



ESPIRITO SANTO  
FINANCIAL GROUP S.A.

Annual Report & Consolidated Financial Statements 2012

## Group Overview, Strategy and Business Model

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Espírito Santo Financial Group S.A. ('ESFG' or 'the Company') is a publically listed company with its shares listed on the Luxembourg, Lisbon and London stock exchanges. It provides a wide range of banking services, centred on Banco Espírito Santo ('BES'), and Life and Non-Life insurances services through Tranquilidade and through *bancassurance* operations at BES.

ESFG's primary strategy is to further develop its ability to cross-sell the full range of banking and insurance services offered by its subsidiaries, while taking advantage of further cost reduction opportunities afforded by a more efficient integration of its inter-related businesses.

ESFG follows a strategy of organic growth with localised acquisitions coupled with greater international revenue outside of its traditional market of Portugal. ESFG's international investments focus on countries with strong cultural and economic ties with Portugal or the 'Strategic Triangle'; this includes Iberia, South America and Africa. The Company further invests in countries such as Switzerland, the United Kingdom and France, the United States of America and the United Arab Emirates, amongst others.

ESFG remains open to pursuing means of ensuring that it will continue to play a key role in banking and insurance operations in these markets.

America



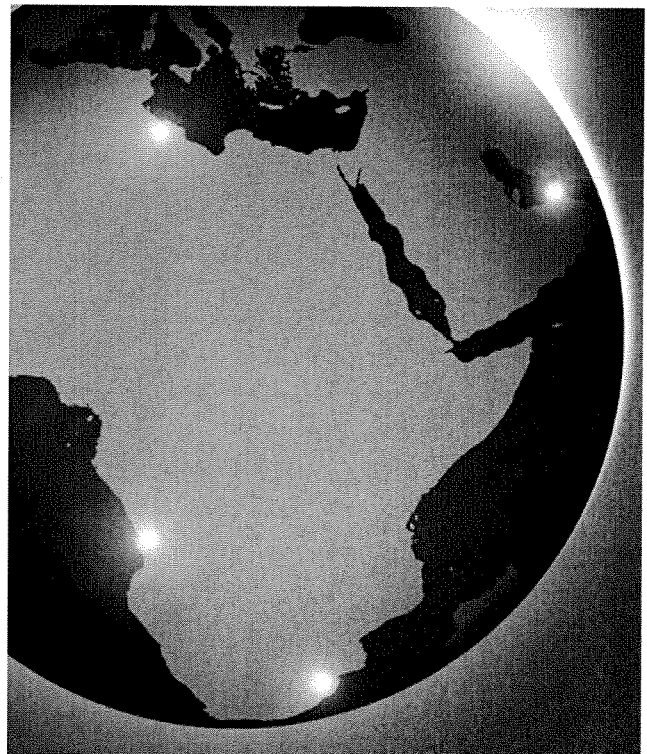
Europe



Asia



Africa



# Chairman's Report

## Dear Shareholders

ESFG's annual results, 2012, came at a time of a marked deceleration in global economic activity and a contraction of GDP in the Euro area. This resulted from a number of factors that include, but are not limited to, the restrictive fiscal policies and private sector deleveraging in developed economies and the slowdown in demand and fears of a hard landing in China. The uncertainty over the EU debt crisis also served to restrain any possible recovery.

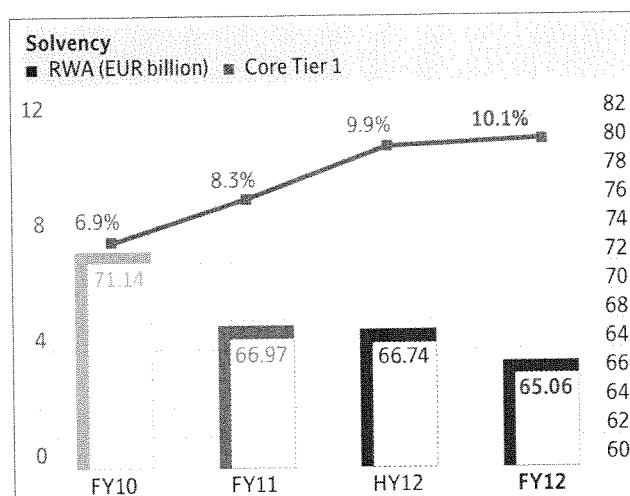
By the second half of the year however we saw a stabilization of the financial markets in which the Company's subsidiaries operate. Fears over the viability of the Euro project subsided and quickly translated into a sharp decline in peripheral government bond spreads versus the German Bund. The ECB's 'whatever it takes' policy materialised in the form of the Outright Monetary Transactions ('OMT') announcement which opened the doors to unlimited repurchases of European area public debt securities.

In Portugal, ESFG's traditional market, GDP contracted by 3.2% as consumption and investment in the country declined sharply as a consequence of the on-going Economic and Financial Adjustment Programme. Exports however proved resilient, although decelerating during the reporting period, with close to 4.0% of real growth and with sales to economies outside of the EU reaching double digits.

Portugal's deleveraging process, and the increase in domestic savings, drove improvements in the external balance of payments. Portugal successfully complied with the Troika's public deficit targets under the Financial Adjustment Programme. These favourable developments saw ESFG's principal banking subsidiary Banco Espírito Santo ('BES') participate in the re-opening of the wholesale debt markets in Portugal.

Despite being a very difficult year, **ESFG's consolidated net profit for the full year 2012, attributable to equity holders of the Company rose to EUR 313.6 million.** Results of ESFG's core operations remain positive, but were constrained by the challenges of the Eurozone crisis, as well as demands for stronger capital ratios from the EBA and the Bank of Portugal. The acquisition by BES on 11 May 2012 of the remaining 50.0% stake of BES Vida from Credit Agricole led to the recognition of previously unrecognised gains which impacted positively on consolidated results and the impact of the re-evaluation of the Company's investment in Espírito Santo Saúde ('ESS') following its deconsolidation on a line-by-line basis.

On 26 April 2012 ESFG announced the successful conclusion of its EUR 500.0 million capital increase which went a long way to bolster the Company's Core Capital ('CET1') position as required by the European Banking Authority ('EBA') and the Bank of Portugal. (The EBA required a 9.0% CET1, which included a sovereign capital buffer, by the end of June 2012 and 10.0% by the Bank of Portugal by year-end 2012.) On 11 May 2012 BES announced that it had successfully completed a EUR 1.01 billion capital increase. The impact, in which ESFG fully participated, was to further strengthen ESFG Group's capital position.



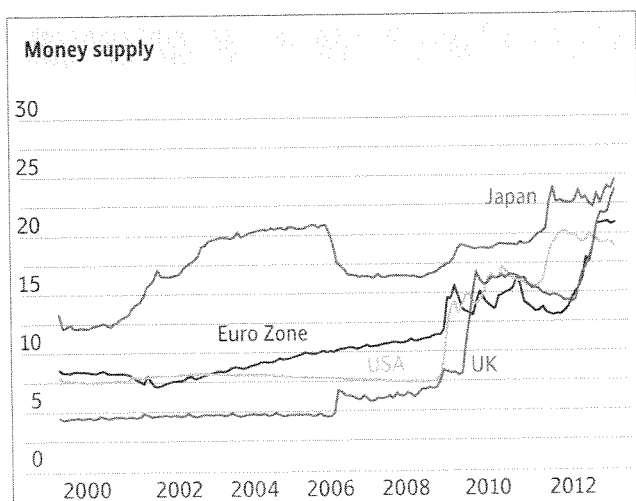
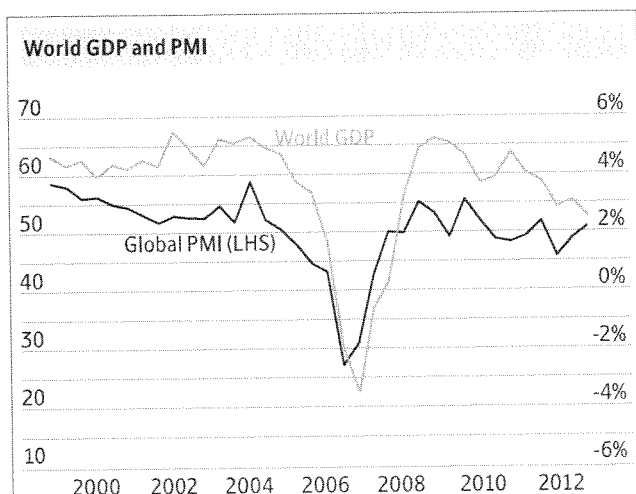
By year end 2012 ESFG had not only met the EBA and Bank of Portugal targets by reporting a Core Tier 1 of 9.6% and 10.1% respectively but it, and most importantly BES, had achieved this without the need of seeking state support and therefore it maintains the Company's independence. Total equity attributable to equity holders of the Company rose to EUR 2.20 billion by year-end 2012 from EUR 1.27 billion in 2011.

ESFG continues to provide a wide range of banking and Life and Non-Life insurance services. Within this Annual Report we describe their activities and their successful contribution to the Company's consolidated results. ESFG maintains its principal banking investment in BES; BES reported an individual full year result for 2012 of EUR 96.1 million compared to a loss of EUR 108.8 million in the previous year. The results include a negative adjustment of EUR 54.1 million resulting from its acquisition of BES Vida, their now fully owned Life Insurance business. BES' results come at a time of the unprecedented need to deleverage whilst raising provisions by EUR 814.8 million year-on-year with the balance of provisions reserve rising to EUR 2.69 billion at year end 2012 from EUR 2.17 billion a year earlier, a rise of 24.0%.

## Economic Environment

The first half of 2012 was marked by the deceleration of global economic activity and by the contraction of GDP in the Euro Area. This resulted from restrictive fiscal policies and deleveraging in the private sector of the most mature economies; reduced demand and fears of a hard landing in China; and the uncertainty caused by the continued debt crisis in the Euro Area which was most acute in this period due to political and fiscal instability in Greece and growing fears of contagion to other southern European economies.

The second half of the year however saw the stabilisation of the financial markets as fears over the fragmentation of the Euro Area receded. Spreads versus the German Bund benchmark contracted as the yields of peripheral economies' public debt securities fell. In addition to some progress made towards greater financial and fiscal integration, this improvement in sentiment mainly resulted from the ECB's launch of the Outright Monetary Transactions ('OMT') programme, which opened the possibility for unlimited purchases of European area public debt securities, as a complement to a possible formal financial assistance programme under the European Stability Mechanism ('ESM').



### Principal countries in which the subsidiaries of ESFG operate:

#### Portugal

Portugal's economic environment in 2012 was marked by the implementation of the economic and financial adjustment programme. The on-going 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 16.0% 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 11.0% 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 continued to fall sharply (-15.2% against -13.8% in 2011), with decreases across all institutional sectors. Investment was harmed not only by restrictive financing conditions but also by a fall in demand for credit by families and businesses alike. Though tending to slow, particularly in the latter part of the year, exports continued to perform well, growing by more than 4.0% in real terms. Exports were naturally penalised by the economic downturn in the Euro Area, even so sales to markets outside the European Union registered two-digit growth.

Exports, together with a sharp fall in imports (-7.0%) and an increase in domestic savings, allowed for an improvement in the external balance, 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 reduction in net borrowing requirements.

The public deficit came close to the (revised) target of 5.0% of GDP in 2012, notwithstanding the significant deviation from budget on revenue. This was likely the result of a sharper than initially foreseen reduction in expenditure, in part due to additional savings on expenses on remunerations, the acquisition of goods and services, investment expenses and net interest costs. The 2012 budget benefitted from non-recurrent revenue from the sale of airport management public services to ANA. Public debt continued to climb, reaching 120.0% of GDP, which is 12 p.p. more than in 2011.

## Poland

The Polish economy continued to grow in 2012, albeit at a slower pace than in previous years. The European Football Championship saw an end to the principal infrastructure projects. GDP grew by 3.5%. Activity subsequently slackened and was weighed down by the Euro debt crisis, and internally, by the weakening of domestic demand. Exports are expected to have grown by 3.0% year-on-year. Imports fell by an estimated 0.2%, supporting a positive contribution of net exports to GDP growth. 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% respectively. This in turn contributed to worsen conditions in the labour market, with the jobless rate rising to around 10.1%.

High levels of inflation, seen in 2011, persisted into 2012. In May 2012 the National Bank of Poland lifted the benchmark interest rate by 25 bps, to 4.75%, in an attempt to forestall the expectation of runaway inflation. However, the economic slowdown reported in the second half of the year, combined with fading inflationary pressures, saw the focus change. The Central Bank of Poland made two 25 bps cuts in the benchmark interest rate, in November and December, to 4.25%. The zloty moved upwards in the course of 2012, trading between EUR/PLN 4.5 and EUR/PLN 4.04 – closing the year at EUR/PLN 4.08.

## Brazil

In Brazil, governmental efforts to accelerate growth only served to spur domestic demand, which was already growing at a robust pace. 2012 saw a slowdown in growth (1.0% year-on-year from 2.7% in 2011), which led to the government shifting economic policy focus towards the recovery of investment.

The 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% year-on-year by the end of 2012). This was further aggravated by poor weather conditions in important food producing regions, leading to a hike in the food prices. Inflationary pressures could have been limited by currency appreciation; the Brazilian government however opted to avoid a strengthened currency as it would imply a loss of competitiveness for the domestic industry. The Real weakened against the dollar, from BRL/USD 1.876 at the end of 2011 to BRL/USD 2.044 at the end of 2012.

With a lack of investment from the private sector, the Federal Administration took the lead and intensified capital expenditure. The primary budget surplus fell from 3.1% to ca. 2.4% of GDP. The SELIC rate was cut from 11.0% to 7.25% in seven successive cuts, in September 2012 the Central Bank interrupted its monetary easing cycle. Doubts over the shift in economic policy and state intervention in specific sectors (namely banks, energy utilities, oil and gas) translated into a weaker Brazilian stock market in 2012. The Bovespa index however saw a moderately positive increase in the year (7.4%).

## Angola

The Angolan economy in 2012 continued to grow at a brisk pace (ca. 7.0%), largely supported by the growth of the oil sector but also by the increasingly strong performance of the non-oil sectors. Transports, energy and construction continued to benefit from a policy of public investment. Diversification of the economy however 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. Angola had a fiscal surplus of 10.2% of GDP in 2011 and was followed in 2012 by a surplus of 6.1%, in part underpinned by the favourable evolution of the non-oil primary fiscal balance.

Under the Stand-By Arrangement ('SBA'), the IMF continued to monitor the Angolan economy, and recognised its good performance and progress made. The SBA 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. The IMF's assessment was 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.

Angolan authorities launched the Angolan Sovereign Fund ('FDSEA'), with initial capital of USD 5.0 billion. The fund, which will grow from further oil revenues, will be 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), a year-on-year increase of 2.5%. 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.

## Risks to ESFG and its subsidiaries

The risks below are not the only ones that the ESFG Group and its subsidiaries ('ESFG Group') face. Additional risks, not presently known to the ESFG Group, or that the ESFG Group currently deems immaterial could yet impair business operations. All of these risks could materially affect the ESFG Group's business, its revenues, operating income, net income, net assets and liquidity and capital resources.

### 1. Deterioration of the financial markets and economic environment

The performance of the ESFG Group is generally influenced by conditions in the global financial markets and the macroeconomic environment of the countries in which it operates. The global financial system has operated under difficult circumstances since August 2007 and the financial markets have performed negatively following the insolvency of several international financial institutions since September 2008. This has caused disruption in the financial markets worldwide, and in particular, to liquidity and funding in the international banking system. Furthermore, this has put considerable pressure on the core business of many investment banks, commercial banks, and insurance companies worldwide.

### 2. ESFG is largely affected by the Portuguese economy

The core businesses of the ESFG Group are banking and insurance (both life and non-life) businesses. As its operations are mainly concentrated in Portugal, the state of the Portuguese economy affects the performance of the ESFG Group. A continued downturn in the Portuguese economy in particular could have a material adverse effect on the ESFG Group's business, financial conditions and the results of its operations. The ESFG Group's ability to grow may be restricted by slower growth in the banking and insurance markets in which it operates.

### 3. ESFG is exposed to Sovereign debt

As a consequence of the recent deterioration in their financial condition, certain EU and other governments may be unwilling or unable to repay principal or pay interest when due, either in full or in part, on their respective debt obligations. In the event of default, there may be limited or no legal recourse. ESFG's fully consolidated subsidiary, BES, is a market maker of Portuguese sovereign debt and also takes risk positions in such sovereign debt with the amount of its holdings and the portfolio's average maturity varying from time to time, as a result of its market making and risk taking activities and its view regarding the attractiveness of such debt.

### 4. Regulatory environment, additional regulatory restrictions or requirements

The ESFG Group is subject to banking, insurance and financial services laws and government regulations in each jurisdiction where it conducts its business. Regulatory agencies have broad administrative powers over many aspects of the financial services business, which may include liquidity, capital adequacy and permitted investments, ethical issues,

money laundering, privacy, record keeping and marketing and selling practices. At 31 December 2012, the ESFG Group's Core Tier I ratio, Tier I ratio and total solvency ratio were 10.1%, 10.1% and 11.5%, respectively, calculated under Basel II, IRB Foundation Method and reported to the Bank of Portugal. As at 31 December 2012, ESFG's Core Tier 1 capital ratio, under the EBA guidelines, which includes the sovereign buffer, reached 9.6%.

ESFG, having met the EBA's minimum level of Core Tier I capital of 9.0% by 30 June 2012, and also met the Bank of Portugal's minimum level of Core Tier I capital of 10.0% by 31 December 2012, cannot ensure that there will be no further increases to the demands set by its regulator(s). The failure to meet new minimum Core Tier I ratios by the prescribed deadlines may have a material adverse effect on the ESFG Group's financial condition and results of operations as the Bank of Portugal, or the EBA, could, among other measures, restrict dividend payments by BES to ESFG and/or by BES' banking affiliates.

### 5. Compliance with anti-money laundering and anti-terrorism financing rules

The ESFG Group is subject to rules and regulations regarding money laundering and the financing of terrorism. Monitoring compliance with anti-money laundering and anti-terrorism financing rules can put a significant financial burden on banks and other financial institutions and pose significant technical problems. Although the ESFG Group believes that its current policies and procedures enable it to comply with applicable rules and regulations, the ESFG Group cannot guarantee that its group-wide anti-money laundering and anti-terrorism financing policies and procedures completely prevent the violation of anti-money laundering and anti-terrorism financing rules. Any violation of anti-money laundering and anti-terrorism financing rules, or even the suggestion of violations, may have severe consequences, notably reputational consequences, and could have a material adverse effect on the ESFG Group's business, financial condition and results of operations.

### 6. Market risk

The ESFG Group faces the risk of possible losses resulting from an adverse change in the value of financial instruments due to fluctuations in interest rates, foreign exchange rates, share prices or commodities prices.

### 7. Credit risk

Risks arising from changes in credit quality and the repayment of loans and amounts due from borrowers and counterparties are inherent in a wide range of the ESFG Group's businesses. Adverse changes in the credit quality of the ESFG Group's borrowers and counterparties, a general deterioration in Portuguese or global economic conditions, or increased systemic risks in financial systems, could affect the recovery and value of the ESFG Group's assets and require an increase in provision for bad and doubtful debts and other provisions.

## Consolidated financial results, solvency and financial strength

ESFG's key highlights for the reporting period are:

Key indicators	Value	2011	2012
Deposits	EUR million	34,952.0	35,625.5
Net Loans	EUR million	51,881.9	50,692.9
Total Assets	EUR million	84,019.5	87,574.1
Shareholders' Equity	EUR million	1,226.8	2,199.7
Net Income	EUR million	121.4	313.6
EPS (Comaparable Basis)	EUR	2.51	1.86
Dividend per Share	EUR	0.0	0.0
Average Number of Shares		78,760,520	171,077,298

- Consolidated **Net Income** for the full year 2012 reached EUR 313.6 million (EUR 121.4 million<sup>1</sup> in 2011). Results from banking and insurance operations were reinforced by the consolidation of BES Vida and the impact of the deconsolidation of ES Saude ('ESS') on a line-by-line basis;
- Consolidated **Commercial Banking Income** at the Company rose by 3.0% to EUR 2.11 billion, (EUR 2.05 billion in 2011);
- Consolidated **Net Interest Income** increased to EUR 1.27 billion, (EUR 1.24 billion in 2011), a 1.7% rise year-on-year;
- Consolidated **Net Fees and Commissions** rose 4.9% YoY to EUR 849.6 million, (EUR 809.7 million in 2011). ESFG's focus is on continued support of Portuguese enterprises abroad;
- Consolidated **Market Results and Other Operating Income** rose by 66.8% to EUR 940.1 million, (EUR 563.5 million in 2011);
- Consolidated **Insurance Earned Premiums Net of Reinsurance** increased by 15.8% year-on-year to EUR 407.6 million, (EUR 352.1 million in 2011);
- Consolidated **Claims Incurred and Changes on Technical Reserves** (Net of Reinsurance) and Commissions rose by 21.7% to EUR 334.5 million, (EUR 274.8 million in 2011), and includes the full consolidation of BES Vida through BES;
- Consolidated **Operating Expenses** rose by 11.3% to EUR 3.22 billion, (EUR 2.89 billion in 2011), on the back of prudent provisioning;
- Consolidated **Staff Costs and General Administrative Expenses** increased by 2.9% to EUR 1.28 billion, (EUR 1.24 billion<sup>1</sup> in 2011); and
- As of 30 December 2012 ESFG's **Core Tier 1** ratio reached 10.1%, exceeding the Bank of Portugal's requirement of 10.0% by year-end. ESFG's Core Tier 1 under the EBA criteria (minimum of 9.0%) rose to 9.6%.

Results of ESFG's core operations remain positive, but were constrained by the challenges of the Eurozone crisis and the impact of the Financial Adjustments' Programme adopted by Portugal, as well as demands for stronger capital ratios from the EBA and the Bank of Portugal.

The acquisition by BES on 11 May 2012 of the remaining 50.0% stake of BES Vida from Credit Agricole, as reported in ESFG's half year results, led to the recognition of previously unrecognised gains as reported in the Profit and Loss table.

On 23 November 2012 ESFG announced that it had ceded its management control of Espirito Santo Saude ('ESS') to Rio Forte. ESFG ceased to consolidate ESS on a line by line basis from the 30 September 2012. The de-consolidation had a positive impact on results.

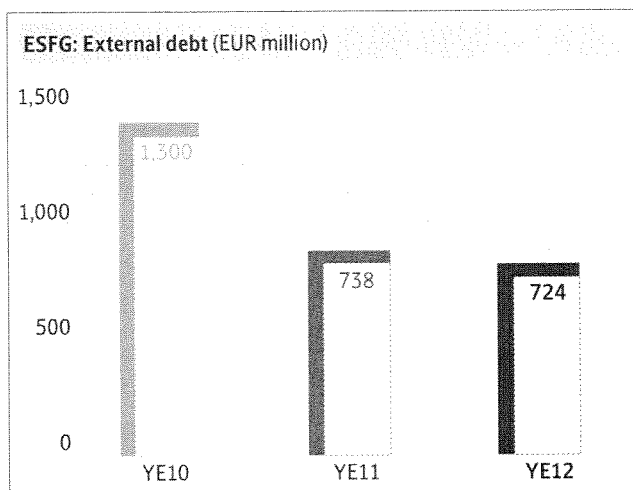
Total consolidated net assets at ESFG as at the end of 2012 rose by 4.2% to EUR 87.57 billion from EUR 84.02 billion a year earlier. Total equity attributable to equity holders of the Company rose to EUR 2.2 billion by year-end 2012 from EUR 1.27 billion in 2011.

<sup>1</sup> Change in accounting policy for recognition of actuarial differences: As permitted under IAS 19 (section 93A) in 2011 ESFG classified Actuarial Differences under Other Comprehensive Income ('OCI'). This change resulted in a EUR 642.1 million reduction in ESFG's assets in 2011 (net of taxes) and a decrease of total equity by the same amount, with EUR 203.1 million attributable to equity holders of the Company.



### External debt

As part of ESFG's on-going efforts to improve its capital position a further EUR 16.5 million of ESFG's debt was repurchased and extinguished, reducing overall, standalone, external debt to EUR 723.5 million. ESFG currently supports an EMTN and ECP programme. Through these programmes ESFG supports the provision of liquidity to its fully owned subsidiary Espirito Santo Financière ('ESFIL').



### Developments during 2012 and subsequent events:

- On 1 February 2012, ESFG announced that on 31 January 2012, DBRS had, in the wake of its downgrade on Portugal, downgraded ESFG to BBB (low); ESFG's short term credit rating was moved to R-2 (middle).
- On 1 March 2012, NYSE Euronext Lisbon announced that ESFG would enter the Portuguese PSI20 index on 19 March 2012. On 22 February 2013 the NYSE Euronext Lisbon informed that on 18 March 2013 ESFG would exit the PSI20.
- On 1 March 2012, the Bank of Portugal announced the completion of the third stage of the Special Inspections Programme ('SIP'). ESFG's evaluation was confirmed as 'clearly adequate'; the highest classification in the scale.
- On 23 March 2012, DBRS informed that it would maintain its rating of ESFG at BBB (low); ESFG's short term credit rating also remained stable at R-2 (middle).
- On 29 March 2012, Moody's announced the downgrade of ESFG's long term debt rating to B2 from B1. The downgrade followed Moody's rating action on all Portuguese Banks, including that of BES.
- On 12 April 2012, ESFG announced its intention to raise up to EUR 400 million of new equity through a capital raise and issuance of new shares.
- On 26 April 2012, ESFG announced that it had raised EUR 500 million through the issuance of 102,040,816 new shares. The issuance amount was increased from EUR 400 million, on the back of an increase in demand, to EUR 500 million. The price of the new shares was set at EUR 4.90 per share.
- On 16 August 2012, ESFG announced its first half 2012 results.
- On 3 October 2012, EBA and the Bank of Portugal announced that ESFG had fulfilled the EBA December 2011 recommendation by exceeding the 9.0% Core Tier 1 ratio which included the sovereign buffer.
- On 23 November 2012, ESFG, (42.9% consolidated stake), ceded management control of ESS to Rio Forte (44.5% stake).
- On 3 December 2012 ESFG announced the results of the on-site inspections programme on exposures to the construction and real estate sectors.
- On 5 December 2012, DBRS confirmed ESFG's long and short term ratings as BBBL and R-2 (middle) respectively.
- On 25 February 2013 Moody's confirmed ESFG's long term debt rating to B2 (neg).

## Income Statement as at 31 December 2012 and 2011

(EUR thousands)	31/12/2012	31/12/2011
Interest and similar income	4 097 681	4 247 075
Interest expense and similar charges	2 832 460	3 002 789
<b>Net interest income</b>	<b>1 265 221</b>	<b>1 244 286</b>
Dividend income	73 167	169 208
Fee and commission income	1 035 146	943 904
Fee and commission expenses	(185 532)	(134 157)
Net gains / (losses) from financial assets and financial liabilities at fair value through profit or loss	(54 762)	(193 322)
Net gains from available-for-sale financial assets	605 568	(64 476)
Net gains from foreign exchange differences	(18 369)	(27 714)
Net gains / (losses) from the sale of other assets	(42 573)	(91 896)
Insurance earned premiums net of reinsurance	407 632	352 112
Other operating income	450 253	940 873
<b>Operating income</b>	<b>3 535 751</b>	<b>3 138 818</b>
Staff costs	777 707	753 410
General and administrative expenses	502 760	490 642
Claims incurred net of reinsurance	631 943	289 273
Change on the technical reserves net of reinsurance	(336 660)	(53 531)
Insurance commissions	39 256	39 107
Depreciation and amortisation	145 779	151 540
Provisions net of reversals	57 251	10 668
Loans impairment net of reversals and recoveries	794 291	578 383
Impairment on other financial assets net of reversals	106 737	85 423
Impairment on other assets net of reversals	223 070	167 604
Other operating expenses	276 990	380 161
<b>Operating expenses</b>	<b>3 219 124</b>	<b>2 892 680</b>
Gains on disposal of investments in subsidiaries and associates	74 050	1 305
Gains arising on business combinations achieved in stages	87 273	-
Share of profit of associates	4 756	(38 639)
<b>Profit before income tax</b>	<b>482 706</b>	<b>208 804</b>
<b>Income tax</b>		
Current tax	152 159	90 900
Deferred tax	(41 157)	(142 509)
	<b>111 002</b>	<b>(51 609)</b>
<b>Profit for the year</b>	<b>371 704</b>	<b>260 413</b>
<b>Attributable to equity holders of the company</b>	<b>313 633</b>	<b>121 352</b>
<b>Attributable to non-controlling interest</b>	<b>58 071</b>	<b>139 061</b>
	<b>371 704</b>	<b>260 413</b>

## Commercial Banking

### Banco Espírito Santo

Capital: EUR 5,040,124,063.26  
Economic participation: 27.4%  
Location: Portugal

### Banque Espírito Santo et de la Vénétie S.A.

Capital: EUR 75,117,760.0  
Economic participation: 56.5%  
Location: France

### ES Bank Panama S.A.

Capital: US Dollars 30.0 million  
Economic participation: 100.0%  
Location: Panama

The ESFG Group, through its commercial banking subsidiaries, has developed a strategy for the development of services which focus on the needs of its clients. The ESFG Group, acting as a universal financial group, is able to serve the needs of individual, corporate and institutional customers, offering a full range of financial products and services. ESFG recognises the increasingly sophisticated and diverse requirements of its customers and continues to adapt its strategy to meet its customers' needs.

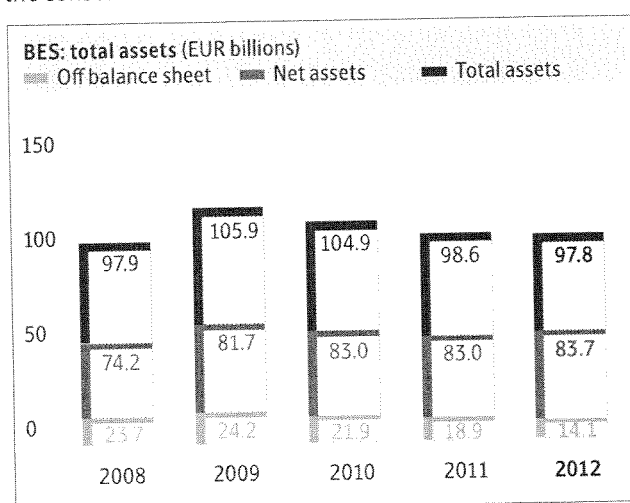
Banco Espírito Santo ('BES') is the most international of the private Portuguese banks, marking its presence in over 25 countries and 4 continents. The Bank's operations are based on a number of key segments: (i) Domestic commercial banking; including retail, corporate, institutional and private banking; (ii) International commercial banking; including retail, corporate, institutional and private banking; (iii) Investment banking; including M&A, project finance, acquisition finance, equity and debt capital markets, brokerage and private equity; (iv) Asset and wealth management; (v) Market and strategic Investments; and (vi) Corporate business.

BES, ESFG's principal banking subsidiary, reported on its positive net income for the full year 2012 at EUR 96.1 million compared to a loss of EUR 108.8 million in 2011. The positive result came at a time of an unprecedented economic and financial crisis and at a time where the demanding Adjustment Programme, agreed between the Portuguese government and the ECB, the European Commission and the IMF, weighs heavily on Portuguese financial institutions.

The Bank's results include a negative adjustment of EUR 54.1 million resulting from the acquisition, and full consolidation, of BES Vida (as explained under the Insurance section of this report).

The Bank continues to take steps to mitigate the negative domestic operating environment, the provisioning charge rose for loans and advances to customers from the 1.17% in 2011 to 1.62% which corresponds to a 35.5% increase or EUR 814.8 million. The balance of provisions reserve rose from EUR 2.17 billion at year-end 2011 to EUR 2.69 billion in 2012, a rise of 24.0%.

Gross loans at the Bank were reduced by 1.6% to EUR 50.4 billion by the end of 2012 from EUR 51.21 billion in 2011. The BES loans' book focuses primarily on exporting SME's and the corporate segment in Portugal. The deleveraging programme and provisioning for impairments weighed on the consolidated results at ESFG in 2012.



The deleveraging programme at BES, which began in 2010 and pre-empted the Portuguese government's request for assistance, continued into the last quarter of 2012. ESFG's banking subsidiary's aim is to reach an LDR of below 120.0% by the end of 2014; at the end of 2012 BES achieved an LDR of 137.0%, which fell from 141.0% in FY11.

Deposits increased by EUR 334.2 million, despite the Bank of Portugal's restrictions on pricing policies which began in April 2012. Credit provided by the Bank fell by EUR 812.1 million during the year. A marked improvement in liquidity at the Bank however, namely due the issuance of two unsecured bond issuances in 2012 which was followed by a further unsecured deal in the first quarter of 2013, allowed it to reduce net loans from the ECB to EUR 6.9 billion from EUR 13.7 billion in H12. The Bank repaid a further EUR 1.0 billion to the ECB LTRO facility.

Although overall asset quality remained resilient, the worsening economic situation affected the levels of overdue loans both in Portugal and internationally. Non-Performing Loans ('NPL'), at BES' domestic operations, of over 90 days, rose to 3.90% by the end of the reporting period from 2.74% a year earlier. NPL's of over 90 days rose to 3.9%, the figure remains well below the Portuguese market average.

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In May 2012 BES successfully concluded a EUR 1.01 billion capital increase, in which ESFG fully participated thus maintaining its participation in the Bank, and, in so doing, met the required solvency requirements of the Bank of Portugal (10.0% Core Tier 1 by year-end 2012) and the EBA (9.0% Core Tier 1 by June 2012, including the additional sovereign buffer). The actions taken by the Bank ensured that there was no need to resort to any public funds. Following the rights issue, the Bank was able to re-open the wholesale markets to Portuguese Banks after over 2 ½ half years. By year-end 2012, by raising over EUR 1.0 billion of unsecured debt, BES was able to reduce its use of ECB funding to EUR 6.9 billion.

Other commercial banking operations will continue to play a key role in ESFG's strategy of diversification.

In France, Banque Espírito Santo et de la Vénétie's ('BESV') individual net income grew to EUR 9.6 million, a rise of 3.2% year-on-year, from EUR 9.3 million a year earlier. Gross operating income declined by 24.0% however to EUR 15.7 million. The negative impact of low interest rates combined with increasingly high refinancing costs was countered by the improved performance in commercial banking and by the increase in credit spreads, coupled with increased fee revenues. Commercial banking rose by 14.0% during the period. Individual banking income declined by 9.0% year-on-year, to EUR 31.7 million. Operating Costs fell by 3.0% year-on-year. Provisions however rose by 15.7%. Recurrent banking income fell by 9.0% year-on-year to EUR 42.2 million.

Business activity at ESFG's fully owned subsidiary Espírito Santo Bank (Panama) S.A. ('ESBP') remains strong. Individual net income rose by 10.5% year-on-year to USD 21.3 million from USD 19.3 million a year earlier. The positive results reflect an 11.6% increase in NII to USD 18.9 million. Net Fee Income also rose sharply to USD 1.3 million from USD -877 thousand a year earlier. Net individual banking income rose by 27.3% year-on-year to USD 20.7 million.

## Investment Banking

### **Banco Espírito Santo de Investimento S.A.**

**Capital:** EUR 180.0 million

**Economic participation:** 27.4%

**Location:** Portugal, United Kingdom, Spain, Brazil, Poland, United States of America, Hong Kong, India and Mexico

Investment banking activities at ESFG, primarily through investment banking subsidiary Espírito Santo Investment Bank ('BESI'), include advisory services in project finance, mergers and acquisitions, placements of shares and bonds, stock broking and other investment banking services. Banking Income at BESI rose by 9.8% year-on-year to EUR 261.2 million with capital markets and other results rising sharply to EUR 64.9 million from EUR 26.3 million a year earlier. Pre-tax profits, reported by BES for its global investment banking activities for the period, rose strongly to EUR 39.0 million from EUR 15.1 million in 2011. Net individual income at BESI reached EUR 22.0 million for the period up from EUR 9.1 million in 2011.

The investment bank's participation in the Troika inspired Portuguese privatisations programme, the support of Portuguese companies in accessing international debt markets, both in the debt and equity markets, and trading gains compensated for lower growth in commercial banking operations. Operating costs were reduced by 1.4% year-on-year despite continued expansion into new markets.

### **Mergers and acquisitions**

The investment bank provided advisory services to 20 operations for a global amount of EUR 13 billion, consolidated its leadership of the Portuguese market (by number and value of announced transactions) and ranked in second place in Iberia by value of announced transactions.

The bank provided advisory services on a number of operations which included: (i) China Three Gorges on the acquisition of a 21.35% stake in EDP (EUR 2.7 billion); (ii) State Grid Corporation of China on the acquisition of a 25.0% stake in REN (EUR 387.0 million); (iii) Sugaldal on the acquisition from the Chilean Tresmontes Luchetti Agroindustrial of its tomato concentrate and fruit pulp business; in Portugal- Brazil, (iv) Camargo Correa Group on the tender offer on Cimpor; in Brazil, to (v) the shareholders of Meizler Biopharma on the sale of a 51.0% stake in this company to the UCB Group; and (vi) Empresa Construtora do Brasil on the sale of a 50.01% stake to Mota-Engil Brasil;

In Poland, (vii) on the sale of 100% of Lotos Parafiny to Krokus, a private equity fund (under a Leverage Management Buy-Out operation). The Bank also provided advisory services on the following announced operations, which are pending conclusion: in Portugal: (viii) Parública on the privatisation of 100% da ANA – Aeroportos de Portugal (EUR 3.1 billion); (ix) China Three Gorges on the acquisition of a 49.0% stake in EDP Renováveis Portugal and 25.0% of the shareholder loans to this company (total implied enterprise value for 100% - EUR 1.0 billion).

### **Project finance and securitisation**

In Brazil, BESI provided financial advisory services on the following long-term credit facilities: (i) BRL 2.12 billion from Banco Nacional de Desenvolvimento Económico e Social ('BNDES') and Fundo Constitucional de Financiamento do Norte (FNO) to finance the Interligação Elétrica da Madeira – IE Madeira, a 2,375 km energy transmission line; and (ii) BRL 159.0 million from the BNDES, for Transenergia Renovável, an electricity transmission utility.

BESI also provided (iii) advisory services to Equipav on the auction for the wastewater project in Piracicaba municipality (São Paulo) (total investment of BRL 341.0 million), which the company won; and acted as (iv) Mandated Lead Arranger of a EUR 185.0 million financing to Ybase - Florestal, Lda. for the acquisition, plantation and exploration of pine saplings over a total useful area of 24,507 hectares in the State of Mato Grosso do Sul; and as (v) Lender and Underwriter of Tranche C of the USD 166.0 million working capital facility extension for the construction of a 750 MW hydropower plant in Mexico.

### **Acquisition finance and other**

(i) Portugal, BESI participated in the EUR 590.0 million syndicated loan to Tagus Holdings to finance the acquisition of shares in Brisa (through tender offer), in the EUR 9.0 million financing to WTG Corporation Limited for the acquisition of the share capital of IMG Energias, and in the EUR 20.0 million refinancing of financial liabilities of SIC, a Portuguese television network; (ii) Spain BESI participated in the partial refinancing of a EUR 2.4 billion loan to Sacyr; and (iii) Poland the Bank mainly issued bank guarantees.

### **Other lending**

Brazil: (i) Copobras – structuring of a BRL 55.0 million issue of debentures in the local market; (ii) Caramuru Alimentos – structuring of a BRL 20.0 million financing, through an Export Credit Note; (iii) Biosev – structuring of a BRL 18.0 million financing, through an Export Credit Note; (iv) Proactiva Group – structuring and execution of CCB (bank credit notes) operations (BRL 42.0 million); and (v) Cemusa do Brasil – structuring of a CCB operation in BRL 21.0 million.

Asset and Wealth Management

Asset and Wealth Management

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At the end of 2012 the international activity represented close to 23.0% of the total assets under management, corresponding to more than EUR 3.8 billion, of which over EUR 2.0 billion in Spain and EUR 850.0 million in Angola, where volumes were boosted by the launch of the BESA Valorização real estate fund. In Luxembourg and Brazil AuM increased by 23.0% and 16.0%, respectively.

Banque Privée Espírito Santo S.A. ('BPES'), which focuses on wealth management, continues to support ESFG's consolidated full year results, with individual income rising by 6.5% to CHF 4.9 million, net of provisioning, from CHF 4.7 million a year earlier. BPES Portuguese operations were robust during the reporting period with profits doubling year-on-year. Assets under management grew by 3.0% to CHF 4.8 billion. The increase was driven by positive net inflows of new money and market performance which compensated for the continued strength of the Swiss Franc versus the Euro ('EUR/CHF').

Net Interest Income at BPES rose by 5.4% year-on-year to CHF 5.9 million from CHF 5.6 million. This positive result comes at a time of historically low interest rates, most notable in the second half of 2012. Banking Income fell to CHF 45.1 million, a decrease of 6.1% year-on-year as risk aversion by clients reduced fee related income. Operating expenses were kept under strict control at CHF 46.0 million, a reduction of 3.3% against the same period in 2011.

In October 2012, the Luxembourg authorities granted an investment advisory and asset management licence to Espírito Santo Wealth Management ('Europe) S.A. (ES Wealth Management'). ESFG's new subsidiary, which will be controlled through BPES, will help broaden the Group's pan-European wealth management business. ES Wealth Management, located in the Grand Duchy, began operations in January 2013.

Individual net income at ES Bankers (Dubai) Limited ('ESBD') rose by 14.1% year-on-year to USD 7.3 million from USD 6.4 million in 2012. Net Fees Income rose to USD 10.1 million from USD 8.7 million a year earlier. (Asset Management, Custodian Fees and other commissions remain key to the increase in banking income. Banking income rose 19.7% to USD 16.4 million from USD 13.7 million in 2011. Total administrative expenses reached E USD 8.4 million, up from USD 6.7 million in 2011, as the Company expands operations. AuM rose sharply during the year to USD 1.48 billion, a rise of 38.5% year-on-year, from EUR 1.07 billion. The rise reflects a 31.4% rise in the number of high net worth accounts to 627. ROE remains strong at 21.9%, rising from 21.3% in 2011.

Banco BEST reported an individual net income of EUR 8.5 million in 2012. The internet banking operation, principally owned by BES and ESFG, focuses on the provision of on-line trading and investment services. At year end 2012 the BEST reported EUR 2.0 billion of assets under custody and trading volumes reached EUR 268.0 million.

## Insurance

### BES Vida, Companhia de Seguros S.A.

Capital: EUR 50.0 million  
Economic participation: 27.4%  
Location: Portugal

### Companhia de Seguros Tranquilidade S.A.

Capital: EUR 160.0 million  
Economic participation: 100.0%  
Location: Portugal

### Seguros Logo, S.A.

Capital: EUR 20.0 million  
Economic participation: 100.0%  
Location: Portugal

### T- Vida S.A.

Capital: EUR 65.0 million  
Economic participation: 100.0%  
Location: Portugal

Income generated from the Group's insurance operations were consolidated from both ESFG's fully owned Companhia de Seguros Tranquilidade, S.A.'s ('Tranquilidade') operations and through BES' recent, fully acquired, consolidation of its life business; BES Vida, Companhia de Seguros ('BES Vida').

ESFG's insurance activities comprise both life insurance and non-life insurance. The Company conducts its Portuguese non-life insurance business in the non-bancassurance segment through Tranquilidade, S.A. and Seguros Logo, S.A. ('LOGO'), and its Portuguese life insurance business in the non-bancassurance segment through T-Vida, Companhia de Seguros, S.A. (T-Vida). ESFG conducts its Portuguese life insurance business in the bancassurance segment through BES Vida, and its Portuguese non-life insurance business in the bancassurance segment through BES, Companhia de Seguros, S.A. ('BES Seguros').

In May 2012, BES entered into an agreement with Crédit Agricole to acquire the 50.0% shareholding in BES Vida that it does not already own for EUR 225 million. Following the acquisition, which will be funded with a portion of the net proceeds of the BES rights issue, the Bank holds the entire share capital of BES Vida and has management control. As a result of BES owning the entire share capital of BES Vida, the strategic partnership with Crédit Agricole in the life insurance business is terminated.

When combining both Life and Non-Life business ESFG is now ranked as the second largest insurance group in Portugal with a combined market share of 18.0%. The combined market share in the Life business of T-Vida and BES Vida totalled 22.2% by year-end; ESFG is the second largest Life insurance group in Portugal. ESFG's market share in the Non-Life sector, through Tranquilidade, BES Seguros and Logo, increased to 10.7% by the end of 2012 from 10.5% a year earlier and is also the second largest operator in the Portuguese Non-Life sector.

Tranquilidade acts as a holding company for ESFG's interests in T-Vida, LOGO, BES Seguros and others. Tranquilidade's reported continued geographical growth as operations began in Mozambique and Angola in 2012.

Tranquilidade's net individual income reached EUR 18.5 million which declined from 2011 on the back of lower financial income and higher taxes (in 2011 the company benefited from significant tax credits). Technical results, net of reinsurance, increased by 5.9% to EUR 63.8 million in 2012 from EUR 60.3 million a year earlier. Financial results in 2012 reached EUR 34.3 million. Operating costs fell by 0.2% year-on-year to EUR 67.3 million as individual claims fell by 2.7%. Tranquilidade's individual market share rose to 8.4% from 8.1% in 2011. During 2012 Tranquilidade's market share in workers' compensation, fire and other damages and motor increased to 10.4%, 8.3% and 8.8% from 9.9%, 8.0% and 8.6% in 2011 respectively.

Ranking	Company	Premiums			Market share 2012		
		Life	Non-Life	Total	Life	Non-Life	Total
1	Group C.G.D.	2.143	1.053	3.196	21.0	26.4	29.3
2	ESFG	1.537	426	1.963	22.2	10.7	18.0
3	BCP Fortis	763	228	991	11.0	5.7	9.1
4	Santander	694	2	696	10.0	-	6.4
5	Allianz	189	349	538	2.7	8.8	4.9
6	AXA	121	328	449	1.7	8.2	4.1
7	Banif	151	281	432	2.2	7.1	4.0
8	CA Seguros	294	81	375	4.2	2.0	3.4
9	Zurich	56	263	319	0.8	6.6	2.9
10	Lusitania	78	211	289	1.1	5.3	2.7



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Pastor Vida posted individual net profits of EUR 7.1 million, which represents a 27.1% year-on-year increase. This performance was mainly related to an improvement in technical results and to the development of risk products. In the second quarter of 2012, following the announcement by Banco Popular of its intention to fully acquire Banco Pastor, and the resulting change of control at the banking level, Tranquilidade took the decision, as permitted within the agreement between the two parties, to exercise its option to withdraw from the joint Life business operation. The sale of Tranquilidade's stake is now concluded. The sale took place in the fourth reporting quarter and was sold back to Banco Pastor, (now acquired by Banco Popular).

Following the decision by Tranquilidade to sell its participation in Pastor Vida ESFG ceased to consolidate contributions from the Spanish Life Insurance company from the end of September 2012. Any comparisons made versus ESFG's consolidated insurance results in 2011 should be considered under these conditions.

At BES, BES Vida, which contributed EUR 122.7 million to the Bank's net income, noting the additional negative accounting impact of the Bank's reacquiring of the remaining 50.0% stake, reported strong growth in its product production in 2012. The Bank's life business operation provides both traditional and unit linked products as well as pension plans. Insurance production reached EUR 1.45 billion, a rise of 380.6% year-on-year. Claims fell sharply as financial product redemptions declined.

## Other Subsidiaries

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### ESFIL – Espírito Santo Financière S.A.

**Capital:** EUR 135.0 million  
**Economic participation:** 100.0%  
**Location:** Luxembourg

### Europ Assistance – Companhia Portuguesa Seguros Assistência, S.A.

**Capital:** EUR 7.5 million  
**Economic participation:** 47.0%  
**Location:** Portugal

### AdvanceCare – Gestão de Sistemas de Saúde S.A.

**Capital:** EUR 4.5 million  
**Economic participation:** 51.0%  
**Location:** Portugal

### Espírito Santo Saúde S.A.

**Capital:** EUR 88.0 million  
**Economic participation:** 32.0%  
**Location:** Portugal

AdvanceCare, ESFG's managed care platform for healthcare insurers provides the link between the Company's insurance operations and healthcare providers. AdvanceCare continues to provide strong results, in the period ending 2012 its net individual income climbed by 20.7% to EUR 2.3 million from EUR 1.9 million a year earlier. AdvanceCare is a joint venture between Tranquilidade and United Health Group. In 2012 the managed care company is estimated to have handled one third of healthcare claims made through all insurance companies in Portugal. Tranquilidade maintains management control.

Tranquilidade's assistance service provider, Europ-Assistance Portugal, reported a 63.1% increase in individual results to EUR 2.8 million in 2012.

For the first nine months of 2012 Espírito Santo Saúde ('ESS') contributed to Other Operating Income. The health care unit operates 18 hospitals (of which it owns 17), out-patient clinics, residential hospitals, senior care residencies, as well as participating in the Public-Private Partnership at the Loures Hospital in Portugal.

The private healthcare sector proved resilient in 2012 in contrast to the public healthcare sector in Portugal, which continues to suffer from on-going budgetary constraints. The private healthcare sector, in which ESFG's healthcare subsidiary ESS is a market leader, saw an increase in top-line growth as demand shifts towards private healthcare services. ESFG holds a 32.0% economic interest in ESS, or 42.9% voting rights when consolidating participations held by ESFG's subsidiaries. The remaining principal stake is held by Rioforte which, holds a 44.5% economic interest in ESS, (44.5% voting rights). As Rioforte now holds the majority stake, it holds management control. ESFG maintains its investment in ESS but will now include the health business within its consolidated accounts as an equity investment only.

On 23 November 2012 ESFG announced that it had ceded its management control of Espírito Santo Saúde ('ESS') to Rio Forte. For accounting purposes ESFG ceased to consolidate ESS on a line by line basis from the 30 September 2012. During the Q4 2012 ESS was accounted through 'Result of Associated'.

Espírito Santo Financière S.A. ('ESFIL') is the fully owned subsidiary of ESFG whose strategy is the acquisition of interests in other Luxembourg and foreign companies and investments in industrial or trading companies. It participates in the organisation and development of industrial or trading companies by granting assistance to such companies in the form of loans, guarantees. In particular, ESFIL holds the Guarantor's interests in BPES and the BESV. ESFIL is also engaged in the financing of Espírito Santo International S.A. and certain of its subsidiaries' long-term investments. In 2012 ESFIL contributed positively to the consolidated results of the Company.

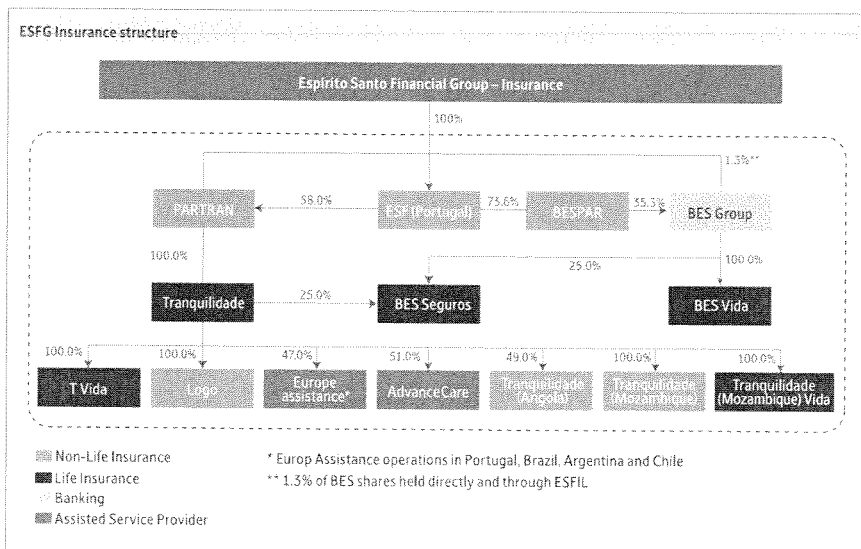
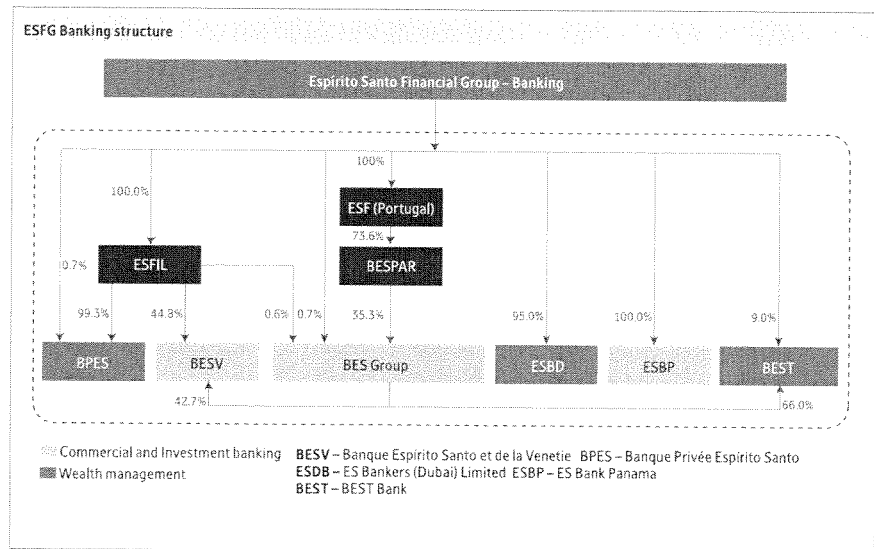
ESFG currently supports a European Medium Term Note ('EMTN') and STEP compliant European Commercial Paper ('ECP'). Through these programmes ESFG supports the provision of liquidity to its fully owned subsidiary ESFIL.

# Corporate Governance Report

The 'Ten Principles of Corporate Governance' issued by the Luxembourg Stock Exchange recommend that listed companies should publish a Corporate Governance Chapter in its annual report, describing all the relevant events related to Corporate Governance which took place in the preceding financial year. The publication of a Corporate Governance Report is a requirement of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 and Luxembourg Law of 19 December 2002, Art 68.

Espírito Santo Financial Group S.A. ('ESFG') is a limited liability company (société anonyme) incorporated under Luxembourg law on 28 November 1984 for an unlimited duration. ESFG is a financial holding company, holding and administering participating interests in other companies. It does not conduct business of its own.

The ESFG Group ('ESFG and subsidiaries') is engaged principally in banking and insurance and its operations are concentrated mainly in Portugal. Banking activities, which are conducted primarily through Banco Espírito Santo S.A. and its direct subsidiaries ('BES Group'), comprise commercial banking, investment banking, asset management and stockbrokerage. Insurance activities comprise life insurance, non-life insurance and direct insurance and are conducted through the Companhia de Seguros Tranquilidade S.A. and its direct subsidiaries and through its *bancassurance* operations at BES.



### Accounts and Financial reporting

Filipe Worsdell – Chief Financial Officer  
and Investor Relations  
Jean-Luc Schneider – Chief Accounting Officer  
Jorge Penedo – Chief Prudential Reporting Officer

### Internal Control Function Representatives

Carlos Calvário – Risk  
Nelson Martins – Internal Audit  
João Martins Pereira – Compliance

### Company Secretary

Teresa de Souza

### Board of Directors

The Board of Directors of ESFG is responsible for defining general strategy and policy and supervising the Executive Committee.

The Board of Directors is vested with all the powers to perform all acts necessary or useful for accomplishing the corporation's objects. All powers not expressly reserved by law or by the Company's Articles of Incorporation to the general meeting of shareholders are in the competence of the Board of Directors.

The Board of Directors is authorised to issue shares in or several tranches within the limits of the authorised capital on such terms and conditions as it shall approve but including such issue premium as it may set forth. The Board of Directors is in particular authorised and empowered to issue such new shares against payment in cash or kind, by conversion of claims or in any other manner, more in particular by the conversion into capital of convertible bonds or notes that may from time to time be issued.

The Board of Directors is authorised to cancel or limit the preferential subscription rights in case of an increase in capital within the limits of the authorised capital. Such authorisation is valid for a period of five years from the date of the publication of the minutes of the extraordinary general shareholders' meeting having decided to create an authorised capital and may be renewed for further periods of five years each by decision of a general meeting of shareholders, for such portion of the authorised capital as shall at such time remain unissued for any other amount determined by the general meeting of shareholders.

The Board of Directors may delegate to any duly authorised person the duties of accepting subscriptions and receiving payment for shares representing part or all of the issue of new shares under the authorised capital.

The Board of Directors is responsible for establishing the general principles of risk management and control, defining the objective risk profile for ESFG, including establishing both global and specific risk limits and ensuring that the Company has the necessary competences and resources for the purpose.

In accordance with the legislation on insider dealing and market manipulation, the Board of Directors implements 'Blackout Periods' (generally two weeks before any results' announcement) when trading in ESFG's shares is not permitted. It has established procedures for notification on any transactions on the company's shares outside these blackout periods.

The Board of Directors meets at the request of its Chairman, but a meeting must be convened if at least two directors so require. Written notices of the meeting are given at least twenty four hours before the date of the meeting. At a Board Meeting a resolution is adopted by majority of those directors present or represented at the meeting. In case of an emergency, a written decision signed by all directors as though the meeting was duly convened and held, is valid.

The current Board of Directors is composed by twenty four directors. Their present mandate, including those of the directors who form part of the Executive, Audit and Stock Option Committees, lasts for 6 years. It started on the 30 May 2008 and will expire in April 2014, when the Annual General Meeting will be held. The directors are elected by the shareholders' meeting and are re-eligible and may be revoked at any time by the General Meeting, with or without cause. In the event of one or more vacancies in the office of a director, the remaining directors may elect a director to fill such a vacancy in accordance with the provisions of the law. In this case the general meeting ratifies the election in its next meeting. The director so elected shall terminate the term of office of the director he is replacing.

Some of the directors represent major shareholders, others are representatives of major subsidiaries and seven are independent. The fact that the main subsidiaries are represented at board level facilitates the process of supervision and is the principal link with these subsidiaries.

The remuneration of the members of the Board of Directors is determined on a yearly basis by the annual general meeting of shareholders.

During 2012 the Board of Directors met eight times with an average of 70.31% attendance rate at the meetings.

### Information on the Directors

#### Ricardo Espírito Santo Silva Salgado, Chairman

Date of birth: 25/06/1944; Nationality: Portuguese; First appointed: 28/11/1984; Independent: No.  
Academic qualifications: Degree in Economics from Instituto Superior de Ciências Económicas e Financeiras of the Universidade Técnica de Lisboa.

#### Posts held in other listed companies

Chairman – Banco Espírito Santo de Investimento S.A.  
Vice Chairman – Board of Directors of Banco Espírito Santo and Chairman of its Executive Committee.  
Director – Banco Bradesco S.A.

*Posts held in other listed companies*  
Director – Banco Espírito Santo

**Othman Benjelloun**

Date of Birth: 01/11/1932; Nationality: Moroccan; First appointed: 31/05/2002; Independent: Yes.  
Academic Qualifications: Engineer, École Polytechnique de Lausanne, Switzerland.

*Posts held in other listed companies*  
Chairman – BMCE Bank

**José Pedro Torres Garcia Caldeira da Silva, Member of the Executive Committee**

Date of Birth: 22/02/1959; Nationality: Portuguese; First appointed: 31/05/2002; Independent: No.  
Academic Qualifications: BA in Economics, Universidade Católica Portuguesa MA Operational Research and Systems Engineering – Universidade Técnica de Lisboa; MBA Insead, Fontainebleau.

*No posts held in other listed companies*

**Fernando Pedro Braga Pereira Coutinho, Chairman of the Audit Committee**

Date of Birth: 26/12/1946; Nationality: Portuguese; First appointed: 08/07/2005; Independent: Yes.  
Academic Qualifications: Degree in Economics, Instituto Superior de Ciências Económicas e Financeiras, Lisbon.

*No posts held in other listed companies*

**Yves Alain Marie Morvan**

Date of Birth: 11/04/1939; Nationality: French; First Appointed: 08/07/2005; Independent: No.  
Academic Qualifications: Degree in Government Studies, Harvard University; MA in International Affairs from John Hopkins University, USA.

*No posts held in other listed companies*

**José Carlos Cardoso Castella, Member of the Executive Committee**

Date of Birth: 13/09/1949; Nationality: Portuguese; First appointed: 25/05/07; Independent: No.  
Academic Qualifications: Degree in Business Administration, Degree in Finance, ISCEF, Universidade Técnica de Lisboa.

*No posts held in other listed companies*

**Bernard Basecqz**

Date of Birth: 15/10/1945; Nationality: Belgian; First appointed: 30/05/2008; Independent: Yes.  
Academic Qualifications: Doctor in Law, Université Catholique de Louvain, Belgium; MBA – Finance, Michigan State University, USA.

*Posts held in other listed companies*

Director (non-executive) – Banco Espírito Santo de Investimento

**Gherardo Laffineur Petracchini, Chief Executive Officer and Chairman of the Executive Committee**

Date of Birth: 18/12/1961; Nationality: French and Italian; First appointed: 30/05/2008; Independent: No.  
Academic Qualifications: Degree in Agricultural Engineering from Ensia – Ecole Nationale Supérieure des Industries Agricoles et Alimentaires, Paris; MBA from ESSEC – International Business School, Paris.

*No posts held in other listed companies*

**Manuel Guerrero Pemán**

Date of Birth: 27/11/1949; Nationality: Spanish; First appointed: 30/05/2008; Independent: Yes.  
Academic Qualifications: Degree in Law, Universidad Complutense de Madrid.

*No posts held in other listed companies*

**José Manuel Ruivo da Pena**

Date of birth: 05/11/1940; First appointed: 27/04/2012; Independent: Yes.  
Academic Qualifications: Degree in Corporate Management, ISCTE, Lisbon; qualification from the International Advanced Executive Program, J.L. Kellogg Graduate School of Management, Northwestern University, Chicago.

*No posts held in other listed companies*

**Luis António Burnay Pinto de Carvalho Daun e Lorena**

Date of Birth: 11/10/1944; First appointed: 27/04/2012; Independent: Yes.  
Academic Qualifications: 2nd Year of Law, Lisbon Classical University.

*No posts held in other listed companies*

**Audit Committee**

Fernando Pedro Braga Pereira Coutinho, Chairman  
José Manuel Ruivo da Pena  
Luís António Burnay Pinto de Carvalho Daun e Lorena

The current mandate of the members of the Executive Committee expires on the date of the AGM in 2014 to coincide with that of the other directors.

The powers, responsibilities and functioning rules of the Audit Committee are included in the Company's Articles of Association (articles 20, 21 and 22). During 2012 the Audit Committee maintained regular contact with ESFG's external auditors approving their proposals for auditing and consultancy services on an annual basis; it wrote an Opinion providing assurance on the appropriateness and effectiveness of the ICS ('Internal Control System') as a whole, as well as confirming that the internal control systems in place at the various subsidiaries and coordinated at holding level remain coherent amongst them.

### Remuneration Committee

ESFG, as a holding company, does not have activities of its own. The Board of Directors recognizes that its members include representatives of some of its principal shareholders and of major subsidiaries who, as a consequence, are remunerated by these entities and not directly by ESFG. Some directors are paid attendance fees and seven directors are paid a fixed remuneration by ESFG, including the three members of the Audit Committee.

The remuneration of the directors is determined by the general meeting of shareholders. The total remuneration received by ESFG's board members in 2012 was EUR 2,165,029.

ESFG is subject to Bank of Portugal's supervision of its banking subsidiaries. In compliance with Aviso 10/2011 from the Bank of Portugal on remuneration policy, ESFG had continued to work with its subsidiaries to achieve the harmonization of remuneration policies. Due to the diversity and geographical distribution of these subsidiaries, which are located in different parts of the world, there are widely different circumstances and applicable legislation to be considered.

In what concerns its principal subsidiaries in Portugal, Banco Espírito Santo S.A., Banco Espírito Santo de Investimento S.A, Banco Espírito Santo dos Açores, BEST– Banco Electrónico de Serviço Total S.A. and ESAF – Espírito Santo Activos Financeiros SGPS S.A. it should be noted that consistency in the remuneration policies adopted by these companies has been achieved.

### Internal control and Risk management

ESFG is a Luxembourg based company which, due to its primary listing in Luxembourg, follows the Bourse de Luxembourg's recommendations to establish rules in the areas of financial reporting, internal control and risk management.

The ESFG Group is supervised on a consolidated basis by the Bank of Portugal. Bank of Portugal's regulations require that institutions under its supervision have in place an internal control structure under the terms of Bank of Portugal's Notice no. 5/2008 and 9/2012, to guarantee effective compliance with the legal obligations and duties to which institutions are subject and the appropriate management of the risks inherent to the activities developed.

Efficient risk management and control has played a fundamental role in the balanced and sustained growth of the ESFG Group.

ESFG's appointed Internal Audit and Compliance Officers are the same who are responsible for these functions at the level of BES Group, which includes some of ESFG's most important subsidiaries.

BES has in place an effective internal control system, managed by its Compliance Department which has set up a separate independent unit, the Internal Control System Management Unit responsible for all the assessment, systematisation, monitoring and maintenance tasks required by the bank's internal control system. It also endeavours to guarantee an overall perspective and integrated management of the entire internal control system of the BES Group as the guarantor of the reliability of the financial information, the protection of assets and the adequate prevention of risks.

At operational level the risk committee of each operating company is responsible for monitoring the evolution of its integrated risk profile, and for proposing methodologies, policies, procedures and instruments to deal with all types of risk faced by that company. In addition the ESFG Group relies on the senior management of each subsidiary to help monitor risk. The senior management of the ESFG Group of companies have extensive knowledge of the markets and activities in which they operate.

ESFG's Board of Directors, through its Executive Committee, is responsible for establishing and maintaining an adequate and effective internal control system. The Executive Committee is also responsible for the maintenance of a solid risk management system, which within the framework of an adequate overall control environment guarantees the adequacy and effectiveness of ESFG's internal control system.

Over the last few years the Executive Committee has organized meetings with the internal control representatives at most of its banking subsidiaries in order to obtain better knowledge of these entities, better understanding of the issues they face and the performance of the internal control representatives at the level of these subsidiaries and relies on the assistance of the Internal Control System Management at BES for information as well.

### Risk Management Function

Head of the Risk Management Function: Mr. Carlos Calvário.

The ESFG Group's risk management strategy is consistent with the regulatory and economic vision implicit in the new regulatory framework proposed by the Basel Committee. ESFG monitors and evaluates risk on a group-wide basis, which enables management to actively control the impact of the identified and measured risks on the results of the ESFG Group.

At the level of the BES Group the risk management function operates independently from other areas and is organised in such a way as to manage the main risks to which the BES Group is exposed: credit, market, liquidity; on-balance sheet interest rate and operational risks. The management and monitoring of risk, at the BES Group operational level, is centralised in the Global Risk Department, whose activities are aimed at ensuring best practices in risk management.

### Shares, Capital and Shareholder Structure

Capital ESFG's authorised capital is EUR 2.0 billion, represented by 2.0 billion shares with no par value. As at 31 December 2012, 207,075,338 shares have been issued, subscribed and fully paid, representing an issued capital of EUR 207,075,338. Of these 13,920,852 (14.9% of total issued shares) are registered shares and 193,154,486 (85.1% of total issued shares) are bearer shares.

### Types of shares

ESFG's shares are bearer or registered, at the option of the shareholder.

**Bearer Shares** – Bearer shares are represented by single or multiple share certificates.

**Registered Shares** – The name, address and number of shares of the holders of registered shares will be recorded in the shareholders' register. The shareholder register is kept at the Company's Registrar in Luxembourg.

### Conversion of shares

Shares may be converted from one form to another, by order of and at the expense of the shareholder.

### Voting rights

Each share entitles its shareholder to one vote.

The Board of Directors is authorised to issue shares in one or several tranches within the limits of the authorised capital on such terms and conditions as it shall approve, including such issue premium it may set forth. The Board of Directors is authorised and empowered to issue such new shares against payment in cash or in kind, by conversion of claims or in any other manner, more in particular by the conversion into capital of convertible bonds or notes that may from time to time be issued.

### Pre-emptive rights

The Board of Directors is authorised to cancel or limit the preferential subscription right in case of an increase of capital within the limits of the authorised capital. Such authorisation is valid for a period of five years from the date of the publication of the extraordinary shareholders' meeting approving the authorised capital and may be renewed for further periods of five years each by decision of a general meeting of shareholders.

There are no restrictions on the transfer of securities.

As at 31 December 2012 the main shareholders of ESFG were:

	Number of shares	%
Espírito Santo International S.A.	89,888,970	33.38
Espírito Santo Irmãos SGPS S.A.	69,125,059	10.03
<b>Total</b>	<b>20,763,911</b>	<b>43.41</b>

ESFG has its shares and other securities listed and admitted for trading on the Luxembourg Stock Exchange (primary listing), the London Stock Exchange and NYSE Euronext Lisbon, as well as being admitted to the official list maintained by the UK Listing Authority and to trading on the London Stock Exchange's regulated market (secondary listings).

### Performance of ESFG shares

The first half of 2012 was marked by the deceleration of global economic activity and by the contraction of GDP in the Euro Area. This resulted from restrictive fiscal policies and deleveraging in the private sector of the most mature economies; reduced demand in China; and the uncertainty caused by the continued debt crisis in the Euro Area.

The second half of the year however saw the stabilisation of the financial markets as fears over the fragmentation of the Euro Area receded. Spreads versus the German Bund benchmark contracted as the yields of peripheral economies' public debt securities fell. This improvement in sentiment mainly resulted from the ECB's launch of the Outright Monetary Transactions ('OMT') programme, which opened the possibility for unlimited purchases of European area public debt securities, as a complement to a possible formal financial assistance programme under the European Stability Mechanism ('ESM').

The impact of expansionary monetary policies, e.g. quantitative easing by the US Federal Reserve encouraged a greater propensity for risk at a global level. 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 PSI20 and IBEX, which saw less positive returns of +2.9% and -4.7%, respectively, registered sharp increases in the last quarter of the year of +8.7% and +6.0%, respectively.

ESFG's shares are predominantly traded on the Lisbon NYSE Euronext exchange. From the 19 March 2012 until the end of the reporting period ESFG shares were included in the PSI20. ESFG's share price in 2012 remained stable rising from EUR 5.15 at the beginning of the year to EUR 5.28 by year end. The share price reached a high of EUR 5.62 per share at the mid-year point before its retracement to the year-end close. The market capitalisation of ESFG on the 31 December 2012 reached EUR 1.09 billion. During the reporting period no dividend was paid to shareholders.

ESFG's shares are listed on three exchanges and are freely transferable.

### Luxembourg Takeover Law disclosure

Compliance with Article 11 of the Luxembourg law of 19 May 2006, transposing Directive 2004/25/EC of 21 April 2004 the Law on Takeover Bids.

### In what concerns article 11.1a, 1.b and 1.i

Please see Share, Capital and Shareholder Structure.

## Directors and Officers

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**Ricardo Espírito Santo Silva Salgado**  
Chairman

**José Manuel Pinheiro Espírito Santo Silva**  
Vice Chairman

**Antonio Luis Roquette Ricciardi**

**Mario Mosqueira do Amaral**

**Manuel Fernando Moniz Galvao Espirito Santo Silva**

**Jackson Behr Gilbert**

**Patrick Monteiro de Barros**

**Robert Studer**

**Philippe Guiral**

**Manuel António Ribeiro Serzedelo de Almeida**

**José Maria Espírito Santo Silva Ricciardi**

**Pedro Guilherme Beauvillain de Brito e Cunha**

**Carlos Augusto Machado de Almeida Freitas**

**Aníbal da Costa Reis Oliveira**

**Othman Benjelloun**

**José Pedro Torres Garcia Caldeira da Silva**

**Yves Alain Marie Morvan**

**Fernando Pedro Braga Pereira Coutinho**

**José Carlos Cardoso Castella**

**Bernard Basecqz**

**Gherardo Laffineur Petracchini – Chief Executive Officer**

**Manuel Guerrero Péman**

**José Manuel Ruivo da Pena**

**Luis António Burnay Pinto de Carvalho Daun e Lorena**

**Erich Dähler**  
Senior Vice President

**Jorge Penedo**  
Senior Vice President  
Chief Prudential Reporting Officer

**Jean-Luc Schneider**  
Senior Vice President  
Chief Accounting Officer

**Teresa de Souza**  
Senior Vice President  
Company Secretary

**Filipe Worsdell**  
Senior Vice President  
Chief Financial Officer



## Principal addresses

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### Luxembourg

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**Espírito Santo Wealth Management (Europe) S.A.**  
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### Portugal

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**BEST - Banco Electrónico de Serviço Total S.A.**  
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**ESAF – Espírito Santo Activos Financeiros, SGPS S.A.**  
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**Espírito Santo Capital – Sociedade de Capital de Risco S.A.**  
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### Angola

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### Brazil

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**Espíritu Santo Gestión**

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**Espíritu Santo Pensiones**

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**Switzerland****Banque Privée Espíritu Santo S.A.**

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**United Arab Emirates****ES Bankers (Dubai) Limited**

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**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2012**

22 - 24 Boulevard Royal  
L-2449 Luxembourg

RCS: Luxembourg B22.232



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To the Shareholders of  
of Espírito Santo Financial Group S.A.  
22/24 boulevard Royal  
L-2449 Luxembourg

## REPORT OF THE REVISEUR D'ENTREPRISES AGREE

### *Report on the consolidated financial statements*

We have audited the accompanying consolidated financial statements of Espírito Santo Financial Group S.A., which comprise the consolidated statements of financial position as at December 31, 2012 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Board of Director's responsibility for the consolidated financial statements*

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Responsibility of the Réviseur d'Entreprises agréé*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Espírito Santo Financial Group S.A. as of December 31, 2012, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### *Report on other legal and regulatory requirements*

The consolidated management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements. The accompanying Corporate Governance Statement on pages 35 to 44 which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and includes the information required by the law.

Luxembourg, March 25, 2013

KPMG Luxembourg S.à r.l.  
Cabinet de révision agréé

S. Chambourdon

**ESPIRITO SANTO FINANCIAL GROUP SA**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
	(in thousands of euro)	
<b>Profit for the year</b>		
Attributable to equity holders of the Company .....	313 633	121 352
Attributable to non-controlling interest .....	<u>58 071</u>	<u>139 061</u>
	371 704	260 413
<b>Other comprehensive income, net of income tax</b>		
Actuarial gains and (losses) from defined benefit obligation (Note 14) .....	(189 479)	46 668
Income taxes on actuarial gains and losses from defined benefit obligation .....	18 597	(13 093)
Exchange differences on translating foreign operations .....	(58 581)	16 885
Income taxes on exchange differences on translating foreign operations .....	3 247	(2 712)
Other comprehensive income from associates .....	<u>(10 009)</u>	<u>(8 053)</u>
	(236 225)	39 695
Fair value reserve (available-for-sale financial assets):		
Net change in fair value .....	1 274 898	(667 255)
Net amount transferred to the income statement .....	(506 250)	132 537
Income taxes on gains / losses of available-for-sale financial assets .....	<u>(129 070)</u>	<u>77 847</u>
	639 578	(456 871)
<b>Other comprehensive income / (loss) for the year, net of income tax .....</b>	<b><u>403 353</u></b>	<b><u>(417 176)</u></b>
<b>Total comprehensive income / (loss) for the year .....</b>	<b><u>775 057</u></b>	<b><u>(156 763)</u></b>
<b>Attributable to equity holders of the Company .....</b>	<b>445 317</b>	<b>8 983</b>
<b>Attributable to non-controlling interest .....</b>	<b><u>329 740</u></b>	<b><u>(165 746)</u></b>
	<b><u>775 057</u></b>	<b><u>(156 763)</u></b>

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

**ESPIRITO SANTO FINANCIAL GROUP**  
**STATEMENT OF CHANGES IN CONSOLIDATED EQUITY**  
**FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011**

	Share capital	Treasury shares	Share premium	Preference shares	Other equity instruments	Fair value reserve	Capital reserves non distributable	Other reserves and retained earnings	Profit for the year attributable to equity holders of the Company	Total equity attributable to equity holders of the Company	Non-controlling interest	Total equity
(in thousands of euro)												
<b>Balance as at 31 December 2010</b> (restated)	778 549	—	253 656	394 514	115 109	(39 766)	—	(300 507)	136 739	1 338 294	5 321 426	6 659 720
<b>Comprehensive income</b>												
Profit for the year	—	—	—	—	—	—	—	—	121 352	121 352	139 061	260 413
Other comprehensive income for the year, net of taxes												
Changes in fair value, net of taxes	—	—	—	—	—	(125 858)	—	—	—	(125 858)	(331 013)	(456 871)
Actuarial gains and (losses) from defined benefit obligation, net of taxes	—	—	—	—	—	—	—	10 467	—	10 467	23 108	33 575
Exchange differences, net of taxes	—	—	—	—	—	—	—	5 150	—	5 150	9 023	14 173
Other comprehensive income from associates	—	—	—	—	—	—	—	(2 128)	—	(2 128)	(5 925)	(8 053)
<b>Total comprehensive income for the year</b>	—	—	—	—	—	(125 858)	—	13 489	121 352	8 983	(165 746)	(156 763)
<b>Transactions with owners, recorded directly in equity</b>												
Exercise of warrants (issue of 32 956 shares)	309	—	391	—	(150)	—	—	—	—	550	—	550
Redenomination of share capital	(700 970)	—	—	—	—	—	700 970	—	—	—	—	—
Share capital increase	27 147	—	239 852	(322 086)	—	—	—	81 803	—	26 716	—	26 716
Exchange of preference shares	23 168	—	208 513	(322 086)	—	—	—	81 803	—	(8 602)	—	(8 602)
Exchange of subordinated debt	3 979	—	35 807	—	—	—	—	—	—	39 786	—	39 786
Costs with capital increase	—	—	(4 468)	—	—	—	—	—	—	(4 468)	—	(4 468)
Costs with capital increase of subsidiaries	—	—	(987)	—	—	—	—	—	—	(987)	(2 747)	(3 734)
Transfer to reserves	—	—	—	—	—	—	—	—	—	—	—	—
Exchange of other equity instruments	—	—	—	—	—	—	—	136 739	(136 739)	—	—	—
Repurchase and exchange of own other equity instruments	—	—	—	—	(56 385)	—	—	71 208	—	14 823	—	14 823
Transactions on subsidiaries preference shares	—	—	—	—	—	—	—	30 054	—	30 054	(599 357)	(569 303)
Dividends on ordinary shares <sup>(a)</sup>	—	—	—	—	—	—	—	(21 799)	—	(21 799)	—	(21 799)
Dividends on preference shares <sup>(b)</sup>	—	—	—	—	—	—	—	(30 741)	—	(30 741)	(17 930)	(48 671)
Dividends on perpetual bonds	—	—	—	—	—	—	—	(4 849)	—	(4 849)	(10 629)	(15 478)
Share based payment scheme, net of taxes	—	—	—	—	—	—	—	—	—	—	—	—
Transactions with non-controlling interest (see Note 55)	—	—	—	—	—	—	—	(93 901)	—	(93 901)	554 976	461 075
Other equity instruments issued by subsidiaries	—	—	—	—	—	—	—	(343)	—	(343)	(818)	(1 161)
Other changes in non-controlling interest	—	—	—	—	—	—	—	—	—	—	(106 152)	(106 152)
<b>Balance as at 31 December 2011</b>	105 035	—	492 912	72 428	58 574	(165 624)	700 970	(118 847)	121 352	1 266 800	4 973 023	6 239 823
<b>Comprehensive income</b>												
Profit for the year	—	—	—	—	—	—	—	—	313 633	313 633	58 071	371 704
Other comprehensive income for the year, net of taxes												
Changes in fair value, net of taxes	—	—	—	—	—	191 395	—	—	—	191 395	448 183	639 578
Actuarial gains and (losses) from defined benefit obligation, net of taxes	—	—	—	—	—	—	—	(45 575)	—	(45 575)	(125 307)	(170 882)
Exchange differences, net of taxes	—	—	—	—	—	—	—	(11 456)	—	(11 456)	(43 878)	(55 334)
Other comprehensive income from associates	—	—	—	—	—	—	—	(2 680)	—	(2 680)	(7 329)	(10 009)
<b>Total comprehensive income for the year</b>	—	—	—	—	—	191 395	—	(59 711)	313 633	445 317	329 740	775 057
<b>Transactions with owners, recorded directly in equity</b>												
Share capital increase	102 040	—	397 960	—	—	—	—	—	—	500 000	—	500 000
Costs with capital increase	—	—	(6 416)	—	—	—	—	—	—	(6 416)	—	(6 416)
Costs with capital increase of subsidiaries	—	—	—	—	—	—	—	(3 416)	—	(3 416)	(8 730)	(12 146)
Transfer to reserves	—	—	—	—	—	—	—	121 352	(121 352)	—	—	—
Movements in treasury shares	—	(35 965)	—	—	—	—	—	—	—	(35 965)	—	(35 965)
Repurchase and exchange of own other equity instruments	—	—	—	(16 450)	(474)	—	—	10 715	—	(6 209)	—	(6 209)
Transactions on subsidiaries preference shares	—	—	—	—	—	—	—	1 271	—	1 271	(15 417)	(14 146)
Dividends on preference shares <sup>(b)</sup>	—	—	—	—	—	—	—	(5 965)	—	(5 965)	(4 388)	(10 353)
Dividends on perpetual bonds	—	—	—	—	—	—	—	(519)	—	(519)	(1 345)	(1 864)
Transactions with non-controlling interest (see Note 55)	—	—	—	—	—	—	—	45 628	—	45 628	(72 612)	(26 984)
Other	—	—	—	—	—	—	—	(790)	—	(790)	722 020	721 230
<b>Balance as at 31 December 2012</b>	207 075	(35 965)	884 456	55 978	58 100	25 771	700 970	(10 282)	313 633	2 199 736	5 922 291	8 122 027

- (a) Corresponds to a dividend per share of euro 0.28 as at 31 December 2010 respectively, distributed to the ordinary shares outstanding.
- (b) Corresponds to a preferred dividend paid by BES Finance calculated based on an annual rate of 5.58% on the nominal amount of the preference shares outstanding and to the preferred dividend paid by ESFG International calculated based on an annual rate of 5.753% on the nominal amount of the preference shares outstanding (see note 45).

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

## ESPÍRITO SANTO FINANCIAL GROUP S.A.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012 AND 2011

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

#### NOTE 1 — ACTIVITY AND GROUP STRUCTURE

Espírito Santo Financial Group S.A. (ESFG or Group) is a limited liability company headquartered in Luxembourg, incorporated under Luxembourg law on 28 November 1984, and is the holding company of the banking and financial activities of the Espírito Santo Group located in Portugal, Europe and around the world. The main shareholder of ESFG, Espírito Santo International S.A. (ESI), is a limited liability company headquartered in Luxembourg, and is the holding company of the Espírito Santo Group's interests. Most of the non financial activities of ESI, including real estate, tourism and other activities are managed by Rio Forte Investments S.A., a limited liability company headquartered in Luxembourg.

Through its subsidiaries, the Group (ESFG and its subsidiaries) engages in a broad range of financial activities primarily through Banco Espírito Santo S.A. and its insurance companies: Companhia de Seguros Tranquilidade S.A., BES Vida, S.A. and T-Vida, Companhia de Seguros S.A. Its operations abroad complement its Portuguese activities.

ESFG is listed on the Luxembourg, London and Lisbon Stock Exchanges.

The following table describes the main activity of each of the Group's subsidiaries and associates as at 31 December 2012 and 31 December 2011.

#### Subsidiaries

	Activity	Location	31.12.2012		31.12.2011	
			Voting interest	Economic interest	Voting interest	Economic interest
Advancecare — Gestão de Serviços de Saúde, S.A.	Managed care	Portugal	51.0%	51.0%	51.0%	51.0%
Aman Bank for Commerce and Investment Stock Company (a)	Commercial banking	Libya	40.0%	10.9%	40.0%	10.6%
AOC Patrimoine	Assets management	France	100.0%	56.4%	50.0%	28.0%
Atlantic Ventures Corporation	Holding company	USA	100.0%	22.1%	100.0%	15.5%
Atlantic Ventures III Corporation	Holding company	USA	100.0%	20.8%	100.0%	14.9%
Avistar, SGPS, S.A.	Holding company	Portugal	100.0%	27.4%	100.0%	26.4%
Banco Espírito Santo Angola, SARL	Commercial banking	Angola	51.9%	14.2%	51.9%	13.7%
Banco Espírito Santo de Investimento, S.A.	Investment banking	Portugal	100.0%	27.4%	100.0%	26.4%
Banco Espírito Santo do Oriente, S.A.	Commercial banking	Macao	99.8%	27.3%	99.8%	26.4%
Banco Espírito Santo dos Açores, S.A.	Commercial banking	Portugal	57.5%	15.7%	57.5%	15.2%
Banco Espírito Santo North America Capital Limited Liability Co.	Financing vehicle	USA	100.0%	27.4%	100.0%	26.4%
Banco Espírito Santo, S.A. (a)	Commercial banking	Portugal	36.7%	27.4%	37.8%	26.4%
Banco Espírito Santo Cabo Verde	Commercial banking	Cape Green	100.0%	27.4%	100.0%	26.4%
Bank Espírito Santo International, Ltd.	Commercial banking	Cayman Islands	100.0%	27.4%	100.0%	26.4%
Banque Espírito Santo et de la Vénétie, S.A.	Commercial banking	France	87.5%	56.5%	87.5%	56.1%
Banque Privée Espírito Santo, S.A.	Asset management	Switzerland	100.0%	100.0%	100.0%	100.0%
BES Activos Financeiros, Ltda	Asset management	Brazil	100.0%	23.2%	100.0%	22.5%
BES Africa, SGPS, S.A.	Holding company	Portugal	100.0%	27.4%	100.0%	26.4%
BES Beteiligungs, GmbH	Holding company	Germany	100.0%	27.4%	100.0%	26.4%
BES Finance, Ltd.	Financing vehicle	Cayman Islands	100.0%	27.4%	100.0%	26.4%
BES Investimento do Brasil, S.A.	Investment banking	Brazil	80.0%	21.9%	80.0%	21.1%
BES-Vida, Companhia de Seguros, S.A.	Insurance	Portugal	100.0%	27.4%	50.0%	13.2%
R Invest Ltda (formely BES Investimentos)	Services provider	Brazil	100.0%	21.9%	100.0%	21.1%
R Consult Participações Ltda (formely BES Participações)	Services provider	Brazil	100.0%	21.9%	100.0%	21.1%
BES Securities do Brasil, S.A.	Brokerage house	Brazil	100.0%	21.9%	100.0%	21.1%
BESAACTIVE — Sociedade Gestora de Fundos de Investimento S.A.	Asset management — Mutual funds	Angola	97.0%	17.4%	97.0%	16.8%
BESAACTIVE Pensões — Sociedade Gestora de fundos de Pensões, S.A.	Asset management — Pensions funds	Angola	97.0%	17.4%	97.0%	16.8%
BESPAR, SGPS, S.A.	Holding company	Portugal	73.6%	73.6%	67.4%	67.4%
BEST — Banco Electrónico de Serviço Total, S.A.	Internet banking	Portugal	75.0%	27.1%	75.0%	26.4%
BIC International Bank Ltd.	Commercial banking	Cayman Islands	100.0%	27.4%	100.0%	26.4%
Capital Mais — Assessoria Financeira, S.A.	Advisory services	Portugal	100.0%	24.6%	100.0%	23.8%
Caravela Balanced Fund	Investment Fund	Luxembourg	55.0%	15.0%	—	—
Caravela Defensive Fund	Investment Fund	Luxembourg	99.2%	27.1%	—	—
Casa da Cidade — Residências Sénior, S.A.	Medical services	Portugal	—	—	100.0%	30.5%
Clear Capital Group Limited	Holding company	United Kingdom	100.0%	18.7%	100.0%	17.3%
Clear Info-Analytics Private Ltd	Provides analytics support to UK research	India	100.0%	18.7%	100.0%	17.3%
Clínica Parque dos Poetas, S.A.	Medical services	Portugal	—	—	100.0%	30.5%
Cliria — Hospital Privado de Aveiro, S.A.	Medical services	Portugal	—	—	90.6%	27.7%
COMINVEST — Sociedade de Gestão e Investimento Imobiliário S.A. (a)	Real-estate	Portugal	49.0%	13.4%	49.0%	12.9%
Espírito Santo Investment	Services provider	Poland	100.0%	27.4%	100.0%	26.4%

ESPÍRITO SANTO FINANCIAL GROUP S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT 31 DECEMBER 2012 AND 2011 — (Continued)  
(Amounts expressed in thousands of euro, except when indicated)

	Activity	Location	31.12.2012		31.12.2011	
			Voting interest	Economic interest	Voting interest	Economic interest
FI Multimercado Treasury	Investment Fund	Brazil	100.0%	21.9%	100.0%	21.1%
Fundo BES Absolute Return	Investment Fund	Brazil	49.6%	11.9%	50.7%	11.7%
Bes Fundo de Investimento Multimercado Moderado (formely Fundo BES Multimercado)	Investment Fund	Brazil	66.5%	15.3%	69.0%	15.2%
Fimes Oriente	Investment Fund	Portugal	100.0%	27.4%	—	—
Fundo de Investimento Imobiliário Fechado Corpus Christi	Investment Fund	Portugal	97.1%	97.1%	—	—
Fundo de Capital de Risco — BES PME Capital Growth	Venture capital fund	Portugal	100.0%	27.4%	100.0%	26.4%
Fundo de Capital de Risco — ES Ventures II	Venture capital fund	Portugal	65.8%	22.1%	58.8%	15.5%
Fundo de Capital de Risco — ES Ventures III	Venture capital fund	Portugal	61.5%	20.8%	56.3%	14.9%
Fundo FCR PME / BES	Venture capital fund	Portugal	55.1%	15.1%	55.1%	14.6%
Fundo de Gestão de Património Imobiliário — FUNGEPI — BES	Real Estate Fund	Portugal	82.3%	22.5%	—	—
Fundo de Gestão de Património Imobiliário — FUNGEPI — BES II	Real Estate Fund	Portugal	81.1%	22.2%	—	—
Fundo de Gestão de Património Imobiliário	Real Estate Fund	Portugal	97.3%	26.6%	—	—
Gespar Participações, Ltda	Holding company	Brazil	100.0%	21.9%	100.0%	21.1%
HME Gestão Hospitalar, S.A.	Medical services	Portugal	—	—	50.0%	15.3%
Hospital da Arrabida — Gaia, S.A.	Medical services	Portugal	—	—	100.0%	30.5%
Hospital da Luz — Centro Clínico da Amadora, S.A.	Medical services	Portugal	—	—	100.0%	30.5%
Hospital da Luz, S.A.	Medical services	Portugal	—	—	100.0%	30.5%
Hospital Residência do Mar, S.A.	Medical services	Portugal	—	—	100.0%	22.9%
HOSPOR — Hospitais Portugueses, S.A.	Medical services	Portugal	—	—	100.0%	30.5%
IMOCRESCENTE — Fundo de Investimento Imobiliário Fechado (a)	Investment Fund	Portugal	48.9%	48.9%	—	—
IMOPRIME — Fundo de Investimento Imobiliário Fechado (a)	Investment Fund	Portugal	48.5%	48.5%	—	—
Instituto de Radiologia Dr. Idálio de Oliveira — Centro de Radiologia Médica, S.A.	Medical services	Portugal	—	—	100.0%	30.5%
KeySpace Hungary Kft	Real-estate	Hungary	51.0%	51.0%	51.0%	51.0%
Marignan Gestion S.A.	Asset Management	France	100.0%	56.5%	100.0%	56.1%
Nemo Services Limited	No activity	United Kingdom	—	—	100.0%	17.3%
Noble Advisory India Private Ltd	Provides analytics support to Group research	India	99.9%	18.7%	99.9%	17.3%
Noble Asset Managers Limited	No activity	United Kingdom	—	—	100.0%	17.3%
Noble Asset Managers Group Limited	No activity	United Kingdom	—	—	100.0%	17.3%
Noble Corporate Advisory Inc.	No activity	USA	—	—	100.0%	17.3%
Noble Corporate Finance Limited	No activity	United Kingdom	—	—	100.0%	17.3%
Noble Financial Holdings Limited	Holding Company	United Kingdom	100.0%	18.7%	100.0%	17.3%
Noble Fund Advisers Limited	Fund management activities	United Kingdom	100.0%	18.7%	100.0%	17.3%
Noble Fund Managers Nominee Limited (Non-trading)	No activity	United Kingdom	—	—	100.0%	17.3%
Noble Group Holdings Limited	Holding Company	Man Island	100.0%	18.7%	100.0%	17.3%
Noble Group Limited	Holding Company	United Kingdom	100.0%	18.7%	100.0%	17.3%
Noble Investment Managers Limited	No activity	United Kingdom	—	—	100.0%	17.3%
Noble Private Equity Limited GBR	No activity	United Kingdom	—	—	100.0%	17.3%
Noble Securities Limited (Non Trading)	No activity	United Kingdom	—	—	100.0%	17.3%
Noble Venture Finance General Partner Limited	General partner for fund	Jersey Islands	100.0%	18.7%	100.0%	17.3%
Noble Venture Managers Limited	No activity	United Kingdom	—	—	100.0%	17.3%
OBLOG Consulting S.A.	Software development	Portugal	66.6%	18.2%	66.6%	17.6%
Oracle Fund Managers Limited	No activity	United Kingdom	—	—	100.0%	17.3%
Orey Reabilitação Urbana	Investment Fund	Portugal	77.3%	21.1%	—	—
BESV Courtage S.A. (formely OLPI)	Investment company	France	99.9%	56.4%	99.9%	56.0%
Parsuni — Sociedade Unipessoal, SGPS	Holding company	Portugal	100.0%	27.4%	100.0%	26.4%
PARTRAN SGPS, S.A.	Holding company	Portugal	100.0%	100.0%	100.0%	100.0%
Praça do Marquês — Serviços Auxiliares, S.A.	Real-estate	Portugal	100.0%	27.4%	100.0%	26.4%
Pastor Vida, S.A. de Seguros y Reaseguros	Insurance	Spain	—	—	50.0%	50.0%
Quinta dos Cónegos- Sociedade Imobiliária, S.A.	Real-estate	Portugal	100.0%	41.2%	100.0%	40.4%
RML — Residência Medicalizada de Loures, SGPS, S.A.	Medical services	Portugal	—	—	75.0%	22.9%
SEGUROS LOGO S.A.	Insurance	Portugal	100.0%	100.0%	100.0%	100.0%
SES Iberia, S.A.	Asset management	Spain	50.0%	13.7%	50.0%	13.2%
SLMB — Société Lyonnaise de Marchands de Biens	Real-estate	France	99.8%	56.4%	99.8%	56.0%
Sociedade Gestora do Hospital de Loures, S.A.	Medical services	Portugal	—	—	100.0%	30.5%
Société Civile Immobilière du 45 Avenue Georges Mandel	Real-estate	France	100.0%	49.9%	100.0%	49.4%
Surgicare — Unidades de Saúde, S.A.	Medical services	Portugal	—	—	97.5%	29.8%
Tagide Properties, Inc.	Real-estate	USA	100.0%	27.4%	100.0%	26.0%
TRANQUILIDADE — Companhia de Seguros Tranquilidade, S.A.	Insurance	Portugal	100.0%	100.0%	100.0%	100.0%
Tranquilidade CAS (Angola)	Insurance	Angola	49.0%	49.0%	100.0%	100.0%
Tranquilidade Moçambique Companhia de Seguros, S.A.	Insurance	Mozambique	100.0%	100.0%	—	—
Tranquilidade Moçambique Companhia de Seguros Vida, S.A.	Insurance	Mozambique	100.0%	100.0%	—	—
T-VIDA, Companhia de Seguros, S.A.	Insurance	Portugal	100.0%	100.0%	100.0%	100.0%
Vila Lusitano — Unidades de Saúde, S.A.	Medical services	Portugal	—	—	100.0%	22.9%



**ESPÍRITO SANTO FINANCIAL GROUP S.A.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT 31 DECEMBER 2012 AND 2011 — (Continued)  
(Amounts expressed in thousands of euro, except when indicated)**

- (a) Although the Group's voting interest is less than 50%, these companies are fully consolidated, as the Group controls its activities.  
(b) Although the Group's voting interest is less than 20%, the Group exercises a significant influence over these companies.  
(c) Although the Group's voting interest is more than 50%, these companies are not controlled by the Group, but the Group exercises a significant influence over them.

Applying SIC 12 as described in Note 2.2, the Group consolidation scope includes, as at 31 December 2012 and 2011, the following special purposes entities:

31.12.2012					
	Established	Headquartered	Activity	% economic interest	Consolidation method
Lusitano SME No.1 plc(*)	2006	Ireland	Special Purpose Entity	100%	Full consolidation
Lusitano Mortgages No.6 plc(*)	2007	Ireland	Special Purpose Entity	100%	Full consolidation
Lusitano Project Finance No.1 FTC(*)	2007	Portugal	Special Purpose Entity	100%	Full consolidation
Lusitano Mortgages No.7 plc(*)	2008	Ireland	Special Purpose Entity	100%	Full consolidation
Fundes	2008	Portugal	Special Purpose Entity	99.10%	Full consolidation
Lusitano Leverage finance No. 1 BV(*)	2010	Netherland	Special Purpose Entity	100%	Full consolidation
Lusitano Finance No.3(*)	2011	Portugal	Special Purpose Entity	100%	Full consolidation
IM BES Empresas 1(*)	2011	Spain	Special Purpose Entity	100%	Full consolidation
CLN Magnolia Finance 2038	2008	Ireland	Special Purpose Entity	100%	Full consolidation

31.12.2011					
	Established	Headquartered	Activity	% economic interest	Consolidation method
SIGNUM, Ltd 05/14/12	2001	Cayman Islands	Special Purpose Entity	54.80%	Full consolidation
SIGNUM, Ltd 05/21/12	2001	Cayman Islands	Special Purpose Entity	63.96%	Full consolidation
Lusitano SME No.1 plc(*)	2006	Ireland	Special Purpose Entity	100%	Full consolidation
Lusitano Mortgages No.6 plc(*)	2007	Ireland	Special Purpose Entity	100%	Full consolidation
Lusitano Project Finance No.1 plc(*)	2007	Ireland	Special Purpose Entity	100%	Full consolidation
Lusitano Mortgages No.7 plc(*)	2008	Ireland	Special Purpose Entity	100%	Full consolidation
Fundes	2008	Portugal	Special Purpose Entity	99.10%	Full consolidation
Lusitano Leverage finance No. 1 BV(*)	2010	Portugal	Special Purpose Entity	100%	Full consolidation
Lusitano SME No.2(*)	2010	Netherland	Special Purpose Entity	100%	Full consolidation
Lusitano Finance No.3(*)	2011	Portugal	Special Purpose Entity	100%	Full consolidation
IM BES Empresas 1(*)	2011	Spain	Special Purpose Entity	100%	Full consolidation

(\*) Entities set-up in the scope of securitisation transactions (See Note 50).

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

— Subsidiaries

- In April 2012, ESFG exchanged 2.2% of its direct holding in BES against 6.2% of BESPAR. This operation had no effect on ESFG economic interest in BES (see Note 55);

ESPÍRITO SANTO FINANCIAL GROUP S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AS AT 31 DECEMBER 2012 AND 2011 — (Continued)  
(Amounts expressed in thousands of euro, except when indicated)

30 November; (iii) acquisition of an additional interest of 2.25% through the acquisition in the market, in December, of 47 480 259 BES shares. The impact of these transactions in consolidated financial statements of the Group can be analysed in Note 55.

— Associates (see Note 33)

- In January 2011, BES ÁFRICA acquired 25.1% of Moza Banco, SA, a mozambican bank;
- In February 2011, following the capital increase of Watson Brown HSM, Ltd, FCR Ventures III Fund became to hold 27.57% of its share capital, and started to consolidate this entity under the equity method;
- In July and September 2011, ES Tech Ventures invested in the Funds FCR Espírito Santo Ventures Inovação e Internacionalização and Fundo Bem Comum, FCR, respectively, holding 50% and 20% of their capital, which started to be included in the Group's Consolidation perimeter;
- In December 2011, it was set up the leasing company Ijar Leasing Algérie, under a partnership with Banque Extérieure d' Algérie, being this entity held by Banque Extérieure d'Algérie for 65% and BES Group for 35%.

During the years 2012 and 2011, the movements on acquisitions, disposals and other investments in subsidiaries and associated companies are as follows:

	31.12.2012							
	Acquisitions			Disposals / Liquidations / Business combination				
	Acquisition price	Other investments <sup>(a)</sup>	Total	Sale price	Other reimbursements	Total	Gain/(loss) on disposal/ liquidation/ business combination	Net of non controlling interest
	(in thousands of euro)							
<b>Subsidiaries</b>								
BES Vida <sup>(*)</sup>	225 000	—	225 000	—	—	—	87 273	206 607
ES Saude	—	—	—	—	—	—	60 332	45 007
BES shares	71 666	—	71 666	(102 809)	—	(102 809)	—	—
BESPAR shares	38 300	—	38 300	—	—	—	—	—
Pastor-Vida	—	—	—	(40 072)	—	(40 072)	11 206	11 206
AOC	44	—	44	—	—	—	—	—
	<u>335 010</u>	<u>—</u>	<u>335 010</u>	<u>(142 881)</u>	<u>—</u>	<u>(142 881)</u>	<u>158 811</u>	<u>262 820</u>
<b>Associated companies</b>								
Moza Banco	—	2 991	2 991	—	—	—	—	—
Empark	—	—	—	—	(2 584)	(2 584)	—	—
Portvias	—	—	—	(1 067)	—	(1 067)	913	250
Scutvias	—	—	—	(49 783)	—	(49 783)	(3 083)	(843)
Ascendi Group	—	11 462	11 462	—	—	—	—	—
Coreworks	—	—	—	—	(286)	(286)	—	—
Sousacamp	—	—	—	—	(3 700)	(3 700)	—	—
Fin Solutia	—	—	—	(1 219)	—	(1 219)	(6)	(2)
2B Capital	—	—	—	—	—	—	—	—
Luxembourg	854	15 619	16 473	—	—	—	—	—
Nova Figfort	—	—	—	(719)	—	(719)	—	—
Sopratutto Cafés	—	—	—	(1 334)	—	(1 334)	50	14
Ydreams	—	204	204	—	(711)	(711)	—	—
MCO2	113	1 175	1 288	—	—	—	—	—
MRN — Manutenção de Rodovias Nacionais, S.A.	—	—	—	—	(11)	(11)	—	—
Polish Hotel Company	—	—	—	(2 509)	—	(2 509)	2 509	686
SAGEFI	—	—	—	(3 250)	—	(3 250)	2 129	1 203
	<u>967</u>	<u>31 451</u>	<u>32 418</u>	<u>(59 881)</u>	<u>(7 292)</u>	<u>(67 173)</u>	<u>2 512</u>	<u>1 308</u>
	<u><b>335 977</b></u>	<u><b>31 451</b></u>	<u><b>367 428</b></u>	<u><b>(202 762)</b></u>	<u><b>(7 292)</b></u>	<u><b>(210 054)</b></u>	<u><b>161 323</b></u>	<u><b>264 128</b></u>

(\*) Business combination achieved in stages

## ESPÍRITO SANTO FINANCIAL GROUP S.A.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012 AND 2011 — (Continued) (Amounts expressed in thousands of euro, except when indicated)

These consolidated financial statements as at and for the 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 as at 31 December 2012 are consistent with the ones used in the preparation of the consolidated financial statements as at and for the year ended 31 December 2011.

In addition and as described in Note 56, 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 used by the Group in the preparation of these Consolidated Financial Statements, described in this Note, were modified accordingly. 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 56.

Moreover and as referred to in Note 1, the Group acquired, in May 2012, an additional 50% interest in BES Vida and the control over its activities. Therefore, from that date, BES Vida, which previously qualified as an associate and was included in the consolidated financial statements up to 2011 under the equity method, is being fully consolidated by the Group. Further details are provided in Note 55.

These consolidated financial statements are expressed in thousands of euro, except when indicated, 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, investment properties and 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 judgment and the use of estimates and assumptions by management that affects the process of applying the Group's accounting policies and the reported amounts of income, expenses, assets and liabilities. Actual results in the future may differ from those reported. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

These consolidated financial statements were approved in the Board of Directors meeting held on 25 March 2013. These financial statements are subject to the shareholders approval on the General Assembly, to be held on 26 April 2013.

#### **2.2. Basis of consolidation**

These consolidated financial statements comprise the financial statements of Espírito Santo Financial Group S.A. and its subsidiaries ("the 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, directly or indirectly, to govern the financial and operating policies of the entity, so as to obtain benefits from its activities, even if its shareholding is 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 acquire 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.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012 AND 2011 — (Continued) (Amounts expressed in thousands of euro, except when indicated)

For acquisitions on or after 1 January 2010, 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 acquiree, 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 interest are measured at their proportionate interest in the fair value of the net identifiable assets acquired and of the liabilities assumed, without the respective 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 Company.

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 the fair value less costs to sell and the respective value in use. In determining value in use, estimated futures cash flows are discounted using a rate that reflects market conditions, time value of money and business risks.

#### *Transactions with non-controlling interest*

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

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

Gains or losses on a dilution or on a sale of a portion of an interest in a subsidiary, 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 ESFG'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 rates approximating the rates ruling at the dates of the transactions;
- The exchange differences resulting from the translation of the equity at the beginning of the year using the exchange rates at the beginning of the year 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.

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- (ii) The hedge is expected to be highly effective, both at the inception of the hedge and on an ongoing basis;
- (iii) The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis;
- (iv) For cash flows hedges, the cash flows are highly probable of occurring.

- **Fair value hedge**

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

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

- **Cash flow hedge**

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

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

During the periods covered by these financial statements, the Group did not have any transactions classified as cash flow hedge.

*Embedded derivatives*

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

**2.5. 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.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012 AND 2011 — (Continued) (Amounts expressed in thousands of euro, except when indicated)

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. Subsequent recoveries of amounts previously written off decrease the amount of the loan impairment loss recognised in the income statement.

#### 2.6. Other financial assets

##### *Classification*

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

- ***Financial assets at fair value through profit or loss***

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

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

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

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

- ***Held-to-maturity investments***

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

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

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

##### *Initial recognition, initial measurement and derecognition*

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

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

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 technique, 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 derivative and 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.

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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.

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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 is 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 experts.

#### 2.14. Property and equipment

Property and equipment are measured at cost less accumulated depreciation and impairment losses. At the transition date to IFRS, 1 January 2004, the Group elected to consider as deemed cost, the revalued amount of property and equipment as determined in accordance with previous accounting policies of the Group, which was broadly similar to depreciated cost measured under IFRS, adjusted to reflect changes in a specific price index. The value includes expenditure that is directly attributable to the acquisition of the items. In relation to the insurance activity, the Group decided to consider as deemed cost of its buildings for own use the fair value at transition date.

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 year 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:

	<u>Number of years</u>
Buildings .....	35 to 50
Improvements in leasehold property .....	10
Computer equipment .....	4 to 5
Furniture .....	4 to 10
Fixtures .....	5 to 12
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.



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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.

#### **2.15. 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.

#### **2.16. 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 the basis of 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.

#### **2.17. 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.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012 AND 2011 — (Continued) (Amounts expressed in thousands of euro, except when indicated)

#### 2.18. Employee benefits

##### *Pensions*

To cover the liabilities assumed by the Group within the framework stipulated by the ACT “Acordo Colectivo de Trabalho” and subsequent amendments resulting from the 3 tripartite agreements as described in Note 14 for the banking sector in Portugal and by the CCT “Contrato Colectivo de Trabalho” for the insurance sector in Portugal, pension funds were set up to cover retirement benefits, including widows and orphans benefits and disability for the entire work force and also health-care benefits for employees.

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, 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 and used by the Group until 2011. In December 2011, as described in Note 14, the Group changed retrospectively the accounting policy related to actuarial gains and losses recognition, adjusting the opening balance sheet and comparative figures, starting to recognise, as allowed under paragraph 93A of IAS 19 “Employee Benefits”, the actuarial gains and losses under other comprehensive income.

The pension liability 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 reviewed annually by qualified independent actuaries. The discount rate used in this calculation was determined with reference to market rates associated with high-quality corporate bonds issues, denominated in the currency in which benefits will be paid and with a maturity similar to the expiry date of the plan obligations.

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

Actuarial gains and losses determined semi-annually and resulting from (i) the differences between financial and actuarial assumptions used and real values obtained (experience adjustments) and (ii) changes in the actuarial assumptions are recognised in 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 and (iv) effect of settlement or curtailment occurred during the period.

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.

ESFG and its subsidiaries make payments to the fund 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%.

The Group assesses at each reporting date and 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.

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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, BES 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 is determined based on the same methodology described above 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.

#### *Share based payments — Stock option plan*

In 2008, ESFG set-up a stock option plan that allows certain employees to acquire ESFG shares, or alternatively to require a cash payment equivalent to the appreciation of ESFG share market price above the strike price.

The options granted to employees may be exercised after their first anniversary and during a ten year period.

This share based payment plan is within the scope of IFRS 2 — Share based payments and corresponds to a cash settlement share based payment.

The fair value of this benefit plan at inception, determined at its grant date, was taken to the income statement as staff costs over a period of one year. The recognised liability under the plan is re-measured at each balance sheet date, being the fair value changes recognised in the income statement under the caption staff costs.

#### *Variable remuneration payment plan on financial instruments (PRVIF)*

Following the recommendations of the Supervising and Regulatory authorities, on the BES shareholder's General Meeting, held in 6 April 2010 it was approved a new remuneration policy for BES Executive Committee members. This new remuneration policy is described in Note 14.

The component of the variable remuneration paid in cash is accounted for following IAS 19 — Employee benefits, in the period to which it relates.

The component of the variable remuneration paid with equity instruments is accounted for in accordance with IFRS 2 — Share based payments. The fair value of this benefit plan at inception, determined at its grant date, is taken to the income statement as staff costs over the vesting period. The recognised liability under the plan is re-measured at each balance sheet date, being the fair value changes recognised in the income statement.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012 AND 2011 — (Continued) (Amounts expressed in thousands of euro, except when indicated)

#### *Bonus to employee*

In accordance with IAS 19 — Employee benefits, the bonus payment to employees are recognised in the income statement in the year to which they relate.

#### **2.19. 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 year, 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.

#### **2.20. 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.

#### **2.21. 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.

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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.

#### **2.22. 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.

#### **2.23. Dividend income**

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

#### **2.24. Fiduciary activities**

Assets held in the scope of the fiduciary activity are not recognised in the consolidated financial statements of the Group. Fee and commissions arising from this activity are recognised in the income statement in the period to which they relate.

#### **2.25. 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. 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.

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.

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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. Additionally, claims reserve also includes an estimation related with future costs with claims settlement (“expense reserve”).

The mathematical reserves relating to obligations to pay life pensions resulting from workmen’s compensation claims is calculated by using actuarial assumptions, with reference to recognised actuarial methods and current labour legislation.

Claims reserves are not discounted, except life pensions arising from workmen’s compensation claims.

*Unexpired risk reserve*

The reserve for unexpired risks represents the amount by which expected claims and administrative expenses likely to arise after the end of the period, from contracts concluded before that date, exceeds the unearned premiums reserve, any expected future premiums expected to be written under those contracts and from premiums renewed on January next year.

*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.

*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

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the best estimate of future cash flows under each contract. 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.

#### *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.

#### **2.26. Segment reporting**

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

An operating segment is a component of an entity (i) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity); (ii) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and (iii) for which discrete financial information is available.

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.

#### **2.27. 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.

#### **2.28. 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 and deposits with banks.

Cash and cash equivalents exclude restricted balances with central banks.

### **Note 3 — CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

IFRS set forth a range of accounting treatments and require management to apply judgment and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies are discussed in this section in order to improve understanding of how their application affects the 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.

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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 by it are appropriate and that the consolidated financial statements present the Group's consolidated financial position and results fairly in all material respects.

#### ***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.

Therefore, for equity securities, considering the high volatility of the markets, a decline (i) over 30% in market value in relation to the acquisition cost generally is regarded by the Group as significant and (ii) that persists for more than 12 months is generally regarded as prolonged. Debt securities are considered to be impaired if there is objective evidence that one or more events 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 judgment in making estimates of fair value.

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

Consequently, the use of a different model or of different assumptions or judgments 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 judgments. 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.



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#### **3.5. Securitisations and special purpose entities (SPE)**

The Group sponsors the formation of special purpose entities (SPEs) primarily for asset securitisation transactions and for liquidity purposes.

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 Portuguese Group entities' determination of annual taxable earnings, for a period of four years or six years in case there are tax losses brought forward. The determination of annual tax earnings by other Group entities (located outside Portugal) can also be subject to similar reviews by their respective tax authorities. 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 Company and those of its subsidiaries, are confident that there will be no material differences arising from tax assessments within the context of the financial statements.

The Company itself is subject to the general tax regulations applicable to Luxembourg commercial companies. The applicable tax rate is 29.22% (31 December 2011: 28.8%).

#### **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

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coverage. 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) unearned premiums reserve, (ii) life mathematical reserve, (iii) reserve for bonus and rebates, (iv) unexpired risk reserve, (v) liability adequacy test and (vi) claims reserves. 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 — SEGMENTAL REPORTING

Group activities are focused primarily on the banking and insurance sectors and are directed to companies, institutional and private customers. The Group's principal operating subsidiaries are located 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 is also active in Portugal in the health-care management business.

The Group's products and services include deposits, loans to retail and corporate customers, fund management, broker and custodian services, investment banking services, as well as the issuance and commercialisation 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 banking 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 Cape Verde, BES Vénétie, Espírito Santo Activos Financeiros (ESAF), ES Bank Panama, ES Bank Dubai and Banque Privée Espírito Santo. Tranquilidade, Logo and BES Seguros are the Group's non-life operating unit while T-Vida and BES-Vida are active in life-insurance.

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) Asset Management; (3) International Commercial Banking including Private banking; (4) Investment Banking; (5) Capital Markets and Strategic Investments; (6) Non-Life Insurance; (7) Life Insurance; (8) Health-care management and (9) Corporative Centre. Each segment includes the Group 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. The performance of each operating unit of the Group (considered as an investment centre) is evaluated individually.

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Complementary, the Group, uses a 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 business, 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 in Portugal, all profit, loss and assets and liabilities associated to customers classified as private by the Group in Portugal. The main products considered on this segment are: deposits; discretionary management, selling of investment funds, custodian services, brokerage services and insurance products.

##### *Asset Management*

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

##### *International Commercial Banking*

This operating segment includes the units located abroad, which banking activities are focused on corporate, retail customers and private banking, 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 and New York Branches of BES, ES Bankers Dubai, ES Bank Panama and Banque Privée. The main products included in this segment are deposits, credit, asset management fees, leveraged finance, structured trade finance and project finance operations.

##### *Investment Banking*

This segment 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 advisory services, mergers and acquisitions, restructuring and debt consolidation, initial public offerings (shares and bonds), brokerage and other investment banking services.

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#### *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.

#### *Non-Life Insurance*

This segment includes the activities of Tranquilidade and Logo in the non-life insurance sector as well as the Group's participation in the activities of its associated companies, BES-Seguros and Europ-Assistance.

#### *Life Insurance*

This segment includes the activities of T-Vida and BES Vida in the life insurance sector.

#### *Health-care management*

This segment includes the Group's activities in the management of hospitals, outpatient clinics, residential hospitals and senior citizen residences through ES Saúde. Considering the loss of control over ES Saúde occurred in 2012 (see Note 55) this segment was discontinued on ESFG perspective.

#### *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 Representative Office in London, areas related to the Board of Directors, Compliance, Financial and Accounting, Risk management, Investor Relations, Internal Audit, Organization and Quality, among others. It also includes the corporate borrowings of the Group.

#### **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, having been 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 (subsidiaries 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.

#### *ESFG structures dedicated to segments*

The activity of BES, ESFG's main subsidiary, 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, (ii) the type of product or service rendered; (iii) the segment to which the commercial and central

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structures are dedicated to; (iv) the Cost Based Approach (CBA) model and other specific drivers in the allocation of indirect cost (central support and IT services); (vi) the impairment model in the allocation of credit risk; (vii) total equity is allocated 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 a margin process (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 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 Group'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 mainly related to the financial sector and the majority of the segments revenues are from interest, the Group relies primarily on net interest revenue to assess the performance of the segment and to make decisions about resources to be allocated to the segment. As such and as permitted by IFRS 8 paragraph 23, the Group reports segments interest revenue net of its interest expense.

#### *Consolidated Investments under the Equity Method*

Investments in associated companies consolidated under the equity method are included in the operating segment they relate to. Associates not directly related to a specific operating segment are included in the Capital Markets and Strategic Investments segment.

#### *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 comprise the International Area are: BES Angola and its branches, BES Oriente, Espírito Santo Bank, ES Bankers Dubai, ES Bank Panama, Banque Privée Espírito Santo, Espírito Santo Vénétie, Banco Delle Tre Venezie, ESFIL, London, Spain, New York and Cape Verde, Venezuela and Luxembourg branches of BES, 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.

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The primary segments reporting are presented as follows:

	31.12.2012											Total
	Retail	Corporate and institutional	Private banking	International commercial banking	Investment banking	Asset management	Capital markets and strategic investments	Life insurance	Non-life insurance	Health care management	Corporate centre	
Net interest	397 594	196 006	97 736	344 593	94 844	3 041	(20 296)	159 794	14 217	(8 032)	(14 276)	1 265 221
Other operating income	306 646	276 208	62 841	276 875	164 289	63 944	296 547	242 128	304 970	263 998	12 084	2 270 530
<b>Total operating income</b>	<b>704 240</b>	<b>472 214</b>	<b>160 577</b>	<b>621 468</b>	<b>259 133</b>	<b>66 985</b>	<b>276 251</b>	<b>401 922</b>	<b>319 187</b>	<b>255 966</b>	<b>(2 192)</b>	<b>3 535 751</b>
Operating expense	544 539	702 036	58 668	455 014	222 262	21 594	299 162	157 688	314 810	257 705	185 646	3 219 124
<i>Includes:</i>												
Provision/impairment	74 513	640 964	719	186 690	46 205	3 119	226 336	1 121	654	1 032	(4)	1 181 349
Gains from sale of investments in subsidiaries and associates	—	—	—	2 129	2 503	—	(2 120)	—	11 206	60 332	—	74 050
Gains arising on business combinations archived in stages	—	—	—	—	—	—	87 273	—	—	—	—	87 273
Share of profit of associates	—	—	—	291	(188)	(48)	505	—	4 800	(604)	—	4 756
<b>Profit before income tax</b>	<b>159 701</b>	<b>(229 822)</b>	<b>101 909</b>	<b>168 874</b>	<b>39 186</b>	<b>45 343</b>	<b>62 747</b>	<b>244 234</b>	<b>20 383</b>	<b>57 989</b>	<b>(187 838)</b>	<b>482 706</b>
<i>Intersegment operating income</i>	4 799	31 248	4 218	98 195	(13 361)	(13 813)	(63 300)	3 224	9 240	4 015	(10 648)	53 817
<b>Total Net Assets</b>	<b>15 633 394</b>	<b>23 032 898</b>	<b>1 969 484</b>	<b>22 931 064</b>	<b>6 484 637</b>	<b>190 368</b>	<b>8 236 414</b>	<b>7 306 634</b>	<b>769 141</b>	<b>120 060</b>	<b>932 444</b>	<b>87 606 538</b>
<b>Total Liabilities</b>	<b>15 542 145</b>	<b>23 032 898</b>	<b>1 833 834</b>	<b>21 292 743</b>	<b>5 745 347</b>	<b>23 955</b>	<b>3 136 956</b>	<b>7 120 109</b>	<b>721 797</b>	<b>3 536</b>	<b>998 713</b>	<b>79 452 033</b>
Investments in Associates	—	—	—	9 873	57 604	500	437 141	—	21 244	114 252	—	640 614

	31.12.2011											Total
	Retail	Corporate and institutional	Private banking	International commercial banking	Investment banking	Asset management	Capital markets and strategic investments	Life insurance	Non-life insurance	Health care management	Corporate centre	
Net interest	347 682	161 543	65 575	517 890	76 858	2 421	60 850	26 637	15 860	(8 923)	(22 107)	1 244 286
Other operating income	399 650	267 504	64 125	81 784	164 493	50 914	107 755	42 105	317 771	290 263	108 168	1 894 532
<b>Total operating income</b>	<b>747 332</b>	<b>429 047</b>	<b>129 700</b>	<b>599 674</b>	<b>241 351</b>	<b>53 335</b>	<b>168 605</b>	<b>68 742</b>	<b>333 631</b>	<b>281 340</b>	<b>86 061</b>	<b>3 138 818</b>
Operating expense	662 235	355 316	64 687	306 541	222 795	19 449	417 469	63 830	326 722	269 694	183 942	2 892 680
<i>Includes:</i>												
Provision/impairment	67 382	290 378	4 799	76 960	44 187	(950)	345 630	2 141	6 149	1 801	3 601	842 078
Gains from sale of investments in subsidiaries and associates	—	—	—	—	—	1 305	—	—	—	—	—	1 305
Share of profit of associates	—	—	—	65	4 193	—	7 963	(53 977)	3 115	2	—	(38 639)
<b>Profit before income tax</b>	<b>85 097</b>	<b>73 731</b>	<b>65 013</b>	<b>293 198</b>	<b>22 749</b>	<b>35 191</b>	<b>(240 901)</b>	<b>(49 065)</b>	<b>10 024</b>	<b>11 648</b>	<b>(97 881)</b>	<b>208 804</b>
<i>Intersegment operating income</i>	4 169	33 844	2 228	(102 180)	(10 106)	(18 860)	177 193	11 941	4 004	1 498	(5 013)	98 718
<b>Total Net Assets</b>	<b>17 092 934</b>	<b>22 910 839</b>	<b>2 782 171</b>	<b>19 031 788</b>	<b>6 586 882</b>	<b>173 802</b>	<b>11 982 425</b>	<b>1 050 710</b>	<b>780 621</b>	<b>523 238</b>	<b>1 104 094</b>	<b>84 019 504</b>
<b>Total Liabilities</b>	<b>17 016 100</b>	<b>22 910 839</b>	<b>2 602 388</b>	<b>17 948 667</b>	<b>5 938 314</b>	<b>30 437</b>	<b>8 329 889</b>	<b>662 914</b>	<b>743 174</b>	<b>397 460</b>	<b>1 199 499</b>	<b>77 779 681</b>
Investments in Associates	—	—	—	—	60 250	—	478 853	23 148	15 172	904	—	578 327

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

	31.12.2012														Total	
	Portugal	Spain	France	UK	Switzerland	Luxembourg	Hungary	USA	Panama	Dubai	Brazil	Angola	Cape Verde	Macao		Other
Profit for the year after tax and before non-controlling interest	283 720	18 686	16 664	19 232	28 648	(59 168)	(50)	5 868	16 515	5 918	11 088	27 523	1 756	3 982	(8 678)	371 704
Attributable to the non-controlling interest	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	58 071
Profit for the year	59 322 647	4 652 643	1 965 689	5 944 423	1 301 918	114 501	139	1 393 230	658 228	180 182	2 439 976	7 978 548	208 048	446 385	999 981	313 633
Total Assets	59 322 647	4 652 643	1 965 689	5 944 423	1 301 918	114 501	139	1 393 230	658 228	180 182	2 439 976	7 978 548	208 048	446 385	999 981	87 606 538
Capital expenditure (property and equipment)	12 665	2 939	1 304	388	336	175	—	44	39	367	305	126 709	181	—	7 736	153 188
Capital expenditure (intangible assets)	385 124	4 318	185	887	227	—	—	149	—	—	901	382	444	—	6 038	398 655

	31.12.2011														Total	
	Portugal	Spain	France	UK	Switzerland	Luxembourg	Hungary	USA	Panama	Dubai	Brazil	Angola	Cape Verde	Macao		Other
Profit for the year after tax and before non-controlling interest	6 462	14 216	17 789	18 627	19 069	39 478	(50)	14 334	13 861	4 822	20 442	91 107	1 133	2 449	(3 326)	260 413
Attributable to the non-controlling interest	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	139 061
Profit for the year	58 359 298	6 194 369	1 487 255	3 575 449	1 496 061	30 709	129	1 397 601	656 584	140 339	2 680 528	6 867 593	144 852	249 876	738 861	121 352
Total Assets	58 359 298	6 194 369	1 487 255	3 575 449	1 496 061	30 709	129	1 397 601	656 584	140 339	2 680 528	6 867 593	144 852	249 876	738 861	84 019 504
Capital expenditure (property and equipment)	32 117	3 241	346	267	651	36	—	203	43	14	1 163	59 682	720	409	19 369	118 261
Capital expenditure (intangible assets)	45 793	4 597	102	3 082	331	—	—	655	1	—	143	884	211	3	410	56 212

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NOTE 5 — NET INTEREST INCOME

This balance is analysed as follows:

	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
	(in thousands of euro)					
<b>Interest and similar income</b>						
Interest from loans and advances . . . . .	2 675 102	8 367	2 683 469	2 773 618	17 379	2 790 997
Interest from deposits with banks . . . . .	27 023	3 749	30 772	68 899	2 572	71 471
Interest from financial assets at fair value through profit or loss . . . . .	—	256 548	256 548	—	190 434	190 434
Interest from available-for-sale financial assets . . . . .	555 253	—	555 253	471 397	—	471 397
Interest from held to maturity . . . . .	54 813	—	54 813	100 948	—	100 948
Interest from derivatives for risk management purposes . .	—	459 012	459 012	—	582 501	582 501
Other interest and similar income . . . . .	57 814	—	57 814	39 327	—	39 327
	<b>3 370 005</b>	<b>727 676</b>	<b>4 097 681</b>	<b>3 454 189</b>	<b>792 886</b>	<b>4 247 075</b>
<b>Interest expense and similar charges</b>						
Interest from debt securities . . .	(886 649)	(37 481)	(924 130)	(727 651)	(162 916)	(890 567)
Interest from amounts due to customers . . . . .	(1 006 421)	(33 164)	(1 039 585)	(1 000 142)	(35 956)	(1 036 098)
Interest from deposits from central banks and other banks . . . . .	(411 528)	(11 028)	(422 556)	(446 222)	(15 432)	(461 654)
Interest from subordinated debt . . . . .	(95 365)	—	(95 365)	(103 686)	—	(103 686)
Interest from derivatives for risk management purposes . .	—	(343 532)	(343 532)	—	(498 057)	(498 057)
Other interest expenses and similar charges . . . . .	(7 292)	—	(7 292)	(12 727)	—	(12 727)
	<b>(2 407 255)</b>	<b>(425 205)</b>	<b>(2 832 460)</b>	<b>(2 290 428)</b>	<b>(712 361)</b>	<b>(3 002 789)</b>
	<b>962 750</b>	<b>302 471</b>	<b>1 265 221</b>	<b>1 163 761</b>	<b>80 525</b>	<b>1 244 286</b>

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 26).

Interest from derivatives for risk management purposes includes, in accordance with the accounting policy described in Notes 2.4 and 2.21, interest 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.

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NOTE 6 — NET FEE AND COMMISSION INCOME

This balance is analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Fee and commission income</b>		
From banking services	604 676	516 850
From guarantees granted	233 432	221 259
From transactions with securities	64 287	70 197
From commitments assumed to third parties	38 774	46 666
Other fee and commission income	93 977	88 932
	<u>1 035 146</u>	<u>943 904</u>
<b>Fee and commission expenses</b>		
From banking services rendered by third parties	(79 555)	(81 130)
From transactions with securities	(26 571)	(25 289)
From guarantees received	(59 819)	(9 212)
Other fee and commission expense	(19 587)	(18 526)
	<u>(185 532)</u>	<u>(134 157)</u>
	<u><b>849 614</b></u>	<u><b>809 747</b></u>

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.



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

This balance is analysed as follows:

	31.12.2012			31.12.2011		
	Gains	Losses	Total	Gains	Losses	Total
(in thousands of euro)						
<b>Trading assets and liabilities</b>						
Securities						
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	13 243	(26 149)	(12 906)	30 252	(23 635)	6 617
Shares	43 947	(47 763)	(3 816)	88 535	(61 975)	26 560
Other variable income securities	1 185	(1 149)	36	869	(1 055)	(186)
	<b>1 001 658</b>	<b>(798 301)</b>	<b>203 357</b>	<b>189 725</b>	<b>(138 593)</b>	<b>51 132</b>
Derivative financial instruments						
Exchange rate contracts	1 040 084	(1 038 856)	1 228	1 870 712	(1 904 374)	(33 662)
Interest rate contracts	4 956 739	(4 911 210)	45 529	6 245 529	(6 178 103)	67 426
Equity/Index contracts	1 342 619	(1 325 590)	17 029	2 058 038	(2 114 234)	(56 196)
Credit default contracts	753 554	(783 848)	(30 294)	845 621	(865 810)	(20 189)
Other	107 646	42 859	150 505	215 795	(188 003)	27 792
	<b>8 200 642</b>	<b>(8 016 645)</b>	<b>183 997</b>	<b>11 235 695</b>	<b>(11 250 524)</b>	<b>(14 829)</b>
	<b>9 202 300</b>	<b>(8 814 946)</b>	<b>387 354</b>	<b>11 425 420</b>	<b>(11 389 117)</b>	<b>36 303</b>
<b>Financial assets and liabilities at fair value through profit or loss</b>						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	64 358	(2 654)	61 704	39	(45)	(6)
Issued by other entities	187 507	(111 519)	75 988	114 887	(133 008)	(18 121)
Shares	2 025	(5 812)	(3 787)	5 027	(358)	4 669
Other variable income securities	120 699	(189 515)	(68 816)	80 469	(335 973)	(255 504)
	<b>374 589</b>	<b>(309 500)</b>	<b>65 089</b>	<b>200 422</b>	<b>(469 384)</b>	<b>(268 962)</b>
Financial assets <sup>(1)</sup>						
Loans and advances to banks	—	—	—	—	—	—
Loans and advances to customers	8 768	(9 406)	(638)	25 921	(33 538)	(7 617)
	8 768	(9 406)	(638)	25 921	(33 538)	(7 617)
Financial liabilities <sup>(1)</sup>						
Deposits from banks	1 091	(25 228)	(24 137)	21 702	(48 665)	(26 963)
Due to customers	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
Investment contracts	71 859	(247 914)	(176 055)	—	—	—
Subordinated debt	2 715	(1 759)	956	—	—	—
	<b>203 872</b>	<b>(710 439)</b>	<b>(506 567)</b>	<b>431 893</b>	<b>(384 939)</b>	<b>46 954</b>
	<b>587 229</b>	<b>(1 029 345)</b>	<b>(442 116)</b>	<b>658 236</b>	<b>(887 861)</b>	<b>(229 625)</b>
	<b>9 789 529</b>	<b>(9 844 291)</b>	<b>(54 762)</b>	<b>12 083 656</b>	<b>(12 276 978)</b>	<b>(193 322)</b>

<sup>(1)</sup> includes the fair value change of hedged assets and liabilities and of assets and liabilities at fair value through profit or loss

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*.

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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) being substantially related to foreign exchange transactions.

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

This balance is analysed as follows:

	31.12.2012			31.12.2011		
	Gains	Losses	Total	Gains	Losses	Total
	(in thousands of euro)					
Bonds and other fixed income securities						
Issued by government and public entities . . .	821 775	(24 937)	796 838	13 730	(10 698)	3 032
Issued by other entities . . . . .	81 219	(66 115)	15 104	13 389	(46 623)	(33 234)
Shares . . . . .	46 541	(250 272)	(203 731)	249 504	(290 581)	(41 077)
Other variable income securities . . . . .	14 282	(16 925)	(2 643)	10 191	(3 388)	6 803
	<b>963 817</b>	<b>(358 249)</b>	<b>605 568</b>	<b>286 814</b>	<b>(351 290)</b>	<b>(64 476)</b>

During the year ended 31 December 2012, the Group sold at market prices through the 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 (euro 61.5 million net of non-controlling interest) (see Note 24).

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 (euro 12.1 million net of non-controlling interest) (see Note 24).

**NOTE 9 — NET (LOSSES) FROM FOREIGN EXCHANGE DIFFERENCES**

This balance is analysed as follows:

	31.12.2012			31.12.2011		
	Gains	Losses	Total	Gains	Losses	Total
	(in thousands of euro)					
Foreign exchange translation . . . . .	1 048 822	(1 067 191)	(18 369)	1 432 974	(1 460 688)	(27 714)
	<b>1 048 822</b>	<b>(1 067 191)</b>	<b>(18 369)</b>	<b>1 432 974</b>	<b>(1 460 688)</b>	<b>(27 714)</b>

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 (LOSSES) FROM THE SALE OF OTHER ASSETS**

	31.12.2012	31.12.2011
	(in thousands of euro)	
Loans and advances to customers . . . . .	(39 507)	(89 774)
Non-current assets held for sale . . . . .	(6 382)	(4 828)
Other . . . . .	3 316	2 706
	<b>(42 573)</b>	<b>(91 896)</b>

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 realised within the deleverage program of the Group.

As at 31 December 2011, Loans and advances to customers include a loss of euro 77.5 million related to the sale of euro 2.0 billion of credits realised within the deleverage program of the Group.

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NOTE 11 — INSURANCE EARNED PREMIUMS, NET OF REINSURANCE

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Gross premiums written	468 168	414 347
Reinsurance premiums ceded	(63 990)	(60 022)
Net premiums written	404 178	354 325
Change in the provision for unearned premiums, net of reinsurance	3 454	(2 213)
Earned premiums, net of reinsurance	<u><b>407 632</b></u>	<u><b>352 112</b></u>

The direct insurance written and earned premiums are analysed as follows:

	<u>31.12.2012</u>		<u>31.12.2011</u>	
	<u>Written premiums</u>	<u>Earned premiums</u>	<u>Written premiums</u>	<u>Earned premiums</u>
	(in thousands of euro)			
Life	114 780	114 079	56 751	56 195
Non-life:				
Direct Business				
Accident and health	100 660	101 281	105 396	106 072
Fire and hazards	64 100	63 563	61 132	60 582
Motor	153 773	156 705	158 351	156 954
Maritime, airline and transportation	6 878	6 672	6 898	6 997
Third party liability	11 080	11 162	10 301	10 501
Credit and surety ship	40	43	53	63
Other	16 086	16 039	15 305	14 255
Total	<u>467 397</u>	<u>469 544</u>	<u>414 187</u>	<u>411 619</u>
Reinsurance accepted	<u>771</u>	<u>764</u>	<u>160</u>	<u>104</u>
	<u><b>468 168</b></u>	<u><b>470 308</b></u>	<u><b>414 347</b></u>	<u><b>411 723</b></u>

The reinsurance ceded premiums are analysed as follows:

	<u>31.12.2012</u>		<u>31.12.2011</u>	
	<u>Written premiums</u>	<u>Earned premiums</u>	<u>Written premiums</u>	<u>Earned premiums</u>
	(in thousands of euro)			
Life	8 681	8 118	7 378	7 863
Non-life:				
Direct Business				
Accident and Health	3 348	3 420	3 591	3 665
Fire and hazards	28 744	28 180	26 058	25 886
Motor	1 972	1 959	1 896	1 918
Maritime, airline and transportation	3 757	3 687	3 740	3 637
Third party liability	1 401	1 396	1 720	1 825
Credit and surety ship	14	17	23	32
Other	15 701	15 594	15 488	14 685
Total	<u>63 618</u>	<u>62 371</u>	<u>59 894</u>	<u>59 511</u>
Reinsurance accepted	<u>372</u>	<u>305</u>	<u>128</u>	<u>100</u>
	<u><b>63 990</b></u>	<u><b>62 676</b></u>	<u><b>60 022</b></u>	<u><b>59 611</b></u>

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Annuities .....	5 733	6 668
Risk contracts .....	71 290	36 666
Saving contracts with profit sharing .....	37 757	13 417
	<u>114 780</u>	<u>56 751</u>

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.

**NOTE 12 — OTHER OPERATING INCOME AND EXPENSES**

These balances are analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Other operating income arising from:</b>		
Medical services business .....	262 514	286 642
Insurance business .....	14 745	33 525
IT related business .....	5 689	6 028
Call center business .....	13 117	13 719
Fair value adjustment on investment properties (see Note 31) .....	2 900	481
Gains on repurchase of Group debt securities (see Notes 39 and 43) .....	113 721	574 248
Non recurring gains on advisory services .....	4 299	2 586
Other .....	33 268	23 644
	<u>450 253</u>	<u>940 873</u>
<b>Other operating expenses arising from:</b>		
Direct and indirect taxes .....	(50 171)	(52 720)
Contributions to the depositors guarantee fund .....	(10 370)	(6 463)
Membership and donations .....	(8 870)	(8 345)
Medical services business .....	(155 685)	(169 084)
Insurance business .....	(24 700)	(16 037)
Fair value adjustment on investment properties (see Note 31) .....	(18 611)	(2 177)
Indemnities under contractual agreements .....	—	(3 557)
Losses arising from the transfer, to the social security, of the pensioners' defined benefit obligation (see Note 14) .....	—	(107 173)
Other .....	(8 583)	(14 605)
	<u>(276 990)</u>	<u>(380 161)</u>
	<u>173 263</u>	<u>560 712</u>

Medical services business operating income and expenses relate mainly to the health care business provided by Espírito Santo Saúde SGPS, S.A. and its subsidiaries (see Note 1).

As at 31 December 2012, 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 (see Note 14).

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 (through Gespator) and Banco Pastor, following the change of control of Banco Pastor occurred in the first semester of 2012 as explained in Note 32.

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Direct and indirect taxes include an amount of euro 27.9 million relating to the cost related with the introduction of a Banking levy, created by Law No. 55-A/2010 of 31 December (see Note 42) (31 December 2011: euro 30.5 million).

**NOTE 13 — STAFF COSTS**

This balance is analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Wages and salaries		
Remuneration	598 078	578 165
Long term service benefits (see Note 14)	3 002	558
Pension costs (see Note 14)	8 779	22 128
Other mandatory social charges	127 808	116 993
Other costs	40 040	35 566
	<u>777 707</u>	<u>753 410</u>

As at 31 December 2012, other costs include the amount of euro 489 thousand related to the variable remuneration plan on financial instruments (PRVIF) of BES in accordance with the accounting policy described in Note 2.18 (31 December 2011: euro 2 631 thousand). The details of this scheme implemented by BES Group are analysed in Note 14.

An amount of euro 97 thousand positive (31 December 2011: euro 5 446 thousand negative) is included in other costs related to the stock options plan set-up by ESFG, in accordance with the accounting policy described in Note 2.18 (see Note 14).

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

	<u>Board of Directors</u>	<u>Audit Committee</u>	<u>Other key management</u>	<u>Total</u>
<b>31 December 2012</b>				
Salaries and other short terms benefits	4 008	654	24 009	28 671
Bonus	594	—	6 454	7 048
Stock-option plan	42	—	58	100
<b>Sub total</b>	<u>4 644</u>	<u>654</u>	<u>30 521</u>	<u>35 819</u>
Pension costs and social charges	739	—	6 288	7 027
Long term service benefits	—	—	72	72
<b>Total</b>	<u>5 383</u>	<u>654</u>	<u>36 881</u>	<u>42 918</u>
<b>31 December 2011</b>				
Salaries and other short terms benefits	4 069	739	26 104	30 911
Bonus	1 066	—	9 217	10 283
Stock-option plan	(2 308)	—	(3 138)	(5 446)
<b>Sub total</b>	<u>2 827</u>	<u>739</u>	<u>32 183</u>	<u>35 749</u>
Pension costs and social charges	998	—	8 494	9 492
Long term service benefits	30	—	366	396
<b>Total</b>	<u>3 855</u>	<u>739</u>	<u>41 043</u>	<u>45 636</u>

Other key management personnel include board members of ESFG subsidiaries and ESFG senior management.

As at 31 December 2012 and 2011, the loans granted by the Group to key management personnel amounted to euro 38.4 million and euro 40.4 million, respectively.

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
Banking sector employees .....	10 309	10 228
Health sector employees .....	366	3 233
Insurance sector employees .....	709	738
Employed by other companies essentially providing services to customers outside the Group .....	652	690
	<u><b>12 036</b></u>	<u><b>14 889</b></u>

The reduction in the number of the health sector employees is due to the loss of control over ES Saúde occurred in 2012 as explained in Notes 1 and 55.

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
Senior management .....	1 254	1 221
Management .....	1 289	1 419
Specific functions .....	4 778	5 410
Administrative functions and others .....	4 715	6 839
	<u><b>12 036</b></u>	<u><b>14 889</b></u>

**NOTE 14 — EMPLOYEE BENEFITS**

*Pension and health-care benefits*

As described in Note 2.18, the Group's companies operate defined pension and health-care plans for their employees and their dependants under which the benefits vest on the earlier of retirement, death or incapacity.

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 from 1 January 2011, 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 banks 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 as 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.

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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 actuarial valuation of pension and health-care benefits for the Group companies is performed every half-year, with latest valuation performed as at 31 December 2012. On annual basis, the actuarial valuation is reviewed by an independent actuary.

As at 31 December 2012 and 2011, the main assumptions considered in the actuarial valuation, to determine the defined benefit obligation of pension and health-care benefits for the Group employees are as follows:

	Insurance sector		Banking sector		
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	
			1 <sup>st</sup> through 4 <sup>th</sup> year	5 <sup>th</sup> and subsequent years	
<b>Financial assumptions</b>					
Salaries increase rate	0% - 2.5%(*)	3.25% - 3.75%(*)	1.00%	1.75%	2.25%
Pensions increase rate	0% - 2.5%(*)	0.75% - 3.75%(*)	0.00%	0.75%	1.00%
Early retirements pensions increase rate	1.00%	2.25% - 3.75%(*)	—	—	—
Expected return of plan assets	3.26% - 4.25%	4.94%(*) - 5.40%		5.50%	5.50%
Discount rate	3.26% - 4.25%	5.50%	4.50%		5.50%
<b>Demographic assumptions</b>					
Mortality table					
Men		GKF 95		TV 73/77 (adjusted)	
Women		GKF 95		TV 88/90	
Actuarial method			<i>Project Unit Credit Method</i>		

(\*) Pension fund of Board of Directors

In accordance with the accounting policy described in Note 2.18, the discount rate used to calculate the actuarial present value of the pensions and health care defined benefits, was determined at the balance sheet date considering (i) the evolution of the main indexes related with high quality corporate bonds and (ii) the duration of the liabilities. 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.

The contributions to SAMS as at 31 December 2012 and 2011 corresponded to 6.5% of total wages. The percentage of contribution is established by SAMS, and no changes are expected for 2013.

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

	31.12.2012	31.12.2011
Employees	6 337	6 338
Pensioners and widows	5 908	5 934
<b>Total</b>	<b>12 245</b>	<b>12 272</b>

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The amounts recognised in the balance sheet following the application of IAS 19 as at 31 December 2012 and 2011 are presented as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Assets / (liabilities) recognised in the balance sheet</b>		
Defined benefit obligation		
Pensioners .....	(448 265)	(397 857)
Employees .....	<u>(792 037)</u>	<u>(719 237)</u>
	<b>(1 240 302)</b>	<b>(1 117 094)</b>
<b>Coverage</b>		
Fair value of plan assets .....	<u>1 259 117</u>	<u>1 226 393</u>
<b>Net assets in balance sheet (see Note 35)</b> .....	<u><b>18 815</b></u>	<u><b>109 299</b></u>
<b>Accumulated actuarial (gains) and losses recognised in other comprehensive income</b>		
income .....	<u><b>1 089 323</b></u>	<u><b>899 844</b></u>

Additionally, for the insurance entities of the Group, Tranquilidade and Esumédica have transferred part of their liabilities to BES Vida, through the acquisition of the life insurance policies. The number of pensioners covered by these policies is 388 (31 December 2011: 411), and the total liability amounts to euro 11.8 million (31 December 2011: euro 12.6 million).

In accordance with accounting policy described in Note 2.18 and following the requirements of IAS 19 — Employees benefits, the Group assesses, when applicable, 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:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Defined benefit obligation as at 1 January</b> .....	<b>1 117 094</b>	<b>2 250 196</b>
Service cost .....	14 325	18 139
Interest cost .....	58 994	119 414
Plan participants' contribution .....	3 259	3 267
Actuarial (gains) / losses:		
— changes in actuarial assumptions .....	65 148	(201 792)
— experience adjustments .....	42 066	(115 022)
Pensions paid by the fund .....	(31 288)	(116 518)
Benefits paid by the Group .....	(118)	(118)
Settlement of the defined benefit obligation for insurance employees .....	(5 044)	—
Negative past service costs .....	(21 813)	—
Transfer to the Social Security regime of the liabilities with pensions in payment .....	—	(853 839)
Exchange differences and other .....	<u>(2 321)</u>	<u>13 367</u>
<b>Defined benefit obligation as at 31 December</b> .....	<u><b>1 240 302</b></u>	<u><b>1 117 094</b></u>

In accordance with the labour agreement for the insurance employees, in force since 1 January 2012, a curtailment of the defined benefit plan has been determined and a defined contribution plan has been established. The related defined benefit obligation recognised as at 31 December 2011 was settled by the fund's through an initial contribution to the defined contribution plan.

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.



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Under the third tripartite agreement mentioned above and the subsequent transfer to the Social Security Regime 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, for an 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 at the time 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 a 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 the first half of 2012.

The change in the fair value of the plan assets in 2012 and 2011 is analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Fair value of plan assets as at 1 January</b> .....	<b>1 226 393</b>	<b>2 250 218</b>
Actual return on plan assets		
Expected return on plan assets .....	64 328	115 425
Actuarial gains/ (losses) .....	(82 946)	(270 146)
Group contributions .....	86 410	94 379
Plan participants' contributions .....	3 259	3 267
Pensions paid by the fund .....	(31 288)	(116 518)
Settlement of the defined benefit obligation for insurance employees .....	(5 044)	—
Transfer to the Social Security regime of the liabilities with pensions in payment .....	—	(853 839) <sup>(1)</sup>
Exchange differences and other .....	(1 995)	3 607
<b>Fair value of plan assets as at 31 December</b> .....	<b><u>1 259 117</u></b>	<b><u>1 226 393</u></b>

(1) 55% of this amount was paid in 2011, having the remaining value been paid in the first semester of 2012.

Pension fund assets are analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
Shares and other variable income securities .....	15%	31%
Fixed income securities .....	27%	14%
Real estate .....	30%	54%
Other .....	28%	32%
Amounts payable to the Social Security .....	0%	-31%
	<b><u>100%</u></b>	<b><u>100%</u></b>

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Shares and other variable income securities .....	1 200	1 288
Fixed income securities .....	6 603	1 357
Real estate .....	298 022	217 802
<b>Total</b> .....	<b><u>305 825</u></b>	<b><u>220 447</u></b>

As at 31 December 2012 and 2011, the fund holds participation units of ES Ventures III Fund, which is fully consolidated in the Group.

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

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 49).

The changes in the accumulated actuarial gains and losses recognised in other comprehensive income in 2012 and 2011 are analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Accumulated actuarial (gains) and losses recognised in other comprehensive income as at 1 January</b>	<b>899 844</b>	<b>946 512</b>
Actuarial (gains) / losses		
— changes in actuarial assumptions	65 148	(201 792)
— experience adjustments	125 012	155 124
Other	(681)	—
<b>Accumulated actuarial (gains) and losses recognised in other comprehensive income as at 31 December</b>	<b><u>1 089 323</u></b>	<b><u>899 844</u></b>

The net benefit cost can be analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Service cost	14 325	18 139
Interest cost	58 994	119 414
Expected return on plan assets	(64 328)	(115 425)
Other	(212)	—
<b>Net benefit cost</b>	<b><u>8 779</u></b>	<b><u>22 128</u></b>

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Balance as at 1 January</b>	<b>109 299</b>	<b>22</b>
Net periodic benefit cost	(8 779)	(22 128)
Negative past service cost	21 813	—
Actuarial (gains)/losses recognised on other comprehensive income	(189 479)	46 668
Contributions of the year and pensions paid by the Group	86 528	94 497
Other	(567)	(9 760)
<b>Balance as at 31 December</b>	<b><u>18 815</u></b>	<b><u>109 299</u></b>

Historical information regarding pension plan is as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>	<u>31.12.2010</u>	<u>31.12.2009</u>	<u>31.12.2008</u>
	(in thousands of euro)				
Defined benefit obligation	(1 240 302)	(1 117 094)	(2 250 196)	(2 172 293)	(2 110 400)
Fair value of plan assets	1 259 117	1 226 393	2 250 218	2 244 926	2 101 305
<b>(Un)/over funded liabilities</b>	<b><u>18 815</u></b>	<b><u>109 299</u></b>	<b><u>22</u></b>	<b><u>72 633</u></b>	<b><u>(9 095)</u></b>
(Gains)/losses from experience adjustments arising on defined benefit obligation	42 066	(115 022)	24 639	51 958	23 855
(Gains)/losses from experience adjustments arising on plan assets	82 946	270 146	68 387	(92 351)	733 639

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*Stock options plan*

On 1 October 2008, the Company established a stock-option plan that entitles key management personnel to purchase ESFG shares. Alternatively, the Company may settle these options in cash by an amount equivalent to the appreciation of ESFG share market price above the exercise price. Under the program, the Company may grant options to its employees up to 3 000 000 ordinary shares. The exercise price of each option equals the market price of ESFG share on the date of grant and an option's maximum term is of 10 years. Options are granted at the discretion of the Board of Directors and have a vesting period of 1 year.

As at 31 December 2012, all options under the plan have vested.

Considering the terms and conditions of the plan and ESFG's informal practices of settling the options granted to employees in cash, it is accounted for as cash-settled share-based payment arrangement, in accordance with the accounting policy described in Note 2.18.

The number and weighted average exercise prices of share options are as follows:

	31.12.2012		31.12.2011	
	Weighted average exercise price (in Euro)	Number of options	Weighted average exercise price (in Euro)	Number of options
<b>Outstanding as at 1 January</b> .....	13.20	2 650 000	13.20	2 680 000
Exercised during the year .....		—		(30 000)
<b>Outstanding as at 31 December</b> .....	<b>13.20</b>	<b>2 650 000</b>	<b>13.20</b>	<b>2 650 000</b>
<b>Exercisable as at 31 December</b> .....	<b>13.20</b>	<b>2 650 000</b>	<b>13.20</b>	<b>2 650 000</b>

The options outstanding at 31 December 2012 have a remaining contractual life of approximately 6 years (31 December 2011: 7 years).

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

Initial reference date .....	01.10.2008
Final reference date .....	01.10.2018
Number of options .....	2 940 000
Exercise price (in EUR) .....	13.20
Interest rate .....	4.27%
Initial spot price (in EUR) .....	10.33
Volatility .....	26.47%
Initial fair value of the plan (in thousands) .....	4 783

The assumptions used in the valuation of the outstanding options as at 31 December 2012 and 2011 were the following:

	31.12.2012	31.12.2011
Initial reference date .....	01.10.2008	01.10.2008
Final reference date .....	01.10.2018	01.10.2018
Number of options .....	2 650 000	2 650 000
Exercise price (in EUR) .....	13.20	13.20
Interest rate .....	0.94%	2.07%
Spot price (in EUR) .....	5.26	5.15
Volatility .....	24.34%	20.35%

In accordance with the accounting policy described in Note 2.18, the initial fair value of the plan, amounting to euro 4 783 thousand, was recognised during the 12 month-period comprised between the grant date and its first anniversary. In 2012 change in the plans' fair value of the benefit granted to employees has been recognised in the income statement, as an increase in staff costs, for an amount of euro 98 thousand (31 December 2011: euro 5 470 thousand decrease in staff costs).

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The fair value of the liability recognised is remeasured at the balance sheet date, amounting as at 31 December 2012 to euro 185 thousand (2011: euro 87 thousand) (see Note 44).

*Variable remuneration payment plan on financial instruments (PRVIF)*

Following the recommendations of the Supervising and Regulatory authorities, on the BES 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:

	<u>1st attribution</u>	<u>2nd attribution</u>
Initial 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 EUR) .....	3.47	0.67
Interest rate .....	2.31%	0.67%
Volatility .....	40.0%	65.0%
Initial 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 thousand) related to the amortization of the initial options premium granted.

*Long term service benefits*

As referred in Note 2.18, for employees that achieve certain years of service, the Group 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 these benefits amount to euro 28 691 thousand and euro 27 477 thousand, respectively (see Note 44). The costs incurred in the year with long term service benefits amounted to euro 3 002 thousand (31 December 2011: euro 558 thousand) (see Note 13).

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

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NOTE 15 — GENERAL AND ADMINISTRATIVE EXPENSES

This balance is analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Rental costs . . . . .	80 804	77 140
Communication costs . . . . .	50 190	50 923
Traveling and representation costs . . . . .	39 752	37 715
Advertising costs . . . . .	42 848	43 268
Maintenance and related services . . . . .	27 656	24 105
Insurance costs . . . . .	8 711	7 390
Specialised services		
IT services . . . . .	70 617	69 069
Professional services . . . . .	15 928	14 821
Temporary work . . . . .	5 550	6 726
Electronic payment system . . . . .	11 711	13 369
Legal costs . . . . .	20 910	21 081
Consultants and external auditors . . . . .	32 198	30 234
Other specialised services . . . . .	3 756	4 088
Water, energy & fuel . . . . .	13 491	11 844
Current consumption material . . . . .	5 726	5 690
Transports . . . . .	7 899	8 711
Other costs . . . . .	65 013	64 468
	<u><b>502 760</b></u>	<u><b>490 642</b></u>

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

The fees billed to the Company by KPMG Luxembourg S.à r.l. and other member firms of the KPMG network (“KPMG”) during the year are analysed as follows (excluding VAT):

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Audit fees . . . . .	3 786	3 694
Audit related fees . . . . .	1 508	2 250
	5 294	5 944
Tax consultancy services . . . . .	773	771
Other services . . . . .	504	1 020
	<u><b>6 571</b></u>	<u><b>7 735</b></u>

The outstanding lease instalments related to the non-cancellable operational lease contracts are analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Up to 1 year . . . . .	8 903	9 133
1 to 5 years . . . . .	10 451	13 575
	<u><b>19 354</b></u>	<u><b>22 708</b></u>

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NOTE 16 — CLAIMS INCURRED, NET OF REINSURANCE

Claims incurred, net of reinsurance are analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Claims incurred for the life business .....	434 248	77 200
Claims incurred for the non-life business .....	197 695	212 073
	<b><u>631 943</u></b>	<b><u>289 273</u></b>

The significant increase in this caption in 2012 is mainly related with the full consolidation of BES Vida from 1 May 2012 (see Note 55).

Concerning the life business, the claims incurred, net of reinsurance are analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Claims paid		
Gross amount .....	439 480	80 129
Reinsurance share .....	(3 239)	(3 573)
	<b><u>436 241</u></b>	<b><u>76 556</u></b>
Change in claims outstanding reserve		
Gross amount .....	(1 532)	368
Reinsurance share .....	(461)	276
	<b><u>(1 993)</u></b>	<b><u>644</u></b>
	<b><u>434 248</u></b>	<b><u>77 200</u></b>

Concerning the non-life business, the claims incurred, net of reinsurance are analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Claims paid		
Gross amount .....	224 071	246 510
Reinsurance share .....	(14 527)	(14 837)
	<b><u>209 544</u></b>	<b><u>231 673</u></b>
Change in claims outstanding reserve		
Gross amount .....	(6 851)	(20 078)
Reinsurance share .....	(4 998)	478
	<b><u>(11 849)</u></b>	<b><u>(19 600)</u></b>
	<b><u>197 695</u></b>	<b><u>212 073</u></b>

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The gross amount of claims paid and change in claims reserve for the non-life business are as follows:

	31.12.2012			31.12.2011		
	Claims paid	Change in claims reserve	Total	Claims paid	Change in claims reserve	Total
	(in thousands of euro)					
Direct business						
Accident and health	75 145	7 108	82 253	78 799	(430)	78 369
Fire and other hazards	28 957	12 403	41 360	37 737	(3 746)	33 991
Motor	111 609	(28 283)	83 326	122 789	(14 664)	108 125
Maritime, airline and transportation	3 124	(175)	2 949	3 110	294	3 404
Third party liability	4 085	1 966	6 051	3 403	(1 519)	1 884
Credit and suretyship	(13)	44	31	86	(514)	(428)
Other	1 159	27	1 186	482	1 041	1 523
Reinsurance accepted	5	59	64	104	(540)	(436)
<b>Total</b>	<b>224 071</b>	<b>(6 851)</b>	<b>217 220</b>	<b>246 510</b>	<b>(20 078)</b>	<b>226 432</b>

**NOTE 17 — CHANGE IN THE TECHNICAL RESERVES, NET OF REINSURANCE**

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

	31.12.2012	31.12.2011
	(in thousands of euro)	
Life business	(333 638)	(43 421)
Non-life business	(3 022)	(10 110)
	<b>(336 660)</b>	<b>(53 531)</b>

The significant increase in this caption in 2012 is mainly related with the full consolidation of BES Vida from 1 May 2012 (see Note 55).

Concerning the life business, the changes in the technical reserves are analysed as follows:

	31.12.2012	31.12.2011
	(in thousands of euro)	
Change in life assurance reserve		
Gross amount	(332 486)	(44 775)
Reinsurance share	402	(172)
	<b>(332 084)</b>	<b>(44 947)</b>
Reserve for bonus and rebates		
Gross amount	4 623	4 351
Reinsurance share	(3 213)	(2 825)
	<b>1 410</b>	<b>1 526</b>
Change in other life insurance reserve		
Gross amount	(2 964)	—
	<b>(2 964)</b>	<b>—</b>
	<b>(333 638)</b>	<b>(43 421)</b>

Concerning the non-life business, the changes on the technical reserves are analysed as follows:

	31.12.2012	31.12.2011
	(in thousands of euro)	
Change in non life insurance reserve		
Change in unexpired risk reserve	(3 022)	(10 110)
	<b>(3 022)</b>	<b>(10 110)</b>

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NOTE 18 — INSURANCE COMMISSIONS

The insurance commissions are analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Direct insurance commissions		
Acquisition commissions and other costs	45 295	44 568
Change in deferred acquisition costs	567	(33)
Collection commissions	1 959	1 915
Reinsurance commissions	<u>(8 565)</u>	<u>(7 343)</u>
	<u><b>39 256</b></u>	<u><b>39 107</b></u>

NOTE 19 — EARNINGS PER SHARE

*Basic earnings per share*

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Profit attributable to the equity holders of the Company <sup>(1)</sup>	318 673	197 619
Weighted average number of ordinary shares outstanding (thousands)	<u>171 077</u>	<u>78 761</u>
Basic earnings per share attributable to the equity holders of the Company (in euro)	<u><b>1.86</b></u>	<u><b>2.51</b></u>

(1) Net profit for the year adjusted by the dividends on preference shares, perpetual bonds and results on repurchase of preference shares.

The weighted average number of shares outstanding was calculated taking in consideration the capital increase occurred in the year as described in Note 45.

*Diluted earnings per share*

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Profit attributable to the equity holders of the Company <sup>(1)</sup>	318 673	197 619
Weighted average number of ordinary and potential shares outstanding (thousands)	<u>171 077</u>	<u>78 761</u>
Diluted earnings per share attributable to the equity holders of the Company (in euro)	<u><b>1.86</b></u>	<u><b>2.51</b></u>

(1) Net profit for the year adjusted by the dividends on preference shares, perpetual bonds and results on repurchase of preference shares. In relation to the remeasurement of the ESFG liability related with the 2008 stock option plan, no adjustment is included as its effect is anti-dilutive.

NOTE 20 — CASH AND DEPOSITS AT CENTRAL BANKS

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Cash	<u>304 410</u>	<u>281 080</u>
Deposits at central banks		
Bank of Portugal	26 799	111 222
Other central banks	<u>1 113 622</u>	<u>738 213</u>
	<u>1 140 421</u>	<u>849 435</u>
	<u><b>1 444 831</b></u>	<u><b>1 130 515</b></u>



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The deposits at Central Banks include mandatory deposits intended to satisfy legal minimum cash requirements, for an amount of euro 39 599 thousand (31 December 2011: euro 137 932 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 2% of deposits and debt certificates maturing in less than 2 years, excluding deposits and debt certificates of institutions subject to the European System of Central Banks' minimum reserves requirements. During 2012, these deposits have earned interest at an average rate of 0.89% (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.

In accordance with Regulation ECB/2011/26, made public by ECB press release of 8 December 2011, the minimum reserves ratio is now 1% for periods beginning on 18 January 2012.

**NOTE 21 — DEPOSITS WITH BANKS**

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Deposits with banks in Portugal		
Repayable on demand .....	371 794	295 532
Uncollected cheques .....	107 354	153 662
Other .....	57 010	12 500
	<u>536 158</u>	<u>461 694</u>
Deposits with banks abroad		
Repayable on demand .....	547 823	366 635
Uncollected cheques .....	8 962	4 466
Other .....	33 910	165 550
	<u>590 695</u>	<u>536 651</u>
	<u><b>1 126 853</b></u>	<u><b>998 345</b></u>

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

Other deposits with banks, in Portugal and abroad, mature within 3 months.

Deposits with banks include the amount of euro 195 586 thousand (31 December 2011: euro 572 182 thousand) related to deposits held by securitisation vehicles consolidated by the Group and that collateralise the debt issued in the scope of the respective securitisation transactions (see Note 50).

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NOTE 22 — FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Financial assets held for trading</b>		
<b>Securities</b>		
Bonds and other fixed income securities		
Issued by government and public entities	1 395 583	933 720
Issued by other entities	265 057	253 215
Shares	52 281	41 307
Other variable income securities	2 181	2 269
	<u>1 715 102</u>	<u>1 230 511</u>
<b>Derivatives</b>		
Derivative financial instruments with positive fair value	2 266 743	2 236 389
	<u><b>3 981 845</b></u>	<u><b>3 466 900</b></u>
<b>Financial liabilities held for trading</b>		
<b>Derivatives</b>		
Derivative financial instruments with negative fair value	2 123 429	2 175 393
Short selling	796	865
	<u><b>2 124 225</b></u>	<u><b>2 176 258</b></u>

During the year 2008, the Group has reclassified from financial assets held for trading an amount of euro 244 530 thousand to held-to-maturity investments (see Note 27), following an amendment to IAS 39 Financial Instruments: Recognition and Measurement issued in October 2008 and adopted by the European Union in that year.

As at 31 December 2012 and 2011, the amounts that would have been recognised in the year if the reclassifications were not made are presented as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Net gains / (losses) from financial assets and financial liabilities at fair value through profit or loss	947	(1 347)
Tax effect	(73)	183
	<u><b>874</b></u>	<u><b>(1 164)</b></u>

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Up to 3 months	139 663	94 814
3 to 12 months	173 705	204 014
1 to 5 years	765 803	234 088
More than 5 years	577 774	654 019
Undetermined	58 157	43 576
	<u><b>1 715 102</b></u>	<u><b>1 230 511</b></u>

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 balance Financial assets held for trading includes securities pledged as collateral by the Group as described in Note 47.

As at 31 December 2012 and 2011, the exposure to peripheral Euro zone countries public debt is analysed in Note 53.

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Regarding quoted and unquoted securities, the balance financial assets held for trading is as follows:

	31.12.2012			31.12.2011		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	(in thousands of euro)					
Bonds and other fixed income securities						
Issued by government and public entities	1 349 507	46 076	1 395 583	897 685	36 035	933 720
Issued by other entities	100 506	164 551	265 057	110 990	142 225	253 215
Shares	40 505	11 776	52 281	40 230	1 077	41 307
Other variable income securities	2 181	—	2 181	2 264	5	2 269
	<b>1 492 699</b>	<b>222 403</b>	<b>1 715 102</b>	<b>1 051 169</b>	<b>179 342</b>	<b>1 230 511</b>

Valuation techniques are described in Note 52.

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

	31.12.2012			31.12.2011		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
	(in thousands of euro)					
<b>Exchange rate contracts</b>						
Forward						
— buy	1 356 880	7 688	12 871	1 703 052	32 110	17 820
— sell	1 226 020	—	—	1 458 214	—	—
Currency Swaps						
— buy	3 070 568	1 971	2 019	2 406 592	12 075	12 013
— sell	3 352 944	—	—	2 441 106	—	—
Currency Futures	278 317	—	—	58 097	—	—
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	41 437	46 868	3 578 304	91 232	91 572
	<b>11 933 614</b>	<b>76 786</b>	<b>80 101</b>	<b>11 976 434</b>	<b>163 914</b>	<b>147 664</b>
<b>Interest rate contracts</b>						
Forward Rate Agreements	200 000	—	16	380 000	1 047	1 982
Interest Rate Swaps	31 000 725	1 954 185	1 814 293	35 423 470	1 726 833	1 702 292
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	3 784 771	—	—	3 573 796	—	—
Interest Rate Options	1 903 388	1 341	1 341	1 893 560	25 473	31 714
	<b>42 170 441</b>	<b>1 997 925</b>	<b>1 855 768</b>	<b>51 709 157</b>	<b>1 809 909</b>	<b>1 788 450</b>
<b>Equity/index contracts</b>						
Equity/Index Swaps	664 516	86 202	24 936	843 911	50 453	51 122
Equity/Index Options	2 715 219	60 917	131 146	2 098 659	60 924	102 179
Equity/Index Futures	96 583	—	—	152 706	—	—
Future Options	82 234	—	—	32 089	—	—
	<b>3 558 552</b>	<b>147 119</b>	<b>156 082</b>	<b>3 127 365</b>	<b>111 377</b>	<b>153 301</b>
<b>Credit default contracts</b>						
Credit Default Swaps	2 774 779	44 913	31 478	3 559 587	151 189	85 978
	<b>60 437 386</b>	<b>2 266 743</b>	<b>2 123 429</b>	<b>70 372 543</b>	<b>2 236 389</b>	<b>2 175 393</b>

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As at 31 December 2012 the fair value of derivative financial instruments included the amount of euro 21.1 million (asset) (31 December 2011: asset for an 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 2012 and 2011, the analysis of trading derivatives by the period to maturity is presented as follows:

	31.12.2012		31.12.2011	
	Notional	Fair value	Notional	Fair value
	(in thousands of euro)			
Up to 3 months	13 785 652	71 751	11 638 984	(43 127)
From 3 to 12 months	10 093 874	(46 802)	12 165 625	(1 184)
From 1 to 5 years	19 007 557	21 130	27 762 549	22 893
More than 5 years	17 550 303	97 235	18 805 385	82 414
	<b>60 437 386</b>	<b>143 314</b>	<b>70 372 543</b>	<b>60 996</b>

NOTE 23 — OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	31.12.2012	31.12.2011
	(in thousands of euro)	
Bonds and other fixed income securities		
Issued by government and public entities	516 859	1 334
Issued by other entities	956 370	136 746
Other variable income securities	1 130 234	1 576 012
Book value	<b>2 603 463</b>	<b>1 714 092</b>

In light of IAS 39 and in accordance with the accounting policy described in Note 2.6, the Group designated these financial assets as 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.

The significant increase in this account during 2012 arises mainly on the full consolidation of BES Vida from 1 May 2012, as referred in Note 55.

As at 31 December 2012 and 2011, the analysis of the financial assets at fair value through profit or loss by the period to maturity is presented as follows:

	31.12.2012	31.12.2011
	(in thousands of euro)	
Up to 3 months	355 219	390 273
3 to 12 months	203 772	400
1 to 5 years	226 286	1 003 964
More than 5 years	738 358	77 317
Undetermined	1 079 828	242 138
	<b>2 603 463</b>	<b>1 714 092</b>

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

	31.12.2012			31.12.2011		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	(in thousands of euro)					
Bonds and other fixed income securities						
Issued by government and public entities	516 859	—	516 859	1 334	—	1 334
Issued by other entities	240 984	715 386	956 370	17 393	119 353	136 746
Other variable income securities	566 440	563 794	1 130 234	29 251	1 546 761	1 576 012
	<b>1 324 283</b>	<b>1 279 180</b>	<b>2 603 463</b>	<b>47 978</b>	<b>1 666 114</b>	<b>1 714 092</b>

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NOTE 24 — AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	Cost <sup>(1)</sup>	Fair value reserve		Impairment	Book value
		Positive	Negative		
		(in thousands of euro)			
Bonds and other fixed income securities					
Issue by government and public entities	4 297 879	201 930	(1 801)	(11)	4 497 997
Issue by others entities	4 273 021	62 357	(91 219)	(18 208)	4 225 951
Shares	1 557 620	82 412	(59 579)	(200 299)	1 380 154
Other securities	961 638	16 562	(5 444)	(35 623)	937 133
<b>Balance as at 31 December 2012</b>	<b>11 090 158</b>	<b>363 261</b>	<b>(158 043)</b>	<b>(254 141)</b>	<b>11 041 235</b>
Bonds and other fixed income securities					
Issue by government and public entities	5 006 029	824	(126 654)	(5 074)	4 875 125
Issue by others entities	5 962 394	34 570	(192 429)	(12 131)	5 792 404
Shares	1 195 835	41 291	(199 496)	(147 246)	890 384
Other securities	495 206	5 672	(6 734)	(27 622)	466 522
<b>Balance as at 31 December 2011</b>	<b>12 659 464</b>	<b>82 357</b>	<b>(525 313)</b>	<b>(192 073)</b>	<b>12 024 435</b>

(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 53.

The balance Available-for-sale financial assets includes securities pledged as collateral by the Group as described in Note 47. In December 2011, the Available-for-sale financial assets portfolio included an amount of euro 306.4 million related with securities held by securitisation vehicles consolidated by the Group and that collateralise the respective debt issued (see Note 50).

During the year 2008, the Group has reclassified from available-for-sale financial assets an amount of euro 522 715 thousand to held-to-maturity investments (see Note 27), following an amendment to IAS 39 Financial Instruments: Recognition and Measurement issued in October 2008 and adopted by the European Union in that year.

As at 31 December 2012 and 2011, the amounts that would have been recognised in the year if the reclassifications were not made are presented as follows:

	31.12.2012	31.12.2011
	(in thousands of euro)	
Net change in fair value reserve	(3 780)	(16 329)
Tax effect	1 191	4 308
	<b>(2 589)</b>	<b>(12 021)</b>

During the second quarter of 2011, taking in consideration the new solvency rules applicable to the insurance industry in Portugal, in-force from 1 January 2011, the insurance entities of the Group have reclassified from available-for-sale financial assets an amount of euro 150 253 thousand to held-to-maturity investments (see Note 27), in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

As at 31 December 2012 and 2011, the amounts that would have been recognised in the year if the reclassifications were not made are presented as follows:

	31.12.2012	31.12.2011
	(in thousands of euro)	
Net change in fair value reserve	18 901	(26 220)
Tax effect	(5 481)	7 596
	<b>13 420</b>	<b>(18 624)</b>

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

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

	31.12.2012	31.12.2011
	(in thousands of euro)	
<b>Balance as at 1 January</b> .....	<b>192 073</b>	<b>177 732</b>
Charge for the year .....	103 261	74 790
Charge off .....	(36 163)	(55 167)
Write back for the year .....	(3 943)	(6 789)
Transfer .....	—	(1 100)
Exchange differences and other .....	(1 087)	2 607
<b>Balance as at 31 December</b> .....	<b>254 141</b>	<b>192 073</b>

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

	31.12.2012	31.12.2011
	(in thousands of euro)	
Up to 3 months .....	2 841 838	4 949 255
From 3 to 12 months .....	1 244 222	1 429 986
From 1 to 5 years .....	1 475 813	2 152 130
More than 5 years .....	3 188 324	2 111 799
Undetermined .....	2 291 038	1 381 265
	<b>11 041 235</b>	<b>12 024 435</b>

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

	31.12.2012			
	Amortised cost	Fair value reserve		Market value
		Positive	Negative	Impairment
	(in thousands of euro)			
Portugal Telecom .....	346 637	—	(10 757)	—
EDP .....	173 826	24 447	—	—
Banque Marocaine du Commerce Extérieur .....	81 004	—	(15 813)	—
	<b>601 467</b>	<b>24 447</b>	<b>(26 570)</b>	<b>—</b>
				<b>599 344</b>
	31.12.2011			
	Amortised cost	Fair value reserve		Market value
		Positive	Negative	Impairment
	(in thousands of euro)			
Portugal Telecom .....	603 298	—	(151 041)	—
EDP .....	200 664	—	(24 077)	—
Banque Marocaine du Commerce Extérieur .....	2 376	5 454	—	(348)
	<b>806 338</b>	<b>5 454</b>	<b>(175 118)</b>	<b>(348)</b>
				<b>636 326</b>

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 (euro 61.5 million net of non-controlling interest) (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 (euro 12.1 million net of non-controlling interest) (see Note 8).

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

In prior years the Group recorded an impairment loss regarding Banque Marocaine du Commerce Extérieur, 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 unrealised 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.

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

	31.12.2012			31.12.2011		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	(in thousands of euro)					
<b>Securities</b>						
Bonds and other fixed income securities						
Issue by government and public entities	3 204 546	1 293 451	4 497 997	3 025 348	1 849 777	4 875 125
Issue by other entities	998 414	3 227 537	4 225 951	996 708	4 795 696	5 792 404
Shares	788 266	591 888	1 380 154	688 288	202 096	890 384
Other variable income securities	376 659	560 474	937 133	219 266	247 256	466 522
	<b>5 367 885</b>	<b>5 673 350</b>	<b>11 041 235</b>	<b>4 929 610</b>	<b>7 094 825</b>	<b>12 024 435</b>

Valuation techniques have been disclosed in Note 52.

**NOTE 25 — LOANS AND ADVANCES TO BANKS**

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

	31.12.2012	31.12.2011
	(in thousands of euro)	
<b>Loans and advances to banks in Portugal</b>		
Deposit to Bank of Portugal	3 350 000	—
Deposits	44 372	94 925
Loans	127 581	711 963
Very short term deposits	34 085	18 105
Other loans and advances	84 474	1 247
	<b>3 640 512</b>	<b>826 240</b>
<b>Loans and advances to banks abroad</b>		
Deposits	271 281	213 985
Loans	533 798	537 027
Very short term deposits	32 696	29 343
Other loans and advances	70 324	413 737
	<b>908 099</b>	<b>1 194 092</b>
<b>Overdue loans and interest</b>	<b>398</b>	<b>398</b>
	<b>4 549 009</b>	<b>2 020 730</b>
<b>Impairment losses</b>	<b>(762)</b>	<b>(617)</b>
	<b>4 548 247</b>	<b>2 020 113</b>

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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%). 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:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Up to 3 months .....	4 178 481	1 584 745
3 to 12 months .....	96 657	52 640
1 to 5 years .....	79 623	109 916
More than 5 years .....	193 777	272 842
Undetermined .....	471	587
	<u><b>4 549 009</b></u>	<u><b>2 020 730</b></u>

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Balance as at 1 January</b>	<b>617</b>	<b>642</b>
Charge for the year .....	1 366	406
Write back for the year .....	(1 207)	(446)
Exchange differences and other .....	(14)	15
<b>Balance as at 31 December</b>	<u><b>762</b></u>	<u><b>617</b></u>



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NOTE 26 — LOANS AND ADVANCES TO CUSTOMERS

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Domestic loans</b>		
Corporate		
Loans . . . . .	12 675 007	13 720 270
Commercial lines of credits . . . . .	5 247 361	5 305 293
Finance leases . . . . .	2 560 541	2 937 632
Discounted bills . . . . .	454 624	512 259
Factoring . . . . .	1 412 114	1 450 035
Overdrafts . . . . .	78 057	30 613
Other loans . . . . .	102 193	119 457
Retail		
Mortgage loans . . . . .	10 067 167	10 556 061
Consumer and other loans . . . . .	<u>1 750 980</u>	<u>1 972 111</u>
	<u>34 348 044</u>	<u>36 603 731</u>
<b>Foreign loans</b>		
Corporate		
Loans . . . . .	11 130 067	10 408 352
Commercial lines of credits . . . . .	2 181 087	2 105 017
Discounted bills . . . . .	145 877	113 044
Finance leases . . . . .	69 732	67 019
Overdrafts . . . . .	679 516	609 652
Other loans . . . . .	795 230	777 123
Retail		
Mortgage loans . . . . .	964 525	956 733
Consumer and other loans . . . . .	<u>831 483</u>	<u>819 020</u>
	<u>16 797 517</u>	<u>15 855 960</u>
<b>Overdue loans and interest</b>		
Up to 3 months . . . . .	293 307	207 524
From 3 months to 12 months . . . . .	608 171	365 470
From 1 to 3 years . . . . .	793 912	686 957
More than 3 years . . . . .	<u>586 553</u>	<u>374 377</u>
	<u>2 281 943</u>	<u>1 634 328</u>
	53 427 504	54 094 019
<b>Impairment losses</b> . . . . .	<u>(2 734 626)</u>	<u>(2 212 144)</u>
	<u><b>50 692 878</b></u>	<u><b>51 881 875</b></u>

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 entities (see Note 50), according to the accounting policy described in Note 2.2. The liabilities related to these securitisations are booked under Debt securities issued (see Notes 39 and 50).

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 39).

The fair value of loans and advances to customers is presented in Note 52.

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Up to 3 months	9 234 034	9 712 735
3 to 12 months	6 824 493	6 420 958
1 to 5 years	10 602 697	11 968 422
More than 5 years	24 484 337	24 357 576
Undetermined	2 281 943	1 634 328
	<u><b>53 427 504</b></u>	<u><b>54 094 019</b></u>

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Balance as at 1 January</b>	<b>2 212 144</b>	<b>1 824 712</b>
Charge of the year	1 021 570	908 872
Charge off	(212 173)	(166 138)
Amounts recovered during the year previously charged-off	21 900	26 553
Write back of the year	(227 279)	(330 489)
Unwind of discount	(78 290)	(51 487)
Exchange differences and others	(3 246)	121
<b>Balance as at 31 December</b>	<u><b>2 734 626</b></u>	<u><b>2 212 144</b></u>

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 2011, loans and advances to customers and impairment losses can be analysed as follows:

	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 amount
	(in thousands of euro)						
Corporate loans	12 617 103	2 231 936	26 898 334	150 917	39 515 437	2 382 853	37 132 584
Mortgage loans	2 362 525	160 135	8 771 297	6 884	11 133 822	167 019	10 966 803
Consumer and other loans	587 892	172 563	2 190 353	12 191	2 778 245	184 754	2 593 491
<b>Total</b>	<u><b>15 567 520</b></u>	<u><b>2 564 634</b></u>	<u><b>37 859 984</b></u>	<u><b>169 992</b></u>	<u><b>53 427 504</b></u>	<u><b>2 734 626</b></u>	<u><b>50 692 878</b></u>
	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 amount
	(in thousands of euro)						
Corporate loans	13 641 183	1 803 509	25 921 245	86 011	39 562 428	1 889 520	37 672 908
Mortgage loans	2 181 624	146 301	9 423 673	12 718	11 605 297	159 019	11 446 278
Consumer and other loans	542 883	150 657	2 383 411	12 948	2 926 294	163 605	2 762 689
<b>Total</b>	<u><b>16 365 690</b></u>	<u><b>2 100 467</b></u>	<u><b>37 728 329</b></u>	<u><b>111 677</b></u>	<u><b>54 094 019</b></u>	<u><b>2 212 144</b></u>	<u><b>51 881 875</b></u>

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

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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 fulfil 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 types of collateral held are mortgages and securities. The fair value of these collaterals is determined at the date the loan is advanced to customers, being periodically updated when the credit is classified as having an impairment trigger. The periodicity of the update considers the risk and size of each loan.

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

	31.12.2012		31.12.2011	
	Loan	Collateral fair value	Loan	Collateral fair value
	(in thousands of euro)			
<b>Mortgage loans</b>				
Mortgages	10 951 831	10 930 789	11 325 239	11 306 989
Pledges	4 739	4 570	6 543	6 360
Non-collateralized	177 252	—	273 515	—
	<u>11 133 822</u>	<u>10 935 359</u>	<u>11 605 297</u>	<u>11 313 349</u>
<b>Retail loans</b>				
Mortgages	310 561	291 897	299 256	289 356
Pledges	735 255	549 718	679 981	487 877
Non-collateralized	1 732 429	—	1 738 037	—
	<u>2 778 245</u>	<u>841 615</u>	<u>2 717 274</u>	<u>777 233</u>
<b>Corporate loans</b>				
Mortgages	9 812 810	9 122 921	11 112 064	9 904 884
Pledges	9 281 917	6 104 860	8 539 994	6 402 670
Non-collateralized	20 420 710	—	20 119 390	43 191
	<u>39 515 437</u>	<u>15 227 781</u>	<u>39 771 448</u>	<u>16 350 745</u>
<b>Loans and advances to customers</b>				
Mortgages	21 075 202	20 345 607	22 736 559	21 501 229
Pledges	10 021 911	6 659 148	9 226 518	6 896 907
Non-collateralized	22 330 391	—	22 130 942	43 191
	<u>53 427 504</u>	<u>27 004 755</u>	<u>54 094 019</u>	<u>28 441 327</u>

Under the contracts relating to collateral held, the Group cannot sell the underlying assets until these are acquired in exchange for loans. The terms and conditions of these contracts are in line with the market practice relating to credit granting.

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Variable interest rate .....	43 417 949	45 260 078
Fixed interest rate .....	10 009 555	8 833 941
	<u><b>53 427 504</b></u>	<u><b>54 094 019</b></u>

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Gross investment in finance leases, receivable</b>		
Up to 1 year .....	431 202	491 511
From 1 to 5 years .....	1 130 447	1 410 375
More than 5 years .....	1 373 116	1 535 201
	<u>2 934 765</u>	<u>3 437 087</u>
<b>Unearned finance income on finance leases</b>		
Up to 1 year .....	67 859	110 457
From 1 to 5 years .....	157 217	294 738
More than 5 years .....	79 416	27 241
	<u>304 492</u>	<u>432 436</u>
<b>Present value of minimum lease payments, receivable</b>		
Up to 1 year .....	363 343	381 054
From 1 to 5 years .....	973 230	1 115 637
More than 5 years .....	1 293 700	1 507 960
	2 630 273	3 004 651
Impairment .....	(144 097)	(97 190)
	<u><b>2 486 176</b></u>	<u><b>2 907 461</b></u>

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 27 — HELD-TO-MATURITY INVESTMENTS**

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Bonds and other fixed income securities		
Issued by government and public entities .....	404 393	959 489
Issued by other entities .....	753 765	825 982
	<u><b>1 158 158</b></u>	<u><b>1 785 471</b></u>
Impairment losses .....	(39 111)	(34 278)
	<u><b>1 119 047</b></u>	<u><b>1 751 193</b></u>

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

	31.12.2012	31.12.2011
	(in thousands of euro)	
Up to 3 months	20 561	741 598
3 to 12 months	198 989	291 138
1 to 5 years	355 029	713 381
More than 5 years	583 579	39 354
	<b>1 158 158</b>	<b>1 785 471</b>

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

	31.12.2012			31.12.2011		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	(in thousands of euro)					
Bonds and other fixed income securities						
Issued by government and public entities	401 800	2 593	404 393	955 678	1 848	957 526
Issued by other entities	233 033	481 621	714 654	270 406	523 261	793 667
	<b>634 833</b>	<b>484 214</b>	<b>1 119 047</b>	<b>1 226 084</b>	<b>525 109</b>	<b>1 751 193</b>

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

	31.12.2012	31.12.2011
	(in thousands of euro)	
<b>Balance as at 1 January</b>	<b>34 278</b>	<b>50 094</b>
Charge of the year	7 260	17 462
Charge off	(2 429)	(33 131)
Exchange differences and other	2	(147)
<b>Balance as at 31 December</b>	<b>39 111</b>	<b>34 278</b>

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:

	Acquisition cost	Book value	Reclassification date		Future cash-flows <sup>(a)</sup>	Effective interest rate <sup>(b)</sup>	Market value as at 31 December 2008	Amortisation of fair value reserve until 31.12.2012 <sup>(c)</sup>
			Fair value reserve Positive	Fair value reserve Negative				
	(in thousands of euro)							
Available-for-sale financial assets	551 897	522 715	424	(29 607)	701 070	5.75%	485 831	19 819
Financial assets held-for-trading	243 114	244 530	—	—	408 976	11.50%	237 295	—
<b>Bonds and other fixed income securities</b>	<b>795 011</b>	<b>767 245</b>	<b>424</b>	<b>(29 607)</b>	<b>1 110 046</b>		<b>723 126</b>	<b>19 819</b>

a) Undiscounted capital and interest cash flows; future interest is calculated based on the forward interest 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, if applicable and the maturity date of the financial asset.

c) Amortisation in the year ended 31 December 2011 amount to euro 3 468 thousand (31 December 2010: euro 5 866 thousand). In addition, during 2011 an amount of euro 6 138 thousand was re-allocated to the available-for-sale portfolio following the reclassification of part of the held to maturity portfolio as explained below in this Note.

The reclassification of financial assets held-for-trading as held-to-maturity investments was performed following the amendment to IAS 39 Financial instruments: recognition and measurement and IFRS 7 Financial instruments: disclosures, adopted by the Regulation (EU) n° 1004/2008 issued in 15 October 2008.

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This reclassification was made due to the market conditions following the international financial crises that characterised the year 2008, which was considered to be one of the rare circumstances justifying the application of the amendment to IAS 39.

The effect in the 2012 financial statements that would have been recognised if the reclassifications were not made in 2008 is presented in Notes 22 and 24.

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 onwards, 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 value.

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 tainting 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:

From held-to-maturity investments				To available-for-sale financial assets			
Acquisition cost	Fair value reserve <sup>(a)</sup>	Impairment	Balance	Acquisition cost	Fair value reserve	Impairment	Balance
<u>584 923</u>	<u>(6 138)</u>	<u>(50)</u>	<u>578 735</u>	<u>584 923</u>	<u>(13 590)</u>	<u>(50)</u>	<u>571 283</u>

(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.

During the second quarter of 2011, taking in consideration the new solvency rules applicable to the insurance industry in Portugal, in-force from 1 January 2011, the insurance entities of the Group have reclassified from available-for-sale financial assets an amount of euro 150 253 thousand to held-to-maturity investments (see Note 24), in accordance with IAS 39 Financial Instruments: Recognition and Measurement, as follows:

	Acquisition cost	Reclassification date				Market value as at 31 December 2011	Amortisation of fair value reserve until 31.12.2012	
		Book value	Fair value reserve		Future cash-flows <sup>(a)</sup>			Effective interest rate <sup>(b)</sup>
			Positive	Negative				
Available-for-sale financial assets . . . . .	172 337	150 253	—	(22 083)	210 964	9.09%	129 724	8 655
<b>Bonds and other fixed income securities . . . . .</b>	<u>172 337</u>	<u>150 253</u>	<u>—</u>	<u>(22 083)</u>	<u>210 964</u>		<u>129 724</u>	<u>8 655</u>

(in thousands of euro)

(a) Undiscounted capital and interest cash flows; future interest is calculated based on the forward interest 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, if applicable and the maturity date of the financial asset.

It should be noted that this reclassification was made exclusively taking in consideration the solvency rules applicable to the insurance industry and has no impact in terms of ESFG regulatory capital. In accordance with the Bank of Portugal rules, the investments held by ESFG in insurance subsidiaries, are measured for the purposes of the regulatory capital, in accordance with the equity method and are deducted from consolidated own funds as explained in Note 53.

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NOTE 28 — DERIVATIVES FOR RISK MANAGEMENT PURPOSES

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

	31.12.2012			31.12.2011		
	Hedging derivatives	Other derivatives for risk management purposes	Total	Hedging derivatives	Other derivatives for risk management purposes	Total
	(in thousands of euro)					
<b>Derivatives for risk management purposes</b>						
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)
	<u>110 316</u>	<u>281 005</u>	<u>391 321</u>	<u>127 819</u>	<u>143 638</u>	<u>271 457</u>
<b>Accumulated change in the fair value component of assets and liabilities being hedged</b>						
<b>Financial assets</b>						
Loans and advances to customers	22 391	—	22 391	23 839	—	23 839
	<u>22 391</u>	<u>—</u>	<u>22 391</u>	<u>23 839</u>	<u>—</u>	<u>23 839</u>
<b>Financial liabilities</b>						
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
	<u>(107 255)</u>	<u>(42 468)</u>	<u>(149 723)</u>	<u>(95 589)</u>	<u>177 623</u>	<u>82 034</u>
	<u>(84 864)</u>	<u>(42 468)</u>	<u>(127 332)</u>	<u>(71 750)</u>	<u>177 623</u>	<u>105 873</u>

As mentioned in the accounting policy described in Note 2.4, derivatives for risk management purposes includes 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:

Derivative	Hedged item	Hedged risk	31.12.2012				
			Notional	Fair value of derivative <sup>(2)</sup>	Changes in the fair value of the derivative in the year <sup>(2)</sup>	Accumulated changes in fair value of the hedged item <sup>(1)</sup>	Changes in the fair value of the hedged item in the year <sup>(1)</sup>
(in thousands of euro)							
Interest Rate Swap/ Currency	Loans and advances to customers	Interest rate	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 /Quotation	1 656 777	67 301	4 929	(38 472)	(3 685)
			<u>2 365 091</u>	<u>110 316</u>	<u>18 479</u>	<u>(84 864)</u>	<u>(16 016)</u>

(1) Attributable to the hedged risk

(2) Includes accrued interest

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

(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.

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. ESFG 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 financial assets and financial 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:

31.12.2012								
Derivative	Financial assets / liabilities economically hedged	Derivative			Assets / Liabilities associated			
		Notional	Fair Value	Changes in the fair value during the year	Fair Value	Changes in the fair value during the year	Carrying amount	Redemption amount at maturity <sup>(1)</sup>
(in thousands of euro)								
	<b>Liabilities</b>							
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
		<b>9 860 153</b>	<b>281 005</b>	<b>156 551</b>	<b>(42 468)</b>	<b>(247 509)</b>	<b>9 936 598</b>	<b>9 931 206</b>

(1) Corresponds to the minimum guaranteed amount to be reimbursed at maturity

31.12.2011								
Derivative	Financial assets / liabilities economically hedged	Derivative			Assets / Liabilities associated			
		Notional	Fair Value	Changes in the fair value during the year	Fair Value	Changes in the fair value during the year	Carrying amount	Redemption amount at maturity <sup>(1)</sup>
(in thousands of euro)								
	<b>Liabilities</b>							
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
		<b>8 912 473</b>	<b>143 638</b>	<b>21 550</b>	<b>177 623</b>	<b>86 343</b>	<b>8 237 813</b>	<b>8 410 021</b>

(1) Corresponds to the minimum guaranteed amount to be reimbursed at maturity

As at 31 December 2012, the fair value of the financial liabilities at fair value through profit or loss, 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).



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

	31.12.2012		31.12.2011	
	Notional	Fair value	Notional	Fair value
	(in thousands of euro)			
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
	<b>12 225 244</b>	<b>391 321</b>	<b>13 768 436</b>	<b>271 457</b>

NOTE 29 — NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE

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

	31.12.2012		31.12.2011	
	Assets	Liabilities	Assets	Liabilities
	(in thousands of euro)			
Assets and liabilities of subsidiaries acquired exclusively for resale purposes	<b>731 767</b>	<b>175 945</b>	<b>291 248</b>	<b>140 950</b>
Property held for sale	2 846 023	—	1 531 180	—
Equipment	2 524	—	2 203	—
Other tangible assets	3 501	—	3 501	—
	2 852 048	—	1 536 884	—
Impairment losses	(303 630)	—	(181 449)	—
	<b>2 548 418</b>	<b>—</b>	<b>1 355 435</b>	<b>—</b>
	<b>3 280 185</b>	<b>175 945</b>	<b>1 646 683</b>	<b>140 950</b>

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

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

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

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

	31.12.2012	31.12.2011
	(in thousands of euro)	
<b>Balance as at 1 January</b>	<b>1 536 884</b>	<b>642 952</b>
Change in the scope of consolidation	530 343	—
Additions	998 905	1 077 644
Sales	(218 735)	(190 452)
Other	4 651	6 740
<b>Balance as at 31 December</b>	<b>2 852 048</b>	<b>1 536 884</b>

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

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The changes occurred in impairment losses are presented as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Balance as at 1 January</b> .....	<b>181 449</b>	<b>89 825</b>
Change in the scope of consolidation .....	116 654	—
Charge for the year .....	40 178	127 178
Charge off .....	(29 664)	(31 057)
Write back for the year .....	—	(4 116)
Exchange differences and other .....	(4 987)	(381)
<b>Balance as at 31 December</b> .....	<b><u>303 630</u></b>	<b><u>181 449</u></b>

**NOTE 30 — PROPERTY AND EQUIPMENT**

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Property</b>		
Land and buildings .....	512 493	763 783
Improvements in leasehold property .....	228 930	242 464
Other .....	1 139	842
	<b><u>742 562</u></b>	<b><u>1 007 089</u></b>
<b>Equipment</b>		
Computer equipment .....	348 663	340 234
Furniture .....	139 792	147 607
Fixtures .....	146 077	145 885
Security equipment .....	42 469	38 535
Office equipment .....	39 917	41 129
Medical equipment .....	—	91 636
Motor vehicles .....	14 693	13 527
Other .....	13 675	29 348
	<b><u>745 286</u></b>	<b><u>847 901</u></b>
<b>Other</b> .....	<b><u>13 029</u></b>	<b><u>25 262</u></b>
<b>Work in progress</b>		
Land and buildings .....	401 044	322 743
Improvement in leasehold property .....	344	1 422
Equipment .....	2 170	6 643
Other .....	56	3 027
	<b><u>403 614</u></b>	<b><u>333 835</u></b>
<b>Accumulated depreciation</b> .....	<b>(921 485)</b>	<b>(1 037 235)</b>
<b>Impairment losses</b> .....	<b>(389)</b>	<b>(1 306)</b>
	<b><u>(921 874)</u></b>	<b><u>(1 038 541)</u></b>
	<b><u>982 617</u></b>	<b><u>1 175 546</u></b>

In accordance with the accounting policy described in Note 2.14, the Group concluded that there was an indication of impairment in relation to certain property and equipment. Therefore it has performed impairment tests for these assets and has recognised an accumulated impairment loss of euro 389 thousand should be recognised (31 December 2011: euro 1 306 thousand).

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The movement in this balance was as follows:

	Property	Equipment	Other	Work in progress	Total
	(in thousands of euro)				
<b>Acquisition costs</b>					
<b>Balance as at 31 December 2010</b>	<b>1 019 321</b>	<b>822 669</b>	<b>22 416</b>	<b>269 510</b>	<b>2 133 916</b>
Acquisitions	7 527	30 012	867	79 855	118 261
Disposals	(20 848)	(13 530)	(290)	(238)	(34 906)
Transfers <sup>(a)</sup>	(872)	4 318	5 494	(14 612)	(5 672)
Exchange differences and other	1 961	4 432	(3 225)	(680)	2 488
<b>Balance as at 31 December 2011</b>	<b>1 007 089</b>	<b>847 901</b>	<b>25 262</b>	<b>333 835</b>	<b>2 214 087</b>
Change in the scope of consolidation <sup>(b)</sup>	(279 558)	(130 856)	(12 737)	(3 451)	(426 602)
Acquisitions	5 615	30 298	511	116 764	153 188
Disposals	(20 688)	(13 607)	(61)	(850)	(35 206)
Transfers <sup>(a)</sup>	22 859	5 009	—	(34 592)	(6 724)
Exchange differences and other <sup>(c)</sup>	7 245	6 541	54	(8 092)	5 748
<b>Balance as at 31 December 2012</b>	<b>742 562</b>	<b>745 286</b>	<b>13 029</b>	<b>403 614</b>	<b>1 904 491</b>
<b>Depreciation</b>					
<b>Balance as at 31 December 2010</b>	<b>323 613</b>	<b>630 894</b>	<b>12 013</b>	<b>—</b>	<b>966 520</b>
Depreciation	33 293	57 674	1 956	—	92 923
Disposals	(6 884)	(13 319)	(183)	—	(20 386)
Transfers <sup>(a)</sup>	(1 548)	4	141	—	(1 403)
Exchange differences and other	(1 046)	540	87	—	(419)
<b>Balance as at 31 December 2011</b>	<b>347 428</b>	<b>675 793</b>	<b>14 014</b>	<b>—</b>	<b>1 037 235</b>
Change in the scope of consolidation <sup>(b)</sup>	(59 832)	(104 098)	(11 075)	—	(175 005)
Depreciation	30 749	54 929	2 864	—	88 542
Disposals	(19 087)	(8 781)	(45)	—	(27 913)
Transfers <sup>(a)</sup>	(1 110)	(413)	—	—	(1 523)
Exchange differences and other <sup>(c)</sup>	(521)	614	56	—	149
<b>Balance as at 31 December 2012</b>	<b>297 627</b>	<b>618 044</b>	<b>5 814</b>	<b>—</b>	<b>921 485</b>
<b>Impairment</b>					
<b>Balance as at 31 December 2010</b>	<b>1 659</b>	<b>—</b>	<b>697</b>	<b>—</b>	<b>2 356</b>
Impairment losses	—	—	220	—	220
Write-off for the year	(1 270)	—	—	—	(1 270)
<b>Balance as at 31 December 2011</b>	<b>389</b>	<b>—</b>	<b>917</b>	<b>—</b>	<b>1 306</b>
Change in the scope of consolidation <sup>(b)</sup>	—	—	(917)	—	(917)
<b>Balance as at 31 December 2012</b>	<b>389</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>389</b>
<b>Net balance as at 31 December 2012</b>	<b>444 546</b>	<b>127 242</b>	<b>7 215</b>	<b>403 614</b>	<b>982 617</b>
<b>Net balance as at 31 December 2011</b>	<b>659 272</b>	<b>172 108</b>	<b>10 331</b>	<b>333 835</b>	<b>1 175 546</b>

(a) Relating to discontinued branches, transferred to the balance Non-current assets held for sale

(b) Relating to the change in the consolidation method of ES Saúde, from full consolidation to the equity method, as well as the sale of Pastor Vida and the acquisition of Tranquilidade Angola

(c) Relating to the acquisition of BES Vida

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Gross investment in finance leases, payable</b>		
Up to 1 year .....	106	589
From 1 to 5 years .....	138	971
	<u>244</u>	<u>1 560</u>
<b>Interest</b>		
Up to 1 year .....	10	55
From 1 to 5 years .....	5	42
	<u>15</u>	<u>97</u>
<b>Principal</b>		
Up to 1 year .....	96	534
From 1 to 5 years .....	133	929
	<u>229</u>	<u>1 463</u>

**NOTE 31 — INVESTMENT PROPERTIES**

Investment properties are analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Insurance activity .....	676 853	315 393
Real estate activity .....	120 470	2 645
	<u>797 323</u>	<u>318 038</u>

The movement in investment properties for the years ended 31 December 2012 and 2011 can be analysed as follows:

	<u>Insurance activity</u>	<u>Real estate activity</u>	<u>Total</u>
	(in thousands of euro)		
<b>Net balance as at 31 December 2010</b>	<b>338 765</b>	<b>2 645</b>	<b>341 410</b>
Improvements .....	3 616	—	3 616
Disposals .....	(25 552)	—	(25 552)
Other .....	260	—	260
Unrealised gains / (losses) .....	(1 696)	—	(1 696)
<b>Net balance as at 31 December 2011</b>	<b>315 393</b>	<b>2 645</b>	<b>318 038</b>
Change in the scope of consolidation <sup>(a)</sup> .....	391 418	122 759	514 177
Acquisitions .....	62	2 754	2 816
Improvements .....	946	—	946
Disposals .....	(12 503)	—	(12 503)
Transfer .....	—	(2 645)	(2 645)
Other .....	(2 899)	(4 896)	(7 795)
Unrealised gains / (losses) .....	(15 564)	(147)	(15 711)
<b>Net balance as at 31 December 2012</b>	<b>676 853</b>	<b>120 470</b>	<b>797 323</b>

(a) relating to the consolidation of BES Vida, Fungere, Fungepi, Fundo de Investimento Imobiliário Fechado Corpus Christi, Imocrescente and Imoprime.

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The carrying amount of investment property is the fair value of the property as determined by a registered 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 location 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 part 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 decrease in fair value of investment property of euro 15.7 million (31 December 2011: increase of euro 1.7 million) is recognised in Other operating income and expenses. Rental income from investment property of euro 13.2 million (31 December 2011: euro 10.3 million) is recognised in Other operating income.

The direct operating expenses including repairs and maintenance arising from investment property that generated rental income during the year reached 5.3 million euro (31 December 2011: euro 4 million). The direct operating expenses including repairs and maintenance arising from investment property that did not generate rental income during the year reached euro 0.7 million (31 December 2011: euro 0.4 million).

**NOTE 32 — INTANGIBLE ASSETS**

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

	<b>31.12.2012</b>	<b>31.12.2011</b>
	(in thousands of euro)	
<b>Goodwill</b> .....	441 504	337 547
<b>Value in force</b> .....	107 768	—
<b>Internally developed</b>		
Software .....	107 437	91 865
<b>Acquired from third parties</b>		
Software .....	680 960	650 505
Other .....	1 870	67 756
	682 830	718 261
<b>Work in progress</b> .....	40 028	32 798
	1 379 567	1 180 471
<b>Accumulated amortisation</b> .....	(666 578)	(621 647)
<b>Impairment</b> .....	(9 779)	(9 628)
	<b>703 210</b>	<b>549 196</b>

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Goodwill, recognised in accordance with the accounting policy described in Note 2.2, is analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
HOSPOR .....	—	89 943
BES Vida .....	234 574	—
PARTRAN .....	61 123	61 123
BES .....	58 336	58 336
BESPAR .....	5 960	5 960
MARIGNAN GESTION .....	3 613	3 613
Clínica Oiã .....	—	2 810
BEST .....	2 349	2 349
CONCORDIA .....	1 756	1 605
ES Investment Holding <sup>(a)</sup> .....	48 567	47 449
ES Gestion <sup>(b)</sup> .....	2 459	22 142
AMAN BANK .....	16 046	16 046
PASTOR VIDA .....	—	23 110
Other .....	<u>6 721</u>	<u>3 061</u>
	441 504	337 547
Impairment .....	<u>(9 779)</u>	<u>(9 628)</u>
	<b><u>431 725</u></b>	<b><u>327 919</u></b>

(a) Holding company of Execution/Noble

(b) Includes euro 2 459 thousand and euro 19 683 thousand in relation to Banco Inversión and Gespastor, respectively, entities that were merged into ES Gestion after acquisition.

The main changes occurred in Goodwill and Value in force during 2012 are explained as follows:

*BES Vida*

In May 2012, BES acquired from Credit Agricole the remaining 50% of share capital of BES Vida becoming to hold the entire share capital and the management control over its activities. Goodwill and Value in Force of BES Vida, in the amount of euro 234.6 million and euro 107.8 million, respectively, were calculated at the date of acquisition on a provisional basis, in accordance with paragraph 45 of IFRS 3 (see note 55). 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.

*Hospor and Clínica Oiã*

In November 2012 (i) Rio Forte Investments, S.A. (Rio Forte) acquired an additional 19.5% stake in ES Saúde, becoming to have a 44.5% shareholding in this company; (ii) ESFG and Rio Forte signed a shareholders' agreement under which Rio Forte assumes control over ES Saúde governing bodies; and (iii) Rio Forte acquired from ESFG a call option, currently exercisable up to May 2013, over 5.5% of ES Saúde sharecapital plus 1 share, giving Rio Forte the current ability to exercise control over the majority of the voting rights of ES Saúde.

Following ESFG loss of control over ES Saúde in 2012, this entity is no longer fully consolidated and is included in these consolidated financial statements following the equity method (see Note 33). On this basis, the amounts of goodwill related to Hospor and Clínica Oiã, subsidiaries of ES Saúde, were derecognised.

*ES Gestion and Pastor Vida*

In the first semester of 2012, Banco Popular acquired a controlling interest on Banco Pastor, the legal merger between these two entities having taken place on 5 July 2012.

The change in control of Banco Pastor had a significant impact in the implementation of the exclusive distribution agreement established in 2010, between ESAF (through ES Gestion) and Banco Pastor and,

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consequently, on the strategy outlined for the asset management activity of BES Group in the Spanish market. Following this change of control event, on 1 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, which was recognised as a gain in the income statement. 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.

In what concerns Pastor Vida, in the second quarter of 2012, the Group took the decision, as permitted within the shareholders agreement established between Tranquilidade and Banco Pastor, to exercise its option to put Pastor Vida shares back to Banco Pastor. The sale was completed during the second semester of 2012. Therefore, the related goodwill and value in force, amounting to euro 23.1 million and euro 57.9 million, respectively, were derecognised (see Note 55).

In accordance with the accounting policy described in Note 2.2, goodwill is subject to impairment tests annually or whenever there is an indication of impairment. These tests were performed for the preparation of the consolidated financial statements as at 31 December 2012 and 2011.

#### *Partran*

Partran is the holding company for Tranquilidade Sub-Group. The recoverable amount of Partran was determined based on (i) the value of Tranquilidade business stand-alone and (ii) the value of each of its subsidiaries.

The valuations performed used a Dividend Discounted Methodology and were back tested based on market multiples considering a control premium.

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

#### *BES*

The recoverable amount of BES was determined based on appropriate market multiples taking in consideration (i) historical earnings estimates for the sector, discounted using an adequate discount rate which includes a risk premium appropriated for the estimated future cash-flows and (ii) adequate control premiums.

Based on the above analysis, the recoverable amount of the investment in BES exceeded the respective carrying amount including goodwill.

#### *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.

#### *Aman Bank*

On 31 December 2011, the Group recognised an impairment of euro 8 023 thousand in goodwill related with the 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.

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The balance of 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 2.15).

The movement in this balance was as follows:

	Goodwill and Value in Force	Software	Other	Work in progress	Total
	(in thousands of euro)				
<b>Acquisition costs</b>					
<b>Balance as at 31 December 2010</b>	<b>401 944</b>	<b>678 782</b>	<b>1 620</b>	<b>40 955</b>	<b>1 123 301</b>
Acquisitions:					
Internally developed	—	756	—	9 178	9 934
Acquired from third parties	—	13 291	6	32 981	46 278
Disposals	—	(1 396)	(409)	—	(1 805)
Transfers	—	49 805	3	(49 824)	(16)
Exchange differences and other	2 123	1 132	16	(492)	2 779
<b>Balance as at 31 December 2011</b>	<b>404 067</b>	<b>742 370</b>	<b>1 236</b>	<b>32 798</b>	<b>1 180 471</b>
Change in the scope of consolidation <sup>(a)</sup>	—	(6 381)	676	—	(5 705)
Acquisitions:					
Internally developed	—	373	—	8 257	8 630
Acquired from third parties <sup>(b)</sup>	346 696	12 999	4	30 326	390 025
Disposals	(182 383)	(2 998)	(81)	(103)	(185 565)
Transfers	—	32 440	—	(32 454)	(14)
Exchange differences and other <sup>(c)(d)</sup>	(19 108)	9 594	35	1 204	(8 275)
<b>Balance as at 31 December 2012</b>	<b>549 272</b>	<b>788 397</b>	<b>1 870</b>	<b>40 028</b>	<b>1 379 567</b>
<b>Amortisation</b>					
<b>Balance as at 31 December 2010</b>	<b>—</b>	<b>562 306</b>	<b>1 358</b>	<b>—</b>	<b>563 664</b>
Amortisation	5 756	52 710	151	—	58 617
Disposals	—	(657)	(409)	—	(1 066)
Exchange differences and other	—	418	14	—	432
<b>Balance as at 31 December 2011</b>	<b>5 756</b>	<b>614 777</b>	<b>1 114</b>	<b>—</b>	<b>621 647</b>
Change in the scope of consolidation <sup>(a)</sup>	—	(6 312)	(10 098)	—	(16 410)
Amortisation	4 322	52 616	299	—	57 237
Disposals	(10 078)	(2 875)	(81)	—	(13 034)
Exchange differences and other <sup>(e)</sup>	(2 169)	9 180	49	—	7 060
<b>Balance as at 31 December 2012</b>	<b>(2 169)</b>	<b>667 386</b>	<b>(8 717)</b>	<b>—</b>	<b>656 500</b>
<b>Impairment</b>					
<b>Balance as at 31 December 2010</b>	<b>1 800</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1 800</b>
Impairment losses	8 023	—	—	—	8 023
Exchange differences and other	(195)	—	—	—	(195)
<b>Balance as at 31 December 2011</b>	<b>9 628</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>9 628</b>
Exchange differences and other	151	—	—	—	151
<b>Balance as at 31 December 2012</b>	<b>9 779</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>9 779</b>
<b>Net balance as at 31 December 2012</b>	<b>541 662</b>	<b>121 011</b>	<b>10 587</b>	<b>40 028</b>	<b>713 288</b>
<b>Net balance as at 31 December 2011</b>	<b>388 683</b>	<b>127 593</b>	<b>122</b>	<b>32 798</b>	<b>549 196</b>

(a) relating to the sale of ES Saude and Pastor Vida

(b) relating to the acquisition of BES Vida and Tranquilidade Angola



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- (c) includes euro 19 683 thousand relating to the de-recognition of goodwill on Gespastor  
(d) includes euro 8 917 thousand relating to the acquisition of BES Vida  
(e) includes euro 8 791 thousand relating to the acquisition of BES Vida

NOTE 33 — INVESTMENTS IN ASSOCIATES

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

	Assets		Liabilities		Equity		Income		Profit/(Loss) of the year		Acquisition cost	
	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	31.12.2012	31.12.2011
	(in thousands of euro)											
BES VIDA	—	5 658 690	—	5 601 926	—	56 764	—	390 722	—	(107 968)	—	186 976
BES SEGUROS	120 243	131 184	89 039	111 531	31 204	19 653	66 537	66 344	6 971	3 324	7 501	7 501
EUROP ASSISTANCE	50 053	43 834	35 048	31 732	15 005	12 102	55 496	57 353	2 797	1 456	2 344	2 344
ES SAUDE	492 447	—	364 015	—	128 432	—	344 801	—	(2 631)	—	143 747	—
LOCARENT	285 740	321 581	277 404	314 938	8 336	6 643	94 213	97 798	2 595	3 017	2 967	2 967
ESEGR	39 121	41 679	28 526	31 524	10 595	10 155	50 980	54 478	595	600	9 634	9 634
FUNDO ES IBERIA	13 894	14 252	169	266	13 725	13 986	466	298	(106)	(1 198)	7 087	8 708
BRB INTERNACIONAL	12 883	14 899	12 407	12 596	476	2 303	1 243	3 525	(589)	84	10 659	10 659
AUTOPISTA PEROTE-XALAPA	650 179	441 723	521 167	308 586	129 012	133 137	—	—	(6 634)	(223)	36 678	36 678
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	179 772	168 310
EMPARK	782 872	773 857	651 074	626 861	131 798	146 996	166 594	182 274	(7 171)	357	52 429	55 013
AUVISA — AUTOVIA DE LOS												
VINEDOS	216 000	248 201	222 000	214 586	(6 000)	33 615	14 000	12 791	(4 000)	1 494	41 056	41 056
UNICRE	305 005	307 856	179 941	194 012	125 064	113 844	231 070	241 045	11 256	8 745	11 497	11 497
MOZA BANCO	186 719	92 737	154 683	64 908	32 036	27 829	21 760	11 720	(3 289)	595	12 791	9 800
RODI SINKS & IDEAS	43 446	45 211	20 537	24 196	22 909	21 015	19 528	16 719	1 609	902	1 240	1 240
SCUTVIAS	—	718 866	—	647 086	—	71 780	—	116 590	—	12 663	—	50 669
Others	—	—	—	—	—	—	—	—	—	—	151 033	142 249
											<b>670 435</b>	<b>745 301</b>

Note: information adjusted for consolidation purposes

	Voting interest		Book value		Share of profit of associates	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
	(in thousands of euro)					
BES VIDA	—	50.00%	—	23 148	2 761	(53 977)
BES SEGUROS	50.00%	50.00%	15 602	10 894	3 486	2 365
EUROP ASSISTANCE	47.00%	47.00%	5 642	4 278	1 314	750
ES SAUDE	42.89%	—	114 252	—	(604)	—
LOCARENT	50.00%	50.00%	4 478	3 632	1 298	1 509
ESEGR	44.00%	44.00%	11 506	11 312	262	264
FUNDO ES IBERIA	38.67%	38.69%	5 649	5 262	261	(292)
BRB INTERNACIONAL	25.00%	24.93%	119	335	(216)	92
AUTOPISTA PEROTE-XALAPA	20.00%	20.00%	30 802	26 628	3 647	209
ASCENDI GROUP	40.00%	40.00%	186 955	169 900	6 566	7 130
EMPARK	22.20%	22.40%	50 090	54 661	(2 193)	(698)
AUVISA — AUTOVIA DE LOS						
VINEDOS	50.00%	50.00%	34 792	38 304	(2 531)	(5)
UNICRE	17.50%	17.50%	21 886	19 923	1 970	1 530
MOZA BANCO	25.10%	25.10%	12 234	11 178	(826)	148
RODI SINKS & IDEAS	24.81%	24.81%	8 129	7 528	194	—
SCUTVIAS	—	22.20%	—	50 669	—	—
Others	—	—	138 478	140 675	(10 633)	2 336
			<b>640 614</b>	<b>578 327</b>	<b>4 756</b>	<b>(38 639)</b>

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The movement occurred in this balance is presented as follows:

	31.12.2012	31.12.2011
	(in thousands of euro)	
<b>Balance as at 1 January</b> .....	<b>578 327</b>	<b>585 240</b>
Change in the scope of consolidation .....	47 047	—
Disposals .....	(60 026)	—
Acquisitions and capital increases (See Note1) .....	32 966	107 885
Share of profit of associates .....	4 756	(38 639)
Fair value reserve from investments in associates .....	44 770	(58 676)
Dividends received .....	(3 305)	(4 122)
Exchange differences and other .....	(3 921)	(13 361)
<b>Balance as at 31 December</b> .....	<b>640 614</b>	<b>578 327</b>

The changes in consolidation scope in 2012, arise from (i) the full consolidation of BES Vida from 1 May 2012, which in 2011 was included in ESFG consolidated financial statements following the equity method; and (ii) the loss of control over ES Saúde in 2012, this entity being currently included in these consolidated financial statements following the equity method (see Note 55).

**NOTE 34 — TECHNICAL RESERVES**

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

	31.12.2012			31.12.2011		
	Direct insurance	Reinsurance ceded	Total	Direct insurance	Reinsurance ceded	Total
	(in thousands of euro)					
Unearned premiums reserve .....	114 019	(19 651)	94 368	122 420	(20 581)	101 839
Life mathematical reserve .....	1 831 675	(634)	1 831 041	439 600	(586)	439 014
Claims outstanding reserve .....	517 407	(47 692)	469 715	499 462	(41 603)	457 859
Unexpired risks reserve .....	19 476	—	19 476	22 500	—	22 500
Reserve for bonus and rebates .....	5 751	(2 796)	2 955	5 933	(2 750)	3 183
	<b>2 488 328</b>	<b>(70 773)</b>	<b>2 417 555</b>	<b>1 089 915</b>	<b>(65 520)</b>	<b>1 024 395</b>

The significant increase in this caption in 2012 is mainly related with the full consolidation of BES Vida from 1 May 2012 (see Note 55).

The life mathematical reserve is analysed as follows:

	31.12.2012			31.12.2011		
	Direct insurance	Reinsurance ceded	Total	Direct insurance	Reinsurance ceded	Total
	(in thousands of euro)					
Annuities .....	114 286	(634)	113 652	85 996	(586)	85 410
Saving Contracts with Profit Sharing ...	1 717 389	—	1 717 389	228 779	—	228 779
Saving Contracts without Profit Sharing .....	—	—	—	121 240	—	121 240
Life insurances policies where investment risk is borne by policyholders .....	—	—	—	3 585	—	3 585
	<b>1 831 675</b>	<b>(634)</b>	<b>1 831 041</b>	<b>439 600</b>	<b>(586)</b>	<b>439 014</b>

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.

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The claims outstanding reserve by line of business is analysed as follows:

	31.12.2012			31.12.2011		
	Direct insurance	Reinsurance ceded	Total	Direct insurance	Reinsurance ceded	Total
	(in thousands of euro)					
Life	35 225	(1 873)	33 352	10 429	(782)	9 647
Workers compensation (mathematical reserve)	128 630	(1 002)	127 628	121 187	(1 182)	120 005
Workers compensation (not related to life pensions)	59 740	(1 374)	58 366	56 034	—	56 034
Accidents and health	10 273	(243)	10 030	14 314	(235)	14 079
Fire and other hazards	43 321	(18 742)	24 579	30 918	(14 082)	16 836
Motor	210 614	(14 206)	196 408	238 897	(13 230)	225 667
Maritime, airline and transportation	6 603	(2 815)	3 788	6 778	(3 183)	3 595
Third parties liabilities	21 305	(6 133)	15 172	19 339	(7 724)	11 615
Credit and suretyship	80	(40)	40	36	(2)	34
Other	1 616	(1 264)	352	1 530	(1 183)	347
	<b>517 407</b>	<b>(47 692)</b>	<b>469 715</b>	<b>499 462</b>	<b>(41 603)</b>	<b>457 859</b>

The claims outstanding reserve represents unsettled claims occurred before the balance sheet date and includes an estimated provision in the amount of euro 22 106 thousand (31 December 2011: euro 23 091 thousand), for claims incurred before 31 December 2012, but not reported (IBNR).

Included in the amount of claims outstanding for workers' compensation is euro 120 885 thousand (31 December 2011: euro 121 187 thousand), relating to the mathematical reserve for workers' compensation.

The mathematical reserve for workers' compensation includes an amount of euro 0 (31 December 2011: euro 0 thousand) as a result of the liability adequacy test (see Note 53).

Additionally, mathematical reserve for workers' compensation also includes an accrual related to the present value of the future contributions to Workers Compensation Fund (FAT) for an amount of euro 7 668 thousand (31 December 2011: euro 7 244 thousand).

The claims outstanding reserve also includes an estimation of future costs related to the settlement of pending claims (expense reserve), both-declared and non-declared, for an amount of euro 22 168 thousand (31 December 2011: euro 19 092 thousand).

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

	31.12.2012	31.12.2011
	(in thousands of euro)	
<b>Balance as at 1 January</b>	<b>499 462</b>	<b>519 172</b>
Change in the scope of consolidation	26 328	—
Plus incurred claims		
Current year	695 230	337 911
Prior years	(40 062)	(30 023)
Less paid claims related to		
Current year	(548 278)	(206 034)
Prior years	(115 273)	(121 564)
<b>Balance as at 31 December</b>	<b>517 407</b>	<b>499 462</b>

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.

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The movement in the reserve for bonus and rebates for the years ended 31 December 2012 and 2011 is as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Balance as at 1 January</b> .....	<b>5 933</b>	<b>5 239</b>
Change in the scope of consolidation .....	(1 326)	—
Amounts paid .....	(2 099)	(3 656)
Estimated attributable amounts .....	<u>3 243</u>	<u>4 350</u>
<b>Balance as at 31 December</b> .....	<b><u>5 751</u></b>	<b><u>5 933</u></b>

As at 31 December 2012, life mathematical reserve includes an amount of euro 0 (31 December 2011: euro 0 thousand) as a result of the liability adequacy test. This test was performed based on the best estimate assumptions (see Note 53).

**NOTE 35 — OTHER ASSETS**

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Deposits placed with futures contracts .....	52 772	48 051
Recoverable government subsidies on mortgage loans .....	38 658	48 892
Collateral deposits placed .....	1 611 695	1 556 982
Loans to companies in which the Group has a non controlling interest .....	—	215 628
Public sector .....	152 428	146 733
Debtors from the banking business .....	631 951	409 736
Debtors from the insurance business .....	24 101	26 021
Debtors from medical services business .....	452	76 139
Sundry debtors .....	<u>21 155</u>	<u>62 205</u>
	2 533 212	2 590 387
Impairment losses on debtors .....	(236 196)	(60 515)
	<b><u>2 297 016</u></b>	<b><u>2 529 872</u></b>
Debtors arising out of direct insurance operations .....	67 170	64 926
Debtors arising out of reinsurance operations .....	<u>10 814</u>	<u>61 034</u>
	<b>77 984</b>	<b>125 960</b>
Impairment losses on debtors arising out of direct insurance and of reinsurance operations .....	(7 228)	(7 082)
	<u>70 756</u>	<u>118 878</u>
<b>Other assets</b>		
Gold, other precious metals, numismatics and other liquid assets .....	11 127	11 411
Other assets .....	<u>264 282</u>	<u>106 907</u>
	<b><u>275 409</u></b>	<b><u>118 318</u></b>
<b>Accrued income</b> .....	<b>54 497</b>	<b>78 770</b>
<b>Prepayments and deferred costs</b> .....	<b>119 749</b>	<b>132 357</b>
<b>Deferred acquisition costs</b> .....	<b>21 954</b>	<b>22 517</b>
<b>Other sundry assets</b>		
Foreign exchange transactions pending settlement .....	16 179	2 489
Stock exchange transactions pending settlement .....	154 257	172 111
Other transactions pending settlement .....	<u>206 023</u>	<u>100 293</u>
	<b><u>376 459</u></b>	<b><u>274 893</u></b>
<b>Assets recognised on pensions (see Note 14)</b> .....	<b>18 815</b>	<b>109 299</b>
	<b><u>3 234 655</u></b>	<b><u>3 384 904</u></b>

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Loans to companies in which the Group has a non-controlling interest include (i) euro 100 million related with loans to Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (31 December 2011: euro 100 million); (ii) 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 (iii) 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.

Deferred acquisition costs relate to the insurance business and can be analysed as follows:

	<b>31.12.2012</b>	<b>31.12.2011</b>
	(in thousands of euro)	
Non-life insurance business . . . . .	21 954	22 517
	<b>21 954</b>	<b>22 517</b>

The movements on the deferred acquisition costs for the non-life business are analysed as follows:

	<b>31.12.2012</b>	<b>31.12.2011</b>
	(in thousands of euro)	
<b>Balance at the beginning of the year</b> . . . . .	<b>22 517</b>	<b>22 484</b>
Acquisition costs of the year . . . . .	21 954	22 517
Acquisition costs amortisation . . . . .	(22 517)	(22 484)
<b>Balance at the end of the year</b> . . . . .	<b>21 954</b>	<b>22 517</b>

The balance of impairment losses is presented as follows:

	<b>31.12.2012</b>	<b>31.12.2011</b>
	(in thousands of euro)	
Debtors . . . . .	236 196	60 515
Debtors arising out of direct insurance and reinsurance operations . . . . .	7 228	7 082
	<b>243 424</b>	<b>67 597</b>

The movements occurred in impairment losses are presented as follows:

	<b>31.12.2012</b>	<b>31.12.2011</b>
	(in thousands of euro)	
<b>Balance as at 1 January</b> . . . . .	<b>67 597</b>	<b>34 983</b>
Change in the scope of consolidation . . . . .	(12 726)	—
Charge of the year . . . . .	196 374	39 736
Write back of the year . . . . .	(13 482)	(3 437)
Charge off . . . . .	(1 104)	(2 925)
Other . . . . .	6 765	(760)
<b>Balance as at 31 December</b> . . . . .	<b>243 424</b>	<b>67 597</b>

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**NOTE 36 — DEPOSITS FROM CENTRAL BANKS**

The balance deposits from central banks in analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>From the European System of Central Banks</b>		
Deposits .....	129 382	22 204
Other funds .....	<u>10 150 000</u>	<u>8 764 000</u>
	<u>10 279 382</u>	<u>8 786 204</u>
<b>From other Central Banks</b>		
Inter-bank Money Market .....	—	21 650
Deposits .....	<u>661 943</u>	<u>1 205 865</u>
	<u>661 943</u>	<u>1 227 515</u>
	<b><u>10 941 325</u></b>	<b><u>10 013 719</u></b>

As at 31 December 2012 and 2011, Other funds from the European System of Central Banks includes euro 10 156 million and euro 8 764 million, respectively, covered by securities pledged as collaterals in the amount of euro 13 509 million and euro 11 123 million, respectively (see Note 47).

As at 31 December 2012, the balance Deposits from other Central Banks – Deposits 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 Central Banks by the period to maturity is presented as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Up to 3 months .....	852 635	4 610 833
3 to 12 months .....	—	401 497
1 to 5 years .....	<u>10 088 690</u>	<u>5 001 389</u>
	<b><u>10 941 325</u></b>	<b><u>10 013 719</u></b>

**NOTE 37 — DEPOSITS FROM BANKS**

The balance deposits from banks is analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Domestic</b>		
Loans .....	36	49 978
Inter-bank money market .....	—	15 001
Deposits .....	378 864	463 875
Very short terms funds .....	40 172	251 045
Repurchase agreements .....	66 579	170 850
Other funds .....	<u>4 486</u>	<u>5 279</u>
	<u>490 137</u>	<u>956 028</u>
<b>International</b>		
Deposits .....	378 345	719 206
Loans .....	2 433 985	2 270 846
Very short terms funds .....	194 475	121 259
Repurchase agreements .....	1 311 087	1 847 600
Other funds .....	<u>257 951</u>	<u>301 067</u>
	<u>4 575 843</u>	<u>5 259 978</u>
	<b><u>5 065 980</u></b>	<b><u>6 216 006</u></b>

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As at 31 December 2012, the balance deposits from banks includes the amount of euro 212 218 thousand (31 December 2011: 218 524 thousand) related to deposits recognised on the balance sheet at fair value through profit or loss (see Note 28).

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Up to 3 months	2 318 791	3 369 029
3 to 12 months	1 335 967	209 620
1 to 5 years	683 935	1 804 720
More than 5 years	727 287	832 637
	<u>5 065 980</u>	<u>6 216 006</u>

**NOTE 38 — DUE TO CUSTOMERS**

The balance due to customers is analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Repayable on demand</b>		
Demand deposits	11 100 769	9 067 225
<b>Time deposits</b>		
Time deposits	22 213 567	23 682 667
Notice deposits	3 144	6 595
Other	77 327	123 918
	<u>22 294 038</u>	<u>23 813 180</u>
<b>Savings accounts</b>		
Pensioners	28 022	15 049
Emigrants	3 521	5 278
Other	1 645 970	1 470 261
	<u>1 677 513</u>	<u>1 490 588</u>
<b>Other funds</b>		
Repurchase agreement	204 847	208 480
Other	348 307	372 511
	<u>553 154</u>	<u>580 991</u>
	<u>35 625 474</u>	<u>34 951 984</u>

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 28).

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Repayable on demand	11 100 769	9 067 225
With agreed maturity:		
Up to 3 months	481 139	375 577
3 to 12 months	11 022 509	14 200 949
1 to 5 years	6 516 402	6 578 688
More than 5 years	6 504 655	4 729 545
	<u>35 625 474</u>	<u>34 951 984</u>

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NOTE 39 — DEBT SECURITIES ISSUED

The balance of debt securities issued is analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Debt securities</b>		
Euro Medium Term Notes . . . . .	10 087 137	9 828 682
Certificates of deposit . . . . .	620 235	701 769
Covered bonds . . . . .	864 100	933 732
Debt bonds issued . . . . .	1 409 773	3 449 570
Other . . . . .	2 971 625	4 595 870
	<b><u>15 952 870</u></b>	<b><u>19 509 623</u></b>

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

As at 31 December 2012, this balance includes euro 1 488 401 thousand (31 December 2011: euro 1 233 962 thousand) of debt securities issued at fair value through profit or loss (see Note 28).

On 15 November 2005, ESFG issued the euro 500 000 000 Fixed Rate Step-Up Notes due 2025 with 10 000 warrants. Each of these Notes bearded interest at the rate of 3.55% until 15 November 2011 and 5.05% from then on. Each warrant entitles the holder to subscribe euro 50 000 to acquire fully paid up shares of ESFG at an initial exercise price of euro 24.50 per share. This exercise price has been adjusted following the terms the contractual conditions to euro 21.24 in 2012. The rights under the warrants are exercisable from and including 26 December 2005 up to the close of business on 8 November 2025.

In the light of IAS 32, the warrants issued correspond to an equity instrument and therefore are recognised in equity and the Notes correspond to a debt instrument and are recognised as a liability.

The value attributable to the warrants upon the initial recognition was calculated by deducting, at inception, the fair value of the Notes from the par value of the instrument as a whole, the fair value attributable to the Notes being calculated as the present value of the contractual future cash flows discounted at a rate of interest, determined at inception, based on comparable Notes providing substantially the same cash flows, on the same terms, but without the detachable warrants. On this basis, the Group recognised in equity the amount of euro 118 570 thousand related to the warrants and an amount of euro 381 430 thousand as a liability, corresponding to the respective fair value at the date of issue.

After its initial recognition, the liability accrues interest at an effective interest rate of 6.7%, which was the rate used to fair value the liability at the inception.

The following operations relating to these Notes and the Warrants took place during 2011:

- conversion of 14 warrants to 32 956 shares, resulting in the cancellation of euro 700 thousands of the Notes. This conversion resulted in a capital increase of euro 309 thousands with a share premium of euro 391 thousand and a decrease in other equity components of euro 150 thousand (see Note 45);
- tender offer on euro 146.4 million of the Notes for euro 73.2 million in cash. This tender offer resulted in a reduction of other equity instruments in the amount of euro 33.7 million and in a gain recognised in income statement of euro 49.3 million;
- exchange offer of euro 171.6 million of the Notes for euro 130.416 thousand 9.75% Convertible Bonds due in 2025. This exchange offer resulted in a decrease in other equity instruments by the amount of euro 22.7 million and in a gain recognised in income statement of euro 45.0 million.

Unless previously redeemed, or repurchased and cancelled, the Notes will be redeemed at their principal amount on 15 November 2025. Following the cancellation of the Notes and Warrants exchanged or purchased by ESFG pursuant to the Exchange Tender and the Tender Offer (i) the principal amount outstanding is euro 181.4 million in terms of nominal value and euro 151.8 million in terms of book value as at 31 December 2012, and (ii) the number of Warrants outstanding is 3 627 with a book value of euro 41.6 million.



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On 19 December 2011, ESFG issued euro 130 416 000 Convertible Bonds due 2025, as a result of the Exchange Offer of the Euro 500 000 000 Fixed Rate Step-Up Notes described above. Each bond bears interest at the rate of 9.75 and entitles the holder to convert such Bond into new and/or existing fully paid ordinary shares in the capital of ESFG. The initial Conversion Price is Euro 17 per Ordinary share. Unless previously redeemed, or repurchased and cancelled, the Notes will be redeemed at their principal amount on 19 December 2025.

In the light of IAS 32, the conversion option issued corresponds to an equity instrument and therefore is recognised in equity and the Notes correspond to a debt instrument and are recognised as a liability.

The value attributable to the conversion option upon the initial recognition was calculated by deducting, at inception, the fair value of the Notes from the fair value of the instrument as a whole, the fair value attributable to the Notes being calculated as the present value of the contractual future cash flows discounted at a rate of interest, determined at inception, based on comparable Notes providing substantially the same cash flows, on the same terms, but without the conversion option. On this basis, the Group recognised in equity the amount of euro 17.0 million related to the conversion option.

Under the covered bonds programme, which has a maximum amount of euro 10 000 million, BES Group issued covered bonds for a total amount of euro 4 590 million, of which euro 3 726 million were subscribed by the Group.

The 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.

The main characteristics of these issues are as follows:

Description	Nominal value	Book value	Issue date	Maturity date	Interest payment	Interest rate	Rating	
							Moody's	DBRS
(In thousands of euro)								
BES Covered Bonds 3.375% .....	1 000 000	821 922	17.11.09	17.02.15	Annual	3.375%	Baa3	AL
BES Covered Bonds DUE JUL 17 .....	1 050 000	—	07.07.10	09.07.17	Annual	Euribor 6 month + 0.60%	Baa3	AL
BES Covered Bonds 21/07/2017 .....	1 250 000	29	21.07.10	21.07.17	Annual	Euribor 6 month + 0.60%	Baa3	AL
BES Covered Bonds DUE 4.6% .....	40 000	42 149	15.12.10	26.01.17	Annual	Fixed rate 4.6%	Baa3	AL
BES Covered Bonds HIPOT 2018 .....	1 250 000	—	25.01.11	25.01.18	Annual	Euribor 6 month + 0.60%	Baa3	AL

As at 31 December 2012, the mortgage loans that collateralise these covered bonds amounted to euro 5 605.1 million (31 December 2011: euro 5 305.9 million) (see Note 26).

The changes occurred in debt securities issued during the year ended 31 December 2012 are analysed as follows:

	31.12.2011	Issues	Repayments	Net repurchase	Other movements <sup>a)</sup>	31.12.2012
(in thousands of euro)						
Euro Medium Term						
Notes .....	9 828 682	4 682 456	(3 408 925)	(1 355 014)	339 938	10 087 137
Certificates of deposit .....	701 769	46 352 <sup>b)</sup>	(126 854)	—	(1 032)	620 235
Covered bonds .....	933 732	—	—	(76 054)	6 422	864 100
Debt bonds issued .....	3 449 570	37 500	(2 085 749)	84 402	(75 950)	1 409 773
Other .....	4 595 870	9 346 232	(10 511 761)	(189 293)	(269 423)	2 971 625
	<b>19 509 623</b>	<b>14 112 540</b>	<b>(16 133 289)</b>	<b>(1 535 959)</b>	<b>(45)</b>	<b>15 952 870</b>

a) Other movements include accrued interest, fair value adjustments and foreign exchange differences

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

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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 in 31 December 2012 and in 31 December 2011, the Group has recognised a gain (already including the gains relating to the tender and exchange offer for the Fixed Rate Step-Up Notes described above) of euro 74.1 million and of euro 249.7 million, respectively (see Note 12).

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

	31.12.2012	31.12.2011
	(in thousands of euro)	
Up to 3 months	2 604 374	6 222 612
1 to 12 months	1 538 996	1 078 886
1 to 5 years	7 331 056	8 014 275
More than 5 years	4 478 444	4 193 850
	<b>15 952 870</b>	<b>19 509 623</b>

The main characteristics of debt securities issued are presented as follows:

Issuer	Description	Currency	Issue date	31.12.2012		Interest rate
				Book Value	Maturity	
(in thousands of euro)						
BES	BES DUE 2013	EUR	2007	396 617	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% APR05	*) EUR	2005	1 817	2013	Fixed rate 4.14% to 1st. 2nd and 8th year + swap rate from 3rd to 7th
BES	BES-E.RENDA 4%	*) EUR	2005	(105)	2013	Fixed rate 4.14% to 1st. 2nd and 8th year + swap rate from 3rd to 7th
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	*) EUR	2011	19 578	2014	Euribor 6 months + 3.5%
BES	BES PORTUGAL	*) EUR	2011	21 986	2014	Euribor 6 months + 3.5%
BES	BES 3% 16/12/20	EUR	2011	43 762	2021	Fixed rate 3%
BES	BES DUE FEB.14	EUR	2012	113 367	2014	Fixed rate 6.5%
BES	BES 4 YEAR 7%	EUR	2012	126 782	2016	Fixed rate 7%
BES	BES 6.9% 2024	EUR	2012	68 281	2024	Fixed rate 6.9%
BES	BES 26/10/2015	EUR	2012	50 358	2015	Euribor 6 months + 3.85%
BES	BES 5.875% 2015	EUR	2012	709 137	2015	Fixed rate 5.875%
BES (Cayman Branch)	BES CAYMAN ZC 02/18/2028	EUR	2003	13 603	2028	Zero Coupon - Effective rate 5.50%
BES (Cayman Branch)	BES CAYMAN Step Up 08/27/13	EUR	2003	57 452	2013	StepUp (1th coupon 3.00%)
BES (Cayman Branch)	BES CAYMAN Step Up 09/02/13	EUR	2003	77 461	2013	StepUp (1th coupon 3.00%)
BES (Cayman Branch)	BES CAYMAN Step Up 10/07/13	EUR	2003	77 437	2013	StepUp (1th coupon 3.10%)
BES (Cayman Branch)	BES CAYMAN - Zero coupon	EUR	2003	32 513	2028	Zero Coupon - Effective 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	67 723	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	*) EUR	2008	150 139	2014	Fixed rate 4.5%
BES (Spain Branch)	Mortgage Bonds	*) EUR	2008	80 369	2014	Fixed rate 4%
BES (Spain Branch)	Mortgage Bonds	*) 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%

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Issuer	Description	Currency	Issue date	31.12.2012		Interest rate
				Book Value	Maturity	
				(in thousands of euro)		
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 I 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	Commercial Paper	EUR	2012	( 397)	2013	Fixed rate 6.1440%
BES Finance	EMTN 37	EUR	2004	30 476	2029	Zero Coupon - Effective rate 5.30%
BES Finance	EMTN 39	EUR	2005	100 090	2015	Euribor 3 months + 0.23%
BES Finance	EMTN 40	EUR	2005	163 551	2035	1st to 4th year: fixed rate 6.00% e 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
BES Finance	EMTN 63	EUR	2009	34 984	2039	Zero Coupon - Fixed rate 3%
BES Finance	Exchangeable Bonds (Bradesco)	USD	2010	350 939	2013	Fixed rate 1.625%
BES Finance	Exchangeable Bonds (EDP)	EUR	2010	392 264	2015	Fixed rate 3%
BES Finance	Exchangeable Bonds	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	EUR	2010	6 881	2015	Fixed rate 3.19%
BES Finance	EMTN 82	EUR	2010	6 724	2015	Fixed rate 3.19%
BES Finance	EMTN 83	EUR	2010	6 723	2015	Fixed rate 3.19%
BES Finance	EMTN 84	EUR	2010	6 934	2015	Fixed rate 3.19%
BES Finance	EMTN 85	EUR	2010	6 671	2015	Fixed rate 3.19%
BES Finance	EMTN 91	EUR	2011	14 768	2013	Fixed rate 4.75%
BES Finance	EMTN 92	EUR	2011	15 728	2013	Fixed rate 4.75%
BES Finance	EMTN 93	EUR	2011	15 728	2013	Fixed rate 4.75%
BES Finance	EMTN 94	EUR	2011	15 678	2013	Fixed rate 4.75%
BES Finance	EMTN 95	EUR	2011	14 768	2013	Fixed rate 4.75%
BES Finance	EMTN 96	EUR	2011	9 053	2015	Fixed rate 5.75%
BES Finance	EMTN 97	EUR	2011	8 943	2015	Fixed rate 5.75%
BES Finance	EMTN 98	EUR	2011	9 382	2015	Fixed rate 5.75%
BES Finance	EMTN 99	EUR	2011	9 382	2015	Fixed rate 5.75%
BES Finance	EMTN 100	EUR	2011	9 382	2015	Fixed rate 5.75%
BES Finance	EMTN 101	EUR	2011	14 153	2013	Fixed rate 4.51%
BES Finance	EMTN 102	EUR	2011	15 164	2013	Fixed rate 4.51%
BES Finance	EMTN 103	EUR	2011	15 164	2013	Fixed rate 4.51%
BES Finance	EMTN 104	EUR	2011	14 658	2013	Fixed rate 4.51%
BES Finance	EMTN 105	EUR	2011	14 557	2013	Fixed rate 4.51%
BES Finance	EMTN 106	EUR	2011	9 720	2015	Fixed rate 5.51%
BES Finance	EMTN 107	EUR	2011	9 556	2015	Fixed rate 5.51%
BES Finance	EMTN 108	EUR	2011	10 860	2015	Fixed rate 5.51%
BES Finance	EMTN 109	EUR	2011	10 860	2015	Fixed rate 5.51%

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Issuer	Description	Currency	Issue date	31.12.2012		Interest rate
				Book Value	Maturity	
				(in thousands of euro)		
BES Finance	EMTN 110	<sup>ai)</sup> 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	<sup>ai)</sup> EUR	2011	52 443	2014	Fixed rate 6%
BES Finance	EMTN 113	<sup>ai)</sup> EUR	2011	68 899	2021	Fixed rate 5%
BES Finance	EMTN 114	<sup>ai)</sup> 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	StepUp rate
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	<sup>ai)</sup> EUR	2010	3 630	2014	aj)
BESI	BESI SEP2014 ORIENTE IV EQL	<sup>ai)</sup> EUR	2010	12 612	2014	ao)
BESI	BESI 1.8% GOLD APR2015	<sup>ai)</sup> EUR	2011	1 832	2015	Fixed rate 1.8% + Indexed to Old
BESI	BESI CLN REP PORTUGUESE OCT2014	<sup>ai)</sup> 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	<sup>ai)</sup> EUR	2012	704	2013	SPX500 VIX Linked
BESI	49-LCA - Letter	BRL	2012	35 785	2013	90% - 98.6% to CDI
BESI	53-LF LETTER FIN	BRL	2010	47 231	2015	100% - 116.5% to 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 AGU05 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	<sup>ai)</sup> EUR	2005	1 216	2017	Range accrual
ES Investment Plc	ESIP 30CMS-2CMS LKD NOTE NOV2036	<sup>ai)</sup> EUR	2005	17 361	2036	Fixed rate 7.44% + 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	<sup>ai)</sup> EUR	2007	7 007	2017	j)
ES Investment Plc	ESIP MAY14 EQUITY BASKT LINKED	<sup>ai)</sup> USD	2007	1 376	2014	p)
ES Investment Plc	ESIP DEC2015 BASKET LINKED	<sup>ai)</sup> EUR	2007	34	2015	Indexed to BBVA. Credit Agricole e Fortis
ES Investment Plc	ESIP BARCLAYS LKD ZC MAR2016	<sup>ai)</sup> EUR	2008	543	2016	ZC + g)
ES Investment Plc	ESIP BARCLAYS LKD 6.30% MAR2016	<sup>ai)</sup> EUR	2008	147	2016	Fixed rate 6.30% + g)
ES Investment Plc	ESIP APR2013 AEGON SHARE LKD	<sup>ai)</sup> EUR	2008	2 869	2013	Indexed to AEGON
ES Investment Plc	ESIP JUN2013 CARBON NOTES	<sup>ai)</sup> EUR	2008	3 744	2013	an)
ES Investment Plc	ESIP LACAIXA EUR3M+2% MAR2011	<sup>ai)</sup> EUR	2009	2 428	2016	EURIBOR3M +2% + g)
ES Investment Plc	ESIP JUL2014 INFLATION LINKED	<sup>ai)</sup> EUR	2009	1 452	2014	Indexed to Inflation
ES Investment Plc	ESIP FEB2020 EQL LINKED	<sup>ai)</sup> EUR	2009	10	2020	ad)
ES Investment Plc	ESIP CLN 5.45% OCT2014	<sup>ai)</sup> EUR	2009	96	2014	g)
ES Investment Plc	ESIP OCT2014 EQL	<sup>ai)</sup> EUR	2009	965	2014	Indexed to Gazprom. Nokia and DU PONT
ES Investment Plc	ESIP CIMPOR CLN EUR3M DEC2014	<sup>ai)</sup> EUR	2009	3 760	2014	g)
ES Investment Plc	ESIP FTD IBERIA 5.95% DEC2014	<sup>ai)</sup> EUR	2009	165	2014	g)
ES Investment Plc	ESIP FTD IBERIA II 5.5% DEC2014	<sup>ai)</sup> EUR	2009	4 853	2014	g)
ES Investment Plc	ESIP USD FTD IBERIA 5.5% DEC2014	<sup>ai)</sup> USD	2009	3 667	2014	g)
ES Investment Plc	ESIP DEC2014 SX5E LINKED	<sup>ai)</sup> EUR	2009	3 285	2014	Indexed to DJ Eurostoxx 50
ES Investment Plc	ESIP BRAZIL EQL LINKED	<sup>ai)</sup> EUR	2009	3 540	2014	al)
ES Investment Plc	ESIP BSKT MERC EMERG EQL FEB2014	<sup>ai)</sup> EUR	2010	2 694	2014	d)
ES Investment Plc	ESIP WORST SOFT CMDT MAR2013	<sup>ai)</sup> EUR	2010	1 210	2013	k)
ES Investment Plc	ESIP DJ US REAL EST LKD MAR2015	<sup>ai)</sup> EUR	2010	1 572	2015	Indexed to Ishares DJ US Real State Index fund

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ES Investment Plc	ESIP SOFT COMMODIT LKD APR2013	ai) EUR	2010	2 102	2013	o)
ES Investment Plc	ESIP USDEUR FX LKD MAY2015	ai) EUR	2010	287	2015	Indexed to EUR/USD
ES Investment Plc	ESIP CRDAGRI CL EUR6M+1.15 JUN15	ai) EUR	2010	2 517	2015	Euribor 6M ACT/360
ES Investment Plc	ESIP EDP BCP PT LKD JUN2013	ai) EUR	2010	1 369	2013	w)
ES Investment Plc	ESIP FTD CRD LINKED JUN2015	ai) EUR	2010	4 570	2015	x)
ES Investment Plc	ESIP BRAZIL EQL MAY2016	ai) EUR	2010	3 307	2016	ac)
ES Investment Plc	ESIP SX5E MAY14 EQL	ai) EUR	2010	1 729	2014	Indexed to Eurostoxx
ES Investment Plc	ESIP JUN2013 BASKET LINKED	ai) EUR	2010	3 674	2013	5.70% + af)
ES Investment Plc	ESIP BES RENDIM CRD LKD JUN2013	ai) EUR	2010	19 697	2013	ag)
ES Investment Plc	ESIP TELECOM LKD JUL2013	ai) EUR	2010	8 670	2013	ah)
ES Investment Plc	ESIP BASKET LKD JUL2013	ai) EUR	2010	3 799	2013	ai)
ES Investment Plc	ESIP BASKET LKD JUL2014	ai) EUR	2010	1 387	2014	ai)
ES Investment Plc	ESIP AUG13 RANGE ACCRUAL	ai) EUR	2010	1 002	2013	Range accrual
ES Investment Plc	ESIP AUG2013 EURUSD FX LINKED	ai) EUR	2010	767	2013	Indexed to Exchange
ES Investment Plc	ESIP SEP2013 CURRENCIES LINKED	ai) EUR	2010	906	2013	ap)
ES Investment Plc	ESIP SEP15 DIGITAL	ai) USD	2010	1 115	2015	Digital US Libor 3M
ES Investment Plc	ESIP JAN2011 DOW JONES INDUS LKD	ai) EUR	2010	1 136	2013	Indexed to INDU
ES Investment Plc	ESIP ASIA INDEX LKD SEP2014	ai) EUR	2010	1 557	2014	ab)
ES Investment Plc	ESIP EDP PT CGD CRDLKD DEC2013	ai) EUR	2010	6 966	2013	v)
ES Investment Plc	ESIP GOLD LKD OCT2013	ai) EUR	2010	1 383	2013	Indexed to Gold
ES Investment Plc	ESIP EDP CRDLKD DEC2013	ai) EUR	2010	4 593	2013	Euribor 6m + 3.5% +Indexed to EDP
ES Investment Plc	ESIP NOV2013 SAN BBVA EQL LINKED	ai) EUR	2010	1 664	2013	Indexed to BSCH and BBVA
ES Investment Plc	ESIP NOV2013 SANTANDER LKD	ai) EUR	2010	937	2013	Indexed to BSCH
ES Investment Plc	ESIP SAN BBVA LINKED NOV2013	ai) EUR	2010	2 152	2013	Indexed to BSCH and BBVA
ES Investment Plc	ESIP DEC2013 SAN BBVA EQL LINKED	ai) EUR	2010	931	2013	Indexed to BSCH and BBVA
ES Investment Plc	ESIP NOV2013 ASIA PACIF BSKT LKD	ai) EUR	2010	2 394	2013	u)
ES Investment Plc	ESIP NOV2013 AMERLATIN BSKT LKD	ai) EUR	2010	1 839	2013	t)
ES Investment Plc	ESIP DEC2015 CREDLINKED BSCH	ai) EUR	2011	1 570	2015	Indexed to BBVA. Credit Agricole and Fortis
ES Investment Plc	ESIP CABAZ BRASIL LKD FEB14	ai) EUR	2011	1 675	2014	b)
ES Investment Plc	ESIP FEB16 5A EXPOSIC AFRICA LKD	ai) EUR	2011	1 177	2016	c)
ES Investment Plc	ESIP EXPOSURE EURUSD LKD FEB14	ai) EUR	2011	1 216	2014	FX EUR/USD Linked
ES Investment Plc	ESIP DUAL5%+AFRICA LKD FEB15	ai) EUR	2011	1 158	2015	s)
ES Investment Plc	ESIP 2 YEAR EURUSD LKD FEB13	ai) EUR	2011	1 438	2013	FX EUR/USD Linked
ES Investment Plc	ESIP SX5E LKD FEB14	ai) EUR	2011	342	2014	Eurostoxx Linked
ES Investment Plc	ESIP CLN EDP MAR2014	ai) EUR	2011	10 820	2014	7% + CLN EDP
ES Investment Plc	ESIP WORST DIG COMM EQL MAR2013	ai) EUR	2011	822	2013	e)
ES Investment Plc	ESIP MAR14 BES EURUSD LINKED	ai) EUR	2011	1 488	2014	FX USD/BRL Linked
ES Investment Plc	ESIP APR2015 BES ENERGIA LINKED	ai) EUR	2011	10 135	2015	Espirito Santo Rockefeller Global Linked
ES Investment Plc	ESIP MAR14 EURCHF LINKED	ai) EUR	2011	1 364	2014	FX EUR/CHF Linked
ES Investment Plc	ESIP CLN SANTANDER MAR2014	ai) EUR	2011	6 260	2014	6.35% + CLN BSCH SUB
ES Investment Plc	ESIP EDP MAR2014 CLN	ai) EUR	2011	16 053	2014	6.5% + CLN EDP
ES Investment Plc	ESIP SX5E SPX LKD MAR2016	ai) EUR	2011	1 658	2016	Eurostoxx Linked
ES Investment Plc	ESIP APR2015 BES ENERGIA LKD	ai) USD	2011	2 592	2015	Espirito Santo Rockefeller Global Linked
ES Investment Plc	ESIP MAR2014 TEF FTE LINKED	ai) EUR	2011	607	2014	Telefonica e France Telecom Linked
ES Investment Plc	ESIP APRIL2014 HEALTH CARE LKD	ai) EUR	2011	8 020	2014	Health Care Select Sector SPDR Fund Linked
ES Investment Plc	ESIP APR2013 EURUSD LKD	ai) EUR	2011	2 469	2013	FX EUR/USD Linked
ES Investment Plc	ESIP SX5E SPX LKD APR2014	ai) EUR	2011	2 388	2014	SX5E e SPX Linked
ES Investment Plc	ESIP HEALTH CARE LKD APR2014	ai) EUR	2011	2 300	2014	ñ)
ES Investment Plc	ESIP TEF PT LKD 26APR2014	ai) EUR	2011	467	2014	Telefonica e Portugal Telecom Linked
ES Investment Plc	ESIP EDP CLN JUN2014	ai) EUR	2011	13 940	2014	7% + CLN EDP
ES Investment Plc	ESIP STEP-UP APR2013	ai) EUR	2011	1 204	2013	Fixed STEPUP Rate

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ES Investment Plc	ESIP TEF PT LKD APR2014	EUR	2011	462	2014	Telefonica e Portugal Telecom Linked
ES Investment Plc	ESIP EUR CLN JUN2014	EUR	2011	10 250	2014	6.75% + CLN PT
ES Investment Plc	ESIP BES MOMENTUM JUN2015	EUR	2011	6 737	2015	Espirito Santo Momentum Fund Linked
ES Investment Plc	ESIP BSCH CLN JUN2014	EUR	2011	6 183	2014	6.1% + CLN BSCH
ES Investment Plc	ESIP BES PROTECÇÃO JUN2014	EUR	2011	52 823	2014	m)
ES Investment Plc	ESIP BRAZIL NOTES LKD MAY2011	EUR	2011	3 949	2016	FX EUR/BRL Linked
ES Investment Plc	ESIP BES 5ANOS EFIC ENERG JUNE16	EUR	2011	3 049	2016	r)
ES Investment Plc	ESIP PETROBRAS CLN JUN2014	USD	2011	2 284	2014	3-Month USD libor + 3.70% + CLN PETROBRAS
ES Investment Plc	ESIP PT II CLN JUN2014	EUR	2011	8 170	2014	7% + CLN PT
ES Investment Plc	ESIP TEF PT JUN2014	EUR	2011	750	2014	Telefonica e Portugal Telecom Linked
ES Investment Plc	ESIP JAN2013 BES BRASIL 18M	EUR	2011	7 467	2013	EWZ Linked
ES Investment Plc	ESIP SANTANDER CLN JUN2014	EUR	2011	2 898	2014	6.4% + CLN BSCH
ES Investment Plc	ESIP BES PROTECTION II JUN2014	EUR	2011	24 818	2014	Inflation and Euribor 12M Liked
ES Investment Plc	ESIP EUR PRICING POWER 5Y JUL14	EUR	2011	1 816	2016	z)
ES Investment Plc	ESIP 2Y BULLISH CAB VS USD JUL13	EUR	2011	1 451	2013	Fx linked
ES Investment Plc	ESIP ASCENDI CLN JUL2013	USD	2011	5 063	2013	7.25% + Ascendi CLN
ES Investment Plc	ESIP SX5E JUL15 EQL	EUR	2011	1 510	2015	Eurostoxx Linked
ES Investment Plc	ESIP AUG14 ES	EUR	2011	940	2014	Espirito Santo Rockefeller Linked
ES Investment Plc	ROCKEFELLERGLO LKD	EUR	2011	2 981	2014	6% + Barclays CLN
ES Investment Plc	ESIP BARCLAYS CLN SEP2014	EUR	2011	41 261	2014	Inflation Linked
ES Investment Plc	ESIP AUG14 INFLATION LKD	EUR	2011	41 261	2014	
ES Investment Plc	ESIP AUG2014 ALEMANHA EQL LINKED	EUR	2011	513	2014	q)
ES Investment Plc	ESIP ESFP CLN JUL2013	USD	2011	5 550	2013	ESFP CLN
ES Investment Plc	ESIP BRL FXL LINKED SEP2016	EUR	2011	1 636	2016	Fx linked
ES Investment Plc	ESIP SEP14 TRY LKD	EUR	2011	1 594	2014	Fx linked
ES Investment Plc	ESIP BANCO POPULAR CLN SEP2014	EUR	2011	3 391	2014	8.75% + POPULAR CLN
ES Investment Plc	ESIP BCO POPULAR CLN SEP2014	EUR	2011	1 798	2014	8.75% + POPULAR CLN
ES Investment Plc	ESIP SEP2014	EUR	2011	29 076	2014	Inflation and Euribor 12M Liked
ES Investment Plc	INFLATION+EURIBOR	EUR	2011	2 926	2014	Liked
ES Investment Plc	ESIP SEP2014 PSI20 EQL 4	EUR	2011	2 926	2014	PSI20 Linked
ES Investment Plc	ESIP DEC2013 BES4%GLOBAL LINKED	EUR	2011	29 366	2015	aq)
ES Investment Plc	ESIP BCO POPULAR CRDLK SEP2014	EUR	2011	7 755	2014	9.40% + Banco Popular CLN
ES Investment Plc	ESIP OCT2014 WORLD INVESTM EQL 3	EUR	2011	1 835	2014	j)
ES Investment Plc	ESIP PT CLN DEC2014	EUR	2011	22 569	2014	11% + PT CLN
ES Investment Plc	ESIP AUTOCALLABLE 2014	EUR	2011	2 679	2014	ar)
ES Investment Plc	ESIP TELECOM ITALIA CLN DEC2014	EUR	2011	5 628	2014	7.25% + Telecom Italia CLN
ES Investment Plc	ESIP EDP USD CLN DEC2014	USD	2011	1 613	2014	8.5% + EDP CLN
ES Investment Plc	ESIP AUTOCALL HIGH DIVD DEC2014	EUR	2011	1 874	2014	at)
ES Investment Plc	ESIP WORLD INVESTMENT II DEC2014	EUR	2011	1 023	2014	j)
ES Investment Plc	ESIP TELEFONICA CLN DEC2014	EUR	2011	4 862	2014	7.15% + Telefonica CLN
ES Investment Plc	ESIP PORTUGUESE REP CLN DEC2021	EUR	2011	25 643	2021	6% + Portuguese Republic CLN
ES Investment Plc	ESIP UTILITIES SHS DEC2018	EUR	2011	508	2018	au)
ES Investment Plc	ESIP UTILIT FINANCIALS SHS DEC18	EUR	2011	2 460	2018	n)
ES Investment Plc	ESIP PT CRDLK DEC2013	EUR	2012	16 473	2013	7.75% + PT CLN
ES Investment Plc	ESIP EWZ EQL JAN2015	EUR	2012	1 001	2015	EWZ Linked
ES Investment Plc	ESIP FEB16 EMP NORDICAS EQL	EUR	2012	1 993	2016	y)
ES Investment Plc	ESIP AUG2014 CABAZ MOEDAS 12-14	EUR	2012	7 408	2014	av)
ES Investment Plc	ESIP CABAZMOEDA VS EUR FEB15 FXL	EUR	2012	754	2015	av)
ES Investment Plc	ESIP EMPRES CHINESAS FEB2017 EQL	EUR	2012	1 437	2017	aw)
ES Investment Plc	ESIP EDP MAR2014 CLN 2	EUR	2012	14 569	2014	6.9% + EDP CLN
ES Investment Plc	ESIP TWIN WIN EURUSD MAR2015	EUR	2012	1 037	2015	EUR/USD Linked
ES Investment Plc	ESIP LUXURY GOODS LKD MAR2015	EUR	2012	1 619	2015	ax)

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ES Investment Plc	ESIP PSI20 LKD MAR2015	EUR	2012	3 443	2015	PSI20 Linked
ES Investment Plc	ESIP DUAL UPGRADE MAR2014	EUR	2012	1 560	2014	ay)
ES Investment Plc	ESIP DIG CPN EURIBOR 3M MAR2015	EUR	2012	1 685	2015	Digital EURIBOR 3M
ES Investment Plc	ESIP APR2019 RECOV BASKET LINKED	EUR	2012	175	2019	az)
ES Investment Plc	ESIP BBVA LKD APR2013	EUR	2012	2 472	2013	BBVA Linked
ES Investment Plc	ESIP APR2015 PSI20 LINKED	EUR	2012	1 334	2015	PSI20 Linked
ES Investment Plc	ESIP APR2020 BES PROTECTION LKD	EUR	2012	340	2020	Inflation Linked
ES Investment Plc	ESIP BBVA LINKED APR2013	EUR	2012	1 038	2013	BBVA Linked
ES Investment Plc	ESIP PT 3YR CREDIT LKD JUN15	EUR	2012	10 613	2015	7.75% + PT CLN
ES Investment Plc	ESIP BBVA LKD MAY2013	EUR	2012	1 075	2013	BBVA Linked
ES Investment Plc	ESIP PT 3YR CREDIT LINKED JUN15	EUR	2012	14 482	2015	7.75% + PT CLN
ES Investment Plc	ESIP BES TECNOLOGIA JUN2015 EQL	EUR	2012	4 791	2015	ba)
ES Investment Plc	ESIP SANTANDER JUN2015	EUR	2012	779	2015	BSCH Linked
ES Investment Plc	ESIP EXPOSURE PETROLEO JUN2015	EUR	2012	565	2015	Brent Linked
ES Investment Plc	ESIP BES EXPOS PETROLEO JUN15 EQL	EUR	2012	2 278	2015	Brent Linked
ES Investment Plc	ESIP RECOV BSKT LINKED JUN2019	EUR	2012	758	2019	bb)
ES Investment Plc	ESIP EDP 3YR CREDIT LINKED JUN15	EUR	2012	15 853	2015	8% + EDP CLN
ES Investment Plc	ESIP SANTANDER JUL15 EQL	EUR	2012	806	2015	BSCH Linked
ES Investment Plc	ESIP SX5E JUN15 EQL	EUR	2012	60	2015	SX5E Linked
ES Investment Plc	ESIP EQUITY LKD AUG2016	EUR	2012	3 740	2016	l)
ES Investment Plc	ESIP EDP 3YR II CREDIT LKD JUN15	EUR	2012	13 058	2015	8% + EDP CLN
ES Investment Plc	ESIP JUL15 EQL	EUR	2012	839	2015	SPX500 Linked
ES Investment Plc	ESIP TELECOM ITALIA CLN SEP2015	EUR	2012	4 754	2015	7% + TELECOM ITALIA CLN
ES Investment Plc	ESIP E-COMMERCE EQTY LKD AUG2016	EUR	2012	4 545	2016	ak)
ES Investment Plc	ESIP PT TELECO CLN SEP2015	EUR	2012	6 751	2015	7% + PT CLN
ES Investment Plc	ESIP SEP2015 EDP LKD	USD	2012	1 602	2015	7.45% + EDP CLN
ES Investment Plc	ESIP SEP2015 CRESCIM IMOBILI LKD	EUR	2012	3 475	2015	IYR Linked
ES Investment Plc	ESIP EDP CLN SEP2015	EUR	2012	8 369	2015	6.25% + EDP CLN
ES Investment Plc	ESIP BRL EQL SEP2017	EUR	2012	3 306	2017	EUR/BRL Linked
ES Investment Plc	ESIP BES EXP COMMOD AGRICOL EQL4	EUR	2012	8 500	2014	o)
ES Investment Plc	ESIP COMMOD AGRICOL EQL5 OCT2015	EUR	2012	4 665	2015	k)
ES Investment Plc	ESIP BASKET LINKED OCT2019	EUR	2012	399	2019	am)
ES Investment Plc	ESIP BRAZILIAN NOTES IV OCT2017	EUR	2012	1 665	2017	EUR/BRL Linked
ES Investment Plc	ESIP IBERIA NOV2015	EUR	2012	2 206	2015	IBEX+PSI20 Linked
ES Investment Plc	ESIP TURKISH LIRA EQL6 OCT2015	EUR	2012	1 547	2015	EUR/TRY Linked
ES Investment Plc	ESIP BASKET OCT2019 EQL2	EUR	2012	1 282	2019	REP e BSCH Linked
ES Investment Plc	ESIP NOV2013 BARCLAYS LKD	EUR	2012	1 092	2013	Barclays Linked
ES Investment Plc	ESIP COMMODITIES NOV2015	EUR	2012	4 021	2015	bc)
ES Investment Plc	ESIP SX5E AUTOCALL NOV2015	EUR	2012	2 366	2015	SX5E Linked
ES Investment Plc	ESIP DEC2015 CRDLKD EUR FTD TELE	EUR	2012	13 977	2015	bd)
ES Investment Plc	ESIP DEC2012 BASKET FTD	EUR	2012	1 497	2015	be)
ES Investment Plc	ESIP DEC2016 AUTOCALL BRASIL	EUR	2012	6 881	2016	bf)
ES Investment Plc	ESIP DEC2015 SX7P LINKED	EUR	2012	940	2015	SX7P Linked
ES Investment Plc	ESIP DEC2017 EDP PT TEL.ITAL LK	EUR	2012	1 934	2017	bg)
ES Investment Plc	ESIP DEC2015 CRDLKD EDP	EUR	2012	986	2015	5.25% + EDP CLN
ES Investment Plc	ESIP DEC2015 CRDLKD EDP PT	EUR	2012	3 832	2015	6.50% + EDP PT CLN
ES Investment Plc	ESIP DEC2015 CRDLKD EDP PT TLCM	EUR	2012	1 873	2017	bg)
ES Investment Plc	ESIP DEC2017 RENAULT PT LINKED	EUR	2012	4 164	2017	8.65% + RENAULT PT CLN
BESIL	BESIL STEP UP 09/02/13	EUR	2003	1 882	2013	Fixed rate 6.44%
BESIL	BESIL STEP UP 10/07/13	EUR	2003	1 766	2013	Fixed rate 6.44%
ESPLC	BES0513_23E					
	BESESPLC23/05/2013	EUR	2012	29 822	2013	Fixed rate 1.764%
ESPLC	BES0113_44E					
	BESESPLC11/01/2013	EUR	2012	25 247	2013	Fixed rate 3.2%

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ESPLC	BES0113_50E					
ESPLC	BESESPLC04/01/2013	EUR	2012	150 266	2013	Fixed rate 0.75%
ESPLC	BES0113_51E					
ESPLC	BESESPLC08/01/2013	EUR	2012	130 222	2013	Fixed rate 0.75%
ESPLC	BES0113_52E					
ESPLC	BESESPLC07/01/2013	EUR	2012	20 111	2013	Fixed rate 3.5%
ESPLC	BES0113_54E					
ESPLC	BESESPLC14/02/2013	EUR	2012	123 100	2013	Fixed rate 0.70%
ESPLC	BES0113_55E					
ESPLC	BESESPLC18/02/2013	EUR	2012	127 101	2013	Fixed rate 0.70%
ESPLC	BES0113_56E					
ESPLC	BESESPLC25/02/2013	EUR	2012	120 077	2013	Fixed rate 0.70%
ESPLC	BES0113_53E					
ESPLC	BESESPLC06/11/2013	USD	2012	27 474	2013	Fixed rate 4.45%
ESPLC	BES0313_59E					
ESPLC	BESESPLC11/03/2013	EUR	2012	160 047	2013	Fixed rate 0.70%
ESPLC	BES0313_60E					
Lusitano Mortgage nº 6	Class A Mortgage Backed Floating Rate Notes	EUR	2012	140 035	2013	Fixed rate 0.70%
Lusitano Mortgage nº 6	Class B Mortgage Backed Floating Rate Notes	EUR	2007	520 802	2060	Euribor + 0.20%
Lusitano Mortgage nº 6	Class C Mortgage Backed Floating Rate Notes	EUR	2007	6 501	2060	Euribor + 0.30%
Lusitano SME nº 1	Class A asset backed floating rate notes	EUR	2007	10 003	2060	Euribor + 0.45%
Lusitano SME nº 1	Class B asset backed guaranteed floating rate notes	EUR	2006	100 590	2028	Euribor + 0.15%
Lusitano SME nº 1	Class C asset backed floating rate notes	EUR	2006	35 941	2028	Euribor + 0.05%
BESV	Certificates of Deposits	EUR	2012	29 960	2028	Euribor + 2.20%
ESFG	Fixed Rate Step up Notes due 2025 with warrants	EUR	2012	8 202	2013	2.53%
ESFG	Convertible Bonds due 2025	EUR	2005	151 490	2025	5.05%
ESFIL	Medium term Notes	EUR	2011	83 912	2025	9.75%
ESFIL	Fixed Rate Notes - EMTN	EUR	2012	26 285	2014	5%
ESFIL	Zero Coupon - ECP	EUR	2011	53 755	2013	7%
ESFIL	Fixed Rate Notes - ECP	EUR	2012	—	2013	—
ESFIL	Fixed Rate Notes - ECP	EUR	2012	6 808	2013	6%
ESFIL	Fixed Rate Notes - ECP	EUR	2012	4 610	2013	6%
ESFIL	Fixed Rate Notes - ECP	EUR	2012	8 130	2013	5.8%
ESFIL	Fixed Rate Notes - ECP	EUR	2012	2 536	2013	5.5%
ESFIL	Fixed Rate Notes - ECP	EUR	2012	4 926	2013	3.75%
ESFIL	Fixed Rate Notes - ECP	EUR	2012	501	2013	4%
ESFIL	Fixed Rate Notes - ECP	EUR	2012	5 005	2013	3.625%
ESFIL	Fixed Rate Notes - ECP	USD	2012	1 922	2013	5.5%
ESFIL	Fixed Rate Notes - ECP	USD	2012	7 967	2013	5.33%
ESFIL	Fixed Rate Notes - ECP	USD	2012	3 977	2013	5.5%
ESFIL	Fixed Rate Notes - ECP	USD	2012	3 064	2013	4.25%
ESFIL	Fixed Rate Notes - ECP	USD	2012	11 484	2013	4.25%
ESFIL	Fixed Rate Notes - ECP	USD	2012	29 334	2013	3.75%
ESFIL	Fixed Rate Notes - ECP	USD	2012	6 073	2013	5.3%
ESFIL	Fixed Rate Notes - ECP	USD	2012	7 586	2013	3.625%
ESFIL	Fixed Rate Notes - ECP	USD	2012	1 519	2013	3.25%
ESFIL	Fixed Rate Notes - ECP	USD	2012	397	2013	5.5%
ESFIL	Fixed Rate Notes - ECP	USD	2012	776	2013	5.1%
ESFIL	Fixed Rate Notes - ECP	USD	2012	385	2013	4.25%
ESFIL	Fixed Rate Notes - ECP	USD	2012	385	2013	4.25%
ESFIL	Fixed Rate Notes - ECP	USD	2012	389	2013	5.1%
ESFIL	Fixed Rate Notes - ECP	USD	2012	383	2013	4.15%
ESFIL	Fixed Rate Notes - ECP	USD	2012	1 913	2013	4.15%
ESFIL	Fixed Rate Notes - ECP	USD	2012	1 148	2013	4.15%
ESFIL	Fixed Rate Notes - ECP	USD	2012	382	2013	3.4%
ESFIL	Fixed Rate Notes - ECP	USD	2012	2 673	2013	3.4%
ESFIL	Fixed Rate Notes - ECP	USD	2012	2 669	2013	3.4%
ESFIL	Fixed Rate Notes - ECP	USD	2012	2 670	2013	3.4%
ESFIL	Fixed Rate Notes - ECP	USD	2012	763	2013	4.15%
ESFIL	Fixed Rate Notes - ECP	USD	2012	381	2013	4.15%
ESFIL	Fixed Rate Notes - ECP	USD	2012	381	2013	3.4%
ESFIL	Fixed Rate Notes - ECP	USD	2012	762	2013	3.4%
ESFIL	Fixed Rate Notes - ECP	USD	2012	762	2013	4.15%
ESFIL	Fixed Rate Notes - ECP	USD	2012	381	2013	3.4%
ESFIL	Fixed Rate Notes - ECP	USD	2012	381	2013	4.15%
ESFIL	Fixed Rate Notes - ECP	USD	2012	4 182	2013	3%
ESFIL	Fixed Rate Notes - ECP	USD	2012	761	2013	4%
ESFIL	Fixed Rate Notes - ECP	USD	2012	381	2013	5%
ESFIL	Fixed Rate Notes - ECP	USD	2012	761	2013	4%
ESFIL	Fixed Rate Notes - ECP	USD	2012	2 279	2013	4%



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Issuer	Description	Currency	Issue date	31.12.2012		Interest rate
				Book Value	Maturity	
				(in thousands of euro)		
ESFIL	Fixed Rate Notes — ECP	USD	2012	3 795	2013	3.25%
ESFIL	Fixed Rate Notes — ECP	USD	2012	7 591	2013	3.25%
ESFIL	Fixed Rate Notes — ECP	USD	2012	1 898	2013	3.25%
ESFIL	Fixed Rate Notes — ECP	USD	2012	1 518	2013	3.25%
ESFIL	Fixed Rate Notes — ECP	USD	2012	380	2013	3.25%
ESFIL	Fixed Rate Notes — ECP	USD	2012	759	2013	3.25%
ESFIL	Fixed Rate Notes — ECP	USD	2012	4 173	2013	4%
ESFIL	Fixed Rate Notes — ECP	USD	2012	181 564	2013	4.4%
ESFIL	Fixed Rate Notes — ECP	USD	2012	2 628	2013	6.93%
ESFIL	Fixed Rate Notes — ECP	NOK	2012	—	2013	1.272%
ESF (P)	Bonds	EUR	2004	—	2024	1.243%
ESF (P)	Bonds	EUR	2008	—	2013	8%
ESF (P)	Bonds	EUR	2011	7 557	2013	
				<b>15 952 870</b>		

- a) Liabilities at fair value through profit and loss or with embedded derivatives.
- b) Indexed to a basket composed by Petrobras, Companhia Siderurgia Nacional, Vale SA, Itau Unibanco and Banco Bradesco shares.
- c) Indexed to a basket composed by 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 coupon + spread - Euribor
- i) Indexed to reverse floater
- j) Indexed to a basket composed by Dow Jones Eurostoxx 50, S&P 500 and Nikkei 225 index.
- k) Indexed to a basket composed by Commodities Corn, Wheat and Soybean.
- l) Indexed to a basket composed by Vodafone, Sanofi, Novartis and McDonald's shares.
- m) 4% + Indexed to Eurostat Consumer Price Index (CPI) (excl. Tobacco) 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 and BSCH shares.
- q) Indexed to a basket composed by Daimler, DB, E.ON shares.
- r) Indexed to a basket Philips, Siemens, Iberdrola and 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 and 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 and 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 and 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 and Brisa loans.
- ah) Indexed to a basket composed by Telefonica, Deutsche Telecom and Vodafone shares.
- ai) Indexed to a basket composed by Louis Vuitton, Nokia, Bayer and EON shares.
- aj) Indexed to a basket composed by Eurostoxx50, SP500, Nasdaq100 and EWZ index.
- ak) Indexed to a basket composed by Amazon, Ebay, Fedex and United Parcel Services shares.
- al) Indexed to a basket composed by Petrobras, Companhia Siderurgia Nacional, Itau Unibanco and Banco Bradesco shares.
- am) Indexed to a basket composed by Nestle, Roche, Deutsche Telecom and Societe Generale shares.
- an) Indexed to a basket composed by Petroleo Brasileiro, Banco Bradesco, Companhia Vale Rio Doce shares.
- ao) Indexed to a basket composed by TOPIX, HANG SENG, HSCEI, NIFTY, KOSPI2 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.

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- ax) Indexed to a basket composed by Anglo American, Cie Financiere Richemont, Porsche, Pernod Ricard, LVMH Moet Hennessy shares.
- ay) Indexed to a basket composed by FedEx, Macy's, Harley Davidson, Red Hat and Swiss RE shares.
- az) Indexed to a basket composed by Telefonica, BNP Paribas, Vodafone Group PLC and E.ON shares.
- ba) Indexed to a basket composed by HTC, Panasonic and Samsung shares.
- bb) Indexed to a basket composed by Telefonica, Repsol, Santander and France Telecom shares.
- bc) Indexed to a basket of Commodities Copper, Gold and Palladium
- bd) Indexed to Portugal Telecom, Telefonica and Telecom Italia loans.
- be) Indexed to a basket Gás Natural, Renault and Telecom Italia loans.
- bf) Indexed to a basket Petroleo Brasileiro, Companhia Vale Rio Doce, Itau Unibanco and BRF Brasil Foods SA shares.
- bg) Indexed to a basket Portugal Telecom, EDP and Telecom Italia loans.

**NOTE 40 — INVESTMENT CONTRACTS**

As at 31 December 2012 and 2011, the liabilities arising from investment contracts are analysed as follows:

	<b>31.12.2012</b>	<b>31.12.2011</b>
	<b>(in thousands of euro)</b>	
Fixed rate investment contracts	1 407 677	63 973
Investment contracts in which the financial risk is borne by the policyholder	2 436 343	84 791
	<b>3 844 020</b>	<b>148 764</b>

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 55.

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:

	<b>31.12.2012</b>	<b>31.12.2011</b>
	<b>(in thousands of euro)</b>	
<b>Balance as at 1 January</b>	<b>63 973</b>	<b>68 542</b>
Change in the scope of consolidation <sup>(a)</sup>	376 975	—
Net deposits received	1 071 426	9 603
Benefits paid	(156 647)	(16 209)
Technical interest charged	51 950	2 037
<b>Balance as at 31 December</b>	<b>1 407 677</b>	<b>63 973</b>

(a) Related with the full consolidation of BES Vida from 1 May 2012.

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:

	<b>31.12.2012</b>	<b>31.12.2011</b>
	<b>(in thousands of euro)</b>	
<b>Balance as at 1 January</b>	<b>84 791</b>	<b>256 392</b>
Change in the scope of consolidation <sup>(a)</sup>	1 868 167	—
Net deposits received	521 017	3 177
Benefits paid	(178 370)	(173 706)
Changes in financial liabilities at fair value through profit or loss	157 227	(477)
Technical result	(16 489)	(595)
<b>Balance as at 31 December</b>	<b>2 436 343</b>	<b>84 791</b>

(a) Related with the full consolidation of BES Vida from 1 May 2012.

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**NOTE 41 — PROVISIONS**

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

	<b>31.12.2012</b>	<b>31.12.2011</b>
	(in thousands of euro)	
<b>Balance as at 1 January</b> .....	<b>212 796</b>	<b>233 614</b>
Change in the scope of consolidation .....	12 987	—
Charge of the year / write back .....	57 251	10 668
Charge off .....	(17 965)	(36 057)
Exchange differences and other .....	(9 468)	4 571
<b>Balance as at 31 December</b> .....	<b>255 601</b>	<b>212 796</b>

Provisions for an amount of euro 255 601 thousand as at 31 December 2012 (31 December 2011: euro 212 796 thousand) are intended to cover litigations and other 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 36.0 million);
- The remaining balance of euro 91.5 million (31 December 2011: euro 81.1 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;
- In 2011, it also included provisions for contingencies arising from ongoing processes regarding commercial operations performed abroad for the amount of euro 11.8 million.

**NOTE 42 — INCOME TAXES**

The Group determined its current income tax for the year ended 31 December 2012 on the basis of a nominal tax rate of 25%, plus a Municipal Surcharge of 1.5%, related to the activities undertaken in Portugal (Portugal activity and foreign branches). An additional tax up to 5% is due, related to a State Surcharge applicable to taxable income above euro 10 million. This 5% State surcharge is applicable for the years ended 2012 and 2013.

The Group determined its deferred income tax for the year ended 31 December 2012 and 2011, and current tax for the year ended 31 December 2011, on the basis of a nominal rate of 25%, plus a 1.5% Municipal Surcharge and an additional State Surcharge of 2.5% applied to taxable income higher than euro 2 million. This tax rate was enacted, or substantially enacted, at the balance sheet date.

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.

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

	Assets		Liabilities		Net	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
	(in thousands of euro)					
Derivative financial instruments . . . . .	—	93	—	—	—	93
Available-for-sale financial assets . . . . .	80 369	125 026	(102 845)	(91 739)	(22 476)	33 287
Loans and advances to customers . . . . .	412 572	342 950	—	—	412 572	342 950
Property and equipment . . . . .	271	2 727	(8 901)	(19 168)	(8 630)	(16 441)
Intangible assets . . . . .	9 474	10 665	—	—	9 474	10 665
Investments in subsidiaries and associates . . . . .	—	773	(163 986)	(54 572)	(163 986)	(53 799)
Provisions . . . . .	55 302	35 279	(5 516)	(5 481)	49 786	29 798
Technical reserves . . . . .	—	—	(1 851)	(1 228)	(1 851)	(1 228)
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 . . . . .	18 957	8 812	(4 199)	(2 052)	14 758	6 760
Tax losses brought forward . . . . .	87 165	37 982	295	—	87 460	37 982
<b>Deferred tax asset / (liability) . . . . .</b>	<b>929 737</b>	<b>862 846</b>	<b>(323 520)</b>	<b>(214 065)</b>	<b>606 217</b>	<b>648 781</b>
Deferred tax assets/liabilities offset . . . . .	(168 784)	(93 174)	168 784	93 174	—	—
<b>Deferred tax asset / (liability), net<sup>(1)</sup> . . . . .</b>	<b>760 953</b>	<b>769 672</b>	<b>(154 736)</b>	<b>(120 891)</b>	<b>606 217</b>	<b>648 781</b>

(1) netted by Group entity

The Group does not recognise the deferred tax liabilities on temporary differences of subsidiaries and associates for which it controls the reversion period and that are realised through the distribution of tax-exempt dividends.

Additionally, 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:

Deadline to deduction	31.12.2012	31.12.2011
	Tax losses brought forward	
	(in thousands of euro)	
2011 . . . . .	—	8 765
2012 . . . . .	2 850	5 397
2013 . . . . .	3 941	5 833
2014 . . . . .	27 499	116 730
2015 . . . . .	34 123	35 555
2016 . . . . .	2 492	2 914
2017 . . . . .	5 474	—
Undetermined . . . . .	234 682	289 891
	<b>311 061</b>	<b>465 085</b>

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The changes in net deferred taxes were recognised as follows:

	31.12.2012	31.12.2011
	(in thousands of euro)	
<b>Balance at the beginning of the period (assets / (liabilities))</b> .....	<b>648,781</b>	<b>453 818</b>
Change in the scope of consolidation .....	1 981	—
Recognised in the income statement .....	41 157	142 509
Recognised in fair value reserve <sup>(1)</sup> .....	(68 240)	83 359
Recognised in equity — other comprehensive income .....	9 601	(15 551)
Recognised in other reserves .....	(24 881)	(28 395)
Exchange differences and other .....	(2 182)	13 041
<b>Balance at the end of the period (assets / (liabilities))</b> .....	<b>606 217</b>	<b>648 781</b>

(1) In 2011, the amount recognised in the consolidated statement of comprehensive income includes, additionally, the deferred tax expense recognised on the fair value reserves of associates in the amount of euro 5 512 thousands, (income).

The current and deferred taxes recognised in the income statement and reserves, during 2012 and 2011 is analysed in the following table. The amounts presented do not consider the effect of non-controlling interest.

	31.12.2012		31.12.2011	
	Recognised in the income statement (income) /expense	Recognised in reserves	Recognised in the income statement (income) /expense	Recognised in reserves
	(in thousands of euro)			
Financial instruments .....	(16 679)	68 240	6 802	(83 359)
Loans and advances to customers .....	(69 646)	—	(82 550)	—
Property and equipment .....	(153)	—	(24)	—
Intangible assets .....	551	—	4 069	—
Investments in subsidiaries and associates .....	81 381	(3 247)	(17 887)	2 712
Provisions .....	(20 402)	—	230	—
Technical reserves .....	623	—	638	—
Pensions .....	4 005	(6 354)	(25 987)	12 839
Health care — SAMS .....	—	—	202	—
Long term service benefits .....	459	—	(33)	—
Debt securities issued .....	1 214	—	(28 018)	—
Exchange differences and other .....	(2 950)	(281)	4 598	1 083
Tax losses brought forward .....	(19 560)	25 162	(4 549)	26 961
Deferred taxes .....	(41 157)	83 520	(142 509)	(39 764)
Current taxes .....	152 159	44 973	90 900	4 497
	<b>111 002</b>	<b>128 493</b>	<b>(51 609)</b>	<b>(35 267)</b>

The current tax accounted for in reserves during 2012 includes, a tax charge of euro 60 830 thousand to the fair value reserve in relation to unrealised gains recognised, a tax credit of euro 5 553 thousand related with the pension benefits tax regime in accordance with Article 183 of Law no. 64-B/2011, of 30 December and a tax credit of euro 7 773 thousand from negative equity changes (primarily related to pension benefits).

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

	31.12.2012		31.12.2011	
	%	Amount	%	Amount
		(in thousands of euro)		
<b>Profit before minority interest and taxes</b> .....		<b>482 706</b>		<b>208 804</b>
Contribuição Extraordinária sobre o sector Bancário .....		27 910		30 489
<b>Profit before non-controlling interest and taxes for tax reconciliation purposes</b> .....		<b>510 616</b>		<b>239 293</b>
Statutory tax rate .....	31.5%		29.0%	
Income tax calculated based on the statutory tax rate .....		160 844		69 395
Tax-exempt dividends .....	-4.0%	(19 327)	-16.9%	(35 339)
Tax-exempt profits (off shore) .....	-9.9%	(47 949)	-46.5%	(97 104)
Tax-exempt/non-deductible realised gains/losses .....	13.3%	64 191	20.9%	43 714
Deductible tax losses .....	—	—	-23.4%	(48 937)
Non-taxable share of (profit)/losses in associates .....	-0.3%	(1 498)	5.4%	11 205
Unrecognised deferred tax assets related to tax losses generated in the year .....	5.0%	24 124	2.9%	6 119
Tax losses used for which no deferred tax assets were recognised .....	—	—	-4.4%	(9 253)
Change in estimates .....	-12.4%	(59 684)	-13.3%	(27 678)
Non taxable gains on acquisition / sale of subsidiaries .....	-9.4%	(45 503)	—	—
Non deductible costs .....	5.1%	24 643	20.4%	42 624
Other .....	2.3%	11 161	-3.0%	(6 355)
	<b>21.2%</b>	<b>111 002</b>	<b>-28.9%</b>	<b>(51 609)</b>

The Portuguese Law No. 55-A/2010 of 31 December established a banking levy, which is not deductible for tax purposes, and whose regime was extended by Law no. 64-B/2011, of 30 December. During the period ended 31 December 2012, the Group recognised 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 12).

**NOTE 43 — SUBORDINATED DEBT**

The balance subordinated debt is analysed as follows:

	31.12.2012	31.12.2011
	(in thousands of euro)	
Bonds .....	1 101 032	1 166 178
Loans .....	10 107	10 185
Perpetual bonds .....	65 343	146 216
	<b>1 176 482</b>	<b>1 322 579</b>

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

Issuer	Designation	Currency	Issue date	31.12.2012		Interest rate	Maturity
				Amount issued	Carrying amount		
				(in thousands of euro)			
BES Finance . . . . .	Subordinated perpetual bonds	EUR	2002	30 843	23 642	Euribor 3M + 2.83%	2013 <sup>a)</sup>
BES Finance . . . . .	Subordinated perpetual bonds	EUR	2004	95 767	20 439	4.50%	2015 <sup>a)</sup>
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	14 956	5.33%	2015
BESI . . . . .	Bonds	EUR	2003	10 000	263	5.50%	2033
BES . . . . .	Bonds	EUR	2004	25 000	22 073	Euribor 6M + 1.25%	2014
BES . . . . .	Bonds	EUR	2008	41 550	3 548	Euribor 3M + 1%	2018
BES . . . . .	Bonds	EUR	2008	638 450	595 214	Euribor 3M + 8.5%	2019
BES . . . . .	Bonds	EUR	2008	50 000	50 050	Euribor 3M + 1.05%	2018
BES . . . . .	Bonds	EUR	2011	8 174	8 234	Fixed Rate 10%	2021
BES Vida . . . . .	Bonds	EUR	2002	45 000	23 651	Euribor 3M + 2.20%	2022
BES Vida . . . . .	Subordinated perpetual bonds	EUR	2002	45 000	21 262	Euribor 3M + 2.50%	2013 <sup>a)</sup>
BESV . . . . .	Subordinated Loans	EUR	2003	9 669	10 107	4.53%	— <sup>b)</sup>
ESFG . . . . .	Bonds	EUR	2009	400 000	329 009	6.88%	2019
				<b>1 512 369</b>	<b>1 176 482</b>		

a) Call option date

b) Undetermined

The changes occurred in subordinated debt during the year ended 31 December 2012 are analysed as follows:

	31.12.2011	Issues	Repayments	Net		Other movements <sup>a)</sup>	31.12.2012
				Repurchases	(in thousands of euro)		
Bonds . . . . .	1 166 178	—	(33 947)	(57 323)	26 124	1 101 032	
Loans . . . . .	10 185	—	—	—	(78)	10 107	
Perpetual Bonds <sup>b)</sup> . . . . .	146 216	—	—	(103 599)	22 726	65 343	
	<b>1 322 579</b>	<b>—</b>	<b>(33 947)</b>	<b>(160 922)</b>	<b>48 772</b>	<b>1 176 482</b>	

a) Other movements include accrued interest, fair value adjustments and foreign exchange differences

b) Issues include 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 in 2012 and 2011, the Group has recognised a gain of euro 39.6 million and of euro 324.5 million, respectively (see Note 12).

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**NOTE 44 — OTHER LIABILITIES**

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Creditors</b>		
Public sector .....	145 296	181 577
Collateral deposit on negative exposures on derivative contracts .....	173 955	112 543
Sundry debtors		
Stock-option plan (see Note 14) .....	185	87
Creditors from transactions with securities .....	89 357	87 439
Suppliers .....	56 457	55 782
Creditors from factoring operations .....	3 509	2 770
Other sundry creditors .....	234 868	210 682
Creditors from the medical business .....	548	41 485
Creditors from the insurance business .....	8 982	7 963
Creditors arising out of direct insurance operations .....	25 260	24 827
Creditors arising out of reinsurance operations .....	17 876	16 027
	<u>756 293</u>	<u>741 182</u>
<b>Accrued expenses</b>		
Long term service benefits (see Note 14) .....	28 691	27 477
Other accrued expenses .....	160 044	235 954
	<u>188 735</u>	<u>263 431</u>
<b>Deferred income</b> .....	<u>25 492</u>	<u>47 078</u>
<b>Other sundry liabilities</b>		
Stock exchange transactions pending settlement .....	93 431	315 181
Foreign exchange transactions pending settlement .....	19 999	24 203
Other transactions pending settlement .....	184 492	165 727
	<u>297 922</u>	<u>505 111</u>
	<u>1 268 442</u>	<u>1 556 802</u>

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 45 — SHARE CAPITAL, SHARE PREMIUM, OTHER EQUITY INSTRUMENTS, FAIR VALUE RESERVES AND OTHER RESERVES AND RETAINED EARNINGS**

*Share capital and share premium*

As at 31 December 2012, the authorised share capital of Espírito Santo Financial Group, S.A., was represented by 2 billion shares without nominal value, from which 207 075 338 shares (31 December 2011: 105 034 522) held by different shareholders were subscribed and fully paid as described below:

	<u>% Share capital</u>	
	<u>31.12.2012</u>	<u>31.12.2011</u>
Espírito Santo International S.A. ....	33.38%	34.82%
Espírito Santo Irmãos, Sociedade Gestora de Participações Sociais, S.A. ....	10.03%	10.01%
Other .....	56.59%	55.17%
	<u>100.00%</u>	<u>100.00%</u>



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On 26 April 2012, ESFG issued 102 040 816 ordinary shares at an issue price of euro 4.9 each, totalling euro 500 million. From this amount, euro 398 million euro was allocated to the share premium. The costs incurred and directly attributable to issuing the new shares, in the amount of euro 6.4 million, were also recognised under share premium.

During 2011, the following transactions took place:

- Until 30 September 2011, 13 warrants of the euro 500 000 000 Fixed Rate Step-up Notes were converted into 30 602 new issued shares. The share capital was increased by euro 306 thousand from euro 778 549 thousand to euro 778 855 thousand and the share premium was increased by euro 342 thousand;
- On 28 October 2011, ESFG decided to cancel the nominal value of its authorised and issued share capital. The accounting value of the authorised and issued share capital has been reduced from euro 10 per share to euro 1 per share without cancellation of any shares in issue nor repayment on any share, but with the attribution of an amount of euro 700 970 thousand to a special non-distributable reserve account. The share capital was then reduced from euro 778 855 thousand to euro 77 886 thousand;
- At the end of October 2011, 1 warrant of the euro 500 000 000 Fixed Rate Step-up Notes was converted into 2 354 new issued shares. The share capital was increased by euro 3 thousand from euro 77 885 thousand to euro 77 888 thousand and the share premium was increased by euro 49 thousand;
- On 15 November 2011, following the exchange offer on the euro 400 000 000 Series A Non-cumulative Guaranteed Step-up Preferred Securities issued by ESFG International Limited and having the benefit of a subordinated guarantee of ESFG, 23 168 050 new shares have been issued by the Company in exchange of euro 325 750 thousand preferred shares of ESFG International Limited. The share capital was increased by euro 23 168 thousand from euro 77 888 thousand to euro 101 056 thousand and the share premium was increased by euro 208 513 thousand;
- On 15 November 2011, following the exchange offer on euro 400 000 000 6.875% Subordinated Notes Due 2019 issued by ESFG, euro 48 900 thousand have been cancelled and exchanged for euro 39 786 thousand represented by 3 978 600 new issued shares. The share capital was increased by euro 3 979 thousand from euro 101 056 thousand to euro 105 035 thousand and the share premium was increased by euro 35 807 thousand.

#### *Treasury shares*

Treasury shares as at 31 December 2012, in the amount of euro 36 million euro, correspond to 6 811 569 ESFG shares with an acquisition cost of euro 5.28 per share.

#### *Preference shares*

In June 2007, ESFG International Limited (“issuer”), a fully owned subsidiary of ESFG, issued euro 400 million series A non-cumulative guaranteed step-up preferred securities. These securities, with a face value of euro 50 thousand per security, are listed on the Luxembourg stock exchange. During the year ended 31 December 2012, the Group acquired euro 16 450 thousand preference shares for an acquisition price of euro 6 197 thousand, having generated a gain net of taxes, recognised in Other reserves and retained earnings, in the amount of euro 10 253 thousand. During the year ended 31 December 2011, the Group acquired euro 325 750 thousand preference shares in scope of the exchange offer over ordinary shares referred to above. The Group recorded a capital gain, net of taxes in the amount of euro 81 803 thousand recognised in Other reserves and retained earnings.

As at 31 December 2012, there were euro 57 800 thousand outstanding preference shares (31 December 2011: euro 74 250 thousand) for a total nominal amount of euro 57 800 thousand (31 December 2011: euro 74 250 thousand).

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These preferred securities pay non-cumulative preferred dividends, when, as and if declared by the Board of Directors of ESFG International Limited, annually in arrears on 6 June in each year commencing on 6 June 2008 up to and including 6 June 2017 at an annual rate of 5.753% p.a. of the respective nominal value. Thereafter, the preferred dividends will be payable, when, as and if declared by the Board of Directors of ESFG International Limited, quarterly in arrears on 6 March, 6 June, 6 September and 6 December each year, commencing on 6 September 2017 at a rate of 2.130% above the 3 months Euribor.

The preferred securities are perpetual securities and have no fixed redemption date. However, these securities may be redeemed, at the option of ESFG International Limited, in whole but not in part, on 6 June 2017 or on any preferred distribution payment date falling thereafter. Such redemption is subject to the authorization of ESFG and the Supervisor Authority.

ESFG unconditionally guarantees, on a subordinated basis, the payment of distributions on the preferred securities when, as and if declared by the Board of Directors of the issuer, and payments on liquidation of the issuer or on redemption. By virtue of the scope of the guarantee the rights of the holders of these preference securities against ESFG are equivalent to those which such holders would have had if they had instead held preference shares issued directly by ESFG whose terms are identical to the terms of the preferred securities and the guarantee taken together.

Considering the features of these preferred securities, they were considered, following IAS 32, as equity instruments of the Group. On that basis, the total proceeds from the issue, net of expenses incurred, totalling approximately euro 394.5 million, was taken to equity on the date of issue. The outstanding amount as at 31 December 2012, net of expenses, is euro 55 978 thousand (31 December 2011: euro 72 428 thousand). In accordance with the accounting policy described in Note 2.9, preferred dividends will be recorded as a deduction to equity when declared.

#### *Other equity instruments*

As described in Note 39, during the year ended 31 December 2011, the Group acquired 6 359 thousand of the euro 500 000 000 Fixed Rate Step-Up Notes due 2025 with 10 000 warrants, of which 2 927 thousand were acquired in scope of the exchange offer over securities and 3 432 thousand in scope of the tender offer. In 2012 the Group acquired an additional 2 million of these notes with 40 warrants. As a result of these transactions and the warrants converted as referred above, as at 31 December 2012, there were 3 587 outstanding warrants in the amount of euro 42 509 thousand (31 December 2011: 3 627 warrants in the amount of euro 42 983 thousand) which are recognised in equity net of expenses by an amount of euro 41 150 thousand.

In addition, as described in Note 39, during 2011 ESFG issued euro 130 416 000 Convertible Bonds. Following this issue, the Group recognised in equity the amount of euro 16 950 thousand related to the conversion option which corresponds to an equity instrument in light of IAS 32.

#### *Capital reserves non distributable*

The capital reserves non distributable in the amount of euro 700 970 thousand relates to a special non-distributable reserve account resulting from the cancelation, in 2011, of the nominal value of the shares and the subsequent reduction of the accounting value of the authorised and issued share capital from euro 10 per share to euro 1.

#### *Legal reserve*

Under the Luxembourg law, a minimum of 5% of the profit for the year must be transferred to the legal reserve until this reserve equals 10% of the issued share capital. This reserve is not available for distribution.

#### *Fair value reserve*

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

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During the years ended 31 December 2012 and 2011, the changes in these balances, net of non-controlling interest, were as follows:

	Fair value reserve			Other comprehensive income, other reserves and retained earnings						
	Available-for-sale	Deferred tax reserves	Total fair value reserve	Actuarial gains and (losses), net of taxes	Exchange differences	Legal reserve	Capital reserves non distributable	Other reserves and retained earnings	Total other reserves and retained earnings	Total
	(in thousands of euro)									
<b>Balance as at 31 December</b>										
<b>2010</b>	(40 907)	1 141	60 507	(217 689)	13 412	32 074	—	(128 304)	(300 507)	(340 273)
Transfer to reserves	—	—	—	—	—	290	—	136 449	136 739	136 739
Exchange of preference shares	—	—	—	—	—	—	—	81 803	81 803	81 803
Repurchase and exchange of own other equity instruments	—	—	—	—	—	—	—	71 208	71 208	71 208
Change in share capital	—	—	—	—	—	—	700 970	—	700 970	700 970
Transactions on subsidiaries preference shares	—	—	—	—	—	—	—	30 054	30 054	30 054
Dividends on ordinary shares	—	—	—	—	—	—	—	(21 799)	(21 799)	(21 799)
Dividends on preference shares	—	—	—	—	—	—	—	(30 741)	(30 741)	(30 741)
Dividends on perpetual bonds	—	—	—	—	—	—	—	(4 849)	(4 849)	(4 849)
Actuarial gains from defined benefit obligation, net of taxes	—	—	—	10 467	—	—	—	—	10 467	10 467
Changes in fair value	(153 726)	27 868	(125 858)	—	—	—	—	—	—	(125 858)
Exchange differences	—	—	—	—	5 150	—	—	—	5 150	5 150
Share-based incentive plan (SIBA)	—	—	—	—	—	—	—	166	166	166
Other equity movements of associated companies	—	—	—	—	—	—	—	(2 128)	(2 128)	(2 128)
Transactions with non-controlling interest	—	—	—	—	—	—	—	(94 067)	(94 067)	(94 067)
Others	—	—	—	—	—	—	—	(343)	(343)	(343)
<b>Balance as at 31 December</b>										
<b>2011</b>	(194 633)	29 009	(165 624)	(207 222)	18 562	32 364	700 970	37 449	582 123	416 499
Transfer to reserves	—	—	—	—	—	—	—	121 352	121 352	121 352
Costs with capital increase of subsidiaries	—	—	—	—	—	—	—	(3 416)	(3 416)	(3 416)
Repurchase and exchange of own other equity instruments	—	—	—	—	—	—	—	10 253	10 253	10 253
Transactions on subsidiaries preference shares	—	—	—	—	—	—	—	1 271	1 271	1 271
Dividends on preference shares	—	—	—	—	—	—	—	(5 965)	(5 965)	(5 965)
Dividends on perpetual bonds	—	—	—	—	—	—	—	(519)	(519)	(519)
Actuarial gains from defined benefit obligation, net of taxes	—	—	—	(45 575)	—	—	—	—	(45 575)	(45 575)
Changes in fair value	235 942	(44 547)	191 395	—	—	—	—	—	—	191 395
Exchange differences	—	—	—	—	(11 456)	—	—	—	(11 456)	(11 456)
Other equity movements of associated companies	—	—	—	—	—	—	—	(2 680)	(2 680)	(2 680)
Transactions with non-controlling interest	—	—	—	—	—	—	—	45 628	45 628	45 628
Others	—	—	—	—	—	—	—	(790)	(790)	(790)
<b>Balance as at 31 December</b>										
<b>2012</b>	41 309	(15 538)	25 771	(252 797)	7 106	32 364	700 970	202 583	690 226	715 997

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The fair value reserve is analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Amortised cost of available-for-sale financial assets	11 090 158	12 659 464
Accumulated impairment losses recognised	(254 141)	(192 073)
Amortised cost of available-for-sale financial assets, net of impairment	10 836 017	12 467 391
Fair value of available-for-sale financial assets	<u>11 041 235</u>	<u>12 024 435</u>
Net unrealised gains (losses) recognised in the fair value reserve	205 218	(442 956)
Fair value reserves related to securities reclassified as held-to-maturity investments (Note 27)	(16 655)	(22 257)
Income taxes	(49 284)	78 036
Fair value reserve of associates	2 381	(114 926)
Net fair value reserve	141 660	(502 103)
Non-controlling interest	(115 889)	336 479
<b>Fair value reserve attributable to equity holders of the Company</b>	<b><u>25 771</u></b>	<b><u>(165 624)</u></b>

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Balance as at 1 January</b>	<b>(165 624)</b>	<b>(39 766)</b>
Changes in fair value	360 204	(217 399)
Disposals during the year	(167 091)	18 392
Impairment recognised during the year	28 123	27 466
Deferred taxes recognised in reserves during the year	(45 166)	27 868
Transactions with non controlling interest	15 325	17 815
<b>Balance as at 31 December</b>	<b><u>25 771</u></b>	<b><u>(165 624)</u></b>

**NOTE 46 — NON-CONTROLLING INTEREST**

As at 31 December 2012 and 31 December 2011, non-controlling interest can be analysed as follows:

	<u>31.12.2012</u>		<u>31.12.2011</u>	
	Balance sheet	Income statement	Balance sheet	Income statement
	(in thousands of euro)			
BES Group	5 006 540	(5 178)	3 977 463	127 420
Preference shares issued by BES Finance	193 289	—	211 913	—
Perpetual subordinated bonds issued by BES	29 295	—	29 505	—
Bespar	605 806	57 328	557 791	(169)
BES Vénétie	53 503	4 198	50 321	4 292
ES Saúde	—	(948)	79 635	3 182
Pastor Vida	—	1 431	55 405	2 164
Other	33 858	1 240	10 990	2 172
	<b><u>5 922 291</u></b>	<b><u>58 071</u></b>	<b><u>4 973 023</u></b>	<b><u>139 061</u></b>

***Preference shares issued by BES Finance***

Preference shares issued by BES Finance correspond to 450 thousand non-voting preference shares, which were issued and 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. The face value of these shares is euro 1 000 and are fully booked under non-controlling interest. The total issue (euro 600 000 thousand) is wholly, but not partially, redeemable at its face value at the option of the issuer, as at 2 July 2014,

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subject to prior approvals of BES and the Bank of Portugal. During the year ended 31 December 2012, the Group acquired 18 624 preference shares, having recorded a gain, net of taxes and non controlling interest, in the amount of euro 1 271 thousand recognised in Other reserves and retained earnings. 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 an exchange offer for BES shares, having recorded a capital gain, net of taxes and non controlling interest in the amount of euro 30 054 thousand recognised in Other reserves and retained earnings.

As at 31 December 2012, there were 193 289 outstanding preference shares in the amount of euro 193 289 thousand (31 December 2011: 211 913 and euro 211 913 thousand, respectively).

These preference shares pay an annual non-cumulative preferred dividend, if and when declared by the Board of Directors of BES Finance, corresponding to an annual rate of 5.58% p.a. on the nominal value. This dividend is paid on 2 July of each year, beginning 2 July 2004 and ending 2 July 2014. If BES Finance does not redeem these preference shares on 2 July 2014, the applicable rate will be 3 months Euribor plus 2.65% p.a., with payments on 2 January, 2 April, 2 July and 2 October of each year, if declared by the Board of Directors of BES Finance.

These shares are subordinated to any BES liability, and are "pari passu" in relation to any preference shares that may come to be issued by the Bank. BES unconditionally guarantees dividends if previously declared by the Board of Directors of BES Finance and principal repayments related to either of the above mentioned issues.

Considering the features of these preference shares, they were considered, in accordance with IAS 32, as equity instruments of BES Group being classified as non-controlling interest at ESGF level. On that basis, and in accordance with the accounting policy described in Note 2.9, the dividends related with these preference shares are recorded as a deduction to equity when declared.

#### ***Other equity instruments issued by BES Group***

The BES Group issued in 2011, perpetual subordinated bonds with non-cumulative discretionary interest in the total amount of euro 320 million.

These bonds pay a non-cumulative interest, only if and when declared by the Board of Directors, at an annual rate of 8.5%. This discretionary interest is payable semi-annually. These securities are redeemable at the option of BES Group in full, but not in part, after 15 September 2015, subject to the prior approval of Bank of Portugal.

Considering the features of these perpetual subordinated bonds, they qualify as equity instruments of BES Group in accordance with IAS 32 being classified as non-controlling interest at ESFG level. On that basis and in accordance with the accounting policy described in Note 2.9, the distributions related with these bonds will be recorded as a deduction to equity when declared.

During the year ended 31 December 2012, the Group paid interest in the amount of euro 1 864 thousand (31 December 2011: euro 21 801 thousand) resulting in a reduction in equity amounting to euro 519 thousands net on tax and non-controlling interest (31 December 2011: euro 4 849 thousand). As a result of an exchange offer for BES shares, Other equity instruments issued by BES Group reduced by an amount of euro 286 717 thousand.

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The movement in non-controlling interest in the years ended 31 December 2012 and 2011 can be analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Non-controlling interest as at 1 January</b> .....	<b>4 973 023</b>	<b>5 321 426</b>
Changes in the scope of consolidation .....	(27 606)	—
Transactions with non-controlling interest .....	(72 954)	(145 677)
Increase in share capital of subsidiaries .....	758 336	700 653
Issuance/(repurchase) of perpetual preference shares .....	(15 417)	(599 357)
Dividends paid on perpetual bonds .....	(1 345)	(10 629)
Actuarial gains/(losses) from defined benefit obligation, net of taxes .....	(125 307)	23 108
Dividends paid .....	(6 502)	(106 164)
Dividends paid on preference shares .....	(4 388)	(17 930)
Capital increase costs .....	(8 730)	(2 747)
Changes in fair value reserve .....	448 182	(331 013)
Others .....	(9 194)	4 420
Exchange differences .....	(43 878)	(2 128)
Profit for the year .....	58 071	139 061
<b>Non-controlling interest as at 31 December</b> .....	<b><u>5 922 291</u></b>	<b><u>4 973 023</u></b>

**NOTE 47 — OFF-BALANCE SHEET ITEMS**

As at 31 December 2012 and 2011 off-balance sheet items, excluding the derivative financial instruments, can be analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Contingent liabilities</b>		
Guarantees and stand by letters of credit .....	8 427 956	8 902 028
Assets pledged as collateral .....	21 632 555	12 874 708
Open documentary credits .....	3 780 554	2 947 223
Other .....	531 850	482 466
	<b><u>34 372 915</u></b>	<b><u>25 206 425</u></b>
<b>Commitments</b>		
Revocable commitments .....	5 462 823	5 843 661
Irrevocable commitments .....	3 461 701	4 331 934
	<b><u>8 924 524</u></b>	<b><u>10 175 595</u></b>

Guarantees and standby letters of credit 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 13 509 million (31 December 2011: euro 11 123 million);
- 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) for an 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 for an amount of euro 1 822.5 million (31 December 2011: euro 1 213.5 million).

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The above mentioned securities pledged as collateral 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 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:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
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
Discretionary portfolio management . . . . .	8 784 286	7 619 322
	<u><b>66 085 191</b></u>	<u><b>68 515 591</b></u>

**NOTE 48 — ASSETS UNDER MANAGEMENT**

As at 31 December 2012 and 2011, the amount of the assets under management of the Group is analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Securities investment funds . . . . .	5 183 987	4 706 526
Real estate investment funds . . . . .	1 075 678	1 202 987
Pension funds . . . . .	1 783 359	2 154 923
Bancassurance . . . . .	89 662	3 478 338
Portfolio management . . . . .	2 298 383	1 094 578
Others . . . . .	1 847 306	1 875 786
	<u><b>12 278 375</b></u>	<u><b>14 513 138</b></u>

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

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.

## ESPÍRITO SANTO FINANCIAL GROUP S.A.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012 AND 2011 — (Continued) (Amounts expressed in thousands of euro, except when indicated)

#### NOTE 49 — RELATED PARTIES TRANSACTIONS

Following the definition of related party established by IAS 24, related parties to ESFG include associates, pension funds, Board members and entities controlled or significantly influenced by any of these individuals.

The entities considered to be related parties to ESFG, as defined by IAS 24, are as follows:

Company	Company (cont.)
2B Capital Luxembourg General Partners SARL	Gesfimo — Espírito Santo, Irmãos. Soc. Gestora de Fundos de Investimento Imobiliários, SA
2B Capital Luxembourg S.C.A SICAR	Gestres — Gestão Estratégica Espírito Santo, SA
2BCapital, SA	GLOBAL ACTIVE — GESTÃO P.S.SGPS, SA
ACRO, Sociedade Gestora de Participações Sociais, S.A.	Goggles Marine, Ltd
Advance Ciclone Systems, SA	Group Credit Agricole
Agência de Viagens Tagus, S.A.	Groupe CFCA SAS
Agência Receptivo Praia do Forte, Ltda	Grupo Proyectos y Servicios Sarrion, SA
Agribahia, S/A	Guaraiuva mpreendimento Imobiliários Ltda.
Agriways, SA	HCI — Health Care Internacional Inc.
Aldeia do Meco — Sociedade para o Desenvolvimento Turístico, SA	HDC — Serviços de Turismo e Imobiliário, SA
Alvalade Participações, Ltda	Herdade da Boina — Sociedade Agrícola, SA
Angra Moura-Sociedade de Administração de Bens,S.A.	Herdade da Comporta — Actividades Agro Silvícolas e Turísticas, SA
Apolo Films SL	Herdade da Comporta — Actividades Hoteleiras, Turísticas e Culturais, Ltda.
Aroundimpact, Ltda	Herdade da Comporta — Fundo Especial de Investimento Imobiliário Fechado
Ascendi Douro Estradas do Douro Interior, SA	Hlc — Centrais de Cogeração, SA
Ascendi Group, SGPS, SA	HME Gestão Hospitalar
Ascendi Pinhal Interior Estradas do Pinhal Interior, SA	Hospital da Arrábida — Gaia, SA
Atlantic Meals — Industria e Comércio Agro Alimentar, SA	Hospital da Luz — Centro Clínico da Amadora, SA
Atr — Actividades Turísticas e Representações, Ltda	Hospital da Luz, SA
Auvisa — Autovia de Los Viñedos, SA	Hospital Residencial do Mar, SA
Aveiro Incorporated	Hospor — Hospitais Portugueses, SA
Baeza Empreendimentos Imobiliários Ltda.	Hoteis Tivoli, SA
Banco Delle Tre Venezie SPA	Hotelagos, SA
BB PAR Incorporação Imobiliária Ltda	I.A.C. UK, Limited
Beach Heath Investments, Ltd	Iber Foods — Produtos Alimentares e Biológicos, SA
BEMS, SGPS, SA	IJAR LEASING ALGÉRIE
BES, Companhia de Seguros, SA	Imocrescento-Fundo de Investimento Imobiliário Fechado
BIO-GENESIS	Imopca, SA
Brb Internacional, S.A.	Imopime FIIF- Fundo de Investimento Imobiliário Fechado
Cainga Empreendimentos Imobiliários Ltda.	Instituto de Radiologia Dr. Idálio de Oliveira — Centro de Radiologia Médica, S.A.
Calzadas y Caminos del Sur, SL	Inter-Atlântico, S/A
Caravela Balanced Fund	Lexforumporto Ltda
Caravela Defensive Fund	Locarent — Companhia Portuguesa de Aluguer de Viaturas, SA
Cartagena Empreendimentos Imobiliários Ltda.	Lote Dois — Empreendimentos Turísticos SA
Casa da Saudade, Administração de Bens Móveis e Imóveis, S.A.	Lusitano Project Finance No. 1 FTC
Cerca da Aldeia — Sociedade Imobiliária, SA	Luzboa Dois, SA
Cidadeplatina — Construção SA	Luzboa Quatro, SA
Cimenta — Empreendimentos Imobiliários, SA	Luzboa Três, SA
Clarendon Properties, Inc.	Luzboa Um, SA
Clínica Parque dos Poetas, SA	Luzboa, SA
Cliria — Hospital Privado de Aveiro, SA	Margrimar — Mármore e Granitos, SA
CLN Magnolia Finance 2038	Marinoteis — Sociedade de Promoção e Construção de Hoteis, SA
Club de Campo Villar Ollala, SA	Marmetal — Mármore e Materiais de Construção, SA
Clube de Campo da Comporta — Actividades Desportivas e Lazer, Ltda	MCO2 — Sociedade Gestora de Fundos de Investimento Mobiliário
Clube Residencial da Boavista, SA	Metal — Lobos Serralharia e Carpintaria, Ltda
Clup Vip — Marketing de Acontecimentos, SA	MMCI — Multimédia, SA
CMC-Centro de Manutenção de Contentores SA	Mobile World — Comunicações, SA
Coimbra Jardim Hotel — Sociedade de Gestão Hoteleira, S.A.	MOZA BANCO
Companhia Agricola Botucatu, SA	MRN — Manutenção de Rodovias Nacionais, SA
Companhia Brasileira de Agropecuária Cobrape	Multiger — Sociedade de Gestão e Investimento Imobiliário, SA
Comporta Dunes Hóteis & Golfe — Promoção e Desenvolvimento de Actividades Hoteleiras e Turísticas, SA	Multiwave Photonics, SA
Comporta Links Golfe — Promoção e Exploração de Actividades Turísticas, SA	Mundo Vip — Operadores Turísticos, SA
Comporta Links Hotéis — Promoção e Exploração de Actividades Hoteleiras, SA	Mundo Vip Madeira — Viagens e Turismo, SA
Concessionaria Autopista Perote-Xalapa, CV	NANIUM, SA
Construcciones Sarrion, SL	Net Viagens — Agência de Viagens e Turismo, SA
Construtora do Tamega (Madeira) SA	Nova Figfort — Têxteis, Ltda
Construtora do Tamega Madeira SGPS SA	Novagest Assets Management, Ltd
Contportus — Serviços Portuários SA	Nutrigreen, S.A.
Coporgest	Opca Angola, SA
Coreworks — Proj. Circuito Sist. Elect., SA	Opca Moçambique, Ltda



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012 AND 2011 — (Continued) (Amounts expressed in thousands of euro, except when indicated)

Company	Company (cont.)
Dassa Investments S.A.	Opccatelecom — Infraestruturas de Comunicação, SA
Diliva, Sociedade de Investimentos Imobiliários, S.A.	Opway — Engenharia, SA
Domática, Electrónica e Informática, SA	Opway — SGPS, SA
E.S. — Espírito Santo, Mediação Imobiliária, S.A.	Opway Engenharia Brasil SA
E.S. Asset Administration, Ltd.	Opway Imobiliária, SA
E.S. International Overseas, Ltd.	Opway México SA de CV
E.S. Resources Overseas, Ltd	Opway Moçambique — Engenharia, Lda
E.S.B. Finance Ltd	Opway NT-Novas Tecnologias, SA
Eastelco — Consultoria e Comunicação, SA	Opway-Somague, Grupo Construtor do Data Center PT, ACE
Empark Aparcamientos y Servicios SA	Orey Reabilitação Urbana — Fundo de Investimento Imobiliário Fechado
Enalog-Entrepasto Aduaneiro e Logística SA	OUTSYSTEMS, SA
Enkrott SA	Palexpo — Imagem Empresarial, SA
ES Arrendamento — Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	Paraguay Agricultural Corporation SA
ES Asturias Desenvolvimento Imobiliários Ltda	Parque Empresarial Campinas Incorporações, Ltda
ES Comercial Agrícola, Ltda	Pavi do Brasil — Pré-Fabricação, Tecnologia e Serviços, Lda.
ES Holding Administração e Participações, S/A	Pavicentro — Pré-Fabricação, SA
ES Private Equity, Ltd	Pavilis — Pré-Fabricação, SA
ES Saúde — Residência com Serviços Senior, S.A.	Paviseu — Materiais Pré-Fabricados, SA
ES Viagens e Turismo, Lda	Pavitel, SARL
Escae Consultoria, Administração e Empreendimento, Ltda	Personda — Sociedade de Perfurações e Sondagens, SA
Escopar — Sociedade Gestora de Participações Sociais, SA	Placon — Estudos e Projectos de Construção, Lda
ESDI Administração e Participações Ltda	Pojuca, SA
Esegur — Empresa de Segurança, SA	Polish Hotel Capital SP
Esges — Empresa de Serviços e Consultoria, SA	Pontave — Construções, SA
ESH Participação e Administração de Bens Próprios Ltda	Portvias — Portagem de Vias, SA
Esiam — Espírito Santo International Asset Management, Ltd	Praia do Forte Operadora de Turismo, Ltda
Esim — Espírito Santo Imobiliário, SA	Prosport, SA
Espart — Espírito Santo Participações Financeiras, SGPS, SA	Quinray Technologies Corp.
ESPB 01 Desenvolvimento Imobiliário Ltda.	Quinta da Areia — Sociedade Agrícola Quinta da Areia, SA
ESPB 02 Desenvolvimento Imobiliário Ltda.	Quinta da Baroneza Empreendimentos e Participações, Ltda
ESPB 03 Desenvolvimento Imobiliário Ltda.	Quinta da Foz — Empreendimentos Imobiliários SA
ESPB 04 Desenvolvimento Imobiliário Ltda.	Recigreen — Reciclagem e Gestão Ambiental, SA
ESPB Administração e Participações Ltda	Recigroup — Industrias de Reciclagem, SGPS, SA
Espírito Santo — Unidades de Saúde e de Apoio à Terceira Idade, S.A.	Recipav — Engenharia e Pavimentos, Unipessoal, Lda
Espírito Santo Cachoeira Desenvolvimento Imobiliário Ltda	Recipneu — Empresa Nacional de Reciclagem de Pneus, Lda
Espírito Santo Campinas Desenvolvimento Imobiliário Ltda	Ribeira do Marchante, Administração de Bens Móveis e Imóveis, S.A.
Espírito Santo Control SA	Rio Forte Investments SA
Espírito Santo do Oriente	Rioforte (Portugal), SA
Espírito Santo Euro Bond	Rioforte Investment Holding Brasil S/A
Espírito Santo Guarujá Desenvolvimento Imobiliário Ltda	RML — Residência Medicalizada de Loures, SGPS, SA
Espírito Santo Health Care Investments SA	Rodi Sinks & Ideas, SA
Espírito Santo Hotéis, SGPS, SA	Salgar Investments
Espírito Santo IBERIA I	Santa Mónica — Empreendimentos Turísticos, SA
Espírito Santo Indaiatuba Desenvolvimento Imobiliário Ltda	Saramagos S/A Empreendimentos e Participações
Espírito Santo Industrial ( BVI ), SA	Saxo Bank
Espírito Santo Industrial ( Portugal ) — SGPS, SA	SCA Mandel Partners
Espírito Santo Industrial, SA	Scutvias — Autoestradas da Beira Interior, SA
Espírito Santo International (BVI), SA	Series — Serviços Imobiliários Espírito Santo, SA
Espírito Santo International SA	Sintra Empreendimentos Imobiliários, Ltda
Espírito Santo Irmãos — Sociedade Gestora de Participações Sociais, SA	Sirmione Empreendimentos Imobiliários Ltda.
Espírito Santo Itatiba Desenvolvimento Imobiliário Ltda	Sisges, SA Desenvolvimento de Projectos de Energia
Espírito Santo Plano Dinamico — Fundo de Investimento Alberto Flexível	Sociedad Agricola Golondrina, S/A
Espírito Santo Primavera Desenvolvimento Imobiliário Ltda	Sociedade Agricola Quinta D. Manuel I SA
Espírito Santo Property (Brasil) S/A	Sociedade Agricola Turistica e Imobiliária Várzea Lagoa, SA
Espírito Santo Property España, S.L.	Sociedade de Administração de Bens — Casa de Bons Ares, S.A.
Espírito Santo Property Holding (BVI) SA	Sociedade Gestora do Hospital de Loures, SA
Espírito Santo Property Holding, SA	Société Antillaise de Gestion Financière, S.A. — SAGEFI
Espírito Santo Property SA	Société Congolaise de Construction et Travaux Publicques, SARL
Espírito Santo Rendimento Dinamico	Solférias — Operadores Turísticos, Lda
Espírito Santo Resources ( Portugal ), SA	Sopol — Concessões, SGPS, SA
Espírito Santo Resources SA	Sopratutto Café, SA
Espírito Santo Resources, Ltd	Sotal — Sociedade de Gestão Hoteleira, S.A.
Espírito Santo Saúde SGPS, S.A.	SOUSACAMP, SGPS, SA
Espírito Santo Saúde-Residência com Serviços Senior, S.A. SGPS, S.A.	Space — Sociedad Peninsular de Aviación, Comércio e Excursiones, SA
Espírito Santo Saúde-Serviços, A.C.E.	Suliglor — Imobiliária do Sul, SA
Espírito Santo Services, SA	Surgicare — Unidades de Saúde, SA
Espírito Santo Tourism ( Europe ), SA	Synergy Industry and Technology, S.A.
Espírito Santo Tourism, Ltd	TA DMC Brasil — Viagens e Turismo, SA
Espírito Santo Venture Ltd	Terras de Bragança Participações, Ltda
Espírito Santo Viagens — Consultoria e Serviços, SA	The Atlantic Company ( Portugal ) — Turismo e Urbanização, SA
Espírito Santo Viagens — Sociedade Gestora de Participações Sociais, SA	Timeantube Comércio e Serviços de Confeccões, Ltda
Estoril Inc	Tivoli Ecoresidências Praia do Forte Ltda

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Company	Company (cont.)
Euroamerican Finance Corporation, Inc.	Tivoli Gare do Oriente — Sociedade de Gestão Hoteleira, S.A.
Euroamerican Finance SA	TLCI 2 — Soluções Integradas de Telecomunicações, SA
Euroatlantic, Inc.	TOP A DMC Viagens, SA
Europe Assistance — Companhia Portuguesa de Seguros de Assistência, SA	Top Atlântico — Viagens e Turismo Moçambique Lda
Fafer — Empreendimentos Turísticos e de Construção, SA	Top Atlântico — Viagens e Turismo, SA
FIIF — Fundo de Investimento Imobiliário Fechado Corpus Christi	Top Atlântico DMC, SA
Fimes II — Fundo de Investimento Imobiliário Fechado	Top Partner — Viagens & Soluções Empresariais, SA
Fimes Oriente — Fundo de Investimento Imobiliário Fechado	Transcontinental — Empreendimentos Hoteleiros, SA
Fin Solutia — Consultoria e Gestão de Créditos, SA	Turifonte, Empreendimentos Hoteleiros, SA
Fundes FEIIF-Fundes Especial de Investimento Imobiliário Fechado	Turistrader — Sociedade de Desenvolvimento Turístico, SA
Fundo Bem Comum FCR	Unicre — Cartão Internacional de Crédito, SA
Fundo de Capital de Risco Espírito Santo Ventures Inovação e Internacionalização	Ushuaia — Gestão e Trading Internacional Limited
Fungepi BES-undo de Gestão de Património Imobiliário -Fungepi BES	Vila Lusitano — Unidades de Saúde, SA
Fungere — Fundo de Gestão de Património Imobiliário	Viveiros da Herdade da Comporta — Produção de Plantas Ornamentais, Lda
Ganadera Corina Campos y Haciendas, S/A	WATSON BROWN HSM, Ltd
Genomed, Diagnóstico de Medicina Molecular, SA	YDreams — Informática, SA
GES Finance Limited	YUNIT — Serviços, SA

As at 31 December 2012 and 2011, the total amount of the assets and liabilities of the Group with associates or related companies, is as follows:

	31.12.2012					31.12.2011				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
	(in thousands of euro)									
ESI S.A.	1 056 030	5 176	—	47 355	3	895 881	5 570	—	57 988	—
ESR LTD	373 587	2 463	—	48 303	221	722 378	4 089	—	39 238	224
ASCENDI GROUP SGPS	299 462	3 781	28 364	11 278	2	188 129	8 337	29 358	16 025	7
AENOR DURO	271 887	3 461	11 000	8 985	—	247 956	1 898	12 000	11 202	18
LOCARENT	129 818	3 724	—	2 692	11 127	142 280	312	—	4 708	10 470
ES IRMAOS	104 570	5	—	4 708	—	99 341	5	—	5 244	—
ASCENDI PINHAL INTERIOR	98 356	2 051	15 374	3 073	—	33 732	10 686	15 374	1 505	103
ES SAUDE	63 660	13 140	24 269	464	2	—	—	—	—	—
EMPARK	49 179	—	4 684	3 872	246	40 080	—	—	2 675	—
ESPH	43 519	44	—	4 528	—	78 632	94	—	2 842	—
NANIUM	35 327	4 272	18 349	306	4	42 044	2 752	18 387	971	—
SAXO BANK	20 064	17	—	—	—	26 558	637	—	3 920	—
CONSTRUCCIONES SARRION	16 527	—	8 745	233	—	25 800	—	10 765	—	—
ESEGUR	7 822	20	2 105	1 355	722	2 749	231	2 197	1 214	421
PALEXPO	7 266	124	26	537	—	6 800	75	—	495	—
SCUTVIAS	7 147	—	6 545	2 631	3 083	8 840	—	6 868	2 967	—
OPWAY	6 331	35 089	48 029	362	225	15 412	13 073	47 642	287	—
DIRECTORS	4 449	1 600	—	10	—	5 315	137	—	4	—
SOUSACAMP	3 764	—	—	120	—	64	5	3 013	131	—
EUROP ASSISTANCE	1 468	2 749	25	85	14 862	1 445	1 835	8	75	2 266
BES SEGUROS	1 148	18 505	—	4 053	16	378	12 578	—	3 381	11
MARINOTEIS	963	41	11	43	4	1 224	189	743	7	—
ES TOURISM	699	562	—	71	—	—	6 280	—	2	—
TOP ATLANTICO	240	37	—	4	1 235	—	69	—	—	1 106
ESR (P)	—	75	—	—	493	—	71	—	—	777
OBLOG Consulting, S.A.	—	—	—	—	—	—	—	—	—	—
BES VIDA — Companhia de Seguros, S.A.	—	—	—	—	—	1 407 386	293 741	—	26 520	2 170
Others	117 574	51 283	28 289	18 796	5 694	92 040	43 445	25 722	7 103	6 295
	<b>2 720 857</b>	<b>148 219</b>	<b>195 815</b>	<b>163 864</b>	<b>37 939</b>	<b>4 084 464</b>	<b>406 109</b>	<b>172 077</b>	<b>188 504</b>	<b>23 868</b>

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 costs with salaries and other benefits attributed to ESFG key management personnel, as well as the transactions performed with ESFG key management personnel are presented in Note 13.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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As at 31 December 2012 and 2011, the total amount of the assets of the Group with associates or related companies, by residual term is as follows:

	<u>3-6 months</u>	<u>12 months</u>	<u>1-5 years</u>	<u>More than 5 years</u>	<u>Total</u>
	(in thousands of euro)				
<b>2012</b> .....	1 430 353	500 171	342 390	447 943	2 720 857
<b>2011</b> .....	32 722	2 117 310	1 603 825	330 607	4 084 464

The interest rate applied to loans and advances to associates and related parties range from 2.2% to 7.19% in 2012 and from 2.81% to 9.63 in 2011. The collateral the Group received on some loans and advances to related parties consists mainly of unquoted securities.

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 by the amount of euro 43.1 million euros; and
- (iv) to Rio Forte Investments, SA, 64 206 units of the Fimes Oriente Fund by the amount of euro 103.3 million.

In November 2012 following the acquisition by Rio Forte Investments, S.A. (Rio Forte) of an additional 19.5% stake in ES Saúde, ESFG and Rio Forte signed a shareholders' agreement under which Rio Forte assumes control over ES Saúde governing bodies and Rio Forte acquired from ESFG a call option, currently exercisable up to May 2013, over 5.5% of ES Saúde sharecapital plus 1 share, giving Rio Forte the current ability to exercise control over the majority of the voting rights of ES Saúde (See Notes 1, 33 and 55).

During the year ended 31 December 2011 the Group sold 18 520 and 4 830 unit of the Fungepi Fund and Fungere Fund to the Group pensions fund, for a global amount of euro 80.0 million, not incurring in a material loss or gain.

**NOTE 50 — SECURITISATION TRANSACTIONS**

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

<u>Designation</u>	<u>Initial date</u>	<u>Original amount</u>	<u>Current amount</u>	<u>Asset securitised</u>
(in thousands of euro)				
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 <sup>(1)</sup>	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 <sup>(2)</sup>	129 666	Leverage Finance Loans
Lusitano Finance No. 3 .....	November 2011	657 981	434 362	Consumer 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 securitization was partially sold, with the remaining (domestic credit) been to "Lusitano Project Finance No.1 FTC".

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

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

Designation	Notes issued	Issued amount (par value)	Current amount (par value)	Interest held by Group (per value)	Maturity date	Initial Ratings				Actual Ratings			
						Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
(in thousands of euro)													
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	759 825	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	—	—	August 2033	—	Aaa	—	AAA	—	—	—	—
	Class B	369 100	—	—	August 2033	—	A2	—	A (low)	—	—	—	—
	Class C	466 300	—	—	August 2033	—	—	—	—	—	—	—	—
	Class D	38 900	—	—	August 2033	—	—	—	—	—	—	—	—
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 I	Class A	242 500	129 769	—	November 2043	—	AAA	—	—	—	A3	—	—
	Class B	242 500	242 500	242 500	November 2043	—	Caa2	—	—	—	Caa2	—	—

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 of the Group, were not restated in the balance sheet.

The assets sold in the securitization 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, Lusitano Mortgages No. 7 plc, and Lusitano Leverage Finance No. 1 BV, as it retains the majority of the risks and rewards associated with the activity of these SPE. Therefore, the respective assets and liabilities are included in the consolidated balance sheet of the Group. The other securitization 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.

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In 2011 there were two securitization transactions: loans to households (Lusitano Finance N°3) 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 N°1) which includes loans from BES London Branch, BESI and ES Vénétie and other of corporate loans and commercial paper (Lusitano SME N°2), 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.

As at 31 December 2012 and 2011 the consolidation of these entities had the following main impacts on the consolidated balance sheet:

	31.12.2012	31.12.2011
	(in thousands of euro)	
Deposits with banks .....	195 586	572 182
Other financial assets at fair value through profit and loss .....	71 651	—
Available for sale financial assets .....	—	306 380
Loans to customers (net of impairment) .....	3 803 343	5 828 664
Debt securities issued .....	703 797	911 225

#### NOTE 51 — TRANSFER OF ASSETS

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 (the banks), 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 valuations 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 fair value, 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 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

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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 companies (the subsidiaries of the parent companies), 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 subscribed as referred to above, the Group, in accordance with IAS 39.21, conducted an analysis in order to compare the exposure to the variability of risks and rewards of the transferred assets before and after the operation and concluded that it has not retained substantially all the risks and rewards of ownership. Additionally, and considering that also no control has been retained, it proceeded in accordance with IAS 39.20c (i) to the derecognition of the assets transferred and the recognition of the assets received in return, as shown in the following table:

	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
	(in thousands of euro)							
Fundo Recuperação								
Turismo, 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
Fundo Vallis Construction								
Sector	66 272	66 272	—	81 002	21 992	102 994	(21 992)	81 002
	<b>697 455</b>	<b>696 148</b>	<b>(1 307)</b>	<b>670 009</b>	<b>80 145</b>	<b>750 154</b>	<b>(80 145)</b>	<b>670 009</b>

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.

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NOTE 52 — FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

	Fair Value				Book Value	Fair Value
	Amortised Cost	Quoted Market Prices	Valuation models based on observable market information <sup>(1)</sup>	Valuation models based on non-observable market information		
	(in thousands of euro)					
<b>Balance as at 31 December 2012</b>						
Cash and deposits at central banks	1 444 831	—	—	—	1 444 831	1 444 831
Deposits with banks	1 126 853	—	—	—	1 126 853	1 126 853
Financial assets held for trading	—	1 490 879	2 490 966	—	3 981 845	3 981 845
Other financial assets at fair value						
through profit or loss	—	1 324 283	997 673	281 507	2 603 463	2 603 463
Available-for-sale financial assets	8 605	5 367 885	4 705 052	959 693	11 041 235	11 041 235
Loans and advances to banks	4 548 247	—	—	—	4 548 247	4 548 247
Loans and advances to customers	50 180 516	—	512 362	—	50 692 878	47 670 608
Held-to-maturity investments	1 119 047	—	—	—	1 119 047	1 069 283
Derivatives for risk management purposes	—	—	516 520	—	516 520	516 520
<b>Financial assets</b>	<b>58 428 099</b>	<b>8 183 047</b>	<b>9 222 573</b>	<b>1 241 200</b>	<b>77 074 919</b>	<b>74 002 885</b>
Deposits from central banks	10 941 325	—	—	—	10 941 325	10 941 325
Financial liabilities held for trading	—	—	2 124 225	—	2 124 225	2 124 225
Deposits from banks	4 453 703	—	612 277	—	5 065 980	4 875 828
Due to customers	26 828 492	—	8 796 982	—	35 625 474	35 625 474
Debt securities issued	13 293 288	—	2 659 582	—	15 952 870	16 426 268
Derivatives for risk management purposes	—	—	125 199	—	125 199	125 199
Investment contracts	1 729 390	—	2 114 630	—	3 844 020	4 045 862
Subordinated debt	1 176 219	—	263	—	1 176 482	1 180 958
<b>Financial liabilities</b>	<b>58 422 417</b>	<b>—</b>	<b>16 433 158</b>	<b>—</b>	<b>74 855 575</b>	<b>75 345 139</b>
<b>Balance as at 31 December 2011</b>						
Cash and deposits at central banks	1 130 515	—	—	—	1 130 515	1 130 515
Deposits with banks	998 345	—	—	—	998 345	998 345
Financial assets held for trading	—	1 051 169	2 415 731	—	3 466 900	3 466 900
Other financial assets at fair value						
through profit or loss	—	47 978	1 651 782	14 332	1 714 092	1 714 092
Available-for-sale financial assets	14 260	4 929 610	6 827 058	253 507	12 024 435	12 024 435
Loans and advances to banks	2 020 113	—	—	—	2 020 113	2 020 113
Loans and advances to customers	51 292 678	—	589 197	—	51 881 875	48 702 701
Held-to-maturity investments	1 751 193	—	—	—	1 751 193	1 543 911
Derivatives for risk management purposes	—	—	510 090	—	510 090	510 090
<b>Financial assets</b>	<b>57 207 104</b>	<b>6 028 757</b>	<b>11 993 858</b>	<b>267 839</b>	<b>75 497 558</b>	<b>72 111 102</b>
Deposits from central banks	10 013 719	—	—	—	10 013 719	10 013 719
Financial liabilities held for trading	—	—	2 176 258	—	2 176 258	2 176 258
Deposits from banks	5 458 242	—	757 764	—	6 216 006	5 350 497
Due to customers	27 649 859	—	7 302 125	—	34 951 984	34 951 984
Debt securities issued	15 450 270	—	4 059 353	—	19 509 623	16 752 456
Derivatives for risk management purposes	—	—	238 633	—	238 633	238 633
Subordinated debt	1 322 579	—	—	—	1 322 579	1 101 776
<b>Financial liabilities</b>	<b>59 894 669</b>	<b>—</b>	<b>14 534 133</b>	<b>—</b>	<b>74 428 802</b>	<b>70 585 323</b>

(1) Includes assets and liabilities measured at fair value through profit or loss and assets and liabilities hedged under a fair value hedge relationship.

(2) 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.

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

**Quoted market prices (level 1)** — 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 (level 2)** — 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 (level 3)** — consists on the use of internal valuation techniques, mainly discounted cash flow models, or quotations provided by third parties but which imply the use of non-observable market information.

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
<b>Balance as at 1 January</b> .....	<b>267 839</b>	<b>215 252</b>
Acquisitions .....	989 342	98 499
Disposals .....	(20 326)	(8 782)
Transfer .....	6 593	10 956
Changes in value .....	(2 248)	(48 086)
<b>Balance as at 31 December</b> .....	<b><u>1 241 200</u></b>	<b><u>267 839</u></b>

The main assumptions and inputs used in the valuation models are presented as follows:

**Interest rates curves**

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

	<u>31.12.2012</u>			<u>31.12.2011</u>		
	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	<u>EUR</u>	<u>USD</u>	<u>GBP</u>
<i>Overnight</i> .....	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



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**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:

Index	Series	1 year	3 years	5 years	7 years	10 years
<b>Year 2012</b>						
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
<b>Year 2011</b>						
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 rates and volatility**

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

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

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***Equity indexes***

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	13.79	11.11	17.02	18.12
PSI 20	5 655	5 494	2.93	12.60	15.40	—
IBEX 35	8 168	8 566	(4.66)	13.68	21.34	—
FTSE 100	5 898	5 572	5.84	8.83	11.42	13.64
DAX	7 612	5 898	29.06	11.10	14.26	15.34
S&P 500	1 426	1 258	13.41	12.28	12.28	16.15
BOVESPA	60 952	56 754	7.40	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 unquoted 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 instalments 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.

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**NOTE 53 — 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 ESFG Group's credit portfolios is analysed on a regular basis by the risk committees at the subsidiary level. In these meetings the Committees monitor and analyses the risk profile of the Group entities under four major perspectives: evolution of credit exposures, monitoring of credit losses, capital allocation and consumption and control of risk adjusted return.

ESFG Group credit risk exposure is analysed as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in thousands of euro)	
Deposits with banks .....	3 433 052	3 867 893
Financial assets held for trading .....	3 927 384	3 423 324
Financial assets at fair value through profit or loss .....	1 473 229	138 080
Available-for-sale financial assets .....	8 723 948	10 667 529
Loans and advances to customers .....	50 692 878	51 881 875
Held-to-maturity investments .....	1 119 047	1 751 193
Derivatives for risk management purposes .....	516 520	510 090
Other assets .....	605 374	975 754
Guarantees granted and stand by letters of credit .....	8 427 956	8 902 028
Open documentary credits .....	3 780 554	2 947 223
Irrevocable commitments .....	3 461 701	4 331 934
Credit risk linked to the reference entities of credit derivatives .....	489 884	165 573
	<u><b>86 651 527</b></u>	<u><b>89 562 496</b></u>

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The analysis of the risk exposure by sector of activity, as at 31 December 2012 and 2011, can be analysed as follows:

	31.12.2012								
	Loans and advances to customers		Financial assets held for trading	Other financial assets as at fair value through profit or loss	Available-for-sale financial assets		Held to maturity investments		Financial guarantees issued
	Gross amount	Impairment			Gross amount	Impairment losses	Gross amount	Impairment losses	
	(in thousands of euro)								
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	1 028 563	(50 542)	25 727	2 685	10 560	(52)	—	—	103 345
Textiles	332 226	(33 316)	862	—	10 425	(3 958)	—	—	14 833
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	24 939	(12 322)	—	—	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	913 642	(50 197)	14 592	194	2 499	—	—	—	156 525
Production of machinery, equipment and electric devices	284 716	(11 883)	3 079	584	31 249	(5 724)	1 526	—	120 022
Production of transport material	113 698	(9 677)	630	11 055	36 299	(3 438)	—	—	34 662
Other transforming industries	389 355	(27 340)	1 611	2 865	54 790	(11 280)	—	—	38 449
Electricity, gas and water	1 475 462	(11 034)	155 360	24 712	703 231	—	4 243	—	527 890
Construction	5 337 689	(381 893)	416 606	57 643	27 858	(1 688)	—	—	2 459 038
Wholesale and retail	3 270 510	(290 235)	10 810	1 366	35 267	(15 430)	1 537	—	577 400
Tourism	1 453 763	(91 596)	15 324	65 301	39 674	(485)	—	—	121 896
Transports and communications	2 168 980	(49 779)	291 250	18 593	307 936	(9 386)	20 945	—	1 032 239
Financial activities	4 691 491	(123 507)	1 052 978	1 693 028	3 692 898	(71 415)	578 140	(20 794)	258 326
Real estate activities	6 293 486	(431 611)	52 371	70 000	201 741	(1 891)	1 299	—	456 531
Services provided to companies	4 959 436	(375 582)	345 263	91 424	1 158 903	(33 197)	39 139	—	1 503 039
Public services	954 941	(22 959)	1 408 962	516 859	4 498 007	(1 984)	404 392	—	227 198
Non-profit organisations	3 432 597	(268 571)	133 248	26 391	369 680	(46 089)	106 937	(18 317)	402 493
Mortgage loans	11 133 822	(169 114)	—	—	—	—	—	—	9
Consumer loans	2 778 244	(197 344)	209	—	—	—	—	—	70 704
Other	141 252	(11 134)	1 826	1 963	11 781	(90)	—	—	11 378
<b>TOTAL</b>	<b>53 427 504</b>	<b>(2 734 626)</b>	<b>3 981 845</b>	<b>2 603 463</b>	<b>11 295 376</b>	<b>(254 141)</b>	<b>1 158 158</b>	<b>(39 111)</b>	<b>8 427 956</b>

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	31.12.2011								
	Loans and advances to customers		Financial assets held for trading	Other financial assets as at fair value through profit or loss	Available-for-sale financial assets		Held to maturity investments		Financial guarantees issued
	Gross amount	Impairment losses			Gross amount	Impairment losses	Gross amount	Impairment losses	
	(in thousands of euro)								
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	978 115	(44 215)	11 537	—	22 451	(52)	—	—	94 761
Textiles	330 451	(29 670)	1 906	—	20 103	(2 238)	—	—	19 685
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	101	16 476	(12 322)	—	—	6 997
Chemicals and rubber	631 525	(11 442)	11 156	—	58 787	(13 389)	—	—	95 474
Non-metallic minerals	435 583	(18 446)	475	—	37 764	(7 548)	—	—	26 912
Metallic products	891 011	(36 760)	1 324	—	500	—	—	—	123 684
Production of machinery, equipment and electric devices	279 820	(7 037)	2 381	—	62 704	(7 205)	—	—	162 205
Production of transport material	332 333	(14 200)	504	—	585	(108)	—	—	29 444
Other transforming industries	379 173	(23 987)	2 350	205	47 962	(8 413)	—	—	44 328
Electricity, gas and water	1 633 759	(9 556)	92 584	90	564 732	(1 855)	1 269	—	679 649
Construction	5 507 752	(249 549)	344 345	56 000	153 446	(1 687)	—	—	2 825 756
Wholesale and retail	3 348 301	(257 739)	19 263	—	315 889	(15 203)	—	—	553 756
Tourism	1 574 747	(60 923)	17 522	—	3 045	(484)	—	—	113 693
Transports and communications	1 910 440	(88 797)	305 527	86	561 215	(9 376)	20 218	—	1 004 287
Financial activities	3 460 478	(141 803)	1 038 976	1 428 298	2 121 151	(27 920)	665 275	(21 393)	286 879
Real estate activities	6 943 613	(304 001)	65 606	70 000	285 634	(1 776)	—	—	465 535
Services provided to companies	4 599 765	(223 200)	213 640	104 436	2 016 163	(29 923)	—	—	1 714 047
Public services	1 062 578	(22 593)	934 694	1 334	4 879 672	(6 520)	958 248	(722)	244 897
Non-profit organisations	3 771 965	(274 908)	369 312	53 542	799 621	(35 965)	139 221	(10 923)	153 001
Mortgage loans	11 512 794	(160 473)	—	—	4 712	—	—	—	39
Consumer loans	2 923 492	(161 508)	—	—	—	—	—	—	91 311
Other	334 317	(6 827)	8 379	—	106 303	(3 968)	—	—	2 412
<b>TOTAL</b>	<b>54 094 019</b>	<b>(2 212 145)</b>	<b>3 466 900</b>	<b>1 714 092</b>	<b>12 216 508</b>	<b>(192 073)</b>	<b>1 784 231</b>	<b>(33 038)</b>	<b>8 902 028</b>

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As at 31 December 2012 and 2011, the analysis of the loan portfolio by rating is as follows:

Rating/Scoring models	Internal scale <sup>(1)</sup>	31.12.2012		31.12.2011	
		Credit amount (in million of euro)	(%)	Credit amount (in million of euro)	(%)
Large companies	[aaa;a-]	8	0.01%	77	0.14%
	[bbb+;-bbb-]	2 313	4.33%	2 535	4.69%
	[bb+;bb-]	4 997	9.35%	4 697	8.68%
	[b+;b-]	8 080	15.12%	8 601	15.90%
	ccc+	1 277	2.39%	1 806	3.34%
Medium enterprises	8-9	535	1.00%	692	1.28%
	10-11	532	1.00%	656	1.21%
	12-13	632	1.18%	859	1.59%
	14-15	438	0.82%	576	1.06%
	16-17	567	1.06%	596	1.10%
	18-19	342	0.64%	575	1.06%
	20-21	347	0.65%	457	0.84%
	22-23	294	0.55%	345	0.64%
	24-25	1 659	3.11%	1 016	1.88%
Small enterprises	A	71	0.13%	91	0.17%
	B	305	0.57%	365	0.67%
	C	620	1.16%	878	1.62%
	D	311	0.58%	382	0.71%
	E	251	0.47%	216	0.40%
	F	557	1.04%	515	0.95%
Mortgage loans	01	1 196	2.24%	1 107	2.05%
	02	4 341	8.12%	4 259	7.87%
	03	1 492	2.79%	1 632	3.02%
	04	710	1.33%	814	1.50%
	05	503	0.94%	574	1.06%
	06	488	0.91%	510	0.94%
	07	679	1.27%	696	1.29%
	08	953	1.78%	1 101	2.04%
Private individuals	01	86	0.16%	101	0.19%
	02	66	0.12%	117	0.22%
	03	130	0.24%	156	0.29%
	04	312	0.58%	328	0.61%
	05	136	0.25%	208	0.38%
	06	198	0.37%	244	0.45%
	07	144	0.27%	168	0.31%
	08	109	0.20%	144	0.27%
	09	260	0.49%	232	0.43%
	10	4	0.01%	3	0.01%
No internal rating / scoring loans		17 485	32.77%	15 765	29.14%
<b>TOTAL ESFG</b>		<b>53 428</b>	<b>100.00%</b>	<b>54 094</b>	<b>100.00%</b>

<sup>(1)</sup> Internal scale established by the Group. The lower the number / letter the better is the rating

**Market Risk**

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

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The market risk management is integrated with the balance sheet management through the Asset and Liability Committee (ALCO) at the Group entities level. These committees are 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. Group'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.

	31.12.2012				31.12.2011			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
	(in million of euro)							
Exchange risk	3 399	11 272	13 723	3 399	4 872	9 254	11 634	4 872
Interest rate risk	8 793	18 426	28 532	8 793	10 764	11 404	14 863	10 764
Shares & Commodity	15 026	14 439	11 127	15 026	13 554	19 209	12 042	13 554
Volatility	7 112	7 222	7 173	7 112	14 291	30 073	57 979	14 291
Credit Spread	13 887	40 212	71 556	13 887	15 170	10 434	11 170	15 170
Diversification effect	(10 105)	(17 030)	(20 347)	(10 105)	(11 132)	(15 638)	(19 020)	(11 132)
	<b>38 112</b>	<b>74 541</b>	<b>111 764</b>	<b>38 112</b>	<b>47 519</b>	<b>64 736</b>	<b>88 668</b>	<b>47 519</b>

Group has a VaR of euro 38 112 million (31 December 2011: euro 47 519 million), for its trading positions.

**Interest rate risk**

Following the recommendations of Basel II (Pillar 2) and Instructions n.19/2005, of the Bank of Portugal, ESFG Group calculates its exposure to interest rate risk based on the methodology of the Bank of International Settlement (BIS), which requires the classification of non-trading balances and off-balance positions by repricing intervals.

	31.12.2012						31.12.2011							
	Eligible amounts	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Eligible amounts	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
	(in thousands of euro)													
Cash and deposits	7 126 870	439 584	6 112 706	404 851	103 370	59 963	6 396	3 982 369	281 080	3 427 007	42 822	4 952	217 340	9 168
Loans and advances to customers	52 582 245	—	30 988 761	9 638 711	2 736 210	6 509 111	2 709 452	51 867 385	—	35 257 978	10 857 933	2 274 857	2 414 032	1 062 585
Securities	17 050 165	7 395 022	3 853 234	1 429 962	1 058 477	2 013 160	1 300 310	16 569 506	4 432 483	7 105 057	1 659 342	1 484 844	1 350 387	537 393
<b>Total</b>			<b>40 954 701</b>	<b>11 473 524</b>	<b>3 898 057</b>	<b>8 582 234</b>	<b>4 016 158</b>			<b>45 790 042</b>	<b>12 560 097</b>	<b>3 764 653</b>	<b>3 981 759</b>	<b>1 609 146</b>
Deposits from banks	15 892 784	—	14 185 741	533 694	648 472	284 371	240 506	16 193 196	—	13 770 792	470 189	680 262	957 340	314 613
Due to customers	35 114 203	—	23 325 508	2 989 078	3 066 320	5 713 713	19 584	34 321 477	—	23 232 871	3 260 272	3 421 871	4 307 852	98 611
Debt securities issued and subordinated debt	16 775 167	—	5 276 662	937 607	279 880	6 508 524	3 772 494	20 613 902	—	9 579 927	1 022 661	245 487	6 594 921	3 170 906
Preference shares	55 978	—	—	—	—	—	55 978	74 250	—	—	—	—	—	74 250
<b>Total</b>			<b>42 787 911</b>	<b>4 460 379</b>	<b>3 994 672</b>	<b>12 506 608</b>	<b>4 088 562</b>			<b>46 583 590</b>	<b>4 753 122</b>	<b>4 347 620</b>	<b>11 860 113</b>	<b>3 658 380</b>
GAP — Assets/Liabilities	1 086 542	—	(1 833 210)	7 013 145	(96 615)	(3 924 374)	(72 404)	(3 497 128)	—	(793 548)	7 806 975	(582 967)	(7 878 354)	(2 049 234)
Off Balance sheet	—	—	(6 114 471)	(751 350)	509 366	6 289 980	66 475	—	—	(5 810 719)	(1 737 590)	1 788 949	5 545 617	213 743
<b>Structural GAP</b>	<b>1 086 542</b>	<b>—</b>	<b>(7 947 681)</b>	<b>6 261 795</b>	<b>412 751</b>	<b>2 365 606</b>	<b>(5 929)</b>	<b>(3 497 128)</b>	<b>—</b>	<b>(6 604 267)</b>	<b>6 069 385</b>	<b>1 205 982</b>	<b>(2 332 737)</b>	<b>(1 835 491)</b>
<b>Accumulated GAP</b>	<b>—</b>	<b>—</b>	<b>(7 947 681)</b>	<b>(1 685 886)</b>	<b>(1 273 135)</b>	<b>1 092 471</b>	<b>1 086 542</b>	<b>—</b>	<b>—</b>	<b>(6 604 267)</b>	<b>(534 882)</b>	<b>671 100</b>	<b>(1 661 637)</b>	<b>(3 497 128)</b>

The sensitivity of ESFG Group to interest rate risk, measured in accordance with Instruction no. 19/2005 of the Bank of Portugal, which requires the calculation of the impact of a parallel shift of 200 basis points in the interest rate curve, can be analysed as follows:

	31.12.2012	31.12.2011
	(in million of euro)	
Accumulated impact in equity:		
Increase of 200 basis points	(65)	459
Decrease of 200 basis points	65	(459)

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In addition, the model used to monitor the sensitivity of BES Group to interest rate risk is based on the duration model, and consider parallel and non parallel scenarios.

	31.12.2012				31.12.2011			
	Parallel increase of 100 bp	Parallel decrease of 100bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year	Parallel increase of 100 bp	Parallel decrease of 100bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year
	(in million of euros)							
At 31 December . . . . .	(85)	85	(34)	34	175	(175)	102	(102)
Average for the year . . . . .	(22)	22	(1)	1	239	(239)	133	(133)
Maximum for the year . . . . .	(125)	125	60	(60)	336	(336)	179	(179)
Minimum for the year . . . . .	13	(13)	22	(22)	175	(175)	102	(102)

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

	31.12.2012			31.12.2011		
	Average balance of the year	Interest of the year	Average interest rate	Average balance of the year	Interest of the year	Average interest rate
	(in thousands of euro)					
Monetary assets . . . . .	8 949 524	196 774	2.20%	5 509 223	182 515	3.31%
Loans and advances to customers . . . . .	104 771 572	2 683 469	2.56%	70 433 510	2 790 997	3.96%
Securities . . . . .	29 042 776	866 614	2.98%	15 309 361	762 779	4.99%
Other . . . . .	—	—	—	11 481	—	—
<b>Financial assets . . . . .</b>	<b>142 763 872</b>	<b>3 746 857</b>	<b>2.62%</b>	<b>91 263 575</b>	<b>3 736 291</b>	<b>4.09%</b>
Monetary liabilities . . . . .	35 504 430	422 556	1.19%	32 332 031	461 654	1.43%
Due to costumers . . . . .	69 007 319	1 039 585	1.51%	55 771 559	1 036 098	1.86%
Other financial liabilities . . . . .	34 951 702	1 019 495	2.92%	28 530 159	994 253	3.48%
Other . . . . .	1 281 892	—	—	—	—	—
<b>Financial liabilities . . . . .</b>	<b>140 745 343</b>	<b>2 481 636</b>	<b>1.76%</b>	<b>116 633 749</b>	<b>2 492 005</b>	<b>2.14%</b>
<b>Net interest income . . . . .</b>		<b>1 265 221</b>	<b>0.86%</b>		<b>1 244 286</b>	<b>1.95%</b>



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*Foreign Exchange risk*

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2012 and 2011, is analysed as follows:

		31.12.2012				31.12.2011			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
		(in thousands of euro)							
USD	United States								
	Dollars	(758 046)	742 785	99 049	83 788	(621 256)	1 085 309	54 439	518 492
GBP	Great Britain								
	Pounds	473 884	(472 979)	(970)	(65)	483 987	(467 813)	(48)	16 126
BRL	Brazilian 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	27 819	6 506	(40 166)	(5 841)	(8 529)	19 552	(10 270)	753
CHF	Swiss franc	81 444	(1 357)	(10 475)	69 612	117 529	(41 694)	(30 819)	45 016
SEK	Swedish krona	7 403	(7 778)	(53)	(428)	(2 138)	1 305	182	(651)
NOK	Norwegian								
	krona	(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
	Other	37 438	46 017	35 635	119 090	6 466	(65 329)	69 160	10 297
		<b>(14 265)</b>	<b>149 045</b>	<b>71 638</b>	<b>206 418</b>	<b>97 140</b>	<b>164 092</b>	<b>102 899</b>	<b>364 131</b>

Note: asset / (liability)

*Exposure to peripheral Eurozone countries public debt*

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

		31.12.2012					
		Loans and advances to customers	Financial assets held for trading at fair value	Derivative instruments <sup>(1)</sup>	Available-for-sale financial assets	Held-to-maturity investments	Total
		(in thousands of euro)					
Portugal		935 771	593 850	31 143	2 519 596	220 041	4 300 401
Spain		111 121	568	(76)	608 278	—	719 891
Greece		—	3 439	—	—	—	3 439
Ireland		—	—	—	—	27 483	27 483
Italy		—	7 926	—	21 399	—	29 325
		<b>1 046 892</b>	<b>605 783</b>	<b>31 067</b>	<b>3 149 273</b>	<b>247 524</b>	<b>5 080 539</b>

(1) Net amounts: receivable/(payable)

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	31.12.2011					
	Loans and advances to customers	Financial assets held for trading at fair value	Derivative instruments <sup>(1)</sup>	Available-for-sale financial assets	Held-to-maturity investments	Total
	(in thousands of euro)					
Portugal . . . . .	876 702	125 186	69 714	2 849 451	134 049	4 055 102
Spain . . . . .	109 000	563	1 989	43 201	—	154 753
Greece . . . . .	—	—	(265)	2 599	—	2 334
Ireland . . . . .	—	—	(1 069)	—	2 466	1 397
Italy . . . . .	—	—	(2 865)	18 066	—	15 201
	<b>985 702</b>	<b>125 749</b>	<b>67 504</b>	<b>2 913 317</b>	<b>136 515</b>	<b>4 228 787</b>

(1) Net amounts: 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 held for trading, available-for-sale financial assets and held-to-maturity investments can be analysed as follows:

	31.12.2012					
	Nominal Amount	Market value	Accrued interest	Book value	Impairment	Fair value reserve
<b>Available-for-sale financial assets</b>						
<b>Portugal</b> . . . . .	<b>2 720 736</b>	<b>2 471 421</b>	<b>48 175</b>	<b>2 519 596</b>	<b>—</b>	<b>191 382</b>
Maturity up to 1 year . . . . .	195 431	194 133	249	194 382	—	485
Maturity exceeding 1 year . . . . .	2 525 305	2 277 288	47 926	2 325 214	—	190 897
<b>Spain</b> . . . . .	<b>618 792</b>	<b>600 096</b>	<b>8 182</b>	<b>608 278</b>	<b>—</b>	<b>2 208</b>
Maturity up to 1 year . . . . .	389 350	383 681	325	384 006	—	796
Maturity exceeding 1 year . . . . .	229 442	216 415	7 857	224 272	—	1 412
<b>Italy</b> . . . . .	<b>20 100</b>	<b>20 975</b>	<b>424</b>	<b>21 399</b>	<b>—</b>	<b>478</b>
Maturity exceeding 1 year . . . . .	20 100	20 975	424	21 399	—	478
	<b>3 359 628</b>	<b>3 092 492</b>	<b>56 781</b>	<b>3 149 273</b>	<b>—</b>	<b>194 068</b>
<b>Financial assets held for trading</b>						
Portugal . . . . .	158 946	141 676	3 807	145 483	—	—
Spain . . . . .	304	302	—	302	—	—
Italy . . . . .	1 656	1 667	34	1 701	—	—
	<b>160 906</b>	<b>143 645</b>	<b>3 841</b>	<b>147 486</b>	<b>—</b>	<b>—</b>
<b>Financial assets at fair value through profit or loss</b>						
Portugal . . . . .	524 625	440 395	7 972	448 367	—	—
Spain . . . . .	260	259	7	266	—	—
Greece . . . . .	129 655	3 439	—	3 439	—	—
Italy . . . . .	5 969	6 224	1	6 225	—	—
	<b>660 509</b>	<b>450 317</b>	<b>7 980</b>	<b>458 297</b>	<b>—</b>	<b>—</b>
<b>Held-to-maturity investments</b>						
Portugal . . . . .	239 640	216 703	3 338	220 041	—	—
Ireland . . . . .	27 000	26 542	941	27 483	—	—
	<b>266 640</b>	<b>243 245</b>	<b>4 279</b>	<b>247 524</b>	<b>—</b>	<b>—</b>

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	31.12.2011					
	Nominal Amount	Market value	Accrued interest (in thousands of euro)	Book value	Impairment	Fair value reserve
<b>Available-for-sale financial assets</b>						
<b>Portugal</b> .....	<b>3 216 960</b>	<b>2 808 996</b>	<b>40 225</b>	<b>2 849 451</b>	—	<b>(124 934)</b>
Maturity up to 1 year .....	2 095 441	2 065 817	14 991	2 081 021	—	(16 596)
Maturity exceeding 1 year .....	1 121 519	743 179	25 234	768 430	—	(108 338)
<b>Spain</b> .....	<b>44 421</b>	<b>42 551</b>	<b>650</b>	<b>43 201</b>	—	<b>91</b>
Maturity up to 1 year .....	30 014	29 975	289	30 264	—	112
Maturity exceeding 1 year .....	14 407	12 576	361	12 937	—	(21)
<b>Greece</b> .....	<b>9 700</b>	<b>2 328</b>	<b>271</b>	<b>2 599</b>	<b>(7 010)</b>	—
Maturity up to 1 year .....	1 200	570	40	610	(635)	—
Maturity exceeding 1 year .....	8 500	1 758	231	1 989	(6 375)	—
<b>Italy</b> .....	<b>19 925</b>	<b>17 877</b>	<b>189</b>	<b>18 066</b>	—	<b>6</b>
Maturity up to 1 year .....	8 350	8 343	—	8 343	—	6
Maturity exceeding 1 year .....	11 575	9 534	189	9 723	—	—
	<b><u>3 291 006</u></b>	<b><u>2 871 752</u></b>	<b><u>41 335</u></b>	<b><u>2 913 317</u></b>	<b><u>(7 010)</u></b>	<b><u>(124 837)</u></b>
<b>Financial assets held for trading</b>						
Portugal .....	127 608	121 778	3 408	125 186	—	—
Spain .....	568	563	—	563	—	—
	<b><u>128 176</u></b>	<b><u>122 341</u></b>	<b><u>3 408</u></b>	<b><u>125 749</u></b>	<b><u>—</u></b>	<b><u>—</u></b>
<b>Held-to-maturity investments</b>						
Portugal .....	148 140	111 485	1 644	134 049	—	—
Ireland .....	3 000	2 678	97	2 466	—	—
	<b><u>151 140</u></b>	<b><u>114 163</u></b>	<b><u>1 741</u></b>	<b><u>136 515</u></b>	<b><u>—</u></b>	<b><u>—</u></b>

**Liquidity risk**

Liquidity risk derives from the potential inability to fund assets while satisfying the maturity dates of commitments and from potential difficulties in liquidating portfolio positions without incurring excessive losses. The purpose of liquidity management is to maintain adequate liquidity levels to meet short, medium and long term funding needs.

Liquidity risk can be divided into two types:

- Asset liquidity (market liquidity risk) — The inability to sell a particular asset due to lack of liquidity in the market, which results in increasing the bid / offer spread or applying a haircut to market value;
- Funding (funding liquidity risk) — The inability to, within the desired timeframe and currency, fund assets in the market and / or refinance debt that comes due. This inability can be reflected by a significant increase of financing cost or of collateral requirements in order to obtain funds. Difficulties 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.

During 2012 the European Commission and the ECB implemented measures which lead to some stabilization of financial markets. This stabilization was helped by the following measures:

- Action taken by the European Central Bank which, besides reducing the reference rate from 1% to 0.75%, realized, between December 2011 and February 2012, two liquidity operations with maturities of three years (LTRO), extended the eligibility criteria for assets as collateral and reduced the reserve requirement from 2% to 1%. These measures permitted an increase in available liquidity in the market at a time when significant amounts of bank debt would mature;
- The restructuring of Greek debt, even though this measure did not completely dissipate the sovereign debt crises of the peripheral economies of the Eurozone;

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- The results of the European Council at the end of June and the declarations of support for the Euro by the president of the ECB 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 played a key role in reducing systemic risk and represented an important step in the financial stabilization of 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 fell to levels lower than those observed when the country applied for financial help in April 2011.

At year end, assets eligible as collateral for rediscount operations were euro 22.3 billion, of which euro 19.4 billion were eligible at the European Central Bank.

In order to evaluate the global exposition to liquidity risk, reports have been prepared which permit not only the identification of negative mismatches, but also lead to the coverage of these situations.

The following tables present details of the mismatch in the residual terms for each of the main categories of assets and liabilities:

	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
(In million of euro)							
<b>ASSETS</b>							
Cash and deposits with banks . . . . .	420	420	—	—	—	—	—
Loans and advances to banks and central banks . . . . .	6 381	5 583	235	243	204	81	35
Loans and advances to customers . . . . .	46 770	1 044	1 813	2 161	1 847	2 742	37 163
Securities* . . . . .	21 727	340	921	1 983	794	1 299	16 390
Other assets, net . . . . .	1 851	1 829	—	5	1	—	16
Off-balance sheet items (Commitments and Derivatives) . . . . .	6 574	313	139	268	455	513	4 886
<b>Total</b> . . . . .		<b>9 529</b>	<b>3 108</b>	<b>4 660</b>	<b>3 301</b>	<b>4 635</b>	<b>58 490</b>
<b>LIABILITIES</b>							
Deposits from banks, central banks and other loans . . . . .	16 181	2 097	537	717	479	778	11 573
Due to customers . . . . .	35 632	857	960	2 244	747	171	30 653
Debt securities issued . . . . .	17 289	184	561	2 021	1 069	488	12 966
Other short-term liabilities . . . . .	1 635	1 607	—	12	4	—	12
Off-balance sheet items (Commitments and Derivatives) . . . . .	10 192	329	201	417	624	520	8 101
<b>Total</b> . . . . .		<b>5 074</b>	<b>2 259</b>	<b>5 411</b>	<b>2 923</b>	<b>1 957</b>	<b>63 305</b>
<b>GAP (Assets — Liabilities)</b> . . . . .		<b>4 455</b>	<b>849</b>	<b>(751)</b>	<b>378</b>	<b>2 678</b>	<b>(4 815)</b>
<b>Accumulated GAP</b> . . . . .		<b>4 455</b>	<b>5 304</b>	<b>4 553</b>	<b>4 931</b>	<b>7 609</b>	<b>2 794</b>
<b>Buffer &gt; 12 months</b> . . . . .						<b>700</b>	

\* This caption includes securities held by the Group which can be rediscounted with the ECB for liquidity purposes

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	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
	(In million of euro)						
<b>ASSETS</b>							
Cash and deposits with banks . . . . .	437	437	—	—	—	—	—
Loans and advances to banks and central banks . . . . .	3 435	2 350	175	672	31	1	206
Loans and advances to customers . . . . .	51 504	853	2 571	2 281	1 957	2 805	41 037
Securities* . . . . .	19 575	536	1 730	2 199	738	495	13 877
Other assets, net . . . . .	3 804	3 785	—	2	1	—	16
Off-balance sheet items (Commitments and Derivatives) . . . . .	6 155	217	175	538	857	476	3 892
<b>Total</b> . . . . .		<b>8 178</b>	<b>4 651</b>	<b>5 692</b>	<b>3 584</b>	<b>3 777</b>	<b>59 028</b>
<b>LIABILITIES</b>							
Deposits from banks, central banks and other loans . . . . .	16 477	3 666	2 206	2 480	583	462	7 080
Due to customers . . . . .	34 265	86	1 068	1 996	544	1 092	29 479
Debt securities issued . . . . .	20 465	91	2 973	2 960	584	466	13 391
Other short-term liabilities . . . . .	1 734	1 697	—	16	9	—	12
Off-balance sheet items (Commitments and Derivatives) . . . . .	12 236	281	293	757	940	539	9 426
<b>Total</b> . . . . .		<b>5 821</b>	<b>6 540</b>	<b>8 209</b>	<b>2 660</b>	<b>2 559</b>	<b>59 388</b>
<b>GAP (Assets — Liabilities)</b> . . . . .		<b>2 357</b>	<b>(1 889)</b>	<b>(2 517)</b>	<b>924</b>	<b>1 218</b>	<b>(360)</b>
<b>Accumulated GAP</b> . . . . .		<b>2 357</b>	<b>468</b>	<b>(2 049)</b>	<b>(1 125)</b>	<b>93</b>	<b>(267)</b>
<b>Buffer &gt; 12 months</b> . . . . .						<b>2 794</b>	

\* This caption includes securities held by the Group which can be rediscounted with the ECB for liquidity purposes

The table reflects the amounts of assets, liabilities and off-balance sheet items with defined or determinate cash-flows classified by the period to maturity. In the event that no maturity is defined (such as for deposits, overdrafts, current accounts and commitments with third parties), the Group used a behaviour model based on historical information, which reflects the expected maturity of the cash flows. For deposits with stated maturities, the Group also used a behaviour model to estimate expected maturity.

The one year cumulative gap went from euro 93 million in December 2011 to euro 7 605 million as of December 2012. This positive change reflects conservative liquidity risk management with respect the capacity to convert assets into liquidity and to the extension of maturities of liabilities.

Additionally, and in accordance with Instruction 13/2009 of the Bank of Portugal, the liquidity gap is defined by the indicator  $[(\text{Net Assets} - \text{Volatile Liabilities}) / (\text{Assets} - \text{Net assets}) * 100]$  on each residual cumulative maturity scale. Net assets include cash and net securities and volatile liabilities include debt issued, commitments, derivatives and other liabilities. This indicator allows a characterization of the wholesale risk of institutions.

As at 31 December 2012, the one year liquidity gap was -3.1, which compares to -16.5 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.

It may be noted that the above liquidity gap figures, calculated in accordance with the determinations of Instruction 13/2009 of the Bank of Portugal, do not include BES Vida, whose activity is regulated by the Portuguese Insurance Institute.

In order to anticipate possible negative impacts to liquidity, ESFG considers different stress scenarios (moderate and severe) in terms of liquidity, different time frames and different types of impact (systemic, Group

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specific or combined). For example, in the systemic scenario, closure of the wholesale markets is simulated, while in the scenario specific to the Group, a run off of customer deposits from retail and non-retail is simulated, with different levels of severity.

As at 31 December 2012, the net asset buffer (consisting of deposits at central banks and securities available in the pool of assets rediscountable at the 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 had met the ratio the limit set for 2015.

#### *Operational risk*

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

To manage operational risk, it was developed and implemented a system that standardises, systematises and regulates the frequency of actions with an objective of identification, monitoring, controlling and mitigation of risk. The system is supported at organizational level by a unit within the Global Risk Department of BES, exclusively dedicated to this task, and by representatives designated by each of the relevant departments and subsidiaries.

#### *Insurance risk*

Insurance risk — inherent risk related to the selling of insurance contracts, underwriting policy, pricing, reserving, claims management and reinsurance arrangements.

Pricing is based on actuarial methodologies, revised on a regular basis in order to ensure a rigorous policy underwriting and risk acceptance.

Risks underwritten that require selective acceptance are analysed centrally. Evidence of the underwriting conditions and identification of the decision maker are required.

The technical reserves, specifically the claims reserves, are analysed on a monthly basis. The adequacy of the insurance liabilities is reviewed on a regular basis. Regarding the evaluation of reserves, new models are being developed internally by the Group's Insurance companies based on stochastic methodologies.

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The table below reflects the claims reserves development, excluding pensioners arising out from workers compensation claims:

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Initial estimate of claims											
liabilities . . . . .	302 579	305 512	328 733	363 800	375 014	394 397	397 996	395 038	380 242	360 863	345 377
Cumulative payments											
One year later . . . . .	108 328	106 724	91 174	105 504	100 096	98 779	95 712	98 241	100 636	90 781	
Two years later . . . . .	162 811	149 681	141 526	157 627	145 308	135 925	129 339	130 042	129 721		
Three year later . . . . .	194 772	185 956	176 790	191 998	171 505	160 955	151 151	150 003			
Four years later . . . . .	223 751	213 367	201 716	213 580	192 108	177 757	166 142				
Five year later . . . . .	245 653	235 135	220 093	230 853	206 571	189 563					
Six years later . . . . .	263 670	250 333	233 869	244 762	216 254						
Seven year later . . . . .	275 464	262 243	243 757	253 229							
Eight years later . . . . .	284 198	269 575	250 265								
Nine year later . . . . .	289 737	274 911									
Ten years later . . . . .	293 832										
Re-estimated claims											
liabilities											
One year later . . . . .	313 397	327 363	338 836	354 407	366 449	366 560	371 201	352 690	351 804	317 106	
Two years later . . . . .	325 422	334 297	334 918	356 147	348 138	349 376	331 652	327 754	311 228		
Three year later . . . . .	331 367	332 408	333 196	354 218	338 431	316 055	316 347	294 322			
Four years later . . . . .	331 221	331 075	339 341	352 070	311 532	311 642	290 304				
Five year later . . . . .	329 943	343 336	336 647	331 796	313 127	290 264					
Six years later . . . . .	347 740	340 872	323 690	334 384	295 603						
Seven year later . . . . .	345 961	335 816	327 291	319 336							
Eight years later . . . . .	344 154	341 335	313 502								
Nine year later . . . . .	350 775	328 545									
Ten years later . . . . .	338 073										
Cumulative surplus/ (deficit) . . . . .	<u>(35 494)</u>	<u>(23 033)</u>	<u>15 230</u>	<u>44 464</u>	<u>79 411</u>	<u>104 132</u>	<u>107 692</u>	<u>100 716</u>	<u>69 014</u>	<u>43 757</u>	

Longevity risk covers the uncertainty in the ultimate loss due to policyholders living longer than expected and can arise for example, in annuity portfolios within the life Insurance and workmen's compensation portfolios within non-life insurance.

Longevity risk is managed through pricing, underwriting policy and by regularly reviewing the mortality tables used for pricing and establishing reserves. Where longevity is found to be improving faster than assumed in the mortality tables additional reserves are established and mortality tables are updated.

Any adjustments resulting from changes in reserves estimates are reflected in current results of operations. However, because the establishment of claims reserves is an inherently uncertain process, there can be no assurance that ultimate losses will not exceed existing claims reserves, and this risk is covered by the additional solvency capital.

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Regarding life line of business, the main actuarial assumptions defined in each contract, are as follows:

	<u>Mortality Table</u>	<u>Technical rate</u>
<b>Retirements savings plans and capitalization products</b>		
Up to December 1997 .....	GKM 80	4%
From January 1998 to February 1999 .....	GKM 80	3.25%
From July 1999 to February 2003 .....	GKM 80	2,25% and 3%
From Mars 2003 to December .....	GKM 80	2.75%
After January 2004 .....	GKM 80	Set per calendar year (*)
<b>Insurance in case of life</b>		
<u>Rents</u>		
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 January 2004 .....	GKM -3 years	2%
<u>Other insurance</u>		
<i>Insurance in case of death</i>		
Up to December 2004 .....	GKM 80	4%
After January 2005 .....	GKM 80	0% a 2%
<i>Insurance mixed</i>		
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 of the life business 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 main mortality assumptions are as follows:

	<u>Mortality Table</u>
Annuities .....	GRM 95
Savings and other contracts .....	30% GKM 80

For liability adequacy test purposes, the calculation of the present value of Workmen's Compensation mathematical reserves was performed with the mortality table TV 73/77 (2011: TV 73/77) and risk free rate.



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The maximum risk exposure per event after reinsurance and after deductibles per segment and product line is summarised below:

Line of business	Type of reinsurance	Net retention	Maximum treaty liability (in thousands of euros)
Personal Accident (Credit Protection)	Quota Share	—	100%
Personal Accident	Excess of Loss	300	14 700
Workers Compensation	Excess of Loss	500	39 500
Motor — Third Party Legal Liability	Excess of Loss	1 000	49 000
Motor — Own Damage	Excess of Loss	1 000	14 000
Bonds — Bonds	Quota Share	20%	400
Bonds — Fidelity	Quota Share	20%	200
Engineering	Proportional	1 250	13 750
Fire/M.Risk/Lop (Simple Risks)	Proportional	1 000	20 000
Fire/M.Risk/Lop (Condominium)	Proportional	1 000	35 000
Fire/M.Risk/Lop (Comm&Indust Risks)	Proportional	1 000	40 000
Fire/M.Risk/Lop — CAT Cover	Excess of Loss	15 000	165 000
Fire/M.Risk/Lop — XOL Cover	Excess of Loss	2 000	8 000
Fire/M.Risk/Lop — XOL Aggregate Cover	Excess of Loss	1 000	1 750
Property Stop Loss	Excess of Loss	105% of ENPI	7 000
General Third Party Liability	Excess of Loss	150	4 850
Marine Hull	Proportional	250	5 000
Marine Hull — Fleets	Proportional	325	6 500
Marine Cargo	Proportional	200	4 600
Marine Cargo & Hull — XOL Cover	Excess of Loss	400	3 500
Health — Serious Illness	Quota Share	20%	80%
Assistance	Quota Share	—	100%
Life — Mortgage	Proportional	100	1 000
Life — Mortgage	Quota Share	20%	1 000
Life — Group	Proportional	100	1 000
Life — Individual Credit	Proportional	100	1 000
Life — Natural Disasters	Excess of Loss	1 000	10 000 per disaster 15 000 per event

**Capital Management and Solvency Ratio**

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

The strategy for capital adequacy management is determined by the Executive Committee and is integrated into the strategic goals of the Group.

The capital metrics are incorporated in the main management control instruments and monitoring is undertaken frequently, thus permitting a quick response to fulfil the defined goals.

The Group is subject to prudential supervision by the Bank of Portugal which, in accordance with the Capital Adequacy Directive of the EU, establishes the prudential rules to be observed by the institutions under its supervision. These rules determine a minimum ratio of Own funds to Capital requirements of risks assumed, which institutions are required to fulfill.

Within the implementation of the Basel II capital accord and in accordance with Decree-Law 103/2007 and Decree-Law 104/2007, the Group was authorized to employ, as from 31 March 2009, the Internal Rating Based Foundation Approach — IRBF for credit risk and the Standardized Approach — TSA for operational risk.

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The capital elements of ESFG are divided into: Core Tier I, Tier I, Tier II and Deductions, as follows:

- Core Tier I: This category includes share capital, share premiums, eligible reserves, the certified net profit to be retained for the year and non-controlling interests. The fair value reserves are excluded except for deduction of negative fair value reserves associated with shares or other equity instruments; additionally, deductible from Core Tier I are the balance sheet amounts referring to goodwill, intangible assets, actuarial losses (above the prudential corridor) arising from responsibilities for post-employment benefits to employees and, where applicable, the net loss for the period. Excess Large exposures above a base amount set by the Bank of Portugal are also deducted.
- Tier I: In addition to the amounts considered as Core Tier I, this category includes preference shares and hybrid capital instruments. Alternatively, half of: (i) investments of above 10% of the capital of financial and insurance institutions; (2) investments of below 10% of the capital of financial and insurance institutions above a given limit; and the difference between the expected loss calculated on exposures subject to IRBF treatment and the corresponding loss provisions, are deducted from Tier I.
- Tier II: Essentially incorporates the eligible subordinated debt and 45% of the positive fair value reserve associated with equity securities. The other half of the amounts deducted 50% from Tier I are deducted from Tier II.
- Deductions: The base amount of excess Large exposures are deducted here as well as prudential amortization of assets received in the recovery of non-performing loans.

The prudential rules determine, additionally, that the Tier II cannot exceed Tier I and that a component of Tier II (known as Lower Tier II) cannot exceed 50% of overall Tier II.

In December 2008, the Bank of Portugal issued Notice 11/2008 which established a transition period of four years, from December 2009 to December 2012, for the recognition of the actuarial gains/losses determined in 2008. This transition period ended in December 2012.

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 Notice 3/2011, establishing new minimum levels of solvency to be observed by financial groups subject to its supervision. It determined that Portuguese credit institutions 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, the European Banking Authority (EBA), using somewhat different criteria for Own funds and Capital requirements determined that European banks must reach a Core Tier I ratio of 9% by 30 June 2012.

As at 2012 and 2011, the main movements occurred in Basic Own Funds (Tier I) are as follows:

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in million of euro)	
<b>Balance as at 1 January</b> .....	<b>5 732</b>	<b>5 836</b>
Capital increase .....	489	272
Increase in non-controlling interest .....	596	648
Retained profit for the year .....	315	83
Changes on actuarial losses .....	(526)	144
Goodwill .....	(296)	6
Recognition of the impact of adopting IFRS .....	(12)	(12)
Variation of preference shares recognised as Tier I .....	(37)	(191)
Exchange of hybrid instruments .....	—	(805)
Unrecognised losses on financial instruments .....	186	(119)
Investments in banking and insurance entities .....	(119)	216
Risks deducted from basic own funds .....	299	(365)
Other effects .....	(33)	19
<b>Balance as at 31 December</b> .....	<b><u>6 594</u></b>	<b><u>5 732</u></b>

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	(in million of euro)	
<b>A — Capital Requirements</b>		
Share Capital, Issue Premium and Treasury Stock . . . . .	1 753	1 304
Net Income, Legal and Statutory Reserves, and Retained Earnings . . . . .	265	126
Non-controlling interest . . . . .	5 326	5 357
Intangible Assets, actuarial losses, goodwill and other . . . . .	(696)	(859)
Risks deducted from basic own funds . . . . .	(67)	(365)
<b>A1 — Basic own funds excluding preference shares (Core Tier I)</b> (A1)	<b>6 581</b>	<b>5 563</b>
Preference Shares . . . . .	282	319
Deductions of investments in Financial institutions, insurance companies and others . . . . .	(269)	(150)
<b>A2 — Basic own funds (Tier I)</b> (A2)	<b>6 594</b>	<b>5 732</b>
Positive Fair Value Reserves and Others (45%) . . . . .	48	32
Eligible Subordinated Debt . . . . .	1 158	1 281
Deductions of investments in Financial institutions, insurance companies and others . . . . .	(269)	(149)
<b>Complementary own funds (Tier II)</b> . . . . .	<b>937</b>	<b>1 164</b>
<b>Deductions</b> . . . . .	(71)	(625)
<b>Eligible own funds</b> (A3)	<b>7 460</b>	<b>6 271</b>
<b>B Risk Asset Equivalents (Basel II - Standard)</b>		
Calculated according Notice 05/2007 (Credit Portfolio) . . . . .	59 634	61 075
Calculated according Notice 8/2007 (Trading Portfolio) . . . . .	1 548	1 784
Calculated according Notice 9/2007 (Operational Risk) . . . . .	3 881	4 107
<b>Total Risk Asset Equivalent</b> (B2)	<b>65 063</b>	<b>66 966</b>
<b>C Prudential Ratios Basel II</b>		
Ratio Core Tier I (A1 /B2)	10.1%	8.3%
Ratio Tier I (A2 /B2)	10.1%	8.6%
<b>Solvency Ratio</b> (A3 /B2)	<b>11.5%</b>	<b>9.4%</b>

**Plans Financing and capitalization (2011 - 2015)**

Following the signing of the Memorandum of Economic and Financial Policies, 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 had to develop, quarterly, financing and capital plans for the period from 2011 to 2015, in order to demonstrate the achievement of the following objectives:

- The loan to deposit ratio should, preferably, be reduced to a maximum value of 120% as from December 2014;
- The stable funding ratio should be 100% as from December 2014;
- The Core Tier I ratio must be at least 9% as of 31 December 2011 and 10% as of 31 December 2012, as established in Notice 3/2011 of Bank of Portugal.

Additionally, the dependence of their branches and subsidiaries abroad on domestic Portuguese funding should be minimized; the institutions must reduce their dependence on funding from the ECB; and they should develop policies to support sectors of the Portuguese economy, namely small and medium enterprises. The financing and capital plans should consider moderate access to short-term markets and a gradual opening of medium and long term markets from the fourth quarter of 2013.

In order to prepare the initial plan and the subsequent quarterly reviews, projections of relevant domestic macroeconomic variables, of GDP growth in the geographic areas of greatest relevance to the activities of the

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banks and further projections of interest rates and other parameters necessary for drawing up the plans were provided by the Bank of Portugal after consultation with the EC/ECB/IMF. Together with the plan for the period in reference, a stress test exercise is required, where the banks should, in an extreme scenario, present a Core Tier I ratio higher than 6% during the period (2011-2015).

As at 31 December 2012 ESFG Group continued to review the implementation of its September 2011 funding and capital plan, including compliance with the projected targets set for both the loans to deposits ratio (actual 140%), the stable funding ratio (actual: 95%) and the Core Tier I ratio (actual 10.2%).

#### NOTE 54 — CONTRACTUAL COMMITMENTS

##### *Securitization transactions*

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

BES had acted as swap counterparty in two of its operations (Lusitano Mortgage No.6 and Lusitano Mortgage No.7). Participation in these securitization transactions is restricted to entities that meet the minimum rating levels established by the rating agencies. Therefore, following the downgrades, the position of BES in the operation Lusitano Mortgage No.6 was transferred to a financial institution that met the eligibility criteria of the agencies and while the operation Lusitano Mortgage No.7 was restructured.

Additionally, following the downgrade by Moody's of the Portuguese Republic in February 2012, this agency set the maximum rating attributable to bonds issued in securitized operations as Baa1. Consequently, the operation of securitization of small and medium enterprises put together by BES in December 2010 — Lusitano SME No.2 — lost its eligibility as collateral for rediscounting at ECB and as a result BES chose to exercise its call option on 23 March 2012.

##### *Covered Bonds*

Issues of covered bonds were also significantly affected by the downgrade of the Portuguese Republic and of the Portuguese banks. BES could no longer be the counterparty to interest rate swaps and consequently proceeded to transfer these operations and, in some cases, to cancel them.

##### *Contract Support Annex (CSA)*

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

#### NOTE 55 — TRANSACTIONS WITH NON-CONTROLLING INTEREST AND CHANGES IN THE SCOPE OF CONSOLIDATION

##### *Transactions with non-controlling interest*

As explained in Note 1, during the year ended 31 December 2012 the Group entered into several transactions with non-controlling interest, the most significant being the transactions with non-controlling interest of BES, namely the net acquisition of an additional interest of 0.86% through the acquisition in the market of 29 510 581 shares.

These transactions were accounted for in accordance with the accounting policy described in Note 2.2 as transactions with equity holders in their capacity as equity holders. Therefore, the difference between the net consideration paid and the non-controlling interest acquired, in the amount of euro 45 628 thousand as detailed below, was recognised in equity.

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The balance of the components of other comprehensive income, namely the fair value reserve and foreign exchange differences were reallocated in order to reflect the new percentage held.

The impact of these transactions with the non-controlling interest occurred in 2012 is as follows:

	31.12.2012 (in thousands of euro)
Net consideration paid	17 525
Consideration paid by non-controlling interest	(1 191)
<b>Net consideration paid attributable to ESFG</b>	<b>16 334</b>
Non-controlling interest acquired	58 498
	<u>42 164</u>
Reallocation of components of other comprehensive income	
Fair value reserve	6 247
Exchange differences	34
	<u>6 281</u>
<b>Gain recognised in equity resulting from transactions with BES non-controlling interest</b>	<b>48 445</b>
Other transactions with non-controlling interest	(2 817)
<b>Gain recognised in equity resulting from transactions with non-controlling interest</b>	<b>45 628</b>

As explained in Note 1, in 2011 the Group entered into several transactions with non-controlling interest, the most significant being the transactions with non-controlling interest of BES, namely the (i) acquisition during the first semester of an additional interest of 0.14% through the acquisition, in the market, of 1 683 451 BES shares; (ii) dilution of approximately 6.11% due to the capital increase resulting from BES exchange offer, which took place from 14 to 30 November; and (iii) acquisition of an additional interest of 2.25% through the acquisition in the market, in December, of 47 480 259 BES shares.

These transactions were accounted for in accordance with the accounting policy described in Note 2.2 as a transaction with equity holders in their capacity as equity holders. Therefore, the difference between the net consideration paid and the non-controlling interest acquired, in the amount of euro 93 901 thousand as detailed below, was recognised in equity.

The balance of the components of other comprehensive income, namely the fair value reserve and foreign exchange differences were reallocated in order to reflect the new percentage held.

The impact of this transaction with the non-controlling interest is as follows:

	31.12.2011	transactions with shares	cap increase
	(in thousands of euro)		
Consideration received			
BES share capital increase appropriated by ESFG	128 186		128 186
Net consideration paid for the acquisition of BES shares attributable to ESFG <sup>(1)</sup>	(41 900)	(41 900)	
	<b>86 286</b>	<b>(41 900)</b>	<b>128 186</b>
Non-controlling interest acquired (sold)	(168 673)	129 136	(297 809)
Reallocation of components of other comprehensive income			
Fair value reserve	(17 816)	10 416	(28 232)
Exchange differences	(1 040)	628	(1 668)
	<b>(187 529)</b>	<b>140 180</b>	<b>(327 709)</b>
Decrease in equity resulting from the transactions with BES shares	101 243	(98 280)	199 523
Other transactions with non-controlling interest	(7 342)		
<b>Losses/(gains) resulting from transactions with non-controlling interest</b>	<b>93 901</b>	<b>(98 280)</b>	<b>199 523</b>

(1) corresponds to a total net consideration paid of euro 59 934 million thousand of which euro 18 034 thousand are attributable to non-controlling interest

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*Loss of control over subsidiaries occurred in the year*

*Pastor Vida*

As referred in Note 32, in the first semester of 2012, Banco Popular acquired a controlling interest on Banco Pastor, the legal merger between these two entities having taken place on 5 July 2012.

The change in control of Banco Pastor had a significant impact in the implementation of Group's strategy regarding Pastor Vida and therefore in the second quarter of 2012, the Group took the decision, as permitted within the shareholders agreement established between Tranquilidade and Banco Pastor, to exercise its option to put Pastor Vida shares back to Banco Pastor. The sale was completed during the second semester of 2012. Therefore, the related goodwill and value in force, amounting to euro 23.1 million and euro 57.9 million, respectively, were derecognised.

The impact of the loss of control over Pastor Vida in ESFG consolidated financial statements as at 31 December 2012 can be analysed as follows:

	<b>31.12.2012</b>
	(in thousands of euro)
<b>Net consideration received</b> .....	<b>40 072</b>
Pastor Vida net equity at the date of the loss of control <sup>(1)</sup> .....	103 711 <sup>(1)</sup>
Pastor Vida net equity at the date of the loss of control attributable to ESFG .....	51 856
Pastor Vida goodwill .....	23 110
Deferred and contingent consideration recognised .....	(46 100)
<b>Pastor Vida</b> .....	<b>28 866</b>
<b>Gain on the loss of control of Pastor Vida recognised in the income statement</b> .....	<b>11 206</b>

(1) includes value in force amounting to 57.9 million

*ES Saúde*

As referred in Note 32, in November 2012 (i) Rio Forte Investments, S.A. (Rio Forte) acquired an additional 19.5% stake in ES Saúde, becoming to have a 44.5% shareholding in this company; (ii) ESFG and Rio Forte signed a shareholders' agreement under which Rio Forte assumes control over ES Saúde governing bodies; and (iii) Rio Forte acquired from ESFG a call option, currently exercisable up to May 2013, over 5.5% of ES Saúde sharecapital plus 1 share, giving Rio Forte the current ability to exercise control over the majority of the voting rights of ES Saúde.

As a result of the loss of control over ES Saúde in 2012, this entity is no longer fully consolidated by ESFG and is included in its consolidated financial statements following the equity method (see Note 33).

In accordance with paragraph 34 of IAS 27 and with the accounting policy described in Note 2.2, the non-controlling interest retained by ESFG in ES Saúde following the loss of control, was remeasured to fair value and the resulting gain was recognised in the income statement as follows:

	<b>31.12.2012</b>
	(in thousands of euro)
Retained interest in ES Saúde .....	43%
Estimated fair value of ES Saúde at the time control was lost .....	268 795
<b>Attributable to ESFG</b> .....	<b>115 313</b>
Book value of ES Saúde at the time control was lost .....	128 160
ES Saúde net equity at the date of the loss of control .....	54 981
<b>Attributable to ESFG</b> .....	<b>60 332</b>
<b>Gain on the loss of control of ES Saúde recognised in the income statement<sup>(1)</sup></b> .....	<b>60 332</b>
Attributable to ESFG .....	45 007
Attributable to non-controlling interest .....	15 325
	<b>60 332</b>

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(1) arising from the remeasurement of the retained non-controlling interest

The fair value of ES Saúde at the time the control was lost, was estimated based on the transaction price between Rio Forte and third parties occurred in November 2012, as it was considered as a recent comparable transaction. Notwithstanding, this fair value was back tested, ESFG having prepared a valuation report based on a Discounted Cash Flow methodology using the financial budget approved by management, an Weighted Average Cost of Capital (WACC) between 9.0% and 9.3% and a terminal growth rate of 2%.

Following paragraph 37 of IAS 27, the fair value of the non-controlling interest retained by ESFG in ES Saúde, was assumed as the cost on initial recognition of the investment in this associate for the purposes of the initial application of the equity method in accordance with IAS 28.

#### ***Business combinations occurred in the year***

##### *Acquisition of 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 associate 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 2011.

The total investment amounted to euro 225 million euro, paid in cash.

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 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.

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

	<u>(in thousand of euro)</u>
<b>Assets</b>	
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
	<b><u>5 386 468</u></b>
<b>Liabilities</b>	
Technical reserves .....	1 880 631
Investment contracts .....	3 053 344
Other financial liabilities .....	194 434
Income tax liabilities .....	2 342
Other liabilities .....	40 291
	<b><u>5 171 042</u></b>
<b>Equity</b>	
Share Capital .....	50 000
Other reserves and retained earnings .....	165 426
	<b><u>215 426</u></b>
	<b><u>5 386 468</u></b>

The fair value of recognised identifiable assets acquired and liabilities assumed include, under Intangible assets, the amount of euro 107 768 thousand related to the present value of the business in force acquired related to life insurance contracts (Value in Force) (euro 76 515 thousand net of taxes). This asset will be amortised over the remaining lifetime of the contracts.

The goodwill recognised as a result of this acquisition amounts to euro 234 574 thousand, as follows:

	<u>%</u>	<u>(in thousand of euro)</u>
<b>Goodwill as the excess of:</b>		
Consideration transferred .....		225 000
Acquisition date fair value of the 50% interest previously held in BES Vida .....		225 000
		<b><u>450 000</u></b>
<b>Over:</b>		
Fair value of identifiable assets and liabilities acquired <sup>(1)</sup> .....	100	215 426
<b>Goodwill determined on a provisional basis .....</b>		<b><u>234 574</u></b>

(1) measured on a provisional basis

The goodwill is attributable mainly to the potential growth of the market where BES Vida operates.



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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:

	<u>(in thousand of euro)</u>
50% interest previously held in BES Vida	
Fair value .....	225 000
Book value .....	66 931
<b>Loss on remeasurement of the previously held in Bes Vida .....</b>	<b>158 069</b>
Recognition in the income statement of the accumulated fair value reserve of BES Vida appropriated on the acquisition of control in Bes Vida .....	(70 796) <sup>(1)</sup>
<b>Loss arising from the acquisition of control in BES Vida .....</b>	<b><u>87 273</u></b>

(1) Amount before non controlling interest. After non controlling interest the fair value recycled to the income statement amount to euro 19.8 million.

The profit of BES Vida from the acquisition date to 31 December 2012 included in the profit for the year attributable to the equity holders of the Company, amounts to euro 32.8 million. If BES Vida had been consolidated from 1 January 2012, the profit for the year attributable to the equity holders of the Company would have increased by euro 0.7 million.

**NOTE 56 — RECENTLY ISSUED PRONOUNCEMENTS**

**56.1 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 properties would be recovered either through use or sale, depending on management intention.

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

#### **56.2 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 policy 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.

## ESPÍRITO SANTO FINANCIAL GROUP S.A.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012 AND 2011 — (Continued) (Amounts expressed in thousands of euro, except when indicated)

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.

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

#### ***IAS 27 (Revised) — Separate Financial Statements***

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

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

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

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

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

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

#### ***IFRS 10 Consolidated Financial Statements***

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

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

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012 AND 2011 — (Continued) (Amounts expressed in thousands of euro, except when indicated)

The new concept of control involves the assessment of power, exposure to variability in returns and a linkage between the two. An investor 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 “joint 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.

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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

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AS AT 31 DECEMBER 2012 AND 2011 — (Continued)  
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***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.







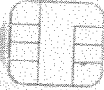




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