking (+23.1%), increased by 21.5% year-on-year, which is ca. 3,900 more than in December 2011; and v) continued implementation of the prudent credit risk management policy, involving a strong reinforcement of provisions in light of the direct and indirect effects of the economic situation. This permitted to maintain the rising trend of credit spreads, thus easing the pressure on the cost of liabilities due to intense deposit-taking competition within the Spanish banking system. Operating income grew by 35.8% year-on-year, driven by the increase in banking income (+11.9%) combined with the reduction of operating costs (-0.9%). The year's net profit was EUR 13.2 million, which compares with EUR 8.3 million in 2011.

United Kingdom

BES London Branch concentrates its activity in wholesale banking in the European market. The branch reported significant business volume growth in 2012, with assets increasing by 60%, underpinned by an issue of notes under an EMTN programme. Despite the adverse environment in the international markets, banking income grew by 87% year-on-year, to EUR 57 million. The Branch has been streamlining its costs structure, achieving a year-on-year reduction of 10%. BES London Branch posted net income for the year of EUR 31.7 million.

United States of America

The performance of **Espirito Santo Bank (Miami)** continued to be penalised by South Florida's difficult situation in recent years, especially in the real estate business; still, there are signs that this business is stabilising, and even improving in the segment of private high network clients. The loan portfolio increased to USD 452 million, which is USD 6 million more than in December 2011, while deposits reached USD 512 million. Assets under management totalled USD 1.3 billion at the end of 2012. The net profit for the year was USD 3.7 million. In 2012 ESBank obtained for the first time the "5 star" ranking, the highest assigned by Bauer Financial, on the grounds of its asset quality and liquidity and solvency levels.

BES New York Branch concentrates its activity in wholesale banking, mainly in the US and Brazil. Persisting restrictions on market liquidity and difficulties in access to funding continued to penalise the placement of the certificates of deposit and commercial paper programmes during the year. These adverse market conditions required extreme prudence in business development and focus on risk monitoring and management, in line with the Group's international strategy guidelines and taking into account the sharp contraction of the loan portfolio (-35% YoY) as a result of the deleveraging plan. Despite these constraints, the Bank posted net income for the year of EUR 3.6 million.

France

Banque Espírito Santo et de la Vénétie generated a gross operating income of EUR 15.7 million in 2012, a year-on-year reduction of 24% that was driven by the high refinancing costs. Commercial banking, however, had a good performance, with commercial banking income increasing by 14%, underpinned by the real estate business, which at the end of 2012 accounted for 42.7% of the total (40.2% at the end of 2011). Recurrent banking income was EUR 42.2 million (-9% YoY), while operating costs and amortisation and depreciation decreased by 3%. Provisions increased by 15.7%. The Bank posted net income for the year of EUR 9.6 million (EUR 9.3 million in 2011).

Libya

Libya has been pursuing its process of political, social, institutional and economic consolidation, having held its first democratic elections in July 2012 and appointed the cabinet members in November. In this context, **Aman Bank** has already resumed the implementation of its commercial plans and the reinforcement of its operations which will allow it to make the most of the growth opportunities offered by the country. In 2012 the Bank increased net assets by 21% and generated net earnings of ca. EUR 2.2 million.

China

In 2012 B**anco Espírito Santo do Oriente (Macau)** reported an increase in its corporate banking and trade finance activity with local businesses and in connection to the trade flows between the Popular Republic of China and the Portuguese-speaking countries where BES Group has a strategic position, which permitted to compensate the decline in credit. The Bank also posted significant growth in documentary transactions (e.g. L/C Advising/Forfaiting/Discount), supported by its commercial and operational action undertaken in cooperation with BES's International area, and the strengthening of relations with the main Chinese Banks through instrumental agreements viewing the development of this type of business. The growth and stability of customer funds achieved over the last few years thanks to the excellent relations maintained with the local authorities remains a key priority in the current context: the initiatives developed by the Bank targeting the various client segments resulted in a 130% year-on-year increase in deposits in 2012. All main management indicators were very positive: assets reached EUR 446 million (+79% YoY) while banking income increased by 43%, to EUR 6.9 million. Net income for the year came close to EUR 4.0 million (+63%), underpinned by the growth of net interest income and fees and commissions.

Cape Verde

BES Cape Verde focuses on local corporate banking activity, where it mainly targets public sector companies, subsidiaries of Portuguese companies with interests in Cape Verde, and the local affluent market. The bank is headquartered in Praia and has a second branch in Santa Maria (Sal Island). In 2012 customer loans grew by 48%, while customer deposits increased to EUR 46 million. At the end of the year the Bank had total assets of EUR 137 million.

Mozambique

Moza Banco continued to deploy its commercial expansion plan, and after opening 13 new units in 2012 in areas of the country showing fast economic growth, currently has a network of 20 branches. At the same time the bank has been reinforcing all its support areas, aligning its processes to best market practices and implementing an ambitious and well-designed plan to train its human resources. Activity continued to grow at a strong pace: assets and deposits grew by 142% and 171% respectively (YoY, in local currency) and the number of clients increased.

Venezuela

At the beginning of 2012 **BES** opened a **Branch in Caracas**, reinforcing its presence in Venezuela. This initiative will allow the Group to build closer ties with the Portuguese resident community (estimated at ca. 500,000 people) as well as with local large companies and institutions. By the end 2012 the Branch had captured deposits totalling EUR 106 million and had total assets of EUR 134 million.

Luxembourg

BES also operates in **Luxembourg** since January 2012, where it opened its new **Branch** to the public in July of that year. The new unit will target the Portuguese emigrant community in the country as well as in neighbouring countries in central Europe, while offering the Group's global client base the possibility to do business in a traditional financial market. At the end of the year the Branch had total assets of EUR 386 million.

4.3 Investment Banking

BES Group's investment banking activity is developed by Banco Espírito Santo de Investimento (BES Investimento or BESI, international trade name Espirito Santo Investment Bank), whose main objective is to provide services to medium-sized and large companies, institutional clients, and in some specific segments, retail clients, in coordination with the Group's private banking area.

BES Investimento offers a wide range of specialised products and services, including advisory services in mergers and acquisitions, access to transactions in the capital markets (equities and debt), brokerage and portfolio management services, structured finance, including project finance and acquisition finance, and management of private equity funds.

In a year marked by growing uncertainty and difficulties, which mainly impacted Europe but whose effects also spread to the main global economies, BES Investimento was capable of drawing on the opportunities afforded by the market. Banking income increased by 9.7% year-on-year, to EUR 263 million, surpassing the record of 2010 (EUR 260million). Growing internationalisation, the participation in the Portuguese privatisations programme, the support provided to Portuguese companies in accessing the international debt markets, and the trading gains helped compensate for lower growth in certain business areas more exposed to the adverse context. Operating costs decreased by 1.4%, despite the new steps taken towards international expansion. The year's net income before tax was EUR 40.8 million, more than the 2011 result (EUR 17 million). The international area contributed with 60% to total banking income, once again bearing out the benefits of the strategy pursued.

BES Investimento's international development strategy was reinforced in 2012 through expansion into India, one of the most promising emerging markets in the world. Brokerage gave its first steps there in May and other investment banking activities should follow suit in the first months of 2013. BES Investimento has also been studying alternatives for expanding its presence in Hong Kong, where it already has a brokerage firm through Execution Noble. In South Africa it entered a joint venture with Avior Research, a well-known independent local broker and research house. Under this strategic partnership, BESI will engage in exclusive equity research distribution to institutional clients in Europe and trading in the South-African and pan-African markets, while reinforcing its emerging markets' equity offer. The bank also opened a representative office in Cologne which will seek to capitalise on Banco Espírito Santo's presence in Germany. In the other countries where it operates BES Investimento continued to consolidate its presence.

In **Portugal** BES Investimento played an important role in the reopening of the international debt markets to Portuguese issuers, leading the senior bond issues of EDP Finance BV (named 'Euro Bond of the Year' by the International Financing Review), Portugal Telecom International Finance B.V., Brisa-Concessão Rodoviária, S.A. and Banco Espírito Santo, S.A., for an overall amount of EUR 2,550 million. BES Investimento was also prominent in the privatisations process, participating as financial advisor to the Portuguese State (as seller) and to international investors (as buyers) in the operations of EDP, REN, Brisa and Cimpor, as well as in the privatisation of ANA, which is still under way. It maintained the leading position in equity trading in the NYSE Euronext Lisbon, with a market share of 11.9%, and once again ranked in first place in Mergers & Acquisitions (by number and amount of announced transactions, according to Bloomberg).

Benefiting from an increasingly broad international presence and close coordination with the structures of Banco Espírito Santo, BES Investimento continued to work to expand its reach in the corporate segment in **Spain**, viewing the intensification of cross-border business and the development of capital markets and M&A activities. In a year characterised by adverse macroeconomic and financial conditions, BESI was mandated lead arranger of BioOils' EUR 45 million loan restructuring operation aimed at increasing the capacity of a biodiesel power plant in Huelva, participated in the partial refinancing of a EUR 2.4 billion loan to Sacyr, and provided advisory services to the EDP Group on the sale of its natural gas transmission subsidiary in Spain, Naturgas Energía Transporte. BES Investimento positioned in 2nd place in the Iberian M&A ranking (by amount of announced transactions, according to Bloomberg) and maintained a prominent position (6th place) in the Spanish brokerage ranking, with a 4.8% market share in 2012.

In **Brazil** – the country with the largest regular contribution to consolidated income and results - BES Investimento was in general very dynamic, particularly in M&A and Capital Market activities, where the bank participated in several prominent operations, namely as financial advisor to the shareholders of Meizler Biopharma on the sale of a 51% stake in this company to the UCB Group, and as joint bookrunner of a follow-on primary and secondary offering of shares of Minerva (BRL 498 million) and of Oi S.A.'s USD 1.5 billion eurobond issue. BES Investimento also acted as financial advisor in various project finance operations, mainly in the energy and transport infrastructures sectors, reinforcing this role in several financing transactions and concession auctions. In brokerage, BES Investimento rose to 21st place in the Bovespa ranking, with a market share of 1.1%, and continued to develop its new business areas, namely wealth management and private equity. In this last area, 2012 saw the incorporation of the first fund managed by 2bCapital (a 50/50 joint venture with Banco Bradesco), which targets the Brazilian market and raised BRL 320 million for investment in its first closing.

In the **United Kingdom**, BES Investimento focused on the reorganisation of its activities, the unification of its brands and differentiation vis-à-vis the competition through the distribution of Iberian, Polish and Brazilian products in the local market. In capital markets BESI concluded several transactions, namely as corporate broker of the offer for acquisition of GlobeOp Financial Services (total valuation of GBP 548 million) and as sole bookrunner of the placement of shares of Novae (GBP 35 million) and Xchanging plc (GBP 22.4 million). In Mergers & Acquisitions, BES Investimento provided advisory services to Irwin Mitchell, a law firm, and SCOBAN, a private banking firm.

In **Poland**, BES Investimento concentrated its efforts on cross-border mergers and acquisitions and capital market activities, and continued to support the business development of its local and international clients, mainly through the issuance of bank guarantees. The bank consolidated its credentials in the Polish market, where it participated as joint bookrunner of the privatisation of 50% of ZE PAK (zloty 681.5 million), the second largest IPO in 2012 in the Warsaw Stock Exchange. It also acted as sole arranger of a zloty 320 million issue of domestic bonds by Ciech, and as financial advisor on the sale of 100% of Lotos Parafiny to Krokus, a private equity fund (under a Leverage Management Buy-Out operation). In brokerage, the bank rose to 11th position in the Polish brokers' ranking, advancing its market share to 3.2%.

In the **United States**, 2012 was marked by the development of advisory and distribution activities with the objective of reinforcing the role of this country as a platform for the distribution of products originated in other markets where BES Investimento is present. The bank provided advisory services to Sugalidal on the acquisition of Tresmontes Luchetti Agroindustrial, a Chilean company.

In **Mexico**, BES Investimento obtained several mandates, namely as Lender and Underwriter of Tranche C of the USD 166 million working capital facility extension for the construction of a 750 MW hydropower plant, and as co-manager of Grupo Financiero Santander México's IPO, the largest ever made by a Mexican company.

In **Africa**, BES Investimento pursued the efforts to reinforce its presence in some of the region's main markets, especially in Angola where it operates from an investment banking office created within BESA and where it is seeking to operate through a local broker dealer, and in Mozambique, where it aims to develop investment banking activities.

Project Finance

Financing sustainable development

As in previous years, in 2012 the Group continued to finance renewable energy projects, namely a 750 MW hydropower plant in Mexico.

In addition, the Group also participated in the financing of a project to plant and explore a pine tree forest, and of the concession of a wastewater infrastructure to a water utility, both in Brazil.

The Group's exposure to the renewable energy sector currently accounts for ca. 20% of its total project finance portfolio, representing a commitment of over EUR 1,164 million.

Assessment of the Environmental and Social Risks in Project Finance

At BES Group, project finance transactions are subject to a prior risk analysis concerning the potential direct and indirect negative environmental and social impacts arising from the development and implementation of the projects to be financed. This risk analysis is conducted in accordance with the principles and methodologies recommended by the Equator Principles Association, of which BES is a founding member.

In 2012 the Group started to analyse the environmental and social risks of all project finance operations below USD 7 million, thus adopting the financial sector's best practices in this area.

In 2012 this analysis classified 2 projects as low risk (level C) and one as medium risk (level B), the three being located in OECD high income countries.

The risk analysis is supported by the ESI Sustainable Finance Toolkit, a software application for environmental and social risks assessment that permits to identify, manage, monitor and report the risks involved in the Group's various transactions and clients.

Following the risk classification, the next step is to obtain from the project's promoters evidence of compliance with the local legislation and with the social and environmental requirements identified in the preliminary analysis.

This assessment is conducted with the help of external experts who verify and provide independent assurance that the project complies with the requirements in terms of minimisation of environmental and social risks.

Within the project finance team certain members are appointed to (i) coordinate and implement continuous training sessions about the ESI Sustainable Finance Toolkit, (ii) take part in meetings and discussions concerning the Equator Principles Financial Initiative, (iii) support the other team members in the management of the Equator Principles portfolio, and (iv) disclose non financial information conveying the Group's commitment to best practices in environmental and social risk assessment.

4.4 Asset Management

This segment includes all the asset management activities of the Group, essentially carried out by Espírito Santo Activos Financeiros (ESAF), through its specialised companies, within Portugal and abroad (Spain, Luxembourg, Angola, and Brazil). ESAF's product range covers mutual funds, real estate funds and pension funds, besides providing discretionary and portfolio management services.
At the end of 2012 the global volume of assets under management was ca. EUR 15.4 billion, which represents a close to the volume in 2011.
By business area, the strong increase in volumes under management of real estate funds (+52%) and mutual funds (+10%).
At the end of 2012 ESAF's international activity represented ca. 23% of the total assets under management, corresponding to more than EUR 3.8 billion, of which over EUR 2 billion in Spain and EUR 850 million in Angola, where volume was boosted by the launch of the BESA Valorização real estate fund by the subsidiary BESAACTIF FI. In Luxembourg and Brazil assets under management increased by 23% and 16%, respectively.

Mutual Funds

Total volume under management of mutual funds reached EUR 5,115 million at the end of 2012, with domestic mutual increasing by 22% year-on-year, to EUR 2,896 million, due to the strong growth of the ES RENDIMENTO and ES LIQUIDEZ funds. During the year further steps were taken in the plan to rationalise the domestic offer of mutual funds, involving the merger by incorporation of six funds, and the adjustment of the investment policy for another three.

In Luxembourg, BES Group has several funds under management targeting clients with a wide range of risk profiles. At the end of 2012 the aggregate volume in these funds was EUR 504 million: (i) the ES Fund, comprising several compartments (shares and bonds); (ii) the Global Active Allocation Fund, targeting individual clients and institutions; (iii) the SICAV European Responsible Consumer Fund, which is sold in Portugal, Spain, and Luxembourg and whose investments take into account ethical, environmental and social concerns; and (iv) and the Espírito Santo Rockefeller Global – Energy Fund, created under a joint venture between the Espírito Santo Group and the North-American Rockefeller fund manager to manage and sell a special investment fund exclusively dedicated to the energy sector.

Real Estate Funds

Overall volume under management in real estate funds was EUR 1,834 million in December 2011. Domestic real estate funds registered a 12% reduction in assets under management, largely as a result of decreases in the Fundo de Investimento Imobiliário Aberto Gespatrimónio Rendimento (-10%) and the Fundo de Investimento Imobiliário Aberto Logística (-22%). BES Group currently manages 27 closed-end real-estate funds for private subscription, which target clients seeking to invest in real estate funds for a predetermined period of time.

The reduction in domestic real estate funds volume was largely offset by a EUR 757 million increase in assets under management of real estate funds in Angola.

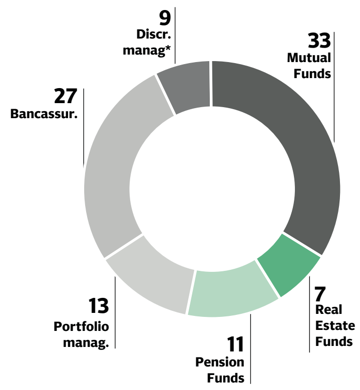
Pension Funds

In Pension Funds, assets under management totalled EUR 1,786 million. Volume under management of the domestic pension funds stabilised (following the transfer of assets and liabilities to the Social Security under the agreement established with the government in 2011 concerning the beneficiaries of the BES Pension Fund), reaching EUR 1,551 million, with a sharp increase in volumes of open-end funds (+21%) and a small reduction in closed-end funds (-3%).

Discretionary Management

The Portfolio Management service, designed for clients in the Private Banking and BES 360 segments, aims to obtain sustainable returns over the long run. Assets under management (in euro and foreign currency) totalled EUR 1,960 million at the end of 2012, representing a year-on-year increase of 123%.

Asset Management: Product Breakdown
(%)



* Includes discretionary management of institutional, individual and other clients.

Responsible Investment Funds

In 2011 BES was the first Portuguese bank to subscribe to the United Nations Principles for Responsible Investment (UN PRI) initiative, an international network of investors working together to put the six Principles for Responsible Investment into practice.

ESAF has created and integrated within its broad indicators matrix a set of indicators aligned to the PRI, which are classified into three major categories, namely environmental, social and governance (ESG). The performance of each company in these three indicators is combined and the resulting score is subsequently inputted into the broader quantitative models used as a basis for investment decisions.

Social, environmental and governance concerns will continue to be taken into account in the traditional corporate management models, and, where possible, the investment analyses will privilege those that adhere to good ESG practices.

In addition, BES Group manages and sells specific social responsibility and sustainability oriented products targeting socially responsible individual and institutional investors.

European Responsible Fund
The European Responsible Fund is one of the products in the portfolio of funds managed by ESAF that specifically targets socially responsible investors. The fund complies with every rule and standard applicable to its class of funds, strictly abiding by a list of exclusions built upon the rationale that investment in companies whose practices are at odds with the principles of responsible investment is banned. As an example, the fund does not invest in weapons or tobacco manufacturers or in electricity production companies using nuclear energy. The fund's list of approved investments coincides with the names in the FTSE4Good index for companies headquartered in Europe.

The fund, which was developed in 2003, held EUR 3.1 million under management in 2012.

Espírito Santo Infrastructure Fund (ESIF)
In 2012 BES Group continued to invest in the Espírito Santo Infrastructure Fund (ESIF), a venture capital fund managed by Espírito Santo Capital (ES Capital), a venture capital firm of the Espírito Santo Group. In 2012 this fund represented 28% of the funds under management by ES Capital. This fund has capital of EUR 95.7 million of which up to a maximum of 66% may be invested in renewable energies. Up to the end of 2012 the fund invested ca. EUR 48 million in renewable energy projects, from a total committed capital in excess of EUR 68.7 million. In 2013 the fund is expected to invest another EUR 17.4 million in renewables projects.

Main investments in renewable energy projects made by the fund in 2012:

- Acquisition of the Sierra Sesnández 20MW wind farm;
- Acquisition of the Cova da Serpe II 25.2MW wind farm in Spanish Galicia;
- Acquisition by Globalwatt of licences to develop two 2MW photovoltaic power plants.

ESIF's main invested companies in the renewable energy sector:

- Iberwind, the largest company by Portuguese wind assets, with installed capacity of 684MW;
- Windway, which holds a 23MW wind farm and a portfolio of licences to develop wind farms in Poland with 94.5MW installed capacity; ESIF has a 40% stake in this company;
- Globalwatt, a company that invests in solar photovoltaic parks in Iberia, has 19.6 MW of potential capacity; ESIF has a 50% stake in this company;
- ERSS, owner of the Sierra Sesnández wind farm; ESIF has a 40% stake in this company;
- Parque Eólico Cova da Serpe II, owner of the Cova da Serpe II wind farm; ESIF has a 50% stake in this company;
- ESUS, a company set up to build and operate a 45MW wind farm in Galicia; ESIF has a 45% stake in this company.

Luso Carbon Fund
In order to use financial investment as a direct means to combat climate change, the Group maintained a EUR 6.8 million investment in the Luso Carbon Fund (LCF). The LCF invests in renewable energy, energy efficiency and waste treatment projects within the scope of the Kyoto Protocol.

Responsible Investment Funds – Banco Best
Through Banco Best, BES Group sells responsible investment funds with a diversified investment strategy and geographic allocation. In 2012 the Bank's clients subscribed 59 of the 138 available funds.

4.5 Outlook for BES Group. Main Risks and Uncertainties

The macroeconomic outlook for 2013 points to a gradual recovery in global economic activity with growth maintaining a relatively moderate pace. Though recognising the stabilising effect of the policies implemented in recent years, the IMF has slightly trimmed down its growth estimates, now forecasting a 0.2% contraction in the euro zone in 2003. However, the significant improvement in sentiment in the financial markets is not expected to feed through to the real economy as soon as would be desirable, with negative risks still lingering which should not be ignored, namely concerning a possible deterioration of the euro zone crisis and fiscal uncertainty in the United States.

The Portuguese economy is expected to contract for the third consecutive year, retreating by 1.8% in 2013 (-3.2% in 2012) as a result of lower public consumption (-2.0%), private consumption (-3.8%) and investment (-8.4%), with unemployment set to reach close to 17% of the labour force. The end of 2012 and January 2013 saw positive signs of the utmost importance concerning the efficient return of Portugal to the markets, namely a sharp fall in debt yields and credit spreads and the reopening of the long-term debt markets to the Republic as well as to Portuguese businesses and banks.

The outlook for 2013 continues to be founded on the sharply restrictive public economic policies, with access to the long-term debt markets still very limited, a very small or inexistent short-term interbank market, and the maintenance of the financial restrictions imposed on Portuguese banks in connection to the Assistance Programme agreed by the Portuguese government with the IMF, the ECB and the EU. Such restrictions include the requirement of maintaining a Core Tier I ratio of 10%, substantially above world and European standards, a recommended loans to deposits ratio below 120% to be reached in December 2014 and a stable funding ratio of 100% also in December 2014.

In this context, the outlook for BES Group's activity points to the implementation of commercial strategies focused on the capture of deposits, consistently selective loan granting policies, systematic risk prevention and control, and efficient management of the capital position and liquidity levels, while keeping the sustained growth of the international activity to cushion the recessive effects that will continue to penalise the domestic activity.

Capturing Deposits

The target recommended to the main Portuguese financial groups of reaching a loans to deposits ratio below 120% in December 2014 will force BES Group to follow a funding strategy focused on the capture of deposits. In this context, we stress that the current restrictions on the pricing policy mean that the exceeding of the maximum limits allowed by the Bank of Portugal originate relevant deductions to Core Tier I. All the while, the Group will maintain and further enhance its asset management and life insurance offer so as to be able to address the different saving requirements of its corporate and individual clients.

Credit Granting, Risk Prevention and Control

The lending activity will remain subject to a policy of high selectivity, though taking into account the need to continue to support to the more dynamic sectors of the Portuguese, namely the small and medium-sized exporting companies. BES Group always had and should continue to have a strong foothold in the Portuguese business community and thus intends to be present when its corporate clients wish to finance sustainable business initiatives either in the domestic market or targeting the international markets.

However, and considering that the outlook for 2013 points to a retraction of economic activity, with lower consumption and rising unemployment, the quality of the loan book is expected to deteriorate and require expressive provisioning charges, thus posing new challenges to the risk prevention and reduction process, as well as the reinforcement of the resources and effective instruments required for credit recovery.

Core Tier I Ratio

In 2011 and 2012 BES Group took several measures aimed at complying with the Core Tier I ratio required by the Bank of Portugal for December 2010 (10%) and that set under the European Banking Authority's criteria for European banks as from June 2012 (9%). It cannot be stressed enough that BES Group has met these targets through market solutions, which, in addition to being a unique case within the Portuguese banking system, also allowed the Group to maintain its strategic autonomy. The Board of Directors believes that the solvency levels required by the supervision authorities will be met in 2013, through the Group's own income generation, adequate balance sheet management policies and initiatives viewing the increased efficiency of risk weighted assets. In addition, the Group has laid down a set of measures as part of its Recovery Plan established by Decree-Law 31-A/2012 of February 10th. These measures are intended to reinforce the mechanisms available to the Group which will allow it to ensure, single-handedly, compliance with the solvency and liquidity levels required or recommended by the regulation authorities.

Relevance of the International Area

The Board of Directors believes that BES Group has and will continue to have in Portugal its main basis of activity and market reach. Nonetheless, the growing internationalisation of the Portuguese companies, the relevance of our emigrants established abroad, Portugal's historic links with the Portuguese-speaking African countries and with Brazil, and the Group's indispensable presence in the main financial centres in the world give the international area a key role in lessening the effects of the domestic recession and make it an incontrovertible driver of growth and value creation for BES Group in the future. Therefore the Group's units operating within the strategic triangle should continue to play a decisive role in the Group's performance during 2013.

5. Financial Management and Capital Markets

Over the years BES has maintained a very conservative approach to liquidity risk management, and its structure is designed to ensure that liquidity management complies with all regulatory rules in force in every geography where it operates, and that all its responsibilities are met, whether in normal market conditions or under stress conditions.

Hence one of the main components of BES's liquidity risk management is its funding policy, which uses the various instruments available in the financial markets, encompassing various funding sources, including customer funds, medium/long-term funding instruments, and ordinary and preferred shareholder's equity.

BES Group separates liquidity risk management in three major groups:

- Short-term liquidity;
- Structural liquidity; and
- Contingency liquidity.

BES monitors its short-term liquidity levels through daily mismatch reports prepared in accordance with pre-established guidelines and internally defined warning signals of the potential impacts on the Bank, namely through the risk of contagion (due to market tension) or repercussions of an economic crisis.

In addition, following the sovereign debt crisis in the Eurozone peripheral countries, the Bank of Portugal requested that financial institutions reinforce the information provided on their short-term liquidity position. Accordingly, the treasury position and the evolution of deposits are reported daily, this being complemented by weekly reporting on the liquidity position.

Still concerning short-term liquidity management, in October 2012 the Financial Services Authority (FSA) approved BES's application for a 3-year renewal of the Whole Firm Liquidity Modification (WFLM), which will allow BES to continue to operate in London without being required to create additional liquidity buffers.

With regard to structural liquidity, BES prepares a monthly liquidity report (see chapter 6 – Liquidity Risk) that takes into account not only the effective maturity but also the behavioural maturity of the various products, which permits to determine the structural mismatches for each time bucket. Based on this map, and taking into account the budget targets established, BES prepares an annual activity funding plan. This plan, which is regularly revised, privileges as far as possible medium/long-term funding instruments over short-term instruments.

For contingency liquidity, BES has defined a set of measures that, when triggered, permit to address and/or minimize the effects of a liquidity crisis.

Liquidity Management and Funding in 2012

2012 started with a climate of high instability in the markets leading to a significant widening of sovereign debt spreads in the peripheral countries. Despite the adverse context, in May 2012 BES successfully concluded a EUR 1,010 rights issue which was almost entirely completed through the exercise of pre-emption rights (99.3%) – a clear proof of the confidence placed by the shareholders in BES. Moreover, this operation allowed BES to meet the capital ratios established by the Bank of Portugal (BoP) and the European Banking Authority (EBA) while maintaining its strategic autonomy.

The escalation of instability at the end of 2011 and beginning of 2012 led the European Central Bank (ECB) to adopt a more interventive stance and take a number of measures to restore liquidity to the market:

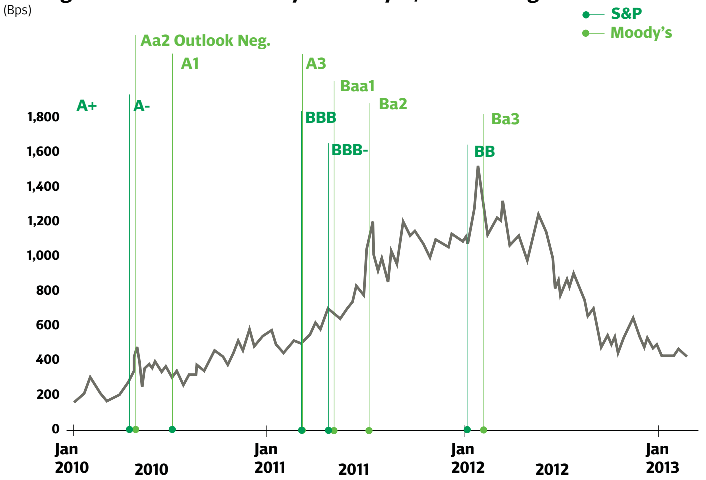
(i) a new long term refinancing operation (LTRO), on February 29th (the first had taken place in December 2011);

(ii) the extension of eligibility criteria for collaterals accepted for monetary policy operations, and the reduction of the reserve requirement ratio for European banks; and

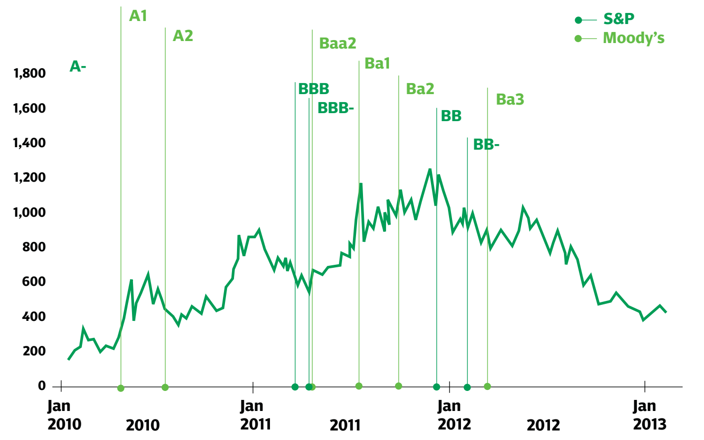
(iii) announcement, in September, of a programme of public debt acquisitions (Outright Monetary Transactions - OMT) from Eurozone countries having formally requested assistance from the European Commission (i.e. countries undergoing an economic and financial adjustment programme or an EFSF/ESM precautionary assistance programme).

This set of events led to a significant reduction of volatility and systemic risks in the Eurozone and represented an important step towards the financial stabilisation of the Eurozone. As a result the yields of the sovereign debt of all peripheral countries fell sharply, and by the end of the year the Portuguese yields had already dropped to below their level in April 2011, when the country had requested financial assistance.

Portugal: Evolution of CDS 5y & Moody's / S&P Rating
(Bps)



BES: Evolution of CDS 5y & Moody's / S&P Rating
(Bps)



In addition, these measures gradually restored the conditions of access to the international financial markets for peripheral issuers, namely for Portuguese issuers such as EDP, Brisa and Portugal Telecom, which, after a long period of inaccessibility to the financial markets, were able to make public issuances of debt in September 2012.

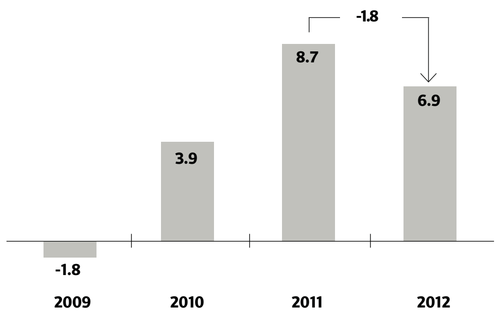
This overall improvement in economic sentiment also allowed BES to tap the international capital markets at the end of November with a EUR 750 million issue of senior unsecured debt with the maturity of 3 years - the first issue of debt made by any Portuguese bank since April 2010. The success of the transaction was evident as the order book reached EUR 2.7 billion (four times the amount of the offer), with the participation of 225 national and international investors.

Also in the last quarter of the year, BES would again access the international markets with a USD 450 million 3-year issue of bonds exchangeable for shares of Banco Bradesco, the third such issue made by BES. This transaction permitted to anticipate the refinancing of the exchangeable bonds issue in April 2013.

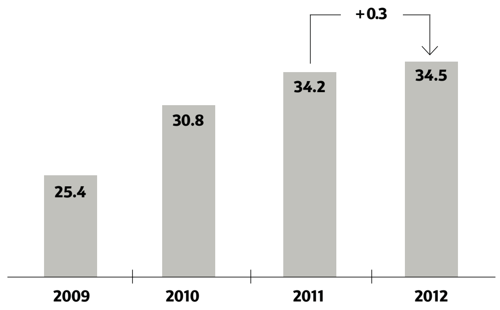
In January 2013 the Group once again tapped the markets with a EUR 500 million issue of senior unsecured debt with the maturity of 5 years. As was the case with the November issue, this latest operation was again very well received by the markets, with demand reaching ca. EUR 3 billion (six times the amount of the offer), and more than 280 investors participating.

Together, these transactions generated liquidity of ca. EUR 1.6 billion, representing an important step in regaining access to funding trhoughthe international capital markets. Moreover, the liquidity thus obtained allowed BES to pursue the strategy of gradual reduction of exposure to the ECB. During the year the balance sheet deleveraging policies pursued permitted to reimburse medium and long term wholesale funding facilities totalling EUR 3.7 billion and also to reduce the net exposure to the ECB by EUR 1.8 billion. Now with a more comfortable liquidity position, at the beginning of 2013 BES decided to repay in advance EUR 1.0 billion of the ECB LTRO facility.

Net ECB Funding Evolution
(EUR bn)



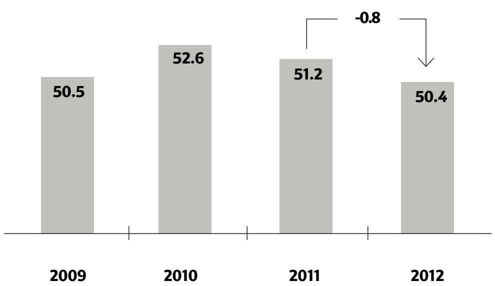
Customer Deposits Evolution in 2012
(EUR bn)



However, even if liquidity conditions improved as from the third quarter and it was possible to return to market funding, the first nine months of 2012 were still characterised by scarce liquidity in the markets. The policy guidelines that permitted to overcome the inaccessibility to international markets over the last two years were therefore maintained:

1. Continued deleveraging of the balance sheet, initiated in mid-2010. This involved the sale of positions in the securities portfolio totalling EUR 3.2 billion during the year. On the other hand the loan book was reduced by EUR 2.2 billion since 2010 with the objective of reaching a loan to deposits ratio of 120% until the end of 2014, which will also permit the deleveraging of the Portuguese families and companies.

Loan Book Evolution in 2012 (Gross)
(EUR bn)



2. Growth of customer deposits, underpinning the strategic guideline of keeping this product as the main funding source.

   Customer deposits increased by EUR 334 million in 2012, having reversed in September the downward trend observed since the start of the year.

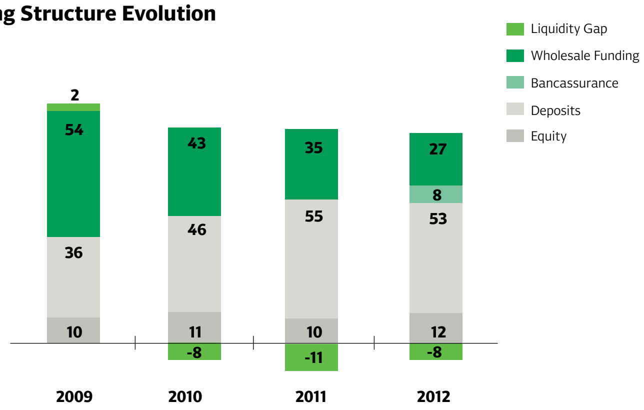
   However, deposits growth (whose rates are limited by a maximum spread) over the year was under pressure from greater demand for higher return saving products, such as bonds, investment funds and bancassurance products.

   On the other hand, the acquisition of control of BES Vida included bancassurance products within BES's offer of customer funds, which at the end of 2012 amounted to EUR 5 billion, representing 8% of the funding structure.

Even so, and as in 2010 and 2011, customer deposits remained BES's main funding source, representing 53% of the funding structure (a 17 p.p. increase since 2009).

Together, customer deposits and bancassurance products account for 61% of the funding structure.

Funding Structure Evolution
(%)



Over the last three years the increase in customer deposits and the reduction of the loan and securities portfolios in part offset the reduction in wholesale funding lines, which as a percentage of the Bank's overall funding structure dropped by 27 p.p., from 54% in 2009 to 27% in 2012.

3. Reinforcement of assets eligible for rediscount with the ECB.

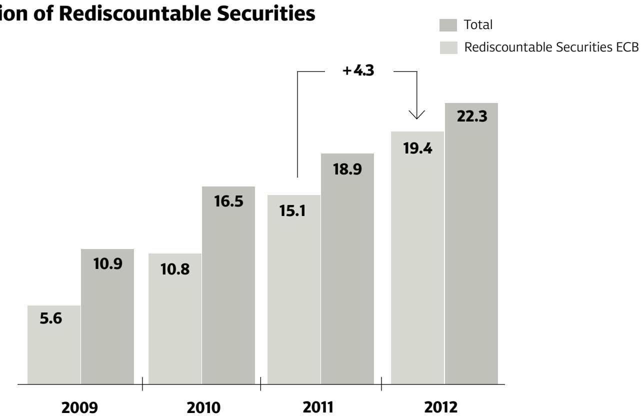
   During 2012 BES pursued its policy of reinforcing the portfolio of assets eligible for rediscount with the ECB, which increased by EUR 4.3 billion since 2011. This reinforcement was mainly focused in the first half of the year, based on the ECB's extension of eligibility criteria for collaterals accepted for monetary policy operations.

   Measures taken in 2012 to reinforce eligible assets:

   - Two 3-year bond issues guaranteed by the Portuguese Republic for a total of EUR 2.5 billion.

   - Preparation of credit portfolios totalling EUR 4.2 billion in accordance with the new eligibility criteria.

Evolution of Rediscountable Securities
(EUR bn)



The portfolio of repoable securities includes exposure to Portuguese sovereign debt of EUR 3.2 billion, as well as exposure to other peripheral countries' sovereign debt, namely EUR 606 million to Spanish public debt, EUR 25 million to Irish public debt, EUR 28 million to Italian public debt and EUR 3 million to Greek public debt.

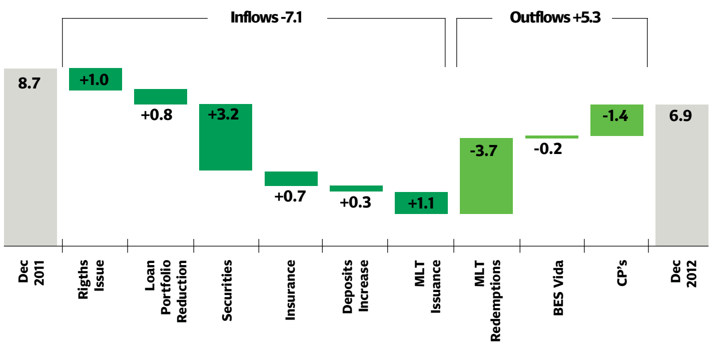
These assets guaranteed access to the main longer-term refinancing operations, which were fundamental during the first half of the year (in which medium and long-term debt redemptions were concentrated) to overcome the inaccessibility to the short and medium term markets.

As referred, at the end of the year the Group's net borrowing position at the ECB was EUR 6.9 billion, broken down as follows:

(i) EUR 10.2 billion under 3-year long term refinancing operations (LTROs)

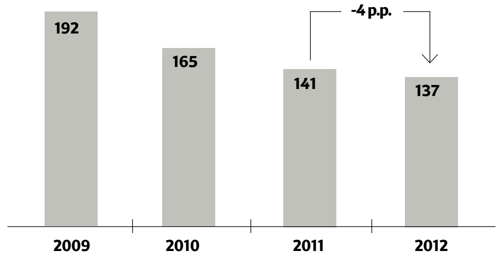
(ii) EUR 3.4 billion of placements with the BCE.

Net ECB Funding Evolution in 2012
(EUR bn)



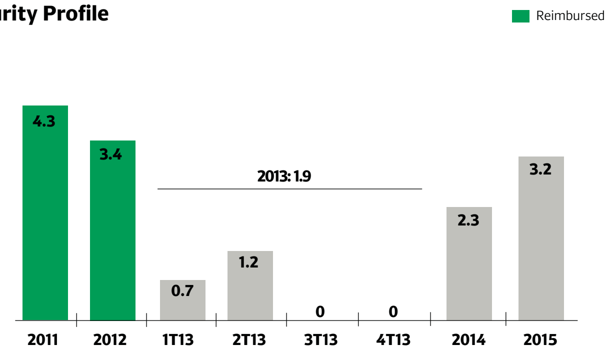
The implementation of the referred guidelines permitted to refinance all the debt maturing before the end of the year, including the EUR 3.4 billion medium and long-term debt reimbursed during the year, to improve the loans to deposits ratio by 4 p.p., to 137% and to reduce net funding from the ECB by EUR 1.8 billion.

Loan to Deposits Ratio Evolution
(%)



In 2013 medium and long term debt redemptions totalled EUR 1.9 billion and were mainly concentrated in the first half of the year. Of the amount coming to maturity, ca. 26% has been refinanced, namely through the EUR 500 million bond issue made by BES in January 2013.

Maturity Profile
(EUR bn)



Ratings Assigned to Banco Espírito Santo
(31 December 2012)

Agency	Long Term	Short Term	Outlook
Standard & Poor's	BB-	B	Negative
Moody's	Ba3	NP	Negative
DBRS	BBBL	R-2 (*medium*)	Negative

Standard & Poor's: on February 14th, following the downgrade of the ratings of the Portuguese Republic by two notches (long term rating from BBB- to BB and short term rating from A3 to B) S&P lowered the long term rating of Banco Espírito Santo from BB to BB- and affirmed the short term rating of B.

Moody's: on March 28th, following the downgrade of the Portuguese Republic sovereign rating from Ba2 to Ba3, Moody's downgraded BES's long term rating in one notch to the same level.

DBRS: on January 31st, DBRS downgraded BES's long term rating from BBB to BBB (low), after lowering the Portuguese republic rating to the same level. BES's short term rating was also downgraded from R-2 (high) to R-2 (mid), with negative outlook.

6. Risk Management

The objective of the Risk Management function is to identify, assess, monitor and report all the material risks to which BES Group is subject, both internally and externally, so that such risks remain contained and therefore do not affect the Group's financial situation.

Efficient risk management and control have always played a fundamental role in the balanced and sustained growth of BES Group, contributing to optimise risk/return across the various business lines while simultaneously providing a consistently conservative risk profile in terms of solvency and liquidity.

Executive Summary

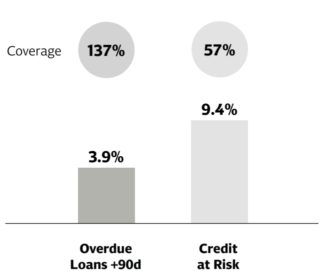
- Independence of the risk function.
- Management involvement at senior level through specialised committees.
- Integrated vision of risk.
- Specialised technical structures.

Credit

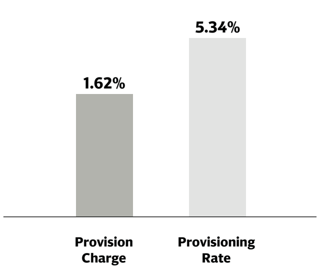
- Economic recession inevitably impacted risk levels: the overdue loans ratio (>90 days) increased to 3.9% (Dec.11: 2.7%) and the credit at risk ratio reached 9.4% (Dec.11: 6.6%).
- Due to the increase in overdue loan levels, in 2012 provisions were reinforced by EUR 815 million (1.62%), which compares with EUR 601 million (1.17%) in 2011.
- The marked increase in provisions on the balance sheet (+24%YoY) permitted to maintain prudent coverage ratios.
- The coverage of overdue loans (>90 days) and credit at risk reached 137% and 57%, respectively, while the average provisioning rate reached 5.3% (Dec.11: 4.2%).
- The Inspections Programme ("OIP") carried out by the BoP resulted in an additional provision charge of EUR 78 million, fully booked in 2012. This amount is immaterial compared to the Group's total provisions.

Overdue loans and provisions

Overdue loans



Provisions

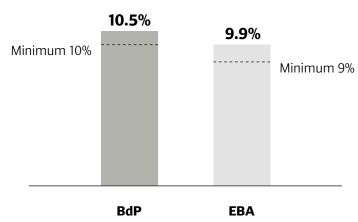


Solvency

- Core Tier I of 10.5% (BoP criteria) and 9.9% (EBA criteria) comfortably above minimum requirements, achieved without resorting to public funds, allows BES to maintain its strategic independence.
- Risk weighted assets dropped by 6%, to EUR 61,651 million, due to the Group's risk management policy and continued balance sheet deleveraging.
- The ICAAP exercise carried out in 2012 with reference to 31 Dec. 2011 concluded that BES Group has a conservative risk appetite ensuring high solvency levels associated to a minimum rating target of A (debt holder perspective).

Stronger capital rations

Core Tier I



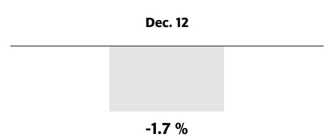
Risk Weighted Assets	2012
Credit Risk	56,454
Market Risk	1,503
Operational Risk	3,694
Total	**61,651**

Liquidity

- On December 31st, 2012 BES Group already met the Basel III Liquidity Coverage Ratio established for 2015.
- The BoP liquidity gap up to 1 year decreased from -15% (Dec.11) to -1.7% (Dec.12), which compares with a gap of -5.4% for the Portuguese banks (Jun.12).
- With the markets not yet stabilised, at the end of 2012 BES opened the debt markets for the Portuguese banks, obtaining medium and long term funding of EUR 1.6 billion up to the start of 2013.

Conservative liquidity risk management

Liquidity gap up to 1 year



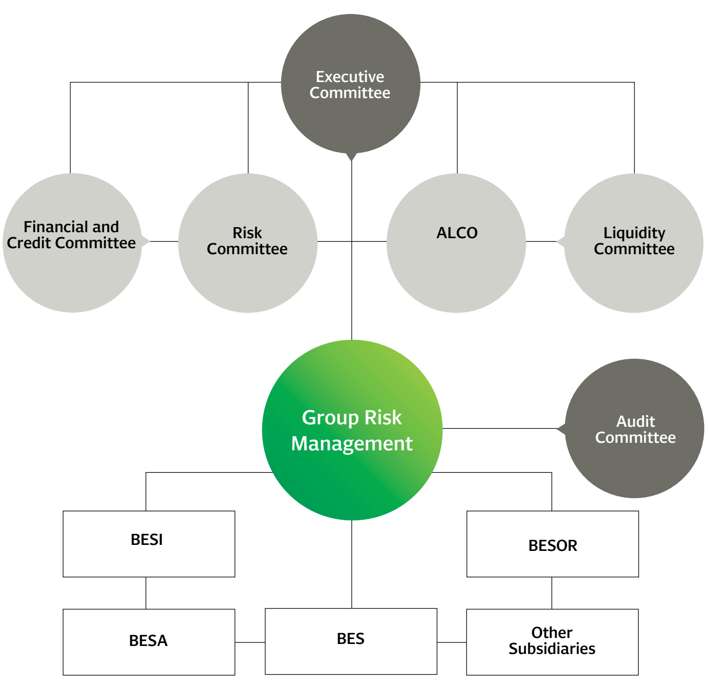
Risk Factors

Risk	Description of Impacts	Mitigation Measures
• Deterioration of the economic situation	Increase in overdue loan levels, devaluation of the real estate and capital markets, difficulty in obtaining funding from wholesale markets	• Detailed and timely monitoring of all risks • Continuous revision of policies and limits • Optimisation of risk/return • Asset liquidification
• Changes in the law or regulations	Unforeseen changes in the law or regulations may affect the Bank's strategy	• Close attention to legal and regulatory developments, seeking to anticipate changes and mitigate potential impacts
• Financial market fluctuations	Market volatility may impact the Bank and the pension fund's results, as well as the net interest margin	• Close monitoring of markets • Robust control processes
• Natural disasters or terrorist attacks	A terrorist attack, pandemic, earthquake or other unforeseen events may affect the normal functioning of BES Group	• Implementation of business continuity management policies
• Geopolitical events	Adverse political or governmental developments in geographies where BES Group is present	• Political situation monitoring • Perform stress tests exercises and implementation of mitigation actions, where necessary

Organisation

The definition of BES Group's risk appetite is the responsibility of the Executive Committee. Its responsibility also includes establishing general principles of risk management and control and guaranteeing that the Group possesses the necessary skills and resources to meet the established objectives.

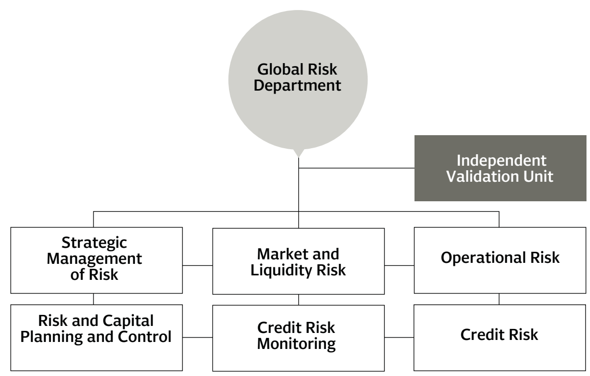
BES Group has several specialised committees that play a relevant role in the area of risk management and control, in line with the decisions taken by the Executive Committee:



Risk management functions and responsibilities are defined according to the "Three Defence Lines" system, which clearly translates the delegation of powers and communication channels formally adopted in the Group's policies. This segregation of functions is fundamental to align incentives and control and manage risk.

Defense Lines	Goals	Responsabilities
1 Risk Taking Business Units	Maximise risk adjusted return within the established limits	**Business Units** The business units are risk takers in their daily activity through the performance of business and the approval of operations, within delegated powers, limits and the Group's policies. Responsible for the risks assumed (upside and downside).
2 Risk Control	Keep the Group within risk limits through the measurement and monitoring of risks	**Global Risk Department** Proposes risk appetite and risk limits. Identifies and monitors risk, reporting excesses. Develops risk assessment models and tools. Has no responsibility for risk taking.
3 Audit	Ensure the effectiveness and adequacy of risk control through mechanisms of regular verification of key processes	**Internal Audit Department** Independent review of compliance with rules, policies and regulations. Has no responsibility for risk taking or risk measurement.

At operational level, the Risk Management Function is centralised at the Global Risk Department (GRD). This function, which is independent from the business areas, consistently incorporates risk and capital concepts within BES Group's strategy and business decisions.



Main functions of the GRD:

- Identify, assess, control and report the different types of risk assumed, thus managing the Group's overall risk exposure, ensuring compliance with internal and regulatory rules, and promoting and monitoring mitigation actions;
- Implement the risk policies outlined by the Executive Committee, while harmonising principles, concepts and methodologies across all the Group's units;
- Develop and monitor methodologies and models to identify and quantify the various categories of risk, namely internal ratings and liquidity ratios, and decision support methodologies such as pricing models, payment decision models and RAROC models;
- Determine, control and report regulatory capital requirements for credit, market and operational risks;
- Develop the internal capital adequacy assessment process (ICAAP) and stress tests exercises;

- Validate and on a continuous basis the risk models and parameters and validate the user-testing levels of risk models;

- Monitor BES Group's internationalisation strategy, cooperating in the design of organisation solutions and in the monitoring and reporting of the risk exposure of the various international areas.

Regulatory Framework

Basel III

The Basel II rules, first presented by the Basel Banking Supervision Committee in 2010, represent a global regulatory change for the financial system. Their purpose is to strengthen financial institutions and prevent new financial crises in the future. Banks will have a transitory period (up to January 1st, 2019) to comply with the approved rules. The Basel III rules have established the following regulatory framework at the end of the transitory period:

- Minimum Core Tier 1 of 7%, o.w. 4.5% minimum common equity and 2.5% capital conservation buffer;

- Minimum Tier 1 of 8.5%, o.w. 6.0% minimum and 2.5% capital conservation buffer;

- Total solvency ratio of 10.5%;

- Introduction of a countercyclical buffer, ranging from 0% to 2.5% of common equity, under conditions to be defined by the national regulatory authorities;

- Transitory period definition for the absorption of deductions to capital not eligible under BIS III and for the new deductions to capital;

- Liquidity coverage ratio (LCR) of 100%;

- Definition of the short and long term leverage and liquidity ratio (NSFR) in certain conditions, to be defined.

The Basel Committee's agenda also includes the following steps in the near future:

- Fundamental review of the rules applicable to the trading book of financial institutions;

- Fundamental review of the treatment of securitisations within the scope of the Basel regulations;

- Review of the "major exposures" regime;

- Review of the standard approach for calculating capital requirements and capital adequacy.

At European level, the Capital Requirements Directive IV (CRD IV), which will transpose into European regulation the main components of Basel III, is still in the phase of approval and there is still uncertainty about its final wording.

BES Group closely follows the works and development process of the future regulatory framework so as to be able to determine and plan for the impacts of the final rules on the Group.

Recovery and Resolution Plans

In 2012 the Bank of Portugal approved legislation on recovery and resolution plans. This legislation aims, in the first case, at identifying measures which can be adopted to correct a situation of stress where the financial strength of an institution is seriously damaged, and in the second, at the possibility of carrying out an orderly resolution of an institution.

BES Group has in place robust mechanisms to ensure the recovery of imbalances caused by serious events that impact its solvency or liquidity.

Prevention of Credit Risk ("PARI" and "PERSI")

The economic crisis currently affecting Portugal has led a growing number of households to experience situations of financial stress. BES has sought to anticipate and respond to this reality through an increasingly close monitoring of the performance of loan agreements with individual clients. In 2012 the Group implemented a process viewing the centralised detection of clients in risk of default, promoting proactive contact with these clients and the adoption of measures to prevent default.

Decree-Law no. 227/2012, of October 25th, which came into force on January 1st, 2013, established the obligation of credit institutions drawing up an Action Plan for the Risk of Default ("Plano de Ação para o Risco de Incumprimento", or "PARI"), thus legally forcing banks to act in this regard. More precisely, the decree-law requires banks to adopt procedures and measures to monitor the execution of loan agreements and in particular that ensure the following:

- The early detection of risks of default. To this end the Bank of Portugal has defined which factors it considers to be signs of degradation of the financial capacity of a bank's client to comply (e.g., the existence of defaults listed in the Bank of Portugal's central credit registry, return of unpaid cheques and prohibition to use cheques, fiscal debts or debts to the social security);

- Fast adoption of measures aimed at preventing default.

Said Decree-Law also introduced another important measure, the Extrajudicial Procedure for Settling Default Situations ("Procedimento Extrajudicial de Regularização de Situações de Incumprimento" or "PERSI"). This procedure requires credit institutions to evaluate the occasional or lasting nature of default, assess the financial capacity of the client, and where possible, present settlement proposals that are adequate to the client's financial situation, objectives and needs. BES has been implementing the measures required for compliance with the procedures laid down in the PERSI.

Inspections Programme (OIP)

An On-site Inspections Programme (OIP) on the exposure of financial institutions to the construction and real estate sectors in Portugal and Spain, developed by the Bank of Portugal with an external auditor appointed by it, was conducted during the second half of 2012, with reference to June 30th, 2012.

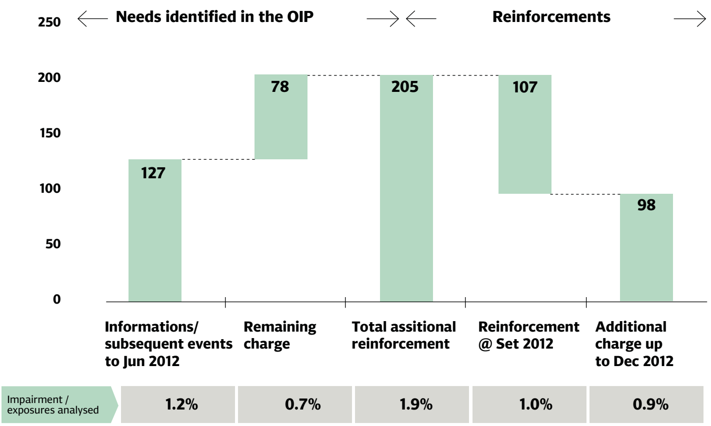
The OIP involved the eight largest national banking groups. Its purpose was to assess the adequacy of impairment levels recorded with regard to exposure to the sectors in question, with reference to June 30th, 2012, based on conservative assessment criteria. BES Group was subject to the inspections programme since it is fully consolidated by Espírito Santo Financial Group.

The programme estimated that BES Group needed to increase impairments by EUR 205 million, corresponding to ca. 1.9% of the exposures analysed.

Of these EUR 205 million, EUR 127 million resulted from the analysis of information and events subsequent to the reference date, such as new insolvencies/bankruptcies or the revaluation of collaterals, as shown in the chart below (left-hand side).

The increase of impairments made by the Group with reference to September 30th, 2012 covered a large part of the needs identified, i.e., it reduced their amount from EUR 205 million to EUR 98 million. This amount was booked on December 31st, 2012, as shown in the chart below (right-hand side).

Impairment Charges
(Eur mn)



The conclusion is that the impact of the results of the OIP is immaterial in light of the Group's level of provisions.

6.1 Credit Risk

Credit risk is the potential financial loss arising from the failure of an obligor or counterparty to honour its contractual obligation. As the major risk to which the Group is exposed within the scope of its lending activities, credit risk management and control are supported by a robust system that permits to identify, assess and quantify risk.

A. Management Practices

Credit portfolio management is carried out as an ongoing process that requires the interaction between the various teams responsible for the management of risk during the different stages of the credit process. This approach has resulted in continuous improvements in the following areas:

- The credit risk modelling system, with a consequent reduction in subjective criteria in the assessment of credit;
- The inclusion of behavioural warning signals in the rating systems;
- The decision procedures and circuits, namely the independence of the risk function, the delegation of powers according to rating levels, and the systematic adjustment of prices, maturities and the guarantees provided by the clients;
- The information systems that produce the various elements required for credit risk assessment, by making these data available to all the intervenients in the credit process;
- The independence of the process of formalisation/execution of operations *vis-à-vis* the origination structure.

As a result of the vast set of initiatives taken over the previous years, namely within the scope of the global project of revising the credit-decision process in the various commercial segments, combined with the near full coverage of credit exposures by internal rating classification, the credit granting process within BES Group is now supported by the widespread use of risk-adjusted return metrics.

Across nearly all the commercial segments, internal rating classifications are directly incorporated into the definition of credit powers at the various decision-taking levels, while being also used to support the differentiation of pricing.

The use of rating classifications for purposes of establishing portfolio ceilings that limit credit granting by both product and rating levels, and in particular restrict the amounts lent when higher risks are involved, is now a broadbased practice. Portfolio ceilings are used as a management tool that is applied differently for individual or corporate client portfolios:

- Mortgage credit, consumer loans and credit cards – portfolio ceilings on origination strongly restrict the approval of operations with the lowest scoring levels;
- Corporate portfolios – ceilings are used to monitor the evolution of the risk profile of the various credit portfolios. The risk profile is assessed based on exposure net of collaterals.

Compliance with the established ceilings is monitored on a regular basis. The resulting information is distributed to the commercial areas and the Risk Committee.

BES Group has in place a strict lending policy that mitigates risk at the various stages of the credit process - origination, monitoring and recovery.

Origination

- Restrictive limits on new credit
- Loan guarantees required
- Price adjusted to risk
- High coverage of rating exposures
- Automatic availability of supporting information to credit decisions, namely in the front office

Monitoring

- Senior management strongly involved in monitoring process
- Credit risk information automatically made available to the commercial areas
- Credit follow-up actions (prior to default)
- Guarantee management processes and controls

Recovery

- Early recovery steps
- Monitoring of borrowers and assets received as guarantee
- Credit recovery process adjusted to business sector, recovery, and divestment areas
- Credit risk included within the criteria of the objectives and incentive systems ("SOI") for the commercial areas)

A.1. Risk Rating Systems

In line with the specific characteristics of BES Group's various client segments, different internal risk rating systems and risk parameters were developed for both corporate and individual clients.

In accordance with the rules on minimum regulatory capital requirements (Basel II) and following the best risk management practices, the internal risk rating systems are validated on a regular basis by the Independent Validation Unit. In 2012 the internal validation exercise applied to the various rating models for the main credit portfolios confirmed that these models were robust and well calibrated for assessing credit risk.

• Rating Models for Corporate Credit Portfolios
Corporate Credit portfolios are approached differently, according to client size and industry sector, using different models specifically adapted to project finance, commodity finance, object finance, acquisition finance and construction finance.

Segmentation Criteria	Model Type	Desciption
Sector, Dimension, Product • Financial institutions • Municipalities • Institutional clients • Local and regional admin. • Large corporate (Sales> EUR 50 mn) • Real estate (Investment/ promotion) • Acquisition Finance • Project Finance	Template	Ratings attributed by teams of analysts, using sector specific models (templates) as well as financial and qualitative information.
Medium Sized Companies: • Sales (EUR 1.25 mn to EUR 50 mn)	Semi-automatic	Ratings model based on financial and qualitative information validated by analysts.
Small Businesses: • Sales up to EUR 1.25 mn Start -Up's and entrepreneurs	Automatic	Ratings model based on financial, qualitative and behavioural information. Ratings model based on financial, qualitative and behavioural information.

Expert Judgement ↔ Statistical

For **Large Companies, Financial Institutions, Institutional Clients, Local** and **Regional Administration**, and **Specialised Finance** (i.e. project finance, object finance, commodity finance and acquisition finance) credit ratings are assigned by a rating desk. The Rating Desk, composed of specialised analysts organised into multi-sectoral teams, validates at central level the ratings submitted by the credit risk analysts geographically spread through BES Group's various units.

To assign internal risk ratings to these risk segments, classified as low default portfolios, these teams use expert-based rating systems (templates) that include quantitative and qualitative variables strongly linked to the industry sector in question. Except for Specialised Finance, the rating methodology used by the Rating Desk includes a risk analysis of the maximum consolidation scope, identifying the status of each subsidiary within the respective conglomerate.

Ratings are validated daily by a Rating Committee formed by members of the Board of Directors and members of the various specialised teams.

For the **Middle Market** segment (companies with turnover between EUR 1.25 million and EUR 50 million, except when in sectors classified as specific risk segments, such as real estate development), BES Group uses statistical rating models, which combine economic and financial data with behavioural and qualitative data.

The disclosure of risk ratings also requires previous validation by a team of risk analysts, who also take into account behavioural factors and, in the circumstances foreseen in the credit process regulations, draw up risk analysis reports expressing their opinion on the proposed operations.

The team also monitors the credit portfolio of BES Group's clients by preparing risk analyses that take into account the client's current liabilities versus rating, as established in internal regulations, issuing specific recommendations concerning the credit relationship to be adopted with the client in question.

In the **Small Businesses** segment (companies with turnover below EUR 1.25 million), ratings are also determined through statistical rating models, which in addition to financial and qualitative data, also use behavioural information concerning both the companies and the respective partners.

Specific rating models have also been implemented to quantify the risk of **Start-ups** (companies in business for less than two years and turnover below EUR 25 million in the first year) and **IPs** (independent professionals).

Finally, in the **Real Estate sector** (property developers, in particular small and medium-sized firms), given its characteristics, ratings are assigned centrally by a specialised team, using specific models that combine quantitative and technical variables (property valuations conducted by specialised units) with qualitative variables. This team is also responsible for making the risk analyses included in specialised credit proposals (Construction Finance).

• Scoring Models for Individual Client Portfolios

BES Group uses origination and behavioural scoring models for the main products offered to its individual clients - mortgage loans, consumer loans, credit cards, overdrafts and loan accounts – whose ratings are calibrated to a probability of default within one year. These models' predictive capacity is regularly monitored.

Portfolios		Models	
		Scoring at Origination	**Behavioural Scoring**
Mortgages		Model for new and current clients (less than 6 months history)	Model for current clients with more than 6 month history
Consumer Loans		Model for new and current clients (less than 6 months history)	Model for current clients with more than 6 month history
Loan Accounts		Model for clients (account with more than 6 months history)	Model for current clients with more than 6 month history
Cards		Model for new and current clients (less than 6 months history)	Model for current clients with more than 12 month history
Current Accounts	**With limit**	Limit scoring at origination: model for new clients (less than 6 months history), model for new accounts of current clients and model for introduction of limits in accounts with more than 6 months history.	Model applied to operations with limit and with more than 6 month history
	Without limit		Model applied to operations without limit and with more than 6 month history

Besides estimating the probability of default, the Group also regularly monitors other parameters required for risk quantification and management, namely recovery (1-LGD) and Exposure at Default (EAD).

All the scoring models developed by the Group now play a key role, not only in the technical analysis of risk, but also in the credit risk approval and monitoring processes.

• LGD Models

When a client fails to pay its liabilities, the Group will not necessarily lose the entire claim, even if the risk is not reduced through collateral. Loss Given Default (LGD) measures the total economic loss when a debtor defaults on a loan. Hence the calculation of LGD also takes into account all the cash flows generated after default, including inflows from (partial) payments by the client or from foreclosure of collateral, recovery costs, administrative costs and the cost incurred through the financial effect of discounted cash flows.

Since 2004 BES Group calculates LGD parameters based on internal data concerning the main products offered to its individual clients – mortgage loans, consumer loans, credit cards, overdrafts and loan accounts – as well as the portfolios of Small Businesses and Independent Professionals included in the Retail portfolios. Such parameters are used in risk management, impairment calculations and calculation of regulatory capital requirements for credit risk.

Finally, BES Group also makes internal estimates of recovery rates for medium-sized and large companies portfolios, which are used in these segments' business processes.

A.2 A Credit Risk Monitoring

The credit risk monitoring and control activities currently established at BES Group aim to quantify and control the evolution of credit risk and to allow early definition and implementation of concrete measures to deal with specific situations indicative of a deterioration of risk – with a view to mitigating potential loses -, as well as to outline global strategies for credit portfolio management.

In this context, and with the central aim of preserving BES Group's risk quality and standards, the credit risk monitoring function and its development are objectively considered as one of the top priorities of the risk management and control system. This function comprises the following processes:

• Monitoring of clients with warning signals (CCRA);

• Risk Monitoring Group (RMG);

• Global analysis of the credit portfolio risk profile.

Monitoring of clients with warning signals (CCRA)

Clients with warning signals are monitored by the Committee for Credit Risk Analysis (CCRA), which for the purpose holds meetings throughout the year with representatives from all the commercial structures. These meetings' conclusions are periodically reported to the Risk Committee and the Executive Committee.

During the year the CCRA analysed and assessed 8,524 clients with an overall exposure of around EUR 9,589 million, of which 1,533 (ca. 18%) were reported for the first time in 2012.

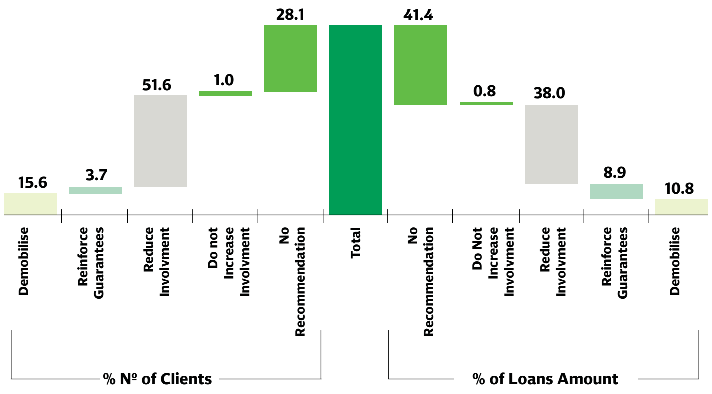
On the basis of this assessment and taking into account the specific characteristics of each case, the Committee issued recommendations concerning 72% of these clients (a total of 6,128 clients, of which 25% were reported for the first time), whose overall exposure corresponded to approximately 58.6% of the total exposure under analysis.

The chart below, which shows the breakdown of clients according to the type of recommendation issued, permits to draw the following conclusions:

• The percentage of defensive recommendations (Demobilise, Reinforce guarantees and/or Reduce involvement) is quite expressive both in terms of number of clients (70.9% of the clients analysed) and in terms of their credit exposure (slightly above 57.7%);

• No recommendations were issued for 28.1% of the clients analysed (corresponding to 41.4% of the exposures analysed), which permits to conclude that BES Group's credit risk is controlled/mitigated, particularly if considering the volume of liabilities analysed by the Committee, which works in full independence from the commercial structures responsible for the origination of the credits analysed.

CCRA Recommendations in 2012
(distribution profile of the portfolio analysed)



Mirroring the growing difficulties experienced by some industry sectors, approximately 63% of all recommendations issued in 2011 concerned clients with business activities in three sectors only: property development, business services, and civil construction.

The Committee for Credit Risk Analysis meets prior to the Executive Committee's itinerant meetings (which are attended by its Chairman) in order to allow BES Group's senior management to analyse the respective recommendations.

Risk Monitoring Group (RMG)

The Risk Monitoring Group (RMG) was created in 2011 with the objective of further reinforcing the credit risk analysis and control performed within the CCRA.

Every month the clients analysed by the RMG are classified according to pre-established risk criteria into three risk categories – Pre-Watchlist, Watchlist and Recovery -, and a report is produced identifying the causes for the risk deterioration of clients included under each category, and proposing the steps to be taken in each case, such as:

• Recommendations to transfer Clients in Pre-Watchlist and Watchlist to the Corporate Clients Monitoring Department;

• Validation of "Recovery Plans" for clients in Watchlist (applicable to clients with liabilities below EUR 0.5 million, providing they were selected by the Credit Recovery Department);

• Monitoring of clients with recovery plans under way in the corporate clients commercial departments, Corporate Clients Monitoring Department, or at the proposal of the Credit Recovery Department.

In 2012 the RMG was reinforced through the creation of a Real Estate Risk Monitoring Group (RERMG) to monitor individually the clients in the real estate segment. The RERMG functions exactly in the same way as the RMG, with participation and intervention being extended to the areas of the bank with expertise in the real estate segment.

The persistence of a difficult macroeconomic environment in 2012 emphasised the importance of risk monitoring and control actions. As a result, the conclusions of the RMG and RERMG meetings are assessed by the Executive Meeting in a Summary RMG meeting where the decisions taken are reported and ratified.

Global analysis of the risk profile of credit portfolios

Credit portfolio management is an ongoing process that requires interaction among the various teams responsible for the management of risk during the different stages of the credit process. The risk profile of credit portfolios, specifically in what concerns the evolution of credit exposure and the monitoring of credit losses, is reported on a monthly basis to the Risk Committee. Compliance with the approved credit ceilings, and the correct functioning of the mechanisms of approval of credit lines used by the commercial areas in their day-to-day activity, are also regularly subject to analysis.

A.3 Credit Recovery Process

The entire credit recovery process is developed based on the concept of "integrated client". Whether in a corporate or retail segment, each client is assigned a "recoverer" that monitors all this client's credits subject to recovery. In view of its nature and the volumes involved, credit to individual clients is in some phases treated in an automatic fashion, whereas a customised approach is used to treat credit to corporate clients.

Throughout the process, the possibilities of reaching an agreement are weighed and legal action taken whenever required to recover the credits and defend the Group's rights. However, there is constant openness to consider solutions permitting a return to a non-default situation.

A.4 Concentration Risk

Concentration risk arises from the possibility of an exposure or group of exposures producing sufficiently large losses to undermine an institution's solvency. In particular, there is credit concentration risk when different counterparties share common or interrelated risk factors the deterioration of which may cause a simultaneous adverse effect on the credit quality of each of those counterparties.

The Group has established limits for the largest individual exposures and exposures by sector. The regular monitoring of these limits, together with that of regulatory limits, namely for Large Exposures, reinforces the Group's monitoring and follow-up framework for credit risk concentration.

The effect of concentration risk is incorporated into the ICAAP exercise.

B. Credit Risk Analysis
B.1. Credit Portfolio

Loan Portfolio Breakdown

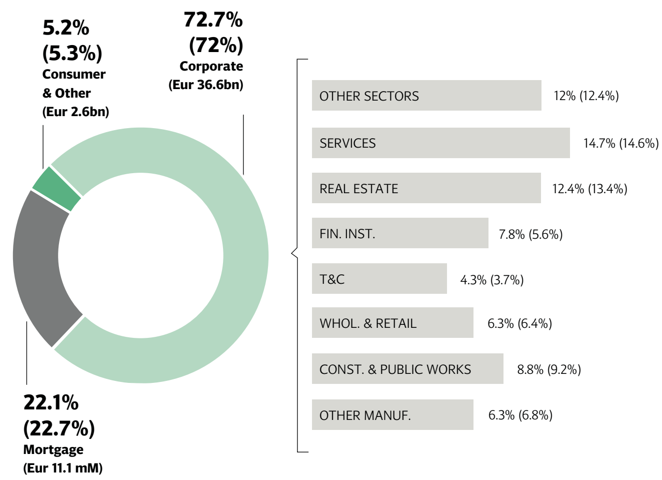
As of December 31st, 2012 the loan portfolio had decreased by 1.6% compared to the end of 2011. Although this reduction occurred in all credit segments, corporate loans registered the smaller decrease, of 0.5% only. This translates the Group's consistent support to the Portuguese businesses and in particular to the exporting companies.

Loan Portfolio Breakdown (eur million)

	Dec. 2011	Dec. 2012	Change
Total Gross Loan	51,211	50,399	-1.6%
Mortgage	11,610	11,134	-4.1%
Individual (other)	2,716	2,628	-3.2%
Corporate	36,885	36,637	-0.7%

The sectoral breakdown of the credit portfolio shows not only BES Group's continued support to the business community, but also that concentration levels by industry sector remained within prudent limits.

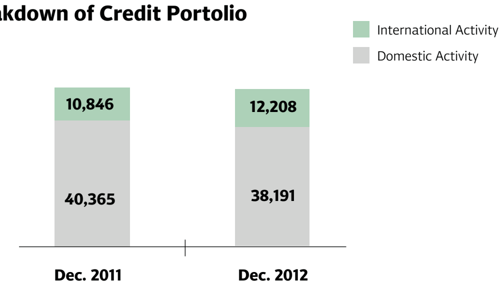
Credit Portfolio Breakdown



() 2011.

In terms of geographical breakdown, the international activity increased its share by 13% year-on-year, to 24% of the total loan portfolio.

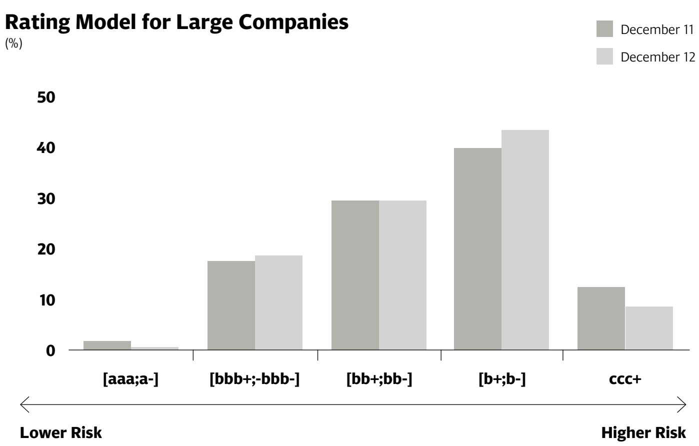
Geographic Breakdown of Credit Portolio
(eur million)



Loan portfolio breakdown by risk rating

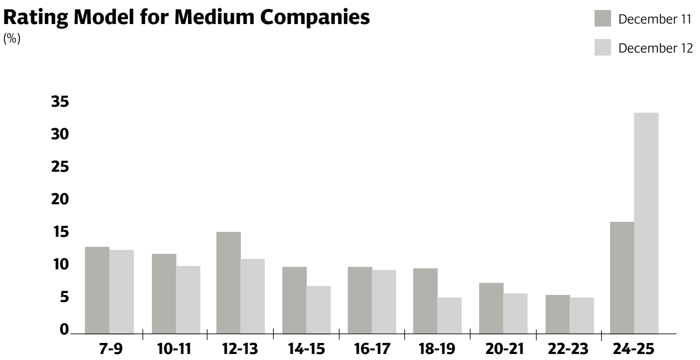
The Group uses internal rating systems to support credit decisions and credit risk monitoring. The average probability of default given by these ratings reflects the current context of economic slowdown which affected both the corporate and the retail segments.

Rating Model for Large Companies
(%)



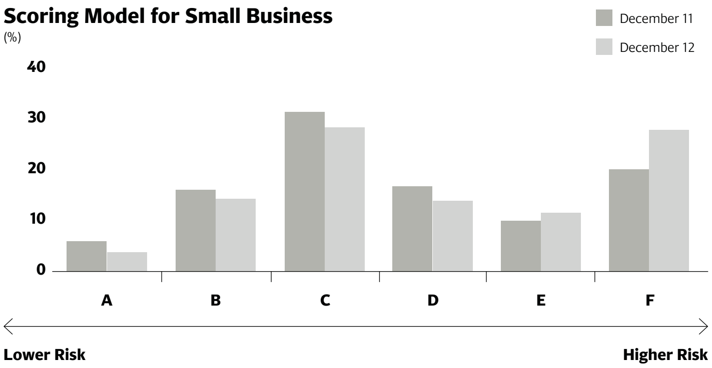
Rating Model for Medium Companies

(%)



Scoring Model for Small Business

(%)



Asset Quality

BES Group's consistent efforts to improve risk management policies and procedures permitted to lessen the impacts of the domestic and international economic situation. Even so, such impacts are visible in the behaviour of the Group's overdue loan ratios, which the Group countered through a significant reinforcement of credit provisions.

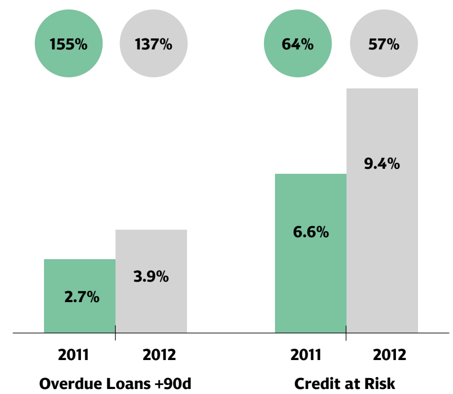
Asset Quality

	Dec. 11	Dec.12	Change	
			Absolute	Relative
(eur million)				
Gross Loans	51,211	50,399	-812	-1.6%
Overdue Loans	1,546	2,185	640	41.4%
Overdue Loans + 90d	1,403	1,966	563	40.1%
Credit at Risk (1)	3,374	4,758	1,385	41.0%
Credit Provisions	2,167	2,692	525	24.2%
On-balance Sheet Provisions Reserves	601	815	214	35.7%
(%)				
Overdue Loans/Gross Loans	3.02%	4.34%	1.32p.p.	
Overdue Loans + 90d/Gross Loans	2.74%	3.90%	1.16p.p.	
Credit at Risk (1) /Gross Loans	6.59%	9.44%	2.85p.p.	
Coverage of Overdue Loans	140.2%	123.2%	-17.0p.p.	
Coverage of Overdue Loans + 90d	154.5%	136.9%	-17.5p.p.	
Coverage of Credit at Risk (1)	64.2%	56.6%	-7.7p.p.	
On-balance Sheet Provision Reserve/Gross Loans	4.23%	5.34%	1.11p.p.	
Provision Charge	1.17%	1.62%	0.45p.p.	
Provision Charge net of Recoveries	1.12%	1.57%	0.45p.p.	

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

The overdue loans (>90 days) ratio increased to 3.90% (Dec.11: 2.74%). The corresponding provisions coverage, though declining by 17.5 pp (Dec.11: 154.5%), remained at a comfortable 136.9%.

Overdue Loans and Provisions Coverage



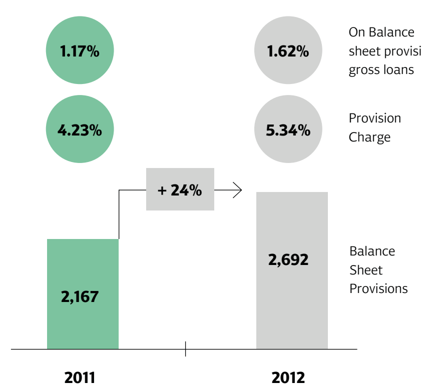
Reflecting the deterioration of the social and economic context, the credit at risk ratio increased to 9.4%, from 6.6% in December 2011. This increase was mainly driven by corporate overdue loans (where the ratio rose from 6.6% to 10%) due to the weight of this segment in the total portfolio.

Breakdown of Overdue Loans over 90 days

	Non-Performing Loans		Coverage		Provision Charge	
	2011	2012	2011	2012	2011	2012
Total Loans	**6.59%**	**9.44%**	**64%**	**57%**	**4.23%**	**5.34%**
Corporate	6.58%	10.02%	76%	64%	5.02%	6.37%
Mortgage	6.22%	7.28%	22%	21%	1.38%	1.52%
Individuals (other)	8.25%	10.54%	69%	69%	5.72%	7.28%

Credit provisions were increased from 1.17% of gross loans in 2011 to 1.62% in 2012, corresponding to a credit impairment cost of EUR 815 million. As a result, the balance of provisions for credit increased by 24% year-on year, with the average impairment cost rising from 4.23% to 5.34%.

Credit Provisions



Finally, a EUR 137 provision charge was made in connection to credit assignment operations, of which EUR 51 million for Securities and EUR 86 million for Other Assets.

B.2. Exposure to Emerging Markets

As of December 31st, 2012, the foreign currency exposure to emerging markets as determined under the Bank of Portugal country-risk criteria was EUR 5 661 million, which represents 7.2% of consolidated assets (December 31st, 2011: 6.2%).

(eur million)

Country	BoP Risk Weight	Dec. 11 Net Exposure Total	Dec. 11 Net Exposure In Foreign Currency	Dec. 12 Gross Exposure * Total	Dec. 12 Gross Exposure * Fair Value Resreve	Dec. 12 Guarantees and Deductions **	Dec. 12 Net Exposure Total	Dec. 12 Net Exposure in Foreign Currency	Dec. 12 Net Exposure Structure (%)
Latin America		**3,134**	**1,075**	**3,896**	**0**	**1,111**	**2,785**	**921**	**27**
Bahamas	10%	1	1	19	0	19	0	0	0
Brazil	0%	2,708	649	2,582	0	34	2,548	685	24
Mexico	0%	9	9	81	0	31	50	50	0
Panama	0%	397	397	222	0	72	149	149	1
Venezuela	50%	7	7	950	0	948	2	2	0
Other		11	11	42	0	7	35	35	0
Eastern Europe		**77**	**9**	**130**	**0**	**7**	**123**	**42**	**1**
Croacia	10%	0	0	0	0	0	0	0	0
Ukraine	50%	0	0	1	0	1	0	0	0
Other		77	9	129	0	6	123	42	1
Asia-Pacific		**126**	**101**	**485**	**0**	**414**	**71**	**59**	**1**
China	0%	10	10	4	0	2	2	2	0
India	10%	11	11	282	0	277	4	4	0
Macao	0%	82	57	64	0	0	64	52	1
Turkey	10%	0	0	1	0	0	0	0	0
Other		23	23	135	0	135	0	0	0
Africa		**5,911**	**3,809**	**8,461**	**0**	**988**	**7,473**	**4,639**	**71**
South Africa	0%	16	16	36	0	20	16	16	0
Angola	10%	5,772	3,678	8,228	0	906	7,322	4,488	70
Cape Verde	10%	92	91	120	0	6	113	113	1
Morroco	10%	8	0	3	0	2	1	0	0
Other		24	24	74	0	53	21	21	0
Total		**9,248**	**4,994**	**12,972**		**2,520**	**10,452**	**5,661**	**100**
% Net Assets		**11.5%**	**6.2%**	**16.4%**			**13.2%**	**6.8%**	

* Exposure net of provisions for country risk.
** Includes Trade Finance < 1 year in the amount of eur 1112 Mn and IFC B Loans in teh amount of eur 0.4 Mn.

The main emerging economies posted strong GDP growth rates in 2012. BES Group operates in several countries within the emerging world, namely in Angola and Brazil, where its activity grew in tandem with the local economy. The Group's net exposure to these two countries represents 70% and 24%, respectively, of its global exposure to the emerging markets.

As a result of strong activity growth in Angola in 2012, exposure to this country increased as a percentage of total exposure to the emerging markets.

These exposures are considerably below the maximum limit permitted by the Bank of Portugal, which recommends maximum exposure corresponding to 30% of regulatory capital.

6.2 Market Risk

Market risk is the possible loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates, share prices, commodity prices, real estate prices, volatility and credit spreads.

Market Risk is monitored on a short-term perspective (10 days) for the trading book and on a medium-term perspective (1 year) for the banking book.

6.2.1 Trading book risk

A. Management Practices

The main measure of market risk is the estimation of potential losses under adverse market conditions, for which Value at Risk (VaR) methodology is used. VaR is calculated using the Monte Carlo simulation, with a 99% confidence level and an investment period of 10 business days. Volatilities and correlations are historical, based on an observation period of one year.

To calibrate the VaR assessment, daily back testing exercises are performed, permitting to compare the losses foreseen by VaR model with actual losses. These exercises allow the model to be fine-tuned and its predictive capacity improved. As a complement to the VaR model, stress testing is also carried out, allowing the Group to assess the potential losses under extreme scenarios.

The Group's portfolios are subject to VaR and stop loss limits with the objective of limiting potential losses. These limits are monitored daily by the Risk Department.

B. Market Risk Analysis

Consolidated value at risk (VaR) on December 31st, 2012, relating to trading positions in equities, interest rate instruments, volatility, credit spreads, commodities, as well as FX positions (except the FX position in equities in the available for sale portfolio and in the portfolio of assets at fair value) totalled EUR 38.1 million, which compares with EUR 47.5 million on December 31st, 2011.

Value at Risk 99% 10 Days

	Dec 12	Maximum 2012	Average 2012	Dec 11
Equity and Commodities	15.0	11.1	14.4	13.6
Interest Rate	8.8	28.5	18.4	10.8
FX	3.4	13.7	11.3	4.9
Volatility	7.1	7.2	7.2	14.3
Credit Spreads*	13.9	71.6	40.2	15.2
Diversification Effects	-10.1	-20.3	-17.0	-11.1
Total	**38.1**	**111.8**	**74.5**	**47.5**

* Does not include the credit spread VaR in BESI Group´s bonds and CDs.

Equity and credit spread risks are the most representative in the total VaR (EUR 38.1 million). The Portuguese public debt bonds held by BES Group caused an increase in the credit spread risk, which is visible in the peak attained during the year.

As a complement to risk measurement, simulated extreme scenarios are also analysed. All risk factors were subject to extreme scenario testing, based on the most positive and the most negative 10-day shifts occurred in the last 20 years.

As of December 31st, 2012 the risk factors to which BES Group was more exposed were South American and European indices, African exchange rates and Portugal sovereign credit spread.

(eur million)

	Extreme Scenario	Loss
Interest Rate Risk	15% yield curve twist Europe	4.9
	15% parallel yield curve shift Europe	4.3
	20% yield curve twist North America	4.2
	25% parallel yield curveshift North America	3.9
FX Risk	16% change in Africa Countries	25.2
	20% change in South American Countries	2.5
	10% change in Asian Countries	2.0
Equity Risk	48% change in South American Indexes	163.1
	24% change in European indexes	25.3
Volatility Risk	10% changes in volatility in South American Indexes	6.3
	25% changes in volatility in European Indexes	5.2
	25% change in interest rate volatility in American Countries	4.4
Credit Spreads Risk	218% change in credit spreads in European Countries	20.7
	50% change in credit spreads in North American Countries	2.0

6.2.2 Banking Book Risks

Other risks in the banking book arise from adverse movements in interest rates, credit spreads, the market value of securities and real estate concerning non-trading exposures in the balance sheet.

The interests of BES VIDA are independently monitored by this company's risk area.

6.2.2.1 Interest Rate Risk

Interest Rate Risk may be understood in two different but complementary ways, namely as the effect on the net interest margin, or on the value of capital, of interest rate movements that affect the institution's banking book.

Fluctuations in market interest rates affect a bank's net interest margin by altering the amount of income and costs associated to interest rate products, as well as by altering the value of the underlying assets, liabilities and offbalance sheet instruments.

The Group's banking book exposure to interest rate risk is calculated on the basis of the Bank for International Settlements (BIS) methodology, classifying all interest rate sensitive assets, liabilities and off balance sheet items, excluding those from trading, using repricing schedules.

The model used is similar to the duration model, using a stress testing scenario corresponding to a parallel shift of 200 basis points in the yield curve for all interest rate levels (Bank of Portugal Instruction 19/2005).

Interest rate risk measurement basically consists in determining the effect of changes in interest rates on equity and net interest income. On December 31st, 2012, interest rate risk, measured as its impact on BES Group's shareholders' equity, was EUR 171 million, which compares with EUR 351 million at the end of 2011.

The interest rate risk on the banking book essentially derives from the combination of long-term fixed-rate credit with long-term fixed-rate liabilities.

In addition to parallel shocks, the yield curve is also subject to non parallel shocks in order to measure the impact of the resulting variations on economic capital sensitivity.

Finally, the banking book interest rate risk is also measured on the basis of the 1-year historical VaR with an interval confidence of 99%. On December 31st, 2012 this value was EUR 136 million.

6.2.2.2 Credit Spread Risk

The credit spread, which amounts to the capacity of an issuer to meet its responsibilities up to their maturity, is one of the factors considered in the evaluation of assets.

An asset's credit spread risk reflects the difference between the interest rate associated to that asset and the interest rate of a risk-free asset in the same currency.

This risk is measured based on a VaR at 99% with a holding period of one year, complemented by the analysis of simulated extreme scenarios.

6.2.2.3 Risk of Equity Instruments and Other Variable Income Securities

BES Group is also subject to other types of banking book risk, namely the risk of Equity Holdings, Mutual Funds and Bearer Insurance Certificates (BICs). These risks may broadly be described as the probability of a loss resulting from an adverse change in the market value of these instruments.

The risk of equity holdings and mutual funds, which arises from the respective market prices and equity indexes, is measured based on a VaR at 99%, considering a holding period of one year. This is complemented by the analysis of simulated extreme scenarios.

The risk of Bearer Insurance Certificates (BICs), which derives from their price, is calculated based on a VaR with a confidence interval of 99% and a holding period of one year.

6.2.2.4 Real Estate Risk

Real estate risk arises from adverse changes in the market value of real estate assets in the Bank's balance sheet.

The real estate risk is measured on the basis of the 1-year historical VaR with an interval confidence of 99%.

6.2.3 Pension Fund Risk

The pension fund risk stems from the possibility of the value of the fund's liabilities (the responsibilities of the fund) exceeding the value of its assets (the fund's investments). When that occurs the bank must cover the difference and incur in the respective loss (Group contributions to the fund).

BES Group's pension fund risk is measured based on the estimated value of assets and liabilities with a timeframe of one year.

The estimated return on the fund's assets represents the maximum losses which the Fund may incur in a period of one year. This return is determined by calculating, for a confidence interval of 99%, the 1-year VaR of the Pension Fund's assets portfolio at the reference date.

The responsibilities are updated based on the projected current cost within one year.

To quantify the pension fund risk BES Group uses the same models and methodologies used to determine the material risks incurred by its assets.

6.3 Operational Risk

Operational risk may be defined as the probability of occurrence of events with a negative impact on earnings or capital resulting from inadequate or negligent application of internal procedures, information systems, staff behaviour, or external events. Legal risk is also included in this definition. Operational risk is therefore the sum of the operational, information systems, compliance and reputational risks.

A. Management Practices

Operational risk is managed through a set of procedures that standardise, systematise and regulate the frequency of actions viewing the identification, monitoring, control and mitigation of this risk.
The management methodologies in place are supported by the principles and approaches to operational risk management issued by the Basel Committee and those underlying the Risk Assessment Model implemented by the Bank of Portugal, recognised as translating the best practices in this area.

The management of operational risk is supported by a structure within the Global Risk Department exclusively dedicated to designing, monitoring and maintaining the model. This structure works in close coordination with the elements indicated below, whose active participation is crucial:

- Operational risk representatives from the departments, branches and subsidiaries integrated within the scope of operational risk management. Working in close coordination with the Global Risk Department's Operational Risk area, they are responsible for the day-to-day management of operational risk in their units, where they must guarantee that the established procedures are implemented;

- The Internal Control System Management Unit (set up within the Compliance Department), which plays an important role in guaranteeing that the processes are well documented, detecting specific risks and verifying the controls implemented, ascertaining the rigour of control design and identifying required steps for improvement and full effectiveness, while maintaining continuous reporting to and from the operational risk management;

- The Internal Audit Department, which tests the effectiveness of risk management and controls, identifies required steps for improvement and assesses their implementation;

- The Security Management and Coordination Department, with responsibility for data security, the safety of people and property, and business continuity.

In 2012, the following developments had significant positive impacts on operational risk management:

- The annual self-assessment exercise was extended to new branches of BES Group, in line with the Group's internationalisation strategy. The exercise permitted to determine the main risks to which the Group is exposed and define corresponding mitigation measures.

- The consolidated monitoring of risk sources using Key Risk Indicators permitted to take early action and thus avoid the occurrence of incidents with a financial impact. These risk indicators are implemented in the various units according to a panel of standard indicators, permitting a cross-cutting comparative analysis. These are complemented by specific indicators defined in accordance with the business and risk profile of each unit.

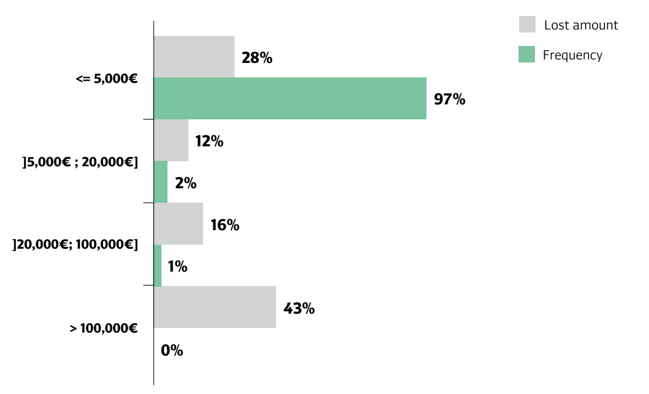
- In May 2012 the software application for the integrated management of operational risk was upgraded. This was immediately followed by an analysis of the requirements for the development of specific modules to carry out self-assessment exercises and monitor key risk indicators. As a result, in 2013 the operational risk application will be available to the Group's various units, permitting the incorporation of the main risk identification and monitoring tools.

The management of operational risk requires the timely, regular and sustained execution of various processes, including the definition of mitigation measures against the risk identified through the various tools – self-assessment exercises, detection of incidents and monitoring of risk indicators – as well as the monitoring of the implementation of these measures. At the same time the procedures implemented to control the registration of events permits to assess the effectiveness of the procedures implemented by each unit to identify and report operational risk incidents.

B. Analysis of Operational Risk

An analysis of BES's operational risk profile shows a high percentage of incidents with low financial impact and a small number of incidents with a material financial impact.

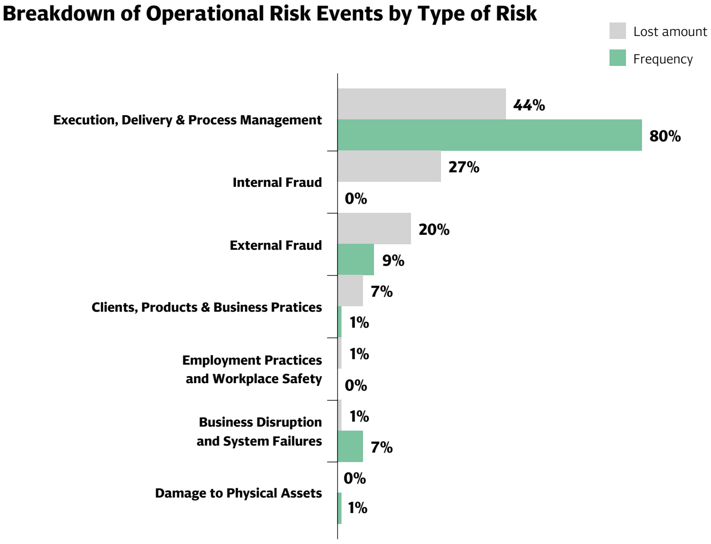
In 2012, 97% of the incidents had a financial impact below EUR 5,000, representing 28% of the total impact. Incidents with an impact above EUR 100,000 (43% of the total) were few and mitigation measures were immediately taken.



BES Group's database of operational risk incidents fully characterises all situations detected according to the risk categories defined in the Bank of Portugal's Risk Assessment Model, by business lines, business units and processes. The analysis below is also based on the Basel II Risk types, which are widely used for the classification of incidents.

In 2012 "Execution, delivery & process management" incidents represented a significant 80% share of all events identified, with a negative financial impact of 44% of the total. Incidents of "External fraud", though few, represented 27% of the total loss in the year.

Breakdown of Operational Risk Events by Type of Risk



6.4 Liquidity Risk

Liquidity risk arises from an institution's present or future inability to settle its liabilities as they mature without incurring in excessive losses.

Liquidity risk may be divided into two types:

- Market liquidity risk – the impossibility of selling an asset due to lack of liquidity in the market, leading to the widening of the bid/offer spread or the application of a haircut to its market value.

- Funding liquidity risk – the impossibility to obtain market funding to finance assets and/or refinance debt coming to maturity in the desired currency. This can lead to a sharp increase in the cost of funding or to the requirement of collaterals to obtain funding. Difficulties in (re)financing may lead to the sale of assets, even if incurring in significant losses. The risk of re(financing) should be reduced through an adequate diversification of funding sources and maturities.

Banks are subject to liquidity risk by virtue of their business of transformation of maturities (providing long term loans and receiving short term deposits) and therefore a prudent management of liquidity risk is crucial.

A. Management Practices

The structure established by BES Group to manage liquidity risk clearly identifies responsibilities and processes with the objective of ensuring full coordination between all the participants in liquidity risk management and the effectiveness of management controls.

The liquidity risk management structure has been revised to align it to best international practices as well as to permit to respond to new challenges, namely the scarcity of wholesale funding, the increase in the cost of customer deposits, and also the increasingly frequent and demanding changes in the regulation on liquidity and funding.
The Group thus improved and updated its liquidity indicators, internal stress scenarios and management decision processes. These liquidity indicators provide a precise measure of the liquidity risks to which the Group is subject and also translate the scarcity of liquidity that will impact the Group's profitability.

A.1. Governance and Organisation

The Liquidity Committee intervenes in liquidity decision-taking process, being in permanent contact with the ALCO Committee and the Risk Committee with which it shares key information and collaborates in the implementation of decisions.

The Liquidity Committee establishes and implements policies related to liquidity risk management, reporting to the Executive Committee on liquidity issues.

Liquidity risk management functions are separated according to decision--taking/management, monitoring and reporting levels. The chart below schematises the functions, responsibilities and interactions between the various intervenients in liquidity risk management.

	Risk Appetite		Limits and Objectives		Liquidity Risk Management
Executive Committee	• Approves final Risk Appetite proposal	• Annalyses risk appetite report	• Approves limits and objectives proposal	• Approves corrective/ additional measures	
Liquidity Committee	• Approves final Risk Appetite proposal	• Annalyses risk appetite report	• Approves limits and objectives proposal	• Analyses limit reductions and proposes corrective/ additional measures	• Approves metrics and policies for liquidity risk management and measurement
GRD	• Defines Risk Appetite parameters • Defines calibration methodology • Establishes BES Group's Risk Appetite;	• Monitors performance versus Risk Appetite and limits	• Reviews BES Group's convergence plan and Long--Term Liquidity position • Proposes list of parameters for Limits and Objectives	• Reports on actual values vs. limits and objectives • Issues report on limits and objectives reductions	• Establishes metrics and develops the model • Regularly monitors metrics
FMSD	• Translates BES Group global objectives into risk limits for the Group and for each Unit		• Defines calibration methodology		• Proposes corrective actions according to early warning indicators

A.2. Liquidity Risk Appetite

The Global Risk Department (GRD) and the Financial Department are responsible for drawing proposals concerning the methodology for defining the Liquidity Risk Appetite, its calibration and its translation into objectives and limits to be set to the Group and to its external units. The GRD submits these proposals to the Liquidity Committee, for approval, and this committee in turn submits them to the Executive Committee.

The GRD is responsible for monitoring actual performance versus the liquidity risk appetite and the objectives defined.

The Group's Liquidity Risk Appetite is defined in accordance with two complementary variables:

• Survival Horizons under stress situations; and

• Liquidity Ratios.

The survival horizons considered take into account the seriousness of the scenario and the mitigation actions taken. Scenarios of moderate and severe stress were considered, with impact at three levels: bank specific, market-wide and combined.

The liquidity ratios identified to define the Group's Liquidity Risk Appetite are organised into the following categories:

• Regulatory Ratios, including the Basel III liquidity ratios;

• Balance sheet liquidity profile;

• Concentration of short-term wholesale funding;

• Remaining indebtedness capacity;

• Maturity mismatches.

A.3. Policy on Limits

This process involves the definition of a set of limits/targets, calibrating them and distributing them to the external units, monitoring them, and in case they are surpassed, reporting that to the management bodies and setting a path for convergence towards the established targets.

The Global Risk Department (GRD) and the Financial Department are responsible for drafting proposals concerning the methodology for the establishment of limits, which must also consider a path towards convergence and the Group's vision for long-term liquidity. These proposals are submitted to the Liquidity Committee, for approval, and this committee in turn submits them to the Executive Committee.

A.4. Transfer Prices

BES Group's policy on transfer prices reflects the Group's funding structure and establishes guiding objectives and principles, namely:

• Consistent coordination of liquidity costs/benefits with the liquidity risk policy and the risk appetite defined by the Group;

• The liquidity price linked to the transfer price should be actively used as a guide in decisions about new businesses;

• Coverage of all the more important elements of the balance sheet;

• The establishment of prices must be based on the behavioural lifetime of assets/liabilities, differentiating the funding cost between short and long term assets and liabilities.

The transfer price is applied to all new credit/deposit operations and incorporated into the "Objectives and Incentives System" (OIS). Therefore it plays an important role in determining the net interest margin and banking income of each business area.

A.5. Contingency Plan

The Group's Contingency Plan is proportional to the nature, scale and complexity of its business and permits to manage liquidity needs in a crisis scenario. The purpose of the Liquidity Contingency Plan is to mitigate, as far as possible, the impact of a liquidity crisis, namely through the definition of a set of procedures aimed at:

• Describing in detail the Group's response to a liquidity problem, namely with regard to timely identification, warning procedures and principles for managing a liquidity crisis situation;

• Understanding the potential impact of a liquidity crisis on the various stakeholders;

• Establishing essential management information;

• Establishing a mechanism to anticipate liquidity crisis;

• Identifying types and potential sources of liquidity crises;

• Establishing principles on the use of last resource funding in case all the Group's efforts at an effective resolution of a liquidity crisis fail.

Liquidity Risk Analysis

Even if one cannot yet consider that the markets have stabilised, the end of 2012 saw the reopening of the medium and long term debt markets to the Portuguese large companies and banks, as well as a significant reduction in credit spreads. BES has reopened the debt market to the Portuguese banks with a 3-year EUR 750 million bond issue in October and a USD 450 million issue in November. In January BES made a third debt issue in the amount of EUR 500 million and maturity of 5 years.

In accordance with the defined management structure for liquidity risk, stress scenarios with different degrees of severity (moderate and severe), different time horizons and different areas of impact (market-wide, bank specific, and combined) are applied.

As an example, the market-wide scenario may simulate the closure of the wholesale market, while the bank-specific scenario may simulate the various degrees of run-off of retail and non-retail customer deposits.

As of December 31st, 2012 the net assets buffer (consisting of Cash and deposits at central banks and the securities available for rediscount with the ECB) largely exceeded the cash outflow resulting from application of the stress scenarios.

Bank of Portugal's instruction no. 13/2009 defines the liquidity gap as (Liquid Assets – Volatile Liabilities)/(Assets – Liquid Assets) x 100 for each cumulative ladder of residual maturity, where liquid assets include cash and liquid securities and volatile liabilities include cash, debt issues, commitments to third parties, derivatives and other liabilities.

This indicator permits to characterise the liquidity position of an institution's wholesale risk.

At December 31st, 2012 BES Group's liquidity gap up to one year was -1.7 (-15 in December 2011), thus being aligned with that of the other banks in Portugal (-5.4 in June 2012). This positive change, which reflects the Group's conservative management of liquidity risk, essentially resulted from the decrease in debt issues maturing within one year, the increased liquidity of assets, the completion of the second LTRO operation in March 2012 and the increase in cash and deposits at central banks.

In January 2013 the Bank of International Settlements published new regulations on the Liquidity Coverage Ratio (LCR) within the framework of Basel III. As at December 31st, 2012 BES Group already complied with the limit established for 2015 for this ratio.

6.5 Solvency

6.5.1 Internal Capital Adequacy Assessment Process (ICAAP)

In addition to the regulatory perspective, BES Group also considers its risks and available financial resources ("Risk Taking Capacity" or "RTC") from an economic perspective in order to conduct a self-assessment exercise of internal capital adequacy, as foreseen in Pillar 2 of Basel II and Bank of Portugal Notice 15/2007.

Risks and RTC are estimated both from a going concern perspective – where BES Group wants to have the financial capacity to absorb losses without having to change its business strategy -, and the perspective of settlement – where it intends to protect its capacity to redeem senior debt and deposits. The two perspectives of capital adequacy assessment use different confidence levels to evaluate risks, and different concepts of the available financial resources to meet such risks, in line with the risk appetite defined for BES Group. In the ICAAP exercise conducted in 2012, with reference to December 31st, 2011, BES Group opted to focus only on the settlement perspective. The reason for taking this approach, which had already been followed in 2011, lies in the fact that, in view of the new regulatory capital requirements (minimum Core Tier I ratio of 9% in 2011 and 10% in 2012) and consequent changes in the business model, which namely entailed the deleveraging process currently underway, the going concern perspective, which assumes that the previous model is maintained, is not applicable at present. The Group thus focused on the settlement perspective.

In order to quantify the risks, BES Group has developed several economic capital models that estimate the maximum potential loss over a period of one year based on a predefined confidence level. These models cover the various types of risk to which BES Group is exposed, namely credit risk, market risk (trading book and banking book), real estate risk, pension fund risk, operational risk, reputational risk, liquidity risk and strategy and business risk.

Economic capital requirements to cover the last three risks are calculated through stress tests.

The amount of the economic capital requirements for each risk is aggregated, taking into account inter-risk diversification effects. In addition to calculating economic capital requirements, the main risk factors are subject to stress tests in order to identify any weaknesses or risks which the internal models failed to uncover.

The capital adequacy analysis carried out at the end of each year is complemented by a forward looking analysis of capital requirements (risks) and available financial resources over a three-year timeframe, under both the basic planning stress scenario and a scenario reflecting further deterioration in the macroeconomic environment.

2012 was again marked by an unfavourable macroeconomic environment, with GDP falling by 3%, after having already slid in the previous years (particularly in 2009 and 2010). This context inevitably penalised the Group's activity and impacted the evolution of its risks.

In line with its business strategy, the main risks to which BES Group is subject are credit risk and the banking book's market risk. The credit risk implicit in the banking relations with the Clients derives from BES Group's core business, mainly originating in the corporate segments, with a significant contribution from the international area. The banking book's market risk mainly derives from: (i) the stakes held in Portugal Telecom and EDP Energias de Portugal, and (ii) the credit spread risk of obligations, which mainly arises from the commercial relations with the clients and the need to maintain liquid assets on the balance sheet. The risks associated to the pension fund, which result from the Group's legal obligations towards its employees, are also relevant. In 2011 the total economic capital requirements decreased by ca. 7% relative to 2010 (after diversification effects), essentially through the reduction of risk associated to the pension fund (transfer to the Social Security of pensions in payment) and the reduction of interest rate risk in the banking book.

The results obtained through the ICAAP exercise conducted with respect to December 31st, 2011, which were delivered to the Bank of Portugal in May 2012, concluded that BES's regulatory capital is sufficient to cover the risks incurred, from either the regulatory or the economic perspective.

6.5.2 Regulatory Solvency

BES Group's solvency ratios are calculated under the Basel II regulations. From the first quarter of 2009 onwards BES Group has been authorised by the Bank of Portugal to use the Internal Ratings Based (IRB) approach for credit risk and the Standardised Approach – TSA method for operational risk.

In the second quarter of 2011, in the context of the Financial Assistance Programme to Portugal that determined the reinforcement of capital levels within the Portuguese banking system, the Bank of Portugal issued the Notice 3/2011 of May 10th establishing minimum levels for the Core Tier I ratio on a consolidated basis of no less than 9% by December 31st, 2011 and 10% by December 31st, 2012.

Solvency

	Dec. 11	Dec. 12
Core TIER I	9.2%	10.5%
TIER I	9.4%	10.4%
Solvency ratio	10.7%	11.3%

Bank of Portugal criteria.

BES Group's Core Tier I ratio was 10.5% in December 2012 thus meeting the Bank of Portugal's requirement (minimum of 10%). Under the EBA calculation method, the Core Tier I ratio is 9.9%, which is well above the minimum 9% established by the European authority.

Regulatory Capital

The information on regulatory capital is provided in chapter 7 – Financial Analysis, point 7.3., of this report.

Risk Weighted Assets

As of December 31st, 2012, Risk Weighted Assets totalled EUR 61,651 million, of which EUR 56,454 million (92% of the total) corresponded to credit and counterparty risk, EUR 1,503 million to market risk and EUR 3,694 million to operational risk.

Credit and Counterparty Risk

As referred further up, BES Group uses the Internal Ratings Based (IRB) approach for most exposures subject to credit risk, in accordance with the rules set out in Bank of Portugal's Notice 5/2007.

The EUR 3,251 million reduction in credit risk-weighted assets in 2012 despite the adverse economic and financial context in which activity was developed during the year, translates the strict monitoring of risk and the deleveraging process undertaken by BES Group.

Risk Weighted Assets - per asset class

(eur million)

	Domestic Activity		International Activity		Total	
	Risk Weighted Assets	Risk Weight (1)	Risk Weighted Assets	Risk Weight (1)	Risk Weighted Assets	Risk Weight (1)
Central Authorities or Central Banks	61	1%	753	41%	814	10%
Institutions	1,795	21%	248	34%	2,042	22%
Corporate	33,166	74%	9,967	72%	43,134	73%
Retail	3,355	23%	436	69%	3,791	25%
Other	6,406	79%	268	81%	6,673	79%
Total	**44,782**	**55%**	**11,672**	**67%**	**56,454**	**57%**

(1) Risk Weight: risk weighted assets/original exposure.

In terms of geographical distribution, the international activity contributed with EUR 11,672 million, or 21%, to total Risk Weighted Assets, while the domestic activity contributed with EUR 44,782 million. By categories of risk, the corporate segment represented 73% of total Risk Weighted Assets, which is in line with its predominant role in BES Group's activity.

Market Risk

Capital requirements for market risk are calculated using the standardised method. As of December 31st, 2012 the capital requirements for risk weighted assets amounted to EUR 1,503 million, with the main contributors being Interest Rate/Debt Instruments Risk (80% of the total) and Foreign Exchange Risk (15%).

Trading Book Risk Weighted Assets

(eur million)

		Dec. 11	Dec. 12	Change
	Specific risk	564	632	68
Debt Instruments	General risk	643	566	-77
	CIE *	23	4	-19
	Specific risk	129	129	-74
Equity Instruments	General risk	55	55	-38
	CIE *	0	0	0
Commodity risk		2	1	-1
Fx risk		325	228	-97
Total		**1,742**	**1,503**	**-239**

* Collective investment entities - Investments funds.

The reduction in requirements in 2012 translates an overall decrease in the various categories of risk.

Operational Risk

Capital requirements for operational risk are determined under the Standardised Approach as the average over three years of the sum of the risk-weighted relevant indicators calculated each year across the regulatory business lines.

In 2012 risk-weighted assets decreased by EUR 244 million as a result of the lower contribution of Trading and sales, which was not offset by the increase in Commercial banking (middle market and large corporates).

(euro million)

	2011		2012	
	Capital Charge	RWA	Capital Charge	RWA
GBES	**315**	**3,938**	**295**	**3,694**
Corporate Finance	8	96	9	114
Trading and sales	63	789	22	280
Retail brokerage	2	26	2	29
Commercial banking	173	2,158	188	2,351
Retail banking	59	740	63	790
Payment and settlement	0	0	0	0
Agency services	0	4	0	4
Asset management	10	125	10	126

Environmental Risk

BES Group has developed policies, management methodologies and services that permit to identify, reduce and mitigate potential environmental, social and ethical impacts arising from its financing activities and the projects, activities and companies financed.

Given the complexity of the analysis and the fact that there is no regulation on the assessment of environmental, social and ethical risks, the Group has steered its action by the market's best practices.

In 2006 the Bank subscribed to the Equator Principles, a voluntary initiative launched by the financial sector under which leading international banks undertake to submit all project finance transactions above USD 10 million to environmental and social risk analyses. In 2012, banking on its methodologies and experience in the analysis of such risks, the Bank approved the obligatory performance of these analyses for all project finance transactions above USD 7 million.

In addition, the Bank has formally adopted financing policies for sectors subject to high environmental, social and ethical risks, namely the "Banco Espírito Santo policy on financing with impact on the forests and biodiversity", and in 2012 the "Policy on the financing of defence" and the "Policy on the financing of construction".

The policy on the financing of defence establishes limits for credit provided by BES to this sector. BES Group does not finance the sale or manufacturing of chemical, nuclear, biological or mass destruction weapons. Such credit is only granted when the weapons manufactured or sold are intended for use by the military for the defence of state sovereignty.

The policy on the financing of construction aims to encourage construction firms to adopt good environmental hygiene, health and safety practices. The policy also seeks to exclude from the portfolio companies whose management practices do not permit to reduce the risks arising from projects where environmental and social risks were not addressed.

These policies formally translate practices that are consolidated within the Bank while seeking to ensure that all financings take into account the minimisation of environmental, social and ethical risks.

In addition, and with the objective of providing a competent and effective service permitting to minimise the environmental risks of its corporate clients, the bank provides the guarantees required to cover the restoration or prevention of environmental damages suffered by companies. These guarantees help companies to comply with the environmental liability law, which requires all national companies falling within its scope to provide coverage for potential environmental impacts.

7. Financial Analysis

BES Group's activity and results in 2012 were determined by the very adverse economic and financial conditions in Europe in general, stemming from the European policies viewing the stabilisation of the Eurozone, and in Portugal in particular from the execution of the Adjustment Programme agreed with the international institutions. The consequent adoption by the Portuguese government of restrictive fiscal policies combined with the deleveraging process under way among companies and families slashed investment and demand, with strong impacts in terms of a contraction of economic activity, rising unemployment and also a significant improvement of the trade balance.

Despite the difficulties arising from the challenging context, BES Group made considerable progress during the year:

- BES's EUR 1,010 million **rights issue** (capital increased to EUR 5,040 million) concluded in May allowed the Group to maintain its strategic autonomy and was a unique case amidst the Portuguese banks' capitalisation plans, while attesting to the trust placed by its reference shareholders and the capital markets in general in the future of the Group;
- **Reinforcement of BES Group's financial strength** – the Core Tier I ratio increased to 10.5%, meeting the Bank of Portugal's minimum requirement (10%), and was 9.9% under the EBA criteria (minimum required: 9%). This was achieved through market mechanisms alone.
- The **loan to deposits ratio** improved to 137% (Dec.11: 141%), backed by a EUR 812 million contraction in the loan book due to the deleveraging process combined with a EUR 334 million increase in deposits.
- **Marked improvement in liquidity levels**, permitting a significant reduction in net loans from the ECB – to EUR 6.9 billion – and the early amortisation of EUR 1.0 billion of the ECB LTRO facility (at the end of January 2013);
- **Commercial banking income increased** by 1.9%, which, combined with gains on financial transactions, drove up total **banking income** by 32.2% and the **net operating income** by 74.2%;
- **Significant contribution of BES Vida** (100% shareholder control acquired in May) to BES Group's 2012 consolidated results - EUR 68.7 million, with EUR 122.7 million generated by current activity and EUR -54.1 concerning the impact of acquisition of control;
- **Reinforcement of provisions** by EUR 1.2 billion, from 1.17% of gross loans in 2011 to 1.62% in 2012 - corresponding to a credit impairment cost of EUR 814.8 million (+35.7%) - raised the Provisions for Credit / Gross Loans ratio to 5.34% (Dec.11: 4.23%).

7.1 Activity

Overview

Adding on to macroeconomic restraints, activity in the Portuguese banking sector in 2012 remained constrained by the requirement imposed on banks to meet the targets set for the end of 2014 concerning the loans to deposits ratio, solvency, and share of stable liabilities in the funding of the activity. Accordingly, the progressive deleveraging of the balance sheet, the reinforcement of equity, a selective support to the business sector (in particular to the exporting companies), the progressive reduction of loans from the ECB, and greater focus on obtaining savings from individual clients were the main guidelines of BES Group's activity in 2012.

Activity Indicators

(eur million)

	Dec. 11	Dec. 12	Change	
			Absolute	Relative
Total Assets [1]	**98,589**	**97,765**	**-824**	**-0.8%**
Assets	**80,237**	**83,691**	**3,454**	**4.3%**
Customer Loans (Gross)	**51,211**	**50,399**	**-812**	**-1.6%**
Loans to Individuals	14,326	13,762	-564	-3.9%
- Mortgage	11,610	11,134	-476	-4.1%
- Other Loans to Individuals	2,716	2,628	-88	-3.2%
Corporate Lending	36,885	36,637	-248	-0.7%
Total Customer Funds	**54,383**	**56,188**	**1,805**	**3.3%**
On-Balance Sheet Customer Funds	44,147	44,785	638	1.4%
- Deposits	34,206	34,540	334	1.0%
- Debt Securities placed with Clients [2]	6,463	5,254	-1,209	-18.7%
- Life Insurance Products [3]	3,478	4,991	1,513	43.5%
Off-Balance Sheet Funds [3]	10,236	11,403	1,167	11.4%

(1) Net Assets + Asset Management + Other Off-Balance Sheet Liabilities+ Securitised unconsolidated credit.
(2) Includes funds related to consolidated securitisations and commercial paper.
(3) Dec. 2011 data restated for comparation.

Total assets decreased by 0.8% as a result of the execution of the deleveraging programme. Net assets increased by EUR 3.5 billion (+4.3%) due to the full consolidation of BES Vida. Excluding this impact, Net assets evolved in line with the deleveraging effort, declining by 1.5%.

Customer loans show one of the highest reductions from among all asset components, dropping by EUR 812 million (-1.6%), with decreases across all segments but particularly in Other loans to individuals (-3.2%); Corporate loans declined by 0.7%.

Total customer funds increased by 3.3% (2011: -2.9%), reversing the downward trend observed throughout the year; customer deposits increased by EUR 334 million (+1.0%), while on-balance sheet customer funds (bonds and other securities) decreased by EUR 1.2 billion. Off-balance sheet funds increased by 11.4% on a comparable basis, driven by portfolio management and mutual funds.

Off-Balance Sheet Funds

(eur million)

	Dec. 11	Dec. 12	Change	
			Absolute	Relative
Mutual Funds	4,633	5,115	482	10.4%
Real Estate Funds	1,203	1,076	-127	-10.6%
Pension Funds	2,155	1,783	-372	-17.3%
Bancassurance[1]	3,478	90	-3,388	-97.4%
Portfolio Management	878	1,960	1,082	....
Discretionary Management and Other	1,367	1,379	12	0.9%
Total	**13,714**	**11,403**	**-2,311**	**-16.9%**
Total on a comparable basis (excluding Life Insurance Products in 2011)	**10,236**	**11,403**	**1,167**	**11.4%**

(1) Reduction due to BES Vida consolidation.

International Activity

The international units benefited from the dynamics of the economies where they operate, namely the emerging economies: assets grew by 16.8%, while the loan portfolio increased by 12.6% and total customer funds increased by 13.5% driven by the debt securities placed with institutional clients, mainly by BES London branch.

International Banking Business (eur million)

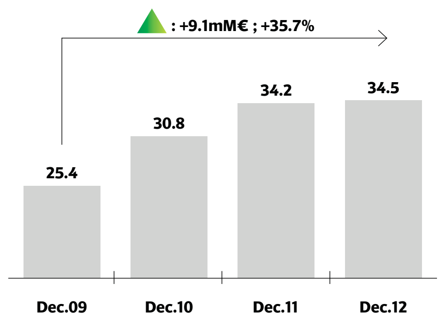
	Dec. 11	Dec. 12	Change	
			Absolute	Relative
Total Assets [1]	25,878	27,513	1,635	6.3%
Net Assets	20,988	24,515	3,527	16.8%
Customer Loans (Gross)	10,846	12,208	1,362	12.6%
Total Customer Funds	11,905	13,494	1,589	13.5%

(1)Net Assets+Asset Management+Other Off-Balance Sheet Liabilities+Securitised unconsolidated credit.

7.2 Liquidity Management and Transformation Ratio

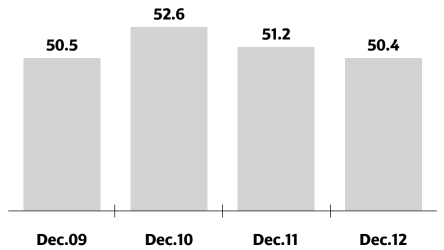
The imposition of a loan to deposits ratio of c. 120% to be reached in Dec.14 requires a focus on deposit taking and a reduction of credit granted. To this end, the Group's effort to capture deposits permitted to increase the portfolio by ca. 36% since 2009, representing an increase of more than EUR 9 billion in four years.

Deposits
(EUR billion)



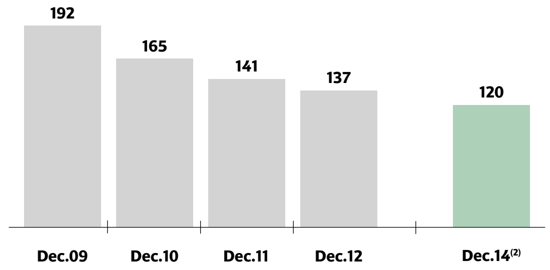
The deleveraging process – involving an increased focus on capturing deposits and the reduction of lending – resulted in 2012 in a EUR 812 million contraction in the credit portfolio combined with a EUR 334 million increase in deposits.

Customer Loans (year-on-year evolution)
(EUR billion)



As a result of the reduction of the loan book and the increase in deposits, the loan to deposits ratio (calculated in accordance with the Bank of Portugal's criteria for the medium-term target ratio) was 137%.

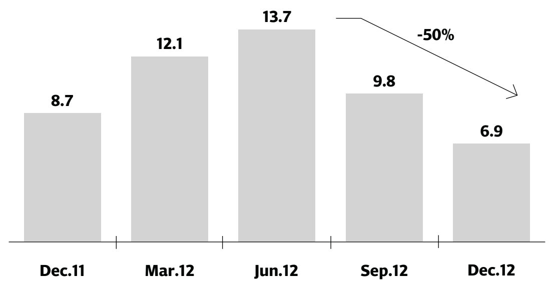
Loan to Deposits Ratio [1]
(%)



(1) Calculated under the Funding Capital Plan.
(2) Goal.

As to other funding components, equity increased by EUR 1.5 billion due to the capital increase and the recovery of fair value reserves, while net funding from the ECB decreased by 50% versus the peak attained in June 2012, to EUR 6.9 billion.

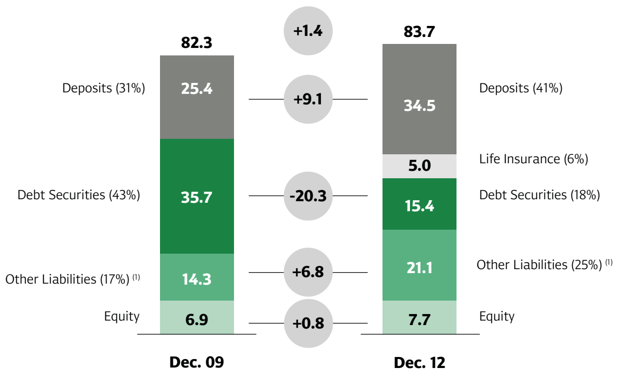
Net Funding from the ECB [1]
(eur billion)



(1) Dec, 12: funding (10.0mM€) net exposure ECB (3,1mM€).

During the last months of the year the structure of liabilities and equity continued to evolve along the previous lines, i.e., towards an increase in the share of customer deposits and lower dependence from the financial markets, viewing compliance with the guidelines for the financial sector agreed with the international institutions and thus making financial management more autonomous and less dependent on cyclical fluctuations in the debt markets.

Funding Structure
(eur billion)



(1) Includes ECB liquidity facilities.

In December 2009 (immediately before the escalation of the Eurozone crisis at the start of 2010) debt securities totalled EUR 35.7 billion, representing the largest share of total asset financing sources (43%, or EUR 82.3 billion). In December 2012 deposits had become the main financing source (41%, or 47% if also considering life insurance products sold to clients), with debt securities representing only 18% of assets.

7.3 Capitalisation and Capital Adequacy Ratios

One of the more relevant events during the year was the EUR 1,010 million increase of Banco Espírito Santo's share capital, which totalled EUR 5,040 million on December 31st, 2012.

a. Equity

The table below lists the equity balance sheet items.

Total Equity (EUR million)

	Dec. 11	Dec. 12	Change
Capital	4,242	5,233	991
Ordinary	4,030	5,040	1,010
Preferred	212	193	-19
Share Premium	1,082	1,070	-12
Other Capital Instruments	29	29	0
Own Shares	-1	-7	-6
Revaluation Reserves	-1,086	-687	399
Other Reserves and Retained Earnings	1,447	1,329	-118
Net Income	-109	96	205
Minority Interests	588	670	82
Total	6,192	7,733	1,541

In 2012 there was a significant increase in core capital components, namely in Ordinary Shares, due to the capital increase, and in revaluation reserves, which rose by ca. EUR 400 million as a result of the recovery in the price of both debt securities and equities.

Capital Increase

In May 2012 Banco Espírito Santo concluded a EUR 1,009,891,912.86 rights offering through the issuance of 2,556,688,387 new ordinary shares. The share capital was thus increased from EUR 4,030,232,150.40 to EUR 5,040,124,063.26, and is currently represented by 4,017,928,471 ordinary, book-entry, registered shares with no par value. The new shares are fungible with all other ordinary shares of BES, and confer to their holders the same rights as the existing shares prior to the capital increase. The new shares were listed on the NYSE Euronext Lisbon on May 14th, 2012.

Despite being carried out during a period of adversity and great instability in the markets, the capital increase was fully subscribed, which makes it a clear case of success with no equal in Portugal in recent times, while also attesting to the confidence placed by the traditional shareholders and the market on the Bank's capacity and resolve to overcome by itself the current difficulties and embark on a new cycle of value creation within the Group.

Capital Increases since the Reprivatisation

		Nº of shares (million)			
		Share Capital Increase			
Nº	Month/year	Incorporation of Reserves	Total	Accumu-lated	Share Capital (Eur million)
				40.0	200
1	Aug 92	20.0	26.0	66.0	330
2	Aug 95	13.2	21.4	87.4	437
3	Jun 98	17.5	30.2	117.6	588
4	Jul 00	44.6	82.5	200.0	1,000
5	Feb 02	50.0	100.0	300.0	1,500
6	May 06	50.0	200.0	500.0	2,500
7	Apr 09	-	666.7	1,166.7	3,500
8	Dec 11	-	294.6	1,461.2	4,030
9	May 12	-	2,556.7	4,017.9	5,040

b. Solvency

BES Group solvency ratios are calculated under the Basel II regulations. From the first quarter of 2009 onwards BES Group has been authorised by the Bank of Portugal to use the Internal Ratings Based (IRB) approach for credit risk and the Standardised Approach – TSA method for operational risk.

The table below provides the relevant information about risk weighted assets, regulatory capital and solvency ratios based on BIS II IRB approach, for December 2011 and December 2012:

Risk Weighted Assets and Regulatory Capital

(eur million)

		Dec. 11	Dec. 12
Net Assets	1	**80,237**	**83,691**
Risk weight	(2)/(1)	81%	74%
Risk Weighted Assets	(2)	**65,385**	**61,651**
Banking Book		59,705	56,454
Trading Book		1,742	1,503
Operational Risk		3,938	3,694
Regulatory Capital			
Core Tier I	(3)	**6,020**	**6,471**
Core Tier I EBA	(3)	**-**	**6,091**
Tier I	(4)	**6,171**	**6,438**
Tier II and Deductions		799	517
Total	(5)	**6,970**	**6,955**
Core TIER I	(3)/(2)	**9.2%**	**10.5%**
Core TIER I EBA	(3)/(2)	**-**	**9.9%**
TIER I	(4)/(2)	**9.4%**	**10.4%**
Solvency Ratio	(5)/(2)	**10.7%**	**11.3%**

BES Group's Core Tier I ratio was 10.5% in December 2012 thus meeting the Bank of Portugal's requirement (minimum of 10%). Under the EBA calculation method, the Core Tier I ratio is 9.9%, which is well above the minimum 9% established by the European authority.

Regulatory Capital Component Considered in the Calculation of the Core Tier I Ratio (Bank of Portugal)

(eur million)

Core Tier as of December 31, 2011	**6,020**
Capital Increase	1,010
Actuarial differences on post-employment liabilities with regulatory impact:	-526
- Transition period of 2005 (IFRS) and 2008	-87
- Transfer to Social Security	-228
- Differences of 2012 subject to deduction	-211
Goodwill	-166
Capital Instruments revaluation reserves	142
Regulatory impact of the Special Inspections Programme (SIP)	-47
Other	38
Core Tier I as of December 31, 2012	**6,471**

The regulatory capital components considered in the calculation of the Core Tier I ratio Bank of Portugal) increased by EUR 451 million, on the one hand due to the increases in ordinary share capital (EUR 1,010 million) and revaluation reserves (EUR 142 million), and on the other, with a negative prudential increase, the increase in actuarial deviations and the end of the transitory periods.

7.4 Results

BES Group posted net income of EUR 96.1 million in 2012, which compares with a loss of EUR 108.8 million in 2011. This recovery was achieved in a context of an unprecedented economic and financial crisis and of the implementation of the demanding Adjustment Programme agreed between the Portuguese government and the ECB, the European Commission and the IMF. The year's net income comprises the adjustment made in May due to acquisition of control of BES Vida, with a negative impact of EUR 54.1 million. In this context, the following aspects of BES Group's performance in 2012 should be highlighted:

Income Statement

(eur million)

	2011	2012	Change	
			Absolute	Relative
Net Interest Income	1,181.6	1,180.5	-1.1	-0.1%
+ Fees and Commissions	790.5	828.4	37.9	4.8%
= Commercial Banking Income	**1,972.1**	**2,008.9**	**36.8**	**1.9%**
+ Capital Markets and Other results	-21.9	569.5	591.4	....
= Banking Income	**1,950.2**	**2,578.4**	**628.2**	**32.2%**
+ Insurance Premiums and Costs	-	0.7	0.7	-
- Operating Costs	1,129.2	1,149.1	19.9	1.8%
= Net Operating Income	**821.0**	**1,430.0**	**609.0**	**74.2%**
- Net Provisions	848.3	1,199.4	351.1	41.4%
Credit	600.6	814.8	214.2	35.7%
Securities	73.3	106.6	33.3	45.4%
Other	174.4	278.0	103.6	59.4%
= Income before Taxes and Minorities	**-27.3**	**230.6**	**257.9**	**....**
- Income Tax	-61.6	82.9	144.5	....
- Banking Sector Levy	30.5	27.9	-2.6	-8.5%
= Income before Minorities	**3.8**	**119.8**	**116.0**	**....**
- Minority Interests	112.6	23.7	-88.9	-78.9%
= Net Income	**-108.8**	**96.1**	**204.9**	**....**

BES Group posted net income of EUR 96.1 million in 2012, which compares with a loss of EUR 108.8 million in 2011. Excluding non recurrent factors, the 2012 net income would be EUR 194.9 million (2011: EUR 166.6 million).

(EUR million)

Non-Recurrent Effects	2011	2012
Stated Net Income	-108.8	96.1
Extraordinary losses in 2011(1)	275.4	-
BES Vida acquisition control impact	-	54.1
On-site inspection programme impact (2)	-	55.0
Gespastor indemnity received		-10.3
Net income adjusted for non recurrent items	**166.6**	**194.9**

(1) Transfer of pensions in payment to Social Security (eur 76.1 million); losses in BES VIDA (eur 143.9 million); sale of loans (eur 55.4 million).
(2) Related to real estate credit.

Besides the stark difficulties that characterised the year, the following aspects should be highlighted:

- Banking income registered a small YoY increase (+1.9%), despite the deepening economic recession (GDP11: -1.7%; GDP12: -3.0%);
- Very positive performance of financial transactions, namely involving debt instruments, which boosted total banking income by 32.2% (+13.2% without non recurrent factors), to EUR 2,578.4 million, together with the contribution of BES Vida (EUR 158.4 million or 6% of BES Group's total);
- The strengthening of the balance sheet in light of the aggravation of the crisis required a EUR 1,199.4 million increase (+41.4%) in provisions;
- Increase in operating costs (+1.8%) induced by the expansion of the international area (+9.3%), partially offset by the reduction in domestic costs (-2.5% on a comparable basis).

Domestic and International Business

The domestic net income (EUR 8.5 million) strongly rebounded compared to 2011 (EUR -269.6 million). Commercial banking income increased by 8.9%, with total banking income benefiting from the investments in Portuguese public debt, which permitted to overcome the deterioration of impairments due to the economic recession.

The year's pre-tax profit was EUR 100 million. However, the net income for the year was impacted by the increase in the income tax burden, namely due to the non acceptance of losses on the Group's strategic holdings for tax purposes.

The international area posted net income of EUR 87.6 million, despite being also affected by the economic and financial situation in some geographies, which led to a 2.0% reduction in banking income and required a EUR 225.9 million reinforcement in provisions. The strategic decision to deleverage the international area, namely through sales of international loans, inevitably impacted its performance when compared to previous years.

The development and consolidation of the activity of the new international units in Venezuela and Luxembourg, the potential afforded by the expansion of the distribution network in Angola as well as the execution of BES Angola's new strategic plan, should, among others, provide solid bases allowing the international area to remain a dynamic contributor to BES Group's future value creation.

Domestic and International Income Statement

(eur million)

	Domestic Activity			International Activity		
	2011	2012	Change	2011	2012	Change
Net Interest Income	645.7	823.4	27.5%	535.9	357.1	-33.4%
+ Fees and Commissions	600.1	533.0	-11.2%	190.4	295.4	55.1%
= Commercial Banking Income	**1,245.8**	**1,356.4**	**8.9%**	**726.3**	**652.5**	**-10.2%**
+ Capital Markets and Other Results	- 34.0	498.5	....	12.1	71.0	....
= Banking Income	**1,211.8**	**1,854.9**	**53.1%**	**738.4**	**723.5**	**-2.0%**
+ Insurance Premiums and Costs	-	0.7	-	-	-	-
- Operating Costs	793.5	782.0	-1.4%	335.7	367.1	9.3%
= Net Operating Income	**418.3**	**1,073.6**	**....**	**402.7**	**356.4**	**-11.5%**
- Net provisions	778.5	973.5	25.0%	69.8	225.9	....
Credit	538.2	723.8	34.5%	62.4	91.0	45.9%
Securities	73.4	103.3	40.7%	- 0.1	3.3	....
Other	166.9	146.4	-12.3%	7.5	131.6	....
= Income Before Taxes and Minorities	**- 360.2**	**100.1**	**....**	**332.9**	**130.5**	**-60.8%**
- Income Tax	-119.9	66.6	....	58.2	16.2	-72.1%
- Banking Sector Levy	30.5	27.9	-8.5%	-	-	-
= Income Before Minorities	**-270.8**	**5.6**	**....**	**274.7**	**114.3**	**-58.4%**
- Minority Interests	-1.2	-2.9	....	113.9	26.7	-76.6%
= Net Income	**-269.6**	**8.5**	**....**	**160.8**	**87.6**	**-45.5%**

The business units within the strategic triangle once again confirmed their key role, posting net income of EUR 60.7 million, which represents 69.3% of the international area's total net income. The Group's units in Africa, Spain and the United Kingdom continued to give a decisive contribution to BES Group's profit generation. The reduction under "Other" stems from the negative contribution of the new units which are still in a start-up phase.

Geographical Breakdown of International Activity Results

(eur million)

Countries	2011	2012	Change
Africa[1]	91.0	33.9	-62.8%
Brazil	20.4	11.1	-45.8%
Spain[2]	9.9	15.7	59.0%
Strategic Triangle	**121.3**	**60.7**	**-50.0%**
United Kingdom	18.6	19.2	3.2%
USA	14.3	5.9	-59.1%
Other	6.5	1.8	-72.3%
TOTAL	**160.8**	**87.6**	**-45.5%**

(1) Angola, Mozambique, Cape Verde and Lybia.
(2) Includes extraordinary gain in 2012 amounting to eur 10.3 million.

a. Net Interest Income and Net Interest Margin

Net interest income remained flat YoY, at EUR 1,181 million. The increase in the net interest margin (+2 bps, from 1.68% to 1.70%) compensated the reduction in interest earning assets (- EUR 836 million), with the margin and volume effects cancelling each other out.

The improvement of the net interest margin was backed by a 4 bps increase in the average rate on interest earning assets (in particular the portfolio of Securities and Other investments drove up the average rate by 60 bps, from 4.85% to 5.45%), while the average rate on interest bearing liabilities rose by 2 bps, to 3.44%, underpinned by a 34 bps increase, from 3.62% to 3.96%, in the average rate on the Debt securities and Other liabilities.

Net Interest Income and Net Interest Margin

(eur million)

	2011			2012		
	Average Balance	Avg. Yield (%)	Interest	Average Balance	Avg. Yield (%)	Interest
Interest Earning Assets	70,267	5.10	3,587	69,443	5.14	3,571
Loan Portfolio	51,520	5.20	2,678	50,316	5.02	2,528
Securities and Other	18,747	4.85	909	19,127	5.45	1,043
Other Non-Interest Earning Assets	12	-	-	-	-	-
Total	**70,279**	**5.10**	**3,587**	**69,443**	**5.14**	**3,571**
Interest Bearing Liabilities	70,279	3.42	2,405	68,161	3.51	2,390
Deposits	32,535	3.19	1,038	34,030	3.05	1,038
Debt Securities and Other Liabilities	37,744	3.62	1,367	34,131	3.96	1,352
Other Non-Interest Bearing Liabilities	-	-	-	1,282	-	-
Total	**70,279**	**3.42**	**2,405**	**69,443**	**3.44**	**2,390**
NIM / NII		**1.68**	**1,182**		**1.70**	**1,181**

Despite BES's successful placement of two unsecured bond issues in the second half of the year (EUR 750 million in October and EUR 450 million in November), NII management continued to be pursued in a context of restricted access to the financial markets, fierce competition over customer funds, the increase in risk and asset impairment levels and constraints to the expansion of the activity resulting from the deleveraging.

- The cost of interest bearing liabilities totalled EUR 2,390 million, with the average rate on deposits decreasing by 14 bps, to 3.05%; however, the increase in the differential vis-à-vis the market's average reference rate (the 3-month Euribor), to 248 bps (3.05 – 0.57), from 180 bps (3.19 – 1.39) in 2011 permitted a substantial improvement in the depositors' returns;

- Interest on loans totalled EUR 3,571 million, underpinned by the improvement in the average rate on Securities and Other investments (+60 bps, to 5.45%) that mainly translates the implicit yields of the Portuguese public debt portfolio. The full year average interest rate on loans (5.02%) represents a very good cost of funding for the clients, namely corporate clients, when compared to the cost imposed by the financial markets on both the Republic and the financial sector.

The year's net interest income was mainly supported by the price effect (more than EUR 13 million), which nearly compensated the negative impact of the volume effect (EUR 14 million).

Price versus Volume effect (eur million)

	Volume Effect	Price Effect	Combined Volume / Price	YoY Change
Interest Earning Assets	-43	27	0	-16
Interest Bearing Liabilities	-29	14	0	-15
Net Interest Income	**-14**	**13**	**0**	**-1**

b. Fees and Commissions

Fees and commissions increased by 4.8% (+EUR 37.9 million), driven by innovation and the adjustment of the offer of products and services to the needs of the clients. Excluding the cost of the guarantees provided by the Portuguese State (2012: EUR 58.5 million; 2011: EUR 8.0 million), fees and commissions increased by 11.1%.

Frees and Commissions (eur million)

Fees and Commissions Breakdown	2011	2012	Change	
			Absolute	Relative
Collections	19.7	17.0	-2.7	-13.7%
Securities	89.9	73.4	-16.5	-18.4%
Guarantees	125.4	139.6	14.2	11.3%
Account Management Fees	81.1	79.0	-2.1	-2.6%
Commissions on Loans and Related[1]	176.2	155.4	-20.8	-11.8%
Documentary Credit	81.4	87.1	5.7	6.9%
Asset Management[2]	85.8	85.9	0.1	0.2%
Cards	40.9	56.7	15.8	38.5%
Bankinsurance	34.9	47.6	12.7	36.3%
Advisory, Servicing and Other[3]	55.2	86.7	31.5	57.1%
Total	**790.5**	**828.4**	**37.9**	**4.8%**
Costs on State Guarantees	8.0	58.5	50.5	....
Comparable Total	**798.5**	**886.9**	**88.4**	**11.1%**

(1) Includes commissions on loans, project finance, trade finance and factoring.
(2) Includes asset management and discretionary management.
(3) Includes costs related to state guarantees.

Commissions on bancassurance products (saving and insurance products) increased by 36.3%, underpinned by BES Vida's new commercial dynamics and revamped offer; commissions on guarantees provided rose by 11.3%, increasingly driven by commissions linked to the Express Bill product; card commissions grew by 38.5%; commissions on documentary credit were up by 6.9%, boosted by the trade finance business with South America; commissions on account management (chiefly relating to commissions on current accounts, transfers, and payment orders) totalled EUR 79.0 million, being close to the 2011 level; finally, income from commissions on advisory services, servicing and other also increased, supported by the international area.

Commissions and fees related to capital markets (namely commissions on securities) and financings (collections, loans, corporate and project finance) decreased as a result of the deleveraging process and, particularly at domestic level, the impact of the economic recession.

c. Capital Markets and Other Results

Capital markets & other results totalled EUR 569.5 million, which compares with EUR -21.9 million in 2011.

Capital Markets & Other Results (eur million)

Capital Markets and Other Results	2011	2012	Change (absolute)
Interest Rate, Credit and FX	**142.6**	**825.0**	**682.4**
Interest rate	84.1	781.3	697.2
Credit	117.1	32.5	-84.6
FX and Other	-58.6	11.2	69.8
Equity	**125.8**	**-126.5**	**-252.3**
Trading	-41.9	-199.1	-157.2
Dividends	167.7	72.6	-95.1
Other Results	**-290.3**	**-129.0**	**161.3**
Total	**-21.9**	**569.5**	**591.4**

The start of the year was marked by the downgrade of the Portuguese Republic's rating, leading to the exclusion of the Portuguese public debt securities from the indexes of investment grade funds and pushing up yields to historically high levels. In this context, BES Group, which then held mostly short-term public debt in its securities portfolio, moved towards exposures with longer maturities, thus increasing the portfolio's average maturity. The monetary policy measures meanwhile adopted by the ECB boosted investors' demand for Portuguese bonds, being responsible for the extraordinary performance of the Portuguese yield curve, which culminated in January 2013 with the successful issuance of 5-year bonds.

BES Group thus sold part of its bond portfolio, with gains on interest rate, credit and fx instruments. However, the poor performance of the equity markets, particularly in the first three quarters of the year (namely of the Group's strategic holdings in Portugal Telecom and EDP), had a negative impact on capital markets results. Other results include the impact of the acquisition of control of BES Vida.

d. Operating Costs

Operating costs totalled EUR 1,149.1 million in 2012, which represents a year-on-year increase of 1.8% only. On a comparable basis, i.e., excluding the impacts of the full consolidation of BES Vida and the start-up of the new BES branches, operating costs would be flat (+0.3%).

Operating Costs

(eur million)

	2011	2012	Change	
			Absolute	Relative
Staff Costs	587.5	598.9	11.4	1.9%
Admin Costs	433.8	442.1	8.3	1.9%
Depreciation	107.9	108.1	0.2	0.2%
TOTAL	**1,129.2**	**1,149.1**	**19.9**	**1.8%**
Domestic Activity	793.5	782.0	-11.5	-1.4%
International Activity	335.7	367.1	31.4	9.3%
BES Vida and new branches	1.7	18.5	16.8	....
TOTAL comparable	**1,127.5**	**1,130.6**	**3.1**	**0.3%**

Despite the full consolidation of BES Vida, domestic costs decreased by 1.4% (-2.5% on a comparable basis), while international costs increased by 9.3%, largely due to the expansion of the distribution network in Angola and the start of operation of the two new branches abroad (+6.9% on a comparable basis).

Staff Costs

(eur million)

	2011	2012	Change	
			Absolute	Relative
Remunerations	471.6	483.8	12.2	2.6%
Pensions, Social Security and Other	115.9	115.1	-0.8	-0.7%
TOTAL	**587.5**	**598.9**	**11.4**	**1.9%**
Domestic Activity	395.2	389.7	-5.5	-1.4%
International Activity	192.3	209.2	16.9	8.8%

Staff costs increased by 1.9%, slowing down from 19.1% in 2011. This increase was driven by the international area, where the admission of 141 new employees drove up costs by 8.8%. Domestic staff costs declined by 1.4% due to the reduction of variable remunerations and the downsizing of the workforce by 136 employees (excluding the BES Vida consolidation impact).

The general administrative costs increased by 1.9%. Depreciation and amortisation totalled EUR 108.1 million, reflecting the rollout of new IT systems to support the international units. The domestic operations' depreciation and amortisation dropped by 4.8%, despite the impact of the closure of 41 branches, which led to exceptional amortisations of EUR 1.6 million.

e.Efficiency

The total Cost to Income improved to 44.6% as a result of the increase in total banking income (+32.2%) above the increase in operating costs (+1.8%). The Cost to Income excluding capital markets and other results remained flat year-on-year, at 57.2%.

Efficiency

Efficiency	2011	2012	Change
Cost to Income	57.9%	44.6%	-13.3 p.p.
Cost to Income ex-Markets	57.3%	57.2%	-0.1 p.p.

f. Provisions

The current context of economic recession and consequent increase in risk levels has forced the Group to increase provisions in order to face the devaluation of assets. The balance of provisions for credit increased by 24.2%, to EUR 2,692.3 million on December 31st, 2012, lifting the credit provisions/ gross customer loans ratio to 5.34% (2011: 4.23%).

Credit Provisions

(eur million)

	2011	2012	Change	
			Absolute	Relative
Gross Loan Portfolio	51,211	50,399	-812	-1.6%
Credit provisions increase	600.6	814.8	214.2	35.7%
Provisions Reserve	2,167.4	2,692.3	524.9	24.2%
Provision charge	1.17%	1.62%	0.44 p.p.	
Credit provisions reserve / Gross Loan Portfolio	4.23%	5.34%	1.11 p.p.	

Credit provisions were reinforced by 35.7% in 2012, to EUR 814.8 million (2011: EUR 600.6 million), including an additional charge of EUR 78 million resulting from the On-site Inspection Programme (OIP), which will be explained further down. The year's provision charge (1.62%) was thus 45 bps higher than in 2011 (1.17%).

Provision Charges

(eur million)

	2011	2012	Change	
			Absolute	Relative
Credit	600.6	814.8	214.2	35.7%
Securities	73.3	106.6	33.3	45.4%
ow related to credit transfers	-	*50.8*	-	-
Other risks and charges	174.4	278.0	103.6	59.4%
ow related to credit transfers	*23.0*	*85.8*	*62.8*	....
TOTAL	**848.3**	**1,199.4**	**351.1**	**41.4%**

Provisions for securities and other purposes also required a larger charge than in 2011. This is related to the credit assignment operations conducted in 2012. As part of the process of restructuring the real estate and tourism sectors conducted during the year, several initiatives were launched so as to set in place the financial, operational and management conditions required to reorganise and stimulate these sectors. The Government, in close association with companies and the financial sector, encouraged the creation of companies and funds in order to, through merger and concentration operations, achieve the necessary synergies for the sector's recovery. Banks enter the capital of these companies through the assignment of credits, which, for reasons of efficiency in the organisation of the operations, originate a reallocation of provisions, associating them to the financial instruments acquired through the assignment of credits – to securities when shares and participation units are subscribed, and to other assets when accessory capital, supplementary capital or shareholder loans are provided.

In addition, provisions for foreclosed real estate assets (EUR 39 million), for other contingencies (EUR 47 million), and for non financial assets of the international area were also reinforced.

Outcomes of the On-site Inspections (OIP) Programme on exposure to the construction and real estate sectors

Within the scope of its supervisory action, the Bank of Portugal decided to pay special attention to banks' exposure to the construction and real estate sectors, which have been particularly affected by the current macroeconomic context. For this reason, as part of regular prudential supervision activity, an On-site Inspections Programme was developed on the exposure of financial institutions to the construction and real estate sectors in Portugal and Spain (OIP – On-site Inspections Programme), with reference to June 30th, 2012. Its purpose was to assess the adequacy of impairment levels recorded with regard to exposure to the sectors in question, based on conservative assessment criteria. This inspection programme involved, on a consolidated basis, the eight largest national banking groups, including Espírito Santo Financial Group (ESFG). BES Group was subject to the inspections programme since it is fully consolidated by ESFG.

The inspection took as a reference the balance sheet position on June 30th, 2012, considering also information and events occurred from July 1st up to the conclusion of works, on November 16th, 2012. The programme estimated that BES Group needed to reinforce provisions by EUR 98 million (0.9% of the exposure analysed) relative to the balance sheet position as at September 30th, 2012, which was meanwhile published. Of this amount EUR 78 million (0.7% of the exposure) relate to differences of judgements concerning the amounts of impairment to be recognised for certain credits. As of December 31st, 2012 all reinforcements were duly booked.

7.5 Profitability

The gross commercial margin - the indicator of current banking activity performance - rose by 9pp, underpinned by the increase in the net interest margin and in fees and commissions. Despite the higher provisioning charge, the increase in the contribution of Capital markets and other results was crucial for the positive returns achieved in 2012.

Profitability Breakdown (%)

	2011	2012	Change p.p.
Yield on Interest Earning Assets	5.10	5.14	0.04
- Yield on Interest Bearing Liabilities	3.42	3.44	0.02
= Net Interest Margin	**1.68**	**1.70**	**0.02**
+ Return on Commissions and Fees	1.12	1.19	0.07
= Gross Commercial Margin	**2.81**	**2.89**	**0.09**
+ Return on Capital Markets and Other Results	-0.03	0.82	0.85
= Business Margin	**2.77**	**3.71**	**0.94**
+ Weighting of Insurance Premiums and Costs	-	0.00	-
- Weighting of Operating Costs	1.61	1.65	0.05
- Weighting of Provisions	1.21	1.73	0.52
- Weighting of Minorities and Other	0.12	0.19	0.08
= Return on Interest Earning Assets	**-0.15**	**0.14**	**0.29**
x Weighting of Interest Earning Assets	0.86	0.84	-0.02
= Return on Assets (ROA)	**0.00**	**0.12**	**0.12**
x Placements multiplier	13.72	10.22	-3.50
= Return on Equity (ROE)	**-0.05**	**1.25**	**1.30**

7.6 Financial Analysis of Banco Espírito Santo

Key Profits *

	SIMBOL.	2008	2009	2010	2011	2012
BALANCE (Eur million)						
Net Assets	NA	66,743	74,120	75,334	74,087	68,748
Interesting Earning Assets (average)	IAE	52,359	60,063	65,762	63,961	60,174
Capital and Reserves (average)	KP	3,610	4,585	5,136	5,283	6,362
INCOME STATEMENT (Eur million)						
Net Interest Income	NII	799.1	909.1	662.4	653.9	658.2
+ Fees and Commissions	FC	408.9	468.7	498.6	483.7	455.3
= Commercial Banking Income	CBI	1,208.0	1,377.8	1,161.0	1,137.6	1,113.5
+ Capital Markets and Other Results	CMR	71.9	475.8	344.2	476.5	618.5
= Banking Income	BI	1,279.9	1,853.6	1,505.2	1,614.1	1,732.0
- Operating Costs	OC	753.5	766.8	861.9	781.1	763.0
- Provisions and Taxes	ProvT	302.1	672.6	387.3	966.1	847.0
= Net Income	NII	224.3	414.2	298.8	-133.1	122.0
PROFITABILITY (%)						
Net Interest Margin	NII/IEA	1.53	1.51	1.01	1.02	1.09
+ Return on Fees and Commissions	FC/IEA	0.78	0.78	0.76	0.76	0.76
+ Return on Capital Markets and Other Results	CM/IEA	0.14	0.79	0.52	0.74	1.03
= Business Margin	BI/IEA	2.44	3.09	2.29	2.52	2.88
- Weighting of Operating Costs	OC/IEA	1.44	1.28	1.25	1.22	1.27
- Weighting of Provisions and Taxes	Prov/IEA	0.58	1.12	0.59	1.51	1.41
= Return on Financial Assets	RFA/IEA	0.43	0.69	0.45	-0.21	0.20
x Weighting of Interest Earning Assets	IEA/NA	0.85	0.84	0.87	0.85	0.91
= Return on Assets (ROA)	NP/NA	0.36	0.58	0.39	-0.18	0.18
x Placements Multiplier	NA/KP	17.03	15.55	14.78	14.23	10.43
= Return on Equity (ROE)	NP/KP	6.21	9.03	5.82	-2.52	1.92

* Historical data restated according to changes in accounting policy for booking actuarial deviations for 2008, 2009 and 2010.

7.6.1 Activity

The deterioration of financial conditions caused by the increase of sovereign risk, the necessary deleveraging of the Portuguese financial system, and the drop in domestic demand conditioned the activity of Banco Espírito Santo during 2012.

In this context, assets contracted by 7.2% year-on-year, customer loans declined by 3.4% and deposits retreated by 2.9%. Total customer funds increased by 7.4%, being mainly supported by the asset management and bancassurance business.

Activity Indicators

(eur million)

	Dec. 11	Dec. 12	Change	
			Absolute	Relative
Net Assets	**74,087**	**68,748**	**-5,339**	**-7.2%**
Customer Loans (including securitised)	**40,638**	**39,269**	**-1,369**	**-3.4%**
Loans to Indivuals	10,812	10,295	-517	-4.8%
- Mortgage	8,493	8,130	-363	-4.3%
- Other Loans to Individuals	2,319	2,165	-154	-6.6%
Corporate Lending	29,826	28,974	-852	-2.9%
Total Customer Funds	**47,035**	**50,527**	**3,492**	**7.4%**
On-Balance Sheet Customer Funds	33,890	33,371	-519	-1.5%
- Deposits	31,179	30,271	-908	-2.9%
- Debt Securities Placed with Clients	2,711	3,100	389	14.3%
Off-Balance Sheet Customer Funds	13,145	17,156	4,011	30.5%

At year-end the loan portfolio revealed a deterioration in loan loss levels: the overdue loans ratio (>90 days) increased to 4.58% (Dec.11: 3.11%) with the respective provision coverage declining to 133.6% (Dec.10: 155.0%).

It is worth stressing the favourable evolution of the total balance of credit provisions over total loans, which has been consistently increasing, rising by 130 bps year-on-year, to 6.12%.

Asset Quality

	Dec. 11	Dec. 12	Change	
			Absolute	Relative
(EUR million)				
Gross Loans	40,638	39,269	-1,369	-3.4%
Overdue Loans	1,389.2	2,003.0	613.8	44.2%
Overdue Loans > 90 days	1,262.2	1,798.4	536.2	42.6%
Provisions for Credit	1,955.9	2,402.1	446.2	22.8%
(%)				
Overdue Loans / Gross Loans	3.42	5.10	1.68	p.p.
Overdue Loans >90 days / Gross Loans	3.11	4.58	1.47	p.p.
Coverage of Overdue Loans	140.8	119.9	-20.9	p.p.
Coverage of Overdue Loans > 90 days	155.0	133.6	-21.4	p.p.
Provisions for Credit /Gross Loans	4.81	6.12	1.30	p.p.

7.6.2 Results

The table below summarises the main items of BES's income statement.

Income Statement

	2011	2012	Change	
			Absolute	Relative
Net Interest Income	**653.9**	**658.2**	**4.3**	**0.6%**
+ Fees and Commissions	483.7	455.3	-28.4	-5.9%
= Commercial Banking Income	**1,137.6**	**1,113.5**	**-24.1**	**-2.1%**
+ Capital Markets and Other Results	476.5	618.5	142.0	29.8%
= Banking Income	**1,614.1**	**1,732.0**	**117.9**	**7.3%**
- Operating Costs	781.1	763.0	-18.1	-2.3%
= Operating Income	**833.0**	**969.0**	**136.0**	**16.3%**
- Net Provisions	1,080.7	834.9	-245.8	-22.7%
Credit	521.2	633.4	112.2	21.5%
Securities	69.2	119.6	50.4	72.8%
Other	490.3	81.9	-408.4	-83.3%
= Income before Taxes	**-247.7**	**134.1**	**381.8**	**-154.2%**
- Taxes	-114.6	12.1	126.7	....
= Net Income	**-133.1**	**122.0**	**255.1**	**....**

Banking income, which translates income generation, increased by 7.3%, mainly underpinned by the increase in Capital Markets and Other Results due to gains in the portfolio of Portuguese public debt.

Despite the 21.5% increase in the credit provisions charge in 2012, to EUR 633.4 million, the total charge was lower than in 2011 as in that year it included a EUR 337.5 million provision for the impairment loss in the investment in BES Vida. Consequently, BES posted a net profit for the year of EUR 122.0 million, which contrasts with the EUR 133.1 million loss reported in 2011.

The total Cost to Income improved to 44.1%, in so far as total banking income increased by 7.3% while operating costs declined by 2.3%. The Cost to Income excluding capital markets and other results remained practically flat, at 68.5%.

Efficiency Indicators

	2011	2012	Change
Cost to Income	48.4%	44.1%	-4.3 p.p.
Cost to Income ex-Markets	68.7%	68.5%	-0.2 p.p.

7.6.3 Activity of International Branches

BES's branches abroad support the Group in the development of its international strategy. A brief description of the activity of BES's international branches in 2012 is given below.

Spain Branch

In a climate of economic and financial instability in Spain and the world, BES Spain Branch maintained a positive performance. Main highlights in 2012: (i) customer deposits increased by 8.7% year-on-year while customer loans decreased by 6.3% – this reflects the success of the branch's policy aimed at reinforcing its self-sufficiency in terms of funding; (ii) the volume of offbalance sheet exposures (guarantees) increased by 3.4%; (iii) the international corporate activity support volume rose by 11.3%; (iv) the number of clients, mostly in retail and private banking (+23.1%), increased by 21.5% year-on-year, which is ca. 3,900 more than in December 2011; and (v) continued implementation of the prudent credit risk management policy, involving a strong reinforcement of provisions in light of the direct and indirect effects of the economic situation. This permitted to maintain the rising trend of credit spreads, thus easing the pressure on the cost of liabilities due to intense deposit-taking competition within the Spanish banking system. Operating income grew by 35.8% YoY, driven by the increase in banking income (+11.9%) combined with the reduction of operating costs (-0.9%). The year's net profit was EUR 13.2 million, which compares with EUR 8.3 million in 2011.

London Branch (United Kingdom)

BES London Branch concentrates its activity in wholesale banking in the European market. The branch reported significant business volume growth in 2012, with assets increasing by 60%, underpinned by an issue of notes under an EMTN programme. Despite the adverse environment in the international markets, banking income grew by 87% year-on-year, to EUR 57 million. The Branch has been streamlining its costs structure, achieving a year-on-year reduction of 10%. BES London Branch posted net income for the year of EUR 31.7 million.

New York Branch (USA)

BES New York Branch concentrates its activity in wholesale banking, mainly in the US and Brazil. Persisting restrictions on market liquidity and difficulties in access to funding continued to penalise the placement of the certificates of deposit and commercial paper programmes during the year. These adverse market conditions required extreme prudence in business development and focus on risk monitoring and management, in line with the Group's international strategy guidelines and taking into account the sharp contraction of the loan portfolio (-35% YoY) as a result of the deleveraging plan. Despite these constraints, the Bank posted net income for the year of EUR 3.6 million.

Venezuela Branch

At the beginning of 2012 BES opened a Branch in Caracas, reinforcing its presence in Venezuela. This initiative will allow the Group to build closer ties with the Portuguese resident community (estimated at ca. 500,000 people) as well as with local large companies and institutions. By the end 2012 the Branch had captured deposits totalling EUR 106 million and had total assets of EUR 134 million.

Sucursal Luxembourg Branch

BES also operates in Luxembourg since January 2012, where it opened its new Branch to the public in July of that year. The new unit will target the Portuguese emigrant community in the country as well as in neighbouring countries in central Europe, while offering the Group's global client base the possibility to do business in a traditional financial market. At the end of the year the Branch had total assets of EUR 386 million.

8. Financial Statements

8.1 Consolidated Financial Statements

Consolidated Balance Sheet as of December 2012

(eur thousand)

	Dec. 11	Dec. 12
ASSETS		
Cash and deposits at Central Banks	1,090,439	1,377,541
Deposits with banks	580,813	681,077
Financial assets held for trading	3,434,639	3,925,399
Financial assets at fair value through profit or loss	1,963,989	2,821,553
Available-for-sale financial assets	11,482,866	10,755,310
Loans and advances to banks	3,282,576	5,426,518
(of which of the European system of Central Banks)	-	(3,350,000)
Loans and advances to customers	49,043,382	47,706,392
(Provisions)	(2,167,444)	(2,692,342)
Held-to-maturity investments	1,541,182	941,549
Financial assets with repurchase agreements	-	-
Hedging derivatives	510,090	516,520
Non-current assets held for sale	1,646,683	3,277,540
Investment propreties	-	441,988
Other tangible assets	851,678	931,622
Intangible assets	230,332	555,326
Investments in associates	806,999	580,982
Current income tax assets	28,692	24,648
Deferred income tax assets	712,157	728,905
Reinsurance Technical Provisions	-	3,804
Other assets	3,030,855	2,994,154
Direct and Indirect Insurance Creditors	-	567
Other	3,030,855	2,993,587
TOTAL ASSETS	**80,237,372**	**83,690,828**
LIABILITIES		
Deposits from central banks	10,013,713	10,893,320
(of which of the European System of Central Banks)	(8,786,204)	(10,279,382)
Financial liabilities held for trading	2,125,253	2,122,025
Other financial liabilities at fair value through profit or loss	-	-
Deposits from banks	6,239,360	5,088,658
Due to customers	34,206,162	34,540,323
Debt securities	18,452,648	15,424,061
Financial liabilities to transferred assets	-	-
Hedging derivatives	238,633	125,199
Investment contracts	-	3,413,563
Non current liabilities held for sale	140,950	175,945
Provisions	190,450	236,950
Technical provisions	-	1,577,408
Current income tax liabilities	44,937	221,199
Deferred income tax liabilities	110,533	154,015
Capital instruments	-	-
Other subordinated loans	961,235	839,816
Other liabilities	1,321,023	1,145,602
Direct and Indirect Insurance Creditors	-	2,040
Other liabilities	1,321,023	1,143,562
TOTAL LIABILITIES	**74,044,897**	**75,958,084**
EQUITY		
Share capital	4,030,232	5,040,124
Share premium	1,081,663	1,069,517
Other capital instruments	29,505	29,295
Treasury stock	(997)	(6,991)
Preference shares	211,913	193,289
Fair value reserve	(1,086,491)	(686,666)
Other reserves and retained earnings	1,446,961	1,328,630
Profit for the period attributable to equity holders of the bank	(108,758)	96,101
Prepaid dividends	-	-
Minority interests	588,447	669,445
TOTAL EQUITY	**6,192,475**	**7,732,744**
TOTAL LIABILITIES AND EQUITY	**80,237,372**	**83,690,828**

Chief Account The Board of Directors

Consolidated Income Statement as of December 2012

(eur thousand)

	Dec. 11	Dec. 12
Interest and similar income	4,084,862	3,914,109
Interest expense and similar charges	2,903,271	2,733,601
Net Interest Income	**1,181,591**	**1,180,508**
Dividend income	167,701	72,604
Fee and Commission income	888,646	975,062
Fee and Commission expense	130,546	181,144
Net gains from financial assets at fair value through profit or loss	(178,904)	(59,408)
Net gains from available-for-sale financial assets	(68,770)	600,206
Net gains from foreign exchange differences	(32,645)	(23,788)
Net gains/ (losses) from sale of other assets	(89,885)	(41,776)
Insurance earned premiums net of reinsurance	-	62,257
Claims incurred net of reinsurance	-	362,973
Change on the technical provision net of reinsurance	-	301,423
Other operating income and expense	357,803	19,976
Operating income	**2,094,991**	**2,542,947**
Staff costs	587,475	598,883
General and administrative expenses	433,753	442,120
Depreciation and amortisation	107,926	108,074
Provisions impairment net of reversals	6,860	56,978
Loans impairment net of reversals	600,616	814,832
Impairment on other financial assets net of reversals	73,251	106,727
Impairment on other assets net of reversals	167,602	220,893
Negative consolidation differences	-	-
Equity accounted earnings	(175,231)	8,312
Net income before income tax and minorities	**(57,723)**	**202,752**
Income tax		
Current tax	72,147	135,350
Deferred Tax	(133,666)	(52,434)
Net income	**3,796**	**119,836**
ow: profit after taxes of discontinued operations	(3,428)	(4,199)
Minority interests	112,554	23,735
Consolidated net income for the period	**(108,758)**	**96,101**

Chief Account

The Board of Directors

8.2 Individual Financial Statements

Individual Balance Sheet as of December 2012

(eur thousand)

	Dec. 12			Dec. 11
	Amount before provisions, impairmentand and depreciations	Provisions, impairmet and, depreciations	Net amount	
ASSETS				
Cash and deposits at Central Banks	626,558	-	626,558	481,371
Deposits with banks	275,887	-	275,887	341,698
Financial assets held for trading	1,851,506	-	1,851,506	1,783,039
Financial assets at fair value through profit or loss	1,286,075	-	1,286,075	1,969,331
Available-for-sale financial assets	9,243,055	236,023	9,007,032	14,275,267
Loans and advances to banks	9,565,260	126	9,565,134	7,928,825
Loans and advances to customers	39,269,217	2,005,703	37,263,514	39,115,887
Held-to-maturity investments	731,204	39,111	692,093	830,077
Repurchase agreements	-	-	-	-
Derivatives for risk management purposes	468,184	-	468,184	487,923
Non-current assets held for sale	1,492,841	184,753	1,308,088	767,742
Investment propreties	-	-	-	-
Proprety and equipment	1,093,028	750,475	342,553	371,947
Intangible assets	654,945	541,485	113,460	118,242
Investments in associates	2,455,115	398,887	2,056,228	1,754,708
Current income tax assets	1,292	-	1,292	1,872
Deferred income tax assets	833,310	-	833,310	799,538
Other assets	3,172,401	115,549	3,056,852	3,059,174
TOTAL ASSETS	**73,019,878**	**4,272,112**	**68,747,766**	**74,086,641**
LIABILITIES				
Deposits from central banks	10,238,986	-	10,238,986	9,232,202
Financial liabilities helding for trading	1,630,363	-	1,630,363	1,605,217
Other financial liabilities at fair value through profit or loss	-	-	-	-
Deposits from banks	7,138,799	-	7,138,799	11,139,698
Due to customers	30,271,265	-	30,271,265	31,179,373
Debt securities issued	9,933,899	-	9,933,899	10,163,659
Financial liabilities to transferred assets	953,613	-	953,613	2,951,364
Derivatives for risk management purposes	79,667	-	79,667	155,741
Non core liabilities held for sale	-	-	-	-
Provisions	554,526	-	554,526	581,105
Current income tax liabilities	60,134	-	60,134	15,080
Deleted income tax liabilities	138,810	-	138,810	123,794
Equity instruments	-	-	-	-
Subordinated debt	796,643	-	796,643	896,185
Other liabilities	682,063	-	682,063	871,741
TOTAL LIABILITIES	**62,478,768**	**-**	**62,478,768**	**68,915,159**
Equity				
Share capital	5,040,124	-	5,040,124	4,030,232
Share premium	1,061,621	-	1,061 621	1,076,522
Other equity instruments	225,714	-	22,5714	244,502
Treasury stock	(801)	-	(801)	(997)
Fair value reserve	(834,740)	-	(834,740)	(809,027)
Other reserves and retained earnings	655,119	-	655,119	763,339
Profit for the year	121,961	-	121,961	(133,089)
Dividens paid	-	-	-	-
TOTAL EQUITY	**6,268,998**	**-**	**6,268,998**	**5,171,482**
TOTAL LIABILITIES AND EQUITY	**68,747,766**	**-**	**68,747,766**	**74,086,641**

Chief Account

The Board of Dierctors

Income Statement as of December 2012

(eur thousand)

	Dec. 11	Dec. 12
Interest and similar income	2,966,191	2,914,402
Interest expense and similar charges	2,312,253	2,256,248
Net Interest Income	**653,938**	**658,154**
Dividend income	380,480	122,896
Fee and Commission income	625,686	667,414
Fee and Commission expense	155,934	226,355
Net gains from financial assets at fair value through profit or loss	(309,522)	(140,196)
Net gains from available-for-sale financial assets	16,234	570,781
Net gains from foreign exchange differences	254	(39,191)
Net gains from sale of other assets	(49,345)	(30,426)
Other operating income and expense	423,660	122,375
Operating Income	**1,585,451**	**1,705,452**
Staff costs	372,815	359,789
General and administrative expenses	322,199	318,495
Depreciation and amortisation	86,039	84,668
Provisions impairment net of reversals	(19,091)	(11,634)
Loans impairment net of reversals	537,861	671,313
Impairment on other financial assets net of reversals	61,188	119,626
Impairment on other assets net of reversals	500,785	55,608
Net income before tax	**(276,345)**	**107,587**
Income tax		
Current tax	4,278	62,549
Deferred tax	(147,534)	(76,923)
Net income	**(133,089)**	**121,961**
ow: net income after discontinued operations	-4,719	-3,208

Chief Account

The Board of Directors

9. Final Notes

9.1 Declaration of Conformity with the Financial Information Reported

In accordance with Article 245 (1-c)) of the Portuguese Securities Code, the Board of Directors of Banco Espírito Santo, S.A., whose members are named hereunder, hereby declares that:

(i) The individual financial statements of Banco Espírito Santo, S.A. (BES) for the years ended December 31st, 2011 and 2012 were prepared in accordance with the Adjusted Accounting Standards (AAS), as determined by Bank of Portugal Notice no. 1/2005, of February 21st, 2005;

(ii) The consolidated financial statements of Grupo Banco Espírito Santo, S.A. (BES Group) for the years ended December 31st, 2011 and 2012 were prepared in accordance with the International Financial Reporting Standards (IFRS) adopted in the European Union and transposed into Portuguese law through Decree-Law no. 35 /2005 of February 17th;

(iii) To the extent of their knowledge the financial statements referred to in (i) and (ii) provide a true and appropriate image of the assets, liabilities, equity and earnings of respectively BES and BES Group, in accordance with the referred standards, and were approved by the Board of Directors at its meeting of March 1st, 2013;

(iv) The annual report describes faithfully the evolution of the businesses, the performance and the financial position of BES and BES Group in 2012, as well as the main risks and uncertainties with which they are faced.

9.2 Own Shares

In accordance with article 66 (5-d)) of the Portuguese Companies Code, BES states that transactions involving the Bank's own shares in 2012 related on the one hand to the execution of the Variable Remuneration Plan based on Financial Instruments ("PRVIF"), which is an integral part of the remuneration policy of the members of BES's Executive Committee approved by the General Meeting held on April 6th, 2010, and on the other to the acquisition of control of BES Vida, which held shares in BES.

Own Shares

	Number of Shares	Price (eur)	Total (euro thousand)
Balance as at December 31, 2011	342,475	2,909	997
Shares sold under the PRVIF (1)	67,184	1,315	196
Other transactions (2)	10,112,765	-	6,190
Balance as at December 31, 2012	**10,388,056**	**-**	**6,991**

(1) Variable Remuneation plan - In January 2012.
(2) Related to BES shares in BES Vida securities portfolio, following the acquisition of control in May 2012.

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

9.3 Proposed Distribution of Banco Espírito Santo Net Income

Under the terms of Article 66 (5-f) and for the purposes of Article 376 (1-b) of the Portuguese Companies Code, and pursuant to Article 31 of the Company's bylaws, and considering the commitments assumed before the national and international supervision authorities concerning the assurance that solvency levels would be reinforced autonomously, the Board of Directors of Banco Espírito Santo proposes, for approval by the General Meeting, that the individual net earnings of Banco Espírito Santo in 2012, in the amount of EUR 121,961,308.14, be in part allocated to the legal reserve (EUR 12,197,000.00) and the remainder (EUR 109,764,308.14) to cover the loss determined in 2011, under the terms of Article 33 of the Portuguese Companies Code.

9.4 Reading Guide to the Sustainability Information

Information on BES Group's sustainability management and performance can be found in the 2012 Annual Report, the Sustainability Brochure and the sustainability section of the company's website. This information is reported in accordance with the Global Reporting Initiative (GRI)'s guidelines on sustainability reporting (version 3.1, third generation), and the principles of standard AA1000APS. The report was prepared for level A+ and benefited from assurance by KPMG & Associados, Sociedade de Revisores Oficiais de Contas, S.A., an independent entity, according with the principles laid down by ISAE 3000 (International Standard on Assurance Engagements 3000).

For additional information on the scope of the Global Reporting Initiative G3.1 guidelines, please see the GRI table available at www.bes.pt.

The purpose of the reported information is to answer all GRI's requirements and indicators (social, environmental and economic) and this entity's Financial Services Sector Supplement, except those that, by their nature or content, have been considered as lacking relevance for BES Group's activity.

This judgment was based on a permanent dialogue with the most relevant stakeholders for BES Group, namely the shareholders, regulators, clients, employees and investors, which have also benefited from targeted communication initiatives. The sustainability brochure and the website make the information on sustainability available to the remaining relevant stakeholders, such as suppliers, the media, NGOs and the public at large.

9.5 Note of Recognition

The Board of Directors of Banco Espírito Santo wishes to express its recognition for the trust shown by its Clients and Shareholders, the loyalty and dedication of its Employees and the cooperation given by the governmental and supervision authorities.

Lisboa, March 1st, 2013

The Board of Directors of Banco Espírito

Alberto Alves de Oliveira Pinto (Chairman)
Ricardo Espírito Santo Silva Salgado (Vice-Chairman)
Bruno Bernard Marie Joseph de Laage de Meux (Vice-Chairman)
José Manuel Pinheiro Espírito Santo Silva
António José Baptista do Souto
Jorge Alberto Carvalho Martins
Aníbal da Costa Reis de Oliveira
Manuel Fernando Moniz Galvão Espírito Santo Silva
José Maria Espírito Santo Silva Ricciardi
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
Ricardo Abecassis Espírito Santo Silva
Amílcar Carlos Ferreira de Morais Pires
Nuno Maria Monteiro Godinho de Matos
João Eduardo Moura da Silva Freixa
Pedro Mosqueira do Amaral
Isabel Maria Osório de Antas Mégre de Sousa Coutinho
João de Faria Rodrigues
Marc Olivier Tristan Oppenheim
Vincent Claude Pacaud
Rita Maria Lagos do Amaral Cabral
Stanislas Gerard Marie Georges Ribes
Horácio Lisboa Afonso
Pedro João Reis Matos Silva
Milton Almicar Silva Vargas
Xavier Musca

Appendices

The Sustainability Accounts

Environmental	2008	2009	2010	2011	2012	2011/2012
Energy (1)						
Total electricity consumption (GJ)	210,389	216,959	218,752	197,762	179,963	-12.81%
Total electricity consumption (kwh)	58,441,425	60,266,513	60,764,414	54,934,001	49,989,692	-12.81%
Data Centre electricity consumption (kwh)	8,809,344	9,464,979	11,054,623	11,673,820	12,153,693	4.11%
Electricity consumption (kwh/Employee) (2)	7,959	7,923	7,787	6,776	551	11%
Natural gas consumption (GJ)	373	887	740	496	14,120	11%
Natural gas consumption (N.m^3)	9,555	22,750	18,982	12,717	7,040	-44.64%
Butane gas consumption (Kg)	7,290	4,860	3,105	675	720	6.67%
Butane gas consumption (GJ)	345	230	147	32	34	6.67%
Transport (1)						
No. of vehicles	1,085	1,491	1,212	1,474	1,644	11.53%
Fuel (GJ)	77,948	109,790	76,775	130,922	126,028	2.76%
No. of plane trips	4,956	5,327	5,826	3,970	3,988	0.45%
Water (1)						
Water consumption (m^3) (3)	101,514	96,927	99,442	96,729	91,590	-5.31%
Water consumption per employee (m^3/ employee)(3)	16	14	15	14	14	-2.13%
Emission of greenhouse gases (tCO_2e) (1)						
Emissions from trips in company cars	3,421	3,500	3,773	5,861	5,666	-3.33%
Emissions of fluorinated gases from air conditioning equipment	1,477	1,447	1,447	1,447	1,447	0.00%
Emissions from natural gas kitchen equipment *	59	107	87	30	32	7%
Emissions from emergency generators	31	0	0	40	41	3.00%
Direct emissions (Scope 1)	4,958	5,055	5,307	7,378	7,186	-2.60%
Emissions from the production of electricity purchased	22,454*	20,433	14,095	13,319	18,202	-6.00%
Indirect emissions (Scope 2)	22,454*	20,433	14,095	13,319	18,202	-6.00%
Total Scope 2 standardised			22,417	20,650	20,044	-8.00%
Total (scope 1 and 2)	23,940	25,488	19,402	20,697	25,388	-5.00%
Total (Scope 1 and 2) standardised **			27,724	28,028	27,230	-6.00%
Emissions from Employees' home/work daily trips / business trips by plane ***	3,690	5,630	2,510	1,299	2,140	64.74%
Emissions from Employees' home/work daily trips	7,090	6,932	6,945	8,186	7,628	-6.82%
Indirect emissions (Scope 3)* **	10,780	12,562	9,455	9,485	9,768	2.98%
Consumption of Materials (paper and other consumables) *(4)						
White paper for internal use (tonnes)	441	480	416	411	434	5.81%
White paper for internal use (no. of reams/Employee)	25	28	24	23	25	8.20%
Recycled paper for internal use (tonnes)	16	10	18	7	6	-26.08%
Recycled paper for internal use (no. of reams/Employee)	1	1	1	0	0	-24.41%
Forms - printing & finishing (tonnes)	413	384	301	247	234	-5.18%
Forms - printing & finishing (no. of reams)	165,785	154,387	120,693	99,123	93,986	-5.18%
Consumables used (Units)	38,252	50,405	47,356	44,955	21,103	-54.21%
Waste Management (1)						
Paper sent for recycling (tonnes)	344	478	289	224	169	-24.58%
Cardboard sent for recycling (tonnes)	54	61	57	73	42	-42.97%
Consumables collected (Units)	6,545	4,023	22,860	21,757	8,400	-61.39%

(1) BES Portugal.
(2) BES Portugal, does not include Data Center.
(3) BES Portugal, does not include BES Arte & Finança.
(4) BES PT, BAC, BEST, ESAF, BESI.
* Values recalculated due to new accounting for greenhouse gas emissions.
** Value obtained through an emission factor corresponding to the average of all the emission factors of time series considered.
*** Values recalculated due to new emission factors and a new methodology to classify the types of flights.

Environmental (BES PT; BES Açores; BESI PT; ESAF)

	2012
Total electricity consumption (GJ)	50,580,397
Emissions from the production of electricity purchased (tCO_2e) (scope 2)	19,200
Water consumption (m^3)	94,769

In 2012, the Bank extended the gathering of environmental indicators with greater relevance to the Bes Açores, BESI in Portugal and ESAF. This extension aims to disclose the full environmental impacts and establish new commitments for a cope with a larger coverage of the Group's operations.

Workforce

	2008	2009	2010	2011	2012
BES Group total employees (*)	9,431	8,902	9,858	9,863	9,944
Total Employees (Human Resources information scope)	8,389	8,155	8,394	8,528	8,457

(*) employees with permanent and fixed term contracts

Location

(nº of Employees)

	2008	2009	2010	2011	2012
Europe	8,828	8,104	8,530	8,413	8,454
America	160	352	384	375	332
Africa	424	427	923	1,047	1,111
East	19	19	21	28	47

Labour Contract

(nº of Employees)

	2008	2009	2010	2011	2012
Permanent	7,276	7,451	7,762	7,992	7,974
Fixed term	731	462	406	352	367
Temporary	180	178	179	142	76
Traineeship	202	64	47	35	35
Function (no. of Employees)					
Management	813	937	1,007	1,038	1,085
Head of Department	919	915	994	930	949
Specific	3,397	32,359	3,371	3,558	3,497
Administrativos	2,995	2,930	2,901	2,888	2,883
Auxiliary	110	114	121	114	113
Continent (no. of Employees)					
Europe	7,653	7,521	7,479	7,749	7,550
America	158	182	202	191	207
Africa	423	452	511	588	700
Healthcare (no. of Employees)					
Medical exams	3,802	3,999	3,813	4,561	4,258
Medical acts	10,580	10,408	11,116	11,428	24,065
Nursing acts	4,135	4,025	6,519	5,483	5,664
Total	**18,517**	**18,432**	**21,448**	**21,472**	**33,987**
Employees covered by Collective Wage Agreement ("ACT") (no. of Employees)					
Total Employees	8,234	8,155	8,394	8,528	8,457
Unionised Employees	6,939	7,170	8,157	6,792	6,152
% of Unionised Employees	84%	88%	97%	80%	73%
Unionised Employees (no. of Employees)					
Total Employees	8,234	8,155	8,394	8,528	8,457
Unionised Employees	6,715	6,052	6,923	6,434	4,664
% of Unionised Employees	82%	74%	82%	75%	55%
Absenteeism (%)					
Lost Days Rate	0.4	0.3	0.23%	0.13%	0.09%
Absenteeism Rate (with maternity)	3.5	3.8	3.56%	3.99%	3.61%
Absenteeism Rate (%) (without maternity) *					
Women	-	-	3.02%	3.50%	3.54%
Men	-	-	1.52%	2.20%	1.90%
Total	**-**	**-**	**2%**	**2.80%**	**2.63%**

*2010 does not include Angola.

Breakdown of Employees by gender and age according to professional categories

(%)

	2008	2009	2010	2011	2012
Management					
Women	26.1	28.1	29.6	29.2	50
Men	73.9	71.9	70.4	70.8	50
< 30 years	1.5	1.92	2	2	1.7
30 to 50 years	84.5	82.69	81.2	80.3	77.2
> 50 years	14	15.38	16.7	17.6	21.1
Heads of Department					
Women	32.3	34	35.5	36.6	55.2
Men	67.7	66	64.5	63.4	44.8
< 30 years	4.8	4.4	5.1	2.9	2.3
30 to 50 years	84.8	84.2	82.5	82.7	82.1
> 50 years	10.4	11.4	12.4	14.4	15.6
Specific					
Women	46.4	48	48.4	47.4	46.1
Men	53.6	52	51.6	52.6	53.9
< 30 years	29.4	24.5	24.6	21.3	17.5
30 to 50 years	63.5	67.1	66.5	69.2	71.9
> 50 years	7.1	8.4	8.9	9.5	10.5
Administrative					
Women	50.6	50.4	49.9	49.5	54.3
Men	49.4	49.6	50.1	50.5	45.7
< 30 years	22.6	18.9	19.6	16.6	14.5
30 to 50 years	57.3	58.2	55.7	58.2	59.2
> 50 years	20.1	23	24.7	25.2	26.3
Auxiliary					
Women	45.5	44.7	41.3	47.4	51.3
Men	54.5	55.3	58.7	52.6	48.7
< 30 years	12.7	19.1	19.8	27.2	27.4
30 to 50 years	27.8	25.5	37.2	26.3	28.3
> 50 years	60	55.5	43	46.5	44.2

Staff Turnover

(%)

BES Group (*)	Europe					America					Africa					GBES				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Women	16.7	9.5	10.1	7.0	3.5	33.3	28.1	21.7	68.3	33.3	26.2	36.8	49.2	30.2	34.5	17.4	11.5	12.9	9.7	6.3
Men	13.6	8.1	9	8.8	7.1	28.4	36	24.1	61.8	43.1	23.3	41.5	33.7	29.3	33.6	14.5	10.5	10.9	11.7	10.7
< 30 years	9.1	10.5	5.6	30.8	22.5	25.9	22.7	16.8	120.4	71.2	19.1	32.1	29.4	38.6	71.2	9.9	6.8	7.4	36.6	34.3
30 to 50 years	5.5	6.4	3.9	5.4	4.0	19.6	30.4	6.4	43.2	31.1	5.4	7.1	11.7	20.6	16.2	5.8	3.9	4.4	7.0	5.4
> 50 years	0.4	0.3	0.1	1.6	1.7	0.6	4.9	0	58.3	20.0	0	0	0.2	9.1	22.7	0.4	0.2	0.1	2.1	2.2

(*) BES Group: Europe – BES Portugal, BES Açores, BESI Portugal, Banco Best, ESAF, BES Espanha, BESI Espanha. America - BESI Brasil. Africa BES Angola, BES Cabo Verde.

Average no. of Training Hours per Employee

	Europe					America					Africa					GBES				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Management	55.9	11.7	19.1	14.5	11.3	2.6	34.0	17.7	83.1	33.2	1.1	1.0	1.1	nd	6	29.9	12.0	18.2	19.6	13.0
Heads of Department	33.0	37.3	63.7	36.5	37.6	16.5	77.8	46.0		0.0	1.0	3.9	5.8	nd	37	26.1	37.8	58.6	36.6	37.5
Specific	69.8	37.5	44.0	36.9	29.5	93.2	100.0	97.0	75.3	39.4	0.4	0.9	4.7	nd	12	52.1	36.1	42.1	36.5	28.0
Administrative	43.9	22.6	35.8	26.4	18.6	36.0	32.0	16.0	146.3	0.0	1.9	3.8	4.4	nd	15	38.8	22.2	35.1	26.7	18.4
Auxiliary	0.8	11.7	0.0	228.1	2.3	240.0	384.0	204.0	0.0	2.8	0.0	0.0	1.0	nd	0	18.0	17.6	8.8	210.4	1.7

Promotions

(no. of Employees)

	2008	2009	2010	2011	2012
Change of function	126	81	83	74	52
Merit	1,295	665	834	830	493
Seniority	131	175	197	100	121
Total no. of Employees Promoted	1,552	921	1,114	1,004	666

Performance Assessment

	2008		2009		2010	2011		2012*	
Number of Employees who received information about performance assessment	6,596	80%	6,777	80%	7,339	7,450	87%	7,194	85.07%
Number of Employees who receive information about career management	6,067	74%	6,201	74%	7,198	7,341	86%	7,184	84.95%

(*) Data for March 4th, 2013, prior to conclusion of the performance assessment process of the Banco Espírito Santo employees.

Loans Granted to Employees

(eur million)

	2008	2009	2010	2011	2012
Mortage	77,505	68,185	59,183	46,266	24,814
Acquisition of consumer goods	19,074	32,961	29,171	15,057	8,878
Social Support	1.068	2.190	2.702	1.299	0.811

Loans Granted to Employees

	2010*		2011		2012	
	Women	Men	Women	Men	Women	Men
Total of Employees who benefire from paternity/ maternity leave	377		485		309	
Employees who benefire from paternity/ maternity leave	232	145	295	190	195	114
Employees who returned to work after paternity/ maternity leave	232	145	290	189	185	114
Employees who returned to work after leave and are still employed after 12 months in work			290	189	186	112

Stakeholders - Value Creation

(Eur million)

	2008	2009	2010	2011	2012
Shareholders (dividends)	80	163	140	-	-
Employees (remuneration and formation)	526	565.9	628.3	587.5	598.9
Clients (loans)	48,198			51,211	50,599.0
Suppliers (general administratives costs)	402.6	402.6	441.1	433.8	442.1
Community (donations)	3.2	4	4.8	3.3	4.1
State (taxes)	152.5	109.8	43.7	-	110.8

Independent Limited Assurance Report

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Independent Limited Assurance Report

(This Report is a free translation to English from the Portuguese version. In case of doubt or misinterpretation the Portuguese version will prevail.)

To the Executive Board of Directors of
Grupo Banco Espírito Santo, S.A.

Introduction

1. We have been engaged by the Executive Board of Directors of Grupo Banco Espírito Santo S.A. ("GBES") to provide limited assurance on the sustainability information included in the Annual Report ("the Report") of GBES for the year ended 31 December 2012.

Responsibilities

2. The Executive Board of Directors of GBES is responsible:

   - For the preparation and presentation of the sustainability information included in the Report in accordance with the Sustainability Reporting Guidelines (G3.1) of the Global Reporting Initiative (GRI), as described in the Report, and the information and assertions contained within it;

   - For determining GBES objectives in respect of sustainable development performance and reporting, including the identification of stakeholders and material issues, in accordance with the principles of inclusiveness, materiality and response of AA1000APS (2008); and

   - For establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived.

3. Our responsibility is to carry out a limited assurance engagement and to express a conclusion based on the work performed. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. This Standard requires that we comply with the applicable ethical requirements, including independence requirements, and that the work is planned and performed with the objective to obtain limited assurance that nothing came to our attention that causes us to conclude that the sustainability information included in the Report for the year ended 31 December 2012, is not free of material misstatement.

Scope

4. A limited assurance engagement on a sustainability report consists of making inquiries, primarily of persons responsible for the preparation of the information presented in the Report, and applying analytical and other evidence gathering procedures, as appropriate. These procedures included:

   - Inquiries of management to gain an understanding of GBES processes for determining the material issues for GBES key stakeholders groups;

- Interviews with senior management and relevant staff at group level and selected business unit level concerning sustainability strategy and policies for material issues applied, and the implementation of these across the different business areas;
- Interviews with relevant staff, at group level and business units, responsible for providing the sustainability information to be included in the Report;
- Comparing the information presented in the Report to corresponding information in the relevant underlying sources to determine whether all the relevant data derived from such underlying sources has been included in the Report; and
- Reading the information presented in the Report to conclude if it is in line with our overall knowledge of, and experience of, the sustainability performance of GBES.

5. The extent of evidence gathering procedures performed in a limited assurance engagement is less than that for a reasonable assurance engagement or an audit conducted in accordance with International Standards on Auditing and Assurance Engagements, and therefore a lower level of assurance is provided. Consequently, it does not allow us to obtain the assurance that we would become aware of all the significant matters that can be identified in an audit or in a work of reasonable assurance. Consequently, we do not express an audit opinion or a conclusion of reasonable assurance of reliability.

Conclusion

6. Based on the procedures performed, as described above, nothing has come to our attention that causes us to believe that the sustainability information included in the Report of GBES for the year ended 31 December 2012 is not presented fairly, in all material respects with:

   - The alignment of GBES with the principles of inclusiveness, materiality and response of AA1000APS (2008); and
   - The compliance with the Sustainability Reporting Guidelines (G3.1) of the Global Reporting Initiative (GRI) as described in Section/Chapter "Methodology notes" of the Report.

7. Our limited assurance report is made solely to GBES in accordance with the terms of our engagement. Our work has been performed only with the objective of reporting to GBES those matters for which we were engaged in this limited assurance report and for no other purpose. We do not accept or assume responsibility to any third party other than GBES for our work, for this limited assurance report, or for our conclusions.

Lisbon, 4 March 2013

KPMG & Associados,
Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)
represented by
Sílvia Cristina de Sá Velho Corrêa da Silva Gomes (ROC n.º 1131)

2

Report "The Activity of BES and Biodiversity"

RESEARCH CENTRE IN BIODIVERSITY AND GENETIC RESOURCES
OPORTO UNIVERSITY

The Research Centre in Biodiversity and Genetic Resources (CIBIO) produces since 2007 the report "The activity of BES and Biodiversity", born of a Business & Biodiversity partnership established between BES, CIBIO and ICNB (Institute of Nature Conservation and Biodiversity).

The report aims to assess the impacts on biodiversity and the environment resulting from BES activity but also to identify improvement opportunities and propose concrete measures and actions to minimize the impacts. The report examines two types of impacts originated by BES: direct (resulting from the company's current activity) and indirect (resulting from financial activity). In 2012, BES continued with the implementation of several measures to improve their environmental performance, such as the Internal Energy Efficiency Program, the Energy Management System and also several internal communication actions aimed to change the behavior of its employees. As a result, BES has achieved significant improvements over the previous year in several environmental indicators, particularly in reducing water and energy consumption, CO_2 emissions and waste management. These improvements have allowed, in 2012, to reach three of the four reduction targets set for the period 2008-2013, leaving only unfulfilled the target regarding paper consumption. CIBIO recommends implementing two additional efficiency programs, similar to the program set for energy, but targeted to water and paper consumption. These efficiency programs will help to consolidate the improvements obtained so far, but also to assist in ensuring compliance with the defined goals and assure the continuous improvement of BES environmental performance.

CIBIO considers positive the efforts that have been implemented by BES in Procurement Policy, Supplier Policy and Project Finance and recommends using a tool similar to the Sustainable Finance Toolkit in granting credit to companies and customer analysis, particularly in the areas of activity considered to have a high risk to biodiversity. The neutralization of the estimated CO_2 emissions resulting from the banking account 18:31 also deserves a positive evaluation, although CIBIO suggests that future actions to neutralize the carbon footprint are carried out within the Portuguese national territory.

BES continued, in 2012, with the support of various projects and initiatives under Biodiversity, Forests and Nature Conservation, namely: the BES Biodiversity Prize, an award reference in Portugal, the partnership with Herdade da Poupa, the Ecological Education Center of Paul Tornada, the Faia Brava Reserve and the League for the Protection of Nature (LPN).

Overall, in 2012, BES had a positive environmental performance. CIBIO emphasizes the early fulfillment of most of the proposed reduction targets set to 2013, as well as the continued efforts to establish itself as a leading bank regarding environment and biodiversity.

CIBIO, 2013.

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BES art COLECÇÃO BANCO ESPÍRITO SANTO

Pertti Kekarainen (b.1965, Finlândia) TILA (White Diagonal), 2009. C-print, Diasec 195 x 164,5 cm. Edition 5. Courtesy the artist & Galerie Anhava.

Financial Statements and Notes to the Financial Statements

1. Consolidated Financial Statements and Notes to the Financial Statement

Consolidated Income Statement for the Years Ended 31 December 2012 and 2011

(in thousands of euro)

	Notes	31.12.2012	31.12.2011
Interest and similar income	5	3,914,109	4,084,862
Interest expense and similar charges	5	2,733,601	2,903,271
Net interest income		1,180,508	1,181,591
Dividend income		72,604	167,701
Fee and commission income	6	975,062	888,646
Fee and commission expenses	6	(181,144)	(130,546)
Net gains/ (losses) from financial assets at fair value through profit or loss	7	(59,408)	(178,904)
Net gains/ (losses) from available-for-sale financial assets	8	600,206	(68,770)
Net gains/ (losses) from foreign exchange differences	9	(23,788)	(32,645)
Net gains/ (losses) from the sale of other assets	10	(42,159)	(91,680)
Insurance earned premiums net of reinsurance	11	62,257	-
Claims incurred net of reinsurance	12	(362,973)	-
Change on the technical reserves net of reinsurance	13	301,423	-
Other operating income and expense	14	109,562	357,803
Operating income		2,632,150	2,093,196
Staff costs	15	598,883	587,475
General and administrative expenses	17	442,120	433,753
Depreciation and amortisation	30 and 31	108,074	107,926
Provisions net of reversals	40	56,978	6,860
Loans impairment net of reversals and recoveries	25	814,832	600,616
Impairment on other financial assets net of reversals and recoveries	23, 24 and 26	106,727	73,251
Impairment on other assets net of reversals and recoveries	28, 31 and 34	220,893	167,602
Operating expenses		2,348,507	1,977,483
Gains on disposal of investments in subsidiaries and associates	1	383	1,795
Losses arising on business combinations achieved in stages	1 and 55	(89,586)	-
Share of profit of associates	32	8,312	(175 231)
Profit before income tax		**202,752**	**(57 723)**
Income tax			
Current tax	41	135,350	72,147
Deferred tax	41	(52,434)	(133,666)
		82,916	**(61,519)**
Profit for the year		**119,836**	**3,796**
Attributable to equity holders of the Bank		96,101	(108,758)
Attributable to non-controlling interest	45	23,735	112,554
		119,836	**3,796**
Basic (in Euro)	18	0.03	(0.04)
Diluted (in Euro)	18	0.03	(0.04)

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

Consolidated Statement of Comprehensive Income for the Years Ended 31 December 2012 and 2011

(in thousands of euro)

	31.12.2012	31.12.2011
Profit for the period		
Attributable to equity holders of the Bank	**96,101**	**(108,758)**
Attributable to non-controlling interest	23,735	112,554
	119,836	**3,796**
Other comprehensive income for the period		
Long-term benefit	(191,768)	44,015
Income taxes on actuarial gains and losses from defined benefit obligations	18,718	(13,093)
Exchange differences	(57,216)	11,981
Income taxes on exchange differences on translating foreign operations	3,247	(2,712)
Other comprehensive income appropriate from associates	(9,800)	(8,053)
	(236,819)	**32,138**
Available-for-sale financial assets		
Gains/ (losses) arising during the period	1,248,383	(631,336)
Reclassification adjustments for gains/ (losses) included in the profit or loss	(500,898)	126,561
Deferred taxes	(131,438)	69,226
	616,047	(435,549)
Total comprehensive income/ (loss) for the period	**499,064**	**(399,615)**
Attributable to equity holders of the Bank	**492,216**	**(523,227)**
Attributable to non-controlling interest	**6,848**	**123,612**
	499,064	**(399,615)**

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

Consolidated Balance Sheet as at 31 December 2012 and at 31 December 2011

(in thousands of euro)

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

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

Consolidated Statement of Changes in Equity for the Years Ended 31 December 2012 and 2011

(in thousands of euro)

	Share capital	Share premium	Other equity instruments	Treasury stock	Preference shares	Other reserves, retained earnings and other comprehensive income: Fair value reserve	Other reserves, retained earnings and other comprehensive income: Other reserves, retained earnings and other comprehensive income	Other reserves, retained earnings and other comprehensive income: Total	Profit for the period attributable to equity holders of the Bank	Total equity attributable to equity holders of the Bank	Non--controlling interest	Total equity
Balance as at 31 december 2010 (restated)	**3,500,000**	**1,085,398**	**269,953**	**-**	**600,000**	**(9,580)**	**307,666**	**298,086**	**556,901**	**6,310,338**	**538,701**	**6,849,039**
Other comprehensive income												
Changes in fair value, net of taxes	-	-	-	-	-	(435,595)	-	(435,595)	-	(435,595)	46	(435,549)
Actuarial deviations, net of taxes	-	-	-	-	-	-	29,567	29,567	-	29,567	1 355	30 922
Other comprehensive income appropriate from associates	-	-	-	-	-	-	(8,053)	(8,053)	-	(8,053)	-	(8,053)
Exchange differences, net of taxes	-	-	-	-	-	-	(388)	(388)	-	(388)	9,657	9,269
Profit for the period	-	-	-	-	-	-	-	-	(108,758)	(108,758)	112,554	3,796
Total comprehensive income in the period	**-**	**-**	**-**	**-**	**-**	**(435,595)**	**21,126**	**(414,469)**	**(108,758)**	**(523,227)**	**123,612**	**(399,615)**
Capital increase	530,232	(3,735)	(240,448)	-	(197,446)	-	54,673	54,673	-	143,276	(46,269)	97,007
- Issue of 294,573,418 new shares	530,232	-	-	-	-	-	-	-	-	530,232	-	530,232
- Exchange of equity instruments and preferences shares	-	-	(240,448)	-	(197,446)	-	54,673	54,673	-	(383,221)	(46,269)	(429,490)
- Costs with capital increase	-	(3,735)	-	-	-	-	-	-	-	(3,735)	-	(3,735)
Purchase of preference shares (see Note 44)	-	-	-	-	(190,641)	-	50,975	50,975	-	(139,666)	-	(139,666)
Trasactions with non-controlling interests	-	-	-	-	-	-	3,630	3,630	-	3,630	(10,102)	(6,472)
Transfer to reserves	-	-	-	-	-	-	409,946	409,946	(409,946)	-	-	-
Dividends on ordinary shares[(a)]	-	-	-	-	-	-	-	-	(146,955)	(146,955)	-	(146,955)
Dividends on preference shares, net of taxes[(b)]	-	-	-	-	-	-	(25,717)	(25,717)	-	(25,717)	-	(25,717)
Variations of treasury stock (see Note 44)	-	-	-	(997)	-	-	-	-	-	(997)	-	(997)
Interest of other equity instruments, net of taxes[(c)]	-	-	-	-	-	-	(15,478)	(15,478)	-	(15,478)	-	(15,478)
Other movements	-	-	-	-	-	-	(1,176)	(1,176)	-	(1,176)	-	(1,176)
Other changes in minority interest (see Note 45)	-	-	-	-	-	-	-	-	-	-	(17,495)	(17,495)
Balance as at 31 December 2011	**4,030,232**	**1,081,663**	**29,505**	**(997)**	**211,913**	**(445,175)**	**805,645**	**360,470**	**(108,758)**	**5,604,028**	**588,447**	**6,192,475**
Other comprehensive income												
Changes in fair value, net of taxes	-	-	-	-	-	616,025	-	616,025	-	616,025	22	616,047
Actuarial deviations, net of taxes	-	-	-	-	-	-	(173,171)	(173,171)	-	(173,171)	121	(173,050)
Other comprehensive income appropriate from associates	-	-	-	-	-	-	(9,800)	(9,800)	-	(9,800)	-	(9,800)
Exchange differences, net of taxes	-	-	-	-	-	-	(36,939)	(36,939)	-	(36,939)	(17,030)	(53,969)
Profit for the period	-	-	-	-	-	-	-	-	96,101	96,101	23,735	119,836
Total comprehensive income in the period	**-**	**-**	**-**	**-**	**-**	**616,025**	**(219,910)**	**396,115**	**96,101**	**492,216**	**6,848**	**499,064**
Capital increase	1,009,892	(12,146)	-	-	-	-	-	-	-	997,746	-	997,746
- issue of 2,556,688.387 new shares	1,009,892	-	-	-	-	-	-	-	-	1,009,892	-	1,009,892
- costs with capital increase	-	(12,146)	-	-	-	-	-	-	-	(12,146)	-	(12,146)
Purchase of preference shares (see Note 44)	-	-	-	-	(18,624)	-	4,478	4,478	-	(14,146)	-	(14,146)
Purchase of other capital instruments	-	-	(210)	-	-	-	-	-	-	(210)	-	(210)
Transactions with non-controlling interests	-	-	-	-	-	-	497	497	-	497	-	497
Transfer to reserves	-	-	-	-	-	-	(108,758)	(108,758)	108,758	-	-	-
Dividends on preference shares, net of taxes[(b)]	-	-	-	-	-	-	(6,137)	(6,137)	-	(6,137)	-	(6,137)
Variations of treasury stock (see Note 44)	-	-	-	(5,994)	-	-	-	-	-	(5,994)	-	(5,994)
Interest of other equity instruments, net of taxes[(c)]	-	-	-	-	-	-	(1,864)	(1,864)	-	(1,864)	-	(1,864)
Changes on Consolidated Perimeter (See note 45)	-	-	-	-	-	-	-	-	-	-	74 293	74,293
Other movements	-	-	-	-	-	-	(2,837)	(2,837)	-	(2,837)	-	(2,837)
Other changes in minority interest (see Note 45)	-	-	-	-	-	-	-	-	-	-	(143)	(143)
Balance as at 31 december 2012	**5,040,124**	**1,069,517**	**29,295**	**(6,991)**	**193,289**	**170,850**	**471,114**	**641,964**	**96,101**	**7,063,299**	**669,445**	**7,732,744**

(a) Corresponds to a dividend per share of euro 0.126 distributed to the ordinary shares outstanding in 2011.
(b) Corresponds to a preferred dividend, based on an annual interest rate of 5.58%, related to preference shares issued by BES Finance (see Note 44).
(c) Corresponds to a conditioned interest payable semi-annually and calculated based on an annual rate of 8.5% (amounts issued in euro) and 8.0% (amounts issued in U.S. dollars) related to perpetual bonds issued by BES (see Note 44).

The following notes form an integral part of these interim 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		3,866,756	3,891,906
Interest expense and similar charges paid		(2,761,592)	(2,911,344)
Fees and commission received		980,751	894,674
Fees and commission paid		(188,981)	(143,472)
Insurance premiums		(301,802)	-
Recoveries on loans previously written off		21,900	26,553
Contributions to pensions' fund		(86,410)	(92,467)
Cash payments to employees and suppliers		(845,776)	(1,088,677)
		684,846	**577,173**
Changes in operating assets and liabilities:			
Deposits with central banks		(2,475,433)	3,315,365
Financial assets at fair value through profit or loss		1,433,434	(173,894)
Loans and advances to banks		1,225,370	(290,655)
Deposits from banks		(1,296,220)	(171,308)
Loans and advances to customers		(388,936)	332,334
Due to customers		320,144	3,313,699
Derivatives for risk management purposes		226,558	(142,821)
Other operating assets and liabilities		(470,973)	(746,285)
Net cash from operating activities before income tax		**(741,210)**	**6,013,608**
Income taxes paid		(39,943)	46,890
Net cash from operating activities		**(781,153)**	**6,060,498**
Cash flows from investing activities			
Acquisition of subsidiaries and associates	1	(257,418)	(98,191)
Sale of subsidiaries and associates	1	51,613	5,565
Dividends received		76,027	171,894
Acquisition of available-for-sale financial assets		(69,490,051)	(47,352,062)
Sale of available-for-sale financial assets		72,942,251	47,680,028
Held to maturity investments		648,712	394,549
Issued insurance investment contracts		200,849	-
Purchase of tangible and intangible assets and investment properties		(532,483)	(145,361)
Sale of tangible and intangible assets and investment properties		7,489	507
Net cash from investing activities		**3,646,989**	**656,929**
Cash flows from financing activities			
Capital increase		997,746	-
Acquisition of preference shares		(11,430)	(41,841)
Bonds issued		13,218,398	9,095,624
Bonds paid		(16,529,485)	(14,422,787)
Subordinated debt issued		-	8,174
Subordinated debt paid		(210,096)	(989,458)
Treasury stock		(5,994)	(997)
Interest from other equity instruments		(2,809)	(21,801)
Dividends paid on ordinary shares		-	(146,955)
Dividends paid on preference shares		(10,997)	(25,717)
Net cash from financing activities		**(2,554,667)**	**(6,545,758)**
Net changes in cash and cash equivalents		**311,169**	**171,669**
Cash and cash equivalents at the beginning of the period		**1,542,251**	**1,341,403**
BES Vida full consolidation impact	54	198,648	-
Effect of exchange rate changes on cash and cash equivalents		(27,535)	29,179
Net changes in cash and cash equivalents		311,169	171,669
Cash and cash equivalents at the end of the period		**2,024,533**	**1,542,251**
Cash and cash equivalents includes:			
Cash	15	303,538	278,179
Deposits at Central Banks	15	1,074,003	812,260
(of which, restricted balances)		(34,085)	(129,001)
Deposits with banks	16	681,077	580,813
Total		**2,024,533**	**1,542,251**

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

Notes to the Consolidated Financial Statements as at 31 December 2012
(Amounts expressed in thousands of euro, except when indicated)

NOTE 1 – ACTIVITY AND GROUP STRUCTURE

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

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

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

Since 1992, BES is part of the Espírito Santo Group, therefore its financial statements are consolidated by BESPAR S.G.P.S., S.A., headquartered in Rua de São Bernardo, no. 62, Lisbon, and as well by Espírito Santo Financial Group, S.A. (ESFG), with headquarters in Luxembourg.

BES Group has a network of 775 branches throughout Portugal (31 December 2011: 801), international branches in London, Spain, New York, Nassau, Cayman Islands, Cape Verde, Venezuela and Luxembourg, a branch in the Madeira Free Trade Zone and ten representative offices overseas.

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

a) Subsidiaries consolidated directly by the Bank:

	Established	Acquired	Headquartered	Activity	% Economic interest	Consolidation method
BANCO ESPÍRITO SANTO, S.A. (BES)	1937	-	Portugal	Commercial banking		
Banco Espírito Santo de Investimento, S.A. (BESI)	1993	1997	Portugal	Investment bank	100.00%	Full consolidation
BES-Vida, Companhia de Seguros, S.A. (BES VIDA)	1993	2006	Portugal	Insurance	100.00%	Full consolidation
Aman Bank for Commerce and Investment Stock Company	2003	2010	Libya	Commercial banking	40.00% (a)	Full consolidation
Avistar, SGPS, S.A.	2009	2009	Portugal	Holding company	100.00%	Full consolidation
Espírito Santo Servicios, S.A.	1996	1997	Spain	Insurance	100.00%	Full consolidation
Espírito Santo Activos Financieros, S.A.	1988	2000	Spain	Asset management	95.00%	Full consolidation
Espírito Santo Vanguarda, SL	2011	2011	Spain	Services provider	100.00%	Full consolidation
Banco Espírito Santo dos Açores, S.A. (BAC)	2002	2002	Portugal	Commercial banking	57.53%	Full consolidation
BEST - Banco Electrónico de Serviço Total, S.A. (BEST)	2001	2001	Portugal	Internet banking	66.00%	Full consolidation
BES África, SGPS, S.A.	2009	2009	Portugal	Holding company	100.00%	Full consolidation
Banco Espírito Santo Angola, S.A. (BESA)	2001	2001	Angola	Commercial banking	51.94%	Full consolidation
BESAACTIF - Sociedade Gestora de Fundos de Investimento, S.A.	2008	2008	Angola	Asset management - Investment funds	63.70%	Full consolidation
BESAACTIF Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	2009	2009	Angola	Asset management - Pension funds	63.70%	Full consolidation
Banco Espírito Santo do Oriente, S.A. (BESOR)	1996	1996	Macau	Commercial banking	99.75%	Full consolidation
Espírito Santo Bank (ESBANK)	1963	2000	USA	Commercial banking	99.99%	Full consolidation
BES Beteiligungs, GmbH (BES GMBH)	2006	2006	Germany	Holding company	100.00%	Full consolidation
BIC International Bank Ltd. (BIBL)	2000	2000	Cayman Islands	Commercial banking	100.00%	Full consolidation
Parsuni - Sociedade Unipessoal, S.G.P.S	2004	2005	Portugal	Holding company	100.00%	Full consolidation
Praça do Marquês - Serviços Auxiliares, S.A. (PÇ MARQUÊS)	1990	2007	Portugal	Real estate	100.00%	Full consolidation
Espírito Santo, plc. (ESPLC)	1999	1999	Ireland	Non-bank finance company	99.99%	Full consolidation
ESAF - Espírito Santo Activos Financeiros, S.G.P.S., S.A. (ESAF)	1992	1992	Portugal	Holding company	89.99%	Full consolidation
ES Tech Ventures, S.G.P.S., S.A. (ESTV)	2000	2000	Portugal	Holding company	100.00%	Full consolidation
Banco Espírito Santo North American Capital Limited Liability Co. (BESNAC)	1990	1990	USA	Financing vehicle	100.00%	Full consolidation
BES Finance, Ltd. (BESFINANCE)	1997	1997	Cayman Islands	Issue of preference shares and other securities	100.00%	Full consolidation
ES, Recuperação de Crédito, ACE (ESREC)	1998	1998	Portugal	Financing vehicle	99.15%	Full consolidation
ES Concessões, S.G.P.S, S.A. (ES CONCESSÕES)	2002	2003	Portugal	Holding company	71.66%	Full consolidation
Espírito Santo - Informática, ACE (ESINF)	2006	2006	Portugal	Services provider	82.28%	Full consolidation
Espírito Santo Prestação de Serviços, ACE 2 (ES ACE2)	2006	2006	Portugal	Services provider	88.26%	Full consolidation
ESGEST - Esp. Santo Gestão Instalações, Aprov. e Com., S.A. (ESGEST)	1995	1995	Portugal	Services provider	100,00%	Full consolidation
Espírito Santo e Comercial de Lisboa, Inc. (ESCLINC)	1982	1997	USA	Representation office	100.00%	Full consolidation
Espírito Santo Representações, Ltda. (ESREP)	1996	1996	Brazil	Representation office	99.99%	Full consolidation
Quinta dos Cónegos - Sociedade Imobiliária, S.A. (CÓNEGOS)	1991	2000	Portugal	Real estate	81.00%	Full consolidation
Fundo de Capital de Risco - ES Ventures II	2006	2006	Portugal	Venture capital fund	60.09%	Full consolidation
Fundo de Capital de Risco - ES Ventures III	2009	2009	Portugal	Venture capital fund	61.54%	Full consolidation
Fundo de Capital de Risco - BES PME Capital Growth	2009	2009	Portugal	Venture capital fund	100.00%	Full consolidation
Fundo FCR PME/ BES	1997	1997	Portugal	Venture capital fund	55.07%	Full consolidation
Fundo Gestão Património Imobiliário - FUNGEPI - BES	1997	2012	Portugal	Real estate fund	81.09%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - BES II	2011	2012	Portugal	Real estate fund	85.78%	Full consolidation
FUNGERE - Fundo de Gestão de Património Imobiliário	1997	2012	Portugal	Real estate fund	97.24%	Full consolidation
ImoInvestimento – Fundo Especial de Investimento Imobiliário Fechado	2012	2012	Portugal	Real estate fund	100.00%	Full consolidation
BESA Valorização – Fundo de Investimento Imobiliário Fechado	2012	2012	Angola	Real estate fund	51.94%	Full consolidation
FLITPTREL VIII, S.A.	2011	2011	Portugal	Ventures tourism developments	10.00% (a)(c)	Full consolidation
OBLOG Consulting, S.A.	1993	1993	Portugal	Software development	66.63%	Full consolidation
BES, Companhia de Seguros, S.A. (BES SEGUROS)	1996	1996	Portugal	Insurance	25.00%	Equity method
Société Civile Immobilière du 45 Avenue Georges Mandel (SCI GM)	1995	1995	France	Real estate	22.50%	Equity method
ESEGUR - Espírito Santo Segurança, S.A. (ESEGUR)	1994	2004	Portugal	Security	44.00%	Equity method
Locarent - Companhia Portuguesa de Aluguer de Viaturas, S.A. (LOCARENT)	1991	2003	Portugal	Renting	50.00%	Equity method
Banco Delle Tre Venezie, Spa	2006	2007	Italy	Commercial banking	20.00%	Equity method
Nanium, S.A.	1996	2010	Portugal	Industry	41.06%	Equity method
Ascendi Douro - Estradas do Douro Interior, S.A.	2008	2010	Portugal	Motorway concession	18.57% (b)	Equity method
Ascendi Pinhal Interior - Estradas do Pinhal Interior, S.A.	2010	2010	Portugal	Motorway concession	18.57% (b)	Equity method
UNICRE - Instituição Financeira de Crédito, S.A.	1974	2010	Portugal	Non-bank finance company	17.50% (b)	Equity method
Ijar Leasing Argélie	2011	2011	Algeria	Leasing	35%	Equity method

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

b) Sub-Groups:

	Established	Acquired	Headquartered	Activity	% Economic interest	Consolidation method
Banco Espírito Santo de Investimento, S.A. (BESI)	**1993**	**1997**	**Portugal**	**Investment bank**	**100.00%**	**Full consolidation**
Espírito Santo Capital - Sociedade de Capital de Risco, S.A. (ESCAPITAL)	1988	1996	Portugal	Venture capital	100.00%	Full consolidation
SES Iberia	2004	2004	Spain	Asset management	50.00%	Full consolidation
HLC - Centrais de Cogeração, S.A.	1999	1999	Portugal	Services provider	24.50%	Equity method
Coporgest, S.A.	2002	2005	Portugal	Services provider	25.00%	Equity method
Synergy Industry and Technology, S.A.	2006	2006	Spain	Holding company	26.00%	Equity method
Salgar Investments	2007	2007	Spain	Services provider	45.05%	Equity method
2BCapital Luxembourg S.C.A SICAR	2011	2011	Luxembourg	Investment fund	42.12%	Equity method
ESSI Comunicações SGPS, S.A.	1998	1998	Portugal	Holding company	100.00%	Full consolidation
ESSI SGPS, S.A.	1997	1997	Portugal	Holding company	100.00%	Full consolidation
Espírito Santo Investment Sp, Z.o.o.	2005	2005	Poland	Services provider	100.00%	Full consolidation
Espírito Santo Securities India	2011	2011	India	Brokerage house	75.00%	Full consolidation
Espírito Santo Investment Holding, Limited	2010	2010	United Kindom	Holding company	68.40%	Full consolidation
Execution Holding, Limited	2010	2010	United Kindom	Holding company	68.40%	Full consolidation
MCO2 – Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.	2008	2008	Portugal	Asset management - investment funds	25.00%	Equity method
Espírito Santo Investments PLC	1996	1996	Ireland	Non-bank finance company	100.00%	Full consolidation
ESSI Investimentos SGPS, S.A.	1998	1998	Portugal	Holding company	100.00%	Full consolidation
Polish Hotel Capital SP	2008	2008	Poland	Services provider	33.00%	Equity method
Espírito Santo Investimentos, S.A.	1996	1999	Brazil	Holding company	100.00%	Full consolidation
BES Investimento do Brasil, S.A.	2000	2000	Brazil	Investment bank	80.00%	Full consolidation
2BCapital, S.A.	2005	2005	Brazil	Holding company	45.00%	Equity method
2B Capital Luxembourg General Partners Sarl	2011	2011	Luxembourg	Brokerage house	45.00%	Full consolidation
BES Securities do Brasil, S.A.	2000	2000	Brazil	Holding company	80.00%	Full consolidation
Gespar Participações, Ltda.	2001	2001	Brazil	Asset management	80.00%	Full consolidation
BES Activos Financeiros, Ltda.	2004	2004	Brazil	Asset management	85.00%	Full consolidation
Espírito Santo Serviços Financeiros DTVM, S.A.	2009	2010	Brazil	Investment fund	79.32%	Full consolidation
FI Multimercado Treasury	2005	2005	Brazil	Services provider	80.00%	Full consolidation
R Invest, Ltda.	2001	2009	Brazil	Services provider	80.00%	Full consolidation
R Consult Participações, Ltda.	1998	2009	Brazil	Entertainment	80.00%	Equity method
BRB Internacional, S.A.	2001	2001	Spain	Sporting goods trading	24.93%	Equity method
Prosport - Com. Desportivas, S.A.	2001	2001	Spain	Entertainment	25.00%	Equity method
Apolo Films, SL	2001	2001	Spain	Real estate	25.15%	Full consolidation
Cominvest- SGII, S.A.	1993	1993	Portugal	Venture capital fund	49.00%[(a)]	Equity method
Fundo Espírito Santo IBERIA I	2004	2004	Portugal	Investment fund	38.67%	Full consolidation
Fundo FIM BES Moderado	2004	2009	Brazil	Investment fund	55.96%	Full consolidation
Fundo BES Absolute Return	2002	2009	Brazil	Holding company	43,62%[(a)]	Full consolidation
BES Beteiligungs, GmbH (BES GMBH)	**2006**	**2006**	**Germany**	**Commercial banking**	**100.00%**	**Full consolidation**
Bank Espírito Santo International, Ltd. (BESIL)	1983	2002	Cayman Islands	Holding company	100.00%	Full consolidation
BES África, S.G.P.S, S.A. (BES ÁFRICA)	**2006**	**2006**	**Portugal**	**Commercial banking**	**100.00%**	**Full consolidation**
Banco Espírito Santo Cabo Verde, S.A.	2010	2010	Cape Verde	Commercial banking	99.99%	Equity method
Moza Banco, S.A.	2008	2010	Mozambique	Holding company	25.10%	Full consolidation
ESAF - Espírito Santo Activos Financeiros, S.G.P.S., S.A. (ESAF)	**1992**	**1992**	**Portugal**	**Asset management - investment funds**	**89.99%**	**Full consolidation**
Espírito Santo Fundos de Investimento Mobiliário, S.A.	1987	1987	Portugal	Asset management - investment funds	89.99%	Full consolidation
Espírito Santo International Management, S.A.	1995	1995	Luxembourg	Asset management - investment funds	89.81%	Full consolidation
Espírito Santo Fundos de Investimento Imobiliário, S.A.	1992	1992	Portugal	Asset management - investment funds	89.99%	Full consolidation
Espírito Santo Fundo de Pensões, S.A.	1989	1989	Portugal	Asset management - investment funds	89.99%	Full consolidation
Capital Mais - Assessoria Financeira, S.A.	1998	1998	Portugal	Asset management - investment funds	89.99%	Equity method
Espírito Santo International Asset Management, Ltd.	1998	1998	British Virgin Islands	Asset management - investment funds	44.10%	Full consolidation
Espírito Santo Gestão de Patrimónios, S.A.	1987	1987	Portugal	Asset management - investment funds	89.99%	Full consolidation
ESAF - Espírito Santo Participações Internacionais, SGPS, S.A.	1996	1996	Portugal	Asset management - investment funds	89.99%	Full consolidation
ESAF - International Distributors Associates, Ltd.	2001	2001	British Virgin Islands	Holding company	89.99%	Full consolidation
ES Tech Ventures, S.G.P.S., S.A. (ESTV)	**2000**	**2000**	**Portugal**	**Venture capital fund**	**100.00%**	**Full consolidation**
ES Ventures - Sociedade de Capital de Risco, S.A.	2005	2005	Portugal	Management of internet portals	100.00%	Equity method
Yunit Serviços, S.A.	2000	2000	Portugal	Venture capital fund	33.33%	Equity method
FCR Espírito Santo Ventures Inovação e Internacionalização	2011	2011	Portugal	Venture capital fund	50.00%	Equity method
Fundo Bem Comum, FCR	2011	2011	Portugal	Call centers management company	20.00%	Equity method
Espírito Santo Contact Center, Gestão de Call Centers, S.A. (ESCC)	2000	2000	Portugal	Commercial banking	41.67%	Equity method
Banque Espirito Santo et de la Vénétie, S.A. (ES Vénétie)	1927	1993	France	Commercial banking	42.69%	Equity method

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

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

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

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

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

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

(in thousands of euro)

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

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

- Subsidiaries

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

- Associates (see Note 32)

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

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

(in thousands of euro)

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

(a) capital increase and loans to companies.
(b) company fully consolidated.
(c) company that failed to integrate the Group's consolidation perimeter, going to be recorded in the portfolio of assets available for sale.

(in thousands of euro)

	31.12.2011						
	Acquisitions			Disposals			
	Acquisiton cost	Other investments[(a)]	Total	Disposal value	Other reimbursements[(a)]	Total	Gains/ (losses) from sales/ disposals
Subsidiaries							
ESAF - Espírito Santo Activos Financeiros S.G.P.S.	13,189	-	13,189	-	-	-	-
ESAF - Alternative Asset Management, Ltd.	-	-	-	(1,305)	-	(1,305)	1,305
Execution Noble	23,943	-	23,943	-	-	-	-
ES Concessões	808	24,692	25,500	-	-	-	-
ES Financial Services	1,979	-	1,979	-	-	-	-
	39,919	**24,692**	**64,611**	**(1,305)**	**-**	**(1,305)**	**1,305**
Associates							
BES Vida	-	62,500	62,500	-	-	-	-
Moza Banco	8,018	1,782	9,800	-	-	-	-
Watson Brown	68	2,938	3,006	-	-	-	-
Ijar Leasing Algérie	12,361	-	12,361	-	-	-	-
Esumédica	-	-	-	-	-	-	380
Ascendi Group	-	4,969	4,969	-	-	-	-
Europ Assistance	-	-	-	(2,465)	-	(2,465)	110
Rua Bonita	-	-	-	-	(818)	(818)	-
Global Active	-	87	87	-	-	-	-
FCR ES Ventures Inovação e Internacionalização	5,000	-	5,000	-	-	-	-
Fundo Bem Comum, FCR	500	-	500	-	-	-	-
Autopista Perote-Xalapa	-	1,622	1,622	-	-	-	-
Ydreams	-	352	352	-	-	-	-
Nutrigreen	-	-	-	-	(1,500)	(1,500)	-
Domática	1,000	-	1,000	-	-	-	-
	26,947	**74,250**	**101,197**	**(2,465)**	**(2,318)**	**(4,783)**	**490**
	66,866	**98,942**	**165,808**	**(3,770)**	**(2,318)**	**(6,088)**	**1,795**

(a) Capital increase and loans to companies.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

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

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

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

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

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

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

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

2.2 Basis of consolidation

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

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

Subsidiaries

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

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

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

Associates

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

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

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

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

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

Special purpose entities ("SPE")

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

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

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

Investment funds managed by the Group

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

Goodwill

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

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

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

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

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

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

Transactions with non-controlling interests

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

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

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

Foreign currency translation

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

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

Balances and transactions eliminated in consolidation

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

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

2.3 Foreign currency transactions

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

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

2.4 Derivative financial instruments and hedge accounting

Classification

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

All other derivatives are classified as trading derivatives.

Recognition and measurement

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

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

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

Hedge accounting

- **Classification criteria**

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

  (i) At the inception of the hedge, the hedge relationship is identified and documented, including the identification of the hedged item and of the hedging instrument and the evaluation of the effectiveness of the hedge;
  (ii) The hedge is expected to be highly effective, both at the inception of the hedge and on an ongoing basis;
  (iii) The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis;
  (iv) For cash flows hedges, the cash flows are highly probable of occurring.

- **Fair value hedge**

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

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

- **Cash Flow hedge**

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

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

Embedded derivatives

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

These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

2.5 Loans and advances to customers

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

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

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

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

Impairment

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

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

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

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

When loans have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit risk characteristics for the purpose of evaluating the impairment Notes to the Consolidated Financial Statements 22 on a portfolio basis (collective assessment). Loans that are assessed individually and found to be impaired are not included in a collective assessment for impairment.

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

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

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

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

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

2.6 Other financial assets

Classification

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

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

The Group classifies, at inception, certain financial assets at fair value through profit or loss when:
- Such financial assets are managed, measured and their performance evaluated on a fair value basis;
- Such financial assets are being hedged (on an economical basis), in order to eliminate an accounting mismatch; or
- Such financial assets contain an embedded derivative.

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

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

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

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

Initial recognition, initial measurement and derecognition

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

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

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

Subsequent measurement

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

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

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

The fair values of quoted investments in active markets are based on current bid prices. For unlisted securities the Group establishes fair value by using (i) valuation techniques, including the use of recent arm's length transactions, discounted cash flow analysis and option pricing models and (ii) valuation assumptions based on market information.

Reclassifications between categories

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

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

Impairment

The Group assesses periodically whether there is objective evidence that a financial asset or group of financial assets is impaired.

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

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

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

2.7 Sale and repurchase agreements

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

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

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

2.8 Financial liabilities

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

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

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

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

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

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

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

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

2.9 Financial guarantees

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

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

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

2.10 Equity instruments

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

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

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

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

2.11 Offsetting financial instruments

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

2.12 Non-current assets held-for-sale

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

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

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

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

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

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

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

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

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

2.13 Property and equipment

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

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

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

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

When there is an indication that an asset may be impaired, IAS 36 requires that its recoverable amount is estimated and an impairment loss recognised when the net book value of the asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is determined as the greater of its net selling price and value in use which is based on the net present value of future cash flows arising from the continuing use and ultimate disposal of the asset.

2.14 Intangible assets

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

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

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

2.15 Leases

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

Operating leases

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

Finance leases

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

- **As lessor**
  Assets leased out are recorded in the balance sheet as loans granted, for the amount equal to the net investment made in the leased assets. Interest included in instalments charged to customers is recorded as interest income, while repayments of principal also included in the instalments, is deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

2.16 Employee benefits

Pensions

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

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

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

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

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

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

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

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

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

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

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

Health care benefits

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

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

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

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

Long-term service benefits

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

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

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

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

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

Variable remuneration payment plan on financial instruments (PRVIF)

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

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

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

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

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

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

Bonus to employees and to the Board of Directors

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

2.17 Income tax

Income tax for the period comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Income tax recognised directly in equity relating to fair value re-measurement of available--for-sale financial assets and cash flow hedges is subsequently recognised in the income statement when gains or losses giving rise to the income tax are also recognised in the income statement.

Current tax is the tax expected to be paid on the taxable profit for the period, calculated using tax rates enacted or substantively enacted at the balance sheet date at each jurisdiction.

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

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

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

2.18 Provisions

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

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

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

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

2.19 Interest income and expense

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

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

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

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

2.20 Fee and commission income

Fees and commissions are recognised as follows:

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

2.21 Dividend income

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

2.22 Segmental reporting

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

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

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

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

2.23 Earnings per share

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

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

2.24 Cash and cash equivalents

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

2.25 Investment properties

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

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

2.26 Insurance contracts

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

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

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

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

Premiums

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

Unearned premium reserve

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

Acquisition costs

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

Claims reserves

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

Life assurance reserve

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

Reserve for bonus and rebates

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

Shadow accounting

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

Liability adequacy test

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

Unearned premium reserve

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

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

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

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

3.1 Impairment of available-for-sale financial assets

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

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

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

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

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

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

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

3.3 Impairment losses on loans and advances

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

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

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

3.4 Goodwill impairment

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

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

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

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

3.5 Securitisations and special purpose entities (SPE)

The Group sponsors the formation of special purpose entities (SPEs) primarily for asset securitisation transactions.

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

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

3.6 Held-to-maturity investments

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

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

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

3.7 Income taxes

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

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

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

3.8 Pension and other employees' benefits

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

Changes in these assumptions could materially affect these values.

3.9 Insurance and investment contracts liabilities

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

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

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

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

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

NOTE 4 – SEGMENT REPORTING

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

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

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

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

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

4.1 Operating segments description

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

Domestic Commercial Banking

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

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

b) **Corporate and Institutional:** includes BES activities in Portugal with small, medium and large companies, through its commercial structure dedicated to this segment, which includes 24 corporate centres. Also includes activities with institutional and municipal customers. The main products considered on this segment are: discounted bills, leasing, factoring and short and long term loans; includes deposits and guarantees, custodian services, letters of credit, electronic payments management and other services.
c) **Private Banking:** includes private banking activity of BES, all profit, loss and assets and liabilities associated to customers classified as private by BES. The main products considered on this segment are: deposits; discretionary management, selling of investment funds, custodian services, brokerage services and insurance products.

International Commercial Banking

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

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

Investment Banking

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

Asset Management

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

Life Insurance

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

Capital Markets and Strategic Investments

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

Corporative Centre

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

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

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

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

Measurement of profit or loss from operating segments

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

Autonomous operating segments

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

BES structures dedicated to segments

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

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

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

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

Interest and similar income/ expense

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

Consolidated Investments under the equity method

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

Non current assets

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

Income taxes

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

Post employment benefits

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

Domestic and International Areas

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

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

The primary segments reporting are presented as follows:

(in thousands of euro)

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

(in thousands of euro)

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

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

(in thousands of euro)

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

(in thousands of euro)

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

NOTE 5 – NET INTEREST INCOME

This balance is analysed as follows:

(in thousands of euro)

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

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

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

NOTE 6 – NET FEE AND COMMISSION INCOME

This balance is analysed as follows:

(in thousands of euro)

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

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

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

This balance is analysed as follows:

(in thousands of euro)

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

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

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

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

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

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

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

This balance is analysed as follows:

(in thousands of euro)

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

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

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

Related party transactions are described in Note 48.

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

This balance is analysed as follows:

(in thousands of euro)

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

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

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

This balance is analysed as follows:

(in thousands of euro)

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

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

NOTE 11 – INSURANCE EARNED PREMIUMS, NET OF REINSURANCE

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

(in thousands of euro)

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

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

(in thousands of euro)

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

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

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

NOTE 12 – CLAIMS INCURRED, NET OF REINSURANCE

Claims incurred, net of reinsurance are analysed as follows:

(in thousands of euro)

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

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

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

(in thousands of euro)

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

NOTE 14 – OTHER OPERATING INCOME AND EXPENSES

This balance is analysed as follows:

(in thousands of euro)

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

Direct and indirect taxes include an amount of euro 27.9 million relating to the cost with the introduction of a Contribution of the Banking Sector (31 December 2011: euro 30.5 million), created by Law No. 55-A/2010, of 31 December (see Note 41).

As at 31 December 2012, the caption Other operating income includes a gain of euro 21.8 million related with the negative past service cost (gain) which arose from the change introduced by Decree Law 133/2012 to the calculation method for the death allowance, as explained in Note 16.

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

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

NOTE 15 – STAFF COSTS

This balance is analysed as follows:

(in thousands of euro)

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

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

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

(in thousands of euro)

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

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

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

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

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

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

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

NOTE 16 – EMPLOYEES BENEFITS

Pension and health-care benefits

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

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

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

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

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

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

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

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

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

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

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

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

	Assumptions			Actual	
	31.12.2012		31.12.2011	31.12.2012	31.12.2011
	1st through 4th year	5th and subsequent years			
Actuarial Assumptions					
Expected return of plan assets	5.50%		5.50%	-2.37%	-7.38%
Discount rate	4.50%		5.50%	-	-
Pensions increase rate	0.00%	0.75%	1.00%	-0.56%	-0.70%
Salaries increase rate	1.00%	1.75%	2.25%	1.02%	1.10%
Mortality table men	TV 73/77 - 1 year				
Mortality table woman	TV 88/90				

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

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

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

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

(in thousands of euro)

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

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

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

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

(in thousands of euro)

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

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

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

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

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

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

(in thousand of euro)

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

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

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

(in thousands of euro)

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

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

(in thousands of euro)

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

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

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

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

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

(in thousands of euro)

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

The net benefit cost can be analysed as follows:

(in thousands of euro)

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

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

(in thousands of euro)

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

(a) In 2012, this amount includes a profit of euro 21. 8 million related to the liability decrease with death subsidy.

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

(in thousands of euro)

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

Variable Remuneration Payment Plan on Financial Instruments (PRVIF)

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

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

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

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

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

	Option valuation assumption	
	1st attribution	2nd attribution
Inicial reference date	12-04-2011	12-10-2012
Final reference date	31-03-2014	15-01-2016
Rights granted to employees	2,250,000	6,280,045
Reference price (in euro)	3.47	0.67
Interest rate	2.31%	0.67%
Volatility	40.0%	65.00%
Inicial fair value of the plan (in thousands of euro)	1,130	1,940

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

Long-term service benefits

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

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

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

NOTE 17 – GENERAL AND ADMINISTRATIVE EXPENSES

This balance is analysed as follows:

(in thousands of euro)

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

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

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

(in thousands of euro)

	31.12.2012	31.12.2011
Up to 1 year	8,903	9,133
1 to 5 years	10,451	13,575
	19,354	**22,708**

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

(in thousands of euro)

	31.12.2012	31.12.2011
Audit fees	2,709	2,604
Audit related fees	1,148	1,544
Tax consultancy services	650	591
Other services	309	949
Total invoices services	**4,816**	**5,688**

NOTE 18 – EARNINGS PER SHARE

Basic earnings per share

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

(in thousands of euro)

	31.12.2012	31.12.2011
Profit attributable to the equity holders of the Bank [1]	**92,578**	**(44,305)**
Weighted average number of ordinary shares (thousands)	3,096,971	1,187,255
Weighted average number of treasury stock (thousands)	(11,910)	(257)
Weighted average number of ordinary shares outstanding (thousands)	**3,085,061**	**1,186,998**
Basic earnings per share attributable to equity holders of the Bank (in euro)	**0.03**	**(0.04)**

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

Diluted earnings per share

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

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

NOTE 19 – CASH AND DEPOSITS AT CENTRAL BANKS

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

(in thousands of euro)

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

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

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

NOTE 20 – DEPOSITS WITH BANKS

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

(in thousands of euro)

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

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

NOTE 21 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

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

(in thousands of euro)

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

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

(in thousands of euro)

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

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

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

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

(in thousands of euro)

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

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

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

(in thousands of euro)

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

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

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

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

(in thousands of euro)

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

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

This balance is analysed as follows:

(in thousands of euro)

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

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

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

(in thousands of euro)

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

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

(in thousands of euro)

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

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

NOTE 23 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

(in thousands of euro)

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

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

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

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

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

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

(in thousands of euro)

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

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

(in thousands of euro)

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

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

(in thousands of euro)

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

(in thousands of euro)

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

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

In prior years the Group recorded an impairment loss regarding Banque Marocaine du Commerce Exterieur, which price has subsequently recovered, allowing the recognition of a positive fair value reserve of euro 5,454 thousand as at 31 December 2011. During 2012, there was a decline in the fair value, which consumed the existing positive reserves and resulted in an unrealized loss, representing 19.52% of the investment average cost, recognized in reserves. As at 31 December 2012, it was considered that there is no objective evidence of impairment in this investment.

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

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

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

(in thousands of euro)

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

NOTE 24 – LOANS AND ADVANCES TO BANKS

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

(in thousands of euro)

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

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

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

(in thousands of euro)

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

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

(in thousands of euro)

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

NOTE 25 – LOANS AND ADVANCES TO CUSTOMERS

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

(in thousands of euro)

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

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

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

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

(in thousands of euro)

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

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

(in thousands of euro)

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

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

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

(in thousands of euro)

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

(in thousands of euro)

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

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

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

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

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

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

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

(in thousands of euro)

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

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

(in thousands of euro)

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

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

(in thousands of euro)

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

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

NOTE 26 – HELD-TO-MATURITY INVESTMENTS

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

(in thousands of euro)

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

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

(in thousands of euro)

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

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

(in thousands of euro)

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

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

(in thousands of euro)

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

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

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

(in thousands of euro)

	Acquisition value	On the transfer date					Market value in December 2008
		Book Value	Fair value Reserve		Value of future cash flows [(a)]	Effective rate[(b)]	
			Positive	Negative			
Available-for-sale financial assets	551,897	522,715	424	(29,607)	701,070	5.75%	485,831
Financial assets held for trading	243,114	244,530	-	-	408,976	11.50%	237,295
Bonds and other fixed-income securities	**795,011**	**767,245**	**424**	**(29,607)**	**1,110,046**		**723,126**

(a) Undiscounted capital and interest cash-flows; future interest is calculated based on the forward rates at the date of reclassification.
(b) Effective interest rate was calculated based on the forward interest rates at the date of reclassification; the maturity considered was the minimum between the call date, when applicable, and the maturity date of the financial asset.

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

(in thousands of euro)

	31.12.2012	31.12.2011
Assets and liabilities at fair value through profit or loss		
Effect on the profit and loss	947	(1,347)
Tax effect	(73)	183
	874	**(1,164)**
Available-for-sale financial assets		
Effect on the fair value reserve	(3,780)	(16,329)
Tax effect	1,191	4,308
	(2,589)	**(12,021)**

The reclassification of financial assets held-for-trading as held-to-maturity investments was performed following the amendment to IAS 39 Financial instruments: recognition and measurement and IFRS 7 Financial instruments: disclosures, adopted by the Regulation (EU) nº. 1004/2008 issued in 15 October 2008. This reclassification was made due to the market conditions following the international financial crisis that characterised the year 2008, which was considered to be one of the rare circumstances justifying the application of the amendment to IAS 39.

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

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

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

(in thousands of euro)

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

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

NOTE 27 – DERIVATIVES FOR RISK MANAGEMENT PURPOSES

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

(in thousands of euro)

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

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

Hedging derivatives

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

(in thousands of euro)

31.12.2012							
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative[1]	Changes in the fair value of the derivative in the year	Fair value component of the hedged item[2]	Changes in the fair value of the hedged item in the year[2]
Interest Rate Swap/ Currency Interest Rate Swap	Loans and advances to customers	Interest rate and FX	529,897	(23,884)	(179)	22,391	(638)
Interest Rate Swap	Deposits from banks	Interest rate	174,000	64,725	13,779	(67,996)	(11,744)
Interest Rate Swap	Due to customers	Interest rate	4,417	2 174	(50)	(787)	51
Equity/ Interest Rate Swap	Debt security issued	Interest rate/ Quote	1,656,777	67,301	4,929	(38,472)	(3,685)
			2,365,091	**110,316**	**18,479**	**(84,864)**	**(16,016)**

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

(in thousands of euro)

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

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

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

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

Other derivatives for risk management purposes

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

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

(in thousands of euro)

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

(1) Corresponds to the minimum guaranteed amount to be reimbursed at maturity.

(in thousands of euro)

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

(1) Corresponds to the minimum guaranteed amount to be reimbursed at maturity.

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

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

(in thousands of euro)

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

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

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

(in thousands of euro)

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

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

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

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

The changes occurred in impairment losses are presented as follows:

(thousands of euro)

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

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

(thousands of euro)

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

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

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

NOTE 29 – INVESTMENT PROPERTIES

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

(thousands of euro)

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

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

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

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

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

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

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

NOTE 30 – PROPERTY AND EQUIPMENT

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

(thousands of euro)

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

The movement in this balance was as follows:

(in thousands of euro)

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

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

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

(in thousands of euro)

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

NOTE 31 – INTANGIBLE ASSETS

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

(in thousands of euro)

	31.12.2012	31.12.2011
Goodwill	**313,665**	**97,739**
Value In Force [(a)]	109,937	-
Internally developed		
Software	58,186	47,644
Acquired to third parties		
Software	645,010	610,469
Other	951	917
	645,961	**611,386**
Work in progress	**33,701**	**26,413**
	1,161,450	**783,182**
Accumulated amortisation	**(596,345)**	**(543,222)**
Impairment losses	**(9,779)**	**(9,628)**
	555,326	**230,332**

(a) Related to BES Vida.

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

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

(in thousands of euro)

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

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

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

ES Investment Holding Limited

The recoverable amount of ES Investment Holding Limited has been determined using cash flow/ dividends predictions based on (i) the financial budget approved by management covering a nine-year period, (ii) a terminal growth rate in line with the estimated nominal growth for the country where the company is located and (iii) a discount rate of 10.71% including a risk premium appropriated to the estimated future cash-flows. The nine-year period for estimating the future cash-flows reflect the fact that the company was acquired in late 2010 and its business strategy is being redefined. It is expected that the company achieves a maturity stage only at the end of that time period. Based on the above assumptions, the recoverable amount exceeded the carrying amount including goodwill.

ES Gestion

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

Aman Bank

On 31 December 2011, the Group recognised an impairment of euro 8,023 thousand in goodwill recorded on the date of acquisition of Aman Bank. The impairment reflects the changes of the estimated future cash flows expected by the Group in this entity as a result of the political situation lived in Libya during 2011. In 2012, this entity showed a positive trend, thus there was no need to reinforce the impairment loss recognised.

The movement in this balance was as follows:

(in thousands of euro)

	Goodwill and Value In Force	Software	Other	Work in progress	Total
Acquisition cost					
Balance as at 31 December 2010	**95,616**	**600,037**	**1,312**	**35,732**	**732,697**
Acquisitions:					
Internally developed	-	-	-	9,178	9,178
Acquired from third parties	-	12,521	-	27,083	39,604
Disposals	-	(360)	(409)	-	(769)
Transfers	-	45,088	-	(45,088)	-
Exchange differences and other	2,123	827	14	(492)	2,472
Balance as at 31 December 2011	**97,739**	**658,113**	**917**	**26,413**	**783,182**
Acquisitions:					
Internally developed	-	54	-	8,257	8,311
Acquired from third parties (a)	344,511	11,533	-	24,152	380,196
Disposals	-	(1,414)	-	(103)	(1,517)
Transfers	-	26,255	-	(26,255)	-
Exchange differences and other (b) (c)	(18,648)	8,655	34	1,237	(8,722)
Balance as at 31 December 2012	**423,602**	**703,196**	**951**	**33,701**	**1,161,450**
Amortisations					
Balance as at 31 December 2010	**-**	**496,211**	**1,149**	**-**	**497,360**
Amortisations of the period	-	46,068	129	-	46,197
Disposals	-	(57)	(409)	-	(466)
Exchange differences and other	-	122	9	-	131
Balance as at 30 June 2011	**-**	**542,344**	**878**	**-**	**543,222**
Amortisations of the period	-	46,116	36	-	46,152
Disposals	-	(1,318)	-	-	(1,318)
Exchange differences and other (d)	-	8,288	1	-	8,289
Balance as at 31 December 2012	**-**	**595,430**	**915**	**-**	**596,345**
Impairment					
Balance as at 31 December 2010	**1,800**	**-**	**-**	**-**	**1,800**
Impairment losses	8,023	-	-	-	8,023
Exchange differences and other	(195)	-	-	-	(195)
Balance as at 31 December 2011	**9,628**	**-**	**-**	**-**	**9,628**
Exchange differences and other	151	-	-	-	151
Balance as at 31 December 2012	**9,779**	**-**	**-**	**-**	**9,779**
Net amount as at 31 December 2012	**413,823**	**107,766**	**36**	**33,701**	**555,326**
Net amount as at 31 December 2011	**88,111**	**115,69**	**39**	**26,413**	**230,332**

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

NOTE 32 – INVESTMENTS IN ASSOCIATES

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

(in thousands of euro)

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

Note: Information adjusted for consolidation purposes.

(in thousands of euro)

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

(a) In May 2012, BES acquired the remaining 50%of BES Vida share capital, becoming fully consolidated in BES (see Note 54).
(b) Although the Group's economic interest is less than 20%, this entities were consolidated under the equity method, as the Group exercises a significant influence over their activities.

The movement occurred in this balance is presented as follows:

(in thousands of euro)

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

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

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

NOTE 33 – TECHNICAL RESERVES

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

(in thousands of euro)

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

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

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

The life mathematical reserve is analysed as follows:

(in thousands of euro)

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

The claims outstanding reserve is analysed as follows:

(in thousands of euro)

	31.12.2012			31.12.2011		
	Direct insurance	**Reinsurance ceded**	**Total**	**Direct insurance**	**Reinsurance ceded**	**Total**
Annuities	-	-	-	-	-	-
Traditional	14,316	(1,621)	12,695	-	-	-
Saving contracts with profit sharing	13,131	-	13,131	-	-	-
	27,47	**(1,621)**	**25,826**	**-**	**-**	**-**

The claims outstanding reserve represents unsettled claims occurred before the balance sheet date and include an estimated provision in the amount of euro 429 thousand for claims incurred before 31 December 2012, but not reported (IBNR).

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

(in thousands of euro)

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

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

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

(in thousands of euro)

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

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

NOTE 34 – OTHER ASSETS

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

(in thousands of euro)

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

The sundry debtors' amount includes:

- euro 100 million related with loans to Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (31 December 2011: euro 100 million);
- euro 67.2 million of loans to entities within the Group's venture capital business, of which euro 30.7 million are provided for (31 December 2011: euro 70.5 million, of which euro 8.3 million were provided for);
- and 94.3 million of loans and junior securities, following the transfer of loans/ assets to companies and specialized funds, of which euro 87.7 million are provided for (31 December 2011: euro 36.2 million, of which euro 23.0 million were provided for).

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

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

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

The movements occurred in impairment losses are presented as follows:

(in thousands of euro)

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

NOTE 35 – DEPOSITS FROM CENTRAL BANKS

The balance deposits from central banks is analysed as follows:

(in thousands of euro)

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

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

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

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

(in thousands of euro)

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

NOTE 36 – DEPOSITS FROM BANKS

The balance deposits from banks is analysed as follows:

(in thousands of euro)

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

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

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

(in thousands of euro)

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

NOTE 37 – DUE TO CUSTOMERS

The balance due to customers is analysed as follows:

(in thousands of euro)

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

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

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

(in thousands of euro)

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

NOTE 38 – DEBT SECURITIES ISSUED

The balance debt securities issued is analysed as follows:

(in thousands of euro)

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

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

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

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

Description	Nominal value (in thousands of euro)	Book value (in thousands of euro)	Issue date	Maturity date	Interest payment	Interest rate	Rating	
							Moody's	DBRS
BES Covered Bonds 3.375%	1,000,000	821,922	17-11-2009	17-02-2015	Annually	3.375%	Baa3	AL
BES Covered Bonds DUE JUL 17	1,050,000	-	07-07-2010	09-07-2017	Annually	6 month Euribor + 0.60%	Baa3	AL
BES Covered Bonds 21/07/2017	1,250,000	29	21-07-2010	21-07-2017	Annually	6 month Euribor + 0.60%	Baa3	AL
BES Covered Bonds DUE 4.6%	40,000	42,149	15-12-2010	26-01-2017	Annually	Fixed rate 4,6%	Baa3	AL
BES Covered Bonds HIPOT. 2018	1,250,000	-	25-01-2011	25-01-2018	Annually	6 month Euribor + 0.60%	Baa3	AL
	4,590,000	**864,100**						

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

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

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

(in thousands of euro)

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

a) Other movements include accrued interest, corrections by hedging operations, fair value adjustments and foreign exchanges differences.
b) Certificates of deposit are presented at the net value, considering their short term maturity.

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

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

(in thousands of euro)

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

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

(in thousands of euro)

Issuer	Designation		31.12.2012				
			Currency	Issue date	Book value	Maturity	Interest rate
BES	BES DUE 2013		EUR	2007	398,329	2013	Euribor 3 months + 0.125%
BES	BES DUE JUN 14		EUR	2007	375,554	2014	Euribor 3 months + 0.15%
BES	BES ER 4% ABR05	a)	EUR	2005	1,817	2013	Fixed rate 4.14% on 1st, 2nd and 8th years + swap rate from 3rd to 7th years.
BES	BES-E.RENDA 4%	a)	EUR	2005	1,712	2013	Fixed rate 4.15% on 1st, 2nd and 8th years + swap rate from 3rd to 7th years.
BES	BES 5.625% 2014		EUR	2009	1,359,732	2014	Fixed rate - 5.63%
BES	BES 3.375%		EUR	2009	821,922	2015	Fixed rate 3.375%
BES	BES DUE 02/2013		EUR	2009	685,983	2013	Euribor 3 months + 1%
BES	BES DUE 3.875%		EUR	2010	436,458	2015	Fixed rate 3.875%
BES	BES 21/07/2017		EUR	2010	29	2017	Euribor 6 months + 0.60%
BES	BES DUE 4.6%		EUR	2010	42,149	2017	Fixed rate 4.6%
BES	BES DUE JULY 16		EUR	2011	59,708	2016	Fixed rate 6.875%
BES	BES PORTUGAL NO	a)	EUR	2011	19,578	2014	Euribor 6 months + 3.5%
BES	BES PORTUGAL	a)	EUR	2011	21,986	2014	Euribor 6 months + 3.5%
BES	BES 3% 16/12/20		EUR	2011	59,938	2021	Fixed rate 3%
BES	BES DUE FEV.14		EUR	2012	113,367	2014	Fixed rate 6.5%
BES	BES 4 ANOS 7%		EUR	2012	126,782	2016	Fixed rate7%
BES	BES 6.9% 2024		EUR	2012	68,281	2024	Fixed rate6.9%
BES	BES 26/10/2015		EUR	2012	50,358	2015	Euribor 6 months + 3.85%
BES	BES 5.875% 2015		EUR	2012	738,815	2015	Fixed rate: 5.875%
BES (Cayman Branch)	BES CAYMAN ZC 02/18/2028		EUR	2003	13,603	2028	Zero Coupon - Efective rate 5.50%
BES (Cayman Branch)	BES CAYMAN Step Up 08/27/13		EUR	2003	57,452	2013	StepUp (1st coupon 3.00%)
BES (Cayman Branch)	BES CAYMAN Step Up 09/02/13		EUR	2003	77,461	2013	StepUp (1st coupon 3.00%)
BES (Cayman Branch)	BES CAYMAN Step Up 10/07/13		EUR	2003	77,437	2013	StepUp (1st coupon 3.10%)
BES (Cayman Branch)	BES CAYMAN - Zero cupon		EUR	2003	32,513	2028	Zero Coupon - Efective rate 5.81%
BES (Cayman Branch)	BIC CAYMAN 23 2001		EUR	2001	78,140	2013	Fixed rate - 6.03%
BES (Cayman Branch)	BIC CAYMAN 25 2001		EUR	2001	78,816	2014	Fixed rate - 6.02%
BES (Cayman Branch)	BIC CAYMAN 27 2001		EUR	2001	48,061	2015	Fixed rate - 6.09%
BES (Spain Branch)	Mortgage Bonds	a)	EUR	2008	153,762	2014	Fixed rate 4.5%
BES (Spain Branch)	Mortgage Bonds	a)	EUR	2008	80,369	2014	Fixed rate 4%
BES (Spain Branch)	Mortgage Bonds	a)	EUR	2008	86,167	2016	Fixed rate 4.25%
BES (Spain Branch)	Pagaré		EUR	2012	600	2013	Fixed rate 4.42%
BES (Spain Branch)	Pagaré		EUR	2012	5,986	2013	Fixed rate 4.26%
BES (Spain Branch)	Pagaré		EUR	2012	499	2013	Fixed rate 4.26%
BES (Spain Branch)	Pagaré		EUR	2012	996	2013	Fixed rate 4.23%
BES (Spain Branch)	Pagaré		EUR	2012	699	2013	Fixed rate 3.71%
BES (Spain Branch)	Pagaré		EUR	2012	499	2013	Fixed rate 3.6%
BES (Spain Branch)	Pagaré		EUR	2012	550	2013	Fixed rate 3.6%
BES (Spain Branch)	Pagaré		EUR	2012	849	2013	Fixed rate 3.61%
BES (Spain Branch)	Pagaré		EUR	2012	499	2013	Fixed rate 3.58%
BES (Spain Branch)	Pagaré		EUR	2012	2,097	2013	Fixed rate 3.61%
BES (Spain Branch)	Pagaré		EUR	2012	596	2013	Fixed rate 3.68%
BES (Spain Branch)	Pagaré		EUR	2012	599	2013	Fixed rate 3.58%
BES (Spain Branch)	Pagaré		EUR	2012	749	2013	Fixed rate 3.58%
BES (Spain Branch)	Pagaré		EUR	2012	1,098	2013	Fixed rate 3.61%
BES (Spain Branch)	Pagaré		EUR	2012	549	2013	Fixed rate 3.59%
BES (Spain Branch)	Pagaré		EUR	2012	748	2013	Fixed rate 3.61%
BES (Spain Branch)	Pagaré		EUR	2012	498	2013	Fixed rate 3.61%
BES (Spain Branch)	IM BES EMPRESAS 1 FTA BONO A		EUR	2011	129,769	2043	Eur 1 m + 0.3%
BES (London Branch)	Certificates of deposits		EUR	2011	13,994	2013	4.13% - 4.87%
BES (London Branch)	Certificates of deposits		USD	2011	597,448	2013	4.79% - 5.47%
BES (London Branch)	EMTN Series 1		EUR	2012	140,085	2014	Nominal rate 6.5%
BES (London Branch)	EMTN Series 2		EUR	2012	109,713	2016	Nominal rate 7%
BES (London Branch)	EMTN Series 3		EUR	2012	137,879	2022	Nominal rate 5%
BES (London Branch)	EMTN Series 4		EUR	2012	46,240	2014	Nominal rate 6.5%
BES (London Branch)	EMTN Series 5		EUR	2012	39,784	2016	Nominal rate 7%
BES (London Branch)	EMTN Series 6		EUR	2012	199,234	2022	Nominal rate 5%
BES (London Branch)	EMTN Series 7		EUR	2012	148,644	2019	Nominal rate 5%
BES (London Branch)	EMTN Series 8		EUR	2012	43,395	2015	Nominal rate 6.75%
BES (London Branch)	EMTN Series 9		EUR	2012	215,207	2015	Nominal rate 6.75%
BES (London Branch)	EMTN Series 10		EUR	2012	554,081	2019	Nominal rate 5%
BES (London Branch)	EMTN Series 11		EUR	2012	66,367	2015	Nominal rate 6.75%
BES (London Branch)	EMTN Series 12		EUR	2012	330,243	2019	Nominal rate 5%
BES (London Branch)	EMTN Series 13		EUR	2012	329,510	2019	Nominal rate 5%
BES (London Branch)	EMTN Series 14		EUR	2012	329,300	2019	Nominal rate 5%
BES (London Branch)	EMTN Series 15		EUR	2012	23,744	2014	Nominal rate 5.5%
BES (Luxembourg Branch)	BES Luxembourg 5.75% 28/06/17		EUR	2012	19,703	2017	Nominal rate - 5.75%
BES (Luxembourg Branch)	BES Luxembourg 3% 21/06/22		USD	2012	88,645	2022	Nominal rate - 3%
BES (New York Branch)	Certificates of deposits		USD	2011	591	2013	4.41% - 5.53%
ES Concessões	Papel Comercial		EUR	2012	73,500	2013	Fixed rate 6.1440%
BES Finance	EMTN 37		EUR	2004	30,476	2029	Zero Coupon - Efective rate 5.30%
BES Finance	EMTN 39		EUR	2005	100,090	2015	Euribor 3 months + 0.23%
BES Finance	EMTN 40	a)	EUR	2005	163,551	2035	Indexed from 1st to 4th year to fixed rate 6.00%; indexed to swap rate after 4th year.
BES Finance	EMTN 56		EUR	2009	36,686	2043	Zero Coupon
BES Finance	EMTN 57		EUR	2009	34,556	2044	Zero Coupon
BES Finance	EMTN 58		EUR	2009	32,580	2045	Zero Coupon
BES Finance	EMTN 59		EUR	2009	42,403	2042	Zero Coupon
BES Finance	EMTN 60		EUR	2009	47,484	2040	Zero Coupon
BES Finance	EMTN 61		EUR	2009	44,898	2041	Zero Coupon
BES Finance	EMTN 62		EUR	2009	78,482	2039	Zero Coupon - Fixed rate 3%

(in thousands of euro)

Issuer	Designation		31.12.2012 Currency	Issue date	Book value	Maturity	Interest rate
BES Finance	EMTN 63		EUR	2009	34,984	2039	Fixed rate 3%
BES Finance	Exchangeable Bonds (Bradesco)	a)	USD	2010	350,939	2013	Fixed rate 1.625%
BES Finance	Exchangeable Bonds (EDP)	a)	EUR	2010	392,753	2015	Fixed rate 3%
BES Finance	Exchangeable Bonds	a)	USD	2012	317,128	2015	Fixed rate 3.5%
BES Finance	EMTN 64		EUR	2009	5,352	2040	Fixed rate 3%
BES Finance	EMTN 65		EUR	2010	28,190	2040	Fixed rate 3%
BES Finance	EMTN 66		EUR	2010	83,869	2041	Fixed rate 3%
BES Finance	EMTN 67		EUR	2010	63,906	2041	Fixed rate 3%
BES Finance	EMTN 69		EUR	2010	3,892	2042	Fixed rate 3%
BES Finance	EMTN 70		EUR	2010	98,568	2042	Fixed rate 3%
BES Finance	EMTN 71		EUR	2010	22,855	2043	Fixed rate 3%
BES Finance	EMTN 72		EUR	2010	43,284	2044	Fixed rate 3%
BES Finance	EMTN 73		EUR	2010	17,386	2046	Fixed rate 3%
BES Finance	EMTN 79		EUR	2010	40,172	2047	Fixed rate 3%
BES Finance	EMTN 80		EUR	2010	1,573	2048	Fixed rate 3%
BES Finance	EMTN 81	a)	EUR	2010	6,881	2015	Fixed rate 3.19%
BES Finance	EMTN 82	a)	EUR	2010	6,724	2015	Fixed rate 3.19%
BES Finance	EMTN 83	a)	EUR	2010	6,723	2015	Fixed rate 3.19%
BES Finance	EMTN 84	a)	EUR	2010	6,934	2015	Fixed rate 3.19%
BES Finance	EMTN 85	a)	EUR	2010	6,671	2015	Fixed rate 3.19%
BES Finance	EMTN 91	a)	EUR	2011	14,768	2013	Fixed rate 4.75%
BES Finance	EMTN 92	a)	EUR	2011	15,728	2013	Fixed rate 4.75%
BES Finance	EMTN 93	a)	EUR	2011	15,728	2013	Fixed rate 4.75%
BES Finance	EMTN 94	a)	EUR	2011	15,678	2013	Fixed rate 4.75%
BES Finance	EMTN 95	a)	EUR	2011	14,768	2013	Fixed rate 4.75%
BES Finance	EMTN 96	a)	EUR	2011	9,053	2015	Fixed rate 5.75%
BES Finance	EMTN 97	a)	EUR	2011	8,943	2015	Fixed rate 5.75%
BES Finance	EMTN 98	a)	EUR	2011	9,382	2015	Fixed rate 5.75%
BES Finance	EMTN 99	a)	EUR	2011	9,382	2015	Fixed rate 5.75%
BES Finance	EMTN 100	a)	EUR	2011	9,382	2015	Fixed rate 5.75%
BES Finance	EMTN 101	a)	EUR	2011	14,153	2013	Fixed rate 4.51%
BES Finance	EMTN 102	a)	EUR	2011	15,164	2013	Fixed rate 4.51%
BES Finance	EMTN 103	a)	EUR	2011	15,164	2013	Fixed rate 4.51%
BES Finance	EMTN 104	a)	EUR	2011	14,658	2013	Fixed rate 4.51%
BES Finance	EMTN 105	a)	EUR	2011	14,557	2013	Fixed rate 4.51%
BES Finance	EMTN 106	a)	EUR	2011	9,720	2015	Fixed rate 5.51%
BES Finance	EMTN 107	a)	EUR	2011	9,556	2015	Fixed rate 5.51%
BES Finance	EMTN 108	a)	EUR	2011	10,860	2015	Fixed rate 5.51%
BES Finance	EMTN 109	a)	EUR	2011	10,860	2015	Fixed rate 5.51%
BES Finance	EMTN 110	a)	EUR	2011	10,860	2015	Fixed rate 5.51%
BES Finance	EMTN 111		USD	2011	1,652	2038	Fixed rate 3%
BES Finance	EMTN 112	a)	EUR	2011	52,443	2014	Fixed rate 6%
BES Finance	EMTN 113	a)	EUR	2011	68,899	2021	Fixed rate 5%
BES Finance	EMTN 114	a)	EUR	2011	28,082	2021	Fixed rate 5%
BESI	BESI OBCX R.ACCRUAL TARN MAR2016		EUR	2006	1,069	2016	Fixed rate 6% + Range Accrual
BESI	BESI OB CX RENDIM STEP UP APR14		EUR	2006	4	2014	Fixed rate Crescente
BESI	BES INVEST BRASIL 5.625% MAR2015		USD	2010	342,310	2015	Fixed rate - 5.625%
BESI	BESI BRASIL 1050 MAR2013		BRL	2010	510	2013	Fixed rate - 10.5%
BESI	BESI SEP2014 EQL LINKED	a)	EUR	2010	3,630	2014	aj)
BESI	BESI SEP2014 ORIENTE IV EQL	a)	EUR	2010	12,612	2014	ao)
BESI	BESI 1.8% GOLD APR2015	a)	EUR	2011	1,832	2015	Fixed rate 1.8% + Indexed to Gold
BESI	BESI CLN PORTUGUESE REP OCT2014	a)	EUR	2012	7,109	2014	Portuguese Republic CLN
BESI	BESI BRASIL AG.CAYMAN 400 MAY2013		USD	2012	7,739	2013	Fixed rate - 4%
BESI	BESI BRASIL AG.CAYMAN 400 JUN2013		USD	2012	5,381	2013	Fixed rate - 4%
BESI	BESI MAR2013 CONVER SP500	a)	EUR	2012	704	2013	SPX500 VIX Linked
BESI	49-LCA - Letter		BRL	2012	35,785	2013	90% - 98.6% do CDI
BESI	53-LF LetterFIN		BRL	2010	47,231	2015	100% - 116.5% do CDI
ES Investment Plc	ESIP OUT24 ESFP LINKED CMS NOTE		EUR	2004	5,251	2024	Fixed rate + Indexed to CMS
ES Investment Plc	ESIP CALL RANGE ACCRUAL MAY2015		EUR	2005	1,258	2015	Range accrual
ES Investment Plc	ESIP RANGE ACCRUAL JUN15		EUR	2005	239	2015	Range accrual
ES Investment Plc	ESIP EUR LEVERAGE SNOWBALL JUL15		EUR	2005	1,265	2015	Fixed rate + Snowball h)
ES Investment Plc	ESIP AGO05 SEP35 CALLABLE INV FL		EUR	2005	10,393	2035	Euribor 12 months + i)
ES Investment Plc	ESIP LEVERAGE SNOWBALL SEP2015		EUR	2005	2,424	2015	Fixed rate + Snowball h)
ES Investment Plc	ESIP CALL RANGE ACCRUAL NOV2017	a)	EUR	2005	1,216	2017	Range accrual
ES Investment Plc	ESIP 30CMS-2CMS LKD NOTE NOV2036	a)	EUR	2005	17,361	2036	Fixed rate7.44% + Indexed to CMS
ES Investment Plc	ESIP EUR12M+16 BP APR2016		EUR	2006	4,040	2016	Euribor 12M
ES Investment Plc	ESIP JAN2017 INDEX BASKET LKD	a)	EUR	2007	7,007	2017	j)
ES Investment Plc	ESIP MAY14 EQUITY BASKT LINKED	a)	USD	2007	1,376	2014	p)
ES Investment Plc	ESIP DEC2015 BASKET LINKED	a)	EUR	2007	34	2015	Indexed to BBVA. Credit Agricole and Fortis
ES Investment Plc	ESIP BARCLAYS LKD ZC MAR2016	a)	EUR	2008	543	2016	ZC + g)
ES Investment Plc	ESIP BARCLAYS LKD 6.30% MAR2016	a)	EUR	2008	147	2016	Fixed rate 6.30% + g)
ES Investment Plc	ESIP APR2013 AEGON SHARE LKD	a)	EUR	2008	2,869	2013	Indexed to AEGON
ES Investment Plc	ESIP JUN2013 CARBON NOTES	a)	EUR	2008	3,744	2013	an)
ES Investment Plc	ESIP LACAIXA EUR3M+2% MAR2011	a)	EUR	2009	2,428	2016	EURIBOR3M + 2% + g)
ES Investment Plc	ESIP JUL2014 INFLATION LINKED	a)	EUR	2009	1,452	2014	Indexed to Inflação
ES Investment Plc	ESIP FEB2020 EQL LINKED	a)	EUR	2009	10	2020	ad)
ES Investment Plc	ESIP CLN 5.45% OCT2014	a)	EUR	2009	96	2014	g)
ES Investment Plc	ESIP OCT2014 EQL	a)	EUR	2009	965	2014	Indexed to Gazprom. Nokia e DU PONT
ES Investment Plc	ESIP CIMPOR CLN EUR3M DEC2014	a)	EUR	2009	3,760	2014	g)

(in thousands of euro)

Issuer	Designation		31.12.2012				
			Currency	Issue date	Book value	Maturity	Interest rate
ES Investment Plc	ESIP FTD IBERIA 5.95% DEC2014	a)	EUR	2009	165	2014	g)
ES Investment Plc	ESIP FTD IBERIA II 5.5% DEC2014	a)	EUR	2009	4,853	2014	g)
ES Investment Plc	ESIP USD FTD IBERIA 5.5% DEC2014	a)	USD	2009	3,667	2014	g)
ES Investment Plc	ESIP DEC2014 SX5E LINKED	a)	EUR	2009	3,285	2014	Indexed to DJ Eurostoxx 50
ES Investment Plc	ESIP BRAZIL EQL LINKED	a)	EUR	2009	3,540	2014	al)
ES Investment Plc	ESIP BSKT MERC EMERG EQL FEB2014	a)	EUR	2010	2,694	2014	d)
ES Investment Plc	ESIP WORST SOFT CMDT MAR2013	a)	EUR	2010	1,210	2013	k)
ES Investment Plc	ESIP DJ US REAL EST LKD MAR2015	a)	EUR	2010	1,572	2015	Indexed to Ishares DJ US Real State Index fund
ES Investment Plc	ESIP SOFT COMMODIT LKD APR2013	a)	EUR	2010	2,102	2013	o)
ES Investment Plc	ESIP USDEUR FX LKD MAY2015	a)	EUR	2010	287	2015	Indexed to EUR/USD
ES Investment Plc	ESIP CRDAGRI CL EUR6M+1.15 JUN15	a)	EUR	2010	2,517	2015	Euribor 6M ACT/360
ES Investment Plc	ESIP EDP BCP PT LKD JUN2013	a)	EUR	2010	1,369	2013	w)
ES Investment Plc	ESIP FTD CRD LINKED JUN2015	a)	EUR	2010	4,570	2015	x)
ES Investment Plc	ESIP BRAZIL EQL MAY2016	a)	EUR	2010	3,307	2016	ac)
ES Investment Plc	ESIP SX5E MAY14 EQL	a)	EUR	2010	1,729	2014	Indexed to Eurostoxx
ES Investment Plc	ESIP JUN2013 BASKET LINKED	a)	EUR	2010	3,674	2013	5.70% + af)
ES Investment Plc	ESIP BES RENDIM CRD LKD JUN2013	a)	EUR	2010	19,697	2013	ag)
ES Investment Plc	ESIP TELECOM LKD JUL2013	a)	EUR	2010	8,670	2013	ah)
ES Investment Plc	ESIP BASKET LKD JUL2013	a)	EUR	2010	3,799	2013	ai)
ES Investment Plc	ESIP BASKET LKD JUL2014	a)	EUR	2010	1,387	2014	ai)
ES Investment Plc	ESIP AUG13 RANGE ACCRUAL	a)	EUR	2010	1,002	2013	Range accrual
ES Investment Plc	ESIP AUG2013 EURUSD FX LINKED	a)	EUR	2010	767	2013	Indexed to Câmbio
ES Investment Plc	ESIP SEP2013 CURRENCIES LINKED	a)	EUR	2010	906	2013	ap)
ES Investment Plc	ESIP SEP15 DIGITAL	a)	USD	2010	1,115	2015	Digital US Libor 3M
ES Investment Plc	ESIP JAN2011 DOW JONES INDUS LKD	a)	EUR	2010	1,136	2013	Indexed to INDU
ES Investment Plc	ESIP ASIA INDEX LKD SEP2014	a)	EUR	2010	1,557	2014	ab)
ES Investment Plc	ESIP EDP PT CGD CRDLKD DEC2013	a)	EUR	2010	6,966	2013	v)
ES Investment Plc	ESIP GOLD LKD OCT2013	a)	EUR	2010	1,383	2013	Indexed to Gold
ES Investment Plc	ESIP EDP CRDLKD DEC2013	a)	EUR	2010	4,593	2013	Euribor 6m + 3.5% + Indexed to EDP
ES Investment Plc	ESIP NOV2013 SAN BBVA EQL LINKED	a)	EUR	2010	1,664	2013	Indexed to BSCH e BBVA
ES Investment Plc	ESIP NOV2013 SANTANDER LKD	a)	EUR	2010	937	2013	Indexed to BSCH
ES Investment Plc	ESIP SAN BBVA LINKED NOV2013	a)	EUR	2010	2,152	2013	Indexed to BSCH and BBVA
ES Investment Plc	ESIP DEC2013 SAN BBVA EQL LINKED	a)	EUR	2010	931	2013	Indexed to BSCH and BBVA
ES Investment Plc	ESIP NOV2013 ASIA PACIF BSKT LKD	a)	EUR	2010	2,394	2013	u)
ES Investment Plc	ESIP NOV2013 AMERLATIN BSKT LKD	a)	EUR	2010	1,839	2013	t)
ES Investment Plc	ESIP DEC2015 CREDLINKED BSCH	a)	EUR	2011	1,570	2015	Indexed to BBVA, Credit Agricole and Fortis
ES Investment Plc	ESIP CABAZ BRASIL LKD FEB14	a)	EUR	2011	1,675	2014	b)
ES Investment Plc	ESIP FEB16 5A EXPOSIC AFRICA LKD	a)	EUR	2011	1,177	2016	c)
ES Investment Plc	ESIP EXPOSIÇAO EURUSD LKD FEB14	a)	EUR	2011	1,216	2014	FX EUR/USD Linked
ES Investment Plc	ESIP DUAL5%+AFRICA LKD FEB15	a)	EUR	2011	1,158	2015	s)
ES Investment Plc	ESIP 2 ANOS EURUSD LKD FEB13	a)	EUR	2011	1,438	2013	FX EUR/USD Linked
ES Investment Plc	ESIP SX5E LKD FEB14	a)	EUR	2011	342	2014	Eurostoxx Linked
ES Investment Plc	ESIP CLN EDP MAR2014	a)	EUR	2011	10,820	2014	7% + CLN EDP
ES Investment Plc	ESIP WORST DIG COMM EQL MAR2013	a)	EUR	2011	822	2013	e)
ES Investment Plc	ESIP MAR14 BES EURUSD LINKED	a)	EUR	2011	1 488	2014	FX USD/BRL Linked
ES Investment Plc	ESIP APR2015 BES ENERGIA LINKED	a)	EUR	2011	10 135	2015	Espírito Santo Rockefeller Global Linked
ES Investment Plc	ESIP MAR14 EURCHF LINKED	a)	EUR	2011	1,364	2014	FX EUR/CHF Linked
ES Investment Plc	ESIP CLN SANTANDER MAR2014	a)	EUR	2011	6,260	2014	6.35% + CLN BSCH SUB
ES Investment Plc	ESIP EDP MAR2014 CLN	a)	EUR	2011	16,053	2014	6.5% + CLN EDP
ES Investment Plc	ESIP SX5E SPX LKD MAR2016	a)	EUR	2011	1,658	2016	Eurostoxx Linked
ES Investment Plc	ESIP APR2015 BES ENERGIA LKD	a)	USD	2011	2,592	2015	Espírito Santo Rockefeller Global Linked
ES Investment Plc	ESIP MAR2014 TEF FTE LINKED	a)	EUR	2011	607	2014	Telefonica e France Telecom Linked
ES Investment Plc	ESIP APRIL2014 HEALTH CARE LKD	a)	EUR	2011	8.020	2014	Health Care Select Sector SPDR Fund Linked
ES Investment Plc	ESIP APR2013 EURUSD LKD	a)	EUR	2011	2.469	2013	FX EUR/USD Linked
ES Investment Plc	ESIP SX5E SPX LKD APR2014	a)	EUR	2011	2,388	2014	SX5E e SPX Linked
ES Investment Plc	ESIP HEALTH CARE LKD APR2014	a)	EUR	2011	2.300	2014	f)
ES Investment Plc	ESIP TEF PT LKD 26APR2014	a)	EUR	2011	467	2014	Telefonica e Portugal Telecom Linked
ES Investment Plc	ESIP EDP CLN JUN2014	a)	EUR	2011	13.940	2014	7% + CLN EDP
ES Investment Plc	ESIP STEP-UP APR2013	a)	EUR	2011	1.204	2013	Fixed STEP-UP Rate
ES Investment Plc	ESIP TEF PT LKD APR2014	a)	EUR	2011	462	2014	Telefonica e Portugal Telecom Linked
ES Investment Plc	ESIP EUR CLN JUN2014	a)	EUR	2011	10.250	2014	6.75% + CLN PT
ES Investment Plc	ESIP BES MOMENTUM JUN2015	a)	EUR	2011	6.737	2015	Espírito Santo Momentum Fund Linked
ES Investment Plc	ESIP BSCH CLN JUN2014	a)	EUR	2011	6.183	2014	6.1% + CLN BSCH
ES Investment Plc	ESIP BES PROTECÇAO JUN2014	a)	EUR	2011	52.823	2014	m)
ES Investment Plc	ESIP BRAZIL NOTES LKD MAY2011	a)	EUR	2011	3.949	2016	FX EUR/BRL Linked
ES Investment Plc	ESIP BES 5ANOS EFIC ENERG JUNE16	a)	EUR	2011	3.049	2016	r)
ES Investment Plc	ESIP PETROBRAS CLN JUN2014	a)	USD	2011	2.284	2014	3-Month USD libor + 3.70% + CLN PETROBRAS
ES Investment Plc	ESIP PT II CLN JUN2014	a)	EUR	2011	8.170	2014	7% + CLN PT
ES Investment Plc	ESIP TEF PT JUN2014	a)	EUR	2011	750	2014	Telefonica e Portugal Telecom Linked
ES Investment Plc	ESIP JAN2013 BES BRASIL 18M	a)	EUR	2011	7.467	2013	EWZ Linked
ES Investment Plc	ESIP SANTANDER CLN JUN2014	a)	EUR	2011	2.898	2014	6.4% + CLN BSCH
ES Investment Plc	ESIP BES PROTECÇAO II JUN2014	a)	EUR	2011	24.818	2014	Inflation and Euribor 12M Liked
ES Investment Plc	ESIP EUR PRICING POWER 5Y JUL14	a)	EUR	2011	1.816	2016	z)
ES Investment Plc	ESIP 2Y BULLISH CAB VS USD JUL13	a)	EUR	2011	1.451	2013	Fx linked
ES Investment Plc	ESIP ASCENDI CLN JUL2013	a)	USD	2011	5.063	2013	7,25% + Ascendi CLN
ES Investment Plc	ESIP SX5E JUL15 EQL	a)	EUR	2011	1.510	2015	Eurostoxx Linked
ES Investment Plc	ESIP AUG14 ES ROCKEFELLERGLO LKD	a)	EUR	2011	940	2014	Espírito Santo Rockfeller Linked
ES Investment Plc	ESIP BARCLAYS CLN SEP2014	a)	EUR	2011	2.981	2014	6% + Barclays CLN
ES Investment Plc	ESIP AUG14 INFLATION LKD	a)	EUR	2011	41.261	2014	Inflation Linked

(in thousands of euro)

Issuer	Designation		31.12.2012 Currency	Issue date	Book value	Maturity	Interest rate
ES Investment Plc	ESIP AUG2014 ALEMANHA EQL LINKED	a)	EUR	2011	513	2014	q)
ES Investment Plc	ESIP ESFP CLN JUL2013	a)	USD	2011	5,550	2013	ESFP CLN
ES Investment Plc	ESIP BRL FXL LINKED SEP2016	a)	EUR	2011	1,636	2016	Fx linked
ES Investment Plc	ESIP SEP14 TRY LKD	a)	EUR	2011	1,594	2014	Fx linked
ES Investment Plc	ESIP BANCO POPULAR CLN SEP2014	a)	EUR	2011	3,391	2014	8.75% + POPULAR CLN
ES Investment Plc	ESIP BCO POPULAR CLN SEP2014	a)	EUR	2011	1,798	2014	8.75% + POPULAR CLN
ES Investment Plc	ESIP SEP2014 INFLATION+EURIBOR	a)	EUR	2011	29,076	2014	Inflation and Euribor 12M Liked
ES Investment Plc	ESIP SEP2014 PSI20 EQL 4	a)	EUR	2011	2,926	2014	PSI20 Linked
ES Investment Plc	ESIP DEC2013 BES4%GLOBAL LINKED	a)	EUR	2011	29,366	2015	aq)
ES Investment Plc	ESIP BCO POPULAR CRDLK SEP2014	a)	EUR	2011	7,755	2014	9.40% + Banco Popular CLN
ES Investment Plc	ESIP OCT2014 WORLD INVESTM EQL 3	a)	EUR	2011	1,835	2014	j)
ES Investment Plc	ESIP PT CLN DEC2014	a)	EUR	2011	22,569	2014	11% + PT CLN
ES Investment Plc	ESIP AUTOCALLABLE 2014	a)	EUR	2011	2,679	2014	ar)
ES Investment Plc	ESIP TELECOM ITALIA CLN DEC2014	a)	EUR	2011	5,628	2014	7.25% + Telecom Italia CLN
ES Investment Plc	ESIP EDP USD CLN DEC2014	a)	USD	2011	1,613	2014	8.5% + EDP CLN
ES Investment Plc	ESIP AUTOCALL HIGH DIVD DEC2014	a)	EUR	2011	1,874	2014	at)
ES Investment Plc	ESIP WORLD INVESTMENT II DEC2014	a)	EUR	2011	1,023	2014	j)
ES Investment Plc	ESIP TELEFONICA CLN DEC2014	a)	EUR	2011	4,862	2014	7.15% + Telefonica CLN
ES Investment Plc	ESIP PORTUGUESE REP CLN DEC2021	a)	EUR	2011	25,643	2021	6% + Portuguese Republic CLN
ES Investment Plc	ESIP UTILITIES SHS DEC2018	a)	EUR	2011	508	2018	au)
ES Investment Plc	ESIP UTILIT FINANCIALS SHS DEC18	a)	EUR	2011	2,460	2018	n)
ES Investment Plc	ESIP PT CRDLKD DEC2013	a)	EUR	2012	16,473	2013	7.75% + PT CLN
ES Investment Plc	ESIP EWZ EQL JAN2015	a)	EUR	2012	1,001	2015	EWZ Linked
ES Investment Plc	ESIP FEB16 EMP NORDICAS EQL	a)	EUR	2012	1,993	2016	y)
ES Investment Plc	ESIP AUG2014 CABAZ MOEDAS 12-14	a)	EUR	2012	7,408	2014	av)
ES Investment Plc	ESIP CABAZMOEDA VS EUR FEB15 FXL	a)	EUR	2012	754	2015	av)
ES Investment Plc	ESIP EMPRES CHINESAS FEB2017 EQL	a)	EUR	2012	1,437	2017	aw)
ES Investment Plc	ESIP EDP MAR2014 CLN 2	a)	EUR	2012	14,569	2014	6.9% + EDP CLN
ES Investment Plc	ESIP TWIN WIN EURUSD MAR2015	a)	EUR	2012	1,037	2015	EUR/USD Linked
ES Investment Plc	ESIP LUXURY GOODS LKD MAR2015	a)	EUR	2012	1,619	2015	ax)
ES Investment Plc	ESIP PSI20 LKD MAR2015	a)	EUR	2012	3,443	2015	PSI20 Linked
ES Investment Plc	ESIP DUAL UPGRADE MAR2014	a)	EUR	2012	1,560	2014	ay)
ES Investment Plc	ESIP DIG CPN EURIBOR 3M MAR2015	a)	EUR	2012	1,685	2015	Digital EURIBOR 3M
ES Investment Plc	ESIP APR2019 RECOV BASKET LINKED	a)	EUR	2012	175	2019	az)
ES Investment Plc	ESIP BBVA LKD APR2013	a)	EUR	2012	2,472	2013	BBVA Linked
ES Investment Plc	ESIP APR2015 PSI20 LINKED	a)	EUR	2012	1,334	2015	PSI20 Linked
ES Investment Plc	ESIP APR2020 BES PROTECÇAO LKD	a)	EUR	2012	340	2020	Inflation Linked
ES Investment Plc	ESIP BBVA LINKED APR2013	a)	EUR	2012	1,038	2013	BBVA Linked
ES Investment Plc	ESIP PT 3YR CREDIT LKD JUN15	a)	EUR	2012	10,613	2015	7.75% + PT CLN
ES Investment Plc	ESIP BBVA LKD MAY2013	a)	EUR	2012	1,075	2013	BBVA Linked
ES Investment Plc	ESIP PT 3YR CREDIT LINKED JUN15	a)	EUR	2012	14,482	2015	7.75% + PT CLN
ES Investment Plc	ESIP BES TECNOLOGIA JUN2015 EQL	a)	EUR	2012	4,791	2015	ba)
ES Investment Plc	ESIP SANTANDER JUN2015	a)	EUR	2012	779	2015	BSCH Linked
ES Investment Plc	ESIP EXPOSIÇAO PETROLEO JUN2015	a)	EUR	2012	565	2015	Brent Linked
ES Investment Plc	ESIP BES EXPOS PETROLE JUN15 EQL	a)	EUR	2012	2,278	2015	Brent Linked
ES Investment Plc	ESIP RECOV BSKT LINKED JUN2019	a)	EUR	2012	758	2019	bb)
ES Investment Plc	ESIP EDP 3YR CREDIT LINKED JUN15	a)	EUR	2012	15,853	2015	8% + EDP CLN
ES Investment Plc	ESIP SANTANDER JUL15 EQL	a)	EUR	2012	806	2015	BSCH Linked
ES Investment Plc	ESIP SX5E JUN15 EQL	a)	EUR	2012	60	2015	SX5E Linked
ES Investment Plc	ESIP EQUITY LKD AUG2016	a)	EUR	2012	3,740	2016	l)
ES Investment Plc	ESIP EDP 3YR II CREDIT LKD JUN15	a)	EUR	2012	13,058	2015	8% + EDP CLN
ES Investment Plc	ESIP JUL15 EQL	a)	EUR	2012	839	2015	SPX500 Linked
ES Investment Plc	ESIP TELECOM ITALIA CLN SEP2015	a)	EUR	2012	4,754	2015	7% + TELECOM ITALIA CLN
ES Investment Plc	ESIP E-COMMERCE EQTY LKD AUG2016	a)	EUR	2012	4,545	2016	ak)
ES Investment Plc	ESIP PT TELECO CLN SEP2015	a)	EUR	2012	6,751	2015	7% + PT CLN
ES Investment Plc	ESIP SEP2015 EDP LKD	a)	USD	2012	1,602	2015	7.45% + EDP CLN
ES Investment Plc	ESIP SEP2015 CRESCIM IMOBILI LKD	a)	EUR	2012	3,475	2015	IYR Linked
ES Investment Plc	ESIP EDP CLN SEP2015	a)	EUR	2012	8,369	2015	6.25% + EDP CLN
ES Investment Plc	ESIP BRL EQL SEP2017	a)	EUR	2012	3,306	2017	EUR/BRL Linked
ES Investment Plc	ESIP BES EXP COMMOD AGRICOL EQL4	a)	EUR	2012	8,500	2014	o)
ES Investment Plc	ESIP COMMOD AGRICOL EQL5 OCT2015	a)	EUR	2012	4,665	2015	k)
ES Investment Plc	ESIP BASKET LINKED OCT2019	a)	EUR	2012	399	2019	am)
ES Investment Plc	ESIP BRAZILIAN NOTES IV OCT2017	a)	EUR	2012	1,665	2017	EUR/BRL Linked
ES Investment Plc	ESIP IBERIA NOV2015	a)	EUR	2012	2,206	2015	IBEX+PSI20 Linked
ES Investment Plc	ESIP TURKISH LIRA EQL6 OCT2015	a)	EUR	2012	1,547	2015	EUR/TRY Linked
ES Investment Plc	ESIP BASKET OCT2019 EQL2	a)	EUR	2012	1,282	2019	REP e BSCH Linked
ES Investment Plc	ESIP NOV2013 BARCLAYS LKD	a)	EUR	2012	1,092	2013	Barclays Linked
ES Investment Plc	ESIP COMMODITIES NOV2015	a)	EUR	2012	4,021	2015	bc)
ES Investment Plc	ESIP SX5E AUTOCALL NOV2015	a)	EUR	2012	2,366	2015	SX5E Linked
ES Investment Plc	ESIP DEC2015 CRDLKD EUR FTD TELE	a)	EUR	2012	13,977	2015	bd)
ES Investment Plc	ESIP DEC2012 BASKET FTD	a)	EUR	2012	1,497	2015	be)
ES Investment Plc	ESIP DEC2016 AUTOCALL BRASIL	a)	EUR	2012	6,881	2016	bf)
ES Investment Plc	ESIP DEC2015 SX7P LINKED	a)	EUR	2012	940	2015	SX7P Linked
ES Investment Plc	ESIP DEC2017 EDP PT TEL.ITAL LK	a)	EUR	2012	1,934	2017	bg)
ES Investment Plc	ESIP DEC2015 CRDLKD EDP	a)	EUR	2012	986	2015	5.25% + EDP CLN
ES Investment Plc	ESIP DEC2015 CRDLKD EDP PT	a)	EUR	2012	3,832	2015	6.50% + EDP PT CLN
ES Investment Plc	ESIP DEC2015 CRDLKD EDP PT TLCM	a)	EUR	2012	1,873	2017	bg)
ES Investment Plc	ESIP DEC2017 RENAULT PT LINKED	a)	EUR	2012	4,164	2017	8.65% + RENAULT PT CLN
BESIL	BESIL STEP UP 09/02/13		EUR	2003	1,882	2013	Fixed rate- 6.44%

(in thousands of euro)

Issuer	Designation	31.12.2012				
		Currency	Issue date	Book value	Maturity	Interest rate
BESIL	BESIL STEP UP 10/07/13	EUR	2003	1,766	2013	Fixed rate - 6.44%
ESPLC	BES0513_23E BESESPLC23/05/2013	EUR	2012	29,822	2013	Fixed rate 1.764%
ESPLC	BES0113_44E BESESPLC11/01/2013	EUR	2012	25,247	2013	Fixed rate 3.2%
ESPLC	BES0113_50E BESESPLC04/01/2013	EUR	2012	150,266	2013	Fixed rate 0.75%
ESPLC	BES0113_51E BESESPLC08/01/2013	EUR	2012	130,222	2013	Fixed rate 0.75%
ESPLC	BES0113_52E BESESPLC07/01/2013	EUR	2012	20,111	2013	Fixed rate 3.5%
ESPLC	BES0113_54E BESESPLC14/02/2013	EUR	2012	123,100	2013	Fixed rate 0.70%
ESPLC	BES0113_55E BESESPLC18/02/2013	EUR	2012	127,101	2013	Fixed rate 0.70%
ESPLC	BES0113_56E BESESPLC25/02/2013	EUR	2012	120,077	2013	Fixed rate 0.70%
ESPLC	BES0113_53E BESESPLC06/11/2013	USD	2012	27,474	2013	Fixed rate 4.45%
ESPLC	BES0313_59E BESESPLC11/03/2013	EUR	2012	160,047	2013	Fixed rate 0.70%
ESPLC	BES0313_60E BESESPLC15/03/2013	EUR	2012	140,035	2013	Fixed rate 0.70%
Lusitano Mortgage nº 6	Class A Mortgage Backed Floating Rate Notes	EUR	2007	520,802	2060	Euribor + 0.20%
Lusitano Mortgage nº 6	Class B Mortgage Backed Floating Rate Notes	EUR	2007	6,501	2060	Euribor + 0.30%
Lusitano Mortgage nº 6	Class C Mortgage Backed Floating Rate Notes	EUR	2007	10,003	2060	Euribor + 0.45%
Lusitano SME nº 1	Class A asset backed floating rate notes	EUR	2006	100,590	2028	Euribor + 0.15%
Lusitano SME nº 1	Class B asset backed guaranteed floating rate notes	EUR	2006	35,941	2028	Euribor + 0.05%
Lusitano SME nº 1	Class C asset backed floating rate notes	EUR	2006	29,960	2028	Euribor + 2.20%
				15,424,061		

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

NOTE 39 – INVESTMENT CONTRACTS

The liabilities arising from investment contracts are analysed as follows:

(in thousands of euro)

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

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

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

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

(in thousands of euro

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

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

(in thousands of euro)

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

NOTE 40 – PROVISIONS

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

(in thousands of euro)

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

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

- Contingencies in connection with the exchange, during 2000, of Banco Boavista Interatlântico shares for Bradesco shares. The Group has provisions for an amount of approximately euro 60.3 million (31 December 2011: euro 61.4 million) to cover these contingencies;

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

NOTE 41 – INCOME TAXES

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

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

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

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

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

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

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

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

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

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

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

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

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

(in thousands of euro)

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

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

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

(in thousands of euro)

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

The changes in deferred taxes were recognised as follows:

(in thousands of euro)

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

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

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

(in thousands of euro)

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

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

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

(in thousands of euro)

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

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

NOTE 42 – SUBORDINATED DEBT

The balance subordinated debt is analysed as follows:

(in thousands of euro)

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

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

(in thousands of euro)

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

(a) Call option date.

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

(in thousands of euro)

	Balance as at 31.12.2011	Repayments	Net Repurchases	Other movements [a)]	Balance as at 31.12.2012
Bonds	815,019	(9,547)	(57,323)	26,324	774,473
Perpetual Bonds[(b)]	146,216	-	(103,599)	22,726	65,343
	961,235	(9,547)	(160,922)	49,050	839,816

(a) Other movements include accrued interest, fair value and foreign exchange translation adjustments and the amount of euro 48,605 thousands related with BES Vida integration.
(b) In the issues were considered the amounts corresponding to debt replacements previously repurchased by the Group.

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

NOTE 43 – OTHER LIABILITIES

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

(in thousands of euro)

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

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

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

Ordinary shares

As at 31 December 2012, the Bank's share capital in the amount of euro 5,040.1 million, was represented by 4,017,928.471 ordinary shares, which were subscribed and fully paid by the following entities:

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

(1) Portuguese Law company wholly owned by Banco Bradesco (Brazil), to which are attributable the voting rights.
(2) Company fully and indirectly dominated by Portugal Telecom, S.G.P.S., S.A.

On May 2012, BES issued 2,556,688.387 ordinary shares at an issue price of euro 0.395 each, totaling euro 1,009.9 million, fully subscribed and paid. The new shares are fungible with all other shares of the issuer and give their holders the same rights as other existing shares before the capital increase. The capital increase did not cause significant changes in the shareholder structure of reference of BES.

In the year ended 31 December 2011, the Bank made a capital increase through an exchange offer (OPT) over securities issued by Banco Espírito Santo, Banco Espírito Santo de Investimento and BES Finance. As a result of the exchange offer, which took place in November 2011, a total of 294,573,418 new ordinary BES shares at the price of Euro 1.80 per share and 81,736 subordinated bonds with €100 par value each were be issued:

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

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

(in million of euro)

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

Preference shares

The BES Finance issued 450 thousand non-voting preference shares, which were listed in the Luxembourg stock Exchange in July 2003. In March 2004, 150 thousand preference shares were additionally issued forming a single series with the existing preference shares, in a total amount of euro 600 million. The face value of these shares is euro 1,000 and is wholly (but not partially) redeemable by option of the issuer at its face value, as at 2 July 2014, subject to prior approvals of BES and Bank of Portugal. During the year ended 31 December 2011, the Group acquired 338 thousand preference shares, issued by BES Finance, of which 197 thousand were acquired in scope of the exchange offer over securities referred to above. The Group recorded a capital gain, net of taxes in the amount of euro 105.6 million recognised in other reserves. In the year ended 31 December 2012, the Group acquired 19,000 preference shares, having recorded a net gain in the amount of euro 4.5 million recognised in Other reserves. In the year ended 31 December 2012, there were 193 thousands preference shares outstanding with a value of euro 193.3 million.

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

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

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

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

Share premiums

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

Other equity instruments

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

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

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

(in thousands of euro)

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

(1) BESI issue is included in the balance non-controlling interest (see Note 39).
(2) The reimbursement of these securities may be performed in full, but not partially, at the option of the issuer, subject to prior approval of the Bank of Portugal.

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

Treasury stock

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

The movement in treasury stocks is analysed as follows:

	31.12.2012		31.12.2011	
	Number of shares	**Amount** (thousands of euro)	**Number of shares**	**Amount** (thousands of euro)
Transactions under PRVIF				
Opening balance	342,475	997	-	-
Shares acquired(1)	-	-	342,475	997
Shares sold(2)	67,184	(196)	-	-
	275,291	**801**	**342,475**	**997**
Other transactions				
Opening balance	-	-	-	-
Changes in the scope of consolidation(3)	68,333,226	43,515	-	-
Shares acquired(4)	11,268,161	5,409	-	-
Shares sold(4)	69,488,622	(42,734)	-	-
	10,112,765	**6,190**	**-**	**-**
Balance in the end of the period/ exercise	**10,388,056**	**6,991**	**342,475**	**997**

(1) Shares acquired under PRVIF, at a price of 2,909 euro per share.
(2) Shares sold under PRVIF, at a price of 1,315 euro per share in January 2012.
(3) Respects to BES shares in BES Vida portfolio, following the control acquisition in May 2012.
(4) Shares acquired/ sold that composed/ left to be part of portfolio of BES Vida.

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

Legal reserve

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

Fair value reserve

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

The changes in these balances were as follows:

(in thousands of euro)

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

(a) Value net tax.

The fair value reserve is analysed as follows:

(in thousands of euro)

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

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

(in thousands of euro)

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

(a) BES Vida

Non-controlling interests

Non-controlling interests by subsidiary are analysed as follows:

(in thousands of euro)

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

a) Corresponds to the emission of other equity instruments (see Note 38).
b) Holding company of BESI Group that holds a 65.42% participation in Execution Holdings, Limited.

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

(in thousands of euro)

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

NOTE 46 – OFF-BALANCE SHEET ITEMS

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

(in thousands of euro)

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

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

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

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

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

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

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

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

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

(in thousands of euro)

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

NOTE 47 – ASSETS UNDER MANAGEMENT

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

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

(in thousands of euro)

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

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

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

NOTE 48 – RELATED PARTIES TRANSACTIONS

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

Grupo BES Associates companies

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

ESFG's subsidiaries, associates and related entities

Bespar - Sociedade Gestora de Participações Sociais, S.A.
Banque Privée Espírito Santo
Banque Privée Espírito Santo Sucursal Portugal
ES Bank (Panama), S.A.
ES Bankers (Dubai) Limited
Espírito Santo Financial (Portugal), SGPS, S.A.
Espírito Santo Financial Group, S.A.
ESFG International, Ltd
Esfil - Espírito Santo Financiére, S.A. (Luxemburgo)
Espírito Santo International S.A.
Espírito Santo Saúde SGPS, S.A.
Clínica Parque dos Poetas, S.A.
Cliria - Hospital Privado de Aveiro, S.A.
ES Saúde - Residência com Serviços Senior, S.A.
Espírito Santo - Unidades de Saúde e de Apoio à Terceira Idade, S.A.
Genomed, Diagnóstico de Medicina Molecular, S.A.
HCI - Health Care International, Inc
HME Gestão Hospitalar
Hospital da Arrábida - Gaia, S.A.
Hospital da Luz - Centro Clínico da Amadora, S.A.
Hospital da Luz, S.A.
Hospor - Hospitais Portugueses, S.A.
Instituto de Radiologia Dr. Idálio de Oliveira - Centro de Radiologia Médica, S.A.
RML - Residência Medicalizada de Loures, S.G.P.S., S.A.
Surgicare - Unidades de Saúde, S.A.
Vila Lusitano - Unidades de Saúde, S.A.
Key Space Investments LLC
Marignan Gestion, S.A.
Omnium Lyonnais de Participations Industrielles, S.A.
Partran - Sociedade Gestora de Participações Sociais, S.A.
Société Antillaise de Gestion Financiére, S.A. - SAGEFI
Société Lyonnaise de Marchands de Biens
Companhia de Seguros Tranquilidade, S.A.
T - Vida, Companhia de Seguros, S.A.
Seguros Logo, S.A.
Advancecare - Gestão e Serviços de Saúde, S.A.
Pastor Vida, S.A de Seguros y Reaseguros
Esumédica - Prestação de Cuidados Médicos, S.A.
Europe Assistance - Companhia Portuguesa de Seguros de Assistência, S.A.
BESV Courtage S.A.
AOC Patrimoine, S.A.
ES Consultancy Singapore
Group Credit Agricole
Saxo Bank
The Atlantic Company (Portugal) - Turismo e Urbanização, S.A.
Agribahia, S/A
Atr - Actividades Turisticas e Representações, Lda.
Aveiro Incorporated
Beach Heath Investments, Ltd
Companhia Agricola Botucatu, S.A.
Casas da Cidade - Residências Sénior, S.A.
Cerca da Aldeia - Sociedade Imobiliária, S.A.
Cimenta - Empreendimentos Imobiliários, S.A.
Cidadeplatina - Construção S.A.
Clarendon Properties, Inc.
Clube de Campo da Comporta - Actividades Desportivas e Lazer, Lda.
Club de Campo Villar Ollala, S.A.
Clup Vip - Marketing de Acontecimentos, S.A.
Clube Residencial da Boavista, S.A.
Companhia Brasileira de Agropecuária Cobrape
Coimbra Jardim Hotel - Sociedade de Gestão Hoteleira, S.A.
Construcciones Sarrión, SL
Ganadera Corina Campos y Haciendas, S/A
E.S.B. Finance Ltd.
Eastelco - Consultoria e Comunicação, S.A.
E.S. Asset Administration, Ltd.
Espírito Santo Cachoeira Desenvolvimento Imobiliário Ltda.
ES Comercial Agrícola, Ltda
Espírito Santo Guarujá Desenvolvimento Imobiliário Ltda.
ES Holding Administração e Participações, S/A
Espírito Santo Hotéis, SGPS, S.A.
Espirito Santo Industrial (BVI), S.A.
Espírito Santo Indaiatuba Desenvolvimento Imobiliário Ltda.

Espirito Santo Industrial, S.A.
Espírito Santo Industrial (Portugal) - S.G.P.S, S.A.
Espirito Santo Irmãos - Sociedade Gestora de Participações Sociais, S.A.
Espírito Santo Itatiba Desenvolvimento Imobiliário Ltda.
Espírito Santo Primavera Desenvolvimento Imobiliário Ltda.
ES Private Equity, Ltd.
Espírito Santo Property (Brasil) S/A
Espírito Santo Services, S.A.
Espírito Santo Tourism, Ltd.
Espírito Santo Tourism (Europe), S.A.
Espírito Santo Venture Ltd.
Espírito Santo Viagens - Sociedade Gestora de Participações Sociais, S.A.
ES Viagens e Turismo, Lda.
Espírito Santo Viagens - Consultoria e Serviços, S.A.
Escae Consultoria, Administração e Empreendimento, Ltda.
Escopar - Sociedade Gestora de Participações Sociais, S.A.
ESDI Administração e Participações Ltda.
Esger - Empresa de Serviços e Consultoria, S.A.
Espirito Santo International (BVI), S.A.
E.S. International Overseas, Ltd.
Esim - Espírito Santo Imobiliário, S.A.
E.S. - Espírito Santo, Mediação Imobiliária, S.A.
Espirito Santo Property S.A.
Espírito Santo Property Holding, S.A.
Espírito Santo Property España, S.L.
Espart - Espirito Santo Participações Financeiras, S.G.P.S, S.A.
Espírito Santo Resources, Ltd.
Espírito Santo Resources (Portugal), S.A.
E.S. Resources Overseas, Ltd.
Espírito Santo Resources S.A.
Estoril Inc
Euroamerican Finance Corporation, Inc.
Euroamerican Finance S.A.
Euroatlantic, Inc.
Fafer - Empreendimentos Turisticos e de Construção, S.A.
Fimoges - Sociedade Gestora de Fundos de Investimento Imobiliário, S.A.
GES Finance Limited
Gesfimo - Espírito Santo, Irmãos, Soc. Gestora de Fundos de Investimento Imobiliários, S.A.
Gestres - Gestão Estratégica Espírito Santo, S.A.
Goggles Marine, Ltd.
Sociedade Agricola Golondrina, S/A
HDC - Serviços de Turismo e Imobiliário, S.A.
Herdade da Boina - Sociedade Agrícola, S.A.
Herdade da Comporta - Actividades Agro Silvícolas e Turísticas, S.A.
Hoteis Tivoli, S.A.
Hotelagos, S.A.
Hospital Residêncial do Mar, S.A.
I.A.C. UK, Limited
Inter-Atlântico, S/A
Iber Foods - Produtos Alimentares e Biológicos, S.A.
Imopca, S.A.
Lote Dois - Empreendimentos Turisticos S.A.
Luzboa, S.A.
Luzboa Um, S.A.
Luzboa Dois, S.A.
Luzboa Três, S.A.
Luzboa Quatro, S.A.
BEMS, SGPS, S.A.
Margrimar - Mármores e Granitos, S.A.
Marinoteis - Sociedade de Promoção e Construção de Hoteis, S.A.
Marmetal - Mármores e Materiais de Construção, S.A.
Metal - Lobos Serralharia e Carpintaria, Lda
Multiger - Sociedade de Gestão e Investimento Imobiliário, S.A.
Mundo Vip - Operadores Turísticos, S.A.
Net Viagens - Agência de Viagens e Turismo, S.A.
Novagest Assets Management, Ltd.
Opca Angola, S.A.
Opca Moçambique, Lda.
Opcatelecom - Infraestruturas de Comunicação, S.A.
OPWAY - Engenharia, S.A.
OPWAY Imobiliária, S.A.
OPWAY - S.G.P.S, S.A.
Pavi do Brasil - Pré-Fabricação, Tecnologia e Serviços, Lda.
Pavicentro - Pré-Fabricação, S.A.
Pavilis - Pré-Fabricação, S.A.
Paviseu - Materiais Pré-Fabricados, S.A.
Pavitel, SARL
Personda - Sociedade de Perfurações e Sondagens, S.A.
Placon - Estudos e Projectos de Construção, Lda.
Pojuca, S.A.
Pontave - Construções, S.A.
Agência Receptivo Praia do Forte, Ltda.
Praia do Forte Operadora de Turismo, Ltda.
Grupo Proyectos y Servicios Sarrion, S.A.
Quinray Technologies Corp.
Quinta da Areia - Sociedade Agrícola Quinta da Areia, S.A.
Sociedade Agricola Quinta D. Manuel I, S.A.
Recigreen - Reciclagem e Gestão Ambiental, S.A.
Recigroup - Industrias de Reciclagem, S.G.P.S., S.A.
Recipav - Engenharia e Pavimentos, Unipessoal, Lda.
Recipneu - Empresa Nacional de Reciclagem de Pneus, Lda.
Santa Mónica - Empreendimentos Turísticos, S.A.
Saramagos S/A Empreendimentos e Participações
Société Congolaise de Construction et Travaux Publiques, SARL
Series - Serviços Imobiliários Espirito Santo, S.A.
Sociedade Gestora do Hospital de Loures, S.A.
Sintra Empreendimentos Imobiliários, Ltda.
Sisges, SA Desenvolvimento de Projectos de Energia
Solférias - Operadores Turísticos, Lda.
Sopol - Concessões, S.G.P.S., S.A.
Sotal - Sociedade de Gestão Hoteleira, S.A.
Space - Sociedad Peninsular de Aviación, Comércio e Excursiones, S.A.
Suliglor - Imobiliária do Sul, S.A.
TA DMC Brasil - Viagens e Turismo, S.A.
Agência de Viagens Tagus, S.A.
Construtora do Tamega Madeira S.A.
Construtora do Tamega Madeira SGPS S.A.
Terras de Bragança Participações, Ltda
Timeantube Comércio e Serviços de Confecções, Ltda
Tivoli Gare do Oriente - Sociedade de Gestão Hoteleira, S.A.
TOP A DMC Viajes, S.A.
Top Atlântico - Viagens e Turismo, S.A.
Top Atlântico DMC, S.A.
Transcontinental - Empreendimentos Hoteleiros, S.A.
Turifonte, Empreendimentos Hoteleiros, S.A.
Turistrader - Sociedade de Desenvolvimento Turístico, S.A.
Ushuaia - Gestão e Trading Internacional Limited
Sociedade Agricola Turistica e Imobiliária Várzea Lagoa, S.A.
Viveiros da Herdade da Comporta - Produção de Plantas Ornamentais, Lda.
Ribeira do Marchante, Administração de Bens Móveis e Imóveis, S.A.
Casa da Saudade, Administração de Bens Móveis e Imóveis, S.A.
Angra Moura-Sociedade de Administração de Bens, S.A.
Sociedade de Administração de Bens - Casa de Bons Ares, S.A.
ACRO, Sociedade Gestora de Participações Sociais, S.A.
Diliva, Sociedade de Investimentos Imobiliários, S.A.

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

(in thousands of euro)

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

(a) Since May 2012 BES Vida was fully consolidaded in Grupo BES.

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

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

(in thousands of euro)

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

(in thousands of euro)

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

As at 31 December 2012, loans granted by BES Group to the members of the Board of Directors of ESFG that are not simultaneously members of the Board of Directors of BES, amounted to euro 4,047 thousand (31 December 2011: euro 4,911 thousand).
All transactions with related parties are made on an arms length basis, under the fair value principle.

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

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

- It cannot be granted credit to executive members of the Board of Directors and to the Fiscal Board (including first degree relatives), with the exception of operations (i) with a social purpose, (ii) under the company policies, or (iii) resulting from the use of credit cards in conditions similar to the ones applied to the general clients with similar risk profile. All these exception are included in nr. 4 of article 85 of RGICSF;
- Credit operations with non-executive members of the Board of Directors are subject to approval by a majority of at least two thirds of the remaining Board Members and can only be granted with the approval of the Fiscal Board, in accordance with nr. 8 of article 85 of RGICSF;
- The credit is granted and approved at market prices and the Board Member involved in the operation cannot intervene in the decision making process.

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

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

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

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

In 2012 the Group acquired:

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

NOTE 49 – SECURITISATION TRANSACTIONS

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

(in thousands of euro)

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

(1) In March 2011, the credit portfolio associated to this securitisation was partially sold, with the remaining (domestic credit) been to "Lusitano Project Finance Nº. 1 FTC".
(2) This securitisation includes the amount of euro 382,062 thousand of mortgage loans from BES and an amount of euro 134,472 thousand of mortgage loans from BESI and BES Vénétie,

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

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

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

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

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

(in thousands of euro)

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

NOTE 50 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

(in thousands of euro)

	Amortised Cost	Fair Value			Book Value	Fair Value
		Quoted Market Prices	Valuation models based on observable market information	Valuation models based on non-observable market information		
Balance as at 31 December 2012						
Cash and deposits at central banks	1,377,541	-	-	-	1,377,541	1,377,541
Deposits with banks	681,077	-	-	-	681,077	681,077
Other financial assets held for trading	-	1,484,112	2,441,287	-	3,925,399	3,925,399
Financial assets at fair value through profit or loss	-	1,387,979	1,153,990	279,584	2,821,553	2,821,553
Available-for-sale financial assets	8,605 [(a)]	5,008,676	4,778,336	959,693	10,755,310	10,755,310
Loans and advances to banks	5,426,518	-	-	-	5,426,518	5,426,518
Loans and advances to customers	47,194,030	-	512,362	-	47,706,392	44,684,122
Held-to-maturity investments	941,549	-	-	-	941,549	879,265
Derivatives for risk management purposes	-	-	516,520	-	516,520	516 520
Financial assets	**55,629,320**	**7,880,767**	**9,402,495**	**1,239,277**	**74,151,859**	**71,067,305**
Deposits from central banks	10,893,320	-	-	-	10,893,320	10,893,320
Financial liabilities held for trading	-	-	2,122,025	-	2,122,025	2,122,025
Deposits from banks	4,476,381	-	612,277	-	5,088,658	4,898,506
Due to customers	25,743,341	-	8,796,982	-	34,540,323	34,540,323
Debt securities issued	12,764,479	-	2,659,582	-	15,424,061	15,990,921
Derivatives for risk management purposes	-	-	125,199	-	125,199	125,199
Investment contracts	1,298,933	-	2,114,630	-	3,413,563	3,615,405
Subordinated debt	839,553	-	263	-	839,816	811,686
Financial liabilities	**56,016,007**	**-**	**16,430,958**	**-**	**72,446,965**	**72,997,385**
Balance as at 31 December 2011						
Cash and deposits at central banks	1,090,439	-	-	-	1,090,439	1,090,439
Deposits with banks	580,813	-	-	-	580,813	580,813
Other financial assets held for trading	-	1,003,079	2,431,560	-	3,434,639	3,434,639
Financial assets at fair value through profit or loss	-	29,604	1,924,698	9,687	1,963,989	1,963,989
Available-for-sale financial assets	14,260 [(a)]	4,404,395	6,810,704	253,507	11,482,866	11,482,866
Loans and advances to banks	3,282,576	-	-	-	3,282,576	3,282,576
Loans and advances to customers	48,454,185	-	589,197	-	49,043,382	45,864,208
Held-to-maturity investments	1,541,182	-	-	-	1,541,182	1,359,782
Derivatives for risk management purposes	-	-	510,090	-	510,090	510,090
Financial assets	**54,963,455**	**5,437,078**	**12,266,249**	**263,194**	**72,929,976**	**69,569,402**
Deposits from central banks	10,013,713	-	-	-	10,013,713	10,013,713
Financial liabilities held for trading	-	-	2,125,253	-	2,125,253	2,125,253
Deposits from banks	5,481,596	-	757,764	-	6,239,360	5,373,851
Due to customers	26,904,037	-	7,302,125	-	34,206,162	34,206,162
Debt securities issued	14,393,295	-	4,059,353	-	18,452,648	15 788,713
Derivatives for risk management purposes	-	-	238,633	-	238,633	238,633
Subordinated debt	961,235	-	-	-	961,235	843,750
Financial liabilities	**57,753,876**	**-**	**14,483,128**	**-**	**72,237,004**	**68,590,075**

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

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

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

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

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

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

(in thousands of euro)

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

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

Interest rate curves

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

(%)

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

Credit spreads

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

(basis points)

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

Interest rates volatility

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

(%)

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

Exchange rate and volatility

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

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

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

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

Equity index

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

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

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

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

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

Loans and advances to customers

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

Held-to-maturity investments

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

Deposits from central banks and Deposits from banks

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

Due to customers

The fair value of these financial instruments is estimated based on the discount of the expected future cash flows of capital and interest, assuming that the installments are paid on the dates that have been contractually defined. The discount rates used by the Group are the current interest rates used in instruments with similar characteristics. Considering that the applicable interest rates to these instruments are floating interest rates and that the period to maturity is substantially less than one year, the difference between fair value and book value is not significant.

Debt securities issued and Subordinated debt

The fair value of these instruments is based on market prices, when available. When not available, the Group estimates its fair value by discounting the expected future cash-flows.

NOTE 51 – RISK MANAGEMENT

A qualitative outlook of the risk management at the Group is presented below:

Credit risk

Credit risk represents the potential financial loss arising from the failure of a borrower or counterparty to honour its contractual obligation. Credit risk is essentially present in traditional banking products – loans, guarantees granted and contingent liabilities – and in trading products – swaps, forwards and options (counterparty risk). Regarding credit default swaps, the net exposure between selling and buying positions in relation to each reference entity, is also considered as credit risk to the Group. The credit default swaps are accounted for at fair value in accordance with the accounting policy described in Note 2.4.

Credit portfolio management is an ongoing process that requires the interaction between the various teams responsible for the risk management during the consecutive stages of the credit process. This approach is complemented by the continuous introduction of improvements in the methodologies, in the risk assessment and control tools, as well as in procedures and decision processes.

The risk profile of BES Group is analysed on a regular basis by the risk committees, especially in what concerns the evolution of credit exposures and monitoring of credit losses.

BES Group credit risk exposure is analysed as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Deposits with banks	3,799,129	4,675,649
Financial assets held for trading	3,871,474	3,392,644
Other financial assets at fair value through profit or loss	1,634,419	127,731
Available-for-sale financial assets	8,462,104	10,192,450
Loans and advances to customers	47,706,392	49,043,382
Held-to-maturity investments	941,549	1 541,182
Derivatives for risk management purposes	516,520	510,090
Other assets	480,754	682,779
Guarantees granted	8,023,520	8,376,006
Stand by letters of credit	3,776,399	2,941,114
Irrevocable commitments	3,280,971	4,216,289
Credit risk associated to the credit derivatives reference entities	489,884	165,573
	82,983,115	**85,864,889**

The analysis of the risk exposure by sector of activity, as at 31 December 2012 and 2011, can be analysed as follows:

(in thousands of euro)

	31.12.2012									
	Loans and advances to customers		Financial assets held for trading	Other financial assets at fair value through profit and loss	Derivatives for risk management purposes	Available-for-sale financial assets		Held-to-maturity investments		Guarantees granted
	Gross amount	Impairment				Gross amount	Impairment	Gross amount	Impairment	
Agriculture	434,485	(27,152)	14,202	-	-	10,725	(6)	-	-	36,677
Mining	309,229	(11,966)	3,742	11,708	-	12,969	(675)	-	-	53,656
Food, beverage and tobacco	974,407	(50,542)	25,727	2,685	-	10,395	(52)	-	-	102,293
Textiles	316,309	(31,090)	862	-	-	10,425	(3,958)	-	-	12,779
Shoes	63,359	(6,843)	38	-	-	499	(499)	-	-	2,063
Wood and cork	147,345	(23,121)	480	2,236	-	4,366	(1,330)	-	-	7,466
Printing and publishing	331,889	(15,601)	6,683	-	-	11,968	(11,968)	-	-	84,260
Refining and oil	6,976	(45)	4,817	3,385	-	11,618	-	-	-	5,425
Chemicals and rubber	616,899	(14,149)	20,744	1,471	-	24,009	(13,276)	-	-	102,280
Non-metallic minerals	363,449	(28,435)	431	-	-	13,103	(7,958)	-	-	20,152
Metallic products	877,138	(48,939)	14,592	194	-	2,407	-	-	-	155,603
Production of machinery, equipment and electric devices	280,584	(11,883)	3,079	584	-	31,249	(5,632)	-	-	120,022
Production of transport material	113,698	(9,677)	630	10,741	14	33,298	(3,438)	-	-	34,662
Other transforming industries	389,355	(27,340)	1,611	2,642	-	31,758	(11,280)	-	-	38,449
Electricity, gas and water	1,458,334	(11,032)	155,360	23,846	-	687,307	-	-	-	487,693
Construction	4,429,927	(368,417)	416,606	57,643	-	27,858	(1,688)	-	-	2,292,619
Wholesale and retail	3,188,671	(289,276)	10,810	1,366	-	33,764	(15,430)	1,537	-	546,904
Tourism	1,453,173	(91,215)	14,625	65,301	-	39,439	(379)	-	-	101,949
Transports and communications	2,152,159	(46,964)	291,175	18,483	-	271,487	(8,916)	9,894	-	1,010,767
Financial activities	3,952,138	(123,257)	1,045,792	1,901,531	516 506	3,650,620	(70,301)	526,584	(20,794)	161,474
Real estate activities	6,249,967	(431,611)	52,371	70,000	-	201,741	(1,891)	1,299	-	456,531
Services provided to companies	4,749,180	(369,927)	344,883	91,424	-	1,156,930	(33,197)	39,139	-	1,484,414
Public services	954,941	(22,959)	1,361,185	515,994	-	4,405,389	-	295,271	-	227,198
Non-profit organisations	2,682,267	(268,571)	133,128	38,356	-	303,008	(46,089)	106,936	(18,317)	402,493
Mortgage loans	11,133,822	(169,114)	-	-	-	-	-	-	-	9
Consumers loans	2,627,780	(191,270)	-	-	-	-	-	-	-	70,704
Other	141,253	(1,946)	1,826	1,963	-	6,945	(4)	-	-	4,978
Total	**50,398,734**	**(2,692,342)**	**3,925,399**	**2,821,553**	**516,520**	**10,993,277**	**(237,967)**	**980 660**	**(39,111)**	**8,023,520**

(in thousands of euro)

	31.12.2011									
	Loans and advances to customers		Financial assets held for trading	Other financial assets at fair value through profit and loss	Derivatives for risk management purposes	Available-for-sale financial assets		Held-to-maturity investments		Guarantees granted
	Gross amount	Impairment				Gross amount	Impairment	Gross amount	Impairment	
Agriculture	435,935	(17,077)	11,803	-	-	11,315	(3,087)	-	-	45,525
Mining	215,006	(9,788)	3,869	-	-	1,027	(546)	-	-	19,408
Food, beverage and tobacco	909,823	(44,215)	11,537	-	-	22,286	(52)	-	-	93,689
Textiles	315,807	(28 171)	1,906	-	-	20,103	(2,238)	-	-	15,482
Shoes	71,989	(5 842)	459	-	-	515	(499)	-	-	2,040
Wood and cork	159,555	(24,975)	812	-	-	1,372	-	-	-	6,879
Printing and publishing	340,289	(6,638)	5,272	-	-	123,364	(1,989)	-	-	89,423
Refining and oil	29,233	(191)	3,204	-	-	4,154	-	-	-	6,997
Chemicals and rubber	631,525	(11,442)	11,156	-	-	56,770	(13,389)	-	-	95,474
Non-metallic minerals	435,583	(18,446)	475	-	-	37,764	(7,548)	-	-	26,912
Metallic products	845,522	(35,765)	1,324	-	-	500	-	-	-	122,800
Production of machinery, equipment and electric devices	278,209	(7,037)	2,381	-	-	62,612	(7,113)	-	-	162,205
Production of transport material	332,333	(14,200)	504	-	-	585	(108)	-	-	29,431
Other transforming industries	379,173	(23,987)	2,350	-	-	35,792	(8,413)	-	-	44,328
Electricity, gas and water	1,607,225	(9,554)	92,584	-	-	526,959	(1,855)	-	-	626,046
Construction	4,694,390	(236,134)	344,306	56,000	-	153,446	(1,687)	-	-	2,566,951
Wholesale and retail	3,260,235	(257,343)	19,263	-	-	315,889	(15,203)	-	-	537,255
Tourism	1,571,254	(60,542)	17,522	-	-	2,874	(379)	-	-	96,906
Transports and communications	1,895,253	(85,982)	305,527	-	-	537,632	(8,915)	9,865	-	985,644
Financial activities	2,844,493	(141,628)	1,052,404	1,695,543	510,090	1,938,549	(25,239)	618,975	(21,393)	164,929
Real estate activities	6,864,981	(304,001)	65,606	70,000	-	285,634	(1,776)	-	-	465,535
Services provided to companies	4,449,412	(217,566)	213 640	104,436	-	2,014,190	(29,923)	-	-	1,689,810
Public services	1,062,578	(22,593)	889,770	-	-	4,689,214	-	805,437	-	244,897
Non-profit organisations	3,016,419	(264,537)	368,585	38,010	-	790,406	(35,392)	139,221	(10,923)	144,089
Mortgage loans	11,610,112	(160,473)	-	-	-	-	-	-	-	39
Consumers loans	2,715,482	(155,292)	-	-	-	-	-	-	-	91,311
Other	239,010	(4,025)	8,380	-	-	18,196	(2,931)	-	-	2,001
Total	**51,210,826**	**(2,167,444)**	**3,434,639**	**1,963,989**	**510,090**	**11,651,148**	**(168,282)**	**1,573,498**	**(32,316)**	**8,376,006**

As at 31 December 2012 and 2011, the analysis of the loan portfolio by rating is as follows:

(in thousands of euro)

Rating/ Scoring models	Internal Scale	31.12.2012		31.12.2011	
		Credit Amount	(%)	Credit Amount	(%)
Large Companies	[aaa;a-]	8	0.02%	77	0.15%
	[bbb+;-bbb-]	2,313	4.59%	2,535	4.95%
	[bb+;bb-]	4,997	9.91%	4,697	9.17%
	[b+;b-]	8,080	16.02%	8,601	16.80%
	ccc+	1,277	2.53%	1,806	3.53%
Medium Enterprises	8-9	535	1.06%	692	1.35%
	10-11	532	1.06%	656	1.28%
	12-13	632	1.25%	859	1.68%
	14-15	438	0.87%	576	1.12%
	16-17	567	1.13%	596	1.16%
	18-19	342	0.68%	575	1.12%
	20-21	347	0.69%	457	0.89%
	22-23	294	0.58%	345	0.67%
	24-25	1,659	3.29%	1,016	1.98%
Small Enterprises	A	71	0.14%	91	0.18%
	B	305	0.61%	365	0.71%
	C	620	1.23%	878	1.71%
	D	311	0.62%	382	0.75%
	E	251	0.50%	216	0.42%
	F	557	1.11%	515	1.01%
Mortgage Loans	01	1,196	2.37%	1,107	2.16%
	02	4,341	8.61%	4,259	8.32%
	03	1,492	2.96%	1,632	3.19%
	04	710	1.41%	814	1.59%
	05	503	1.00%	574	1.12%
	06	488	0.97%	510	1.00%
	07	679	1.35%	696	1.36%
	08	953	1.88%	1,101	2.15%
Private Individuals	01	86	0.17%	101	0.20%
	02	66	0.13%	117	0.23%
	03	130	0.26%	156	0.30%
	04	312	0.62%	328	0.64%
	05	136	0.27%	208	0.41%
	06	198	0.39%	244	0.48%
	07	144	0.29%	168	0.33%
	08	109	0.22%	144	0.28%
	09	260	0.52%	232	0.45%
	10	4	0.01%	3	0.01%
No internal rating/ scoring loans		14,456	28.68%	12,882	25.15%
TOTAL		**50,399**	**100.00%**	**51,211**	**100.00%**

Market risk

Market risk is the possible loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates, share prices, commodities prices, volatility and credit spread.

The market risk management is integrated with the balance sheet management through the Asset and Liability Committee (ALCO). This committee is responsible for defining policies for the structuring and composition of the balance sheet, and for the control of exposures to interest rate, foreign exchange and liquidity risk.

The main measure of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) valuation criteria is used. BES's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year. As a complement to VaR stress testing has been developed, allowing to evaluate the impact of potential losses higher than the ones considered by VaR.

(in thousands of euro)

	31.12.2012			
	December	Annual average	Maximum	Minimum
Exchange risk	3,399	11,272	13,723	3,399
Interest rate risk	8,793	18,426	28,532	8,793
Shares and commodities	15,026	14,439	11,127	15,026
Volatility	7,112	7,222	7,173	7,112
Credit Spread	13,887	40,212	71,556	13,887
Diversification effect	(10,105)	(17,030)	(20,347)	(10,105)
Total	**38,112**	**74,541**	**111,764**	**38,112**

(in thousands of euro)

	31.12.2011			
	December	Annual average	Maximum	Minimum
Exchange risk	4,872	9,254	11,634	4,872
Interest rate risk	10,764	11,404	14,863	10,764
Shares and commodities	13,554	19,209	12,042	13,554
Volatility	14,291	30,073	57,979	14,291
Credit Spread	15,170	10,434	11,170	15,170
Diversification effect	(11,132)	(15,638)	(19,020)	(11,132)
Total	**47,519**	**64,736**	**88,668**	**47,519**

Group has a VaR of euro 38,112 thousand (31 December 2011: euro 47,519 thousand), for its trading positions.

Following the recommendations of Basel II (Pilar 2) and Instructions nº 19/2005, of the Bank of Portugal BES Group calculates its exposure to interest rate risk based on the methodology of the Bank of International Settlement (BIS), classifying all balance and off-balance balances which are not part of the trading portfolio, by repricing intervals.

(in thousands of euro)

	31.12.2012						
	Eligible amounts	Non sentitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Cash and deposits	7,492,060	438,713	6,664,597	269,579	103,370	15,754	46
Loans and advances to customers	49,673,250	-	29,712,842	8,957,736	2,736,210	5,965,359	2,301,103
Securities	16,725,064	7,367,973	4,002,972	1,359,061	1,058,477	1,742,554	1,194,026
Debt securities issued	3,804	3,804	-	-	-	-	-
Total			**40,380,411**	**10,586,376**	**3,898,057**	**7,723,668**	**3,495,175**
Deposits from Banks	15,867,594	-	14,182,895	525,694	648,472	270,027	240,506
Due to customers	34,031,479	-	22,337,278	2,929,281	3,066,320	5,685,175	13,424
Securities issue	15,858,652	-	5,139,450	752,979	279,880	6,547,539	3,138,805
Investiments contracts	3,319,944	545,779	25,622	371,293	-	1,671,301	705,950
Debt securities issued	1,547,697	1 531,105	-	-	-	5 904	10,689
Total			**41,685,244**	**4,579,247**	**3,994,673**	**14,179,946**	**4,109,373**
GAP (assets - liabilities)	(2,464,796)		(1,304,833)	6,007,129	(96,616)	(6,456,278)	(614,198)
Off Balance sheet			(6,114,471)	(751,350)	509,366	6,289,980	66,475
Structural GAP	**(2,464,796)**		**(7,419,305)**	**5,255,779**	**412,750**	**(166,298)**	**(547,723)**
Accumulated GAP			**(7,419,305)**	**(2,163,525)**	**(1,750,775)**	**(1,917,073)**	**(2,464,796)**

(in thousands of euro)

	31.12.2011						
	Eligible amounts	Non sentitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Loans and advances to customers	4,787,662	278,179	4,234,688	42,487	4,952	226,340	1,016
Securities	49,095,349	-	33,287,221	10,443,084	2,274,857	1,797,421	1,292,766
Debt securities issued	16,064,643	4,340,115	7,021,587	1,587,333	1,484,844	1,090,437	540,327
Total			**44,543,496**	**12,072,904**	**3,764,653**	**3,114,198**	**1,834,109**
Deposits from banks	16,216,997	-	13,706,517	603,595	680,262	912,891	313,732
Due to customers	33,576,964	-	22,615,631	3,158,141	3,421,871	4,284,310	97,011
Securities issue	19,086,330	-	9,370,785	711,284	245,487	6,266,941	2,491,833
Total			**45,692,933**	**4,473,020**	**4,347,620**	**11,464,142**	**2,902,576**
GAP (assets - liabilities)	(3,550,931)		(1,149,437)	7,599,884	(582,967)	(8,349,944)	(1,068,467)
Off Balance Sheet			(5,810,719)	(1,737,590)	1,788,949	5,545,617	213,743
Structural GAP	**(3,550,931)**		**(6,960,156)**	**5,862,294**	**1,205,982**	**(2,804,327)**	**(854,724)**
Accumulated GAP			**(6,960,156)**	**(1,097,862)**	**108,120**	**(2,696,207)**	**(3,550,931)**

Sensitivity analysis to the interest rate risk of the bank prudential portfolio are performed, based on the duration model approach and considering several scenarios of movements of the yield curve at all interest rate levels.

(in thousands of euro)

	31.12.2012				31.12.2011			
	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year
At 31 December	(85,483)	85,483	(34,138)	34,138	175,371	(175,371)	102,191	(102,191)
Average of the year	(22,320)	22,320	(976)	976	239,334	(239,334)	132,845	(132,845)
Maximum for the year	(124,700)	124,700	60,383	(60,383)	336,477	(336,477)	179,158	(179,158)
Minimum for the year	13,477	(13,477)	22,242	(22,242)	175,371	(175,371)	102,191	(102,191)

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

(in thousands of euro)

	31.12.2012			31.12.2011		
	Average balance for the year	Interest for the year	Average interest rate	Average balance for the year	Interest for the year	Average interest rate
Monetary assets	4,885,099	192,458	3.94%	5,413,930	170,403	3.15%
Loans and advances to customers	50,315,715	2,527,274	5.02%	51,519,608	2,678,426	5.20%
Securities	14,242,252	850,845	5.97%	13,333,830	737,976	5.53%
Differencial applications	-	-	-	11,481	-	-
Financial assets	**69,443,066**	**3,570,577**	**5.14%**	**70,278,848**	**3,586,805**	**5.10%**
Monetary liabilities	17,566,965	419,167	2.39%	16,511,041	460,256	2.79%
Due to consumers	34,029,787	1,037,769	3.05%	32,534,704	1,037,772	3.19%
Other	16,564,422	933,133	5.63%	21,233,104	907,186	4.27%
Differencial liabilities	1,281,892	-	-	-	-	-
Financial liabilities	**69,443,066**	**2,390,069**	**3.44%**	**70,278,848**	**2,405,214**	**3.42%**
Net interest income		**1,180,508**	**1.70%**		**1,181,591**	**1.68%**

Foreign Exchange Risk

In relation to foreign exchange risk, the breakdown of assets and liabilities by currency as at 31 December 2012 and 31 of December of 2011, is analysed as follows:

(in thousands of euro)

		31.12.2012				31.12.2011			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	United Stades Dollars	(802,201)	842,328	32,097	72,224	(661,275)	835,766	41,845	216,336
GBP	Great Britain Pounds	466,168	(467,042)	(1,057)	(1,931)	480,536	(476,598)	(80)	3,858
BRL	Brazillian real	187,801	(183,686)	(4,738)	(623)	210,597	(200,379)	16,357	26,575
DKK	Danish Krone	21,947	(21,579)	-	368	216	(3,720)	-	(3,504)
JPY	Japanese yene	27,297	5,171	(40,166)	(7,698)	(8,799)	17,400	(10,271)	(1,670)
CHF	Swiss krone	9,944	(6,962)	(1,286)	1,696	53,075	(48,646)	(1,291)	3,138
SEK	Swedish krone	7,403	(7,778)	(53)	(428)	(2,138)	1,305	182	(651)
NOK	Norwegian krone	(49,539)	49,807	69	337	(3,251)	1,030	(54)	(2,275)
CAD	Canadian Dollar	22,866	(23,290)	(7,227)	(7,651)	40,169	(62,399)	456	(21,774)
ZAR	Rand	(5,569)	4,475	497	(597)	(602)	(715)	2,637	1,320
AUD	Australian Dollar	(8,510)	10,124	17	1,631	98,577	(101,357)	3,106	326
AOA	Kwanza	(53,208)	-	-	(53,208)	(228,429)	-	-	(228,429)
CZK	Czech koruna	5	-	-	5	3,804	302	(2,247)	1,859
MXN	Mexican Peso	63,789	(75,772)	9,338	(2,645)	61,971	(81,497)	3,215	(16,311)
	Others	16,727	45,008	34,626	96,361	(6,276)	(54,170)	80,319	19,873
		(95,080)	**170,804**	**22,117**	**97,841**	**38,175**	**(173,678)**	**134,174**	**(1,329)**

Note: asset/ (liability).

Exposure to peripheral Eurozone countries public debt

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

(in thousands of euro)

	31.12.2012					
	Loans and Advances to Customers	**Financial Assets held for trading at fair value**	**Derivatives instruments(1)**	**Available-for-sale financial assets**	**Held-to-maturity investments**	**Total**
Portugal	935,771	592,985	31,143	2,468,941	128,147	4,156,987
Spain	111,121	568	(76)	605,499	-	717,112
Greece	-	3,439	-	-	-	3,439
Irland	-	-	-	-	24,894	24,894
Italy	-	6,225	-	21,290	-	27,515
Hungary	-	-	-	-	-	-
	1,046,892	**603,217**	**31,067**	**3,095,730**	**153,041**	**4,929,947**

(1) Net values: receivable/ payable.

(in thousands of euro)

	31.12.2011					
	Loans and Advances to Customers	**Financial Assets held for trading at fair value**	**Derivatives instruments(1)**	**Available-for-sale financial assets**	**Held-to-maturity investments**	**Total**
Portugal	876,702	123,852	69,714	2,820,649	-	3,890,917
Spain	132,418	563	1,989	4,096	-	139,066
Greece	-	-	(265)	-	-	(265)
Irland	-	-	(1,069)	-	-	(1,069)
Italy	-	-	(2,865)	-	-	(2,865)
Hungary	-	-	-	-	-	-
	1,009,120	**124,415**	**67,504**	**2,824,745**	**-**	**4,025,783**

(1) Net values: receivable/ payable.

All the exposures presented above, except loans and advances to customers, are recorded in the Group's balance sheet at fair value, which is based on market quotations or, in relation to derivatives, based on valuation techniques with observable market data. Loans and advances to customers are recorded at amortized cost net of impairment losses.

A detailed exposure regarding securities recorded in financial assets available-for-sale, financial assets held for trading, financial assets at fair value through profit or loss and held to maturity investments can be analysed as follows:

(in thousands of euro)

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

(in thousands of euro)

	31.12.2011					
	Nominal amount	Market value	Accrued interest	Book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**3,187,790**	**2,780,693**	**39,726**	**2,820,649**	**-**	**(124,406)**
Maturity up to 1 year	2,069,941	2,040,481	14,542	2,055,236	-	(16,736)
Maturity exceeding 1 year	1,117,849	740,212	25,184	765,413	-	(107,670)
Spain	**4,036**	**4,027**	**69**	**4,096**	**-**	**(9)**
Maturity up to 1 year	4,014	4,004	68	4,072	-	(4)
Maturity exceeding 1 year	22	23	1	24	-	(5)
	3,191,826	**2,784,720**	**39,795**	**2,824,745**	**-**	**(124,415)**
Financial assets held for trading						
Portugal	126,208	120,458	3,394	123,852	-	-
Spain	568	563	-	563	-	-
	126,776	**121,021**	**3,394**	**124,415**	**-**	**-**

Liquidity risk

Liquidity risk derives from the potential inability to fund assets while satisfying commitments on due dates and from potential difficulties in liquidating positions in portfolio without incurring in excessive losses.

The liquidity risk can be divided into two types:

- Assets liquidity (market liquidity risk) – unable to sell a particular asset due to lack of liquidity in the market, which results in extending the bid/ offer spread or applying a haircut to the market value.
- Funding (funding liquidity risk) - unable to, within the desired timeframe and currency, fund assets in the market and/ or refinance debt that is due. This inability can be reflected by a significant increase of the financing cost or the requirement of collateral to obtain funds. The difficulty of (re)financing can lead to asset sales, even incurring in significant losses. The risk of (re)financing should be minimized through adequate diversification of funding sources and maturities.

The first half of 2012 was marked by the by the stabilization of the impression and financial markets conditions. The main contributions for this stabilization are presented as follows:

- The actions of the European Central Bank that besides de reduction of the reference rate from 1.5% to 1% in the final of the year 2011, held two liquidity operations with a maturity of three years (LTRO), extended the eligibility criteria for the assets pledged as collateral in monetary policy operations and reduced the threshold of minimum reserves in European Central Bank from 2% to 1%. These measures allowed an increase of the available market liquidity, when it was predicted to occur several major debt maturities in the banking sector;
- The Greek debt restructuring, although it not completely dissipated the Eurozone peripherical economies sovereign debt crisis.
- The results of the European Council at the end of June and the statements of the ECB President to support the Euro in July;
- The resolutions adopted at the ECB meeting in September, especially the details of the new program for purchasing government debt (Outright Monetary Transactions - "OMT").

The last measure had a key role for reducing the systemic risk and represents an important step for stabilizing the Eurozone. Consequently, in the fourth quarter of 2012, the yields of sovereign debt of peripheral countries experienced sharp declines and the yields on Portuguese public debt showed levels lower than those observed when applying for financial help in April 2011.

At year end, the portfolio value of assets eligible for rediscount operations was euro 22.3 thousands million, of which euro 19.4 thousand million with the European Central Bank.

Aiming to assess the overall exposure to liquidity risk is assessed through reports that provide not only identify the negative mismatch, how to make coverage and dynamic basis.

(in thousands of euro)

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

(in thousands of euro)

	31.12.2011						
	Eligible amounts	**Up to 7 days**	**From 7 days to 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**More than 1 year**
ASSETS							
Cash and deposits with banks	436	436	-	-	-	-	-
Loans and advances to banks and central banks	4,509	2,368	823	1,037	42	8	232
Loans and advances to customers	48,372	614	1,610	1,800	1,652	2,543	40,152
Securities	19,307	536	1,727	2,193	727	474	13,650
Debt securities issues	-	-	-	-	-	-	-
Other Assets, net	3,779	3,779	-	-	-	-	-
Off Balance sheet (Commitments and Derivatives)	6,141	217	175	535	856	475	3,883
Total		**7,950**	**4,335**	**5,565**	**3,277**	**3,500**	**57,917**
LIABILITIES							
Deposits from banks, central banks and other loans	16,535	3,642	2,319	2,457	583	462	7,072
Due to customers	33,259	85	1,065	1,987	531	1,067	28,524
Securities	19,124	30	2,774	2,944	555	209	12,612
Investments contracts	-	-	-	-	-	-	-
Debt securities issues	-	-	-	-	-	-	-
Other short-term liabilities	1,683	1,683	-	-	-	-	-
Off Balance sheet (Commitments and Derivatives)	12,224	282	292	754	939	541	9,415
Total		**5,722**	**6,450**	**8 142**	**2,608**	**2,279**	**57,623**
GAP (Assets - Liabilities)		**2,229**	**(2,116)**	**(2,578)**	**668**	**1,221**	
Accumulated GAP		**2,229**	**113**	**(2,465)**	**(1,797)**	**(575)**	
Buffer > 12 months							**2,752**

The one year cumulative gap went from euro -575 million in December 2011 to euro 9,429 million in December 2012. It should be noted that as at 31 December 2012 this amount includes BES Vida. This positive change reflects the liquidity risk management conservative orientation with the liquidation of assets and extension of liabilities.

Additionally, and in accordance with Instruction no. 13/2009 of Bank of Portugal, the liquidity gap is defined by the indicator [(Net Assets - Volatile Liabilities)/(Assets - Net assets) * 100] on each residual cumulative maturity scale. Net assets include cash and net securities and volatile liabilities include issuances, commitments, derivatives and other liabilities. This indicator allows a characterization of the wholesale risk of the institutions.

As at 31 December 2012, BES Group one year liquidity gap was -1.7, which compares to -15.0 from the same period last year and is in line with other banks in Portugal (-5.4 in June 2012). This reflects a positive change, as previously mentioned, with the liquidation of assets and extension of liabilities. Note that the above figures, calculated in accordance with Instruction no. 13/2009 of Bank of Portugal, do not include BES Vida, whose Notes to the Consolidated Financial Statements 133 activity is regulated by the Portuguese Insurance Authority ("*Instituto de Seguros de Portugal*"), which establishes exposure limits for diversification and prudential spread.

In order to try to anticipate possible constraints, BES Group considers extreme scenarios in terms of liquidity (moderate and severe), different timeframes and different impact areas (systemic, specific to the Bank and combined). For example, in the systemic scenario is simulated the closure of the wholesale market, while in the specific scenario to the Bank is simulated the run-off of customer deposits from retail and non-retail, with different severity levels.

As at 31 December 2012, the net assets buffer (consisting of deposits at central banks and securities available in the pool of assets rediscountable at ECB) exceeded cash outflows arising from the application of stress tests.

In January 2013, under the Basel III framework, the Bank of International Settlements published new legislation regarding the Liquidity Coverage Ratio (LCR). As at 31 December 2012, the Group has met on this ratio the limit set for 2015.

Operational risk

Operational risk represents the risk of losses resulting from failures in internal procedures, people behaviors, information systems and external events. It is understood, therefore, operational risk as the sum of the following risks: operational, information systems, compliance and reputation.

To manage operational risk, it was developed and implemented a system that standardizes, systematizes and regulates the frequency of actions with the objective of identification, monitoring, controlling and mitigation of risk. The system is supported at organizational level by a unit within the Global Risk Department, exclusively dedicated to this task, and by representatives designated by each of the relevant departments and subsidiaries.

Insurance business specific risk (life insurance)

Underwriting

There are written rules that establish the guidelines to consider in the risk acceptance, and which were based on the analysis performed over several portfolio indicators to enable matching the best possible price to the risk. The information provided by the Company's reinsurers is also taken into account and the underwriting policies are defined by business segment.

Pricing

The Company aims to set prices sufficient and adequate to cover all commitments (outstanding claims, expenses and cost of capital).

Upstream, the price suitability is tested through techniques of realistic cash flow projections and downstream, the profitability of each product or group of products is monitored annually when calculating the Market Consistent Embedded Value.

There are metrics and guidelines defined by the Company setting out the minimum requirements for profitability of any new product, as well as to perform sensitivity analysis. The calculation of the Market Consistent Embedded Value is conducted once a year by the Company and reviewed by external consultants.

Reserving

In general, the Company's policy is prudential and uses recognized actuarial methods fulfilling the legislation in force. The main policy objective is to record appropriate and adequate reserves so that the Company meets all its future liabilities. For each line of business, the Company records reserves within their liabilities for future claims and segregate assets to represent these reserves. This requires the preparation of estimates and the use of assumptions that may affect the assets and liabilities amounts in future years.

Such estimates and assumptions are periodically evaluated, including through statistical analysis of historical internal and/ or external data. The adequacy of estimated liabilities for the insurance activity is reviewed annually. If the technical reserves are not sufficient to cover the present value of expected future cash flows (claims, costs and commissions), the insuffciencty is immediately recognized through additional reserves.

Insurance specific risk

Biometric risks

Biometric risks include the risks of longevity, mortality and disability. The longevity risk covers the uncertainty in the ultimate loss due to policyholders living longer than expected and can arise for example, in annuities. The longevity risk is managed through pricing, underwriting policy and by regularly reviewing the mortality tables used to set prices and create reserves in compliance. The mortality risk is linked to an increase of the mortality rate which may have an impact on insurances that guarantee capital in the event of death. This risk is mitigated through underwriting policies, regular review of the mortality tables used and reinsurance. The disability risk covers the uncertainty of actual losses due to disability rates higher than expected.

The sensitivity of the portfolio to biometric risks is analyzed through realistic cash flow projections - Market Consistent Embedded Value Model.

Non-collection risk

The non-collection risk relates to the risk of nonpayment of premiums and cancellation of policies. The redemption and cancellation rates are monitored regularly in order to monitor its impact on the Company's portfolio. The portfolio's sensitivity to this risk is analyzed through realistic cash flow projectios - Market Consistent Embedded Value Model.

The main assumptions used by type of contract are as follows:

	Mortality Table	Technical rate
Retirements savings plans and capitalization products		
Up to December 1997	GKM 80	4%
From January 1998 to February 1999	GKM 80	3.25%
From July 1999 to February 2003	GKM 80	2.25% e 3%
From Mars 2003 to December 2003	GKM 80	2.75%
After January 2004	GKM 80	Set per calendar year (*)
Insurance in case of life		
Rents		
Up to June 2002	TV 73/77	4%
From July 2002 to December 2003	TV 73/77	3%
From January 2004 to August 2006	GKF 95	3%
After September 2006	GKM - 3 years	2%
Other insurance		
Insurance in case of death		
Up to December 2004	GKM 80	4%
After January 2005	GKM 80	0% to 2%
Insurance mixed		
Up to September 1998	GKM 80	4%
After October 1998	GKM 80	3%

(*) In the years of 2012 and 2011 the technical rate was 2%.

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

The mortality assumptions used are as follows:

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

The following table shows the sensitivity analyzes in Market Consistant Embedded Value of insurance activity:

(in thousands of euro)

	31.12.2012
10% growth in redemptions	(3,873)
Decrease of 10% in redemptions	4,896
5% growth in mortality rate (life except rents)	(1,789)
Decrease of 5% in mortality rate (life except rents)	2,055

The following table presents the sensitivity analysis on the impact net of tax reserves and gains and losses from changes in the interest rate without risk and the market value of the shares of insurance activity:

(in thousands of euro)

	31.12.2012	
	Profit for the period	**Reserve net taxes**
100 pb growth in risk-free rate	1,701	(55,632)
Decrease of 100 pb in risk-free rate	(1,819)	60,249
Devaluation of 10% in the market value of the shares	-	(30,219)
10% appreciation in the market value of the shares	-	30,219

Capital management and solvability ratio

The main objective of the Group capital management is to ensure compliance with the Group's strategic objectives in terms of capital adequacy, respecting and enforcing the minimum capital requirements set by supervisors.

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

The Group is subject to Bank of Portugal supervision that, under the capital adequacy Directive from the CE, establishes the prudential rules to be attended by the institutions under its supervision. These rules determine a minimum solvability ratio in relation to the requirements of the assumed risks that institutions have to fulfill.

In the scope of the implementation of the new capital accord Basel II, and using the permission granted by the new prudential regime established by Decree-Law 103/2007 and Decree-Law 104/2007, the Group was authorized to use, starting 31 March 2009, the approach based in the use of internal models for credit risks (Foundation Internal Rating Based Approach – IRBF) for credit risk and the Standardized Approach – TSA) for operational risk.

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

- **Core Tier I:** This category includes mainly the share capital, share premiums, elegible reserves, the net profit for the year retained when certified and non-controlling interests. The fair value reserves are excluded except for the deduction of negative fair value reserves associated with shares or other equity instruments, is also deductible to Core Tier I the following balance shets amounts goodwill, intangible assets, negative actuarial deviations arising from liabilities with post-employment benefits to employees above the prudential corridor limit and, where applicable, the net loss for the period.
- **Basic Own Funds (BOF):** In addition to the amounts considered as Core Tier I, this category includes the preference shares and hybrid capital instruments. It can be deducted from capital half of the value converted into equity, above 10%, in financial institutions and insurance companies. Following the implementation of the IRB method for credit risk, is now also adjusted 50% of the expected loss amount for exposures on the part that exceeds the sum of value adjustments and existing reserves.
- **Complementary Own Funds (COF):** Essentially incorporates the subordinated eligible debt and 45% of the positive fair value reserve associated with equity securities. The book value of investments in banking and insurance associates is deducted in 50% of its value and since 2009, is also deducted 50% of the expected losses of the risk positions less any existing provisions, following the application of the IRBF method for credit risk.
- **Deductions (D):** Essentially incorporates the prudential amortization of assets received as a recovery of non-performing loans.

Additionally there are several rules that limit the composition of the capital basis. The prudential rules determine that the COF cannot exceed the BOF. Also, some components of the COF (Lower Tier II) cannot exceed 50% of the BOF.

In December 2008, the Bank of Portugal issued the Notice 11/2008, establishing a transitory period of four years, from December 2009 to December 2012, for the recognition of the actuarial gains/losses determined in 2008, deducted from the expected return of the fund plan assets for the same year. This transitory period ended in December 2012 coinciding with the last prudential depreciation.

In May 2011 and in the context of the negotiation of the Financial Assistance Programme to Portugal – with the European Commission, the European Central Bank and the International Monetary Fund – the Bank of Portugal issued the Notice 3/2011, establishing new minimum levels of solvency to be followed by the financial groups subject to its supervision. Therefore, Portuguese credit institutions must reach a Core Tier I ratio of no less than 9% by 31 December 2011 and 10% by 31 December 2012. At the same time, european banks must reach a Core Tier I ratio of 9% as defined by the European Banking Authority (EBA).

As at 31 December 2012 and 2011, the main movements occurred in BOF are as follows:

(in thousands of euro)

	31.12.2012	31.12.2011
Balance at the beggining of the period	**6,171**	**6,040**
Capital increase (exchange of hybrid instruments for capital)	-	521
Capital increase	998	-
Hybrid instuments	(19)	(675)
Elegible reserves and retained earnings (excluding fair value reserves)	42	(119)
Non-controlling interest, excluding hybrids	2	94
Goodwill	(166)	139
Changes on actuarial Losses	(526)	144
Recognition of the impact of adopting IFRS	(12)	(13)
Deduction in connection with investments held in banking and insurance entities	(165)	202
Fair value reserves with an impact in BOF	142	(164)
Other effects	(29)	2
Balance at the end of the period	**6,438**	**6,171**

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

(in thousands of euro)

		31.12.2012	31.12.2011
A - Capital Requirements			
Share Capital, Issue Premium and Treasury stock		6,074	5,106
Elegible reserves and retained earnings (excluding fair value reserves)		1,237	1,195
Minority Interest		587	585
Intangible assets		(141)	(142)
Changes on actuarial Losses		(741)	(215)
Goodwill		(506)	(340)
Fair value reserves with an impact on BOF		(52)	(194)
Recognition of the impact of adopting IFRS		13	25
Basic own funds excluding preference shares (Core Tier I)	**(A1)**	**6,471**	**6,020**
Hybrid instuments, elegible for Tier I		226	245
Deductions in connection with investments held in banking and insurance entities		(259)	(94)
Own Funds for the determination of the EBA Core Tier I ratio	**(C)**	**6,091**	**-**
Basic own funds (Tier I)	**(A2)**	**6,438**	**6,171**
Positive fair value reserves (45%)		47	25
Eligible subordinated debt		801	923
Deductions in connection with investments held in banking and insurance entities		(259)	(90)
Complementary own funds (Tier II)		**589**	**858**
Deductions		**(72)**	**(59)**
Eligible own funds	**(A3)**	**6,955**	**6,970**
B- Risk Weighted Assets			
Calculated according Notice 5/2007 (Credit Risk)		56,454	59,705
Calculated according Notice 8/2007 (Market Risk)		1,503	1,742
Calculated according Notice 9/2007 (Operational Risk)		3,694	3,938
Risk Weighted Assets Total	**(B)**	**61,651**	**65,385**
C- Prudential Ratios			
Core Tier 1	(A1 / B)	10.5%	9.2%
Core Tier 1 EBA	(C / B)	9.9%	-
Tier 1	(A2 / B)	10.4%	9.4%
Solvency Ratio	**(A3 / B)**	**11.3%**	**10.7%**

Financing and capitalization plans (2011 - 2015)

According to the Memorandum of Economic and Financial Policies signed between the Portuguese Government and the European Commission (EC), European Central Bank (ECB) and International Monetary Fund (IMF), Portuguese banks, and financial holding companies that consolidate Portuguese banking subsidiaries, have to quarterly develop financing and capitalization plans for the period from 2011 to 2015, in order to achieve the following objectives:

- The loans to deposits ratio should reach a maximum value of 120% from December 2014, inclusive;
- The stable funding ratio should be 100% from December 2014, inclusive;
- The Core Tier I ratio should be 10% as at 31 December 2012 as established in Notice 3/2011 of Bank of Portugal.

Additionally, the financing plans should consider that the dependence of domestic funds from its branches and subsidiaries abroad should be minimized; must reduce its funding dependence from the ECB; consider a progressive access to the short-term market and a progressive opening of the medium and long term market from the fourth quarter of 2013; and should be supported by commercial policies to support the Portuguese economy sectors, namely the small and medium enterprises.

In order to prepare the initial plan and the quarterly reviews, projections on the relevant domestic macroeconomic variables, of GDP growth in the geographic areas of greatest relevance to the activities of the banks and further projections of interest rates and other reference parameters necessary for drawing up the plans are provided by the Bank of Portugal in conjunction with the EC/ECB/IMF. In the context of the plan for the period in reference, it is also noted the fact that the same is being object of a stress test exercise where the banks should, in a extreme scenario, present a Core Tier I ratio higher than 6% during the period (2011-2015).

NOTE 52 – CONTRACTUAL COMMITMENTS

Securitization transactions

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

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

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

Covered Bonds

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

Contract Support Annex (CSA)

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

NOTE 53 – ASSETS TRANSFER

As part of the restructuring process of the Portuguese real estate sector, several initiatives have been launched in order to create financial, operational and management conditions to revitalize the sector. Accordingly, the Government, in close liaison with the business and the financial sector, including the BES Group, encouraged the creation of companies and specialized funds that, through merger, consolidation and integrated management, would obtain the required synergies to recover the sector. Pursuing the goals established, were created companies (parent companies), where BES Group has minority interests (in partnership with other banks that also have a minority interest), and which in turn now hold almost all of the capital of certain subsidiaries (subsidiaries of those parent companies) in order to acquire certain real estate bank loans. During 2012, BES transferred financial assets (mainly corporate loans) to the subsidiaries of the parent companies. These entities are responsible for managing the assets received as collateral, which after the transfer of loans are received in exchange for the loans, and have the goal to implement a plan to increase its value.

These acquiring entities (the subsidiaries of the parent companies) have a specific management structure, fully autonomous from the banks, selected on the date of their incorporation and have the following main responsibilities:

- define the entity's purpose;
- administer and manage on an exclusive and independent way the assets acquired, determine objectives and investment policy and the manner to conduct the entity's management and affairs.

The acquiring entities are predominantly financed through the issuance of senior equity instruments fully underwritten by the parent company. The amount of capital represented by senior securities equals the fair value of the underlying asset, determined through a negotiation process based on evaluations made by both parties. These securities are remunerated at an interest rate that reflects the risk of the company holding the assets. Additionally, the funding can be supplemented through banks underwriting of junior capital instruments equal to the difference between the book value of the loans transferred and the fair value based on the senior securities valuation. These junior instruments, when signed by BES Group will be entitled to a contingent positive amount if the assets transferred value, when sold, exceeds the amount of senior securities plus its remuneration. Normally, the amount of the junior security is limited to a maximum of 25% of the total amount resulting from the senior and junior securities issued.

Given that these junior securities reflect a different assessment of the assets transferred, based on valuation performed by independent bodies and a negotiation process between the parties, they are fully provided for in the Group's balance sheet.

Therefore, following the transfer of assets occurred in 2012, the Group subscribed:
- equity instruments, representing the parent companies' share capital on which the cash flows that will enable its recovery come from a wide range of assets transferred by the various banks. These securities are recorded under financial assets available for sale and are measured at market value with valuation regularly reported by those parent companies whose accounts are audited at the end of each year;
- junior instruments issued by the acquiring companied (the subsidiaries of the parent companied) which are fully provided for thus reflecting the best impairment estimation of the financial assets transferred.

The instruments subscribed by BES Group clearly resulted in a minority position in the capital of the parent companies and of its subsidiaries.

In this context, having no control but being exposed to some risk and rewards of ownership in relation to the transferred assets through the securities as referred above, the Group, in accordance with IAS 39.21, conducted an analysis in order to compare the exposure to the variability of risks and rewards of the transferred assets before and after the operation and concluded that it has not retained substantially all the risks and rewards of ownership. Additionally, and considering that also has no control has been retained, it proceeded in accordance with IAS 93.20c (i) to the derecognition of the assets transferred and the recognition of the assets received in return, as shown in the following table:

(in thousands of euro)

	Amounts at transfer date							
	Amount of the assets transferred			Securities subscribed				
	Net assets transferred	**Transfer amount**	**Result of the transfer**	**Shares (senior securities)**	**Junior securities**	**Total**	**Impairment**	**Net amount**
Tourism Recovery Fund, FCR	282,121	282,121	-	256,891	34,906	291,797	(34,906)	256,891
FLIT SICAV	252,866	254,547	1,682	235,304	23,247	258,551	(23,247)	235,304
Discovery Portugal Real Estate Fund	96,196	93,208	(2,988)	96,812	-	96,812	-	96,812
Vallis Construction Sector Fund	66,272	66,272	-	81,002	21,992	102,994	(21,992)	81,002
	697,455	**696,148**	**(1,307)**	**670,009**	**80,145**	**750,154**	**(80,145)**	**670,009**

As showed in the table above, the junior securities underwritten specifically as part of the transfer of assets are fully provided for. The provision amount recorded in 2012 following these transactions amounts to approximately euro 80.1 million.

Although the junior securities are fully provided for, the Group also maintains an indirect exposure to the assets transferred through its minority interest in the parent companies capital and therefore, in all pool of assets that resulted from the various assets transfers performed by the banks (shareholders of the parent companies).

Almost all of the financial assets transferred in these operations were derecognised from the Group's balance sheet as there was a transfer, to third parties, of substantially all risks and rewards of ownership, as well as the respective control.

There was however an operation with the company FLITPTREL VIII in which, as the acquiring company substantial holds assets transferred by BES Group and considering the holding of junior securities, the variability of the test resulted in a substantial exposure to all risks and benefits. In this circumstance, the operation, amounting to euro 60 million, remained recognized in the Group's balance sheet under Other assets.

NOTE 54 – BUSINESS COMBINATIONS

BES VIDA

Until 30 April 2012, BES held a 50% interest in BES-Vida, Companhia de Seguros, S.A. (BES Vida), a life insurance company, which distributes its products in Portugal and Spain, through BES branch network. Crédit Agricole owned the remaining 50 % and controlled its activities.

As referred in Note 1, in May 2012, BES acquired, from Credit Agricole, the remaining 50% of the share capital of BES Vida with the objective of leveraging the marketing of BES Vida's insurance products.

Following this acquisition, BES became to hold the entire share capital of BES Vida and has the management control over its activities. Therefore, BES Vida, which qualified as an associated and was included in the consolidated financial statements of BES following the equity method, has become a subsidiary and is being fully consolidated since May 2012.

The total investment amounted to euro 225 million euro, paid in cash and BES Vida reimbursed, in October 2012, the additional paid-in capital amounting to euro 125 million.

This transaction was accounted for in accordance with the provisions of paragraph 42 of IFRS 3 related with business combination achieved in stages, which requires any previously held equity interest in the acquire, to be remeasured to fair value at the acquisition date and the resulting gain or loss to be recognised in the income statement. The amounts recognised in the fair value reserve up to the date in which control in acquired, are required to be recycled to the income statement.

Moreover, in accordance with paragraph 45 of IFRS 3, this acquisition was accounted on a provisional basis, due to fact that the transaction took place in May 2012 and the Group currently is in the process of concluding the fair value of the assets and liabilities acquired namely in what concerns deferred taxes related with losses carry forward existing at acquisition date which are subject to the approval of Tax Authorities. The eventual impact of this situation is a decrease in goodwill in the amount of euro 33 million and a corresponding increase in deferred tax assets by the same amount. The Group has until 30 April 2013 to conclude this process.

The Balance Sheet of BES Vida reported on 1 May 2012, including the consolidated financial statements of BES can be analysed as follows:

(in thousands of euro)

	Balance of BES Vida 01.05.2012
Assets	
Cash and deposits with banks	198,648
Other financial assets at fair value through profit or loss	2,759,100
Available-for-sale financial assets	1,917,328
Held-to-maturity investments	159,551
Property and equipment	93,864
Intangible assets	76,641
Technical reserves of reinsurance ceded	2,512
Income tax assets	112
Other assets	178,712
	5,386,468
Liabilities	
Technical reserves	1,880,631
Investment contracts	3,053,344
Other financial liabilities	194,434
Income tax liabilities	2,342
Other liabilities	40,291
	5,171,042
Equity	
Share Capital	50,000
Other reserves and retained earnings	165,426
	215,426
	5,386,468

The fair value of recognised identifiable assets acquired and liabilities assumed include, under Intangible assets, the amount of euro 107,768 thousand (euro 76 515 thousand net of assets) related to the present value of the business in force acquired related to life insurance contracts (Value in Force). This asset will be amortised over the remaining lifetime of the contracts.

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

	%	in thousands of euro
Goodwill as the excess of:		
Consideration transferred		225,000
Aquisition date fair value of the 50% interest previously held in BES Vida		225,000
		450,000
Over:		
Fair value of identifiable assets and liabilities acquired (1)	100	215,426
Goodwill determined on a provisional basis		234,574

(1) mensured on a provisional basis

The goodwill is attributable mainly to the potential growth of the market where BES-Vida operates.

The impact in the income statement of measuring at fair value the previously held equity interest in BES Vida, representing 50% of its share capital, following the requirements of paragraph 42 of IFRS 3, can be analysed as follows:

	in thousands of euro
50% interest previously held in BES Vida	
Fair value	225,000
Book value	243,790
Loss on remeasurement of the previously held in BES Vida	**(18,790)**
Recognition in the income statement of the accumulated fair value reserve of BES Vida appropriated on consolidation up the acquisition date	(70,796)
Loss arising from the acquisition of control in BES Vida	**(89,586)**

The impact of fully consolidating BES Vida resulted in a gain of euro 68.7 million included in the Group's profit for the year, detailed as follows:

- measurement of the 50% share capital already held by the Group in the amount of euro -89.6 million; which deducted from the intra-group transactions amounting to euro 35.5 million, brings the total impact in the first full consolidation to euro -54.1 million, net of taxes;
- appropriation trough the equity method of the net profit generated by BES Vida from 1 January to 30 April 2012, amounting to euro 2.8 million; and
- appropriation through the consolidation method of the net profit generated by BES Vida from 1 May until 31 December 2012, net of consolidation adjustments, amounting to euro 120.0 million.

If BES Vida had been fully consolidated since 1 January 2012, the net profit for the period would be higher by about euro 2,761 thousands.

NOTE 55 – RECENTLY ISSUED PRONOUNCEMENTS

Recently issued pronouncements already adopted by the Group

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

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

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

- To understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liability; and
- To evaluate the nature of, and risks associated with, the entity´s continuing involvement in derecognised financial.

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

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

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

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

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

Recently issued pronouncements yet to be adopted by the Group

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

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

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

- to present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss; and

- an entity that presents items of other comprehensive income before related tax effects will also have to allocate the aggregated tax amount between the two subcategories.
- change the title to “statement of profit or loss and other comprehensive income” - although other titles could be used.

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

IAS 19 Revised – Employee Benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IAS 27 (Revised) – Separate Financial Statements

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

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

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

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

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

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

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

IFRS 10, withdraw one part of IAS 27 and SIC 12, and introduces a single control model to determine whether an investee should be consolidated.
The new concept of control involves the assessment of power, exposure to variability in returns and a linkage between the two. An investment controls an investee when it is exposed, or has rights, to variability returns from its involvement with the investee and is able to affect those returns through its power over the investee (facto control).

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

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

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

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

IFRS 11 – Joint Arrangements
The IASB, issued on 12th May 2011, "IFRS 11 Joint 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, that allows a delayed on mandatory application for 1st January 2014.

IFRS 11, withdraw IAS 31 and SIC 13, defines "joint control" by incorporating the same control model as defined in IFRS 10 and requires an entity that is part of a "join arrangement" to determine the nature of the joint arrangement ("joint operations" or "joint ventures") by assessing its rights and obligations.
IFRS 11 removes the option to account for joint ventures using the proportionate consolidation. Instead, joint arrangements that meet the definition of "joint venture" must be account for using the equity method (IAS 28).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Improvements to IFRS (2009-2011)

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

IAS 1 Presentation of Financial Statements

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

IAS 16 Property Plant and Equipment

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

IAS 32 Financial Instruments, Presentation and IFRIC 2

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

IAS 34 Interim Financial Reporting

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

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

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

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

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

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

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

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

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

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

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

NOTE 56 – SUBSEQUENT EVENTS

- Banco Espírito Santo issued during January 2013 euro 500 million senior unsecured debt under the Euro Medium Term Notes Programme. The notes have a maturity of 5 years and will pay a coupon of 4.75%. The order book reached ca. Eur 3.0 bn, with the participation of more than 280 national and international investors.

- On January 11 BES issued a notification about the acquisition of a qualified shareholding in Banco Espirito Santo, S.A. by Wellington Management Company, LLP (Wellington Management). The qualified shareholding represents an aggregate of 2.02% of the voting rights corresponding to 81,297,790 shares in Banco Espirito Santo, S.A. ("BES"), by virtue of the acquisition, on 8 January 2013, of 2,446,594 shares in BES carried out on market by Wellington Management on behalf of clients with which Wellington Management has entered into an agreement for the exercise of the respective voting rights. No individual client of Wellington Management holds a shareholding representing 2% or more of the voting rights in BES. Wellington Management Company is an Asset Manager, with approximately USD 748 billion in client assets under management and serves as an investment advisor to more than 2,100 institutions located in over 50 countries.

- As at 30 January 2013, BES early reimbursed euro 1.0 billion of the BCE's Long Term Refinancing Operation.

2. APPENDIX

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

In its Circular Letter no. 58/2009/DSB of 5 August 2009, the Bank of Portugal reiterated "the need for institutions to maintain adequate compliance with the recommendations of the Financial Stability Forum (FSF), as well as those issued by the Committee of European Banking Supervisors (CEBS), concerning the transparency of information and the valuation of assets, taking into account the proportionality principle", as set out in Circular Letters no. 46/08/DSBDR of 15 July 2008 and no. 97/08/DSB of 3 December 2008. The Bank of Portugal recommends the inclusion in the reporting documents of a specific chapter or annex exclusively dedicated to the issues dealt with in the CEBS and FSF recommendations. This chapter aims to ensure compliance with the Bank of Portugal's recommendation, including references to where the information provided may be found within the body of the Management Report or in the Notes to the Financial Statements for fiscal years 2011 and 2012.

I. BUSINESS MODEL

1. Description of the business model

A description of the Group's business model is provided in Item 4 of the Management Report. The performance of the main business areas (operational segments) of the Group is also presented in Note no. 4[(1)].

2. Strategy and Objectives

A detailed description of the Group's strategy and objectives is provided in Item 1 of the Management Report and in Note no. 51, under Funding and Capitalisation Plans (2011—2015). The securitisation transactions are detailed in Note 49.

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

Item 4 of the Management Report and Note no. 4 contain information about the activity and contribution to the business.

II. RISK AND RISK MANAGEMENT

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

Item 6 of the Management Report describes how the risk management function is organised within BES Group.

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

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

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

Activity during 2011 was conducted in a climate of deterioration of Portugal's economic situation, with a negative impact on risk. Consequently the Group reinforced provisions by a total of EUR 848.3 million (EUR 314.7 million more than in 2010). The situation of the financial markets and sovereign risk context also impacted the fair value reserve, whose value decreased by EUR 504.5 million. These adverse economic and financial conditions persisted during 2012 across Europe and in particular in Portugal, causing a further deterioration of credit risk. BES Group consequently increased provisions by EUR 1,199.4 (EUR 351.1 million more than in 2011).The situation in the financial markets and sovereign risk context, influenced by the effects of the monetary policy measures implemented by the ECB, had a positive impact on the value of financial assets, leading to a EUR 747.5 increase in the fair value reserve.

12. Decomposition of realised and non realised write-downs

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

13. Financial turmoil and the price of the BES share

Item 1 of the 2012 Management Report presents the evolution of the BES share price and the factors that influenced its performance. Item III.8 of the 2012 Corporate Governance Report presents the BES share price performance in 2012.

14. Maximum loss risk

Item 6 of the Management Report and Note 51 contain the relevant information about potential losses in market stress situations.

15. Debt issued by the Group and results

Note 50 contains information on the impact of debt revaluation and the methods used to calculate this impact on the results.

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

16. Nominal and fair value of exposures

17. Credit risk mitigators

18. Information about the Group's exposures

In 2011 and 2012 the turmoil resulted from the deterioration of sovereign risk in the Euro Zone peripheral countries.

As at December 31st, 2011 BES Group's total exposure to these countries' public debt was EUR 2,950 million (of which EUR 2,945 million to Portugal and EUR 5 million to Spain) to which was associated a negative fair value reserve of EUR 124.4 million. The Group had no exposure to Italian, Irish, Greek or Hungarian public debt as of that date. At the end of 2012 BES Group's exposure to Portuguese public debt totalled EUR 3,190 million, to which was associated a negative fair value reserve of EUR 191.1 million. As regards exposures to public debt of other peripheral European countries, BES Group had EUR 606 million of Spanish debt (positive fair value reserve of EUR 2.2 million), EUR 28 million of Italian debt (positive fair value reserve of EUR 0.5 million), EUR 25 million of Irish debt and EUR 3 million of Greek debt.

(1) The numbering refers to the Notes to the Consolidated Financial Statements.

19. Movement in exposures between periods

Note 51 contains diverse information comparing the exposures and results in 2011 and 2012. The disclosed information is considered sufficient, given the detail and quantification provided.

20. Non consolidated exposure

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

21. Exposure to monoline insurers and quality of the assets insured

The Group does not have exposures to monoline insurers.

V. ACCOUNTING POLICIES AND VALUATION METHODS

22. Structured Products

These situations are described in Note 2 – Main accounting policies.

23. Special Purpose Entities (SPEs) and consolidation

Disclosure available in Notes 2 and 49.

24. and 25. Fair value of financial instruments

See the comments to item 16 of this Appendix. Notes 2 and 50 contain the conditions for utilisation of the fair value option as well as the methodology used to value the financial instruments.

VI. OTHER RELEVANT ASPECTS OF DISCLOSURE

26. Description of the disclosure policies and principles

The BES Group, within the context of accounting and financial information disclosure, aims to satisfy all the regulatory requirements, defined by the accounting standards or by the supervisory and regulatory entities.

At the same time, the Group aims to meet the best market practices in information disclosure, balancing the cost of preparing the relevant information with the benefit that it may provide to the users.

From the information made available to the Group's shareholders, clients, employees, supervisory entities and the public in general, we highlight the Annual, Interim and Quarterly Management Reports, the Financial Statements and the respective Notes, and the Corporate Governance Report.

The management reports and financial statements, released on a quarterly basis, are prepared under IFRS that comply with the highest degree of disclosure and transparency and facilitate comparison to other domestic and international banks.

The Corporate Governance Report provides a detailed view about the governing structure of the Group.

The Sustainability Report, which forms an integral part of the Annual Management Report, conveys the Group's perspective about social responsibility in the context of the numerous challenges that the modern world faces, whether of an environmental or social nature, or pertaining to innovation and entrepreneurship.

A detailed description of all the means used by the Group to communicate with the financial community and the public in general is provided in item III.16 of the 2012 Corporate Governance Report.

3. Auditors' Report on the Consolidated Financial Statements

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A.
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1069-006 Lisboa
Portugal

Telephone: +351 210 110 000
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AUDITORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS

(ISSUED BY THE STATUTORY AUDITOR, A CMVM REGISTERED AUDITOR)

(This report is a free translation to English from the original Portuguese version)

Introduction

1. In accordance with the applicable legislation, we present our Audit Report on the consolidated financial information included in the Report of the Board of Directors and in the accompanying consolidated financial statements as at and for the year ended 31 December 2012, of **Banco Espírito Santo, S.A.**, which comprise the consolidated balance sheet as at 31 December 2012 (showing total assets of Euro 83,690,828 thousand and total equity attributable to the equity holders of the Bank of Euro 7,063,299 thousand, including a net gain attributable to the equity holders of the Bank of Euro 96,101 thousand), the consolidated statements of income, of comprehensive income, of cash flows and of changes in equity for the year then ended, and the corresponding notes.

Responsibilities

2. The Board of Directors is responsible for:

a) the preparation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, that present fairly, the consolidated financial position of the Group of companies included in the consolidation, the consolidated results of its operations, its consolidated comprehensive income, its consolidated changes in equity and its consolidated cash flows;

b) maintaining historical financial information, prepared in accordance with generally accepted accounting principles which is complete, true, current, clear, objective and lawful as required by the Portuguese Securities Code ("Código dos Valores Mobiliários");

c) the adoption of adequate accounting policies and criteria;

d) maintaining an appropriate system of internal control; and

e) the communication of any relevant matter that may have influenced the activity of the bank and its subsidiaries, their financial position or results.

3. Our responsibility is to verify the consolidated financial information included in the above referred documents, namely as to whether it is complete, true, current, clear, objective and lawful as required by the "Código dos Valores Mobiliários", in order to issue a professional and independent report based on our audit.

Scope

4. We conducted our audit in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. Accordingly our audit included:
   - verification that the financial statements of the companies included in the consolidation have been properly audited and, in those significant cases in which they were not, verification, on a test basis, of the information underlying the figures and its disclosures contained therein, and an assessment of the estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;
   - verification of the consolidation procedures and of the application of the equity method;
   - evaluation of the appropriateness of the accounting policies used and of their disclosure, taking into account the applicable circumstances;
   - assessing the applicability of the going concern basis of accounting;
   - assessment of the appropriateness of the overall presentation of the consolidated financial statements; and
   - assessment of whether the consolidated financial information is complete, true, current, clear, objective and lawful.

5. Our audit also included the verification that the consolidated financial information included in the Board of Directors report is consistent with the consolidated financial statements, as well as the verification of the disclosures required by numbers 4 and 5 of the article 451, of the Portuguese Companies Code ("Código das Sociedades Comerciais").

6. We believe that our audit provides a reasonable basis for our opinion.

Opinion

7. In our opinion, the consolidated financial statements referred to above present fairly in all material respects the consolidated financial position of **Banco Espírito Santo, S.A.** as at 31 December 2012, the consolidated results of its operations, consolidated comprehensive income, consolidated changes in equity and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, and the information contained therein is complete, true, current, clear, objective and lawful.

Report on Other Legal Requirements

8. It is also our opinion that the consolidated financial information included in the Executive Board of Directors report is consistent with the consolidated financial statements and that the Report on Corporate Governance includes the information required by the article 245.º-A of the Portuguese Securities Market Code ('CVM').

Lisbon, 4 March 2013

KPMG & Associados,
Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)
represented by
Sílvia Cristina de Sá Velho Corrêa da Silva Gomes (ROC n.º 1131)

3

BANCO ESPIRITO SANTO
Comissão de Auditoria

REPORT OF THE AUDIT COMMITTEE ON ITS SUPERVISORY ACTIVITY AND OPINION ON THE MANAGEMENT REPORT, UNCONSOLIDATED AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2012

To the Shareholders

As required by the Portuguese law, following our appointment at the General Assembly of 22 March 2012, we present our Report which comprises a summary of the activity performed by the Audit Committee (*Comissão de Auditoria)* during the year 2012 and our opinion on both (i) the Management Report of the Board of Directors and the Unconsolidated and Consolidated Financial Statements prepared by the Management of **Banco Espírito Santo, S.A.** for the year ended 31 December 2012, and (ii) the related Board of Directors' proposal for the allocation of the unconsolidated net profit for the financial year 2012.

The Audit Committee, within its powers as supervisory board, has regularly monitored major developments of the bank's management and activity, followed the Board of Directors' discussions regarding the business of the bank and evaluated the adequacy and efficiency of the systems of internal control, as well as of the risk management, internal audit and compliance functions.

As part of our duties, we have also overlooked the work carried out by the statutory and external auditors, KPMG & Associados, Sociedade de Revisores Oficiais de Contas, S.A., which included (i) the verification of the accounting records and related supporting documents, and (ii) the appropriateness of the accounting policies and procedures underlying the abovementioned financial statements, as well as (iii) the verification that the financial information contained in the Management Report is in conformity with that in the remaining financial reporting documents.

Furthermore, we have reviewed the Audit Reports issued by the abovementioned bank's auditors on the Unconsolidated and Consolidated Financial Statements of **Banco Espírito Santo, S.A.** for the year ended 31 December 2012, including their unqualified professional opinions dated 4 March 2013 on those financial statements, with which we concur.

We have also reviewed the Management Report of the Board of Directors which describes the bank's activity during the financial year 2012, both on an unconsolidated and consolidated basis, and was prepared in conformity with the applicable legal, regulatory, and statutory requirements.

BANCO ESPIRITO SANTO

Comissão de Auditoria

As required under paragraph 1-c) of Article 245º of the Portuguese Securities Code (*Código de Valores Mobiliários*), the Audit Committee members individually declare that, to the best of their knowledge:

a) the financial information contained in the Management Report of the Board of Directors, Unconsolidated and Consolidated Financial Statements and other annual reporting documents as required by law or regulation was drawn up in accordance with the applicable accounting standards, giving a true and fair view of assets and liabilities, financial position and annual results of **Banco Espírito Santo, S.A.** and of the companies included in the consolidation; and

b) the Management Report of the Board of Directors explains faithfully the development, performance, and position of the bank and other undertakings included in the consolidation, and contains a description of their main risks and uncertainties.

All considered above, we are of the opinion that the Annual General Meeting should approve:

a) The Management Report of the Board of Directors and the related Unconsolidated and Consolidated Financial Statements of the bank for the financial year ended 31 December 2012;

b) The Board of Directors' proposal, included in the Management Report, for the allocation of the unconsolidated net profit for the financial year 2012, amounting to 121.961.308,14 Euros.

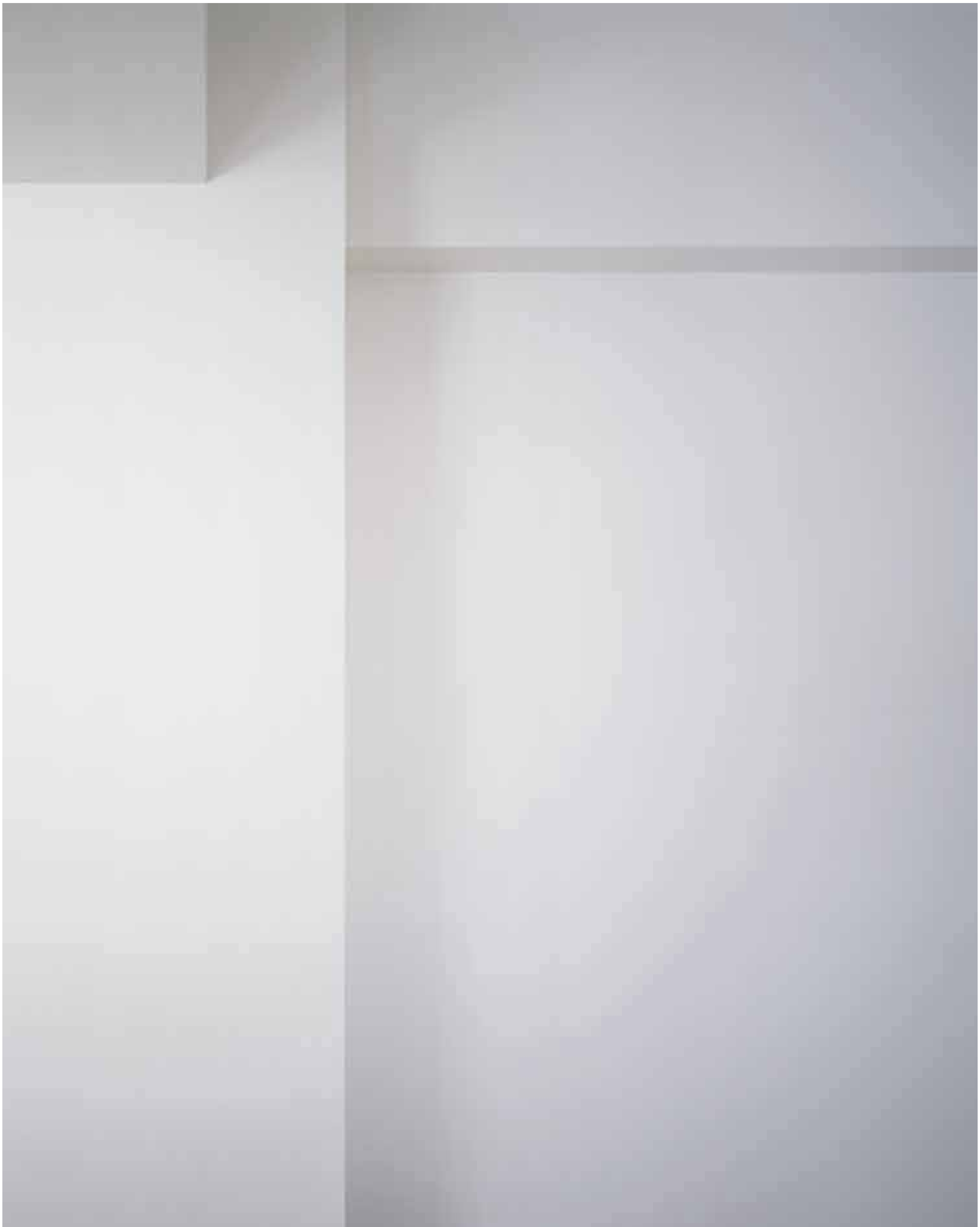
Lisbon, 4 March 2013

The Audit Committee

Horácio Lisboa Afonso (Chairman)

João de Faria Rodrigues

Pedro João Reis de Matos Silva



Hiroshi Sugimoto (b.1948, Japão). Colors of Shadow: C1019, 2006. Pigment print, 169,55 x 140,34 cm. Ed. 2/5. Courtesy Sonnabend Gallery

Corporate Governance Report

The corporate governance rules and structure of Banco Espírito Santo, S.A. (BES) are based upon a set of core principles that seek to ensure responsible governance oriented to value creation.

BES Group has adopted the following statement of principles:

Value

Value creation based on responsible governance so as to deserve the confidence and loyalty of Shareholders, Clients, Employees and Suppliers

Knowledge

Business development hinged on the accumulation and transmission of know-how over more than one century of history.

Integrity

Definition of strict policies to manage the various types of risk inherent to banking activity.

Transparency

Assuming a commitment to transparent practices:

• in the disclosure of information to all stakeholders;

• in the establishment of clear strategic objectives and a set of corporate values that are effectively communicated throughout the organisation;

• by setting and enforcing clear lines of responsibility and accountability throughout the organisation;

• by ensuring that board members are qualified for their positions, have a clear understanding of their role in corporate governance and are not subject to undue influence from interest groups.

The 2012 report on BES's corporate governance structures and practices incorporates the information elements and follows the model set out in the annex to Portuguese Securities Market Commission ("CMVM") regulation no. 1/2010. Section III of this annex (points II.21. to II.29.) is not contemplated in so far as BES has adopted the Anglo-Saxon model, where the supervisory body is the Audit Committee rather than an Audit Board or Supervisory Board.

0. Statement of Compliance

0.1 Corporate Governance Code

The Corporate Governance Code approved by the CMVM is available at www.cmvm.pt.

0.2 CMVM Recommendations

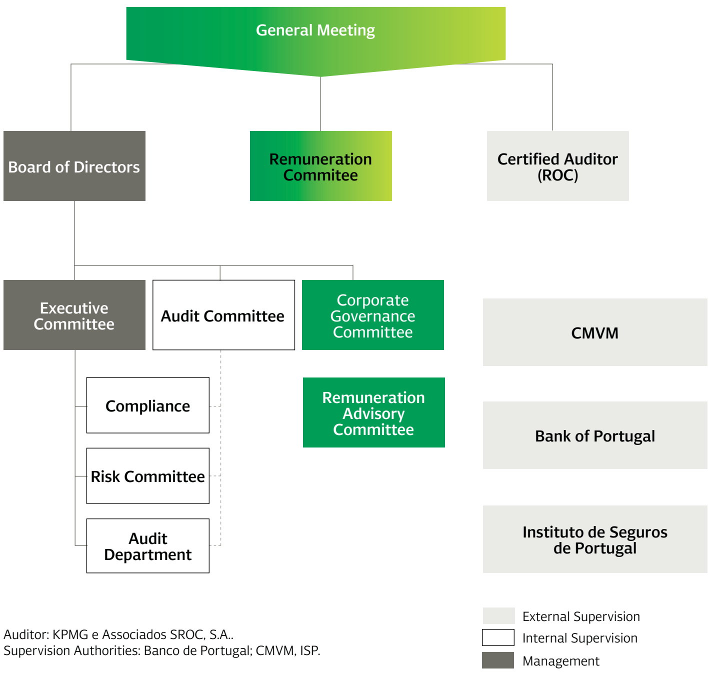
	CMVM Recommendations	Adopted	Non Adopted	BES Report
I.1.1.	The Chair of the General Meeting Board shall be equipped with the necessary and adequate human resources and logistic support, taking the financial position of the company into consideration.	X		I.1.
I.1.2.	The remuneration of the Chair of the General Meeting Board shall be disclosed in the annual report on corporate governance.	X		I.3.
I.2.1.	The requirement for the Board to receive statements for share deposit or blocking for participation at the general meeting shall not exceed five working days.	X		I.4.
I.2.2.	Should the General Meeting be suspended, the company shall not compel share blocking during the interim period until the meeting is resumed and shall then follow the standard requirement of the first session.	X		I.5.
I.3.1.	Companies shall not impose any statutory restriction on postal voting and whenever adopted or admissible, on electronic voting.	X		I.9.
I.3.2.	The statutory deadline for receiving early voting ballots by mail shall not exceed three working days.	X		I.11.
I.3.3.	Companies shall ensure that the level of voting rights and the shareholder's participation is proportional, ideally through a statutory provision that obliges the one share one vote principle. The companies that: i) hold shares that do not confer voting right; ii) establish non-casting of voting rights above a certain number, when issued solely by a shareholder or by shareholders related to former, do not comply with the proportionality principle.	X		I.6. & I.7.
I.4.	Companies shall not set a deliberative quorum that outnumbers that which is prescribed by law.		X	I.8.
I.5.	Extracts from the minutes of the general meetings or documents with corresponding content must be made available to shareholders on the company's website within a five day period after the General Meeting has been held, irrespective of the fact that such information may not be classified as material information. The information disclosed shall cover the resolutions passed, the represented capital and the voting results. Said information shall be kept on file on the company's website for no less than a 3-year period.	X		I.13. & I.14.
I.6.1.	Measures aimed at preventing successful takeover bids, shall respect both the company's and the shareholders' interests. The company's articles of association that by complying with said principle, provide for the restriction of the number of votes that may be held or exercised by a sole shareholder, either individually or in concert with other shareholders, shall also foresee for a resolution by the General Meeting (5 year intervals) on whether that statutory provision is to be amended or prevails – without super quorum requirements as to the one legally in force – and that in said resolution, all votes issued be counted, without applying said restriction.	X		I.19.
I.6.2.	In cases such as change of control or changes to the composition of the Board of Directors, defensive measures should not be adopted that instigate immediate and serious asset erosion in the company, and further disturb the free transmission of shares and voluntary assessment of the performance of the members of the management board by the shareholders.	X		I.20.
II.1.1.1.	The Board of Directors shall assess the adopted model in its annual corporate governance report and pin-point possible hold-ups to its functioning and shall propose measures that it deems fit for surpassing such obstacles.	X		0.3.
II.1.1.2.	Companies shall set up internal control and risk management systems in order to safeguard the company's worth and keep its corporate governance transparent and which will identify and manage the risk. Said systems shall include at least the following components: i) setting of the company's strategic objectives as regards risk assumption; ii) identification of the main risks associated to the company's activity and any events that might generate risks; iii) analysis and determination of the extent of the impact and the likelihood that each of said potential risks will occur; iv) risk management aimed at aligning those risks actually incurred with the company's strategic options for risk assumption; v) mechanisms to control the execution of adopted risk management measures and their effectiveness; vi) adoption of internal mechanisms for information and communication on the various components of the system and for risk-warning; vii) regular assessment of the system implemented and adoption of the amendments deemed necessary.	X		II.5.
II.1.1.3.	The Board of Directors shall ensure the establishment and functioning of the internal control and risk management systems. The supervisory body shall be responsible for assessing the functioning of said systems and for proposing any adjustments as needed by the company.	X		II.6.
II.1.1.4.	In their Annual Report on Corporate Governance, companies shall: i) identify the main economic, financial and legal risks to which they are exposed through the exercise of their activity; ii) describe the performance and efficiency of the risk management system.	X		II.5. & II.9.
II.1.1.5.	The management and supervisory bodies shall establish internal regulations and shall have these disclosed on the company's website.	X		II.7.
II.1.2.1.	The Board of Directors shall include a number of non-executive members that ensure the efficient supervision, auditing and assessment of the executive members' activity.	X		II.14.
II.1.2.2.	Non-executive members must include an adequate number of independent members. The size of the company and its shareholder structure must be taken into account when devising this number and it may never be less than a fourth of the total number of Directors.	X		II.14.
II.1.2.3.	The assessment made by the management board of the independence of its non-executive members shall take into account the legal and regulatory rules in force concerning independence requirements and the incompatibilities framework applicable to members of other corporate bodies, and ensure orderly and sequential consistency in the application of independence across the company. A board member shall not be considered independent if in another corporate body he/she could not be considered as such by force of applicable rules.	X		II.15.
II.1.3.1.	Depending on the applicable model, the Chair of the Audit Board, the Audit Committee or the Financial Matters Committee shall be independent and be adequately capable to carry out his/her duties.	X		II.3., II.14. & II.18.
II.1.3.2.	The selection process of candidates for non-executive directors shall be conjured so as to prevent interference by executive directors.	X		II.16.
II.1.4.1.	The company shall adopt a policy whereby irregularities occurring within the company, are reported. Such reports shall contain the following information: (i) the means through which such irregularities may be reported internally, including the persons that are entitled to receive the reports; ii) how the report is to be handled, including confidential treatment, should it be required by the reporter.	X		II.35.
II.1.4.2.	The general guidelines on this policy should be disclosed in the corporate governance report.	X		II.35.

	CMVM Recommendations	Adopted	Non Adopted	BES Report
II.1.5.1.	The remuneration of the members of the management body shall be aligned with the long-term interests of the shareholders. Furthermore, the remuneration shall be based on performance assessment and shall discourage excessive risk taking.	X		II.32.
II.1.5.2.	The statement on the remuneration policy of the management and supervisory bodies referred to in Article 2 of Law No. 28/2009 of 19 June, shall contain, in addition to the content therein stated, adequate information on: i) the groups of companies the remuneration policy and practices of which were taken as a comparison element for setting the remuneration ii) payments for dismissal or voluntary termination of directors.	X		Appendix 2
II.1.5.3.	The remuneration policy statement referred to in Article 2 of Law No. 28/2009 shall also include the directors' remunerations which contain an important variable component, within the meaning of Article 248 /B/3 of the Securities Code. The statement shall be detailed and the policy presented shall particularly take into account the long-term performance of the company, compliance with the rules applicable to its business and restraint in risk taking.	X		Appendix 3
II.1.5.4.	A proposal shall be submitted at the General Meeting on the approval of plans for the allotment of shares and/or options for share purchase or further yet on the variations in share prices, to members of the management and supervisory bodies and other senior officers within the context of Article 248/3/B of the Securities Code. The proposal shall mention all the necessary information for its correct assessment. The proposal shall contain the plan's regulation or in its absence, the plan's general conditions. The main characteristics of the retirement benefit plans for members of the management and supervisory bodies and other senior officers within the context of Article 248/3/B of the Securities Code shall also be approved by the General Meeting.	X		I.17. & I.18. / II.32 & II.33
II.1.5.6.	At least one representative of the Remuneration Committee shall be present at the Annual General Shareholders Meeting.	X		I.15.
II.1.5.7.	The amount of remuneration received, as a whole and individually, in other companies of the group and the pension rights acquired during the financial year in question shall be disclosed in the Annual Report on Corporate Governance.	X		II.31.
II.2.1.	Within the limits established by law for each management and supervisory structure, and unless the company is of a reduced size, the management body shall delegate the day-to-day running of the company, and the delegated duties should be identified in the Annual Report on Corporate Governance.	X		II.3.
II.2.2.	The Board of Directors shall ensure that the company acts in accordance with its goals, and should not delegate its duties, namely in what concerns: i) definition of the company's strategy and general policies; ii) definition of the corporate structure of the group; iii) decisions taken that are considered to be strategic due to the amounts, risk and particular characteristics involved.	X		II.3.
II.2.3.	Should the Chair of the Board of Directors carry out executive duties, the Board of Directors shall set up efficient mechanisms for coordinating non-executive members that can ensure that these may take decisions in an independent and informed manner, and furthermore shall explain these mechanisms to the shareholders in the corporate governance report.	NA		II.8.
II.2.4.	The annual management report shall include a description of the activity carried out by the non-executive directors and shall mention any restraints encountered.	X		II.17.
II.2.5.	The company shall expound its policy concerning portfolio rotation on the Board of Directors, including the person responsible for the financial portfolio, and report on same in the annual report on corporate governance.		X	II.3.
II.3.1.	When directors that carry out executive duties are requested by other members of the corporate bodies to supply information, they shall do so in a timely manner and the information supplied must adequately suffice the request made.	X		II.3.
II.3.2.	The Chair of the Executive Committee shall send the convening notices and minutes of the meetings to the Chair of the Board of the Directors and, when applicable, to the Chair of the Supervisory Board or the Audit Committee.	X		II.3 & II13.
II.3.3.	The Chair of the Executive Board of Directors shall send the convening notices and minutes of the meetings to the Chair of the General and Supervisory Board and to the Chair of the Financial Matters Committee.	NA		NA
II.4.1.	Besides fulfilling its supervisory duties, the General and Supervisory Board shall advise, follow-up and carry out on an on-going basis, the assessment on the management of the company by the Executive Board of Directors. Besides other subject matters, the General and Supervisory Board shall decide on: i) definition of the strategy and general policies of the company; ii) the corporate structure of the group; and iii) decisions taken that are considered to be strategic due to the amounts, risk and particular characteristics involved.	NA		NA
II.4.2.	The annual reports and financial information on the activity carried out by the General and Supervisory Committee, the Financial Matters Committee, the Audit Committee and the Audit Board shall be disclosed on the company's website together with the financial statements.	X		II.4. & III.15.
II.4.3.	The annual reports on the activity carried out by the General and Supervisory Board, the Financial Matters Committee, the Audit Committee and the Audit Board shall include a description on the supervisory activity and shall mention any restraints that they may have come up against.	X		II.4.
II.4.4.	The General and Supervisory Board, the Audit Committee and the Audit Board (depending on the applicable model) shall represent the company for all purposes at the external auditor, and shall propose the services supplier, the respective remuneration, ensure that adequate conditions for the supply of these services are in place within the company, as well as being the liaison officer between the company and the first recipient of the reports.	X		II.3.
II.4.5.	According to the applicable model, the General and Supervisory Board, the Audit Committee and the Audit Board, shall assess the external auditor on an annual basis and advise the General Meeting that they be discharged whenever justifiable grounds are present.	X		II.3.
II.4.6.	The internal audit services and those that ensure compliance with the rules applicable to the company (compliance services) shall functionally report to the Audit Committee, the General and Supervisory Board or in the case of companies adopting the Latin model, an independent director or Supervisory Board, regardless of the hierarchical relationship that these services have with the executive management of the company.	X		II.5 & II.6.
II.5.1.	Unless the company is of a reduced size and depending on the adopted model, the Board of Directors and the General and Supervisory Board, shall set up the necessary committees in order to: i) ensure that a competent and independent assessment of the Executive Directors' performance is carried out, as well as of its own overall performance and further yet, the performance of all existing committees; ii) study the adopted governance system and verify its efficiency and propose to the competent bodies, measures to be carried out with a view to its improvement; iii) in due time identify potential candidates with the high profile required for the performance of director's duties.	X		0.3., II.2. & II.36.

	CMVM Recommendations	Adopted	Non Adopted	BES Report
II.5.2.	Members of the Remuneration Committee or alike, shall be independent from the members of the Board of Directors and include at least one member with knowledge and experience in matters of remuneration policy.	X		II.38. & II.39.
II.5.3.	Any natural or legal person which provides or has provided, over the past three years, services to any structure subject to the Board of Directors, to the Board of Directors of the company or that has to do with the current consultant to the company shall not be recruited to assist the Remuneration Committee. This recommendation also applies to any natural or legal person who has an employment contract with or provides services to said persons.	X		II.39.
II.5.4.	All the committees shall draw up minutes of the meetings held.	X		II.7.
III.1.1.	Companies shall maintain permanent contact with the market thus upholding the principle of equality for shareholders and ensure that investors are able to access information in a uniform fashion. To this end, the company shall create an Investor Assistance Unit.	X		III.16.
III.1.2.	The following information that is made available on the company's Internet website, shall be disclosed in the English language: a) Company name, public company status, headquarters and remaining data provided for in Article 171 of the Companies Code; b) Bylaws; c) Credentials of the members of the corporate bodies and the Market Liaison Officer; d) Investor Assistance Unit – its functions and access tools; e) Accounts reporting documents; f) Half-yearly calendar on company events; g) Proposals sent through for discussion and voting during the General Meeting; h) Notices convening general meetings.	X		III.16.
III.1.3.	Companies shall advocate the rotation of auditors after two or three terms, depending on whether they have four or three year mandates, respectively. Their continuance beyond this period must be based on a specific opinion of the supervisory body formally considering the conditions of auditor independence and the benefits and costs of replacement.			III.18.
III.1.4.	The external auditor must, within its powers, verify the implementation of remuneration policies and systems, the efficiency and functioning of internal control mechanisms and report any shortcomings to the company's supervisory body.		X	III.17.
III.1.5.	The company shall not recruit the external auditor, or any entities in a parent-subsidiary relationship with them or belonging to the same network, for services other than audit services. Where recruiting such services is called for, these should not exceed 30% of the total value of services rendered to the company. The hiring of these services must be approved by the supervisory body and must be expounded in the annual report on corporate governance.	X		III.17.
IV.1.	Where deals are concluded between the company and shareholders with qualifying holdings, or entities with which same are linked in accordance with Article 20 of the Securities Code, such deals shall be carried out in normal market conditions.	X		III.11.
IV.1.2.	Where deals of significant importance are undertaken with holders of qualifying holdings, or entities with which same are linked in accordance with Article 20 of the Securities Code, such deals shall be subject to a preliminary opinion from the supervisory body. The procedures and criteria required to define the relevant level of significance of these deals and other conditions shall be established by the supervisory body.		X	III.13

0.3 Overall Assessment

BES Corporate Governance Structure



The General Meeting of Shareholders meets at least once a year. Its main duties are to elect the corporate bodies, appoint the Remuneration Committee and the External Auditor/ Statutory Auditor ("ROC") ("EA/SA"), and also to assess and resolve on the annual management report, corporate governance report, accounts and distribution of earnings for each financial year.

The management of Banco Espírito Santo is entrusted to a Board of Directors, elected by the General Meeting for four-year periods, the re-election of its members being permitted. As of December 31st, 2012 the Board of Directors consisted of 26 members, of whom seven were qualified as independent directors (see II.14). The Board of Directors delegates the day-to-day running of the company to an Executive Committee consisting of 10 members that meets every week or whenever convened by its Chairman. The Corporate Governance Committee consists of three independent non-executive directors. It has advisory functions concerning the assessment of the corporate governance model and the performance of the members of the Board of Directors, and the identification and assessment of potential candidates with the necessary qualifications to exercise functions as member of the Board of Directors (see II.16).

The function of internal supervisory body within BES is attributed to the Audit Committee of the Board of Directors, which is composed of three independent non executive directors.

BES is subject to external supervision by its EA/SA, KPMG & Associados SROC, S.A., as well as by the following supervisory authorities to which it is subject by virtue of its activity: the Bank of Portugal, the Portuguese Securities Market Commission (CMVM), and the Instituto de Seguros de Portugal (Portuguese Insurance Institute).

In its assessment of the corporate governance model made in 2012, the Board of Directors considered that the corporate governance model approved by BES' shareholders in 2006 (which opted for the Anglo-Saxon model, composed of a Board of Directors, with an Audit Committee and an EA/SA) was adequate and presented no relevant constraints.

0.4 Recommendations that are Not Followed by BES and the Reason for the Existing Deviation/ Non Applicable Recommendations

The table below lists the recommendations of the Corporate Government Code that are not followed by BES as well as the reason for the existing deviation, with an indication of the recommendations that are not fully applicable.

	CMVM Recommendations	Reason for the Deviation	BES Report
I.4.	Companies shall not set a constitutive or deliberative quorum that outnumbers that which is prescribed by Law.	BES requires that shareholders representing at least 50% of the share capital be present or represented for the General Meeting to be held on first call. Matters for which the law requires a qualified majority must be approved by two thirds of the votes expressed, whether the Meeting is held on first or second call. BES believes that these rules ensure that resolutions are passed by a sufficiently representative number of shareholders.	I.8.
II.2.5.	The company shall expound its policy concerning portfolio rotation on the Board of Directors, including the person responsible for the financial portfolio, and report on same in the Annual Corporate Governance Report.	BES does not have a policy on portfolio rotation on the Board of Directors as it believes that such policy is contrary to the interests of the Bank and weakens the focus on the pursuance of its objectives.	II.3.
III.1.4.	The external auditor must, within its powers, verify the implementation of remuneration policies and systems, the efficiency and functioning of internal control mechanisms and report any shortcomings to the company's supervisory body.	This recommendation is only partially followed since, as of this date, the external audit only issues opinions on the "adequacy and efficiency of the part of the internal control system underlying the process of preparation and disclosure of the financial information (financial reporting)", in accordance with Bank of Portugal Notice no. 5/2008, no system having yet been implemented to allow the external auditor to verify the implementation of remuneration policies and systems.	III.17.
IV.1.2.	Where deals of significant importance are undertaken with holders of qualifying holdings, or entities with which same are linked in accordance with Article 20 of the Securities Code, such deals shall be subject to a preliminary opinion from the supervisory body. The procedures and criteria required to define the relevant level of significance of these deals and other conditions shall be established by the supervisory body.	Under the terms of the General Law on Credit Institutions and Financial Companies, the granting of credit to holders of qualifying holdings is always subject to the approval of each specific operation by a qualified majority of at least three thirds of the members of the Board of Directors and the favourable opinion of BES's Audit Committee. There is no formal extension of this rule to other deals of significant importance.	III.13
II.2.3.	Should the Chair of the Board of Directors carry out executive duties, the Board of Directors shall set up efficient mechanisms for coordinating non-executive members that can ensure that these may take decisions in an independent and informed manner, and furthermore shall explain these mechanisms to the shareholders in the corporate governance report.	This recommendation is not applicable since the Chairman of the Board of Directors does not have executive functions.	NA
II.3.3.	The Chair of the Executive Board of Directors shall send the convening notices and minutes of the meetings to the Chair of the General and Supervisory Board and to the Chair of the Financial Matters Committee.	This recommendation is not applicable as BES adopts the Anglo-Saxon governance model and not the dualist model. Therefore BES does not have an Executive Board of Directors nor a General and Supervisory Board.	NA
II.4.1.	Besides fulfilling its supervisory duties, the General and Supervisory Board shall advise, follow-up and carry out on an on-going basis, the assessment on the management of the company by the Executive Board of Directors. Besides other subject matters, the General and Supervisory Board shall decide on: i) definition of the strategy and general policies of the company; ii) the corporate structure of the group; and iii) decisions taken that are considered to be strategic due to the amounts, risk and particular characteristics involved.	This recommendation is not applicable as BES adopts the Anglo-Saxon governance model and not the dualist model. Therefore BES does not have a General and Supervisory Board.	NA

I. General Meeting

I.1 Members of the Board

The Board of the General Meeting is composed of one Chairman, one Vice--Chairman and one Secretary. Its members may or may not be Shareholders, they are elected for periods of four years, and their re-election is permitted.
The Chairman of the Board of the General Meeting is supported by human and logistics resources that are adequate to his needs, taking the financial position of the company into consideration.

Paulo de Pitta e Cunha (Chairman)

- Graduate in Law from the Law School of the Lisbon University.
- PhD in Law (Legal and Economic Sciences).
- University Full Professor (1980-2007).
- Chairman of the Board of the European Institute of the Lisbon University Law School (1980-2010).
- Practicing lawyer and jurisconsult.
- Specialist lawyer in Tax and European Law.
- Member of the Lisbon Science Academy (Economy Section).

Fernão de Carvalho Fernandes Thomaz (Vice-Chairman)

- Graduate in Law (Legal Sciences) from the Law School of the Lisbon University.
- A practicing lawyer since 1960, he also serves on the Board of companies and is a university lecturer[1].

Nuno Miguel Matos Silva Pires Pombo (Secretary)

- Graduate in Law with a master's degree from the Portuguese Catholic University ("UCP").
- Postgraduate degree in Taxation from the Instituto Superior de Gestão.
- Assistant lecturer at the UCP Law School since September 1999.
- Legal Advisor to the Board of Directors of ESCOM – Espirito Santo Commerce, S.A. since October 2005.

I.2 Mandates of the Members of the Board

The current members of the Board of the General Meeting were elected on December 18th, 2006 for the term of office ending on December 31st, 2007, and were re-elected by the General Meeting of March 30th, 2008, to serve in the 2012 - 2015 four-year mandate.

I.3 Remuneration of the Chairman and Other Members of the Board

In 2012 the Chairman of the Board of the General Meeting received a total annual remuneration of EUR 19,000.00, the Vice-Chairman a total annual remuneration of EUR 12,000.00, and the Secretary a total annual remuneration of EUR 9,000.00.

I.4 Participation in the General Meeting

Under the legislation in force, only shareholders who on the record date, corresponding to 0 hours (GMT) of the fifth trading day preceding the date of the General Meeting of Shareholders, hold shares attributing them at least one vote, under the law and the Company's bylaws, and have declared it in writing to the Chairman of the Board of the General Meeting and the financial intermediary with whom they have opened an individual securities account, no later than the day preceding that date, may attend and participate in the General Meeting of Shareholders or each of its sessions, in case of suspension.

I.5 Suspension

In case of suspension of the General Meeting, the same rules referred to in 1.4. shall apply. Hence only shareholders who in the record date, corresponding to 0 hours (GMT) on the fifth trading day preceding the date of the General Meeting, hold shares attributing them at least one vote, under the law and the Company's bylaws, and have declared it in writing to the Chairman of the Board of the General Meeting and the financial intermediary with whom they have opened an individual securities account, no later than the day preceding that date, may attend and participate in the General Meeting.

I.6 Vote

Each one hundred shares are entitled to one vote. However, Shareholders owning less than one hundred shares may form a group so as to complete the required number or a higher number and nominate one representative from among the group.

I.7 Statutory Rules on the Existence of Shares that do not Confer Voting Rights

There are no statutory rules providing for the existence of shares that do not confer voting rights.

I.8 Statutory Rules on the Exercise of Voting Rights

These are the statutory rules on quorums:

Article 18 Quorum

1. The General Meeting of Shareholders may not be held on first call unless shareholders owning fifty percent of the share capital are present or represented, irrespective of the matters on the agenda.

2. On second call, the General Meeting may pass resolutions whatever the number of shareholders present or represented and the share capital that they represent.

(1) The Vice-Chairman of the Board of the General Meeting renounced his position in February 2013.

1. Without prejudice to cases in which the law or bylaws require a qualified majority, the General Meeting of Shareholders shall pass resolutions by majority of votes.

2. Resolutions on amendments to the company's articles of association, mergers, splits, transformation, winding up or any other matters for which the law requires a qualified majority, without specifying, must be approved by two-thirds of the votes issued, whether the General Meeting of Shareholders meets on first or second call.

3. Abstentions will not be accounted for in any of the resolutions.

The company has no systems in place for detaching voting rights from ownership rights.

I.9 Statutory Rules on the Exercise of Voting Rights Via Postal Voting

There are no statutory restrictions on the exercise of voting rights via postal voting. Postal votes count towards the constitution of the General Meeting quorum and are equally valid for the same general meeting when convened on second call. Postal voting does not prevent a shareholder from being represented in the General Meeting, and postal votes can at any time be revoked. Postal votes cast by a shareholder who is present or represented at the General Meeting shall be deemed as revoked. Postal votes count as votes against motions submitted after their date of issue.
The Chairman of the Board of the General Meeting is responsible for verifying the authenticity of postal votes and for ensuring their confidentiality up to the time of voting.

I.10 Model Format For the Exercise of Voting Rights Via Postal Voting

Convening notices to General Meetings refer that voting rights may be exercised by post, also setting out the manner in which the scrutiny of votes cast by correspondence is conducted, this being also referred in the Regulation of the General Meeting of BES (available at www.bes.pt).

Shareholders who wish to vote by correspondence may easily obtain draft voting instructions for the exercise of postal voting, either from the Chairman of the Board of the General Meeting or from the Company's website (www.bes.pt). These draft voting instructions set out the items in the agenda of the meeting as well as, when appropriate, the specific motions to which they relate.

I.11 Deadline for Receipt of Postal Ballots

Postal votes must be received by the Chairman of the Board of the General Meeting at least three working days date prior to the date when the General Meeting is held.

I.12 Electronic Voting

The exercise of voting rights by electronic means is not allowed.

I.13 Access to the Minutes of the General Meetings

Excerpts from the minutes of General Meetings are made available in the Company's website (www.bes.pt/ir) within five days of the meeting.

I.14 Historical Record with the Resolutions of the General Meetings

An historical record of the resolutions passed at the company's General Meetings, share capital represented and voting results is available at BES's website (www.bes.pt/ir).

I.15 Representative of the Remuneration Committee in the General Meetings

At least one representative of each of these committees is present in every General Meeting. Ms. Rita Amaral Cabral, Mr. Daniel Proença de Carvalho and Mr. Jacques dos Santos, as representatives of the Remuneration Committee, and Ms. Isabel Maria Osório de Antas Mégre de Sousa Coutinho and Mr. Nuno Maria Monteiro Godinho de Matos, as representatives of the Remuneration Advisory Committee, as representatives of the Remuneration Committee, were present in the General Meeting of March 22nd, 2012.

I.16 Intervention by the General Meeting on the Remuneration Policy and Performance Assessment of the Management Body

The General Meeting decides annually on the remuneration policy of BES's corporate bodies, as described in point II.18.
Every year, the General Meeting also makes a general assessment of the management of the company based on its performance appraisal of corporate activities in the previous financial year.
Under the terms of the remuneration policy of BES's corporate bodies approved by the General Meeting of March 2012, the actual amount of the variable remuneration to be attributed to the members of the Executive Committee shall always depend on the Remuneration Committee's annual assessment of their performance. Under the terms of the law, the remuneration policy and performance assessment of BES's senior officers is conducted by the Board of Directors.

I.17 Intervention of the General Meeting on Matters Concerning the Plan to Attribute Shares to Members of the Management Body

The plans to attribute shares and/or stock options to members of the Board of Directors and other BES senior officers are necessarily approved by the General Meeting, which also approves the corresponding regulations.

For a description of the plans to attribute shares and/or stock options in force please refer to points II.32 and II.33.

I.18 Intervention of the General Meeting on the Retirement Benefit Plan of the Members of the Management Body

The regulation on the members of BES's Board of Directors' entitlement to receive retirement pensions for old age or disability is approved by the General Meeting.

Directors are entitled to receive retirement pensions or complementary pension benefits if they were members of the Executive Committee.

The main points of the regulation on the members of the Board of Directors' entitlement to receive retirement pensions or complementary pension benefits for old age or disability may be summed up as follows:

a) The right to receive a retirement pension or complementary pension benefits falls due on reaching sixty five years of age or twenty five years of professional activity, or in the event of disability, when disability occurs;

b) The right to receive retirement pension or complementary pension benefits may be brought forward to the age of fifty five, providing the board member has served on BES' Board of Directors for a minimum period of nine consecutive or non consecutive years. Positions held in the senior management or Board of Directors of the former "Banco Espirito Santo e Comercial de Lisboa, S.A." count for purposes of calculating seniority in the post;

c) Complementary pension benefits may exist as a way of topping up other retirement schemes that may be granted under any other social security system, to the effect that the total pension reaches one hundred per cent of the last annual gross remuneration.

In any case, retirement pensions or complementary pension benefits shall never exceed the pensionable salary of the board member in question, although they may be of a lower amount. The pensionable salary corresponds to the sum of the fixed annual remuneration and the variable remuneration received by the Board member in question in the year immediately preceding the year of retirement, deducted of any annual pension paid by any other social security system, as well as of the seniority payments received by that Board member. The variable remuneration shall correspond to at least the amount of the average variable remuneration received in the last twelve years by the Board member in question at retirement date.
The complementary retirement or survivor's pension benefits paid by the company shall be updated annually in accordance with the global percentage of increase of the remuneration of the Board members in active service, such as established by the Remuneration Committee; however the update rate may never be lower than the rate of change of the consumer price index or higher than twice that rate.
The current version of the regulation on the members of the Board of Directors' entitlement to receive retirement pensions or complementary pension benefits for old age or disability was approved by the General Meeting held on November 11th, 2011.

A proposal to amend the regulation on the members of BES's Board of Directors' entitlement to receive retirement pensions for old age or disability will be submitted to the General Meeting of March 27th, 2013.

I.19 Existence of a Statutory Provision that Envisages the Maintenance or Elimination of the Statutory Provision Providing for the Limitation of the Number of Votes

There is no statutory provision foreseeing the limitation of the number of votes that may be held or exercised by a single shareholder individually or together with other shareholders.

I.20 Changes in Company Control or in the Composition of the Management Body

No such measures exist.

I.21 Change in Agreements in Case of Change in Company Control

BES is a party in agreements that may be changed or terminate in case of a relevant change in its shareholding structure, however it does not consider any of those agreements as being significant.

I.22 Agreements Providing for Compensation

No such agreements exist.

II. Management and Supervisory Bodies

II.1 Identification and Composition of the Corporate Bodies

Board of General Meeting

Paulo de Pitta e Cunha (Chairman)
Fernão de Carvalho Fernandes Thomaz (Vice-Chairman)[1]
Nuno Miguel Matos Silva Pires Pombo (Secretary)

Board of Directors

Alberto Alves de Oliveira Pinto (Chairman)
Ricardo Espírito Santo Silva Salgado (Vice-Chairman)
Bruno Bernard Marie Joseph de Laage de Meux (Vice-Chairman)
José Manuel Pinheiro Espírito Santo Silva
António José Baptista do Souto
Jorge Alberto Carvalho Martins
Aníbal da Costa Reis de Oliveira
Manuel Fernando Moniz Galvão Espírito Santo Silva
José Maria Espírito Santo Silva Ricciardi
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
Ricardo Abecassis Espírito Santo Silva
Amílcar Carlos Ferreira de Morais Pires
Nuno Maria Monteiro Godinho de Matos
João Eduardo Moura da Silva Freixa
Pedro Mosqueira do Amaral
Isabel Maria Osório de Antas Mégre de Sousa Coutinho
João de Faria Rodrigues
Marc Olivier Tristan Oppenheim
Vincent Claude Pacaud
Rita Maria Lagos do Amaral Cabral
Stanislas Gerard Marie Georges Ribes
Horácio Lisboa Afonso
Pedro João Reis Matos Silva
Milton Almicar Silva Vargas
Xavier Musca

Audit Committee

Horácio Lisboa Afonso (Chairman)
João de Faria Rodrigues
Pedro João Reis Matos Silva

Certified Statutory Auditor ("ROC" or SA)

KPMG Associados, SROC S.A., represented by Sílvia Cristina de Sá Velho Corrêa da Silva Gomes

Deputy Certified Statutory Auditor: Fernando Gustavo Duarte Antunes (ROC)

Company Secretary

Eugénio Fernando Quintais Lopes (Secretary)
Artur Miguel Marques da Rocha Gouveia (Deputy Secretary)

1 The Vice-Chairman of the Board of the General Meeting renounced his position in February 2013.

II.2 Other Committees with Management or Supervisory Responsibilities

Executive Committee

Ricardo Espírito Santo Silva Salgado (Chairman)
José Manuel Pinheiro Espírito Santo Silva
António José Baptista do Souto
Jorge Alberto Carvalho Martins
José Maria Espírito Santo Silva Ricciardi
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
Amílcar Carlos Ferreira de Morais Pires
João Eduardo Moura da Silva Freixa
Stanislas Gerard Marie Georges Ribes

Corporate Governance Committee

The Corporate Governance Committee is an internal body of the Board of Directors with advisory functions, consisting of three independent directors who are not members of the Executive Committee. The main purpose of the Committee is to reinforce the efficiency of the Board of Directors, making sure that all its decisions are based on all relevant elements and that they are not conditioned by possible conflicts of interest. The Corporate Governance Committee has the following members:

Isabel Maria Osório de Antas Mégre de Sousa Coutinho (Chairman)
Nuno Maria Monteiro Godinho de Matos
Rita Maria Lagos do Amaral Cabral

The Corporate Governance Committee has the following responsibilities:

a) Monitor compliance with the guiding principles of BES Group's corporate governance policy;
b) Express an opinion, at its own initiative or at the request of the Board of Directors, on national or international guidelines on corporate governance, viewing their possible integration into BES Group's corporate governance model and/or the improvement of this model;
c) Draw up an annual report that contains a description of its activities during the year, an assessment of the functioning of the Company's corporate governance structure, as well as its opinion on the Company's internal rules and procedures and principles and practices of conduct, and on the performance of the Board of Directors *vis-à-vis* the established objectives;
d) Verify at all times that the independence requirements of the Company's corporate bodies are complied with, in accordance with the applicable legal and regulatory provisions;
e) Analyse and issue an opinion on the Corporate Governance Report prior to the date of approval of the Company's Annual Report;
f) Inform the Board of Directors about any situations or events of which it is aware, that in its opinion amount to non-compliance with the established corporate governance rules and practices.

Concerning its assessment duties, the Corporate Governance Committee has the following responsibilities:

a) Support and advise the Board of Directors on the filling of vacancies occurred within the Board, namely by evaluating the profile of each candidate in terms of qualifications, expertise and experience;
b) Examine the Board of Directors' policy on the selection and appointment of senior officers;
c) Implement, in cooperation with the Company's internal structures, a programme intended to acquaint newly appointed directors with the organisation and its activities, as well as with their responsibilities and duties as members of the Board of Directors;

d) Assess whether the Company's directors require updating of qualifications and expertise in any specific areas, and make an annual proposal on the subject.

Remuneration Advisory Committee

The Remuneration Advisory Committee was created in January 2012 as an internal body of the Board of Directors with advisory functions, currently consisting of three independent directors who are not members of the Executive Committee. It was set up with the main objective of meeting the requirements of new regulations on the remuneration policy of financial institutions, namely contained in Decree Law no. 88/2011, of July 20th, and Bank of Portugal Notice no. 10/2011. The Committee has the following members:

Isabel Maria Osório de Antas Mégre de Sousa Coutinho (Chairman)
Nuno Maria Monteiro Godinho de Matos
Rita Maria Lagos do Amaral Cabral

The Remuneration Advisory Committee has the following responsibilities:

a) Draw up proposals and recommendations on the fixing of the remuneration of the members of the Board of Directors and Audit Committee, and senior officers of the Company;

b) Provide all necessary assistance and issue recommendations to support the approval process of the company's general remuneration policy for its corporate bodies and senior officers;

c) Draw up proposals and recommendations to the effect of ensuring that all branches, subsidiaries, including subsidiaries abroad and offshore branches, and all entities comprised within the Company's supervision consolidation scope ("Group Companies") implement remuneration policies that are consistent among the;

d) 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;

e) Ensure and carry out a revision of the company's remuneration policies and their implementation at least once a year.

Several other committees have been created with the aim of monitoring directly the performance of specific business areas.

Business Units Monitoring Committees:

a. Corporate / Wholesale / Investment Banking

Monitors the development of these business areas, ensuring that there is coordination between BES's corporate banking activity and the activity of Banco Espirito Santo de Investimento, and at international level, promoting coordinated action with the Branch in Spain, with Banco Espirito Santo de Investimento do Brasil, and with other units of BES Group abroad. This Committee is formed by the following members of the Executive Committee: Ricardo Espírito Santo Silva Salgado, António José Baptista do Souto, Jorge Alberto Carvalho Martins, José Maria Espírito Santo Silva Ricciardi, Joaquim Aníbal Brito Freixial de Goes, Amílcar Carlos Ferreira de Morais Pires and Stanislas Gerard Marie Georges Ribes.

b. Retail Banking (Individual Clients and Small Businesses)

Monitors business evolution in each of the retail segments (Affluent Clients, Small Companies and Independent Professionals and Mass Market), and promotes cross-segment business with other business areas (namely medium sized and large corporates). The committee also oversees Assurfinance activities, promoting the acquisition and retention by BES of Companhia de Seguros Tranquilidade clients. This Committee is formed by the following members of the Executive Committee: Ricardo Espírito Santo Silva Salgado, Jorge Alberto Carvalho Martins, Joaquim Aníbal Brito Freixial de Goes, João Eduardo Moura da Silva Freixa and Stanislas Gerard Marie Georges Ribes.

c. Private Banking

Monitors the development of the business, ensures coordination with other business areas - taking advantage of the increasing interconnection between the Private Banking Centres and the Corporate Centres - and oversees the activity with Portuguese residents abroad. This Committee is formed by the following members of the Executive Committee: Ricardo Espírito Santo Silva Salgado, José Manuel Pinheiro Espírito Santo Silva, Jorge Alberto Carvalho Martins, Amílcar Carlos Ferreira de Morais Pires and Stanislas Gerard Marie Georges Ribes.

d. International

Monitors and promotes the development of BES Group's international banking activity, contributing to foster the business of subsidiaries and branches and evaluating and submitting to the Executive Committee new initiatives in previously untapped markets or businesses areas. The committee also ensures that there is coordination between BES's activity in Portugal and that of the various units abroad. This Committee is formed by the following members of the Executive Committee: Ricardo Espírito Santo Silva Salgado, José Manuel Pinheiro Espírito Santo Silva, António José Baptista do Souto, José Maria Espírito Santo Silva Ricciardi e Amílcar Carlos Ferreira de Morais Pires.

Group-Wide Committees:

a. Assets and Liabilities (ALCO)

The Assets and Liabilities Committee analyses macroeconomic data from Portugal and from the main economic areas in the world, making impact projections on the banking business. The ALCO also monitors the evolution of BES Group's consolidated balance sheet and that of its main business units, specifically the balances of customer loans and customer funds and margins, providing the Executive Committee with the data required to set growth targets for customer loans and deposits, and define a funding strategy (management of balance sheet mismatch) and price/margins targets. Its functions also include monitoring and benchmarking products sold by competitors and approving the product offer and pricing within the scope of the established strategy. This Committee is formed by the following members of the Executive Committee: Ricardo Espírito Santo Silva Salgado, José Manuel Pinheiro Espírito Santo Silva, António José Baptista do Souto, Jorge Alberto Carvalho Martins, José Maria Espírito Santo Silva Ricciardi, Rui Manuel Duarte Sousa da Silveira, Joaquim Aníbal Brito Freixial de Goes, Amílcar Carlos Ferreira de Morais Pires, João Eduardo Moura da Silva Freixa and Stanislas Gerard Marie Georges Ribes.

b. Information Systems, Operations, Quality and Costs (CIOQC)

The CIOQC committee prioritises investments in information systems and the operations and monitors their implementation. It also monitors the development of special projects in the areas of operations, systems, quality and costs. In particular, the committee oversees the Bank's overall performance in terms of quality indicators – with particular regard to customer service quality and the support provided by the central areas to the commercial areas. This Committee is formed by the following members of the Executive Committee: Ricardo Espírito Santo Silva Salgado, José Manuel Pinheiro Espírito Santo Silva, António José Baptista do Souto, Jorge Alberto Carvalho Martins, José Maria Espírito Santo Silva Ricciardi, Joaquim Aníbal Brito Freixial de Goes, Amílcar Carlos Ferreira de Morais Pires, João Eduardo Moura da Silva Freixa and Stanislas Gerard Marie Georges Ribes.

c. Risk

The Risk Committee is responsible for all matters related to BES Group's overall risk, and in particular for monitoring the evolution of risk in each of the main client segments and product categories. It also oversees special projects in the area of Risk. This Committee is formed by the following members of the Executive Committee: Ricardo Espírito Santo Silva Salgado, António José Baptista do Souto, Jorge Alberto Carvalho Martins, José Maria Espírito Santo Silva Ricciardi, Joaquim Aníbal Brito Freixial de Goes, Amílcar Carlos Ferreira de Morais Pires, João Eduardo Moura da Silva Freixa and Stanislas Gerard Marie Georges Ribes.

d. Financial and Credit

The Financial and Credit Committee decides on all credit operations that fall outside the scope of the credit granting limits established for each board member. This Committee is formed by the following members of the Executive Committee: Ricardo Espírito Santo Silva Salgado, António José Baptista do Souto, Jorge Alberto Carvalho Martins, Amílcar Carlos Ferreira de Morais Pires and João Eduardo Moura da Silva Freixa.

e. Liquidity

The Liquidity Committee defines and monitors the execution of the Bank's policies for liquidity risk management, assisting the Executive Committee in all related issues. In particular, the Committee is responsible for outlining a liquidity strategy proposal to be submitted to the approval of the Executive Committee, translating the risk appetite approved by the Executive Committee into limits and limit triggers, monitoring on an ongoing basis the Bank's liquidity position and liquidity risk, and establishing the methodology for funds transfer pricing and liquidity premia. This Committee includes the following members of the Executive Committee: Ricardo Espírito Santo Silva Salgado, Amílcar Carlos Ferreira de Morais Pires and Joaquim Aníbal Brito Freixial de Goes.

f. Sustainability

The Sustainability Committee defines BES Group's Sustainability Plan, monitors and supports its implementation, and reports on these activities to the Executive Committee. This Committee is formed by the following members of the Executive Committee: António José Baptista do Souto, Rui Manuel Duarte Sousa da Silveira and Joaquim Aníbal Brito Freixial de Goes.

II.3 Organisational Chart, Distribution of Duties and List of Non-Delegable Subject Matters

A. Organisational chart

General Meeting

Remuneration Committee

Board of Directors

Corporate Governance Committee

Remuneration Advisory Committee

Executive Committee

Audit Committee

Support Committee

Business Units
- International
- Private
- Retail (Individuals and Small Businesses)
- Wholesale & Investment Banking

Other
- ALCO (Assets & Liabilities)
- Financial and Credit Committee
- IT, Operations, Quality and Costs
- Risk
- Liquidity
- Sustainability

Support Offices
- Corporate Office
- Investor Relations
- General Secretary of the Executive Committee
- Strategic Restructuring
- Company Modernisation
- Solidarity
- BESart
- BES Numismatics

Marketing and Product Units
- Personal Credit and Cards
- Savings Management
- Direct and Self Banking
- Leasing & Factoring
- Marketing Retail
- Marketing - Corporates and Institutionals
- Monetization of Corporate Credit

Commercial Units
- Retail (North & South)
- Private Banking
- Corporate Banking
- Medium Corporates (North & South)
- Company Monitoring
- International Premium
- Municipalities and Institutionals
- Universities

Operating Units
- Operations
- Proprietary Real Estate Management

Business Units & Risk
- Internacional Banking
- Finance, Markets and Studies
- Real Estate Management
- Credit Recovery
- Management of Agents
- Emigrants
- Global Risk Management

Support Units
- Legal
- Internal Audit
- Compliance
- Corportate Communication
- Information Management
- Strategic Marketing
- Communication, Marketing and Consumer Studies
- Procurement and Cost Control
- Organisation
- Planning and Accounting
- Service Quality
- Human Resources
- Research
- Security Coordination

b) Executive Committee

As of December 31st, 2012 the distribution of areas of responsibility among the members of the Executive Committee was as follows:

Ricardo Espírito Santo Silva Salgado

Current areas of responsibility:
Chairman of the Executive Committee, Financial and Credit Committee and Assets and Liabilities Committee (ALCO). Planning and Accounting, Compliance, Corporate Communication, Investor Relations, General Secretariat of the Board of Directors and Executive Committee, Management Control. Also ensures coordination between BES and ESAF - Espírito Santo Ativos Financeiros, Banco BEST – Banco Eletrónico de Serviço Total, S.A., ES Tech Ventures, SGPS, S.A. and ESEGUR – Empresa de Segurança, S.A..

Member of the following Committees:
Retail; Middle Market; International; Assets and Liabilities (ALCO); Risk; Information Systems, Operations, Quality and Costs (CIOQC); Private Banking; Financial and Credit Committee.

José Manuel Pinheiro Espírito Santo Silva

Current areas of responsibility:
Coordinates Private Banking in BES Group, Madeira Offshore Branch, Emigrants, and BES History Research Centre. Ensures coordination between BES and the branches in Venezuela and Luxembourg (together with Amilcar Morais Pires).

Member of the following Committees:
Private Banking; International; Assets and Liabilities (ALCO); Information Systems, Operations, Quality and Costs (CIOQC).

António José Baptista do Souto

Current areas of responsibility:
Middle Market (North and South), Corporate Banking, International Premium Unit, Corporate and Institutional Marketing, Municipalities and Institutional Clients, Human Resources, Company Monitoring, Leasing & Factoring. Ensures coordination between BES and Multipessoal – Sociedade de Prestação and Gestão de Serviços, S.A. and Ijar Leasing Algerie Spa.

Member of the following Committees:
Middle Market; International; Assets and Liabilities (ALCO); Risk; Information Systems, Operations, Quality and Costs (CIOQC); Financial and Credit Committee; Sustainability.

Jorge Alberto Carvalho Martins

Current areas of responsibility:
Chairman of the Credit Board (Porto). Coordinates the Commercial Department North and the Real Estate area, which includes the Property promotion and real estate development department, the external real estate developers department, and the real estate valuation and projects department. Ensures coordination between BES and Locarent – Companhia Portuguesa de Aluguer de Viaturas.

Member of the following Committees:
Retail; Private Banking; Assets and Liabilities (ALCO); Risk; Information Systems, Operations, Quality and Costs (CIOQC); Middle Market; Financial and Credit Committee.

José Maria Espírito Santo Silva Ricciardi

Current areas of responsibility:
Global Risk Department (shared with Joaquim Goes); ensures coordination between BES and Banco Espírito Santo de Investimento, of which he is Chairman of the Executive Committee.

Member of the following Committees:
Middle Market; International; Assets and Liabilities (ALCO); Risk; Information Systems, Operations, Quality and Costs (CIOQC).

Rui Manuel Duarte Sousa da Silveira

Current areas of responsibility:
Legal Affairs Department, Internal Audit, Security Coordination and Corporate Office.

Member of the following Committees:
Assets and Liabilities (ALCO); Sustainability.

Joaquim Aníbal Brito Freixial de Goes

Current areas of responsibility:
Strategic Marketing, Individual Clients Marketing, Small Businesses Marketing, Communication Marketing and Consumer Surveys, Global Risk (shared with José Maria Ricciardi), Management Information, Service Quality, Direct and Self Banking Departments, Universities Office, BES University, Credit Recovery, Assurfinance Office. Ensures coordination between BES and Espírito Santo Recuperação de Crédito, Espírito Santo Informática, Oblog Consulting, S.A., BES Seguros S.A. and Contact , S.A.

Member of the following Committees:
Retail; Middle Market; Assets and Liabilities (ALCO); Information Systems, Operations, Quality and Costs (CIOQC); Risk; Sustainability.

Amílcar Carlos Ferreira de Morais Pires

Current areas of responsibility:
Financial, Markets and Research Department, Savings Management, BES Group Strategic Reorganisation Office, Monetisation of Corporate Credit Office, Management Control (shared with Ricardo Espírito Santo Silva Salgado) and International Development Department. ensures coordination between BES and BES branches in London, New York, Spain, Venezuela (shared with José Manuel Espírito Santo) and Luxembourg (shared with José Manuel Espírito Santo), with the subsidiaries BES África, SGPS, S.A., ES Bank, Aman Bank, BES Angola, SARL, Moza Banco, Cape Verde, with the representative offices abroad, and with Avistar SGPS, S.A., Espírito Santo Research, BES Vida, Companhia de Seguros, S.A., BES Finance, BES Cayman, Bank Espírito Santo International, Ltd («BESI»), BIC International Bank Ldt («BIBL») and BES Beteiligungs, GmbH.

Member of the following Committees:
Private Banking; Middle Market; International; Assets and Liabilities (ALCO); Information Systems, Operations, Quality and Costs (CIOQC); Risk; Financial and Credit Committee.

Note:
Board Member Amilcar Carlos Ferreira de Morais Pires is the CFO of BES, and has held this position since March 2004.
BES takes the view that the attributes required for the post of CFO do not justify the rotation of the director with this position, thus disagreeing in this respect with the CMVM Recommendation (Recommendation II.2.5).

João Eduardo Moura da Silva Freixa

Current areas of responsibility:
Commercial Department South, Consumer Credit and Cards, Procurement and Costs Control. Ensures coordination with BES dos Açores.

Member of the following Committees:
Assets and Liabilities (ALCO); Retail; Information Systems, Operations, Quality and Costs (CIOQC); Risk: Financial and Credit Committee.

Stanislas Gerard Marie Georges Ribes

Current areas of responsibility:
Organisation Department, Execution of Operations Department, segment of resident clients in France.

Member of the following Committees:
Middle Market; Retail; Private Banking; Assets and Liabilities (ALCO); Information Systems, Operations, Quality and Costs (CIOQC); Risk.

Audit Committee

The Audit Committee is the supervisory body of BES, responsible for supervision of the Bank management in general, for verification of the effectiveness of the risk management system, the internal control system, the internal audit and compliance functions as well for representing BES, for all purposes, to the external auditor, which is annually evaluated by this Committee.

The Audit Committee is composed of three non executive directors qualified as independent: Horácio Lisboa Afonso, João de Faria Rodrigues and Pedro João Reis de Matos Silva. (item II.14 of this report contains a detailed description of the committee and item II.18 the professional qualifications and activity of its members in the last five years).

c) List of non-delegable subject matters

In addition to the subject matters which by law are non-delegable in the Executive Committee, the Regulation of the Board of Directors and of the Executive Committee (available at www.bes.pt/ir) also establishes the following duties that are the exclusive responsibility of the Board of Directors:

a) to define the company's strategy and general policies;

b) to define the corporate structure of the Group;

c) to take all decisions considered to be strategic due to the amounts, risk and particular characteristics involved.

d) Provision of information

The Chairman of the Executive Committee sends the convening notices and minutes of the Executive Committee meetings to the Chairman of the Board of the Directors and to the Chairman of the Audit Committee.
All members of the Executive Committee provide any information requested by the other corporate bodies.

II.4 Activity of the Audit Committee

The annual report about the activities of the Audit Committee includes the description of the supervisory activity undertaken and is disclosed on the BES website (www.bes.pt/ir), together with the accounts reporting documents.

II.5 Internal Control and Risk Management Systems

Internal Control System

BES has in place an effective and **documented internal control system** which is managed by the Compliance Department. To assist it in carrying out these duties, the Compliance Department has set up a separate independent unit, the **Internal Control System Management Unit ("UGSCI").**

The UGSCI is responsible for all the assessment, systematisation, monitoring and maintenance tasks required by BES's internal control system, and for guaranteeing an overall perspective and integrated management of the entire internal control system of BES Group as the guarantor of the reliability of the financial information, the protection of assets and the adequate prevention of risks.

The UGSCI is also responsible for internal reporting, namely through monthly update briefings, as well as for external reporting to the various regulatory authorities, thus ensuring the overall perspective and integrated management of the internal control system.

For the design and assessment of its internal control system, BES Group adopted COSO methodologies and principles (the COSO - Committee of Sponsoring Organizations of the Treadway Commission - was created in 1985 in the United States to identify and combat the primary causes of fraudulent financial reporting, establishing for the purpose recommendations and frameworks for companies):

- The internal control culture promoted within the organisation determines the conduct and awareness of its employees;
- The organisation faces a diversity of risks which must be assessed at the level of the entity and the processes;
- The control procedures established must ensure that management directives are complied with;
- All relevant information must be obtained and reported;
- The internal control system must be supported by a monitoring process.

Risk Management System

At BES 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 main units dedicated to the prevention of risks within the activity are the Risk Committee, the Global Risk Department, the Credit Risk Monitoring Committee, the Compliance Department, and the Internal Audit Department (the risk control system is explained in detail in Chapter 5 of the Consolidated Management Report).

The **Risk Committee** is responsible for monitoring BES Group's integrated risk profile, and for analysing and proposing methodologies, policies, procedures and instruments to deal with all types of risk to which BES is subject, namely credit, operational and market risk, liquidity risk and interest rate risk. This Committee also analysis the evolution of risk adjusted return and the value added by the main segments/clients. The Risk Committee holds monthly meetings, which are attended by the Chairman of the Executive Committee.

The **Global Risk Department (GRD)** centralises BES Group's risk function, having as main responsibilities to:

- Identify, assess and control the different types of risk assumed, thus managing the Group's overall risk exposure;
- Implement the risk policies outlined by the Executive Committee, while harmonising principles, concepts and methodologies across all the Group's units;
- Contribute towards the achievement of BES Group's value creation

objectives, by fine-tuning tools to support the structuring and pricing of operations, and by developing internal techniques for performance assessment and for optimising the capital position.

The **Credit Risk Monitoring Committee (CARC)** has the following main objectives:

- To analyse and assess clients whose creditworthiness shows signs of deteriorating, based on:
  - Type of credit exposure;
  - Nature and value of the guarantees received, paying attention to the dates when the assets provided as security were evaluated and the entities which carried out these evaluations;
  - Warning signals detected in the behavioural profile of clients in their relations with the Bank and with the financial system in general.
- To define strategic options in commercial relations and the level of active vigilance required by the profile and specific circumstances of each of the entities/groups under analysis;
- To analyse and validate the credit impairment levels established for the group of entities in question, in accordance with predetermined objective criteria.

The **Compliance Department** reports functionally to the Audit Committee, regardless of the matter being reported and of its hierarchical relationship with the Executive Committee. It ensures the day-to-day management of compliance activities, which include:

- Advising the Board of Directors on compliance with legal, regulatory, ethical and conduct obligations to which BES is subject;
- Implementing policies and procedures for the prevention and detection of money laundering and terrorism financing;
- Ensuring the monitoring and maintenance of the Bank's internal control system, reporting internally and to the Bank of Portugal on the respective results;
- Verifying compliance with regard to financial intermediation activities registered with the CMVM, under the terms set forth in the Securities Code;
- Within the scope of its powers, ensuring and promoting the relations with Legal and Police authorities, with the Bank of Portugal, the CMVM and other supervisory authorities; monitoring the implementation of the Code of Conduct of BES Group employees.

The **Internal Audit Department** reports functionally to the Audit Committee, regardless of the matter being reported and of its hierarchical relationship with the Executive Committee. It is responsible for assessing the effectiveness and adequacy of risk management, internal control and governance processes in the companies of BES Group with the objective of reducing risk conditions.

Its responsibilities include:

- Analysing operational and business processes, assessing the effectiveness of the respective risk management and controls, as well as compliance with applicable legal /regulatory provisions and internal regulations;
- Cooperating with all the bodies of BES Group viewing the implementation and correct application of policies established at senior management level, particularly with regard to the understanding and application of internal control procedures;
- Checking and assessing the protection and safety of monetary, dematerialised or documentary assets that are the property of BES Group or were entrusted to it for safeguarding;
- Within the scope of its powers, ensuring and promoting the relations with Legal and Police authorities, with the Bank of Portugal, the CMVM and other supervisory authorities, also addressing requests from other public and private institutions;
- Participating in the definition and drafting of regulatory texts that ensure the standardisation of prevention, control and safety procedures, and issuing and publishing communications and circular letters on matters pertaining to its specific sphere of intervention;
- Ensuring the prompt correction of practices that breach regulatory texts and/or internal regulations, while making sure that the procedures adopted for the execution of operations are duly regulated.

II.6 Responsibility of the Management Body for the Company's Internal Control and Risk Management Systems

BES's Board of Directors, through its Executive Committee, is responsible for establishing and maintaining an adequate and effective internal control system. This implies not only defining the system's underlying principles and objectives, which must be incorporated into the Bank's strategy and policies, but also making sure that they are complied with by all the employees, and that at all times BES Group has the necessary competences and resources to conduct its activity in strict compliance with the internal control system.

The Executive Committee is also responsible for the establishment and maintenance of a solid risk management system, which, within the framework of an adequate overall control environment, and alongside an efficient information and communication system and an effective monitoring process, guarantees the adequateness and effectiveness of BES's internal control system. To this end, the Executive Committee defines the objective risk profile, establishing global and specific limits for exposures, and approves the procedures required to monitor these exposures, thus ensuring that the limits it has established are complied with.

The Audit Committee, as BES's supervisory body, is responsible for assessing the functioning of the internal control system, and particularly of the risk control, compliance and internal audit functions within this system, as well as for assessing the system's adaptation to BES's needs. The Audit Committee shall also issue an annual statement expressing its opinion on the adequacy and efficacy of the internal control system in light of the requirements established by Bank of Portugal Notices no. 5/2008 and no. 9/2012, except with regard to the part of the system underlying the process of preparation and disclosure of the financial information, which is the subject of an opinion issued by BES's EA/SA.

II.7 Regulations on the Functioning of the Corporate Bodies

All the company's corporate bodies have their own internal regulations, namely the Board of Directors and Executive Committee Regulation, the Audit Committee Regulation, the Corporate Governance Committee Regulation, the Remuneration Advisory Committee Regulation and the General Meeting Regulation, which are all disclosed at **www.bes.pt/ir.**
The company has no internally defined rules on incompatibility nor has it established a maximum number of positions that a member is entitled to hold.
All BES's corporate bodies and committees draw up minutes of their meetings.

II.8 Chairman of the Board of Directors

Non Applicable – the Chairman of the Board of Directors does not have executive powers.

II.9 Major Risks to Which the Company is Exposed in Pursuing its Business Activity

In the pursuit of its business activity BES is subject to the following major risks:

Credit risk
Credit risk is the potential financial loss arising from the failure of a borrower or counterparty to honour its contractual obligations to the Bank.
Market risk
Market risk is the possible loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates, share prices or commodity prices.
Interest rate risk
Interest Rate Risk lies in the exposure of a bank's financial situation to adverse movements in interest rates.
Liquidity risk
Liquidity risk arises from the present or future inability to pay liabilities as they mature without incurring in excessive losses.
Operational and compliance risk
Operational and compliance risk may be defined as the probability of there occurring events with a negative impact on earnings or capital resulting from inadequate or negligent application of internal procedures, information systems, staff behaviour, or external events. Legal risk is also included in this definition.

II.10 Powers of the Board of Directors

The Board of Directors is responsible for exercising the broadest powers of management and representation of the company and for performing all necessary acts as may be required and convenient in the pursuit of the activities comprising its object, namely:

a) Managing the company's business and performing all acts and operations pertaining to its object that do not fall within the specific responsibility of its other corporate bodies;

b) Actively and passively representing the company in and out of court, with the powers to withdraw, compromise or enter a plea in any suits and to sign arbitration agreements;

c) Deciding on the issue of bonds and other securities as permitted by law;

d) Buying, selling or in any way disposing of or encumbering rights, namely pertaining to shareholdings and movable and immovable assets;

e) Establishing the company's administrative and technical organisation and its internal rules of operation;

f) Appointing legal or other proxies with any powers that it sees fit, including those of subrogation;

g) Co-opting replacements for directors permanently prevented from fulfilling their duties, with co-opted members' term of office lasting until the end of the period for which the replaced directors were elected, without prejudice to ratification thereof by the next General Meeting of Shareholders;

h) Exercising any other powers invested in it by law or the General Meeting of Shareholders.

The Extraordinary General Meeting of June 9th, 2011 approved a partial amendment to the Company's articles of association to the effect of authorising the Board of Directors to, upon favourable opinion of the Audit Committee, increase the share capital through cash contributions, one or more times, through the issuance of ordinary shares or preferential shares, redeemable or non redeemable, under the terms and conditions to be defined. The maximum amount authorized, in addition to the share capital amount, is of EUR 7,500,000,000.00, this authorisation being valid for a period of five years.

In 2012 the Board of Directors made use of this authorisation within the scope of the EUR 1,010,000,000.00 rights issue concluded in May.

II.11 Portfolio Rotation on the Board of Directors

There is no policy on portfolio rotation on the Board of Directors.

II.12 Meetings of the Management and Supervisory Bodies

In 2012 BES' Board of Directors held 8 meetings, the Executive Committee 90 meetings, and the Audit Committee 12 meetings. The number of meetings indicated for the Executive Committee and Audit Committee concerns the formal meetings held exclusively by each of these bodies. Minutes are drawn up of all the meetings held by each of the Company's corporate bodies.

II.13 Meetings of the Executive Committee

In 2012 the Executive Committee held 90 meetings. All the meetings of the Executive Committee were regularly convened, and the respective minutes were submitted to the Chairman of the Board of Directors and the Chairman of the Audit Committee.

II.14 Identification of the Executive and non Executive Members of the Board of Directors and Independence

The Board of Directors currently consists of 26 members, of whom 10 are executive and 16 are non executive. BES considers that this type of composition guarantees the effective capacity for supervision, audit and evaluation of the activity undertaken by the Executive Committee members. From the 16 non executive Board members, 7 qualify as independent directors, representing more than 25% of the Board. Hence in this regard they all also conform to the regime of incompatibilities set out in the Companies Code. The Board members who qualify as independent are the Chairman (Alberto de Oliveira Pinto), the members of the Audit Committee (Horácio Afonso, João Faria Rodrigues and Pedro Matos Silva), the members of the Corporate Governance Committee (Nuno Godinho de Matos, Isabel de Sousa Coutinho and Rita Amaral Cabral) and the members of the Remuneration Advisory Committee (Isabel de Sousa Coutinho and Nuno Godinho de Matos). The process of verification of the independence of the non executive Board members is described in point II.15 of this report.
These independent directors take part in all the meetings of the Board of Directors and hence follow the progress of BES's activity, and they can ask for information from any other corporate bodies or internal units of BES Group. In the exercise of its functions the Board of Directors did not come up against any constraint to its functioning.

Name	Position	Independent	Reason for non independence
Alberto Alves de Oliveira Pinto	Chairman of the Board of Directors	Yes	
Ricardo Espírito Santo Silva Salgado	Vice-Chairman of the Board of Directors and Chairman of the Executive Committee	No	Member of the Executive Committee
Bruno de Laage de Meux	Vice-Chairman of the Board of Directors	No	Board Member or employment contract with shareholder Crédit Agricole, S.A.
José Manuel Pinheiro Espírito Santo Silva	Member of the Board of Directors and Executive Committee	No	Member of the Executive Committee
António José Baptista do Souto	Member of the Board of Directors and Executive Committee	No	Member of the Executive Committee
Jorge Alberto Carvalho Martins	Member of the Board of Directors and Executive Committee	No	Member of the Executive Committee
Aníbal da Costa Reis de Oliveira	Member of the Board of Directors	No	Member of the Board of Directors of Espirito Santo Financial Group, S.A.
Manuel Fernando Moniz Galvão Espírito Santo Silva	Member of the Board of Directors	No	Member of the Board of Directors of Espírito Santo Financial Group, S.A.
José Maria Espírito Santo Silva Ricciardi	Member of the Board of Directors and Executive Committee	No	Member of the Executive Committee
Rui Manuel Duarte Sousa da Silveira	Member of the Board of Directors and Executive Committee	No	Member of the Executive Committee
Joaquim Aníbal Brito Freixial de Goes	Member of the Board of Directors and Executive Committee	No	Member of the Executive Committee
Ricardo Abecassis Espírito Santo Silva	Member of the Board of Directors	No	Member of the Executive Committee of BESI Brasil
Amílcar Carlos Ferreira de Morais Pires	Member of the Board of Directors and Executive Committee	No	Member of the Executive Committee
Nuno Maria Monteiro Godinho de Matos	Member of the Board of Directors, Corporate Governance Committee and Remuneration Advisory Committee	Yes	
João Eduardo Moura da Silva Freixa	Member of the Board of Directors and Executive Committee	No	Member of the Executive Committee
Pedro Mosqueira do Amaral	Member of the Board of Directors	No	Employment contract with BES
Isabel Maria Osório de Antas Mégre de Sousa Coutinho	Member of the Board of Directors, Chairman of the Corporate Governance Committee and of the Remuneration Advisory Committee	Yes	
João de Faria Rodrigues	Member of the Board of Directors and Audit Committee	Yes	
Marc Olivier Tristan Oppenheim	Member of the Board of Directors	No	Board Member or employment contract with shareholder Crédit Agricole, S.A.
Vincent Claude Paul Pacaud	Member of the Board of Directors	No	Board Member or employment contract with shareholder Crédit Agricole, S.A.
Rita Maria Lagos do Amaral Cabral	Member of the Board of Directors, Corporate Governance Committee and Remuneration Advisory Committee	Yes	
Stanislas Gerard Marie Georges Ribes	Member of the Board of Directors and Executive Committee	No	Member of the Executive Committee
Horácio Lisboa Afonso	Member of the Board of Directors and Chairman of the Audit Committee	Yes	
Pedro João Reis Matos Silva	Member of the Board of Directors and Audit Committee	Yes	
Milton Almicar Silva Vargas	Member of the Board of Directors	No	Board Member or employment contract with shareholder Banco Bradesco
Xavier Musca	Member of the Board of Directors	No	Board Member or employment contract with shareholder Crédit Agricole, S.A.

II.15 Criteria for Assessing the Independence of the Members of the Board of Directors

The Corporate Governance Committee has confirmed the independence of all the other members qualified as independent directors, as follows:

Non Executive Members of the Board of Directors who are members of the Audit Committee

Pursuant to the Companies Code (Art. 423-B - 3, 4 and 5), the members of BES's Audit Committee are subject to scrutiny with regard to their independence and to the non existence of incompatibilities with the holding of that position.

Under these provisions, the assessment of independence must take as a reference the concept established in Article 414 (5) of the Companies Code (CC), and the incompatibilities with the holding of that position are those, mutatis mutandis, indicated in Article 414-A of the CC (making exception to the provisions of its sub-paragraph 1-b).

In order to collect the relevant information allowing the Board of Directors to assess the referred situations, at the beginning of 2013 a questionnaire was drawn up and sent to each of the members of the Audit Committee, to be personally replied, signed and subsequently returned.

This questionnaire contains questions about the circumstances upon which the CC makes independence conditional, and about the incompatibilities established in the same Code.

Other non executive members of the Board of Directors (Chairman of the Board of Directors and members of the Corporate Governance Committee

The other non executive members of BES's Board of Directors are not directly subject to the system of assessment of independence and prohibition of incompatibilities which the CC establishes for the members of the Audit Committee.

However, CMVM Regulation no. 1/2010, which applies to BES, requires the discrimination in the Annual Corporate Governance Report of the non executive board members that would comply, if these were applied to them, with the incompatibility rules (Article 414-A/1 of the CC (except for item /b) and the independence criteria (Article 414/5, also of the CC).

Hence, in order to collect the relevant information allowing the Board of Directors to assess these situations, at the beginning of 2013 a questionnaire was drawn up and sent to each of the other non executive members of the Board of Directors who were presented as independent directors in BES's 2012 Corporate Governance Report, to be personally replied, signed and subsequently returned.

This questionnaire contains questions about the circumstances upon which the CC makes independence conditional, and about the incompatibilities established in the same code.

Members of the Board of the General Meeting

Pursuant to the CC (Art. 374-A - 1), the members of BES's Board of the General Meeting are subject to scrutiny with regard to their independence and to the non existence of incompatibilities with the holding of that position.

Under these provisions, the assessment of independence must take as a reference, mutatis mutandis, the concept established in Article 414 (5) of the CC, and the incompatibilities with the holding of that position are also, mutatis mutandis, those indicated in Article 414-A – 1 of the CC.

In order to collect the relevant information allowing the Board of Directors to assess these situations, at the beginning of 2013 a questionnaire was drawn up and sent to each of the members of the Board of the General Meeting, to be personally replied, signed and subsequently returned. This questionnaire permitted to conclude that a relative of the Vice-Chairman of the Board of the General Meeting served on the Board of a company that competes with BES, this leading to the Vice-Chairman resigning his position.

This questionnaire contains questions about the circumstances upon which the CC makes independence conditional, and about the incompatibilities established in the same Code.

II.16 Selection Process of Non Executive Directors

The Corporate Governance Committee is responsible for supporting and advising the Board of Directors on the filling of vacancies occurred within the Board (see point II.2 of this report), namely by evaluating the profile of each candidate in terms of qualifications, expertise and experience.

Although the General Meeting may freely elect the members of BES's Board of Directors, the intervention of the Corporate Governance Committee provides further guarantee that the executive board members have no influence on the selection process of the members of the management body, and in particular of the non executive members.

II.17 Description of the Activity of the Non Executive Directors

The annual management report includes a description of the activity carried out by the non executive directors (see Chapter I of BES's management report).

II.18 Professional Qualifications of the Members of the Board of Directors and Professional Activities Carried out During the Last Five Years

Alberto Alves de Oliveira Pinto

Graduated in Economic and Financial Sciences from Instituto Superior de Ciências Económicas e Financeiras (Lisbon). Chairman of the Board of Directors of Banco Nacional de Crédito Imobiliário from 1991 to 2005. Non executive member of the Board of Directors of Galp Energia from 2006 to 2008. Non executive member of BES's Board of Directors from February 2006 to March 2008. Chairman of the Board of Directors of BES since March 2008.

No. of shares held on 31/12/2012: 0
First appointment: February 2006
Mandate ends in: 2015

Ricardo Espírito Santo Silva Salgado

Graduated in Economics from Instituto Superior de Ciências Económicas e Financeiras of the Universidade Técnica de Lisboa. Vice-Chairman of the Board of Directors and Chairman of the Executive Committee of BES, Chairman of the Board of Directors of Espirito Santo Financial Group, S.A., Bespar - SGPS, S.A. and Partran, SGPS, S.A., member of the Executive Committee of the Institut International d'Études Bancaires since 2003 and its Chairman from October 2005 to December 2006. Member of the Board of Directors of Banco Bradesco (Brazil) since 2003.

No. of shares held on 31/12/2012: 3,806,915
First appointment: September 1991
Mandate ends in: 2015

Bruno de Laage de Meux

Graduated from the École des Hautes Études Commerciales (H.E.C.), with an MBA from INSEAD. Member of the Board of Directors and of the Strategy Committee of Crédit Agricole S.A., and deputy secretary general of the Crédit Agricole National Federation since 2006. Appointed Vice-Chairman of Crédit Agricole S.A. in March 2010, in charge of Caisses Régionales, International Retail Banking, Payment Systems and Specialised Financial Services (Consumer Crédit, Leasing and Factoring). Appointed member of BES's Board of Directors in April 2010, to replace Jean Frederic de Leusse.

No. of shares held on 31/12/2012: 0
First appointment: April 2010
Mandate ends in: 2015

José Manuel Pinheiro Espírito Santo Silva

Graduated in Economics, specialising in Business Administration and Management, from Évora University (former Instituto de Estudos Superiores de Évora). Chairman of Banque Privée Espirito Santo S.A., executive member of BES's Board of Directors and Vice-Chairman of Espirito Santo Financial Group, S.A..

No. of shares held on 31/12/2012: 1,009,271
First appointment: April 1992
Mandate ends in: 2015

António José Baptista do Souto

Graduated in Economics from the School of Economics of Porto University. Executive member of BES's Board of Directors. Member of the Board of Directors of SIBS – Sociedade Interbancária de Serviços, S.A..

No. of shares held on 31/12/2012: 106,081
First appointment: November 1990
Mandate ends in: 2015

Jorge Alberto Carvalho Martins

Graduated in Economics from the School of Economics of Porto University. Executive member of BES's Board of Directors. Member of the Board of Directors of Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A..

No. of shares held on 31/12/2012: 144,058
First appointment: July 1993
Mandate ends in: 2015

Aníbal da Costa Reis de Oliveira

General Commercial Management course (Porto) and degree in Chemical Engineering (Germany). Executive positions in companies of the Riopele Group. Non executive member of BES's Board of Directors since 1992.

No. of shares held on 31/12/2012: 1,010,000
First appointment: April 1992
Mandate ends in: 2015

Manuel Fernando Moniz Galvão Espírito Santo Silva

B.A. Business Administration, Richmond College, London, International Bankers' Course at Barclays and Midland Bank, London, "Inter-Alpha Banking Programme" - INSEAD, Fontainebleau. Member of BES's Board of Directors since 1994. Executive member of the World Travel & Tourism Council since 2003. Chairman of the Executive Committee of Espirito Santo Resources since 2006. Chairman of the Board of Directors of Rioforte Investments since 2008 and of Rioforte (Portugal) S.A. since 2010.

No. of shares held on 31/12/2012: 6,831
First appointment: March 1994
Mandate ends in: 2015

José Maria Espírito Santo Silva Ricciardi

Graduated in Sciences Économiques Appliquées from the Université Catholique de Louvain, Faculté des Sciences Economiques, Sociales et Politiques, Institut d'Administration et de Gestion, Belgium. Executive member of BES's Board of Directors. Vice-Chairman of the Board of Directors and Chairman of the Executive Committee of BES Investimento. Chairman of the Board of Directors of BES Investimento do Brasil, S.A.. Member of the Board of Directors of Espirito Santo Financial Group, Espirito Santo International, S.A., and BES Africa SGPS, S.A.. Chairman of the Board of Directors of Espirito Santo Investment Holdings Limited. Member of the General and Supervisory Board of EDP. Member of the Fiscal Board of Sporting Clube de Portugal - Futebol, S.A.D..

No. of shares held on 31/12/2012: 30,000
First appointment: March 1999
Mandate ends in: 2015

Rui Manuel Duarte Sousa da Silveira

Graduated in Law from the Law School of the Lisbon University. Practising lawyer. Executive member of BES's Board of Directors. Member of the Board of Directors of Cimigest – S.G.P.S., S.A, Member of the Fiscal Board of Companhia de Seguros Tranquilidade, S.A., Chairman of the Board of the General Meeting of AVISTAR S.G.P.S., S.A., BES África, S.G.P.S., S.A., BEST – Banco Eletrónico de Serviço Total, S.A., ES Tech Ventures S.G.P.S., S.A., ESAF – Espírito Santo Ativos Financeiros S.G.P.S., S.A., Espírito Santo Ventures, Sociedade de Capital de Risco, S.A., Bespar – S.G.P.S., S.A., Espírito Santo Saúde – S.G.P.S., S.A., Partran – S.G.P.S., S.A. and T-Vida, Companhia de Seguros, S.A..

No. of shares held on 31/12/2012: 6,366
First appointment: March 2000
Mandate ends in: 2015

Joaquim Aníbal Brito Freixial de Goes

Graduated in Corporate Management and Administration, specialising in Marketing and Finance from Lisbon's Portuguese Catholic University. MBA from INSEAD, Fontainebleau. Executive member of BES's Board of Directors. Member of the Board of Directors of Portugal Telecom since 2000.

No. of shares held on 31/12/2012: 151,204
First appointment: March 2000
Mandate ends in: 2015

Ricardo Abecassis Espírito Santo Silva

Graduated in Economics from The City University, London. Executive Chairman of BES Investimento do Brasil, Member of the Board of Directors of BES Investimento since 2003, where he was appointed Executive Director in 2005. Member of BES's Board of Directors since 2002.

No. of shares held on 31/12/2012: 160,000
First appointment: March 2002
Mandate ends in: 2015

Amílcar Carlos Ferreira de Morais Pires

Graduated in Economics from the Portuguese Catholic University. BES General Manager, advisor to BES's Board of Directors and Coordinator of BES's Financial Department, Markets and Surveys until 2004. Executive member of BES's Board of Directors since March 2004 and member of the Board of Directors of BES Investimento since 2005. Member of the Board of Directors of Portugal Telecom since 2006.

No. of shares held on 31/12/2012: 334,725
First appointment: March 2004
Mandate ends in: 2015

Nuno Maria Monteiro Godinho de Matos

Graduated in Law from Universidade Clássica de Lisboa. Practising lawyer. Member of BES's Board of Directors since 2006, member of its Corporate Governance Committee since 2010 and member of its Remuneration Advisory Committee since 2012.

No. of shares held on 31/12/2012: 0
First appointment: February 2006
Mandate ends in: 2015

João Eduardo Moura da Silva Freixa

Graduated in Business Management from Instituto Superior de Economia, Lisbon; MBA from Universidade Nova de Lisboa. Vice-Chairman of Caixa Geral de Depósitos and Caixa - Banco de Investimento (Caixa BI), and non executive member of the Board of Directors of EDP- Energias de Portugal from 2004 to 2005. Advisor to BES's Board of Directors since October 2005, executive member of BES's Board of Directors since 2006, and Vice-Chairman of BES dos Acores since November 2006. Member of the Board of Directors of Unicre – Instituição Financeira de Crédito, S.A. since 2010.

No. of shares held on 31/12/2012: 131,281
First appointment: September 2006
Mandate ends in: 2015

Pedro Mosqueira do Amaral

Graduated in Business Management from the European University, Brussels, Belgium. Member of the Board of Directors of BES GmbH since 2006 and member of BES's Board of Directors since 2008.

No. of shares held on 31/12/2012: 192,500
First appointment: March 2008
Mandate ends in: 2015

Isabel Maria Osório de Antas Mégre de Sousa Coutinho

Graduated in Finance from Instituto Superior de Ciências Económicas e Financeiras (ISCEF), Lisbon, 1969. Chairman of Fundação Pão de Açúcar – Auchan until 2007. Member of BES's Board of Directors since 2008. Chairman of its Corporate Governance Committee since 2010 and member of its Remuneration Advisory Committee since 2012.

No. of shares held on 31/12/2012: 0
First appointment: March 2008
Mandate ends in: 2015

João de Faria Rodrigues

Graduated in Business Organisation and Management from Instituto Superior de Economia, Lisbon (1980). Certified Auditor since 1992. Senior Audit Manager with Grant Thornton & Associados – SROC, Lda. from 1997 to 2008. Member of BES's Board of Directors since 2008 and member of its Audit Committee.

No. of shares held on 31/12/2012: 0
First appointment: March 2008
Mandate ends in: 2015

Marc Olivier Tristan Oppenheim

Graduated from the École Supérieure des Sciences Économiques et Commerciales (ESSEC). Appointed Retail Market manager and member of the General Committee of Credit Lyonnais in 2007. Manager of International Retail Banking and member of the Executive Committee of Crédit Agricole since June 2010. In 2010 was appointed non executive member of BES's Board of Directors.

No. of shares held on 31/12/2012: 0
First appointment: July 2010
Mandate ends in: 2015

Vincent Claude Paul Pacaud

Graduated from the École Polytéchnique, with an MBA from INSEAD. Was CEO of BNP Paribas Assurance in Asia and member of the International Strategy Committee of BNP Paribas Assurance. In 2008 joined the Crédit Agricole Group as head on insurance for Asia and in 2010 was appointed CEO of Credit Agricole Life Japan. Appointed member of BES's Board of Directors in 2011 to replace Michel Goutorbe, and is a member of the Board of Directors of BESPAR, ESAF, BES Vida and BES Seguros.

No. of shares held on 31/12/2012: 0
First appointment: May 2011
Mandate ends in: 2015

Rita Maria Lagos do Amaral Cabral

Graduated in Law from the Lisbon University Faculty of Law. Practicing lawyer and a member of the Bar Association. Member of the Board of Directors of Cimigest – S.G.P.S., S.A , non executive member of the Board of Directors of Semana, Sociedade de Investimento e Gestão, SGPS, S.A., Comités, SGPS, S.A., and SODIM, SGPS, S.A.. Partner and Director at Amaral Cabral & Associados – Sociedade de Advogados, R.L.. Invited assistant professor at the Law School of the Portuguese Catholic University, Vice-Chairman of the Portuguese Catholic University's Bioethics Institute and member of the National Ethics Council for Life Sciences. Member of BES's Board of Directors, Corporate Governance Committee and Remuneration Advisory Committee since 2012.

No. of shares held on 31/12/2012: 0
First appointment: March 2012
Mandate ends in: 2015

Stanislas Gérard Marie Georges Ribes

Graduated in Economics from the Institut d'Études Politiques de Paris. Was Head of the Ile de France Nord region Division, with LCL, Crédit Lyonnais. Member of LCL's Management Committee and responsible for the corporate and institutional segment, as head of the Business Division from 2006 to 2009 and Regional Manager – Corporates North from 2002 to 2006. Executive member of BES's Board of Directors since 2012.

No. of shares held on 31/12/2012: 0
First appointment: March 2012
Mandate ends in: 2015

Horácio Lisboa Afonso

Graduated in Finance from the Instituto Superior de Economia (Lisbon). Certified Auditor and Certified Accountant. 1973-1982 – Price Waterhouse; 1983-1992 – Partner at Consulteam / Spicer & Oppenheim; 1993-1997 – Partner at Deloitte & Touche; 1997-2001 – Partner at Grant Thornton. In January 2012, as partner with Camacho Palma & Lisboa Afonso – SROC, joined Nexia International as International Contact Partner, until 2011. Member of the Management Board of the Portuguese Chamber of Certified Auditors (2006-2008 term of office). In July 2007 was appointed member of the Board of Directors and of the Audit Committee of ESFG, S.A., until the start of 2012. Member of the Board of Directors of BES and Chairman of its Audit Committee since 2012.

No. of shares held on 31/12/2012: 4,125
First appointment: March 2012
Mandate ends in: 2015

Pedro João Reis Matos Silva

Graduated in Finance from the Instituto Superior de Ciências Económicas e Financeiras, with a degree in Auditing and Accounting from Centre d'Enseignement Supèrieur des Affaires (CESA), France. Certified Auditor since 1981 and a partner with P. Matos Silva, Garcia JR, P. Caiado & Associados, SROC, Lda. Chairman of the Fiscal Board of Banco Português do Atlântico (1993 - 1995) and Advisor on economic affairs to the Portuguese Prime Minister (1987 – 1991). Was Chairman of the Fiscal Board of the Portuguese Chamber of Certified Orders (2005–2010 term of office) and is a member of its Higher Board (2012-2014 term of office). Member of BES's Board of Directors since 2012.

No. of shares held on 31/12/2012: 0
First appointment: March 2012
Mandate ends in: 2015

Milton Almicar Silva Vargas

Graduated in Business Management from the FIEO University Centre (Osasco, Brazil). Joined Banco Bradesco in 1976, where he was executive Vice-Chairman (March 2002 - June 2009). Member of the Board of Directors of, among others, Cielo S.A., CPM Braxis, Fleury S.A, Monteiro Aranha and Portugal Telecom since 2009. Co-opted as Member of BES's Board of Directors on May 14th, 2012.

No. of shares held on 31/12/2012: 0
First appointment: May 2012
Mandate ends in: 2015

Xavier Musca

Graduated in Political Sciences from the Institut d'Etudes Politiques, Paris (Sciences Po) and the École Nationale d'Administration. Head of French Treasury and Economic Policy department (2007), appointed executive manager for Economic Affairs in the French President's Office in 2009 and Secretary General of the French President's Office in 2011. In July 2012 joined Crédit Agricole as head of International Retail and Commercial Banking, Asset Management and Insurance. Appointed non executive member of BES's Board of Directors in November 2012 to replace Michel Jacques Mathieu.

No. of shares held on 31/12/2012: 0
First appointment: November 2012
Mandate ends in: 2015

II.19 Duties that the Members of the Board of Directors Carry out in Other Companies

Alberto Alves de Oliveira Pinto

Holds no positions in other companies.

Ricardo Espírito Santo Silva Salgado

A. Corporate positions held in companies of BES Group

Board of Directors
Banco Espírito Santo de Investimento, S.A. (Chairman)
BES África, S.G.P.S. S.A. (Chairman)
BES Finance, Ltd (Member)
BEST – Banco Eletrónico de Serviço Total, S.A. (Chairman)
ES Tech Ventures, S.G.P.S., S.A. (Chairman)
ESAF – Espírito Santo Ativos Financeiros, S.G.P.S., S.A. (Chairman)
Espírito Santo – Empresa de Prestação de Serviços 2, ACE (Chairman)
Espírito Santo Bank (Member)
Espírito Santo Ventures, Sociedade de Capital de Risco, S.A. (Chairman)

B. Corporate positions held in companies outside BES Group

Board of Directors
Banco Bradesco S.A. (Member)
Banque Espírito Santo et de la Vénétie, S.A. (Member)
Banque Privée Espírito Santo, S.A. (Member)
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Casa dos Pórticos – Sociedade de Administração de Bens, S.A. (Chairman)
E.S. Holding Administração e Participações S.A. (Vice-Chairman)
ES Bankers (Dubai) Limited (Chairman)
Espírito Santo Control S.A. (Member)
Espírito Santo Financial (Portugal) - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Espírito Santo Financial Group S.A. (Chairman)
Espírito Santo International S.A. (Member)
Espírito Santo Resources Limited (Member)
Espírito Santo Services, S.A (Member)
Partran - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Sociedade de Administração de Bens Pedra da Nau, S.A. (Chairman)

Other Positions
Associação Portuguesa de Bancos (Vice-Chairman of the Board, in representation of Banco Espirito Santo, S.A.)
Stanley Ho Foundation (Member of the General Board)
Instituto Internacional de Estudos Bancários IIEB (Member)

Bruno Bernard Marie Joseph de Laage de Meux

Corporate positions held in companies outside BES Group

Board of Directors
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)
BFORBANK (Member)
CA Assurances (Censeur)
CA Cards & Payments (Member)
CA Consumer Finance (Chairman)
CA Paiement (Member)
Crédit Agricole Creditor Insurance (Member)
Crédit Agricole Leasing & Factoring (Member)
Emporiki Bank (Member)
FIA-NET Europe (Member)
Fireca (Member)
Fonds de Garantie des Dépôts (Member of the Supervisory Board)
Uni – Editions (Chairman)

Other Positions
Crédit Agricole, S.A. (Member of the Executive Committee, Member of the General Management Committee, Deputy Chief Executive Officer in Charge of Retail Banking France (Regional Banks and LCL), Specialised Financial Services and Payment Systems & Services)

José Manuel Pinheiro Espírito Santo Silva

A. Corporate positions held in companies of BES Group

Board of Directors
Banco Espírito Santo de Investimento, S.A. (Member)
BES África, S.G.P.S. S.A. (Member)
ESAF – Espírito Santo Ativos Financeiros, S.G.P.S., S.A. (Member)
Espírito Santo Bank (Member)

B. Corporate positions held in companies outside BES Group

Board of Directors
Banque Espírito Santo et de la Vénétie, S.A. (Member)
Banque Privée Espírito Santo, S.A. (Chairman)
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)
Casa da Saudade – Administração de Bens Móveis e Imóveis, S.A. (Chairman)
ES Bankers (Dubai) Limited (Member)
Espírito Santo Control S.A. (Member)
Espírito Santo Financial (Portugal) - Sociedade Gestora de Participações Sociais, S.A. (Vice-Chairman)
Espírito Santo Financial Group S.A. (Vice-Chairman)
Espírito Santo International S.A. (Member)
Espírito Santo Resources Limited (Member)
Espírito Santo Services, S.A. (Member)
Europ Assistance – Companhia Portuguesa de Seguros, S.A. (Member)
Ponte Alta – Consultoria e Assistência (Sociedade Unipessoal), Lda. (Member)
Ribeira do Marchante – Administração de Bens Móveis e Imóveis, S.A. (Chairman)

António José Baptista do Souto

A. Corporate positions held in companies of BES Group

Board of Directors
BES África, S.G.P.S. S.A. (Member)

Other Positions
Banco Espírito Santo dos Açores, S.A. (Member of the Remuneration Committee)

B. Corporate positions held in companies outside BES Group

Board of Directors
Angra Moura – Sociedade de Administração de Bens, S.A. (Chairman)
Companhia de Seguros Tranquilidade, S.A. (Member)
Ijar Leasing Algérie (Member)

Other Positions
ELO – Associação Portuguesa para o Desenvolvimento Económico e a Cooperação (Vice-Chairman of the General Board)
TF Turismo Fundos – SGFII, S.A. (appointed in representation of the Member of the Remuneration Committee, Banco Espírito Santo, S.A.)

Jorge Alberto Carvalho Martins

Corporate positions held in companies outside BES Group

Board of Directors
Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (Chairman)

Fiscal Board
Advita – Associação para o Desenvolvimento de Novas Iniciativas para a Vida (Deputy member)
Agência de Desenvolvimento Regional de Entre-o-Douro e Tâmega (Chairman)
Instituto Empresarial do Tâmega (Chairman)

Other Positions
Futebol Clube do Porto – Futebol, S.A.D. (Member of the Advisory Board)

Aníbal da Costa Reis de Oliveira

Corporate positions held in companies outside BES Group

Board of Directors
ACRO - S.G.P.S., S.A. (Chairman)
Diliva – Sociedade de Investimentos Imobiliários, S.A. (Chairman)
Espírito Santo Financial (Portugal) - Sociedade Gestora de Participações Sociais, S.A. (Member)
Espírito Santo Financial Group S.A. (Member)
Espírito Santo International S.A. (Member)
Olinerg – S.G.P.S., S.A. (Chairman)
Olinveste – S.G.P.S., Limitada (Member)
Oliren – S.G.P.S., S.A. (Chairman)
Q. L. PORTUGAL – Sociedade de Agricultura e Serviços da Quinta da Lage, Lda. (Member)

Manuel Fernando Moniz Galvão Espírito Santo Silva

Corporate positions held in companies outside BES Group

Board of Directors
Academia de Música de Santa Cecília (Non Executive Chairman)
Bensaúde Turismo, S.G.P.S., S.A. (Member)
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)
Higher Council of Espírito Santo Group (Member)
Espírito Santo Control S.A. (Member)
Espírito Santo Financial Group S.A. (Member)
Espírito Santo Health Care Investments S.A. (Chairman)
Espírito Santo Industrial, S.A. (Chairman)
Espírito Santo International S.A. (Member)
Espírito Santo Irmãos – Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Espírito Santo Resources (Portugal), S.A. (Member)
Espírito Santo Resources Limited (CEO)
Espírito Santo Services, S.A. (Member)
Espírito Santo Tourism (Europe), S.A. (Chairman)
Euroamerican Finance Corporation, Inc. (Chairman)
Euroamerican Finance S.A. (Chairman)
Herdade da Comporta – Actividades Agro Silvícolas e Turísticas, S.A. (Chairman)
Rio Forte Investments, S.A. (Chairman)
RIOFORTE (Portugal), S.A. (Chairman)
Santogal – Sociedade Gestora de Participações Sociais, S.A. (Member)
Sapec, S.A. (Member)
SODIM, S.G.P.S., S.A. (Member)

Board of the General Meeting
Espart – Espírito Santo Participações Financeiras, Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Sociedade Imobiliária e Turística da Quinta do Perú, S.A. (Chairman)

José Maria Espírito Santo Silva Ricciardi

A. Corporate positions held in companies of BES Group

Board of Directors
Banco Espírito Santo de Investimento, S.A. (Vice-Chairman and Chairman of the Executive Committee)
BES África, S.G.P.S. S.A. (Member)
BES Investimento do Brasil S.A. (Chairman)
Espírito Santo Investment Holdings Limited (Chairman)

Board of the General Meeting
ESAF – Espírito Santo Gestão de Patrimónios, S.A. (Vice-Chairman)

B. Corporate positions held in companies outside BES Group

Board of Directors
Espírito Santo Financial Group S.A. (Member)
Espírito Santo International S.A. (Member)

General and Supervisory Board
EDP – Energias de Portugal, S.A. (Member)

Fiscal Board
Sporting Clube de Portugal – Futebol, S.A.D. (Member)
Sporting Clube de Portugal (Vice-Chairman of the Fiscal and Disciplinary Board)

Board of the General Meeting
Espart – Espírito Santo Participações Financeiras, Sociedade Gestora de Participações Sociais, S.A. (Vice-Chairman)

Other Positions
EDP – Energias de Portugal, S.A. (Member of the Remuneration Committee)
EDP – Energias de Portugal, S.A. (Member of the Strategy Committee)

Rui Manuel Duarte Sousa da Silveira

A. Corporate positions held in companies of BES Group

Board of the General Meeting
AVISTAR S.G.P.S., S.A. (Chairman)
Banco Espírito Santo Cabo Verde, S.A. (Chairman)
Banco Espírito Santo dos Açores, S.A. (Chairman)
BES África, S.G.P.S. S.A (Chairman)
BEST – Banco Eletrónico de Serviço Total, S.A. (Chairman)
Capital Mais – Assessoria Financeira, S.A. (Chairman)
ES Tech Ventures, S.G.P.S., S.A. (Chairman)
ESAF – Espírito Santo Ativos Financeiros, S.G.P.S., S.A. (Chairman)
ESAF – Espírito Santo Fundos de Investimento Imobiliário, S.A. (Chairman)
ESAF – Espírito Santo Fundos de Investimento Mobiliário, S.A. (Chairman)
ESAF – Espírito Santo Fundos de Pensões, S.A. (Chairman)
ESAF – Espírito Santo Gestão de Patrimónios, S.A. (Chairman)
ESAF – Espírito Santo Participações Internacionais, S.G.P.S., S.A. (Chairman)
Espírito Santo Ventures, Sociedade de Capital de Risco, S.A (Chairman)
OBLOG - Consulting, S.A. (Chairman)

B. Corporate positions held in companies outside BES Group

Board of Directors
Cimigest – S.G.P.S., S.A . (Member)
Sociedade de Administração de Bens Casa de Bons Ares, S.A. (Chairman)
Sociedade de Silvicultura Monte do Arneirinho, Lda. (Member)

Fiscal Board
Companhia de Seguros Tranquilidade, S.A. (Member)

Board of the General Meeting
BES - Companhia de Seguros, S.A. (Chairman)
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Casa dos Pórticos – Sociedade de Administração de Bens, S.A. (Secretary)
ESEGUR – Empresa de Segurança, S.A. (Vice-Chairman)
Espírito Santo Saúde – S.G.P.S., S.A. (Chairman)
Esumédica – Prestação de Cuidados Médicos, S.A. (Chairman)
Europ Assistance – Companhia Portuguesa de Seguros, S.A. (Vice-Chairman)
Partran – Sociedade Gestora de Participações Sociais, S.A. (Chairman)
T-Vida, Companhia de Seguros, S.A. (Chairman)

Joaquim Aníbal Brito Freixial de Goes

A. Corporate positions held in companies of BES Group

Board of Directors
BES – Vida, Companhia de Seguros, S.A (Member)
E.S. - Recuperação de Crédito, ACE (Chairman)
Espírito Santo Informática, ACE (Chairman)
Espírito Santo Ventures, Sociedade de Capital de Risco, S.A. (Member)
OBLOG - Consulting, S.A. (Chairman)

B. Corporate positions held in companies outside BES Group

Board of Directors
BES – Companhia de Seguros, S.A. (Chairman)
Glintt – Global Intelligent Technologies, S.A. (Member)
Portugal Telecom, S.G.P.S., S.A. (Member)

Fiscal Board
Centro Social e Paroquial de Nossa Senhora da Ajuda (Chairman)
Fundação Brazelton/Gomes-Pedro para as Ciências do Bebé e da Família (Chairman)
Fundação da Universidade Católica Portuguesa (Chairman)

Ricardo Abecassis Espírito Santo Silva

A. Corporate positions held in companies of BES Group

Management Body
Board of Directors
AVISTAR S.G.P.S., S.A. (Member)
Banco Espírito Santo de Investimento, S.A. (Vice-Chairman)
BES Finance Ltd (Member)
BES Investimento do Brasil S.A. (Member)
Espírito Santo Bank (EUA) (Vice-Chairman)
Espírito Santo Investimentos S.A. (Brazil) (Chairman)

Executive Committee
BES Investimento do Brasil S.A. (Chairman)
Espírito Santo Investimentos S.A. (Brazil) (Chairman)
Gespar Participações Ltda (Brazil) (Member)

Fiscal Board
Banco Espírito Santo do Oriente, S.A. (Chairman)

B. Corporate positions held in companies outside BES Group

Management Body
Board of Directors
2bCapital S.A. (Member)
Agriways S.A. (Brazil) (Vice-Chairman)
BHG S.A. – Brazil Hospitality Group (Brazil) (Member)
Câmara Portuguesa de Comércio no Brasil (Vice-Chairman)
Espírito Santo Control S.A. (Member)
Espírito Santo International S.A. (Member)
Espírito Santo Property (Brazil) S.A. (Member)
Espírito Santo Resources Limited (Member)
Euroamerican Finance Corporation, Inc. (BVI) (Member)
Europ Assistance (Brazil) (Member)
Monteiro Aranha S.A. (Brazil) (Member)
Novagest Assets Management Ltd (Member)
Pojuca S.A. (Brazil) (Chairman)
Rioforte Investment Holding Brasil S.A. (Member)
Ushuaia – Gestão e Trading International Limited (Member)

Executive Committee
Associação Espírito Santo Cultura (Brazil) (Member)
Companhia Agrícola Botucatu (Chairman)
E.S. Holding Administração e Participações, S.A. (Chairman)
ES Consultoria Ltda (Brazil) (Partner - Member)
ESAP - Espírito Santo Agro-Pecuária S.A. (Uruguay) (Member)
ESCAE Consultoria, Administração e Empreendimentos, Ltda. (Brazil) (Member)
Saramagos S.A. Empreendimentos e Participações (Brazil) (Member)

Fiscal Board
Banco Bradesco S.A. (Member)

Advisory Board
Associação Brasileira de Bancos Internacionais S.A. (Member)

Amílcar Carlos Ferreira de Morais Pires

A. Corporate positions held in companies of BES Group

Board of Directors
AVISTAR S.G.P.S., S.A. (Chairman)
Banco Espírito Santo de Investimento, S.A. (Member)
Banco Espírito Santo do Oriente, S.A. (Member)
Bank Espírito Santo (International) Limited (Chairman)
BES – Vida, Companhia de Seguros, S.A (Member)
BES África, S.G.P.S. S.A. (Member)
BES Finance Ltd (Member)
BIC, International Bank, Limited (Chairman)
ES Tech Ventures, S.G.P.S., S.A. (Member)
ESAF – Espírito Santo Activos Financeiros, S.G.P.S., S.A. (Member)
Espírito Santo Bank (Member)
Espírito Santo – Empresa de Prestação de Serviços 2, ACE (Member)
Espírito Santo PLC (Member)
Execution Noble & Company Limited (Non Executive Director)
Execution Noble Limited (Non Executive Director)
Execution Noble Research Limited (Non Executive Director)

B. Corporate positions held in companies outside BES Group

Board of Directors
Portugal Telecom, S.G.P.S., S.A. (Vogal)

Nuno Maria Monteiro Godinho de Matos

Holds no positions in other companies.

João Eduardo Moura da Silva Freixa

A. Corporate positions held in companies of BES Group

Board of Directors
Banco Espírito Santo dos Açores, S.A. (Vice-Chairman)

B. Corporate positions held in companies outside BES Group

Board of Directors
SIBS – Forward Payment Solutions, S.A. (Member, appointed by Banco Espírito Santo, S.A under the terms of Article 390 (4) of the CC)
SIBS - SGPS, S.A. (Member, appointed by Banco Espírito Santo, S.A under the terms of Article 390 (4) of the CC)
UNICRE – Instituição Financeira de Crédito, S.A. (Member, appointed by Banco Espírito Santo, S.A under the terms of Article 390 (4) of the CC)

Pedro Mosqueira do Amaral

A. Corporate positions held in companies of BES Group

Board of Directors
Banco Espírito Santo de Investimento, S.A. (Member)
Bank Espírito Santo (International) Limited (Member)
BES Beteiligungs GmbH (Member)

B. Corporate positions held in companies outside BES Group

Board of Directors
Banque Espírito Santo et de la Vénétie, S.A. (Member)
Banque Marocaine du Commerce Extérieur (Member)
Espírito Santo International S.A. (Member)

Isabel Maria Osório de Antas Mégre de Sousa Coutinho

Corporate positions held in companies outside BES Group

Associação Novo Futuro (IPSS) (Chairman of the Board of Directors)
Entrajuda – Associação para o Apoio a Instituições de Solidariedade Social (Member of the Higher Council)
Instituto de Negociação e Vendas (Member of the Advisory Board)

João de Faria Rodrigues

Corporate positions held in companies outside BES Group

Fiscal Board
Partran – Sociedade Gestora de Participações Sociais, S.A. (Member)
Seguros LOGO, S.A. (Member)
T-Vida, Companhia de Seguros, S.A. (Member)
T-Vida, Companhia de Seguros, S.A. (Vogal)

Marc Olivier Tristan Oppenheim

Cargos sociais exercidos em outras entidades fora do Grupo BES

Corporate positions held in companies outside BES Group

Board of Directors
BSF Banque Saudi Fransi (Member)
CA Cards & Payments (Member)
CA Paiement (Member)
Cassa di Risparmio di Parma e Piacenza (Groupe Cariparma Crédit Agricole) (Member)
Crédit Agricole Bank Polska (Chairman of the Supervisory Board)
Crédit Agricole Egypt, S.A.E. (Member)
Crédit du Maroc (Member of the Supervisory Board)
Emporiki Bank (Member)
FIA-NET Europe (Member)
IUB Holding (Chairman)

Other Positions
Crédit Agricole, S.A. (Member of the Executive Committee & Head of International Retail and Commercial Banking)

Vincent Claude Paul Pacaud

A. Corporate positions held in companies of BES Group

Board of Directors
BES - Vida, Companhia de Seguros, S.A (Member)
ESAF - Espírito Santo Ativos Financeiros, S.G.P.S., S.A. (Member)

B. Corporate positions held in companies outside BES Group

Board of Directors
BES - Companhia de Seguros, S.A. (Member and Chairman of the Executive Committee)
Bespar - Sociedade Gestora de Participações Sociais, S.A. (Member)

Rita Maria Lagos do Amaral Cabral

Corporate positions held in companies outside BES Group

Board of Directors
Amaral Cabral & Associados – Sociedade de Advogados, R.L. (Member)
Cimigest – S.G.P.S., S.A. (Non executive Director)
Semapa, Sociedade de Investimento e Gestão, S.G.P.S., S.A.(Non executive Director)
SODIM, S.G.P.S., S.A. (Non executive Director)

Board of the General Meeting
Companhia Agrícola da Quinta do Duque, S.A. (Chairman)
Sociedade Agrícola do Margarido, S.A. (Chairman)

Other Positions
Associação Novo Futuro (IPSS) (Vice-Chairman of the Board)
Entrajuda – Associação para o Apoio a Instituições de Solidariedade Social (Member of the Higher Council)
Instituto de Bioética da Universidade Católica Portuguesa (Vice-Chairman)

Stanislas Gerard Marie Georges Ribes

Holds no positions in other companies.

Horácio Lisboa Afonso

Corporate positions held in companies outside BES Group

Board of Directors
Camacho Palma & Lisboa Afonso – Sociedade de Revisores Oficiais de Contas (Partner - Director)

Supervisory Body
Partran - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Somincor - Sociedade Mineira de Neves-Corvo, S.A. (Member of the Fiscal Board)
Teixeira Duarte - Engenharia e Construções, S.A. (Deputy member of the Fiscal Board)

Pedro João Reis Matos Silva

Corporate positions held in companies outside BES Group

Board of Directors
P. Matos Silva, Garcia Jr., P. Caiado & Associados – Sociedade de Revisores Oficiais de Contas, Lda. (Member Partner)

Other Positions
Ordem dos Revisores Oficiais de Contas (Member of the Higher Board)

Milton Almicar Silva Vargas

Corporate positions held in companies outside BES Group

Board of Directors
Cielo S.A. (Member)
Fleury S.A. (Member)
Monteiro Aranha S.A. (Member)
Portugal Telecom, S.G.P.S., S.A. (Member)

Other Positions
CPM Braxis S/A (Observer)

Xavier Musca

Corporate positions held in companies outside BES Group

Board of Directors
Amundi Groupe (Member)
Bespar - Sociedade Gestora de Participações Sociais, S.A. (Member)
CA Assurances (Member)
CACI (Member)
Cassa di Risparmio di Parma e Piacenza S.p.A. (Groupe Cariparma Crédit Agricole (Member)
Crédit Agricole Egypt S.A.E. (Vice-Chairman)
Crédit du Maroc (Vice-Chairman of the Supervisory Board)
Pacifica (Director and Permanent Representative of Crédit Agricole, S.A.)
Predica (Vice-Chairman)
Union de Banques Arabes et Françaises – U.B.A.F. (Vice-Chairman)

Other Positions
Crédit Agricole, S.A. (Managing Director in Charge of International Proximity Banking, Asset Management and Insurance)
Crédit Agricole, S.A. (Member of the Executive Committee)

II.30 Remuneration Policy

The Remuneration Policy approved by the General Meeting of March 22nd, 2012 is based on the assumptions of the remuneration policy approved in 2010, while already incorporating the new rules on the remuneration policy of financial institutions introduced by Decree-Law no. 88/2011, of July 20th, and Bank of Portugal Notice no. 10/2011. These are the main changes:

a) Introduction of non financial criteria in the performance assessment of the executive members of the Board of Directors, which in addition to individual performance also take into account the real growth of the institution and the actual wealth generated for the shareholders, the protection of the interests of clients and investors, its long-term sustainability and the extension of the risks assumed, as well as compliance with the rules applicable to the institution's activity;

b) Introduction of a rule whereby 50% at least of any variable remuneration, whether or not deferred, shall be paid in BES shares or equivalent financial instruments;

c) Introduction of a rule to the effect that the members of the Executive Committee 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 that were acquired by virtue of the payment of the variable remuneration, with the exception of those shares that must be sold for the payment of taxes on gains obtained from said shares.

Remuneration Policy

The Remuneration Committee, which is elected by the General Meeting, determines the remuneration of the members of BES's corporate bodies. Every year the Remuneration Committee submits to the General Meeting, for approval, a proposal setting out the remuneration policy of the corporate bodies.
One of the tasks of the Remuneration Advisory Committee appointed by the Board of Directors is to provide all necessary assistance and make recommendations in connection to the approval of BES's remuneration policy for its corporate bodies and senior officers.

The full text of the remuneration policy, as approved by the General Meeting of March 22nd, 2012, is available at www.bes.pt/ir. The proposals on BES's remuneration policies for the management and supervisory bodies and for its senior officers, such as will be submitted to the March 2013 Annual General Meeting, are attached to this report.

II.31 Individual Remuneration Paid to the Members of the Management and Supervisory Bodies

The remuneration of the members of BES's Board of Directors follows the criteria referred in point II.30 above.

BES' Board of Directors is composed of 26 members, of whom 10 are executive members and 16 are non executive members. From the non executive directors, three are members of the Audit Committee, three are members of the Corporate Governance Committee and three (José Maria Ricciardi, Ricardo Abecassis Espírito Santo Silva and Pedro Mosqueira do Amaral) hold executive positions in other companies of BES Group.

The remuneration paid to each of the members of the Board of Directors in 2012 is set out in the table below:

i. Members of the Corporate Bodies (except members of the Executive Committee)

2012 Board Members Remunerations (excluding Executive Committee) (in thousands of euro)

Remunerations 2012	BES			TOTAL BES	Others BES Group			TOTAL OTHER	Total			TOTAL
	Fixed		Chg.		Fixed		Chg.		Fixed		Chg.	
	Salary	Subsidies and other			Salary	Subsidies and other			Salary	Subsidies and other		
João Faria Rodrigues	163	-	-	**163**	-	-	-	**-**	163	-	-	**163**
Horácio Lisboa Afonso	108	-	-	**108**	-	-	-	**-**	108	-	-	**108**
Pedro João Reis Matos Silva	92	-	-	**92**	-	-	-	**-**	92	-	-	**92**
Total Audit Committee	364	-	-	364	-	-	-	-	364	-	-	364
Board Members (excluding Executive Committee)												
Alberto Alves de Oliveira Pinto	-	185	-	**185**	-	-	-	**-**	-	185	-	**185**
Aníbal da Costa Reis de Oliveira	-	22	-	**22**	-	-	-	**-**	-	22	-	**22**
Manuel Fernando Moniz Galvão Espírito Santo Silva	-	22	-	**22**	-	-	-	**-**	-	22	-	**22**
Nuno Maria Monteiro Godinho de Matos	-	42	-	**42**	-	-	-	**-**	-	42	-	**42**
Ricardo Abecassis Espírito Santo Silva	-	19	-	**19**	464	13	71	**547**	464	31	71	**566**
Pedro Mosqueira do Amaral	135	40	-	**174**	302	-	191	**493**	437	40	191	**667**
Isabel Maria Osório de Antas Mégre de Sousa Coutinho	-	42	-	**42**	-	-	-	**-**	-	42	-	**42**
Rita Maria Lagos do Amaral Cabral	-	36	-	**36**	-	-	-	**-**	-	36	-	**36**
Milton Almicar Silva Vargas	-	7	-	**7**	-	-	-	**-**	-	7	-	**7**
Vincent Claude Paul Pacaud	-	30	-	**30**	207	-	-	**207**	207	30	-	**237**
Total Board Memebers (excluding Executive Committee)	135	446	-	581	973	13	262	1,248	1,108	459	262	1,829
Board of the General meeting												
Paulo Manuel de Pitta e Cunha	-	19	-	**19**	-	-	-	**-**	-	19	-	**19**
Fernão de Carvalho Fernandes Thomaz	-	12	-	**12**	-	-	-	**-**	-	12	-	**12**
Nuno Miguel Matos Silva Pires Pombo	-	9	-	**9**	-	-	-	**-**	-	9	-	**9**
Total of the Board of the General Meeting	-	40	-	40	-	-	-	-	-	40	-	40
Comissão Vencimentos												
Daniel Proença de Carvalho	-	18	-	**18**	-	-	-	**-**	-	18	-	**18**
Joaquim Jesus Taveira Santos	-	18	-	**18**	-	-	-	**-**	-	18	-	**18**
Alvaro João Duarte Pinto Correia	-	14	-	**14**	-	-	-	**-**	-	14	-	**14**
Total Remuneration Committee	-	50	-	50	-	-	-	-	-	50	-	50
Total Corporate Bodies (excluding Executive Committee)	499	536	-	1,034	973	13	262	1,248	1,471	548	262	2,282

ii. Members of the Executive Committee

2012 Executive Committee Remunerations (in thousands of euro)

	BES			TOTAL BES	Others BES Group			TOTAL OTHER	Total			TOTAL
	Fixed		Chg.		Fixed		Chg.		Fixed		Chg.	
	Salary	Subsidies and other			Salary	Subsidies and other			Salary	Subsidies and other		
Ricardo Espírito Santo Silva Salgado	547	2	-	**550**	-	3	-	**3**	547	5	-	**552**
José Manuel Pinheiro Espírito Santo Silva	462	2	-	**464**	-	3	-	**3**	462	6	-	**468**
António José Baptista do Souto	459	2	-	**461**	-	-	-	**-**	459	2	-	**461**
Jorge Alberto Carvalho Martins	456	2	-	**458**	-	-	-	**-**	456	2	-	**458**
José Maria Espírito Santo Silva Ricciardi	-	-	-	**-**	460	-	-	**460**	460	0	-	**460**
Rui Manuel Duarte Sousa da Silveira	456	2	-	**458**	-	-	-	**-**	456	2	-	**458**
Joaquim Aníbal Brito Freixial de Goes	455	3	-	**458**	-	-	-	**-**	455	3	-	**458**
Amílcar Carlos Ferreira de Morais Pires	455	2	-	**457**	-	-	-	**-**	455	2	-	**457**
João Eduardo Moura da Silva Freixa	454	2	-	**456**	-	2	-	**2**	454	5	-	**458**
Stanislas Gerard Marie Georges Ribes	211	233	-	**444**	-	-	-	**-**	211	233	-	**444**
Total Executive Committee	3,956	250	-	4,206	460	9	-	468	4,416	259	-	4,674

Executive Committee Remunerations 2012 vs 2011

(in million of euro)

	2012				2011				
	Fixed		Chg.	TOTAL 2012	Fixed		Chg.	TOTAL 2011	Chg. (%)
	Salary	Subsidies and other			Salary	Subsidies and other			
Ricardo Espírito Santo Silva Salgado	547	5	-	**552**	546	5	253	**804**	-31%
José Manuel Pinheiro Espírito Santo Silva	462	6	-	**468**	461	6	212	**678**	-31%
António José Baptista do Souto	459	2	-	**461**	457	2	212	**671**	-31%
Jorge Alberto Carvalho Martins	456	2	-	**458**	454	99	212	**765**	-40%
José Maria Espírito Santo Silva Ricciardi	460	-	-	**460**	451	64	212	**727**	-37%
Rui Manuel Duarte Sousa da Silveira	456	2	-	**458**	454	2	212	**668**	-31%
Joaquim Aníbal Brito Freixial de Goes	455	3	-	**458**	454	2	212	**668**	-31%
Amílcar Carlos Ferreira de Morais Pires	455	2	-	**457**	454	67	212	**733**	-38%
João Eduardo Moura da Silva Freixa	454	5	-	**458**	452	5	212	**669**	-32%
Stanislas Gerard Marie Georges Ribes (1)	211	233	-	**444**	-	-	-	**-**	
Jean-Luc Louis Marie Guinoiseau (2)	-	-	-	**-**	438	57	318	**813**	-100%
Pedro José de Sousa Fernandes Homem (2)	-	-	-	**-**	452	3	318	**774**	-100%
Total Executive Committee	**4,416**	**259**	**-**	**4,674**	**5,072**	**313**	**2,584**	**7,969**	**-41%**

(1) appointed in 2012.
(2) resigned in 2012.

In 2012 no variable remuneration was attributed to the members of the Executive Committee except for a new Medium Term Variable Remuneration attributed on September 21st, 2012, in the overall amount of EUR 1.94 million, consisting of options on BES shares which can only be exercised at the end of January 2016 and providing that the price of the shares has risen by at least 10% in the referred 3-year period. This Medium Term Variable Remuneration adds on to that attributed in 2011, in the overall amount of EUR 1.13 million, consisting of options on BES shares which can only be exercised three years after their date of attribution (end of March 2014).

In the last four years (2008-2012), the total average per capita remuneration attributed to the executive directors decreased by 59.4%, from EUR 1,150 thousand in 2008 to EUR 467.4 thousand in 2012. In 2012 the total remuneration of the executive directors decreased by 41% compared to the previous year.
In overall terms, the remuneration attributed to the executive directors in the referred 4-year period decreased by 63%, from EUR 12,651 thousand to EUR 4,674 thousand.

By decision of the Remuneration Committee the payment of the Deferred Annual Variable Remuneration relative to 2011 was suspended in 2012 and 2013 and therefore no payment was made.

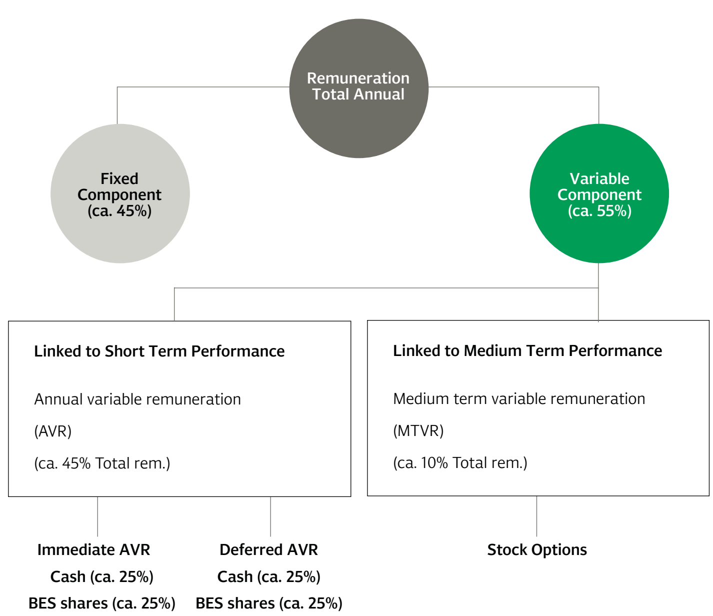
2011-2012

(in million of euro)

	Deferred Cash (2012-2014)	Deferred Shares (2012-2014)	Subtotal	Deferred Options (2011-2014)	Options (2011-2014)
Ricardo Espírito Santo Silva Salgado	127	127	254	130	230
José Manuel Pinheiro Espírito Santo Silva	106	106	212	100	190
António José Baptista do Souto	106	106	212	100	190
Jorge Alberto Carvalho Martins	106	106	212	100	190
José Maria Espírito Santo Silva Ricciardi	-	-	-	100	190
Rui Manuel Duarte Sousa da Silveira	106	106	212	100	190
Joaquim Aníbal Brito Freixial de Goes	106	106	212	100	190
Amílcar Carlos Ferreira de Morais Pires	106	106	212	100	190
João Eduardo Moura da Silva Freixa	106	106	212	100	190
Stanislas Gerard Marie Georges Ribes	-	-	-	-	190
Total Executive Committee	**869**	**869**	**1,738**	**930**	**1,940**

II.32 Information on the Manner in which the Remuneration is Structured

The remuneration of the non executive members of the Board of Directors only comprises a fixed component.
The remuneration of the members of the Executive Committee is set by the Remuneration Committee up to the end of April of every year, based on the assessment of the performance in the previous year. This remuneration consists of a fixed component and possibly a variable component.
The fixed component (consisting of the salary of the members of the Executive Committee, plus the supplements that are attributed to all the employees of the Bank, such as seniority payments or other allowances) shall be subject to the limits established by the Remuneration Committee and represent approximately 45% of the Total Annual Remuneration.
The General Meeting of March 2012 determined that no variable component would be attributed relative to 2011. The exact amount of the variable component, when one is due, will 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.



The variable component is divided into two sub-components:

A) Short Term Performance (Annual Variable Remuneration)

The Annual Variable Remuneration (AVR) is linked to short term performance and will correspond to approximately 45% of the Total Annual Remuneration.

The AVR will be calculated at the beginning of each year by the Remuneration Committee in accordance with the following factors:

- Achievement of the main objectives set in the annual budget for the previous year, as approved by the Board of Directors, concerning: Net Income for the year, Cost to Income (ratio of operating costs to total banking income), and Return on Equity (ratio of net income to equity);
- Performance assessed by non financial criteria, including the individual performance of each member of the Executive Committee (each Executive Committee member has several established areas of responsibility, namely over departments whose performance is measured objectively and quantitatively) and the evolution of indicators linked to the sustainability of the Bank's growth (such as the loans to deposits ratio, the Core Tier 1 ratio, the main service quality indicators, as well as compliance with the main rules applying to the institution's activity).

The amount of the AVR will be determined according to the assessment made of the evolution of the aforementioned factors.
The AVR is divided into an immediate portion («Immediate AVR»), which is paid after the accounts for the year in question have been approved, and another portion that is deferred for a period of three years (the Deferred Annual Variable Remuneration («Deferred AVR»)).
The Immediate AVR and the Deferred AVR are both divided into two equal parts (one in cash and another in kind, the latter consisting of BES shares).

B) Medium Term Performance (Medium Term Variable Remuneration)

The Medium Term Variable Remuneration («MTVR») is linked to Medium Term Performance and will correspond to approximately 10% of the Total Annual Remuneration.

The MTVR will be determined by the Remuneration Committee at the beginning of each year based on the assessment of the previous year's performance. It will be paid through the attribution of stock options which can only be exercised three years after their date of attribution, thus implying the accrual of their cost over those three years until they are exercised.

The MTVR will be linked to the sustainability of BES's indicators, and calculated in accordance with the global return afforded to the shareholders over three years, such return deriving from dividends paid and stock market capitalisation. The exercise price of the MTVR's underlying Stock Options at the end of the 3-year period will be 10% higher than the market price at the beginning of this period.

Applying this assumption of evolution of the share's market price to the reference price used to structure the Stock Options will permit to establish the exercise value of those options and consequently to determine the number of stock options to be attributed each year to each executive director.

The options can only be exercised at maturity, definitively expiring when not exercised on that date.

In 2012 no variable remuneration was attributed to the members of the Executive Committee except for a Medium Term Variable Remuneration attributed on September 21st, 2012, in the overall amount of EUR 1.94 million, consisting of options on BES shares which can only be exercised at the end of January 2016 and providing that the price of the shares has risen by at least 10% in the referred 3-year period.

The Deferred Annual Variable Remuneration (DAVR) is subject to two general limitations: on the one hand, its payment is deferred over a period of three years; on the other the Remuneration Committee may decide it will not be attributed, namely in case the return on equity has decreased to below 5% (see remuneration policy for 2012, available at www.bes.pt).

By definition, the Medium Term Variable Remuneration (MTVR) is limited by the performance of the BES shares. This remuneration will have no value unless the share price increases by at least 10% in the 3-year period.

II.33 Remuneration of the Executive Members of the Board of Directors

a) Variable component of the remuneration;

On this subject, please refer to point II.32. above.

b) The corporate bodies responsible for assessing the performance of executive directors;

Under the terms of Article 24 of the Company's articles of association, it is up to the Remuneration Committee to establish the remuneration of BES's directors.

The Remuneration Committee is currently composed of three members, elected by the General Meeting of March 22nd, 2012 for a four-year mandate. In addition, the Corporate Governance Committee issues an Annual Report containing an assessment of the performance of the Board of Directors *vis-à-vis* the established objectives.

The Remuneration Advisory Committee is responsible for drawing up proposals and recommendations on the fixing of the remuneration of the members of the Board of Directors and Audit Committee, and senior officers of BES.

c) Criteria for performance assessment;

The executive directors are assessed based on the following financial and non financial criteria:

- Cost to Income (ratio of operating costs to total banking income) – an indicator of the Bank's operational activity, this ratio measures its capacity to generate revenues against operating costs;
- Net Income for the year – this indicator translates the contribution to shareholders, already deducted of elements not included in the cost to income, such as the cost of risk, taxes and minority interests;
- Return on Equity (ratio of net income to equity) – this indicator measures the net income generated as a percentage of the funds invested by the shareholders;
- Stock market capitalisation – an unequivocal indication of the market's assessment of BES's performance, this indicator permits to align the shareholders' perspective to the markets' perspective;
- Individual performance of each member of the Executive Committee - this permits to identify the relative contribution of each executive director to BES'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;
- Loan to Deposits Ratio - this ratio gauges the level of balance of BES's growth trajectory, permitting to assess whether this growth enables compliance with the regulatory requirements concerning the deleveraging of the financial sector;
- Core Tier 1 Ratio - the main indicator used to measure solvency from the regulatory standpoint (based on references established both by the Bank of Portugal and the European Banking Authority – EBA);
- Service Quality Indicators - these indicators permit to factor in the opinion of BES's client base about the level of protection of their interests;
- 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.

d) Fixed and variable components of the remuneration;

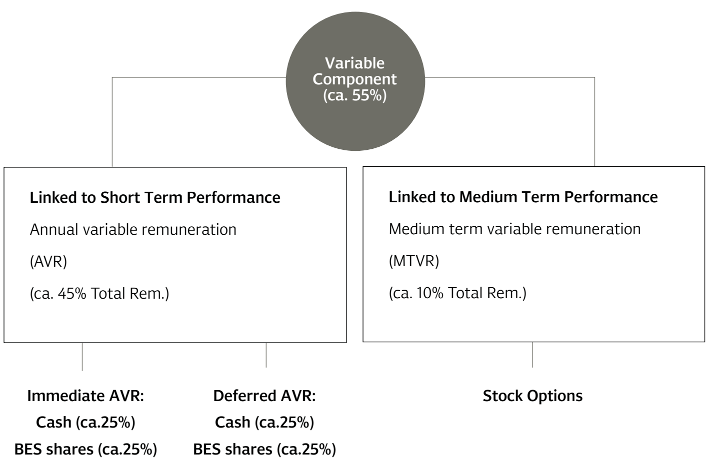
The variable component of the remuneration of the executive directors paid in the form of a share in the profits of the Company cannot exceed 2% of BES's consolidated net income, as referred in point II.32. In 2012 no variable remuneration was attributed to the executive directors except for a Medium Term Variable Remuneration attributed on September 21st, 2012, in the overall amount of EUR 1.94 million, consisting of options on BES shares which can only be exercised at the end of January 2016 and providing that the price of the shares has risen by at least 10% in the referred 3-year period.

e) Deferral of the variable component of the remuneration;

The AVR is divided into an immediate portion («Immediate AVR»), which is paid after the accounts for the year in question have been approved, and another portion that is deferred for a period of three years (the Deferred Annual Variable Remuneration («Deferred AVR»)).

The Immediate AVR and the Deferred AVR are both divided into two equal parts (one in cash and another in kind, the latter consisting of BES shares).

The Medium Term Variable Remuneration («MTVR») is linked to Medium Term Performance and will correspond to approximately 10% of the Total Annual Remuneration.



f) Payment of the variable remuneration;

The Deferred Annual Variable Remuneration («DAVR») is subject to two general limitations: on the one hand, its payment is deferred over a period of three years; on the other the Remuneration Committee may decide it will not be attributed, namely in case the return on equity has decreased to below 5% (see remuneration policy for 2012, available at www.bes.pt).
By definition, the Medium Term Variable Remuneration («MTVR») is limited by the performance of the BES shares. This remuneration will have no value unless the share price increases by at least 10% in the 3-year period.

g) Criteria for the attribution of the variable remuneration in shares;

The members of the Executive Committee are attributed a variable remuneration payable in kind, through allocation of a certain number of BES shares. This payment in kind is deferred for a period of three years. The members of the Executive Committee are also attributed stock options, which can only be exercised after a period of at least three years.

Up to the end of their term of office, the members of the Executive Committee shall hold, up to a minimum of twice the value of the total annual remuneration, the shares that were acquired by virtue of the payment of the variable remuneration, with the exception of those shares that must be sold for the payment of taxes on the gains of said.

The regulation of the Board of Directors forbids the performance of any agreements concerning the shares attributed to the members of the Executive Committee, including hedging contracts or other risk transfer contracts.

h) Criteria for the attribution of the variable remuneration in options;

The MTVR will be determined by the Remuneration Committee at the beginning of each year based on the assessment of the previous year's performance. It will be paid through the attribution of stock options which can only be exercised at least three years after their date of attribution, thus implying the accrual of their cost over those three years until they are exercised.

The MTVR will be linked to the sustainability of BES's indicators, and calculated in accordance with the global return afforded to the shareholders over three years, such return deriving from dividends paid and stock market capitalisation. The exercise price of the MTVR's underlying Stock Options at the end of the 3-year period will be 10% higher than the market price at the beginning of this period.

Applying this assumption of evolution of the share's market price to the reference price used to structure the Stock Options will permit to establish the exercise value of those options and consequently to determine the number of stock options to be attributed each year to each director.

In 2012 the Remuneration Committee attributed stock options in the amount of EUR 1,940,000.

i) Annual bonuses and other benefits;

There are no other forms of remuneration in place besides the fixed and variable remuneration described in this remuneration policy.

j) Share in the profits;

There are no other forms of remuneration in place besides the fixed and variable remuneration described in this remuneration policy.

l) Compensation;

No compensation has been paid or is owed to former members of the Executive Committee in relation to early contract terminations.

m) Compensation in case of dismissal without due cause;

Directors are dismissed by the General Meeting. There are no agreements in place that establish amounts to be paid in case of dismissal without due cause and therefore there is no need to envisage contractual restraints on compensation owed to BES directors due to dismissal without due cause.

n) Amounts paid by other Group companies;

The total amount paid in 2012 to members of BES's Board of Directors by other companies of BES Group was EUR 1,716.000.

o) Complementary pension schemes;

The members of the Board of Directors are entitled to receive retirement pensions or complementary pension benefits if they were members of the Executive Committee.

The main points of the regulation on the members of the Board of Directors' entitlement to receive retirement pensions or complementary pension benefits for old age or disability may be summed up as follows:

a) The right to receive a retirement pension or complementary pension benefits falls due on reaching sixty five years of age, or twenty five years of professional activity, or in the event of disability, when disability occurs.

b) The right to receive a retirement pension or complementary pension benefits may be brought forward to the age of fifty five, providing the board member has served on BES' Board of Directors for a minimum period of nine consecutive or non consecutive years. Positions held in the senior management or Board of Directors of the former "Banco Espirito Santo e Comercial de Lisboa, S.A." count for purposes of calculating seniority in the post.

c) Complementary pension benefits may exist as a way of topping up other retirement schemes that may be granted under any other social security system, to the effect that the total pension reaches one hundred per cent of the last annual gross remuneration.

In any case, retirement pensions or complementary pension benefits shall never exceed the pensionable salary of the board member in question, although they may be of a lower amount. The pensionable salary corresponds to the sum of the fixed annual remuneration and the variable remuneration received by the Board member in question in the year immediately preceding the year of retirement, deducted of any annual pension paid by any other social security system, as well as of the seniority payments received by that Board member. The variable remuneration shall correspond to at least the amount of the average variable remuneration received in the last twelve years by the Board member in question at retirement date.

The complementary retirement or survivor's pension benefits paid by the company shall be updated annually in accordance with the global percentage of increase of the remuneration of the Board members in active service, such as established by the Remuneration Committee; however the update rate may never be lower than the rate of change of the consumer price index or higher than twice that rate.

The current version of the regulation on the members of the Board of Directors' entitlement to receive retirement pensions or complementary pension benefits for old age or disability was approved by the General Meeting of Shareholders held on November 11th, 2011.

A proposal on the amendment of the regulation on the members of the Board of Directors' entitlement to receive retirement pensions will be submitted to the 2013 Annual General Meeting.

p) Non-financial benefits;

There are no non-financial benefits attributed to the members of the Board of Directors.

q) Mechanisms to prevent contracts that call into question the grounds for the variable remuneration.

The regulation of the Board of Directors forbids the performance of any agreements concerning the shares attributed to the members of the Executive Committee, including hedging contracts or other risk transfer contracts.

II.34 Remuneration of the Non Executive Directors

Only the members of the Executive Committee of the Board of Directors earn a variable remuneration, which is set by the Remuneration Committee and approved by the General Meeting. The remuneration of all other members of the corporate bodies is fixed.

II.35 Irregularities Disclosure Policy

The broad guidelines of BES's policy for the reporting of irregularities are given below:

a) Complementary nature: the reporting of irregularities by BES employees shall only take place when the institutional mechanisms (audits and inspections) fail to function or do not function in a timely manner;

b) Universal nature: all BES employees are subject to the obligation to inform;

c) Anonymous reporting: anonymous communications shall not be admitted or taken into account, however absolute confidentiality is guaranteed with regard to the identity of the reporting employee, providing he/she so requests;

d) Non retaliation: no measures whatsoever shall be taken against employees who report irregular behaviours. However, they should bear in mind that when reporting such practices, specific behaviours and the alleged cause of irregularity must be indicated, no vague allegations against people being admitted;

e) Entity that collects the notifications: the Audit Committee, under the terms of the law. Notifications can be addressed in any form;

f) Entity that investigates the notifications: depending on the matter in hand, the Audit Committee entrusts the investigation process to the Internal Audit Department or to the Compliance Department;

g) Notifications file: notifications that clearly lack credibility are immediately destroyed. When an internal investigation process occurs, they are filed and remain confidential until the respective processes are concluded. When the investigations do not lead to further proceedings, whether disciplinary or legal, the notifications are destroyed within 3 months of the date of conclusion of the investigation.

II.36 Identification of the Members of the Corporate Governance Committee

BES's Corporate Governance Committee has the following composition (see II.1 and II.16.):

Isabel Maria Osório de Antas Mégre de Sousa Coutinho (Chairman)

Nuno Maria Monteiro Godinho de Matos

Rita Maria Lagos do Amaral Cabral

II.37 Number of Meetings held by the Committees

The Executive Committee held 90 meetings, the Audit Committee held 12 meetings, the Corporate Governance Committee held four meetings and the Remuneration Advisory Committee held one meeting. Minutes were drawn up of all these meetings.

II.38 Remuneration Committee

BES's Remuneration Committee, elected by the General Meeting of March 22nd, 2012 for the 2012/2015 four-year mandate, has the following composition:

Daniel Proença de Carvalho
Practising lawyer. Chairman of the Board of Directors of ZON Multimedia and Cimpor, Cimentos de Portugal, S.G.P.S., S.A., and Chairman of the Board of Curators of the D. Anna de Sommer Champalimaud e Dr. Carlos Montez Champalimaud Foundation since 2005.

Jacques dos Santos
Senior Partner with MAZARS AUDITORES PORTUGAL since 1991. Chairman of BES's Fiscal Board from 1992 to 2006 and Chairman of the Fiscal Board of BESPAR since 1992. Chairman of the Fiscal Board of Solubema – Sociedade Luso-Belga de Mármores since 1993. Member of the Fiscal Board of ESAF – S.G.P.S., S.A..

Álvaro Pinto Correia
Civil engineer. Was Chairman of the Management Board of Banco Totta & Açores, Chairman of the Board of Associação Portuguesa de Bancos, member of the Board of Directors of Caixa Geral de Depósitos, Chairman of the Board of Directors of Companhia de Seguros Fidelidade, S.A., Chairman of the Advisory Board of Associação Portuguesa de Seguradores, Chairman of the Board of Directors of Sofid – Sociedade para o Financiamento do Desenvolvimento, Instituição de Crédito, S.A. and Chairman of the Board of Directors of INAPA – Investimentos, Participações e Gestão, S.A..

All the members of the Remuneration Committee have knowledge and experience in the field of remuneration policy.

II.39 Independence of the Members of the Remuneration Committee

None of the members of the Remuneration Committee is a member of BES's Board of Directors or has any family connection with any of its members.

In 2010 the Remuneration Committee commissioned Mercer Ltd, an independent consultancy firm, to make a survey on current executive compensation practices and respective remuneration structures, making a comparison between the remuneration of BES's executive directors and the remunerations paid by a group of financial institutions of similar size and stock market capitalisation, taken as a benchmark by that consultancy firm. This survey was taken as the basis for the proposals on BES's remuneration policies submitted by the Remuneration Committee to Annual General Meetings held since 2010.

Said consultancy firm provides additional services to BES in the area of human resources, however it has provided to services to BES's Remuneration Committee since 2010.

III. Information and Auditing

III.1 Equity Structure

BES has share capital of EUR 5,040 124,063.26, represented by a total of 4,017,928,471 ordinary, book-entry, registered shares with no par value. BES shares are listed on the NYSE Euronext Lisbon.

BES does not have:

a) Capital subscribed and not paid up or non-issued authorised capital;
b) Convertible bonds, warrants and/or shares conferring special rights or privileges;
c) Forms of exponentially increasing the influence of shareholders, or figures such as golden shares or priority shares;
d) Shareholder agreements on the exercise of voting rights, as far as BES is aware;
e) Shares carrying multiple voting rights;
f) Limits on the exercise of voting rights;
g) Statutory restrictions on the acquisition or transferability of shares;
h) Since the Extraordinary General Meeting of June 9th, 2011, which approved a partial amendment of the articles of association, the Board of Directors is authorised, upon favourable opinion of the Audit Committee, to increase the share capital through cash contributions, one or more times, through the issuance of ordinary shares or preference shares, redeemable or non-redeemable, under the terms and conditions to be defined. The maximum amount authorized, in addition to the share capital amount, is of EUR 7,500,000,000.00, this authorisation being valid for a period of five years.

BES Group also has 215,621 non-voting preference shares issued by the subsidiary BES Finance, Ltd. (a wholly owned subsidiary of BES) with nominal value of EUR 1,000 each. This issue is fully guaranteed by BES. These preference shares are listed on the Luxembourg Stock Exchange.

III.2 Qualified Holdings

	December 12	
	N Shares	**% Voting Rights**
ESPIRITO SANTO FINANCIAL GROUP, S.A (Luxembourg)		
- directly	29,832,144	0.74%
- through BESPAR, S.G.P.S., S.A. (controlled by Espirito Santo Financial (Portugal), S.G.P.S., S.A., fully owned by Espirito Santo Financial Group S.A.	1,417,916,095	35.29%
- through members of its Board of Directors and Supervisory Bodies	8,174,109	0.20%
- through companies controlled directly and indirectly and/or members of its Board of Directors and Supervisory Bodies	22,458,331	0.56%
Total Attributable	**1,478,380,679**	**36.79%**
CRÉDIT AGRICOLE, S.A (France)		
- directly	434,252,321	10.81%
Total Attributable	**434,252,321**	**10.81%**
BRADPORT, SGPS, S.A*		
- directly	194,104,165	4.83%
Total Attributable	**194,104,165**	**4.83%**
SILCHESTER INTERNATIONAL INVESTORS LIMITED (UK)		
- directly	231,277,585	5.76%
Total Attributable	**231,277,585**	**5.76%**
PORTUGAL TELECOM, SGPS, S.A.		
- through PT Prestações - Mandatária de aquisições e gestão de bens, S.A.	84,109,047	2.09%
- through members of its Board of Directors and Supervisory Bodies	485,929	0.01%
Total Attributable	**84,594,976**	**2.10%**

* Portuguese company fully owned by Banco Bradesco (Brasil)

III.3 Shareholders with Special Rights

No shareholders detain special rights.

III.4 Transferability of Shares

There are no restrictions to the transfer of shares.

III.5 Shareholder Agreements

The Company is unaware of any shareholder agreements such as may restrict the transfer of securities or voting rights.

III.6 Amendment of BES's Bylaws

As a rule, any amendment of BES's bylaws, namely concerning resolutions on changes to the share capital, must be submitted to the General Meeting, for approval. However, the Extraordinary General Meeting of June 9th, 2011 approved a partial amendment to the company's articles of association to the effect of authorising the Board of Directors to, upon favourable opinion of the Audit Committee, increase the share capital through cash contributions, one or more times, through the issuance of ordinary shares or preferential shares, redeemable or non-redeemable, under the terms and conditions to be defined. The maximum amount authorized, in addition to the share capital amount, is of EUR 7,500,000,000.00, this authorisation being valid for a period of five years.

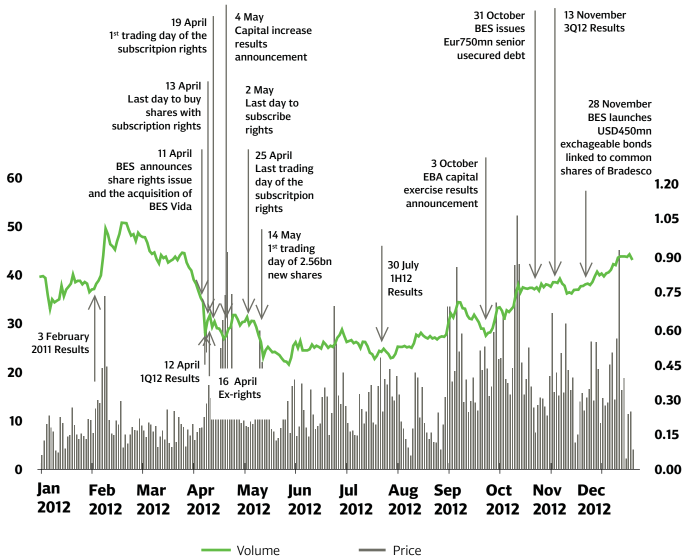
Resolutions concerning changes to the articles of association must be approved by two thirds of the votes expressed, whether the General Meeting is held on first or second call. When held on first call, the General Meeting can only pass resolutions if Shareholders holding at least fifty per cent of the share capital are present or represented. When held on second call, the General Meeting may pass resolutions regardless of the number of Shareholders present or the percentage of the share capital represented by them.

III.7 Control Mechanisms

No such control mechanisms exist.

III.8 Evolution of BES's Share Price

Evolution of BES's Share Price
(%)



Chapter I of the Management Report contains a detailed description of the BES share price performance in 2012.

III.9 Dividend Policy

The dividend proposed submitted by the Board of Directors to the annual general meeting follows the criterion of a balanced relationship between financial strength (higher solvency ratios through retained earnings) and adequate returns to shareholders.

Allocation of earnings in the last five financial years:

	Gross Dividend (EUR)	Shares Outstanding	Gross Dividend per Share (EUR)	Payout Ratio	
				Individual	Consolidated
2008	80,000,000	500,000,00	0.160	37.8%	19.9%
2009	163,333,333	1,166,666,666	0.140	44.3%	31.3%*
2010	147,000,000	1,166,666,666	0.126	57.42	28.8%
2011	NA	1,461,240,084	NA	NA	NA
2012	NA	4,017,928,471	NA	NA	NA

* Excluding non recurrent items (extraordinary results) the consolidated payout ratio would be 43.0% in 2007 and 35.4% in 2009.

III.10 Share and Stock Option Plans

As referred in point I.17 (see also II.32 and II.33), the General Meeting of April 6th, 2010 approved two "Variable Remuneration Plans based on Financial Instruments", one applying to the members of BES's Executive Committee, and the other to the Bank's senior officers. These plans were implemented for the first time in 2011, with options being attributed to the members of the Executive Committee in 2011 and 2012.

To date no stock options have been attributed to BES's senior officers.

III.11 Transactions Between the Company and Members of the Management and Supervisory Bodies, Owners of Qualified Holdings, or Companies in a Control or Group Relationship

All the business deals and transactions carried out by the Company with members of its Board of Directors and Audit Committee, with owners of qualified holdings or with companies under a parent-subsidiary or group relationship with it are cumulatively undertaken under normal market conditions for similar operations and are part of the Bank's day-to-day activity.

IIII.12 Description of the Business Deals and Transactions Carried out Between the Company and Owners of Qualifying Holdings Outside Normal Market Conditions.

No such business deals or transactions exist.

III.13 Procedures and Criteria Applicable to the Supervisory Body when same Provides Preliminary Assessment of the Business Deals to be Carried out Between the Company and the Owners of Qualifying Holdings

The granting of credit to members of the corporate bodies, where such is permitted, or to holders of qualifying holdings in BES, is always dependent upon the approval of each specific transaction by a qualified majority of at least three thirds of the votes of the members of the Board of Directors, and the favourable opinion of BES's Audit Committee. This rule has not been formally extended to other business deals of significant importance.
This rule applies to all credit institutions subject to supervision by the Bank of Portugal.

III.14 Statistical Data on the Business Deals Subject to Preliminary Opinion by the Supervisory Body

In 2012 the Audit Committee issued preliminary opinions on two loans totalling EUR 62 million, in the average amount of EUR 31 million each, the maximum amount being EUR 61.5 million. These loans were granted to companies fully controlled, directly or indirectly, by a non executive member of the Board of Directors and family members of the same.

III.15 Audit Committee Activity Report

The annual report on the activity carried out by the Audit Committee is available at www.bes.pt/ir.

III.16 Investor Relations

nvestor Relations communicates to the market all the information on results, events or any other facts concerning BES Group that may be of interest to the financial community in general, and replies directly to any requests for information made by shareholders, investors and analysts. It is also responsible for coordinating the information provided to the international rating agencies, and for BES's relationship with the Portuguese Securities Market Commission (CMVM).

Investor Relations regularly issues presentations, notices or press releases on quarterly, interim and annual results, as well as on any other facts concerning the life of the Company that may be of interest to the financial community in general, and to the shareholders and investors in particular. Regular meetings are also held with shareholders and potential investors. BES also participates in a number of international conferences organised by investment banks.

The website (www.bes.pt/investidor for information in Portuguese and www.bes.pt/ir for information in English) as well as "ValorBES", a quarterly newsletter for shareholders, are used as favoured tools for disclosing relevant information about BES Group. In addition to information of obligatory disclosure in Portuguese and English, BES also publishes in its website extensive financial information of interest to shareholders and potential investors. The company's corporate governance model and practices, including information about the general meetings, and a calendar of company events, can also be found on BES's website.

In addition to the website, e-mail
(accionista@bes.pt or investor.relations@bes.pt) is also used to answer or clarify questions addressed to BES.

Shareholders, investors and analysts may contact the Investor Relations Office to:
Elsa Santana Ramalho
Avenida da Liberdade, 195 – 11.º
1250-142 Lisboa - Portugal
Tel. / Fax: (351) 21 359 7390 / (351) 21 359 7001
E-mail: invester.relations@bes.pt
Website: http://www.bes.pt/ir

III.17 Value of Services Provided by the External Auditor/ Statutory Auditor («EA/SA»)

The table below lists the services provided to BES Group by the EA/SA and the remuneration paid for these services:

(amount in Euro)

	2012	%	2011	%
Audit fees	2,708,698	56%	2,603,884	46%
Audit related fees	1,148,365	24%	1,543,934	27%
1. Total of audit services	**3,857,063**	**80%**	**4,147,818**	**73%**
Tax consultancy services	650,003	14%	590,558	10%
Other services	309,371	6%	949,294	17%
2. Total of other services	**959,374**	**20%**	**1,539,852**	**27%**
	4,816,437	**100%**	**5,687,670**	**100%**

In the table above, 'Other reliability assurance services' refer exclusively to the function performed by KPMG as the EA/SA of BES Group, and therefore the amount paid for these services was added to the amount of fees paid for 'Audit and legal review of the accounts' services' in order to calculate the total amount of the annual remuneration paid for audit services provided by the EA/SA or other entities that belong to the same network or are under a parent-subsidiary or group relationship with it (the 'network' concept derives from the European Commission Recommendation No. C (2002) 1873 of 16th May).

Audit services represented 79% of the total fees paid in 2012 to KPMG and related entities by BES Group in Portugal and in other countries. The other 21% concern tax consultancy services (14%) and other non audit services (7%).

The award to KPMG or related entities of non-audit services requested by BES Group entities is subject to previous assessment and approval by BES's Audit Committee, which to this end not only takes into account (i) the invoked operational and risk/return optimisation advantages of awarding these services to KPMG, but also (ii) the confirmation that not only the nature of the services to be provided but also the amount of these services relative to the total amount of the annual fees paid by BES Group to KPMG does not affect the independence of KPMG as the external auditors/statutory auditors of BES Group, namely with regard to compliance with CMVM Recommendation III.1.5 set forth in its Corporate Governance Code.

In 2012 the value of non-audit services did not exceed the formal limit of 30% of the total value of services provided to the company. BES therefore considered this Recommendation as complied with.

Responsibility for the means of safeguarding the independence of the EA/SA lies both with BES Group and with KPMG, and may be summed up as follows:

a. At BES Group level

Viewing compliance with the rules and recommendations on the independence of the EA/SA, BES's Audit Committee has defined a set of criteria that must be followed in the approval of non-audit services to be provided by KPMG to BES Group.

Accordingly, all proposals concerning the provision of tax consultancy or other non-audit services must obligatorily be subject to prior analysis and approval by the Audit Committee with a view to safeguarding the professional independence of the External Auditors.

In addition, the Audit Committee maintains a permanent monitoring of the relative value of KPMG's fees for non-audit services, which is regularly validated by KPMG, in order to guarantee that the referred annual limit of 30% recommended by the CMVM is not surpassed.

b. At the level of BES Group's Statutory Auditor/ External Auditor («EA/SA»)

KPMG, BES Group's EA/SA, has drawn up specific internal instructions concerning the procedures that must obligatorily be followed by all the entities included in their professional network whenever they propose to provide services to any entity of BES Group. To this end, the network concept adopted was that deriving from the European Commission Recommendation No. C (2002) 1873 of 16th May.

In addition, the international network to which KPMG belongs has implemented an intranet service (called "Sentinel") under which no service can be provided by any entity of that network to any client with listed securities without the previous authorisation of the Global Lead Partner responsible for that client. This procedure obliges any partner of KPMG, or of any other entity belonging to the same professional network, which proposes to provide a service to an audit client, to previously request the respective Global Lead Partner's authorisation to provide that service. In that request for authorisation, the KPMG's partner responsible for submitting the proposal to the client is obliged to justify the reasons why it considers that not only the nature of the service to be provided to the audit client does not jeopardise the independence of KPMG in relation to that client, but also that it complies with applicable rules on professional risk management.

Finally, all these procedures are subject to compliance tests within the scope of the internal Quality Control process carried out every year by KPMG at international level.

III.18 Rotation of the External Auditor/ Statutory Auditor

The 2012 Annual General Meeting, based on the Audit Committee's proposal and duly substantiated opinion, resolved to re-appoint the external auditor - KPMG & Associados, SROC, SA – for a third 4-year mandate (2012/2015).

Appendix I: Share and bond holdings of the members of the corporate bodies and senior officers as of December 31st, 2012 and list of all transactions carried out by them

	Shares	Nº of shares as of 31/12/2011	Transactions in 2012				Nº of shares as of 31/12/2012
			Date	Acquisitions	Disposals	Unit Price)	
Ricardo Espírito Santo Silva Salgado	BES shares	1,384,333	11-05-2012	2,422,582		0.395(1)	3,806,915
José Manuel Pinheiro E. S. Silva	BES shares	367,008	11-05-2012	642,263		0.395(1)	1,009,271
António José Baptista do Souto	BES shares	38,575	11-05-2012	67,506		0.395(1)	106,081
Jorge Alberto Carvalho Martins	BES shares	52,385	11-05-2012	91,673		0.395(1)	144,058
Aníbal da Costa Reis de Oliveira	BES shares	1,010,000					
	Subscription Rights		24-04-2012		300,000	0.270	
	Subscription Rights		25-04-2012		405,000	0.320	
	BES shares		11-05-2012	540,591		0.395(1)	
			30-11-2012		540,591	0.770	1,010,000
Manuel F. Moniz G. E.S. Silva	BES shares	2,484	11-05-2012	4,347		0.395(1)	6,831
José Maria Espírito Santo S. Ricciardi	BES shares	21,789	11-05-2012	38,130		0.395(1)	
			24-07-2012		29,919	0.482	30,000
Rui Manuel Duarte Sousa da Silveira	BES shares	2,315	11-05-2012	4,051		0.395(1)	6,366
Joaquim Aníbal B. Freixial de Goes	BES shares	88,805	11-05-2012	157,399		0.395(1)	
			27-12-2012		95,000	0.91	151,204
Ricardo Abecassis Espírito Santo Silva	BES shares	50,000	24-04-2012	20,000		0.553	
			11-05-2012	88,621		0.395(1)	
			16-05-2012	1,379		0.549	160,000
Amílcar Carlos Ferreira de Morais Pires	BES shares	40,276					
	Subscription Rights		24-04-2012	125,852		0.270(2)	
	BES shares		11-05-2012	294,449		0.395(1)	334,725
João Eduardo Moura Silva Freixa	BES shares	30,000					
	Subscription Rights		24-04-2012	27,143		0.284(2)	
	BES shares		11-05-2012	101,281		0.395(1)	131,281
Pedro Mosqueira do Amaral	BES shares	70,000	11-05-2012	122,500		0.395(1)	192,500
Horacio Lisboa Afonso	BES shares	1,500	11-05-2012	2,625		0.395(1)	4,125

(1) Subscription of new shares within the share capital increase
(2) Average price

Bond Holdings of the Members of the Corporate Bodies

	Securities	Nº of Securities as of 31/12/2011	Transactions in 2012				Nº of Securities as of 31/12/2012
			Date	Acquisitions	Disposals	Price (EUR)	
Alberto Alves de Oliveira Pinto	ES Finance (XS0466899688)	150,000	26-04-2012		150,000	71%	-
	BES Finance (XS0485879414)	141,000	27-12-2012		141,000	70%	-
	BES Finance 08/11 (XS0515816956)	35,000	13-02-2012		35,000	70%	-
	BES Finance 10/11 (XS0550967169)	152,000	26-04-2012		152,000	70%	-
	BES 4 anos 7% (PTBEQGOM0015)	-	27-02-2012	100,000		100%	100,000
	BES LDN 05/12 (SCEBESOOE0608)	-	11-05-2012	252,000		89%	252,000
José Manuel Espírito Santo Silva	BES 5,625% DUE junho 2014	200,000					200,000
António José Baptista do Souto	BES 3,75% 19-01-2012	50,000	19-01-2012		50,000	100%	-
	BES 5,625% DUE junho 2014	50,000	19-10-2012	300,000		100%	350,000
	BES Finance (XS0442126925)	282,000	27-01-2012		282,000	33%	-
	BES Finance 08/11 (XS0466899688)	208,000	06-03-2012		208,000	71%	-
	BES DUE 02/2013(PTBLMWOM0002)	-	17-01-2012	200,000		90%	
			12-03-2012	150,000		96%	350,000
	BES LDN 07/12 (SCBESOOE0678)	-	27-07-2012	167,000		56%	167,000
Jorge Alberto Carvalho Martins	BES 2009/ 05-06-2014	250,000					250,000
Anibal da Costa Reis Oliveirav	BES DUE 2012	250,000	19-03-2012		250,000	100%	-
	BES 5,625% DUE junho 2014	400,000	05-12-2012		400,000	100%	-
	BES Finance 07/02/2035	200,000	05-12-2012		200,000	63%	-
	BES Finance 0312 (SCBES0OE0567)	-	19-03-2012	767,000		86%	
			29-03-2012		465,000	85%	302,000
Rui Manuel Duarte Sousa da Silveira	BES LDN 05/12 (SCBES0OE0626)	-	27-04-2012	225,000		89%	
			28-05-2012	113,000		89%	
			27-09-2012		113,000	89%	
			26-01-2012		225,000	89%	
			27-09-2012	108,000		90%	108,000
Joaquim Aníbal B. Freixial de Goes	BES 3,75% 19-01-2012	50,000	19-01-2012		50,000	100%	-
	BES 5,625% DUE junho 2014	50,000	03-01-2012				50,000
Amílcar Carlos Ferreira de Morais Pires	BES DUE 3,875% 2015	250,000					250,000
	BES DUE 5,625% junho 2014	250,000					250,000
João Eduardo Moura Silva Freixa	BES DUE 2012	400,000	19-03-2012		400,000	100%	-
	BES Finance 0312 (SCBES0OE0567)	-	19-03-2012	233,000		86%	233,000
	BES LDN 10/12 (SCBES0OE0752)	-	26-10-2012	1,069,000		91%	1,069,000
Ricardo Abecassis Espírito Santo	BES 5,625%	-	14-06-2012	50,000		91%	50,000

Share Holding of Senior Officers

	Shares	Nº of shares as of 31/12/2011	Transactions in 2012 Date	Acquisitions	Disposals	Unit Price (EUR)	Nº of shares as of 31/12/2012
António Manuel Marques	BES Shares	7,086					
	Subscription rights		25-04-2012	8,178		0.342	
	BES Shares		11-05-2012	26,711		0.395(1)	
	BES Shares		18-05-2012	100,000		0.471	133,797
António Miguel Natário Rio-Tinto	BES Shares	4,892	11-05-2012	8,561		0.395(1)	13,453
Bernardo Leite Faria Espirito Santo	BES Shares	2,777	11-05-2012	4,859		0.395(1)	7,636
Eugénio Fernando Quintais Lopes	BES Shares	8,763	20-02-2012		8 763	1,731	0
Isabel Almeida Bernardino	BES Shares	42,736					
	Subscription rights		24-04-2012	32,476		0.260(2)	
			11-05-2012	133,307		0.395(1)	176,043
João Filipe Martins Pereira	BES Shares	16,446	11-05-2012	28,780		0.395(1)	45,226
João Maria Mello Franco	BES Shares	29,716	11-05-2012	52,669		0.395(1)	82,385
Jorge Daniel Lopes da Silva	BES Shares	13,245	11-05-2012	23,178		0.395(1)	36,423
José Alexandre Pinto Ribeiro	BES Shares	17,000					
	Subscription Rights		20-04-2012	99,000		0.330(2)	
	BES Shares		11-05-2012	203,000		0.395(1)	220,000
Manuel José Dias de Freitas	BES Shares	33,370	11-05-2012	58,397		0.395(1)	91,767
Paulo António Padrão	BES Shares	6,554	11-05-2012	11,469		0.395(1)	18,023
Pedro Roberto Meneres Cudell	BES Shares	-					
	Subscription Rights		25-04-2012	20,000		0.318(1)	
	BES Shares		11-05-2012	35,000		0.395(1)	35,000
Rui Manuel Fernandes Pires Guerra	BES Shares	26,810	09-01-2012	123,000		1.210(2)	
	Subscription Rights		23-04-2012	2		0.250	
	Subscription Rights		02-05-2012	15,497		0.250	
			11-05-2012	289,290		0.395(1)	439,100
Rui Raposo	BES Shares	-					
	Subscription Rights		19-04-2012	1,921		0.340	
	BES Shares		11-05-2012	3,361		0.395(1)	3,361

1) Subscription of new shares within the share capital increase.
2) Averge Price.

Appendix II: Remuneration Policy of the Corporate Bodies

1. Procedure for the approval of the remuneration policy

A) Approval

The remuneration policy of BES's corporate bodies was approved by the Remuneration Committee on February 25th, 2010.

B) Mandate of the Remuneration Committee

Under the terms of Article 24 of the Company's articles of association, it is up to the Remuneration Committee to establish the remuneration of BES's directors.

The Remuneration Committee is currently composed of three members, elected by the General Meeting of March 22nd, 2012 for a four-year mandate.

C) Composition of the Remuneration Committee

Daniel Proença de Carvalho

Practising lawyer. Chairman of the Board of Directors of ZON Multimedia and Cimpor, Cimentos de Portugal, S.G.P.S., S.A., and Chairman of the Board of Curators of the D. Anna de Sommer Champalimaud e Dr. Carlos Montez Champalimaud Foundation since 2005.

Jacques dos Santos

Senior Partner with MAZARS AUDITORES PORTUGAL since 1991. Chairman of BES's Fiscal Board from 1992 to 2006 and Chairman of the Fiscal Board of BESPAR since 1992. Chairman of the Fiscal Board of Solubema – Sociedade Luso-Belga de Mármores since 1993. Member of the Fiscal Board of ESAF – S.G.P.S., S.A..

Álvaro Pinto Correia

Civil engineer. Was Chairman of the Management Board of Banco Totta & Açores, Chairman of the Board of Associação Portuguesa de Bancos, member of the Board of Directors of Caixa Geral de Depósitos, Chairman of the Board of Directors of Companhia de Seguros Fidelidade, S.A., Chairman of the Advisory Board of Associação Portuguesa de Seguradores, Chairman of the Board of Directors of Sofid – Sociedade para o Financiamento do Desenvolvimento, Instituição de Crédito, S.A. and Chairman of the Board of Directors of INAPA – Investimentos, Participações e Gestão, S.A..

None of the members of BES's Remuneration Committee is a member of the Board of Directors or has any family connection with any of its members.

A representative of the Remuneration Committee is present in every General Shareholders' Meeting.

D) External Consultants

The external consultant chosen to assist the Remuneration Committee in the definition of the remuneration policy of BES's Corporate Bodies was Mercer Ltd.

This consultancy firm provides other services to BES in the area of human resources.

E) Groups of companies taken as comparison elements

The elements used for comparison were the financial institutions of equivalent size to BES operating in the Portuguese market and a group of financial institutions of similar size and stock market capitalisation to BES, taken from a survey conducted by Mercer Ltd in 2009 entitled "Mercer's Pan European Financial Services Survey".

2. Remuneration of the members of the Board of the General Meeting

The members of the Board of the General Meeting receive a fixed monthly remuneration paid twelve times per year.

3. Members of the Audit Committee

The members of the Audit Committee receive a fixed monthly remuneration paid fourteen times per year.

4. Chairman of the Board of Directors

The Chairman of the Board of Directors receives a fixed monthly remuneration paid twelve times per year.

5. Non executive members of the Board of Directors: non independent directors

The non executive Directors who are not part of the Audit Committee and are not qualified as independent receive a fixed amount attendance fee for each Board meeting attendance.

Non executive Directors who hold executive positions in the management body of companies in a control and/or group relationship with BES, or who carry out specific functions assigned to them by the Board of Directors, may be remunerated by these companies or by BES, in accordance with the nature of these functions.

6. Non executive members of the Board of Directors: independent directors

The non executive members of the Board of Directors qualified as independent directors in accordance to legal criteria receive a fixed monthly remuneration, paid twelve times per year.

7. Members of the Executive Committee

A) Equal remuneration

All the members of the Executive Committee receive the same remuneration, except for the Chairman. However the variable component of the remuneration may differ among the members of the Executive Committee.

Executive Committee members who hold executive positions in the management body of companies in a control and/or group relationship with BES, or who carry out specific functions assigned to them by the Board of Directors, may be remunerated by these companies or by BES, in accordance with the nature of these functions.

The remuneration of directors qualified as "expatriate" may include the allowances referred to in paragraph c) of this clause, in addition to the fixed and variable remuneration.

B) Composition of the remuneration

The remuneration consists of a fixed component and a variable component.

The remuneration of the members of the Executive Committee is set by the Remuneration Committee up to the end of April of every year, based on the assessment of the performance in the previous year.

C) Remuneration limits

The fixed component shall be subject to the limits established by the Remuneration Committee, and represent on average approximately 45% of the Total Annual Remuneration.

The fixed component consists of the salary of the members of the Executive Committee, plus the supplements that are attributed to all the employees of the Bank, such as seniority payments or other allowances.

The members of the Executive Committee of foreign nationality who establish residence in Portugal (the "expatriate directors") are attributed adequate allowances to provide for setting up and residence expenses, namely:

a) Housing allowance;
b) Travel allowance, including a certain number of trips per year to the country of origin;
c) Education maintenance allowance for members with minor children; and
d) An additional set-up allowance may also be attributed.

It is up to the Remuneration Committee to establish the limits for each of these allowances.

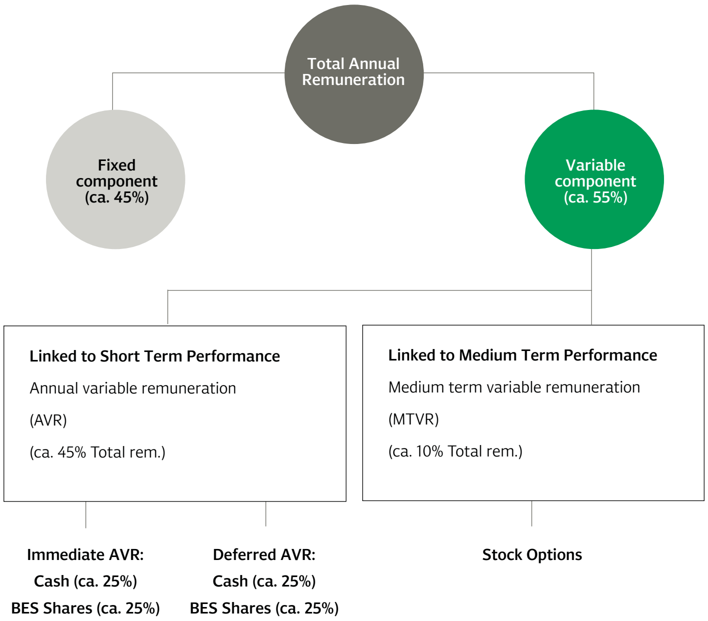
The variable component established for 2013 is subject to an upper limit corresponding to 1.4% of the consolidated earnings of BES Group.

D) Balanced remuneration

The fixed component shall represent at least approximately 45% of the total remuneration, the remaining 55% being attributed as a variable component, providing the requirements for such attribution are met.

Providing that the net results for the year are positive, the exact amount of the variable component will 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.

E) Criteria for defining the variable component and respective time of payment



The variable component is divided into two sub-components.

A) Short term performance (Annual Variable Remuneration)

The Annual Variable Remuneration («AVR») is linked to short term performance and will correspond to approximately 45% of the Total Annual Remuneration.

The AVR will be calculated at the beginning of each year by the Remuneration Committee in accordance with the following factors:

- Achievement of the main objectives set in the annual budget for the year to which the AVR refers, concerning: Net Income for the year, Cost to Income (ratio of operating costs to total banking income), and Return on Equity (ratio of net income to equity);
- Performance assessed by non financial criteria, including the individual performance of each member of the Executive Committee (each Executive Committee member has several established areas of responsibility, namely over departments whose performance is measured objectively and quantitatively) and the evolution of indicators linked to the sustainability of the Bank's growth (such as the loans to deposits ratio, the Core Tier 1 ratio, the main service quality indicators, as well as compliance with the main rules applying to the institution's activity).

The amount of the AVR will be determined according to the assessment made of the evolution of the aforementioned factors.

The AVR is divided into an immediate portion («**Immediate AVR**»), which is paid after the accounts for the year in question have been approved, and another portion that is deferred for a period of three years (the **Deferred Annual Variable Remuneration** («**Deferred AVR**»)).

The Immediate AVR and the Deferred AVR are both divided into two equal parts (one in cash and another in kind, the latter consisting of BES shares).

B) Medium Term Performance (Medium Term Variable Remuneration)

The **Medium Term Variable Remuneration** («**MTVR**») is linked to **Medium Term Performance** and will correspond to approximately 10% of the Total Annual Remuneration.

At the beginning of each year the Remuneration Committee may decide on the attribution of a MTVR, based on the assessment of the previous year's performance. This MTVR will be paid through the attribution of stock options which can only be exercised at least three years after their date of attribution, thus implying the accrual of their cost until such time as they are exercised.

The MTVR will be linked to the sustainability of BES's indicators, and calculated in accordance with the global return afforded to the shareholders over the period of its attribution, such return deriving from dividends paid and stock market capitalisation. The exercise price of the MTVR's underlying Stock Options at the end of the exercise period will be 10% higher than the market price at the beginning of this period.

Applying this assumption of evolution of the share's market price to the reference price used to structure the Stock Options will permit to establish the exercise value of those options and consequently to determine the number of stock options to be attributed each year to each director.

C) Regulation on the attribution of Shares and Options

The rules on attribution of shares and stock options to the members of the Executive Committee are set out in a specific Regulation.

F) Mechanisms of Limitation of the Variable Remuneration.

The Deferred Annual Variable Remuneration (DAVR) is subject to two general limitations:

a) Its payment is deferred over a period of three years; and

b) It depends on BES's financial situation and the performance of BES and of each of its executive directors. The variable remuneration will be reduced or cancelled in case of a significant reduction in BES's activity and consequently in its results.

It is the responsibility of the Remuneration Committee to ascertain and determine whether a DAVR is being attributed and should be maintained.

In case of a negative performance of BES's results or if the return on equity drops to below 5%, the DAVR may only be attributed subject to a decision of the Remuneration Committee stating specific reasons therefor, and this decision must be submitted to the next General Meeting.

By definition, the Medium Term Variable Remuneration («MTVR») is limited by the performance of the BES shares. This remuneration will have no value unless the share price increases by at least 10% over the period in question.

G) Criteria for performance assessment

The assessment of the performance of the executive directors will be based on the following financial and non financial criteria:

- **Cost to Income** (ratio of operating costs to total banking income) – an indicator of the Bank's operational activity, this ratio measures its capacity to generate revenues against operating costs;
- **Net Income for the yea**r – this indicator translates the contribution to shareholders, already deducted of elements not included in the cost to income, such as the cost of risk, taxes and minority interests;
- **Return on Equity** (ratio of net income to equity) – this indicator measures the net income generated as a percentage of the funds invested by the shareholders;
- **Stock market capitalisatio**n – an indication of the market's assessment of BES's performance, it reflects the wealth effectively created for the shareholders. This indicator permits to align the shareholders' perspective to the markets' perspective;
- **Individual performance** of each member of the Executive Committee – this permits to identify the relative contribution of each executive director to BES'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;
- **Loan to Deposits Ratio** - this ratio gauges the level of balance of BES's growth trajectory, permitting to assess whether this growth enables compliance with the regulatory requirements concerning the deleveraging of the financial sector in Portugal;
- **Core Tier 1 Ratio** - the main indicator used to measure solvency from the regulatory standpoint (based on references established both by the Bank of Portugal and the European Banking Authority – EBA);
- **Service Quality Indicators** - these indicators permit to factor in the opinion of BES's client base about the level of protection of their interests;
- **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.

H) Criteria concerning the retention by the executive directors of shares allocated to them

The members of the Executive Committee are attributed a variable remuneration payable in kind, through allocation of a certain number of BES shares. This payment in kind is deferred for a period of three years.

The members of the Executive Committee are also attributed stock options, which can only be exercised after a period of at least three years.

Up to the end of their term of office, the members of the Executive Committee shall hold, up to a minimum of twice the value of the total annual remuneration, the shares that were acquired by virtue of the payment of the variable remuneration, with the exception of those shares that must be sold for the payment of taxes on the gains of said.

I) Criteria governing agreements on the shares attributed

No agreements concerning the shares attributed to the members of the Executive Committee, including hedging contracts or other risk transfer contracts, shall be permitted.

This rule is included in the Internal Regulation of the Board of Directors.

J) 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.

K) 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.

L) Compensation paid or owed to former executive directors in relation to early contract termination

No compensation has been paid or is owed to former members of the Executive Committee in relation to early contract terminations.

M) 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.

N) 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

The members of the Board of Directors are entitled to receive retirement pensions or complementary pension benefits if they were members of the Executive Committee.

The main points of the regulation on the members of the Board of Directors' entitlement to receive retirement pensions or complementary pension benefits for old age or disability may be summed up as follows:

a) The right to receive a retirement pension or complementary pension benefits falls due on reaching sixty five years of age, or twenty five years of professional activity, or in the event of disability, when disability occurs.

b) The right to receive a retirement pension or complementary pension benefits may be brought forward to the age of fifty five, providing the board member has served on BES' Board of Directors for a minimum period of nine consecutive or non consecutive years. Positions held in the senior management or Board of Directors of the former "Banco Espírito Santo e Comercial de Lisboa, S.A." count for purposes of calculating seniority in the post."

c) Complementary pension benefits may exist as a way of topping up other retirement schemes that may be granted under any other social security system, to the effect that the total pension reaches one hundred per cent of the last annual gross remuneration.

In any case, retirement pensions or complementary pension benefits shall never exceed the pensionable salary of the board member in question, although they may be of a lower amount. The pensionable salary corresponds to the sum of the fixed annual remuneration and the variable remuneration received by the Board member in question in the year immediately preceding the year of retirement, deducted of any annual pension paid by any other social security system, as well as of the seniority payments received by that Board member. The variable remuneration shall correspond to at least the amount of the average variable remuneration received in the last twelve years by the Board member in question at retirement date.

The complementary retirement or survivor's pension benefits paid by the company shall be updated annually in accordance with the global percentage of increase of the remuneration of the Board members in active service, such as established by the Remuneration Committee; however the update rate may never be lower than the rate of change of the consumer price index or higher than twice that rate.

The current version of the regulation on the members of the Board of Directors' entitlement to receive retirement pensions or complementary pension benefits for old age or disability was approved by the General Meeting of Shareholders held on November 11th, 2011.

A proposal on the overall redefinition of the regulation on the members of the Board of Directors' entitlement to receive retirement pensions will be submitted to the 2013 Annual General Meeting.

O) An estimate of the non-financial benefits considered as remuneration which do not fall under the categories listed above

Besides the health insurance attributed to all the members of the Executive Committee, which supplements the benefits attributed by SAMS, the medical and healthcare services for banking sector employees, and is maintained even after retirement, no other non-financial benefits are attributed to the members of the Board of Directors.

8. Rules applicable to all the members of the Board of Directors

A) Payments for dismissal or voluntary termination of directors

There are no payments foreseen for the dismissal of directors, and any voluntary termination requires the previous approval of the Remuneration Committee with regard to the amounts in question.

B) Amounts paid in 2012 to the members of the corporate bodies

i. Members of the Corporate Bodies (with the exception of the Executive Committee)

2012 Board Members Remunerations (excluding Executive Committee)

(Eur million)

Remunerations 2012	BES			TOTAL BES	Other BES Group			TOTAL OTHER	Total			TOTAL
	Fixed		Chg.		Fixed		Chg.		Fixed		Chg.	
	Salary	Subsidies and other			Salary	Subsidies and other			Salary	Subsidies and other		
João Faria Rodrigues	163	-	-	**163**	-	-	-	**-**	163	-	-	**163**
Horácio Lisboa Afonso	108	-	-	**108**	-	-	-	**-**	108	-	-	**108**
Pedro João Reis de Matos Silva	92	-	-	**92**	-	-	-	**-**	92	-	-	**92**
Total Audit Committee	**364**	**-**	**-**	**364**	**-**	**-**	**-**	**-**	**364**	**-**	**-**	**364**
Board Members (excluding Executive Committee)												
Alberto Alves de Oliveira Pinto	-	185	-	**185**	-	-	-	**-**	-	185	-	**185**
Aníbal da Costa Reis de Oliveira	-	22	-	**22**	-	-	-	**-**	-	22	-	**22**
Manuel Fernando Moniz Galvão Espírito Santo Silva	-	22	-	**22**	-	-	-	**-**	-	22	-	**22**
Nuno Maria Monteiro Godinho de Matos	-	42	-	**42**	-	-	-	**-**	-	42	-	**42**
Ricardo Abecassis Espírito Santo Silva	-	19	-	**19**	464	13	71	**547**	464	31	71	**566**
Pedro Mosqueira do Amaral	135	40	-	**174**	302	-	191	**493**	437	40	191	**667**
Isabel Maria Osório de Antas Mégre de Sousa Coutinho	-	42	-	**42**	-	-	-	**-**	-	42	-	**42**
Rita Maria Lagos do Amaral Cabral	-	36	-	**36**	-	-	-	**-**	-	36	-	**36**
Milton Almicar Silva Vargas	-	7	-	**7**	-	-	-	**-**	-	7	-	**7**
Vincent Claude Paul Pacaud	-	30	-	**30**	207	-	-	**207**	207	30	-	**237**
Total Board Members (excluding Executive Committee)	**135**	**446**	**-**	**581**	**973**	**13**	**262**	**1,248**	**1,108**	**459**	**262**	**1,829**
Board of the General meeting												
Paulo Manuel de Pitta e Cunha	-	19	-	**19**	-	-	-	**-**	-	19	-	**19**
Fernão de Carvalho Fernandes Thomaz	-	12	-	**12**	-	-	-	**-**	-	12	-	**12**
Nuno Miguel Matos Silva Pires Pombo	-	9	-	**9**	-	-	-	**-**	-	9	-	**9**
Total of the Board of the General meeting	**-**	**40**	**-**	**40**	**-**	**-**	**-**	**-**	**-**	**40**	**-**	**40**
Remuneration Committee												
Daniel Proença de Carvalho	-	18	-	**18**	-	-	-	**-**	-	18	-	**18**
Joaquim Jesus Taveira Santos	-	18	-	**18**	-	-	-	**-**	-	18	-	**18**
Alvaro João Duarte Pinto Correia	-	14	-	**14**	-	-	-	**-**	-	14	-	**14**
Total Remuneration Committee	**-**	**50**	**-**	**50**	**-**	**-**	**-**	**-**	**-**	**50**	**-**	**50**
Total Corporate Bodies (excluding Executive Committee)	**499**	**536**	**-**	**1,034**	**973**	**13**	**262**	**1,248**	**1,471**	**548**	**262**	**2,282**

ii. Members of the Executive Committee

2012 Executive Committee Remunerations

(Eur million)

	BES			TOTAL BES	Other BES Group			TOTAL OTHERS	Total			TOTAL
	Fixed		Chg.		Fixed		Chg.		Fixed		Chg.	
	Salary	Subsidies and other			Salary	Subsidies and other			Salary	Subsidies and other		
Ricardo Espírito Santo Silva Salgado	547	2	-	**550**	-	3	-	**3**	547	5	-	**552**
José Manuel Pinheiro Espírito Santo Silva	462	2	-	**464**	-	3	-	**3**	462	6	-	**468**
António José Baptista do Souto	459	2	-	**461**	-	-	-	**-**	459	2	-	**461**
Jorge Alberto Carvalho Martins	456	2	-	**458**	-	-	-	**-**	456	2	-	**458**
José Maria Espírito Santo Silva Ricciardi	-	-	-	**-**	460	-	-	**460**	460	-	-	**460**
Rui Manuel Duarte Sousa da Silveira	456	2	-	**458**	-	-	-	**-**	456	2	-	**458**
Joaquim Aníbal Brito Freixial de Goes	455	3	-	**458**	-	-	-	**-**	455	3	-	**458**
Amílcar Carlos Ferreira de Morais Pires	455	2	-	**457**	-	-	-	**-**	455	2	-	**457**
João Eduardo Moura da Silva Freixa	454	2	-	**456**	-	2	-	**2**	454	5	-	**458**
Stanislas Gerard Marie Georges Ribes	211	233	-	**444**	-	-	-	**-**	211	233	-	**444**
Total Executive Committee	**3,956**	**250**	**-**	**4,206**	**460**	**9**	**-**	**468**	**4,416**	**259**	**-**	**4,674**

Remunerations 2012 vs 2011

(Eur million)

	2012 Fixed Salary	2012 Fixed Subsidies and other	2012 Chg.	TOTAL 2012	2011 Fixed Salary	2011 Fixed Subsidies and other	2011 Chg.	TOTAL 2011	Chg. (%)
Ricardo Espírito Santo Silva Salgado	547	5	-	**552**	546	5	253	**804**	-31%
José Manuel Pinheiro Espírito Santo Silva	462	6	-	**468**	461	6	212	**678**	-31%
António José Baptista do Souto	459	2	-	**461**	457	2	212	**671**	-31%
Jorge Alberto Carvalho Martins	456	2	-	**458**	454	99	212	**765**	-40%
José Maria Espírito Santo Silva Ricciardi	460	-	-	**460**	451	64	212	**727**	-37%
Rui Manuel Duarte Sousa da Silveira	456	2	-	**458**	454	2	212	**668**	-31%
Joaquim Aníbal Brito Freixial de Goes	455	3	-	**458**	454	2	212	**668**	-31%
Amílcar Carlos Ferreira de Morais Pires	455	2	-	**457**	454	67	212	**733**	-38%
João Eduardo Moura da Silva Freixa	454	5	-	**458**	452	5	212	**669**	-32%
Stanislas Gerard Marie Georges Ribes (1)	211	233	-	**444**	-	-	-	**-**	
Jean-Luc Louis Marie Guinoiseau (2)	-	-	-	**-**	438	57	318	**813**	-100%
Pedro José de Sousa Fernandes Homem (2)	-	-	-	**-**	452	3	318	**774**	-100%
Total Executive Committee	**4 416**	**259**	**-**	**4,674**	**5,072**	**313**	**2,584**	**7,969**	**-41%**

(1) Appointed in 2012.
(2) Resigned in 2012.

In 2012 no variable remuneration was attributed to the members of the Executive Committee except for a new **Medium Term Variable Remuneration** attributed on September 21st, 2012, in the overall amount of EUR 1.94 million, consisting of options on BES shares which can only be exercised at the end of January 2016 and providing that the price of the shares has risen by at least 10% in the referred 3-year period. This Medium Term Variable Remuneration adds on to that attributed in 2011, in the overall amount of EUR 1.13 million, consisting of options on BES shares which can only be exercised three years after their date of attribution (end of March 2014).

By decision of the Remuneration Committee the payment of the **Deferred Annual Variable Remuneration** relative to 2011 was suspended in 2012 and 2013 and therefore no payment was made.

2011-2012

(Eur million)

	Deferred Cash (2012-2014)	Deferred Cash (2012-2014)	Subtotal	Deferred Options (2011-2014)	Options (2011-2014)
Ricardo Espírito Santo Silva Salgado	127	127	254	130	230
José Manuel Pinheiro Espírito Santo Silva	106	106	212	100	190
António José Baptista do Souto	106	106	212	100	190
Jorge Alberto Carvalho Martins	106	106	212	100	190
José Maria Espírito Santo Silva Ricciardi	-	-	-	100	190
Rui Manuel Duarte Sousa da Silveira	106	106	212	100	190
Joaquim Aníbal Brito Freixial de Goes	106	106	212	100	190
Amílcar Carlos Ferreira de Morais Pires	106	106	212	100	190
João Eduardo Moura da Silva Freixa	106	106	212	100	190
Stanislas Gerard Marie Georges Ribes	-	-	-	-	190
Total Executive Committee	**869**	**869**	**1 738**	**930**	**1,940**

Lisbon, March 1st, 2013

The Remuneration Committee

Daniel Proença de Carvalho

Jacques dos Santos

Álvaro Pinto Correia

Appendix III: Remuneration Policy of the Senior Officers

Remuneration Policy of the Senior Officers and Managers with Control Functions of Banco Espírito Santo, S.A. («BES »)

I. Scope of application and fundamental principles

The present remuneration policy applies to BES's "senior officers" in a broad sense, which include:

a) The General Managers, the Advisors to the Board of Directors and the Coordinating Managers;
b) Employees with management positions in the commercial departments (retail, private and corporate banking), financial department and international department;
c) Employees with management positions in the Human Resources, Internal Audit, Compliance and Risk Management departments. For the purposes of this remuneration policy all employees covered in this paragraph are collectively referred to as «control functions».

A list of all the departments whose employees in management positions are covered by the remuneration policy under paragraph b) above is attached to this document.

In fact, it is easy to understand that, besides the members of the corporate bodies, in the specific case of BES these officers correspond to those whose performance has a material impact on the Bank's risk profile, as per our interpretation of the recommendations of the Committee of European Banking Supervisors on remuneration policies and practices.

II. The remuneration policy of BES's senior officers

1. Approval Process of the Remuneration Policy

A) Approval

The process of approval of the remuneration policy of the employees considered herein starts with a proposal submitted by the Board of Directors. The statement on the remuneration policy of the senior officers is submitted to the General Meeting, for approval, pursuant to Law no. 28/2009, of June 19th. Finally, the exact setting of the remuneration is approved by the Board of Directors.

B) Mandate of the Board of Directors

Under the terms of the law and the Company's bylaws, the setting of the remuneration of BES's senior officers is the responsibility of the Board of Directors, within the scope of their management of the human resources and incentives policies, and viewing the achievement of the Bank's strategic objectives.

C) Composition of the Board of Directors

Current composition of the Board of Directors:

Alberto Alves de Oliveira Pinto - Chairman
Ricardo Espírito Santo Silva Salgado - Vice-Chairman
Bruno Bernard Marie Joseph de Laage de Meux – Vice-Chairman
José Manuel Pinheiro Espírito Santo Silva
António José Baptista do Souto
Jorge Alberto Carvalho Martins
Aníbal da Costa Reis de Oliveira
Manuel Fernando Moniz Galvão Espírito Santo Silva
José Maria Espírito Santo Silva Ricciardi
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
Ricardo Abecassis Espírito Santo Silva
Amílcar Carlos Ferreira Morais Pires
Nuno Maria Monteiro Godinho de Matos
João Eduardo Moura da Silva Freixa
Pedro Mosqueira do Amaral
Isabel Maria Osório de Antas Mégre de Sousa Coutinho
João de Faria Rodrigues
Marc Olivier Tristan Oppenheim
Vincent Claude Paul Pacaud
Rita Maria Lagos do Amaral Cabral
Stanislas Gerard Marie Georges Ribes
Horácio Lisboa Afonso
Pedro João Reis Matos e Silva
Milton Almicar Silva Vargas
Xavier Musca

D) External consultants

The external consultants recruited in 2009 to assist the Board of Directors in the drafting of the remuneration policy of BES's senior officers were Mercer (Portugal), Lda and Sérvulo & Associados – Sociedade de Advogados, RL.

Mercer (Portugal), Lda. provides other services to BES in the area of human resources.

2. General Managers, Advisors to the Board of Directors and Coordinating Managers (except control functions)

A) Composition of the remuneration

The remuneration consists of a fixed component and possibly a variable component.

The Bank's overall remuneration policy is revised every year by the Board of Directors until the end of May. As a result, the fixed remuneration may be revised on an annual basis in accordance with indicators such as the rate of inflation and the rate of salary increase set by the collective wage agreement (ACTV) for the banking sector, whilst a variable component may also be set, also before the end of May of each year, based on the assessment of performance in the previous year.

B) Remuneration limits

The fixed component shall be subject to the limits established by the Board of Directors, and represent on average approximately 75% of the Total Annual Remuneration.

The fixed component consists of the basic salary, plus the supplements that are attributed to all the employees of the Bank, such as seniority payments or other allowances.

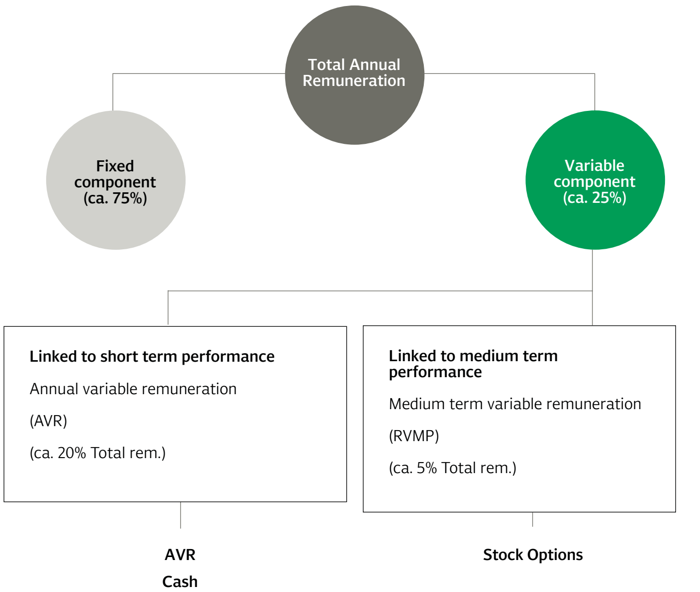
The variable component in 2013, if one is established, shall correspond to 25% of the average Total Annual Remuneration, although it may reach up to 50% of individual total remuneration.

C) Balanced remuneration

The fixed component shall represent on average approximately 75% of the total remuneration, the remaining 25% being attributed as a variable component.

When a variable component is due, its exact amount will vary each year in accordance with the level of achievement of the main annual objectives set individually (quantitative and qualitative) for the officer in question and for the respective business unit as a whole, in accordance with BES's performance assessment model approved by the Board of Directors.

D) Criteria for defining the variable component and respective time of payment



The variable component is divided into two sub-components.

A) Short term performance (Annual Variable Remuneration)

The **Annual Variable Remuneration** («**AVR**») is linked to **Short Term Performance** and will correspond on average to approximately 20% of the Total Annual Remuneration.

The **AVR** will be set by the Board of Directors at the beginning of each year, and calculated based on the Objectives and Incentives System ("SOI") established for each type of area, in accordance with the level of achievement of the main objectives set by the Board of Directors, based on the following indicators:

- Commercial Areas – Volume indicators, Banking Income, Quality Indicators and Cost to Income;
- Central Areas – Operational Risk, Activity Indicators, Quality Indicators and Cost to Income.

The AVR is paid in cash in the first year after the reference date of results, upon approval of the accounts for the year in question.

B) Medium Term Performance (Medium Term Variable Remuneration)

The **Medium Term Variable Remuneration** («**MTVR**») is linked to **Medium Term Performance** and, when due, will correspond to approximately 5% of the Total Annual Remuneration.

At the beginning of each year the Board of Directors may decide on the attribution of a MTVR, based on the assessment of the previous year's performance. This MTVR will be paid through the attribution of stock options which can only be exercised at least three years after their date of attribution thus implying the accrual of their cost until such time as they are exercised.

The MTVR will be linked to the sustainability of BES's indicators, and calculated in accordance with the global return afforded to the shareholders over the period of its attribution, such return deriving from dividends paid and stock market capitalisation. The exercise price of the MTVR's underlying Stock Options at the end of the exercise period will be 10% higher than the market price at the beginning of this period.

Applying this assumption of evolution of the share's market price to the reference price used to structure the Stock Options will permit to establish the exercise value of those options and consequently to determine the number of stock options to be attributed each year to each senior officer.

Since the approval of the remuneration policy up to the present date no Variable Remuneration for Senior Officers has been attributed.

C) Regulation on the attribution of Options

The rules on attribution of stock options are set out in a specific Regulation, which was approved by the 2010 Annual General Meeting.

E) Mechanisms of Limitation of the Variable Remuneration

By definition, the Medium Term Variable Remuneration («MTVR») is limited by the performance of the BES shares, and the exercise of the options is subject to a deferral period. This remuneration will have no value unless the share price increases by at least 10% over the period in question.

F) Criteria for performance assessment

Senior officers working in the Commercial areas are assessed based on five variables.

- **Results -** set of indicators translating the results of the area;
- **Banking Income;**
- **Quality -** determined by metrics that assess the quality of service provided to the internal/external client;
- **Cost-to-Income -** (ratio of operating costs to total banking income) – an indicator of the Bank's operational activity, this ratio measures its capacity to generate revenues setting it against the operating costs incurred;
- **Stock market capitalisation -** an indication of the market's assessment of BES's performance, this indicator permits to align the shareholders' perspective to the markets' perspective.

Senior officers working in the Central areas are assessed based on five variables:

- **Activity –** set of indicators translating the results of the area;
- **Operational Risk;**
- **Quality;**
- **Cost-to-Income;**
- **Stock market capitalisation.**

G) Criteria for the retention of the shares allocated

The stock options granted to the senior officers can only be exercised after a period of at least three years.

The Board of Directors may establish rules on the retention or maintenance of the shares acquired.

3. Management Officers in the Commercial, Financial and International Departments

A) Composition of the remuneration

The remuneration consists of a fixed component and a variable component.

The Bank's overall remuneration policy is revised every year by the Board of Directors until the end of May. This entails the annual revision of the fixed remuneration in accordance with indicators such as the rate of inflation and the rate of salary increase set by the collective wage agreement (ACTV) for the banking sector, and the setting of a variable component, also before the end of May of each year, based on the assessment of performance in the previous year.

B) Remuneration Limits

The fixed component shall be subject to the limits established by the Board of Directors, and represent on average approximately 80% of the Total Annual Remuneration.

The fixed component consists of the basic salary, plus the supplements that are attributed to all the employees of the Bank, such as seniority payments or other allowances.

The variable component in 2013, if one is established, shall correspond to 20% of the average Total Annual Remuneration, although it may reach up to 30% of individual total remuneration.

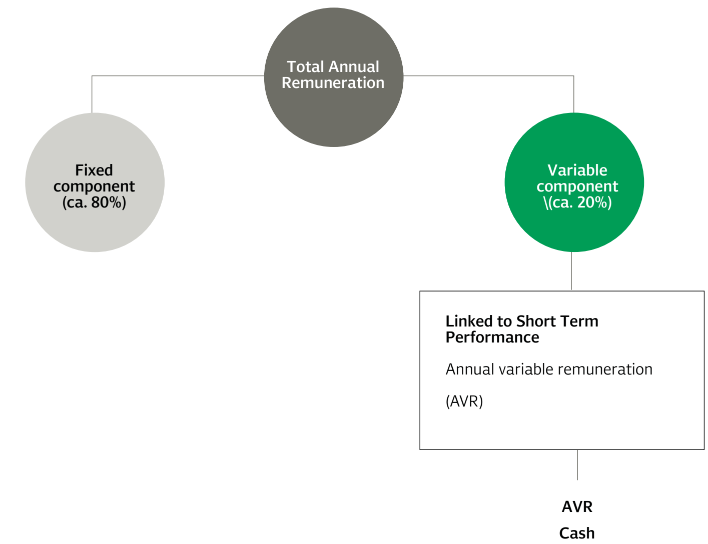
C) Balanced remuneration

The fixed component shall represent on average approximately 80% of the total remuneration, the remaining 20% being attributed as a variable component, when one is due.

The exact amount of the variable component will vary each year in accordance with the level of achievement of the main annual objectives set individually (quantitative and qualitative) for the officer in question and for the respective business unit as a whole, in accordance with the performance assessment model approved by the Board of Directors.

D) Criteria for defining the variable component and respective time of payment

The variable component is divided into two sub-components.



The **Annual Variable Remuneration** («**AVR**») is linked to **Short Term Performance** and will correspond on average to approximately 20% of the Total Annual Remuneration.

The **AVR** will be set at the beginning of each year by the Board of Directors, being calculated based on the Objectives and Incentives System ("SOI") established for the department, in accordance with the level of achievement of the main objectives approved by the Board of Directors, determined on the basis of indicators such as Activity, Costs, Risk and Quality.

The **AVR** is paid in cash on the dividend payment date in the first year after the reference date of results, upon approval of the accounts for the year in question.

E) Criteria for performance assessment

Senior officers working in the Commercial areas are assessed based on five variables:

- **Results -** set of indicators translating the results of the area;
- **Banking Income;**
- **Quality -** determined by metrics that assess the quality of service provided to the internal/external client;
- **Cost-to-Income -** (ratio of operating costs to total banking income) – an indicator of the Bank's operational activity, this ratio measures its capacity to generate revenues setting it against the operating costs incurred;
- **Stock market capitalisation -** an indication of the market's assessment of BES's performance, this indicator permits to align the shareholders' perspective to the markets' perspective.

Senior officers working in the Central areas are assessed based on five variables:

- **Activity** – set of indicators translating the results of the area;
- **Operational Risk;**
- **Quality;**
- **Cost-to-Income;**
- **Stock market capitalisation.**

4. Management Officers in Control Functions (including General Managers, Advisors to the Board of Directors and Coordinating Managers in control functions)

A) Composition of the remuneration

The remuneration consists of a fixed component and a variable component.

The Bank's overall remuneration policy is revised every year by the Board of Directors until the end of May. This entails the annual revision of the fixed remuneration in accordance with indicators such as the rate of inflation and the rate of salary increase set by the collective wage agreement (ACTV) for the banking sector, and the setting of a variable component, also before the end of May of each year, based on the assessment of performance in the previous year.

B) Remuneration Limits

The fixed component shall be subject to the limits established by the Board of Directors, and represent on average approximately 85% of the Total Annual Remuneration.

The fixed component consists of the basic salary, plus the supplements that are attributed to all the employees of the Bank, such as seniority payments or other allowances.

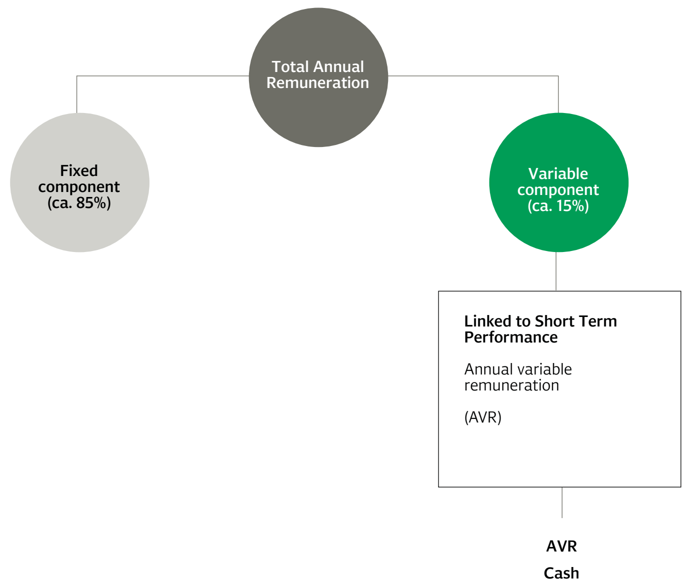
The variable component in 2013, if one is established, shall correspond to 15% of the average Total Annual Remuneration, although it may reach up to 30% of individual total remuneration.

C) Balanced remuneration

The fixed component shall represent on average approximately 85% of the total remuneration, the remaining 15% being attributed as a variable component, when one is due.
The exact amount of the variable component will vary each year in accordance with the level of achievement of the main annual objectives set individually (quantitative and qualitative) for the officer in question and for the respective business unit as a whole, in accordance with the performance assessment model approved by the Board of Directors.

D) Criteria for defining the variable component and respective time of payment

The variable component is divided into two sub-components.



The **Annual Variable Remuneration** («**AVR**») is linked to **Short Term Performance** and will correspond on average to approximately 15% of the Total Annual Remuneration.

The **AVR** will be set at the beginning of each year by the Board of Directors, being calculated based on the Objectives and Incentives System ("SOI") established for the department, in accordance with the level of achievement of the main objectives approved by the Board of Directors, determined on the basis of indicators such as Activity, Costs, Risk and Quality.

These objectives' guidelines also apply to the General Managers, Advisors and Coordinating Managers in control functions.

The AVR is paid in cash on the dividend payment date in the first year after the reference date of results, upon approval of the accounts for the year in question.

E) Criteria for performance assessment

Control functions are assessed based on four variables, referred to in point 2 (f)) (Activity, Costs, Risk and Quality).

5. Main Parameters and Rationale for any Annual Bonus Scheme and any other non Cash Benefits Attributed to the Senior Officers

In addition to the fixed and variable components described in this remuneration policy, senior officers are granted the following benefits:

- Life Insurance, as defined in article 142 of the collective wage agreement (ACTV) for the banking sector (SAMS1);
- Health Insurance, as defined in article 144 of the collective wage agreement (ACTV) for the banking sector (SAMS);
- Personal Accident Insurance, as defined in article 38 of the ACTV for the banking sector (SAMS).

6. Main Characteristics of the Supplementary Pension Schemes set up for Senior Officers

In accordance with the Collective Wage Agreement ("ACTV") for the banking sector, senior officers are currently entitled to receive a retirement pension which is calculated on the basic salary (salary level and seniority payments) and number of years of service in banking, and which does not take into account the full remuneration and/or allowances for fixed working hours exemption. In addition, and considering that all bank employees are since 2011 registered with the Social Security, and that by law all the employees who are members of the pension fund must obligatorily be informed every year about the amount of the pension to which they are entitled at the end of each year, BES decided to set up a defined contribution supplementary pension plan for this group of employees. In order to benefit from this plan, which is optional, the employees have to make a monthly contribution of 3% of their basic salary to an individual retirement savings plan ("PPR"). BES contributes with 3% of the basic salary to individual PPR plus a certain percentage to a Group PPR, the aim being to reach at pensions corresponding to a certain percentage of the salary, as described below.

Hence, under this plan, retirement pensions will correspond to the following estimated percentages of the last global salary earned: General Managers, Advisors to the Board of Directors and Coordinating Managers - 85%; Managers and Assistant Managers - 75%; and Deputy Managers - 70%.

This benefit only applies to senior officers in service as of December 31st, 2010. Senior officers engaged by the Bank after this date are not entitled to this benefit.

7. Amounts paid in 2012 to BES's Senior Officers

(Eur)

	BES			
	General Managers, Advisors and Coordinating Managers			
	General Managers	Adv BD	Coordinating Managers	Total
Nº of employees	3	15	30	48
Total Fixed Remuneration	648,030	2,601,350	3,887,636	7,137,016
Total Variable Remuneration	20,106	153,488	203,891	377,485
Share of Variable Remuneration	**3.0%**	**5.6%**	**5.0%**	**5.0%**

(Eur)

	BES		
	General Managers, Advisors and Coordinating Managers		
	Commercial Areas	Central Areas	Total
Nº of employees	11	37	48
Total Fixed Remuneration	1,528,843	5,608,174	7,137,016
Total Variable Remuneration	69,273	308,121	377,485
Share of Variable Remuneration	**4.3%**	**5.2%**	**5.0%**

(Eur)

	BES				
	Control Functions				
	Coord. Manager or higher	Manager	Assistant Manager	Deputy Manager	Total
Nº of employees	4	13	8	17	42
Total Fixed Remuneration	588,581	1,088,605	474,918	843,736	2,995,840
Total Variable Remuneration	91,105	178,276	70,670	113,617	453,668
Share of Variable Remuneration	**13.4%**	**14.1%**	**13.0%**	**11.9%**	**13.2%**

(Eur)

	BES			
	Senior Officers in the Commercial, Financial and International Departments			
	Manager	Assistant Manager	Deputy Manager	Total
Nº of employees	48	51	71	170
Total Fixed Remuneration	4,306,481	3,497,150	3,967,838	11,771,469
Total Variable Remuneration	741,500	548,318	531,401	1,821,219
Share of Variable Remuneration	**14.7%**	**13.6%**	**11.8%**	**13.4%**

(Eur)

	BES		
	Senior Officers in the Commercial, Financial and International Departments		
	Commercial Areas	Central Areas	Total
Nº of employees	129	41	170
Total Fixed Remuneration	8,762,770	3,008,699	11,771,469
Total Variable Remuneration	1,378,727	442,492	1,821,219
Share of Variable Remuneration	**13.6%**	**12.8%**	**13.4%**

In 2012 BES did not recruit any senior officer, did not make any early termination payment and there wasn't any kind of payment made by any company in a control or group relationship with BES.

Lisbon, March 1st, 2013.

THE BOARD OF DIRECTORS

Appendix IV: Statement of the Audit Committee

BANCO ESPIRITO SANTO

Comissão de Auditoria

STATEMENT OF THE AUDIT COMMITTEE
on the content of the Corporate Governance Report for the year ended
31 December 2012

To the Shareholders

The Audit Committee has reviewed the Corporate Governance Report of **Banco Espírito Santo, S.A.**, which is part of the 2012 Annual Report of the bank, in order to assess whether or not it includes all the information on the structure and corporate governance practices of the bank as specified in article 245. °-A of the Portuguese Securities Code (*Código de Valores Mobiliários*).

As required in paragraph 5 of article 420.º, by remission of article 423.º-F, both of the Portuguese Companies Code (*Código das Sociedades Comerciais*), the Audit Committee attests that the Corporate Governance Report referred to in the preceding paragraph includes all the abovementioned information for the year ended 31 December 2012 as required and applicable to **Banco Espírito Santo, S.A.**.

Lisbon, 4 March 2013

The Audit Committee

Horácio Lisboa Afonso (Chairman)

João de Faria Rodrigues

Pedro João Reis de Matos Silva

Excerpt from the minutes of the Annual General Shareholders' Meeting of Banco Espírito Santo, S.A.

Minutes No. 79

At ten hours on March twenty seventh, in the year two thousand and thirteen, the Annual General Meeting of the Shareholders of Banco Espírito Santo, S.A. was held at the Hotel Ritz – Salão Nobre, at Rua Castilho, no. 77, in Lisbon, with the following Agenda:

Item One: Resolve on the appointment of the Vice-Chairman of the Board of the General Meeting.

Item Two: Resolve on the Management Report, the Corporate Governance Report and the remaining individual reporting documents relative to financial year 2012.

Item Three: Resolve on the Consolidated Management Report, the consolidated accounts and the remaining consolidated reporting documents relative to financial year 2012.

Item Four: Resolve on the allocation of earnings.

Item Five: Make a general assessment of BES' management and supervisory bodies.

Item Six: Resolve on the Remuneration Committee and Board of Directors' statements on the remuneration policy of BES' corporate and supervisory bodies and remaining BES senior officers, respectively.

Item Seven: Approve the co-optation of Mr. Xavier Musca as member of the Board of Directors.

Item Eight: Resolve on a proposal for acquisition and sale of own shares and bonds, by BES or companies under BES's control;

Item Nine: Resolve on the authorisation to exercise activities in a competing company;

Item Ten: Resolve on the redefinition of the Regulation on the Right of Directors to a Pension or Complementary Pension Benefits for Old Age or Disability.

The Board of the General meeting consisted of its elected Chairman, Vice--Chairmen, and Secretary, respectively Messrs. Paulo de Pitta e Cunha, Nuno Miguel Matos Silva Pires Pombo, and Eugénio Fernando de Jesus Quintais Lopes, the latter in the capacity of Company Secretary. Also present in the meeting were the majority of the members of the Board of Directors, all the members of the Audit Committee, of the Remuneration Committee, of the Corporate Governance Committee and of the Remuneration Advisory Committee, the statutory auditors, KPMG & Associados SROC, S.A., represented by Ms. Sílvia Cristina de Sá Velho Corrêa da Silva Gomes, and also Ms. Ana Rita Almeida Campos, in representation of Vieira de Almeida & Associados - Sociedade de Advogados, RL, in its capacity as common representative of the holders of notes under BES's 20,000,000,000 EMTN programme.
The Chairman of the General Meeting declared the session opened, after ascertaining that there was a quorum of shareholders present or represented owning 2,919,530,703 shares, corresponding to 72.66% of the share capital and to 29,195,258 votes, and that the General Meeting had been regularly called as per notices published on March 2nd, 2013 on the websites of the Directorate-General of Registry and Notary Services - Publicações of the Ministry of Justice, and on March 4th, 2013 on the websites of the Portuguese Securities Market Commission ("CMVM") and BES. The convening notice was also published on the Diário de Notícias, Jornal de Notícias, Açoriano Oriental and Diário de Notícias (Madeira) newspapers on March 5th, 2013. In compliance of Article 10 of the Legal Framework of Credit Institutions and Financial Companies, the list of Shareholders with holdings exceeding 2% of the Bank's share capital was also published, namely on the Diário de Notícias and Correio da Manhã newspapers of March 21st, 2013. Under the terms of the law all the documents for this General Meeting were available for consultation by the Shareholders at the Bank's registered office, and were included in the folders delivered to them.

(...)
Going into the Agenda, the Chairman of the General Meeting asked the meeting to analyse Item One of the Agenda: "Resolve on the appointment of the Vice-Chairman of the Board of the General Meeting.", namely the proposal submitted on this item by BESPAR SGPS, S.A., as follows:

"Whereas:

a) The Vice-Chairman of the Board of the General Meeting, Mr. Fernão de Carvalho Fernandes Thomaz has resigned his position;

b) A new Vice-Chairman for the General Meeting must be elected to conclude the term of office initiated in 2012 and ending in 2015;

It is proposed that the General Meeting resolve on:

1. A vote of praise and recognition to the outgoing member for the exemplary discharge of his functions;

2. Pursuant to the terms of article 374 of the Portuguese Companies Code, the election of Mr. Alexandre de Sousa Machado as Vice-Chairman of the Board of the General Meeting until the end of the current term of office."

(...)
At this point the Board of the General Meeting was informed that the number of shares owned by the Shareholders present or represented in the meeting was 3,004 895,466, corresponding to 74.79% of the share capital, and to 30,048,902 votes. The proposal was put to the vote, and it was approved by a majority of 30,028,066 votes, with 20,836 abstentions, in a total of 30,048,902 votes present in the meeting.

(...)
The meeting then proceeded to analyse items two, three and four of the Agenda, which were jointly submitted for discussion:

Item Two - "Resolve on the Management Report, the Corporate Governance Report and the remaining individual reporting documents relative to financial year 2012".
The Board of Directors of BANCO ESPÍRITO SANTO, S.A. submitted the following proposal:
"The Board of Directors of BANCO ESPÍRITO SANTO, S.A. hereby submits the Management Report, the Corporate Governance Report and other reporting documents of BANCO ESPÍRITO SANTO, S.A. for the financial year of 2012 to the Shareholders, for appreciation and discussion, proposing their approval."

Item Three: - "Resolve on the Consolidated Management Report, the consolidated accounts and the remaining consolidated reporting documents relative to financial year 2012".
The Board of Directors of BANCO ESPÍRITO SANTO, S.A. submitted the following proposal:
"The Board of Directors of BANCO ESPÍRITO SANTO, S.A. hereby submits the Consolidated Management Report, the Consolidated Accounts and other consolidated reporting documents of BANCO ESPÍRITO SANTO, S.A. for the financial year of 2012 to the Shareholders, for appreciation and discussion, proposing their approval."

Item Four: - "Resolve on the allocation of earnings"
The Board of Directors of BANCO ESPÍRITO SANTO, S.A. submitted the following proposal:
"The Board of Directors of BANCO ESPÍRITO SANTO, S.A. proposes that:
Pursuant to Article 376 (b)) of the Portuguese Companies Code, and in accordance with the Management Report, the company's net earnings of the year, amounting to EUR 121,961,308.14, be allocated as follows:

TO LEGAL RESERVE: EUR 12,197,000.00

TO OTHER RESERVES AND RETAINED EARNINGS: EUR 109,764,308.14"

(...)
The meeting then voted separately on the above proposals.
The proposal on Item Two of the Agenda was approved by a majority of 29,974,465 votes, with 10,082 dissenting votes and 49,573 abstentions, in a total of 30,034,120 votes present.

The proposal on Item Three of the Agenda was approved by a majority of 29,981,421 votes, with 10,194 dissenting votes and 40,287 abstentions, in a total of 30,031,902 votes present.

Finally, the proposal on Item Four of the Agenda was approved by a majority of 29,976,658 votes, with 41,867 dissenting votes and 13,377 abstentions, in a total of 30,031,902 votes present.

(...)
The meeting then moved to Item Five: - "Make a general assessment of BES' management and supervisory bodies", about which the shareholder BESPAR SGPS, S.A. submitted the following proposal:

"Pursuant to the terms of Article 455 (1) of the Portuguese Companies Code, which requires the Annual General Meeting to make a general assessment of the management and supervisory bodies of the company;
The shareholder "BESPAR – Sociedade Gestora de Participações Sociais, S.A." proposes that the General Meeting approve an expression of praise and a vote of confidence in the Board of Directors and the Audit Committee of the Company, and in each of the respective members, for the following reasons:

1 - The accuracy and timeliness of the management decisions taken by the Board of Directors and the Executive Committee, which, in a very adverse context to banking activity where severe limitations on access to funding in the markets led to sharp restrictions on liquidity, permitted to:

   - Increase the Core Tier 1 ratio during 2012, up to 10.05% in December (above the regulatory requirement of 10%);
   - In May 2012, increase the share capital of "Banco Espírito Santo, S.A." by €1,009,891,912.86, from €4,030,232,150.40 to €5,040,124,063.26, through a public offering that proved a landmark in the recapitalisation of the Portuguese banks as it was done without any State aid;
   - Return to the financial markets for funding – the first Portuguese bank to do so – with two operations: a EUR 750 million bond issue in October, and a USD 450 million issue of bonds convertible into Bradesco shares, in November; in both cases demand exceeded supply;
   - Respond very positively to the various regulatory stress testing processes;
   - Increase the portfolio of Clients and maintain a very solid level of commercial income.

2 - The manner in which the Audit Committee performed its supervisory functions."

(...)
This proposal was put to the vote and approved by a majority of 27,721,742 votes, with 2,298,220 dissenting votes and 11,874 abstentions, in a total of 30,031,836 votes present.

The meeting then considered Item Six of the Agenda: "Resolve on the Remuneration Committee and Board of Directors' statements on the remuneration policy of BES' management and supervisory bodies and remaining BES senior officers, respectively". The Remuneration Committee presented the following statement (6.A) on the remuneration policy of the management and supervisory bodies of Banco Espírito Santo, S.A.:

"Whereas:

1 – Following the approval of Law no. 28/2009 of 19 June, the 2010 Annual General Meeting approved the remuneration policy of the members of the management and supervisory bodies submitted to it by the Remuneration Committee;

2 - Based on the annual assessment made at the beginning of 2013 of BES's remuneration structure, the Remuneration Committee concluded that the remuneration policy was generally up-to-date, only requiring the inclusion of new rules on the attribution of allowances to foreign directors who carry out executive duties in BES and establish their residence in Portugal so as to be allowed to perform these functions;

BES's Remuneration Committee proposes that the General Meeting approve the «Statement on the Remuneration Policy of the Members of the Management and Supervisory Bodies» for 2013. (...)

(...)
The Board of Directors then presented the following statement (6.B) on the same item in the Agenda: "Proposal of Approval of the Statement on the Remuneration Policy of Bes Senior Officers and Managers with Control Functions".

Whereas:

1 - The 2010 Annual General Meeting approved the remuneration policy of BES senior officers as set out in a proposal submitted to it by the Board of Directors;

2 - Based on the annual assessment made of the remuneration structure of BES senior officers, the Board of Directors concluded that said proposal should be broadly maintained, with the inclusion of a new category of employees to be covered by the remuneration policy and the necessary changes for adaptation to the year 2013;

BES' Board of Directors proposes that the General Meeting approve the «Statement on the Remuneration Policy», which is included as an Annex to this Proposal"

(...)
The Chairman of the General Meeting clarified that there were two proposals for discussion but that each would be voted separately.

(...)
The Remuneration Committee proposal (6.A) was put to the vote and it was approved by a majority of 29,910,452 votes, with 37,269 dissenting votes and 83,895 abstentions, in a total of 30,031,616 votes present.

The proposal of BES's Board of Directors was then put to the vote and approved by a majority of 29,932,138 votes, with 38,249 dissenting votes and 61,229 abstentions, in a total of 30,031,616 votes present. The Chairman of the General Meeting then proceeded to Item Seven of the Agenda: "Approve co-optation of member of the Board of Directors", about which the Board of Directors of Banco Espírito Santo, S.A. submitted the following proposal:
"Following the resignation submitted by Mr. MICHEL JACQUES MATHIEU, on November 9th, 2012 the Board of Directors of BANCO ESPÍRITO SANTO, S.A. resolved to co-opt Mr. XAVIER MUSCA as member of the Board of Directors.

Under the terms and for the purposes of Article 393 (4) of the Portuguese Companies Code, the Board of Directors hereby submits said co-optation to ratification by the General Meeting."

The proposal was open for discussion, and as no one wished to take the floor, the Chairman put it to the vote, and it was approved by a majority of

29,637,006 votes, with 371,813 dissenting votes and 20,274 abstentions, in a total of 30,029,093 votes present.

The meeting then moved to Item Eight: "Resolve on a proposal for acquisition and sale of own shares and bonds, by BES or companies under BES's control" about which the Board of Directors of Banco Espírito Santo, S.A. submitted the proposal below:

"Whereas:

a) The legal regulations applying to the acquisition and sale of own shares by public limited liability companies set out in the Portuguese Companies Code;

b) The provisions set forth in the European Commission Regulation (EC) 2273/2003 of December 22nd, 2003, that established a special regime contemplating, namely, requirements for exemption from the regime of market abuse for certain buy-back programmes of own shares, which should be taken into consideration even if the acquisitions of own shares that will be made fall outside the scope of the buy-back programmes covered by said Regulation;

c) The duty of issuers of securities admitted to trading on a regulated market to disclose and report on transactions involving own shares set forth in the Portuguese Securities Market Commission (CMVM) regulation no. 5/2008;

d) In the General Meeting of April 6th, 2010, a proposal was submitted to the Shareholders of Banco Espírito Santo S.A., for resolution, concerning the creation of two "Variable Remuneration Plans based on Financial Instruments" applicable respectively to the members of BES's Executive Committee and to its General Managers, Advisors to the Board of Directors and Coordinating Managers, which will imply the execution of transactions involving own shares;

e) The convenience of Banco Espírito Santo, S.A. being able to continue to execute such transactions within legally admitted terms, other than in the circumstances foreseen in Article 319 (3) of the Portuguese Companies Code;

f) The same convenience exists regarding the possibility of subsidiaries of the Bank acquiring and disposing of shares in Banco Espírito Santo, S.A.;

g) The same possibility should be guaranteed with regard to the execution of transactions involving own bonds, which are subject to the same legal framework applying to the acquisition of own shares.

The Board of Directors of Banco Espírito Santo, S.A. proposes that a resolution be passed to:

1. Authorise Banco Espírito Santo, S.A. or any subsidiary, present or future (each of them being hereinafter designated as "Company") to, subject to decision by the management board of the Company in question, purchase shares, including rights to the acquisition or granting thereof, in Banco Espírito Santo, S.A., under the following terms:

a) Maximum number of shares to be purchased: up to a limit corresponding to 10% of the share capital of Banco Espírito Santo, S.A., minus shares which are sold, without loss to the number of shares required for the Company to comply with obligations arising from the law, a contract, the issuance of securities, or contractual binding to the execution of the «Variable Remuneration Plans based on Financial Instruments», subject to, if applicable, the subsequent sale, within the legal limits, of the shares exceeding the said limit, and without prejudice to the acquisition of own shares intended to execute a resolution to reduce the share capital approved by the general meeting, in which case the specific limits set forth in said share capital reduction resolution shall apply;

b) Acquisition period: eighteen months as of the date of the present resolution;

c) Means of acquisition: subject to the mandatory limits established by law, the purchase of shares, or rights to acquire or grant shares, may be carried out, in exchange for payment, through any means, in regulated markets where the shares are admitted to trading, or in non regulated markets, respecting the principle of equal treatment of shareholders under the terms of the law, namely through acquisition from financial institutions with which the Company has signed an equity swap contract or other similar financial derivative instruments, or through acquisition, by any means, intended to comply or resulting from compliance with obligations arising from the law, a contract, or the «Variable Remuneration Plans based on Financial Instruments», under the respective terms and conditions;

d) Minimum and maximum payment for acquisitions: the acquisition price shall fall within an interval of twenty percent below and above the average listed price of the Banco Espírito Santo, S.A. shares in the last five sessions of the NYSE Euronext Lisbon immediately prior to the acquisition date or the date of creation of the right to purchase or grant shares resulting from the financial instruments contracted by the Company;

e) Time of acquisition: to be determined by the Company's management board, bearing in mind the situation of the securities market and the convenience or commitments of the seller and/or the Company. Acquisitions may occur on one or more occasions, in the manner that the referred Board deems appropriate.

2. Approve the disposal of own shares that were purchased, including rights to the acquisition or granting thereof, subject to decision by the management board of the Company in question, under the following terms:

a) Minimum number of shares to be sold: the number of sale transactions and the number of shares to be sold shall be determined by the Company's management board in light of what at each time may be deemed necessary or convenient to further the Company's interests or to comply with obligations arising from the law, a contract, or the «Variable Remuneration Plans based on Financial Instruments», under the respective terms and conditions;

b) Period during which the disposal may be performed: eighteen months as of the date of this resolution;

c) Means of disposal: subject to the mandatory terms and limits established by law, the disposal of shares against payment may be carried out through any means, namely through sale or exchange in regulated markets where the shares are admitted to trading, or in non regulated markets, respecting the principle of equal treatment of shareholders under the terms of the law, to or with specific entities appointed by the Company's management board, namely financial institutions with which the Company has signed an equity swap contract or other similar financial derivative instruments, or through disposal by any means to comply with obligations arising from the law, a contract, or the «Variable Remuneration Plans based on Financial Instruments», under the respective terms and conditions;

d) Minimum price: the minimum selling price shall be either no less than twenty percent below the average listed price of the Banco Espírito Santo, S.A. shares in the last five sessions of the NYSE Euronext Lisbon immediately prior to the date of disposal, or it shall be the price that was set in a contract entered to by the Company. In the case of the «Variable Remuneration Plans based on Financial Instruments», the selling price of the shares shall be that which results from the respective Regulations;

e) Time of Disposal: to be determined by the Company's management board, bearing in mind the situation of the securities market and the convenience or commitments of the purchaser and/or the Company. Disposals may occur on one or more occasions, in the manner that the referred Board deems appropriate.

3. The provisions of the preceding paragraphs shall apply, with the required adaptations, to the acquisition of own bonds by Banco Espírito Santo, S.A.,

or by any subsidiary, present or future, subject to decision of the respective management board.

4. Recommend that the Company's management board, without prejudice to its freedom to decide and to act as per the resolutions taken in respect to paragraphs 1 and 2, consider not only the applicable legislation concerning the disclosure of the remuneration policy of the members of the corporate bodies, the Bank of Portugal notices and the recommendations of the Portuguese Securities Market Commission in force, but also the following recommended practices concerning the buying and selling of own shares under the authorisations granted in paragraphs 1 and 2 hereinabove, particularly in relation to acquisitions forming part of the «Variable Remuneration Plans based on Financial Instruments» or other plans that may be governed by the Regulations mentioned in Recital b):

a) Disclose to the public, before beginning purchase and sale transactions, the contents of the authorisation referred to in the foregoing paragraphs 1 and 2, in particular, the objective, maximum amount paid for acquisition, maximum number of shares to buy and the authorised timeframe established for the transaction;

b) Maintain a record of each transaction performed within the scope of the preceding authorisations;

c) Perform the transactions in such a manner, in terms of timing, form and volume, as not to not disturb the regular functioning of the market, trying to avoid execution during sensitive trading periods, in particular the opening and closure of a session, at times of market turmoil, or when relevant facts are about to be announced or financial results are being disclosed;

d) Restrict acquisitions to 25% of the average daily trading volume, or to 50% of this trading volume provided that the competent authority is notified;

e) Publicly disclose any transactions performed, that are relevant according to the applicable regulations, until the end of the third working day subsequent to the date on which such transaction occurred;

f) Notify the competent authority of all the purchase and sale transactions performed until the end of the third working day subsequent to the date on which such transactions occurred;

g) Refrain from selling shares during the execution of the «Variable Remuneration Plans based on Financial Instruments» or other plans that may be governed by the Regulations mentioned in Recital b).

To the purposes herein, and in the case of acquisitions forming part of the «Variable Remuneration Plans based on Financial Instruments» or other plans that may be governed by the Regulations mentioned in Recital b), the Board of Directors may provide for the separation of the acquisitions and respective systems according to the specific programme in which they are included, and refer such separation in the public notification that may be issued."

The Chairman of the General Meeting declared the proposal open for discussion. As no one wished to take the floor, the proposal was put to the vote and approved by a majority of 29,945,467 votes, with 69,274 dissenting votes and 11,221 abstentions, in a total of 30,025,962 votes present.

The meeting then proceeded to Item Nine, "Resolve on the authorisation to exercise activities in a competing company", about which the shareholder CRÉDIT AGRICOLE S.A. submitted the following proposal:

"Whereas:

a) By indication of Eurofactor France, S.A, a company in which Crédit Agricole Leasing and Factoring, S.A., a subsidiary of Crédit Agricole, S.A., holds a 99.99% stake, Mr. Vincent Claude Pacaud will be appointed on behalf of and in representation of Crédit Agricole, S.A. a non executive member of the Board of Directors of EUROFACTOR PORTUGAL, S.A. ("Eurofactor"), in 2013;

b) The corporate object of Eurofactor is exclusively the carrying out of factoring para-banking activities, with such latitude as may be allowed by law (Article 3 of the By-laws);

c) Mr. Vincent Claude Pacaud will exercise functions as a non executive director in a competitor with Banco Espírito Santo, S.A.;

d) Under the terms of Article 398 (3) of the Portuguese Companies Code, it is the responsibility of the General Meeting of Banco Espírito Santo, S.A. to authorise the Board member Mr. Vincent Claude Pacaud to exercise functions at Eurofactor, as well as to establish the system of access to sensitive information by a Board member of the Bank exercising functions in a competing company;

The shareholder proposes that Mr. Vincent Claude Pacaud be authorised to exercise functions as non executive director of Eurofactor, for which he was indicated on behalf of and in representation of Crédit Agricole, S.A.. The shareholder further proposes that the regulation on access to sensitive information attached to this proposal also be approved."

The Chairman of the General Meeting declared the proposal open for discussion. As no one wished to intervene, the proposal was put to the vote and approved by a majority of 29.944.466 votes, with 67.662 dissenting votes and 13.834 abstentions, in a total of 30.025.962 votes present.

Finally, the meeting moved to Item Ten: "Resolve on the redefinition of the Regulation on the Right of Directors to a Pension or Complementary Pension Benefits for Old Age or Disability", about which the shareholder BESPAR Sociedade Gestora de Participações Sociais, S.A. submitted the following proposal:

"Whereas:

A – It is important for the Company to have an adequate retirement pension scheme for its directors;

B – Such a scheme should evolve and be adjusted to the requirements of the Company's context;

C – The regulation in force basically corresponds to the retirement pension scheme established by the Company over 20 years ago;

D – In practice the Company has recently only attributed retirement pensions to the directors and no longer complementary pension benefits;

The Board of Directors of "BESPAR – Sociedade Gestora de Participações Sociais, S.A." proposes, under the terms of Article 25 of the Company's articles of association, that the current Regulation be replaced by the Regulation attached herein, of which we stress the following:

1. At functional level, the reinforcement of the powers and intervention of the Remuneration Committee elected by the General Meeting;

2. At technical and legal level, the explicit clarification that the scheme concerns retirement pensions alone."

(...)
The Chairman put the above proposal to the vote and the same was approved by a majority of 27,673,287 votes, with 2,341,974 dissenting votes and 7,102 abstentions, in a total of 30,022,363 votes present.
(...)
There being no further matters to discuss, the Chairman of the General Meeting declared the meeting closed at thirteen hours and thirty minutes, in record whereof these minutes have been drawn up and will be signed by the Members of the Board of the General Meeting and by the Company Secretary.

Caio Reisewitz (b. 1967, Brasil). Mamanguá, 2007
C-print, Diasec, 227x180 cm. Ed. 2/5. Courtesy the artist & Galeria Joan Prats.

BES art COLECÇÃO BANCO ESPÍRITO SANTO

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