

# **I. MANAGEMENT REPORT**

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

MAIN INDICATORS*	2008	2009	2010	2011	2012
<b>ACTIVITY (eur million)</b>					
Total Assets <sup>(1)</sup>	97 882	105 917	104 912	98 589	97 765
Net Assets	74 244	81 702	83 028	80 237	83 691
Customer Loans (gross)	48 198	50 531	52 606	51 211	50 399
Customer Deposits	26 387	25 447	30 819	34 206	34 540
Total Customer Funds	55 698	60 595	55 988	54 383	56 188
Core Capital - BoP	3 412	5 232	5 416	6 020	6 471
Core Capital - EBA	-	-	-	-	6 091
<b>RESULTS/PROFITABILITY (%)</b>					
Net Income (M€)	419,2	571,7	556,9	-108,8	96,1
Return on Equity (ROE)	10,2%	11,0%	9,4%	-0,1%	1,2%
Return on Assets (ROA)	0,59%	0,73%	0,66%	0,00%	0,12%
<b>SOVENCY RATIOS <sup>(2)</sup></b>					
- CORE TIER I - BoP	6,1%	8,0%	7,9%	9,2%	10,5%
- CORE TIER I - EBA	-	-	-	-	9,9%
- TIER I	7,1%	8,3%	8,8%	9,4%	10,4%
- Total	11,3%	11,2%	11,3%	10,7%	11,3%
<b>LIQUIDITY (eur million)</b>					
ECB funds (net) <sup>(3)</sup>	250	- 1 760	3 929	8 677	6 897
ECB Eligible Assets (collaterals)	4 645	5 553	10 823	15 057	19 402
Loans to deposits Ratio <sup>(4)</sup>	178%	192%	165%	141%	137%
<b>ASSET QUALITY (%)</b>					
Overdue Loans > 90 days / Gross Loans	1,09%	1,60%	1,95%	2,74%	3,90%
Provisions / Overdue Loans > 90 Days	219,0%	191,5%	173,0%	154,5%	136,9%
Credit at Risk <sup>(5)</sup> / Total Credit	-	-	4,99%	6,59%	9,44%
Credit Provisions/Credit at Risk <sup>(5)</sup>	-	-	67,8%	64,2%	56,6%
Credit Provisions Reserve / Customer Loans (Gross)	2,38%	3,07%	3,38%	4,23%	5,34%
Cost of Risk <sup>(6)</sup>	0,57%	1,07%	0,67%	1,17%	1,62%
<b>PRODUCTIVITY/EFFICIENCY</b>					
Operating Costs / Total Assets (%)	1,01%	0,95%	1,07%	1,15%	1,18%
Assets per Employee (€1.000)	10 945	11 898	10 641	9 996	9 832
Total Cost to Income (%)	52,2%	41,1%	46,7%	57,9%	44,6%
Cost to Income (ex-markets) (%)	57,2%	52,4%	57,0%	57,3%	57,2%
<b>EMPLOYEES</b>					
Total <sup>(7)</sup>	8 943	8 902	9 858	9 863	9 944
- Domestic Activity	7 546	7 388	7 584	7 588	7 477
- International Activity	1 397	1 514	2 274	2 275	2 467
<b>BRANCH NETWORK</b>					
Retail Network	803	799	828	801	775
- Domestic	743	734	731	701	666
- International	60	65	97	100	109
Corporate Network (domestic)	27	26	24	24	25
Private Banking Network (domestic)	28	25	22	22	23
<b>RATING</b>					
<b>Long Term</b>					
STANDARD AND POOR'S	A	A	A <sup>+</sup>	BB	BB-
MOODY'S	Aa3	A1	A2	Ba2	Ba3
DBRS	-	-	-	BBB	BBB <sup>(low)</sup>
<b>Short Term</b>					
STANDARD AND POOR'S	A 1	A 1	A 2	B	B
MOODY'S	P 1	P 1	P 1	NP	NP
DBRS	-	-	-	R-2 <sup>(high)</sup>	R-2 <sup>(med)</sup>

\* 2008, 2009 and 2010 data adjusted according to changes in accounting policy for booking actuarial deviations

(1) Net Assets + Asset Management + Other off-balance sheets + Securitised Credit

(2) Calculated under IFRS Foundation

(3) Positive figure represents a borrowing position; negative figure represents a lending position

(4) Ratio calculated under BoP Funding & Capital Plan (2011 and 2012)

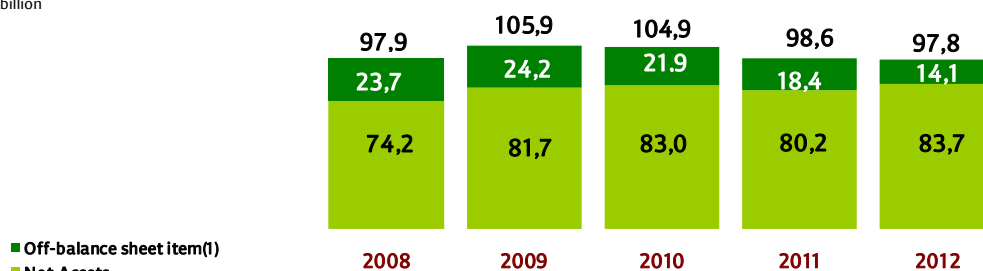
(5) According to BoP Instruction n°23/2011

(6) P&L provisions / Gross Loans

(7) Includes employees with permanent and fixed term contracts

## TOTAL ASSETS

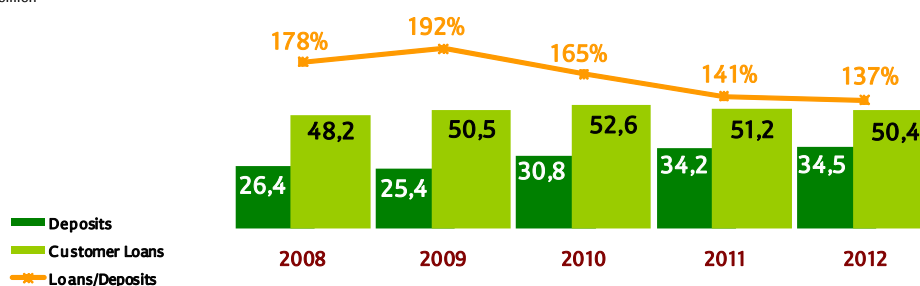
eur billion



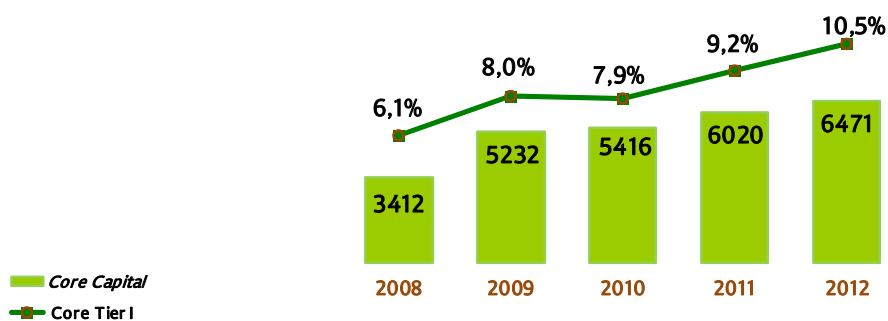
(1) Assets and Liabilities off-balance items

## BUSINESS WITH CLIENTS

eur billion

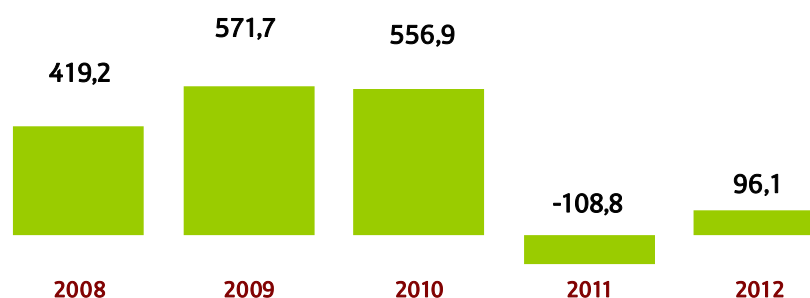


## CORE CAPITAL AND CORE TIER I

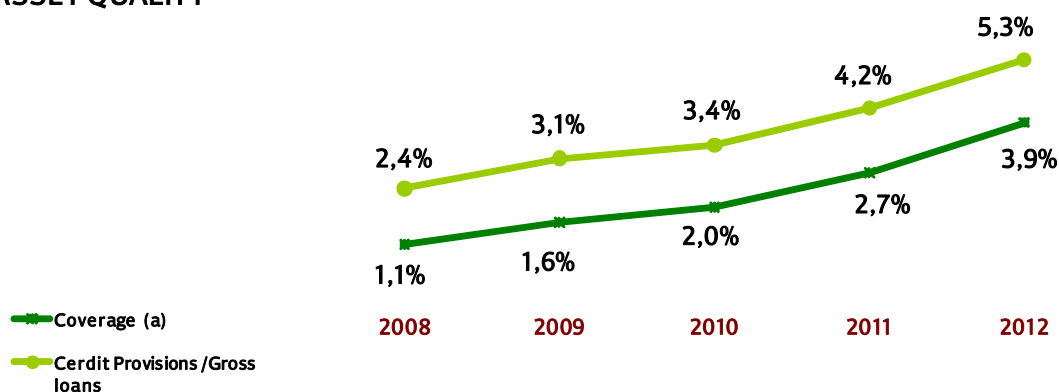


## NET INCOME

eur million

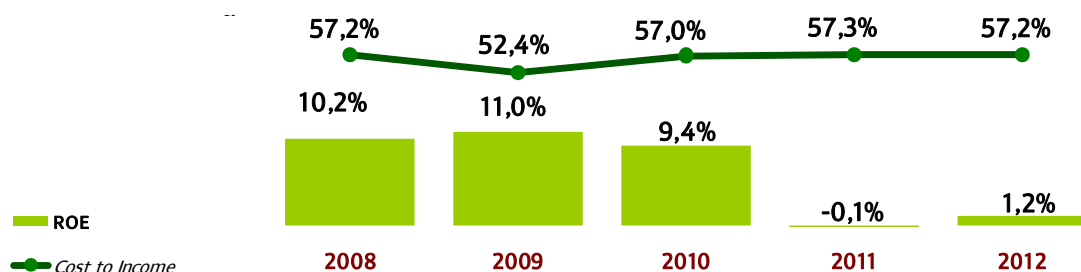


## ASSET QUALITY



(a) Overdue Loans + 90 days / Gross Loans

## PROFITABILITY AND EFFICIENCY



RESULTS AND PROFITABILITY	SIMBOL.	2008	2009	2010	2011	2012
<b>Average Balance (eur million)</b>						
Net Assets	NA	71 418	78 657	83 759	82 178	82 959
Interest Earning Assets	IEA	61 788	68 018	72 163	70 279	69 443
Capital and Reserves	KP	3 779	4 886	5 578	5 895	7 057
<b>Income Statement (eur million)</b>						
Net Interest Income	NII	1 086,2	1 200,9	1 164,0	1 181,6	1 180,5
+ Fees and Commissions	FC	636,2	717,9	806,9	790,5	828,4
= Commercial Banking Income	CBI	1 722,4	1 918,8	1 970,9	1 972,1	2 008,9
+ Capital Markets and Other results	CMR	165,7	530,6	432,9	-21,9	569,5
= Banking Income	BI	1 888,1	2 449,4	2 403,8	1 950,2	2 578,4
+ Insurance Premiums and Costs	INS	-	-	-	-	0,7
- Operating Costs	OC	984,7	1 006,1	1 123,1	1 129,2	1 149,1
= Net Operating Income	OI	903,4	1 443,3	1 280,7	821,0	1 430,0
- Net Provisions	PROV	375,8	708,8	533,6	848,3	1 199,4
= Income before Taxes and Minorities	PBT	527,6	734,5	747,1	-27,3	230,6
- Income Tax	T	83,5	109,8	43,7	-31,1	110,8
- Minority Interests	MI	24,9	53,0	146,5	112,6	23,7
= Net Income	NII	419,2	571,7	556,9	-108,8	96,1
<b>PROFITABILITY (%)</b>						
Net Interest Margin	NII / IEA	1,76	1,77	1,61	1,68	1,70
+ Return on Fees and Commissions	FC / IEA	1,03	1,06	1,12	1,12	1,19
+ Return on Capital Markets and Other Results	CM / IEA	0,27	0,78	0,60	-0,03	0,82
= Business Margin	BI / IEA	3,06	3,60	3,33	2,77	3,71
+ Weighting of Insurance Premiums and Costs	INS / IEA	-	-	-	-	0,00
- Weighting of Operating Costs	OC / IEA	1,59	1,48	1,56	1,61	1,65
- Weighting of Provisions	PROV / IEA	0,61	1,04	0,74	1,21	1,73
- Weighting of Minorities and other	(MI+IT+XR) / IEA	0,18	0,24	0,26	0,12	0,19
= Return on Interest Earning Assets	NP / IEA	0,68	0,84	0,77	-0,15	0,14
x Weighting of Interest Earning Assets	IEA / NA	0,87	0,86	0,86	0,86	0,84
= Return on Assets	NP / NA	0,59	0,73	0,66	0,00	0,12
x Placements multiplier	NA / KP	17,39	15,15	14,11	13,72	10,22
= Return on Equity	NP / KP	10,21	11,01	9,38	-0,05	1,25

## Bank of Portugal Reference Indicators

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

	2011	2012
<b>SOLVENCY</b>		
Tier I/ Risk Weighted Assets	10,7%	11,3%
Regulatory Capital / Risk Weighted Assets	9,4%	10,4%
Core Tier I / Risk Weighted Assets	9,2%	10,5%
<b>ASSET QUALITY</b>		
Overdue and Doubtful Loans / Gross Loans	3,6%	5,0%
Overdue and Doubtful Loans net of Impairments /Total Net Loans	-0,6%	-0,3%
Credit at Risk / Gross Loans	6,6%	9,4%
Credit at Risk (net) / Net Loans	2,5%	4,3%
<b>PROFITABILITY</b>		
Income before Taxes and Minorities/Average Equity	-0,8%	2,9%
Banking Income /Average Net Assets	2,4%	3,1%
Income before Taxes and Minorities/Average Net Assets	-0,1%	0,2%
<b>EFFICIENCY</b>		
General Admin Costs+Depreciation/Banking Income	57,9%	44,6%
Staff Costs / Banking Income	30,1%	23,2%
<b>TRANSFORMATION RATIO</b>		
(Gross Loans - Provisions )/ Customer deposits	141%	137%

## *Management Report - Index*

Joint Message of the Chairman of the Board of Directors and the Chairman of the Executive Committee 8

1. BES Group

2. Responsible Management - the other BES

3. Economic Environment

4. Commercial Activity

5. Financial Management and Capital Markets

6. Risk Management

7. Financial Analysis

8. Financial Statements

9. Final Notes

Appendix: the Sustainability Accounts

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

---

Dear Shareholders,

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

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

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

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

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

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



exports but also the range of goods exported. In 2012 exports outside the European Union already accounted for 27% of total exports, with exports of goods and services having increased as a percentage of the total.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ricardo Espírito Santo Salgado

Chairman of the Executive Committee

Vice-Chairman of the Board of Directors

Alberto Oliveira Pinto

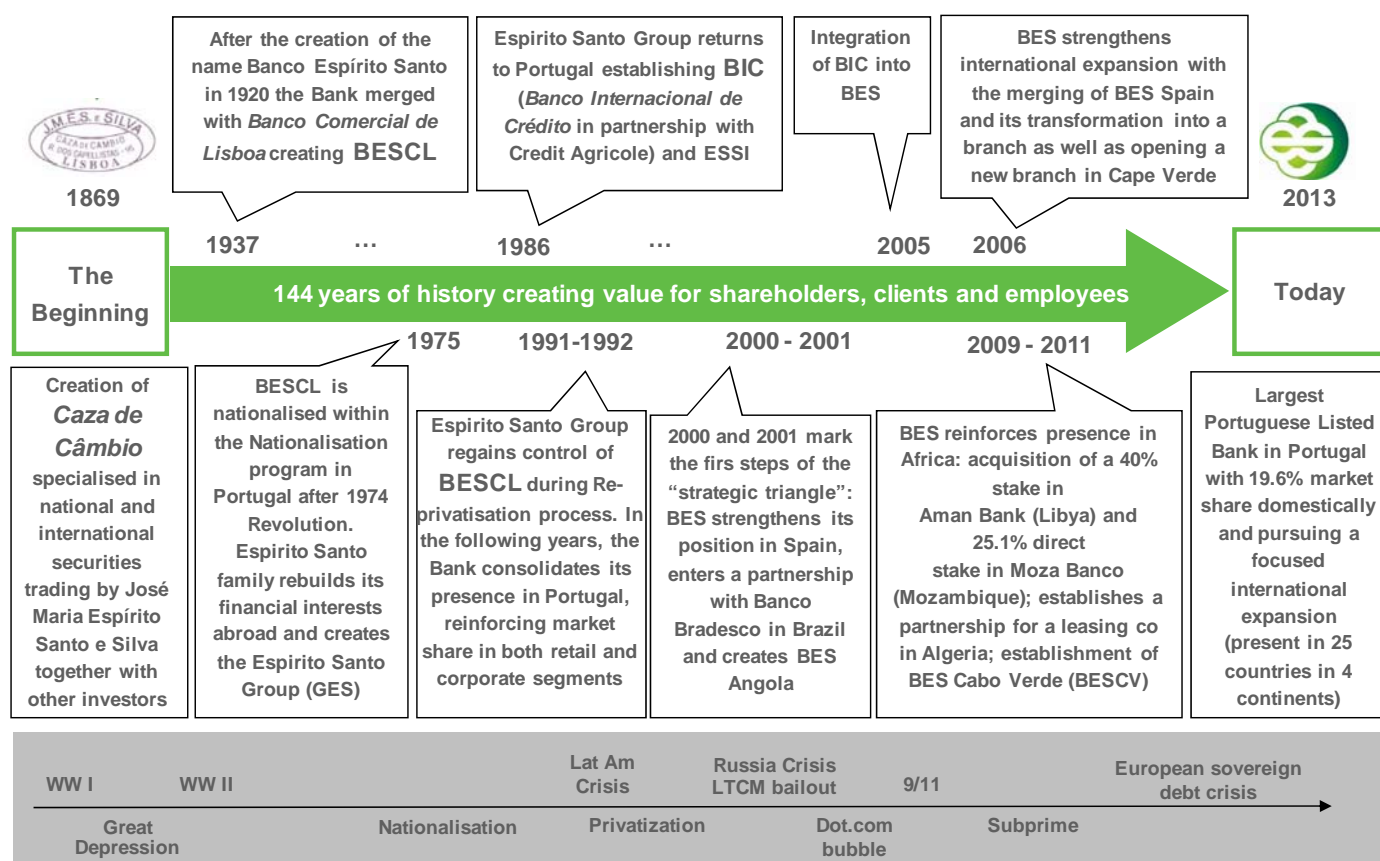
Chairman of the Board of Directors

## 1. BES GROUP

### Mission

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

### A Brand with more than 140 years



## BES Group today

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

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

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

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

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

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

## Strategy

Banco Espírito Santo Group's main pillar for development and strategic differentiation lies on service excellence and a permanent focus on the needs of each client, whether individual, corporate or institutional.

With its differentiated value propositions, BES Group offers a broad range of financial products and services that meet the specific needs of its clients.

A solid and stable management has enabled the development of a consistent strategy oriented towards a long-term vision and based on strategic partnerships, long-standing relationships with its various stakeholders and a core group of reference shareholders since the Bank's privatisation in 1991.

These are the Group's main strategic guidelines:

- **Strengthening of its domestic positioning** through the acquisition of new clients (individual and corporate), the reinforcement of the share-of-wallet in the current client base (particularly in saving products), and the diversified offering of innovative products and services, supported by cross-selling and cross-segment initiatives, such as bancassurance and assurfinance (in partnership with Companhia de Seguros Tranquilidade);
- **Expansion of its international activities** by stronger positioning in the strategic triangle (Iberia, Brazil and Africa) and by the expansion into new markets considered strategic and offering business opportunities;
- **Support to Portuguese companies in the phase of international expansion**, through (i) partnerships with local entities; (ii) trade missions with entrepreneurs to relevant countries; (iii) recognised know-how in trade finance, a business area in which the Group has consistently been market leader in Portugal, with a share of 31% in 2012; and (i) dedicated teams and structures specialising in supporting companies in the process of internationalisation (including the International Premium Unit, which has no equal in the Portuguese banking sector);
- **Improved operating efficiency**, with an efficiency ratio below 50% and a prominent position within Iberia's main financial institutions;
- **Development of long-term strategic partnerships**, a fundamental link in BES Group's strategy. BES Group has a strategic joint venture with Crédit Agricole, one of its main shareholders, under which it has established cross-selling platforms, namely in the area of bancassurance. BES also maintains a strategic joint venture with Banco Bradesco, one of Brazil's main banks and also a BES shareholder. Banco Bradesco holds a 20% stake in BES Investimento Brasil, BES Group's investment banking unit in Brazil, and supports the bank's activity by sharing its knowledge of the Brazilian market – a key market in the Group's strategy for international expansion.
- **Development of a sustainability strategy** along the following dimensions: governance and ethics; corporate identity; innovation and entrepreneurship; financial inclusiveness; biodiversity and climate change; responsible citizenship. These areas have been defined on the basis of stakeholder consultation, the Group's vision and activities, and the trends for the financial sector.

### Short-term strategic priorities

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

- **Balance sheet deleveraging:** in the second half of 2010 BES Group initiated an ambitious balance sheet deleveraging programme with the objective of reducing the loan to deposits ratio and reinforcing its financial strength. The successful implementation of this programme permitted to reduce the loan to deposits ratio from 198% in June of 2010 to 137% on December 31st, 2012;
- **Reinforcement of solvency ratios:** in December 2011 the Group concluded debt to equity exchanges viewing the reinforcement of its capital ratios. These operations allowed BES Group to reach a core Tier I ratio of 9.2% at year-end, thus above the Bank of Portugal's requirements for that date. In May 2012 BES carried out a capital increase that made it one of the best capitalised banks in Europe while maintaining its strategic autonomy. In December 2012 the core Tier I ratio was 10.5%, standing comfortably above the 10% required by the Bank of Portugal for the end of that year.
- **Prudent risk management:** in line with its traditionally prudent stance in financial management, BES Group increased provisioning during 2012: the reinforcement of provisions for credit, securities and other totalled EUR 1,199 million, while the balance of provisions reached 5.34% of gross loans at the end of 2012;
- **Sustaining profitability for the future,** through the growth of the international business and increased efficiency. On the international front, the strategic triangle maintained an expressive contribution to BES Group's results, compensating the deceleration of domestic activity. Net income from the operations in Africa, Brazil and Spain amounted to EUR 60.7 million at the end of the year, representing 69% of the international results. To increase efficiency, several cost reduction measures were implemented, especially in Portugal, where there was a net reduction of 35 branches between the end of 2011 and the end of 2012. Domestic costs dropped by 1.4% year-on-year.

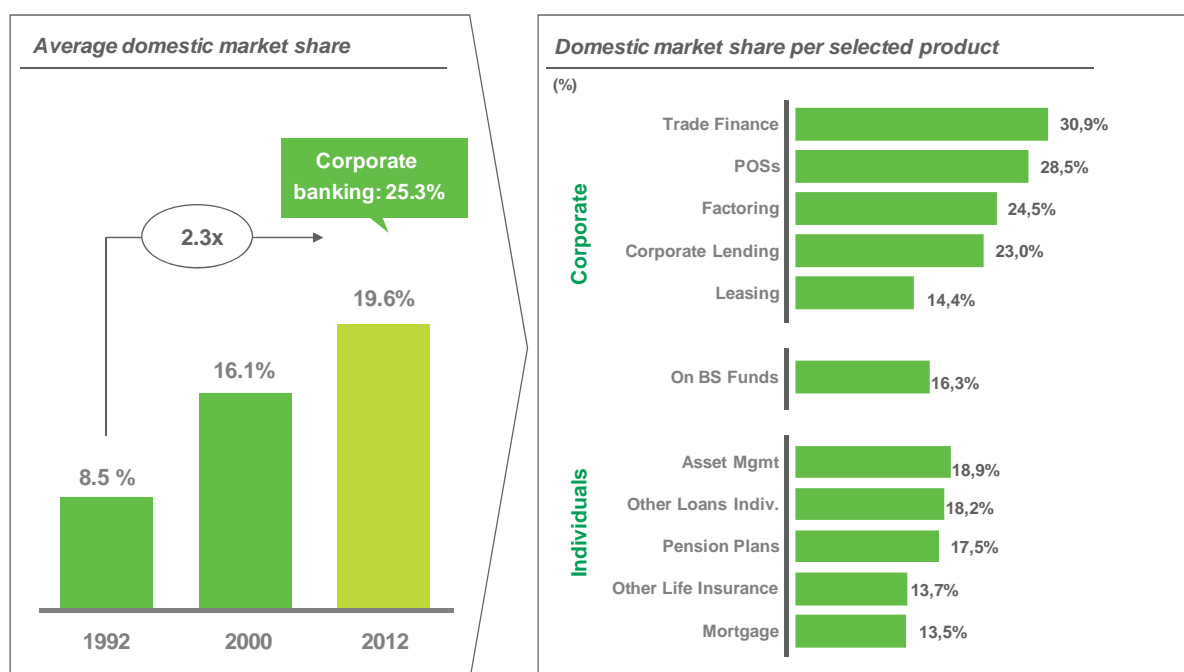
## Domestic Activity

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

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

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

### Market Share – Average and by Product \*



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

## Distribution Channels

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

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

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

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

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



## International Activity

Its international orientation was a key feature in the development of BES Group's activity throughout its history, and the future development of this orientation is a key aspect of its growth strategy.

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

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



### Spain

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



### Brazil

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

The asset management activity in Brazil is conducted by BESAF – BES Ativos Financeiros, and securities brokerage by BES Securities.



### Angola

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

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

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

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

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

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



#### **Cape Verde**

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

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



#### **Libya**

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

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



#### **United Kingdom**

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



### **France**

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



### **United States of America**

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



### **Macau**

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



### **Poland**

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



### **Mozambique**

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

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

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

financing for investment projects, cash and saving management services, and trade transactions in the domestic and international markets.



#### **Venezuela**

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

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

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



#### **Luxembourg**

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

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

BES Group has representative offices in South Africa, Germany, Canada, China, Mexico, and Switzerland, as well as partnerships with local banks, such as Banco delle Tre Venezie in Italy, Banque Marocaine du Commerce Extérieur, in Morocco, and Banque Extérieure d'Algérie, in Algeria.

## Prizes and Awards obtained in 2012

### BANCO ESPÍRITO SANTO

#### **First Portuguese bank in the Dow Jones Sustainability Indexes**

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

#### **First Portuguese bank in the FTSE4Good**

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

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

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

#### **BES elected “The best company in social responsibility” by Human Resources Portugal**

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

#### **BES named “Best Trade Finance Bank” in Portugal for the 7th consecutive year**

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

#### **BES obtains ISO9001 quality certification for Trade Finance area of operations**

This certification enhances BES Group's strategic investment in the development of its trade finance business line, in support of the internationalisation of the Portuguese companies.

## Main Events in 2012

### January

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

### February

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

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

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

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

### March

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

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

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

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

## **April**

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

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

## **May**

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

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

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

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

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

## **July**

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

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

## August

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

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

## September

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

## October

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

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

## November

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

**13** – BES Group Net income in the 3Q12 is EUR 64.9 million in the 3Q12.

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

## December

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



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

## Corporate Bodies

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

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

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

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

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

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

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

- Audit Committee, consisting of three independent non-executive directors. The Report of the Audit Committee on the activities in 2012 may be found at the end of this report;
- Corporate Governance Committee, consisting of three independent non-executive directors;
- Remuneration Advisory Committee, consisting of three independent non-executive directors.

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

In so far as the day-to-day management of the Company is delegated to the Executive Committee, the Chairman of the Board of Directors may at any time ask the Chairman of the Executive Committee to clarify matters considered

relevant for the exercise of his functions or to ensure that the other Board members are informed about such matters.

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

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

- Approval of BES Group's results for 2011 and first three, six and nine months of 2012;
- Approval of the proposed allocation of the 2011 results;
- Approval of the proposals to be submitted to the Annual General Meeting of March 22nd, 2012 concerning: (i) the Management Report, the Corporate Governance Report and the remaining consolidated and individual reporting documents relative to fiscal year 2011; and (ii) the remuneration policy of BES's senior officers and changes to the variable remuneration plan;
- Approval of the capital increase to take place in May;
- Approval of the acquisition of 50% of the share capital of Companhia de Seguros BES Vida;
- Approval of the proposals to be submitted to the Extraordinary General Meeting of August 28th, 2012 concerning: (i) the partial amendment of the articles of association, namely the amendment of Article 4; (ii) the suppression of the shareholders' pre-emption rights, in case the Board of Directors resolves on a share capital increase, pursuant to number 2, article 4 of the articles of association, in order to incorporate credits from the Portuguese State resulting from the potential execution of the guarantee securing the unsubordinated bonds issuance;
- Appointment by co-optation of Board members Milton Almicar Silva Vargas and Xavier Musca to replace Antônio Bornia and Michel Jacques Mathieu.

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

### **Board of Directors**

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

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

### **Executive Committee**

Ricardo Espírito Santo Silva Salgado (Chairman)  
José Manuel Pinheiro Espírito Santo Silva  
António José Baptista do Souto

---

Jorge Alberto Carvalho Martins  
José Maria Espírito Santo Silva Ricciardi  
Rui Manuel Duarte Sousa da Silveira  
Joaquim Aníbal Brito Freixial de Goes  
Amílcar Carlos Ferreira de Moraes Pires  
João Eduardo Moura da Silva Freixa  
Stanislas Gerard Marie Georges Ribes

### **Board of the General Meeting**

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

### **Audit Committee**

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

### **Certified Statutory Auditor (“ROC” or SA)**

KPMG & Associados, SROC, S.A., represented by Sílvia Cristina de Sá Velho Corrêa da Silva Gomes  
Deputy Certified Statutory Auditor - Fernando Gustavo Duarte Antunes (ROC)

### **Company Secretary**

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

---

1) Resigned on February 2013

## The BES Shares – Value Creation

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

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

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

### Main Stockmarket Indicators

			Dec 11	Dec 12	Change
<b>Share Data</b>					
01. Number of Shares Outstanding	(thousand)		1 461 240	4 017 928	2 556 688
02. Weighted Average of Shares Outstanding <sup>(1)</sup>	(thousand)		1 187 255	3 096 971	1 909 716
03. Last Closing Price <sup>(2)</sup>	(eur)		1,350	0,895	-33,7%
04. Market Capitalisation	(eur Mn)	(01x03)	1 973	3 596	82,3%
<b>Consolidated Financial Data (year-end)</b>					
05. Equity Attributable to Shareholders <sup>(3)</sup>	(eur Mn)		5 604	7 063	26,0%
06. Equity Attributable to Ordinary Shares <sup>(4)</sup>	(eur Mn)		5 363	6 841	27,6%
07. Net Income	(eur Mn)		-108,8	96,1	....
08. Net Income Attributable to Ordinary Shares	(eur Mn)		-3,1	92,6	....
09. Gross Dividend of Ordinary Shares	(eur Mn)		-	-	
10. Pay Out Ratio of ordinary Shares	(%)	(09/07)	-	-	
<b>Per Share Data</b>					
11. Book Value per Share	(eur)	(06/01)	3,67	1,70	-53,6%
12. Earnings per Share <sup>(5)</sup>	(eur)	(08/02)	0,00	0,03	....
13. Gross Dividend per Share	(eur)	(09/01)	-	-	-
<b>Price as a Multiple of</b>					
14. Book Value	PBV	(03/11)	0,37	0,53	
15. Net income	PER	(03/12)	....	29,94	
<b>Price Return On</b>					
16. Net Income	(%)	(12/03)	0,00	3,34	
17. Dividend (Dividend Yield)	(%)	(13/03)	-	-	

(1) Average number of ordinary shares weighted by permanence time

(2) Source: *NYSE EURONEXT LISBON*

(3) Total Equity - Minority Interests

(4) Total Equity - Minority Interests - Preference Shares - Other Equity Instruments

(5) considering the weighted average number of shares for Dec. 12

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

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

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

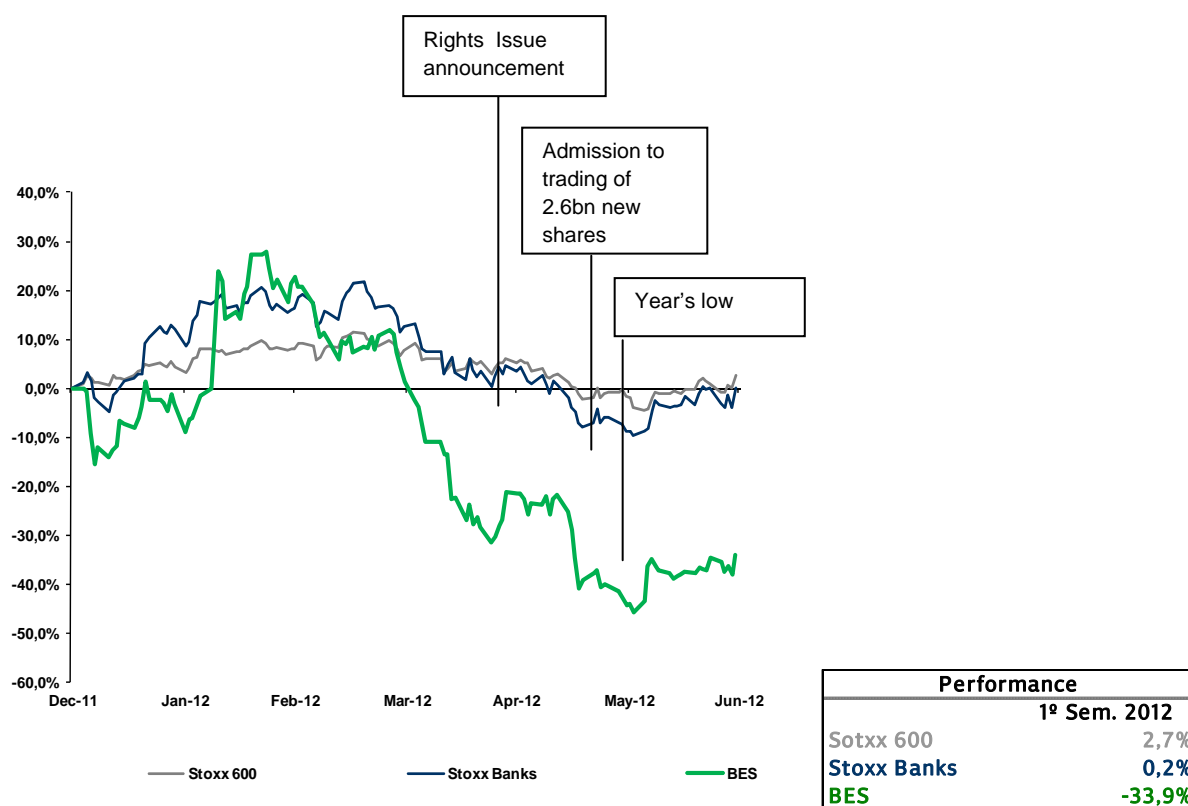
Through this operation BES became a unique case in Portugal as the first Portuguese bank to meet the regulatory capital requirements imposed by the Portuguese and European authorities, resorting exclusively to market solutions, and thus maintaining its strategic autonomy.

## **BES Shares performance**

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

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

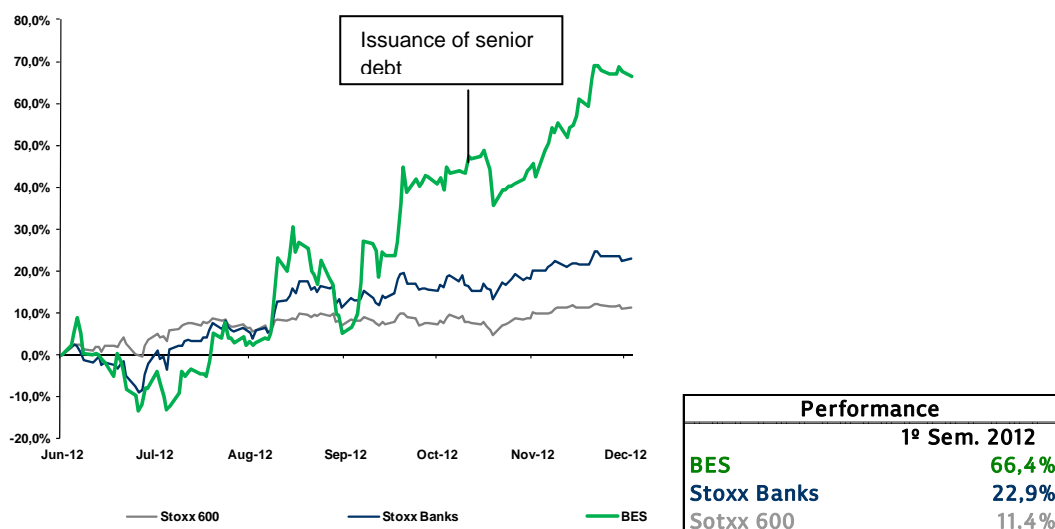
### BES Shares, Euro Stoxx and Stoxx 600 in the 1st half of 2012



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

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

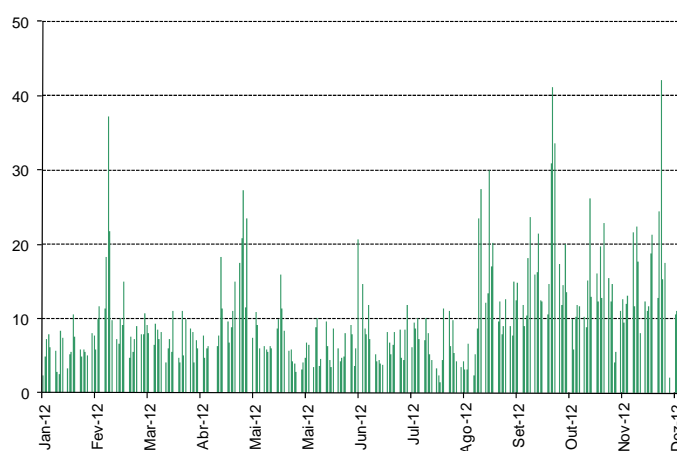
## BES Shares, Euro Stoxx and Stoxx 600 in the 2<sup>nd</sup> half 2012



## Liquidity

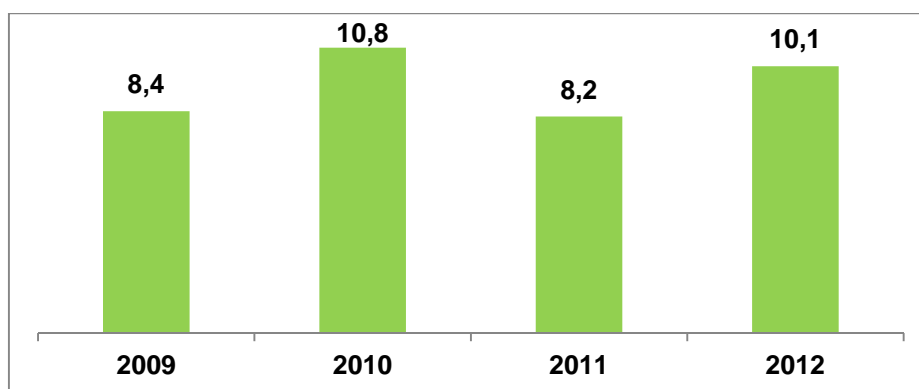
The average number of BES shares traded per day in 2012 was 14.8 million, up by 140.1% from 2011, when an average of 6.2 million shares were traded daily. BES became the more liquid bank in Portugal, especially following the listing in May of the new shares issued in the capital increase. The liquidity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

## BES share trading volume in 2012 (no. of shares)





Evolution of BES share trading volume (EUR million)



## Shareholder Structure

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

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

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

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

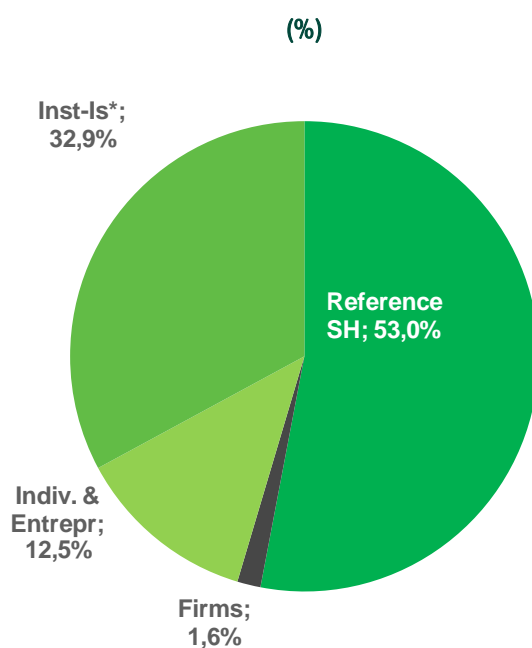
### Main Shareholders

Shareholder	%	
	Dec,11	Dec,12
BESPAR - Sociedade Gestora de Participações Sociais, S.A.	35,00	35,29
CRÉDIT AGRICOLE, S.A	8,63	10,81
BRADPORT, SGPS, S.A*	4,83	4,83
SILCHESTER INTERNATIONAL INVESTORS LIMITED (UK)	5,67	5,76
PORTUGAL TELECOM, SGPS, S.A (through PT Prestações-Mandatária de aquisições e gestão de bens, S.A.	2,09	2,09

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

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

### Shareholder Structure as of December 31st, 2012



\* Includes qualified holding of Silchester (5.8%)

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

## Conferences

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

- Annual Iberian Conference promoted by Espírito Santo Investment Bank, in London
- HSBC Southern European Financials Conference, in London
- Goldman Sachs Iberian Banks Symposium, in London
- Morgan Stanley European Financials Conference, in London
- UBS Global Financials Conference, In New York
- BBVA Iberian Day, in London
- 
- KBW European Financials Conference, in London
- Portuguese Day promoted by the NYSE Euronext and Caixa BI in New York
- BPI Iberian Conference, in Porto

## Dividends

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

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

## Research on BES

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

## 2. Responsible Management

---

### Involvement with the Stakeholders

BES Group regularly sounds its relevant stakeholders and makes them part of the decision-making process, either with regard to one-off initiatives or concerning the sustainability programme's policies and practices.

The biennial survey initiated in 2011 (whose results were obtained in 2012) found that the Bank addresses the main issues voiced by the different stakeholders and that the majority of the respondents is aware of the Bank's sustainability practices.

The following areas for improvement were identified:

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

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

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

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

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

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

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

## Employees

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

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

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

### Employees Geographical Distribution

Country	Dec. 11	Dec.12
Portugal	7 557	7 495
Rest of Europe		
Spain	567	576
United Kingdom	210	189
Other	79	93
Africa	1047	1 118
South America	197	269
North America	178	174
Asia	28	30
<b>TOTAL</b>	<b>9863</b>	<b>9 944</b>

### Human Capital

Gender	Men	50%	Women	50%		
Age group	<30	13%	30-50	69%	>50	18%
Staff rotation rate	8.5%					
Average hours of Training	24					
Absenteeism rate	2,6%*					

\* The absenteeism rate does not consider absences for maternity or paternity

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

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

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

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

## Training and Career Management

Attracting and retaining the best professionals, a training plan, internal mobility and evaluating and rewarding merit – these are the key pillars for the development and career advancement of BES Group employees.

In 2012 the Group provided an average of 24 hours of training to each employee. The training plan addressed the specific behavioural and technical requirements of the various businesses and functions within the Group.

### *School Branch*

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

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

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

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

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

### *BES University*

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

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

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

### ***Training in Human Rights***

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

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

This training aimed to:

- reinforce knowledge about the fundamental rights enunciated in the United Nations Universal Declaration of Human Rights and boost identification with the commitments assumed by BES Group in its Non Discrimination and Equal Career Opportunities policy;
- foster adherence to the ethical and deontological guiding principles which the companies and employees of BES Group must follow and which are enshrined in the Group's Code of Conduct;
- stress the importance of compliance with the rules on terrorism financing and corruption prevention, with a focus on money laundering prevention and the UK Bribery Act.

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

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

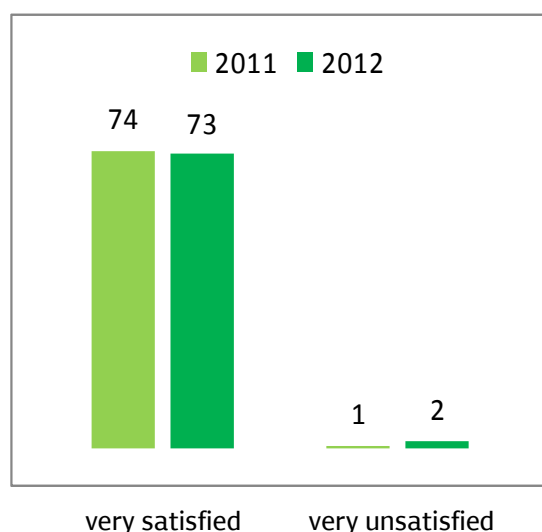
### **Satisfaction and Motivation**

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

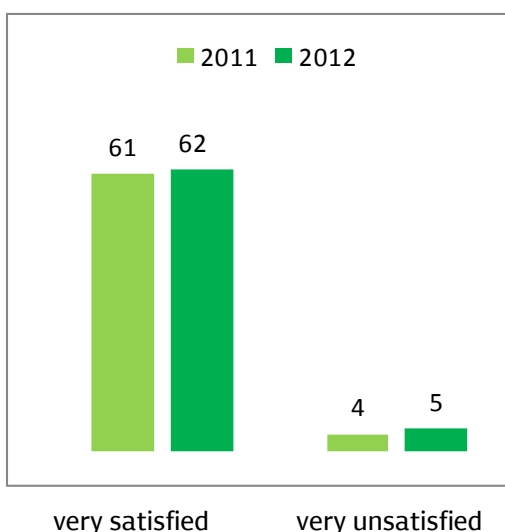
Overall, 73% of the employees responded to the questionnaire, the largest number in the last three years. In terms of results, there was a small decrease in satisfaction with the company, while 62% of the respondents replied they were "very satisfied" with their function (a 1 pp increase from 61% in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



### Satisfaction with Company



### Satisfaction with function



### Employee Benefits

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

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

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

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

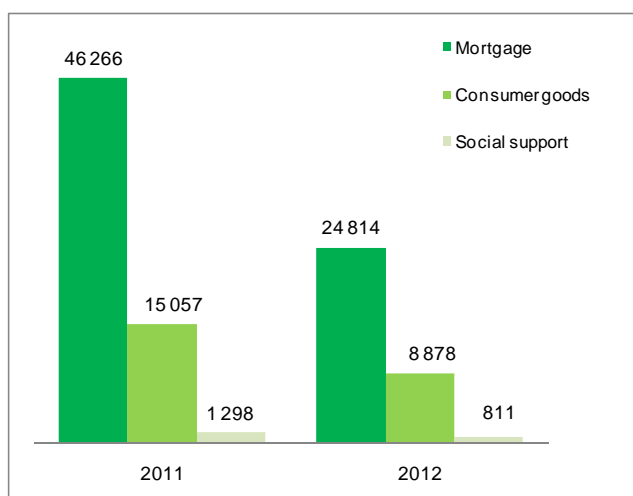
Also in 2012 the Bank allowed the extension of the maturity periods of the subsidised loans granted to its employees with the aim of lowering the burden of credit in their family budgets.

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

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

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

### Loans and support to employees



### Health and safety in the workplace

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

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

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

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

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

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

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

## **Conduct**

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

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

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

## ***Money Laundering Prevention***

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

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

## ***Human Rights Policy***

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

- Assignment of Human and Labour Rights portfolio to a specific Director;
- Publication of the Human Rights policy on the websites of its subsidiaries, in the languages of the countries in question;
- Training on Human Rights issues provided to the employees of all Group companies.

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

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

## Clients

### Service Quality – A Culture of Commitment to the Clients

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

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

- Satisfaction surveys to clients and employees;
- Mystery client programmes to assess key moments in the client's experience with the Bank;
- Measurement of the time of response to the various requests.

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

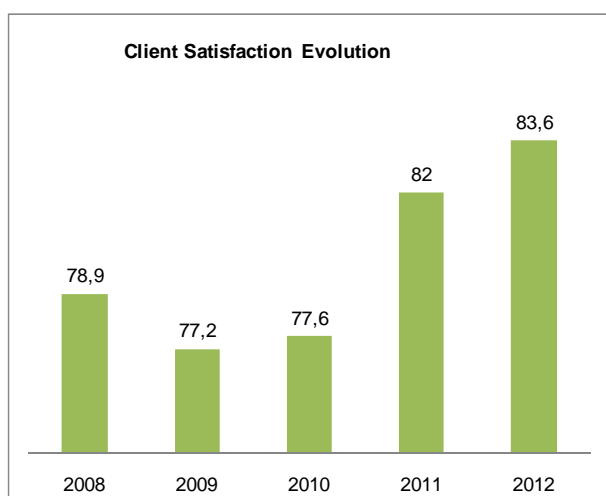
The management of complaints is also critical in Banco Espírito Santo's strategy, being viewed by all employees as an opportunity to restore a relationship of confidence with the clients and to trigger actions for improvement.

In 2012 the rate of complaints per 1,000 active clients was 0.9.

According to the Bank of Portugal's "Behavioural supervision activities – interim overview" report, BES ranks among the financial institutions with the lowest level of complaints submitted by clients to the Bank of Portugal.

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

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



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

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

### Credit Recovery

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

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

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

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

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

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

## Suppliers

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

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

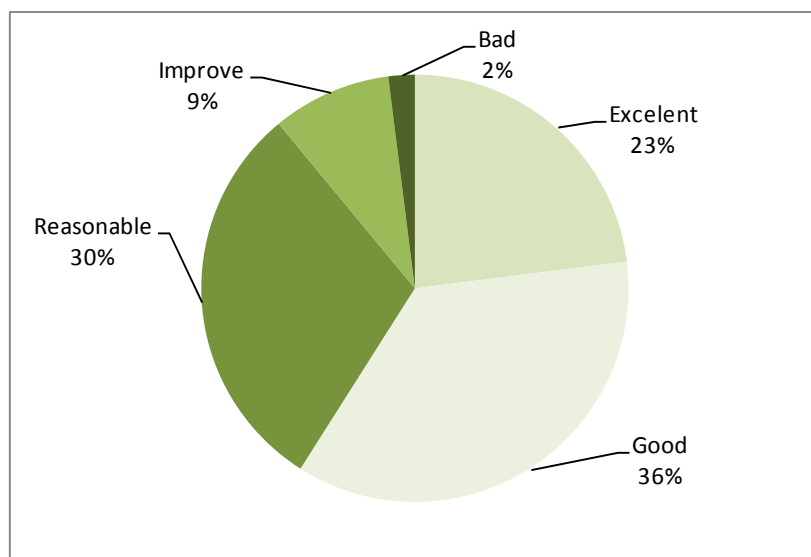
The suppliers' certification process (pre-qualification) involves a number of steps, namely the collection of relevant information about their capacities, an invitation for them to adhere to BES Group's Principles of Conduct, which were drawn up based on the United Nations' Global Compact Principles,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

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

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

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

### Social and Environmental Scoring



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

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

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

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

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

Bearing in mind the current social and economic context, the Group reaffirms its commitment not only to continue to meet all agreed payment terms, but also to trend towards the reduction of average payment periods, thus maintaining a responsible attitude while also contributing to the suppliers’ financial sustainability. It also undertakes to reinforce its purchase management policies and practices in 2013, in line with best practices. BES is already working

on another two structuring projects to be implemented in 2013, namely a process to improve the efficiency and automated registration and processing of supplier invoices, and a process to allow suppliers online access to information about payments in the Suppliers Portal.

## Environmental Footprint

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

The Bank has devoted increasing financial and human resources to reduce energy consumption and CO<sub>2</sub> emissions, and consequently its energy bill.

One year prior to the deadline set to achieve these reduction objectives, three of the four targets have already been attained. Energy consumption per employee was reduced by 21.7% in the 2008-2012 period, surpassing the target by 15 p.p, while the same was achieved in terms of CO<sub>2</sub> emissions, which dropped by 19%, and water consumption, where the target was surpassed by 1.1 p.p.

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

### Environmental footprint: objectives and results

	Energy	CO <sub>2</sub> Emissions (2)	Paper	Water
2008 – 2013 Reduction Objectives <sup>(1)</sup>	-11%	-11%	-12%	-11%
Evolution 2008 - 2012	-21.7%	-22%	2.1%	-12.1%

1 Scope: BES Portugal

2 Emissions from the use of electricity

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

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



## Main Consumptions with an Environmental Impact



### *Energy and emissions*

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

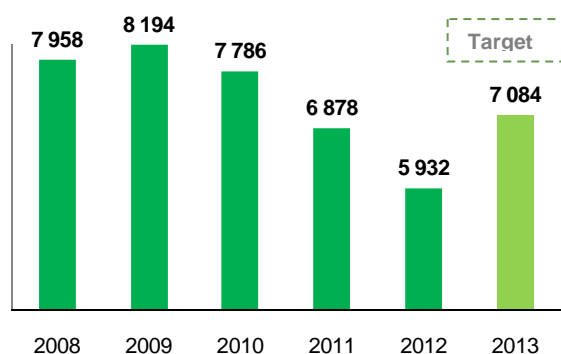
In 2011 and 2012 the Bank invested approximately EUR 1.5 million in the implementation of its "Internal Energy Efficiency Programme". Using energy and environmental monitoring equipment and an energy management software application, this pioneering projects allows BES to monitor in real time its energy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

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

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

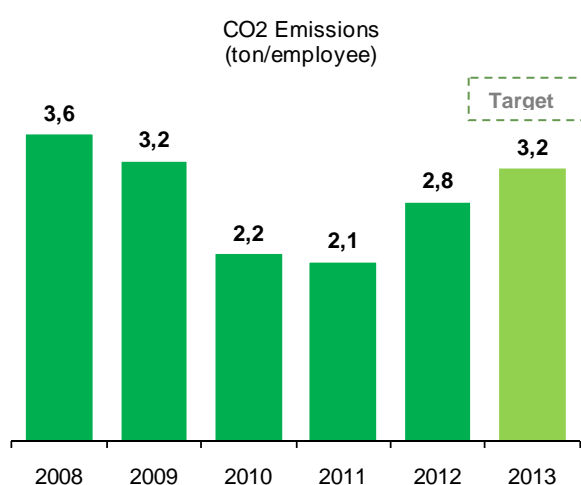
In 2012 the Bank already felt the benefits of having implemented this programme, with electricity consumption per employee dropping by 21.7% relative to 2008. In absolute terms, energy consumption dropped by 9% year-on-year in 2012.

Electricity consumption per employee  
(kWh/employee)



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

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



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

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

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

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

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

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

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

### Carbon Disclosure Project

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

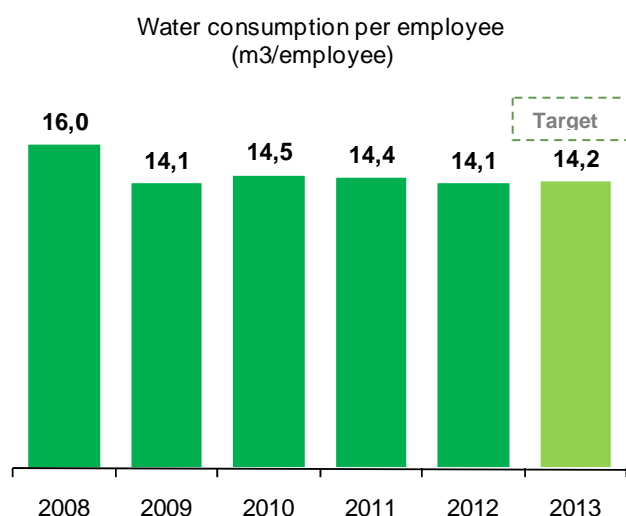
In the 2012 report BES raised its rating in the carbon performance scale from B to A-. The Carbon Performance ranking assesses the effectiveness of the organisation in terms of actions to mitigate emissions of greenhouse gases, and is expressed in six performance classes.

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

### ***Water***

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

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



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

### ***Paper and waste***

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

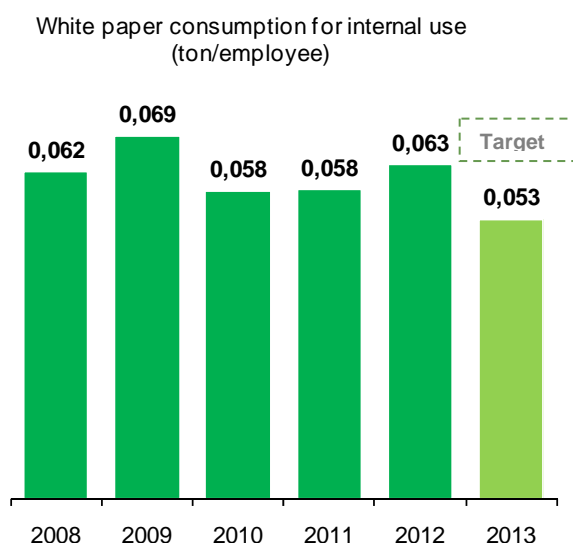
Paper actually permits to boost confidence levels in the Bank's relationship with its clients as well as in the regular reporting to the regulators.

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

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

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

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



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

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

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

## The Other BES

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

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

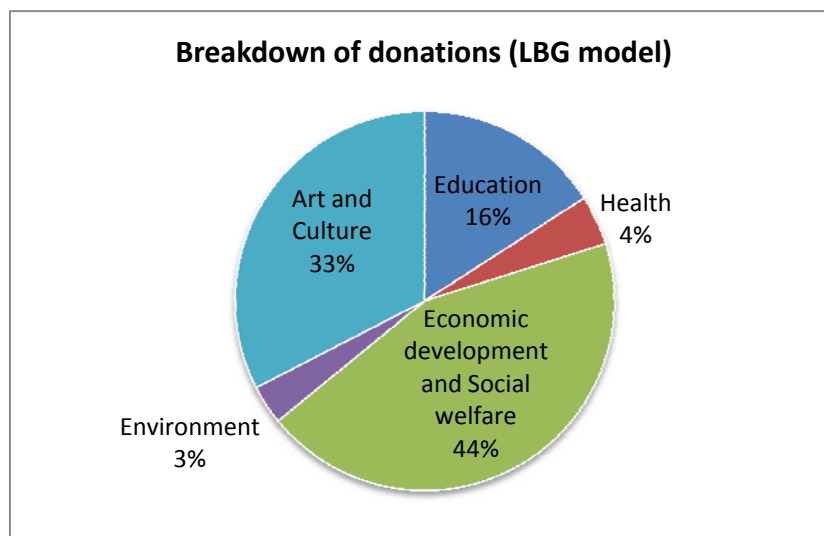
According to the London Benchmarking Group (LBG) method for measuring investment in the community, in 2012 the Group allocated approximately 31% of its contributions to solidarity, 60% to direct investment in the community and 4% to commercial actions. Under the patronage scheme alone, the Group provided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

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

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

### Social solidarity architecture





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

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

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

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

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

In 2012, BES organised the 8th edition of the **National Innovation Awards**. A total of 110 applications were received in the categories of Clean Tech & Industrial Processes, Information Technologies and Services, Health Technologies & Biotechnology, and Natural Resources & Food, and four prizes were awarded to innovative projects making a difference in the international scenario. The grand prize was awarded in the Information Technology & Services category, to a project which permits a 10-fold increase in the number of users with real time access to video or data content from a

single Wi-Fi access point. The BES National Innovation Awards have already awarded prizes in the amount of EUR 2,670 million, and received applications from a total of 1,336 projects.

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

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

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

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

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

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

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

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

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



Under the 3-year protocol entered with Caritas in 2012, the Bank will contribute to the Caritas Social Solidarity Fund and thus help this charity respond to the increasing number of requests for assistance received through its local offices.

In addition, BES also continued to develop the **BES Voluntary Work Programme**, which seeks to foster an attitude of responsible citizenship and solidarity among its staff, and their participation in the Bank's social solidarity initiatives. In 2012 there were 11 voluntary work actions involving 205 employees who devoted a total of 1,850 hours to help more than 1,000 people.

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

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

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

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

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

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

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

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

## Climate Change

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

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

### 3. ECONOMIC ENVIRONMENT

---

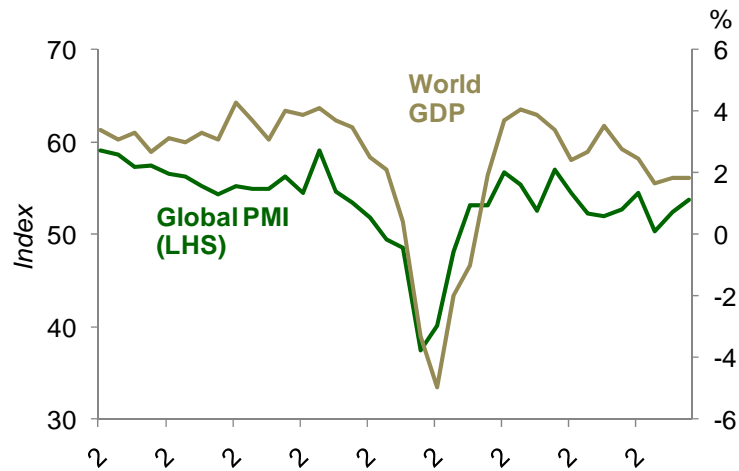
2012 was marked by the deceleration of economic activity at a global level and the contraction of GDP in the Euro Area. This was mainly the result of restrictive fiscal policies and the deleveraging of the private sector in the main advanced economies; lower demand and fears of a hard landing in China;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

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

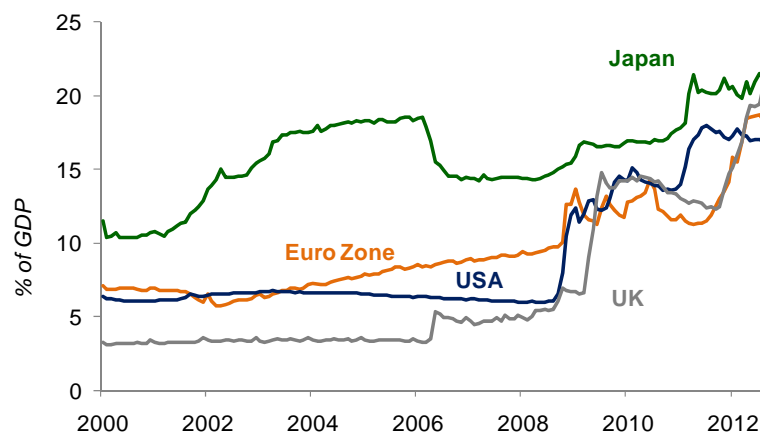
In this context, in the US the S&P500 index advanced by 13.4%, while in Europe the DAX and CAC40 posted annual gains of 29.1% and 15.2%, respectively. The PSI-20 and IBEX, although not performing so well in annual terms (+2.9% and -4.7%, respectively), registered sharp increases in the last quarter of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

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

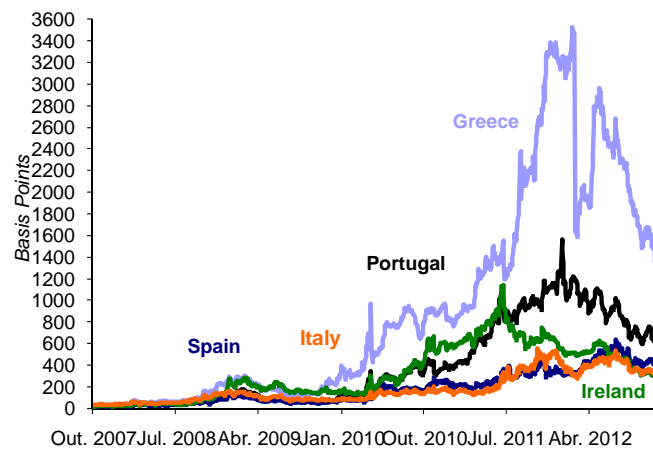
World GDP vs. Global PMI



Monetary Base (% GDP)



Yield Spreads on 10-year Government Bonds vs. Germany



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

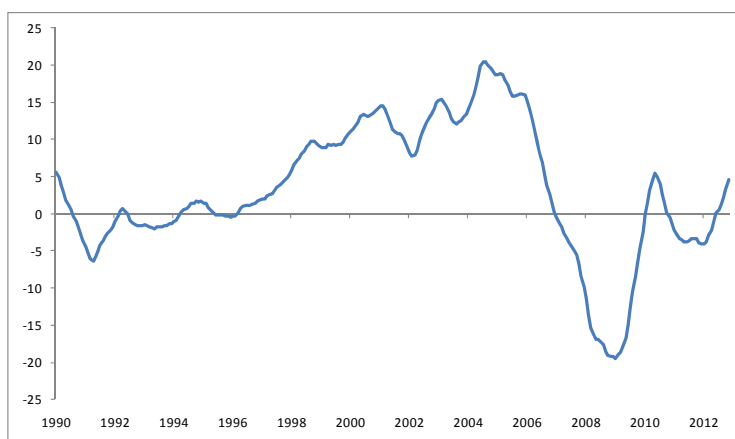
The housing market, which had been one of the most penalised by the great recession, strongly eroding the wealth of families and private consumption, showed signs of an upturn in 2012. Home prices, sales of new and existing houses, housing starts, and builder confidence (National Association of Home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

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

The end of 2012 was also marked by rising uncertainty – leading to increased market volatility – about an agreement on the so-called 'fiscal cliff'. The partial consensus reached in the first days of 2013 between republicans and

democrats permitted to avoid a restrictive effect of more than USD 600 billion (between tax increases and automatic spending cuts) that would certainly provoke a new recession in the North-American economy in the 1st half of 2013.

Case-Shiller housing price index (% YoY)



EUR/USD



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

However, this shift came too late to solve the imbalance between aggregate demand and supply rates. As a result the inflationary pressures that were already present in 2011 persisted throughout 2012, causing the annual change in the

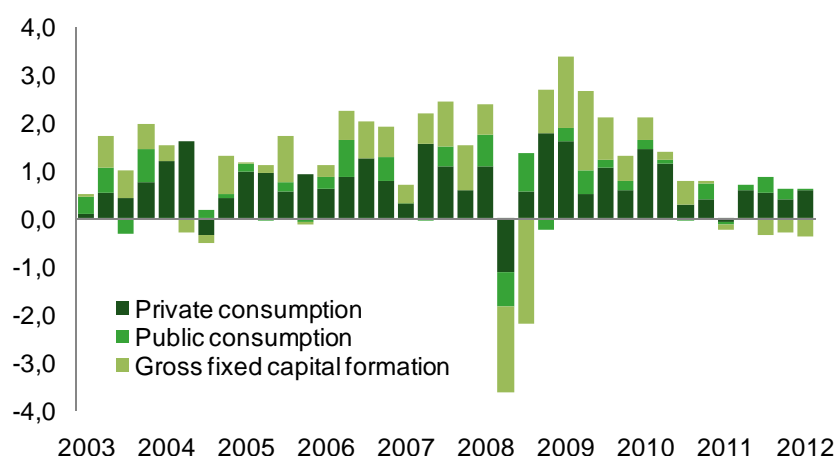
consumer price index to overstep the target for the third consecutive year (average annual inflation rate of 5.4%, and 5.8% YoY at the end of 2012). This was further aggravated by poor weather conditions in important food production regions, leading to a hike in the price of these products. These inflationary strains could have been toned down by a currency appreciation trend; however, the Brazilian government opted for avoiding the strengthening of the currency as that would imply a loss of competitiveness for the domestic industry. The real thus weakened against the dollar, going from BRL/USD 1.876 at the end of 2011 to BRL/USD 2.044 at the end of 2012.

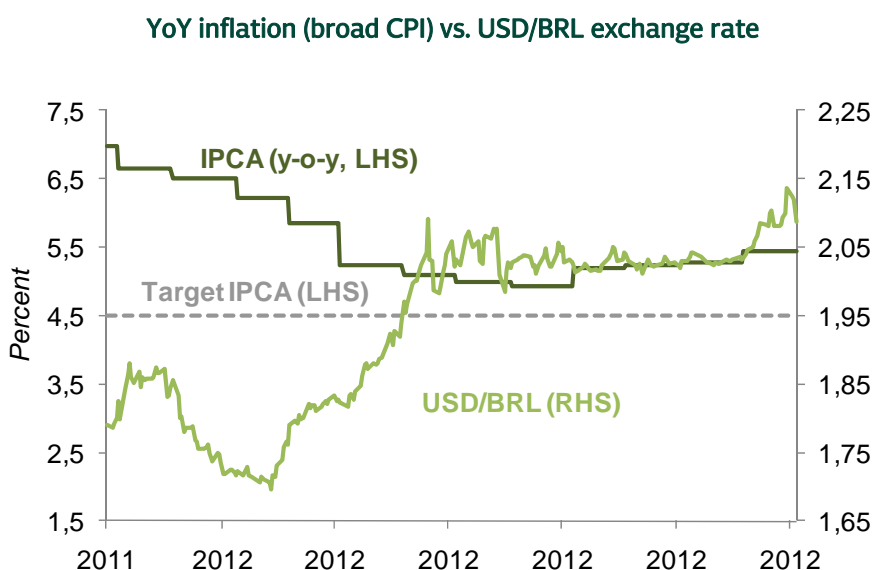
In the absence of a favourable investment dynamics within the private sector, the Federal Administration reckoned it would have to take the lead in this process and hence intensified capital expenditure, while also focusing on removing obstacles to the expansion of production capacity. However, current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

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

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

**Contributors to GDP QoQ growth (p.p.)**





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

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

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

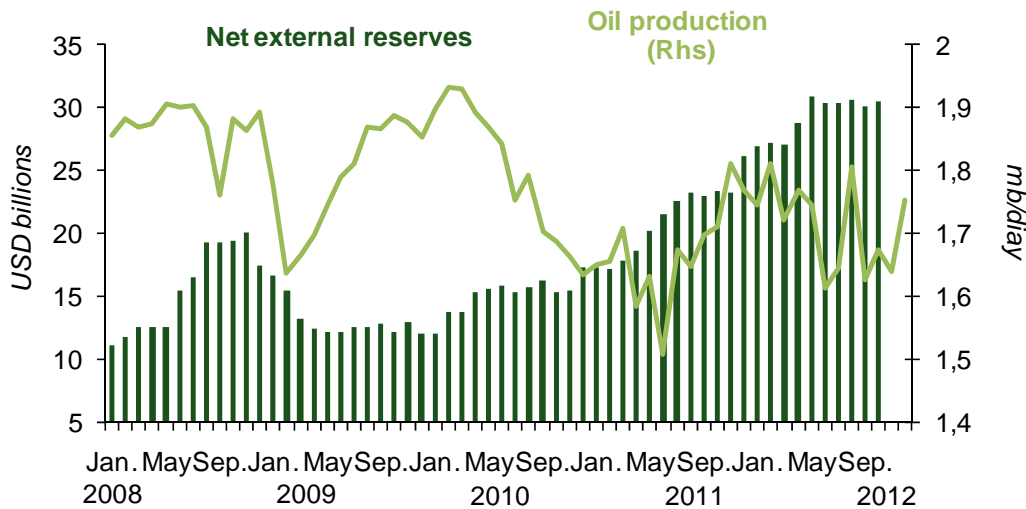
Upon conclusion of the Stand-By Arrangement, the IMF continued to monitor the Angolan economy, once again recognising its good performance and the progress made. This arrangement involved a USD 1.4 billion credit facility aimed at supporting the financing of the economy and correcting the imbalance in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

Following old IMF guidelines, the Angolan authorities have launched the Angolan Sovereign Fund ("FDSEA"), with initial capital of USD 5 billion. The fund, which will grow from further oil revenues, will be mainly used to invest in the country's infrastructures and promote the hotel and agricultural sectors, water supply, electricity supply and

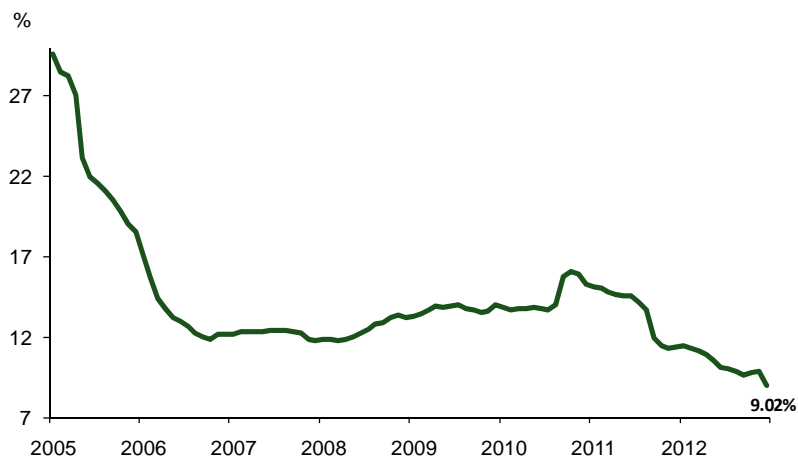


transport, creating the conditions to attract foreign investment. Angola's average oil production in 2012 reached 1.71 million barrels per day (mb/day), which represents a YoY increase of 2.5%. Based on the investments made in the oil sector in recent years (and resulting finds) it is estimated that the country's potential production timeframe could increase from 20 to 50 years, with the pace of output recovering to 1.9 million barrels per day in 2013.

**Oil production (mb/d) and external reserves (USD billion)**



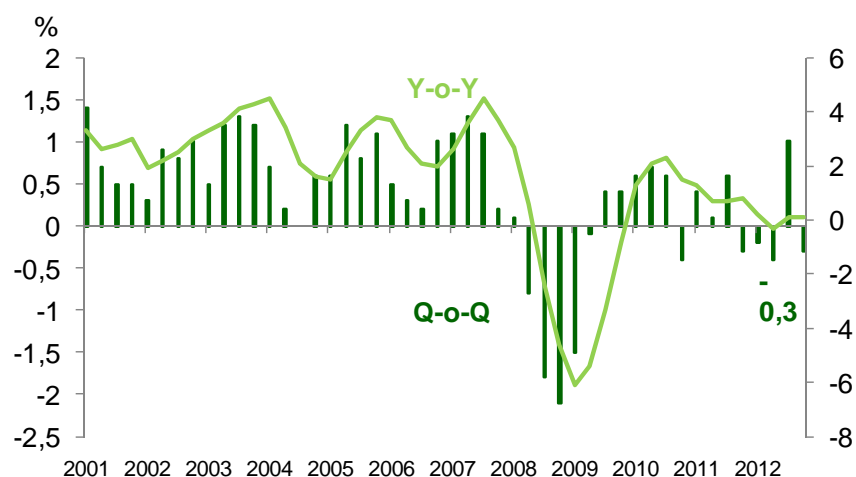
**YoY inflation (%)**



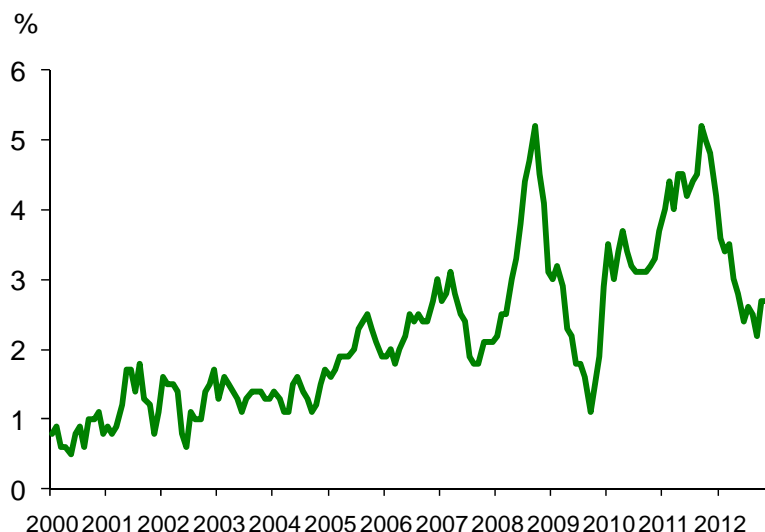
After coming out of recession in the 3rd quarter of 2012 (the stronger than expected positive impact of the Olympic Games drove up GDP growth by 0.9% QoQ) the **United Kingdom** again saw its GDP contract in the last three months of the year (-0.3% QoQ), driven by the stagnation of the financial services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

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

**GDP growth (% QoQ and YoY)**



YoY inflation (%)

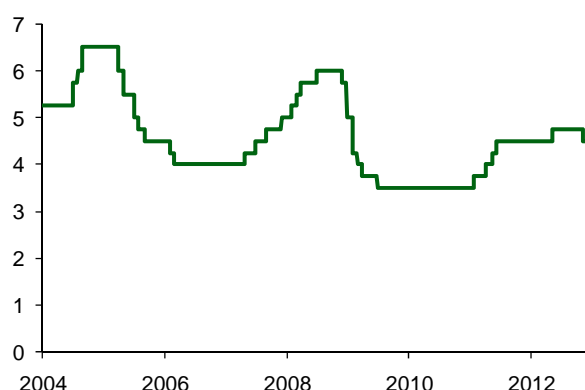


The **Polish** economy continued to grow in 2012, albeit at a slower pace than in previous years. The year was critically marked by the European Football Championship: in the 1st quarter, as the main infrastructure projects for the event were concluded, GDP grew by 3.5%. Activity subsequently slackened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

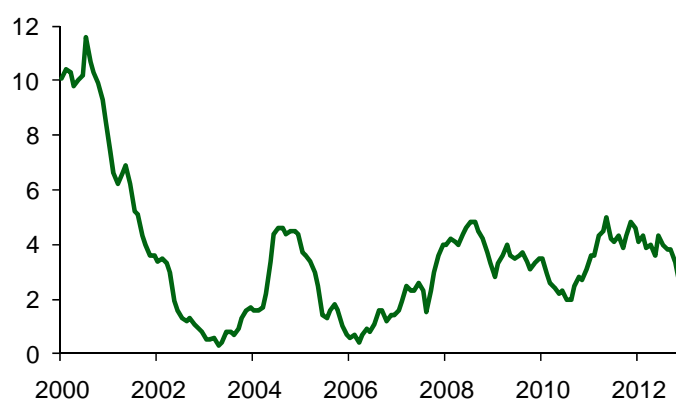
The behaviour of prices was also not consistent throughout the year. With the 2011 high inflation persisting into 2012, in May the National Bank of Poland lifted the benchmark interest rate by 25 bps, to 4.75%, in an attempt to forestall runaway inflationary expectations. However, the economic slowdown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

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

National Bank of Poland benchmark interest rate (%)



YoY inflation (%)



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

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

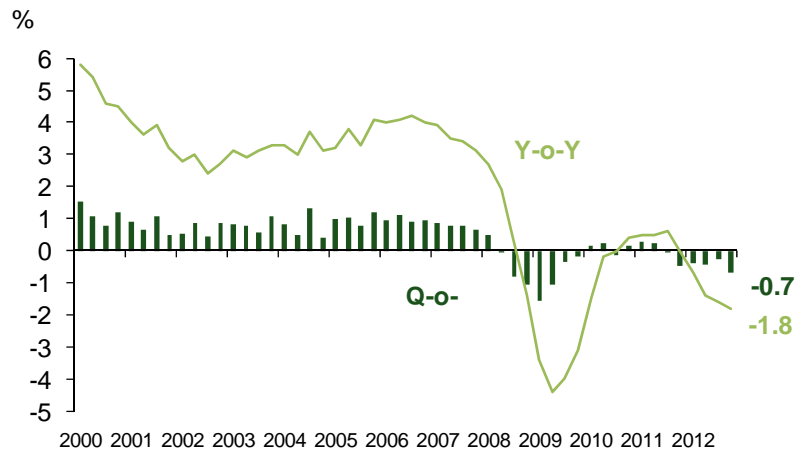
The increase in the VAT rates in September, the increase in taxpayers' co-payment of subsidised drugs, and the rise in fuel, electricity and gas prices drove up general price levels, particularly towards the end of the year. Even so, the average annual inflation rate was 2.4%, which is lower than in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

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

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

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

### GDP growth (% , QoQ and YoY)



### Yields on 2-, 5- and 10-year Bonos (%)



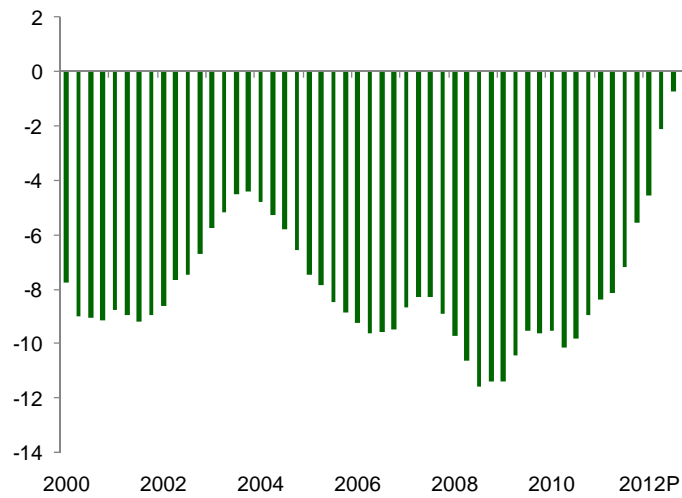
## The Portuguese economy in 2012

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

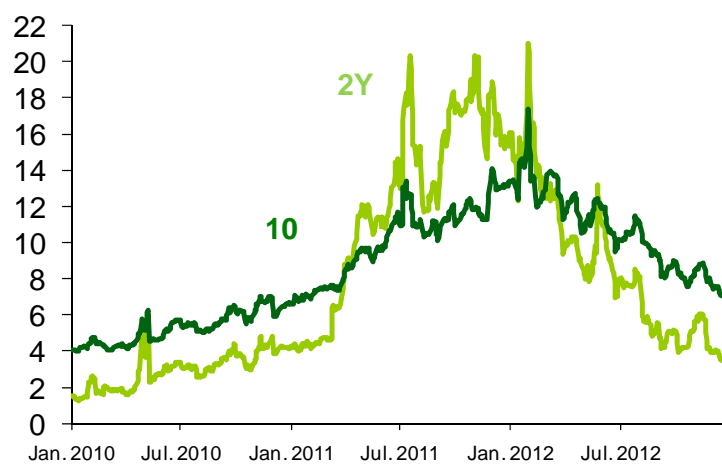
The performance of exports, together with a sharp fall in imports (of more than 7%) and an increase in domestic savings, permitted a clear improvement in the external balance, which from -5.1% of GDP in 2011 flattened out at the end of 2012. All sectors contributed to this reduction in net external financing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

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

Combined current and capital account balance (% GDP)



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





## 4. COMMERCIAL ACTIVITY

---

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

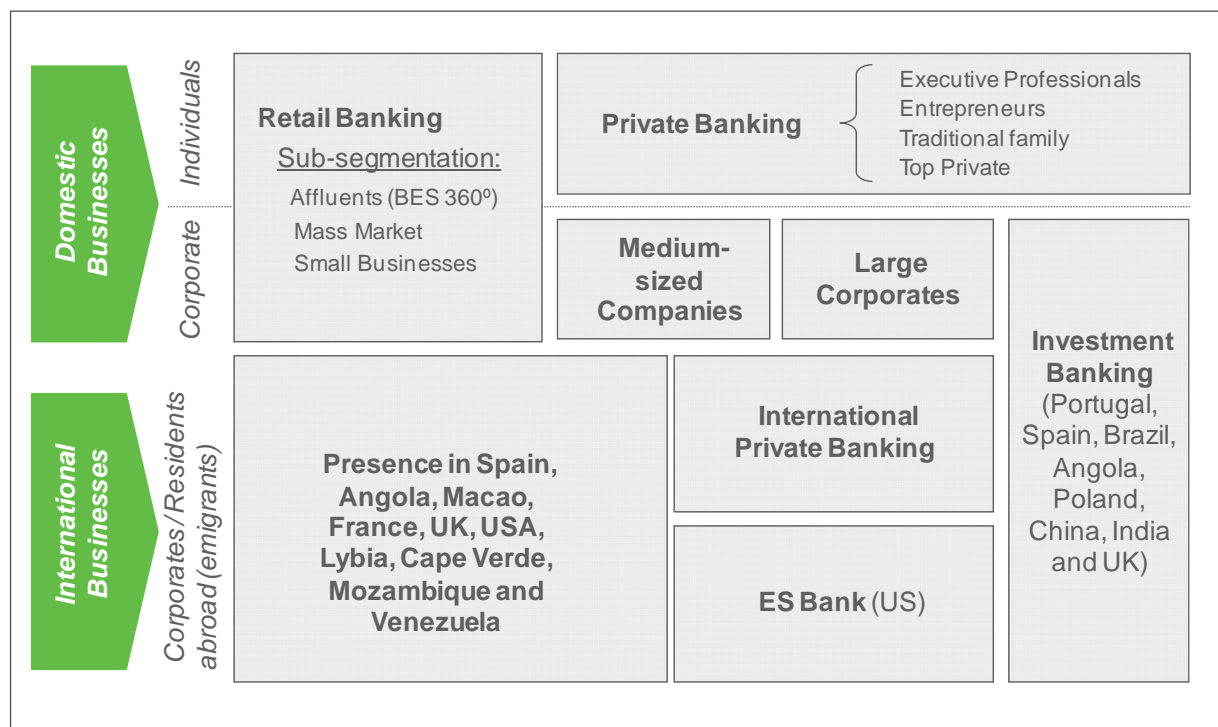
When monitoring the performance of each business area, the Group considers the following operating segments:

- Domestic Commercial Banking, which includes the Retail, Corporate, Institutional and Private Banking sub segments
- International Commercial Banking
- Investment Banking
- Asset Management
- Markets and Strategic Investments
- Corporate Centre

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

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

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



## 3.1. Domestic Commercial Banking

### 3.1.1. Retail Banking

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

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

## *Assurfinance*

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

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

## **BES 360º: traditional excellence in customer service**

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

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

- The newly created remote approach to the affluent clients, together with the specialised 360º Centres, widen the scope of the value proposition to the segment, permitting a significant increase in the share-of-wallet as well as greater customer loyalty;
- The BES 360º commitments, which translate the goals of excellence in customer service into concrete objectives, ensuring a professional, strict and dedicated attitude, the efficient solving of problems and the proactive presentation of the best solutions for the needs of each client;
- The competitive offer for the segment was further enhanced by innovative health protection and leisure solutions that provide a comprehensive view and response to the affluent clients' needs;
- Innovative tools, such as the BESnet Trading platform for stockmarket trading, permit full coverage of the clients' needs.

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

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

### **Small Businesses: focus on the effective management of Clients’ working capital needs**

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

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

- Cash Management Solutions (“BES Small Businesses Solutions”) and Point of Sale Terminals (“BES Small Businesses Packs”) suiting the requirements of micro companies and independent professionals. As a result, the number of clients with active POS terminals reached 14,000, further lifting BES’s market share in this product.
- The ‘BES Express Bill’ solution (launched in 2009 and extended to the Small Businesses segment in 2010), an innovative system for payments and receipts permitting to issue forward payment orders guaranteed by BES. In 2012 a total of EUR 100 million in credit facilities were approved, to 900 clients in this segment, which during the year used this solution to make supplier payments amounting to EUR 39 million. In addition, 2,900 clients benefited from payment orders guaranteed by BES totalling EUR 93 million.

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

The support provided to the partners in client firms by specialist account managers, at personal and professional level, represents one of the more distinctive features of BES's approach to the segment. An integrated vision of the clients' needs, considering the interconnected impacts between personal and business events and taking a genuine interest on seeing them succeed over the various phases of their life, make BES the partner of choice in the Small Businesses segment, while also furthering BES's ambition of achieving a high level of penetration in firms whose partners have opted for concentrating a substantial part of their assets with BES and who resort to the bank for support in their day-to-day management needs. As a result of this joint approach of partners and firms, 4,800 new partners in client firms became BES clients in 2011.

## Mass Market

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

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

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

The growing use of the direct channels for contact with the Bank remained a key trend in the mass market segment. In 2012 the internet banking service for individual clients – BESnet – achieved a 9.4% year-on-year increase in the number of frequent users, consolidating its leading position in terms of internet banking penetration in Portugal, with

a share of 43.6% of the customer base (according to Marktest), while the number of logins reached 24.6 million (+ 2.8% YoY). The internet banking service for corporate clients - BESnetwork – also reported expressive growth, with the number of frequent users reaching 57,000 at the end of 2012 (+7.8% YoY), while the number of logins rose by 7.0%, to 10.8 million. BESnetwork was awarded the Global Finance prize for best Internet Banking for Businesses in Portugal.

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

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

- access to the entire range of services, account enquiries and transactions which can be done remotely, maintaining the possibility to interact directly, either through the servicing platform (BESnet mail) or with a BESdirecto operator, who can connect to the branch, if necessary;
- a strong bet on the saving and investment offer, where products can either be subscribed directly by the client or by phone or chat, with help from a team specialising in saving, credit and insurance products. The stock of term deposits subscribed through BESnet grew by 76% in 2012, reaching EUR 412 million;
- integration of the CRM platforms between the branch, BESnet and BESdirecto, managed by the Marketing Department with the possibility of referral to the branch for commercial follow-up, and using a real time automatic decision model permitting to adjust the offer to the clients;
- inclusion of added value functionalities, namely the “BES Family Budget”, which automatically classifies expenses thus proving a valuable tool in the current economic context, in which saving and accurate planning are increasingly important.

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

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

### **Specialised offer**

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

### **Saving Products**

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

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

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

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

#### ***Planned Saving***

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

#### ***Micro Saving***

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

### ***Micro Donating***

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

### ***Impulse Saving***

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

### **Microcredit**

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

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

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

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



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

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

### New Residents

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

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

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

### Universities

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

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

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

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

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

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

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

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

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

### Senior Citizens

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

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

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

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

### Environmental Products and Services

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

### ***18.31 Account***

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

BES neutralises the carbon footprint of the 18.31 account, which is measured by a specialised firm in accordance with the PAS 2050 method for assessing the lifecycle of GHG emissions associated to products and services.

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

Thanks to this significant increase in the number of accounts, it was possible to neutralise 145 tonnes of CO<sub>2</sub> and obtain the e)mission neutral certified® stamp, which gives the clients the assurance that they are buying a carbon neutral product.

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

### ***BES/WWF Card***

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

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

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

## **3.1.2. Private Banking**

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

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

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

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

### 3.1.3. Corporate Banking and Institutional Clients

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

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

## Support to internationalisation

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

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

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

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

- the partnerships established with two important international banking groups for business development, especially in the areas of trade finance, corporate banking and investment banking, widened the geographical scope of client support: Ecobank, a leading bank in Sub-Saharan Africa, which is present in 32 countries, and OTP, which operates in Central and Eastern Europe;
- participation in international business fairs, namely: Prowein, in the wine sector, held in Germany in June; Sial, a food and beverages fair held in China in May; Batimatec, in the construction and building materials sector, held in Algeria, also in May; and the FIA multi-sector trade fair (Algiers International Fair), held from May to June 2012;
- joint promoter (with AICEP and AIP) of the 7th edition of the Forum Portugal Exporter, the largest and most important event dedicated to the exports and internationalisation of the Portuguese companies;

- active participation in the “Portugal Exporter Club”, an initiative launched within the scope of the Forum Portugal Exporter aimed at informing its members about markets and business leads in the main external markets;
- launch of the 2nd edition of the “BES/Jornal de Negócios Exports & Internationalisation” prize, which is awarded to companies with the best performance in expanding their presence abroad and increasing exports;
- publication, for the third consecutive year, of a regular supplement in the Expresso newspaper (“Companies and Internationalisation”) with information about the strategic markets for the Portuguese companies, business opportunities in these markets, and reports from Portuguese companies that were success cases in those markets.

### Support to Innovation

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

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

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

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

Furthermore, yet other initiatives were taken to support innovation:

- 2nd edition of the Advanced Management and Innovation Programme for Entrepreneurs, jointly organised by BES and the Portuguese Catholic University in the 2nd half of 2012;
- cooperation with key innovation hubs across the country, such as incubators and technology transfer centres;
- direct support to start-ups through quarterly programmes in Silicon Valley;
- organisation of meetings and conferences involving start-ups and potential investors.

## Middle Market

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

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

- In Life and Disability Insurance for employees of corporate clients, the number of new policies increased by 45%;
- The cross-selling of non-life insurance products continues to provide a very good complement to the banking offer, leading to portfolio and revenue growth of 21% and 21.1%, respectively;
- In human resources solutions, such as staff recruitment, training, outsourcing and placement of temporary workers, provided under a partnership with Multipessoal, revenues grew by 21%.

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

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

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

### **BES Express Bill**

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

### **The role of venture capital in BES Group**

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

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

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

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

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



### **Capital Growth Fund**

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

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

### **Bem Comum Fund (Common Good Fund)**

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

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

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

### **BES Agriculture Solutions**

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

These Solutions comprise the following:

- Cash management solutions such as the BES Express Bill, Factoring, the advanced payment of incentives and seasonal loans;

- Through Companhia de Seguros Tranquilidade, a large offer of insurance products for the agricultural sector;
- Specialised Offer, including commodity price hedging and products that support international trade operations;
- Support to Investment through IFAP Subsidised Lines, BES Financial Facilities and the Credit Line for Agricultural Certification.

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

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

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

## **FAME**

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

## BES Sustainable Environment and Energy Solutions

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

As a result, in 2012 a total of 22 operations were awarded to Yunit, representing a total investment of EUR 3.5 million. BES's partners for the Sustainable Environment and Energy Solutions are Yunit, which manages the entire implementation process, and ISA, the strategic partner for energy efficiency audits). BES offers a credit line to finance energy efficiency and microgeneration projects, thus helping its clients invest in ecoefficiency and the production of green energy.

The following options are available:

- **Energy efficiency solutions** – development and implementation of energy consumption rationalisation plans and solutions that take into account technical and economic viability based on an energy study provided to the client.
- **Microgeneration** - offered to clients who wish to diversify their energy supply sources and become energy independent through the production of renewable energy.

## Environmental Liability Bank Guarantees

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

## Corporate Banking

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

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

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

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

In addition to these requests for assistance on a case-by-case basis, 464 companies with a strong foreign trade component (263 in the south of Portugal and 201 in the north) are monitored on a permanent basis by specialist corporate bankers.

The internationalisation strategy followed by BES Group, which permitted to enhance and cement its relationship with the Iberian and multinational companies in new markets through the provision of a customised and dedicated service, specialised by geographical areas, also underpinned this good performance, further reinforcing BES Group's position in the Corporate Segment.

## Municipalities and Institutional Clients

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

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

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

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

For the third consecutive year, in 2012 the Bank continued to assist financially an Advanced Training Course on Private Social Solidarity Institutions (IPSS) Management, taught at the Lisbon Catholic University. This initiative was created

as a response to the need, which IPPS officials felt and communicated to BES, to receive practical and vocational training to help them improve the service provided to society.

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

## 3.2. International Commercial Banking

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

### Angola

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

decrease in total banking income, to EUR 298 million, due to the performance of net interest income combined with a 35% increase in operating costs resulting from the expansion of the bank and the reinforcement of provisions.

## Spain

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

## United Kingdom

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

## United States of America

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

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

## France

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

## Libya

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

## China

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

## Cape Verde

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

## Mozambique

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

## Venezuela

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

## Luxembourg

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

## 4.3. Investment Banking

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



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

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

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

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

Benefiting from an increasingly broad international presence and close coordination with the structures of Banco Espírito Santo, BES Investimento continued to work to expand its reach in the corporate segment in **Spain**, viewing the

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

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

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

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

In the **United States**, 2012 was marked by the development of advisory and distribution activities with the objective of reinforcing the role of this country as a platform for the distribution of products originated in other markets where

---

BES Investimento is present. The bank provided advisory services to Sugaldal on the acquisition of Tresmontes Luchetti Agroindustrial, a Chilean company.

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

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

## Project Finance

### Financing sustainable development

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

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

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

### Assessment of the Environmental and Social Risks in Project Finance

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

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

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

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

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

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

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

#### 4.4. Asset Management

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

At the end of 2012 the global volume of assets under management was ca. EUR 15.4 billion, which represents a close to the volume in 2011.

By business area, the strong increase in volumes under management of real estate funds (+52%) and mutual funds (+10%).

At the end of 2012 ESAF's international activity represented ca. 23% of the total assets under management, corresponding to more than EUR 3.8 billion, of which over EUR 2 billion in Spain and EUR 850 million in Angola, where volume was boosted by the launch of the BESA Valorização real estate fund by the subsidiary BESAACTIF FI. In Luxembourg and Brazil assets under management increased by 23% and 16%, respectively.

##### Mutual Funds

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

In Luxembourg, BES Group has several funds under management targeting clients with a wide range of risk profiles. At the end of 2012 the aggregate volume in these funds was EUR 504 million: (i) the ES Fund, comprising several compartments (shares and bonds); (ii) the Global Active Allocation Fund, targeting individual clients and institutions;

(iii) the SICAV European Responsible Consumer Fund, which is sold in Portugal, Spain, and Luxembourg and whose investments take into account ethical, environmental and social concerns; and (iv) and the Espírito Santo Rockefeller Global – Energy Fund, created under a joint venture between the Espírito Santo Group and the North-American Rockefeller fund manager to manage and sell a special investment fund exclusively dedicated to the energy sector.

Volume under management of mutual funds in Spain dropped by 12% year-on-year, to EUR 1,341 million.

### Real Estate Funds

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

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

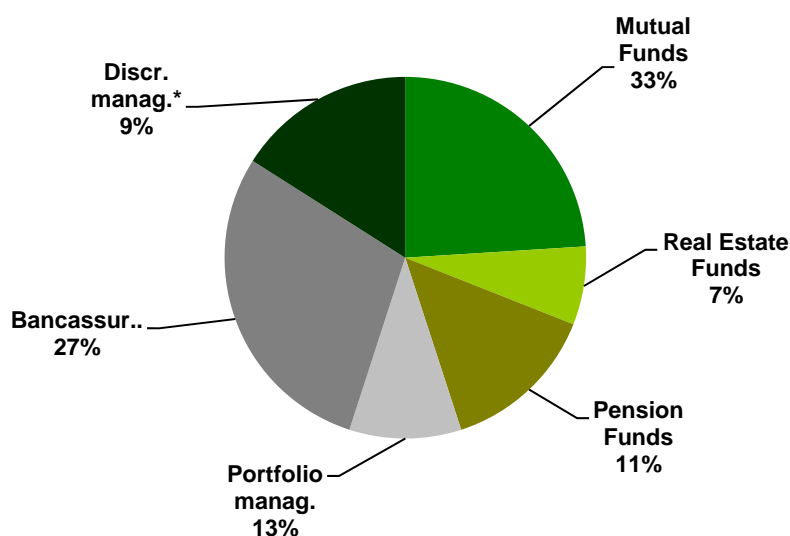
### Pension Funds

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

### Discretionary Management

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

### Asset Management: Product Breakdown



(\*) Includes discretionary management of institutional, individual and other clients

### Responsible Investment Funds

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

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

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

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

## European Responsible Fund

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

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

## Espírito Santo Infrastructure Fund (ESIF)

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

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

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

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

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

- ESUS, a company set up to build and operate a 45MW wind farm in Galicia; ESIF has a 45% stake in this company.

### **Luso Carbon Fund**

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

### **Responsible Investment Funds – Banco Best**

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



## 4.5. Outlook for BES Group. Main risks and Uncertainties

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

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

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

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

### **Capturing deposits**

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

### **Credit granting, Risk Prevention and Control**

The lending activity will remain subject to a policy of high selectivity, though taking into account the need to continue to support to the more dynamic sectors of the Portuguese, namely the small and medium-sized exporting companies.

BES Group always had and should continue to have a strong foothold in the Portuguese business community and thus intends to be present when its corporate clients wish to finance sustainable business initiatives either in the domestic market or targeting the international markets.

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

### **Core Tier I Ratio**

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

### **Relevance of the International Area**

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

## 5. FINANCIAL MANAGEMENT AND CAPITAL MARKETS

---

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

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

BES Group separates liquidity risk management in three major groups:

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

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

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

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

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

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

## Liquidity Management and Funding in 2012

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

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

- (i) a new long term refinancing operation (LTRO), on February 29th (the first had taken place in December 2011);
- (ii) the extension of eligibility criteria for collaterals accepted for monetary policy operations, and the reduction of the reserve requirement ratio for European banks; and
- (iii) announcement, in September, of a programme of public debt acquisitions (Outright Monetary Transactions - OMT) from Eurozone countries having formally requested assistance from the European Commission (i.e. countries undergoing an economic and financial adjustment programme or an EFSF/ESM precautionary assistance programme).

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

## 5Y CDS vs Rating

Portugal: Evolution of CDS 5y & Moody's / S&P rating



BES: Evolution of CDS 5y & Moody's / S&P rating



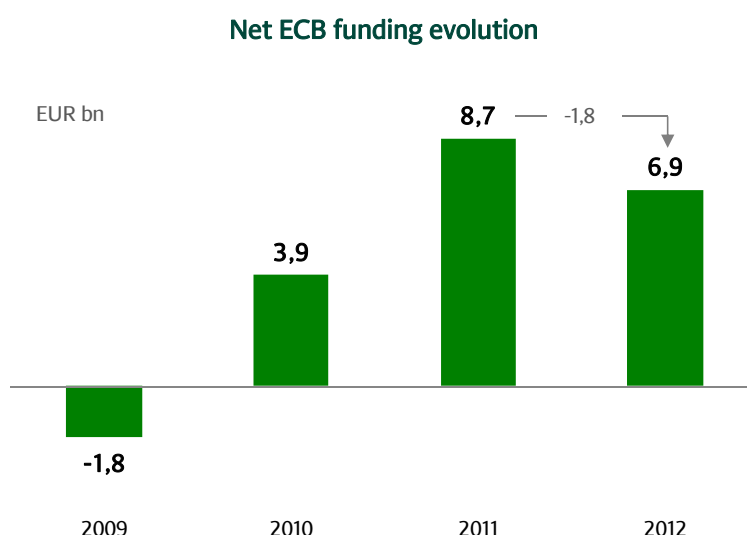
In addition, these measures gradually restored the conditions of access to the international financial markets for peripheral issuers, namely for Portuguese issuers such as EDP, Brisa and Portugal Telecom, which, after a long period of inaccessibility to the financial markets, were able to make public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

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

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

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

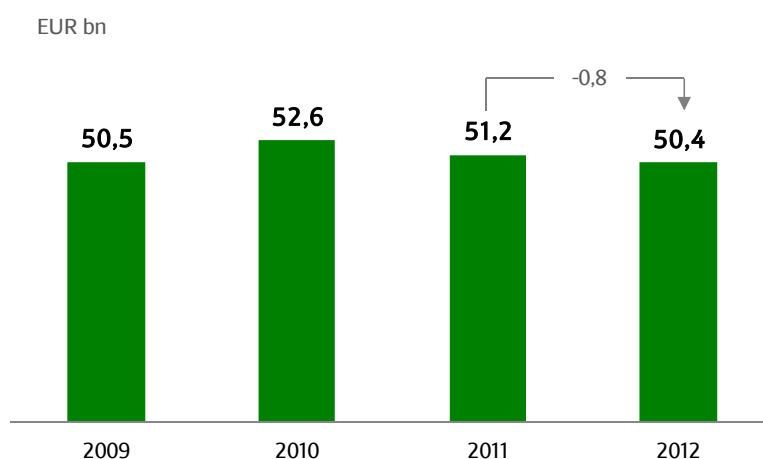
Together, these transactions generated liquidity of ca. EUR 1.6 billion, representing an important step in regaining access to funding through the international capital markets. Moreover, the liquidity thus obtained allowed BES to pursue the strategy of gradual reduction of exposure to the ECB. During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



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

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

**Loan book evolution in 2012 (Gross)**



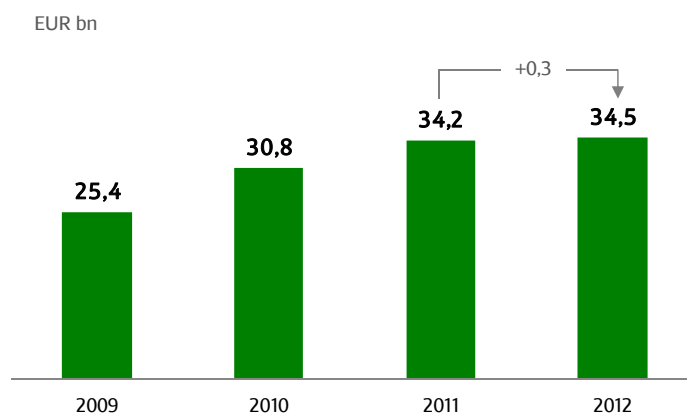
2. Growth of customer deposits, underpinning the strategic guideline of keeping this product as the main funding source.

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

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

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

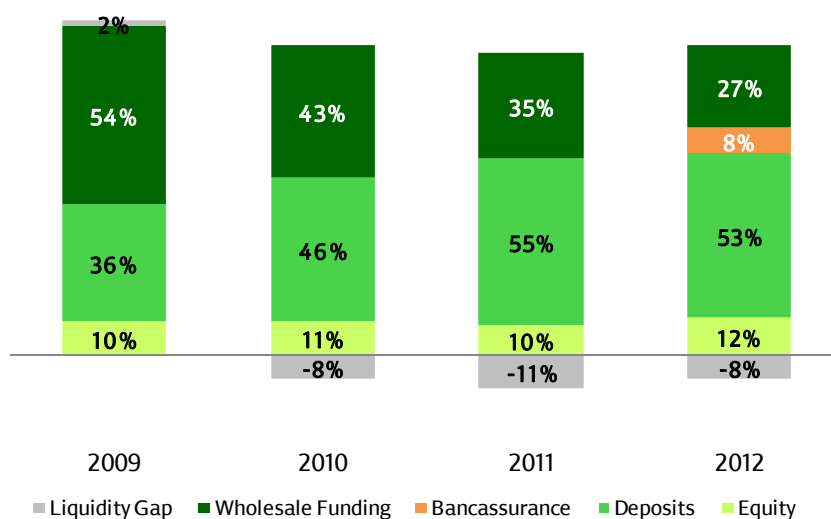
### Customer deposits evolution in 2012



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

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

### Funding Structure Evolution



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

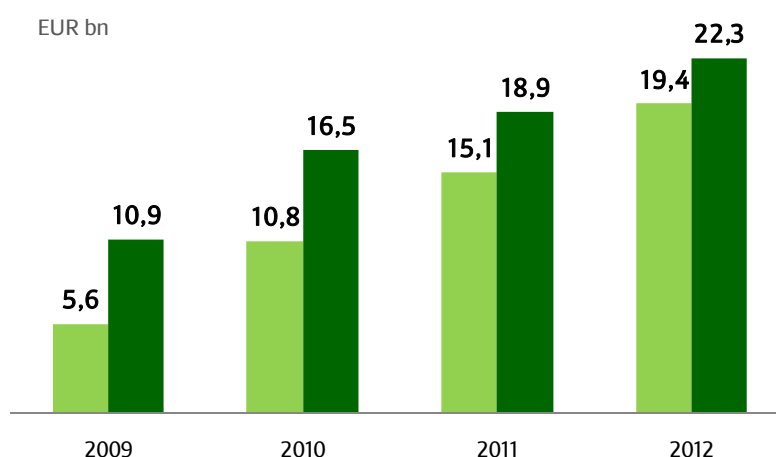
### 3. Reinforcement of assets eligible for rediscount with the ECB

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

Measures taken in 2012 to reinforce eligible assets:

- Two 3-year bond issues guaranteed by the Portuguese Republic for a total of EUR 2.5 billion.
- Preparation of credit portfolios totalling EUR 4.2 billion in accordance with the new eligibility criteria.

#### Evolution of rediscountable securities



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

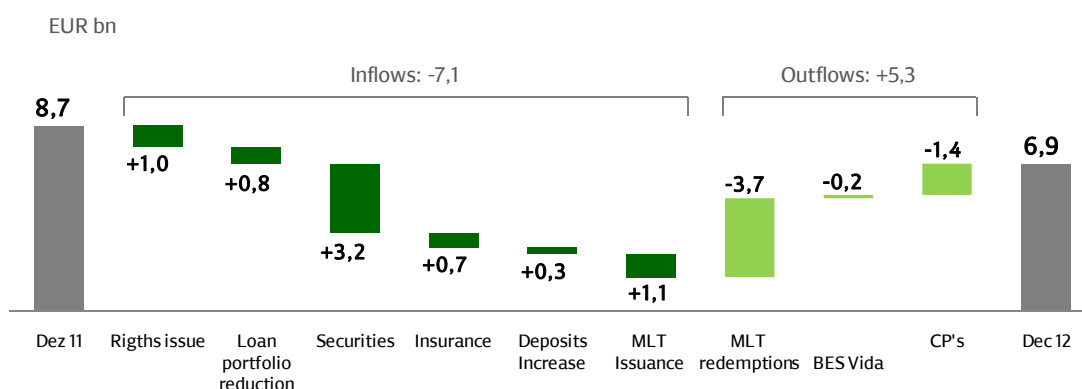
These assets guaranteed access to the main longer-term refinancing operations, which were fundamental during the first half of the year (in which medium and long-term debt redemptions were concentrated) to overcome the inaccessibility to the short and medium term markets.



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

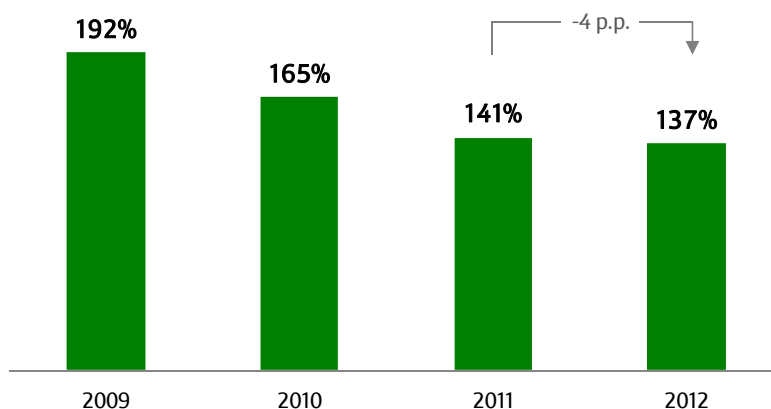
- (i) EUR 10.2 billion under 3-year long term refinancing operations (LTROs)
- (ii) EUR 3.4 billion of placements with the BCE.

### Net ECB funding evolution in 2012



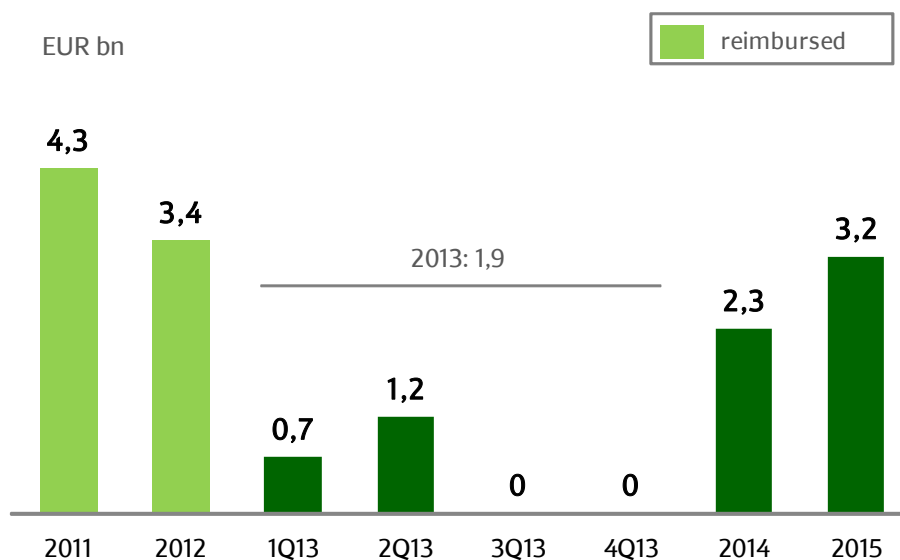
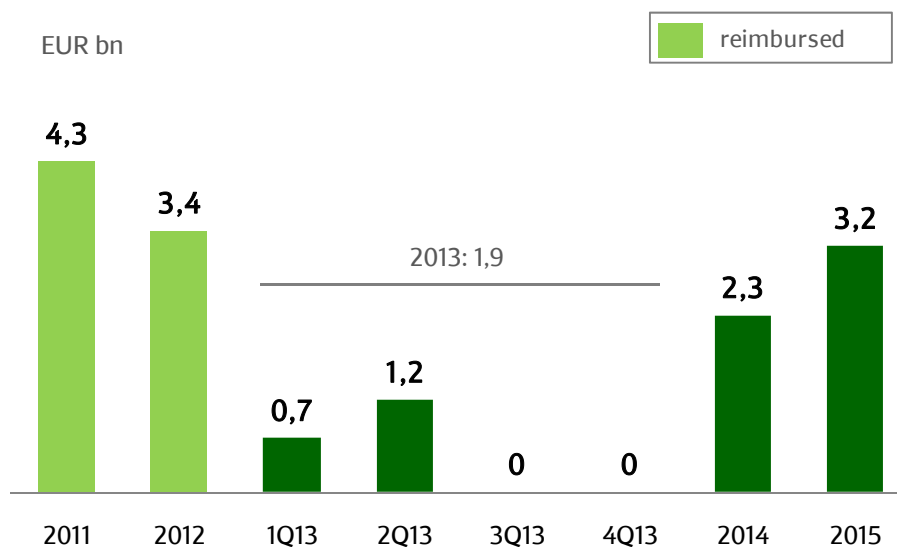
The implementation of the referred guidelines permitted to refinance all the debt maturing before the end of the year, including the EUR 3.4 billion medium and long-term debt reimbursed during the year, to improve the loans to deposits ratio by 4 p.p., to 137% and to reduce net funding from the ECB by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

### Loan to deposits ratio evolution



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

### Maturity Profile



### Ratings assigned to Banco Espírito Santo (at December 31st, 2012)

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

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

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

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

## 6. RISK MANAGEMENT

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

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

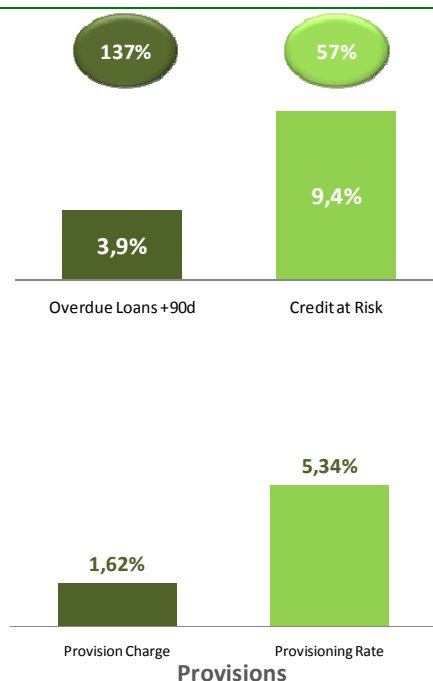
### Executive Summary

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

#### Credit

#### Overdue loans and provisions

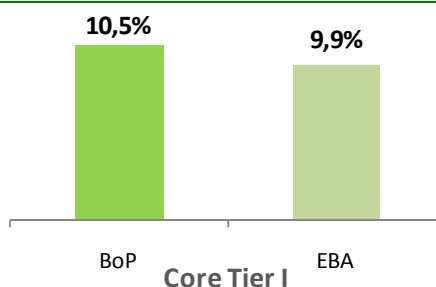
- Economic recession inevitably impacted risk levels: the overdue loans ratio (>90 days) increased to 3.9% (Dec.11: 2.7%) and the credit at risk ratio reached 9.4% (Dec.11: 6.6%).
- Due to the increase in overdue loan levels, in 2012 provisions were reinforced by EUR 815 million (1.62%), which compares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



### Solvency

### Stronger capital ratios

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



Risk Weighted Assets	2012
Credit Risk	56,454
Market Risk	1,503
Operational Risk	3,694
<b>Total</b>	<b>61,651</b>

### Liquidity

### Conservative liquidity risk management

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



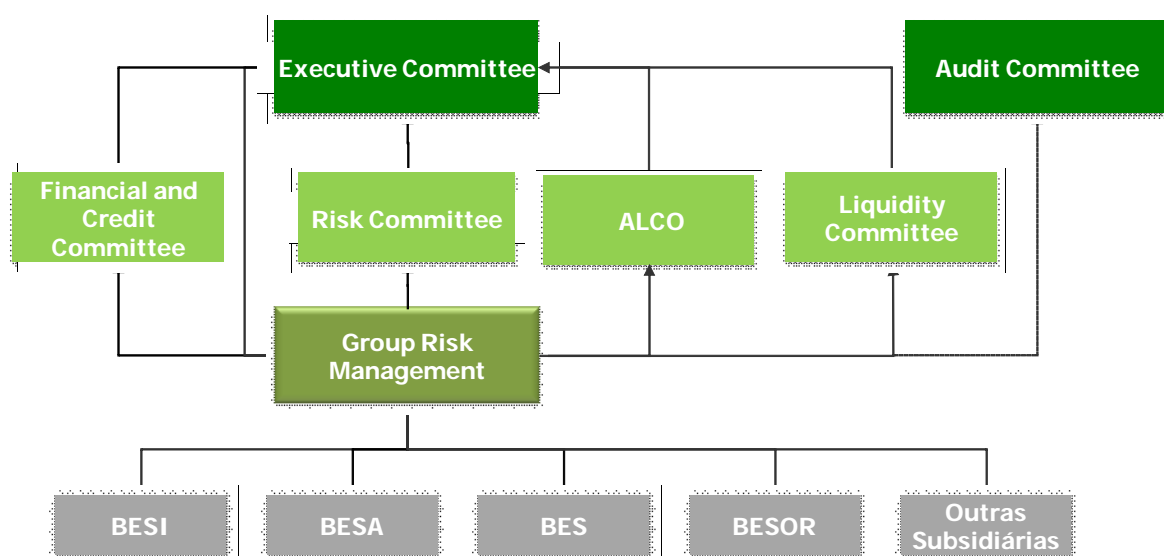
## Risk Factors

Risk	Description of impacts	Mitigation Measures
<ul style="list-style-type: none"> <li>Deterioration of the economic situation</li> </ul>	Increase in overdue loan levels, devaluation of the real estate and capital markets, difficulty in obtaining funding from wholesale markets	<ul style="list-style-type: none"> <li>Detailed and timely monitoring of all risks</li> <li>Continuous revision of policies and limits</li> <li>Optimisation of risk/return</li> <li>Asset liquidification</li> </ul>
<ul style="list-style-type: none"> <li>Changes in the law or regulations</li> </ul>	Unforeseen changes in the law or regulations may affect the Bank's strategy	<ul style="list-style-type: none"> <li>Close attention to legal and regulatory developments, seeking to anticipate changes and mitigate potential impacts</li> </ul>
<ul style="list-style-type: none"> <li>Financial market fluctuations</li> </ul>	Market volatility may impact the Bank and the pension fund's results, as well as the net interest margin	<ul style="list-style-type: none"> <li>Close monitoring of markets</li> <li>Robust control processes</li> </ul>
<ul style="list-style-type: none"> <li>Natural disasters or terrorist attacks</li> </ul>	A terrorist attack, pandemic, earthquake or other unforeseen events may affect the normal functioning of BES Group	<ul style="list-style-type: none"> <li>Implementation of business continuity management policies</li> </ul>
<ul style="list-style-type: none"> <li>Geopolitical events</li> </ul>	Adverse political or governmental developments in geographies where BES Group is present	<ul style="list-style-type: none"> <li>Political situation monitoring</li> <li>Perform stress tests exercises and implementation of mitigation actions, where necessary</li> </ul>

## Organisation

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

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

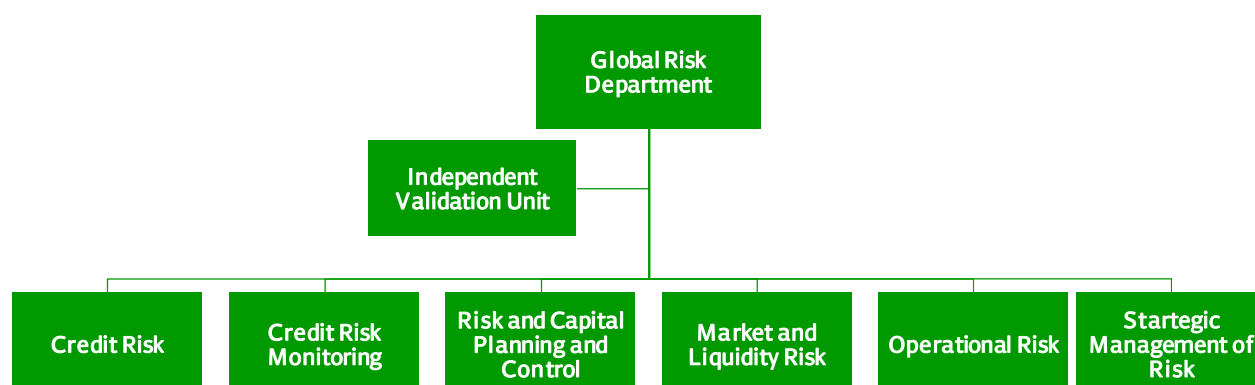


Risk management functions and responsibilities are defined according to the “Three Defence Lines” system, which clearly translates the delegation of powers and communication channels formally adopted in the Group’s policies. This segregation of functions is fundamental to align incentives and control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

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

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





#### Main functions of the GRD:

- identify, assess, control and report the different types of risk assumed, thus managing the Group's overall risk exposure, ensuring compliance with internal and regulatory rules, and promoting and monitoring mitigation actions;
- implement the risk policies outlined by the Executive Committee, while harmonising principles, concepts and methodologies across all the Group's units;
- develop and monitor methodologies and models to identify and quantify the various categories of risk, namely internal ratings and liquidity ratios, and decision support methodologies such as pricing models, payment decision models and RAROC models;
- determine, control and report regulatory capital requirements for credit, market and operational risks;
- develop the internal capital adequacy assessment process (ICAAP) and stress tests exercises;
- validate and on a continuous basis the risk models and parameters and validate the user-testing levels of risk models;
- monitor BES Group's internationalisation strategy, cooperating in the design of organisation solutions and in the monitoring and reporting of the risk exposure of the various international areas.

## Regulatory Framework

### Basel III

The Basel II rules, first presented by the Basel Banking Supervision Committee in 2010, represent a global regulatory change for the financial system. Their purpose is to strengthen financial institutions and prevent new financial crises



in the future. Banks will have a transitory period (up to January 1st, 2019) to comply with the approved rules. The Basel III rules have established the following regulatory framework at the end of the transitory period:

- minimum Core Tier 1 of 7%, o.w. 4.5% minimum common equity and 2.5% capital conservation buffer;
- minimum Tier 1 of 8.5%, o.w. 6.0% minimum and 2.5% capital conservation buffer;
- total solvency ratio of 10.5%;
- introduction of a countercyclical buffer, ranging from 0% to 2.5% of common equity, under conditions to be defined by the national regulatory authorities;
- transitory period definition for the absorption of deductions to capital not eligible under BIS III and for the new deductions to capital;
- Liquidity coverage ratio (LCR) of 100%;
- definition of the short and long term leverage and liquidity ratio (NSFR) in certain conditions, to be defined.

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

- fundamental review of the rules applicable to the trading book of financial institutions;
- fundamental review of the treatment of securitisations within the scope of the Basel regulations;
- review of the "major exposures" regime;
- review of the standard approach for calculating capital requirements and capital adequacy.

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

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

### **Recovery and Resolution Plans**

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

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

## Prevention of Credit Risk (“PARI” and “PERSI”)

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

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

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

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

## Inspections Programme (OIP)

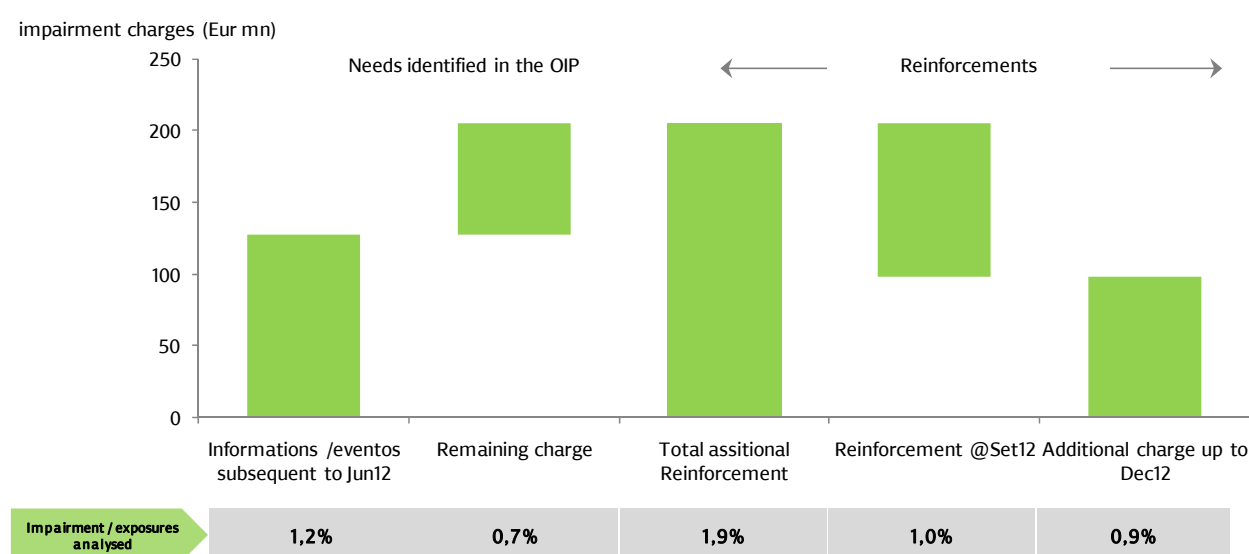
An On-site Inspections Programme (OIP) on the exposure of financial institutions to the construction and real estate sectors in Portugal and Spain, developed by the Bank of Portugal with an external auditor appointed by it, was conducted during the second half of 2012, with reference to June 30th, 2012.

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

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

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

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



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

## 6.1. Credit Risk

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

### A. Management Practices

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

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

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

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

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

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

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

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

Origination	Monitoring	Recovery
<ul style="list-style-type: none"> <li>• Restrictive limits on new credit</li> <li>• Loan guarantees required</li> <li>• Price adjusted to risk</li> <li>• High coverage of rating exposures</li> <li>• Automatic availability of supporting information to credit decisions, namely in the front office</li> </ul>	<ul style="list-style-type: none"> <li>• Senior management strongly involved in monitoring process</li> <li>• Credit risk information automatically made available to the commercial areas</li> <li>• Credit follow-up actions (prior to default)</li> <li>• Guarantee management processes and controls</li> </ul>	<ul style="list-style-type: none"> <li>• Early recovery steps</li> <li>• Monitoring of borrowers and assets received as guarantee</li> <li>• Credit recovery process adjusted to business sector, recovery, and divestment areas</li> <li>• credit risk included within the criteria of the objectives and incentive systems ("SOI") for the commercial areas</li> </ul>

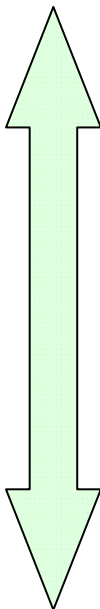
## A.1. Risk Rating Systems

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

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

### • Rating Models for Corporate Credit Portfolios

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

	Segmentation criteria	Model type	Description
 <p>Expert Judgement</p> <p>Statistical</p>	Sector, Dimension, Product <ul style="list-style-type: none"> <li>• Financial institutions</li> <li>• Municipalities</li> <li>• Institutional clients</li> <li>• Local and regional admin.</li> <li>• Large corporates [Sales &gt; EUR 50 mn]</li> <li>• Real estate (Investment/Promotion)</li> <li>• Acquisition Finance</li> <li>• Project Finance</li> </ul>	Template	Ratings attributed by teams of analysts, using sector specific models (templates) as well as financial and qualitative information.
	Medium sized companies: <ul style="list-style-type: none"> <li>• Sales [EUR 1.25 mn to EUR 50 mn]</li> </ul>	Semi-automatic	Ratings model based on financial and qualitative information validated by analysts..
	Small businesses: <ul style="list-style-type: none"> <li>• Sales up to EUR 1.25 mn</li> </ul> Start-Up's and entrepreneurs	Automatic	Rating model based on financial, qualitative and behavioural information.  Rating model based on qualitative and behavioural information.

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

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

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

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

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

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

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

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

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

- **Scoring Models for Individual Client Portfolios**

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

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

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

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

#### • LGD Models

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

Since 2004 BES Group calculates LGD parameters based on internal data concerning the main products offered to its individual clients – mortgage loans, consumer loans, credit cards, overdrafts and loan accounts – as well as the



portfolios of Small Businesses and Independent Professionals included in the Retail portfolios. Such parameters are used in risk management, impairment calculations and calculation of regulatory capital requirements for credit risk.

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

## A.2 A Credit Risk Monitoring

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

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

- Monitoring of clients with warning signals (CCRA);
- Risk Monitoring Group (RMG);
- Global analysis of the credit portfolio risk profile;
- Monitoring of clients with warning signals (CCRA).

### Clients

- Monitoring of clients with warning signals (CCRA)
- Risk Monitoring Group (RMG)
- Global analysis of the credit portfolio risk profile;
- **Monitoring of clients with warning signals (CCRA)**

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

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

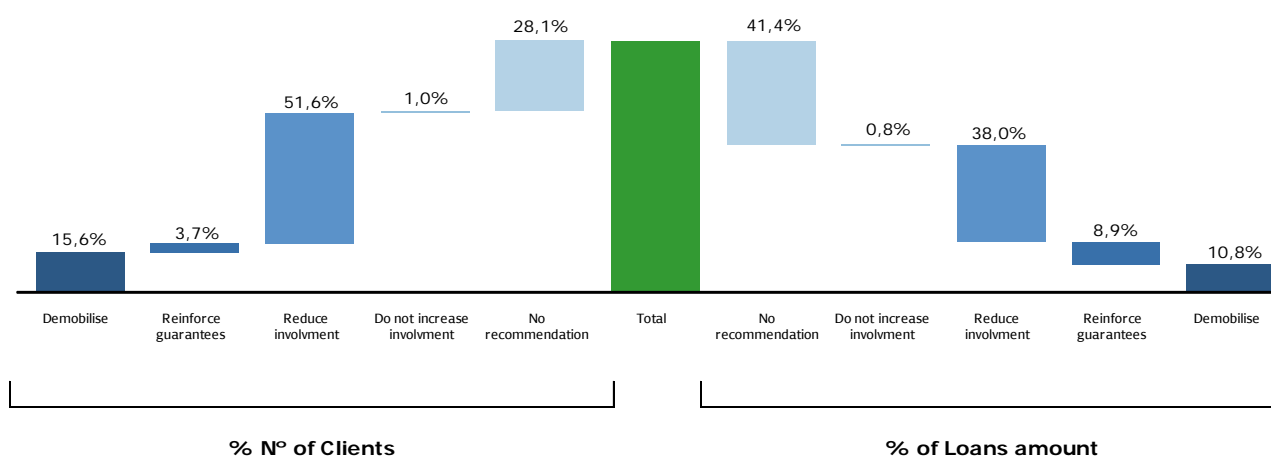
On the basis of this assessment and taking into account the specific characteristics of each case, the Committee issued recommendations concerning 72% of these clients (a total of 6,128 clients, of which 25% were reported for the first time), whose overall exposure corresponded to approximately 58.6%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

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

- the percentage of defensive recommendations (Demobilise, Reinforce guarantees and/or Reduce involvement) is quite expressive both in terms of number of clients (70.9% of the clients analysed) and in terms of their credit exposure (slightly above 57.7%);
- no recommendations were issued for 28.1% of the clients analysed (corresponding to 41.4% of the exposures analysed), which permits to conclude that BES Group's credit risk is controlled/mitigated, particularly if considering the volume of liabilities analysed by the Committee, which works in full independence from the commercial structures responsible for the origination of the credits analysed.

### CCRA recommendations in 2012

(distribution profile of the portfolio analysed)



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

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

- **Risk Monitoring Group (RMG)**

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

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

- recommendations to transfer Clients in Pre-Watchlist and Watchlist to the Corporate Clients Monitoring Department;
- validation of “Recovery Plans” for clients in Watchlist (applicable to clients with liabilities below EUR 0.5 million, providing they were selected by the Credit Recovery Department);
- monitoring of clients with recovery plans under way in the corporate clients commercial departments, Corporate Clients Monitoring Department, or at the proposal of the Credit Recovery Department;

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

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

- **Global analysis of the risk profile of credit portfolios**

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

### **A.3 Credit Recovery Process**

The entire credit recovery process is developed based on the concept of “integrated client”. Whether in a corporate or retail segment, each client is assigned a “recoverer” that monitors all this client’s credits subject to recovery. In view

of its nature and the volumes involved, credit to individual clients is in some phases treated in an automatic fashion, whereas a customised approach is used to treat credit to corporate clients.

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

#### A.4 Concentration Risk

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

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

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

### B. Credit Risk Analysis

#### B.1. Credit Portfolio

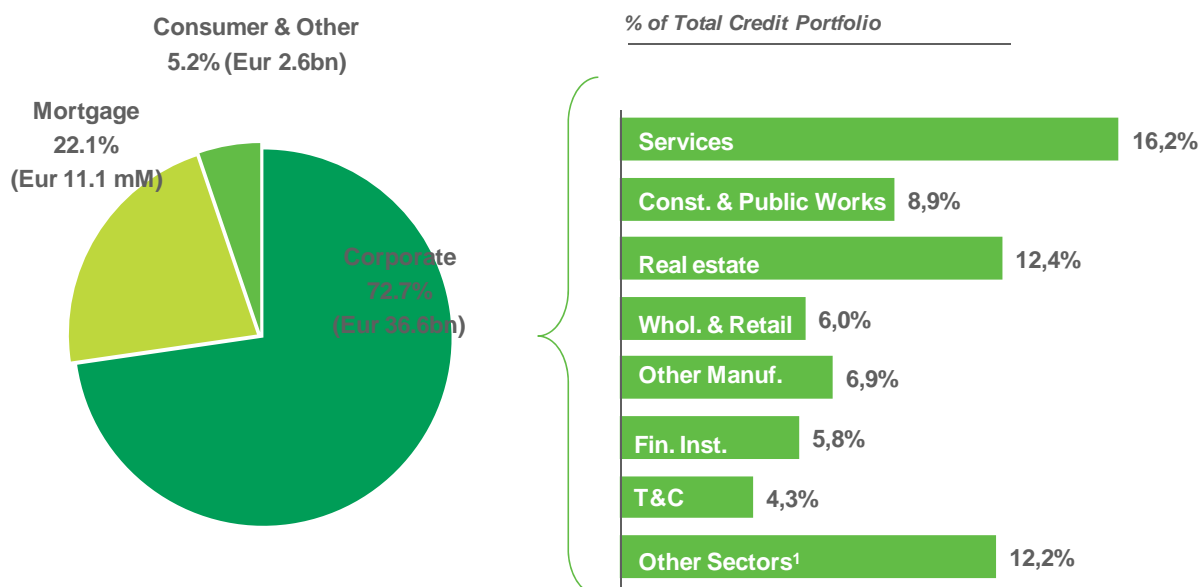
##### Loan Portfolio Breakdown

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

##### Loan Portfolio Breakdown

	(eur million)		
	December 2011	December 2012	Change (%)
<b>Total Gross Loan</b>	51.211	50.399	-1,6%
Mortgage	11.610	11.134	-4,1%
Individual (other)	2.716	2.628	-3,2%
Corporate	36.885	36.637	-0,7%

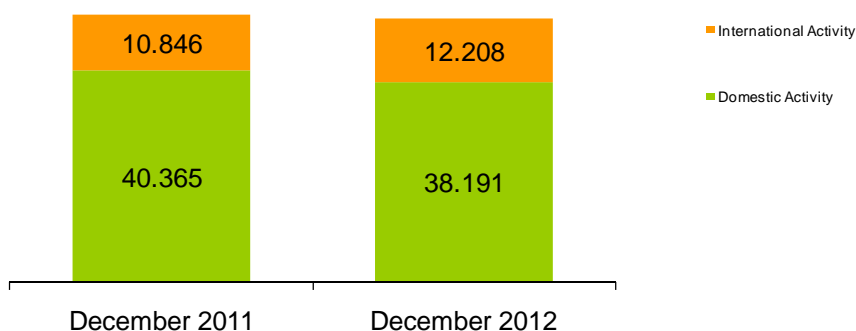
The sectoral breakdown of the credit portfolio shows not only BES Group's continued support to the business community, but also that concentration levels by industry sector remained within prudent limits.



<sup>1</sup> Represents a composite of other sectors of the economy none representing more than 3% per se.

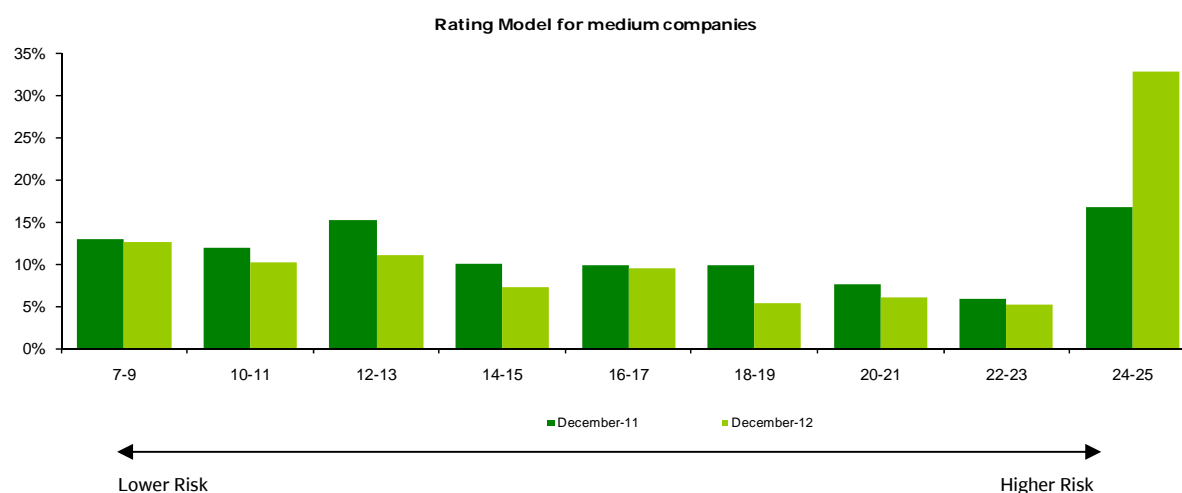
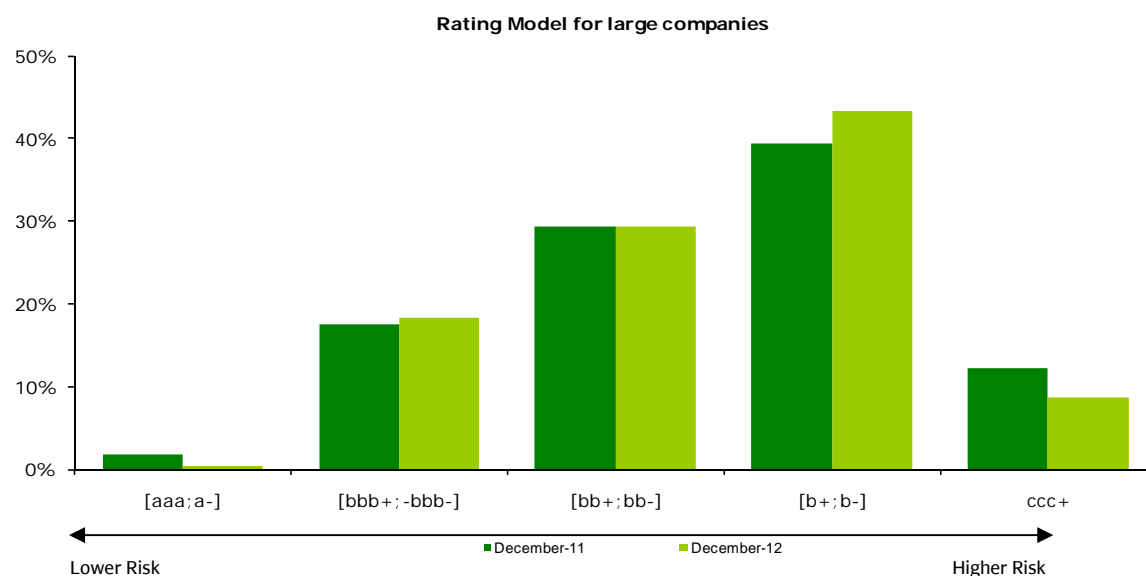
In terms of geographical breakdown, the international activity increased its share by 13% year-on-year, to 24% of the total loan portfolio.

### Geographic Breakdown of Credit Portfolio

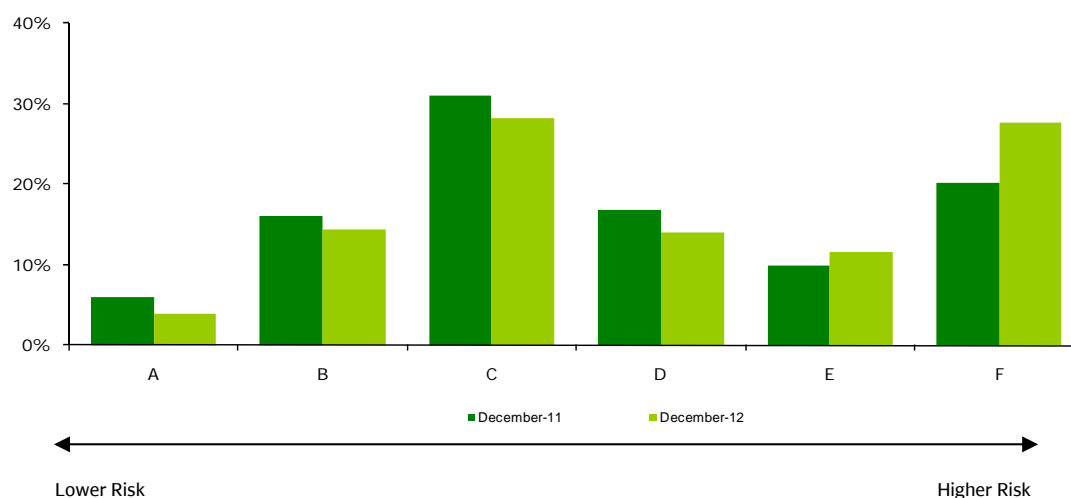


## Loan portfolio breakdown by risk rating

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



Scoring model for small business



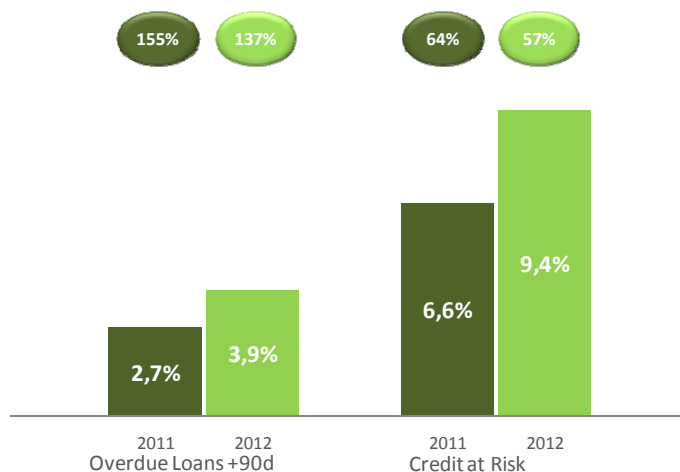
## Asset Quality

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

eur million				
	DEC 2011	DEC 2012	Change	
			absolute	relative
Gross Loans	51.211	50.399	-812	-1,6%
Overdue Loans	1.546	2.185	640	41,4%
Overdue Loans + 90d	1.403	1.966	563	40,1%
Credit at Risk <sup>(1)</sup>	3.374	4.758	1.385	41,0%
Credit Provisions	2.167	2.692	525	24,2%
On-balance Sheet Provisions Reserves	601	815	214	35,7%
<b>(%)</b>				
Overdue Loans/Gross Loans	3,02%	4,34%	1,32 p.p.	
Overdue Loans + 90d/Gross Loans	2,74%	3,90%	1,16 p.p.	
Credit at Risk <sup>(1)</sup> /Gross Loans	6,59%	9,44%	2,85 p.p.	
Coverage of Overdue Loans	140,2%	123,2%	-17,0 p.p.	
Coverage of Overdue Loans + 90d	154,5%	136,9%	-17,5 p.p.	
Coverage of Credit at Risk <sup>(1)</sup>	64,2%	56,6%	-7,7 p.p.	
On-balance Sheet Provision Reserve/Gross Loans	4,23%	5,34%	1,11 p.p.	
Provision Charge	1,17%	1,62%	0,45 p.p.	
Provision Charge net of Recoveries	1,12%	1,57%	0,45 p.p.	

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

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



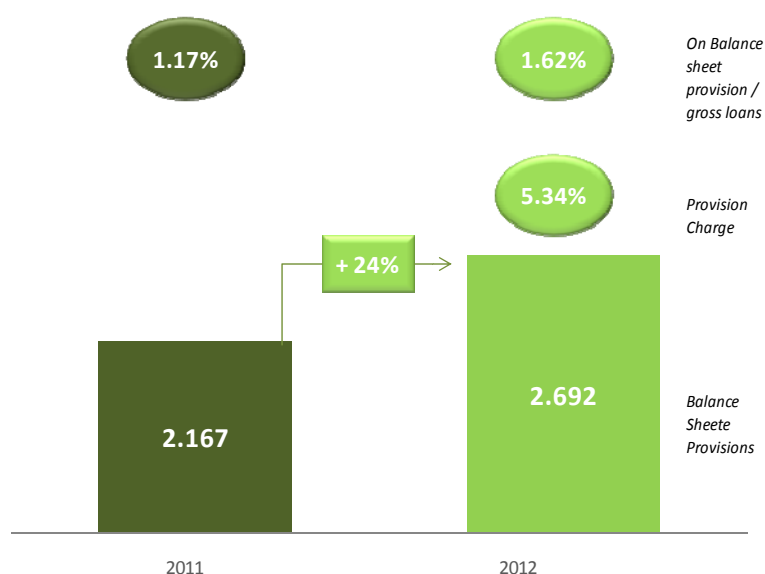
Reflecting the deterioration of the social and economic context, the credit at risk ratio increased to 9.4%, from 6.6% in December 2011. This increase was mainly driven by corporate overdue loans (where the ratio rose from 6.6% to 10%) due to the weight of this segment in the total portfolio.

#### Breakdown of overdue loans over 90 days

	Non-performing loans		Coverage		Provision Charge	
	2011	2012	2011	2012	2011	2012
<b>Total Loans</b>	<b>6,59%</b>	<b>9,44%</b>	<b>64%</b>	<b>57%</b>	<b>4,23%</b>	<b>5,34%</b>
Corporate	6,58%	10,02%	76%	64%	5,02%	6,37%
Mortgage	6,22%	7,28%	22%	21%	1,38%	1,52%
Individuals (other)	8,25%	10,54%	69%	69%	5,72%	7,28%

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





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

## B.2. Exposure to Emerging Markets

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

milhões de euros

Country	BoP risk weight	Dec-11 net exposure		Dez-12					
				gross exposure*		guarantees and deductions	net exposure		
		Total	in foreign currency	Total	fair value resreve		Total	in foreign currency	structure (%)
Latin America		3 134	1 075	3 896	0	1 111	2 785	921	27
Bahamas	10%	1	1	19	0	19	0	0	0
Brazil	0%	2 708	649	2 582	0	34	2 548	685	24
Mexico	0%	9	9	81	0	31	50	50	0
Panama	0%	397	397	222	0	72	149	149	1
Venezuela	50%	7	7	950	0	948	2	2	0
Other		11	11	42	0	7	35	35	0
Eastern Europe		77	9	130	0	7	123	42	1
Croacia	10%	0	0	0	0	0	0	0	0
Ukraine	50%	0	0	1	0	1	0	0	0
Other		77	9	129	0	6	123	42	1
Asia-Pacific		126	101	485	0	414	71	59	1
China	0%	10	10	4	0	2	2	2	0
India	10%	11	11	282	0	277	4	4	0
Macao	0%	82	57	64	0	0	64	52	1
Turkey	10%	0	0	1	0	0	0	0	0
Other		23	23	135	0	135	0	0	0
Africa		5 911	3 809	8 461	0	988	7 473	4 639	71
South Africa	0%	16	16	36	0	20	16	16	0
Angola	10%	5 772	3 678	8 228	0	906	7 322	4 488	70
Cape Verde	10%	92	91	120	0	6	113	113	1
Morroco	10%	8	0	3	0	2	1	0	0
Other		24	24	74	0	53	21	21	0
Total		9 248	4 994	12 972	0	2 520	10 452	5 661	100
% Net Assets		11,5%	6,2%	16,4%			13,2%	7,2%	

\* exposure net of provisions for country risk

\*\* Includes Trade Finance &lt; 1 year in the amount of eur 1112 Mn and IFC B Loans in the amount of eur 0,4 Mn

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

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

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

## 6.2. Market Risk

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

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

### 6.2.1. Trading book risk

#### A. Management Practices

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

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

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

#### B. Market Risk Analysis

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

#### Value at Risk 99% a 10 dias

(milhões de Euros)

	Dez 12	Maximum 2012	Average 2012	Dec 11
Equity and Commodities	15,0	11,1	14,4	13,6
Interest Rate	8,8	28,5	18,4	10,8
FX	3,4	13,7	11,3	4,9
Volatility	7,1	7,2	7,2	14,3
<i>Credit Spreads</i>	13,9	71,6	40,2	15,2
Diversification Effects	-10,1	-20,3	-17,0	-11,1
<b>Total</b>	<b>38,1</b>	<b>111,8</b>	<b>74,5</b>	<b>47,5</b>

\* Does not include the credit spread VaR in BESl Group's bonds and CDs.

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

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

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

		eur million
Extreme scenario		Loss
Interest Rate Risk	15% yield curve twist Europe	4,9
	15% parallel yield curve shift Europe	4,3
	20% yield curve twist North America	4,2
	25% parallel yield curve shift North America	3,9
FX Risk	16% change in Africa Countries	25,2
	20% change in South American Countrie	2,5
	10% change in Asian Countries	2,0
Equity Risk	48% change in South American Indexes	163,1
	24% change in European indexes	25,3
Volatility Risk	10% changes in volatility in South American Indexes	6,3
	25% changes in volatility in European Indexes	5,2
	25% change in interest rate volatility in American Countries	4,4
Credit Spreads Risk	218% change in credit spreads in European Countries	20,7
	50% change in credit spreads in North American Countries	2,0

### 5.2.2. Banking Book Risks

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

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

### 5.2.2.1. Interest Rate Risk

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

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

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

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

Interest rate risk measurement basically consists in determining the effect of changes in interest rates on equity and net interest income. On December 31st, 2012, interest rate risk, measured as its impact on BES Group's shareholders' equity, was EUR 171 million, which compares with EUR 351 million at the end of 2011.

The interest rate risk on the banking book essentially derives from the combination of long-term fixed-rate credit with long-term fixed-rate liabilities.

In addition to parallel shocks, the yield curve is also subject to non parallel shocks in order to measure the impact of the resulting variations on economic capital sensitivity.

Finally, the banking book interest rate risk is also measured on the basis of the 1-year historical VaR with an interval confidence of 99%. On December 31st, 2012 this value was EUR 136 million.

### 5.2.2.2. Credit Spread Risk

The credit spread, which amounts to the capacity of an issuer to meet its responsibilities up to their maturity, is one of the factors considered in the evaluation of assets.

An asset's credit spread risk reflects the difference between the interest rate associated to that asset and the interest rate of a risk-free asset in the same currency.

This risk is measured based on a VaR at 99% with a holding period of one year, complemented by the analysis of simulated extreme scenarios.

### 5.2.2.3. Risk of Equity instruments and other Variable Income Securities

BES Group is also subject to other types of banking book risk, namely the risk of Equity Holdings, Mutual Funds and Bearer Insurance Certificates (BICs). These risks may broadly be described as the probability of a loss resulting from an adverse change in the market value of these instruments.

The risk of equity holdings and mutual funds, which arises from the respective market prices and equity indexes, is measured based on a VaR at 99%, considering a holding period of one year. This is complemented by the analysis of simulated extreme scenarios.

The risk of Bearer Insurance Certificates (BICs), which derives from their price, is calculated based on a VaR with a confidence interval of 99% and a holding period of one year.

### 5.2.2.4. Real Estate Risk

Real estate risk arises from adverse changes in the market value of real estate assets in the Bank's balance sheet. The real estate risk is measured on the basis of the 1-year historical VaR with an interval confidence of 99%.

### 5.2.3. Pension Fund Risk

The pension fund risk stems from the possibility of the value of the fund's liabilities (the responsibilities of the fund) exceeding the value of its assets (the fund's investments). When that occurs the bank must cover the difference and incur in the respective loss (*Group contributions to the fund*).

BES Group's pension fund risk is measured based on the estimated value of assets and liabilities with a timeframe of one year.

The estimated return on the fund's assets represents the maximum losses which the Fund may incur in a period of one year. This return is determined by calculating, for a confidence interval of 99%, the 1-year VaR of the Pension Fund's assets portfolio at the reference date.

The responsibilities are updated based on the projected current cost within one year.

To quantify the pension fund risk BES Group uses the same models and methodologies used to determine the material risks incurred by its assets.

### 6.3. Operational Risk

Operational risk may be defined as the probability of occurrence of events with a negative impact on earnings or capital resulting from inadequate or negligent application of internal procedures, information systems, staff behaviour, or external events. Legal risk is also included in this definition. Operational risk is therefore the sum of the operational, information systems, compliance and reputational risks.

#### A. Management Practices

Operational risk is managed through a set of procedures that standardise, systematise and regulate the frequency of actions viewing the identification, monitoring, control and mitigation of this risk.

The management methodologies in place are supported by the principles and approaches to operational risk management issued by the Basel Committee and those underlying the Risk Assessment Model implemented by the Bank of Portugal, recognised as translating the best practices in this area.

The management of operational risk is supported by a structure within the Global Risk Department exclusively dedicated to designing, monitoring and maintaining the model. This structure works in close coordination with the elements indicated below, whose active participation is crucial.

- operational risk representatives from the departments, branches and subsidiaries integrated within the scope of operational risk management. Working in close coordination with the Global Risk Department's Operational Risk area, they are responsible for the day-to-day management of operational risk in their units, where they must guarantee that the established procedures are implemented;
- the Internal Control System Management Unit (set up within the Compliance Department), which plays an important role in guaranteeing that the processes are well documented, detecting specific risks and verifying the controls implemented, ascertaining the rigour of control design and identifying required steps for improvement and full effectiveness, while maintaining continuous reporting to and from the operational risk management;
- the Internal Audit Department, which tests the effectiveness of risk management and controls, identifies required steps for improvement and assesses their implementation;
- the Security Management and Coordination Department, with responsibility for data security, the safety of people and property, and business continuity.

In 2012, the following developments had significant positive impacts on operational risk management:

- The annual self-assessment exercise was extended to new branches of BES Group, in line with the Group's internationalisation strategy. The exercise permitted to determine the main risks to which the Group is exposed and define corresponding mitigation measures.

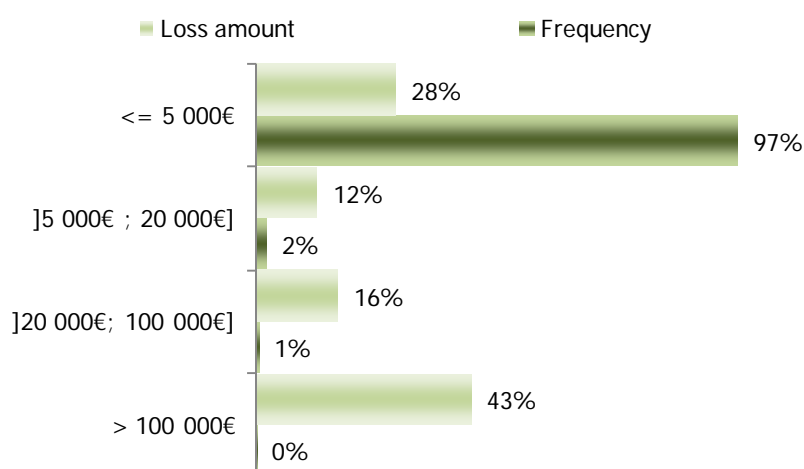
- The consolidated monitoring of risk sources using Key Risk Indicators permitted to take early action and thus avoid the occurrence of incidents with a financial impact. These risk indicators are implemented in the various units according to a panel of standard indicators, permitting a cross-cutting comparative analysis. These are complemented by specific indicators defined in accordance with the business and risk profile of each unit.
- In May 2012 the software application for the integrated management of operational risk was upgraded. This was immediately followed by an analysis of the requirements for the development of specific modules to carry out self-assessment exercises and monitor key risk indicators. As a result, in 2013 the operational risk application will be available to the Group's various units, permitting the incorporation of the main risk identification and monitoring tools.

The management of operational risk requires the timely, regular and sustained execution of various processes, including the definition of mitigation measures against the risk identified through the various tools – self-assessment exercises, detection of incidents and monitoring of risk indicators – as well as the monitoring of the implementation of these measures. At the same time the procedures implemented to control the registration of events permits to assess the effectiveness of the procedures implemented by each unit to identify and report operational risk incidents.

## B. Analysis of Operational Risk

An analysis of BES's operational risk profile shows a high percentage of incidents with low financial impact and a small number of incidents with a material financial impact.

In 2012, 97% of the incidents had a financial impact below EUR 5,000, representing 28% of the total impact. Incidents with an impact above EUR 100,000 (43% of the total) were few and mitigation measures were immediately taken.

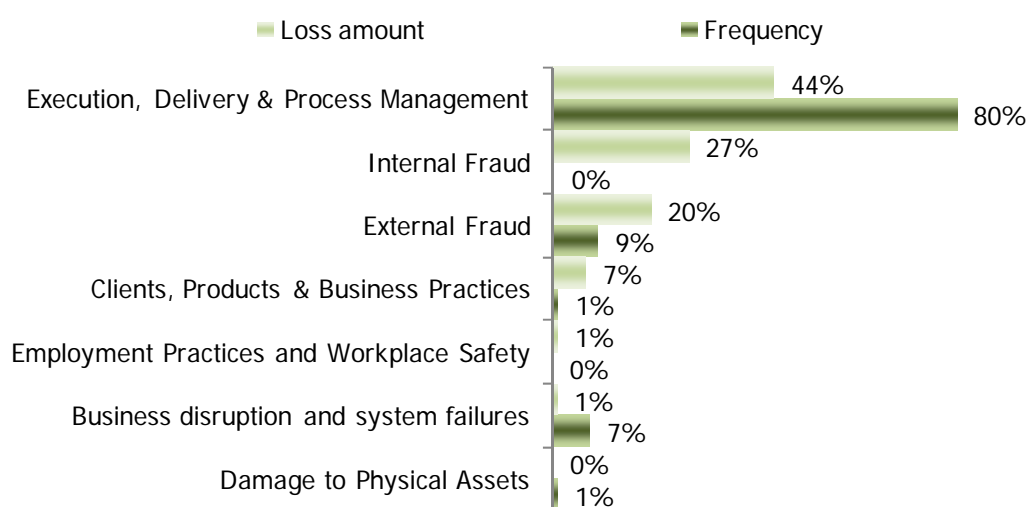




BES Group's database of operational risk incidents fully characterises all situations detected according to the risk categories defined in the Bank of Portugal's Risk Assessment Model, by business lines, business units and processes. The analysis below is also based on the Basel II Risk types, which are widely used for the classification of incidents.

In 2012 "Execution, delivery & process management" incidents represented a significant 80% share of all events identified, with a negative financial impact of 44% of the total. Incidents of "External fraud", though few, represented 27% of the total loss in the year.

**Breakdown of operational risk events by type of risk**



## 6.4. Liquidity Risk

Liquidity risk arises from an institution's present or future inability to settle its liabilities as they mature without incurring in excessive losses.

Liquidity risk may be divided into two types:

- Market liquidity risk – the impossibility of selling an asset due to lack of liquidity in the market, leading to the widening of the bid/offer spread or the application of a haircut to its market value.
- Funding liquidity risk – the impossibility to obtain market funding to finance assets and/or refinance debt coming to maturity in the desired currency. This can lead to a sharp increase in the cost of funding or to the requirement of collaterals to obtain funding. Difficulties in (re)financing may lead to the sale of assets, even if incurring in significant losses. The risk of re(financing) should be reduced through an adequate diversification of funding sources and maturities.

Banks are subject to liquidity risk by virtue of their business of transformation of maturities (providing long term loans and receiving short term deposits) and therefore a prudent management of liquidity risk is crucial.

## A. Management Practices

The structure established by BES Group to manage liquidity risk clearly identifies responsibilities and processes with the objective of ensuring full coordination between all the participants in liquidity risk management and the effectiveness of management controls.

The liquidity risk management structure has been revised to align it to best international practices as well as to permit to respond to new challenges, namely the scarcity of wholesale funding, the increase in the cost of customer deposits, and also the increasingly frequent and demanding changes in the regulation on liquidity and funding.

The Group thus improved and updated its liquidity indicators, internal stress scenarios and management decision processes. These liquidity indicators provide a precise measure of the liquidity risks to which the Group is subject and also translate the scarcity of liquidity that will impact the Group's profitability.

### A.1. Governance and Organisation

The Liquidity Committee intervenes in liquidity decision-taking process, being in permanent contact with the ALCO Committee and the Risk Committee with which it shares key information and collaborates in the implementation of decisions.

The Liquidity Committee establishes and implements policies related to liquidity risk management, reporting to the Executive Committee on liquidity issues.

Liquidity risk management functions are separated according to decision-taking/management, monitoring and reporting levels. The chart below schematises the functions, responsibilities and interactions between the various intervenients in liquidity risk management.

### A.2. Liquidity Risk Appetite

The Global Risk Department (GRD) and the Financial Department are responsible for drawing proposals concerning the methodology for defining the Liquidity Risk Appetite, its calibration and its translation into objectives and limits to be set to the Group and to its external units. The GRD submits these proposals to the Liquidity Committee, for approval, and this committee in turn submits them to the Executive Committee.

The GRD is responsible for monitoring actual performance versus the liquidity risk appetite and the objectives defined. The Group's Liquidity Risk Appetite is defined in accordance with two complementary variables:

- Survival Horizons under stress situations; and
- Liquidity Ratios.

The survival horizons considered take into account the seriousness of the scenario and the mitigation actions taken. Scenarios of moderate and severe stress were considered, with impact at three levels: bank specific, market-wide and combined.

The liquidity ratios identified to define the Group's Liquidity Risk Appetite are organised into the following categories:

- Regulatory Ratios, including the Basel III liquidity ratios;
- Balance sheet liquidity profile;
- Concentration of short-term wholesale funding;
- Remaining indebtedness capacity;
- Maturity mismatches.

### A.3. Policy on limits

This process involves the definition of a set of limits/targets, calibrating them and distributing them to the external units, monitoring them, and in case they are surpassed, reporting that to the management bodies and setting a path for convergence towards the established targets.

The Global Risk Department (GRD) and the Financial Department are responsible for drafting proposals concerning the methodology for the establishment of limits, which must also consider a path towards convergence and the Group's vision for long-term liquidity. These proposals are submitted to the Liquidity Committee, for approval, and this committee in turn submits them to the Executive Committee.

### A.4. Transfer prices

BES Group's policy on transfer prices reflects the Group's funding structure and establishes guiding objectives and principles, namely:

- consistent coordination of liquidity costs/benefits with the liquidity risk policy and the risk appetite defined by the Group;
- the liquidity price linked to the transfer price should be actively used as a guide in decisions about new businesses;
- coverage of all the more important elements of the balance sheet;
- the establishment of prices must be based on the behavioural lifetime of assets/liabilities, differentiating the funding cost between short and long term assets and liabilities.

The transfer price is applied to all new credit/deposit operations and incorporated into the "Objectives and Incentives System" (OIS). Therefore it plays an important role in determining the net interest margin and banking income of each business area.

## A.5. Contingency Plan

The Group's Contingency Plan is proportional to the nature, scale and complexity of its business and permits to manage liquidity needs in a crisis scenario. The purpose of the Liquidity Contingency Plan is to mitigate, as far as possible, the impact of a liquidity crisis, namely through the definition of a set of procedures aimed at:

- describing in detail the Group's response to a liquidity problem, namely with regard to timely identification, warning procedures and principles for managing a liquidity crisis situation;
- understanding the potential impact of a liquidity crisis on the various stakeholders;
- establishing essential management information;
- establishing a mechanism to anticipate liquidity crisis;
- identifying types and potential sources of liquidity crises;
- establishing principles on the use of last resource funding in case all the Group's efforts at an effective resolution of a liquidity crisis fail.

## Liquidity Risk Analysis

Even if one cannot yet consider that the markets have stabilised, the end of 2012 saw the reopening of the medium and long term debt markets to the Portuguese large companies and banks, as well as a significant reduction in credit spreads. BES has reopened the debt market to the Portuguese banks with a 3-year EUR 750 million bond issue in October and a USD 450 million issue in November. In January BES made a third debt issue in the amount of EUR 500 million and maturity of 5 years.

In accordance with the defined management structure for liquidity risk, stress scenarios with different degrees of severity (moderate and severe), different time horizons and different areas of impact (market-wide, bank specific, and combined) are applied.

As an example, the market-wide scenario may simulate the closure of the wholesale market, while the bank-specific scenario may simulate the various degrees of run-off of retail and non-retail customer deposits.

As of December 31st, 2012 the net assets buffer (consisting of Cash and deposits at central banks and the securities available for rediscount with the ECB) largely exceeded the cash outflow resulting from application of the stress scenarios.

Bank of Portugal's instruction no. 13/2009 defines the liquidity gap as  $(\text{Liquid Assets} - \text{Volatile Liabilities}) / (\text{Assets} - \text{Liquid Assets}) \times 100$  for each cumulative ladder of residual maturity, where liquid assets include cash and liquid securities and volatile liabilities include cash, debt issues, commitments to third parties, derivatives and other liabilities.

This indicator permits to characterise the liquidity position of an institution's wholesale risk.

At December 31st, 2012 BES Group's liquidity gap up to one year was -1.7 (-15 in December 2011), thus being aligned with that of the other banks in Portugal (-5.4 in June 2012). This positive change, which reflects the Group's

conservative management of liquidity risk, essentially resulted from the decrease in debt issues maturing within one year, the increased liquidity of assets, the completion of the second LTRO operation in March 2012 and the increase in cash and deposits at central banks.

In January 2013 the Bank of International Settlements published new regulations on the Liquidity Coverage Ratio (LCR) within the framework of Basel III. As at December 31st, 2012 BES Group already complied with the limit established for 2015 for this ratio.

## 6.5. Solvency

### 6.5.1. Internal Capital Adequacy Assessment Process (ICAAP)

In addition to the regulatory perspective, BES Group also considers its risks and available financial resources (“Risk Taking Capacity” or “RTC”) from an economic perspective in order to conduct a self-assessment exercise of internal capital adequacy, as foreseen in Pillar 2 of Basel II and Bank of Portugal Notice 15/2007.

Risks and RTC are estimated both from a going concern perspective – where BES Group wants to have the financial capacity to absorb losses without having to change its business strategy –, and the perspective of settlement – where it intends to protect its capacity to redeem senior debt and deposits. The two perspectives of capital adequacy assessment use different confidence levels to evaluate risks, and different concepts of the available financial resources to meet such risks, in line with the risk appetite defined for BES Group. In the ICAAP exercise conducted in 2012, with reference to December 31st, 2011, BES Group opted to focus only on the settlement perspective. The reason for taking this approach, which had already been followed in 2011, lies in the fact that, in view of the new regulatory capital requirements (minimum Core Tier I ratio of 9% in 2011 and 10% in 2012) and consequent changes in the business model, which namely entailed the deleveraging process currently underway, the going concern perspective, which assumes that the previous model is maintained, is not applicable at present. The Group thus focused on the settlement perspective.

In order to quantify the risks, BES Group has developed several economic capital models that estimate the maximum potential loss over a period of one year based on a predefined confidence level. These models cover the various types of risk to which BES Group is exposed, namely credit risk, market risk (trading book and banking book), real estate risk, pension fund risk, operational risk, reputational risk, liquidity risk and strategy and business risk.

Economic capital requirements to cover the last three risks are calculated through stress tests.

The amount of the economic capital requirements for each risk is aggregated, taking into account inter-risk diversification effects. In addition to calculating economic capital requirements, the main risk factors are subject to stress tests in order to identify any weaknesses or risks which the internal models failed to uncover.

The capital adequacy analysis carried out at the end of each year is complemented by a forward looking analysis of capital requirements (risks) and available financial resources over a three-year timeframe, under both the basic planning stress scenario and a scenario reflecting further deterioration in the macroeconomic environment.

2012 was again marked by an unfavourable macroeconomic environment, with GDP falling by 3%, after having already slid in the previous years (particularly in 2009 and 2010). This context inevitably penalised the Group's activity and impacted the evolution of its risks.

In line with its business strategy, the main risks to which BES Group is subject are credit risk and the banking book's market risk. The credit risk implicit in the banking relations with the Clients derives from BES Group's core business, mainly originating in the corporate segments, with a significant contribution from the international area. The banking book's market risk mainly derives from: (i) the stakes held in Portugal Telecom and EDP Energias de Portugal, and (ii) the credit spread risk of obligations, which mainly arises from the commercial relations with the clients and the need to maintain liquid assets on the balance sheet. The risks associated to the pension fund, which result from the Group's legal obligations towards its employees, are also relevant. In 2011 the total economic capital requirements decreased by ca. 7% relative to 2010 (after diversification effects), essentially through the reduction of risk associated to the pension fund (transfer to the Social Security of pensions in payment) and the reduction of interest rate risk in the banking book.

The results obtained through the ICAAP exercise conducted with respect to December 31st, 2011, which were delivered to the Bank of Portugal in May 2012, concluded that BES's regulatory capital is sufficient to cover the risks incurred, from either the regulatory or the economic perspective.

### 6.5.2. Regulatory Solvency

BES Group's solvency ratios are calculated under the Basel II regulations. From the first quarter of 2009 onwards BES Group has been authorised by the Bank of Portugal to use the Internal Ratings Based (IRB) approach for credit risk and the Standardised Approach – TSA method for operational risk.

In the second quarter of 2011, in the context of the Financial Assistance Programme to Portugal that determined the reinforcement of capital levels within the Portuguese banking system, the Bank of Portugal issued the Notice 3/2011 of May 10th establishing minimum levels for the Core Tier I ratio on a consolidated basis of no less than 9% by December 31st, 2011 and 10% by December 31st, 2012.

### Solvency

	Dec. 2011	Dec. 2012
Core TIER I	9.2%	10.5%
TIER I	9.4%	10.4%
Solvency ratio	10.7%	11.3%

Bank of Portugal criteria

BES Group's Core Tier I ratio was 10.5% in December 2012 thus meeting the Bank of Portugal's requirement (minimum of 10%). Under the EBA calculation method, the Core Tier I ratio is 9.9%, which is well above the minimum 9% established by the European authority.

### Regulatory Capital

The information on regulatory capital is provided in chapter 7 – Financial Analysis, point 7.3., of this report.

### Risk Weighted Assets

As of December 31st, 2012, Risk Weighted Assets totalled EUR 61,651 million, of which EUR 56,454 million (92% of the total) corresponded to credit and counterparty risk, EUR 1,503 million to market risk and EUR 3,694 million to operational risk.

### Credit and Counterparty Risk

As referred further up, BES Group uses the Internal Ratings Based (IRB) approach for most exposures subject to credit risk, in accordance with the rules set out in Bank of Portugal's Notice 5/2007.

The EUR 3,251 million reduction in credit risk-weighted assets in 2012 despite the adverse economic and financial context in which activity was developed during the year, translates the strict monitoring of risk and the deleveraging process undertaken by BES Group.

eur million

	Domestic Activity		International Activity		Total	
	Risk weighted assets	Risk weight <sup>(1)</sup>	Risk weighted assets	Risk weight <sup>(1)</sup>	Risk weighted assets	Risk weight <sup>(1)</sup>
Central Authorities or Central Banks	61	1%	753	41%	814	10%
Institutions	1.795	21%	248	34%	2.042	22%
Corporate	33.166	74%	9.967	72%	43.134	73%
Retail	3.355	23%	436	69%	3.791	25%
Other	6.406	79%	268	81%	6.673	79%
<b>Total</b>	<b>44.782</b>	<b>55%</b>	<b>11.672</b>	<b>67%</b>	<b>56.454</b>	<b>57%</b>

<sup>(1)</sup> Risk Weight: risk weighted assets/original exposure

In terms of geographical distribution, the international activity contributed with EUR 11,672 million, or 21%, to total Risk Weighted Assets, while the domestic activity contributed with EUR 44,782 million. By categories of risk, the corporate segment represented 73% of total Risk Weighted Assets, which is in line with its predominant role in BES Group's activity.

### Market Risk

Capital requirements for market risk are calculated using the standardised method. As of December 31st, 2012 the capital requirements for risk weighted assets amounted to EUR 1,503 million, with the main contributors being Interest Rate/Debt Instruments Risk (80% of the total) and Foreign Exchange Risk (15%).

### Trading Book Risk Weighted Assets

EUR million

		Dec.11	Dec.12	Change
Debt Instruments	Specific risk	564	632	68
	General risk	643	566	-77
	CIE *	23	4	-19
Equity instruments	Specific risk	129	55	-74
	General risk	55	17	-38
	CIE *	0	0	0
Commodity risk		2	1	-1
Fx risk		325	228	-97
<b>Total</b>		<b>1 742</b>	<b>1 503</b>	<b>-239</b>

\* Collective investment entities - Investment funds



The reduction in requirements in 2012 translates an overall decrease in the various categories of risk.

## Operational Risk

Capital requirements for operational risk are determined under the Standardised Approach as the average over three years of the sum of the risk-weighted relevant indicators calculated each year across the regulatory business lines.

In 2012 risk-weighted assets decreased by EUR 244 million as a result of the lower contribution of Trading and sales, which was not offset by the increase in Commercial banking (middle market and large corporates).

	(euro million)			
	2011		2012	
	Capital charge	RWA	Capital charge	RWA
<b>GBES</b>	<b>315</b>	<b>3.938</b>	<b>295</b>	<b>3.694</b>
Corporate Finance	8	96	9	114
Trading and sales	63	789	22	280
Retail brokerage	2	26	2	29
Commercial banking	173	2.158	188	2.351
Retail banking	59	740	63	790
Payment and settlement	0	0	0	0
Agency services	0	4	0	4
Asset management	10	125	10	126

## Environmental Risk

BES Group has developed policies, management methodologies and services that permit to identify, reduce and mitigate potential environmental, social and ethical impacts arising from its financing activities and the projects, activities and companies financed.

Given the complexity of the analysis and the fact that there is no regulation on the assessment of environmental, social and ethical risks, the Group has steered its action by the market's best practices.

In 2006 the Bank subscribed to the Equator Principles, a voluntary initiative launched by the financial sector under which leading international banks undertake to submit all project finance transactions above USD 10 million to environmental and social risk analyses. In 2012, banking on its methodologies and experience in the analysis of such risks, the Bank approved the obligatory performance of these analyses for all project finance transactions above USD 7 million.

In addition, the Bank has formally adopted financing policies for sectors subject to high environmental, social and ethical risks, namely the "Banco Espírito Santo policy on financing with impact on the forests and biodiversity", and in 2012 the "Policy on the financing of defence" and the "Policy on the financing of construction".

The policy on the financing of defence establishes limits for credit provided by BES to this sector. BES Group does not finance the sale or manufacturing of chemical, nuclear, biological or mass destruction weapons. Such credit is only granted when the weapons manufactured or sold are intended for use by the military for the defence of state sovereignty.

The policy on the financing of construction aims to encourage construction firms to adopt good environmental hygiene, health and safety practices. The policy also seeks to exclude from the portfolio companies whose management practices do not permit to reduce the risks arising from projects where environmental and social risks were not addressed.

These policies formally translate practices that are consolidated within the Bank while seeking to ensure that all financings take into account the minimisation of environmental, social and ethical risks.

In addition, and with the objective of providing a competent and effective service permitting to minimise the environmental risks of its corporate clients, the bank provides the guarantees required to cover the restoration or prevention of environmental damages suffered by companies. These guarantees help companies to comply with the environmental liability law, which requires all national companies falling within its scope to provide coverage for potential environmental impacts.

## 7. FINANCIAL ANALYSIS

---

BES Group's activity and results in 2012 were determined by the very adverse economic and financial conditions in Europe in general, stemming from the European policies viewing the stabilisation of the Eurozone, and in Portugal in particular from the execution of the Adjustment Programme agreed with the international institutions. The consequent adoption by the Portuguese government of restrictive fiscal policies combined with the deleveraging process under way among companies and families slashed investment and demand, with strong impacts in terms of a contraction of economic activity, rising unemployment and also a significant improvement of the trade balance.

Despite the difficulties arising from the challenging context, BES Group made considerable progress during the year:

- BES's EUR 1,010 million **rights issue** (capital increased to EUR 5,040 million) concluded in May allowed the Group to maintain its strategic autonomy and was a unique case amidst the Portuguese banks' capitalisation plans, while attesting to the trust placed by its reference shareholders and the capital markets in general in the future of the Group;
- **Reinforcement of BES Group's financial strength** – the Core Tier I ratio increased to 10.5%, meeting the Bank of Portugal's minimum requirement (10%), and was 9.9% under the EBA criteria (minimum required: 9%). This was achieved through market mechanisms alone.
- The **loan to deposits ratio** improved to 137% (Dec.11: 141%), backed by a EUR 812 million contraction in the loan book due to the deleveraging process combined with a EUR 334 million increase in deposits.
- **Marked improvement in liquidity levels**, permitting a significant reduction in net loans from the ECB – to EUR 6.9 billion – and the early amortisation of EUR 1.0 billion of the ECB LTRO facility (at the end of January 2013);
- **Commercial banking income increased** by 1.9%, which, combined with gains on financial transactions, drove up **total banking income** by 32.2% and the **net operating income** by 74.2%;
- **Significant contribution of BES Vida** (100% shareholder control acquired in May) to BES Group's 2012 consolidated results - EUR 68.7 million, with EUR 122.7 million generated by current activity and EUR -54.1 concerning the impact of acquisition of control;
- **Reinforcement of provisions** by EUR 1.2 billion, from 1.17% of gross loans in 2011 to 1.62% in 2012 - corresponding to a credit impairment cost of EUR 814.8 million (+35.7%) - raised the Provisions for Credit / Gross Loans ratio to 5.34% (Dec.11: 4.23%).

### 7.1. Activity

#### Overview

Adding on to macroeconomic restraints, activity in the Portuguese banking sector in 2012 remained constrained by the requirement imposed on banks to meet the targets set for the end of 2014 concerning the loans to deposits ratio,

---

solvency, and share of stable liabilities in the funding of the activity. Accordingly, the progressive deleveraging of the balance sheet, the reinforcement of equity, a selective support to the business sector (in particular to the exporting companies), the progressive reduction of loans from the ECB, and greater focus on obtaining savings from individual clients were the main guidelines of BES Group's activity in 2012.

### Activity Indicators

	Dec, 11	Dec, 12	Change	
			absolute	relative
<b>Total Assets <sup>(1)</sup></b>	<b>98 589</b>	<b>97 765</b>	<b>- 824</b>	<b>-0,8%</b>
<b>Assets</b>	<b>80 237</b>	<b>83 691</b>	<b>3 454</b>	<b>4,3%</b>
<b>Customer Loans (Gross)</b>	<b>51 211</b>	<b>50 399</b>	<b>- 812</b>	<b>-1,6%</b>
Loans to Individuals	14 326	13 762	- 564	-3,9%
- Mortgage	11 610	11 134	- 476	-4,1%
- Other Loans to Individuals	2 716	2 628	- 88	-3,2%
Corporate Lending	36 885	36 637	- 248	-0,7%
<b>Total Customer Funds</b>	<b>54 383</b>	<b>56 188</b>	<b>1 805</b>	<b>3,3%</b>
On-Balance Sheet Customer Funds	44 147	44 785	638	1,4%
- Deposits	34 206	34 540	334	1,0%
- Debt Securities placed with Clients <sup>(2)</sup>	6 463	5 254	-1 209	-18,7%
- Life Insurance Products <sup>(3)</sup>	3 478	4 991	1 513	43,5%
Off-Balance Sheet Funds <sup>(3)</sup>	10 236	11 403	1 167	11,4%

(1) Net Assets + Asset Management + Other Off-Balance Sheet Liabilities + Securitised unconsolidated credit

(2) Includes funds related to consolidated securitisations and commercial paper

(3) Dec. 2011 data restated for comparison

Total assets decreased by 0.8% as a result of the execution of the deleveraging programme. Net assets increased by EUR 3.5 billion (+4.3%) due to the full consolidation of BES Vida. Excluding this impact, Net assets evolved in line with the deleveraging effort, declining by 1.5%.

Customer loans show one of the highest reductions from among all asset components, dropping by EUR 812 million (-1.6%), with decreases across all segments but particularly in Other loans to individuals (-3.2%); Corporate loans declined by 0.7%.

Total customer funds increased by 3.3% (2011: -2.9%), reversing the downward trend observed throughout the year; customer deposits increased by EUR 334 million (+1.0%), while on-balance sheet customer funds (bonds and other securities) decreased by EUR 1.2 billion. Off-balance sheet funds increased by 11.4% on a comparable basis, driven by portfolio management and mutual funds.

### Off-Balance Sheet Funds

	eur million			
	Dec, 11	Dec, 12	Change	
			absolute	relative
Mutual Funds	4 633	5 115	482	10,4%
Real Estate Funds	1 203	1 076	- 127	-10,6%
Pension Funds	2 155	1 783	- 372	-17,3%
Bancassurance <sup>(1)</sup>	3 478	90	-3 388	-97,4%
Portfolio Management	878	1 960	1 082	....
Discretionary Management and Other	1 367	1 379	12	0,9%
<b>Total</b>	<b>13 714</b>	<b>11 403</b>	<b>-2 311</b>	<b>-16,9%</b>
<b>Total on a comparable basis</b> (excluding Life Insurance Products in 2011)	<b>10 236</b>	<b>11 403</b>	<b>1 167</b>	<b>11,4%</b>

(1) Reduction due to BES Vida consolidation

### International Activity

The international units benefited from the dynamics of the economies where they operate, namely the emerging economies: assets grew by 16.8%, while the loan portfolio increased by 12.6% and total customer funds increased by 13.5% driven by the debt securities placed with institutional clients, mainly by BES London branch.

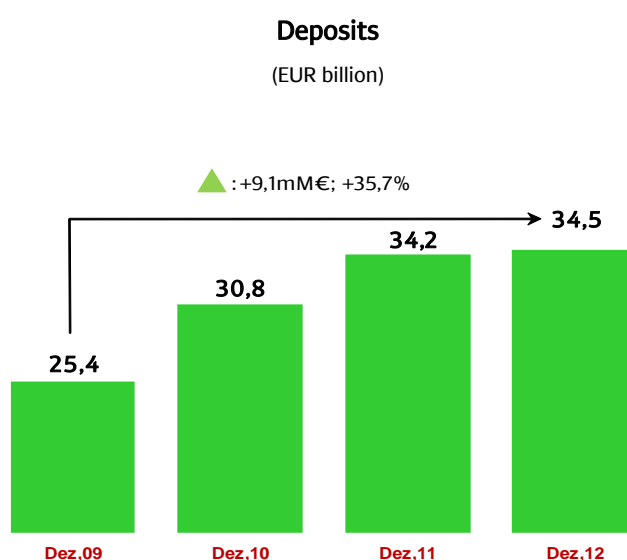
### International Banking Business

	eur million			
	Dec, 11	Dec, 12	Change	
			absolute	relative
Total Assets <sup>(1)</sup>	25 878	27 513	1 635	6,3%
Net Assets	20 988	24 515	3 527	16,8%
Customer Loans (Gross)	10 846	12 208	1 362	12,6%
Total Customer Funds	11 905	13 494	1 589	13,5%

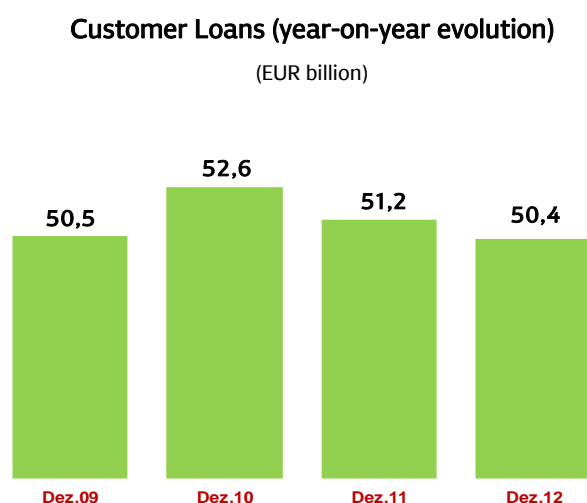
(1) Net Assets+Asset Management+Other Off-Balance Sheet Liabilities+Securitised unconsolidated credit

## 7.2. Liquidity Management and Transformation Ratio

The imposition of a loan to deposits ratio of c. 120% to be reached in Dec.14 requires a focus on deposit taking and a reduction of credit granted. To this end, the Group's effort to capture deposits permitted to increase the portfolio by ca. 36% since 2009, representing an increase of more than EUR 9 billion in four years.

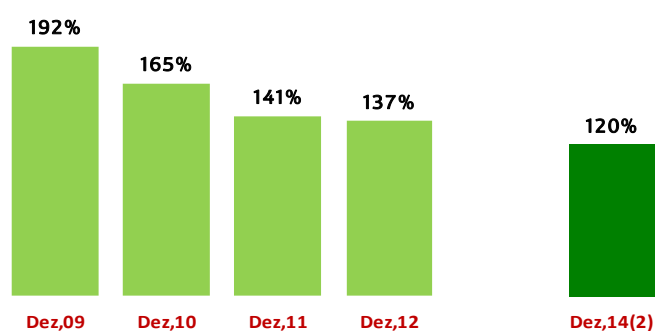


The deleveraging process – involving an increased focus on capturing deposits and the reduction of lending – resulted in 2012 in a EUR 812 million contraction in the credit portfolio combined with a EUR 334 million increase in deposits.



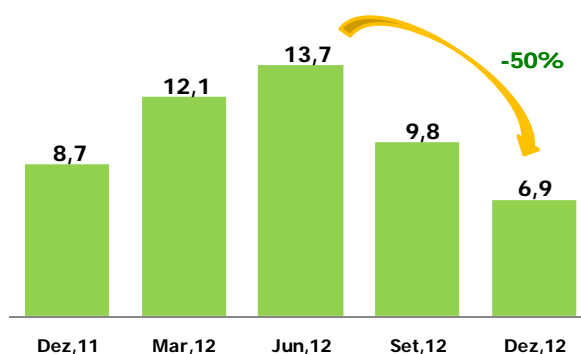
As a result of the reduction of the loan book and the increase in deposits, the loan to deposits ratio (calculated in accordance with the Bank of Portugal's criteria for the medium-term target ratio) was 137%.

### Loan to Deposits Ratio <sup>(1)</sup>



(1) Calculado nos termos definidos para efeitos da elaboração do *Funding % Capital Plan*  
 (2) Objectivo

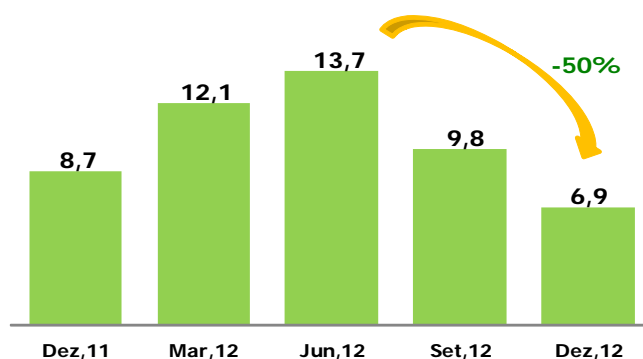
As to other funding components, equity increased by EUR 1.5 billion due to the capital increase and the recovery of fair value reserves, while net funding from the ECB decreased by 50% versus the peak attained in June 2012, to EUR 6.9 billion.



(1) Dec,12: funding (10,0mM€) net exposure ECB (3,1mM€)

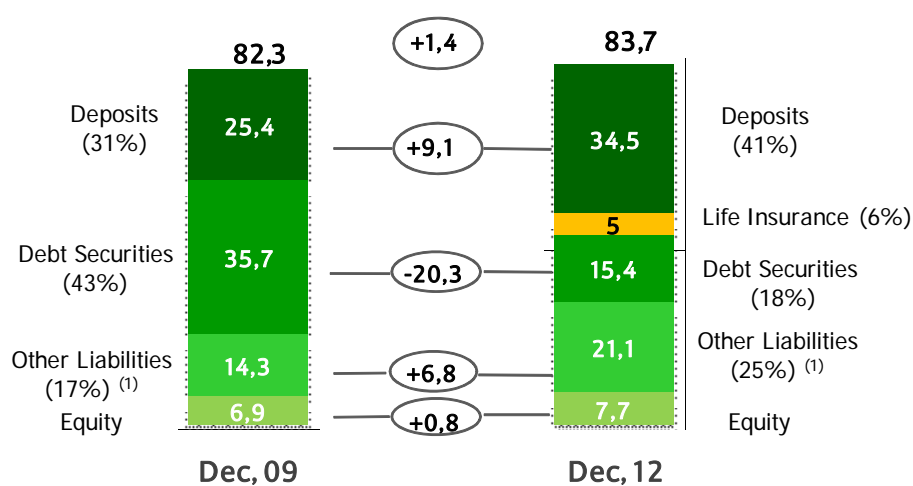
## Financiamento líquido do BCE <sup>(1)</sup>

(valores em mil milhões de euros)



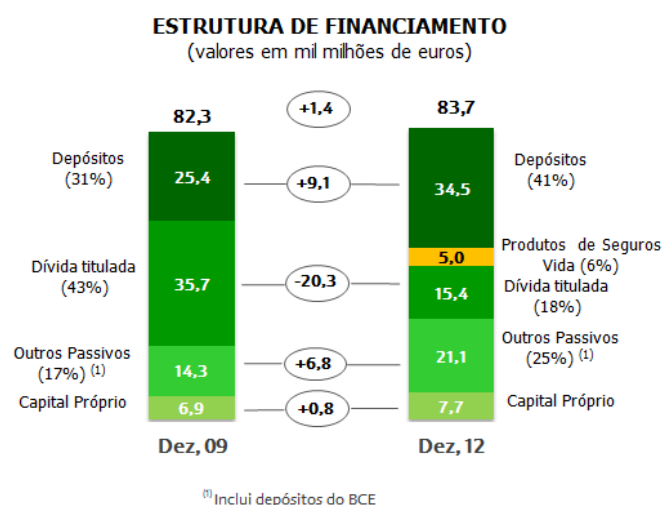
<sup>(1)</sup> Em dez,12: financiamento (10,0mM€) líquido de aplicações no BCE (3,1mM€)

During the last months of the year the structure of liabilities and equity continued to evolve along the previous lines, i.e., towards an increase in the share of customer deposits and lower dependence from the financial markets, viewing compliance with the guidelines for the financial sector agreed with the international institutions and thus making financial management more autonomous and less dependent on cyclical fluctuations in the debt markets.



<sup>(1)</sup> Includes ECB liquidity facilities





In December 2009 (immediately before the escalation of the Eurozone crisis at the start of 2010) debt securities totalled EUR 35.7 billion, representing the largest share of total asset financing sources (43%, or EUR 82.3 billion). In December 2012 deposits had become the main financing source (41%, or 47% if also considering life insurance products sold to clients), with debt securities representing only 18% of assets.

### 7.3 Capitalisation and Capital Adequacy Ratios

One of the more relevant events during the year was the EUR 1010 million increase of Banco Espírito Santo's share capital, which totalled EUR 5,040 million on December 31st, 2012.

#### a. Equity

The table below lists the equity balance sheet items.

Total Equity			
	eur million		
	Dec, 11	Dec, 12	chg
Capital	4 242	5 233	991
Ordinary	4 030	5 040	1 010
Preferred	212	193	- 19
Share Premium	1 082	1 070	- 12
Other Capital Instruments	29	29	0
Own Shares	- 1	- 7	- 6
Revaluation Reserves	-1 086	- 687	399
Other Reserves and Retained Earnings	1 447	1 329	- 118
Net Income	- 109	96	205
Minority Interests	588	670	82
<b>Total</b>	<b>6 192</b>	<b>7 733</b>	<b>1 541</b>

In 2011 there was a significant increase in core capital components, namely in Ordinary Shares, due to the capital increase, and in revaluation reserves, which rose by ca. EUR 400 million as a result of the recovery in the price of both debt securities and equities.

### Capital Increase

In May 2012 Banco Espírito Santo concluded a EUR 1,009,891,912.86 rights offering through the issuance of 2,556,688,387 new ordinary shares. The share capital was thus increased from EUR 4,030,232,150.40 to EUR 5,040,124,063.26, and is currently represented by 4,017,928,471 ordinary, book-entry, registered shares with no par value. The new shares are fungible with all other ordinary shares of BES, and confer to their holders the same rights as the existing shares prior to the capital increase. The new shares were listed on the NYSE Euronext Lisbon on May 14th, 2012.

Despite being carried out during a period of adversity and great instability in the markets, the capital increase was fully subscribed, which makes it a clear case of success with no equal in Portugal in recent times, while also attesting to the confidence placed by the traditional shareholders and the market on the Bank's capacity and resolve to overcome by itself the current difficulties and embark on a new cycle of value creation within the Group.

### Capital Increases since the Reprivatisation

		n° of shares (million)			Share Capital (Eur million)
		Share Capital Increase		Accumulated	
#	Month/year	Incorporation of Reserves	Total		
				40,0	<b>200</b>
1	Aug 92	20,0	26,0	66,0	<b>330</b>
2	Aug 95	13,2	21,4	87,4	<b>437</b>
3	Jun 98	17,5	30,2	117,6	<b>588</b>
4	Jul 00	44,6	82,5	200,0	<b>1 000</b>
5	Feb 02	50,0	100,0	300,0	<b>1 500</b>
6	May 06	50,0	200,0	500,0	<b>2 500</b>
7	Apr 09	-	666,7	1 166,7	<b>3 500</b>
8	Dec 11	-	294,6	1 461,2	<b>4 030</b>
9	May 12	-	2 556,7	4 017,9	<b>5 040</b>

## b. Solvency

BES Group solvency ratios are calculated under the Basel II regulations. From the first quarter of 2009 onwards BES Group has been authorised by the Bank of Portugal to use the Internal Ratings Based (IRB) approach for credit risk and the Standardised Approach – TSA method for operational risk.

The table below provides the relevant information about risk weighted assets, regulatory capital and solvency ratios based on BIS II IRB approach, for December 2012 and December 2011:

<b>Risk Weighted Assets and Regulatory Capital</b>			
milhões de euros			
		<b>Dec 11</b>	<b>Dec 12</b>
<b>Net Assets</b>	(1)	<b>80 237</b>	<b>83 691</b>
Risk weight	(2)/(1)	81%	74%
<b>Risk Weighted Assets</b>	(2)	<b>65 385</b>	<b>61 651</b>
Banking Book		59 705	56 454
Trading Book		1 742	1 503
Operational Risk		3 938	3 694
<b>Regulatory Capital</b>			
<b>Core Tier I</b>	(3)	<b>6 020</b>	<b>6 471</b>
<b>Core Tier I EBA</b>	(3')	-	<b>6 091</b>
<b>Tier I</b>	(4)	<b>6 171</b>	<b>6 438</b>
Tier II and Deductions		799	517
<b>Total</b>	(5)	<b>6 970</b>	<b>6 955</b>
<b>Core TIER I</b>	(3)/(2)	<b>9,2%</b>	<b>10,5%</b>
<b>Core TIER I EBA</b>	(3')/(2)	-	<b>9,9%</b>
<b>TIER I</b>	(4)/(2)	<b>9,4%</b>	<b>10,4%</b>
<b>Solvency Ratio</b>	(5)/(2)	<b>10,7%</b>	<b>11,3%</b>

BES Group's Core Tier I ratio was 10.5% in December 2012 thus meeting the Bank of Portugal's requirement (minimum of 10%). Under the EBA calculation method, the Core Tier I ratio is 9.9%, which is well above the minimum 9% established by the European authority.

**Regulatory capital components considered in the calculation of the Core Tier I Ratio**  
(Bank of Portugal)

	eur million
<b>Core Tier as of December 31, 2011</b>	<b>6020</b>
Capital Increase	1 010
Actuarial differences on post-employment liabilities with regulatory impact:	- 526
- Transition period of 2005 (IFRS) and 2008	- 87
- Transfer to Social Security	- 228
- Differences of 2012 subject to deduction	- 211
Goodwill	- 166
Capital Instruments revaluation reserves	142
Regulatory impact of the Special Inspections Programme (SIP)	- 47
Other	38
<b>Core Tier I as of December 31, 2012</b>	<b>6 471</b>

The regulatory capital components considered in the calculation of the Core Tier I ratio (Bank of Portugal) increased by EUR 451 million, on the one hand due to the increases in ordinary share capital (EUR 1,010 million) and revaluation reserves (EUR 142 million), and on the other, with a negative prudential increase, the increase in actuarial deviations and the end of the transitory periods.

## 7.4 Results

BES Group posted net income of EUR 96.1 million in 2012, which compares with a loss of EUR 108.8 million in 2011. This recovery was achieved in a context of an unprecedented economic and financial crisis and of the implementation of the demanding Adjustment Programme agreed between the Portuguese government and the ECB, the European Commission and the IMF. The year's net income comprises the adjustment made in May due to acquisition of control of BES Vida, with a negative impact of EUR 54.1 million. In this context, the following aspects of BES Group's performance in 2012 should be highlighted:

## Income Statement

eur million				
	2011	2012	Change	
			absolute	relative
Net Interest Income	1181,6	1180,5	-1,1	-0,1%
+ Fees and Commissions	790,5	828,4	37,9	4,8%
<b>= Commercial Banking Income</b>	<b>1 972,1</b>	<b>2 008,9</b>	<b>36,8</b>	<b>1,9%</b>
+ Capital Markets and Other results	-21,9	569,5	591,4	....
<b>= Banking Income</b>	<b>1 950,2</b>	<b>2 578,4</b>	<b>628,2</b>	<b>32,2%</b>
+ Insurance Premiums and Costs	-	0,7	0,7	-
- Operating Costs	1 129,2	1 149,1	19,9	1,8%
<b>= Net Operating Income</b>	<b>821,0</b>	<b>1 430,0</b>	<b>609,0</b>	<b>74,2%</b>
- Net Provisions	848,3	1 199,4	351,1	41,4%
Credit	600,6	814,8	214,2	35,7%
Securities	73,3	106,6	33,3	45,4%
Other	174,4	278,0	103,6	59,4%
<b>= Income before Taxes and Minorities</b>	<b>-27,3</b>	<b>230,6</b>	<b>257,9</b>	<b>....</b>
- Income Tax	-61,6	82,9	144,5	....
- Banking Sector Levy	30,5	27,9	-2,6	-8,5%
<b>= Income before Minorities</b>	<b>3,8</b>	<b>119,8</b>	<b>116,0</b>	<b>....</b>
- Minority Interests	112,6	23,7	-88,9	-78,9%
<b>= Net Income</b>	<b>-108,8</b>	<b>96,1</b>	<b>204,9</b>	<b>....</b>

BES Group posted net income of EUR 96.1 million in 2012, which compares with a loss of EUR 108.8 million in 2011. Excluding non recurrent factors, the 2012 net income would be EUR 194.9 million (2011: EUR 166.6 million).

eur million		
Non - Recurrent Effects	2011	2012
Stated Net Income	-108,8	96,1
Extraordinary losses in 2011 <sup>(1)</sup>	275,4	-
BES Vida acquisition control impact	-	54,1
On-site inspection programme impact <sup>(2)</sup>	-	55,0
Gespastor indemnity received		-10,3
<b>Net income adjusted for non recurrent items</b>	<b>166,6</b>	<b>194,9</b>

<sup>(1)</sup> Transfer of pensions in payment to Social Security (eur 76.1 million); losses in BES VIDA (eur 143.9 million); sale of loans (eur 55.4 million)

<sup>(2)</sup> Related to real estate credit

Besides the stark difficulties that characterised the year, the following aspects should be highlighted:

- banking income registered a small YoY increase (+1.9%), despite the deepening economic recession (GDP<sub>11</sub>: -1.7%; GDP<sub>12</sub>: -3.0%);
- very positive performance of financial transactions, namely involving debt instruments, which boosted total banking income by 32.2% (+13.2% without non recurrent factors), to EUR 2,578.4 million, together with the contribution of BES Vida (EUR 158.4 million or 6% of BES Group's total);
- the strengthening of the balance sheet in light of the aggravation of the crisis required a EUR 1,199.4 million increase (+41.4%) in provisions;
- increase in operating costs (+1.8%) induced by the expansion of the international area (+9.3%), partially offset by the reduction in domestic costs (-2.5% on a comparable basis).

### **Domestic and International Business**

The domestic net income (EUR 8.5 million) strongly rebounded compared to 2011 (EUR -269.6 million). Commercial banking income increased by 8.9%, with total banking income benefiting from the investments in Portuguese public debt, which permitted to overcome the deterioration of impairments due to the economic recession.

The year's pre-tax profit was EUR 100 million. However, the net income for the year was impacted by the increase in the income tax burden, namely due to the non acceptance of losses on the Group's strategic holdings for tax purposes.

The international area posted net income of EUR 87.6 million, despite being also affected by the economic and financial situation in some geographies, which led to a 2.0% reduction in banking income and required a EUR 225.9 million reinforcement in provisions. The strategic decision to deleverage the international area, namely through sales of international loans, inevitably impacted its performance when compared to previous years.

The development and consolidation of the activity of the new international units in Venezuela and Luxembourg, the potential afforded by the expansion of the distribution network in Angola as well as the execution of BES Angola's new strategic plan, should, among others, provide solid bases allowing the international area to remain a dynamic contributor to BES Group's future value creation.

## Domestic and International Income Statement

	eur million					
	Domestic activity			International activity		
	2011	2012	Chg	2011	2012	Chg
Net Interest Income	645,7	823,4	27,5%	535,9	357,1	-33,4%
+ Fees and Commissions	600,1	533,0	-11,2%	190,4	295,4	55,1%
= <b>Commercial Banking Income</b>	<b>1 245,8</b>	<b>1 356,4</b>	8,9%	<b>726,3</b>	<b>652,5</b>	<b>-10,2%</b>
+ Capital Markets and Other Results	- 34,0	498,5	....	12,1	71,0	....
= <b>Banking Income</b>	<b>1 211,8</b>	<b>1 854,9</b>	53,1%	<b>738,4</b>	<b>723,5</b>	<b>-2,0%</b>
+ Insurance Premiums and Costs	-	0,7	-	-	-	-
- Operating Costs	793,5	782,0	-1,4%	335,7	367,1	9,3%
= <b>Net Operating Income</b>	<b>418,3</b>	<b>1 073,6</b>	....	<b>402,7</b>	<b>356,4</b>	<b>-11,5%</b>
- Net provisions	778,5	973,5	25,0%	69,8	225,9	....
Credit	538,2	723,8	34,5%	62,4	91,0	45,9%
Securities	73,4	103,3	40,7%	- 0,1	3,3	....
Other	166,9	146,4	-12,3%	7,5	131,6	....
= <b>Income Before Taxes and Minorities</b>	<b>- 360,2</b>	<b>100,1</b>	....	<b>332,9</b>	<b>130,5</b>	<b>-60,8%</b>
- Income Tax	- 119,9	66,6	....	58,2	16,2	-72,1%
- Banking Sector Levy	30,5	27,9	-8,5%	-	-	-
= <b>Income Before Minorities</b>	<b>- 270,8</b>	<b>5,6</b>	....	<b>274,7</b>	<b>114,3</b>	<b>-58,4%</b>
- Minority Interests	- 1,2	- 2,9	....	113,9	26,7	-76,6%
= <b>Net Income</b>	<b>- 269,6</b>	<b>8,5</b>	....	<b>160,8</b>	<b>87,6</b>	<b>-45,5%</b>

The business units within the strategic triangle once again confirmed their key role, posting net income of EUR 60.7 million, which represents 69.3% of the international area's total net income. The Group's units in Africa, Spain and the United Kingdom continued to give a decisive contribution to BES Group's profit generation. The reduction under "Other" stems from the negative contribution of the new units which are still in a start-up phase.

### Geographical Breakdown of International Activity Results

eur million			
Países	2011	2012	Chg
Africa <sup>(1)</sup>	91,0	33,9	-62,8%
Brazil	20,4	11,1	-45,8%
Spain <sup>(2)</sup>	9,9	15,7	59,0%
<b>Strategic Triangle</b>	<b>121,3</b>	<b>60,7</b>	<b>-50,0%</b>
United Kingdom	18,6	19,2	3,2%
USA	14,3	5,9	-59,1%
Other	6,5	1,8	-72,3%
<b>TOTAL</b>	<b>160,8</b>	<b>87,6</b>	<b>-45,5%</b>

<sup>(1)</sup> Angola, Mozambique, Cape Verde and Lybia

<sup>(2)</sup> Includes extraordinary gain in 2012 amounting to eur 10.3 million

#### a. Net Interest Income and Net Interest Margin

Net interest income remained flat YoY, at EUR 1,181 million. The increase in the net interest margin (+2 bps, from 1.68% to 1.70%) compensated the reduction in interest earning assets (- EUR 836 million), with the margin and volume effects cancelling each other out.

The improvement of the net interest margin was backed by a 4 bps increase in the average rate on interest earning assets (in particular the portfolio of Securities and Other investments drove up the average rate by 60 bps, from 4.85% to 5.45%), while the average rate on interest bearing liabilities rose by 2 bps, to 3.44%, underpinned by a 34 bps increase, from 3.62% to 3.96%, in the average rate on the Debt securities and Other liabilities.

#### Net Interest Income and Net Interest Margin

	2011			2012		
	Average Balance	Avg Yield (%)	Interest	Average Balance	Avg Yield (%)	Interest
Interest Earning Assets	70 267	5,10	3 587	69 443	5,14	3 571
Loan Portfolio	51 520	5,20	2 678	50 316	5,02	2 528
Securities and Other	18 747	4,85	909	19 127	5,45	1 043
Other Non-Interest Earning Assets	12	-	-	-	-	-
<b>Total</b>	<b>70 279</b>	<b>5,10</b>	<b>3 587</b>	<b>69 443</b>	<b>5,14</b>	<b>3 571</b>
Interest Bearing Liabilities	70 279	3,42	2 405	68 161	3,51	2 390
Deposits	32 535	3,19	1 038	34 030	3,05	1 038
Debt Securities and Other Liabilities	37 744	3,62	1 367	34 131	3,96	1 352
Other Non-Interest Bearing Liabilities	-	-	-	1 282	-	-
<b>Total</b>	<b>70 279</b>	<b>3,42</b>	<b>2 405</b>	<b>69 443</b>	<b>3,44</b>	<b>2 390</b>
<b>NIM / NII</b>		<b>1,68</b>	<b>1 182</b>		<b>1,70</b>	<b>1 181</b>



Despite BES's successful placement of two unsecured bond issues in the second half of the year (EUR 750 million in October and EUR 450 million in November), NII management continued to be pursued in a context of restricted access to the financial markets, fierce competition over customer funds, the increase in risk and asset impairment levels and constraints to the expansion of the activity resulting from the deleveraging.

- the cost of interest bearing liabilities totalled EUR 2,390 million, with the average rate on deposits decreasing by 14 bps, to 3.05%; however, the increase in the differential vis-à-vis the market's average reference rate (the 3-month Euribor), to 248 bps (3.05 – 0.57), from 180 bps (3.19 – 1.39) in 2011 permitted a substantial improvement in the depositors' returns;
- interest on loans totalled EUR 3,571 million, underpinned by the improvement in the average rate on Securities and Other investments (+60 bps, to 5.45%) that mainly translates the implicit yields of the Portuguese public debt portfolio. The full year average interest rate on loans (5.02%) represents a very good cost of funding for the clients, namely corporate clients, when compared to the cost imposed by the financial markets on both the Republic and the financial sector.

The year's net interest income was mainly supported by the price effect (more than EUR 13 million), which nearly compensated the negative impact of the volume effect (EUR 14 million).

#### Price versus Volume effect

			eur million	
	Volume Effect	Price Effect	Combined Volume / Price	YoY Chg
Interest earning Assets	-43	27	0	-16
Interest Bearing Liabilities	-29	14	0	-15
<b>Net Interest Income</b>	<b>-14</b>	<b>13</b>	<b>0</b>	<b>-1</b>

#### b. Fees and Commissions

Fees and commissions increased by 4.8% (+EUR 37.9 million), driven by innovation and the adjustment of the offer of products and services to the needs of the clients. Excluding the cost of the guarantees provided by the Portuguese State (2012: EUR 58.5 million; 2011: EUR 8.0 million), fees and commissions increased by 11.1%.

## Fees and Commissions

Fees and Commissions Breakdown	2011	2012	Chg	
			absolute	relative
Collections	19,7	17,0	-2,7	-13,7%
Securities	89,9	73,4	-16,5	-18,4%
Guarantees	125,4	139,6	14,2	11,3%
Account Management fees	81,1	79,0	-2,1	-2,6%
Commissions on Loans and Related <sup>(1)</sup>	176,2	155,4	-20,8	-11,8%
Documentary Credit	81,4	87,1	5,7	6,9%
Asset Management <sup>(2)</sup>	85,8	85,9	0,1	0,2%
Cards	40,9	56,7	15,8	38,5%
Bankinsurance	34,9	47,6	12,7	36,3%
Advisory, Servicing and Other <sup>(3)</sup>	55,2	86,7	31,5	57,1%
<b>Total</b>	<b>790,5</b>	<b>828,4</b>	<b>37,9</b>	<b>4,8%</b>
Costs on State Guarantees	8,0	58,5	50,5	....
<b>Comparable Total</b>	<b>798,5</b>	<b>886,9</b>	<b>88,4</b>	<b>11,1%</b>

<sup>(1)</sup> Includes commissions on loans, project finance, trade finance and factoring

<sup>(2)</sup> Includes asset management and discretionary management

<sup>(3)</sup> Includes costs related to state guarantees

Commissions on bancassurance products (saving and insurance products) increased by 36.3%, underpinned by BES Vida's new commercial dynamics and revamped offer; commissions on guarantees provided rose by 11.3%, increasingly driven by commissions linked to the Express Bill product; card commissions grew by 38.5%; commissions on documentary credit were up by 6.9%, boosted by the trade finance business with South America; commissions on account management (chiefly relating to commissions on current accounts, transfers, and payment orders) totalled EUR xxx million, being close to the 2011 level; finally, income from commissions on advisory services, servicing and other also increased, supported by the international area.

Commissions and fees related to capital markets (namely commissions on securities) and financings (collections, loans, corporate and project finance) decreased as a result of the deleveraging process and, particularly at domestic level, the impact of the economic recession.

### c. Capital Markets and Other Results

Capital markets & other results totalled EUR 569.5 million, which compares with EUR -21.9 million in 2011.

### Capital Markets & Other Results

eur million			
Capital Markets and Other Results	2011	2012	Chg (absolute)
<b>Interest Rate, Credit and FX</b>	<b>142,6</b>	<b>825,0</b>	<b>682,4</b>
Interest rate	84,1	781,3	697,2
Credit	117,1	32,5	-84,6
FX and Other	-58,6	11,2	69,8
<b>Equity</b>	<b>125,8</b>	<b>-126,5</b>	<b>-252,3</b>
Trading	-41,9	-199,1	-157,2
Dividends	167,7	72,6	-95,1
<b>Other Results</b>	<b>-290,3</b>	<b>-129,0</b>	<b>161,3</b>
<b>Total</b>	<b>-21,9</b>	<b>569,5</b>	<b>591,4</b>

The start of the year was marked by the downgrade of the Portuguese Republic's rating, leading to the exclusion of the Portuguese public debt securities from the indexes of investment grade funds and pushing up yields to historically high levels. In this context, BES Group, which then held mostly short-term public debt in its securities portfolio, moved towards exposures with longer maturities, thus increasing the portfolio's average maturity. The monetary policy measures meanwhile adopted by the ECB boosted investors' demand for Portuguese bonds, being responsible for the extraordinary performance of the Portuguese yield curve, which culminated in January 2013 with the successful issuance of 5-year bonds.

BES Group thus sold part of its bond portfolio, with gains on interest rate, credit and fx instruments. However, the poor performance of the equity markets, particularly in the first three quarters of the year (namely of the Group's strategic holdings in Portugal Telecom and EDP), had a negative impact on capital markets results. Other results include the impact of the acquisition of control of BES Vida.

#### d. Operating Costs

Operating costs totalled EUR 1,149.1 million in 2012, which represents a year-on-year increase of 1.8% only. On a comparable basis, i.e., excluding the impacts of the full consolidation of BES Vida and the start-up of the new BES branches, operating costs would be flat (+0.3%).

### Operating Costs

	eur million			
	2011	2012	Chg	
			absolute	relative
Staff Costs	587,5	598,9	11,4	1,9%
Admin Costs	433,8	442,1	8,3	1,9%
Depreciation	107,9	108,1	0,2	0,2%
<b>TOTAL</b>	<b>1 129,2</b>	<b>1 149,1</b>	<b>19,9</b>	<b>1,8%</b>
Domestic Activity	793,5	782,0	-11,5	-1,4%
International Activity	335,7	367,1	31,4	9,3%
BES Vida and new branches	1,7	18,5	16,8	....
<b>TOTAL comparable</b>	<b>1 127,5</b>	<b>1 130,6</b>	<b>3,1</b>	<b>0,3%</b>

Despite the full consolidation of BES Vida, domestic costs decreased by 1.4% (-2.5% on a comparable basis), while international costs increased by 9.3%, largely due to the expansion of the distribution network in Angola and the start of operation of the two new branches abroad (+6.9% on a comparable basis).

### Staff Costs

	eur million			
	2011	2012	Chg	
			absolute	relative
Remunerations	471,6	483,8	12,2	2,6%
Pensions, Social Security and Other	115,9	115,1	-0,8	-0,7%
<b>TOTAL</b>	<b>587,5</b>	<b>598,9</b>	<b>11,4</b>	<b>1,9%</b>
Domestic Activity	395,2	389,7	-5,5	-1,4%
International Activity	192,3	209,2	16,9	8,8%

Staff costs increased by 1.9%, slowing down from 19.1% in 2011. This increase was driven by the international area, where the admission of 141 new employees drove up costs by 8.8%. Domestic staff costs declined by 1.4% due to the reduction of variable remunerations and the downsizing of the workforce by 136 employees (excluding the BES Vida consolidation impact).

The general administrative costs increased by 1.9%. Depreciation and amortisation totalled EUR 108.1 million, reflecting the rollout of new IT systems to support the international units. The domestic operations' depreciation and amortisation dropped by 4.8%, despite the impact of the closure of 41 branches, which led to exceptional amortisations of EUR 1.6 million.

#### e. Efficiency

The total Cost to Income improved to 44.6% as a result of the increase in total banking income (+32.2%) above the increase in operating costs (+1.8%). The Cost to Income excluding capital markets and other results remained flat year-on-year, at 57.2%.

Efficiency			
Efficiency	2011	2012	Chg
Cost to Income	57,9%	44,6%	-13,3 p.p
Cost to Income ex-Markets	57,3%	57,2%	-0,1 p.p

#### f. Provisions

The current context of economic recession and consequent increase in risk levels has forced the Group to increase provisions in order to face the devaluation of assets. The balance of provisions for credit increased by 24.2%, to EUR 2,692.3 million on December 31st, 2012, lifting the credit provisions/gross customer loans ratio to 5.34% (2011: 4.23%).

Credit Provisions				
	2011	2012	Chg	
			absolute	relative
Gross Loan Portfolio	51 211	50 399	- 812	-1,6%
Credit provisions increase	600,6	814,8	214,2	35,7%
Provisions Reserve	2 167,4	2 692,3	524,9	24,2%
Provision charge	1,17%	1,62%	0,44 pp	
Credit provisions reserve / Gross Loan Port	4,23%	5,34%	1,11 pp	

Credit provisions were reinforced by 35.7% in 2012, to EUR 814.8 million (2011: EUR 600.6 million), including an additional charge of EUR 78 million resulting from the On-site Inspection Programme (OIP), which will be explained further down. The year's provision charge (1.62%) was thus 45 bps higher than in 2011 (1.17%).

### Provision Charges

	2011	2012	eur million	
			Chg	
			absolute	relative
Credit	600,6	814,8	214,2	35,7%
Securities	73,3	106,6	33,3	45,4%
<i>ow related to credit transfers</i>	-	50,8	-	-
Other risks and charges	174,4	278,0	103,6	59,4%
<i>ow related to credit transfers</i>	23,0	85,8	62,8	....
<b>TOTAL</b>	<b>848,3</b>	<b>1 199,4</b>	<b>351,1</b>	<b>41,4%</b>

Provisions for securities and other purposes also required a larger charge than in 2011. This is related to the credit assignment operations conducted in 2012. As part of the process of restructuring the real estate and tourism sectors conducted during the year, several initiatives were launched so as to set in place the financial, operational and management conditions required to reorganise and stimulate these sectors. The Government, in close association with companies and the financial sector, encouraged the creation of companies and funds in order to, through merger and concentration operations, achieve the necessary synergies for the sector's recovery. Banks enter the capital of these companies through the assignment of credits, which, for reasons of efficiency in the organisation of the operations, originate a reallocation of provisions, associating them to the financial instruments acquired through the assignment of credits – to securities when shares and participation units are subscribed, and to other assets when accessory capital, supplementary capital or shareholder loans are provided.

In addition, provisions for foreclosed real estate assets (EUR 39 million), for other contingencies (EUR 47 million), and for non financial assets of the international area were also reinforced.

### Outcomes of the On-site Inspections (OIP) programme on exposure to the construction and real estate sectors

Within the scope of its supervisory action, the Bank of Portugal decided to pay special attention to banks' exposure to the construction and real estate sectors, which have been particularly affected by the current macroeconomic context. For this reason, as part of regular prudential supervision activity, an On-site Inspections Programme was developed on the exposure of financial institutions to the construction and real estate sectors in Portugal and Spain (OIP – On-site Inspections Programme), with reference to June 30th, 2012. Its purpose was to assess the adequacy of impairment levels recorded with regard to exposure to the sectors in question, based on conservative assessment criteria. This inspection programme involved, on a consolidated basis, the eight largest national banking groups,

including Espírito Santo Financial Group (ESFG). BES Group was subject to the inspections programme since it is fully consolidated by ESFG.

The inspection took as a reference the balance sheet position on June 30th, 2012, considering also information and events occurred from July 1st up to the conclusion of works, on November 16th, 2012. The programme estimated that BES Group needed to reinforce provisions by EUR 98 million (0.9% of the exposure analysed) relative to the balance sheet position as at September 30th, 2012, which was meanwhile published. Of this amount EUR 78 million (0.7% of the exposure) relate to differences of judgements concerning the amounts of impairment to be recognised for certain credits. As of December 31st, 2012 all reinforcements were duly booked.

## 7.5. Profitability

The gross commercial margin - the indicator of current banking activity performance - rose by 9pp, underpinned by the increase in the net interest margin and in fees and commissions. Despite the higher provisioning charge, the increase in the contribution of Capital markets and other results was crucial for the positive returns achieved in 2012.

### Profitability Breakdown

	%		
	2011	2012	Chg p.p.
Yield on Interest Earning Assets	5,10	5,14	0,04
- Yield on Interest Bearing Liabilities	3,42	3,44	0,02
<b>= Net Interest Margin</b>	<b>1,68</b>	<b>1,70</b>	<b>0,02</b>
+ return on Commissions and Fees	1,12	1,19	0,07
<b>= Gross Commercial Margin</b>	<b>2,81</b>	<b>2,89</b>	<b>0,09</b>
+ Return on Capital Markets and Other Results	-0,03	0,82	0,85
<b>= Business Margin</b>	<b>2,77</b>	<b>3,71</b>	<b>0,94</b>
+ Weighting of Insurance Premiums and Costs	-	0,00	-
- Weighting of Operating Costs	1,61	1,65	0,05
- Weighting of Provisions	1,21	1,73	0,52
- Weighting of Minorities and Other	0,12	0,19	0,08
<b>= Return on Interest Earning Assets</b>	<b>-0,15</b>	<b>0,14</b>	<b>0,29</b>
x Weighting of Interest Earning Assets	0,86	0,84	-0,02
<b>= return on Assets (ROA)</b>	<b>0,00</b>	<b>0,12</b>	<b>0,12</b>
x Placements multiplier	13,72	10,22	-3,50
<b>= Return on Equity (ROE)</b>	<b>-0,05</b>	<b>1,25</b>	<b>1,30</b>

## 7.6 Financial Analysis of Banco Espírito Santo

### Key Indicators \*

	SÍMBOLO	2008	2009	2010	2011	2012
<b>BALANÇO (milhões de euros)</b>						
Ativo	AL	66 743	74 120	75 334	74 087	68 748
Ativos Financeiros (valores médios)	AF	52 359	60 063	65 762	63 961	60 174
Capital e Reservas (valores médios)	KP	3 610	4 585	5 136	5 283	6 362
<b>CONTA DE EXPLORAÇÃO (milhões de euros)</b>						
Resultado Financeiro	RF	799,1	909,1	662,4	653,9	658,2
+ Serviços a Clientes	SB	408,9	468,7	498,6	483,7	455,3
= Produto Bancário Comercial	PBC	1208,0	1377,8	1161,0	1137,6	1113,5
+ Resultado de Operações Financeiras e Diversos	ROF	71,9	475,8	344,2	476,5	618,5
= Produto Bancário	PB	1279,9	1853,6	1505,2	1614,1	1732,0
- Custos Operativos	CO	753,5	766,8	819,1	781,1	763,0
- Provisões e Impostos	PVI	302,1	672,6	387,3	966,1	847,0
= Resultado do Exercício	RL	224,3	414,2	298,8	-133,1	122,0
<b>RENDIBILIDADE (%)</b>						
Margem Financeira	RF / AF	1,53	1,51	1,01	1,02	1,09
+ Rendibilidade Serviços a Clientes	SB / AF	0,78	0,78	0,76	0,76	0,76
+ Rendibilidade Operações de Mercado	ROF / AF	0,14	0,79	0,52	0,74	1,03
= Margem de Negócio	PB / AF	2,44	3,09	2,29	2,52	2,88
- Relevância Custos Operativos	CO / AF	1,44	1,28	1,25	1,22	1,27
- Relevância Provisões e Impostos	PVI / AF	0,58	1,12	0,59	1,51	1,41
= Rendibilidade dos Ativos Financeiros	RL / AF	0,43	0,69	0,45	-0,21	0,20
x Relevância Ativos Financeiros	AF / AL	0,85	0,84	0,87	0,85	0,91
= Rendibilidade do Ativo (ROA)	RL / AL	0,36	0,58	0,39	-0,18	0,18
x Multiplicador das Aplicações	AL / KP	17,03	15,55	14,78	14,23	10,43
= Rendibilidade dos Capitais Próprios (ROE)	RL / KP	6,21	9,03	5,82	-2,52	1,92

\* Dados históricos ajustados da alteração da política contabilística no registo dos desvios atuariais em 2008, 2009 e 2010



### 7.6.1 Activity

The deterioration of financial conditions caused by the increase of sovereign risk, the necessary deleveraging of the Portuguese financial system, and the drop in domestic demand conditioned the activity of Banco Espírito Santo during 2012.

In this context, assets contracted by 7.2% year-on-year, customer loans declined by 3.4% and deposits retreated by 2.9%. Total customer funds increased by 7.4%, being mainly supported by the asset management and bancassurance business.

#### Activity Indicators

Variáveis	31-Dez-11	31-Dez-12	Variação	
			milhões de euros	
			absoluta	relativa
<b>Ativo</b>	<b>74 087</b>	<b>68 748</b>	<b>-5 339</b>	<b>-7,2%</b>
<b>Crédito a Clientes (bruto)</b>	<b>40 638</b>	<b>39 269</b>	<b>-1 369</b>	<b>-3,4%</b>
Crédito a Particulares	10 812	10 295	- 517	-4,8%
- Habitação	8 493	8 130	- 363	-4,3%
- Outro Crédito a Particulares	2 319	2 165	- 154	-6,6%
Crédito a Empresas	29 826	28 974	- 852	-2,9%
<b>Recursos Totais de Clientes</b>	<b>47 035</b>	<b>50 527</b>	<b>3 492</b>	<b>7,4%</b>
Recursos de Clientes de Balanço	33 890	33 371	- 519	-1,5%
- Depósitos	31 179	30 271	- 908	-2,9%
- Obrigações e Outros Títulos colocados em Clientes	2 711	3 100	389	14,3%
Recursos de Desintermediação	13 145	17 156	4 011	30,5%

At year-end the loan portfolio revealed a deterioration in loan loss levels: the overdue loans ratio (>90 days) increased to 4.58% (Dec.11: 3.11%) with the respective provision coverage declining to 133.6% (Dec.10: 155.0%).

It is worth stressing the favourable evolution of the total balance of credit provisions over total loans, which has been consistently increasing, rising by 130 bps year-on-year, to 6.12%.

### Asset Quality

	Dez,11	Dez,12	Variação	
			absoluta	relativa
DADOS DE BASE (milhões de euros)				
Crédito a Clientes (bruto)	40 638	39 269	- 1 369	-3,4%
Crédito Vencido	1389,2	2003,0	613,8	44,2%
Crédito Vencido > 90 dias	1262,2	1798,4	536,2	42,6%
Provisões para Crédito	1955,9	2402,1	446,2	22,8%
INDICADORES (%)				
Crédito Vencido / Crédito a Clientes (bruto)	3,42	5,10	1,68 p.p.	
Crédito Vencido >90 dias / Crédito a Clientes (bruto)	3,11	4,58	1,47 p.p.	
Provisões para Crédito / Crédito Vencido	140,8	119,9	-20,9 p.p.	
Provisões para Crédito / Crédito Vencido > 90 dias	155,0	133,6	-21,4 p.p.	
Provisões para Crédito / Crédito a Clientes	4,81	6,12	1,30 p.p.	

## 7.6.2 Results

The table below summarises the main items of BES's income statement.

### Income Statement

Variáveis	2011	2012	Variação	
			absoluta	relativa
<b>Resultado Financeiro</b>	<b>653,9</b>	<b>658,2</b>	<b>4,3</b>	<b>0,6%</b>
+ Serviços a Clientes	483,7	455,3	-28,4	-5,9%
<b>= Produto Bancário Comercial</b>	<b>1137,6</b>	<b>1113,5</b>	<b>-24,1</b>	<b>-2,1%</b>
+ Resultados de Operações Financeiras e Diversos	476,5	618,5	142,0	29,8%
<b>= Produto Bancário</b>	<b>1614,1</b>	<b>1732,0</b>	<b>117,9</b>	<b>7,3%</b>
- Custos Operativos	781,1	763,0	-18,1	-2,3%
<b>= Resultado Bruto</b>	<b>833,0</b>	<b>969,0</b>	<b>136,0</b>	<b>16,3%</b>
- Provisões líquidas de Reposições	1080,7	834,9	-245,8	-22,7%
para Crédito	521,2	633,4	112,2	21,5%
para Títulos	69,2	119,6	50,4	72,8%
para Outros Ativos	490,3	81,9	-408,4	-83,3%
<b>= Resultado antes de Impostos</b>	<b>-247,7</b>	<b>134,1</b>	<b>381,8</b>	<b>-154,2%</b>
- Impostos	-114,6	12,1	126,7	....
<b>= Resultado do Exercício</b>	<b>-133,1</b>	<b>122,0</b>	<b>255,1</b>	<b>....</b>

Banking income, which translates income generation, increased by 7.3%, mainly underpinned by the increase in Capital Markets and Other Results due to gains in the portfolio of Portuguese public debt.

Despite the 21.5% increase in the credit provisions charge in 2012, to EUR 633.4 million, the total charge was lower than in 2011 as in that year it included a EUR 337.5 million provision for the impairment loss in the investment in BES Vida. Consequently, BES posted a net profit for the year of EUR 122.0 million, which contrasts with the EUR 133.1 million loss reported in 2011.

The total Cost to Income improved to 44.1%, in so far as total banking income increased by 7.3% while operating costs declined by 2.3%. The Cost to Income excluding capital markets and other results remained practically flat, at 68.5%.

### Efficiency Indicators

	2011	2012	Variação
<i>Cost to Income</i> (com mercados)	48,4%	44,1%	-4,3 pp
<i>Cost to Income</i> (sem mercados)	68,7%	68,5%	-0,2 pp

### 7.6.3 Activity of International Branches

BES's branches abroad support the Group in the development of its international strategy. A brief description of the activity of BES's international branches in 2012 is given below.

#### Spain Branch

In a climate of economic and financial instability in Spain and the world, BES Spain Branch maintained a positive performance. Main highlights in 2012: (i) customer deposits increased by 8.7% year-on-year while customer loans decreased by 6.3% – this reflects the success of the branch's policy aimed at reinforcing its self-sufficiency in terms of funding; (ii) the volume of offbalance sheet exposures (guarantees) increased by 3.4%; (iii) the international corporate activity support volume rose by 11.3%; (iv) the number of clients, mostly in retail and private banking (+23.1%), increased by 21.5% year-on-year, which is ca. 3,900 more than in December 2011; and (v) continued implementation of the prudent credit risk management policy, involving a strong reinforcement of provisions in light of the direct and indirect effects of the economic situation. This permitted to maintain the rising trend of credit spreads, thus easing the pressure on the cost of liabilities due to intense deposit-taking competition within the Spanish banking system. Operating income grew by 35.8% YoY, driven by the increase in banking income (+11.9%) combined with the reduction of operating costs (-0.9%). The year's net profit was EUR 13.2 million, which compares with EUR 8.3 million in 2011.

### **London Branch (United Kingdom)**

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

### **New York Branch (USA)**

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

### **Venezuela Branch**

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

### **Luxembourg Branch**

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

## 8. FINANCIAL STATEMENTS

### 8.1. Consolidated Financial Statements

**BANCO ESPÍRITO SANTO, S.A.**  
**CONSOLIDATED BALANCE SHEET AS OF DECEMBER DE 2012**

	Dez,11 (eur '000)	Dez,12 (eur '000)
<b>ASSETS</b>		
Cash and deposits at Central Banks	1 090 439	1 377 541
Deposits with banks	580 813	681 077
Financial assets held for trading	3 434 639	3 925 399
Financial assets at fair value through profit or loss	1 963 989	2 821 553
Available-for-sale financial assets	11 482 866	10 755 310
Loans and advances to banks	3 282 576	5 426 518
<i>(of which of the European system of Central Banks)</i>	-	(3 350 000)
Loans and advances to customers	49 043 382	47 706 392
<i>(Provisions)</i>	(2 167 444)	(2 692 342)
Held-to-maturity investments	1 541 182	941 549
Financial assets with repurchase agreements	-	-
Hedging derivatives	510 090	516 520
Non-current assets held for sale	1 646 683	3 277 540
Investment properties	-	441 988
Other tangible assets	851 678	931 622
Intangible assets	230 332	555 326
Investments in associates	806 999	580 982
Current income tax assets	28 692	24 648
Deferred income tax assets	712 157	728 905
Reinsurance Technical Provisions	-	3 804
Other assets	3 030 855	2 994 154
Direct and Indirect Insurance Creditors	-	567
Other	3 030 855	2 993 587
<b>TOTAL ASSETS</b>	<b>80 237 372</b>	<b>83 690 828</b>
<b>LIABILITIES</b>		
Deposits from central banks	10 013 713	10 893 320
<i>(of which of the European System of Central Banks)</i>	(8 786 204)	(10 279 382)
Financial liabilities held for trading	2 125 253	2 122 025
Other financial liabilities at fair value through profit or loss	-	-
Deposits from banks	6 239 360	5 088 658
Due to customers	34 206 162	34 540 323
Debt securities	18 452 648	15 424 061
Financial liabilities to transferred assets	-	-
Hedging derivatives	238 633	125 199
Investment contracts	-	3 413 563
Non current liabilities held for sale	140 950	175 945
Provisions	190 450	236 950
Technical provisions	-	1 577 408
Current income tax liabilities	44 937	221 199
Deferred income tax liabilities	110 533	154 015
Capital instruments	-	-
Other subordinated loans	961 235	839 816
Other liabilities	1 321 023	1 145 602
Direct and Indirect Insurance Creditors	-	2 040
Other liabilities	1 321 023	1 143 562
<b>TOTAL LIABILITIES</b>	<b>74 044 897</b>	<b>75 958 084</b>
<b>EQUITY</b>		
Share capital	4 030 232	5 040 124
Share premium	1 081 663	1 069 517
Other capital instruments	29 505	29 295
Treasury stock	( 997)	( 6 991)
Preference shares	211 913	193 289
Fair value reserve	( 1 086 491)	( 686 666)
Other reserves and retained earnings	1 446 961	1 328 630
Profit for the period attributable to equity holders of the bank	( 108 758)	96 101
Prepaid dividends	-	-
Minority interests	588 447	669 445
<b>TOTAL EQUITY</b>	<b>6 192 475</b>	<b>7 732 744</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>80 237 372</b>	<b>83 690 828</b>

Chief Account

The Board of Directors

**BANCO ESPÍRITO SANTO, S.A.**  
**CONSOLIDATED INCOME STATEMENT AS OF DECEMBER 2012**

	Dez, 11	Dez, 12
	(eur '000)	(eur '000)
Interest and similar income	4 084 862	3 914 109
Interest expense and similar charges	2 903 271	2 733 601
<b>Net Interest Income</b>	<b>1 181 591</b>	<b>1 180 508</b>
Dividend income	167 701	72 604
Fee and Commission income	888 646	975 062
Fee and Commission expense	130 546	181 144
Net gains from financial assets at fair value through profit or loss	( 178 904)	( 59 408)
Net gains from available-for-sale financial assets	( 68 770)	600 206
Net gains from foreign exchange differences	( 32 645)	( 23 788)
Net gains/ (losses) from sale of other assets	( 89 885)	( 41 776)
Insurance earned premiums net of reinsurance	-	62 257
Claims incurred net of reinsurance	-	362 973
Change on the technical provision net of reinsurance	-	301 423
Other operating income and expense	357 803	19 976
<b>Operating income</b>	<b>2 094 991</b>	<b>2 542 947</b>
Staff costs	587 475	598 883
General and administrative expenses	433 753	442 120
Depreciation and amortisation	107 926	108 074
Provisions impairment net of reversals	6 860	56 978
Loans impairment net of reversals	600 616	814 832
Impairment on other financial assets net of reversals	73 251	106 727
Impairment on other assets net of reversals	167 602	220 893
Negative consolidation differences	-	-
Equity accounted earnings	( 175 231)	8 312
<b>Net income before income tax and minorities</b>	<b>( 57 723)</b>	<b>202 752</b>
Income tax		
Current tax	72 147	135 350
Deferred Tax	( 133 666)	( 52 434)
<b>Net income</b>	<b>3 796</b>	<b>119 836</b>
ow: profit after taxes of discontinued operations	( 3 428)	( 4 199)
Minority interests	112 554	23 735
<b>Consolidated net income for the period</b>	<b>( 108 758)</b>	<b>96 101</b>

Chief Account

The Board of Directors

## 8.2. Individual Financial Statements

### INDIVIDUAL BALANCE SHEET AS OF DECEMBER 2012

eur thousand				
	Dec, 12			
	Amount before provisions, impairment and depreciations	Provisions, impairment and depreciations	Net amount	Dec, 11
<b>ASSETS</b>				
Cash and deposits at Central Banks	626 558	-	626 558	481 371
Deposits with banks	275 887	-	275 887	341 698
Financial assets held for trading	1 851 506	-	1 851 506	1 783 039
Financial assets at fair value through profit or loss	1 286 075	-	1 286 075	1 969 331
Available-for-sale financial assets	9 243 055	236 023	9 007 032	14 275 267
Loans and advances to banks	9 565 260	126	9 565 134	7 928 825
Loans and advances to customers	39 269 217	2 005 703	37 263 514	39 115 887
Held-to-maturity investments	731 204	39 111	692 093	830 077
Repurchase agreements	-	-	-	-
Derivatives for risk management purposes	468 184	-	468 184	487 923
Non-current assets held for sale	1 492 841	184 753	1 308 088	767 742
Investment properties	-	-	-	-
Property and equipment	1 093 028	750 475	342 553	371 947
Intangible assets	654 945	541 485	113 460	118 242
Investments in associates	2 455 115	398 887	2 056 228	1 754 708
Current income tax assets	1 292	-	1 292	1 872
Deferred income tax assets	833 310	-	833 310	799 538
Other assets	3 172 401	115 549	3 056 852	3 059 174
<b>TOTAL ASSETS</b>	<b>73 019 878</b>	<b>4 272 112</b>	<b>68 747 766</b>	<b>74 086 641</b>
<b>LIABILITIES</b>				
Deposits from central banks	10 238 986	-	10 238 986	9 232 202
Financial liabilities held for trading	1 630 363	-	1 630 363	1 605 217
Other financial liabilities at fair value through profit or loss	-	-	-	-
Deposits from banks	7 138 799	-	7 138 799	11 139 698
Due to customers	30 271 265	-	30 271 265	31 179 373
Debt securities issued	9 933 899	-	9 933 899	10 163 659
Financial liabilities to transferred assets	953 613	-	953 613	2 951 364
Derivatives for risk management purposes	79 667	-	79 667	155 741
Non core liabilities held for sale	-	-	-	-
Provisions	554 526	-	554 526	581 105
Current income tax liabilities	60 134	-	60 134	15 080
Deleted income tax liabilities	138 810	-	138 810	123 794
Equity instruments	-	-	-	-
Subordinated debt	796 643	-	796 643	896 185
Other liabilities	682 063	-	682 063	871 741
<b>TOTAL LIABILITIES</b>	<b>62 478 768</b>	<b>-</b>	<b>62 478 768</b>	<b>68 915 159</b>
<b>Equity</b>				
Share capital	5 040 124	-	5 040 124	4 030 232
Share premium	1 061 621	-	1 061 621	1 076 522
Other equity instruments	225 714	-	225 714	244 502
Treasury stock	( 801)	-	( 801)	( 997)
Fair value reserve	( 834 740)	-	( 834 740)	( 809 027)
Other reserves and retained earnings	655 119	-	655 119	763 339
Profit for the year	121 961	-	121 961	( 133 089)
Dividens paid	-	-	-	-
<b>TOTAL EQUITY</b>	<b>6 268 998</b>	<b>-</b>	<b>6 268 998</b>	<b>5 171 482</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>68 747 766</b>	<b>-</b>	<b>68 747 766</b>	<b>74 086 641</b>

Chief Account

The Board of Directors

## INCOME STATEMENT AS OF DECEMBER 2012

	eur thousand	
	Dec,11	Dec,12
Interest and similar income	2 966 191	2 914 402
Interest expense and similar charges	2 312 253	2 256 248
<b>Net Interest Income</b>	<b>653 938</b>	<b>658 154</b>
Dividend income	380 480	122 896
Fee and Commission income	625 686	667 414
Fee and Commission expense	155 934	226 355
Net gains from financial assets at fair value through profit or loss	( 309 522)	( 140 196)
Net gains from available-for-sale financial assets	16 234	570 781
Net gains from foreign exchange differences	254	( 39 191)
Net gains from sale of other assets	( 49 345)	( 30 426)
Other operating income and expense	423 660	122 375
<b>Operating Income</b>	<b>1 585 451</b>	<b>1 705 452</b>
Staff costs	372 815	359 789
General and administrative expenses	322 199	318 495
Depreciation and amortisation	86 039	84 668
Provisions impairment net of reversals	( 19 091)	( 11 634)
Loans impairment net of reversals	537 861	671 313
Impairment on other financial assets net of reversals	61 188	119 626
Impairment on other assets net of reversals	500 785	55 608
<b>Net income before tax</b>	<b>( 276 345)</b>	<b>107 587</b>
Income tax		
Current tax	4 278	62 549
Deferred tax	( 147 534)	( 76 923)
<b>Net income</b>	<b>( 133 089)</b>	<b>121 961</b>
ow: net income after discontinued operations	( 4 719)	( 3 208)

Chief Account

The Board of Directors



## 9. FINAL NOTES

### 9.1 Declaration of Conformity with the Financial Information Reported

In accordance with Article 245 (1-c)) of the Portuguese Securities Code, the Board of Directors of Banco Espírito Santo, S.A., whose members are named hereunder, hereby declares that:

- (i) the individual financial statements of Banco Espírito Santo, S.A. (BES) for the years ended December 31st, 2011 and 2012 were prepared in accordance with the Adjusted Accounting Standards (AAS), as determined by Bank of Portugal Notice no. 1/2005, of February 21st, 2005;
- (ii) the consolidated financial statements of Grupo Banco Espírito Santo, S.A. (BES Group) for the years ended December 31st, 2011 and 2012 were prepared in accordance with the International Financial Reporting Standards (IFRS) adopted in the European Union and transposed into Portuguese law through Decree-Law no. 35 /2005 of February 17th;
- (iii) to the extent of their knowledge the financial statements referred to in (i) and (ii) provide a true and appropriate image of the assets, liabilities, equity and earnings of respectively BES and BES Group, in accordance with the referred standards, and were approved by the Board of Directors at its meeting of March 1st, 2013;
- (iv) the annual report describes faithfully the evolution of the businesses, the performance and the financial position of BES and BES Group in 2012, as well as the main risks and uncertainties with which they are faced.

### 9.2 Own Shares

In accordance with article 66 (5-d)) of the Portuguese Companies Code, BES states that transactions involving the Bank's own shares in 2012 related on the one hand to the execution of the Variable Remuneration Plan based on Financial Instruments ("PRVIF"), which is an integral part of the remuneration policy of the members of BES's Executive Committee approved by the General Meeting held on April 6th, 2010, and on the other to the acquisition of control of BES Vida, which held shares in BES.

#### Own Shares

	Number of Shares	Price (eur)	Total (euro thousand)
Balance as at December 31, 2011	342 475	2,909	996
Shares sold under the PRVIF <sup>(1)</sup>	67 184	1,315	196
Other transactions <sup>(2)</sup>	10 112 765	-	6 190
<b>Balance as at December 31, 2012</b>	<b>10 388 056</b>	<b>-</b>	<b>6 990</b>

(1) Variable Remuneration plan - In January 2012

(2) Related to BES shares in BES Vida securities portfolio, following the acquisition of control in May 2012

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

### 9.3 Proposed Distribution of Banco Espírito Santo Net Income

Under the terms of Article 66 (5-f) and for the purposes of Article 376 (1-b) of the Portuguese Companies Code, and pursuant to Article 31 of the Company's bylaws, and considering the commitments assumed before the national and international supervision authorities concerning the assurance that solvency levels would be reinforced autonomously, the Board of Directors of Banco Espírito Santo proposes, for approval by the General Meeting, that the individual net earnings of Banco Espírito Santo in 2012, in the amount of EUR 121,961,308.14, be in part allocated to the legal reserve (EUR 12,197,000.00) and the remainder (EUR 109,764,308.14) to cover the loss determined in 2011, under the terms of Article 33 of the Portuguese Companies Code.

### 9.4. Reading Guide to the Sustainability Information

Information on BES Group's sustainability management and performance can be found in the 2012 Annual Report, the Sustainability Brochure and the sustainability section of the company's website. This information is reported in accordance with the Global Reporting Initiative (GRI)'s guidelines on sustainability reporting (version 3.1, third generation), and the principles of standard AA1000APS. The report was prepared for level A+ and benefited from assurance by KPMG & Associados, Sociedade de Revisores Oficiais de Contas, S.A., an independent entity, according with the principles laid down by ISAE 3000 (International Standard on Assurance Engagements 3000).

For additional information on the scope of the Global Reporting Initiative G3.1 guidelines, please see the GRI table available at [www.bes.pt](http://www.bes.pt).

The purpose of the reported information is to answer all GRI's requirements and indicators (social, environmental and economic) and this entity's Financial Services Sector Supplement, except those that, by their nature or content, have been considered as lacking relevance for BES Group's activity.

This judgment was based on a permanent dialogue with the most relevant stakeholders for BES Group, namely the shareholders, regulators, clients, employees and investors, which have also benefited from targeted communication initiatives. The sustainability brochure and the website make the information on sustainability available to the remaining relevant stakeholders, such as suppliers, the media, NGOs and the public at large.

## 9.5. Note of Recognition

The Board of Directors of Banco Espírito Santo wishes to express its recognition for the trust shown by its Clients and Shareholders, the loyalty and dedication of its Employees and the cooperation given by the governmental and supervision authorities.

Lisboa, March 1st, 2013

The Board of Directors of Banco Espírito

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

## The Sustainability Accounts

Environmental	2008	2009	2010	2011	2012	2011/2012
<b>Energy 1</b>						
Total electricity consumption (GJ)	210389	216959	218752	197762	179963	-9,00%
Total electricity consumption (kwh)	58441425	60266513	60764414	54934001	49989692	-9,00%
Data Centre electricity consumption (kwh)	8809344	9464979	11054623	11673820	12153693	4,11%
Electricity consumption (kwh/Employee) 2	7959	7923	7787	6776	6233	-8,01%
Natural gas consumption (GJ)	373	887	740	496	275	-44,64%
Natural gas consumption (N.m3)	9555	22750	18982	12717	7040	-44,64%
Butane gas consumption (Kg)	7290	4860	3105	675	720	6,67%
Butane gas consumption (GJ)	345	230	147	32	34	6,67%
<b>Transport 1</b>						
No. of vehicles	1085	1491	1212	1474	1644	11,53%
Fuel (GJ)	77948	109790	76775	130922	126028	-3,74%
No. of plane trips	4956	5327	5826	3970	3988	0,45%
<b>Water 1</b>						
Water consumption (m3)	101514	96927	99442	96729	91590	-5,31%
Water consumption per employee (m3/employee) 3	16	14	15	14	14	-2,13%
<b>Emission of greenhouse gases (tCO2e) 1</b>						
Emissions from trips in company cars	3421	3500	3773	5861	5666	-3,33%
Emissions of fluorinated gases from air conditioning equipment	1477	1447	1447	1447	1447	0,00%
Emissions from natural gas kitchen equipment *	59	107	87	30	17	-43,33%
Emissions from emergency generators	31	0	0	40	54	35,00%
<b>Direct emissions (Scope 1)</b>	4958	5055	5307	7378	7184	-2,63%
Emissions from the production of electricity purchased	22454*	20433	14095	13319	17424	30,82%
<b>Indirect emissions (Scope 2)</b>	22454*	20433	14095	13319	17424	30,82%
Total Scope 2 standardised			22417	20650	19192	-7,06%
Total (scope 1 and 2)	23940	25488	19402	20697	24608	18,90%
Total (Scope 1 and 2) standardised **			27724	28028	26376	-5,89%
Emissions from Employees' home/work daily trips / business trips by plane ***	3690	5630	2510	1299	2140	64,74%
Emissions from Employees' home/work daily trips	7090	6932	6945	8186	7628	-6,82%
<b>Indirect emissions (Scope 3)</b>	10780	12562	9455	9485	9768	2,98%
<b>Consumption of Materials (paper and other consumables) 4</b>						
White paper for internal use (tonnes)	441	480	416	411	434	5,81%
White paper for internal use (no. of reams/Employee)	25	28	24	23	25	8,20%
Recycled paper for internal use (tonnes)	16	10	18	7	6	-26,08%
Recycled paper for internal use (no. of reams/Employee)	1	1	1	0,43	0,32	-24,41%
Forms - printing & finishing (tonnes)	413	384	301	247	234	-5,18%
Forms - printing & finishing (no. of reams)	165785	154387	120693	99123	93986	-5,18%
Consumables used (Units)	38252	50405	47356	44955	21103	-53,06%
<b>Waste Management 1</b>						
Paper sent for recycling (tonnes)	344	478	289	224	169	-24,58%
Cardboard sent for recycling (tonnes)	54	61	57	73	42	-42,97%
Consumables collected (Units)	6545	4023	22860	21757	8400	-61,39%

In 2012, the Bank extended the gathering of environmental indicators with greater relevance to the Bes Açores, BESI in Portugal and ESAF. This extension aims to disclose the full environmental impacts and establish new commitments for a cope with a larger coverage of the Group's operations.

Environmental (BES PT; BES Açores; BESI PT; ESAF)	2012
Total electricity consumption (GJ)	50.580.397
Emissions from the production of electricity purchased (tCO2e) (scope 2)	
Water consumption (m³)	94.769

Workforce	2008	2009	2010	2011	2012
BES Group total employees (*)	9431	8902	9858	9863	9.944
Total Employees (Human Resources information scope)	8389	8155	8394	8528	8.457

(\*) employees with permanent and fixed term contracts

Location (no. of Employees)	2008	2009	2010	2011	2012
Europe	8828	8104	8530	8413	8454
America	160	352	384	375	332
Africa	424	427	923	1047	1111
East	19	19	21	28	47

Labour Contract (no. of Employees)	2008	2009	2010	2011	2012
Permanent	7276	7451	7762	7992	7974
Fixed term	731	462	406	352	367
Temporary	180	178	179	142	76
Traineeship	202	64	47	35	35

#### Function (no. of Employees)

Management	813	937	1007	1038	1085
Head of Department	919	915	994	930	949
Specific	3397	3259	3371	3558	3427
Administrativos	2995	2930	2901	2888	2883
Auxiliary	110	114	121	114	113

#### Continent (no. of Employees)

Europe	7653	7521	7479	7749	7550
America	158	182	202	191	207
Africa	423	452	511	588	700

#### Healthcare (no. of Employees)

Medical exams	3.802	3.999	3.813	4.561	4.258
Medical acts	10.580	10.408	11.116	11.428	24.065
Nursing acts	4.135	4.025	6.519	5.483	5.664
Total	18.517	18.432	21.448	21.472	33.987

#### Employees covered by Collective Wage Agreement ("ACT") (no. of Employees)

Total Employees	8.234	8.155	8.394	8.528	8.457
Unionised Employees	6.939	7.170	8.157	6.792	6.152
% of Unionised Employees	84%	88%	97%	80%	73%

#### Unionised Employees (no. of Employees)

Total Employees	8.234	8155	8394	8.528	8.457
Unionised Employees	6.715	6.052	6923	6.434	4.664
% of Unionised Employees	82%	74%	82%	75%	55%

#### Absenteeism (%)

Lost Days Rate	0,4	0,3	0,23%	0,13%	0,09%
Absenteeism Rate (with maternity)	3,5	3,8	3,56%	3,99%	3,61%

#### Absenteeism Rate (%) (without maternity) \*

Women	-	-	3,02%	3,50%	3,54%
Men	-	-	1,52%	2,20%	1,90%
Total	-	-	2%	2,80%	2,63%

(\*) 2010 does not include Angola

Breakdown of Employees by gender and age according to professional categories (%)	2008	2009	2010	2011	2012
<b>Management</b>					
Women	26,1	28,1	29,6	29,2	50
Men	73,9	71,9	70,4	70,8	50
< 30 years	1,5	1,92	2	2	1,7
30 to 50 years	84,5	82,69	81,2	80,3	77,2
> 50 years	14	15,38	16,7	17,6	21,1
<b>Head of Department</b>					
Women	32,3	34	35,5	36,6	55,2
Men	67,7	66	64,5	63,4	44,8
< 30 years	4,8	4,4	5,1	2,9	2,3
30 to 50 years	84,8	84,2	82,5	82,7	82,1
> 50 years	10,4	11,4	12,4	14,4	15,6
<b>Specific</b>					
Women	46,4	48	48,4	47,4	46,1
Men	53,6	52	51,6	52,6	53,9
< 30 years	29,4	24,5	24,6	21,3	17,5
30 to 50 years	63,5	67,1	66,5	69,2	71,9
> 50 years	7,1	8,4	8,9	9,5	10,5
<b>Administrative</b>					
Women	50,6	50,4	49,9	49,5	54,3
Men	49,4	49,6	50,1	50,5	45,7
< 30 years	22,6	18,9	19,6	16,6	14,5
30 to 50 years	57,3	58,2	55,7	58,2	59,2
> 50 years	20,1	23	24,7	25,2	26,3
<b>Auxiliary</b>					
Women	45,5	44,7	41,3	47,4	51,3
Men	54,5	55,3	58,7	52,6	48,7
< 30 years	12,7	19,1	19,8	27,2	27,4
30 to 50 years	27,8	25,5	37,2	26,3	28,3
> 50 years	60	55,5	43	46,5	44,2

Staff Turnover (%)	Europe					America					Africa					GBES				
BES Group (*)	Europe					America					Africa					GBES				
(%)	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Women	16,7	9,5	10,1	7,0	3,5	33,3	28,1	21,7	68,3	33,3	26,2	36,8	49,2	30,2	34,5	17,4	11,5	12,9	9,7	6,3
Men	13,6	8,1	9	8,8	7,1	28,4	36	24,1	61,8	43,1	23,3	41,5	33,7	29,3	33,6	14,5	10,5	10,9	11,7	10,7
< 30 years	9,1	10,5	5,6	30,8	22,5	25,9	22,7	16,8	120,4	71,2	19,1	32,1	29,4	38,6	71,2	9,9	6,8	7,4	36,6	34,3
30 to 50 years	5,5	6,4	3,9	5,4	4,0	19,6	30,4	6,4	43,2	31,1	5,4	7,1	11,7	20,6	16,2	5,8	3,9	4,4	7,0	5,4
> 50 years	0,4	0,3	0,1	1,6	1,7	0,6	4,9	0	58,3	20,0	0	0	0,2	9,1	22,7	0,4	0,2	0,1	2,1	2,2

(\*) BES Group: Europe – BES Portugal, BES Açores, BES Portugal, Banco Best, ESAF, BES Espanha, BESI Espanha

America – BESi Brasil

Africa – BES Angola; **BES Cabo Verde**

Average no. of Training Hours per Employee	Europe					America					Africa					GBES				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Management	55,9	11,7	19,1	14,5	11,3	2,6	34,0	17,7	83,1	33,2	1,1	1,0	1,1	nd	6,3	29,9	12,0	18,2	19,6	13,0
Heads of Department	33,0	37,3	63,7	36,5	37,6	16,5	77,8	46,0		0,0	1,0	3,9	5,8	nd	36,7	26,1	37,8	58,6	36,6	37,5
Specific	69,8	37,5	44,0	36,9	29,5	93,2	100,0	97,0	75,3	39,4	0,4	0,9	4,7	nd	12,1	52,1	36,1	42,1	36,5	28,0
Administrative	43,9	22,6	35,8	26,4	18,6	36,0	32,0	16,0	146,3	0,0	1,9	3,8	4,4	nd	15,4	38,8	22,2	35,1	26,7	18,4
Auxiliary	0,8	11,7	0,0	228,1	2,3	240,0	384,0	204,0	0,0	2,8	0,0	0,0	1,0	md	0,0	18,0	17,6	8,8	210,4	1,7

Promotions (no. of Employees)					
	2008	2009	2010	2011	2012
Change of function	126	81	83	74	52
Merit	1.295	665	834	830	493
Seniority	131	175	197	100	121
Total no. of Employees Promoted	1.552	921	1114	1004	666

Performance Assessment	2008		2009		2010	2011		2012	
Number of Employees who received information about performance assessment	6.596	80%	6.777	80%	7.339	7.450	87%		
Number of Employees who receive information about career management	6.067	74%	6.201	74%	7.198	7.341	86%		

Loans Granted to Employees	2008	2009	2010	2011	2012
(eur million)					
Mortgage	77.505	68.185	59.183	46.266	24.814
Acquisition of consumer goods	19.074	32.961	29.171	15.057	8.878
Social Support	1.068	2.190	2.702	1.299	0,811

Loans Granted to Employees	2010*		2011		2012	
	Women	Men	Women	Men	Women	Men
Total of Employees who benefire from paternity / maternity leave	377		485		309	
Employees who benefire from paternity / maternity leave	232	145	295	190	195	114
Employees who returned to work after paternity / maternity leave	232	145	290	189	185	114
Employees who returned to work after leave and are still employed after 12 months in work			290	189	186	112

<b>Stakeholders - Value Creation</b> (Eur million)	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Shareholders (dividends)	80	163	140	-	-
Employees (remuneration and formation)	526	565,9	628,3	587,5	598,9
Clients (loans)	48198			51211	50.599,0
Suppliers (general administratives costs)	402,6	402,6	441,1	433,8	442,1
Community (donations)	3,2	4	4,8	3,3	4,1
State (taxes)	152,5	109,8	43,7	-	110,8