

ANNUAL REPORT

2013



GRUPO BANCO ESPIRITO SANTO

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	2009	2010	2011	2012	2013
ACTIVITY (eur million)					
Total Assets ⁽¹⁾	105 917	104 912	98 589	97 765	93 342
Net Assets	81 702	83 028	80 237	83 691	80 608
Customer Loans (gross)	50 531	52 606	51 211	50 399	49 722
Customer Deposits	25 447	30 819	34 206	34 540	36 831
Total Customer Funds	60 595	55 988	54 383	56 188	56 838
Core Capital - BoP	5 232	5 416	6 020	6 471	6 084
Core Capital - EBA	-	-	-	6 092	5 646
RESULTS/PROFITABILITY (%)					
Net Income (M€)	571,7	556,9	-108,8	96,1	-517,6
Return on Equity (ROE)	11,0%	9,4%	-0,1%	1,2%	-6,9%
Return on Assets (ROA)	0,73%	0,66%	0,00%	0,12%	-0,62%
SOLVENCY RATIOS⁽²⁾					
- CORE TIER I - BoP	8,0%	7,9%	9,2%	10,5%	10,6%
- CORE TIER I - EBA	-	-	-	9,9%	9,8%
- TIER I	8,3%	8,8%	9,4%	10,4%	10,4%
- Total	11,2%	11,3%	10,7%	11,3%	11,8%
LIQUIDITY (eur million)					
ECB funds ⁽³⁾	- 1 760	3 929	8 677	6 897	5 414
ECB Eligible Assets (collaterals)	5 553	10 823	15 057	19 402	18 578
Loans to deposits Ratio ⁽⁴⁾	192%	165%	141%	137%	121%
ASSET QUALITY (%)					
Overdue Loans > 90 days / Gross Loans	1,60%	1,95%	2,74%	3,90%	5,68%
Provisions / Overdue Loans > 90 Days	191,5%	173,0%	154,5%	136,9%	119,9%
Credit at Risk ⁽⁵⁾ /Total Credit	-	4,99%	6,59%	9,44%	10,56%
Credit Provisions/Credit at Risk ⁽⁵⁾	-	67,8%	64,2%	56,6%	64,5%
Credit Provisions Reserve / Customer Loans (Gross)	3,07%	3,38%	4,23%	5,34%	6,81%
Cost of Risk ⁽⁶⁾	1,07%	0,67%	1,17%	1,62%	2,02%
PRODUCTIVITY/EFFICIENCY					
Operating Costs / Total Assets (%)	0,95%	1,07%	1,15%	1,18%	1,22%
Assets per Employee (€,000)	11 898	10 641	9 996	9 832	9 137
Total Cost to Income (%)	41,1%	46,7%	57,9%	44,6%	59,8%
Cost to Income (ex-markets) (%)	52,4%	57,0%	57,3%	57,2%	65,8%
EMPLOYEES					
Total ⁽⁷⁾	8 902	9 858	9 863	9 944	10 216
- Domestic Activity	7 388	7 584	7 588	7 477	7 371
- International Activity	1 514	2 274	2 275	2 467	2 845
BRANCH NETWORK					
Retail Network	799	828	801	775	788
- Domestic	734	731	701	666	643
- International	65	97	100	109	145
Corporate Network (domestic)	26	24	24	25	25
Private Banking Network (domestic)	25	22	22	23	23
RATING					
Long Term					
STANDARD AND POOR'S	A	A-	BB	BB-	BB-
MOODY'S	A1	A2	Ba2	Ba3	Ba3
DBRS	-	-	BBB	BBB _(low)	BBB _(low)
DAGONG	-	-	-	-	BB
Short Term					
STANDARD AND POOR'S	A 1	A 2	B	B	B
MOODY'S	P 1	P 1	NP	NP	NP
DBRS	-	-	R-2 _(high)	R-2 _(med)	R-2 _(med)
DAGONG	-	-	-	-	B

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

(2) Calculated under BoP Foundation

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

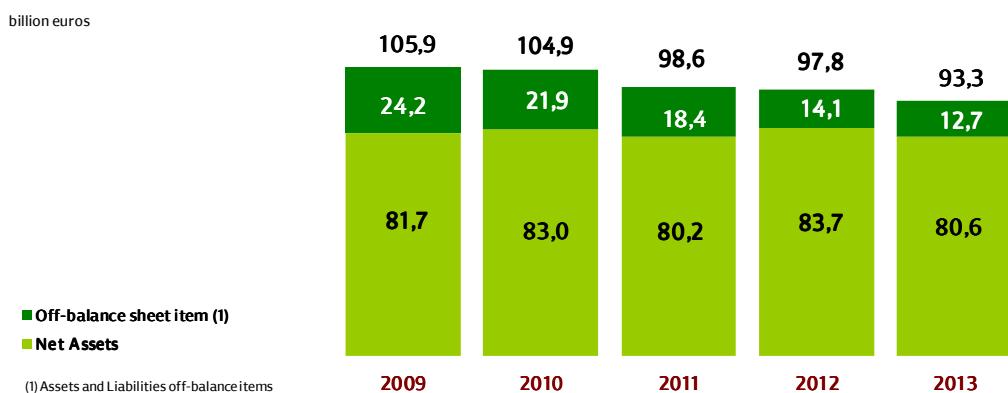
(4) Ratio calculated under BoP Funding & Capital Plan

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

(6) P&L provisions / Gross Loans

(7) Includes employees with permanent and fixed term contracts

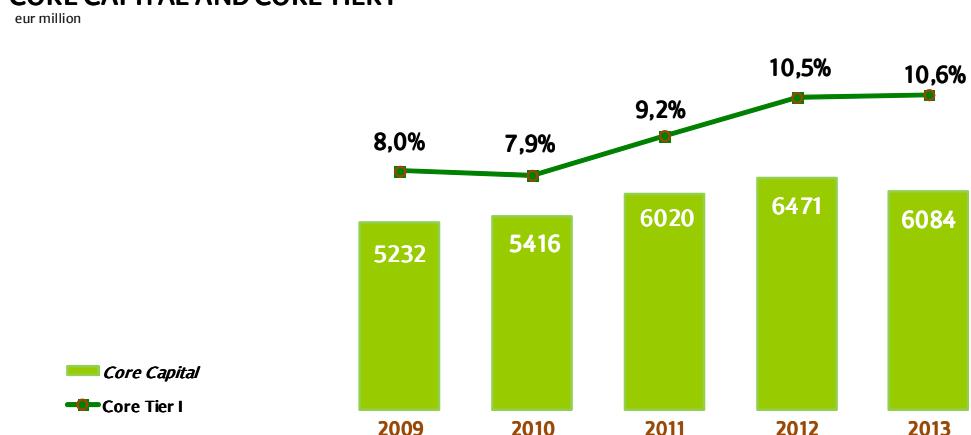
TOTAL ASSETS



BUSINESS WITH CLIENTS

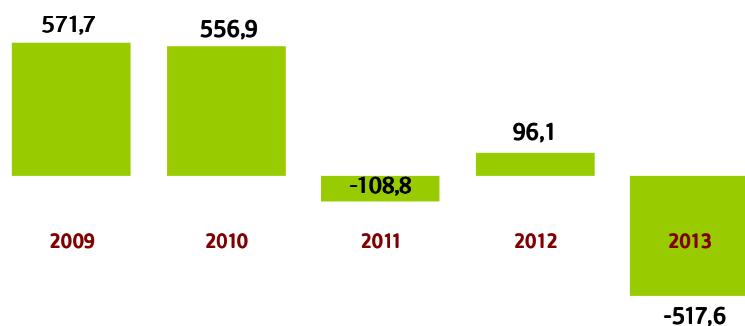


CORE CAPITAL AND CORE TIER I

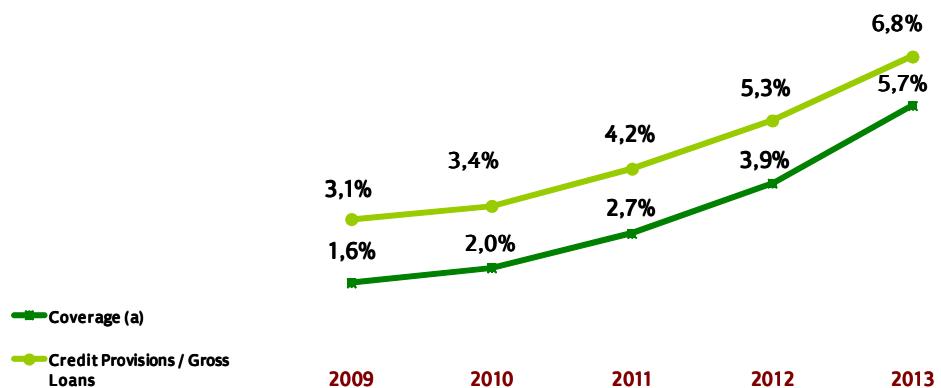


Net Income

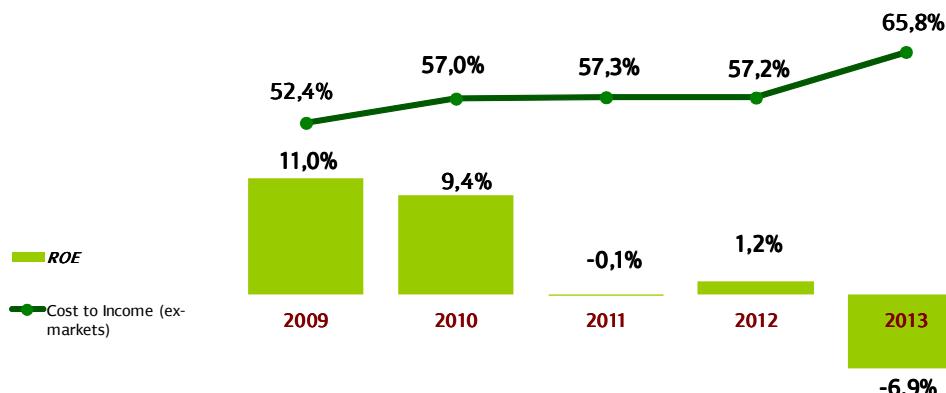
eur million



ASSET QUALITY



PROFITABILITY AND EFFICIENCY



RESULTS AND PROFITABILITY	SIMBOL.	2009	2010	2011	2012	2013
Average Balance (eur million)						
Net Assets	NA	78 657	83 759	82 178	82 959	82 540
Interest Earning Assets	IEA	68 018	72 163	70 279	69 443	68 583
Capital and Reserves	KP	4 886	5 578	5 895	7 057	7 508
Income Statement (eur million)						
Net Interest Income	NII	1 200,9	1 164,0	1 181,6	1 180,5	1 034,3
+ Serviços Bancários a Clientes	FC	717,9	806,9	790,5	828,4	693,4
= Fees and Commissions	CBI	1 918,8	1 970,9	1 972,1	2 008,9	1 727,7
+ Capital Markets and Other results	CMR	530,6	432,9	-21,9	570,2	172,1
= Banking Income	BI	2 449,4	2 403,8	1 950,2	2 579,1	1 899,8
- Operating Costs	INS	1 006,1	1 123,1	1 129,2	1 149,1	1 137,0
= Net Operating Income	OC	1 443,3	1 280,7	821,0	1 430,0	762,8
- Net Provisions	OI	708,8	533,6	848,3	1 199,4	1 422,8
= Income before Taxes and Minorities	PROV	734,5	747,1	-27,3	230,6	-660,0
- Income Tax	PBT	109,8	43,7	-31,1	110,8	-145,3
- Minority Interests	T	53,0	146,5	112,6	23,7	2,8
= Net Income	MI	571,7	556,9	-108,8	96,1	-517,6
	NII					
PROFITABILITY (%)						
Net Interest Margin	NII / IEA	1,77	1,61	1,68	1,70	1,51
+ Return on Fees and Commissions	FC / IEA	1,06	1,12	1,12	1,19	1,01
+ Return on Capital Markets and Other Results	CM / IEA	0,78	0,60	-0,03	0,82	0,25
= Business Margin	BI / IEA	3,60	3,33	2,77	3,71	2,77
- Weighting of Operating Costs	OC / IEA	1,48	1,56	1,61	1,65	1,66
- Weighting of Provisions	PROV / IEA	1,04	0,74	1,21	1,73	2,07
- Weighting of Minorities and other	(MI+IT+XR) / IEA	0,24	0,26	0,12	0,19	-0,21
= Return on Interest Earning Assets	NP / IEA	0,84	0,77	-0,15	0,14	-0,75
x Weighting of Interest Earning Assets	IEA / NA	0,86	0,86	0,86	0,84	0,83
= Return on Assets	NP / NA	0,73	0,66	0,00	0,12	-0,62
x Placements multiplier	NA / KP	15,15	14,11	13,72	10,22	11,24
= Return on Equity	NP / KP	11,01	9,38	-0,05	1,25	-6,94

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 2013 and 2012.

	2012	2013
SOLVENCY		
Tier I/ Risk Weighted Assets	11,3%	11,8%
Regulatory Capital / Risk Weighted Assets	10,4%	10,4%
Core Tier I / Risk Weighted Assets	10,5%	10,6%
ASSET QUALITY		
Overdue and Doubtful Loans / Gross Loans	5,0%	6,8%
Overdue and Doubtful Loans net of Impairments /Total Net Loans	-0,3%	-0,1%
Credit at Risk / Gross Loans	9,4%	10,6%
Credit at Risk (net) / Net Loans	4,3%	4,0%
PROFITABILITY		
Income before Taxes and Minorities/Average Equity	2,9%	-9,0%
Banking Income /Average Net Assets	3,1%	2,3%
Income before Taxes and Minorities/Average Net Assets	0,2%	-0,8%
EFFICIENCY		
General Admin Costs+Depreciation/Banking Income	44,6%	59,8%
Staff Costs / Banking Income	23,2%	30,3%
TRANSFORMATION RATIO		
(Gross Loans - Provisions)/ Customer deposits	137%	121%

*Management Report - Index***Joint Message of the Chairman of the Board of Directors and the Chairman of the Executive Committee**

1. BES Group	13
2. Responsible Management - the other BES	38
3. Economic Environment	63
4. Commercial Activity	78
5. Financial Management and Capital Markets	109
6. Risk Management	115
7. Financial Analysis	157
8. Financial Statements	181
9. Final Notes	185

Appendix: The Sustainability Accounts

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

Dear Shareholders,

2013 was marked by a sentiment of moderate optimism about global macroeconomic indicators. The advanced economies, namely the United States of America and Europe, reported slightly positive growth.

The Eurozone, where confidence levels were shaken at the start of the year by a number of adverse factors, such as political instability in Italy and the financial crisis in Cyprus, saw a return of stability to the financial markets and a gradual improvement of economic growth prospects as from the second quarter.

The sentiment of an improvement in the Eurozone also extended to its peripheral economies, including Portugal, where an economic recovery was supported by the good performance of exports, which grew by 5.6% year-on-year, the external surplus, the stabilising trend of domestic demand, and a slight reduction of unemployment.

2013 also marked Portugal's return to the capital markets, with a debt swap in December, which was followed at the start of 2014 by syndicated issues at 5 and 10 years for a total of EUR 6.25 billion.

However, the deleveraging process under way in Portugal impacted business activity, particularly within the financial sector.

The Portuguese financial institutions have been operating in a context of economic recession and falling GDP over three consecutive years. Moreover, the demanding regulatory requirements imposed as a result of the Programme of Financial Assistance to Portugal and the prospect of coming under the supervision of the European Central Bank at the end of 2014 further increased the pressure on the banking sector.

The Portuguese banks have been able to address and overcome these challenges, maintaining the trust of their depositors and reinforcing their strength.

In effect the national financial system today boasts stronger capital ratios than in the past, liquidity levels are balanced, the transformation ratio is close to the required 120% and the funding structure has improved significantly, with the weight of deposits consistently increasing and that of external funding dropping sharply.

In this difficult period for our economy, Banco Espírito Santo strategically positioned itself to maintain its financial strength and be able to benefit from the recovery of the economy.

As from the second half of 2010 Banco Espírito Santo reinforced the strategic priority of balance sheet management on overcoming the deterioration of funding conditions for both the Portuguese Republic and the Portuguese banks, embarking on a strict deleveraging programme that has allowed it to slash the loan to deposits ratio from 198% in June 2010 to 121% in December 2013. From the onset, the Bank decided that the reduction of the loan book would be achieved through the sale of international loans so as to permit to protect the Portuguese companies. And in effect the Bank not only continued to lend to the Portuguese companies (credit to the exporting SMEs increased by 5% since

June 2010) but was also at their side in their internationalisation projects by strengthening its network of exports-backing experts and services.

The reduction of the loan to deposits ratio was driven by the significant increase in deposits (+41% between June 2010 and December 2013, corresponding to + EUR 10.7 billion, of which EUR 8.2 billion from retail clients), which contributed to the improvement of the funding structure as well as to a comfortable liquidity position. Note that in December 2013 BES Group's exposure to the ECB (EUR 5.4 billion) was lower than in June 2010 (EUR 6.8 billion).

In November 2012 Banco Espírito Santo was the first Portuguese bank to issue debt in the capital markets, which had been closed to Portugal and the Portuguese banks since April 2010. Since then the Bank has made another two issues of senior debt and one issue of subordinated debt that was already compliant with the new Basel III/CRD IV rules. In total, the Bank issued debt in excess of EUR 3 billion, always with strong demand from foreign investors.

Its strict financial discipline has allowed the Bank to consistently reinforce its capital ratios and thus meet the minimum requirements of both the Bank of Portugal and the European Banking Authority (EBA). In December 2013 the Core Tier ratio was 10.6% according to the Bank of Portugal's methodology (minimum of 10%) and 9.8% under the EBA criteria (minimum of 9%).

Capital strength is an absolute priority for Banco Espírito Santo, which has taken a number of measures to maintain its strategic autonomy. And indeed the solvency ratios were reinforced without resorting to public funds. In 2011 the securities exchange offer launched by the Bank allowed it to reach a Core Tier I ratio of 9% at the end of the year; and in 2012 the Bank's shareholders subscribed a hugely successful rights issue that drove up the Core Tier I ratio to 10.5% at the end of the year.

However, the domestic economic recession had severe impacts in terms of an increase in corporate insolvencies and unemployment, inevitably eroding banks' asset quality and in particular the quality of their loan books. Credit at risk as a percentage of BES Group's consolidated balance sheet registered a marked increase – from 9.4% in December 2012 to 10.6% in December 2013 -, which ended up having two negative effects:

- First, on banking income, due to the well-known direct and immediate correlation between the companies in financial distress and banks' credit recovery levels;
- Second, by driving up the cost of provision charges for impairments to an historical high of EUR 1.4 billion (+18.6%), which is nearly twice the gross income in 2013 (EUR 763 million).

These two factors (falling banking income and rising impairment costs) were responsible for a consolidated net loss of EUR 517.6 million in 2013, which the international activity only slightly softened through a positive contribution of EUR 21.9 million.

We would like to emphasise the rationalisation and cost-cutting measures that have been implemented to tackle the existing difficulties: the Group launched a programme to reduce domestic costs by EUR 100 million between 2013 and 2015, having already achieved a EUR 30.1 million (-3.8%) reduction in 2013. And this path towards lower costs and

improved efficiency becomes even more noteworthy if we look at the savings attained between 2011 and 2013: in three years domestic costs were reduced by EUR 135 million, or 15%.

We now have to look at the future and move further afield in order for BES Group to seize the opportunities of the budding economic recovery and reap the fruits from its continued support of the individual and corporate clients and of institutional positioning.

The solid shareholder structure which the Bank has maintained since its privatisation in 1991 is a differentiating factor and a true competitive edge which has allowed it to pursue a consistent strategy based on the values that have guided it for more than 140 years, namely transparency, trust and long-lasting relationships. The strong brand recognition enjoyed by the Espírito Santo franchise mirrors the confidence placed by the clients in the Bank. As a reflection of this confidence, in 2013 the Bank was market leader in customer satisfaction in Portugal in ECSI Portugal's 'European Customer Satisfaction Index'.

Constant improvement in service quality and product innovation are a hallmark of the Bank's capacity to adjust to new times, new technologies and also new needs. In 2003 BES's internet banking service earned the award for 'best in Europe' and ranked in first place by quality measured by customer satisfaction. The Bank continued to invest in technological solutions, namely new channels and applications aimed at further easing its relationship with the clients.

In an environment of economic recession, the Bank was at the side of the struggling Portuguese companies and families, creating specific micro-saving solutions for individual clients and cash management solutions for the corporate clients. In particular, the Bank invested in the enterprising spirit of the Portuguese, promoting micro credit as a driver of the social economy and job creation.

And it was also with this enterprising spirit that Banco Espírito Santo supported the internationalisation drive of the Portuguese companies and businesspeople and backed up their efforts in the search for alternative income sources. BES Group's renowned international strategy is based on a triangle formed by Iberia, Brazil and Africa and also on expansion to countries with large Portuguese communities, such as Venezuela, France and Luxembourg. Its international presence and a considerable network of correspondent banks provide a solid base to support the Portuguese companies in the 4 continents and 25 countries where the Bank operates.

With a market value of more than EUR 5.5 billion, Banco Espírito Santo is today the Portuguese financial institution with the highest market capitalisation, and a reference listed company in the Portuguese capital market, where its shares consistently show some of the largest stock market daily trading volumes. The capital market recognises BES's financial strength and the success of its strategy and business model. This is reflected in the qualified holdings in the hands of world-renowned international investors such as Silchester International Investors, with a stake of 5% and a shareholder since 2010, Capital Group, currently with more than 4%, or BlackRock, which in February 2014 increased its holding from 2% to 5%.

In 2013 Banco Espírito Santo was included within the 100 more sustainable companies in the world (Global 100 Most Sustainable Corporations in the World index), and also in the Dow Jones Sustainability World Index, being qualified in the bronze category of the Sustainability Yearbook 2014 for its excellent performance in sustainability and ranking among the 6 best banks in the Dow Jones Sustainability Indexes.

The recognition of its good performance in a world-class benchmark such as the Dow Jones Sustainability Index places the Bank among the best at international level and corroborates the role of its sustainability strategy as a key element of its business model and mission, reflecting a balanced management style steered by values of strength, rigour and transparency.

Finally, on behalf of the Board of Directors of Banco Espírito Santo, we wish to pay a heartfelt tribute to Mr. Mário Mosqueira do Amaral, who started working for the Bank in 1956 and was a Board member of BESCL until it was nationalised in 1975. After the Bank's reprivatisation in 1991/92, Mr. Mário Amaral was a member of the Board of Directors and the Executive Committee, where it held the international portfolio, being responsible for the Bank's relations with institutions such as the International Monetary Fund and the World Bank until he retired in 2008. Mr. Mário Amaral had a deep knowledge of international affairs and was a most prominent employee of this institution. The Group can only be very grateful for the years he dedicated to the Bank and for his brilliant contribution to its international projection.

Our last words are words of recognition to our employees, for their commitment and professionalism, to our clients, for their trust, and for our shareholders, for their loyalty.

Finally, we wish to address a special thanks to our supervisors, the Bank of Portugal, the Portuguese Securities Market Commission (CMVM) and the Portuguese Insurance Institute, for their cooperation.

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

Historic milestones

The Origins – from *Caza de Cambio* to BESCL

BES's origins date back to 1869, the year José Maria do Espírito Santo e Silva, together with other investors, opened a *Caza de Cambio*, the exchange business that eventually gave rise to Banco Espírito Santo, in 1920. In the 30s, BES becomes the leading private bank in Portugal, and after its merger with Banco Comercial de Lisboa in 1937 changes its name to Banco Espírito Santo e Comercial de Lisboa (BESCL). With an innovative management model focused on the expansion of the retail network and consequent increase of the market share, the diversification of banking transactions, and modernisation, BESCL successfully weathers the effects of two world wars.

70s – from internationalisation to nationalisation

In 1972 BESCL co-founds Libra Bank, based in London, and in the following year sets up Banco Inter Unido, in Luanda, under a joint-venture with the First National City Bank of New York.

In 1975 the Portuguese Government nationalises all national credit institutions and insurance companies, including BESCL. Prevented from pursuing its businesses in Portugal, the Espírito Santo family rebuilds its financial interests abroad and creates the Espírito Santo Group ('GES').

80s – the return of Espírito Santo Group to Portugal

GES develops its activities in Brazil, Switzerland, France and the United States of America.

In 1986 the Portuguese Government initiates a privatisation programme. With banking activity once again open to the private sector, the Espírito Santo Group, under a joint venture with Caisse Nationale du Crédit Agricole and backed by a group of Portuguese investors, sets up Banco Internacional de Crédito (BIC), which marks the return of the Group to Portugal. In the same year the Espírito Santo Group creates Espírito Santo Sociedade de Investimento (the precursor of BES Investimento), with the participation of Union des Banques Suisses (Switzerland), Kredietbank (Luxembourg), and other financial institutions.

In 1989 Sociedade Euroges is set up to develop factoring activities.

90s – from the privatisation of BESCL to BES

In 1990 Bescleasing is set up to develop leasing activities.

1991 sees the first phase of BESCL's privatisation which would end in 1992 with Espírito Santo Group's acquisition of the majority of its share capital under a joint venture with Crédit Agricole.

This is followed in 1991 by the creation of Crediflash and ESER, Sociedade Financeira de Corretagem.

In 1992 BESCL purchases Banco Industrial del Mediterraneo, which later changed its name to Banco Espírito Santo (Spain), and creates ESAF - Espírito Santo Activos Financeiros. In 1995, the Bank opens for business in Macao through Banco Espírito Santo do Oriente.

By public deed of July 6th, 1999 BESCL changes its name to BES.

The new millennium – consolidation of strategy for Portugal and reinforcement of international expansion

In 2000 BES reinforces its position in Spain through the acquisition of Benito y Monjardin and GES Capital, purchases Espírito Santo Bank in the United States, and establishes an important joint venture with the Bradesco Group in Brazil involving the establishment of joint holdings in BES Investimento do Brasil and in the broker BES Securities do Brasil. The same year sees the establishment of a joint venture with the Portugal Telecom Group, which would lead in 2001 to the creation of Banco BEST - Banco Electrónico de Serviço Total.

BES Angola, a bank set up under Angolan law, is incorporated in 2001.

In 2002, BES dos Açores opens for business and in 2003 BES acquires a 45% stake in Locarent (rent-a-car) under a joint venture with Caixa Geral de Depósitos and Serfingest, SGPS.

In 2005 BES's subsidiary in Spain acquires the entire share capital of Banco Inversión (Spain), BES Investimento and the Polish Concórdia Sp z.o.o. set up a joint venture to create Concordia Espírito Santo Investment (CESI), and Banco Internacional de Crédito (BIC) is merged into BES.

In 2006 BES Group launches a new corporate identity and Crediflash is incorporated into BES. In 2007 BES Spain is also merged into BES.

In March 2008 BES Angola, under a joint venture with ESAF, sets up BESA-ACTIF, the first fund management firm to operate in Angola.

In 2009 BES Investimento announces the opening of a branch in New York and BES Group enters an agreement to acquire a 40% stake in Aman Bank for Commerce and Investment Stock Company, a private bank based in Tripoli, Libya.

2010 sees the opening of BES Cabo Verde, a universal bank incorporated under Cape Verde law, and BES ÁFRICA, SGPS, a holding company, enters an agreement on the acquisition of a 25.1% direct stake in Moza Banco (Mozambique). In 2013, BES Group increases its stake in Moza Banco to 49%.

In 2012 BES opens branches in Venezuela and Luxembourg, two countries that host large Portuguese communities.

Main Events in 2013

January

8 - Banco Espírito Santo places a senior, unsecured debt issue under the EMTN programme amounting to EUR 500 million. The notes have a maturity of 5 years and will pay a coupon of 4.75%.

11 - Wellington Management Company, LLP informs it holds a 2.02% qualified shareholding in Banco Espírito Santo.

February

5 - Banco Espírito Santo reports 2012 results. The Bank posts a EUR 96.1 profit for the year.

March

8 - Espírito Santo Euro Bond rated for the second consecutive year as the best fixed-rate bond fund in Europe, in the Eurobond category, by Lipper, a Thomson Reuters company.

April

17 - Banco Espírito Santo enters 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.

May

7 - The first quarter 2013 results, a EUR 62.0 million loss, are sharply impacted by the reinforcement of provisions in light of the economic recession.

16 - Banco Espírito Santo, through BES África, S.G.P.S., S.A., enters a deal for the acquisition of the 18.9% stake owned by Geocapital, Gestão de Participações, S.A. in the share capital of Moza Banco, S.A.

21 - Banco Espírito Santo announces that Wellington Management Company, LLP reduced its shareholding in BES to 1.77%.

June

11 - Capital Research and Management Company informs the market it holds a 2.08% shareholding in BES.

14 - BES África SGPS, S.A. concludes the acquisition of a 18.9% stake in the share capital of Moza Banco, S.A. that was held by Geocapital, Gestão de Participações, S.A. BES África, SGPS, S.A. simultaneously increased its stake in Moza Banco by 5%, to 49%, through a share capital increase and through the acquisition of a minority position from the shareholder Moçambique Capitais, S.A.

28 - BES Vida – Companhia de Seguros, S.A. executes a reinsurance agreement with New Reinsurance Company Ltd., a subsidiary of Munich Reinsurance Company, under which its whole individual life risk portfolio is reinsured.

July

26 - BES Group reports a net loss for 1H13 of EUR 237.4 million, being penalised by the reinforcement of provisions. Preserving the capital base remains a priority, and BES maintains its solvency ratios above the minimum requirements of both the Bank of Portugal and the European Banking Authority (EBA). At the end of the first half of 2013 the Bank has a Core Tier I ratio of 10.4%, according to the Bank of Portugal methodology and 9.5% under the EBA's criteria.

September

06 - Banco Espírito Santo and COFACE, a French multinational, enter a partnership agreement for the distribution of export credit insurance products.

13 - Banco Espírito Santo is included in the Dow Jones Sustainability World Index (DJSI), the most demanding sustainability index in the world, comprising 23 banks only (from a total 179 applicants), with BES being the only Portuguese bank. BES is also listed for the third consecutive year as one of the ten more sustainable banks in Europe (from 36 applicants) and again as the only one chosen from Portugal.

October

14 - BlackRock announces it has a 2% shareholding in Banco Espírito Santo.

24 - Banco Espírito Santo enters a EUR 200 million financing agreement with the European Investment Bank (EIB) intended to finance projects essentially promoted by SMEs and mid-caps, and also by municipal authorities and firms.

25 - The 9M13 results continue to suffer from the deterioration of assets resulting from three consecutive years of GDP falls, with unemployment rising to historically high levels. This required the reinforcement of provisions, which were increased by 42% YoY, to EUR 1.1 billion in 9M13, leading to a net loss for the period of EUR 381 million. The solvency ratios remain above the minimum requirements: Core Tier 1 of 10.4% (BoP) and 9.7% (EBA).

November

21 - Banco Espírito Santo makes a EUR 750 million subordinated issue which is already compliant with the new Basel III/CRD IV rules. The notes have a maturity of 10 years, with a call in year 5, and will pay a coupon of 7.125%.

December

16 - Banco Espírito Santo, S.A. informs that BES Angola has concluded a USD 500 million capital increase. After this operation BES Angola's main shareholders are: Banco Espírito Santo with a 55.71% stake, Portmill Investimentos e Telecomunicações, S.A., with 24.00% and Geni Novas Tecnologias, S.A. with 18.99%.

Prizes and Awards obtained in 2013



Best trade Finance Bank

BES was named for the seventh consecutive year the best trade finance bank in Portugal by the Global Finance magazine.



BES amongst the 100 most Sustainable Corporations in the World

For the second year running BES integrates the 'Most Sustainable Corporations in the World', scoring in 33rd place in this world index of the most active companies in the management of environmental, social and governance policies.



BES among the 6 best banks in the Dow Jones Sustainability Index

In the same year in which it was included in the Dow Jones Sustainability World Index, which comprises 23 banks only, BES was also qualified in the bronze category in the Sustainability Yearbook 2014 for its excellent performance in sustainability, scoring amongst the 6 best banks in the Dow Jones Sustainability Index.



BES is the Iberian financial institution with the best score in the Carbon Disclosure Project

In 2013 BES reached a classification of 99 percent in the Carbon Disclosure Project, 5 percentage points up on 2012, an outstanding position among other companies in the financial sector. According to the Iberia Report of the Carbon Disclosure Project (CDP), a not-for-profit organisation that evaluates CO2 emissions and companies' procedures to address the demands of a low carbon economy, BES is the best financial institution of the Iberian sample included in the Carbon Disclosure Leadership Index, which only comprises 14 companies, and also the best Portuguese listed company in the ranking and the second best at Iberian level.



FTSE4Good

BES, the first Portuguese bank in the FTSE4Good

The FTSE4Good is one of the best accredited tools used by investors to track companies that follow globally recognised sustainability standards. BES integrates the FTSE4Good since 2007, in acknowledgement for its strategy for economic, environmental and social management.



BES awarded “Prime Company” Status by Oekom

BES was evaluated in 2013 by Oekom, a sustainability rating agency, and classified as a ‘Prime company’ in the financial sector.

BES, the Bank with the more Satisfied Clients

According to the results of the European Customer Satisfaction Index (Portugal), BES is, from among the large banks in Portugal, that whose clients are more satisfied.



BES's internet banking service earns awards in various categories

In 2003 BES's internet banking service earned the Global Finance magazine's 'World's Best Internet Banks in Europe 2013' award, and for the second consecutive year its BESmobile service was considered the 'best Mobile Banking services in Europe'. Moreover, BES also ranked as the 'Best Corporate/Institutional Internet Bank in Portugal' (for the fourth time and the third in a row), an award that confirmed the quality and versatility of its BESnetwork service.

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.

BES Group today

The Banco Espírito Santo Group, a universal financial services group, has its decision centre in Portugal, which makes it its privileged market. With a presence in four continents, activity in 25 countries and employing more than 10,000 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 4.2 billion and EUR 80.6 billion, respectively, on December 31st, 2013).

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 19.7% in 2013), which has benefited from the development of a market approach based on a multispecialist model. An organic 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 where it holds a 25.5% market share.

Complementing its domestic operations, BES Group develops international activities focused on countries with cultural and economic affinities with Portugal, such as Spain, Angola and Brazil.

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 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 based on 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 key strategic guidelines:

- **Strengthening of the 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 the international activities** through a stronger positioning in the strategic triangle (Iberia, Brazil and Africa) and 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 32.1% in 2013; 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);
- **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, and also 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

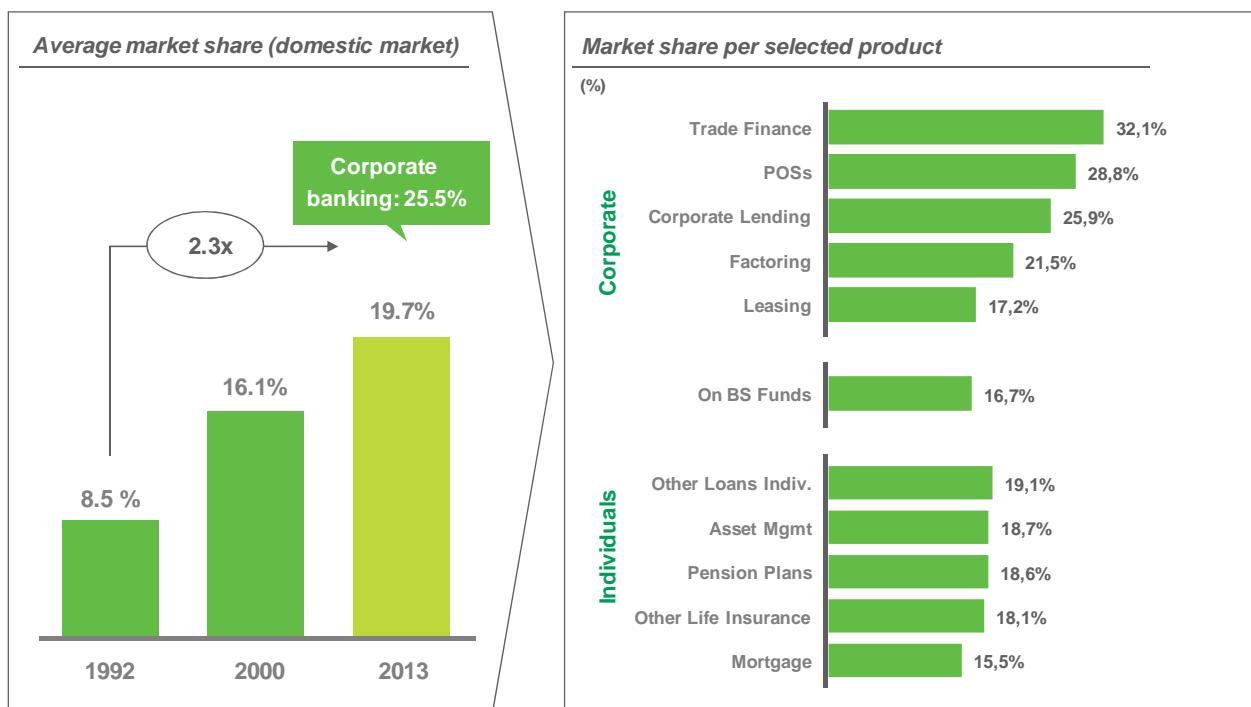
Banco Espírito Santo has been implementing a broad range of initiatives to tackle the financial difficulties faced by the Portuguese economy and the challenges imposed by the Financial Assistance Programme. The Bank has defined the following strategic priorities for the short-term:

- **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, 2013.
- **Reinforcement of solvency ratios:** over the last three years BES consistently met the Bank of Portugal and EBA's targets without resorting to public funds. In December 2013 the core Tier I ratio was 10.6% under the Bank of Portugal criteria and 9.8% under the EBA methodology, having increased by 2.7 p.p. since December 2010.
- **Prudent risk management:** in line with its traditionally prudent management practice, BES Group sharply increased provisioning during 2012: the reinforcement of provisions for credit, securities and other totalled EUR 1,423 million, while the balance of credit provisions reached 6.81% of gross loans at the end of 2013.
- **Sustaining profitability for the future:** BES Group's strong position in the corporate segment and its presence in the emerging economies should allow it to benefit from the recovery of the Portuguese economy.

Domestic Activity

In Portugal the Group operates through a single-brand network of 643 branches, 23 Corporate Centres and 22 Private Banking Centres. A strong commercial dynamics boosted by the renown of its brand have allowed the Group to achieve sustained market share gains year after year, particularly in the corporate segment.

Market Share - Average and by Product*



Source: APB; BdP; APFIPP; ISP; ASP; ALEASE; APEF; Euronext; SIBS; SWIFT; CMVM; BES

Holding a prominent position in private and corporate banking, BES Group also offers asset management services through Espírito Santo Ativos Financeiros – ESAF and investment banking services through Banco Espírito Santo de Investimento.

Distribution channels

Distribution capacity is a key factor in the Group's competitive positioning. At December 31st, 2013, BES Group had a domestic retail network of 643 branches and a network of 145 branches abroad, of which 31 in Spain, 71 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 2013 the Group had 28 private banking centres (23 in Portugal, 4 in Spain and 1 in Angola) and 37 corporate banking centres (25 in Portugal, 7 in Spain and 5 in Angola).

The resizing of the domestic distribution network involved the closure of less profitable branches but also 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).

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 2013 the number of frequent users of BESnet, the internet banking service for individual clients, increased by 7% year-on-year, consolidating the Group's leading position in internet banking in Portugal. 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 latest technology, BES offers its clients a range 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:** a phone service to execute banking transactions and obtain advice on banking 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 the 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.



Spain

In Spain, BES Group has operations in corporate banking, private banking and affluent banking. The Group has also developed investment banking activities, holding a prominent 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

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

BES Angola (BESA) is a bank incorporated under Angolan law that provides a global service to individual and corporate clients.

BES Angola operates through a network of 71 branches and sub-branches distributed by six provinces, and a private and affluent banking centre in Luanda.

In corporate banking, BESA is supported by five 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.

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

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

BESA has been asserting its position as a reference bank in the Angolan market, 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 its 40% stake in Aman Bank. Through its presence in Libya, BES 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 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 of that year. Having suffered no sanctions or significant damage to its infrastructures, Aman Bank resumed the implementation of its commercial plans and the reinforcement of its operations so as to make the most of the growth opportunities offered by the country.



United Kingdom

BES operates through a branch in London 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, trading, research, mergers and acquisitions, corporate finance, corporate brokerage and equity capital markets. Through this acquisition, 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

In France Banco Espírito Santo holds an 87.5% stake in Banque Espírito Santo et de la Vénétie, which provides financial and corporate banking services to Portuguese residents in France.



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 mainly operates in project finance and other structured finance activities, leveraged by its Brazilian presence and strong positioning in the capital markets business in Iberia. BES Group's presence in New York gives it access to institutional investors in one of the world's main financial centres.



Macau

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

Poland

BES Group has been present in Poland since 2005, the year of the foundation of Concordia Espírito Santo Investment, a BES Investimento 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. In 2003 the Group increased its stake in this Bank to 49%.

Moza Banco focuses its activity on the corporate, private and affluent banking segments. At the end of 2013 it had a network of 23 branches, the result of an expansion effort aimed at covering all the provinces in the country.

Its holding in Moza Banco 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 savings 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 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 home to 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 concentrates 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. In addition it has established partnerships with local banks, namely Banco delle Tre Venezi, in Italy, Banque Marocaine du Commerce Extérieur, in Morocco, and Banque Extérieure d'Algérie, in Algeria.

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 25 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 ten members.

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

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

Pursuant to the powers conferred to it under the law and the company's bylaws, and in accordance with its Regulation (available at www.bes.pt/ir and in Chapter II of the Corporate Governance Report), in 2013 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 2013 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.

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 2013, 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 2013 the Board of Directors held 8 meetings, having discussed and passed resolutions on the following main issues:

- Approval of BES Group's results for 2012 and first three, six and nine months of 2013;
- Approval of the proposed allocation of the 2012 results;
- Approval of the proposals to be submitted to the Annual General Meeting of March 27th, 2013 concerning: (i) the Management Report, the Corporate Governance Report and the remaining consolidated and individual reporting documents relative to fiscal year 2012; and (ii) the remuneration policy of BES's senior officers and changes to the variable remuneration plan;

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 Morais Pires
Nuno Maria Monteiro Godinho de Matos
João Eduardo Moura da Silva Freixa
Pedro Mosqueira do Amaral
Isabel Maria Osório de Antas Mégre de Sousa Coutinho
João de Faria Rodrigues
Marc Olivier Tristan Oppenheim
Vincent Claude Pacaud
Rita Maria Lagos do Amaral Cabral

Stanislas Gerard Marie Georges Ribes
Horácio Lisboa Afonso
Pedro João Reis de Matos Silva
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)
Alexandre de Sousa Machado – appointed Vice-Chairman at the GM of 27.03.2013 (Point 1 of Notice of Meeting)
Nuno Miguel Matos Silva Pires Pombo (Secretary)

Audit Committee

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

Certified Statutory Auditor (“ROC” or SA)

Certified Statutory Auditor - 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 Marques da Rocha Gouveia (Deputy Secretary)

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, 2013 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.

Main Stockmarket Indicators

			31-Dec-12	31-Dec-13	Change
Share Data					
01. Number of Shares Outstanding	(thousand)		4 017 928	4 017 928	0
02. Weighted Average of Shares Outstanding ⁽¹⁾	(thousand)		3 096 971	4 017 928	920 957
03. Last Closing Price ⁽²⁾	(eur)		0,895	1,039	16,1%
04. Market Capitalisation	(eurMn) (01x03)		3 596	4 175	16,1%
Consolidated Financial Data (year-end)					
05. Equity Attributable to Shareholders ⁽³⁾	(M€)		7 063	6 247	-11,6%
06. Equity Attributable to Ordinary Shares ⁽⁴⁾	(M€)		6 841	6 058	-11,4%
07. Net Income	(M€)		96,1	-517,6	....
08. Net Income Attributable to Ordinary Shares	(M€)		92,6	-520,6	....
09. Gross Dividend of Ordinary Shares	(M€)		-	-	-
10. Pay Out Ratio of Ordinary Shares	(%) (09/07)		-	-	-
Per Share Data					
11. Book Value per Share	(€) (06/01)		1,70	1,51	-11,4%
12. Earnings per Share ⁽⁵⁾	(€) (08/01)		0,03	-0,13	....
13. Gross Dividend per Share	(€) (09/01)		-	-	-
Price as a Multiple of					
14. Património Líquido	PBV (03/11)		0,53	0,69	
15. Resultado	PER (03/12)		29,94	-8,02	
Price Return on					
16. Net Income	(%) (12/03)		3,34	-12,47	
17. Dividend (Dividend Yield)	(%) (13/03)		-	-	

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

(2) Source: *NYSE EURONEXT LISBON*

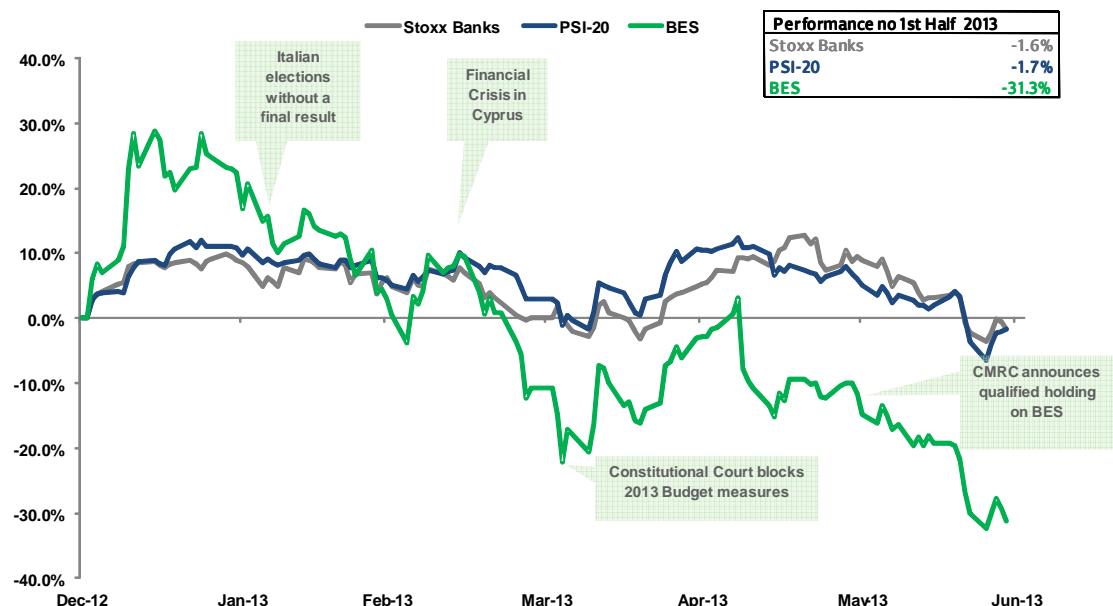
(3) Total Equity - Minority Interests

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

(5) Considering the weighted average number of shares for Dec.13

BES shares performance

The BES shares started the year outperforming the two benchmark indices (PSI-20 and Stoxx Banks), benefiting from the positive sentiment about the country and the sector that held on since the end of 2012. This sentiment was enhanced by the Bank's capacity to price a third issue of senior debt in the capital markets with a lower yield than in the previous placements (4.0% vs. 4.9% in January 2013) and strong demand from international investors. However, macroeconomic and political developments in the Eurozone (lack of consensus about the Italian elections results, the flare-up of a financial crisis in Cyprus, and in Portugal the fact that a set of fiscal measures in the State budget were declared unconstitutional, causing a setback in investor confidence about the resolution of the eurozone sovereign debt crisis) led to a reversal in this trend towards the end of January. These developments caused the BES shares to become a target for the realisation of gains, and in turn, because BES is the more liquid bank in Portugal, prompted a downward movement that led the share to be underperforming both the European banks and the PSI-20 by the end of the first half of the year (1H13 performance at June 28th, 2013 closing price: BES -31.3%; PSI-20 -1.7%; Stoxx Banks -1.6%).



In the second half of the year, the political crisis unleashed in Portugal by the resignation of the Minister for Finance at the start of July emphasised investors' scepticism about the successful implementation of the adjustment measures agreed in the memorandum of understanding. This had a negative impact on the Portuguese shares and in particular on the BES shares, which hit their lowest point in the year (closing price on July 3rd: EUR 0.545).

In light of these developments, S&P rating agency, which on March 6th had placed the outlook on the Portuguese Republic's rating at stable, lowered it to negative, while maintaining the rating at BB. BES's rating was subsequently affirmed at BB- with negative outlook (July 11th, 2013).

However, after the positive assessment made by the 8th and 9th reviews of the financial adjustment programme (concluded on October 4th, 2014), sentiment about Portugal improved. This strengthened the BES shares, which had already started to pick up with the normalisation of the political situation in Portugal.

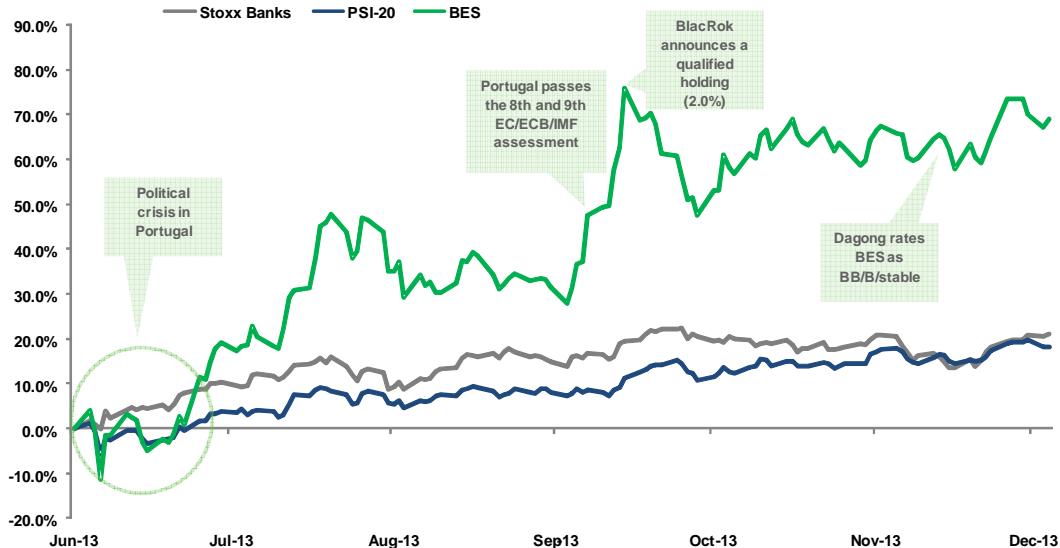
From the low on July 3rd, the BES share surged by 90.6%, while the PSI-20 and Stoxx 600 Banks indices rose by 25.3% and 20.9%, respectively (performance at closing prices from July 3rd to December 31st, 2013).

A more benign economic climate in the eurozone, improving sentiment about Portugal, and the fact that the BES share was trading at a discount to the Iberian banks were the key factors behind the surge of investors' interest in the Bank. On the other hand, BES's prudent and conservative management and focus on balance-sheet strengthening were crucial for its successful overcoming of the challenges it has been facing. In particular this involved the following:

- ✓ maintaining high levels of capital has been a key priority for the Bank, with the Core Tier I consistently above the regulatory thresholds of both the Bank of Portugal and the European authorities (EBA and BISIII). BES is the only Portuguese bank to have met the regulatory capital requirements resorting exclusively to market solutions, thus avoiding public assistance and maintaining its strategic autonomy;
- ✓ comfortable liquidity position: a) the deleveraging plan, initiated in June 2010, permitted to attain a Loan to Deposits ratio (LTD) of 121% in 2013, one year ahead of schedule; b) Strong growth of customer funds - EUR 2.3 billion in 2013, and EUR 10.7 billion (+41%) in the last three years – attests to the confidence placed by the Clients in the Bank; and c) significant reduction in funding from the ECB;
- ✓ reopening of the debt markets for the Portuguese banks: BES issued more than EUR 3 billion of debt (including EUR 750 million of subordinated debt) since November 2012 and was the first national bank to tap the debt markets since April 2010;
- ✓ reinforcement of provisions to protect against the impact of the economic and financial crisis in Portugal; and
- ✓ maintaining high efficiency levels through the implementation of a EUR 100 million domestic costs reduction plan during 2013-2015.

As a result, in the second half of 2013 BES became one of the most sought after shares for investors seeking to benefit from Portugal's economic and financial resurgence.

Underpinned by all these factors BES largely outperformed both its European peers and the Portuguese equities, closing the first half of 2013 with gains of 68.9% - which compares with 21% for the Stoxx Banks index and 18% for the PSI-20 index (closing price between June 28th, 2013 and December 31st, 2013).



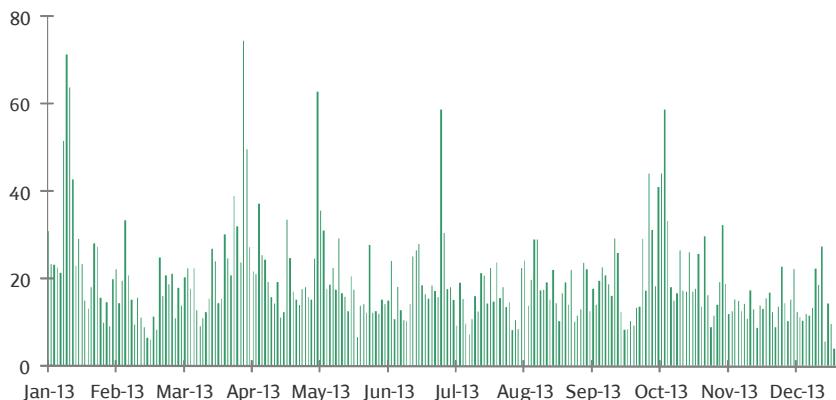
In 2013 the BES share rose by 16.1% while the PSI-20 and Stoxx Banks increased by 16.0% and 19%, respectively.

Performance 2013	
Stoxx Banks	19.0%
BES	16.1%
PSI-20	16.0%

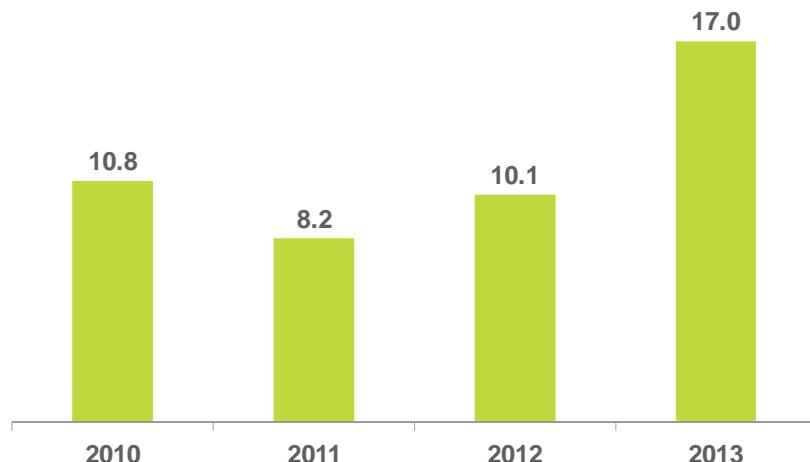
Liquidity

The average number of BES shares traded per day in 2013 was 19.3 million, up by 30.4% from 2012, when an average of 14.8 million shares were traded daily. BES continued to be the more liquid bank in Portugal. The liquidity of the BES shares in 2013 as measured by their average daily trading volume was EUR 17.0 million, which represents a 68.3% increase from EUR 10.1 million in 2012.

BES Share Trading Volume in 2013 (no. of shares)



Evolution of BES Share Trading Volume (EUR million)



Shareholder Structure

Banco Espírito Santo has had a stable shareholder structure since 1991.

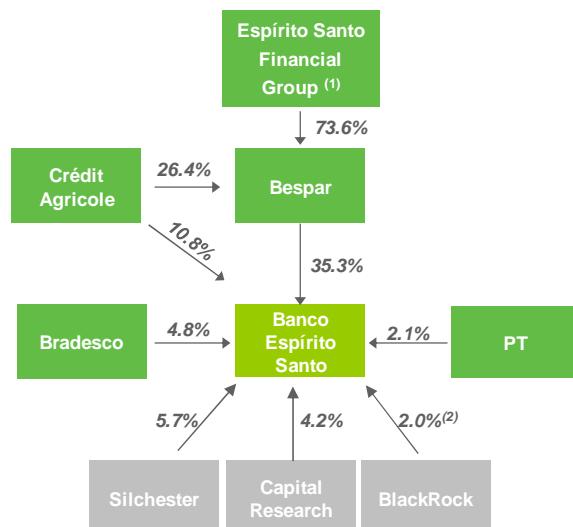
In December 2013 BESPAR, which holds the interests of Espírito Santo Financial Group and an indirect stake of Crédit Agricole maintained a stake of 35.3% in BES. Crédit Agricole, which has been a partner of the Espírito Santo Group since 1986, also maintained its direct 10.8% stake unchanged. Banco Bradesco, 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%.

At the end of 2013 three foreign institutional investors had qualified shareholdings in the Bank, representing approximately 12% of its share capital:

- 1) Silchester had a qualified holding of 5.7% in December 2013, corresponding to 228 million shares. Silchester International Investors LLP, which has held a qualified shareholding in BES since 2010, is a UK based investment management firm.
- 2) Capital Research and Management Company (CRMC) acquired a 2.08% qualified shareholding in BES in June 2013, which was increased to 4.14% in September. CRMC is a US based fund manager that manages the American Funds family of Capital Global Group, one of the largest institutional investors in the world.
- 3) On October 9th BlacRock held 80,441,859 shares, corresponding to a 2.00% stake in BES share capital, keeping this stake unchanged until the end of the year. In 2014 BlackRock increased its shareholding in BES to 5.1%. BlackRock is a multinational fund manager based in New York, USA, and one of the largest asset managers in the world.

BES main shareholders

31 December 2013



(1) direct and indirect stake of ESG in Bespar

(2) BlackRock increased its stake in February 2013 to 5.1%

(For more details see Corporate Governance Report).

Market relations

BES regularly informs the market on results, events or any other facts about the BES Group that are relevant to the financial community or the public at large. The Investor Relations Office is responsible for promoting regular and effective communications with the market, namely by issuing releases posted on BES's and the Portuguese Securities Market Commission (CMVM)'s websites, holding meetings with shareholders, potential investors and analysts or participating in international investor conferences. The Office is also responsible for coordinating the information provided to rating agencies and for BES' relationship with CMVM. Upon the release of quarterly, half-yearly and annual results, conference calls are held for investors and analysts who are thus regularly given the opportunity to ask questions to the Chairman of the Executive Committee and the Chief Financial Officer.

(More information is provided in the Corporate Governance Report).

Conferences

During the year BES organised roadshows in the main European and North-American financial centres and held close to 500 meetings with investors (of which 45% from North-America and 28% from the United Kingdom.). In addition, the Bank also participated in the following international conferences addressed to equity and debt investors:

- 2nd Annual Iberian Conference, promoted by Espírito Santo Investment Bank, in London;
- Portuguese Day, a conference on debt promoted by Credit Suisse, in London;
- Iberian Banks Symposium, promoted by Goldman Sachs, in London;
- Portuguese Day, promoted by Banca IMI, in Milan;
- European Financials Conference, promoted by Morgan Stanley, in London;
- UBS Global Financials, in New York;
- Mid Caps Conference, promoted by Société Générale, in Nice;
- Pan European Days in New York, promoted by NYSE Euronext in cooperation with Espírito Santo Investment Bank, Société Générale and ING Bank;
- 4th Iberian Conference, promoted by BBV, in London;
- Iberian Conference promoted by BPI, in Porto;
- European Financials Conference, promoted by KBW, in London;
- European Conference, promoted by UBS, in London;
- Financial Investor Day, promoted by HSBC, in Paris;
- London Financials Conference, promoted by Citi, in London

Research on BES

A total of 13 analysts covered BES shares throughout the year 2013. The average price target based on reports published up to December 31st was EUR 0.94 per share. With 77% positive recommendations (15% "Buy" and 62% "Hold") in the year to December 31st, 2013, BES was the bank in Iberia with the smallest percentage of "Sell" recommendations.

Dividends

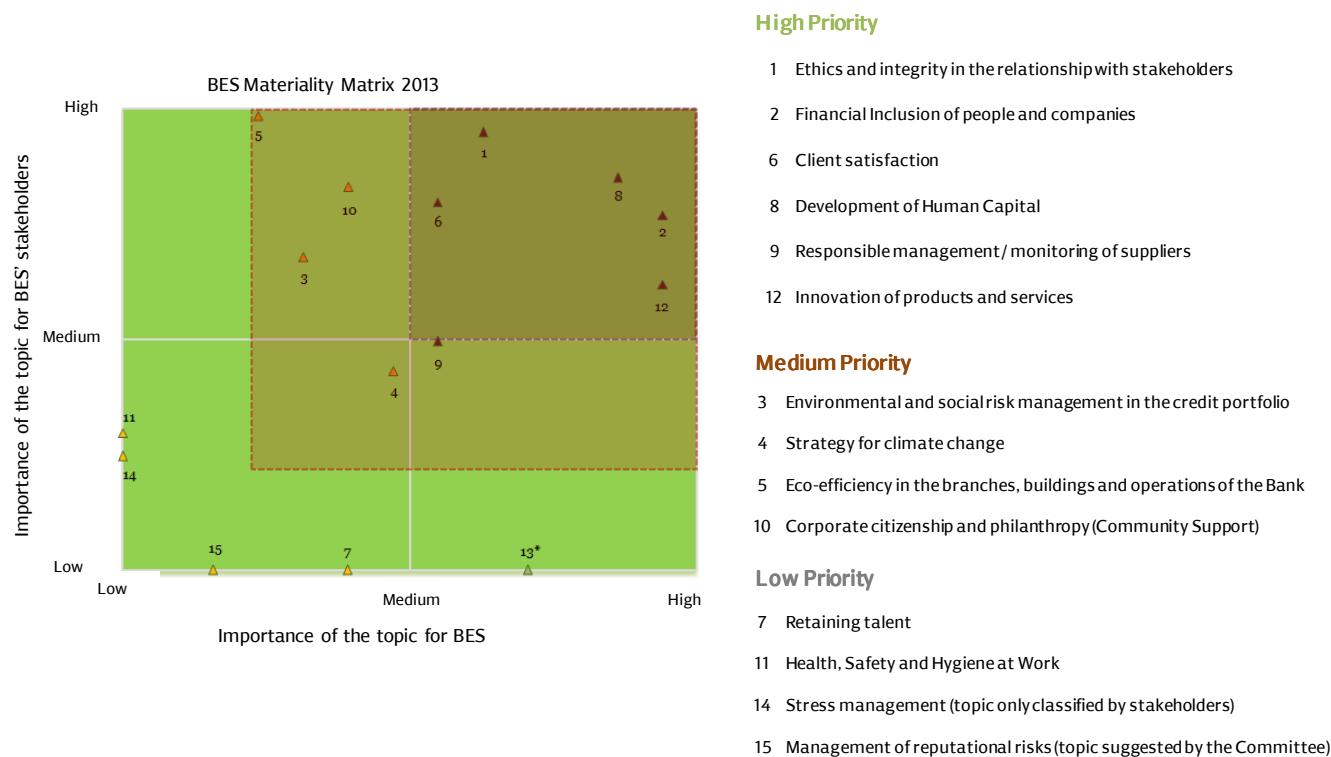
The dividend proposed by the Board of Directors to the annual general meeting follows the criterion of a balanced relationship between financial strength (higher solvency ratios through retained earnings) and adequate returns to shareholders.

2. Responsible Management - the other BES

Strategic priorities

To define the priority issues to be addressed by its sustainability policy BES took into account not only its customary consultation to stakeholders but also the perspective of the members of the Sustainability Committee.

The cross-referencing of the results of the consultation of stakeholders with the perspective of the members of the Sustainability Committee in terms of priority topics for action in sustainability permitted to identify 7 high-priority topics, 4 medium-priority topics, and 4 low-priority topics.



The materiality matrix together with information on how it was built is available at www.bes.pt/sustentabilidade.

Because its stakeholders form an integral part of its activity, every two years BES conducts a consultation of its clients, employees, suppliers, opinion makers and analysts. The aim is to understand how they perceive BES's sustainability performance and factor in their responses in the Bank's strategic plan and in the development of its business.

The 2013 consultation involved a total of 1,350 stakeholders and focused on the Bank's actions in the various dimensions of sustainability: innovation and entrepreneurship, financial inclusion, biodiversity and climate change,

responsible citizenship and stakeholder engagement. This year the survey included questions on Human Rights and was extended to some of the countries where BES operates, namely Angola, Brazil and China.

Approximately 80% of the stakeholders inquired have a good or very good perception of BES Group's sustainability performance and say that the Bank manages the relevant sustainability themes and issues for the financial sector.

The key relevant issues identified in 2013 were broadly the same as those revealed by the last poll, conducted in 2011, namely 'customer satisfaction', 'ethics and accountability in the relationship with the stakeholders' and 'eco-efficiency in the branches, buildings and operations of the Bank'. However this year the Stakeholders elected a new relevant topic that is directly related with the Group's human resources, namely 'employee training and development'.

The Bank's approaches to each relevant topic identified as well as the corresponding targets and results are addressed throughout this report and also in the Sustainability Brochure and in BES's website.

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 concerns and expectations on an ongoing basis.

	Relevant topics for BES's stakeholders	Main Communication Channels
The Employees care about...	Training and development Eco-efficiency in the branches, buildings and operations of the Bank Customer satisfaction Ethics and integrity in the relationship with stakeholders	BES Group Annual Congress Human Resources Portal Intranet / BESweb Principles and policies Web-magazine@actual Itinerant Executive Committees Workers Committee Trade Union Secretariat Information and Consultation Procedure Corporate website Itinerant Executive Committees Branch network, on-site branches, Corporate Centres, Regional Divisions, Private Banking Centres, Service Quality Department Internet Banking Complaint management system
The Clients care about...	Customer satisfaction Ethics and accountability in the relationship with the stakeholders Innovation and quality of products and services Support to the community	Communication and Advertising Campaigns Customer Satisfaction Surveys Social networks Annual Customer Survey on the Group's Sustainability Practices
The Suppliers care about...	Eco-efficiency in the Bank's branches, buildings and operations Ethics and accountability in the relationship with the stakeholders Employee training and development Financial inclusion	Regular meetings and contacts Suppliers Portal Annual Supplier Survey on Sustainability Practices
The Opinion Makers and Analysts care about...	Eco-efficiency in the branches, buildings and operations of the Bank Support to the community Financial inclusion Employee training and development	Corporate website Obligatory reporting and voluntary communications Press releases

The full text of the Stakeholder Engagement Policy is available at www.bes.pt/sustentabilidade.

Employees

A description of the Group's Human Capital

The employees are a key driver of the Group's activity. The human resources policies implemented take as fundamental basis the promotion of intellectual capital as a differentiating factor of Banco Espírito Santo's inherent values.

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 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.

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, including measures to help conciliate work and family, assistance to pensioners, and health and education support.

At December 31st, 2013, BES Group had 10,216 employees spread over four continents. Of these, 7,369 worked in Portugal.

Employees Geographical Distribution

Country	Dec. 2012	Dec. 2013
Portugal	7,495	7,369
Other European countries		
Spain	576	605
United Kingdom	189	169
Other	93	106
Africa	1,118	1,443
South America	269	260
North America	174	208
Asia	30	56
TOTAL	9,944	10,216

Human Capital	2012	2013
Gender	50% Women	45% Women
Labour contract	94% permanent contract	91% permanent contract
Employee turnover	8.5%	3.3%/8.5%*
Average hours of training	24	21
Absenteeism rate	2.6%	3.2%

*In 2013 Employee Turnover was calculated according to the new GRI G4 guidelines, i.e., as the ratio of the number of employee exits to the total number of employees at year-end; however we maintained the figure that allows for comparison with the previous year (3.3%), calculated as the number of employee exits and admissions to the total number of employees at year-end.

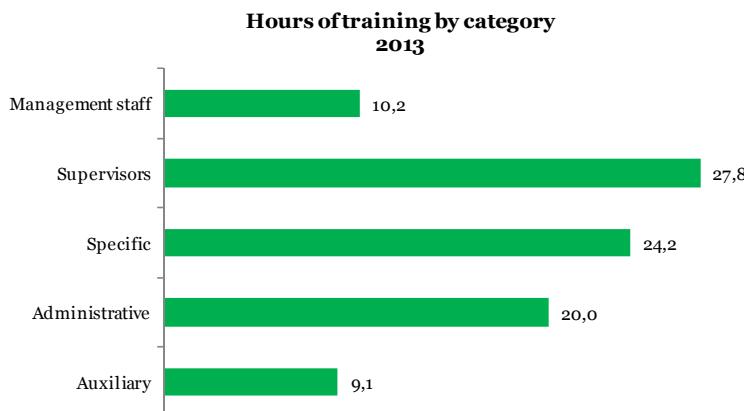
Talent training and retention

The Integrated Human Resources Management Model emphasises the implementation of measures to promote employee development and motivation and the reinforcement of skills through training plans, both specific and group-wide, thus consistently improving the Group's capacity to attract and retain talent.

This strategic objective of consistently improving the capacity to attract and retain talent is pursued through the following tools:

- Programme of individually tailored traineeships to suit the needs and future functions of each employee;
- Identification and profound knowledge of the capacities of the employees, defining training profiles and tracking requirements in terms of technical and behavioural skills;
- Tracking the training needs of all the employees and monitoring and managing the training provided to fulfil these needs;
- Defining training actions and contents and establishing methodologies and schemes for measuring their impact, always in close connection with the respective target recipients, which are primarily BES's commercial segments: BES 360º; Small Businesses, Mass Market, Corporate: International Corporate, Large Companies, Municipalities and Institutional Clients and Middle-Market.

In 2013 BES continued to invest in training plans covering all its employees. A total of 180,584 hours of training were provided, corresponding to 21 hours per employee.



	Training project	Performance in 2013
School branch	Ground-breaking project in the Portuguese financial sector. Training to newly hired employees provided in 34 branches of the bank, offering a real retail banking environment, the possibility to learn from the inside and interaction with the various business areas.	603 employees trained
BES Attitude Plan	Systematic and guided training focusing on key behaviours in customer service and team management with the objective of improving service quality. In 2013 the BES Attitude Plan used the School Branches to reinforce and enhance the training provided	In 2013 the programme was addressed to the Regional Divisions and Branch Managers' teams and was extended to the Central Departments 424 employees involved in this programme in 2013
BES University	BES University is a reference in the development of the Group employees' skills in terms of both structuring education (degrees, master's degrees, PhDs, post graduations and MBAs) and in terms of specific training designed to meet identified needs, including customised courses in multiple behavioural and technical areas.	Since its creation the BES University received 183 participants in the Executive Master programme, 129 employees in post-graduation courses and specialisations and 127 employees in degree courses. Seminars and workshops had around 1 050 participants.

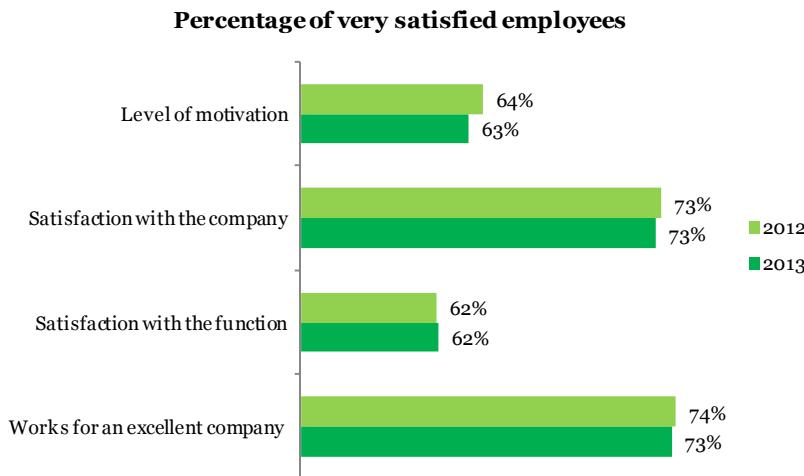
The Bank continued to hold its 'Pool of Ideas' initiative, which challenges the employees to take an active role in the management of the company by submitting innovative ideas capable of making a difference in the Bank's operations. In 2012/2013 a total of 507 ideas were submitted by 324 employees, and of these 58 were approved.

More information on this issue is provided on BES's website – Social Report

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.

In 2013, 5,617 employees responded to the questionnaire while the number of positive replies increased to 75.4%. Overall, the level of employee motivation, satisfaction with the company and satisfaction with the function remained unchanged compared to 2012.



Performance assessment at BES Group

BES Group's performance assistance system is key to building a culture based on merit, while fostering the engagement of all through targets set for each professional category, function and team.

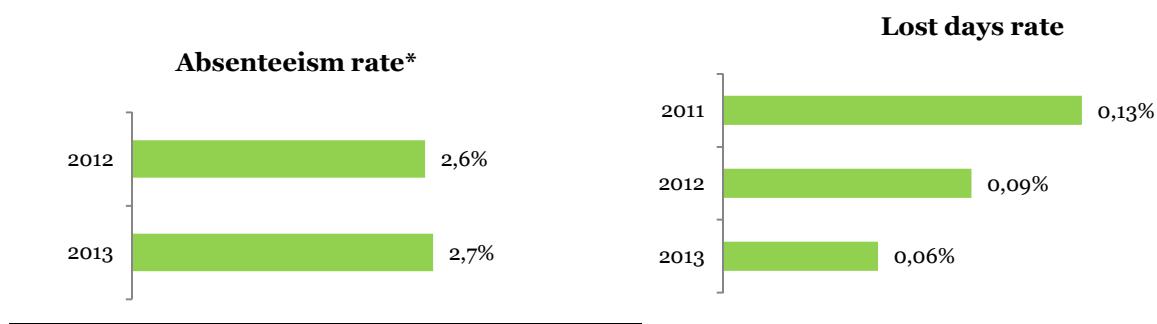
In 2013, 72% of the employees were assessed. Compared to the previous year, there was a significant reduction in the percentage of employees who received feedback on their performance assessment. This was due to BES Angola not having assessed its employees in 2013 as it was undergoing an internal restructuring process.

Several alterations in BES Group's performance assessment system are planned for 2014, including the introduction of a peer assessment scale, a comprehensive overhaul of the skills profiles and the inclusion of top-down and bottom-up assessment, which, while not providing by itself an all-round assessment, is a major step in that direction.

Health and safety in the workplace

For BES Group the health and safety of its employees are of utmost importance, and several initiatives have been taken to improve the level of satisfaction with the Bank and reduce the accident frequency rate and the risk of absenteeism. In 2013 a Health and safety in the Workplace report was for the first time prepared at BES Group.

In 2013 there were a total of 69 accidents at work, corresponding to a lost days rate of 0.06%, which is lower than in previous years. Six occupational diseases were identified during the year and BES Group's absenteeism rate was 3.2%.



Employee Benefits

In BES 2013 maintained its policy concerning the attribution of allowances and assistance under its Internal Social Responsibility Programme. The following benefits were provided to all the employees:

	Support	Performance in 2013
Education support	Child benefits, school grants, scholarships and support to children and youths with special needs	330 child benefits 153 scholarships 173 school grants 58 special needs allowances
Senior support	Co-payment of expenses with senior residences, day-centres, home support, drugs or other staple goods	41 allowances to retired employees
Health support	Co-payment of health expenses	47 employees supported
Help in conciliating work and family	Co-payment of employees' transport expenses (travel cards) Support to unemployed spouses or children through the Job Search programme	141 travel allowances 70 employees supported through the Job Search programme

In 2013 BES continued to support its employees through low-rate loans, namely mortgage, consumer, and in some cases social support loans. All in all a total of EUR 30,447 thousand was provided in this type of support.

Banco Espírito Santo allowed its employees to extend the maturity of their mortgage loans up to a maximum of 15 years (providing the employee is not older than 75 at the loan maturity), thus effectively increasing their monthly disposable income. The employees may at any time reduce again the term of their loans, with no additional charges. In 2013 a total of 1,968 employees benefited from this initiative.

In 2013 the Bank organised a new edition of its "Used School Books Bank" programme, which consists in the voluntary exchange of used school books from the 1st to the 12th year. A total of 3,100 books were delivered, of which 846 were given to 150 families of BES and Group companies' employees.

BES Group Code of Conduct

BES Group's Code of Conduct aims to:

- disseminate among the BES Group companies the principles upon which they should base their activity;
- elicit from the employees an ethical conduct, aligned to the Group's values;
- promote respect for and compliance with the applicable legislation and regulations;
- create transparency in the relations between the Employees and the outside community.

The Code of Conduct is available in Portuguese, English and Spanish.

In order for the employees to be fully acquainted with the Code of Conduct, a training session on the matters dealt with in the Code was held in 2012 and a “frequent questions” paper was posted on the Bank’s intranet, and revised in 2013. In addition there is a specific e-mail address to which the employees may send their doubts or requests for explanations about the Code..

In 2013 a total of 432 communications and requests for explanation about the Code of Conduct were received, mostly concerning conflict of interest or professional secrecy issues.

The Compliance Department is responsible for monitoring code-related issues and for providing explanations to the employees about the content and application of the Code.

BES Group's Code of Conduct is available on BES's website.

Money Laundering Prevention

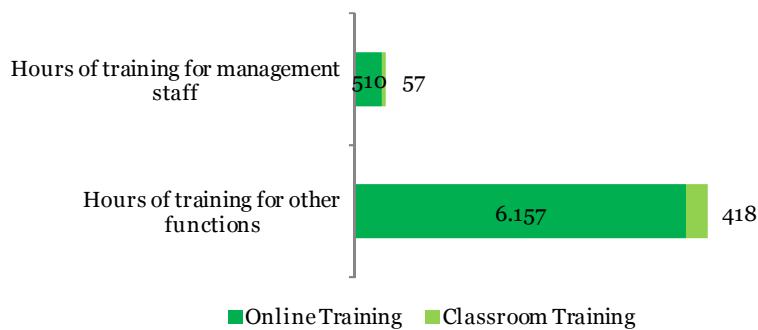
The Bank’s risk assessment model is designed to prevent money laundering activities. In addition BES uses an IT application that analyses the accounts’ transactional profiles and triggers automatic warnings whenever there are deviations in the expected pattern for each contract.

Any situations which, after a thorough analysis and investigation, confirm the existence of sustained grounds for suspicion, are duly communicated to the competent authorities, which then take the steps deemed convenient for compliance with legally established duties and obligations.

In 2013 a total of 9,653 contracts were analysed, from which resulted 739 notifications to the authorities. In addition, a total of 7,265 requests for new account openings were screened, with the result that 36 were denied.

BES has decided to develop a new online training exercise on the prevention of money laundering and the financing of terrorism addressed to all the employees (commercial and central structures, including management staff). This was complemented by in-class training designed to provide the employees with the skills required to cooperate with the control functions in the mitigation of the risks inherent to the exercise of their jobs.

Training in prevention of Money Laundering



Human Rights and Non-Discrimination

In 2011 BES Group formally defined its Human Rights policy, based on the United Nations' Global Compact Principles and Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises and the International Labour Organisation (ILO)'s principal conventions. In 2012 the Group provided training on this topic to the employees of its companies in the following countries: Angola, Brazil, Spain, Portugal, India, United Kingdom, Ireland, US, South Africa, Luxembourg, Venezuela, Switzerland, Poland and Canada. In 2013 this training was extended to include China. Approximately 83.9% of the Group's employees were given this training, which in 2014 should also be provided in Libya.

In 2013 BES Group continued to monitor the implementation of its Human Rights Policies across the various subsidiaries, having detected no instances of breach of the policy or the policy procedures.

The essential purpose of BES's non-discrimination policy is to safeguard the principle of equal opportunities and the duty of non-discrimination. In the recruitment process of its employees, BES observes the principles of non-discrimination by reason of gender, race, skin colour, socioeconomic conditions and sexual orientation, it ensures adequate working conditions to handicapped employees and makes sure that practices which may lead to instances of discrimination in any possible form are prevented and monitored.

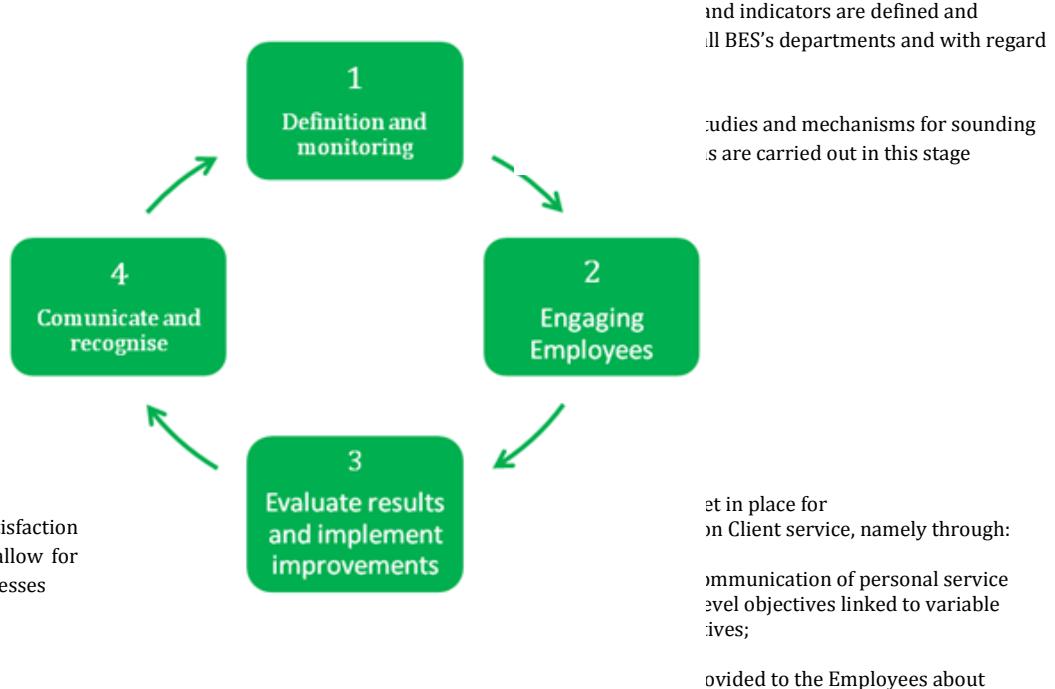
In 2014 all the Group's employees will be given training on "Gender equality and non-discrimination".

The non-discrimination policy is available on BES's website.

Clients

Over more than 144 years the Banco Espírito Santo Group has been steered by a consistent strategy one of the main objectives of which is to meet and correspond to the expectations of its Clients and promote a relationship based on trust. This Customer-Oriented Strategy has been reinforced over the years through the development of mechanisms to assess the quality of customer service and gauge the levels of customer satisfaction.

BES's Customer-Oriented Strategy is implemented in four dynamic and continuous stages:



The full version of the Customer-Oriented Strategy is available on BES's website.

Being aware of the importance of Client feedback on the activity developed, BES maintains a continuous dialogue with this group of stakeholders, using different methodologies and communication channels.

Several surveys were conducted in 2013, including satisfaction surveys on customer service, a survey on the 'moments of truth' in the banking relationship, mystery calling, life-cycle surveys (account opening, closing, etc), measurement of services levels, focus groups, segment- and product-specific satisfaction surveys, and surveys to the employees.

The quality of the service provided is assessed through monthly satisfaction surveys conducted to the Bank's Clients in the various segments. BES boasts a high satisfaction ratio across all client segments: 8.6 in each 10 clients are very satisfied.

BES has reinforced its position amongst the financial institutions with the lowest levels of complaints reported to the Bank of Portugal, by all client segments, according to the Bank of Portugal's "Behavioural supervision activities – interim overview.

The main internal quality indicators show a consistent improvement.



This improvement is also visible in the external indicators. In 2013 BES was considered the absolute satisfaction and quality leader in the National ECSI Index. ECSI, which stands for European Consumer Satisfaction Index, is an international survey conducted in various activity sectors, namely banking, telecommunications and insurance. In Portugal the ECSI survey is conducted in association with the IPQ - Instituto Português da Qualidade (Portuguese Institute for Quality), the ISEGI – Instituto Superior de Estatística e Gestão de Informação (School of Statistics and Information Management) and Universidade Nova.

After ranking in 1st place from among the 5 largest banks in the 2012 ECSI index, in 2013 BES scored as the absolute leader and the bank in Portugal with the highest satisfaction level.

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

Suppliers

The Group's Suppliers Portal, created in 2007, is the privileged means for interaction between suppliers and the Group companies. In addition to facilitating relations with the suppliers, the Portal also serves the following objectives:

- Divulge the Group's procurement model;

- Build, through the pre-registration and registration process, a database of actual and potential suppliers for the various categories of products and services that will facilitate and make more effective the sourcing process as well as the technical and commercial assessment of suppliers;
- Allow the suppliers to introduce themselves to the Group's procurement structure in a simple, fast and rational manner which will facilitate their participation in future market consultations;
- Spread the Banco Espírito Santo Group's Principles of Conduct for Sustainable Development among the Suppliers, raising their awareness to the need to implement good practices in terms of labour conditions (prevention of all kinds of discrimination, prohibition of child labour, etc.) and respect for the environment;
- Inform the suppliers in advance about the categories of products and services about which the Group will soon make market research or consultations;
- Facilitate the Supplier's process of adhesion to Banco Espírito Santo Group's Principles of Conduct for Suppliers, which were structured in accordance with the United Nations' 10 Global Compact Principles, ultimately viewing the supplier's alignment to the Bank's environmental and social good practices.

In 2013 a new and important application was developed in the Suppliers Portal which will allow suppliers to have online access to all their invoicing documents to the Bank and respective status. This application is being tested and should become operational before the end of the first quarter of 2014.

The Suppliers Portal is available on the internet.

Supplier Registration Process

Based on the information provided by each supplier BES determines the respective 'sustainability score' according to criteria such as labour practices, ethics, hygiene and safety in the workplace and environmental performance. This score is one of the indicators used in procurement decisions, permitting to privilege suppliers that share the Bank's principles and good practices.

Following the recommendation of the Sustainability Committee, in 2013 registration in the Supplier Portal was made compulsory for all regular suppliers with sales volume above EUR 10,000.

Suppliers registered in the Portal

	2013	2012	Change
• Total number of registered suppliers	2,554	1,942	31.5%
• Of which with 'sustainability score'	756	480	57.5%
• Percentage of purchases to registered suppliers with attributed score*	81%	60%	35.0%

*Sales above EUR 10,000/year

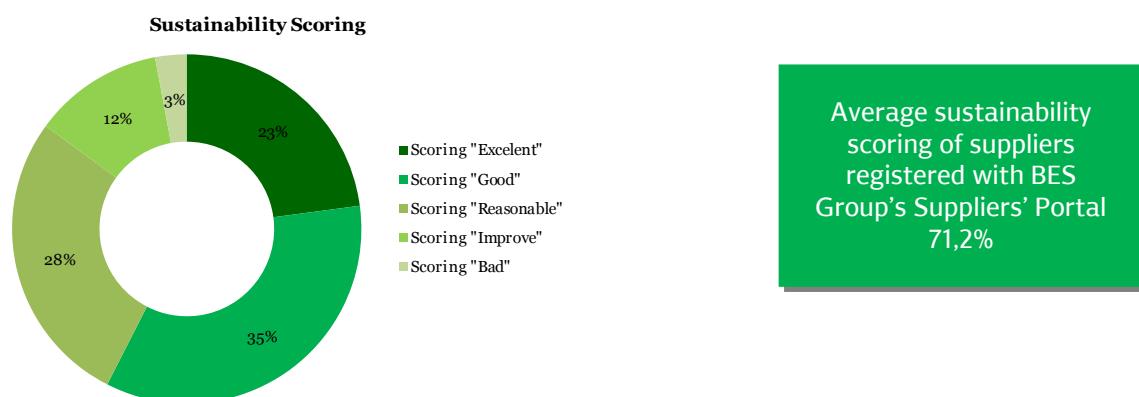
On December 31st, 2013 a total of 2,554 suppliers were registered in the Suppliers' Portal, of which 756 had been attributed a 'sustainability score'. This represents a significant progress since 2012, when there were 1,492 registered suppliers and 480 with a 'sustainability score'.

Moreover, the percentage of purchases to registered suppliers with attributed 'sustainability score' and sales volume above EUR 10,000 per year increased by 35% year-on-year, to 81%.

Despite the progress made, BES has not yet reached its objective, namely that 100% of its regular suppliers (with sales volume above EUR 10,000 per year) are registered in the Portal and have been attributed a 'sustainability score'.

For 2014 BES has assumed the commitment to raise its suppliers' awareness to the importance of registering with the Portal, so as to reach an increasingly broad coverage of all suppliers with sales volume above EUR 10,000 per year, and to ensure that all entities invited by the Bank to take part in new consultation processes have registered.

2013 Sustainability scoring



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 2013 95.5% of all purchases were made to local suppliers.

Pre-qualification of suppliers

To reinforce the existing tools for registration (in the Suppliers' Portal) and for the technical assessment of suppliers (as part of the market consultation process or the supply process itself), in 2013 the Bank completed its first suppliers' pre-qualification process. Specifically, the Bank developed a pilot project covering 175 suppliers representing 11 categories of purchases linked to the property management area, and:

- requested and analysed information concerning the suppliers' capacity, certification and references as well as the qualifications of their human resources;
- using a matrix of weighted assessment criteria, calculated a score for each supplier on a scale from 1 to 4;
- segmented the suppliers according to their specialisations, the regions where they may provide services and the effective experience shown;
- for each category of purchases selected 15 to 20 suppliers with a final score above 2.

BES intends to extend this process to other relevant categories of regular purchases, namely in the areas of IT and telecommunications.

Trade creditors turnover

Bearing in mind the current social and economic context, in 2013 BES once again reduced the average payment period to suppliers, which decreased to 25 days (4 days less than in 2012). In regular supplier contracts the rule is to pay at 30 days.

In 2013 BES joined and subscribed to the '*Tomada de posição - Pagar a horas, fazer crescer Portugal*' initiative ("take a stand, pay on time, make Portugal grow") which was launched by ACEGE – Associação Cristã de Empresários e Gestores as part of its "Leading with Responsibility" programme and "Timely Payment Commitment".

New expenditure management model

In 2013 the Bank initiated a study viewing the implementation of a new model for expenditures management and revision of the procurement function which aims to optimise the internal processes, namely budgeting, demand management and procurement and thus restrain demand and purchases.

This project, which should be concluded in the first half of 2014, will intervene at three levels:

- In the model associated to structural costs (suppliers and external services and IT and non-IT expenditure) – ascertaining and clarifying responsibilities and levels of intervention of the various internal players as well as the strategic approach for each category of purchases;
- Redesign and standardisation of the purchase processes, from planning and sourcing to supplier payments;
- Gradual shift towards an end-to-end third-party integrated management system, from the need to the payment, which ensures the rationalisation of activities, the mitigation of errors and an effective internal control.

Environmental Footprint

The financial sector is a key driver of the economy, having a central role in providing access to capital to the various sectors and thus performing an important function in sustainable development and the problem of climate change, one of the major issues currently facing mankind.

BES Group, following the guidelines of the World Bank, recognises that climate change is one of the main concerns in the world, and therefore seeks to tackle those concerns in the design of its products. On the other hand the Bank seeks to minimise the environmental footprint of its own activity by continuously improving the efficient consumption of resources and therefore reducing costs.

Environmental Targets

In its Environmental Management Programme BES Group has assumed environmental targets that aim to consolidate a responsible management and reduce the environmental footprint of its activity.

In order to reach these targets, a set of measures and actions are defined and the results of their implementation are regularly monitored every three months.

2008-2013 Reduction Targets

As the last year of the period set for reaching the environmental targets, in 2013 the Group summed up its performance in the period and concluded that four of the three targets had been met.

Energy	CO ₂ Emissions	Paper	Water
Target⁽¹⁾ 11% reduction in energy consumption between 2008 and 2013 <input checked="" type="checkbox"/>	Target⁽¹⁾ 11% reduction in CO ₂ ⁽²⁾ emissions between 2008 and 2013 <input checked="" type="checkbox"/>	Target⁽¹⁾ 12% reduction in paper consumption between 2008 and 2013 <input type="checkbox"/>	Target⁽¹⁾ 11% reduction in water consumption between 2008 and 2013 <input checked="" type="checkbox"/>
Performance total reduction of energy consumption between 2008 and 2013: 22%	Performance total reduction of CO ₂ emissions between 2008 and 2013 17%	Performance total reduction of paper consumption between 2008 and 2013 4%	Performance total reduction of water consumption between 2008 and 2013 21%

⁽¹⁾Scope: BES Portugal

2014-2018 Reduction Targets

The reduction targets set for the next five years (2014-2018) for energy, paper and water consumption and CO2 emissions show the level of commitment put in by the Banks and the consequent engagement and motivation of all the intervenient to achieve greater environmental efficiency.

	Energy	CO2* Emissions	Paper	Water
Year 1	-5%	-5%	-2%	-5%
Year 2	-8%	-2%	-5%	-8%
Year 5	-10%	-3%	-7%	-10%

- Electricity consumption - kWh per employee

Eco-efficiency in the Bank's branches, buildings and operations

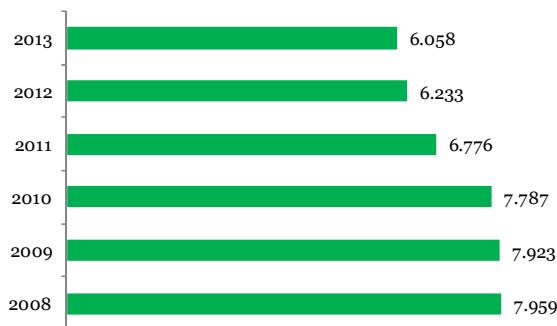
Over the years the Bank has taken various measures to reduce electricity consumption, including:

- Installation of lighting equipment fitted with low consumption fluorescent lamps and electronic ballasts in 3 central buildings and 32 branches;
- Installation of solar panels in the TAGUS PARK II building;
- Installation of air conditioning equipment fitted with heat recovery systems;
- Replacement of chillers (cold water production devices) by an air conditioning system in BES's head office building

In 2011 the Bank decided to accelerate the process of reducing energy consumption through the implementation of an "Internal Energy Efficiency Programme". Using an innovative solution combining energy and environmental monitoring equipment with an energy management software application, BES now has the capacity to read and monitor in real time all the energy consumptions of its branch network and central buildings. This solution centralises data, analyses consumptions and trends, detects energy saving opportunities, determines wastes, and assesses the achievement of targets. Besides the implementation of automated saving mechanisms, the programme also includes employee training and awareness raising.

The investment made in this new application, which permitted to reduce electricity consumption per employee by 12% between 2008 and 2013, was approximately EUR 1.5 million.

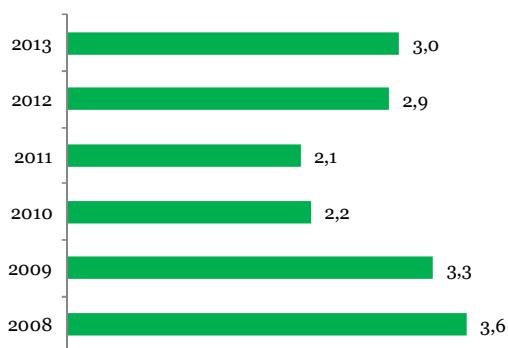
Electricity Consumption (kwh/employee)



CO2 Emissions

BES achieved a 17% reduction in CO2 emissions between 2008 and 2013, therefore meeting the target it had set out to reach.

CO₂ Emission (ton/employee)



Carbon Disclosure Project (CDP)

According to the Carbon Disclosure Project Iberia Report for 2013 (CDP), BES reached a classification of 99%, 5 percentage points up on 2012, an outstanding position among other companies in the financial sector, the average for which was 73%, 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 14 companies.

In the 2013 CDP report BES was again awarded an A- performance band. The scale, comprising six performance bands (from E-, the lowest, to A-, the highest) assesses the effectiveness of organisations in taking action to mitigate greenhouse gases emissions.

As

54

regards the measures taken to minimise fuel consumption resulting from employee travels, the Bank has formally established a travel policy which strongly emphasises videoconferencing and promotes travelling by train rather than by plane or car. As a result of these measures, in 2013 BES reduced fuel consumption by ca. 17%.

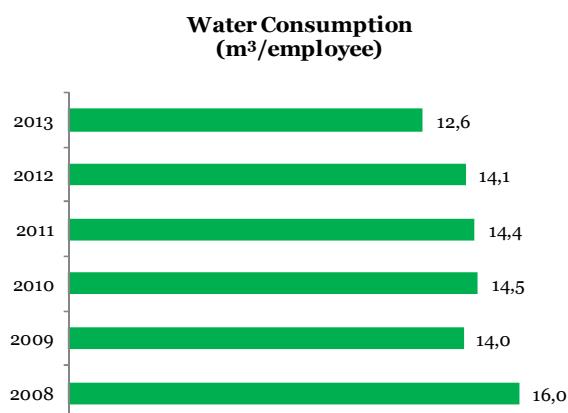
The carpooling initiative planned for 2013 will only be implemented in 2014. While permitting to reduce scope 3 emissions, carpooling also allows the employees to reduce their travelling costs and helps build a team spirit among the staff.

Another measure taken to reduce the use of fossil fuels in employee travels, and minimise the resulting emissions, was the attribution of travel cards to the employees to incite them to use public transports.

Water consumption

The Bank has been implementing various measures to reduce water consumption, namely replacing normal taps for taps fitted with timers and stressing the importance of reporting any malfunctioning. In addition, communication and awareness raising campaigns on a more responsible use of water have also been held, targeting not only the employees but also external entities involved in the Group's activity.

BES achieved a 21% reduction in water consumption between 2008 and 2013, therefore meeting the target it had set out to reach.



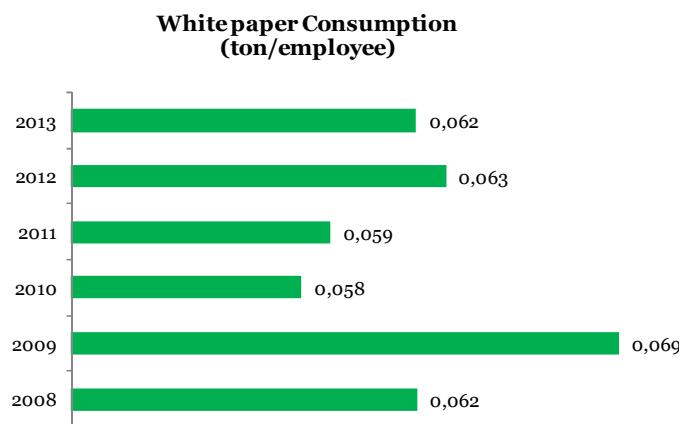
Note: Does not include consumptions from the Marquês de Pombal building, since these include consumptions from visitors that bias the analysis of consumption per employee that is relevant for assessing the achievement of targets.

Paper consumption

The rationalisation of paper consumption is a structural commitment assumed by BES Group at both internal and external level. This commitment essentially involves increased awareness and an effort to change habits among employees and clients.

From 2010 to 2013 BES launched several awareness raising campaigns about the consumption of the central departments, which are responsible for around 35% of the Group's total paper consumption, setting quantitative targets per department. The achievement of these targets was regularly monitored and measures through an internal ranking system, and the results were communicated to the departments. In addition, the use of electronic rather than printed means for communications is constantly stressed.

As regards the communication with the clients, several important measures have been taken, namely the digital account statement. In 2013 there were 123,204 new adhesions to digital account statements, 34 848 to digital credit card statements and 215,976 to digital saving deposit certificates. In 2013 BES issued a total of 8.8 documents in digital form.



The 2008-2013 reduction target for white paper consumption was not met, essentially for the following reasons:

- the actual rationalisation measures were only taken in the central departments, which account for 35% only of the total consumption;
- in the commercial network, pre-printed forms were massively replaced by locally printed electronic forms. Consumption of pre-printed forms thus decreased but the consumption of white paper increased;
- for reasons linked to the current economic context, the Bank opted for postponing the implementation of measures to control and monitor prints and photocopies in multifunctional devices, and therefore the initially foreseen reduction inducing-effect in paper consumption did not materialise.

The Other BES

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

In 2009 BES joined the London Benchmarking Group, an international network of businesses that use a structured model, the LBG model, to measure the short- and medium-term impacts and consequences of companies' investments in the community.

Using this model, BES can manage, report and assess its contributions to investment projects in the community, as well as the ensuing results and consequences, and thus better target its contributions.

In 2013 BES Group invested around EUR 4.2 million (including management costs) in the five strategic dimensions of involvement and investment in the community, namely Science and Innovation, Financial Literacy & Education, Biodiversity & Climate Change, Culture and Social Support. The Group allocated approximately 18% of its contributions to solidarity, 79% to direct investment in the community and 3% to commercial actions.

Under the patronage scheme alone, the Group provided EUR 4 million in financial support, namely to projects with a strategic importance for its sustainability policy in each strategic dimension of involvement and investment in the community.

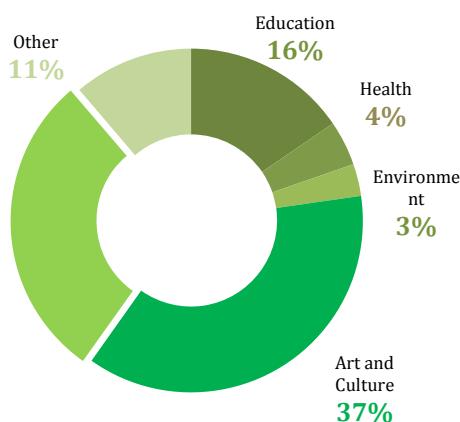
Science and Innovation

- National Innovation Awards
- Spreading Innovation

Solidarity

- Social support
- BES, sponsor of Cáritas
- BES Voluntary Work Programme
- BES Crowdfunding
- 'Christmas Baskets' event
- Microdonate

Contributions breakdown



Financial Literacy & Education

- At the School Bench
- Mathematics Olympiads
- b-a-bes

Biodiversity and Climate Change

- Business & Biodiversity Declaration of Commitment
- BES sponsor of CIBIO
- Sustainable Future Programme
- Alterações Climáticas e o Setor Financeiro

Culture

- BES Photo;
- BES Revelação
- Reflex CAIS|BES
- BES Arte & Finança
- Support to museums and foundations

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

BES Photo – photography prize organised under a partnership with the Berardo Collection Museum (Lisbon) and the Tomie Othake Institute (São Paulo) for Portuguese and Brazilian artists and artists from the Portuguese-speaking African countries. BES Photo holds a collective exhibition in Lisbon which then travels to São Paulo.

In 2013 the BES Photo exhibition had 25,428 visitors.

BES Revelação - a joint initiative of Banco Espírito Santo and the Serralves Foundation with the objective encouraging art production and creation by young Portuguese artists (under 30).

In 9 editions BES Revelação has already launched and rewarded 24 new artists.

Reflex CAIS|BES - photography prize under a partnership with the Cais Association that aims to enhance the positive effects of the only initiative in Portugal that allies photography and art to socially relevant issues.

In 2013 more than 600 photos were sent to compete in the Reflex Prize.

BES Arte & Finança is a space where exhibitions, shows and concerts are held. The BESart photography collection is also hosted in this space.

In 2013 BES Arte & Finança held a total of 159 events and received approximately 30,500 visitors.

In 2013 BES continued to support the Ricardo Espírito Santo Silva Foundation, the Museu do Oriente and the Batalha de Aljubarrota Foundation.

Science and Innovation - to identify and encourage innovative solutions that foster the appearance of new businesses and new entrepreneurs

The **BES National Innovation Awards** are the clearer manifestation of the Bank's initiatives in support of business innovation and entrepreneurship. In nine editions a total of 1,470 projects were submitted and EUR 2.935 million in prizes were awarded.

In 2013, 134 projects were submitted in the following categories: 29 in industrial processes, 13 in the natural resources category, 38 in the health category and 54 in information technologies and services.

Divulging innovation – 'New World' daily programme about the innovations that helped change the world, broadcast under a partnership with the TSF radio station, and publication of a monthly supplement on innovation in the *Diário Económico* newspaper.

Financial Literacy & Education – to train, educate and communicate financial concepts with the aim of promoting the responsible acquisition of financial products and services

The objective of BES's Financial Literacy Programme is to contribute to form a new generation of consumers of financial products who are increasingly informed and have better analysis and decision-taking skills.

BES bases its actions in financial literacy on three pillars:

- Learning process - "**At the School Bench**" – 7 editions, 300 schools visited and more than 15,000 children involved; and "**Portuguese Mathematics Olympiads**" – participation of 55,000 students in 2013, from more than 1,600 schools;
- Personal finance – "**b-a-bes**" financial literacy site which registered more than 88,000 visits in 2013; and the "**family budget**" tool"
- Commercial offer (see chapter on Microsaving)

Biodiversity & Climate Change - To help protect biodiversity and react to climate change through financial activity and involvement with society

Banco Espírito Santo was the first Portuguese company to endorse the **Business & Biodiversity Declaration of Commitment**, placing its skills as a provider of financial services at the service of nature conservation. BES's strategy for biodiversity also involves supporting hands-on biodiversity projects, namely those undertaken by Herdade da Poupa, the Faia Brava Natural Reserve, the Paúl de Tornada Ecological Centre and the League for Nature Protection (as sponsor of the Iberian lynx).

BES supports **CIBIO**, Porto University's Research Centre for Biodiversity and Genetic Resources, having assumed the role of main patron of this institution.

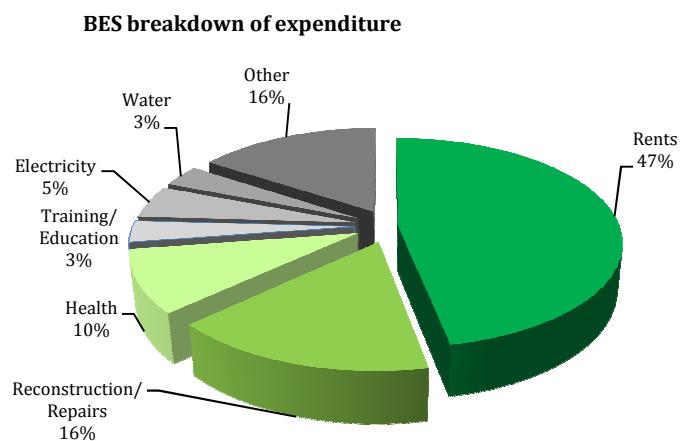
In 2013 BES and the Expresso newspaper launched the 7th edition of the Sustainable Future Programme, using the 'month of sustainability' to promote a debate on relevant themes such as agriculture (a round table on "Agriculture and Biodiversity" with the presence of the Portuguese Minister for Agriculture, the Sea, the Environment and Spatial Planning and her Spanish colleague), social inclusion, crowdfunding, biodiversity and climate change.

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

In 2013 BES continued to support the following social solidarity institutions and initiatives:

- 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;
- Salvador Association, which promotes the interests and rights of people with reduced mobility
- 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.

In 2012 BES signed a 3-year protocol with **Cáritas** under which it contributes to the Cáritas Social Solidarity Fund. From October 2012 to July 2013 the Bank contributed with EUR 241,500 to assist 559 families, which amounted to helping a total of 1,672 persons.



The **Christmas Baskets** initiative was also undertaken in association with Cáritas: 2,472 BES employees were involved in preparing the baskets (193), which were offered to as many families, totalling 1052 beneficiaries, including 442 children.

In 2013, 200 employees took part in the **BES Voluntary** Work Programme, which is developed in partnership with GRACE, dedicating more than 100 hours of their time to help over 1,200 people.

The 12 voluntary work initiatives developed in 2013 consisted in the following activities:

- Recovery of spaces;
- Visits to the Lisbon Zoo with beneficiaries of social solidarity institutions;
- Working in the homes of beneficiaries of Santa Casa da Misericórdia, a charity institution.

BES Crowdfunding is a collective financing movement through the Internet. The objective is to promote the involvement and contribution of the Portuguese people with small donations in solidarity projects, with the bank providing 10% of the total financing.

Up to December 2013, 48 projects had been included in the crowdfunding platform, which had received 69,000 visitors. 29 of these projects were financed with the contribution of 2,760 persons.

In 13 months the amount of financing obtained through crowdfunding reached EUR 92,000.

In 2013 BES also pursued its **Microdonate** initiative, a service available through BESnet that allows any BES client to round up payments and donate the difference to social solidarity institutions or projects.

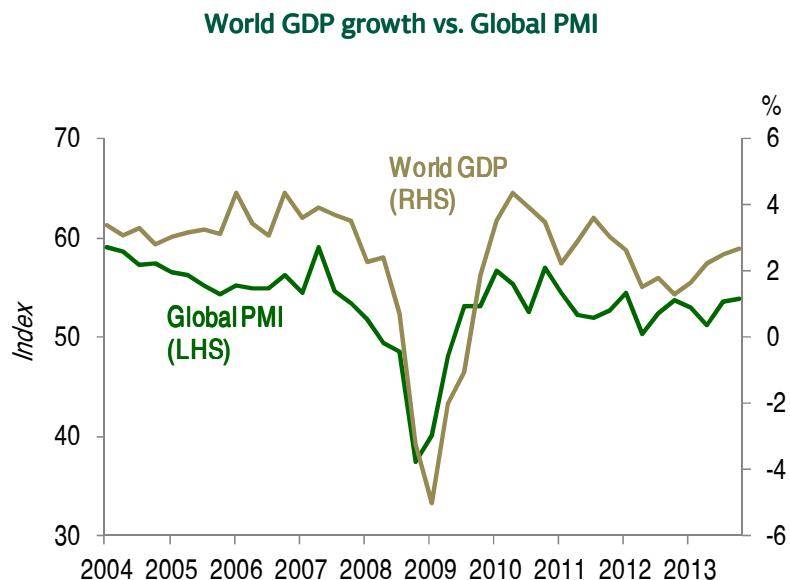
The Bank assumes the commitment to continue to invest in the community in 2014, in line with the strategy defined for investment in social responsibility.

3. ECONOMIC ENVIRONMENT

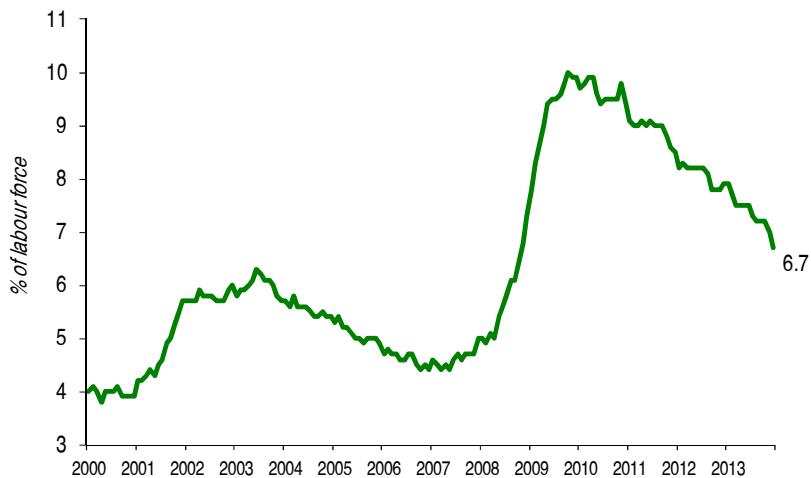
EXTERNAL FRAMEWORK

2013 marked by the recovery of economic growth, most noticeably in the United States

2013 was marked by a recovery of global economic activity that was most noticeable in the main advanced economies. The United States economy grew by 1.9%, slowing down from the previous year (2.8%), but picking up speed in the second half of the year (annualised quarterly rate of change of 2.4% in the 4th quarter). The weaker performance in the first six months of the year mainly translated the impact on domestic demand of a considerable tightening of fiscal policy. In the second half of the year, the improvement of household and corporate balance sheets, the rebound of the labour market, the rise of housing prices and the good performance of the equity market, all contributed to bolster private consumption and investment and therefore to an upsurge in economic activity. This rebound in turn permitted an improvement in the labour market, with the unemployment rate retreating from 8.1% to 6.7% of the labour force.

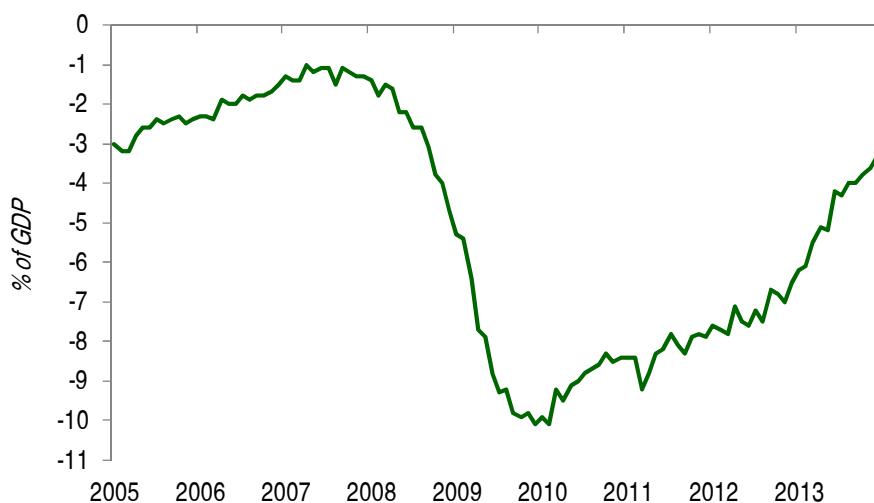


Unemployment rate, USA (% of labour force)



The US public deficit shrank from 9.3% to 6.5% of GDP, underpinned by restraint in public expenditures and the upturn of activity. With fiscal policy on a consolidation path, it was up to the monetary policy to maintain the economic stimulus instruments. Low inflation (close to 1.5%) and the absence of inflationary pressures warranted the Federal Reserve to pursue the quantitative easing programme established in 2012, with monthly asset purchases of USD 85 billion, and to keep the fed funds target rate within the interval of 0% - 0.25%. However, the improvement of economic activity allowed the Fed to signal a tapering of quantitative easing and its actual announcement in December 2013.

US Budget Balance (% of GDP)



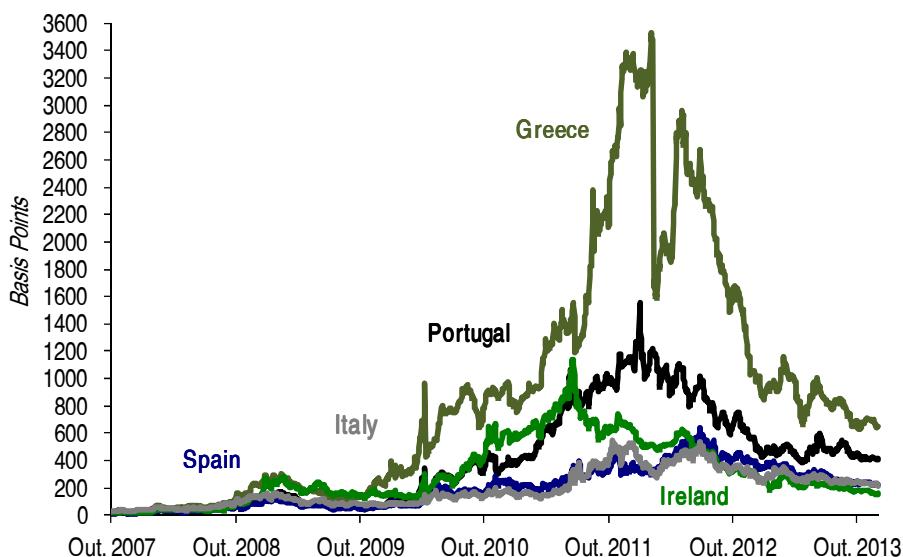
US Federal Reserve Assets (USD billion)



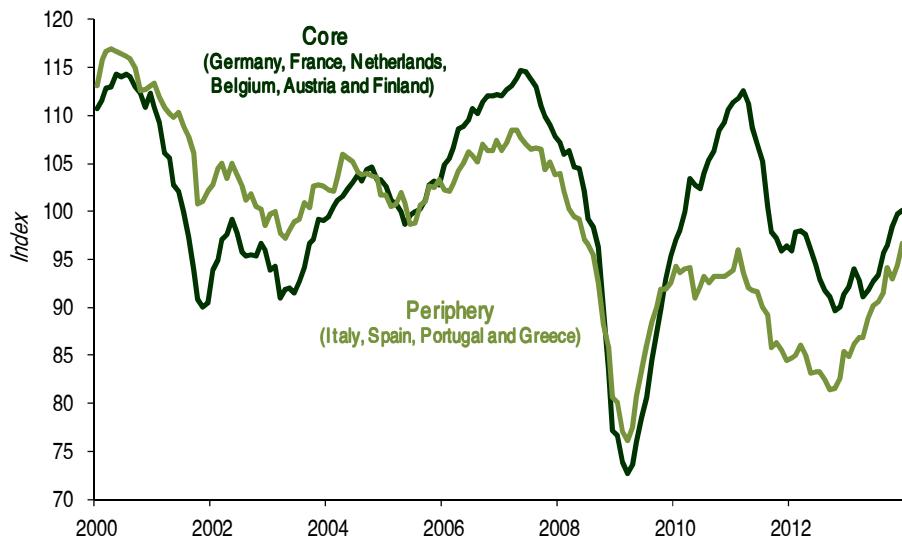
Improving sentiment in the eurozone, with activity resuming positive growth

The good performance of the advanced economies was also supported by a recovery of activity in Europe. In fact, despite the occurrence of certain adverse factors, namely political instability in Italy and the financial crisis in Cyprus, overall the year saw the stabilisation of financial and economic conditions in the eurozone. In the financial markets, this stabilisation stemmed from a sharp abatement of the systemic risks associated to the sovereign debt crisis as well as from a progressive improvement of the outlook for economic growth. In addition, the new steps taken towards the consolidation of the banking union, also contributed to shore up confidence levels.

Yield Spreads on 10-year Government Bonds vs. Germany (basis points)



Economic Sentiment Index, Eurozone

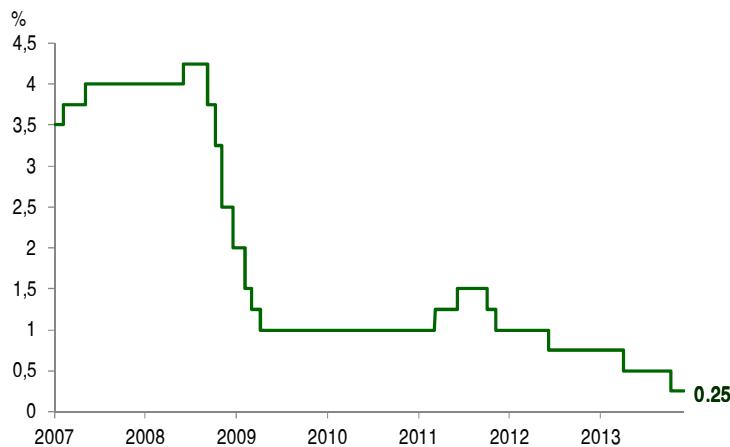


In overall annual terms, the eurozone GDP contracted by 0.4% in 2013. However, this was due to a sharp contraction in the first quarter, as the second quarter already saw positive growth and activity continued to pick up until the end of the year, with GDP growing by 0.5% in the fourth quarter. Unemployment remained high, rising in average terms from 11.4% to 12.1% of the labour force. In this context, annual inflation dropped from 2.5% in 2012 to 1.4% in 2013. In May the European Central Bank lowered the key benchmark rate by 25 basis points, from 0.75% to 0.5%, and in November, in light of an expressive deceleration of prices (the year-on-year inflation rate dropped to 0.7%), it made a new cut of 25 basis points that brought the rate to a low of 0.25%. In addition the ECB extended until (at least) mid-2015 the unlimited provision of liquidity through refinancing operations, and implemented an unprecedented monetary policy tool, 'forward guidance', signalling that key interest rates would stay low for a long period of time. Even so the 3-month Euribor rose by 6 bps in the fourth quarter and 10 bps in the year, to 0.287%, mainly reflecting the shrinking of liquidity through an increase in banks' reimbursements of LTROs. The EUR gained close to 4.5% to the USD, reaching EUR/USD 1.379.

EUR/USD exchange rate



Refi rate (%)

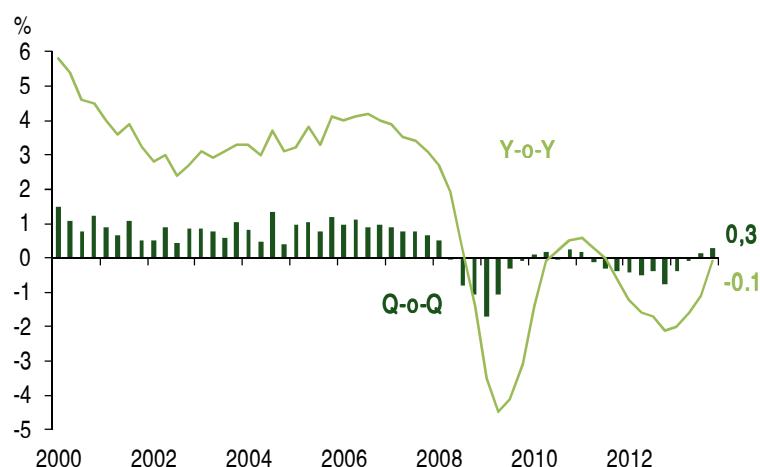


Positive signs in the eurozone extend to the periphery

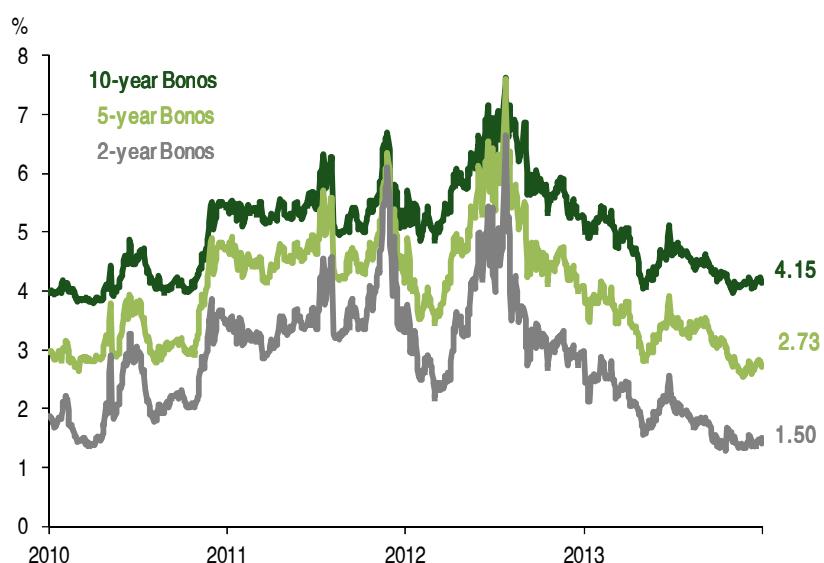
The recovery of economic activity in the eurozone extended to the peripheral economies, which also resumed positive growth in the second half of the year. Spain's GDP still shrank by 1.2% in the full year, being penalised by the restrictive nature of the fiscal policy, the continuing deleveraging trend in the private sector and the persistence of historically high unemployment (26% of the labour force at the end of the year). However economic activity showed signs of a gradual stabilisation, with GDP registering quarterly changes of 0.1% and 0.3% in the third and fourth quarters, driven, not only by the good performance of net external demand but increasingly by signs that domestic demand was picking up. The adjustment under way in the housing sector was pursued during 2013, and there was a visible trend for prices to flatline (dropping by ca. 5% in 2013, after slumping by 10.5% in 2012).

On the public accounts front, the fiscal consolidation measures in place enabled the Spanish budget deficit to drop from 10.8% to 6.8% of GDP in 2013, which, together with the deleveraging of the private sector and the good performance of exports, allowed the combined current and capital account balance to improve from a deficit of 1.2% to a surplus of ca. 1.2% of GDP. At financial level, the Spanish 10-year government bonds appreciated, with the respective yields retreating by 111 basis points, to 4.151%, and the spreads against the German Bunds shrinking from 395 to 222 basis points. This trend benefited from an improvement of sentiment about the eurozone periphery as well as from the conclusion of the financial assistance programme to the Spanish banking sector, initiated in December 2012.

GDP growth, Spain (QoQ and YoY rates, %)



Yields on 2-, 5- and 10-year Spanish public debt bonds (%)



Larger monetary stimuli and currency depreciation benefit growth in the United Kingdom and Poland.

In the **United Kingdom** the economy pursued the recovery path initiated in the previous year, with GDP rising by 1.9% in 2013. Private consumption was sustained by the decline in interest rates on new household loans and a faster than expected reduction of unemployment, to 7% of the labour force, and also by the deceleration of prices, with the year-on-year inflation rate reaching 1.9% at the end of the year. Total investment contracted by close to 2.5%, but this in part reflected the unfavourable base effect arising from the Olympic Games held in London in 2012. In fact, the housing market showed signs of picking up, underpinned by the 'Help to Buy' programme launched in April, with both prices and the construction of new homes increasing (+24%). Given the still frail economic situation in the eurozone, the United Kingdom's main trade partner, British exports' growth slowed down sharply, from 5.8% to around 1.2%.

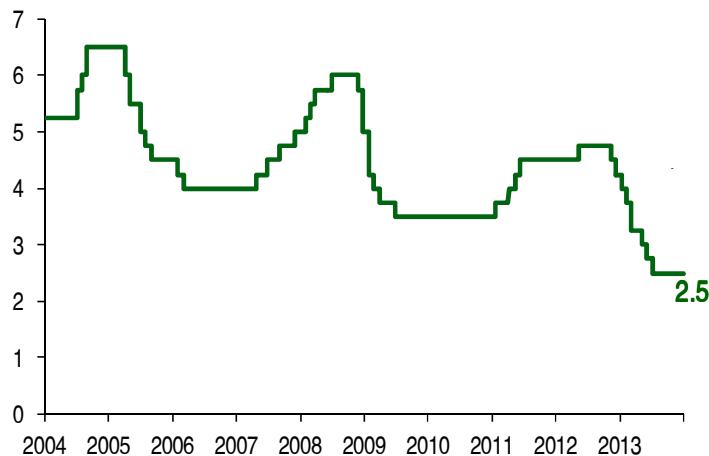
GDP growth, United Kingdom (QoQ and YoY rates, %)



At the monetary policy level, the Bank of England maintained an expansionary stance, keeping the key interest rate unchanged at 0.5% and maintaining a stock of GBP 375 billion in debt securities on the balance sheet, in line with its easing monetary policy. After declining up to May, the yields on the public debt securities subsequently trended upward during the second half of the year, leading the rate on the 10-year bonds to close the year at 3.022%. On the foreign exchange market, the pound was quite volatile, starting the year at EUR/GBP 0.81255, twice rising above EUR/GBP 0.87 and closing the year at EUR/GBP 0.83231, which represents an annual depreciation of 2.4%.

Poland, while not immune to the still relatively weak performance of the eurozone, remained an outlier in the European context, posting annual growth of 1.6% in 2013 (after growing by 2% in 2012), with activity rebounding as from the first quarter. Faced with a negative start of the year and a still frail domestic demand, in the first half of 2013 the Central Bank made five cuts in the benchmark interest rate, slashing it from 4% to 2.5%. The zloty retreated by 6.2% against the euro also in the first six months of the year, from EUR/PLN 4.085 to EUR/PLN 4.357. With activity bouncing back the Polish currency also recuperated in the second half of the year, closing 2013 at EUR/PLN 4.156, which corresponds to an annual depreciation of 1.7% against the euro.

National Bank of Poland's benchmark interest rate (%)



Equity markets shored up by combination of monetary stimuli and growth recovery

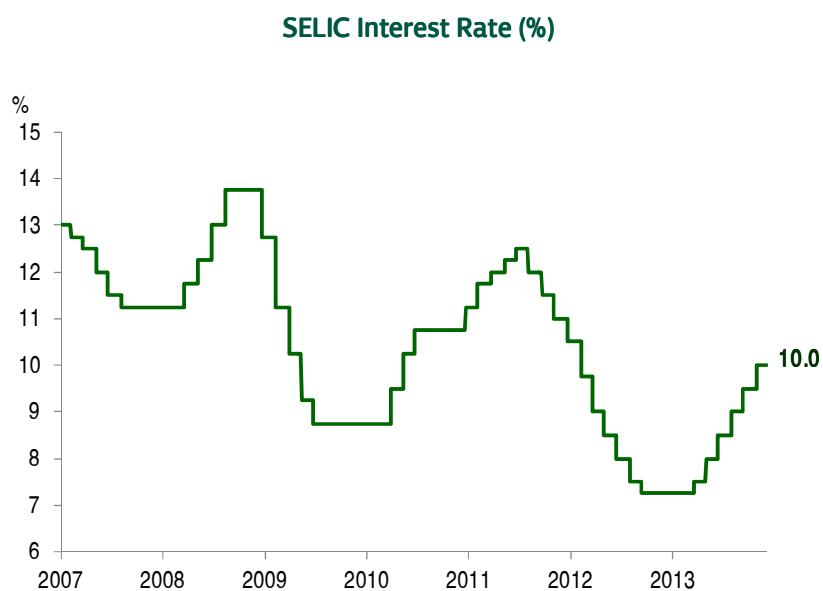
In the US and Europe, the rebound of growth and confidence in a context of expansionary monetary policies was particularly favourable for the **equity market**. In the US, the S&P500 and Nasdaq indices gained 29.6% and 38.3%, while in Europe the DAX, CAC and IBEX advanced by 25.5%, 18% and 21.4%, respectively. With activity picking up and the Federal Reserve signalling a reduction in quantitative easing, the yields on the 10-year **Treasuries** and **Bunds** rose in 2013 from 1.758% to 3.029%, and from 1.316% to 1.929%, respectively.

Yields on the US and Germany 10-year public debt bonds (%)



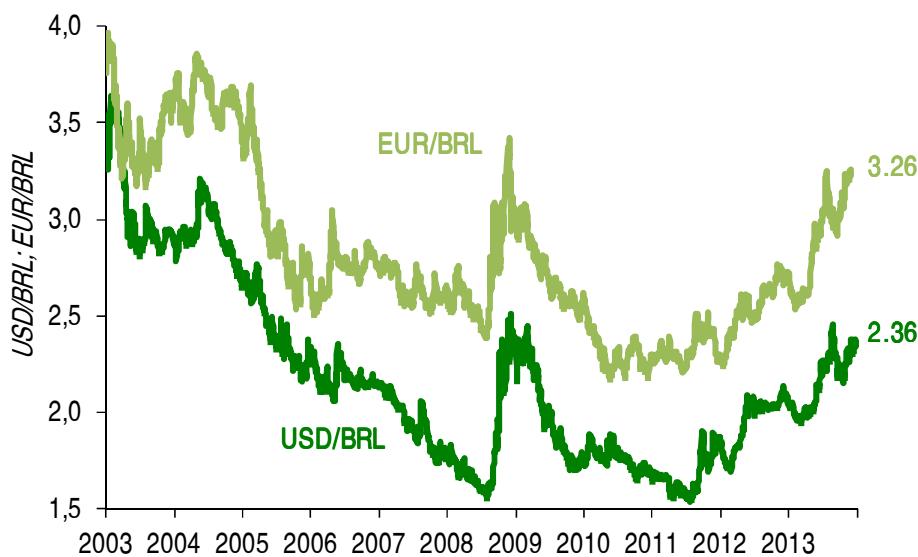
Emerging markets penalised by expected reduction of monetary stimuli in the US and fears of growth deceleration in China

Expectations of a hike in market interest rates in the US economy, of a rise in the dollar and of a squeeze on access to liquidity led to increased volatility in the financial markets as from May, which was particularly penalising for the **emerging markets**. In **Brazil**, the real lost around 13% against the USD and 17% against the Euro while the Bovespa index retreated by 15.5%. With a buoyant domestic demand and faced with inflationary pressures (an inflation rate of close to 6%), the Brazilian Central Bank lifted the SELIC interest rate from 7.25% to 10% in 2013 (and to 10.5% at the beginning of 2014). The Brazilian economy grew by 2.3% in 2013, but all the while growth expectations for 2014 steadily deteriorated (to close to 2%).



Brazil's economic performance in 2013 was marked by a deepening of the imbalances generated by the expansion of consumption to the detriment of an increase in production capacity. The gap between the growth pace of aggregate supply and demand kept the variation in prices above the established targets, notwithstanding a drop in electricity prices. The expansion of consumption and domestic demand was driven not only by the increase in wages associated to a low rate of unemployment (5.2% of the labour force) – which put upward pressure on services costs – but also by the persistence of an expansionary monetary policy (with the primary surplus dropping to 1.9% of GDP, below the 2.3% target). Faced with the inadequacies of domestic supply, Brazilian consumers increasingly resorted to external suppliers, causing the current account deficit to increase from 2.4% of GDP in 2012 to 3.7% in 2013, the worst on record in the last 12 years. Allied to concerns about the path of interest rates in the United States, this performance contributed to magnify the depreciation of the real and to heighten inflationary pressures.

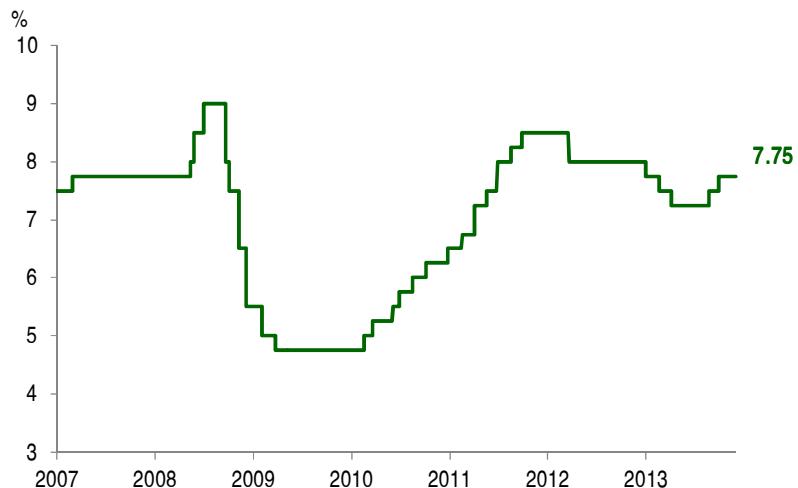
USD/BRL and EUR/BRL exchange rates



The emerging markets were further penalised by fears about a slowdown of economic activity in **China**, especially during the first half of the year. The Chinese authorities have been seeking to arrive at a more balanced, less credit-driven growth pattern, shifting economic activity from investment and exports into private consumption, and thus implicitly accepting potentially lower growth rates. However, the faster than expected deceleration of GDP in the second quarter (from 7.7% to 7.5% in YoY terms), associated in June to fears of a credit crunch, forced the Chinese government to announce a package of selective stimuli to economic activity. The second half of the year thus saw a reversal in the prior slowdown, with GDP rising by 7.8% and 7.7% in the third and fourth quarters, respectively. In full 2013 the Chinese economy expanded by 7.7%, repeating its growth rate in the previous year.

In **India** GDP grew by 4.5% in 2013 (+3.2% in 2013), having benefited not only from a favourable monsoon season but also from the growth of public consumption. Inflation remained quite high (close to 11%, in YoY terms, at the end of the year), mainly reflecting a sharp increase in food prices and the impact of rising fuel prices in a context of a depreciating rupee. In average annual terms the rupee's exchange rate against the US dollar rose from USD/INR 53.45 to USD/INR 58.69, though hitting a peak of USD/INR 68 at the end of August that forced the Central Bank to adopt a set of restrictive measures of monetary and foreign exchange policy. After successively cutting the benchmark interest rate from 8% down to 7.25% in May, the Central Bank lifted this rate to 7.75% in October (and to 8% early in 2014).

Central Bank of India's benchmark interest rate (%)



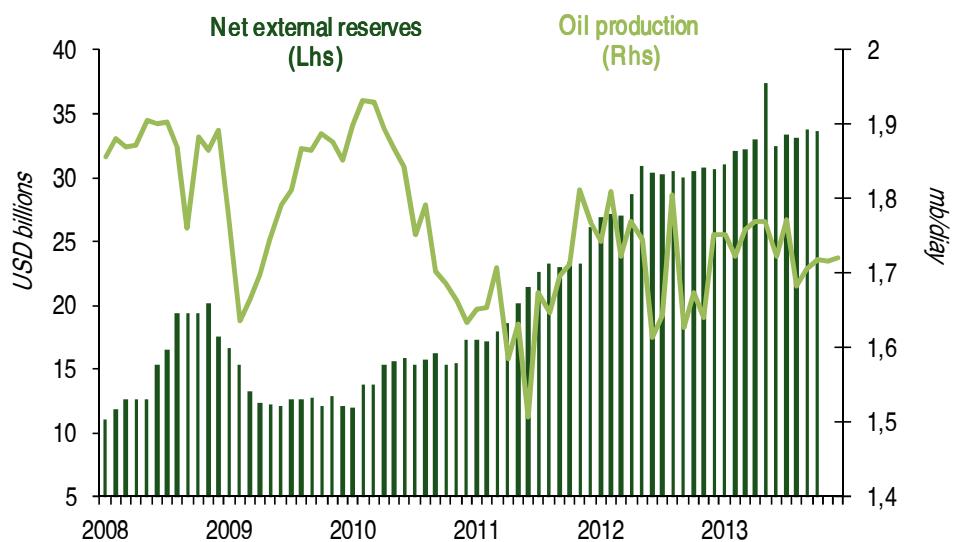
USD/INR exchange rate



Slight acceleration of growth in Angola in a climate of financial stability

Angola's GDP grew by 5.6% in 2013, up from 5.2% in 2012, having benefited from a slight increase in oil production and even more so by the acceleration of growth in the non-oil sectors, chiefly those linked to agriculture, diamonds and the manufacturing industry. With an output of 1.73 mb/day, Angola remained the second largest oil producer in Sub-Saharan Africa, after Nigeria. However, due to the decrease in the price of oil exports (from ca. USD 111/barrel to USD 100/barrel), Angola's external reserves only registered moderate growth, reaching just over USD 33 billion. The kwanza was stable during the year, trading within an interval of USD/AOA 95-97. Inflation registered a benign evolution, with the year-on-year rate of change of prices dropping from 9% to 7.7%. In this context the National Bank of Angola cut the base interest rate from 10.25% to 9.25% and the marginal lending facility interest rate from 11.5% to 10.25%.

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



Y-o-Y inflation rate, Angola (%)

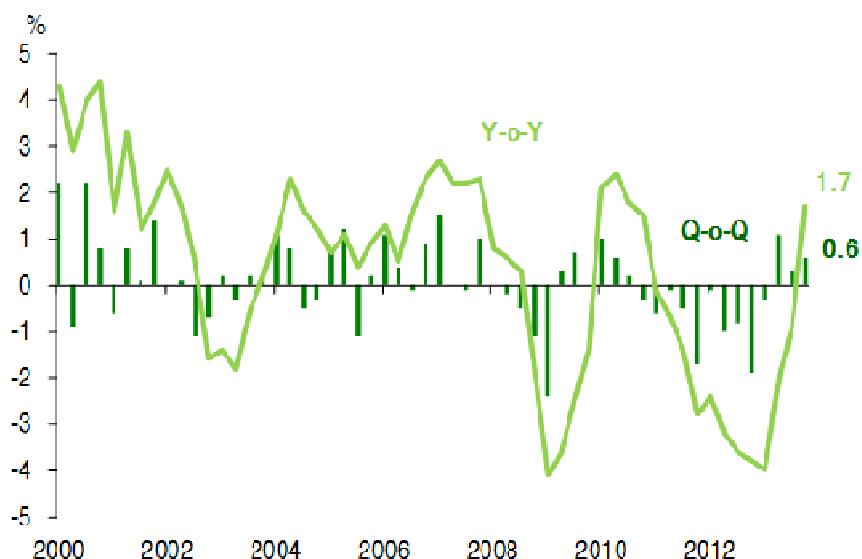


PORTRUGAL

GDP contracted less than initially expected (1.4%), picking up in the second half of the year.

In **Portugal**, the good performance of exports and the stabilising trend of domestic demand supported an upturn of economic activity as from the second quarter. GDP fell by 1.4% in the year, though registering positive quarterly changes as from the second quarter (1.1%, 0.3% and 0.6%) and resuming year-on-year growth in the fourth (1.7%, after 11 quarters of contraction). This intra-annual performance of economic activity coincided with a gradual improvement of household and business confidence levels, with the European Commission's economic sentiment indicator nearing its long-term average.

GDP growth, Portugal (QoQ and YoY rates, %)

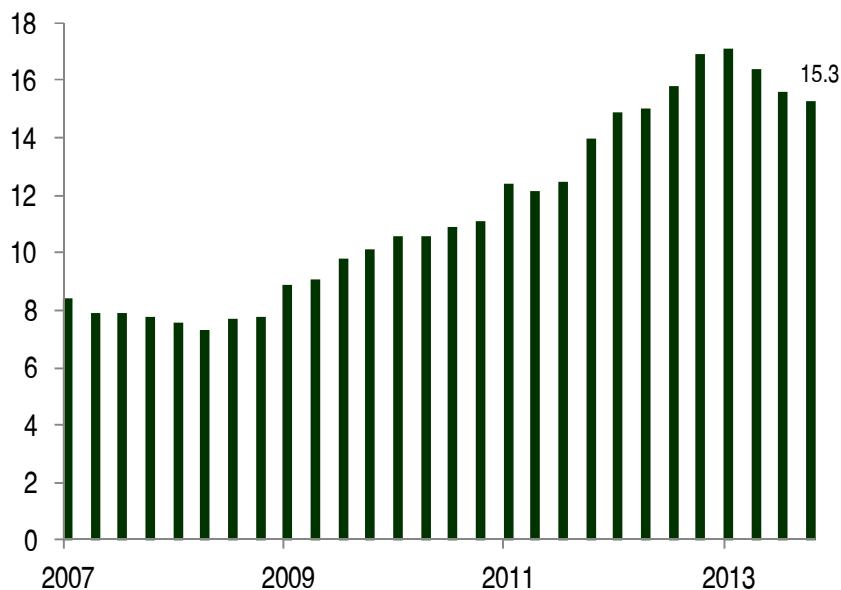


However, the Portuguese economy's growth remained constrained by the deleveraging process under way across the various sectors. In the full year private consumption and gross fixed capital formation registered real falls (-1.7% and -7.3%, respectively), even if significantly smaller than in 2012 and tending to recover in the latter part of the year. Alongside the referred evolution of private consumption, the increase in the households' saving rate, to close to 13.5% of their disposable income, supported an increase in their net lending capacity to around 7.5% of GDP. Businesses, in turn, once again reduced their net borrowing needs, to less than 2% of GDP, likely as a result of a new contraction in capital expenditure.

In this context, the economy lost approximately 120 thousand jobs in the year, thus keeping the rate of unemployment at a high level (16.3% of the labour force, in average annual terms, up from 15.7% in 2012). Even so, the evolution of the labour market kept pace with the intra-annual profile of economic activity. From the first to the fourth quarter of 2013 the rate of unemployment retreated from 17.7% to 15.3% of the labour force, supported by the creation of nearly 130

thousand jobs in the last three quarters of the year and also by a contraction of the labour force (in part due to a high emigration flow).

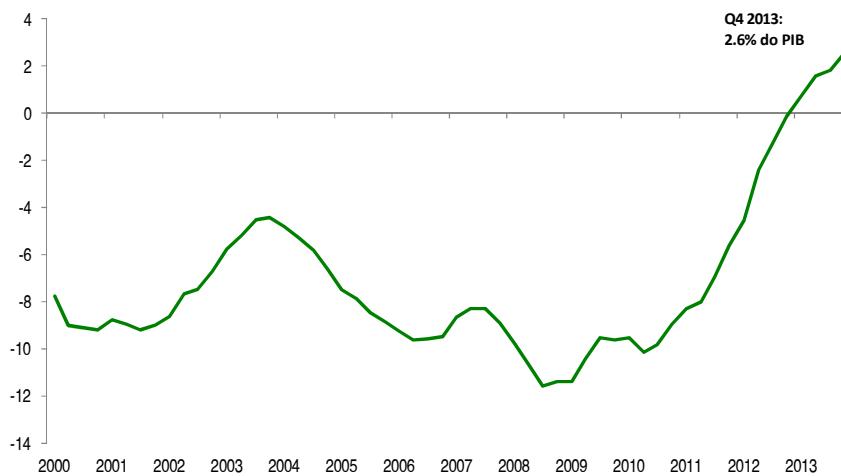
Unemployment rate (% of the labour force)



Financial stabilisation and return to the long-term sovereign debt market.

Exports registered real growth of 6.1% in 2013, underpinned by positive contributions from goods and services, namely featuring an increase in fuels' production and exporting capacity and strong external demand for the tourism industry. The performance of exports, allied to the increase in domestic savings, allowed the combined current and capital account balance to attain a surplus of 2.6% of GDP. The recovery of economic activity and the fiscal consolidation measures implemented contributed to lower the general government deficit (adjusted for the Troika criteria) to around 4.5% of GDP, which is below the target of 5.5%. Portugal returned to the capital markets in December with a debt exchange operation (EUR 6.6 billion), immediately followed in early 2014 by 5- and 10-year syndicated bond issues for an overall total of EUR 6.25 billion. After hitting a high of 7.5% in July, the yield on the 10-year treasury bonds closed the year at 6.13%, continuing to subside in the first months of 2014, to close to 5%. The PSI-20 index climbed by ca. 16% in 2013.

Combined current and capital account balance (% of 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.

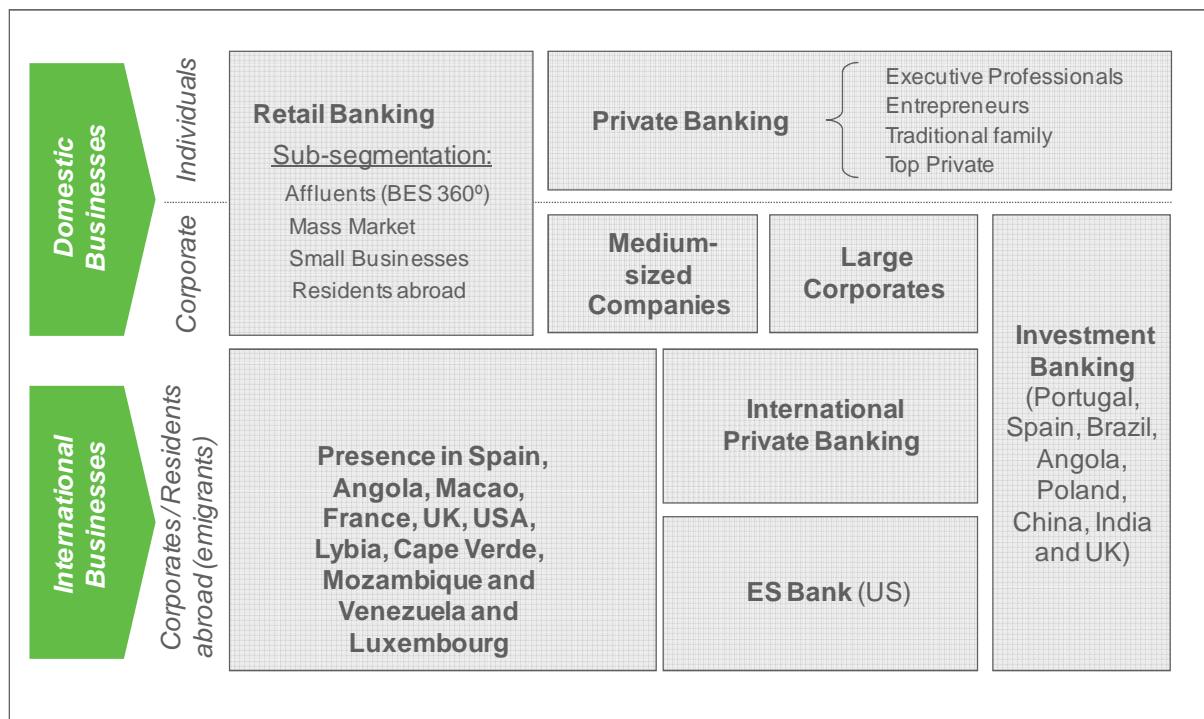
When monitoring the performance of each business area, the Group considers the following operating segments:

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

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

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

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



4.1. Domestic Commercial Banking

4.1.1. Retail Banking

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

Over the last few years BES has developed innovative value proposals for Retail, specifically for the segments of affluent clients (“BES 360º”), small businesses and independent professionals (“Small Businesses”), individual retail clients (“Mass Market”), and Foreign Residents (“Emigrants”). To serve these clients, the Bank has a network currently comprising 642 branches (representing a net reduction of 24 branches during the year).

Assurfinance

Resulting from a strategic partnership with Companhia de Seguros Tranquillidade, the Assurfinance programme offers exclusive advantages to Tranquillidade 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 Tranquillidade agents, in 2013 the Assurfinance programme contributed with more than 17,000 new clients, thus proving one of the main initiatives of the Retail area. This partnership operates from 44 on-site branches where exclusive Tranquillidade 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 new 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;
- A broad-based and competitive offer of products and services including a wide range of financial investment options as well as 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 (89% 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.

At the end of 2013 **Banco BEST** reached EUR 2.3 billion in customer assets under custody, and posted net earnings of EUR 10.2 million, a year-on-year increase of 21%. This year Banco Best has been awarded three prizes that confirm its success as innovation leader in the offer of financial products and services in Portugal: (i) "Best Site/Mobile App" for eCommerce in the "Navegantes XXI 2013" awards by ACEPI (the Portuguese Electronic Commerce and Interactive Advertising Association), which distinguish the best eCommerce and digital marketing projects. Considered one of the most comprehensive in the Portuguese market, Banco Best's mobile banking service offers not only all current banking operations but also an all-inclusive stock market mobile service, allowing online monitoring of the main global stock exchanges and trading on more than 1,200 securities; (ii) "Best B2B site" (ACEPI), also part of ACEPI's "Navegantes XXI 2013" awards – the 'B2B' and 'White Label' solutions were the winners in the "best B2B eCommerce site" category. Through these services Banco BEST acts as a global provider of wealth management services, being the only exporter in Portugal of banking services and technology; and (iii) "Best Technological Projects in Portugal" (CIO Awards 2013) – the 'Best Guru' search engine was considered the best technological project developed in Portugal in the 2013 edition of the CIO awards promoted by IDC, the world leader in market intelligence. 'Best Guru' is an innovating investment search engine providing easy, fast and direct access to Banco Best's vast asset management and trading portfolio which comprises more than 2,000 investment funds from 40 fund managers, ca. 1,800 certificates, more than 1,000 equities traded in the main international markets as well as bonds and ETFs from all over the world.

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

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 2013 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 more than 18,000, further lifting BES's market share in this product.
- The 'BES Express Bill' solution, an innovative system for payments and receipts permitting to issue electronic forward payment orders guaranteed by BES. More than 2,000 clients are already active users of this system, which during the year they used to make supplier payments amounting to EUR 61 million. In addition, 2,600 clients benefited from payment orders guaranteed by BES totalling EUR 134 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 3,260 million.

The support provided to the partners in client firms by specialist account managers, at personal and professional level, is 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 the Bank'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, 3,800 new partners in client firms became BES clients in 2013.

Mass Market

In 2013 the Bank further reinforced its offer of savings products and other everyday protection and safety products. The Bank thus continued to focus on innovative saving solutions adjusted to the prevailing economic context, 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 411,000 in 2013. Moreover, the launch of everyday management products, supported by strong communication initiatives, contributed to a 5% increase in the number of clients having salary accounts with BES.

In the current climate of uncertainty, the Group's insurance offer continued to focus on the essential protection of families from events liable of jeopardising their financial stability. Growth was particularly significant in several areas of insurance production, namely health insurance, where the launch of the 'Essential' formula drove a nearly two-fold year-on-year increase in sales of new policies.

The **Direct Channels** continued to play a key role in the relationship with the clients, providing the following: (i) access to the entire range of services, account enquiries and transactions which can be done remotely; (ii) sale of a range of products, namely saving and insurance products, which can be acquired directly through the internet, with the support of a phone operator, or by scheduling a meeting with the branch or account manager; (iii) integration and centralised management of the CRM platforms (branch, BESnet and BESdirecto), where the success of the customised offers provided at the time the client interacts with the remote channel confirms their adjustment to the clients' needs; (iv) new solutions adjusted to the clients' mobility needs affording safe, convenient and permanent access in any circumstance.

The internet banking service for individual clients – BESnet – achieved a 7% year-on-year increase (to 377 thousand) in the number of frequent users, being at the lead of internet banking penetration in Portugal, with a share of 44% of the customer base (according to the latest Marktest data), while the number of logins reached 40 million (+12% YoY).

According to Marktest's latest data on user satisfaction with internet banking systems, BESnet achieved the highest level of compared satisfaction, remaining the undisputed leader in the annual averages for all the eight assessment

criteria (security, design, available services, ease of use, availability, page loading speed, transaction execution speed, and global satisfaction with the service).

The BESmobile service maintained strong growth, with the number of frequent users reaching 62 thousand at the end of the fourth quarter of 2013. Marktest data have also confirmed BES's leadership in the use of this channel (7.1% usage rate vs. an average of 5.1% for the remaining financial institutions).

BEStablet, a new application specifically designed for Apple iPad and Android tablets, was launched in October 2013 and is available for individual and corporate clients. The new app offers innovative solutions that sharply stand out from the comparable offer not only in the domestic market but also at international level. One of its main differentiating features is the extremely user-friendly and effective manner in which it permits the creation of new operations. BEStablet already offers a wide range of transactions, meeting more than 90% of the client's everyday mobile needs.

BEStablet is proving highly successful, both in terms of number of client users (which already number more than 10 thousand) and in terms of client assessments in app stores (average score of 4.7 out of 5, which is extremely high for any app and even more so for banking apps).

Customer satisfaction with the BESdirecto service is also high, with 80% of the clients responding they are 'very happy' with the service. A new ongoing assessment method permits to monitor quality as perceived by the client. The quality level achieved once again earned BES a prize from the APCC, the Portuguese Association of Contact Centres.

Portugal's economic and financial situation and the measures taken by the Government impacted the economy of the Azores Autonomous Region and in turn harmed the activity of **Banco Espírito Santo dos Açores** in 2013. Loan granting decelerated (however the Bank was relatively successful in the monitoring and recovery of various problem loans), while at the same time on-balance-sheet customer funds decreased as a result of a transfer of funds to off-balance sheet products. Banco Espírito Santo dos Açores maintained its strategy for the acquisition of new clients (3,628 new clients in 2013) and the increase of its market share, backed by the signature of new protocols with regional companies, associations and other institutions, and in particular by the assurfinance partnership project with Companhia de Seguros Tranquilidade and the external promoters. In 2013 the Bank shifted its strategy in order to increase focus on and engagement with the agricultural sector, one of the most important in the economy of the Azores. Commercial and socially-oriented actions were also reinforced during the year in order to further enhance BES Açores's 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 2013 customer deposits decreased by 8% while customer loans contracted by 6%. Total customer funds, including off-balance sheet funds, increased by 7% year-on-year, to EUR 497 million. Total assets amounted to EUR 445.5million at the end of 2013 (-13% YoY). The Bank posted a net loss for the year of EUR 1,025 thousand which mainly translates a EUR 1.5 million reduction in net interest income and a EUR 2.6 million increase in credit provisions, notwithstanding the existence of a reasonable level of real guarantees.

Emigrants: an increasingly close relationship

BES has a wide offer of products and services for its clients residing abroad. In addition it has created an innovative service that ensures a long-distance relationship with a BES account manager who attends to the financial needs of clients anywhere in the world, from the day-to-day management of their accounts to financial placements or other requirements. This new service complements the Group's network of commercial units in the main destinations of Portuguese emigration, namely France, Switzerland, Luxembourg and Canada.

To meet the day-to-day management needs of its clients abroad, BES has created the 'BES 100% Gold RE' account, which offers numerous advantages, including, among others, monthly direct payments, credit and debit cards with no fee, and a protection and insurance package, all free-of-charge for clients with savings above EUR 35,000. In 2013 the number of BES emigrant clients with 'BES 100% Gold RE' accounts registered an increase of 40% relative to the previous year.

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

In the current context of economic recession and high unemployment, in which the capacity to save is crucial but household incomes have diminished, BES continued to offer its clients several saving solutions that show it is possible build savings in small amounts.

The Planned Saving, Micro Saving and Impulse Saving solutions continued to be strongly promoted by the commercial network, allowing the Bank to help its clients set up savings amounting to ca. EUR 291 million, a 41% increase on 2012 and representing approximately 2% of the total under term deposits and saving accounts held by all the Bank's individual clients.

BES Saving Products

Performance in 2013

Planned Saving	The client agrees to a plan of monthly deposits, establishing the amount (minimum of 10 Euros) and the time of the month to save, which permits to adjust the saving to the client's family budget.	more than 369,000 clients EUR 251 million in savings
Micro saving	This solution allows the client to start saving by small amounts: regular expenses charged to the account, such as mortgage or consumer loan instalments, insurance premiums or direct debits, are rounded up and the amount of the rounding is deposited in a saving account.	ca. 45,000 clients EUR 2.4 million in savings
Impulse saving	Clients who have the "Poupe" (save) application for smartphones can bolster their saving with small amounts each time (between 5 and 50 Euros). All they have to do is open the app and click.	4,200 clients EUR 37.8 million in savings
Micro-donate	Using the same concept as Micro Saving, in this service the Client decides to round up all or some of his debits, transferring the value of the rounding to a savings account of an institution of his choice. In addition, for each client who subscribes to the Micro-donate service, BES donates 10 euros to a social solidarity institution chosen by the client.	18 social solidarity institutions received donations

In addition BES also makes available to all its clients the 'Family Budget" service. This is a free service which automatically organizes and groups together all the revenue and expenses of a client's account allowing him to have a real picture of his budget and above all to monitor the evolution of the revenue and expenses, identifying expenditure that could be reduced in order to create more headroom in the budget and so facilitate the creation of savings.

Microcredit

Over the last years BES has offered microcredit solutions designed to foster the creation of jobs and entrepreneurship through the promotion of new projects. In the current economic context these projects are often developed by unemployed people who decide to start their own business.

This offer is managed by BES's Microcredit Office, which identifies potential entrepreneurs and either helps them with business plans for their projects or refers them to other entrepreneurship support lines. The funds are provided under BES's own facilities - 'BES Microcrédito' -, or under partnerships with other entities, namely the National Association for the Right to Credit ("ANDC") and the Employment and Vocational Training Institute ("IEFP"), the latter through Microinvest and Invest+ credit lines.

Credit granted in 2013 totalled EUR 2.58 million, corresponding to 172 operations with new entrepreneurs that permitted to create 274 new jobs.

In total, more than 800 projects have already been financed, corresponding to credit in the amount of EUR 14.1 million, and leading to the creation of 1,430 jobs. Of these 27% were developed through BES's own solutions.

In 2013 BES entered 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 first financing transaction carried out by the EIF in Portugal. Its main purpose is to foster an increase in microcredit and to provide credit to those who otherwise do not have access to it in the traditional ways. The EIF credit line represented another step forward in BES Group's sustainability strategy, permitting to finance 45 microcredit projects for a total amount of EUR 302,675 and generating 50 jobs in 2013.

Within the scope of its microcredit offer, the Bank sponsored initiatives aimed at stimulating entrepreneurship, namely the Competition "BES makes your dream come true", held under a partnership with the Acredita Portugal Association. Through Moza Banco, BES also established a partnership with the School of Economics of Universidade Nova de Lisboa and the Mozambican Institute for Promotion of Small and Medium Enterprises ("IPEME") with the aim of contributing to the growth and valorisation of Mozambique's micro companies.

Working in close cooperation with the IPEME, research fellows from Universidade Nova and Universidade Eduardo Mondlane identify Mozambican micro companies with the potential to grow but whose expansion is limited by lack of money to invest and/or the inability to submit a business plan proving their project is viable.

More information on these projects may be found at www.bes.pt/sustentabilidade.

New Residents

The Bank has developed a specialised offer of financial products and services adapted to the needs and integration cycles of the immigrant communities and designed to facilitate their interaction.

The Bank thus maintains the FamilyLinks card, with which family members of foreign residents in Portugal may access their bank account and withdraw cash from any ATM in the world.

BESXpress, a safe remittances service with no intermediaries, was available for Brazil, Cape Verde, Ukraine and Moldova, under partnerships with several international banks. The Bank also reinforced its money transfer service through a new partnership established with MoneyGram which will further enhance the ease of doing transactions for the families of the new residents in Portugal and in the world.

Universities

In 2013 BES maintained partnerships with several higher education institutions, concentrating on the areas where its capabilities and skills (such as Health, Innovation, and Sustainability) permitted to generate more value. The bank has an independent specialised central structure that coordinates these partnerships with the higher education establishments and the approach to their students, thus ensuring a very close relationship.

To ensure a strong presence within the higher education establishments and their public – students, lecturers, employees and researchers -, the Group develops numerous initiatives, namely:

- Internships for university students – curricular internships, which seek to acquaint the students to working life, and the BESup summer internships, which give them a meaningful experience during their life as higher education students.

The BESup summer internships, which have already had eight editions with a total of 1,300 participants, take place in several entities within and outside the BES Group universe, being held in areas such as medicine, nursing, engineering, economics, management, law and communication. They involve a considerable investment in so far as the students are awarded grants. The trainees' level of satisfaction has averaged 98%, a result that confirms the usefulness of these internships in preparing the students for working life.

The 'Induction to Working Life' traineeships generally take place in the Bank's branch network, providing a hands-on training experience; about 60 such traineeships are organised each year.

- Donations and sponsorships that, among others, allow the higher education institutions to create new professorships, acquire new lab equipment, install management systems on their campuses and hold seminars.
- Participation in a number of social initiatives promoted by higher education institutions, including support funds for students struggling to pay for their studies.
- Within the scope of the existing partnerships with higher education institutions, in 2013 BES awarded 55 grants and merit prizes to students who distinguished themselves for excellent achievement.
- BES National Innovation Awards: this initiative, which since it was first launched has already awarded EUR 2.9 million in prizes, relies on the strong involvement of the higher education institutions, both by submitting projects and by assessing those submitted.

In 2013 BES Group reinforced its cooperation ties with the Nova School of Business & Economics (Nova SBE). This partnership results in numerous advantages for the students, namely prizes, scholarships, internships and support to their activities. There are plans for other forms of cooperation, including the issuance of student, teacher and employee cards, cooperation in the various countries in which the Group is present, the development of joint surveys, seminars and conferences, and support to business projects originating in Nova SBE.

Senior Citizens

Banco Espírito Santo offers a range of financial services adapted to the needs of the senior citizens, easing their integration in the financial system.

Pensioners who domicile their pensions above EUR 250 with BES are exempt from fees on the 'BES 100% 55+' account, a current account adapted to the needs of the senior population in Portugal, with the following associated advantages:

- Medical assistance at home – BES has doctors available round the clock to pay visits to its senior clients, who only pay a very reasonable price for the consultation;
- Technical assistance at home – BES provides qualified technicians (plumbers, electricians, locksmiths, carpenters, glaziers, etc), round the clock;
- Authorised overdraft up to 100% of the salary – BES allows its senior clients to benefit from authorised overdrafts in the amount of 100% of their salary at a 16% rate of interest;
- Protection Pack Service – in case of loss or theft of debit cards, BES allows cash advances abroad up to the credit limit established for the 'Salary Overdraft'.

In 2013 total customer funds of senior citizen clients reached EUR 992.9 million, which represents a year-on-year increase of EUR 33.5 million, or 3.5%. The loan book in this segment contracted by EUR 25.4 million, to EUR 297.1 million at the end of the year.

Environmental Products and Services

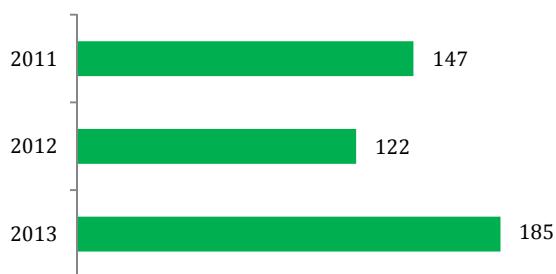
Recognising the important role played by the financial sector in promoting sustainable development, BES Group has a specific offer of innovative financial products and services designed to encourage environmental accountability among its clients.

18.31 Account

Specifically designed to have low environmental impact, the 18.31 account is carbon neutral and (e)mission neutral certified®). Through this account BES aims not only to reduce its environmental footprint but also to raise awareness among its clients.

The greenhouse gas emissions (GHG) associated to the account during its entire life cycle, from opening to closure, were measured in accordance to the PAS 2050:2008 method for assessing the lifecycle of GHG emissions associated to products and services. This analysis concluded that each new 18.31 account has an estimated impact of 1.6 kg CO₂eq/year, which is 20% less than a conventional account.

CO₂ tonnes neutralised



A total of 24,566 new 18.31 accounts were opened in 2013 (some are new contracts and others are conversions into 18.31). The number of non carbon neutral accounts is 115,318

In 2013 the carbon emissions were offset through the support provided to the Velotex project, a fuel replacement project in ceramic mills in the State of Rio de Janeiro, Brazil.

More information of this project may be found in the Bank's website (www.bes.pt/sustentabilidade).

BES/WWF Card

Following its adhesion to the Business&Biodiversity initiative, BES launched the first credit card cobranded with the World Wildlife Fund (WWF) under a pioneering initiative with no parallel in Portugal.

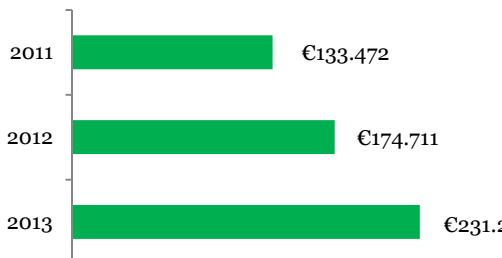
The funds raised through this card are used to finance the WWF's nature conservation and biodiversity preservation projects in Portugal, which, among others, aim to preserve the national forest, fight global warming and reduce the waste of water. The work developed by this organisation supports the conservation of the natural habitats of endangered species, such as the imperial eagle, the Iberian lynx and the *saramugo* (*Anaecypris hispanica*), an endemic fish in the Guadiana river.

Benefits associated to the BES/WWF card:

- 0.5% of the value of any purchase made with a BES/WWF card is donated to the WWF;
- The amount of the annual fee goes entirely to finance the WWF's biodiversity conservation projects in Portugal.

The volume of purchases on credit made with BES/WWF cards has been increasing over the last few years.

Volume of purchases on credit



33 new contracts in 2013, representing a volume of purchases on credit of EUR 231,300

4.1.2. Private Banking

Through 23 private banking centres in Portugal, ES Private Banking monitors high networth clients.

In 2013 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.

Private Banking offers customised solutions with a global reach, covering a wide range of areas, from direct investment in financial assets to investment banking services and financial advisory services. Access to the Group's expert teams in these areas permits a close and global monitoring of the clients' needs.

Total customer funds grew by 2.1% YoY, with on-balance-sheet customer funds (consisting entirely of deposits) increasing by 9.5%. The segment's pre-tax profit increased to EUR 122.7 million in 2013, + 23.3% YoY. This improvement translates the measures taken during the year to enhance the customer funds margin (which led to a 21.4% increase in banking income).

4.1.3. Corporate Banking and Institutional Clients

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

The Corporate Banking unit serves approximately 20,000 clients with a total financial involvement of more than EUR 28 billion in December 2013, through 25 Corporate Centres, a dedicated team of 110 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

Since 2009 the Portuguese exports grew by ca. 50% in accumulated terms. Banco Espírito Santo kept abreast of this process, suiting its range of products and services to meet the needs of companies in their internationalisation efforts. The International Premium Unit (IPU) offers to the Portuguese companies specialised support services to exports and/or direct investment in the international markets.

The IPU operates through teams of specialised fully dedicated bankers who ensure effective support from the initial identification of each company's exporting potential, to the prospection of adequate countries as destinations for its exports, the selection of the right partners, the execution of international trade operations and investment in the destination markets. The international business bankers are supported by a network of local cross-border bankers in the countries where BES is present and bankers from the financial institutions that are BES partners.

In 2013 the international bankers supported 770 companies in differing stages of the internationalisation process.

Continuous investment in innovative services and the dedication of its teams of specialists in the international markets allowed the Bank in 2013 to enter new partnerships and offer new products to its clients:

- ISKO, a factsheet with detailed information about each country and a useful summary of the relevant features for internationalisation decisions; and 'BES Fine Trade', an application that identifies potential export markets for globally tradable goods. These services are available online;
- export credit insurance provided under a partnership with Coface, a world leader in credit insurance; and export financing applying to the very initial stages where companies are still making the necessary acquisitions to manufacture the goods to be exported;
- trade missions to Indonesia, Timor, Algeria and Poland, which share a huge potential for the Portuguese companies (92 participants);
- opening of new markets by BES teams' missions to countries with the potential for the development of economic relations with Portugal, such as Ghana, the Ivory Coast, Senegal, Uruguay, Romania, Azerbaijan, Kazakhstan, Oman, Kuwait, Abu Dhabi, Mongolia and South Korea.

BES Group maintained its commitment to **Innovation and Entrepreneurship**, two critical mainstays of a business's development cycle that are vital for the national economy. For the last three years the Group's team of innovation specialists has worked hands-on in close coordination with Espírito Santo Ventures, Sociedade de Capital Risco.

Also in 2013, BES, with the support of the Portuguese Catholic University, organised the second edition of the Advanced Management Programme for Entrepreneurs and Innovators, which counted with 28 participants with a

highly specialised technologic profile. The programme allowed them to develop their business plans and present them to potential investors.

The exports and entrepreneurship support initiatives developed during the year created a positive dynamics of engagement with innovative export-oriented companies dealing in tradable goods, with a good risk profile (Winner SMEs). Client acquisitions of Winner SMES reached 169 during the year while credit to this important segment increased by 4.3%.

In December 2013 the BES National Innovation Awards (“CNIBES”) rewarded four innovative projects in four different activity sectors. Four of the Portuguese start-ups in which the Group recently invested earned CNIBES awards.

BES actively promotes the various PME Investe, PME Crescimento and Investe QREN credit lines, all of them important tools to support the national SMEs' investment and growth, under which it has approved to date EUR 3,160 million of loans. In the main lines currently in force – ‘PME Crescimento 2013’ and ‘Investe QREN’ -, BES holds expressive market shares of 18.3% and 41.8%, respectively, and is market leader in the specific line for exporting companies – ‘PME Crescimento 2013 Exportadoras’ – with a share of 37.4%.

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 and 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.

In addition to increasing the existing holdings in subsidiaries, five new investments were made in 2013, all of them in Portuguese companies:

- LaserLeap: developed a painless method to administer medicines and cosmetics through the skin;
- Codacy: developed a platform for the automated detection of software bugs;
- HeartGenetics: developed a series of genetic tests to screen for cardiovascular diseases;
- Ecofoot: created a new dying system for the textile industry that significantly reduces the environmental impact usually caused by the dyeing of natural fibres;
- Nutriventures: developed an innovative concept to promote healthy eating habits in children.

BES Agriculture Solutions

In line with its strategy of supporting the Portuguese business sector, and taking into account the impact of the agricultural sector on the Portuguese economy, the Bank actively promotes its BES Agriculture Solutions, namely through medium and long-term credit lines under partnership with leading suppliers of agricultural material. These credit lines offer very favourable conditions, namely the possibility of financing up to 100% of the investment made to replace farming equipment. BES also supports the cash management needs of agricultural firms, namely through its BES Express Bill innovative solution, which is perfectly adapted to help farmers buy the products they need for the agricultural season. More information on BES Agriculture Solutions may be found at www.bes.pt/empresas.

In May 2013 BES held the first international seminary on the theme of “Investment in the agricultural potential of the Alqueva”, under a partnership with Empresa de Desenvolvimento e Infraestruturas do Alqueva (EDIA). The purpose was to put international investors in contact with national landowners and investors and let them know about the potential of the region for farming. In 2014 the BES/EDIA partnership will continue to invest in spreading the potential of the Alqueva region and to seek to attract international investors.

Support Fund to Small and Micro Companies (FAME)

FAME is a tool created by BES to support local development through the financing of small and micro companies. On account of its innovative nature and impact on business in the municipalities where it was adopted, FAME was integrated by the IAPMEI (Institute to Support Small and Medium Sized Companies and Investment) in Axis III of the Finicia programme, which involves Mutual Guarantee Companies, city councils, the 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.

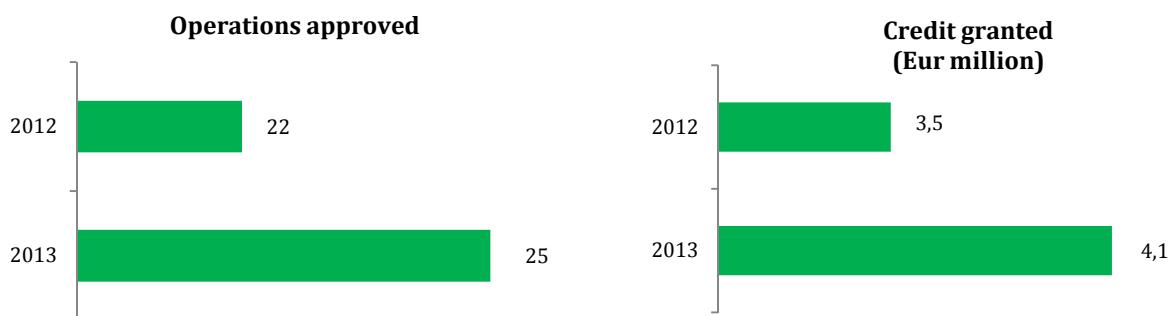
This product offers extremely competitive and innovative financial conditions, and credit of up EUR 45,000 per project. In 2013 BES continued to offer this facility, negotiating with the local partners the best financing conditions in the current economic context. All in all BES financed 12 micro companies and one SME for a total of approximately EUR 390,000.

BES Environment and Sustainable Energy Solutions

BES offers a specific credit line to finance investment in ecoefficiency and microgeneration of green energy, namely in the following areas:

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

- Energy efficiency solutions, consisting in the 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.



Environmental Liability Bank Guarantees

BES offers 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. In 2013 the Bank provided 16 such guarantees covering a total of EUR 56,250.

Municipalities and Institutional Clients

Institutional Clients (municipalities, municipal companies, universities, public hospitals, foundations, associations and third sector institutions) have the support of expert teams based in Porto, Lisbon, Évora, 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), with the União das Misericórdias Portuguesas (Social Solidarity Union), with UDIPSS (Union of the Private Institutions of Social Solidarity in the Lisbon District) and with the League of Portuguese Fire-fighters, offering them and their employees preferential commercial terms. In 2013 the financial involvement with social economy institutions totalled EUR 238.5 million, which is slightly less than in 2012.

The social economy organisations are broadly represented locally across the entire national territory. The Bank finances these organisations' needs concerning the development of social equipment projects, complementing its lending activity with an offer of financial products and services adapted to their specific characteristics. Its consistent investment in this segment, which has a relevant weight in the Portuguese economy, makes Banco Espírito Santo a reference partner for the sector.

For the third consecutive year, in 2013 the Bank continued to assist financially the Advanced Training Course on the Management of Private Social Solidarity Institutions ("IPSS"), taught at the Lisbon Catholic University to IPSS staff.

This initiative was created as a response to the need, which IPSS officials felt and communicated to BES, to receive practical and vocational training in management to help them improve the service provided by these organisations to society.

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

4.2. International Commercial Banking

BES Group's International Commercial Banking activity is developed in markets with cultural and economic affinities with Portugal, and its expansion essentially follows a South Atlantic Axis, being oriented 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

During 2013 Banco Espírito Santo Angola pursued the implementation of its new Strategic Plan which aims to redefine the business model along the following lines: (i) evolution towards a banking model focusing on the higher value segments of corporate clients (top corporate) and individual clients (top private), the plan is to broaden the offer so as to allow penetration into new corporate segments (oil companies and SMEs) and retail segments (affluent segment), viewing an increase in the number of active clients; (ii) expansion of the network, opening new branches and corporate centres over a 2-year period; (iii) commercial strategy overhaul: implementation of marketing and communication media focused on the offer and the creation of a new model of commercial dynamics; iv) development of a multichannel strategy permitting to extend the reach of client acquisition efforts and the provision of innovative services; and (v) development of support areas to back up the implementation of the new business plan, emphasising a human resources policy targeting local admissions and focused on staff training and development. This strategic repositioning entailed the following steps: creation of the Oil Companies Division, Top Corporates Division and Institutional Clients Division that will develop new value propositions for this business segment; opening of 30 branches and three corporate centres that expanded the Bank's presence into another seven provinces; definition of a new commercial targets and incentives system aligned to the new business model; and launch of a campaign to attract new clients and customer funds. Due to the expansion of the business areas it was necessary to reinforce or create new control and support central units, leading to an increase in the number of employees and a sharp rise in

the number of training hours. BESA continued to deserve international recognition, being considered by the Global Finance magazine as the 'Best Trade Finance Bank' and 'Best Foreign Exchange Provider' in Angola. At the end of 2013 BESA's assets totalled EUR 8,325 million, a year-on-year rise of 4% that was driven by a 9% increase in the credit portfolio, to EUR 5,887 million. Over the same period customer funds decreased by 6%. Banking income dropped by 26% year-on-year, to EUR 220 million, essentially through the reduction in fees and commissions (which in 2012 included non-recurrent fees for the structuring of operations in the energy market) and the recognition of EUR 48.8 million losses on non financial assets. Net interest income grew by 66%, to EUR 235 million, supported by the reduction in funding costs. Operating costs increased by 9% as a result of the implementation of the new business expansion plan. BESA posted net income for the year of EUR 40.3 million.

Spain

BES Spain Branch maintained a positive performance in 2013. Main highlights in the year: (i) the commercial network expansion programme for the year was fulfilled and will be pursued in 2014 through the opening of new units in attractive places where the Bank is not yet present; ii) customer deposits increased by 75.3% year-on-year while customer loans remained flat, reflecting the deployment of the branch's policy aimed at reinforcing its self-sufficiency in terms of funding; (iii) the volume of off-balance sheet exposures (guarantees) remained practically unchanged at ca. EUR 1,300 million; iv) the international corporate activity support volume stabilised at around EUR 920 million, while the number of active international clients reached 188, which represents a year-on-year increase of 12.5%; (v) the overall number of clients, mostly in retail and private banking (+59.1%), increased by 56.0% year-on-year, which is ca. 12,300 more than in December 2012; and (vi) continued implementation of the prudent credit risk management policy, involving a strong reinforcement of provisions in light of the evolution and direct and indirect effects of the economic situation. This permitted to maintain the rising trend of credit spreads, thus easing the pressure on the cost of liabilities due to intense deposit-taking competition within the Spanish banking system. Operating income totalled EUR 65.7 million, backed by the increase in commercial banking income (+3.1%) combined with the containment of costs.

United Kingdom

BES London Branch concentrates its activity in wholesale banking in the European market. During 2013 assets remained consistently above EUR 5 billion, underpinned by the EMTN programme, though reflecting a significant reduction in on-balance sheet customer funds (deposits dropped by 19% YoY). Customer loans also declined, falling by 4% year-on-year. Banking income totalled EUR 48.7 million. The structure of costs continued to be streamlined, leading to a 6% year-on-year reduction in costs. The branch posted net income for the year of EUR 23.1 million.

United States of America

Espírito Santo Bank (Miami/USA) reported expressive activity growth in 2013, with total assets reaching USD 795 million at the end of the year (+27% YoY) while both customer deposits and customer loans reached their highest

levels ever. The growth in deposits (+USD 142 million) supported a USD 92 million increase in customer loans. The Bank nevertheless maintained its safe and conservative standards in credit assessment despite the positive developments shown by South Florida's real estate market, particularly in the luxury construction segment. The Bank has focused its activity, on the one hand, on promoting the acquisition of second homes in South Florida by non-resident individuals – an attractive and low risk market segment -, and on the other on supporting exports to Latin America, guaranteed or insured by US Eximbank (Export-Import Bank of the United States) and other developed countries' Export Credit Agencies. Backed by the diversified range of products targeting the clients' financial needs which are offered by the private banking and wealth management areas, the recently created investment advice unit, and also the broker/dealer ES Financial Services, assets under management reached USD 1.5 billion in December 2013. In 2013 ES Bank was confirmed its "5-star" rating, Bauer Financial's highest classification, which was awarded for the first time in 2012 on the grounds of its asset quality and liquidity and solvency levels. Net income for the year was USD 2.2 million.

BES New York Branch concentrates its activity in wholesale banking, mainly in the US and Brazil. The persistence during 2013 of restrictions on access to market liquidity required from the Bank extreme prudence in business development, an effort for further deleveraging in line with the Group's international strategy guidelines (the loan book was reduced by 57% YoY), and focus on risk monitoring and management. The Branch posted net income for the year of EUR 3.0 million.

France

In 2013 Banque Espírito Santo et de la Vénétie (France) reported a 58.1% year-on-year reduction in pre-tax earnings, to EUR 6.2 million, despite a 26.9% increase in the gross operating income. This performance resulted from a 7.7% increase in operating costs due to reinforcement of support functions, the outsourcing of services, and the increase in the cost of risk, while also reflecting the inclusion of non-recurrent earnings in 2012. Net income for the year was EUR 3.8 million, which compares with EUR 9.6 million in 2012.

Libya

In Libya, now in a phase of political, social, and economic consolidation, Aman Bank has resumed the implementation of its commercial plans and the reinforcement of its operations so as to be able to seize the growth opportunities arising in the country. In 2013 the bank increased total assets by 10%, to EUR 869 million, posting a net profit for the year of EUR 4.6 million.

China

In 2013 Banco Espírito Santo do Oriente developed its activity in a context of strong GDP growth (+10%) in the Macau Special Administrative Region, driven by the performance of the gambling/leisure and tourism sectors and the increase in private consumption supported by low unemployment (1.9% of the labour force) and a general increase in wages. The year was marked by the growing importance of the bank's 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 is present. The Bank's documentary transactions business (e.g. L/C Advising/Forfaiting/Discount) remained strong, supported by the commercial and operational action undertaken in cooperation with BES's international area and by the tightening of relations with the main Chinese Banks, with which it has entered instrumental agreements viewing the development of this type of business. The growth and stability of customer funds achieved over the last few years thanks to the excellent relations maintained with the local authorities remain a key priority in the current context, and to this end the Bank continued to develop commercial activities targeting its various client segments. Assets dropped by 13% year-on-year, to EUR 390 million, while banking income increased by 4%, to EUR 7.2 million. The net income for the year was EUR 3.7 million, a year-on-year reduction of 7% that is essentially explained by the negative impact of EUR/MOP foreign exchange fluctuations as well as of the initial costs of implementing the strategic plan.

Cape Verde

BES Cape Verde (based on Cidade da Praia, with a second branch in Santa Maria, Sal Island) 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. Customer funds nearly trebled in 2013, reaching EUR 127 million, while total assets amounted to EUR 219 million at the end of the year.

Mozambique

In June 2013 BES increased its stake in Moza Banco (Mozambique) to 49%. During the year Moza Banco continued to deploy its commercial expansion plan, opening 3 new branches that increased the network to 23 units. Activity continued to grow at a strong pace: in local currency, assets increased by 72% year-on-year, to EUR 360 million, while deposits and customer loans grew by 76% and 65%, respectively.

Venezuela

Since its opening in January 2012 BES Venezuela Branch has been focusing its activity on the establishment of closer ties with the Portuguese resident community and the local large companies and institutions. In 2013 the branch's total assets increased by 54% year-on-year, to EUR 207 million, notwithstanding the currency devaluation occurred at the start of the year.

Luxembourg

BES Luxembourg Branch has been acting as a platform for business with the Portuguese emigrant community in the country as well as in neighbouring countries in central Europe, while offering BES Group's clients the possibility to do business in a safe financial market. In December 2013 the branch had total assets of EUR 907 million, reporting a net profit for the year of EUR 3.9 million.

4.3. Investment Banking

Investment banking activity is performed by Banco Espírito Santo de Investimento (BES Investimento which also operates internationally under the Espírito Santo Investment Bank brand). Its main aim is to provide services to the medium- and large- sized business customer segment as well as the institutional client segment, and in certain specific areas, individual clients in conjunction with private banking.

BES Investimento offers a range of specialised products and services including advisory services on M&A, access to debt and capital markets, brokerage services and portfolio management, structured finance including Project Finance and Acquisition Finance, and Private Equity fund management.

Despite all the constraints on Investment Banking activity in 2013 BES Investimento strengthened operations in several major emerging markets. The bank was lead underwriter on several operations in Mexico, Poland and Brazil in turn helping mitigate a reduced level of operations in more developed markets. Lower momentum in some areas more exposed to the prevailing adverse business environment, was to some extent offset by participation in the domestic Privatisation Programme, resurgence in Portuguese financial markets and the strong dynamics of the Capital Markets. In the latter more than 50 operations were concluded for a total amount of some EUR 15 billion. Gross Income at EUR 247.6 million, was 5.2% below that reported in 2012 while Operating Costs were down by 2.5%. Increased impairment charges on Loans and Advances year-on-year impacted heavily on Net Income, which was down 68% to EUR 7.1 million in 2013.

The Bank's performance and initiatives drew attention and recognition from several international bodies resulting in the following awards:

- 'Best Investment Bank in Portugal', from Global Finance magazine
- 'Best M&A House in Portugal', from EMEA Finance magazine
- 'Best Investment Bank in Portugal', from Euromoney magazine

The international business of BES Investimento, which accounted for 59% of consolidated Banking Income, was strengthened by the following arrangements: an improved presence in Mexico via Lusitania Capital - a non-banking firm licensed as an advisory and financial support service to projects, in local currency; expansion of activities in India to the M&A and capital markets businesses; and partnerships in brokerage and Investment Banking in Asia with the RHB Investment Bank and in Turkey with Global Securities.

In **Portugal**, among the highlights of BES Investimento performance in the Capital Markets was leadership of several senior debt issues for large Portuguese enterprises. Of particular note were those for the energy giant, EDP (two

issues totalling EUR 1,350 million), Portugal Telecom (EUR 1,000 million), power grid operator REN (EUR 300 million) and Banco Espírito Santo (EUR 500 million). BES Investimento sustained its key position in the domestic privatisation process, concluding its advisory role to the Portuguese State in the sale of a 100% stake in ANA – Aeroportos de Portugal, S.A to Vinci Concessions (EUR 3.100 million) and acting as Co-Lead Manager in the sale of 70% of CTT - Correios de Portugal, S.A which was privatised by IPO (EUR 579 million). BES Investimento sustained its leadership role in the M&A market (by number and value of completed transactions, according to Bloomberg). Among highlights was its advisory role in the Zon merger with Optimus (EV EUR 2.373 million) and in the PT merger with Oi (a transaction pending completion). The bank ranked in 3rd place in equity trading on NYSE Euronext Lisbon, with a market share of 6.7%.

In **Spain**, benefiting from its growing international presence and close connections with Banco Espírito Santo, BES Investimento pursued approaches to the corporate segment designed to intensify cross-border activities and develop Capital Market and Mergers & Acquisitions business. The adverse macroeconomic and financial environment significantly restricted activity in this country in 2013. Nevertheless, BES Investimento acted as Joint Bookrunner in the issue of Empark senior secured bonds (EUR 385 million) and as Co-Lead Manager in the issue of senior secured bonds for NH Hotels. It also retained its place as number two in Iberian M&A (in terms of value of operations completed, according to Bloomberg) and was ranked 9th in the Spanish brokerage market (4.1% accumulated market share) in 2013.

In **Brazil** despite some deterioration in the macroeconomic outlook, BES Investimento continued to report very positive business development. Capital Market activity was very dynamic. BES Investimento participated in various key operations, notably leadership of the BHG - Brazil Hospitality Group (BRL 378 million) follow-on operation; Joint Bookrunner for the Project Bonds operations of Rodovias do Tietê (BRL 1,065 million), IE Madeira (BRL 350 million) and San Antonio (BRL 420 million); and leadership of various debenture and promissory note issues on the local market. As a result the bank ranked among the Top 10 in 2013 in ANBIMA Long Term Fixed Income Origination. The highlight in Corporate Finance is the ongoing provision of financial advisory services to Portugal Telecom in its merger with Oi. BES Investimento also advised on various project finance transactions, particularly in the energy and transport infrastructure sectors, enhancing its position as advisor in several funding transactions and auctions for various concessions. BES Investimento was placed 23rd in the Bovespa ranking in terms of Brokerage business with a 0.9% market share and continued to develop new business areas. It focused in particular on Wealth Management and Private Equity. In the latter the highlight was the conclusion of the arrangement of BRL 405 million for investment by the 2bCapital managed Fund (jointly-held by BES Investimento and Banco Bradesco), and destined for the Brazilian market.

In the **United Kingdom**, BES Investimento has focused on full integration of its organisational unit. This included downsizing activities and teams; narrowing the operations of the Pan-European Brokerage (research and sale of shares in UK and Continental Europe) into a smaller number of sectors; continuing sale of certain non-core business (reinsurance) and launch of new activities (Market Making and Proprietary Trading). This unit is now well placed to

benefit from an incipient market recovery and to intensify distribution of Iberian, Polish, Brazilian and Indian products in the UK market. During 2013 the Capital Markets unit completed several operations. Highlights include BES Investimento's performance as Joint Bookrunner in the placement of 56.9 million IQE shares (USD 26.4 million), 131.6 million new Vertu shares (GBP 50 million), 17 million SportsDirect.com shares (GBP 112.2 million) and acting as Co-Lead Manager in the Just Retirement IPO (GBP 343.2 million).

In **Poland**, BES Investimento concentrated on cross-border M&A and capital markets activities and continued to support business development for several of its local and international Clients, primarily by issuing bank guarantees. BES Investimento consolidated its Polish market credentials in 2013, occupying 3rd place in leadership of IPOs in Poland (in amount of transactions). Among highlights was its role as Joint Bookrunner in the sale of existing shares through Accelerated Book Building of 12.25% of the capital of PKO Bank Polski (PLN 5,244 million) and 25% of the capital of Kruk, S.A. (PLN 252 million), the IPO of the power utility Energa S.A. (PLN 2,406 million) and of Capital Park (PLN 136 million). In Brokerage, BES Investimento held 18th place in the ranking of Polish brokerages, with a cumulative market share of 1.6% in 2013.

In the **United States**, 2013 saw the development of advisory and distribution activities, aimed at enhancing a role in this location as a distribution platform for products originating in other markets where BES Investimento operates. Noteworthy was its role as Mandated Lead Arranger in the financing of Goldwind, in an amount of USD 71 million to build a 55 MW wind power plant in Panama and financial advisory services to Europastry SA in its acquisition of 24% of Wenner Bread Products Inc., in the USA.

In **Mexico**, BES Investimento strengthened its position with establishment of Lusitania Capital, strategically of great importance and which should increase its local customer base and intensify Project Finance activity in this market. During 2013, BES Investimento acted as Issuer for a Standby Letter of Credit for a proposed road building project by ICA (MXN 200 million) and as Lead Arranger in financing Martifer, (MXN 131 million) for the construction of a 30 MW photovoltaic power plant. In the area of Capital Markets, BES Investimento acted as Joint Bookrunner on the TV Azteca bond issue (USD 500 million) and as Sole Lead Manager of issues by Crediamigo (USD 30 million) and Famsa (USD 50 million).

In **India**, after launching Brokerage activity in 2012, BES Investimento extended operations to M&A and Capital Markets in 2013, aimed at leveraging local capacity in the sourcing of business via its international distribution platforms, particularly in London.

In **Africa**, BES Investimento continued efforts to strengthen its presence in certain major markets particularly in Angola, where it operates through an Investment Banking Office created at BESA. It also aims to operate through a local broker dealer. In Mozambique, it seeks to build an investment banking business.

Project Finance

In 2013 BES Group participated in 2 project finance transactions in Brazil, both in the infrastructure sector:

- ERG 2 (ECOVIX) – BES Group was Mandated Lead Arranger and Lender on the structuring of a EUR 14 million bridge loan for investment in ERG 2 - Rio Grande shipyard. Ecovix – Engevix Construções Oceânicas was created in March 2010 as a subsidiary of Engevix Engenharia to run for Petrobras two contracts to build eight hulls of oil exploration platforms in the pre-salt and to meet future orders from the shipbuilding market in Brazil.
- ATTEND AMBIENTAL S.A. – BES Group was financial advisor and lender on a EUR 7 million bridge loan to Attend Ambiental, a company specifically created to build and operate a pre-treatment station of non-domestic effluents and sludge conditioning with treatment capacity of 9,591 m3/day in the city of Barueri, state of São Paulo.

Assessment of the Environmental and Social Risks in Project Finance

In 2012 the Group started to make a risk analysis, for all project finance operations above USD 7 million, of the direct and indirect environmental and social potentially negative impacts arising from the development and running of the projects.

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, and 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.

The two projects assessed in 2013 (ERG 2 (ECOVIX) and ATTEND AMBIENTAL) were classified as presenting low risk (level C).

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 conducted by Espírito Santo Activos Financeiros (ESAF), within Portugal and abroad (Spain, Luxembourg, Angola, and Brazil). ESAF's product range covers mutual funds, real estate funds and pension funds, besides providing discretionary and portfolio management services.

At the end of 2013 the global volume of assets under management reached EUR 17.3 billion, a YoY increase of 9.8%. By business area, we note a strong increase in Discretionary Management volumes under management (+34%) and a reduction in Real Estate Investment Funds (-20%).

At the end of 2013 the international activity represented ca. 20% of the total assets under management, corresponding to approximately EUR 3.5 billion, of which over EUR 1.8 billion in Spain, ca. EUR 818 million in Angola, and EUR 259 million in Brazil. In Luxembourg, the portfolios under management totalled more than EUR 1,262 million at the end of 2013, which represents a year-on-year increase of 77%.

Mutual Funds

Total volume under management of mutual funds reached over EUR 3,875 million at the end of 2013, with domestic mutual funds contracting by 29% year-on-year, to EUR 2,054 million, due to the combined impact of two factors: the liquidation of two funds in the 'ES RENDIMENTO FIXO' category which had reached the end of their duration, and the substantial volume of redemptions in certain bonds and mixed-investment funds.

In Luxembourg, BES Group has several funds under management targeting clients with a wide range of risk profiles. At the end of 2013 the aggregate volume in these funds was EUR 602 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; (iv) 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; and the Espírito Santo Investments SICAV SIF, launched in 2013 and comprising two funds (the ES Liquidity Fund and ES Fixed Income Flexible Fund), which reached more than EUR 444 million at the end of the year.

The ES Eurobond was named in LIPPER EUROPE 2013's awards as the best fixed-income fund for 3, 5- and 10-year maturities.

The volume of Mutual Funds under management in Spain totalled EUR 1,130 million, having decreased by 16% year-on-year.

Real Estate Investment Funds

Overall volume under management in real estate funds reached EUR 1,855 million in December 2013. Domestic real estate funds registered a 6% increase in assets under management, largely underpinned by a 39% volume increase in closed-end funds. Volume in open-end funds dropped by 5.4% year-on-year, due to a decrease in the Fundo de

Investimento Imobiliário Aberto Gespatrimónio Rendimento (-6.7%) and the stabilisation of the Fundo de Investimento Imobiliário Aberto Logística (+0.9%).

In Angola, volume under management in Real Estate Funds totalled over EUR 814 million, having decreased by 4% year-on-year.

Pension Funds

In Pension Funds, assets under management totalled ca. EUR 1,910 million, with volume under management of the domestic pension funds increasing by 7% year-on-year, to EUR 1,758 million. In 2013 both open-end funds and closed-end funds registered sharp volume increases, of 11% and 7%, respectively.

In Angola, assets under management of Pension Funds increased by 9% year-on-year, while Spain saw a sharp contraction in volume (- 36%).

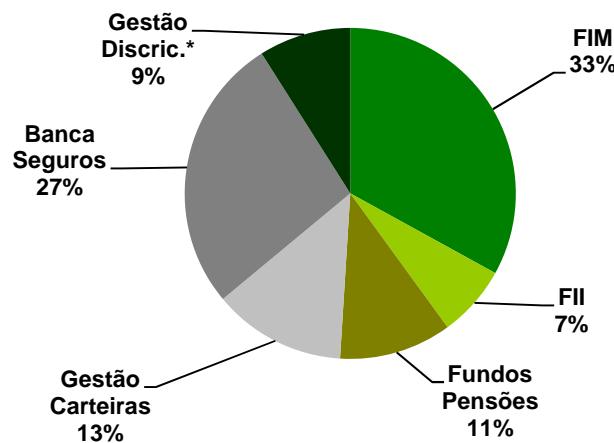
Discretionary Management

Discretionary management includes the provision of asset management services to individual and institutional clients, namely the financial management of insurers' and pension funds' assets. At the end of 2013 total volume under management in this area was EUR 9,678 million. Domestic volume under management of ESAF – Espírito Santo Gestão de Patrimónios increased by 38% year-on-year, to EUR 8,973 million, essentially due to a sharp volume increase in the portfolios of insurance companies, individual clients and institutional clients.

Portfolio 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 2013, representing a year-on-year increase of 123%.

Asset Management: Product Breakdown



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

Responsible Investment Funds

Responsible investment is an investment that explicitly recognises the relevance of environmental, social and governance factors for the success of the investment and for its long-term sustainability.

BES Group sells responsible investment funds to individual and institutional clients with an investment allocation strategy that incorporates such 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 understand the implications of sustainability for investors and help the PRI signatories to factor in the issues involved in their investment decisions. In line with the PRI, ESAF created a set of additional indicators (environmental, social and governance – ESG indicators) which it integrated in the indicators matrix it uses. 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.

BES Group, through Banco Best, manages and sells responsible investment funds with a diversified investment strategy and geographic allocation. In 2013 client subscriptions of Banco Best's range of 105 responsible investment funds totalled EUR 8.9 million.

The list of funds sold by BES Group is available at BES's website.

In addition, BES Group also manages two funds, namely the European Responsible Consumer Fund and the Espírito Santo Infrastructure Fund (ESIF).

The **European Responsible Fund (ERF)** is an ethical fund that resulted from a partnership between ESAF – Espírito Santo Ativos Financeiros and Euro Consumers, the largest association of consumers in Europe. The ERF is specifically designed for socially responsible investors, only investing in listed companies included in the FTSE4Good which emphasise environmental, social and government factors in their decisions. The fund's strategy excludes investments in companies whose practices do not conform to the principles of responsible investment, such as arms or tobacco manufacturers.

In 2013 ESAF had approximately EUR 3.4 million under management in this fund.

Espírito Santo Infrastructure Fund (ESIF)

Espírito Santo Infrastructure Fund (ESIF) is a venture capital fund managed by Espírito Santo Capital (ES Capital), a venture capital firm of the Banco Espírito Santo Group. In 2013 this fund represented 28.8% of the funds under management by ES Capital. The fund has capital of EUR 95.691 million of which up to a maximum of 66% may be invested in renewable energies. ESIF's investment period closed in October 2013, with realisable funds being called. Up to the end of 2013 the fund invested or committed to invest more than EUR 86.6 million, of which EUR 63 million in

renewable energy, and of these EUR 11.5 million should be invested during 2014. These are ESIF's main invested companies in the renewable energy sector:

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

4.5. Outlook for BES Group. Main Risks and Uncertainties

Current projections point to world economic growth of 3.6% in 2014, mainly supported by a moderate acceleration of growth in the more advanced economies. This recovery should rely on the continuation of expansionary monetary policies, less restrictive fiscal policies, financial readjustments and an improvement in confidence levels due to a perceived reduction in systemic risks, especially in the eurozone. After a small contraction in 2013 the economy of the countries in the euro area is expected to achieve growth of around 1% in 2014.

The Portuguese economy will likely benefit from the signs of economic and financial stabilisation which Portugal has been showing in the last quarters, and return to growth in 2014, even if still at a modest pace. Growth will be driven by investment, exports, and also a rebound in consumption. On the other hand Portugal should also gain from the improving perception of investors about the European peripheral countries' risk, which has already had a significant influence on the decline of public debt yields observed at the start of 2014.

BES Group's performance in 2014 should continue to be conditioned by the objectives established in the Funding & Capital Plan, namely a loan to deposits ratio below 120%, a stable funding ratio of 100% and maintaining a minimum Common Equity Tier I ratio of 7%.

Hence the capturing of funds, namely as deposits, will remain a key pillar of the Group's commercial strategy, alongside a very selective loan granting policy, targeting strategic segments and aiming in particular to support the exporting SMEs.

However, risk levels are expected to remain high, requiring the permanent updating of risk prevention and monitoring processes as well as the continued reinforcement of provisions for impairments in sizeable amounts. The process of

recovery of credit at risk will also deserve particular attention, involving the reinforcement of the recovery units and the active sale of assets received as payment in kind. The Group will also continue to implement streamlining measures to ensure compliance with its cost cutting programme, emphasising in particular a reduction in domestic costs.

On the international front, the Group will continue to back up the Portuguese companies in their internationalisation processes. For this the Group counts on its network abroad, which so far has proven an important cushion for the effects of the recession at home. We hope that in 2014 the international contribution to results will increase, and that it will increasingly contribute towards the valorisation of the Group.

Finally, given the relevance of this process within the context of the creation of a Banking Union, a note is due on the Comprehensive Assessment of the European financial system undertaken by the European Central Bank. This process aims to: assess the risk profile of banks in terms of liquidity, leverage and funding (Risk Assessment: RAS); perform an Asset Quality Review: (AQR); and carry out stress tests to assess banks' resilience when faced with adverse scenarios. Given the wide scope and level of detail of this work, and considering also that it is not known upon which bases the stress tests will be carried out, it is not possible on the present date to identify the eventual impacts which the process may have on BES Group.

5. FINANCIAL MANAGEMENT AND CAPITAL MARKETS

Over the years BES Group 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 Group'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.

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 the Bank to continue to operate in London without being required to create additional liquidity buffers. In 2013 the Prudential Regulation Authority (PRA), which replaced the FSA in this specific area, confirmed that BES would maintain the Whole Firm Liquidity Modification up to October 2015.

With regard to structural liquidity, BES Group 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, the Group 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 Group 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 2013

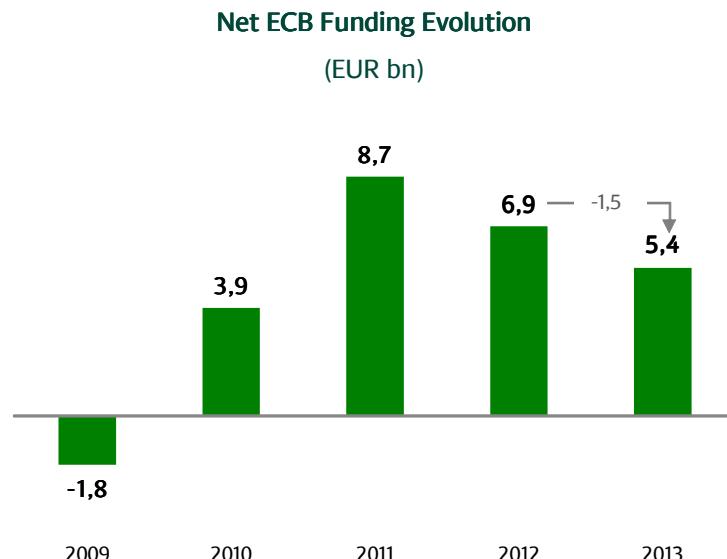
The beginning of 2013 maintained the improving trend of market sentiment observed towards the end of 2012, with the main central banks' strongly expansionary policies supporting an abatement of risk aversion and the shrinking of peripheral sovereign debt yields. Taking advantage of these favourable conditions, BES Group tapped the market with a EUR 500 million issue of senior debt with 5 years maturity.

At the end of November BES Group made a EUR 750 million subordinated Tier 2 debt issue which is already compliant with the new Basel III/CRD IV rules. The notes have a maturity of 10 years, with a call in year 5, and will pay a coupon of 7.125%. This transaction was a further step in BES Group's strategy to reinforce solvency ratios, while diversifying its capital and funding base. The success of the issue was patent in the final order book, which reached ca. EUR 3 billion, with approximately 300 accounts and a very strong presence from international investors (representing 95% of allocations), reflecting the markets' confidence in BES Group. The transaction marked the return of the Portuguese banks, after four years, to the institutional debt market.

In December 2013, Portugal gave another important step towards its full return to the markets, swapping EUR 6.6 billion treasury bonds due in 2014 and 2015 for securities maturing in October 2017 (EUR 2.7 billion) and June 2018 (EUR 4 billion). This allowed it to soften the profile of public debt redemption payments in the next few years. In the early months of 2014 Portugal successfully issued EUR 3.25 billion 5-year bonds with a coupon of 4.657% (in January), and EUR 3 billion 10-year bonds with a coupon of 5.112% (in February).

Taking advantage of the excellent market conditions, in January 2014 BES Group again tapped the markets with a new 5-year debt issue amounting to EUR 750 million paying a coupon of 4%, which represents a spread of 285pb over the 5-year mid-swap rate – the same placement level as achieved by the 5-year issue made in 2009.

All in all, the medium- and long-term funding operations generated liquidity of roughly EUR 2.0 billion (of which EUR 1.25 billion through public placements), representing an important step in regaining access to funding through the markets. Moreover, the liquidity thus obtained allowed the Group to pursue the strategy of gradual reduction of exposure to the ECB. The balance sheet deleveraging pursued along the year permitted to trim down medium- and long-term lines by EUR 4.1 billion (of which EUR 1.6 billion in reimbursements of wholesale funding) and also to reduce by EUR 1.5 billion the net exposure to the ECB. Finding itself in a more comfortable position in terms of liquidity, at the start of 2013 BES repaid in advance EUR 1.0 billion of the LTRO facility.



However, even if liquidity conditions improved and it was possible to return to market funding, 2013 was still characterised by scarce liquidity in the markets. The policy guidelines that permitted to overcome the inaccessibility to international markets over the last three 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 1.3 billion during the year. On the other hand the loan book was reduced by EUR 2.9 billion since 2010 with the objective of reaching a loan to deposits ratio of 120% until the end of 2014. This will also have as a consequence the deleveraging of the Portuguese families (through the reduction of consumer loans and the amortisation of mortgage loans) and the Portuguese companies, except the exporting ones.
2. Growth of customer deposits, underpinning the strategic guideline of keeping this product as the main funding source.

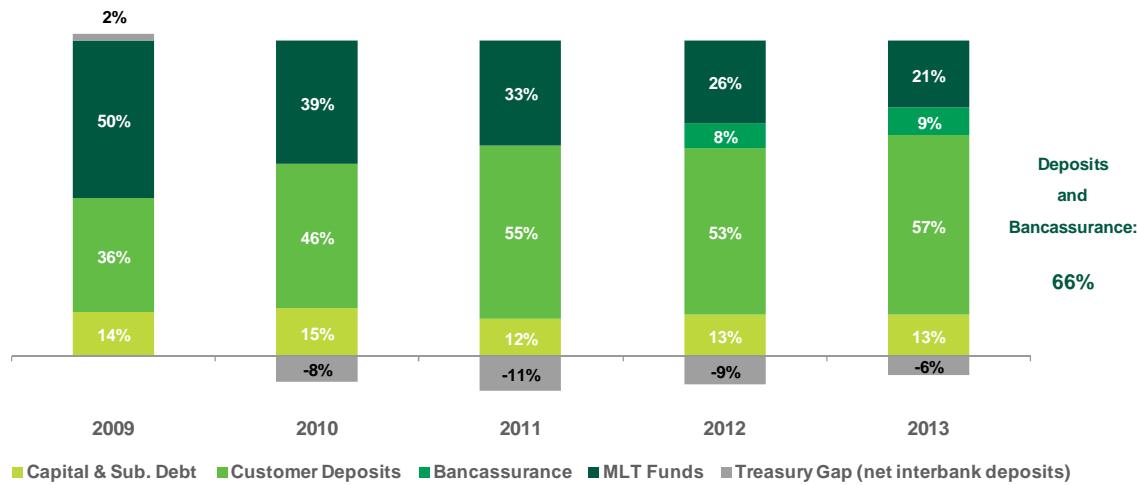
Customer deposits increased by EUR 2.3 billion (+6.6%) in 2013.

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

On the other hand, the acquisition of control of BES Vida in 2012 led to the inclusion within BES's offer of customer funds of bancassurance products, which at the end of 2013 amounted to EUR 6 billion, representing 9% of the funding structure.

Even so, customer deposits remain since 2010 BES's main funding source, representing 57% of the funding structure (a 21 p.p. increase since 2009). Together, customer deposits and bancassurance products account for 66% of the funding structure.

Funding Structure Evolution



Over the last few years the increase in customer deposits and the reduction of the loan and securities portfolios in part offset the reduction in medium- and long-term funding lines, which as a percentage of the Bank's overall funding structure dropped by 29 p.p., from 50% in 2009 to 21% in 2013.

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

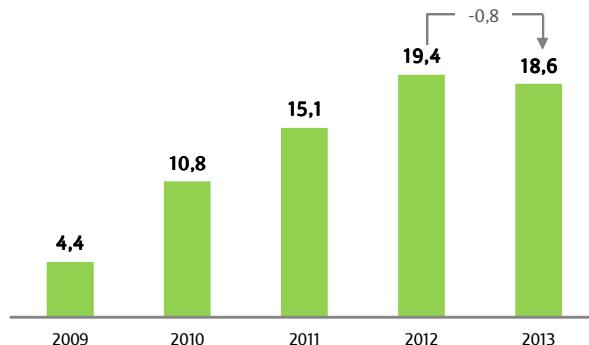
During 2013 BES pursued its policy of reinforcing or maintaining the portfolio of assets eligible for rediscount with the ECB. These decreased by EUR 0.8 billion compared with 2012, however if cash and deposits at central banks are added to the total eligible assets the net assets remain flat.

Measures taken in 2012 to reinforce eligible assets:

- Increase of the share of European public debt in portfolio.
- Treatment of the credit portfolios in accordance with the new eligibility criteria.

Evolution of Rediscountable Securities

(EUR bn)



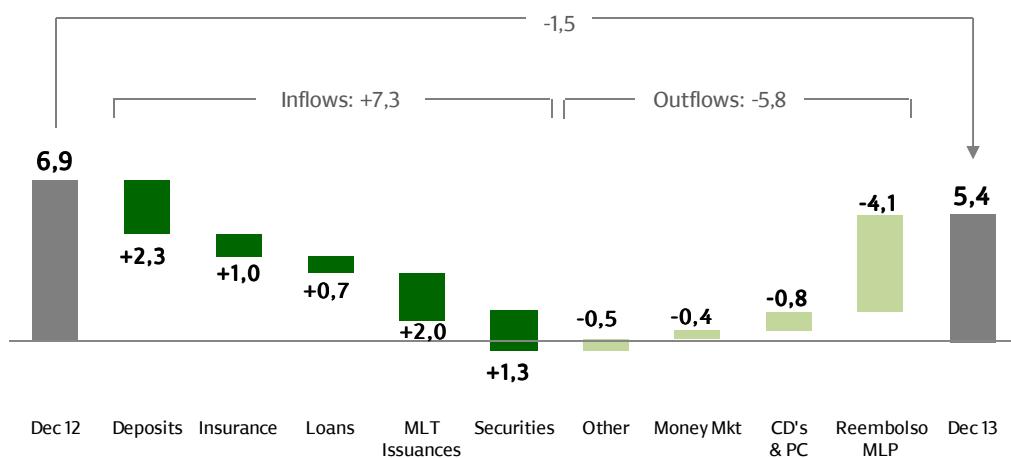
The portfolio of repoable securities includes exposure to Portuguese sovereign debt of EUR 3.5 billion, as well as exposure to other peripheral countries' sovereign debt, namely EUR 558 million to Spanish public debt, EUR 156 million to Italian public debt and EUR 30 million to Greek public debt.

These assets guarantee access to the longer-term refinancing operations which BES Group used at the end of 2011 and beginning of 2012. At the end of the year the Group's net borrowing position at the ECB was EUR 5.4 billion, broken down as follows:

- (i) EUR 9.3 billion under 3-year long term refinancing operations (LTROs);
- (ii) EUR 3.9 billion of placements with the ECB.

Net ECB Funding Evolution in 2013

(EUR bn)

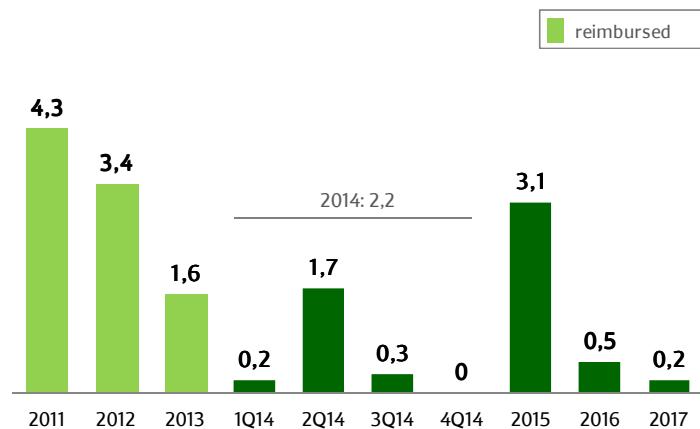


The implementation of the referred guidelines permitted to refinance all the debt maturing before the end of the year, including the EUR 1.6 billion medium and long-term debt reimbursed during the year, to improve the loans to deposits ratio by 16 p.p., to 121% and to reduce net funding from the ECB by EUR 1.5 billion.

In 2014 medium and long term market debt redemptions total EUR 2.2 billion and are mainly concentrated in the first half of the year. Of the amount coming to maturity, ca. 35% has been refinanced through the EUR 750 million bond issue made by BES in January 2014.

Maturity Profile

(EUR bn)



Ratings Assigned to Banco Espírito Santo (December 31st, 2013)

Agency	Long Term	Short Term	Outlook
Standard & Poor's	BB-	B	CWN
Moody's	Ba3	NP	Neg
DBRS	BBB (low)	R2 (middle)	Neg
Dagong	BB	B	Stable

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 within the limits established by the management body of each institution and therefore do not affect that institution's or the Group's financial situation.

The risk management function operates independently from the functional areas, providing advice on risk management to the management body.

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.

Matching the regulatory vision with the economic perspective implicit in the New Capital Accord - whose principles underlie the Group's rationale and practices – creates new opportunities and motivates the effort which has been developed in the risk management areas.

Governance and Risk Management Principles

- Independence of the risk function from the business units
- Management involvement at senior level through specialised committees.
- Applying the Three Defense Lines approach
- Integrated vision of risk
- Specialised technical structures

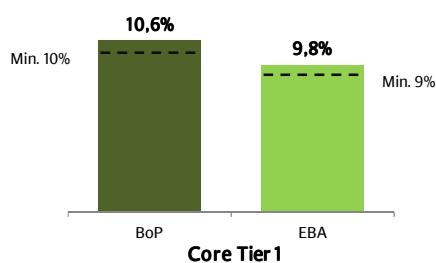
Background

The persisting economic recession in Portugal inevitably impacted the activity developed by the Group, with consequences in terms of the main risks to which it is exposed:

Solvency

- Core Tier 1 of 10.6% (BoP criteria) and 9.8% (EBA criteria) comfortably above minimum requirements, achieved without resorting to public funds, allows BES to maintain its strategic independence.
- Risk weighted assets dropped by 7%, to EUR 57,332 million, due to the Group's risk management policy and continued balance sheet deleveraging.
- The ICAAP exercise carried out in 2013 with reference to 31 Dec. 2012 concluded that BES Group has a conservative risk appetite ensuring high solvency levels associated to a minimum rating target of A (debt holder perspective).

Stronger capital ratios



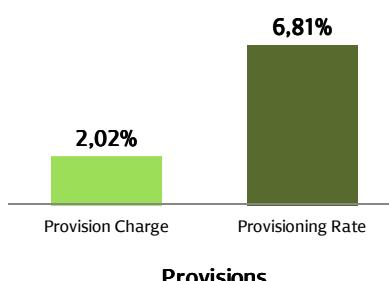
Unit: €m

Risk Weighted Assets	2013
Credit Risk	53,011
Market Risk	1,227
Operational Risk	3,254
Total	57,492

Credit

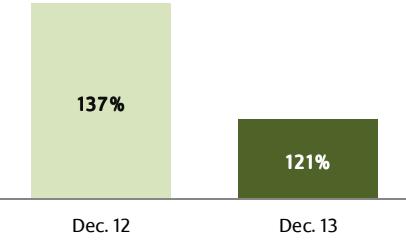
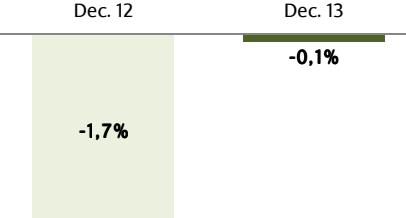
Overdue loans and provisions

- Reflecting the country's economic situation, the overdue loans (>90 days) ratio increased to 5.7% (Dec. 12: 3.9%) and the credit at risk ratio reached 10.6% (Dec. 12: 9.4%).
- Due to the increase in overdue loan levels, credit provisions were reinforced by EUR 1,005 million (2.02%), which compares with EUR 815 million (1.62%) in 2012.
- The marked increase in provisions on the balance sheet (+26%YoY) permitted to maintain prudent coverage ratios: the coverage of overdue loans (>90 days) and credit at risk were 120% and 65%, respectively, while the average provisioning rate reached 6.8% (Dec. 12: 5.3%).



Provisions

Market	Reduction of market volatility
<ul style="list-style-type: none"> Consolidated value at risk (VaR) in the trading book and relating to trading positions in commodities and FX positions totalled EUR 36.8 million in December 2013, having decreased by EUR 1.3 million YoY. Including BESI Group's credit spread as of December 2012 the decrease would have reached EUR 21 million. 	 <p>VaR (M€) annual evolution Does not include VAR from bonds and CDS credit spread from BESI</p>
<ul style="list-style-type: none"> The Group's banking book exposure to interest rate risk, assuming a parallel yield curve shift of 200 bps, was EUR 179 million in December 2013, which compares with EUR 24 million in December 2012. A large part of the stake in EDP was sold. 	 <p>Annual Evolution of IRR (M€)</p>

Liquidity	Prudent management of liquidity risk
<ul style="list-style-type: none"> With liquidity still penalised by the recession as well as the cost of funding in the wholesale market, this was offset by a considerable increase in deposits that lowered the loan to deposits ratio to 121%. At December 31st, 2013, BES Group met the limit set for 2015 for the Basel III Liquidity Coverage Ratio (LCR). The BoP liquidity gap up to 1 year decreased from -1.7% (Dez.12) to -0.1% (Dez.13). 	 <p>Transformation Ratio</p>  <p>Liquidity Gap up to 1 year</p>

Organisation

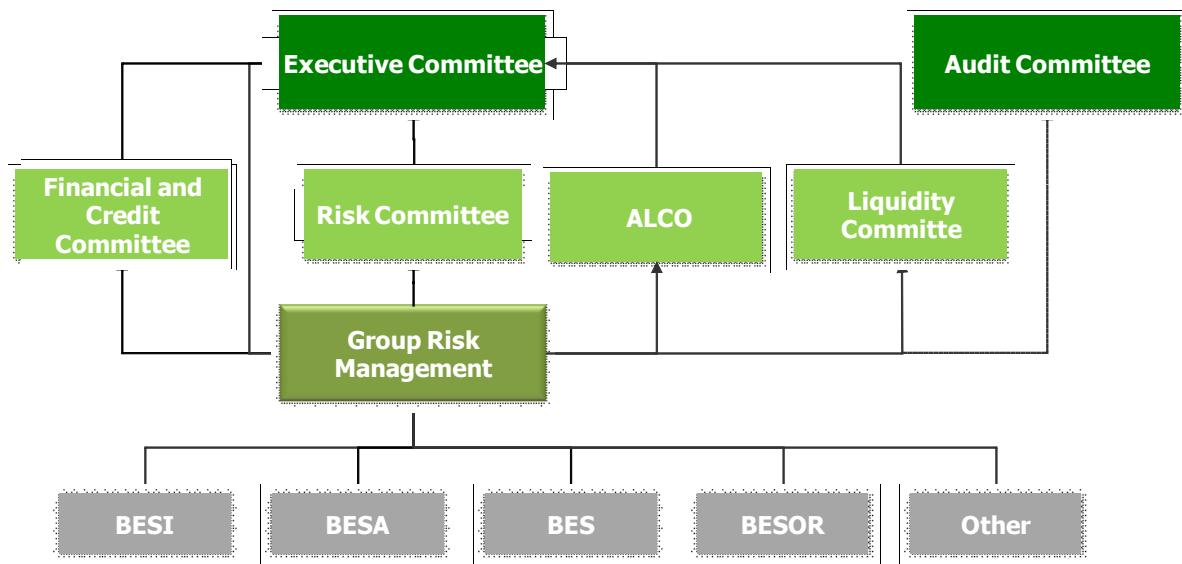
The definition of BES Group's risk appetite is the responsibility of the **Executive Committee**. Its responsibility also includes establishing general principles of risk management and control and guaranteeing that the Group possesses the necessary skills and resources to meet the established objectives.

Risk management functions and responsibilities are defined according to the “Three Defense 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	Objetivos	Responsibilities
1 Risk Taking Business Units	Maximise risk adjusted return within the established limits	<p>Unidades de negócio 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).</p>
2 Risk Control	Keep the Group within risk limits through the measurement and monitoring of risks	<p>Global Risk Department Proposes risk appetite and risk limits. Identifies and monitors risk, reporting excesses. Develops risk assessment models and tools. Has no responsibility for risk taking.</p>
3 Auditoria	Ensure the effectiveness and adequacy of risk control through mechanisms of regular verification of key processes	<p>Internal Audit Department Independent review of compliance with rules, policies and regulations Has no responsibility for risk taking or risk measurement.</p>

The Risk Management Function is independent, supervising all the risks to which the Group's various Units are exposed.

The structure of the relevant Committees for BES Group's risk function is schematised below:



Higher Committees

Executive Committee	Responsible for defining the objective risk profile, establishing global and specific limits for exposures; Its responsibility also includes establishing the general principles of risk management and control, and ensuring that BES Group has the necessary competences and resources for the purpose
Audit Committee	As BES's supervisory body, it is responsible for assessing the functioning of the internal control system, and particularly of the risk control, compliance and internal audit functions within this system, as well as for assessing whether the system is adjusted to BES's needs.

To ensure efficient control over the Executive Committee's strategic decision-making and implementation process, several specialised committees were created and play a relevant role in the area of risk management and control, in line with the decisions taken by the Executive Committee:

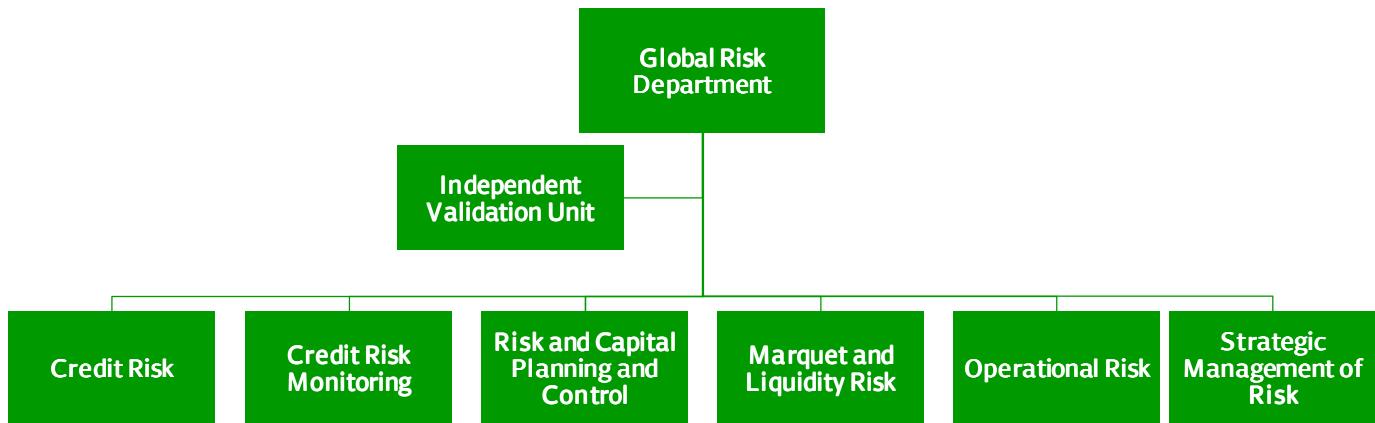
Specialised Committees

Risk Committee	Responsible for monitoring the evolution of BES Group's integrated risk profile, and for analysing and proposing methodologies, policies, procedures and instruments to deal with all types of risk to which the Group is subject, namely credit and operational, and also for analysing the evolution of risk adjusted return and the value added by the main segments/clients.
Financial and Credit Committee	Decides on the main credit operations in which the Group intervenes, in line with the risk policies established at Group level. At its daily meetings the Committee also monitors the Bank's cash position and the evolution of the financial markets.
Assets and Liabilities Committee (ALCO)	Responsible for setting growth targets for customer loans and deposits, and for defining a funding strategy (management of balance sheet mismatch) and price/margins targets. It also approves the funding products offer and pricing.
Capital and Liquidity Committee	Responsible for defining and monitoring the execution of the Bank's policies on liquidity risk management, solvency levels, and the monitoring of the Recovery plans' triggers.

Support Committees

Credit Risk Monitoring Committee (CARC)	Analyses and assesses clients whose creditworthiness shows signs of deteriorating, defines strategic options in commercial relations and the level of active vigilance required by the profile and specific circumstances of each of the entities/groups under analysis, and analyses and validates the credit impairment levels established for the group of entities in question, in accordance with predetermined objective criteria.
Risk Monitoring Group (RMG)	Deepens the analysis and control of credit risk with the cooperation and intervention of the Bank's technical areas.
Real Estate Risk Monitoring Group (RE RMG)	Monitors clients in the real estate sector given the specific risk inherent to this sector.
IT Risk Committee	Monitors the execution of the Bank's policies on the management of information systems risk.

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;
- Further BES Group's value creation objectives through the development and monitoring of methodologies and models to identify and quantify the various categories of risk, namely internal ratings and liquidity ratios, as well as support tools for the structuring, pricing and approval of operations, and also internal techniques for performance assessment and for optimising the capital position;
- Determine, control and report regulatory capital requirements for credit risk (using the IRB Advanced method for the retail segment and the IRB Foundation method for all other assets classes), as well as for market and operational risks (in accordance with the standardised approach);
- Develop the internal capital adequacy assessment process (ICAAP) and stress tests exercises;
- Validate on a continuous basis the risk models and parameters and validate the levels of internal usage of the risk models (use-test);
- 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 defined 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 ratios (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 transposed 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, namely with regard to market and liquidity risk, as explained below.

Market risk

Main changes in 2013:

- At European level - the entry into force of the CRR/CRD IV (Credit Requirements Regulation / Credit Requirements Directive), which transposed into European regulation the main components of Basel III, will have immaterial impacts on the measurement of capital requirements for market risk.
- Concerning the proposals of the Bank of International Settlements (BIS) for a Fundamental Review of the Trading Book, we note the following main points (included in the second consultative document):
 - i) Revision of the boundary between the trading book and banking book, making it more objective and reducing the incentives for regulatory arbitrage;
 - ii) A shift in the measure of risk from value-at-risk to expected shortfall (ES) and calibration based on a period of significant financial stress;
 - iii) The incorporation of the risk of market illiquidity, through the introduction of "liquidity horizons" in the market risk metric;
 - iv) Revision of the two approaches (standardised approach and internal models-based), establishing a closer calibration of the two and requiring mandatory calculation of the standardised approach by all banks.

Liquidity Risk

The last year was rife with consultations and monitorings on the subject of liquidity risk, with the regulators issuing a series of papers with a significant impact on the institutions' business model and management of risk.

To prepare for the entry into force of CRD IV in January 2014, the entire liquidity framework has been strengthened, namely through the development of two minimum standards for funding liquidity that aim to achieve two separate but complementary objectives. The Liquidity Coverage Ratio (LCR) was created to achieve the first objective, namely to promote short-term resilience of a banks' liquidity risk profile by ensuring that it has sufficient high quality liquid assets to survive a significant stress scenario lasting for one month. The second objective, to reduce funding risk over a longer time horizon, is addressed by requiring banks to fund their activities with more stable sources of funding so as to mitigate the risk of future funding stress. The Net Stable Funding Ratio (NSFR) was developed for this purpose. In addition, a set of other liquidity monitoring metrics were also defined, namely concerning funding concentration, definition of unencumbered assets and balance sheet structure.

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 with which Portugal is still struggling 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.

Summing up, in 2013 the combined effect of a protracted economic crisis, the Bank's proactive stance and the subsequent developments in the legal and regulatory framework required from BES an intense commitment to monitoring the execution of loan contracts and preventing risk.

Management of Problem Loans

In the second half of 2013 the Bank of Portugal performed a special audit of the management processes used for the so-called problem loans. The works were conducted by a team of international consultants recruited for the purpose.

The purpose of this audit was to assess the policies, processes, organisational structures, information systems and tools used by banks to identify, manage and monitor problem, loans. The audit had a wide scope, embracing not only loans in the process of recovery but also regular loans with early warning signals and loans with slight delinquency (only a few days of default on contractual obligations). This audit was not an asset quality review, but an audit of policies, processes and all other items referred above.

Upon conclusion of the audit works, the Bank of Portugal and Oliver Wyman assessed BES Group's management practices for problem loans against best national and international practices, and classified these on a 3-level scale: Basic, Intermediate and Advanced. BES Group' management practices were considered 'Advanced' with regard to the loan portfolios of individual clients and the large majority of corporate credit portfolios, and 'Intermediate' with regard to a Middle Market sub-segment (small medium-sized companies) and the Small Businesses Segment. In addition, the Bank of Portugal also issued several recommendations on which BES Group is already working, and which are seen as opportunities for improvement.

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 BES 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 credit 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.

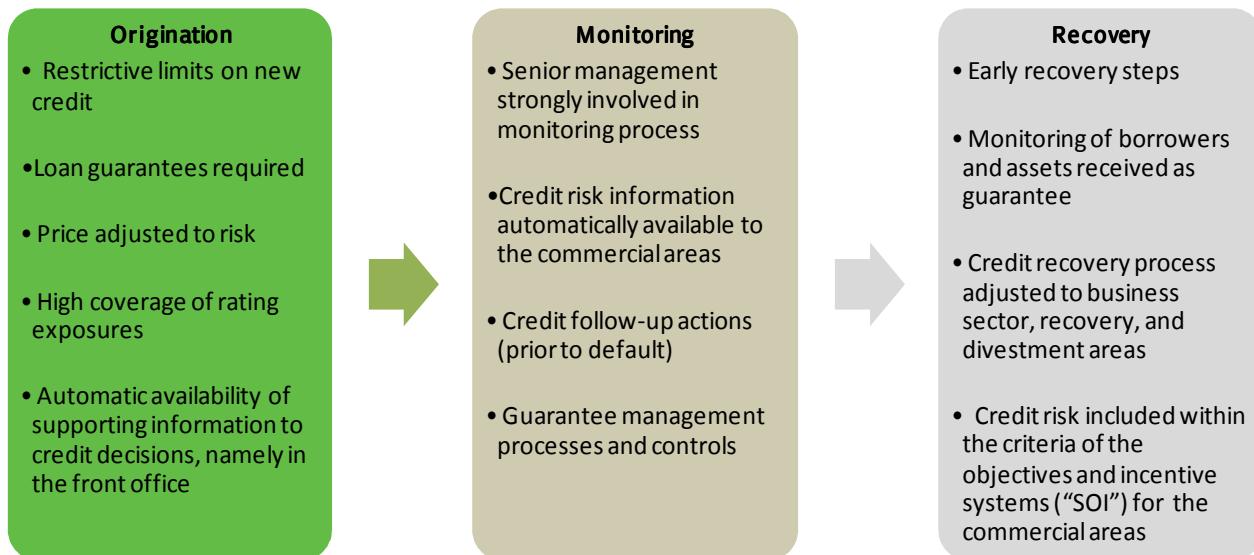
Across nearly all the commercial segments, internal rating classifications are directly incorporated into the definition of credit powers at the various decision-taking levels, while being also used to support the differentiation of pricing.

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, to the members of the Executive Committee with responsibilities in the commercial or risk areas, and to the Risk Committee, where applicable.

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



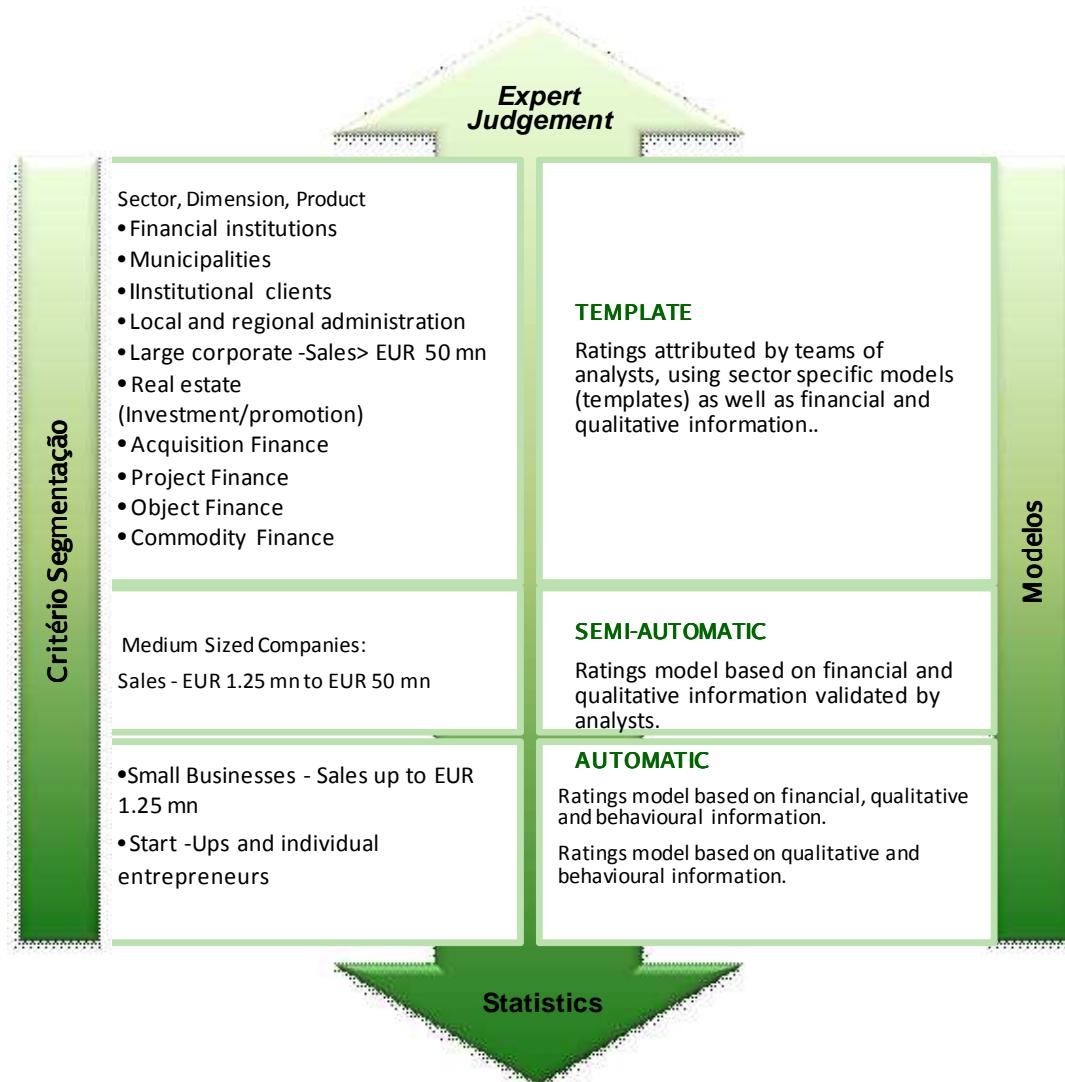
A.1. Risk Rating Systems

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 2013 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.



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-sector 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.

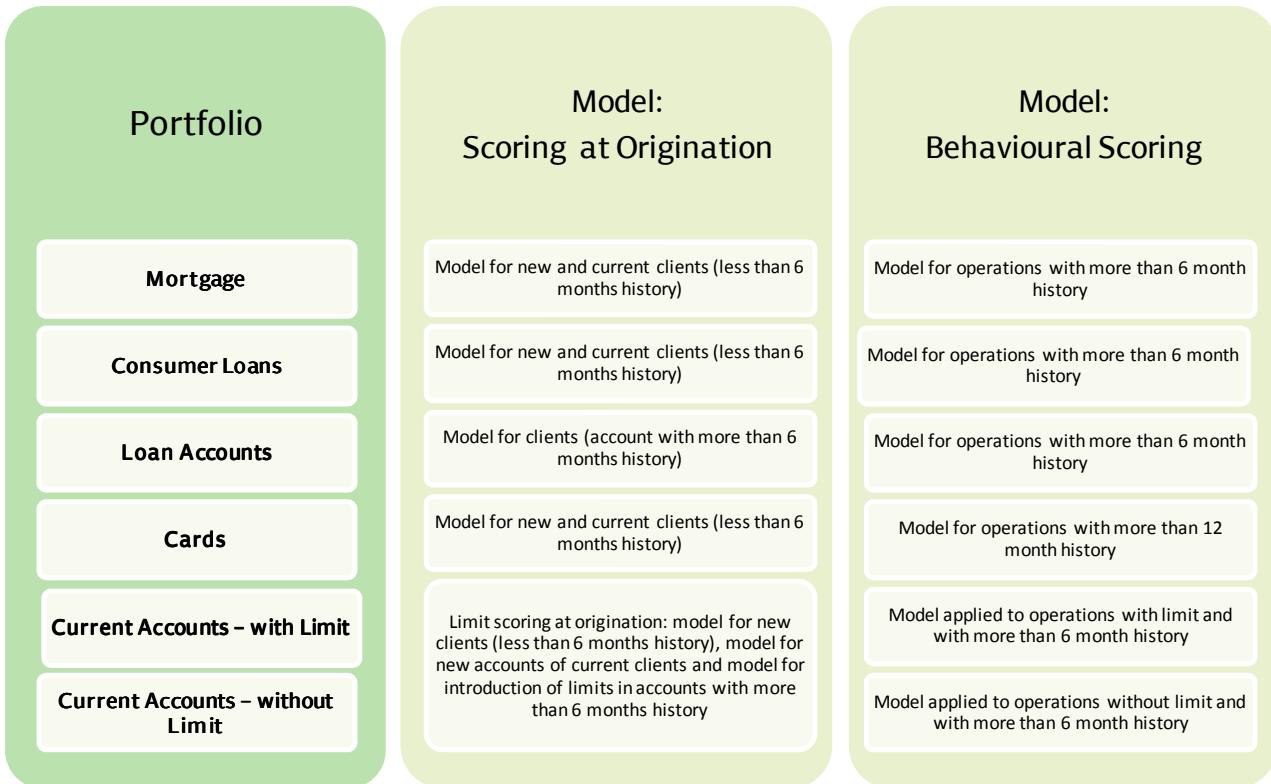
In the **Small Businesses** segment (companies with turnover below EUR 1.25 million), ratings are also determined through statistical scoring models, which in addition to financial and qualitative data, also use behavioural information concerning both the companies and the respective partner(s).

Specific scoring 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.



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.

The LGD parameters for corporate clients (including in this case both the LGD parameters for Small Businesses and Independent Professionals used in the calculation of regulatory capital, and the estimated recovery rates for Medium-sized and Large Companies) were updated in 2013. This ensures that the parameters used internally by the Group are in line with its current recovery processes and policies and take into account the latest economic projections.

- **Independent Validation of the Models**

The various credit risk models developed by and implemented within BES Group are subject to independent internal validation, as required from institutions that use the IRB method.

The validation methodologies developed cover the various parameters foreseen in the Basel accords (PD, LGD and EAD/CCF), using quantitative validation methods, namely statistical tests, as well as qualitative methods, of which the main tool is the test on the internal use of risk models (use test).

As a rule the models are validated on an annual basis by a dedicated specialised team, the Independent Validation Unit, which works in close cooperation with the area that develops the models, naturally safeguarding the required independence between risk model development and validation functions.

The validation works are compiled into validation reports whose conclusions are approved by an internal Models Committee, and, as appropriate, by the Director in charge of Risk or the Executive Committee.

A.2 A Credit Risk Monitoring

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

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

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

- **Monitoring of clients with warning signals (CRMC)**

Clients with warning signals are monitored throughout the year through meetings chaired by the Credit Risk Monitoring Committee (CRMC) and attended by representatives from all the commercial structures, which decide on specific follow-up actions that are regularly reported to the Risk Committee and the Executive Committee. The meeting also discusses and reports on the results of the follow-up actions and analyses any cases that may arise outside the scheduled exercise.

Main functions of the CRMC:

- To analyse and assess clients whose creditworthiness shows signs of deteriorating, based on:
 - The client's economic and financial profile;
 - Type of credit exposure;
 - Nature and value of the guarantees received, paying attention to the dates when the assets provided as security were evaluated and the entities which carried out these evaluations;
 - Warning signals detected in the behavioural profile of clients in their relations with the Bank and with the financial system in general.
- To define strategic options in commercial relations and the level of active vigilance required by the profile and specific circumstances of each of the entities/groups under analysis;
- To analyse and validate the credit impairment levels established for the group of entities in question, in accordance with predetermined objective criteria.

In 2013 the CRMC exercise analysed and assessed 6,994 clients with an overall exposure of around EUR 6,883 million, of which 1,038 (ca. 15%) were reported for the first time.

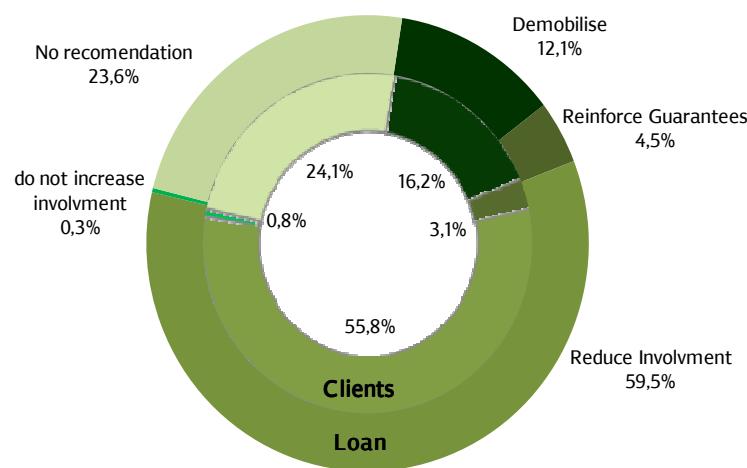
Taking into account the specific characteristics of each case assessed, the Committee approved recommendations on 5,311 clients with an overall exposure of EUR 5,259 million (corresponding to 75.9% and 76.4%, respectively, of the overall number of clients analysed and the total exposure). From this total 708 clients (13.3%) were reported for the first time in 2013, which is 11.7% less than in 2012.

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

- An increase in 'reduce exposure' recommendations, which, together with 'demobilise/exit' recommendations accounted for 72% of the clients analysed and 71.6% of their credit exposure.

- No specific recommendations were issued for 24.1% of the clients analysed (corresponding to 23.6% of the exposures analysed), which permits to conclude that BES Group's credit risk is controlled/mitigated, as revealed through a process that is independent from the credit origination.

CRMC Recommendations in 2013



(distribution profile of the portfolio analysed)

As regards the breakdown by activity sectors, the bulk of the recommendations issued (ca. 59%) continued to concern clients in property development, business services, and civil construction.

- **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 CRMC. Subsequently, and given the particular risk presented by the real estate sector, a specific monitoring group was created to deal with clients in this sector – the Real Estate Risk Monitoring Group (Real Estate RMG).

The RMG process involves the daily classification of clients according to pre-established risk criteria into three risk categories – Pre-Watchlist, Watchlist and Recovery -, and subsequent production of a report identifying for each category the causes for risk deterioration and proposing the mitigation actions to be taken in each case.

In 2013 the RMG/Real Estate RMG analysed a total of 428 clients with liabilities exceeding EUR 3.4 billion.

- **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 for 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 in the economic capital model for credit risk.

B. Credit Risk Analysis

B.1. Credit Portfolio

Loan Portfolio Breakdown

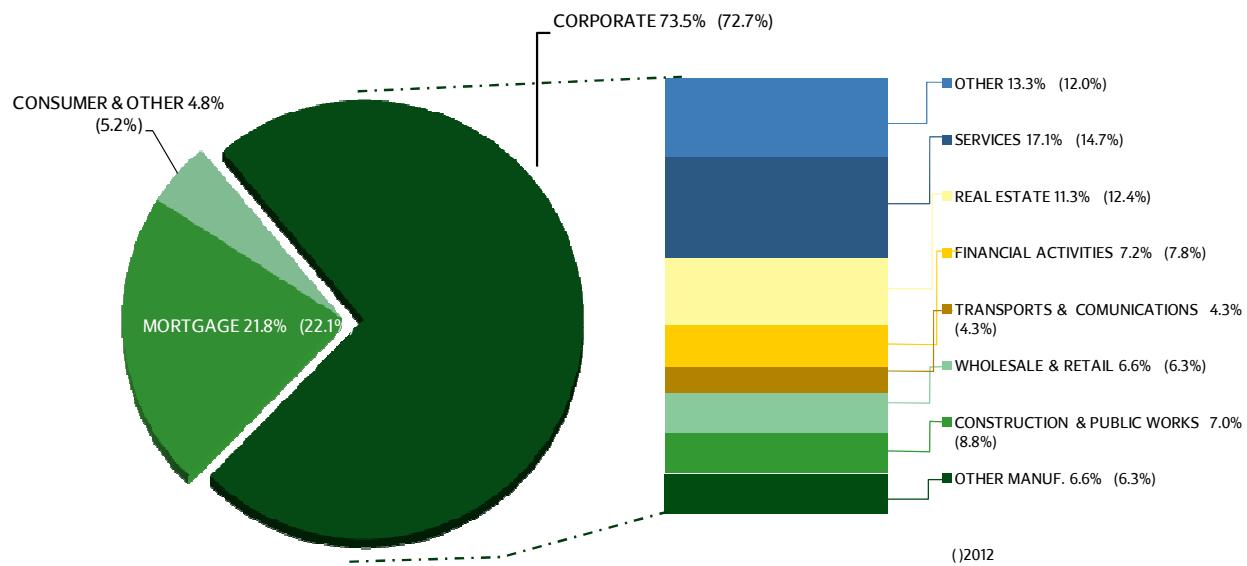
In 2013 customer loans decreased by 1.3% year-on-year due to low credit demand and a contraction in loans to individuals (-4.1%) resulting from the amortisations of mortgage loans as well as a fall in consumption. In the exporting sector loans to winner SMEs grew by 4.3%, accelerating from 2.8% in the third quarter.

Loan Portfolio Breakdown

	(milhões de Euros)		
	DEC 2012	DEC 2013	Change(%)
Total Gross Loan	50.399	49.722	-1,3%
Mortgage	11.134	10.815	-2,9%
Individual (other)	2.628	2.383	-9,3%
Corporate	36.637	36.524	-0,3%

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.

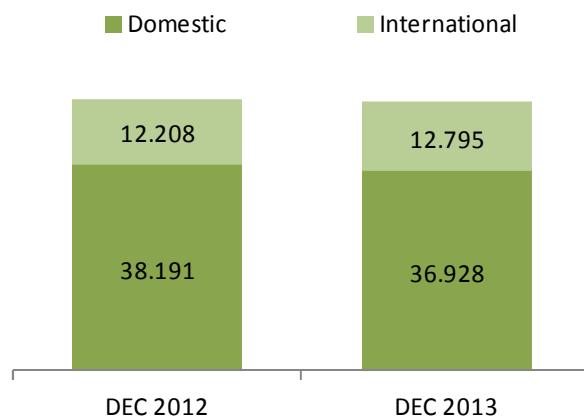
Loan Portfolio Breakdown by Industry Sector



In terms of geographical breakdown, the international activity increased its share by 4.8% year-on-year, to 26% of the total loan portfolio.

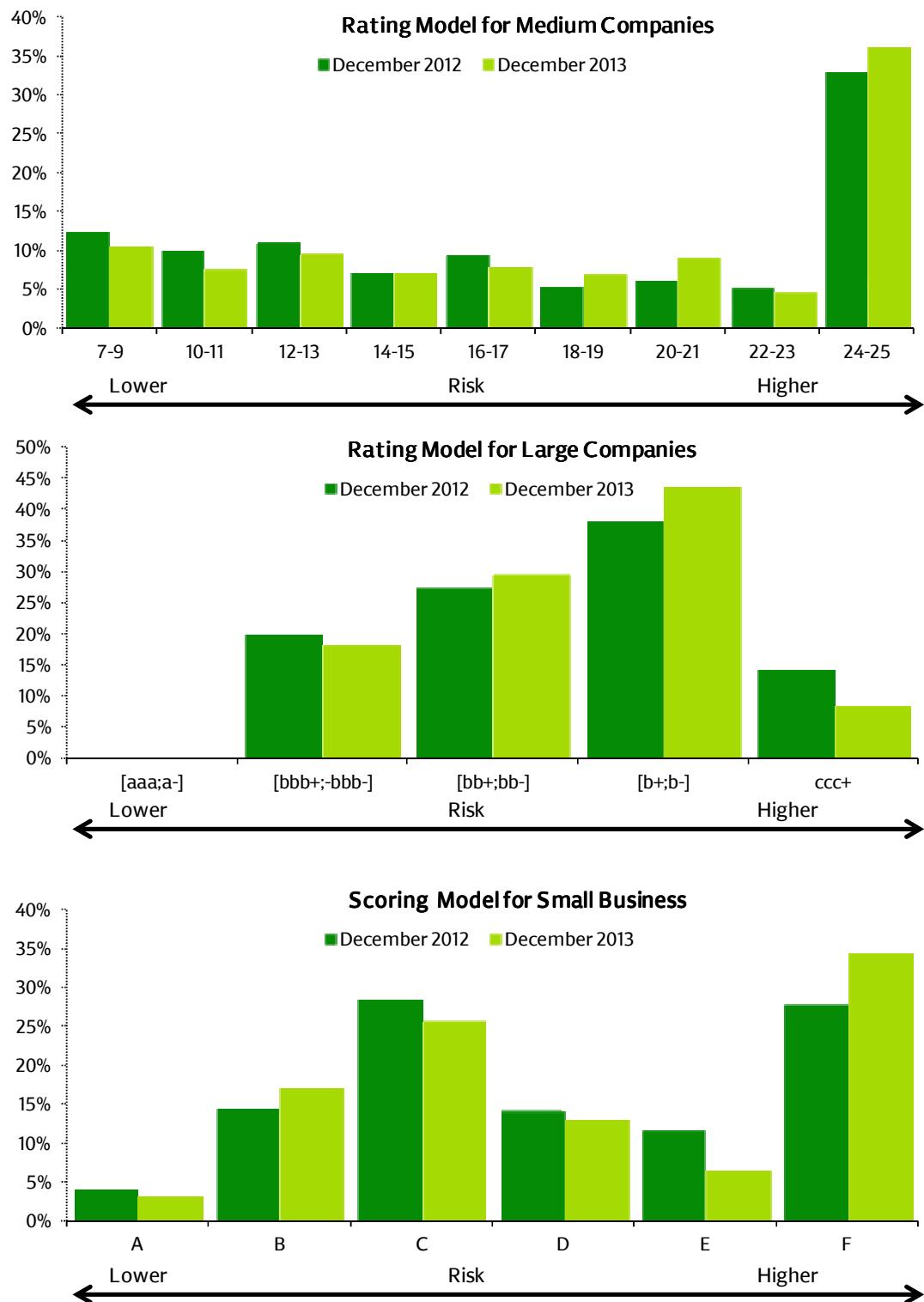
Geographic Breakdown of Credit Portfolio

(EUR million)



Loan portfolio breakdown by risk rating

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



Asset Quality

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

Asset Quality

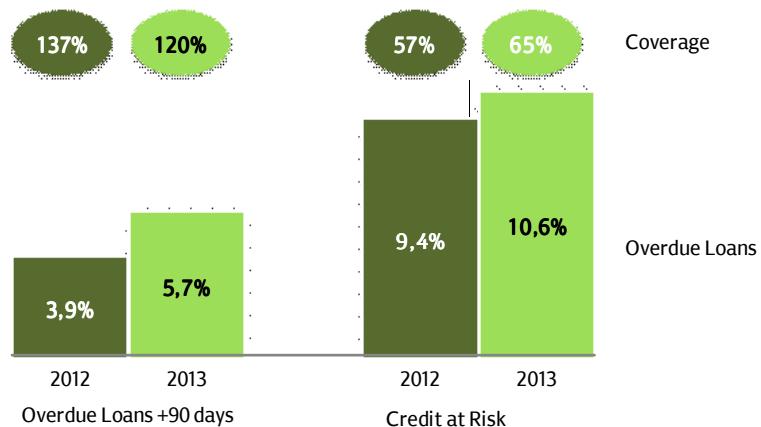
			EUR million	
	DEC 2012	DEC 2013	Change	
			absolute	relative
Gross Loans	50.399	49.722	-676	-1,3%
Overdue Loans	2.185	2.990	805	36,8%
Overdue Loans + 90 days	1.966	2.826	860	43,7%
Credit at Risk ⁽¹⁾	4.758	5.249	491	10,3%
Restructured Credit ⁽²⁾	-	5.846	-	-
Restructured Credit not included in Credit at Risk ⁽²⁾	-	4.678	-	-
On Balance Sheet Provision Reserve	2.692	3.387	695	25,8%
Credit Provisions	815	1.005	190	23,3%
<hr/>				
(%)				
Overdue Loans / Gross Loans	4,34%	6,01%	1,67	p.p.
Overdue Loans + 90 days / Gross Loans	3,90%	5,68%	1,78	p.p.
Credit at risk ⁽¹⁾ / Gross Loans	9,44%	10,56%	1,12	p.p.
Restructured Credit ⁽²⁾ / Gross Loans	-	11,76%	-	-
Restructured Credit not included in Credit at Risk ⁽²⁾ / Gross Loans	-	9,41%	-	-
Coverage of Overdue Loans	123,2%	113,3%	-9,9	p.p.
Coverage of Overdue Loans + 90 days	136,9%	119,9%	-17,1	p.p.
Coverage of Credit at Risk ⁽¹⁾	56,6%	64,5%	7,9	p.p.
Provisions for Credit / Gross Loans	5,34%	6,81%	1,47	p.p.
Cost of Risk	1,62%	2,02%	0,40	p.p.
Provision Charge net of Recoveries	1,57%	1,98%	0,41	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.

(2) According to BoP Instruction n°32/2013.

The overdue loans (>90 days) ratio increased to 5.68% (Dec.12: 3.90%). The corresponding provisions coverage, though declining by 17.1 pp (Dec.12: 136.9%), remained at a comfortable 119.9%.

Overdue Loans and Provisions Coverage



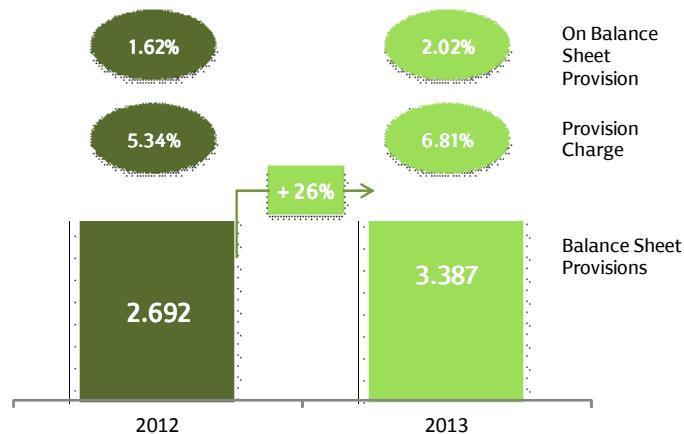
Reflecting the deterioration of the social and economic context, the credit at risk ratio increased to 10.6%, from 9.4% in December 2012. This increase was mainly driven by corporate overdue loans (where the ratio rose from 10.0% to 11.4%) due to the weight of this segment in the total portfolio.

Credit at Risk

	Non-Performing Loans		Coverage		Provision Balance	
	2012	2013	2012	2013	2012	2013
Total Loans	9,44%	10,56%	57%	65%	5,34%	6,81%
Corporate	10,02%	11,41%	64%	72%	6,37%	8,16%
Mortgage	7,28%	7,19%	21%	24%	1,52%	1,69%
Individuals (other)	10,54%	12,72%	69%	74%	7,28%	9,36%

Credit provisions were increased from 2.02% of gross loans in 2012 to 2.02% in 2013, corresponding to a credit impairment cost of EUR 1,005 million. As a result, the balance of provisions for credit increased by 26% year-on year, with the average impairment cost rising from 5.34% to 6.81%.

Credit Provisions



B.2. Exposure to Emerging Markets

As of December 31st, 2013, the foreign currency exposure to emerging markets as determined under the Bank of Portugal country risk criteria was EUR 4,257 million, which represents 5.3% of consolidated assets (December 31st, 2012: 6.8%)

Country	BoP risk weight	Dec - 12 net exposure		Dec - 2013					EUR million
				gross exposure*		guarantees and deductions**	net exposure		
		total	in foreign currency	Total	fair value reserve		Total	in foreign currency	structure (%)
Latin America		2 785	921	3 389	0	649	2 740	496	30
Bahamas	10%	0	0	2	0	1	1	1	0
Brazil	0%	2 548	685	2 494	0	41	2 453	221	26
Mexico	0%	50	50	149	0	76	72	60	1
Panama	0%	149	149	280	0	76	204	204	2
Venezuela	50%	2	2	444	0	444	0	0	0
Other		35	35	20	0	11	9	9	0
Eastern Europe		123	42	184	0	6	178	49	2
Croacia	10%	0	0	0	0	0	0	0	0
Ukraine	50%	0	0	1	0	1	0	0	0
Other		123	42	182	0	5	178	48	2
Asia - Pacific		71	59	519	0	414	105	31	1
China	0%	2	2	4	0	2	2	2	0
India	10%	4	4	358	0	353	5	3	0
Macao	0%	64	52	96	0	0	96	25	1
Turkey	10%	0	0	1	0	0	0	0	0
Other		0	0	60	0	59	1	1	0
Africa		7 473	4 639	8 270	0	2 016	6 253	3 682	67
South Africa	0%	16	16	21	0	21	0	0	0
Angola	10%	7 322	4 488	8 100	0	1969	6 131	3 560	66
Cape Verde	10%	113	113	105	0	2	102	102	1
Marroco	10%	1	0	1	0	1	0	0	0
Other		21	21	43	0	23	19	19	0
Total		10 452	5 661	12 361	0	3 084	9 276	4 257	100
% Net Assets		13,2%	6,8%	15,3%			11,5%	5,3%	

* exposure net of provisions for country risk

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

BES Group operates in various countries, namely in Angola and Brazil. The Group's net exposure to these two countries represents 66% and 26%, respectively, of its overall net exposure to the emerging markets.

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, 2013, 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 36.8 million, which compares with EUR 38.1 million on December 31st, 2012 (EUR 57.8 million if including BESI Group's credit spread on December 31st, 2012).

Value at Risk 99% - 10 days

EUR million

	Dec 13	Maximum 2013	Average 2013	Dec 12*
Equity and Commodities	11,2	21,4	12,6	15,0
Interest Rate	5,5	9,3	7,1	8,8
FX	11,2	11,0	9,2	3,4
Volatility	3,1	4,1	5,8	7,1
<i>Credit Spreads</i>	16,8	33,9	23,9	13,9
Diversification Effects	-10,9	-14,8	-11,0	-10,1
Total	36,8	65,0	47,7	38,1

* Does not include VAR from bonds and CDS credit spread from BESI

Equity, FX, and credit spread risks are the most representative in the total VaR (EUR 36.8 million).

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, 2013 the risk factors to which BES Group was more exposed were South American equity indices, South America's credit spread and African exchange rates.

		EUR million
		Loss
Interest Rate Risk	27% parallel yield curve shift North America	6,0
	25% yield curve twist North America	3,0
	25% parallel yield curve shift Europe	4,2
	15% yield curve twist Europe	2,8
FX Risk	17% change in Africa Countries	55,1
	55% change in South American Countries	12,7
	10% change in North American Countries	7,2
Equity Risk	50% change in South American Indexes	65,9
	23% change in European indexes	7,5
Volatility Risk	15% changes in volatility in South American Indexes	5,6
	100% change in interest rate volatility in American Countries	2,0
	95% changes in volatility in European Indexes	1,1
Credit Spreads Risk	215% change in credit spreads in South American Countries	95,0
	65% change in credit spreads in European Countries	4,6

6.2.2. Banking Book Risks

Other risks in the banking book arise from adverse movements in interest rates, credit spreads, the market value of securities and real estate concerning non-trading exposures in the balance sheet. The interests of BES VIDA are independently monitored by this company's risk area.

6.2.2.1. Interest rate risk

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

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).

With regard to demand deposits with undetermined duration, based on historical data ca. 74% are considered as 'core deposits', i.e., with maturity of up to 3 years and the remainder as sight deposits.

Interest rate risk measurement basically consists in determining the effect of changes in interest rates on equity and net interest income. On December 31st, 2013, interest rate risk, measured as its impact on BES Group's shareholders' equity, was EUR 179 million, which compares with EUR 24 million at the end of 2012.

The interest rate risk on the banking book essentially derives from the combination of long-term fixed-rate credit and bonds with liabilities represented by long-term fixed-rate securities and customer funds.

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 a confidence interval of 99%. On December 31st, 2013 this value was EUR 313 million.

6.2.2.2. Credit Spread Risk

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

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

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

Securities held to maturity are not taken into account in the calculation of the credit spread risk.

6.2.2.3. Risk of Equity Instruments and Other Variable Income Securities

BES Group is also subject to other types of banking book risk, namely the risk of Equity Holdings, Mutual Funds and Bearer Insurance Certificates (BICs). These risks may be broadly 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 includes the FX risk in equities in the available for sale portfolio and in the portfolio of assets at fair value.

With regard to the risk of equity holdings, it should be noted that a large part of the holding in EDP has been sold.

Finally, this is complemented by the analysis of simulated extreme scenarios.

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

6.2.2.4. Real Estate Risk

Real estate risk arises from adverse changes in the market value of real estate assets on the Bank's balance sheet.

The real estate risk is measured on the basis of the 1-year historical VaR with a confidence interval of 99%.

6.2.3. Pension fund risk

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

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

The *estimated return on the fund's assets* represents the maximum loss 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 considered as 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 priority in operational risk management is to identify and mitigate or eliminate risk sources, even if these have not resulted in financial losses.

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 operational risk management model 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 operational risk representatives from the Group's departments, branches and subsidiaries and their teams, who must guarantee that the established procedures are implemented and are responsible for the day-to-day management of operational risk, their participation being crucial.

Other departments also participate in the established Management Model, namely the Compliance Department through its Internal Control System Management Unit, the Internal Audit Department, and the Security Management and Coordination Department.

The Global Risk Department and the Operational Risk representatives appointed by BES Group's relevant financial institutions are responsible for implementing operational risk management practices in accordance with the established methodologies, including the following:

- Identification and reporting of operational risk incidents in BES Group's corporate platform. This database not only considers loss-originating events but also events with positive impacts or others with no accounting impacts. Knowledge about all these situations is essential to permit the mitigation of risk.
- Execution of procedures to control the registration of events in order to verify the effectiveness of the identification processes implemented in each financial institution and at the same time ensure the capture and conformity of the information on incidents with financial impacts. The key control process consists in checking the financial movements booked under certain items against the incidents recorded in the database;

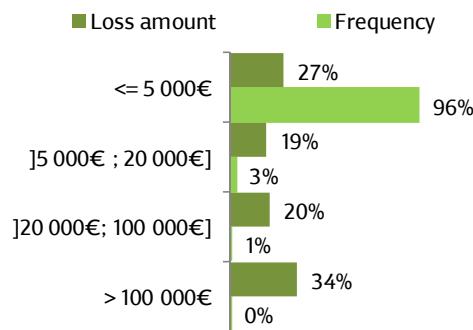
- Identification and systematisation of risk sources and potential incidents in order to define incident reporting responsibilities within the institutions and thus promote a risk awareness culture and further improve the established identification process;
- Regularly carrying out self-assessment exercises to identify the larger risks and corresponding mitigation actions;
- Monitoring of risk factors through group-wide key risk indicators (KRI) permitting a comparative analyses, as well as specific indicators as required by the risk control needs of certain units;
- Analysis of one-off scenarios for certain sources of risk;
- Definition and monitoring the implementation of measures to eliminate or mitigate the risk sources identified through the analysis of incidents, self-assessments, KRIs or workshops with the heads of the business units.
- Production of consolidated management information for BES Group's senior management as well as specific reports for certain business units.
- Training and sharing of experiences in a spirit of 'lessons learned' and adoption of best practices by BES Group's various units;
- Calculation of capital requirements in accordance with the Standardised Approach.

In 2013 the Group continued to make significant investments in the corporate IT platform (AGIRO), namely involving the development of new modules to manage the self-assessment exercises and monitor the KRIs which ensure group-wide data collection, treatment and control through specific workflows permitting, among others, the segregation of functions. The main tools for operational risk management are thus contained in a single platform. Nevertheless the Group continues to invest in further improving the IT platform and management processes through the automation of methods for mitigating risk sources, combining all the information and thus allowing for the integrated management of operational risk.

B. Analysis of Operational Risk

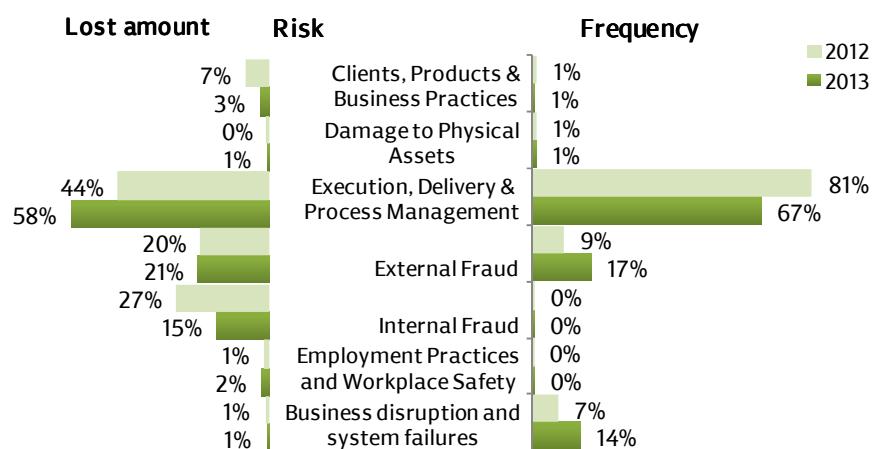
An analysis of BES Group's operational risk profile shows that incidents with low financial impact are quite frequent while incidents with a material financial impact are very few.

In 2013, 96% of the incidents had a financial impact below EUR 5,000, representing 27% of the total impact. Incidents with an impact above EUR 100,000 (34% of the total) were fewer than last year and measures were taken to solve them.



The operational risk incidents identified are duly fed into BES Group's Operational Risk application (AGIRO), which fully characterises and systematises them and controls the established mitigation actions. Every incident is classified in accordance with the risk categories defined in the Bank of Portugal's Risk Assessment Model, by business lines and Basel Risk types.

In 2013 the "Execution, delivery & process management" incidents registered the highest scores in terms of both frequency and lost amount, representing 58% of the total loss in the year.



Incidents of "External fraud" were more frequent in 2013 but their impact remained practically unchanged. 'Business Disruption and System Failures' incidents show an increase in loss volume, but this translates an improvement in the identification processes of operational risk rather than an increase in 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 Group's liquidity risk management structure is prepared to respond to new challenges, namely the scarcity of wholesale funding and the increasingly frequent and demanding changes in the regulation on liquidity and funding.

The Group has defined 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. 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. 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.2. 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 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 within the Group and its vision for long-term liquidity. These proposals are submitted to the Liquidity and Capital Committee, for approval, and this committee in turn submits them to the Executive Committee.

A.3. 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.4. 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 crises;
- 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.

B. Liquidity Risk Analysis

While the markets have not yet returned to a normal situation in terms of liquidity risk and the wholesale market was not fully operational during 2013, towards the end of the year and beginning of 2014 there was an improvement in sentiment about the European peripheral countries.

In this context the Group solved its funding needs mainly through the growth of deposits, which is patent in the increase of the loan to deposits ratio; from 137% in December 2012 to 121% in December 2013.

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 various degrees of run-off of retail and non-retail customer deposits.

As of December 31st, 2013 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 gives an image of the liquidity position of an institution's wholesale risk.

At December 31st, 2013 BES Group's liquidity gap up to one year was -0.1% (1.7% in December 2012), thus being aligned with that of the other banks in Portugal (2.0% in September 2013). This positive change, which reflects the Group's conservative management of liquidity risk, essentially resulted from the increase of deposits as a source of funding.

As at December 31st, 2013 BES Group complied with the limit established for 2015 for the Basel III Liquidity Coverage Ratio (LCR).

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 from a perspective of settlement where BES Group's intention is to protect its capacity to redeem senior debt and deposits. The confidence interval used to estimate the risks in this perspective is in line with the risk appetite defined for BES Group. In the ICAAP exercise conducted in 2013, and as it had already done in 2012 and 2011, BES Group opted to focus only on the settlement perspective, and to not take into account the going concern perspective. The reason for taking this approach was 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 underway, the going concern perspective, which assumes that the previous model is maintained, was 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, strategy risk and business risk.

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, taking into account the funding and capitalisation plan.

2013 was again marked by an unfavourable macroeconomic environment, with GDP estimated to have fallen by 1.4%, after having already contracted in previous years (2009, 2011 and 2012). 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 as of December 31st, 2012, in Portugal Telecom and EDP Energias de Portugal, (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, and (iii) the real estate risk, arising from assets received as payment in kind, assets not used in the operation and holdings in real estate investment funds.

In 2012 the total economic capital requirements decreased by ca. 7% relative to 2011 (on a comparable basis and after diversification effects), essentially through the reduction of requirements for credit risk (through the reduction of credit exposure and concentration) and the reduction of interest rate risk in the banking book.

The results obtained through the ICAAP exercise conducted with respect to December 31st, 2012, which were delivered to the Bank of Portugal in July 2013, concluded that BES's regulatory capital is sufficient to cover the risks incurred, from both the regulatory and 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.

Under the Portuguese banking regulations (Bank of Portugal Notice 3/2011) the Portuguese banks should report a Core Tier I ratio of 10%. On the other hand, since June 30th, 2012, European banks, including Portuguese banks, should post a Core Tier I of 9%, calculated according to the definition established by the European Banking Authority (EBA).

Solvency		
	Dec.	
	Dec. 2012	2013
Core TIER I	10.5%	10.6%
TIER I	10.4%	10.4%
Solvency	11.3%	11.8%

Bank of Portugal criteria

BES Group's Core Tier I ratio was 10.6% in December 2013 thus meeting the Bank of Portugal's requirement (minimum of 10%). Under the EBA calculation method, the Core Tier I ratio is 9.8%, which is well above the minimum 9% established by the European authority.

Regulatory Capital

The information on regulatory capital is provided in chapter 6 – Financial Analysis, point 6.3., of this report.

Risk Weighted Assets

As of December 31st, 2013, Risk Weighted Assets totalled EUR 57,492 million, of which EUR 53,011 million (92% of the total) corresponded to credit and counterparty risk, EUR 1,227 million to market risk and EUR 3,254 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 Notice 5/2007.

The EUR 3,473 million reduction in credit risk-weighted assets in 2013 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, which among others involved the following:

- sale of a large part of the stake in EDP;
- proactive sale of real estate assets obtained through credit recoveries;
- synthetic securitisation of corporate loans;
- reinforcement of the guarantees received in order to mitigate risk.

	EUR million					
	Domestic Activity		International Activity		Total	
	Risk weighted assets	Risk weight (I)	Risk weighted assets	Risk weight (I)	Risk weighted assets	Risk weight (I)
Central Authorities or Central Banks	34	1%	694	22%	728	8%
Institutions	1.112	21%	421	36%	1.533	23%
Corporate	29.689	71%	10.840	73%	40.529	72%
Retail	2.825	21%	491	72%	3.316	24%
Other	6.374	63%	371	77%	6.745	63%
Total	40.035	52%	12.816	63%	52.851	55%

(I) Risk Weight: risk weighted assets/original exposure

In terms of geographical distribution, the international activity contributed with EUR 12,918 million, or 24%, to total Risk Weighted Assets, while the domestic activity contributed with EUR 40,093 million. By categories of risk, the corporate segment represented 77% 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, 2013 the capital requirements for risk weighted assets amounted to EUR 1,227 million, with the main contributors being Interest Rate/Debt Instruments Risk (66% of the total) and Foreign Exchange Risk (31%).

Trading Book Risk Weighted Assets

		(Eur million)		
		Dec.12	Dec.13	Change
Debt Instruments	Specific risk	632	233	-400
	General risk	566	573	7
	CIE *	4	0	-4
Equity Instruments	Specific risk	55	18	-36
	General risk	17	20	2
	CIE *	0	0	0
Commodity risk		1	0	-1
Fx risk		228	384	155
Total		1 503	1 227	-276

* Collective investment entities - Investments funds

The reduction in requirements in 2013 mainly resulted from a decrease in the specific interest rate risk, which was in part offset by an increase in fx 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 2013 risk-weighted assets decreased by EUR 440 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).

	EUR million			
	2012		2013	
	Capital charge	RWA	Capital charge	RWA
	295	3.694	260	3.254
Corporate Finance	9	114	9	117
Tranding and sales	22	280	-18	-223
Retail brokerage	2	29	2	29
Commercial banking	188	2.351	193	2.416
Retail banking	63	790	63	789
Payment and settlement	0	0	0	0
Agency services	0	4	0	4
Asset management	10	126	10	121

Basel III

In 2013 the European Parliament and the Council approved Regulation (EU) no. 575/2013 and Directive 2013/36/EU which transposed into community rules the prudential regulatory framework designated as “Basel III”, which shall apply as from January 2014.

Under the new calculation rules for credit risk weighted assets, these could reach EUR 60,871 million in December 2013, if considering the transitory period, or EUR 60,871 million, if fully implemented, which would permit to report a Common Equity Tier I ratio of 10.2% in the first case and 8.2% in the second, both being above the minimum ratio required from the Portuguese banks (7%).

7. ACTIVITY AND RESULTS

Despite the difficulties and constraints that characterised 2013, BES Group took a set of measures aimed at improving its financial strength, liquidity and efficiency, while maintaining a high provisioning coverage of risks,

- the **Core Tier I** ratio, through a set of measures that will be detailed in a separate chapter of this report, increased to 10.6%, despite the negative impact on equity of the net loss for the year (-113 basis points impact on Core Tier I);
- **Liquidity improved noticeably**, with the loan to deposits ratio reaching 121%, mainly reflecting the deposits increase, while net funding from the ECB dropped to EUR 5.4 billion and the pool of collaterals eligible for rediscount reached EUR 20.9 billion;
- **Operating costs decreased**, in line with the cost-cutting programme defined for the domestic area (EUR 100 million reduction over the 2013-2015 period): on a comparable basis total operating costs dropped by 2.0% year-on-year, with domestic costs falling by 5.3%, supported by reductions in both staff costs and suppliers and external services; and
- **Provisions were increased** by EUR 1.2 billion, from 1.6% of gross loans in 2012 to 2.0% in 2013 - corresponding to a credit impairment cost of EUR 1,005.1 million (+35.7%) -, raising the Provisions for Credit / Gross Loans ratio to 6.8% (Dec.12: 5.3%)

7.1. Activity

General Overview

The performance of the Portuguese economy in 2013 continued to be constrained by the targets set in the Economic and Financial Adjustment Programme. In this context BES Group's activity during the year focused on reinforcing the equilibrium and strength of the balance sheet, through the following main initiatives: (i) deployment of a deleveraging programme that permitted the sustained improvement of the loan to deposits ratio; (ii) funding structure emphasising customer funds (deposits and life insurance products), with a reduction in the weight of debt securities; and (ii) maintaining buffers at capitalisation levels in order to ensure compliance with the regulatory ratios and hence the Group's strategic autonomy.

Assets, Credit and Customer Funds

	Dec,12	Dec,13	EUR million	
			Change absolute	Change relative
Total Assets⁽¹⁾	97 765	93 342	-4 423	-4,5%
Assets	83 691	80 608	-3 083	-3,7%
Customer Loans (Gross)	50 399	49 722	- 677	-1,3%
Loans to Individuals	13 762	13 198	- 564	-4,1%
- Mortgage	11 134	10 815	- 319	-2,9%
- Other Loans to Individuals	2 628	2 383	- 245	-9,3%
Corporate Lending	36 637	36 524	- 113	-0,3%
(SME's Winners Loans)	1 324	1 381	57	4,3%
Total Customer Funds	56 188	56 838	650	1,2%
On-Balance Sheet Customer Funds	44 785	46 577	1 792	4,0%
- Deposits	34 540	36 831	2 291	6,6%
- Debt Securities placed with Clients ⁽²⁾	5 254	3 713	-1 541	-29,3%
- Life Insurance Products	4 991	6 033	1 042	20,9%
Off-Balance Sheet Funds	11 403	10 261	-1 142	-10,0%

(1) Net Assets + Asset Management + Other Off-Balance Sheet Liabilities + Securitised unconsolidated credit

(2) Includes funds related to consolidated securitisations and commercial paper

Total assets decreased by 4.5% due to the overall slowdown of activity and also as a result of the deleveraging programme. Net assets were down by 3.7%, in line with the deleveraging effort. Customer loans show one of the highest reductions from among all asset components, dropping by EUR 677 million (-1.3%), with decreases across all segments but particularly in Other loans to individuals (-9.3%); Corporate loans declined by 0.3%, but loans to Winner companies increased by 4.3%.

Total customer funds increased by 1.2%. Customer deposits rose by 2,291 million (+6.6%), while on-balance sheet customer funds (bonds and other securities) decreased by EUR 1.5 billion. Off-balance sheet funds fell by 10.0%, driven by the contraction in portfolio management and mutual funds, while bancassurance showed a positive performance.

Off-Balance Sheet Funds

	EUR million			
	Dec,12	Dec,13	Change	
			absolute	relative
Mutual Funds	5 115	4 045	-1 070	-20,9%
Real Estate Funds	1 076	1 080	4	0,4%
Pension Funds	1 783	1 907	124	6,9%
Bancassurance	90	160	70	78,4%
Portfolio Management	1 960	680	-1 280	-65,3%
Discretionary Management and Other	1 379	2 389	1 010	73,3%
Total	11 403	10 261	-1 142	-10,0%

International Activity

The international area continued to reinforce its share of the Group's total activity, notwithstanding the early stage of its more recent units, the difficulties experienced by several emerging economies and the strategic adjustments and internal reorganisations undertaken by some of the units. Hence assets grew by 8.0%, the loan portfolio by 4.8% and total customer funds by 11.8%.

International Banking Business

	EUR million			
	Dec,12	Dec,13	Change	
			absolute	relative
Total Assets ⁽¹⁾	27 513	29 193	1 680	6,1%
Net Assets	24 515	26 479	1 964	8,0%
Customer Loans (Gross)	12 208	12 795	587	4,8%
Total Customer Funds	13 494	15 089	1 595	11,8%

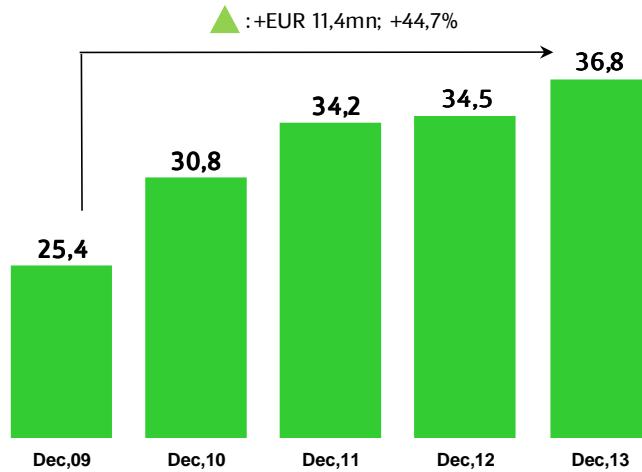
⁽¹⁾Net Assets+Asset Management+Other Off-Balance Sheet Liabilities+Securitised unconsolidated credit

7.2. Liquidity Management and Transformation Ratio

The imposition of a loan to deposits ratio of ca. 120% to be reached in December 2014 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. 45% since 2009, representing an increase of EUR 11.4 billion in five years.

Deposits

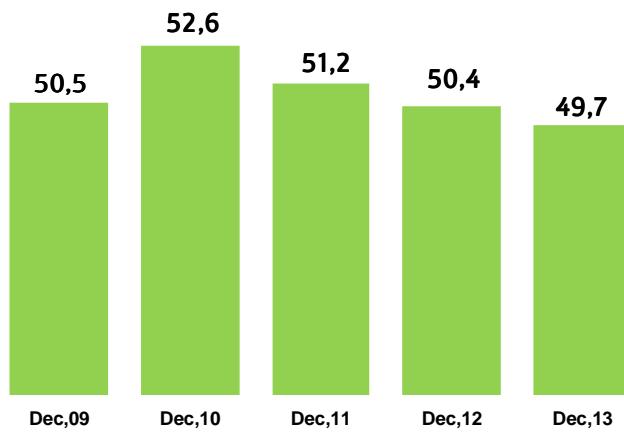
(EUR bn)



Reflecting the deleveraging effort (focus on deposit taking and reduction of credit) pursued in 2013, the loan book contracted by EUR 677 million while deposits increased by EUR 2,291 million.

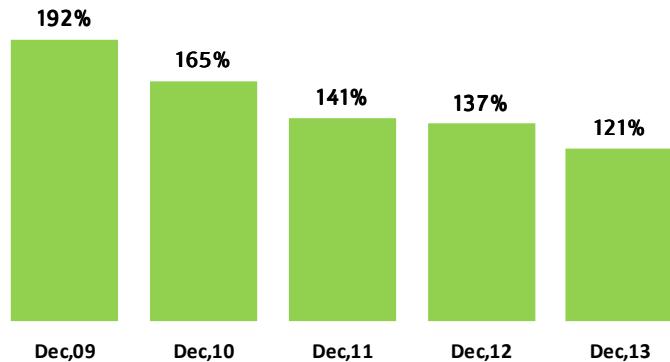
Evolution of Gross Loans

(EUR bn)



The loan to deposits ratio maintained the downward trend of the previous years, reaching 121% at the end of 2013 (down by 16pp on the end of 2012 and 71pp on the end of 2009). This was due to a strong increase in customer deposits acquisition (up by 6.6%, i.e. EUR 2.3 billion) combined with a EUR 1.4 billion reduction in customer loans net of provisions for impairments.

Loan to Deposits Ratio (1)



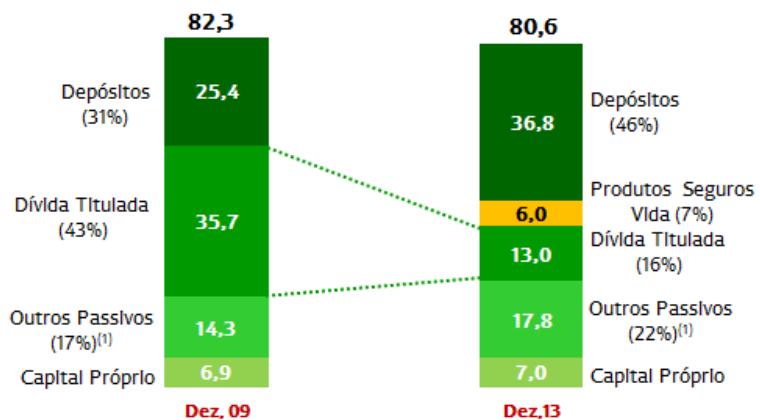
(1) Ratio calculated under BoP Funding & Capital Plan

As to other funding components, net funding from the ECB decreased by 60.4% from the peak attained in June 2012, to EUR 5.4 billion.

In the course of 2013 the structure of liabilities and equity continued to improve along the previous lines, i.e., towards an increase in the share of customer deposits and lower reliance on the financial markets, thus making financial management more autonomous and less dependent on cyclical fluctuations in the debt markets.

Structure of liabilities and equity

(EUR bn)

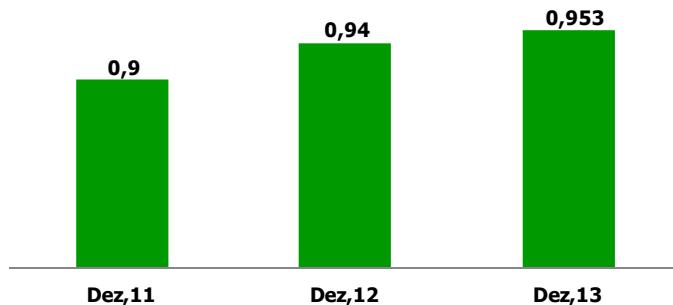


⁽¹⁾ Inclui financiamento do BCE

At the end of 2013 deposits remained the main asset financing source (46%, or 53% if including customer funds in the form of life insurance products), while debt securities accounted for 16% only - a marked reversal since the end of

2009 (immediately before the escalation of the eurozone crisis at the start of 2010) when debt securities accounted for 43% and deposits for 31% only of the total asset financing sources. The increase in customer funds as an asset financing source positively reflected on the stable funding ratio, which rose to 95%.

Net stable funding ratio (1)



⁽¹⁾ Calculated under BoP Funding & Capital Plan

7.3 Capitalisation and Capital Adequacy Ratios

a. Equity

Equity, through its balance-sheet components, reflects the net loss for the year and the increase in the negative value of revaluation reserves due to the variation in fair value reserves, namely for fixed income debt securities.

Total Equity

	EUR million		
	Dec,12	Dec,13	chg
Capital	5 233	5 199	- 34
Ordinary	5 040	5 040	0
Preferred	193	159	- 34
Share Premium	1 070	1 068	- 2
Other Capital Instruments	29	29	0
Own Shares	- 7	- 1	6
Revaluation Reserves	- 687	- 938	- 251
Other Reserves and Retained Earnings	1 329	1 406	77
Net Income	96	- 517	- 613
Minority Interests	670	803	133
Total	7 733	7 049	- 684

b. Basel III

In the context of the Basel III prudential framework, the European Parliament and the Council approved Regulation (EU) no. 575/2013 and Directive 2013/36/EU which establish the applicable prudential requirements for credit institutions and investment firms in the European Union.

Within the scope of the Programme of Economic and Financial Assistance to Portugal, a set of rules to be observed by the Portuguese banks were agreed with the European Commission, the European Central Bank and the International Monetary Fund and laid down in Bank of Portugal's Notice 6/2013, of December 30th, namely establishing the following:

- minimum common equity Tier I of 7%; and
- The coefficients and percentages to be used for the calculation of own funds during the transitory periods, including:

BoP Notice 6/2013	2014	2015	2016	2017	2018	2019	....	2024
1. Deduction of unrealised losses on assets measured at fair value (1)	20%	40%	60%	80%	100%			
2. Exclusion of unrealised gains on assets measured at fair value (1)	100%	60%	40%	20%	0%			
3. Deferred tax assets (DTA) that rely on future profitability (2)	0%	10%	20%	30%	40%	50%		100%
4. Items that do not qualify as the minority interests (3)	80%	60%	40%	20%	0%			
5. Recognition in consolidated own funds of minority interests and qualifying additional Tier 1 and Tier 2 capital	20%	40%	60%	80%	100%			
6. Additional filters and deductions (e.g. Securitised assets, cash flow hedges)	80%	60%	40%	20%	0%			
7. Limits for grandfathering of items within additional Tier 1 and Tier 2 items	80%	70%	60%	50%	40%	30%	....
8. Other deduction items (e.g. Intangible assets, equity holdings, pension funds)	20%	40%	60%	80%	100%			

(1) Do not include in any element of own funds unrealised gains or losses on exposures to central governments classified in the "Available for Sale" category of EU-endorsed IAS 39 until the IAS 39 is not replaced

(2) Deduction calculated by multiplying the applicable % to the existing DTA on the balance sheet as of 31 Dec. 13; future increases follow the general rule in point 8.

(3) determined by multiplying the % by the Minority Interests surplus

c. Risk Weighted Assets, Eligible Capital and Regulatory Capital

BES Group's solvency ratios are currently 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.

Under the Portuguese banking regulations (Bank of Portugal Notice 3/2011) the Portuguese banks should report a Core Tier I ratio of 10%. On the other hand, since June 30th, 2012, European banks, including Portuguese banks, should post a Core Tier I of 9%, calculated according to the definition established by the European Banking Authority (EBA).

The capital base is managed with aim of complying with the reference values established by the Bank of Portugal and the EBA. During the year a number of initiatives were taken to reinforce BES Group's capital ratios, namely:

- BES Vida's reinsurance of its individual life risk portfolio (+ 40 bps);
- sale of a large part of the stake in EDP (+ 7 bps);
- proactive sale of real estate assets obtained through credit recoveries (+ 8 bps);
- synthetic securitisations (+ 30 bps);
- Tier II subordinated debt issues;
- BES Angola capital increase (+25 bps); and
- reinforcement of the guarantees received in order to mitigate risk.

The Board of Directors wishes to stress the importance of the Sovereign Guarantee provided to BES Angola given the prominent role which our subsidiary has assumed in the financing of Angolan non-oil companies in the private sector, and especially those operating in key industry sectors for the success of the Republic of Angola's Medium-Term National Development Plan for 2013-2017.

The table below provides the relevant information about risk weighted assets, regulatory capital and solvency ratios under the BIS II IRB and CRD IV/CRR approach:

Risk Weighted Assets, Eligible Capital and Regulatory Capital

		According to BoP (BIS II)		According to BIS III (CRD IV/CRR)	
		Dec,13		from Jan,14	
		31-Dec-12	31-Dec-13	Phasing in	fully implemented
Net Assets	(1)	83 691	80 608	-	-
Risk weight	(2)/(1)	74%	71%	-	-
Risk Weighted Assets	(2)	61 681	57 332	60 871	60 330
Banking Book		56 484	52 851	56 390	55 849
Trading Book		1 503	1 227	1 227	1 227
Operational Risk		3 694	3 254	3 254	3 254
Regulatory Capital					
Core Tier I	(3)	6 471	6 084	6 193	4 933
Core Tier I EBA	(3')	6 092	5 646	-	-
Tier I	(4)	6 439	5 959	6 193	5 002
Tier II and Deductions		518	781		
Total	(5)	6 957	6 740	7 120	5 988
Core TIER I	(3)/(2)	10,5%	10,6%	10,2%	8,2%
Core TIER I EBA	(3')/(2)	9,9%	9,8%	-	-
TIER I	(4)/(2)	10,4%	10,4%	10,2%	8,3%
Solvency Ratio	(5)/(2)	11,3%	11,8%	11,7%	9,9%

Core Tier I capital decreased by EUR 387 million in 2013, mainly through the incorporation of the year's eligible results, this being mainly offset by the positive impacts of BES Vida's reinsurance operation and BES Angola's capital increase. Risk weighted assets decreased by EUR 4.3 billion due to the general activity reduction and consequent decrease in assets (by EUR 3.1 billion), and also the risk mitigation measures implemented. Additional capital increased to EUR 781 million, namely through a EUR 750 million Tier II debt issue that was already compliant with the BIS III requirements.

In the context of BIS II, the Core Tier ratio increased to 10.6%, well above the Bank of Portugal's requirement (minimum of 10%); under the EBA calculation method, the Core Tier I ratio increased to 9.8%, which is also above the minimum 9% established by the European authority. Under BIS III (CRD IV/CRR), the Common Equity Tier I ratio is 10.1%, or 8.1% if fully implemented.

7.4 Results

Though showing an improvement in the fourth quarter, 2013 was a particularly harsh year for Portugal as a result of the economic and financial adjustment process, which has led to the closure of many businesses and widespread staff cutbacks, and naturally reflected onto the performance of the financial sector.

BES Group posted a net loss of EUR 517.6 million in 2013 which resulted from the reduction of banking income (-26.3%) and the reinforcement of provisions for impairments (+18.6%).

Income Statement

	2012	2013	EUR million	
			Change	
			absolute	relative
Net Interest Income	1 180,5	1 034,3	-146,2	-12,4%
+ Fees and Commissions	828,4	693,4	-135,0	-16,3%
= Commercial Banking Income	2 008,9	1 727,7	-281,2	-14,0%
+ Capital Markets and Other results	570,2	172,1	-398,1	-69,8%
= Banking Income	2 579,1	1 899,8	-679,3	-26,3%
- Operating Costs	1 149,1	1 137,0	-12,1	-1,1%
= Net Operating Income	1 430,0	762,8	-667,2	-46,7%
- Net Provisions	1 199,4	1 422,8	223,4	18,6%
Credit	814,8	1 005,1	190,3	23,4%
Securities	106,6	104,1	-2,5	-2,3%
Other	278,0	313,6	35,6	12,8%
= Income before Taxes and Minorities	230,6	-660,0	-890,6	....
- Income Tax	82,9	-172,5	-255,4	....
- Banking Sector Levy	27,9	27,3	-0,6	-2,2%
= Income before Minorities	119,8	-514,8	-634,6	....
- Minority Interests	23,7	2,8	-20,9	-88,0%
= Net Income	96,1	-517,6	-613,7	....

The main income statement items evolved as follows:

- **total banking income** fell by 26.3% year-on-year;
- **Capital markets and other results** were positive (EUR 172.1 million), though 69.8% below the previous year's, which had benefitted from a significant reduction in Portuguese sovereign yields;
- **Operating costs** dropped by 1.1% (-2.0% on a comparable basis), with domestic costs falling by 3.8% (-5.3% on a comparable basis);
- the **provision charge** for impairment losses reached EUR 1,422.8 million, in light of the economic downturn of the last few years; this includes the adjustments resulting from the "Credit portfolio impairment review exercise" ("ETRICC") requested by the Bank of Portugal (additional charge of EUR 28.7 million) and the revaluation of property under the terms of Bank of Portugal's Circular Letter 11/13/DSPDR with an impact of EUR 52.9 million; and
- the performance of **credit risk** indicators in the fourth quarter shows that the overdue loan ratios stabilised while the credit at risk ratio sharply declined, to 10.7% (Sep.13: 11.3%).

Domestic and International Activity

The international area's net income was positive, notwithstanding the problems faced by the emerging countries' economies, and contributed to cushion the losses reported by the domestic area. The international commercial banking income increased by 1.6% (+16.6% on a comparable basis), with net interest income rising by 31.8%).

International Commercial Banking Income

	2012		2013		YoY Change		EUR million
	Stated	Like-for-Like ⁽¹⁾			Stated	Like-for-Like	
Net Interest Income	357,1	357,1	470,9		31,8%	31,8%	
+ Fees and Commissions	295,4	211,4	192,0		-35,0%	-9,2%	
= Commercial Banking Income	652,5	568,5	662,9		1,6%	16,6%	

(1) excluding non recurrent commissions related to carbon certificates

The fall in capital markets and other results, the increase in operating costs (+4.9%), and the EUR 204.4 million provisioning cost prevented the international units from posting a more significant performance, causing their contribution to the consolidated results to drop by 75.0% year-on-year.

The domestic banking income contracted by 31.0% due to the impacts of the economic recession in Portugal. Operating costs were reduced by 3.8% (-5.3% on a comparable basis), translating the results of the ongoing cost rationalisation plan, while impairments were reinforced by EUR 1,218.4 million (+25.2%). The result was a net loss of EUR 539.5 million.

Income Statement

Domestic and International Activity

	EUR million					
	Domestic activity			International activity		
	2012	2013	Variação	2012	2013	Variação
Net Interest Income	823,4	563,4	-31,6%	357,1	470,9	31,8%
+ Fees and Commissions	533,0	501,4	-5,9%	295,4	192,0	-35,0%
= Commercial Banking Income	1 356,4	1 064,8	-21,5%	652,5	662,9	1,6%
+ Capital Markets and Other Results	499,2	216,0	-56,7%	71,0	-43,9	....
= Banking Income	1 855,6	1 280,8	-31,0%	723,5	619,0	-14,5%
- Operating Costs	782,0	751,9	-3,8%	367,1	385,1	4,9%
= Net Operating Income	1 073,6	528,9	-50,7%	356,4	233,9	-34,4%
- Net provisions	973,5	1 218,4	25,2%	225,9	204,4	-9,5%
Credit	723,8	848,5	17,2%	91,0	156,6	72,0%
Securities	103,3	101,2	-2,0%	3,3	2,9	-12,5%
Other	146,4	268,7	83,5%	131,6	44,9	-65,8%
= Income Before Taxes and Minorities	100,1	- 689,5	....	130,5	29,5	-77,4%
- Income Tax	66,6	-160,8	....	16,2	-11,7	....
- Banking Sector Levy	27,9	26,0	-6,9%	-	1,3	....
= Income Before Minorities	5,6	- 554,7	....	114,3	39,9	-65,1%
- Minority Interests	-2,9	-15,2	....	26,7	18,0	-32,1%
= Net Income	8,5	- 539,5	....	87,6	21,9	-75,0%

The United Kingdom increased results by close to 70% year-on-year, to EUR 32.6 million, driven by the expansion of wholesale funding, while results in France/Luxembourg rose by 63.1%, to EUR 10.3 million. The losses in Spain translate the provisioning costs in light of the economic recession in Iberia. Africa reduced its contribution to the consolidated results due to the performance of BES Angola, where a new strategic plan and business model are being implemented. In December BES Angola increased its share capital by USD 500 million with the aim of strengthening its capital base and be able to execute its business plan.

Breakdown of international results by geography

	EUR million		
	2012	2013	Chg
Africa ⁽¹⁾	33,9	19,3	- 14,6
Brazil	11,1	6,7	- 4,4
Spain	15,7	- 47,8	- 63,5
Strategic Triangle	60,7	- 21,8	- 82,5
United Kingdom	19,2	32,6	13,4
USA	5,9	2,8	- 3,1
France / Luxembourg	6,3	10,3	4,0
Macao	4,0	3,7	- 0,3
Other ⁽²⁾	- 8,5	- 5,7	2,8
TOTAL	87,6	21,9	- 65,7

⁽¹⁾ Angola, Mozambique, Cape Verde, Lybia and Algeria

⁽²⁾ Venezuela, Poland, Italy, India and Mexico

a. Net interest income and Net interest margin

The 12.4% year-on-year reduction in Net Interest Income, to EUR 1,034.3 million, was driven by the impacts of the domestic recession, the adjustment of the balance sheet to the financial constraints dictated by the Economic and Financial Adjustment Programme, and the repricing of assets and liabilities in light of the historically low levels of the Euribor.

Net interest income and Net interest margin

	2012			2013			EUR million
	Average Balance	Avg Yield (%)	Interest	Average Balance	Avg Yield (%)	Interest	
Interest Earning Assets	69 443	5,14	3 571	68 583	4,77	3 271	
Loan Portfolio	50 316	5,02	2 528	49 848	4,63	2 308	
Securities and Other	19 127	5,45	1 043	18 735	5,14	963	
Other Non-Interest Earning Assets	-	-	-	-	-	-	
	69 443	5,14	3 571	68 583	4,77	3 271	
Interest Bearing Liabilities	68 161	3,51	2 390	65 490	3,42	2 237	
Deposits	34 030	3,05	1 038	36 223	2,77	1 005	
Debt Securities and Other Liabilities	34 131	3,96	1 352	29 267	4,21	1 232	
Other Non-Interest Bearing Liabilities	1 282	-	-	3 093	-	-	
Total	69 443	3,44	2 390	68 583	3,26	2 237	
NIM / NII		1,70	1 181			1,51	1 034

During the year NII management was pursued amidst an adverse scenario marked by the following constraints: (i) restricted access to the medium and long term financial markets; (ii) the need to reduce funding from the ECB within a context of inexistence of an interbank market; (iii) fierce competition over corporate customers' funds (institutional and retail); (iv) poor performance of the economy with a negative impact on asset quality; (v) the lack of stimuli to perk up the economy and consequent weak demand for credit; and (vi) benchmark interest rates maintained at historical lows.

The net interest margin thus dropped from 1.70% to 1.51% (-19bps) as a result of the fall in the average interest rate on financial assets (-37bps, to 4.77%) having largely surpassed the drop in the average rate of financial liabilities (-18bps, to 3.26%).

b. Fees and Commissions

Fees and commissions decreased by 16.3% year-on-year in 2013, inevitably reflecting the sluggish economic environment in Portugal. Excluding the cost of the guarantees provided by the Portuguese State and the non recurrent fees booked by the international area in 2012, the reduction is 6.1% only%.

Fees and Commissions

Fees and Commissions Breakdown	2012	2013	Chg		EUR million
			absolute	relative	
Collections	17,0	15,7	-1,3	-7,7%	
Securities	73,4	74,3	0,9	1,2%	
Guarantees	139,6	138,7	-0,9	-0,6%	
Account Management fees	79,0	76,6	-2,4	-3,0%	
Commissions on Loans and Related ⁽¹⁾	155,4	152,5	-2,9	-1,9%	
Documentary Credit	87,1	105,1	18,0	20,7%	
Asset Management ⁽²⁾	85,9	87,9	2,0	2,3%	
Cards	56,7	34,0	-22,7	-40,1%	
Bankinsurance	47,6	29,5	-18,1	-38,0%	
Advisory, Servicing and Other ⁽³⁾	86,7	-20,9	-107,6	....
Total	828,4	693,4	-135,0	-16,3%	
Costs on State Guarantees	58,5	60,6			
BESA non-recurrent commissions	84,0	-			
Total (L-f-L)	802,9	754,0	-48,9	-6,1%	

(1) Includes commissions on loans, project finance, trade finance and factoring

(2) Includes asset management and discretionary management

(3) Includes costs related to state guarantee

Commissions on documentary credits show a relevant increase of 20.7%, driven by the development of the trade finance business with the emerging countries and reflecting BES's role in the opening of new markets to the Portuguese companies and its support of their internationalisation processes.

Asset management fees increased by 2.3% year-on-year, driven by the expansion of investment funds and portfolio discretionary management activities, with commission income from securities rising by 1.2% and commissions on guarantees provided remaining flat.

The fees and commissions more directly linked to the domestic corporate business, namely on collections, loans, and corporate and project finance, were lower than in 2012. Commission income from credit cards and account management (commissions on current accounts, transfers, and payment orders) was also harmed by the contraction of private consumption due to rising unemployment and shrinking disposable income of families. Commissions on bancassurance products (saving and non-life insurance products) also decreased, though picking up in the last quarters of the year.

c. Capital markets and other results

Capital markets and other results were positive (EUR 172.1 million), though substantially lower than in 2012 (EUR 570.2 million).

Capital markets and other results

Capital Markets and Other Results	2012	2013	EUR million Chg (absolute)
Interest Rate, Credit and FX	825,0	96,6	-728,4
Interest rate	781,3	123,9	-657,4
Credit	32,5	-27,1	-59,6
FX and Other	11,2	-0,2	-11,4
Equity	-126,5	107,1	233,6
Trading	-199,1	48,6	247,7
Dividends	72,6	58,5	-14,1
Other Results	-128,3	-31,6	96,7
Total	570,2	172,1	-398,1

2013 was marked by fears about the withdrawal of incentives by the FED and by social instability in a number of emerging countries, leading investors to consider that these markets did not offer an adjusted risk premium and in turn resulting in a sharp devaluation of these countries' assets and currencies.

BES Group achieved positive capital markets results, particularly in the interest rate and equities areas.

“Other Results” includes EUR 182 million (gross) of the reinsurance of BES Vida’s individual life risk portfolio under the agreement entered in 2013. In addition, it also includes EUR 40 million losses on insurance premiums and a EUR 48.8 million loss on the sale of non financial assets by a subsidiary abroad, booked in December.

d. Operating Costs

Total operating costs were reduced by EUR 1,137 million (-1.1% or EUR 12.1 million) year-on-year, with domestic costs decreasing by 3.8% and international costs increasing by 4.9%. Excluding the impact of the new consolidations, operating costs would have fallen by 2.0%.

Operating Costs

	2012	2013	Chg	
			absolute	relative
Staff Costs	598,9	575,0	-23,9	-4,0%
Admin Costs	442,1	454,1	12,0	2,7%
Depreciation	108,1	107,9	-0,2	-0,2%
TOTAL	1 149,1	1 137,0	-12,1	-1,1%
<i>Excluding new consolidations</i>	1 140,1	1 117,1	-23,0	-2,0%
Domestic	782,0	751,9	-30,1	-3,8%
<i>Excluding new consolidations</i>	773,0	732,0	-40,9	-5,3%
International	367,1	385,1	18,0	4,9%

Domestic costs continued to shrink, dropping by EUR 30.1 million (-3.8%), or by EUR 40.9 million (-5.3%) if excluding the impact of the new consolidations. International costs increased by 4.9% in 2013, mainly reflecting the costs of expansion in the Angolan market (opening of 30 new units during the year), though slowing down compared to 2012 (+9.3%) as a result of the extension of the Group's cost-cutting effort to its units abroad.

Staff Costs

	2012	2013	Change	
			absolute	relative
Remunerations	483,8	458,6	-25,2	-5,2%
Pensions, Long term service benefits & Other	115,1	116,4	1,3	1,1%
TOTAL	598,9	575,0	-23,9	-4,0%
<i>Excluding new Consolidations</i>	594,7	569,2	-25,5	-4,3%
Domestic	389,7	375,0	-14,7	-3,8%
<i>Excluding new Consolidations</i>	385,5	369,2	-16,3	-4,2%
International	209,2	200,0	-9,2	-4,4%

Domestic staff costs were down by 3.8% through reductions on variable remunerations and number of employees (-106 employees). Excluding the impact of the new consolidations, the reduction would be 4.2%. The 4.4% drop in the international staff costs, despite the increase in the number of employees (+378), mainly resulted from variable remuneration cuts.

The general administrative costs increased by 2.7%, with domestic costs dropping by 3.6% and international costs increasing by 18.2%).

Amortisation and depreciation also decreased in the domestic area (-5.4%), where 23 branches were closed and the streamlining of structures and processes has permitted a reduction of investment and consequent amortisation and depreciation, and increased in the international area (+13.3%), where new investments in tangible and intangible assets were required to pursue the development of the international business. The total was EUR 107.9 million, which is slightly less than in 2012 (EUR 108.1 million).

Gradual cost-cutting plan

In light of the challenges currently faced by the financial sector and the country's economic and financial context, BES Group has launched a programme aimed at gradually streamlining and reducing operating costs. The programme will be implemented in 2013-2015 and is expected to generate savings of EUR 100 million in the period, of which 3% in 2013, 5% in 2014 and 6% in 2015.

The EUR 30.1 million reduction achieved in domestic costs in 2013 (-3.8%) shows that the target for the year was achieved. Added to the cuts made in the last three years a total reduction of EUR 135 million (-15%) has been attained.

e. Efficiency

Efficiency indicators were harmed by the contraction in both commercial banking income and total banking income, notwithstanding the reduction in domestic operating costs:

Efficiency Indicators

	2012	2013	Change
Cost to Income	44,6%	59,8%	15,2 p.p.
Cost to Income (ex-markets)	57,2%	65,8%	8,6 p.p.

f. Provisions

The Group recognised impairment costs of EUR 1,422.8 million in 2013, which is nearly twice the gross income for the year and represents a year-on-year increase of 18.6%.

The reinforcement of provisions in 2013 comprises the following impacts:

- Physical revaluation by independent experts of all properties acquired through loan reimbursements (the last valuation had been prior to July 31st, 2012) pursuant to Bank of Portugal's Circular Letter 11/13/DSPDR, of September 20th - at year-end 2013 90% of all properties had been valued less than 12 months before, with only 10% having older valuations (between 12 and 18 months). This determined a devaluation of 3.7% that required a EUR 52.9 million additional provision charge. Real estate acquired by BES through loan foreclosures is valued based on the immediate sale value (ISV) of the properties; and
- Complementary credit portfolio impairment review carried out by a second independent auditor under the terms of the exercise defined by the Bank of Portugal ("ETRICC"), which led to an additional EUR 28.7 million reinforcement of the credit provision charge.

In light of the persisting economic downturn in Portugal and as a result of the referred impairment review processes, credit impairment charges were increased by 23.4%, to EUR 1,005.1 million, while the provision charge for securities totalled EUR 104.1 million; provisions for foreclosed real estate assets were EUR 218.2 million and provisions for impairments in other assets stood at EUR 95.4 million. The provision charge for other assets includes EUR 54 million that were originally linked to credit operations.

Provision charge

	2012	2013	EUR million	
			absolute	relative
Credit Provisions	814,8	1005,1	190,3	23,4%
Securities Provisions	106,6	104,1	-2,5	-2,3%
Foreclosed Assets	40,1	218,2	178,1	....
Other Provisions	237,9	95,4	-142,5	-59,9%
TOTAL	1199,4	1422,8	223,4	18,6%

At the end of 2013, provisions for credit registered in the Balance Sheet stood at EUR 3,387.4 million (+25.8% YoY), lifting the credit provisions/gross customer loans ratio to 6.8% (Dec.12: 5.3%). The credit provision charge in 2013 (2.02%) was 40 bps higher than in 2012 (1.62%).

Credit Provisions

	2012	2013	Change	
			absolute	relative
Gross Loans	50 399	49 722	- 677	-1,3%
Credit Provisioning Charge	814,8	1005,1	190,3	23,4%
Provisions for credit	2 692,3	3 387,4	695,1	25,8%
Provision Charge	1,62%	2,02%	0,40 pp	
Provisions for credit / Gross Loans	5,34%	6,81%	1,47 pp	

7.5. Profitability

The gross commercial margin - the indicator of current banking activity performance – dropped by 37bps due to reductions in the net interest margin (-19bps) and in fees and commissions (-18bps). The lower contribution of Capital markets and other results (-57bps) and a higher provisioning charge broadly explain the negative returns determined in 2013. As a result both return on equity (ROE) and return on assets (ROA) were negative.

Profitability Breakdown

	2012	2013	%
			Chg p.p.
Yield on Interest Earning Assets	5,14	4,77	-0,37
- Yield on Interest Bearing Liabilities	3,44	3,26	-0,18
= Net Interest Margin	1,70	1,51	-0,19
+ return on Commissions and Fees	1,19	1,01	-0,18
= Gross Commercial Margin	2,89	2,52	-0,37
+ Return on Capital Markets and Other Results	0,82	0,25	-0,57
= Business Margin	3,71	2,77	-0,94
- Weighting of Operating Costs	1,65	1,66	0,00
- Weighting of Provisions	1,73	2,07	0,35
- Weighting of Minorities and Other	0,19	-0,21	-0,40
= Return on Interest Earning Assets	0,14	-0,75	-0,89
x Weighting of Interest Earning Assets	0,84	0,83	-0,01
= Return on Assets (ROA)	0,12	-0,62	-0,74
x Placements multiplier	10,22	11,24	1,03
= Return on Equity (ROE)	1,25	-6,94	-8,19

7.6 Activity and Results of Banco Espírito Santo

Key Profits

	SIMBOL.	2009	2010	2011	2012	2013
BALANCE (Eur million)						
Net Assets	NA	74 120	75 334	74 087	68 748	66 168
Interestng Earning Assets (average)	IAE	60 063	65 762	63 961	60 174	58 394
Capital and Reserves (average)	KP	4 585	5 136	5 283	6 362	6 884
INCOME STATEMENT (Eur million)						
Net Interest Income	NII	909,1	662,4	653,9	658,2	395,0
+ Fees and Commissions	FC	468,7	498,6	483,7	455,3	463,3
= Commercial Banking Income	CBI	1377,8	1161,0	1137,6	1113,5	858,3
+ Capital Markets and Other Results	CMR	475,8	344,2	476,5	618,5	92,0
= Banking Income	BI	1853,6	1505,2	1614,1	1732,0	950,3
- Operating Costs	OC	766,8	861,9	781,1	763,0	742,1
- Provisions and Taxes	ProvT	672,6	387,3	966,1	847,0	670,8
= Net Income	NII	414,2	256,0	-133,1	122,0	-462,6
PROFITABILITY (%)						
Net Interest Margin	NII/IEA	1,51	1,01	1,02	1,09	0,68
+ Return on Fees and Commissions	FC/IEA	0,78	0,76	0,76	0,76	0,79
+ Return on Capital Markets and Other Results	CM/IEA	0,79	0,52	0,74	1,03	0,16
= Business Margin	BI/IEA	3,09	2,29	2,52	2,88	1,63
- Weighting of Operating Costs	OC/IEA	1,28	1,31	1,22	1,27	1,27
- Weighting of Provisions and Taxes	Prov/IEA	1,12	0,59	1,51	1,41	1,15
= Return on Financial Assets	RFA/IEA	0,69	0,39	-0,21	0,20	-0,79
× Weighting of Interest Earning Assets	IEA/NA	0,84	0,87	0,85	0,91	0,86
= Return on Assets (ROA)	NP/NA	0,58	0,34	-0,18	0,18	-0,68
× Placements Multiplier	NA/KP	15,55	14,78	14,23	10,43	9,83
= Return on Equity (ROE)	NP/KP	9,03	4,98	-2,52	1,92	-6,67

7.6.1 Activity

The activity of Banco Espírito Santo in 2013 was broadly pursued along the lines already described for the Group. Hence the impacts of the deleveraging process, domestic economic recession and sovereign risk were especially penalising for the Bank. However, despite the adverse context and the reductions in assets (-3.8%) and customer loans (-1.8%), deposits grew by 10.5%, upholding the performance of on-balance sheet customer funds (+6.3%).

Activity Indicators

	Dec.12	Dec.13	Change		EUR million
			absolute	relative	
Net Assets	68 748	66 168	-2 580	-3,8%	
Customer Loans (including securitised)	39 269	38 558	- 711	-1,8%	
Loans to Individuals	10 295	9 813	- 482	-4,7%	
- Mortgage	8 130	7 885	- 245	-3,0%	
- Other Loans to Individuals	2 165	1 928	- 237	-10,9%	
Corporate Lending	28 974	28 745	- 229	-0,8%	
Total Customer Funds	50 527	51 116	589	1,2%	
On-Balance Sheet Customer Funds	33 371	35 481	2 110	6,3%	
- Deposits	30 271	33 446	3 175	10,5%	
- Debt Securities Placed with Clients	3 100	2 035	-1 065	-34,4%	
Off-Balance Sheet Customer Funds	17 156	15 635	-1 521	-8,9%	

At year-end the loan portfolio revealed a deterioration in loan loss levels: the overdue loans ratio (>90 days) increased to 6.83% (Dec.12: 4.58%) with the respective provision coverage decreasing to 115.9% (Dec.12: 133.6%). It is worth stressing the favourable evolution of the total balance of credit provisions over total loans, which has been consistently increasing, rising by 180 bps year-on-year, to 7.92%.

Asset Quality

	Dec,12	Dec,13	Change	
			absolute	relative
(EUR million)				
Gross Loans	39 269	38 558	- 711	-1,8%
Overdue Loans	2003,0	2776,4	773,4	38,6%
Overdue Loans > 90 dias	1798,4	2633,0	834,6	46,5%
Provisions for Credit	2402,1	3052,6	650,5	27,1%
(%)				
Overdue Loans / Gross Loans	5,10	7,20	2,10 p.p.	
Overdue Loans >90 dias / Gross Loans	4,58	6,83	2,25 p.p.	
Coverage of Overdue Loans	119,9	109,9	-10,0 p.p.	
Coverage of Overdue Loans > 90 dias	133,6	115,9	-17,7 p.p.	
Provisions for Credit /Gross Loans	6,12	7,92	1,80 p.p.	

7.6.2 Results

Banco Espírito Santo reported a loss for the year of EUR 462.2 million that compares with a EUR 122 million net profit in 2012.

Income Statement

	2012	2013	Change	
			absolute	relative
Net Interest Income				
+ Fees and Commissions	455,3	463,3	8,0	1,7%
= Commercial Banking Income	1113,5	858,3	-255,2	-22,9%
+ Capital Markets and Other Results	618,5	92,0	-526,5	-85,1%
= Banking Income	1732,0	950,3	-781,7	-45,1%
- Operating Costs	763,0	742,1	-20,9	-2,7%
= Operating Income	969,0	208,2	-760,8	-78,5%
- Net Provisions	834,9	827,3	-7,6	-0,9%
Credit	633,4	845,8	212,4	33,5%
Securities	119,6	144,2	24,6	20,5%
Other	81,9	-162,7	-244,6	....
= Income before Taxes	134,1	-619,1	-753,2	....
- Taxes	12,1	-156,5	-168,6	....
= Net Income	122,0	-462,6	-584,6	....

As happened with the Group's domestic performance, BES's loss for the year reflects the fact that the banking income generated minus operating costs (EUR 208.2 million) was not sufficient to cover the large increase in provisions for impairments (EUR 827.3 million).

Banking income totalled EUR 950.3 million only, down by 45.1% on 2012. This performance translates the sharp reduction in net interest income (-40%) as a result of the operating conditions already referred for the consolidated accounts, as well as lower trading gains than in 2012, when expressive capital gains had been achieved on public debt.

Operating costs dropped by 2.7% year-on-year, chiefly underpinned by a 1.2% contraction in staff costs driven by reductions in the branch network (-18 units), in the number of employees (-49) and in variable remunerations. The restraint in other administrative costs mainly translates decreases in costs with advisory services and advertising.

Although provisions for credit and securities were increased by 33.5% and 20.5%, respectively, the total net provision charge remained practically flat compared to 2012 due to the release of provisions for equity holdings, notably in BES Vida.

The efficiency indicators were sharply penalised by the reduction in both commercial and total banking income.

Efficiency Indicators

	2012	2013	change
Cost to Income	44,1%	78,1%	34,0 pp
Cost to Income (ex-markets)	68,5%	86,5%	-18,0 pp

7.6. 3 Activity of the 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 is given in chapter 4, point 4.2 – International Commercial Banking, of this report.

8. FINANCIAL STATEMENTS

8.1. Consolidated Financial Statements

BANCO ESPÍRITO SANTO, S.A.

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 2012 and 2013

	EUR thousand	
	31.12.2012	31.12.2013
ASSETS		
Cash and deposits at Central Banks	1 377 541	1 719 363
Deposits with banks	681 077	542 945
Financial assets held for trading	3 925 399	2 507 932
Financial assets at fair value through profit or loss	2 821 553	3 874 347
Available-for-sale financial assets	10 755 310	8 486 605
Loans and advances to banks	5 426 518	5 431 464
Loans and advances to customers	47 706 392	46 334 896
Held-to-maturity investments	941 549	1 499 639
Hedging derivatives	516 520	363 391
Non-current assets held for sale	3 277 540	3 567 011
Investment properties	441 988	395 855
Other tangible assets	931 622	925 438
Intangible assets	555 326	455 352
Investments in associates	580 982	536 666
Current income tax assets	24 648	36 399
Deferred income tax assets	728 905	1 034 318
Reinsurance Technical Provisions	3 804	10 435
Other assets	2 994 154	2 885 960
TOTAL ASSETS	83 690 828	80 608 016
LIABILITIES		
Deposits from central banks	10 893 320	9 530 131
Financial liabilities held for trading	2 122 025	1 284 272
Deposits from banks	5 088 658	4 999 493
Due to customers	34 540 323	36 830 893
Debt securities	15 424 061	11 919 450
Hedging derivatives	125 199	130 710
Investment contracts	3 413 563	4 278 066
Non current liabilities held for sale	175 945	153 580
Provisions	236 950	192 452
Technical provisions	1 577 408	1 754 655
Current income tax liabilities	221 199	101 868
Deferred income tax liabilities	154 015	97 129
Other subordinated loans	839 816	1 066 298
Other liabilities	1 145 602	1 219 723
TOTAL LIABILITIES	75 958 084	73 558 720
EQUITY		
Share capital	5 040 124	5 040 124
Share premium	1 069 517	1 067 596
Other capital instruments	29 295	29 162
Treasury stock	(6 991)	(858)
Preference shares	193 289	159 342
Other reserves, retained earnings and other comprehensive income	641 964	468 885
Profit for the period attributable to equity holders of the Bank	96 101	(517 558)
Total equity attributable to equity holders of the Bank	7 063 299	6 246 693
Minority interests	669 445	802 603
TOTAL EQUITY	7 732 744	7 049 296
TOTAL LIABILITIES AND EQUITY	83 690 828	80 608 016

Chief Account

The Board of Directors

BANCO ESPÍRITO SANTO, S.A.
CONSOLIDATED INCOME STATEMENT AS OF DECEMBER 2012 and 2013

	EUR thousand	
	31.12.2012	31.12.2013
Interest and similar income	3 914 109	3 467 017
Interest expense and similar charges	2 733 601	2 432 709
Net Interest Income	1 180 508	1 034 308
Dividend income	72 604	58 498
Fee and Commission income	975 062	865 815
Fee and Commission expense	181 144	200 178
Net gains from financial assets at fair value through profit or loss	(59 408)	(299 422)
Net gains from available-for-sale financial assets	600 206	441 112
Net gains from foreign exchange differences	(23 788)	(4 203)
Net gains/ (losses) from sale of other assets	(42 159)	(68 616)
Insurance earned premiums net of reinsurance	62 257	355 329
Claims incurred net of reinsurance	362 973	245 351
Change on the technical provision net of reinsurance	301 423	32 799
Other operating income and expense	118 246	(69 152)
Operating income	2 640 834	1 900 939
Staff costs	598 883	575 025
General and administrative expenses	442 120	454 086
Depreciation and amortisation	108 074	107 861
Provisions impairment net of reversals	56 978	(10 264)
Loans impairment net of reversals	814 832	1 005 092
Impairment on other financial assets net of reversals	106 727	104 108
Impairment on other assets net of reversals	220 893	323 953
Operating Costs	2 348 507	2 559 861
Gains on disposal of investments in subsidiaries and associates	383	-
Loses arising on business combinations achieved in stages	(89 586)	-
Equity accounted earnings	8 312	1 091
Income before taxes	211 436	(657 831)
Income tax		
Current tax	135 350	147 349
Deferred tax	(52 434)	(319 888)
	82 916	(172 539)
Continued operations	128 520	(485 292)
Discontinued operations	(8 684)	(29 579)
Net income for the period	119 836	(514 871)
 Attributable to equity holders of the Bank	96 101	(517 558)
Attributable to minority interests	23 735	2 687
	119 836	(514 871)

Chief Account

The Board of Directors

8.2. Individual Financial Statements

BANCO ESPÍRITO SANTO, S.A.
INDIVIDUAL BALANCE SHEET AS OF DECEMBER 2013

		EUR thousand	Dec, 13	Dec, 12
		Amount before provisions, impairment and depreciations	Provisions, impairment and depreciations	Net amount
ASSETS				
Cash and deposits at Central Banks	916 143	-	916 143	626 558
Deposits with banks	147 211	-	147 211	275 887
Financial assets held for trading	1 102 113	-	1 102 113	1 851 506
Financial assets at fair value through profit or loss	2 937 434	-	2 937 434	1 286 075
Available-for-sale financial assets	6 281 253	331 778	5 949 475	9 007 032
Loans and advances to banks	9 583 369	32	9 583 337	9 565 134
Loans and advances to customers	38 558 154	2 685 960	35 872 194	37 263 514
Held-to-maturity investments	1 165 878	13 422	1 152 456	692 093
Repurchase agreements	-	-	-	-
Derivatives for risk management purposes	325 021	-	325 021	468 184
Non-current assets held for sale	1 637 747	281 734	1 356 013	1 308 088
Investment properties	-	-	-	-
Property and equipment	1 082 954	755 819	327 135	342 553
Intangible assets	694 133	584 356	109 777	113 460
Investments in associates	2 713 260	95 421	2 617 839	2 056 228
Current income tax assets	14 727	-	14 727	1 292
Deferred income tax assets	1 003 735	-	1 003 735	833 310
Other assets	2 867 479	114 528	2 752 951	3 056 852
TOTAL ASSETS	71 030 611	4 863 050	66 167 561	68 747 766
LIABILITIES				
Deposits from central banks	9 305 318	-	9 305 318	10 238 986
Financial liabilities holding for trading	999 839	-	999 839	1 630 363
Other financial liabilities at fair value through profit or loss	-	-	-	-
Deposits from banks	5 470 806	-	5 470 806	7 138 799
Due to customers	33 446 504	-	33 446 504	30 271 265
Debt securities issued	8 245 875	-	8 245 875	9 933 899
Financial liabilities to transferred assets	635 609	-	635 609	953 613
Derivatives for risk management purposes	86 419	-	86 419	79 667
Non core liabilities held for sale	-	-	-	-
Provisions	505 472	-	505 472	554 526
Current income tax liabilities	6 721	-	6 721	60 134
Deleted income tax liabilities	55 417	-	55 417	138 810
Equity instruments	-	-	-	-
Subordinated debt	1 034 748	-	1 034 748	796 643
Other liabilities	673 149	-	673 149	682 063
TOTAL LIABILITIES	60 465 877	-	60 465 877	62 478 768
Equity				
Share capital	5 040 124	-	5 040 124	5 040 124
Share premium	1 059 700	-	1 059 700	1 061 621
Other equity instruments	191 734	-	191 734	225 714
Treasury stock	(801)	-	(801)	(801)
Fair value reserve	(937 813)	-	(937 813)	(834 740)
Other reserves and retained earnings	811 308	-	811 308	655 119
Profit for the year	(462 568)	-	(462 568)	121 961
Dividends paid	-	-	-	-
TOTAL EQUITY	5 701 684	-	5 701 684	6 268 998
TOTAL LIABILITIES AND EQUITY	66 167 561	-	66 167 561	68 747 766

Chief Account

The Board of Directors

BANCO ESPÍRITO SANTO, S.A.
INCOME STATEMENT AS OF DECEMBER 2013

	EUR thousand	
	Dec,12	Dec,13
Interest and similar income	2 914 402	2 247 457
Interest expense and similar charges	2 256 248	1 852 416
Net Interest Income	658 154	395 041
Dividend income	122 896	302 673
Fee and Commission income	667 414	722 146
Fee and Commission expense	226 355	274 767
Net gains from financial assets at fair value through profit or loss	(140 196)	(274 972)
Net gains from available-for-sale financial assets	570 781	133 629
Net gains from foreign exchange differences	(39 191)	(16 845)
Net gains from sale of other assets	(30 426)	(7 844)
Other operating income and expense	122 375	(53 452)
Operating Income	1 705 452	925 609
Staff costs	359 789	355 431
General and administrative expenses	318 495	304 992
Depreciation and amortisation	84 668	81 675
Provisions impairment net of reversals	(11 634)	(34 216)
Loans impairment net of reversals	671 313	876 224
Impairment on other financial assets net of reversals	119 626	144 191
Impairment on other assets net of reversals	55 608	(158 910)
Net income before tax	107 587	(643 778)
Income tax		
Current tax	62 549	6 197
Deferred tax	(76 923)	(187 407)
Net income	121 961	(462 568)
ow: net income after discontinued operations	(3 208)	(5 080)

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, 2012 and 2013 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, 2012 and 2013 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 17th, 2014;
- (iv) the annual report describes faithfully the evolution of the businesses, the performance and the financial position of BES and BES Group in 2013, 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 carried out in 2013 by subsidiaries of the Group related exclusively to transactions performed by BES Vida, Companhia de Seguros.

Own Shares

	Number of Shares	Price (eur)	Total (euro thousand)
Balance as at December 31, 2012	10 388 206	0,673	6 991
Shares acquired during 2013	2 154 826	0,893	1 925
Shares sold during 2013	12 197 591	0,661	8 058
Balance as at December 31, 2013	345 441	2,484	858

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, the Board of Directors of Banco Espírito Santo proposes, for approval by the General Meeting, that the net loss reported by Banco Espírito Santo in 2013, in the amount of EUR 462,567,686.19, be allocated to the 'Other Reserves and Retained Earnings' caption on the balance sheet.

9.4. Reading Guide to the Sustainability Information

The scope of the sustainability information reported covers all the companies of the BES Group. The specific scope covered by each indicator may be found in the GRI table.

The report was prepared in accordance with the Global Reporting Initiative (GRI)'s guidelines on sustainability reporting and the principles of standard AA1000APS. The report also followed the principles set out in the International Integrated Reporting Council (IRCC)'s framework for integrated reporting.

In 2013 a new version of the GRI guidelines was released - GRI 4 "Core". BES Group decided to make the transition to the new version immediately in 2013 so as to maintain its alignment to best reporting practices. The GRI4 version helped BES concentrate its reporting on the more relevant issues for the business and for its stakeholders (social, environmental and economic).

The report was subject to verification by PwC, an independent entity, according with the principles laid down in ISAE 3000 (International Standard on Assurance Engagements 3000).

Structure of the Sustainability Report

BES's sustainability information reporting structure was designed in accordance with the relevance of the various themes, as shown in the materiality matrix (see Chapter on Sustainable Management). This report therefore addresses BES's treatment of all the issues considered material (see correspondence table below), with all others, considered non-material, being addressed in the GRI Table, the Social Report and the Environmental Report. All these documents as well as more information on sustainability are available at www.bes.pt.

In addition, BES's performance is also summed up in a Sustainability Review.

The table below indicates where in the report (chapter and page) BES addresses each material issue, as well as their correspondence with the GRI material issues.

MATERIAL ISSUES	CORRESPONDENCE WITH GRI4 MATERIAL ISSUES	BES REPORT
Customer satisfaction	<ul style="list-style-type: none"> • Product and service information and labelling 	Responsible Management - Clients
Financial Inclusion of people and companies	<ul style="list-style-type: none"> • Indirect economic impacts • Portfolio of products 	Saving products Microcredit Environmental products and services Project Finance
Development of Human Capital	<ul style="list-style-type: none"> • Employment • Training and Education • Diversity and equal opportunities 	Responsible Management - Employees
Ethics and accountability in the relationship with stakeholders	<ul style="list-style-type: none"> • Ethics and integrity • Engagement with the stakeholders • Non discrimination • Combat to corruption 	Responsible Management- Engagement with the stakeholders Responsible Management- Employees Responsible Management- Suppliers Code of Conduct and Money Laundering
Responsible management / monitoring of suppliers	<ul style="list-style-type: none"> • Procurement practices • Environmental assessment of suppliers • Assessment of suppliers' labour practices • Assessment of suppliers' human rights practices • Assessment of suppliers' impacts on the community 	Responsible Management- Suppliers

Innovation of products and services		Support to Innovation
Internationalisation of the Sustainability Strategy	• Strategy and Analysis	BES Group today Strategy
Environmental and social risk management in the credit portfolio	• Portfolio of products • Audit • Active participation	Project Finance Risk management Environmental risk
Strategy for climate change	• Energy • Emissions	Responsible Management Environmental footprint
Eco-efficiency in the branches, buildings and operations of the Bank	• Materials • Energy • Water • Emissions • Effluents and waste	Responsible Management Environmental footprint
Corporate citizenship and philanthropy (Community Support)	• Local community • Portfolio of products	Responsible Management The Other BES

Contacts for additional information on sustainability:

Sustainability Office:

Paulo Padrão (email: padrão@bes.pt)

Cláudia Sousa (email: casousa@bes.pt)

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.

Lisbon, March 17th, 2014

The Board of Directors of Banco Espírito Santo

Alberto Alves de Oliveira Pinto (Chairman)

Ricardo Espírito Santo Silva Salgado (Vice-Chairman)

Bruno Bernard Marie Joseph de Laage de Meux (Vice-Chairman)

José Manuel Pinheiro Espírito Santo Silva

António José Baptista do Souto

Jorge Alberto Carvalho Martins

Aníbal da Costa Reis de Oliveira

Manuel Fernando Moniz Galvão Espírito Santo Silva

José Maria Espírito Santo Silva Ricciardi

Rui Manuel Duarte Sousa da Silveira

Joaquim Aníbal Brito Freixial de Goes

Ricardo Abecassis Espírito Santo Silva

Amílcar Carlos Ferreira de Morais Pires

Nuno Maria Monteiro Godinho de Matos

João Eduardo Moura da Silva Freixa

Pedro Mosqueira do Amaral

Isabel Maria Osório de Antas Mégre de Sousa Coutinho

João de Faria Rodrigues

Marc Olivier Tristan Oppenheim

Vincent Claude Pacaud

Rita Maria Lagos do Amaral Cabral

Stanislas Gerard Marie Georges Ribes

Horácio Lisboa Afonso

Pedro João Reis de Matos Silva

Xavier Musca

The Sustainability Accounts

Environmental (BES PT)	2008	2009	2010	2011	2012	2013	2012/2013
Energy¹ (G4-EN3, G4-EN5)							
Total electricity consumption (GJ)	210.389	216.959	218.752	197.762	179.963	172.415	-4,194%
Total electricity consumption (kwh)	58.441.425	60.266.513	60.764.414	54.934.001	49.989.692	47.893.043	-4,194%
Data Centre electricity consumption (kwh)	8.809.344	9.464.979	11.054.623	11.673.820	12.153.693	11.088.190	-8,8%
Electricity consumption (kwh/Employee) ²	7.959	7.923	7.787	6.776	6.233	6.058	-2,8%
Natural gas consumption (GJ)	373	887	740	496	551	574	4,2%
Natural gas consumption (N.m ³)	9.555	22.750	18.982	12.717	14.120	14.933	5,8%
Butane gas consumption (Kg)	7.290	4.860	3.105	675	720	1.890	162,5%
Butane gas consumption (GJ)	345	230	147	32	34	92	169,8%
Total energy consumption (GJ)	211.107	218.077	219.639	198.290	180.548	173.081	-4,1%
Transport¹							
No. of vehicles	1.085	1.491	1.212	1.474	1.644	1.463	-11,0%
Fuel (GJ)	77.948	109.790	76.775	130.922	126.028	104.213	-17,3%
No. of plane trips	4.956	5.327	5.826	3.970	3.988	3.700	-7,2%
Water¹ (G4-EN8)							
Water consumption from public supply network (m ³)	101.514	96.927	99.442	96.729	91.590	86.095	-6,0%
Water consumption per employee (m ³ /employee)	16,0	14,0	14,5	14,4	14,1	14,2	0,6%
Emission of greenhouse gases (tCO₂e)¹ (G4-EN15, G4-EN16, G4-EN17)							
Emissions from trips in company cars	3.421	3.501	3.773	5.861	5.666	6.324	11,6%
Emissions of fluorinated gases from air conditioning equipment	1.477	1.447	1.447	1.447	1.447	1.447	0,0%
Emissions from natural gas kitchen equipment	41	63	49	30	30	37	23,3%
Emissions from emergency generators	31	0	0	40	41	30	-26,8%
Direct emissions (Scope 1)	4.970	5.011	5.269	7.378	7.184	7.838	9,1%
Emissions from the production of electricity purchased	22.454	20.561	13.975	19.424	18.202	18.170	-0,2%
Indirect emissions (Scope 2)	22.454	20.561	13.975	19.424	18.202	18.170	-0,2%
Total Scope 2 standardised	19.889	20.711	20.883	21.641	20.044	19.568	-2,4%
Total (scope 1 and 2)	27.424	25.572	19.244	26.802	25.386	26.008	2,5%
Total (Scope 1 and 2) standardised	24.908	25.805	26.235	29.051	27.228	27.406	0,7%
Emissions from Employees' business trips /business trips by plane	2.164	3.190	2.511	1.299	2.140	2.219	3,7%
Emissions from Employees' home/work daily trips	7.090	6.932	6.945	8.186	7.628	7.796	2,2%
Indirect emissions (Scope 3)	9.254	10.122	9.456	9.485	9.768	10.015	2,5%
Consumption of Materials (G4-EN1, G4-EN2)							
White paper for internal use (tonnes)	441	480	416	411	434	424	-2,3%
White paper for internal use (tonnes/Employee)	0,062	0,069	0,058	0,059	0,063	0,062	-1,6%
Recycled paper for internal use (tonnes)	16	10	18	7	6	2	-55,3%
FSC certified paper (%)	-	-	-	-	-	55%	-
Forms - printing & finishing (tonnes)	413	384	301	247	234	314	34,3%
Toner and inkjet cartridges (units)	-	-	-	-	-	850	-
Other consumables (units)	-	-	-	-	-	16.472	-
Waste management¹ (G4-EN23)							
Paper sent for recycling (tonnes)	344	478	289	224	169	148	-12,4%
Cardboard sent for recycling (tonnes)	54	61	57	73	42	93	123,4%
Consumables collected (tonnes)	-	-	-	-	-	12	-
Other wastes (tonnes)	-	-	-	-	-	5	-

In 2012 the Bank expanded the collection scope of the more relevant environmental indicators to cover BES Açores, BESI in Portugal and ESAF. The purpose was to achieve full disclosure of the environmental impacts and establish new commitments concerning the ever wider coverage of the Group's operations.

Environmental (BES PT; BES Açores; BESI PT; ESAF)	2012	2013	2012/2013
Total electricity consumption (kwh)	50.580.397	50.825.406	0,5%
Emissions from the production of electricity purchased (tCO ₂ e) scope 2)	19.200	18.819	-2,0%
Water consumption (m ³)	94.769	86.969	-8,2%

1 - BES Portugal

2 - BES Portugal, does not include Data Center

3 - BES Portugal, does not include BES Arte&Finança

4 - BES Portugal, BAC, BEST, ESAF and BESI

Workforce	2008	2009	2010	2011	2012	2013
BES Group total employees (*)	9.431	8.902	9.858	9.863	9.944	10.216
Total Employees (Human Resources information scope)	8.389	8.155	8.394	8.528	8.457	8.722
(*) Employees with permanent and fixed term contracts						
Employees breakdown by gender	2008	2009	2010	2011	2012	2013
Men	-	4.490	4.616	4.717	4.697	4.784
Women	-	3.665	3.778	3.811	3.760	3.938
Employees breakdown by region	2008	2009	2010	2011	2012	2013
Europe	7.653	7.521	7.479	7.749	7.550	7.541
America	158	182	202	191	207	185
Africa	423	452	511	588	700	996
Breakdown of Employees by gender and age according to professional categories (%) (G4-LA12)	2008	2009	2010	2011	2012	2013
Management (total number)	813	937	1.007	1.038	1.085	1.082
Men	73,9	71,9	70,4	70,8	69,9	69,0
Women	26,1	28,1	29,6	29,2	30,1	31,0
< 30 years	1,5	1,92	2	2	1,7	1,7
30 to 50 years	84,5	82,69	81,2	80,3	77,2	75,7
> 50 years	14	15,38	16,7	17,6	21,1	22,7
Heads of Department (total number)	919	915	994	930	949	981
Men	32,3	34	35,5	36,6	55,2	63,7
Women	67,7	66	64,5	63,4	44,8	36,3
< 30 years	4,8	4,4	5,1	2,9	2,3	2,8
30 to 50 years	84,8	84,2	82,5	82,7	82,1	81,8
> 50 years	10,4	11,4	12,4	14,4	15,6	15,5
Specific (total number)	3.397	3.359	3.371	3.558	3.497	3.507
Men	46,4	48	48,4	47,4	46,1	52,1
Women	53,6	52	51,6	52,6	53,9	47,9
< 30 years	29,4	24,5	24,6	21,3	17,5	16,1
30 to 50 years	63,5	67,1	66,5	69,2	71,9	73,2
> 50 years	7,1	8,4	8,9	9,5	10,5	10,8
Administrative (total number)	2.995	2.930	2.901	2.888	2.883	3.030
Men	50,6	50,4	49,9	49,5	54,3	50,2
Women	49,4	49,6	50,1	50,5	45,7	49,8
< 30 years	22,6	18,9	19,6	16,6	14,5	19,0
30 to 50 years	57,3	58,2	55,7	58,2	59,2	55,9
> 50 years	20,1	23	24,7	25,2	26,3	25,1
Auxiliary (total number)	110	114	121	114	113	122
Men	45,5	44,7	41,3	47,4	51,3	53,3
Women	54,5	55,3	58,7	52,6	48,7	46,7
< 30 years	12,7	19,1	19,8	27,2	27,4	32,8
30 to 50 years	27,8	25,5	37,2	26,3	28,3	28
> 50 years	60	55,5	43	46,5	44,2	39,2

Labour contract (G4-1a)	Europe						America			Africa			GBES					
	2011		2012		2013		2011		2012		2013		2011		2012		2013	
	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women
Permanent	-	-	3.927	3.207	-	-	119	64	-	-	340	299	7.992	7.974	4.386	3.570		
Fixed term	-	-	105	121	-	-	0	0	-	-	200	153	352	367	305	274		
Temporary	-	-	44	45	-	-	0	0	-	-	0	0	142	76	44	45		
Trainees	-	-	32	54	-	-	2	0	-	-	1	3	35	35	35	57		

Staff Turnover (*) (%) - BES Group (*) (G4-LA1)	Europe						America			Africa			GBES			
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013	
Gender																
Women	-	-	0,6	-	-	0,2	-	-	-	0,5	-	-	-	-	-	3,9
Men	-	-	1,0	-	-	0,4	-	-	-	0,6	-	-	-	-	-	4,6
Age bracket																
< 30 years	-	-	0,5	-	-	0,2	-	-	-	0,4	-	-	-	-	-	5,9
30 to 50 years	-	-	0,9	-	-	0,3	-	-	-	0,6	-	-	-	-	-	2,4
> 50 years	-	-	0,1	-	-	0,1	-	-	-	0,0	-	-	-	-	-	0,2
New admissions rate (**) (%) - BES Group (**) (G4-LA1)	Europe						America			Africa			GBES			
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013	
Gender																
Women	-	-	1,8	-	-	0,2	-	-	-	2,0	-	-	-	-	-	1,3
Men	-	-	1,9	-	-	0,2	-	-	-	2,5	-	-	-	-	-	2,0
Age bracket																
< 30 years	-	-	2,3	-	-	0,2	-	-	-	3,4	-	-	-	-	-	1,2
30 to 50 years	-	-	1,2	-	-	0,2	-	-	-	1,1	-	-	-	-	-	1,8
> 50 years	-	-	0,1	-	-	0	-	-	-	0,0	-	-	-	-	-	0,2

(*) Because the calculation formula was changed we do not include values for the previous years

(**) only available as from 2013

(***) BES Group: Europe - BES Portugal, BES Açores, BESI Portugal, Banco Best, ESAF, BES Espanha, BESI Espanha

America - BESI Brasil

Africa - BES Angola

Parental Leave (G4-LA5)	2011		2012		2013	
	Men	Women	Men	Women	Men	Women
Employees entitled to parental leave	8.528		8.457		4.784	3.938
Employees who took parental leave	190	295	114	195	170	250
employees who returned to work after parental leave ended	189	290	114	185	170	200
employees who returned to work after parental leave ended who were still employed twelve months after their return to work	189	290	112	186	131	203
Return to work rate	99%	98%	100%	95%	100%	80%
Retention rate (*)	-	-	59%	63%	115%	104%

(*) The 2013 retention rates are higher than 100% because they includes employees who were on leave in 2011

Health and Safety (G4-LA6)	Europe						America			Africa			GBES					
	2011		2012		2013		2011		2012		2013		2011		2012		2013	
	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women
Work related accidents	-	-	22	47	-	-	0	0	-	-	0	0	-	-	22	47		
Work related diseases	-	-	0	0	-	-	4	2	-	-	0	0	-	-	4	2		
Deaths	-	-	0	0	-	-	0	0	-	-	0	0	-	-	0	0		
Accident rate	-	-	0,7	1,8	-	-	0	0	-	-	0	0	-	-	0,6	1,6		
Lost days rate	-	-	0,03%	0,10%	-	-	0	0	-	-	0	0	0,13%	0,09%	0,03%	0,09%		
Absenteeism rate (% excluding parental leave)	-	-	1,5%	2,5%	-	-	4,2%	2,2%	-	-	9,8%	18,7%	2,80%	2,63%	2,4%	4,2%		

Health	2011	2012	2013
Medical exams	4.561	4.258	4.276
Medical acts	11.428	24.065	13.747
Nursing acts	5.483	5.664	8.345
Total	21.472	33.987	26.368

Training hours per employee (G4-1A9)	2011	2012	2013	
			Men	Women

Professional Category	2011	2012	2013	Men	Women
Management	19,6	13	9,6	11,7	
Heads of Department	36,6	37,5	25,8	28,6	
Specific	36,5	28	22,3	25,9	
Administrative	26,7	18,4	17,6	20,7	
Auxiliary	210,4	1,7	16,6	0	

Performance Assessment (G4-1A11)	2011	2012	2013	
			Men	Women
Number of Employees who received information about performance assessment	7.450	7.194	3.386	2.853
Percentage of Employees who received information about performance assessment	87%	85%	71%	72%
Number of Employees who received information about career management	7.341	7.184	3.386	2.853
Percentage of Employees who received information about career management	86%	85%	71%	72%

Promotions	2011	2012	2013	Men	Women
Change of function	74	52	174		
Merit	830	493	509		
Seniority	100	121	140		
Total no. of Employees Promoted	1004	666	823		

Loans granted to Employees	2008	2009	2010	2011	2012	2013
(EUR thousand)						
Mortgage loans	77.505	68.185	59.183	46.266	24.814	21.840
Consumer Loans	19.074	32.961	29.171	15.057	8.878	8.473
Social support	1.068	2.190	2.702	1.299	0.811	0.134

Stakeholders - Value Creation (EUR million)	2009	2010	2011	2012	2013
Shareholders (dividends)	163	140	-	-	-
Employees (remuneration and training)	566	628	588	599	575
Clients (credit granted)	48,198		51.211	50.599	49.722
Suppliers (general and administrative costs)	403	441	434	442	454
Community	4	4,8	3,3	4,1	4,2
State (taxes)	109,8	43,7	114	110,8	-