ESPIRITO SANTO INVESTMENT BANK

2012 Annual Report



BANCO ESPÍRITO SANTO DE INVESTIMENTO, S.A.

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JOINT MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS AND THE CHIEF EXECUTIVE OFFICER

In 2012, Espírito Santo Investment Bank ("the Bank") continued to operate in a highly uncertain environment, influenced by the Eurozone's economic and financial crisis and further aggravated by the specific problems and challenges of the adjustments in the Portuguese economy.

Despite these obstacles, the Bank generated a 9.8% year-on-year increase in the consolidated Banking Income to EUR 261 million, surpassing the record EUR 259 million achieved in 2010. Although high credit impairment levels continued, net income for the year more than doubled that of 2011, reaching EUR 22 million and operating costs were reduced by 1.4%. This growth was the result of our strategy of focusing on international growth and pursuing business and market opportunities created by the Eurozone crisis.

As part of the BES Group's regulatory capitalization project, the Bank completed a capital increase of EUR 100 million in September of 2012, ending the year with a Core Tier I ratio of 11.6%, above the minimum compliance levels established by the Bank of Portugal (10%) and the European Banking Authority (9%).

In **Portugal**, we assumed a prominent role in the privatization process, providing advisory services to Chinese investors on the acquisition of 21.35% of Energias de Portugal S.A. (EDP) and 25% of Redes Energeticas Nacionais SGPS, S.A. REN). We also advised the Portuguese government on the privatization of 100% of the capital of Aeroportos de Portugal S.A. (ANA), still under completion. We also assumed an important role in the reopening of the international debt market to Portuguese issuers, leading the issuance of senior debt for EDP Finance B.V. (considered **Eurobond of the Year** by the magazine International Financing Review), as well as for Portugal Telecom International Finance B.V., Brisa-Concessão Rodoviária S.A. and Banco Espírito Santo S.A. We took a position of leadership in equity trading on the NYSE Euronext Lisbon with a market share of 11.9%, and were once again ranked in first place in the Mergers & Acquisitions business area.

The Bank's international business activities remained strong in 2012 and contributed 60% to total revenues. Capitalizing on our geographic diversity, we focused our efforts on regions of higher growth, thus compensating for the slowdown in Europe's more mature markets.

Our global development strategy included an expansion into **India**, where we began brokerage operations in May 2012, and where we plan to expand into investment banking in early 2013. In **South Africa**, we stablished an operational joint venture with Avior Research, a leading independent broker, which will grant us the exclusive distribution of equity research to our leading institutional clients in Europe and enhance our trading capabilities in South African and Pan-African markets. In **Germany** we opened a joint representative office in Cologne with Banco Espírito Santo to leverage the financial resources of local business and investors.

In the remaining markets where we already have a strong presence, we pursued a strategy of consolidation.

In **Spain**, we reinforced our activities in the corporate sector, capitalizing on our international platform and on our close cooperation with Banco Espírito Santo for the purpose of expanding our cross-border activities and developing our Capital Markets and Mergers & Acquisitions businesses. We maintained a continued presence in the Iberian energy sector by providing financial advisory services to the EDP Group on the sale of its natural gas transmission company, Naturgas Energia Transporte. We also maintained a leading position on

the Iberian Mergers & Acquisitions ranking (2nd place by number and value of announced transactions) and a prominent rating (6th place) in the Spanish brokerage market.

In **Brazil** we continued to perform strongly. We expanded our Project Finance activities by providing advisory services in several financing operations and concession auctions, especially in the energy and transportation infrastructure areas. In the Mergers & Acquisitions and Capital Markets business areas, we participated in several major transactions promoting cross-border business, and in the Brokerage activity we rose to 21st place in the Bovespa ranking with a market share of 1.1%. Finally, we continued to develop the Wealth Management and Private Equity business areas, especially highlighting the incorporation of the first private equity fund managed by 2bCapital targeting the Brazilian market, which raised BRL 320 million for investment in its first closing.

In the **United Kingdom** we continued our reorganization activities following the acquisition of Execution Noble, focusing on merging our brands and differentiating ourselves from the competitors. We completed several operations in the Capital Markets business area, including acting as Corporate Broker in the tender offer of GlobeOp shares and acting as Sole Bookrunner in the placement of Novae and Xchanging Plc shares.

In **Poland** we concentrated on cross-border Mergers & Acquisitions and Capital Markets activities, while continuing to support our local and international Clients, mainly through the issuance of bank guarantees. We improved our credentials in this market by acting as Joint Bookrunner in the privatization of 50% of ZE PAK, the second largest IPO of 2012 in the Warsaw Stock Exchange, and also acted as Sole Arranger in the domestic bond issue of Ciech. In the Brokerage business area, we rose to 11th place in the ranking of Polish brokers, with a cumulative market share of 3.2%.

In the **United States of America**, we continued to progress with our advisory and intermediation activities, with the objective of establishing a distribution platform in that country. Special mention should be made of the advisory services provided to Sugalidal on the acquisition of Tresmontes Luchetto Agroindustrial, a Chilean company.

In **Mexico**, our continued development of commercial relationships was remarkably successful, originating business opportunities in the areas of Project Finance, Capital Markets and Corporate Finance. Of particular importance was our participation in the IPO of Grupo Financiero Santander Mexico, the largest ever by a Mexican company.

In **Africa**, we continued to reinforce our presence in Angola, where we plan to begin operations through a local broker-dealer, and in Mozambique, where we intend to develop Investment Banking activities.

We currently operate through a brokerage firm in **Hong Kong**, and are exploring ways of expanding our presence in that market.

The beginning of 2013 was marked by an improvement in the perception of the financial markets and a greater appetite for risk. The signs of stabilization in the Eurozone could point to a recovery in the middle of the year, although global economic growth should remain low. We are aware that risks are still high and that 2013 will be another year of great challenges. We will continue to follow our development strategy, with the firm resolve that we will do everything in our power to overcome the current challenges.

We wish to thank our Clients for choosing us, our Employees for their contributions and dedication, and our Shareholder, for its on-going support.

We would also like to express our appreciation to the Supervisory Board and our Auditors for their support to the improvement in the high standards in accounting and management information reporting, as well as to the Bank of Portugal, the Portuguese Securities Market Commission and the regulatory authorities in the countries where we operate, for their on-going cooperation and trust placed in Espírito Santo Investment Bank.

José Maria Espírito Santo Silva Ricciardi
(Vice-Chairman of the Board of Directors
and Chief Executive Officer)

Ricardo Espírito Santo Silva Salgado
(Chairman of the Board of Directors)

CORPORATE BODIES AND EXECUTIVE COMMITTEE

Corporate Bodies

General Meeting Board

Chairman

Daniel Proença de Carvalho

Secretary

José Miguel Alecrim Duarte

Board of Directors

Chairman

Ricardo Espírito Santo Silva Salgado

Vice-Chairmen

José Maria Espírito Santo Silva Ricciardi
Francisco Ravara Cary
Rafael Caldeira de Castel-Branco Valverde
Miguel António Igrejas Horta e Costa
Ricardo Abecassis Espírito Santo Silva

Other Members

Amílcar Carlos Ferreira de Morais Pires
Bernard Marcel Fernand Basecqz
Bernardo Ernesto Simões Moniz da Maia
Christian Georges Jacques Minzolini
Diogo Luís Ramos de Abreu
Duarte José Borges Coutinho Espírito Santo Silva
Félix Aguirre Cabanyes
Frederico dos Reis de Arrochela Alegria
João Filipe Espírito Santo de Brito e Cunha
José Manuel Pinheiro Espírito Santo Silva
Luis Miguel Pina Alves Luna Vaz
Moses Dodo
Nicholas Mark Finegold
Paulo José Lameiras Martins
Pedro Mosqueira do Amaral
Phillipe Gilles Fernand Guiral
Tiago Vaz Pinto Cyrne de Castro

Executive Committee

Chief Executive Officer (CEO)

José Maria Espírito Santo Silva Ricciardi

Other Members

Francisco Ravara Cary
Rafael Caldeira de Castel-Branco Valverde
Miguel António Igrejas Horta e Costa
Ricardo Abecassis Espírito Santo Silva
Christian Georges Jacques Minzolini
Diogo Luís Ramos de Abreu
Félix Aguirre Cabanyes
Frederico dos Reis de Arrochela Alegria
Luis Miguel Pina Alves Luna Vaz
Moses Dodo
Paulo José Lameiras Martins
Tiago Vaz Pinto Cyrne de Castro

Senior Managing Directors with a seat on the Executive Committee

Alan do Amaral Fernandes
José Luís de Saldanha Ferreira Pinto Basto
Pedro Miguel Cordovil Toscano Rico

Executive Committee Secretary

Patrícia Salgado Goldschmidt Catanho Meneses

Supervisory Board

Permanent Members

José Manuel Macedo Pereira (Presidente)
Tito Manuel das Neves Magalhães Basto
Mário Paulo Bettencourt de Oliveira

Deputy Member

Nuno Espírito Santo Leite de Faria

Statutory Auditors

Amável Calhau, Ribeiro da Cunha e Associados – Sociedade de Revisores Oficiais de Contas
represented by
Amável Alberto Freixo Calhau

SENIOR MANAGING DIRECTORS

Aníbal Paçó
Bartlomiej Dmitruk
Carl Adams
Carlos Ferreira Pinto
Carlos Nogueira
Carolina Ibañez
Charles Ashton
Dipesh Patel
Fernando Castro Solla
Filipa Schubeius
Garreth Hodgson
João Arantes e Oliveira
João Baptista Pereira
José Gabriel
José Martins Soares
José Miguel Rego
Krzysztof Rosa
Leonor Dantas
Lourenço Vieira de Campos
Lucas Martínez
Luís Sousa Santos
Luís Vasconcelos
Maria Luísa Baroni
Mércia Bruno
Miguel Guiomar
Nuno Cardoso
Patrícia Goldschmidt
Paulo Araújo
Pedro Costa
Pedro Ventaneira
Peter Tracey
Ricardo Domenech
Rodrigo Carvalho
Rui Baptista
Rui Borges de Sousa
Rui Marques
Rui Trindade de Sousa
Sílvia Costa

PRODUCT DIVISIONS, DEPARTMENTS AND UNITS

Product Divisions

Client Origination

Pedro Toscano Rico (Portugal)
Carolina Ibañez (Spain)
Miguel Lins (BES Investimento do Brasil, S.A.)
Peter Tracey/Miguel Borges (Execution Noble Limited)
Bartlomiej Dmitruk (Poland)
Nuno Cardoso (Unitd States of America)
George Mathew (Espírito Santo Securities – India) [1]
Jorge Ramos (Angola)

[1] Since February 18th, 2013

Private Solutions

Lourenço Vieira de Campos

Corporate Finance

Leonor Dantas/ Luís Vasconcelos (Portugal)
José Miguel Rego (Spain)
Maria Luísa Baroni (BES Investimento do Brasil, S.A.)
Vijay Chopra (Execution Noble Limited) [2]
Lukasz Pawlowski (Poland)
Maria Luísa Baroni/ Daniel Pyne (United States of America)
George Mathew (Espírito Santo Securities – India) [3]
Tiago Félix (*Cross-Border*)

Mid-cap Financial Advisory

Leonor Dantas

Acquisition Finance and Other Lending

Rui Baptista/ Pedro Ruas (Portugal)
Rui Baptista/ Gonzalo de Liñán Amusátegui (Spain)
Alan Fernandes (BES Investimento do Brasil, S.A.)
Rui Baptista (Poland)

Project Finance and Securitisation

Luís Sousa Santos (Portugal and Poland)
Carlos Álvarez Fernández (Spain)
Alan Fernandes (BES Investimento do Brasil, S.A.)
Robin Earle (United Kingdom)
Carl Adams (United States of America)

Capital Markets

Sílvia Costa (Portugal and Spain)
Miguel Guiomar (BES Investimento do Brasil, S.A.)
Peter Tracey (Execution Noble Limited)
Tara Cemlyn-Jones (International)
Maciej Jacenko/ Krzysztof Rosa (Poland)
Miguel Guiomar/ Dennis Holtzapffel (United States of America)
George Mathew (Espírito Santo Securities – India) [3]

[2] Since February 1st, 2013
[3] Since February 18th, 2013

Fixed Income
Carlos Ferreira Pinto (Portugal and Spain) – Global Coordinator
Roberto Simões (BES Investimento do Brasil, S.A.)
Marcus Ashworth (Execution Noble Limited)
Krzysztof Rosa (Poland)
Garreth Hodgson (United States of America)

Treasury
Carlos Nogueira (Portugal)
Roberto Simões (BES Investimento do Brasil, S.A.)
Krzysztof Rosa (Poland)

Capital Structure Advisory
Cristina Frazão (Portugal, Spain and Poland)

Global Loan Syndication
Lucas Martinez Vuillier (United Kingdom)
Thomas Friebel (United States of America)

Global Markets
Rui Borges de Sousa (Portugal)
Martim Amaral Neto (Spain)
Roberto Simões (BES Investimento do Brasil, S.A.)
Krzysztof Rosa (Poland)

Equities
João Baptista Pereira (Portugal and Spain)
Rui Marques (BES Securities do Brasil, S.A.)
Dipesh Patel (Execution Noble Limited)
Szymon Ozog (Poland)
Garreth Hodgson (United States of America)
Nick Paulson-Ellis (Espírito Santo Securities – India)
José Martins Soares (Emerging Markets Equity Research)
Will Draper (European Equity Research)

Asset Management
Fernando Castro Solla (Portugal and Spain)
Paulo César Werneck (BESAF – BES Activos Financeiros, Lda.)

Private Equity
João Arantes e Oliveira (Espírito Santo Capital – Sociedade de Capital de Risco, S.A.)

Wealth Management
Francisco Brant de Carvalho/ José Carlos Mendes (Espírito Santo Serviços Financeiros DTVM)

Departments

Compliance
Patrícia Salgado Goldschmidt

Corporate Communication and Image
Pedro Pereira Santos

Accounting
Pedro Ventaneira
Delfina Mendes

Information & Documentation
Paula Ramalhete

Information and Management Reporting Systems
Pedro Ventaneira
António Pacheco

Information Technology
Rui Trindade de Sousa

Legal
Patrícia Salgado Goldschmidt

Operations
Pedro Ventaneira
João Pereira da Silva

Organisational Resources
José Gabriel

Corporate Development
José Pinto Basto

Human Resources
José Gabriel
Aníbal Paçó

Risk – Credit Risk Analysis
Filipa Schubeius
Rui Brigantim Pereira

Risk – Risk Control
Pedro Ventaneira
Luís Pereira

Units
Project Management Office & Change Management
Rui Trindade de Sousa

Branches, Subsidiaries and Representative Offices

Branches
Spain
Félix Aguirre Cabanyes
Ricardo Domenech Zamora

London
Rafael Caldeira de Castel-Branco Valverde
Aníbal Jorge Campos Paçó

New York
Moses Dodo
Nuno David Fernandes Cardoso

Poland
Christian Georges Jacques Minzolini
Krzysztof Rosa
Bartłomiej Dmitruk

Cayman Islands (Branch of BES Investimento do Brasil)
Ricardo Abecassis Espírito Santo Silva
Mércia Carmeline Alves Bruno

Subsidiaries

BES Investimento do Brasil, S.A. – Banco de Investimento (Brazil)
Ricardo Abecassis Espírito Santo Silva

BES Securities do Brasil, S.A. – Corretora de Câmbios e Valores Mobiliários (Brazil)
Ricardo Abecassis Espírito Santo Silva

BESAF - BES Activos Financeiros, Ltda. (Brazil)
Ricardo Abecassis Espírito Santo Silva

Espírito Santo Serviços Financeiros DTVM (Brazil)
Ricardo Abecassis Espírito Santo Silva

Espírito Santo Capital - Sociedade de Capital de Risco, S.A. (Portugal)
Francisco Ravara Cary
João Carlos Mendes Reis Arantes e Oliveira

Espírito Santo Investment p.l.c. (Ireland)
Tiago Vaz Pinto Cyrne de Castro
John Patrick Andrew Madigan

Execution Noble Limited (United Kingdom)
Luís Miguel Pina Alves Luna Vaz

Execution Noble (Hong Kong) Limited
Luís Miguel Pina Alves Luna Vaz

Espírito Santo Securities (India)
Luís Miguel Pina Alves Luna Vaz
Nick Paulson-Ellis

Representative Offices

Mexico City
Moses Dodo
Hugo Antonio Villalobos Velasco

Germany
Mário Vieira de Carvalho

Executive Committee



José Maria Espírito Santo Silva Ricciardi

Chief Executive Officer (CEO),
Vice-Chairman of the Board of Directors,
Chairman of the Global Management Committee,
(Compliance, Legal, Human Resources,
Organisational Resources and
Information and Management Reporting Systems).



Francisco Ravara Cary

Deputy Chief Executive Officer,
Vice-Chairman of the Board of Directors,
Chief Financial Officer,
Assets and Liabilities Committee (ALCO),
Global Credit and Risk Management Committee,
Risk Management Committee - Europe,
Operational Committee,
(Treasury, Espírito Santo Capital - Sociedade de Capital de Risco, S.A).



Rafael Caldeira de Castel-Branco Valverde

Vice-Chairman of the Board of Directors,
Senior Country Officer for Portugal,
Senior Country Officer for the United Kingdom,
Chairman of the Portugal Geography Committee,
(Portugal Client Origination, Acquisition Finance and Other Lending,
Private Solutions, London Branch,
London Client Origination and Information & Documentation).



Miguel António Igrejas Horta e Costa

Vice-Chairman of the Board of Directors,
(Corporate Communication and Image, Institutional Relations and
Premium Clients).



Ricardo Abecassis Espírito Santo Silva

Vice-Chairman of the Board of Directors,
Senior Country Officer for Brazil,
Chairman of Brazil Geography Committee,
Joint Chairman of the Americas Credit and Risk Management Committee
(Wealth Management, BES Investimento do Brasil, S.A. – Banco de Investimento and its subsidiaries, Brazil Client Origination).



Christian Georges Jacques Minzolini

Executive Board Member,
Senior Country Officer for Poland,
Chairman of Poland Geography Committee,
(Poland Branch, Espírito Santo Investment Sp. Z.o.o.,
Secretary General, Corporate Development
and Poland Client Origination).



Diogo Luís Ramos de Abreu

Executive Board Member,
(Capital Structure Advisory).



Félix Aguirre Cabanyes

Executive Board Member,
Senior Country Officer for Spain,
Chairman of Spain Geography Committee
(Spain Branch and Spain Client Origination).



Frederico dos Reis de Arrochela Alegria

Executive Board Member,
(Global Markets).



Luis Miguel Pina Alves Luna Vaz

Executive Board Member,
(Capital Markets, Equities, Fixed Income,
Asset Management, Execution Noble Limited and its subsidiaries).



Moses Dodo

Executive Board Member,
Senior Country Officer for the United States of America,
Chairman of United States Geography Committee,
Joint Chairman of the Americas Credit and Risk Management Committee,
(New York Branch, Mexico City Representative Office and Global Loan Syndication).



Paulo José Lameiras Martins

Executive Board Member,
(Corporate Finance and Mid-cap Financial Advisory).



Tiago Vaz Pinto Cyrne de Castro

Executive Board Member,
Senior Country Officer for Ireland,
Chief Risk Officer,
Chief Operations Officer,
(Risk - Risk Control and Credit Risk Analysis, Accounting, Operations,
Information Technology, Project Management Office & Change Management,
Operational Risk (included in the Compliance Department),
Information and Management Reporting Systems and Espírito Santo Investment, plc.).

Senior Managing Directors with a seat on the Executive Committee



Alan do Amaral Fernandes

Project Finance and Securitisation (Global),
Project Finance and Securitisation (Brazil),
Acquisition Finance and Other Lending (Brazil).



José Luís de Saldanha Ferreira Pinto Basto

Global Loan Syndication,
Corporate Development.



Pedro Miguel Cordovil Toscano Rico

Portugal Client Origination.

PRINCIPLES AND VALUES

Espírito Santo Investment Bank business is built upon the following set of Principles and Values:

Ownership

Our Managers and Employees identify with the Bank´s mission and corporate values and have a strong sense of belonging to a team. Our people have a sense of ownership in the Bank's activities and participate intensely in its successes and failures. This involves a strong sense of responsibility in terms of performance and risks in relation to both the Bank and its Clients.

Client Orientation

We strive to maintain and develop Clients' trust by means of our professional attitude, and our intense focus on their need. We delight in exceeding expectations, by defining strategies to maximise value and establish true partnerships.

Excellence

We provide quality services and innovative and creative solutions. We constantly seek perfection by paying close attention to detail towards obtaining results that exceed expectations.

People Orientation

We treat Employees with dignity, respecting individual knowledge and skills. We continuously provide opportunities for personal and professional growth.

Learning Organisation

We practice an attitude of continuous learning and innovation, and promote the diversity of ideas and the sharing of information. We are constantly engaged in the search for greater knowledge, and strive to make the Bank a source of distinctive know-how and thought leadership.

Passion to Win

We are determined to keep growing and improving, using exceptional levels of energy and motivation.

Communication

We express our opinions and points of view objectively and clearly, while at the same time providing others with the space to affirm and express themselves. We aim to enhance the value of information through assertiveness and active listening, and create a non-hierarchical and open-door organization that values people at every level and embodies transparency.

Think and Act Internationally

We stay abreast of global trends and use this knowledge to assess and estimate how global events may impact local business. At the same time, we respect the differences between the regions where the Bank operates, and honour the cultural practices in each.

Ethics and Transparency

We continuously align our corporate thought and behaviour to respond appropriately to the need for human solidarity and respect for human dignity. We respect local regulations and implement corporate rules when developing businesses, and always behave ethically in the best interests of the Bank. We maintain a high level of transparency in terms of annual reports, financial accounts and other corporate documents, and ensure that Employees, the Shareholder, Regulators, Clients and the market in general are provided with adequate information.

CONSOLIDATED FINANCIAL HIGHLIGHTS

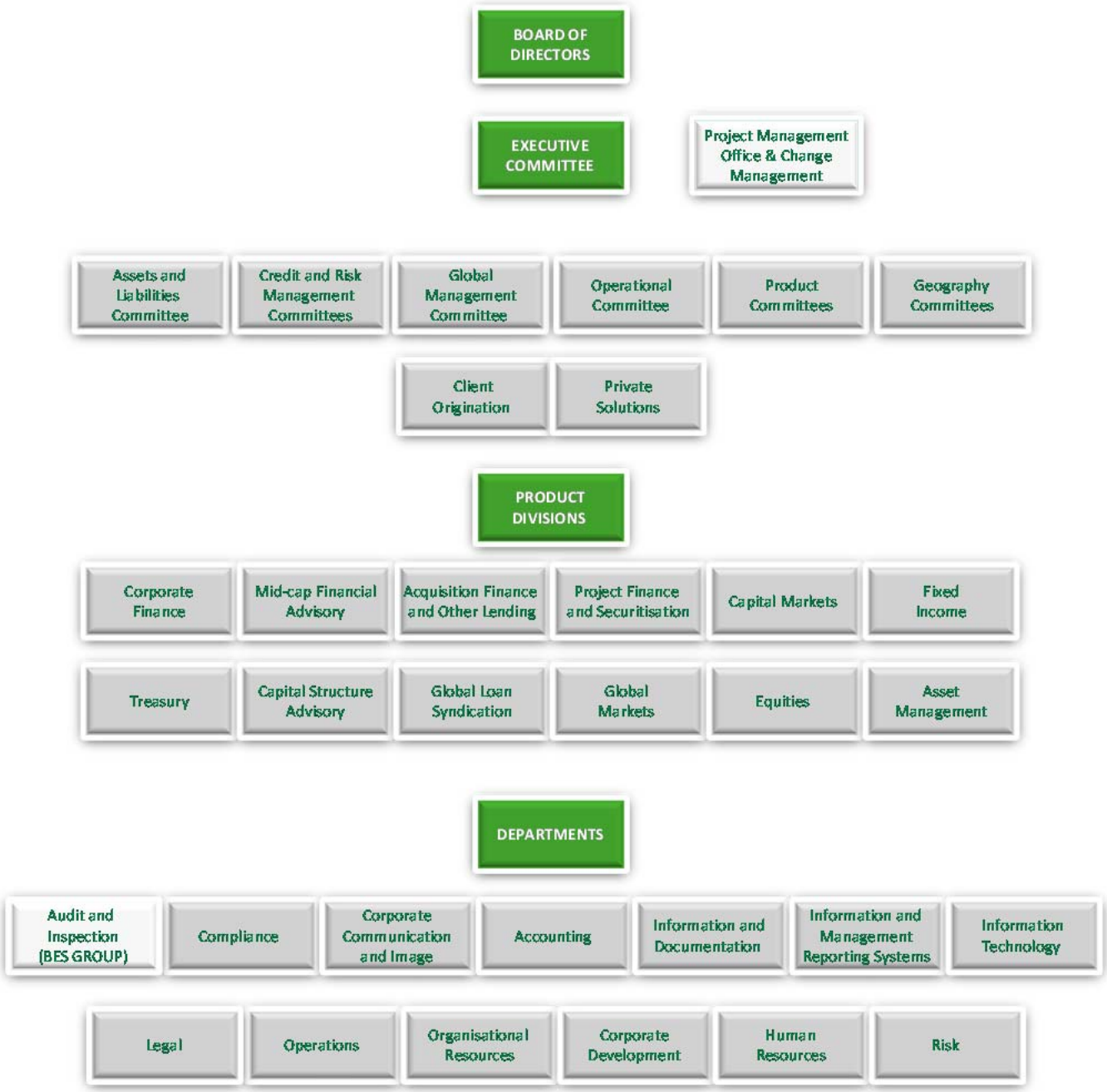
(EUR thousands)

Consolidated Income Statement	2012	2011	Change
Consolidated Banking Income	**261,267**	**237,934**	**9.8%**
Fees and Commissions Income	101,110	131,467	(23.1%)
Net Interest Income and Market Results	160,157	106,467	50.4%
Total Operating Expenses	**(176,053)**	**(178,603)**	**(1.4%)**
Staff Costs	(111,399)	(109,218)	2.0%
General and Administrative Expenses	(58,876)	(63,866)	(7.8%)
Depreciation and Amortisation	(5,778)	(5,519)	4.7%
Operating Income	**85,214**	**59,331**	**43.6%**
Impairment and Provisions	(46,201)	(44,169)	4.6%
Profit before Income Tax	**39,013**	**15,162**	**157.3%**
Income Tax	(18,471)	(5,889)	213.7%
Non-controlling interests	1,486	(212)	(800.9%)
Consolidated Net Profit	**22,028**	**9,061**	**143.1%**

(EUR thousands)

Consolidated Balance Sheet	2012	2011	Change
Assets			
Financial assets held for trading	2,439,729	1,977,051	23.4%
- Securities	1,560,951	1,133,978	37.7%
Available-for-sale financial assets	485,917	303,220	60.3%
Loans and advances to banks	243,755	246,691	(1.2%)
Loans and advances to customers	2,187,524	2,257,945	(3.1%)
Held-to-maturity investments	107,202	727,998	(85.3%)
Other assets	1,017,736	1,046,880	(2.8%)
Total Assets	**6,481,863**	**6,559,785**	**(1.2%)**
Equity and Liabilities			
Share Capital	326,269	226,269	44.2%
Non-controlling interests	75,532	79,322	(4.8%)
Total Equity	**706,005**	**606,418**	**16.4%**
Financial liabilities held for trading	751,715	791,761	(5.1%)
Deposits from banks	2,020,686	2,452,209	(17.6%)
Due to customers	967,374	859,247	12.6%
Debt securities issued	1,382,888	1,299,619	6.4%
Other liabilities	653,195	550,531	18.6%
Total Equity and Liabilities	**6,481,863**	**6,559,785**	**(1.2%)**

ORGANISATIONAL CHART



Note: The functions of the Global Management Committee and Operational Committee are currently performed by the Executive Committee.

RATING

In December 2011, after revising its rating methodology for evaluating financial institutions, Standard & Poor's (S&P) downgraded the rating of Banco Espírito Santo de Investimento, S.A. to BB, from BBB- (long term) and to B, from A-3 (short term), with negative outlook.

In January 2012, following the downgrade of the Republic of Portugal's rating from BBB- to BB, S&P revised Banco Espírito Santo de Investimento, S.A. ratings outlook from 'negative' to 'watch negative'. In February 2012, S&P downgraded the long-term rating of the Bank from BB to BB-, with negative outlook.

In July 2012, S&P announced it was maintaining the rating of Banco Espírito Santo de Investimento, S.A. at BB- (long term) and B (short term), with negative outlook, following its analysis of the implications of the EUR 1 billion rights issue of its sole shareholder, Banco Espírito Santo, S.A., concluded in May 2012. S&P also maintained the rating on the junior subordinated debt of Banco Espírito Santo de Investimento, S.A. at B-.

On March 7, 2013 S&P affirmed the long term rating of the Republic of Portugal at BB, raising its outlook from negative to stable, on the expectation that European institutions will continue to support Portugal´s adjustment programme. The agency further expects that the Portuguese fiscal consolidation process will be adjusted, reducing the risk that it will not comply with the programme.

As a result, on March 12, 2013 S&P revised the ratings of the Portuguese banks, affirming the BB-/B rating of Banco Espírito Santo de Investimento, S.A. , with negative outlook.

With regard to the Bank's subsidiaries, in December 2011, S&P downgraded BES Investimento do Brasil, S.A.'s credit ratings to BB/B, from BB+/B (global scale, local and foreign currency) and to brAA/brA-1, from brAA+/brA-1 (Brazilian local scale), both with negative outlook. The rating on the external debt issue in foreign currency was also lowered, to BB, from BB+, with negative outlook.

In February 2012, S&P revised the outlook of the long-term rating of BES Investimento do Brasil, S.A. (global scale, local and foreign currency) from 'negative' to 'watch negative', and subsequently, also in February, downgraded the rating from BB to BB-, with negative outlook.

In April 2012, Moody's lowered the ratings of BES Investimento do Brasil, S.A., from Aa3.br/BR-1 to A2.br/BR-2 (Brazilian local scale) and from Ba2/Not Prime to Ba3/Not Prime, with negative outlook (local and foreign currency deposit ratings). The rating on the external debt issue in foreign currency was also lowered, from Ba2/Not Prime to Ba3/Not Prime.

EARNINGS DISTRIBUTION PROPOSAL

Considering that the individual income statement of Banco Espírito Santo de Investimento, S.A. for the year ended on December 31st, 2012 showed a net profit of EUR 18,249,803.09 (eighteen million two hundred forty nine thousand eight hundred three euros and nine cents) the Board of Directors submits to the Annual General Meeting the following proposal for the distribution of earnings for the year:

- To Legal Reserve: EUR 1,824,980.31 (one million eight hundred twenty four thousand nine hundred eighty euros and thirty one cents)
- To Other Reserves and Retained Earnings: EUR 16,424,822.78 (sixteen million four hundred twenty four thousand eight hundred twenty two euros and seventy eight cents)
- Total: EUR 18,249,803.09 (eighteen million two hundred forty nine thousand eight hundred three euros and nine cents)

DECLARATION OF CONFORMITY

In accordance with Article 245, number 1, paragraph c, of the Portuguese Securities Code, the Members of the Board of Directors of Banco Espírito Santo de Investimento, S.A. hereby declare that, to the best of their knowledge:

a) The individual financial statements of Banco Espírito Santo de Investimento, S.A. for the year ended on December 31st, 2012 were prepared in accordance with the legally applicable accounting standards and the Portuguese legislation, as set forth in Article 245, number 3, of the Portuguese Securities Code;

b) The consolidated financial statements of Banco Espírito Santo de Investimento, S.A. for the year ended on December 31st, 2012 were prepared in accordance with the legally applicable accounting standards and with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, of July 19th, as set forth in Article 245, number 3, of the Portuguese Securities Code;

c) The financial statements referred to in paragraphs a) and b) above provide a true and appropriate image of Banco Espírito Santo de Investimento, S.A. and consolidated companies' assets, liabilities, equity and earnings;

d) The Management Report describes faithfully Banco Espírito Santo de Investimento, S.A. and consolidated companies´ business evolution, performance and financial position for the year ended on December 31st, 2012, and includes a description of the main risks and uncertainties that could affect the business.

Lisbon, March 14th, 2013

Ricardo Espírito Santo Silva Salgado
(Chairman of the Board of Directors)

José Maria Espírito Santo Silva Ricciardi
(Vice-Chairman of the Board of Directors and Chief Executive Officer)

Francisco Ravara Cary
(Vice-Chairman of the Board of Directors and Executive Board Member)

Rafael Caldeira de Castel-Branco Valverde
(Vice-Chairman of the Board of Directors and Executive Board Member)

Miguel António Igrejas Horta e Costa
(Vice-Chairman of the Board of Directors and Executive Board Member)

Ricardo Abecassis Espírito Santo Silva
(Vice-Chairman of the Board of Directors and Executive Board Member)

Amílcar Carlos Ferreira de Morais Pires
(Member)

Bernard Marcel Basecqz
(Member)

Bernardo Ernesto Simões Moniz da Maia
(Member)

Christian Georges Jacques Minzolini
(Executive Board Member)

Diogo Luís Ramos de Abreu
(Executive Board Member)

Duarte José Borges Coutinho Espírito Santo Silva
(Member)

Félix Aguirre Cabanyes
(Executive Board Member)

Frederico dos Reis de Arrochela Alegria
(Executive Board Member)

João Filipe Espírito Santo de Brito e Cunha
(Member)

José Manuel Pinheiro Espírito Santo Silva
(Member)

Luís Miguel Pina Alves Luna Vaz
(Executive Board Member)

Moses Dodo
(Executive Board Member)

Nicholas Mark Finegold
(Member)

Paulo José Lameiras Martins
(Executive Board Member)

Pedro Mosqueira do Amaral
(Member)

Philippe Gilles Fernand Guiral
(Member)

Tiago Vaz Pinto Cyrne de Castro
(Executive Board Member)

1. ECONOMIC ENVIRONMENT

INTERNATIONAL ECONOMIC ENVIRONMENT

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

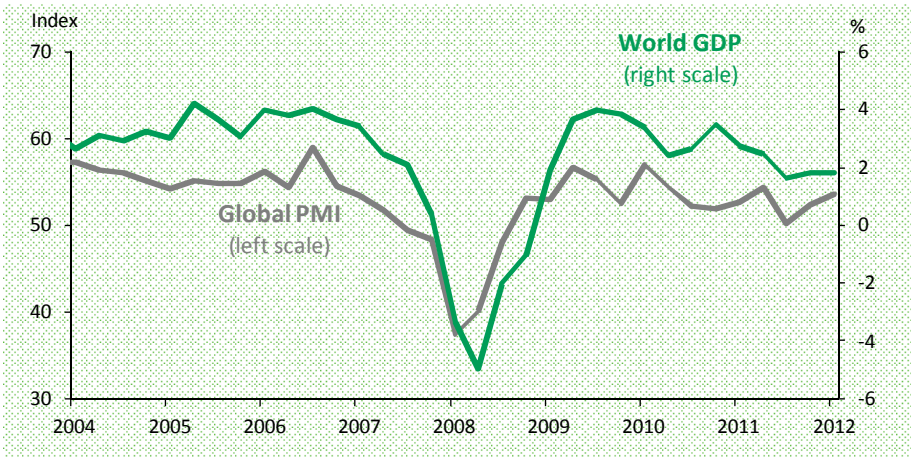
However, the second half of the year saw the stabilisation of the financial markets at the same time as fears about the fragmentation of the Eurozone receded, translating into the contraction of spreads against Germany of the yields of the peripheral economies' public debt securities. In addition to some progress made towards greater financial and fiscal integration, this improvement in sentiment mainly resulted from the ECB's launch of its Outright Monetary Transactions (OMT) programme, which opened the possibility for unlimited purchases of Eurozone public debt securities, as a complement to a possible formal financial assistance programme under the European Stability Mechanism (ESM).

Moreover, in a context of low inflationary pressures the impact of the strongly expansionary monetary policies followed by the main central banks – reinforcement of quantitative easing by the US Federal Reserve (the so called QE3), the ECB's long-term refinancing operations, and quantitative easing by the United Kingdom's and Japan's central banks - also induced greater propensity to risk at a global level. After a last cut of 25 bps in July, the ECB maintained the key benchmark rate unchanged for the rest of the year, at 0.75%. The 3-month Euribor slid from 1.356% to 0.187% in the year, while the euro advanced by 1.8% against the dollar, to 1.32.

In this context, in the US the S&P500 index advanced by 13.4%, while in Europe the DAX and CAC40 posted annual gains of 29.1% and 15.2%, respectively. The PSI20 and IBEX35, 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%, respectively).

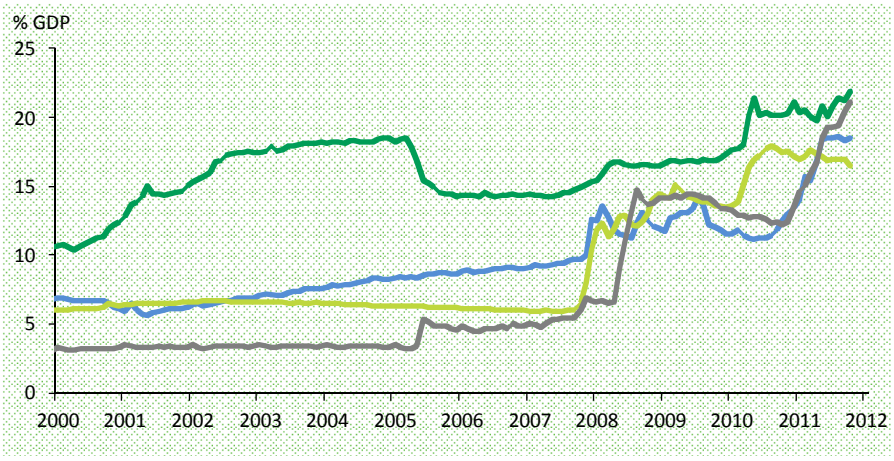
In line with the evolution of sentiment along the year, the price of crude (Brent) fell between the first and second quarters (from USD 123.8 to USD 97/barrel), recovering as from the summer and closing the year at USD 111.9/barrel (a YoY increase of ca. 4%).

World GDP vs. Global PMI



Source: Bloomberg.

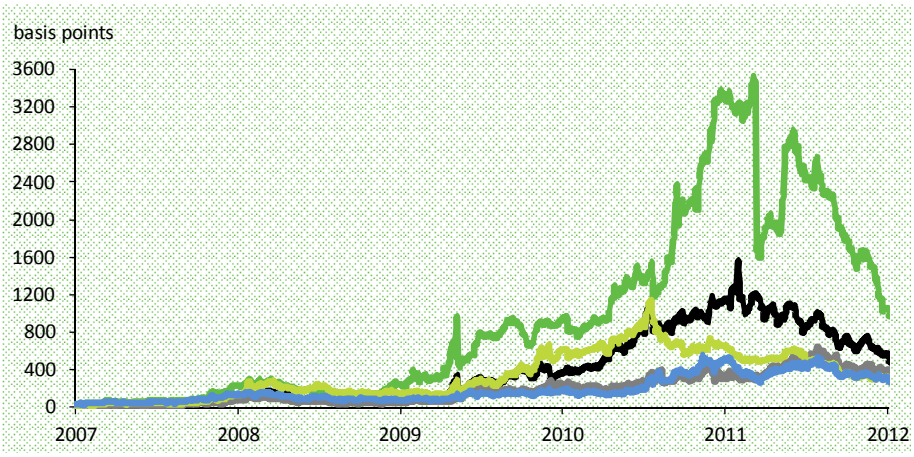
Monetary Base



Japan: 21.9%
United Kingdom: 21.2%
Eurozone: 18.6%
USA: 16.5%

Source: Reuters Ecowin.

Yield Spreads on 10-year Government Bonds vs. Germany



Greece: 895
Portugal: 457
Spain: 360
Italy: 268
Ireland: 248

Source: Bloomberg.

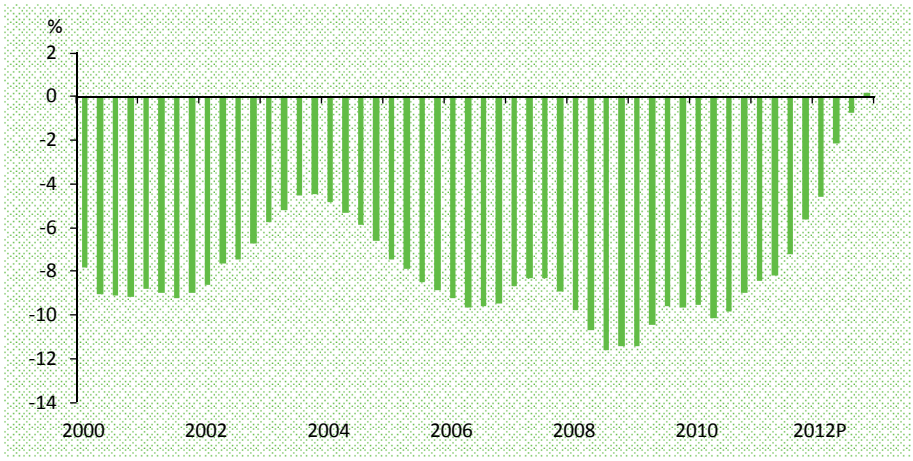
ECONOMIC ENVIRONMENT IN PORTUGAL

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

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

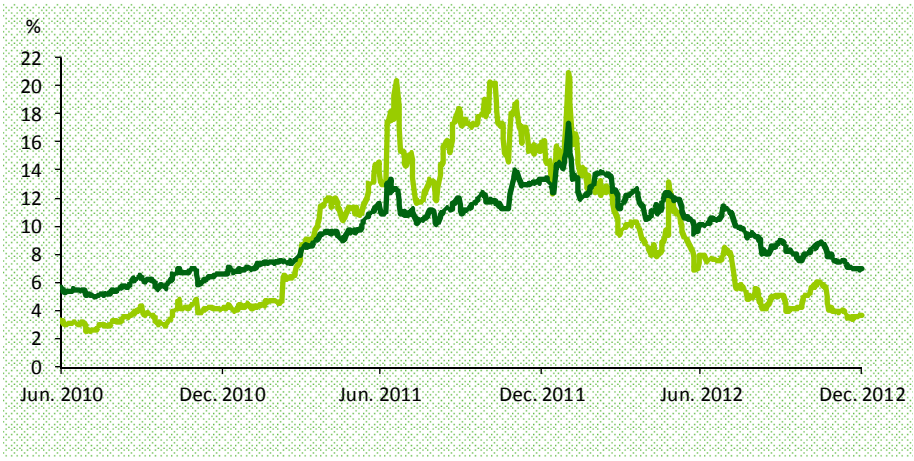
The positive reviews of the implementation of the Adjustment Programme contributed, together with the stabilising course of action undertaken by the ECB, to the gradual improvement of financial conditions in the Portuguese economy, as seen in the significant reduction of public debt yields and credit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

Combined current and capital account balance (% GDP)



Source: INE.

2- and 10-year Treasury bond yields



10 years: 7.0%
2 years: 3.7%

Source: Bloomberg.

ECONOMIC ENVIRONMENT IN SPAIN

During 2012 the Spanish economy pursued the recessive trajectory initiated at the end of 2011. GDP fell by 1.4% in the year, with the pace of decline intensifying in the fourth quarter to 0.7%. This performance was driven by the weakening of domestic demand and in particular by the deterioration of the labour market, the deleveraging trend in the private sector (businesses and households), the fiscal consolidation effort, and restrictions on credit. Private consumption was highly penalised by rising unemployment (which reached 26% of the labour force at the end of the year) and by the reduction in households disposable income through the decrease in wages and the increase in income taxes. The contraction of investment, and particularly of investment in equipment, reflected the worsening of business sentiment, the high indebtedness of companies, and restrictive conditions in access to credit. The adjustment in the housing sector continued during 2012, with home prices falling at an increasingly steeper pace: 9.8% in the year and 26.5% since the start of 2008.

External demand also deteriorated as a result of the contraction of activity in the Eurozone, at grips with the sovereign debt crisis. However, the retraction of domestic demand and imports allowed Spain to continue to correct its external imbalance, with the current deficit dropping from 3.5% of GDP in 2011 to ca. 2% in 2012.

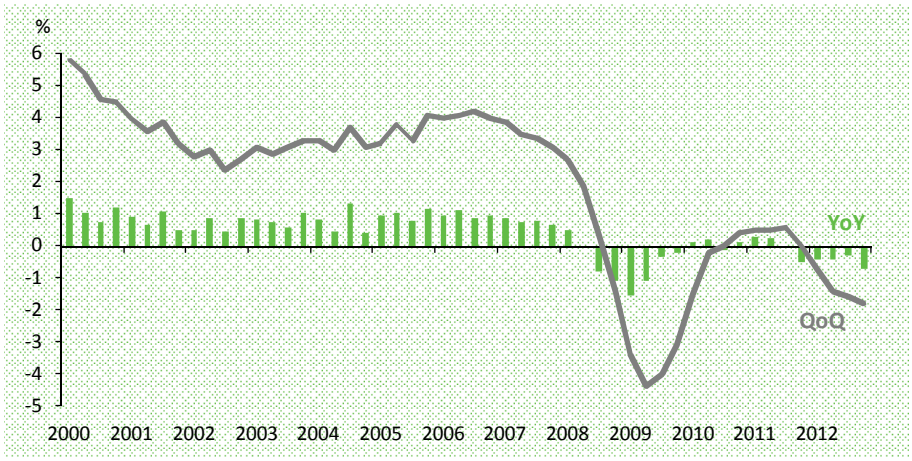
On the public accounts front, the government presented in July a set of fiscal consolidation measures, including the rise of VAT rates as from September (the general rate from 18% to 21% and the reduced rate from 8% to 10%), and also significant spending cuts, including the removal of the Christmas bonus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

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

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

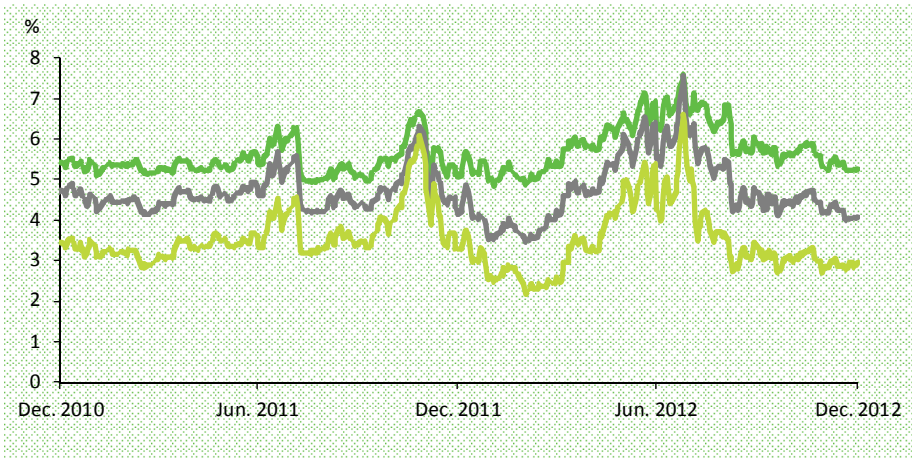
During the year the rating agencies successively downgraded the ratings of the Kingdom of Spain: Standard & Poor's in three moves, by six notches (from AA- to BBB-), and Moody's and Fitch in two moves, by five notches (from A1 to Baa3 and from AA- to BBB, respectively).

GDP Growth



Source: Bloomberg.

Yields on 2-, 5- and 10-year Bonos



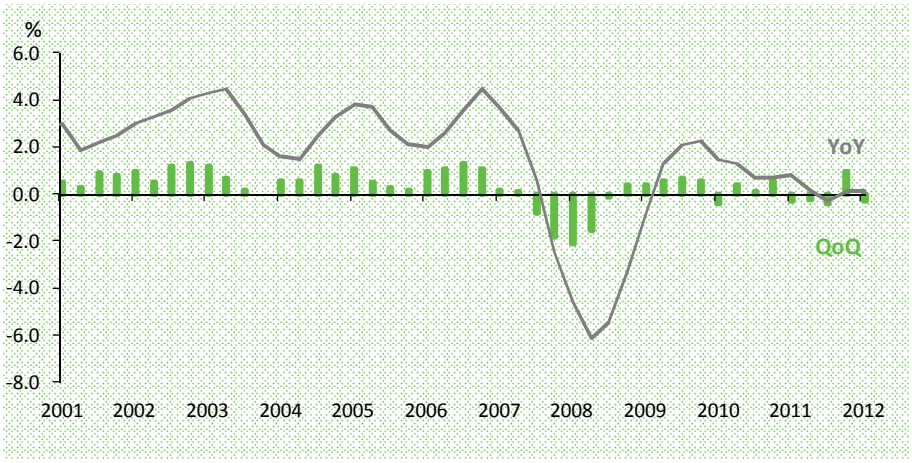
Source: Bloomberg.

ECONOMIC ENVIRONMENT IN THE UNITED KINGDOM

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

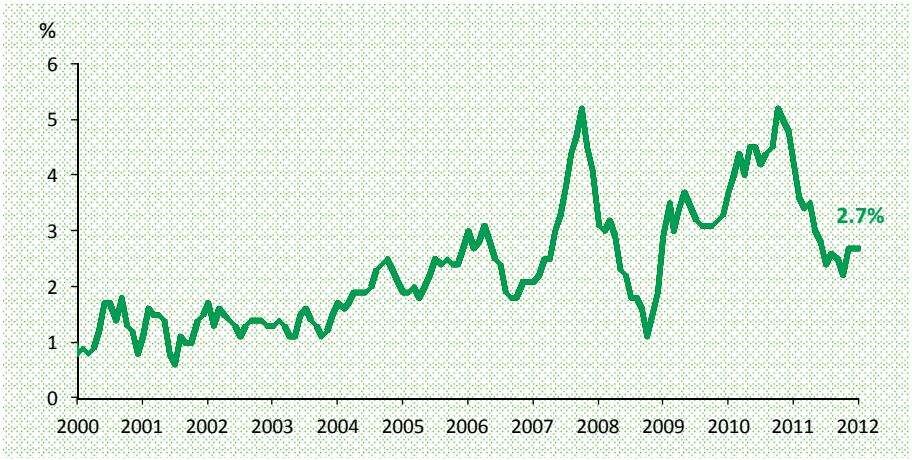
The Bank of England (BoE) maintained the reference rate unchanged at 0.5%, and interrupted in November its quantitative easing (QE) programme, revealing its doubts about the efficacy of a new acquisition of debt securities in rekindling the real economy. With the interruption of the programme, the BoE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

GDP Growth



Source: Bloomberg.

YoY inflation



Source: Bloomberg.

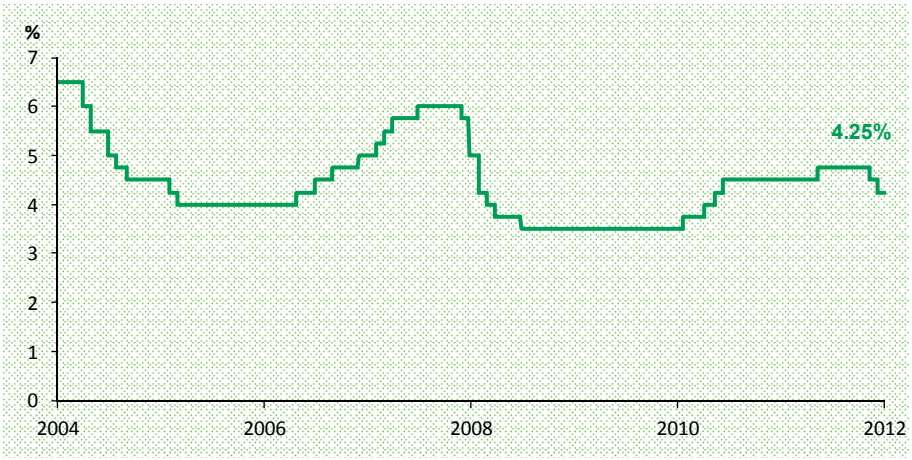
ECONOMIC ENVIRONMENT IN POLAND

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

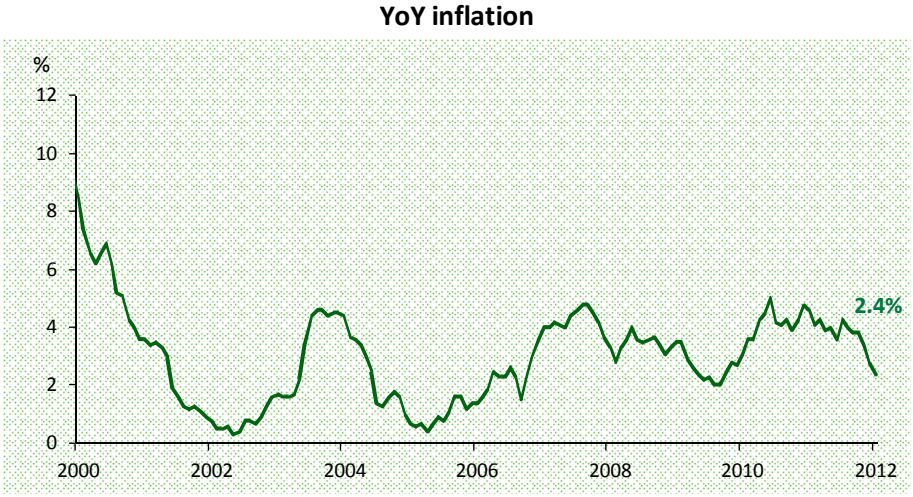
The behaviour of prices was also not consistent throughout the year. With the 2011 high inflation persisting into 2012, in May the National Bank of Poland lifted the reference interest rate by 25 bps, to 4.75%, in an attempt to forestall runaway inflationary expectations. However, the economic slowdown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

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

National Bank of Poland reference interest rate



Source: Bloomberg.



Source: Bloomberg.

ECONOMIC ENVIRONMENT IN THE UNITED STATES OF AMERICA

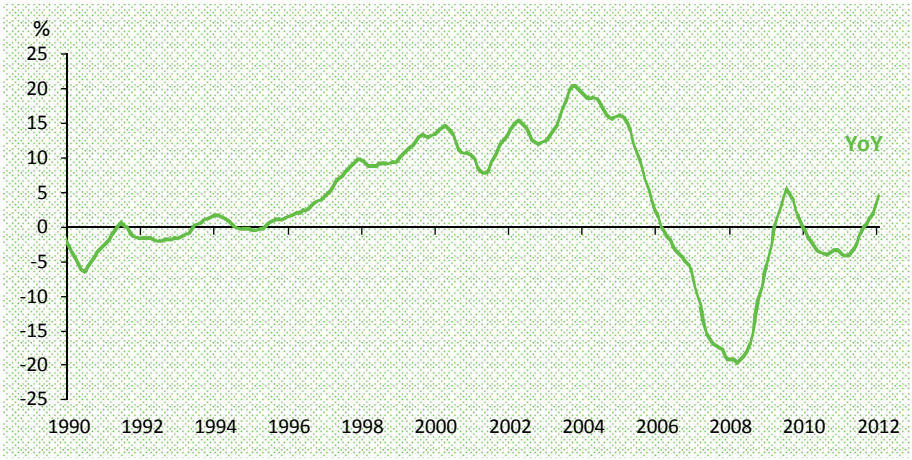
The United States economy grew by 2.2% in 2012, slightly picking up from 2011 but showing an irregular behaviour throughout the year. After a very robust expansion in the last quarter of 2011, economic activity cooled down in the first half of 2012, quickening up again in the third quarter and again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

The housing market, which had been one of the most penalised by the great recession, strongly eroding the wealth of families and private consumption, showed signs of an upturn in 2012. Home prices, sales of new and existing houses, housing starts, and builder confidence (National Association of Home Builders), all trended upward, though remaining at relatively low levels. On the other hand, the labour market, which was equally laggard in picking up, also showed signs of a rebound, although lacking the necessary vim to allow for a fast drop in the rate of unemployment. In 2012 the average net job creation per month increased by 8,000 year-on-year, to 183,000, bringing down the unemployment rate to 7.8% of the labour force, from 8.3% at the end of 2011.

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

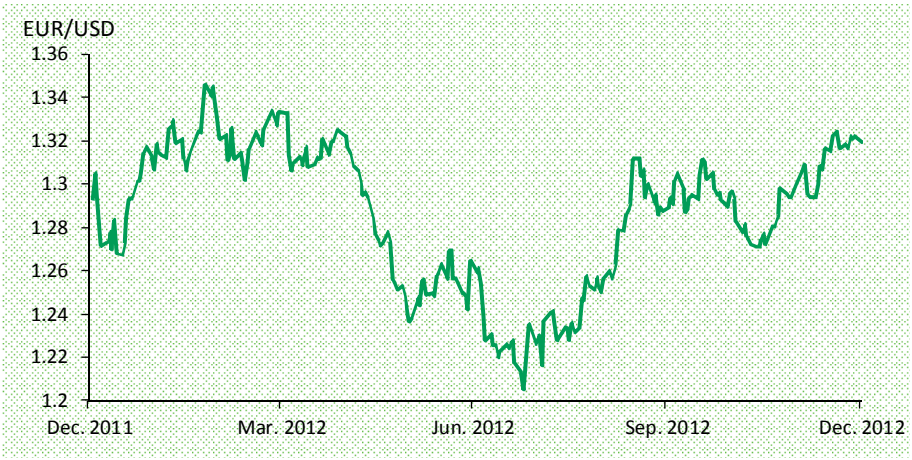
The end of 2012 was also marked by rising uncertainty – leading to increased market volatility – about an agreement on the so-called 'fiscal cliff'. The partial consensus reached in the first days of 2013 between republicans and democrats permitted to avoid a restrictive effect of more than USD 600 billion (between tax increases and automatic spending cuts) that would certainly provoke a new recession in the North-American economy in the first half of 2013.

Case-Shiller housing price index



Source: Bloomberg.

EUR/ USD



Source: Bloomberg.

ECONOMIC ENVIRONMENT IN BRAZIL

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

However, this shift came too late to solve the imbalance between aggregate demand and supply growth rates. As a result the inflationary pressures that were already present in 2011 persisted throughout 2012, causing the annual change in the consumer price index to overstep the target for the third consecutive year (average annual inflation rate of 5.4%, and 5.8% YoY at the end of 2012). This was further aggravated by poor weather conditions in important food production regions, leading to a hike in the price of these products. These inflationary strains could have been toned down by a currency appreciation trend, however the Brazilian government opted for avoiding the strengthening of the currency as that would imply a loss of competitiveness for the domestic industry. The real thus weakened against the dollar, going from BRL/USD 1.876 at the end of 2011 to BRL/USD 2.044 at the end of 2012.

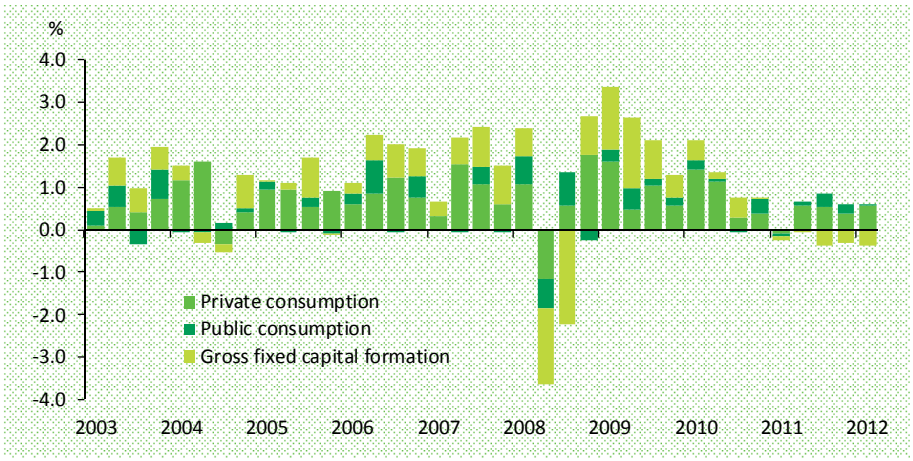
In the absence of a favourable investment dynamics within the private sector, the Federal Administration reckoned it would have to take the lead in this process and hence intensified capital expenditure, while also focusing on removing obstacles to the expansion of production capacity. However, current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

The doubts which the shifts in economic policy and state intervention in specific sectors (namely banks, energy utilities, oil and gas) generated among the economic agents could in part explain the relatively weak performance of the Brazilian stock market in 2012. In any case, the bright outlook for businesses standing to

gain from the expansion of consumption allowed the Bovespa index to register a moderately positive increase in the year (7.4%).

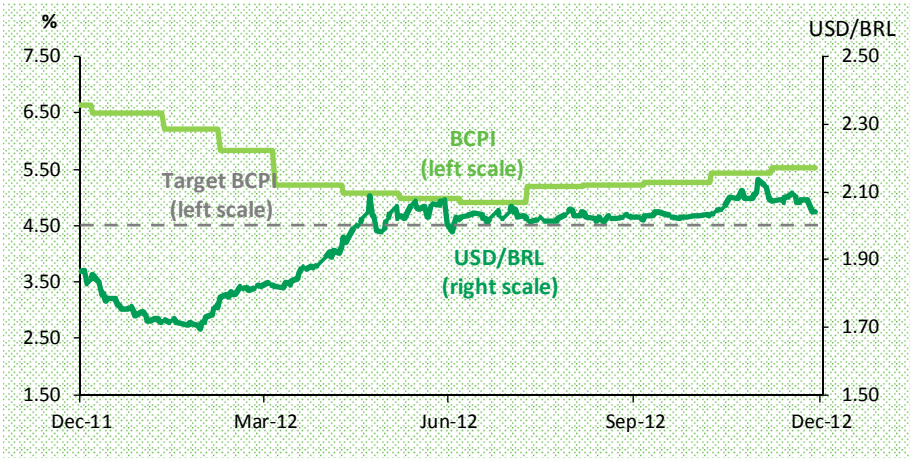
Summing up, 2012 saw important changes in domestic economic policy, and it seems that the existing obstacles to the expansion of domestic production capacity are to blame for the economic slowdown during the year. Domestic demand was buoyant but not matched by aggregate supply. These policy changes could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

Contributors to GDP QoQ growth (p.p.)



Source: IBGE.

YoY inflation (broad CPI) vs. USD/BRL exchange rate



Source: Bloomberg.

ECONOMIC ENVIRONMENT IN ANGOLA

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

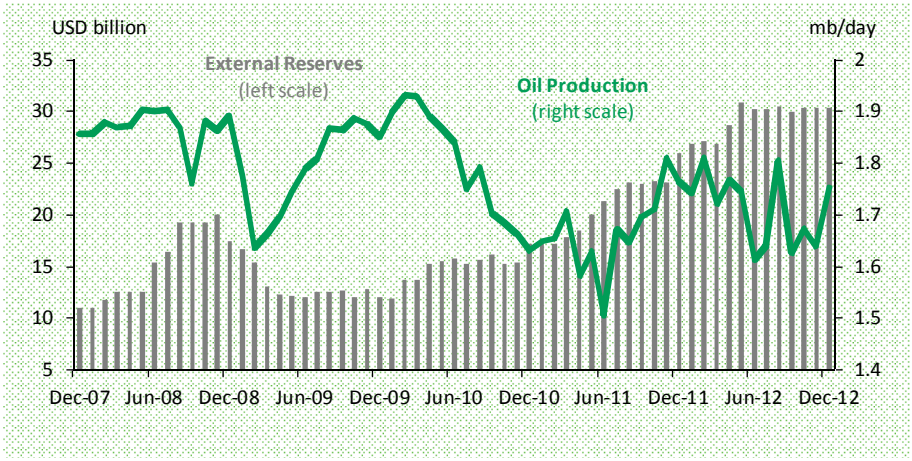
In 2012 the National Bank of Angola (NBA) cut the marginal lending facility interest rate to 11.5%, the base interest rate to 10.25% and the liquidity absorption interest rate to 1.5%. The monetary policy followed by the Angolan authorities was supported by the benign evolution of prices, with the YoY inflation rate standing at 9% at the end of the year.

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

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

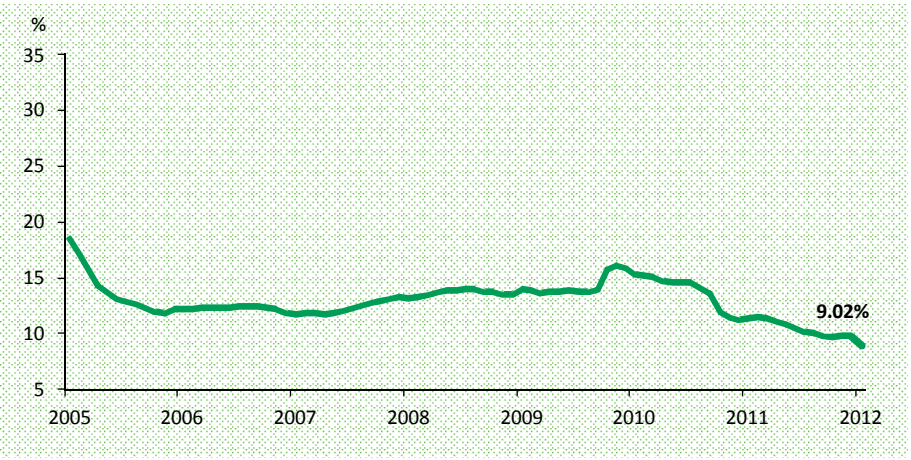
Following old IMF guidelines, the Angolan authorities have launched the Angolan Sovereign Fund ("FDSEA"), with initial capital of USD 5 billion. The fund, which will grow from further oils revenues, will be mainly used to invest in the country's infrastructures and promote the hotel and agricultural sectors, water supply, electricity supply and transport, creating the conditions to attract foreign investment. Angola's average oil production in 2012 reached 1.71 million barrels per day, which represents a YoY increase of 2.5%. Based on the investments made in the oil sector in recent years (and resulting findings) it is estimated that the country's potential production timeframe could increase from 20 to 50 years, with the pace of output recovering to 1.9 million barrels per day in 2013.

Oil production and external reserves



Source: NBA, OPEC.

YoY inflation



Source: NBA.

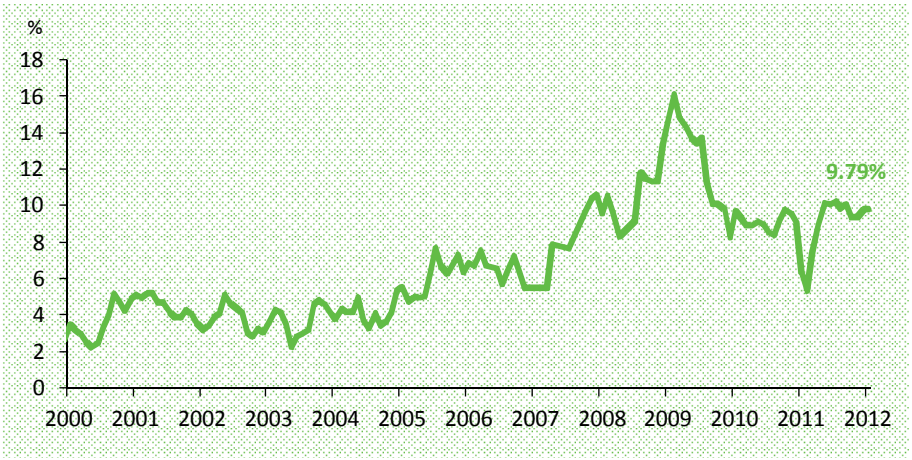
ECONOMIC ENVIRONMENT IN INDIA

The Indian economy showed a marked slowdown in 2012, with growth slumping from 7.5% in 2011 to around 5%. In a climate of lower confidence among all economic agents – families, businesses and investors - the slackening of private consumption was the main culprit for this trajectory. Even if India is relatively less dependent on foreign trade relations, the unfavourable external environment in 2012, and in particular the sharp deceleration of demand from Europe, certainly took its toll on exports. Another important factor in this context was the perception arising throughout the year of a lack of policy response to tackle the constraints to production, which is seen as critical for the economy's potential growth. Towards the latter part of the year there was a certain improvement on this front following the announcement of a package of structural reforms that among others aims to stimulate an inflow of foreign capital into the economy

Inflation, which remained stubbornly high during the year, at around 9%, is one of the major concerns for the Indian authorities. In fact, in addition to the referred structural constraints, which tend to support a dynamics of high prices, 2012 saw a sharp depreciation trend in the rupee (12.5% in the year) which put further pressure on prices by increasing the cost of imported goods. The persisting deficit in the public accounts also contributed to this result.

Faced with the difficult combination of economic deceleration and high inflation, the Central Bank of India adopted an overall conservative stance, and after a 50 bps cut in the key interest rate in April – which led the repo rate to slide from 8.5% to 8% - kept the rate unchanged for the remainder of the year.

YoY inflation



Source: Reuters Ecowin.

2. ACTIVITY REVIEW

INVESTMENT BANKING BUSINESS

As the investment banking arm of the Banco Espírito Santo Group, Portugal's second largest privately held financial institution, Espírito Santo Investment Bank[4] has increasingly focused on a strategy of international expansion, maintaining a presence on four continents and access to the main financial markets in the world: London, New York and Hong Kong.

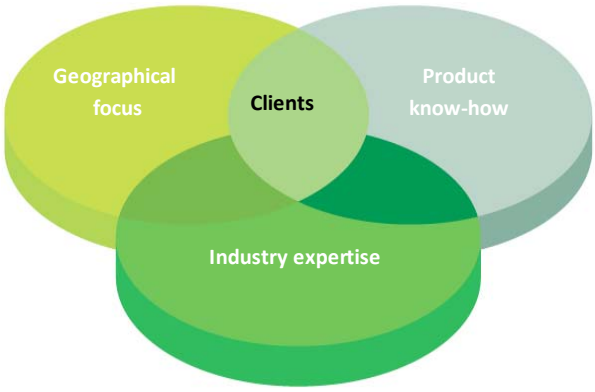
Since entering its core Spanish and Brazilian markets in 2000, up to its most recent expansion into India, the Bank has provided support to its Clients in their respective internationalisation efforts and actively explored opportunities to expand its distinctive commercial and technical capabilities into new markets.

In the scope of its global development strategy, the Bank began its brokerage activities in India in May of 2012 through Espírito Santo Securities India Private Limited, a 75/25% partnership with the Burman Group, and has already submitted an additional application to explore other investment banking activities in that market, specifically Capital Markets and Mergers & Acquisitions. In South Africa, the Bank entered into a partnership with a well-known local independent broker, Avior Research. The scope of this strategic partnership includes the exclusive distribution of equity research to Institutional Clients in Europe as well as trading activities in the South-African and Pan-African markets, thereby reinforcing the Bank´s emerging markets equity offer.

The Bank's primary objective is to provide services to large and medium Corporate Clients, Institutional Clients and, in some specific segments, Private Clients. A key source of its revenue is derived from commissions earned from advisory services, brokerage and distribution services, and from revenue generated by structured credit underwriting and asset and risk management.

In order to execute this strategy, we have adopted a model of specialized commercial teams that originate business opportunities in close association with product teams, who are responsible for the development and execution of the customized solutions and services offered by the Bank in the various regions where it operates.

[4] All references to "Espírito Santo Investment Bank" or "the Bank" are deemed to refer to Banco Espírito Santo de Investimento, S.A. and/or any of its subsidiaries or branches, taken together or separately.

Business Teams		Product Teams
Client Relations		Equity Capital Markets
Deal Origination		Fixed income
Wholesale cross-selling with BES Group		Corporate Finance
		Mid-cap Financial Advisory
		Capital Structure Advisory
		Project Finance and Securitisation
		Acquisition Finance and Other Lending
		Private Equity
		Wealth Management

In 2012 the international expansion strategy and the development of business opportunities with other entities resulted in several initiatives including:

- March 26th, 2012 - Opening of a Representative Office in Cologne, Germany;
- May 17th, 2012 - The Bank of Portugal notified Banco Espírito Santo de Investimento, S.A. that it did not oppose its application to establish a subsidiary in the Cayman Islands;
- September 7th, 2012 - Banco Espírito Santo de Investimento, S.A. increased its share capital by EUR 100,000,000.00 to EUR 326,269,000.00;
- November 14th, 2012 - The share capital of the subsidiary BES Investimento do Brasil, S.A. – Banco de Investimento was increased by BRL 100,000,000.00 to BRL 420,000,007.78;
- December 31st, 2012 - The Bank' stake in its subsidiary Espírito Santo Investment Holdings Limited (the controlling entity of the Execution Noble Group) reached 68.4%.

CLIENT ORIGINATION

The Client Origination team strives to originate transactions for all the Bank's product areas. It works closely with corporate Clients to identify their needs and projects, supported by its extensive knowledge of the market opportunities.

The Client Origination team is specialised by industry sectors in a proactive and innovative approach aimed at developing sustainable and lasting Client relationships.

The Bank's leadership of the Portuguese investment banking market and the increasing globalisation of its Clients propelled the internationalisation of its operations which today are developed in the context of a global economy. In line with this strategy, in 2012 the Bank continued to reinforce its direct international presence in Spain, Brazil, the United Kingdom, Poland, the United States and Mexico and more recently in India, a presence we believe is increasingly valued by our Clients.

The sovereign risk crisis in Mediterranean Europe sustained a negative sentiment in the markets through most of the year. However, an improvement in the latter part of 2012 encouraged States and businesses to test investors' appetite, tapping the markets with a few debt issues.

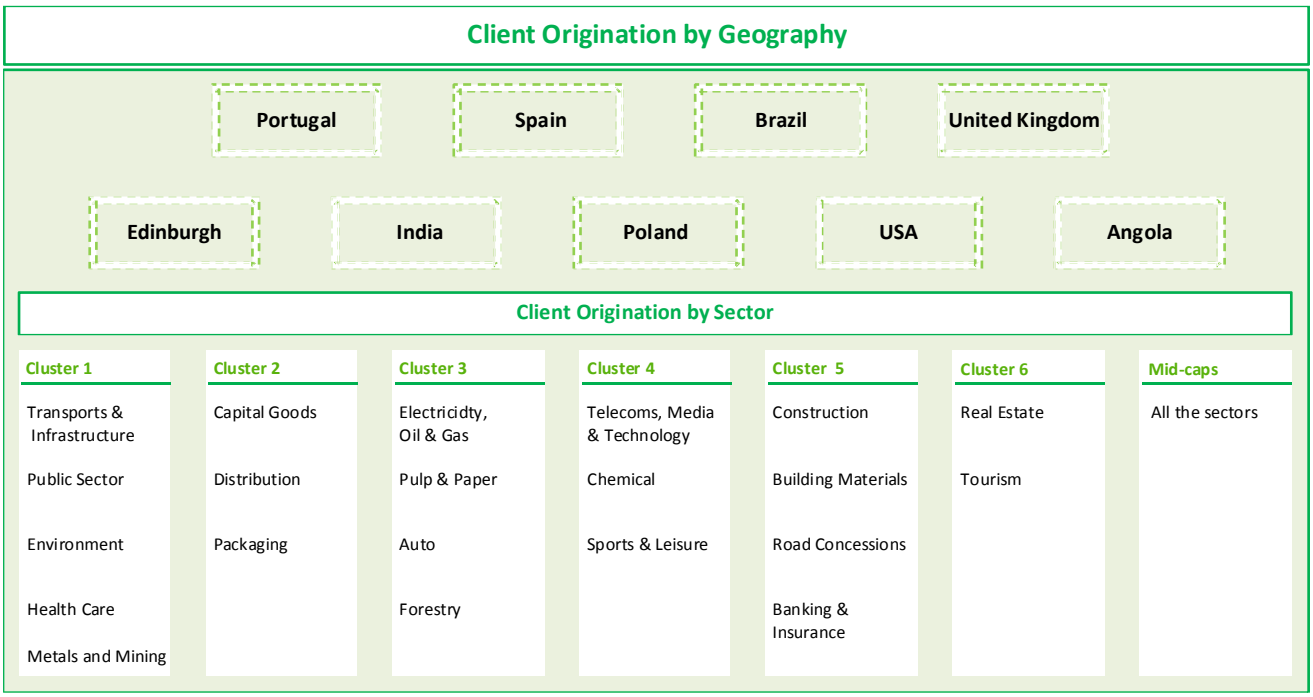
Despite this brighter climate towards the end of the year, the restrictions on the financing of the economy persisted and the economic outlook remained grim and adverse. Specifically in Portugal the economic context maintained the gloomy trend of previous years, now further aggravated by the equally negative situation of its main economic partner, Spain.

Notwithstanding this situation, the Bank supported its cross-border Clients in several relevant investment operations, leveraged by the internationalisation dynamics of a large number of Portuguese and foreign companies. At the same time, it also exploited and carried to completion some local opportunities, namely taking a prominent role in the Portuguese Privatisations process, whose success confirmed the improvement of the international markets and investors' perception of Portugal.

The Client Origination team continued to assist its Clients in achieving their goals, by implementing the following principles:

- Strengthening relations with Clients and promoting Client acquisition in different regions, providing an integrated, cross-border package of investment banking products and services;
- Increasing selectivity in the identification of commercial opportunities namely to pre-empt any balance sheet restrictions susceptible of affecting the closing of deals;
- Maintaining a proactive support and permanent dialogue with the Clients, in anticipation of and in response to market events;
- Increasing cross-border activities in a full range of areas – direct investment, alliances and partnerships, trade flows, and other - taking full advantage of the Bank's growing direct presence in different countries;
- Improving the capacity of the Bank´s teams in all locations where it is present to originate and coordinate value-added business propositions.

The commitment and professionalism of the Bank's staff supported the efficiency and effectiveness of its commercial and product teams, a performance reflected in the significant deal flow and in the results attained despite the recessionary climate that characterised 2012.



Client Relationship - Portugal

The persistently adverse economic and financial environment during 2012 led the Bank to focus its activity on financing operations through the capital markets and financial advisory mandates, particularly on the sell side, promoting investment opportunities in the domestic market and supporting the Portuguese companies in their internationalisation process. Despite the lower transaction volume in the Portuguese market as a whole, the Bank's proximity to and knowledge of its Clients allied to their confidence in the work developed over the years by the Bank's teams allowed Espírito Santo Investment Bank to take part in most of the relevant businesses and deals taking place in Portugal in 2012, notably in the Privatisations programme, where it again affirmed its market leadership.

The brand and reputation are valuable assets for the Bank, allowing it not only to identify foreign investors with an interest in Portugal but also to support the Portuguese companies in their internationalisation efforts. The Bank's international platform, in the origination and execution of cross-border operations, and the coordination with Banco Espírito Santo Group's different business areas in tracking opportunities and arranging transactions, are also key factors for success and for achieving the Client's objectives.

Client Relationship – Spain

2012 was characterised by a sharp increase in capital markets activity and stagnation in mergers and acquisitions activity, the result of an adverse economic and financial situation, particularly in Europe, and even more so in Spain where the ongoing restructuring of the banking sector dried up available financing.

Banking on the capital markets momentum, the Bank successfully participated in several capital markets transactions, while also providing advisory services in a number of mergers and acquisitions transactions, even despite the less favourable context.

Year upon year the cross-border business gains increasing importance and the number of cross-border deals – both in M&A and Capital Markets - keeps growing. The Bank's M&A pipeline includes several cross-border mandates, particularly with Brazil and the United States.

As a result of regular monitoring and frequent contacts the Client Origination team in Spain has been able to build a close relationship with a large range of Clients across various industry sectors.

The start of 2013 has already seen some signs of recovery in the economic environment, and investors appear to be once again interested in looking at opportunities in the Spanish market. The Client Origination team in Spain will therefore focus their efforts to attract international investors to the business opportunities identified by the Bank. Once again, coordination with BES Group's teams will be crucial to achieve the intended success.

Client Relationship – Brazil

During 2012 the Client Origination team in Brazil remained focused on the corporate segment, enhancing its relationship with the Clients through growing industry expertise. The Bank's increasingly diversified offer of products and services allowed it not only to cement its relationship with the high growth potential and increasingly sophisticated Client base but also to acquire new Clients.

At the same time the team continued to support companies looking to expand their business to Brazil, backed by BES Group's growing international presence. Through the International Premium Unit (UIP), in 2012 the Bank concluded 70 new operations in the areas of Treasury and Risk Management, Capital Markets, Project Finance, Acquisition Finance and Other Lending, and Corporate Finance.

The gloomy international scenario considerably penalised activity in 2012, but an abatement of market instability towards the end of the year lent some vitality to the business, particularly on the Fixed Income front.

This improvement permits to anticipate a better outlook for 2013, both on the Equity Capital Markets side – where a higher number of IPOs and follow-on operations are expected – and in Project Finance activity, where Brazil's need to invest in infrastructures should support a growing number of deals. The diversity of the business segments in the Brazilian economy coupled with a broad-based domestic consumer market should propel the growth of the Corporate Finance activity in 2013.

Despite the timid economic growth shown in 2012, Brazil remains an attractive market for many global players and a good investment option for companies which, at grips with the international crisis, are looking for alternatives to their home markets.

The Bank will continue to pursue its strategy of deepening its relationship with its Clients, emphasising the structuring of bespoke operations to reach the goals set for 2013.

Client Relationship – United Kingdom

2012 was lived in a climate of great uncertainty, with Europe and in particular the Eurozone constantly under focus. Scarce liquidity and consequent increase in funding costs, weak appetite for new investments and the difficulty of buyers and sellers reaching consensual valuations continued to act as strong restraints on the conclusion of deals, both in the M&A market and in the capital markets.

In this context the London Client Origination team sought to broaden the portfolio of potential Clients, focusing on the mid-cap financial sponsors market, which is largely neglected by the large investment banks and views the Espírito Santo Investment Bank's offer of services as very attractive and adjusted to their advisory needs.

We believe that the Bank's strategic positioning will allow the developing distribution platform in the London market to capture the interest of international investors to the new business opportunities arising in the markets where it has a local presence, notably in Asia and Latin America, namely in the small and mid-cap Corporate/ investors segment.

Client Relationship – Angola

Investment banking operations in Angola, developed through the Investment Banking Office (IBO) jointly created with Banco Espírito Santo Angola (BESA), have been mainly geared towards assisting BESA's corporate banking area. The IBO provides a comprehensive range of specialised financial services, including the arrangement of medium and long-term structured finance for public-sector entities involved in the National Reconstruction Programme (NRP) of investment in infrastructures, as well as for private-sector entities and projects, namely in the real estate, financial services, mining, manufacturing, building materials, energy, transports, beverages, food and agriculture sectors.

A licensing application to open an investment banking unit in Angola will be soon submitted to the local authorities. The aim is to broaden the coverage of the Angolan market by means of a local presence (with a special focus on the energy, industry and infrastructure sector) and to tap opportunities to provide financial advisory services capable of stimulating cross-border activities with other geographies where the Bank operates (specifically Portugal and Brazil), leveraging this competitive advantage in the local market.

The new unit, which should take the legal form of a *Sociedade Distribuidora de Valores Mobiliários* ("SDVM", or broker dealer), will allow the Bank to offer capital markets services within the framework of the recently created *Mercado Regulamentado de Dívida Pública* ("MRDP", or public debt regulated market) and the planned opening of Angola's Securities and Derivatives Exchange ("BVDA"). These initiatives of the Angolan authorities are expected to foster the rapid development of a domestic capital market (both primary and secondary) and invigorate the financial system, leading to the appearance of new business areas and new operators in the market.

Client Relationship – Poland

During 2012 the Client Origination team in Poland continued to focus on the development of commercial relationships with corporate Clients as well as with public entities.

Throughout the year the Client Origination team worked with the product teams on the continuous improvement of the efficiency and efficacy of the services provided through the identification of the Clients' needs and the design of tailor-made propositions combining standard solutions such as loans and guarantees with bespoke financial products. In addition, the Bank's geographical expansion also supports the development of transactions at international levels.

Client Relationship – United States of America

In 2012 the Client Origination team in the United States focused its activity on:

- Supporting the Bank´s Clients from various geographical regions with operations or interests in the Americas, particularly in North America and the NAFTA region;
- Widening the North and Latin American Client base by leveraging the Bank's specific expertise as a factor of differentiation and generation of business opportunities;
- Strengthening ties with Portuguese companies based in the US with a view to developing cross-selling opportunities and positioning the Bank in the US as the "go to bank" for all their investment banking needs;
- Positioning the Bank as the reference institution in investment banking in the strategic triangle: Iberia, Africa and Latin America;
- Strongly promoting the Bank's activity in the Mexican market, capitalising on the opening of the representative office in Mexico City in 2011 and the country's affinities with the products developed by the Bank and the geographies where it operates.

The Client Origination team consolidated its activity in the US and in Spanish Latin America, being instrumental in the origination of new project finance, capital markets and financial advisory operations.

In cooperation with the different Product areas and Client Origination teams from the other regions where the Bank is present, the US team called on a great number of North-American institutional investors to present investment opportunities in the strategic triangle, from which resulted several cross-border mandates.

In addition, and in response to requests from Clients from other geographies, the team engaged in industry-specific market research, for which it called on the more relevant players.

In Mexico the Client Origination team pursued the process of presenting the Bank and establishing commercial relationships, in which it was remarkably successful, namely originating credit lines for the Bank, supporting the completion of project finance transactions, and securing capital markets and financial advisory mandates.

The team was also directly involved in the organisation and promotion of the Portugal-Mexico Business Club, held in Mexico City in October 2012 under the aegis of the Portuguese Embassy in Mexico, which brought together more than 100 entrepreneurs with business relations with Portugal. The event provided an opportunity for the Bank to present its activities and draw attention to the support it can provide not only in the *liaison* with Portugal but also in the intermediation with other business partners. Coinciding with the Business Club, Mexico City also hosted the Green Solutions Fair dedicated to the promotion of renewable energies in Mexico, in which several Portuguese companies participated, namely EDP Renováveis and Efacec.

PRIVATE SOLUTIONS

The Private Solutions Division summed up its assessment of the 2011 year on a note of hope concerning its high expectations for 2012.

Today we may confidently say that these expectations were entirely fulfilled, and in some ways even surpassed. The significant improvement in the Portuguese country risk perception, a consistent joint approach to the market by the Private Solutions Division and the various Product areas, and the value added ideas generated and put into practice, allowed the area's results to meet the budget for 2012, initially considered very ambitious.

During the year the business model was extended to cover other platforms of the Espírito Santo Group, thus widening the Client base and the capacity to track opportunities. This proved a good option and one that will certainly continue to foster new businesses in the future.

Even if some of the areas still need to stabilise and develop the existing business potential, the objective for 2013 is to further consolidate the model, mainly viewing the conclusion of the operations in pipeline and the origination of new wealth management opportunities which will allow the Bank to increasingly boost its goodwill with the Clients.

Hence once again we harbour justified expectations for the year now starting.

CAPITAL MARKETS

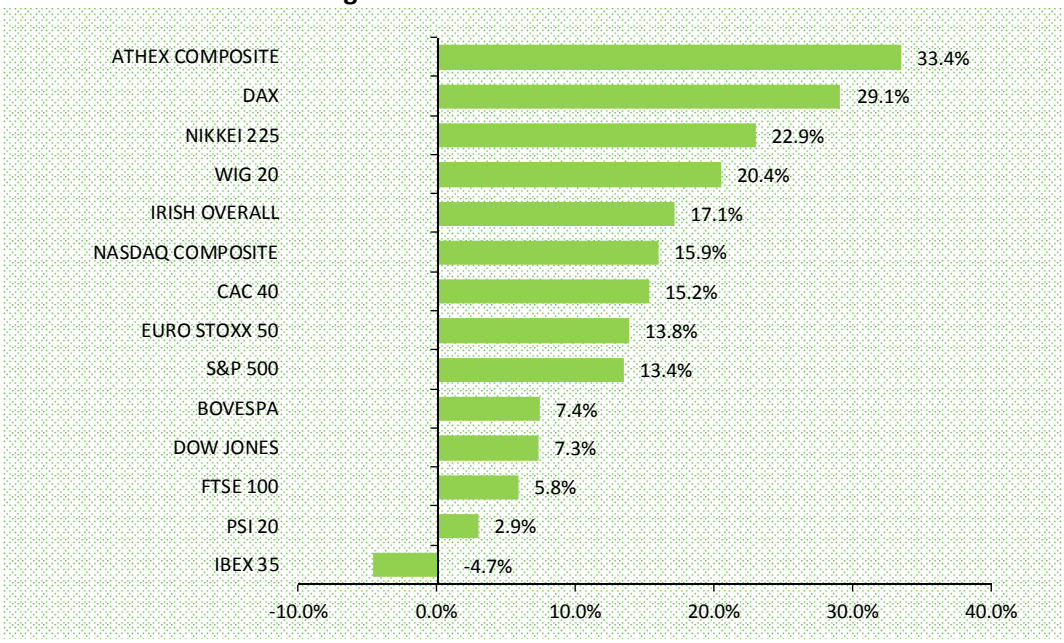
Equity Capital Markets

Market Background

Contrary to initial expectations and despite the volatility during the year, the main equity markets closed 2012 with a globally positive performance. A good first quarter for most indices was followed by a second quarter of sharply smaller or even nil gains, particularly in Europe. The uncertainty about the situation in Greece, the contagion of the sovereign debt crisis to Spain and Italy and the indefinition about the measures to be implemented to solve the Eurozone debt crisis were the main factors behind the market volatility.

In the second half of the year, following the statement by the Chairman of the European Central Bank in July that the ECB would do "whatever it takes" to hold together the Eurozone, and then the announcement in September of the Outright Monetary Transactions (OMTs) programme, the main stock market indices started to rally, in some cases quite strongly.

Leading Stock Market Performances in 2012



Source: Bloomberg (local currency)

Primary Market

In the primary market, the amount of share and equity-linked offerings at global level reached approximately USD 630 billion in 2012, a year-on-year increase of 1.5% where the 29% fall in the amount of Initial Public Offerings (IPOs) was more than offset by a 15% increase in follow-on offerings. Activity in the primary market mainly picked up as from the second half of the year, translating the already referred improvement in market conditions. The financial sector maintained a prominent role in global primary market activity, accounting for 30% of the total. IPOs in 2012 totalled USD 117 billion, with the emerging markets representing 39% of the total.

In the EMEA region (Europe, Middle East and Africa), shares and equity-linked offerings amounted to USD 140 billion, having decreased by 11% compared to the previous year. IPOs in the region amounted to USD 17 billion (-54.5% YoY), capital increases totalled EUR 32 billion (-17.5% YoY) and equity-linked offerings registered a sharp increase of 61.4%, to USD 23 billion.

In Brazil, uncertainty about which direction the local and the global economy were heading stole some of the São Paulo Stock Exchange's attractiveness, and the number of companies that decided to open their capital declined compared to 2011 (3 IPOs in 2012, totalling BRL 4.4 billion vs. 11 IPOs in 2011, totalling BRL 7.5 billion). The number and volume of follow-on offerings also decreased, from 12 in 2011, totalling BRL 11.5 billion, to 10 in 2012, totalling BRL 9.9 billion.

Iberia

In Portugal, 2012 was marked by the capital increase operations in the financial sector, aimed at complying with the new regulatory capital requirements for banks, and by the public tender offers and block trades involving large listed companies. Once again there were no new company listings in 2012. Spain saw an identical scenario during the year.

In this context Espírito Santo Investment Bank was very active during the year, namely acting as Joint Global Coordinator and Bookrunner of the rights issues of Banco Espírito Santo (EUR 1.010 million) and Espírito Santo Financial Group (EUR 500 million).

The Bank also took part in Portugal's two major public tender offers of the year, namely as Financial Adviser on the offers for BRISA and CIMPOR shares (EUR 584 million and EUR 1.477 million, respectively).

In the equity-linked market, Espírito Santo Investment Bank was Joint Bookrunner of BES Finance's USD 450 million issue of bonds exchangeable for ordinary shares of Banco Bradesco.

Finally, the Bank was Co-Manager of Grupo Financiero Santander México's IPO, the largest ever made by a Mexican company (USD 4.1 billion).













Poland

With Poland posting economic growth above the other European countries, the Polish stock market showed a good performance during the first half of 2012, and further emphasised this trend throughout the rest of the year, with the WIG20 index climbing by 20.4%.

In a year marked by a sharp contraction of funds raised in Europe through IPOs, Poland's primary equity market remained animated, supported by the ongoing privatisations programme. Espírito Santo Investment Bank continued to reinforce its credentials in the local market, acting as Joint Bookrunner of the privatisation of 50% of ZE PAK utility, the second largest IPO of the year in the Warsaw Stock Exchange.

In 2013 the Bank should continue to play an active role in the Polish privatisations programme and capital markets' development.



United Kingdom

In the UK, the equity primary market continued to suffer from the uncertainty surrounding macroeconomic conditions, further deteriorating in 2012. This scenario is set to persist for as long as there is no change in current market conditions.

In this very challenging environment, the Bank posted a positive performance, acting as Corporate Broker in GlobeOp's recommended offer which valued the company at GBP 548 million, and as Sole Bookrunner of the placement of shares by Novae (GBP 35 million) and Xchanging (GBP 22 million).

The corporate brokership activity was quite strong during the year, continuing to focus on activity sectors where the Bank has greater expertise and in Clients that stand to gain from a wide an integrated offer of services. Espírito Santo Investment Bank was appointed 'Corporate Broker' by Clients such as The Local Shopping REIT, Assura, Xchanging and Vertu and already in 2013 by Laird Group, 4Imprint and Sports Direct International.



The pipeline for 2013 is quite bulky, thanks to the origination efforts made in 2011 and 2012. However, how it will translate into actual operations will depend on whether market conditions improve in 2013.

Brazil

In 2012 Espírito Santo Investment Bank stood out for its role as (i) Sole Placement Agent of Monteiro Aranha on the sale of a block of shares of Klabin (BRL 93.7 million); (ii) Joint Lead Manager of the follow-on offering of Minerva (BRL 495 million); (iii) Exclusive Broker of Oi on the acquisition of 2.8% of Portugal Telecom (EUR 99.8 million); and (iv) Co-Manager in the IPO of Banco BTG Pactual (BRL 3.2 billion).



The Brazilian capital market faces a positive outlook for 2013, supported by the expected improvement in the macroeconomic environment following the sharp cut of the reference interest rate in 2012. Many Brazilian investors are likely to start looking for higher returns, placing part of their investments in higher risk markets.

Secondary Market

Iberia

In seasonal terms, 2012 was similar to 2010 and 2011, with the equity markets gaining ground in the first months of the year only to succumb as from mid-Spring on economic and political fears. However, 2012 was different in that the resolute action of the ECB (announcement of the Outright Monetary Transactions programme – OMTs) and the Federal Reserve succeeded in restoring confidence in the equity markets, especially in Iberia. Hence in the second half of 2012 the PSI20 and IBEX35 climbed by 28% and 37%, respectively, cancelling the heavy losses sustained during the first half of the year.

The outlook for 2013 is now better than it was 12 months ago, thanks to the progress made on the fiscal consolidation front and above all to the increasingly firm stance of the ECB. Economic growth, however, remains the main concern in most of the European countries. In the United States, the evolution of the situation will largely depend on how fast fiscal consolidation advances.

In Iberia there is a growing rift between the interest shown by international investors (increasingly tempted to return) and the shrinking local investors' portfolios, which have been strongly penalised by the adverse economic and financial context. Overall, indices and trading volumes are expected to show some recovery throughout 2013.

Espírito Santo Investment Bank's increased global distribution capacity, together with the tight integration achieved between the Iberian teams and their peers in the main financial centres in the world allow us to be moderately confident about this area's performance in 2013.

Brazil

The sharp fall of the reference interest rate (the SELIC) and foreign investment above BRL 6.7 billion in 2012 were not sufficient to dispel concerns about the economy's lower than expected growth, a global scenario of aversion to risk and the underperformance of certain regulated sectors.

The Bovespa index thus closed the year rising by 7.4%, a modest gain compared to the performances seen in the BRICs or even the 13.4% rise of the Eurostoxx 50. Retail sector was the star performer in 2012, going up by 65%, contrasting with the utilities, civil construction and hard commodities sectors, which turned the worst annual performances. The average daily trading volume reached ca. BRL 7.3 billion, clearly above the BRL 6.5 billion posted in 2011.

BES Securities do Brasil again advanced its market share in the various segments where it operates, rising to 21st place in the Bovespa ranking, climbing 14 positions in the BM&F futures index and reaching a prominent position in the agribusiness futures market (3rd place in the cattle futures market ranking).

Poland

The Polish equity market had a very good performance in 2012. The WIG20, Poland's main stock market index, climbed by 20.4%, overstepping most of the advanced economies' indices, even if its performance in the first half of the year was not so good. Trading volume in the Warsaw Stock Exchange dropped by 25%, which is in line with the lower activity in the equity markets in general.

In 2012 the Polish government concentrated its efforts on the fiscal policy with the objective of keeping the public debt under control, and in fact Poland was one among the only five countries in European Union that reduced the debt to GDP ratio. The initial estimates point to real GDP growth of 2%, which should be seen as positive given the current economic context. The privatisations programme was pursued, now mostly focused on the financial, utilities and chemical sectors.

Espírito Santo Investment Bank maintained its strategy of selling its Polish equity research product, both to local funds and to international asset managers, using for the purpose the London and New York platforms. This enabled an increase of ca. 54% in intermediated volumes, propelling the Bank to the 11th position in the Polish brokers' ranking, with a market share of 3.2%. The research team increased to 50 the number of companies analysed in Central Europe, which extends its coverage to an already significant number of equities in the region.

United Kingdom

The UK equity market had a shy performance during 2012, translating the uncertainty generated by the European sovereign debt crisis and the 'fiscal cliff' in the US. The last quarter of the year saw a marked upturn in the equity markets, driven by investors' increasing risk appetite, but even so trading volume in the European markets fell by 25% compared to 2011.

During the year the Bank took a number of measures (cost-control measures as well as initiatives to improve its market positioning) intended to bolster its performance when the markets start to recover. The Equities Research product started to be distributed in Europe and the emerging markets under the "Espírito Santo Investment Bank Research" brand name and the European Equities Research department was fully integrated with the Research departments in Iberia. The trading business expanded, following the successful launch of market making activities in the UK. This benefitted both the small and mid-cap firms, which suffer most from the low stock market liquidity that characterises the current context, and the Bank, which took advantage of its now wider platform to reinforce its reach of this segment. Overall, the Bank's core activity continued to focus on the products and services where it has greater expertise, leading to an increasingly better service to the Client.

The outlook for the European equity markets remains uncertain due to the sovereign debt crisis and concerns about global economic growth. Trading volumes still have a long way to go before recovering from the effects of the crisis. The interest shown by investors in the European peripheral markets at the beginning of 2013 provided a very good stimulus to the equity markets and could be seen as signs of a recovery along the year, from which our European platform, now more integrated, could stand to gain.

Asset Management

Iberia

2012, and particularly its second half, was marked by a sharp reversal of risk perception in the markets. The more consistent signs of economic stabilisation at world level and the steps given towards the deepening of the European Union (notably the presentation of the so-called 'Draghi plan' in the summer) supported a strong rally of the risk markets, especially in peripheral Europe and certain emerging markets.

In a first phase, bond markets benefited the most from this more risk-propitious environment, but in the last quarter of 2012 the equity markets also initiated a recovery. The investment alternatives perceived as entailing lower risk gradually exhausted their return potential and by the last two months of the year a renewed interest in the equity market in general was already visible. This interest, which is more perceptible among the Clients in Portugal, opens up prospects for a good performance of Assets under Management in 2013.

Assets under Management dropped by 15% in 2012, to EUR 158 million. Even so, the 'normal profile' and 'aggressive profile' portfolios increased volume by 8% and 16%, respectively, surpassing the best expectations at the start of the year.

The priority for 2013 is to enhance returns for investors in peripheral Europe risk assets, viewing, on the one hand, to expand the Client base in Portugal and Spain, and on the other to maximise returns in the portfolios under management. To this end, the creation of a new unit-linked insurance product started to be prepared in 2012, in cooperation with BES Vida and BES Private, with a more aggressive profile and for distribution in the Private Investe platform. The expansion of the distribution channels, both in Portugal and abroad, remains an objective for this area in the coming year.

Brazil

In 2012 the net inflow of new money in Brazil's Asset Management business reached BRL 97.6 billion, which is only lower than in 2010 (BRL 113.3 billion) and 2011 (BRL 99.1 billion). Total volume of Assets under Management at the end of 2012 was BRL 2.2 trillion.

Funds raised were mainly channelled to pension plan and multi-market products. The number of fund managers in Brazil reached 456, with the number of funds reaching a record high of 12,650 at the end of the year. The fixed income benchmark tracker funds reported the highest return in 2012 (21.7%), followed by the small cap equity funds (20.6%).

At the end of 2012 BESAF – BES Activos Financeiros had total Assets under Management of BRL 1,012.7 million, corresponding to a year-on-year increase of 31%. Redemptions totalled BRL 808.8 million while new placements reached BRL 952.7 million. As a result of the strategic reorganisation of the company and reinforcement of the team undertaken in the last two years, Assets under Management volume recovered and the performance of the funds managed by BESAF improved, reaching or even surpassing the benchmarks. Structured Funds became quite prominent in 2012 within BESAF's offer of products.

The reorganisation process will remain on track in 2013, mainly focusing on the distribution and sales channels and on increasing penetration in the institutional investors segment, which already have at their disposal a product offer aligned to their needs, in addition to BES Group's internal and external distribution channels.

Cross-selling will be intensified in 2013. BESAF has set as priority to promote its "Brazilian market" offer as an investment alternative within BES Group's distribution network across its various platforms and geographies, and in particular in Portugal, Spain, Switzerland, the United States and Asia.

Fixed Income

Market Background

In 2012 the amount of primary market corporate debt issuance denominated in euros reached USD 5.6 trillion, the highest since 2009 and representing a year-on-year increase of 10%.

The first half of 2012 was characterised by two different trends in the primary debt market. On the one hand, the market for investment grade issues in euro reported strong demand from core Eurozone issuers, in part driven by the surplus liquidity resulting from the ECB's LTROs. On the other hand, the market remained practically closed to issuers more exposed to the peripheral countries, while continuing to be particularly averse to the financial sector. During the first quarter Italian and Spanish debt issuance still reached significant amounts, but these fell sharply in the second quarter through the contagion effect of the sovereign debt crisis and the rise of yields in the secondary market.

This deterioration trend in market conditions only saw a turning point in September, following the ECB's announcement of its programme of sovereign debt purchases, which triggered a narrowing in peripheral Eurozone spreads and in turn led to one of the highest ever monthly volumes of corporate debt issuance in euro being reached, including by issuers from Spain, Italy, Portugal and Ireland.

2012 was also the strongest year ever for USD-denominated investment grade corporate issues, as well as for high yield issues, with investors concentrated on seeking higher returns in a context of historically low interest rates.

Primary Market

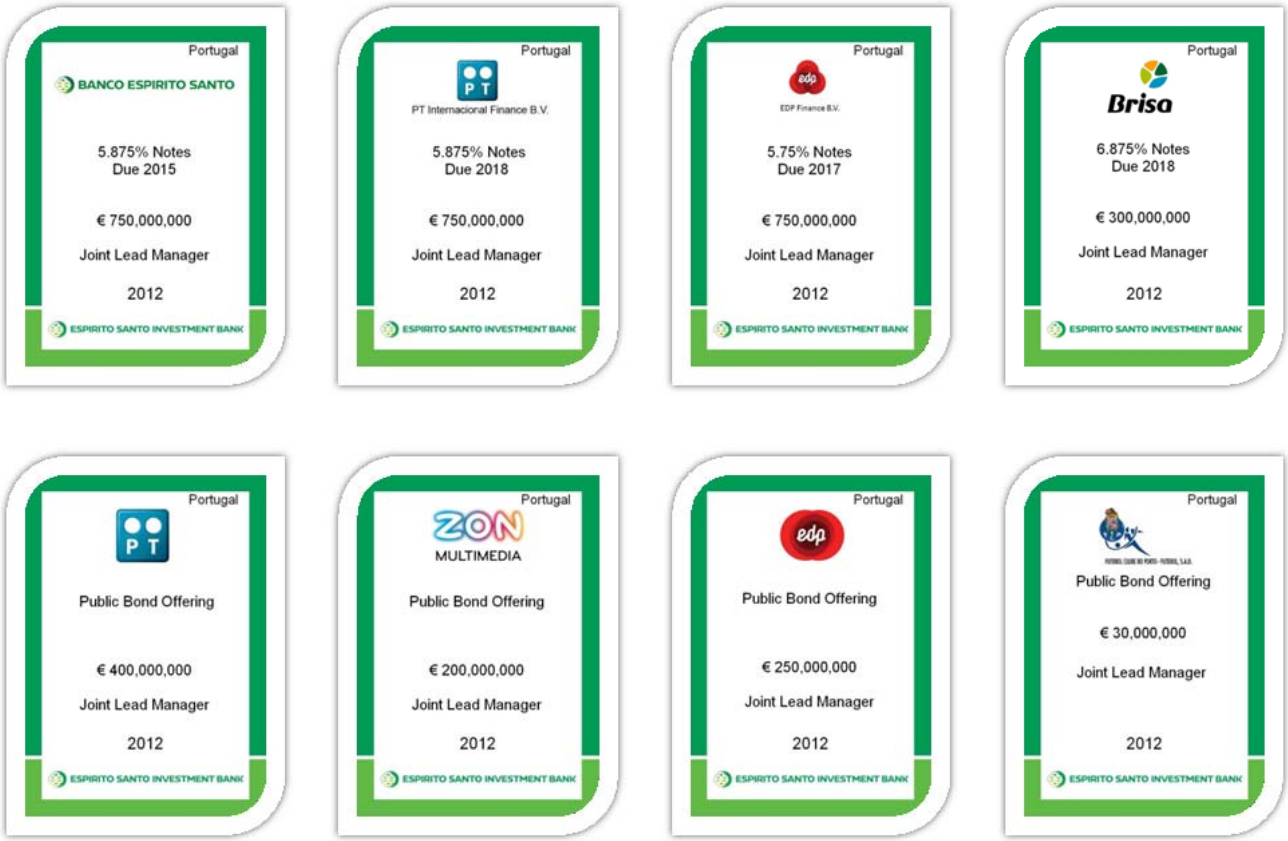
Iberia

In a context of listless activity in the peripheral Eurozone fixed income primary markets, Portugal stood out as it saw a return of public offers for subscription of domestic bonds (targeting retail investors), with eight such issues being concluded in 2012, for a total of EUR 1.9 billion.

Espírito Santo Investment Bank 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 B.V., Portugal Telecom International Finance B.V., Brisa-Concessão Rodoviária, S.A. and Banco Espírito Santo, S.A., for an overall amount of EUR 2.6 billion. EDP's bond issue, in September 2012, was the first made by a Portuguese issuer since January 2011, being considered the 'Euro Bond of the Year' by the International Financing Review magazine. Banco Espírito Santo's issue was the first made by a Portuguese bank in the international markets since April 2010.

The Bank was also Joint Lead Manager on the public bond offerings of Portugal Telecom, EDP, ZON Multimédia and Futebol Clube do Porto - Futebol, SAD, in a total amount of EUR 880 million.

Finally, the Bank also organised and led 10 Commercial Paper programmes in 2012, for a total amount of EUR 286 million.



Poland

Poland's fixed income primary market remained quite lively in 2012, particularly in terms of public debt issuance. Despite the crisis in Europe, Poland's rating remained high (A- by S&P), which attracted new investors to the country.

Espírito Santo Investment Bank played an active role in this market, at the level of both public and corporate debt issuance. In the primary market, the Bank was Sole Arranger of the zloty 320 million domestic bond issue by Ciech, S.A., the second largest producer of sodium carbonate in Europe.

Brazil

Local Fixed Income

In 2012 debt issuance volume in the local market totalled BRL 124.8 billion, 25% above the volume in 2011. The majority of the securities was distributed under restricted placement efforts (legal basis ICVM 476), reflecting the financial institutions' great appetite for this type of bonds as well as the strong concentration of institutional investors in the Brazilian market.

Debentures were the most widely used instrument to raise funding in Brazil's local market (69.4% of the total), followed by promissory notes (18.1%), and Certificates of Real Estate Receivables ("CRIs") (7.9%).

The Bank participated in eight fixed income offerings in the local market, acting as:

- Joint Bookrunner of Locamerica's issue of debentures (BRL 120 million);
- Joint Bookrunner of Sabesp's issue of debentures (BRL 771.1 million);
- Lead Manager of N.S.O.S.P.E.'s issue of debentures (BRL 128.1 million);
- Joint Bookrunner of OAS's issue of debentures (BRL 209 million);
- Leader of Águas do Mirante's issue of debentures (BRL 66 million);
- Lead Manager of an issue of domestic bonds by BDMG - Banco de Desenvolvimento de Minas Gerais (BRL 350 million);
- Lead Manager of Copobras's issue of debentures (BRL 55 million); and
- Distribution Agent of the fund raising via debentures of Banco Mercantil do Brasil (BRL 47 million).

















International Fixed Income

The international fixed income business registered considerable growth in 2012, with total externally sourced funding reaching USD 50.5 billion, which represents a 35% increase compared to USD 37.5 billion in 2011. BBB (investment grade) rated issuers accounted for 85% of the total volume raised, and the remaining 15% were raised by BB and B rated issuers, with 10% and 5%, respectively.

Espírito Santo Investment Bank was Joint Bookrunner of Oi's bond issue (USD 1.5 billion) and Co-Manager of Banco do Nordeste's bond issue (USD 300 million).





Risk Management and Trading & Sales

Iberia

Risk Management for Corporate Clients

During 2012 the Corporate Risk Management team closely monitored risk hedging opportunities arising for various classes of assets (commodities, interest rate, fx rate and equities).

The contraction of companies' turnover in a context of extremely low interest rates, the deterioration of credit risk and the increasingly importance of risk/return in corporate decisions called for an additional effort in the search for profitable opportunities involving the least possible capital consumption.

Once again, the hedging of commodity risk, namely of paper pulp, energy and CO2, helped compensate the decrease in interest rate hedging operations.

Risk Management for Institutional Clients

The economic situation in 2012 continued to penalise the placement of structured products outside the network of the Bank's core Clients, even after the improvement seen in the second half of the year.

Credit-linked products, mainly from the peripheral European countries (Portugal, Spain and Italy) represented 65% of the total products originated, which shows both the confidence placed by investors in these markets and also the existing demand for higher yields (especially in the first half of the year).

As happened in 2011, structured debt issuance transactions accounted for approximately 90% of the total amount traded in 2012, representing one of the Bank's main funding sources.

The improvement of service quality and the development of new products, through new investment vehicles as well as greater diversification of financial assets, remained the key objectives of this area in 2012.

Trading & Sales

In 2012, the Trading & Sales strategy was based on: (i) focus on regular business with Clients, (ii) presentation of investment ideas, (iii) placement of new primary market issues, and (iv) exploitation of synergies with other geographies.

The continuous effort to develop and consolidate the Bank's institutional Clients base was a key driver of activity growth, more than making up for the lower number of issues in the primary market.

In a climate of high volatility in the credit market, the sales teams took advantage of widening bid/offer spreads to generate significant margins in bond trading. Coordinated work with the teams from around the world permitted to achieve good results in a number of transactions.

Brazil

Risk Management / Structuring

Concerns about a rebound in economic growth led the Brazilian government to take a more interventive stance in 2012. However, despite the cuts to the reference interest rate (the Selic rate reached 7.25% at the end of the year), the measures taken to devalue the real against the dollar (which ended the year trading within a range of 2.00/2.10) and the various fiscal measures implemented, the expected upturn did not materialise.

In this context, the year saw a marked drop in demand for foreign exchange hedging and derivatives transactions. Competition increased sharply with a consequent shrinking of spreads.

During 2012 the Bank concentrated on expanding its Client base so as to increase the transactions/pricing flow and reduce dependence from one-off structured operations. Activity in the debt market was quite strong, at both local and international level, with the ample liquidity in the market leading to the extension of maturities and the valorisation of assets.

This effort to expand the Client base is expected to start bearing fruit in 2013 and translate into an increase in transactions volume. BES Investimento do Brasil's branch in the Cayman Islands should continue to reinforce its role in this business area.

Trading & Sales

Local Market

The ample liquidity in the Brazilian market during 2012 induced a narrowing of credit spreads to unprecedently low levels and the extension of maturities. At the same time, there was a fierce competition for market leadership among the large credit institutions with most operations ending up being considered as credit and kept in the balance sheet of the placing banks. The Brazilian market is offering increasingly sophisticated corporate finance solutions, namely receivable securitisation facilities.

In this context, and with limitations on providing firm underwriting and with higher funding costs than the competition, it was somewhat difficult for the Bank to obtain mandates.

Espírito Santo Investment Bank participated in the distribution of issues of debentures by Sabesp (BRL 771 million), OAS (BRL 209 million) and Locamerica (BRL 120 million) and in the domestic bonds issue of BDMG (BRL 350 million).

The closer relationship established with investors through the distribution of structured products is expected to bear fruit and contribute towards business growth in 2013.

International Market

Uncertainty about a rebound in the North-America economy, the effects of slower economic growth in China and the outcome of the Eurozone crisis impacted this area's performance during 2012.

BES Investimento do Brasil continued to operate in the international fixed income market through its branch in the Cayman Islands. Access to collaterised loans has provided the required funds for the initial development of the activity, making up for a still small funding basis.

The goals for 2013 are to offer a wider range of products, including Structured Notes, and to develop new funding channels. Activity in the Cayman Islands is expected to show significant growth in 2013.

Treasury

Iberia

Activity during 2012 was very much affected by the sovereign debt crisis and doubts about a possible break-up of the Eurozone. Even so, and despite persistent fears about a possible contagion to certain core European countries, investor confidence and risk propensity showed a marked improvement as from the second half of the year. This period saw not only a general slide in the peripheral countries' public debt yields but also significant gains in their main stock market indices.

In Portugal, the sovereign debt showed a very positive evolution in the secondary market, with the interest rates on the 10-year public debt securities closing the year at close to 7%, down from 14%-15% at the start of 2012. This performance was in large measure the result of the recognition by the European Union/ European Central Bank/ International Monetary Fund, and the market agents in general, of the effort made by Portugal in the implementation of its economic and financial adjustment programme. These positive developments allowed a number of Portuguese issuers, financial and non financial, to regain access to the international markets in the last months of the year.

Despite the progress made, the rating agencies maintained a negative outlook on the Eurozone states and financial institutions. This rating action was induced by the deterioration of economic growth prospects at both European and global level, growing uncertainty about the situation in Greece, and the possibility of a bailout request from Spain. In this context, the stock of peripheral banks' collateral eligible for rediscount with the European Central Bank remained under strong pressure.

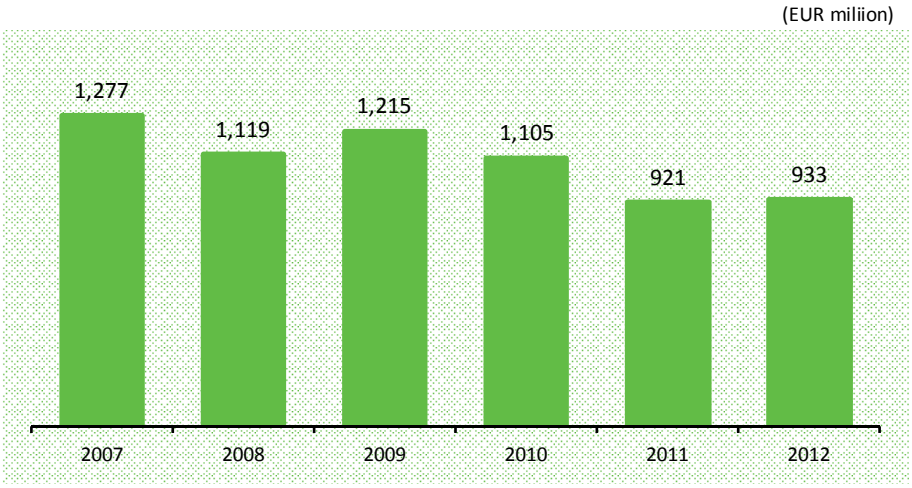
Once again the ECB played a very important role in reducing risks in the Eurozone, namely by presenting its new programme for unlimited purchases of public debt securities from the Eurozone economies (Outright Monetary Transactions), as a complement to a possible formal request for financial assistance under the European Stability Mechanism.

At the same time, access to rediscount operations with the European Central Bank continued to be instrumental to meet the funding needs of the European financial institutions, and in particular those in the peripheral countries, for which it continued to be very difficult to resume normal access to the international debt markets.

In this context, Espírito Santo Investment Bank's capacity to access the debt markets remained restricted. During 2013 the Portuguese banks are expected to gradually regain access to funding operations in the international debt markets, providing market sentiment remains positive.

Debt issued in the form of Medium Term Notes (MTNs) totalled EUR 933 million on December 31st, 2012, a decrease of EUR 12 million over December 31st, 2011. The MTN Programme remained a fundamental tool in the Bank's funding strategy.

EMTN Programme/ Total Outstanding Amount



Source: Espírito Santo Investment Bank.

The amount of debt to be issued in 2013 under the EMTN programme (as well as debt issuance in general) should remain broadly in line with the 2012 level. However, this amount could be increased if market conditions continue to improve. The Bank will maintain its focus on serving the Clients and improving its funding profile.

On December 31st, 2012, the Treasury portfolio amounted to EUR 420 million (market value), comprising a strong component of Eurozone sovereign debt. This amount represents a year-on year increase of ca. EUR 140 million.

Brazil

The Brazilian market showed a high level of liquidity during 2012, though much concentrated in the large institutions.

Due to growing concerns about Europe, particularly during the first half of the year, BES Investimento do Brasil remained focused on liquidity management and the diversification of its funding sources, either by obtaining lines of credit with new investors or by placing differentiated funding instruments. As a result, at year-end BES Investimento do Brasil carried a liquidity surplus that will provide for its forecast needs in the coming semesters.

CORPORATE FINANCE

Market Background

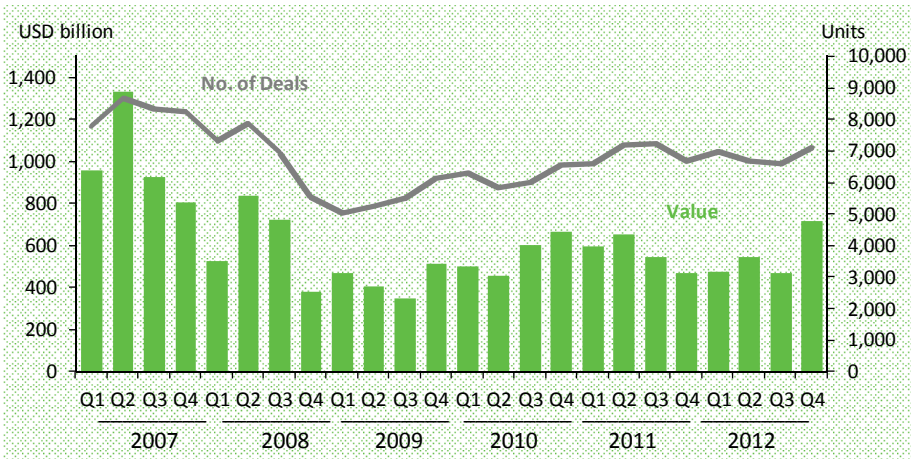
The downturn in Mergers and Acquisitions (M&A) activity in the second half of 2011 persisted almost until the end of 2012. Despite some recovery registered in 2010 and first half of 2011, by the end of 2012 the total value of announced transactions (Bloomberg) was still 10% below their level in 2008, the year when the global financial crisis began.

Global M&A activity in 2012 dropped by 1% in number of announced transactions and by 3% in value, to USD 2.2 trillion. However, the last quarter of the year saw a very good performance, with the number and value of announced transactions increasing year-on-year by 6% and 53% respectively, the highest quarterly growth rates since 2008.

In Europe the M&A market fell by 5% in number of announced transactions and reported a marginal increase of 2% in value, to USD 889 billion, according to Bloomberg data.

Cross-border transactions represented 50% of total transactions announced at global level, increasing their weight compared to 2011 (46%). In Europe, cross-border transactions remained the main driver of the M&A market, accounting for 83% of the total value of announced transactions (80% in 2011).

Announced Transactions Worldwide



Source: Bloomberg.

Iberia

The crisis in the Eurozone financial markets, which had impacted Portugal and Spain in 2010, further deteriorated in 2011 and persisted throughout 2012.

As in previous years, M&A activity in Iberia was penalised by the high cost of the sovereign debt and consequent increase in banks' funding costs, scarce liquidity to finance the corporates' activity, and economic growth close to zero or even negative.

According to Bloomberg data for 2012, the Iberian M&A market slumped by 14% in number of announced transactions and by 30% in value, to USD 56 billion. Portugal saw an 8% drop in the number of announced deals, but value increased by 51%, to USD 19 billion, mainly underpinned by the privatisation operations and the tender offers launched on Brisa and Cimpor. The Spanish market fell by 15% in number and by 45% in value of announced deals, to USD 37 billion, reducing its weight in the total Iberian market from 85% in 2011 to 67% in 2012.

Brazil

In a very challenging global context, M&A activity in Brazil in 2012 was broadly in line with the previous year's, with 820 announced transactions, according to KPMG Brazil. Exclusively domestic operations accounted for 42% of the total, having decreased by 16.5% compared to the previous year.

The industry sectors showing greater M&A activity were IT (13% of the total number of transactions and 16% YoY growth), Services (8% of the total number of transactions and 59% YoY growth) and Internet (7% of the total and 124% YoY growth).

In 2012 the Brazilian companies retreated in their internationalisation moves, with international M&A deals falling by 34%. On the other hand, M&A transactions by foreign companies increased by 42%, confirming the attractiveness of the Brazilian market in the overall global scenario.

United Kingdom

In 2012 the UK M&A business remained flat in terms of number of announced M&A transactions, though increasing in value by 53%, to USD 374 billion, due to strong activity in the last quarter. A sluggish capital market and funding constrains were the main reasons for the low number of transactions, which remained close to their level in 2008.

M&A transactions involving private equities (accounting for 30% of the total in value), transactions involving companies in financial distress and strategic opportunities were once again the drivers of the M&A market in the United Kingdom.

The M&A market in the UK is essentially international, with cross-border transactions accounting for 87% of the total announced transactions in value and 67% in number, according to Bloomberg data.

Poland

Economic activity in Poland cooled down in 2012: real GDP growth slowed to 2.0%, from 4.3% in 2011 and according to the Eurostat should further lose pace in 2013, to 1.2% (contrasting with a projected contraction of 0.1% in the EU27). This performance shows the attractiveness of the Polish market, which is sustained by the size and resilience of its domestic market and its growing exporting capacity.

Even so, M&A activity in Poland was not immune to the gloomy international environment, with announced transactions falling by 42% in number and 56% in value, to USD 9 billion, according to Bloomberg data.

United States of America

In 2012 the United States M&A market grew by 5% in number of announced transactions but fell by 5% in value, to USD 1.1 trillion (Bloomberg data). The global macroeconomic scenario as well as the public debt and fiscal cliff issues were the main factors that conditioned the M&A business during the year.

The activity of Espírito Santo Investment Bank

Overall in 2012 Espírito Santo Investment Bank acted as financial adviser on 20 M&A announced transactions, for a total value of approximately EUR 13 billion.

Iberia

In a very tough macroeconomic environment, in 2012 Espírito Santo Investment Bank maintained the leadership of the Portuguese M&A market and ranked in 2nd place in Iberia (both by number and value of announced transactions). This performance confirms its position as a reference player in Iberia in the provision of investment banking services.

BLOOMBERG – Ranked by value (EUR million) of announced transactions - 1.1.2012 – 31.12.2012



	PORTUGUESE TARGET – PORTUGUESE ACQUIRER	
1	**Espírito Santo Investment Bank**	**13.124**
2	Barclays	12.278
3	Caixa Banco de Investimento	9.483
4	Citi	8.104
5	Rothschild	7.199
6	Credit Suisse	7.154
7	Deutsche Bank	4.665
8	BPI	4.462
9	Itaú	4.417
10	Goldman Sachs	4.352



	IBERIAN TARGET – IBERIAN ACQUIRER	
1	Barclays	15.324
2	**Espírito Santo Investment Bank**	**13.124**
3	Citi	12.147
4	Goldman Sachs	11.733
5	Societé Génerale	11.471
6	Santander	10.361
7	Rothschild	10.250
8	Caixa Banco de Investimento	9.483
9	Credit Suisse	8.334
10	Banco BTG Pactual	7.351

Source: Bloomberg
Note: Information provided on January 24, 2013

Notwithstanding its generalist strategy, Espírito Santo Investment Bank maintained a strong presence in the energy sector, while playing a prominent role in the ongoing privatisations programme in Portugal. In 2012 the Bank provided advisory services to Chinese investors on the acquisition of 21.35% of EDP – Energias de Portugal, S.A. and 25% of REN – Redes Energéticas Nacionais, SGPS, S.A, and to the Portuguese State on the privatisation of 100% of ANA – Aeroportos de Portugal, S.A. (ongoing operation, pending regulatory approvals).

Main transactions in which Espírito Santo Investment Bank was involved in Iberia in 2012 included:



Brazil

Espírito Santo Investment Bank's M&A activity in 2012 broadly followed the trend of previous years. The Bank essentially provided advisory services to pure domestic operations and operations on Brazilian assets involving international investors from regions where it is present, namely Portugal and Spain.

According to ANBIMA, 176 M&A transactions, totalling BRL 122.3 billion, were announced in the Brazilian market in 2012. Espírito Santo Investment Bank reached the 11th position in the ranking of announced transactions.

ANBIMA - Ranked by value (BRL million) of announced transactions - 1.1.2012 – 31.12.2012



BRAZILIAN TARGET - BRAZILIAN ACQUIRER		
1	Credit Suisse	45.701
2	Bradesco BBI	42.012
3	BTG Pactual	38.214
4	Itaú BBA / Itaú	30.259
5	BofA Merril Lynch	27.706
6	Citigroup	26.536
7	JP Morgan	23.818
8	Goldman Sachs	23.648
9	NM Rothschild	23.209
10	Morgan Stanley	13.147
11	**BES Investimento**	**6.938**

Source: ANBIMA.

The most significant transactions in which the Bank was involved in Brazil in 2012 included:











Poland

Having consolidated its local M&A team, during 2012 Espírito Santo Investment Bank worked on various operations in the Polish market, namely in the financial, telecommunications, renewable energies and manufacturing sectors. The Bank is recognised today as a top-line player in this market, standing in direct competition with the large global investment banks.

Although Polish companies generally show little interest in investing abroad, notably in the markets that form the Bank's strategic axis – Portugal, Spain and Brazil -, some signs of change are starting to emerge. Espírito Santo Investment Bank will continue to pursue its ambitious objective of supporting and acting as the preferred financial partner of Iberian and Brazilian companies expanding into the Polish market, and of Polish companies expanding into the markets where it operates, thus ultimately validating its strategic focus on these markets.

The operations concluded by Espírito Santo Investment Bank in Poland in 2012 included:



United Kingdom

The Bank's M&A team in the UK is particularly well positioned to act as a platform targeting the interest of international investors in both the mature and the emerging markets where the Bank is present, and promoting cross-border deals, especially in the middle market segment.

Main operations concluded in the UK in 2012 in which the Bank participated included:



United States of America

The M&A team in the United States mainly concentrates its activity on cross-border transactions with Iberia, but also with Latin America, namely Brazil and Mexico, where increasing interest and a growing number of opportunities are expected to emerge.

In 2012 the Bank's team obtained several mandates from European investors searching for opportunities in the US, from Mexican and American companies interested in Brazil, and also from American companies looking for investment opportunities in Iberia.

Projects in pipeline to be pursued in 2013 cover areas as diverse as the food, real estate, transportation and retail sectors. One of the most prominent operations in which Espírito Santo Investment Bank was involved in 2012 was an acquisition made by a Portuguese company in Chile, to which the Bank provided advisory services.



Outlook

The strong growth of the M&A activity in the last quarter of 2012, running counter-cycle to the rest of the year, marks a turning point in the trend of recent years and raises expectations that 2013 could be a year of recovery in this business at world level.

Private equity firms continue to have available funds to invest and are only waiting for market conditions to improve in order to do so. If this improvement does materialise, the beginning of a new investment cycle can indeed be expected.

Even if the problems affecting the M&A market, namely the extreme complexity of financing acquisition transactions, the difficulty of conciliating valuations between sellers and buyers and the deterioration of investors' assessment of business risks, have not yet been totally solved, Espírito Santo Investment Bank maintains ambitious objectives for 2013.

The Bank will continue to target those sectors which have better weathered the crisis, and where it has developed strong competencies, namely energy and infrastructures.

Geographically, the Bank will continue to target cross-border transactions in the markets where it is present, banking on the growth potential of the emerging markets (in 2013 M&A activities area expected to be launched in India), and harnessing value opportunities arising in the more mature markets, namely taking part and providing advisory services in the ongoing privatisation programmes.

MID-CAP FINANCIAL ADVISORY

Espírito Santo Assessoria Financeira was created in 2004, in partnership with the Mid-cap Corporate Division of Banco Espírito Santo, with the aim of providing investment banking services to the mid-cap corporate segment.

The investment banking services provided to this market segment include financial advisory services for mergers and acquisitions and for financial restructuring processes, as well as pure financial consulting services, namely valuations and economic and financial feasibility studies.

Commercial efforts continued to be primarily undertaken by Banco Espírito Santo's Corporate Banking Centres, which remain important sources of business for Espírito Santo Assessoria Financeira. The business opportunities tracked by these Centres permit to schedule a plan of visits where the services provided are presented to potential Clients, viewing the origination of financial advisory mandates.

In order to expand its business sourcing channels, Espírito Santo Assessoria Financeira has established a cooperation agreement with the Private Banking Division of Banco Espírito Santo. The aim is to offer financial advisory services that will support private banking Clients in the development of their investment projects as well as in the acquisition or disposal of equity holdings.

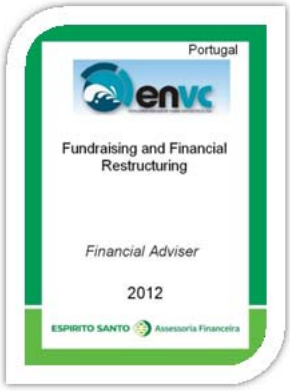
Business and revenues in 2012 were in line with expectations. A total of eight mandates were completed, including:













Despite the very challenging economic environment in Portugal, Espírito Santo Assessoria Financeira's objectives for 2013 reflect its ambitious expectations of increased activity. Hence, on the basis of the work developed in previous years, 2013 should see an increased interaction with the heads of Banco Espírito Santo's Corporate Centres and Private Banking Division, as well as a careful selection and prioritisation of Clients and business opportunities, optimising the human and technical resources engaged in this business area. Internal cooperation with Espírito Santo Investment Bank's Client Origination and Corporate Finance Division will also be emphasised in order to benefit from synergies in the offer of services and in the origination of business opportunities.

PROJECT FINANCE AND SECURITISATION

During 2012 the Project Finance Division continued to see its activity confined by liquidity constraints and the low volume of investment in the traditionally more dynamic sectors such as infrastructures and energy.

The project finance business is facing a sharp change of pattern in its more established markets which makes it essential to direct efforts to those less affected by the current situation - Brazil and the African countries, and in particular the Portuguese-speaking African countries are some of those with still untapped potential – and to focus on financial advisory services and arrangement of financing solutions to raise funding for investment in projects. At present the Bank already uses project bonds as a financing instrument for specific projects in Brazil (issue of debentures) and plans to expand their use to other regions.

The Bank's presence in geographies considered strategic, its good relationship with key Clients and the high level of know-how and expertise accumulated in this business have continued to secure access to operations and projects with high profile and attractiveness, supporting good prospects for development and growth.

Portugal

The adverse environment in Europe during 2012 was felt with particular acuteness in Portugal, where the financial assistance programme under implementation puts high pressure on spending and therefore inhibits investment.

In 2012 Espírito Santo Investment Bank concluded various operations, namely acting as 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 area of 24,507 hectares in the State of Mato Grosso do Sul, in Brazil.



No significant changes in the macroeconomic context are expected for 2013 and therefore the volume of investments and projects should remain low. However, some opportunities could arise in infrastructure and energy projects, which were previously postponed but remain on the agenda of planned investments for Portugal. Despite the unfavourable environment, the Bank's strong positioning and engagement in this area permit to maintain positive prospects for business development.

Spain

Activity in Spain was developed in a very unfavourable context, with liquidity restrictions sharply increasing the cost of funding. Spain's effort to reduce its deficit penalised public investment, thus considerably narrowing the pipeline of infrastructure projects. Moreover, renewable energy projects were also cut back due to uncertainty about changes in the legislation and the reduction of public incentives to the sector.

In this context, the Espírito Santo Investment Bank focused its activity in 2012 on financial advisory services as well as on reassessing the projects in portfolio to maximise their viability and profitability.

During the year the Bank was involved in various transactions included in its current portfolio, namely acting as Financial Adviser and Mandated Lead Arranger of the restructuring of a EUR 45 million loan facility to Bio Oils Huelva. In addition it also provided several bank guarantees in connection to renewable energy projects.



2013 is not expected to differ much from 2012. New projects should be few and force the Bank to be increasingly selective. Due to the macroeconomic context the new year should also see a number of debt restructuring operations.

The Project Finance team will continue to look for business opportunities in the markets where the Bank operates, especially in the Americas and Africa, while supporting the international expansion of its Clients.

United Kingdom

With market conditions slightly improved in the UK, some sizeable operations were concluded during the year, namely involving the financing of the acquisition of the Newcastle, Edinburgh and Bristol airports. The pipeline of infrastructure projects was expanded with the announcement of new large investments in the UK's energy and renewables sectors, which gave rise to new business opportunities.

The Credit Fund for Infrastructure Projects, developed in association with the independent fund manager Sequoia Investment Management Company, saw some progress in 2012 as two closings, one in sterlings and the other in euros, are expected to occur in the first quarter and in the second quarter of 2013 respectively. When operational, the Fund should allow the Bank to expand the origination of new transactions.

Brazil

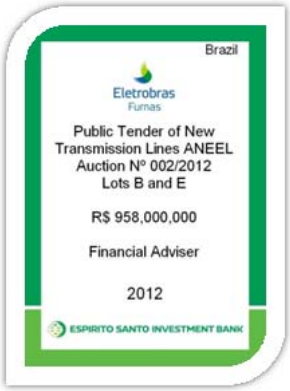
2012 was another buoyant year for the Project Finance activity in Brazil, reflecting the investments which have been taking place in the infrastructure sector, namely in energy, airports, road concessions, urban mobility and wastewater systems.

Espírito Santo Investment Bank provided financial advisory services on the following operations:

- Equipav – auction for a public-private partnership wastewater project in Piracicaba municipality, São Paulo State, with total investment amounting to BRL 341 million, which Equipav won;
- AEGEA (Equipav Group) – auction for the concession of the sewage treatment system of Macaé, Rio de Janeiro State, with total investment amounting to BRL 865 million;
- Furnas Centrais Elétricas S.A. - ANEEL 002/2012 auction for lots B and E electricity transmission lines, with total investment amounting to BRL 958 million, in which Furnas was awarded lot E;
- Atlântico Concessionária de Transmissão de Energia (ProCme Group) – Arrangement of a BRL 42.3 million long-term facility with BNDES.









In addition, the Bank also advised on the arrangement of the following long-term financing facilities:

- Interligação Elétrica do Madeira – BRL 2.1 billion financing from Banco Nacional de Desenvolvimento Econômico e Social (BNDES) and Fundo Constitucional de Financiamento do Norte (FNO) to Madeira Electricity Connection – IE Madeira, S.A., a 2,375 km energy transmission line to transport the electricity generated by the Madeira river hydropower plants to the southeast region;
- Transenergia Renovável – BRL 159 million financing from the BNDES.





Espírito Santo Investment Bank also participated in several short-term financing facilities for the projects of ViaBahia (motorway concession in the State of Bahia, controlled by Isolux Corsan), CAB Águas de Paranaguá (wastewater concession in the municipality of Paranaguá, State of Paraná), and Águas do Mirante (wastewater concession in the municipality of Piracicaba, created by Equipav after winning the auction), the last through an issue of debentures. Finally, the Bank provided a number of guarantees, namely in connection to Isolux Corsan's bid to urban mobility auctions in São Paulo, and for technology innovation projects financed by FINEP – Agência de Financiamento de Projetos em Inovação e Pesquisa.









The outlook for Brazil remains promising. 2013 will see a number of auctions in various sectors, namely for new motorway concessions (projected investment of BRL 10 billion), airport concessions (investment of ca. BRL 14 billion), port concessions (investment of ca. BRL 40 billion), as well as investments in the energy and wastewater sectors. The estimated investment in infrastructures over the next five years should amount to BRL 250 billion per year.

Americas

Espírito Santo Investment Bank's activity in North-America remained stagnant during 2012 given the difficulty of matching the competition under the current funding conditions. At the end of the year the Bank was working with a renewable energy operator on the development of a financing plan for small solar energy projects in the United States.

In Latin America, the Bank made some progress in the origination of transactions, strategically selecting projects which it can lead and syndicate.

2012 saw the completion of two financing operations in Mexico, one advisory operation in Chile and one financing transaction in the United States. The pipeline currently comprises three new mandates for conclusion in 2013 and the extension of a bridge loan.



2013 promises to be quite a good year for the project finance activity in the Spanish speaking countries in Latin America.

Mexico is the Bank's main market of operation in the region, not only due the opportunities it offers in the renewable energies, oil&gas and infrastructure sectors, but also because the Bank's track record in the area paves the way for new operations. The Andean region also remains quite promising, with opportunities arising in the energy/ renewables sector in Peru and in the energy and infrastructure sectors in Colombia. The Bank is quite optimistic about a possible partnership with CAF – Banco de Desarrollo de America Latina, the Latin-American development bank, which will allow it to develop advisory and investment project structuring activities in the Andean region, particularly in Peru, Colombia, Chile and Uruguay. Finally, in Central America, more specifically in Panama and Costa Rica, a few small but interesting business opportunities are coming up in the infrastructure and renewable energy sectors.

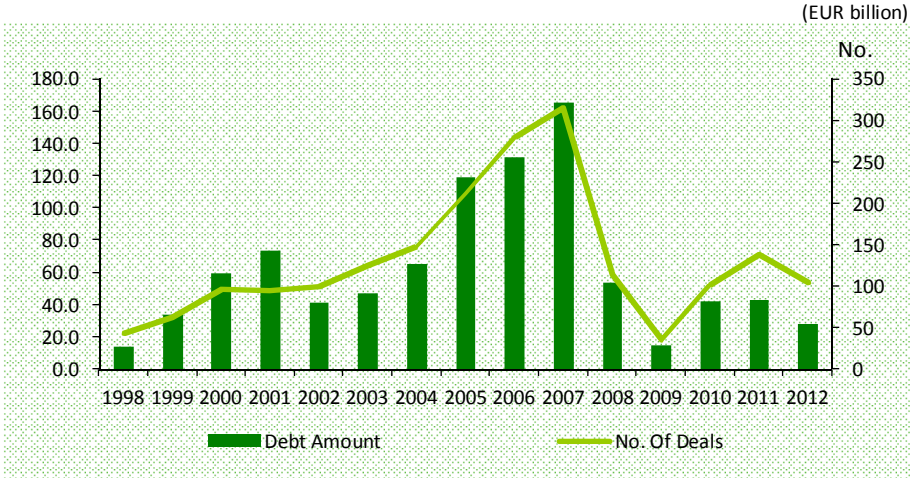
ACQUISITION FINANCE AND OTHER LENDING

Market Background

The acquisition finance activity in the European market was low in 2012, dropping by 34% in volume compared to 2011. This performance is closely related to the Eurozone sovereign debt crisis and the constraints weighing on the financial sector.

According to S&P data, the total volume of European leveraged debt reached EUR 28.5 billion in 2012, corresponding to 105 completed transactions.

Senior Financial Debt – European Market



Source: Standard & Poor's

Economic activity in Portugal continued to be conditioned by the Economic and Financial Adjustment Programme, which namely entailed a budget consolidation process through the necessary reduction of the deficit and stabilisation of the public debt.

The year was also marked by capital increase operations in the financial sector, aimed at complying with the new regulatory capital requirements for banks, and by public tender offers involving two large listed companies. The Bank acted as Mandated Lead Arranger on the loan to finance the tender offer launched on the BRISA shares.

In Spain GDP contracted by 1.4% in 2012, driven by the fall of domestic demand which was further aggravated by the measures taken to reduce the state budget imbalances (including the increase of the tax burden), the restructuring of the banking system, the deleveraging of the private sector, and the continuous rise of the unemployment rate, which reached 26% at the end of the year.

Poland maintained a growth trajectory in 2012, though clearly slowing down. On the external front, economic activity was constrained by the euro debt crisis and the European recession, which penalised exports, and at domestic level, by the weakening of domestic demand, which held back GDP growth.

Espírito Santo Investment Bank activity

Main transactions completed by the Bank in 2012 included:

- Tagus Holdings S.À.R.L. – The Bank acted as Mandated Lead Arranger on the EUR 590 million syndicated loan to Tagus Holdings for the launch of a tender offer on Brisa – Auto-Estradas de Portugal S.A.;
- AEIF Apollo S.À.R.L. - The Bank acted as Mandated Lead Arranger on the EUR 52 million syndicated loan to AEIF;
- WTG Corporation Limited - The Bank acted as Mandated Lead Arranger on the EUR 9 million financing to WTG for the acquisition of the entire share capital of IMG Energias, S.A.;
- SIC – Sociedade Independente de Comunicação, S.A. - The Bank acted as Mandated Lead Arranger on the EUR 20 million loan to refinance the company's activity;
- Gebomsa Polska sp Z.o.o. - The Bank acted as Mandated Lead Arranger on the zloty 4.8 million financing to Gebomsa for the acquisition of the entire share capital of Betopompa sp. Z o.o;
- Mota Engil Central Europe, S.A. - The Bank acted as Mandated Lead Arranger on a short-term loan and bank guarantee line totalling zloty 50 million to finance the company's activity;
- Quifel Holdings SGPS, S.A. - The Bank acted as Mandated Lead Arranger on several credit lines totalling EUR 12.8 million;
- Quifel International Group - The Bank acted as Mandated Lead Arranger on a EUR 7.2 million facility to finance the company's current activity;
- Sacyr – The Bank participated in a EUR 2.4 billion refinancing operation of the company.

In addition, the Bank provided bank guarantee lines to Polish companies for an overall amount of zloty 30 million.





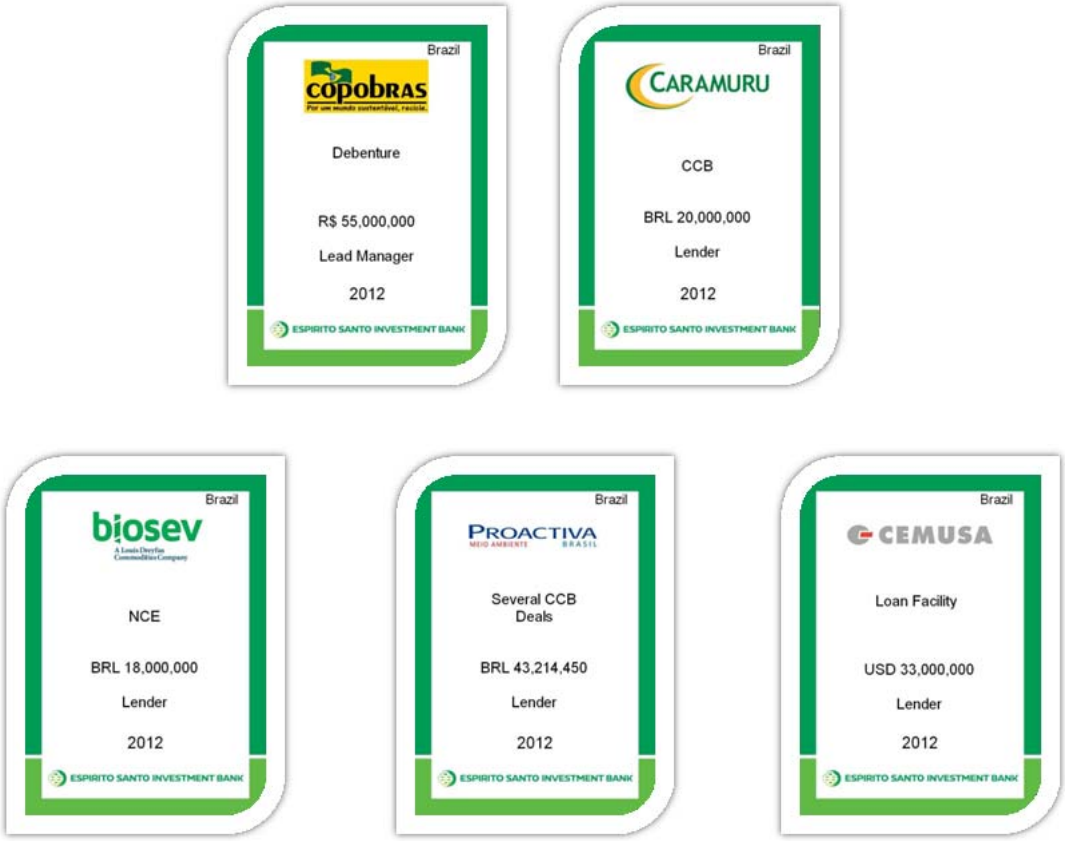




In Brazil, the Other Lending activity was quite strong, with 141 transactions closed in 2012 for a total amount of BRL 779.6 million (includes renewals and new loans). At the end of the year the loan portfolio amounted to BRL 1.1 billion, which is ca. 12.3% more than a year earlier.

Main transactions concluded in 2012 included:

- Copobras S.A. – Structuring and execution, together with Banco Itaú BBA, of a BRL 55 million issue of debentures in the local market to extend the debt maturity profile;
- Caramuru Alimentos – Structuring of a BRL 20 million financing through an export credit note;
- Biosev – Structuring of a BRL 18 million financing through an export credit note;
- Proactiva Group – Structuring and execution of CCB (bank credit notes) operations totalling BRL 43 million; and
- Cemusa Inc – Structuring and execution of a USD 33 million loan agreement facility for a subsidiary of the Spanish FCC Group in the US, through BES Investimento do Brasil branch in the Cayman Islands.



Outlook

The acquisition finance business will naturally reflect the economic and financial context of each of the countries where the Bank operates.

In Portugal no significant changes are expected and the economy should continue to contract. Notwithstanding the unfavourable environment, the external perception about the adjustment of the Portuguese economy is positive, as shown by the significant drop of yields on issues of treasury bill and 10-year treasury bonds in the secondary market, and the return to the market of the Portuguese State as well as of large companies such as EDP, PT and Brisa with successful debt issues.

Likewise, the scenario in Spain should stay much the same as in 2012. The Government has presented its budget adjustment plan aimed at reaching the public deficit target of 4.5% of GDP agreed with the European Commission for 2013. A combination of restrictive fiscal policy measures, the process of banks recapitalisation, and an unfavourable macroeconomic context in Europe, continue to support a negative outlook for the Spanish economy.

For Eastern Europe the scenario is brighter. Poland is expected to post GDP growth of 2.3%, one of the highest growth rates predicted for the European Union in 2013.

PRIVATE EQUITY

Activity in 2012

2012 was essentially marked by progress in the incorporation of the 2bCapital fund targeting the Brazilian market and the conclusion of the investment period of the ESIF Fund.

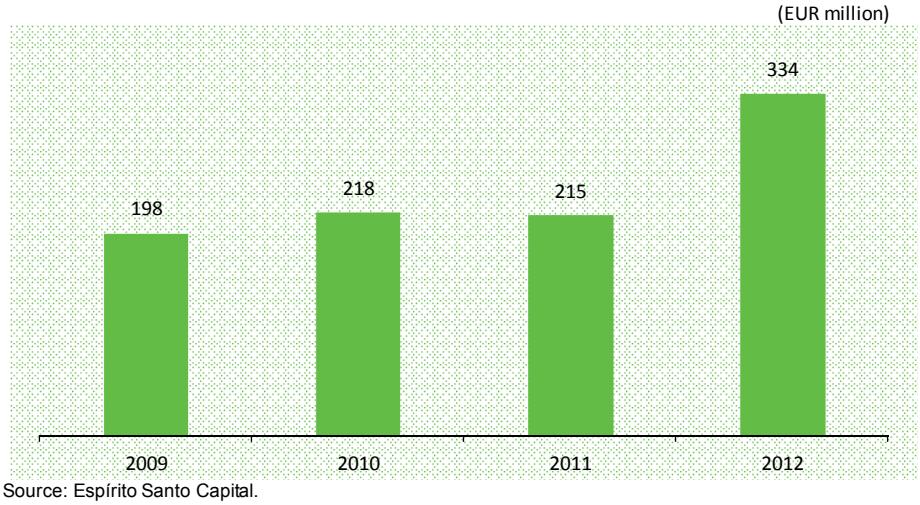
Investment made during the year recorded a positive trend, despite the difficult macroeconomic conditions and the restrictions on financing from banks. During the year 249 investment opportunities were analysed (35% more than in 2011), mostly later stage and especially in the growth segment. Total investment in 2012 amounted to EUR 30 million, being the capital increase of Panicongelados and the acquisitions of the Sierra Sesnandez and Cova da Serpe wind farms the most important new deals of the year. The main follow-on investment was the capital increase of Globalwatt.

The amount of divestment was lower than EUR 1 million, the lowest amount of the last few years. As a way of countering the lack of demand, distribution of dividends and repayment of shareholder loans were privileged. Overall the subsidiaries distributed close to EUR 1.4 million.

Fund raising activities were mainly focused on the launch of the 2bCapital targeting the Brazilian market. The fund was incorporated with a first closing of BRL 320 million, and the second, and last, closing should take place in the first quarter of 2013. In addition, the first steps to launch a new fund, which will focus on later stage investments in the Portuguese market, were taken in 2012 and some developments are expected to occur during 2013.

Funds under Management totalled EUR 334 million at the end of 2012, having grown by 55% year-on-year.

Funds Under Management



Source: Espírito Santo Capital.

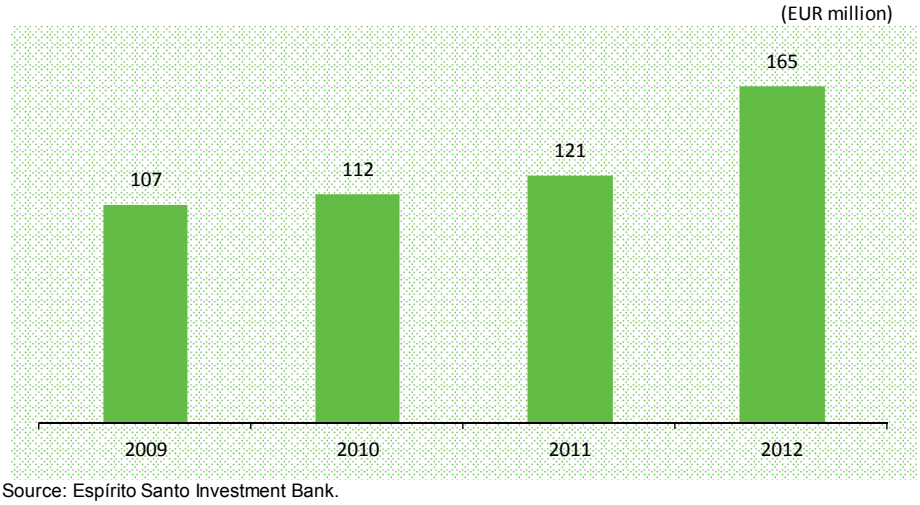
Investment Portfolio and Financial Highlights (individual basis)

The revaluation of the proprietary and funds under management portfolios conducted at the end of December 2012 determined a market value of EUR 165 million for the total portfolio, which represents a year-on-year increase of 36%.

This growth was mainly driven by the investments made during the year. Overall the portfolio proved quite resilient to the adverse conditions in which businesses operated during the year, which, among others, included changes in the renewable energies regulatory framework in Portugal and Spain, the increase of the tax burden in both countries, and increasingly difficult access to credit from banks, especially in Portugal but also in Spain.

The net profit for the year was close to EUR 1.6 million. At the end of 2012 Espírito Santo Capital's equity was ca. EUR 45 million.

Portfolio Market Value



Source: Espírito Santo Investment Bank.

Outlook

Iberia

After two years with a very difficult macroeconomic environment that strongly penalised the private equity business, the market outlook for 2013 seems brighter. In Portugal, an overall improvement of liquidity conditions in the economy should gradually unblock credit for investment, and the ongoing movement in new fund launching permits to anticipate increased competition in the sector.

In Spain, the activity will be essentially marked by expectations about the return of foreign investors. The traditional basis of local investors concentrated in the banking industry is not expected to return soon to the sector, which has experienced a deep restructuring.

Brazil

The main features of Brazil's economic scenario in 2012 were the sharp fall in interest rates, stable inflation – at around 5.8% -, and faltering economic growth. The outlook for 2013 is for the economy to pick up, expectedly reaching the annual GDP growth target of 3.2%.

Interest in private equity investments in Latin America continues to increase, not only in Brazil but also in new markets such as Colombia and Peru, with global funds announcing their entry or the reinforcement of their presence in this market. Interest in sectors associated to the domestic economy, such as consumption, retail, education and health (which are included in the 2bCapital investment strategy), also remains strong.

WEALTH MANAGEMENT

The macroeconomic scenario in Brazil in 2012 was characterized by low GDP growth (ca. 1%) and the decreasel of interest rates to historically low levels. Inflation remained high, sharply squeezing real interest rates.

In general terms, Brazilian investors have always privileged interest rate products, which are seen as simple investment options that provide high returns with low risk. However, the drop of interest rates in 2012 boosted demand for other capital allocation alternatives and stirred up interest for the financial market, especially among the higher income investors. The diversification of the portfolios supported this demand for products previously less sought for, such as price index linked securities and funds, assets with tax benefits, or participation in fixed assets through financial instruments.

Even in this more demanding environment the Brazilian private banking segment maintained the good performance reported in 2011, growing by 21.4% in nominal terms (by assets under management and returns), according to ANBIMA. Total Assets under Management reached BRL 527 billion, with the bulk of this amount being placed in mutual funds, fixed income securities and equities.

Although wealth remains concentrated in the large centres (São Paulo, Rio de Janeiro and the Southern region) the Northeast and the Centre-West were the fastest growing regions in Brazil in 2012 (24% and 30%, respectively).

BES DTVM, with its experienced team in wealth management and 'open architecture' platform, seized the challenging opportunity afforded by the new investment pattern and the market's growth. Through portfolio diversification and timely seizing of opportunities arising in the market (such as the rally of inflation-linked products or multi-market funds), the company's approach allowed the Clients to meet their return targets.

In its third year in operation, BES DTVM closed the year with BRL 1.2 billion in Assets under Co-Management, representing a year-on-year increase of 27%.

BES DTVM's commercial team closely monitors the evolution of its Clients' wealth and offers them the products that best meet their requirements and needs. The team maintains its focus on Brazil's largest cities, namely São Paulo and Rio de Janeiro, but also operates in others, such as Salvador, Belém and Manaus.

The exploitation of synergies with the Bank's other teams in Brazil has shored up the growth of cross-selling, especially in M&A and foreign exchange transactions, treasury products and investment funds.

2013 should be another year of growth, and a challenging year to address the new investment pattern in Brazil. Through its team of qualified professionals and efficient investment and portfolio monitoring systems, BES DTVM will continue to support its Clients independently, with excellence and with the best products available.

3. HUMAN RESOURCES

Headcount	Dec-12	Dec-11	Change	% Chg
TOTAL GROUP	**842**	**853**	**-11**	**-1.3%**
PORTUGAL	**255**	**259**	**-4**	**-1.5%**
Banco Espírito Santo de Investimento	242	245	-3	
Espírito Santo Capital	13	14	-1	
SPAIN				
Branch	**107**	**109**	**-2**	**-1.8%**
BRAZIL	**203**	**188**	**15**	**8.0%**
BES Investimento do Brasil	134	119	15	
BES Securities do Brasil	35	37	-2	
BESAF	20	16	4	
ES Serviços Financeiros DTVM	14	16	-2	
UNITED KINGDOM	**150**	**173**	**-23**	**-13.3%**
Branch	9	13	-4	
Execution Noble	141	160	-19	
INDIA				
ES Securities India Private Limited	**28**	**26**	**2**	**7.7%**
IRELAND				
Espírito Santo Investment plc	**3**	**3**	**0**	**0.0%**
POLAND				
Branch	**52**	**49**	**3**	**6.1%**
USA				
Branch	**44**	**46**	**-2**	**-4.4%**

Source: Espírito Santo Investment Bank.

Headcount

In 2012 the Bank's workforce registered a slight decline of 1.3% compared to the previous year. However, the differing stages of the internationalisation process across the various regions meant than in some, namely Brazil, there was an increase in the number of employees.

The integration process with Execution Noble involved taking rationalisation measures to obtain synergies, from which resulted a headcount reduction.

Training

Espírito Santo Investment Bank maintained its commitment to the professional training of its staff, namely sponsoring in-house foreign language courses.

Under the Executive Training scheme developed in partnership with the BES University, a number of employees engaged in the 2-year Executive Master programme.

During the first half of the year the Bank also sponsored the Catholic University Advanced Management Program for Top Managers, which took place in Lisbon and Chicago.

In the last quarter of 2012 and together with Banco Espírito Santo, the Bank implemented its first e-learning course ("BES Group Human Rights Policy and Rules of Conduct"), which was attended by 77.6% of the staff.

Talent Management

The Bank strongly emphasises the streamlining of costs and the reallocation of employees to the business and geographical areas where they are most needed.

Hence the Talent Management Division initiated the implementation of the new Mobility Policy approved at the end of 2011 which aims to streamline costs with the Bank's expatriate employees. The newly revised policy also seeks to make mobility an attractive concept, and one that offers opportunities for the development of an international career.

The Talent Management division revised the terms of expatriate contracts coming close to term (within 6 months) with the aim of converting the mobility packages into local packages designed in accordance with the practices in each market.

The division works closely with the Human Resources departments of the Bank's subsidiaries and branches, viewing the increasing harmonisation of employee mobility policies, while always respecting local practices and customs.

As regards the Employee Remuneration Policy, the Bank has closely monitored the recent developments in the legislation, namely published by the Portuguese Government, the Bank of Portugal, the Portuguese Securities Market Commission ("CMVM") and international institutions like the European Central Bank and the Bank of Brazil. The Talent Management division supported the local Human Resources Departments in the implementation of the new directives.

In September 2012 the Training Unit organised a workshop on "The Strategic Leadership Overview" coordinated by the São Paulo team, having as main speaker Mr. David Kallás.

Traineeships

In 2012 the Bank reinforced its usual practice of organising short summer traineeships (from June to September). Based on protocols signed with various universities with the aim of bridging work life and academia, a national and international traineeship programme was developed, in which 67 trainees participated, namely 44 in Lisbon, 16 in London, 6 in Madrid and 1 in São Paulo.

The bank views as an added value the cooperation and new ideas brought by these young people at the end of their academic life who are looking for a first work experience. This practice has yielded good results in the last few years, permitting to recruit freshly graduated people who had a first experience in the Bank as trainees.

Social Responsibility Initiatives

The Bank has invited its employees to take part in various social responsibility initiatives:

- "Papel por Alimentos", a solidarity and environmental campaign, in which a tonne of used paper donated is exchanged for EUR 100 of food;
- "Banco do Livro Escolar" social and educational movement involving individual donations of basic and secondary education school books;

- Blood and bone marrow donations – campaign developed with Banco Espírito Santo, and the *Instituto Português do Sangue* and *Centro de Histocompatibilidade do Sul*;
- Clothes and shoes collection – campaign developed by the *Comunidade Vida e Paz* institution in favour of the homeless;
- Newborn layette – campaign developed by the *Associação de Ajuda ao Recém-Nascido*, which works from the *Maternidade Dr. Alfredo da Costa* hospital, to collect baby clothes and products for needy families.

In 2012 the Bank sponsored and made donations to various organisations, namely to:

- Associação Novo Futuro – donation and food purchases in the *Rastrillo 2012* solidarity market;
- *Movimento Vencer e Viver* (Portuguese League Against Cancer)
- *Associação Portuguesa Livre de Drogas*;
- *Instituto de Apoio à Criança*.

4. INTEGRATED RISK MANAGEMENT

THE RISK FUNCTION IN THE BES GROUP

The Risk Management function identifies, assesses, monitors and reports all the material risks to which Espírito Santo Investment Bank is subject, both internally and externally, so that such risks remain contained and do not impact the BES Group's financial situation.

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

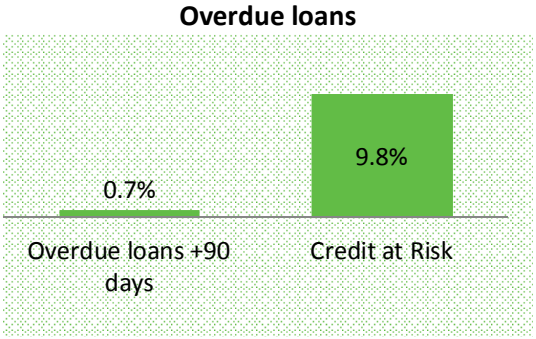
Executive Summary

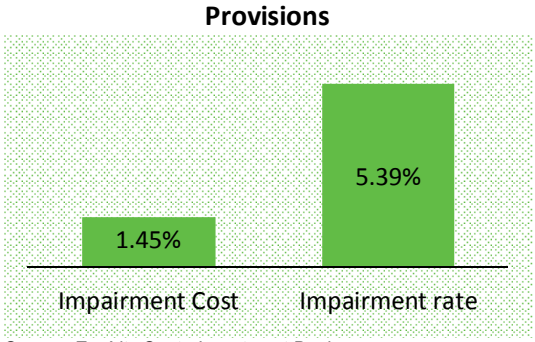
- Independence of the risk function
- Senior Management involvement through specialised committees
- Integrated view of risk
- Specialised technical resources

Credit

- Economic recession inevitably impacted risk levels: the credit at risk ratio reached 9.8% (Dec.11: 8.6%);
- As a result of the prudent risk management, the impairment cost reached 1.45% (2011: 1.41%), corresponding to a EUR 32.9 million reinforcement of provisions with a total balance of provisions for credit of ca. EUR 122 million (+17% YoY), after use of EUR 15.3 million;
- The provision coverage of credit at risk reached 44.7%;
- The Inspections Programme ("OIP") carried out by the Bank of Portugal (BoP) did not require any additional provisioning.

Rising overdue loans and provisions



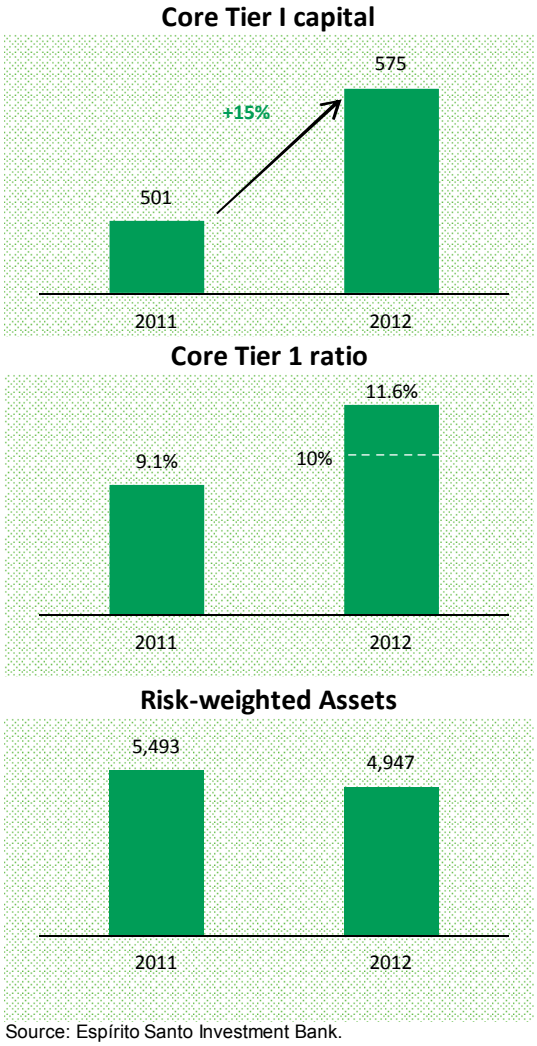


Source: Espírito Santo Investment Bank.

Solvency

Stronger Capital Ratios

- The capital increase as of September 7 reinforced the Core Tier I capital in 15%;
- Core Tier I ratio reached 11.6% (BoP criteria), comfortably above minimum requirements for 2012;
- Risk-weighted assets (RWAs) dropped by 10%, to EUR 4,947 million as of December 31st, 2012;
- The ICAAP exercise carried out in 2012 with reference date December 31st, 2011 concluded that the Bank meets the conservative risk appetite defined by the Executive Committee, which ensures high solvency levels associated to a minimum rating target of A *(debt holder perspective).*



Source: Espírito Santo Investment Bank.

Liquidity

Conservative liquidity risk management

With capital markets not yet stabilised, at the end of 2012 BES Group re-opened the debt markets for the Portuguese banks, raising funding of EUR 1.6 billion up to the start of 2013.

Risk Factors

Espírito Santo Investment Bank operates in a highly uncertain environment where is subject to the following risks, among others:

Risk	Description of Impacts	Mitigation Measures
• Deterioration of the economic situation	• Increase in overdue loan levels, devaluation of the real estate and capital markets, difficulty in raising funding from wholesale markets	• Comprehensive and timely monitoring of all risks • Continuous revision of policies and limits • Optimisation of risk/return • Asset liquidification
• Changes in the law or regulations	• Unforeseen changes in the law or regulations may affect the Bank's strategy	• Close attention to legal and regulatory developments, seeking to anticipate changes and mitigate potential impacts
• Financial market uncertainty	• Market volatility may impact the Bank and the pension fund's results, as well as the net interest margin	• Close monitoring of markets • Robust control processes
• Natural disasters or terrorist attacks	• A terrorist attack, pandemic, earthquake or other unforeseen events may affect the normal functioning of the Bank	• Implementation of business continuity management policies
• Geopolitical events	• Adverse political or governmental scenarios in geographies where the Bank is present	• Political situation monitoring • Perform of stress tests exercises and implementation of mitigation actions, where necessary

Organisation

The risk appetite is determined at BES Group level. The Executive Committee of Espírito Santo Investment Bank is responsible for monitoring and ensuring compliance with this appetite, ensuring that the Bank possesses the necessary skills and resources to meet the established objectives.

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



Risk management functions and responsibilities are defined according to the "Three Lines of Defense" system, which clearly reflects the delegation of powers and communication channels formally adopted in the Bank's policies. This segregation of functions is fundamental to align incentives and control and manage risk.

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

At operational level, Espírito Santo Investment Bank's risk analysis and control teams work closely and in coordination with BES's Global Risk Department (GRD), which centralises the risk function of BES Group. This function, which is independent from the business areas, consistently incorporates risk and capital concepts within the Bank's strategy and business decisions.

The Risk function comprises three distinct units, namely Risk Control, Credit Risk Analysis, and Operational Risk, entailing the following tasks:

- Identify, assess, control and report the different types of risk assumed, thus helping to manage the overall risk exposure, ensuring compliance with internal and regulatory rules, and promoting and monitoring mitigation actions;

- Implement the risk policies outlined by the Executive Committee, while harmonising principles, concepts and methodologies across all the Bank's units;
- Develop and monitor methodologies to identify and quantify the various categories of risk, namely internal ratings models and liquidity ratios, and decision support methodologies such as pricing models, payment decision models and RAROC (Risk-Adjusted Return on Capital) models;
- Determine, control and report regulatory capital requirements for credit, market and operational risks;
- Develop the internal capital adequacy assessment process (ICAAP);
- Monitor the Bank's internationalisation strategy, cooperating in the design of organizational solutions and in the monitoring and reporting of the risk exposure of the various international units.

Risk control and supervision are carried out by the Executive Committee of Espírito Santo Investment Bank, which delegates the setting of rules and procedures and the approval of transactions to the Credit and Risk Management Committee (CRMC), and the definition and monitoring of balance sheet and liquidity management policies to the Assets and Liabilities Committee (ALCO).

Regulatory Framework

Basel III

The Basel III rules, first presented by the Basel Banking Supervision Committee in 2010, represent a global regulatory change for the financial system. Their purpose is to strengthen financial institutions and prevent new financial crises in the future. Banks will have a transitory period (up to January 1, 2019) to comply with the approved rules. The Basel III rules have established the following regulatory framework at the end of the transitory period:

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

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

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

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

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

Recovery and Resolution Plans

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

BES Group has in place robust mechanisms to ensure the recovery of imbalances caused by extreme events that impact its solvency or liquidity. There is a specific inventory of the measures to be taken in the case of Espírito Santo Investment Bank.

Inspections Programme (OIP)

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

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

The programme's main conclusions were that the Espírito Santo Investment Bank sub-group did not need to reinforce provisions.

CREDIT RISK

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

A. Management Practices

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

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

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

The use of rating classifications for purposes of establishing portfolio ceilings that limit credit granting by both product and rating levels, and in particular restrict the amounts lent when higher risks are involved, is now a broad-based practice. Portfolio ceilings are used to control the evolution of the risk profile in the various credit portfolios.

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

In line with the BES Group practices, Espírito Santo Investment Bank has in place a strict lending policy that mitigates risk at the various stages of the credit process - origination, monitoring and recovery.

Origination	Monitoring	Recovery
• Strict limits on new credit • Increase of credit related guarantees • Price adjusted to risk • High rating coverage of exposures • Automatic availability of supporting information to credit decisions, namely in the front office	• Senior management strongly involved in monitoring process • Credit risk information automatially available to the commercial areas • Credit follow-up actions (prior to default) • Improved guarantee management processes and controls	• Early recovery steps • Monitoring of borrowers and assets received as guarantees • Credit recovery process adjusted to business sector, recovery, and divestment areas

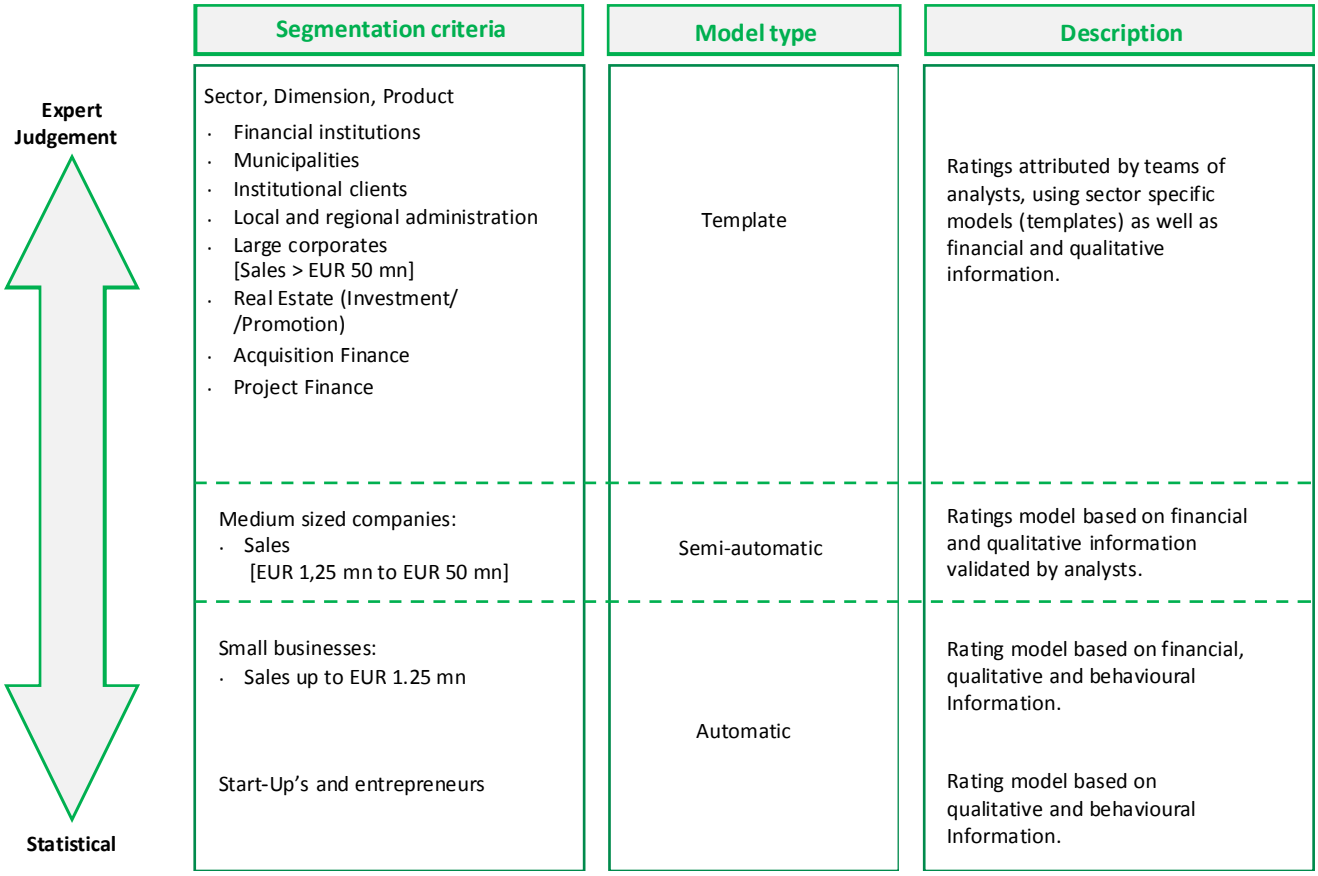
A.1. Risk Rating Systems

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

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

Rating Models for Corporate Credit Portfolios

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



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

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

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

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

A.2. Exposure and Limits Approvals

All transactions involving credit or market risk, as well as the risk control limits for each Espirito Santo Investment Bank business unit (in Portugal, Spain, Poland, the United States, Brazil, and Ireland), are approved by the Credit and Risk Management Committee. This committee has the following specific responsibilities:

- Approve and review the Global Risk Policy for all the geographies where the Bank is present;
- Set global and regional risk exposure and tolerance limits, based on solvency and risk/return optimisation;
- Monitor all the relevant risk parameters for the Bank's activity;
- As applicable, delegate approval powers to business units within pre-established risk profiles, taking into account ratings as well as total and partial amounts for each rating bucket by maturity, sector, country and other criteria.
- Analyse and approve or reject the transactions submitted by each business unit and/or geography, ensuring they comply with the risk appetite established by the Executive Committee, taking into account current legal and regulatory requirements as well as the best market practices;
- Approve changes to individual and aggregate limits in accordance with the business areas and products.

This ensures that the maximum exposure limits approved per counterparty, rating and sector are attributed taking into account the specific characteristics of markets, products, currencies and maturities.

The attribution of limits is preceded by an in-depth analysis of the markets, particularly regarding their liquidity, to ensure that the Bank's strategic objectives can be reached at both individual and consolidated level.

A.3. The Credit Risk Monitoring

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

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

- Daily and weekly portfolio monitoring
- Monitoring of clients with impairment triggers
- Global analysis of the credit portfolio risk profile

Daily and weekly portfolio monitoring

Espírito Santo Investment Bank's teams in each business unit work closely with the risk management team in Portugal and with BES's Global Risk Department to ensure risk monitoring and control operations are properly implemented. This involves the following processes:

- Daily collection, preparation, control and distribution to the different business areas of information on loan, securities portfolios, derivatives and other products positions and usage level of approved limits;
- Drawing up a weekly risk report addressing each category of risk, namely the risk profile of the Bank's loan book by type of instrument, the total exposure by instrument, country, rating, industry sector, maturity, P/L, capital requirements, approvals by the Credit and Risk Management Committee, limits exceeded, impairment signs, among others;
- Preparation of support material for external and internal reporting on credit and counterparty risk.

Monitoring of clients with impairment triggers

To strengthen monitoring and control of the loan portfolio, an Expert Committee was created for the specific purpose of assessing impaired loans, on both an individual and portfolio basis. The Committee uses credit risk model information combined with the analysis, among others, of:

- The Client's overall exposure and whether it has overdue loans;
- The economic and financial viability of the Client's business and capacity to generate sufficient funds for future debt service;
- The existence of preferential creditors;
- The existence, nature and estimated value of collaterals;
- The Client's exposure in the financial sector;
- The estimated amount and timing of recoveries.

A loan made to a Client or a loan portfolio is considered to be impaired, when: (i) there is objective evidence of impairment resulting from one or more events occurring after its initial recognition; (ii) the event or events have an impact on the recoverable value of the future cash flows of the loan or loan portfolio, as far as this can be reasonably estimated.

Global analysis of the credit portfolio risk profile

Credit portfolio management is an ongoing process that requires interaction among the various teams responsible for the management of risk during the different stages of the credit process. The risk profile of credit portfolios, specifically in what concerns the evolution of credit exposure and the monitoring of credit losses, is reported on a monthly basis to the Executive Committee and to BES's Risk Committee.

A.4. Credit Recovery Process

Within BES Group the entire credit recovery process is developed based on the concept of "integrated client". Whether in a corporate or retail segment, each client is assigned a "recoverer" that monitors all this client's credits subject to recovery.

To support credit recovery and restructuring, Espírito Santo Investment Bank's Capital Structure Advisory Division advises and implements corporate liabilities management solutions. The division also works on loan restructurings considering both the minimisation of impairment values and the maximisation of credit recoveries.

B. Credit Risk Analysis

B.1. Credit Portfolio

Loan Portfolio Breakdown

Gross Loans portfolio show an overall reduction of 2% which was mainly driven by an 18% contraction in Other Loans. Project Finance declined by 2%, still as a result of the deleverage plan on international credits, but this was offset by a 14% increase in the Acquisition Finance portfolio.

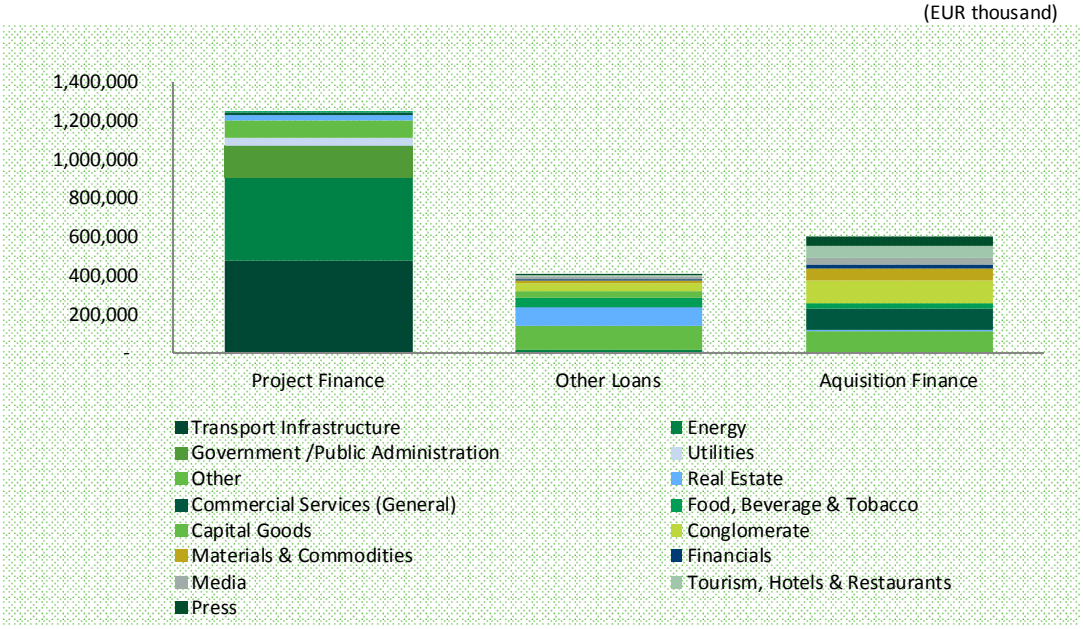
(EUR thousand)

	Dec-11	Dec-12	Change
Gross Loans Portfolio	**2.309.133**	**2.264.360**	**-2%**
Project Finance	1.281.826	1.252.801	-2%
Acquisition Finance	531.745	606.417	14%
Other Loans	495.562	405.142	-18%

Note: Not considering Interests and overdue loans

The loan breakdown portfolio by sector reflects the Bank's lending strategy developed over the last few years in the various regions where it operates, which mainly focuses on project finance in the transport infrastructure and energy sectors. A new sector included in 2012 – Government/public administration – in Portugal, now accounts for 7.5% of the total portfolio and 13.6% of the project finance portfolio.

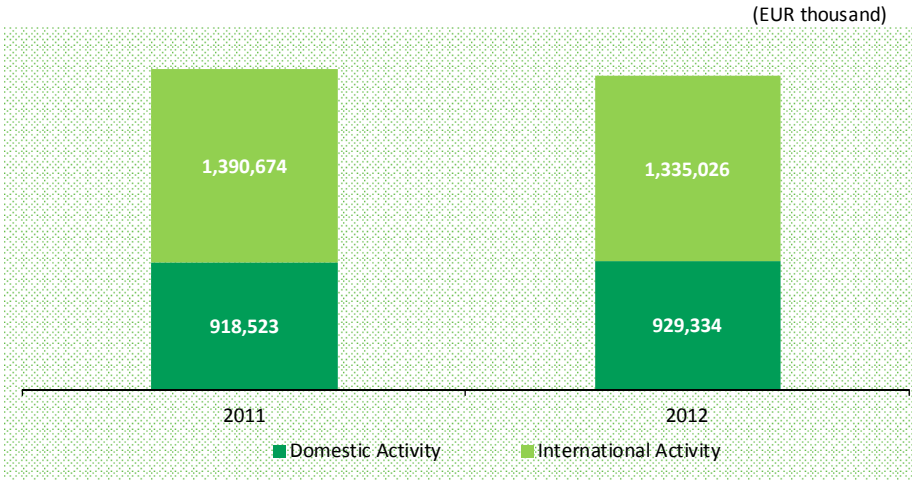
Loan Portfolio Breakdown by Sector



Source: Espírito Santo Investment Bank.

In terms of the geographic breakdown of the loan portfolio, the international activity's share of the total remained practically the same as in 2011, at 59%.

Loan Portfolio Geographic Breakdown



Source: Espírito Santo Investment Bank.

Concentration Risk

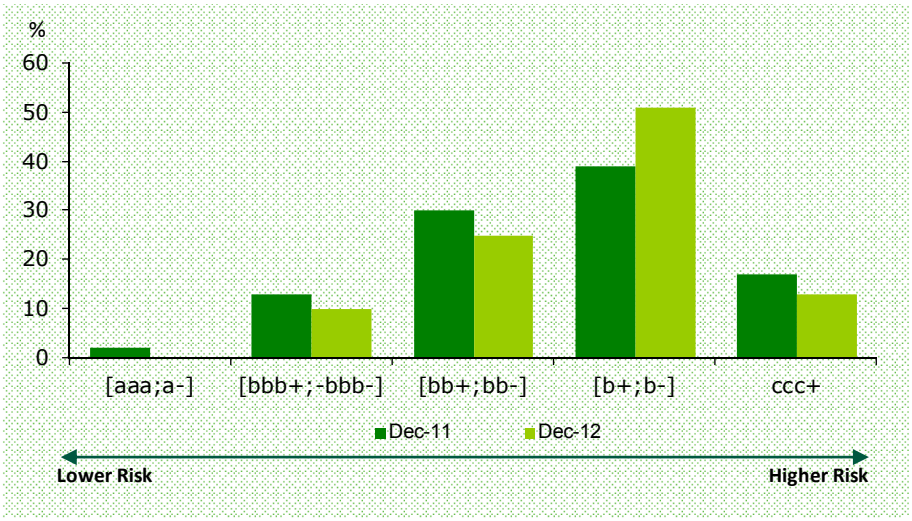
Concentration risk arises from the possibility of an exposure or group of exposures producing sufficiently large losses to undermine an institution's solvency. In particular, there is credit concentration risk when different counterparties share common or interrelated risk factors the deterioration of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

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

Loan portfolio breakdown by rating

To support credit decisions and credit risk monitoring Espírito Santo Investment Bank uses the internal rating systems developed at the BES Group level. The average probability of default given by these ratings reflects the current context of economic slowdown which affected both the corporate segments and the project finance and acquisition finance activities.

Loan Portfolio Rating Profile



Source: Espírito Santo Investment Bank.

Credit Quality

Notwithstanding the Group's efforts to continuously improve decision procedures and circuits, its focus on lower risk Client segments and products, and the reinforcement of the recovery support structure, the deterioration of the economic environment at domestic and international level penalised credit quality indicators.

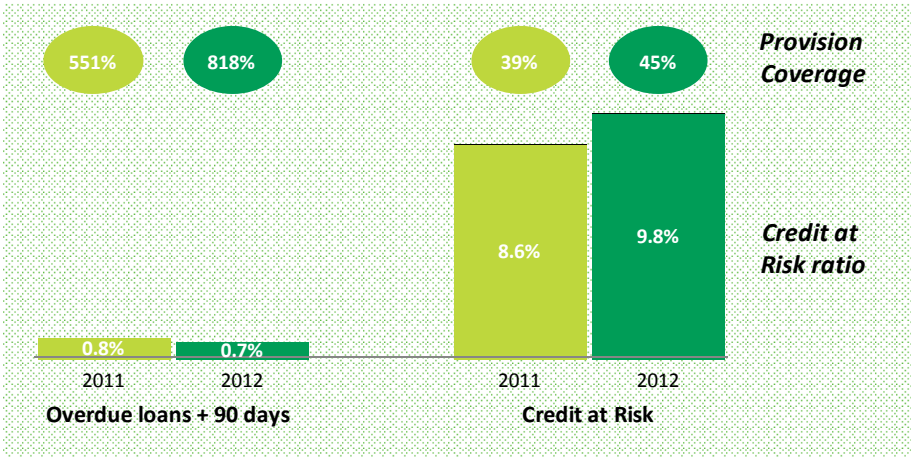
(EUR thousand)

	2011	2012	Change absolute	Change relative
Gross loans	2.343.387	2.294.500	-48.887	-2%
Overdue loans and interests	18.952	15.064	-3.888	-21%
Credit provisions	104.394	122.040	17.646	17%
Overdue loans and interests/ Gross loans	0,81%	0,65%	-0,16%	-20%
Credit provisions/ Overdue loans and interests	550,8%	810,2%	259,34%	47%
Credit at Risk [1]	205.356	227.149	21.793	11%

[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.

The overdue loans ratio declined to 0.65% (from 0.81% in Dec. 11). The credit at risk ratio reached 9.8%, standing at 5.74% after allocation of provisions.

Overdue loans ratio and provision coverage

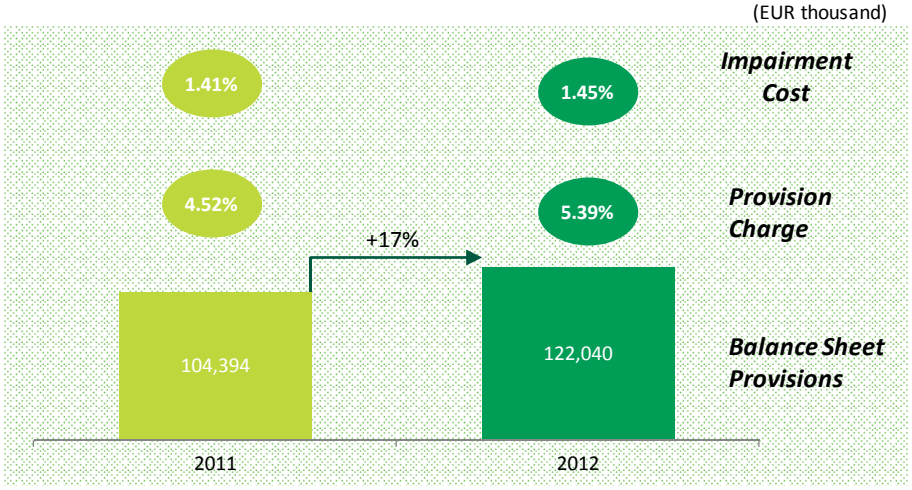


Source: Espírito Santo Investment Bank.

Credit provisions were reinforced by EUR 32.9 million, which is in line with the charge in 2011 (EUR 32.6 million). The impairment cost was 1.45%, which compares with 1.41% in the previous year. As a result, the credit provisions/gross loans ratio increased from 4.52% in December 2011 to 5.39% in December 2012. In addition, we also note the use of provisions amounting to EUR 15.3 million as a result of write offs.

Credit Provisions

(EUR thousand)



Source: Espírito Santo Investment Bank.

B.2. Fixed Income Portfolio

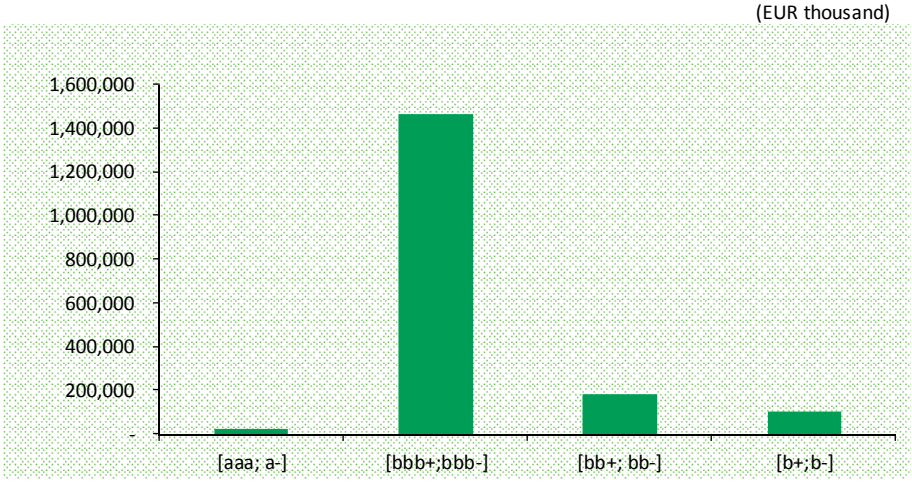
At the end of 2012 the fixed income portfolio amounted to EUR 2,013 million, representing a small year-on-year reduction of 2%.

Reflecting the characteristics of BES Investimento do Brasil's portfolio, essentially made up of Brazilian Treasury Notes and Brazilian Central Bank Notes (issued and funded in local currency), and those of the Treasury portfolio of Espírito Santo Investment Bank in Lisbon, essencially made up of Spanish Communities issues, in 2012 the risk profile of the Bank's fixed income portfolio continued to be concentrated in investment grade issuers.

At the end of de 2012, ca. 74% of the portfolio had "bbb-" or higher ratings (investment grade ratings).

Rating Profile

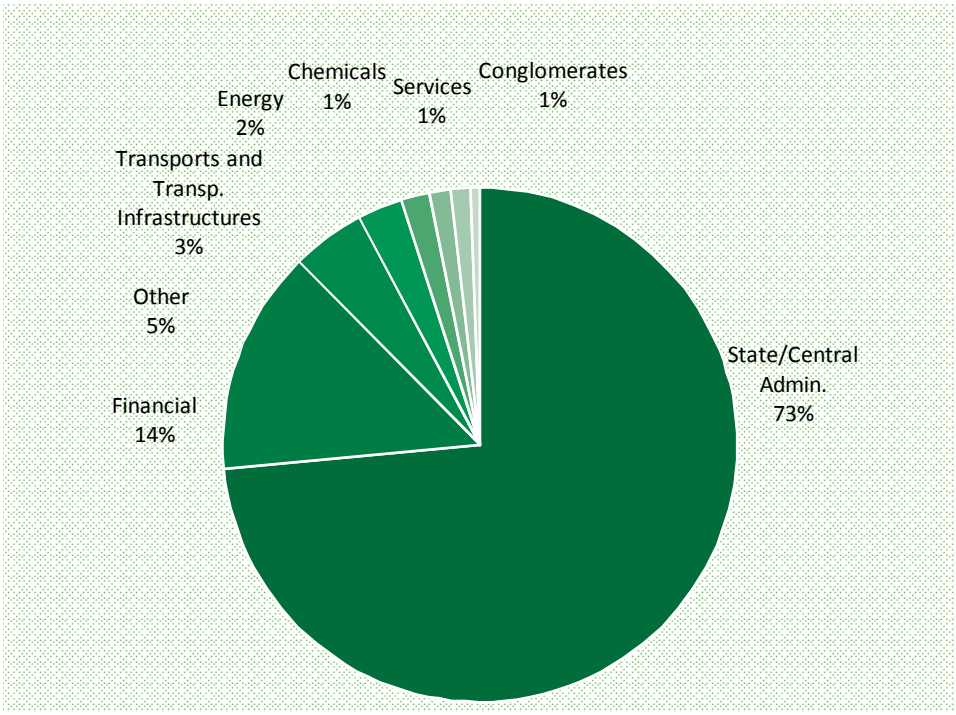
(EUR thousand)



Source: Espírito Santo Investment Bank.

In terms of the breakdown by sector, ca. 73% of the fixed income portfolio consisted of securities issued by state/central administration entities from Brazil and Spain.

Breakdown by Sector



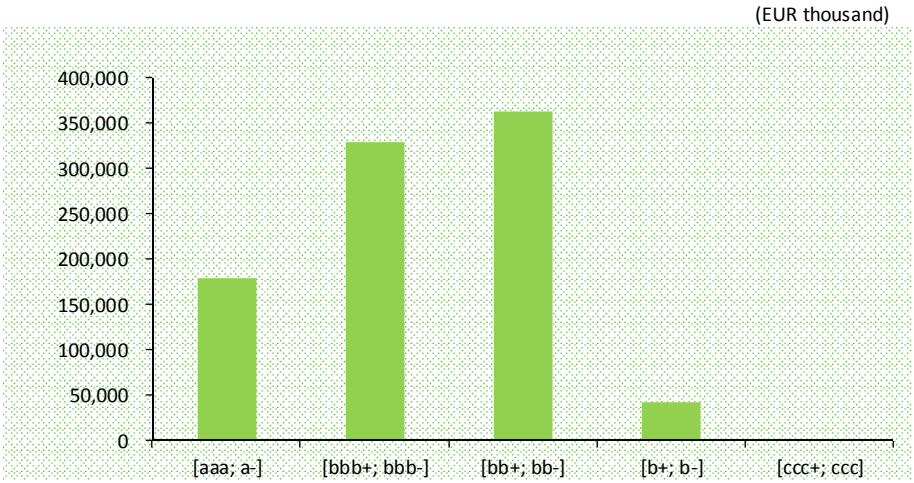
Source: Espírito Santo Investment Bank.

B.3. Derivatives Portfolio - Counterparty Risk

The amount subject to credit risk in the Bank's portfolio of interest rate, exchange rate, and equity derivatives increased by 7% year-on-year, to EUR 1,143 million at the end of 2012.

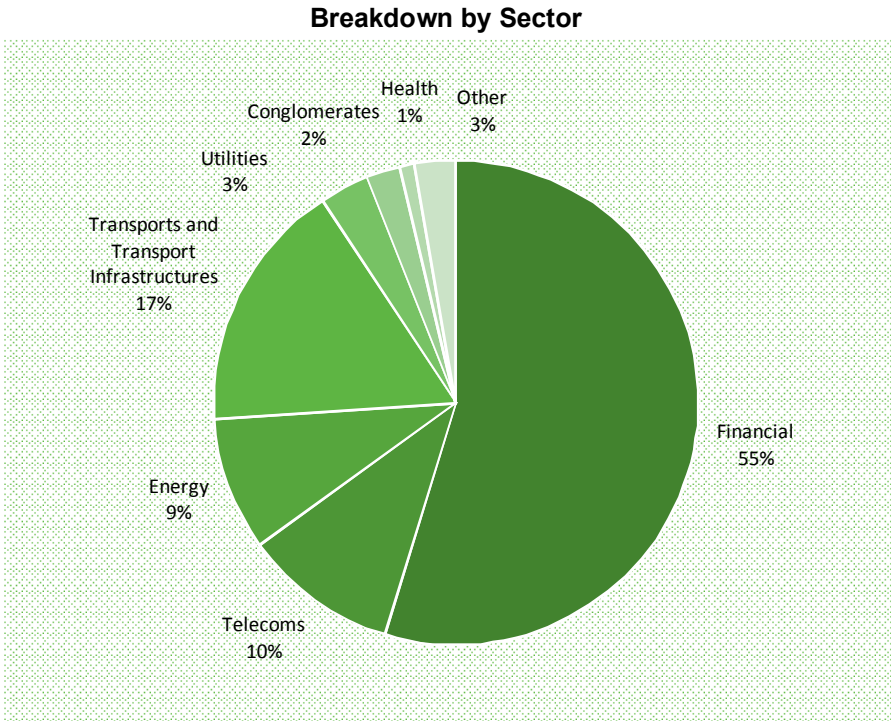
From the total exposure to derivative instruments, 45% related to counterparties with investment grade rating.

Rating Profile



Source: Espírito Santo Investment Bank.

In terms of the breakdown by sector of counterparty risk, 55% of the global exposure related to transactions with financial sector counterparties.



Source: Espírito Santo Investment Bank.

At the end of 2012 the Bank only had a residual exposure to credit derivatives (EUR 4.5 million vs. EUR 6 million in 2011). The risk is calculated based on the notional value of the underlying contracts and the risk of the underlying reference issuer, when the Bank is selling protection, or of the counterparty risk, when the Bank is buying protection (from financial institutions).

B.4. Exposure to Emerging Markets

At the end of 2012 the net foreign currency exposure to emerging markets, as determined under the Bank of Portugal's assessment criteria for country risk, totalled EUR 2,287 million, representing 35.28% of consolidated assets (34.91% as of December 31st, 2011).

(EUR thousand)

Emerging Countries	BoP Risk ratio	Dec-11	Dec-12			
		Net Exposure	Gross Exposure	Provisions	Guarantees & Other Deductions	Net Exposure
Asia- Pacific						
China	0,00%	0	4	1	0	3
Japan	0,00%	0	179	0	0	179
Macao	0,00%	0	90	45	0	45
Latin America						
Mexico	0,00%	1.873	27.814	0	0	27.814
Chile	0,00%	26.396	26.667	216	0	26.451
Brazil	0,00%	2.262.270	2.141.960	1.760	0	2.140.200
Colombia	10,00%	493	3.797	42	-2.729	1.026
Europe						
Hungary	0,00%	0	6	0	0	6
Poland	0,00%	72.507	87.981	0	0	87.981
Africa						
Angola	10,00%	2.839	3.435	535	0	2.900
Total Exposure to Emerging Markets		**2.293.871**	**2.291.934**	**2.600**	**-2.729**	**2.286.605**
Total Exposure/ Consolidated Net Assets		**34,91%**	**35,36%**	**0,04%**	**-0,04%**	**35,28%**
Exposure Funded in Local Currency		2.029.656	1.814.893	0	0	1.814.893
Exposure Funded in Local Currency /Total Exposure		88,48%	79,19%	0,00%	0,00%	79,37%

Source: Espírito Santo Investment Bank.

The main emerging economies remained vigorous and posting GDP growth during 2012. Espírito Santo Investment Bank operates in several emerging countries, namely Brazil and Mexico, where its activity was in line with local economic growth.

MARKET RISK

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

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

Trading Book Risk

A. Management Practices

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

The identification, valuation, monitoring and control of market risk are the responsibility of a specific unit, the Market Risk Control unit, which works in full independence from the Bank's business areas.

In functional terms, the Market Risk Control unit reports directly to an Executive Board Member, as well as to the Executive Committee in general.

In organisational terms, Market Risk Control functions are distributed geographically among the Bank's different business units, which have the appropriate skills and resources to evaluate the specific activities and risks incurred by each company of the Espirito Santo Investment Bank Group.

The Market Risk Control unit is responsible for analysing the relevant factors of each risk using statistical techniques, measuring market volatility, analysing depth and liquidity indicators, and simulating the transactions concerned under different market conditions to establish appropriate limits for each business area. In addition to the technical basis for setting appropriate limits, the Market Risk Control unit also takes into account the track record and experience of the business area concerned and its strategic objectives to ensure that the limits reflect the Bank's guidelines for each category of risk.

The proposed limits are submitted to the approval of the Credit and Risk Management Committee of each business unit and subsequently to the Global Credit and Risk Management Committee in Lisbon. The limits are reviewed at least annually and whenever strategic options or market conditions so require.

To give a clear picture of the risks incurred and to provide the whole organisation with clear messages regarding the desired risk profile, a wide range of risk assessment measures are used, complemented by position, stop loss, and concentration limits.

Risk assessment measures used include VaR (Value at Risk), the BPV (Basis Point Value) sensitivity measure, and Greeks (Vega and Rho). VaR is calibrated using back testing analysis. The Bank's different market risk positions are also fed into simulated extreme scenarios at the BES Group level. These simulations are based on the most positive and the most negative 10-day shifts occurred in the last 20 years.

The way in which the risk assessment and control methods described above are implemented is adapted to take into account the specific characteristics of the markets in which each geographical business unit operates.

VaR assessment is further improved through back testing exercises, which compare the losses foreseen by VaR with actual losses. These exercises permit to fine-tune the model's accuracy and improve its predictive capacity.

As a complement to the VaR model, stress testing is also carried out at BES Group level, in order to assess the impact of extreme potential losses under extreme scenarios.

When the bank trades in over-the-counter (OTC) financial instruments, theoretical risk assessment models are applied, which are subsequently used to manage and control positions in accordance with the Bank's approved limits. Back testing and price testing are used regularly to (i) improve the calibration of existing models and test their suitability for the instruments concerned; (ii) assess the reasonableness, independence and consistency of the data used in the models; (iii) check the consistency of the algorithms used; and (iv) compare results with those of other market participants.

B. Market Risk Analysis

Espírito Santo Investment Bank's value at risk (VaR) on December 31st, 2012, relating to trading positions in equities, interest rate instruments as well as FX positions (except the FX position in equities in the available for sale portfolio and in the portfolio of assets at fair value) totalled EUR 2.97 million, which compares with EUR 7.91 million on December 31st, 2011.

Value at Risk - 99% at 10 days

(EUR thousand)

	Dec-11				Dec-12			
	December	Annual Average	Maximum	Minimum	December	Annual Average	Maximum	Minimum
Foreign Exchange Risk	3.420	3.685	5.820	2.946	707	1.964	5.315	780
Interest Rate Risk	7.557	6.409	8.123	5.471	2.592	3.926	4.530	2.286
Shares	1.987	2.376	2.427	2.775	1.777	1.736	3.238	1.382
Covariance	-5.057	-4.808	-5.461	-5.490	-2.109	-3.052	-5.961	-1.960
Total	**7.907**	**7.662**	**10.909**	**5.702**	**2.967**	**4.574**	**7.122**	**2.488**

Source: Espírito Santo Investment Bank.

Note: Does not include the credit spread VaR in bonds and CDs

The reduction in the average VaR compared to 2011 reflects the increase in risk aversion due to the market instability during 2012.

Banking Book Risks

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

1. Interest Rate Risks

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

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

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

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

Interest rate risk measurement basically consists in determining the effect of changes in interest rates on equity and net interest income. On December 31st, 2012, interest rate risk, measured as its impact on the Bank's shareholders' equity, was EUR 1.4 million, which compares with EUR 45.2 million at the end of 2011.

2. Credit Spread Risk

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

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

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

3. Risk of Equity instruments and other Variable Income Securities

The Bank is also subject to other types of banking book risk, namely the risk of Equity Holdings and the risk of Mutual Funds. These risks may broadly be described as the probability of a loss resulting from an adverse change in the market value of these financial instruments.

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

4. Real Estate Risk

Real estate risk arises from adverse changes in the market value of real estate assets under exposures in the Bank's balance sheet, through mutual funds and through its subsidiary Cominvest.

Pension Fund Risk

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

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

The Fund's estimated return corresponds to the maximum losses which the Fund may incur in a period of one year. This return is determined by calculating, for a confidence interval of 99%, the 1-year VaR of Espírito Santo Investment Bank's Pension Fund's assets portfolio. To quantify the underlying risks (credit, market and real estate risks) of the Pension fund's assets the methodology used is the same which is applied to the risks incurred by the Bank.

The responsibilities are updated based on the projected current cost within one year. The discount rates are not subject to shocks in so far as their effect is inversely correlated with the occurrence of losses in the Fund's assets, this scenario being considered as more conservative.

OPERATIONAL RISK

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

A. Management Practices

Operational risk is managed through a set of procedures that standardise, systematise and regulate the frequency of actions covering the identification, monitoring, control and mitigation of this risk. The management methodologies in place are supported by the principles and approaches to operational risk management issued by the Basel Committee and those underlying the Risk Assessment Model implemented by the Bank of Portugal, which are in line with the best practices in this area.

The operational risk management model is supported by a structure within the organisation exclusively dedicated to its design, monitoring and maintenance. This structure works in close coordination with the elements indicated below, whose active participation is crucial:

- Operational risk representatives from the departments, branches and subsidiaries integrated within the scope of operational risk management, who are responsible for the day-to-day management of operational risk in their units, where they must guarantee that the established procedures are implemented;

- the Compliance Department, which plays an important role in guaranteeing that the processes are well documented, detecting specific risks and verifying the controls implemented, ascertaining the rigour of control design and identifying required steps for improvement and full effectiveness, while maintaining continuous reporting to and from the operational risk management;
- the Internal Audit Department (BES Group), which tests the effectiveness of risk management and controls, identifies required steps for improvement and assesses their implementation;
- the Security Management and Coordination Department (BES Group), with responsibility for data security, the safety of people and property, and business continuity.

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

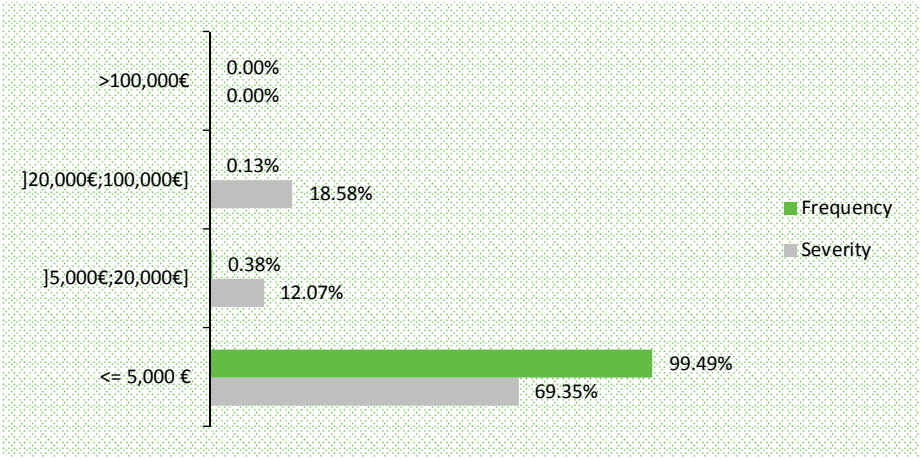
- Start of the annual self-assessment exercise. This exercise will allowed to determine the main risks to which the Bank is exposed and define corresponding mitigation measures;
- The consolidated monitoring of risk sources using Key Risk Indicators allowed to take early action and thus avoid the occurrence of loss events with a financial impact.
- Reinforcement of the daily management of operational risk in various subsidiaries and branches, namely through the implementation of procedures to control the registration of events in order to make sure that the events identification and reporting model is effective.

The management of operational risk requires timely, regular and sustained execution of various processes, including the definition of mitigation measures against the risks identified through the various tools – self-assessment exercises, detection of incidents and monitoring of risk indicators – as well as the monitoring of the implementation of these measures. At the same time the procedures implemented to control the registration of events permits to assess the effectiveness of the procedures implemented by each unit to identify and report operational risk incidents.

B. Analysis of Operational Risk

An analysis of the Bank's operational risk profile shows a high percentage of loss events with low financial impact.

In 2012, 99% of the loss events had a financial impact below EUR 5,000, representing 69% of the total impact. There were no loss events with an impact above EUR 100,000.

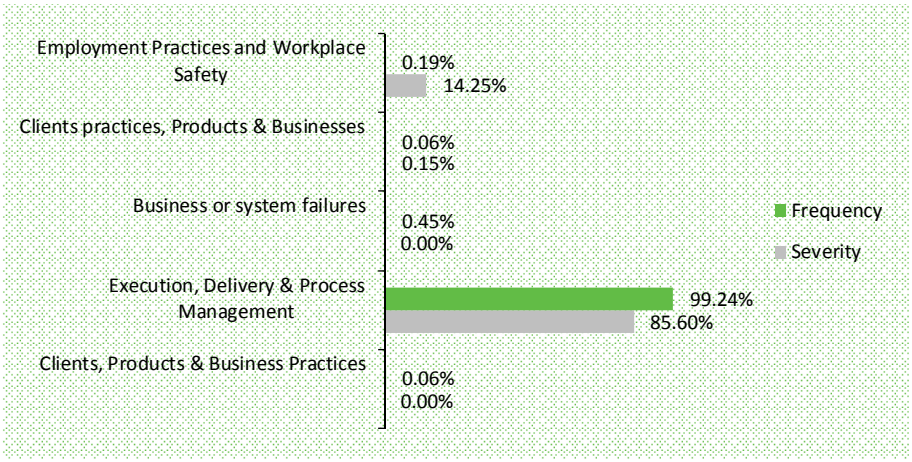


Source: Espírito Santo Investment Bank.

The Bank's database of operational risk loss events fully characterises all situations detected according to the risk categories defined in the Bank of Portugal's Risk Assessment Model, by business lines and processes. The analysis below is based on the Basel II Risk types, which are also used for the classification of loss events and near misses.

In 2012 "Execution, Delivery & Process Management" loss events represented a significant 99% share of all events identified, with a negative financial impact of 86% of the total.

Breakdown of operational risk events by type of risk



Source: Espírito Santo Investment Bank.

LIQUIDITY RISK

Liquidity risk arises from an institution's present or future inability to settle its liabilities as they mature without incurring in excessive losses.

Liquidity risk may be divided in two types:

- Market liquidity risk – the impossibility of selling an asset due to lack of liquidity in the market, leading to the widening of the bid/offer spread or the application of a haircut to its market value;
- Funding liquidity risk – the impossibility to obtain market funding to finance assets and/or refinance debt coming to maturity, in the desired currency. This can lead to a sharp increase in the cost of funding or to the requirement of collaterals to obtain funding. Difficulties in (re)financing may lead to the sale of assets, even if incurring in significant losses. The risk of re(financing) should be reduced through an adequate diversification of funding sources and maturities.

Banks are subject to liquidity risk by virtue of their business of transformating maturities (providing long term loans and receiving short term deposits) and therefore a prudent management of liquidity risk is crucial.

A. Management Practices

The structure established by BES Group to manage liquidity risk clearly identifies responsibilities and processes with the objective of ensuring full coordination between all the participants in liquidity risk management and the effectiveness of management controls.

The liquidity risk management structure has been revised to align it to best international practices as well as to permit to respond to new challenges, namely the scarcity of wholesale funding, the increase in the cost of customer deposits, and also the increasingly frequent and demanding changes in the regulation on liquidity and funding.

BES Group thus improved and updated its liquidity indicators, internal stress scenarios and management decision processes. These liquidity indicators provide a precise measure of the liquidity risks to which BES Group is subject and also translate the scarcity of liquidity that will impact BES Group's profitability.

Espírito Santo Investment Bank's liquidity risk management and monitoring, under the responsibility of the Treasury Department, is coordinated with and incorporated into the overall liquidity risk management and monitoring of BES Group, and involves the following tasks:

- Execution of the financial plan based on the approved budget and projected funding needs. This plan is monitored on a regular basis and revised in the course of the year, as necessary;
- Monitoring and control of liquidity risk, in accordance with BES Group's policies;
- Participation in the exercises conducted by BES Group, namely stress tests which consider additional funding needs based on extreme, but plausible scenarios; the aim is to pre-empt any constraints likely to impact BES Group's liquidity;
- Production of documentation on asset and liability management to be presented in regular ALCO Committee meetings, submitting the conclusions to the Executive Committee.

B. Liquidity Risk Analysis

Even if it cannot yet be considered that the markets have stabilised, the end of 2012 saw the reopening of the medium and long term debt markets to the Portuguese large companies and banks, leading to a significant reduction in credit spreads. BES Group has reopened the debt market to the Portuguese banks, with three bond issues: a 3-year EUR 750 million bond issue in October 2012; a USD 450 million issue in November 2012; and a third debt issue in the amount of EUR 500 million and maturity of 5 years, in January 2013.

In accordance with the defined management structure for liquidity risk, stress scenarios with different degrees of severity (moderate and severe), different time horizons and different areas of impact (market-wide, bank specific, and combined) are simulated at BES Group level.

The market-wide scenario simulates the roll-over of planned issues over 3 months, while in the BES Group specific scenario the various severity degrees of run-off of retail and non-retail customer deposits are simulated.

SOLVENCY

Internal Capital Adequacy Assessment Process (ICAAP)

In addition to the regulatory perspective, Espírito Santo Investment Bank also considers its risks and available financial resources ("Risk Taking Capacity" or "RTC") from an economic perspective in order to conduct a self-assessment exercise of internal capital adequacy, as foreseen in Pillar 2 of Basel II and Bank of Portugal Notice 15/2007.

Risks and RTC are estimated both from a going concern perspective – where Espírito Santo Investment Bank wants to have the financial capacity to absorb losses without having to change its business strategy -, and from the perspective of settlement – where it intends to protect its capacity to redeem senior debt and deposits. The two perspectives of capital adequacy assessment use different confidence levels to evaluate risks, and different concepts of the available financial resources to meet such risks, in line with the risk appetite defined for BES Group. In the ICAAP exercise conducted in 2012, with reference to December 31st, 2011, BES Group opted to focus only on the settlement perspective. The reason for taking this approach, which had already been followed in 2011, lies in the fact that, in view of the new regulatory capital requirements (minimum Core Tier I ratio of 9% in 2011 and 10% in 2012) and consequent changes in the business model, which namely entailed the deleveraging process currently underway, the going concern perspective, which assumes that the previous model is maintained, is not applicable at present.

In order to quantify the risks, BES Group has developed several economic capital models that estimate the maximum potential loss over a period of one year based on a predefined confidence level. These models cover the various types of risk to which BES Group is exposed, namely credit risk, market risk (trading book and banking book), real estate risk, pension fund risk, operational risk, reputational risk, liquidity risk and strategy and business risk.

Economic capital requirements to cover the last three risks are calculated through stress tests.

The amount of the economic capital requirements for each risk is aggregated, taking into account inter-risk diversification effects. In addition to calculating economic capital requirements, the main risk factors are stressed in order to identify any weaknesses or risks which the internal models failed to detect.

The capital adequacy analysis carried out at the end of each year is complemented by a forward looking analysis of capital requirements (risks) and available financial resources over a three-year timeframe, under both the basic planning stress scenario and a scenario reflecting further deterioration in the macroeconomic environment.

2012 was again marked by an unfavourable macroeconomic environment, with the Portuguese GDP falling by 3%, after having already slid in the previous years (particularly in 2009 and 2010). This context inevitably penalised the Bank's activity and impacted the evolution of its risks.

In line with BES Group's business strategy, the main risks to which Espírito Santo Investment Bank is subject are credit risk, the market risk in the trading book and the market risk in the banking book. The credit risk implicit in the banking relations with the Clients derives from the Bank's core business, with a significant contribution from the international area, which represented 44% of the total. The trading book's market risk mainly comes from the portfolio of fixed-income securities issued by the Government of Brazil, while the banking book's market risk derives from the credit spread risk of obligations, essentially due to the need to

maintain liquid assets on the balance sheet. In 2012 the total economic capital requirements increased by ca. 4% relative to 2011 (after diversification effects), essentially through the increase in the trading book's market risk due to the sharp rise in market uncertainty, namely volatility.

The results obtained through the ICAAP exercise conducted with respect to December 31st, 2011, which were delivered to the Bank of Portugal in May 2012, concluded that Espírito Santo Investment Bank's regulatory capital is sufficient to cover the risks incurred, from either the regulatory or the economic perspective.

Regulatory Solvency

Espírito Santo Investment Bank's solvency ratios are calculated under the Basel II regulations. From the first quarter of 2009 onwards the Bank has been authorised by the Bank of Portugal to use the Internal Ratings Based (IRB) approach for credit risk and the Standardised Approach – TSA method for operational risk.

In the second quarter of 2011, in the context of the Financial Assistance Programme to Portugal that determined the reinforcement of capital levels within the Portuguese banking system, the Bank of Portugal issued the Notice 3/2011 of May 10 establishing minimum levels for the Core Tier I ratio on a consolidated basis of no less than 9% by December 31st, 2011 and 10% by December 31st, 2012.

In the current regulatory and economic framework, a 10% reduction in risk weighted assets combined with the EUR 100 million capital increase carried out on September 7, 2012, allowed for a significant improvement in the Bank's solvency ratios.

Solvency	Dec-11	Dec-12
Core Tier I Ratio	9,1%	11,6%
Tier I Ratio	8,9%	11,6%
Solvency Ratio	9,5%	12,0%

Note: according to BoP criteria

Regulatory Capital

The information on regulatory capital is provided in Note 43 to the Consolidated Financial Statements.

Risk Weighted Assets

As of December 31st, 2012, Risk Weighted Assets totalled EUR 4,947 million, of which EUR 3,643 million (73.6% of the total) corresponded to credit and counterparty risk, EUR 832 million to market risk and EUR 472 million to operational risk.

(EUR thousand)

Variables		Dec-11 (*IRB*)	Dec-12 (*IRB*)
Net Assets	**A**	**6.559.785**	6.481.863
Risk Index	**B/A**	83,7%	76,3%
Risk Weighted Assets	**B**	**5.493.073**	**4.947.401**
Banking Book		4.125.928	3.643.135
Trading Book		891.582	831.899
Settlement Risk		2	19
Operational Risk		475.561	472.348
Total Own Funds	**C**	**522.258**	**596.144**
Basic Own Funds (Tier I)	**D**	**489.294**	**574.442**
Core Tier I	**E**	500.877	575.484
Other		-11.583	-1.042
Complementary Own Funds and Deductions		**32.964**	**21.702**
Core Tier I ratio	**E/B**	**9,1%**	**11,6%**
Tier I ratio	**D/B**	**8,9%**	**11,6%**
Solvency ratio	**C/B**	**9,5%**	**12,0%**

Credit and Counterparty Risk

As referred further up, Espirito Santo Investment Bank uses the Internal Ratings Based (IRB) approach for most exposures subject to credit risk, in accordance with the rules set out in Bank of Portugal's Notice 5/2007.

The EUR 482 million reduction in credit and counterparty risk-weighted assets in 2012 despite the adverse economic and financial context in which activity was developed during the year, translates the strict monitoring of risk, the maturing of positions in the portfolio of investments held to maturity and the deleveraging process undertaken.

(EUR thousand)

	2011		2012	
	Risk Weighted Assets	Risk Weight	Risk Weighted Assets	Risk Weight
Central Authorities and Central Banks	58.700	8%	51.273	8%
Institutions	697.416	33%	429.194	33%
Corporates	3.029.336	82%	2.679.704	82%
Retail	6.126	68%	493	68%
Shares	110.179	245%	144.076	245%
Other	224.171	45%	338.395	45%
Total	**4.125.928**	**59%**	**3.643.135**	**58%**

By categories of risk, these were the main changes in 2012:

- the Institutions segment reduced its share of total risk-weighted assets by 38%; this was due to the reduction in counterparty risk in OTC derivatives and repos operations, and to adjustments in good tax performance guarantees provided;
- the Corporates segment dropped by 12% due to the reduction of risk in credit products, credit lines and guarantees.

Market Risk

Capital requirements for market risk are calculated using the standardised method. As of December 31st, 2012 the capital requirements for risk weighted assets amounted to EUR 832 million, with the main contributors being Interest Rate/Debt Instruments Risk (90% of the total) and Equity Instruments risk (8% of the total).

Annual Change in Risk Weighted Assets

(EUR thousand)

	Dec-11	Dec-12	Change
Debt Instruments			
Specific Risk	504.226	522.876	18.649
General Risk	318.310	225.874	-92.436
Equity Instruments			
Specific Risk	19.179	33.950	14.771
General Risk	21.601	34.408	12.808
Foreign Exchange Risk	26.532	14.791	-11.741
Commodity Risk	1.734	0	-1.734
Settlement Risk	2	19	16
Total	**891.584**	**831.918**	**-59.666**

As referred in the section on VaR analysis, the increase in risk aversion led to a decrease in capital requirements for those business areas.

Operational Risk

Capital requirements for operational risk are determined under the Standardised Approach as the average over three years of the sum of the risk-weighted relevant indicators calculated each year across the regulatory business lines.

In 2012 risk-weighted assets (RWA) decreased by EUR 3 million as a result of the lower contribution of Trading and Sales, in so far as the increase in the Corporate Finance segment was offset by the decrease in Commercial Banking.

(EUR thousand)

Segments	Dec-11		Dec-12	
	Capital Requirements	*RWA*	Capital Requirements	*RWA*
Total GBESI	**38.045**	**475.561**	**37.789**	**472.348**
Coporate Finance	7.228	90.348	8.421	105.258
Trading and Sales	12.363	154.531	12.055	150.690
Retail Brokerage	760	9.506	845	10.557
Commercial Banking	16.996	212.456	15.757	196.958
Retail Banking	0	0	0	0
Payment and Settlement	-4	-54	-4	-54
Agency Services	0	0	0	0
Asset Management	702	8.774	715	8.939