2013 Annual Report

GRUPO BANCO ESPIRITO SANTO

2013 Annual Report

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Index

Annual Report 2013
Banco Espírito Santo Group

I Management Report

II Financial Statements and Notes to the Financial Statements

III Corporate Governance Report

PART I

PART II

APPENDICES

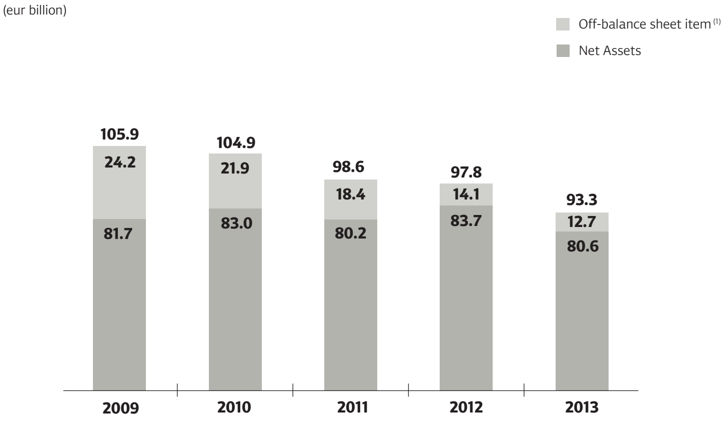
This report is a free translation into English of the original Portuguese version. In case of doubt or misinterpretation the Portuguese version will prevail.

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

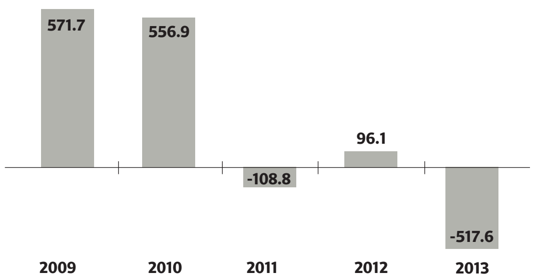
(1) Net Assets + Asset Management + Other off-balance sheets + Securitised Credit.
(2) Calculated under IRB Foundation.
(3) Positive figure represents a borrowing position; negative figure represents a lending position.
(4) Ratio calculated under BoP Funding & Capital Plan.
(5) Acording to BoP instruction nº23/2011.
(6) P&L provisions / Gross Loans.
(7) Includes employees with permanent and fixed term contracts.

Total Assets
(eur billion)

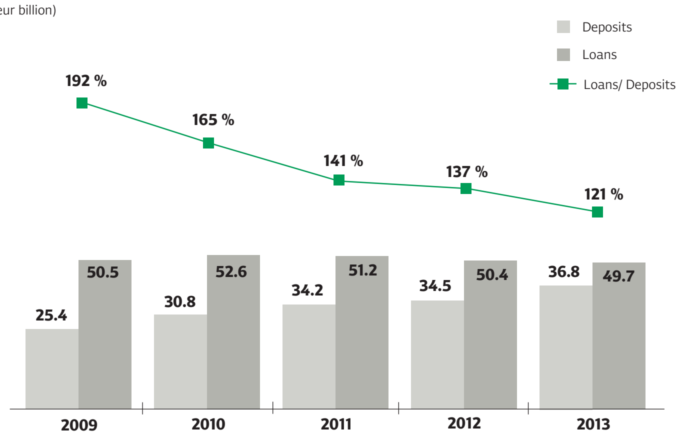


[1] Assets and Liabilities off-balance items.

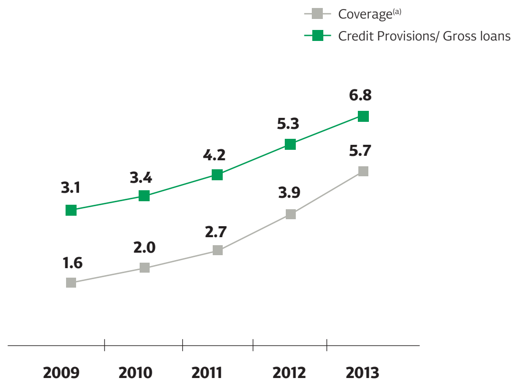
Net Income
(EUR million)



Business with Clients
(eur billion)

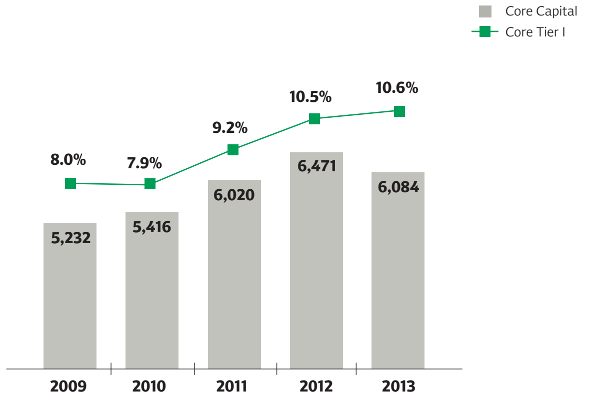


Asset Quality
(%)

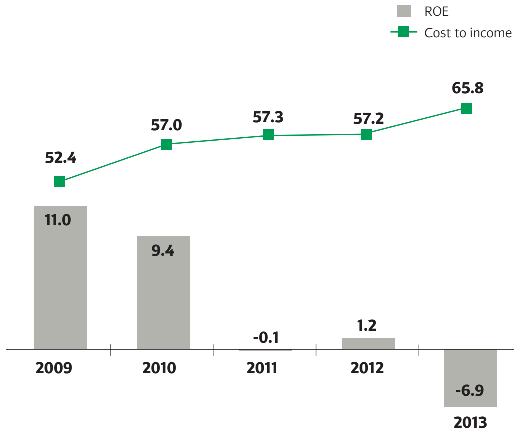


(a) Overdue Loans + 90 days/ Gross Loans.

Core Capital and Core Tier I
(eur million)



Profitability and Efficiency
(%)



Bank of Portugal Reference Indicators

The table below lists the reference indicators established by Bank of Portugal Instruction no. 16/2004, as amended by Instructions no. 16/2008, 23/2011 and 23/2012, for both December 2013 and 2012.

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
+	Fees and Commissions	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
	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

	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%
EFFICENCY		
General Admin Costs+Depreciation/ Banking Income	44.6%	59.8%
Staff Costs/ Banking Income	23.2%	30.3%
TRANSFORMATION RATIO		
(Gross Loans - Provsions)/ Customer deposits	137%	121%


BANCO ESPIRITO SANTO

BES art COLECÇÃO BANCO ESPÍRITO SANTO

VALTER VINAGRE (b. 1954, Portugal). Da série Variações para um fruto, S/Título #5, 2003. Ilfochrome s/aluminium 100 x 125 cm. Unique Edition.

Management Report

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.
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 benefit 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 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.

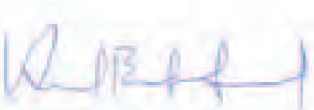
With a market value of more than EUR 5.5 billion, Banco Espírito Santo is today the Portuguese financial institution with the highest market capitalisation, and a reference listed company in the Portuguese capital market, where its shares consistently show some of the largest stock market daily trading 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 held by 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.



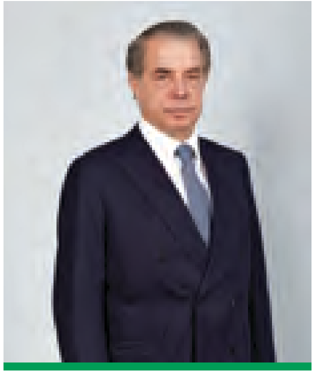
Ricardo Espírito Santo Silva Salgado

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

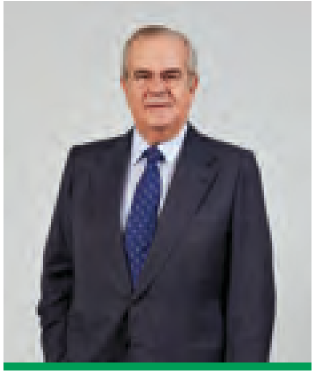
Alberto Oliveira Pinto

Chairman of the Board of Directors

Executive Committee



Ricardo Espírito Santo Silva Salgado
Chairman



José Manuel Pinheiro Espírito Santo Silva

António José Baptista do Souto

Jorge Alberto Carvalho Martins

José Maria Espírito Santo Silva Ricciardi

Rui Manuel Duarte Sousa da Silveira

Joaquim Aníbal Brito Freixial de Goes

Amílcar Carlos Ferreira de Morais Pires

João Eduardo Moura da Silva Freixa

Stanislas Gerard Marie Georges Ribes

1. BES Group

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 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.

70's – 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').

80's – 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.

90's – 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.

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.

1869-1884 | 1897-1911 | 1911-1915 | 1916-1920 | 1920-1931 | 1932-1937 | 1937-1964 | 1965-1990 | 1990-2005 | 2005-2013

Main Events in 2013

/ 2013

01 02 03 04 05

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

6 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

Banco Espírito Santo

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, 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 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 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 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, 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 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 CO_2 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.

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.


UMA PERGUNTA PODE FAZER A DIFERENÇA
TEM AS SOLUÇÕES CERTAS PARA SI?
SOLUÇÕES DE POUPANÇA BES
MAIS DO QUE POUPAR, POUPAR BEM
Saiba tudo aqui


NÃO EXPORTE ÀS ESCURAS
BES FINE TRADE
ILUMINA O CAMINHO


FALAR AO TELEMÓVEL E ACENDER A LUZ PODE CUSTAR MENOS.
Saiba como aqui ou em
bes.pt/mudaInercia
Conta BES 100%


DÊ COR À POUPANÇA COM OS PIGGY POPS


"CRÉDITO NÃO É SÓ PARA OS GRANDES"
APAREÇA E CRESÇA
BESNegócios
Saiba mais aqui
ou em bes.pt/negocios


RESIDENTES NO ESTRANGEIRO
FAÇA O VERÃO RENDER O ANO INTEIRO.
CONHEÇA AS SOLUÇÕES DE POUPANÇA FEITAS À SUA MEDIDA. SAIBA TUDO AQUI.
APROVEITE AGOSTO. POUPE A GOSTO.

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 121% 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.

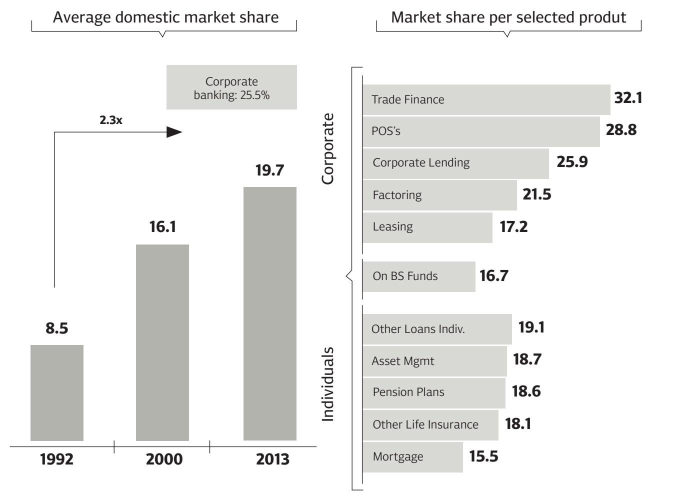
- **Prudent risk management:** in line with its traditionally prudent management practice, BES Group sharply increased provisioning during 2012: the reinforcement of provisions for credit, securities and other totalled EUR 1,423 million, while the balance of credit provisions reached 6.81% of gross loans 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*
(%)



*Sources: APB; BdP; APFIPP; ISP; ASP; APLEASE; 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.

BES International Presence

Spain

In Spain, BES Group hasoperations 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.

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 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.

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.

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.

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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.

Mozambique

In January 2011 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.

Cape Verde

The activity of BES Cabo Verde is concentrated on the local corporate market, particularly the public sector and affiliates of Portuguese groups with economic interests in Cape Verde, and on the local affluent market. The BES Cape Verde branch continues to operate, concentrating its activity on loan granting to non resident entities.

Angola

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 growth process within the scope of its sustainability policy.

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 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.

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.

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.

Macao

BES Representative Office

Hong Kong
BESI
Macao
BES Oriente

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.

GRUPO BANCO ESPIRITO SANTO

Subsidiaries and Associates

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

International Branches

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

Off-shore Branch

In Madeira.

Representative Offices

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

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 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 Morais 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 (Vice-Chairman) [1]
Nuno Miguel Matos Silva Pires Pombo (Secretary)

Audit Committee

Horácio Lisboa Afonso (Chairman)
Pedro João Reis 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)

(1) Appointed Vice-Chairman at the GM of 27.03.2013 (Point 1 of Notice of Meeting).

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

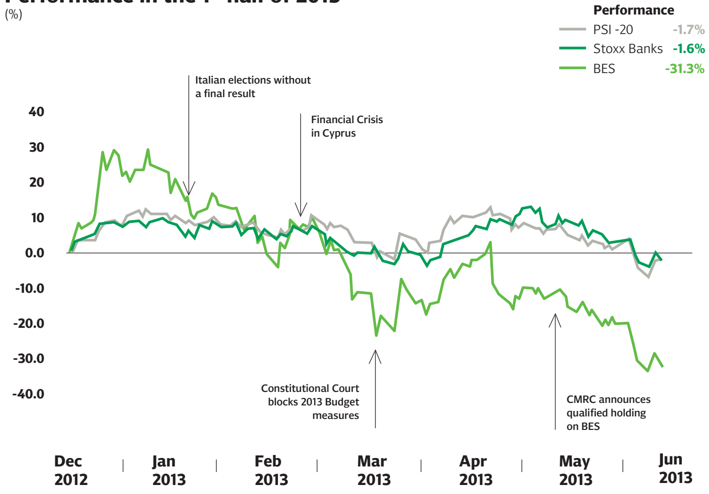
			31-Dec-12	31-Dec-13	Change
Share Data					
01. Number of Shares Outstanding	(thousand)		4,017,928	4,017,928	0
02. Weighted Average of Shares Outstanding[1]	(thousand)		3,096,971	4,017,928	920,957
03. Last Closing Price[2]	(eur)		0.895	1.039	16.1%
04. Market Capitalisation	(eurMn)	(01x03)	3,596	4,175	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]	(€)	(08/02)	0.03	-0.13	....
13. Gross Dividend per Share	(€)	(09/01)	-	-	-
Price as a Multiple of					
14. Book Value	PBV	(03/11)	0.53	0.69	
15. Net income	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%).

Performance in the 1st half of 2013



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;

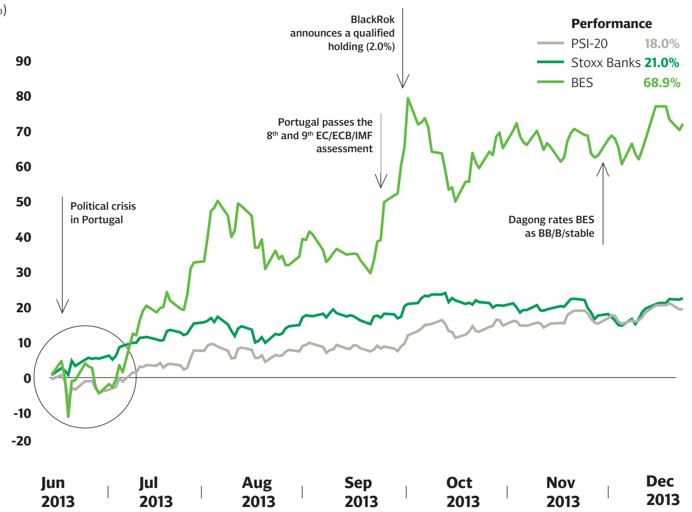
- reopening of the debt markets for the Portuguese banks: BES issued more than EUR 3 billion of debt (including EUR 750 million of subordinated debt) since November 2012 and was the first national bank to tap the debt markets since April 2010;

- 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).

Performance in the 2nd half 2013
(%)



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

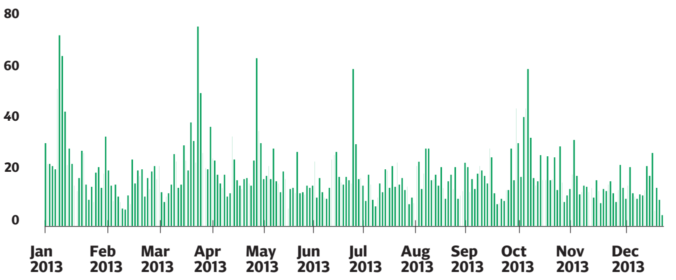
Performance 2013

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

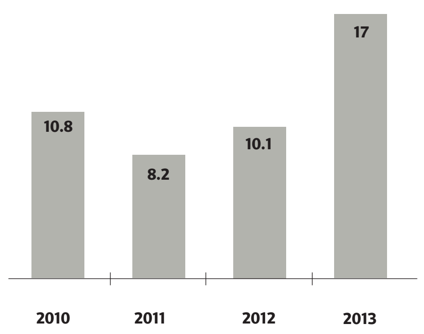
Liquidity

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:

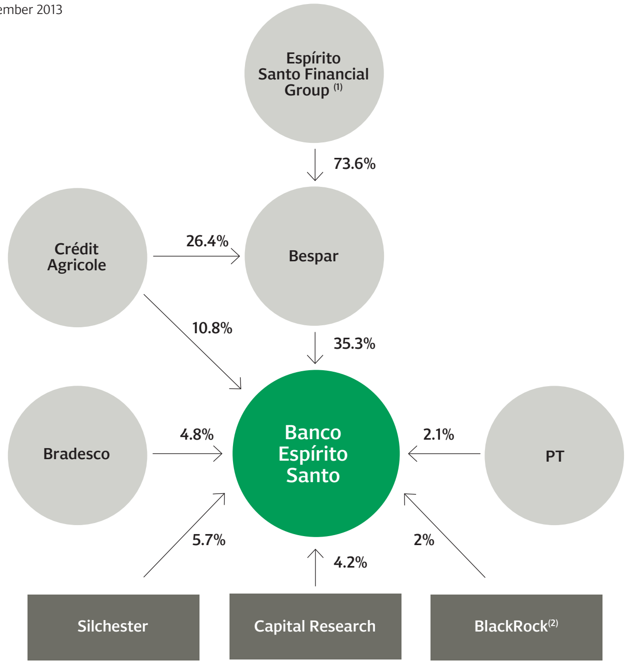
1) Silchester had a qualified holding of 5.7% in December 2013, corresponding to 228 million shares. Silchester International Investors LLP, which has held a qualified shareholding in BES since 2010, is a UK based investment management firm.

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 ESFG 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.

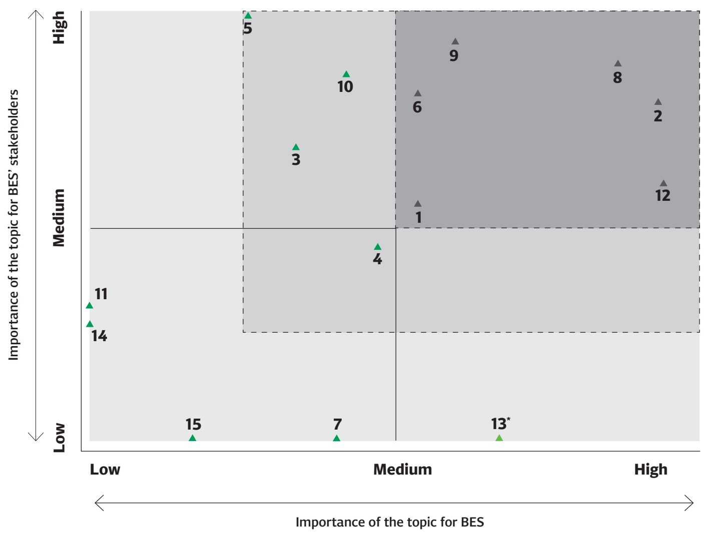
2. Responsible Management

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.

BES - Materiality Matrix 2013



High Priority

- **1** Ethics and integrity in the relationship with stakeholders.
- **2** Financial Inclusion of people and companies.
- **6** Client satisfaction.
- **8** Development of Human Capital.
- **9** Responsible management/ monitoring of suppliers.
- **12** Innovation of products and services.
- **13*** Internationalization of the sustainability strategy.

Medium Priority

- **3** Environmental and social risk management in the credit portfolio.
- **4** Strategy for climate change.
- **5** Eco-efficiency in the branches, buildings and operations of the Bank.
- **10** Corporate citizenship and philanthropy (Community Support).

Low Priority

- **7** Retaining talent.
- **11** Health, Safety and Hygiene at Work.
- **14** Stress management (topic only classified by stakeholders).
- **15** Management of reputational risks (topic suggested by the Committee).

* Although this topic was not subject to evaluation by BES' external stakeholders, as it is considered very important by sustainability analysts, it is considered to be a high priority topic.

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 Report Congress; • Human Resources Portal; • Intranet / BESweb; • Principles and policies; • Web maganize - BESinform@; • Itinerant Executive Committees; • Workers Committee; • Trade Union Secretariat; • Information and Consultation Procedure.	• Training; • Performance Assessment; • Internal Customer Satisfaction Surveys; • Motivation Surveys; • Annual Employees Survey on the Group's; • Sustainability Practices; • Outdoor Actions; • Chairman of the Executive; • Committies's E-mail box.
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.	• 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.	• 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 branches, buildings and operations; • Ethics and accountability in the relationship with the stakeholders; • Employee training and development Financial inclusion.	• Regular meeting 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 http://www.bes.pt/sustainability

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. 12	Dec.13
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	2.6	3.3%/8.5%*
Average hours of training	17	21
Absenteeism rate	2.6%	3.2%

* The 2013 Employee Turnover was calculated according to the new GRI 64 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

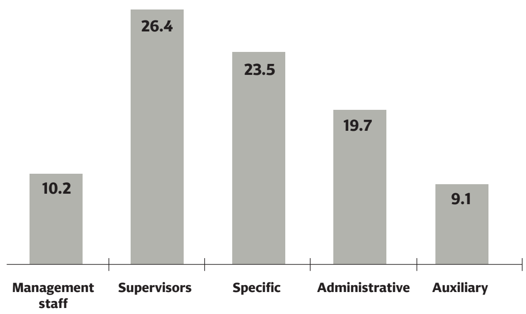
The Integrated Human Resources Management Model emphasises the implementation of measures to promote employee development and motivation and the reinforcement of skills through training plans, both specific and group-wide, thus consistently improving the Group's capacity to attract and retain talent.

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.

Hours of training by category 2013



Traing project	Performance in 2013
Scool 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 emplyees 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 ans 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.

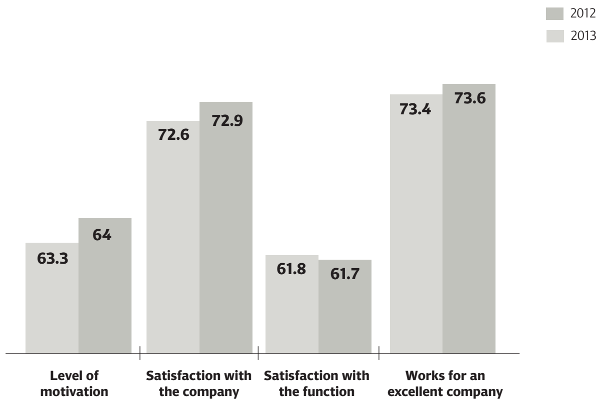
More information on this issue is provided on BES's website – Social Report

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.

Percentage of very satisfied employees
(%)



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, 74% 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.

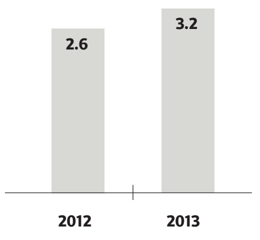
Several alterations in BES Group's performance assessment system are planned for 2014, including the introduction of a peer assessment scale, a comprehensive overhaul of the skills profiles and the inclusion of top-down and bottom-up assessment, which, while not providing by itself an all-round assessment,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

Health and safety in the workplace

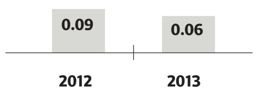
For BES Group the health and safety of its employees are of utmost importance, and several initiatives have been taken to improve the level of satisfaction with the Bank and reduce the accident frequency rate and the risk of absenteeism. In 2013 a Health and safety in the Workplace report was for the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

Absenteeism rate
(%)



Lost days rate
(%)



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 childreen 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.

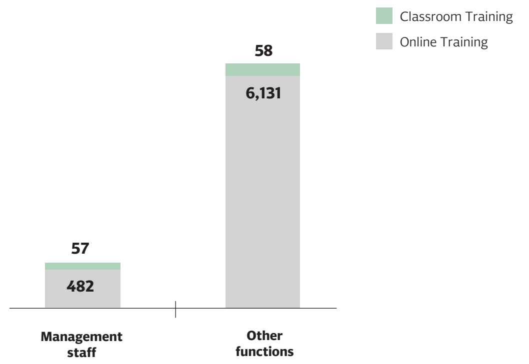
Money Laundering Prevention

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.

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
(hours of training)



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.

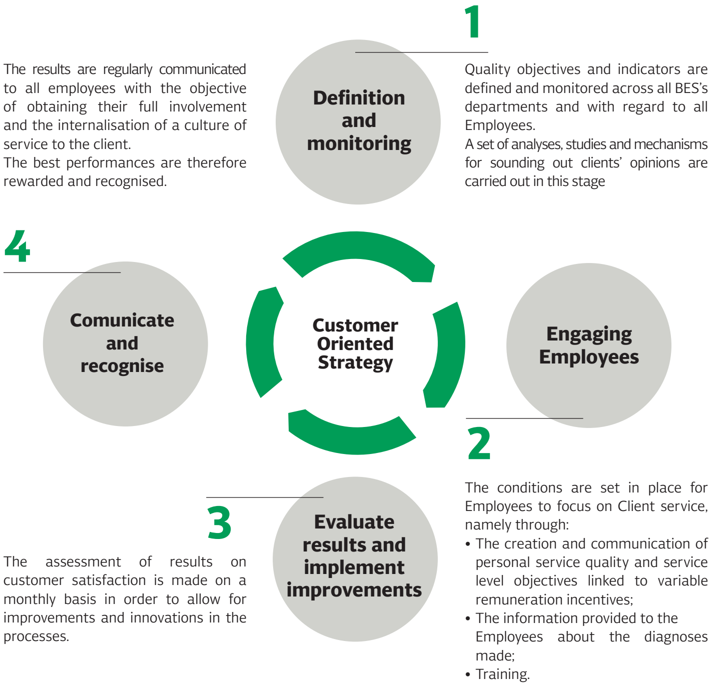
In 2014 all the Group's employees will be given training on "Gender equality and non-discrimination".

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.

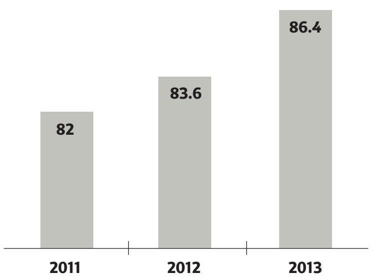
Several surveys were conducted in 2013, including satisfaction surveys on customer service, a survey on the 'moments of truth' in the banking relationship, mystery calling, life-cycle surveys (account opening, closing, etc), measurement of services levels, focus groups, segment- and product-specific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

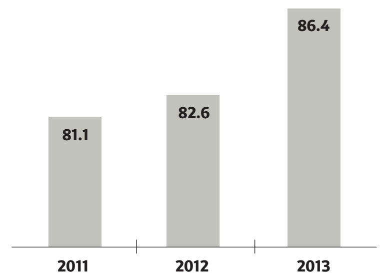
BES has reinforced its position amongst the financial institutions with the lowest levels of complaints reported to the Bank of Portugal, by all client segments, according to the Bank of Portugal's "Behavioural supervision activities – interim overview.

The main internal quality indicators show a consistent improvement.

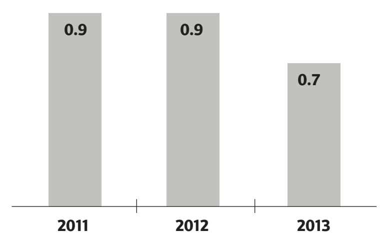
Very satisfied clients – Retail
(%)



Mystery Client
(%)



Complaints
(%)



Complaints rate (per 1,000 active clients).

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

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.

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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'.

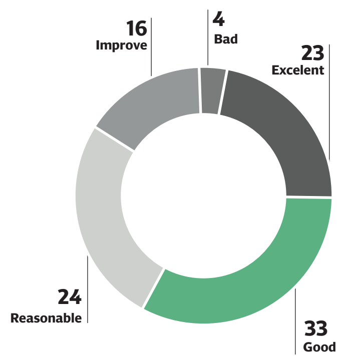
Moreover, the percentage of purchases to registered suppliers with attributed 'sustainability score' and sales volume above EUR 10,000 per year increased by 35% year-on-year, to 81%.

Despite the progress made, BES has not yet reached its objective, namely that 100% of its regular suppliers (with and 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
(%)

Average sustainability scoring of suppliers registered with BES Group's Suppliers' Portal 71.3%



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

Target[1]

11%, reduction in energy consumption between 2008 and 2013.

Performance

Total reduction of energy consumption between 2008 and 2013: **22%**.

CO_2 Emissions

Target[1]

11% Target[1] 11% reduction in CO_2[2] emissions between 2008 and 2013.

Performance

Total reduction of CO_2 emissions between 2008 and 2013: **50%**

Paper

Target[1]

12% reduction in paper consumption between 2008 and 2013.

Performance

There was no reduction in paper consumption between 2008 and 2013:

Water

Target[1]

11% reduction in water consumption between 2008 and 2013.

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 CO_2 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.

	Objectives	
Year 1	-7%	CO_2* emissions
	-5%	Energy Water
	-2%	Paper
Year 3	-8%	Energy Water
	-5%	Paper
	-11%	CO_2* emissions
Year 5	-10%	Energy Water
	-7%	Paper
	-14%	CO_2* emissions

*Electricity consumption - kWh per employee.

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

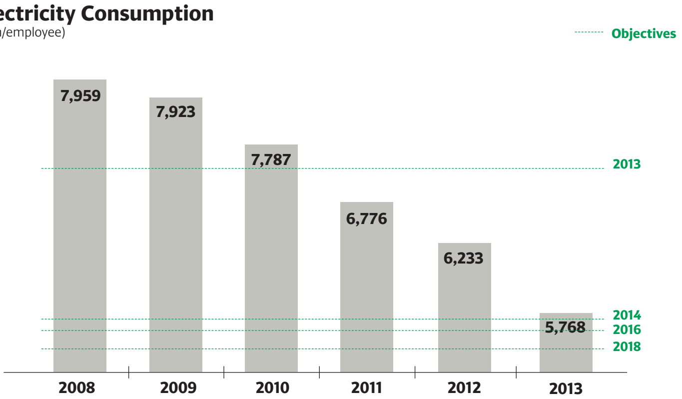
Over the years the Bank has taken various measures to reduce electricity consumption, including:

- 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 buildin.

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, approximately EUR 1.5 million, and another efficient measures permitted to reduce electricity consumption per employee by 27% between 2008 and 2013.

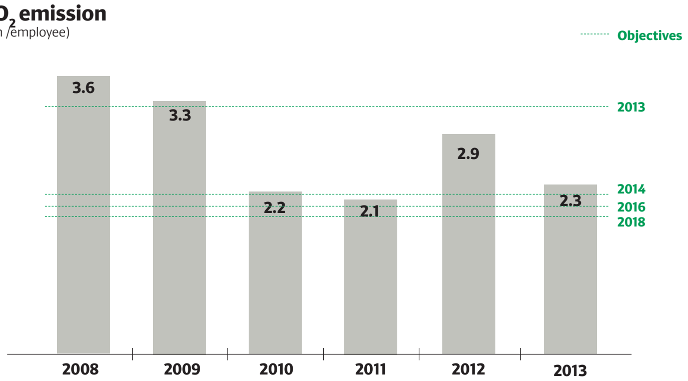
Electricity Consumption
(kwh/employee)



CO_2 emissions

BES achieved a 50% reduction in CO_2 emissions between 2008 and 2013, therefore meeting the target it had set out to reach.

CO_2 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 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.

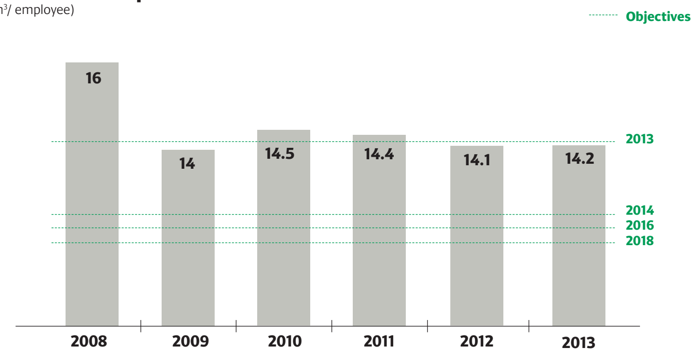
Another measure taken to reduce the use of fossil fuels in employee travels, and minimise the resulting emissions, was the attribution of travel cards to the employees to incite them to use public transports.

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.

Water Consumption
(m^3/ employee)



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

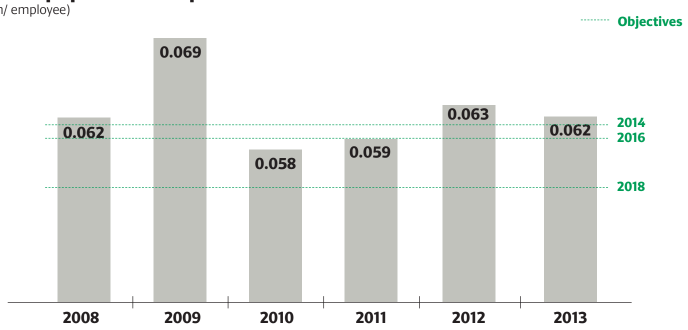
Paper consumption

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.

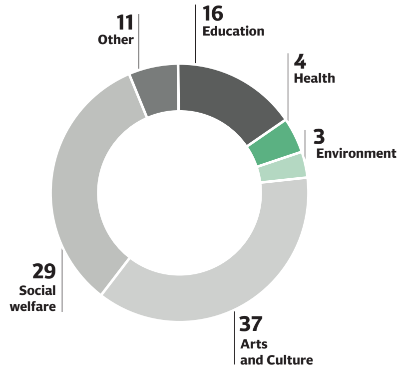
From 2010 to 2013 BES launched several awareness raising campaigns about the consumption of the central departments, which are responsible for around 35% of the Group's total paper consumption, setting quantitative targets per department. The achievement of these targets was regularly monitored and measures 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.

White paper Consumption
(ton/ employee)



Contributions breakdown
(%)



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

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

Financial Literacy & Education
- At the School Bench
- Mathematic Olympiads
- b-a-bes

Biodiversity and Climate Change
- Business & Biodiversity Declaration of Commitment
- BES sponsor of CIBIO
- Sustainable Future Programme
- Climate Change and the Financial Sector

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.

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 34 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.

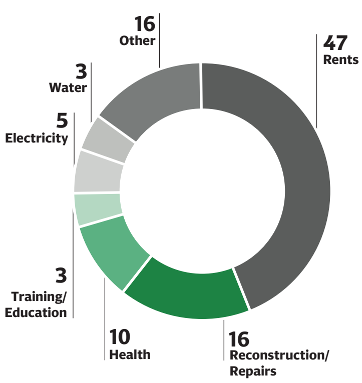
Solidarity – to help organisations that provide social support in areas as diverse as healthcare, or the fight to hunger, poverty, and social exclusion

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;
- **Associação Salvador**, 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.

BES breakdown of expenditure
(%)



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 1,052 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.

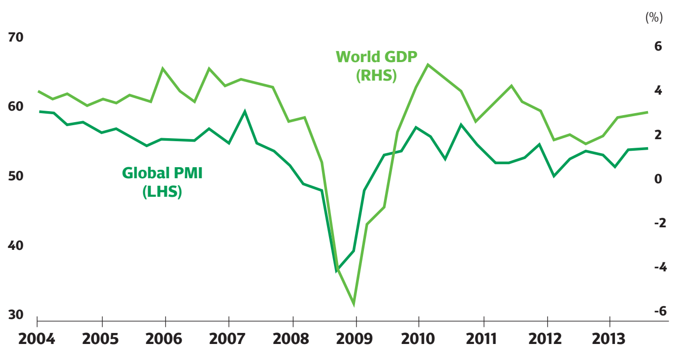
3. Economic Environment

External Framework

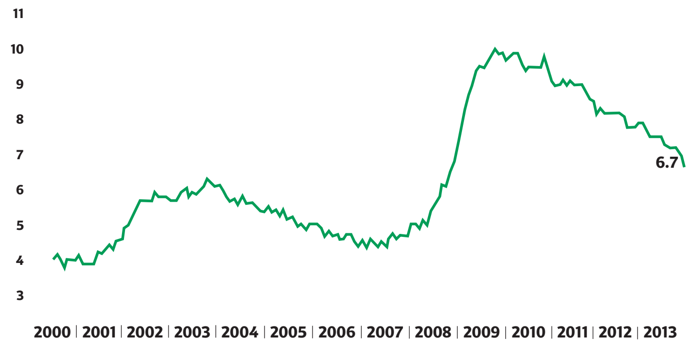
2013 marked by the recovery of economic growth, most noticeably in the United States

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.

World GDP growth vs. Global PMI
Index (Points)

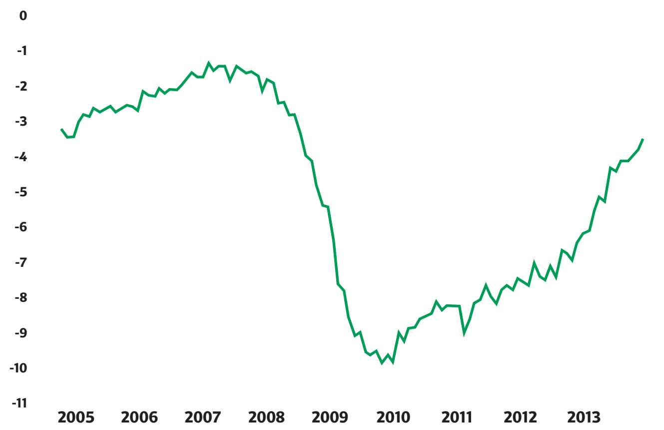


Unemployment rate, USA
(% of labour force)

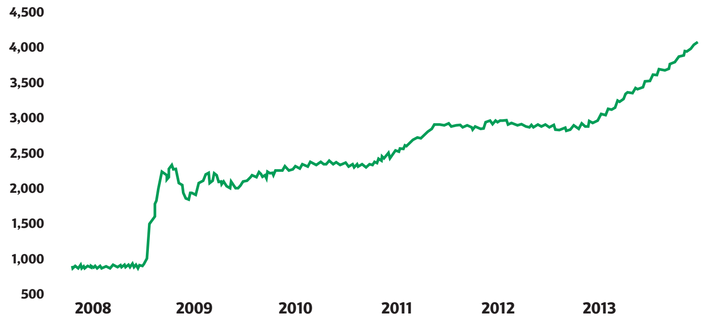


The US public deficit shrank from 9.3% to 6.5% of GDP, underpinned by restraint in public expenditures and the upturn of activity. With fiscal policy on a consolidation path, it was up to the monetary policy to maintain the economic stimulus instruments. Low inflation (close to 1.5%) and the absence 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)



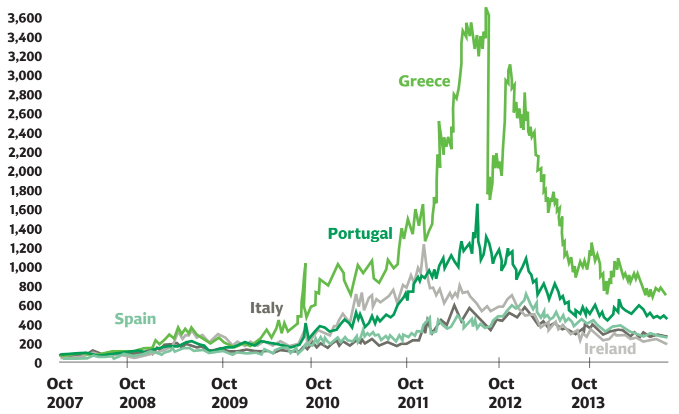
US Federal Reserve Assets
(USD billion)



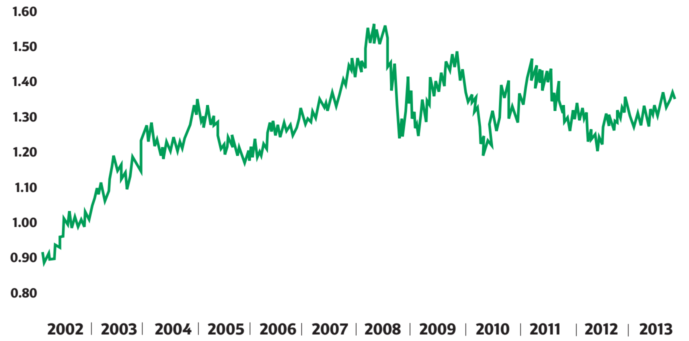
Improving sentiment in the eurozone, with activity resuming positive growth

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.

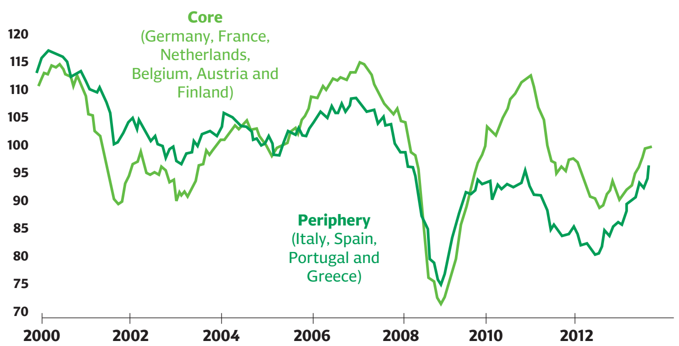
Yield Spreads on 10-year Government Bonds vs. Germany
(basis points)



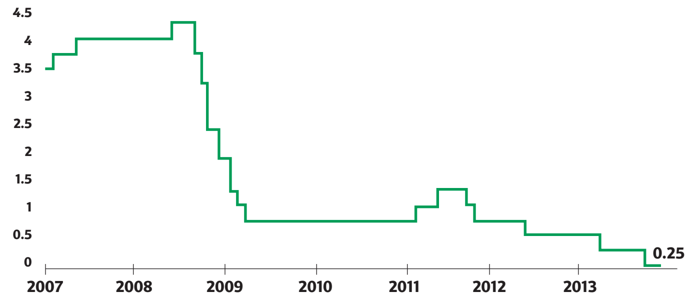
EUR/USD exchange rate
(%, y-o-y)



Economic Sentiment Index, Eurozone
Index (Points)



Refi rate
(%)

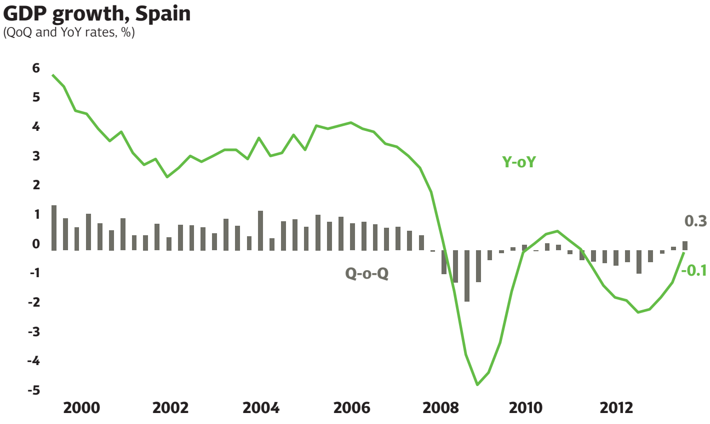


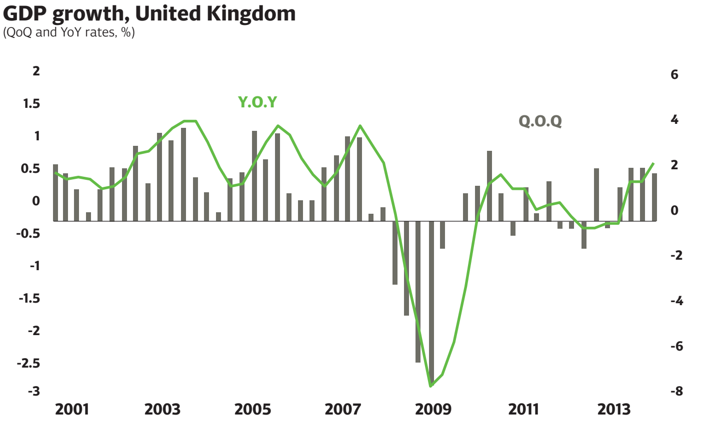
In overall annual terms, the eurozone GDP contracted by 0.5% in 2013. However, this was due to a sharp contraction in the first quarter, as the second quarter already saw positive growth and activity continued to pick up until the end of the year, with GDP growing by 0.5% in the fourth quarter. Unemployment 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.

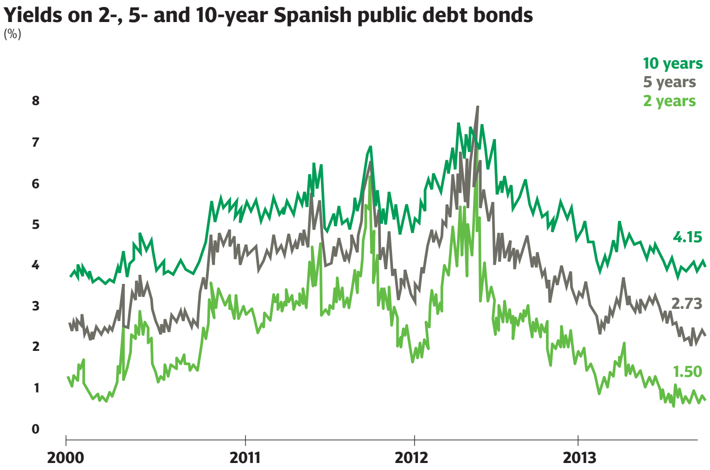
Positive signs in the eurozone extend to the periphery

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.





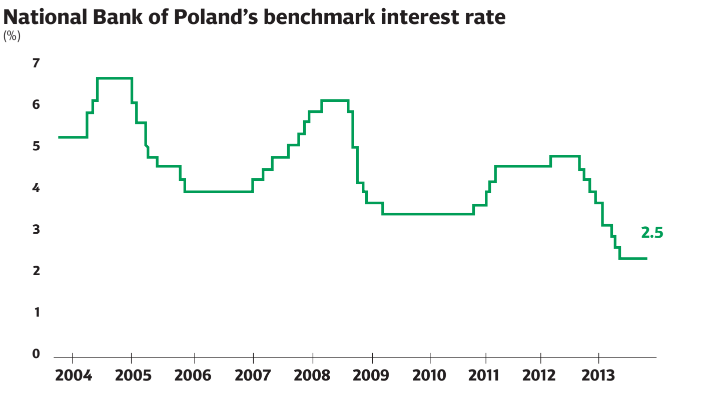


Larger monetary stimuli and currency depreciation benefit growth in the United Kingdom and Poland

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%.

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.

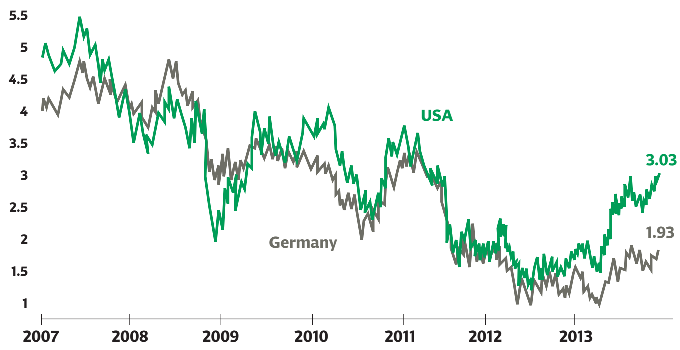


Equity markets shored up by combination of monetary stimuli and growth recovery

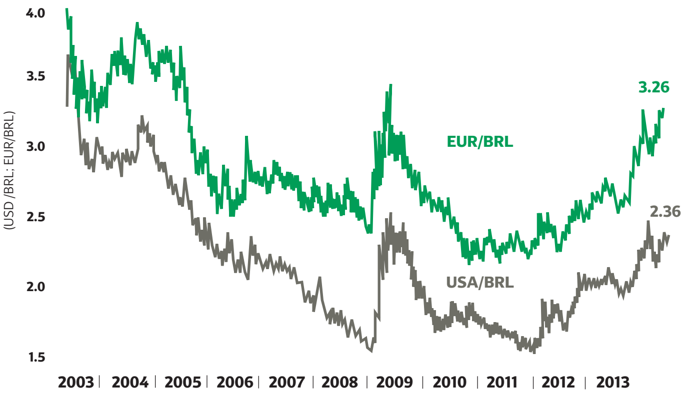
In the US and Europe, the rebound of growth and confidence in a context of expansionary monetary policies was particularly favourable **for the equity market**. In the US, the S&P500 and Nasdaq indices gained 29.6% and 38.3%, while in Europe the DAX, CAC and IBEX advanced by 25.5%, 18% and 21.4%, respectively. 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.

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.

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



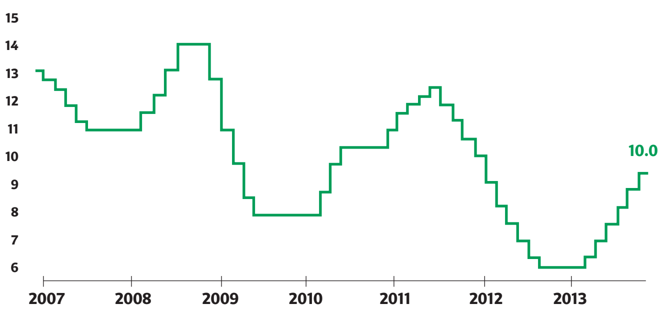
USD/BRL and EUR/BRL exchange rates
(%, y-o-y)



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%).

SELIC Interest Rate
(%)

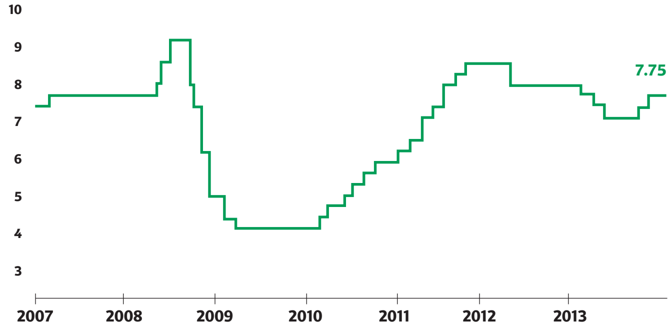


Brazil's economic performance in 2013 was marked by a deepening of the imbalances generated by the expansion of consumption to the detriment of an increase in production capacity. The gap between the growth pace of aggregate supply and demand kept the variation in prices above the established targets, 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

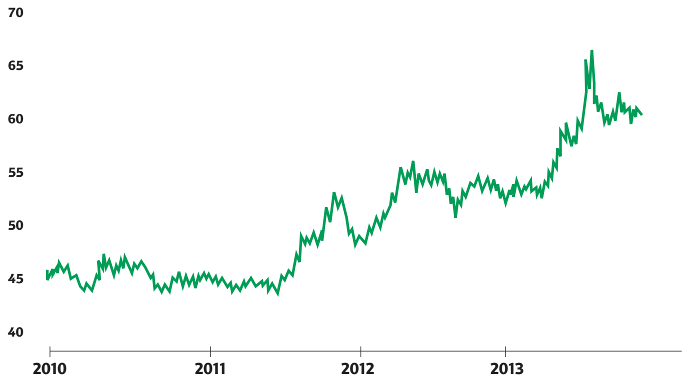
The emerging markets were further penalised by fears about a slowdown of economic activity in **China**, especially during the first half of the year. The Chinese authorities have been seeking to arrive at a more balanced, less credit-driven growth pattern, shifting economic activity from investment 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).

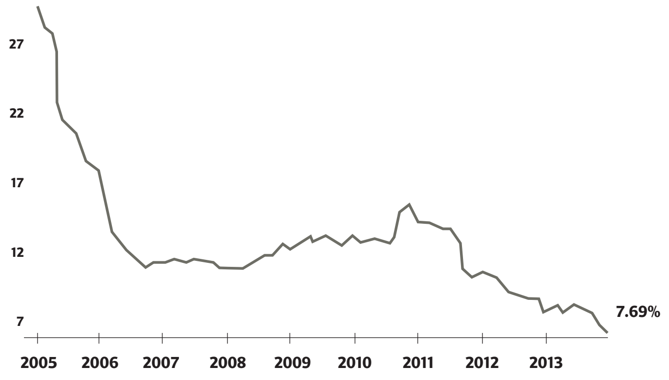
Central Bank of India's benchmark interest rate
(%)



USD/INR exchange rate
(%)



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

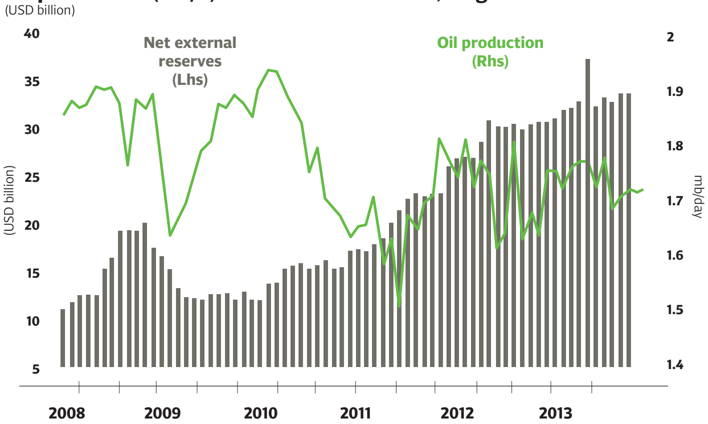


Source: BNA.

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, Angola
(USD billion)

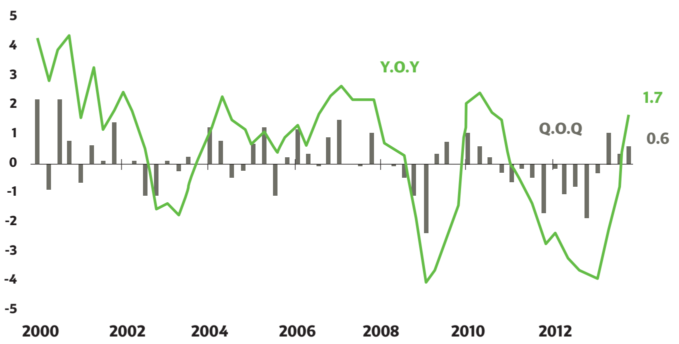


Portugal

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.

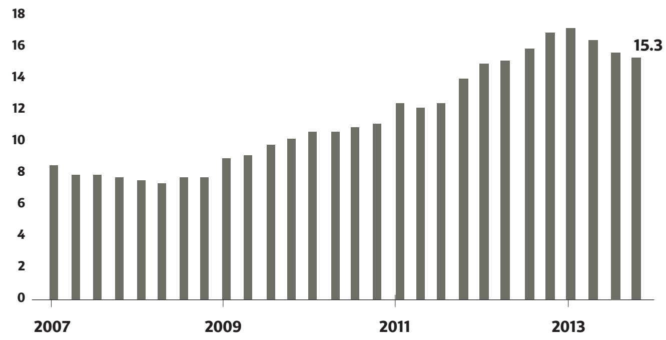
GDP growth, Portugal
(QoQ and YoY rates, %)



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).

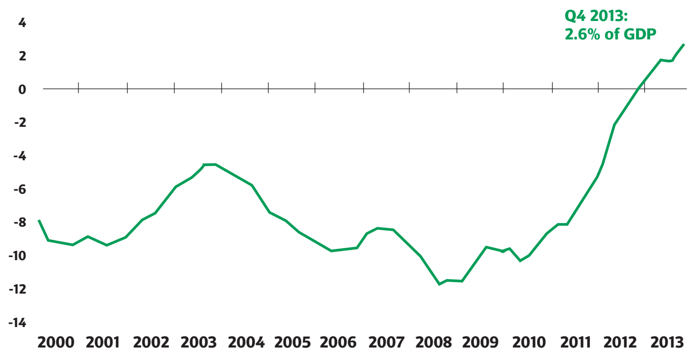
Unemployment rate
(% of the labour force)



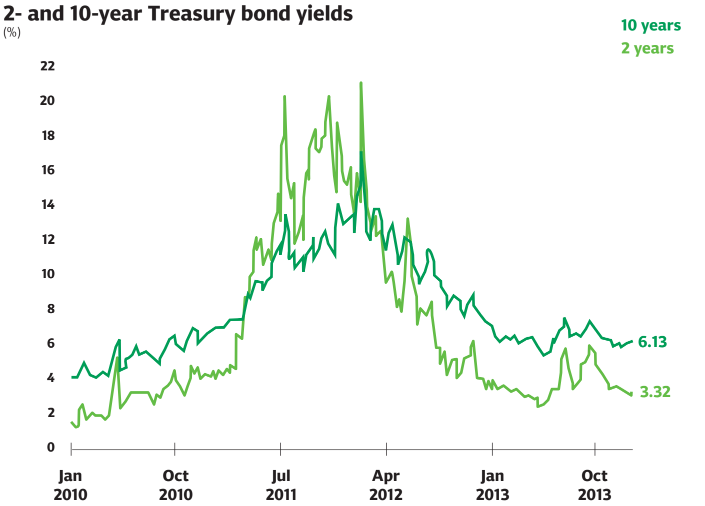
Financial stabilisation and return to the long-term sovereign debt market.

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.

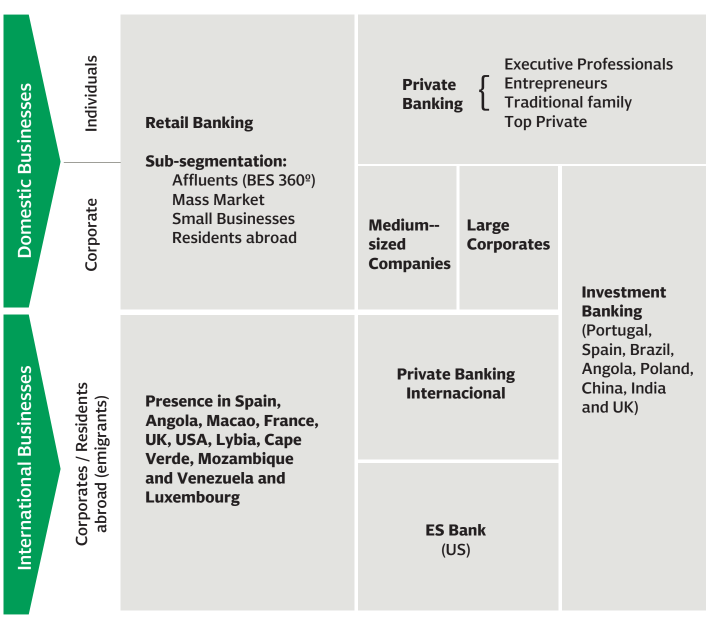
When monitoring the performance of each business area, the Group considers the following operating segments:

- 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 643 branches (representing a net reduction of 24 branches during the year.

Assurfinance

Resulting from a strategic partnership with Companhia de Seguros Tranquilidade, the Assurfinance programme offers exclusive advantages to Tranquilidade clients with no relations with BES Group who open an account with Banco Espírito Santo. As a result of the intense work developed with ca. 1,900 Tranquilidade agents, in 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 Tranquilidade agents share their insurance mediation activity with service to BES clients.

BES 360°: Traditional excellence in customer service

The BES 360° 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 360° segment is supported by a number of strategic initiatives:

- The new remote approach to the affluent clients, together with the specialised 360° 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 360° 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.

Planned Saving	Performance in 2013
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 253 million in savings.
Micro saving	**Performance in 2013**
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. 42,200 clients; • EUR 2.5 million in savings.
Impulse saving	**Performance in 2013**
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.	• 2.200 clients; • 4.400 clients.
Micro-donate	**Performance in 2013**
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 3.124 million, corresponding to 186 operations with new entrepreneurs that permitted to create 317 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/sustainability.

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.

Although many emigrants left Portugal in 2013, total customer funds of new residents increased by EUR 0.733 million year-on-year (+ 0.6%), reaching EUR 127.8 million.

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 domiciliate 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

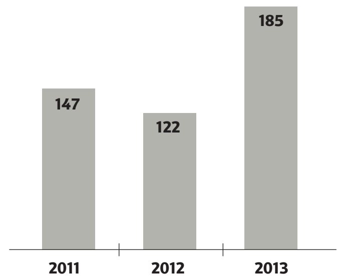
Recognising the important role played by the financial sector in promoting sustainable development, BES Group has a specific offer of innovative financial products and services designed to encourage environmental accountability among its clients.

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 CO_2eq/year, which is 20% less than a conventional account.

CO_2 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/sustainability

BES/WWF Card

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

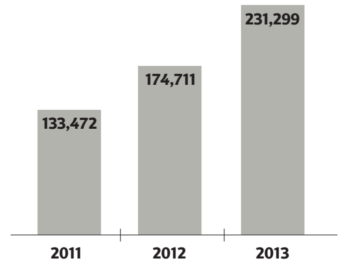
The funds raised through this card are used to finance the WWF's nature conservation and biodiversity preservation projects in Portugal, which, among others, aim to preserve the national forest, fight global warming and reduce the waste of water. The work developed by this organisation supports the conservation 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
(EUR million)



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.

Innovation and Entrepreneurship

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.

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.

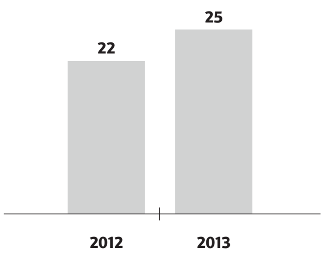
BES Environment and Sustainable Energy Solutions

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;

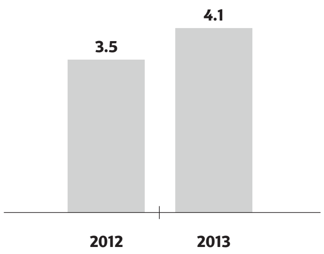
- Energy efficiency solutions, consisting in the implementation of energy consumption rationalisation plans and solutions that take into account technical and economic viability based on an energy study provided to the client.

Operations approved



Amounts accrued in 2013.

Credit granted
(eur million)



Amounts accrued in 2013.

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 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 Espirito 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 246.9 million, was 5.5% below that reported in 2012 while Operating Costs were down by 2.3%. 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 it 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 is 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 13 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 7.6 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 m^3/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%).

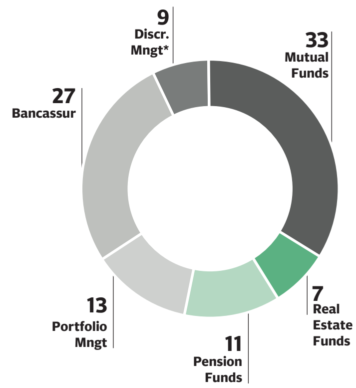
Discretionary Management

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).

European Responsible Fund
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.

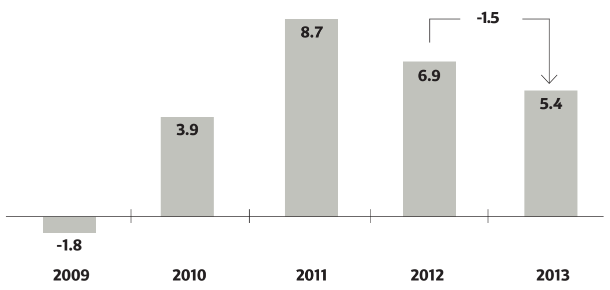
At the end of November BES Group made a EUR 750 million subordinated Tier 2 debt issue which is already compliant with the new Basel III/CRD IV rules. The notes have a maturity of 10 years, with a call in year 5, and will pay a coupon of 7.125%. This transaction was a further step in BES Group's strategy 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.

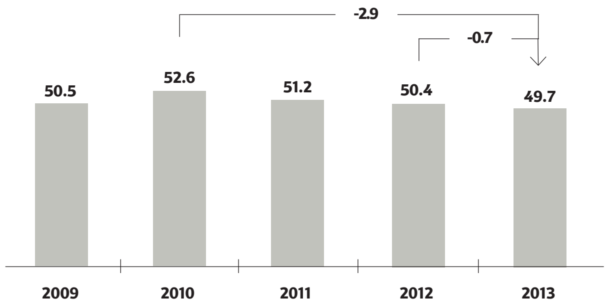
Net ECB Funding Evolution
(eur bn)



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.

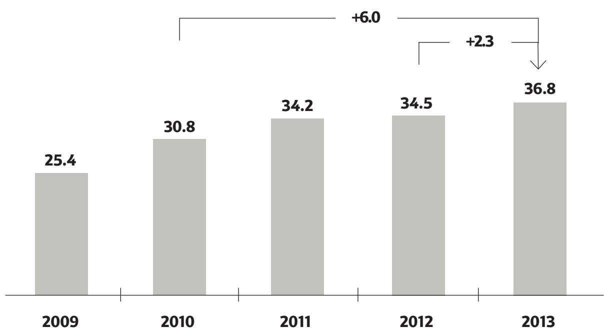
Loan Book Evolution in 2013 (Gross)
(EUR bn)



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

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

Customer Deposits Evolution in 2013
(EUR bn)

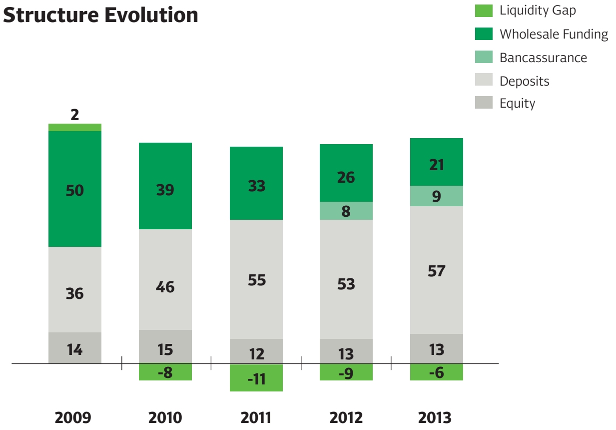


However, deposits growth over the year was under pressure from clients' demand for saving products with higher returns than deposits (whose rates are limited by a maximum spread), such as bonds, investment funds and bancassurance products.

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
(%)



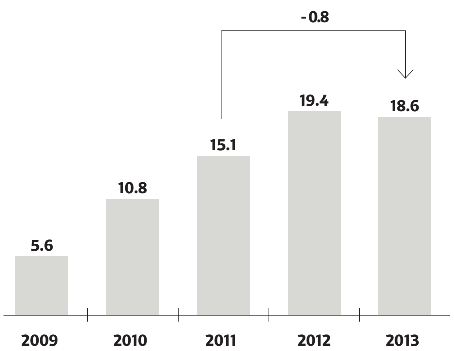
Over the last few years the increase in customer deposits and the reduction of the loan and securities portfolios in part offset the reduction in medium- and long-term funding lines, which as a percentage of the Bank's overall funding structure dropped by 29 p.p., from 50% in 2009 to 21% in 2013.

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)



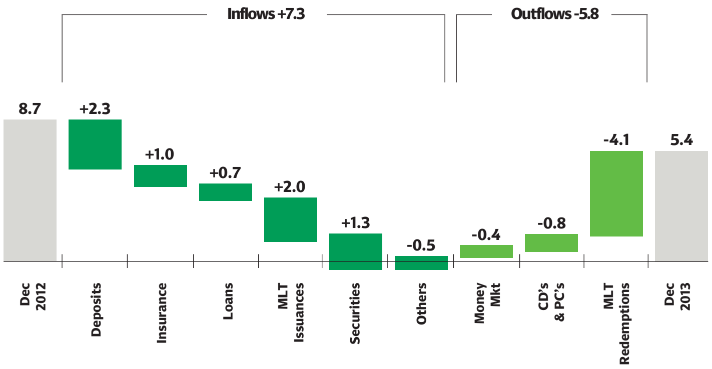
The portfolio of repoable securities includes exposure to Portuguese sovereign debt of EUR 3.5 billion, as well as exposure to other peripheral countries' sovereign debt, namely EUR 558 million to Spanish public debt, EUR 156 million to Italian public debt and EUR 30 million to Greek public debt.

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);

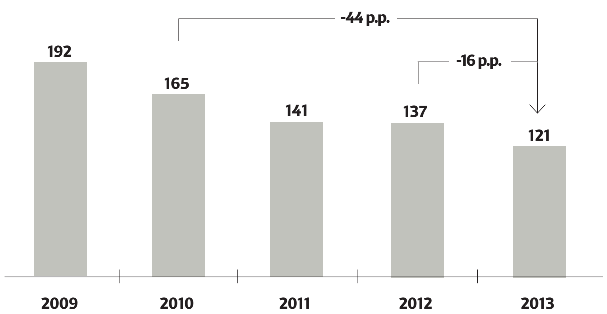
(ii) EUR 3.9 billion of placements with the ECB.

Net ECB Funding Evolution in 2013
(EUR bn)



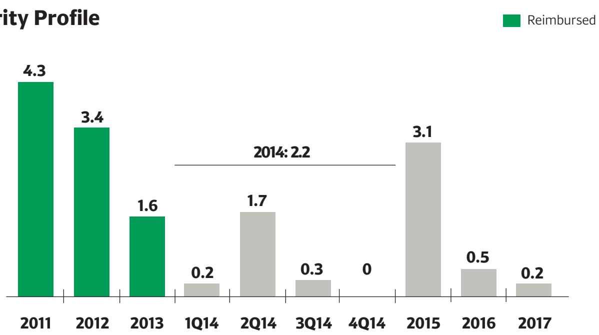
The implementation of the referred guidelines permitted to refinance all the debt maturing before the end of the year, including the EUR 1.6 billion medium and long-term debt reimbursed during the year, to improve the loans to deposits ratio by 16 p.p., to 121% and to reduce net funding from the ECB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

Loan to Deposits Ratio Evolution
(%)



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	Negative
DBRS	BB (low)	R-2 (middle)	Negative
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

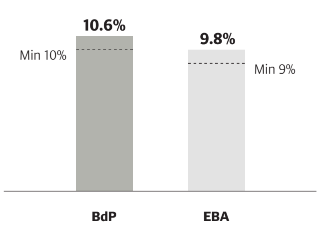
The persisting economic recession in Portugal inevitably impacted the activity developed by the Group, with consequences in terms of the main risks to which it is exposed.

Solvency

- Core Tier I 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

Core Tier I



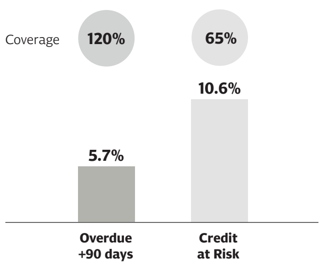
Risk Weighted Assets (Unit: €m)	2013
Credit Risk	52,851
Market Risk	1,227
Operational Risk	3,254
Total	**57,332**

Credit

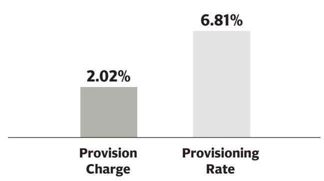
- Reflecting the country's economic situation, the overdue loans (>90 days) ratio increased to 5.7% (Dec. 12: 3.9%) and the credit at risk ratio reached 10.6% (Dec. 12: 9.4%).
- Due to the increase in overdue loan levels, credit provisions were reinforced by EUR 1,005 million (2.02%), which compares 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%).

Overdue loans and provisions

Overdue loans



Provisions

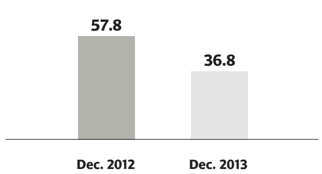


Market

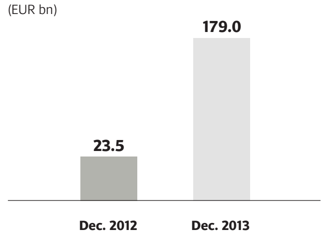
- Consolidated value at risk (VaR) in the trading book and relating to trading positions in commodities and FX positions totalled EUR 36.8 million in December 2013, having decreased by EUR 1.3 million YoY. Including BESI Group's credit spread as of December 2012 the decrease would have reached EUR 21 million.
- 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 2013.
- A large part of the stake in EDP was sold.

Reduction of market volatility

VaR annual evolution
(EUR bn)



Annual Evolution
(EUR bn)

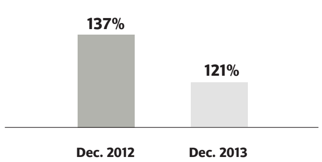


Liquidity

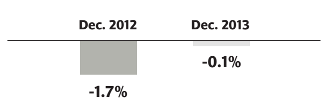
- With liquidity still penalised by the recession as well as the cost of funding in the wholesale market, this was offset by a considerable increase in deposits that lowered the loan to deposits ratio to 121%.
- At December 31st, 2013, BES Group met the limit set for 2015 for the Basel III Liquidity Coverage Ratio (LCR).
- The BoP liquidity gap up to 1 year decreased from -1.7% (Dec.12) to -0.1% (Dec.13).

Prudent management of liquidity risk

Transformation Ratio



Liquidity Gap up to 1 year



Organisation

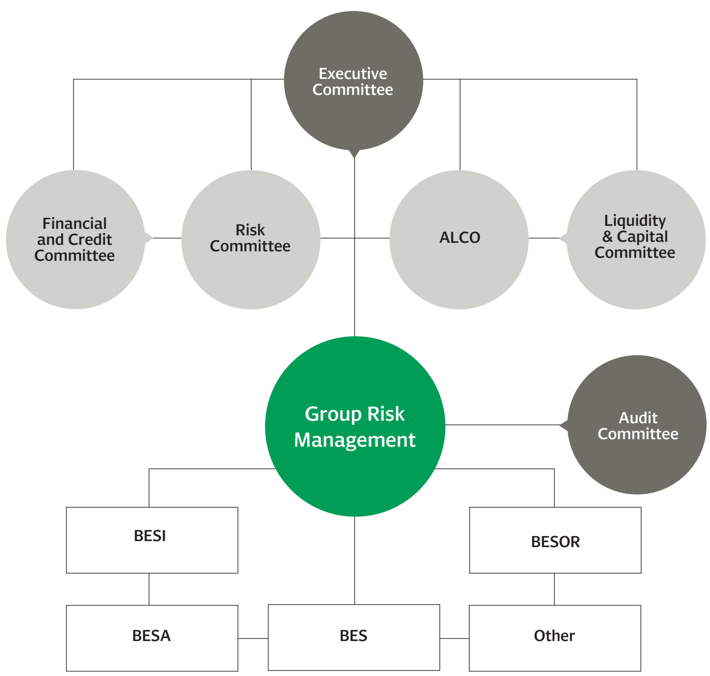
The definition of BES Group's risk appetite is the responsibility of the **Executive Committee**. Its responsibility also includes establishing general principles of risk management and control and guaranteeing that the Group possesses the necessary skills and resources to meet the established objectives.

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

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 as follows:



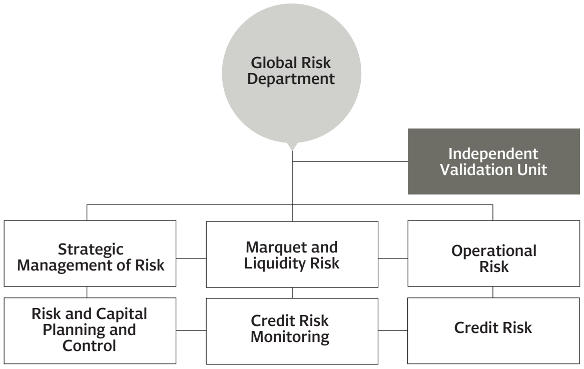
Higher Committees	
Executive Committee	Responsible for defining the objective risk profile, establishing global and specific limits for exposures; Its responsibility also includes establishing the general principles of risk management and control, and ensuring that BES Group has the necessary competences 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.

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.

Origination

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

Monitoring

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

Recovery

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

A.1. Risk Rating Systems

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

In accordance with the rules on minimum regulatory capital requirements (Basel II) and following the best risk management practices, the internal risk rating systems are validated on a regular basis by the Independent Validation Unit. In 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.

	Segmentation Criteria	Model Type	Statistics
Expert Judgement ↑	**Sector, Dimension, Product** • Financial institutions; • Municipalities; • Institutional clients; • Large corporate; [Sales > 50 EUR 50 mn]; • Real estate (Investment/promotion); • Acquisition Finance; • Project Finance; • Object Finance; • Commodity Finance.	Template.	Ratings attributed by teams of analysts, using sector specific models (templates) as well as financial and qualitative information.
	Medium Sized Companies: • Sales [EUR 1.25 mn to EUR 50 mn].	Semi-Automatic.	Ratings model based on financial and qualitative information validated by analysts.
↓ Statistics	**Small Businesses:** • Sales up to EUR 1.25 mn; Start -Up's and Individual Entrepreneurs	Automatic.	Ratings model based on financial, qualitative and behavioural information. Ratings model based on qualitative and behavioural information.

For **Large Companies**, **Financial Institutions**, **Institutional Clients**, **Local** and **Regional Administration**, and **Specialised Finance** (i.e. project finance, object finance, commodity finance and acquisition finance) credit ratings are assigned by a rating desk. The Rating Desk, composed of specialised analysts organised into multi-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.

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

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

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

• LGD Models

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

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

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

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.

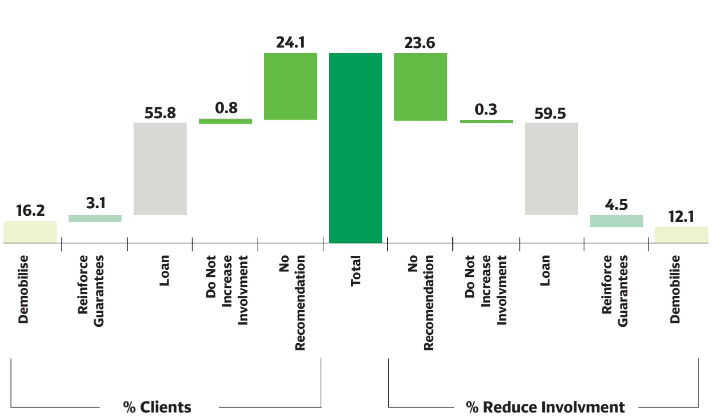
Taking into account the specific characteristics of each case assessed, the Committee approved recommendations on 5,311 clients with an overall exposure of EUR 5,259 million (corresponding to 75.9% and 76.4%, respectively, of the overall number of clients analysed and the total exposure). From this total 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

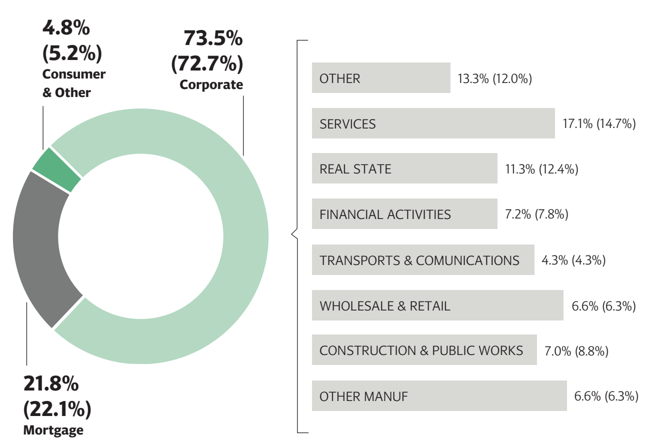
In 2013 customer loans decreased by 1.3% year-on-year due to low credit demand and a contraction in loans to individuals (-4.1%) resulting from the amortisations of mortgage loans as well as a fall in consumption. In the exporting sector loans to winner SMEs grew by 4.3%, accelerating from 2.8% in the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

Loan Portfolio Breakdown (EUR million)

	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	36,525	-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.

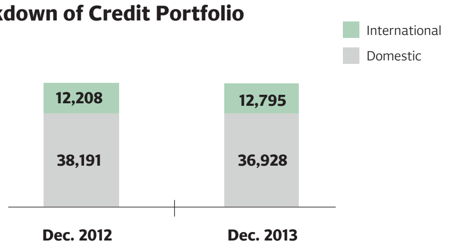
Loan Portfolio Breakdown by Industry Sector



( ) 2012.

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

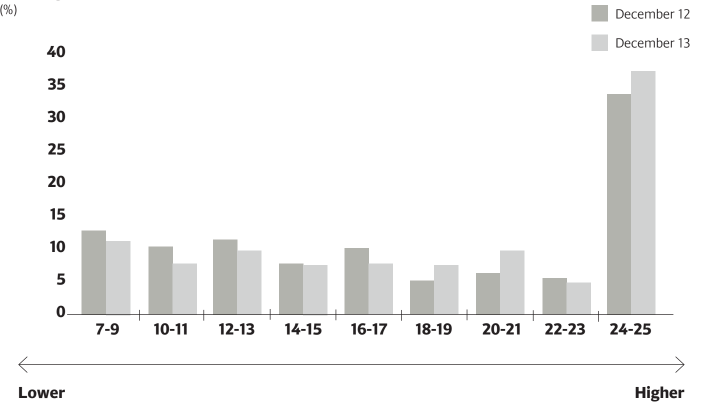
Geographic Breakdown of Credit Portfolio
(EUR million)



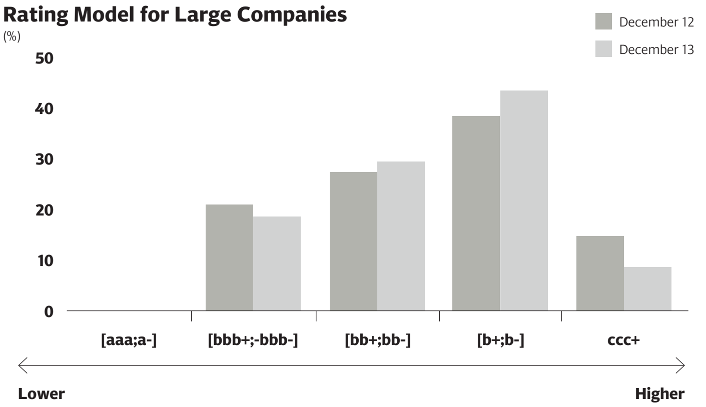
Loan portfolio breakdown by risk rating

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

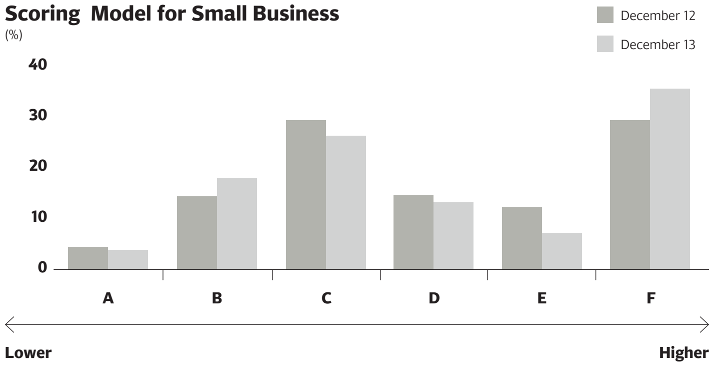
Rating Model for Medium Companies
(%)



Rating Model for Large Companies
(%)



Scoring Model for Small Business
(%)



Asset Quality

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

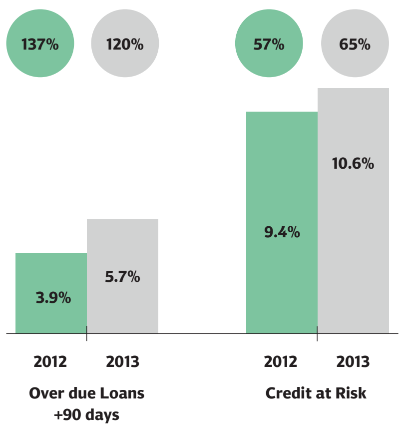
Asset Quality

	Dec. 12	Dec.13	Change	
			Absolute	Relative
(EUR million)				
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 Provions	815	1,005	190	23.3%
Indicators (%)				
Overdue Loans / Gross Loans	4.34%	6.01%	1.67p.p.	
Overdue Loans + 90 days / Gross Loans	3.90%	5.68%	1.78p.p.	
Credit at risk (1) / Gross Loans	9.44%	10.56%	1.12p.p.	
Restructured Credit (2) / Gross Loans	-	11.76%	-p.p.	
Restructured Credit not included in Credit at Risk (2)/ Gross Loans	-	9.41%	-p.p.	
Coverage of Ovedue Loans	123.2%	113.3%	-9.9p.p.	
Coverage of Overdue Loans + 90 days	136.9%	119.9%	-17.1p.p.	
Coverage of Credit at Risk (1)	56.6%	64.5%	7.9	
Provisions for Credit / Gross Loans	5.34%	6.81%	1.47	
Cost of Risk	1.62%	2.02%	0.40p.p.	
Provision Charge net of Recoveries	1.57%	1.98%	0.41p.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 nº32/2013.

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



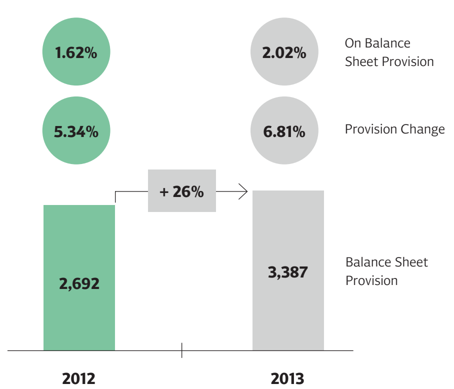
Reflecting the deterioration of the social and economic context, the credit at risk ratio increased to 10.6%, from 9.4% in December 2012. This increase was mainly driven by corporate overdue loans (where the ratio rose from 10.0% to 11.4%) due to the weight of this segment in the total portfolio.

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 1.62% 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%)

(EUR million)

Country	BoP Risk Weight	Dec. 12 Net Exposure		Dec. 13 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		**42**	**184**	**0**	**6**	**178**	**49**	**2**	**1**
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	4	0	2	2	2	0	0
India	10%	4	358	0	353	5	3	0	0
Macao	0%	52	96	0	0	96	25	1	1
Turkey	10%	0	1	0	0	0	0	0	0
Other		0	60	0	59	1	1	0	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	1,969	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 1,112 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

	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
Credit Spreads	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)

	Extreme Scenario	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;

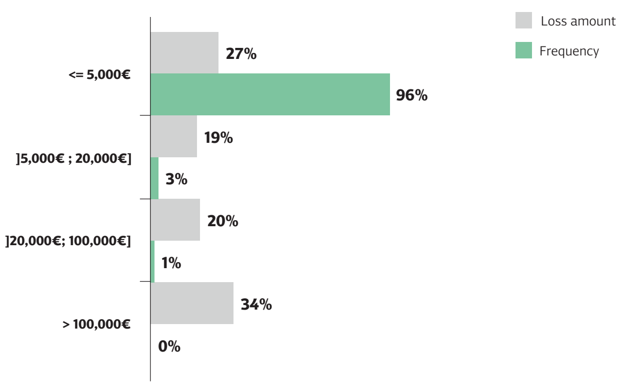
- Calculation of capital requirements in accordance with the Standardised Approach.

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.

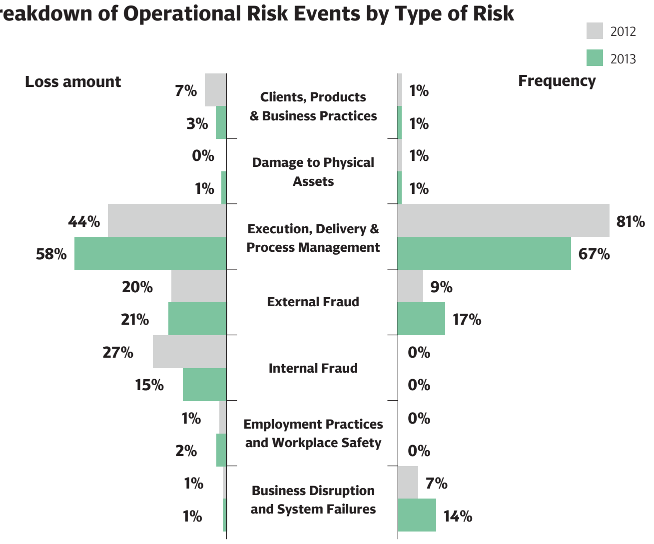
In 2013, 96% of the incidents had a financial impact below EUR 5,000, representing 27% of the total impact. Incidents with an impact above EUR 100,000 (34% of the total) were fewer than last year and measures were taken to solve them.



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.

Breakdown of Operational Risk Events by Type of Risk



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 (Liquid Assets – Volatile Liabilities)/(Assets – Liquid Assets) x 100 for each cumulative ladder of residual maturity, where liquid assets include cash and liquid securities and volatile liabilities include cash, debt issues, commitments to third parties, derivatives and other liabilities. This indicator 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. 12	Dec. 13
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 57,332 million, of which EUR 52,851 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.

Risk Weighted Assets - per asset class (EUR million)

	Domestic Activity		International Activity		Total	
	Risk Weighted Assets	Risk Weight (1)	Risk Weighted Assets	Risk Weight (1)	Risk Weighted Assets	Risk Weight (1)
Central Authorities or Central Banks	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%**

(1) 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.

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 56,390 million in December 2013, if considering the transitory period, or EUR 55,849 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%).

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	-399
	General Risk	566	573	7
	CIE *	4	0	-4
Equity Instruments	Specific Risk	55	18	-37
	General Risk	17	20	3
	CIE *	0	0	0
Commodity Risk		1	0	-1
Fx Risk		228	384	156
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
GBES	**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	126

Environmental Risk

BES Group has developed policies, management methodologies and services that permit to identify, reduce and mitigate potential environmental, social and ethical impacts arising from its financing activities and the projects, activities and companies financed.

Given the complexity of the analysis and the fact that there is no regulation on the assessment of environmental, social and ethical risks, the Group has steered its action by the market's best practices.

In 2006 the Bank subscribed to the Equator Principles, a voluntary initiative launched by the financial sector under which leading international banks undertake to submit all project finance transactions above USD 10 million to environmental and social risk analyses. In 2012, banking on its methodologies and experience in the analysis of such risks, the Bank approved the obligatory performance of these analyses for all project finance transactions over USD 7 million.

In addition, the Bank has formally adopted financing policies for sectors subject to high environmental, social and ethical risks, namely the "Banco Espírito Santo policy on financing with impact on the forests and biodiversity", and in 2012 the "Policy on the financing of defence" and the "Policy on the financing of construction".

The policy on the financing of defence establishes limits for credit provided by BES to this sector. BES Group does not finance the sale or manufacturing of chemical, nuclear, biological or mass destruction weapons. Such credit is only granted when the weapons manufactured or sold are intended for use by the military for the defence of state sovereignty.

The policy on the financing of construction aims to encourage construction firms to adopt good environmental hygiene, health and safety practices. The policy also seeks to exclude from the portfolio companies whose management practices do not permit to reduce the risks arising from projects where environmental and social risks were not addressed.

These policies formally translate practices that are consolidated within the Bank while seeking to ensure that all financings take into account the minimisation of environmental, social and ethical risks.

In addition, and with the objective of providing a competent and effective service permitting to minimise the environmental risks of its corporate clients, the bank provides the guarantees required to cover the restoration or prevention of environmental damages suffered by companies. These guarantees help companies to comply with the environmental liability law, which requires all national companies falling within its scope to provide coverage for potential environmental impacts.

The reduction in requirements in 2012 translates an overall decrease in the various categories of risk.

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 1.4 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 (+23.4%) -, 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

(EUR million)

	Dec. 12	Dec. 13	Change Absolute	Change Relative
Total Assets (1)	**97,765**	**93,342**	**-4,423**	**-4.5%**
Asstes	**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 Fund	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	Change 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	Change Relative
Total Asstes (1)	27,513	29,193	1,680	6.1%
Net Assets	24,515	26,484	1,969	8.0%
Customer Loans (Gross)	12,208	12,795	587	4.8%
Total Customer Funds	13,494	15,089	1,595	11.8%

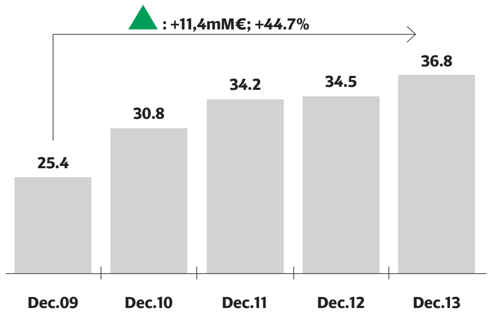
(1) Net Assets+Asset Management+Other Off-Balance Sheet Liabilities+Securitised unconsolidated credit.

7.2 Liquidity Transformation and Management 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

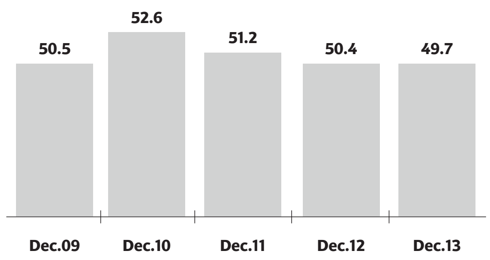
(EUR bn)



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.

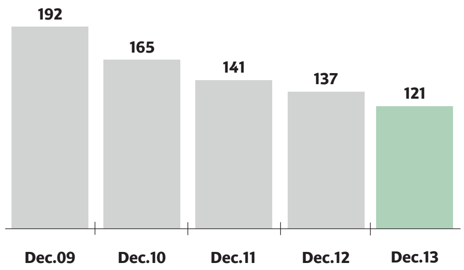
Evolution of Gross Loans

(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 71 p.p. 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.

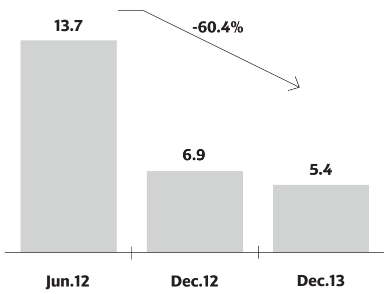
Loan to Deposits Ratio [1]
(%)



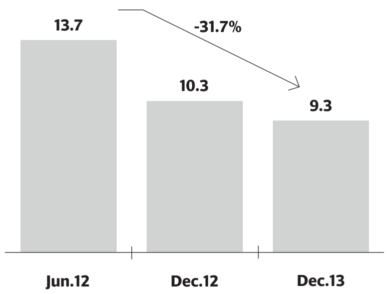
(1) Ratio calculated under BoP Funding & Capital Plan.

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.

Net Funding from the ECB
(EUR bn)

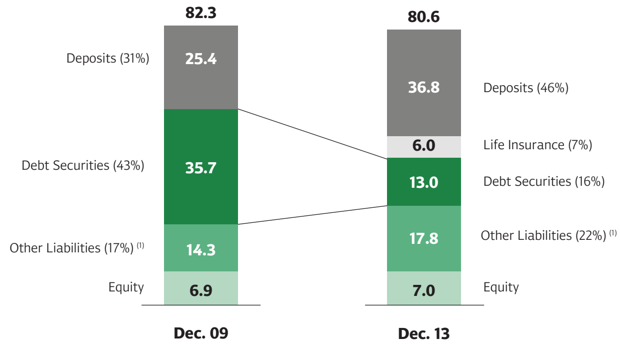


Gross Funding from the ECB
(EUR bn)



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.

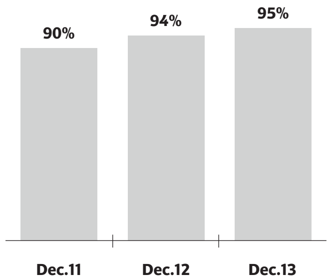
Structure of Liabilities and Equity
(EUR bn)



(1) Includes ECB facilities.

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]
(EUR bn)



(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	Change
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 interets 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 (EUR million)

		According to BoP (BIS II)		According to BIS III (CRD IV/CRR) from Jan.14	
		Dec.12	Dec.13	Phasing in	Fully implemented
Net Assets	(1)	**83,691**	**80,608**	**-**	**-**
Risk weight	(2)/(1)	74%	71%	-	-
Risk Weighted Asssets	(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 10.2%, or 8.2% 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 (EUR million)

	2012	2013	Change Absolute	Change 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%).

Commercial Banking Income International Activity (EUR million)

	2012 Stated	2012 Like-for-Like[1]	2013	YoY Change 2012/2013 Stated	YoY Change 2012/2013 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	Change	2012	2013	Change
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)

Countries	2012	2013	Change
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

(EUR million)

	2012			2013		
	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	-	-	-	-	-	-
Total	**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

(EUR million)

Fees and Commissions Breakdown	2012	2013	Change	
			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	-		
Comparable Total	**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 (EUR million)

	2012	2013	Change (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 EUR million

	2012	2013	Change	
			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%**
Excluding new consolidations	*1,140.1*	*1,117.1*	*-23.0*	*-2.0%*
Domestic	782.0	751.9	-30.1	-3.8%
Excluding new consolidations	*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 (EUR million)

	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%**
Excluding new Consolidations	*594.7*	*569.2*	*-25.5*	*-4.3%*
Domestic	389.7	375.0	-14.7	-3.8%
Excluding new Consolidations	*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

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 though loan foreclosures is valued based of 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 (EUR million)

	2012	2013	Change	
			Absolute	Relative
Credit Provisions	814.8	1,005.1	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	**1,199.4**	**1,422.8**	**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 (EUR million)

	2012	2013	Change	
			Absolute	Relative
Gross Loans	50,399	49,722	- 677	-1.3%
Credit Provisioning Charge	814.8	1,005.1	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 p.p.	
Provisions for credit/ Gross Loans	5.34%	6.81%	1.47 p.p.	

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	Change 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
Interesting 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	1,377.8	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	1,853.6	1,505.2	1,614.1	1,732.0	950.3
- Operating Costs	OC	766.8	819.1	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	298.8	-133.1	122.0	-462.6
PROFITABILITY (%)						
Net Interest Margin	NII / EA	1.51	1.01	1.02	1.09	0.68
+ Return on Fees and Commissions	FC / EA	0.78	0.76	0.76	0.76	0.79
+ Return on Capital Markets and Other Results	CM / EA	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	1.25	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	0.45	-0.21	0.20	-0.79
x Weighting of Interest Earning Ass	IEA / NA	0.84	0.87	0.85	0.91	0.86
= Return on Assets (ROA)	NP / NA	0.58	0.39	-0.18	0.18	-0.68
x Placements Multiplier	NA / KP	15.55	14.78	14.23	10.43	9.83
= Return on Equity (ROE)	MP / KP	9.03	5.82	-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

(EUR million)

	Dec. 12	Dec. 13	Change	
			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 Indivuals	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	2,003.0	2,776.4	773.4	38.6%
Overdue Loans > 90 days	1,798.4	2,633.0	834.6	46.5%
Provisions for Credit	2,402.1	3,052.6	650.5	27.1%
(%)				
Overdue Loans/ Gross Loans	5.10	7.20	2.10	p.p.
Overdue Loans >90 days/ 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 days	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	**658.2**	**395.0**	**-263.2**	**-40.0%**
+ 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	**1,732.0**	**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 p.p.
Cost to Income (ex-markets)	68.5%	86.5%	18.0 p.p.

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

Consolidated Balance Sheet as of December 2012 and 2013

(EUR thousand)

	Dec. 12	Dec. 13
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 propreties	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

Consolidated Income Statement as of December 2012 and 2013

(EUR thousand)

	Dec. 12	Dec. 13
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 achied in stages	(89,586)	-
Equity accounted earnings	8,312	1,091
Income before taxess	**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**	**(514,871)**
Attributable to minority interests	**23,735**	**2,687**
	119,836	(514,871)

Chief Account

The Board of Directors

8.2 Individual Financial Statements

Individual Balance Sheet as of December 2013

(EUR thousand)

	Dec. 13			Dec. 12
	Amount before Provisions, Impairmentand and Depreciations	Provisions, impairmentand, 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 propreties	-	-	-	-
Proprety 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 helding 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
Dividens 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

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	Pages
Customer satisfaction	• Product and service information and labelling	• Responsible Management - Clients	30-31
Financial Inclusion of people and companies	• Indirect economic impacts • Portfolio of products	• Saving products • Microcredit • Environmental products and services • Project Finance	45-47 52-53
Development of Human Capital	• Employment • Training and Education • Diversity and equal opportunities	• Responsible Management - Employees	28-30
Ethics and accountability in the relationship with stakeholders	• 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	27-33
Responsible management/ monitoring of suppliers	• 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	31-33
Innovation of products and services		Support to Innovation	48-49
Internationalisation of the Sustainability Strategy	• Strategy and Analysis	BES Group today Strategy	18-21
Environmental and social risk management in the credit portfolio	• Portfolio of products • Audit • Active participation	• Project Finance • Risk management - Environmental risk	52-53 73
Strategy for climate change	• Energy • Emissions	• Responsible Management Environmental footprint	33-35
Eco-efficiency in the branches, buildings and operations of the Bank	• Materials • Energy • Water • Emissions • Effluents and wastes	• Responsible Management Environmental footprint	33-35
Corporate citizenship and philanthropy (Community Support)	• Local community • Portfolio of products	• Responsible Management - The Other BES	35-36

Contacts for additional information on Sustainability:

Sustainability Office:

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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 Matos Silva
Xavier Musca

Appendices

The Sustainability Accounts

Environmental	2008	2009	2010	2011	2012	2013	2012/2013
Energy[1] (G4-EN3, G4-EN5)							
Total electricity consumption (GJ)	210,389	216,959	218,752	197,762	179,963	166,074	-7.718%
Total electricity consumption (kwh)	58,441,425	60,266,513	60,764,414	54,934,001	49,989,692	46,131,713	-7.718%
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	5,768	-7.5%
Natural gas consumption (GJ)	373	887	740	496	551	574	4.2%
Natural gas consumption (N.m3)	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**	**166,740**	**-7.6%**
Transport[1]							
No. of vehicles	1,085	1,491	1,212	1,474	1,644	1,202	17.8%
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	1,981	-7.5%
Water[1] (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 (tCO_2e) 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	13,803	-24.2%
Indirect emissions (Scope 2)	22,454	20,561	13,975	19,424	18,202	13,803	-24.2%
Total Scope 2 standardised	19,889	20,711	20,883	21,641	20,044	17,192	-14.2%
Total (scope 1 and 2)	27,424	25,572	19,244	26,802	25,386	21,641	-14.8%
Total (Scope 1 and 2) standardised	24,908	25,805	26,235	29,051	27,228	25,031	-8.1%
Emissions from Employees' business trips/ business trips by plane	2,164	3,190	2,511	1,299	2,140	2,089	-2.4%
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	9,885	1.2%
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 management 1 (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	-

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 e BESI.

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	48,548,533	-4%
Emissions from the production of electricity purchased (tCO_2e) scope 2)	19,200	14,739	-23%
Water consumption (m^3)	94,769	86,969	-8.2%

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

(nº de Colaboradores)

	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
East	19	19		21	28	47

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

(nº of Employees)

BES Group (*)	Europe				America				Africa				GBES			
	2011	2012	2013		2011	2012	2013		2011	2012	2013		2011	2012	2013	
			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 (*)	Europe			America			Africa			GBES		
	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 a 50 years	-	-	0.9	-	-	0.3	-	-	0.6	-	-	2.4
> 50 years	-	-	0.1	-	-	0.1	-	-	0.0	-	-	0.2

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

New admissions rate (**) - BES Group (**)

(%)

BES Group (*)	Europe			America			Africa			GBES		
	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

(*) Only available from 2013.

Parental Leave

	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 include employees who were on leave in 2011.

Health and Safety (G4-LA6)

BES Group	Europe				America				Africa				GBES			
	2011	2012	2013		2011	2012	2013		2011	2012	2013		2011	2012	2013	
			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

	2011	2012	2013	
			Men	Women
Professional Category				
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

	2011	2012	2013	
			Men	Women
Number of Employees who received information about performance assessment	7,450	7,194	3,507	2,917
Percentage of Employees who received information about performance assessment	87%	85%	73 %	74%
Number of Employees who received information about career management	7,341	7,184	3,507	2,917
Percentage of Employees who received information about career management	86%	85%	73%	74%
Promotions				
Change of function	74	52	174	
Merit	830	493	509	
Seniority	100	121	140	
Total no. of Employees Promoted	1,004	666	823	

Loans granted to Employees

(EUR thousand)

	2008	2009	2010	2011	2012	2013
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
State (taxes)	109.8	43.7	114	110.8	-145.3

Independent Limited Assurance Report

To the Board of Executive Directors of
Grupo Banco Espírito Santo, S.A.

Independent verification of the sustainability information included in the Annual Report 2013 of Banco Espírito Santo Group, SA
(Free translation from the original in Portuguese)

Introduction

In accordance with the request of the Board of Executive Directors of Grupo Banco Espírito Santo, S.A. (GBES), we performed an independent limited assurance of the sustainability information included in the Annual Report 2013 (Report) of GBES. The independent assurance was performed according to instructions and criteria established by GBES, as referred in the Report, and according to the principles and extent described in the Scope below.

Responsibility

GBES's Board of Executive Directors is responsible for all the information presented in the Report, as well as for the assessment criteria and for the systems and processes supporting information collection, consolidation, validation and reporting. Our responsibility is to conclude on the adequacy of the information, based upon our independent assurance standards and agreed reference terms. We do not assume any responsibility over any purpose, people or organization.

Scope

Our procedures were planned and executed using the International Standard on Assurance Engagements 3000 (ISAE 3000) and having the Global Reporting Initiative, version 4.0 (GRI4.0) as reference, in order to obtain a moderate level of assurance on both the performance information reported and the underlying processes and systems. The extent of our procedures, consisting of inquiries, analytical tests and some substantive work, was less significant than in a full audit. Therefore, the level of assurance provided is also lower.

The following procedures were performed:

(i) Inquiries to management and senior officials responsible for areas under analysis, with the purpose of understanding how the information system is structured and their awareness of issues included in the Report;

(ii) Identify the existence of internal management procedures leading to the implementation of economic, environmental and social policies;

(iii) Testing the efficiency of process and systems in place for collection, consolidation, validation and reporting of the performance information previously mentioned;

(iv) Confirming, through visits to sites, that operational units follow the instructions on collection, consolidation, validation and reporting of performance indicators;

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Matriculada na Conservatória do Registo Comercial sob o NUPC 506 628 752, Capital Social Euros 314.000

(v) Executing substantive procedures, on a sampling basis, in order to collect sufficient evidence to validate reported information;

(vi) Comparing financial and economic data with those in the “Annual Report 2013” audited by the external auditor, to appraise the external validation of the reported information;

(vii) Validation of the material themes included in the Report based on the methodology described;

(viii) Verify the existence of data and information required to comply with the GRI G4.0 version, option 'In Accordance - Essential', taking into account the ‘Financial Services Sector Supplement’ of GRI.

Independence

We develop our work in line with standard ISAE 3000 independence requirements, including compliance with PwC's independence policies and code of ethics of the International Ethics Standards Board of Accountants (IESBA).

Conclusions

Based on our work described in this report, nothing has come to our attention that causes us to believe that internal control related to the collection, consolidation, validation and reporting of the performance information referred above is not effective, in all material respects.

Based on the assumptions described on the scope, we conclude that the Report includes the data and information required to comply with the option 'In Accordance - Essential', expected in GRI G4.0 version.

Lisbon, April 22, 2014

PricewaterhouseCoopers & Associados, S.R.O.C., Lda.

Represented by

António Joaquim Brochado Correia, ROC

Report “The Activity of BES and Biodiversity”

RESEARCH CENTRE IN BIODIVERSITY AND
GENETIC RESOURCES
PORTO UNIVERSITY

Over recent year Banco Espírito Santo has reaffirmed its commitment to environmental sustainability, namely in biodiversity. This positioning was reinforced in 2007 when a strategic partnership called Business & Biodiversity was established between BES and CIBIO-UP (Research Centre In Biodiversity and Genetic Resources Porto University) and the ICNF (Nature and Forest Conservation Institute), placing the Bank in an outstanding position in Portugal, both for its commitment to biodiversity and for the innovative nature of the partnership.

The report “BES and Biodiversity”, produced by CIBIO since 2007, monitors and assists BES and helps it, as a scientific consultant in biodiversity and environmental sustainability, to meet its environmental objectives. The report evaluates the impact on biodiversity and the environment arising from BES’ business, as well as identifying opportunities for improvement and suggesting measures and actions to minimise the impacts detected. The impacts caused by BES can be put into two categories: direct (resulting from the company’s day-to-day business) and indirect (arising from its financial activity). Over this period BES has progressively placed eco-efficiency at the centre of its management and use of energy, water, resources and materials, also implementing a number of its own measures and recommendations proposed by CIBIO in order to reduce its impact on the environment.

In 2013, BES extended the scope of its sustainability policy, which included continuing: i) its efforts to achieve the final reduction targets defined for electricity, CO2, water and paper proposed for the period 2008-2013; ii) the support granted to diverse entities with projects in hand aimed at conserving biodiversity, such as the Herdade da Poupa, the Ecology Educational Centre in Paul da Tornada, the Faia Brava Reserve, WWF Portugal and cooperation with the Nature Protection League; iii) the neutralisation of estimated CO2 emissions in relation to account 18.31. Besides this it joined a restricted group of banks included in the Dow Jones Sustainability World Index. Although the overall opinion of BES’ actions is positive, the CIBIO considers the suspension of the BES Biodiversity Award to be negative. This award aimed to distinguish innovative projects in the research, conservation, management and sustainable use of biological diversity in Portugal and which had run for 5 years up to 2013.

This unique award in Portugal aimed to alternately reward two different but complementary sections: Research and Conservation, and Biodiversity and Companies. Over its various editions the BES Biodiversity Award consolidated its position as benchmark award mainly due to the high quality of the winning projects and the important support it provided for the conservation of biological diversity.

The CIBIO congratulates BES for the effort it has been making in identifying the impacts that it causes on the environment via its business, and also for the recognition of its role as an organisation with resources and the capacity that can be geared to reducing these impacts and to directly support the conservation of biodiversity. The CIBIO hopes that BES can continue to improve its sustainability policy, even within the current scenario of economic crisis, in order to solidify its leadership in this area and strive to completely neutralise its impacts.

Porto, 13th of February, 2013

Nuno Ferrand de Almeida
(Cathedratic Professor, Faculty of Science of Porto University
Scientific Coordinator of CIBIO/UP
Director of InBIO, Associated Laboratory)

BES art COLECÇÃO BANCO ESPÍRITO SANTO

VALTER VINAGRE (b. 1954, Portugal). Da série Variações para um fruto, S/Título #6, 2003. Ilfochrome s/aluminium 100 x 125 cm. Unique Edition. © Valter Vinagre.

Financial Statements and Notes to the Financial Statements

1. Consolidated Financial Statements and Notes to the Financial Statement

Consolidated Income Statement for the Years Ended 31 December 2013 and 2012 (in thousands of euro)

	Notes	31.12.2013	31.12.2012
Interest and similar income	5	3,467,017	3,914,109
Interest expense and similar charges	5	2,432,709	2,733,601
Net interest income		1,034,308	1 180,508
Dividend income		58,498	72,604
Fee and commission income	6	865,815	975,062
Fee and commission expenses	6	(200,178)	(181,144)
Net gains/ (losses) from financial assets at fair value through profit or loss	7	(299,422)	(59,408)
Net gains/ (losses) from available-for-sale financial assets	8	441,112	600,206
Net gains/ (losses) from foreign exchange differences	9	(4,203)	(23,788)
Net gains/ (losses) from the sale of other assets	10	(68,616)	(42,159)
Insurance earned premiums net of reinsurance	11	355,329	62,257
Claims incurred net of reinsurance	12	(245,351)	(362,973)
Change on the technical reserves net of reinsurance	13	32,799	301,423
Other operating income and expense	14	(69,152)	118,246
Operating income		1,900,939	2,640,834
Staff costs	15	575,025	598,883
General and administrative expenses	17	454,086	442,120
Depreciation and amortisation	30 and 31	107,861	108,074
Provisions net of reversals	40	(10,264)	56,978
Loans impairment net of reversals and recoveries	25	1,005,092	814,832
Impairment on other financial assets net of reversals and recoveries	23, 24 and 26	104,108	106,727
Impairment on other assets net of reversals and recoveries	28, 31 and 34	323,953	220,893
Operating expenses		2,559,861	2,348,507
Gains on disposal of investments in subsidiaries and associates	1	-	383
Losses arising on business combinations achieved in stages	1 and 55	-	(89,586)
Share of profit of associates	32	1,091	8,312
(Loss)/ profit before income tax		**(657,831)**	**211,436**
Income tax			
Current tax	41	147,349	135,350
Deferred tax	41	(319,888)	(52,434)
		(172,539)	**82,916**
(Loss)/ profit from continuing operations		**(485,292)**	**128,520**
Discontinued operations	28	(29,579)	(8,684)
(Loss)/ profit for the year		**(514,871)**	**119,836**
Attributable to equity holders of the Bank		(517,558)	96,101
Attributable to non-controlling interest	45	2,687	23,735
		(514,871)	**119,836**
Basic (in Euro)	18	(0.13)	0.03
Diluted (in Euro)	18	(0.13)	0.03
Basic earnings per share from continuing activities (in Euro)	18	(0.12)	0.04
Diluted earnings per share from continuing activities (in Euro)	18	(0.12)	0.04

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

Consolidated Statement of Comprehensive Income for the Years Ended 31 December 2013 and 2012

(in thousands of euro)

	Notes	31.12.2013	31.12.2012
(Loss)/ profit for the period			
Attributable to equity holders of the Bank		**(517,558)**	**96,101**
Attributable to non-controlling interest	45	2,687	23,735
		(514,871)	119,836
Other comprehensive income for the period			
Items that wont be reclassified into the Income Statement			
Long-term benefit	16	(100,066)	(191,768)
Income taxes on actuarial gains and losses from defined benefit obligations	a)	1,712	18,718
		(98,354)	(173,050)
Items that may be reclassified into the Income Statement			
Exchange differences	a)	(75,159)	(57,216)
Income taxes on exchange differences on translating foreign operations	a)	(6,663)	3,247
Other comprehensive income from associates	a)	1,502	(9,800)
		(80,320)	(63,769)
Available-for-sale financial assets			
Gains arising during the period	45	164,927	1,248,383
Reclassification adjustments for losses included in the profit or loss	45	(336,552)	(500,898)
Deferred taxes	45	43,946	(131,438)
		(127,679)	616,047
Total comprehensive income/ (loss) for the period		(821,224)	499,064
Attributable to equity holders of the Bank		(794,717)	492,216
Attributable to non-controlling interest		(26,507)	6,848
		(821,224)	499,064

a) See Note 1 - Consolidated statement of changes in equity

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

Consolidated Balance Sheet as at 31 December 2013 and 2012

(in thousands of euro)

	Notes	31.12.2013	31.12.2012
Assets			
Cash and deposits at central banks	19	1,719,363	1,377,541
Deposits with banks	20	542,945	681,077
Financial assets held for trading	21	2,507,932	3,925,399
Other financial assets at fair value through profit or loss	22	3,874,347	2,821,553
Available-for-sale financial assets	23	8,486,605	10,755,310
Loans and advances to banks	24	5,431,464	5,426,518
Loans and advances to customers	25	46,334,896	47,706,392
Held-to-maturity investments	26	1,499,639	941,549
Derivatives for risk management purposes	27	363,391	516,520
Non-current assets held for sale	28	3,567,011	3,277,540
Investment properties	29	395,855	441,988
Other tangible assets	30	925,438	931,622
Intangible assets	31	455,352	555,326
Investments in associates	32	536,666	580,982
Current income tax assets		36,399	24,648
Deferred income tax assets	41	1,034,318	728,905
Technical reserves of reinsurance ceded	33	10,435	3,804
Other assets	34	2,885,960	2,994,154
Total Assets		**80,608,016**	**83,690,828**
Liabilities			
Deposits from central banks	35	9,530,131	10,893,320
Financial liabilities held for trading	21	1,284,272	2,122,025
Deposits from banks	36	4,999,493	5,088,658
Due to customers	37	36,830,893	34,540,323
Debt securities issued	38	11,919,450	15,424,061
Derivatives for risk management purposes	27	130,710	125,199
Investment contracts	39	4,278,066	3 413,563
Non-current liabilities held for sale	28	153,580	175,945
Provisions	40	192,452	236,950
Technical reserves of direct insurance	33	1,754,655	1,577,408
Current income tax liabilities		101,868	221,199
Deferred income tax liabilities	41	97,129	154,015
Subordinated debt	42	1,066,298	839,816
Other liabilities	43	1,219,723	1,145,602
Total Liabilities		**73,558,720**	**75,958,084**
Equity			
Share capital	44	5,040,124	5,040,124
Share premium	44	1,067,596	1,069,517
Other equity instruments	44	29,162	29,295
Treasury stock	44	(858)	(6,991)
Preference shares	44	159,342	193,289
Other reserves, retained earnings and other comprehensive income	45	468,885	641,964
(Loss)/ Profit for the year attributable to equity holders of the Bank		(517,558)	96,101
Total Equity attributable to equity holders of the Bank		**6,246,693**	**7,063,299**
Non-controlling interest	45	802,603	669,445
Total Equity		**7,049,296**	**7,732,744**
Total Equity and Liabilities		**80,608,016**	**83,690,828**

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

Consolidated Statement of Changes in Equity for the Years Ended 31 December 2013 and 2012

(in thousands of euro)

						Other reserves, retained earnings and other comprehensive income						
	Share capital	Share premium	Other equity instruments	Treasury stock	Preference shares	Fair value reserve	Other reserves retained earnings and other comprehensive income	Total	Profit / (Loss) for the year attributable to equity holders of the Bank	Total equity attributable to equity holders of the Bank	Non-controlling interest	Total equity
Balance as at 31 December 2011	4,030,232	1,081,663	29,505	(997)	211,913	(445,175)	805,645	360,470	(108,758)	5,604,028	588,447	6,192,475
Other comprehensive income:												
Changes in fair value, net of taxes	-	-	-	-	-	616,025	-	616,025	-	616,025	22	616,047
Actuarial deviations, net of taxes	-	-	-	-	-	-	(173,171)	(173,171)	-	(173,171)	121	(173,050)
Other comprehensive income appropriate from associates, net of taxes	-	-	-	-	-	-	(9,800)	(9,800)	-	(9,800)	-	(9,800)
Exchange differences, net of taxes	-	-	-	-	-	-	(36,939)	(36,939)	-	(36,939)	(17,030)	(53,969)
Profit for the year	-	-	-	-	-	-	-	-	96,101	96,101	23,735	119,836
Total comprehensive income in the period	**-**	**-**	**-**	**-**	**-**	**616,025**	**(219,910)**	**396,115**	**96,101**	**492,216**	**6,848**	**499,064**
Capital increase	1,009,892	(12,146)	-	-	-	-	-	-	-	997,746	-	997,746
- issue of 2 556 688 387 new shares	*1,009,892*	-	-	-	-	-	-	-	-	*1,009,892*	-	*1,009,892*
- costs with capital increase	-	*(12,146)*	-	-	-	-	-	-	-	*(12,146)*	-	*(12,146)*
Purchase of preference shares (See Note 44)	-	-	-	-	(18,624)	-	4,478	4,478	-	(14,146)	-	(14,146)
Purchase of other capital instruments	-	-	(210)	-	-	-	-	-	-	(210)	-	(210)
Transactions with non-controlling interests	-	-	-	-	-	-	497	497	-	497	-	497
Transfer to reserves	-	-	-	-	-	-	(108,758)	(108,758)	108 758	-	-	-
Dividends on preference shares, net of taxes [(a)]	-	-	-	-	-	-	(6,137)	(6,137)	-	(6,137)	-	(6,137)
Variations on treasury stock (See Note 44)	-	-	-	(5,994)	-	-	-	-	-	(5,994)	-	(5,994)
Interest on other equity instruments, net of taxes [(b)]	-	-	-	-	-	-	(1,864)	(1,864)	-	(1,864)	-	(1,864)
Changes on Consolidated Perimeter (See Note 45)	-	-	-	-	-	-	-	-	-	-	74,293	74,293
Other movements	-	-	-	-	-	-	(2,837)	(2,837)	-	(2,837)	-	(2,837)
Other changes in minority interest (See Note 45)	-	-	-	-	-	-	-	-	-	-	(143)	(143)
Balance as at 31 December 2012	5 040 124	1 069 517	29,295	(6,991)	193,289	170,850	471,114	641,964	96,101	7,063,299	669,445	7,732,744
Other comprehensive income:												
Changes in fair value, net of taxes	-	-	-	-	-	(130,854)	-	(130,854)	-	(130,854)	3,175	(127,679)
Actuarial deviations, net of taxes	-	-	-	-	-	-	(97,982)	(97,982)	-	(97,982)	(372)	(98,354)
Other comprehensive income appropriate from associates, net of taxes	-	-	-	-	-	-	1,502	1,502	-	1,502	-	1,502
Exchange differences, net of taxes	-	5	-	-	-	-	(49,830)	(49,830)	-	(49,825)	(31,997)	(81,822)
Profit for the year	-	-	-	-	-	-	-	-	(517,558)	(517,558)	2,687	(514,871)
Total comprehensive income in the period	**-**	**5**	**-**	**-**	**-**	**(130,854)**	**(146,310)**	**(277,164)**	**(517,558)**	**(794,717)**	**(26,507)**	**(821,224)**
Purchase of preference shares (See Note 44)	-	-	-	-	(33,947)	-	6,096	6,096	-	(27,851)	-	(27,851)
Transactions with non-controlling interests	-	-	-	-	-	-	1,804	1,804	-	1,804	(1,804)	-
Transfer to reserves	-	-	-	-	-	-	96,101	96,101	(96,101)	-	-	-
Dividends on preference shares, net of taxes [(a)]	-	-	-	-	-	-	(6,950)	(6,950)	-	(6,950)	-	(6,950)
Variations on treasury stock (See Note 44)	-	-	-	6,133	-	-	4,470	4,470	-	10,603	-	10,603
Interest on other equity instruments, net of taxes [(b)]	-	-	-	-	-	-	(2,191)	(2,191)	-	(2,191)	-	(2,191)
Other movements	-	(1,926)	(133)	-	-	-	4,755	4,755	-	2,696	-	2,696
Other changes in minority interest (See Note 45)	-	-	-	-	-	-	-	-	-	-	161,469	161,469
Balance as at 31 December 2013	5,040,124	1,067,596	29,162	(858)	159,342	39,996	428,889	468,885	(517,558)	6,246,693	802,603	7,049,296

(a) Corresponds to a preferred dividend based on an annual interest rate of 5.58% related to preference shares issued by BES Finance (See Note 44).
(b) Corresponds to a a conditioned interest payable semi-annually and calculated based on an annual rate of 8.5% (amounts issued in euro) and 8.0% (amounts issued in US dollars) related to perpetual bonds issued by BES (See Note 44).

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

Consolidated Cash Flow Statement for the Years ended 31 December 2013 and 2012

(in thousands of euro)

	Notes	31.12.2013	31.12.2012
Cash flows from operating activities			
Interest and similar income received		3,240,956	3,866,756
Interest expense and similar charges paid		(2,195,104)	(2,761,592)
Fees and commission received		867,535	980,751
Fees and commission paid		(209,325)	(188,981)
Insurance premiums		137,847	(301,802)
Recoveries on loans previously written off		21,063	21,900
Contribution to pension fund		(103,806)	(86,410)
Cash payments to employees and suppliers		(864,349)	(845,776)
		894,817	**684,846**
Changes in operating assets and liabilities:			
Deposits with central banks		(2,015,200)	(2 884,013)
Financial assets at fair value through profit or loss		(811,721)	1 433,434
Loans and advances to banks		559,187	1 225,370
Deposits from banks		(80,445)	(1 296,220)
Due to customers		(273,537)	(388,936)
Loans and advances to customers		2,267,276	320,144
Derivatives for risk management purposes		63,281	226,558
Other operating assets and liabilities		86,794	(470,973)
Net cash from operating activities before income tax		**690,452**	**(1,149,790)**
Income taxes paid		(267,981)	(39,943)
Net cash from operating activities		**422,471**	**(1,189,733)**
Cash flows from investing activities			
Acquisition of subsidiaries and associates	1	(37,338)	(257,418)
Sale of subsidiaries and associates	1	75,054	51,613
Dividends received		62,758	76,027
Acquisition of available-for-sale financial assets		(53,895,369)	(69,490,051)
Sale of available-for-sale financial assets		56,735,588	72,942,251
Held to maturity investments		(549,501)	648,712
Issued insurance investment contracts		666,355	200,849
Purchase of tangible and intangible assets and investment properties		(163,778)	(532,483)
Sale of tangible and intangible assets and investment properties		644	7,489
Net cash from investing activities		**2,894,413**	**3,646,989**
Cash flows from financing activities			
Capital increase		-	997,746
Capital increase in subsidiaries		155,908	-
Acquisition of preference shares		(26,531)	(11,430)
Bonds issued		5,254,615	13,218,398
Bonds paid		(8,709,864)	(16,529,485)
Subordinated debt issued		750,000	-
Subordinated debt paid		(510,515)	(210,096)
Treasury stock		6,133	(5,994)
Interest from other equity instruments		(2,815)	(2,809)
Dividends paid on preference shares		(8,360)	(10,997)
Net cash from financing activities		**(3,091,429)**	**(2,554,667)**
Net changes in cash and cash equivalents		**225,455**	**(97,411)**
Cash and cash equivalents at the beginning of the period		**1,615,953**	**1,542,251**
Effect in integral consolidation of BES VIDA	54	-	198,648
Effect of exchange rate changes on cash and cash equivalents		(69,740)	(27,535)
Net changes in cash and cash equivalents		225,455	(97,411)
Cash and cash equivalents at the end of the period		**1,771,668**	**1,615,953**
Cash and cash equivalents includes:			
Cash	19	288,137	303,538
Deposits at Central Banks	19	1 431,226	1,074,003
of which, restricted balances		(490,640)	(442,665)
Deposits with banks	20	542,945	681,077
Total		**1,771,668**	**1,615,953**

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

Notes to the Consolidated Financial Statements as at 31 December 2013
(Amounts expressed in thousands of euro, except when indicated)

NOTE 1 – ACTIVITY AND GROUP STRUCTURE

Banco Espírito Santo, S.A. (Bank or BES) is a commercial bank headquartered in Portugal, Avenida da Liberdade, no. 195, Lisbon. The Bank is authorised by the Portuguese authorities, central banks and other regulatory authorities, to operate in Portugal and in the countries where its international branches are located.

BES's foundation dates back to the last quarter of the 19th century. The Bank began its operations as a commercial bank in 1920, following the acquisition of Espírito Santo & Cª, banking house which already performed retail banking operations. In 1937 took place the merger of Banco Espírito Santo and Banco Comercial de Lisboa, from which resulted Banco Espírito Santo e Comercial de Lisboa. On 6 July 1999, the Bank changed its name to Banco Espírito Santo, S.A.. BES is the core of a financial group – BES Group – which includes the Bank and a number of financial entities located in Portugal and abroad.

BES is listed on the NYSE Euronext Lisbon. As at 31 December 2013, the Bank's subsidiary BES Finance, Ltd had also 159 thousand preference shares listed on the Luxembourg Stock Exchange.

Since 1992, BES is part of the Espírito Santo Group, therefore its financial statements are consolidated by BESPAR SGPS, S.A., headquartered in Rua de São Bernardo, no. 62, Lisbon, and as well by Espírito Santo Financial Group, S.A. (ESFG), with headquarters in Luxembourg.

BES Group has a network of 788 branches throughout Portugal (31 December 2012: 755), international branches in London, Spain, New York, Nassau, Cayman Islands, Cape Verde, Venezuela and Luxembourg, a branch in the Madeira Free Trade Zone and ten representative offices overseas.

Group companies where the Bank has a direct or indirect holding greater or equal to 20%, over which the Bank exercises control or has significant influence, and that were included in the consolidated financial statements, are as follows.

a) Subsidiaries consolidated directly by the Bank:

	Established	Acquired	Headquartered	Activity	% economic interest	Consolidation method
BANCO ESPÍRITO SANTO, S.A. (BES)	1937	-	Portugal	Commercial banking		
Banco Espírito Santo de Investimento, S.A. (BESI)	1993	1997	Portugal	Investment bank	100.00%	Full Consolidation
BES-Vida, Companhia de Seguros, S.A. (BES VIDA)	1993	2006	Portugal	Insurance	100.00%	Full Consolidation
Aman Bank for Commerce and Investment Stock Company	2003	2010	Libya	Commercial banking	40.00% [(a)]	Full Consolidation
Avistar, SGPS, S.A.	2009	2009	Portugal	Holding company	100.00%	Full Consolidation
Espírito Santo Servicios, S.A.	1996	1997	Spain	Insurance	100.00%	Full Consolidation
Espírito Santo Activos Financieros, S.A.	1988	2000	Spain	Asset management	95.00%	Full Consolidation
Espírito Santo Vanguarda, SL	2011	2011	Spain	Services provider	100.00%	Full Consolidation
Banco Espírito Santo dos Açores, S.A. (BAC)	2002	2002	Portugal	Commercial banking	57.53%	Full Consolidation
BEST - Banco Electrónico de Serviço Total, S.A. (BEST)	2001	2001	Portugal	Internet banking	66.00%	Full Consolidation
BES África, SGPS, S.A.	2009	2009	Portugal	Holding company	100.00%	Full Consolidation
Banco Espírito Santo Angola, S.A. (BESA)	2001	2001	Angola	Commercial banking	55.71%	Full Consolidation
Banco Espírito Santo do Oriente, S.A. (BESOR)	1996	1996	Macao	Commercial banking	99.75%	Full Consolidation
Espírito Santo Bank (ESBANK)	1963	2000	USA	Commercial banking	99.99%	Full Consolidation
BES Beteiligungs, GmbH (BES GMBH)	2006	2006	Germany	Holding company	100.00%	Full Consolidation
BIC International Bank Ltd. (BIBL)	2000	2000	Cayman Islands	Commercial banking	100.00%	Full Consolidation
Parsuni - Sociedade Unipessoal, S.G.P.S.	2004	2005	Portugal	Holding company	100.00%	Full Consolidation
Praça do Marquês - Serviços Auxiliares, S.A. (PÇMARQUÊS)	1990	2007	Portugal	Real estate	100.00%	Full Consolidation
Espírito Santo, plc. (ESPLC)	1999	1999	Ireland	Non-bank finance company	99.99%	Full Consolidation
ESAF - Espírito Santo Activos Financeiros, S.G.P.S., S.A. (ESAF)	1992	1992	Portugal	Holding company	89.99%	Full Consolidation
ES Tech Ventures, S.G.P.S., S.A. (ESTV)	2000	2000	Portugal	Holding company	100.00%	Full Consolidation
Banco Espírito Santo North American Capital Limited Liability Co. (BESNAC)	1990	1990	USA	Financing vehicle	100.00%	Full Consolidation
BES Finance, Ltd. (BESFINANCE)	1997	1997	Cayman Islands	Issue of preference shares and other securities	100.00%	Full Consolidation
ES, Recuperação de Crédito, ACE (ESREC)	1998	1998	Portugal	Debt Collection	99.15%	Full Consolidation
ES Concessões, SGPS, S.A. (ES CONCESSÕES)	2002	2003	Portugal	Holding company	71.66%	Full Consolidation
Espírito Santo - Informática, ACE (ESINF)	2006	2006	Portugal	Services provider	82.28%	Full Consolidation
Espírito Santo Prestação de Serviços, ACE 2 (ES ACE2)	2006	2006	Portugal	Services provider	88.26%	Full Consolidation
ESGEST - Esp. Santo Gestão Instalações, Aprov. e Com., S.A. (ESGEST)	1995	1995	Portugal	Services provider	100.00%	Full Consolidation
Espírito Santo Representações, Ltda. (ESREP)	1996	1996	Brazil	Representation office	99.99%	Full Consolidation
Quinta dos Cónegos - Sociedade Imobiliária, S.A. (CÓNEGOS)	1991	2000	Portugal	Real estate	81.00%	Full Consolidation
Fundo de Capital de Risco - ES Ventures II	2006	2006	Portugal	Venture capital fund	65.95%	Full Consolidation
Fundo de Capital de Risco - ES Ventures III	2009	2009	Portugal	Venture capital fund	60.85%	Full Consolidation
Fundo de Capital de Risco - BES PME Capital Growth	2009	2009	Portugal	Venture capital fund	100.00%	Full Consolidation
Fundo FCR PME / BES	1997	1997	Portugal	Venture capital fund	55.07%	Full Consolidation
Fundo Gestão Património Imobiliário - FUNGEPI - BES	1997	2012	Portugal	Real estate fund	60.31%	Full Consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - BES II	2011	2012	Portugal	Real estate fund	95.33%	Full Consolidation
FUNGERE - Fundo de Gestão de Património Imobiliário	1997	2012	Portugal	Real estate fund	97.24%	Full Consolidation
ImoInvestimento – Fundo Especial de Investimento Imobiliário Fechado	2012	2012	Portugal	Real estate fund	100.00%	Full Consolidation
Prediloc Capital – Fundo Especial de Investimento Imobiliáro Fechado	2006	2012	Portugal	Real estate fund	100.00%	Full Consolidation
Imogestão – Fundo de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund	100.00%	Full Consolidation
Arrábida - Fundo Especial de Investimento Imobiliário Fechado	2006	2013	Portugal	Real estate fund	97.16%	Full Consolidation
Invesfundo VII – Fundo de Investimento Imobiliário Fechado	2008	2013	Portugal	Real estate fund	95.86%	Full Consolidation
FLITPTREL VIII, S.A.	2011	2011	Portugal	Real estate	10.00% [(a)]	Full Consolidation
OBLOG Consulting, S.A.	1993	1993	Portugal	Software development	66.63%	Full Consolidation
BES, Companhia de Seguros, S.A. (BES SEGUROS)	1996	1996	Portugal	Insurance	25.00%	Equity method
Société Civile Immobilière du 45 Avenue Georges Mandel (SCI GM)	1995	1995	France	Real estate	22.50%	Equity method
ESEGUR - Espírito Santo Segurança, S.A. (ESEGUR)	1994	2004	Portugal	Security	44.00%	Equity method
Locarent - Companhia Portuguesa de Aluguer de Viaturas, S.A. (LOCARENT)	1991	2003	Portugal	Renting	50.00%	Equity method
Banco Delle Tre Venezie, Spa	2006	2007	Italy	Commercial banking	20.00%	Equity method
Nanium, S.A.	1996	2010	Portugal	Industry	41.06%	Equity method
Ascendi Pinhal Interior - Estradas do Pinhal Interior, S.A.	2010	2010	Portugal	Motorway concession	18.57% [(b)]	Equity method
UNICRE - Instituição Financeira de Crédito, S.A.	1974	2010	Portugal	Non-bank finance company	17.50% [(b)]	Equity method
Ijar Leasing Argélie	2011	2011	Algeria	Leasing	35.00%	Equity method
Edenred Portugal, S.A.	1984	2013	Portugal	Services provider	50.00%	Equity method
Multipessoal Recursos Humanos - S.G.P.S., S.A.	1993	1993	Portugal	Holding company	22.52%	Equity method

a) These companies were fully consolidated, as the Group exercises control over their activities.
b) The percentage in the table above represents the Group's economic interest. These companies were accounted for following the equity method, as the Group exercises a significant influence over them.

b) Sub-groups:

	Established	Acquired	Headquartered	Activity	% economic interest	Consolidation method
Banco Espírito Santo de Investimento, S.A. (BESI)	**1983**	**-**	**Portugal**	**Investment bank**	**100.00%**	**Full consolidation**
Espírito Santo Investments PLC	1996	1996	Ireland	Non-bank finance company	100.00%	Full consolidation
Cominvest- SGII, S.A.	1993	1993	Portugal	Real estate	99.18%	Full consolidation
ESSI Investimentos SGPS, S.A.	1998	1998	Portugal	Holding company	100.00%	Full consolidation
Salgar Investments	2007	2007	Spain	Services provider	41.69%	Equity method
ESSI SGPS, S.A.	1997	1997	Portugal	Holding company	100.00%	Full consolidation
Espírito Santo Investment Sp, Z.o.o.	2005	2005	Poland	Services provider	100.00%	Full consolidation
Espírito Santo Securities India	2011	2011	India	Brokerage house	75.00%	Full consolidation
Lusitania Capital, S.A.P.I. de C.V., SOFOM, E.N.R.	2013	2013	Mexico	Non-bank finance company	100.00%	Full consolidation
MCO2 - Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.	2008	2008	Portugal	Asset management - investment funds	25.00%	Equity method
Espírito Santo Capital - Sociedade de Capital de Risco, S.A. (ESCAPITAL)	1988	1996	Portugal	Venture capital fund	100.00%	Full consolidation
SES Iberia	2004	2004	Spain	Asset management - investment funds	50.00% [(a)]	Full consolidation
2bCapital Luxembourg S.C.A SICAR	2011	2011	Luxembourg	Investment fund	42.12%	Equity method
Fundo Espírito Santo IBERIA I	2004	2004	Portugal	Venture capital fund	45.93%	Equity method
HLC - Centrais de Cogeração, S.A.	1999	1999	Portugal	Services provider	24.50%	Equity method
Coporgest, S.A.	2002	2005	Portugal	Services provider	25.00%	Equity method
Synergy Industry and Technology, S.A.	2006	2006	Spain	Services provider	26.00%	Equity method
WindPart, Lda.	2013	2013	Portugal	Holding company	19.97% [(a)]	Full consolidation
Espírito Santo Investment Holding, Limited	2010	2010	United Kingdom	Holding company	100.00%	Full consolidation
Execution Noble & Company Limited	1990	2010	United Kingdom	Advisory on investments	100.00%	Full consolidation
Execution Noble (Hong Kong) Limited	2005	2010	China	Brokerage house	100.00%	Full consolidation
Execution Noble Limited	2000	2010	United Kingdom	Brokerage house	100.00%	Full consolidation
Noble Advisory India Private Ltd.	2008	2010	India	*Research Services Provider*	100.00%	Full consolidation
Execution Noble Research	2003	2010	United Kingdom	*Research Services Provider*	100.00%	Full consolidation
Clear Info-Analytic Private Ltd.	2004	2010	India	*Research Services Provider*	100.00%	Full consolidation
Espírito Santo Investimentos, S.A.	1996	1999	Brazil	Holding company	100.00%	Full consolidation
BES Investimento do Brasil, S.A.	2000	2000	Brazil	Investment Bank	80.00%	Full consolidation
FI Multimercado Treasury	2005	2005	Brazil	Investment fund	80.00%	Full consolidation
BES Activos Financeiros, Ltda.	2004	2004	Brazil	Asset management	85.00%	Full consolidation
Espírito Santo Serviços Financeiros DTVM, S.A.	2009	2010	Brazil	Asset management	80.00%	Full consolidation
BES Securities do Brasil, S.A.	2000	2000	Brazil	Brokerage house	80.00%	Full consolidation
Gespar Participações, Ltda.	2001	2008	Brazil	Holding company	80.00%	Full consolidation
Fundo FIM BES Moderado	2004	2009	Brazil	Investment fund	80.00%	Full consolidation
Fundo BES Absolute Return	2002	2009	Brazil	Investment fund	79.07%	Full consolidation
2BCapital, S.A.	2005	2005	Brazil	Venture capital fund	45.00%	Equity method
2B Capital Luxembourg General Partners S.à r.l.	2011	2011	Luxembourg	Asset management - investment funds	45.00%	Equity method
BES Beteiligungs, GmbH (BES GMBH)	**2006**	**2006**	**Germany**	**Holding company**	**100.00%**	**Full consolidation**
Bank Espírito Santo International, Ltd. (BESIL)	1983	2002	Cayman Islands	Commercial banking	100.00%	Full consolidation
BES África, SGPS, SA (BES ÁFRICA)	**2006**	**2006**	**Portugal**	**Holding company**	**100.00%**	**Full consolidation**
Banco Espírito Santo Cabo Verde, S.A.	2010	2010	Cape Verde	Commercial banking	99.99%	Full consolidation
Moza Banco, S.A.	2008	2010	Mozambique	Commercial banking	49.00%	Equity method
ESAF - Espírito Santo Activos Financeiros, S.G.P.S., S.A. (ESAF)	**1992**	**1992**	**Portugal**	**Holding company**	**89.99%**	**Full consolidation**
Espírito Santo Fundos de Investimento Mobiliário, S.A.	1987	1987	Portugal	Asset management - investment funds	89.99%	Full consolidation
Espírito Santo International Management, S.A.	1995	1995	Luxembourg	Asset management - investment funds	89.81%	Full consolidation
Espírito Santo Fundos de Investimento Imobiliário, S.A.	1992	1992	Portugal	Asset management - investment funds	89.99%	Full consolidation
Espírito Santo Fundo de Pensões, S.A.	1989	1989	Portugal	Asset management - investment funds	89.99%	Full consolidation
Capital Mais - Assessoria Financeira, S.A.	1998	1998	Portugal	Advisory services	89.99%	Full consolidation
Espírito Santo International Asset Management, Ltd.	1998	1998	British Virgin Islands	Asset management - investment funds	44.10%	Equity method
Espírito Santo Gestão de Patrimónios, S.A.	1987	1987	Portugal	Asset management - investment funds	89.99%	Full consolidation
ESAF - Espírito Santo Participações Internacionais, SGPS, S.A.	1996	1996	Portugal	Holding company	89.99%	Full consolidation
ESAF - International Distributors Associates, Ltd.	2001	2001	British Virgin Islands	Asset management - investment funds	89.99%	Full consolidation
Banco Espírito Santo Angola, S.A. (BESA)	**2001**	**2001**	**Angola**	**Commercial banking**	**55.71%**	**Full consolidation**
BESAACTIF - Sociedade Gestora de Fundos de Investimento, S.A.	2008	2008	Angola	Asset management - Investment funds	66.04%	Full consolidation
BESAACTIF Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	2009	2009	Angola	Asset management - Pension funds	66.04%	Full consolidation
BESA Valorização – Fundo de Investimento Imobiliário Fechado	2012	2012	Angola	Real estate fund	55.71%	Full consolidation
Tranquilidade Corporação Angolana de Seguros, S.A.	2007	2012	Angola	Insurance	11.70% [(b)]	Equity method

	Established	Acquired	Headquartered	Activity	% economic interest	Consolidation method
ES Tech Ventures, S.G.P.S., S.A. (ESTV)	**2000**	**2000**	**Portugal**	**Holding company**	**100.00%**	**Full consolidation**
ES Ventures - Sociedade de Capital de Risco, SA	2005	2005	Portugal	Venture capital fund	100.00%	Full consolidation
Yunit Serviços, SA	2000	2000	Portugal	Management of internet portals	33.33%	Equity method
FCR Espírito Santo Ventures Inovação e Internacionalização	2011	2011	Portugal	Venture capital fund	50.00%	Equity method
Fundo Bem Comum, FCR	2011	2011	Portugal	Venture capital fund	20.00%	Equity method
Espírito Santo Contact Center, Gestão de Call Centers, SA (ESCC)	2000	2000	Portugal	Call centers management company	41.67%	Equity method
Banque Espírito Santo et de la Vénétie, SA (ES Vénétie)	1927	1993	France	Commercial banking	42.69%	Equity method
Fundo de Capital de Risco - ES Ventures II	**2006**	**2006**	**Portugal**	**Venture capital fund**	**65.95%**	**Full consolidation**
Atlantic Ventures Corporation	2006	2006	USA	Holding company	65.95%	Full consolidation
Sousacamp, SGPS, SA	2007	2007	Portugal	Holding company	25.79%	Equity method
Global Active - SGPS, SA	2006	2006	Portugal	Holding company	29.45%	Equity method
Outsystems, SA	2007	2007	Portugal	IT Services	19.32% (b)	Equity method
Coreworks - Proj. Circuito Sist. Elect., SA	2006	2006	Portugal	IT Services	21.35%	Equity method
Multiwave Photonics, SA	2003	2008	Portugal	IT Services	13.69% (b)	Equity method
Bio-Genesis	2007	2007	Brazil	Holding company	19.74% (b)	Equity method
YDreams - Informática, SA	2000	2009	Portugal	IT Services	31.65%	Equity method
Fundo de Capital de Risco - BES PME Capital Growth	**2009**	**2009**	**Portugal**	**Venture capital fund**	**100.00%**	**Full consolidation**
Righthour, SA	2013	2013	Portugal	Services provider	100.00%	Full consolidation
Imbassaí Participações, SA	2009	2013	Brazil	Holding company	100.00%	Full consolidation
Lírios Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate	100.00%	Full consolidation
UCH Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate	100.00%	Full consolidation
UCS Participações e Investimentos, Ltda	2004	2013	Brazil	Real estate	100.00%	Full consolidation
UR3 Investimentos Imobiliários, Ltda	2007	2013	Brazil	Real estate	100.00%	Full consolidation
Fundo de Capital de Risco - ES Ventures III	**2009**	**2009**	**Portugal**	**Venture capital fund**	**60.85%**	**Full consolidation**
Nutrigreen, SA	2007	2009	Portugal	Services provider	12.17% (b)	Equity method
Advance Ciclone Systems, SA	2008	2009	Portugal	Treatment and elimination of residues	24.34%	Equity method
Watson Brown, HSM, Ltd	1997	2009	United Kingdom	Recycling rubber	21.85%	Equity method
Domática, Electrónica e Informática, SA	2002	2011	Portugal	IT Services	17.90% (b)	Equity method
Fundo FCR PME / BES	**1997**	**1997**	**Portugal**	**Venture capital fund**	**55.07%**	**Full consolidation**
Mobile World - Comunicações. SA	2009	2009	Portugal	Telecommunications	26.98%	Equity method
MMCI - Multimédia, SA	2008	2008	Portugal	Holding company	26.98%	Equity method
TLCI 2 - Soluções Integradas de Telecomunicações, SA	2006	2006	Portugal	Telecommunications	26.98%	Equity method
Enkrott SA	2006	2006	Portugal	Management and water treatment	16.52% (b)	Equity method
Palexpo - Imagem Empresarial, SA	2009	2009	Portugal	Furniture manufacturing	27.26%	Equity method
Rodi - Sinks & Ideas, SA	2006	2006	Portugal	Metal industry	24.81%	Equity method
Espírito Santo Activos Financieros, SA	**1988**	**2000**	**Spain**	**Asset management**	**95.00%**	**Full consolidation**
Espírito Santo Gestión, SA, SGIIC	2001	2001	Spain	Asset management	95.00%	Full consolidation
Espírito Santo Pensiones, S.G.F.P., SA	2001	2001	Spain	Asset management - pension funds	95.00%	Full consolidation
Espírito Santo Bank (ESBANK)	**1963**	**2000**	**USA**	**Commercial banking**	**99.99%**	**Full consolidation**
ES Financial Services, Inc.	2000	2000	USA	Brokerage house	99.99%	Full consolidation
Tagide Properties, Inc.	1991	1991	USA	Real estate	99.99%	Full consolidation
ES Investment Advisors, Inc.	2011	2011	USA	Investment consulting	99.99%	Full consolidation
BES-Vida, Companhia de Seguros, SA (BES VIDA)	**1993**	**2006**	**Portugal**	**Insurance**	**100.00%**	**Full consolidation**
Caravela Defensive Fund	2006	2012	Luxembourg	Investment fund	99.73%	Full consolidation
Caravela Balanced Fund	2006	2012	Luxembourg	Investment fund	54.95%	Full consolidation
ES Plano Dinâmico	2008	2012	Portugal	Investment fund	97.57%	Full consolidation
ES Arrendamento	2009	2012	Portugal	Investment fund	100.00%	Full consolidation
Orey Reabilitação Urbana	2006	2012	Portugal	Investment fund	77.32%	Full consolidation
Fimes Oriente	2004	2012	Portugal	Investment fund	100.00%	Full consolidation
ES Concessões, SGPS, SA (ES CONCESSÕES)	**2002**	**2003**	**Portugal**	**Holding company**	**71.66%**	**Full consolidation**
ES Concessions International Holding, BV	2010	2010	Netherlands	Holding company	71.66%	Full consolidation
Empark - Aparcamientos y Servicios, SA	1968	2009	Spain	Management of parking lots	15.92% (b)	Equity method
Esconcessions Spain Holding BV	2013	2013	Netherlands	Holding company	71.66%	Full consolidation
Ascendi Group SGPS, SA	2010	2010	Portugal	Holding company	28.66%	Equity method
Auvisa - Autovia de los Viñedos, SA	2003	2010	Spain	Motorway concession	35.83%	Equity method

(a) These companies were fully consolidated, as the Group controls its activities.

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

Additionally, in accordance with SIC 12, the Group consolidates the following special purpose entities:

	Established	Acquired	Headquartered	% economic interest	Consolidation method
Lusitano SME No.1 plc (*)	2006	2006	Ireland	100%	Full Consolidation
Lusitano Mortgages No.6 plc (*)	2007	2007	Ireland	100%	Full Consolidation
Lusitano Project Finance No.1, FTC (*)	2007	2011	Portugal	100%	Full Consolidation
Lusitano Mortgages No.7 plc (*)	2008	2008	Ireland	100%	Full Consolidation
Lusitano Leverage Finance No. 1 BV (*)	2010	2010	Netherlands	80.81%	Full Consolidation
Lusitano Finance No. 3 (*)	2011	2011	Portugal	100%	Full Consolidation
IM BES Empresas 1 (*)	2011	2011	Spain	100%	Full Consolidation
CLN Magnolia Finance 2038	2008	2008	Ireland	100%	Full Consolidation

(*) Entities set-up in the scope of securitisation transactions (See Note 43).

The consolidation of these entities had the following impact on the Group's accounts:

(thousands of euro)

	31.12.2013	31.12.2012
Deposits with banks	173,426	195,586
Due to costumers (net of impairment)	3,253,477	3,803,343
Debt securities	615,201	703,797

The main changes in the Group structure that occurred in 2013 are highlighted as follows:

- Subsidiaries

• In March 2013 was set-up the company Righthour, entirely held by BES PME Capital Growth fund and in April 2013 this company acquired 100% of the share capital of Imbassaí Participações, S.A., which from this date was included in the consolidation perimeter;
• In April 2013, ESSI SGPS, S.A. acquired 31.6% of Espírito Santo Investment Holding Limited for an amount of pounds 17,125 thousand, holding since this date 100% of the company´s share capital;
• In May 2013, ESSI SGPS, S.A. subscribed integrally the capital increase of Espírito Santo Investment Holding Limited in the amount of pounds 10,000 thousand;
• In July 2013, took place the merger of R Invest Ltda and R Consult Participações Ltda into Espírito Santo Serviços Financeiros DTVM;
• In August 2013, took place the merger of ESSI Comunicações, S.A. into Banco Espírito Santo de Investimento, S.A..

- Associates (see Note 32)

• In June 2013, following the sale of the business associated with BES À La Card meal banking card, the Bank acquired a 50% interest in Edenred Portugal, S.A., this company being currently included in the consolidated financial statements under the equity method. The acquisition cost, amounting to euro 928 thousand, was determined based on the fair value of the business transferred net of the elimination of the unrealised profit in the extend of BES interest in Edenred;
• As at 30 June 2013, BES África acquired 23.9% of Moza Banco share capital by an amount of euro 24,856 thousand, becoming to hold 49% of this associate. The acquisition generated an additional goodwill of euro 16,872 thousand. Following this transaction total goodwill amounts to euro 21,065 thousand and is accounted under associates;
• In June 2013, ES Concessões sold to Ascendi Group the participation it held in Concessionaria Autopista Perote-Xalapa;
• In December 2013, Banco Espírito Santo and Espírito Santo Capital, Sociedade de Capital de Risco sold its shareholdings in Apolo Films, S.L., BRB International and Prosport – Comercializaciones Desportivas, S.A..

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

- Subsidiaries (see Note 54)

• In May 2012, BES acquired an additional 50% of the capital of BES Vida, becoming to hold the total share capital of the company and started to consolidate this entity under the full consolidation method;
• In November 2012, BES acquired participation units in the real estate funds, Fungepi, Fungere and Imoinvestimento, and started to consolidate those entities under the full consolidation method.

- Associates (see Note 32)

• In April 2012, ES Capital acquired 42.99% of 2BCapital Luxembourg S.C.A SICAR for the amount of euro 854 thousand. In May 2012, following the capital increase of the company, ES Capital invested an additional euro 15,619 thousand;
• In June 2012, ES Concessões transferred its shareholding in SCUTVIAS – Autoestradas da Beira Interior, SA and Portvias – Portagem de Vias, SA to Ascendi Group, SGPS, SA, this operation generated a loss in the amount of euro 2,170 thousand;
• In December 2012, BESI sold the participation it held in Polish Hotel Company, Sp, generating a gain in the amount of euro 2,509 thousand.

During the years 2013 and 2012, the movements on acquisitions, disposals and other investments in subsidiaries and associated companies are as follows:

(thousands of euro)

	31.12.2013						
	Acquisitions			Disposals			
	Acquisition cost	Other investments[(a)]	Total	Disposal value	Other reimbursement [(a)]	Total	Gains/ (losses) from sales/ disposals
Subsidiaries							
BES África	-	35,000	35,000	-	-	-	-
BES Açores	-	654	654	-	-	-	-
ES Tech Ventures	-	6,500	6,500	-	-	-	-
Rigthour	50	-	50	-	-	-	-
Fundo BES Absolute Return	-	-	-	-	(3)	(3)	-
Fundo FIM BES Moderado	-	-	-	-	(27)	(27)	-
Espírito Santo Securities Índia	-	1,753	1,753	-	-	-	-
Espírito Santo Investment Holding, Limited	20,281	11,714	31,995	-	-	-	-
Lusitania Capital, S.A.P.I. de C.V., SOFOM, E.N.R.	-	59	59	-	-	-	-
Espírito Santo Serviços Financeiros DTVM, S.A.	207	1,842	2,049	-	-	-	-
BES Activos Financeiros, Ltda.	-	614	614	-	-	-	-
R Consult Participações, Ltda.	-	-	-	-	(143)	(143)	-
R Invest, Ltda.	-	-	-	-	(23)	(23)	-
ESSI Comunicações SGPS, S.A.	-	-	-	-	(50)	(50)	-
FI Multimercado Treasury	58	-	58	-	-	-	-
	20,596	58,136	78,732	-	(246)	(246)	-
Associates							
Moza Banco	-	24,916	24,916	-	-	-	-
Autopista Perote Xalapa	-	-	-	(60,201)	-	(60,201)	-
Domática	-	350	350	-	-	-	-
BRB Internacional	-	-	-	(10,659)	-	(10,659)	-
Apolo Films	-	-	-	(791)	-	(791)	-
Prosport	-	-	-	(274)	-	(274)	-
Espírito Santo Iberia I	958	-	958	-	(73)	(73)	-
Edenred	8,113	-	8,113	(3,129)	-	(3,129)	-
Ascendi Douro Interior	-	-	-	-	(10)	(10)	-
Tranquilidade Angola	-	2,901	2,901	-	-	-	-
Multipessoal	-	100	100	-	-	-	-
	9,071	28,267	37,338	(75,054)	(83)	(75,137)	-
	29,667	86,403	116,070	(75,054)	(329)	(75,383)	-

(a) Increases/ decreases in capital, additional services and supplies.

	31.12.2012						
	Acquisition			Disposals			
	Acquisition cost	Other investments [a]	Total	Disposal value	Other reimbursements[a]	Total	Gains/ (losses) from sales/ disposals
Subsidiaries							
BES Vida[b]	225,000	-	225,000	-	-	-	(89,586)
	225,000	**-**	**225,000**	**-**	**-**	**-**	**(89,586)**
Associates							
Moza Banco	-	2,991	2,991	-	-	-	-
Empark	-	-	-	-	(2,584)	(2,584)	-
Portvias	-	-	-	(1,067)	-	(1,067)	913
Scutvias	-	-	-	(49,783)	-	(49,783)	(3,083)
Ascendi Group	-	11,462	11,462	-	-	-	-
Coreworks	-	-	-	-	(286)	(286)	-
Sousacamp	-	-	-	-	(3,700)	(3,700)	-
Fin Solutia	-	-	-	(1,219)	-	(1,219)	(6)
2B Capital Luxembourg	854	15,619	16,473	-	-	-	-
Nova Figfort	-	-	-	(719)	-	(719)	-
Sopratutto Cafés	-	-	-	(1,334)	-	(1,334)	50
Ydreams	-	204	204	-	(711)	(711)	-
MCO2	113	1,175	1,288	-	-	-	-
MRN - Manutenção de Rodovias Nacionais, S.A. [c]	-	-	-	-	(11)	(11)	-
Polish Hotel Company	-	-	-	2,509	-	2,509	2,509
	967	**3,451**	**32,418**	**(51,613)**	**(7,292)**	**(58,905)**	**383**
	225,967	**31,451**	**257,418**	**(51,613)**	**(7,292)**	**(58,905)**	**(89,203)**

(a) Increases/ decreases in capital, additional services and supplies.
(b) Entity that became part of the Group's consolidation scope.
(c) Entity that is no longer part of the Group's consolidation scope, due to the loss of significant influence, becoming to be recorded in the available-for-sale portfolio.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

2.1 Basis of preparation

In accordance with Regulation (EC) no. 1606/2002 of 19 July 2002 from the European Council and Parliament, Banco Espírito Santo, S.A. ("BES" or "the Bank") is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

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

These consolidated financial statements as at and for the year ended 31 December 2013 were prepared in accordance with the IFRS effective and adopted by the EU until 31 December 2013.

The accounting policies applied by the Group in the preparation of its consolidated financial statements as at 31 December 2013 are consistent with the ones used in the preparation of the consolidated financial statements as at and for the year ended 31 December 2012.

However, as referred to in Note 55, the Group adopted in the preparation of its consolidated financial statements as at 31 December 2013, the accounting standards issued by IASB and IFRIC interpretations, effective since 1 January 2013. The accounting policies used by the Group in the preparation of these Consolidated Financial Statements, described in this Note, were modified accordingly. The adoption of these new standards and interpretations had no material effect in the Group's Consolidated Financial Statements.

The accounting standards and interpretations recently issued but not yet effective and that the Group has not yet adopted in the preparation of its financial statements can also be analysed in Note 55.

In May 2012, BES acquired the remaining 50% interest in BES Vida and the control over its activities. Therefore, from that date, BES Vida, which previously qualified as an associate and was included in the consolidated financial statements up to 2011 under the equity method, is being fully consolidated by the Group. Further details are provided in Note 54.

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

The preparation of financial statements in conformity with IFRS requires the application of judgement and the use of estimates and assumptions by management that affects the process of applying the Group's accounting policies and the reported amounts of income, expenses, assets and liabilities. Actual results in the future may differ from those reported. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

These consolidated financial statements were approved in the Board of Directors meeting held on 17 March 2014.

2.2 Basis of consolidation

These consolidated financial statements comprise the assets, liabilities, gains and losses of BES and its subsidiaries ("the Group" or "BES Group"), and the results attributable to the Group from its associates.

These accounting policies have been consistently applied by the Group companies, during all the periods covered by the consolidated financial statements.

Subsidiaries

Subsidiaries are entities over which the Group exercises control. Control is presumed to exist when the Group owns more than one half of the voting rights. Additionally, control also exists when the Group has the power to, directly or indirectly, govern the financial and operating policies of the entity, so as to obtain benefits from its activities, even if its shareholding is equal or less than 50%. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases.

Accumulated losses of a subsidiary are attributed proportionally to the owners of the parent and to the non-controlling interest even if this results in non--controlling interest having a deficit balance.

In a business combination achieved in stages (step acquisition) where control is obtained, the Group remeasures its previously held non-controlling interest in the acquiree at its acquisition date fair value and recognises the resulting gain or loss in the income statement when determining the respective goodwill. At the time of a partial sale, from which arises a loss of control of a subsidiary, any remaining non-controlling interest retained is remeasured to fair value at the date the control is lost and the resulting gain or loss is recognised against the income statement.

Associates

Associates are entities over which the Group has significant influence over the company's financial and operating policies but not its control. Generally when the Group owns more than 20% of the voting rights it is presumed that it has significant influence. However, even if the Group owns less than 20% of the voting rights, it can have significant influence through the participation in the policy-making processes of the associated entity or the representation in its executive board of directors.

Investments in associates are accounted for by the equity method of accounting from the date on which significant influence is transferred to the Group until the date that significant influence ceases. The book value of the investments in associates includes the value of the respective goodwill determined on acquisition and is presented net of impairment losses.

In a step acquisition that results in the Group obtaining significant influence over an entity, any previously held stake in that entity is remeasured to fair value through the income statement when the equity method is first applied.

If the Group's share of losses of an associate equals or exceeds its interest in the associate, including any medium and long-term interest, the Group discontinues the application of the equity method, except when it has a legal or constructive obligation of covering those losses or has made payments on behalf of the associate.

Gains or losses on sales of shares in associate companies are recognised in the income statement even if that sale does not result in the loss of significant influence.

Special purpose entities ("SPE")

The Group consolidates certain special purpose entities ("SPE"), specifically created to accomplish a narrow and well defined objective, when the substance of the relationship with those entities indicates that they are controlled by the Group, independently of the percentage of the equity held.

The evaluation of the existence of control is made based on the criteria established by SIC 12 – Consolidation – Special Purpose Entities, which can be summarised as follows:

- In substance, the activities of the SPE are being conducted in accordance with the specific needs of the Group's business, so that the Group obtains the benefits from these activities;
- In substance the Group has the decision-making powers to obtain the majority of the benefits from the activities of the SPE;
- In substance, the Group has rights to obtain the majority of the benefits of the SPE, and therefore may be exposed to the inherent risks of its activities;
- In substance, the Group retains the majority of residual or ownership risks related to the SPE so as to obtain the benefits from its activities.

Investment funds managed by the Group

As part of the asset management activity, the Group manages investment funds on behalf of the holders of the participation units. The financial statements of these funds are not consolidated by the Group except in the cases where control is exercised over its activity based on the criteria established by SIC – 12. It is assumed that there is control when the Group owns more than 50% of the participation units.

Goodwill

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

Goodwill resulting from business combinations that occurred from 1 January 2004 until 31 December 2009 was accounted under the purchase method. The cost of acquisition was measured as the fair value, determined at the acquisition date, of the assets and equity instruments given and liabilities incurred or assumed plus any costs directly attributable to the acquisition. Goodwill represents the difference between the cost of acquisition and the fair value of the Group's share of identifiable net assets, liabilities and contingent liabilities acquired.

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

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

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

The recoverable amount of the goodwill recognised as an asset is reviewed annually, regardless of whether there is any indication of impairment. Impairment losses are recognised directly in the income statement.

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

Transactions with non-controlling interest

Acquisitions of non-controlling interest, that did not result in a change in control, are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such a transaction. Any difference between the consideration paid and the amount of non--controlling interest acquired is accounted for as a movement in equity.

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

Gains or losses on a dilution or on a sale of a portion of an interest in a subsidiary, from which results a loss of control, are accounted for by the Group in the income statement.

Foreign currency translation

The financial statements of each of the Group entities are prepared using their functional currency which is defined as the currency of the primary economic environment in which that entity operates. The consolidated financial statements are prepared in euro, which is BES's functional and presentation currency.

The financial statements of each of the Group entities that have a functional currency different from the euro are translated into euro as follows:

- Assets and liabilities are translated into the functional currency using the exchange rate prevailing at the balance sheet date;
- Income and expenses are translated into the functional currency at rates approximating the rates ruling at the dates of the transactions;
- The exchange differences resulting from the translation of the equity at the beginning of the year using the exchange rates at the beginning of the year and at the balance sheet date are accounted for against reserves net of deferred taxes. Similarly, regarding the subsidiaries and associates results, the exchange differences arising from the translation of income and expenses at the rates ruling at the dates of the transactions and at the balance sheet date are accounted for against reserves. When the entity is sold such exchange differences are recognised in the income statement as a part of the gain or loss on sale.

Balances and transactions eliminated in consolidation

Inter-company balances and transactions, including any unrealised gains and losses on transactions between Group companies, are eliminated in preparing the consolidated financial statements, unless unrealised losses provide evidence of an impairment loss that should be recognised in the consolidated financial statements.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment loss.

2.3 Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to euro at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to euro at the foreign exchange rates ruling at the dates the fair value was determined. The resulting exchange differences are accounted for in the income statement, except if related to equity instruments classified as available-for-sale, which are accounted for in equity, within the fair value reserve.

2.4 Derivative financial instruments and hedge accounting

Classification

Derivatives for risk management purposes include (i) hedging derivatives and (ii) derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss that were not classified as being hedging derivatives.

All other derivatives are classified as trading derivatives.

Recognition and measurement

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is re-measured on a regular basis and the resulting gains or losses on re-measurement are recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses of the derivatives designated as hedging instruments depends on the nature of the risk being hedged and of the hedge model used.

Fair values are obtained from quoted market prices, in active markets, if available or are determined using valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

Derivatives traded in organised markets, namely futures and some options, are recognised as trading derivatives, being marked to market on a daily basis and the resulting gains or losses are recognised directly in the income statement. Once the fair value changes on these derivatives are settled daily through the margin accounts held by the Group, these derivatives do not present any fair value on the balance sheet. The margin accounts are included under the caption Other assets (see Note 34) and comprise the minimum collateral mandatory for open positions.

Hedge accounting

- **Classification criteria**
  Hedge accounting is used for derivative financial instruments designated as hedging instruments, provided the following criteria are met:

  (i) At the inception of the hedge, the hedge relationship is identified and documented, including the identification of the hedged item and of the hedging instrument and the evaluation of the effectiveness of the hedge;
  (ii) The hedge is expected to be highly effective, both at the inception of the hedge and on an ongoing basis;
  (iii) The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis;
  (iv) For cash flows hedges, the cash flows are highly probable of occurring.

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

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

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

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

Embedded derivatives

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

These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

2.5 Loans and advances to customers

Loans and advances to customers include loans and advances originated by the Group, which are not intended to be sold in the short term. Loans and advances to customers are recognised when cash is advanced to borrowers.

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

Loans and advances to customers are initially recorded at fair value plus transaction costs and are subsequently measured at amortised cost, using the effective interest rate method, less impairment losses.

In accordance with the documented strategy for risk management, the Group contracts derivative financial instruments to manage certain risks of a portion of the loan portfolio, without applying, however, the provisions of hedge accounting as mentioned in Note 2.4. These loans are measured at fair value through profit or loss, in order to eliminate a measurement inconsistency resulting from measuring loans and derivatives for risk management purposes on different basis (accounting mismatch). This procedure is in accordance with the accounting policy for classification, recognition and measurement of financial assets at fair value through profit or loss, as described in Note 2.6.

Impairment

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

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

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

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

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

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

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

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

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

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

2.6 Other financial assets

Classification

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

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

The Group classifies, at inception, certain financial assets at fair value through profit or loss when:
- Such financial assets are managed, measured and their performance evaluated on a fair value basis;
- Such financial assets are being hedged (on an economical basis), in order to eliminate an accounting mismatch; or
- Such financial assets contain an embedded derivative.

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

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

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

Initial recognition, initial measurement and derecognition

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

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

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

Subsequent measurement

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

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

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

The fair values of quoted investments in active markets are based on current bid prices. For unlisted securities the Group establishes fair value by using (i) valuation techniques, including the use of recent arm's length transactions, discounted cash flow analysis and option pricing models and (ii) valuation assumptions based on market information.

Reclassifications between categories

The Group only reclassifies non-derivative financial assets with fixed or determinable payments and fixed maturities, from the available-for-sale financial assets category to the held-to-maturity investments category, if it has the intention and ability to hold those financial assets until maturity.

Reclassifications between these categories are made at the fair value of the assets reclassified on the date of the reclassification. The difference between this fair value and the respective nominal value is recognised in the income statement until maturity, based on the effective interest rate method. The fair value reserve at the date of the reclassification is also recognised in the income statement, based on the effective interest rate method.

Impairment

The Group assesses periodically whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after their initial recognition, such as: (i) for equity securities, a significant or prolonged decline in the fair value of the security below its cost, and (ii) for debt securities, when that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For held-to-maturity investments, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (considering the recovery period) discounted at the financial asset's original effective interest rate and are recognised in the income statement. The carrying amount of the impaired assets is reduced through the use of an allowance account. If a held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.For held-to--maturity investments if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the income statement.

If there is objective evidence that an impairment loss on available-for-sale financial assets has been incurred, the cumulative loss recognised in equity – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is taken to the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed through the income statement up to the acquisition cost if the increase is objectively related to an event occurring after the impairment loss was recognised, except in relation to equity instruments, in which case the reversal is recognised in equity.

2.7 Sale and repurchase agreements

Securities sold subject to repurchase agreements (*repos*) at a fixed price or at the sales price plus a lender's return are not derecognised. The corresponding liability is included in amounts due to banks or to customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method.

Securities purchased under agreements to resell (*reverse repos*) at a fixed price or at the purchase price plus a lender's return are not recognised, being the purchase price paid recorded as loans and advances to banks or customers, as appropriate. The difference between purchase and resale price is treated as interest and accrued over the life of the agreements using the effective interest rate method.

Securities lent under lending agreements are not derecognised being classified and measured in accordance with the accounting policy described in Note 2.6. Securities borrowed under borrowing agreements are not recognised in the balance sheet.

2.8 Financial liabilities

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

Non-derivatives financial liabilities include deposits from banks and due to customers, loans, debt securities, subordinated debt and short sales. Preference shares issued are considered to be financial liabilities when the Group assumes the obligation of reimbursement and/or to pay dividends.

The financial liabilities are recognised (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest rate method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

The Group designates, at inception, certain financial liabilities as at fair value through profit or loss when:
- Such financial liabilities are being hedged (on an economical basis), in order to eliminate an accounting mismatch; or
- Such financial liabilities contain embedded derivatives.

The structured products issued by the Group meet the above mentioned conditions and, in accordance, are classified under the fair value through profit or loss category.

The fair value of quoted financial liabilities is based on the current price. In the absence of a quoted price, the Group establishes the fair value by using valuation techniques based on market information, including the own credit risk of the issuer.

If the Group repurchases debt issued, it is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement.

2.9 Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument, namely the payment of principal and/or interests.

Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee is issued. Subsequently financial guarantees are measured at the higher of (i) the fair value recognised on initial recognition or (ii) any financial obligation arising as a result of the guarantees at the balance sheet date. Any increase in the liability relating to guarantees is taken to the income statement.

The financial guarantee contracts issued by the Group normally have a stated maturity date and a periodic fee, usually paid in advance on a quarterly basis. This fee varies depending on the counterparty risk, the amount and the time period of the contract. Therefore, the fair value of the financial guarantee contracts issued by the Group, at the inception date, equal the initial fee received, which is recognised in the income statement over the period to which it relates. The subsequent periodic fees are recognised in the income statement in period to which they relate.

2.10 Equity instruments

An instrument is classified as an equity instrument when it does not contain a contractual obligation to deliver cash or another financial asset, independently from its legal form, being a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to the issue of equity instruments are recognised under equity as a deduction from the proceeds. Amounts paid or received related to acquisitions or sales of equity instruments are recognised in equity, net of transaction costs.

Distributions to holders of an equity instrument are debited directly to equity as dividends, when declared.

Preference shares issued are considered as equity instruments if the Group has no contractual obligation to redeem and if dividends, non cumulative, are paid only if and when declared by the Group.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.12 Non-current assets held for sale

Non-current assets or disposal groups (groups of assets to be disposed of together and related liabilities that include at least a non-current asset) are classified as held for sale when their carrying amounts will be recovered principally through sale (including those acquired exclusively with a view to its subsequent disposal), the assets or disposal groups are available for immediate sale and is highly probable.

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

In the scope of its activity, the Group incurs in the risk from failure of the borrower to repay all the amounts due. In case of loans and advances with mortgage collateral, the Group acquires the asset held as collateral in exchange for loans. In accordance with the requirements of Regime Geral das Instituições de Crédito e Sociedades Financeiras (RGICSF), banks are prevented, unless authorised by the Bank of Portugal, from acquiring property that is not essential to their daily operations (no. 1 of article 112 of RGICSF) being able to acquire, however, property in exchange for loans granted by the Group. This property must be sold within 2 years, period that may be extended by written authorization from the Bank of Portugal and in conditions to be determined by this authority (no. 114 of art of RGICSF).

It is Group's objective to immediately dispose all property acquired in exchange for loans. This property is classified as non-current assets held-for-sale and is initially recognised at the lower of its fair value less costs to sell and the carrying amount of the loans. Subsequently, this property is measured at the lower of its carrying amount and the corresponding fair value less costs to sell and is not depreciated. Any subsequent write-down of the acquired property to fair value is recorded in the income statement.

Property valuations are performed in accordance with one of the following methodologies, which are applied in accordance with the specific situation of the asset:

a) **Market Method**
   The Market Comparison Criteria takes as reference transaction values of similar and comparable property to the property under valuation, obtained through market searching carried out in the zone.
b) **Income Method**
   Under this method, the property is valued based on the capitalization of its net income, discounted for the present moment, through the discounted cash--flows method.
c) **Cost Method**
   This method separates the value of property on its basic components: Urbane Ground Value and Urbanity Value; Construction value; and Indirect Costs Value.

The valuations are performed by independent specialized entities. The valuation reports are analysed internally with the gauging of processes adequacy, by comparing the sales values with the revaluated values.

Assets/ liabilities from subsidiaries acquired for resale purposes reflect, essentially, assets and liabilities from subsidiaries acquired by the Group in exchange for loans, for which the Group's objective is its subsequent disposal within one year. Since these acquisitions arise from the exchange for loans, these acquisitions are recognised at its fair value, and any difference between its fair value and the extinguished loan following the acquisition, is recognised as an impairment for loan losses. In the recognition date of an entity which meets the subsidiary criteria and for which the Group's objective is the resale, this is consolidated in accordance with the applicable procedures adopted by the Group and its assets and liabilities are measured at fair value determined at the acquisition date. However, in these particular cases, assets are classified as non-current assets held for sale and liabilities are classified as non-current liabilities held for sale. Therefore, and at the first consolidation date, the net value of assets and liabilities from the subsidiary reflect its fair value determined on the acquisition date (which arises from the exchange for loan).

These subsidiaries are consolidated until its effective sale. At each balance sheet date, the net carrying amount of its assets and liabilities is compared with its fair value, less cost to sell and an impairment loss is recognised when necessary.

For the purpose of the fair value calculation for subsidiaries held for sale, the Bank adopts the following methodologies:

- for subsidiaries whose assets correspond mainly to real estate properties, its fair value is determined with reference to the value of these assets, in accordance with the valuations performed by independent specialized entities;
- for the remaining entities, the fair value is determined according to the discounted cash flow methodology, using assumptions consistent with the business risk of each subsidiary.

2.13 Property and equipment

Property and equipment are measured at cost less accumulated depreciation and impairment losses. The value includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group. All other repairs and maintenance are charged to the income statement during the year in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method over their estimated useful lives, as follows:

	Number of years
Buildings	35 to 50
Improvements in leasehold property	10
Computer equipment	4 to 5
Furniture	4 to 10
Fixtures	5 to 10
Security equipment	4 to 10
Office equipment	4 to 10
Motor vehicles	4
Other equipment	5

When there is an indication that an asset may be impaired, IAS 36 requires that its recoverable amount is estimated and an impairment loss recognised when the net book value of the asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is determined as the greater of its net selling price and value in use which is based on the net present value of future cash flows arising from the continuing use and ultimate disposal of the asset.

2.14 Intangible assets

The costs incurred with the acquisition, production and development of software are capitalised, as well as the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis during their expected useful lives, which is usually between three to six years.

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

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

2.15 Leases

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

Operating leases

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

Finance leases

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

- **As lessor**
  Assets leased out are recorded in the balance sheet as loans granted, for the amount equal to the net investment made in the leased assets. Interest included in instalments charged to customers is recorded as interest income, while repayments of principal, also included in the instalments, are deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

2.16 Employee benefits

Pensions

Arising from the signing of the "Acordo Colectivo de Trabalho" (ACT) and subsequent amendments resulting from the 3 tripartite agreements as described in Note 13, the Bank and other Group entities set up pension funds and other mechanisms to cover the liabilities with pensions on retirement and disability, widows' pension and health-care benefits.

The pension liabilities and health care benefits are covered by funds that are managed by ESAF – Espírito Santo Fundos de Pensões, S.A., a Group's subsidiary.

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

The pension liability is calculated semi-annually by the Group, as at 31 December and 30 June for each plan individually, using the projected unit credit method, and reviewed annually by qualified independent actuaries. The discount rate used in this calculation was determined with reference to market rates associated with high-quality corporate bonds issues, denominated in the currency in which benefits will be paid and with a maturity similar to the expiry date of the plan obligations.

The Group determines the net interest expense (income) for the period on the net defined benefit liability (asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) at the beginning of the annual period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest expense (income) includes interest cost on the defined benefit obligation net of a theoretical return on the plan assets, both calculated using the discount rate applied in the determination of the defined benefit obligation.

Remeasurements gains and losses resulting from (i) actuarial gains and losses arising from the differences between actuarial assumptions used and real values obtained (experience adjustments) and from changes in the actuarial assumptions and (ii) gains and losses arising from the difference between theoretical return on plan assets and actual investment returns, are recognised in Other comprehensive income.

The Group recognises as a cost in the income statement a net total amount that comprises (i) the service cost, (ii) net interest expense (income), (iii) effect early retirement, (iv) past service costs, and (v)the effect of settlement or curtailment occurred during the period. The net interest expense (income) with the pension plan is recognised in interest and similar income or interest expense and similar charges, depending on its nature. Early retirement costs correspond to an increase on the liabilities due to the fact the employee retires before reaching 65 years of age.

The Group makes payments to the funds in order to maintain its solvency and to comply with the following minimum levels: (i) the liability with pensioners shall be totally funded at the end of each year, and (ii) the liability related to past services cost with employees in service shall be funded at a minimum level of 95%.

Semi-annually, the Group assesses for each plan separately, the recoverability of any recognised asset in relation to the defined benefit pension plans, based on the expectation of reductions in future contributions to the funds.

Health care benefits

The Group provides to its banking employees health care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides to its beneficiaries services and/or contributions on medical assistance expenses, diagnostics, medicines, hospital confinement and surgical operations, in accordance with its financing availability and internal regulations.

The annual contribution of the Group to SAMS amounts to 6.5% of the total annual remuneration of employees, including, among others, the holiday and Christmas subsidy.

The measurement and recognition of the Group's liability with post-retirement healthcare benefits is similar to the measurement and recognition of the pension liability described above. These benefits are covered by the Pension Fund which at present covers all responsibilities with pensions and health care benefits.

Long term service benefits

In accordance with the ACT "Acordo Colectivo de Trabalho" for the banking sector, BES Group has assumed the commitment to pay to current employees that achieve 15, 25 and 30 years of service within the Group, long-term service premiums corresponding, respectively, to 1, 2 and 3 months of their effective monthly remuneration earned at the date the premiums are paid.

At the date of early retirement or disability, employees have the right to a premium proportional to what they would earn if they remained in service until the next payment date.

These long term service benefits are accounted for by the Group in accordance with IAS 19 as other long-term employee benefits.

The liability with long term service benefits is calculated semi-annually, at the balance sheet date, by the Group using the projected unit credit method. The actuarial assumptions used are based on the expectations about future salary increases and mortality tables. The discount rate used in this calculation is determined based on the same methodology described above for pensions.

In each period, the increase in the liability for long term service premiums, including actuarial gains and losses and past service costs is charged to the income statement.

Variable remuneration payment plan on financial instruments (PRVIF)

Following the recommendations of the Supervising and Regulatory authorities, on the shareholders General Meeting, held in 6 April 2010 it was approved a new remuneration policy for the Executive Committee members. This policy consists in giving to the Executive Committee members a fixed remuneration, which should represent approximately 45% of the total remuneration, and a variable component representing around 55% of the total remuneration. The variable remuneration shall have two components: one associated with short-term performance and another with medium-term performance. Half of the short-term component must be paid in cash and the remaining 50% should be paid over a three years period, with half of these payments to be made in cash and the remaining through the attribution of shares. The medium-term component has associated a share options program with the exercise of the options set at 3 years from the date of its attribution.

The execution of the PRVIF in what concerns remunerations in cash, number of shares and options to be attributed to each Executive Committee member is performed through the deliberation of the Remunerations Committee.

In what concerns the model for the attribution of shares under PRVIF, these are delivered to the beneficiaries on an accrual basis, through a period of three years (1^{st} year: 33%; 2^{nd} year: 33%; 3^{rd} year 34%) and is conditioned to the verification of a Return on Equity equal to 5% or higher.

In relation to the model for the attribution of options, these are also granted to the beneficiaries by the Remunerations Committee, being the exercise price equal to the mathematical average of the closing price of BES shares in NYSE Euronext Lisbon during the last 20 working days prior to the grant date, increased by 10%. The options can only be exercised at the maturity date, the beneficiary can choose between cash or physical settlement.

PRVIF establishes the possibility of attributing options over BES shares to its top management, e.g. general directors and Board of Directors advisors. These options are granted by the Board of Directors to the beneficiaries and work in the same way as the ones granted to the Executive Committee members.

Bonus to employee

In accordance with IAS 19 - Employee benefits, the bonus payment to employees and to the Board of Directors is recognised in the income statement in the year to which they relate.

2.17 Income tax

Income tax for the period comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Income tax recognised directly in equity relating to fair value re-measurement of available--for-sale financial assets and cash flow hedges is subsequently recognised in the income statement when gains or losses giving rise to the income tax are also recognised in the income statement.

Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rates enacted or substantively enacted at the balance sheet date at each jurisdiction.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax basis, and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in any jurisdiction and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences except for goodwill, not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that probably they will not reverse in the foreseeable future. Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be deducted.

The Group offsets deferred taxes assets and liabilities for each subsidiary, whenever (i) the subsidiary has a legally enforceable right to set off current tax assets against current tax liabilities, and (ii) they relate to income taxes levied by the same taxation authority. This offset is therefore performed at each subsidiary level, being the deferred tax asset presented in the consolidated balance sheet the sum of the subsidiaries' amounts which present deferred tax assets and the deferred tax liability presented in the consolidated balance sheet the sum of the subsidiaries' amounts which present deferred tax liabilities.

2.18 Provisions

Provisions are recognised when: (i) the Group has present legal or constructive obligation, (ii) it is probable that settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

When the effect of the passage of time (discount) is material, the provision corresponds to the net present value of the expected future payments, discounted at an appropriate rate considering the risk associated to the obligation.

Restructuring provisions are recognised when the Group has approved a detailed and formal restructuring plan and such restructuring either has commenced or has been announced publicly.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net costs of continuing with the contract.

2.19 Interest income and expense

Interest income and expense are recognised in the income statement under interest and similar income and interest expense and similar charges for all non--derivative financial instruments measured at amortised cost and for the available-for-sale financial assets, using the effective interest rate method. Interest income arising from non-derivative financial assets and liabilities at fair value through profit or loss is also included under interest and similar income or interest expense and similar charges, respectively.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is calculated at inception and it is not subsequently revised, except in what concerns financial assets and liabilities with a variable interest rate. In this case the effective interest rate is periodically revised, having in consideration the impact of the change in the reference interest rate in the estimated future cash-flows.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and commissions paid or received that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

In the case of financial assets or groups of similar financial assets for which an impairment loss was recognised, interest income is calculated using the interest rate used to measure the impairment loss.

For derivative financial instruments, except for derivatives for risk management purposes (see Note 2.4), the interest component of the changes in their fair value is not separated out and is classified under net gains/ (losses) from financial assets and financial liabilities at fair value through profit or loss. The interest component of the changes in the fair value of derivatives for risk management purposes is recognised under interest and similar income or interest expense and similar charges.

2.20 Fee and commission income

Fees and commissions are recognised as follows:

- Fees and commissions that are earned on the execution of a significant act, as loan syndication fees, are recognised as income when the significant act has been completed;
- Fees and commissions earned over the period in which the services are provided are recognised as income in the period the services are provided;
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest rate method.

2.21 Dividend income

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

2.22 Segmental reporting

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

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

2.23 Earnings per share

Basic earnings per share is calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, excluding the average number of ordinary shares purchased by the Group and held as treasury stock.

For the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to assume conversion of all dilutive potential ordinary shares, such as convertible debt and share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

2.24 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the inception date, including cash, deposits with banks and deposits at Central Banks. Cash and cash equivalents exclude restricted balances with central banks.

2.25 Investment properties

The Group classifies as investment property the property held to earn rentals or for capital appreciation or both. Investment property is recognised initially at cost, including transaction costs that are directly attributable expenditures, and subsequently at their fair value. Changes in the fair value determined at each balance sheet date are recognised in the income statement. Investment property is not amortised.

Subsequent expenditure is capitalised only when it is probable that it will give rise to future economic benefits in excess of the originally assessed standard of performance of the asset.

2.26 Insurance contracts

The Group issues contracts that contain insurance risk, financial risk or a combination of both insurance and financial risk. A contract, under which the Group accepts significant insurance risk from another party, by agreeing to compensate that party on the occurrence of a specified uncertain future event, is classified as an insurance contract.

A contract issued by the Group without significant insurance risk, but on which financial risk is transferred with discretionary participating features is classified as investment contract recognised and measured in accordance with the accounting policies applicable to insurance contracts (IFRS 4). A contract issued by the Group that transfers only financial risk, without discretionary participating features, is classified as an investment contract and accounted for as a financial instrument (IAS 39).

The financial assets held by the Group to cover the liabilities arising under insurance and investment contracts are classified and accounted for in the same way as other Group financial assets.

Insurance contracts and investment contracts with discretionary participating features are recognised and measured as follows:

Premiums

Gross written premiums are recognised for as income in the period to which they respect, in accordance with the accrual accounting principle. Reinsurance premiums ceded are accounted for as expense in the period to which they respect in the same way as gross written premiums.

Acquisition costs

Acquisition costs that are directly or indirectly related to the selling of insurance and investment contracts with discretionary participating features are capitalized and deferred through the life of the contracts. Deferred acquisition costs are subject to recoverability testing at the time of the insurance policy or investment contract is issued and subject to impairment test (liability adequacy test) at each reporting date.

Claims reserves

Claims outstanding reflects the estimated total outstanding liability for reported claims and for incurred but not reported claims (IBNR). Reserves for both reported and not reported claims are estimated by management based on experience and available data using statistical methods. Claims reserves are not discounted.

Life assurance reserve

The life assurance reserve reflects the present value of the Group's future obligations arising from life policies (insurance contracts and investment contracts with discretionary participating features) written and is calculated in accordance with recognised actuarial methods within the scope of applicable legislation.

Reserve for bonus and rebates

The reserve for bonus and rebates corresponds to the amounts attributed to policyholders or beneficiaries of insurance or investment contracts, in the form of profit participation, which have not yet been specifically allocated and included in the life assurance reserve.

Shadow accounting

In accordance with IFRS 4, the unrealised gains and losses on the assets covering liabilities arising out from insurance and investment contracts with discretionary participating features are attributable to policyholders, to the extent that it is expected that policyholders will participate on those unrealised gains and losses when they became realised in accordance with the terms of the contracts and applicable legislation, by recording those amounts under liabilities.

Liability adequacy test

At each reporting date, the Group performs a liability adequacy test to the insurance and investment contracts with discretionary participating features liabilities. The assessment of the liabilities is performed using the best estimate of future cash flows under each contract, discounted at a risk free rate. The liability adequacy test is performed product by product or aggregate basis when contracts are subject to broadly similar risks and managed as a single portfolio. Any deficiency determined, if exists, is recognised directly through income.

Unearned premium reserve

The reserve for unearned gross written premiums and reinsurance ceded premiums reflects the part of the written premiums before the end of the period for which the risk period continues after the end of the period.

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

IFRS set forth a range of accounting treatments and require management to apply judgement and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies, are discussed in this section in order to improve understanding of how their application affects the Group's reported results and related disclosure. A broader description of the accounting policies applied by the Group is shown in Note 2 to the Consolidated Financial Statements.

Because in many cases there are other alternatives to the accounting treatment chosen by management, the Group's reported results would differ if a different treatment were chosen. Management believes that the choices made are appropriate and that the financial statements present the Group's financial position and results fairly in all material aspects.

3.1 Impairment of available-for-sale financial assets

The Group determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost or when it has identified an event with impact on the estimated future cash flows of the assets. This determination requires judgement based on all available relevant information, including the normal volatility of the financial instruments prices. Considering the high volatility of the markets, the Group has considered the following parameters when assessing the existence of impairment losses:

(i) Equity securities: significant decline in market value in relation to the acquisition cost or market value below the acquisition cost for a prolonged period;
(ii) Debt securities: objective evidence of events that have an impact on the estimated future cash flows of these assets.

In addition, valuations are generally obtained through market quotation or valuation models that may require assumptions or judgement in making estimates of fair value.

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

3.2 Fair value of derivatives and other assets and liabilities at fair value

Fair values are based on listed market prices if available; otherwise fair value is determined either by dealer price quotations (both for that transaction or for similar instruments traded) or by pricing models, based on net present value of estimated future cash flows which take into account market conditions for the underlying instruments, time value, yield curve and volatility factors. These pricing models may require assumptions or judgements in estimating fair values.

Consequently, the use of a different model or different assumptions or judgements in applying a particular model may have produced different financial results from the ones reported.

3.3 Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment on a regular basis, as described in Note 2.5.

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

Alternative methodologies and the use of different assumptions and estimates could result in a different level of impairment losses with a consequent impact in the consolidated income statement of the Group.

3.4 Goodwill impairment

Goodwill recoverable amount recognised as an asset of the Group is revised annually regardless the existence of impairment losses.

For this purpose, the carrying amount of the business units of the Group for which goodwill has been recognised is compared with the respective recoverable amount. A goodwill impairment loss is recognised when the carrying amount of the business unit exceeds the respective recoverable amount.

In the absence of an available market value, the recoverable amount is determined using cash flows/ dividends predictions, applying a discount rate that includes a risk premium appropriated to the business unit being tested.

Changes in the expected cash flows and in the discount rate may lead to different conclusions from those that led to the preparation of these financial statements.

3.5 Securitisations and special purpose entities (SPE)

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

The Group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Group does control an SPE, it makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question (see Note 2.2).

The determination of the SPEs that needs to be consolidated by the Group requires the use of estimates and assumptions in determining the respective expected residual gains and losses and which party retains the majority of such residual gains and losses. Different estimates and assumptions could lead the Group to a different scope of consolidation with a direct impact in net income.

3.6 Held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement.

In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value instead of amortised cost.

Held-to-maturity investments are subject to impairment tests made by the Group. The use of different assumptions and estimates could have an impact on the income statement of the Group.

3.7 Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant interpretations and estimates are required in determining the worldwide amount for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Different interpretations and estimates would result in a different level of income taxes, current and deferred, recognised in the period.

The Tax Authorities are entitled to review the Bank and its subsidiaries located in Portugal's determination of annual taxable earnings, for a period of four years or six years in case there are tax losses brought forward. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Board of Directors of the Bank, and those of its subsidiaries, are confident that there will be no material tax assessments within the context of the financial statements.

3.8 Pension and other employees' benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, estimated returns on investment, and other factors that could impact the cost and liability of the pension plan.

Changes in these assumptions could materially affect these values.

3.9 Insurance and investment contracts liabilities

Insurance and investment contracts liabilities represent liabilities for future insurance policy benefits. Insurance reserves for traditional life insurance, annuities and workmen's compensation policies have been calculated based upon mortality, morbidity, persistency and interest rate assumptions applicable to those coverages. The assumptions used reflect the Groups' and market experience and may be revised if it is determined that future experience will differ substantially from that previously assumed. Insurance and investment contracts liabilities include: (i) life mathematical reserve, (ii) reserve for bonus and rebates, (iii) claims reserves, (iv) unexpired risk reserve and (v) unearned premiums reserve. Claims reserves include estimated provisions for both reported and unreported claims incurred and related expenses.

When claims are made by or against policyholders, any amounts that the Group pays or expects to pay are recorded as losses. The Group establishes reserves for payment of losses for claims that arise from its insurance and investment contracts.

In determining their insurance reserves and investment contracts liabilities, the Group's insurance companies perform a continuing review of their overall positions, their reserving techniques and their reinsurance coverage. The reserves are also reviewed periodically by qualified actuaries.

The Group maintains property and casualty loss reserves to cover the estimated ultimate unpaid liability for losses with respect to both reported and not reported claims incurred as of the end of each accounting year. Claims reserves do not represent an exact calculation of liability, but instead represent estimates, generally using actuarial valuations/techniques. These reserve estimates are expectations of what the ultimate settlement of claims is likely to cost based on an assessment of facts and circumstances then known, a review of historical settlement patterns, estimates of trends in claims severity, frequency, legal theories of liability and other factors. Variables in the reserve estimation process can be affected by both internal and external events, such as changes in claims handling procedures, economic inflation, legal trends and legislative changes. Many of these items are not directly quantifiable, particularly on a prospective basis. Additionally, there may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the insurer. Reserve estimates are continually reviewed in a regular ongoing process as historical loss experience develops and additional claims are reported and settled.

The liability adequacy test is performed considering the expected cash flows of each contract. These cash flows include premiums, mortality, maturities, surrenders, lapses, expenses and commissions. Whenever the contracts include options and guarantees, the present value of liabilities is determined stochastically based in the market consistent principles. This test is conducted product by product or in aggregate when the risk are similar or managed on a portfolio basis.

NOTE 4 – SEGMENT REPORTING

BES Group activities are focused on the financial sector and are directed to companies, institutional and private customers. The Group's decision centre is in Portugal, which makes it its privileged market. The historical link with Brazil and Africa, the globalization of the Portuguese companies and the Portuguese emigration to several countries, led to an internationalisation of the Group, which already has an international structure contributing significantly to the Group's activities and results.

The Group's products and services includes deposits, loans to retail and corporate customers, fund management, broker and custodian services, investment banking services and the commercialization of life and non-life insurance products. Additionally, the Group makes short, medium and long term investments in the financial and currency exchange markets with the objective of taking advantages from the prices changes or to have a return from its available resources.

The Group has BES as its main operating unit - with 612 branches in Portugal and with branches in London, New York, Spain (31 branches), Nassau, Cayman Islands, Cape Verde, Venezuela, Luxembourg and Madeira Free Zone and 10 representation offices – with BES Investimento (investment banking); BES Angola (71 branches); BES Açores (17 branches); Banco BEST (13 branches); Espírito Santo Bank; BES Oriente; Aman Bank; BES Cabo Verde; BES Vénétie; Espírito Santo Activos Financeiros (ESAF); BES Seguros (non life insurance) and BES Vida, among other companies.

When evaluating the performance by business area, the Group considers the following Operating Segments: (1) Domestic Commercial Banking, including Retail, Corporate, Institutional and Private Banking; (2) International Commercial Banking; (3) Investment Banking; (4) Asset Management; (5) Life Insurance; (6) Capital Markets and Strategic Investments; and (7) Corporative Centre. Each segment includes the BES structures that directly or indirectly relate to it, and also the other units of the Group whose activities are most related to one of these segments. In addition to the individual evaluation of each operating unit of the Group (considered as an investment centre), the Executive Committee defines strategies, commercial programs and performance evaluation for each operating segment.

Complementary, the Group uses a second segmentation of its activities and results according to geographic criteria, segregating the activity and the results generated from the units located in Portugal (domestic activities) from the units located abroad (international activities).

4.1 Operating segments description

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

Domestic Commercial Banking

This operating segment includes all the banking activity with corporate and institutional customers developed in Portugal, based in the branch offices network, corporate centres and other channels and includes the following:

a) **Retail:** corresponds to all activity developed by BES in Portugal with private customers and small businesses. The financial information of the segment relates to, among other products and services, mortgage loans, consumer credit, financing the clients' activity, deposits repayable on demand and term deposits, retirement plans and other insurance products to private customers, commissions over account management and electronic payments, the investment funds cross-selling and brokerage and custodian services.
b) **Corporate and Institutional:** includes BES activities in Portugal with small, medium and large companies, through its commercial structure dedicated to this segment, which includes 24 corporate centres. Also includes activities with institutional and municipal customers.
c) **Private Banking:** includes private banking activity of BES, all profit, loss and assets and liabilities associated to customers classified as private by BES. The main products considered on this segment are: deposits; discretionary management, selling of investment funds, custodian services, brokerage services and insurance products.

International Commercial Banking

This operating segment includes the units located abroad, which banking activities are focused on corporate and retail customers, excluding investment banking and asset management, which are integrated in the corresponding segments.

Among the units comprising this segment are BES Angola and Spain, London, New York, Cape Verde, Luxembourg and Venezuela branches. The main products included in this segment are deposits, credit, leveraged finance, structured trade finance and project finance operations. This segment, in the context of the funding strategy, has been assuming a relevant role, mainly within institutional customers.

Investment Banking

Includes assets, liabilities, profits and losses of the operating units that consolidate in BES Investimento, which comprises all the investment banking activities of the Group originated in Portugal and abroad. In addition to the lending activity, deposits and other forms of funding, it includes Project Finance advisory services, mergers and acquisitions, restructuring and debt consolidation, initial public offerings (shares and bonds), brokerage and other investment banking services.

Asset Management

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

Life Insurance

This segment includes the activities of BES-Vida, through the sale of traditional and investment insurances and retirement plans to BES customers.

Capital Markets and Strategic Investments

This segment includes the financial management of the Group, namely the investments in capital markets instruments (equity and debt), whether they are integrated in trading, fair value, available for sale or held to maturity financial assets portfolios. Also included in this segment is the Group's investment in non--controlling strategic positions, as well as all the activity inherent to interest rate and exchange rate risk management, long and short positions on financial instruments management, which allow the Group to take advantage of the price changes in those markets where these instruments are exchanged.

Corporative Centre

This area does not correspond to an operating segment. It refers to an aggregation of corporative structures acting throughout the entire Group, such as, áreas related to the Board of Directors, Compliance, Planning, Financial and Accounting, Risk Management, Investor Relations, Internal Audit, Organization and Quality, among others.

4.2 Allocation criteria of the activity and results to the operating segments

The financial information presented for each segment was prepared in accordance with the criteria followed for the preparation of internal information analysed by the decision makers of the Group, as required by IFRS.

The accounting policies applied in the preparation of the financial information related with the operating segments are consistent with the ones used in the preparation of these consolidated financial statements, which are described in Note 2, being also adopted the following principles:

Measurement of profit or loss from operating segments

The Group uses net income before taxes as the measure of profit or loss for evaluating the performance of each operating segment.

Autonomous operating segments

As mentioned above, each operating unit (branches abroad, affiliated and associated entities) is evaluated separately, as these units are considered investment centres. Additionally, considering the characteristics of the business developed by these units, they are fully included in one of the operating segments, assets, liabilities, equity, income and expenses.

BES structures dedicated to segments

BES activity comprises most of its operating segments and therefore its activity is disaggregated.

For the purpose of allocating the financial information, the following principles are used: (i) the origin of the operation, i.e., the operation is allocated to the same segment as the commercial structure that originated it, even though, in a subsequent phase, the group makes a strategic decision in order to securitize some of these originated assets; (ii) the allocation of a commercial margin to mass-products, established in a high level when the products are launched; (iii) the allocation of a margin directly negotiated by the commercial structures with the clients for non-mass-products; (iv) the allocation of direct costs from commercial and central structures dedicated to the segment; (v) the allocation of indirect cost (central support and IT services) determined in accordance with specific drivers and with the Cost Based Approach (CBA) model; (vi) the allocation of credit risk determined in accordance with the impairment model; (vii) the allocation of the Bank total equity to the capital markets and strategic investments segment.

The transactions between the independent and autonomous units of the Group are made at market prices; the price of the services between the structures of each unit, namely the price established for funding between units, is determined by the margins process referred above (which vary in accordance with the strategic relevance of the product and the balance between funding and lending); the remaining internal transactions are allocated to the segments in accordance with CBA without any margin from the supplier; the strategic decisions and/ or of exceptional nature are analysed on a case by case basis, being the income and/ or costs generally allocated to the capital markets and strategic investments segment.

The interest rate risk, exchange risk, liquidity risk and others, except for credit risk, are included in the Financial Department, whose mission is to make the Bank's financial management. The related activity and results are included in Capital Markets and Strategic Investments segment.

Interest and similar income/ expense

Since the Group's activities are exclusively related to the financial sector, the major income results from the difference between interest received on assets and interest paid from liabilities. This situation and the fact that the segments evaluation is based on negotiated margins or determined previously to each product, leads to the results on the intermediation activity being presented, as permitted by IFRS 8 paragraph 23, as the net value of interest under the designation of Financial Income.

Consolidated Investments under the equity method

Investments in associated companies consolidated under the equity method are included in Capital Markets and Strategic Investments segment, in case of BES associates. For other companies of the Group, the same entities are included in the segment they relate to.

Non current assets

Non current assets, according to IFRS 8, include Other Tangible Assets and Intangible Assets. BES includes these assets on the Capital Markets and Strategic Investments segment; the non current assets held by the subsidiaries are allocated to the segment in which these subsidiaries develop their business.

Income taxes

Income tax is a part of the Group net income but does not affect the evaluation of most of the Operating Segments. Deferred tax assets and liabilities are included in the Capital Markets and Strategic Investments segment.

Post employment benefits

Assets under post employment benefits are managed in a similar way to deferred income taxes assets, and are included in the Capital Markets and Strategic Investments segment. The factors that influence the amount of responsibilities and the amount of the funds assets correspond, mainly, to external elements; it is Group's policy not to include these factors on the performance evaluation of the operating segments, which activities relate to customers.

Domestic and International Areas

In the disclosure of financial information by geographical areas, the operating units that integrate the International Area are: BES Angola and its branches, BES África, Aman Bank, BES Oriente, Espírito Santo Bank, BES Cape Verde; Espírito Santo Vénétie, Banco Delle Tre Venezie, Moza Bank, Ijar Leasing Argélie, Tranquilidade Angola, and the branches in London, Spain, New York, Cape Verde, Venezuela and Luxembourg and the operating units located abroad from BES Investimento and ESAF.

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

The primary segments reporting are presented as follows:

(in thousands of euro)

	31.12.2013									
	Retail	**Corporate and Institutional**	**Private banking**	**International commercial banking**	**Investment banking**	**Asset management**	**Insurance**	**Capital markets and strategic investments**	**Corporative centre**	**Total**
Net interest	451,030	348,197	117,810	431,826	82,073	1,868	144,192	(542,688)	-	1,034,308
Net fees and comissions	165,242	242,607	14,144	120,341	101,777	51,557	(11,521)	(18,510)	-	665,637
Other operating income	45,668	21,840	13,608	(42,993)	62,617	5,199	267,121	(172,066)	-	200,994
Total operating income	661,940	612,644	145,562	509,174	246,467	58,624	399,792	(733,264)	-	1,900,939
Operating expenses	443,301	689,747	22,906	504,353	231,461	19,683	16,049	486,339	146,022	2,559,861
Includes:										
Provisions/Impairment	*61,347*	*631,012*	*5,887*	*238,230*	*59,850*	*2,463*	*4,109*	*419,991*	*-*	*1,422,889*
Depreciation and amortisation	*46,520*	*6,148*	*1,955*	*31,199*	*6,726*	*297*	*596*	*8,928*	*5,492*	*107,861*
Gains on disposal of investments in subsidiaries and associates	-	-	-	-	-	-	-	-	-	-
Share of profit of associates	-	-	-	(47)	632	-	-	506	-	1,091
Profit before income tax and non-controlling interests	**218,639**	**(77,103)**	**122,656**	**4,774**	**15,638**	**38,941**	**383,743**	**(1,219,097)**	**(146,022)**	**(657,931)**
Intersegment operating income	*3,632*	*27,277*	*2*	*151,154*	*(11,606)*	*(14,050)*	*(33)*	*(130,074)*	*-*	*26,302*
Total Net Assets	**15,117,748**	**22,400,036**	**1,760,201**	**24,533,731**	**5,963,217**	**203,915**	**7,964,451**	**2,664,717**	**-**	**80,608,016**
Total Liabilities	**14,811,737**	**22,477,137**	**1,637,586**	**22,551,746**	**5 310,451**	**22,382**	**7,583,620**	**(835,939)**	**-**	**73,558,720**
Investments in Associates	**-**	**-**	**-**	**8,306**	**58,473**	**-**	**-**	**469,887**	**-**	**536,666**
Capital expenditure tangible assets	**514**	**-**	**-**	**94,292**	**6,452**	**83**	**106**	**12,820**	**109**	**114,376**
Capital expenditure intangible assets	**615**	**-**	**-**	**10,752**	**3,225**	**124**	**1,077**	**42,756**	**-**	**58,549**
Capital expenditure non-current assets	**5,427**	**-**	**-**	**66,573**	**16,813**	**-**	**-**	**806,670**	**11,059**	**906,542**

(in thousands of euro)

	31.12.2012									
	Retail	**Corporate and Institutional**	**Private banking**	**International commercial banking**	**Investment banking**	**Asset management**	**Insurance**	**Capital markets and strategic investments**	**Corporative centre**	**Total**
Net interest	397,594	268,100	92,834	300,543	94,844	3,015	115,902	(92,324)	-	1,180,508
Net fees and comissions	197,911	260,985	18,560	214,177	100,673	50,755	(14,810)	(34,333)	-	793,918
Other operating income	47,057	15,223	8,538	57,802	63,616	10,972	138,365	324,835	-	666,408
Total operating income	642,562	544,308	119,932	572,522	259,133	64,742	239,457	198,178	-	2,640,834
Operating expenses	*482,861*	*702,036*	*20,421*	*446,406*	*222,262*	*20,796*	*8,816*	*282,072*	*162,837*	*2,348,507*
Includes:										
Provisions/Impairment	*74,513*	*640,964*	*2,429*	*205,524*	*46,205*	*3,119*	*418*	*226,258*	*-*	*1,199,430*
Depreciation and amortisation	*51,136*	*6,626*	*2,144*	*27,250*	*5,777*	*419*	*425*	*8,502*	*5,795*	*108,074*
Gains on disposal of investments in subsidiaries and associates	-	-	-	-	2,503	-	-	(2,120)	-	383
Gains arising on business combinations achieved in stages	-	-	-	-	-	-	-	(89,586)	-	(89,586)
Share of profit of associates	-	-	-	272	336	-	-	7,704	-	8,312
Profit before income tax and non-controlling interests	**159,701**	**(157,728)**	**99,511**	**126,388**	**39,710**	**43,946**	**230,641**	**(167,896)**	**(162,837)**	**211,436**
Intersegment operating income	*4,799*	*31,248*	*11*	*87,861*	*(13,361)*	*(13,921)*	*(953)*	*(66,720)*	*-*	*28,964*
Total Net Assets	**15,633,394**	**23,032,898**	**1,491,100**	**22,096,488**	**6,484,489**	**189,948**	**6,657,573**	**8,104,938**	**-**	**83,690,828**
Total Liabilities	**15,542,145**	**23,032,898**	**1,491,149**	**20,607,324**	**5,745,347**	**23,622**	**6,385,553**	**3,130,046**	**-**	**75,958,084**
Investments in Associates	**-**	**-**	**-**	**8,539**	**57,456**	**-**	**-**	**514,987**	**-**	**580,982**
Capital expenditure tangible assets	**699**	**-**	**-**	**137,181**	**1,875**	**180**	**2**	**8,841**	**22**	**148,800**
Capital expenditure intangible assets	**583**	**-**	**-**	**10,914**	**6,116**	**117**	**31**	**370,746**	**-**	**388,507**
Capital expenditure non-current assets	**5,412**	**-**	**-**	**232,354**	**-**	**-**	**-**	**1,198,387**	**14,258**	**1,450,411**

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

(in thousands of euro)

	31.12.2013										
	Portugal	Spain	France/ Luxembourg	United Kingdom	United States of America	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit for the year	(539,482)	(47,765)	10,265	32,648	2,846	6,741	15,499	1,428	3,678	(3,416)	(517,558)
Intersegment operating income	*(133,740)*	*7,960*	*21,391*	*229,261*	*366*	*-*	*(107,175)*	*176*	*7,845*	*218*	*26,302*
Net assets	54,124,111	6,351,813	985,875	5,107,326	1,548,221	2,336,012	8,300,565	261,015	389,685	1,203,393	80,608,016
Investments in associates	386,195	(32,864)	73,716	-	-	380	52,548	-	-	56,691	536,666
Capital expenditure tangible assets	14,887	3,663	-	839	175	3,930	89,752	10	7	1,113	114,376
Capital expenditure intangible assets	46,426	4,000	-	1,006	51	804	414	401	1,364	4,083	58,549
Capital expenditure non-current assets	812,097	57,069	-	-	-	16,813	20,563	-	-	-	906,542

(in thousands of euro)

	31.12.2012										
	Portugal	Spain	France/ Luxembourg	United Kingdom	United States of America	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit for the year	8,416	15,825	6,293	19,232	5,868	11,088	31,680	1,756	3,982	(8,039)	96,101
Intersegment operating income	*(66,956)*	*5,816*	*7,681*	*250,030*	*(379)*	*-*	*(174,070)*	*(2,295)*	*8,812*	*325*	*28,964*
Net assets	59,175,822	4,652,643	464,238	5,944,423	1,393,230	2,439,976	7,970,699	208,048	446,385	995,364	83,690,828
Investments in associates	481,330	(32,864)	73,528	-	-	498	25,846	-	-	32,644	580,982
Capital expenditure tangible assets	9,929	2,939	976	388	44	305	126,709	181	-	7,329	148,800
Capital expenditure intangible assets	375,337	4,318	51	887	149	901	382	444	-	6,038	388,507
Capital expenditure non-current assets	1,203,799	44,625	-	-	-	-	201,987	-	-	-	1,450,411

NOTE 5 – NET INTEREST INCOME

This balance is analysed as follows:

(in thousands of euro)

	31.12.2013			31.12.2012		
	Assets / Liabilities at amortised cost and available-for--sale financial assets	Assets/ Liabilities at fair value through profit or loss	Total	Assets / Liabilities at amortised cost and available-for--sale financial assets	Assets/ Liabilities at fair value through profit or loss	Total
Interest and similar income						
Interest from loans and advances	2,294,653	14,187	2,308,840	2,518,907	8,367	2,527,274
Interest from financial assets at fair value through profit or loss	-	254,730	254,730	-	255,529	255,529
Interest from deposits with banks	52,959	807	53,766	61,876	3,749	65,625
Interest from available-for-sale financial assets	388,448	-	388,448	538,988	-	538,988
Interest from held-to-maturity financial assets	44,837	-	44,837	45,014	-	45,014
Interest from derivatives for risk management purposes	-	395,474	395,474	-	459,012	459,012
Other interest and similar income	20,922	-	20,922	22,667	-	22,667
	2,801,819	**665,198**	**3,467,017**	**3,187,452**	**726,657**	**3,914,109**
Interest expense and similar charges						
Interest from debt securities	748,922	67,134	816,056	824,832	37,481	862,313
Interest from amounts due to customers	958,355	49,321	1,007,676	1,004,605	33,164	1,037,769
Interest from deposits from central banks and other banks	328,358	11,843	340,201	408,139	11,028	419,167
Interest from subordinated debt	73,314	-	73,314	70,820	-	70,820
Interest from derivatives for risk management purposes	-	195,462	195,462	-	343,532	343,532
	2,108,949	**323,760**	**2,432,709**	**2,308,396**	**425,205**	**2,733,601**
	692,870	**341,438**	**1,034,308**	**879,056**	**301,452**	**1,180,508**

Interest from loans and advances includes na amount of euro 103,082 thousand (31 December 2012: euro 78,290 thousand) related to the unwind of discount regarding the impairment losses of loans and advances to customers that are overdue (see Note 25).

Interest from derivatives for risk management purposes includes, in accordance with the accounting policy described in Notes 2.4 and 2.19, interest from hedging derivatives and from derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss in accordance with the accounting policies described in Notes 2.5, 2.6 and 2.8.

NOTE 6 – NET FEE AND COMMISSION INCOME

This balance is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Fee and commission income		
From banking services	444,943	561,103
From guarantees granted	253,192	227,836
From transactions with securities	68,157	60,560
From commitments assumed to third parties	24,902	35,152
Other fee and commission income	74,621	90,411
	865,815	**975,062**
Fee and commission expense		
From banking services rendered by third parties	86,179	80,796
From transactions with securities	21,487	26,568
From guarantees received	69,996	59,735
Other fee and commission expense	22,516	14,045
	200,178	**181,144**
	665,637	**793,918**

Fee and commission expenses from guarantees received includes as at 31 December 2013, the amount of euro 60.6 million (31 December 2012: euro 58.5 million) related with the guarantees received from the Portuguese government in relation with the debt issued by the Group.

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

This balance is analysed as follows:

(in thousands of euro)

	31.12.2013			31.12.2012		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Bonds and other fixed income securities						
Issued by government and public entities	90,728	164,298	(73,570)	943,283	723,240	220,043
Issued by other entities	19,513	12,184	7,329	11,495	26,016	(14,521)
Shares	42,680	61,320	(18,640)	43,840	47,740	(3,900)
Other variable income securities	637	495	142	320	270	50
	153,558	**238,297**	**(84,739)**	**998,938**	**797,266**	**201,672**
Derivative financial instruments						
Exchange rate contracts	2,813,131	2,815,001	(1,870)	1,040,055	1,038,856	1,199
Interest rate contracts	5,407,371	5,553,303	(145,932)	4,958,027	4,910,937	47,090
Equity/ Index contracts	2,151,347	2,167,614	(16,267)	1,342,519	1,325,590	16,929
Credit default contracts	506,019	539,289	(33,270)	753,554	783,848	(30,294)
Other	30,780	21,673	9,107	104,652	(44,482)	149,134
	10,908,648	**11,096,880**	**(188,232)**	**8,198,807**	**8,014,749**	**184,058**
Financial assets at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	63,685	37,582	26,103	64,235	2,642	61,593
Issued by other entities	2,049,254	2,019,477	29,777	183,334	109,685	73,649
Shares	266,595	263,554	3,041	2,025	5,792	(3,767)
Other variable income securities	2,473,276	2,420,906	52,370	119,647	189,055	(69,408)
	4,852,810	**4,741,519**	**111,291**	**369,241**	**307,174**	**62,067**
Other financial assets [(1)]						
Loans and advances to customers	36,606	15,779	20,827	8,768	9,406	(638)
	36,606	**15,779**	**20,827**	**8,768**	**9,406**	**(638)**
Financial liabilities [(1)]						
Deposit from banks	17,887	-	17,887	1,091	25,228	(24,137)
Due to customers	92,013	50,506	41,507	57,034	168,007	(110,973)
Debt securities issued	44,449	94,505	(50,056)	71,173	267 531	(196,358)
Life insurance products	63,857	231,764	(167,907)	71,859	247,914	(176,055)
Other subordinated debt	-	-	-	2,715	1,759	956
	218,206	**376,775**	**(158,569)**	**203,872**	**710,439**	**(506,567)**
	5,107,622	**5,134,073**	**(26,451)**	**581,881**	**1,027,019**	**(445,138)**
	16,169,828	**16,469,250**	**(299,422)**	**9,779,626**	**9,839,034**	**(59,408)**

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

As at 31 December 2013, this balance includes a negative effect of euro 73.3 million related to the change in fair value of financial liabilities designated at fair value through profit or loss, attributable to the Group's credit risk component (31 December 2012: negative effect of euro 35.2 million).

In accordance with the accounting policies followed by the Group, financial instruments are initially recognised at fair value. The best evidence of the fair value of the instrument at inception is deemed to be the transaction price. However, in particular circumstances, the fair value of a financial instrument at inception, determined based on a valuation techniques, may differ from the transaction price, namely due to the existence of a built-in fee, originating a day one profit.

The Group recognises in the income statement the gains arising from the built-in fee (day one profit), generated, namely, on the trading of foreign exchange financial products, considering that the fair value of these instruments at inception and on subsequent measurements is determined only based on observable market data and reflects the Group access to the wholesale market.

In 2013, the gains recognised in the income statement arising from the built-in fee amounted to approximately euro 13,691 thousand (2012: euro 14,587 thousand) being substantially related to foreign exchange transactions.

NOTE 8 – NET GAINS FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

This balance is analysed as follows:

(in thousands of euro)

	31.12.2013			31.12.2012		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
Bonds and other fixed income securities						
Issued by government and public entities	376,835	20,404	356,431	813,802	23,738	790,064
Issued by other entities	13,665	13,527	138	77,000	62,316	14,684
Shares	84,598	16,093	68,505	46,523	250,272	(203,749)
Other variable income securities	28,626	12,588	16,038	13,564	14,357	(793)
	503,724	**62,612**	**441,112**	**950,889**	**350,683**	**600,206**

During the year ended 31 December 2013, the Group sold at market prices through the stock exchange, 77.4 million ordinary shares of EDP, this transaction generated a realised net gain of euro 53.7 million.

During the year ended 31 December 2012, the Group sold at market prices through the stock exchange, 96.4 million ordinary shares of EDP and 260.7 million ordinary shares of Portugal Telecom. These transactions generated a realised net loss of euro 224.9 million.

Related party transactions are described in Note 48.

NOTE 9 – NET (LOSSES) FROM FOREIGN EXCHANGE DIFFERENCES

This balance is analysed as follows:

(in thousands of euro)

	31.12.2013			31.12.2012		
	Gains	**Losses**	**Total**	**Gains**	**Losses**	**Total**
Foreign exchange translation	863,872	868,075	(4,203)	948,205	971,993	(23,788)
	863,872	**868,075**	**(4,203)**	**948,205**	**971,993**	**(23,788)**

This balance includes the exchange differences arising on translating monetary assets and liabilities at the exchange rates ruling at the balance sheet date in accordance with the accounting policy described in Note 2.3.

NOTE 10 – NET (LOSSES) FROM THE SALE OF OTHER ASSETS

This balance is analysed as follows:

(in thousands of euro)

	31.12.2013	**31.12.2012**
Loans and advances to customers	(20,738)	(39,507)
Non current assets held for trade		
Pledge for credit recovery	(637)	(5,917)
Other current assets held for sale	(53,177)	-
Others	5,936	3,265
	(68,616)	**(42,159)**

As at 31 December 2013, Loans and advances to customers include a gain of euro 0.1 million related to the sale of 63 million of credits realised within the deleverage program of the Group (2012: loss of euro 29.6 million).

As at 31 December 2013, the caption Other non-current assets held for sale regards the losses on disposals of non-financial assets registered in the balance sheet of BES Angola.

NOTE 11 – INSURANCE EARNED PREMIUMS, NET OF REINSURANCE

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

(in thousands of euro)

	31.12.2013	31.12.2012
Gross written premiums	418,290	64,491
Reinsurance premiums ceded	(62,216)	(2,347)
Net premiums written	356,074	62,144
Change in the provision for unearned premiums, net of reinsurance	(745)	113
Earned premiums, net of reinsurance	**355,329**	**62,257**

Gross written premiums by segment are analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Annuities	59,501	39,632
Saving contracts with profit sharing	358,789	24,859
	418,290	**64,491**

In accordance with IFRS 4, the contracts issued by the Group for which there is only a transfer of financial risk, with no discretionary participating features, are classified as investment contracts and accounted for as financial liabilities. Contracts for which the investment risk is borne by insurance contracts and fixed rate without profit are not accounted for as premiums.

The increase in gross written premiums in 2013 is essentially due the significant increase in the capitalization products and retirement plans. The reinsurance premiums ceded respect to cover the risk of death and longevity of contracts made in the traditional segments.

NOTE 12 – CLAIMS INCURRED NET, OF REINSURANCE

Claims incurred, net of reinsurance are analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Claims paid		
Gross amount	(250,868)	(366,812)
Reinsurance share	(10,413)	2,621
	(261,281)	**(364,191)**
Change in claims outstanding reserve		
Gross amount	14,120	854
Reinsurance share	1,810	364
	15,930	**1,218**
	(245,351)	**(362,973)**

NOTA 13 – CHANGE IN THE TECHNICAL RESERVES, NET OF REINSURANCE

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

(in thousands of euro)

	31.12.2013	31.12.2012
Mathematical reserves	(162,662)	298,451
Reserve for participating features	(1,537)	(1,108)
Other technical reserves	(745)	2,964
Reserve for reinsurance	7,348	1,116
Commissions and participating features from reinsurance	190,395	-
	32,799	**301,423**

The decrease in mathematical reserves in 2013 is essentially due to the significant increase in gross written premiums, as mentioned in Note 11, alongside with a reduction of the claims paid (especially at the level of redemptions).

Commissions and reinsurance profit sharing includes the net upfront fee, resulting from the signing of a reinsurance treaty in which BES Vida reinsures the life insurance risk portfolio at 100%, including all insurance policies in force as at 30 June 2013.

From this date, BES Vida will cede to the reinsurer all premiums and claims associated with the policies included in this treaty. The Company will perform the servicing of these contracts, as well as the distribution of the respective products.

Under this treaty, BES Vida received an upfront fee, having transferred all the risks and benefits associated with these contracts. On that basis, the risk of (i) life, (ii) disability, and (iii) cancellation of contracts were transferred. As such the upfront fee is recognized on the present date, net of the respective in force value of the portfolio recognized as an asset, at the date of acquisition of BES Vida (see Notes 31 and 54).

NOTE 14 – OTHER OPERATING INCOME AND EXPENSES

This balance is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Other operating income/ (expenses)		
IT related business	1,720	5,689
Gains (losses) on repurchase of Group debt securities (see Notes 38 and 42)	14,118	113,721
Non recurring gains on credit operations	19,712	21,900
Non recurring gains on advisory services	3,671	4,299
Direct and indirect taxes	(17,904)	(15,144)
Contributions to the deposits guarantee fund	(12,865)	(10,372)
Contribution for the Resolution Fund	(11,813)	-
Contributions to the banking sector	(27,289)	(27,910)
Membership and donations	(6,324)	(8,252)
Others	(32,178)	34,315
	(69,152)	**118,246**

As at 31 December 2012, the caption Other includes a gain of euro (i) 21.8 million related with the reduction on the defined benefit obligation for death allowance (see Note 16); (ii) 10.3 million from the termination of the exclusive distribution agreement established between ESAF and Banco Pastor.

NOTE 15 – STAFF COSTS

This balance is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Wages and salaries	436,757	462,683
Remuneration	432,197	459,681
Long-term service benefits (see Note 16)	4,560	3,002
Mandatory social charges	97,438	103,579
Pension costs (see Note 16)	14,371	12,012
Other costs	26,459	20,609
	575,025	**598,883**

As at 31 December 2013, other costs include the amount of euro 925 thousand (31 December 2012: euro 489 thousand) related to the variable remuneration plan on financial instruments (PRVIF) of BES in accordance with the accounting policy described in Note 2.16. The details of this scheme implemented by BES Group are analysed in Note 16.

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

(in thousands of euro)

	Board of Directors	Audit Committee	Other Key management	Total
31 December 2013				
Salaries and other short term benefits	6,181	379	13,985	20,545
Variable remuneration	200	-	1,598	1,798
Sub total	**6,381**	**379**	**15,583**	**22,343**
Long term benefits and social charges	6,535	-	3,659	10,194
Other remuneration and long term service benefits	130	-	270	400
Total	**13,046**	**379**	**19,512**	**32,937**
31 December 2012				
Salaries and other short term benefits	5,523	364	13,589	19,476
Variable remuneration	1,946	-	1,670	3,616
Sub total	**7,469**	**364**	**15,259**	**23,092**
Long term benefits and social charges	3,730	-	2,562	6,292
Other remuneration and long term service benefits	27	-	45	72
Total	**11,226**	**364**	**17,866**	**29,456**

Other key management personnel include board members of BES subsidiaries, the top management and the Advisors to the Board of Directors of the Bank.

As at 31 December 2013 and 2012, the loans granted by the Group to key management personnel amounted to euro 21,193 thousand and euro 28,883 thousand, respectively.

As at 31 December 2013 and 2012, the number of employees of the Group is analysed as follows:

	31.12.2013	31.12.2012
BES employees	6,626	6,675
Financial sector subsidiaries employees	3,590	3,269
Financial sector group entities employees	**10,216**	**9,944**

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

	31.12.2013	31.12.2012
Senior management	1,217	1,189
Management	1,171	1,060
Specific functions	4,160	4,186
Administrative functions and other	3,668	3,509
	10,216	**9,944**

NOTE 16 – EMPLOYEE BENEFITS

Pension and health-care benefits

In compliance with the Collective Labor Agreement (ACT) for the banking sector established with the unions, the Bank undertook the commitment to grant its employees, or their families, pension on retirement, disability and incapacity. Pension payments consist of a rising percentage based on years of service, applicable to each year's negotiated salary table for the active work force.

The Group provides to its banking employees health care benefits through a specific Social-Medical Assistance Service (SAMS), managed by the respective Union. The annual contribution of the Group to SAMS amounts to 6.5% of the total annual remuneration of employees, including, among others, the holiday and Christmas subsidy. The measurement and recognition of the Group's liability with post-retirement healthcare benefits is similar to the measurement and recognition of the pension liability described above. These benefits are covered by the Pension Fund which at present covers all responsibilities with pensions and health care benefits.

As at 30 December 1987, in compliance with the ACT, the Bank established a pension fund to cover pension on retirement, disability and incapacity. Moreover, the Bank has changed the pension fund contract in order to allow the coverage of health care benefits and death allowance. The pensions funds in Portugal are managed by ESAF – Espírito Santo Fundo de Pensões, S.A.. However, it should be noted that only employees hired hired before 31 March 2008 are covered by this benefit. Employees hired after that date are covered by the Portuguese Social Security Scheme.

Additionally, with the publication of Decree-Law n.1-A / 2011 of January 3, all banking sector employees beneficiaries of "CAFEB – Caixa de Abono de Família dos Empregados Bancários" were integrated into the General Social Security Scheme from 1 January 2011, which assumed the protection of banking sector employees in the contingencies of maternity, paternity and adoption and even old age, remaining under the responsibility of the banks the protection in sickness, disability, survivor and death.

Retirement pensions of banking employees integrated into the second tripartite General Social Security agreement, continue to be calculated according to the provisions of ACT and other conventions. Banking employees, are entitled to receive a pension under the general regime, which amount takes into account the number of years of discounts for that scheme. Banks are responsible for the difference between the pension determined in accordance with the provisions of ACT and that the one that the banking employees are entitled to receive from the General Social Security Regime.

The contribution rate to the Social Security Regime is 26.6%, 23.6% paid by the employer and 3% paid by the employees, instead of Caixa de Abono de Família dos Empregados Bancários (CAFEB), abolished by the same law. In consequence of this change, the pension rights of active employers is to be covered under the terms defined by the General Social Security Regime, taking into account the length of service from 1 January 2011 until retirement. The differential required to support the guaranteed pension in terms of the ACT is paid by the Banks.

At the end of 2011 following the third tripartite agreement, it was decided to transfer to the Social Security Regime the banks liabilities with pension in payment as at 31 December 2011.

The tripartite agreement established, provides for the transfer to the Social Security sphere of the liabilities with pensions in payment as of 31 December 2011 at constant values (0% discount rate). The responsibilities relating to updates of pensions value, other pension benefits in addition to those to be borne by the Social Security, health-care benefits, death allowance and deferred survivor pensions, will remain in the sphere of responsibility of the banks with the correspondent funding being provided through the respective pension funds.

The banks pension funds assets, specifically allocated to the cover of the transferred liabilities, were also transferred to the Social Security. Being thus a definitive and irreversible transfer of the liabilities with pensions in payment (even if only on a portion of the benefit), the conditions set out in IAS 19 'Employee benefits' underlying the concept of settlement were met, as the obligation with pension in payment as at 31 December 2011 extinguished at the date of transfer.

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

	Assumptions				Actual	
	31.12.2013		31.12.2012		31.12.2013	31.12.2012
	1st through 3rd year	4th and subsequent years	1st through 4th year	5th and subsequent years		
Actuarial Assumptions						
Expected return of plan assets	4.00%		4.50%		1.42%	-2.37%
Discount rate	4.00%		4.50%		-	-
Pension increase rate	0.00%	0.75%	0.00%	0.75%	0.12%	-0.56%
Salaries increase rate	1.00%	1.75%	1.00%	1.75%	1.15%	1.02%
Mortatility table men	TV 73/77 - 1 year					
Mortatility table woman	TV 88/90					

Disability decreases are not considered on the liabilities calculation. The determination of the discount rate as at 31 December 2013 was based on: (i) the evolution of the main indexes related with high quality corporate bonds and (ii) the duration of liabilities.

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

	31.12.2013	31.12.2012
Employees	5,908	6,096
Pensioners	5,795	5,734
Total	**11,703**	**11,830**

The application of IAS 19 on responsibilities and coverage levels reportable to 31 December 2013 and 2012 is presented as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Assets/ (liabilities) recognised in the balance sheet		
Total obligations	**(1,307,994)**	**(1,206,283)**
Pensioners	(474,546)	(448,265)
Employees	(833,448)	(758,018)
Coverage		
Fair value of plan assets	**1,311,935**	**1,220,885**
Net assets/ (liabilities) in balance sheet (See Note 34 and 43)	**3,941**	**14,602**
Acumulated actuarial deviations recognised in other comprehensive income	**1,178,798**	**1,078,732**

In accordance with the accounting policy described in Note 2.16 – Employees Benefits, the Group liability with pensions is calculated semi-annually, and assesses at each balance sheet date and for each plan separately, the recoverability of the recognised assets in relation to the defined benefit pension plans based on the expectation of reductions in future contributions to the funds.

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

(in thousands of euro)

	31.12.2013	31.12.2012
Defined benefit obligation at the beginning of the period	**1,206,283**	**1,077,864**
Service cost	13,350	12,012
Interest cost	54,235	58,994
Plan participants' contribution	3,260	3,259
Actuarial (gains)/ losses:		
- Changes in actuarial assumptions	93,300	65,366
- Experience adjustments	(29,176)	40,300
Pensions paid by the fund	(30,393)	(27,481)
Transfer to the Social Security regime of the liabilities with pensions in payment	-	(21,813)
Exchange differences and other	(2,865)	(2,218)
Defined benefit obligation at the end of the period	**1,307,994**	**1,206,283**

During the year ended 31 December 2012, following the amendment to Decree Law 133/2012 which determines the calculation method for the death allowance, there was a reduction on the defined benefit obligation with this benefit, in the amount of euro 21.8 million. Considering that this benefit is already vested (given that the employee or retiree is entitled to the benefit in full without the need to comply with any service condition), the Group recognized the referred amount on the other operating expenses caption.

Based on the position as at 31 December 2013, for certain changes in actuarial assumptions, the following impacts would occur:

- An increase in the discount rate by 25 basis points would reduce the benefit obligation by approximately euro 50 million; a decrease of equal magnitude would increase the benefit obligation by approximately euro 57 million;
- An increase of 25 basis points in the growth of salaries and pensions would increase the benefit obligation by approximately euro 62 million; a decrease of equal magnitude would reduce the benefit obligation by approximately euro 51 million;
- The use of mortality tables with increase of another year would increase the benefit obligation by approximately euro 44 million; with a reduction of one year the benefit obligation would decrease by approximately euro 37 million.

The change in the fair value of the plan assets in 2013 and 2012 is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Fair value of plan assets at the beginning of the period	**1,220,885**	**1,184,878**
Actual return on plan assets	16,993	(24,299)
Group contributions	103,806	86,410
Plan participants' contributions	3,260	3,259
Pensions paid by the fund	(30,393)	(27,481)
Exchange differences and other	(2,616)	(1,882)
Fair value of plan assets at the end of the period	**1,311,935**	**1,220,885**

On the presumption that actuarial and financial assumptions used in 2013 for the calculation of the defined benefit obligation are verified, the Group does not anticipate the need to make significant additional contributions for the pension fund in 2014.

Pension fund assets are analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Shares	289,697	178,654
Bonds	306,547	335,192
Real Estate	423,273	370,769
Others	292,418	336,270
Total	**1,311,935**	**1,220,885**

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

(in thousands of euro)

	31.12.2013	31.12.2012
Shares	2,925	1,200
Bonds	1,839	6,382
Real Estate	227,469	298,022
Total	**232,233**	**305,604**

As at 31 December 2013 and 2012, the fund holds participation units of ES Ventures III Fund, which is fully consolidated in the Group.

During the year ended 31 December 2012 the Group acquired 49 779 and 37 115 thousand units of Fungere Fund and Fungepi Fund to the Group pensions funds, by an amount of euro 158.1 million and euro 87.2 million, respectively (see Note 1).

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

(in thousands of euro)

	31.12.2013	31.12.2012
Accumulated actuarial (gains) and losses recognised in other comprehensive income at the beginning of the period	**1,078,732**	**886,964**
Actuarial (gains)/ losses		
- Changes in actuarial assumptions	93,300	65,366
- Experience adjustments	6,677	127,103
Others	89	(701)
Accumulated actuarial (gains) and losses recognised in other comprehensive income at the end of the period	**1,178,798**	**1,078,732**

During 2013, the legal retirement age in Portugal, for active employees under the Social Security Regime, went from 65 years to 66 years of age. However, the Group plan remained unchanged with retirement age at 65 years old. Therefore, the change in the legal retirement age has an impact in the amount of the Group defined benefit obligation due to the reduction of the participation of the Social Security Regime.

The impact implied by the change in the legal retirement age in 2013 from 65 years to 66 years of age, with consequences at the level of the co-funding of Social Security, regarding the responsibilities related with active employees covered by the plan and transferred to the Social Security Regime under the tripartite agreement, resulted in an actuarial loss of approximately euro 8 million.

The net benefit cost can be analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Service cost	13,350	12,012
Interest cost	1,389	(3,468)
Others	1,021	-
Net benefit cost	**15,760**	**8,544**

In compliance with the previously mentioned on the Note 2.16, from 1st of January 2013 and following the revision of IAS 19 – Employees Benefits, the income/ expenses from interest became to be recognised by their net value under the interest (income/ expense) and similar caption.

In the years ended in 31 December 2013 and 2012, the changes in the net assets/ (liabilities) recognised in the balance sheet is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
At the beginning of the period	**14,602**	**107,014**
Net periodic benefit cost	(15,760)	(8,544)
Actuarial (gains)/ losses recognised on other comprehensive income	(100,066)	(191,768)
Contributions of the period and pensions paid by the Group	103,806	86,410
Others [(a)]	1,359	21,490
At the end of the period	**3,941**	**14,602**

(a) In 2012, this amount includes a profit of euro 21. 8 million related to the liability decrease with death subsidy.

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

(in thousands of euro)

	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009
Defined benefit obligation	(1,307,994)	(1,206,283)	(1,077,864)	(2,205,366)	(2,125,202)
Fair value of plan asssets	1,311,935	1,220,885	1,184,878	2,206,313	2,198,280
(Un)/ over funded liabilities	**3,941**	**14,602**	**107,014**	**947**	**73,078**
(Gains)/ losses from experience adjustments arising on defined benefit obligation	(29,176)	40,300	(110,266)	25,201	51,583
(Gains)/ losses from experience adjustments arising on plan assets	35,853	86,803	268,043	66,895	(90,994)

Variable remuneration payment plan on financial instruments (PRVIF)

Following the recommendations of the Supervising and Regulatory authorities, on the BES shareholders General Meeting, held in 6 April 2010 it was approved a new remuneration policy for the Executive Committee members. This policy consists in giving to the Executive Committee members a fixed remuneration, which should represent approximately 45% of the total remuneration, and a variable component representing around 55% of the total remuneration. The variable remuneration shall have two components: one associated with short-term performance and another with medium-term performance (10% of the total remuneration). Half of the short-term component must be paid in cash and the remaining 50% should be paid over a three years period, with half of these payments to be made in cash and the remaining through the attribution of shares. The medium-term component has associated a share options program with the exercise of the options set at 3 years from the date of its attribution.

Regarding the first scheme, the attribution of PRVIF shares to the beneficiaries is performed on a deferred basis over a period of three years (1st year: 33%; 2nd year: 33% and 3rd year: 34%) and is subject to the achievement of a Return on Equity (ROE) greater than or equal to 5%.

Regarding the attribution of options, there are attributed to the beneficiaries and the exercise price is equal to the single average of the closing prices of BES shares on NYSE Euronext Lisbon during the 20 days preceding the day of attribution of the options, plus 10%.

The option can only be exercised at maturity and the beneficiary may choose between the physical settlement or the financial settlement of the options.

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

	Option valuation assumption	
	1st attribution	2nd attribution
Initial reference date	12-04-2011	12-10-2012
Final reference date	31-03-2014	15-01-2016
Rights granted to employees	2,250,000	6,280,045
Reference price (in euro)	3.47	0.67
Interest rate	2.31%	0.67%
Volatility	40.0%	65.00%
Initial fair value of the plan (in thousands of euro)	1,130	1,940

PRVIF is accounted for in accordance with the applicable IFRS rules (IFRS 2 and IAS 19). During 2013, the Group registered, against liabilities, a cost of euro 925 thousand (31 December 2012: euro 489 thousand) related to the amortization of the initial options premium granted.

Long-term service benefits

As referred in Note 2.16, for employees that achieve certain years of service, the Bank pays long term service premiums, calculated based on the effective monthly remuneration earned at the date the premiums are due. At the date of early retirement or disability, employees have the right to a premium proportional to that they would earn if they remained in service until the next payment date.

As at 31 December 2013 and 2012, the Group's liabilities regarding this benefits amount to euro 30,376 thousand and euro 28,691 thousand, respectively (see Note 43). The costs incurred in the year ended 31 December 2013 with long-term service benefits amounted to euro 4,560 thousand (31 December 2012: euro 3,002 thousand).

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

NOTE 17 – GENERAL AND ADMINISTRATIVE EXPENSES

This balance is analysed as follows:

(in thousand of euro)

	31.12.2013	31.12.2012
Rental costs	76,524	71,788
Advertising costs	31,470	34,476
Communication costs	43,924	45,766
Maintenance and related services	23,925	21,752
Travelling and representation costs	32,695	31,676
Transportation	7,403	7,894
Insurance costs	9,780	8,232
IT services	62,734	66,632
Independent work	9,081	7,863
Temporary work	5,040	5,346
Electronic payment systems	10,172	10,836
Legal costs	21,358	19,745
Consultants and external auditors	28,336	28,251
Water, energy and fuel	12,876	12,275
Consumables	4,987	5,358
Other costs	73,781	64,230
	454,086	**442,120**

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

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

(in thousands of euro)

	31.12.2013	31.12.2012
Up to 1 year	2,803	8,903
1 to 5 years	11,263	10,451
	14,066	**19,354**

The fees invoiced during the years 2013 and 2012 by the statutory auditors, according to art. 508.º-F of "Código das Sociedades Comerciais" are presented as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Audit fees	2,568	2,709
Audit related fees	1,609	1,148
Tax consultancy services	514	650
Other services	637	309
Total	**5,328**	**4,816**

NOTE 18 – EARNINGS PER SHARE

Basic earnings per share

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

(in thousands of euro)

	31.12.2013	31.12.2012
Profit attributable to the equity holders of the Bank	**(517,558)**	**96,101**
(-) Dividends on preference shares	6,950	6,137
(-) Remuneration from perpetual bonds	2,191	1,864
(+) Gains and losses realized in reserves	6,096	4,478
Profit attributable to the equity holders of the Bank with adjustments	**(520,603)**	**92,578**
Weighted average number of ordinary shares (thousands)	4,017,928	3,096,971
Weighted average number of treasury stock (thousands)	(820)	(11,910)
Weighted average number of ordinary shares outstanding (thousands)	**4,017,108**	**3,085,061**
Basic earnings per share attributable to equity holders of the Bank (in euro)	**(0.13)**	**0.03**
Basic earnings per share from continuing activities attributable to equity holders of the Bank (in euro)	**(0.12)**	**0.04**

Diluted earnings per share

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

The diluted earnings per share are not different from the basic earnings per share as the outstanding plans of PRVIF do not have a dilutive effect.

NOTE 19 – CASH AND DEPOSITS AT CENTRAL BANKS

As at 31 December 2013 and 31 December 2012, this balance is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Cash	288,137	303,538
Deposits at central banks		
Bank of Portugal	31,044	26,136
Other central banks	1,400,182	1,047,867
	1,431,226	**1,074,003**
	1,719,363	**1,377,541**

The deposits at Central Banks include mandatory deposits with the Bank of Portugal intended to satisfy legal minimum cash requirements, for an amount of euro 30,309 thousand (31 December 2012: euro 26,136 thousand). According to the European Central Bank Regulation no. 1348/2011, of 14 December 2011, minimum cash requirements kept as deposits with the Bank of Portugal earn interest and correspond to 1% of deposits and debt certificates maturing in less than 2 years, excluding deposits and debt certificates of institutions subject to the European System of Central Banks' minimum reserves requirements. During 2013, these deposits have earned interest at an average rate of 0.55% (2012: 0.89%).

The fulfilment of the minimum cash requirements for a given period of observation is monitored taking into account the value of bank deposits with the Bank of Portugal during the referred period. The balance of the bank account with the Bank of Portugal as at 31 December 2013, was included in the observation period from 11 December 2013 to 14 January 2014, which corresponded to an average minimum cash requirements of euro 265.1 million.

NOTE 20 – DEPOSITS WITH BANKS

As at 31 December 2013 and 2012, this balance is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Deposits with banks in Portugal		
Repayable on demand	101,146	138,854
Uncollected cheques	85,164	107,354
	186,310	246,208
Deposits with banks abroad		
Repayable on demand	321,781	392,183
Uncollected cheques	3,564	8,962
Other	31,290	33,724
	356,635	434,869
	542,945	681,077

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

NOTE 21 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 31 December 2013 and 2012, this balance is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	952,852	1,347,806
Issued by other entities	128,694	259,203
Shares	30,963	51,911
Other variable income securities	1,373	2,014
	1,113,882	1,660,934
Derivatives		
Derivative financial instruments with positive fair value	1,394,050	2,264,465
	2,507,932	3,925,399
Financial liabilities held for trading		
Derivative financial instruments with negative fair value	1,269,788	2,121,229
Short sales	14,484	796
	1,284,272	2,122,025

As at 31 December 2013 and 2012 the analysis of the securities held for trading by the period to maturity, is presented as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Up to 3 months	40,708	138,710
3 to 12 months	112,295	130,677
1 to 5 years	627,818	757,798
More than 5 years	300,721	576,127
Undetermined	32,340	57,622
	1,113,882	1,660,934

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

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

(in thousands of euro)

	31.12.2013			31.12.2012		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	952,852	-	952,852	1,347,806	-	1,347,806
Issued by otherentities	76,583	52,111	128,694	94,157	165,046	259,203
Shares	30,894	69	30,963	40,135	11,776	51,911
Others variable income securities	1,373	-	1,373	2,014	-	2,014
	1,061,702	52,180	1,113,882	1,484,112	176,822	1,660,934

As at 31 December 2013 the exposure to public debt from peripheral Eurozone countries is analysed in Note 51.

As at 31 December 2013 and 2012, derivative financial instruments can be analysed as follows:

(in thousands of euro)

	31.12.2013			31.12.2012		
	Notional	Fair Value		Notional	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forward						
- buy	1,866,504	23,900	8,459	1,217,845	6,968	12,443
- sell	1,863,106			1,226,399		
Currency Swaps						
- buy	1,643,820	3,346	2,170	3,357,723	1,753	2,002
- sell	1,628,141			3,344,104		
Currency Futures [a)]	2,771,168	-	-	278,317	-	-
Currency Interest Rate Swaps						
- buy	60,789	14,938	12,839	118,945	25,690	18,343
- sell	62,312			115,406		
Currency Options	2,813,981	27,316	25,144	2,414,534	41,415	46,846
	12,709,821	69,500	48,612	12,073,273	75,826	79,634
Interest rate contracts						
Forward Rate Agreements	310,000	79	-	200,000	-	16
Interest Rate Swaps	23,903,263	1,202,322	1,069,853	30,649,333	1,953,058	1,812,560
Swaption - Interest Rate Options	2,000	-	-	363,000	1,556	1,556
Interest Rate Caps & Floors	3,378,746	28,286	26,877	4,918,557	40,843	38,562
Interest Rate Futures [a)]	4,436,679	-	-	3,784,771	-	-
Interest Rate Options	870,288	330	328	1,903,388	1,341	1,341
	32,900,976	1,231,017	1,097,058	41,819,049	1,996,798	1,854,035
Equity/ index contracts						
Equity/ Index Swaps	581,628	23,273	42,538	664,516	86,202	24,936
Equity/ Index Options	904,483	35,421	63,193	2,712,479	60,726	131,146
Equity/ Index Futures [a)]	53,113	-	-	96,583	-	-
Future Options [a)]	395,420	-	-	82,234	-	-
	1,934,644	58,694	105,731	3,555 812	146,928	156,082
Credit default contracts						
Credit Default Swaps	1,264,196	34,839	18,387	2,774,780	44,913	31,478
Total	48,809,637	1,394,050	1,269,788	60,222,914	2,264,465	2,121,229

a) Derivatives traded in organised markets, whose fair value is settled daily through the margin accounts.

As at 31 December 2013, the fair value of derivative financial instruments included the amount of euro 4.2 million (asset) (31 December 2012: asset for an amount of euro 21.1 million) related to the positive fair value of the embedded derivatives, as described in Note 2.4.

As at 31 December 2013 and 2012, the analysis of trading derivatives by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2013		31.12.2012	
	Notional	Fair value (net)	Notional	Fair value (net)
Up to 3 months	9,433,559	(11,685)	13,956,784	71,133
3 to 12 months	7,787,195	4,377	9,998,962	(46,401)
1 to 5 years	16,190,818	34,765	18,719,605	21,460
More than 5 years	15,398,065	96,805	17,547,563	97,044
	48,809,637	**124,262**	**60,222,914**	**143,236**

NOTE 22 – OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2013 and 2012, this balance is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Bonds and other fixed income securities		
Issued by government and public entities	1,234,070	515,994
Issued by other entities	1,238,216	1,118,425
Shares and other variable income securities	1,402,061	1,187,134
	3,874,347	**2,821,553**

In light of IAS 39 and in accordance with the accounting policy described in Note 2.6, the Group designated these financial assets as at fair value through profit or loss, in accordance with the documented risk management and investment strategy, considering that these financial assets (i) are managed and evaluated on a fair value basis and/or (ii) have embedded derivatives.

As at 31 December 2013 and 2012, the analysis of the financial assets at fair value through profit or loss by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Up to 3 months	599,834	486,789
3 to 12 months	1,028,886	239,972
1 to 5 years	347,043	224,257
More than 5 years	518,935	733,700
Undetermined	1,379,649	1,136,835
	3,874,347	**2,821,553**

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

(in thousands of euro)

	31.12.2013			31.12.2012		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income securities						
Issued by government and public entities	1,234,070	-	1,234,070	515,994	-	515,994
Issued by other entities	491,650	746,566	1,238,216	272,936	845,489	1,118,425
Shares and other variable income securities	619,944	782,117	1,402,061	599,049	588,085	1,187,134
	2,345,664	**1,528,683**	**3,874,347**	**1,387,979**	**1,433,574**	**2,821,553**

NOTE 23 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31 December 2013 and 2012, this balance is analysed as follows:

(in thousands of euro)

	Cost[(1)]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Bonds and other fixed income securities					
Issued by government and public entities	4,005,020	26,436	(24,821)	-	4,006,635
Issued by other entities	2,019,221	64,470	(36,014)	(31,256)	2,016,421
Shares	1,400,040	83,327	(66,877)	(198,377)	1,218,113
Other variable income securities	1,304,985	17,342	(9,489)	(67,402)	1,245,436
Balance as at 31 December 2013	**8,729,266**	**191,575**	**(137,201)**	**(297,035)**	**8,486,605**
Bonds and other fixed income securities					
Issued by government and public entities	4,205,940	201,152	(1,703)	-	4,405,389
Issued by other entities	4,086,487	65,422	(78,023)	(17,171)	4,056,715
Shares	1,557,346	82,153	(45,387)	(185,190)	1,408,922
Other variable income securities	908,326	16,472	(4,908)	(35,606)	884,284
Balance as at 31 December 2012	**10,758,099**	**365,199**	**(130,021)**	**(237,967)**	**10,755,310**

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

As at 31 December 2013, the exposure to debt of peripheral countries in the euro area is analysed in Note 51.

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

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

(in thousands of euro)

	31.12.2013	31.12.2012
Balance at the beginning of the period	237,967	168,282
Charge for the period	115,595	103,233
Charge off	(43,265)	(28,426)
Write back for the period	(11,035)	(3,925)
Exchange differences and other	(2,227)	(1,197)
Balance at the end of the period	**297,035**	**237,967**

As at 31 December 2013 and 2012, the analysis of available-for-sale assets by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Up to 3 months	1,252,015	2,859,487
3 to 12 months	708,163	1,263,814
1 to 5 years	1,548,499	1,227,774
More than 5 years	2,568,446	3,114,316
Undetermined	2,409,482	2,289,919
	8,486,605	**10,755,310**

The main equity exposures that contribute to the fair value reserve, as at 31 December 2013 and 2012, can be analysed as follows:

(in thousands of euro)

	31.12.2013				
Description	Acquisition cost	Fair value reserve		Impairment	Book value
		Positive	Negative		
Portugal Telecom	346,678	-	(62,407)	(37)	284,234
EDP - Energias de Portugal	20,121	4,999	-	-	25,120
Banque Marocaine du Commerce Extérieur	81,004	2,424	-	-	83,428
	447,803	**7,423**	**(62,407)**	**(37)**	**392,782**

(in thousands of euro)

Description	31.12.2012				
	Acquisition cost	Fair value reserve		Impairment	Book value
		Positive	Negative		
Portugal Telecom	346,637	-	(10,757)	-	335,880
EDP - Energias de Portugal	173,826	24,447	-	-	198,273
Banque Marocaine du Commerce Extérieur	81,004	-	(15,813)	-	65,191
	601,467	24,447	(26,570)	-	599,344

During the year ended 31 December 2013, the Group sold at market prices 77.4 million ordinary shares of EDP, which generated a realised net gain of euro 53.7 million.

During the year ended 31 December 2012, the Group sold at market prices 96.4 million ordinary shares of EDP and 260.7 million ordinary shares of Portugal Telecom. These transactions generated a realised net loss of euro 224.9 million.

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

(in thousands of euro)

	31.12.2013			31.12.2012		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	2,867,307	1,139 328	4,006,635	3,111,938	1,293,451	4,405,389
Issued by other entities	705,898	1,310,523	2,016,421	785,750	3,270,965	4,056,715
Shares	541,766	676,347	1,218,113	787,178	621,744	1,408,922
Other variable income securities	550,611	694,825	1,245,436	323,810	560,474	884,284
	4,665,582	3,821,023	8,486,605	5,008,676	5,746,634	10,755,310

NOTE 24 – LOANS AND ADVANCES TO BANKS

As at 31 December 2013 and 2012 this balance is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Loans and advances to banks in Portugal		
Deposits at central banks	3,900,000	3,350,000
Deposits at other banks	81,461	39,372
Loans	169,508	127,581
Very short term deposits	20,037	34,085
Other loans and advances	1,165	84,474
	4,172,171	3,635,512
Loans and advances to banks abroad		
Deposits	605,110	833,223
Very short term deposits	90,976	148,696
Loans	457,978	703,798
Other loans and advances	105,499	105,653
	1,259,563	1,791,370
Impairment losses	(270)	(364)
	5,431,464	5,426,518

The main loans and advances to banks in Portugal, as at 31 December 2013 bear interest at an average annual interest rate of 1.46% (31 December 2012: 1.73%). Loans and advances to banks abroad bear interest at an average annual interest rate of 0.24%.

As at 31 December 2013 and 2012, the analysis of loans and advances to banks by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Up to 3 months	5,116 994	5,063,107
3 to 12 months	225,380	96,652
1 to 5 years	22,491	79,623
More than 5 years	66,867	187,427
Undetermined	2	73
	5,431,734	**5,426,882**

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

(in thousands of euro)

	31.12.2013	31.12.2012
Balance at the beginning of the year	364	219
Charge for the year	306	1,366
Write back for the year	(386)	(1,207)
Exchange differences and year	(14)	(14)
Balance at the end of the year	**270**	**364**

NOTE 25 – LOANS AND ADVANCES TO CUSTOMERS

As at 31 December 2013 and 2012, this balance is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Domestic loans		
Corporate		
Loans	12,951,686	12,605,085
Commercial lines of credits	4,635,722	5,247,361
Finance leases	2,215,471	2,560,544
Discounted bills	306,776	454,624
Factoring	1,048,537	1,412,476
Overdrafts	52,640	76,303
Other loans	154,157	310,168
Retail		
Mortgage loans	9,693,399	10,067,167
Consumer and other loans	1,480,827	1,726,910
	32,539,215	34,460,638
Foreign loans		
Corporate		
Loans	9,301,803	8,593,536
Commercial lines of credits	2,061,420	2,181,087
Finance leases	62,424	69,732
Discounted bills	87 107	145,877
Factoring	53,035	52,494
Overdrafts	737,402	581,680
Other loans	188,997	458,646
Retail		
Mortgage loans	1,012,412	964,525
Consumer and other loans	688,449	705,091
	14,193,049	13,752,668
Overdue loans and interest		
Up to 3 months	164,250	219,416
From 3 months to 1 year	713,612	608,075
From 1 to 3 years	1,355,793	791,568
More than 3 years	756,389	566,369
	2,990,044	2,185,428
	49,722,308	50,398,734
Impairment losses	(3,387,412)	(2,692,342)
	46,334,896	47,706,392

As at 31 December 2013, the balance loans and advances to customers (net of impairment) includes an amount of euro 3,253.5 million (31 December 2012: euro 3,803.3 million) related to securitised loans following the consolidation of the securitisation entities (see Notes 1 and 49), according to the accounting policy described in Note 2.2. The liabilities related to these securitisations are booked under Debt securities issued (see Notes 38 and 49).

As at 31 December 2013, loans and advances include euro 5,552.6 million of mortgage loans that collateralise the issue of covered bonds (31 December 2012: euro 5,605.1 million) (see Note 38).

As at 31 December 2013, loans and advances to customers included a portfolio of loans granted, which are under a sovereign guarantee of Republic of Angola to the Group through its subsidiary Banco Espírito Santo Angola, S.A..

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

(in thousands of euro)

	31.12.2013	31.12.2012
Up to 3 months	6,409,715	7,932,875
3 to 12 months	5,885,157	6,143,518
1 to 5 years	10,128,053	10,058,945
More than 5 years	24,309,339	24,077,968
Undetermined	2,990,044	2,185,428
	49,722,308	**50,398,734**

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

(in thousands of euro)

	31.12.2013	31.12.2012
Balance as at 1 January	2,692,342	2,167,444
Charge for the year	1,439,160	1,016,153
Charge off	(207,263)	(208,494)
Write back of the year	(434,068)	(201,321)
Unwind of discount	(103,082)	(78,290)
Exchange differences and other	323	(3,150)
Balance as at 31 December	**3,387,412**	**2,692,342**

The unwind of discount represents the interest on overdue loans, recognised as interest and similar income, as impairment losses are calculated using the discounted cash flows method.

As at 31 December 2013 and 31 December 2012, the detail of loans and advances to customers and impairment losses can be analysed as follows:

(in thousands of euro)

	31.12.2013						
	Loans with impairment losses calculated on an individual basis		Loans with impairment losses calculated on a portfolio basis		Total		
	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	Net Loans Impairment
Corporate loans	13,426,351	2,828,295	23,098,258	180,891	36,524,609	3,009,186	33,515,423
Mortgage loans	2,348,771	175,325	8,465,955	10,538	10,814,726	185,863	10,628,863
Consumers loans - other	584,464	184,015	1,798,509	8,348	2,382,973	192,363	2,190,610
Total	**16,359,586**	**3,187,635**	**33,362,722**	**199,777**	**49,722,308**	**3,387,412**	**46,334,896**

(in thousands of euro)

	31.12.2012						
	Loans with impairment losses calculated on an individual basis		Loans with impairment losses calculated on a portfolio basis		Total		
	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	Net Loans Impairment
Corporate loans	12,510,484	2,195,708	24,126,648	149,576	36,637,132	2,345,284	34,291,848
Mortgage loans	2,362,525	160,135	8,771,297	6,884	11,133,822	167,019	10,966,803
Consumers loans - other	585,945	168,948	2,041,835	11,091	2,627,780	180,039	2,447,741
Total	**15,458,954**	**2,524,791**	**34,939,780**	**167,551**	**50,398,734**	**2,692,342**	**47,706,392**

The impairment calculated on an individual basis corresponds to the impairment related to loans with objective evidence of impairment and to loans classified as "Higher Credit Risk". The objective evidence of impairment occurs when there is a default event, i.e., from the moment that a significant change occurs in the lender-borrower relationship and the lender is subject to a loss. The "Higher Credit Risk" corresponds to loans without objective evidence of impairment but that present higher risk signs (e.g. customers with overdue loans for more than 30 days and less than 90 days; litigations; higher risk rating/ scoring; allocated to the Companies Monitoring Department; and restructured loans due to financial difficulties of the borrower and which are not classified as default).

The interest recognised as interest and similar income during the year ended 31 December 2013 in relation to these loans amounted to euro 717.9 million (31 December 2012: euro 825.4 million), which includes the effect of the unwind of discount in connection with overdue loans.

The Group carries out a renegotiation of a loan in order to maximize its recovery. A loan is renegotiated in accordance with selective criteria, based on the (i) analysis of the overdue circumstances or when there is a high risk that the loan will became overdue, and the (ii) client has made a reasonable effort to fulfil the contractual conditions previously agreed and (iii) is expected to have the capacity to meet the new terms agreed. The renegotiation normally includes the maturity extension, changes in the payment dates defined and/or amendment of the contracts' covenants. Whenever possible, the renegotiation includes obtaining new collaterals. The renegotiated loans are still subject to an impairment analysis resulting from the revaluation of the new expected cash flows, based in the new contract terms, updated at the original effective interest rate and taking into account the new collaterals.

As at 31 December 2013, loans and advances, excluding overdue loans and interest, includes euro 282,696 thousand of renegotiated loans (31 December 2012: euro 221,416 thousand). At the same date, the impairment regarding these renegotiated loans amounted to euro 6,190 thousand (31 December 2012: euro 16,363 thousand). The related interest recognized in the income statement amounted to euro 10,950 thousand (31 December 2012: euro 9,940 thousand).

The Group requires that some credit operations be collateralised, in order to mitigate credit risk. The more common types of collateral held are mortgages and securities. The fair value of these collaterals is determined at the date the loan is advanced to customers, being periodically updated when the credit is classified as having an impairment trigger.

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

(in thousands of euro)

	31.12.2013		31.12.2012	
	Credit Value	Fair Value collateral	Credit Value	Fair Value collateral
Mortgage loans				
Mortgages	10,600,588	10,578,354	10,951,831	10,930,789
Pawns	3,691	3,512	4,739	4,570
Not collateralised	210,447	-	177,252	-
	10,814,726	**10,581,866**	**11,133,822**	**10,935,359**
Individuals loans				
Mortgages	305,840	287,164	310,561	291,897
Pawns	376,892	254,305	585,020	388,748
Not collateralised	1,700,241	-	1,732,199	-
	2,382,973	**541,469**	**2,627,780**	**680,645**
Companies loans				
Mortgages	9,664 926	8,553,238	10,034,387	9,122,921
Pawns	4,973,157	2,537,769	6,884,077	3,562,838
Not collateralised	21,886,526	-	19,718,668	-
	36,524,609	**11,091,007**	**36,637,132**	**12,685,759**
Total	**49,722,308**	**22,214,342**	**50,398,734**	**24,301,763**

The amounts relating to loans restructured due to financial difficulties of the borrower, as defined by Bank of Portugal Rule no. 32/2013, are analysed as follows:

(in thousands of euro)

	31.12.2013
Corporate	4,113,958
Mortage loans	201,541
Consumer and other loans	115,445
Non-residents	1,415,421
Total	**5,846,365**

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

(in thousands of euro)

	31.12.2013	31.12.2012
Fixed interest rate	9,421,416	8,126,913
Variable interest rate	40,300,892	42,271,821
	49,722,308	**50,398,734**

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

(in thousands of euro)

	31.12.2013	31.12.2012
Gross investment in finance leases, receivable		
Up to year	364,545	432,202
From 1 to 5 years	1,022,599	1,130,447
More than 5 years	1,186,455	1,373,116
	2,573,599	**2,935,765**
Unread finance income on finance leases		
Up to year	61,705	68,859
From 1 to 5 years	136,182	157,217
More than 5 years	97,817	79,413
	295,704	**305,489**
Present value of minimum lease payments, receivable		
Up to year	302,840	363,343
From 1 to 5 years	886,417	973,230
More than 5 years	1,088,638	1,293,703
	2,277,895	**2,630,276**
Impairment	(175,104)	(144,097)
	2,102,791	**2,486,179**

As at 31 December 2013 and 2012 there are no finance leases which represent individually more than 5% of the total minimum lease payments. There are no finance leases with contingent rents.

NOTE 26 – HELD-TO-MATURITY INVESTMENTS

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

(in thousands of euro)

	31.12.2013	31.12.2012
Bonds and other fixed income securities		
Issued by government and public entities	322,405	295,271
Issued by other entities	1,190,655	685,389
	1,513,060	**980,660**
Impairment losses	(13,421)	(39,111)
	1,499,639	**941,549**

As at 31 December 2013 and 2012, the analysis of held-to-maturity investments by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Up to 3 months	584,440	14,715
3 to 12 months	39,313	175,566
1 to 5 years	384,639	230,854
More than 5 years	504,668	559,525
	1,513,060	**980,660**

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

(in thousands of euro)

	31.12.2013			31.12.2012		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed income securities						
Issued by government and public entities	319,904	2,501	322,405	292,678	2,593	295,271
Issued by other entities	165,731	1,024,924	1,190,655	158,769	526,620	685,389
	485,635	**1,027,425**	**1,513,060**	**451,447**	**529,213**	**980,660**

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

(in thousands of euro)

	31.12.2013	31.12.2012
Balance as at 1 January	39,111	32,316
Write back for the year	(372)	7,260
Charge off	(25,317)	(467)
Exchange differences and other	(1)	2
Balance as at 31 December	**13,421**	**39,111**

The securities pledged as collateral by the Group are analysed in Note 46.

During the year ended 31 December 2008, the Group has reclassified non-derivative financial assets to the held-to maturity investments category for an amount of euro 767.2 million, as follows:

(in thousands of euro)

	Acquisiton cost	Reclassification date					Market value as at 31 December 2008
		Book value	Fair value reserve		Future cash-flows [(a)]	Effective interest rate [(b)]	
			Positive	Negative			
Available-for-sale financial assets	551,897	522,715	424	(29,607)	701,070	5.75%	485,831
Financial assets held for trading	243,114	244,530	-	-	408,976	11.50%	237,295
Bonds and other fixed-income securities	**795,011**	**767,245**	**424**	**(29,607)**	**1,110,046**		**723,126**

(a) Undiscounted capital and interest cash flow; future interest is calculated based on the foward interest rates at the date of reclassification.
(b) Effective interest rate was calculated based on the foward interest rates at the date of reclassification; the maturity considered was the minimum between the call date, if applicable and the maturity date of the financial asset.

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

(in thousands of euro)

	31.12.2013	31.12.2012
Assets and liabilites at fair value through profit and losses		
Profit and losses effect	(217)	947
Tax effect	147	(73)
	(70)	**874**
Financial assets held-for sale		
Fair value reserves effect	(1,014)	(3,780)
Tax effect	294	1,191
	(720)	**(2,589)**

The reclassification of financial assets held-for-trading as held-to-maturity investments was performed following the amendment to IAS 39 Financial instruments: recognition and measurement and IFRS 7 Financial instruments: disclosures, adopted by the Regulation (EU) nº 1004/2008 issued in 15 October 2008. This reclassification was made due to the market conditions following the international financial crises that characterised the year 2008, which was considered to be one of the rare circumstances justifying the application of the amendment to IAS 39.

Following the publication by the Bank of Portugal, in May 2011 of Notice no. 3/2011, which has established new minimum levels for the Core Tier 1 ratio (9% at 31 December 2011 and 10% in 31 December 2012) and bearing in mind the need to achieve, from 2014 onwards, a stable funding ratio of 100%, according to the Memorandum of Economic and Financial Policies established between the Portuguese Government, the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF), the Group has decided during the second half of 2011 to sell a significant portion of the held-to-maturity investments portfolio. Under this decision, the securities to be sold were transferred to the available-for-sale financial assets portfolio and valued at market value.

Taking into account that the reclassification and subsequent sale of those securities is attributable to the significant increase in the industry regulatory capital requirements, it qualifies as an exception to the tainting rules as established under paragraph AG 22 of IAS 39 'Financial Instruments: Recognition and Measurement'. On these basis and once the Group has the intention and ability to hold the remaining securities until their maturity, they remained classified on the held-to-maturity investments portfolio.

The effects of the securities reclassification in the Group consolidated financial statements, at the transfer date, can be analysed as follows:

(in thousands of euro)

From held-to-maturity investments				To available-for-sale financial assets			
Acquisiton cost	Fair value reserve[(a)]	Impairment	Balance	Acquisiton cost	Fair value reserve[(a)]	Impairment	Balance
584,923	(6,138)	(50)	578,735	584,923	(13,590)	(50)	571,283

(a) Remaining value of the fair value reserves at the transfer date for the held-to-maturity investments portofolio occured with reference to 1 June 2008.

NOTE 27 – DERIVATIVES FOR RISK MANAGEMENT PURPOSES

As at 31 December 2013 and 2012, the fair value of the derivatives for risk management purposes can be analysed as follows:

(in thousands of euro)

	31.12.2013			31.12.2012		
	Hedging	Risk management	Total	Hedging	Risk management	Total
Derivatives for risk management purposes						
Derivatives for risk management purposes - assets	131,641	231,750	363,391	153,897	362,623	516,520
Derivatives for risk management purposes - liabilities	(68,305)	(62,405)	(130,710)	(43,581)	(81,618)	(125,199)
	63,336	**169,345**	**232,681**	**110,316**	**281,005**	**391,321**
Fair value component of assets and liabilities being hedged						
Financial assets						
Loans and advances to customers	43,102	-	43,102	22,391	-	22,391
	43,102	**-**	**43,102**	**22,391**	**-**	**22,391**
Financial liabilities						
Deposits from banks	(50,109)	1,331	(48,778)	(67,996)	-	(67,996)
Due to customers	(501)	(48,110)	(48,611)	(787)	(90,099)	(90,886)
Debt securities issued	(19,636)	(9,711)	(29,347)	(38,472)	47,631	9,159
	(70,246)	**(56,490)**	**(126,736)**	**(107,255)**	**(42,468)**	**(149,723)**
	(27,144)	**(56,490)**	**(83,634)**	**(84,864)**	**(42,468)**	**(127,332)**

As mentioned in the accounting policy described in Note 2.4, derivatives for risk management purposes includes hedging derivatives and derivatives contracted to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss.

Hedging derivatives

As at 31 December 2013 and 2012, the fair value hedge relationships present the following features:

(in thousands of euro)

31.12.2013							
Derivative	Hedged item	Hedged Risk	Notional	Fair value of derivative[(2)]	Changes in the fair value of the derivative in the year	Accumulated changes in fair value of the hedged item[(1)]	Changes in the fair value of the hedged item in the year[(1)]
Interest Rate Swap/ Currency Interest Rate Swap	Loans and advances to customers	Interest rate and exchange	608,738	(41,213)	(21,366)	43,102	20,827
Interest Rate Swap	Deposit from banks	Interest rate	174,000	54,137	(19,161)	(50,109)	17,887
Interest Rate Swap	Due to customers	Interest rate	4,417	2,176	(286)	(501)	286
Equity/ Interest Rate Swap	Debt securities issued	Interest rate/ Quotation	1,824,724	48,236	(26,763)	(19,636)	20,345
			2,611,879	**63,336**	**(67,576)**	**(27,144)**	**(59,345)**

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

(in thousands of euro)

31.12.2012							
Derivative	**Hedged item**	**Hedged Risk**	**Notional**	**Fair value of derivative[2]**	**Changes in the fair value of the derivative in the year**	**Accumulated changes in fair value of the hedged item[1]**	**Changes in the fair value of the hedged item in the year[1]**
Interest Rate Swap/ Currency Interest Rate Swap	Loans and advances to customers	Interest rate and exchange	529,897	(23,884)	(179)	22,391	(638)
Interest Rate Swap	Deposit from banks	Interest rate	174,000	64,725	13,779	(67,996)	(11,744)
Interest Rate Swap	Due to customers	Interest rate	4,417	2,174	(50)	(787)	51
Equity/ Interest Rate Swap	Debt securities issued	Interest rate/ Quotation	1,656,777	67,301	4,929	(38,472)	(3,685)
			2,365,091	110,316	18,479	(84,864)	(16,016)

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

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

As at 31 December 2013, the ineffectiveness of the fair value hedge operations amounted to a loss of euro 8.2 million (31 December 2012: euro 2.5 million gain) and was recognised in the income statement. The Group evaluates on an ongoing basis the effectiveness of the hedges.

Other derivatives for risk management purposes

Other derivatives for risk management purposes includes derivatives held to hedge financial assets and financial liabilities at fair value through profit and loss in accordance with the accounting policies described in Notes 2.5, 2.6 and 2.8 and that the Group did not classify as hedging derivatives.

The book value of financial assets and financial liabilities at fair value through profit and loss can be analysed as follows:

(in thousands of euro)

31.12.2013								
		Derivative			**Assets/ Liabilities associated**			
Derivative	**Financial assets/ liabilites economically hedged**	**Notional**	**Fair value**	**Changes in the fair value during the year**	**Fair value**	**Changes in the fair value during the year**	**Carrying amount**	**Redemption amount at maturity[1]**
	Assets							
Credit Default Swap	Loans to customers	268,000	8,059	(17,759)	-	-	-	268,000
	Liabilities							
Interest Rate Swap	Due to customers	9,080,000	77,152	(59,891)	(48,110)	41,221	9,346,477	9,298,367
Interest Rate Swap/ FX Forward	Debt security issued	1,095,563	63,273	(49,908)	26,276	(50,102)	376,026	386,407
Credit Default Swap	Debt security issued	441,233	12,805	11,547	(23,472)	(8,169)	467,953	459,006
Equity Swap	Debt security issued	434,476	6,263	12,073	(7,697)	(13,459)	353,257	358,891
Equity Option	Debt security issued	49,030	1,793	682	(3,487)	(3,765)	111,379	113,019
		11,368,302	169,345	(103,256)	(56,490)	(34,274)	10,655,092	10,883,690

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

(in thousands of euro)

31.12.2012								
		Derivative			**Assets/ Liabilities associated**			
Derivative	**Financial assets/liabilites economically hedged**	**Notional**	**Fair value**	**Changes in the fair value during the year**	**Fair value**	**Changes in the fair value during the year**	**Carrying amount**	**Redemption amount at maturity[1]**
	Assets							
Credit Default Swap	Loans to customers	84,000	-	(1,600)	-	-	-	84,000
	Liabilities							
Interest Rate Swap	Due to customers	7,540,000	179,038	67,206	(90,099)	(111,024)	8,791,778	8,712,699
Interest Rate Swap/ FX Forward	Debt security issued	1,485,628	97,092	30,345	69,217	(53,029)	303,386	370,714
Credit Default Swap	Debt security issued	346,845	5,810	44,774	(22,202)	(53,860)	376,308	358,728
Equity Swap	Debt security issued	405,155	(3,662)	15,813	2,985	(24,257)	339,252	357,237
Equity Option	Debt security issued	82,525	2,727	13	(2,369)	(5,339)	125,874	131,828
		9,944,153	281,005	156,551	(42,468)	(247,509)	9,936,598	10,015,206

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

The credit default swaps associated to loans to customers are part of synthetic securitisation operations, as mentioned in Note 49.

As at 31 December 2013, the fair value of the financial liabilities at fair value through profit or loss, includes a positive cumulative effect of euro 93.8 million (31 December 2012: positive cumulative effect of euro 167.1 million) attributable to the Group's own credit risk. The change in fair value attributable to the Group's own credit risk resulted in the recognition, in 2013, of a loss amounting to euro 73.3 million (31 December 2012: loss of euro 35.2 million), see Note 7.

As at 31 December 2013 and 2012, the analysis of derivatives for risk management purposes by the period to maturity is as follows:

(in thousands of euro)

	31.12.2013		31.12.2012	
	Notional	Fair Value	Notional	Fair Value
Up to 3 months	1,329,792	17,714	1,674,024	13,571
3 to 12 months	6,725,633	16,069	2,361,702	25,889
1 to 5 years	4,516,609	89,180	7,205,288	205,686
More than 5 years	1,408,147	109,718	1,068,230	146,175
	13,980,181	**232,681**	**12,309,244**	**391,321**

NOTE 28 – NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE

This balance as at 31 December 2013 and 2012 is analysed as follows:

(in thousands of euro)

	31.12.2013		31.12.2012	
	Assets	Liabilities	Assets	Liabilities
Assets and liabilities of subsidiaries acquired exclusively for resale purposes	**671,862**	**153,580**	**731,767**	**175,945**
Property held for sale	3,387,737	-	2,843,378	-
Equipment	16,114	-	2,524	-
Other tangible assets	4,164	-	3,501	-
	3,408,015	**-**	**2,849,403**	**-**
Impairment losses	(512,866)		(303,630)	
	3,567,011	**153,580**	**3,277,540**	**175,945**

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

As at 31 December 2013, the assets of subsidiaries acquired for resale purposes are presented as follows:

(in thousands of euro)

	Economic Interest %	Values incorporated by BES Group		
		Assets	Liabilities	Net Result
Greenwoods Ecoresorts empreendimentos imobiliários, S.A.[1]	97.66%	226,760	516	(4,571)
Sealion Holdings Limited	57.00%	188,036	135,158	(19,562)
Portucale - Sociedade De Desenvolvimento Agro - Turistico, S.A.	97.24%	53,989	8,699	(1,320)
Autodril - Sociedade Imobiliária, S.A.	60.31%	48,983	1	125
Ribagolfe - Empreendimentos de Golfe, S.A.	97.16%	22,522	5,776	-
Febagri-Actividades Agropecuárias e Imobiliárias S.A.	60.31%	11,891	1,284	(30)
Quinta da Areia - Sociedade Imobiliária, S.A.	100.00%	11,950	5	34
Odebrecht Engenharia Ambiental	0.55%	10,760	-	-
Herdade da Boina - Sociedade Imobiliária[1]	100.00%	10,114	150	64
JCN - IP - Investimentos Imobiliários e Participações, S.A.	97.24%	9,659	64	(1,624)
Herdade Vale da Mata	100.00%	8,121	131	-
Sociedade Imobiliária Quinta D. Manuel I, S.A.	100.00%	2,899	4	(5)
Sociedade Agrícola Turística e Imobiliária da Várzea da Lagoa, S.A.	100.00%	5,886	-	(2,914)
EMSA – Empreendimentos e Exploração de Estacionamentos S.A.[1]	100.00%	5,456	353	-
Other	-	17,720	1,439	224
Total[2]		**634,746**	**153,580**	**(29,579)**

(1) Entities acquired during 2013; in Greenwoods there was an increase in participation.
(2) The assets incorporated are presented net of a provision of euro 37,116 thousand.

The changes occurred in impairment losses are presented as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Balance as at 1 January	303,630	181,449
Changes in the scope of consolidation	-	116,654
Charge/ Write back of the period	294,452	40,178
Charge off	(101,757)	(29,664)
Exchange differences and others	16,541	(4,987)
Balance as at 31 December	**512,866**	**303,630**

In addition to the losses related to impairment, the Group recognized in profit and loss the following amounts, related to these assets:

- Losses in real estate, equipments and other assets in the amount of euro 11.5 million (31 December 2012: euro 9.1 million) and gains in the amount of euro 10.8 million (31 December 2012: euro 3.2 million); and
- Losses in the amount of euro 29.6 million from the appropriation of results of the subsidiaries held for sale (31 December 2012: euro 8.7 million loss).

The changes occurred in non-current assets held for sale during 2013 and 2012, are presented as follows:

(in thousands of euro)

	31.12.2013			31.12.2012		
	Property and other assets	Assets of subsidiaries acquired for resale	Total	Property and other assets	Assets of subsidiaries acquired for resale	Total
Balance as at 1 January	2,849,403	731,767	3,581,170	1,536,884	291,248	1,828,132
Change in the scope of consolidation	116,067	-	116,067	530,343	-	530,343
Additions	832,914	73,628	906,542	996,260	454,151	1,450,411
Sales	(452,652)	(91,392)	(544,044)	(218,735)	-	(218,735)
Other	62,283	(42,141)	20,142	4,651	(13,632)	(8,981)
Balance as at 31 December	**3,408,015**	**671,862**	**4,079,877**	**2,849,403**	**731,767**	**3,581,170**

The Group has a plan with the objective of the immediate sale of all non-current assets held for sale. However, given the current market conditions it was not possible to sell them within the expected time frame, but the sales effort and, in some cases, negotiations with potential buyers are still ongoing. The sales effort that is being made by the Group includes (i) a web site specifically designed for the sale of real estate assets; (ii) the setup and participation in real estate events in Portugal and abroad; (iii) the setup of contracts with several real estate agents; (iv) the regular sponsorship of auctions; and (v) campaigns in the major emigration centres. The Group, despite its intention to sale these assets, regularly request to the Bank of Portugal the authorisation, under article 114 of RGICSF, the extension of the period of time the Banks have to hold these assets.

The analysis of the real estate assets held for resale by aging is as follows:

(in thousands of euro)

	31.12.2013		31.12.2012	
	Gross amount	Impairment	Gross amount	Impairment
Held for				
less than a year	834,701	64,191	1,296,994	158,987
for one to two years	1,142,133	231,523	327,267	26,186
more than two years	1,410,903	177,449	1,219,117	115,820
	3,387,737	**473,163**	**2,843,378**	**300,993**

Real estate assets are included in this caption, at the acquisition date in exchange for loans, by its market value considering an immediate sale scenario. These assets are revaluated periodically, being recognised an impairment loss when necessary.

As at 31 December 2013, the amount of property held for sale includes euro 21,260 thousand (31 December 2012: euro 21,598 thousand) related to discontinued branches, in relation to which the Group recognised an impairment loss amounting to euro 10,925 thousand (31 December 2012: euro 11,193 thousand).

NOTE 29 – INVESTMENT PROPERTIES

As at 31 December 2013 and 2012 the movement on this balance is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Balance at the beginning of the period	441,988	-
Change in the scope of consolidation [a)]	-	446,135
Improvements	323	748
Other movements	(46,456)	(4,895)
	395,855	**441,988**

a) Related with the inclusion of BES Vida, Fungere and Fungepi into the Group consolidation perimeter.

The carrying amount of investment property is the fair value of the properties as determined by a registered and independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values were determined having regard to recent market transactions for similar properties in the same locations as the Group's investment property when available.

Investment property comprise a group of assets detained by BES Vida and include a number of commercial properties that are leased to third parties. Most lease contracts do not have a specified term, being possible for the lessee to cancel at any time. However, for a small portion of commercial properties leased to third parties on average the leases contain an initial non-cancellable period of 10 years. Subsequent renewals are negotiated with the lessee.

The increase in fair value of investment property of euro 0.1 million and the rental income from investment property of euro 3.4 million, are recognised in Other operating income and expenses (31 December 2012: euro 2.9 million and euro 3.2 million, respectively).

The direct operating expenses including repairs and maintenance arising from investment property that generated rental income during the year 2013 reached euro 0.2 million (31 December 2012: euro 0.7 million). The direct operating expenses including repairs and maintenance arising from investment property that did not generate rental income during the year 2012, reached euro 0.2 million (as at 31 December 2013 all investment properties were rented).

NOTE 30 – OTHER TANGIBLE ASSETS

As at 31 December 2013 and 2012 this balance is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Property		
For own use	495,464	472,650
Improvements in leasehold property	231,221	228,098
Other	374	1,139
	727,059	**701,887**
Equipment		
Computer equipment	300,494	308,497
Fixtures	139,623	142,759
Furniture	134,750	131,075
Security equipment	44,893	42,469
Office equipment	35,683	34,961
Motor vehicles	15,373	12,627
Other	3,101	6,135
	673,917	**678,523**
Other	**619**	**624**
	1,401,595	**1,381,034**
Work in progress		
Improvements in leasehold property	416	344
Property for own use	386,202	396,237
Equipment	2,779	2,092
Other	63	54
	389,460	**398,727**
	1,791,055	**1,779,761**
Accumulated depreciation	**(865,617)**	**(848,139)**
	925,438	**931,622**

The movement in this balance was as follows:

(in thousands of euro)

	Property	Equipment	Other	Work in progress	Total
Acquisition cost					
Balance as at 31 December 2011	**686,681**	**651,863**	**643**	**326,485**	**1,665,672**
Acquisitions	5,410	27,615	-	115,775	148,800
Disposals	(20,291)	(12,565)	(16)	(850)	(33,722)
Transfers [a]	22,859	5,009	-	(34,592)	(6,724)
Exchange differences and other [b]	7,228	6,601	(3)	(8,091)	5,735
Balance as at 31 December 2012	**701,887**	**678,523**	**624**	**398,727**	**1,779,761**
Acquisitions	3,987	26,799	-	83,590	114,376
Disposals	(6,379)	(27,050)	-	(3)	(33,432)
Transfers [a]	31,366	1,431	-	(36,980)	(4,183)
Exchange differences and other	(3,802)	(5,786)	(5)	(55,874)	(65,467)
Balance as at 31 December 2013	**727,059**	**673,917**	**619**	**389,460**	**1,791,055**
Depreciation					
Balance as at 31 December 2011	**288,649**	**525,076**	**269**	**-**	**813,994**
Depreciation	22,006	39,906	10	-	61,922
Disposals	(18,667)	(7,765)	-	-	(26,432)
Transfers [a]	(1,110)	(413)	-	-	(1,523)
Exchange differences and other [b]	(525)	685	18	-	178
Balance as at 31 December 2012	**290,353**	**557,489**	**297**	**-**	**848,139**
Depreciation	21,647	38,649	10	-	60,306
Disposals	(6,379)	(26,408)	-	-	(32,787)
Transfers [a]	(575)	(1,440)	-	-	(2,015)
Exchange differences and other	(931)	(7,100)	5	-	(8,026)
Balance as at 31 December 2013	**304,115**	**561,190**	**312**	**-**	**865,617**
Net amount as at 31 December 2013	**422,944**	**112,727**	**307**	**389,460**	**925,438**
Net amount as at 31 December 2012	**411,534**	**121,034**	**327**	**398,727**	**931,622**

(a) Property and equipment transferred to the balance other assets, referring to discontinued branches transferred to the balance non-current assets held for sale.
(b) Includes euro 8,743 thousand from property, euro 7,919 thousand from equipment and euro 6,647 thousand of accumulated depreciation related to the inclusion of BES Vida in the consolidation scope.

As at 31 December 2012, the balance equipment – motor vehicles includes equipment acquired under finance lease agreements, whose payment Schedule is as follows (as at 31 December 2013, there were no equipment under finance lease agreements):

(in thousands of euro)

	31.12.2013	31.12.2012
Gross investment in finance leases, payable		
Up to one year	-	16
From one to five years	-	-
	-	**16**
Interest		
Up to one year	-	1
From one to five years	-	-
	-	**1**
Principal		
Up to one year	-	15
From one to five years	-	-
	-	**15**

NOTE 31 – INTANGIBLE ASSETS

As at 31 December 2013 and 2012 this balance is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Goodwill	**325,805**	**313,665**
Value In Force [(a)]	**-**	**109,937**
Internally developed		
Software - Automatic data processing system	75,601	58,186
Acquired to third parties		
Software - Automatic data processing system	674,632	645,010
Other	970	951
	675,602	**645,961**
Work in progress	**30,993**	**33,701**
	1,108,001	**1,161,450**
Accumulated amortisation	**(642,585)**	**(596,345)**
Impairment losses	**(10,064)**	**(9,779)**
	455,352	**555,326**

(a) Related to BES Vida; under the reinsurance operation of the life insurance portfolio, the remaining amount was booked under Other liabilities (see note 43).

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

(in thousands of euros)

	31.12.2013	31.12.2012
Subsidiaries		
BES Vida	234,574	234,574
ES Investment Holding [(a)]	47,540	48,567
ES Gestion	2,459	2,459
Aman Bank	16,046	16,046
Concordia	1,722	1,756
Imbassaí	13,526	-
Others	2,045	2,370
Other cash-generating units		
Leasing and Factoring	7,893	7,893
	325,805	**313,665**
Impairment losses	**(10,064)**	**(9,779)**
	315,741	**303,886**

(a) Company that holds Execution Noble.

In 2012, the Group acquired the share capital of BES Vida, and the assets and liabilities fair value was calculated at the date of the acquisition. The fair value of recognized identifiable assets acquired and liabilities assumed include, under intangible assets, the amount of euro 107,768 thousand related to the present value of the business in force acquired related to life insurance contracts (Value in force) (euro 76,515 thousand net of taxes) (see Note 54). This asset will be amortised over the remaining lifetime of the contracts.

Considering the reinsurance contract signed during 2013 and described in Note 13, which reinsures 100% of the life insurance portfolio, inclusing all the policies in force in BES Vida as at 30 June 2013, transferring to the reinsurer all risks and rewards associated to these contracts, the respective value in force in the amount of euro 137,476 thousand was derecognised. The value in force of the remaining contracts, in the net amount of euro 25,380 thousand at the date of the reinsurance contract, have a liability nature and, as such, were accounted in Other liabilities (see Note 43).

BES Vida

The value of BES Vida was determined considering the Embedded Value and the Goodwill. The Embedded Value consists in adding (i) the company's equity (adjusted of unrealised gains and losses, net of tax) and (ii) and the expected present value of flow of distributable future profits from the policies in force at valuation date (adjusted by the cost of the solvency margin, the time value of options and guarantees and by the cost of residual risks that are not coverable). Goodwill consists in the value of new business to be developed by the company in the future.

For valuation purposes, it was used the business projections for the next 30 years and was applied a discount rate of 9.5%, which included an appropriate risk premium for the estimated cash-flows. Based in these assumptions the recoverable amount of the investment exceeds the book value, including Goodwill.

ES Investment Holding Limited

The recoverable amount of ES Investment Holding Limited has been determined using cash flow/ dividends predictions based on (i) the financial budget approved by management covering a nine-year period, (ii) a terminal growth rate of 3%, in line with the estimated nominal growth for the country where the company is located and (iii) a discount rate of 9.0% including a risk premium appropriated to the estimated future cash-flows. The nine-year period for estimating the future cash-flows reflect the fact that the company was acquired in late 2010 and its business strategy is being redefined. It is expected that the company achieves a maturity stage only at the end of that time period. Based on the above assumptions the recoverable amount exceeded the carrying amount, including Goodwill.

Aman Bank

On 31 December 2011, the Group recognised an impairment of euro 8,023 thousand in goodwill related with the acquisition of Aman Bank. The impairment reflects the changes of the estimated future cash flows expected by the Group in this entity as a result of the political situation lived in Libya during 2011. In 2012 and 2013, this entity showed a positive trend, thus there was no need to reinforce the impairment loss recognised.

The balance of internally developed software includes the costs incurred by the Group in the development and implementation of software applications that will generate economic benefits in the future (see Note 2.14).

The movement in this balance was as follows:

(in thousands of euro)

	Goodwill and Value In Force	Software	Other	Work in progress	Total
Acquisition cost					
Balance as at 31 December 2011	97,739	658,113	917	26,413	783,182
Acquisitions:					
Internally developed [(a)]	-	54	-	8,257	8,311
Acquired from third parties [(a)]	344,511	11,533	-	24,152	380,196
Disposals	-	(1,414)	-	(103)	(1,517)
Transfers	-	26,255	-	(26,255)	-
Exchange differences and other [(b) (c)]	(18,648)	8,655	34	1,237	(8,722)
Balance as at 31 December 2012	423,602	703,196	951	33,701	1161,450
Acquisitions:					
Internally developed	-	-	-	9,147	9,147
Acquired from third parties	13,526	12,622	20	23,234	49,402
Disposals [(d)]	(137,476)	(457)	-	-	(137,933)
Transfers [(d)]	21,989	34,221	-	(34,221)	21,989
Exchange differences and other	4,164	651	(1)	(868)	3,946
Balance as at 31 December 2013	325,805	750,233	970	30,993	1,108,001
Amortisations					
Balance as at 31 December 2011	-	542,344	878	-	543,222
Amortisations of the period	-	46,116	36	-	46,152
Disposals	-	(1,318)	-	-	(1,318)
Exchange differences and other [(e)]	-	8,288	1	-	8,289
Balance as at 31 December 2012	-	595,430	915	-	596,345
Amortisations of the period	-	47,551	4	-	47,555
Disposals	-	(458)	-	-	(458)
Exchange differences and other	-	(857)	-	-	(857)
Balance as at 31 December 2013	-	641,666	919	-	642,585
Impairment					
Balance as at 31 December 2011	9,628	-	-	-	9,628
Exchange differences and other	151	-	-	-	151
Balance as at 31 December 2012	9,779	-	-	-	9,779
Impairment losses	362	-	-	-	362
Exchange differences and other	(77)	-	-	-	(77)
Balance as at 31 December 2013	10,064	-	-	-	10,064
Net amount as at 31 December 2013	315,741	108,567	51	30,993	455,352
Net amount as at 31 December 2012	413,823	107,766	36	33,701	555,326

(a) Goodwill and VIF relates to BES Vida control acquisition.
(b) Includes euro 19,682 thousands regarding Gespastor goodwill derecognition.
(c) Includes euro 8,917 thousands from BES Vida control acquisition (see Note 54).
(d) Parcial sale of the VIF in relation to the control acquisition over BES Vida, under the reinsurance operation of the life insurance portfolio, the remaining amount was booked under Other liabilities (see Note 43).
(e) Includes euro 8,791 thousands from BES Vida control acquisition (see Note 54).

NOTE 32 – INVESTMENTS IN ASSOCIATES

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

(in thousands of euro)

	Assets		Liabilities		Equity		Income		Profit/(Loss) for the period	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
BES VÉNÉTIE	1,429,691	1,616,961	1,257,005	1,444,715	172,686	172,246	68,489	75,012	4,070	10,315
LOCARENT	244,535	285,740	231,418	277,404	13,117	8,336	84,420	94,213	2,401	2,595
BES SEGUROS	116,330	120,243	84,941	89,039	31,389	31,204	73,935	66,537	7,142	6,971
ESEGUR	36,790	39,121	24,495	28,526	12,295	10,595	51,252	50,980	998	595
FUNDO ES IBERIA	15,286	13,894	104	169	15,182	13,725	422	466	(145)	(106)
SCI GEORGES MANDEL	11,289	11,271	9	9	11,280	11,262	979	957	609	591
BRB INTERNACIONAL	-	12,883	-	12,407	-	476	-	1,243	-	(589)
AUTOPISTA PEROTE-XALAPA	-	650,179	-	521,167	-	129,012	-	-	-	(6,634)
ASCENDI GROUP	4,314,000	4,056,000	3,750,000	3,656,000	564,000	400,000	158,000	140,000	21,000	28,000
EMPARK	768,532	782,872	645,093	651,074	123,439	131,798	163,833	166,594	(3,008)	(7,171)
AUVISA - AUTOVIA DE LOS VIÑEDOS	208,484	216,000	213,895	222,000	(5,411)	(6,000)	14,841	14,000	(2,940)	(4,000)
UNICRE	315,889	305,005	185,723	179,941	130,166	125,064	197,189	231,070	9,785	11,256
MOZA BANCO	361,146	186,719	327,396	154,683	33,750	32,036	46,091	21,760	924	(3,289)
RODI SINKS & IDEAS	43,084	43,446	19,138	20,537	23,946	22,909	17,268	19,528	1,324	1,609

Note: Information adjusted for consolidation purposes.

(in thousands of euro)

	Participation Cost		Economic Interest		Book Value		Share of profit of associates	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
BES VIDA [a)]	-	-	-	-	-	-	-	2,761
BES VÉNÉTIE	-	50,155	42.69%	42.69%	73,860	73,672	1,737	4,403
LOCARENT	2,967	2,967	50.00%	50.00%	6,869	4,478	1,201	1,298
BES SEGUROS	3,749	3,749	25.00%	25.00%	7,844	7,798	1,785	1,743
ESEGUR	9,634	9,634	44.00%	44.00%	12,254	11,506	439	262
FUNDO ES IBERIA	8,081	7,087	45.93%	38.67%	7,312	5,649	658	261
SCI GEORGES MANDEL	2,401	2,401	22.50%	22.50%	2,538	2,534	137	133
BRB INTERNACIONAL	-	10,659	-	25.00%	-	119	101	(216)
AUTOPISTA PEROTE-XALAPA [b)]	-	36,678	-	14.33%	-	30,802	-	3,647
ASCENDI GROUP	179,772	179,772	28.66%	28.66%	150,388	186,955	(431)	6,566
EMPARK [b)]	52,429	52,429	15.92%	15.92%	47,331	50,090	(2,014)	(2,193)
AUVISA - AUTOVIA DE LOS VIÑEDOS	41,056	41,056	35.83%	35.83%	34,792	34,792	-	(2,531)
UNICRE [b)]	11,497	11,497	17.50%	17.50%	22,779	21,886	1,712	1,970
MOZA BANCO	37,707	12,791	49.00%	25.10%	37,603	12,234	669	(826)
RODI SINKS & IDEAS	1,240	1,240	24.81%	24.81%	8,387	8,129	257	194
Others	147,799	140,507			124,709	130,338	(5,160)	(9,160)
	548,487	**562,622**			**536,666**	**580,982**	**1,091**	**8,312**

a) In May 2012, BES acquired the remaining 50% of BES Vida share capital, becoming fully consolidated in BES.
b) Although the Group's economic interest is less than 20%, this entities were consolidated under the equity method, as the Group exercises a significant influence over their activities.

The movement occurred in this balance is presented as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Balance at the beginning of the period	**580,982**	**806,999**
Disposals	(75,137)	(58,905)
Acquisitions and aditional investments (see Note 1)	37,338	32,418
Share of profit of associates	1,091	8,312
Fair value reserve from investments in associates	1,502	43,084
Dividends received	(4,260)	(3,423)
Changes in the consolidation scope	-	(243,790)
Exchange differences and other	(4,850)	(3,713)
Balance at the end of the period	**536,666**	**580,982**

As at 31 December 2012, the changes in consolidation scope, arises mainly on the full consolidation of BES Vida, as referred in Note 54.

NOTE 33 – TECHNICAL RESERVES

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

(in thousands of euro)

	31.12.2013			31.12.2012		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Unearned premiums reserve	3,363	-	3,363	2,618	-	2,618
Life mathematical reserve	1,707,741	(7,003)	1,700,738	1,545,079	(129)	1,544,950
Claims outstanding reserve	37,538	(3,432)	34,106	27,447	(1,621)	25,826
Reserve for participating features	6,013	-	6,013	2,264	(2,054)	210
	1,754,655	**(10,435)**	**1,744,220**	**1,577,408**	**(3,804)**	**1,573,604**

In accordance with IFRS 4, the contracts issued by the Group for which there is only a transfer of financial risk, with no discretionary profit sharing, are classified as investment contracts (See Note 39).

The life mathematical reserve is analysed as follows:

(in thousands of euro)

	31.12.2013			31.12.2012		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Traditional	27,835	(7,003)	20,832	31,979	(129)	31,850
Saving contracts with profit sharing	1,679,906	-	1,679,906	1,513,100	-	1,513,100
	1,707,741	**(7,003)**	**1,700,738**	**1,545,079**	**(129)**	**1,544,950**

The claims outstanding reserve is analysed as follows:

(in thousands of euro)

	31.12.2013			31.12.2012		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Traditional	13,399	(3,432)	9,967	14,316	(1,621)	12,695
Saving contracts with profit sharing	24,139	-	24,139	13,131	-	13,131
	37,538	**(3,432)**	**34,106**	**27,447**	**(1,621)**	**25,826**

The claims outstanding reserve represents unsettled claims occurred before the balance sheet date and includes an estimated provision in the amount of euro 447 thousand (31 December 2012: euro 429 thousand), for claims incurred before 31 December 2013, but not reported (IBNR).

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

(in thousands of euro)

	31.12.2013			31.12.2012		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Balance at the beginning of the period	**27,447**	**(1,621)**	**25,826**	**-**	**-**	**-**
Change in the scope of consolidation	-	-	-	30,194	(1,257)	28,937
Plus incurred claims						
Current year	257,504	(15,748)	241,756	362,235	(1,101)	361,134
Prior years	3,455	(183)	3,272	1,830	(117)	1,713
Less paid claims related to						
Current year	(246,449)	13,194	(233,255)	(361,834)	640	(361,194)
Prior years	(4,419)	926	(3,493)	(4,978)	214	(4,764)
Balance at the end of the period	**37,538**	**(3,432)**	**34,106**	**27,447**	**(1,621)**	**25,826**

The reserve for bonus and rebates corresponds to the amounts attributed to policyholders or beneficiaries of insurance and investment contracts with profit sharing, in the form of profit participation, which have not yet been specifically allocated and included in the life mathematical reserve.

The movement in the reserve for bonus and rebates for the years ended 31 December 2013 and 2012 is as follows:

(in thousands of euro)

	31.12.2013			31.12.2012		
	Direct insurance and accepted reinsurance	Reinsurance ceded	Total	Direct insurance and accepted reinsurance	Reinsurance ceded	Total
Balance at the begginning of the period	2,264	(2,054)	210	-	-	-
Changes in the scope of consolidation	-	-	-	1,326	(804)	522
Amounts paid	(651)	2,528	1,877	(170)	187	17
Estimated attributable amounts	4,400	(474)	3,926	1,108	(1,437)	(329)
Balance at the end of the period	**6,013**	**-**	**6,013**	**2,264**	**(2,054)**	**210**

As at 31 December 2013, life mathematical reserve, as a result of the liability adequacy test, is nil. This test was performed based on the best estimate assumptions, in accordance with the accounting policies described in Note 3.

NOTE 34 – OTHER ASSETS

As at 31 December 2013 and 2012, the balance other assets is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Collateral deposits placed	1,483,337	1,664,467
Derivative products	*1,018,206*	*1,438,955*
Collateral CLEARNET, VISA and EBA	*30,701*	*33,597*
Collateral related to Letter of Credit	*44,797*	*26,694*
Collateral Deposits for litigations	*54,956*	*53,000*
Collateral Deposits in relation with reinsurance operations	*334,677*	-
Other	-	*112,221*
Recoverable government subsidies on mortgage loans	30,426	38,658
Public sector	184,376	144,697
Debtors from the insurance business	1,377	567
Other debtors	677,851	635,668
Receivable income	61,266	48,415
Diferred costs	116,710	114,766
Pension and health benefits	3,941	14,602
Gold, other precious metals, numismatics, and other liquid assets	9,962	10,834
Stock exchange transactions pending settlement	256,333	154,257
Other transactions pending settlement	56,875	216,216
Other assets	155,223	185,994
	3,037,677	3,229,141
Impairment losses	**(151,717)**	**(234,987)**
	2,885,960	**2,994,154**

The caption collateral deposits placed includes deposits made by the Group as collateral in order to be able to perform certain derivative contracts in organized markets (margin accounts) and in over the counter markets (Credit Support Annex – CSA).

The sundry debtors' amount includes:

- euro 100 million related with loans to Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (31 December 2012: euro 100 million);
- euro 78.7 million of loans to entities within the Group's venture capital business, of which euro 49.5 million are provided for (31 December 2012: euro 77.2 million, of which euro 30.7 million were provided for); and
- euro 87.2 million of loans and junior securities following the transfer of loans/ assets to companies and specialized funds, of which euro 83.4 million are provided for (31 December 2012: euro 94.3 million, of which euro 87.7 million were provided for).

As at 31 December 2013, the balance prepayments and deferred costs includes the amount of euro 76,745 thousand (31 December 2012: euro 64,901 thousand) related to the difference between the nominal amount of loans granted to Group's employees under the collective labour agreement for the banking sector (ACT) and their respective fair value at grant date, calculated in accordance with IAS 39. This amount is charged to the income statement over the lower period between the remaining maturity of the loan granted, and the estimated remaining service life of the employee.

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

The balance of impairment losses is presented as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Balance at the beginning of the year	**234,987**	**47,861**
Charge off	32,469	194,142
Write back for the year	(95,289)	(355)
Transfers	(3,330)	(13,427)
Other	(17,120)	(6,766)
Balance at end of the year	**151,717**	**234,987**

NOTE 35 – DEPOSITS FROM CENTRAL BANKS

The balance deposits from central banks is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
From the European System of Central Banks		
Deposits	195,469	129,382
Other funds	9,157,000	10,150,000
	9,352,469	10,279,382
From other Central Banks		
Deposits	177,662	613,938
	177,662	613,938
	9,530,131	10,893,320

As at 31 December 2013 and 2012, Other funds from the European System of Central Banks includes euro 9,157 million and euro 10,156 million, respectively, covered by securities pledged as collaterals (see Note 46).

As at 31 December 2013, the balance Deposits from other Central Banks – Deposits includes the amount of euro 3 million related to deposits with Angola Central Bank (31 December 2012: euro 431 million).

As at 31 December 2013 and 2012, the analysis of deposits from Central Banks by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Up to 3 months	400,491	150,206
1 to 3 years	9,129,640	10,743,114
	9,530,131	10,893,320

NOTE 36 – DEPOSITS FROM BANKS

The balance deposits from banks is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Domestic		
Deposits	335,420	383,720
Very short term funds	82,111	40,172
Repurchase agreements	-	66,579
Other funds	5,233	4,487
	422,764	494,958
International		
Deposits	697,656	504,679
Loans	2,749,617	2,315,433
Very short term funds	91,049	194,475
Repurchase agreements	817,717	1,311,162
Other funds	220,690	267,951
	4,576,729	4,593,700
	4,999,493	5,088,658

As at 31 December 2013 and 2012 the analysis of deposits from banks by the period to maturity is presented as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Up to 3 months	2,687,881	2,363,813
3 to 12 months	886,607	1,327,967
1 to 5 years	869,486	669,591
More than 5 years	555,519	727,287
	4,999,493	**5,088,658**

NOTE 37 – DUE TO CUSTOMERS

The balance due to customers is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Repayable on demand		
Demand deposits	10,547,944	10,458,336
Time deposits		
Time deposits	23,352,827	21,719,358
Other	5,368	56,391
	23,358,195	21,775,749
Savings accounts		
Pensioners	295,146	28,022
Other	2,093,436	1,645,970
	2,388,582	1,673,992
Other funds		
Repurchase agreements	275,003	242,150
Other	261,169	390,096
	536,172	632,246
	36,830,893	34,540,323

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

(in thousands of euro)

	31.12.2013	31.12.2012
Repayable on demand	10,547,944	10,458 336
With agreed maturity		
Up to 3 months	13,423,093	11,024,506
From 3 months to 1 year	9,306,392	6,517,198
From 1 to 5 years	3,347,981	6,169,147
More than 5 years	205,483	371,136
	26,282,949	24,081,987
	36,830,893	34,540,323

NOTE 38 – DEBT SECURITIES ISSUED

The balance of debt securities issued is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Euro Medium Term Notes (EMTN)	8,568,674	10,033,382
Certificates of deposit	310,548	612,033
Bonds	1,061,524	2,366,119
Covered bonds	901,122	864,100
Other	1,077,582	1,548,427
	11,919,450	15,424,061

As at 31 December 2013, the debt securities issued includes the amount of euro 4,750 millions of debt securities issued with a guarantee from the Portuguese Republic (31 December 2012: euro 4,750 millions).

As at 31 December 2013, this balance includes euro 2,952 millions (31 December 2012: euro 2,660 millions) of debt securities issued at fair value through profit or loss.

Under the covered bonds programme, which has a maximum amount of euro 10,000 million, BES Group issued covered bonds for a total amount of euro 4,040 million. The main characteristics of these issues are as follows:

Description	Nominal value (in thousands of euro)	Book value (in thousands of euro)	Issue date	Maturity date	Interest payment	Interest rate	Rating	
							Moody's	DBRS
BES Covered Bonds 3.375%	1,000,000	859,681	17-11-2009	17-02-2015	Annually	3.375%	Baa3	AL
BES Covered Bonds DUE JUL 17	1,000,000	-	07-07-2010	09-07-2017	Annually	6 month Euribor + 0.60%	Baa3	AL
BES Covered Bonds 21/07/2017	1,000,000	-	21-07-2010	21-07-2017	Annually	6 month Euribor + 0.60%	Baa3	AL
BES Covered Bonds DUE 4.6%	40,000	41,441	15-12-2010	26-01-2017	Annually	Fixed rate 4.6%	Baa3	AL
BES Covered Bonds HIPOT. 2018	1,000,000	-	25-01-2011	25-01-2018	Annually	6 month Euribor + 0.60%	Baa3	AL
	4,040,000	901,122						

These covered bonds are guaranteed by a cover assets pool, comprised of mortgage credit assets and limited classes of other assets, that the issuer of mortgage covered bonds shall maintain segregated and over which the holders of the relevant covered bonds have a statutory special creditor privilege. These conditions are set up in Decree-Law no. 59/2006, Regulations 5/2006, 6/2006, 7/2006 and 8/2006 of the Bank of Portugal and Instruction 13/2006 of the Bank of Portugal.

As at 31 December 2013, the mortgage loans that collateralise these covered bonds amount to euro 5,552.6 million (31 December 2012: euro 5,605.1 million) (see Note 25).

The changes occurred in debt securities issued during 2013 are analysed as follows:

(in thousands of euro)

	Balance as at 31.12.2012	Issues	Repayments	Net repurchase	Other movements[a)]	Balance as at 31.12.2013
Euro Medium Term Notes (EMTN)	10,033,382	1,207,731	(2,306,107)	(351,917)	(14,415)	8,568,674
Certificates of deposit	612,033	-	(299,096)[b)]	-	(2,389)	310,548
Bonds	2,366,119	-	(1,266,678)	(14,861)	(23,056)	1,061,524
Covered bonds	864,100	-	-	49,927	(12,905)	901,122
Other	1,548,427	4,046,731	(4,532,099)	-	14,523	1,077,582
	15,424,061	5,254,462	(8,403,980)	(316,851)	(38,242)	11,919,450

a) Other movements include accrued interest, corrections by hedging operations, fair value adjustments and foreign exchanges differences.
b) Certificates of deposit are presented at the net value, considering their short term maturity.

In accordance with the accounting policy described in Note 2.8, debt issued repurchased by the Group is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement. Following the repurchases performed in 31 December 2013 and in 31 December 2012, the Group has recognised a gain of euro 9.6 million and of euro 74.1 million, respectively (see Notes 14 and 42).

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

(in thousands of euro)

	31.12.2013	31.12.2012
Up to 3 months	1,268,964	2,466,103
3 to 12 months	2,612,000	1,345,865
1 to 5 years	4,779,353	7,367,491
More than 5 years	3,259,133	4,244,602
	11,919,450	15,424,061

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

(in thousands of euro)

Entity	Description		31.12.2013				
			Currency	Issue Data	Book Value	Maturity	Interest Rate
BES	BES DUE JUN 14		EUR	2007	309,353	2014	Euribor 3 months + 0.15%
BES	BES 5.625% 2014		EUR	2009	1,364,389	2014	Fixed Rate - 5.63%
BES	BES 3.375%		EUR	2009	859,681	2015	Fixed Rate 3.375%
BES	BES DUE 3.875%		EUR	2010	403,130	2015	Fixed Rate 3.875%
BES	BES DUE 4.6%		EUR	2010	41,441	2017	Fixed Rate 4.6%
BES	BES DUE JULY 16		EUR	2011	59,513	2016	Fixed Rate 6.875%
BES	BES PORTUGAL NO	a)	EUR	2011	18,935	2014	Euribor 6 months + 3.5%
BES	BES PORTUGAL	a)	EUR	2011	21,081	2014	Euribor 6 months + 3.5%
BES	BES DUE FEV.14		EUR	2012	122,570	2014	Fixed Rate 6.5%
BES	BES 4 ANOS 7%		EUR	2012	133 721	2016	Fixed Rate 7%
BES	BES 6.9% 2024		EUR	2012	69,387	2024	Fixed Rate 6.9%
BES	BES 26/10/2015		EUR	2012	50,386	2015	Euribor 6 months + 3.85%
BES	BES 5.875% 2015		EUR	2012	747,822	2015	Fixed Rate: 5.875%
BES	BES 4.75% 2018		EUR	2013	493,591	2018	Fixed Rate: 4.75%
BES (Cayman Branch)	Bic 6.02% 07/18/14		EUR	2001	77,664	2014	Fixed Rate - 6.02%
BES (Cayman Branch)	Bic 6.09% 27/07/15		EUR	2001	46,593	2015	Fixed Rate - 6.09%
BES (Spain Branch)	Mortgage Bonds	a)	EUR	2008	153,763	2014	Fixed Rate 4.5%
BES (Spain Branch)	Mortgage Bonds	a)	EUR	2008	80,369	2014	Fixed Rate 4%
BES (Spain Branch)	Mortgage Bonds	a)	EUR	2008	83,257	2016	Fixed Rate 4.25%
BES (Spain Branch)	IM BES EMPRESAS 1 FTA BONO A		EUR	2011	18,998	2043	Eur 1 m + 0.3%
BES (London Branch)	Certificates of deposits		EUR	2012	1,996	2014	Fixed Rate 1.49%
BES (London Branch)	Certificates of deposits		USD	2012	230,448	2014	Fixed Rate 3%
BES (London Branch)	Certificates of deposits		USD	2012	78,104	2014	Fixed Rate 3%
BES (London Branch)	EMTN Series 1		EUR	2012	151,459	2014	Nominal rate 6.5%
BES (London Branch)	EMTN Series 2		EUR	2012	117,976	2016	Nominal rate 7%
BES (London Branch)	EMTN Series 3		EUR	2012	102,598	2022	Nominal rate 5%
BES (London Branch)	EMTN Series 4		EUR	2012	50,063	2014	Nominal rate 6.5%
BES (London Branch)	EMTN Series 5		EUR	2012	42,973	2016	Nominal rate 7%
BES (London Branch)	EMTN Series 6		EUR	2012	148,545	2022	Nominal rate 5%
BES (London Branch)	EMTN Series 7		EUR	2012	156,046	2019	Nominal rate 5%
BES (London Branch)	EMTN Series 8		EUR	2012	46,713	2015	Nominal rate 6.75%
BES (London Branch)	EMTN Series 9		EUR	2012	231,566	2015	Nominal rate 6.75%
BES (London Branch)	EMTN Series 10		EUR	2012	511,101	2019	Nominal rate 5%
BES (London Branch)	EMTN Series 11		EUR	2012	70,228	2015	Nominal rate 6.75%
BES (London Branch)	EMTN Series 12		EUR	2012	320,948	2019	Nominal rate 5%
BES (London Branch)	EMTN Series 13		EUR	2012	223,221	2019	Nominal rate 5%
BES (London Branch)	EMTN Series 14		EUR	2012	207,516	2019	Nominal rate 5%
BES (London Branch)	EMTN Series 15		EUR	2012	24,766	2014	Nominal rate 5.5%
BES (Luxembourg Branch)	BES Luxembourg 5.75% 28/06/17		EUR	2012	20,652	2017	Nominal rate - 5.75%
BES (Luxembourg Branch)	BES Luxembourg 3% 21/06/22		USD	2012	66,857	2022	Nominal rate - 3%
BES (Luxembourg Branch)	BES Luxembourg 3.5% 02/01/43		EUR	2013	49,765	2043	Fixed Rate - 3.5%
BES (Luxembourg Branch)	BES Luxembourg 3.5% 23/01/43		EUR	2013	43,087	2043	Fixed Rate - 3.5%
BES (Luxembourg Branch)	BES Luxembourg 3.5% 19/02/2043		EUR	2013	82,647	2043	Fixed Rate - 3.5%
BES (Luxembourg Branch)	BES Luxembourg 3.5% 18/03/2043		EUR	2013	56,985	2043	Fixed Rate - 3.5%
BES (Luxembourg Branch)	BES Luxembourg ZC		EUR	2013	28,573	2048	Fixed Rate - 7%
BES Finance	EMTN 37		EUR	2004	32,199	2029	Efective rate 5.30%
BES Finance	EMTN 39		EUR	2005	100,091	2015	Euribor 3 months + 0.23%
BES Finance	EMTN 40	a)	EUR	2005	216,514	2035	*6.00% indexed to Swap rate*
BES Finance	EMTN 56		EUR	2009	23,037	2043	Fixed Rate 7.13%
BES Finance	EMTN 57		EUR	2009	18,542	2044	Fixed Rate 7.09%
BES Finance	EMTN 58		EUR	2009	23,729	2045	Fixed Rate 7.06%
BES Finance	EMTN 59		EUR	2009	25,878	2042	Fixed Rate 6.84%
BES Finance	EMTN 60		EUR	2009	27,329	2040	Fixed Rate 6.91%
BES Finance	EMTN 61		EUR	2009	25,538	2041	Fixed Rate 6.87%
BES Finance	EMTN 63		EUR	2009	5,106	2039	Fixed Rate 3%
BES Finance	Exchangeable Bonds (EDP)	a)	EUR	2010	10,231	2015	Fixed Rate 3%
BES Finance	EMTN 81	a)	EUR	2010	6,152	2015	Fixed Rate 3.19%
BES Finance	EMTN 82	a)	EUR	2010	6,202	2015	Fixed Rate 3.19%
BES Finance	EMTN 83	a)	EUR	2010	6,615	2015	Fixed Rate 3.19%
BES Finance	EMTN 84	a)	EUR	2010	6,770	2015	Fixed Rate 3.19%
BES Finance	EMTN 85	a)	EUR	2010	6,564	2015	Fixed Rate 3.19%
BES Finance	EMTN 96	a)	EUR	2011	8,188	2015	Fixed Rate 5.75%
BES Finance	EMTN 97	a)	EUR	2011	7,813	2015	Fixed Rate 5.75%
BES Finance	EMTN 98	a)	EUR	2011	9,150	2015	Fixed Rate 5.75%
BES Finance	EMTN 99	a)	EUR	2011	9,150	2015	Fixed Rate 5.75%
BES Finance	EMTN 100	a)	EUR	2011	9,150	2015	Fixed Rate 5.75%
BES Finance	EMTN 106	a)	EUR	2011	8,086	2015	Fixed Rate 5.51%
BES Finance	EMTN 107	a)	EUR	2011	9,364	2015	Fixed Rate 5.51%
BES Finance	EMTN 108	a)	EUR	2011	10,641	2015	Fixed Rate 5.51%
BES Finance	EMTN 109	a)	EUR	2011	10,641	2015	Fixed Rate 5.51%
BES Finance	EMTN 110	a)	EUR	2011	10,641	2015	Fixed Rate 5.51%
BES Finance	EMTN 112	a)	EUR	2011	50,490	2014	Fixed Rate 6%
BES Finance	EMTN 113	a)	EUR	2011	69,678	2021	Fixed Rate 5%
BES Finance	EMTN 114	a)	EUR	2011	28,262	2021	Fixed Rate 5%
BES Finance	Exchangeable Bonds		USD	2012	310,986	2015	Fixed Rate 3.5%
BESI Group	ESIP OUT24 ESFP LINKED CMS NOTE	a)	EUR	2004	5,149	2024	Fixed Rate + Indexed to CMS
BESI Group	ESIP CALL RANGE ACCRUAL MAY2015	a)	EUR	2005	1,227	2015	Range accrual
BESI Group	ESIP RANGE ACCRUAL JUN15	a)	EUR	2005	244	2015	Range accrual

(in thousands of euro)

Entity	Description		31.12.2013 Currency	Issue Data	Book Value	Maturity	Interest Rate
BESI Group	ESIP EUR LEVERAGE SNOWBALL JUL15	a)	EUR	2005	1,266	2015	Fixed Rate + Snowball b)
BESI Group	ESIP AGO05 SEP35 CALLABLE INV FL	a)	EUR	2005	9,862	2035	Euribor 12 months + c)
BESI Group	ESIP LEVERAGE SNOWBALL SEP2015	a)	EUR	2005	2,319	2015	Fixed Rate + Snowball + b)
BESI Group	ESIP CALL RANGE ACCRUAL NOV2017	a)	EUR	2005	1,256	2017	Range accrual
BESI Group	ESIP 30CMS-2CMS LKD NOTE NOV2036	a)	EUR	2005	16,169	2036	Fixed Rate 7.44% + Indexed toCMS
BESI Group	BESI OBCX R.ACCRUAL TARN MAR2016	a)	EUR	2006	849	2016	Fixed Rate 6% + Range Accrual
BESI Group	ESIP EUR12M+16 BP APR2016		EUR	2006	4,017	2016	Euribor 12M
BESI Group	ESIP JAN2017 INDEX BASKET LKD	a)	EUR	2007	11,200	2017	d)
BESI Group	ESIP MAY14 EQUIT BASKT LINKED	a)	USD	2007	1,866	2014	e)
BESI Group	ESIP DEC2015 BASKET LINKED	a)	EUR	2007	253	2015	Indexed to BBVA. Credit Agricole and Fortis
BESI Group	ESIP BARCLAYS LKD ZC MAR2016	a)	EUR	2008	649	2016	ZC + f)
BESI Group	ESIP BARCLAYS LKD 6.30% MAR2016	a)	EUR	2008	405	2016	Fixed Rate 6.30% + f)
BESI Group	ESIP LACAIXA EUR3M+2% MAR2016	a)	EUR	2009	2,805	2016	Euribor 3M+2% + f)
BESI Group	ESIP JUL2014 INFLATION LINKED	a)	EUR	2009	1,397	2014	Indexed to inflation
BESI Group	ESIP FEB2020 EQL LINKED	a)	EUR	2009	81	2020	g)
BESI Group	ESIP CLN 5.45% OCT2014	a)	EUR	2009	203	2014	f)
BESI Group	ESIP OCT2014 EQL	a)	EUR	2009	1,325	2014	Indexed to Gazprom. Nokia and DU PONT
BESI Group	ESIP CIMPOR CLN EUR3M DEC2014	a)	EUR	2009	3,520	2014	f)
BESI Group	ESIP FTD IBERIA 5.95% DEC2014	a)	EUR	2009	733	2014	f)
BESI Group	ESIP FTD IBERIA II 5.5% DEC2014	a)	EUR	2009	5,021	2014	f)
BESI Group	ESIP USD FTD IBERIA 5.5% DEC2014	a)	USD	2009	3,639	2014	f)
BESI Group	ESIP DEC2014 SX5E LINKED	a)	EUR	2009	4,580	2014	Indexed toDJ Eurostoxx 50
BESI Group	ESIP BRAZIL EQL LINKED	a)	EUR	2009	3,162	2014	h)
BESI Group	ESIP BSKT MERC EMERG EQL FEB2014	a)	EUR	2010	2,428	2014	i)
BESI Group	ESIP DJ US REAL EST LKD MAR2015	a)	EUR	2010	800	2015	Indexed to Ishares DJ US Real State Index fund
BESI Group	ESIP USDEUR FX LKD MAY2015	a)	EUR	2010	288	2015	Indexed a EUR/USD
BESI Group	BESINVESTBRAS 5.625% MAR2015REGS	a)	USD	2010	274,756	2015	5.625% a.a.
BESI Group	ESIP CRDAGRI CL EUR6M+1.15 JUN15	a)	EUR	2010	2,119	2015	Euribor 6M ACT/360
BESI Group	ESIP FTD CRD LINKED JUN2015	a)	EUR	2010	4,122	2015	j)
BESI Group	ESIP BRAZIL EQL MAY2016	a)	EUR	2010	3,279	2016	k)
BESI Group	ESIP SX5E MAY14 EQL	a)	EUR	2010	2,066	2014	Indexed toEurostoxx
BESI Group	ESIP BASKET LKD JUL2014	a)	EUR	2010	1,100	2014	l)
BESI Group	BESI SEP2014 EQL LINKED	a)	EUR	2010	4,323	2014	m)
BESI Group	BESI SEP2014 ORIENTE IV EQL	a)	EUR	2010	13,444	2014	n)
BESI Group	ESIP SEP15 DIGITAL	a)	USD	2010	1,067	2015	Digital US Libor 3M
BESI Group	ESIP ASIA INDEX LKD SEP2014	a)	EUR	2010	1,484	2014	o)
BESI Group	ESIP DEC2015 CREDLINKED BSCH	a)	EUR	2011	1,600	2015	Indexed to BBVA. Credit Agricole and Fortis
BESI Group	ESIP CABAZ BRASIL LKD FEB14	a)	EUR	2011	1,616	2014	p)
BESI Group	ESIP FEB16 5A EXPOSIC AFRICA LKD	a)	EUR	2011	972	2016	q)
BESI Group	ESIP EXPOSICAO EURUSD LKD FEB14	a)	EUR	2011	778	2014	FX EUR/USD Linked
BESI Group	ESIP DUAL5%+AFRICA LKD FEB15	a)	EUR	2011	1,221	2015	r)
BESI Group	ESIP SX5E LKD FEB14	a)	EUR	2011	300	2014	Eurostoxx Linked
BESI Group	ESIP CLN EDP MAR2014	a)	EUR	2011	10,487	2014	7% + CLN EDP
BESI Group	ESIP MAR14 BES USDBRL LINKED	a)	EUR	2011	1,437	2014	USD/BRL Linked
BESI Group	ESIP APR2015 BES ENERGIA LINKED	a)	EUR	2011	9,859	2015	Espirito Santo Rockefeller Global Linked
BESI Group	ESIP MAR14 EURCHF LINKED	a)	EUR	2011	1,166	2014	FX EUR/CHF Linked
BESI Group	ESIP CLN SANTANDER MAR2014	a)	EUR	2011	6,166	2014	6.35% + CLN BSCH SUB
BESI Group	ESIP EDP MAR2014 CLN	a)	EUR	2011	15,242	2014	6.5% + CLN EDP
BESI Group	ESIP SX5E SPX LKD MAR2016	a)	EUR	2011	1,856	2016	Eurostoxx Linked
BESI Group	ESIP APR2015 BES ENERGIA LKD	a)	USD	2011	2,528	2015	Espirito Santo Rockefeller Global Linked
BESI Group	ESIP MAR2014 TEF FTE LINKED	a)	EUR	2011	928	2014	Telefonica and France Telecom Linked
BESI Group	ESIP APRIL2014 HEALTH CARE LKD	a)	EUR	2011	8,796	2014	Health Care Select Sector SPDR Fund Linked
BESI Group	ESIP HEALTH CARE LKD APR2014	a)	EUR	2011	1,925	2014	s)
BESI Group	ESIP TEF PT LKD 26APR2014	a)	EUR	2011	390	2014	Telefonica and Portugal Telecom Linked
BESI Group	ESIP EDP CLN JUN2014	a)	EUR	2011	13,534	2014	7% + CLN EDP
BESI Group	ESIP TEF PT LKD APR2014	a)	EUR	2011	391	2014	Telefonica and Portugal Telecom Linked
BESI Group	ESIP EUR PT CLN JUN2014	a)	EUR	2011	10,038	2014	6.75% + CLN PT
BESI Group	ESIP BES MOMENTUM JUN2015	a)	EUR	2011	6,956	2015	Espirito Santo Momentum Fund Linked
BESI Group	ESIP BSCH CLN JUN2014	a)	EUR	2011	5,848	2014	6.1% + CLN BSCH
BESI Group	ESIP BES PROTECCAO JUN2014	a)	EUR	2011	50,974	2014	t)
BESI Group	ESIP BRAZIL NOTES LKD MAY2016	a)	EUR	2011	1,824	2016	EUR/BRL Linked
BESI Group	ESIP BES 5ANOS EFIC ENERG JUNE16	a)	EUR	2011	2,803	2016	u)
BESI Group	ESIP PETROBRAS CLN JUN2014	a)	USD	2011	2,205	2014	3-Month USD libor + 3.70% + CLN PETROBRAS
BESI Group	ESIP PT II CLN JUN2014	a)	EUR	2011	7,624	2014	7% + CLN PT
BESI Group	ESIP TEF PT JUN2014	a)	EUR	2011	1,496	2014	Telefonica and Portugal Telecom Linked
BESI Group	ESIP SANTANDER CLN JUN2014	a)	EUR	2011	2,754	2014	6.4% + CLN BSCH
BESI Group	ESIP BES PROTECCAO II JUN2014	a)	EUR	2011	23,915	2014	Inflation and Euribor 12M Liked
BESI Group	ESIP EUR PRICING POWER 5Y JUL14	a)	EUR	2011	1,691	2016	v)
BESI Group	ESIP SX5E JUL15 EQL	a)	EUR	2011	1,594	2015	Eurostoxx Linked
BESI Group	ESIP AUG14 ES ROCKEFELLERGLO LKD	a)	EUR	2011	901	2014	Espírito Santo Rockfeller Linked
BESI Group	ESIP BARCLAYS CLN SEP2014	a)	EUR	2011	2,638	2014	6% + Barclays CLN
BESI Group	ESIP AUG14 INFLATION LKD	a)	EUR	2011	38,404	2014	Inflation Linked
BESI Group	ESIP AUG2014 ALEMANHA EQL LINKED	a)	EUR	2011	1,786	2014	w)
BESI Group	ESIP BRL FXL LINKED SEP2016	a)	EUR	2011	731	2016	Fx linked
BESI Group	ESIP SEP14 TRY LKD	a)	EUR	2011	977	2014	Fx linked
BESI Group	ESIP BANCO POPULAR CLN SEP2014	a)	EUR	2011	3,189	2014	8.75% + POPULAR CLN
BESI Group	ESIP BCO POPULAR CLN SEP2014	a)	EUR	2011	1,515	2014	8.75% + POPULAR CLN
BESI Group	ESIP SEP2014 INFLATION+EURIBOR	a)	EUR	2011	28,096	2014	Inflation and Euribor 12M Liked
BESI Group	ESIP SEP2014 PSI20 EQL 4	a)	EUR	2011	5,190	2014	PSI20 Linked

(in thousands of euro)

Entity	Description		31.12.2013				
			Currency	Issue Data	Book Value	Maturity	Interest Rate
BESI Group	ESIP NOV2015 BES4%GLOBAL LINKED	a)	EUR	2011	29,244	2015	x)
BESI Group	ESIP BCO POPULAR CRDLK SEP2014	a)	EUR	2011	7,705	2014	9.40% + Banco Popular CLN
BESI Group	ESIP OCT2014 WORLD INVESTM EQL 3	a)	EUR	2011	1,349	2014	d)
BESI Group	ESIP PT CLN DEC2014	a)	EUR	2011	20,136	2014	11% + PT CLN
BESI Group	BESI 1.8% GOLD APR2015	a)	EUR	2011	1,866	2015	Fixed Rate 1.8% + Indexed to gold
BESI Group	ESIP AUTOCALLABLE 2014	a)	EUR	2011	2,465	2014	y)
BESI Group	ESIP TELECOM ITALIA CLN DEC2014	a)	EUR	2011	5,262	2014	7.25% + Telecom Italia CLN
BESI Group	ESIP SPANISH NOTES NOV 2016	a)	EUR	2011	16	2016	z)
BESI Group	ESIP EDP USD CLN DEC2014	a)	USD	2011	1,580	2014	8.5% + EDP CLN
BESI Group	ESIP WORLD INVESTMENT II DEC2014	a)	EUR	2011	858	2014	d)
BESI Group	ESIP TELEFONICA CLN DEC2014	a)	EUR	2011	4,623	2014	7.15% + Telefonica CLN
BESI Group	ESIP PORTUGUESE REP CLN DEC2021	a)	EUR	2011	26,566	2021	6% + Republica Portuguesa CLN
BESI Group	ESIP UTILITIES SHS DEC2018	a)	EUR	2011	740	2018	aa)
BESI Group	ESIP UTILIT FINANCIALS SHS DEC18	a)	EUR	2011	4,605	2018	ab)
BESI Group	ESIP EWZ EQL JAN2015	a)	EUR	2012	862	2015	EWZ Linked
BESI Group	ESIP FEB16 EMP NORDICAS EQL	a)	EUR	2012	1,838	2016	ac)
BESI Group	ESIP AUG2014 CABAZ MOEDAS 12-14	a)	EUR	2012	7,446	2014	ad)
BESI Group	ESIP CABAZMOEDA VS EUR FEB15 FXL	a)	EUR	2012	753	2018	ad)
BESI Group	ESIP EMPRES CHINESAS FEB2017 EQL	a)	EUR	2012	1,226	2016	ae)
BESI Group	ESIP EDP MAR2014 CLN 2	a)	EUR	2012	13,399	2014	6.9% + EDP CLN
BESI Group	ESIP TWIN WIN EURUSD MAR2015	a)	EUR	2012	928	2015	EUR/USD Linked
BESI Group	ESIP LUXURY GOODS LKD MAR2015	a)	EUR	2012	1,262	2015	af)
BESI Group	ESIP PSI20 LKD MAR2015	a)	EUR	2012	3,590	2015	PSI20 Linked
BESI Group	ESIP DUAL UPGRADE MAR2014	a)	EUR	2012	893	2014	ag)
BESI Group	ESIP DIG CPN EURIBOR 3M MAR2015	a)	EUR	2012	1,601	2015	Digital EURIBOR 3M
BESI Group	ESIP APR2019 RECOV BASKET LINKED	a)	EUR	2012	329	2015	ah)
BESI Group	BESI CLN REP PORTUGUESA OCT2014	a)	EUR	2012	3,382	2014	Republica portuguesa CLN
BESI Group	ESIP APR2015 PSI20 LINKED	a)	EUR	2012	1,308	2015	PSI20 Linked
BESI Group	ESIP APR2020 BES PROTECCAO LKD	a)	EUR	2012	346	2015	Inflation Linked
BESI Group	ESIP PT 3YR CREDIT LKD JUN15	a)	EUR	2012	10,523	2015	7.75% + PT CLN
BESI Group	ESIP PT 3YR CREDIT LINKED JUN15	a)	EUR	2012	14,218	2015	7.75% + PT CLN
BESI Group	ESIP BES TECNOLOGIA JUN2015 EQL	a)	EUR	2012	4,720	2015	ai)
BESI Group	ESIP EXPOSICAO PETROLEO JUN2015	a)	EUR	2012	165	2015	Brent Linked
BESI Group	ESIP BES EXPOS PETROLE JUN15 EQL	a)	EUR	2012	2,372	2015	Brent Linked
BESI Group	ESIP RECOV BSKT LINKED JUN2019	a)	EUR	2012	1,148	2019	aj)
BESI Group	ESIP EDP 3YR CREDIT LINKED JUN15	a)	EUR	2012	15,427	2015	8% + EDP CLN
BESI Group	ESIP EDP 3YR II CREDIT LKD JUN15	a)	EUR	2012	12,780	2015	8% + EDP CLN
BESI Group	ESIP TELECOM ITALIA CLN SEP2015	a)	EUR	2012	4,319	2015	7% + TELECOM ITALIA CLN
BESI Group	ESIP PT TELECO CLN SEP2015	a)	EUR	2012	6,544	2015	7% + PT CLN
BESI Group	ESIP SEP2015 EDP LKD	a)	USD	2012	1,530	2015	7.45% + EDP CLN
BESI Group	ESIP EDP CLN SEP2015	a)	EUR	2012	8,165	2015	6.25% + EDP CLN
BESI Group	ESIP EUR BRL SEP2017	a)	EUR	2012	1,442	2017	EUR/BRL Linked
BESI Group	ESIP BES EXP COMMOD AGRICOL EQL4	a)	EUR	2012	8,629	2014	ak)
BESI Group	ESIP COMMOD AGRICOL EQL5 OCT2015	a)	EUR	2012	4,757	2015	al)
BESI Group	ESIP BASKET LINKED OCT2019	a)	EUR	2012	1,076	2019	am)
BESI Group	ESIP BRAZILIAN NOTES IV OCT2017	a)	EUR	2012	716	2017	EUR/BRL Linked
BESI Group	ESIP IBERIA NOV2015	a)	EUR	2012	2,250	2015	IBEX+PSI20 Linked
BESI Group	ESIP TURKISH LIRA EQL6 OCT2015	a)	EUR	2012	1,530	2015	EUR/TRY Linked
BESI Group	ESIP BASKET OCT2019 EQL2	a)	EUR	2012	1,776	2019	REP e BSCH Linked
BESI Group	ESIP COMMODITIES NOV2015	a)	EUR	2012	3,666	2015	an)
BESI Group	ESIP DEC2015 CRDLKD EUR FTD TELE	a)	EUR	2012	14,764	2015	ao)
BESI Group	ESIP DEC2012 BASKET FTD	a)	EUR	2012	1,551	2015	ap)
BESI Group	ESIP DEC2016 AUTOCALL BRASIL	a)	EUR	2012	6,374	2016	aq)
BESI Group	ESIP DEC2017 EDP PT TEL.ITAL LK	a)	EUR	2012	1,785	2017	ar)
BESI Group	ESIP DEC2015 CRDLKD EDP	a)	EUR	2012	1,011	2015	5.25% + EDP CLN
BESI Group	ESIP DEC2015 CRDLKD EDP PT	a)	EUR	2012	4,025	2015	6.50% + EDP PT CLN
BESI Group	ESIP DEC2015 CRDLKD EDP PT TLCM	a)	EUR	2012	2,019	2017	ar)
BESI Group	ESIP DEC2017 RENAULT PT LINKED	a)	EUR	2012	4,630	2017	8.65% + RENAULT PT CLN
BESI Group	ESIP DEC2015 FTD CRD LKD	a)	EUR	2013	4,840	2015	as)
BESI Group	ESIP AUTOCALL JAN20 EQL	a)	EUR	2013	558	2020	at)
BESI Group	ESIP SX5E BOOSTER JAN2016	a)	EUR	2013	2,358	2016	SX5E Linked
BESI Group	ESIP SX5E BULLISH JAN2016	a)	EUR	2013	2,602	2016	SX5E Linked
BESI Group	BESI MAR2018 FTD CRD LKD	a)	EUR	2013	2,914	2018	au)
BESI Group	BESI MAR2016 FTD CRD LKD USD	a)	USD	2013	2,004	2016	au)
BESI Group	ESIP 4Y AUTOCALL FEB2017 EQL	a)	EUR	2013	9,648	2017	av)
BESI Group	ESIP 2Y AUTOCALL BES EQL FEB2015	a)	EUR	2013	840	2015	BES Linked
BESI Group	ESIP BULLISH IBERIA MAR2016	a)	EUR	2013	4,720	2016	aw)
BESI Group	ESIP TURKISH LIRA EQL MAR2018	a)	EUR	2013	2,231	2018	EUR/TRY Linked
BESI Group	ESIP 3Y WIN MAR2016	a)	EUR	2013	1,714	2016	ax)
BESI Group	ESIP BARCLAYS 2Y EQL MAR2015	a)	EUR	2013	1,051	2015	BARCLAYS Linkked
BESI Group	ESIP CLN GALP MAR2018	a)	EUR	2013	5,888	2018	EUR GALP CLN Linked
BESI Group	ESIP 3Y AUTOCAL IBERIA EQL MAR16	a)	EUR	2013	1,803	2016	aw)
BESI Group	ESIP BASKET+NOTES APR2016	a)	EUR	2013	1,472	2016	Indexed to a basket composed by Coca-Cola. France Telecom. Vivendi and YUM Brands Inc
BESI Group	ESIP BULLISH PAISES PERIF APR16	a)	EUR	2013	836	2016	Indexed to a basket composed by PSI20. MIB and IBEX30
BESI Group	ESIP AC INDICES GLOBAIS APR16	a)	EUR	2013	1,719	2016	Indexed to a basket composed by Eurostoxx. SP500 and Nikkei
BESI Group	ESIP USD CLN GALP MAR2018	a)	USD	2013	7,445	2018	USD GALP CLN Linked
BESI Group	ESIP 3Y AC SAN TELE REP APR2016	a)	EUR	2013	1,030	2016	ay)
BESI Group	ESIP BULLISH EUROSTOXX APR2016	a)	EUR	2013	1,251	2016	Eurostoxx Linked
BESI Group	ESIP BULLISH EWZ APR2016	a)	EUR	2013	868	2016	EWZ Linked

(in thousands of euro)

Entity	Description		31.12.2013 Currency	Issue Data	Book Value	Maturity	Interest Rate
BESI Group	ESIP BULLISH HSCEI APR2016	a)	EUR	2013	955	2016	HSCEI Linked
BESI Group	BES INVESTIMENTO DO 2.90000 29/05/2014		USD	2013	7,570	2014	3.00%
BESI Group	ESIP 3Y WIN MAY16	a)	EUR	2013	1,694	2016	Indexed to a basket composed by Eurostoxx. SP500 and Nikkei
BESI Group	ESIP CLN PT INT FIN 3.5Y DEC16	a)	EUR	2013	11,903	2016	Credit Linked Note Portugal Telecom
BESI Group	ESIP FEB16 BULLISH ES AFRICA LKD	a)	EUR	2013	1,319	2018	Espirito Santo Africa Linked
BESI Group	ESIP WRC BBVA SAN MAY2014	a)	EUR	2013	1,030	2014	BBVA & Santander Linked
BESI Group	ESIP CLN TELECOM ITALIA JUNE16	a)	EUR	2013	6,072	2016	Credit Linked Note Telecom Italia
BESI Group	ESIP 3Y AC GALP&REPSOL JUN16	a)	EUR	2013	1,660	2016	GALP e REPSOL Linked
BESI Group	ESIP USD CLN ESFPORTUGA 3Y MAY16	a)	USD	2013	5,156	2016	ESFP CLN
BESI Group	ESIP CLN ESFPORTUGAL 3Y MAY16	a)	EUR	2013	6,392	2016	ESFP CLN
BESI Group	ESIP 3Y BULLISH REINO UNID JUN16	a)	EUR	2013	867	2016	UKX Linked
BESI Group	ESIP CLN ESFPORTUGAL 3Y N MAY16	a)	EUR	2013	7,311	2016	ESFP CLN
BESI Group	ESIP 3Y BULLISH BRAZ REAL JUN16	a)	EUR	2013	1,643	2016	EUR/BRL Linked
BESI Group	ESIP PT INT. FINANCE DEC16	a)	EUR	2013	2,876	2016	PT CLN
BESI Group	ESIP 3Y AC ENERGIA IBERICA JUN16	a)	EUR	2013	2,527	2016	GALP e REPSOL Linked
BESI Group	ESIP FTD TI, ENEL, PT CLN SEP16	a)	EUR	2013	1,499	2016	TELECOM ITALIA, ENEL, PT CLN
BESI Group	ESIP FTD BRISA, EDP, PT CL SEP16	a)	EUR	2013	2,241	2016	BRISA, EDP, PT CLN
BESI Group	ESIP 3Y AC BBVA EQL JUL16	a)	EUR	2013	1,443	2016	az)
BESI Group	ESIP 3Y RENDIMENTO UK EQL JUL16	a)	EUR	2013	1,311	2016	ba)
BESI Group	ESIP CLN PTI FIN SEP2018	a)	EUR	2013	16,365	2018	7.45% + CLN PT
BESI Group	ESIP USD CLN ASCENDI JUL2015	a)	USD	2013	4,233	2015	6% + Ascendi CLN
BESI Group	ESIP USD CLN ESFIL AUG14	a)	USD	2013	8,828	2014	4.25% + ESFIL CLN
BESI Group	ESIP USD CLN PT JUN2018	a)	USD	2013	1,501	2018	7.35% + CLN PT
BESI Group	ESIP USD TARN USDTRY JUL2018	a)	USD	2013	592	2018	bb)
BESI Group	ESIP 3Y AC SX7P AUG2016	a)	EUR	2013	1,421	2016	bc)
BESI Group	ESIP 3Y AC MULTICH ECOMM AUG2016	a)	EUR	2013	663	2016	bd)
BESI Group	ESIP 4Y LEVERAGE EURIBOR AUG2017	a)	EUR	2013	3,182	2017	be)
BESI Group	ESIP CLN TELECOM ITALIA SEP2018	a)	EUR	2013	19,299	2018	5.90% + Telecom Italia CLN
BESI Group	ESIP 2Y AC REPSOL SEP15	a)	EUR	2013	746	2015	bf)
BESI Group	ESIP 3Y CLN BRISA SEP16	a)	EUR	2013	2,241	2016	6% + Brisa CLN.
BESI Group	ESIP CLN THYSSENKRUPP SEP2018	a)	EUR	2013	13,197	2018	5.50% + THYSSENKRUPP CLN
BESI Group	ESIP 2Y AC SANTANDER OCT15	a)	EUR	2013	1,264	2015	bg)
BESI Group	ESIP CLN COMPORTA OCT2020	a)	EUR	2013	5,086	2020	bh)
BESI Group	ESIP SAN TEF EQL OCT2017	a)	EUR	2013	2,214	2017	bi)
BESI Group	ESIP 2Y RENDIMENTO CMDT OCT15	a)	EUR	2013	2,902	2015	bj)
BESI Group	ESIP 3Y CLN PT SEP16	a)	EUR	2013	10,287	2016	5% + PT CLN
BESI Group	ESIP 3Y VALORIZAÇAO EUROPA OCT16	a)	EUR	2013	204	2016	SX5E Linked
BESI Group	ESIP REVERSE CONVR SX5E APR15	a)	EUR	2013	557	2015	SX5E Linked
BESI Group	ESIP EUR 5Y EDP, PT, THYSS DEC18	a)	EUR	2013	940	2018	7.15% + bk)
BESI Group	ESIP EUR 5Y EDP, PT, TI DEC18	a)	EUR	2013	2,209	2018	7.15% + bk)
BESI Group	ESIP EUR 6Y CLN EDP DEC19	a)	EUR	2013	1,002	2019	6.25% + EDP CLN
BESI Group	ESIP REV. CONV. SANTANDER APR14	a)	EUR	2013	619	2014	bi)
BESI Group	ESIP 2Y AC TELECOMS EQL OCT15	a)	EUR	2013	1,548	2015	bl)
BESI Group	ESIP CLN BRITISH AIRWAYS DEC18	a)	EUR	2013	9,612	2018	6% + British Airways CLN
BESI Group	ESIP CLN THYSSENKRUPP DEC18	a)	EUR	2013	6,064	2018	5.5% + Thyssenkrupp CLN
BESI Group	ESIP 2Y AC SANTANDER NOV2015	a)	EUR	2013	4,895	2015	bg)
BESI Group	ESIP 2Y BONUS EU STOXX50 NOV2015	a)	EUR	2013	3,014	2015	SX5E Linked
BESI Group	ESIP 3Y AC WO G&D NOV16	a)	EUR	2013	1,722	2016	bm)
BESI Group	ESIP 3Y AC WO SANT & TELE NOV16	a)	EUR	2013	994	2016	bi)
BESI Group	ESIP 3Y VALORIZACAO BC EUR NOV16	a)	EUR	2013	485	2016	bn)
BESI Group	ESIP 4Y AC WO BBVA APPLE NOV2017	a)	EUR	2013	986	2017	bo)
BESI Group	ESIP 4Y BULLISH EUROSTOX NOV2017	a)	EUR	2013	1,312	2017	SX5E Linked
BESI Group	ESIP BULLISH IBERIA NOV2015	a)	EUR	2013	953	2015	aw)
BESI Group	ESIP CLN BRITISH AIR DEC18	a)	EUR	2013	1,214	2018	5.35% + British Airways CLN
BESI Group	ESIP EUR 5Y EDP, PT, TITA DEC18	a)	EUR	2013	3,877	2018	6.85% + w)
BESI Group	ESIP EUR 6Y CLN BKT 0 REC DEC19	a)	EUR	2013	921	2019	7.15% + bp)
BESI Group	ESIP USD 5Y EDP, PT, TIT DEC18	a)	USD	2013	4,708	2018	7% + Telecom Italia, PT, EDP CLN
BESI Group	ESIP 3Y AC ACOES PORTUG DEC16	a)	EUR	2013	4,164	2016	av)
BESI Group	ESIP 3Y AC EWW DEC16	a)	EUR	2013	580	2016	bq)
BESI Group	ESIP 3Y AC WO GLAXO DAIMLE DEC16	a)	EUR	2013	973	2016	bm)
BESI Group	ESIP 3Y AC WO JMT GALP DEC16	a)	EUR	2013	914	2016	br)
BESI Group	ESIP 5Y FTD EDP, PT, BRISA DEC18	a)	EUR	2013	1,986	2018	6.5% + bs)
BESI Group	ESIP CLN PEUGEOT SA DEC16	a)	EUR	2013	1,954	2016	4.35% + PEUGEOT CLN
BESI Group	ESIP CLN PT INT FIN DEC18	a)	EUR	2013	2,290	2018	5% + PT CLN
BESI Group	ESIP CLN TELECOM ITALIA SP DEC16	a)	EUR	2013	1,956	2016	4% + Telecom Italia CLN
BESI Group	ESIP DUAL HEATHCARE JUN2014	a)	EUR	2013	1,001	2016	bt)
BESI Group	LCA - Letra de Crédito do agro		BRL	2012 - 2013	4,926	2014	CDI 92% to 99%
BESI Group	LCA APOS		BRL	2013	23,932	2014	CDI 90% to 99%
BESI Group	LCA NOVA		BRL	2013	36,998	2014	CDI 90% to 100%
BESI Group	LCA PRE		BRL	2013	502	2014	PRÉ 100% + 10.05% to 10.73%
BESI Group	Letra de Crédito Imobiliario LCI		BRL	2013	1,724	2014	CDI 94% to 98%
BESI Group	LF LETRA FINANCEIRA BES INVESTIMENTO		BRL	2012 - 2013	32,895	2014 - 2017	CDI 100% to 118%
BESI Group	LF LETRA FINANCEIRA IPCA		BRL	2013	1,628	2018	IPCA 100%+5.8928%
ESPLC	BES1213_25E BESESPLC13/02/2014		EUR	2013	123,110	2014	Fixed Rate 0.73%
ESPLC	BES1213_26E BESESPLC14/02/2014		EUR	2013	127,112	2014	Fixed Rate 0.74%
ESPLC	BES0314_28E BESESPLC07/03/2014		EUR	2013	120,056	2014	Fixed Rate 0.73%
ESPLC	BES0314_29E BESESPLC14/03/2014		EUR	2013	150,049	2014	Fixed Rate 0.74%
ESPLC	BES0314_27E BESESPLC05/03/2014		EUR	2013	130,024	2014	Fixed Rate 0.73%
ESPLC	BES0314_30E BESESPLC20/03/2014		USD	2013	7,237	2014	Fixed Rate 1.12%

(in thousands of euro)

Entity	Description	31.12.2013				
		Currency	Issue Data	Book Value	Maturity	Interest Rate
Lusitano Mortgage nº 6	Lusitano Mortgage nr 6- Classe A	EUR	2007	489,900	2060	Euribor + 0.20%
Lusitano Mortgage nº 6	Lusitano Mortgage nr 6- Classe B	EUR	2007	6,502	2060	Euribor + 0.30%
Lusitano Mortgage nº 6	Lusitano Mortgage nr 6- Classe C	EUR	2007	10,003	2060	Euribor + 0.45%
Lusitano SME nº 1	Lusitano SME nr 1- Classe A	EUR	2006	30,177	2028	Euribor + 0.15%
Lusitano SME nº 1	Lusitano SME nr 1- Classe B	EUR	2006	32,516	2028	Euribor + 0.05%
Lusitano SME nº 1	Lusitano SME nr 1- Classe C	EUR	2006	27,105	2028	Euribor + 2.20%
				11,919,450		

a) Liabilities at fair value through profit and loss or with embedded derivatives.
b) Indexed to previous cupon + spread - Euribor.
c) Indexed to reverse floater.
d) Indexed to a basket composed by Dow Jones Eurostoxx 50, S&P 500 and Nikkei 225.
e) Indexed to a basket composed by BBVA and BSCH.
f) Indexed to credit risk.
g) Indexed to a basket composed by France Telecom and Deutsche Telekom.
h) Indexed to a basket composed by Petrobras, Companhia Siderurgia Nacional, Itau Unibanco and Banco Bradesco.
i) Indexed to a basket composed by Ericsson, Komatsu, Santander, Sanofi-Aventis and ABB LTD.
j) Indexed to credit (First to default) of Santander, PT INT FIN, EDP and Brisa.
k) Indexed to a basket composed by Petrobras, Gerdau, Vale, Itau Unibanco and Banco Bradesco.
l) Indexed to a basket composed by Louis Vuitton, Nokia, Bayer and EON.
m) Indexed to a basket composed by Eurostoxx50, SP500, Nasdaq100 and EWZ.
n) Indexed to a basket composed by TOPIX, HANG SENG, HSCEI, NIFTY, KOSPI2 and MSCI Singapore.
o) Indexed to a basket composed by HSCEI, MSCI India, MSCI Taiwan and SP ASX200.
p) Indexed to a basket composed by Petrobras, Companhia Siderurgia Nacional, Vale SA, Itau Unibanco and Banco Bradesco.
q) Indexed to a basket composed by MSCI Daily TR Net Emerging Markets Egypt USD and FTSE/JSE Africa TOP40.
r) 5% + Indexed to a basket composed by MSCI Daily TR Net Emerging Markets Egypt USD and FTSE/JSE Africa TOP40.
s) Indexed to a basket composed by Gilead sciences, Celgene corp, Mylan Inc,Teva Pharmaceutical Ind Ltd and Amgen Inc.
t) 4% + Indexed to Eurostat Consumer Price Index (CPI) (excl. Tobaco) for the Eurozone.
u) Indexed to a basket composed by Philips, Siemens, Iberdrola and Veolia.
v) Indexed to a basket composed by Oracle, SAP, Caterpillar, Komatsu, BHP Billiton, Mitsubishi.
w) Indexed to a basket composed by Daimler, DB, E.ON.
x) 4%+ Barclays Capital Armour EUR 7% Index.
y) Indexed to a basket composed by Ambev, TAM, Brasil Foods, Itau Unibanco, Gerdau and Cia Energética de Minas Gerais.
z) Indexed to a basket composed byTelefonica, Banco Santander, BBVA and Banco Popular.
aa) Indexed to a basket composed by Telefonica, Iberdrola, ENI spa and Deutsche Telecom.
ab) Indexed to a basket composed by Telefonica, Santander, Deutsche Bank and Deutsche Telecom.
ac) Indexed to a basket composed by Telenor, Aker Solutions, Tele2 and Volvo.
ad) Indexed to a basket composed by EUR/USD; EUR/NOK and EUR/SEK currency.
ae) Indexed to a basket composed by China Life Insurance Co, Petrochina Co and China Mobile LTD.
af) Indexed to a basket composed by Anglo American, Cie Financiere Richemont, Porsche, Pernod Ricard, LVMH Moet Hennessy.
ag) Indexed to a basket composed by FedEX, Macy's, Harley Davidson, Red Hat and Swiss RE.
ah) Indexed to a basket composed by Telefonica, BNP Paribas, Vodafone Group PLC and E.ON.
ai) Indexed to a basket composed by HTC, Panasonic and Samsung.
aj) Indexed to a basket composed byTelefonica, Repsol, Santander and France Telecom.
ak)Indexed to a basket of Commodities Corn, Wheat and Sugar.
al) Indexed to a basket of Commodities Corn, Wheat and Soybean.
am) Indexed to a basket composed by Nestle, Roche, Deutsche Telecom and Societe Generale.
an) Indexed to a basket of Commodities Copper, Gold and Palladium.
ao) Indexed to credit of Portugal Telecom, Telefonica and Telecom Italia.
ap) Indexed to credit of Gas Natural, Renault and Telecom Italia.
aq) Indexed to a basket composed by Petroleo Brasileiro, Companhia Vale Rio Doce, Itau Unibanco and BRF Brasil Foods S.A..
ar) Indexed to a credit of Portugal Telecom, EDP and Telecom Italia.
as) Indexed to a basket of credit FTD: Telecom Italia, EDP, Portugal Telecom.
at) Indexed to a basket composed by Repsol, BSCH, Nestlé.
au) Indexed to a basket of credit FTD: Arcelor Mittal, Telefonica and Intesa SPA.
av) Indexed to a basket composed by EDP, Portugal Telecom and GALP.
aw) Indexed to a basket of linked PSI20 and IBEX.
ax) Indexed to a basket composed by Ishares MSCI Brazil Index Fund, Russian Depositary Index USD, S&P ASX 200.
ay) Indexed to a basket composed by BBVA, BSCH and Repsol.
az) Indexed to a share of BBVA.
ba) Indexed to UKX linked.
bb) 8.5% + USD/TRY FX Linked
bc) Indexed to SX7P linked.
bd) Indexed to a basket composed by Amazon, Ebay and Fedex.
be) Indexed to euribor 3 months.
bf) Indexed to shares of Repsol .
bg) Indexed to shares of Santander.
bh) 7% + Indexed to bonds of Comporta.
bi) Indexed to a basket composed by Santander and Telefonica.
bj) Indexed to Commodities NYMEX - WTI Crude Oil.
bk) Indexed to credit of EDP, PT and Thyssen.
bl) Indexed to a basket composed by Deutsche Telekom AG, Telefonica SA and Vodafone Group PLC.
bm) Indexed to a basket composed by GlaxoSmithKline PLC and Daimler.
bn) Indexed to a basket composed by HSBC Holdings PLC, Santander, BNP, BBVA and UBS.
bo) Indexed to a basket composed by BBVA and APPLE.
bp) Indexed to credit ofTelecom Italia, PT, Peugeot, EDP and ThyssenKrupp.
bq) Indexed to EWW linked.
br) Indexed to a basket composed by Jeronimo Martins and Galp.
bs) Indexed to credit (First to default) of PT, EDP and Brisa.
bt) Indexed to a basket composed by Jonhson & Johnson, Bayer and Roche Holding.

NOTE 39 – INVESTMENT CONTRACTS

As at 31 December 2013 and 2012, the liabilities arising from investment contracts are analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Fixed rate investment contracts	2,608,643	1,298,933
Investment contracts in which the financial risk is borne by the policyholder	1,669,423	2,114,630
	4,278,066	**3,413,563**

In accordance with IFRS 4, the insurance contracts issued by the Group for which there is only a transfer of financial risk, with no discretionary participating features, are classified as investment contracts.

The movement in the liabilities arising out from the investment contracts with fixed rate is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Balance at the begginning of the period	1,298,933	-
Change in the consolidation scope	-	376,975
Net deposits received	1,420,142	1,057,880
Benefits paid	(195,104)	(143,288)
Change on the deferred acquisition costs	(1,841)	(10,601)
Technical interest charged	86,513	17,967
Balance at the end of the period	**2,608,643**	**1,298,933**

The movement in the liabilities arising out from the investment contracts in which the financial risk is borne by the policyholder is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Balance at the begginning of the period	2,114,630	-
Change in the consolidation scope	-	1,916,883
Net deposits received	255,128	260,993
Benefits paid	(842,558)	(220,506)
Technical result	142,223	157,260
Balance at the end of the period	**1,669,423**	**2,114,630**

NOTE 40 – PROVISIONS

As at 31 December 2013 and 2012, the balance of provisions presents the following movements:

(in thousands of euro)

	31.12.2013	31.12.2012
Balance at the begginning of the period	**236,950**	**190,450**
Change in the consolidation scope	-	16,945
Charge/ Write back of the year	(10,264)	56,978
Charge off	(16,071)	(17,954)
Exchange differences and others	(18,163)	(9,469)
Balance at the end of the period	**192,452**	**236,950**

Provisions, for an amount of euro 192,452 thousand (31 December 2012: euro 236,950 thousand), are intended to cover litigations and other contingencies related to the Group's activities, the more relevant being as follows:

- Contingencies in connection with the exchange, during 2000, of Banco Boavista Interatlântico shares for Bradesco shares. The Group has provisions for an amount of approximately euro 55.3 million (31 December 2012: euro 60.3 million) to cover these contingencies;
- Contingencies in connection with legal processes established following the bankruptcy of clients which might imply losses for the Group. Provisions for an amount of euro 45.8 million as at 31 December 2013 (31 December 2012: euro 67.7 million) were established to cover these losses;

- Contingencies for ongoing tax processes. To cover these contingencies, the Group maintains provisions of approximately euro 22.1 million (31 December 2012: euro 36.1 million). The contingencies for ongoing tax processes includes euro 17.9 million related with the insurance business, of which euro 16.5 million relate to exercises already inspected by the Portuguese tax authorities and for which a judicial claim has been presented, being the total amount claimed of euro 19.4 million;
- The remaining balance of euro 69.3 million (31 December 2012: euro 72.9 million), is maintained to cover potential losses in connection with the normal activities of the Group, such as frauds, robbery and on-going judicial cases.

NOTE 41 – INCOME TAXES

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

Income taxes (current or deferred) are recognised in the income statement except in cases where the underlying transactions have been reflected in equity items.

In these situations, the corresponding tax is also charged to equity, not affecting the net profit for the year.

The Group determined its current income tax for the years ended 31 December 2013 and 2012, on the basis of a nominal tax rate of 25% plus a Municipal Surcharge ("Derrama Municipal") of 1.5%, according to Law no. 107-B/2003, of 31 December and Law no. 2/2007, of 15 January (which approved the Local Finance Law, "Lei das Finanças Locais"). For year 2012, there was an additional fee up to 5% on the State surcharge ("Derrama Estadual") over taxable income above 10 million, according to Law No. 64-B/2011, of 30 December (2012 State Budget Law, "Lei do Orçamento do Estado para 2012").

Additionally, in the 2012 and 2013 income tax calculation was considered the Decree-Law no. 127/2011, of 31 December, which regulates the transfer of pension benefits responsibilities to the National Social Security and that, in conjunction with Article 183 of Law no. 64-B/2011, of 30 December (2012 State Budget Law), established a special tax deductibility for expenses and other changes in equity arising from such transfer:

- The negative equity variation from the accounting policy change on recognizing actuarial gains and losses which were previously deferred, will be fully deductible in equal parts during 10 years from 1 January 2012. This impact is recorded in equity;
- The settlement effect (determined by the difference between the liability measured in accordance with the IAS 19 criteria and the criteria established in the agreement) will be fully deductible, from 1 January 2012, for purposes of determining taxable income, in equal parts, according to the average life expectancy of pensioners whose responsibilities were transferred (16 years). This impact is recorded in the income statement.

Deferred tax assets arising from the transfer of pension benefits responsibilities and the accounting policy change on recognizing actuarial gains and losses will be recovered during 10 and 16 years, through equity and income statement, respectively.

Deferred taxes are calculated based on tax rates anticipated to be in force at the temporary differences reversal date, which corresponds to the rates enacted or substantively enacted at the balance sheet date.

For the year 2012, deferred tax calculation was broadly calculated based on an aggregate rate of 29%, resulting from the sum of the corporate tax rate (25%), a Municipal Surcharge rate (1.5%) and an additional fee of 2.5% on the State surcharge provided for under the additional Stability and Growth Program measures ("Programa de Estabilidade e Crescimento (PEC)") approved by Law no. 12-A/2010, of 30 June. For the year 2013, deferred tax was broadly calculated based on an aggregate rate of 29.5%, resulting from the sum of the corporate tax rate (23%) approved by Law No. 2/2014, of 16 January, Municipal Surcharge rate (1.5%) and an average expected rate of State Surcharge (5%).

The deferred tax on tax losses was specifically calculated based on income tax rate (23%) approved by Law No. 2/2014, of 16 January, which amended IRC Code.

The Portuguese Tax Authorities are entitled to review the annual tax return of the Group and its subsidiaries domiciled in Portugal for a period of four years or six years in case of tax losses. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Board of Directors of the Group subsidiaries domiciled in Portugal are confident that there will be no material differences arising from tax assessments within the context of the financial statements.

Income taxes of the Group's entities located abroad are subject to the tax laws prevailing in the respective countries where they operate.

During the year ended 31 December 2013, BES voluntarily acceded to the exceptional tax debts regularization regime (RERD), approved by Decree-Law no. 151-A/2013, of 31 October. The accession to the above mentioned regime covers essentially tax litigation processes arising from additional corporate income tax assessments, regarding the years 2003 to 2007, which continues to pursue their respective administrative and court proceedings and which outcome we predict to be favourable to BES. Under this regime, BES voluntarily proceeded to the payment of euro 131 million, that will assure, in case BES experiences an unfavourable outcome, the benefit of remission of the administrative fines that would be payable without such accession.

The deferred tax assets and liabilities recognised in the balance sheet as at 31 December 2013 and 2012 can be analysed as follows:

(in thousands of euro)

	Assets		Liabilities		Net	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Financial instruments	65,683	74,257	(68,396)	(106,717)	(2,713)	(32,460)
Loans and advances to customers impairment	465,291	402,750	-	-	465,291	402,750
Property and equipment	233	271	(8,889)	(8,901)	(8,656)	(8,630)
Intangible assets	104	102	-	-	104	102
Investments in subsidiaries and associates	-	-	(47,823)	(163,986)	(47,823)	(163,986)
Provisions	57,759	54,356	-	-	57,759	54,356
Pensions	263,063	257,901	(495)	(35,507)	262,568	222,394
Long-term service benefits	8,283	7,726	-	-	8,283	7,726
Debt securities issued	-	-	(462)	(1,010)	(462)	(1,010)
Other	3,898	16,815	-	(4,117)	3,898	12,698
Tax losses brought forward	198,940	80,654	-	296	198,940	80,950
Deferred tax asset/ (liability)	**1,063,254**	**894,832**	**(126,065)**	**(319 942)**	**937,189**	**574,890**
Assets/ liabilities compensation for deferred taxes	(28,936)	(165,927)	28,936	165,927	-	-
Deferred tax asset/ (liability), net	**1,034,318**	**728,905**	**(97,129)**	**(154,015)**	**937,189**	**574,890**

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

The changes in net deferred taxes were recognised as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Balance at the beginning of the period	574,890	601,624
Recognised in the income statement	319,888	52,434
Recognised in fair value reserve	(20,282)	(56,617)
Recognised in equity - other comprehensive income	1,303	9,882
Recognised in other reserves	(7,152)	(30,280)
Changes in the scope of consolidation	-	(291)
Amounts paid under the RERD	65,375	-
Exchange differences and other	3,167	(1,862)
Balance at the end of the period (Assets/ (Liabilities))	**937,189**	**574,890**

The current and deferred taxes recognised in the income statement and reserves, during 2013 and 2012 is analysed in the following table:

(in thousands of euro)

	31.12.2013		31.12.2012	
	Recognised in (profit)/ loss	Recognised in reserves	Recognised in (profit)/ loss	Recognised in reserves
Financial Instruments	(50,029)	20,282	(16,371)	60,205
Loans and advances to customers impairment	(62,541)	-	(69,029)	-
Property and equipment	26	-	(153)	-
Intangible assets	(2)	-	-	-
Investments in subsidiaries and associates	(116,572)	409	81,689	(3,528)
Provisions	(3,403)	-	(20,343)	-
Pensions	3,668	(1,712)	4,005	(6,354)
Long-term service benefits	(557)	-	459	-
Debt securities issued	(548)	-	1,214	-
Other	10,214	-	(1,633)	-
Tax losses brought forward	(100,144)	7,152	(32,272)	26,692
Deferred taxes	**(319,888)**	**26,131**	**(52,434)**	**77,015**
Current taxes	147,349	(64,228)	135,350	43,390
Total tax recognised (profit)/ loss	**(172,539)**	**(38,097)**	**82,916**	**120,405**

The current tax accounted for in reserves during 2013 of euro 64,228 thousand, is related to non realised gains in fair value reserve in the assurance activity (31 December 2012: euro 59,247 thousand). As at 31 December 2012, the current tax accounted for in reserves included an IRC tax credit of euro 7,773 thousands from negative equity charges (primarily related to pension benefits).

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

(in thousands of euro)

	31.12.2013		31.12.2012	
	%	Amount	%	Amount
Profit before taxes		(687,410)		202,752
Banking levy		27,289		27,910
Profit before tax for the tax rate reconciliation		(660,121)		230,662
Statutory tax rate				
Income tax calculated based on the statutory tax rate				72,659
Tax-exempt dividends				(12,147)
Tax-exempt profits (off shore)				(32,449)
Diferences of tax rates between subsidiaries				-
Net Income in consolidated Investment Funds				2,803
(Profit)/ Loss on taxes vs accounting				63,887
Non-taxable share of profit in associates				(2,410)
Non deductible (income)/ costs				20,375
Changes in estimates				(59,968)
Rates and tax base changes resulting from IRC				-
Non deductible losses arising from subsidiaries acquisition				33,230
Other				(3,064)
	26,1	(172,539)	35,9	82,916

Following the Law No. 55-A/2010 of 31 December, was established a Banking levy, which is not eligible as a tax cost, and whose regime was extended by Law n.º 64-B/2011, of 30 December and by Law n.º 66-B/2012, of 31 December. As at 31 December 2013, the Group recognised a cost of euro 27.3 million (31 December 2012: euro 27.9 million, which was included in other operating income and expenses – Direct and indirect taxes (see Note 14).

NOTE 42 – SUBORDINATED DEBT

The balance subordinated debt is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Bonds	1,002,167	774,473
Perpetual Bonds	64,131	65,343
	1,066,298	839,816

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

(in thousands of euro)

Issuer	Designation	31.12.2013					
		Currency	Issue Date	Amount Issued	Carrying amount	Interest Rate	Maturity
BES Finance	Subordinated perpetual bonds	EUR	2002	30,843	23,603	3.06%	2014[a)]
BES Finance	Subordinated perpetual bonds	EUR	2004	95,767	20,211	4.50%	2015[a)]
BES Finance	Bonds	EUR	2008	20,000	20,165	8.73%	2018
BESI	Bonds	BRL	2007	21,134	16,891	CDI 100%+1.3%	2014
BESI	Bonds	BRL	2008	8,416	7,918	CDI 100%+1.3%	2015
BESI	Bonds	BRL	2008	673	896	IPCA 100%+8.3%	2015
BESI	Bonds	BRL	2008	1,010	944	CDI 100%+1.3%	2015
BESI	Bonds	EUR	2005	60,000	11,064	Euribor 3M + 0.95%	2015
BESI	Bonds	EUR	2003	10,000	273	Indexed to CMS	2033
BES	Bonds	EUR	2004	25,000	22,590	Euribor 6M + 1.25%	2014
BES	Bonds	EUR	2008	41,550	3,848	Euribor 3M + 1%	2018
BES	Bonds	EUR	2008	638,450	83,055	Euribor 3M + 8.5%	2019
BES	Bonds	EUR	2008	50,000	50,082	Euribor 3M + 1.05%	2018
BES	Bonds	EUR	2011	8,174	8,182	Fixed Rate 10%	2021
BES	Bonds	EUR	2013	750,000	751,964	Fixed Rate 7.125%	2023
BES Vida	Bonds	EUR	2002	45,000	24,295	Euribor 3M + 2.20%	2022
BES Vida	Subordinated perpetual bonds	EUR	2002	45,000	20,317	Euribor 3M + 2.50%	2014[a)]
				1,851,017	1,066,298		

a) Call option date.

The changes occurred in subordinated debt during the year ended 31 December 2013 are analysed as follows:

(in thousands of euro)

	Balance as at 31.12.2012	Issues	Repayments	Net Repurchases	Other movements [a)]	Balance as at 31.12.2013
Bonds	774,473	750,000	(1,945)	(511,808)	(8,553)	1,002,167
Perpetual Bonds	65,343	-	-	(1,318)	106	64,131
	839,816	**750,000**	**(1,945)**	**(513,126)**	**(8,447)**	**1,066,298**

a) Other movements include accued interest, fair value and foreign exchange translation adjustments.

In accordance with the accounting policy described in Note 2.8, debt issued repurchased by the Group is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement. Following the repurchases performed in 2013 and 2012, the Group has recognised a gain of euro 4.6 million and of euro 39.6 million, respectively (see Notes 14 and 38).

NOTE 43 – OTHER LIABILITIES

As at 31 December 2013 and 2012, the balance other liabilities is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Public sector	110,227	135,693
Deposit accounts	215,617	173,955
Creditors from transactions with securities	60,433	89,357
Suppliers	56,380	49,619
Creditors from factoring operations	3,044	3,509
Creditors from insurance operations	25,202	2,040
Other sundry creditors	278,984	228,052
Long-term service benefits (see Note 16)	30,376	28,691
Other accrued expenses	180,499	127,430
Deferred income	31,807	22,267
Stock exchange transactions pending settlement	129,189	92,363
Foreign exchange transactions pending settlement	7,012	19,999
Other transactions pending settlement	90,953	172,627
	1,219,723	**1,145,602**

As at 31 December 2013, the deferred income includes the amount of euro 21,989 thousand relating to the value of the remaining in force contracts acquired of BES Vida, after reinsurance transaction of life insurance risk portfolio held in 2013 (see notes 13 and 31). This amount will be amortized to income over the remaining life of the respective contracts.

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

NOTE 44 – SHARE CAPITAL, SHARE PREMIUM, OTHER EQUITY INSTRUMENTS, FAIR VALUE RESERVES AND OTHER RESERVES AND RETAINED EARNINGS

Ordinary shares

As at 31 December 2013, the Bank's share capital in the amount of euro 5,040.1 million, was represented by 4,017,928,471 ordinary shares, which were subscribed and fully paid by the following entities:

	% Capital	
	31.12.2013	31.12.2012
BESPAR - Sociedade Gestora de Participações Sociais, S.A.	35.29%	35.29%
Credit Agricole, S.A. (France)	10.81%	10.81%
Silchester International Investors Limited (United Kingdom)[3]	5.67%	5.76%
Bradport, SGPS, S.A. [1]	4.83%	4.83%
Capital Research and Management Company (USA)[3]	4.14%	-
PT Prestações - Mandatária de Aquisições e Gestão de Bens, S.A.[2]	2.09%	2.09%
BlackRock, Inc.(USA)[3] [4]	2.00%	-
Espírito Santo Financial Group, S.A. (Luxembourg)	1.38%	0.74%
Other	33.79%	40.48%
	100.00%	100.00%

(1) Portuguese Law company wholly owned by Banco Bradesco (Brazil), to which are attributable the voting rights.
(2) Company fully and indirectly dominated by Portugal Telecom, SGPS, SA..
(3) Direct and indirect interest.
(4) according to the BlackRock, Inc. notification, received in October 2013.

Preference shares

The BES Finance issued 450 thousand non-voting preference shares, which were listed in the Luxembourg stock Exchange in July 2003. In March 2004, 150 thousand preference shares were additionally issued forming a single series with the existing preference shares, in a total amount of euro 600 million. The face value of these shares is euro 1,000 and is wholly (but not partially) redeemable by option of the issuer at its face value, as at 2 July 2014, subject to prior approvals of BES and Bank of Portugal. During the year ended 31 December 2011, the Group acquired 338 thousand preference shares, issued by BES Finance, of which 197 thousand were acquired in scope of the exchange offer over securities referred to above. In the year ended 31 December 2012, the Group acquired 19,000 preference shares, having recorded a net gain in the amount of euro 4.5 million recognised in Other reserves. During the year 2013, the Group acquired 34 thousand preference shares, having recorded a net gain in the amount of euro 6.096 million. As at 31 December 2013, there were 159 thousands preference shares outstanding with a value of euro 159.3 million.

These preference shares pay an annual non cumulative preferred dividend, if and when declared by the Board of Directors of the issuer, of 5.58% per annum on nominal value. The dividend is paid on 2 July of each year, beginning 2 July 2004 and ending 2 July 2014.

If the issuer does not redeem these preference shares on 2 July 2014, the dividend applicable rate will be the 3 months Euribor plus 2.65%, with payments on 2 January, 2 April, 2 July and 2 October of each year, if declared by the Board of Directors of the issuer.

BES unconditionally guarantees dividends and principal repayment related to the above mentioned issue, until the limit of the dividends previously declared by the Board of Directors of the issuer.

These shares rank lower than any BES liability, and *pari passu* relative to any preference shares that may come to be issued by the Bank.

Share premiums

In the year ended 31 December 2013, share premiums are represented by euro 1,067,596 thousand related to the premium paid by the shareholders following the share capital increases.

Other equity instruments

The Group issued during 2010, perpetual subordinated bonds with interest conditioned in the total amount of euro 320 million, of which euro 270 million were issued by BES and the remaining euro 50 million by BESI. These bonds have an interest conditioned non-cumulative, payable only if and when declared by the Board of Directors.

In scope of the exchange offer over securities, during 2011, other equity instruments issued by BES reduced by an amount of euro 240,448 thousand and Non--controlling interests issued by BESI reduced by an amount of euro 46,269 thousand.

These bonds are subordinated in respect of any liability of BES and BESI and *pari passu* in respect of any subordinated bonds with identical characteristics that may be issued by the Bank. Given their characteristics, these obligations are considered as equity instruments in accordance with the accounting policy described in Note 2.10.

The main characteristics of these equity instruments are presented as follows:

(in thousands of euro)

Issuer	Issue date	Currency	Book Value	Interest rate	Coupon date	Reimbursement possibility [2]
BES	Dec/10	EUR	26,296	8.50%	15/Mar and 14/Sep	From Sep/15
BES	Dec/10	USD	2,866	8.00%	15/Mar and 14/Sep	From Sep/15
			29,162			
BESI [1]	Oct/10	EUR	3,681	8.50%	20/Apr and 20/Oct	From Oct/15
			32,843			

(1) BESI issue is included in the balance non-controlling interest (see Note 45).
(2) The reimbursement of these securities may be performed in full, but not partially, at the option of the issuer, subject to prior approval of the Bank of Portugal.

During the year ended 31 December 2013, the Group made an interest payment in the amount of euro 2,815 thousand (euro 2,191 thousand, net of taxes), which was recorded as a deduction to equity.

Treasury stock

During 2011, BES acquired own shares under PRVIF (see Note 16). As at 27 January 2012, BES sold 67,184 shares, following the retirement of two directors to whom had been assigned 33,592 shares on the distribution of results in 2010, according to PRVIF approved by the General Meeting held on 6 April 2010 and in accordance with the proposal of the Board on the acquisition and disposal of own shares approved at the General Meeting on 31 March 2011.

The movement in treasury stocks is analysed as follows:

	31.12.2013		31.12.2012	
	Number of shares	Amount (thousands of euro)	Number of shares	Amount (thousands of euro)
Transactions under PRVIF				
Opening balance [1]	275,291	801	342,475	997
Shares acquired	-	-	-	-
Shares sold [2]	-	-	(67,184)	(196)
	275,291	801	275,291	801
Other Transactions				
Opening balance	10,112,915	6,190	-	-
Changes in the scope of consolidation [3]	-	-	55,271,581	35,540
Shares acquired	2,154,826	1,925	14,085,500	6,964
Shares sold	(12,197,591)	(8,058)	(59,244,166)	(36,314)
	70,150	57	10,112,915	6,190
Balance in the end of the period/ exercise	345,441	858	10,388,206	6,991

(1) Includes shares acquired in 2011 at a price of 2,909 euro per share.
(2) Shares sold at a price of 1,315 euro per share in January 2012.
(3) Respects to BES shares in BES Vida portfolio, following the control acquisition in May 2012.

NOTE 45 – FAIR VALUE RESERVE, OTHER RESERVES AND RETAINED EARNINGS AND NON CONTROLLING INTEREST

Legal reserve

The legal reserve can only be used to absorb accumulated losses or to increase the amount of the share capital. Portuguese legislation applicable to the banking sector (Article 97 of Decree-Law no. 298/92, 31 December) requires that 10% of the profit for the year be transferred to the legal reserve until it is equal to the share capital.

Fair value reserve

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

The changes in these balances were as follows:

(in thousands of euro)

	Fair value reserve			Other comprehensive income, other reserves and retained earnings					Total
	Available for-sale financial assets	Deferred tax reserves	Total fair value reserve	Actuarial deviations (net of taxes)	Exchange differences (net of taxes)	Legal reserve	Other reserves and retained earnings	Total Other reserves and retained earnings	
Balance as at 31 December 2011	(515,827)	70,652	(445,175)	(641,315)	92	85,000	1,361,868	805,645	360 470
Acquisition of preference shares [(a)]	-	-	-	-	-	-	4,478	4,478	4,478
Actuarial Deviations	-	-	-	(173,171)	-	-	-	(173,171)	(173,171)
Interest of other equity instruments	-	-	-	-	-	-	(1,864)	(1,864)	(1,864)
Dividends from preference shares	-	-	-	-	-	-	(6,137)	(6,137)	(6,137)
Changes in fair value	747,463	(131,438)	616,025	-	-	-	-	-	616,025
Exchange differences	-	-	-	-	(36,939)	-	-	(36,939)	(36,939)
Transactions with non-controlling interests	-	-	-	-	-	-	497	497	497
Other equity movements of associated companies	-	-	-	-	-	-	(9,800)	(9,800)	(9,800)
Other	-	-	-	-	-	-	(2,837)	(2,837)	(2,837)
Balance as at 31 December 2012	231,636	(60,786)	170,850	(814,486)	(36,847)	85,000	1,237,447	471,114	641,964
Acquisition of preference shares [(a)]	-	-	-	-	-	-	6,096	6,096	6,096
Actuarial Deviations	-	-	-	(97,982)	-	-	-	(97,982)	(97,982)
Interest of other equity instruments	-	-	-	-	-	-	(2,191)	(2,191)	(2,191)
Dividends from preference shares	-	-	-	-	-	-	(6,950)	(6,950)	(6,950)
Own shares variations	-	-	-	-	-	-	4,470	4,470	4,470
Changes in fair value	(174,800)	43,946	(130,854)	-	-	-	-	-	(130,854)
Exchange differences	-	-	-	-	(49,830)	-	-	(49,830)	(49,830)
Reserve recognition	-	-	-	-	-	12,197	83,904	96,101	96,101
Transactions with non-controlling interests	-	-	-	-	-	-	1,804	1,804	1,804
Other equity movements of associated companies	-	-	-	-	-	-	1,502	1,502	1,502
Other	-	-	-	-	-	-	4,755	4,755	4,755
Balance as at 31 December 2013	56,836	(16,840)	39,996	(912,468)	(86,677)	97,197	1,330,837	428,889	468,885

(a) - value net tax.

The fair value reserve is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Amortised cost of available-for-sale financial assets	8,729,266	10,758,099
Accumulated impairment losses recognised	(297,035)	(237,967)
Amortised cost of available-for-sale financial assets, net of impairment	8,432,231	10,520 132
Fair value of available-for-sale financial assets	8,486,605	10,755,310
Net unrealised gains (losses) recognised in the fair value reserve	54,374	235,178
Fair value reserves related to securities reclassified as held-to-maturity investments	(2,409)	(3,249)
Income taxes	(16,840)	(60,786)
Fair value reserves of associates	3,207	1,705
Net fair value reserve	38,332	172,848
Non-controlling interest	1,664	(1,998)
Fair value reserve attributable to equity holders of the Bank	**39,996**	**170,850**

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

(in thousands of euro)

	31.12.2013	31.12.2012
Balance at the beginning of the period	**170,850**	**(445,175)**
Changes in fair value	167,578	1,177,565
Disposals during the period	(441,264)	(600,206)
Impairment recognised during the period	98,886	99,308
Increase in share capital of subsidiaries [(a)]	-	70,796
Deferred taxes recognised in reserves during the period	43,946	(131,438)
Balance at the end of the period	**39,996**	**170,850**

(a) BES Vida.

Non-controlling interest

Non-controlling interests by subsidiary are analysed as follows:

(in thousands of euro)

	31.12.2013		31.12.2012	
	Balance sheet	Income statement	Balance sheet	Income statement
BES ANGOLA	522,562	14,353	396,369	25,554
BESI [a)]	3,681	-	3,681	-
AMAN BANK	37,187	2,775	34,974	1,745
ES CONCESSÕES	23,404	(4,372)	25,868	(5,673)
FCR VENTURES II	12,549	(3,846)	17,676	499
BES Securities	4,398	(114)	5,480	(147)
BES Investimento do Brasil	29,299	1,367	32,886	2,292
ESAF	13,642	2,090	12,887	1 991
BES AÇORES	17,304	(939)	18,018	530
Espírito Santo Investment Holding	-	(1,522)	3,967	(4,607)
BEST	21,940	3,687	18,161	2,989
FUNGEPI	114,784	(8,790)	56,537	(570)
Others	1,853	(2,002)	42,941	(868)
	802,603	**2,687**	**669,445**	**23,735**

a) Corresponds to the issued amount of other equity instruments (see Note 44).

The movements in non-controlling interests in the year ended 31 December 2013 and 2012 are analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Non-controlling interests at the beginning of the period	**669,445**	**588,447**
Changes in the scope of consolidation	32,215	74,293
Increase/ (decrease) in share capital of subsidiaries	158,702	13,527
Dividends paid	(2,812)	(2,924)
Changes in fair value reserve	3,175	22
Exchange differences and other	(60,809)	(27,655)
Profit for the year	2,687	23,735
Non-controlling interests at the end of the period	**802,603**	**669,445**

NOTE 46 – OFF-BALANCE SHEET ITEMS

As at 31 December 2013 and 2012 off-balance sheet items can be analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Contingent liabilities		
Guarantees and stand by letters of credit	7,617,603	8,023,520
Assets pledged as collateral	20,425,200	21,632,555
Open documentary credits	4,230,944	3,776,399
Other	278,493	531,757
	32,552,240	**33,964,231**
Commitments		
Revocable commitments	7,107,506	5,462,823
Irrevocable commitments	1,655,113	3,280,971
	8,762,619	**8,743,794**

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

As at 31 December 2013, the balance assets pledged as collateral include:

- Securities pledged as collateral to the Bank of Portugal in the scope of a liquidity facility collateralised by securities for an amount of euro 18.8 billion (31 December 2012: euro 19.6 billion);
- Securities pledged as collateral to the Portuguese Securities and Exchange Commission (CMVM) in the scope of the Investors Indemnity System (*Sistema de Indemnização aos Investidores*) for an amount of euro 17.2 million (31 December 2012: euro 20.8 million);
- Securities pledged as collateral to the Deposits Guarantee Fund (*Fundo de Garantia de Depósitos*) for na amount of euro 75.7 million (31 December 2012: euro 82.6 million);
- Securities pledged as collateral to the European Investment Bank for an amount of euro 1,340.0 million (31 December 2012: euro 1,822.5 million).

The above mentioned securities pledged as collateral are booked in the available-for-sale portfolio and they can be executed in case the Group does not fulfil its obligations under the terms of the contracts.

Documentary credits are irrevocable commitments, by the Group, in the name of its clients, to pay or order to pay a certain amount to a supplier of goods or services, within a determined term, against the exhibition of the expedition documentation of the goods or service provided. The condition of irrevocable consists of the fact that the terms initially agreed can only be changed or cancelled with the agreement of all parties.

Revocable and irrevocable commitments represent contractual agreements to extend credit to Group's customers (eg. unused credit lines). These agreements are, generally, contracted for fixed periods of time or with other expiration requisites, and usually require the payment of a commission. Substantially, all credit commitments require that clients maintain certain conditions verified at the time when the credit was granted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the client and its business, like any other commercial operation. When necessary, the Group require that these operations are collateralised. As it is expected that the majority of these operations will mature without any use of funds, these amounts do not represent necessarily future out-flows.

Additionally, the off-balance sheet items related to banking services provided are as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Securities and other items held for safekeeping on behalf of customers	53,402,001	54,335,220
Assets for collection on behalf of clients	242,383	294,295
Securitised loans under management (servicing)	2,473,353	2,671,390
Other responsibilities related with banking services	6,242,923	8,784,286
	62,360,660	**66,085,191**

In the scope of the activity regarding the management of customers funds and considering the risk profile of each customer, the Group offers a variety of investment solutions which include the direct subscription of debt instruments issued by several entities, namely entities included in the Group's consolidation scope and other related parties from the non-financial sector of Espírito Santo Group (GES). In this context, the Group makes available to customers information on the risks associated with the subscription of such instruments as it is required by the applicable regulations. These debt instruments, which are held under custody are accounted as an off-balance sheet item under Securities and other items for the safekeeping on behalf of clients.

Under this activity, Group customers subscribed debt instruments issued by Espírito Santo International, S.A. ('ESI') and its subsidiaries Espírito Santo Property, S.A. and Espírito Santo Industrial, S.A., in the amount of euro 3,035 million, of which euro 1,565 million were held, as at 31 December 2013, by retail customers and 1,470 million euro were held, on the same date, by institutional customers. As of March 14, 2014 total amount of debt instruments held by retail clients was euro 867 million.

ESI Group has prepared a reorganization plan and a deleverage program in order to be able to rebalance its financial position and proceed with the reimbursement of its liabilities. The measures included in the referred reorganization plan and deleverage program were integrated in a business plan and the cash flow projections for the 10 year period up to 2023, which were subject to analysis made under the review of the loan impairment losses (*Exercício Transvesal de Revisão da Imparidade da Carteira de Crédito* – "ETTRIC"), led by the Bank of Portugal.

Considering the challenges associated with the ability to fully implement the internal reorganization plan and the deleverage program, the Board of Directors of ESFG approved a guarantee mechanism in favour of BES' retail customers, with the objective of covering the risks that eventually may occur.

BES Board of Directors believe, considering the information included in ESI business plan and cash flow projections for the 10 year period up to 2023 and made available to the Supervisory Authority for analysis under ETTRIC, that the reimbursement of the debt instruments will be possible through implementation of the deleverage program, the support of ESI shareholders, its capacity to obtain or renew credit lines in the financial markets and, additionally, through the support that may be necessary from ESFG and BES.

Additionally Group retail customers subscribed debt instruments issued by Rio Forte Investments, S.A., Espírito Santo Saúde, S.G.P.S., S.A., ESPART - Espírito Santo Participações Financeiras, S.G.P.S., S.A., Quinta da Foz and Euroamerican Finance, S.A. and Espírito Santo Irmãos, S.A., in the amount of euro 479 million, euro 38 million, euro 24 million, euro 13 million, euro 9 million and euro 2 million, respectively, with reference to 31 December 2013.

NOTE 47 – ASSETS UNDER MANAGEMENT

In accordance with the legislation in force, the fund management companies and the depositary bank are jointly liable before the participants of the funds for the non fulfilment of the obligations assumed under the terms of the Law and the management regulations of the funds.

As at 31 December 2013 and 2012, the amount of the investment funds managed by the Group is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Securities investment funds	4,044,866	5,115,043
Real estate investment funds	1,079,813	1,075,678
Pension funds	1,906,717	1,783,359
Bancassurance	159,965	89,662
Portfolio management	680,497	1,960,206
Discretionary management	2,388,878	1,378,639
	10,260,736	11,402,587

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

NOTE 48 – RELATED PARTIES TRANSACTIONS

The entities considered to be BES Group related parties together with the subsidiaries referred in Note 1, as defined by IAS 24, are as follows:

Group BES Associates companies	
Tranquilidade Corporação Angolana de Seguros, S.A.	SOUSACAMP, SGPS, S.A.
Fin Solutia - Consultoria e Gestão de Créditos, S.A.	GLOBAL ACTIVE - GESTÃO P.S.SGPS, S.A.
MCO2 – Sociedade Gestora de Fundos de Investimento Mobiliário	OUTSYSTEMS, S.A.
Hlc - Centrais de Cogeração, S.A.	Coreworks - Proj. Circuito Sist. Elect., S.A.
Coporgest	Multiwave Photonics, S.A.
Synergy Industry and Technology, S.A.	BIO-GENESIS
Salgar Investments	YDreams - Informática, S.A.
2BCapital, S.A.	Nutrigreen, S.A.
2B Capital Luxembourg S.C.A SICAR	Advance Ciclone Systems, S.A.
2B Capital Luxembourg General Partners SARL	WATSON BROWN HSM, Ltd.
Espírito Santo IBERIA I	Domática, Electrónica e Informática, S.A.
Banque Espirito Santo et de la Vénétie, S.A.	MMCI - Multimédia, S.A.
YUNIT - Serviços, S.A.	Mobile World - Comunicações, S.A.
E.S. Contact Center - Gestão de Call Centers, S.A.	Enkrott S.A.
Fundo de Capital de Risco Espírito Santo Ventures Inovação e Internacionalização	Rodi Sinks & Ideas, S.A.
Fundo Bem Comum FCR	Palexpo - Imagem Empresarial, S.A.
Esiam - Espirito Santo International Asset Management, Ltd.	TLCI 2 - Soluções Integradas de Telecomunicações, S.A.
Société 45 Avenue Georges Mandel, S.A.	BANCO DELLE TRE VENEZIE SPA
BES, Companhia de Seguros , S.A.	NANIUM , S.A.
Locarent - Companhia Portuguesa de Aluguer de Viaturas, S.A.	IJAR LEASING ALGÉRIE
Esegur - Empresa de Segurança, S.A.	Ascendi Pinhal Interior Estradas do Pinhal Interior, S.A.
Empark Aparcamientos y Servicios S.A.	Unicre - Cartão Internacional de Crédito, S.A.
Ascendi Group, SGPS, S.A.	Edenred Portugal, S.A.
Autovia De Los Vinedos, S.A.	Multipessoal Recursos Humanos S.G.P.S.

Espírito Santo Financial Group, S.A.
Espírito Santo Financial (Portugal), SGPS, S.A.
Bespar - Sociedade Gestora de Participações Sociais, S.A.
Partran - Sociedade Gestora de Participações Sociais, S.A.
Companhia de Seguros Tranquilidade, S.A.
T - Vida, Companhia de Seguros, S.A.
Fundo de Investimento Imobiliário Fechado Corpus Christi
IMOPRIME - Fundo de Investimento Imobiliário Fechado (a)
IMOCRESCENTE - Fundo de Investimento Imobiliário Fechado (a)
Fundo Especial de Investimentos Imõbiliario Fechado (Fundes)
Seguros LOGO, S.A.
Esumédica - Prestação de Cuidados Médicos, S.A.
Europe Assistance - Companhia Portuguesa de Seguros de Assistência, S.A.
Advancecare - Gestão e Serviços de Saúde, S.A.
Tranquilidade Moçambique Vida
Tranquilidade Moçambique Não Vida
Espírito Santo Saúde SGPS, S.A.
Clínica Parque dos Poetas, S.A.
Cliria - Hospital Privado de Aveiro, S.A.
ES Saúde - Residência com Serviços Senior, S.A.
Espírito Santo - Unidades de Saúde e de Apio à Terceira Idade, S.A.
Genomed, Diagnóstico de Medicina Molecular, S.A.
HCI - Health Care International, Inc
HME Gestão Hospitalar
Hospital da Arrábida - Gaia, S.A.
Hospital da Luz - Centro Clínico da Amadora, S.A.
Hospital da Luz, S.A.
Hospor - Hospitais Portugueses, S.A.
Instituto de Radiologia Dr. Idálio de Oliveira - Centro de Radiologia Médica, S.A.
RML - Residência Medicalizada de Loures, SGPS, S.A.
Surgicare - Unidades de Saúde, S.A.
Vila Lusitano - Unidades de Saúde, S.A.
Esfil - Espírito Santo Financiére, S.A. (Luxemburgo)
Esfil - Espírito Santo Financiére, S.A. (Luxemburgo) sucusal de Pully
Adepa Global Services
Dassa Investments S.A.
Banque Privée Espírito Santo
Banque Privée Espírito Santo Sucursal Portugal
ES Wealth Management
Key Space Investments LLC
ES Bank (Panama), S.A.
ES Bankers (Dubai) Limited
ESFG International, Ltd.
SCA Mandel Partners
Marignan Gestion, S.A.
Société Lyonnaise de Marchands de Biens
BESV Courtage S.A.
AOC Patrimoine, S.A.
Goupe CFCA SAS
ES Consultancy Singapore
Group Crédit Agricole
Saxo Bank
The Atlantic Company (Portugal) - Turismo e Urbanização, S.A.
Agribahia, S/A
Atr - Actividades Turisticas e Representações, Lda.
Pontave - Construções, S.A.
Agência Receptivo Praia do Forte, Ltda.
Praia do Forte Operadora de Turismo, Ltda.
Grupo Proyectos y Servicios Sarrion, S.A.
Quinray Technologies Corp.
Recigreen - Reciclagem e Gestão Ambiental, S.A.
Recigroup - Industrias de Reciclagem, SGPS, S.A.
Recipav - Engenharia e Pavimentos, Unipessoal, Lda.
Recipneu - Empresa Nacional de Reciclagem de Pneus, Lda.
Rio Forte Investments, S.A.
Rioforte (Portugal), S.A.
Rioforte Investment Holding Mozambique, SGPS, S.A.
Santa Mónica - Empreendimentos Turísticos, S.A.
Saramagos S/A Empreendimentos e Participações
Société Congolaise de Construction et Travaux Publiques, SARL
Series - Serviços Imobiliários Espirito Santo, S.A.
Sociedade Gestora do Hospital de Loures, S.A.
Sintra Empreendimentos Imobiliários, Ltda.
Sisges, SA Desenvolvimento de Projectos de Energia
Solférias - Operadores Turísticos, Lda.
Sopol - Concessões, SGPS, S.A.
Sotal - Sociedade de Gestão Hoteleira, S.A.

Aveiro Incorporated
Beach Heath Investments, Ltd.
Companhia Agrícola Botucatu, S.A.
Casas da Cidade - Residências Sénior, S.A.
Cerca da Aldeia - Sociedade Imobiliária, S.A.
Cimenta - Empreendimentos Imobiliários, S.A.
Cidadeplatina - Construção S.A.
Clarendon Properties, Inc.
Clube de Campo da Comporta - Actividades Desportivas e Lazer, Lda.
Club de Campo Villar Ollala, S.A.
Clup Vip - Marketing de Acontecimentos, S.A.
Clube Residencial da Boavista, S.A.
Companhia Brasileira de Agropecuária Cobrape
Coimbra Jardim Hotel - Sociedade de Gestão Hoteleira, S.A.
Construcciones Sarrión, SL
Ganadera Corina Campos y Haciendas, S/A
E.S.B. Finance Ltd.
Eastelco - Consultoria e Comunicação, S.A.
E.S. Asset Administration, Ltd.
Espírito Santo Cachoeira Desenvolvimento Imobiliário Ltda.
ES Comercial Agrícola, Ltda.
Espírito Santo Guarujá Desenvolvimento Imobiliário Ltda.
ES Holding Administração e Participações, S/A
Espírito Santo Hotéis, SGPS, S.A.
Espírito Santo Industrial (BVI), S.A.
Espírito Santo Indaiatuba Desenvolvimento Imobiliário Ltda.
Espírito Santo Industrial, S.A.
Espírito Santo Industrial (Portugal) - SGPS, S.A.
Espírito Santo Irmãos - Sociedade Gestora de Participações Sociais, S.A.
Espírito Santo Itatiba Desenvolvimento Imobiliário Ltda.
Espírito Santo Primavera Desenvolvimento Imobiliário Ltda.
ES Private Equity, Ltd.
Espirito Santo Property (Brasil) S/A
Espírito Santo Services, S.A.
Espirito Santo Tourism, Ltd.
Espirito Santo Tourism (Europe), S.A.
Espírito Santo Venture Ltd.
Espírito Santo Viagens - Sociedade Gestora de Participações Sociais, S.A.
ES Viagens e Turismo, Lda.
Espírito Santo Viagens - Consultoria e Serviços, S.A.
Escae Consultoria, Administração e Empreendimento, Ltda.
Escopar - Sociedade Gestora de Participações Sociais, S.A.
ESDI Administração e Participações Ltda.
Esger - Empresa de Serviços e Consultoria, S.A.
Espírito Santo International (BVI), S.A.
E.S. International Overseas, Ltd.
Esim - Espirito Santo Imobiliário, S.A.
E.S. - Espírito Santo, Mediação Imobiliária, S.A.
Espírito Santo Property S.A.
Espírito Santo Property Holding, S.A.
Espírito Santo Property España, S.L.
Espart - Espirito Santo Participações Financeiras, SGPS, S.A.
Espírito Santo Resources, Ltd.
Espírito Santo Resources (Portugal), S.A.
E.S. Resources Overseas, Ltd.
Espírito Santo Resources S.A.
Estoril Inc
Euroamerican Finance Corporation, Inc.
Euroamerican Finance S.A.
Euroatlantic, Inc.
Fafer - Empreendimentos Turisticos e de Construção, S.A.
Fimoges - Sociedade Gestora de Fundos de Investimento Imobiliário, S.A.
GES Finance Limited
Gesfimo - Espírito Santo, Irmãos, Soc. Gestora de Fundos de Investimento Imobiliários,S.A.
Gestres - Gestão Estratégica Espirito Santo, S.A.
Goggles Marine, Ltd.
Sociedade Agricola Golondrina, S/A
HDC - Serviços de Turismo e Imobiliário, S.A.
Herdade da Comporta - Actividades Agro Silvícolas e Turísticas, S.A.
Hoteis Tivoli, S.A.
Hotelagos, S.A.
Hospital Residêncial do Mar, S.A.
I.A.C. UK, Limited
Inter-Atlântico, S/A
Iber Foods - Produtos Alimentares e Biológicos, S.A.
Imopca, S.A.
Lote Dois - Empreendimentos Turisticos S.A.
Luzboa, S.A.
Luzboa Um, S.A.
Luzboa Dois, S.A.
Luzboa Três, S.A.
Luzboa Quatro, S.A.
BEMS, SGPS, S.A.
Margrimar - Mármores e Granitos, S.A.
Marinoteis - Sociedade de Promoção e Construção de Hoteis, S.A.
Marmetal - Mármores e Materiais de Construção, S.A.
Metal - Lobos Serralharia e Carpintaria, Lda.
Multiger - Sociedade de Gestão e Investimento Imobiliário, S.A.
Mundo Vip - Operadores Turísticos, S.A.
Net Viagens - Agência de Viagens e Turismo, S.A.
Novagest Assets Management, Ltd.
Opca Angola, S.A.
Opca Moçambique, Lda.
Opcatelecom - Infraestuturas de Comunicação, S.A.
OPWAY - Engenharia, S.A.
OPWAY Imobiliária, S.A.
OPWAY - SGPS, S.A.
Pavi do Brasil - Pré-Fabricação, Tecnologia e Serviços, Lda.
Pavicentro - Pré-Fabricação, S.A.
Pavilis - Pré-Fabricação, S.A.
Paviseu - Materiais Pré-Fabricados, S.A.
Pavitel, SARL
Personda - Sociedade de Perfurações e Sondagens, S.A.
Placon - Estudos e Projectos de Construção, Lda.
Pojuca, S.A.
Space - Sociedad Peninsular de Aviación, Comércio e Excursiones, S.A.
Suliglor - Imobiliária do Sul, S.A.
TA DMC Brasil - Viagens e Turismo, S.A.
Agência de Viagens Tagus, S.A.
Construtora do Tamega Madeira S.A.
Construtora do Tamega Madeira SGPS S.A.
Terras de Bragança Participações, Ltda.
Timeantube Comércio e Serviços de Confecções, Ltda.
Tivoli Gare do Oriente - Sociedade de Gestão Hoteleira, S.A.
TOP A DMC Viajes, S.A.
Top Atlântico - Viagens e Turismo, S.A.
Top Atlântico DMC, S.A.
Transcontinental - Empreendimentos Hoteleiros, S.A.
Turifonte, Empreendimentos Hoteleiros, S.A.
Turistrader - Sociedade de Desenvolvimento Turístico, S.A.
Ushuaia - Gestão e Trading Internacional Limited
Viveiros da Herdade da Comporta - Produção de Plantas Ornamentais, Lda.
Ribeira do Marchante, Administração de Bens Móveis e Imóveis, S.A.
Casa da Saudade, Administração de Bens Móveis e Imóveis, S.A.
Angra Moura-Sociedade de Administração de Bens,S.A.
Sociedade de Administração de Bens - Casa de Bons Ares, Lda.
ACRO, Sociedade Gestora de Participações Sociais, S.A.
Diliva, Sociedade de Investimentos Imobiliários, S.A.

As at 31 December 2013 and 2012, the total amount of the assets and liabilities of the Group with associates or related companies, is as follows:

(in thousands of euro)

	31.12.2013					31.12.2012				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Associates companies										
BES VÉNÉTIE	448,704	946	5,581	1,709	1	726,910	623	5,627	2,705	-
ASCENDI GROUP SGPS	378,805	13,398	20,994	25,609	103	299,462	3,781	28,364	11,278	2
LOCARENT	109,529	1,840	-	1,386	9,744	129,818	3,723	-	2,692	11,006
AENOR DOURO	-	-	-	-	-	271,887	3,461	11,000	8,985	-
NANIUM	30,925	512	206	201	-	35,327	4,272	18,349	306	4
EMPARK	3,375	-	1,125	1,586	-	49,179	-	4,684	3,872	246
ASCENDI PINHAL INTERIOR	141,765	4,660	10,842	4,426	-	98,356	2,051	15,374	3,073	-
PALEXPO	-	-	26	-	-	7,266	124	26	537	-
BES SEGUROS	37	17,545	-	363	22	630	18,456	-	415	16
ESEGUR	6,721	2	2,273	1,077	394	7,680	3	2,105	1,055	430
ES CONTACT CENTER	1,929	-	40	123	-	1,858	-	43	90	874
UNICRE	15,038	3	-	120	-	26	2	-	1	-
Others	76,277	78,552	14,297	2,647	1,639	58,358	24,459	11,508	12,278	1,250
	1,213,105	**117,458**	**55,384**	**39,247**	**11,903**	**1,686,757**	**60,955**	**97,080**	**47,287**	**13,828**

Balances and transactions with the above referred entities relate mainly to loans and advances and deposits in the scope of the banking activity of the Group. The liabilities relate mainly to bank deposits taken.

As at 31 December 2013 and 2012, the total amount of assets and liabilities of BES Group with ESFG (Bank holding) and related companies, is as follows:

(in thousands of euro)

	31.12.2013								
	Assets					Guarantees	Liabilities	Income	Expenses
	Loans and advances to banks	Loans	Securities	Other	Total				
Shareholders									
ES FINANCIAL GROUP	-	-	27,118	32	27,150	-	143	1,011	253
ESF PORTUGAL	-	-	37,647	-	37,647	-	75	907	-
BESPAR	-	-	-	-	-	-	185	-	-
GRUPO CRÉDIT AGRICOLE	973	4	7,318	67	8,362	1,359	511	10	-
Subsidiaries, associates from shareholders									
PARTRAN	-	-	-	-	-	-	41	-	-
ESPÍRITO SANTO FINANCIÉRE, S.A.	-	7,251	21,766	-	29,017	-	43,039	36	-
COMPANHIA SEGUROS TRANQUILIDADE	-	440	-	476	916	21,463	6,745	1,737	1,159
BANQUE PRIVÉE ESPÍRITO SANTO	15,597	-	-	7	15,604	7,943	46,065	426	410
ES BANK PANAMA	183,000	-	-	-	183,000	-	1,800	3,063	-
ES SAÚDE	-	14,573	49,787	37	64,397	4,003	25,077	402	-
T - VIDA	-	-	277,348	174	277,522	-	114,280	425	7
ESUMÉDICA	-	853	-	6	859	4	-	44	75
EUROP ASSISTANCE	-	-	-	13	13	25	1,287	47	8
Other									
ES IRMÃOS	-	-	-	-	-	-	7,289	-	3
OPWAY	-	11,440	-	2,206	13,646	44,655	2,371	157	-
CONSTRUCCIONES SARRION	-	15,393	-	-	15,393	8,115	-	131	-
ESPÍRITO SANTO RESOURCES	-	-	-	9	9	-	1,595	44	221
Others	25,150	48,317	28,587	414	102,468	9,702	64,987	8,190	2,844
TOTAL	**224,720**	**98,271**	**449,571**	**3,441**	**776,003**	**97,269**	**315,490**	**16,630**	**4,980**

(in thousands of euro)

	31.12.2012								
	Assets					Guarantees	Liabilities	Income	Expenses
	Loans and advances to banks	Loans	Securities	Other	Total				
Shareholders									
ES FINANCIAL GROUP	548	-	40,632	2	41,182	-	28	1,186	-
ESF PORTUGAL	-	-	72,666	-	72,666	-	109	2,349	-
BESPAR	-	-	-	-	-	-	386	-	-
GRUPO CRÉDIT AGRICOLE	973	108	1,016	110	2,207	1,080	271	10	-
Subsidiaries, associates from shareholders									
PARTRAN	-	-	-	-	-	-	22	-	-
ESPÍRITO SANTO FINANCIÉRE, S.A.	-	7,579	-	-	7,579	-	153	-	-
COMPANHIA SEGUROS TRANQUILIDADE	-	150,150	-	520	150,670	21,979	116,657	1,582	1,200
BANQUE PRIVÉE ESPÍRITO SANTO	15,794	-	-	11	15,805	8,018	32,904	503	351
ES BANK PANAMA	135,000	-	-	-	135,000	-	35,512	10,139	-
ES SAÚDE	-	18,484	45,112	64	63,660	24,269	13,140	464	2
T - VIDA	-	55,560	9,291	163	65,014	-	98,611	492	364
ESUMÉDICA	-	1,000	-	-	1,000	4	24	80	81
EUROP ASSISTANCE	-	24	-	34	58	25	2,749	57	-
Other									
ES IRMÃOS	-	104,570	-	-	104,570	-	1	4,708	-
OPWAY	-	3,645	-	2,686	6,331	48,029	35,089	362	225
CONSTRUCCIONES SARRION	-	16,527	-	-	16,527	8,745	-	233	-
ESPÍRITO SANTO RESOURCES	-	11	-	19	30	-	2,359	51	221
Others	-	62,048	20,971	1,075	84,094	17,294	32,368	5,162	2,438
TOTAL	**152,315**	**419,706**	**189,688**	**4,684**	**766,393**	**129,443**	**370,383**	**27,378**	**4,882**

As at 31 December 2013, loans granted by BES Group to the members of the Board of Directors of ESFG that are not simultaneously members of the Board of Directors of BES, amounted to euro 3,099 thousand (31 December 2012: euro 4,047 thousand).

All transactions with related parties are made on an arms length basis, under the fair value principle.

However, credit granted by the Group to members of the Board of Directors of credit institutions regulated by article 85 of the Regime Geral das Instituições de Crédito e Sociedades Financeiras (RGICSF) and by the Instruction nr. 17/2011, which is in force since 21 August 2011.

From the above mentioned article and Instruction, the following rules should be highlighted:
(i) Credit concession is prohibited in any form, including guarantees, whether directly or indirectly:
  - to executive members of the Board of Directors, to Audit Committee members and to companies or other collective entities directly or indirectly controlled by those members, with the exception of operations with a social purpose, under the company policies, or resulting from the use of credit cards in conditions similar to the ones applied to the general clients with similar risk profile. All these exception are included in nr. 4 of article 85 of RGICSF;
  - to spouses and relatives in first degree of members of the Board of Directors or of the Audit Committee and to companies or other collective entities directly or indirectly controlled by those persons, unless (as established in nr. 2 of article 85 of RGICS) the credit granted to those persons and entities is indirect credit to the members of the Board of Directors or of the Audit Committee, whether the case may be, or in the situations in the scope of the nr. 4 of article 85 of RGICSF mentioned above
(ii) The operations have to comply with certain procedures, namely be communicated to the Bank of Portugal, in the case they are granted under the nr. 2 of article 85 of RGICS; and
(iii) The approval requirements establish that the operations have to be approved by a qualified majority of at least two thirds of the Board of Directors remaining members and is necessary to obtain a favourable opinion from the Audit Committee when the credit is granted to non executive members of the Board of Directors (those who are not members of the Executive Committee) and/or companies or other collective entities directly or indirectly controlled by them.

These rules are included in the internal normative.

Credit operations with Board Members and to the Fiscal Board have to comply with the above mentioned rules. The beneficiaries cannot intervene in the decision making process.

All credits granted to related parties are included in the impairment model, being subject to provisions in the same manner that the commercial credits granted by the Group. As at 31 December 2013 and 2012, none of the credits granted to related parties were subject to individual impairment. However, these credits are subject to an impairment evaluation on a portfolio basis, as referred in Note 2.5 – Loans and advances to customers.

NOTE 49 – SECURITIZATION TRANSACTIONS

As at 31 December 2013, the outstanding securitisation transactions performed by the Group were as follows:

(in thousands of euro)

Designation	Initial date	Original amount	Current amount	Asset securitised
Lusitano Mortgages No.1 plc	December 2002	1,000,000	329,803	Mortgage loans (subsidised regime)
Lusitano Mortgages No.2 plc	November 2003	1,000,000	329,098	Mortgage loans (subsidised and general regime)
Lusitano Mortgages No.3 plc	November 2004	1,200,000	480,967	Mortgage loans (general regime)
Lusitano Mortgages No.4 plc	September 2005	1,200,000	556,130	Mortgage loans (general regime)
Lusitano Mortgages No.5 plc	September 2006	1,400,000	777,355	Mortgage loans (general regime)
Lusitano SME No.1 plc	October 2006	862,607	176,657	Loans to small and medium entities
Lusitano Mortgages No.6 plc	July 2007	1,100,000	721,919	Mortgage loans (general regime)
Lusitano Project Finance No.1, FTC	December 2007	1,079,100	118,810 (1)	Project Finance Loans
Lusitano Mortgages No.7 plc	September 2008	1,900,000	1,719,046	Mortgage loans (general regime)
Lusitano Leverage finance No. 1 BV	February 2010	516,534 (2)	52,395	Leverage Finance Loans
Lusitano Finance N.º 3	November 2011	657,981	289,678	Retail loans
IM BES Empresas 1	November 2011	485,000	272,068	Loans to small and medium entities

(1) In March 2011, the credit portfolio associated to this securitisation was partially sold, with the remaining (domestic credit) been to "Lusitano Project Finance Nº. 1 FTC".
(2) This securitisation includes the amount of euro 382,062 thousand of mortgage loans from BES and an amount of euro 134,472 thousand of mortgage loans from BESI and BES Vénétie.

As permitted by IFRS 1, the Group has applied the derecognition requirements of IAS 39 for the transactions entered into after 1 January 2004. Therefore, the assets derecognised until that date, in accordance with the previous accounting policies of the Group, were not restated in the balance sheet.

The assets sold in the securitization transactions Lusitano Mortgages No.3, Lusitano Mortgages No. 4 and Lusitano Mortgages No. 5, performed after 1 January 2004, were derecognised considering that the Group has transferred substantially all the risks and rewards of ownership.

In accordance with SIC 12, the Group fully consolidates Lusitano SME No. 1 plc, Lusitano Mortgages No. 6, plc, Lusitano Project Finance No. 1 FTC, and Lusitano Mortgages No. 7 plc, as it retains the majority of the risks and rewards associated with the activity of these SPE. Therefore, the respective assets and liabilities are included in the consolidated balance sheet of the Group. The other securitization vehicles are not included in the consolidated financial statements of the Group as it has not retained the majority of the risks and rewards of ownership.

In 2011 there were two securitization transactions: loans to households (Lusitano Finance No. 3) with loan originated by BES and other of corporate loans (IM BES Empresas 1) with loans originated by BES Spanish branch. During 2010 it was set-up two securitization operations of corporate loans (Lusitano Leverage Finance No. 1) which includes loans from BES London Branch, BESI and ES Vénétie and other of corporate loans and commercial paper (Lusitano SME No. 2), and the latter been repaid in March 2012. These loans were not derecognised considering that the group has not transferred substantially all the risks and rewards of ownership.

As at 31 December 2013, the Group had also two synthetic securitization operations underway. In these operations the Group contracted a credit default swap (CDS), with the objective of eliminating the credit risk of a portfolio of loans. The loans related to this portfolio continue to be recognized in the Group balance sheet in the loans and advances to customers caption.

The main characteristics of these transactions, as at 31 December 2013, can be analysed as follows:

(in thousands of euro)

Designation	Notes issued	Issued amount (par value)	Current amount (par value)	Interest held by group (par value)	Maturity date	Initial Ratings				Actual Ratings			
						Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.1 plc	Class A	915,000	233,768	77	December 2035	AAA	Aaa	AAA	-	A	Baa3	A-/*-	-
	Class B	32,500	32,500	-	December 2035	AA	Aa3	AA	-	A	Ba1	A-/*-	-
	Class C	25,000	25,000	3,000	December 2035	A	A2	A	-	A	Ba3	A-/*-	-
	Class D	22,500	22,500	-	December 2035	BBB	Baa2	BBB	-	BBB+	B2	BB	-
	Class E	5,000	5,000	-	December 2035	BB	Ba1	BB	-	BB+	Caa1	B-	-
	Class F	10,000	10,000	-	December 2035	-	-	-	-	-	-	-	-
Lusitano Mortgages No.2 plc	Class A	920,000	246,612	3,780	December 2036	AAA	Aaa	AAA	-	A	Baa3	A-/*-	-
	Class B	30,000	30,000	12,500	December 2046	AA	Aa3	AA	-	A	Ba2	A-/*-	-
	Class C	28,000	28,000	5,000	December 2046	A	A3	A	-	A	B2	BB	-
	Class D	16,000	16,000	4,000	December 2046	BBB	Baa3	BBB	-	BBB+	Caa1	B	-
	Class E	6,000	6,000	-	December 2046	BBB-	Ba1	BB	-	BB	Caa3	B-	-
	Class F	9,000	9,000	-	December 2046	-	-	-	-	-	-	-	-
Lusitano Mortgages No.3 plc	Class A	1,140,000	425,907	3,512	December 2047	AAA	Aaa	AAA	-	A	Ba1	A-/*-	-
	Class B	27,000	16,713	-	December 2047	AA	Aa2	AA	-	A	B2	BBB	-
	Class C	18,600	11,513	-	December 2047	A	A2	A	-	BBB	Caa1	BB-	-
	Class D	14,400	8 913	-	December 2047	BBB	Baa2	BBB	-	BB-	Caa2	B-	-
	Class E	10,800	8,335	-	December 2047	-	-	-	-	-	-	-	-
Lusitano Mortgages No.4 plc	Class A	1,134,000	468,862	6,884	December 2048	AAA	Aaa	AAA	-	BBB-	Ba1	A-/*-	-
	Class B	22,800	21,553	-	December 2048	AA	Aa2	AA	-	BBB-	B3	BBB	-
	Class C	19,200	18,150	3,309	December 2048	A+	A1	A+	-	BB	Caa1	B+	-
	Class D	24,000	22,687	4,925	December 2048	BBB+	Baa1	BBB+	-	CCC	Caa3	B-	-
	Class E	10,200	10,200	1,320	December 2048	-	-	-	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1,323,000	686,711	5,191	December 2059	AAA	Aaa	AAA	-	BBB-	Ba2	A-/*-	-
	Class B	26,600	25,494	-	December 2059	AA	Aa2	AA	-	BB	Caa1	BBB-	-
	Class C	22,400	21,469	-	December 2059	A	A1	A	-	B	Caa3	B	-
	Class D	28,000	26,836	5,500	December 2059	BBB+	Baa2	BBB	-	CCC	Ca	B-	-
	Class E	11,900	11,900	1,700	December 2059	-	-	-	-	-	-	-	-
Lusitano SME No.1 plc	Class A	759,525	40,509	10,345	December 2028	AAA	-	AAA	-	A	-	A-/*-	-
	Class B	40,974	32,506	-	December 2028	AAA	-	AAA	-	AAA	-	AAA	-
	Class C	34,073	27,031	-	December 2028	BB	-	BB	-	CCC	-	B	-
	Class D	28,035	22,241	22,241	December 2028	-	-	-	-	-	-	-	-
	Class E	8,626	4,313	4,313	December 2028	-	-	-	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943,250	536,213	46,416	March 2060	AAA	Aaa	AAA	-	A	Ba1	A-/*-	-
	Class B	65,450	65,450	58,950	March 2060	AA	Aa3	AA	-	BBB	Ba3	BBB-	-
	Class C	41,800	41,800	31,800	March 2060	A	A3	A	-	BB	B3	BB	-
	Class D	17,600	17,600	17,600	March 2060	BBB	Baa3	BBB	-	B	Caa2	B	-
	Class E	31,900	31,900	31,900	March 2060	BB	-	BB	-	CCC	-	CCC	-
	Class F	22,000	22,000	22,000	March 2060	-	-	-	-	-	-	-	-
Lusitano Project Finance No.1 FTC		198,101	112,333	112,333	March 2025	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1,425,000	1,236,330	1,236,330	October 2064	-	-	AAA	AAA	-	-	A-/*-	AAH
	Class B	294,500	294,500	294,500	October 2064	-	-	BBB-	-	-	-	BB-	-
	Class C	180,500	180,500	180,500	October 2064	-	-	-	-	-	-	-	-
	Class D	57,000	57,000	57,000	October 2064	-	-	-	-	-	-	-	-
Lusitano Leverage finance No. 1 BV	Class A	352,000	-	-	January 2020	-	-	AAA	-	-	-	-	-
	Class X	21,850	21,850	20,633	January 2020	-	-	-	-	-	-	-	-
	Class Sub	206,800	110,219	85,298	January 2020	-	-	-	-	-	-	-	-
Lusitano Finance N.º 3	Class A	450,700	107,273	107,273	November 2029	-	-	-	-	-	-	-	-
	Class B	207,200	207,200	207,200	November 2029	-	-	-	-	-	-	-	-
	Class C	24,800	10,000	10,000	November 2029	-	-	-	-	-	-	-	-
IM BES Empresas 1	Class A	242,500	18,998	-	November 2043	-	AAA	-	-	-	A3	-	-
	Class B	242,500	242,500	242,500	November 2043	-	Caa2	-	-	-	Caa2	-	-

NOTE 50 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

(in thousands of euro)

		Fair value				
	Amortised Cost	**Quoted Market Prices** (Level 1)	**Valuation models based on observable market information** (Level 2)	**Valuation models based on non-observable market information** (Level 3)	**Book value**	**Fair value**
Balance as at 31 December 2013						
Cash and deposits at central banks	1,719,363	-	-	-	1,719,363	1,719,363
Deposits with banks	542,945	-	-	-	542,945	542,945
Financial assets held for trading	-	1,061,702	1,422,741	23,489	2,507,932	2,507,932
Securities						
Bonds issued by government and public entities	-	*952,852*	-	-	*952,852*	*952,852*
Bonds issued by other entities	-	*76,583*	*28,622*	*23,489*	*128,694*	*128,694*
Shares	-	*30,894*	*69*	-	*30,963*	*30,963*
Other variable income securities	-	*1,373*	-	-	*1,373*	*1,373*
Derivatives						
Exchange rate contracts	-	-	*69,500*	-	*69,500*	*69,500*
Interest rate contracts	-	-	*1,231,017*	-	*1,231,017*	*1,231,017*
Credit default contracts	-	-	*34,839*	-	*34,839*	*34,839*
Others	-	-	*58,694*	-	*58,694*	*58,694*
Other Financial assets at fair value through profit or loss	-	2,345,664	780,402	748,281	3,874,347	3,874,347
Bonds issued by government and public entities	-	*1,234,070*	-	-	*1,234,070*	*1,234,070*
Bonds issued by other entities	-	*491,650*	*714,723*	*31,843*	*1,238,216*	*1,238,216*
Shares and other variable income securities	-	*619,944*	*65,679*	*716,438*	*1,402,061*	*1,402,061*
Available-for-sale financial assets	6,547	4,665,582	2,469,851	1,344,625	8,486,605	8,486,605
Bonds issued by government and public entities	-	*2,867,307*	*1,139,328*	-	*4,006,635*	*4,006,635*
Bonds issued by other entities	-	*705,898*	*1,197,806*	*112,717*	*2,016,421*	*2,016,421*
Shares	*6,547* [a)]	*541,766*	*81,248*	*588,552*	*1,218,113*	*1,218,113*
Other variable income securities	-	*550,611*	*51,469*	*643,356*	*1,245,436*	*1,245,436*
Loans and advances to banks	5,432,464	-	-	-	5,432,464	5,432,464
Loans and advances to customers	45,748,073	-	586,823	-	46,334,896	43,611,856
Held-to-maturity investments	1,499,639	-	-	-	1,499,639	1,448,439
Bonds issued by government and public entities	*322,405*	-	-	-	*322,405*	*311,374*
Bonds issued by other entities	*1,177,234*	-	-	-	*1,177,234*	*1,137,065*
Derivatives for risk management purposes	-	-	363,391	-	363,391	363,391
Exchange rate contracts	-	-	*1,726*	-	*1,726*	*1,726*
Interest rate contracts	-	-	*317,132*	-	*317,132*	*317,132*
Credit default contracts	-	-	*25,188*	-	*25,188*	*25,188*
Others	-	-	*19,345*	-	*19,345*	*19,345*
Financial assets	**54,949,031**	**8,072,948**	**5,623,208**	**2,116,395**	**70,761,582**	**67,987,342**
Deposits from central banks	9,530,131	-	-	-	9,530,131	9,530,131
Financial liabilities held for trading	-	7,262	1,277,010	-	1,284,272	1,284,272
Derivatives						
Exchange rate contracts	-	-	*48,612*	-	*48,612*	*48,612*
Interest rate contracts	-	-	*1 097,058*		*1,097,058*	*1,097,058*
Credit default contracts	-	-	*18,387*	-	*18,387*	*18,387*
Others	-	-	*105,731*	-	*105,731*	*105,731*
Other financial liabilities held for trading	-	7,262	7,222	-	14,484	14,484
Deposits from banks	4,775,384	-	224,109	-	4,999,493	4,937,148
Due to customers	27,384,721	-	9,446,172	-	36,830,893	36,830,893
Debt securities issued	8,673,140	-	3,246,310	-	11,919,450	14,340,559
Derivatives for risk management purposes	-	-	130,710	-	130,710	130,710
Exchange rate contracts	-	-	*1,501*	-	*1,501*	*1,501*
Interest rate contracts	-	-	*79,667*	-	*79,667*	*79,667*
Credit default contracts	-	-	*10,949*	-	*10,949*	*10,949*
Others	-	-	*38,593*	-	*38,593*	*38,593*
Investment contracts	2,608,643	-	1,669,423	-	4,278,066	3,186,199
Subordinated debt	1,066,025	-	273	-	1,066,298	1,055,294
Financial Liabilities	**54,038,044**	**7,262**	**15,994,007**	-	**70,039,313**	**71,295,206**

a) Assets at acquisition cost net of impairment losses. These assets refer to equity instruments issued by non-quoted entities in relation to which no recent transactions were identified or is not possible to estimate reliably its fair value.

(in thousands of euro)

	Amortised Cost	Fair value: Quoted Market Prices (Level 1)	Fair value: Valuation models based on observable market information (Level 2)	Fair value: Valuation models based on non-observable market information (Level 3)	Book value	Fair value
Balance as at 31 December 2012						
Cash and deposits at central banks	1,377,541	-	-	-	1,377,541	1,377,541
Deposits with banks	681,077	-	-	-	681,077	681,077
Financial assets held for trading	-	1,484,112	2,441,287	-	3,925,399	3,925,399
Securities						
Bonds issued by government and public entities	-	*1,347,806*	-	-	*1,347,806*	*1,347,806*
Bonds issued by other entities	-	*94,157*	*165,046*	-	*259,203*	*259,203*
Shares	-	*40,135*	*11,776*	-	*51,911*	*51,911*
Other variable income securities	-	*2,014*	-	-	*2,014*	*2,014*
Derivatives						
Exchange rate contracts	-	-	*75,826*	-	*75,826*	*75,826*
Interest rate contracts	-	-	*1,996,798*	-	*1,996,798*	*1,996,798*
Credit default contracts	-	-	*44,913*	-	*44,913*	*44,913*
Others	-	-	*146,928*	-	*146,928*	*146,928*
Other Financial assets at fair value through profit or loss	-	1,387,979	1,153,990	279,584	2,821,553	2,821,553
Bonds issued by government and public entities	-	*515,994*	-	-	*515,994*	*515,994*
Bonds issued by other entities	-	*272,936*	*800,091*	*45,398*	*1,118,425*	*1,118,425*
Shares and other variable income securities	-	*599,049*	*353,899*	*234,186*	*1,187,134*	*1,187,134*
Available-for-sale financial assets	8,605	5,008,676	4,778,336	959,693	10,755,310	10,755,310
Bonds issued by government and public entities	-	*3,111,939*	*1,293,450*	-	*4,405,389*	*4,405,389*
Bonds issued by other entities	-	*785,749*	*3,251,669*	*19,297*	*4,056,715*	*4,056,715*
Shares	*8,605* [a)]	*787,178*	*104,451*	*508,688*	*1,408,922*	*1,408,922*
Other variable income securities	-	*323,810*	*128,766*	*431,708*	*884,284*	*884,284*
Loans and advances to banks	5,426,518	-	-	-	5,426,518	5,426,518
Loans and advances to customers	47,194,030	-	512,362	-	47,706,392	44,684,122
Held-to-maturity investments	941,549	-	-	-	941,549	879,265
Bonds issued by government and public entities	*295,271*	-	-	-	*295,271*	*304,496*
Bonds issued by other entities	*646,278*	-	-	-	*646,278*	*574,769*
Derivatives for risk management purposes	-	-	516,520	-	516,520	516,520
Exchange rate contracts	-	-	*5,356*	-	*5,356*	*5,356*
Interest rate contracts	-	-	*460,692*	-	*460,692*	*460,692*
Credit default contracts	-	-	*10,216*	-	*10,216*	*10,216*
Others	-	-	*40,256*	-	*40,256*	*40,256*
Financial assets	**55,629,320**	**7,880,767**	**9,402,495**	**1,239,277**	**74,151,859**	**71,067,305**
Deposits from central banks	10,893,320	-	-	-	10,893,320	10,893,320
Financial liabilities held for trading	-	796	2,121,229	-	2,122,025	2,122,025
Derivatives						
Exchange rate contracts	-	-	*31,478*	-	*31,478*	*31,478*
Interest rate contracts	-	-	*79,634*	-	*79,634*	*79,634*
Others	-	-	*2,010,117*	-	*2,010,117*	*2,010,117*
Other financial liabilities held for trading	-	796	-	-	796	796
Deposits from banks	4,476,381	-	612,277	-	5,088,658	4,898,506
Due to customers	25,743,341	-	8,796,982	-	34,540,323	34,540,323
Debt securities issued	12,764,479	-	2,659,582	-	15,424,061	15,990,921
Derivatives for risk management purposes	-	-	125,199	-	125,199	125,199
Exchange rate contracts	-	-	*232*	-	*232*	*232*
Interest rate contracts	-	-	*65,437*	-	*65,437*	*65,437*
Credit default contracts	-	-	*18,340*	-	*18,340*	*18,340*
Others	-	-	*41,190*	-	*41,190*	*41,190*
Investment contracts	1,298,933	-	2,114,630	-	3,413,563	3,615,405
Subordinated debt	839,553	-	263	-	839,816	811,686
Financial Liabilities	**56,016,007**	**796**	**16,430,162**	**-**	**72,446,965**	**72,997,385**

a) Assets at acquisition cost net of impairment losses. These assets refer to equity instruments issued by non-quoted entities in relation to which no recent transactions were identified or is not possible to estimate reliably its fair value.

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

Quoted market prices (level 1) - this category includes financial assets with available quoted market prices in official markets and with dealer prices quotations provided by entities that usually provide transaction prices for these assets/liabilities traded in active markets.

Valuation models based on observable market information (level 2) - consists on the use of internal valuation techniques, namely discounted cash flow models and option pricing models which imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instrument. Notwithstanding, the Group uses observable market data such as interest rate curves, credit spreads, volatility and market indexes. Includes also instruments with dealer price quotations but which are not traded in active markets.

Valuation models based on non-observable market information (level 3) - consists on the use of internal valuation techniques, mainly discounted cash flow models, or quotations provided by third parties but which imply the use of non-observable market information. Changes in the parameters used in 2013 and 2012, have no significant impact to the Group consolidated financial statements.

A portion of the financial assets included in level 3, around euro 981 million (31 December 2012: euro 769 million) corresponds to participation units in closed investment funds, which fair value is calculated from Net Asset Value (NAV) determined by the Management Company, in accordance with the audited financial statements of each Fund. The net assets of each Fund is comprised by a diversified portfolio of assets and liabilities valued at fair value through internal valuation techniques applied by the Management Company. Although the impractibility of doing a sensitivity analysis to the different components regarding the assumptions used by the Management Companies to the NAV, a change in +/- 10% in NAV would have an impact of +/- euro 98 million (31 December 2012: +/-euro 77 million) in the financial statements of Group BES.

The movements of the financial assets valued based on non-observable market information, during 2013 and 2012, can be analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Balance at the begginning of the period	**1,239,277**	**263,194**
Change in the consolidation scope	419,947	989,342
Charge/ Write back of the year	(110,879)	(17,604)
Charge off	599,968	6,593
Exchange differences and others	(31,918)	(2,248)
Balance at the end of the period	**2,116,395**	**1,239,277**

The main assumptions and inputs used in the valuation models are presented as follows:

Interest rates curves

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

(%)

	31.12.2013			31.12.2012		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
Overnight	0.1100	0.1100	0.4100	0.0700	0.1000	0.4700
1 month	0.1941	0.1600	0.4100	0.1759	0.2300	0.4600
3 months	0.2870	0.3300	0.5200	0.1870	0.4150	0.4800
6 months	0.3890	0.4100	0.7350	0.3200	0.4400	0.6200
9 months	0.3981	0.4500	0.8100	0.3178	0.5900	0.7900
1 year	0.4130	0.3050	0.6412	0.3200	0.3260	0.5411
3 years	0.7715	0.8560	1.4342	0.4700	0.4765	0.7783
5 years	1.2580	1.7490	2.1337	0.7650	0.8260	1.0169
7 years	1.6820	2.4270	2.5770	1.1250	1.2435	1.3563
10 years	2.1550	3.0280	2.9876	1.5700	1.7500	1.8560
15 years	2.5809	3.5230	3.3160	2.0184	2.2800	2.4135
20 years	2.7139	3.7200	3.4170	2.1715	2.5020	2.7230
25 years	2.7399	3.8080	3.4380	2.2203	2.6240	2.8800
30 years	2.7309	3.8520	3.4360	2.2413	2.6880	2.9535

Credit spreads

The credit spreads used by the Group on the valuation of the credit derivatives are disclosed on a daily basis by Markit representing observations constituted for around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spreads behaviour in the market throughout the year, is presented as follows:

(basis points)

Index	Series	1 year	3 years	5 years	7 years	10 years
Year 2013						
CDX USD Main	21	7.67	29.88	62.44	88.95	107.99
iTraxx Eur Main	20	-	35.17	70.15	96.97	118.17
iTraxx Eur Senior Financial	20	-	-	87.06	-	135.18
Year 2012						
CDX USD Main	19	33.02	58.73	95.39	118.68	136.14
iTraxx Eur Main	18	-	76.38	117.43	141.58	154.60
iTraxx Eur Senior Financial	18	-	-	142.44	-	174.98

Interest rate volatility

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

(%)

	31.12.2013			31.12.2012		
	EUR	USD	GBP	EUR	USD	GBP
1 year	112.77	75.90	49.18	197.18	66.60	54.10
3 years	65.30	72.76	55.78	84.70	72.90	64.90
5 years	53.30	50.62	45.99	67.50	63.22	60.80
7 years	45.20	38.21	38.55	52.90	51.03	49.60
10 years	36.80	31.55	31.80	39.70	42.33	37.20
15 years	30.68	35.58	26.58	31.43	35.80	27.80

Exchange rates and volatility

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

Exchange Rates			Volatility (%)				
	31.12.2013	31.12.2012	1 month	3 months	6 months	9 months	1 year
EUR/USD	1.3791	1.3194	7.65	7.75	7.88	8.15	8.32
EUR/GBP	0.8337	0.8161	6.55	6.73	7.00	7.13	7.33
EUR/CHF	1.2276	1.2072	3.25	3.83	4.23	4.58	4.89
EUR/NOK	8.3630	7.3483	8.05	8.03	7.95	8.00	7.98
EUR/PLN	4.1543	4.0740	5.00	5.84	6.56	7.08	7.53
EUR/RUB	45.3246	40.3295	7.37	7.89	8.43	8.90	9.41
USD/BRL [a]	2.3621	2.0491	12.95	13.38	13.60	13.80	14.00
USD/TRY [b]	2.1467	1.7850	14.50	13.80	13.60	13.60	13.60

a) Calculation based inEUR/USD and EUR/BRL exchanges rates.
b) Calculation based in EUR/USD and EUR/TRY exchanges rates.

Concerning the exchange rates, the Group uses in the valuation models the spot rate observed in the market at the time of the valuation.

Equity indexes

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

	Quote			Historical volatility		Implied volatitlity
	31.12.2013	31.12.2012	% Change	1 month	3 month	
DJ Euro Stoxx 50	3,109	2,636	17.9	14.90	13.72	13.44
PSI 20	6,559	5,655	16.0	12.91	13.65	-
IBEX 35	9,917	8,168	21.4	15.39	15.34	-
FTSE 100	6,749	5,898	14.4	10.11	9.83	10.69
DAX	9,552	7,612	25.5	13.23	12.04	13.56
S&P 500	1,848	1,426	29.6	8.74	10.31	11.21
BOVESPA	51,507	60,952	-15.5	19.34	20.22	-

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

(in thousands of euro)

	Amortised cost	Book value			Book value
		Quoted market prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on non-observable (Level 3)	
Balance as at 31 December 2013					
Cash and deposits at central banks	1,719,363	1,719,363	-	-	1,719,363
Deposits with banks	542,945	542,945	-	-	542,945
Available-for-sale financial assets	6,547	-	-	6,547	6,547
Loans and advances to banks	5,432,464	-	5,432,464	-	5,432,464
Loans and advances to customers	45,748,073	-	43,025,033	-	43,025,033
Held-to-maturity investments	1,499,639	469,359	977,612	1,468	1,448,439
Bonds of public issuers	*322,405*	*308,910*	*2,464*	*-*	*311,374*
Bonds of other issuers	*1,177,234*	*160,449*	*975,148*	*1,468*	*1,137,065*
Financial assets	**54,949,031**	**2,731,667**	**49,435,109**	**8,015**	**52,174,791**
Deposits from central banks	9,530,131	9,530,131	-	-	9,530,131
Deposits from banks	4,775,384	-	4,713,039	-	4,713,039
Due to customers	27,384,721	-	27,384,721	-	27,384,721
Debt securities issued	8,673,140	5,845,601	5,014,516	234,132	11,094,248
Investment contracts	2,608,643	-	1,516,776	-	1,516,776
Subordinated debt	1,066 025	819,831	235,190	-	1,055,021
Financial liabilities	**54,038,044**	**16,195,563**	**38,864,242**	**234,132**	**55,293,937**

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

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

Loans and advances to customers

The fair value of loans and advances to customers is estimated based on the discount of the expected future cash flows of capital and interest, assuming that the installments are paid on the dates that have been contractually defined. The expected future cash flows of loans with similar credit risk characteristics are estimated collectively. The discount rates used by the Group are current interest rates used in loans with similar characteristics.

Held-to-maturity investments

The fair values of these financial instruments are based on quoted market prices, when available. For unquoted securities the fair value is estimated by discounting the expected future cash-flows.

Deposits from central banks and Deposits from other banks

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

Due to customers

The fair value of these financial instruments is estimated based on the discount of the expected future cash flows of capital and interest. The discount rates used by the Group are the current interest rates used in instruments with similar characteristics. Considering that the applicable interest rates to these instruments are floating interest rates and that the period to maturity is substantially less than one year, the difference between fair value and book value is not significant.

Debt securities issued and Subordinated debt

The fair value of these instruments is based on market prices, when available. When not available, the Group estimates its fair value by discounting the expected future cash-flows.

NOTE 51 – RISK MANAGEMENT

A qualitative outlook of the risk management at the Group is presented below:

Credit risk

Credit risk represents the potential financial loss arising from the failure of a borrower or counterparty to honour its contractual obligation. Credit risk is essentially present in traditional banking products – loans, guarantees granted and contingent liabilities – and in trading products – swaps, forwards and options (counterparty risk). Regarding credit default swaps, the net exposure between selling and buying positions in relation to each reference entity, is also considered as credit risk to the Group. The credit default swaps are accounted for at fair value in accordance with the accounting policy described in Note 2.4.

Credit portfolio management is an ongoing process that requires the interaction between the various teams responsible for the risk management during the consecutive stages of the credit process. This approach is complemented by the continuous introduction of improvements in the methodologies, in the risk assessment and control tools, as well as in procedures and decision processes.

The risk profile of BES Group is analysed on a regular basis by the risk committees, especially in what concerns the evolution of credit exposures and monitoring of credit losses.

BES Group credit risk exposure is analysed as follows:

(in thousands of euro)

	31.12.2013	31.12.2012
Deposits with banks	3,466,945	3,799,129
Financial assets held for trading	2,475,596	3,871,474
Other financial assets at fair value through profit or loss	2,472,286	1,634,419
Available-for-sale financial assets	6,023,056	8,462,104
Loans and advances to customers	46,334,896	47,706,392
Held-to-maturity investments	1,499,639	941,549
Derivatives for risk management purposes	363,391	516,520
Other assets	611,726	480,754
Guarantees granted	7,617,603	8,023,520
Stand by letters of credit	4,230,944	3,776,399
Irrevocable commitments	1,655,113	3,280,971
Credit risk associated to the credit derivatives reference entities	176,305	489,884
	76,927,500	**82,983,115**

The Group computes the impairment on an individual basis for all financial assets that are past due. If the amount of collaterals net of haircuts equals or exceeds exposure, impairment may be nil. Thus, the Group does not have any overdue financial assets for which has not performed a review about its recovery and subsequent recognition of impairment when necessary.

The analysis of the risk exposure by sector of activity, as at 31 December 2013 and 2012, can be analysed as follows:

(in thousands of euro)

	31.12.2013									
	Loans and advances to customers		**Financial assets held for trading**	**Other financial assets at fair value through profit and loss**	**Derivatives for risk management purposes**	**Available-for-sale financial assets**		**Held-maturity investments**		**Guarantees granted**
	Gross amount	**Impairment**				**Gross amount**	**Impairment**	**Gross amount**	**Impairment**	
Agriculture	474,905	(29,573)	8,596	-	-	7,017	-	-	-	36,054
Mining	256,767	(15,077)	3,083	6,115	-	13,392	(777)	-	-	41,035
Food, beverage and tobacco	983,444	(45,806)	26,696	47,396	-	11,605	(52)	4,594	-	69,924
Textiles	361,240	(37,133)	645	-	-	38,778	(3,957)	-	-	13,736
Shoes	75,046	(6,609)	205	-	-	499	(499)	-	-	1,543
Wood and cork	139,638	(29,582)	302	80,627	-	15,528	(1,329)	-	-	7,801
Printing and publishing	396,424	(36,462)	3,983	-	-	33,734	(10,000)	-	-	59,427
Refining and oil	3,007	(171)	274	22,273	-	80,721	-	-	-	5,461
Chemicals and rubber	644,899	(16,951)	9,715	26,062	-	23,731	(13,145)	-	-	95,966
Non-metallic minerals	311,791	(30,756)	253	-	-	12,730	(7,586)	-	-	21,146
Metallic products	956,384	(69,669)	7,208	3,223	7,564	3,604	-	-	-	181,404
Production of machinery, equipment and electric devices	243,660	(10,535)	1,264	257	-	12,645	(3,582)	-	-	117,996
Production of transport material	133,638	(6,238)	541	36,011	-	36,871	(108)	-	-	71,154
Other transforming industries	387,087	(30,205)	736	14 017	-	40,222	(16,490)	-	-	41,268
Electricity, gas and water	1,355,310	(13,769)	124,426	28,689	-	237,106	(3,278)	-	-	480,074
Construction	3,459,290	(460,961)	208,439	138,846	-	290,620	(1,687)	3,946	-	2,025,041
Wholesale and retail	3,293,690	(369,869)	8,333	73,192	-	65,948	(22,649)	3,705	-	476,695
Tourism	1,422,938	(121,539)	3,135	17,912	-	23,982	(401)	-	-	101,704
Transports and communications	2,140,639	(62,711)	184,269	63,668	3	195,468	(5,213)	5,649	-	1,092,754
Financial activities	3,588,127	(214,469)	687,459	1,795,716	355,824	2,536,215	(116,696)	1,029,715	(8,808)	185,436
Real estate activities	5,627,216	(616,989)	17,675	125,439	-	121,155	(4,177)	1,304	-	265,482
Services provided to companies	5,053,097	(469,163)	228,639	95,886	-	735,571	(37,803)	64,272	-	1,325,101
Public services	1,594,188	(25,454)	957,328	1,234,070	-	4,006,635	-	322,405	-	196,168
Non-profit organisations	3,459,283	(288,679)	23,737	64,662	-	232,430	(47,602)	77,470	(4 613)	463,271
Mortgage loans	10,814,726	(185,863)	-	-	-	-	-	-	-	6
Consumers loans	2,382,973	(192,364)	-	-	-	-	-	-	-	238,801
Other	162,901	(815)	991	286	-	7,433	(4)	-	-	3,155
Total	**49,722,308**	**(3,387,412)**	**2,507,932**	**3,874,347**	**363,391**	**8,783,640**	**(297,035)**	**1,513,060**	**(13,421)**	**7,617,603**

(in thousands of euro)

	31.12.2012									
	Loans and advances to customers		Financial assets held for trading	Other financial assets at fair value through profit and loss	Derivatives for risk management purposes	Available-for-sale financial assets		Held-maturity investments		Guarantees granted
	Gross amount	Impairment				Gross amount	Impairment	Gross amount	Impairment	
Agriculture	434,485	(27,152)	14,202	-	-	10,725	(6)	-	-	36,677
Mining	309,229	(11,966)	3,742	11,708	-	12,969	(675)	-	-	53,656
Food, beverage and tobacco	974,407	(50,542)	25,727	2,685	-	10,395	(52)	-	-	102,293
Textiles	316,309	(31,090)	862	-	-	10,425	(3,958)	-	-	12,779
Shoes	63,359	(6,843)	38	-	-	499	(499)	-	-	2,063
Wood and cork	147,345	(23,121)	480	2,236	-	4,366	(1,330)	-	-	7,466
Printing and publishing	331,889	(15,601)	6,683	-	-	11,968	(11,968)	-	-	84,260
Refining and oil	6,976	(45)	4,817	3,385	-	11,618	-	-	-	5,425
Chemicals and rubber	616,899	(14,149)	20,744	1,471	-	24,009	(13,276)	-	-	102,280
Non-metallic minerals	363,449	(28,435)	431	-	-	13,103	(7,958)	-	-	20,152
Metallic products	877,138	(48,939)	14,592	194	-	2,407	-	-	-	155,603
Production of machinery, equipment and electric devices	280,584	(11,883)	3,079	584	-	31,249	(5,632)	-	-	120,022
Production of transport material	113,698	(9,677)	630	10,741	14	33,298	(3,438)	-	-	34,662
Other transforming industries	389,355	(27,340)	1,611	2,642	-	31,758	(11,280)	-	-	38,449
Electricity, gas and water	1,458,334	(11,032)	155,360	23,846	-	687,307	-	-	-	487,693
Construction	4,429,927	(368,417)	416,606	57,643	-	27,858	(1,688)	-	-	2,292,619
Wholesale and retail	3,188,671	(289,276)	10,810	1,366	-	33,764	(15,430)	1,537	-	546,904
Tourism	1,453,173	(91,215)	14,625	65,301	-	39,439	(379)	-	-	101,949
Transports and communications	2,152,159	(46,964)	291,175	18,483	-	271,487	(8,916)	9,894	-	1,010,767
Financial activities	3,952,138	(123,257)	1,045,792	1,901,531	516,506	3,650,620	(70,301)	526,584	(20,794)	161,474
Real estate activities	6,249,967	(431,611)	52,371	70,000	-	201,741	(1,891)	1,299	-	456,531
Services provided to companies	4,749,180	(369,927)	344,883	91,424	-	1,156,930	(33,197)	39,139	-	1,484,414
Public services	954,941	(22,959)	1,361,185	515,994	-	4,405,389	-	295,271	-	227,198
Non-profit organisations	2,682,267	(268,571)	133,128	38,356	-	303,008	(46,089)	106,936	(18,317)	402,493
Mortgage loans	11,133,822	(167,019)	-	-	-	-	-	-	-	9
Consumers loans	2,627,780	(180,039)	-	-	-	-	-	-	-	70,704
Other	141,253	(15,272)	1,826	1,963	-	6,945	(4)	-	-	4,978
Total	**50,398,734**	**(2,692,342)**	**3,925,399**	**2,821,553**	**516,520**	**10,993,277**	**(237,967)**	**980,660**	**(39,111)**	**8,023,520**

As at 31 December 2013 and 2012, the analysis of the loan portfolio by rating is as follows:

(in million of euro)

Rating/ Scoring models	Internal scale	31.12.2013		31.12.2012	
		Credit amount	(%)	Credit amount	(%)
Large companies	[aaa;a-]	8	0.02%	8	0.02%
	[bbb+;-bbb-]	2,119	4.26%	2,313	4.59%
	[bb+;bb-]	4,549	9.15%	4,997	9.91%
	[b+;b-]	7,074	14.23%	8,080	16.02%
	ccc+	1,981	3.98%	1,277	2.53%
Medium enterprises	8-9	488	0.98%	535	1.06%
	10-11	403	0.81%	532	1.06%
	12-13	553	1.11%	632	1.25%
	14-15	467	0.94%	438	0.87%
	16-17	502	1.01%	567	1.13%
	18-19	380	0.76%	342	0.68%
	20-21	468	0.94%	347	0.69%
	22-23	231	0.46%	294	0.58%
	24-25	1,527	3.07%	1,659	3.29%
Small enterprises	A	62	0.12%	71	0.14%
	B	334	0.67%	305	0.61%
	C	556	1.12%	620	1.23%
	D	268	0.54%	311	0.62%
	E	137	0.28%	251	0.50%
	F	556	1.12%	557	1.11%
Mortgage loans	01	1,220	2.45%	1,196	2.37%
	02	4,398	8.85%	4,341	8.61%
	03	1,427	2.87%	1,492	2.96%
	04	680	1.37%	710	1.41%
	05	506	1.02%	503	1.00%
	06	496	1.00%	488	0.97%
	07	617	1.24%	679	1.35%
	08	712	1.43%	953	1.88%
Private individuals	01	74	0.15%	86	0.17%
	02	57	0.11%	66	0.13%
	03	118	0.24%	130	0.26%
	04	238	0.48%	312	0.62%
	05	118	0.24%	136	0.27%
	06	170	0.34%	198	0.39%
	07	149	0.30%	144	0.29%
	08	132	0.27%	109	0.22%
	09	183	0.37%	260	0.52%
	10	2	-	4	0.01%
No internal rating/ scoring loans.		15,762	31.70%	14,456	28.68%
TOTAL		**49,722**	**100.00%**	**50,399**	**100.00%**

Market risk

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

The market risk management is integrated with the balance sheet management through the Asset and Liability Committee (ALCO) at the Group entities level. These committees are responsible for defining policies for the structuring and composition of the balance sheet, and for the control of exposures to interest rate, foreign exchange and liquidity risk.

The main measure of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) valuation criteria is used. Group's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year. As a complement to VaR, stress testing has been developed, allowing to evaluate the impact of potential losses higher than the ones considered by VaR.

(in thousands of euro)

	31.12.2013			
	December	Annual average	Maximum	Minimum
Exchange Risk	11,166	9,192	10,957	7,371
Interest rate risk	5,532	7,108	9,342	5,566
Shares and commodities	11,186	12,640	21,441	10,538
Volatility	3,055	5,817	4,089	2,857
Credit Spread	16,775	23,944	33,893	16,941
Diversification effect	(10,901)	(11,023)	(14,773)	(8,725)
Total	**36,813**	**47,678**	**64,949**	**34,548**

(in thousands of euro)

	31.12.2012			
	December	Annual average	Maximum	Minimum
Exchange Risk	3,399	11,272	13,723	3,399
Interest rate risk	8,793	18,426	28,532	8,793
Shares and commodities	15,026	14,439	11,127	15,026
Volatility	7,112	7,222	7,173	7,112
Credit Spread	13,887	40,212	71 556	13,887
Diversification effect	(10,105)	(17,030)	(20,347)	(10,105)
Total	**38,112**	**74,541**	**111,764**	**38,112**

Group has a VaR of euro 36.813 million (31 December 2012: euro 38.112 million), for its trading positions.

Following the recommendations of Basel II (Pilar 2) and Instructions nº 19/2005, of the Bank of Portugal BES Group calculates its exposure to interest rate risk based on the methodology of the Bank of International Settlement (BIS), classifying all balance and off-balance balances which are not part of the trading portfolio, by repricing intervals.

(in thousands of euro)

	31.12.2013						
	Eligible amounts	Non sentitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Cash and deposits	7,692,459	376,865	7,164,012	93,062	44,638	269	13,613
Loans and advances to customers	48,660,744	-	30,239,988	7,759,707	2,024,753	6,021,147	2,615,149
Securities	14,848,731	6,240,499	3,240,196	1,119,973	854,262	850,547	2,543,254
Technical Reserves of Reinsurance ceded	-	-	-	-	-	-	-
Total			**40,644,196**	**8,972,742**	**2,923,653**	**6,871,963**	**5,172,016**
Deposits from Banks	14,368,195	-	12,640,480	387,797	623,992	264,750	451,177
Due to customers	36,281,992	-	17,727,912	3,340,480	6,711,979	8,476,804	24,817
Securities issue	12,716,252	-	2,821,877	1,859,458	380,806	4,550,717	3,103,393
Investments contracts	4,278,066	1,619,788	-	-	-	2,658,278	-
Technical Reserves of Direct Insurance	1,754,655	37,538	-	807,033	-	-	910,084
Total			**33,190,269**	**6,394,768**	**7,716,777**	**15,950,549**	**4,489,471**
GAP (assets - liabilities)	(3,157,264)		7,453,927	2,577,974	(4,793,125)	(9,078,585)	682,545
Off Balance sheet	(11,783)		(8,473,342)	(1,271,568)	6,120,832	3,703,511	(92,400)
Structural GAP	**(3,170,232)**		**(1,019,415)**	**1,306,406**	**1,327,707**	**(5,375,074)**	**590,145**
Accumulated GAP			**(1,019,415)**	**286,991**	**1,614,698**	**(3,760,376)**	**(3,170,232)**

(in thousands of euro)

	31.12.2012						
	Eligible amounts	Non sentitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Cash and deposits	7,492,060	438,713	6,664,597	269,579	103,370	15,754	46
Loans and advances to customers	49,673,250	-	29,712,842	8,957,736	2,736,210	5,965,359	2,301,103
Securities	16,725,064	7,367,973	4,002,972	1,359,061	1,058,477	1,742,554	1,194,026
Technical Reserves of Reinsurance ceded	-	-	-	-	-	-	-
Total			**40,380,411**	**10,586,376**	**3,898,657**	**7,723,668**	**3,495,175**
Deposits from Banks	15,867,594	-	14,182,895	525,694	648,472	270,027	240,506
Due to customers	34,031,479	-	22,337,278	2,929,281	3,066,320	5,685,175	13,424
Securities issue	15,858,652	-	5,139,450	752,979	279,880	6,547,539	3,138,805
Investments contracts	3,319,944	545,779	25,622	371,293	-	1,671,301	705,950
Technical Reserves of Direct Insurance	1,547,697	1,531,105	-	-	-	5,904	10,689
Total			**41,685,244**	**4,579,247**	**3,994,673**	**14,179,946**	**4,109,373**
GAP (assets - liabilities)	(2,464,796)		(1,304,833)	6,007,129	(96,616)	(6,456,278)	(614,198)
Off Balance sheet			(6,114 471)	(751,350)	509,366	6,289,980	66,475
Structural GAP	**(2,464,796)**		**(7,419,305)**	**5,255,779**	**412,750**	**(166,298)**	**(547,723)**
Accumulated GAP			**(7,419,305)**	**(2,163,525)**	**(1,750,775)**	**(1,917,073)**	**(2,464,796)**

Sensitivity analysis to the interest rate risk of the bank prudential portfolio are performed, based on the duration model approach and considering several scenarios of movements of the yield curve at all interest rate levels.

(in thousands of euro)

	31.12.2013				31.12.2012			
	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year	Parallel increase of 100 bp	Parallel decrease of 100 bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year
At 31 December	(22,275)	22,275	(1,256)	1,256	(85,483)	85,483	(34,138)	34,138
Average for the year	(70,993)	70,993	(21,050)	21,050	(22,320)	22,320	(976)	976
Maximum for the year	(110,480)	110,480	(37,706)	37,706	(124,700)	124,700	60,383	(60,383)
Minimum for the year	(80,224)	80,224	(24,188)	24,188	13,477	(13,477)	22,242	(22,242)

The following table presents the average balances, interests and interest rates in relation to the Group's major assets and liabilities categories, for the period ended 31 December 2013 and 2012:

(in thousands of euro)

	31.12.2013			31.12.2012		
	Average balance for the year	Interest for the year	Average interest rate	Average balance for the year	Interest for the year	Average interest rate
Monetary assets	4,508,358	262,613	5.83%	4,885,099	192,458	3.94%
Loans and advances to customers	49,847,991	2,308,840	4.63%	50,315,715	2,527,274	5.02%
Securities	14,226,281	700,102	4.92%	14,242,252	850,845	5.97%
Differencial applications	-	-	-	-	-	-
Financial Assets	**68,582,630**	**3,271,555**	**4.77%**	**69,443,066**	**3,570,577**	**5.14%**
Monetary Liabilities	15,233,117	340,201	2.23%	17,566,965	419,167	2.39%
Due to consumers	36,223,112	1,005,520	2.77%	34,029,787	1,037,769	3.05%
Other	14,034,205	891,526	6.35%	16,564,422	933,133	5.63%
Differencial liabilities	3,092,195	-	-	1,281,892	-	-
Financial Liabilities	**68,582,630**	**2,237,247**	**3.26%**	**69,443,066**	**2,390,069**	**3.44%**
Net interest income		**1,034,308**	**1.51%**		**1,180,508**	**1.70%**

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2013 and 2012, is analysed as follows:

(in thousands of euro)

		31.12.2013				31.12.2012			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	United Stades Dollars	152,396	(242,532)	7,997	(82,139)	(802,201)	842,328	32,097	72,224
GBP	Great Britain Pounds	488,580	(477,910)	65	10,735	466,168	(467,042)	(1,057)	(1,931)
BRL	Brazillian real	149,020	(148,191)	(218)	611	187,801	(183,686)	(4,738)	(623)
DKK	Danish Krone	3,191	(3,278)	-	(87)	21,947	(21,579)	-	368
JPY	Japanese yene	(13,732)	19,110	(16,882)	(11,504)	27,297	5,171	(40,166)	(7,698)
CHF	Swiss franc	7,632	1,427	(8,054)	1,005	9,944	(6,962)	(1,286)	1,696
SEK	Swedish krone	(13,232)	13,203	-	(29)	7,403	(7,778)	(53)	(428)
NOK	Norwegian krone	(43,087)	43,156	-	69	(49,539)	49,807	69	337
CAD	Canadian Dollar	(1,048)	11,728	-	10,680	22,866	(23,290)	(7,227)	(7,651)
ZAR	Rand	(14,340)	14,287	-	(53)	(5,569)	4,475	497	(597)
AUD	Australian Dollar	(2,022)	2,760	-	738	(8,510)	10,124	17	1,631
AOA	Kwanza	(156,583)	-	-	(156,583)	(53,208)	-	-	(53,208)
CZK	Czach koruna	105	-	-	105	5	-	-	5
MXN	Mexican Peso	42,900	(43,878)	-	(978)	63,789	(75,772)	9,338	(2,645)
	Others	(93,616)	55,649	27,090	(10,878)	16,727	45,008	34,626	96,361
		506,164	**(754,469)**	**9,998**	**(238,308)**	**(95,080)**	**170,804**	**22,117**	**97,841**

Note: asset / (liability)

Exposure to peripheral Eurozone countries public debt

As at 31 December 2013 and 2012 the exposure to public debt from peripheral Eurozone countries which are monitored by the Group is analysed as follows:

(in thousands of euro)

	31.12.2013					
	Loans and Advances to Customers	Financial Assets held for trading at fair value	Derivatives instruments(1)	Available-for-sale financial assets	Held-to-maturity investments	Total
Portugal	913,897	1,308,896	18 652	2 187 679	52,428	4,481,552
Spain	92,786	60,312	(47)	497 200	-	650,251
Greece	-	725	-	29,451	-	30,176
Italy	-	10,402	-	145,421	-	155,823
	1,006,683	**1,380,335**	**18,605**	**2,859,751**	**52,428**	**5,317,802**

(1) Net values: receivable/ (payable).

(in thousands of euro)

	31.12.2012					
	Loans and Advances to Customers	Financial Assets held for trading at fair value	Derivatives instruments(1)	Available-for-sale financial assets	Held-to-maturity investments	Total
Portugal	935,771	592,985	31,143	2,468,941	128,147	4,156,987
Spain	111,121	568	(76)	605,499	-	717,112
Greece	-	3,439	-	-	-	3,439
Irland	-	-	-	-	24,894	24,894
Italy	-	6,225	-	21,290	-	27,515
Hungary	-	-	-	-	-	-
	1,046,892	**603,217**	**31,067**	**3,095,730**	**153,041**	**4,929,947**

(1) Net values: receivable/ (payable).

All the exposures presented above, except loans and advances to customers, are recorded in the Group's balance sheet at fair value, which is based on market quotations or, in relation to derivatives, based on valuation techniques with observable market data.

A detailed exposure regarding securities recorded in financial assets held for trading, available-for-sale financial assets and held-to-maturity investments can be analysed as follows:

(in thousands of euro)

	31.12.2013					
	Nominal Amount	Market value	Accrued interest	Book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**2,291,171**	**2,131,653**	**56,026**	**2,187,679**	**-**	**(2,413)**
Maturity up to 1 year	251,206	249,784	56	249,840	-	223
Maturity exceeding 1 year	2,039,965	1,881,869	55,970	1,937,839	-	(2,636)
Spain	**471,055**	**487,587**	**9,613**	**497,200**	**-**	**(761)**
Maturity up to 1 year	235,000	234,216	-	234,216	-	164
Maturity exceeding 1 year	236,055	253,371	9,613	262,984	-	(925)
Greece	**53,003**	**28,552**	**899**	**29,451**	**-**	**938**
Maturity up to 1 year	-	-	-	-	-	-
Maturity exceeding 1 year	53,003	28,552	899	29,451	-	938
Italy	**145,000**	**145,003**	**418**	**145,421**	**-**	**707**
Maturity up to 1 year	135,000	134,502	211	134,713	-	330
Maturity exceeding 1 year	10,000	10,501	207	10,708	-	377
	2,960,229	**2,792,795**	**66,956**	**2,859,751**	**-**	**(1,529)**
Financial assets held for trading						
Portugal	99,627	94,064	1,931	95,995	-	-
Spain	45,114	50,674	2,338	53,012	-	-
	144,741	**144,738**	**4,269**	**149,007**	**-**	**-**
Financial assets at fair value						
Portugal	1,243,256	1,206,368	6,533	1,212,901	-	-
Spain	7,290	7,291	9	7,300	-	-
Greece	1,219	705	20	725	-	-
Italy	10,400	10,402	-	10,402	-	-
	1,262,165	**1,224,766**	**6,562**	**1,231,328**	**-**	**-**
Financial assets held to maturity						
Portugal	57,000	57,321	533	52,428	-	-
	57,000	**57,321**	**533**	**52,428**	**-**	**-**

(in thousands of euro)

	31.12.2012					
	Nominal Amount	Market value	Accrued interest	Book value	Impairment	Fair value reserves
Available-for-sale financial assets						
Portugal	**2,669,666**	**2,421,241**	**47,700**	**2,468,941**	**-**	**191,142**
Maturity up to 1 year	187,331	186,135	113	186,248	-	498
Maturity exceeding 1 year	2,482,335	2,235,106	47,587	2 282,693	-	190,644
Spain	**616,092**	**597,401**	**8,098**	**605,499**	**-**	**2,190**
Maturity up to 1 year	389,350	383,681	325	384,006	-	796
Maturity exceeding 1 year	226,742	213,720	7,773	221,493	-	1,394
Italy	**20,000**	**20,867**	**423**	**21,290**	**-**	**478**
Maturity up to 1 year	-	-	-	-	-	-
Maturity exceeding 1 year	20,000	20,867	423	21,290	-	478
	3,305,758	**3,039,509**	**56,221**	**3,095,730**	**-**	**193,810**
Financial assets held for trading						
Portugal	158,946	141,676	3,807	145,483	-	-
Spain	304	302	-	302	-	-
	159,250	**141,978**	**3,807**	**145,785**	**-**	**-**
Financial assets at fair value						
Portugal	523,775	439,544	7,958	447,502	-	-
Spain	260	259	7	266	-	-
Greece	129,655	3,439	-	3,439	-	-
Italy	5,969	6,224	1	6,225	-	-
	659,659	**449,466**	**7,966**	**457,432**	**-**	**-**
Financial assets held to maturity						
Portugal	137,000	126,431	1,716	128,147	-	-
Ireland	24,000	24,051	844	24,894	-	-
	161,000	**150,482**	**2,560**	**153,041**	**-**	**-**

Liquidity risk

Liquidity risk derives from the potential inability to fund assets while satisfying the maturity dates of commitments and from potential difficulties in liquidating portfolio positions without incurring excessive losses.

Liquidity risk can be divided into two types:

- Asset liquidity (market liquidity risk) – The inability to sell a particular asset due to lack of liquidity in the market, which results in increasing the bid/ offer spread or applying a haircut to market value;
- Funding (funding liquidity risk) – The inability to, within the desired timeframe and currency, fund assets in the market and/or refinance debt that comes due. This inability can be reflected by a significant increase of financing cost or of collateral requirements in order to obtain funds. Difficulties of (re) financing can lead to asset sales, even incurring in significant losses. The risk of (re) financing should be minimized through adequate diversification of funding sources and maturities.

The year 2013 maintained the trend of market improvement, with a reduction of the levels of risk aversion and declining yields of sovereign debt of peripheral countries strongly supported by expansionary policies of central banks, although there were peaks of increased instability policy during the year. In Portugal, the economic indicators have come to prove successively more positive, suggesting the beginning of a cycle of recovery in economic activity, having been possible to the Republic to access the markets, in December, for a swap of Treasury bonds and already in January with a new issue of 5 years in the amount of euro 3,250 million.

Throughout the year there was a significant number of banks which repaid the LTRO (Long Term Operation Refinacing) granted in December 2011, amounting to euro 446 billion. The Group repaid earlier euro 1,000 million.

Taking advantage of the favourable conditions, the Group has accessed the international capital markets at the beginning of the year with an issuance of unsecured senior debt, with a maturity of five years, in the amount of euro 500 million, in antecipation of reimbursements that will occur along the year (euro 1.6 billion) and in November with an issue of subordinated debt in the amount of euro 750 million. These issues, combined with the performance of client deposits and the reduction of the credit portfolio, enabled the Group to meet the repayments of 2013, repurchase debt and reduce the liquidity facility at the ECB. Taking advantage of the market improvement, already in January 2014, BES Group conducted a five year debt issue in the amount of euro 750 million with a coupon of 4%, which corresponds to a spread of 285 b.p. over the mid-swap rate at 5 years. This placement level was equal to the emission to 5 year conducted in 2009.

At year end, assets eligible as collateral for rediscount operations were euro 20.9 billion, of which euro 18.6 billion were eligible at the European Central Bank.

In order to evaluate the global exposition to liquidity risk, reports have been prepared which permit not only the identification of negative mismatches, but also lead to the coverage of these situations.

(in million of euro)

	31.12.2013						
	Eligible amounts	Up to 7 days	From 7 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year
ASSETS							
Cash and deposits at central banks	377	377	-	-	-	-	-
Loans and advances to banks	7,316	6,290	261	583	88	54	39
Loans and advances to customers	41,767	493	1,418	1,189	1,289	1,894	35,484
Securities	25,331	2,441	835	1,946	1,202	2,313	16,593
Technical Reserves of reinsurance ceded	1	-	1	-	-	-	-
Other Assets, net	1,839	718	16	61	4	123	917
Off Balance sheet (Commitments and Derivatives)	2,360	77	222	823	382	536	320
Total		**10,396**	**2,753**	**4,602**	**2,965**	**4,920**	**53,353**
LIABILITIES							
Deposits from banks, central banks and other loans	14,646	1,667	459	886	196	914	10,522
Due to customers	36,002	2,390	457	643	396	647	31,470
Securities	12,661	3	9	1,490	1,963	495	8,701
Investments contracts	4,278	236	101	47	69	113	3,713
Technical Reserves of Direct Insurance	1,755	10	5	18	11	29	1,681
Other short-term liabilities	1,469	1,286	128	12	-	10	34
Off Balance sheet (Commitments and Derivatives)	10,591	116	306	959	484	552	8,173
Total		**5,708**	**1,465**	**4,055**	**3,119**	**2,760**	**64,294**
GAP (Assets - Liabilities)		**4,689**	**1,288**	**547**	**(155)**	**2,160**	
Accumulated GAP		**4,689**	**5,977**	**6,525**	**6,370**	**8,530**	
Buffer > 12 months							**2,127**

(in million of euro)

	31.12.2012						
	Eligible amounts	Up to 7 days	From 7 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year
ASSETS							
Cash and deposits at central banks	420	420	-	-	-	-	-
Loans and advances to banks	7,072	5,614	504	607	223	95	30
Loans and advances to customers	43,500	561	1,170	1,411	1,501	2,291	36,566
Securities	25,684	2,601	1,140	2,226	889	1,500	17,328
Technical Reserves of reinsurance ceded	4	4	-	-	-	-	-
Other Assets, net	1,816	1,816	-	-	-	-	-
Off Balance sheet (Commitments and Derivatives)	6,570	313	139	268	454	513	4,883
Total		**11,329**	**2,953**	**4,512**	**3,067**	**4,399**	**58,807**
LIABILITIES							
Deposits from banks, central banks and other loans	16,110	2,092	515	680	479	770	11,573
Due to customers	33,789	594	957	1,974	731	138	29,396
Securities	15,862	176	441	1,936	927	278	12,103
Investments contracts	3,320	21	1	83	63	162	2,989
Technical Reserves of Direct Insurance	1,548	10	5	14	28	71	1,418
Other short-term liabilities	1,589	1,589	-	-	-	-	-
Off Balance sheet (Commitments and Derivatives)	10,188	330	201	417	624	520	8,096
Total		**4,812**	**2,120**	**5,104**	**2,852**	**1,939**	**65,575**
GAP (Assets - Liabilities)		**6,515**	**833**	**(593)**	**214**	**2,459**	
Accumulated GAP		**6,515**	**7,348**	**6,755**	**6,970**	**9,429**	
Buffer > 12 months							**581**

The one year cumulative gap went from euro 9,429 million in December 2012 to euro 8,530 million as of December 2013. It should be noted that this amounts includes BES Vida.

Additionally, and in accordance with Instruction 13/2009 of the Bank of Portugal, the liquidity gap is defined by the indicator [(Net Assets - Volatile Liabilities) / (Assets - Net assets) * 100] on each residual cumulative maturity scale.
Net assets include cash and net securities and volatile liabilities include debt issued, commitments, derivatives and other liabilities. This indicator allows a characterization of the wholesale risk of institutions.

As at 31 December 2013, BES Group one year liquidity gap was -0.07, which compares to -1.7 from the same period last year. Note that the above figures, calculated in accordance with Instruction no. 13/2009 of Bank of Portugal, do not include BES Vida, who's Notes to the Consolidated Financial Statements 133 activity is regulated by the Portuguese Insurance Authority ("Instituto de Seguros de Portugal"), which establishes exposure limits for diversification and prudential spread.

In order to try to anticipate possible constraints, BES Group considers extreme scenarios in terms of liquidity (moderate and severe), different timeframes and different impact areas (systemic, specific to the Bank and combined). For example, in the systemic scenario is simulated the closure of the wholesale market, while in the specific scenario to the Bank is simulated the run-off of customer deposits from retail and non-retail, with different severity levels.

From 1 January 2014 is in force the CRD/CRR, under the Basel III framework. In what concerns Liquidity Risk, the highlights are the mandatory requirements regarding the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). As at 31 December 2013, the Group had met the ratio the limit set for 2015 in what concerns LCRA. In January the Bank of International Settlements published a document in connection with the NSFR calculation review. The Group continues to follow every legislative change in order to comply with its regulatory obligations.

Operational risk

Operational risk represents the risk of losses resulting from failures in internal procedures, people behaviours, information systems and external events. It is understood, therefore, operational risk as the sum of the following risks: operational, information systems, compliance and reputation.

To manage operational risk, it was developed and implemented a system that standardizes, systematizes and regulates the frequency of actions with the objective of identification, monitoring, controlling and mitigation of risk. The system is supported at organizational level by a unit within the Global Risk Department, exclusively dedicated to this task, and by representatives designated by each of the relevant departments and subsidiaries.

Insurance business specific risk (life insurance)

Underwriting

There are written rules that establish the guidelines to consider in the risk acceptance, and which were based on the analysis performed over several portfolio indicators to enable matching the best possible price to the risk. The information provided by the Company's reinsurers is also taken into account and the underwriting policies are defined by business segment.

Pricing

The Company aims to set prices sufficient and adequate to cover all commitments (outstanding claims, expenses and cost of capital).

Upstream, the price suitability is tested through techniques of realistic cash flow projections and downstream, the profitability of each product or group of products is monitored annually when calculating the Market Consistent Embedded Value.

There are metrics and guidelines defined by the Company setting out the minimum requirements for profitability of any new product, as well as to perform sensitivity analysis. The calculation of the Market Consistent Embedded Value is conducted once a year by the Company and reviewed by external consultants.

Reserving

In general, the Company's policy is prudential and uses recognized actuarial methods fulfilling the legislation in force. The main policy objective is to record appropriate and adequate reserves so that the Company meets all its future liabilities. For each line of business, the Company records reserves within their liabilities for future claims and segregate assets to represent these reserves. This requires the preparation of estimates and the use of assumptions that may affect the assets and liabilities amounts in future years.

Such estimates and assumptions are periodically evaluated, including through statistical analysis of historical internal and/ or external data. The adequacy of estimated liabilities for the insurance activity is reviewed annually. If the technical reserves are not sufficient to cover the present value of expected future cash flows (claims, costs and commissions), the insufficiency is immediately recognized through additional reserves.

Claims management

The risk derived from claims management arises from the possibility of liability increase due to insufficient or inadequate quality of data used in the reserving process or an increase of management expenses. To address this risk, a clear set of rules and procedures is established, along-side with specific internal controls for claims management.

Reinsurance

BES Vida has signed reinsurance treaties to limit the risk exposure. Reinsurance coverage can be on a policy by policy basis (facultative reinsurance), namely where the level of cover required by the policyholder exceeds internal underwriting limits or, on portfolio basis (treaty reinsurance) when individual policyholder exposures are within internal limits but where an unacceptable risk of accumulation.

Insurance specific risks

Biometric risks

Biometric risks include the risks of longevity, mortality and disability. The longevity risk covers the uncertainty in the ultimate loss due to policyholders living longer than expected and can arise for example, in annuities. The longevity risk is managed through pricing, underwriting policy and by regularly reviewing the mortality tables used to set prices and create reserves in compliance. The mortality risk is linked to an increase of the mortality rate which may have an impact on insurances that guarantee capital in the event of death. This risk is mitigated through underwriting policies, regular review of the mortality tables used and reinsurance. The disability risk covers the uncertainty of actual losses due to disability rates higher than expected.

The sensitivity of the portfolio to biometric risks is analyzed through realistic cash flow projections - Market Consistent Embedded Value.

Non-collection risk

The non-collection risk relates to the risk of nonpayment of premiums and cancellation of policies. The redemption and cancellation rates are monitored regularly in order to monitor its impact on the Company's portfolio. The portfolio's sensitivity to this risk is analyzed through realistic cash flow projections – Market Consistent Embedded Value Model.

The main assumptions used by type of contract are as follows:

	Mortality Table	Technical rate
Retirements savings plans and capitalization products		
Up to December 1997	GKM 80	4%
From January 1998 to June 1999	GKM 80	3.25%
From July 1999 to February 2003	GKM 80	2.25% and 3%
From March 2003 to December 2003	GKM 80	2.75%
After January 2004	GKM 80	Set per calendar year (*)
Insurance in case of life		
Rents		
Up to June 2002	TV 73/77	4%
From July 2002 to December 2003	TV 73/77	3%
From January 2004 to September 2006	GKF 95	3%
After September 2006	GKM - 3 years	2%
Other insurance		
Insurance in case of death		
Up to December 2004	GKM 80	4%
After January 2005	GKM 80	0% to 2%
Insurance mixed		
Up to September 1998	GKM 80	4%
After October 1998	GKM 80	3%

(*) In the year of 2013 the technical rate was 3% (2012: 2%).

For liability adequacy test purposes, the mortality assumptions are based on best estimates derived from portfolio experience investigations. Future cash flows are evaluated using the Market Consistent Embedded Value model and discounted at government bonds rate. BES Vida used the model adopted by the CFO Forum.

The mortality assumptions used are as follows:

	Mortality Table
Annuities	GRM 95
Savings and Other contracts	30% GKM 80

The following table shows the sensitivity analyzes in Market Consistent Embedded Value of insurance activity:

(in thousands of euro)

	31.12.2013	31.12.2012
10% growth in expenses	(2,905)	(3,883)
10% growth in redemptions	509	(3,873)
Decrease of 10% in redemptions	(317)	4,896
5% growth in mortality rate (life except rents)	186	(1,789)
Decrease of 5% in mortality rate (life except rents)	(198)	2,055

The following table presents the sensitivity analysis on the impact net of tax reserves and gains and losses from changes in the interest rate without risk and the market value of the shares of insurance activity:

(in thousands of euro)

	31.12.2013	
	Profit for the period	**Reserve net taxes**
100pb growth in risk-free rate	17,145	(33,805)
Decrease of 100pb in risk-free rate	(7,128)	51,088
Devaluation of 10% in the market value of shares	-	33,616
10% appreciation in the market value of shares	-	(33,616)

Capital Management and Solvency Ratio

The main objective of the Group capital management is to ensure compliance with the Group's strategic objectives in terms of capital adequacy, respecting and enforcing the minimum capital requirements set by supervisors.

The strategy for capital adequacy management is determined by the Executive Committee and is integrated into the strategic goals of the Group.

The Group is subject to prudential supervision by the Bank of Portugal which, in accordance with the Capital Adequacy Directive of the EU, establishes the prudential rules to be observed by the institutions under its supervision. These rules determine a minimum ratio of Own funds to Capital requirements of risks assumed, which institutions are required to fulfil.

In the scope of the implementation of the new capital accord Basel II, and using the permission granted by the new prudential regime established by Decree-Law 103/2007 and Decree-Law 104/2007, the Group was authorized to use, starting 31 March 2009, the approach based in the use of internal models for credit risks (Foundation Internal Rating Based Approach – IRBF) for credit risk and the Standardized Approach – TSA) for operational risk.

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

- **Core Tier I:** This category includes mainly the share capital, share premiums, eligible reserves, the net profit for the year retained when certified and non-controlling interests. The fair value reserves are excluded except for the deduction of negative fair value reserves associated with shares or other equity instruments, is also deductible to Core Tier I the following balance sheets amounts goodwill, intangible assets, negative actuarial deviations arising from liabilities with post-employment benefits to employees above the prudential corridor limit and, where applicable, the net loss for the period.
- **Basic Own Funds (BOF):** In addition to the amounts considered as Core Tier I, this category includes the preference shares and hybrid capital instruments. It can be deducted from capital half of the value converted into equity, above 10%, in financial institutions and insurance companies. Following the implementation of the IRB method for credit risk, is now also adjusted 50% of the expected loss amount for exposures on the part that exceeds the sum of value adjustments and existing reserves.
- **Complementary Own Funds (COF):** Essentially incorporates the subordinated eligible debt and 45% of the positive fair value reserve associated with equity securities. The book value of investments in banking and insurance associates is deducted in 50% of its value and since 2009, is also deducted 50% of the expected losses of the risk positions less any existing provisions, following the application of the IRBF method for credit risk.
- **Deductions (D):** Essentially incorporates the prudential amortization of assets received as a recovery of non-performing loans.

Additionally there are several rules that limit the composition of the capital basis. The prudential rules determine that the COF cannot exceed the BOF. Also, some components of the COF (Lower Tier II) cannot exceed 50% of the BOF.

In May 2011 and in the context of the negotiation of the Financial Assistance Programme to Portugal – with the European Commission, the European Central Bank and the International Monetary Fund – the Bank of Portugal issued the Notice 3/2011, establishing new minimum levels of solvency to be followed by the financial groups subject to its supervision. Therefore, Portuguese credit institutions must reach a Core Tier I ratio of no less than 9% by 31 December 2011 and 10% by 31 December 2012. At the same time, European banks must reach a Core Tier I ratio of 9% as defined by the European Banking Authority (EBA).

As at 2013 and 2012, the main movements occurred in Basic Own Funds (Tier I) are as follows:

(in million of euro)

	31.12.2013	31.12.2012
Balance at the beggining of the period	**6,439**	**6,171**
Capital increase	-	995
Hybrid instuments	(34)	(19)
Elegible reserves and retained earnings (excluding fair value reserves)	(460)	42
Non-controlling interest, excluding hybrids	80	2
Goodwill	101	(166)
Changes on actuarial Losses	(107)	(526)
Recognition of the impact of adopting IFRS	(6)	(12)
Deduction in connection with investments held in banking and insurance entities	(59)	(164)
Fair value reserves with an impact in BOF	(24)	142
Other effects	29	(26)
Balance at the end of the period	**5,959**	**6,439**

The capital adequacy of BES Group as at 31 December 2013 and 2012 is presented as follows:

(in million of euro)

		31.12.2013	31.12.2012
A - Capital Requirements			
Share Capital, Issue Premium and Treasury stock		6,101	6,074
Elegible reserves and retained earnings (excluding fair value reserves)		777	1,237
Non-controlling interest		667	587
Intangible assets		(139)	(141)
Changes on actuarial Losses		(848)	(741)
Goodwill		(405)	(506)
Fair value reserves with an impact on BOF		(76)	(52)
Recognition of the impact of adopting IFRS		7	13
Basic own funds excluding preference shares (Core Tier I)	**(A1)**	**6,084**	**6,471**
Hybrid instuments, elegible for Tier I		192	226
Deductions in connection with investments held in banking and insurance entities		(317)	(258)
Own Funds for the determination of the EBA Core Tier I ratio	**(C)**	**5,646**	**6,092**
Basic own funds (Tier I)	**(A2)**	**5,959**	**6,439**
Positive fair value reserves (45%)		49	47
Eligible subordinated debt		1,022	801
Deductions in connection with investments held in banking and insurance entities		(206)	(258)
Complementary own funds (Tier II)		**865**	**590**
Deductions		**(84)**	**(72)**
Eligible own funds	**(A3)**	**6,740**	**6 ,957**
B- Risk Weighted Assets			
Calculated according Notice 5/2007 (Credit Risk)		52,851	56,484
Calculated according Notice 8/2007 (Market Risk)		1,227	1,503
Calculated according Notice 9/2007 (Operational Risk)		3,254	3,694
Risk Weighted Assets Total	**(B)**	**57,332**	**61,681**
C- Prudential Ratios			
Core Tier 1	(A1 / B)	10.6%	10.5%
Core Tier 1 EBA	(C / B)	9.8%	9.9%
Tier 1	(A2 / B)	10.4%	10.4%
Solvency Ratio	**(A3 / B)**	**11.8%**	**11.3%**

The risk assets were computed under the terms established in this note. Considering that Bank of Portugal, at the present date, has still not concluded the prudential impact analysis related with the sovereign guarantee to BES Angola, the risk assets as at 31 December 2013 do not include the potential mitigation impact of the guarantee.

Plans Financing and capitalization (2011 – 2015)

Following the signing of the Memorandum of Economic and Financial Policies, the Portuguese Government and the European Commission (EC), European Central Bank (ECB) and International Monetary Fund (IMF), Portuguese banks, and financial holding companies that consolidate Portuguese banking subsidiaries, have had to develop, quarterly, financing and capital plans for the period from 2011 to 2015, in order to demonstrate the achievement of the following objectives:

- The loan to deposit ratio should, preferably, be reduced to a maximum value of 120% as from December 2014;
- The stable funding ratio should be 100% as from December 2014;
- The Core Tier I ratio must be at least 10% as of 31 December 2012 and 10% as of 31 December 2012, as established in Notice 3/2011 of Bank of Portugal.

Additionally, the dependence of their branches and subsidiaries abroad on domestic Portuguese funding should be minimized; the institutions must reduce their dependence on funding from the ECB; and they should develop policies to support sectors of the Portuguese economy, namely small and medium enterprises. The financing and capital plans should consider moderate access to short-term markets and a gradual opening of medium and long term markets from the fourth quarter of 2013.

In order to prepare the initial plan and the subsequent quarterly reviews, projections of relevant domestic macroeconomic variables, of GDP growth in the geographic areas of greatest relevance to the activities of the banks and further projections of interest rates and other parameters necessary for drawing up the plans were provided by the Bank of Portugal after consultation with the EC/ECB/IMF. Together with the plan for the period in reference, a stress test exercise is required, where the banks should, in an extreme scenario, present a Core Tier I ratio higher than 6% during the period (2011-2015).

NOTE 52 – CONTRACTUAL COMMITMENTS

Securitization commitments

Following the downgrade by Moody's of the Portuguese Republic in February 2012, this agency set the maximum rating attributable to bonds issued in securitized operations as Baa1. Consequently, the operation of securitization of small and medium enterprises put together by BES in December 2010 – Lusitano SME No.2 – lost its eligibility as collateral for rediscounting at ECB and as a result BES chose to exercise its call option on 23 March 2012.

Contract Support Annex (CSA)

BES has a set of contracts negotiated with counterparties with whom it deals in derivative in the OTC market. CSA takes the form of a collateral agreement established between two parties negotiating derivatives with each other on this market, with the main objective to provide protection against credit risk, establishing for that purpose a set of rules regarding collateral. Derivatives transactions are regulated by the International Swaps and Derivatives Association (ISDA) and have minimum margin requirements that may change according to the rating of the parties.

NOTE 53 – ASSETS TRANSFER

As part of the restructuring process of the Portuguese real estate sector, several initiatives have been launched in order to create financial, operational and management conditions to revitalize the sector. Accordingly, the Government, in close liaison with the business and the financial sector, including the BES Group, encouraged the creation of companies and specialized funds that, through merger, consolidation and integrated management, would obtain the required synergies to recover the sector. Pursuing the goals established, were created companies (parent companies), where BES Group has minority interests (in partnership with other banks that also have a minority interest), and which in turn now hold almost all of the capital of certain subsidiaries (subsidiaries of those parent companies) in order to acquire certain real estate bank loans.

During 2013 and 2012, BES transferred financial assets (mainly corporate loans) to the subsidiaries of the parent companies. These entities are responsible for managing the assets received as collateral, which after the transfer of loans are received in Exchange for the loans, and have the goal to implement a plan to increase its value.

Almost all of the financial assets transferred in these operations were derecognised from the balance sheet of the Group, since a substantial portion of the risks and rewards associated with these, as well as the respective control, were transferred to those third parties.

These acquiring entities (the subsidiaries of the parent companies) have a specific management structure, fully autonomous from the banks, selected on the date of their incorporation and have the following main responsibilities:

- define the entity's purpose;
- administer and manage on an exclusive and independent way the assets acquired, determine objectives and investment policy and the manner to conduct the entity's management and affairs.

The acquiring entities are predominantly financed through the issuance of senior equity instruments fully underwritten by the parent company. The amount of capital represented by senior securities equals the fair value of the underlying asset, determined through a negotiation process based on valuations made by both parties. These securities are remunerated at an interest rate that reflects the risk of the company holding the assets. Additionally, the funding can be supplemented through banks underwriting of junior capital instruments equal to the difference between the book value of the loans transferred and the fair value based on the senior securities valuation. These junior instruments, when signed by BES Group will be entitled to a contingent positive amount if the assets transferred value, when sold, exceeds the amount of senior securities plus its remuneration. Normally, the amount of the junior security is limited to a maximum of 25% of the total amount resulting from the senior and junior securities issued.

Given that these junior securities reflect a different assessment of the assets transferred fair value, based on valuation performed by independent bodies and a negotiation process between the parties, they are fully provided for in the Group's balance sheet.

Therefore, following transfer of assets occurred the Group subscribed:

- equity instruments, representing the parent companies' share capital on which the cash flows that will enable its recovery come from a wide range of assets transferred by the various banks. These securities are recorded under financial assets available for sale and are measured at market value with valuation regularly reported by those parent companies whose accounts are audited at the end of each year;
- junior instruments issued by the acquiring companies (the subsidiaries of the parent companies), which are fully provided for thus reflecting the best impairment estimation of the financial assets transferred.

The instruments subscribed by BES Group clearly resulted in a minority position in the capital of the parent companies and of its subsidiaries.

In this context, having no control but being exposed to some risk and rewards of ownership in relation to the transferred assets through the securities subscribed as referred to above, the Group, in accordance with IAS 39.21, conducted an analysis in order to compare the exposure to the variability of risks and rewards of the transferred assets before and after the operation and concluded that it has not retained substantially all the risks and rewards of ownership. Additionally, and considering that also no control has been retained, it proceeded in accordance with IAS 39.20c (i) to the derecognition of the assets transferred and the recognition of the assets received in return, as shown in the following table:

(in thousands of euro)

	Amounts at transfer date							
	Amount of the assets transferred			Securities subscribed				
	Net assets transferred	Transfer amount	Result of the transfer	Shares (senior securities)	Junior securities	Total	Impairment	Net amount
As at 31 December 2012								
Tourism Recovery Fund, FCR	282,121	282,121	-	256,892	34,906	291,798	(34,906)	256,892
FLIT SICAV	252,866	254,547	1,681	235,318	23,247	258,565	(23,247)	235,318
Discovery Portugal Real Estate Fund	96,196	93,208	(2,988)	96,733	-	96,733	-	96,733
Vallis Construction Sector Fund	66,272	66,272	-	81,002	21,992	102,994	(21,992)	81,002
Recovery Fund, FCR	145,564	149,883	4,319	148,787	36,182	184,970	(23,000)	161,970
As at 31 December 2013								
Vallis Construction Sector Fund	18,552	18,552	-	1,606	2,874	4,480	(2,874)	1,606
FLIT SICAV	80,769	80,135	(634)	85,360	-	85,360	-	85,360
Discovery Portugal Real Estate Fund	51,809	45,387	(6,422)	51,955	-	51,955	-	51,955
Tourism Recovery Fund, FCR	11,066	11,066	-	-	-	-	-	-
Recovery Fund, FCR	52,983	52,963	(20)	726	-	726	-	726
Entrepreneurial Restructuring Fund, FCR	67,836	67,836	-	99,403		99,403	-	99,403
	1,126,034	**1,121,970**	**(4,064)**	**1,057,782**	**119,201**	**1,176,983**	**(106,019)**	**1,070,964**

As at 31 December 2013, the Group's total exposure in operations related to transfer of loans/assets amounted to euro 1,135.6 billion (euro 984.7 million, net of impairment).

As showed in the table above, the junior securities underwritten specifically as part of the transfer of assets are fully provided for. Although the junior securities are fully provided for, the Group also maintains an indirect exposure to the assets transferred through its minority interest in the parent companies capital and therefore, in all pool of assets that resulted from the various assets transfers performed by the banks (shareholders of the parent companies). There was however an operation with the company FLITPTREL VIII in which, as the acquiring company substantially holds assets transferred by BES Group and considering the holding of junior securities, the variability test resulted in a substantial exposure to all risks and rewards. In this circumstance, the operation, amounting to euro 60 million, remained recognized in the Group's balance sheet under Loans and advances to customers.

NOTE 54 – BUSINESS COMBINATIONS

BES VIDA

Until 30 April 2012, BES held a 50% interest in BES-Vida, Companhia de Seguros, S.A. (BES Vida), a life insurance company, which distributes its products in Portugal and Spain, through BES branch network. Crédit Agricole owned the remaining 50 % and controlled its activities.

As referred in Note 1, in May 2012, BES acquired, from Credit Agricole, the remaining 50% of the share capital of BES Vida with the objective of leveraging the marketing of BES Vida's insurance products.

Following this acquisition, BES became to hold the entire share capital of BES Vida and has the management control over its activities. Therefore, BES Vida, which qualified as an associate and was included in the consolidated financial statements of BES following the equity method, has become a subsidiary and is being fully consolidated since May 2012.

The total investment amounted to euro 225 million, paid in cash and BES Vida reimbursed, in October 2012, the additional paid-in capital amounting to euro 125 million.

This transaction was accounted for in accordance with the provisions of paragraph 42 of IFRS 3 related with business combination achieved in stages, which requires any previously held equity interest in the acquire, to be remeasured to fair value at the acquisition date and the resulting gain or loss to be recognised in the income statement. The amounts recognised in the fair value reserve up to the date in which control in acquired, are required to be recycled to the income statement.

The Balance Sheet of BES Vida reported on 1 May 2012, including the consolidated financial statements of BES can be analysed as follows:

(in thousands of euro)

	BES VIDA Balance sheet 01.05.2012
Assets	
Cash and deposits with banks	198,648
Other financial assets at fair value through profit or loss	2,759,100
Available-for-sale financial assets	1,917,328
Held-to-maturity investments	159,551
Property and equipment	93,864
Intangible assets	107,768
Technical reserves of reinsurance ceded	2,512
Income tax assets	112
Other assets	178,712
	5,417,595
Liabilities	
Technical reserves	1,880,631
Investment contracts	3,053,344
Other financial liabilities	194,434
Income tax liabilities	33,469
Other liabilities	40,291
	5,202,169
Equity	
Share Capital	50,000
Other reserves and retained earnings	165,426
	215,426
	5,417,595

The fair value of recognised identifiable assets acquired and liabilities assumed include, under Intangible assets, the amount of euro 107,768 thousand related to the present value of the business in force acquired related to life insurance contracts (Value in Force) (euro 76,515 thousand net of taxes). This asset will be amortised over the remaining lifetime of the contracts.

It should be mentioned, however, that following the reinsurance treaty signed in 2013 by BES Vida, described in Note 31, the net amount of euro 137,476 thousand in relation to the value in force acquired was derecognised, having the remaining amount, been recognised under Other liabilities.
The goodwill recognised as a result of this acquisition amounts to euro 234,574 thousand, as follows:

	%	in thousands of euro
Goodwill as the excess of:		
Consideration paid		225,000
Fair value, determined at the aquisition date, of the 50% interest previously held in BES Vida		225,000
		450,000
Over:		
Fair value of identifiable assets and liabilities acquired	100	215,426
Goodwill		234,574

The goodwill is attributable mainly to the potential growth of the market where BES-Vida operates.

The impact in the 2012 income statement of measuring at fair value the previously held equity interest in BES Vida, representing 50% of its share capital, following the requirements of paragraph 42 of IFRS 3, can be analysed as follows:

	in thousands of euro
50% interest previously held in BES Vida	
Fair value	225,000
Book value	243,790
Loss on remeasurement of the previously held equity interest in BES Vida	**(18,790)**
Recognition in the income statement of the fair value reserve of BES Vida appropriated by BES on the consolidation up to the acquisition date	(70,796)
Loss arising from the acquisition of control in BES Vida	(89,586)

The impact of fully consolidating BES Vida resulted in a gain of euro 68.7 million included in the Group's profit for the year, detailed as follows:

- measurement of the 50% share capital already held by the Group in the amount of euro -89.6 million; which deducted from the intra-group transactions amounting to euro 35.5 million, brings the total impact in the first full consolidation to euro -54.1 million, net of taxes;
- appropriation trough the equity method of the net profit generated by BES Vida from 1 January to 30 April 2012, amounting to euro 2.8 million; and
- appropriation through the consolidation method of the net profit generated by BES Vida from 1 May until 31 December 2012, net of consolidation adjustments, amounting to euro 120.0 million.

If BES Vida had been fully consolidated since 1 January 2012, the net profit for the period would be higher by about euro 2,761 thousands.

BANQUE ESPÍRITO SANTO ET DE LA VÉNÉTIE

As at 31 December 2013 BES held, through it subsidiary ES Tech Ventures, S.G.P.S., SA, a shareholding of 42.69% in Banque Espírito Santo et de la Vénétie ("BESV"), a commercial bank headquartered in France, which activity has as main focus corporate banking and rendering financial services to the Portuguese community in France. This entity was accounted in the Group's consolidation scope through the equity method.

As at 13 February 2014, Banco Espírito Santo acquired from ESFIL - Espírito Santo Financiére an additional shareholding of 44.81%, which this company had in the share capital and voting rights of BESV, by an amount of euro 55.0 million. After this operation, BES Group holds 87.5% of BESV's share capital and will fully consolidate BESV financial statements, once it has the control of the company. Additionally, the Group also acquired from ESFIL the subordinated loans that this company had granted to BESV, in the amount of euro 19.4 million.

This transaction will be accounted for in accordance with the provisions of paragraph 42 of IFRS 3 related with business combination achieved in stages, which requires any previously held equity interest in the acquire, to be remeasured to fair value at the acquisition date and the resulting gain or loss to be recognised in the income statement. The amounts recognised in the fair value reserve up to the date in which control in acquired, are required to be recycled to the income statement.

Moreover, in accordance with paragraph 45 of IFRS 3, this acquisition will be accounted on a provisional basis, once this acquisition took place in February 2014 and the Group is in the process of quantifying the fair value of the assets and liabilities acquired. The Group has until February 2015 to conclude this process.

As at 31 December 2013, the balance sheet of BESV, included in the BES Group consolidated financial statements can be analysed as follows:

(in million of euro)

	Balance sheet BES Vénétie 31.12.2013
Assets	**1,429.7**
Cash and deposits with banks	18.7
Securities and derivatives	41.8
Loans and advances to customers	1,330.6
Other assets	38.6
Liabilities	**1,257.0**
Resources	1,144.8
Debt securities issued	32
Other liabilities	80.2
Equity	**172.7**
Share capital	75.1
Revaluation reserves	0.1
Other reserves and retained earnings	93.4
Profit of the year	4.1

NOTE 55 – RECENTLY ISSUED PRONOUNCEMENTS

Recently issued pronouncements already adopted by the Group

In the preparation of the consolidated financial statements for the year ended 31 December 2013, the Group adopted the following standards and interpretations that are effective since 1 January 2013:

IAS 19 Revised – Employee Benefits

In 2013, the Group adopted the amendments to "IAS 19 – Employee Benefits" issued in 2011 and effective (with retrospective application) for annual periods beginning on or after 1st January 2013. Those amendments were endorsed by European Commission Regulation 475/2012, 5th June. The amendments to IAS 19, included the elimination of the corridor mechanism and the concept of expected returns on plan assets.

The Group made a voluntary change in the accounting police related to actuarial gains and losses arising from its post employment benefits which from 2011 are charged to equity, under other comprehensive income, therefore the adoption of IAS 19 (revised) had no impact in the Group's financial statements in what concerns the recognition of actuarial gains and losses.

However, as a result of IAS 19 (2011), the Group has changed its accounting policy with respect to the basis for determining the income or expense related to defined benefit. Under IAS 19 (2011), the Group determines the net interest expense (income) for the period on the net defined benefit liability (asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) at the beginning of the annual period. Consequently, the net interest expense (income) includes interest cost on the defined benefit obligation net of a theoretical return on the plan assets, both calculated using the discount rate applied in the determination of the defined benefit obligation.

Previously, the Group determined interest income on plan assets based on their long-term rate of expected return.

IFRS 13 – Fair Value Measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively.

Notwithstanding the above, the change had no significant impact on the measurement of the Group's assets and liabilities.

IAS 1 Presentation of Financial Statements - Presentation of items of other comprehensive income

As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in its consolidated statement of other comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information has also been re-presented accordingly.

The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities and comprehensive income of the Group.

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

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

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

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

The adoption of the amendment to IFRS 7 had no impact on the consolidated financial statements.

Improvements to IFRS (2009-2011)

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

IAS 1 Presentation of Financial Statements

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

IAS 16 Property Plant and Equipment

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

IAS 32 Financial Instruments, Presentation and IFRIC 2

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

IAS 34 Interim Financial Reporting

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

The adoption of these improvements had no impact on the consolidated financial statements.

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

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

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

THE GROUP DECIDED TO OPT FOR NOT HAVING AN EARLY APPLICATION OF THE FOLLOWING STANDARDS ENDORSED BY EU BUT NOT YET MANDATORY EFFECTIVE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IFRS 11 – Joint Arrangements
The IASB, issued on 12th May 2011, "IFRS 11 Joint arrangements", effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014. IFRS 11, withdraw IAS 31 and SIC 13, defines "joint control" by incorporating the same control model as defined in IFRS 10 and requires an entity that is part of a "join arrangement" to determine the nature of the joint arrangement ("joint operations" or "joint ventures") by assessing its rights and obligations.

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

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

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

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

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

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

IFRS 12 – Disclosures of Interest in Other Entities

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

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

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

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

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

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

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

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

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

IAS 36 (Revised) – Recoverable Amount Disclosures for Non-Financial Assets

The IASB issued on 29th May 2013, this amendment, effective (with retrospective application) for annual periods beginning on or after 1st January 2014. These amendments were endorsed by EU Commission Regulation 1374/2013, 19th December.

The objective of the amendments is to clarify that the scope of the disclosures of information about the recoverable amount of assets, where that amount is based on fair value less costs of disposal, is limited to impaired assets.

IAS 39 (Revised) – Novation of Derivatives and Continuation of Hedge Accounting

The IASB issued on 27th June 2013, this amendment, effective (with retrospective application) for annual periods beginning on or after 1st January 2014. These amendments were endorsed by EU Commission Regulation 1375/2013, 19th December.

The objective of the amendments is to provide relief in situations where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. Such a relief means that hedge accounting can continue irrespective of the novation which, without the amendment, would not be permitted.

RECENTLY ISSUED PRONOUNCEMENTS THAT ARE NOT YET EFFECTIVE FOR THE GROUP

IAS 19 (Revised) – Defined Benefit Plans: Employee Contributions

The IASB issued on 21th November 2013, this amendment, effective (with retrospective application) for annual periods beginning on or after 1st July 2014.
The Amendment clarifies the guidance on attributing employee or third party contributions linked to service and require entities to attribute the contributions linked to service in accordance with paragraph 70 of IAS 19 (2011). Therefore, such contributions are attributed using plan's contribution formula or on a straight line basis.

The amendment addresses the complexity by introducing a practical expedient that allows an entity to recognise employee or third party contributions linked to service that are independent of the number of years of service (for example a fixed percentage of salary), as a reduction in the service cost in the period in which the related service is rendered.

IFRIC 21 – Levies
The IASB issued on 20th May 2013, this interpretation, effective (with retrospective application) for annual periods beginning on or after 1st January 2014.

IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. IFRIC 21 is not expected to have any effect on the Group's financial statements.

Improvements to IFRS (2010-2012)
The annual improvements cycle 2010-2012, issued by IASB on 12th December 2013, introduce amendments, with effective date on, or after, 1st July 2014, to the standards IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS16, IAS24 and IAS38.

IFRS 2 – definition of vesting condition
The amendment clarify the definition of 'vesting conditions' in Appendix A of IFRS 2 Share-based Payment by separate the definition of performance condition and service condition from the definition of vesting condition to make the description of each condition clear.

IFRS 3 – Accounting for contingent consideration in a business combination
The objective of this amendment is to clarify certain aspects of accounting for contingent consideration in a business combination, namely: classification of contingent consideration in a business combination and subsequent measurement, taking into account if such contingent consideration is a financial instrument or a non-financial asset or liability.

IFRS 8 – Aggregation of operation segments and reconciliation of the total of the reportable segments' assets to entity's assets
The amendment clarify the criteria for aggregation of operating segments and requires entities to disclose those factors that are used to identify the entity's reportable segments when operating segments have been aggregated.
To achieve consistency, reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed, if that amount is regularly provided to the chief operating decision maker.

IFRS 13 – Short-term receivables and payables
IASB amends the basis of conclusion in order to clarify that, by deleting IAS 39AG79, in applying IFRS 3, IASB did not intend to change the measurement requirements for short-term receivables and payables with no interest, that should be discount if such discount is material, noting that IAS 8.8 already permits entities not apply accounting polices set out in accordance with IFRSs when the effect of applying them is immaterial.

IAS 16 & IAS 40 – Revaluation method – proportionate restatement accumulated depreciation or amortization
In order to clarify the calculation of the accumulated depreciation or amortization at the date of the revaluation, IASB amended paragraph 35 of IAS 16 and paragraph 80 of IAS 38 to clarify that: the determination of the accumulated depreciation (or amortization) does not depend on the selection of the valuation technique; and the accumulated depreciation (or amortization) is calculated as the difference between the gross and the net carrying amounts.

IAS 24 – Related Party Transactions – Key management personal services
In order to address the concerns about the identification of key management personal (KMP) costs, when KMP services of the reporting entity are provided by entities (management entity e.g. in mutual funds), IASB clarifies that, the disclosure of the amounts incurred by the entity for the provision of KMP services that are provided by a separate management entity shall be disclosed but it is not necessary to present the information required in paragraph 17.

Improvements to IFRS (2011-2013)
The annual improvements cycle 2011-2013, issued by IASB on 12th December 2013, introduce amendments, with effective date on, or after, 1st July 2014, to the standards IFRS 1, IFRS 3, IFRS 13 and IAS 40.

IFRS 1 – meaning of "effective IFRS"
IASB clarifies that if a new IFRS is not yet mandatory but permits early application, that IFRS is permitted, but not required, to be applied in the entity's first IFRS financial statements.

IFRS 3 – Scope exceptions for joint ventures
The amendment excludes the formation of all types of joint arrangements as defined in IFRS 11 Joint Arrangements from the scope of IFRS 3. The scope exception only applies to the financial statements of the joint venture or the joint operation itself.

IFRS 13 – Scope of paragraph 52 – portfolio exception
Paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. This is referred to as the portfolio exception. The objective of this amendment was to clarify that the portfolio exception applies to all contracts within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.

IAS 40 – interrelationship with IFRS 3 when classify property as investment property or owner-occupied property
The objective of this amendment was to clarify that judgment is needed to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3 and that this judgment is based on the guidance in IFRS 3.

IFRS 9 Financial instruments (issued in 2009 and revised in 2010)
IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces the hedging requirements. The IASB currently has an active project of additional disclosures requirements limited amendments to the classification and measurement requirements of IFRS 9 and new requirements to address the impairment of financial assets.

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

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

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

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

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

IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised.

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

In the preparation of the consolidated financial statements for the year ended 31 December 2013, the Group adopted the following standards and interpretations that are effective since 1 January 2013.

NOTE 56 – SUBSEQUENT EVENTS

- Banco Espírito Santo, S.A. informed the market, in 13 January 2014, that it has successfully placed a new senior, unsecured, unguaranteed debt issue, amounting to euro 750 million. The notes have a maturity of 5 years and pays a coupon of 4%. The final order book reached circa euro 2.5 billion (3.3 times oversubscribed), with approximately 300 accounts of which 95% was subscribed by international investors.
- As at 16 January 2014 Banco Espírito Santo informed that will exercise the early redemption option simultaneously with the payment of the next coupon, of 638,450 notes of BES Subordinada 2008, due 20 February 2019, in the amount of euro 638,450 thousand.
- As at 10 February 2014 Banco Espírito Santo announced the signing of a three years funding agreement of US dollar 200 million with The Export-Import Bank of China (China Eximbank). This is the first funding operation of China Eximbank granted to a Portuguese financial institution and comes as a complement to various initiatives to promote and facilitate trade with China that BES has undertaken.
- As at 13 February 2014, Banco Espírito Santo informed that had acquired to ESFIL – Espírito Santo Financiére a 44.81% stake in Banque Espírito Santo et de la Vénétie. The total investment amounted to euro 55 million, and after this operation Banco Espírito Santo holds directly and indirectly 87.5% of the share capital of Banque Espírito Santo et de la Vénétie.

2. APPENDIX

Adoption of the Financial Stability Forum (FSF) and Committee of European Banking Supervisors (CEBS) Recommendations concerning the Transparency of Information and the Valuation of Assets

Bank of Portugal's Circular Letters no. 97/2008/DSB, of 3 December and no. 58/2009/DSB of 5 August. In its Circular Letter no. 58/2009/DSB of August 5th, 2009, the Bank of Portugal reiterated "the need for institutions to maintain adequate compliance with the recommendations of the Financial Stability Forum (FSF), as well as those issued by the Committee of European Banking Supervisors (CEBS), concerning the transparency of information and the valuation of assets, taking into account the proportionality principle", as set out in Circular Letters no. 46/08/DSBDR of July 15th, 2008 and no. 97/08/DSB of December 3rd, 2008. The Bank of Portugal recommends the inclusion in the reporting documents of a specific chapter or annex exclusively dedicated to the issues dealt with in the CEBS and FSF recommendations. This chapter aims to ensure compliance with the Bank of Portugal's recommendation, including references to where the information provided may be found within the body of the Management Report or in the Notes to the Financial Statements for fiscal years 2012 and 20.

I. BUSINESS MODEL

1. Description of the business model

A description of the Group's business model is provided in Item 4 of the Management Report. The performance of the main business areas (operational segments) of the Group is also presented in Note no. 4[1].

2. Strategy and Objectives

A description of the Group's strategy and objectives is provided in Item 1 of the Management Report and in Note no. 51, under Funding and Capitalisation Plans (2011-2015). The securitisation transactions are detailed in Note 49.

3., 4. and 5. Activities developed and contribution to the business

Item 4 of the Management Report and Note no. 4 contain information about the activity and contribution to the business.

II. RISK AND RISK MANAGEMENT

6. and 7. Description and nature of the risks incurred

Item 6 of the Management Report describes how the risk management function is organised within BES Group.

Note 51 contains diverse information that in total allows the market to form a thorough perception about the risks incurred by the Group and the management mechanisms in place to monitor and control such risks.

III. IMPACT OF THE PERIOD OF FINANCIAL TURMOIL ON THE RESULTS

8.,9., 10 and 11. Qualitative and quantitative description of the results and comparison of impacts between periods

Activity during 2012 was conducted in a climate of adverse economic and financial conditions in Portugal and in Europe in general. This led to a further deterioration of credit risk, and consequently the Group reinforced provisions by a total of EUR 1,199.4 million (EUR 351.1 million more than in 2011). The situation of the financial markets and sovereign risk context, influenced by the effects of the monetary policy measures implemented by the ECB, had a positive impact on the value of financial assets, leading to a EUR 747.5 million increase in the fair value reserve.

The referred adverse factors persisted during 2013, leading to a new increase in risk. The Group consequently increased provisions by a total of EUR 1,422.8 million (EUR 223.4 million more than in 2012).

12. Decomposition of realised and non realised write-downs

The profit and loss of assets and liabilities held for trading, assets and liabilities at fair value and assets available for sale are detailed by financial instrument in Notes 7 and 8. In addition, non realised gains and losses on assets available for sale are detailed in Notes 23 and 45, while the most significant positions are decomposed in Note 23.

13. Financial turmoil and the price of the BES share

Item 1 of the 2013 Management Report presents the evolution of the BES share price and the factors that influenced its performance.

14. Maximum loss risk

Item 6 of the Management Report and Note 51 contain the relevant information about potential losses in market stress situations.

15. Debt issued by the Group and results

Note 50 contains information on the impact of debt revaluation and the methods used to calculate this impact on the results.

IV. LEVEL AND TYPE OF EXPOSURES AFFECTED BY THE PERIOD OF TURMOIL

16. Nominal and fair value of exposures

17. Credit risk mitigators

18. Information about the Group's exposures

At the end of 2012 BES Group's exposure to Portuguese public debt totalled EUR 3,190 million. As regards exposures to public debt of other peripheral European countries, BES Group had EUR 606 million of Spanish debt, EUR 28 million of Italian debt, EUR 25 million of Irish debt and EUR 3 million of Greek debt.

At December 31st, 2013 the Group's exposure to Portuguese Public debt was EUR 3,549 million. Its exposure to Spanish, Italian and Greek public debt was EUR 558 million, EUR 156 million, and EUR 30 million, respectively.

The information about the Group's exposures is provided in Note 51.

19. Movement in exposures between periods

Note 51 contains diverse information comparing the exposures and results in 2012 and 2013. The disclosed information is considered sufficient, given the detail and quantification provided.

20. Non consolidated exposure

All the structures related to securitisation operations originated by the Group are presented in Note 49. None of the SPEs were consolidated due to the market turbulence.

(1) The numbering refers to the Notes to the Consolidated Financial Statements.

21. Exposure to monoline insurers and quality of the assets insured

The Group does not have exposures to monoline insurers.

V. ACCOUNTING POLICIES AND VALUATION METHODS

22. Structured Products

These situations are described in Note 2 – Main accounting policies.

23. Special Purpose Entities (SPEs) and consolidation

Disclosure available in Notes 2 and 49.

24. and 25. Fair value of financial instruments

See the comments to item 16 of this Appendix. Notes 2 and 50 contain the conditions for utilisation of the fair value option as well as the methodology used to value the financial instruments.

VI. OTHER RELEVANT ASPECTS OF DISCLOSURE

26. Description of the disclosure policies and principles

The BES Group, within the context of accounting and financial information disclosure, aims to satisfy all the regulatory requirements, defined by the accounting standards or by the supervisory and regulatory entities.

At the same time, the Group aims to meet the best market practices in information disclosure, balancing the cost of preparing the relevant information with the benefit that it may provide to the users.

From the information made available to the Group's shareholders, clients, employees, supervisory entities and the public in general, we highlight the Annual, Interim and Quarterly Management Reports, the Financial Statements and the respective Notes, and the Corporate Governance Report.

The management reports and financial statements, released on a quarterly basis, are prepared under IFRS that comply with the highest degree of disclosure and transparency and facilitate comparison to other domestic and international banks.

The Corporate Governance Report provides a detailed view about the governing structure of the Group.

The Sustainability Report, which forms an integral part of the Annual Management Report, conveys the Group's perspective about social responsibility in the context of the numerous challenges that the modern world faces, whether of an environmental or social nature, or pertaining to innovation and entrepreneurship.

A detailed description of the principal means used by the Group to communicate with the shareholders, investors, financial community and the public in general is provided in items 56. and 57 of the 2013 Corporate Governance Report.

3. Auditors' Report on the Consolidated Financial Statements

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A.
Edifício Monumental
Av. Praia da Vitória, 71 - A, 11º
1069-006 Lisboa
Portugal

Telephone: +351 210 110 000
Fax: +351 210 110 121
Internet: www.kpmg.pt

AUDITORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS

(ISSUED BY THE STATUTORY AUDITOR, A CMVM REGISTERED AUDITOR)

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

Introduction

1. In accordance with the applicable legislation, we present our Audit Report on the consolidated financial information included in the Report of the Board of Directors and in the accompanying consolidated financial statements as at and for the year ended 31 December 2013, of **Banco Espírito Santo, S.A.**, which comprise the consolidated balance sheet as at 31 December 2013 (showing total assets of Euro 80,608,016 thousand and total equity attributable to the equity holders of the Bank of Euro 6,246,693 thousand, including a net loss attributable to the equity holders of the Bank of Euro 517,558 thousand), the consolidated statements of income, of comprehensive income, of cash flows and of changes in equity for the year then ended, and the corresponding notes.

Responsibilities

2. The Board of Directors is responsible for:

a) the preparation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, that present fairly, the consolidated financial position of the Group of companies included in the consolidation, the consolidated results of its operations, its consolidated comprehensive income, its consolidated changes in equity and its consolidated cash flows;

b) maintaining historical financial information, prepared in accordance with generally accepted accounting principles which is complete, true, current, clear, objective and lawful as required by the Portuguese Securities Code ("Código dos Valores Mobiliários");

c) the adoption of adequate accounting policies and criteria;

d) maintaining an appropriate system of internal control; and

e) the communication of any relevant matter that may have influenced the activity of the bank and its subsidiaries, their financial position or results.

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

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

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

3. Our responsibility is to verify the consolidated financial information included in the above referred documents, namely as to whether it is complete, true, current, clear, objective and lawful as required by the “Código dos Valores Mobiliários”, in order to issue a professional and independent report based on our audit.

Scope

4. We conducted our audit in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors (“Ordem dos Revisores Oficiais de Contas”), which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. Accordingly our audit included:
   - verification that the financial statements of the companies included in the consolidation have been properly audited and, in those significant cases in which they were not, verification, on a test basis, of the information underlying the figures and its disclosures contained therein, and an assessment of the estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;
   - verification of the consolidation procedures and of the application of the equity method;
   - evaluation of the appropriateness of the accounting policies used and of their disclosure, taking into account the applicable circumstances;
   - assessing the applicability of the going concern basis of accounting;
   - assessment of the appropriateness of the overall presentation of the consolidated financial statements; and
   - assessment of whether the consolidated financial information is complete, true, current, clear, objective and lawful.

5. Our audit also included the verification that the consolidated financial information included in the Board of Directors report is consistent with the consolidated financial statements, as well as the verification of the disclosures required by numbers 4 and 5 of the article 451, of the Portuguese Companies Code (“Código das Sociedades Comerciais”).

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

Opinion

7. In our opinion, the consolidated financial statements referred to above present fairly in all material respects the consolidated financial position of **Banco Espírito Santo, S.A.** as at 31 December 2013, the consolidated results of its operations, consolidated comprehensive income, consolidated changes in equity and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, and the information contained therein is complete, true, current, clear, objective and lawful.

Emphasis of Matter

8. Without qualifying our opinion included in the previous paragraph, we draw attention to Note 46, which describe the situation related with the subscription by BES customers of debt instruments issued by Espírito Santo International S.A. ('ESI') and refers the Bank's Board of Directors expectations in relation to the possible means to the reimbursement of the debt instruments, through the implementation of the deleverage program by ESI, the support of ESI shareholders, its capacity to obtain or renew credit lines in the financial markets and, additionally, through the eventual support that may be necessary from ESFG and BES.

Report on Other Legal Requirements

9. It is also our opinion that the consolidated financial information included in the Executive Board of Directors report is consistent with the consolidated financial statements and that the Report on Corporate Governance includes the information required by the article 245.º-A of the Portuguese Securities Market Code ('CVM').

Lisbon, 9 April 2014

KPMG & Associados,
Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)
represented by
Sílvia Cristina de Sá Velho Corrêa da Silva Gomes (ROC n.º 1131)

3

4. Report of the Audit Committee

BANCO ESPIRITO SANTO

Comissão de Auditoria

REPORT OF THE AUDIT COMMITTEE ON ITS SUPERVISORY ACTIVITY
AND
OPINION ON THE MANAGEMENT REPORT, UNCONSOLIDATED AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2013

To the Shareholders

As required by the Portuguese law, we present our Report which comprises a summary of the activity performed by the Audit Committee (*Comissão de Auditoria)* during the year 2013 and our opinion on both (i) the Management Report of the Board of Directors and the Unconsolidated and Consolidated Financial Statements prepared by the Management of **Banco Espírito Santo, S.A.** for the year ended 31 December 2013, and (ii) the related Board of Directors' proposal for the allocation of the unconsolidated net profit for the financial year 2013.

The Audit Committee, within its powers as supervisory board, has regularly monitored major developments of the bank's management and activity, followed the Board of Directors' discussions regarding the business of the bank and evaluated the adequacy and efficiency of the systems of internal control, as well as of the risk management, internal audit and compliance functions.

As part of our duties, we have also overlooked the work carried out by the statutory and external auditors, KPMG & Associados, Sociedade de Revisores Oficiais de Contas, S.A., which included (i) the verification of the accounting records and related supporting documents, and (ii) the appropriateness of the accounting policies and procedures underlying the abovementioned financial statements, as well as (iii) the verification that the financial information contained in the Management Report is in conformity with that in the remaining financial reporting documents.

Furthermore, we have reviewed the Audit Reports issued by the abovementioned bank's auditors on the Unconsolidated and Consolidated Financial Statements of **Banco Espírito Santo, S.A.** for the year ended 31 December 2013, including their unqualified professional opinions dated 9 April 2014 on those financial statements, with which we concur.

We have also reviewed the Management Report of the Board of Directors which describes the bank's activity during the financial year 2013, both on an unconsolidated and consolidated basis, and was prepared in conformity with the applicable legal, regulatory, and statutory requirements.

BANCO ESPIRITO SANTO

Comissão de Auditoria

As required under paragraph 1-c) of Article 245º of the Portuguese Securities Code (*Código de Valores Mobiliários*), the Audit Committee members individually declare that, to the best of their knowledge:

a) the financial information contained in the Management Report of the Board of Directors, Unconsolidated and Consolidated Financial Statements and other annual reporting documents as required by law or regulation was drawn up in accordance with the applicable accounting standards, giving a true and fair view of assets and liabilities, financial position and annual results of **Banco Espírito Santo, S.A.** and of the companies included in the consolidation; and

b) the Management Report of the Board of Directors explains faithfully the development, performance, and position of the bank and other undertakings included in the consolidation, and contains a description of their main risks and uncertainties.

All considered above, we are of the opinion that the Annual General Meeting should approve:

a) The Management Report of the Board of Directors and the related Unconsolidated and Consolidated Financial Statements of the bank for the financial year ended 31 December 2013;

b) The Board of Directors' proposal, included in the Management Report, for the allocation of the unconsolidated net loss for the financial year 2013, amounting to 462 567 686,19 Euros.

Lisbon, 9 April 2014

The Audit Committee

Horácio Lisboa Afonso (Chairman)

João de Faria Rodrigues

Pedro João Reis de Matos Silva

VALTER VINAGRE (b. 1954, Portugal). Da série Variações para um fruto,. S/Título #17, 2003. Ilfochrome s/aluminium 100 x 125 cm. Ed. 1/3. © Valter Vinagre.

Corporate Governance Report

PART I

PART II

APPENDICES

The corporate governance rules and structure of Banco Espírito Santo S.A. (BES) are based upon a set of core principles that seek to ensure responsible governance oriented to value creation.

BES Group has adopted the following statement of principles:

Value

Value creation based on responsible governance so as to deserve the confidence and loyalty of Shareholders, Clients, Employees and Suppliers.

Knowledge

Business development hinged on the accumulation and transmission of know-how over more than one century of history.

Integrity

Definition of strict policies to manage the various types of risk inherent to banking activity.

Transparency

Assuming a commitment to transparent practices:

- in the disclosure of information to all stakeholders;
- in the establishment of clear strategic objectives and a set of corporate values that are effectively communicated throughout the organisation;
- by setting and enforcing clear lines of responsibility and accountability throughout the organisation;
- by ensuring that board members are qualified for their positions, have a clear understanding of their role in corporate governance and are not subject to undue influence from interest groups.

The information provided in this Report is updated for December 31st, 2013, including occasional references to developments in BES's corporate governance structure up to March 2014.

I – Information on Shareholder Structure, Organisation and Corporate Governance

A. Shareholder Structure

I. Capital Structure

1. The capital structure (share capital, number of shares, distribution of capital by shareholders, etc.), including an indication of shares that are not admitted to trading, different classes of shares, rights and duties of same and the capital percentage that each class represents (Article 245-A/1/a) of the Portuguese Securities Code).

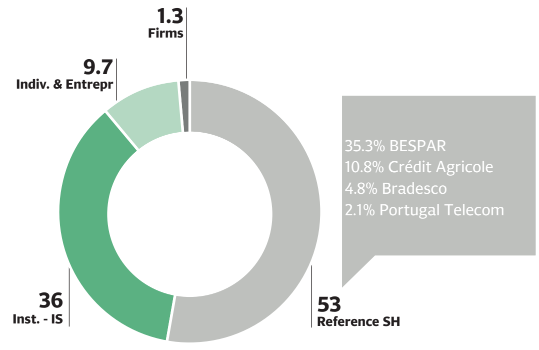
BES has share capital of EUR 5,040,124,063.26, represented by a total of 4,017,928,471 ordinary, book-entry, registered shares with no par value.

BES shares are listed on the NYSE Euronext Lisbon.

As of December 31, 2013 the bank had ca. 33 thousand registered shareholders and the following shareholder structure:

Shareholder Structure as at December 31st, 2013

(%)



* Includes qualified holding of Silchester (5.7%), Capital Group (4.1%) and BlackRock (2.0%).

BES does not have:

a) Capital subscribed and not paid up or non-issued authorised capital;

b) Convertible bonds, warrants and/or shares conferring special rights or privileges;

c) Different classes of shares;

d) Forms of exponentially increasing the influence of shareholders, or figures such as golden shares or priority shares;

e) Shares carrying multiple voting rights;

f) Mechanisms intended to cause mismatching between the right to receive dividends or to subscribe new securities and the voting right of each common share.

2. Restrictions on the transfer of shares, such as clauses on consent for disposal, or limits on the ownership of shares (Article 245-A/1/b) of the Portuguese Securities Code).

There are no restrictions on the transfer of shares.

3. Number of own shares, the percentage of share capital that it represents and corresponding percentage of voting rights that corresponded to own shares (Article 245-A/1/a) of the Portuguese Securities Code).

Own Shares

Data		Nº of shares representative of the capital	% Capital
Shares held by BES			
31/12/2013	275,441	4,017,928,471	0.0069%
Shares held by BES Vida			
31/12/2013	70,000	4,017,928,471	0.0017%

4. Important agreements to which the company is a party and that come into effect, are amended or terminated in cases such as a change in the control of the company after a takeover bid, and the respective effects, except where due to their nature, the disclosure thereof would be seriously detrimental to the company; this exception does not apply where the company is specifically required to disclose said information pursuant to other legal requirements (Article 245-A/1/j) of the Portuguese Securities Code).

There are no important agreements to which BES is a party and that come into effect, are amended or terminated in cases such as a change in the control of the company after a takeover bid.

5. A system that is subject to the renewal or withdrawal of counter measures, particularly those that provide for a restriction on the number of votes capable of being held or exercised by only one shareholder individually or together with other shareholders.

No such measures exist at BES.

6. Shareholder agreements that the company is aware of and that may result in restrictions on the transfer of securities or voting rights (Article 245-A/1/g) of the Portuguese Securities Code).

The Company is unaware of any shareholder agreements such as may restrict the transfer of securities or voting rights.

II. Shareholdings and Bonds held

7. Details of the natural or legal persons who, directly or indirectly, are holders of qualifying holdings (Article 245-A/1/c) and /d) and Article 16 of the Portuguese Securities Code) with details of the percentage of capital and votes attributed and the source and causes of the attribution.

Qualified Stakes	Dec 13	
	Nº shares	% Voting Rights
ESPÍRITO SANTO FINANCIAL GROUP, S.A. (Luxembourg)		
- directly	55,539,362	1.38%
- through BESPAR, SGPS, S.A. (controlled by Espírito Santo Financial (Portugal), S.G.P.S., fully owned by Espírito Santo Financial Group S.A.	1,417,916,095	35.29%
- through memebers of its Board of Directors and Supervisory Bodies	7,174,503	0.18%
- trough companies controlled directly and indirectlyy and/ or members of its Board of Directors and Supervisory Bodies	0	0.00%
Total attributable	**1,480,629,960**	**36.85%**
CRÉDIT AGRICOLE, S.A. (France)		
- directly	434,252,321	10.81%
Total attributable	**434,252,321**	**10.81%**
BRADPORT, S.G.P.S., S.A.[1]		
- directly	194,104,165	4.83%
Total attributable	**194,104,165**	**4.83%**
PORTUGAL TELECOM, S.G.P.S., S.A.		
- through PT - Madatária de aquisições e gestão de bens, S.A.	84,109,047	2.09%
- through members of its Board of Directors and Supervisory Bodies	485,929	0.01%
Total attributable	**84,594,976**	**2.10%**
SILCHESTER INTERNATIONAL INVESTORS LIMITED (UK)[2]		
- directly and indirectly	227,693,778	5.67%
Total attributable	**227,693,778**	**5.67%**
CAPITAL RESEARCH AND MANAGEMENT		
- directly and indirectly	166,364,223	4.14%
Total attributable	**166,364,223**	**4.14%**
BLACKROCK, Inc.[3]		
- directly and indirectly	80,441,859	2.00%
Total attributable	**80,441,859**	**2.00%**

1) Portuguese company fully owned by Banco Bradesco (Brasil).
2) Through investment funds ow Silchester International Investors International Value Equity Trust which holds 2.55%.
3) According to BlackRock's notice from October 2013; in Feb. 14 BlackRock increased its satke to 5.1%.

8. A list of the number of shares and bonds held by members of the management and supervisory bodies.

Shares held by the members of the Corporate Bodies

Shareholders			Transactions in 2013				
		Dec. 12	Date	Aquisitions	Disposals	Unit Price (Eur)	Dec. 13
Ricardo Espírito Santo Silva Salgado	BES Shares	3,806,915					3,806,915
José Manuel Pinheiro E. S. Silva	BES Shares	1,009,271					1,009,271
António José Baptista do Souto	BES Shares	106,081					106,081
Jorge Alberto Carvalho Martins	BES Shares	144,058	16-08-2013		75,000	0.90	69,058
Aníbal da Costa Reis de Oliveira	BES Shares	1,010,000	02-10-2013		110,000	0.81	900,000
Manuel F. Moniz G. E.S. Silva	BES Shares	6,831					6,831
José Maria Espírito Santo S. Ricciardi	BES Shares	30,000					30,000
Rui Manuel Duarte Sousa da Silveira	BES Shares	6,366					6,366
Joaquim Aníbal B. Freixial de Goes	BES Shares	151,204					151,204
Ricardo Abecassis Espírito Santo Silva	BES Shares	160,000					160,000
Amílcar Carlos Ferreira de Morais Pires	BES Shares	334,725					334,725
João Eduardo Moura Silva Freixa	BES Shares	131,281					131,281
Pedro Mosqueira do Amaral	BES Shares	192,500					192,500
Horácio Lisboa Afonso	BES Shares	4,125					4,125

Bonds held by member of the Corporate Bodies

		Dec. 12	Transactions in 2013				Dec 13
			Date	Acquisitions	Disposals	Unit Price (Eur)	
Alberto Alves de Oliveira Pinto	Obrigações BES 4 anos 7% (PTBEQGOM0015)	100,000					100,000
	Obrigações BES LDN 05/12 (SCEBESOOE0608)	252,000	13-02-13		252,000	92%	0
José Manuel Espírito Santo Silva	EUR 3Y CLN PT 5% (XS0970836903)		12-11-13	150,000		103%	150,000
António José Baptista do Souto	Obrigações BES 5,625% DUE junho 2014	350,000					350,000
	Obrigações BES DUE 02/2013 (PTBLMWOM0002)	350,000	30-01-13		350,000	99%	0
	Obrigações BES LDN 07/12 (SCBESOOE0678)	167,000	26-07-13		167,000	89%	0
	Obrigações BES 4,75% 15/01/18	0	02-08-13	200,000		96%	200,000
Anibal da Costa Reis Oliveira	Obrigações BES Finance 0312 (SCBES0OE0567)	302,000	10-01-13		116,000	86%	186,000
			25-03-13		186,000	87%	0
Rui Manuel Duarte Sousa da Silveira	Obrigações BES LDN 05/12 (SCBES0OE0626)	108,000	28-01-13		108,000	90%	0
Joaquim Aníbal B. Freixial de Goes	Obrigações BES 5,625% DUE junho 2014	50,000	03-01-11				50,000
Amílcar Carlos Ferreira de Morais Pires	Obrigações BES DUE 3,875% 2015	250,000					250,000
	Obrigações BES DUE 5,625% junho 2014	250,000					250,000
João Eduardo Moura Silva Freixa	Obrigações BES Finance 0312 (SCBES0OE0567)	230,000	25-03-13		233,000	87%	0
	Obrigações BES LDN 10/12 (SCBES0OE0752)	1,069,000	23-10-13		1,069,000	91%	0
Ricardo Abecassis Espírito Santo	Obrigações BES 5,625%	0	14-06-12	50,000		91%	50,000
	BES LND 03/13 (SCBES0OE0807)	0	14-03-13	48,000		100%	48,000
João Rodrigues	EUR 3Y CLN PT %(XS0970836903)	0	09-10-13	50,000		100%	50,000

Shares held by Senior Officers

		Dec. 12	Transactions in 2013				Dec.13
			Date	Acquisitions	Disposals	Unit Price (Eur)	
António Manuel Marques	BES Shares	133,797					133,797
António Miguel Natário Rio-Tinto	BES Shares	13,453	08-02-13		13,453	0.99	0
Bernardo Leite Faria Espírito Santo	BES Shares	7,636					7,636
Isabel Almeida Bernardino	BES Shares	176,043					176,043
João Filipe Martins Pereira	BES Shares	45,226					45,226
João Maria Mello Franco	BES Shares	82,385	30-12-13		82,385	1.02	0
Jorge Daniel Lopes da Silva	BES Shares	36,423	08-10-13		36,423	0.90	0
José Alexandre Pinto Ribeiro	BES Shares	220,000					220,000
Manuel José Dias de Freitas	BES Shares	91,767	11-03-13		80,000	0.96	11,767
Paulo António Padrão	BES Shares	18,023					18,023
Pedro Roberto Meneres Cudell	BES Shares	35,000					35,000
Rui Manuel Fernandes Pires Guerra	BES Shares	439,100					439,100
Rui Raposo	BES Shares	3,361					3,361

9. Special powers of the Board of Directors, especially as regards resolutions on the capital increase (Article 245-A/1/i) of the Portuguese Securities Code) with an indication as to the allocation date, time period within which said powers may be carried out, the upper ceiling for the capital increase, the amount already issued pursuant to the allocation of powers and mode of implementing the powers assigned.

The Extraordinary General Meeting of June 9th, 2011 approved a partial amendment to the company's articles of association to the effect of authorising the Board of Directors to, upon favourable opinion of the Audit Committee, increase the share capital through cash contributions, one or more times, through the issuance of ordinary shares or preferential shares, redeemable or non-redeemable, under the terms and conditions to be defined. The maximum amount authorized, in addition to the share capital amount, is of EUR 7,500,000,000.00, this authorisation being valid for a period of five years.

In 2012 the Board of Directors made use of this authorisation within the scope of the EUR 1,010,000,000.00 rights issue concluded in May.

BES Group also has 215,621 non-voting preference shares issued by the subsidiary BES Finance, Ltd. (a wholly owned subsidiary of BES) with nominal value of EUR 1,000 each. This issue is fully guaranteed by BES. These preference shares are listed on the Luxembourg Stock Exchange.

The authorisation granted by the General Meeting may be used up to June 9th, 2016.

10. Information on any significant business relationships between the holders of qualifying holdings and the company.

BES Group has business relationships with various entities in which it has considerable holdings or with which it is in any other way related. BES Group also has business relationships with various entities that have direct holdings in BES. BES Group's business relationships with those entities include many of the financial services that the Group provides to its clients. All transactions with related parties are made on an arm's length basis, under the fair value principle.

B. Corporate Bodies and Committees

I. General Meeting

a) Composition of the Board of the General Meeting (throughout the year of reference)

11. Details and position of the members of the Board of the General Meeting and respective term of office (beginning and end).

The Board of the General Meeting is composed of one Chairman, one Vice--Chairman and one Secretary. Its members may or may not be Shareholders, they are elected for periods of four years, and their re-election is permitted.

Current members of the Board of the General Meeting:
Paulo de Pitta e Cunha (Chairman)
Alexandre de Sousa Machado (Vice-Chairman)
Nuno Miguel Matos Silva Pires Pombo (Secretary)

The current members of the Board of the General Meeting were elected by the General Meeting of March 22nd, 2012 to serve in the 2012-2015 four-year mandate.

The General Meeting of March 27th, 2013 elected Mr. Alexandre de Sousa Machado as Vice-Chairman of the Board of the General Meeting until the end of the current mandate.

b) Exercise of the right to vote

12. Any restrictions on the right to vote, such as restrictions on voting rights subject to holding a number or percentage of shares, deadlines for exercising voting rights, or systems whereby the financial rights attaching to securities are separated from the holding of securities (Article 245-A/1/f) of the Portuguese Securities Code);

Each one hundred shares are entitled to one vote. However, shareholders owning less than one hundred shares may form a group so as to complete the required number or a higher number and nominate one representative from among the group.

Under the legislation in force, only shareholders who on the record date, corresponding to 0 hours (GMT) of the fifth trading day preceding the date of the General Meeting of Shareholders, hold shares attributing them at least one vote, under the law and the Company's bylaws, and have declared it in writing to the Chairman of the Board of the General Meeting and the financial intermediary with whom they have opened an individual securities account, no later than in the day preceding said date, may attend and participate in the General Meeting or each of its sessions, in case of suspension.

In case of suspension of the General Meeting, the same rules referred to in the preceding paragraph apply. Hence only shareholders who on the record date, corresponding to 0 hours (GMT) on the fifth trading day before the date of the General Meeting, hold shares attributing them at least one vote, under the law and the Company's bylaws, and have declared it in writing to the Chairman of the Board of the General Meeting and the financial intermediary with whom they have opened an individual securities account, no later than in the day preceding said date, may attend and participate in the General Meeting.

There are no statutory restrictions on the exercise of voting rights via postal voting. Postal votes count towards the constitution of the General Meeting quorum and are equally valid for the same general meeting when convened on second call. Postal voting does not prevent a shareholder from being represented in the General Meeting, and postal votes can at any time be revoked. Postal votes cast by a shareholder who is present or represented at the General Meeting shall be deemed as revoked. Postal votes count as votes against motions submitted after their date of issue.

The Chairman of the Board of the General Meeting is responsible for verifying the authenticity of postal votes and for ensuring their confidentiality up to the time of voting.

The company has no systems in place whereby the financial rights attaching to securities are separated from the holding of securities.

13. Indication of the maximum percentage of voting rights that may be exercised by a single shareholder or by shareholders that are in any relationship as set out in Article 20/1 of the Portuguese Securities Code.

BES has no such restrictions.

14. Details of shareholders' resolutions that, imposed by the articles of association, may only be taken with a qualified majority, in addition to those legally provided, and details of said majority.

These are the statutory rules on quorums:

Article 18
Quorum
1. The General Meeting of Shareholders may not be held on first call unless shareholders owning fifty percent of the share capital are present or represented, irrespective of the matters on the agenda.

2. On second call, the General Meeting may pass resolutions whatever the number of shareholders present or represented and the share capital that they represent.

Article 19
Majority
1. Without prejudice to cases in which the law or bylaws require a qualified majority, the General Meeting of Shareholders shall pass resolutions by majority of votes.

2. Resolutions on amendments to the company's articles of association, mergers, splits, transformation, winding up or any other matters for which the law requires a qualified majority, without specifying, must be approved by two-thirds of the votes issued, whether the General Meeting of Shareholders meets on first or second call.

3. Abstentions will not be accounted for in any of the resolutions.

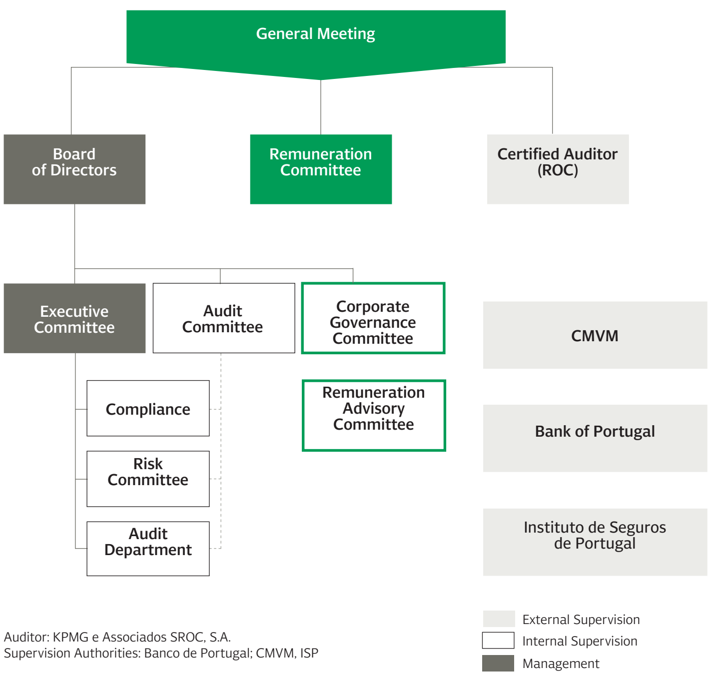
II. Management and Supervision

a) Composition

15. Details of corporate governance model adopted.

Banco Espírito Santo adopts the Anglo-Saxon corporate governance model, where the overall management of the Company is entrusted to the Board of Directors and its day-to-day management to the Executive Committee. The supervisory function is attributed to an Audit Committee, together with the External Auditor/ Statutory Auditor (EA/ SA).

BES's Corporate Governance Structure



Auditor: KPMG e Associados SROC, S.A.
Supervision Authorities: Banco de Portugal; CMVM, ISP

The General Meeting of Shareholders meets at least once a year. Its main duties are to elect the corporate bodies, appoint the Remuneration Committee and the External Auditor/ Statutory Auditor (ROC) (EA/SA), and also to assess and resolve on the annual management report, corporate governance report, accounts and distribution of earnings for each financial year.

The management of Banco Espírito Santo is entrusted to a Board of Directors, elected by the General Meeting for four-year periods, the re-election of its members being permitted. Under the terms of the Company's bylaws, the Board of Directors comprises a minimum of eleven and a maximum of thirty one members. The Board of Directors delegates the day-to-day running of the company to an Executive Committee that meets every week or whenever convened by its Chairman. The Corporate Governance Committee has advisory functions concerning the assessment of the corporate governance model and the performance of the members of the Board of Directors, and the identification and assessment of potential candidates with the necessary qualifications to exercise functions as member of the Board of Directors. The Remuneration Advisory Committee has advisory functions concerning the remuneration policy, namely viewing compliance with the provisions of Decree Law no. 88/2011, of July 20th, and Bank of Portugal Notice no. 10/2011.

The function of internal supervision body within BES is attributed to the Audit Committee of the Board of Directors. BES is subject to external supervision by its EA/SA, KPMG & Associados SROC, S.A., as well as by the following supervision authorities to which it is subject by virtue of its activity: the Bank of Portugal, the Portuguese Securities Market Commission (CMVM), and the Instituto de Seguros de Portugal (Portuguese Insurance Institute).

In addition, the Executive Committee is supported by specialised committees which monitor directly the performance of specific business areas (see detailed organisational chart in item 21 of this report).

16. Statutory rules on the procedural and material requirements governing the appointment and replacement of members of the Board of Directors (Article 245-A/1/h) of the Portuguese Securities Code).

Article 20-1 of the Company's bylaws sets forth that the Board of Directors shall comprise a minimum of eleven and a maximum of thirty-one members elected by the General Meeting of Shareholders, which shall appoint the Chairperson of the Board of Directors and, if deemed appropriate, one or more Vice-Chairpersons from among their members.

Under Article 20-2 of the Company's bylaws, the Chairperson of the Board of Directors shall be replaced in his/her absence by the Chairperson of the Executive Committee and shall have the casting vote.

Article 20-3 stipulates that in case of absence or definitive impediment of any director, a replacement shall be co-opted. The new director shall remain in office until the end of the period for which the replaced director was elected.

In addition, the Corporate Governance Committee, an internal body of the Board of Directors, has as main objective to reinforce the efficiency of the Board of Directors, making sure that all its decisions are based on all relevant elements and that they are not conditioned by possible conflicts of interest.

The Corporate Governance Committee has the following responsibilities:

a) Support and advise the Board of Directors on the filling of vacancies occurred within the Board, namely by evaluating the profile of each candidate in terms of qualifications, expertise and experience;
b) Examine the Board of Directors' policy on the selection and appointment of senior officers;
c) Implement, in cooperation with the Company's internal structures, a programme intended to acquaint newly appointed directors with the organisation and its activities, as well as with their responsibilities and duties as members of the Board of Directors;
d) Assess whether the Company's directors require updating of qualifications and expertise in any specific areas, and make an annual proposal on the subject.

17. Composition of the Board of Directors, with details of the articles of association's provisions on minimum and maximum number of members, duration of term of office, number of effective members, date when first appointed and end of the term of office of each member.

In accordance with the Company's Bylaws, the Board of Directors comprises a minimum of eleven and a maximum of thirty one members elected for four-year mandates, their re-election being permitted.

BES's Board of Directors was elected by the General Meeting of March 22nd, 2012 for the 2012 – 2015 four-year mandate.

On December 31st, 2013 the Board of Directors had the following composition (25 members):

Alberto Alves de Oliveira Pinto (Chairman) 1st appointment: February 2006
Ricardo Espírito Santo Silva Salgado (Vice-Chairman) 1st appointment: September 1991
Bruno Bernard Marie Joseph de Laage de Meux (Vice-Chairman) 1st appointment: : April 2010
José Manuel Pinheiro Espírito Santo Silva 1st appointment: April 1992
António José Baptista do Souto 1st appointment: November 1990
Jorge Alberto Carvalho Martins 1st appointment: July 1993
Aníbal da Costa Reis de Oliveira 1st appointment: April 1992
Manuel Fernando Moniz Galvão Espírito Santo Silva 1st appointment: March 1994
José Maria Espírito Santo Silva Ricciardi 1st appointment: March 1999
Rui Manuel Duarte Sousa da Silveira 1st appointment: March 2000
Joaquim Aníbal Brito Freixial de Goes 1st appointment: March 2000
Ricardo Abecassis Espírito Santo Silva 1st appointment: March 2002
Amílcar Carlos Ferreira de Morais Pires 1st appointment: March 2004
Nuno Maria Monteiro Godinho de Matos 1st appointment: February 2006
João Eduardo Moura da Silva Freixa 1st appointment: September 2006
Pedro Mosqueira do Amaral 1st appointment: March 2008
Isabel Maria Osório de Antas Mégre de Sousa Coutinho 1st appointment: March 2008
João de Faria Rodrigues 1st appointment: March 2008
Marc Olivier Tristan Oppenheim 1st appointment: July 2010
Vincent Claude Pacaud 1st appointment: May 2011
Rita Maria Lagos do Amaral Cabral 1st appointment: March 2012
Stanislas Gerard Marie Georges Ribes 1st appointment: March 2012
Horácio Lisboa Afonso 1st appointment: March 2012
Pedro João Reis de Matos Silva 1st appointment: March 2012
Xavier Musca 1st appointment: November 2012

The term of office of all the members of the Board of Directors ends at the end of 2015.

18. Distinction between executive and non-executive directors and, as regards non-executive directors, details of directors that may be considered independent

The Board of Directors currently consists of 25 members, of whom 10 are executive and 15 are non-executive. BES considers that this type of composition guarantees the effective capacity for supervision, audit and evaluation of the activity of the Executive Committee members.

From the 15 non-executive Board members, 7 qualify as independent directors, representing more than 25% of the Board. Hence in this regard they all also conform to the regime of incompatibilities set out in the Companies Code.

The Board members who qualify as independent are the Chairman (Alberto de Oliveira Pinto), the members of the Audit Committee (Horácio Afonso, João Faria Rodrigues and Pedro Matos Silva), the members of the Corporate Governance Committee, and the members of the Remuneration Advisory Committee (Isabel de Sousa Coutinho, Nuno Godinho de Matos and Rita Amaral Cabral).

Nome	Cargo	Independent	Reason for non-independence
Alberto Alves de Oliveira Pinto	Chairman of the Board of Directors	Yes	
Ricardo Espírito Santo Silva Salgado	Vice-Chairman of the Board of Directors and Chairman of the Executive Committee	No	Member of the Executive Committee
Bruno de Laage de Meux	Vice-Chairman of the Board of Directors	No	Board Member or employment contract with shareholder Crédit Agricole, S.A.
José Manuel Pinheiro Espírito Santo Silva	Member of the Board of Directors and Executive Committee	No	Member of the Executive Committee
António José Baptista do Souto	Member of the Board of Directors and Executive Committee	No	Member of the Executive Committee
Jorge Alberto Carvalho Martins	Member of the Board of Directors and Executive Committee	No	Member of the Executive Committee
Aníbal da Costa Reis de Oliveira	Member of the Board of Directors	No	Member of the Board of Directors of Espírito Santo Financial Group, S.A.
Manuel Fernando Moniz Galvão Espírito Santo Silva	Member of the Board of Directors	No	Member of the Board of Directors of Espírito Santo Financial Group, S.A.
José Maria Espírito Santo Silva Ricciardi	Member of the Board of Directors and Executive Committee	No	Member of the Executive Committee
Rui Manuel Duarte Sousa da Silveira	Member of the Board of Directors and Executive Committee	No	Member of the Executive Committee
Joaquim Aníbal Brito Freixial de Goes	Member of the Board of Directors and Executive Committee	No	Member of the Executive Committee
Ricardo Abecassis Espírito Santo Silva	Member of the Board of Directors	No	CEO of BESI Brasil
Amílcar Carlos Ferreira de Morais Pires	Member of the Board of Directors and Executive Committee	No	Member of the Executive Committee
Nuno Maria Monteiro Godinho de Matos	Member of the Board of Directors, Corporate Governance Committee and Remuneration Advisory Committee	Yes	
João Eduardo Moura da Silva Freixa	Member of the Board of Directors and Executive Committee	No	Member of the Executive Committee
Pedro Mosqueira do Amaral	Member of the Board of Directors	No	Employment contract with BES
Isabel Maria Osório de Antas Mégre de Sousa Coutinho	Member of the Board of Directors, Chairman of the Corporate Governance Committee and of the Remuneration Advisory Committee	Yes	
João de Faria Rodrigues	Member of the Board of Directors and Audit Committee	Yes	
Marc Olivier Tristan Oppenheim	Member of the Board of Directors	No	Board Member or employment contract with shareholder Crédit Agricole, S.A.
Vincent Claude Paul Pacaud	Member of the Board of Directors	No	Board Member or employmvent contract with shareholder Crédit Agricole, S.A.
Rita Maria Lagos do Amaral Cabral	Member of the Board of Directors, Corporate Governance Committee and Remuneration Advisory Committee	Yes	
Stanislas Gerard Marie Georges Ribes	Member of the Board of Directors and Executive Committee	No	Member of the Executive Committee
Horácio Lisboa Afonso	Member of the Board of Directors and Chairman of the Audit Committee	Yes	
Pedro João Reis Matos Silva	Member of the Board of Directors and Audit Committee	Yes	
Xavier Musca	Member of the Board of Directors	No	Board Member or employment contract with shareholder Crédit Agricole, S.A.

In order to collect the relevant information allowing the Board of Directors to assess the referred situations, at the beginning of 2014 a questionnaire was drawn up and sent to each of the other non-executive members of the Board of Directors who were presented as independent directors in BES's 2013 Corporate Governance Report, to be personally replied, signed and subsequently returned.

This questionnaire contains questions about the circumstances upon which the Companies Code makes independence conditional, and about the incompatibilities established in the same code.

19. Professional qualifications and other relevant curricular information of each member of the Board of Directors.

Alberto Alves de Oliveira Pinto

Graduated in Economic and Financial Sciences from Instituto Superior de Ciências Económicas e Financeiras (Lisbon). Chairman of the Board of Directors of Banco Nacional de Crédito Imobiliário from 1991 to 2005. Non--executive member of the Board of Directors of Galp Energia from 2006 to 2008. Non-executive member of BES's Board of Directors from February 2006 to March 2008. Chairman of the Board of Directors of BES since March 2008.

Ricardo Espírito Santo Silva Salgado

Graduated in Economics from Instituto Superior de Ciências Económicas e Financeiras of the Universidade Técnica de Lisboa. Vice-Chairman of the Board of Directors and Chairman of the Executive Committee of BES, Chairman of the Board of Directors of Espírito Santo Financial Group, S.A., Bespar - SGPS, S.A. and Partran, SGPS, S.A., member of the Executive Committee of the Institut International d'Etudes Bancaires since 2003 and its Chairman from October 2005 to December 2006.

Bruno de Laage de Meux

Graduated from the École des Hautes Études Commerciales (H.E.C.), with an MBA from INSEAD. Member of the Board of Directors and of the Strategy Committee of Crédit Agricole S.A., and deputy secretary general of the Crédit Agricole National Federation since 2006. Appointed Vice-Chairman of Crédit Agricole S.A. in March 2010, in charge of Caisses Régionales, International Retail Banking, Payment Systems and Specialised Financial Services (Consumer Crédit, Leasing and Factoring). Appointed member of BES's Board of Directors in April 2010, to replace Jean Frederic de Leusse.

José Manuel Pinheiro Espírito Santo Silva

Graduated in Economics, specialising in Business Administration and Management, from Évora University (former Instituto de Estudos Superiores de Évora). Chairman of Banque Privée Espirito Santo S.A., executive member of BES's Board of Directors and Vice-Chairman of Espirito Santo Financial Group, S.A..

António José Baptista do Souto

Graduated in Economics from the School of Economics of Porto University. Executive member of BES's Board of Directors. Member of the Board of Directors of SIBS – Sociedade Interbancária de Serviços, S.A..

Jorge Alberto Carvalho Martins

Graduated in Economics from the School of Economics of Porto University. Executive member of BES's Board of Directors. Member of the Board of Directors of Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A..

Aníbal da Costa Reis de Oliveira

General Commercial Management course (Porto) and degree in Chemical Engineering (Germany). Executive positions in companies of the Riopele Group. Non-executive member of BES's Board of Directors since 1992.

Manuel Fernando Moniz Galvão Espírito Santo Silva

B.A. Business Administration, Richmond College, London, International Bankers' Course at Barclays and Midland Bank, London, Inter-Alpha Banking Programme - INSEAD, Fontainebleau. Member of BES's Board of Directors since 1994. Executive member of the World Travel & Tourism Council since 2003. Chairman of the Executive Committee of Espírito Santo Resources since 2006. Chairman of the Board of Directors of Rioforte Investments since 2008 and of Rioforte (Portugal) S.A. since 2010.

José Maria Espírito Santo Silva Ricciardi

Graduated in Sciences Économiques Appliquées from the Université Catholique de Louvain, Faculté des Sciences Economiques, Sociales et Politiques, Institut d'Administration et de Gestion, Belgium. Executive member of BES's Board of Directors. Vice-Chairman of the Board of Directors and Chief Executive Officer of BES Investimento. Chairman of the Board of Directors of BES Investimento do Brasil, S.A.. Member of the Board of Directors of Espírito Santo Financial Group. Chairman of the Board of Directors of Espírito Santo Investment Holdings Limited. Member of the General and Supervisory Board of EDP.

Rui Manuel Duarte Sousa da Silveira

Graduated in Law from the Law School of the Lisbon University. Practising lawyer. Executive member of BES's Board of Directors. Member of the Fiscal Board of Companhia de Seguros Tranquilidade, S.A.. Chairman of the Board of the General Meeting of AVISTAR S.G.P.S., S.A., BEST – Banco Eletrónico de Serviço Total, S.A., ES Tech Ventures S.G.P.S., S.A., ESAF – Espírito Santo Ativos Financeiros S.G.P.S., S.A., Espírito Santo Ventures, Sociedade de Capital de Risco, S.A., Bespar – S.G.P.S., S.A., Partran – S.G.P.S., S.A. and T-Vida, Companhia de Seguros, S.A..

Joaquim Aníbal Brito Freixial de Goes

Graduated in Corporate Management and Administration, specialising in Marketing and Finance from Lisbon's Portuguese Catholic University. MBA from INSEAD, Fontainebleau. Executive member of BES's Board of Directors. Member of the Board of Directors of Portugal Telecom since 2000.

Ricardo Abecassis Espírito Santo Silva

Graduated in Economics from The City University, London. Executive Chairman of BES Investimento do Brasil, Member of the Board of Directors of BES Investimento since 2003, where he was appointed Executive Director in 2005. Member of BES's Board of Directors since 2002.

Amílcar Carlos Ferreira de Morais Pires

Graduated in Economics from the Portuguese Catholic University. BES General Manager, advisor to BES's Board of Directors and Coordinator of BES's Financial Department, Markets and Surveys until 2004. Executive member of BES's Board of Directors since March 2004 and member of the Board of Directors of BES Investimento since 2005. Member of the Board of Directors of Portugal Telecom since 2006.

Nuno Maria Monteiro Godinho de Matos

Graduated in Law from Universidade Clássica de Lisboa. Practising lawyer. Member of BES's Board of Directors since 2006, member of its Corporate Governance Committee since 2010 and member of its Remuneration Advisory Committee since 2012.

João Eduardo Moura da Silva Freixa

Graduated in Business Management from Instituto Superior de Economia, Lisbon; MBA from Universidade Nova de Lisboa. Vice-Chairman of Caixa Geral de Depósitos and Caixa - Banco de Investimento (Caixa BI), and non--executive member of the Board of Directors of EDP- Energias de Portugal from 2004 to 2005. Advisor to BES's Board of Directors since October 2005, executive member of BES's Board of Directors since 2006, and Vice-Chairman of BES dos Açores since November 2006. Member of the Board of Directors of Unicre – Instituição Financeira de Crédito, S.A. since 2010.

Pedro Mosqueira do Amaral

Graduated in Business Management from the European University, Brussels, Belgium. Member of the Board of Directors of BES GmbH since 2006 and member of BES's Board of Directors since 2008.

Isabel Maria Osório de Antas Mégre de Sousa Coutinho

Graduated in Finance from Instituto Superior de Ciências Económicas e Financeiras (ISCEF), Lisbon, 1969. Chairman of Fundação Pão de Açúcar – Auchan until 2007. Member of BES's Board of Directors since 2008, Chairman of its Corporate Governance Committee since 2010 and member of its Remuneration Advisory Committee since 2012.

João de Faria Rodrigues

Graduated in Business Organisation and Management from Instituto Superior de Economia, Lisbon (1980). Certified Auditor since 1992. Senior Audit Manager with Grant Thornton & Associados – SROC, Lda. from 1997 to 2008. Member of BES's Board of Directors since 2008 and member of its Audit Committee.

Marc Olivier Tristan Oppenheim

Graduated from the École Supérieure des Sciences Économiques et Commerciales (ESSEC). Appointed Retail Market manager and member of the General Committee of Crédit Lyonnais in 2007. Manager of International Retail Banking and member of the Executive Committee of Crédit Agricole since June 2010. In 2010 was appointed non-executive member of BES's Board of Directors.

Vincent Claude Paul Pacaud

Graduated from the École Polytéchnique, with an MBA from INSEAD. Was CEO of BNP Paribas Assurance in Asia and member of the International Strategy Committee of BNP Paribas Assurance. In 2008 joined the Crédit Agricole Group as head of insurance for Asia and in 2010 was appointed CEO of Credit Agricole Life Japan. Appointed member of BES's Board of Directors in 2011. Member of the Board of Directors of BESPAR, ESAF, BES Vida and BES Seguros.

Rita Maria Lagos do Amaral Cabral

Graduated in Law from Lisbon University's Law School. Practicing lawyer and a member of the Bar Association. Partner and Director at Amaral Cabral & Associados – Sociedade de Advogados, R.L.. Invited assistant professor at the Law School of the Portuguese Catholic University, Vice-Chairman of the Portuguese Catholic University's Bioethics Institute and was a member of the National Ethics Council for Life Sciences. Member of BES's Board of Directors, Corporate Governance Committee and Remuneration Advisory Committee since 2012.

Stanislas Gérard Marie Georges Ribes

Graduated in Economics from the Institut d'Études Politiques de Paris. Was Head of the Ile de France Nord region Division, with LCL, Crédit Lyonnais. Member of LCL, Crédit Lyonnais's Management Committee and responsible for the corporate and institutional segment, as head of the Business Division from 2006 to 2009 and Regional Manager – Corporates North from 2002 to 2006. Executive member of BES's Board of Directors since 2012.

Horácio Lisboa Afonso

Graduated in Finance from the Instituto Superior de Economia (Lisbon). Certified Auditor and Certified Accountant. In January 2012, as partner with Camacho Palma & Lisboa Afonso – SROC, joined Nexia International as International Contact Partner, until 2011. Member of the Management Board of the Portuguese Chamber of Certified Auditors (2006-2008).
In July 2007 was appointed member of the Board of Directors and of the Audit Committee of ESFG, S.A., until the start of 2012. Member of BES's Board of Directors and Chairman of its Audit Committee since 2012.

Pedro João Reis de Matos Silva

Graduated in Finance from the Instituto Superior de Ciências Económicas e Financeiras, with a degree in Auditing and Accounting from Centre d'Enseignement Supérieur des Affaires (CESA), France. Certified Auditor since 1981 and a partner with P. Matos Silva, Garcia JR, P. Caiado & Associados, SROC, Lda. Was Chairman of the Fiscal Board of the Portuguese Chamber of Certified Orders (2005–2010) and is a member of its Higher Board (2012-2014). Member of BES's Board of Directors since 2012.

Xavier Musca

Graduated in Political Sciences from the Institut d'Etudes Politiques, Paris (Sciences Po) and the École Nationale d'Administration. Head of French Treasury and Economic Policy department (2007), appointed executive manager for Economic Affairs in the French President's Office in 2009 and Secretary General of the French President's Office in 2011. In July 2012 joined Crédit Agricole as head of International Retail and Commercial Banking, Asset Management and Insurance. Appointed non-executive member of BES's Board of Directors in November 2012.

20. Customary and meaningful family, professional or business relationships of members of the Board of Directors with shareholders to which qualifying holdings greater than 2% of the voting rights are attributable.

As referred in item 10, BES Group maintains business relations with several entities in which it has significant holdings or with which it is in any other way related, and there also exist family, professional or business relationships between members of the Board of Directors and shareholders to which qualifying holdings greater than 2% of the voting rights are attributable.

The following members of BES's Board of Directors are simultaneously members of the Board of Directors of BES's shareholder Espírito Santo Financial Group (or of the latter's main shareholder, Espírito Santo International, S.A., which holds a 49.4% stake in ESFG):

Ricardo Espírito Santo Silva Salgado
José Manuel Pinheiro Espírito Santo Silva
Aníbal da Costa Reis de Oliveira
José Maria Espírito Santo Silva Ricciardi
Manuel Fernando Moniz Galvão Espírito Santo
Ricardo Abecassis Espírito Santo Silva
Pedro Mosqueira do Amaral

The following members of BES's Board of Directors are simultaneously members of the corporate bodies or employees of the shareholder Crédit Agricole:

Bruno Bernard Marie Joseph de Laage de Meux
Marc Olivier Tristan Oppenheim
Vincent Claude Paul Pacaud
Stanislas Gerard Marie Georges Ribes
Xavier Musca

The following members of BES's Board of Directors are members of the Board of Directors of Portugal Telecom:

Joaquim Aníbal Brito Freixial de Goes
Amílcar Carlos Ferreira de Morais Pires

21. Organisational charts or flowcharts concerning the allocation of powers between the various corporate bodies, committees and/or departments within the company, including information on delegation of powers, particularly as regards the delegation of the company's daily management.

The Board of Directors delegates the everyday running of the company to an Executive Committee, as laid down in Article 22 of the Company's bylaws. All powers not reserved by legal imperative or by the Company's bylaws to the Board of Directors are delegated to the Executive Committee, although it shall always be the responsibility of the Board of Directors to:

a. Define the strategy and the general policies of the Company;

b. Define the corporate structure of the Group;

c. Take all decisions deemed strategic due to the amount, risk or specific characteristics involved.

The Chairman of the Executive Committee is responsible for ensuring the suspension of any resolution of the Executive Committee which on account of its nature may be considered strategic, and for submitting the matter to the Board of Directors. The Executive Committee may instruct one or more of its members to take charge of certain matters or responsibilities (portfolios), or directly delegate the exercise of part of the powers with which it was entrusted to one or more of its members.

In the performance of their duties, the members of the Executive Committee provide to the corporate bodies any information requested by them in a timely and appropriate manner to the request.

Portfolios attributed to the members of the Executive Committee:

Ricardo Espírito Santo Silva Salgado

Chairman of the Executive Committee, Financial and Credit Committee and Assets&Liabilities Committee.
Planning and Accounting Department
Corporate Communication Department
Structuring of Companies Department
Investor Relations Office
General Secretariat of the Executive Committee
Espírito Santo Ativos Financeiros, S.G.P.S., S.A. - ESAF
BEST - Banco Electrónico de Serviço Total, S.A.
ES Tech Ventures, S.G.P.S., S.A.
ESEGUR - Empresa de Segurança, S.A.
International Strategy and Coordination Committee

José Manuel Pinheiro Espírito Santo Silva

Private Banking Department
International Business & Private Banking Department
Madeira Off-shore Branch
Venezuela Branch (together with Amílcar Carlos Ferreira de Morais Pires)
Luxembourg Branch (together with Amílcar Carlos Ferreira de Morais Pires)
Emigrants Department [1]
BES History Research Centre
International Strategy and Coordination Committee

1 Except emigrants in France, under the responsibility of Stanislas Ribes

António José Baptista do Souto

Middle Market Department - North [1]
Middle Market Department - South [1]
Corporate Banking Department [1]
International Premium Unit [2]
Corporate and Institutional Marketing Department
Compliance Department
Municipalities and Institutional Clients Department
Human Resources Department
Company Monitoring Department
Leasing and Factoring Department
Multipessoal, Soc de Prestação e Gestão de Serviços, S.A.
Ijar Leasing
Financial and Credit Committee

1 Except companies to be included in a "French Desk", under the responsibility of Stanislas Ribes.
2 Except relationship with the Portuguese-French Chamber of Commerce and Industry, under the responsibility of Stanislas Ribes.

Jorge Alberto Carvalho Martins

Chairman of the Credit Board (Porto)
Commercial Department - North
Real Estate area, which includes the Property promotion Department and the Real Estate Management Department
External Promoters Department
Locarent - Companhia Portuguesa de Aluguer de Viaturas, S.A.
Financial and Credit Committee

José Maria Espírito Santo Silva Ricciardi

Chief Executive Officer of Espírito Santo Investment Bank
International Strategy and Coordination Committee
Global Risk Department (together with Joaquim Aníbal Brito Freixial de Goes)
Financial and Credit Committee

Rui Manuel Duarte Sousa da Silveira

Legal Affairs Department
Internal Audit Department
Security Management and Coordination Department
Corporate Office

Joaquim Aníbal Brito Freixial de Goes

Strategic Marketing Department
Marketing, Innovation and Channels Department
Communication Marketing and Consumer Surveys Department
Global Risk Department - GRD (together with José Maria Espírito Santo Silva Ricciardi)
Management Information Department
Universities Office
BES University
Credit Recovery Department
Espírito Santo Recuperação de Crédito (ACE)
Real Estate Clients Monitoring Department
Real Estate Technical Department
Espírito Santo Informática (ACE)
Oblog Consulting, S.A.
BES Seguros, S.A.
Contact, S.A.
Assurfinance Office
Financial and Credit Committee

Amílcar Carlos Ferreira de Morais Pires

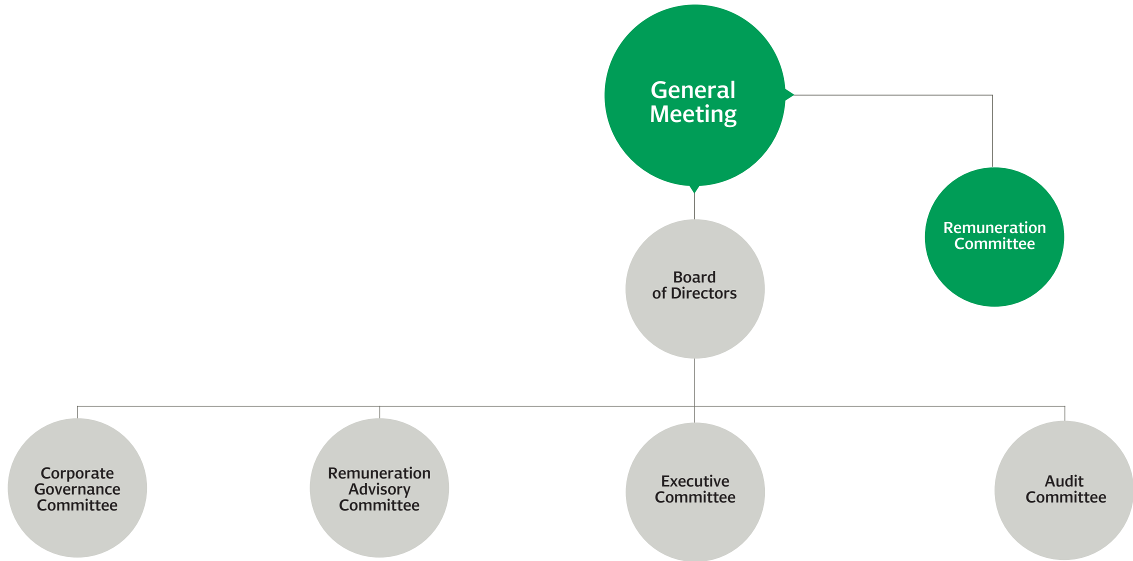
Financial, Markets and Research Department
Management Control (together with the Chairman of the Executive Committee)
International Strategy and Coordination Committee
Strategic Reorganisation Committee
Savings Management Department
International Development Department
London Branch
New York Branch
Spain Branch
Venezuela Branch (together with José Manuel Pinheiro Espírito Santo Silva)
Luxembourg Branch (together with José Manuel Pinheiro Espírito Santo Silva)
ES Bank
BES África, S.G.P.S., S.A.
Aman Bank
BES Angola, SARL
Moza Banco
Cape Verde Bank and Branch
Representative Offices abroad
Avistar, S.G.P.S., S.A.
Espírito Santo Research
BES Vida, Companhia de Seguros, S.A.
BES Finance
BES Cayman
BESIL
BIBL
BES GmbH
Financial and Credit Committee

João Eduardo Moura da Silva Freixa

Commercial Department - South
Consumer Credit and Cards Department
Procurement and Costs Control Department
BES dos Açores, S.A.
BES representative in Unicre
BES representative in SIBS
Financial and Credit Committee

Stanislas Gerard Marie Georges Ribes

Organisation and Quality Department
Execution of Operations Department
Monetisation of Corporate Credit Office
Segment of Clients resident in France
Segment of corporate clients to be included in a “French Desk”
Relationship with the Portuguese-French Chamber of Commerce and Industry



Support Committees

Business Units:
- International
- Private
- Retail (Individuals and Small Businesses)
- Wholesale & Investment Banking

Other
- ALCO (Assets & Liabilities)
- Financial and Credit Committee
- IT, Operations, Quality and Costs
- Risk
- Liquidity
- Sustainability

Support Offices

- Corporate Office
- Investor Relations
- General Secretary of the Executive Committee
- Strategic Restructuring

Other

- Solidarity
- BESart
- BES Numismatics
- BES History Research Center

Marketing and Product Units

- Personal Credit and Cards
- Savings Management
- Leasing & Factoring
- Retail Marketing , Direct and Self Banking
- Marketing - Corporates and Institutionals
- Monetization of Corporate Credit

Commercial Units

- Retail (North & South)
- Private Banking
- Corporate Banking
- Medium Corporates (North & South)
- Company Monitoring
- International Premium
- Municipalities and Institutionals
- Universities
- Real State Business
- International Business & Private Banking

Operating Units

- Mortgage and Real Estate Credit Analysis
- Operations

Business Units & Risk

- International Banking
- Finance, Markets and Studies
- Real Estate Management
- Credit Recovery
- Management of Agents
- Emigrants
- Global Risk Management
- Business Structuring

Support Units

- Legal
- Internal Audit
- Compliance
- Corporate Communication
- Information Management
- Strategic Marketing
- Comunication, Marketing and Consumer Studies
- Procurement and Cost Control
- Organisation and Service Quality
- Planning and Accounting
- Human Resources
- Research
- Security Coordination

The specialised committees are responsible for monitoring directly the performance of specific business areas.

Business Units Monitoring Committees

Corporate / Wholesale / Investment Banking

Monitors the development of these business areas, ensuring that there is coordination between BES's corporate banking activity and the activity of Banco Espírito Santo de Investimento, and at international level, promoting coordinated action with the Branch in Spain, with Banco Espírito Santo de Investimento do Brasil, and with other units of BES Group abroad.

Retail Banking (Individual Clients and Small Businesses)

Monitors business evolution in each of the retail segments (Affluent Clients, Small Companies and Independent Professionals and Mass Market), and promotes cross-segment business with other business areas (namely medium sized and large corporates). The committee also oversees Assurfinance activities, promoting the acquisition and retention by BES of Companhia de Seguros Tranquilidade clients.

Private Banking

Monitors the development of the business, ensures coordination with other business areas - taking advantage of the increasing interconnection between the Private Banking Centres and the Corporate Centres - and oversees the activity with Portuguese residents abroad.

International Strategy and Coordination

Monitors and promotes the development of BES Group's international banking activity, contributing to foster the business of subsidiaries and branches and evaluating and submitting to the Executive Committee new initiatives in previously untapped markets or businesses areas. The committee also ensures that there is coordination between BES's activity in Portugal and that of its units abroad.

Group-Wide Committees

Assets and Liabilities (ALCO)

The Assets and Liabilities Committee analyses macroeconomic data from Portugal and from the main economic areas in the world, making impact projections on the banking business. The ALCO also monitors the evolution of BES Group's consolidated balance sheet and that of its main business units, specifically the balances of customer loans and customer funds and margins, providing the Executive Committee with the data required to set growth targets for customer loans and deposits, and define a funding strategy (management of balance sheet mismatch) and price/margins targets. Its functions also include monitoring and benchmarking products sold by competitors and approving the product offer and pricing within the scope of the established strategy.

Information Systems, Operations, Quality and Costs (CIOQC)

The CIOQC committee prioritises investments in information systems and the operations and monitors their implementation. It also monitors the development of special projects in the areas of operations, systems, quality and costs. In particular, the committee oversees the Bank's overall performance in terms of quality indicators – with particular regard to customer service quality and the support provided by the central areas to the commercial areas.

Risk

The Risk Committee is responsible for all matters related to BES Group's overall risk, and in particular for monitoring the evolution of risk in each of the main client segments and product categories. It also oversees special projects in the area of Risk.

Financial and Credit Committee

The Financial and Credit Committee decides on all credit operations that fall outside the scope of the credit granting limits established for each Board member.

Liquidity

The Liquidity Committee defines and monitors the execution of the Bank's policies for liquidity risk management, assisting the Executive Committee in all related issues. In particular, the Committee is responsible for outlining a liquidity strategy proposal to be submitted for approval to the Executive Committee, translating the liquidity appetite approved by the Executive Committee into limits and limit triggers, monitoring on an ongoing basis the Bank's liquidity position and liquidity risk, and establishing the methodology for funds transfer pricing and liquidity premia.

Sustainability

The Sustainability Committee defines BES Group's Sustainability Plan, monitors and supports its implementation, and reports on these activities to the Executive Committee.

b) Functioning

22. Availability and place where rules on the functioning of the Board of Directors may be viewed.

All the company's corporate bodies have their own internal regulations, namely the Board of Directors and Executive Committee Regulation, the Audit Committee Regulation, the Corporate Governance Committee Regulation, the Remuneration Advisory Committee Regulation and the General Meeting Regulation, which are all disclosed at www.bes.pt/ir.

23. The number of meetings held and the attendance report for each member of the Board of Directors.

In 2013 BES' Board of Directors held 8 meetings. The Chairman of the Executive Committee sends the convening notices and minutes of the committee's meetings to the Chairman of the Board of Directors and the Chairman of the Audit Committee.

Meetings of the Board of Directors

	Presences	
Board of Directors	**Efective**	**Incl. Representation**
Alberto Oliveira Pinto	100.0%	100.0%
Ricardo Salgado	100.0%	100.0%
José Manuel Espírito Santo	100.0%	100.0%
António Souto	75.0%	100.0%
Jorge Martins	100.0%	100.0%
Aníbal Oliveira	37.5%	100.0%
Manuel Fernando	75.0%	100.0%
José Maria Ricciardi	37.5%	100.0%
Rui Silveira	87.5%	87.5%
Joaquim Goes	87.5%	100.0%
Ricardo Abecassis	75.0%	100.0%
Morais Pires	87.5%	100.0%
Nuno Godinho de Matos	100.0%	100.0%
João Freixa	87.5%	100.0%
Pedro Amaral	87.5%	100.0%
Isabel Mégre	87.5%	100.0%
João Rodrigues	100.0%	100.0%
Bruno de Laage	50.0%	100.0%
Marc Oppenheim	75.0%	100.0%
Vincent Pacaud	100.0%	100.0%
Rita Amaral Cabral	100.0%	100.0%
Stanislas Ribes	100.0%	100.0%
Horácio Afonso	100.0%	100.0%
Pedro Matos Silva	87.5%	100.0%
Milton Vargas*	100.0%	100.0%
Xavier Musca	100.0%	100.0%

* Resigned in April 2013

24. Details of competent corporate bodies undertaking the performance appraisal of Executive Directors.

The Corporate Governance Committee issues an Annual Report containing an assessment of the performance of the Board of Directors *vis-à-vis* the established objectives.

Under the terms of Article 24 of the Company's articles of association, it is up to the Remuneration Committee to establish the remuneration of BES's directors.

The Remuneration Committee is currently composed of three members, elected by the General Meeting of March 22nd, 2012 for a four-year mandate. In addition to the Remuneration Committee, elected by the Shareholders, BES also has since January 2012 a Remuneration Advisory Committee appointed by the Board of Directors. This Committed was set up with the main objective of ensuring compliance with the regulations on the remuneration policy of financial institutions, namely contained in Decree Law no. 88/2011, of July 20th, and Bank of Portugal Notice no. 10/2011.

The main responsibility of the Remuneration Advisory Committee is to draw up proposals and recommendations on the fixing of the remuneration of the members of the Board of Directors and Audit Committee, and senior officers of the Company;

25. Predefined criteria for assessing executive directors' performance.

The executive directors are assessed based on the following financial and non financial criteria:

- Cost to Income (*ratio* of operating costs to total banking income) – an indicator of the Bank's operational activity, this ratio measures its capacity to generate revenues against operating costs;
- Net Income for the year – this indicator translates the contribution to shareholders, already deducted of elements not included in the cost to income, such as the cost of risk, taxes and minority interests;
- Return on Equity (ratio of net income to equity) – this indicator measures the net income generated as a percentage of the funds invested by the shareholders;
- Stock market capitalisation – an unequivocal indication of the market's assessment of BES's performance, this indicator permits to align the shareholders' perspective to the markets' perspective;
- Individual performance of each member of the Executive Committee - this permits to identify the relative contribution of each executive director to BES's overall results; it is objectively assessed through the analysis of the performance of the functions and departments under their responsibility, as well as from their individual contribution to decisions taken collectively;
- Loan to Deposits Ratio - this ratio gauges the level of balance of BES's growth trajectory, permitting to assess whether this growth enables compliance with the regulatory requirements concerning the deleveraging of the financial sector;
- Core Tier 1 Ratio - the main indicator used to measure solvency from the regulatory standpoint (based on references established both by the Bank of Portugal and the European Banking Authority – EBA);
- Service Quality Indicators - these indicators permit to factor in the opinion of BES's client base about the level of protection of their interests;
- Compliance with the main rules applying to the institution's activity - this is assessed by the Internal Control functions to identify any non conformity in the areas of risk, internal audit and compliance and the measures implemented to remedy such inadequacies, which are reported to the Bank of Portugal;

26. The availability of each member of the Board of Directors and details of the positions held at the same time in other companies within and outside the group, and other relevant activities undertaken by members of this board throughout the financial year.

The members of the Executive Committee carry out their main professional activity in BES, except for Board member José Maria Espírito Santo Silva Ricciardi, who carries out his main professional activity at Espírito Santo de Investimento, S.A., which is fully owned by BES.

The non-executive directors who are members of the Audit Committee or of other specialised committees of the Board of Directors are obliged to be available as required to perform their duties in these committees. The other Board members must be sufficiently available to keep abreast of the development of the corporate businesses through their participation in the various meetings of the Board of Directors.

At its meeting of March 17th, 2014 the Board of Directors approved relevant changes to BES's governance, including changes to BES Group's Code of Conduct whereby the Group must ensure that the members of the management and supervisory bodies guarantee their availability to dedicate sufficient time to fulfil their responsibilities. To this end the members of the management and supervisory bodies will be requested to indicate, prior to their appointment, how much time they intend to dedicate to such tasks, and the accumulation of more than five positions in the management or supervisory boards of group companies will not be permitted. Any accumulation of corporate positions in companies outside BES Group hall have to be previously authorised by the Corporate Governance Committee; moreover, members of the management or supervisory bodies of BES Group companies shall not perform functions or be appointed for positions in the corporate bodies of non-financial companies included in the same economic group as shareholders with stakes of more than 10% in BES's share capital.

Corporate positions held by members of the management and supervisory corporate bodies

Alberto Alves de Oliveira Pinto

Holds no positions in other companies

Ricardo Espírito Santo Silva Salgado

A. Corporate positions held in companies of BES Group

Board of Directors
Banco Espírito Santo de Investimento, S.A. (Chairman)
Banque Espírito Santo et de la Vénétie, S.A. (Member)
BES África, S.G.P.S. S.A. (Chairman)
BES Finance, Ltd (Member)
BEST – Banco Electrónico de Serviço Total, S.A. (Chairman)
ES Tech Ventures, S.G.P.S., S.A. (Chairman)
ESAF – Espírito Santo Activos Financeiros, S.G.P.S., S.A. (Chairman)
Espírito Santo – Empresa de Prestação de Serviços 2, ACE (Chairman)
Espírito Santo Ventures, Sociedade de Capital de Risco, S.A. (Chairman)

Other Positions
Banco Espírito Santo de Investimento, S.A. (Member of the Remuneration Committee)

B. Corporate positions held in companies outside BES Group

Board of Directors
Banque Privée Espírito Santo, S.A. (Member)
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Casa dos Pórticos – Sociedade de Administração de Bens, S.A. (Chairman)
E.S. Holding Administração e Participações S.A. (Vice-Chairman)
ES Bankers (Dubai) Limited (Chairman)
Espírito Santo Control S.A. (Member)
Espírito Santo Financial (Portugal) - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Espírito Santo Financial Group S.A. (Chairman)
Espírito Santo International S.A. (Member)
Espírito Santo Resources Limited (Member)
Espírito Santo Services, S.A. (Member)
Partran - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Sociedade de Administração de Bens Pedra da Nau, S.A. (Chairman)

Other Positions
Associação Portuguesa de Bancos (Vice-Chairman of the Board, in representation of Banco Espírito Santo, S.A.)
Fundação Stanley Ho (Member of the General Board)
Instituto Internacional de Estudos Bancários IIEB (Member)

Bruno Bernard Marie Joseph de Laage de Meux

Corporate positions held in companies outside of BES Group

Board of Directors
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)
BFORBANK (Member)
CA Assurances (Censeur)
CA Cards & Payments (Member)
CA Consumer Finance (Chairman)
CA Paiement (Member)
Crédit Agricole Creditor Insurance (Member)
Crédit Agricole Leasing & Factoring (Member)
FIA-NET Europe (Member)
Fireca (Member)
Fonds de Garantie des Dépôts (Member of the Supervisory Board)
Groupement des Cartes Bancaires (Chairman)
LCL – Le Crédit Lyonnais (Member)
Uni – Éditions (Chairman)

Other Positions
Crédit Agricole, S.A. (Member of the Executive Committee, Member of the General Management Committee, Deputy Chief Executive Officer in Charge of Retail Banking France (Regional Banks and LCL), Specialised Financial Services and Payment Systems & Services)

José Manuel Pinheiro Espírito Santo Silva

A. Corporate positions held in companies of BES Group

Board of Directors
AVISTAR S.G.P.S., S.A. (Member)
Banco Espírito Santo de Investimento, S.A. (Member)
BES África, S.G.P.S. S.A. (Member)
ESAF – Espírito Santo Activos Financeiros, S.G.P.S., S.A. (Member)
Banque Espírito Santo et de la Vénétie, S.A. (Member)

Other Positions
Banco Espírito Santo de Investimento, S.A. (Member of the Remuneration Committee)

B. Corporate positions held in companies outside BES Group

Board of Directors
Banque Privée Espírito Santo, S.A. (Chairman)
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)
Casa da Saudade – Administração de Bens Móveis e Imóveis, S.A. (Chairman)
ES Bankers (Dubai) Limited (Member)
Espírito Santo Control S.A. (Member)
Espírito Santo Financial (Portugal) - Sociedade Gestora de Participações Sociais, S.A. (Vice-Chairman)
Espírito Santo Financial Group S.A. (Vice-Chairman)
Espírito Santo International S.A. (Member)
Espírito Santo Resources Limited (Member)
Espírito Santo Services, S.A. (Member)
Europ Assistance – Companhia Portuguesa de Seguros, S.A. (Member)
Ponte Alta – Consultoria e Assistência (Sociedade Unipessoal), Lda. (Member)
Raimul Holdings, Ltd (Chairman)
Ribeira do Marchante – Administração de Bens Móveis e Imóveis, S.A. (Chairman)

António José Baptista do Souto

A. Corporate positions held in companies of BES Group

Board of Directors
AVISTAR S.G.P.S., S.A. (Member)
BES África, S.G.P.S. S.A. (Member)

Other Positions
Banco Espírito Santo dos Açores, S.A. (Member of the Remuneration Committee)

B. Corporate positions held in companies outside BES Group

Board of Directors
Angra Moura – Sociedade de Administração de Bens, S.A. (Chairman)
Companhia de Seguros Tranquilidade, S.A. (Member)
Ijar Leasing Algérie (Member)

Other Positions
ELO – Associação Portuguesa Para o Desenvolvimento Económico e a Cooperação (Vice-Chairman of the General Board)
TF Turismo Fundos – SGFII, S.A. (appointed in representation of the Member of the Remuneration Committee, Banco Espírito Santo, S.A.)

Jorge Alberto Carvalho Martins

Corporate positions held in companies outside BES Group

Board of Directors
Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (Member)

Fiscal Board
Advita – Associação para o Desenvolvimento de Novas Iniciativas Para a Vida (Deputy member)
Agência de Desenvolvimento Regional de Entre-o-Douro e Tâmega (Chairman)
Instituto Empresarial do Tâmega (Chairman)

Other Positions
Futebol Clube do Porto – Futebol, S.A.D (Member of the Advisory Board)

Aníbal da Costa Reis de Oliveira

Corporate positions held in companies outside BES Group

Board of Directors
ACRO - S.G.P.S., S.A. (Chairman)
Diliva – Sociedade de Investimentos Imobiliários, S.A. (Chairman)
Espírito Santo Financial (Portugal) - Sociedade Gestora de Participações Sociais, S.A. (Member)
Espírito Santo Financial Group S.A. (Member)
Espírito Santo International S.A. (Member)
Olinerg – S.G.P.S., S.A. (Chairman)
Olinveste – S.G.P.S., Limitada (Chairman)
Oliren – S.G.P.S., S.A. (Chairman)
Q. L. PORTUGAL – Sociedade de Agricultura e Serviços da Quinta da Lage, Lda. (Chairman)

Manuel Fernando Moniz Galvão Espírito Santo Silva

Corporate positions held in companies outside BES Group

Board of Directors
Academia de Música de Santa Cecília (Non-executive Member)
Bensaúde Turismo, S.G.P.S., S.A. (Member)
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)
Espírito Santo Control S.A. (Member)
Espírito Santo Financial Group S.A. (Member)
Espírito Santo Health Care Investments S.A (Chairman)
Espírito Santo Industrial, S.A. (Chairman)
Espírito Santo International S.A. (Member)
Espírito Santo Irmãos – Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Espírito Santo Resources (Portugal), S.A. (Member)
Espírito Santo Resources Limited (Chairman)
Espírito Santo Services, S.A. (Member)
Espírito Santo Tourism (Europe), S.A. (Chairman)
Euroamerican Finance Corporation, Inc. (Chairman)
Euroamerican Finance S.A. (Chairman)
Herdade da Comporta – Actividades Agro Silvícolas e Turísticas, S.A. (Chairman)
Rio Forte Investments, S.A. (Chairman)
RIOFORTE (Portugal), S.A. (Chairman)
Rioforte Investment Holding Brasil SA (Chairman)
Rioforte Investment Holding Mozambique, S.G.P.S., S.A. (Chairman)
Santogal – Sociedade Gestora de Participações Sociais, S.A. (Member)
Sapec, S.A. (Member)

Board of the General Meeting
Espírito Santo Property Portugal (S.G.P.S.), S.A. (Chairman)
Sociedade Imobiliária e Turística da Quinta do Perú, S.A. (Chairman)

José Maria Espírito Santo Silva Ricciardi

A. Corporate positions held in companies of BES Group

Board of Directors
AVISTAR S.G.P.S., S.A. (Member)
Banco Espírito Santo de Investimento, S.A. (Vice-Chairman and Chief Executive Officer)
BES África, S.G.P.S. S.A. (Member)
BES Investimento do Brasil S.A. (Chairman)
Espírito Santo Investment Holdings Limited (Chairman)

B. Corporate positions held in companies outside BES Group

Board of Directors
Espírito Santo Financial Group S.A. (Member)
Espírito Santo International S.A. (Member)

General and Supervisory Board
EDP – Energias de Portugal, S.A. (Member)

Board of the General Meeting
Espírito Santo Property Portugal (S.G.P.S.), S.A. (Vice-Chairman)

Other Positions
EDP – Energias de Portugal, S.A. (Member of the Remuneration Committee)
EDP – Energias de Portugal, S.A. (Member of the Strategy Committee)

Rui Manuel Duarte Sousa da Silveira

A. Corporate positions held in companies of BES Group

Board of the General Meeting
AVISTAR S.G.P.S., S.A. (Chairman)
Banco Espírito Santo Cabo Verde, S.A. (Chairman)
Banco Espírito Santo dos Açores, S.A. (Chairman)
BEST – Banco Electrónico de Serviço Total, S.A. (Chairman)
Capital Mais – Assessoria Financeira, S.A. (Chairman)
ES Tech Ventures, S.G.P.S., S.A. (Chairman)
ESAF – Espírito Santo Activos Financeiros, S.G.P.S., S.A. (Chairman)
ESAF – Espírito Santo Fundos de Investimento Imobiliário, S.A. (Chairman)
ESAF – Espírito Santo Fundos de Investimento Mobiliário, S.A. (Chairman)
ESAF – Espírito Santo Fundos de Pensões, S.A. (Chairman)
ESAF – Espírito Santo Gestão de Patrimónios, S.A. (Chairman)
ESAF – Espírito Santo Participações Internacionais, S.G.P.S., S.A. (Chairman)
Espírito Santo Ventures, Sociedade de Capital de Risco, S.A. (Chairman)
OBLOG - Consulting, S.A. (Chairman)

B. Corporate positions held in companies outside BES Group

Board of Directors
Sociedade de Administração de Bens Casa de Bons Ares, Lda. (Chairman)
Sociedade de Silvicultura Monte do Arneirinho, Lda. (Chairman)

Fiscal Board
Companhia de Seguros Tranquilidade, S.A. (Member)

Board of the General Meeting
BES - Companhia de Seguros, S.A. (Chairman)
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Casa dos Pórticos – Sociedade de Administração de Bens, S.A. (Secretary)
ESEGUR – Empresa de Segurança, S.A. (Vice-Chairman)
Esumédica – Prestação de Cuidados Médicos, S.A. (Chairman)
Europ Assistance – Companhia Portuguesa de Seguros, S.A. (Vice-Chairman)
Partran – Sociedade Gestora de Participações Sociais, S.A. (Chairman)
T-Vida, Companhia de Seguros, S.A. (Chairman)

Joaquim Aníbal Brito Freixial de Goes

A. Corporate positions held in companies of BES Group

Board of Directors
AVISTAR S.G.P.S., S.A. (Member)
BES – Vida, Companhia de Seguros, S.A (Member)
E.S. - Recuperação de Crédito, ACE (Chairman)
Espírito Santo Informática, ACE (Chairman)
Espírito Santo Ventures, Sociedade de Capital de Risco, S.A. (Member)
OBLOG - Consulting, S.A. (Chairman)

B. Corporate positions held in companies outside BES Group

Board of Directors
BES – Companhia de Seguros, S.A. (Chairman)
Edenred Portugal, S.A. (Chairman)
Glintt – Global Intelligent Technologies, S.A. (Member)
Portugal Telecom, S.G.P.S., S.A. (Member)

Fiscal Board
Centro Social e Paroquial de Nossa Senhora da Ajuda (Chairman)
Fundação Brazelton/ Gomes-Pedro Para as Ciências do Bebé e da Família (Chairman)
Fundação da Universidade Católica Portuguesa (Chairman)

Ricardo Abecassis Espírito Santo Silva

A. Corporate positions held in companies of BES Group

Board of Directors
AVISTAR S.G.P.S., S.A. (Member)
Banco Espírito Santo de Investimento, S.A. (Vice-Chairman)
BES Finance Ltd (Member)
BES Investimento do Brasil S.A. (Member)
Espírito Santo Bank (EUA) (Vice-Chairman)
Espírito Santo Investimentos S.A. (Brazil) (Chairman)

Executive Committee
BES Investimento do Brasil S.A. (Chairman)
Espírito Santo Investimentos S.A. (Brazil) (Chairman)
Gespar Participações Ltda (Brazil) (Member)

Fiscal Board
Banco Espírito Santo do Oriente, S.A. (Chairman)

B. Corporate positions held in companies outside BES Group

Board of Directors
2bCapital S.A. (Member)
Agriways S.A. (Brazil) (Vice-Chairman)
BHG S.A. – Brazil Hospitality Group (Brazil) (Member)
Câmara Portuguesa de Comércio no Brasil (Chairman)
Espírito Santo Control S.A. (Member)
Espírito Santo International S.A. (Member)
Espírito Santo Property (Brazil) S.A. (Member)
Espírito Santo Resources Limited (Member)
Euroamerican Finance Corporation, Inc. (BVI) (Member)
Europ Assistance (Brazil) (Member)
Monteiro Aranha S.A. (Brazil) (Member)
Novagest Assets Management Ltd (Member)
Pojuca S.A. (Brazil) (Chairman)
Raimul Holdings Ltd (Vice-Chairman)
Rioforte Investment Holding Brasil S.A. (Member)

Executive Committee
Associação Espírito Santo Cultura (Brazil) (Member)
Companhia Agrícola Botucatu (Chairman)
E.S. Holding Administração e Participações, S.A. (Chairman)
ES Consultoria Ltda (Brazil) (Partner - Member)
ESCAE Consultoria, Administração e Empreendimentos, Ltda. (Brazil) (Member)
Saramagos S.A. Empreendimentos e Participações (Brazil) (Member)

Advisory Board
Associação Brasileira de Bancos Internacionais S.A. (Member)

Amílcar Carlos Ferreira de Morais Pires

A. Corporate positions held in companies of BES Group

Board of Directors
AVISTAR S.G.P.S., S.A. (Chairman)
Banco Espírito Santo de Investimento, S.A. (Member)
Banco Espírito Santo do Oriente, S.A. (Member)
Bank Espírito Santo (International) Limited (Chairman)
BES – Vida, Companhia de Seguros, S.A (Member)
BES África, S.G.P.S. S.A. (Member)
BES Finance Ltd (Member)
BIC International Bank Limited (Chairman)
ES Tech Ventures, S.G.P.S., S.A. (Member)
ESAF – Espírito Santo Activos Financeiros, S.G.P.S., S.A. (Member)
Espírito Santo – Empresa de Prestação de Serviços 2, ACE (Member)
Espírito Santo PLC (Member)

Other Positions
Banco Espírito Santo de Investimento, S.A. (Member of the Remuneration Committee)
Espírito Santo Investment Holdings Limited (Non-Executive Director)

B. Corporate positions held in companies outside BES Group

Board of Directors
Moza Banco, SA (Vice-Chairman)
Portugal Telecom, S.G.P.S., S.A. (Member)

Nuno Maria Monteiro Godinho de Matos

Holds no positions in other companies

João Eduardo Moura da Silva Freixa

A. Corporate positions held in companies of BES Group

Board of Directors
Banco Espírito Santo dos Açores, S.A. (Vice-Chairman)

B. Corporate positions held in companies outside BES Group

Board of Directors
SIBS – Forward Payment Solutions, S.A. (Member, appointed by Banco Espírito Santo, S.A. under the terms of Article 390 (4) of the CC)
SIBS - SGPS, S.A. (Member, appointed by Banco Espírito Santo, S.A. under the terms of Article 390 (4) of the CC)
UNICRE – Instituição Financeira de Crédito, S.A. (Member, appointed by Banco Espírito Santo, S.A. under the terms of Article 390 (4) of the CC)

Pedro Mosqueira do Amaral

A. Corporate positions held in companies of BES Group

Board of Directors
Banco Espírito Santo de Investimento, S.A. (Member)
Bank Espirito Santo (International) Limited (Member)
BES Beteiligungs GmbH (Chairman)
Banque Espírito Santo et de la Vénétie, S.A. (Member)

B. Corporate positions held in companies outside BES Group

Board of Directors
Banque Marocaine du Commerce Extérieur (Member)
Espírito Santo International S.A. (Member)

Isabel Maria Osório de Antas Mégre de Sousa Coutinho

Corporate positions held in companies outside BES Group

Associação Novo Futuro (IPSS) (Chairman of the Board)
Entrajuda – Associação para o Apoio a Instituições de Solidariedade Social (Member of the Higher Council)
EPIS - Empresários pela Inclusão Social (Member of the Advisory Board)
Instituto de Negociação e Vendas (Member of the Advisory Board)

João de Faria Rodrigues

Corporate positions held in companies outside BES Group

Fiscal Board
Partran – Sociedade Gestora de Participações Sociais, S.A. (Member)
Seguros LOGO, S.A. (Member)
T-Vida, Companhia de Seguros, S.A. (Member)

Marc Olivier Tristan Oppenheim

Corporate positions held in companies outside BES Group

Board of Directors
BSF Banque Saudi Fransi (Member)
CA Cards & Payments (Member)
CA Paiement (Member)
Cassa di Risparmio di Parma e Piacenza (Cariparma Crédit Agricole Group) (Member)
Crédit Agricole Bank Polska (Chairman of the of the Supervisory Board)
Crédit Agricole Egypt, S.A.E. (Member)
Crédit du Maroc (Member of the Supervisory Board)
FIA-NET Europe (Member)
IFCAM (Member)
IUB Holding (Chairman)

Other Positions
Crédit Agricole, S.A. (Member of the Executive Committee & Head of International Retail and Commercial Banking)

Vincent Claude Paul Pacaud

A. Corporate positions held in companies of BES Group
Board of Directors
BES – Vida, Companhia de Seguros, S.A. (Member)
ESAF– Espírito Santo Activos Financeiros, S.G.P.S.,S.A. (Member)

B. Corporate positions held in companies outside BES Group

Board of Directors
BES – Companhia de Seguros, S.A. (Member and Chief Executive Officer)
Bespar – Sociedade Gestora de Participações Sociais, S.A.(Member)

Rita Maria Lagos do Amaral Cabral

Corporate positions held in companies outside BES Group

Board of Directors
Amaral Cabral & Associados – Sociedade de Advogados, R.L. (Member)

Board of the General Meeting
Companhia Agrícola da Quinta do Duque, S.A. (Chairman)
Sociedade Agrícola do Margarido, S.A. (Chairman)

Other Positions
Associação Novo Futuro (IPSS) (Member of the Board)
Entrajuda – Associação para o Apoio a Instituições de Solidariedade Social (Member of the Higher Council)
Instituto de Bioética da Universidade Católica Portuguesa (Vice-Chairman)

Stanislas Gérard Marie Georges Ribes

Holds no positions in other companies

Horácio Lisboa Afonso

Corporate positions held in companies outside BES Group

Board of Directors
UPGEST – Consultores de Gestão, S.A. (sole Member)
Supervisory Body
Companhia de Seguros Tranquilidade, S.A. (Member of the Fiscal Board)
Partran - Sociedade Gestora de Participações Sociais, S.A. (Chairman of the Fiscal Board)
Somincor - Sociedade Mineira de Neves-Corvo, S.A. (Member of the Fiscal Board)
Teixeira Duarte S.A. (Deputy Member of the Fiscal Board)

Other Positions
Argani Municipal Assembly (Member)

Pedro João Reis de Matos Silva

Corporate positions held in companies outside BES Group

Board of Directors
P. Matos Silva, Garcia Jr., P. Caiado & Associados – Sociedade de Revisores Oficiais de Contas, Lda. (Chairman)

Other Positions
Ordem dos Revisores Oficiais de Contas (Portuguese Chamber of Certified Auditors) (Member of the Higher Council)

Xavier Musca

Corporate positions held in companies outside BES Group

Board of Directors
Amundi Groupe (Member)
Bespar - Sociedade Gestora de Participações Sociais, S.A. (Member)
CA Assurances (Member)
CACEIS (Member)
CACI (Member)
Cassa di Risparmio di Parma e Piacenza S.p.A. (Groupe Cariparma Crédit Agricole) (Member)
Crédit Agricole Egypt S.A.E. (Vice-Chairman)
Crédit du Maroc (Vice-Chairman of the Supervisory Board)
Pacifica (Director and Permanent Representative of Crédit Agricole, S.A.)
Predica (Vice-Chairman)
Union de Banques Arabes et Françaises – U.B.A.F. (Vice-Chairman)

Other Positions
Crédit Agricole, S.A. (Managing Director in Charge of International Proximity Banking, Asset Management and Insurance)
Crédit Agricole, S.A. (Member of the Executive Committee)

c) Committees within the Board of Directors

27. Details of the committees created within the Board of Directors and the place where the rules on the functioning thereof is available.

The Regulations of the Executive Committee, Audit Committee, Corporate Governance Committee and Remuneration Advisory Committee are available for consultation at www.bes.pt/ir.

Executive Committee
See item 21 of this report.

Audit Committee
See items 30 to 38 of this report.

Corporate Governance Committee
The Corporate Governance Committee is an internal body of the Board of Directors, consisting of three independent directors who are not members of the Executive Committee. The main purpose of the Committee is to reinforce the efficiency of the Board of Directors, making sure that all its decisions are based on all relevant elements and that they are not conditioned by possible conflicts of interest.

The Corporate Governance Committee has the following members:
Isabel Maria Osório de Antas Mégre de Sousa Coutinho (Chairman)
Nuno Maria Monteiro Godinho de Matos
Rita Maria Lagos do Amaral Cabral

The Corporate Governance Committee has the following responsibilities:

a) Monitor compliance with the guiding principles of BES Group's corporate governance policy;

b) Express an opinion, at its own initiative or at the request of the Board of Directors, on national and international guidelines on corporate governance, viewing their possible integration into BES Group's corporate governance model and/or the improvement of this model;

c) Draw up an annual report containing a description of its activities during the year, an assessment of the functioning of the Company's corporate governance structure, as well as its opinion on the Company's internal rules and procedures and principles and practices of conduct, and on the performance of the Board of Directors *vis-à-vis* the established objectives;

d) Verify that the independence requirements of the Company's corporate bodies are complied with at all times, in accordance with the applicable legal and regulatory provisions;

e) Analyse and issue an opinion on the Corporate Governance Report prior to the date of approval of the Company's Annual Report;

f) Inform the Board of Directors about any situations or events of which it is aware, that in its opinion amount to non-compliance with the established corporate governance rules and practices.

Since March 2014 the Corporate Governance Committee also has the power to decide on situations, acts or transactions which may provide grounds to a conflict of interests with the interests of BES, as well as to authorise the accumulation of positions in BES Group's management and supervisory bodies with positions in companies outside BES Group.

Concerning its assessment duties, the Corporate Governance Committee has the following responsibilities:

a) Support and advise the Board of Directors on the filling of vacancies occurred within the Board, namely by evaluating the profile of each candidate in terms of qualifications, expertise and experience;

b) Examine the Board of Directors' policy on the selection and appointment of senior officers;

c) Implement, in cooperation with the Company's internal structures, a programme intended to acquaint newly appointed directors with the organisation and its activities, as well as with their responsibilities and duties as members of the Board of Directors;

d) Assess whether the Company's directors require updating of qualifications and expertise in any specific areas, and make an annual proposal on the subject.

Remuneration Advisory Committee

The Remuneration Advisory Committee was created in January 2012 as an internal body of the Board of Directors with advisory functions, currently consisting of three independent directors who are not members of the Executive Committee. It was set up with the main objective of ensuring compliance with the regulations on the remuneration policy of financial institutions, namely contained in Decree Law no. 88/2011, of July 20th, and Bank of Portugal Notice no. 10/2011.

The Committee has the following members:
Isabel Maria Osório de Antas Mégre de Sousa Coutinho (Chairman)
Nuno Maria Monteiro Godinho de Matos
Rita Maria Lagos do Amaral Cabral

The Remuneration Advisory Committee has the following responsibilities:

a) Draw up proposals and recommendations on the fixing of the remuneration of the members of the Board of Directors and Audit Committee, and senior officers of the Company;

b) Provide all necessary assistance and issue recommendations to support the approval process of the company's general remuneration policy for its corporate bodies and senior officers;

c) Draw up proposals and recommendations to the effect of ensuring that all branches, subsidiaries, including subsidiaries abroad and offshore branches, and all entities comprised within the Company's supervision consolidation scope (Group Companies) implement remuneration policies that are consistent among them;

d) Test the capacity of the remuneration system implemented to react to external and internal events, using various possible scenarios and backtesting the model used for the purpose;

e) Review the company's remuneration policies and their implementation at least once a year.

28. Composition of the Executive Committee.

On December 31st, 2013 the composition of the Executive Committee was as follows:

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

29. Description of the powers of each of the committees established and a summary of activities undertaken in exercising said powers.

The powers of the Committees are described in items 21, 27 and 37 of this report.

Audit Committee

In line with its responsibilities as the supervisory body of the company the **Audit Committee** regularly oversaw the management and evolution of the businesses of Banco Espírito Santo, S.A., was aware of the management acts taken by the Bank's Board of Directors and assessed the adequacy and effectiveness of the internal control systems in place, as well as of the risk management, internal audit and compliance functions.

Over the year the Committee maintained contacts with the Bank of Portugal, in particular with its Prudential Supervision Department, in connection to the continuous process of analysis and monitoring of specific matters.
Pursuant to its responsibility for the assessment of the functioning of the internal control systems, on June 21st, 2013 the Audit Committee issued opinions on the adequacy and effectiveness of these systems in light of the requirements established by Bank of Portugal Notices no. 5/2008 (on the Internal Control System) and no. 9/2012 (on the Internal Control System for Money Laundering and Terrorism Prevention), except with regard to the part of the Internal Control System underlying the process of preparation and disclosure of the financial information, which is the subject of an opinion issued by BES's EA/ SA.

In the discharge of its duties, the Committee also oversaw the works of the Statutory Auditor/ External Auditor of the Company, KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A., in particular with regard to: (i) the verification of the accounting records and corresponding supporting documents; and (ii) the assessment of the accounting policies and valuation criteria adopted by the Bank.

The Audit Committed also analysed the Management Report with the objective of confirming that it explains the main aspects of the Bank's activity in 2013, at both individual and consolidated level, and thus meets the applicable legal and statutory requirements. To this end, the Committee was assisted by KPMG in the verification that the financial information contained in said report was consistent with the remaining reporting documents.

Based on its work, on April the 9th 2014 the Committee issued an opinion on the Management Report and the Individual and Consolidated Accounts of Banco Espírito Santo, S.A., relative to fiscal year 2013.

In reply to two requests by the Executive Committee, the Audit Committee issued opinions on matters involving third parties, respectively on January 31st and October 30th, 2013, having for the purpose performed the works considered necessary in the circumstances.

Under the terms of the General Law on Credit Institutions and Financial Companies, the Committee analysed and issued opinions on the credit operations which were submitted to it directly or indirectly involving members of the Board of Directors.

Also within the scope of its powers, the Audit Committee regularly assessed the award to KPMG or related entities of non-audit services commissioned by BES Group entities, under the terms described in point 37 of this report.

In the course of 2013 BES's **Executive Committee** was in charge of the day-to-day management of the Bank, guiding and promoting the development of activities across all BES Group's units, in line with the strategy and objectives established by the Board of Directors. In 2013, the Executive Committee held 63 meetings, including regular visits to all the Retail Regional Divisions, Corporate Centres and Private Banking Centres into which the Retail, Corporate and Private Banking commercial networks are geographically organised. This allows for close knowledge of their activity on the ground, while enhancing the management efficiency and focus of Bank's commercial network.

The Corporate **Governance Committee** held four meetings in 2013, mainly to decide on the following issues:

a) Functioning of the Corporate Governance structure and performance of the Board of Directors *vis-à-vis* the established objectives;

b) Process of verification of the independence requirements of the members of the corporate bodies;

c) 2012 Corporate Governance Report;

d) New Corporate Government Code draft released for public discussion at the beginning of 2013;

e) EBA guidelines "on the assessment of the members of the management and supervisory bodies and holders of key functions in credit institutions".

Remuneration Advisory Committee met once in 2013, essentially to express its opinion on the Remuneration Policy of the members of BES's Management and Supervisory bodies.

III. Supervision

a) Composition

30. Details of the Supervisory Body representing the model adopted.

BES adopted the Anglo-Saxon model where the supervisory body is the Audit Committee.

The Audit Committee is responsible for supervision of the Bank management in general, for verification of the effectiveness of the risk management system, the internal control system, the internal audit and compliance functions as well for representing BES, for all purposes, to the external auditor, which is annually evaluated by this Committee.

31. Composition of the Audit Committee with details of the statutory minimum and maximum number of members, duration of term of office, number of effective members, date of first appointment and date of end of the term of office for each member.

The Audit Committee is composed of a minimum of three and a maximum of five members of the Board of Directors who are appointed together with the other members of the Board of Directors by the General Meeting, which also appoints the Chairperson. The members of the Audit Committee are prohibited from exercising executive functions in the Company.

The members of the Audit Committee are appointed for a period of four calendar years, the calendar year in which the members of the Board of Directors were elected being counted as a full year.

The Audit Committee was elected by the General Meeting of March 22nd, 2012 for the 2012/ 2015 four-year mandate.

Pursuant to Article 26 of the Company's bylaws, the Audit Committee is currently formed by three non-executive directors qualified as independent: Horácio Lisboa Afonso (first appointment in March 2012), João de Faria Rodrigues (first appointment in March 2008) and Pedro João Reis de Matos Silva (first appointment in March 2012).

32. Details of the members of the Audit Committee who are considered to be independent pursuant to Article 414/5 of the Companies Code.

The Audit Committee is currently formed by three non-executive directors qualified as independent: Horácio Lisboa Afonso, João de Faria Rodrigues, and Pedro João Reis de Matos Silva.

33. Professional qualifications of each member of the Audit Committee and other important curricular information.

The professional qualifications and other important curricular information about the members of the Audit Committee are provided under Item 19 above.

b) Functioning

34. Availability and place where the rules on the functioning of the Audit Committee may be viewed.

The Regulation of the Audit Committee may be viewed at www.bes.pt/ir.

35. The number of meetings held and the attendance report for each member of the Audit Committee.

In 2013 the Audit Committee held 13 meetings which were attended by all of its members.

The number of meetings indicated concerns the formal meetings held exclusively by the Audit Committee. Minutes are drawn up of all the meetings.

36. The availability of each member of the Audit Committee, indicating the positions held simultaneously in other companies inside and outside the group, and other relevant activities undertaken by members of this body throughout the financial year.

The positions held by the members of the Audit Committee in other companies and other relevant activities undertaken by them are described under Item 26 above.

The members of the Audit Committed are permanently available, and in general exercise this function as a nearly full-time job.

c) Powers and duties

37. A description of the procedures and criteria applicable to the Supervisory Body for the purposes of hiring additional services from the external auditor.

The award to KPMG or related entities of non-audit services requested by BES Group entities is subject to previous assessment and approval by the Audit Committee, which to this end not only takes into account (i) the invoked operational and risk/return optimisation advantages of awarding these services to KPMG, but also (ii) the confirmation that the nature of the services to be provided and/or the amount of these services relative to the total amount of the annual fees paid by BES Group to KPMG do not affect the independence of KPMG as the external auditors/statutory auditors of BES Group.

Both BES Group and KPMG are responsible for ensuring the means of safeguarding the independence of the EA/ SA, which may be summed up as follows:

a. At BES Group level
Viewing compliance with the rules and recommendations on the independence of the EA/ SA, BES's Audit Committee has defined a set of criteria that must be followed in the approval of non-audit services to be provided by KPMG to BES Group.

Accordingly, all proposals concerning the provision of tax consultancy or other non-audit services must obligatorily be subject to prior analysis and approval by the Audit Committee with a view to safeguarding the professional independence of the External Auditors.

In addition, the Audit Committee maintains a permanent monitoring of the relative value of KPMG's fees for non-audit services, which is regularly validated by KPMG, in order to guarantee that the annual limit of 30% recommended by the CMVM is not surpassed.

b. At the level of BES Group's Statutory Auditor/External Auditor (EA/ SA)
KPMG, BES Group's EA/SA, has drawn up specific internal instructions concerning the procedures that must obligatorily be followed by all the entities included in their international professional network whenever they propose to provide services to any entity of BES Group. To this end, the network concept adopted was that deriving from the European Commission Recommendation No. C (2002) 1873 of May 16th.

In addition, the international network to which KPMG belongs has implemented an intranet service (called "Sentinel") under which no service can be provided by any entity of that network to any client with listed securities without the previous authorisation of the Global Lead Partner responsible for that client. This procedure obliges any partner of KPMG, or of any other entity belonging to the same professional network, which proposes to provide a service to an audit client, to previously request the respective Global Lead Partner's authorisation to provide that service. In that request for authorisation, the KPMG's partner responsible for submitting the proposal to the client is obliged to justify the reasons why it considers that not only the nature of the service to be provided to the audit client does not jeopardise the independence of KPMG in relation to that client, but also that it complies with applicable rules on professional risk management.

Finally, all these procedures are subject to compliance tests within the scope of the internal Quality Control process carried out every year by KPMG at international level.

38. Other duties of the supervisory body.

The Audit Committee, as BES's supervisory body, is responsible for assessing the functioning of the internal control system, and particularly of the risk management, compliance and internal audit functions within this system, as well as for assessing the system's adaptation to BES's needs. The Audit Committee must also issue an annual statement expressing its opinion on the adequacy and efficacy of the internal control system in light of the requirements established by Bank of Portugal Notices no. 5/2008 (on the Internal Control System) and no. 9/2012 (on the Internal Control System for Preventing Money Laundering and the Financing of Terrorism), except with regard to the part of the system underlying the process of preparation and disclosure of the financial information, which is the subject of an opinion issued by BES's EA/SA.

IV. Statutory Auditor

39. Details of the statutory auditor and the partner that represents same.

BES's Statutory Auditor is KPMG & Associados SROC, S.A., represented by Sílvia Cristina de Sá Velho Corrêa da Silva Gomes.

40. Indication of the number of years during which the statutory auditor has consecutively carried out duties with the company and/or group.

KPMG & Associados SROC, S.A. has served as BES's External Auditor/ Statutory Auditor since 2002. The 2012 Annual General Meeting, based on the Audit Committee's proposal and duly substantiated opinion, resolved to re-appoint the external auditor - KPMG & Associados, SROC, SA – for a third 4-year mandate (2012/2015).

41. Description of other services that the statutory auditor provides to the company.

In 2013 KPMG provided the following other services to BES:

- Reliability assurance services inherent to the function of statutory auditor;
- Tax consultancy services; and
- Other non audit services (namely technical support in connection to the Basel II project and other regulatory matters).

V. External Auditor

42. Details of the external auditor appointed in accordance with Article 8 of the Portuguese Securities Code and the partner that represents same in carrying out these duties, and the respective registration number at the CMVM.

BES's External Auditor/ Statutory Auditor is KPMG & Associados SROC, S.A., represented by Sílvia Cristina de Sá Velho Corrêa da Silva Gomes.

Its registration number at the CMVM is 9093.

43. Indication of the number of years during which the external auditor and respective partner that represents same in carrying out these duties has consecutively carried out duties with the company and/or group.

KPMG & Associados SROC, S.A. has served as BES's External Auditor/ Statutory Auditor since 2002, being represented by Sílvia Cristina de Sá Velho Corrêa da Silva Gomes since 2009.

44. Rotation policy and schedule of the external auditor and the respective partner that represents said auditor in carrying out such duties.

As regards the rules on the rotation of the statutory auditor partner that represents KPMG & Associados SROC, S.A., as required by KPMG's policy on independence and the provisions of the Chamber of Certified Auditors' bylaws on audits to Public Interest Entities (PIEs) (in which BES and its subsidiaries are included), the maximum period during which the partner in charge of supervising or directly executing the audit work may exercise such audit functions is seven years as from its appointment, its reappointment being permitted with a minimum interval of two years.

45. Details of the body responsible for assessing the external auditor and frequency of said assessment.

The Company's external auditor is assessed every year by the Audit Committee.

46. Details of services, other than auditing, carried out by the external auditor for the company and/or companies in a control relationship and an indication of the internal procedures for approving the recruitment of such services and a statement on the reasons for said recruitment.

In 2013 KPMG provided the following other services to BES and its subsidiaries:

- Reliability assurance services inherent to the function of statutory auditor;
- Tax consultancy services; and
- Other non audit services (namely technical support in connection to the Basel II project and other regulatory matters).

The internal procedures for approving the recruitment of non audit services and the reasons for said recruitment are described under item 37 above.

47. Details of the annual remuneration paid by the company and/or legal entities in a control or group relationship to the auditor and other natural or legal persons pertaining to the same network and the percentage breakdown relating to the following services (For the purposes of this information, the network concept results from the European Commission Recommendation No. C (2002) 1873 of 16 May):

(in thousand of euro)

	2013	%	2012	%
BES				
Audit Fees	905,092	36%	891,482	51%
Audit Related Fees	858,977	37%	712,041	34%
1. Total Audit Fees	**1 764,069**	**73%**	**1,603,523**	**85%**
Tax Consultancy Services	272,817	7%	297,718	10%
Other Services	362,590	20%	100,525	5%
2. Total Other Services	**635,407**	**27%**	**398,243**	**15%**
	2 399,476	**100%**	**2,001,767**	**100%**
BES Group				
Audit Fees	1 662,621	67%	1,817,216	63%
Audit Related Fees	749,680	20%	436,324	11%
1. Total Audit Fees	**2,412,301**	**86%**	**2,253,540**	**74%**
Tax Consultancy Services	241,120	13%	352,285	18%
Other Services	274,257	0%	208,846	8%
2. Total Other Services	**515,377**	**14%**	**561,131**	**26%**
	2,927,678	**100%**	**2,814,671**	**100%**
Total				
Audit Fees	2,567,713	48%	2,708,698	56%
Audit Related Fees	1,608,657	30%	1,148,365	24%
1. Total Audit Fees	**4,176,370**	**78%**	**3,857,063**	**80%**
Tax Consultancy Services	513,937	10%	650,003	13%
Other Services	636,847	12%	309,371	6%
2. Total Other Services	**1,150,784**	**22%**	**959,374**	**20%**
	5,327,154	**100%**	**4,816,437**	**100%**

C. Internal Organisation

I. Bylaws

48. The rules governing amendment to the articles of association (Article 245-A/1/h) of the Portuguese Securities Code).

As a rule, any amendment of BES's bylaws, namely concerning resolutions on changes to the share capital, must be submitted to the General Meeting, for approval. However, the Extraordinary General Meeting of June 9th, 2011 approved a partial amendment to the company's articles of association to the effect of authorising the Board of Directors to, upon favourable opinion of the Audit Committee, increase the share capital through cash contributions, one or more times, through the issuance of ordinary shares or preferential shares, redeemable or non-redeemable, under the terms and conditions to be defined. The maximum amount authorized, in addition to the share capital amount, is of EUR 7,500,000,000.00, this authorisation being valid for a period of five years.

Resolutions concerning changes to the articles of association must be approved by two thirds of the votes expressed, whether the General Meeting is held on first or second call. When held on first call, the General Meeting can only pass resolutions if Shareholders holding at least fifty per cent of the share capital are present or represented. When held on second call, the General Meeting may pass resolutions regardless of the number of Shareholders present or the percentage of the share capital represented by them.

II. Reporting of irregularities

49. Reporting means and policy on the reporting of irregularities in the company.

The broad guidelines of BES's policy for the reporting of irregularities are given below:

a) Complementary nature: the reporting of irregularities by BES employees shall only take place when the institutional mechanisms (audits and inspections) fail to function or do not function in a timely manner;

b) Universal nature: all BES employees are subject to the obligation to inform;

c) Anonymous reporting: anonymous communications shall not be admitted or taken into account, however absolute confidentiality is guaranteed with regard to the identity of the reporting employee, providing he/she so requests;

d) Non retaliation: no measures whatsoever shall be taken against employees who report irregular behaviours. However, they should bear in mind that when reporting such practices, specific behaviours and the alleged cause of irregularity must be indicated, no vague allegations against people being admitted;

e) Entity that collects the notifications: the Audit Committee, under the terms of the law. Notifications can be addressed in any form;

f) Entity that investigates the notifications: depending on the matter in hand, the Audit Committee entrusts the investigation process to the Internal Audit Department or to the Compliance Department;

g) Notifications file: notifications that clearly lack credibility are immediately destroyed.

III. Internal control and risk management

50. Individuals, bodies or committees responsible for the internal audit and/or implementation of the internal control systems.

Compliance Department and internal control system Managment Unit
BES has in place an effective and documented internal control system which is managed by the Compliance Department.

To assist it in carrying out these duties, the Compliance Department set up in 2005 a separate independent unit, the Internal Control System Management Unit (UGSCI).

The UGSCI is responsible for all the assessment, systematisation, monitoring and maintenance tasks required by BES's internal control system, and for guaranteeing an overall perspective and integrated management of the entire internal control system of BES Group as the guarantor of the reliability of the financial information, the protection of assets and the adequate prevention of risks.

The UGSCI is also responsible for external reporting to the various regulatory authorities as well as for internal reporting, namely through monthly update briefings.

For the design and assessment of its internal control system, BES Group adopted COSO (Committee of Sponsoring Organizations of the Treadway Commission) and COBIT ("Control Objectives for Information and related Technology") methodologies and principles, which rely on the following basic concepts:

- The internal control culture promoted within the organisation determines the conduct and awareness of its employees;

• Internal Control is the responsibility of all employees;
• Internal Control is a dynamic process that must be integrated within business and support processes;
• The definition of policies and procedures helps ensure that objectives are met, reducing operational and human resources risks;
• Internal Control can only provide reasonable assurance that objectives are met;
• The Internal Control System must be supported by a monitoring process;
• All relevant information must be obtained and reported.

Internal Audit Department
The Internal Audit Department reports functionally to the Audit Committee, regardless of the matter being reported to and of its hierarchical relationship with the Executive Committee. It is responsible for assessing the effectiveness and adequacy of risk management, internal control and governance processes in the companies of BES Group with the objective of reducing risk conditions.

Board of Directors and Executive Committee
BES's Board of Directors, through its Executive Committee, is responsible for establishing and maintaining an adequate and effective internal control system. This implies not only defining the system's underlying principles and objectives, which must be incorporated into the Bank's strategy and policies, but also making sure that they are complied with by all the employees, and that at all times BES Group has the necessary competences and resources to carry out its activity.

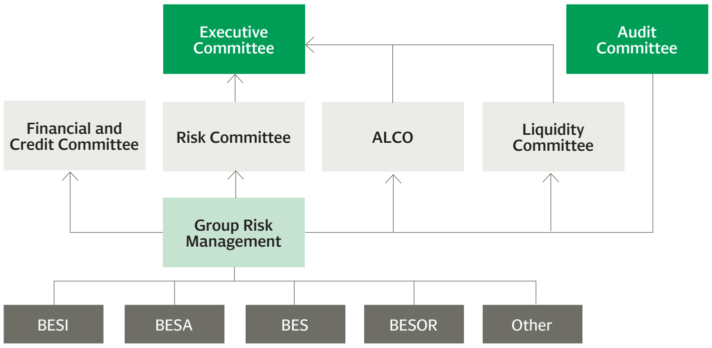
The Executive Committee is also responsible for the establishment and maintenance of a solid risk management system, which, within the framework of an adequate overall control environment, and alongside an efficient information and communication system and an effective monitoring process, guarantees the adequateness and effectiveness of BES's internal control system. To this end, the Executive Committee defines the objective risk profile, establishing global and specific limits for exposures, and approves the procedures required to monitor these exposures, thus ensuring that the limits it has established are complied with.

Audit Committee
The Audit Committee, as BES's supervisory body, is responsible for assessing the functioning of the internal control system, and particularly of the risk control, compliance and internal audit functions within this system, as well as for assessing the system's adaptation to BES's needs. The Audit Committee shall also issue an annual statement expressing its opinion on the adequacy and efficacy of the internal control system in light of the requirements established by Bank of Portugal Notices no. 5/2008 and no. 9/2012, except with regard to the part of the system underlying the process of preparation and disclosure of the financial information, which is the subject of an opinion issued by BES's EA/ SA.

51. Details, even if through inclusion of organisational chart, of hierarchical and/or functional dependency in relation to other bodies or committees of the company.

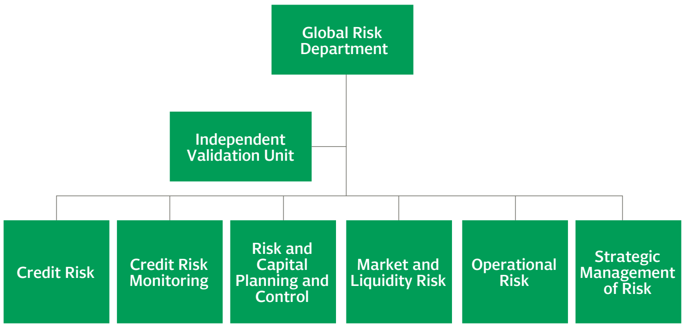
The Risk Management Function is independent, supervising all the risks to which the Group's various Units are exposed.

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



52. Other functional areas responsible for risk control.

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.



The DRG was created in 2000. Reflecting, at both structural and activity level, the principles underlying best international risk management practices, the DRG ensures:

• **Independence** relative to the other areas of the Group, namely the Commercial Departments, and credibility with the management and supervisory bodies, shareholders, investors and regulators; the GRD has no decision powers over specific operations;
• The **integrated and global management of all types of risk** (credit, market, liquidity, on-balance sheet interest rate, and operational risks, at both domestic and international level) and consistency in risk versus return direct comparisons; and
• **Consistent incorporation of risk and capital concepts** in the strategy and business decisions of the entire BES Group, ensuring full transversality in risk versus return direct comparisons and a single vision of risk.

Legal Affairs Department

The Legal Affairs Department reports to the Executive Committee. The Department identifies and manages the legal risk arising from BES Group's activity,

53. Details and description of the major economic, financial and legal risks to which the company is exposed in pursuing its business activity.

In the pursuit of its business activity BES is subject to the following major risks:

Credit risk

Credit risk is the potential financial loss arising from the failure of a borrower or counterparty to honour its contractual obligations to the Bank.

Market risk

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

Interest rate risk

Interest Rate Risk lies in the exposure of a bank's financial situation to adverse movements in interest rates.

Exchange rate risk

Foreign exchange risk represents the probability of occurrence of negative impacts on earnings or capital due to adverse movements in interest rates resulting from changes in the price of instruments corresponding to open positions in foreign currency or from a change in the institution's competitive position due to significant changes in foreign exchange rates.

Liquidity risk

Liquidity risk arises from the present or future inability to pay liabilities as they mature without incurring in excessive losses.

Operational risk

Operational may be defined as the probability of occurrence of events with a negative impact on earnings or capital resulting from failures in the analysis, processing or settlement of transactions, internal or external fraud, impacts on the business due to the outsourcing of services, insufficient or inadequate human resources or inoperative infrastructures.

Compliance risk

Compliance risk results from the probability of occurrence of events with a negative impact on earnings or capital resulting from breach or non-conformance with laws, regulations, contracts, codes of conduct, established practices or ethical principles. These may result in legal or regulatory sanctions, the limitation of business opportunities, a reduction in the expansion potential or the impossibility to demand compliance with contractual obligations.

54. Description of the procedure for identification, assessment, monitoring, control and management of risk.

At BES Group, the risk function is organised in such a way as to cover the credit, market, liquidity, interest rate, exchange rate, operational, and compliance risks.

The main units dedicated to the prevention of risks within the activity are the Risk Committee, the Global Risk Department, the Credit Risk Monitoring Committee, the Compliance Department, and the Internal Audit Department (the risk control system is explained in detail in Chapter 6 of the Consolidated Management Report).

Risk Committee

The Risk Committee is responsible for monitoring BES Group's integrated risk profile, and for analysing and proposing methodologies, policies, procedures and instruments to deal with all types of risk to which BES is subject, namely credit and operational risk. This Committee also analysis the evolution of risk adjusted return and the value added by the main segments/ clients. The Risk Committee holds monthly meetings, which are attended by the Chairman of the Executive Committee.

Global Risk Department (GRD)

The Global Risk Department (GRD) centralises BES Group's risk function, having as main responsibilities to:

- Identify, assess and control the different types of risk assumed, thus managing the Group's overall risk exposure;
- Implement the risk policies outlined by the Executive Committee, while harmonising principles, concepts and methodologies across all the Group's units;
- Contribute towards the achievement of BES Group's value creation objectives, by fine-tuning tools to support the structuring and pricing of operations, and by developing internal techniques for performance assessment and for optimising the capital position.

Credit Risk Monitoring Committee (CRMC)

The Credit Risk Monitoring Committee has the following main objectives:

- 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.
- 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;
- Analyse and validate the credit impairment levels established for the group of entities in question, in accordance with predetermined objective criteria.

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).

Compliance Department

The Compliance Department reports functionally to the Audit Committee, regardless of the matter being reported and of its hierarchical relationship with the Executive Committee. It ensures the day-to-day management of compliance activities, which include:

- Advising the Board of Directors on compliance with legal, regulatory, ethical and conduct obligations to which BES is subject;
- Implementing policies and procedures for the prevention and detection of money laundering and terrorism financing;
- Ensuring the monitoring and maintenance of the Bank's internal control system, reporting internally and to the Bank of Portugal on the respective results;
- Verifying compliance with regard to financial intermediation activities registered with the CMVM, under the terms set forth in the Securities Code;
- Within the scope of its powers, ensuring and promoting the relations with Legal and Police authorities, with the Bank of Portugal, the CMVM and other supervision authorities; monitoring the implementation of the Code of Conduct of BES Group employees.

Internal Audit Department

The Internal Audit Department is responsible for assessing the effectiveness and adequacy of risk management, internal control and governance processes in the companies of BES Group with the objective of reducing risk conditions.

Its responsibilities include:

- Analysing operational and business processes, assessing the effectiveness of the respective risk management and controls, as well as compliance with applicable legal/ regulatory provisions and internal regulations;
- Cooperating with all the bodies of BES Group viewing the implementation and correct application of policies established at senior management level, particularly with regard to the understanding and application of internal control procedures;
- Checking and assessing the protection and safety of monetary, dematerialised or documentary assets that are the property of BES Group or were entrusted to it for safeguarding;
- Within the scope of its powers, ensuring and promoting the relations with Legal and Police authorities, with the Bank of Portugal, the CMVM and other supervision authorities, also addressing requests from other public and private institutions;
- Participating in the definition and drafting of regulatory texts that ensure the standardisation of prevention, control and safety procedures, and issuing and publishing communications and circular letters on matters pertaining to its specific sphere of intervention;
- Ensuring the prompt correction of practices that breach regulatory texts and/or internal regulations, while making sure that the procedures adopted for the execution of operations are duly regulated.

55. Main details of the internal control and risk management systems implemented in the company regarding the procedure for reporting financial information (Article 245-A/1/m) of the Portuguese Securities Code).

See item 50 of this Report.

IV. Investor Assistance

56. Department responsible for investor assistance, composition, functions, the information made available by said department and contact details

Investor Relations is the office responsible for investor assistance, releasing to the market all the information on results, events or any other facts concerning BES Group that may be of interest to the financial community in general, and replying directly to any requests for information made by shareholders, investors and analysts. It also coordinates the information provided to the international rating agencies, and the relationship of BES, as a listed company, with the Portuguese Securities Market Commission (CMVM).

Investor Relations regularly issues presentations, notices or press releases on quarterly, interim and annual results, as well as on any other facts concerning the life of the Company that may be of interest to the financial community in general, and to the shareholders and investors in particular. Regular meetings are also held with shareholders and potential investors. BES also participates in a number of international conferences organised by investment banks.

The website (www.bes.pt/investidor for information in Portuguese and www.bes.pt/ir for information in English) as well as "ValorBES", a quarterly newsletter for shareholders, are used as favoured tools for disclosing relevant information about BES Group. In addition to information of obligatory disclosure in Portuguese and English, BES also publishes in its website extensive financial information of interest to shareholders and potential investors. The company's corporate governance model and practices, including information about the general meetings, and a calendar of company events, can also be found on BES's website.

In addition to the website, e-mail
(accionista@bes.pt or investor.relations@bes.pt) is also used to answer or clarify questions addressed to BES.

Shareholders, investors and analysts may contact the Investor Relations Office to:

Elsa Santana Ramalho
Avenida da Liberdade, 195 – 11.º
1250-142 Lisboa
Tel. / Fax: (351) 21 359 7390 / (351) 21 359 7001
E-mail: acionista@bes.pt ou investidor@bes.pt
Website: http://www.bes.pt/investidor

57. Market Lisbon Officer.

Elsa Santana Ramalho
Avenida da Liberdade, 195 – 11.º
1250-142 Lisboa
Tel. / Fax: (351) 21 359 7390 / (351) 21 359 7001
E-mail: acionista@bes.pt ou investidor@bes.pt
Website: http://www.bes.pt/investidor

58. Data on the deadline for replying and proportion of replies to the requests for information received throughout the year or pending from previous years.

The Investor Relations Office receives daily emails on the email-boxes for shareholders and investors. Requests for information sent to investidor@bes.pt, investor.relations@bes.pt and acionista@bes.pt are dealt with on a daily basis and replied within a maximum of 48 hours, except when the matter requires further investigation, in which case the sender is informed that a reply may take more than 48 hours.

Queries by shareholders and investors are also addressed every day by phone, either immediately when the information requested is available, or by scheduling conference calls or meetings.

V. Website

59. Address(es).
BES' website is: www.bes.pt

60. Place where information on the firm, public company status, headquarters and other details referred to in Article 171 of the Companies Code is available.
www.bes.pt/institucional

61. Place where the articles of association and regulations on the functioning of the boards and/or committees are available.
www.bes.pt/ir

62. Place where information is available on the names of the corporate bodies' members, the Market Liaison Officer, the Investor Assistance Office or comparable structure, respective functions and contact details.
www.bes.pt/ir

63. Place where the financial reporting documents, which should be accessible for at least five years, the half-yearly calendar on company events published at the start of each semester, including, inter alia, general meetings, disclosure of annual, half-yearly and where applicable, quarterly financial statements, are available.
www.bes.pt/ir

64. Place where the notice convening the general meeting and all the related preparatory and subsequent information is disclosed.
www.bes.pt/ir

65. Place where the historical archive on the resolutions passed at the company's General Meetings, share capital and voting results relating to the preceding three years are available.
www.bes.pt/ir

D. Remuneration

I. Power to establish

66. Details of the powers for establishing the remuneration of corporate bodies, members of the executive committee and senior officers of the company.

Under the terms of Article 24 of the Company's articles of association, it is up to the Remuneration Committee to establish the remuneration of BES's directors.

The General Meeting decides annually on the remuneration policy of BES's corporate bodies.

Under the terms of the law and the Company's bylaws, the setting of the remuneration of BES's senior officers is the responsibility of the Board of Directors, within the scope of their management of the human resources and incentives policies, and viewing the achievement of the Bank's strategic objectives.

The process of approval of the policy on remuneration of senior officers starts with a proposal submitted by the Board of Directors. The statement on the remuneration policy of the senior officers is submitted to the General Meeting, for approval, pursuant to Law no. 28/2009, of June 19th. Finally, the exact setting of the remuneration is approved by the Board of Directors

In addition to the Remuneration Committee elected by the shareholders, since January 2012 BES also has a Remuneration Advisory Committee appointed by the Board of Directors. This Committed was set up with the main objective of ensuring compliance with the regulations on the remuneration policy of financial institutions, namely contained in Decree Law no. 88/2011, of July 20th, and Bank of Portugal Notice no. 10/2011.

The Remuneration Advisory Committee is responsible for drawing up proposals and recommendations on the fixing of the remuneration of the members of the Board of Directors and Audit Committee, and senior officers of BES.

II. Remuneration Committee

67. Composition of the remuneration committee, including details of individuals or legal persons recruited to provide services to said committee and a statement on the independence of each member and advisor.

The Remuneration Committee, which is elected by the General Meeting, determines the remuneration of the members of BES's corporate bodies. Every year the Remuneration Committee submits to the General Meeting, for approval, a proposal setting out the remuneration policy of the corporate bodies.

The Remuneration Committee is currently composed of three members, elected by the General Meeting of March 22nd, 2012 for a four-year mandate (2012/2015).

Daniel Proença de Carvalho
Practising lawyer. Chairman of Uría Menéndez - Proença de Carvalho. Chairman of the Board of Directors of Cimpor – Cimentos de Portugal, SGPS, S.A.

Jacques dos Santos
Partner and Senior Partner with MAZARS AUDITORES PORTUGAL since 1991. Chairman of the Fiscal Board of BESPAR since 1992. Member of the Board of Directors of Lusoponte.

Álvaro Pinto Correia
A civil engineer, Álvaro Pinto Correia was manager and director in various credit institutions, insurance companies and commercial enterprises. At present, and in addition to other positions, he is Chairman of the Board of Directors of INAPA – Investimentos, Participações e Gestão, S.A., member of the remuneration committees of several listed companies and Chairman of the Board of Directors of Inapa, Investimentos, Participações e Gestão, S.A..

None of the members of the Remuneration Committee is a member of BES's Board of Directors or has any family connection with any of its members.

In 2010 the Remuneration Committee commissioned Mercer Ltd, an independent consultancy firm, to make a survey on current executive compensation practices and respective remuneration structures, making a comparison between the remuneration of BES's executive directors and the remunerations paid by a group of financial institutions of similar size and stock market capitalisation, taken as a benchmark by that consultancy firm. This survey was taken as the basis for the proposals on BES's remuneration policies submitted by the Remuneration Committee to Annual General Meetings held since 2010.

Said consultancy firm provides additional services to BES in the area of human resources, but it has provided no services to BES's Remuneration Committee since 2010.

68. Knowledge and experience in remuneration policy issues by members of the Remuneration Committee.

All the members of the Remuneration Committee have knowledge and experience in the field of remuneration policy.

III. Remuneration Structure

69. Description of the remuneration policy of the management and supervisory bodies as set out in Article 2 of Law No. 28/2009 of June 19th

The remuneration policy of BES's corporate bodies was for the first time approved by the Remuneration Committee on February 25th, 2010.

The full text of the remuneration policy is available at the end of this report and at www.bes.pt/ir.

The remuneration consists of a fixed component and possibly a variable component.

The remuneration of the members of the Executive Committee is set by the Remuneration Committee up to the end of April of every year, based on the assessment of the performance in the previous year.

The fixed component shall be subject to the limits established by the Remuneration Committee and correspond always to at least 45% of the Total Annual Remuneration. The fixed component consists of the salary of the members of the Executive Committee, plus the supplements that are attributed to all the employees of the Bank, such as seniority payments or other allowances resulting from the collective wage agreement for the banking sector.

The members of the Executive Committee of foreign nationality who establish residence in Portugal (the "expatriate directors") are attributed adequate allowances to provide for setting up and residence expenses, namely:

a) Housing allowance;

b) Travel allowance, including a certain number of trips per year to the country of origin;

c) Education maintenance allowance for directors with minor children; and

d) An additional set-up allowance may also be attributed.

It is up to the Remuneration Committee to establish the ceilings for each of these allowances.

Providing that the net results for the year are positive, the exact amount of the variable component will vary in each year in accordance with the level of achievement of the main annual objectives set in the annual budget, as approved by the Board of Directors.

The variable component is divided into two sub-components:

A) Short-term performance (Annual Variable Remuneration)

The Annual Variable Remuneration (AVR) is linked to short-term performance and will correspond to a maximum of 45% of the Total Annual Remuneration.

The AVR is divided into an immediate portion («Immediate AVR»), which is paid after the accounts for the year in question have been approved, and another portion that is deferred for a period of three years (the Deferred Annual Variable Remuneration (Deferred AVR)).

The Immediate AVR and the Deferred AVR are each divided into two equal parts (one in cash and another in kind, the latter consisting of BES shares).

B) Medium-Term Performance (Medium-Term Variable Remuneration)

The **Medium-Term Variable Remuneration (MTVR)** is linked to Medium-Term Performance and will correspond to approximately 10% of the Total Annual Remuneration.

At the beginning of each year the Remuneration Committee may decide on the attribution of a MTVR, based on the assessment of performance in the previous year. This MTVR will be paid through the attribution of stock options which can only be exercised at least three years after their date of attribution, thus implying the accrual of their cost until such time as they are exercised.

The MTVR will be linked to the sustainability of BES's indicators, and calculated in accordance with the global return afforded to the shareholders over the period of its attribution, such return deriving from dividends paid and stock market capitalisation. The exercise price of the MTVR's underlying Stock Options at the end of the exercise period will be 10% higher than the market price at the beginning of this period.

The Deferred Annual Variable Remuneration (DAVR) is subject to two general limitations:

a) Its payment is deferred over a period of three years; and

b) It is only attributed if it is sustainable in light of BES's financial situation and justified by the performance of BES and of each of its executive directors. The variable remuneration will be reduced or cancelled in case of a significant reduction in BES's activity and consequently in its results.

It is the responsibility of the Remuneration Committee to ascertain and determine whether a DAVR is being attributed and should be maintained.

In case of a negative performance of BES's results or if return on equity drops to below 5%, the DAVR may only be attributed subject to a decision of the Remuneration Committee stating specific reasons therefore, and this decision must be submitted to the next General Meeting.

By definition, the Medium-Term Variable Remuneration (MTVR) is limited by the performance of the BES shares. This remuneration will have no value unless the share price increases by at least 10% over the period in question.

The assessment of the performance of the executive directors is based on the following financial and non financial criteria:

- **Cost to Income** (ratio of operating costs to total banking income) – an indicator of the Bank's operational activity, this ratio measures its capacity to generate revenues against operating costs;
- **Net Income for the year**, this indicator translates the contribution to shareholders, already deducted of elements not included in the cost to income, such as the cost of risk, taxes and minority interests;
- **Return on Equity** (ratio of net income to equity) – this indicator measures the net income generated as a percentage of the funds invested by the shareholders;
- **Stock market capitalisation** – reflecting the market's assessment of BES's performance, this indicator translates the wealth effectively created for the shareholders. This indicator permits to align the shareholders' perspective to the markets' perspective;
- **Individual performance of each member of the Executive Committee** – this permits to identify the relative contribution of each executive director to BES's overall results; it is objectively assessed through the analysis of the performance of the functions and departments under their responsibility, as well as from their individual contribution to decisions taken collectively;
- **Loan to Deposits Ratio** - this ratio gauges the level of balance of BES's growth trajectory, permitting to assess whether this growth enables compliance with the regulatory requirements concerning the deleveraging of the financial sector in Portugal;
- **Core Tier 1 Ratio** - the main indicator used to measure solvency from the regulatory standpoint (based on references established both by the Bank of Portugal and the European Banking Authority – EBA);
- **Service Quality Indicators** - these indicators permit to factor in the opinion of BES's client base about the level of protection of their interests;
- **Compliance with the main rules applying to the institution's activity** - this is assessed by the Internal Control functions to identify any lack of conformity in the areas of risk, internal audit and compliance and the measures implemented to remedy such inadequacies, which are reported to the Bank of Portugal.

70. Information on how remuneration is structured so as to enable the aligning of the interests of the members of the board of directors with the company's long-term interests and how it is based on the performance assessment and how it discourages excessive risk-taking.

See point 69 of this report.

71. Reference, where applicable, to there being a variable remuneration component and information on any impact of the performance assessment on this component.

As referred under item 69, the variable component is only attributed if it is sustainable in light of BES's financial situation and justified by the performance of BES and of each of its executive directors. The variable remuneration will be reduced or cancelled in case of a significant reduction in BES's activity and consequently in its results.

It is the responsibility of the Remuneration Committee to ascertain and determine whether a DAVR is being attributed and should be maintained.
In case of a negative performance of BES's results or if return on equity drops to below 5%, the DAVR may only be attributed subject to a decision of the Remuneration Committee stating specific reasons therefor, and this decision must be submitted to the next General Meeting. By definition, the Medium-Term Variable Remuneration («MTVR») is limited by the performance of the BES shares. This remuneration will have no value unless the share price increases by at least 10% over the period in question.

72. Deferred payment of the remuneration's variable component, with indication of the relevant deferral period.

When one is due, the Annual Variable Remuneration is divided into an immediate portion (Immediate AVR), which is paid after the accounts for the year in question have been approved, and another portion that is deferred for a period of three years (the **Deferred Annual Variable Remuneration (Deferred AVR)).**

73. Criteria upon which are based the variable remuneration in shares, the retention by executive directors of said shares, any agreements on the shares attributed, namely hedging contracts or risk transfer contracts and respective limits, and their relation with the total annual remuneration value.

The members of the Executive Committee are attributed a variable remuneration payable in kind, through allocation of a certain number of BES shares. This payment in kind is deferred for a period of three years.

Up to the end of their term of office, the members of the Executive Committee shall hold, up to a minimum of twice the value of the total annual remuneration, the shares that were acquired by virtue of the payment of the variable remuneration, with the exception of those shares that must be sold for the payment of taxes on the gains of said shares.

The rules on attribution of shares to the members of the Executive Committee are set out in a specific Regulation.

No agreements concerning the shares attributed to the members of the Executive Committee, including hedging contracts or other risk transfer contracts, shall be permitted.

This rule is included in the Internal Regulation of the Board of Directors.

74. Criteria upon which the allocation of variable remuneration in options is based and details of the deferral period and exercise price.

The members of the Executive Committee are also attributed stock options, which can only be exercised after a period of at least three years.

The rules on attribution of stock options to the members of the Executive Committee are set out in a specific Regulation.

The Medium Term Variable Remuneration (MTVR) is linked to Medium Term Performance and will correspond to approximately 10% of the Total Annual Remuneration.

At the beginning of each year the Remuneration Committee may decide on the attribution of a MTVR, based on the assessment of the previous year's performance. This MTVR will be paid through the attribution of stock options which can only be exercised at least three years after their date of attribution, thus implying the accrual of their cost until such time as they are exercised.

The MTVR is linked to the sustainability of BES's indicators, and calculated in accordance with the global return afforded to the shareholders over the period of its attribution, such return deriving from dividends paid and stock market capitalisation. The exercise price of the MTVR's underlying Stock Options at the end of the exercise period will be 10% higher than the market price at the beginning of this period.

A MTVR for an overall amount of EUR 1.94 million was attributed on September 21st, 2012, consisting of options on BES shares which can only be exercised at the end of January 2016 and providing that the price of the shares has risen by at least 10% in the referred 3-year period. This Medium Term Variable Remuneration adds on to that attributed in 2011, in the overall amount of EUR 1.13 million, consisting of options on BES shares which can only be exercised three years after their date of attribution (end of March 2014).

75. Main parameters and rationale for any annual bonus scheme and any other non-cash benefits.

There are no other forms of remuneration in place besides the fixed and variable remuneration described in the remuneration policy.

76. Main characteristics of the supplementary pension or early retirement schemes set up for directors, with indication of the date when such schemes were approved by the general meeting, on an individual basis.

Directors are entitled to receive retirement pensions if they were members of the Executive Committee.

Main points of the regulation on the members of the Board of Directors' entitlement to receive retirement pensions:

a) The right to receive a retirement pension falls due on reaching sixty five years of age, or twenty five years of professional activity, or in the event of permanent disability for work, when disability occurs.

b) The right to receive a retirement pension may be brought forward to the age of fifty five, providing the board member has served as an executive member of BES' Board of Directors for a minimum period of eight consecutive or non consecutive years. Positions held in senior management and respective seniority count for purposes of calculating seniority in the post.

All the pensions foreseen in said regulation are based on a full pension model.

The total retirement pension shall never exceed the pensionable salary of the executive board member in question. The pensionable salary corresponds to the sum of the fixed annual remuneration earned in the last year of service with the average variable remuneration received during all the time in which that Board member served as an executive director in BES.

Upon communicating the exercise of his/her right to the retirement pension or early exercise of that right, and prior to the starting date of the payment of the pension, the executive director in question is given the possibility to, at his/her request, redeem part of the capital value of the pension under the terms of the applicable law (currently 1/3).

The decision to update the pensions foreseen in this Regulation shall be taken by the Remuneration Committee elected by the General Meeting of Shareholders, which for the purpose shall meet before the end of January of the year to which the decision refers; however the update rate may never be lower than the rate of change of the consumer price index in the preceding year, as published by the "Instituto Nacional de Estatística" (National Statistics Institute).

The current version of the regulation on the members of the Board of Directors' entitlement to receive retirement pensions or complementary pension benefits for old age or disability was approved by the General Meeting held on March 27th, 2013.

IV. Remuneration disclosure

77. Indication of the amount of the annual remuneration paid by the company, collectively and individually, to the members of its management bodies, including fixed and variable remuneration, and as to the latter, mentioning the different components that gave rise to same.

Corporate Bodies Remuneration (excludes Executive Committee)

(in thousands of euro)

Remunerações 2013	BES				Other BES Group				Total			
	Fixed		Variable	TOTAL BES	Fixed		Variable	TOTAL OTHER	Fixed		Variable	TOTAL
	Salary	Subsidies and Other			Salary	Subsidies and Other			Salary	Subsidies and Other		
João Faria Rodrigues	119	0	0	**119**	0	0	0	**0**	119	0	0	**119**
Horácio Lisboa Afonso	141	0	0	**141**	0	0	0	**0**	141	0	0	**141**
Pedro João Reis de Matos Silva	119	0	0	**119**	0	0	0	**0**	119	0	0	**119**
Total Audit Committee	**379**	**0**	**0**	**379**	**0**	**0**	**0**	**0**	**379**	**0**	**0**	**379**
Board Members (ecluding Executive Committee)												
Alberto Alves de Oliveira Pinto	0	185	0	**185**	0	0	0	**0**	0	185	0	**185**
Anibal da Costa Reis de Oliveira	0	11	0	**11**	0	0	0	**0**	0	11	0	**11**
Manuel Fernando Moniz Galvão Espírito Santo Silva	0	22	0	**22**	0	0	0	**0**	0	22	0	**22**
Ricardo Abecassis Espírito Santo Silva	0	22	0	**22**	356	16	124	**496**	356	39	124	**518**
Pedro Mosqueira do Amaral	135	26	0	**161**	408	0	0	**408**	543	26	0	**569**
Nuno Maria Monteiro Godinho de Matos	0	42	0	**42**	0	0	0	**0**	0	42	0	**42**
Rita Maria Lagos de Amaral Cabral	0	42	0	**42**	0	0	0	**0**	0	42	0	**42**
Bruno Bernard Marie Joseph de Laage de Meux	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**
Marc Olivier Tristan Oppenheim	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**
Vincent Claude Paul Pacaud	0	30	0	**30**	0	0	0	**0**	0	30	0	**30**
Isabel Maria Osório de Antas Mégre de Sousa Coutinho	0	42	0	**42**	0	0	0	**0**	0	42	0	**42**
Xavier Musca	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**
Total Board Members (excluding Executive Committee)	**135**	**424**	**0**	**559**	**764**	**16**	**124**	**904**	**899**	**440**	**124**	**1,463**
Board of the General Meeting												
Paulo Manuel de Pitta e Cunha	0	19	0	**19**	0	0	0	**0**	0	19	0	**19**
Nuno Miguel Matos Silva Pires Pombo	0	9	0	**9**	0	0	0	**0**	0	9	0	**9**
José Alexandre Teixeira Sousa Machado	0	9	0	**9**	0	0	0	**0**	0	9	0	**9**
Total of the Board of the General Meeting	**0**	**37**	**0**	**37**	**0**	**0**	**0**	**0**	**0**	**37**	**0**	**37**
Remuneration Committee												
Jacques dos Santos	0	18	0	**18**	0	0	0	**0**	0	18	0	**18**
Daniel Proença de Carvalho	0	18	0	**18**	0	0	0	**0**	0	18	0	**18**
Álvaro João Duarte Pinto Correia	0	18	0	**18**	0	0	0	**0**	0	18	0	**18**
Total Remuneration Committee	**0**	**54**	**0**	**54**	**0**	**0**	**0**	**0**	**0**	**54**	**0**	**54**
Total Corporate Bodies (excluding Executive Committee)	**515**	**515**	**0**	**1,029**	**764**	**16**	**124**	**904**	**1,278**	**531**	**124**	**1,933**

Executive Committee Remuneration

(in thousands of euro)

	BES				Other BES Group				Total			
	Fixed		Variable	TOTAL BES	Fixed		Variable	TOTAL OTHER	Fixed		Variable	TOTAL
	Salary	Subsidies and Other			Salary	Subsidies and Other			Salary	Subsidies and Other		
Ricardo Espírito Santo Silva Salgado	547	2	0	**550**	0	0	0	**0**	547	2	0	**550**
José Manuel Pinheiro Espírito Santo Silva	462	2	0	**464**	0	0	0	**0**	462	2	0	**464**
António José Baptista do Souto	459	2	0	**461**	0	0	0	**0**	459	2	0	**461**
Jorge Alberto Carvalho Martins	457	2	0	**459**	0	0	0	**0**	457	2	0	**459**
Amílcar Carlos Ferreira de Morais Pires	455	2	0	**457**	0	0	0	**0**	455	2	0	**457**
Rui Manuel Duarte Sousa da Silveira	457	67	0	**524**	0	0	0	**0**	457	67	0	**524**
Joaquim Aníbal Brito Freixial de Goes	455	3	0	**458**	0	0	0	**0**	455	3	0	**458**
José Maria Espírito Santo Silva Ricciardi	0	0	0	**0**	530	0	76	**606**	530	0	76	**606**
João Eduardo Moura da Silva Freixa	454	67	0	**521**	0	2	0	**2**	454	69	0	**523**
Stanislas Gerard Marie Georges Ribes	452	93	0	**544**	0	0	0	**0**	452	93	0	**544**
Total Executive Committee	**4,200**	**239**	**0**	**4,439**	**530**	**2**	**76**	**608**	**4,729**	**242**	**76**	**5,047**

Stock Options attributed to the Executive Committee (in thousands of euro)

	Deferred Cash (2012-2014)	Deferred Shares (2012-2014)	Subtotal	Deferred Options (2011-2014)	Options (2012-2016)
Ricardo Espírito Santo Silva Salgado	127	127	254	130	230
José Manuel Pinheiro Espírito Santo Silva	106	106	212	100	190
António José Baptista do Souto	106	106	212	100	190
Jorge Alberto Carvalho Martins	106	106	212	100	190
José Maria Espírito Santo Silva Ricciardi	0	0	0	100	190
Rui Manuel Duarte Sousa da Silveira	106	106	212	100	190
Joaquim Aníbal Brito Freixial de Goes	106	106	212	100	190
Amílcar Carlos Ferreira de Morais Pires	106	106	212	100	190
João Eduardo Moura da Silva Freixa	106	106	212	100	190
Stanislas Gerard Marie Georges Ribes	0	0	0	0	190
Total Executive Committee	**869**	**869**	**1,738**	**930**	**1,940**

78. Amounts paid on any basis by other companies in a control or group relationship with the company, or subject to common control.

See item 77.

79. Remuneration paid in the form of profit sharing and/or bonus payments and the reasons for said bonuses or profit sharing being awarded.

There are no other forms of remuneration besides the fixed and variable remuneration described in this remuneration policy.

80. Compensation paid or owed to former executive directors concerning contract termination during the financial year.

No compensation has been paid or is owed to former members of the Executive Committee in relation to contract terminations.

81. Indication of the annual remuneration paid, as a whole and individually, to the members of the company's supervisory board for the purposes of Law No. 28/2009 of June 19th.

See item 77.

82. Indication of the remuneration paid to the Chairman of the Board of the General Meeting in the reporting year.

In 2013, the Chairman of the Board of the General Meeting received a total annual remuneration of EUR 19,000.

V. Agreements with remuneration implications

83. Contractual limitations on compensation due for directors' dismissal without due cause and relationship with the variable component of the remuneration.

There are no agreements in place that establish amounts to be paid to members of the Executive Committee in case of dismissal without due cause.

84. Reference to the existence and description, with details of the sums involved, of agreements between the company and members of the management body and senior officers, within the meaning of Article 248-B/3 of the Portuguese Securities Code, that provide for compensation in case of resignation, dismissal without due cause or termination of employment following a change in company control. (Article 245-A/1/l) of the Securities Code).

No such agreements exist.

VI. Share-Allocation and/or Stock Option Plans

85. Details of the plan and of the persons concerned therein.

The plans to attribute shares and/or stock options to members of the Board of Directors and other BES senior officers are necessarily approved by the General Meeting, which also approves the corresponding regulations.

The General Meeting of April 6th, 2010 approved two "Variable Remuneration Plans based on Financial Instruments", one applying to the members of BES's Executive Committee, and the other to the Bank's senior officers. These plans were implemented for the first time in 2011, with options being attributed to the members of the Executive Committee in 2011 and 2012.

To date no stock options have been attributed to BES's senior officers.

86. Characteristics of the plan (allocation conditions, clauses on the non-transferability of shares, criteria on share-pricing and the options exercise price, the period during which the options may be exercised, the characteristics of the shares or options to be allocated, the existence of incentives to purchase and/or to exercise options).

Under the terms of the Remuneration Policy, the Executive Committee may every year attribute to the members of BES's Executive Committee a variable remuneration in kind, payable in shares, and through the attribution of options to be exercised in the medium term.

The possible attribution of shares and options is based on the assessment of performance in the previous year (according to the criteria foreseen in the Remuneration Policy) made by the Remuneration Committee, which also establishes the number of shares and options to be attributed to each beneficiary.

Together, the shares and options attributed under the terms of the Plan shall never represent more than 1% of BES's share capital.

The number of shares is determined as follows:

Shares Attributed - Amount in Euro/ Price

Amount in Euro – amount established by the Remuneration Committee to be attributed to each beneficiary on the attribution date.

Price – simple arithmetic mean of the closing price of the BES shares on Euronext on the 20 working days immediately preceding the attribution date.

The Remuneration Committee determines the number of shares that will be delivered immediately and those whose payment shall be deferred for at least three years.

Blocks of shares still due shall cease to be delivered and their attribution terminated in case of a deterioration of BES's performance. It is the responsibility of the Remuneration Committee to ascertain and determine if there is a deterioration, which among others shall consist in the reduction of return on equity to below 5%.

The Beneficiaries shall keep the shares up to the end of their term of office, up to a minimum of twice the value of the total annual remuneration, with the exception of Shares that need to be sold for the payment of taxes on the gains of said shares.

On the attribution date the Remuneration Committee attributes to each Beneficiary an amount in Euro corresponding to a certain number of Options. Based on this amount, BES purchases Options in the financial markets, paying for the purpose the option premium, and these options are attributed to each Beneficiary.

The Exercise Price of the Options shall correspond to the simple arithmetic mean of the closing price of the BES shares on Euronext on the 20 working days immediately preceding the day of attribution of the Options, added of 10%.

The Options can only be exercised at Maturity, definitively expiring when not exercised on that date.

After exercising the options, the Beneficiaries shall keep the shares up to the end of their term of office, up to a minimum of twice the value of the total annual remuneration, with the exception of shares that need to be sold for the payment of taxes on the gains of said shares.

87. Stock option plans for the company's employees and staff.

The Board of Directors may every year attribute Stock Options to the Bank's Senior Officers, by way of variable remuneration, based on the assessment of performance in the previous year (according to the factors foreseen in the Remuneration Policy).

On the whole, the Options attributed under the terms of the Plan for the Bank's Senior Officers may never represent more than 1% of BES's share capital.

On the attribution date the Board of Directors attributes to each beneficiary an amount in euro to which correspond a certain number of Options. On the basis of this amount, BES purchases Options in the financial markets, paying for the purpose the option premium, and these options are attributed to each beneficiary.

The Exercise Price of the Options shall correspond to the simple arithmetic mean of the closing price of the BES shares on Euronext on the 20 working days immediately preceding the day of attribution of the Options, added of 10%.

The Options can only be exercised at Maturity, definitively expiring when not exercised on that date.

The Board of Directors decides on whether or not to establish rules concerning the retention of the shares after the exercise of the Options.

No stock options were ever attributed to BES's senior officers.

88. Control mechanisms for a possible employee-shareholder system inasmuch as the voting rights are not directly exercised by them (Article 245-A/1/e) of the Portuguese Securities Code).

No employee-shareholder system exists and therefore no control mechanisms exist either.

E. Related Party Transactions

I. Control mechanisms and procedures

89. Mechanisms implemented by the Company for the purpose of controlling transactions with related parties (The concept used for this purpose is that resulting from IAS 24).

In March 2014 the Board of Directors approved the creation of a Related Party Transactions Control Committee which has as main purpose to make a preventive review of any proposed transactions with related parties, including credit operations or other transactions between any company of BES Group and companies included in a business group which includes anyone holding more than 2% in BES's share capital and voting rights.

The Transactions Control Committee is formed by the Chairman of the Audit Committee, one member of the Corporate Governance Committee and the Member of BES's Board of Directors in charge of the Risk area.

As regards loans to members of the corporate bodies, or directly to holders of direct or indirect shareholdings in BES, BES Group is governed by the general regime foreseen in Articles 85 and 109 of the General Law on Credit Institutions and Financial Companies, which requires for the purpose the approval by a qualified majority of two thirds of the members of the Board of Directors and the favourable opinion of the Fiscal Bodies.

90. Details of transactions that were subject to control in the reporting year.

In 2013 the Audit Committee issued a prior opinion on a EUR 255,000 mortgage loan subsequently granted to a non-executive member of the Board of Directors under the BES Staff scheme for the acquisition of homes for permanent residence.

91. Description of the procedures and criteria a applicable to the supervisory body when same provides preliminary assessment of the business deals to be carried out between the company and holders of qualified shareholdings or entities having a relationship with these, as provided for in Article 20 of the Securities Code.

The granting of credit, either to members of the corporate bodies, when such granting is permitted, or to holders of qualified shareholdings in BES, always requires, for every specific operation, the approval by a qualified majority of two thirds of the members of the management body and a preliminary favourable opinion by the Bank's supervisory body. There is no formal application of this rule to other materially significant deals.

The above rule applies to all credit institutions subject to supervision by the Bank of Portugal.

II. Data on business deals

92. Indication of the place where the financial statements including information on business dealings with related parties are available, in accordance with IAS 24, or alternatively a copy of said information.

This information is available at BES's website, at www.bes.pt/ir

Parte II – Corporate Governance Assessment

1. Details of the Corporate Governance Code Implemented

The Corporate Governance Code that the Company is subject to or has voluntarily decided to abide by should be identified pursuant to Article 2 of this Regulation.

The company should also indicate the place where the relevant texts of the Corporate Governance Code, to which the issuer is subject, are available to the public (Article 245-A/1/p)).

The 2013 report on BES's corporate governance structures and practices incorporates the information elements required by and follows the model set out in the Portuguese Securities Market Commission (CMVM) regulation no. 4/2013.

BES is subject to the CMVM Corporate Governance Code.

The Corporate Governance Code approved by the CMVM is available at www.cmvm.pt.

2. Analysis of Compliance with the Corporate Governance Code implemented.

Pursuant to Article 245-A/1/o), a statement should be included concerning the adoption of the Corporate Governance Code to which the issuer is subject, specifying any divergence from said code and the reasons for that divergence.

The information to be submitted should include the following for each recommendation:

a) Information enabling the verification of compliance with the recommendation or reference to the part of the report where the issue is discussed in detail (chapter, title, paragraph, page);

b) Grounds for any non-compliance or partial compliance;

c) In the event of non-compliance or partial compliance, the details of any alternative mechanism adopted by the company for the purpose of pursuing the same objective of the recommendation.

The chart below lists the Corporate Governance Code recommendations, with indication of those adopted and those not adopted by BES and the part of the report where they are discussed.

Corporate Governance Code

	CMVM Recommendations	Adopted	Non Adopted	BES Report
I.1.	Companies shall encourage shareholders to attend and vote at general meetings and shall not set an excessively large number of shares required for the entitlement of one vote, and implement the means necessary to exercise the right to vote by mail and electronically.	X[1]		12
I.2.	Companies shall not adopt mechanisms that hinder the passing of resolutions by shareholders, including fixing a quorum for resolutions greater than that provided for by law.		X	14
I.3.	Companies shall not establish mechanisms intended to cause mismatching between the right to receive dividends or the subscription of new securities and the voting right of each common share, unless duly justified in terms of long-term interests of shareholders.	X		1
I.4.	Companies' articles of association that provide for the restriction of the number of votes that may be held or exercised by a sole shareholder, either individually or in concert with other shareholders, shall also foresee for a resolution by the General Meeting (at least at 5-year intervals) on whether that statutory provision is to be amended or prevails – without super quorum requirements as to the one legally in force – and that in said resolution, all votes issued be counted, without applying said restriction.	NA		NA
I.5.	Measures that require payment or assumption of fees by the company in the event of change of control or change in the composition of the management body and which appear likely to impair the free transfer of shares and free assessment by shareholders of the performance of Board members, shall not be adopted.	X		4
II.1.1.	Within the limits established by law, and except for the small size of the company, the board of directors shall delegate the daily management of the company and said delegated powers shall be identified in the Annual Report on Corporate Governance.	X		21
II.1.2.	The Board of Directors shall ensure that the company acts in accordance with its objectives and shall not delegate its responsibilities as regards the following: i) definition of the strategy and general policies of the company, ii) definition of the business structure of the group iii) decisions considered strategic due to the amount, risk and particular characteristics involved.	X		21
II.1.3.	The General and Supervisory Board, in addition to its supervisory duties, shall take full responsibility at corporate governance level, whereby through a statutory provision or equivalent means, shall enshrine the requirement for this body to express its opinion on the strategy and major policies of the company, the definition of the corporate structure of the group and the decisions that shall be considered strategic due to the amount or risk involved. This body shall also assess compliance with the strategic plan and the implementation of key policies of the company.	NA		NA
II.1.4.	Except for small-sized companies, the Board of Directors and the General and Supervisory Board, depending on the model adopted, shall create the necessary committees in order to: a) ensure a competent and independent assessment of the performance of the executive directors and its own overall performance, as well as of other committees; b) reflect on the system structure and governance practices adopted, verify their effectiveness and propose to the competent bodies, measures to be implemented with a view to their improvement.	X		15,16,24,25 e 27
II.1.5.	The Board of Directors or the General and Supervisory Board, depending on the applicable model, should set objectives in terms of risk-taking and create systems for their control to ensure that the risks effectively incurred are consistent with those objectives.	X		50 a 55
II.1.6.	The Board of Directors shall include a number of non-executive members ensuring effective capacity to monitor, supervise and assess the activity of the remaining members of the board.	X		18
II.1.7.	Non-executive members shall include an appropriate number of independent members, taking into account the adopted governance model, the size of the company, its shareholder structure and the relevant free float. The independence of the members of the General and Supervisory Board and members of the Audit Committee shall be assessed as per the law in force. The other members of the Board of Directors are considered independent when not associated with any specific group of interests in the company or in any situation likely to affect their impartiality in terms of analysis or decision, namely by virtue of: a. having been an employee at the company or at a company holding a controlling or group relationship within the last three years; b. Having, in the past three years, provided services or established a significant commercial relationship with the company or company with which it is in a control or group relationship, either directly or as a partner, board member, manager or senior officer of a legal person; c. being paid by the company or by a company with which it is in a control or group relationship besides the remuneration arising from the exercise of the functions of a board member; d. Living with a partner or spouse, relative or any first degree next of kin and up to and including the third degree of collateral affinity of board members or natural persons that are direct or indirect holders of qualified shareholdings; e. being a qualified shareholder or representative of a qualified shareholder.	X		18 and 32
II.1.8.	When requested by other members of the corporate bodies to provide information, board members that carry out executive duties shall provide the information requested in a timely and appropriate manner to the request.	X		21
II.1.9.	The Chair of the Executive Board or of the Executive Committee shall submit, as applicable, to the Chair of the Board of Directors, the Chair of the Supervisory Board, the Chair of the Audit Committee, the Chair of the General and Supervisory Board or the Chair of the Financial Matters Board, the convening notices and minutes of the relevant meetings.	X		23
II.1.10.	If the chair of the management body carries out executive duties, said body shall appoint, from among its members, an independent member to ensure the coordination of the work of the other non-executive members and the conditions allowing them to make independent and informed decisions or to ensure the existence of an equivalent mechanism for such coordination.	NA		NA
II.2.1.	Depending on the applicable model, the Chair of the Supervisory Board, the Audit Committee or the Financial Matters Committee shall be independent in accordance with the applicable legal standard, and have the necessary skills to carry out their relevant duties.	X		31 and 32
II.2.2.	The supervisory body shall be the main representative of the external auditor and the first recipient of the relevant reports, being responsible, inter alia, for proposing the remuneration of the external auditor and ensuring that the proper conditions for the provision of services are provided within the company.	X		37
II.2.3.	The supervisory body shall assess the external auditor on an annual basis and propose to the competent body its dismissal or termination of the contract on the provision of their services when there is a valid basis for said dismissal.	X		30, 37 and 45

1) BES considers that it follows this recommendation since, although it has not implemented the means to vote electronically (which no shareholder has ever requested), it ensures the right to vote by mail, as well as electronic voting within the General Meeting, thus ensuring the participation of shareholders.

	CMVM Recommendations	Adopted	Non Adopted	BES Report
II.2.4.	The supervisory board shall assess the functioning of the internal control and risk management systems and propose adjustments as deemed necessary.	X		38 and 50
II.2.5.	The Audit Committee, the General and Supervisory Board and the Supervisory Board decide on the work plans and resources concerning the internal audit services and services that ensure compliance with the rules applicable to the company (compliance services), and should be recipients of reports made by these services at least when it concerns matters related to accounts reporting, identification or resolution of conflicts of interest and detection of potential improprieties.	X		30, 38 and 50
II.3.1.	All members of the Remuneration Committee or equivalent should be independent from the executive members of the management board and include at least one member with knowledge and experience in matters of remuneration policy.	X		67 and 68
II.3.2.	Any natural or legal person that provides or has provided services in the past three years, to any structure under the management body of the company, the management body itself or who has a current relationship with the company or consultant of the company, shall not be hired to assist the Remuneration Committee in the performance of its duties. This recommendation also applies to any natural or legal person that is related by employment contract or provision of services with the above.	NA[2]		NA
II.3.3.	A statement on the remuneration policy of the management and supervisory bodies referred to in Article 2 of Law No. 28/2009 of 19 June, shall also contain the following: a) Identification and details of the criteria for determining the remuneration paid to the members of the corporate bodies; b) Information regarding the maximum potential amount, in individual and aggregate terms, to be paid to members of corporate bodies, and identification of the circumstances whereby these maximum amounts may be payables; c) Information regarding the enforceability or unenforceability of payments for the dismissal or termination of appointment of board members.	X		69
II.3.4.	The approval of plans for the attribution to board members of shares and/or options to acquire shares or based on share price variation shall be submitted to the General Meeting. The proposal shall contain all the necessary information for the correct assessment of the plan.	X		85
II.3.5.	Approval of any retirement benefit scheme established for members of corporate the corporate bodies shall be submitted to the General Meeting. The proposal shall contain all the necessary information for the correct assessment of the scheme.	X		76
III.1.	The remuneration of the executive members of the management body shall be based on actual performance and shall discourage excessive risk-taking.	X		25, 69 and 70
III.2.	The remuneration of the non-executive members of the management body and the remuneration of the members of the supervisory body shall not include any component whose value depends on the performance of the company or of its value.	X		69
III.3.	The variable component of remuneration shall be reasonable overall in relation to the fixed component of the remuneration and maximum limits should be set for all components.	X		69 e 71
III.4.	A significant part of the variable remuneration should be deferred for a period of no less than three years, and the right to receive it should depend on the continued positive performance of the company during that period.	X		72
III.5.	The members of the management body shall not enter into contracts with the company or with third parties the effect of which is to mitigate the risk inherent to the variability of their remuneration as set by the company.	X		73
III.6.	The executive board members shall maintain the company's shares that were allotted by virtue of variable remuneration schemes, up to twice the value of the total annual remuneration, except for those that need to be sold for paying taxes on the gains of said shares, until the end of their mandate.	X		86
III.7.	When the variable remuneration includes the allocation of options, the beginning of the exercise period shall be deferred for a period of no less than three years.	X		74
III.8.	When the removal of a board member is not due to serious breach of their duties or to their unfitness for the normal exercise of their functions but yet is due to inadequate performance, the company shall be endowed with the adequate and necessary legal instruments to make any damages or compensation, beyond that which is legally due, unenforceable.	X		83
IV.1.	The external auditor shall, within the scope of its duties, verify the implementation of remuneration policies and systems of the corporate bodies as well as the efficiency and effectiveness of the internal control mechanisms and report any shortcomings to the supervisory body of the company.		X	37
IV.2.	The company or any entity in a control relationship with it shall not recruit the external auditor or any entity in a control relationship with it or belonging to the same network for services other than audit services. If there are reasons for hiring such services - which must be approved by the supervisory body and explained in its Annual Report on Corporate Governance - these should not exceed 30% of the total value of services rendered to the company.	X		37 and 46
IV.3.	Companies shall advocate the rotation of auditors after two or three terms, depending on whether they have four or three year mandates, respectively. Their continuance beyond this period must be based on a specific opinion of the supervisory body that explicitly considers the conditions of auditor independence and the benefits and costs of replacement.	X		37 and 40
V.1.	Where deals are concluded between the company and holders of qualified shareholdings, or entities with which same are linked in accordance with Article 20 of the Portuguese Securities Code, such deals shall be carried out in normal market conditions.	X		89 e 91
V.2.	The supervisory or audit body shall establish the necessary procedures and criteria to define the relevant level of significance of business with holders of qualifying holdings - or entities with which they are in any of the relationships described in article 20/1 of the Portuguese Securities Code – thus the performance of significant relevance businesses is dependent upon prior opinion of that body.	X[3]		89
VI.1.	Companies shall provide, via their websites, access to information in both the Portuguese and English languages on their progress and current situation in economic, financial and governance terms.	X		56 and 59 to 65
VI.2.	Companies shall ensure the existence of an investor support and market liaison office, which responds to requests from investors in a timely fashion and a record of the submitted requests and their processing shall be kept.	X		56 and 58

2) In 2010 the Remuneration Committee commissioned Mercer Ltd, an independent consultancy firm, to make a survey on current executive compensation practices and respective remuneration structures, making a comparison between the remuneration of BES's executive directors and the remunerations paid by a group of financial institutions of similar size and stock market capitalisation. Since 2010 this consultancy firm has provided no other services to BES's Remuneration Committee, and this Committee has recruited no other services either.

3) BES considers that this recommendation is complied with since, although it was not followed in 2013, on March 17th, 2014 the Board of Directors approved the creation of a Related Party Transactions Control Committee, the main purpose of which is to make a preventive review of any proposed transactions with related parties, including credit operations or other transactions between any company of BES Group and companies included in a business group which includes anyone holding more than 2% in BES's share capital and voting rights.

Corporate Governance Code recommendations which BES does not follow and reasons for the divergence:

Corporate Governance Code

	CMVM Recommendations	Reasons for the Divergence	BES Report
I.2.	Companies shall not adopt mechanisms that hinder the passing of resolutions by shareholders, including fixing a quorum for resolutions greater than that provided for by law.	BES requires that shareholders representing at least 50% of the share capital be present or represented for the General Meeting to be held on first call. Matters for which the law requires a qualified majority must be approved by two thirds of the votes expressed, whether the Meeting is held on first or second call. BES believes that these rules ensure that resolutions are passed by a sufficiently representative number of shareholders.	14
V.2.	The supervisory or audit body shall establish the necessary procedures and criteria to define the relevant level of significance of business with holders of qualifying holdings - or entities with which they are in any of the relationships described in article 20/1 of the Portuguese Securities Code – thus the performance of significant relevance businesses is dependent upon prior opinion of that body.	Under the terms of the General Law on Credit Institutions and Financial Companies, the granting of credit to holders of qualifying holdings is always subject to the approval of each specific operation by a qualified majority of at least two thirds of the members of the Board of Directors and the favourable opinion of BES's Audit Committee. There is no formal extension of this rule to other deals of significant importance.	37

3. Other Information

The company should provide any data or additional information which is not covered by the previous points but is relevant for understanding the corporate governance model and practices adopted.

Appendices

I. Remuneration Policy of the Members of the Management and Supervisory Bodies of Banco Espírito Santo, S.A. (BES)

1. Approval process of the remuneration policy.

a) Approval

The current remuneration policy of BES's corporate bodies was first approved by the Remuneration Committee on February 25th, 2010.

b) Mandate of the Remuneration Committee

Under the terms of Article 24 of the Company's articles of association, it is up to the Remuneration Committee to establish the remuneration of BES's directors.

The Remuneration Committee is currently composed of three members, elected by the General Meeting of March 22nd, 2012, for a four-year mandate.

c) Composition of the Remuneration Committee

Daniel Proença de Carvalho

Lawyer. Chairman of Uría Menéndez - Proença de Carvalho. Chairman of the Board of Directors of Cimpor – Cimentos de Portugal, SGPS, S.A..

Jacques dos Santos

Partner and Senior Partner with MAZARS AUDITORES PORTUGAL since 1991. Chairman of the Fiscal Board of BESPAR since 1992. Member of the Board of Directors of Lusoponte.

Álvaro Pinto Correia

A civil engineer, Álvaro Pinto Correia was manager and director in various credit institutions, insurance companies and commercial enterprises. At present he is a member of the remuneration committee of several listed companies and Chairman of the Board of Directors of Inapa, Investimentos, Participações e Gestão, S.A., in addition to holding other positions.

None of the members of BES's Remuneration Committee is a member of the Board of Directors or has any family connection with any of its members.

A representative of the Remuneration Committee is present in every General Shareholders' Meeting.

d) External Consultants

The external consultant chosen to assist the Remuneration Committee in the definition of the remuneration policy of BES's Corporate Bodies, approved in 2010, was Mercer Ltd.

This consultancy firm provides other services to BES in the area of human resources.

e) Groups of companies taken as comparison elements

The elements used for comparison were the financial institutions of equivalent size to BES operating in the Portuguese market and a group of financial institutions of similar size and stock market capitalisation to BES, taken from a survey conducted by Mercer Ltd in 2009 entitled "Mercer's Pan European Financial Services Survey".

2. Remuneration of the members of the Board of the General Meeting.

The members of the Board of the General Meeting receive a fixed monthly remuneration paid twelve times per year.

3. Members of the Audit Committee.

The members of the Audit Committee receive a fixed monthly remuneration paid fourteen times per year.

4. Chairman of the Board of Directors.

The Chairman of the Board of Directors receives a fixed monthly remuneration paid twelve times per year.

5. Non executive members of the Board of Directors: non independent directors.

The non executive Directors who are not part of the Audit Committee and are not qualified as independent receive a fixed amount attendance fee for each Board meeting attendance.

Non executive Directors who hold executive positions in the management body of companies in a control and/or group relationship with BES, or who carry out specific functions assigned to them by the Board of Directors, may be remunerated by these companies or by BES, in accordance with the nature of these functions.

6. Non executive members of the Board of Directors: independent directors .

The non executive members of the Board of Directors qualified as independent directors in accordance to legal criteria receive a fixed monthly remuneration, paid twelve times per year.

7. Members of the Executive Committee.

a) Equal remuneration

All the members of BES's Executive Committee receive the same fixed remuneration from BES, paid fourteen times per year, except for the Chairman. The variable component of the remuneration, when one is due, may differ among the members of the Executive Committee.
Executive Committee members who hold executive positions in the management body of companies in a control and/or group relationship with BES, or who carry out specific functions assigned to them by the Board of Directors, may be remunerated by these companies or by BES, in accordance with the nature of these functions.
The remuneration of directors qualified as "expatriate" may include the allowances referred to in paragraph c) below, in addition the fixed and variable remuneration.

b) Composition of the remuneration

The remuneration consists of a fixed component and possibly a variable component.
The remuneration of the members of the Executive Committee is set by the Remuneration Committee up to the end of April of every year, based on the assessment of the performance in the previous year.

c) Remuneration Limits

A) Limits on the Fixed Remuneration

The fixed component shall be subject to the limits established by the Remuneration Committee and correspond always to at least 45% of the Total Annual Remuneration.

The fixed component consists of the salary of the members of the Executive Committee, plus the supplements that are attributed to all the employees of the Bank, such as seniority payments or other allowances resulting from the collective wage agreement for the banking sector.

The members of the Executive Committee of foreign nationality who establish residence in Portugal (the "expatriate directors") are attributed adequate allowances to provide for setting up and residence expenses, namely:

a) Housing allowance;

b) Travel allowance, including a certain number of trips per year to the country of origin;

c) Education maintenance allowance for directors with minor children; and

d) An additional set-up allowance may also be attributed.

It is up to the Remuneration Committee to establish the limits for each of these allowances.

B) Limits on Variable Remuneration

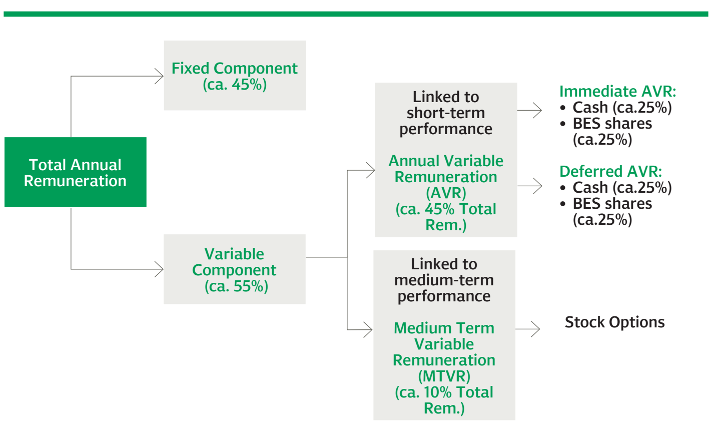
The variable component established for 2014 is subject to an upper limit corresponding to 1.4% of the consolidated earnings of BES Group.

d) Balanced Remuneration

The fixed component shall represent at least 45% of the total remuneration.

Providing that the net results for the year are positive, the exact amount of the variable component will vary in each year in accordance with the level of achievement of the main annual objectives set in the annual budget, as approved by the Board of Directors.

e) Criteria for defining the variable component and respective time of payment



Example that illustrates a situation where the maximum amount of variable remuneration is attributed to the members of the Executive Committee and therefore the fixed component is only 45% of the total.

The variable component is divided into two sub-components.

A) Short-term performance (Annual Variable Remuneration)

The Annual Variable Remuneration (AVR) is linked to short-term performance and will correspond to a maximum of 45% of the Total Annual Remuneration.

The AVR is calculated at the beginning of each year by the Remuneration Committee, in accordance with the following factors:

- Level of achievement of the main annual objectives set in the annual budget for the year to which the AVR corresponds, as approved by the Board of Directors, concerning: Net Income for the year, Cost to Income (ratio of operating costs to total banking income), and Return on Equity (ratio of net income to equity);
- Performance assessed by non financial criteria, including the individual performance of each member of the Executive Committee (each Executive Committee member has several established areas of responsibility, namely over departments whose performance is measured objectively and quantitatively), the evolution of indicators linked to the sustainability of the Bank's growth (such as the loan to deposits ratio, the Core Tier 1 ratio, the main service quality indicators, as well as compliance with the main rules applying to the institution's activity).

The AVR is divided into an immediate portion (Immediate AVR), which is paid after the accounts for the year in question have been approved, and another portion that is deferred for a period of three years (the **Deferred Annual Variable Remuneration (Deferred AVR**)).

The Immediate AVR and the Deferred AVR are both divided into two equal parts (one in cash and another in kind, the latter consisting of BES shares).

B) Medium-Term Performance (Medium-Term Variable Remuneration)

The **Medium-Term Variable Remuneration (MTVR)** is linked to **Medium-Term Performance** and will correspond to approximately 10% of the Total Annual Remuneration.

At the beginning of each year the Remuneration Committee may decide on the attribution of a MTVR, based on the assessment of performance in the previous year. This MTVR will be paid through the attribution of stock options which can only be exercised at least three years after their date of attribution, thus implying the accrual of their cost until such time as they are exercised.

The MTVR will be linked to the sustainability of BES's indicators, and calculated in accordance with the global return afforded to the shareholders over the period of its attribution, such return deriving from dividends paid and stock market capitalisation. The exercise price of the MTVR's underlying Stock Options at the end of the exercise period will be 10% higher than the market price at the beginning of this period.

C) Regulation on the attribution of Shares and Options

The rules on attribution of shares and stock options to the members of the Executive Committee are set out in a specific Regulation.

f) Mechanisms of Limitation of the Variable Remuneration

The Deferred Annual Variable Remuneration («DAVR») is subject to two general limitations:

a) Its payment is deferred over a period of three years; and

b) It is only attributed if it is sustainable in light of BES's financial situation and justified by the performance of BES and of each of its executive directors. The variable remuneration will be reduced or cancelled in case of a significant reduction in BES's activity and consequently in its results.

It is the responsibility of the Remuneration Committee to ascertain and determine whether a DAVR is being attributed and should be maintained.

In case of a negative performance of BES's results or if return on equity drops to below 5%, the DAVR may only be attributed subject to a decision of the Remuneration Committee stating specific reasons therefore, and this decision must be submitted to the next General Meeting.

By definition, the Medium-Term Variable Remuneration («MTVR») is limited by the performance of the BES shares. This remuneration will have no value unless the share price increases by at least 10% over the period in question.

g) Criteria for performance assessment

The assessment of the performance of the executive directors will be based on the following financial and non financial criteria:

- **Cost to Income** (ratio of operating costs to total banking income) – an indicator of the Bank's operational activity, this ratio measures its capacity to generate revenues against operating costs;
- **Net Income for the year** – this indicator translates the contribution to shareholders, already deducted of elements not included in the cost to income, such as the cost of risk, taxes and minority interests;
- **Return on Equity** (ratio of net income to equity) – this indicator measures the net income generated as a percentage of the funds invested by the shareholders;
- **Stock market capitalisation** – reflecting the market's assessment of BES's performance, this indicator translates the wealth effectively created for the shareholders. This indicator permits to align the shareholders' perspective to the markets' perspective;
- **Individual performance** of each member of the Executive Committee – this permits to identify the relative contribution of each executive director to BES's overall results; it is objectively assessed through the analysis of the performance of the functions and departments under their responsibility, as well as from their individual contribution to decisions taken collectively;
- **Loan to Deposits Ratio** - this ratio gauges the level of balance of BES's growth trajectory, permitting to assess whether this growth enables compliance with the regulatory requirements concerning the deleveraging of the financial sector in Portugal;
- **Core Tier 1 Ratio** - the main indicator used to measure solvency from the regulatory standpoint (based on references established both by the Bank of Portugal and the European Banking Authority – EBA);
- **Service Quality Indicators** - these indicators permit to factor in the opinion of BES's client base about the level of protection of their interests;
- **Compliance with the main rules applying to the institution's activity** - this is assessed by the Internal Control functions to identify any lack of conformity in the areas of risk, internal audit and compliance and the measures implemented to remedy such inadequacies, which are reported to the Bank of Portugal.

h) Criteria concerning the retention by the executive directors of shares allocated to them

The members of the Executive Committee are attributed a variable remuneration payable in kind, through allocation of a certain number of BES shares. This payment in kind is deferred for a period of three years.

The members of the Executive Committee are also attributed stock options, which can only be exercised after a period of at least three years.

Up to the end of their term of office, the members of the Executive Committee shall hold, up to a minimum of twice the value of the total annual remuneration, the shares that were acquired by virtue of the payment of the variable remuneration, with the exception of those shares that must be sold for the payment of taxes on the gains of said shares.

i) Criteria governing agreements on the shares attributed

No agreements concerning the shares attributed to the members of the Executive Committee, including hedging contracts or other risk transfer contracts, shall be permitted.

This rule is included in the Internal Regulation of the Board of Directors.

j) Main parameters and rationale for any annual bonus scheme and any other non cash benefits

There are no other forms of remuneration in place besides the fixed and variable remuneration described in this remuneration policy.

k) Remuneration paid in the form of a share in the profits and/or the payment of bonuses and the rationale behind the act of awarding such bonuses and/or share in profits

There are no other forms of remuneration in place besides the fixed and variable remuneration described in this remuneration policy.

l) Compensation paid or owed to former executive directors in relation to early contract termination

No compensation has been paid or is owed to former members of the Executive Committee in relation to early contract terminations.

m) Contractual limitations on compensation due for directors' dismissal without due cause and relationship with the variable component of the remuneration

There are no agreements in place that establish amounts to be paid to members of the Executive Committee in case of dismissal without due cause.

n) Main characteristics of the supplementary pension or retirement schemes set up for directors, with indication of whether such schemes were submitted to the general meeting for assessment

The members of the Board of Directors are entitled to receive retirement pensions if they were members of the Executive Committee.

The main points of the regulation on the members of the Board of Directors' entitlement to receive retirement pensions are the following:

a) The right to receive a retirement pension falls due on reaching sixty five years of age, or twenty five years of professional activity, or in the event of disability, when disability occurs;

b) The right to receive a retirement pension may be brought forward to the age of fifty five, providing the board member has served as an executive member of BES' Board of Directors for a minimum period of eight consecutive or non consecutive years. Positions held in senior management and respective seniority count for purposes of calculating seniority in the post.

The total retirement pension shall never exceed the pensionable salary of the board member in question. The pensionable salary corresponds to the sum of the fixed annual remuneration earned in the last year of service with the average variable remuneration received during all the time in which that Board member served as an executive director in BES. Upon communicating the exercise of his/her right to the retirement pension or early exercise of that right, and prior to the starting date of the payment of the pension, the executive director in question is given the possibility to, at his/her request, redeem part of the capital value of the pension under the terms of the applicable law (currently 1/3).

The decision to update the pensions foreseen in this Regulation shall fall to the Remuneration Committee elected by the General Meeting of Shareholders, which for the purpose shall meet before the end of January of the year to which the decision refers; however the update rate may never be lower than the rate of change of the consumer price index in the preceding year, as published by the "Instituto Nacional de Estatística" (National Statistics Institute).

The current version of the regulation on the members of the Board of Directors' entitlement to receive retirement pensions or complementary pension benefits for old age or disability was approved by the General Meeting of Shareholders held on March 27th, 2013.

o) An estimate of the non-financial benefits considered as remuneration which do not fall under the categories listed above

Besides the health insurance attributed to all the members of the Executive Committee, which supplements the benefits attributed by SAMS, the medical and healthcare services for banking sector employees, and is maintained even after retirement, no other non-financial benefits are attributed to the members of the Board of Directors.

8. Rules applicable to all the members of the Board of Directors.

a) Payments for dismissal or voluntary termination of directors

There are no payments foreseen for the dismissal of directors, and any voluntary termination requires the previous approval of the Remuneration Committee with regard to the amounts in question.

b) Amounts paid in 2013 to the members of the corporate bodies,

i.Members of the corporate bodies (with the exception of the Executive Committee) (in thousands of euro)

	BES				Other BES Group				Total			
	Fixed		Variable	TOTAL BES	Fixed		Variable	TOTAL OTHERS	Fixed		Variable	TOTAL
	Salary	Subsidies and Other			Salary	Subsidies and Other			Salary	Subsidies and Other		
João Faria Rodrigues	119	0	0	**119**	0	0	0	**0**	119	0	0	**119**
Horácio Lisboa Afonso	141	0	0	**141**	0	0	0	**0**	141	0	0	**141**
Pedro João Reis de Matos Silva	119	0	0	**119**	0	0	0	**0**	119	0	0	**119**
Total Audit Committee	**379**	**0**	**0**	**379**	**0**	**0**	**0**	**0**	**379**	**0**	**0**	**379**
Board Members (ecluding Executive Committee)												
Alberto Alves de Oliveira Pinto	0	185	0	**185**	0	0	0	**0**	0	185	0	**185**
Anibal da Costa Reis de Oliveira	0	11	0	**11**	0	0	0	**0**	0	11	0	**11**
Manuel Fernando Moniz Galvão Espírito Santo Silva	0	22	0	**22**	0	0	0	**0**	0	22	0	**22**
Ricardo Abecassis Espírito Santo Silva	0	22	0	**22**	356	16	124	**496**	356	39	124	**518**
Pedro Mosqueira do Amaral	135	26	0	**161**	408	0	0	**408**	543	26	0	**569**
Nuno Maria Monteiro Godinho de Matos	0	42	0	**42**	0	0	0	**0**	0	42	0	**42**
Rita Maria Lagos de Amaral Cabral	0	42	0	**42**	0	0	0	**0**	0	42	0	**42**
Bruno Bernard Marie Joseph de Laage de Meux	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**
Marc Olivier Tristan Oppenheim	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**
Vincent Claude Paul Pacaud	0	30	0	**30**	0	0	0	**0**	0	30	0	**30**
Isabel Maria Osório de Antas Mégre de Sousa Coutinho	0	42	0	**42**	0	0	0	**0**	0	42	0	**42**
Xavier Musca	0	0	0	**0**	0	0	0	**0**	0	0	0	**0**
Total Board Members (excluding Executive Committee)	**135**	**424**	**0**	**559**	**764**	**16**	**124**	**904**	**899**	**440**	**124**	**1,463**
Board of the General Meeting												
Paulo Manuel de Pitta e Cunha	0	19	0	**19**	0	0	0	**0**	0	19	0	**19**
Nuno Miguel Matos Silva Pires Pombo	0	9	0	**9**	0	0	0	**0**	0	9	0	**9**
José Alexandre Teixeira Sousa Machado	0	9	0	**9**	0	0	0	**0**	0	9	0	**9**
Total of the Board of the General Meeting	**0**	**37**	**0**	**37**	**0**	**0**	**0**	**0**	**0**	**37**	**0**	**37**
Remuneration Committee												
Jacques dos Santos	0	18	0	**18**	0	0	0	**0**	0	18	0	**18**
Daniel Proença de Carvalho	0	18	0	**18**	0	0	0	**0**	0	18	0	**18**
Álvaro João Duarte Pinto Correia	0	18	0	**18**	0	0	0	**0**	0	18	0	**18**
Total Remuneration Committee	**0**	**54**	**0**	**54**	**0**	**0**	**0**	**0**	**0**	**54**	**0**	**54**
Total Corporate Bodies (excluding Executive Committee)	**515**	**515**	**0**	**1,029**	**764**	**16**	**124**	**904**	**1,278**	**531**	**124**	**1,933**

ii. Members of the Executive Committee

(in thousands of euro)

	BES				Other BES Group				Total			
	Fixed		Variable	TOTAL BES	Fixed		Variable	TOTAL OTHERS	Fixed		Variable	TOTAL
	Salary	Subsidies and Other			Salary	Subsidies and Other			Salary	Subsidies and Other		
Ricardo Espírito Santo Silva Salgado	547	2	0	**550**	0	0	0	**0**	547	2	0	**550**
José Manuel Pinheiro Espírito Santo Silva	462	2	0	**464**	0	0	0	**0**	462	2	0	**464**
António José Baptista do Souto	459	2	0	**461**	0	0	0	**0**	459	2	0	**461**
Jorge Alberto Carvalho Martins	457	2	0	**459**	0	0	0	**0**	457	2	0	**459**
Amílcar Carlos Ferreira de Morais Pires	455	2	0	**457**	0	0	0	**0**	455	2	0	**457**
Rui Manuel Duarte Sousa da Silveira	457	67	0	**524**	0	0	0	**0**	457	67	0	**524**
Joaquim Aníbal Brito Freixial de Goes	455	3	0	**458**	0	0	0	**0**	455	3	0	**458**
José Maria Espírito Santo Silva Ricciardi	0	0	0	**0**	530	0	76	**606**	530	0	76	**606**
João Eduardo Moura da Silva Freixa	454	67	0	**521**	0	2	0	**2**	454	69	0	**523**
Stanislas Gerard Marie Georges Ribes	452	93	0	**544**	0	0	0	**0**	452	93	0	**544**
Total Executive Committee	4,200	239	0	4,439	530	2	76	608	4,729	242	76	5,047

(in thousands of euro)

	BES				Other BES Group				Total			
	Fixed		Variable	TOTAL BES	Fixed		Variable	TOTAL OTHERS	Fixed		Variable	TOTAL
	Salary	Subsidies and Other			Salary	Subsidies and Other			Salary	Subsidies and Other		
Ricardo Espírito Santo Silva Salgado	547	2	0	**550**	547	5	**0**	552	0	**-3**	**0**	**-3**
José Manuel Pinheiro Espírito Santo Silva	462	2	0	**464**	462	6	**0**	468	0	**-3**	**0**	**-3**
António José Baptista do Souto	459	2	0	**461**	459	2	**0**	461	0	**0**	**0**	**0**
Jorge Alberto Carvalho Martins	457	2	0	**459**	456	2	**0**	458	1	**0**	**0**	**1**
Amílcar Carlos Ferreira de Morais Pires	455	2	0	**457**	455	2	**0**	457	0	**0**	**0**	**0**
Rui Manuel Duarte Sousa da Silveira	457	67	0	**524**	456	2	**0**	458	1	**65**	**0**	**66**
Joaquim Aníbal Brito Freixial de Goes	455	3	0	**458**	455	3	**0**	458	0	**0**	**0**	**0**
José Maria Espírito Santo Silva Ricciardi	530	0	76	**606**	460	0	**0**	460	70	**0**	**76**	**146**
João Eduardo Moura da Silva Freixa	454	69	0	**523**	454	5	**0**	459	0	**64**	**0**	**65**
Stanislas Gerard Marie Georges Ribes	452	93	0	**544**	211	233	**0**	444	241	**-140**	**0**	**100**
Total Executive Committee	4,729	242	76	5,047	4 416	259	0	4,674	314	-17	76	373

In 2013 no variable remuneration was attributed to the members of the Executive Committee, except for the amount authorised by BESI's Remuneration Committee, paid to Mr. José Maria Ricciardi.

We remind that a **Medium-Term Variable Remuneration** was attributed on September 21st, 2012, in the overall amount of EUR 1.94 million, consisting of options on BES shares which can only be exercised at the end of January 2016 and providing that the price of the shares has risen by at least 10% in the referred 3-year period. This Medium Term Variable Remuneration adds on to that attributed in 2011, in the overall amount of EUR 1.13 million, consisting of options on BES shares which can only be exercised three years after their date of attribution (end of March 2014).

(in thousands of euro)

	Deferred Cash (2012-2014)	Deferred Shares (2012-2014)	Subtotal	Deferred Options (2011-2014)	Options (2012-2016)
Ricardo Espírito Santo Silva Salgado	127	127	254	130	230
José Manuel Pinheiro Espírito Santo Silva	106	106	212	100	190
António José Baptista do Souto	106	106	212	100	190
Jorge Alberto Carvalho Martins	106	106	212	100	190
José Maria Espírito Santo Silva Ricciardi	0	0	0	100	190
Rui Manuel Duarte Sousa da Silveira	106	106	212	100	190
Joaquim Aníbal Brito Freixial de Goes	106	106	212	100	190
Amílcar Carlos Ferreira de Morais Pires	106	106	212	100	190
João Eduardo Moura da Silva Freixa	106	106	212	100	190
Stanislas Gerard Marie Georges Ribes	0	0	0	0	190
Total Executive Committee	869	869	1,738	930	1,940

The Payment of the **Deferred Annual Variable Remuneration** relative to 2011 was suspended in 2012 and 2013 (2012-2014 period), and the Remuneration Committee has decided to cancel it definitively.

Lisbon, April 10th, 2014

The Remuneration Committee

Daniel Proença de Carvalho

Jacques dos Santos

Álvaro Pinto Correia

II. Remuneration Policy of the Members of BES Senior Officers and Managers with Control Functions and Specific Risk-Taking Functions

I. Scope of application and Fundamental principles

The present remuneration policy applies to BES's "senior officers" in a broad sense, which include:

a) The General Managers, the Advisors to the Board of Directors, the Managing Directors and the Company Secretary;

b) Employees with management positions in the commercial departments (retail, private and corporate banking), financial department and international department. For the purpose of this remuneration policy all the employees covered by this description are collectively referred to as «specific risk taking functions».

c) Employees with management positions in the Human Resources, Internal Audit, Compliance and Risk Management departments. For the purpose of this remuneration policy all employees covered by this description are collectively referred to as «control functions».

A list of all the departments whose employees in management positions are covered by the remuneration policy under paragraph b) above is attached to this document.
In fact, it is easy to understand that, besides the members of the corporate bodies, in the specific case of BES these officers are those whose performance has a material impact on the Bank's risk profile.

II. The remuneration policy of BES's senior officers

1. Approval process of the remuneration policy

a) Approval
The process of approval of the remuneration policy of the employees considered herein starts with a proposal submitted by the Board of Directors. The statement on the remuneration policy of the senior officers is submitted to the General Meeting, for approval, pursuant to Law no. 28/2009, of June 19th. Finally, the exact setting of the remuneration is approved by the Board of Directors.

b) Mandate of the Board of Directors
Under the terms of the law and the Company's bylaws, the setting of the remuneration of BES's senior officers is the responsibility of the Board of Directors, within the scope of their management of the human resources and incentives policies, and viewing the achievement of the Bank's strategic objectives.

c) Composition of the Board of Directors
Current composition of the Board of Directors:

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

d) External Consultants
The external consultants recruited in 2009 to assist the Board of Directors in the drafting of the remuneration policy of BES's senior officers were Mercer (Portugal), Lda and Sérvulo & Associados – Sociedade de Advogados, RL.

Mercer (Portugal), Lda. provides other services to BES in the area of human resources.

2. General Managers, Advisors to the Board of Directors and Managing Directors (except control functions and specific risk-taking functions)

a) Composition of the remuneration
The remuneration consists of a fixed component and possibly a variable component.

The Bank's overall remuneration policy is revised every year by the Board of Directors, as a rule until the end of May. As a result, the fixed remuneration may be revised on an annual basis in accordance with indicators such as the rate of inflation and the rate of salary increase set by the collective wage agreement (ACTV) for the banking sector, whilst a variable component may also be set based on the assessment of performance in the previous year.

b) Remuneration limits
The fixed component shall be subject to the limits established by the Board of Directors, and represent on average approximately 75% of the Total Annual Remuneration.

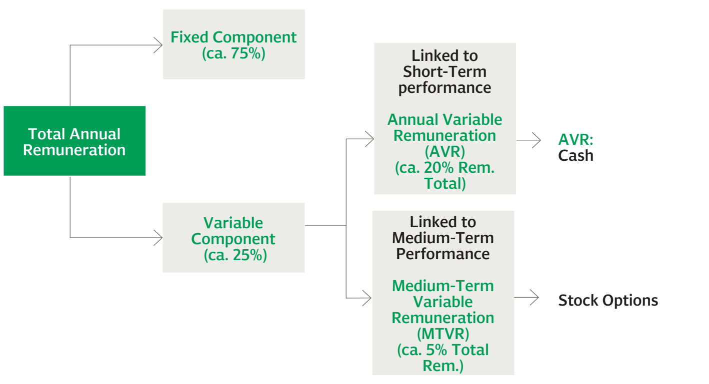
The fixed component consists of the basic salary, plus the supplements that are attributed to all the employees of the Bank, such as seniority payments or other allowances.

The variable component in 2014, if one is established, shall correspond to 25% of the average Total Annual Remuneration, although it may reach up to 50% of individual total remuneration.

c) Balanced remuneration
The fixed component shall represent on average approximately 75% of the total remuneration, the remaining 25% being attributed as a variable component.

When a variable component is due, its exact amount will vary each year in accordance with the level of achievement of the main annual objectives set individually (quantitative and qualitative) for the officer in question and for the respective business unit as a whole, in accordance with BES's performance assessment model approved by the Board of Directors.

d) Criteria for defining the variable component and respective time of payment



The variable componet is divided in two sub-components.

The variable component is divided into two sub-components.

A)) Short term performance (Annual Variable Remuneration)

The **Annual Variable Remuneration** (**AVR**) is linked to **Short-Term Performance** and will correspond on average to approximately 20% of the Total Annual Remuneration.

The **AVR** will be set by the Board of Directors at the beginning of each year, and calculated based on the Objectives and Incentives System (SOI) established for each type of area, in accordance with the level of achievement of the main objectives set by the Board of Directors, based on the following indicators:

- Commercial Areas – Volume indicators, Banking Income, Quality Indicators and Cost to Income;
- Central Areas – Operational Risk, Activity Indicators, Quality Indicators and Cost to Income.

The AVR is paid in cash in the first year after the reference date of results, upon approval of the accounts for the year in question.

B) Medium-Term Performance (Medium-Term Variable Remuneration)

The **Medium-Term Variable Remuneration** (**MTVR**) is linked to **Medium-Term Performance** and, when due, will correspond to approximately 5% of the Total Annual Remuneration.

At the beginning of each year the Board of Directors may decide on the attribution of a MTVR, based on the assessment of performance in the previous year. This MTVR will be paid through the attribution of stock options which can only be exercised at least three years after their date of attribution thus implying the accrual of their cost until such time as they are exercised.

The MTVR will be linked to the sustainability of BES's indicators, and calculated in accordance with the global return afforded to the shareholders over the period of its attribution, such return deriving from dividends paid and stock market capitalisation. The exercise price of the MTVR's underlying Stock Options at the end of the exercise period will be 10% higher the market price at the beginning of this period.

Since the approval of the remuneration policy (in 2010) up to the present date no Medium-Term Variable Remuneration has been attributed to Senior Officers.

C) Regulation on the attribution of stock options

The rules on attribution of stock options are set out in a specific Regulation, which was approved by the 2010 Annual General Meeting.

e) Mechanisms of Limitation of the Variable Remuneration

By definition, the Medium-Term Variable Remuneration (MTVR) is limited by the performance of the BES shares, and the exercise of the options is subject to a deferral period. This remuneration will have no value unless the share price increases by at least 10% over the period in question.

f) Criteria for performance assessment

Senior officers working in the Commercial areas are assessed based on five variables:

- **Results** - set of indicators translating the results of the area;
- **Banking Income**;
- **Quality** - determined by metrics that assess the quality of service provided to the internal/external client;
- **Cost-to-Income** (ratio of operating costs to total banking income) – an indicator of the Bank's operational activity, this ratio measures its capacity to generate revenues setting it against the operating costs incurred;
- **Stock market capitalisation** - an indication of the market's assessment of BES's performance, this indicator permits to align the shareholders' perspective to the markets' perspective.

Senior officers working in the Central areas are assessed based on five variables:

- **Activity** – set of indicators translating the results of the area;
- **Operational Risk;**
- **Quality**;
- **Cost-to-Income;**
- **Stock market capitalisation.**

g) Criteria for the retention of the shares allocated

The stock options granted to the senior officers can only be exercised after a period of at least three years.

The Board of Directors may establish rules on the retention or maintenance of the shares acquired.

3. Specific risk-taking functions

a) Composition of the remuneration

The remuneration consists of a fixed component and a variable component.
The Bank's overall remuneration policy is revised every year by the Board of Directors until the end of May. As a result, the fixed remuneration is revised on an annual basis in accordance with indicators such as the rate of inflation and the rate of salary increase set by the collective wage agreement (ACTV) for the banking sector, and a variable component is also set, before the end of May of each year, based on the assessment of performance in the previous year.

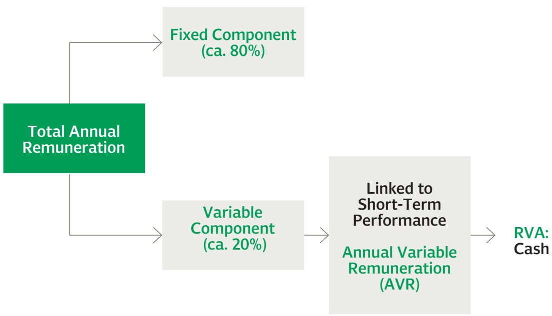
b) Remuneration Limits

The fixed component shall be subject to the limits established by the Board of Directors, and represent on average at least 80% of the Total Annual Remuneration.
The fixed component consists of the basic salary, plus the supplements that are attributed to all the employees of the Bank, such as seniority payments or other allowances.
The variable component in 2014, if one is established, shall correspond on average to 20% of the Total Annual Remuneration, although it may reach up to 30% of individual total remuneration.

c) Balanced Remuneration

The fixed component shall represent on average approximately 80% of the total remuneration, the remaining 20% being attributed as a variable component, when one is due.
The exact amount of the variable component will vary each year in accordance with the level of achievement of the main annual objectives set individually (quantitative and qualitative) for the officer in question and for the respective business unit as a whole, in accordance with the performance assessment model approved by the Board of Directors.

d) Criteria for defining the variable component and respective time of payment
The variable component is divided into two sub-components.



The example illustrates a situation where a variable remuneration is paid. When no variable remuneration is due, the fixed remuneration amounts to 100% of the total remuneration paid

The **Annual Variable Remuneration** (**AVR**) is linked to **Short-Term Performance** and will correspond on average to approximately 20% of the Total Annual Remuneration.

The **AVR** will be set at the beginning of each year by the Board of Directors, being calculated based on the Objectives and Incentives System (SOI) established for the department, in accordance with the level of achievement of the main objectives approved by the Board of Directors, determined on the basis of indicators such as Activity, Costs, Risk and Quality.

The AVR is paid in cash on the dividend payment date in the first year after the reference date of results, upon approval of the accounts for the year in question.

e) Criteria for performance assessment
Senior officers working in the Commercial areas are assessed based on five variables:

- **Results** - set of indicators translating the results of the area;
- **Banking Income**;
- **Quality** - determined by metrics that assess the quality of service provided to the internal/external client;
- **Cost-to-Income** (ratio of operating costs to total banking income) – an indicator of the Bank's operational activity, this ratio measures its capacity to generate revenues setting it against the operating costs incurred;
- **Stock market capitalisation** - an indication of the market's assessment of BES's performance, this indicator permits to align the shareholders' perspective to the markets' perspective.

Senior officers working in the Central areas are assessed based on five variables:

- **Activity –** set of indicators translating the results of the area;
- **Operational Risk;**
- **Quality;**
- **Cost-to-Income;**
- **Stock market capitalisation.**

4. Control Functions

a) Composition of the remuneration
The remuneration consists of a fixed component and a variable component. The Bank's overall remuneration policy is revised every year by the Board of Directors until the end of May. As a result, the fixed remuneration is revised on an annual basis in accordance with indicators such as the rate of inflation and the rate of salary increase set by the collective wage agreement (ACTV) for the banking sector, and a variable component is also set based on the assessment of performance in the previous year.

b) Remuneration Limits
The fixed component shall be subject to the limits established by the Board of Directors, and represent on average at least 85% of the Total Annual Remuneration.

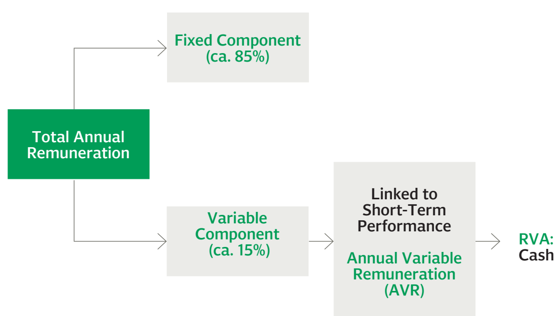
The fixed component consists of the basic salary, plus the supplements that are attributed to all the employees of the Bank, such as seniority payments or other allowances.

The variable component in 2014, if one is established, shall correspond on average to 15% of the Total Annual Remuneration, although it may reach up to 30% of individual total remuneration.

c) Balanced Remuneration
The fixed component shall represent on average approximately 85% of the total remuneration, the remaining 15% being attributed as a variable component, when one is due.

The exact amount of the variable component will vary each year in accordance with the level of achievement of the main annual objectives set individually (quantitative and qualitative) for the officer in question and for the respective business unit as a whole, in accordance with the performance assessment model approved by the Board of Directors.

d) Criteria for defining the variable component and respective time of payment
The variable component is divided into two sub-components.



The example illustrates a situation where a variable remuneration is paid. When no variable remuneration is due, the fixed remuneration amounts to 100% of the total remuneration paid.

The **Annual Variable Remuneration** (**AVR**) is linked to S**hort-Term Performance** and will correspond on average to approximately 15% of the Total Annual Remuneration.

The **AVR** will be set at the beginning of each year by the Board of Directors, being calculated based on the Objectives and Incentives System ("SOI") established for the department, in accordance with the level of achievement of the main objectives approved by the Board of Directors, determined on the basis of indicators such as Activity, Costs, Risk and Quality.

This objectives guideline also applies to the General Managers, Advisors and Managing Directors in control functions.

The AVR is paid in cash on the dividend payment date in the first year after the reference date of results, upon approval of the accounts for the year in question.

e) Criteria for performance assessment
Control functions are assessed based on the four variables referred to in point 2 (f)) (Activity, Costs, Risk and Quality).

5. Main parameters and rationale for any annual bonus scheme and any other non cash benefits attributed to the senior officers

In addition to the fixed and variable components described in this remuneration policy, senior officers are granted the following benefits that result from application of the collective wage agreement for the banking sector:

- Life Insurance, as defined in article 142 of the ACTV for the banking sector (SAMS);[4]
- Health Insurance, as defined in article 144 of the ACTV for the banking sector (SAMS);
- Personal Accident Insurance, as defined in article 38 of the ACTV for the banking sector (SAMS).

6. Main characteristics of the supplementary pension schemes set up for senior officers

In accordance with the Collective Wage Agreement ("ACTV"), senior officers are currently entitled to receive a retirement pension which is calculated on the basic salary (salary level and seniority payments) and number of years of service in banking, and which does not take into account the full remuneration and/or allowances for fixed working hours exemption. In addition, and considering that all bank employees are since 2011 registered with the Social Security, and that by law all the employees who are members of the pension fund must obligatorily be informed every year about the amount of the pension to which they are entitled at the end of each year, BES decided to set up a defined contribution supplementary pension plan for this group of employees. In order to benefit from this plan, which is optional, the employees have to make a monthly contribution of 3% of their basic salary to an individual retirement savings plan (PPR). BES contributes with 3% of the basic salary to individual PPRs and makes an additional annual contribution to a Group PPR, the aim being to reach at pensions corresponding to the percentages of the salary indicated below. The aggregate amount of the annual contributions is only attributed to employees who work at the Group at the time of retirement.

Hence, under this plan, retirement pensions will correspond to the following estimated percentages of the last global salary earned: General Managers, Advisors and Managing Directors - 85%; Managers and Assistant Managers - 75%; and Deputy Managers – 70%.

This benefit only applies to senior officers in service as of December 31st, 2010. Senior officers engaged by the Bank after this date are not entitled to this benefit.

In 2013 BES temporarily suspended the annual contributions to this Plan and intends to reassess the situation in 2014.

4) SAMS - medical and healthcare services for banking sector employees.

7. Amounts paid in 2013 to BES's Senior Officers

(EUR thousand)

BES – Senior Officers	General Managers	Adv Board	Managing Directors	Total
Nº RH	**1**	**11**	**25**	**37**
Total Fixed Remuneration	246	1,987	3,380	5,614
Total Variable Remuneration	0	3	21	24
Share of Var. Rem.	**0.0%**	**0.1%**	**0.6%**	**0.4%**

(EUR thousand)

BES – Senior Officers	Commercial Areas	Central Areas	Total
Nº RH	**2**	**35**	**37**
Total Fixed Remuneration	290	5,324	5,614
Total Variable Remuneration	0	24	24
Share of Var. Rem.	**0.0%**	**0.5%**	**0.4%**

(EUR thousand)

BES – Control Functions	Managing Directors	Directors	Assistant Managers	Deputy Managers	Total
Nº RH	**3**	**14**	**6**	**19**	**42**
Total Fixed Remuneration	396	1,122	361	920	2,799
Total Variable Remuneration	0	6	0	0	6
Share of Var. Rem.	**0.0%**	**0.5%**	**0.0%**	**0.0%**	**0.2%**

(EUR thousand)

BES – Other Risk-taking Functions	Managing Directors	Directors	Assistant Managers	Deputy Managers	Total
Nº RH	**11**	**46**	**52**	**76**	**185**
Total Fixed Remuneration	1,622	4,032	3,442	4,180	13,276
Total Variable Remuneration	0	0	0	0	0
Share of Var. Rem.	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**

(EUR thousand)

BES – Other Risk-taking Functions	Commercial Areas	Central Areas	Total
Nº RH	**138**	**47**	**185**
Total Fixed Remuneration	9,951	3,324	13,276
Total Variable Remuneration	0	0	0
Share of Var. Rem.	**0.0%**	**0.0%**	**0.0%**

In 2013 we identified 17 new employees in the various categories of senior officers covered by this policy. Of these, only 4 were newly recruited by BES. The others became eligible as a result of promotion or other forms of internal mobility within BES Group.

Lisbon, April 10th, 2014.

THE BOARD OF DIRECTORS

BANCO ESPIRITO SANTO

Comissão de Auditoria

STATEMENT OF THE AUDIT COMMITTEE
on the content of the Corporate Governance Report for the year ended 31 December 2013

To the Shareholders

The Audit Committee has reviewed the Corporate Governance Report of **Banco Espírito Santo, S.A.**, which is part of the 2013 Annual Report of the bank, in order to confirm that it includes all the information on the structure and corporate governance practices of the bank as specified in article 245. º-A of the Portuguese Securities Code (*Código de Valores Mobiliários*).

As required in paragraph 5 of article 420.º, by remission of article 423.º-F, both of the Portuguese Companies Code (*Código das Sociedades Comerciais*), the Audit Committee attests that the Corporate Governance Report referred to in the preceding paragraph includes all the abovementioned information for the year ended 31 December 2013 as required and applicable to **Banco Espírito Santo, S.A.**.

Lisbon, 9 April 2014

The Audit Committee

Horácio Lisboa Afonso (Chairman)

João de Faria Rodrigues

Pedro João Reis de Matos Silva

Excerpt from the minutes of the Annual General Shareholders' Meeting of Banco Espírito Santo, S.A.

Minutes no. 80

At ten hours on May fifth, in the year two thousand and fourteen, the Annual General Meeting of the Shareholders of Banco Espírito Santo, S.A. was held at the Hotel Altis – Sala Europa, at Rua Castilho, no. 11, in Lisbon, with the following Agenda:

Item One: Resolve on the Management Report, the Corporate Governance Report and the remaining individual reporting documents relative to financial year 2013.

Item Two: Resolve on the Consolidated Management Report, the consolidated accounts and the remaining consolidated reporting documents relative to financial year 2013.

Item Three: Resolve on the allocation of earnings.

Item Four: Make a general assessment of BES' management and supervisory bodies.

Item Five: Resolve on the Remuneration Committee and Board of Directors' statements on the remuneration policy of BES' corporate and supervisory bodies and remaining BES senior officers, respectively.

Item Six: Resolve on the maintenance of a group relationship with the companies whose share capital is fully held by BES, under the terms and for the purposes of Article 489 (2-c)) of the Companies Code.

Item Seven: Resolve on a proposal for acquisition and sale of own shares and bonds, by BES or companies under BES's control.

Item Eight: Resolve on a proposal to subject Banco Espírito Santo, S.A. – Branch in Spain to the Spanish Special Regime for Groups of Companies, as regulated in Chapter VII of Heading VII of Spain's Royal Legislative Decree 4/2004, of March 5th, which approved the Revised Text of the Corporate Tax Income Law in Spain.

The Board of the General meeting consisted of its elected Chairman, Vice--Chairmen, and Secretary, respectively Messrs. Paulo de Pitta e Cunha, José Alexandre Teixeira de Sousa Machado, Nuno Miguel Matos Silva Pires Pombo, and Eugénio Fernando de Jesus Quintais Lopes, the latter in the capacity of Company Secretary. Also present in the meeting were the majority of the members of the Board of Directors, all the members of the Audit Committee, the statutory auditors, KPMG & Associados SROC, S.A., represented by Ms. Sílvia Cristina de Sá Velho Corrêa da Silva Gomes, all the members of the Remuneration Committee, one member of the Corporate Governance Committee and one member of the Remuneration Advisory Committee.
The Chairman of the General Meeting declared the session open, after ascertaining that there was a quorum of shareholders present or represented owning 2,945,158,000 shares, corresponding to 73.30% of the share capital and to 29,451,541 votes, and that the General Meeting had been regularly called as per notices published on April 10th and 11th, 2014 on the Justice Portal (Ministry of Justice) and on April 10th on the websites of the Portuguese Securities Market Commission ("CMVM") and Banco Espírito Santo, S.A..
The convening notice was also published on the Diário de Notícias, Jornal de Notícias, Açoriano Oriental and Diário de Notícias (Madeira) newspapers on April 15th, 2014.

In compliance of Article 10 of the Legal Framework of Credit Institutions and Financial Companies, the list of Shareholders with holdings exceeding 2% of the Bank's share capital was also published, namely on the Diário de Notícias and Correio da Manhã newspapers of April 28th, 2014.

Under the terms of the law all the documents for this General Meeting were available for consultation by the Shareholders at the Bank's registered office, and were included in the folders delivered to them.

(...)
Going into the Agenda, the Chairman of the General Meeting asked the meeting to analyse and discuss together Items one, two and three:
Item One: "Resolve on the Management Report, the Corporate Governance Report and the remaining individual reporting documents relative to financial year 2013".
The Board of Directors of BANCO ESPÍRITO SANTO, S.A presented the following proposal: "The Board of Directors of BANCO ESPÍRITO SANTO, S.A. hereby submits the Management Report, the Corporate Governance Report and other reporting documents of BANCO ESPÍRITO SANTO, S.A. for the financial year of 2013 to the Shareholders, for appreciation and discussion, proposing their approval".
Item Two: "Resolve on the Consolidated Management Report, the consolidated accounts and the remaining consolidated reporting documents relative to financial year 2013."
The Board of Directors of BANCO ESPÍRITO SANTO, S.A presented the following proposal: "The Board of Directors of BANCO ESPÍRITO SANTO, S.A. hereby submits the Consolidated Management Report, the Consolidated Accounts and other consolidated reporting documents of BANCO ESPÍRITO SANTO, S.A. for the financial year of 2013 to the Shareholders, for appreciation and discussion, proposing their approval."
Item Three: Resolve on the allocation of earnings."
The Board of Directors of BANCO ESPÍRITO SANTO, S.A presented the following proposal: "The Board of Directors of BANCO ESPÍRITO SANTO, S.A. proposes that:
Pursuant to Article 376 (b)) of the Portuguese Companies Code, and in accordance with the Management Report, the company's net loss of the year, amounting to EUR 462,567,686.19, be allocated as follows:

TO OTHER RESERVES
AND RETAINED EARNINGS: EUR 462,567,686.19"

(...)
At this point the Board of the General Meeting was informed that the number of shares owned by the Shareholders present or represented in the meeting was 2,947,782,418, corresponding to 73.37% of the share capital, and to 29,477,779 votes.

(...)
The meeting then voted separately on the above proposals.
The proposal on Item One of the Agenda was approved by a majority of 29,414,627 votes, with 46,402 dissenting votes and 17,097 abstentions, in a total of 29,477,307 votes present.
The proposal on Item Two of the Agenda was approved by a majority of 29,414,627 votes, with 46,280 dissenting votes and 16,400 abstentions, in a total of 29,477,307 votes present.
The proposal on Item Three of the Agenda was approved by a majority of 29,461,952 votes, with 1,360 dissenting votes and 13,995 abstentions, in a total of 29,477,307 votes present.

(...)
Item Four: "Make a general assessment of BES' management and supervisory bodies."
The Board of Directors of BANCO ESPÍRITO SANTO, S.A presented the following proposal: "Pursuant to the terms of Article 455 (1) of the Portuguese Companies Code, which requires the Annual General Meeting to make a general assessment of the management and supervision bodies of the company;

Whereas 2013 was a particularly difficult year for the Portuguese financial sector;

Whereas, notwithstanding these limitations and the negative results reported the performance of "Banco Espírito Santo, S.A." stood out from among the competition, with its shares registering very sharp gains (+ 96.7% since June 2013) and its Core Tier 1 ratio rising to 10.6%, translating the bank's solid capitalisation;

The shareholder "BESPAR – Sociedade Gestora de Participações Sociais, S.A." proposes that the General Meeting approve a vote of confidence and praise to the Board of Directors and the Audit Committee of the Company and to each of the respective members."

(...)
The proposal was open for discussion, and as no one wished to take the floor, the Chairman put it to the vote, and it was approved by a majority of 28,814,636 votes, with 606,866 dissenting votes and 55,135 abstentions, in a total of 29,476,637 votes present.

(...)
The meeting then moved to Item Five: - "Resolve on the Remuneration Committee and Board of Directors' statements on the remuneration policy of BES' corporate and supervisory bodies and remaining BES senior officers, respectively."
On this item, the Remuneration Committee submitted a Statement (5-A) on the remuneration policy of the members of the management and supervisory bodies of Banco Espírito Santo, S.A., as follows: BES's Remuneration Committee proposes that the General Meeting approve the «Statement on the Remuneration Policy of the Members of the Management and Supervisory Bodies» for 2014."

(...)
And the Board of Directors submitted the following Statement (5-B) on the same item: "Proposal of approval of the Statement on the Remuneration Policy of BES Senior Officers and Managers with Control Functions and with Specific Risk-Taking Functions.
BES' Board of Directors proposes that the General Meeting approve the «Statement on the Remuneration Policy», which is included as an Annex to this proposal."

(...)
The Chairman of the General Meeting clarified that there were two proposals for discussion but that each would be voted separately.

(...)
The Remuneration Committee proposal (5 – A) was put to the vote and it was approved by a majority of 29,128,743 votes, with 330,475 dissenting votes and 16,999 abstentions, in a total of 29,476,217 votes present.
The Remuneration Committee proposal (5 – B) was then put to the vote and it was approved by a majority of 29,103,526 votes, with 328,498 dissenting votes and 44,193 abstentions, in a total of 29,476,217 votes present.

The meeting continued to Item Six on the Agenda: "Resolve on the maintenance of a group relationship with the companies whose share capital is fully held by BES, under the terms and for the purposes of Article 489 (2-c)) of the Companies Code."
On this item, the Board of Directors presented the following proposal: "Under the terms and for the purposes of Article 489 (2-c)) of the Portuguese Companies Code, the Board of Directors of Banco Espírito Santo, S.A. proposes that BES maintain the existing group relation with regard to the company indicated below:

COMPANY WHERE BES HAS A DIRECT STAKE OF 100%
"EMSA – EMPREENDIMENTOS E EXPLORAÇÃO DE ESTACIONAMENTOS, S.A."
Registered with the Commercial Registry Office of Cascais under register and tax number 504470515
Legal Status: public limited company
Share capital: € 50,000.00
Head Office: Rua de S. Bernardo, 62, Lisboa"

(...)
The proposal was open for discussion, and as no one wished to take the floor, the Chairman put it to the vote, and it was approved by a majority of 29,448,099 votes, with 4,877 dissenting votes and 22,807 abstentions, in a total of 29,475,783 votes present.

The meeting then moved to Item Seven: "Resolve on a proposal for acquisition and sale of own shares and bonds, by BES or companies under BES's control.", about which the Board of Directors presented the following proposal: "Whereas:

a) The legal regulations applying to the acquisition and sale of own shares by public limited liability companies laid down in the Portuguese Companies Code;

b) The provisions set forth in the European Commission Regulation (EC) 2273/2003 of December 22nd, 2003, that established a special regime contemplating, namely, requirements for exemption from the regime of market abuse for certain buy-back programmes of own shares, which should be taken into consideration even if the acquisitions of own shares that will be made fall outside the scope of the buy-back programmes covered by said Regulation;

c) The duty of issuers of securities admitted to trading on a regulated market to disclose and report on transactions involving own shares set forth in the Portuguese Securities Market Commission (CMVM) regulation no. 5/2008;

d) In the General Meeting of April 6th, 2010, a proposal was submitted to the Shareholders of Banco Espírito Santo S.A., for resolution, concerning the creation of two "Variable Remuneration Plans based on Financial Instruments" applicable respectively to the members of BES's Executive Committee and to its General Managers, Advisors to the Board of Directors and Coordinating Managers, which will imply the execution of transactions involving own shares;

e) The convenience of Banco Espírito Santo, S.A. being able to continue to execute such transactions within legally admitted terms, other than in the circumstances foreseen in Article 319 (3) of the Portuguese Companies Code;

f) The same convenience exists regarding the possibility of subsidiaries of the Bank acquiring and disposing of shares in Banco Espírito Santo, S.A.;

g) The same possibility should be guaranteed with regard to the execution of transactions involving own bonds, which are subject to the same legal framework applying to the acquisition of own shares.

The Board of Directors of Banco Espírito Santo, S.A. proposes that a resolution be passed to:

1. Authorise Banco Espírito Santo, S.A. or any subsidiary, present or future (each of them being hereinafter designated as "Company") to, subject to decision by the management board of the Company in question, purchase shares, including rights to the acquisition or granting thereof, in Banco Espírito Santo, S.A., under the following terms

a) **Maximum number of shares to be purchased** up to a limit corresponding to 10% of the share capital of Banco Espírito Santo, S.A., minus shares which are sold, without loss to the number of shares required for the Company to comply with obligations arising from the law, a contract, the issuance of securities, or contractual binding to the execution of the «Variable Remuneration Plans based on Financial Instruments», subject to, if applicable, the subsequent sale, within the legal limits, of the shares exceeding the said limit, and without prejudice to the acquisition of own shares intended to execute a resolution to reduce the share capital approved by the general meeting, in which case the specific limits set forth in said share capital reduction resolution shall apply;

b) **Acquisition period:** eighteen months as of the date of the present resolution;

c) **Means of acquisition:** subject to the mandatory limits established by law, the purchase of shares, or rights to acquire or grant shares, may be carried out, in exchange for payment, through any means, in regulated markets where the shares are admitted to trading, or in non regulated markets, respecting the principle of equal treatment of shareholders under the terms of the law, namely through acquisition from financial institutions with which the Company has signed an equity swap contract or other similar financial derivative instruments, or through acquisition, by any means, intended to comply or resulting from compliance with obligations arising from the law, a contract, or the «Variable Remuneration Plans based on Financial Instruments», under the respective terms and conditions;

d) **Minimum and maximum payment for acquisitions:** the acquisition price shall fall within an interval of twenty percent below and above the average listed price of the Banco Espírito Santo, S.A. shares in the last five sessions of the NYSE Euronext Lisbon immediately prior to the acquisition date or the date of creation of the right to purchase or grant shares resulting from the financial instruments contracted by the Company;

e) **Time of acquisition:** to be determined by the Company's management board, bearing in mind the situation of the securities market and the convenience or commitments of the seller and/or the Company. Acquisitions may occur on one or more occasions, in the manner that the referred Board deems appropriate.

2. Approve the disposal of own shares that were purchased, including rights t o the acquisition or granting thereof, subject to decision by the management board of the Company in question, under the following terms:

a) **Minimum number of shares to be sold:** the number of sale transactions and the number of shares to be sold shall be determined by the Company's management board in light of what at each time may be deemed necessary or convenient to further the Company's interests or to comply with obligations arising from the law, a contract, or the «Variable Remuneration Plans based on Financial Instruments», under the respective terms and conditions;

b) **Period during which the disposal may be performed:** eighteen months as of the date of this resolution;

c) **Means of disposal:** subject to the mandatory terms and limits established by law, the disposal of shares against payment may be carried out through any means, namely through sale or exchange in regulated markets where the shares are admitted to trading, or in non regulated markets, respecting the principle of equal treatment of shareholders under the terms of the law, to or with specific entities appointed by the Company's management board, namely financial institutions with which the Company has signed an equity swap contract or other similar financial derivative instruments, or through disposal by any means to comply with obligations arising from the law, a contract, or the «Variable Remuneration Plans based on Financial Instruments», under the respective terms and conditions;

d) **Minimum price:** the minimum selling price shall be either no less than twenty percent below the average listed price of the Banco Espírito Santo, S.A. shares in the last five sessions of the NYSE Euronext Lisbon immediately prior to the date of disposal, or it shall be the price that was set in a contract entered by the Company. In the case of the «Variable Remuneration Plans based on Financial Instruments», the selling price of the shares shall be that which results from the respective Regulations;

e) **Time of Disposal:** to be determined by the Company's management board, bearing in mind the situation of the securities market and the convenience or commitments of the purchaser and/or the Company. Disposals may occur on one or more occasions, in the manner that the referred Board deems appropriate.

3. The provisions of the preceding paragraphs shall apply, with the required adaptations, to the acquisition of own bonds by Banco Espírito Santo, S.A., or by any subsidiary, present or future, subject to decision of the respective management board.

4. Recommend that the Company's management board, without prejudice to its freedom to decide and to act as per the resolutions taken in respect to paragraphs 1 and 2, consider not only the applicable legislation concerning the disclosure of the remuneration policy of the members of the corporate bodies, the Bank of Portugal notices and the recommendations of the Portuguese Securities Market Commission in force, but also the following recommended practices concerning the buying and selling of own shares under the authorisations granted in paragraphs 1 and 2 hereinabove, particularly in relation to acquisitions forming part of the «Variable Remuneration Plans based on Financial Instruments» or other plans that may be governed by the Regulations mentioned in Recital b):

a) Disclose to the public, before beginning purchase and sale transactions, the contents of the authorisation referred to in the foregoing paragraphs 1 and 2, in particular, the objective, maximum amount paid for acquisition, maximum number of shares to buy and the authorised timeframe established for the transaction;

b) Maintain a record of each transaction performed within the scope of the preceding authorisations;

c) Perform the transactions in such a manner, in terms of timing, form and volume, as not to not disturb the regular functioning of the market, trying to avoid execution during sensitive trading periods, in particular the opening and closure of a session, at times of market turmoil, or when relevant facts are about to be announced or financial results are being disclosed;

d) Restrict acquisitions to 25% of the average daily trading volume, or to 50% of this trading volume provided that the competent authority is notified;

e) Publicly disclose any transactions performed, that are relevant according to the applicable regulations, until the end of the third working day subsequent to the date on which such transaction occurred;

f) Notify the competent authority of all the purchase and sale transactions performed until the end of the third working day subsequent to the date on which such transactions occurred;

g) Refrain from selling shares during the execution of the «Variable Remuneration Plans based on Financial Instruments» or other plans that may be governed by the Regulations mentioned in Recital b).

(...)
To the purposes herein, and in the case of acquisitions forming part of the «Variable Remuneration Plans based on Financial Instruments» or other plans that may be governed by the Regulations mentioned in Recital b), the Board of Directors may provide for the separation of the acquisitions and respective systems according to the specific programme in which they are included, and refer such separation in the public notification that may be issued."
(...)
The proposal was open for discussion, and as no one wished to take the floor, the Chairman put it to the vote, and it was approved by a majority of 29,422 924 votes, with 36,597 dissenting votes and 15,621 abstentions, in a total of 29,475,142 votes present.

The meeting continued to Item Eight: "Resolve on a proposal to subject Banco Espírito Santo, S.A. – Branch in Spain to the Spanish Special Regime for Groups of Companies, as regulated in Chapter VII of Heading VII of Spain's Royal Legislative Decree 4/2004, of March 5th, which approved the Revised Text of the Corporate Tax Income Law in Spain." about which the Board of Directors of Banco Espírito Santo, S.A. submitted the proposal transcribed below:

"Whereas it is in the interest of BES to establish in Spain, as from 2015, a tax consolidation scheme (group of companies for tax purposes) applying to the companies Banco Espírito Santo, S.A. – Branch in Spain (dominant), Espírito Santo Servicios, S.L. (dependent) and Espírito Santo Vanguarda, S.L. (dependent).

Whereas the Agência Tibutária, Spain's tax authority, requires as a formal requirement to that effect that the general meeting of each of the aforementioned companies approve the establishment of said Group.

Banco Espírito Santo, S.A. must therefore obtain from its shareholders the approval to integrate said taxation group through its Branch in Spain.

In light of the above the Board of Directors of Banco Espírito Santo, S.A. submits to the Shareholders, for appreciation and approval, the following motion:

Due to the requirements of Article 70 of Real Decreto Legislativo 04/2004 of March 5th, which approves the Texto Refundido da Ley del Impuesto sobre Sociedades (hereinafter called "Corporate Tax Income Law"), the Shareholders of Banco Espírito Santo, S.A. resolve to approve the subjection of Banco Espírito Santo, S.A. – Branch in Spain to the provisions of the special regime for groups of companies, as regulated in Chapter VII of heading VII of said Law.

The Group of entities for which application of said special regime is requested shall be formed by Banco Espírito Santo, S.A., Branch in Spain, CIF W0102800J, as the dominant entity, Espírito Santo Servicios, S.L. CIF B 81525776 and Espírito Santo Vanguarda, S.L. CIF B 86313954, the last two as dependent entities, which fulfil the requirements set forth in Article 67 of the Corporate Tax Income Law.

This decision shall take effect as from January 1st, 2015, all in conformity to the provisions of Article 64 and following of said Corporate Tax Income Law."

The Chairman of the General Meeting declared the proposal open for discussion (...)
the proposal was put to the vote and approved by a majority of 29,455,648 votes, with 584 dissenting votes and 18,910 abstentions, in a total of 29,475 142 votes present.

(...)
There being no further matters to discuss, the Chairman of the General Meeting declared the meeting closed at twelve hours and forty minutes, in record whereof these minutes have been drawn up and will be signed by the Members of the Board of the General Meeting and by the Company Secretary.

1) Royal Legislative Decree (Spain)
2) Revised Text of the Corporate Tax Income Law (Spain)

Cover Photo:
Institutional Campaign Banco Espírito Santo " Recuperar a Esperança "

BES art COLECÇÃO BANCO ESPÍRITO SANTO

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