RELEASE

BANCO ESPÍRITO SANTO GROUP ACTIVITY AND RESULTS IN 2012

(Unaudited financial information under IFRS as implemented by the European Union)
(BES; Bloomberg: BES PL; Reuters: BES.LS)
Lisbon, 5 February 2013

- BES Group posted net income of EUR 96.1 million in 2012, which compares with a loss of EUR 108.8 million in 2011. This recovery was achieved in a context of an unprecedented economic and financial crisis and of the implementation of the demanding Adjustment Programme agreed between the Portuguese government and the ECB, the European Commission and the IMF. The year's net income comprises the adjustment made in May due to acquisition of control of BES Vida, with a negative impact of EUR 54.1 million.

- Despite the adverse context, commercial banking income increased by 1.9%, with total banking income rising by 32.2% and the net operating income by 74.2%, underpinned by gains on financial transactions. However, the increase in income generation was largely absorbed by high provisioning costs, which were up by 41.4%.

- Provisions were reinforced by EUR 1.2 billion due to the impacts of the economic recession. The overdue loans (>90 days) ratio increased to 3.90% (Dec.11: 2.74%) and the credit at risk ratio reached 9.44% (Dec.11: 6.59%). Provisions were consequently increased from 1.17% of gross loans in 2011 to 1.62% in 2012, corresponding to a credit impairment cost of EUR 814.8 million (+35.7%). The balance of provisions for credit increased by 24.2% YoY, to EUR 2.7 billion.

- The provision coverage of overdue loans (>90 days), at 136.9%, remains comfortably above 100%, while the coverage of credit at risk was 56.6%. The Provisions for Credit / Gross Loans ratio was 5.34% (Dec.11: 4.23%).

- The loan to deposits ratio improved to 137% (Dec.11: 141%), backed by a EUR 812 million contraction in the loan book due to the deleveraging process combined with a EUR 334 million increase in deposits. The marked improvement in liquidity levels permitted to reduce net loans from the ECB to EUR 6.9 billion (Dec.11: EUR 8.7 billion; Jun.12: EUR 13.7 billion). At the end of January 2013 BES Group repaid in advance EUR 1.0 billion of the ECB LTRO facility. The markets' positive performance in 2Q12 allowed the Group to make two issues of unsecured bonds (EUR 750 million in October and EUR 450 million in November). In January 2013 the Group issued unsecured senior debt again, amounting to EUR 500 million.

- BES Vida, whose control was acquired at the beginning of May at the same time as BES's capital increase, showed a spectacular rebound in activity and results. BES Vida contributed with EUR 68.7 million to BES Group's 2012 consolidated results, of which EUR 122.7 million were generated by current activity and EUR -54.1 concern the impact of acquisition of control (BES Vida results in 2011: EUR – 78.8 million)

- The Core Tier I ratio increased to 10.5%, meeting the Bank of Portugal's minimum requirement (10%), and was 9.9% under the EBA criteria (minimum required: 9%). These solvency levels were achieved with BES's EUR 1,010 million capital increase concluded in May, which was fully subscribed by the Bank's shareholders and allowed the Group to maintain its strategic autonomy.

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MAIN INDICATORS

	31-Dec-2012	31-Dec-2011	Change
ACTIVITY (euro million)			
Total Assents[(1)]	97 765	98 589	-0,8%
Net Assets	83 691	80 237	4,3%
Gross Loans	50 399	51 211	-1,6%
Customer Deposits	34 540	34 206	1,0%
Core Capital - BoP	6 471	6 020	7,5%
Core Capital - EBA	6 095	-	-
SOLVENCY			
Solvency Ratio[(2)]			
- CORE TIER I - BoP	10,5%	9,2%	1,3 pp
- CORE TIER I - EBA	9,9%	-	-
- TIER I	10,4%	9,4%	1,1 pp
- TOTAL	11,3%	10,7%	0,6 pp
LIQUIDITY (euro million)			
ECB funds (net) [(3)]	6 897	8 677	- 1 780
Repoable Asstes	22 256	18 881	3 375
Loan/deposits ratio [(4)] (%)	137%	141%	-4 pp
ASSET QUALITY			
Overdue loans + 90 days / Gross loans	3,90%	2,74%	1,16 pp
Coverage of Overdue Loans + 90 days	136,9%	154,5%	-17,4 pp
Credit at Risk	9,44%	6,59%	2,85 pp
Provisions for Credit / Gross loans	5,34%	4,23%	1,11 pp
Cost of risk [(5)]	1,62%	1,17%	0,45 pp
RESULTS & PROFITABILITY			
Resultado do Exercício (M€)	96,1	-108,8	....
ROE	1,25%	-0,05%	....
ROA	0,12%	0,00%	0,12 pp
EFFICIENCY			
Cost to Income	44,6%	57,9%	-13,3 pp
Cost to Income (ex markets)	57,2%	57,3%	-0,1 pp
BRANCH NETWORK			
Retail Network	775	801	-26
- Domestic	666	701	-35
- International	109	100	9

(1) Net Assets + Asset Management + Other off-balance sheet liabilities + Securitised Credit
(2) Accroding to IRB Foundation; preliminary December 2012 data
(3) ncludes funds from and placements with the ECB System; positive = net borrowing; negative = net lending
(4) Ratio calculated according to BoP definition for the Funding & Capital Plan
(5) P&L provisions / Gross Loans

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1. ECONOMIC ENVIRONMENT

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

However, the second half of the year saw the stabilisation of the financial markets at the same time as fears about the fragmentation of the Euro Area receded, translating into the contraction of spreads against Germany of the yields of peripheral economies' public debt securities. In addition to some progress made towards greater financial and fiscal integration, this improvement in sentiment mainly resulted from the ECB's launch of its Outright Monetary Transactions programme, which opened the possibility for unlimited purchases of Euro Area public debt securities, as a complement to a possible formal financial assistance programme under the European Stability Mechanism (ESM). The impact of strongly expansionary monetary policies, e.g. the reinforcement of quantitative easing by the US Federal Reserve, also induced greater propensity to risk at a global level. In this context, in the US the S&P500 index advanced by 13.4%, while in Europe the DAX and CAC40 posted annual gains of 29.1% and 15.2%, respectively. The PSI-20 and IBEX, although not performing so well in annual terms (+2.9% and -4.7%, respectively), registered sharp increases in the last quarter of the year (+8.7% and +5.95%). After a last cut of 25 bps in July, the ECB maintained the key benchmark rate unchanged for the rest of the year, at 0.75%. The 3-month Euribor slid from 1.356% to 0.187% in the year, while the euro advanced by 1.8% against the dollar, to 1.32.

In Portugal, GDP contracted by ca. 3% in 2012 as consumption and investment retreated sharply, while the rate of unemployment rose to close to 16% of the labour force. Exports, though tending to slow down, still grew by just over 4% in real terms. The deleveraging and growing saving levels among all institutional sectors led to a steep reduction in the external deficit, which nearly flattened out at the end of the year. The positive reviews of the implementation of the Adjustment Programme contributed, together with the stabilising course of action undertaken by the ECB, to the gradual stabilisation of financial conditions in the Portuguese economy, as seen in the reduction of public debt yields and credit spreads and the reopening of wholesale debt markets to businesses and banks.

2. RESULTS

BES Group's activity and results in 2012 were determined by the very adverse economic and financial conditions in Europe in general, stemming from the European policies viewing the stabilisation of the Eurozone, and in Portugal in particular from the execution of the Adjustment Programme agreed with the international institutions. The consequent adoption by the Portuguese government of restrictive fiscal policies combined with the deleveraging process under way among companies and families slashed investment and demand, with strong impacts in terms of a contraction of economic activity, rising unemployment and also a significant improvement of the trade balance.

The long-standing Portuguese external deficit should have nearly flattened out in 2012, while the climate in the financial markets improved significantly in the second half of the year, namely as a result of the ECB's announcement of its Outright Monetary Transactions (OMT) programme, which led to a sharp reduction in the credit spreads demanded from the Portuguese Republic and the Portuguese companies.

Income Statement

Eur million

	2012	2011	Change	
			absolute	relative
Net Interest Income	1 180,5	1 181,6	- 1,1	-0,1%
+ Fees and Commissions	828,4	790,5	37,9	4,8%
= Commercial Banking Income	**2 008,9**	**1 972,1**	**36,8**	**1,9%**
+ Capital Markets and Other Results	569,5	- 21,9	591,4	....
= Banking Income	**2 578,4**	**1 950,2**	**628,2**	**32,2%**
+ Insurance Premiums and Costs	0,7	-	0,7	-
- Operating Costs	1 149,1	1 129,2	19,9	1,8%
= Net Operating Income	**1 430,0**	**821,0**	**609,0**	**74,2%**
- Provisions	1 199,4	848,3	351,1	41,4%
Credit	814,8	600,6	214,2	35,7%
Securities	106,6	73,3	33,3	45,4%
Other	278,0	174,4	103,6	59,4%
= Income before Taxes and Minorities	**230,6**	**- 27,3**	**257,9**	**....**
- Income Tax	82,8	- 61,6	144,4	....
- Special Tax on Banks	27,9	30,5	- 2,6	-8,5%
= Income Before Minorities	**119,8**	**3,8**	**116,0**	**....**
- Minority Interests	23,7	112,6	- 88,8	-78,9%
= Net Income	**96,1**	**- 108,8**	**204,8**	**....**

BES Group posted net income of EUR 96.1 million in 2012, which compares with a loss of EUR 108.8 million in 2011. Excluding non recurrent factors, the 2012 net income would be EUR 194.9 million (2011: EUR 166.6 million).

Non recurrent impacts

EUR million

	2012	**2011**
Net Income	96,1	-108,8
2011 non-recurrente losses [1]	-	275,4
BES Vida acquisition Impact	54,1	-
OIP Impact [2]	55,0	-
Gespastor Indemnity	-10,3	
Net Income excluding non-recurrent items	**194,9**	**166,6**

[1] Transfer of the pension fund to social security (76,1M€); impairment related to BES Vida (143,9M€); Loan disposals (55,4M€)

[2] On-site Inspection Programme

Besides the stark difficulties that characterised the year, the following aspects should be highlighted:

- banking income registered a small YoY increase (+1.9%), despite the deepening economic recession GDP11: -1.7%; GDP12: -3.0%);
- very positive performance of financial transactions, namely involving debt instruments, which boosted total banking income by 32.2% (+13.2% without non recurrent factors), to EUR 2,578.4 million, together with the contribution of BES Vida (EUR 158.4 million or 6% of BES Group's total);
- the strengthening of the balance sheet in light of the aggravation of the crisis required a EUR 1,199.4 million increase (+41.4%) in provisions;
- increase in operating costs (+1.8%) induced by the expansion of the international area (+9.3%), partially offset by the reduction in domestic costs (-2.5% on a comparable basis).

Domestic and International Activity

The domestic net income (EUR 8.5 million) strongly rebounded compared to 2011 (EUR -269.6 million). Commercial banking income increased by 8.9%, with total banking income benefiting from the investments in Portuguese public debt, which permitted to overcome the deterioration of impairments due to the economic recession. The year's pre-tax profit was EUR 100 million. However, the net income for the year was impacted by the increase in the income tax burden, namely due to the non acceptance of losses on the Group's strategic holdings for tax purposes.

The international area posted net income of EUR 87.6 million, despite being also affected by the economic and financial situation in some geographies, which led to a 2% reduction in banking income and required a

EUR 225.9 million reinforcement in provisions. The strategic decision to deleverage the international area, namely through sales of international loans, inevitably impacted its performance when compared to previous years.

The development and consolidation of the activity of the new international units in Venezuela and Luxembourg, the potential afforded by the expansion of the distribution network in Angola as well as the execution of BES Angola's new strategic plan, should, among others, provide solid bases allowing the international area to remain a dynamic contributor to BES Group's future value creation.

Domestic and International Income Statement

EUR million

	DOMESTIC			INTERNATIONAL		
	2012	2011	Change	2012	2011	Change
Net Interest Income	823,4	645,7	27,5%	357,1	535,9	-33,4%
+ Fees and Commissions	533,0	600,1	-11,2%	295,4	190,4	55,1%
= Commercial Banking Income	**1 356,4**	**1 245,8**	**8,9%**	**652,5**	**726,3**	**-10,2%**
+ Capital Markets and Other Results	498,5	- 34,0	....	71,0	12,1	....
= Banking Income	**1 854,9**	**1 211,8**	**53,1%**	**723,5**	**738,4**	**-2,0%**
+ Insurance Premiums and Costs	0,7	-	-	-	-	-
- Operating Costs	782,0	793,5	-1,4%	367,1	335,7	9,3%
= Net Operating Income	**1 073,6**	**418,3**	**....**	**356,4**	**402,7**	**-11,5%**
- Provisions	973,5	778,5	25,0%	225,9	69,8	....
Credit	723,8	538,2	34,5%	91,0	62,4	45,9%
Securities	103,3	73,4	40,7%	3,3	- 0,1	....
Other	146,4	166,9	-12,3%	131,6	7,5	....
= Income before Taxes and Minorities	**100,1**	**- 360,2**	**....**	**130,5**	**332,9**	**-60,8%**
- Income Tax	66,6	- 119,8	....	16,2	58,2	-72,1%
- Special Tax on Banks	27,9	30,5	-8,5%	-	-	-
= Income Before Minorities	**5,6**	**- 270,8**	**....**	**114,3**	**274,7**	**-58,4%**
- Minority Interests	- 2,9	- 1,3	....	26,6	113,9	-76,6%
= Net Income	**8,5**	**- 269,6**	**....**	**87,6**	**160,8**	**-45,5%**

The business units within the strategic triangle once again confirmed their key role, posting net income of EUR 60.7 million, which represents 69.3% of the international area's total net income. The Group's units in Africa, Spain and the United Kingdom continued to give a decisive contribution to BES Group's profit generation. The reduction under "Other" stems from the negative contribution of the new units which are still in a start-up phase.

Geographical Breakdown of International Activity Results

EUR million

	2012	2011	Change
Africa[1]	33,9	91,0	-62,8%
Brazil	11,1	20,4	-45,8%
Spain(2)	15,7	9,9	59,0%
STRATEGIC TRIANGLE	**60,7**	**121,3**	**-50,0%**
United Kingdom	19,2	18,6	3,2%
USA	5,9	14,3	-59,1%
Other	1,8	6,5	-72,3%
TOTAL	**87,6**	**160,8**	**-45,5%**

(1) Angola, Mozambique, Cape Verde and Libya

(2) Includes EUR 10.3 mn non recurrent income in 2012

2.1 Net interest income

Net interest income remained flat YoY, at EUR 1,181 million. The increase in the net interest margin (+2 bps, from 1.68% to 1.70%) compensated the reduction in interest earning assets (- EUR 836 million), with the margin and volume effects cancelling each other out.

The improvement of the net interest margin was backed by a 4 bps increase in the average rate on interest earning assets (in particular the portfolio of Securities and Other investments drove up the average rate by 60 bps, from 4.85% to 5.45%), while the average rate on interest bearing liabilities rose by 2 bps, to 3.44%, underpinned by a 34 bps increase, from 3.62% to 3.96%, in the average rate on the Debt securities and Other liabilities.

Net Interest Income and Net Interest Margin

EUR million

	2012			2011		
	Average Balance	Avg Rate (%)	NII	Average Balance	Avg Rate (%)	NII
Interest Earnings Assets	69 443	5,14	3 571	70 267	5,10	3 587
Customer Loans	50 316	5,02	2 527	51 520	5,20	2 678
Other Assets	19 127	5,45	1 043	18 747	4,85	909
Oither	-	-	-	12	-	-
Interest Earning Assets & Other	**69 443**	**5,14**	**3 571**	**70 279**	**5,10**	**3 587**
Interest Bearing Liabilities	68 161	3,51	2 390	70 279	3,42	2 405
Deposits	34 030	3,05	1 038	32 535	3,19	1 038
Other Liabilities	34 131	3,96	1 352	37 744	3,62	1 367
Other	1 282	-	-	-	-	-
Interest Bearing Liabilities & Other	**69 443**	**3,44**	**2 390**	**70 279**	**3,42**	**2 405**
NIM/NII		**1,70**	**1 181**		**1,68**	**1 182**
Euribor 3 M - average		**0,57%**			**1,39%**	

Despite BES's successful placement of two unsecured bond issues in the second half of the year (EUR 750 million in October and EUR 450 million in November), NII management continued to be pursued in a context of restricted access to the financial markets, fierce competition over customer funds, the increase in risk and asset impairment levels and constraints to the expansion of the activity resulting from the deleveraging.

- the cost of interest bearing liabilities totalled EUR 2,390 million, with the average rate on deposits decreasing by 14 bps, to 3.05%; however, the increase in the differential vis-à vis the market's average reference rate (the 3-month Euribor), to 248 bps (3.05 – 0.57), from 180 bps (3.19 – 1.39) in 2011 permitted a substantial improvement in the depositors' returns;
- interest on loans totalled EUR 3,571 million, underpinned by the improvement in the average rate on Securities and Other investments (+60 bps, to 5.45%) that mainly translates the implicit yields of the Portuguese public debt portfolio. The full year average interest rate on loans (5.02%) represents a very good cost of funding for the clients, namely corporate clients, when compared to the cost imposed by the financial markets on both the Republic and the financial sector.

2.2 Fees and Commissions

Fees and commissions increased by 4.8% (+EUR 37.9 million), driven by innovation and the adjustment of the offer of products and services to the needs of the clients. Excluding the cost of the guarantees provided by the Portuguese State (2012: EUR 58.5 million; 2011: EUR 8.0 million), fees and commissions increased by 11.1%.

Fees and Commissions

EUR million

	2012	2011	Change	
			absolute	relative
Collections	17,0	19,7	-2,7	-13,7%
Securities	73,4	89,9	-16,5	-18,4%
Guarantees	139,6	125,4	14,2	11,3%
Account management	79,0	81,1	-2,1	-2,6%
Commissions on loans and other (1)	155,4	176,2	-20,8	-11,8%
Documentary credit	87,1	81,4	5,7	6,9%
Asset management (2)	85,9	85,8	0,1	0,2%
Cards	56,7	40,9	15,8	38,5%
Bancassurance	47,6	34,9	12,7	36,3%
Other services (3)	86,7	55,2	31,5	57,1%
TOTAL	**828,4**	**790,5**	**37,9**	**4,8%**
State Guarantees	58,5	8,0	50,5	....
TOTAL	**886,9**	**798,5**	**88,4**	**11,1%**

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

(2) Includes investment funds and discretionary management

(3) Includes costs with State Guarantees

Commissions on bancassurance products (saving and insurance products) increased by 36.3%, underpinned by BES Vida's new commercial dynamics and revamped offer; commissions on guarantees provided rose by 11.3%, increasingly driven by commissions linked to the Express Bill product; card commissions grew by 38.5%; commissions on documentary credit were up by 6.9%, boosted by the trade finance business with South America; commissions on account management (chiefly relating to commissions on current accounts, transfers, and payment orders) totalled EUR 79.0 million, being close to the 2011 level despite the impact of the economic recession; finally, income from commissions on advisory services, servicing and other also increased, supported by the international area.

Commissions and fees related to capital markets (namely commissions on securities) and financings (collections, loans, corporate and project finance) decreased as a result of the deleveraging process and, particularly at domestic level, the impact of the economic recession.

2.3 Capital markets and other results

Capital markets & other results totalled EUR 569.5 million, which compares with EUR -21.9 million in 2011.

Capital markets and other results

EUR million

	2012	2011	Change
Interest rate, Credit and FX	**825,0**	**142,6**	**682,4**
Interest rate	781,3	84,1	697,2
Credit	32,5	117,1	-84,6
FX and Other	11,2	-58,6	69,8
Equity	**-126,5**	**125,8**	**-252,3**
Trading	-199,1	-41,9	-157,2
Dividends	72,6	167,7	-95,1
Other Results	**-129,0**	**-290,3**	**161,3**
TOTAL	**569,5**	**-21,9**	**591,4**

The start of the year was marked by the downgrade of the Portuguese Republic's rating, leading to the exclusion of the Portuguese public debt securities from the indexes of investment grade funds and pushing up yields to historically high levels. In this context, BES Group, which then held mostly short-term public debt in its securities portfolio, moved towards exposures with longer maturities, thus increasing the portfolio's average maturity. The monetary policy measures meanwhile adopted by the ECB boosted investors' demand for Portuguese bonds, being responsible for the extraordinary performance of the Portuguese yield curve, which culminated in January 2013 with the successful issuance of 5-year bonds.

BES Group thus sold part of its bond portfolio, with gains on interest rate, credit and fx instruments. However, the poor performance of the equity markets, particularly in the first three quarters of the year (namely of the Group's strategic holdings in Portugal Telecom and EDP), had a negative impact on capital markets results. Other results include EUR -54.1 million concerning the impact of the acquisition of control of BES Vida.

2.4 Operating costs

Operating costs totalled EUR 1,149.1 million in 2012, which represents a YoY increase of 1.8% only. On a comparable basis, i.e., excluding the impacts of the full consolidation of BES Vida and the start-up of the new BES branches, operating costs would be flat (+0.3%).

Operating costs

EUR million

	2012	2011	Change absolute	Change relative
Staff Costs	598,9	587,5	11,4	1,9%
Administrative Costs	442,1	433,8	8,3	1,9%
Depreciation	108,1	107,9	0,2	0,2%
TOTAL	**1 149,1**	**1 129,2**	**19,9**	**1,8%**
Domestic	782,0	793,5	-11,4	-1,4%
International	367,1	335,7	31,4	9,3%
Costs with BES Vida and new offices	18,5	1,7	16,8	....
TOTAL	**1 130,6**	**1 127,5**	**3,1**	**0,3%**

Despite the full consolidation of BES Vida, domestic costs decreased by 1.4% (-2.5% on a comparable basis), while international costs increased by 9.3%, largely due to the expansion of the distribution network in Angola and the start of operation of the two new branches abroad (+6.9% on a comparable basis).

Staff costs

EUR million

	2012	2011	Change absolute	Change relative
Remunerations	483,8	471,6	12,2	2,6%
Pensions, Long term service benefits & Other	115,1	115,9	-0,8	-0,7%
TOTAL	**598,9**	**587,5**	**11,4**	**1,9%**
Domestic	389,7	395,2	-5,5	-1,4%
International	209,2	192,3	16,9	8,8%

Staff costs increased by 1.9%, slowing down from 19.1% in 2011. This increase was driven by the international area, where the admission of 141 new employees drove up costs by 8.8%. Domestic staff costs declined by 1.4% due to the reduction of variable remunerations and the downsizing of the workforce by 136 employees (excluding the BES Vida consolidation impact).

The general administrative costs increased by 1.9%. Depreciation and amortisation totalled EUR 108.1 million, reflecting the rollout of new IT systems to support the international units. The domestic operations' depreciation and amortisation dropped by 4.8%, despite the impact of the closure of 41 branches, which led to exceptional amortisations of EUR 1.6 million.

2.5 Efficiency

The total Cost to Income improved to 44.6% as a result of the increase in total banking income (+32.2%) above the increase in operating costs (+1.8%). The Cost to Income excluding capital markets and other results remained flat YoY, at 57.2%.

Efficiency

	2012	2011	Change
Cost to Income	44,6%	57,9%	-13,3 p.p.
Cost to Income (ex-markets)	57,2%	57,3%	-0,1 p.p.

2.6 Provisions

The current context of economic recession and consequent increase in risk levels has forced the Group to increase provisions in order to face the devaluation of assets. The balance of provisions for credit increased by 24.2%, to EUR 2,692.3 million on 31 December 2012, lifting the credit provisions/gross customer loans ratio to 5.34% (2011: 4.23%).

Credit provisions

EUR million

	2012	2011	Change	
			absolute	relative
Gross Loans	50 399	51 211	- 812	-1,6%
Credit Provisioning Charge	814,8	600,6	214,2	35,7%
Provisions for credit	2 692,3	2 167,4	524,9	24,2%
Provision Charge	1,62%	1,17%	0,45 pp	
Provisions for credit / Gross Loans	5,34%	4,23%	1,11 pp	

Credit provisions were reinforced by 35.7% in 2012, to EUR 814.8 million (2011: EUR 600.6 million), including an additional charge of EUR 78 million resulting from the On-site Inspection Programme (OIP), which will be explained further down. The year's provision charge (1.62%) was thus 45 bp. higher than in 2011 (1.17%).

Provision charges

EUR million

	2012	2011	Change	
			absolute	relative
Credit Provisions	814,8	600,6	214,2	35,7%
Securities Provisions	106,6	73,3	33,3	45,4%
ow loans disposals	*50,8*	-	-	-
Other Provisions	278,0	174,4	103,6	59,4%
ow loans disposals	*85,8*	*23,0*	*62,8*	*...*
TOTAL	**1 199,4**	**848,3**	**351,1**	**41,4%**

Provisions for securities and other purposes also required a larger charge than in 2011. This is related to the credit assignment operations conducted in 2012. As part of the process of restructuring the real estate and tourism sector conducted during the year, several initiatives were launched so as to set in place the financial, operational and management conditions required to reorganise and stimulate the sector. The Government, in close association with companies and the financial sector, encouraged the creation of companies and funds in order to, through merger and concentration operations, achieve the necessary synergies for the sector's recovery. Banks enter the capital of these companies through the assignment of credits, which, for reasons of efficiency in the organisation of the operations, originate a reallocation of provisions, associating them to the financial instruments acquired through the assignment of credits – to securities when shares and participation units are subscribed, and to other assets when accessory capital, supplementary capital or shareholder loans are provided.

In addition, provisions for foreclosed real estate assets (EUR 39 million), for other contingencies (EUR 47 million), and for non financial assets of the international area were also reinforced

Outcomes of the On-site Inspections (OIP) programme on exposure to the construction and real estate sectors

Within the scope of its supervisory action, the Bank of Portugal decided to pay special attention to banks' exposure to the construction and real estate sectors, which have been particularly affected by the current macroeconomic context. For this reason, as part of regular prudential supervision activity, an On-site Inspections Programme was developed on the exposure of financial institutions to the construction and real estate sectors in Portugal and Spain (OIP – On-site Inspections Programme), with reference to 30 June 2012. Its purpose was to assess the adequacy of impairment levels recorded with regard to exposure to the sectors in question, based on conservative assessment criteria. This inspection programme involved, on a consolidated basis, the eight largest national banking groups, including Espírito Santo Financial Group (ESFG). BES Group was subject to the inspections programme since it is fully consolidated by ESFG.

The inspection took as a reference the balance sheet position on 30 June 2012, considering also information and events occurred from 1 July up to the conclusion of works, on 16 November 2012. The programme estimated that BES Group needed to reinforce provisions by EUR 98 million (0.9% of the exposure analysed) relative to the balance sheet position as at 30 September 2012, which was meanwhile published. Of this amount EUR 78 million (0.7% of the exposure) relate to differences of judgements concerning the amounts of impairment to be recognised for certain credits. As of 31 December 2012 all reinforcements were duly booked.

2.7 Profitability

The table below shows the evolution of return on equity (ROE) and return on assets (ROA):

Profitability

	2012	2011
Return on Equity	1,25%	-0,05%
Return on Assets	0,12%	0,00%

3. ACTIVITY

3.1 General overview

Adding on to macroeconomic restraints, activity in the Portuguese banking sector in 2012 remained constrained by the requirement imposed on banks to meet the targets set for the end of 2014 concerning the loans to deposits ratio, solvency, and share of stable liabilities in the funding of the activity.

The progressive deleveraging of the balance sheet, the reinforcement of equity, a selective support to the business sector (in particular to the exporting companies), and greater focus on obtaining savings from individual clients were the main guidelines of BES Group's activity in 2012.

Assets, Credit and Customer Funds

EUR million

	31-Dec-2012	31-Dec-2011	Change	
			absolute	relative
Total Asstes [1]	**97 765**	**98 589**	**- 824**	**-0,8%**
Net Assets	**83 691**	**80 237**	**3 454**	**4,3%**
Customer Loans (gross)	**50 399**	**51 211**	**- 812**	**-1,6%**
Loans to Individuals	13 762	14 326	- 564	-3,9%
- Mortgage	11 134	11 610	- 476	-4,1%
- Other Loans to Individuals	2 628	2 716	- 88	-3,2%
Corporate Lending	36 637	36 885	- 248	-0,7%
Total Customer Funds	**56 188**	**54 383**	**1 805**	**3,3%**
On-Balance Sheet Customer Funds	44 785	44 147	638	1,4%
- Deposits	34 540	34 206	334	1,0%
- Debt Securities placed with Clients [2]	5 254	6 463	-1 209	-18,7%
Life Insurance[3]	4 991	3 478	1 513	43,5%
Off-Balance Sheet Customer Funds	11 403	10 236	1 167	11,4%
Loans / Deposits[4]	**137%**	**141%**	**-4** p.p.	

[1] Net Assets + Asset Management + Off-Balance sheet items + Non consolidated Secuiritised credit
[2] Includes funds associated with consolidated securitisations and commercial paper
[3] Dec,11 data reclassified for comparation
[4] Ratio calculated based on the definition of BoP

Total assets decreased by 0.8% as a result of the execution of the deleveraging programme. Net assets increased by EUR 3.5 billion (+4.3%) due to the full consolidation of BES Vida. Excluding this impact, Net assets evolved in line with the deleveraging effort, declining by 1.5%.

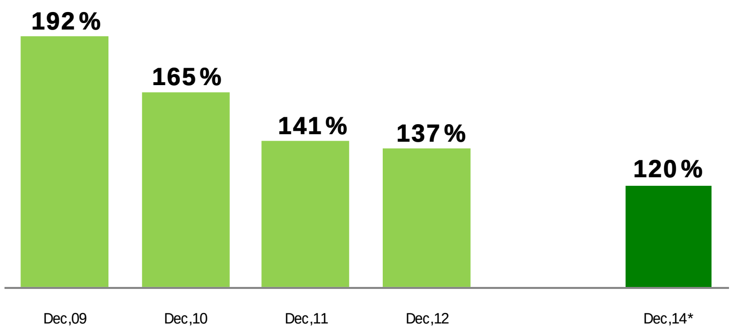
Customer loans show one of the highest reductions from among all asset components, dropping by EUR 812 million (-1.6%), with decreases across all segments but particularly in Other loans to individuals (-3.2%); Corporate loans declined by 0.7%.

Total customer funds increased by 3.3% (2011: -2.9%), reversing the downward trend observed throughout the year; customer deposits increased by EUR 334 million (+1.0%), while on-balance sheet customer funds (bonds and other securities) decreased by EUR 1.2 billion.

As a result of the increase in deposits combined with the reduction in credit the loan to deposits ratio was 137% (in accordance with the Bank of Portugal's criteria for calculating the medium term target ratio).

Loan to Deposits Ratio

(Calculated under the terms of BoP Funding & Capital Plan)

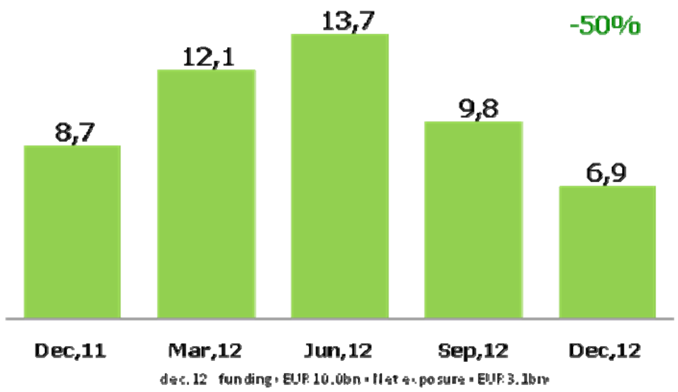


(*) Goal

As to other funding components, equity increased by EUR 1.5 billion due to the capital increase and the recovery of fair value reserves, while net funding from the ECB decreased by 50% versus the peak attained in June 2012, to EUR 6.9 billion.

ECB Funding [1]

(EUR billion)

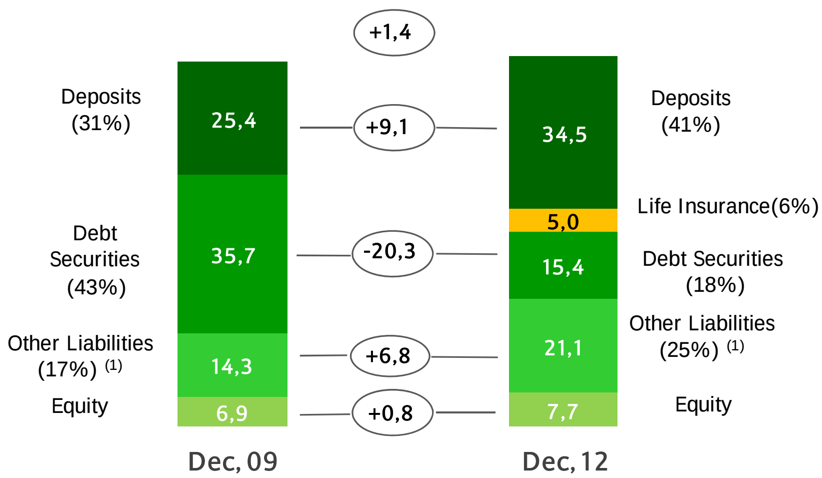


At the end of January 2013 BES Group repaid in advance EUR 1.0 billion of the ECB LTRO facility.

In the fourth quarter, the structure of liabilities and equity continued to evolve along the previous lines, i.e., towards an increase in the share of customer deposits and lower dependence from the financial markets, viewing compliance with the guidelines for the financial sector agreed with the international institutions and thus making financial management more autonomous and less dependent on cyclical fluctuations in the debt markets.

Structure of liabilities and equity

(EUR billion)



(1) Includes ECB liquidity facilities

In December 2009 (immediately before the escalation of the Eurozone crisis at the start of 2010) debt securities totalled EUR 35.7 billion, representing the largest share of total asset financing sources (43%, or EUR 82.3 billion). In December 2012 deposits had become the main financing source (41%, or 47% if also considering life insurance products sold to clients), with debt securities representing only 18% of assets.

International activity

The international units benefited from the dynamics of the economies where they operate, namely the emerging economies: assets grew by 16.8%, while the loan portfolio increased by 12.6% and total customer funds increased by 13.5% driven by the debt securities placed with institutional clients, mainly by BES London branch.

International and Domestic Activity

EUR million

	Domestic			International		
	31-Dec-2012	31-Dec-2011	Change	31-Dec-2012	31-Dec-2011	Change
Total Assets [1]	70 252	72 711	-3,4%	27 513	25 878	6,3%
Assets	59 176	59 249	-0,1%	24 515	20 988	16,8%
Loans to Customers (gross)	38 191	40 365	-5,4%	12 208	10 846	12,6%
Total Customer Funds	42 694	42 478	0,5%	13 494	11 905	13,5%
Loans / Deposits [2]	136%	140%	-4 p.p.	143%	148%	-5 p.p.

[1] Net Assets + Asset Management + Off-Balance sheet liabilities+ Non consolidated secuiritised credit

[2] Ratio calculated under the BoP definition

3.2 Main business areas (Operating Segments)

BES Group overview

The BES Group develops its activity supported by a set of value propositions aimed at meeting the needs of its diverse client base: companies, institutions and individual clients. Its decision-making centre is located in Portugal, which is also its main market of operation.

The historic links with Africa and South America, notably with Angola and Brazil, the internationalisation of Portuguese companies, the growing interdependence of the Iberian economies and the large communities of Portuguese nationals established across various continents have provided the basis for the international expansion of BES Group, which in early 2012 was extended to Venezuela and Luxembourg.

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 (since the acquisition of BES Vida in May 2012)
- Markets and Strategic Investments
- Corporate Centre

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

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

3.2.1 Retail

This segment includes activity with individuals and small businesses, most notably deposit taking, sale of saving products, commissions for account management, cards and other means of payment, insurance products, investment funds, brokerage of securities, custody services, mortgage credit, consumption credit and financing of small businesses.

Retail Banking

EUR million

	Dec,12	Dec,11	Chg
BALANCE SHEET			
Customer Loans (gross)	15 680	16 910	-7,3%
Customer Funds	12 289	12 544	-2,0%
INCOME STATEMENT			
Commercial Banking Income	607,3	539,0	12,7%
Capital Mkts & Other Results	35,4	36,1	-1,9%
Banking Income	642,7	575,1	11,8%
Operating Costs	408,4	422,4	-3,3%
Provisions	74,5	67,4	10,5%
Income Before Tax	159,8	85,3	87,3%
Cost to Income	63,5%	73,4%	-9,9 pp

This business area was supported by a network of 666 branches in Portugal at the end of 2012 (net reduction of 35 branches since the start of the year resulting from 40 closures and 5 openings). This streamlining process permitted to achieve a 3.3% YoY reduction in operating costs. The network includes 43 on-site branches resulting from partnerships with insurance agents under the Assurfinance programme.

Retail activity continued to see a solid and significant growth trend in total customer funds (+9.0% YoY). On-balance sheet customer funds decreased by 2.0% but on the other hand off-balance sheet investment and saving products increased by ca. 23%.

The growth of Retail customer funds in 2012 was also underpinned by an influx of new clients: a total of 100 thousand new clients were acquired since the start of the year (+4.7% YoY), as a result of coordinated action between the branch network and other client acquisition channels, in particular the Cross-segment and Assurfinance programmes, as well as the external promoters. The Assurfinance programme maintained a decisive contribution to the commercial performance of Retail, contributing with the acquisition of 19.7% of all the new clients. Total client acquisition in 2012, including the international units, reached 156.1 thousand clients.

The growth of customer funds was also driven by strong demand for the innovative saving products launched by BES Group during the year, such as planned and micro saving solutions, which have reached ca. 346 thousand accounts at the end of December 2012. The Retail area maintains a constant and dynamic management of the customer funds margin in order to protect banking income growth, which increased by 11.8%% YoY. This increase, combined with reductions in costs and in impairment losses, allowed the area to increase pre-tax earnings by 90.4% YoY in 2012.

During the year the Retail area maintained selective loan granting policies, and achieved significant results in cross-selling, where commercial results are supported by a wide range of innovative products, services and tools. Special highlight should be given to the growth achieved across the various areas of insurance production: life and disability insurance unrelated to mortgage credit (+130%), home insurance unrelated to mortgage credit (+x32%), and salary protection insurance, a particularly relevant product in the current economic context (+4%).

The use of the **Direct Channels** continued to increase: the internet banking service for individual clients – **BESnet** – achieved a 9.4% YoY increase in the number of subscribers, consolidating its leading position in terms of internet banking penetration in Portugal, with a share of 43.6% of the customer base (according to Marktest), while the number of logins reached 24.6 million (+ 2.8% YoY).The **BESmobile** service, launched in 2011, maintained strong growth, with the number of very frequent users reaching 40,000. During the year the Direct Channels consolidated their 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, maintaining the possibility to interact directly, either through the servicing platform (BESnet mail) or with a BESdirecto operator, who can connect to the branch, if necessary; (ii) strong bet on the saving and investment offer, where products can either be subscribed directly by the client or with help from a specialised team, by phone or chat; (iii) integration of the CRM platforms between the branch, BESnet and BESdirecto, with the possibility of referral to the branch for commercial follow-up, and using a real time automatic decision model permitting to adjust the offer to the clients; and (iv) inclusion of added value functionalities, namely the “BES Family Budget”, which automatically classifies expenses thus proving a valuable tool in the current economic context, in which saving and accurate planning are increasingly important. The stock of term deposits subscribed through BESnet grew by 76% in 2012, reaching EUR 412 million.

In 2012 **Banco Best** received two awards that emphasise and reward its positioning as innovation leader in the offer of financial products and services in Portugal: (i) the prize for ‘Best Site/ Mobile App for eCommerce’ awarded by ACEPI, a Portuguese Electronic Commerce and Interactive Advertising Association, within the scope of its Navegantes XXI Prizes (the Mobile Banking service, available through a mobile browser at www.bancobest.pt/m, Apps for iPhone, iPad and Smartphones, and Android Tablets, was considered the most comprehensive in the Portuguese market); (ii) a honourable mention from IDC, a market intelligence firm, for its gamification project, a digital animation where a football tournament with various rounds emulates the management of a portfolio of investment funds.

Bond trading volume reported expressive growth during the year, driven by the success of the ‘Bonds For All’ service, which gives private investors online access to trading in a wide range of bonds, including Portuguese public debt, Portuguese corporate bonds or bonds issued by important international organisations. Trading volume through this service reached ca. EUR 268 million in 2012. In December 2011 Saxo Capital Markets UK started outsourcing its entire activity to Banco Best, including the IT platform, operations, custody services, and the settlement and trading/contracting of third-party products and services, representing a real time online offer of more than 6 thousand products in the United Kingdom. This initiative attests to the capabilities of BEST’s platform to provide financial intermediation services in one of the most competitive and sophisticated financial markets in the world. In 2012 client assets under custody reached close to EUR 2.0 billion. Net income for the year was EUR 8.5 million, which represents a YoY increase of 20%.

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

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

3.2.2 Corporate and Institutional Clients

This business area includes the business with large and medium-sized companies, as well as with institutional and municipal clients. BES Group holds a significant position in the Corporate and Institutional Customers segment, as a result of its traditional role in supporting the development of the national business community, where it targets companies with a good risk profile, innovative characteristics and a focus on exports.

Corporate and Institutional Clients

EUR million

	Dec,12	Dec,11	Chg
BALANCE SHEET			
Customer Loans (gross)	21 039	21 214	-0,8%
Customer Funds	10 449	10 539	-0,9%
INCOME STATEMENT			
Commercial Banking Income	465,2	418,1	11,3%
Capital Mkts & Other Results	7,0	10,9	-35,8%
Banking Income	472,2	429,0	10,1%
Operating Costs	61,1	65,0	-6,0%
Provisions	641,0	290,4	120,7%
Income Before Tax	-229,9	73,6	....
Cost to Income	12,9%	15,2%	-2,3 pp

This business area's results continue to be affected by the impact of overdue loan ratios, leading to the need to reinforce the segment's credit provisions.

To counter this effect, the Group has taken action at various levels: (i) intensification of risk prevention practices, namely by increasing the collateralisation of both new loans and loan portfolio; ii) regular revision of pricing policies for both credit spreads and interest rates on customer funds; and (iii) optimisation of the cost basis. The action taken at the pricing policy level allowed for a 10.1% YoY increase in the segment's banking income in 2012, while the cost restructuring measures resulted in a 6.0% YoY reduction in operating costs.

Despite the strong contraction of demand for credit from the business sector, new loans granted by BES Group remained practically on level with loan reimbursements, keeping the loan portfolio stable during the period – a fact that mirrors the Group's support to the corporate sector and the results of its specialised service for the exporting and innovative companies, the International Premium Unit (IPU). One of the main concerns has been to provide a comprehensive response to the needs of companies already or about to do business abroad. The model adopted relies on close coordination between BES' commercial team and the IPU, a solid international presence, a wide network of correspondent banks and the Bank's recognised knowhow and leadership in trade finance. As a result of this integrated approach, 43% of the Portuguese exporting companies are BES Group clients and BES' market share in trade finance reached 31%, representing a YoY increase of 2.2 pp.

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

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

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

- partnerships established with two important international banking groups for business development, especially in the areas of trade finance, corporate banking and investment banking, widen geographical scope of client support: Ecobank, a leading bank in Sub-Saharan Africa, which is present in 32 countries, and OTP, which operates in Central and Eastern Europe;
- participation in international business fairs, namely: Prowein, in the wine sector, held in Germany in June; Sial, a food and beverages fair held in China in May; Batimatec, in the construction and building materials sector, held in Algeria, also in May; and the FIA multi-sector trade fair (Algiers International Fair), held from May to June 2012;
- joint promoter (with AICEP and AIP) of the 7th edition of the Forum Portugal Exporter, the largest and most important event dedicated to the exports and internationalisation of the Portuguese companies.
- active participation in the "Portugal Exporter Club", an initiative launched within the scope of the Forum Portugal Exporter aimed at informing its members about markets and business leads in the main external markets.
- launch of the 2nd edition of the "BES/Jornal de Negócios Exports & Internationalisation" prize, which is awarded to companies with the best performance in expanding their presence abroad and increasing exports.
- publication, for the third consecutive year, of a regular supplement in the Expresso newspaper ("Companies and Internationalisation") with information about the strategic markets for the Portuguese companies, business opportunities in these markets, and reports from Portuguese companies that were success cases in those markets.

BES Group's team has also increasingly focused on the **support provided to Innovation and Entrepreneurship**. This "hands-on" work is carried out in cooperation with the various structures of the Bank, allowing for the tracking of an increasingly large number of opportunities across the country, both in new projects and in existing companies. This identification and screening effort has fostered a positive dynamics in terms of seed and pre-seed investments.

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

In the current market context, supporting companies' cash management continues to deserve particular attention. In this area, BES is the undisputed market leader in Factoring Solutions, with a market share of 23.7% that represents EUR 1.6 billion of credit under management.

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

Innovation was also applied to credit cards, namely through the '**à *La Card'*** card. The first meal voucher card in Portugal, it replaced the traditional meal vouchers in paper, with benefits for both employers and employees. With 1270 companies having already subscribed, and 92,000 cards sold by December 2012, the initiative is proving a great success.

The internet banking service for corporate clients **- BESnetwork** – reached 57,000 frequent users (7.8% YoY), with the number of logins rising by 7.0%, to 10.8 million. BESnetwork was awarded the Global Finance prize for best Internet Banking for Businesses in Portugal.

3.2.3 Private Banking

This area is dedicated to the business with private high net worth clients, covering all products associated with these clients, notably deposits, discretionary management, custody services, brokerage of securities and insurance products.

Private Banking

EUR million

	Dec,12	Dec,11	Chg
BALANCE SHEET			
Customer Loans (gross)	933	1 042	-10,4%
Customer Funds	1 491	2 342	-36,3%
INCOME STATEMENT			
Commercial Banking Income	113,3	79,3	42,9%
Capital Mkts & Other Results	6,6	6,6	0,0%
Banking Income	119,9	85,9	39,6%
Operating Costs	17,9	19,4	-7,7%
Provisions	2,4	-0,3	....
Income Before Tax	99,6	66,8	49,1%
Cost to Income	14,9%	22,6%	-7,7 pp

In this important business area, total customer funds grew by 6.7% in 2012, underpinned by a strong increase in off-balance sheet funds (+28.5% YoY) that was driven by the clients' increasing preference for other investment products as an alternative to deposits, which declined by 36.3% YoY.

The segment's pre-tax profit increased by 49.1% YoY. This improvement translates the measures taken during 2012 to enhance the customer funds margin (which led to a 39.6% increase in banking income) combined with the streamlining of the structure of operating costs (which fell by 7.7% YoY).

3.2.4 International Commercial Banking

This segment includes the retail units operating abroad, which maintained a globally positive performance during 2012. Customer funds increased by 22.1%, largely driven by bond issues placed with institutional clients through BES London Branch, while customer loans grew by 13.6%, underpinned by the intensification of business in BES's subsidiary in Angola. The total banking income grew by 1.6%, despite the reduction in net interest income, which led to a 7.5% drop in commercial banking income. Translating the increase in operating costs (+19.3%) and provisions (+101.5%) the pre-tax profit for the year was EUR 126.4 million, which is lower than in 2011.

International Commercial Banking

	Dec,12	Dec,11	Chg
			EUR million
BALANCE SHEET			
Customer Loans (gross)	11 642	10 246	13,6%
Customer Funds	9 080	7 435	22,1%
INCOME STATEMENT			
Commercial Banking Income	524,5	567,0	-7,5%
Capital Mkts & Other Results	48,3	-3,3	....
Banking Income	572,8	563,7	1,6%
Operating Costs	240,9	202,0	19,3%
Provisions	205,5	102,0	101,5%
Income Before Tax	126,4	259,7	-51,3%
Cost to Income	42,1%	35,8%	6,3 pp

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

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

The performance of **Espirito Santo Bank (Miami, USA)** continued to be penalised by South Florida's difficult situation in recent years, especially in the real estate business; still, there are signs that this business is stabilising, and even improving in the segment of private high network clients. The loan portfolio increased to USD 452 million, which is USD 6 million more than in Dec. 2011, while deposits reached USD 512 million.

Assets under management totalled USD 1.3 billion at the end of 2012. The net profit for the year was USD 3.7 million. In 2012 ESBank obtained for the first time the "5 star" ranking, the highest assigned by Bauer Financial, on the grounds of its asset quality and liquidity and solvency levels.

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

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

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

In 2012 **Banco Espírito Santo do Oriente (Macau)** reported an increase in its corporate banking and trade finance activity with local businesses and in connection to the trade flows between the Popular Republic of

China and the Portuguese-speaking countries where BES Group has a strategic position, which permitted to compensate the decline in (medium-term) credit.

The Bank also posted significant growth in documentary transactions (e.g. L/C Advising/Forfaiting/Discount), supported by its commercial and operational action undertaken in cooperation with BES's International area, and the strengthening of relations with the main Chinese Banks through instrumental agreements viewing the development of this type of business. The growth and stability of customer funds achieved over the last few years thanks to the excellent relations maintained with the local authorities remains a key priority in the current context: the initiatives developed by the Bank targeting the various client segments resulted in a 130% YoY increase in deposits in 2012. All main management indicators were very positive: assets reached 446 million (+79% YoY) while banking income increased by de 43%, to EUR 6.9 million. Net income for the year came close to EUR 4.0 million (+63%), underpinned by the growth of net interest income and fees and commissions.

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

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

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

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

Libya has been pursuing its process of political, social, institutional and economic consolidation, having held its first democratic elections in July and appointed the cabinet members in November. In this context, **Aman**

Bank has already resumed the implementation of its commercial plans and the reinforcement of its operations which will allow it to make the most of the growth opportunities offered by the country. In 2012 the Bank increased net assets by 21% and generated net earnings of ca. EUR 2.2 million.

3.2.5 Investment banking

Investment banking includes advisory services in project finance, mergers and acquisitions, restructuring and consolidation of liabilities, preparation and public or private placement of shares, bonds and other fixed-income and equity instruments, stock broking and other investment banking services. In addition, the bank offers traditional banking services to corporate and institutional clients.

Investment Banking

EUR million

	Dec,12	Dec,11	Chg
BALANCE SHEET			
Customer Loans (gross)	2 312	2 367	-2,4%
Customer Funds	1 057	934	13,2%
INCOME STATEMENT			
Commercial Banking Income	198,9	212,7	-6,5%
Capital Mkts & Other Results	64,2	27,1	136,9%
Banking Income	263,1	239,8	9,7%
Operating Costs	176,1	178,6	-1,4%
Provisions	46,2	44,2	4,5%
Income Before Tax	40,8	17,0	140,0%
Cost to Income	66,9%	74,5%	-7,6 pp

In a year marked by growing uncertainty and difficulties, which mainly impacted Europe but whose effects also spread to the main global economies, investment banking was capable of drawing on the opportunities afforded by the market. Banking income increased by 9.7% YoY, to EUR 263 million, surpassing the record of 2010 (EUR 260 million).

The participation in the Portuguese privatisations programme, the support provided to Portuguese companies in accessing the international debt markets, and the trading gains helped to compensate for lower growth in certain business areas more exposed to the adverse context. Operating costs decreased by 1.4%, despite the new steps taken towards international expansion. The year’s net income was EUR 40.8 million, which is well above the 2011 result (EUR 17 million). The international area contributed with 60% to consolidated banking income, and was marked by very good recurrent results in Brazil, the integration of the business and unification of the Espírito Santo Investment Bank brand in the United Kingdom and the start of operations in India. In the other countries where Espírito Santo Investment Bank is present (Spain, Poland, the United States and Mexico), the bank pursued its efforts to consolidate the activity and concluded a number of relevant operations.

Mergers and Acquisitions – BESI provided advisory services to 20 operations for a global amount of EUR 13 billion, consolidated its leadership of the Portuguese market (by number and value of announced transactions) and ranked in second place in Iberia (by value of announced transactions (Bloomberg data). The bank provided advisory services on the following main operations: (i) to China Three Gorges on the acquisition of a 21.35% stake in EDP (EUR 2.7 billion); (ii) to State Grid Corporation of China on the acquisition of a 25% stake in REN (EUR EUR 387 million); (iii) to Sugalidal on the acquisition from the Chilean Tresmontes Luchetti Agroindustrial of its entire tomato concentrate and fruit pulp business; in Portugal-Brazil, (iv) to the Camargo Correia Group on the tender offer on Cimpor; in Brazil, to (v) the shareholders of Meizler Biopharma on the sale of a 51% stake in this company to the UCB Group; and (vi) to Empresa Construtora do Brasil on the sale of a 50.01% stake to Mota-Engil Brasil; and in Poland, (vii) on the sale of 100% of Lotos Parafiny to Krokus, a private equity fund (under a Leverage Management Buy-Out operation). The Bank also provided advisory services on the following announced operations, which are pending conclusion: in Portugal: (viii) to Parpública on the privatisation of 100% da ANA – Aeroportos de Portugal (EUR 3.1 billion); (ix) to China Three Gorges on the acquisition of a 49% stake in EDP Renováveis Portugal and 25% of the shareholder loans to this company (total implied enterprise value for 100% - EUR 1.0 billion).

Project Finance and Securitisation – In Brazil, BESI provided financial advisory services for obtaining the following long-term credit facilities: (i) BRL 2117 million from Banco Nacional de Desenvolvimento Econômico e Social (BNDES) and Fundo Constitucional de Financiamento do Norte (FNO) to finance the Interligação Elétrica do Madeira – IE Madeira, a 2375 km energy transmission line; and (ii) BRL 159 million from the BNDES, for Transenergia Renovável, an electricity transmission utility; in addition, BESI also provided (iii) advisory services to Equipav on the auction for the wastewater project in Piracicaba municipality (São Paulo) (total investment of BRL 341 million), which the company won; and acted as (iv) Mandated Lead Arranger of a EUR 185 million financing to Ybase - Florestal, Ltda. for the acquisition, plantation and exploration of pine saplings over a total useful area of 24 507 hectares in the State of Mato Grosso do Sul; and as (v) Lender and Underwriter of Tranche C of the USD 166 million working capital facility extension for the construction of a 750 MW hydropower plant in Mexico.

Acquisition Finance & Other – (i) in Portugal, BESI participated in the EUR 590 million syndicated loan to Tagus Holdings to finance the acquisition of shares in Brisa (through tender offer), in the EUR 9 million financing to WTG Corporation Limited for the acquisition of the entire share capital of IMG Energias, and in the EUR 20 million refinancing of financial liabilities of SIC, a Portuguese television network; (ii) in Spain BESI participated in the partial refinancing of a EUR 2.4 billion loan to Sacyr; and (iii) in Poland the Bank mainly issued bank guarantees.

Other Lending – main operations concluded in Brazil: (i) Copobras - structuring of a BRL 55 million issue of debentures in the local market; (ii) Caramuru Alimentos – structuring of a BRL 20 million financing, through an Export Credit Note; (iii) Biosev – structuring of a BRL 18 million financing, through an Export Credit Note; (iv) Proactiva Group – structuring and execution of CCB (bank credit notes) operations (BRL 42 million); and (v) Cemusa do Brasil – structuring of a CCB operation (BRL 21 million).

Equity Capital Markets – BESI acted (i) in Iberia, as global coordinator and bookrunner of the capital increases of BES (EUR 1,010 million) and ESFG (EUR 500 million), as financial advisor on the tender offer for shares in BRISA (EUR 584.2 million) and CIMPOR (EUR 1477 million), as Bookrunner on the exchangeable bonds linked to the ordinary shares of Banco Bradesco issued by BES Finance (USD 450 million) and as co-manager of Grupo Financiero Santander México's IPO, the largest ever made by a Mexican company (USD 4117.4 million); (ii) in Poland, as Joint Bookrunner of the privatisation of 50% of ZE PAK (Zloty 681.5 million); (iii) in Brazil, as Joint Bookrunner of a follow-on primary and secondary offering of shares of Minerva (BRL 498 million), as Co-manager of BTG Pactual's IPO (BRL 3.2 billion), and as Placement Agent in the block trade of 1.2% stake (BRL 93.8 million) held by Monteiro Aranha in Klabin; and (iv) in the United Kingdom, as Sole Bookrunner of the placement of 5.18 million shares of Globe Op Financial Services (GBP 25 million), as Joint Bookrunner of the placement of 43.75 million shares of IQE plc (GBP 10.5 million), as financial advisor on the tender offer on own shares of SVG Capital plc (GBP 170 million) and as Sole Bookrunner of the placement of 22.9 million shares of Xchanging plc (GBP 22.4 million).

Debt Capital Markets – (i) in Iberia BESI played an important role in the reopening of the international debt markets to Portuguese issuers, acting as Joint Lead Manager on the senior bond issues of EDP Finance BV, Portugal Telecom Finance BV, Brisa Concessão Rodoviária and BES, for an overall amount of EUR 2,550 million. BESI was also Joint Lead Manager on the public bond offering by PT, EDP, ZON and FCPorto SAD, for an overall amount of EUR 880 million; (ii) in Poland, the Bank was the Sole Arranger of a domestic bond issue by Ciech, (Zloty 320 million); and (iii) in Brazil, BESI ranked in 9th position in the domestic debt capital markets league tables (Dealogic, 2012), acting as Joint Lead Manager of the issue of debentures by OAS Engenharia (BRL 209 million), as Lead Manager of the issue of debentures by N.S.O.S.P.E, the vehicle used by Semapa to purchase Supremo Cimentos no Brasil (BRL 128 million), as Joint Lead Manager of the issue of debentures by Sabesp (BRL 771 million) and as Lead Manager of the first issue of *letras financeiras* (bank bonds) by Banco de Desenvolvimento de Minas Gerais (BRL 350 million). In the international market we highlight the Bank's role as Joint Bookrunner on Oi's Eurobond (USD 1.5 billion)

Brokerage – BESI maintained its leading position in Portugal, with a market share of 11.9%, and ranked in 6th place in the Madrid Stock Exchange, with a market share of 4.8%. In Brazil it continued to improve its competitive position, standing in 21st place in the Bovespa ranking, with a market share of 1.1% In Poland, the bank rose to 11th position in the Polish brokers' ranking, advancing its market share to 3.2%. In the United Kingdom, BESI was included within the Top 3 Leading Pan-European Brokerage Firm for UK Small & Mid Caps (Thomson Extel Surveys 2012). In India, where the brokerage activity was started in May 2012, the first steps were given to develop the business. In the United States the distribution teams were reinforced.

Private Equity – the year was marked by the incorporation of the 2bCapital fund targeting the Brazilian market, whose first closing reached BRL 320 million, and by the conclusion of the investment period of the ESIF Fund (infrastructures). Total investment during the year was EUR 30 million. The main new operations during the year were the capital increase of Panicongelados and the acquisition of the Sierra Sesnandez and Cova da Serpe wind farms, both in Spain, and the main follow-on operation was Globalwatt's capital increase. At year-end the market value of the total portfolios (own portfolio and funds under management already invested) reached EUR 165 million, which represents a YoY increase of 36%. The total amount of funds under management increased to EUR 334 million, a large part of which, specifically in Brazil, has not yet been invested.

In 2012 BESI was nominated in the Euromoney Real Estate Awards 2012 as 'Best Bank for M&A Advisory in Portugal', 'Best Bank in Debt Capital Markets in Portugal', 'Best Bank in Equity Finance in Portugal' and 'Best Overall Bank in Portugal'. The bank was also distinguished for its participation as Joint Lead Manager on EDP Finance BV's EUR 750 million senior bond issue, which was awarded the Euro Bond of the Year prize by the International Financing Review.

3.2.6 Asset Management

This segment includes all the asset management activities of the Group, essentially carried out 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.

Asset Management

EUR million

	Dec,12	Dec,11	Chg
ASSETS UNDER MANAGEMENT	15 444	15 476	-0,2%
INCOME STATEMENT			
Banking Income	64,7	52,8	22,5%
Operating Costs	17,7	19,4	-8,8%
Provisions	3,1	-1,0	....
Income Before Tax	43,9	34,4	27,6%
Cost to Income	27,4%	36,7%	-9,3 pp

At the end of 2012 the global volume of assets under management was EUR 15.4 billion, which is close to their amount in 2011, while the pre-tax profit increased by 27.6%, to EUR 43.9 million.

These figures translate on the one hand an increase in net commissions generated (mainly boosted by performance commissions), the optimised management of financial resources and the reduction in operating costs, and on the other the improvement in the results of equity consolidated subsidiaries, namely in Spain, underpinned by non recurrent earnings, including the indemnity received under the settlement agreement signed with the distributor Banco Pastor.

Real estate funds and mutual funds increased volume under management by 52% and 10%, respectively, with domestic mutual funds rising by 22% due to the strong growth of the ES RENDIMENTO and ES

LIQUIDEZ funds. During the year further steps were taken in the plan to rationalise the domestic offer of mutual funds, involving the merger by incorporation of six funds, and the adjustment of the investment policy for another three. Domestic real estate funds registered a 12% reduction in assets under management, largely as a result of decreases in the Fundo de Investimento Imobiliário Aberto Gespatrimónio Rendimento (-10%) and the Fundo de Investimento Imobiliário Aberto Logística (-22%). Volume under management of the domestic pension funds stabilised (following the transfer of assets and liabilities to the Social Security), with a sharp increase in volumes of open-end funds (+21%) and a small reduction in closed-end funds (-3%).

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

3.2.7 Life insurance

This business area comprises the activity developed by BES Vida, Companhia de Seguros, which provides both traditional and unit-linked insurance products as well as pension plans. BES Vida is fully consolidated by BES Group since May 2102

Life insurance

EUR million

	Dec,12
BALANCE SHEET	
Customer Funds	4 991
INCOME STATEMENT	
Gross Margin of Insurance Business	239,5
Operating Costs	8,4
Provisions	0,4
Net Income	122,7

In 2012 BES Vida contributed with EUR 122.7 million (recurrent income) to BES Group's net income (we remind that the negative impact of the acquisition of control is booked under Markets and Strategic Holdings).

Insurance production of BES Vida in Portugal was EUR 1,447.6 million, corresponding to a 380.6% YoY increase in premium volume that was driven by production growth of unit-linked products and pension plans. Claims volume registered a sharp contraction (-47.7%) due to the reduction in financial products' redemption volume.

The insurer's mathematical reserves reached nearly EUR 5 billion (EUR 4.3 billion in May, the date of first-time consolidation), translating the contribution to BES Group's net consolidating income.

3.2.8 Markets and Strategic Holdings

This segment includes the global financial management activity of the Group, namely raising and placement of funds in the financial markets, as well as investment in and risk management of credit, interest rate, FX and equity instruments, whether of a strategic nature or as part of current trading activity. It also includes activity with non-resident institutional investors, as well as any activities arising from strategic decisions impacting the entire Group.

Markets and strategic holdings

EUR million

	Dec,12	Dec,11	Chg
INCOME STATEMENT			
Banking Income	204,2	3,9	....
Operating Costs	55,8	54,1	3,1%
Provisions	226,3	345,6	-34,5%
Income Before Tax	-77,9	-395,8	80,3%

As explained in the 2011 financial statements, the performance of Markets and Strategic Holdings in that year had been harmed by the recognition of extraordinary impacts, such as the transfer to the Social Security of pensions in payment, impairment losses in subsidiaries and losses on the sale of international loans. Although similar items also impacted the 2012 accounts, these were fully absorbed by the value increase and gains obtained on the portfolio of financial instruments already referred in this report, allowing the segment's banking income to increase to EUR 204.2 million. The reduction in operating costs and the EUR 226.3 million reinforcement of provisions for securities, non financial assets and other, fully absorbed the income generated, leading to a pre-tax loss of EUR 77.9 million – still a significant recovery relative to the loss reported in 2011.

4. FINANCIAL STRENGTH AND ASSET QUALITY

4.1 Asset quality

The table below summarises the evolution of credit, overdue loans, credit at risk, provisions for impairment losses and overdue loans ratios and provisions ratios.

Asset Quality

	31-Dec-2012	31-Dec-2011	Change absolute	Change relative
EUR million				
Gross loans	50 399	51 211	- 812	-1,6%
Overdue Loans	2 185,4	1 545,6	639,8	41,4%
Overdue Loans +90d	1 966,0	1 403,3	562,7	40,1%
Credit at risk (1)	4 758,4	3 373,6	1 384,8	41,0%
Provisions for Credit	2 692,3	2 167,4	524,9	24,2%
Indicators (%)				
Overdue Loans / Gross Loans	4,34	3,02	1,32 p.p.	
Overdue Loans +90d / Gross Loans	3,90	2,74	1,16 p.p.	
Credit at risk (1) / Gross Loans	9,44	6,59	2,85 p.p.	
Coverage of Overdue Loans	123,2	140,2	-17,0 p.p.	
Coverage of Overdue Loans + 90d	136,9	154,5	-17,4 p.p.	
Coverage of Credit at risk (1)	56,6	64,2	-7,6 p.p.	
Provisions for Credit / Gross Loans	5,34	4,23	1,11 p.p.	
Cost of Risk	1,62	1,17	0,45 p.p.	

(1) According to Instruction 23/2011 of Bank of Portugal. Credit at risk includes: a) total value of credit with capital or interest past due by 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 or bankrupt debtor.

Credit risk indicators were penalised by the deterioration of the economic recession: the Overdue loans + 90 days ratio increased to 3.90% (Dec.11: 2.74%), with the corresponding provision coverage standing at 136.9% (Dec.11: 154.5%). Credit at risk reached EUR 4,758 million, rising to 9.44% of gross loans (Dec.11: 6.59%), with a provision coverage (excluding collaterals and guarantees) of 56.6% (Dec.11: 64.2%).

The Provisions for Credit / Gross Loans ratio continued to increase, reaching 5.34% (Dec.11: 4.23%).

The asset quality deterioration was sharpest in corporate credit, rising to 5.15% (Dec.11: 3.56%) and other loans to individuals and consumer credit, where it reached 7.44% (Dec.11: 4.98%) and lowest in mortgage credit, where the ratio was 0.92%, which is still below the 1% threshold.

Overdue Loans

	31-Dec-2012	31-Dec-2011	Change
Overdue Loans	4,34%	3,02%	1,32
Individuals	2,16%	1,62%	0,54
- Mortgage	0,92%	0,84%	0,08
- Other Purposes	7,44%	4,98%	2,46
Corporate	5,15%	3,56%	1,59

According to the statistics published by the Bank of Portugal (November 2012), the Group's overdue loan ratios compare favourably with those of the Portuguese banking sector, where corporate overdue loans stand at 8.65% (BES Group: 5.15%) mortgage overdue loans at 1.92% (BES Group: 0.92%) and other loans to individuals overdue loans at 11.59% (BES Group: 7.44%).

4.2 Liquidity, Solvency and Financial Strength

4.2.1 Liquidity

The last quarter of 2012 was marked by an improvement in market sentiment, as seen in the expressive abatement of risk aversion levels and the significant slide in peripheral countries' sovereign debt yields. The ECB's announcement in September of a programme of acquisition of public debt from the Eurozone bailed-out countries (Outright Monetary Transactions - OMTs) was crucial in the reduction of systemic risks and represented an important step towards the financial stabilisation of the Eurozone. It resulted in a sharp fall in the yields of the sovereign debt of all peripheral countries, and by the end of the quarter the Portuguese yields had already subsided to below their level in April 2011, when the country had requested financial assistance.

This overall improvement in economic sentiment allowed BES Group to tap the international capital markets at the end of November with a EUR 500 million issue of senior unsecured debt with the maturity of 3 years - the first issue of debt made by any Portuguese bank since April 2010.

The success of the transaction was evident as the order book reached EUR 2.7 billion (four times the amount of the offer), with the participation of 225 national and international investors. Also during the fourth quarter, the Group again accessed the international markets with a USD 450 million 3-year issue of bonds exchangeable for shares of Banco Bradesco, the third such issue made by BES. The operation permitted to refinance in advance the transaction that will mature in April 2013. In January 2013 the Group once again tapped the markets with a EUR 500 million issue of senior unsecured debt with the maturity of 5 years. As was the case with the November issue, this latest operation was again very well received by the markets, with demand reaching ca. EUR 3 billion (six times the amount of the offer), and more than 280 investors participating. Together, these transactions generated liquidity of ca. EUR 1.6 billion, representing an important step in the return to funding from the international capital markets.
Moreover, the liquidity thus obtained permitted to pursue the strategy of gradual reduction of exposure to the ECB. Accordingly, at the end of January 2013 the Group repaid in advance EUR 1.0 billion of the ECB long-term facility (LTRO).

BES Group's funding structure thus improved in the last quarter of 2012: in addition to the expressive EUR 2.9 billion reduction in the net exposure to the ECB relative to the previous quarters, customer deposits and bancassurance products increased in 4Q12 by EUR 1.3 billion and EUR 668 million, respectively, representing 53% and 8% of the total. Despite the increase in long-term funding due to the new issues of debt in the international markets in the last quarter of the year, their share in the total funding dropped by 28%, to 27%.

At the end of 2012 the portfolio of repoable securities amounted to EUR 22.3 billion, of which EUR 19.4 billion were eligible for rediscount with the European Central Bank. This amount includes exposure to Portuguese sovereign debt of EUR 3.2billion. As regards other European sovereign exposures, BES Group had EUR 605 million of Spanish public debt (of which EUR 391 million with a maturity of less than one year) EUR 25 million of Irish public debt, EUR 28 million of Italian public debt, and EUR 3 million of Greek public debt.

4.2.2 Solvency

BES Group solvency ratios are calculated under the Basel II regulations. From 1Q09 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 must report a Core Tier I ratio of 10% in December 2012. On the other hand, European banks, including Portuguese banks, should post a Core Tier I of 9% by June 30th, 2012, calculated according to the definition established by the European Banking Authority (EBA).

Basel III recommendations

At the end of 3Q10, the Basel Committee on Banking Supervision made several decisions regarding the functioning of the global financial system, that have resulted in a set of recommendations, named Basel III. Banks will have a transitory period (from January 1st, 2013 to January 1st, 2019) to comply with the approved rules, aimed at strengthening financial institutions and preventing new financial crises in the future.
Basel III rules have established the following regulatory framework to be gradually implemented by January 1st, 2019:

- 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;
- definition of the leverage and liquidity ratios (short and long term) in certain conditions, to be defined.

BES Group closely follows the development process of the future regulatory framework, as well as all the efforts carried out to define the final rules for new capital ratios in the European Union.

Capital Reinforcement Programme

On 3 October 2012 the Bank of Portugal made public the European Banking Authority's report regarding the final assessment of the European capital exercise and fulfilment of the EBA December 2011 recommendation.

Espírito Santo Financial Group (ESFG), which fully consolidates the BES Group, meets the 9% Core Tier I ratio after valuation of sovereign debt in the Held-to-Maturity and Available-for Sale portfolios, reflecting current market prices. ESFG had as of 30 of June 2012 a Core Tier I ratio of 9.6%, deducting the sovereign buffer.

The results of BES were calculated based on the methodology and assumptions defined by the European Banking Authority, which were used in the capital exercise of ESFG. According to EBA methodology, Banco Espírito Santo had as of June 30, 2012 a core tier I ratio of 9.9% (above the 9% reference level defined by that entity).

BES Group has taken several measures that significantly reinforced its core capital:

- exchange offer (LME) concluded in the last quarter of 2011 reinforced Core Tier I by EUR 619 million;
- EUR 1,010 million rights issue concluded in May 2012;
- broad-based deleveraging programme allowed for a EUR 7.1 billion reduction in RWA from Dec.10 to Dec.12;

Solvency Ratios

The table below provides the relevant information about risk weighted assets, regulatory capital and solvency ratios under the BISII IRB approach.

Risk Weighted Assets and Regulatory Capital

EUR million

	31-Dec-12[1]	30-Sep-2012	31-Dec-2011
Risk Weighted Assets (A)	**61 660**	**63 295**	**65 385**
Banking Book	56 463	57 419	59 705
Trading Book	1 503	1 938	1 742
Operational Risk	3 694	3 938	3 938
Regulatory Capital			
Core Tier I (B)	**6 471**	**6 770**	**6 020**
Core Tier I EBA (B')	**6 095**	**6 304**	**-**
Tier I (C)	**6 442**	**6 651**	**6 171**
Tier II and Deductions	521	370	799
TOTAL (D)	**6 963**	**7 021**	**6 970**
Core Tier I (B/A)	**10,5%**	**10,7%**	**9,2%**
Core Tier I EBA(E/A)	**9,9%**	**10,0%**	**-**
Tier I (C/A)	**10,4%**	**10,5%**	**9,4%**
Solvency Ratio (D/A)	**11,3%**	**11,1%**	**10,7%**

(1) preliminary data

BES Group's Core Tier I ratio was 10.5% in December 2012thus meeting the Bank of Portugal's requirement (minimum of 10%). Under the EBA calculation method, the Core Tier I ratio is 9.9%, which is well above the minimum 9% established by the European authority.

In the fourth quarter Core capital decreased by EUR 229 million, mainly as a result of actuarial differences with a regulatory impact of EUR 235 million, of which EUR 148 million concerning differences determined for 2012 and EUR 87 million concerning the last amortisation of differences determined for 2008 and relative to the adoption of the IFRS. Risk weighted assets declined by EUR 3.7 billion, essentially translating a reduction in the banking book (EUR -3.2 billion) which was particularly significant in 4Q12 (EUR -1 billion).

Rating

BES Group is rated by the main international rating agencies. BES Group's ratings at the end of 2012 were the following:

- **DBRS** rated BES's Senior Long-Term Debt & Deposits at BBB (low) and short-term rating at R-2 (mid), with negative outlook. In December, DBRS confirmed BES' long term rating following the confirmation of the BBB (low) rating of the Republic of Portugal.
- **Moody's** rated BES long term ratings at Ba3, with outlook negative. In March, following the downgrade of the Portuguese Republic sovereign rating to Ba3, Moody's downgraded BES's long term rating in one notch to the same level.
- **Standard&Poors** rated BES long term ratings at BB-, with negative outlook. In July, S&P affirmed the long term (BB-) and short term (B) ratings of Banco Espírito Santo, as well BES senior debt rating at BB-, subordinated debt at B and hybrid instruments at B-.

4.3 Bank of Portugal Reference Indicators

The table below lists the reference indicators under Bank of Portugal instruction no. 16/2004, as amended by instructions nos. 16/2008, 23/2011 and 23/2012, for December 2012 and December 2011.

%	31-Dec-2012	31-Dec-2011
SOLVENCY (g)		
Regulatory Capital / RWA (a)	11,3	10,7
Tier I / RWA(a)	10,4	9,4
Core Tier I / RWA (a)	10,5	9,2
ASSET QUALITY		
Overdue & Doubtful Loans(b) / Gross Loans (c)	5,0	3,6
Overdue & Doubtful Loans net of Provisions (c)/ Net Loans(c)	-0,3	-0,6
Credit at Risk(c/f) / Gross Loans(c)	9,4	6,6
Credit at Risk net of Provisions (c/f)/ Net Loans (c)	4,3	2,5
PROFITABILITY		
Income before Tax and Minorities / Average net Assets	0,2	-0,1
Banking Income (d)/Average Net Assets	3,1	2,4
Income before Tax and Minorities/ Average Equity(e)	2,9	-0,8
EFFICIENCY		
General Admin Costs (d)+ Depreciation / Banking Income (d)	44,6	57,9
Staff Costs / Banking Income (d)	23,2	30,1
TRANSFORMAÇÃO		
(Gross Loans(c)- Credit Impairments(c))/ Customer Deposits (f)	137	141

(a) Under IRB Foundation
(b) According to BoP Circular Letter nº 99/2003/DSB
(c) According to BoP Instruction 22/2011
(d) According to BoP instruction 16/2004
(e) Includes Minority Interests
(f) According to BoP instruction nº23/2004
(g) Decembro 2012 preliminary data

The indicators show: (i) solvency ratios comply with the Bank of Portugal's recommended minimum levels; (ii) credit quality indicators deteriorated, however the balance of provisions exceeds the amount of net overdue and doubtful loans; iii) profitability indicators reflect the improvement in net income relative to the loss reported in 2011; (iv) efficiency levels improved due to the increase in banking income and cost-cutting efforts; and (v) the transformation ratio improved.

5. Other

- On 8 January 2013 Banco Espírito Santo issued EUR 500 million senior unsecured debt under the Euro Medium Term Notes Programme. The notes have a maturity of 5 years and will pay a coupon of 4.75%. The success of the transaction was evident as the order book reached ca. EUR 3.0 billion, with the participation of more than 280 national and international investors. This deal increases the amount raised by BES in the international debt capital markets in the last three months to approx. EUR 1.6 billion, including the EUR 750 million senior bonds issued in October 2012 and the USD 450 million exchangeable bonds issued at the end of November 2012.

- On 30 January 2013 BES Group repaid in advance EUR 1.0 billion of the ECB long term facility (LTRO).

THE BOARD OF DIRECTORS

BANCO ESPÍRITO SANTO, S.A.

CONSOLIDATED BALANCE SHEET AS OF DECEMBER DE 2012

	Dec,11 (eur '000)	Dec,12 (eur '000)
ASSETS		
Cash and deposits at Central Banks	1 090 439	1 377 541
Deposits with banks	580 813	681 077
Financial assets held for trading	3 434 639	3 925 399
Financial assets at fair value through profit or loss	1 963 989	2 821 553
Available-for-sale financial assets	11 482 866	10 755 310
Loans and advances to banks	3 282 576	5 426 518
(of which of the European system of Central Banks)	-	*(3 350 000)*
Loans and advances to customers	49 043 382	47 706 392
(Provisions)	*(2 167 444)*	*(2 692 342)*
Held-to-maturity investments	1 541 182	941 549
Financial assets with repurchase agreements	-	-
Hedging derivatives	510 090	516 520
Non-current assets held for sale	1 646 683	3 277 540
Investment propreties	-	441 988
Other tangible assets	851 678	931 622
Intangible assets	230 332	555 326
Investments in associates	806 999	580 982
Current income tax assets	28 692	24 648
Deferred income tax assets	712 157	728 905
Reinsurance Technical Provisions	-	3 804
Other assets	3 030 855	2 994 154
Direct and Indirect Insurance Creditors	-	567
Other	3 030 855	2 993 587
TOTAL ASSETS	**80 237 372**	**83 690 828**
LIABILITIES		
Deposits from central banks	10 013 713	10 893 320
(of which of the European System of Central Banks)	*(8 786 204)*	*(10 279 382)*
Financial liabilities held for trading	2 125 253	2 122 025
Other financial liabilities at fair value through profit or loss	-	-
Deposits from banks	6 239 360	5 088 658
Due to customers	34 206 162	34 540 323
Debt securities	18 452 648	15 424 061
Financial liabilities to transferred assets	-	-
Hedging derivatives	238 633	125 199
Investment contracts	-	3 413 563
Non current liabilities held for sale	140 950	175 945
Provisions	190 450	236 950
Technical provisions	-	1 577 408
Current income tax liabilities	44 937	221 199
Deferred income tax liabilities	110 533	154 015
Capital instruments	-	-
Other subordinated loans	961 235	839 816
Other liabilities	1 321 023	1 145 602
Direct and Indirect Insurance Creditors	-	2 040
Other liabilities	1 321 023	1 143 562
TOTAL LIABILITIES	**74 044 897**	**75 958 084**
EQUITY		
Share capital	4 030 232	5 040 124
Share premium	1 081 663	1 069 517
Other capital instruments	29 505	29 295
Treasury stock	(997)	(6 991)
Preference shares	211 913	193 289
Fair value reserve	(1 086 491)	(686 666)
Other reserves and retained earnings	1 446 961	1 328 630
Profit for the period attributable to equity holders of the bank	(108 758)	96 101
Prepaid dividends	-	-
Minority interests	588 447	669 445
TOTAL EQUITY	**6 192 475**	**7 732 744**
TOTAL LIABILITIES AND EQUITY	**80 237 372**	**83 690 828**

BANCO ESPÍRITO SANTO, S.A.

CONSOLIDATED INCOME STATEMENT AS OF DECEMBER 2012

	Dec,11 (eur '000)	Dec,12 (eur '000)
Interest and similar income	4 084 862	3 914 109
Interest expense and similar charges	2 903 271	2 733 601
Net Interest Income	**1 181 591**	**1 180 508**
Dividend income	167 701	72 604
Fee and Commission income	888 646	975 062
Fee and Commission expense	130 546	181 144
Net gains from financial assets at fair value through profit or loss	(178 904)	27 694
Net gains from available-for-sale financial assets	(68 770)	600 206
Net gains from foreign exchange differences	(32 645)	(23 788)
Net gains/ (losses) from sale of other assets	(89 885)	(57 780)
Insurance earned premiums net of reinsurance	-	62 257
Claims incurred net of reinsurance	-	362 973
Change on the technical provision net of reinsurance	-	301 423
Other operating income and expense	357 803	(51 122)
Operating income	**2 094 991**	**2 542 947**
Staff costs	587 475	598 883
General and administrative expenses	433 753	442 120
Depreciation and amortisation	107 926	108 074
Provisions impairment net of reversals	6 860	56 978
Loans impairment net of reversals	600 616	814 832
Impairment on other financial assets net of reversals	73 251	106 727
Impairment on other assets net of reversals	167 602	220 893
Negative consolidation differences	-	-
Equity accounted earnings	(175 231)	8 312
Net income before income tax and minorities	**(57 723)**	**202 752**
Income tax		
Current tax	72 147	135 350
Deferred Tax	(133 666)	(52 434)
Net income	**3 796**	**119 836**
ow: profit after taxes of discontinued operations	(3 428)	(4 199)
Minority interests	112 554	23 735
Consolidated net income for the period	**(108 758)**	**96 101**