



ESPIRITO SANTO  
FINANCIAL GROUP S.A.

**Annual Report & Consolidated  
Financial Statements 2013**

**Consolidated Results**

- 01 Group Overview, Strategy and Business Model
- 02 ESFG global
- 04 ESFG structure
- 05 Chairman's Report
- 07 Economic Environment
- 11 Risks to ESFG and its subsidiaries
- 14 Consolidated financial results, solvency and financial strength
- 17 Consolidated Balance sheet
- 18 Income Statement

**Reports by Sector**

- 19 Commercial Banking
- 22 Investment Banking
- 24 Asset and Wealth Management
- 26 Insurance
- 29 Other Subsidiaries

**Corporate Governance**

- 30 Corporate Governance Report
- 41 Directors and Officers
- 42 Declaration by the Board of Directors on Responsibility for the Information

**Other information**

- 43 Principal addresses
- 47 Contacts

**Financial Statements**

- 48 Annual Report & Consolidated Financial Statements 2013

---

# Group Overview, Strategy and Business Model

---

Espírito Santo Financial Group S.A. ('ESFG' or 'the Company') is a publically listed company with its shares listed on the Luxembourg, Lisbon and London stock exchanges. It provides a wide range of banking services, centred on Banco Espírito Santo ('BES'), and Life and Non-Life insurances services through Tranquilidade and through bancassurance operations at BES.

ESFG's primary strategy is to further develop its ability to cross-sell the full range of banking and insurance services offered by its subsidiaries, while taking advantage of further cost reduction opportunities afforded by a more efficient integration of its inter-related businesses.

ESFG follows a strategy of organic growth with localised acquisitions coupled with greater international revenue outside of its traditional market of Portugal. ESFG's international investments focus on countries with strong cultural and economic ties with Portugal or the 'Strategic Triangle'; this includes Iberia, South America and Africa. The Company further invests in countries such as Switzerland, the United Kingdom and France, the United States of America and the United Arab Emirates, amongst others.

ESFG remains open to pursuing means of ensuring that it will continue to play a key role in banking and insurance operations in these markets.

# ESFG global

Commercial Banking	Investment Banking	Asset and Wealth Management	Insurance
<p><b>Portugal</b> Banco Espírito Santo S.A. Banco Espírito Santo dos Açores</p> <p><b>Angola</b> Banco Espírito Santo Angola S.A.R.L.</p> <p><b>Cape Verde Islands</b> Banco Espírito Santo S.A.</p> <p><b>France</b> Banque Espírito Santo de la Vénétie S.A.</p> <p><b>Luxembourg</b> Banco Espírito Santo S.A.</p> <p><b>Libya</b> Aman Bank</p> <p><b>Macao</b> Banco Espírito Santo do Oriente S.A.</p> <p><b>Mozambique</b> Moza Bank S.A.</p> <p><b>Panama</b> ES Bank (Panama) S.A.</p> <p><b>Spain</b> Banco Espírito Santo S.A.</p> <p><b>USA</b> Espírito Santo Bank S.A.</p> <p><b>Venezuela</b> Banco Espírito Santo S.A.</p>	<p><b>Portugal</b> Banco Espírito Santo de Investimento S.A.</p> <p><b>Brazil</b> BES Investimento do Brasil S.A.</p> <p><b>Dubai</b> ES Bankers (Dubai) Limited</p> <p><b>Hong Kong</b> Banco Espírito Santo de Investimento S.A.</p> <p><b>India</b> Espírito Santo Securities India Private Limited</p> <p><b>Mexico</b> Banco Espírito Santo de Investimento S.A.</p> <p><b>Poland</b> Banco Espírito Santo de Investimento S.A.</p> <p><b>Spain</b> Espírito Santo Investimento S.A.U. S.V.</p> <p><b>United Kingdom</b> Espírito Santo Investment Bank</p> <p><b>USA</b> Banco Espírito Santo de Investimento S.A.</p>	<p><b>Portugal</b> Banque Privée Espírito Santo S.A. BEST Banco Electrónico de Serviço Total S.A. ESAF – Espírito Santo Activos Fiananceiros, SGPS S.A.</p> <p><b>Brazil</b> BES Securities do Brasil S.A. – CCVM</p> <p><b>Dubai</b> ES Bankers (Dubai) Limited</p> <p><b>Luxembourg</b> Espírito Santo Wealth Management (Europe) S.A.</p> <p><b>Poland</b> Banque Privée Espírito Santo S.A.</p> <p><b>Spain</b> Espírito Santo Gestión Espírito Santo Wealth Management (Europe) S.A.</p> <p><b>Switzerland</b> Banque Privée Espírito Santo S.A.</p>	<p><b>Portugal</b> AdvanceCare – Gestão e Serviços de Saúde S.A. BES Seguros S.A. BES Vida S.A. Companhia de Seguros Tranquilidade S.A. Espírito Santo Saúde S.A. Europ Assistance – Companhia Portuguesa de Seguros de Assistência S.A. Seguros Logo S.A. T-Vida S.A.</p> <p><b>Angola</b> Tranquilidade – Cooperação Angola de Seguros</p> <p><b>Mozambique</b> Companhia de Seguros Tranquilidade S.A.</p> <p><b>Spain</b> Companhia de Seguros Tranquilidade S.A.</p>



---

LUXEMBOURG

PORTUGAL

FRANCE

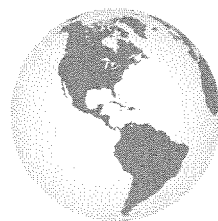


SWITZERLAND



DUBAI

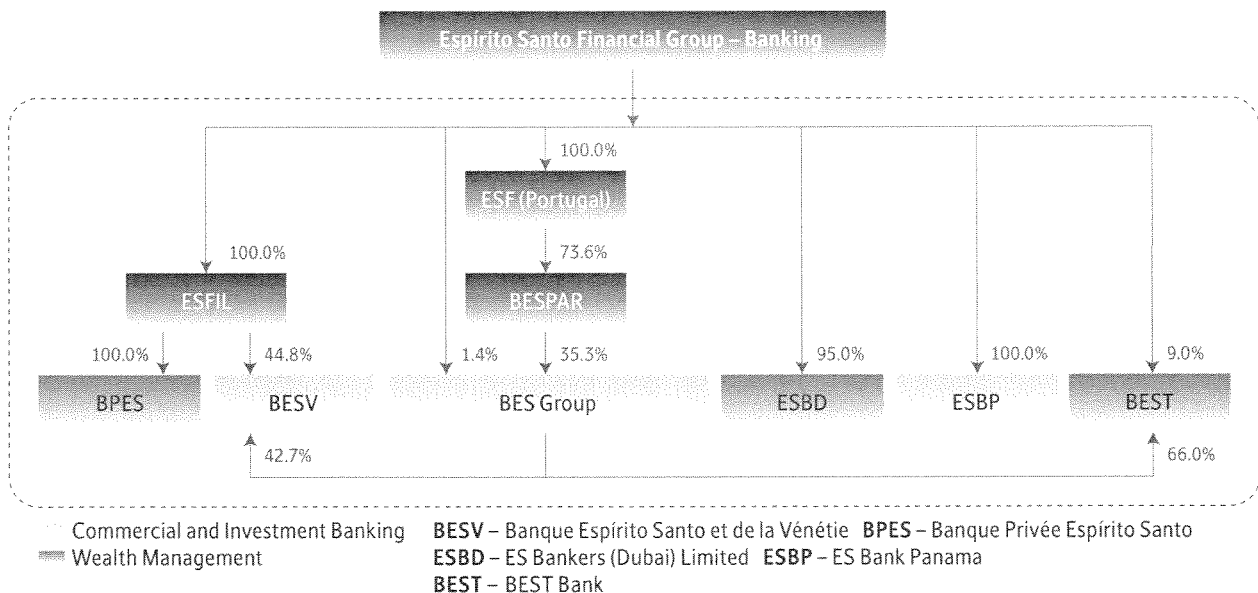
ANGOLA



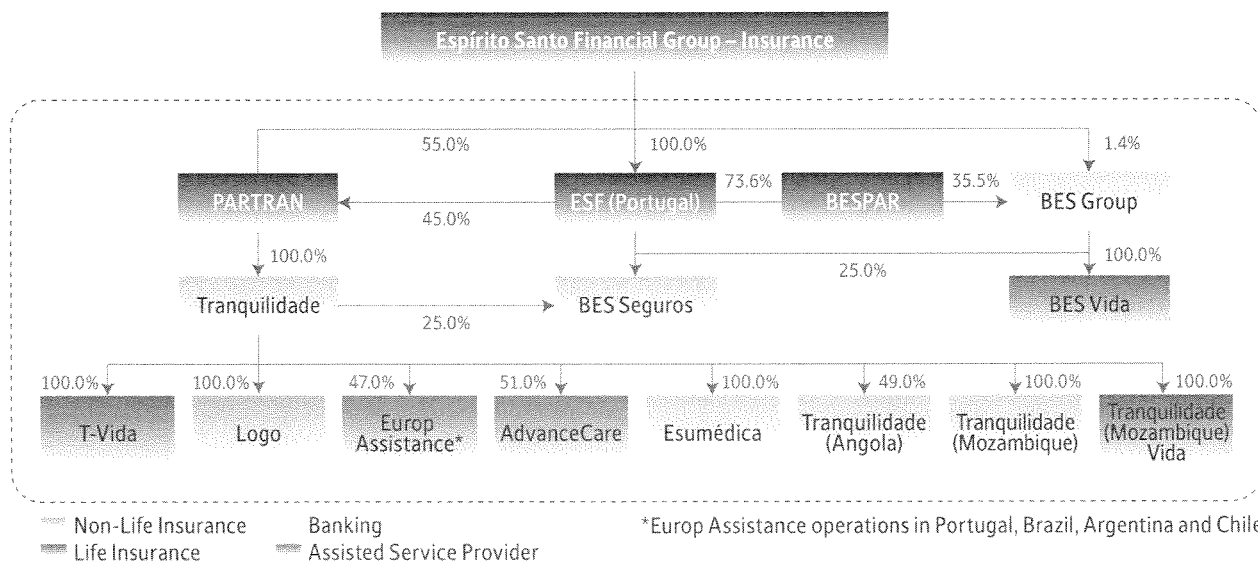
BRASIL

# ESFG structure

ESFG Banking structure (As at 31 December 2013)



ESFG Insurance structure (As at 31 December 2013)



Notes: On 14 February 2014 ESFIL sold its stake in BESV to BES. As of that date BES holds 87.5% of BESV. On 2 April 2014 ESFG sold its remaining 9.0% stake in Banco BEST to BES. As of that date BES holds a 75.0% stake in BEST.

# Chairman's Report

## Dear Shareholders

ESFG's 2013 consolidated annual results come at a time of great change to both the Espírito Santo Financial Group and the economic and regulatory environment in which it operates.

2013 was marked by a recovery in global economic activity: growth in the United States accelerated in the second half of the year, driven by the rebound in the labour and housing markets and the strong monetary policy stimuli implemented, while sentiment in the Eurozone also improved.

In Portugal, ESFG's principal economic exposure, the strong performance of exports and the stabilising trend of domestic demand supported an upturn of economic activity as from the second quarter, even if growth remained constrained by the deleveraging process under way across the various sectors. GDP registered an annual contraction of 1.5% in 2013, however it is forecast to grow by close to 1.0% in 2014.

**ESFG's consolidated net results for the full year 2013, attributable to equity holders of the Company fell to -EUR 864.0 million from EUR 313.6 million in 2012.**

As well as the consolidation of the BES full year losses, positive results from its other banking and insurance operations, ESFG's 2013 results include a EUR 700.0 million extraordinary provision that relates the current exposure to certain non-financial assets of Group Espírito Santo ('GES') and a guarantee to certain banking subsidiaries.

The provision has impacted negatively on ESFG's core capital position. As a financial holding company, and regulated entity, ESFG will continue to work with its regulator to improve on its consolidated solvency position through particular focus on its principal banking assets.

Results of ESFG's core operations were constrained by the challenges of the Eurozone crisis and the impact of the Financial Adjustments' Programme adopted by Portugal. The performance of ESFG's principal banking investment, BES, was affected by the rise of insolvencies in Portugal, impacting on impairment levels and the need to provide adequate provisions. Recent quarterly banking income results however show clear improvements. Consolidated contributions from ESFG's other banking operations remain positive, though reduced when compared to 2012. ESFG's consolidated life and non-life insurance results, through BES and Tranquilidade, improved during the reporting period.

The results of ESFG's banking subsidiary, BES, in which it holds a 27.4% economic stake, reflect the difficult operating environment of its principal market of Portugal. Results for the full year 2013 fell to -EUR 517.6 million from EUR 96.1 million a year earlier. The results come at a time when the Bank is strengthening its balance sheet through continued deleveraging, resulting in a reduction in banking income, and reinforcement of its provisions on loans. Commercial banking income declined by 14.0% year-on-year to EUR 1.73 billion from EUR 2.00 billion in FY12. Net funding from the ECB however fell to EUR 5.4 billion from EUR 6.9 billion a year earlier. The course of reducing funding from the ECB contributed to a decline in NIM. Further improvements in macro conditions are expected to support the Bank's improved performance through 2014.

ESFG's insurance operations contributed positively to ESFG's full year results for 2013 despite continued economic difficulties in Portugal. ESFG's consolidated operations remain the largest privately owned insurance group in Portugal with a consolidated market share, by premiums, of 19.2%, ranked only by the state insurer, and which compares favourably with the Group's market share in 2012 of 18.0%. ESFG's market share in the non-Life sector, through Tranquilidade Group and BES Seguros reached 10.6%. The combined market share in the Life business of T-Vida and BES Vida stood at 22.8%. Outside of Portugal ESFG's insurance operations are present in Spain, Angola, Mozambique, Cape Verde, Brazil, Argentina and Chile.

Consolidated Staff Costs and General Administrative Expenses fell by 5.5% to EUR 1.21 billion from EUR 1.28 million in 2012. The decline was helped by an 10.9% fall in staff costs resulted from ESFG Group's strict control over variable salaries in Portugal. Consolidated Costs due to Depreciation, Provisioning and Impairments rose by 69.9% year-on-year to EUR 2.25 billion from EUR 1.33 million in 2012 reflecting provisioning both at the BES and ESFG level.

ESFG, in 2013 and during 2014, continues in its programme of simplification of its investment structure through the sale and/or consolidation of banking and insurance assets. In the first quarter of 2014, and as part of the simplification programme which began in 2013, ESFG saw the following divestments:

- The sale of its 44.81% stake in BES Vénétie to BES.
- The sale of a 10.63% stake in Espírito Santo Saúde, as part of the healthcare company's IPO. The sale, which included the over-allotment option, leaves ESFG with a 3.38% direct stake. (ESFG holds, directly and indirectly, a total economic stake in ESS of 12.42%).
- The sale of ESFG's remaining 9.0% stake in Banco BEST.

---

# Chairman's Report

continued

---

Total consolidated assets at ESFG declined by 3.1%, from EUR 87.57 billion at the end of 2012 to EUR 84.85 billion at the end of 2013. Consolidated Risk Weighted Assets at ESFG fell to EUR 60.60 billion by the end of the period from EUR 65.06 billion a year earlier.

ESFG's nominal external debt at the end of the period rose by EUR 59.6 million year-on-year to EUR 780.2 million (falling from a high of EUR 1.3 billion in late 2011). ESFG continues to reduce interest costs through liability management in recognition of reduced dividend income from its subsidiaries. In November 2013 ESFG announced the launch of EUR 200 million exchangeable into BES. The coupon was set at 3.125% and matures in December 2018. The proceeds were used to repurchase EUR 135.6 million of an outstanding convertible into ESFG shares.

Finally, I would like to thank all ESFG's employees, the employees of our subsidiaries and my colleagues on the Board of Directors for their support, hard work and contribution to the Company's in 2013.



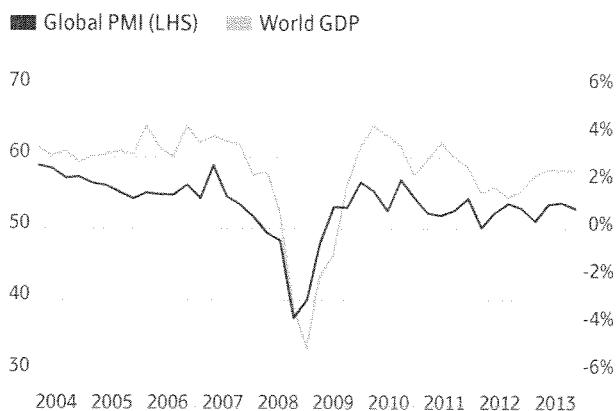
**Ricardo Espirito Santo Silva Salgado**  
Chairman

# Economic Environment

## Economic Environment 2013

2013 saw a recovery in the global economic activity, most noticeable in the principal developed economies. The United States economy grew by 1.9%, slowing down from the previous year (2.8%), but accelerating in the second half of the year (annualised quarterly rate of change of 3.2% in the 4th quarter). The weak first six months reflected the impact of a tightened fiscal policy on domestic demand. In the second half of the year, the improvement of household and corporate balance sheets, the rebound of the labour market, the rise of housing prices and the good performance of the equity market contributed to bolster private consumption and investment and lead to an upsurge in economic activity. This rebound in turn permitted an improvement in the labour market, with the rate of unemployment declining from 8.1% to 6.7% of the labour force.

### World GDP vs. Global PMI

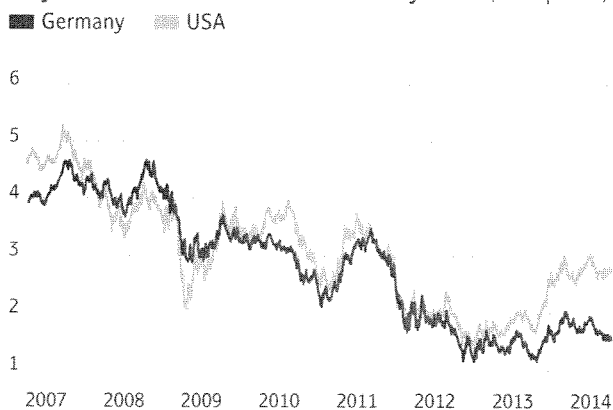


The US public deficit shrank from 9.3% to 6.5% of GDP, underpinned by restraint in public expenditure and the upturn in activity. With fiscal policy on a consolidation path, it was up to the monetary policy to maintain the economic stimulus instruments. Low inflation (close to 1.5%) and the absence of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

## Improving sentiment in the Eurozone, with activity returning to positive growth

The improved performance of the main EU economies was stimulated by a recovery of activity in Europe. Despite instability in Italy and the financial crisis in Cyprus, the year saw a stabilisation of financial and economic conditions in the Eurozone. In the financial markets, the stabilisation stemmed from a sharp decline of the systemic risks associated to the sovereign debt crisis as well as a progressive improvement in the outlook for economic growth.

### 10-year US Government Bonds vs. Germany Bonds (basis points)



The Eurozone GDP contracted by 0.5% in 2013. This was due to a sharp contraction in the first quarter, as the second quarter saw positive growth and a pickup in activity with GDP growing by 0.5% in the fourth quarter. Unemployment remained high, rising on average from 11.4% to 12.1% of the labour force. Annual inflation dropped from 2.5% in 2012, to 1.4% in 2013.

In May, the European Central Bank lowered the key benchmark rate by 25 basis points, from 0.75% to 0.5%, and in November, in light of a significant deceleration of prices (the year-on-year inflation rate dropped by 0.7%), with a new cut of 25 basis points, bringing the rate to a low of 0.25%. The ECB extended until mid-2015 (at least) the liquidity unlimited provision through refinancing operations, implemented an unprecedented monetary policy tool, 'forward guidance', and indicated that key interest rates would stay low for a long time to come. However, the 3-month Euribor rose by 6 bps in the fourth quarter and by 10 bps over the year, to 0.287%, reflecting the shrinking of liquidity through an increase in banks' reimbursements of LTROs. The EUR gained close to 4.5% to the USD, reaching EUR/USD 1.379.



# Economic Environment

continued

## Positive signs in the Eurozone spread to the periphery

The economic recovery in the Eurozone spread to the peripheral economies, which returned to positive growth, in the second half of the year. Spain's GDP still shrank by 1.2% at the year end, affected by the tightened fiscal policy, the private sector continuing deleveraging trend and the persistence of historically high unemployment rates (26% of the labour force, at the end of the year). Economic activity showed signs of a gradual stabilisation, with GDP registering quarterly changes of 0.1% and 0.3% in the third and fourth quarters, respectively, driven not only by the good performance of net external demand, but also increasingly by signs that domestic demand was picking up.

The fiscal consolidation measures in place enabled the Spanish fiscal deficit to drop from 10.8% to 6.8% GDP in 2013, which together with the deleveraging of the private sector and the exports good performance, allowed the combined current and capital account balance to improve from a deficit of 1.2% to a surplus of ca. 1.2% GDP. The Spanish 10-year government bonds appreciated in value, with the respective yields fell by 111 basis points, to 4.15%, and the spreads against the German bunds shrank from 395 to 222 basis points.

Larger monetary stimuli and currency devaluation improved growth in the United Kingdom and Poland.

In the United Kingdom, the economy followed the recovery path started the previous year, with GDP rising by 1.9% in 2013. Private consumption was sustained by the decline in interest rates on new household loans and a faster than expected reduction of unemployment, to 7% of the labour force, and also by the deceleration of prices, with the year-on-year inflation rate reaching 1.9% at the end of the year. Given the still frail economic situation in the Eurozone, the United Kingdom's main trade partner, British exports' growth slowed down sharply, from 5.8% to around 1.2%.

The Bank of England maintained an expansionary stance, keeping the key interest rate unchanged at 0.5% and maintaining a stock of GBP 375 billion in debt securities on the balance sheet, in line with its monetary easing policy. After declining up to May, the yields on the public debt securities subsequently trended upward during the second half of the year, leading the rate on the 10-year bonds to close the year at 3.022%. The British pound was volatile, starting the year at EUR/GBP 0.81255, twice rising above EUR/GBP 0.87 and closing 2013 at EUR/GBP 0.83231, representing a 2.4% annual depreciation.

Poland remained an outsider in the European context, posting 1.6% annual growth in 2013 (after growing by 2.0% in 2012), with activity rebounding from the first quarter. Faced with a negative start of the year and a still frail domestic demand, in the first half of 2013 the Central Bank made five cuts in the benchmark interest rate, slashing it from 4.0% to 2.5%. The zloty devalued by 6.2% against the euro also, in the first six months of the year, from EUR/PLN 4.085 to EUR/PLN 4.357. The PLN recuperated in the second half of the year, closing 2013 at EUR/PLN 4.156.

## Equity markets increased by a combination of monetary stimuli and growth recovery

In the USA and Europe, the rebound of growth and confidence, in a context of expansionary monetary policies, was particularly favourable to the equity market. In the USA, the S&P 500 and Nasdaq indices gained 29.6% and 38.3%, respectively, while in Europe the DAX, CAC and IBEX advanced by 25.5%, 18% and 21.4%. With activity picking up and the Federal Reserve showing a reduction in quantitative easing, the yields on the 10-year Treasuries and Bunds also rose in 2013 from 1.758% to 3.029%, and from 1.316% to 1.929%, respectively.

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

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

10-year US Government Bonds vs. Germany Bunds (basis points)

■ Y-o-Y ■ Q-o-Q



Brazil's economic performance in 2013 was marked by a deterioration of the imbalance caused by an upsurge in consumption against an increase in production capacity. The margin between the aggregate supply growth and demand kept the variation in prices above the established targets, notwithstanding a drop in electricity prices. Faced with the inadequacies of domestic supply, Brazilian consumers increasingly resorted to external suppliers, increasing the current account deficit from 2.4% of GDP in 2012 to 3.7% in 2013, the worst on record in the last 12 years. Tied with concerns about the direction of US interest rates, this performance contributed to increase the depreciation of the BRL which added to inflationary pressures.

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

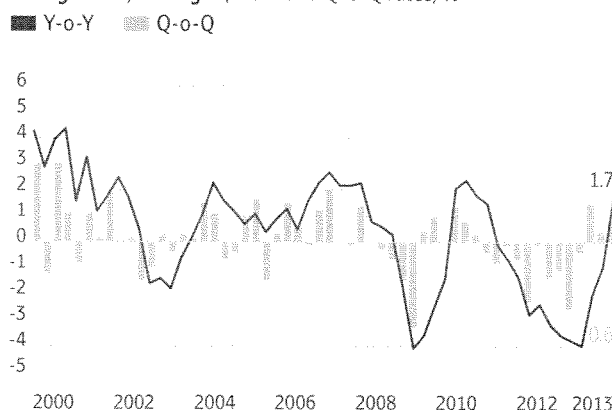
#### Slight growth acceleration in Angola in a climate of financial stability

Angola's GDP grew by 5.6% in 2013, up from 5.2% in 2012, benefiting from a slight increase in oil production, as well as from growth acceleration in the non-oil sectors, mainly those linked to agriculture, diamond and manufacturing industry. With an output of 1.73 million barrels per day, Angola remained the second largest oil producer in Sub-Saharan Africa, after Nigeria. However, due to the decrease in the price of oil exports from USD 111.0 per barrel to close to USD 100.0 per barrel. Angola's external reserves registered only moderate growth, reaching just over USD 33.0 billion. The AOA was stable during the year, trading within a variation of USD/AOA 95.00-97.00. Inflation registered a positive evolution, with the year-on-year rate of prices change dropping from 9.0% to 7.7%. The National Bank of Angola cut the base interest rate from 10.25% to 9.25% and the margin lending facility interest rate from 11.5% to 10.25%.

#### Portugal

GDP declined less than initially expected (1.4%), picking up in the second half of the year. In Portugal, the good performance of exports and the stabilising trend of domestic demand created an upturn in the economy, from the second quarter. GDP fell by 1.4% in the year, though registering positive quarterly changes, from the second quarter (1.1%, 0.3% and 0.5%) and resuming year-on-year growth in the fourth (1.6%, after 11 quarters of contraction). This intra-annual performance of economic activity coincided with a gradual improvement of household and business confidence levels, with the European Commission's economic sentiment indicator nearing its long-term average.

GDP growth, Portugal (Y-o-Y and Q-o-Q rates) %



# Economic Environment

continued

However, the Portuguese economy's growth remained limited by the deleveraging process under way, across the various sectors. At the year end, private consumption and gross fixed capital formation registered a significant fall (-1.7% and -6.6%, respectively), even smaller than in 2012 and tending to recover in the latter part of the year. Parallel to the private consumption development, the increase in the households' saving rates, close to 13.5% of disposable income, increased net lending capacity to around 7.5% of GDP. Business, in turn, once again reduced net borrowing needs, to less than 2% of GDP, probably as a result of a new decrease in capital expenditure.

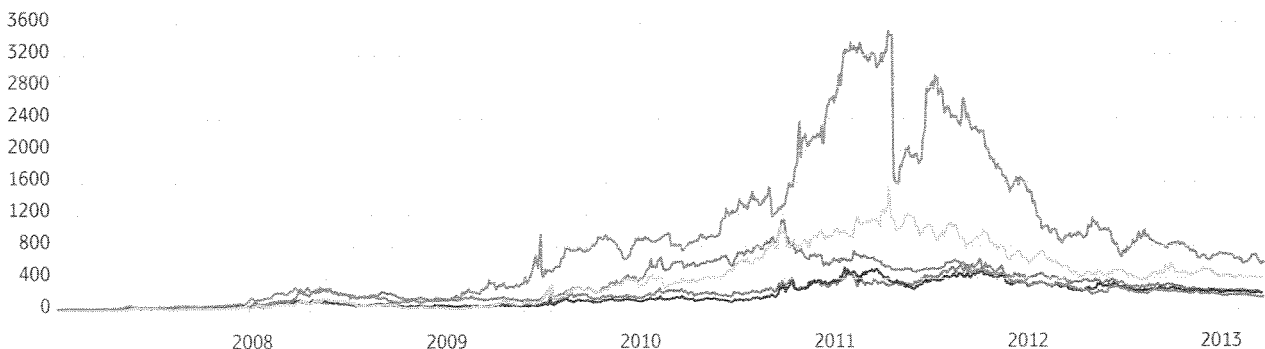
In this context, approximately 120 thousand jobs were lost in the year, keeping the rate of unemployment at a high level (16.3% of the labour force, in average annual terms, up from 15.7% in 2012). However, the evolution of the labour market kept pace with the intra-annual profile of economic activity. From the first to the fourth quarter of 2013 the rate of unemployment decreased from 17.7% to 15.3% of the labour force, with nearly 130 thousand jobs created in the last three quarters of the year and also a decline in the labour force numbers (partly due to high emigration rates).

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

Exports are estimated to have registered actual growth of 5.6% in 2013, underpinned by positive contributions from goods and services, namely featuring an increase in fuels' production, exporting capacity and strong external demand in the tourism industry. The performance of exports, allied to the increase in domestic savings, permitted the combined current and capital account balance to reach a surplus of 2.6% of GDP. The recovery of economic activity and the fiscal consolidation measures implemented contributed to lower the general government deficit (adjusted to Troika's criteria) to around 4.5% of GDP, which is below the target of 5.5%. Portugal returned to the capital markets in December with a debt exchange operation (EUR 6.6 billion), immediately followed in early 2014, by 5 and 10 year syndicated bond issues for an overall total of EUR 6.25 billion. After hitting a high of 7.5% in July, the yield on the 10-year treasury bonds closed the year at 6.13%, continuing to subside in the first months of 2014, to close to 5%. The PSI-20 index climbed by ca. 16% in 2013.

EU 10-Year Government Bonds spreads

■ Spain ■ Italy ■ Portugal ■ Greece ■ Ireland



# Risks to ESFG and its subsidiaries

The risks below are not the only ones that the ESFG Group and its subsidiaries ('ESFG Group') face. Additional risks, not presently known to the ESFG Group, or that the ESFG Group currently deems immaterial could yet impair business operations. All of these risks could materially affect the ESFG Group's business, its revenues, operating income, net income, net assets and liquidity and capital resources.

## 1. Deterioration of the financial markets and economic environment

The performance of the ESFG Group is generally influenced by conditions in the global financial markets and the macroeconomic environment of the countries in which it operates. The global financial system has operated under difficult circumstances since August 2007 and the financial markets have performed negatively following the insolvency of several international financial institutions since September 2008. This has caused disruption in the financial markets worldwide, and in particular, to liquidity and funding in the international banking system. Furthermore, this has put considerable pressure on the core business of many investment banks, commercial banks, and insurance companies worldwide.

## 2. ESFG is largely affected by the Portuguese economy

The core businesses of the ESFG Group are banking and insurance (both life and non-life) businesses. As its operations are mainly concentrated in Portugal, the state of the Portuguese economy affects the performance of the ESFG Group. A continued downturn in the Portuguese economy in particular could have a material adverse effect on the ESFG Group's business, financial conditions and the results of its operations. The ESFG Group's ability to grow may be restricted by slower growth in the banking and insurance markets in which it operates.

## 3. ESFG is exposed to Sovereign debt

As a consequence of the recent deterioration in their financial condition, certain EU and other governments may be unwilling or unable to repay principal or pay interest when due, either in full or in part, on their respective debt obligations. In the event of default, there may be limited or no legal recourse. ESFG's fully consolidated subsidiary, BES, is a market maker of Portuguese sovereign debt and also takes risk positions in such sovereign debt with the amount of its holdings and the portfolio's average maturity varying from time to time, as a result of its market making and risk taking activities and its view regarding the attractiveness of such debt.

## 4. Regulatory environment, additional regulatory restrictions or requirements

The ESFG Group is subject to banking, insurance and financial services laws and government regulations in each jurisdiction where it conducts its business. Regulatory agencies have broad administrative powers over many aspects of the financial services business, which may include liquidity, capital adequacy and permitted investments, ethical issues, money laundering, privacy, record keeping and marketing and selling practices.

At 31 December 2013, ESFG's Core Tier I ratio, Tier I ratio and total solvency ratio were 9.2%, 9.0% and 10.9%, respectively, calculated under Basel II, IRB Foundation Method and reported to the Bank of Portugal. As at 31 December 2013, ESFG's Core Tier 1 capital ratio, under the EBA guidelines, which includes the sovereign buffer, reached 8.4%. Under BIS III (CRD IV/CRR), which will be in force as from 1 January 2014, the Common Equity Tier I ratio, considering the effect of the provision and employing the transitional provisions is 8.5%, or 8.8% considering the waiver of Article 84 (5) and the eligibility of the minority interests in BESPARG. This result is above the Bank of Portugal's requirement (minimum of 7.0%). As a holding company ESFG continues to work with its regulator to improve on its consolidated solvency position through its focus on its principal Banking assets.

Banco Espirito Santo's Core Tier I ratio for the same period reached 10.6%, exceeding the Bank of Portugal's requirement (minimum of 10.0%); under the EBA calculation method, the Core Tier I ratio stood at 9.8%, also above the minimum 9.0% established by the European authority.

Financial institutions that fall under the Basel Committee on Banking Supervision have a transitory period from 1 January 2013 to 1 January 2019 to comply with the approved rules, aimed at strengthening financial institutions and preventing new financial crises in the future. Basel III rules have established the following regulatory framework to be gradually implemented by 1 January 2019. ESFG cannot ensure that there will be no further increases to the demands set by its regulator(s). The failure to meet new minimum Core Tier I ratios may have a material adverse effect on the ESFG's financial condition and results of operations as the Bank of Portugal, or the EBA, could, among other measures, restrict dividend payments by BES to ESFG and/or by BES' banking affiliates.

# Risks to ESFG and its subsidiaries

continued

## 5. Compliance with anti-money laundering and anti-terrorism financing rules

The ESFG Group is subject to rules and regulations regarding money laundering and the financing of terrorism. Monitoring compliance with anti-money laundering and anti-terrorism financing rules can put a significant financial burden on banks and other financial institutions and pose significant technical problems. Although the ESFG Group believes that its current policies and procedures enable it to comply with applicable rules and regulations, the ESFG Group cannot guarantee that the group-wide anti-money laundering and anti-terrorism financing policies and procedures completely prevent the violation of anti-money laundering and anti-terrorism financing rules. Any violation of anti-money laundering and anti-terrorism financing rules, or even the suggestion of violations, may have severe consequences, notably reputational consequences, and could have a material adverse effect on the ESFG Group's business, financial condition and results of operations.

## 6. Market risk

The ESFG Group faces the risk of possible losses resulting from an adverse change in the value of financial instruments due to fluctuations in interest rates, foreign exchange rates, share prices or commodities prices.

## 7. Credit risk

Risks arising from changes in credit quality and the repayment of loans and amounts due from borrowers and counterparties are inherent in a wide range of the ESFG Group's businesses. Adverse changes in the credit quality of the ESFG Group's borrowers and counterparties, a general deterioration in Portuguese or global economic conditions, or increased systemic risks in financial systems, could affect the recovery and value of the ESFG Group's assets and require an increase in provision for bad and doubtful debts and other provisions.

## 8. Insurance risks

Part of the ESFG Group's property and casualty insurance business involves covering losses from unpredictable events such as floods, earthquakes, hurricanes, fires, industrial explosions, terrorist attacks and other man-made or natural disasters. The ESFG Group also maintains technical reserves, which include reserves for unearned premiums, unexpired risks, outstanding claims (incurred but not reported claims) and equalisation reserves to cover potential claims in its life insurance business and sets up provisions for claims in its property and casualty insurance business, based on actuarial valuations. These provisions do not represent an exact liability. Instead, they are based on statistical projections. Therefore, the ESFG Group cannot ensure that actual losses on claims will not differ from the initial estimates made and recorded in the accounts. Even though the ESFG Group normally seeks to reduce its exposure to such events through the purchase of reinsurance, claims related to such events could adversely affect the ESFG Group's business, financial condition and results of operations.

## 9. Operational risks

Operational risk represents the risk of losses or of a negative impact on the relationship with clients or other stakeholders resulting from inadequate or negligent application of internal procedures, or from people behaviour, information systems, or external events. Operational risk also includes business/strategic risk, which are the risk of losses through fluctuations in volume, business, earnings, prices or costs as well as legal risk. Legal risk represents the risk of losses arising from non-compliance with the regulations in force (due to inadequate document retention, failure to change processes as required by new legislation and/or differences in the interpretation of the law) or resulting from legal action.

## 10. Liquidity risk

Liquidity risk arises from present or future inability to pay liabilities as they mature without resulting in exaggerated losses. Banks, by virtue of their business of providing long-term loans and receiving short-term deposits, are subject to liquidity risk. In recent years most banks have increasingly resorted to obtaining funds from market sources instead of from their traditional sources (retail deposits), especially in countries where savings are typically scarce due to economic stagnation, as is the case in Portugal. It is therefore important for banks to maintain a prudent and sound management of their liquidity risk, particularly in times of market turmoil. Although the ESFG Group puts great effort into liquidity risk management, focusing on maintaining surplus liquidity in the short term, the ESFG Group is exposed to the general risk of liquidity shortfalls and cannot ensure that the mechanisms in place to manage such risks will be suitable to eliminate liquidity risk.

## 11. Competition

Structural changes in the Portuguese economy have significantly increased the strength and scope of competition in the Portuguese banking and insurance sectors. These changes principally relate to the privatisation of several sectors of the economy, including banking and insurance, as well as to the integration of the Portuguese economy into the EU and the introduction of the Euro.

## 12. Funding risk

ESFG raises funds by issuing ordinary and preferred shares and senior, subordinated and deeply subordinated notes in the international capital markets. It uses these funds to fund investments and to meet the capital requirements set and regulated by the Bank of Portugal. ESFG Group's banking subsidiaries establishes a funding policy for all types of liabilities including customer deposits. Increased funding costs or a prolonged interruption in renewing funding would have a material adverse effect on the ESFG Group's financial condition and results of operations.



---

### 13. Technological risk

The ESFG Group's subsidiaries are increasingly dependent on information technology systems, which may fail, may not be adequate to the tasks at hand or may no longer be available. Banks, insurers and healthcare operators are increasingly dependent on highly sophisticated information technology ('IT') systems. IT systems are vulnerable to a number of problems, such as software or hardware malfunctions, malicious hacking, physical damage to vital IT centres and computer viruses. The ESFG Group's subsidiaries could face fines from regulators if its IT systems fail to enable it to comply with applicable banking or reporting regulations.

### 14. Takeover risk

Espírito Santo Financial Group ('ESFG') is a public company with its shares listed on the Luxembourg, Lisbon and London stock exchanges. ESFG's stock is principally traded on the NYSE Euronext Lisbon stock exchange ('Lisbon Exchange'). During the reporting period the daily volume of shares traded on the Lisbon Exchange was 48,928 shares. As at 31 December 2013, Espírito Santo International and its wholly owned subsidiary Espírito Santo Irmãos together held, directly or indirectly, 49.41 per cent. of the issued share capital of ESFG which equates to 102,312,636 shares. There can be no assurance that the interests of the majority shareholders of ESFG will coincide with the interests of other shareholders of ESFG. On 22 January 2014 ES Irmãos bought 39.23% of ESFG from ES International ('ESI'). As of that date ES Irmãos, a fully owned subsidiary of ESI holds 49.26% of ESFG, ESI no longer holds a direct stake in ESFG.

### 15. Tax risk

Changes in tax laws or changes in the way tax laws are interpreted or applied in the various jurisdictions in which the ESFG Group operates, may impact the ESFG Group's future tax liabilities. Potential future policy measures by Governments in the jurisdictions in which the ESFG Group operates, including but not limited to, those of the Portuguese Government with respect to the financing of a resolution fund(s), set up to support the banking sector in Portugal or for any other reason, may directly or indirectly impact the ESFG Group's net income.

### 16. Guarantees to Subsidiaries

ESFG has provided guarantees to certain of its subsidiaries. The most notable are the two guarantees to ESFG's fully owned subsidiary, ESFIL – Espírito Santo Financière S.A., relating to debt issued off the joint EUR 2.0 billion EMTN and EUR 1.0 billion ECP programmes. As of the 31 December 2013 EUR 200.0 million of the EMTN programme and EUR 174.5 million of ECP programme had been utilised. ESFG has also provided a EUR 700.0 million guarantee to Banco Espírito Santo ('BES') and which reflects the current exposure to certain non-financial assets of Group Espírito Santo ('GES'). ESFG, as the guarantor, will be liable under these guarantees as if it were the sole debtor and not merely a surety.

# Consolidated financial results, solvency and financial strength

ESFG's banking and insurance operations remain constrained by the economic environment in which its principal investments operate; Portugal. Recent indicators point to an improving picture however, including a significant improvement in the external balance of credit in the latter part of the reporting period.

ESFG's unaudited consolidated net results for the full year 2013, attributable to equity holders of the Company fell to -EUR 864.0 million from EUR 313.6 million in 2012. As well as the consolidation of the BES full year results, and positive results from its other banking and insurance operations, ESFG's 2013 results include a EUR 700.0 million extraordinary provision that relates to guarantees provided by ESFG and which reflects the current exposure to certain non-financial assets of Group Espírito Santo ('GES'). The guaranteed amount was finalised after extensive discussions with both the regulators and auditors.

- Consolidated Commercial Banking Income at ESFG fell by 14.1% year-on-year to EUR 1.82 billion, (EUR 2.11 billion in December 2012);
- Consolidated Net Interest Income reached to EUR 1.09 billion, (EUR 1.27 billion in December 2012), a 13.7% decline year-on-year;
- Consolidated Net Fees and Commissions fell 14.9% year-on-year to EUR 723.1 million, (EUR 849.6 million in December 2012);
- Consolidated Market Results declined to EUR 86.9 million, (EUR 489.9 million in December 2012);
- Consolidated Insurance Earned Premiums (Net of Reinsurance) increased by 70.4% year-on-year to EUR 694.7 million, (EUR 407.6 million in December 2012) and includes the full consolidation of the BES life insurance business BES Vida;
- Consolidated Claims Incurred (Net of Reinsurance) declined by 23.5% to EUR 483.2 million, (EUR 631.9 million in December 2012);
- Consolidated Operating Expenses rose by 27.6% year-on-year to EUR 4.11 billion, (EUR 3.22 billion in December 2012), as provisioning increased;
- Consolidated Staff Costs and General Administrative Expenses decreased by 5.4% year-on-year to EUR 1.21 billion, (EUR 1.28 billion in December 2012);
- As of the 31 December 2013 ESFG's Core Tier 1 ratio declined to 9.2% following provisioning requirements at both the Bank and at ESFG. BES' Core Tier I however rose year-on-year to 10.6% (BIS II) or 9.8% under EBA regulations.

## Solvency and Liquidity

ESFG is approved by the Bank of Portugal to use the Internal Ratings Based ('IRB') method for calculating minimum core capital requirements to cover credit risk. The authorisation covers ESFG and its subsidiaries, BES and BES I and their respective subsidiaries. ESFG provides information on regulatory capital and capital ratios under the BIS ('IRB') II regulations. ESFG is authorised to use the Internal Ratings Based ('IRB') approach for credit risk (and TSA – Standardised Approach – TSA method for operational risk, since the first quarter of 2009

ESFG's capital ratios under Basel II at the end of the reporting period are estimated at: Core Tier 1: 9.2%, Tier 1: 9.0% and Total Solvency: 10.9%. Under the EBA method, ESFG's Core Tier 1 ratio stood at 8.4%. ESFG's solvency position was weakened by its consolidation of the Bank's results and extraordinary provisioning charges at ESFG relating to the guarantee provided by ESFG and which reflects the current exposure to certain non-financial assets of Group Espírito Santo ('GES'). The nature of the provision is that certain risks exist but are not certain to happen. There has been no cash effect on ESFG at this time.

Under BIS III (CRD IV/CRR) which will be in force as from 1 January 2014, the Common Equity Tier I ratio, considering the effect of the provision and employing the transitional provisions is 8.5%, or 8.8% considering the waiver of Article 84 (5) and the eligibility of the minority interests in BESPAR. This result is above the Bank of Portugal's requirement (minimum of 7.0%).

The EUR 700.0 million provision impacted negatively on ESFG's core capital position. As a financial holding company, and regulated entity, ESFG will continue to work with its regulator to improve on its consolidated solvency position through its focus on its principal Banking assets. Banco Espírito Santo's capital position remains unaffected by ESFG's decision to include the provision in the full year's accounts.

The capital increase at BES Angola, the BES Vida reinsurance of its individual life risk portfolio, a sale of a large part of the Bank's stake in EDP and other measures reinforces BES' capital position. The Bank was also able to improve on its total solvency position by issuing a benchmark Tier II subordinated debt instrument. Though not incorporated into the Bank's capital structure BES Angola received a Sovereign guarantee from the Republic of Angola as part of the republic's medium Term National Development Plan for 2013 until 2017.

# Consolidated financial results, solvency and financial strength

continued

## ESFG summary

Solvency (Basel II IRB Foundation)	FY11	FY12	FY13
Core Tier I	8.3%	10.1%	9.2%
Core Tier I (EBA)	–	9.6%	8.4%
Tier I	8.6%	10.1%	9.0%
Total	9.4%	11.5%	10.9%
RWA (EUR million)	66,966	65,063	60,603

## Basel III

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

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

- A minimum common equity Tier I of 7.0%;
- The coefficients and percentages to be used for the calculation of own funds during the transitory periods, including:

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

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

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

<sup>3</sup> Determined by multiplying the % by the Minority Interests surplus.

## BES Solvency

The Bank's Core Tier I ratio improved to 10.6%, exceeding the Bank of Portugal's requirement (minimum of 10%); under the EBA calculation method, the Core Tier I ratio is 9.8%, also above the minimum 9.0% established by the European Banking Authority. Under the BIS III, which began in January 2014, the Bank estimates its CETI at 10.1% (8.1% fully implemented, excluding DTA).

### External debt

ESFG's external debt at the end of the period rose by EUR 59.7 million year-on-year to EUR 780.2 million (falling from a high of EUR 1.3 billion in 2011). ESFG continues to reduce interest costs through liability management, recognising reduced dividend income from its subsidiaries.

On 25 November ESFG announced the launch of EUR 200.0 million exchangeable into BES. The coupon pays 3.125% and matures in December 2018. The proceeds were used to repurchase EUR 135.6 million on outstanding convertible into ESFG.

ESFG's EMTN and ECP programmes support and guarantee the establishment of liquidity to its fully owned subsidiary Espírito Santo Financière ('ESFIL'). In 2013 ESFIL launched and priced the sole senior EUR 200.0 million two-year note from the EMTN programme. At year-end 2013, ESFIL had utilized EUR 174.5 million of the EUR 1.0 billion ECP programme.

ESFG is rated by two international rating agencies; DBRS and Moody's. The ratings are:

	Short Term	Long Term	Comment	Date of Rating
DBRS	R-2 (Middle)	BBB (Low)	Neg. Outlook	07/05/13
Moody's	NP	B2	Neg. Outlook	05/12/13

### Developments during 2013 and subsequent events:

- On 2 April 2014, ESFG sold its remaining 9.0% stake in Banco BEST to BES.
- On 18 March 2014, ESFG announced that it had sold a 10.63% stake in Espírito Santo Saúde, as part of the healthcare company's IPO, launched on 6 February. The sale, which included the over-allotment option, leaves ESFG with a 3.38% direct stake in the company.
- On 7 March 2014, ESFG informed that Mr. Mário Mosqueira de Amaral, a member of the Board, had passed away.
- On 14 February 2014, ESFG announced the sale of its 44.81% stake in BES Vénétie to BES.
- On 25 November 2013, ESFG announces launch of EUR 200.0 million exchangeable bonds and simultaneous tender offer on outstanding convertibles.
- On 13 September 2013, ESFG appoints new Chief Executive Officer; Roger Hartmann.
- On 18 July 2013, Moody's confirmed ESFG's long term debt rating at B2 (Neg).
- On 27 June 2013, Banque Privée Espírito Santo ('BPES') announced the acquisition of LATAM unit of Hyposwiss Privatbank AG. Following the acquisition BPES will open a branch in Zurich.
- On 7 May 2013, DBRS confirmed ESFG's long term rating at BBB (low) and short term rating at R-2 (middle).
- On 29 April 2013, ESFG announced the results of the AGM, held in Luxembourg on 26 April 2013 which included the approval Company's audited annual accounts, published for review by its shareholders on the 29 March 2013.
- On 23 April 2013, ESFG announced the successful issuance of the EUR 200 million ESFG guaranteed ESFIL two year senior note which will mature in June 2015.
- On 18 March 2013, ESFG published its un-audited, consolidated, annual accounts for 2012.

# Consolidated Balance sheet

as at 31 December 2013 and 2012

(EUR thousands)	31/12/2013	31/12/2012
<b>Assets</b>		
Cash and deposits at central banks	1 828 674	1 444 831
Deposits with banks	1 148 934	1 126 853
Financial assets held for trading	2 488 465	3 981 845
Other financial assets at fair value through profit or loss	3 564 118	2 603 463
Available-for-sale financial assets	8 929 778	11 041 235
Loans and advances to banks	4 827 790	4 548 247
Loans and advances to customers	49 270 667	50 692 878
Held-to-maturity investments	1 672 068	1 119 047
Derivatives for risk management purposes	363 391	516 520
Non-current assets held for sale	3 567 011	3 280 185
Property and equipment	974 229	982 617
Investment properties	719 422	797 323
Intangible assets	608 269	703 210
Investments in associates	606 473	640 614
Technical reserves of reinsurance ceded	76 899	70 773
Current income tax assets	40 967	28 811
Deferred income tax assets	1 064 883	760 953
Other assets	3 097 613	3 234 655
<b>Total assets</b>	<b>84 849 651</b>	<b>87 574 060</b>
<b>Liabilities</b>		
Deposits from central banks	9 772 244	10 941 325
Financial liabilities held for trading	1 336 768	2 124 225
Deposits from banks	5 033 494	5 065 980
Due to customers	38 093 807	35 625 474
Debt securities issued	12 615 208	15 952 870
Derivatives for risk management purposes	130 710	125 199
Investment contracts	4 473 921	3 844 020
Non-current liabilities held for sale	153 580	175 945
Provisions	917 020	255 601
Technical reserves of direct insurance	2 643 156	2 488 328
Current income tax liabilities	122 313	253 406
Deferred income tax liabilities	96 972	154 736
Subordinated debt	1 403 188	1 176 482
Other liabilities	1 345 833	1 268 442
<b>Total liabilities</b>	<b>78 138 214</b>	<b>79 452 033</b>
<b>Equity</b>		
Share capital	207 075	207 075
Treasury shares	(3 459)	(35 965)
Share premium	884 456	884 456
Preference shares	51 367	55 978
Other equity components	26 418	58 100
Capital reserves non distributable	700 970	700 970
Fair value reserve	(3 208)	25 771
Other reserves and retained earnings	284 548	(10 282)
Profit for the year attributable to equity holders of the Company	(864 031)	313 633
<b>Total equity attributable to equity holders of the Company</b>	<b>1 284 136</b>	<b>2 199 736</b>
Non-controlling interest	5 427 301	5 922 291
<b>Total equity</b>	<b>6 711 437</b>	<b>8 122 027</b>
<b>Total equity and liabilities</b>	<b>84 849 651</b>	<b>87 574 060</b>



# Income Statement

as at 31 December 2013 and 2012

(EUR thousands)	31/12/2013	31/12/2012
Interest and similar income	3 629 256	4 097 681
Interest expense and similar charges	2 536 761	2 832 460
<b>Net interest income</b>	<b>1 092 495</b>	<b>1 265 221</b>
Dividend income	58 394	73 167
Fee and commission income	926 760	1 035 146
Fee and commission expenses	(203 628)	(185 532)
Net (losses) from financial assets and financial liabilities at fair value through profit or loss	(294 970)	(54 762)
Net gains / (losses) from available-for-sale financial assets	451 649	605 568
Net (losses) from foreign exchange differences	(2 688)	(18 369)
Net (losses) from the sale of other assets	(67 063)	(42 573)
Insurance earned premiums net of reinsurance	694 668	407 632
Other operating income	74 843	458 937
<b>Operating income</b>	<b>2 730 460</b>	<b>3 544 435</b>
Staff costs	692 734	777 707
General and administrative expenses	518 076	502 760
Claims incurred net of reinsurance	483 218	631 943
Change on the technical reserves net of reinsurance	153 331	(336 660)
Insurance commissions	(152 256)	39 256
Depreciation and amortisation	119 458	145 779
Provisions net of reversals	695 651	57 251
Loans impairment net of reversals and recoveries	1 005 293	794 291
Impairment on other financial assets net of reversals	109 978	106 737
Impairment on other assets net of reversals	323 877	223 070
Other operating expenses	157 969	276 990
<b>Operating expenses</b>	<b>4 107 329</b>	<b>3 219 124</b>
Gains on disposal of investments in subsidiaries and associates	3	74 050
Gains arising on business combinations achieved in stages	–	87 273
Share of profit of associates	8 823	4 756
<b>Profit / (loss) before income tax</b>	<b>(1 368 043)</b>	<b>491 390</b>
<b>Income tax</b>		
Current tax	157 432	152 159
Deferred tax	(321 625)	(41 157)
	(164 193)	111 002
	(1 203 850)	380 388
Discontinued operations	(30 796)	(8 684)
<b>Profit / (loss) for the year</b>	<b>(1 234 646)</b>	<b>371 704</b>
Attributable to equity holders of the Company	(864 031)	313 633
Attributable to non-controlling interest	(370 615)	58 071
	(1 234 646)	371 704

# Commercial Banking

## Banco Espírito Santo

Capital: EUR 5,040,124,063.26  
 Economic Participation: 27.4%  
 Location: Portugal

## Banque Espírito Santo et de la Vénétie S.A.

Capital: EUR 75,126,760.00  
 Economic Participation: 56.5%  
 Location: France

## ES Bank Panama S.A.

Capital: US Dollars 30.0 million  
 Economic Participation: 100.0%  
 Location: Panama

The ESFG Group, through its commercial banking subsidiaries, has developed a strategy for the development of services which focus on the needs of its clients. The ESFG Group, acting as a universal financial group, is able to serve the needs of individual, corporate and institutional customers, offering a full range of financial products and services. ESFG recognises the increasingly sophisticated and diverse requirements of its customers and continues to adapt its strategy to meet its customers' needs.

Banco Espírito Santo ('BES') is the most international of the private Portuguese banks, marking its presence in over 25 countries and 4 continents. The Bank's operations are based on a number of key segments: (i) Domestic commercial banking; including retail, corporate, institutional and private banking; (ii) International commercial banking; including retail, corporate, institutional and

private banking; (iii) Investment banking; including M&A, project finance, acquisition finance, equity and debt capital markets, brokerage and private equity; (iv) Asset and wealth management; (v) Market and strategic Investments; and (vi) Corporate business.

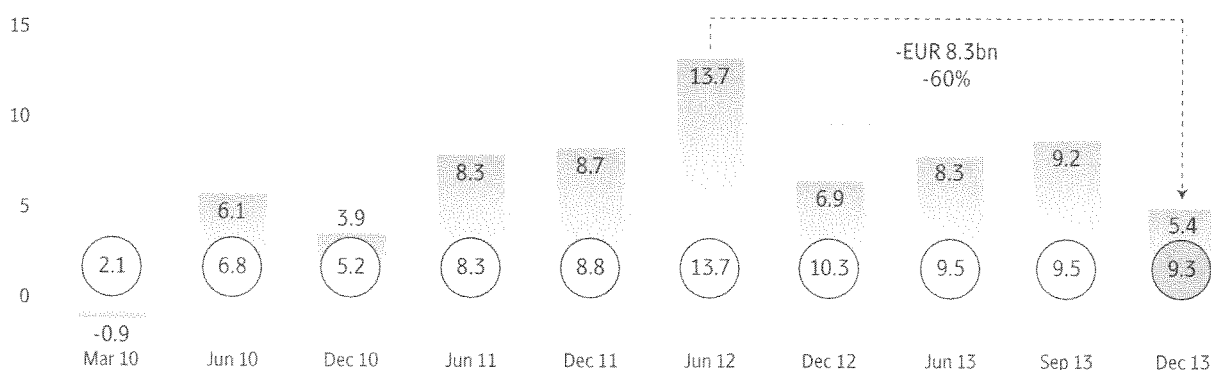
The results of ESFG's banking subsidiary, BES, reflect the difficult operating environment of its principal market of Portugal. Results for the full year 2013 fell to -EUR 517.6 million from EUR 96.1 million a year earlier. The results come at a time of harsh economic conditions in Portugal and the continued financial adjustments programme that has led the Bank to strengthen its balance sheet through deleveraging, resulting in a reduction in banking income, and reinforcement of provisions. In the last quarter of the year however the Bank noted signs of an improving situation.

Commercial banking income declined by 14.0% year-on-year to EUR 1.73 billion from EUR 2.01 billion in 2012. Net funding from the ECB fell to EUR 5.4 billion from EUR 6.9 billion a year earlier. The course of reducing funding from the ECB contributed to a decline in NIM. Further improvements in macro conditions are expected to support the Bank's improved performance in 2014.

Fees and commissions decreased by 16.3% year-on-year in 2013 to EUR 693.4 million from EUR 828.4 million in 2012. Excluding the cost of the guarantee provided by the Portuguese State and non-recurrent international fees' book in 2012 the decline was 6.1%. Fees and commissions linked to corporate business, namely financings (collections and loans), project finance and documentary credits declined however, reflecting the economic conditions as well as the Group's deleveraging programme. Commission income from credit cards and account management (commissions on current accounts, transfers, and payment orders) were also impacted by the current austerity policies. Commissions on bancassurance activity declined year-on-year, though quarterly improvements were noted.

### BES ECB exposure (EUR billions)

Net exposure    Gross ECB exposure



# Commercial Banking

continued

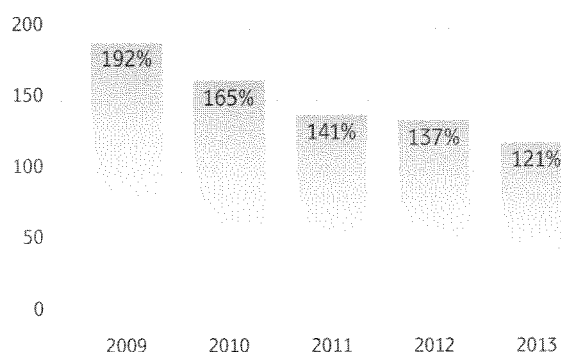
The Banks' Capital Markets, and other, results totalled EUR 172.1 million in 2013 from EUR 570.2 million reported in 2012. BES' exposure, by the end of 2013 to both Portuguese and Spanish sovereign debt, and to a smaller extent Italy, reached EUR 4.3 billion. 36.0% of sovereign exposure was in T-bills and a further 11.0% in debt of between 1 and 5 years; this reflects the well-considered duration profile of the Bank's asset allocation. The Bank's sovereign portfolio contributed positively to capital markets' results but at a diminished rate when compared against 2012 which saw significant rate reduction in peripheral sovereign debt.

Despite negative results for the period at BES the Core Tier I ratio improved to 10.6%, exceeding the Bank of Portugal's requirement (minimum of 10%); under the EBA calculation method, the Core Tier I ratio is 9.8%, also above the minimum 9.0% established by the European Banking Authority. Under the BIS III, which began in January 2014, the Bank's CET1 stood at 10.1% (8.1% fully implemented, excluding DTA).

At the end of the second quarter BES Life insurance subsidiary BES Vida completed a monetisation transaction of its life risk portfolio which contributed to the Bank's 'Other Results'. During the fourth quarter BES benefited from the capital increase at BES Angola, which contributed an additional 25 bps to the consolidated capital position of the Bank. Further operations, which included a sale of a stake in EDP and two synthetic securitisation operations, improved the Bank's overall solvency position. Under BIS II RWA's at BES fell by EUR 4.35 billion from the beginning of the year to EUR 57.33 billion.

The deleveraging programme, which began in 2010, and pre-empted the Portuguese Government's request for assistance, has continued through the last quarter of 2013. ESFG's banking subsidiary's LtD ratio at year end of 2013 fell to 121%, a decrease of some 16 percentage points. The marked improvement in the LtD ratio was supported by the increase in the year's customer deposits. Deposits reached EUR 36.83 billion, an increase of 6.6% year-on-year. Overall customer funds, including deposits and other on and off balance sheet products, rose by 4.0% year-on-year from EUR 44.8 billion to EUR 46.6 billion.

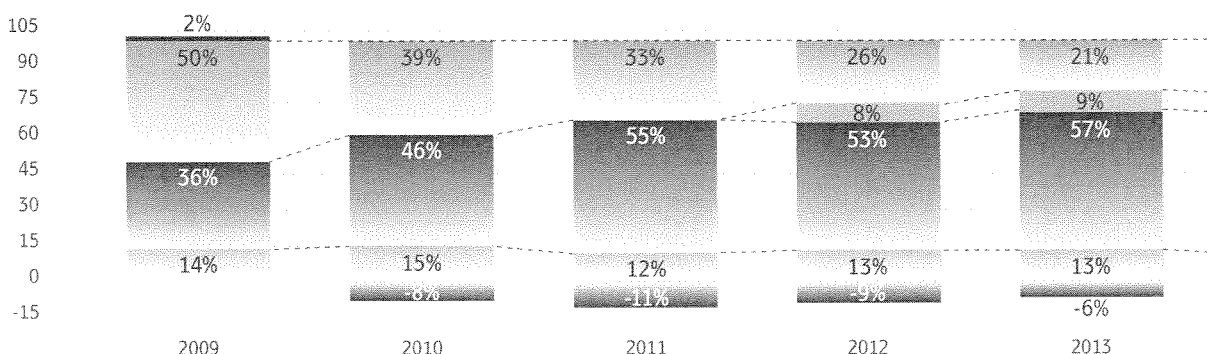
Loans to Deposits Ratio\*



\*Calculated according to the BoP definition for Funding and Capital Plan (F&CP)

## Evolution of funding mix

Capital & Sub. Debt   Customer Deposits   Bancassurance   Treasury Gap (net interbank deposits)   MLT Funds



At the end of 2013 deposits continued to be the main asset financing source (57.0%, or 66.0% when customer funds include life insurance products), accounted for medium and long term funding accounted for 21.0%. The increase in customer funds lead to a notable increase in the Stable Funds Ratio to 95.0%. Despite a marked decrease in issued debt, from 43.0% in 2009 to 21.0% in 2013, BES lead the Portuguese market by refinancing EUR 750.0 million of subordinated securities.

Although overall asset quality remained resilient, the economic situation in Portugal has had its effect on the levels of overdue loans both in Portugal and internationally. Non-Performing Loans ('NPL') of over 90 days rose from 3.9% at the end of 2012 to 5.7% by the end of 2013. NPL formation is slowing down quarter-on-quarter. Negative new entries in the final quarter of 2013 led to a fall in credit at risk. Overdue loans show the same trend. The balance of provisions for credit increased by 25.8% during the same period to EUR 3.39 billion, 6.8% of gross loans.

Consolidated international operations play a key role in Espirito Santo Financial Group's strategy of diversification. Banco Espirito Santo's international operations in Spain, Brazil and Africa make up the Group's strategic banking triangle. When adding its other international interests, namely the UK and the USA, international contributions remain positive, but to a lesser degree when compared to a year earlier. Results from the Bank's international operations reached EUR 21.9 million following a fall in capital markets' results and continued provisioning. International net interest income rose by 31.8% year-on-year to EUR 470.9 million driven by the Bank's Angolan operations. Fees and Commissions declined to EUR 192.0 million. Combined, international commercial banking rose by 1.6% year-on-year.

The increase in international net interest income helped counter the 31.6% decline in domestic NII. Combined international and domestic commercial banking income, at BES, fell by -12.4%. Consolidated banking income at BES, including capital markets and other results, fell to EUR 1.73 billion from EUR 2.01 billion in 2012, a decline of 14.0%. Developments at BES' international operations include the recovery in the United Kingdom driven by the expansion of wholesale funding; the positive evolution in France and Luxembourg were countered by lower contributions from African operations and the negative impact of the EU crisis on the Bank's operations in Spain.

With historic links to Africa and South America, notably Angola, Brazil and Venezuela, the internationalisation of Portuguese companies, the growing economic interdependence of Iberia and the large expatriate Portuguese communities, BES has continued to expand its international operations. At Banco Espirito Santo de Angola ('BESA'), in which BES has a 55.7% stake and management control, total assets reached EUR 8.24 billion, a year-on-year rise of 4.0%, and its credit portfolio rose by 9.0% to EUR 5.89 billion. Customer funds at the Bank declined by 6.0% by the end of the year.

Net income reached EUR 40.3 million with NII rising by 66.0% to EUR 235.0 million. Results were however affected by a reduction in fees and commission and a reinforcement of provisions.

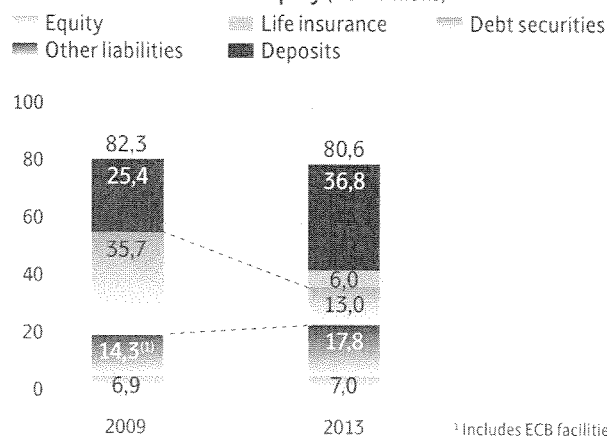
BES reinforced its position in Moza Banco during the first half of the year by acquiring 24.0% of the capital of Grupo Geocapital and now holds 49.0% of the share capital of Moza Banco. The Mozambican bank's operations continued to grow during the year with deposits rising by 72.0% year-on-year to EUR 360.0 million.

ESFG Group's other commercial banking operations continue to play an important role in the Company's strategy of international diversification within the commercial banking sector.

In France, Banque Espirito Santo et de la Vénétie's ('BESV') net income fell to EUR 4.1 million from EUR 9.6 in 2012 (which included non-recurrent items). gross operating income rose by 26.9% however a 7.7% increase in operating costs weighed on results. The Bank's reorganisation programme includes the reform of commercial operations and the outsourcing of services. The bank's pre-tax profit for the period reached EUR 6.2 million. On 14 February 2014 ESFG announced that it has sold its full 44.81% stake in BESV to BES. As of that date BES holds an 87.5% stake in the French bank.

Banking activity at Espirito Santo Bank of Panama ('ESBP') remains positive. Individual net income in 2013 fell to USD 18.5 million from USD 21.3 million in 2012, a decline of 13.6%. NII however rose by 9.5% to USD 20.7 million during the period. Fees and Commissions declined from USD 1.3 million in 2012 to USD 1.3 million in 2013. Banking Income remained relatively unchanged at USD 21.3 million. Staff costs and general administrative expenses rose as ESBP develops new business channels focusing on wealth management.

#### Structure of liabilities and equity (EUR billions)



# Investment Banking

## Banco Espírito Santo de Investimento S.A.

**Capital:** EUR 326,269,000.00

**Economic Participation:** 27.4%

**Location:** Portugal, United Kingdom, Spain, Brazil, Poland, United States of America, Hong Kong, India, Mexico

ESFG's investment banking activities are performed by Banco Espírito Santo de Investimento ('BES Investimento') which also operates internationally under the Espírito Santo Investment Bank brand name. Its aim is to provide services to the medium, and large, business segment as well as the institutional client segment, and in certain specific areas, individual clients in conjunction with private banking.

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

Despite constraints on investment banking activity in 2013 BES Investimento strengthened its operations in several major emerging markets. The bank was lead underwriter on several operations in Mexico, Poland and Brazil in turn helping mitigate a reduced level of operations in more developed markets. Lower momentum in some areas more exposed to the prevailing adverse business environment, was to some extent offset by participation in the Portuguese Privatisation Programme, resurgence in the Portuguese financial markets and the strong dynamics of the Capital Markets. In the latter more than 50 operations were concluded for a total amount of some EUR 15.0 billion. Gross Income declined to at EUR 247.6 million, 5.2% below that reported in 2012 while Operating Costs were down by 2.5% year-on-year. Increased impairment charges on Loans and Advances year-on-year impacted heavily on Net Income, which was down 68.0% to EUR 7.1 million in 2013.

The international business of BES Investimento accounted for 59.0% of consolidated Gross Income.

In Portugal, reflecting the investment bank's leadership in its domestic capital markets, several senior debt issues were completed for large Portuguese enterprises. Of particular note were those for the energy giant, EDP (two issues totalling EUR 1.35 billion), Portugal Telecom (EUR 1.00 billion), power grid operator REN (EUR 300.0 million) and Banco Espírito Santo (EUR 500.0 million). BES Investimento sustained its key position in the domestic privatisation process, concluding its advisory role to the Portuguese State in the sale of a 100% stake in ANA – Aeroportos de Portugal,

S.A to Vinci Concessions (EUR 3.10 billion) and acting as Co-Lead Manager in the sale of 70.0% of CTT – Correios de Portugal, S.A which was privatised by IPO (EUR 579.0 million). BES Investimento maintained its leadership role in the M&A market (by number and value of completed transactions, according to Bloomberg). Notable highlights were its advisory role in the Zon merger with Optimus (EV EUR 2.37 billion) and in the PT merger with Oi (a transaction pending completion). The bank ranked in 3rd place in equity trading on NYSE Euronext Lisbon, with a market share of 6.7%.

In Spain, benefiting from its growing international presence and close connections with Banco Espírito Santo, BES Investimento focused on the corporate segment with a design to intensify cross-border activities and develop Capital Market and Mergers & Acquisitions business. The adverse macroeconomic and financial environment significantly restricted activity in this country in 2013. Nevertheless, the Bank acted as Joint Bookrunner in the issue of Empark senior secured bonds (EUR 385.0 million) and as Co-Lead Manager in the issue of senior secured bonds for NH Hotels. It also retained its place as number two in Iberian M&A (in terms of value of operations completed, according to Bloomberg) and was ranked 9th in the Spanish brokerage market (4.1% accumulated market share) in 2013.

In Brazil despite a deterioration in the macroeconomic outlook, BES Investimento continued to report positive business development. The Bank participated in various key operations, notably leadership of the BHG – Brazil Hospitality Group (USD 378.0 million) follow-on operation; Joint Bookrunner for the Rodovias do Tietê Project Bonds (USD 1.07 billion), IE Madeira (USD 350.0 million) and San Antonio (USD 420.0 million) operations; and leadership of various debenture and promissory note issues on the local market. As a result the Bank ranked among the Top 10 in 2013 in ANBIMA Long Term Fixed Income Origination. The highlight in Corporate Finance is the ongoing provision of financial advisory services to Portugal Telecom in its merger with Oi.

BES Investimento advised on various project finance transactions, particularly in the energy and transport infrastructure sectors, enhancing its position as advisor in several funding transactions and auctions for various concessions. BES Investimento was placed 23rd in the Bovespa ranking in terms of Brokerage business with a 0.9% market share and continued to develop new business areas. It focused in particular on Wealth Management and Private Equity. In the latter the highlight was the conclusion of the arrangement of BRL 405.0 million for investment by the 2bCapital managed Fund (jointly-held by BES Investimento and Banco Bradesco), and destined for the Brazilian market.



---

In the UK, the Bank has focused on full integration of its organisational unit. This included downsizing activities and teams; directing the operations of the Pan-European Brokerage (research and sale of shares in UK and Continental Europe); narrowing sectors and continuing sale of certain non-core business (reinsurance) and launch of new activities (Market Making and Proprietary Trading). During 2013 the Capital Markets unit completed several operations. Highlights include BES Investimento's performance as Joint Bookrunner in the placement of 56.9 million IQE shares (USD 26.4 million), 131.6 million new Vertu shares (GBP 50.0 million), 17 million SportsDirect.com shares (GBP 112.2 million) and acting as Co-Lead Manager in the Just Retirement IPO (GBP 343.2 million).

In Poland, BES Investimento concentrated on cross-border M & A and capital markets activities and continued to support business development for several of its local and international Clients. BES Investimento ranked 3rd place in its leadership of IPOs in Poland (in amount of transactions). Among highlights was its role as Joint Bookrunner in the sale of existing shares through Accelerated Book Building of 12.25% of the capital of PKO Bank Polski (PLN 5.24 billion) and 25% of the capital of KRUK, S.A. (PLN 252.0 million), the IPO of the power utility Energa S.A. (PLN 2.41 billion) and Capital Park (PLN 136.0 million). BES Investimento held 18th place in the ranking of Polish brokerages, with a cumulative market share of 1.6% in 2013.

In the United States, 2013 saw the development of advisory and distribution activities, aimed at enhancing a role in this location as a distribution platform for products originating in other markets where BES Investimento operates. The Bank was mandated as Lead Arranger in the financing of Goldwind, in an amount of USD 71.0 million to build a 55 MW wind power plant in Panama and financial advisory services to Europastry SA in its acquisition of 24.0% of Wenner Bread Products Inc. USA.

In Mexico, BES Investimento strengthened its position with establishment of Lusitania Capital. During 2013, BES Investimento acted as Issuer for a Standby Letter of Credit for a proposed road building project by ICA (MXN 200.0 million) and as Lead Arranger in financing Martifer, (MXN 131.0 million) for the construction of a 30 MW photovoltaic power plant. In the area of Capital Markets, BES Investimento acted as Joint Bookrunner on the TV Azteca bond issue (USD 500.0 million) and as Sole Lead Manager of issues by Crediamigo (USD 30.0 million) and Famsa (USD 50.0 million).

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

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

# Asset and Wealth Management

## Banque Privée Espírito Santo S.A.

Capital: Swiss Francs 30.0 million  
 Economic Participation: 100.0%  
 Location: Switzerland, Portugal, Poland, Luxembourg, Spain

## ES Bankers (Dubai) Limited

Capital: US Dollars 30.0 million  
 Economic Participation: 95.0%  
 Location: Dubai

## ESAF – Espírito Santo Activos Financeiros SGPS S.A.

Capital: 11.75 million Euros  
 Economic Participation: 24.7%  
 Location: Portugal

## Espírito Santo Wealth Management (Europe) S.A.

Capital: EUR 1.0 million  
 Economic Participation: 100.0%  
 Location: Luxembourg, Spain

The ESFG's asset management are primarily operated through ESAF – Espírito Santo Activos Financeiros, SGPS, S.A. ('ESAF') with wealth management activities operated through Banque Privée Espírito Santo S.A. ('BPES') and ES Bankers (Dubai) Limited ('ESBD') and ES Wealth Management based in Switzerland, Dubai and Luxembourg respectively. Further private banking activities in Portugal are through Banco Espírito Santo Private Banking ('BES Private') and Banco Best ('BEST'). In the United States wealth management operations are undertaken through Espírito Santo Financial Services Miami.

Assets under Management ('AuM') including assets under custody at the Group's wealth management subsidiaries, reached EUR 26.0 billion by year end 2013.

ESAF, the fully owned subsidiary of BES, operates within Portugal, Spain, Brazil, Angola, Luxembourg and the United Kingdom. ESAF's product range covers mutual funds, real estate funds and pension funds, as well as providing discretionary and portfolio management services.

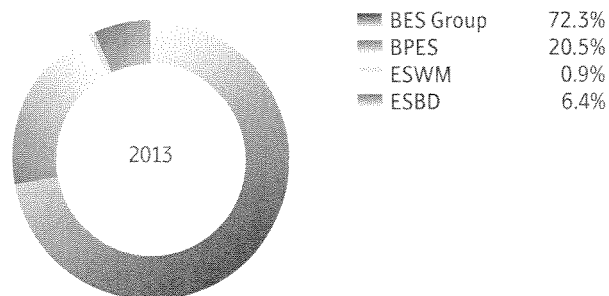
At the end of 2013 assets under management reached EUR 15.9 billion, a year-on-year increase of 3.0% which was mainly driven by the strong growth in asset management volume, more than making up for the reduction in mutual funds (-20.9%), while the volume of real estate investment funds registered a small increase of 0.4%. Following the review of the domestic offer of mutual funds in previous years, in 2013 the number of funds under management remained relatively unchanged while asset volume dropped by 29.1% year-on-year due to the liquidation of two 'ES Rendimento Fixo' funds.

The sharp reduction in the volume of several bond funds and mixed investment funds also impacted on asset volume. With regards to domestic real estate investment funds, assets under management rose by close to 6.0% due to the increase in the number and volume of closed-end funds under management, while the open-end funds' volume dropped by close to a combined 5.4% due to a reduction in assets under management of the 'Gespatriónio Rendimento' fund, which fell by -6.7%, and the stabilisation of the 'Logística' fund (+0.9%). Assets under management in the domestic pension funds increased by 7.0%, with volumes increasing in open-end funds and remaining flat in closed-end funds. Domestic asset management saw a sharp rise in volume in the portfolios of insurance companies, individual clients, institutional clients and in the multi-manager segment. Management mandates were received for two new funds, the 'ES Fixed Income Flexible FUND' and the 'ES Liquidity Fund'.

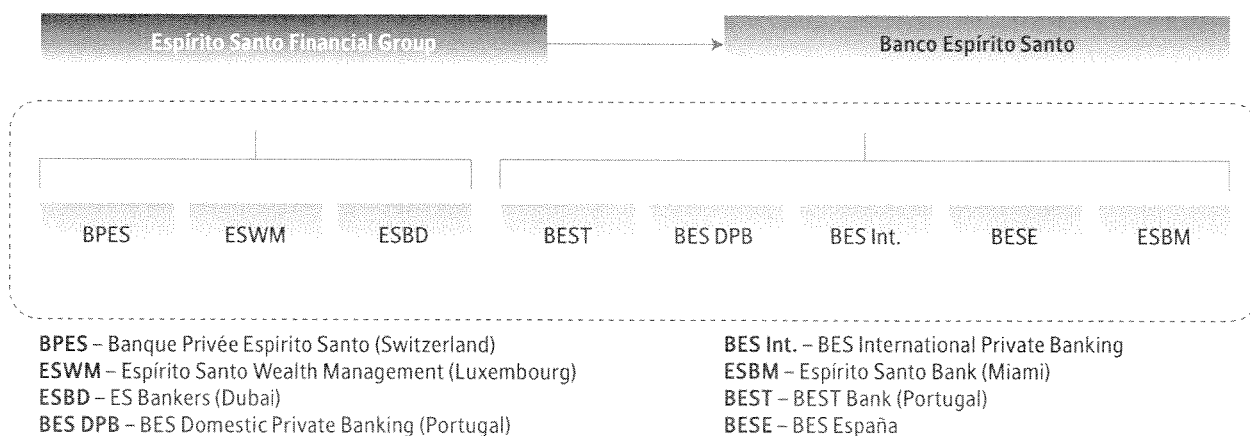
International assets under management reached EUR 2.7 billion, of which approximately EUR 1.8 billion originates from Spain and accounted, by the end of 2013 for close to 17.0% of total assets under management. In Luxembourg assets under management increased by 19.3%, to close EUR 600.0 million, while dropping in Brazil by 30.6% year-on-year.

Banking income at ESAF increased by 1.9% year-on-year, operating costs however also decline by 0.3%. Pre-tax profit declined by 10.1% to EUR 31.3 million from EUR 34.8 million in 2012. The decline reflects an extraordinary gain in 2012, in a Spanish subsidiary, flowing the receipt of an indemnity under the settlement agreement signed with the distributor Banco Pastor.

AuM/AuC (%)



## ESFG Private Banking & Wealth Management



ESFG's Swiss private banking operations, Banque Privée Espirito Santo ('BPES'), reported a statutory net income of CHF 1.9 million under Swiss GAAP down from CHF 4.8 million in the previous year. However, due to IFRS adjustments, the net contribution to ESFG's consolidated results was -CHF 11.4 million from CHF 6.2 million a year earlier. Total revenues, however, grew year-on-year by 8.0% to CHF 56.1 million. Increased provisioning, weighted on net results. The strength of the Bank's commercial activity is reflected in Assets under Management which now exceed CHF 5.5 billion, an increase of 14.5% year-on-year. Net new money rose by CHF 217.0 million from the beginning of the year. The positive performance in global markets in 2013 compensated for the continued strength of the Swiss Franc versus the Euro.

BPES strengthened its focus on wealth management in 2013 by acquiring the LATAM unit of Hyposwiss Privatbank AG. The Hyposwiss team joined BPES in a newly opened Zurich branch office during the last quarter of 2013. ESFG considers this to be an important step in BPES' development strategy of expanding operations within the European Union. The acquisition brought a further 700 clients to the Swiss banking operations. At Espirito Santo Wealth Management (Europe) S.A. ('ES Wealth Management'), controlled through BPES, AuM has reached EUR 243.0 million and was granted the authorization to begin operations in Spain with the first branch opened in Madrid.

At ES Bankers (Dubai) Limited ('ESBD'), ESFG's 95.0% owned wealth management operations in the Middle East, reached USD 3.5 million against USD 7.3 million a year earlier, a decrease of 52.1% year-on-year. ESBD focuses on the provision of private banking services to high net worth individuals. The number of private accounts rising to 800 by year end 2013 from 626 accounts in 2012. The reduction in profitability reflects the Bank's new strategy and repositioning for the future. Fees and Commissions rose by over 16.5% when compared to 2012, from USD 10.1 million in FY12 to USD 12.1 million by FY13. Financial results at the Dubai bank fell to USD 4.2 million from USD 6.3 million in 2012. The Bank's lending to customers declined sharply as the Bank focuses on its core business, LtD ratio fell to 34.0% from 53% a year earlier.

ESBD closed the period with Total Equity of USD 40.9 million generating a ROE of 8.92%. Total assets increased to USD 410.3 million by the end of the year, a sharp increase from USD 254.6 million in 2012. Assets under Management ('AuM'), focusing on high net worth individuals, rose by 21.3% year-on-year to USD 1.86 billion.

Banco BEST, principally owned through BES but in which ESFG owns a 9.0% direct stake, reported a net individual full year net income the year of EUR 10.2 million, a rise of 21.0% year-on-year. The internet banking operation focuses on the provision of online trading and investment services. The Bank reported EUR 2.3 billion of Assets under Custody by the end of 2013.

On 2 April 2014, ESFG sold its remaining 9.0% stake in Banco BEST to BES.

# Insurance

## BES Vida, Companhia de Seguros S.A.

Capital: EUR 50.0 million  
Economic Participation: 27.4%  
Location: Portugal

## Companhia de Seguros Tranquilidade S.A.

Capital: EUR 160.0 million  
Economic Participation: 100.0%  
Location: Portugal, Spain, Angola, Mozambique

## Seguros Logo, S.A.

Capital: EUR 20.0 million  
Economic Participation: 100.0%  
Location: Portugal

## T-Vida S.A.

Capital: EUR 65.0 million  
Economic Participation: 100.0%  
Location: Portugal

Income generated from the Group's insurance operations was consolidated from both ESFG's fully owned Companhia de Seguros Tranquilidade, S.A.'s ('Tranquilidade') operations and through BES' recent, fully acquired, consolidation of its life business; BES Vida, Companhia de Seguros ('BES Vida').

ESFG's insurance activities comprise both life insurance and non-life insurance. The Company conducts its Portuguese non-life insurance business in the non-bancassurance segment through Tranquilidade, S.A. and Seguros Logo, S.A. ('LOGO'), and its Portuguese life insurance business in the non-bancassurance segment through T-Vida, Companhia de Seguros, S.A. ('T-Vida'). ESFG conducts its Portuguese life insurance business in the bancassurance segment through BES Vida, and its Portuguese non-life insurance business in the bancassurance segment through BES, Companhia de Seguros, S.A. ('BES Seguros').

ESFG's insurance operations contributed positively to ESFG's full year results for 2013 despite continued economic difficulties in Portugal. ESFG's consolidated operations remain the largest privately owned insurance group in Portugal with a consolidated market share, by premiums, of 19.2%, ranked only by the state insurer, and which compares favourably with the Group's market share in 2012 of 18.0%. ESFG's market share in the non-Life sector, through Tranquilidade Group and BES Seguros reached 10.6%. The combined market share in the Life business of T-Vida and BES Vida stood at 22.8%. Outside of Portugal ESFG's insurance operations are present in Spain, Angola, Mozambique, Cape Verde, Brazil, Argentina and Chile.

Ranking	Company	Premiums (€m)			Market share Dec 2013 (%)		
		Life	Non-life	Total	Life	Non-life	Total
1	Group CGD	2.517	1.006	3.523	27.2	26.1	26.9
2	ESFG	2.108	410	2.518	22.8	10.6	19.2
3	BCP Fortis	1.486	239	1.725	16.1	6.2	13.2
4	BPI	826	–	826	8.9	–	6.3
5	Allianz	232	312	594	2.5	8.1	4.1
6	Santander	545	1	546	5.9	–	4.2
7	CA	384	81	465	4.2	2.1	3.5
8	AXA	121	314	435	1.3	8.1	3.3
9	Banif	140	267	407	1.5	6.9	3.1
10	Zurich	83	246	329	0.9	6.4	2.5

Solvency ratios (%)  
Tranquilidade



Solvency ratios (%)  
T-Vida



Consolidated Insurance Earned Premiums (Net of Reinsurance) rose by 70.4% to EUR 694.7 million in 2013 from EUR 407.6 million a year earlier. Consolidated Claims Incurred (Net of Reinsurance) decreased by 23.5% to EUR 483.2 million from EUR 631.9 million at year-end 2012. Results include the full consolidation of both ESFG's direct investments in Tranquilidade and the BES bancassurance businesses.

Tranquilidade acts as a holding company for ESFG's interests in T-Vida, LOGO, BES Seguros and others. Tranquilidade's net individual income reached EUR 19.0 million, a year-on-year increase of 3.0%. Technical results, net of re-insurance, fell during the period by 7.5% to EUR 59.0 million. These results were affected by storms in the first quarter of 2013. Financial results stood at EUR 28.4 million in 2013. Operating costs stood at EUR 66.9 million. Tranquilidade's individual market share stood at 8.3%. Tranquilidade's market share in workers' compensation, fire and other damage and motor stood at 10.8%, 8.3% and 8.4% respectively by year end 2013.

At Tranquilidade insurance earned premiums (net of reinsurance) declined by 4.8% year-on-year to EUR 279.2 million from EUR 293.2 million a year earlier. Individual claims at Tranquilidade and changes on technical reserves and commissions reached EUR 285.4 million, compared to EUR 294.9 million in 2012, a decrease of 3.2%. The combined ratio at Tranquilidade rose from 94.3% to 95.2%. The expense ratio stood at 30.9%. The marginal increase in the combined ratio is explained by the fall in premiums by 1.0%.

T-Vida reported an individual net income of EUR 4.3 million, a year-on-year decrease of 5.2%. Premiums however increased by 24.7%. Risk products continue to be the main focus for ESFG's insurance operations in its Life business though the largest growth was in PPR's products (retirement savings plans). The technical margin increased by 5.6%, (from EUR 5.8 million to EUR 6.2 million), mainly due to an increase in premiums. Operating costs increased by 5.6% year-on-year to EUR 6.1 million.

ESFG's Angolan and Mozambican insurance operations, through Tranquilidade, which began in 2012, report individual results of EUR 0.0 million and -EUR -0.9 million respectively but are expected to contribute positively to full year results in 2014.

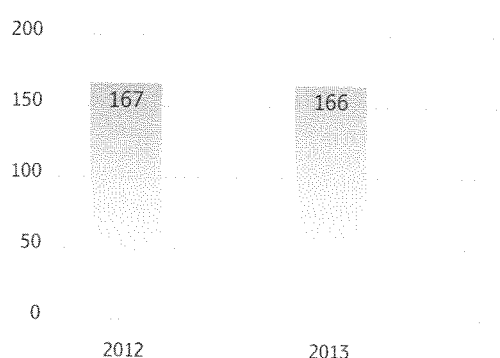
Tranquilidade's direct insurance business, LOGO, reported that its customer base had reached 116,335 clients and that gross written premiums had amounted to EUR 19.8 million. LOGO is currently the third largest direct insurer in Portugal. The motor claims ratio at LOGO decreased by 5.7 p.p. from 79.7% to 74.0%.

AdvanceCare, ESFG's managed care platform for healthcare insurers provides the link between the Company's insurance operations and healthcare providers, serving a total of 918,371 members. The care manager continues to provide strong results, in the period ending 2013 its net individual income stabilized at EUR 2.2 million from EUR 2.3 million a year earlier. AdvanceCare is a joint venture between Tranquilidade and United Health Group. In 2013 the managed care company is estimated to have handled one third of healthcare claims made through all insurance companies in Portugal. Tranquilidade maintains management control.

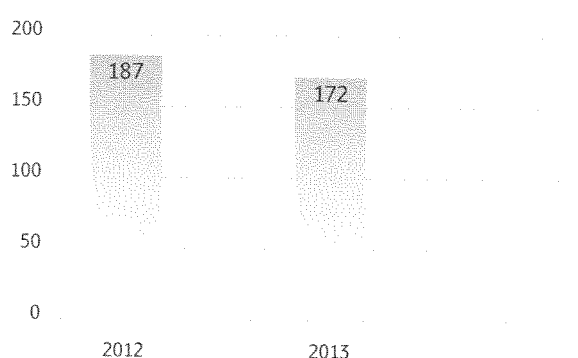
# Insurance

continued

**Solvency ratios (%)**  
Bancassurance BES Seguros



**Solvency ratios (%)**  
Bancassurance BES Vida



Tranquilidade's assistance service provider, Europ-Assistance (Portugal), jointly held with Europ Assistance Holding (France) reported a 44.4% increase in individual results to EUR 4.0 million by year end 2013 from EUR 2.8 million a year earlier. Tranquilidade has a 47.0% economic stake in the operations.

ESFG's assurance programme of cross-selling banking products through its agents accounted for 19.1% of new clients at BES in 2013 and represents 9.5% of the total increase in retail Assets under Management. Tranquilidade's distribution network is made up of more than 1,700 points of sale, of which 35 are own branches and 173 tied agent stores.

At BES Vida, fully owned by BES, is the Group's bancassurance business which comprises of both traditional and unit-linked insurance products as well as pension plans. Results at the Life insurance operations were positively influenced by the reinsurance of its life risk portfolio under which all the inherent risks were transferred though BES Vida maintained the management of the contracts and the relations with clients. The operation contributed approximately EUR 150.0 million to the Company's individual results of EUR 302.8 million by year end 2013.

The year was also marked by a sharp recovery of activity that was driven by growth in production of unit-linked products and pension plans. Results were strengthened by an increase in insurance production, which reached EUR 2.0 billion in premium volume, a 40.9% increase year-on-year. Unit-linked products and pension plans saw strong growth while claims' volume fell sharply (-31.7%) as financial products' redemption volume declined. The overall effect was 24.9% increase in actuarial reserves to EUR 7.16 billion.

# Other Subsidiaries

## Other subsidiaries

### ESFIL – Espírito Santo Financière S.A.

Capital: EUR 135.0 million  
Economic Participation: 100.0%  
Location: Luxembourg

### AdvanceCare – Gestão de Serviço S.A.

Capital: EUR 4.5 million  
Economic Participation: 51.0%  
Location: Portugal

## Associates

### Europ Assistance – Companhia Portuguesa de Seguros de Assistencia, S.A.

Capital: EUR 7.5 million  
Economic Participation: 47.0%  
Location: Portugal

### Espírito Santo Saúde S.A.

Capital: EUR 95,52,254.0  
Economic Participation: 12.42%  
Location: Portugal

Espírito Santo Financière S.A. ('ESFIL') is the fully owned subsidiary of ESFG whose strategy is the acquisition of interests in other Luxembourg and foreign companies and investments in industrial or trading companies. It participates in the organisation and development of industrial or trading companies by granting assistance to such companies in the form of loans, guarantees. In particular, ESFIL held ESFG's interests in BPES and the BESV. On 14 February 2014 ESFG announced that it has sold its full 44.81% stake in BESV to BES. As of 14 February BES holds an 87.5% stake in the Bank. ESFIL is also engaged in the financing of certain non-financial activities of the Espírito Santo Group. In 2013 ESFIL contributed positively to the consolidated results of the Company with an individual net income of EUR 11.9 million against EUR 21.4 million at the end of 2012.

ESFG supports a European Medium Term Note ('EMTN') and STEP compliant European Commercial Paper ('ECP'). Through these programmes ESFG guarantee the activities of its fully owned subsidiary ESFIL within the two programmes.

In 2013 Espírito Santo Saúde ('ESS') contributed to Other Operating Income. The health care unit operates 18 hospitals (of which it owns 17), out-patient clinics, residential hospitals, senior care residencies, as well as participating in the Public-Private Partnership at the Loures Hospital in Portugal.

The private healthcare sector proved resilient in 2013 in contrast to the public healthcare sector in Portugal, which continues to suffer from on-going budgetary constraints. The private healthcare sector, in which ESFG's healthcare subsidiary ESS is a market leader, saw an increase in top-line growth as demand shifts towards private healthcare services.

At year end 2013 ESFG held a 31.8% economic interest in ESS, or 42.9% voting rights when consolidating participations held by ESFG's subsidiaries. On 12 February 2014 Espírito Santo Saúde ('ESS') began trading on the NYSE Euronext exchange following a successful IPO launched on 6 February 2014. As part of the IPO ESFG offered up for sale a stake of 14.01% in the company, which included an over-allotment option. At the close of the share stabilisation period, which ended on the 13 March 2014, ESFG remained with a total of 3,225,283 shares. On 18 March 2014 ESFG announced that it held a 3.38% direct stake in the healthcare company. Management control is held by Espírito Santo Health Care Investments ('ESHCI') which holds a stake of 51.0%. As of that date ESFG holds a 17.7% stake in ESHCI.

---

# Corporate Governance Report

---

The publication of a Corporate Governance Report is a requirement of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 and Luxembourg Law of 19 December 2002, Art 68.

The 'Ten Principles of Corporate Governance' issued by the Luxembourg Stock Exchange recommend that listed companies should publish a Corporate Governance Chapter in its annual report, describing all the relevant events related to Corporate Governance which took place in the preceding financial year.

Espírito Santo Financial Group S.A. ('ESFG') is a limited liability company (société anonyme) incorporated under Luxembourg law on 28 November 1984 for an unlimited duration. ESFG is a financial holding company, holding and administering participating interests in other companies. It does not conduct business of its own.

The ESFG Group ('ESFG and subsidiaries') is engaged principally in banking and insurance and its operations are concentrated mainly in Portugal. Banking activities, which are conducted primarily through Banco Espírito Santo S.A. ('BES') and its direct subsidiaries ('BES Group'), comprise commercial banking, investment banking, asset management and stockbrokerage. Insurance activities comprise life insurance, non-life insurance and direct insurance and are conducted through the Companhia de Seguros Tranquilidade S.A. and its direct subsidiaries and through its bancassurance operations at BES.

## Organisation

ESFG's structure is composed of a General Shareholders' Meeting, a Board of Directors, which comprises an Executive Committee and a Stock Option Committee, an Audit Committee, the External Auditors and the Internal Control Functions: Risk Management, Compliance and Internal Audit.

## Board of Directors

Ricardo Espírito Santo Silva Salgado, Chairman  
José Manuel Pinheiro Espírito Santo Silva, Vice Chairman  
António Luís Roquette Ricciardi  
Mário Mosqueira do Amaral<sup>1</sup>  
Manuel Fernando Moniz Galvão Espírito Santo Silva  
Jackson Behr Gilbert  
Patrick Monteiro de Barros  
Robert Studer<sup>2</sup>  
Philippe Guiral  
Manuel António Ribeiro Serzedelo de Almeida<sup>3</sup>  
José Maria Espírito Santo Silva Ricciardi  
Pedro Guilherme Beauvillain de Brito e Cunha  
Carlos Augusto Machado de Almeida Freitas  
Aníbal da Costa Reis Oliveira  
Othman Benjelloun  
José Pedro Torres Garcia Caldeira da Silva  
Yves Alain Marie Morvan  
Fernando Pedro Braga Pereira Coutinho  
José Carlos Cardoso Castella  
Bernard Basecqz  
Gherardo Laffineur Petracchini  
Manuel Guerrero Péman  
José Manuel Ruivo da Pena  
Luís António Burnay Pinto de Carvalho Daun e Lorena  
Roger Henri Hartmann<sup>4</sup>  
João Filipe Carvalho Martins Pereira<sup>5</sup>

<sup>1</sup> Died in March 2014

<sup>2</sup> Retired at AGM in April 2013

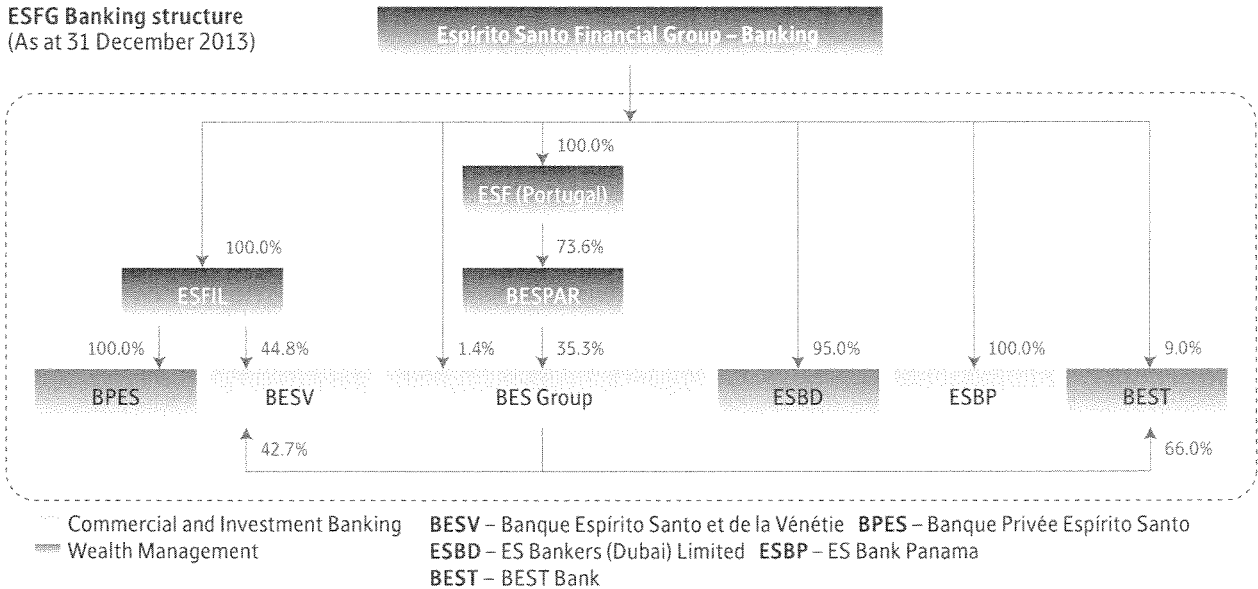
<sup>3</sup> Retired in September 2013

<sup>4</sup> Joined September 2013

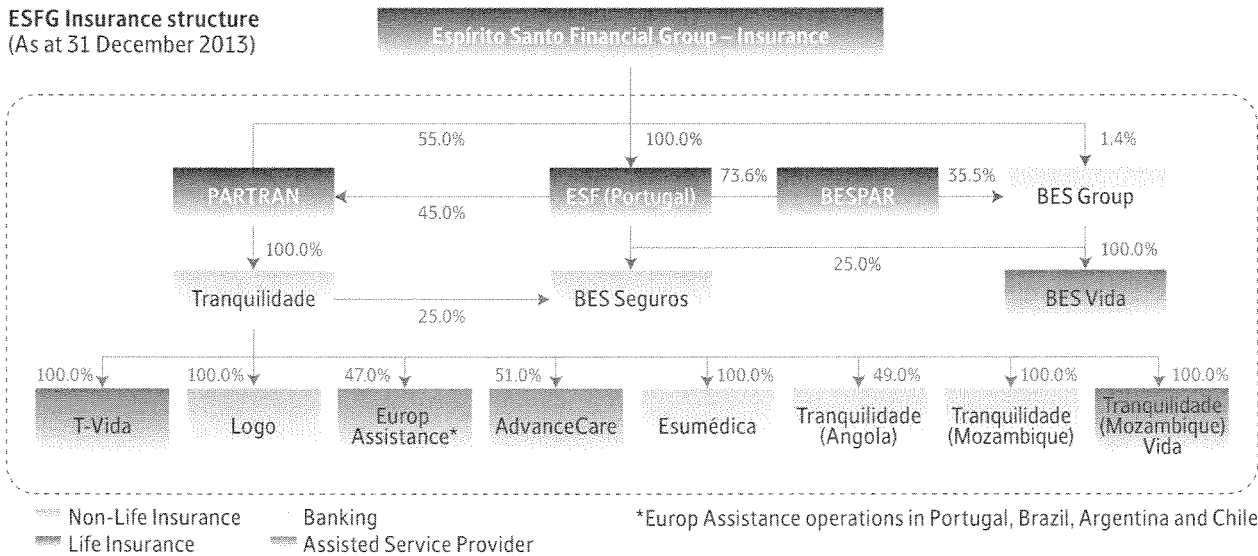
<sup>5</sup> Joined July 2013



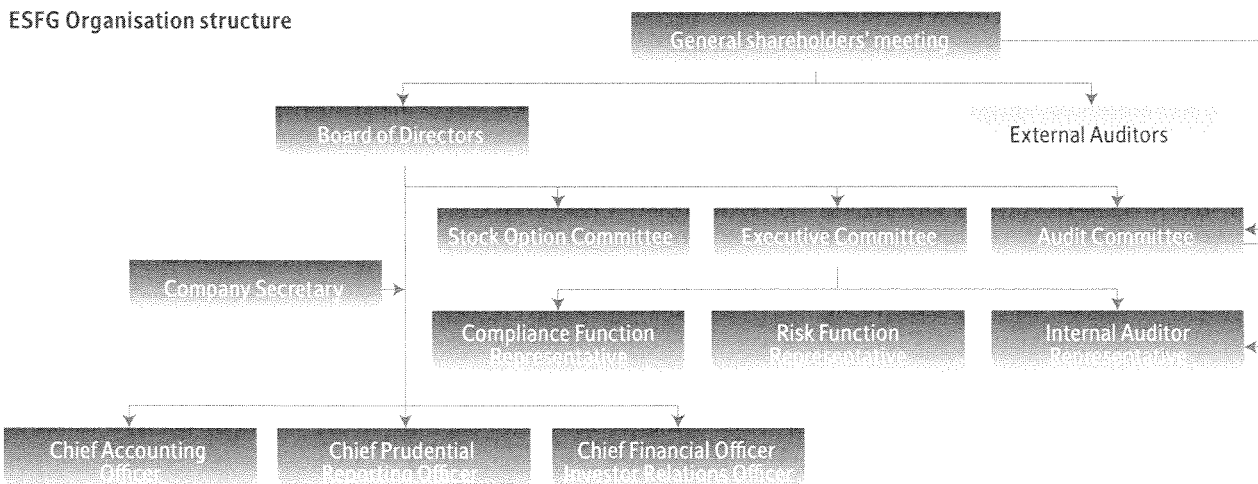
**ESFG Banking structure**  
(As at 31 December 2013)



**ESFG Insurance structure**  
(As at 31 December 2013)



**ESFG Organisation structure**



Notes: On 14 February 2014 ESFIL sold its stake in BESV to BES. As of that date BES holds 87.5% of BESV. On 2 April 2014 ESFG sold its remaining 9.0% stake in Banco BEST to BES. As of that date BES holds a 75.0% stake in BEST.

# Corporate Governance Report

continued

## Audit Committee

Fernando Pedro Braga Pereira Coutinho  
José Manuel Ruivo da Pena  
Luís António Burnay Pinto de Carvalho Daun e Lorena

## Executive Committee

Roger Henri Hartmann  
Gherardo Laffineur Petracchini  
José Carlos Cardoso Castella  
José Pedro Torres Garcia Caldeira da Silva  
João Filipe Carvalho Martins Pereira

## Stock Options Committee

Jackson Behr Gilbert  
Bernard Basecqz

## Accounts and Financial Reporting

Filipe Worsdell – Chief Financial Officer and Investor Relations  
Jean-Luc Schneider – Chief Accounting Officer  
Jorge Penedo – Chief Prudential Reporting Officer

## Internal Control Function Representatives

Carlos Calvário – Risk  
Nelson Martins – Internal Audit  
João Martins Pereira – Compliance

## Company Secretary

Teresa de Souza

## Board of Directors

The Board of Directors of ESFG is responsible for defining general strategy and policy and supervising the Executive Committee.

The Board of Directors is vested with all the powers to perform all acts necessary or useful for accomplishing the corporation's objects. All powers not expressly reserved by law or by the Company's Articles of Incorporation to the general meeting of shareholders are in the competence of the Board of Directors.

The Board of Directors is authorised to issue shares in or several tranches within the limits of the authorised capital on such terms and conditions as it shall approve but including such issue premium as it may set forth. The Board of Directors is in particular authorised and empowered to issue such new shares against payment in cash or kind, by conversion of claims or in any other manner, more in particular by the conversion into capital of convertible bonds or notes that may from time to time be issued. The Board of Directors is authorised to cancel or limit the preferential subscription rights in case of an increase in capital within the limits of the authorised capital. Such authorisation is valid for a period of five years from the date of the publication of the minutes of the extraordinary general shareholders' meeting having decided to create an authorised capital and may be renewed for further periods of five

years each by decision of a general meeting of shareholders, for such portion of the authorised capital as shall at such time remain unissued for any other amount determined by the general meeting of shareholders. The Board of Directors may delegate to any duly authorised person the duties of accepting subscriptions and receiving payment for shares representing part or all of the issue of new shares under the authorised capital.

The Board of Directors is responsible for establishing the general principles of risk management and control, defining the objective risk profile for ESFG, including establishing both global and specific risk limits and ensuring that the Company has the necessary competences and resources for the purpose.

In accordance with the legislation on insider dealing and market manipulation, the Board of Directors implements 'Blackout Periods' (generally two weeks before any results' announcement) when trading in ESFG's shares is not permitted. It has established procedures for notification on any transactions on the company's shares outside these blackout periods.

The Board of Directors meets at the request of its Chairman, but a meeting must be convened if at least two directors so require. Written notices of the meeting are given at least twenty four hours before the date of the meeting. At a Board Meeting a resolution is adopted by majority of those directors present or represented at the meeting. In case of an emergency, a written decision signed by all directors as though the meeting was duly convened and held, is valid.

During 2013 Mr. Robert Studer and Mr. Manuel Ribeiro Serzedelo de Almeida retired, Mr. Roger H. Hartmann and Mr. João Filipe Carvalho Martins Pereira were appointed as directors.

The current Board of Directors is composed by twenty four directors. Their present mandate, including those of the directors who form part of the Executive, Audit and Stock Option Committees, lasts for 6 years. It started on the 30th May 2008 and will expire in April 2014, when the Annual General Meeting will be held. The directors are elected by the shareholders' meeting and are re-eligible and may be revoked at any time by the General Meeting, with or without cause. In the event of one or more vacancies in the office of a director, the remaining directors may elect a director to fill such a vacancy in accordance with the provisions of the law. In this case the general meeting ratifies the election in its next meeting. The director so elected shall terminate the term of office of the director he is replacing.

Some of the directors represent major shareholders, others are representatives of major subsidiaries and are independent. The fact that the main subsidiaries are represented at board level facilitates the process of supervision and is the principal link with these subsidiaries.

The remuneration of the members of the Board of Directors is determined on a yearly basis by the annual general meeting of shareholders.

During 2013 the Board of Directors met nine times with an average of 71.31% attendance rate at the meetings.

#### Information on the Directors

##### **Ricardo Espírito Santo Silva Salgado, Chairman**

Date of birth: 25/06/1944; Nationality: Portuguese; First appointed: 28/11/1984; Independent: No.  
Academic qualifications: Degree in Economics from Instituto Superior de Ciências Económicas e Financeiras of the Universidade Técnica de Lisboa.

##### *Posts held in other listed companies*

Chairman – Banco Espírito Santo de Investimento S.A.  
Vice Chairman – Board of Directors of Banco Espírito Santo and Chairman of its Executive Committee.

##### **José Manuel Pinheiro Espírito Santo Silva, Vice-Chairman**

Date of Birth: 02/05/1945; Nationality: Portuguese; First appointed: 27/03/1987; Independent: No.  
Academic qualifications: Degree in Economics, specialising in Company Administration and Management, Évora University.

##### *Posts held in other listed companies*

Director – Banco Espírito Santo S.A., Banco Espírito Santo de Investimento S.A.

##### **António Luís Roquette Ricciardi**

Date of Birth: 06/04/1919; Nationality: Portuguese; First Appointed: 28/11/1984; Independent: No.  
Academic Qualifications: Degree from Faculdade de Ciências, Lisbon; Degree from Academia Naval, Lisbon, Degree from Escola de Aviação Naval, Lisbon.

##### *No posts held in other listed companies*

##### **Mário Mosqueira do Amaral\***

Date of Birth: 14/11/1932; Nationality: Portuguese; First appointed: 28/11/1984; Independent: No.  
Academic Qualifications: Degree in Economics from Instituto Superior de Ciências Económicas e Financeiras, Lisbon.

##### *Posts in other listed companies*

Director – Banque Marocaine du Commerce Extérieur.

##### **Manuel Fernando de Moniz Galvão Espírito Santo Silva**

Date of Birth: 20/07/1958; Nationality: Portuguese; First Appointed: 08/11/1995; Independent: No.  
Academic Qualifications: B.A. Business Administration, Richmond College, London International Bankers' Course at Barclays Bank and Midland Bank, London; Inter Alpha Banking Course, INSEAD, Fontainebleau.

##### *Posts held in other listed companies*

Director – Banco Espírito Santo.

##### **Jackson Behr Gilbert**

Date of Birth: 13/09/1932; Nationality: American; First appointed: 12/06/1990; Independent: No.  
Academic Qualifications: Degree in Law, University of Virginia Law School, USA.

##### *No posts held in other listed companies*

##### **Patrick Monteiro de Barros**

Date of Birth: 03/02/1945; Nationality: French and Portuguese; First appointed: 24/12/1994; Independent: No.  
Academic Qualifications: Degree from Ecole Supérieure de Commerce et Administration d'Entreprise, Paris.

##### *No posts held in other listed companies*

##### **Philippe Guiral**

Date of Birth: 18/11/1948; Nationality: French; First appointed: 10/11/2000; Independent: No.  
Academic Qualifications: Master in Economics, University of Montpellier, I.A.E. (business administration) – Montpellier Advanced Executive Program, Anderson School at UCLA, Los Angeles.

##### *Posts held in other listed Companies*

Director (non executive) – Banco Espírito Santo de Investimento S.A.

##### **José Maria Espírito Santo Silva Ricciardi**

Date of Birth: 27/10/1954; Nationality: Portuguese; First appointed: 25/05/2001; Independent: No.  
Academic Qualifications: Degree in Sciences Economiques Appliquées, Université Catholique de Louvain, Faculté des Sciences Économiques, Sociales et Politiques, Institut d'Administration et de Gestion, Belgium.

##### *Posts held in other listed Companies*

Vice Chairman of the Board of Directors and President of the Executive Committee of Banco Espírito Santo de Investimento.  
Director – Banco Espírito Santo S.A.

# Corporate Governance Report

continued

**Pedro Guilherme Beauvillain de Brito e Cunha**

Date of Birth: 12/07/1951; Nationality: Portuguese;  
First appointed: 25/05/2001; Independent: No.  
Academic Qualifications: Degree in Business Studies from  
College of Distributive Trades, London.

Director – Espírito Santo Saúde S.A.

**Carlos Augusto Machado de Almeida Freitas**

Date of Birth: 19/02/1950; Nationality: Portuguese;  
First appointed: 25/05/2001; Independent: No.  
Academic Qualifications: Secondary Education.

*No posts held in other listed companies*

**Aníbal da Costa Reis Oliveira**

Date of Birth: 24/09/1935; Nationality: Portuguese;  
First appointed: 25/05/2001; Independent: No.  
Academic Qualifications: Course on General Commercial  
Management, Porto; Degree in Chemical Engineering, Germany.

*Posts held in other listed companies*

Director – Banco Espírito Santo.

**Othman Benjelloun**

Date of Birth: 01/11/1932; Nationality: Moroccan;  
First appointed: 31/05/2002; Independent: Yes.  
Academic Qualifications: Engineer, École Polytechnique  
de Lausanne, Switzerland.

*Posts held in other listed companies*

Chairman – BMCE Bank.

**José Pedro Torres Garcia Caldeira da Silva, Member  
of the Executive Committee**

Date of Birth: 22/02/1959; Nationality: Portuguese;  
First appointed: 31/05/2002; Independent: No.  
Academic Qualifications: BA in Economics, Universidade  
Católica Portuguesa MA Operational Research and Systems  
Engineering – Universidade Técnica de Lisboa; MBA Insead,  
Fontainebleau.

*No posts held in other listed companies*

**Fernando Pedro Braga Pereira Coutinho, Chairman  
of the Audit Committee**

Date of Birth: 26/12/1946; Nationality: Portuguese;  
First appointed: 08/07/2005; Independent: Yes.  
Academic Qualifications: Degree in Economics, Instituto  
Superior de Ciências Económicas e Financeiras, Lisbon.

*No posts held in other listed companies*

**Yves Alain Marie Morvan**

Date of Birth: 11/04/1939; Nationality: French; First Appointed:  
08/07/2005; Independent: No.  
Academic Qualifications: Degree in Government Studies,  
Harvard University; MA in International Affairs from John Hopkins  
University, USA.

*No posts held in other listed companies*

**José Carlos Cardoso Castella, Member of the  
Executive Committee**

Date of Birth: 13/09/1949; Nationality: Portuguese; First  
appointed: 25/05/07; Independent: No.  
Academic Qualifications: Degree in Business Administration,  
Degree in Finance, ISCEF, Universidade Técnica de Lisboa.

*No posts held in other listed companies*

**Bernard Basecqz**

Date of Birth: 15/10/1945; Nationality: Belgian; First appointed:  
30/05/2008; Independent: Yes.  
Academic Qualifications: Doctor in Law, Université Catholique de  
Louvain, Belgium; MBA – Finance, Michigan State University, USA.

*Posts held in other listed companies*

Director (non-executive) – Banco Espírito Santo de Investimento.

**Gherardo Laffineur Petracchini, Chief Executive Officer  
and Chairman of the Executive Committee**

Date of Birth: 18/12/1961; Nationality: French and Italian;  
First appointed: 30/05/2008; Independent: No.  
Academic Qualifications: Degree in Agricultural Engineering from  
Ensia – Ecole Nationale Supérieure des Industries Agricoles et  
Alimentaires, Paris; MBA from ESSEC – International Business  
School, Paris.

*No posts held in other listed companies*

**Manuel Guerrero Pemán**

Date of Birth: 27/11/1949; Nationality: Spanish; First appointed:  
30/05/2008; Independent: Yes.  
Academic Qualifications: Degree in Law, Universidad  
Complutense de Madrid.

*No posts held in other listed companies*

**José Manuel Ruivo da Pena**

Date of birth: 05/11/1940  
Independent: Yes.  
Academic Qualifications: Degree in Corporate Management,  
ISCTE, Lisbon; qualification from the International Advanced  
Executive Program, J.L. Kellogg Graduate School of Management,  
Northwestern University, Chicago.

*No posts held in other listed companies*

---

**Luis António Burnay Pinto de Carvalho Daun e Lorena**

Date of Birth: 11/10/1944

Independent: Yes.

Academic Qualifications: 2nd Year of Law,  
Lisbon Classical University.

*No posts held in other listed companies*

**Roger Henri Hartmann**

Date of Birth: 16/07/1957; Nationality: Swiss, Luxembourgish;

First Appointed: April 2013; Independent: No.

Academic Qualifications: master in Economics, Ecole des H.E.C.,  
University of Lausanne, Switzerland; Advanced Management  
Program, The Wharton School, University of Pennsylvania, USA.

*No posts held in other listed companies*

**João Filipe Carvalho Martins Pereira**

Date of Birth: 20/08/1957; Nationality: Portuguese;

First Appointed July 2013; Independent: No.

Academic Qualifications: Higher Degree in Management  
and Business Administration, Instituto Superior de Economia,  
Lisbon, Portugal; Registered Statutory Auditor, Registered  
Statutory Accountant.

*No posts held in other listed companies*

**Audit Committee**

Fernando Pedro Braga Pereira Coutinho, Chairman

José Manuel Ruivo da Pena

Luis António Burnay Pinto de Carvalho Daun e Lorena

The current mandate of the members of the Audit Committee expires on the date of the AGM in 2014 to coincide with that of the other directors.

The powers, responsibilities, and functioning rules of the Audit Committee are included in the Company's Articles of Association (articles 20, 21 and 22) which are available for public consultation at the Company's corporate site.

During 2013 the Audit Committee maintained regular contact with ESFG's internal control functions – internal audit and risk management, in particular – to follow their most relevant activities, having also attended the Enlarged Executive Committee meetings with representatives of the internal control functions of BES Angola, Banque Privée Espírito Santo (Switzerland), Banque Espírito Santo et de la Vénétie (France), and BES Spanish Branches. At those meetings, the ESFG's Compliance, Risk Management, and Internal Audit representatives have also made presentations on the work carried out by each of the internal control functions at Group level. These regular meetings contribute to a better understanding of the internal control issues at selected subsidiaries level, as well as to follow up the activity of the representatives of the internal control functions at group level.

As requested by the Bank of Portugal ('BdP'), in June 2013 the Audit Committee has issued its annual report on the appropriateness and effectiveness of the ICS ('Internal Control System') as a whole, at group level, and confirming that the internal control systems in place at the various subsidiaries, and coordinated at holding level, remain coherent among them.

The Audit Committee keeps in regular contact with the Global Risk Manager on ESFG funding and capital plans within the scope of Basel II and III. Furthermore, the Audit Committee continued to monitor in 2013 the FATCA developments which affect the ESFG subsidiaries, in close contact with both the ESFG and GBES FATCA Group representatives.

Three internal audits at ESFG level were completed in the year covering (i) the internal control system minimum requirements, (ii) the financial reporting process, and (iii) the market discipline reporting process.

In October 2013, the Bank of Portugal ('BdP') launched the so called ETRICC GE, a special purpose audit exercise covering the impairments in the credit portfolios as of September 30, 2013 of the 12 major corporate groups in Portugal, including the non financial sector of the Espírito Santo Group ('GES'), at the 8 major financial entities supervised by the BdP, including the ESFG group. Since that date the Audit Committee has been heavily involved (i) in direct discussions with the BdP on the subject, as well as (ii) in replying to specific requests from that supervisory entity, (iii) in following very closely the contacts between the ESFG Board of Directors and the BdP, (iv) in ensuring that the results of those discussions are properly reflected in the group consolidated accounts and its prudential capital ratios, and (v) in obtaining timely information about the positions taken by the group External Auditor regarding these matters.

The Audit Committee has been in permanent contact with the group External Auditor throughout the financial year. Further to the meetings to discuss in detail both the annual audit plan and the annual audit closing summary, the Audit Committee reviewed the External Auditor professional independence statement, and discussed and approved the terms of their proposals for the recurring audit services to be provided to the group worldwide, and also the proposals for non audit services, as and when these services are required. The non audit services, other than tax consultancy, provided to the group worldwide in 2013 represented some 10% of the total fees charged to the group as a whole in the year (some EUR 6.6 million).

In the performance of its functions the Audit Committee analysed the ESFG's financial statements, discussed these with the Chief Accounting Officer and the External Auditor, and reported to the Board its conclusions as appropriate.

# Corporate Governance Report

continued

Concerning the ESFG's insurance subsidiaries, namely Tranquilidade, Tranquilidade Vida, and Logo, the Audit Committee had meetings with both the Risk and Internal Control Officer, and the Internal Auditor of these companies. The level of those companies' preparation for the Solvency II was assessed. It is expected that full implementation will take place as from January 2016.

In addition to the work carried out on a permanent basis by its members to discharge their responsibilities, the Audit Committee members met formally eight times in 2013. Except for one meeting, which was attended by two members only, all three members were present at the meetings, the related minutes being distributed to the other Board members for information purposes.

#### Executive Committee

Roger Henri Hartmann, Chairman  
Gherardo Laffineur Petracchini  
José Carlos Cardoso Castella  
José Pedro Torres Garcia Caldeira da Silva  
João Filipe Carvalho Martins Pereira

Mr. Roger Hartmann joined the board of Directors in September 2014 and became Chairman of the Executive Committee on the same date, succeeding Mr. Gherardo Laffineur Petracchini.

The Executive Committee assists the Board of Directors in the performance of its duties, namely:

- The development and implementation of strategy, operational plans, policies, procedures and budgets;
- The monitoring of operating and financial performance;
- The assessment and control of risk through the three appointed functions of risk management, compliance and internal audit functions;
- Making sure that the risk management system is effectively and consistently implemented at ESFG and its subsidiaries, to continuously monitor for adequacy and effectiveness, as well as monitoring the progress of corrective measures.

The Executive Committee met nineteen times during 2013. All members were present at 12 of the meetings, with 67% at 4 of the meetings, 83.3% at one, 40% at one and 80% at another of the meetings.

#### Nomination Committee

The Board of Directors assessed the need to establish a nomination committee to assist in the selection of directors. They did not consider it necessary, given the specific logic prevailing in the composition of ESFG's Board of Directors, where representatives from major shareholders and major subsidiaries are represented together with a sufficient number of independents.

#### Remuneration Committee

ESFG as a holding company does not have activities of its own. The Board of Directors recognizes that its members include representatives of some of its principal shareholders and of major subsidiaries and as a consequence are remunerated by these entities and not directly by ESFG. Seven directors are paid a fixed remuneration by ESFG, including the three members of the Audit Committee. The remuneration of other members of the board consists of attendance fees. The remuneration of the directors is determined by the general meeting of shareholders. The total remuneration received by ESFG's board members in 2013 was EUR 2,274,432.0.

#### Stock Option Committee

The Stock Option Committee is composed of two directors: Jackson Behr Gilbert and Bernard Basecqz.

The Stock Option Committee meets whenever a request for the exercise of an option is received and the primary function of the Committee is to ensure that the rules put down in the Stock Option Plan are complied with. The Committee did not meet in 2013. No Stock Options were exercised in 2013.

#### Internal Control and Risk Management

ESFG is a Luxembourg based company which, due to its primary listing in Luxembourg, follows the Bourse de Luxembourg's recommendations to establish rules in the areas of financial reporting, internal control and risk management.

The ESFG Group is supervised on a consolidated basis by the Bank of Portugal. Bank of Portugal's regulations require that institutions under its supervision have in place an internal control structure under the terms of Bank of Portugal's Notice no. 5/2008, to guarantee effective compliance with the legal obligations and duties to which institutions are subject and the appropriate management of the risks inherent to the activities developed.

Efficient risk management and control has played a fundamental role in the balanced and sustained growth of the ESFG Group.

ESFG's appointed Internal Audit and Compliance Officers are the same who are responsible for these functions at the level of BES Group, which includes some of its most important subsidiaries.

BES has in place an effective internal control system, managed by its Compliance Department which has set up a separate independent unit, the Internal Control System Management Unit responsible for all the assessment, systematisation, monitoring and maintenance tasks required by the bank's internal control system. It also endeavours to guarantee an overall perspective and integrated management of the entire internal control system of the BES Group as the guarantor of the reliability of the financial information, the protection of assets and the adequate prevention of risks.

At operational level the risk committee of each operating company is responsible for monitoring the evolution of its integrated risk profile, and for proposing methodologies, policies, procedures and instruments to deal with all types of risk faced by that company. In addition the ESFG Group relies on the senior management of each subsidiary to help monitor risk. The senior management of the ESFG Group of companies have extensive knowledge of the markets and activities in which they operate.

ESFG's Board of Directors, through its Executive Committee, is responsible for establishing and maintaining an adequate and effective internal control system. The Executive Committee is also responsible for the maintenance of a solid risk management system, which within the framework of an adequate overall control environment guarantees the adequacy and effectiveness of ESFG's internal control system.

Over the last three years the Executive Committee has organized meetings with the internal control representatives at most of its banking subsidiaries in order to obtain better knowledge of these entities, better understanding of the issues they face and the performance of the internal control representatives at the level of these subsidiaries and relies on the assistance of the Internal Control System Management at BES for information as well. During 2013 meetings were held with representatives from BES Angola, Banque Privée Espírito Santo S.A., BES Spain and Banque Espírito Santo et de la Vénétie.

#### **Risk Management Function**

Head of the Risk Management Function: Mr. Carlos Calvário

The ESFG Group's risk management strategy is consistent with the regulatory and economic vision implicit in the new regulatory framework proposed by the Basel Committee. ESFG monitors and evaluates risk on a group-wide basis, which enables management to actively control the impact of the identified and measured risks on the results of the ESFG Group.

At the level of the BES Group the risk management function operates independently from other areas and is organised in such a way as to manage the main risks to which the BES Group is exposed: credit, market, liquidity; on-balance sheet interest rate and operational risks. The management and monitoring of risk, at the BES Group operational level, is centralised in the Global Risk Department, whose activities are aimed at ensuring best practices in risk management.

At the operating level, the risk committee of each operating company is responsible for monitoring the evolution of its integrated risk profile, and for proposing methodologies, policies, procedures and instruments to deal with the types of risk faced by each company.

In addition, the Risk Management Function must also ensure consistency in the process of preparation of the internal risk management reports of each subsidiary.

The Risk Management Function intervenes in the Group's subsidiaries either directly or by providing a functional framework to the subsidiaries that have in place their own structures to perform the Risk Management Function.

The Risk Management Function at ESFG is responsible for:

- Ensuring that the risk management system is effectively and consistently implemented at the level of ESFG and that of its subsidiaries, monitoring the effectiveness of the measures taken to correct any deficiencies in the system;
- advising the Board of Directors and preparing and submitting at least once a year to this body and to the supervisory body a report on risk management, indicating whether all appropriate measures were taken to correct possible deficiencies.

For a list of risks to ESFG and its subsidiaries please go to pages 11 to 13 of ESFG's Consolidated Report.

It delivered to the Bank of Portugal the ICAAP ('Internal Assessment Adequacy Process') Report as 31/12/12 as well as the Market Discipline Report – Annual Information 2012.

#### **Compliance Function**

Head of the Compliance function: Mrs. Paula Gramaça was nominated in September 2013. She is also in charge of Compliance at International level at BES' Compliance Department. Before that Mr. João Martins Pereira the Coordinating Manager of BES' Compliance Department, was the Head of the Compliance Function. The Compliance Function has a particularly relevant role in risk management as it ensures the day-to-day management of the compliance activities as described above.

It monitors compliance with the legal obligations and regulatory duties to which the ESFG Group is subject, being responsible for:

- regularly monitoring and assessing the adequacy and effectiveness of the measures and procedures adopted to detect risks of non-compliance;
- advising the Board of Directors, preparing and submitting at least once a year to this body and to the Audit Committee, a report identifying any instances of non-compliance and the measures adopted to correct possible deficiencies.

In addition, the Compliance Function must also ensure consistency in the process of preparation of the internal compliance reports and Individual Internal Control Report issued by the Board of Directors of each subsidiary, namely by providing guidance on the methodology and structure that should be adopted in the drawing up of such reports, in compliance with applicable regulatory requirements.

---

# Corporate Governance Report

continued

---

The Internal Control Report was submitted to the Bank of Portugal in June 2013.

The Compliance Function intervenes in the Group's subsidiaries either directly or by providing a functional and consistent framework to the subsidiaries which have in place their own Compliance Function's structure.

#### **Internal Audit Function**

Head of the Internal Audit function: Mr. Nelson Martins  
(Coordinating Manager of BES's Internal Audit Department)

The Internal Audit Department is responsible for assessing the effectiveness and adequacy of risk management, internal control and governance processes with the objective of reducing risk conditions.

Its responsibilities include:

- preparing and keeping updated an audit plan aimed at examining and assessing the adequacy and effectiveness of the various components of the institution's Internal Control System, as well as of the Internal Control System as a whole;
- issuing recommendations based on the results of the assessments made, and making sure they are followed;
- preparing and submitting at least once a year to the Board of Directors and Audit Committee a report on audit issues containing a summary of the main deficiencies detected in control actions, including deficiencies that although immaterial when considered separately may reveal a tendency for the deterioration of the internal control system, as well as indication of the recommendations that were followed;

In addition, the Internal Audit Function must also ensure consistency in the process of preparation of the internal audit reports of each subsidiary.

The Internal Audit Function intervenes in the ESFG Group's subsidiaries either directly or by providing a functional and consistent framework to the subsidiaries which have in place their own structures to perform the Internal Audit Function.

In practice as mentioned above the Internal Audit Function presents a report on the deficiencies identified on their audits to the Executive Committee in their periodic meetings.



As at 31 December 2013 the main shareholders of ESFG were:

	Number of shares	%
Espírito Santo International S.A.	317,000	0.15
Espírito Santo Irmãos SGPS S.A.*	101,995,636	49.26
<b>Total</b>	<b>102,312,636</b>	<b>49.41</b>

\*A wholly owned subsidiary of Espírito Santo International S.A.

#### ESFG Share Performance

2013 was marked by a recovery in global economic activity: growth in the United States accelerated in the second half of the year, driven by the rebound in the labour and housing markets and the strong monetary policy stimuli implemented, while sentiment about the Eurozone also improved. In the second quarter the Eurozone GDP return to positive quarterly growth, supporting expectations for an increase of around 1% in 2014, following a 0.4% slump in 2013.

In Portugal, the good performance of exports and the stabilising trend of domestic demand supported an upturn of economic activity as from the second quarter, even if growth remained constrained by the deleveraging process under way across the various sectors. GDP registered an annual contraction of 1.5% in 2013, however it is forecast to grow by close to 1% in 2014. Portugal returned to the capital markets in December with a debt exchange operation (EUR 6.6 billion), immediately followed in January 2014 by a EUR 3.25 billion 5-year syndicated bond issue. After hitting a high of 7.5% in July, the yield on the 10-year treasury bonds closed the year at 6.13%, continuing to subside in the first months of 2014, to close to 5%. The PSI-20 index climbed by ca. 16% in 2013.

ESFG's shares are predominantly traded on the Lisbon NYSE Euronext exchange. ESFG shares make up part of the PSI20 with a weighting of close to 5.0%. ESFG's share price during 2013 declined from EUR 5.280 at the end of the year 2012 year to EUR 4.858 by year end 2013. The share price reached a high of EUR 5.65 per share in late January point before its retracement to the year-end close. The average daily traded number of shares was 122,521 in 2013 versus 48,928 shares a year earlier.

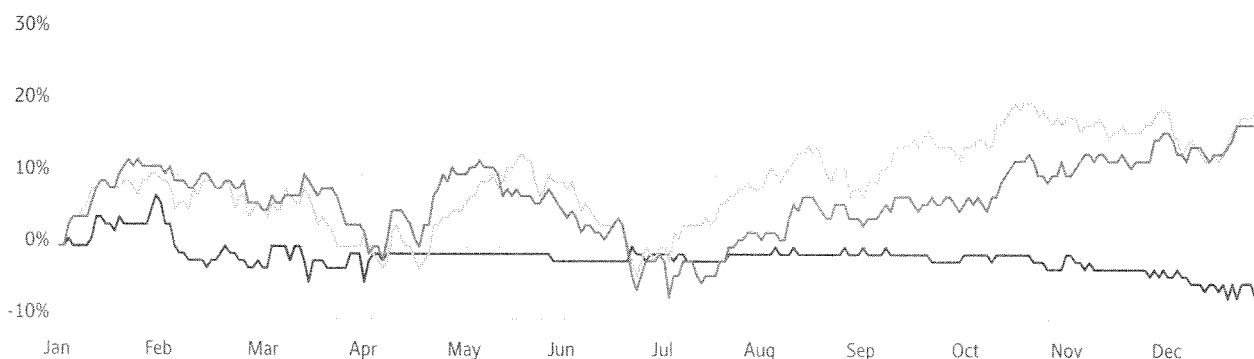
The market capitalisation of ESFG on the 31 December 2013 reached EUR 1.06 billion. During the reporting period no dividend was paid to shareholders.

ESFG has its shares and other securities listed and admitted for trading on the Luxembourg Stock Exchange (primary listing), the London Stock Exchange and NYSE Euronext Lisbon, as well as being admitted to the official list maintained by the UK Listing Authority and to trading on the London Stock Exchange's regulated market (secondary listings).

#### Performance of ESFG Shares

##### Price evolution 2013

■ ESFG ■ PS120 ■ Stoxx 600 European Bank Index



# Corporate Governance Report

continued

## Luxembourg Takeover Law disclosure

Compliance with Article 11 of the Luxembourg law of 19 May 2006, transposing Directive 2004/25/EC of 21 April 2004 the 'Law on Takeover Bids'.

## In what concerns article 11.1a, 1.b and 1.i:

### Shares, Capital and Shareholder Structure

#### Capital

ESFG's authorised capital is EUR 2.0 billion, represented by 2.0 billion shares with no par value. As at 31 December 2013, 207,075,338 shares have been issued, subscribed and fully paid, representing an issued capital of EUR 207,075,338.

Of these 13,920,852 (6.7% of total issued shares) are registered shares and 193,154,486 (93.3% of total issued shares) are bearer shares.

#### Types of shares

ESFG's shares are bearer or registered, at the option of the shareholder.

**Bearer Shares** – Bearer shares are represented by single or multiple share certificates.

**Registered Shares** – The name, address and number of shares of the holders of registered shares will be recorded in the shareholders' register. The shareholder register is kept at the Company's Registrar in Luxembourg.

#### Conversion of shares

Shares may be converted from one form to another, by order of and at the expense of the shareholder.

#### Voting rights

Each share entitles its shareholder to one vote.

The Board of Directors is authorised to issue shares in one or several tranches within the limits of the authorised capital on such terms and conditions as it shall approve, including such issue premium it may set forth. The Board of Directors is authorised and empowered to issue such new shares against payment in cash or in kind, by conversion of claims or in any other manner, more in particular by the conversion into capital of convertible bonds or notes that may from time to time be issued.

## Pre-emptive rights

The Board of Directors is authorised to cancel or limit the preferential subscription right in case of an increase of capital within the limits of the authorised capital. Such authorisation is valid for a period of five years from the date of the publication of the extraordinary shareholders' meeting approving the authorised capital and may be renewed for further periods of five years each by decision of a general meeting of shareholders.

There are no restrictions on the transfer of securities.

ESFG's shares are listed on three exchanges and are freely transferable.

## Article 11.1h

The directors are elected by a shareholder's meeting for a period six years and may be re-elected. The rules governing the appointment and replacement of board members are covered in Art 10 of the Articles of Association.

The Articles of Association may be changed at a shareholders' meeting and in accordance with Luxembourg company law.

## Some paragraphs of Article 11 are not applicable to ESFG:

- There are no significant direct and indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings. (11.1c)
- There are no holders of any securities with special control rights. (11.1d)
- There is no employee share scheme. (11.1e)
- There are no restrictions to voting rights. (11.1f)
- ESFG has no knowledge of any agreements between shareholders which may result in restrictions on the transfer of securities or voting rights. (11.1g)
- ESFG has issued bonds ('notes') which are listed on the Luxembourg Stock Exchange. The prospecti prepared in connection with the issuances of these bonds contain clauses that refer to the change to the terms of these notes under certain change of control conditions at ESFG. (11.1j)
- There are no agreements between ESFG and its board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid. (11.1k)

ESFG's Articles of Association may be found in ESFG's internet page [www.esfg.com](http://www.esfg.com)

---

# Directors and Officers

**Ricardo Espírito Santo Silva Salgado**  
Chairman

**José Manuel Pinheiro Espírito Santo Silva**  
Vice Chairman

**António Luís Roquette Ricciardi**

**Mário Mosqueira do Amaral<sup>1</sup>**

**Manuel Fernando Moniz Galvão Espírito Santo Silva**

**Jackson Behr Gilbert**

**Patrick Monteiro de Barros**

**Philippe Guiral**

**José Maria Espírito Santo Silva Ricciardi**

**Pedro Guilherme Beauvillain de Brito e Cunha**

**Carlos Augusto Machado de Almeida Freitas**

**Aníbal da Costa Reis Oliveira**

**Othman Benjelloun**

**José Pedro Torres Garcia Caldeira da Silva**

**Yves Alain Marie Morvan**

**Fernando Pedro Braga Pereira Coutinho**

**José Carlos Cardoso Castella**

**Bernard Basecqz**

**Gherardo Laffineur Petracchini**

**Manuel Guerrero Péman**

**José Manuel Ruivo da Pena**

**Luís António Burnay Pinto de Carvalho Daun e Lorena**

**Roger Henri Hartmann**

**João Filipe Carvalho Martins Pereira<sup>2</sup>**

<sup>1</sup> Died in March 2014

<sup>2</sup> Resigned in February 2014

## Officers

**Erich Dähler**  
Senior Vice President

**Jorge Penedo**  
Senior Vice President  
Chief Prudential Reporting Officer

**Jean-Luc Schneider**  
Senior Vice President  
Chief Accounting Officer

**Teresa de Souza**  
Senior Vice President  
Company Secretary

**Filipe Worsdell**  
Senior Vice President  
Chief Financial Officer

---

# Declaration

---

## **Declaration by the Board of Directors on Responsibility for the Information**

The Board of Directors of Espírito Santo Financial Group S.A. ('ESFG') is responsible for preparing the consolidated financial statements as at and for the year ended 31 December 2013 in accordance with International Financial Reporting Standard as adopted by the European Union as well as with the European Transparency Directive (2004/109/EC).

The Board of Directors reviewed the consolidated financial statements on 25 April 2014 and authorized their issue.

The Board of Directors of ESFG declares that:

- I. The consolidated financial statements of Espírito Santo Financial Group S.A. ('ESFG Group'), for the years ended 31 December 2012 and 31 December 2013, were prepared under the International Financial Reporting Standards ('IFRS'), as adopted by the European Union;
- II. To the best of their knowledge, the financial statements referred to in point (I) reflect a true and appropriate situation of the assets, liabilities, capital and results of ESFG, in accordance with IFRS as adopted by the European Union;
- III. The management report reflects adequately the business development, performance and financial position of ESFG Group during 2013 and contains a description of the main risks and uncertainties that the Group faces.

Luxembourg, 25 April 2014

### **Board of Directors**

**Ricardo Espírito Santo Silva Salgado**  
Chairman

**Roger Henri Hartmann**  
Director – Chief Executive Officer

# Principal addresses

## Luxembourg

### **Espírito Santo Financial Group S.A.**

22/24 boulevard Royal  
L-2449 Luxembourg  
T: +352 2747 3028  
F: +352 2747 3047

### **ESFIL-Espírito Santo Financière S.A.**

22/24 boulevard Royal  
L-2449 Luxembourg  
T: +352 434 9454  
F: +352 434 9454

### **Espírito Santo Wealth Management (Europe) S.A.**

22/24 boulevard Royal  
L-2449 Luxembourg  
T: +352 434 9454  
F: +352 434 9454

## Portugal

### **AdvanceCare – Gestão de Serviços de Saúde, S.A.**

Praça José Queirós, 1 – 4º  
1800-237 Lisboa  
T: +351 21 322 8000  
F: +351 21 322 8008

### **Banco Espírito Santo S.A.**

Av. da Liberdade, 195  
1250-142 Lisboa  
T: +351 21 350 1000  
F: +351 21 359 3474

### **Banco Espírito Santo de Investimento S.A.,**

Edifício Quartzó  
Rua Alexandre Herculano, 38  
1269-161 Lisboa  
T: +351 21 319 6900  
F: +351 21 330 9500

### **Banco Espírito Santo dos Açores S.A.**

Rua Hintze Ribeiro, 2 – 8  
9500-049 Ponta Delgada  
São Miguel  
Açores  
T: +351 296 307 000  
F: +351 296 307 054

### **BES Vida, Companhia de Seguros S.A.**

Avenida Columbano Bordalo Pinheiro  
nº 75 – 11º andar  
1070-061 Lisboa  
T: +351 707 247 365  
F: +351 21 315 3194

### **BEST – Banco Electrónico de Serviço Total S.A.**

Praça Marquês de Pombal, 3A, 3º andar  
1250-161 Lisboa  
T: +351 21 883 9310  
F: +351 21 883 9370

### **Companhia de Seguros Tranquilidade S.A.**

Av. da Liberdade, 242  
1250-149 Lisboa  
T: +351 21 350 3500  
F: +351 21 358 4232

### **ESAF – Espírito Santo Activos Financeiros, SGPS, S.A.**

Av. Álvares Cabral, 41  
1250-015 Lisboa  
T: +351 21 381 0800  
F: +351 21 381 0838

### **Espírito Santo Capital – Sociedade de Capital de Risco, S.A.**

Edifício Quartzó  
Rua Alexandre Herculano, 38  
1269-161 Lisboa  
T: +351 21 351 5840  
F: +351 21 351 5846

### **Espírito Santo Saúde SGPS, S.A.**

Edifício Amoreiras Square,  
Rua Carlos Alberto da Mota Pinto, 17-9.º  
1350-264 Lisboa  
T: +351 21 313 8260  
F: +351 21 353 0292

### **Europ Assistance Portugal**

Av. Columbano Bordalo Pinheiro, 75 – 10º  
1070-061 Lisboa  
T: +351 21 386 0003  
F: +351 21 386 0308

### **Seguros Logo S.A.**

D. Manuel II, 290  
4001-809 Porto  
T: +351 21 330 6605  
F: +351 21 358 5214

# Principal addresses

continued

---

## Angola

**Banco Espírito Santo Angola S.A.R.L.**  
Rua do 1º Congresso do MPLA, nº 27/31  
Luanda  
CP6459 Luanda  
T: +244 222 693 600  
F: +244 222 693 698

**Tranquilidade – Cooperação Angola de Seguros**  
Edifício ESCOM  
Rua Marechal Brós Tito, 35 – 15º A  
Luanda – Angola  
T: +244 226 434 510

---

## Brazil

**BES Investimento do Brasil S.A. – Banco de Investimento**  
Av. Brigadeiro Faria Lima, 3729 – 9º andar  
Itaim Bibi, 04538-905  
São Paulo – SP, Brasil  
T +55 11 3074 7444  
F +55 11 3074 7469

**BES Securities do Brasil S.A.**  
Av. Brigadeiro Faria Lima, 3729 – 9º andar  
Itaim Bibi, 04538-905  
São Paulo – SP, Brasil  
T: +55 11 3074 7051  
F: +55 11 3074 7562

---

## Cape Verde Islands

**Banco Espírito Santo, Sucursal**  
Financeira Exterior em Cabo Verde, S.A.  
Av. Cidade de Lisboa, CP 35  
Cidade da Praia – Santiago – Cabo Verde  
T: +238 260 1290  
F: +238 260 1291

**Banco Espírito Santo Cabo Verde, S.A.**  
Av. Cidade de Lisboa, CP 35  
Praia – Santiago – Cabo Verde  
T: +238 260 2626  
F: +238 260 2630

---

## Cayman Islands

**Bank Espírito Santo (International) Limited**  
Grand Pavilion Commercial Centre  
802, West Bay Road  
P.O. Box 10507  
Grand Cayman KY1-1005  
Cayman Islands, B.W.I.  
T: +345 949 3128  
F: +345 949 6911

---

## China

**Banco Espírito Santo, S.A.**  
25th Floor, Suite 2509  
161 China Merchants Tower  
Lujiazui Dong (East) Road  
Pu Dong  
Shanghai 200120  
P.R. China  
T: +8621 5887 0016  
F: +8621 5876 8213

---

## France

**Banque Espírito Santo et de la Vénétie S.A.**  
45 Avenue Georges Mandel  
75116 Paris  
T: +331443 44800  
F: +331443 44880

---

## Ireland

**Espírito Santo Investment Plc.**  
4th Floor, Spencer House  
71/73 Talbot Street  
Dublin 1  
Ireland  
T: +353 1856 0699  
F: +353 1813 4366

**Espírito Santo Plc**  
77 Sir John Roggerson's Quay  
Fitzwilliam Business Centre, Suite 217  
Dublin 2  
Ireland  
T: +353 1640 1991  
F: +353 1640 1992

---

**Libya**

**Aman Bank for Commerce**  
PO Box 91271  
Tripoli  
Libya  
T: +218 021478 0025  
F: +218 021477 8182

**Macao**

**Banco Espírito Santo do Oriente S.A.**  
Av. Dr. Mário Soares 323  
Edifício Banco da China, 28th Floor  
Macao  
T: +853 28 785222  
F: +853 28 785228

**Mozambique**

**Moza Banco, S.A.**  
Av. Kwame Nkrumah, 97  
C. Postal 1012  
Maputo  
Moçambique  
T: +258 21342000  
F: +258 21342001

**Tranquilidade Moçambique Companhia de Seguros, S.A.**  
Av. Armando Tivane, 1212  
Maputo  
Moçambique  
T: +258 21 483710 / 15  
F: +258 21 040140

**Panama**

**ES Bank (Panama) S.A.**  
Oceania Business Plaza  
Torre 2000, Piso 22, Oficinas Cy D  
Apartado Postal No. 0832-0847  
Punta Pacífica, Panamá  
República de Panamá  
T: +507 282 6650  
F: +507 830 7523

**Poland**

**Banco Espírito Santo de Investimento, S.A.**  
Spółka Akcyjna, Oddział w Polsce  
59th Złota Street  
Floor V  
00-120 Warsaw  
Poland  
T: +48 22 347 40 00  
F: +48 22 347 40 99

**Banque Privée Espírito Santo S.A.**  
Spółka Akcyjna, Oddział w Polsce  
59th Złota Street  
Floor V  
00-120 Warsaw  
Poland  
T: +48 22 347 40 36

**Spain**

**Banco Espírito Santo S.A. – Sucursal en España**  
Calle Serrano 88  
28006 Madrid  
T: +34 91400 5000  
F: +34 91364 8037

**Banco Espírito Santo de Investimento – Sucursal en España**  
Calle Serrano 88, 4ª Planta  
28006 Madrid  
T: +34 91400 5400  
F: +34 91431 9387

**Espírito Santo Gestión**  
Calle Serrano 88, 5ª Planta  
28006 Madrid  
T: +34 91-400 55 00  
F: +34 91-364 80 77

**Espírito Santo Pensiones**  
Calle Serrano 88, 5ª Planta  
28006 Madrid  
T: +34 91400 5500  
F: +34 91364 8067

# Principal addresses

continued

---

## Switzerland

**Banque Privée Espirito Santo S.A.**  
70A Avenue Général Guisan  
Case Postale 107  
CH-1009 Pully  
T: +41 21 619 5555  
F: +41 21 619 5557

---

## United Arab Emirates

**ESBD – Espirito Santo Financial Group**  
The Gate, West Wing, Level 12,  
Dubai International Financial Centre,  
P.O. Box 506627  
DUBAI  
UAE  
T: +9714 709 0000  
F: +9714 709 0177

---

## United Kingdom

**Banco Espirito Santo S.A.**  
10 Paternoster Square  
London EC4M 7AL  
T: +44 20 7332 4300  
F: +44 20 7332 4340

**Espirito Santo Financial Group S.A.**  
10 Paternoster Square  
London EC4M 7AL  
T: +44 20 3429 2100  
F: +44 20 3429 2103

**Espirito Santo Investment Bank**  
10 Paternoster Square  
London EC4M 7AL  
T: +44 20 7456 9191  
F: +44 20 7332 9189

---

## USA

**Banco Espirito Santo S.A.**  
320 Park Avenue, 29th Floor  
New York  
N.Y. 10022  
T: +1 212 702 3400  
F: +1 212 980 1777

**Espirito Santo Bank**  
1395 Brickell Avenue, 4th floor  
Miami  
Florida 33131  
T: +1 305 347 8330  
F: +1 305 371 4556

**Espirito Santo Financial Services Inc.**  
New York Branch  
340 Madison Avenue, 12th Floor  
New York, NY 10173  
T: +1 212 351 6000  
F: +1 212 351 6099



# Contacts

**Espírito Santo Financial Group S.A.**  
22/24 boulevard Royal  
L-2449 Luxembourg

**Investor Relations**

Filipe Worsdell  
Espírito Santo Financial Group S.A.  
10 Paternoster Square  
London EC4M 7AL

T: +44 20 3429 2100  
F: +44 20 3429 2103  
Email: fworsdell@esfg.com

Miles Chapman  
Taylor Rafferty  
2nd Floor  
85 Fleet Street  
London EC4Y 1AE

T: +44 20 7614 2916  
Email: miles.chapman@taylor-rafferty.com

**Company Secretary**

Teresa de Souza  
Espírito Santo Financial Group S.A.  
10 Paternoster Square  
London EC4M 7AL

T: +44 20 3429 2100  
F: +44 20 3429 2103  
Email: tsouza@esfg.com

**For further information about the Company visit:**  
[www.esfg.com](http://www.esfg.com)

**Websites of other Group companies:**

[www.bancobest.pt](http://www.bancobest.pt)  
[www.bes.es](http://www.bes.es)  
[www.bes.pt](http://www.bes.pt)  
[www.besa.ao](http://www.besa.ao)  
[www.bescv.cv](http://www.bescv.cv)  
[www.besdosacores.pt](http://www.besdosacores.pt)  
[www.besinvestimento.com.br](http://www.besinvestimento.com.br)  
[www.bessecurities.com.br](http://www.bessecurities.com.br)  
[www.besv.fr](http://www.besv.fr)  
[www.esaf.pt](http://www.esaf.pt)  
[www.esbankersdubai.com](http://www.esbankersdubai.com)  
[www.esbf.com](http://www.esbf.com)  
[www.escapital.pt](http://www.escapital.pt)  
[www.esinvestment.com](http://www.esinvestment.com)  
[www.espensiones.com](http://www.espensiones.com)  
[www.espiritosanto.com](http://www.espiritosanto.com)  
[www.essaude.pt](http://www.essaude.pt)  
[www.es-ventures.com](http://www.es-ventures.com)  
[www.europassistance.pt](http://www.europassistance.pt)  
[www.logo.pt](http://www.logo.pt)  
[www.tranquilidade.pt](http://www.tranquilidade.pt)

---

# Financial Statements Annual Report and Consolidated Financial Statements 2013

---

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**

**CONSOLIDATED FINANCIAL STATEMENTS  
AS AT 31 DECEMBER 2013**

22 - 24 Boulevard Royal  
L-2449 Luxembourg

RCS: Luxembourg B22.232

Report of the Réviseur d'Entreprises agréé	
Consolidated Income Statement for the years ended 31 December 2013 and 2012	F-2
Consolidated Statement of Comprehensive Income for the years ended 31 December 2013 and 2012	F-3
Consolidated Balance Sheet as at 31 December 2013 and 2012	F-4
Statement of changes in Consolidated Equity for the years ended 31 December 2013 and 2012	F-5
Consolidated Cash Flow Statement for the years ended 31 December 2013 and 2012	F-6
Notes to the Consolidated Financial Statements as at 31 December 2013 and 2012	F-7



KPMG Luxembourg S.à.r.l.  
9, allée Scheffer  
L-2520 Luxembourg

Telephone +352 22 51 51 1  
Fax +352 22 51 71  
Internet www.kpmg.lu  
Email info@kpmg.lu

To the Shareholders of  
Espírito Santo Financial Group S.A.  
22/24 boulevard Royal  
L-2449 Luxembourg

## REPORT OF THE REVISEUR D'ENTREPRISES AGREE

### *Report on the consolidated financial statements*

We have audited the accompanying consolidated financial statements of Espírito Santo Financial Group S.A., which comprise the consolidated statements of financial position as at December 31, 2013 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Board of Director's responsibility for the consolidated financial statements*

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Responsibility of the Réviseur d'Entreprises agréé*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### *Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Espírito Santo Financial Group S.A. as of December 31, 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### *Emphasis of Matter*


Without qualifying our opinion included in the previous paragraph, we draw attention to Note 41 and Note 47 of the annual accounts, which describe the euro 700 million provision in relation with the subscription by ESFG customers of debt instruments issued by Espírito Santo International S.A. ('ESI'). The Board of Directors of ESFG believes that the reimbursement of the debt instruments issued by ESI will be possible through implementation of the deleverage program, the support of ESI shareholders, its capacity to obtain or renew credit lines in the financial markets and, additionally, through the support from ESFG.

### *Report on other legal and regulatory requirements*

The consolidated management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements. The accompanying Corporate Governance Statement on pages 30 to 40 which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and includes the information required by the law.

Luxembourg, April 28, 2014

KPMG Luxembourg S.à r.l.  
Cabinet de révision agréé



F. Rouault

# ESPÍRITO SANTO FINANCIAL GROUP SA

## CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012

	Notes	31.12.2013	31.12.2012
(in thousands of euro)			
Interest and similar income	5	3 629 256	4 097 681
Interest expense and similar charges	5	2 536 761	2 832 460
<b>Net interest income</b>		<b>1 092 495</b>	<b>1 265 221</b>
Dividend income		58 394	73 167
Fee and commission income	6	926 760	1 035 146
Fee and commission expenses	6	( 203 628)	( 185 532)
Net (losses) from financial assets and financial liabilities at fair value through profit or loss	7	( 294 970)	( 54 762)
Net gains from available-for-sale financial assets	8	451 649	605 568
Net (losses) from foreign exchange differences	9	( 2 688)	( 18 369)
Net (losses) from the sale of other assets	10	( 67 063)	( 42 573)
Insurance earned premiums net of reinsurance	11	694 668	407 632
Other operating income	12	74 843	458 937
<b>Operating income</b>		<b>2 730 460</b>	<b>3 544 435</b>
Staff costs	13	692 734	777 707
General and administrative expenses	15	518 076	502 760
Claims incurred net of reinsurance	16	483 218	631 943
Change in technical reserves net of reinsurance	17	153 331	( 336 660)
Insurance commissions	18	( 152 256)	39 256
Depreciation and amortisation	30 and 32	119 458	145 779
Provisions net of reversals	41	695 651	57 251
Loans impairment net of reversals and recoveries	26	1 005 293	794 291
Impairment on other financial assets net of reversals	24, 25 and 27	109 978	106 737
Impairment on other assets net of reversals	29, 30, 32 and 35	323 877	223 070
Other operating expenses	12	157 969	276 990
<b>Operating expenses</b>		<b>4 107 329</b>	<b>3 219 124</b>
Gains on disposal of investments in subsidiaries and associates	1 and 55	3	74 050
Gains arising on business combinations achieved in stages	1 and 55	-	87 273
Share of profit of associates	33	8 823	4 756
<b>(Loss) / profit before income tax</b>		<b>(1 368 043)</b>	<b>491 390</b>
<b>Income tax</b>			
Current tax	42	157 432	152 159
Deferred tax	42	( 321 625)	( 41 157)
		<b>( 164 193)</b>	<b>111 002</b>
<b>(Loss) / profit from continuing operations</b>		<b>(1 203 850)</b>	<b>380 388</b>
Discontinued operations	29	( 30 796)	( 8 684)
<b>(Loss) / profit for the year</b>		<b>(1 234 646)</b>	<b>371 704</b>
<b>Attributable to equity holders of the Company</b>		<b>( 864 031)</b>	<b>313 633</b>
<b>Attributable to non-controlling interest</b>	46	<b>( 370 615)</b>	<b>58 071</b>
		<b>(1 234 646)</b>	<b>371 704</b>
Earnings per share of profit attributable to the equity holders of the Company:			
Basic (in Euro)	19	(4.23)	1.86
Diluted (in Euro)	19	(4.23)	1.86
Earnings per share of profit from continuing operations attributable to the equity holders of the Company:			
Basic (in Euro)	19	(4.19)	1.91
Diluted (in Euro)	19	(4.19)	1.91

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

# ESPIRITO SANTO FINANCIAL GROUP SA

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012

	31.12.2013	31.12.2012
	(in thousands of euro)	
<b>(Loss) / profit for the year</b>		
Attributable to equity holders of the company	( 864 031)	313 633
Attributable to non-controlling interest	( 370 615)	58 071
	<u>(1 234 646)</u>	<u>371 704</u>
<b>Other comprehensive income, net of income tax</b>		
<b>Items that will not be reclassified to the income statement</b>		
Actuarial gains and (losses) from defined benefit obligation (Note 14)	( 107 130)	( 189 479)
Income taxes on actuarial gains and losses from defined benefit obligation	1 380	18 597
	<u>( 105 750)</u>	<u>( 170 882)</u>
<b>Items that may be reclassified subsequently to the income statement</b>		
Exchange differences on translating foreign operations	( 80 274)	( 58 581)
Income taxes on exchange differences on translating foreign operations	( 6 663)	3 247
Other comprehensive income from associates	1 975	( 10 009)
	<u>( 84 962)</u>	<u>( 65 343)</u>
Fair value reserve (available-for-sale financial assets):		
Net change in fair value	175 317	1 274 898
Net amount transferred to the income statement	( 341 219)	( 506 250)
Deferred taxes on gains / losses of available-for-sale financial assets	42 699	( 129 070)
	<u>( 123 203)</u>	<u>639 578</u>
<b>Total items that may be reclassified subsequently to the income statement</b>	<u>( 208 165)</u>	<u>574 235</u>
<b>Other comprehensive (loss) / income for the year, net of income tax</b>	<u>( 313 915)</u>	<u>403 353</u>
<b>Total comprehensive (loss) / income for the year</b>	<u>(1 548 561)</u>	<u>775 057</u>
<b>Attributable to equity holders of the Company</b>	<u>( 945 085)</u>	<u>445 317</u>
<b>Attributable to non-controlling interest</b>	<u>( 603 476)</u>	<u>329 740</u>
	<u>(1 548 561)</u>	<u>775 057</u>

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



## ESPÍRITO SANTO FINANCIAL GROUP SA

### CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2013 AND 2012

	Notes	31.12.2013	31.12.2012
(in thousands of euro)			
<b>Assets</b>			
Cash and deposits at central banks	20	1 828 674	1 444 831
Deposits with banks	21	1 148 934	1 126 853
Financial assets held for trading	22	2 488 465	3 981 845
Other financial assets at fair value through profit or loss	23	3 564 118	2 603 463
Available-for-sale financial assets	24	8 929 778	11 041 235
Loans and advances to banks	25	4 827 790	4 548 247
Loans and advances to customers	26	49 270 667	50 692 878
Held-to-maturity investments	27	1 672 068	1 119 047
Derivatives for risk management purposes	28	363 391	516 520
Non-current assets held for sale	29	3 567 011	3 280 185
Property and equipment	30	974 229	982 617
Investment properties	31	719 422	797 323
Intangible assets	32	608 269	703 210
Investments in associates	33	606 473	640 614
Technical reserves of reinsurance ceded	34	76 899	70 773
Current income tax assets		40 967	28 811
Deferred income tax assets	42	1 064 883	760 953
Other assets	35	3 097 613	3 234 655
<b>Total assets</b>		<b>84 849 651</b>	<b>87 574 060</b>
<b>Liabilities</b>			
Deposits from central banks	36	9 772 244	10 941 325
Financial liabilities held for trading	22	1 336 768	2 124 225
Deposits from banks	37	5 033 494	5 065 980
Due to customers	38	38 093 807	35 625 474
Debt securities issued	39	12 615 208	15 952 870
Derivatives for risk management purposes	28	130 710	125 199
Investment contracts	40	4 473 921	3 844 020
Non-current liabilities held for sale	29	153 580	175 945
Provisions	41	917 020	255 601
Technical reserves of direct insurance	34	2 643 156	2 488 328
Current income tax liabilities		122 313	253 406
Deferred income tax liabilities	42	96 972	154 736
Subordinated debt	43	1 403 188	1 176 482
Other liabilities	44	1 345 833	1 268 442
<b>Total liabilities</b>		<b>78 138 214</b>	<b>79 452 033</b>
<b>Equity</b>			
Share capital	45	207 075	207 075
Treasury shares	45	(3 459)	(35 965)
Share premium	45	884 456	884 456
Preference shares	45	51 367	55 978
Other equity components	45	26 418	58 100
Capital reserve not available for distribution	45	700 970	700 970
Fair value reserve	45	(3 208)	25 771
Other reserves and retained earnings	45	284 548	(10 282)
(Loss) / profit for the year attributable to equity holders of the Company		(864 031)	313 633
<b>Total equity attributable to equity holders of the Company</b>		<b>1 284 136</b>	<b>2 199 736</b>
Non-controlling interest	46	5 427 301	5 922 291
<b>Total equity</b>		<b>6 711 437</b>	<b>8 122 027</b>
<b>Total equity and liabilities</b>		<b>84 849 651</b>	<b>87 574 060</b>

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

## ESPIRITO SANTO FINANCIAL GROUP

### STATEMENT OF CHANGES IN CONSOLIDATED EQUITY FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012

	Share capital	Treasury shares	Share premium	Preference shares	Other equity instruments	Fair value reserve	Capital reserves non distributable	Other reserves and retained earnings	Profit / (loss) for the year attributable to equity holders of the Company	Total equity attributable to equity holders of the Company	Non-controlling interest	Total equity
<b>Balance as at 31 December 2011</b>	105 035	-	492 912	72 428	59 874	( 165 624)	700 970	( 118 847)	121 352	1 266 806	4 973 023	6 239 823
<b>Comprehensive income</b>												
Profit for the year	-	-	-	-	-	-	-	-	315 635	315 635	58 071	373 704
Other comprehensive income for the year, net of taxes	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value, net of taxes	-	-	-	-	-	191 395	-	-	-	191 395	448 183	639 578
Actual gains and (losses) from defined benefit obligation, net of taxes	-	-	-	-	-	-	( 45 575)	( 45 575)	( 45 575)	( 45 575)	( 125 307)	( 139 822)
Exchange differences, net of taxes	-	-	-	-	-	-	( 11 545)	( 11 545)	( 11 545)	( 11 545)	( 8 876)	( 20 421)
Other comprehensive income from associates	-	-	-	-	-	-	( 2 680)	( 2 680)	( 2 680)	( 2 680)	( 2 329)	( 4 749)
<b>Total comprehensive income for the year</b>								<b>( 59 711)</b>	<b>313 633</b>	<b>445 317</b>	<b>329 740</b>	<b>775 057</b>
<b>Transactions with owners, recorded directly in equity</b>												
Share capital increase	102 040	-	397 960	-	-	-	-	-	-	500 000	-	500 000
Costs with respect to share repurchases	-	-	( 6 416)	-	-	-	-	( 6 416)	( 6 416)	( 6 416)	( 8 730)	( 15 146)
Transfer of treasury shares	-	-	-	-	-	-	-	227 332	( 127 852)	( 3 416)	( 8 730)	( 12 146)
Movements in treasury shares	-	-	-	-	-	-	-	-	-	( 3 965)	-	( 3 965)
Repurchase and exchange of non-voting equity instruments	-	-	-	-	( 474)	-	-	-	-	( 474)	-	( 474)
Transactions on subsidiaries preference shares	-	-	-	16 450	-	-	-	16 450	-	( 6 209)	-	( 6 209)
Dividends on preference shares (a)	-	-	-	-	-	-	-	3 371	-	3 371	( 15 417)	( 12 046)
Dividends on perpetual bonds	-	-	-	-	-	-	-	( 5 963)	-	( 5 963)	( 4 386)	( 10 349)
Transactions with non-controlling interest (see Note 53)	-	-	-	-	-	-	-	( 319)	-	( 319)	( 1 345)	( 1 664)
Other	-	-	-	-	-	-	-	4 638	-	4 638	( 2 612)	( 2 974)
<b>Balance as at 31 December 2012</b>	<b>207 075</b>	<b>( 35 965)</b>	<b>884 456</b>	<b>55 978</b>	<b>59 100</b>	<b>25 771</b>	<b>700 970</b>	<b>( 10 282)</b>	<b>313 633</b>	<b>2 199 736</b>	<b>5 922 291</b>	<b>8 122 027</b>
<b>Comprehensive income</b>												
Loss for the year	-	-	-	-	-	-	-	-	( 884 031)	( 884 031)	( 370 612)	( 1 254 643)
Other comprehensive income for the year, net of taxes	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value, net of taxes	-	-	-	-	-	( 28 979)	-	-	-	( 28 979)	( 94 234)	( 123 213)
Actual gains and (losses) from defined benefit obligation, net of taxes	-	-	-	-	-	-	-	( 34 210)	-	( 34 210)	( 71 340)	( 105 550)
Exchange differences, net of taxes	-	-	-	-	-	-	-	( 18 679)	-	( 18 679)	( 68 308)	( 87 987)
Other comprehensive income from associates	-	-	-	-	-	-	-	781	-	781	1 211	1 992
<b>Total comprehensive income for the year</b>								<b>( 52 075)</b>	<b>( 864 031)</b>	<b>( 945 085)</b>	<b>( 603 479)</b>	<b>( 1 548 564)</b>
<b>Transactions with owners, recorded directly in equity</b>												
Transfer to reserves	-	-	-	-	-	-	-	314 633	( 314 633)	-	-	-
Movements in treasury shares	-	32 506	-	-	-	-	-	-	-	32 506	-	32 506
Repurchase and exchange of own other equity instruments	-	-	-	-	( 31 682)	-	-	-	-	( 31 682)	( 29 519)	( 61 201)
Transactions on subsidiaries preference shares	-	-	-	( 4 611)	-	-	-	-	-	( 4 611)	( 5 688)	( 10 299)
Dividends on preference shares (a)	-	-	-	-	-	-	-	( 5 159)	-	( 5 159)	( 19 213)	( 24 372)
Dividends on perpetual bonds	-	-	-	-	-	-	-	( 600)	-	( 600)	( 1 591)	( 2 191)
Transactions with non-controlling interest	-	-	-	3 016	-	-	-	3 016	-	3 016	( 33 214)	( 30 198)
Other	-	-	-	-	-	-	-	862	-	862	197 878	198 740
<b>Balance as at 31 December 2013</b>	<b>207 075</b>	<b>( 3 450)</b>	<b>884 456</b>	<b>51 367</b>	<b>26 418</b>	<b>( 1 209)</b>	<b>700 970</b>	<b>281 518</b>	<b>( 864 031)</b>	<b>1 284 136</b>	<b>5 427 801</b>	<b>6 711 937</b>

(a) Corresponds to a preferred dividend paid by BES Finance calculated based on an annual rate of 5.38% on the nominal amount of the preference shares outstanding and to the preferred dividend paid by ESFO International calculated based on an annual rate of 7.75% on the nominal amount of the preference shares outstanding (see note 45).

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

## ESPÍRITO SANTO FINANCIAL GROUP SA

### CONSOLIDATED CASH FLOW STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012

Notes	31.12.2013	31.12.2012
	(in thousands of euro)	
<i>Cash flows from operating activities</i>		
Interest and similar income received	3 410 463	4 117 818
Interest expense and similar charges paid	(2 298 066)	(2 859 407)
Fees and commission received	928 480	1 040 330
Fees and commission paid	( 60 519)	( 232 625)
Insurance premiums	698 064	455 608
Claims paid	( 501 148)	( 629 661)
Medical services income received	13 816	338 201
Medical services expenses paid	( 2 572)	( 196 622)
Recoveries on loans previously written off	21 063	21 900
Contributions to pension fund	( 103 806)	( 86 410)
Cash payments to employees and suppliers	(1 127 514)	(1 230 679)
<b>Net cash from operating profits before changes in operating assets and liabilities</b>	<b>978 261</b>	<b>738 453</b>
Deposits with central banks	(1 821 520)	(2 836 014)
Financial assets at fair value through profit and loss	( 593 867)	1 336 341
Loans and advances to banks	284 582	746 249
Deposits from banks	( 23 670)	(1 247 339)
Loans and advances to customers	( 250 761)	( 526 961)
Due to customers	2 445 089	658 356
Derivatives for risk management purposes	63 281	226 558
Other operational assets and liabilities	( 23 286)	( 482 065)
<b>Net cash from operating activities before income tax</b>	<b>1 058 109</b>	<b>(1 386 422)</b>
Income taxes paid	( 290 237)	( 51 189)
<b>Net cash from operating activities</b>	<b>767 872</b>	<b>(1 437 611)</b>
<i>Cash flows from investing activities</i>		
Purchase of subsidiaries and associates	( 44 982)	( 367 428)
Sale of subsidiaries and associates	80 079	202 762
Dividends received	64 647	74 217
Purchase of financial assets available for sale	(55 955 501)	(70 323 809)
Sale of financial assets available for sale	58 759 065	73 794 572
Held to maturity investments	( 541 690)	681 033
Issued insurance investment contracts	424 305	482 542
Purchase of tangible and intangible assets and investment properties	( 183 108)	( 544 684)
Sale of tangible and intangible assets and investment properties	26 422	14 068
<b>Net cash (used in) / from investing activities</b>	<b>2 629 237</b>	<b>4 013 273</b>
<i>Cash flows from financing activities</i>		
Capital increase	-	493 584
Repurchase of preference shares	( 2 757)	( 17 627)
Debt securities issued	6 615 714	14 112 540
Debt securities paid	(9 842 434)	(17 669 609)
Subordinated debt issued	750 400	-
Subordinated debt paid	( 510 515)	( 234 386)
Treasury stock	38 639	( 15 222)
Non-controlling interest on capital increase of subsidiaries	-	755 511
Interest on other equity instruments	( 2 191)	( 1 864)
Dividend paid on ordinary shares	( 1 673)	( 6 329)
Dividend paid on preferred shares	( 10 217)	( 15 213)
<b>Net cash from financing activities</b>	<b>(2 965 034)</b>	<b>(2 598 615)</b>
Effect of exchange rate changes on cash and cash equivalents	( 74 554)	( 27 291)
<b>Net increase in cash and cash equivalents</b>	<b>357 521</b>	<b>( 50 244)</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>2 123 505</b>	<b>1 990 928</b>
<b>Cash and cash equivalents at end of the year</b>	<b>2 481 026</b>	<b>2 123 505</b>
<b>Cash acquired on change in scope of consolidation</b>	<b>-</b>	<b>182 821</b>
	<b>357 521</b>	<b>( 50 244)</b>
<b>Cash and cash equivalent includes:</b>		
Cash	20 289 349	304 409
Deposits with Central Banks	20 1 539 325	1 140 422
Mandatory deposits with Central Banks	20 ( 496 582)	( 448 179)
Deposits with banks	21 1 148 934	1 126 853
<b>Total</b>	<b>2 481 026</b>	<b>2 123 505</b>

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 1 - ACTIVITY AND GROUP STRUCTURE**

Espírito Santo Financial Group S.A. (ESFG or the Group) is a limited liability company headquartered in Luxembourg, incorporated under Luxembourg law on 28 November 1984, and is the holding company of the banking and financial activities of the Espírito Santo Group (GES) located in Luxembourg, Portugal and around the world. Most of the non financial activities of the Espírito Santo Group, including real estate, tourism and other activities are managed by Rio Forte Investments S.A., a limited liability company headquartered in Luxembourg and a fully owned subsidiary of E.S. International S.A. (ESI), a company headquartered in Luxembourg.

In December 2013, Espírito Santo Irmãos S.A., a fully-owned subsidiary (direct and indirect) of Rio Forte Investments S.A., acquired from ESI its participation in ESFG. Consequently, Rio Forte Investments S.A., became the indirect holder of the interest of the Espírito Santo Group in ESFG. The terms and conditions of the agreement established between ES Irmãos and ESI were met only during the month of January 2014, therefore control over ESFG was obtained by Rioforte only in 2014. As a result, from 1 January 2014, ESFG will be fully consolidated by Rio Forte.

The ultimate parent company of ESFG remains Espírito Santo Control S.A. (ESC), a company headquartered in Luxembourg, direct parent company of ESI.

Consolidated financial statements of ESFG are available at the Company's registered office at 22-24 Boulevard Royal in Luxembourg. There are no audited consolidated financial statements at the level of ESI or ESC.

Through its subsidiaries, the Group (ESFG and its subsidiaries) engages in a broad range of financial activities primarily through Banco Espírito Santo S.A. and its insurance companies: Companhia de Seguros Tranquilidade S.A., BES Vida, S.A. and T-Vida, Companhia de Seguros S.A.. Its operations abroad complement its Portuguese activities.

ESFG is listed on the Luxembourg, London and Lisbon Stock Exchanges.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The following table describes the main activity of each of the Group's subsidiaries and associates as at 31 December 2013 and 31 December 2012:

Subsidiaries	Activity	Location	31.12.2013		31.12.2012	
			Voting interest	Economic interest	Voting interest	Economic interest
Advancicare - Gestão de Serviços de Saúde, S.A.	Managed care	Portugal	51.0%	51.0%	51.0%	51.0%
Aman Bank for Commerce and Investment Stock Company (a)	Commercial banking	Libya	40.0%	11.0%	40.0%	10.9%
AOC Patrimoine	Assets management	France	100.0%	56.5%	100.0%	56.4%
Arábida - Fundo Especial de Investimento Imobiliário Fechado	Real Estate Fund	Portugal	100.0%	26.7%	-	-
Atlantic Ventures Corporation	Holding company	USA	100.0%	18.1%	100.0%	22.1%
Atlantic Ventures III Corporation	Holding company	USA	-	-	100.0%	20.9%
Avistar, SGPS, S.A.	Holding company	Portugal	100.0%	27.4%	100.0%	27.4%
Banco Espirito Santo Angola, S.A.R.L.	Commercial banking	Angola	55.7%	15.3%	51.9%	14.2%
Banco Espirito Santo de Investimento, S.A.	Investment banking	Portugal	100.0%	27.4%	100.0%	27.4%
Banco Espirito Santo do Oriente, S.A.	Commercial banking	Macao	99.8%	27.4%	99.8%	27.3%
Banco Espirito Santo dos Açores, S.A.	Commercial banking	Portugal	57.5%	15.8%	57.5%	15.7%
Banco Espirito Santo North America Capital Limited Liability Co.	Financing vehicle	USA	100.0%	27.4%	100.0%	27.4%
Banco Espirito Santo, S.A. (a)	Commercial banking	Portugal	36.7%	27.4%	36.7%	27.4%
Banco Espirito Santo Cabo Verde	Commercial banking	Cape Green	100.0%	27.4%	100.0%	27.4%
Bank Espirito Santo International, Ltd.	Commercial banking	Cayman Islands	100.0%	27.4%	100.0%	27.4%
Banque Espirito Santo et de la Vénétie, S.A.	Commercial banking	France	87.5%	56.5%	87.5%	56.5%
Banque Privée Espirito Santo, S.A.	Asset management	Switzerland	100.0%	100.0%	100.0%	100.0%
BES Activos Financieros, Ltda	Asset management	Brazil	100.0%	23.3%	100.0%	23.2%
BES Africa, SGPS, S.A.	Holding company	Portugal	100.0%	27.4%	100.0%	27.4%
BES Beteiligungs, GmbH	Holding company	Germany	100.0%	27.4%	100.0%	27.4%
BES Finance, Ltd.	Financing vehicle	Cayman Islands	100.0%	27.4%	100.0%	27.4%
BES Investimento do Brasil, S.A.	Investment banking	Brazil	80.0%	21.9%	80.0%	21.9%
BES-Vida, Companhia de Seguros, S.A.	Insurance	Portugal	100.0%	27.4%	100.0%	27.4%
R Invest Ltda	Services provider	Brazil	-	-	100.0%	21.9%
R Consult Participações Ltda	Services provider	Brazil	-	-	100.0%	21.9%
BESA Valoração - Fundo de Investimento Imobiliário Fechado	Asset management - Real Estate funds	Angola	100.0%	15.3%	-	-
BES Securities do Brasil, S.A.	Brokerage house	Brazil	100.0%	21.9%	100.0%	21.9%
BESAACTIVE - Sociedade Gestora de Fundos de Investimento S.A.	Asset management - Mutual funds	Angola	97.0%	18.1%	97.0%	17.4%
BESAACTIVE Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Asset management - Pensions funds	Angola	97.0%	18.1%	97.0%	17.4%
BESPAR, SGPS, S.A.	Holding company	Portugal	73.6%	73.6%	73.6%	73.6%
BEST - Banco Electrónico de Serviço Total, S.A.	Internet banking	Portugal	75.0%	27.1%	75.0%	27.1%
BIC International Bank Ltd	Commercial banking	Cayman Islands	100.0%	27.4%	100.0%	27.4%
Capital Mais - Assesora Financeira, S.A.	Advisory services	Portugal	100.0%	24.7%	100.0%	24.6%
Caravela Balanced Fund	Investment Fund	Luxembourg	54.9%	15.1%	55.0%	15.0%
Caravela Defensive Fund	Investment Fund	Luxembourg	99.7%	27.4%	99.2%	27.1%
Clear Capital Group Limited	Holding company	United Kingdom	-	-	100.0%	18.7%
Clear Info. Analytics Private Ltd	Provides analytics support to UK research	India	100.0%	27.4%	100.0%	18.7%
COMINVEST - Sociedade de Gestão e Investimento Imobiliário S.A.	Real-estate	Portugal	100.0%	27.1%	49.0%	13.4%
Espirito Santo Investment	Services provider	Poland	100.0%	27.4%	100.0%	27.4%
ES - ARRENDAMENTO	Investment Fund	Portugal	100.0%	27.4%	100.0%	27.4%
ES Bankers (Dubai) Limited	Commercial banking	Dubai	95.0%	95.0%	95.0%	95.0%
ES Financial Services, Inc.	Brokerage house	USA	100.0%	27.4%	100.0%	27.4%
ES Recuperação de Crédito, ACE	Debt collection	Portugal	100.0%	27.2%	100.0%	27.1%
Espirito Santo Securities India Private Limited	Brokerage house	India	75.0%	20.6%	75.0%	20.5%
ES Tech Ventures, S.G.P.S., S.A.	Holding company	Portugal	100.0%	27.4%	100.0%	27.4%
ES Ventures - Sociedade de Capital de Risco, S.A.	Venture capital	Portugal	100.0%	27.4%	100.0%	27.4%
ESAF - Espirito Santo Activos Financieros, S.G.P.S., S.A.	Holding company	Portugal	90.0%	24.7%	90.0%	24.6%
ESAF - Espirito Santo Participações Internacionais SGPS, S.A.	Holding company	Portugal	100.0%	24.7%	100.0%	24.6%
ESAF - Internacional Distributors Associates, Ltd.	Distribution company	British Virgin Islands	100.0%	24.7%	100.0%	24.6%
ESFG International Ltd	Financing vehicle	Cayman Islands	91.0%	91.0%	100.0%	100.0%
ESGEST - Esp. Santo Gestão Instalações, Aprov. e Com. S.A.	Shared services	Portugal	100.0%	27.4%	100.0%	27.4%
Espirito Santo Activos Financieros, S.A.	Asset management	Spain	100.0%	26.1%	100.0%	26.0%
ES Investment Advisors, Inc.	Consultancy	USA	100.0%	27.4%	100.0%	27.4%
Espirito Santo Bank (Panama), S.A.	Commercial banking	Panama	100.0%	100.0%	100.0%	100.0%
Espirito Santo Bank, Inc.	Commercial banking	USA	100.0%	27.4%	100.0%	27.4%
Espirito Santo Capital - Sociedade de Capital de Risco, S.A.	Venture capital	Portugal	100.0%	27.4%	100.0%	27.4%
Espirito Santo Concessões, SGPS, S.A.	Holding company	Portugal	71.7%	19.7%	71.7%	19.6%
Esconcessions Spam Holding BV	Holding company	Holland	100.0%	19.7%	-	-
ES Concessions International Holding, BV	Holding company	Holland	100.0%	19.7%	100.0%	19.6%
ES Concessions Latam Holding BV	Holding company	Holland	-	-	100.0%	19.6%
ES Consultancy (Singapore) Ltd	Consultancy	Singapore	-	-	100.0%	100.0%
Espirito Santo Contact Center, Gestão de Call Centers, S.A.	Call center services	Portugal	100.0%	67.8%	100.0%	67.7%
Espirito Santo e Comercial de Lisboa Inc.	Representation office	USA	-	-	100.0%	27.4%
Espirito Santo Financial (Portugal), SGPS, S.A.	Holding company	Portugal	100.0%	100.0%	100.0%	100.0%
Espirito Santo Financière, S.A.	Holding company	Luxembourg	100.0%	100.0%	100.0%	100.0%
Espirito Santo Fundo de Pensões, S.A.	Asset management - Pensions funds	Portugal	100.0%	24.7%	100.0%	24.6%
Espirito Santo Fundos de Investimentos Imobiliários, S.A.	Asset management - Real Estate funds	Portugal	100.0%	24.7%	100.0%	24.6%
Espirito Santo Fundos de Investimentos Mobiliários, S.A.	Asset management - Mutual funds	Portugal	100.0%	24.7%	100.0%	24.6%
Espirito Santo Gestão de Patrimónios, S.A.	Asset management	Portugal	100.0%	24.7%	100.0%	24.6%
ES Eurobond	Investment Fund	Luxembourg	-	-	52.8%	14.4%
Espirito Santo Geston, S.A. S.G.I.I.C.	Asset management	Spain	100.0%	26.1%	100.0%	26.0%
Espirito Santo Informatica, ACE	Shared services	Portugal	100.0%	38.8%	100.0%	38.8%
Espirito Santo International Management, S.A.	Asset management - Mutual funds	Luxembourg	99.8%	24.6%	99.8%	24.6%
Espirito Santo Investment Holding Limited	Holding company	United Kingdom	100.0%	27.4%	68.4%	19.7%
Espirito Santo Investimentos, S.A.	Holding company	Brazil	100.0%	27.4%	100.0%	27.4%

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**Subsidiaries**

	Activity	Location	31.12.2013		31.12.2012	
			Voting interest	Economic interest	Voting interest	Economic interest
Espinto Santo Investments PLC	Brokerage house	Ireland	100.0%	27.4%	100.0%	27.4%
Espinto Santo Pensiones, S.G.F.P., S.A.	Assets management - Pensions funds	Spain	100.0%	26.1%	100.0%	26.0%
ES Plano Dinâmico	Investment Fund	Portugal	97.8%	26.8%	98.2%	26.8%
ES Rendimento Dinâmico	Investment Fund	Portugal	-	-	68.9%	18.9%
Espinto Santo Prestação de Serviços - ACE2	Shared services	Portugal	99.0%	34.2%	100.0%	34.5%
Espinto Santo Representações, Ltda	Representation office	Brazil	100.0%	27.4%	100.0%	27.4%
Espinto Santo Servicos, S.A.	Insurance	Spain	100.0%	27.4%	100.0%	27.3%
Espinto Santo Servicos Financieros Distribuição de Títulos e V.M., S.A.	Brokerage house	Brazil	100.0%	21.9%	99.2%	21.7%
Espinto Santo, PLC	Non-bank finance company	Ireland	100.0%	27.4%	100.0%	27.3%
Espinto Santo Vanguarda, SL	Services provider	Spain	100.0%	27.4%	100.0%	27.3%
Espinto Santo Wealth Europe S.A.	Asset management	Luxembourg	100.0%	100.0%	100.0%	100.0%
ESSI Comunicações, SGPS, S.A.	Holding company	Portugal	-	-	100.0%	27.4%
ESSI Investimentos, SGPS, S.A.	Holding company	Portugal	100.0%	27.4%	100.0%	27.4%
ESSI, SGPS, S.A.	Holding company	Portugal	100.0%	27.4%	100.0%	27.4%
Estunédica - Prestação de Cuidados Médicos, S.A.	Health care	Portugal	100.0%	100.0%	100.0%	100.0%
Execution Holding Limited	Holding company	United Kingdom	-	-	100.0%	18.7%
Execution Noble & Company Limited	Advisory on investments	United Kingdom	100.0%	27.4%	100.0%	18.7%
Execution Noble (Hong Kong) Limited	Broker Dealer	China	100.0%	27.4%	100.0%	18.7%
Execution Noble Holdings LLC	Holding Company	USA	-	-	100.0%	18.7%
Execution Noble Limited	Broker Dealer	United Kingdom	100.0%	27.4%	100.0%	18.7%
Execution Noble Research Limited	No activity	United Kingdom	100.0%	27.4%	100.0%	18.7%
FINMultimercado Treasury	Investment Fund	Brazil	100.0%	21.9%	100.0%	21.9%
Fundo BES Absolute Return	Investment Fund	Brazil	98.8%	21.7%	49.6%	11.9%
Bes Fundo de Investimento Multimercado Moderado	Investment Fund	Brazil	100.0%	21.9%	66.5%	15.3%
Funes Oriente	Investment Fund	Portugal	100.0%	27.4%	100.0%	27.4%
Flatpwell VIII S.A.	Ventures Tunism Development	Portugal	10.0%	2.7%	-	-
Fundo de Investimento Imobiliário Fechado Corpus Christi	Investment Fund	Portugal	100.0%	100.0%	97.1%	97.1%
Fundo de Capital de Risco - BES PME Capital Growth	Venture capital fund	Portugal	100.0%	27.4%	100.0%	27.4%
Fundo de Capital de Risco - ES Ventures II	Venture capital fund	Portugal	66.0%	18.1%	65.8%	22.1%
Fundo de Capital de Risco - ES Ventures III	Venture capital fund	Portugal	69.0%	16.7%	61.5%	20.8%
Fundo FCR PME / BES	Venture capital fund	Portugal	55.1%	15.1%	55.1%	15.1%
Fundo de Gestão de Património Imobiliário - FUNGEPI - BES	Real Estate Fund	Portugal	60.3%	16.5%	82.3%	22.5%
Fundo de Gestão de Património Imobiliário - FUNGEPI - BES II	Real Estate Fund	Portugal	97.3%	26.1%	81.1%	22.2%
Fundo de Gestão de Património Imobiliário	Real Estate Fund	Portugal	97.3%	26.7%	97.3%	26.6%
Gespar Participações, Ltda	Holding company	Brazil	100.0%	21.9%	100.0%	21.9%
Imbassai Participações, S.A.	Holding company	Brazil	100.0%	27.4%	-	-
Imogestão - Fundo de Investimento Imobiliário Fechado	Investment Fund	Portugal	100.0%	27.4%	-	-
IMOVESTIMENTO - Fundo de Investimento Imobiliário Fechado	Investment Fund	Portugal	100.0%	27.4%	-	-
INOPRIME - Fundo de Investimento Imobiliário Fechado	Investment Fund	Portugal	76.3%	55.9%	48.5%	48.5%
Investfundo VII - Fundo de Investimento Imobiliário Fechado	Investment Fund	Portugal	95.9%	26.3%	-	-
KeySpace Hungary KR	Real-estate	Hungary	-	-	51.0%	51.0%
Limos Investimentos Imobiliários, Ltda	Real-estate	Brazil	100.0%	27.4%	-	-
Lusitana Capital S.A.P.I. de C.V., SOFOM, E.N.R.	Holding Company	Mexico	100.0%	27.4%	-	-
Mangnan Gestion S.A.	Asset Management	France	100.0%	56.5%	100.0%	56.5%
Noble Advisory India Private Ltd	Provides analytics support to Group research	India	100.0%	27.4%	99.9%	18.7%
Noble Financial Holdings Limited	Holding Company	United Kingdom	-	-	100.0%	18.7%
Noble Fund Advisers Limited	Fund management activities	United Kingdom	-	-	100.0%	18.7%
Noble Group Holdings Limited	Holding Company	Man Island	-	-	100.0%	18.7%
Noble Group Limited	Holding Company	United Kingdom	-	-	100.0%	18.7%
Noble Venture Finance General Partner Limited	General partner for fund	Jersey Islands	-	-	100.0%	18.7%
OBILOG Consulting S.A.	Software development	Portugal	66.6%	18.3%	66.6%	18.2%
Orey Reabilitação Urbana	Investment Fund	Portugal	77.3%	21.2%	77.3%	21.1%
BESV Courtage S.A.	Investment company	France	100.0%	56.5%	99.9%	56.4%
Parstuni - Sociedade Unipessoal, SGPS	Holding company	Portugal	100.0%	27.4%	100.0%	27.4%
PARTRAN SGPS, S.A.	Holding company	Portugal	100.0%	100.0%	100.0%	100.0%
Praça do Marquês - Serviços Auxiliares, S.A.	Real-estate	Portugal	100.0%	27.4%	100.0%	27.4%
Predilac Capital - Fundo de Investimento Imobiliário Fechado	Investment Fund	Portugal	100.0%	27.4%	-	-
Righthour S.A.	Services provider	Portugal	100.0%	27.4%	-	-
Quinta dos Cônegos- Sociedade Imobiliária, S.A.	Real-estate	Portugal	100.0%	41.2%	100.0%	41.2%
SEGUROS LOGO S.A.	Insurance	Portugal	100.0%	100.0%	100.0%	100.0%
SES Iberna, S.A.	Asset management	Spain	50.0%	13.7%	50.0%	13.7%
SLMB - Société Lyonnaise de Marchands de Biens	Real-estate	France	99.9%	56.5%	99.8%	56.4%
Société Civile Immobilière du 45 Avenue Georges Mandel	Real-estate	France	100.0%	30.0%	100.0%	49.6%
Tagide Properties, Inc.	Real-estate	USA	100.0%	27.4%	100.0%	27.4%
TRANQUILIDADE - Companhia de Seguros Tranquilidade, S.A.	Insurance	Portugal	100.0%	100.0%	100.0%	100.0%
Tranquilidade CAS (Angola)	Insurance	Angola	70.0%	52.3%	49.0%	49.0%
Tranquilidade Moçambique Companhia de Seguros, S.A.	Insurance	Mozambique	100.0%	100.0%	100.0%	100.0%
Tranquilidade Moçambique Companhia de Seguros Vida, S.A.	Insurance	Mozambique	100.0%	100.0%	100.0%	100.0%
T-VIDA, Companhia de Seguros, S.A.	Insurance	Portugal	100.0%	100.0%	100.0%	100.0%
UCH Investimentos Imobiliários e Hoteleiros, Ltda	Real-estate	Brazil	100.0%	27.4%	-	-
UCS Participações e Investimentos, Ltda	Real-estate	Brazil	100.0%	27.4%	-	-
UR3 Investimentos Imobiliários, Ltda	Real-estate	Brazil	100.0%	27.4%	-	-

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**Associates**

	Activity	Location	31.12.2013		31.12.2012	
			Voting interest	Economic interest	Voting interest	Economic interest
Adepa Global Services	Fund administration	Luxembourg	40.0%	40.0%	40.0%	40.0%
Advance Cyclone Systems, S.A.	Treatment, elimination of inert residues	Portugal	40.0%	6.7%	32.0%	6.7%
Ascendi Douro - Estradas do Douro Interior, S.A.	Motorway concession	Portugal	-	-	20.0%	5.1%
Apelo Films, S.L.	Entertainment	Spain	-	-	25.1%	6.9%
Ascendi Group, S.G.P.S., S.A.	Motorway concession	Portugal	40.0%	7.9%	40.0%	7.8%
Ascendi Pinhal Interior - Estradas do Pinhal Interior S.A.	Motorway concession	Portugal	20.0%	5.1%	20.0%	5.1%
Conseccionaria Autopista Perote-Xalapa, S.A.C.V.	Motorway concession	Mexico	-	-	20.0%	3.9%
Autovia de los Viñedos S.A.	Motorway concession	Spain	50.0%	9.8%	30.0%	9.8%
Banco Delle Tre Venezie, Spa	Commercial banking	Italy	23.8%	9.3%	23.8%	9.3%
BES, Companhia de Seguros, S.A.	Insurance	Portugal	50.0%	31.9%	50.0%	31.8%
BIO-GENESIS	Holding company	Brazil	29.9%	5.4%	29.9%	6.6%
BRB Internacional, S.A.	Entertainment	Spain	-	-	25.0%	6.8%
Coporgest, S.A.	Holding company	Portugal	25.0%	6.9%	25.0%	6.8%
Coreworks-Proj. Circuito Sist. Elect., S.A.	IT Services	Portugal	32.4%	5.9%	32.4%	7.2%
Dassa Investments S.A.	Holding company	Luxembourg	-	-	48.9%	48.9%
Domatica - Electrónica e Informática, S.A.	IT Services	Portugal	29.4%	4.9%	22.6%	4.9%
IBCapital, S.A.	Venture capital	Brazil	50.0%	12.3%	50.0%	12.3%
IBCapital Luxemburg S.C.A. SICAR	Venture capital	Luxembourg	47.2%	16.7%	47.2%	16.0%
IBCapital Luxemburg General Partners Sarl (c)	Fund management activities	Luxembourg	100.0%	12.3%	100.0%	12.3%
Edenred Portugal, S.A.	Services provider	Portugal	50.0%	13.7%	-	-
Empark - Aparcamentos y Servicios, S.A.	Management of parking slots	Spain	22.2%	4.4%	22.2%	4.4%
ENKROTT S.A.	Water management and treatment	Portugal	30.0%	4.5%	30.0%	4.5%
ESEGUR - Empresa de Segurança, S.A.	Security	Portugal	44.0%	12.1%	44.0%	12.0%
Espírito Santo International Asset Management Ltd.	Holding company	British Virgin Islands	48.0%	12.1%	49.0%	12.1%
Espírito Santo Saúde SGPS, S.A.	Holding company	Portugal	42.9%	32.0%	42.9%	32.0%
Europ Assistance - Comp. Portuguesa Seguros Assistência, S.A.	Insurance	Portugal	47.0%	47.0%	47.0%	47.0%
SCA Mandel Partners	Project finance	France	49.0%	27.2%	49.0%	27.2%
Espírito Santo Ventures Inovação e Internacionalização	Venture capital fund	Portugal	50.0%	13.7%	50.0%	13.7%
Fundo Bem Comum - Fundo de Capital de Risco	Venture capital fund	Portugal	20.0%	5.5%	20.0%	5.3%
Fundo Espírito Santo IBERIA I	Venture capital fund	Portugal	45.9%	12.6%	38.7%	10.6%
Global Active - Gestão Part. Soc. - SGPS, S.A.	Holding company	Portugal	44.7%	8.1%	44.7%	9.9%
Groupe CFCA SAS	Holding company	France	29.9%	16.9%	29.9%	16.9%
HLC - Centrais de Cogeração, S.A.	Services provider	Portugal	24.5%	6.7%	24.5%	6.7%
Ijar Leasing Algérie SPA	Leasing	Algeria	35.0%	9.6%	35.0%	9.6%
IMOCRESCENTE - Fundo de Investimento Imobiliário Fechado (a)	Investment Fund	Portugal	48.9%	48.9%	48.9%	48.9%
LOCARENT - Companhia Portuguesa de Aluguer de Viaturas, S.A.	Renting	Portugal	50.0%	13.7%	50.0%	13.7%
MCOI - Sociedade Gestora de Fundos de Investimento Mobiliário SA	Investment Fund	Portugal	25.0%	6.9%	25.0%	6.8%
MDCI - Multimedia, S.A.	Holding company	Portugal	49.0%	7.4%	49.0%	7.4%
Mobile World - Comunicações, S.A.	Telecommunication	Portugal	49.0%	7.4%	49.0%	7.4%
Mora Banco S.A.	Commercial banking	Mozambique	49.0%	15.4%	25.1%	6.9%
Multipersonal Recursos Humanos - SGPS, S.A.	Holding company	Portugal	22.5%	6.2%	22.5%	6.2%
Multwave Photonics, S.A.	IT Services	Portugal	20.8%	3.8%	20.8%	4.6%
Nanum, S.A.	Production of Semiconductors	Portugal	41.1%	11.3%	41.1%	11.2%
Natgreen, S.A.	Services provider	Portugal	20.0%	5.3%	20.0%	4.2%
Outsystems, S.A.	IT Services	Portugal	29.3%	5.3%	29.3%	6.5%
Palepo - Imagem Empresarial, S.A. (formerly Cortinovador)	Furniture manufacture	Portugal	49.5%	7.5%	49.5%	7.5%
Polish Hotel Capital SP	Services provider	Poland	-	-	33.0%	9.0%
Prosport - Com. Desportivas, S.A.	Sporting goods trading	Spain	-	-	25.0%	6.9%
RODI SINKS & IDEAS, S.A.	Metal industry	Portugal	33.4%	6.8%	35.4%	6.8%
Salgar Investments S.L.	Services provider	Spain	50.4%	12.5%	41.7%	11.4%
Sousacamp, SGPS, S.A.	Holding company	Portugal	39.1%	7.1%	39.1%	8.6%
Synergy industry and technology S.A.	Holding company	Spain	26.0%	7.1%	26.0%	7.1%
TLCI 1 - Soluções Integradas de Telecomunicações, S.A.	Telecommunication	Portugal	49.0%	7.4%	49.0%	7.4%
UNICRE - Instituição Financeira de Crédito, S.A. (b)	Financial credit institution	Portugal	4.8%	4.8%	17.5%	4.8%
Watson Brown HSM Limited	Mechanochemistry company	United Kingdom	25.5%	6.0%	35.9%	7.5%
Windpart Lda	Holding company	Portugal	20.0%	5.5%	-	-
Ydreams - Informática, S.A.	IT Services	Portugal	48.0%	8.7%	48.0%	10.6%
Yunat Serviços, S.A. (formerly PT Prime Tradecon)	Management of internet portals	Portugal	33.3%	9.1%	33.3%	9.1%

(a) Although the Group's voting interest is less than 50%, these companies are fully consolidated, as the Group controls its activities.

(b) Although the Group's voting interest is less than 20%, the Group exercises a significant influence over these companies.

(c) Although the Group's voting interest is more than 50%, these companies are not controlled by the Group, but the Group exercises a significant influence over them.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

Applying SIC 12 as described in Note 2.2, the Group consolidation scope includes, as at 31 December 2013 and 2012, the following special purposes entities:

31.12.2013					
Established	Headquartered	Activity	% economic interest	Consolidation method	
Lusitano SME No.1 plc <sup>(*)</sup>	2006	Ireland	Special Purpose Entity	100%	Full consolidation
Lusitano Mortgages No.6 plc <sup>(*)</sup>	2007	Ireland	Special Purpose Entity	100%	Full consolidation
Lusitano Project Finance No.1 FTC <sup>(*)</sup>	2007	Portugal	Special Purpose Entity	100%	Full consolidation
Lusitano Mortgages No.7 plc <sup>(*)</sup>	2008	Ireland	Special Purpose Entity	100%	Full consolidation
Fundes	2008	Portugal	Special Purpose Entity	99.30%	Full consolidation
Lusitano Leverage Finance No. 1 BV <sup>(*)</sup>	2010	Netherlands	Special Purpose Entity	100%	Full consolidation
Lusitano Finance No.3 <sup>(*)</sup>	2011	Portugal	Special Purpose Entity	100%	Full consolidation
IM BES Empresas 1 <sup>(*)</sup>	2011	Spain	Special Purpose Entity	100%	Full consolidation
CLN Magnolia Finance 2038	2008	Ireland	Special Purpose Entity	100%	Full consolidation

31.12.2012					
Established	Headquartered	Activity	% economic interest	Consolidation method	
Lusitano SME No.1 plc <sup>(*)</sup>	2006	Ireland	Special Purpose Entity	100%	Full consolidation
Lusitano Mortgages No.6 plc <sup>(*)</sup>	2007	Ireland	Special Purpose Entity	100%	Full consolidation
Lusitano Project Finance No.1 FTC <sup>(*)</sup>	2007	Portugal	Special Purpose Entity	100%	Full consolidation
Lusitano Mortgages No.7 plc <sup>(*)</sup>	2008	Ireland	Special Purpose Entity	100%	Full consolidation
Fundes	2008	Portugal	Special Purpose Entity	99.10%	Full consolidation
Lusitano Leverage Finance No. 1 BV <sup>(*)</sup>	2010	Netherlands	Special Purpose Entity	100%	Full consolidation
Lusitano Finance No.3 <sup>(*)</sup>	2011	Portugal	Special Purpose Entity	100%	Full consolidation
IM BES Empresas 1 <sup>(*)</sup>	2011	Spain	Special Purpose Entity	100%	Full consolidation
CLN Magnolia Finance 2038	2008	Ireland	Special Purpose Entity	100%	Full consolidation

(\*) Entities set-up in the scope of securitisation transactions (See Note 50).

As at 31 December 2013 and 2012 the consolidation of these entities had the following main impacts on the consolidated balance sheet:

	31.12.2013	31.12.2012
	(in thousands of euro)	
Deposits with banks	173 426	195 586
Other financial assets at fair value through profit and loss	11 204	71 651
Loans and advances to customers (net of impairment)	3 253 477	3 803 343
Debt securities issued	615 201	703 797



**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

— Subsidiaries

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

— Associates (see Note 33)

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

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

— Subsidiaries

- In April 2012, ESFG exchanged 2.2% of its direct holding in BES against 6.2% of BESPARG. This operation had no effect on ESFG economic interest in BES (see Note 55);
- In May 2012, BES acquired an additional 50% of the capital of BES Vida by an amount of euro 225 000 thousand, becoming to hold the total share capital of the company and started to consolidate this entity under the full consolidation method (see Note 55);
- Following the acquisition of control of BES Vida in May 2012, the Group acquired an additional interest of 5% in ES Saúde SA;
- In the second semester of 2012, Tranquilidade sold the participation it held in Pastor Vida generating a gain in the amount of euro 11 206 thousand (see Note 55);

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

- In November 2012, BES acquired participation units in the real estate funds, Fungepi, Fungere and Imoinvestimento, and started to consolidate those entities under the full consolidation method;
- During 2012, the Group acquired an additional interest of 0.86% of the share capital of BES through the acquisition in the market of 29 510 581 shares (see Note 55);
- In November 2012, following (i) the acquisition by Rio Forte Investments, S.A. of an additional 19.5% stake in ES Saúde; (ii) the shareholders' agreement established between Rio Forte and ESFG; and (iii) the sale by ESFG to Rio Forte of a call option over 5.5% of ES Saúde share capital plus 1 share, currently exercisable; ESFG has lost control over ES Saúde. Consequently, this entity is no longer fully consolidated by ESFG, being classified as an associate (see Note 33 and Note 55).

— Associates (see Note 33)

- In April 2012, ES Capital acquired 42.99% of 2BCapital Luxembourg S.C.A SICAR for the amount of euro 854 thousand. In May 2012, following the capital increase of the company, ES Capital invested an additional euro 15 619 thousand;
- In June 2012, ES Concessões transferred its shareholding in SCUTVIAS – Autoestradas da Beira Interior, SA and Portvias – Portagem de Vias, SA to Ascendi Group, SGPS, SA, this operation generated a loss in the amount of euro 2 170 thousand;
- In December 2012, BESI sold the participation it held in Polish Hotel Company, Sp, generating a gain in the amount of euro 2 509 thousand;
- Following the loss of control over ES Saúde in November 2012, this entity has been reclassified as an associate (see Note 33 and Note 55).

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

	31.12.2013							
	Acquisitions			Disposals / Liquidations / Business combination				
	Acquisition price	Other investments (a)	Total	Sale price	Other reimbursements	Total	Gain/(loss) on disposal/ liquidation/ business combination	Net of non controlling interest
	(in thousands of euro)							
<b>Subsidiaries</b>								
BES shares	36 260	-	36 260	( 33 283)	-	( 33 283)	-	-
BES Africa	-	35 000	35 000	-	-	-	-	-
BES Açores	-	654	654	-	-	-	-	-
ES Tech Ventures	-	6 500	6 500	-	-	-	-	-
Righthor	50	-	50	-	-	-	-	-
Fundo BES Absolute Return	-	-	-	-	( 3)	( 3)	-	-
Fundo FIM BES Moderado	-	-	-	-	( 27)	( 27)	-	-
Espírito Santo Securitus India	-	1 753	1 753	-	-	-	-	-
Espírito Santo Investment Holding Limited	20 281	11 714	31 995	-	-	-	-	-
Lusitania Capital, S.A.P.I. de C.V., SOFOM, E.N.R.	-	59	59	-	-	-	-	-
Espírito Santo Serviços Financeiros DTVM, SA	207	1 842	2 049	-	-	-	-	-
BES Activos Financeiros, Ltda	-	614	614	-	-	-	-	-
R Consult Participações, Ltda	-	-	-	-	( 143)	( 143)	-	-
R Invest, Ltda	-	-	-	-	( 23)	( 23)	-	-
ESSI Comunicações SGPS, SA	-	-	-	-	( 50)	( 50)	-	-
FI Multimercado Treasury	58	-	58	-	-	-	-	-
	36 856	58 136	114 992	( 33 283)	( 246)	( 33 529)	-	-
<b>Associates</b>								
Moza Banco	-	24 916	24 916	-	-	-	-	-
DARSA	-	-	-	( 5 026)	-	( 5 026)	3	3
Adepa Global Services	250	-	250	-	-	-	-	-
Banco delle Tre Venezie	-	690	690	-	-	-	-	-
Autopista Perote Xalapa	-	-	-	( 60 201)	-	( 60 201)	-	-
Domática	-	350	350	-	-	-	-	-
BRB Internacional	-	-	-	( 10 659)	-	( 10 659)	-	-
Apolo Fibres	-	-	-	( 791)	-	( 791)	-	-
Prosport	-	-	-	( 274)	-	( 274)	-	-
Espírito Santo Iberia I	958	-	958	-	( 73)	( 73)	-	-
Edermed	8 113	-	8 113	( 3 129)	-	( 3 129)	-	-
Ascedi Douro Interior	-	-	-	-	( 10)	( 10)	-	-
Multipessoal	-	100	100	-	-	-	-	-
	9 321	26 056	35 377	( 89 080)	( 83)	( 89 163)	3	3
	66 177	84 192	150 369	( 113 363)	( 329)	( 113 692)	3	3

(a) Capital increases and loans to companies

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

	31.12.2012							
	Acquisitions			Disposals / Liquidations / Business combination				
	Acquisition price	Other investments <sup>(6)</sup>	Total	Sale price	Other reimbursements	Total	Gain/(loss) on disposal/ liquidation/ business combination	Net of non controlling interest
	(in thousands of euro)							
<b>Subsidiaries</b>								
BES Vida (*)	225 000	-	225 000	-	-	-	87 273	206 607
ES Saude	-	-	-	-	-	-	60 332	45 007
BES shares	71 666	-	71 666	(102 809)	-	(102 809)	-	-
BESPAR shares	38 300	-	38 300	-	-	-	-	-
Pastor-Vida	-	-	-	(40 072)	-	(40 072)	11 206	11 206
AOC	44	-	44	-	-	-	-	-
	335 010	-	335 010	(142 881)	-	(142 881)	158 811	262 820
<b>Associated companies</b>								
Moza Banco	-	2 991	2 991	-	-	-	-	-
Empark	-	-	-	-	(2 384)	(2 384)	-	-
Portvias	-	-	-	(1 067)	-	(1 067)	913	250
Scutvias	-	-	-	(49 783)	-	(49 783)	(3 083)	( 843)
Ascendi Group	-	11 462	11 462	-	-	-	-	-
Coreworks	-	-	-	-	( 286)	( 286)	-	-
Sousacamp	-	-	-	-	(3 700)	(3 700)	-	-
Fin Solutia	-	-	-	(1 219)	-	(1 219)	( 6)	( 2)
2B Capital Luxembourg	854	15 619	16 473	-	-	-	-	-
Nova Figfort	-	-	-	( 719)	-	( 719)	-	-
Sopratutto Cafés	-	-	-	(1 334)	-	(1 334)	50	14
Ydreams	-	204	204	-	( 711)	( 711)	-	-
MCO2	113	1 175	1 288	-	-	-	-	-
MRN - Manutenção de Rodovias Nacionais, S.A.	-	-	-	-	( 11)	( 11)	-	-
Polish Hotel Company	-	-	-	(2 509)	-	(2 509)	2 509	686
SA(REF)	-	-	-	(3 250)	-	(3 250)	2 129	1 203
	967	31 451	32 418	(59 881)	(7 292)	(67 173)	2 512	1 308
	<b>335 977</b>	<b>31 451</b>	<b>367 428</b>	<b>(202 762)</b>	<b>(7 292)</b>	<b>(210 054)</b>	<b>161 323</b>	<b>264 128</b>

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

**2.1. Basis of preparation and statement of compliance**

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

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

These consolidated financial statements as at and for the year ended 31 December 2013 were prepared in accordance with the IFRS effective and adopted by the EU until 31 December 2013. The accounting policies applied by the Group in the preparation of its consolidated financial statements as at 31 December 2013 are consistent with the ones used in the preparation of the consolidated financial statements as at and for the year ended 31 December 2012, except as referred to in Note 56, which describes the impact in the preparation of the Consolidated Financial Statements as at 31 December 2013, of the adoption by the Group of the accounting standards issued by IASB and IFRIC interpretations, effective since 1 January 2013. The accounting policies used by the Group in the preparation of these Consolidated Financial Statements, described in this Note, were modified accordingly. The adoption of these new standards and interpretations had no material effect in the Group’s Consolidated Financial Statements.

The accounting standards and interpretations recently issued but not yet effective and that the Group has not yet adopted in the preparation of its financial statements can also be analysed in Note 56.

Moreover and as referred to in Note 1, the Group acquired, in May 2012, an additional 50% interest in BES Vida and the control over its activities. Therefore, from that date, BES Vida, which previously qualified as an associate and was included in the consolidated financial statements up to 2011 under the equity method, is being fully consolidated by the Group. Further details are provided in Note 55.

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

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

These consolidated financial statements were approved in the Board of Directors meeting held on 25 April 2014. These financial statements are subject to the shareholders approval on the General Assembly, to be held on 30 May 2014.

**2.2. Basis of consolidation**

These consolidated financial statements comprise the assets, liabilities, gains and losses of Espirito Santo Financial Group S.A. and its subsidiaries (“the Group”), and the results attributable to the Group from its associates.

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

*Subsidiaries*

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

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

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

*Associates*

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

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

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

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

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

*Special purpose entities ("SPE")*

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

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

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

*Investment funds managed by the Group*

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

*Goodwill*

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

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

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

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

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

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

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

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

*Transactions with non-controlling interest*

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

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

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

*Foreign currency translation*

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

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

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

*Balances and transactions eliminated in consolidation*

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

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

**2.3. Foreign currency transactions**

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

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



**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

classified as available-for-sale, which are accounted for in equity, within the fair value reserve.

#### **2.4. Derivative financial instruments and hedge accounting**

##### *Classification*

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

All other derivatives are classified as trading derivatives.

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

##### *Recognition and measurement*

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

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

##### *Hedge accounting*

- **Classification criteria**

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

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

- **Fair value hedge**

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

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

period to maturity.

- ***Cash flow hedge***

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

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

During the periods covered by these financial statements, the Group did not have any transactions classified as cash flow hedge.

*Embedded derivatives*

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

**2.5. *Loans and advances to customers***

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

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

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

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

*Impairment*

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

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

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

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

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

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

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

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

When a loan is considered by the Group as uncollectible and an impairment loss of 100% was recognised, it is written off against the related allowance for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the loan impairment loss recognised in the income statement.

## **2.6. Other financial assets**

### *Classification*

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

- ***Financial assets at fair value through profit or loss***

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The Group classifies, at inception, certain financial assets at fair value through profit or loss when:

- Such financial assets are managed, measured and their performance evaluated on a fair value basis;
- Such financial assets are being hedged (on an economical basis), in order to eliminate an accounting mismatch; or
- Such financial assets contain an embedded derivative.

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

- ***Held-to-maturity investments***

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

- ***Available-for-sale financial assets***

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

*Initial recognition, initial measurement and derecognition*

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

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

The best evidence of the fair value of the instrument at inception is deemed to be the transaction price. However, in particular circumstances, the fair value of a financial instrument at inception, determined based on a valuation technique, may differ from the transaction price, namely due to the existence of a built-in fee, originating a day one profit.

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

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

*Subsequent measurement*

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

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

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

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

*Reclassifications between categories*

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

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

*Impairment*

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

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

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

**2.7. Sale and repurchase agreements**

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

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

**2.8. Financial liabilities**

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

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

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

The Group designates, at inception, certain financial liabilities as at fair value through profit or loss when:

- Such financial liabilities are being hedged (on an economical basis), in order to eliminate an accounting mismatch; or
- Such financial liabilities contain embedded derivatives.

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

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

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

**2.9. Financial guarantees**

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

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

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

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**2.10. Equity instruments**

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

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

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

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

**2.11. Compound financial instruments**

Non-derivative financial instruments that contain both a liability and an equity component (e.g. convertible bonds and bonds issued with warrants) are classified as compound financial instruments. For these instruments to be considered as compound financial instruments, the number of shares to be issued upon conversion is determined at the date of issue and does not vary with changes in their fair value. The liability component corresponds to the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The equity component corresponds to the difference between the proceeds of the issue and the amount attributed to the liability. The interest expense recognised in the income statement is calculated using the effective interest method.

**2.12. Offsetting financial instruments**

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

**2.13. Non-current assets held for sale**

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

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

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



**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

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

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

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

**2.14. Property and equipment**

Property and equipment are measured at cost less accumulated depreciation and impairment losses. At the transition date to IFRS, 1 January 2004, the Group elected to consider as deemed cost, the revalued amount of property and equipment as determined in accordance with previous accounting policies of the Group, which was broadly similar to depreciated cost measured under IFRS, adjusted to reflect changes in a specific price index. The value includes expenditure that is directly attributable to the acquisition of the items. In relation to the insurance activity, the Group decided to consider as deemed cost of its buildings for own use the fair value at transition date.

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

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

	<u>Number of years</u>
Buildings	35 to 50
Improvements in leasehold property	10
Computer equipment	4 to 5
Furniture	4 to 10
Fixtures	5 to 12
Security equipment	4 to 10
Office equipment	4 to 10
Motor vehicles	4
Other equipment	5

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

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

**2.15. Investment properties**

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

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

**2.16. Intangible assets**

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

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

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

**2.17. Leases**

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

*Operating leases*

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

*Finance leases*

• **As lessee**

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

• **As lessor**

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

*2.18. Employee benefits*

*Pensions*

To cover the liabilities assumed by the Group within the framework stipulated by the ACT “Acordo Colectivo de Trabalho” and subsequent amendments resulting from the 3 tripartite agreements as described in Note 14 for the banking sector in Portugal and by the CCT “Contrato Colectivo de Trabalho” for the insurance sector in Portugal, pension funds were set up to cover retirement benefits, including widows and orphans benefits and disability for the entire work force and also health-care benefits for employees.

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

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

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

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

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

At each period, the Group recognises as a cost in the income statement an amount that comprises (i) the service cost, (ii) net interest expense (income), (iii) past service costs and (iv) the effect of settlement or curtailment occurred during the period.

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

The Group assesses at each reporting date and for each plan separately, the recoverability of any recognised asset in relation to the defined benefit pension plans, based on the expectation of reductions in future contributions to the funds.

*Health care benefits*

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

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

The measurement and recognition of the Group's liability with post-retirement healthcare benefits is similar to the measurement and recognition of the pension liability described above.

These benefits are covered by the Pension Fund which at present covers all responsibilities with pensions and health care benefits.

*Long term service benefits*

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

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

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

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

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

*Share based payments – Stock option plan*

In 2008, ESFG set-up a stock option plan that allows certain employees to acquire ESFG shares, or alternatively to require a cash payment equivalent to the appreciation of ESFG share market price above the strike price.

The options granted to employees may be exercised after their first anniversary and during a ten year period.

This share based payment plan is within the scope of IFRS 2 – Share based payments and corresponds to a cash settlement share based payment.

The fair value of this benefit plan at inception, determined at its grant date, was taken to the income statement as staff costs over a period of one year. The recognised liability under the plan is re-measured at each balance sheet date, being the fair value changes recognised in the income statement under the caption staff costs.

*Variable remuneration payment plan on financial instruments (PRVIF)*

Following the recommendations of the Supervising and Regulatory authorities, on the BES shareholder's General Meeting, held in 6 April 2010 it was approved a new remuneration policy for BES Executive Committee members. This new remuneration policy is described in Note 14.

The component of the variable remuneration paid in cash is accounted for following IAS 19 – Employee benefits, in the period to which it relates.

The component of the variable remuneration paid with equity instruments is accounted for in accordance with IFRS 2 — Share based payments. The fair value of this benefit plan at inception, determined at its grant date, is taken to the income

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

statement as staff costs over the vesting period. The recognised liability under the plan is re-measured at each balance sheet date, being the fair value changes recognised in the income statement.

*Bonus to employee*

In accordance with IAS 19 — Employee benefits, the bonus payment to employees are recognised in the income statement in the year to which they relate.

**2.19. Income tax**

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

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

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

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

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

**2.20. Provisions**

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

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

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

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

**2.21. Interest income and expense**

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

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

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

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

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

#### **2.22. Fee and commission income**

Fees and commissions are recognised as follows:

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

#### **2.23. Dividend income**

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**2.24. Fiduciary activities**

Assets held in the scope of the fiduciary activity are not recognised in the consolidated financial statements of the Group. Fee and commissions arising from this activity are recognised in the income statement in the period to which they relate.

**2.25. Insurance contracts**

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

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

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

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

*Premiums*

Gross written premiums are recognised for as income in the period to which they respect, in accordance with the accrual accounting principle.

Reinsurance premiums ceded are accounted for as expense in the period to which they respect in the same way as gross written premiums.

*Unearned premium reserve*

The reserve for unearned gross written premiums and reinsurance ceded premiums reflects the part of the written premiums before the end of the period for which the risk period continues after the end of the period. This reserve is calculated using the pro-rata temporis method applied to each contract in force.

*Acquisition costs*

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

*Claims reserves*

Claims outstanding reflects the estimated total outstanding liability for reported claims and for incurred but not reported claims (IBNR). Reserves for both reported and not reported claims are estimated by management based on experience and available data using statistical methods. Additionally, claims reserve also includes an estimation related with future costs with claims settlement (“expense reserve”).

The mathematical reserves relating to obligations to pay life pensions resulting from workmen’s compensation claims is calculated by using actuarial assumptions, with reference to recognised actuarial methods and current labour legislation.

Claims reserves are not discounted, except life pensions arising from workmen’s compensation claims.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

*Unexpired risk reserve*

The reserve for unexpired risks represents the amount by which expected claims and administrative expenses likely to arise after the end of the period, from contracts concluded before that date, exceeds the unearned premiums reserve, any expected future premiums expected to be written under those contracts and from premiums renewed on January next year.

*Life assurance reserve*

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

*Reserve for bonus and rebates*

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

*Liability adequacy test*

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

*Shadow accounting*

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

**2.26. Segment reporting**

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

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

The results of the operating segments are periodically reviewed by the Management for decisions taking purposes. The Group prepares on a regular basis, financial information regarding the operating segments, which is reported to the Management.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.



**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**2.27. Earnings per share**

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

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

**2.28. Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the inception date, including cash and deposits with banks.

Cash and cash equivalents exclude restricted balances with central banks.

**NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

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

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

**3.1. Impairment of available-for-sale financial assets**

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

Therefore, for equity securities, considering the high volatility of the markets, a decline (i) over 30% in market value in relation to the acquisition cost generally is regarded by the Group as significant and (ii) that persists for more than 12 months is generally regarded as prolonged. Debt securities are considered to be impaired if there is objective evidence that one or more events have an impact on the estimated future cash flows of these assets.

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

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

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

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

**3.3. Impairment losses on loans and advances**

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

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

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

**3.4. Goodwill impairment**

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

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

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

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

**3.5. Securitisations and special purpose entities (SPE)**

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

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

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

**3.6. Held-to-maturity investments**

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

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

### **3.7. *Income taxes***

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

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

The Tax Authorities are entitled to review the Portuguese Group entities' determination of annual taxable earnings, for a period of four years or six years in case there are tax losses brought forward. The determination of annual tax earnings by other Group entities (located outside Portugal) can also be subject to similar reviews by their respective tax authorities. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Board of Directors of the Company and those of its subsidiaries, are confident that there will be no material differences arising from tax assessments within the context of the financial statements.

The Company itself is subject to the general tax regulations applicable to Luxembourg commercial companies. The applicable tax rate is 29.22% (31 December 2012: 29.22%).

### **3.8. *Pension and other employees' benefits***

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

Changes in these assumptions could materially affect these values.

### **3.9. *Insurance and investment contracts liabilities***

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

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

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The Group maintains property and casualty loss reserves to cover the estimated ultimate unpaid liability for losses with respect to both reported and not reported claims incurred as of the end of each accounting year.

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

**NOTE 4 - SEGMENTAL REPORTING**

Group activities are focused primarily on the banking and insurance sectors and are directed to companies, institutional and private customers. The Group's principal operating subsidiaries are located in Portugal, which makes it its privileged market. The historical link with Brazil and Africa, the globalization of the Portuguese companies and the Portuguese emigration to several countries, led to an internationalisation of the Group, which already has an international structure contributing significantly to the Group's activities and results. The Group is also active in Portugal in the health-care management business.

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

The Group has BES as its main banking operating unit - with 636 branches in Portugal and with branches in London, New York, Spain (25 branches), Nassau, Cayman Islands, Cape Verde, Venezuela, Luxembourg and Madeira Free Zone and 15 representation offices - with BES Investimento (investment banking), BES Angola (41 branches), BES Açores (18 branches), Banco BEST (11 branches), Espírito Santo Bank, BES Oriente, Aman Bank, BES Cape Verde, BES Vénétie, Espírito Santo Activos Financeiros (ESAF), ES Bank Panama, ES Bank Dubai and Banque Privée Espírito Santo. Tranquilidade, Logo and BES Seguros are the Group's non-life operating unit while T-Vida and BES-Vida are active in life-insurance.

When evaluating the performance by business area, the Group considers the following Operating Segments: (1) Domestic Commercial Banking, including Retail, Corporate, Institutional and Private Banking; (2) Asset Management; (3) International Commercial Banking including Private banking; (4) Investment Banking; (5) Capital Markets and Strategic Investments; (6) Non-Life Insurance; (7) Life Insurance; (8) Health-care management and (9) Corporative Centre. Each segment includes the Group structures that directly or indirectly relate to it, and also the other units of the Group whose activities are most related to one of these segments. The performance of each operating unit of the Group (considered as an investment centre) is evaluated individually.

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**4.1. Operating Segments Description**

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

*Domestic Commercial Banking*

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

a) Retail: corresponds to all activity developed by BES in Portugal with private customers and small business, fundamentally originated by the branches network, agent network and electronic channels. The financial information of the segment relates to, among other products and services, mortgage loans, consumer credit, financing the clients' activity, deposits repayable on demand and term deposits, retirement plans and other insurance products to private customers, commissions over account management and electronic payments, the investment funds cross-selling and brokerage and custodian services.

b) Corporate and Institutional: includes BES activities in Portugal with small, medium and large companies, through its commercial structure dedicated to this segment, which includes 24 corporate centres. Also includes activities with institutional and municipal customers. The main products considered on this segment are: discounted bills, leasing, factoring and short and long term loans; includes deposits and guarantees, custodian services, letters of credit, electronic payments management and other services.

c) Private Banking: includes private banking activity in Portugal, all profit, loss and assets and liabilities associated to customers classified as private by the Group in Portugal. The main products considered on this segment are: deposits; discretionary management, selling of investment funds, custodian services, brokerage services and insurance products.

*Asset Management*

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

*International Commercial Banking*

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

Among the units comprising this segment are BES Angola and Spain, London and New York Branches of BES, ES Bankers Dubai, ES Bank Panama and Banque Privée. The main products included in this segment are deposits, credit, asset management fees, leveraged finance, structured trade finance and project finance operations.

*Investment Banking*

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

*Capital Markets and Strategic Investments*

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

*Non-Life Insurance*

This segment includes the activities of Tranquilidade and Logo in the non-life insurance sector as well as the Group's participation in the activities of its associated companies, BES-Seguros and Europ-Assistance.

*Life Insurance*

This segment includes the activities of T-Vida and BES Vida in the life insurance sector.

*Health-care management*

This segment includes the Group's activities in the management of hospitals, outpatient clinics, residential hospitals and senior citizen residences through ES Saúde. Considering the loss of control over ES Saúde occurred in 2012 (see Note 55) this segment was discontinued on ESFG perspective.

*Corporative Centre*

This area does not correspond to an operating segment. It refers to an aggregation of corporative structures acting throughout the entire Group, such as Representative Office in London, areas related to the Board of Directors, Compliance, Financial and Accounting, Risk management, Investor Relations, Internal Audit, Organization and Quality, among others. It also includes the corporate borrowings of the Group.

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

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

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

*Measurement of profit or loss from operating segments*

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

*Autonomous Operating Segments*

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

*ESFG structures dedicated to segments*

The activity of BES, ESFG's main subsidiary, comprises most of its operating segments and therefore its activity is disaggregated.

For the purpose of allocating the financial information, the following principles are used: (i) the origin of the operation, (ii) the type of product or service rendered; (iii) the segment to which the commercial and central structures are dedicated to; (iv) the Cost Based Approach (CBA) model and other specific drivers in the allocation of indirect cost (central support and IT services); (v) the impairment model in the allocation of credit risk; (vi) total equity is allocated to the capital markets and strategic investments segment.

The transactions between the independent and autonomous units of the Group are made at market prices; the price of the services between the structures of each unit, namely the price established for funding between units, is determined by a margin process (which vary in accordance with the strategic relevance of the product and the balance between funding and lending); the remaining internal transactions are allocated to the segments in accordance with CBA without any margin from the supplier.

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

*Interest and similar income/expense*

Since the Group's activities are mainly related to the financial sector and the majority of the segments revenues are from interest, the Group relies primarily on net interest revenue to assess the performance of the segment and to make decisions about resources to be allocated to the segment. As such and as permitted by IFRS 8 paragraph 23, the Group reports segments interest revenue net of its interest expense.

*Consolidated Investments under the Equity Method*

Investments in associated companies consolidated under the equity method are included in the operating segment they relate to. Associates not directly related to a specific operating segment are included in the Capital Markets and Strategic Investments segment.

*Non current assets*

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

*Income taxes*

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

*Post Employment Benefits*

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

*Domestic and International Areas*

In the disclosure of financial information by geographical areas, the operating units that comprise the International Area are: BES Angola and its branches, BES Oriente, Espírito Santo Bank, ES Bankers Dubai, ES Bank Panama, Banque Privée Espírito Santo, Espírito Santo Vénétie, Banco Delle Tre Venezie, ESFIL, London, Spain, New York and Cape Verde, Venezuela and Luxembourg branches of BES, and the operating units located abroad from BES Investimento and ESAF.

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



**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The primary segments reporting are presented as follows:

	31.12.2013											
	Retail	Corporate and institutional	Private banking	International commercial banking	Investment banking	Asset management	Capital markets and strategic investments	Life insurance	Non-life insurance	Health care management	Corporate centre	Total
	(in thousands of euro)											
Net interest	451 030	348 197	122 410	483 644	82 073	1 881	( 542 695)	155 299	13 190	24	( 22 558)	1 692 495
Net fees and commissions	165 242	242 607	47 476	142 815	101 777	54 154	( 18 510)	( 11 621)	( 3 581)	( 1 059)	( 3 411)	723 132
Other operating income	183 820	21 840	18 517	( 60 173)	62 617	5 309	( 187 042)	544 774	304 303	14 188	6 682	914 833
<b>Total operating income</b>	799 892	612 644	188 403	566 284	246 467	61 344	( 748 247)	688 452	317 135	14 103	( 16 217)	2 730 460
Operating expense	381 253	689 747	79 331	532 616	231 461	21 768	503 055	297 018	304 707	16 500	849 873	4 107 329
<i>Includes:</i>												
Provision impairment	61 347	631 012	23 200	230 105	59 830	2 463	419 921	4 854	1 914	( 114)	700 247	2 134 799
Amortization	46 520	6 148	3 331	32 213	6 726	307	9 451	845	7 265	930	5 722	119 458
Gains from sale of investments in subsidiaries and associates	-	-	-	( 138)	-	39	( 3 374)	-	5 522	6 234	-	8 823
Share of profit of associates	-	-	-	-	-	-	-	-	-	-	( 866 087)	( 1 368 043)
<b>Profit before income tax</b>	218 639	( 1 77 103)	109 072	33 530	15 546	39 815	( 1 254 676)	391 434	17 950	3 837	( 866 087)	( 1 368 043)
Foreign exchange income	3 632	27 277	1 948	157 284	( 11 606)	( 12 742)	( 126 862)	2 939	7 428	6 105	( 1 242)	54 161
<b>Total Net Assets</b>	15 117 748	22 400 036	2 423 441	25 628 928	5 963 273	205 147	2 756 659	8 581 452	700 743	125 822	946 402	84 849 651
<b>Total Liabilities</b>	14 811 737	22 477 137	2 157 575	23 636 778	5 310 451	22 981	( 830 402)	8 092 575	670 510	3 655	1 785 217	78 188 214
Investments in Associates	-	-	-	10 299	58 229	788	384 722	-	31 555	130 580	-	606 473
Capital expenditure tangible assets	514	-	531	95 150	6 452	144	13 022	106	3 045	254	154	121 372
Capital expenditure intangible assets	615	-	4 639	10 880	3 225	124	42 845	1 692	5 339	598	-	70 157
Capital expenditure non-current assets	5 427	-	-	66 573	16 813	-	306 670	-	-	-	11 059	906 542

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

31.12.2012

	Corporate and institutional		International		Capital markets and strategic investments		Life insurance	Non-life insurance	Health care management	Corporate centre	Total
	Retail	Private banking	Commercial banking	Investment banking	Asset management	Investments					
Net interest	397,594	268,100	344,595	94,844	3,041	(92,390)	159,794	14,217	(8,032)	(14,276)	1,265,221
Net fees and commissions	197,911	260,985	239,038	100,673	52,757	(34,333)	(14,958)	(281)	(903)	4	830,596
Other operating income	188,795	15,225	37,817	63,616	11,187	330,880	237,066	305,251	264,901	12,080	1,419,954
<b>Total operating income</b>	<b>784,240</b>	<b>544,308</b>	<b>621,468</b>	<b>259,133</b>	<b>66,985</b>	<b>204,157</b>	<b>401,622</b>	<b>319,187</b>	<b>255,866</b>	<b>(2,192)</b>	<b>3,535,751</b>
Operating expense	544,539	702,036	455,014	222,262	21,594	299,162	157,688	334,810	257,705	185,646	3,219,124
<i>Includes:</i>											
Provisions impairment	74,513	640,964	186,490	46,205	3,119	226,336	1,121	654	1,032	(4)	1,181,349
Amortization	51,136	6,626	28,105	5,777	422	9,179	5,001	7,309	22,616	6,006	145,779
Gains from sale of investments in subsidiaries and associates	-	-	2,129	2,503	-	(2,120)	-	11,206	60,332	-	74,050
Gains arising on business combinations acquired in stages	-	-	-	-	-	87,273	-	-	-	-	87,273
Share of profit of associates	-	-	291	(188)	(48)	505	-	4,800	(604)	-	4,756
<b>Profit before income tax</b>	<b>159,701</b>	<b>(157,728)</b>	<b>168,874</b>	<b>39,186</b>	<b>45,343</b>	<b>(9,347)</b>	<b>244,234</b>	<b>20,383</b>	<b>57,989</b>	<b>(187,838)</b>	<b>482,706</b>
<i>Assignment operating income</i>											
	4,799	31,248	98,195	(13,361)	(13,813)	(63,300)	3,224	9,240	4,015	(10,648)	53,817
<b>Total Net Assets</b>	<b>15,633,394</b>	<b>23,032,898</b>	<b>22,931,064</b>	<b>6,484,637</b>	<b>190,368</b>	<b>8,236,414</b>	<b>7,308,634</b>	<b>769,141</b>	<b>120,060</b>	<b>532,444</b>	<b>87,606,538</b>
<b>Total Liabilities</b>	<b>15,542,145</b>	<b>23,032,898</b>	<b>21,392,743</b>	<b>5,745,347</b>	<b>23,955</b>	<b>3,136,936</b>	<b>7,120,109</b>	<b>721,797</b>	<b>3,536</b>	<b>998,713</b>	<b>79,452,033</b>
Investments in Associates	-	-	9,873	57,604	500	437,141	-	21,244	114,252	-	640,614
Capital expenditure tangible assets	699	-	137,915	1,875	180	8,937	374	2,335	138	284	153,188
Capital expenditure intangible assets	583	-	11,048	6,116	117	370,823	2,737	6,257	747	-	398,625
Capital expenditure non-current assets	5,412	-	232,354	-	-	1,198,387	-	-	-	14,258	1,430,411

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

	31.12.2013															
	Portugal	Spain	France	UK	Switzerland	Luxembourg	Hungary	USA	Panama	Dubai	Brazil	Angola	Cape Verde	Macao	Other	Total
(Loss)/ profit for the year after tax and before non-controlling interest	( 523 286)	( 497 765)	15 207	32 648	9 776	( 762 407)	-	2 846	13 836	1 887	6 741	15 332	1 428	3 678	( 4 567)	( 1 234 646)
Attributable to the non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	( 376 615)
Loss for the year	( 103 523)	( 103 523)	18 833	229 261	( 27 921)	30 193	-	366	( 2 262)	568	-	( 108 168)	176	7 845	756	54 161
Intersegment operating income	53 467 676	6 151 813	2 406 531	5 107 326	1 463 222	141 078	139	1 848 221	338 135	295 705	2 336 012	8 314 562	261 035	389 685	1 208 611	84 849 651
Total Assets	451 495	( 33 864)	79 442	-	-	788	-	-	-	-	380	52 548	-	-	58 684	604 473
Investments in associates	20 386	3 063	184	839	531	104	-	175	451	223	3 936	89 753	10	7	1 116	123 372
Capital expenditure intangible assets	53 267	4 060	38	1 066	4 639	-	-	51	13	57	804	414	401	1 364	4 083	70 157
Capital expenditure non-current assets	812 097	57 069	-	-	-	-	-	-	-	-	16 813	20 563	-	-	-	906 542
	31.12.2012															
	Portugal	Spain	France	UK	Switzerland	Luxembourg	Hungary	USA	Panama	Dubai	Brazil	Angola	Cape Verde	Macao	Other	Total
(Loss)/ profit for the year after tax and before non-controlling interest	283 720	18 686	16 664	19 232	28 648	( 59 168)	( 50)	5 868	16 515	3 918	11 088	27 523	1 756	3 982	( 8 678)	371 704
Attributable to the non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	58 071
Profit for the year	( 14 879)	5 816	( 7 444)	230 630	( 35 232)	30 272	-	( 379)	( 8 874)	1 069	-	( 174 050)	( 2 295)	8 412	1 070	313 633
Intersegment operating income	59 322 647	4 652 643	1 965 689	5 944 423	1 301 918	314 503	139	1 303 230	658 228	180 182	2 439 976	7 978 348	208 048	446 385	999 981	87 606 538
Total Assets	332 286	( 32 804)	75 541	-	-	5 527	-	-	-	-	498	25 846	-	-	33 978	640 812
Investments in associates	12 665	2 359	1 304	368	336	175	-	44	39	367	305	126 769	181	-	7 736	153 188
Capital expenditure intangible assets	385 124	4 338	185	887	227	-	-	149	185	901	901	382	414	-	6 038	398 655
Capital expenditure non-current assets	1 203 709	44 625	-	-	-	-	-	-	-	-	-	201 987	-	-	-	1 450 411

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 5 - NET INTEREST INCOME**

This balance is analysed as follows:

	31.12.2013			31.12.2012		
	Assets / Liabilities at amortised cost and available- for-sale financial assets	Assets / Liabilities at fair value through profit or loss	Total	Assets / Liabilities at amortised cost and available- for-sale financial assets	Assets / Liabilities at fair value through profit or loss	Total
(in thousands of euro)						
<b>Interest and similar income</b>						
Interest from loans and advances	2 431 191	14 187	2 445 378	2 675 102	8 367	2 683 469
Interest from deposits with banks	47 499	807	48 306	27 023	3 749	30 772
Interest from financial assets at fair value through profit or loss	-	255 526	255 526	-	256 548	256 548
Interest from available-for-sale financial assets	395 917	-	395 917	555 253	-	555 253
Interest from held to maturity	53 305	-	53 305	54 813	-	54 813
Interest from derivatives for risk management purposes	-	395 474	395 474	-	459 012	459 012
Other interest and similar income	35 350	-	35 350	57 814	-	57 814
	<b>2 963 262</b>	<b>665 994</b>	<b>3 629 256</b>	<b>3 370 005</b>	<b>727 676</b>	<b>4 097 681</b>
<b>Interest expense and similar charges</b>						
Interest from debt securities	( 799 351)	( 67 134)	( 866 485)	( 886 649)	( 37 481)	( 924 130)
Interest from amounts due to customers	( 971 471)	( 49 321)	( 1 020 792)	( 1 006 421)	( 33 164)	( 1 039 585)
Interest from deposits from central banks and other banks	( 330 756)	( 11 843)	( 342 599)	( 411 528)	( 11 028)	( 422 556)
Interest from subordinated debt	( 97 735)	-	( 97 735)	( 95 365)	-	( 95 365)
Interest from derivatives for risk management purposes	-	( 195 462)	( 195 462)	-	( 343 532)	( 343 532)
Other interest expenses and similar charges	( 13 688)	-	( 13 688)	( 7 292)	-	( 7 292)
	<b>(2 213 001)</b>	<b>(323 760)</b>	<b>(2 536 761)</b>	<b>(2 407 255)</b>	<b>(425 205)</b>	<b>(2 832 460)</b>
	<b>750 261</b>	<b>342 234</b>	<b>1 092 495</b>	<b>962 750</b>	<b>302 471</b>	<b>1 265 221</b>

Interest from loans and advances includes an amount of euro 103 082 thousand (31 December 2012: euro 78 290 thousand) related to the unwind of discount regarding the impairment losses of loans and advances to customers that are overdue (see Note 26).

Interest from derivatives for risk management purposes includes, in accordance with the accounting policy described in Notes 2.4 and 2.21, interest from hedging derivatives and from derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss in accordance with the accounting policies described in Notes 2.5, 2.6 and 2.8.

**NOTE 6 - NET FEE AND COMMISSION INCOME**

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

This balance is analysed as follows:

	<b>31.12.2013</b>	<b>31.12.2012</b>
	<b>(in thousands of euro)</b>	
<b>Fee and commission income</b>		
From banking services	489 804	604 676
From guarantees granted	258 469	233 432
From transactions with securities	73 154	64 287
From commitments assumed to third parties	28 942	38 774
Other fee and commission income	76 391	93 977
	926 760	1 035 146
<b>Fee and commission expenses</b>		
From banking services rendered by third parties	(83 749)	(79 555)
From transactions with securities	(21 489)	(26 571)
From guarantees received	(70 054)	(59 819)
Other fee and commission expense	(28 336)	(19 587)
	(203 628)	(185 532)
	<b>723 132</b>	<b>849 614</b>

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

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

This balance is analysed as follows:

	31.12.2013			31.12.2012		
	Gains	Losses	Total	Gains	Losses	Total
	(in thousands of euro)					
<b>Trading assets and liabilities</b>						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	90 728	( 164 298)	( 73 570)	943 283	( 723 240)	220 043
Issued by other entities	20 787	( 12 604)	8 183	13 243	( 26 149)	( 12 906)
Shares	43 638	( 62 182)	( 18 544)	43 947	( 47 763)	( 3 816)
Other variable income securities	1 167	( 1 552)	( 385)	1 185	( 1 149)	36
	<b>156 320</b>	<b>(240 636)</b>	<b>(84 316)</b>	<b>1 001 658</b>	<b>(798 301)</b>	<b>203 357</b>
Derivative financial instruments						
Exchange rate contracts	2 813 561	(2 815 009)	( 1 448)	1 040 084	(1 038 856)	1 228
Interest rate contracts	5 408 069	(5 553 884)	( 145 815)	4 956 739	(4 911 210)	45 529
Equity/Index contracts	2 152 703	(2 167 803)	( 15 100)	1 342 619	(1 325 590)	17 029
Credit default contracts	506 019	( 539 289)	(33 270)	753 554	( 783 848)	(30 294)
Other	31 183	( 22 206)	8 977	107 646	42 859	150 505
	<b>10 911 535</b>	<b>(11 098 191)</b>	<b>(186 656)</b>	<b>8 200 642</b>	<b>(8 016 645)</b>	<b>183 997</b>
	<b>11 067 855</b>	<b>(11 338 827)</b>	<b>(270 972)</b>	<b>9 202 300</b>	<b>(8 814 946)</b>	<b>387 354</b>
<b>Financial assets and liabilities at fair value through profit or loss</b>						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	63 712	( 37 593)	26 119	64 358	( 2 654)	61 704
Issued by other entities	2 049 451	(2 020 370)	29 081	187 507	( 111 519)	75 988
Shares	270 543	( 263 270)	7 273	2 025	( 5 812)	( 3 787)
Other variable income securities	2 472 179	(2 420 908)	51 271	120 699	( 189 515)	( 68 816)
	<b>4 855 885</b>	<b>(4 742 141)</b>	<b>113 744</b>	<b>374 589</b>	<b>(309 500)</b>	<b>65 089</b>
Financial assets <sup>(1)</sup>						
Loans and advances to customers	36 605	( 15 779)	20 826	8 768	( 9 406)	( 638)
	36 605	( 15 779)	20 826	8 768	( 9 406)	( 638)
Financial liabilities <sup>(1)</sup>						
Deposits from banks	17 887	-	17 887	1 091	( 25 228)	( 24 137)
Due to customers	92 014	( 50 506)	41 508	57 034	( 168 007)	( 110 973)
Debt securities issued	44 449	( 94 505)	( 50 056)	71 173	( 267 531)	( 196 358)
Investment contracts	63 857	( 231 764)	( 167 907)	71 859	( 247 914)	( 176 055)
Subordinated debt	-	-	-	2 715	( 1 759)	956
	<b>218 207</b>	<b>(376 775)</b>	<b>(158 568)</b>	<b>203 872</b>	<b>(710 439)</b>	<b>(506 567)</b>
	<b>5 110 697</b>	<b>(5 134 695)</b>	<b>(23 998)</b>	<b>587 229</b>	<b>(1 029 345)</b>	<b>(442 116)</b>
	<b>16 178 552</b>	<b>(16 473 522)</b>	<b>(294 970)</b>	<b>9 789 529</b>	<b>(9 844 291)</b>	<b>(54 762)</b>

<sup>(1)</sup> includes the fair value change of hedged assets and liabilities and of assets and liabilities at fair value through profit or loss

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

In accordance with the accounting policies followed by the Group, financial instruments are initially recognised at fair value. The best evidence of the fair value of the instrument at inception is deemed to be the transaction price.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

However, in particular circumstances, the fair value of a financial instrument at inception, determined based on a valuation techniques, may differ from the transaction price, namely due to the existence of a built-in fee, originating a *day one profit*.

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

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

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

This balance is analysed as follows:

	31.12.2013			31.12.2012		
	Gains	Losses	Total	Gains	Losses	Total
	(in thousands of euro)					
Bonds and other fixed income securities						
Issued by government and public entities	384 609	( 21 815)	362 794	821 775	( 24 937)	796 838
Issued by other entities	21 865	( 19 618)	2 247	81 219	( 66 115)	15 104
Shares	84 706	( 17 055)	67 651	46 541	( 250 272)	( 203 731)
Other variable income securities	31 657	( 12 700)	18 957	14 282	( 16 925)	( 2 643)
	<b>522 837</b>	<b>( 71 188)</b>	<b>451 649</b>	<b>963 817</b>	<b>( 358 249)</b>	<b>605 568</b>

During the year ended 31 December 2013, the Group sold at market prices through the stock exchange, 77.4 million ordinary shares of EDP, this transaction generated a realised net gain of euro 53.7 million (euro 14.7 million net of non-controlling interest) (see Note 24).

During the year ended 31 December 2012, the Group sold at market prices through the stock exchange, 96.4 million ordinary shares of EDP and 260.7 million ordinary shares of Portugal Telecom. These transactions generated a realised net loss of euro 224.9 million (euro 61.5 million net of non-controlling interest) (see Note 24).

**NOTE 9 - NET (LOSSES) FROM FOREIGN EXCHANGE DIFFERENCES**

This balance is analysed as follows:

	31.12.2013			31.12.2012		
	Gains	Losses	Total	Gains	Losses	Total
	(in thousands of euro)					
Foreign exchange translation	943 107	( 945 795)	( 2 688)	1 048 822	(1 067 191)	( 18 369)
	<b>943 107</b>	<b>( 945 795)</b>	<b>( 2 688)</b>	<b>1 048 822</b>	<b>(1 067 191)</b>	<b>( 18 369)</b>

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

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Loans and advances to customers	( 20 738)	( 39 507)
Non-current assets held for sale	( 52 261)	( 6 382)
Other	5 936	3 316
	<u>( 67 063)</u>	<u>( 42 573)</u>

As at 31 December 2013, Loans and advances to customers include a loss of euro 0.1 million related to the sale of euro 63 million of credits realised within the deleverage program of the Group (31 December 2012: loss of euro 29.6 million related to the sale of euro 262 millions of credits).

**NOTE 11 - INSURANCE EARNED PREMIUMS, NET OF REINSURANCE**

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Gross premiums written	814 756	468 168
Reinsurance premiums ceded	( 122 122)	( 63 990)
Net premiums written	<u>692 634</u>	<u>404 178</u>
Change in the provision for unearned premiums, net of reinsurance	2 034	3 454
Earned premiums, net of reinsurance	<u><u>694 668</u></u>	<u><u>407 632</u></u>



**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The direct insurance written and earned premiums are analysed as follows:

	<u>31.12.2013</u>		<u>31.12.2012</u>	
	<u>Written premiums</u>	<u>Earned premiums</u>	<u>Written premiums</u>	<u>Earned premiums</u>
	(in thousands of euro)			
Life	469 118	468 292	114 780	114 079
Non-life:				
Direct Business				
Accident and health	101 563	100 067	100 660	101 281
Fire and hazards	64 205	64 754	64 100	63 563
Motor	144 410	148 904	153 773	156 705
Maritime, airline and transportation	7 794	7 621	6 878	6 672
Third party liability	11 499	11 384	11 080	11 162
Credit and surety ship	51	42	40	43
Other	15 715	16 049	16 086	16 039
Total	<u>814 355</u>	<u>817 113</u>	<u>467 397</u>	<u>469 544</u>
Reinsurance accepted	401	368	771	764
	<b><u>814 756</u></b>	<b><u>817 481</u></b>	<b><u>468 168</u></b>	<b><u>470 308</u></b>

The reinsurance ceded premiums are analysed as follows:

	<u>31.12.2013</u>		<u>31.12.2012</u>	
	<u>Written premiums</u>	<u>Earned premiums</u>	<u>Written premiums</u>	<u>Earned premiums</u>
	(in thousands of euro)			
Life	64 294	64 293	8 681	8 118
Non-life:				
Direct Business				
Accident and Health	4 097	3 744	3 348	3 420
Fire and hazards	29 411	29 900	28 744	28 180
Motor	1 887	2 111	1 972	1 959
Maritime, airline and transportation	4 384	4 153	3 757	3 687
Third party liability	1 430	1 421	1 401	1 396
Credit and surety ship	16	15	14	17
Other	15 229	16 066	15 701	15 594
Total	<u>120 748</u>	<u>121 703</u>	<u>63 618</u>	<u>62 371</u>
Reinsurance accepted	1 374	1 110	372	305
	<b><u>122 122</u></b>	<b><u>122 813</u></b>	<b><u>63 990</u></b>	<b><u>62 676</u></b>

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

Gross written premiums from life insurance business are analysed as follows:

	<b>31.12.2013</b>	<b>31.12.2012</b>
	<b>(in thousands of euro)</b>	
Annuities	9 861	5 733
Risk contracts	77 124	71 290
Saving contracts with profit sharing	382 133	37 757
	<b>469 118</b>	<b>114 780</b>
	<b>469 118</b>	<b>114 780</b>

In accordance with IFRS 4, the contracts issued by the Group for which there is only a transfer of financial risk, with no discretionary participating features, are classified as investment contracts and accounted for as financial liabilities.

The increase in gross written premiums in 2013 is essentially due the significant increase in the capitalization products and retirement plans.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 12 - OTHER OPERATING INCOME AND EXPENSES**

These balances are analysed as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Other operating income arising from:</b>		
Medical services business	13 944	262 514
Insurance business	6 873	14 745
IT related business	1 720	5 689
Call center business	11 969	13 117
Fair value adjustment on investment properties (see Note 31)	8 572	2 900
Gains on repurchase of Group debt securities (see Notes 39 and 43)	14 118	113 721
Non recurring gains on advisory services	3 671	4 299
Other	13 976	41 952
	<u>74 843</u>	<u>458 937</u>
<b>Other operating expenses arising from:</b>		
Direct and indirect taxes	( 22 921)	( 22 261)
Contributions to the depositors guarantee fund	( 12 865)	( 10 370)
Membership and donations	( 6 930)	( 8 870)
Medical services business	( 2 359)	( 155 685)
Insurance business	( 16 657)	( 24 700)
Fair value adjustment on investment properties (see Note 31)	( 2 627)	( 18 611)
Contribution to banking sector	( 27 289)	( 27 910)
Contribution to funds of resolution	( 11 813)	-
Losses on repurchase of Group debt securities (see Notes 39 and 43)	( 7 343)	-
Other	( 47 165)	( 8 583)
	<u>( 157 969)</u>	<u>( 276 990)</u>
	<u>( 83 126)</u>	<u>181 947</u>

The decrease in other operating income - Medical services business relates to the acquisition by Rio Forte Investments, S.A. of an additional 19.5% stake in ES Saúde. ESFG has lost control over ES Saúde in 2012. Consequently, this entity is no longer fully consolidated by ESFG, being classified as an associate.

As at 31 December 2012, Other operating income includes a gain of euro 21.8 million related with the negative past service cost (gain) which arose from the change introduced by Decree Law 133/2012 to the calculation method for the death allowance (see Note 14).

Also under Other operating income, as at 31 December 2012, is included the gain of euro 10.3 million arising from the termination of the exclusive distribution agreement established between ESAF (through Gespator) and Banco Pastor, following the change of control of Banco Pastor occurred in the first semester of 2012 as explained in Note 32.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 13 - STAFF COSTS**

This balance is analysed as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Wages and salaries		
Remuneration	520 736	598 078
Long term service benefits (see Note 14)	4 560	3 002
Pension costs (see Note 14)	14 826	8 779
Other mandatory social charges	111 188	127 808
Other costs	41 424	40 040
	<u><b>692 734</b></u>	<u><b>777 707</b></u>

As at 31 December 2013, other costs include the amount of euro 925 thousand related to the variable remuneration plan on financial instruments (PRVIF) of BES in accordance with the accounting policy described in Note 2.18 (31 December 2012: euro 489 thousand). The details of this scheme implemented by BES Group are analysed in Note 14.

An amount of euro 183 thousand negative (31 December 2012: euro 97 thousand positive) is included in other costs related to the stock options plan set-up by ESFG, in accordance with the accounting policy described in Note 2.18 (see Note 14).

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

	<u>Board of Directors</u>	<u>Audit Committee</u>	<u>Other key management</u>	<u>Total</u>
<b>31 December 2013</b>				
Salaries and other short terms benefits	3 288	441	26 161	29 890
Bonus	234	-	3 549	3 783
Stock-option plan	-	-	-	-
<b>Sub total</b>	<u><b>3 523</b></u>	<u><b>441</b></u>	<u><b>29 710</b></u>	<u><b>33 674</b></u>
Pension costs and social charges	422	-	11 420	11 842
Long term service benefits	-	-	698	698
<b>Total</b>	<u><u><b>3 945</b></u></u>	<u><u><b>441</b></u></u>	<u><u><b>41 827</b></u></u>	<u><u><b>46 213</b></u></u>
<b>31 December 2012</b>				
Salaries and other short terms benefits	4 008	654	24 009	28 671
Bonus	594	-	6 454	7 048
Stock-option plan	42	-	58	100
<b>Sub total</b>	<u><b>4 644</b></u>	<u><b>654</b></u>	<u><b>30 521</b></u>	<u><b>35 820</b></u>
Pension costs and social charges	739	-	6 288	7 027
Long term service benefits	-	-	72	72
<b>Total</b>	<u><u><b>5 383</b></u></u>	<u><u><b>654</b></u></u>	<u><u><b>36 881</b></u></u>	<u><u><b>42 918</b></u></u>

Other key management personnel include board members of ESFG subsidiaries and ESFG senior management.

As at 31 December 2013 and 2012, the loans granted by the Group to key management personnel amounted to euro

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

25.8 million and euro 38.4 million, respectively.

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
Banking sector employees	10 624	10 309
Health sector employees	358	366
Insurance sector employees	732	709
Employed by other companies essentially providing services to customers outside the Group	568	652
	<u>12 282</u>	<u>12 036</u>

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
Senior management	1 292	1 254
Management	1 398	1 289
Specific functions	4 767	4 778
Administrative functions and others	4 825	4 715
	<u>12 282</u>	<u>12 036</u>

**NOTE 14 - EMPLOYEE BENEFITS**

*Pension and health-care benefits*

As described in Note 2.18, the Group's companies operate defined pension and health-care plans for their employees and their dependants under which the benefits vest on the earlier of retirement, death or incapacity.

However, it should be noted that in what concerns the banking subsidiaries, the employees hired after 31 March 2008 are covered by the Portuguese Social Security scheme.

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

Retirement pensions of banking employees integrated into the General Social Security Regime from 1 January 2011, continue to be calculated according to the provisions of ACT and other conventions. Banking employees, however, are entitled to receive a pension under the general regime, which amount takes into account the number of years of discounts for that scheme. Banks are responsible for the difference between the pension determined in accordance with the provisions of ACT and that the one that the banking employees are entitled to receive from the General Social Security Regime.

The contribution rate to the Social Security Regime is 26.6%. 23.6% paid by the employer and 3% paid by the employees, instead of Caixa de Abono de Família dos Empregados Bancários (CAFEB), abolished by the same law. In consequence of this change, the pension rights of active employers is to be covered under the terms defined by the

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

General Social Security Regime, taking into account the length of service from 1 January 2011 until retirement. The differential required to support the guaranteed pension in terms of the ACT is paid by the Banks.

At the end of 2011 following the third tripartite agreement established between the Portuguese Government, the Portuguese Banking Association and the banking sector employees unions, it was decided to transfer to the Social Security Regime the banks liabilities with pension in payment as at 31 December 2011.

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

The banks pension funds assets, specifically allocated to the cover of the transferred liabilities, were also be transferred to the Social Security.

Being thus a definitive and irreversible transfer of the liabilities with pensions in payment (even if only on a portion of the benefit), the conditions set out in IAS 19 'Employee benefits' underlying the concept of settlement were met, as the obligation with pension in payment as at 31 December 2011 extinguished at the date of transfer.

The actuarial valuation of pension and health-care benefits for the Group companies is performed every half-year, with latest valuation performed as at 31 December 2013. On annual basis, the actuarial valuation is reviewed by an independent actuary.

As at 31 December 2013 and 2012, the main assumptions considered in the actuarial valuation, to determine the defined benefit obligation of pension and health-care benefits for the Group employees are as follows:

	Insurance sector		Banking sector			
	31.12.2013	31.12.2012	31.12.2013		31.12.2012	
			1 <sup>st</sup> through 3 <sup>rd</sup> year	4 <sup>th</sup> and subsequent years	1 <sup>st</sup> through 4 <sup>th</sup> year	5 <sup>th</sup> and subsequent years
<b>Financial assumptions</b>						
Salaries increase rate	1% - 2.5% (*)	0% - 2.5% (*)	0.00%	0.75%	0.00%	0.75%
Pensions increase rate	0% - 2.5% (*)	0% - 2.5% (*)	1.00%	1.75%	1.00%	1.75%
Early retirements pensions increase rate	1% - 2.5% (*)	1.00%	-	-	-	-
Expected return of plan assets	3.75%	3.26% - 4.25%		4.00%		4.50%
Discount rate	3.75%	3.26% - 4.25%		4.00%		4.50%
<b>Demographic assumptions</b>						
Mortality table						
Men	GKF 95			TV 73/77 (adjusted)		
Women	GKF 95			TV 88/90		
Actuarial method				<i>Project Unit Credit Method</i>		

(\*) Pension fund of Board of Directors

In accordance with the accounting policy described in Note 2.18, the discount rate used to calculate the actuarial present value of the pensions and health care defined benefits, was determined at the balance sheet date considering (i) the evolution of the main indexes related with high quality corporate bonds and (ii) the duration of the liabilities. The expected return on plan assets is based on the long term expected return for each asset class within the portfolio of the pension funds and takes in consideration the investment strategy determined for the funds.

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

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The contributions to SAMS as at 31 December 2013 and 2012 corresponded to 6.5% of total wages. The percentage of contribution is established by SAMS, and no changes are expected for 2014.

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
Employees	5 921	6 337
Pensioners and widows	6 013	5 908
<b>Total</b>	<b><u>11 934</u></b>	<b><u>12 245</u></b>

The amounts recognised in the balance sheet following the application of IAS 19 as at 31 December 2013 and 2012 are presented as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Assets / (liabilities) recognised in the balance sheet</b>		
Defined benefit obligation		
Pensioners	( 487 491)	( 448 265)
Employees	( 858 518)	( 792 037)
	<u>(1 346 009)</u>	<u>(1 240 302)</u>
<b>Coverage</b>		
Fair value of plan assets	<u>1 346 019</u>	<u>1 259 117</u>
<b>Net assets in balance sheet (see Note 35)</b>	<u>10</u>	<u>18 815</u>
<b>Remeasurements recognised in other comprehensive income</b>	<u>1 196 453</u>	<u>1 089 323</u>

Additionally, for the insurance entities of the Group, Tranquilidade and Esumédica have transferred part of their liabilities to BES Vida, through the acquisition of the life insurance policies. The number of pensioners covered by these policies is 359 (31 December 2012: 388), and the total liability amounts to euro 11.2 million (31 December 2012: euro 11.8 million).

In accordance with accounting policy described in Note 2.18 and following the requirements of IAS 19 — Employees benefits, the Group assesses, when applicable, at each balance sheet date and for each plan separately, the recoverability of the recognised assets in relation to the defined benefit pension plans based on the expectation of reductions in future contributions to the funds.

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Defined benefit obligation as at 1 January</b>	<b>1 240 302</b>	<b>1 117 094</b>
Service cost	13 659	14 325
Interest cost	55 775	58 994
Plan participants' contribution	3 260	3 259
Remeasurements:		
- changes in actuarial assumptions	94 593	65 148
- experience adjustments	( 24 641)	42 066
Pensions paid by the fund	( 34 116)	( 31 288)
Benefits paid by the Group	( 104)	( 118)
Settlement of the defined benefit obligation for insurance employees	-	( 5 044)
Negative past service costs	-	( 21 813)
Exchange differences and other	( 2 719)	( 2 321)
<b>Defined benefit obligation as at 31 December</b>	<b><u>1 346 009</u></b>	<b><u>1 240 302</u></b>

In accordance with the labour agreement for the insurance employees, in force since 1 January 2013, a curtailment of the defined benefit plan has been determined and a defined contribution plan has been established. The related defined benefit obligation recognised as at 31 December 2012 was settled by the fund's through an initial contribution to the defined contribution plan.

During the year ended 31 December 2012, following the amendment to Decree Law 133/2012 which determines the calculation method for the death allowance, there was a reduction on the defined benefit obligation with this benefit, in the amount of euro 21.8 million, which qualifies as a negative past cost (a gain). On this basis and in accordance with the accounting policy described in Note 2.18, this gain should be recognized in the income statement during the vesting period. Considering that this benefit is already vested (given that the employee or retiree is entitled to the benefit in full without the need to comply with any service condition), the Group recognized the gain in the income statement.

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

- An increase in the discount rate by 25 basis points would reduce the benefit obligation by approximately euro 51 million; a decrease of equal magnitude would increase the benefit obligation by approximately euro 58 million;
- An increase of 25 basis points in the growth of salaries and pensions would increase the benefit obligation by approximately euro 62 million; a decrease of equal magnitude would reduce the benefit obligation by approximately euro 51 million;
- The use of mortality tables with increase of another year would increase the benefit obligation by approximately euro 44 million; with a reduction of one year the benefit obligation would decrease by approximately euro 37 million.



**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Fair value of plan assets as at 1 January</b>	<b>1 259 117</b>	<b>1 226 393</b>
Actual return on plan assets		
Expected return on plan assets	54 146	64 328
Actuarial gains/ (losses)	( 37 250)	( 82 946)
Group contributions	103 806	86 410
Plan participants' contributions	3 260	3 259
Pensions paid by the fund	( 34 116)	( 31 288)
Settlement of the defined benefit obligation for insurance employees	-	( 5 044)
Exchange differences and other	( 2 944)	( 1 995)
<b>Fair value of plan assets as at 31 December</b>	<b>1 346 019</b>	<b>1 259 117</b>

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

Pension fund assets are analysed as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
Shares and other variable income securities	22%	15%
Fixed income securities	25%	27%
Real estate	32%	30%
Other	21%	28%
	<b>100%</b>	<b>100%</b>

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Shares and other variable income securities	2 925	1 200
Fixed income securities	1 839	6 603
Real estate	227 469	298 022
<b>Total</b>	<b>232 233</b>	<b>305 825</b>

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

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

The changes in the remeasurements recognised in other comprehensive income in 2013 and 2012 are analysed as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Remeasurements recognised in other comprehensive income as at 1 January</b>	<b>1 089 323</b>	<b>899 844</b>
Remeasurements:		
- changes in actuarial assumptions	94 593	65 148
- experience adjustments	12 609	125 012
Other	( 72)	( 681)
	<u>1 196 453</u>	<u>1 089 323</u>
<b>Remeasurements recognised in other comprehensive income as at 31 December</b>	<b>1 196 453</b>	<b>1 089 323</b>

The net benefit cost can be analysed as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Service cost	13 659	14 325
Net interest expense / (income)	1 629	( 5 334)
Other	1 167	( 212)
<b>Net benefit cost</b>	<b>16 455</b>	<b>8 779</b>

In accordance with the accounting policy described in Note 2.18, since 1 January 2013, due to the change in IAS 19 – Employee Benefits, the net interest expense/ income is recognised in the income statement under Interest and similar income or Interest expense and similar charges, as applicable.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The changes in the assets recognised in the balance sheet can be analysed as follows:

	31.12.2013	31.12.2012
	(in thousands of euro)	
<b>Balance as at 1 January</b>	<b>18 815</b>	<b>109 299</b>
Net periodic benefit cost	( 16 455)	( 8 779)
Negative past service cost	-	21 813
Remeasurements recognised on other comprehensive income	( 107 130)	( 189 479)
Contributions of the year and pensions paid by the Group	103 910	86 528
Other	870	( 567)
<b>Balance as at 31 December</b>	<b>10</b>	<b>18 815</b>

Historical information regarding pension plan is as follows:

	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008
	(in thousands of euro)					
Defined benefit obligation	(1 346 009)	(1 240 302)	(1 117 094)	(2 250 196)	(2 172 293)	(2 110 400)
Fair value of plan assets	1 346 019	1 259 117	1 226 393	2 250 218	2 344 926	2 101 305
<b>(Un)/over funded liabilities</b>	<b>10</b>	<b>18 815</b>	<b>109 299</b>	<b>22</b>	<b>72 633</b>	<b>(9 095)</b>
(Gains)/losses from experience adjustments arising on defined benefit obligation	( 24 641)	42 006	( 115 022)	24 639	51 958	23 855
(Gains)/losses from experience adjustments arising on plan assets	37 250	82 946	270 146	68 387	( 92 351)	733 639

*Stock options plan*

On 1 October 2008, the Company established a stock-option plan that entitles key management personnel to purchase ESFG shares. Alternatively, the Company may settle these options in cash by an amount equivalent to the appreciation of ESFG share market price above the exercise price. Under the program, the Company may grant options to its employees up to 3 000 000 ordinary shares. The exercise price of each option equals the market price of ESFG share on the date of grant and an option's maximum term is of 10 years. Options are granted at the discretion of the Board of Directors and have a vesting period of 1 year.

As at 31 December 2013, all options under the plan have vested.

Considering the terms and conditions of the plan and ESFG's informal practices of settling the options granted to employees in cash, it is accounted for as cash-settled share-based payment arrangement, in accordance with the accounting policy described in Note 2.18.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The number and weighted average exercise prices of share options are as follows:

	31.12.2013		31.12.2012	
	Weighted average exercise price (in Euro)	Number of options	Weighted average exercise price (in Euro)	Number of options
<b>Outstanding as at 1 January</b>	13.20	2 650 000	13.20	2 650 000
<b>Outstanding as at 31 December</b>	<b>13.20</b>	<b>2 650 000</b>	<b>13.20</b>	<b>2 650 000</b>
<b>Exercisable as at 31 December</b>	<b>13.20</b>	<b>2 650 000</b>	<b>13.20</b>	<b>2 650 000</b>

The options outstanding at 31 December 2013 have a remaining contractual life of approximately 5 years (31 December 2012: 6 years).

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

Initial reference date	01.10.2008
Final reference date	01.10.2018
Number of options	2 940 000
Exercise price (in EUR)	13.20
Interest rate	4.27%
Initial spot price (in EUR)	10.33
Volatility	26.47%
Initial fair value of the plan (in thousands)	4 783

The assumptions used in the valuation of the outstanding options as at 31 December 2013 and 2012 were the following:

	31.12.2013	31.12.2012
Initial reference date	01.10.2008	01.10.2008
Final reference date	01.10.2018	01.10.2018
Number of options	2 650 000	2 650 000
Exercise price (in EUR)	13.20	13.20
Interest rate	1.24%	0.94%
Spot price (in EUR)	4.86	5.26
Volatility	15.47%	24.34%

In accordance with the accounting policy described in Note 2.18, the initial fair value of the plan, amounting to euro 4 783 thousand, was recognised during the 12 month-period comprised between the grant date and its first anniversary. In 2013 change in the plans' fair value of the benefit granted to employees has been recognised in the income statement, as a decrease in staff costs, for an amount of euro 183 thousand (31 December 2012: euro 97 thousand increase in staff costs).

The fair value of the liability recognised is remeasured at the balance sheet date, amounting as at 31 December 2013 to euro 2 thousand (2012: euro 185 thousand) (see Note 44).

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

*Variable remuneration payment plan on financial instruments (PRVIF)*

Following the recommendations of the Supervising and Regulatory authorities, on the BES shareholders General Meeting, held in 6 April 2011 it was approved a new remuneration policy for the Executive Committee members. This policy consists in giving to the Executive Committee members a fixed remuneration, which should represent approximately 45% of the total remuneration, and a variable component representing around 55% of the total remuneration. The variable remuneration shall have two components: one associated with short-term performance and another with medium-term performance. Half of the short-term component must be paid in cash and the remaining 50% should be paid over a three years period, with half of these payments to be made in cash and the remaining through the attribution of shares. The medium-term component has associated a share options program with the exercise of the options set at 3 years from the date of its attribution.

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

Regarding the attribution of options to the beneficiaries is also performed by the Remuneration Committee, and the exercise price is equal to the single average of the closing prices of BES shares on NYSE Euronext Lisbon during the 20 days preceding the day of attribution of the options, plus 10%. The option can only be exercised at maturity and the beneficiary may choose between the physical settlement or the financial settlement of the options.

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

	<u>1<sup>st</sup> attribution</u>	<u>2<sup>nd</sup> attribution</u>
Initial reference date	12.04.2011	12.10.2012
Final reference date	31.03.2014	15.01.2016
Rights granted to employees	2 250 000	6 280 045
Reference price (in EUR)	3.47	0.67
Interest rate	2.31%	0.67%
Volatility	40.0%	65.0%
Initial fair value of the plan (in thousands of euro)	1 130	1 940

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

*Long term service benefits*

As referred in Note 2.18, for employees that achieve certain years of service, the Group pays long term service premiums, calculated based on the effective monthly remuneration earned at the date the premiums are due. At the date of early retirement or disability, employees have the right to a premium proportional to that they would earn if they remained in service until the next payment date.

As at 31 December 2013 and 2012, the Group's liabilities regarding these benefits amount to euro 30 376 thousand and euro 28 691 thousand, respectively (see Note 44). The costs incurred in the year with long term service benefits amounted to euro 4 560 thousand (31 December 2012: euro 3 002 thousand) (see Note 13).

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

**NOTE 15 - GENERAL AND ADMINISTRATIVE EXPENSES**

This balance is analysed as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Rental costs	85 261	80 804
Communication costs	47 966	50 190
Traveling and representation costs	38 437	39 752
Advertising costs	39 436	42 848
Maintenance and related services	29 353	27 656
Insurance costs	10 276	8 711
Specialised services		
IT services	67 329	70 617
Professional services	21 351	15 928
Temporary work	5 146	5 550
Electronic payment system	10 172	11 711
Legal costs	23 008	20 910
Consultants and external auditors	33 844	32 198
Other specialised services	3 033	3 756
Water, energy & fuel	14 044	13 491
Current consumption material	5 376	5 726
Transports	7 538	7 899
Other costs	76 506	65 013
	<u><u>518 076</u></u>	<u><u>502 760</u></u>

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The fees billed to the Company by KPMG Luxembourg S.à r.l. and other member firms of the KPMG network (“KPMG”) during the year are analysed as follows (excluding VAT):

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Audit fees	3 708	3 786
Audit related fees	1 871	1 508
	<u>5 579</u>	<u>5 294</u>
Tax consultancy services	644	773
Other services	688	504
	<u><u>6 911</u></u>	<u><u>6 571</u></u>

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Up to 1 year	2 803	8 903
1 to 5 years	11 263	10 451
	<u><u>14 066</u></u>	<u><u>19 354</u></u>

**NOTE 16 - CLAIMS INCURRED, NET OF REINSURANCE**

Claims incurred, net of reinsurance are analysed as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Claims incurred for the life business	301 490	434 248
Claims incurred for the non-life business	181 728	197 695
	<u><u>483 218</u></u>	<u><u>631 943</u></u>

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

Concerning the life business, the claims incurred, net of reinsurance are analysed as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Claims paid		
Gross amount	304 724	439 480
Reinsurance share	( 14 388)	( 3 239)
	<u>290 336</u>	<u>436 241</u>
Change in claims outstanding reserve		
Gross amount	12 938	( 1 532)
Reinsurance share	( 1 784)	( 461)
	<u>11 154</u>	<u>( 1 993)</u>
	<u><u>301 490</u></u>	<u><u>434 248</u></u>

Concerning the non-life business, the claims incurred, net of reinsurance are analysed as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Claims paid		
Gross amount	234 802	224 071
Reinsurance share	( 22 957)	( 14 527)
	<u>211 845</u>	<u>209 544</u>
Change in claims outstanding reserve		
Gross amount	( 30 855)	( 6 851)
Reinsurance share	738	( 4 998)
	<u>( 30 117)</u>	<u>( 11 849)</u>
	<u><u>181 728</u></u>	<u><u>197 695</u></u>



**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The gross amount of claims paid and change in claims reserve for the non-life business are as follows:

	31.12.2013			31.12.2012		
	Claims paid	Change in claims reserve	Total	Claims paid	Change in claims reserve	Total
	(in thousands of euro)					
Direct business						
Accident and health	73 335	13 335	86 670	75 145	7 108	82 253
Fire and other hazards	44 134	( 8 149)	35 985	28 957	12 403	41 360
Motor	109 603	( 35 617)	73 986	111 609	( 28 283)	83 326
Maritime, airline and transportation	2 562	134	2 696	3 124	( 175)	2 949
Third party liability	3 437	( 1 897)	1 540	4 085	1 966	6 051
Credit and suretyship	23	( 38)	( 15)	( 13)	44	31
Other	1 361	1 401	2 762	1 159	27	1 186
Reinsurance accepted	347	( 24)	323	5	59	64
<b>Total</b>	<b>234 802</b>	<b>( 30 855)</b>	<b>203 947</b>	<b>224 071</b>	<b>( 6 851)</b>	<b>217 220</b>

**NOTE 17 - CHANGE IN THE TECHNICAL RESERVES, NET OF REINSURANCE**

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

	31.12.2013	31.12.2012
	(in thousands of euro)	
Life business	150 757	( 333 638)
Non-life business	2 574	( 3 022)
	<b>153 331</b>	<b>( 336 660)</b>

Concerning the life business, the changes in the technical reserves are analysed as follows:

	31.12.2013	31.12.2012
	(in thousands of euro)	
Change in life assurance reserve		
Gross amount	154 689	( 332 486)
Reinsurance share	( 1)	402
	<b>154 688</b>	<b>( 332 084)</b>
Reserve for bonus and rebates		
Gross amount	3 719	4 623
Reinsurance share	( 8 395)	( 3 213)
	<b>( 4 676)</b>	<b>1 410</b>
Change in other life insurance reserve		
Gross amount	745	( 2 964)
	<b>745</b>	<b>( 2 964)</b>
	<b>150 757</b>	<b>( 333 638)</b>

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

Concerning the non-life business, the changes on the technical reserves are analysed as follows:

	<b>31.12.2013</b>	<b>31.12.2012</b>
	<b>(in thousands of euro)</b>	
Change in non life insurance reserve	2 574	( 3 022)
Change in unexpired risk reserve	2 574	( 3 022)
	<b>2 574</b>	<b>( 3 022)</b>

**NOTE 18 - INSURANCE COMMISSIONS**

The insurance commissions are analysed as follows:

	<b>31.12.2013</b>	<b>31.12.2012</b>
	<b>(in thousands of euro)</b>	
Direct insurance commissions		
Acquisition commissions and other costs	43 739	45 295
Change in deferred acquisition costs	733	567
Collection commissions	1 912	1 959
Reinsurance commissions (a)	(198 640)	(8 565)
	<b>(152 256)</b>	<b>39 256</b>

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

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

Under this treaty, BES Vida received an upfront fee, having transferred all the risks and benefits associated with these contracts. On that basis, the risk of (i) life, (ii) disability, and (iii) cancellation of contracts were transferred. As such the upfront fee is recognized on the present date, net of the respective in force value of the portfolio recognized as an asset, at the date of acquisition of BES Vida (see Notes 32 and 55).

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 19 - EARNINGS PER SHARE**

*Basic earnings per share*

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	<i>(in thousands of euro)</i>	
<b>Consolidated result attributable to equity holders of the Company</b>	( 864 031)	313 633
(-) Dividends on preference shares	( 5 169)	( 5 965)
(-) Remuneration of perpetual bonds	( 600)	( 519)
(+) Realized gains and losses recognized in Reserves	3 481	11 524
<b>Adjusted consolidated result attributable to equity holders of the Company</b>	<u><b>(866 319)</b></u>	<u><b>318 673</b></u>
Average number of outstanding shares	207 075 338	174 813 327
Average number of treasury shares	(2 179 856)	(3 736 030)
<b>Average number of shares in circulation</b>	<u><b>204 895 482</b></u>	<u><b>171 077 298</b></u>
<b>Basic earnings per share attributable to the equity holders of the Company (in euro)</b>	<u><b>(4.23)</b></u>	<u><b>1.86</b></u>
<b>Basic earnings per share from continuing operations attributable to the equity holders of the Company (in euro)</b>	<u><b>(4.19)</b></u>	<u><b>1.91</b></u>

The weighted average number of shares outstanding was calculated taking in consideration the capital increase occurred in the year as described in Note 45.

*Diluted earnings per share*

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

The diluted earnings per share are not different from the basic earnings per share.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 20 - CASH AND DEPOSITS AT CENTRAL BANKS**

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Cash	289 349	304 410
Deposits at central banks		
Bank of Portugal	32 414	26 799
Other central banks	1 506 911	1 113 622
	<u>1 539 325</u>	<u>1 140 421</u>
	<u><b>1 828 674</b></u>	<u><b>1 444 831</b></u>

The deposits at Central Banks include mandatory deposits intended to satisfy legal minimum cash requirements, for an amount of euro 496 582 thousand (31 December 2012: euro 39 599 thousand). According to the European Central Bank Regulation no. 1348/2011, of 14 December 2011, minimum cash requirements kept as deposits with the Bank of Portugal earn interest and correspond to 1% of deposits and debt certificates maturing in less than 2 years, excluding deposits and debt certificates of institutions subject to the European System of Central Banks' minimum reserves requirements. During 2013, these deposits have earned interest at an average rate of 0.55% (2012: 0.89%).

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 21 - DEPOSITS WITH BANKS**

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Deposits with banks in Portugal		
Repayable on demand	214 761	371 794
Uncollected cheques	85 164	107 354
Other	73 552	57 010
	<u>373 477</u>	<u>536 158</u>
Deposits with banks abroad		
Repayable on demand	740 603	547 823
Uncollected cheques	3 564	8 962
Other	31 290	33 910
	<u>775 457</u>	<u>590 695</u>
	<u><u>1 148 934</u></u>	<u><u>1 126 853</u></u>

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

Other deposits with banks, in Portugal and abroad, mature within 3 months.

Deposits with banks include the amount of euro 173 426 thousand (31 December 2012: euro 195 586 thousand) related to deposits held by securitisation vehicles consolidated by the Group and that collateralise the debt issued in the scope of the respective securitisation transactions (see Note 1).

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 22 - FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING**

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Financial assets held for trading</b>		
<b>Securities</b>		
Bonds and other fixed income securities		
Issued by government and public entities	955 951	1 395 583
Issued by other entities	105 279	265 057
Shares	30 963	52 281
Other variable income securities	1 701	2 181
	<u>1 093 894</u>	<u>1 715 102</u>
<b>Derivatives</b>		
Derivative financial instruments with positive fair value	1 394 571	2 266 743
	<u><u>2 488 465</u></u>	<u><u>3 981 845</u></u>
<b>Financial liabilities held for trading</b>		
<b>Derivatives</b>		
Derivative financial instruments with negative fair value	1 322 284	2 123 429
Short selling	14 484	796
	<u>1 336 768</u>	<u>2 124 225</u>

During the year 2008, the Group has reclassified from financial assets held for trading an amount of euro 244 530 thousand to held-to-maturity investments (see Note 27), following an amendment to IAS 39 Financial Instruments: Recognition and Measurement issued in October 2008 and adopted by the European Union in that year.

As at 31 December 2013 and 2012, the amounts that would have been recognised in the year if the reclassifications were not made are presented as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Net gains / (losses) from financial assets and financial liabilities at fair value through profit or loss	( 217)	947
Tax effect	147	( 73)
	<u><u>( 70)</u></u>	<u><u>874</u></u>

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

	<b>31.12.2013</b>	<b>31.12.2012</b>
	<b>(in thousands of euro)</b>	
Up to 3 months	42 034	139 663
3 to 12 months	106 046	173 705
1 to 5 years	611 659	765 803
More than 5 years	301 485	577 774
Undetermined	32 670	58 157
	<b>1 093 894</b>	<b>1 715 102</b>

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

The balance Financial assets held for trading includes securities pledged as collateral by the Group as described in Note 47.

As at 31 December 2013 and 2012, the exposure to peripheral Euro zone countries public debt is analysed in Note 53.

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

	<b>31.12.2013</b>			<b>31.12.2012</b>		
	<b>Quoted</b>	<b>Unquoted</b>	<b>Total</b>	<b>Quoted</b>	<b>Unquoted</b>	<b>Total</b>
	<b>(in thousands of euro)</b>					
Bonds and other fixed income securities						
Issued by government and public entities	955 951	-	955 951	1 349 507	46 076	1 395 583
Issued by other entities	85 283	19 996	105 279	100 506	164 551	265 057
Shares	30 894	69	30 963	40 505	11 776	52 281
Other variable income securities	1 598	103	1 701	2 181	-	2 181
	<b>1 073 726</b>	<b>20 168</b>	<b>1 093 894</b>	<b>1 492 699</b>	<b>222 403</b>	<b>1 715 102</b>

Valuation techniques are described in Note 52.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

	31.12.2013			31.12.2012		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
(in thousands of euro)						
<b>Exchange rate contracts</b>						
Forward						
- buy	2 019 187		10 152	1 356 880		12 871
- sell	1 863 106	25 972		1 226 020	7 688	
Currency Swaps						
- buy	1 561 513		2 198	3 070 568		2 019
- sell	1 638 391	1 757		3 352 944	1 971	
Currency Futures	2 771 168	-	-	278 317	-	-
Currency Interest Rate Swaps						
- buy	61 108		12 839	118 945		18 343
- sell	63 040	14 945		115 406	25 690	
Currency Options	2 813 981	27 316	25 144	2 414 534	41 437	46 868
	<u>12 791 494</u>	<u>69 990</u>	<u>50 333</u>	<u>11 933 614</u>	<u>76 786</u>	<u>80 101</u>
<b>Interest rate contracts</b>						
Forward Rate Agreements	310 000	79	-	200 000	-	16
Interest Rate Swaps	24 204 535	1 202 350	1 070 130	31 000 725	1 954 185	1 814 293
Swaption - Interest Rate Options	2 000	28 286	-	363 000	1 556	1 556
Interest Rate Caps & Floors	3 378 746	-	26 877	4 918 557	40 843	38 562
Interest Rate Futures	4 436 679	-	-	3 784 771	-	-
Interest Rate Options	870 288	330	328	1 903 388	1 341	1 341
	<u>33 202 248</u>	<u>1 231 045</u>	<u>1 097 335</u>	<u>42 170 441</u>	<u>1 997 925</u>	<u>1 855 768</u>
<b>Equity/index contracts</b>						
Equity / Index Swaps	581 628	23 273	42 538	664 516	86 202	24 936
Equity / Index Options	1 107 223	35 423	113 691	2 715 219	60 917	131 146
Equity / Index Futures	53 113	-	-	96 583	-	-
Future Options	395 420	-	-	82 234	-	-
	<u>2 137 384</u>	<u>58 696</u>	<u>156 229</u>	<u>3 558 552</u>	<u>147 119</u>	<u>156 082</u>
<b>Credit default contracts</b>						
Credit Default Swaps	1 264 196	34 840	18 387	2 774 779	44 913	31 478
	<u>49 395 322</u>	<u>1 394 571</u>	<u>1 322 284</u>	<u>60 437 386</u>	<u>2 266 743</u>	<u>2 123 429</u>

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



**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

	<u>31.12.2013</u>		<u>31.12.2012</u>	
	<u>Notional</u>	<u>Fair value</u>	<u>Notional</u>	<u>Fair value</u>
	(in thousands of euro)			
Up to 3 months	9 360 505	( 25 628)	13 785 652	71 751
From 3 to 12 months	7 894 937	17 071	10 093 874	( 46 802)
From 1 to 5 years	16 739 075	( 15 908)	19 007 557	21 130
More than 5 years	15 400 805	96 752	17 550 303	97 235
	<u>49 395 322</u>	<u>72 287</u>	<u>60 437 386</u>	<u>143 314</u>

**NOTE 23 - OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
		(in thousands of euro)
Bonds and other fixed income securities		
Issued by government and public entities	1 234 847	516 859
Issued by other entities	1 229 467	956 370
Other variable income securities	1 099 804	1 130 234
	<u>3 564 118</u>	<u>2 603 463</u>

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

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
		(in thousands of euro)
Up to 3 months	599 455	355 219
3 to 12 months	1 029 134	203 772
1 to 5 years	335 141	226 286
More than 5 years	522 334	738 358
Undetermined	1 078 054	1 079 828
	<u>3 564 118</u>	<u>2 603 463</u>

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

	31.12.2013			31.12.2012		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	(in thousands of euro)					
Bonds and other fixed income securities						
Issued by government and public entities	1 234 847	-	1 234 847	516 859	-	516 859
Issued by other entities	493 999	735 468	1 229 467	240 984	715 386	956 370
Shares and other variable income securities	620 293	479 511	1 099 804	566 440	563 794	1 130 234
	<b>2 349 139</b>	<b>1 214 979</b>	<b>3 564 118</b>	<b>1 324 283</b>	<b>1 279 180</b>	<b>2 603 463</b>

**NOTE 24 - AVAILABLE-FOR-SALE FINANCIAL ASSETS**

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

	Cost (1)	Fair value reserve		Impairment	Book value
		Positive	Negative		
	(in thousands of euro)				
Bonds and other fixed income securities					
Issue by government and public entities	4 098 171	26 568	( 24 942)	-	4 099 797
Issue by others entities	2 255 951	61 187	( 44 473)	( 33 953)	2 238 712
Shares	1 394 322	83 075	( 84 184)	( 213 501)	1 179 712
Other securities	1 472 944	18 353	( 9 149)	( 70 591)	1 411 557
<b>Balance as at 31 December 2013</b>	<b>9 221 388</b>	<b>189 183</b>	<b>( 162 748)</b>	<b>( 318 045)</b>	<b>8 929 778</b>
Bonds and other fixed income securities					
Issue by government and public entities	4 297 879	201 930	( 1 801)	( 11)	4 497 997
Issue by others entities	4 273 021	62 357	( 91 219)	( 18 208)	4 225 951
Shares	1 557 620	82 412	( 59 579)	( 200 299)	1 380 154
Other securities	961 638	16 562	( 5 444)	( 35 623)	937 133
<b>Balance as at 31 December 2012</b>	<b>11 090 158</b>	<b>363 261</b>	<b>( 158 043)</b>	<b>( 254 141)</b>	<b>11 041 235</b>

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

As at 31 December 2013, the exposure to debt of peripheral countries in the euro area is analysed in Note 53.

The balance Available-for-sale financial assets includes securities pledged as collateral by the Group as described in Note 47.

During the year 2008, the Group has reclassified from available-for-sale financial assets an amount of euro 522 715 thousand to held-to-maturity investments (see Note 27), following an amendment to IAS 39 Financial Instruments: Recognition and Measurement issued in October 2008 and adopted by the European Union in that year.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

As at 31 December 2013 and 2012, the amounts that would have been recognised in the year if the reclassifications were not made are presented as follows:

	<b>31.12.2013</b>	<b>31.12.2012</b>
	<b>(in thousands of euro)</b>	
Net change in fair value reserve	( 1 014)	( 3 780)
Tax effect	294	1 191
	<b>( 720)</b>	<b>( 2 589)</b>

During the second quarter of 2011, taking in consideration the new solvency rules applicable to the insurance industry in Portugal, in-force from 1 January 2011, the insurance entities of the Group have reclassified from available-for-sale financial assets an amount of euro 150 253 thousand to held-to-maturity investments (see Note 27), in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

As at 31 December 2013 and 2012, the amounts that would have been recognised in the year if the reclassifications were not made are presented as follows:

	<b>31.12.2013</b>	<b>31.12.2012</b>
	<b>(in thousands of euro)</b>	
Net change in fair value reserve	22 090	18 901
Tax effect	( 6 406)	( 5 481)
	<b>15 684</b>	<b>13 420</b>

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

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

	<b>31.12.2013</b>	<b>31.12.2012</b>
	<b>(in thousands of euro)</b>	
<b>Balance as at 1 January</b>	<b>254 141</b>	<b>192 073</b>
Charge for the year	121 608	103 261
Charge off	( 44 300)	( 36 163)
Write back for the year	( 11 178)	( 3 943)
Exchange differences and other	( 2 226)	( 1 087)
<b>Balance as at 31 December</b>	<b>318 045</b>	<b>254 141</b>

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

	<b>31.12.2013</b>	<b>31.12.2012</b>
	<b>(in thousands of euro)</b>	
Up to 3 months	1 284 223	2 841 838
From 3 to 12 months	729 897	1 244 222
From 1 to 5 years	1 681 503	1 475 813
More than 5 years	2 688 229	3 188 324
Undetermined	2 545 926	2 291 038
	<b>8 929 778</b>	<b>11 041 235</b>

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

<b>31.12.2013</b>					
	<b>Amortised cost</b>	<b>Fair value reserve</b>		<b>Impairment</b>	<b>Market value</b>
		<b>Positive</b>	<b>Negative</b>		
	<b>(in thousands of euro)</b>				
Portugal Telecom	346 678	-	( 62 407)	(37)	284 234
EDP	20 121	4 999	-	-	25 120
Banque Marocaine du Commerce Extérieur	81 004	2 424	-	-	83 428
	<b>447 803</b>	<b>7 423</b>	<b>( 62 407)</b>	<b>(37)</b>	<b>392 782</b>
<b>31.12.2012</b>					
	<b>Amortised cost</b>	<b>Fair value reserve</b>		<b>Impairment</b>	<b>Market value</b>
		<b>Positive</b>	<b>Negative</b>		
	<b>(in thousands of euro)</b>				
Portugal Telecom	346 637	-	( 10 757)	-	335 880
EDP	173 826	24 447	-	-	198 273
Banque Marocaine du Commerce Extérieur	81 004	-	( 15 813)	-	65 191
	<b>601 467</b>	<b>24 447</b>	<b>( 26 570)</b>	<b>-</b>	<b>599 344</b>

During the year ended 31 December 2013, the Group sold at market prices 77.4 million ordinary shares of EDP, which generated a realised net gain of euro 53.7 million (euro 14.7 million net of non-controlling interest) (see Note 8).

During the year ended 31 December 2012, the Group sold at market prices 96.4 million ordinary shares of EDP and 260.7 million ordinary shares of Portugal Telecom. These transactions generated a realised net loss of euro 224.9 million (euro 61.5 million net of non-controlling interest) (see Note 8).

Following the market transactions with Portugal Telecom shares, the portfolio average price has reduced significantly. The unrealised losses presented in the fair value reserve at year end, represent a recent decline in value that occurred after the Group having recognised positive fair value reserves in the first and second quarter of 2013. The unrealised losses recorded at year end represent 18% of the investment.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

	31.12.2013			31.12.2012		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	(in thousands of euro)					
Securities						
Bonds and other fixed income securities						
Issue by government and public entities	2 960 469	1 139 328	4 099 797	3 204 546	1 293 451	4 497 997
Issue by other entities	932 457	1 306 255	2 238 712	998 414	3 227 537	4 225 951
Shares	541 885	637 827	1 179 712	788 266	591 888	1 380 154
Other variable income securities	707 943	703 614	1 411 557	376 659	560 474	937 133
	<b>5 142 754</b>	<b>3 787 024</b>	<b>8 929 778</b>	<b>5 367 885</b>	<b>5 673 350</b>	<b>11 041 235</b>

Valuation techniques have been disclosed in Note 52.

**NOTE 25 - LOANS AND ADVANCES TO BANKS**

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

	31.12.2013	31.12.2012
	(in thousands of euro)	
<b>Loans and advances to banks in Portugal</b>		
Deposit to Bank of Portugal	3 987 961	3 350 000
Deposits	169 508	44 372
Loans	20 037	127 581
Very short term deposits	-	34 085
Other loans and advances	1 165	84 474
	<b>4 178 671</b>	<b>3 640 512</b>
<b>Loans and advances to banks abroad</b>		
Deposits	101 421	271 281
Loans	457 978	533 798
Very short term deposits	12 976	32 696
Other loans and advances	77 014	70 324
	<b>649 389</b>	<b>908 099</b>
<b>Overdue loans and interest</b>	<b>398</b>	<b>398</b>
	<b>4 828 458</b>	<b>4 549 009</b>
<b>Impairment losses</b>	<b>( 668)</b>	<b>( 762)</b>
	<b>4 827 790</b>	<b>4 548 247</b>

The main loans and advances to banks in Portugal, as at 31 December 2013 bear interest at an average annual interest rate of 1.46% (31 December 2012: 1.73%). Loans and advances to banks abroad bear interest at an average annual interest rate of 0.24% (31 December 2012: 0.88%).

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Up to 3 months	4 508 241	4 178 481
3 to 12 months	225 381	96 657
1 to 5 years	27 569	79 623
More than 5 years	66 867	193 777
Undetermined	400	471
	<u>4 828 458</u>	<u>4 549 009</u>

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Balance as at 1 January</b>	<b>762</b>	<b>617</b>
Charge for the year	306	1 366
Write back for the year	( 386)	( 1 207)
Exchange differences and other	( 14)	( 14)
<b>Balance as at 31 December</b>	<b>668</b>	<b>762</b>

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 26 - LOANS AND ADVANCES TO CUSTOMERS**

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Domestic loans</b>		
Corporate		
Loans	12 946 588	12 675 007
Commercial lines of credits	4 635 722	5 247 361
Finance leases	2 215 135	2 560 541
Discounted bills	306 776	454 624
Factoring	1 048 434	1 412 114
Overdrafts	53 618	78 057
Other loans	154 406	102 193
Retail		
Mortgage loans	9 693 399	10 067 167
Consumer and other loans	1 509 100	1 750 980
	<u>32 563 178</u>	<u>34 348 044</u>
<b>Foreign loans</b>		
Corporate		
Loans	11 636 269	11 130 067
Commercial lines of credits	2 061 420	2 181 087
Discounted bills	87 107	145 877
Finance leases	62 424	69 732
Overdrafts	910 599	679 516
Other loans	457 106	795 230
Retail		
Mortgage loans	1 012 412	964 525
Consumer and other loans	825 057	831 483
	<u>17 052 394</u>	<u>16 797 517</u>
<b>Overdue loans and interest</b>		
Up to 3 months	254 551	293 307
From 3 months to 12 months	713 612	608 171
From 1 to 3 years	1 357 024	793 912
More than 3 years	775 983	586 553
	<u>3 101 170</u>	<u>2 281 943</u>
	52 716 742	53 427 504
<b>Impairment losses</b>	(3 446 075)	(2 734 626)
	<u><u>49 270 667</u></u>	<u><u>50 692 878</u></u>

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

As at 31 December 2013, the balance loans and advances to customers (net of impairment) includes an amount of euro 3 253.5 million (31 December 2012: euro 3 803.3 million) related to securitised loans following the consolidation of the securitisation entities (see Note 50), according to the accounting policy described in Note 2.2. The liabilities related to these securitisations are booked under Debt securities issued (see Notes 39 and 50).

As at 31 December 2013, loans and advances include euro 5 552.6 million of mortgage loans that collateralise the issue of covered bonds (31 December 2012: euro 5 605.1 million) (see Note 39).

The fair value of loans and advances to customers is presented in Note 52.

As at 31 December 2013, loans and advances include a portfolio of loans granted which are under a sovereign guarantee, in the amount of euro 4 133 million.

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Up to 3 months	8 107 983	9 234 034
3 to 12 months	6 465 614	6 824 493
1 to 5 years	10 722 354	10 602 697
More than 5 years	24 319 621	24 484 337
Undetermined	3 101 170	2 281 943
	<u><u>52 716 742</u></u>	<u><u>53 427 504</u></u>

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Balance as at 1 January</b>	<b>2 734 626</b>	<b>2 212 144</b>
Charge of the year	1 462 574	1 021 570
Charge off	( 211 811)	( 212 173)
Amounts recovered during the year previously charged-off	21 063	21 900
Write back of the year	( 457 281)	( 227 279)
Unwind of discount	( 103 082)	( 78 290)
Exchange differences and others	( 14)	( 3 246)
<b>Balance as at 31 December</b>	<b><u><u>3 446 075</u></u></b>	<b><u><u>2 734 626</u></u></b>

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



**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

31.12.2013						
	Loans with impairment losses calculated on an individual basis		Loans with impairment losses calculated on a portfolio basis		Total	
	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment Net amount
(in thousands of euro)						
Corporate loans	13 547 509	2 869 601	25 806 654	181 726	39 354 163	3 051 327 36 302 836
Mortgage loans	2 348 771	175 325	8 465 955	10 538	10 814 726	185 863 10 628 863
Consumer and other loans	599 765	199 316	1 948 088	9 569	2 547 853	208 885 2 338 968
<b>Total</b>	<b>16 496 045</b>	<b>3 244 242</b>	<b>36 220 697</b>	<b>201 833</b>	<b>52 716 742</b>	<b>3 446 075 49 270 667</b>

31.12.2012						
	Loans with impairment losses calculated on an individual basis		Loans with impairment losses calculated on a portfolio basis		Total	
	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment Net amount
(in thousands of euro)						
Corporate loans	12 617 103	2 231 936	26 898 334	150 917	39 515 437	2 382 853 37 132 584
Mortgage loans	2 362 525	160 135	8 771 297	6 884	11 133 822	167 019 10 966 803
Consumer and other loans	587 892	172 563	2 190 353	12 191	2 778 245	184 754 2 593 491
<b>Total</b>	<b>15 567 520</b>	<b>2 564 634</b>	<b>37 859 984</b>	<b>169 992</b>	<b>53 427 504</b>	<b>2 734 626 50 692 878</b>

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

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

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

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

	<u>31.12.2013</u>		<u>31.12.2012</u>	
	<u>Loan</u>	<u>Collateral fair value</u>	<u>Loan</u>	<u>Collateral fair value</u>
	(in thousands of euro)			
<b>Mortgage loans</b>				
Mortgages	10 600 588	10 578 354	10 951 831	10 930 789
Pledges	3 691	3 512	4 739	4 570
Non-collateralized	210 447	-	177 252	-
	<u>10 814 726</u>	<u>10 581 866</u>	<u>11 133 822</u>	<u>10 935 359</u>
<b>Retail loans</b>				
Mortgages	305 840	287 164	310 561	291 897
Pledges	540 367	535 666	735 255	549 718
Non-collateralized	1 705 129	-	1 732 429	-
	<u>2 551 336</u>	<u>822 830</u>	<u>2 778 245</u>	<u>841 615</u>
<b>Corporate loans</b>				
Mortgages	9 593 792	8 553 238	9 812 810	9 122 921
Pledges	7 181 725	5 315 025	9 281 917	6 104 860
Non-collateralized	22 575 163	-	20 420 710	-
	<u>39 350 680</u>	<u>13 868 263</u>	<u>39 515 437</u>	<u>15 227 781</u>
<b>Loans and advances to customers</b>				
Mortgages	20 500 220	19 418 756	21 075 202	20 345 607
Pledges	7 725 783	5 854 203	10 021 911	6 659 148
Non-collateralized	24 490 739	-	22 330 391	-
	<u><b>52 716 742</b></u>	<u><b>25 272 959</b></u>	<u><b>53 427 504</b></u>	<u><b>27 004 755</b></u>

Under the contracts relating to collateral held, the Group cannot sell the underlying assets until these are acquired in exchange for loans. The terms and conditions of these contracts are in line with the market practice relating to credit granting.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The amounts relating to loans renegotiated due to financial difficulties of the borrower, are analysed as follows:

	<b>31.12.2013</b>
	<b>(in thousands of euro)</b>
Corporate	4 113 958
Mortgage loans	201 541
Consumer and other loans	115 445
Non-residents	1 415 421
	<b>5 846 365</b>

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

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

	<b>31.12.2013</b>	<b>31.12.2012</b>
	<b>(in thousands of euro)</b>	
Variable interest rate	41 581 173	43 417 949
Fixed interest rate	11 135 569	10 009 555
	<b>52 716 742</b>	<b>53 427 504</b>

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

	<b>31.12.2013</b>	<b>31.12.2012</b>
	<b>(in thousands of euro)</b>	
<b>Gross investment in finance leases, receivable</b>		
Up to 1 year	364 545	432 202
From 1 to 5 years	1 022 263	1 130 447
More than 5 years	1 186 455	1 373 116
	<u>2 573 263</u>	<u>2 935 765</u>
<b>Unearned finance income on finance leases</b>		
Up to 1 year	61 705	68 859
From 1 to 5 years	136 182	157 217
More than 5 years	97 817	79 416
	<u>295 704</u>	<u>305 492</u>
<b>Present value of minimum lease payments, receivable</b>		
Up to 1 year	302 840	363 343
From 1 to 5 years	886 081	973 230
More than 5 years	1 088 638	1 293 700
	<u>2 277 559</u>	<u>2 630 273</u>
Impairment	( 175 104)	( 144 097)
	<u><b>2 102 455</b></u>	<u><b>2 486 176</b></u>

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

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 27 - HELD-TO-MATURITY INVESTMENTS**

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Bonds and other fixed income securities		
Issued by government and public entities	437 778	404 393
Issued by other entities	1 247 711	753 765
	<u>1 685 489</u>	<u>1 158 158</u>
Impairment losses	( 13 421)	( 39 111)
	<u><u>1 672 068</u></u>	<u><u>1 119 047</u></u>

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Up to 3 months	596 845	20 561
3 to 12 months	66 715	198 989
1 to 5 years	496 697	355 029
More than 5 years	525 232	583 579
	<u>1 685 489</u>	<u>1 158 158</u>

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

	<u>31.12.2013</u>			<u>31.12.2012</u>		
	<u>Quoted</u>	<u>Unquoted</u>	<u>Total</u>	<u>Quoted</u>	<u>Unquoted</u>	<u>Total</u>
	(in thousands of euro)					
Bonds and other fixed income securities						
Issued by government and public entities	435 277	2 501	437 778	401 800	2 593	404 393
Issued by other entities	208 735	1 038 976	1 247 711	233 033	520 732	753 765
	<u>644 012</u>	<u>1 041 477</u>	<u>1 685 489</u>	<u>634 833</u>	<u>523 325</u>	<u>1 158 158</u>

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Balance as at 1 January</b>	<b>39 111</b>	<b>34 278</b>
Charge of the year	-	7 260
Charge off	( 25 317)	( 2 429)
Write back for the year	( 372)	-
Exchange differences and other	( 1)	2
<b>Balance as at 31 December</b>	<b><u>13 421</u></b>	<b><u>39 111</u></b>

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

	Acquisition cost	Reclassification date				Effective interest rate <sup>(b)</sup>	Market value as at 31 December 2008	Amortisation of fair value reserve until 31.12.2013 c)
		Book value	Fair value reserve		Future cash-flows <sup>(a)</sup>			
			Positive	Negative				
(in thousands of euro)								
Available-for-sale financial assets	551 897	522 715	424	( 29 607)	701 070	5,75%	485 831	26 774
Financial assets held-for-trading	243 114	244 530	-	-	408 976	11,50%	237 295	-
<b>Bonds and other fixed income securities</b>	<b>795 011</b>	<b>767 245</b>	<b>424</b>	<b>( 29 607)</b>	<b>1 110 046</b>		<b>723 126</b>	<b>26 774</b>

a) Undiscounted capital and interest cash flows; future interest is calculated based on the forward interest rates at the date of reclassification.

b) Effective interest rate was calculated based on the forward interest rates at the date of reclassification; the maturity considered was the minimum between the call date, if applicable and the maturity date of the financial asset.

c) Amortisation in the year ended 31 December 2013 amount to euro 817 thousand (31 December 2012: euro 862 thousand).

The reclassification of financial assets held-for-trading as held-to-maturity investments was performed following the amendment to IAS 39 Financial instruments: recognition and measurement and IFRS 7 Financial instruments: disclosures, adopted by the Regulation (EU) n° 1004/2008 issued in 15 October 2008.

This reclassification was made due to the market conditions following the international financial crises that characterised the year 2008, which was considered to be one of the rare circumstances justifying the application of the amendment to IAS 39.

The effect in the 2013 financial statements that would have been recognised if the reclassifications were not made in 2008 is presented in Notes 22 and 24.

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

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

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

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

During the second quarter of 2011, taking in consideration the new solvency rules applicable to the insurance industry in Portugal, in-force from 1 January 2011, the insurance entities of the Group have reclassified from available-for-sale financial assets an amount of euro 150 253 thousand to held-to-maturity investments (see Note 24), in accordance with IAS 39 Financial Instruments: Recognition and Measurement, as follows:

Acquisition cost	Reclassification date				Effective interest rate <sup>(b)</sup>	Market value as at 31 December 2011	Amortisation of fair value reserve until 31.12.2013	
	Book value	Fair value reserve		Future cash-flows <sup>(a)</sup>				
		Positive	Negative					
(in thousands of euro)								
Available-for-sale financial assets	172 337	150 253	-	( 22 083)	210 964	9.09%	129 724	12 707
<b>Bonds and other fixed income securities</b>	<b>172 337</b>	<b>150 253</b>	<b>-</b>	<b>( 22 083)</b>	<b>210 964</b>		<b>129 724</b>	<b>12 707</b>

a) Undiscounted capital and interest cash flows; future interest is calculated based on the forward interest rates at the date of reclassification.

b) Effective interest rate was calculated based on the forward interest rates at the date of reclassification; the maturity considered was the minimum between the call date, if applicable and the maturity date of the financial asset.

It should be noted that this reclassification was made exclusively taking in consideration the solvency rules applicable to the insurance industry and has no impact in terms of ESFG regulatory capital. In accordance with the Bank of Portugal rules, the investments held by ESFG in insurance subsidiaries, are measured for the purposes of the regulatory capital, in accordance with the equity method and are deducted from consolidated own funds as explained in Note 53.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 28 - DERIVATIVES FOR RISK MANAGEMENT PURPOSES**

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

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

As mentioned in the accounting policy described in Note 2.4, derivatives for risk management purposes includes hedging derivatives and derivatives contracted to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss (and that were not classified as hedging derivatives).

*Hedging derivatives*

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

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

<sup>(1)</sup> Attributable to the hedged risk

<sup>(2)</sup> Includes accrued interest



**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

31.12.2012							
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative <sup>(1)</sup>	Changes in the fair value of the derivative in the year <sup>(2)</sup>	Accumulated changes in fair value of the hedged item <sup>(1)</sup>	Changes in the fair value of the hedged item in the year <sup>(1)</sup>
Interest Rate Swap/ Currency	Loans and advances to customers	Interest rate	529 897	( 23 884)	( 179)	22 391	( 638)
Interest Rate Swap	Deposits from banks	Interest rate	174 000	64 725	13 779	( 67 996)	( 11 744)
Interest Rate Swap	Due to customers	Interest rate	4 417	2 174	( 30)	( 787)	51
Equity/Interest Rate Swap	Debt security issued	Interest rate/Quotation	1 656 777	67 301	4 929	( 38 472)	( 3 685)
			<b>2 365 091</b>	<b>110 316</b>	<b>18 479</b>	<b>( 84 864)</b>	<b>( 16 016)</b>

<sup>(1)</sup> Attributable to the hedged risk  
<sup>(2)</sup> Includes accrued interest

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

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

*Other derivatives for risk management purposes*

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

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

31.12.2013								
Derivative	Financial assets / Liabilities economically hedged	Derivative			Assets / Liabilities associated			
		Notional	Fair Value	Changes in the fair value during the year	Fair Value	Changes in the fair value during the year	Carrying amount	Redemption amount at maturity <sup>(2)</sup>
(in thousands of euro)								
<b>Assets</b>								
<i>Credit Default Swap</i>	Loans and advances to customers	268 000	8 059	( 43 389)	-	-	268 000	
<b>Liabilities</b>								
<i>Interest Rate Swap</i>	Due to customers	9 080 000	77 152	( 59 891)	( 48 110)	41 221	9 298 367	
<i>Interest Rate Swap/FX Forward</i>	Debt security issued	1 095 563	63 273	( 24 278)	26 276	( 50 102)	386 407	
<i>Credit Default Swap</i>	Debt security issued	441 233	12 805	11 547	( 23 472)	( 8 169)	459 006	
<i>Equity Swap</i>	Debt security issued	434 476	6 263	12 073	( 7 697)	( 13 459)	358 891	
<i>Equity Option</i>	Debt security issued	49 030	1 793	682	( 3 487)	( 3 765)	111 379	
		<b>11 368 302</b>	<b>169 345</b>	<b>( 103 256)</b>	<b>( 56 490)</b>	<b>( 34 274)</b>	<b>10 655 092</b>	<b>10 883 690</b>

<sup>(2)</sup> Corresponds to the minimum guaranteed amount to be reimbursed at maturity

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

31.12.2012								
Derivative	Financial assets / liabilities economically hedged	Derivative			Assets / Liabilities associated			
		Notional	Fair Value	Changes in the fair value during the year	Fair Value	Changes in the fair value during the year	Carrying amount	Redemption amount at maturity <sup>(1)</sup>
(in thousands of euro)								
	<b>Assets</b>							
<i>Credit Default Swap</i>	Loans and advances to customers	84 000	1 376	(50 072)	-	-	-	84 000
	<b>Liabilities</b>							
<i>Interest Rate Swap</i>	Due to customers	7 540 000	179 038	67 206	(90 099)	(111 024)	8 791 778	8 712 699
<i>Interest Rate Swap/FX Forward</i>	Debt security issued	1 485 628	95 716	78 817	69 217	(53 029)	303 386	370 714
<i>Credit Default Swap</i>	Debt security issued	346 845	5 810	44 774	(22 202)	(53 866)	376 308	358 728
<i>Equity Swap</i>	Debt security issued	405 155	(3 662)	15 813	2 985	(24 257)	339 252	357 237
<i>Equity Option</i>	Debt security issued	82 525	2 727	13	(2 369)	(5 339)	125 874	131 828
		<b>9 944 153</b>	<b>281 005</b>	<b>156 551</b>	<b>(42 468)</b>	<b>(247 509)</b>	<b>9 936 598</b>	<b>10 015 206</b>

<sup>(1)</sup>Corresponds to the minimum guaranteed amount to be reimbursed at maturity

The credit default swaps associated to loans to customers are part of synthetic securitisation operations, as mentioned in Note 50.

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

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

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 29 - NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE**

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

	31.12.2013		31.12.2012	
	Assets	Liabilities	Assets	Liabilities
	(in thousands of euro)			
Assets and liabilities of subsidiaries acquired exclusively for resale purposes	671 862	153 580	731 767	175 945
Property held for sale	3 387 737	-	2 846 023	-
Equipment	16 114	-	2 524	-
Other tangible assets	4 164	-	3 501	-
	3 408 015	-	2 852 048	-
Impairment losses	( 512 866)	-	( 303 630)	-
	<b>2 895 149</b>	-	<b>2 548 418</b>	-
	<b>3 567 011</b>	<b>153 580</b>	<b>3 280 185</b>	<b>175 945</b>

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

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

	Economic Interest %	Values incorporated by ESFG Group		
		(in thousands of euro)		
		Assets	Liabilities	Net Result
Greenwoods Ecoresorts empreendimentos imobiliários, SA <sup>(1)</sup>	97,66%	226 760	516	( 4 571)
Sealion Holdings Limited	57,00%	188 036	135 158	( 19 562)
Portucale - Sociedade De Desenvolvimento Agro - Turístico, S.A	97,24%	53 989	8 699	( 1 320)
Autodri - Sociedade Imobiliária, SA	60,31%	48 983	1	125
Ribagolfe - Empreendimentos de Golfe, SA	97,16%	22 522	5 776	-
Febagri-Actividades Agropecuárias e Imobiliárias SA	60,31%	11 891	1 284	( 30)
Quinta da Areia - Sociedade Imobiliária, SA	100,00%	11 950	5	34
Odebrecht Engenharia Ambiental	0,55%	10 760	-	-
Herdade da Boina - Sociedade Imobiliária	100,00%	10 114	150	64
JCN - IP - Investimentos Imobiliários e Participações, S.A.	97,24%	9 659	64	( 1 624)
Herdade Vale da Mata	100,00%	8 121	131	-
Sociedade Imobiliária Quinta D. Manuel I, SA	100,00%	2 899	4	( 5)
Sociedade Agricola Turistica e Imobiliária da Várzea da Lagoa, SA	100,00%	5 886	-	( 2 914)
EMSA – Empreendimentos e Exploração de Estacionamentos SA <sup>(1)</sup>	100,00%	5 456	353	-
Other	-	17 720	1 439	( 993)
<b>Total <sup>(2)</sup></b>		<b>634 746</b>	<b>153 580</b>	<b>( 30 796)</b>

(1) Entities acquired during 2013; in Greenwoods there was an increase in participation

(2) The assets incorporated are presented net of a provision of euro 37 116 thousand

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The changes occurred in impairment losses are presented as follows:

	<b>31.12.2013</b>	<b>31.12.2012</b>
	(in thousands of euro)	
<b>Balance as at 1 January</b>	<b>303 630</b>	<b>181 449</b>
Change in the scope of consolidation	-	116 654
Charge for the year	294 452	40 178
Charge off	( 101 757)	( 29 664)
Exchange differences and other	16 541	( 4 987)
<b>Balance as at 31 December</b>	<b>512 866</b>	<b>303 630</b>

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

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

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

	<b>31.12.2013</b>			<b>31.12.2012</b>		
	Property and other equipment	Assets of subsidiaries acquired for resale	Total	Property and other equipment	Assets of subsidiaries acquired for resale	Total
	(in thousands of euro)					
<b>Balance as at 1 January</b>	<b>2 852 048</b>	<b>731 767</b>	<b>3 583 815</b>	<b>1 536 884</b>	<b>291 248</b>	<b>1 828 132</b>
Change in the scope of consolidation	116 067	-	116 067	530 343	-	530 343
Additions	832 914	73 628	906 542	998 905	454 151	1 453 056
Sales	( 455 297)	( 91 392)	( 546 689)	( 218 735)	-	( 218 735)
Other	62 283	( 42 141)	20 142	4 651	( 13 632)	( 8 981)
<b>Balance as at 31 December</b>	<b>3 408 015</b>	<b>671 862</b>	<b>4 079 877</b>	<b>2 852 048</b>	<b>731 767</b>	<b>3 583 815</b>

Assets / liabilities of subsidiaries acquired for resale primarily reflect assets and liabilities of companies acquired by the Group on loan restructuring operations and that the Group intends to sell within one year. However, given the current market conditions it was not possible to sell them within the expected time frame, but the sales effort and, in some cases, negotiations with potential buyers are still ongoing.

The sales effort that is being made by the Group includes (i) a web site specifically designed for the sale of real estate assets; (ii) the setup and participation in real estate events in Portugal and abroad; (iii) the setup of contracts with several real estate agents; (iv) the regular sponsorship of auctions; and (v) campaigns in the major emigration centres. The Group, despite its intention to sell these assets, regularly request to the Bank of Portugal the authorisation, under article 114 of RGICSF, the extension of the period of time the Banks have to hold these assets.

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

	<u>31.12.2013</u>		<u>31.12.2012</u>	
	<u>Gross amount</u>	<u>Impairment</u>	<u>Gross amount</u>	<u>Impairment</u>
	(in thousands of euro)			
<b>Held for</b>				
less than a year	833 104	64 191	1 299 639	158 987
for one to two years	1 142 133	231 523	327 267	26 186
more than two years	1 412 500	177 449	1 219 117	115 820
<b>Total Balance</b>	<b><u>3 387 737</u></b>	<b><u>473 163</u></b>	<b><u>2 846 023</u></b>	<b><u>300 993</u></b>

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

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 30 - PROPERTY AND EQUIPMENT**

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Property</b>		
Land and buildings	536 205	512 493
Improvements in leasehold property	238 999	228 930
Other	374	1 139
	<u>775 578</u>	<u>742 562</u>
<b>Equipment</b>		
Computer equipment	342 117	348 663
Furniture	143 876	139 792
Fixtures	143 279	146 077
Security equipment	44 893	42 469
Office equipment	40 545	39 917
Motor vehicles	17 400	14 693
Other	10 595	13 675
	<u>742 705</u>	<u>745 286</u>
<b>Other</b>	<u>6 615</u>	<u>13 029</u>
	<u>1 524 898</u>	<u>1 500 877</u>
<b>Work in progress</b>		
Land and buildings	389 342	401 044
Improvement in leasehold property	416	344
Equipment	2 823	2 170
Other	67	56
	<u>392 648</u>	<u>403 614</u>
<b>Accumulated depreciation</b>	( 942 928)	( 921 485)
<b>Impairment losses</b>	( 389)	( 389)
	<u>( 943 317)</u>	<u>( 921 874)</u>
	<u>974 229</u>	<u>982 617</u>

In accordance with the accounting policy described in Note 2.14, the Group concluded that there was an indication of impairment in relation to certain property and equipment. Therefore it has performed impairment tests for these assets and has recognised an accumulated impairment loss of euro 389 thousand (31 December 2012: euro 389 thousand).

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The movement in this balance was as follows:

	Property	Equipment	Other	Work in progress	Total
	(in thousands of euro)				
<b>Acquisition costs</b>					
<b>Balance as at 31 December 2011</b>	1 007 089	847 901	25 262	333 835	2 214 087
Change in the scope of consolidation (b)	( 279 558)	( 130 856)	( 12 737)	( 3 451)	( 426 602)
Acquisitions	5 615	30 298	511	116 764	153 188
Disposals	( 20 688)	( 13 607)	( 61)	( 850)	( 35 206)
Transfers (a)	22 859	5 009	-	( 34 592)	( 6 724)
Exchange differences and other (c)	7 245	6 541	54	( 8 092)	5 748
<b>Balance as at 31 December 2012</b>	<b>742 562</b>	<b>745 286</b>	<b>13 029</b>	<b>403 614</b>	<b>1 904 491</b>
Acquisitions	5 108	29 404	433	86 427	121 372
Disposals	( 6 412)	( 27 327)	-	( 81)	( 33 820)
Transfers (a)	38 123	1 353	( 6 665)	( 41 438)	( 8 627)
Exchange differences and other	( 3 803)	( 6 011)	( 182)	( 55 874)	( 65 870)
<b>Balance as at 31 December 2013</b>	<b>775 578</b>	<b>742 705</b>	<b>6 615</b>	<b>392 648</b>	<b>1 917 546</b>
<b>Depreciation</b>					
<b>Balance as at 31 December 2011</b>	347 428	675 793	14 014	-	1 037 235
Change in the scope of consolidation (b)	( 59 832)	( 104 098)	( 11 075)	-	( 175 005)
Depreciation	30 749	54 929	2 864	-	88 542
Disposals	( 19 087)	( 8 781)	( 45)	-	( 27 913)
Transfers (a)	( 1 110)	( 413)	-	-	( 1 523)
Exchange differences and other (c)	( 521)	614	56	-	149
<b>Balance as at 31 December 2012</b>	<b>297 627</b>	<b>618 044</b>	<b>5 814</b>	<b>-</b>	<b>921 485</b>
Depreciation	22 474	41 463	878	-	64 815
Disposals	( 6 396)	( 26 667)	-	-	( 33 063)
Transfers (a)	4 012	( 1 516)	( 4 511)	-	( 2 015)
Exchange differences and other	( 917)	( 7 238)	( 139)	-	( 8 294)
<b>Balance as at 31 December 2013</b>	<b>316 800</b>	<b>624 086</b>	<b>2 042</b>	<b>-</b>	<b>942 928</b>
<b>Impairment</b>					
<b>Balance as at 31 December 2011</b>	389	-	917	-	1 306
Impairment losses	-	-	( 917)	-	( 917)
<b>Balance as at 31 December 2012</b>	<b>389</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>389</b>
<b>Balance as at 31 December 2013</b>	<b>389</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>389</b>
<b>Net balance as at 31 December 2013</b>	<b>458 389</b>	<b>118 619</b>	<b>4 573</b>	<b>392 648</b>	<b>974 229</b>
<b>Net balance as at 31 December 2012</b>	<b>444 546</b>	<b>127 242</b>	<b>7 215</b>	<b>403 614</b>	<b>982 617</b>

(a) Relating to discontinued branches, transferred to the balance Non-current assets held for sale

(b) Relating to the change in the consolidation method of ES Saúde, from full consolidation to the equity method, as well as the sale of Pastor Vida and the acquisition of Tranquilidade Angola

(c) Relating to the acquisition of BES Vida

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The balance Equipment – Motor vehicles includes equipment acquired under finance lease agreements, whose payment schedule is as follows:

	<b>31.12.2013</b>	<b>31.12.2012</b>
	<b>(in thousands of euro)</b>	
<b>Gross investment in finance leases, payable</b>		
Up to 1 year	69	106
From 1 to 5 years	73	138
	142	244
<b>Interest</b>		
Up to 1 year	4	10
From 1 to 5 years	4	5
	8	15
<b>Principal</b>		
Up to 1 year	65	96
From 1 to 5 years	69	133
	134	229

**NOTE 31 - INVESTMENT PROPERTIES**

Investment properties are analysed as follows:

	<b>31.12.2013</b>	<b>31.12.2012</b>
	<b>(in thousands of euro)</b>	
Insurance activity	621 000	676 853
Real estate activity	98 422	120 470
	<b>719 422</b>	<b>797 323</b>



**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The movement in investment properties for the years ended 31 December 2013 and 2012 can be analysed as follows:

	Insurance activity	Real estate activity	Total
(in thousands of euro)			
<b>Net balance as at 31 December 2011</b>	<b>315 393</b>	<b>2 645</b>	<b>318 038</b>
Change in the scope of consolidation (a)	391 418	122 759	514 177
Acquisitions	62	2 754	2 816
Improvements	946	-	946
Disposals	( 12 503)	-	( 12 503)
Other	( 2 899)	( 4 896)	( 7 795)
Unrealised gains / (losses)	( 15 564)	( 147)	( 15 711)
<b>Net balance as at 31 December 2012</b>	<b>676 853</b>	<b>120 470</b>	<b>797 323</b>
Change in the scope of consolidation (b)	-	( 21 574)	( 21 574)
Acquisitions	350	628	978
Improvements	4 932	-	4 932
Disposals	( 21 646)	-	( 21 646)
Other	( 46 556)	20	( 46 536)
Unrealised gains / (losses)	7 067	( 1 122)	5 945
<b>Net balance as at 31 December 2013</b>	<b>621 000</b>	<b>98 422</b>	<b>719 422</b>

(a) relating to the consolidation of BES Vida, Fungere, Fungepi, Fundo de Investimento Imobiliário Fechado Corpus Christi, Imocrescente and Imoprime

(b) relating to the deconsolidation of Imocrescente

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

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

The increase in fair value of investment property of euro 6.1 million (31 December 2012: decrease of euro 15.7 million) is recognised in Other operating income and expenses. Rental income from investment property of euro 12.7 million (31 December 2012: euro 13.2 million) is recognised in Other operating income.

The direct operating expenses including repairs and maintenance arising from investment property that generated rental income during the year reached 4.2 million euro (31 December 2012: euro 5.3 million). The direct operating expenses including repairs and maintenance arising from investment property that did not generate rental income during the year reached euro 0.2 million (31 December 2012: euro 0.7 million).

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 32 - INTANGIBLE ASSETS**

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	<b>(in thousands of euro)</b>	
<b>Goodwill</b>	454 089	441 504
<b>Value in force</b>	<u>-</u>	<u>107 768</u>
<b>Internally developed</b>		
Software	130 691	107 437
<b>Acquired from third parties</b>		
Software	712 049	680 960
Other	5 484	1 870
	<u>717 533</u>	<u>682 830</u>
<b>Work in progress</b>	37 835	40 028
	<u>1 340 148</u>	<u>1 379 567</u>
<b>Accumulated amortisation</b>	( 721 815)	( 666 578)
<b>Impairment</b>	( 10 064)	( 9 779)
	<u><u>608 269</u></u>	<u><u>703 210</u></u>

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
BES Vida	234 574	234 574
PARTRAN	61 123	61 123
BES	58 336	58 336
BESPAR	5 960	5 960
MARIGNAN GESTION	3 613	3 613
BEST	2 349	2 349
CONCORDIA	1 722	1 756
ES Investment Holding (a)	47 540	48 567
ES Gestion	2 459	2 459
AMAN BANK	16 046	16 046
Imbassai	13 526	-
Other	6 841	6 721
	<hr/>	<hr/>
	454 089	441 504
Impairment	( 10 064)	( 9 779)
	<hr/>	<hr/>
	<b>444 025</b>	<b>431 725</b>
	<hr/> <hr/>	<hr/> <hr/>

(a) Holding company of Execution/Noble

In May 2012, BES acquired from Credit Agricole the remaining 50% of share capital of BES Vida becoming to hold the entire share capital and the management control over its activities. Goodwill and Value in Force of BES Vida, in the amount of euro 234.6 million and euro 107.8 million, respectively, were calculated at the date of acquisition on a provisional basis, in accordance with paragraph 45 of IFRS 3.

Considering the reinsurance contract signed during 2013 and described in Note 11, which reinsures 100% of the life insurance portfolio, including all the policies in force in BES Vida as at 30 June 2013, transferring to the reinsurer all risks and rewards associated to these contracts, the respective value in force in the amount of euro 137.5 was derecognised. The value in force of the remaining contracts, in the net amount of euro 25.4 million at the date of the reinsurance contract, have a liability nature and, as such, were accounted in Other liabilities. As at 31 December 2013 the amount was amortised in euro 3.5 million amounting as at date to euro 21.9 million (see Note 44).

*BES Vida*

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

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

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The projections for a 20 year period are based in the long term nature of the insurance business, where either risk and financial investment contracts have long term maturities.

*Partran*

Partran is the holding company for Tranquilidade Sub-Group. The recoverable amount of Partran was determined based on (i) the value of Tranquilidade business stand-alone and (ii) the value of each of its subsidiaries.

The valuations performed used a Dividend Discounted Methodology and were back tested based on market multiples considering a control premium.

Based on the above assumptions, the recoverable amount exceeded the carrying amount including goodwill.

*BES*

The recoverable amount of BES was determined based on appropriate market multiples taking in consideration (i) historical earnings estimates for the sector, discounted using an adequate discount rate which includes a risk premium appropriated for the estimated future cash-flows and (ii) adequate control premiums.

Based on the above analysis, the recoverable amount of the investment in BES exceeded the respective carrying amount including goodwill.

*ES Investment Holding Limited*

The recoverable amount of ES Investment Holding Limited has been determined using cash flow/dividends predictions based on (i) the financial budget approved by management covering a nine-year period, (ii) a terminal growth rate of 3%, in line with the estimated nominal growth for the country where the company is located and (iii) a discount rate of 9.0% including a risk premium appropriated to the estimated future cash-flows.

The nine-year period for estimating the future cash-flows reflect the fact that the company was acquired in late 2010 and its business strategy is being redefined. It is expected that the company achieves a maturity stage only at the end of that time period.

Based on the above assumptions, the recoverable amount exceeded the carrying amount including goodwill.

*Aman Bank*

On 31 December 2011, the Group recognised an impairment of euro 8 023 thousand in goodwill related with the acquisition of Aman Bank. The impairment reflects the changes of the estimated future cash flows expected by the Group in this entity as a result of the political situation lived in Libya during 2011.

In 2012 and 2013, this entity showed a positive trend, thus there was no need to reinforce the impairment loss recognised.

The balance of internally developed software includes the costs incurred by the Group in the development and implementation of software applications that will generate economic benefits in the future (see Note 2.15).

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The movement in this balance was as follows:

	Goodwill and Value in Force	Software	Other	Work in progress	Total
	(in thousands of euro)				
<b>Acquisition costs</b>					
<b>Balance as at 31 December 2011</b>	<b>404 067</b>	<b>742 370</b>	<b>1 236</b>	<b>32 798</b>	<b>1 180 471</b>
Acquisitions:					
Internally developed	-	373	-	8 257	8 630
Acquired from third parties (a)	346 696	12 999	4	30 326	390 025
Disposals	( 182 383)	( 2 998)	( 81)	( 103)	( 185 565)
Transfers	-	32 440	-	( 32 454)	( 14)
Exchange differences and other (b) (c)	( 19 108)	9 594	35	1 204	( 8 275)
<b>Balance as at 31 December 2012</b>	<b>549 272</b>	<b>788 397</b>	<b>1 870</b>	<b>40 028</b>	<b>1 379 567</b>
Acquisitions:					
Internally developed	-	252	-	9 147	9 399
Acquired from third parties	13 526	14 393	3 650	29 189	60 758
Disposals (d)	( 137 476)	( 460)	( 5)	-	( 137 941)
Transfers (d)	21 989	39 741	-	( 39 741)	21 989
Exchange differences and other	6 778	417	( 31)	( 788)	6 376
<b>Balance as at 31 December 2013</b>	<b>454 089</b>	<b>842 740</b>	<b>5 484</b>	<b>37 835</b>	<b>1 340 148</b>
<b>Amortisation</b>					
<b>Balance as at 31 December 2011</b>	<b>5 756</b>	<b>614 777</b>	<b>1 114</b>	<b>-</b>	<b>621 647</b>
Change in the scope of consolidation	-	( 6 312)	( 10 098)	-	( 16 410)
Amortisation	4 322	52 616	299	-	57 237
Disposals	( 10 078)	( 2 875)	( 81)	-	( 13 034)
Exchange differences and other (e)	( 2 169)	9 180	49	-	7 060
<b>Balance as at 31 December 2012</b>	<b>( 2 169)</b>	<b>667 386</b>	<b>( 8 717)</b>	<b>-</b>	<b>656 500</b>
Amortisation	-	54 317	326	-	54 643
Disposals	-	( 461)	( 5)	-	( 466)
Exchange differences and other	2 169	( 1 042)	10 011	-	11 138
<b>Balance as at 31 December 2013</b>	<b>-</b>	<b>720 200</b>	<b>1 615</b>	<b>-</b>	<b>721 815</b>
<b>Impairment</b>					
<b>Balance as at 31 December 2011</b>	<b>9 628</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9 628</b>
Exchange differences and other	151	-	-	-	151
<b>Balance as at 31 December 2012</b>	<b>9 779</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9 779</b>
Impairment losses	362	-	-	-	362
Exchange differences and other	( 77)	-	-	-	( 77)
<b>Balance as at 31 December 2013</b>	<b>10 064</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10 064</b>
<b>Net balance as at 31 December 2013</b>	<b>444 025</b>	<b>122 540</b>	<b>3 869</b>	<b>37 835</b>	<b>608 269</b>
<b>Net balance as at 31 December 2012</b>	<b>541 662</b>	<b>121 011</b>	<b>10 587</b>	<b>40 028</b>	<b>713 288</b>

(a) relating to the acquisition of BES Vida and Tranquilidade Angola

(b) includes euro 19 683 thousand relating to the de-recognition of goodwill on Gespastor

(c) includes euro 8 917 thousand relating to the acquisition of BES Vida

(d) BES VIF - Other liabilities

(e) includes euro 8 791 thousand relating to the acquisition of BES Vida

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 33 - INVESTMENTS IN ASSOCIATES**

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

	Assets		Liabilities		Equity		Income		Profit/(Loss) of the year	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
	(in thousands of euro)									
BES SEGUROS	116 330	120 243	84 941	89 039	31 389	31 204	73 935	66 537	7 142	6 971
EUROP ASSISTANCE	49 186	50 053	33 862	35 048	15 323	15 005	55 439	55 496	4 040	2 797
ES SAUDE	477 747	492 447	334 535	364 015	143 212	128 432	374 285	344 801	14 023	( 2 631)
LOCARENT	244 535	285 740	231 418	277 404	13 117	94 336	84 420	94 213	2 401	2 595
ESEGU'R	36 790	39 121	24 495	28 526	12 295	10 595	51 252	50 980	998	595
FUNDO ES IBERIA	15 286	13 894	104	169	15 182	13 725	422	466	( 145)	( 106)
BRB INTERNACIONAL	-	12 883	-	12 407	-	476	-	1 243	-	( 589)
AUTOPISTA PEROTE-XALAPA	-	650 179	-	521 167	-	129 012	-	-	-	( 6 634)
ASCENDI GROUP	4 314 000	4 036 000	3 750 000	3 656 000	564 000	400 000	158 000	140 000	21 000	28 000
EMPARK	768 532	782 872	645 093	651 074	123 439	131 798	163 833	166 594	( 3 008)	( 7 171)
AUVISA - AUTOVIA DE LOS VIÑEDOS	208 484	216 000	213 895	222 000	( 5 411)	( 6 000)	14 841	14 000	( 2 940)	( 4 000)
UNICRE	315 889	305 065	185 723	179 941	130 166	125 064	197 189	231 070	9 785	11 256
MOZA BANCO	361 146	186 719	327 396	154 683	33 750	32 036	46 091	21 760	924	( 3 289)
RODI SINKS & IDEAS	43 084	43 446	19 138	20 537	23 946	22 909	17 268	19 528	1 324	1 609

	Acquisition cost		Voting interest		Book value		Share of profit of associates	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
	(in thousands of euro)							
BES SEGUROS	7 501	7 501	50.00%	50.00%	15 695	15 602	3 571	3 486
EUROP ASSISTANCE	2 344	2 344	47.00%	47.00%	5 792	5 642	1 899	1 314
ES SAUDE	143 747	143 747	42.89%	42.89%	120 580	114 252	6 234	( 604)
LOCARENT	2 967	2 967	50.00%	50.00%	6 869	4 478	1 201	1 298
ESEGU'R	9 634	9 634	44.00%	44.00%	12 254	11 506	439	262
FUNDO ES IBERIA	8 081	7 087	38.67%	38.67%	7 312	5 649	658	261
BRB INTERNACIONAL	-	10 659	-	25.00%	-	119	101	( 216)
AUTOPISTA PEROTE-XALAPA	-	36 678	-	20.00%	-	30 802	-	3 647
ASCENDI GROUP	179 772	179 772	40.00%	40.00%	150 388	186 955	( 431)	6 566
EMPARK	52 429	52 429	22.20%	22.20%	47 331	50 090	( 2 014)	( 2 193)
AUVISA - AUTOVIA DE LOS VIÑEDOS	41 056	41 056	50.00%	50.00%	34 792	34 792	-	( 2 531)
UNICRE	11 497	11 497	17.50%	17.50%	22 779	21 886	1 712	1 970
MOZA BANCO	37 707	12 791	25.10%	25.10%	37 603	12 234	669	( 826)
RODI SINKS & IDEAS	1 240	1 240	24.81%	24.81%	8 387	8 129	257	194
Others	160 044	151 033			136 691	138 478	( 5 473)	( 10 633)
	<b>658 019</b>	<b>670 435</b>			<b>606 473</b>	<b>640 614</b>	<b>8 823</b>	<b>4 756</b>

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The movement occurred in this balance is presented as follows:

	31.12.2013	31.12.2012
	(in thousands of euro)	
<b>Balance at the beginning of the year</b>	<b>640 614</b>	<b>578 327</b>
Change in the scope of consolidation	10 017	47 047
Disposals	( 79 839)	( 60 026)
Acquisitions and capital increases (See Note1)	35 377	32 966
Share of profit of associates	8 823	4 756
Fair value reserve from investments in associates	979	44 770
Dividends received	( 6 253)	( 3 305)
Exchange differences and other	( 3 245)	( 3 921)
<b>Balance at the end of the year</b>	<b>606 473</b>	<b>640 614</b>

The changes in consolidation scope in 2013, arise from the full consolidation of the Fund Imoprime.

The changes in consolidation scope in 2012, arise from (i) the full consolidation of BES Vida from 1 May 2012, which in 2011 was included in ESFG consolidated financial statements following the equity method; and (ii) the loss of control over ES Saúde in 2012, this entity being currently included in these consolidated financial statements following the equity method.

**NOTE 34 - TECHNICAL RESERVES**

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

	31.12.2013			31.12.2012		
	Direct insurance	Reinsurance ceded	Total	Direct insurance	Reinsurance ceded	Total
	(in thousands of euro)					
Unearned premiums reserve	111 940	( 19 739)	92 201	114 019	( 19 651)	94 368
Life mathematical reserve	1 999 962	( 7 510)	1 992 452	1 831 675	( 634)	1 831 041
Claims outstanding reserve	499 490	( 48 738)	450 752	517 407	( 47 692)	469 715
Unexpired risks reserve	22 040	-	22 040	19 476	-	19 476
Reserve for bonus and rebates	9 724	( 912)	8 812	5 751	( 2 796)	2 955
	<b>2 643 156</b>	<b>( 76 899)</b>	<b>2 566 257</b>	<b>2 488 328</b>	<b>( 70 773)</b>	<b>2 417 555</b>

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The life mathematical reserve is analysed as follows:

	31.12.2013			31.12.2012		
	Direct insurance	Reinsurance ceded	Total	Direct insurance	Reinsurance ceded	Total
	( in thousands of euro)					
Annuities	113 102	( 7 509)	105 593	114 286	( 634)	113 652
Saving Contracts with Profit Sharing	1 886 860	( 1)	1 886 859	1 717 389	-	1 717 389
	<b>1 999 962</b>	<b>( 7 510)</b>	<b>1 992 452</b>	<b>1 831 675</b>	<b>( 634)</b>	<b>1 831 041</b>

In accordance with IFRS 4, the contracts issued by the Group for which there is only a transfer of financial risk, with no discretionary profit sharing, are classified as investment contracts and accounted for as financial liabilities.

The claims outstanding reserve by line of business is analysed as follows:

	31.12.2013			31.12.2012		
	Direct insurance	Reinsurance ceded	Total	Direct insurance	Reinsurance ceded	Total
	( in thousands of euro)					
Life	48 163	( 3 657)	44 506	35 225	( 1 873)	33 352
Workers compensation (mathematical reserve)	136 293	( 525)	135 768	128 630	( 1 002)	127 628
Workers compensation (not related to life pensions)	65 559	( 3 245)	62 314	59 740	( 1 374)	58 366
Accidents and health	10 126	( 188)	9 938	10 273	( 243)	10 030
Fire and other hazards	35 172	( 16 287)	18 885	43 321	( 18 742)	24 579
Motor	174 997	( 16 150)	158 847	210 614	( 14 206)	196 408
Maritime, airline and transportation	6 737	( 3 101)	3 636	6 603	( 2 815)	3 788
Third parties liabilities	19 408	( 2 945)	16 463	21 305	( 6 133)	15 172
Credit and suretyship	42	( 12)	30	80	( 40)	40
Other	2 993	( 2 628)	365	1 616	( 1 264)	352
	<b>499 490</b>	<b>( 48 738)</b>	<b>450 752</b>	<b>517 407</b>	<b>( 47 692)</b>	<b>469 715</b>

The claims outstanding reserve represents unsettled claims occurred before the balance sheet date and includes an estimated provision in the amount of euro 22 850 thousand (31 December 2012: euro 22 106 thousand), for claims incurred before 31 December 2013, but not reported (IBNR).

Included in the amount of claims outstanding for workers' compensation is euro 136 293 thousand (31 December 2012: euro 120 885 thousand), relating to the mathematical reserve for workers' compensation.

The mathematical reserve for workers' compensation includes an amount of euro 0 (31 December 2012: euro 0 thousand) as a result of the liability adequacy test (see Note 53).

Additionally, mathematical reserve for workers' compensation also includes an accrual related to the present value of the future contributions to Workers Compensation Fund (FAT) for an amount of euro 8 832 thousand (31 December 2012: euro 7 668 thousand).

The claims outstanding reserve also includes an estimation of future costs related to the settlement of pending claims (expense reserve), both-declared and non-declared, for an amount of euro 26 473 thousand (31 December 2012: euro 22 168 thousand).



**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Balance at the beginning of the year</b>	<b>517 407</b>	<b>499 462</b>
Change in the scope of consolidation	-	26 328
Plus incurred claims		
Current period	569 278	695 230
Prior periods	( 47 669)	( 40 062)
Less paid claims related to		
Current period	( 422 706)	( 548 278)
Prior periods	( 116 820)	( 115 273)
<b>Balance at the end of the year</b>	<b><u>499 490</u></b>	<b><u>517 407</u></b>

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

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Balance at the beginning of the period</b>	<b>5 751</b>	<b>5 933</b>
Change in the scope of consolidation	-	( 1 326)
Amounts paid	( 2 609)	( 2 099)
Estimated attributable amounts	6 582	3 243
<b>Balance at the end of the period</b>	<b><u>9 724</u></b>	<b><u>5 751</u></b>

As at 31 December 2013, life mathematical reserve includes an amount of euro 0 (31 December 2012: euro 0 thousand) as a result of the liability adequacy test. This test was performed based on the best estimate assumptions (see Note 53).

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 35 - OTHER ASSETS**

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Collateral deposits placed	1 483 337	1 664 467
Derivatives	927 066	1 438 955
Collateral CLEARNET, VISA and EBA	30 701	33 597
Collateral related to Letters of Credit	44 797	26 694
Collateral Deposits for litigations	54 956	53 000
Collateral Desoposits in relation with reinsurance operations	334 677	-
Other	91 140	112 221
Recoverable government subsidies on mortgage loans	30 426	38 658
Public sector	191 978	152 428
Debtors from the banking business	680 299	631 951
Debtors from the insurance business	23 945	24 101
Debtors from medical services business	580	452
Sundry debtors	11 488	21 155
	<u>2 422 053</u>	<u>2 533 212</u>
Impairment losses on debtors	( 156 976)	( 236 196)
	<u>2 265 077</u>	<u>2 297 016</u>
Debtors arising out of direct insurance operations	63 996	67 170
Debtors arising out of reinsurance operations	8 558	10 814
	<u>72 554</u>	<u>77 984</u>
Impairment losses on debtors arising out of direct insurance and of reinsurance operations	( 7 336)	( 7 228)
	<u>65 218</u>	<u>70 756</u>
Accrued income	66 852	54 497
Prepayments and deferred costs	121 453	119 749
Gold, other precious metals, numismatics and other liquid assets	10 247	11 127
Other assets	233 448	264 282
	<u>243 695</u>	<u>275 409</u>
<b>Deferred acquisition costs</b>	<b>21 201</b>	<b>21 954</b>
<b>Other sundry assets</b>		
Stock exchange transactions pending settlement	256 333	154 257
Other transactions pending settlement	57 774	222 202
	<u>314 107</u>	<u>376 459</u>
<b>Assets recognised on pensions (see Note 14)</b>	<b>10</b>	<b>18 815</b>
	<u><u>3 097 613</u></u>	<u><u>3 234 655</u></u>

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The caption collateral deposits placed includes deposits made by the Group as collateral in order to be able to perform certain derivative contracts in organized markets (margin accounts) and in over the counter markets (Credit Support Annex – CSA). This caption also includes a collateral deposit made following the reinsurance agreement between BES Vida and New Re, in favour of the reinsurer to protect the reinsurer against the credit risk of BES Vida under the reinsurance agreement.

Loans to companies in which the Group has a non-controlling interest include:

- euro 100 million related with loans to Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (31 December 2012: euro 100 million);
- euro 78.7 million of loans to entities within the Group’s venture capital business, of which euro 49.5 million are provided for (31 December 2012: euro 67.2 million, of which euro 30.7 million were provided for); and
- 87.2 million of loans and junior securities following the transfer of loans/assets to companies and specialized funds, of which euro 83.4 million are provided for (31 December 2012: euro 94.3 million, of which euro 87.7 million were provided for).

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

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

Deferred acquisition costs relate to the insurance business and can be analysed as follows:

	<b>31.12.2013</b>	<b>31.12.2012</b>
	<b>(in thousands of euro)</b>	
Non-life insurance business	21 201	21 954
	<b>21 201</b>	<b>21 954</b>

The movements on the deferred acquisition costs for the non-life business are analysed as follows:

	<b>31.12.2013</b>	<b>31.12.2012</b>
	<b>(in thousands of euro)</b>	
<b>Balance at the beginning of the year</b>	<b>21 954</b>	<b>22 517</b>
Acquisition costs of the year	21 201	21 954
Acquisition costs amortisation	( 21 946)	( 22 517)
Others	( 8)	-
<b>Balance at the end of the year</b>	<b>21 201</b>	<b>21 954</b>

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The balance of impairment losses is presented as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Debtors	156 976	236 196
Debtors arising out of direct insurance and reinsurance operations	7 336	7 228
	<u><b>164 312</b></u>	<u><b>243 424</b></u>

As at 31 December 2012, the impairment losses on debtors caption included also an amount of euro 86.6 million related to the impairment of international assets in the carbon market.

The movements occurred in impairment losses are presented as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Balance as at 1 January</b>	<b>243 424</b>	<b>67 597</b>
Change in the scope of consolidation	( 101)	( 12 726)
Charge of the year	32 690	196 374
Write back of the year	( 3 627)	( 13 482)
Charge off	( 95 289)	( 1 104)
Transfers	4 335	-
Other	( 17 120)	6 765
<b>Balance as at 31 December</b>	<u><b>164 312</b></u>	<u><b>243 424</b></u>

**NOTE 36 - DEPOSITS FROM CENTRAL BANKS**

The balance deposits from central banks in analysed as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>From the European System of Central Banks</b>		
Deposits	202 469	129 382
Other funds	9 150 000	10 150 000
	<u>9 352 469</u>	<u>10 279 382</u>
<b>From other Central Banks</b>		
Deposits	419 775	661 943
	<u>419 775</u>	<u>661 943</u>
	<u><b>9 772 244</b></u>	<u><b>10 941 325</b></u>

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

As at 31 December 2013 and 2012, Other funds from the European System of Central Banks includes euro 9 157 million and euro 10 156 million, respectively, covered by securities pledged as collaterals in the amount of euro 18.8 billion and euro 19.6 billion, respectively (see Note 47).

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

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Up to 3 months	642 604	852 635
1 to 5 years	9 129 640	10 088 690
	<u>9 772 244</u>	<u>10 941 325</u>

**NOTE 37 - DEPOSITS FROM BANKS**

The balance deposits from banks is analysed as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Domestic</b>		
Loans	1 927	36
Deposits	336 062	378 864
Very short terms funds	82 111	40 172
Repurchase agreements	-	66 579
Other funds	2 078	4 486
	<u>422 178</u>	<u>490 137</u>
<b>International</b>		
Deposits	716 344	378 345
Loans	2 775 812	2 433 985
Very short terms funds	91 049	194 475
Repurchase agreements	817 624	1 311 087
Other funds	210 487	257 951
	<u>4 611 316</u>	<u>4 575 843</u>
	<u>5 033 494</u>	<u>5 065 980</u>

As at 31 December 2013, the balance deposits from banks includes the amount of euro 224 109 thousand (31 December 2012: 612 277 thousand) related to deposits recognised on the balance sheet at fair value through profit or loss.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Up to 3 months	2 721 882	2 318 791
3 to 12 months	886 607	1 335 967
1 to 5 years	869 486	683 935
More than 5 years	555 519	727 287
	<u><u>5 033 494</u></u>	<u><u>5 065 980</u></u>

**NOTE 38 - DUE TO CUSTOMERS**

The balance due to customers is analysed as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Repayable on demand</b>		
Demand deposits	11 379 879	11 100 769
<b>Time deposits</b>		
Time deposits	23 822 634	22 213 567
Notice deposits	18 000	3 144
Other	21 175	77 327
	<u>23 861 809</u>	<u>22 294 038</u>
<b>Savings accounts</b>		
Pensioners	295 146	28 022
Emigrants	18 041	3 521
Other	2 093 436	1 645 970
	<u>2 406 623</u>	<u>1 677 513</u>
<b>Other funds</b>		
Repurchase agreement	275 003	204 847
Other	170 493	348 307
	<u>445 496</u>	<u>553 154</u>
	<u><u>38 093 807</u></u>	<u><u>35 625 474</u></u>

This balance includes the amount of euro 9 446 million (31 December 2012: euro 8 797 million) of deposits recognised in the balance sheet at fair value through profit or loss.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Repayable on demand	11 379 879	11 100 769
With agreed maturity:		
Up to 3 months	13 798 298	11 503 648
3 to 12 months	9 351 420	6 516 402
1 to 5 years	3 358 727	6 133 519
More than 5 years	205 483	371 136
	<u><b>38 093 807</b></u>	<u><b>35 625 474</b></u>

**NOTE 39 - DEBT SECURITIES ISSUED**

The balance of debt securities issued is analysed as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Debt securities</b>		
Euro Medium Term Notes	8 745 475	10 087 137
Certificates of deposit	342 539	620 235
Covered bonds	901 122	864 100
Debt bonds issued	1 356 727	1 409 773
Other	1 269 345	2 971 625
	<u><b>12 615 208</b></u>	<u><b>15 952 870</b></u>

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

As at 31 December 2013, this balance includes euro 3 723 million (31 December 2012: euro 2 660 thousand) of debt securities issued at fair value through profit or loss.

On 15 November 2005, ESFG issued the euro 500 000 000 Fixed Rate Step-Up Notes due 2025 with 10 000 warrants. Each of these Notes bearded interest at the rate of 3.55% until 15 November 2011 and 5.05% from then on. Each warrant entitles the holder to subscribe euro 50 000 to acquire fully paid up shares of ESFG at an initial exercise price of euro 24.50 per share. This exercise price has been adjusted following the terms the contractual conditions to euro 21.24 in 2012. The rights under the warrants are exercisable from and including 26 December 2005 up to the close of business on 8 November 2025.

In the light of IAS 32, the warrants issued correspond to an equity instrument and therefore are recognised in equity and the Notes correspond to a debt instrument and are recognised as a liability.

The value attributable to the warrants upon the initial recognition was calculated by deducting, at inception, the fair value of the Notes from the par value of the instrument as a whole, the fair value attributable to the Notes being calculated as the present value of the contractual future cash flows discounted at a rate of interest, determined at

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

inception, based on comparable Notes providing substantially the same cash flows, on the same terms, but without the detachable warrants. On this basis, the Group recognised in equity the amount of euro 118 570 thousand related to the warrants and an amount of euro 381 430 thousand as a liability, corresponding to the respective fair value at the date of issue.

After its initial recognition, the liability accrues interest at an effective interest rate of 6.7%, which was the rate used to fair value the liability at the inception.

During 2013, took place an exchange offer of euro 135.6 million of the Notes for euro 122.0 million bonds exchangeable into ordinary shares of Banco Espírito Santo, S.A.. This exchange offer resulted in a decrease in other equity instruments by the amount of euro 32.5 million and in a loss recognised in income statement of euro 7.3 million.

Unless previously redeemed, or repurchased and cancelled, the Notes will be redeemed at their principal amount on 15 November 2025. Following the cancellation of the Notes and Warrants exchanged by ESFG pursuant to the exchange offer (i) the principal amount outstanding is euro 45.8 million in terms of nominal value and euro 38.7 million in terms of book value as at 31 December 2013, and (ii) the number of Warrants outstanding is 915 with a book value of euro 10.5 million.

On 19 December 2011, ESFG issued euro 130 416 000 Convertible Bonds due 2025, as a result of the Exchange Offer of the Euro 500 000 000 Fixed Rate Step-Up Notes described above. Each bond bears interest at the rate of 9.75 and entitles the holder to convert such Bond into new and/or existing fully paid ordinary shares in the capital of ESFG. The initial Conversion Price is Euro 17 per Ordinary share. Unless previously redeemed, or repurchased and cancelled, the Notes will be redeemed at their principal amount on 19 December 2025.

In the light of IAS 32, the conversion option issued corresponds to an equity instrument and therefore is recognised in equity and the Notes correspond to a debt instrument and are recognised as a liability.

The value attributable to the conversion option upon the initial recognition was calculated by deducting, at inception, the fair value of the Notes from the fair value of the instrument as a whole, the fair value attributable to the Notes being calculated as the present value of the contractual future cash flows discounted at a rate of interest, determined at inception, based on comparable Notes providing substantially the same cash flows, on the same terms, but without the conversion option. On this basis, the Group recognised in equity the amount of euro 17.0 million related to the conversion option.

Under the covered bonds programme, which has a maximum amount of euro 10 000 million, BES Group issued covered bonds for a total amount of euro 4 040 million.

The covered bonds are guaranteed by a cover assets pool, comprised of mortgage credit assets and limited classes of other assets, that the issuer of mortgage covered bonds shall maintain segregated and over which the holders of the relevant covered bonds have a statutory special creditor privilege. These conditions are set up in Decree-Law no. 59/2006, Regulations 5/2006, 6/2006, 7/2006 and 8/2006 of the Bank of Portugal and Instruction 13/2006 of the Bank of Portugal.



**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The main characteristics of these issues are as follows:

Description	Nominal value (In thousands of euro)	Book value (In thousands of euro)	Issue date	Maturity date	Interest payment	Interest rate	Rating	
							Moody's	DBRS
BES Covered Bonds 3.375%	1 000 000	859 681	17.11.2009	17.02.2015	Annual	3.375%	Baa3	AL
BES Covered Bonds DUE JUL 17	1 000 000	-	07.07.2010	09.07.2017	Annual	Euribor 6 Month + 0.60%	Baa3	AL
BES Covered Bonds 21/07/2017	1 000 000	-	21.07.2010	21.07.2017	Annual	Euribor 6 Month + 0.60%	Baa3	AL
BES Covered Bonds DUE 4.6%	40 000	41 441	15.12.2010	26.01.2017	Annual	Fixed rate 4.6%	Baa3	AL
BES Covered Bonds HIPOT 2018	1 000 000	-	25.01.2011	25.01.2018	Annual	Euribor 6 Month + 0.60%	Baa3	AL
	<u>4 040 000</u>	<u>901 122</u>						

As at 31 December 2013, the mortgage loans that collateralise these covered bonds amounted to euro 5 552.6 million (31 December 2012: euro 5 605.1 million) (see Note 26).

The changes occurred in debt securities issued during the year ended 31 December 2013 are analysed as follows:

	31.12.2012	Issues	Repayments	Net repurchase	Other movements <sup>a)</sup>	31.12.2013
	(in thousands of euro)					
Euro Medium Term Notes	10 087 137	1 433 796	(2 412 267)	(351 917)	(11 274)	8 745 475
Certificates of deposit	620 235	120 711 b)	(396 027)	-	(2 380)	342 539
Covered bonds	864 100	-	-	49 927	(12 905)	901 122
Debt bonds issued	2 470 593	433 862	(1 482 201)	(14 861)	(50 666)	1 356 727
Other	1 910 805	4 627 193	(5 259 297)	-	(9 356)	1 269 345
	<u>15 952 870</u>	<u>6 615 562</u>	<u>(9 549 792)</u>	<u>(316 851)</u>	<u>(86 581)</u>	<u>12 615 208</u>

<sup>a)</sup>Other movements include accrued interest, fair value adjustments and foreign exchange differences

<sup>b)</sup>Certificates of deposit are presented at the net value, considering their short term maturity

In accordance with the accounting policy described in Note 2.8, debt issued repurchased by the Group is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement. Following the repurchases performed in 31 December 2013 and in 31 December 2012, the Group has recognised a gain (already including the gains relating the exchange offer for the Fixed Rate Step-Up Notes described above) of euro 2.2 million and of euro 74.1 million, respectively (see Note 12).

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

	31.12.2013	31.12.2012
	(in thousands of euro)	
Up to 3 months	1 403 799	2 604 374
1 to 12 months	2 684 613	1 538 996
1 to 5 years	5 144 220	7 331 056
More than 5 years	3 382 576	4 478 444
	<u>12 615 208</u>	<u>15 952 870</u>

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The main characteristics of debt securities issued are presented as follows:

31.12.2013							
Issuer	Description	Currency	Issue date	Book Value	Maturity	Interest rate	
DES	DES DUE JUN 14	EUR	2007	389 353	2011	Eurobor 3 months + 0.15%	
BES	BES 3 635% 2014	EUR	2009	1 347 704	2014	Fixed rate 5.63%	
BES	BES 3 375% 2015	EUR	2009	851 447	2015	Fixed rate 3.375%	
BES	BES DUE 3 875%	EUR	2010	403 730	2015	Fixed rate 3.875%	
HFS	HFS DUE 4 8%	EUR	2010	41 441	2017	Fixed rate 4.8%	
HFS	HFS DUE JULY 16	EUR	2011	59 613	2016	Fixed rate 4.875%	
DCG	DCG PORTUGAL NO	a) EUR	2011	10 320	2015	Eurobor 6 months + 0.5%	
DCG	DCG PORTUGAL	a) EUR	2011	21 097	2014	Eurobor 6 months + 0.5%	
BES	BES DUE FEB 14	EUR	2012	123 676	2014	Fixed rate 6.5%	
BES	BES 4 YEAR 7%	EUR	2012	173 721	2016	Fixed rate 7%	
BES	BES 6 9% 2024	EUR	2012	49 387	2024	Fixed rate 6.9%	
HFS	HFS 26/10/2015	EUR	2012	40 186	2015	Eurobor 6 months + 0.88%	
HFS	HFS 6 875% 2015	EUR	2012	346 617	2015	Fixed rate 5.875%	
DCG	DCG 1 75% 2016	EUR	2013	453 091	2016	Fixed rate 4.75%	
DES (Cayman Branch)	DCG 6 02% 07/10/14	EUR	2001	77 664	2014	Fixed rate - 6.02%	
BES (Cayman Branch)	BES 6 05% 27/07/15	EUR	2001	46 593	2015	Fixed rate - 6.05%	
BES (Spain Branch)	Mortgage Bonds	a) EUR	2008	153 763	2014	Fixed rate 4.5%	
BES (Spain Branch)	Mortgage Bonds	a) EUR	2008	60 369	2014	Fixed rate 4%	
HFS (Spain Branch)	Mortgage Bonds	a) EUR	2008	83 267	2016	Fixed rate 4.25%	
HFS (Spain Branch)	Mortgage Bonds	a) EUR	2011	18 954	2013	Fixed rate 4.25%	
DCG (London Branch)	Certificates of deposits	EUR	2012	1 596	2014	Fixed rate 1.49%	
DCG (London Branch)	Certificates of deposits	USD	2012	239 348	2014	Fixed rate 3%	
BES (London Branch)	Certificates of deposits	USD	2012	78 104	2014	Fixed rate 3%	
BES (London Branch)	EMTN Series 1	EUR	2012	151 459	2014	Nominal rate 6.5%	
BES (London Branch)	EMTN Series 2	EUR	2012	117 974	2016	Nominal rate 7%	
HFS (London Branch)	EMTN Series 3	EUR	2012	122 498	2022	Nominal rate 4%	
HFS (London Branch)	EMTN Series 4	EUR	2012	69 663	2014	Nominal rate 6.6%	
DCG (London Branch)	EMTN Series 5	EUR	2012	42 912	2016	Nominal rate 7%	
DCG (London Branch)	EMTN Series 6	EUR	2012	118 516	2022	Nominal rate 6%	
BES (London Branch)	EMTN Series 7	EUR	2012	156 646	2019	Nominal rate 5%	
BES (London Branch)	EMTN Series 8	EUR	2012	247 516	2015	Nominal rate 6.75%	
BES (London Branch)	EMTN Series 9	EUR	2012	231 868	2015	Nominal rate 6.75%	
HFS (London Branch)	EMTN Series 10	EUR	2012	511 101	2019	Nominal rate 5%	
HFS (London Branch)	EMTN Series 11	EUR	2012	70 228	2016	Nominal rate 6.75%	
DCG (London Branch)	EMTN Series 12	EUR	2012	320 348	2019	Nominal rate 5%	
DCG (London Branch)	EMTN Series 13	EUR	2012	223 221	2019	Nominal rate 5%	
BES (London Branch)	EMTN Series 14	EUR	2012	267 516	2019	Nominal rate 5%	
BES (London Branch)	EMTN Series 15	EUR	2012	24 766	2014	Nominal rate 6.5%	
BES (Luxembourg Branch)	BES Luxembourg 6.75% 29/06/17	EUR	2012	20 492	2017	Nominal rate 6.75%	
HFS (Luxembourg Branch)	HFS Luxembourg 3% 11/06/22	USD	2012	86 867	2022	Nominal rate 3%	
HFS (Luxembourg Branch)	HFS Luxembourg 3.5% 07/01/13	EUR	2013	49 765	2013	Fixed rate 3.6%	
DCG (Luxembourg Branch)	DCG Luxembourg 3.5% 23/01/13	EUR	2013	43 697	2013	Fixed rate 3.0%	
DCG (Luxembourg Branch)	DCG Luxembourg 3.5% 19/02/2013	EUR	2013	62 617	2013	Fixed rate 3.0%	
BES (Luxembourg Branch)	BES Luxembourg 3.5% 18/03/2013	EUR	2013	56 985	2013	Fixed rate - 1.5%	
BES (Luxembourg Branch)	BES Luxembourg 2C	EUR	2013	28 573	2014	Fixed rate - 7%	
BES Finance	EMTN 37	EUR	2004	32 199	2029	Effective rate 5.30%	
HFS Finance	EMTN 39	EUR	2005	103 091	2015	Eurobor 3 months + 0.21%	
HFS Finance	EMTN 40	a) EUR	2006	216 414	2016	6.00% indexed to Swap rate	
DCG Finance	EMTN 50	EUR	2006	23 037	2012	Fixed rate 7.13%	
BES Finance	EMTN 57	EUR	2005	19 042	2014	Fixed rate 7.09%	
BES Finance	EMTN 58	EUR	2005	23 729	2014	Fixed rate 7.06%	
BES Finance	EMTN 59	EUR	2005	25 878	2014	Fixed rate 6.84%	
BES Finance	EMTN 60	EUR	2009	27 329	2014	Fixed rate 6.91%	
HFS Finance	HFS 61	EUR	2009	26 438	2014	Fixed rate 6.97%	
HFS Finance	HFS 62	EUR	2009	4 308	2016	Fixed rate 7%	
DCG Finance	Exchangeable Bonds (EDF)	a) EUR	2010	10 231	2015	Fixed rate 3%	
DCG Finance	EMTN 81	a) EUR	2010	6 102	2010	Fixed rate 3.15%	
BES Finance	EMTN 82	a) EUR	2010	6 202	2015	Fixed rate 3.19%	
BES Finance	EMTN 83	a) EUR	2010	6 615	2015	Fixed rate 3.15%	
BES Finance	EMTN 84	a) EUR	2010	6 770	2015	Fixed rate 3.19%	
HFS Finance	HFS 85	a) EUR	2010	6 864	2015	Fixed rate 3.19%	
HFS Finance	HFS 86	a) EUR	2011	8 108	2016	Fixed rate 5.75%	
DCG Finance	EMTN 97	a) EUR	2011	7 613	2016	Fixed rate 6.75%	
DCG Finance	EMTN 98	a) EUR	2011	9 158	2015	Fixed rate 6.75%	
BES Finance	EMTN 99	a) EUR	2011	9 158	2015	Fixed rate 6.75%	
BES Finance	EMTN 100	a) EUR	2011	9 158	2015	Fixed rate 6.75%	
DCG Finance	EMTN 105	a) EUR	2011	8 896	2015	Fixed rate 5.5%	
HFS Finance	HFS 107	a) EUR	2011	9 164	2015	Fixed rate 6.4%	
HFS Finance	HFS 108	a) EUR	2011	10 641	2016	Fixed rate 6.5%	
DCG Finance	EMTN 109	a) EUR	2011	10 641	2015	Fixed rate 6.5%	
DCG Finance	EMTN 110	a) EUR	2011	10 641	2015	Fixed rate 6.5%	
BES Finance	EMTN 112	a) EUR	2011	50 490	2014	Fixed rate 6%	
BES Finance	EMTN 113	a) EUR	2011	59 478	2021	Fixed rate 5%	
BES Finance	EMTN 114	a) EUR	2011	28 262	2021	Fixed rate 5%	
HFS Finance	Exchangeable Bonds	a) EUR	2012	159 886	2015	Fixed rate 1.5%	
HFS Group	HFS OCT04 HFS 1 (RKP) LMS NOTP	a) EUR	2004	6 149	2024	Fixed rate + indexed to CMS	
DCS Group	CSF CALL RANGE ACCRUAL MAY2015	a) EUR	2005	1 227	2015	Range accrual	
DCS Group	CSF RANGE ACCRUAL JUN16	a) EUR	2005	244	2015	Range accrual	
BES Group	ESF EUR LEVERAGE SNOWBALL JUL 15	a) EUR	2005	1 356	2015	Fixed rate + Snowball b)	
BES Group	ESF AUG05 SEP15 CALLABLE RV FL	a) EUR	2005	9 862	2015	Eurobor 12 months + c)	
BES Group	ESF LEVERAGE SNOWBALL SEP2015	a) EUR	2005	2 319	2015	Fixed rate + Snowball + b)	
HFS Group	HFS CALI RANGE ACCRUAL NOV2017	a) EUR	2006	1 296	2017	Range accrual	
HFS Group	HFS 30CMR XCMS LKD NOV17 NOV2016	a) EUR	2006	16 169	2016	Fixed rate 7.44% + indexed to CMS	
DCS Group	DCS COX R ACCRUAL TERN MAR2016	a) EUR	2006	613	2016	Fixed rate 6%	
DCS Group	CSF EUR2016-16 CP APR2016	a) EUR	2006	4 017	2016	Fixed rate 6%	
BES Group	ESF JAN0517 INDEX BASKET LKD	a) EUR	2007	11 208	2017	Eurobor 12M	
BES Group	ESF MAY14 EQUIT BASKET LINKED	a) EUR	2007	1 886	2014	e)	
BES Group	ESF DEC2015 BASKET LINKED	a) EUR	2007	251	2015	Indexed to BSVL Credit Agricole and Fortis	
HFS Group	HFS HARTLAYS LKD 70 MAR2016	a) EUR	2008	646	2016	70 + f)	
HFS Group	HFS HARTLAYS LKD 6 38% MAR2016	a) EUR	2008	406	2016	Fixed rate 6.38% + f)	
DCS Group	CSF LACAZA EUR04+2% MAR2016	a) EUR	2009	2 005	2016	Eurobor 3M+2% + f)	
DCS Group	CSF 302011 INFLATION LINKED	a) EUR	2009	1 397	2011	Indexed to Inflation	
BES Group	ESF FEB2020 EQL LINKED	a) EUR	2009	81	2020	g)	



**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

							(in thousands of euro)
							31.12.2013
Issuer	Description	Currency	Issue date	Book Value	Maturity	Interest rate	
HESI Group	ESFP EOP CLN SEP2015	€	2012	8 165	2015	6.25% + EOP CLN	
HESI Group	ESFP EUR BND SEP2017	€	2012	1 442	2017	EURBND Linked	
HESI Group	ESFP HES FHP COMMOD AGRIEQU P-OL4	€	2012	8 878	2014	€	
HESI Group	ESFP COMMOD AGRICOL FOL5 OCT2015	€	2012	4 757	2015	€	
DECI Group	ESFP BASKET LINKED OCT2019	€	2012	1 076	2019	€	
DECI Group	ESFP BRAZILIAN NOTES IN OCT2017	€	2012	1 716	2017	EURBRL Linked	
DECI Group	ESFP IBERIA NOV2015	€	2012	2 250	2015	IBEX-IBSD Linked	
DECI Group	ESFP TURKISH LIRA EGL OCT2015	€	2012	1 530	2015	EURTRY Linked	
HESI Group	ESFP HASKF1 OCT2014 FOL2	€	2012	1 776	2019	FHP v HASKF Linked	
HESI Group	ESFP COMMOD BBS NOV2015	€	2012	3 668	2015	€	
DECI Group	ESFP DEC2015 ORLDK EUR FTD TELE	€	2012	14 764	2015	€	
DECI Group	ESFP DEC2012 BASKET FTD	€	2012	1 551	2017	€	
DECI Group	ESFP DEC2016 AUTOCALL BRASL	€	2012	6 374	2016	€	
DECI Group	ESFP DEC2017 EOP FT TEL ITAL LK	€	2012	1 785	2017	€	
DECI Group	ESFP DEC2015 ORLDK EOP	€	2012	1 011	2015	5.25% + EOP CLN	
HESI Group	ESFP DEC2015 ORLDK FHP F1	€	2012	4 078	2015	8.80% + FHP F1 CLN	
HESI Group	ESFP DEC2015 ORLDK F1 FHP FT 11 CM	€	2012	2 019	2017	€	
DECI Group	ESFP DEC2017 REVALUT FT LINKED	€	2012	4 208	2017	6.65% + REVALUT FT CLN	
DECI Group	ESFP DEC2016 FTD CRD LKD	€	2013	1 846	2016	€	
DECI Group	ESFP AUTOCALL JAN20 EQL	€	2013	558	2020	€	
DECI Group	ESFP SXSE BOOSTER JAN2016	€	2013	2 358	2016	SXSE Linked	
DECI Group	ESFP SXSE BULLISH JAN2016	€	2013	2 402	2016	SXSE Linked	
HESI Group	ESFP MAR2016 F1 FHP F1 LK	€	2013	2 814	2016	€	
HESI Group	ESFP MAR2016 F1 FHP F1 LK LK	€	2013	7 004	2016	€	
DECI Group	ESFP 4Y AUTOCALL FEB2017 EQL	€	2013	9 248	2017	€	
DECI Group	ESFP 2Y AUTOCALL DEC EQL FEB2016	€	2013	540	2016	DECI Linked	
DECI Group	ESFP BULLISH IBERIA MAR2016	€	2013	4 720	2016	€	
DECI Group	ESFP TURKISH LIRA EQL MAR2016	€	2013	2 231	2016	EURTRY Linked	
HESI Group	ESFP 2Y WLN MAR2016	€	2013	1 714	2016	€	
HESI Group	ESFP MAR2016 3Y WLN MAR2016	€	2013	1 061	2016	HANDAYN Linked	
HESI Group	ESFP CN SAN MAR2016	€	2013	5 888	2018	EUR (GAE P CLN) Linked	
DECI Group	ESFP 3Y AUTOCALL IBERIA EQL MAR16	€	2013	1 903	2016	€	
DECI Group	ESFP BASKET/NOTES APR2016	€	2013	1 472	2016	Indexed to a basket composed by Coca-Cola, France Telecom, Vivendi and YUM Brands Inc	
HESI Group	ESFP BULLISH HANSH HFRP APR16	€	2013	636	2016	Indexed to a basket composed by HANSH, MIB and SIFX30	
HESI Group	ESFP AC INTCEN CL CRUIS APR16	€	2013	1 718	2016	Indexed to a basket composed by Fininvest, SP200 and Nikkei	
DECI Group	ESFP USD CLN GALP MAR2016	€	2013	7 165	2016	USD GALP CLN Linked	
DECI Group	ESFP 3Y AC SAN TELE REP APR2016	€	2013	1 030	2016	€	
DECI Group	ESFP BULLISH EUROSTOX APR2016	€	2013	1 251	2016	Eurostoxx Linked	
DECI Group	ESFP BULLISH EWZ APR2016	€	2013	868	2016	EWZ Linked	
DECI Group	ESFP BULLISH HSCB APR2016	€	2013	966	2016	HSCB Linked	
HESI Group	ESFP 3Y WLN MAY15	€	2013	7 578	2016	€	
HESI Group	ESFP BASKET/NOTES JUL 2 90000 290402014	€	2013	1 094	2016	Indexed to a basket composed by Eurostoxx, SP200 and Nikkei	
DECI Group	ESFP CLN FT INT FIN 3Y DEC16	€	2013	11 903	2016	€	
DECI Group	ESFP FOL5 BULLISH ES AFRICA LKD	€	2013	1 318	2016	Credit Linked Note Portugal Telecom	
DECI Group	ESFP WRC BBVA SAN MAY2014	€	2013	1 030	2014	BBVA & Santander Linked	
DECI Group	ESFP CLN TELECOM ITALIA JUNE 16	€	2013	6 372	2016	Credit Linked Note Telecom Italia	
HESI Group	ESFP 3Y AC SAN PARAFINOL JUN16	€	2013	1 662	2016	€	
HESI Group	ESFP UNO CLN PORTUGAL 3Y MAY16	€	2013	9 548	2016	€	
HESI Group	ESFP CN FSPFORUGAL 3Y MAY15	€	2013	6 390	2016	FSPF CLN	
DECI Group	ESFP 3Y BULLISH BND UNO JUN16	€	2013	367	2016	UNO Linked	
DECI Group	ESFP CLN CSFPORUGAL 3Y N MAY16	€	2013	7 311	2016	CSFP CLN	
DECI Group	ESFP 3Y BULLISH BRAZ REAL JUN16	€	2013	1 643	2016	EURBRL Linked	
DECI Group	ESFP FT INT FINANCE DEC 16	€	2013	2 876	2016	FT CLN	
HESI Group	ESFP 3Y AC HANSH BRASIA JUN16	€	2013	7 377	2016	GALP v HANSH Linked	
HESI Group	ESFP FT INT FIN UNO SEP16	€	2013	1 499	2016	FT CLN	
HESI Group	ESFP FTD BRISA EOP FT CLN SEP16	€	2013	2 741	2016	BRISA EOP FT CLN	
DECI Group	ESFP 3Y AC BRISA EQL JUL16	€	2013	1 442	2016	€	
DECI Group	ESFP 3Y REFINANCING UK EQL JUL16	€	2013	1 311	2016	€	
DECI Group	ESFP CLN FT INT FIN SEP2016	€	2013	16 365	2016	€	
DECI Group	ESFP USD CLN ASCENIO JUL2015	€	2013	4 233	2016	€	
HESI Group	ESFP UNO CLN HSP LK AN14	€	2013	8 878	2014	7.45% + CLN FT	
HESI Group	ESFP UNO CLN HSP LK AN14	€	2013	8 878	2014	6% + Ascenion CLN	
HESI Group	ESFP UNO CLN FT INT FIN JUL2016	€	2013	1 401	2016	7.45% + CLN FT	
HESI Group	ESFP UNO TARR USDTRY JUL 2016	€	2013	592	2016	€	
DECI Group	ESFP 3Y AC SXP AUG2016	€	2013	1 421	2016	€	
DECI Group	ESFP 3Y AC MALTAH ESCOMM AUG2016	€	2013	863	2016	€	
DECI Group	ESFP 3Y LEVERAGE EUROFOR AUG2017	€	2013	3 192	2017	€	
DECI Group	ESFP CLN TELECOM ITALIA SEP2016	€	2013	19 295	2018	5.50% + Telecom Italia CLN	
HESI Group	ESFP 3Y AC HANSH SEP16	€	2013	746	2016	€	
HESI Group	ESFP 3Y CLN BRISA SEP16	€	2013	2 741	2016	€	
DECI Group	ESFP CLN THYSSGKURUPP SEP2016	€	2013	13 197	2016	€	
DECI Group	ESFP 2Y AC SANTANDER OCT15	€	2013	1 264	2016	5.50% + THYSSGKURUPP CLN	
DECI Group	ESFP CLN COMPORTA OCT2020	€	2013	5 085	2020	€	
HESI Group	ESFP SAN FFP FOL OCT2017	€	2013	2 214	2017	€	
HESI Group	ESFP 2Y REFINANCING COMDT OCT14	€	2013	7 807	2015	€	
DECI Group	ESFP 3Y CLN FT SEP16	€	2013	10 207	2016	5% + FT CLN	
DECI Group	ESFP 3Y VALORIZAÇÃO EUROPA OCT16	€	2013	204	2016	SXSE Linked	
DECI Group	ESFP REVERSE CONV. SXSE APR15	€	2013	557	2015	SXSE Linked	
DECI Group	ESFP EUR FT EOP FT THYS SEP16	€	2013	840	2019	7.15% + €	
HESI Group	ESFP EUR FT EOP FT THYS DEC16	€	2013	2 209	2018	7.15% + €	
DECI Group	ESFP EUR FT EOP FT THYS DEC19	€	2013	1 002	2019	6.25% + EOP CLN	
DECI Group	ESFP REV. CONV. SANTANDER APR11	€	2012	519	2011	€	
DECI Group	ESFP 2Y AC TELECOMS EQL OCT15	€	2013	1 548	2015	€	
DECI Group	ESFP CLN BRITISH AIRWAYS DEC16	€	2013	9 512	2016	6% + British Airways CLN	
HESI Group	ESFP CLN THYSSGKURUPP DEC16	€	2013	6 064	2016	5.5% + THYSSGKURUPP CLN	
HESI Group	ESFP 2Y AC SANTANDER NOV2015	€	2013	4 090	2015	€	
DECI Group	ESFP 2Y DONUS EU STOXSS NOV2015	€	2013	3 014	2015	SXSE Linked	
DECI Group	ESFP 3Y AC WO C&D NOV16	€	2013	1 722	2016	€	
DECI Group	ESFP 3Y AC WO SANT & TELE NOV16	€	2013	994	2016	€	
HESI Group	ESFP 3Y AC WO SAN & TELE NOV16	€	2013	488	2016	€	
HESI Group	ESFP 3Y AC WO HANSH NOV2011	€	2013	886	2017	€	
DECI Group	ESFP 4Y BULLISH EUROSTOX NOV2017	€	2013	1 312	2017	SXSE Linked	
DECI Group	ESFP BULLISH IBERIA NOV2015	€	2013	252	2015	€	
DECI Group	ESFP CLN BRITISH AIR DEC16	€	2013	1 114	2016	5.35% + British Airways CLN	
HESI Group	ESFP EUR FT EOP FT THYS DEC16	€	2013	1 877	2016	6.85% + €	
HESI Group	ESFP EUR FT EOP FT THYS DEC19	€	2013	878	2019	7.15% + €	
DECI Group	ESFP USD FT EOP FT THYS DEC16	€	2013	1 708	2016	7% + Telecom Italia FT EOP CLN	
DECI Group	ESFP 3Y AC ACCES PORTUS DEC16	€	2013	4 164	2016	€	
DECI Group	ESFP 3Y AC EWVW DEC16	€	2013	500	2016	€	
DECI Group	ESFP 3Y AC WO ULAND BARBLE DEC16	€	2013	377	2016	€	
HESI Group	ESFP 3Y AC WO JMO EOP FT DEC16	€	2013	814	2016	€	
DECI Group	ESFP 3Y FTD EOP FT BRISA DEC19	€	2013	1 905	2019	6.5% + €	
DECI Group	ESFP 3Y FTD EOP FT BRISA DEC16	€	2013	1 504	2016	4.30% + REUCOT CLN	
DECI Group	ESFP CLN FT INT FIN DEC16	€	2013	3 260	2018	€	
DECI Group	ESFP CLN TELECOM ITALIA SP DEC16	€	2013	1 598	2016	€	

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

31.12.2013

(in thousands of Euro)

Issuer	Description	Currency	Issue date	Book Value	Maturity	Interest rate	
BESI Group	ESIP DUAL HEALTHCARE JUN2014	a)	EUR	2013	1.901	2016	b)
HFPI Group	LGA Letter Credit of zero	EUR	2012, 2013	4.976	2014		
HFPI Group	LGA AFON	EUR	2013	23.937	2014		
DFGI Group	LGA NOVA	EUR	2013	36.988	2014		
DCSI Group	LGA FRE	EUR	2013	502	2014		
DCSI Group	Letter of Real Estate Credit LCI	EUR	2013	1.724	2014		
BESI Group	LF FINANCIAL LETTER BEE INVESTIMENTO	EUR	2012, 2013	32.595	2014, 2017		
BESI Group	LF FINANCIAL LETTER FICA	EUR	2013	1.528	2013		
HSPI C	HE-SPI213_20E HESESPIC01800/2014	EUR	2013	125.118	2014	Fixed rate 0.71%	
HSPI C	HE-SPI213_20E HESESPIC01400/2014	EUR	2013	127.112	2014	Fixed rate 0.74%	
CSPLC	BE-SPI14_20E BESESPIC007/2014	EUR	2013	120.856	2014	Fixed rate 0.73%	
CSPLC	BE-SPI14_20E BESESPIC10.00/2014	EUR	2013	150.049	2014	Fixed rate 0.73%	
CSPLC	BE-SPI14_20E BESESPIC006/2014	EUR	2013	130.024	2014	Fixed rate 0.73%	
ESPLC	BE-SPI14_20E BESESPIC20/03/2014	USD	2013	7.237	2014	Fixed rate 1.12%	
Lusitano Mortgage nº 6	Class A Mortgage Backed Floating Rate Notes	EUR	2007	489.908	2025	EURibor + 0.20%	
Lusitano Mortgage nº 6	Class B Mortgage Backed Floating Rate Notes	EUR	2007	6.407	2025	EURibor + 0.39%	
Lusitano Mortgage nº 6	Class C Mortgage Backed Floating Rate Notes	EUR	2007	10.003	2025	EURibor + 0.45%	
Lusitano GNC nº 1	Class A asset backed guaranteed floating rate notes	EUR	2006	30.177	2026	EURibor + 0.15%	
Lusitano GNC nº 1	Class B asset backed guaranteed floating rate notes	EUR	2006	27.005	2026	EURibor + 0.05%	
BESV	Certificates of deposits	EUR	2013	31.551	2014	0.9% - 3.1%	
ESFC	Fixed Rate Step up Notes due 2025 with warrants	EUR	2006	39.016	2025	5.65%	
HSFC	Commercial Bonds due 2015	EUR	2011	66.536	2015	9.76%	
HSFC	Exchangeable Bonds due 2016	EUR	2011	146.703	2016	3.126%	
FSFC	Mutual Fund Notes	EUR	2012	27.507	2014	5%	
CSFL	Fixed Rate Notes - CMTN	EUR	2013	176.892	2015	0.25%	
CSFL	Fixed Rate Notes - CCP	EUR	2013	43.014	2014	2.76% - 0.05%	
ESFL	Fixed Rate Notes - CCP	USD	2013	120.591	2014	2.75% - 5.5%	
ESFL (P)	Bonds	EUR	2013	10.236	2017	5.625%	
FSFL (P)	Bonds	EUR	2013	40.174	2016	6.126%	
<b>12.615.208</b>							

- a) Liabilities at fair value through profit and loss or both unclassified derivatives.
- b) Indexed to previous coupon + spread - Eurobor
- c) Indexed to reverse floaters
- d) Indexed to a basket composed by Dow Jones Eurostoxx 50, S&P 500 and Nikkei 225
- e) Indexed to a basket composed by BBVA and BSICh
- f) Indexed to credit risk
- g) Indexed to a basket composed by France Telecom and Deutsche Telekom
- h) Indexed to a basket composed by Petrobras, Companhia Siderurgica Nacional, Itau Unibanco and Banco Bradesco
- i) Indexed to a basket composed by Ericsson, Kongsberg, Saatchi, Sanofi-Aventis and ABB LTD
- j) Indexed to credit (find in default) of Santander, PT, BNP, FIC, EDP and Finis
- k) Indexed to a basket composed by Petrobras, Cardau, Vale, Itau Unibanco and Banco Bradesco
- l) Indexed to a basket composed by Itau, Vitol, Nokia, Bayer and E.ON
- m) Indexed to a basket composed by Eurostoxx50, SP500, Nasdaq100 and EWJ
- n) Indexed to a basket composed by (HSFC, HANG SENG, HSFC, HSFC, HSFC, HSFC and MSCI Singapore)
- o) Indexed to a basket composed by (HSFC, MSCI India, MSCI Taiwan and SP AS1200)
- p) Indexed to a basket composed by Petrobras, Companhia Siderurgica Nacional, Vale SA, Itau Unibanco and Banco Bradesco
- q) Indexed to a basket composed by MSCI Daily TR Net Emerging Markets Egypt USD and FTSE/JSE Africa TOP40
- r) 5% + Indexed to a basket composed by MSCI Daily TR Net Emerging Markets Egypt USD and FTSE/JSE Africa TOP40
- s) Indexed to a basket composed by Glaxo sciences, Celgene corp, Mylan Inc, Teva Pharmaceutical Ltd and Amgen Inc (1.4% + Indexed to Eurostat Consumer Price Index (CPI) (excl. Tobacco) for the Eurozone)
- t) Indexed to a basket composed by (Malya, Novartis, Bristol and Shire)
- u) Indexed to a basket composed by Oracle, SAP, Calsonic, Komatsu, BHP Billiton, Messubisi
- v) Indexed to a basket composed by Hsbc, EBF, F, IW
- w) 1% + Barclays Capital Amort EUR 7% Index
- x) Indexed to a basket composed by Andam, IAM, Royal funds, Itau Unibanco, Cardau and Cia Financiera do Maranhao, Green
- y) Indexed to a basket composed by Telefonica, Banco Santander, GDVA and Banco Popular
- z) Indexed to a basket composed by Telefonica, Iberdrola, E.ON spa and Deutsche Telekom
- aa) Indexed to a basket composed by Telefonica, Santander, Deutsche Bank and Deutsche Telekom
- ab) Indexed to a basket composed by Telefon, Akcel Solutions, Teia2 and Valco
- ac) Indexed to a basket composed by FUR/USD, EUR/JPY and EUR/GBP currency
- ad) Indexed to a basket composed by China Life Insurance Co., Petrochina Co and China Mobile LTD
- ae) Indexed to a basket composed by Anglo American, Cia Paracetamol Richardson, Franche, Menard Richard, UMH Merit Hierarchy
- af) Indexed to a basket composed by FedEx, Macy's, Harley Davidson, Red Hat and Swiss RE
- ag) Indexed to a basket composed by Telefonica, BNP Paribas, Vodafone Group PLC and E.ON
- ah) Indexed to a basket composed by HUG, Hapag-Lloyd and Samsung
- ai) Indexed to a basket composed by Telefonica, Royal, Santander and France Telecom
- aj) Indexed to a basket of Commodities Corn, Wheat and Sugar
- ak) Indexed to a basket of Commodities Corn, Wheat and Soybean
- al) Indexed to a basket of Commodities Corn, Wheat and Soybean
- am) Indexed to a basket composed by Nestle, Roche, Deutsche Telekom and Societe Generale
- an) Indexed to a basket of Commodities Copper, Gold and Palladium
- ao) Indexed to credit of Portugal Telecom, Telefonica and Telecom Italia
- ap) Indexed to credit of Gas Natural, Renault and Telecom Italia
- aq) Indexed to a basket composed by Petrobras, Companhia Vale Rio Doce, Itau Unibanco and BRF Brazil Foods SA
- ar) Indexed to credit of Portugal Telecom, EDP and Telecom Italia
- as) Indexed to a basket of credit FIC - Telecom Italia, FHM - Portugal Telecom
- at) Indexed to a basket composed by Ripcord, HSBC, Hsbc
- au) Indexed to a basket of credit (FTC, Capital Metal, Telefonica and Intesa SPA)
- av) Indexed to a basket composed by EDP, Portugal Telecom and GALP
- aw) Indexed to a basket of linked FSI20 and IBEX
- ax) Indexed to a basket composed by Ishare MSCI Brazil Index Fund, Russian Depository Index URL, S&P ASX 200 linked
- ay) Indexed to a basket composed by BBVA, HSBC and Koford
- az) Indexed to a share of GDVA
- ba) Indexed to UKX linked
- bb) 5% + USD:TRY FX linked
- bc) Indexed to Nikkei linked
- bd) Indexed to a basket composed by Amstar, Finis and Finis
- be) Indexed to subor 3 months
- bf) Indexed to shares of Repsol
- bg) Indexed to shares of Santander
- bh) 1% + indexed to bonds of Computa
- bi) Indexed to a basket composed by Santander and Telefonica
- bj) Indexed to Commodities NYMEX - WTI Crude Oil linked
- bk) Indexed to credit of EDP, PT and Thyssen
- bl) Indexed to a basket composed by Deutsche Telekom AG, Telefonica SA and Vodafone Group PLC
- bm) Indexed to a basket composed by (Banco Bradesco, B. D. and B. D.)
- bn) Indexed to a basket composed by HSBC, Hsbc, FIC, Santander, BNP, BBVA and UBS
- bo) Indexed to a basket composed by GDVA and APPLE
- bp) Indexed to credit of Telecom Italia, PT, Peugeot, EDP and ThyssenKrupp
- bq) Indexed to EWWY linked
- br) Indexed to a basket composed by Johnson, Marlin, and Gulp
- bs) Indexed to credit (find in default) of PT, FIC and Finis
- bt) Indexed to a basket composed by Johnson & Johnson, Bayer and Roche Holding

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 40 - INVESTMENT CONTRACTS**

As at 31 December 2013 and 2012, the liabilities arising from investment contracts are analysed as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Fixed rate investment contracts	2 754 110	1 407 677
Investment contracts in which the financial risk is borne by the policyholder	1 719 811	2 436 343
	<u><b>4 473 921</b></u>	<u><b>3 844 020</b></u>

In accordance with IFRS 4, the insurance contracts issued by the Group for which there is only a transfer of financial risk, with no discretionary participating features, are classified as investment contracts.

The movement in the liabilities arising out from the investment contracts with fixed rate is analysed as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Balance as at 1 January</b>	<b>1 407 677</b>	<b>63 973</b>
Change in the scope of consolidation (a)	-	376 975
Net deposits received	1 480 556	1 071 426
Benefits paid	( 224 361)	( 156 647)
Technical interest charged	90 238	51 950
<b>Balance as at 31 December</b>	<u><b>2 754 110</b></u>	<u><b>1 407 677</b></u>

(a) Related with the full consolidation of BES Vida from 1 May 2012.

The movement in the liabilities arising out from the investment contracts in which the financial risk is borne by the policyholder is analysed as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Balance as at 1 January</b>	<b>2 436 343</b>	<b>84 791</b>
Change in the scope of consolidation (a)	-	1 868 167
Net deposits received	255 819	521 017
Benefits paid	(1 116 456)	( 178 370)
Changes in financial liabilities at fair value through profit or loss	2 890	157 227
Technical result	141 215	( 16 489)
<b>Balance as at 31 December</b>	<u><b>1 719 811</b></u>	<u><b>2 436 343</b></u>

(a) Related with the full consolidation of BES Vida from 1 May 2012.

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The deferred tax assets and liabilities recognised in the balance sheet as at 31 December 2013 and 2012 can be analysed as follows:

	Assets		Liabilities		Net	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
	(in thousands of euro)					
Available-for-sale financial assets	69 956	80 369	( 63 222)	( 102 845)	6 734	( 22 476)
Loans and advances to customers	474 445	412 572	-	-	474 445	412 572
Property and equipment	233	271	( 8 889)	( 8 901)	( 8 656)	( 8 630)
Intangible assets	13 354	9 474	( 4 520)	-	8 834	9 474
Investments in subsidiaries and associates	-	-	( 47 823)	( 163 986)	( 47 823)	( 163 986)
Provisions	58 690	55 302	( 1 638)	( 5 516)	57 052	49 786
Technical reserves	-	-	( 1 931)	( 1 851)	( 1 931)	( 1 851)
Pensions	263 063	257 901	( 495)	( 35 507)	262 568	222 394
Long term service benefits	8 283	7 726	-	-	8 283	7 726
Debt securities issued	-	-	( 462)	( 1 010)	( 462)	( 1 010)
Other	5 427	18 957	-	( 4 199)	5 427	14 758
Tax losses brought forward	203 440	87 165	-	295	203 440	87 460
<b>Deferred tax asset / (liability)</b>	<b>1 096 891</b>	<b>929 737</b>	<b>( 128 980)</b>	<b>( 323 520)</b>	<b>967 911</b>	<b>606 217</b>
Deferred tax assets/liabilities offset	( 32 008)	( 168 784)	32 008	168 784	-	-
<b>Deferred tax asset / (liability), net <sup>(1)</sup></b>	<b>1 064 883</b>	<b>760 953</b>	<b>( 96 972)</b>	<b>( 154 736)</b>	<b>967 911</b>	<b>606 217</b>

<sup>(1)</sup> netted by Group entity

The Group does not recognise the deferred tax liabilities on temporary differences of subsidiaries and associates for which it controls the reversion period and that are realised through the distribution of tax-exempt dividends.

Additionally, the Group does not recognise deferred tax assets on tax losses brought forward by certain subsidiaries, because it is not expectable that they will be recovered in a foreseeable future. A detail of the tax losses brought forward for which no deferred tax assets were recognised, is presented as follows:

Deadline to deduction	31.12.2013	31.12.2012
	Tax losses brought forward	
	(in thousands of euro)	
2012	-	2 850
2013	3 063	3 941
2014	22 793	27 499
2015	25 554	34 123
2016	2 493	2 492
2017	5 517	5 474
2018	4 744	-
Undetermined	205 615	234 682
	<b>269 779</b>	<b>311 061</b>

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The changes in net deferred taxes were recognised as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Balance at the beginning of the period (assets / (liabilities))</b>	<b>606 217</b>	<b>648 781</b>
Change in the scope of consolidation	-	1 981
Recognised in the income statement	321 625	41 157
Recognised in fair value reserve	( 22 621)	( 68 240)
Recognised in equity - other comprehensive income	1 303	9 601
Recognised in other reserves	( 7 152)	( 24 881)
Amount paid under the Special Regime for Debt Payments	65 375	-
Exchange differences and other	3 164	( 2 182)
<b>Balance at the end of the period (assets / (liabilities))</b>	<b>967 911</b>	<b>606 217</b>

The current and deferred taxes recognised in the income statement and reserves, during 2013 and 2012 is analysed in the following table. The amounts presented do not consider the effect of non-controlling interest.

	<u>31.12.2013</u>		<u>31.12.2012</u>	
	Recognised in the income statement (income) /expense	Recognised in reserves	Recognised in the income statement (income) /expense	Recognised in reserves
	(in thousands of euro)			
Financial instruments	( 50 500)	21 355	( 16 679)	68 240
Loans and advances to customers	( 62 719)	-	( 69 646)	-
Property and equipment	26	-	( 153)	-
Intangible assets	640	-	551	-
Investments in subsidiaries and associates	( 116 572)	409	81 381	( 3 247)
Provisions	( 6 345)	-	( 20 402)	-
Technical reserves	80	-	623	-
Pensions	3 668	( 1 712)	4 005	( 6 354)
Long term service benefits	( 557)	-	459	-
Debt securities issued	( 548)	-	1 214	-
Exchange differences and other	9 142	-	( 2 950)	( 281)
Tax losses brought forward	( 97 940)	8 418	( 19 560)	25 162
Deferred taxes	( 321 625)	28 470	( 41 157)	83 520
Current taxes	157 432	( 66 589)	152 159	44 973
	<b>( 164 193)</b>	<b>( 38 119)</b>	<b>111 002</b>	<b>128 493</b>

The current tax accounted for in reserves during 2013 includes, a tax charge of euro 66 589 thousand (31 December 2012: euro 60 830 thousand) to the fair value reserve in relation to unrealised gains recognised. As at 31 December 2012 included also a tax credit of euro 5 553 thousand related with the pension benefits tax regime in accordance with Article 183 of Law no. 64-B/2011, of 30 December and a tax credit of euro 7 773 thousand from negative equity changes (primarily related to pension benefits).



**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The reconciliation of the income tax rate can be analysed as follows:

	31.12.2013		31.12.2012	
	%	Amount	%	Amount
	(in thousands of euro)			
<b>Profit before minority interest and taxes <sup>(*)</sup></b>		<b>(1 398 839)</b>		<b>482 706</b>
Contribution to the banking sector		27 289		27 910
<b>Profit before non-controlling interest and taxes for tax reconciliation purposes</b>		<b>(1 371 550)</b>		<b>510 616</b>
Statutory tax rate	25.0%		31.5%	
Income tax calculated based on the statutory tax rate		( 342 888)		160 844
Tax-exempt dividends	0.4%	( 5 991)	-4.0%	( 19 327)
Tax-exempt profits (off shore)	1.7%	( 24 429)	-9.9%	( 47 949)
Net income in consolidated investment funds	-2.4%	33 063	-	-
Tax-exempt/non-deductible realised gains/losses	1.3%	( 18 039)	13.3%	64 191
Non-taxable share of (profit)/losses in associates	0.1%	( 905)	-0.3%	( 1 498)
Unrecognised deferred tax assets related to tax losses generated in the year	-15.9%	222 156	5.0%	24 124
Change in estimates	3.4%	( 47 642)	-12.4%	( 59 684)
Non taxable gains on acquisition / sale of subsidiaries	-	-	-9.4%	( 45 503)
Non deductible costs	1.5%	( 21 011)	5.1%	24 643
Rates and tax base changes resulting from IRC	-2.3%	31 908	-	-
Other	-0.7%	9 585	2.3%	11 161
	<b>12.1%</b>	<b>( 164 193)</b>	<b>21.2%</b>	<b>111 002</b>

<sup>(\*)</sup> includes the amount of euro (30 946) thousand (31 December 2012: euro (8 684) thousand) related to discontinued operations

The Portuguese Law No. 55-A/2010 of 31 December established a banking levy, which is not deductible for tax purposes, and whose regime was extended by Law no. 64-B/2011, of 30 December. During the period ended 31 December 2013, the Group recognised a cost of euro 27.3 million (31 December 2012: euro 27.9 million, which was included in Other operating income and expenses – Direct and indirect taxes (see Note 12).

**NOTE 43 - SUBORDINATED DEBT**

The balance subordinated debt is analysed as follows:

	31.12.2013	31.12.2012
	(in thousands of euro)	
Bonds	1 329 161	1 101 032
Loans	9 896	10 107
Perpetual bonds	64 131	65 343
	<b>1 403 188</b>	<b>1 176 482</b>

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The main features of the subordinated debt are presented as follows:

Issuer	Designation	Currency	Issue date	31.12.2013		Interest rate	Maturity	
				Amount issued	Carrying amount			
(in thousands of euro)								
BES Finance	Subordinated perpetual bonds	EUR	2002	50 843	23 603	3.06%	2014	a)
BES Finance	Subordinated perpetual bonds	EUR	2004	95 767	20 211	4.50%	2015	a)
BES Finance	Bonds	EUR	2008	20 000	20 165	8.73%	2018	
BESI	Bonds	BRL	2007	21 134	16 891	CDI 100%+1.3%	2014	
BESI	Bonds	BRL	2008	8 416	7 918	CDI 100%+1.3%	2015	
BESI	Bonds	BRL	2008	673	896	IPCA 100%+8.3%	2015	
BESI	Bonds	BRL	2008	1 010	944	CDI 100%+1.3%	2015	
BESI	Bonds	EUR	2005	60 000	8 863	Euribor 3M + 0.95%	2015	
BESI	Bonds	EUR	2003	10 000	273	indexed to CMS	2033	
BES	Bonds	EUR	2004	25 000	22 068	Euribor 6M + 1.25%	2014	
BES	Bonds	EUR	2008	41 550	3 848	Euribor 3M + 1%	2018	
BES	Bonds	EUR	2008	638 450	83 055	Euribor 3M + 8.5%	2019	
BES	Bonds	EUR	2008	50 000	50 082	Euribor 3M + 1.05%	2018	
BES	Bonds	EUR	2011	8 174	8 182	Fixed Rate 10%	2021	
BES	Bonds	EUR	2013	750 000	751 964	Fixed Rate 7.125%	2023	
BES Vida	Bonds	EUR	2002	45 000	24 295	Euribor 3M + 2.20%	2022	
BES Vida	Subordinated perpetual bonds	EUR	2002	45 000	20 317	Euribor 3M + 2.50%	2014	a)
BESV	Subordinated Loans	EUR	2003	9 669	9 896	2.34%	-	b)
ESFG	Bonds	EUR	2009	400 000	329 717	6.88%	2019	
				<b>2 260 686</b>	<b>1 403 188</b>			

a) Call option date  
b) Undetermined

The changes occurred in subordinated debt during the year ended 31 December 2013 are analysed as follows:

	31.12.2012	Issues	Repayments	Net Repurchases	Other movements (a)	31.12.2013
(in thousands of euro)						
Bonds	1 101 032	750 400	( 1 945)	( 511 808)	( 8 518)	1 329 161
Loans	10 107	-	-	-	( 211)	9 896
Perpetual Bonds <sup>(b)</sup>	65 343	-	-	( 1 318)	106	64 131
	<b>1 176 482</b>	<b>750 400</b>	<b>( 1 945)</b>	<b>( 513 126)</b>	<b>( 8 623)</b>	<b>1 403 188</b>

<sup>(a)</sup> Other movements include accrued interest, fair value adjustments and foreign exchange differences

<sup>(b)</sup> Issues include the amounts corresponding to debt replacements previously repurchased by the Group

In accordance with the accounting policy described in Note 2.8, debt issued repurchased by the Group is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement. Following the repurchases performed in 2013 and 2012, the Group has recognised a gain of euro 4.6 million and of euro 39.6 million, respectively (see Note 12).

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 44 - OTHER LIABILITIES**

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

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Creditors</b>		
Public sector	119 409	145 296
Collateral deposit on negative exposures on derivative contracts	215 617	173 955
Sundry debtors		
Stock-option plan (see Note 14)	2	185
Creditors from transactions with securities	60 433	89 357
Suppliers	67 195	56 457
Creditors from factoring operations	3 044	3 509
Other sundry creditors	280 821	234 868
Creditors from the medical business	761	548
Creditors from the insurance business	37 099	8 982
Creditors arising out of direct insurance operations	26 410	25 260
Creditors arising out of reinsurance operations	17 759	17 876
	<u>828 550</u>	<u>756 293</u>
<b>Accrued expenses</b>		
Long term service benefits (see Note 14)	30 376	28 691
Other accrued expenses	214 276	160 044
	<u>244 652</u>	<u>188 735</u>
<b>Deferred income</b>	<u>35 451</u>	<u>25 492</u>
<b>Other sundry liabilities</b>		
Stock exchange transactions pending settlement	129 189	93 431
Foreign exchange transactions pending settlement	6 933	19 999
Other transactions pending settlement	101 058	184 492
	<u>237 180</u>	<u>297 922</u>
	<u><u>1 345 833</u></u>	<u><u>1 268 442</u></u>

As at 31 December 2013, the deferred income includes the amount of euro 21 989 thousand relating to the value of the remaining in force contracts acquired of BES Vida, after reinsurance transaction of life insurance risk portfolio held in the first half of 2013 (see notes 17 and 32). This amount will be amortised to income over the remaining life of the respective contracts.

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

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 45 - SHARE CAPITAL, SHARE PREMIUM, OTHER EQUITY INSTRUMENTS, FAIR VALUE RESERVES AND OTHER RESERVES AND RETAINED EARNINGS**

*Share capital and share premium*

As at 31 December 2013, the authorised share capital of Espírito Santo Financial Group, S.A., was represented by 2 billion shares without nominal value, from which 207 075 338 shares (31 December 2012: 207 075 338) held by different shareholders were subscribed and fully paid as described below:

	% Share capital	
	31.12.2013	31.12.2012
Esírito Santo Irmãos, Sociedade Gestora de Participações Sociais, S.A.	49.26%	10.03%
Esírito Santo International S.A.	0.15%	33.38%
Other	50.59%	56.59%
	<b>100.00%</b>	<b>100.00%</b>

On 26 April 2012, ESFG issued 102 040 816 ordinary shares at an issue price of euro 4.9 each, totalling euro 500 million. From this amount, euro 398 million euro was allocated to the share premium. The costs incurred and directly attributable to issuing the new shares, in the amount of euro 6.4 million, were also recognised under share premium.

*Treasury shares*

Treasury shares as at 31 December 2013, in the amount of euro 3.5 million (31 December 2012: euro 36 million), correspond to 665 652 ESFG shares (31 December 2012: 6 811 569) with an acquisition cost of euro 5.2 per share (31 December 2012: euro 5.28 per share).

*Preference shares*

In June 2007, ESFG International Limited (“issuer”), a fully owned subsidiary of ESFG, issued euro 400 million series A non-cumulative guaranteed step-up preferred securities. These securities, with a face value of euro 50 thousand per security, are listed on the Luxembourg stock exchange. During the year ended 31 December 2012, the Group acquired euro 16 450 thousand preference shares for an acquisition price of euro 6 197 thousand, having generated a gain net of taxes, recognised in Other reserves and retained earnings, in the amount of euro 10 253 thousand. During the year ended 31 December 2011, the Group acquired euro 325 750 thousand preference shares in scope of the exchange offer over ordinary shares referred to above. The Group recorded a capital gain, net of taxes in the amount of euro 81 803 thousand recognised in Other reserves and retained earnings.

As at 31 December 2013, there were euro 52 950 thousand outstanding preference shares (31 December 2012: euro 57 800 thousand) for a total nominal amount of euro 52 950 thousand (31 December 2012: euro 57 800 thousand).

These preferred securities pay non-cumulative preferred dividends, when, as and if declared by the Board of Directors of ESFG International Limited, annually in arrears on 6 June in each year commencing on 6 June 2008 up to and including 6 June 2017 at an annual rate of 5.753% p.a. of the respective nominal value. Thereafter, the preferred dividends will be payable, when, as and if declared by the Board of Directors of ESFG International Limited, quarterly in arrears on 6 March, 6 June, 6 September and 6 December each year, commencing on 6 September 2017 at a rate of 2.130% above the 3 months Euribor.

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The preferred securities are perpetual securities and have no fixed redemption date. However, these securities may be redeemed, at the option of ESFG International Limited, in whole but not in part, on 6 June 2017 or on any preferred distribution payment date falling thereafter. Such redemption is subject to the authorization of ESFG and the Supervisor Authority.

ESFG unconditionally guarantees, on a subordinated basis, the payment of distributions on the preferred securities when, as and if declared by the Board of Directors of the issuer, and payments on liquidation of the issuer or on redemption. By virtue of the scope of the guarantee the rights of the holders of these preference securities against ESFG are equivalent to those which such holders would have had if they had instead held preference shares issued directly by ESFG whose terms are identical to the terms of the preferred securities and the guarantee taken together.

Considering the features of these preferred securities, they were considered, following IAS 32, as equity instruments of the Group. On that basis, the total proceeds from the issue, net of expenses incurred, totalling approximately euro 394.5 million, was taken to equity on the date of issue. The outstanding amount as at 31 December 2013, net of expenses, is euro 51 367 thousand (31 December 2012: euro 55 978 thousand). In accordance with the accounting policy described in Note 2.9, preferred dividends will be recorded as a deduction to equity when declared.

***Other equity instruments***

As described in Note 39, during the year ended 31 December 2013, the Group acquired euro 135.6 million of the euro 500 000 000 Fixed Rate Step-Up Notes due 2025 with 10 000 warrants, in scope of the exchange offer over bonds exchangeable into ordinary shares of Banco Espírito Santo, S.A. As a result of this transaction, as at 31 December 2013 there were 915 outstanding warrants in the amount of euro 10 849 thousand (31 December 2012: 3 587 warrants in the amount of euro 42 509 thousand) which are recognised in equity net of expenses by an amount of euro 10 539 thousand.

In addition, as described in Note 39, during 2011 ESFG issued euro 130 416 000 Convertible Bonds. Following this issue, the Group recognised in equity the amount of euro 16 950 thousand related to the conversion option which corresponds to an equity instrument in light of IAS 32.

***Capital reserves non distributable***

The capital reserves non distributable in the amount of euro 700 970 thousand relates to a special non-distributable reserve account resulting from the cancellation, in 2011, of the nominal value of the shares and the subsequent reduction of the accounting value of the authorised and issued share capital from euro 10 per share to euro 1.

***Legal reserve***

Under the Luxembourg law, a minimum of 5% of the profit for the year must be transferred to the legal reserve until this reserve equals 10% of the issued share capital. This reserve is not available for distribution.

***Fair value reserve***

The fair value reserve represents the amount of the unrealised gains and losses arising from securities classified as available for sale, net of impairment losses recognised in the income statement in the year/previous years. The amount of this reserve is shown net of deferred taxes and non-controlling interest.

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

During the years ended 31 December 2013 and 2012, the changes in these balances, net of non-controlling interest, were as follows:

	Fair value reserve			Other comprehensive income, other reserves and retained earnings						Total
	Available-for-sale	Deferred tax reserves	Total fair value reserve	Actuarial gains and (losses), net of taxes	Exchange differences	Legal reserve	Capital reserves non distributable	Other reserves and retained earnings	Total other reserves and retained earnings	
	(in thousands of euro)									
<b>Balance as at 31 December 2011</b>	(194 633)	29 009	(165 624)	(207 222)	18 562	32 364	700 970	37 449	582 123	416 499
Transfer to reserves	-	-	-	-	-	-	-	121 352	121 352	121 352
Costs with capital increase of subsidiaries	-	-	-	-	-	-	-	(3 416)	(3 416)	(3 416)
Repurchase and exchange of own other equity instruments	-	-	-	-	-	-	-	10 715	10 715	10 715
Transactions on subsidiaries preference shares	-	-	-	-	-	-	-	1 271	1 271	1 271
Dividends on preference shares	-	-	-	-	-	-	-	(5 965)	(5 965)	(5 965)
Dividends on perpetual bonds	-	-	-	-	-	-	-	( 519)	( 519)	( 519)
Actuarial gains from defined benefit obligation, net of taxes	-	-	-	(45 575)	-	-	-	-	(45 575)	(45 575)
Changes in fair value	235 542	(34 547)	191 395	-	-	-	-	-	-	191 395
Exchange differences	-	-	-	-	(11 456)	-	-	-	(11 456)	(11 456)
Other equity movements of associated companies	-	-	-	-	-	-	-	(2 683)	(2 683)	(2 683)
Transactions with non-controlling interest	-	-	-	-	-	-	-	45 628	45 628	45 628
Others	-	-	-	-	-	-	-	( 790)	( 790)	( 790)
<b>Balance as at 31 December 2012</b>	<b>41 309</b>	<b>(15 538)</b>	<b>25 771</b>	<b>(252 797)</b>	<b>7 106</b>	<b>32 364</b>	<b>700 970</b>	<b>203 045</b>	<b>690 688</b>	<b>716 459</b>
Transfer to reserves	-	-	-	-	-	-	-	313 633	313 633	313 633
Repurchase and exchange of own other equity instruments	-	-	-	-	-	-	-	31 682	31 682	31 682
Transactions on subsidiaries preference shares	-	-	-	-	-	-	-	3 481	3 481	3 481
Dividends on preference shares	-	-	-	-	-	-	-	(5 169)	(5 169)	(5 169)
Dividends on perpetual bonds	-	-	-	-	-	-	-	( 600)	( 600)	( 600)
Actuarial gains from defined benefit obligation, net of taxes	-	-	-	(34 210)	-	-	-	-	(34 210)	(34 210)
Changes in fair value	(38 853)	9 804	(28 975)	-	-	-	-	-	-	(28 975)
Exchange differences	-	-	-	-	(18 629)	-	-	-	(18 629)	(18 629)
Other equity movements of associated companies	-	-	-	-	-	-	-	764	764	764
Transactions with non-controlling interest	-	-	-	-	-	-	-	2 807	2 807	2 807
Others	-	-	-	-	-	-	-	1 071	1 071	1 071
<b>Balance as at 31 December 2013</b>	<b>2 426</b>	<b>(5 634)</b>	<b>(3 208)</b>	<b>(287 007)</b>	<b>(11 523)</b>	<b>32 364</b>	<b>700 970</b>	<b>550 714</b>	<b>985 518</b>	<b>982 310</b>

The fair value reserve is analysed as follows:

	31.12.2013	31.12.2012
	(in thousands of euro)	
Amortised cost of available-for-sale financial assets	9 221 388	11 090 158
Accumulated impairment losses recognised	( 318 045)	( 254 141)
Amortised cost of available-for-sale financial assets, net of impairment	8 903 343	10 836 017
Fair value of available-for-sale financial assets	8 929 778	11 041 235
Net unrealised gains (losses) recognised in the fair value reserve	26 435	205 218
Fair value reserves related to securities reclassified as held-to-maturity investments (Note 27)	( 11 781)	( 16 655)
Income taxes	( 6 585)	( 49 284)
Fair value reserve of associates	3 207	2 381
Net fair value reserve	11 276	141 660
Non-controlling interest	( 14 484)	( 115 889)
<b>Fair value reserve attributable to equity holders of the Company</b>	<b>( 3 208)</b>	<b>25 771</b>

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The movement in the fair value reserve, net of deferred taxes, impairment losses and non-controlling interest, is analysed as follows:

	31.12.2013	31.12.2012
	(in thousands of euro)	
<b>Balance as at 1 January</b>	<b>25 771</b>	<b>( 165 624)</b>
Changes in fair value	60 194	360 204
Disposals during the year	( 131 292)	( 167 091)
Impairment recognised during the year	32 190	28 123
Deferred taxes recognised in reserves during the year	9 904	( 45 166)
Transactions with non controlling interest	25	15 325
<b>Balance as at 31 December</b>	<b>( 3 208)</b>	<b>25 771</b>

**NOTE 46 - NON-CONTROLLING INTEREST**

As at 31 December 2013 and 31 December 2012, non-controlling interest can be analysed as follows:

	31.12.2013		31.12.2012	
	Balance sheet	Income statement	Balance sheet	Income statement
	(in thousands of euro)			
BES Group	4 554 752	( 379 120)	5 006 540	( 5 178)
Preference shares issued by BES Finance	159 342	-	193 289	-
Other equity instruments issued by BES Group	29 162	-	29 295	-
Bespar	605 261	( 545)	605 806	57 328
BES Vénétie	53 590	1 488	53 503	4 198
ES Saúde	-	-	-	( 948)
Pastor Vida	-	-	-	1 431
Other	25 194	7 562	33 858	1 240
	<b>5 427 301</b>	<b>( 370 615)</b>	<b>5 922 291</b>	<b>58 071</b>

***Preference shares issued by BES Finance***

Preference shares issued by BES Finance correspond to 450 thousand non-voting preference shares, which were issued and listed in the Luxembourg stock exchange in July 2003. In March 2004, 150 thousand preference shares were additionally issued forming a single series with the existing preference shares. The face value of these shares is euro 1 000 and are fully booked under non-controlling interest. The total issue (euro 600 000 thousand) is wholly, but not partially, redeemable at its face value at the option of the issuer, as at 2 July 2014, subject to prior approvals of BES and the Bank of Portugal. During the year ended 31 December 2012, the Group acquired 18 624 preference shares, having recorded a gain, net of taxes and non controlling interest, in the amount of euro 1 271 thousand recognised in Other reserves and retained earnings. During the year ended 31 December 2013, the Group acquired 33 947 preference shares, having recorded a gain, net of taxes and non controlling interest, in the amount of euro 1 668 thousand recognised in Other reserves and retained earnings.

As at 31 December 2013, there were 33 947 outstanding preference shares in the amount of euro 33 947 thousand (31 December 2012: 193 289 and euro 193 289 thousand, respectively).

These preference shares pay an annual non-cumulative preferred dividend, if and when declared by the Board of Directors of BES Finance, corresponding to an annual rate of 5.58% p.a. on the nominal value. This dividend is paid

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

on 2 July of each year, beginning 2 July 2004 and ending 2 July 2014. If BES Finance does not redeem these preference shares on 2 July 2014, the applicable rate will be 3 months Euribor plus 2.65% p.a., with payments on 2 January, 2 April, 2 July and 2 October of each year, if declared by the Board of Directors of BES Finance.

These shares are subordinated to any BES liability, and are “pari passu” in relation to any preference shares that may come to be issued by the Bank. BES unconditionally guarantees dividends if previously declared by the Board of Directors of BES Finance and principal repayments related to either of the above mentioned issues.

Considering the features of these preference shares, they were considered, in accordance with IAS 32, as equity instruments of BES Group being classified as non-controlling interest at ESFG level. On that basis, and in accordance with the accounting policy described in Note 2.9, the dividends related with these preference shares are recorded as a deduction to equity when declared.

***Other equity instruments issued by BES Group***

The BES Group issued in 2011, perpetual subordinated bonds with non-cumulative discretionary interest in the total amount of euro 320 million.

These bonds pay a non-cumulative interest, only if and when declared by the Board of Directors, at an annual rate of 8.5%. This discretionary interest is payable semi-annually. These securities are redeemable at the option of BES Group in full, but not in part, after 15 September 2015, subject to the prior approval of Bank of Portugal.

Considering the features of these perpetual subordinated bonds, they qualify as equity instruments of BES Group in accordance with IAS 32 being classified as non-controlling interest at ESFG level. On that basis and in accordance with the accounting policy described in Note 2.9, the distributions related with these bonds will be recorded as a deduction to equity when declared.

During the year ended 31 December 2013, the Group paid interest in the amount of euro 2 191 thousand (31 December 2012: euro 1 864 thousand) resulting in a reduction in equity amounting to euro 599 thousand net on tax and non-controlling interest (31 December 2012: euro 519 thousand). As a result of an exchange offer for BES shares, occurred in 2012, Other equity instruments issued by BES Group reduced by an amount of euro 286 717 thousand.



**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The movement in non-controlling interest in the years ended 31 December 2013 and 2012 can be analysed as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Non-controlling interest as at 1 January</b>	<b>5 922 291</b>	<b>4 973 023</b>
Changes in the scope of consolidation	34 020	( 27 606)
Transactions with non-controlling interest	( 53 214)	( 72 954)
Increase in share capital of subsidiaries	158 702	758 336
Issuance/(repurchase) of perpetual preference shares	( 29 519)	( 15 417)
Dividends paid on perpetual bonds	( 1 591)	( 1 345)
Actuarial gains/(losses) from defined benefit obligation, net of taxes	( 71 540)	( 125 307)
Dividends paid	( 4 490)	( 6 502)
Dividends paid on preference shares	( 5 048)	( 4 388)
Treasury shares of subsidiaries	7 702	-
Capital increase costs	-	( 8 730)
Changes in fair value reserve	( 94 224)	448 182
Other comprehensive income from associates	1 211	( 9 194)
Exchange differences and other	( 66 384)	( 43 878)
(Loss)/ profit for the year	( 370 615)	58 071
<b>Non-controlling interest as at 31 December</b>	<b><u>5 427 301</u></b>	<b><u>5 922 291</u></b>

**NOTE 47 - OFF-BALANCE SHEET ITEMS**

As at 31 December 2013 and 2012 off-balance sheet items, excluding the derivative financial instruments, can be analysed as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
<b>Contingent liabilities</b>		
Guarantees and stand by letters of credit	8 031 816	8 427 956
Assets pledged as collateral	20 425 200	21 632 555
Open documentary credits	4 234 660	3 780 554
Other	278 586	531 850
	<b><u>32 970 262</u></b>	<b><u>34 372 915</u></b>
<b>Commitments</b>		
Revocable commitments	7 107 506	5 462 823
Irrevocable commitments	1 800 185	3 461 701
	<b><u>8 907 691</u></b>	<b><u>8 924 524</u></b>

Guarantees and standby letters of credit are banking operations that do not imply any out-flow by the Group.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

As at 31 December 2013, the balance assets pledged as collateral include:

- Securities pledged as collateral to the Bank of Portugal in the scope of a liquidity facility collateralised by securities for an amount of euro 18.8 billion (31 December 2012: euro 19.6 billion);
- Securities pledged as collateral to the Portuguese Securities and Exchange Commission (CMVM) in the scope of the Investors Indemnity System (Sistema de Indemnização aos Investidores) for an amount of euro 17.2 million (31 December 2012: euro 20.8 million);
- Securities pledged as collateral to the Deposits Guarantee Fund (Fundo de Garantia de Depósitos) for an amount of euro 82.6 million (31 December 2012: euro 82.6 million);
- Securities pledged as collateral to the European Investment Bank for an amount of euro 1 340.0 million (31 December 2012: euro 1 822.5 million).

The above mentioned securities pledged as collateral can be executed in case the Group does not fulfil its obligations under the terms of the contracts.

Documentary credits are irrevocable commitments, by the Group, in the name of its clients, to pay or order to pay a certain amount to a supplier of goods or services, within a determined term, against the exhibition of the expedition documentation of the goods or service provided. The condition of irrevocable consists of the fact that the terms initially agreed can only be changed or cancelled with the agreement of all parties.

Revocable and irrevocable commitments represent contractual agreements to extend credit to Group's customers (eg. unused credit lines). These agreements are, generally, contracted for fixed periods of time or with other expiration requisites, and usually require the payment of a commission. Substantially, all credit commitments require that clients maintain certain conditions verified at the time when the credit was granted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the client and its business, like any other commercial operation. When necessary, the Group require that these operations are collateralised. As it is expected that the majority of these operations will mature without any use of funds, these amounts do not represent necessarily future out-flows.

Additionally, the off-balance sheet items related to banking services provided are as follows:

	<b>31.12.2013</b>	<b>31.12.2012</b>
	<b>(in thousands of euro)</b>	
Securities and other items held for safekeeping on behalf of customers	62 223 560	63 285 779
Assets for collection on behalf of clients	242 383	294 295
Securitised loans under management (servicing)	2 486 012	2 712 022
Discretionary portfolio management	7 209 297	9 649 908
	<b>72 161 252</b>	<b>75 942 004</b>

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

In the scope of the activity regarding the management of customers funds and considering the risk profile of each customer, the Group offers a variety of investment solutions which include the direct subscription of debt instruments issued by several entities, namely entities included in ESFG consolidation scope and other related parties from the non-financial sector of Espírito Santo Group. In this context, the Group makes available to customers information on the risks associated with the subscription of such instruments as it is required by the applicable regulations. These debt instruments which are held under custody are accounted as an off-balance sheet item under Securities and other items for the safekeeping on behalf of clients.

Under this activity, Group customers subscribed debt instruments issued by Espírito Santo International, S.A. ('ESI') and its subsidiaries Espírito Santo Property, S.A., Espírito Santo Industrial, S.A. e Espírito Santo Irmãos, S.A., in the amount of euro 4 745 million, of which euro 3 259 million were held, as at 31 December 2013, by private and retail customers and euro 1 486 million were held, on the same date, by institutional customers (see Note 41).

Additionally Group retail and private customers subscribed debt instruments issued by Rio Forte Investments, S.A., Espírito Santo Saúde, S.G.P.S., S.A., ESPART - Espírito Santo Participações Financeiras, S.G.P.S., S.A., Quinta da Foz and Euroamerican Finance, S.A., in the amount of euro 479 million, euro 38 million, euro 24 million, euro 13 million and euro 9 million, respectively, with reference to 31 December 2013.

**NOTE 48 - ASSETS UNDER MANAGEMENT**

As at 31 December 2013 and 2012, the amount of the assets under management of the Group is analysed as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in thousands of euro)	
Securities investment funds	4 117 166	5 190 265
Real estate investment funds	1 079 813	1 075 678
Pension funds	1 906 717	1 783 359
Bancassurance	159 965	89 662
Portfolio management	1 694 103	2 875 827
Others	2 388 878	1 378 639
	<u><u>11 346 642</u></u>	<u><u>12 393 430</u></u>

The amounts recognised in these accounts are measured at fair value determined at the balance sheet date.

In accordance with the legislation in force, the fund management companies and the depositary bank are jointly liable before the participants of the funds for the non fulfilment of the obligations assumed under the terms of the Law and the management regulations of the funds.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 49 - RELATED PARTIES TRANSACTIONS**

Following the definition of related party established by IAS 24, related parties to ESFG include associates, pension funds, Board members and entities controlled or significantly influenced by any of these individuals.

The entities considered to be related parties to ESFG, as defined by IAS 24, are as follows:

**Company**

2B Capital Luxembourg General Partners SARL  
 2B Capital Luxembourg S.C.A SICAR  
 2BCapital SA  
 ACRO, Sociedade Gestora de Participações Sociais, S.A.  
 Adepa Global Services  
 Advance Cyclone Systems, SA  
 Agência de Viagens Tagus, S.A.  
 Agência Receptivo Praia do Forte, Ltda  
 Agribahia, S/A  
 Agrirways, SA  
 Aldeia do Meço - Sociedade para o Desenvolvimento Turístico, SA  
 Altus Finance SA  
 Angra Moura-Sociedade de Administração de Bens S.A.  
 Aroundimpact, Lda  
 Arrábido - Fundo Especial de Investimento Imobiliário  
 Ascendi Group, SGPS, SA  
 Ascendi Pinhal Interior Estradas do Pinhal Interior, SA  
 Atlante Meats - Indústria e Comércio Agro Alimentar, SA  
 Atr - Actividades Turísticas e Representações, Lda  
 Auvisa - Autovia de Los Viñedos, SA  
 Aveiro Incorporated  
 Baeza Empreendimentos Imobiliários Ltda.  
 Banco Delle Tre Venezie SPA  
 BB PAR Incorporação Imobiliária Ltda  
 Beach Heath Investments, Ltd  
 BEMS, SGPS, SA  
 BES, Companhia de Seguros, SA  
 BIO-GENESIS  
 Canga Empreendimentos Imobiliários Ltda.  
 Calzadas y Caminos del Sur, SL  
 Caravela Balanced Fund  
 Caravela Defensive Fund  
 Cartagena Empreendimentos Imobiliários Ltda.  
 Casa da Saúde, Administração de Bens Móveis e Imóveis, S.A.  
 Casas da Cidade - Residências Sénior, SA  
 Cerca da Aldeia - Sociedade Imobiliária, SA  
 Cidadeplatina - Construção SA  
 Cimenta - Empreendimentos Imobiliários, SA  
 Clarendon Properties, Inc.  
 Clínica Parque dos Poetas, SA  
 Clínica - Hospital Privado de Aveiro, SA  
 CLN Magnólia Finance 2038  
 Club de Campo Villar Ollala, SA  
 Clube de Campo da Comporta - Actividades Desportivas e Lazer, Lda  
 Clube Residencial da Boavista, SA  
 Clup Vip - Marketing de Acontecimentos, SA  
 Coimbra Jardim Hotel - Sociedade de Gestão Hoteleira, S.A.  
 Companhia Agrícola Botucatu, SA  
 Companhia Brasileira de Agropecuária Cobrape  
 Comporta Dunes Hotels & Golf - Promoção e Desenvolvimento de Actividades Hoteleiras e Turísticas, SA  
 Comporta Links Golf - Promoção e Exploração de Actividades Turísticas, SA  
 Comporta Links Hotels - Promoção e Exploração de Actividades Hoteleiras, SA  
 Construcciones Sarnón, SL  
 Construtora do Tamega (Madeira) SA  
 Construtora do Tamega Madeira SGPS SA  
 Coporgest  
 Coreworks - Proj. Circuito Sist. Elect., SA  
 Dassa Investments S.A.  
 Dilve, Sociedade de Investimentos Imobiliários, S.A.  
 Domática, Electronica e Informática, SA  
 E.S. - Espírito Santo, Mediação Imobiliária, S.A.  
 E.S. Asset Administration, Ltd.  
 E.S. International Overseas, Ltd.  
 E.S. Resources Overseas, Ltd.  
 E.S.B. Finance Ltd  
 Easteko - Consultoria e Comunicação, SA  
 Edentred Portugal, S.A.  
 Empark Aparcamentos y Servicios SA  
 Enkroitt SA  
 ES Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional

**Company (cont.)**

ES Private Equity, Ltd  
 ES Saúde - Residência com Serviços Senior, S.A.  
 ES Viagens e Turismo, Lda  
 Escac Consultora, Administração e Empreendimento, Ltda  
 Escopar - Sociedade Gestora de Participações Sociais, SA  
 ESDI Administração e Participações Ltda  
 Esegur - Empresa de Segurança, SA  
 Esger - Empresa de Serviços e Consultoria, SA  
 ESH Participação e Administração de Bens Próprios Ltda  
 Estiam - Espírito Santo International Asset Management, Ltd  
 Esim - Espírito Santo Imobiliário, SA  
 Espart - Espírito Santo Participações Financeiras, SGPS, SA  
 ESPB 01 Desenvolvimento Imobiliário Ltda.  
 ESPB 02 Desenvolvimento Imobiliário Ltda.  
 ESPB 04 Desenvolvimento Imobiliário Ltda.  
 ESPB Administração e Participações Ltda  
 Espírito Santo - Unidades de Saúde e de Apoio à Terceira Idade, S.A.  
 Espírito Santo Cachoeira Desenvolvimento Imobiliário Ltda  
 Espírito Santo Campinas Desenvolvimento Imobiliário Ltda  
 Espírito Santo Control SA  
 Espírito Santo do Oriente  
 Espírito Santo Euro Bond  
 Espírito Santo Guarujá Desenvolvimento Imobiliário Ltda  
 Espírito Santo Health Care Investments SA  
 Espírito Santo Hotels, SGPS, SA  
 Espírito Santo IBERIA I  
 Espírito Santo Indaiatuba Desenvolvimento Imobiliário Ltda  
 Espírito Santo Industrial (BVI), SA  
 Espírito Santo Industrial (Portugal) - SGPS, SA  
 Espírito Santo Industrial, SA  
 Espírito Santo International (BVI), SA  
 Espírito Santo International SA  
 Espírito Santo Irmãos - Sociedade Gestora de Participações Sociais, SA  
 Espírito Santo Itatiba Desenvolvimento Imobiliário Ltda  
 Espírito Santo Plano Damascio - Fundo de Investimento Alberto Flexível  
 Espírito Santo Primavera Desenvolvimento Imobiliário Ltda  
 Espírito Santo Property (Brasil) S/A  
 Espírito Santo Property España, S.L.  
 Espírito Santo Property Holding (BVI) SA  
 Espírito Santo Property Holding, SA  
 Espírito Santo Property SA  
 Espírito Santo Resources (Portugal), SA  
 Espírito Santo Resources SA  
 Espírito Santo Resources, Ltd  
 Espírito Santo Saúde SGPS, S.A.  
 Espírito Santo Saúde-Residência com Serviços Senior, S.A. SGPS, S.A.  
 Espírito Santo Saúde-Serviços, A.C.E.  
 Espírito Santo Services, SA  
 Espírito Santo Tourism (Europe), SA  
 Espírito Santo Tourism, Ltd  
 Espírito Santo Venture Ltd  
 Espírito Santo Viagens - Consultoria e Serviços, SA  
 Espírito Santo Viagens - Sociedade Gestora de Participações Sociais, SA  
 Estoril Inc  
 Euroamerican Finance Corporation, Inc.  
 Euroamerican Finance SA  
 Euroatlante, Inc.  
 Europe Assistance - Companhia Portuguesa de Seguros de Assistência, SA  
 Fafer - Empreendimentos Turísticos e de Construção, SA  
 FIF - Fundo de Investimento Imobiliário Fechado Corpus Christi  
 Fimes II - Fundo de Investimento Imobiliário Fechado  
 Fimes Oriente - Fundo de Investimento Imobiliário Fechado  
 Fin Solutia - Consultoria e Gestão de Créditos, SA  
 Frevei - Sociedade Gestora de Participações Sociais, SA  
 Fundes FEIF-Fundes Especial de Investimento Imobiliário Fechado  
 Fundo Bem Comum FCR  
 Fundo de Capital de Risco Espírito Santo Ventures Inovação e Internacionalização  
 Fungepi-BES-Fundo de Gestão de Património Imobiliário -Fungepi BES  
 Fungere - Fundo de Gestão de Património Imobiliário  
 Ganadera Corina Campos y Haciendas, S/A

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**Company**

Gestres - Gestão Estratégica Espírito Santo, SA  
 Global Active - Gestão Part. Soc., SGPS, S.A.  
 Goggles Marine, Ltd  
 Group Credit Agricole  
 Grupo CFC A SAS  
 Grupo Proyectos y Servicios Sarrion, SA  
 Guarajuva mpreendimento Imobiliários Ltda.  
 HCI - Health Care International Inc.  
 HDC - Serviços de Turismo e Imobiliário, SA  
 Herdade da Comporta - Actividades Agro Silvícolas e Turísticas, SA  
 Herdade da Comporta - Actividades Hoteleiras, Turísticas e Culturais, Lda.  
 Herdade da Comporta - Fundo Especial de Investimento Imobiliário Fechado  
 Hle - Centros de Cogeração, SA  
 HME Gestão Hospitalar  
 Hospital da Arrábida - Gaia, SA  
 Hospital da Luz - Centro Clínico da Amadora, SA  
 Hospital da Luz, SA  
 Hospital Residencial do Mar, SA  
 Hospor - Hospitais Portugueses, SA  
 Hotéis Tivoli, SA  
 Hotelagos, SA  
 I.A.C. UK, Limited  
 Iber Foods - Produtos Alimentares e Biológicos, SA  
 Ijar Leasing Algérie SPA  
 Imoerescence-Fundo de Investimento Imobiliário Fechado  
 Insopea, SA  
 Imprime FIF- Fundo de Investimento Imobiliário Fechado  
 Instituto de Radiologia Dr. Idálio de Oliveira - Centro de Radiologia Médica, S.A.  
 Inter-Atlântico, SA  
 Locant - Companhia Portuguesa de Aquecer de Vinturas, SA  
 Lote Dois - Empreendimentos Turísticos SA  
 Lusitano Project Finance No. 1 FTFC  
 Luzboa Dois, SA  
 Luzboa Quatro, SA  
 Luzboa Três, SA  
 Luzboa Um, SA  
 Luzboa, SA  
 Margimar - Mármores e Granitos, SA  
 Marinoteis - Sociedade de Promoção e Construção de Hotéis, SA  
 Mammetal - Mármores e Materiais de Construção, SA  
 MCO2 - Sociedade Gestora de Fundos de Investimento Mobiliário  
 Mediterranean Strategic Investments SA  
 Metal - Lobos Serralharia e Carpintaria, Lda  
 MMC1 - Multimédia, SA  
 Mobile World - Comunicações, SA  
 Moza Banco S.A.  
 Mozambique Agricultural Corp SA  
 Multiger - Sociedade de Gestão e Investimento Imobiliário, SA  
 Multipessoal Recursos Humanos SGPS  
 Multiwave Photonics, SA  
 Mundo Vip - Operadores Turísticos, SA  
 Nanium, S.A.  
 Net Viagens - Agência de Viagens e Turismo, SA  
 Novagast Assets Management, Ltd  
 Nutrgreen, S.A.  
 Opea Angola, SA  
 Opea Moçambique, Lda  
 Operatelecom - Infraestruturas de Comunicação, SA  
 Opway - Engenharia, SA  
 Opway - SGPS, SA  
 Opway Engenharia Brasil SA  
 Opway Imobiliária, SA  
 Opway México SA de CV  
 Opway Moçambique - Engenharia, Lda  
 Opway NT - Novas Tecnologias, SA  
 Opway-Somague, Grupo Construtor do Data Center PT, ACE  
 Orey Reabilitação Urbana - Fundo de Investimento Imobiliário Fechado  
 Outsystems, S.A.  
 Patlexpo - Imagem Empresarial, SA  
 Paraguay Agricultural Corporation SA

**Company (cont.)**

Pátio das Andorinhas - Investimentos Imobiliários Lda  
 Pavi do Brasil - Pré-Fabricação, Tecnologia e Serviços, Lda  
 Pavicentro - Pré-Fabricação, SA  
 Pavilis - Pré-Fabricação, SA  
 Paviseu - Materiais Pré-Fabricados, SA  
 Pavitel, SARL  
 Pessoa - Sociedade de Perfurações e Sondagens, SA  
 Placon - Estudos e Projectos de Construção, Lda  
 Pojaca, SA  
 Ponteve - Construções, SA  
 Praia do Forte Operadora de Turismo, Lda  
 Promotal - Tecnologias de Caminhos de Ferro, SA  
 Prosport, SA  
 Quimray Technologies Corp.  
 Quinta da Baroneza Empreendimentos e Participações, Lda  
 Quinta da Foz - Empreendimentos Imobiliários SA  
 Recicgreen - Reciclagem e Gestão Ambiental, SA  
 Recigroup - Industrias de Reciclagem, SGPS, SA  
 Recipav - Engenharia e Pavimentos, Unipessoal, Lda  
 Recipneu - Empresa Nacional de Reciclagem de Pneus, Lda  
 Ribeiro do Marchante, Administração de Bens Móveis e Imóveis, S.A.  
 Rio Forte Investments SA  
 Rioforte (Portugal), SA  
 Rioforte Investment Holding Brasil S/A  
 Rioforte Investment Holding Mozambique, SGPS, SA  
 RML - Residência Medicalizada de Loures, SGPS, SA  
 Rodi Sinks & Ideas, SA  
 Salgar Investments S.L.  
 Santa Mónica - Empreendimentos Turísticos, SA  
 Saramagos S/A, Empreendimentos e Participações  
 Saxo Bank  
 SCA Mandel Partners  
 Series - Serviços Imobiliários Espírito Santo, SA  
 Sintra Empreendimentos Imobiliários, Lda  
 Simione Empreendimentos Imobiliários Lda  
 Sigges, SA Desenvolvimento de Projectos de Energia  
 Sociedad Agricola Golondrina, S/A  
 Sociedade Construtora Colombiana, SA  
 Sociedade de Administração de Bens - Casa de Bons Ares, S.A.  
 Sociedade Gestora do Hospital de Loures, SA  
 Société Congolaise de Construction et Travaux Publiques, SARL  
 Solférias - Operadores Turísticos, Lda  
 Sopol - Concessões, SGPS, SA  
 Sotal - Sociedade de Gestão Hoteleira, S.A.  
 Sousacamp, SGPS, SA  
 Space - Sociedad Peninsular de Aviación, Comércio e Excursiones, SA  
 Sulglor - Imobiliária do Sul, SA  
 Surgatec - Unidades de Saúde, SA  
 Synergy Industry and Technology, S.A.  
 TA DMC Brasil - Viagens e Turismo, SA  
 Terras de Bragança Participações, Lda  
 The Atlantic Company (Portugal) - Turismo e Urbanização, SA  
 Timeantube Comércio e Serviços de Confeccões, Lda  
 Tivoli Ecoresidências Praia do Forte Lda  
 Tivoli Care do Oriente - Sociedade de Gestão Hoteleira, S.A.  
 TLCT 2 - Soluções Integradas de Telecomunicações, SA  
 TOP A DMC Viagens, SA  
 Top Atlântico - Viagens e Turismo Moçambique Lda  
 Top Atlântico - Viagens e Turismo, SA  
 Top Atlântico DMC, SA  
 Top Partner - Viagens & Soluções Empresariais, SA  
 Transcontinental - Empreendimentos Hoteleiros, SA  
 Turifonte, Empreendimentos Hoteleiros, SA  
 Turistrader - Sociedade de Desenvolvimento Turístico, SA  
 Uniere - Cartão Internacional de Crédito, SA  
 Ushuana - Gestão e Trading Internacional Limited  
 Vila Lusitano - Unidades de Saúde, SA  
 Viveiros da Herdade da Comporta - Produção de Plantas Ornamentais, Lda  
 Watson Brown HSM, Ltd  
 Winpart Lda

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

As at 31 December 2013 and 2012, the total amount of the assets and liabilities of the Group with associates or related companies, is as follows:

	31.12.2013					31.12.2012				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
	(in thousands of euro)									
ESI S.A.	1 119 975	965	-	64 025	49	1 056 030	5 176	-	47 355	3
ASCENDI GROUP SGPS	378 805	13 398	20 994	25 609	103	299 462	3 781	28 364	11 278	2
ESR LTD	223 002	1 712	-	19 985	238	373 587	2 463	-	48 303	221
ASCENDI PINHAL INTERIOR	141 765	4 660	10 842	4 426	-	98 356	2 051	15 374	3 073	-
LOCARENT	109 529	1 841	-	1 386	9 873	129 818	3 724	-	2 692	11 127
ES SAÚDE	64 397	25 077	4 003	402	-	63 660	13 140	24 269	464	2
SAXO BANK	47 727	1 104	-	3 884	-	20 064	17	-	-	-
NANIUM	30 925	512	206	201	-	35 327	4 272	18 349	306	4
CONSTRUCCIONES SARRION	15 393	-	8 115	131	-	16 527	-	8 745	233	-
OPWAY	13 646	2 371	44 655	157	-	6 331	35 089	48 029	362	225
ESEGUR	6 933	12	2 273	2 478	612	7 822	20	2 105	1 355	722
SOUSACAMP	5 357	-	-	-	351	3 764	-	-	120	-
DIRECTORS	3 506	1 888	-	58	1	4 449	1 600	-	10	-
EMPARK	3 375	-	1 125	1 586	-	49 179	-	4 684	3 872	246
ES TOURISM	2 570	23	-	1	-	699	562	-	71	-
EUROP ASSISTANCE	1 423	2 549	25	78	15 243	1 468	2 749	25	85	14 862
BES SEGUROS	733	17 560	-	4 187	22	1 148	18 505	-	4 053	16
MARINOTEJS	712	50	11	6	-	963	41	11	43	4
TOP ATLANTICO	153	32	-	3	883	240	37	-	4	1 235
AENOR DURO	-	-	-	-	-	271 887	3 461	11 000	8 985	-
ES IRMAOS	-	7 294	-	50	3	104 570	5	-	4 708	-
ESPH	-	76	-	1 538	1	43 519	44	-	4 528	-
PALEXPO	-	-	26	-	-	7 266	124	26	537	-
SCUTVIAS	-	-	-	-	-	7 147	-	6 545	2 631	3 083
ESR (P)	-	118	-	-	611	-	75	-	-	493
Others	144 855	111 283	23 988	9 725	7 140	117 574	51 283	28 289	18 796	5 694
	<b>2 314 781</b>	<b>192 525</b>	<b>116 263</b>	<b>139 916</b>	<b>35 130</b>	<b>2 720 857</b>	<b>148 219</b>	<b>195 815</b>	<b>163 864</b>	<b>37 939</b>

Balances and transactions with the above referred entities relate mainly to loans and advances and deposits in the scope of the banking activity of the Group.

The costs with salaries and other benefits attributed to ESFG key management personnel, as well as the transactions performed with ESFG key management personnel are presented in Note 13.

As at 31 December 2013 and 2012, the total amount of the assets of the Group with associates or related companies, by residual term is as follows:

	3- 6 months	12 months	1-5 years	More than 5 years	Total
	(in thousands of euro)				
<b>2013</b>	1 406 551	444 266	76 093	387 871	2 314 781
<b>2012</b>	1 430 353	500 171	342 390	447 943	2 720 857

The interest rate applied to loans and advances to associates and related parties range from 2.64% to 6.43% in 2013 and from 2.2% to 7.19% in 2012. The collateral the Group received on some loans and advances to related parties consists mainly of unquoted securities.

In 2012 the Group acquired:

- (i) to the Group pension funds, 49 779 and 37 115 thousand units of the Fungere Fund and Fungepi Fund, by the amount of euro 158.1 million and euro 87.2 million, respectively;
- (ii) to ESPART, 50% of the company Greenwoods, 100% of Quinta D. Manuel I and 100% of the company Várzea da Lagoa by the amount of euro 50.7 million;
- (iii) to OPWAY, 100% of the company Quinta da Areia and several properties by the amount of euro 43.1 million euros; and
- (iv) to Rio Forte Investments, SA, 64 206 units of the Fimes Oriente Fund by the amount of euro 103.3 million.

In November 2012 following the acquisition by Rio Forte Investments, S.A. (Rio Forte) of an additional 19.5% stake in ES Saúde, ESFG and Rio Forte signed a shareholders' agreement under which Rio Forte assumes control

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

over ES Saúde governing bodies and Rio Forte acquired from ESFG a call option, currently exercisable up to May 2013, over 5.5% of ES Saúde sharecapital plus 1 share, giving Rio Forte the current ability to exercise control over the majority of the voting rights of ES Saúde (See Notes 1, 33 and 55).

In 2013 the Group did not acquire any relevant shareholdings/ assets from related parties.

**NOTE 50 - SECURITISATION TRANSACTIONS**

As at 31 December 2013, the outstanding securitisation transactions performed by the Group were as follows:

Designation	Initial date	Original amount	Current amount	Asset securitised
(in thousands of euro)				
Lusitano Mortgages No.1 plc	December 2002	1 000 000	329 803	Mortgage loans (subsidised regime)
Lusitano Mortgages No.2 plc	November 2003	1 000 000	329 098	Mortgage loans (subsidised and general regime)
Lusitano Mortgages No.3 plc	November 2004	1 200 000	480 967	Mortgage loans (general regime)
Lusitano Mortgages No.4 plc	September 2005	1 200 000	556 130	Mortgage loans (general regime)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	777 355	Mortgage loans (general regime)
Lusitano SME No.1 plc	October 2006	862 607	176 657	Loans to small and medium entities
Lusitano Mortgages No.6 plc	July 2007	1 100 000	721 919	Mortgage loans (general regime)
Lusitano Project Finance No.1, FTC	December 2007	1 079 100	118 810 <sup>(1)</sup>	Project Finance Loans
Lusitano Mortgages No.7 plc	September 2008	1 900 000	1 719 046	Mortgage loans (general regime)
Lusitano Leverage Finance No. 1 BV	February 2010	516 534 <sup>(2)</sup>	52 395	Leverage Finance Loans
Lusitano Finance No. 3	November 2011	657 981	289 678	Consumer Loans
IM BES Empresas 1	November 2011	485 000	272 068	Loans to small and medium entities

<sup>(1)</sup> In March 2011, the credit portfolio associated to this securitisation was partially sold, with the remaining (domestic credit) been to "Lusitano Project Finance No.1 FTC".

<sup>(2)</sup> This securitisation includes the amount of euro 382 062 thousand of mortgage loans from BES and an amount of euro 134 472 thousand of mortgage loans from BESI and ES Vénétie.

As permitted by IFRS 1, the Group has applied the derecognition requirements of IAS 39 for the transactions entered into after 1 January 2004. Therefore, the assets derecognised until that date, in accordance with the previous accounting policies of the Group, were not restated in the balance sheet.

The assets sold in the securitisation transactions Lusitano Mortgages No.3, Lusitano Mortgages No. 4 and Lusitano Mortgages No. 5, performed after 1 January 2004, were derecognised considering that the Group has transferred substantially all the risks and rewards of ownership.

In accordance with SIC 12, the Group fully consolidates Lusitano SME No. 1 plc, Lusitano Mortgages No. 6, plc, Lusitano Project Finance No. 1 FTC, and Lusitano Mortgages No. 7 plc, as it retains the majority of the risks and rewards associated with the activity of these SPE. Therefore, the respective assets and liabilities are included in the consolidated balance sheet of the Group. The other securitization vehicles are not included in the consolidated financial statements of the Group as it has not retained the majority of the risks and rewards of ownership.

In 2011 there were two securitisation transactions: loans to households (Lusitano Finance No. 3) with loan originated by BES and other of corporate loans (IM BES Empresas 1) with loans originated by BES Spanish branch. During 2010 it was set-up two securitization operations of corporate loans (Lusitano Leverage Finance No. 1) which includes loans from BES London Branch, BESI and ES Vénétie and other of corporate loans and commercial paper

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

(Lusitano SME No. 2), and the latter been repaid in March 2012. These loans were not derecognised considering that the group has not transferred substantially all the risks and rewards of ownership.

As at 31 December 2013, the Group had also two synthetic securitisation operations underway. In these operations the Group contracted a credit default swap (CDS), with the objective of eliminating the credit risk of a portfolio of loans. The loans related to this portfolio continue to be recognized in the Group balance sheet in the loans and advances to customers caption.

The main characteristics of these transactions, as at 31 December 2013, can be analysed as follows:

Designation	Notes issued	Issued amount (par value)	Current amount (par value)	Interest held by Group (par value)	Maturity date	Initial Ratings				Actual Ratings			
						Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
(in thousands of euro)													
Lusitano Mortgages No 1 plc	Class A	915 900	233 766	77	December 2035	AAA	Aaa	AAA	-	A	Baa3	A-*	-
	Class B	32 500	32 500	-	December 2035	AA	Aa2	AA	-	A	Ba1	A-*	-
	Class C	25 000	25 000	3 000	December 2035	A	A1	A	-	A	Ba3	A-*	-
	Class D	22 500	22 500	-	December 2035	BBB	Baa3	BBB	-	BBB-	B2	BB	-
	Class E	5 000	5 000	-	December 2035	BB	Ba1	BB	-	BB-	Caa3	B-	-
	Class F	10 000	10 000	-	December 2035	-	-	-	-	-	-	-	-
Lusitano Mortgages No 2 plc	Class A	920 000	246 612	3 750	December 2046	AAA	Aaa	AAA	-	A	Baa3	A-*	-
	Class B	30 000	30 000	12 500	December 2046	AA	Aa2	AA	-	A	Ba2	A-*	-
	Class C	28 000	28 000	5 000	December 2046	A	A1	A	-	A	B1	BB	-
	Class D	16 000	16 000	4 000	December 2046	BBB	Baa3	BBB	-	BBB-	Caa3	B	-
	Class E	5 000	6 000	-	December 2046	BBB-	Ba1	BB	-	BB	Caa3	B-	-
	Class F	9 000	9 000	-	December 2046	-	-	-	-	-	-	-	-
Lusitano Mortgages No 3 plc	Class A	1 140 000	425 907	3 512	December 2047	AAA	Aaa	AAA	-	A	Ba1	A-*	-
	Class B	21 000	16 713	-	December 2047	AA	Aa2	AA	-	A	B1	BBB	-
	Class C	18 600	11 513	-	December 2047	A	A1	A	-	BBB	Caa3	BB-	-
	Class D	14 400	8 913	-	December 2047	BBB	Baa2	BBB	-	BB-	Caa3	B-	-
	Class E	10 800	8 335	-	December 2047	-	-	-	-	-	-	-	-
Lusitano Mortgages No 4 plc	Class A	1 134 000	468 862	6 834	December 2048	AAA	Aaa	AAA	-	BBB-	Ba1	A-*	-
	Class B	32 800	21 553	-	December 2048	AA	Aa2	AA	-	BBB-	B1	BBB	-
	Class C	19 200	18 130	3 809	December 2048	A-	A1	A-	-	BB	Caa3	B-	-
	Class D	24 000	22 687	4 925	December 2048	BBB-	Baa3	BBB+	-	CCC	Caa3	B-	-
	Class E	10 200	10 200	1 520	December 2048	-	-	-	-	-	-	-	-
Lusitano Mortgages No 5 plc	Class A	1 323 000	656 711	3 191	December 2039	AAA	Aaa	AAA	-	BBB-	Ba1	A-*	-
	Class B	28 600	25 464	-	December 2039	AA	Aa2	AA	-	BB	Caa3	BBB-	-
	Class C	22 400	21 469	-	December 2039	A	A1	A	-	B	Caa3	B	-
	Class D	28 000	16 836	5 500	December 2039	BBB-	Baa2	BBB	-	CCC	Ca	B-	-
	Class E	11 900	11 900	1 700	December 2039	-	-	-	-	-	-	-	-
Lusitano SME No 1 plc	Class A	759 323	40 509	10 345	December 2028	AAA	-	AAA	-	A	-	A-*	-
	Class B	40 974	32 506	-	December 2028	AAA	-	AAA	-	AAA	-	AAA	-
	Class C	34 075	27 091	-	December 2028	BB	-	BB	-	CCC	-	B	-
	Class D	26 535	22 241	22 241	December 2028	-	-	-	-	-	-	-	-
	Class E	8 826	4 313	4 313	December 2028	-	-	-	-	-	-	-	-
Lusitano Mortgages No 6 plc	Class A	943 250	536 213	46 416	March 2060	AAA	Aaa	AAA	-	A	Ba1	A-*	-
	Class B	65 450	65 450	58 950	March 2060	AA	Aa2	AA	-	BBB	Ba1	BBB-	-
	Class C	41 800	41 800	31 800	March 2060	A	A1	A	-	BB	B1	BB	-
	Class D	17 600	17 600	17 600	March 2060	BBB	Baa3	BBB	-	B	Caa3	B	-
	Class E	31 900	31 900	31 900	March 2060	BB	-	BB	-	CCC	-	CCC	-
	Class F	22 000	22 000	22 000	March 2060	-	-	-	-	-	-	-	-
Lusitano Project Finance No 1 FTC		198 101	112 333	112 333	March 2025	-	-	-	-	-	-	-	-
Lusitano Mortgages No 7 plc	Class A	1 425 000	1 236 330	1 236 330	October 2064	-	-	AAA	AAA	-	-	A-*	AAH
	Class B	294 500	294 500	294 500	October 2064	-	-	BBB-	-	-	-	BB-	-
	Class C	180 500	180 500	180 500	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	57 000	October 2064	-	-	-	-	-	-	-	-
Lusitano Leverage Finance No 1 BV	Class A	352 000	-	-	January 2020	-	-	AAA	-	-	-	-	-
	Class X	21 850	21 850	20 633	January 2020	-	-	-	-	-	-	-	-
	Class Sub	206 000	110 219	85 296	January 2020	-	-	-	-	-	-	-	-
Lusitano Finance N° 3	Class A	450 150	187 273	187 273	November 2029	-	-	-	-	-	-	-	-
	Class B	207 200	207 200	207 200	November 2029	-	-	-	-	-	-	-	-
	Class C	14 800	10 000	10 000	November 2029	-	-	-	-	-	-	-	-
IM BES Empresas 1	Class A	242 500	18 068	-	November 2043	-	AAA	-	-	-	A1	-	-
	Class B	242 500	242 500	242 500	November 2043	-	Caa2	-	-	-	Caa2	-	-



**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 51 - TRANSFER OF ASSETS**

As part of the restructuring process of the Portuguese real estate sector, several initiatives have been launched in order to create financial, operational and management conditions to revitalize the sector. Accordingly, the Government, in close liaison with the business and the financial sector (the banks), including the BES Group, encouraged the creation of companies and specialized funds that, through merger, consolidation and integrated management, would obtain the required synergies to recover the sector. Pursuing the goals established, were created companies (parent companies), where BES Group has minority interests (in partnership with other banks that also have a minority interest), and which in turn now hold almost all of the capital of certain subsidiaries (subsidiaries of those parent companies) in order to acquire certain real estate bank loans.

During 2013 and 2012, BES transferred financial assets (mainly corporate loans) to the subsidiaries of the parent companies. These entities are responsible for managing the assets received as collateral, which after the transfer of loans are received in exchange for the loans, and have the goal to implement a plan to increase its value. Almost all of the financial assets transferred in these operations were derecognised from the balance sheet of the Group, since a substantial portion of the risks and rewards associated with these, as well as the respective control, were transferred to those third parties.

These acquiring entities (the subsidiaries of the parent companies) have a specific management structure, fully autonomous from the banks, selected on the date of their incorporation and have the following main responsibilities:

- define the entity's purpose;
- administer and manage on an exclusive and independent way the assets acquired, determine objectives and investment policy and the manner to conduct the entity's management and affairs.

The acquiring entities are predominantly financed through the issuance of senior equity instruments fully underwritten by the parent company. The amount of capital represented by senior securities equals the fair value of the underlying asset, determined through a negotiation process based on valuations made by both parties. These securities are remunerated at an interest rate that reflects the risk of the company holding the assets. Additionally, the funding can be supplemented through banks underwriting of junior capital instruments equal to the difference between the book value of the loans transferred and the fair value based on the senior securities valuation. These junior instruments, when signed by BES Group will be entitled to a contingent positive amount if the assets transferred value, when sold, exceeds the amount of senior securities plus its remuneration. Normally, the amount of the junior security is limited to a maximum of 25% of the total amount resulting from the senior and junior securities issued.

Given that these junior securities reflect a different assessment of the assets transferred fair value, based on valuation performed by independent bodies and a negotiation process between the parties, they are fully provided for in the Group's balance sheet.

Therefore, following transfer of assets occurred in 2012 the Group subscribed:

- equity instruments, representing the parent companies' share capital on which the cash flows that will enable its recovery come from a wide range of assets transferred by the various banks. These securities are recorded under financial assets available for sale and are measured at market value with valuation regularly reported by those parent companies whose accounts are audited at the end of each year;
- junior instruments issued by the acquiring companies (the subsidiaries of the parent companies), which are fully provided for thus reflecting the best impairment estimation of the financial assets transferred.

The instruments subscribed by BES Group clearly resulted in a minority position in the capital of the parent companies and of its subsidiaries.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

In this context, having no control but being exposed to some risk and rewards of ownership in relation to the transferred assets through the securities subscribed as referred to above, the Group, in accordance with IAS 39.21, conducted an analysis in order to compare the exposure to the variability of risks and rewards of the transferred assets before and after the operation and concluded that it has not retained substantially all the risks and rewards of ownership. Additionally, and considering that also no control has been retained, it proceeded in accordance with IAS 39.20c (i) to the derecognition of the assets transferred and the recognition of the assets received in return, as shown in the following table:

	Amount of the assets transferred			Amounts at transfer date				Net amount
	Net assets transferred	Transfer amount	Result of the transfer	Securities subscribed			Impairment	
				Shares (senior securities)	Junior securities	Total		
(in thousands of euro)								
<b>In 2012</b>								
Fundo Recuperação Turismo, FCR	282 121	282 121	-	256 892	34 906	291 798	(34 906)	256 892
FLIT SICAV	252 866	254 547	1 681	235 318	23 247	258 565	(23 247)	235 318
Discovery Portugal Real Estate Fund	96 196	93 208	(2 988)	96 733	-	96 733	-	96 733
Fundo Vallis Construction Sector	66 272	66 272	-	81 002	21 992	102 994	(21 992)	81 002
Fundo Recuperação, FCR	145 564	149 883	4 319	148 787	36 182	184 969	(23 000)	161 969
<b>In 2013</b>								
Fundo Vallis Construction Sector	18 552	18 552	-	1 606	2 874	4 480	(2 874)	1 606
FLIT SICAV	80 769	80 135	( 634)	85 360	-	85 360	-	85 360
Discovery Portugal Real Estate Fund	51 809	45 387	(6 422)	51 955	-	51 955	-	51 955
Fundo Recuperação Turismo, FCR	11 066	11 066	-	-	-	-	-	-
Fundo Recuperação, FCR	52 983	52 983	( 20)	726	-	726	-	726
Fundo Reestruturação Empresarial	67 836	67 836	-	99 403	-	99 403	-	99 403
	<b>1 126 034</b>	<b>1 121 970</b>	<b>(4 064)</b>	<b>1 057 782</b>	<b>119 201</b>	<b>1 176 983</b>	<b>(106 019)</b>	<b>1 070 964</b>

As at 31 December 2013, the Group's total exposure in operations related to transfer of loans/assets amounted to euro 1 135.6 billion (euro 984.7 million, net of impairment).

As showed in the table above, the junior securities underwritten specifically as part of the transfer of assets are fully provided for. Although the junior securities are fully provided for, the Group also maintains an indirect exposure to the assets transferred through its minority interest in the parent companies capital and therefore, in all pool of assets that resulted from the various assets transfers performed by the banks (shareholders of the parent companies).

There was however an operation with the company FLITPTREL VIII in which, as the acquiring company substantially holds assets transferred by BES Group and considering the holding of junior securities, the variability test resulted in a substantial exposure to all risks and rewards. In this circumstance, the operation, amounting to euro 60 million, remained recognized in the Group's balance sheet under Loans and advances to customers.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 52 - FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**

The fair value of financial assets and liabilities, for the Group, is analysed as follows:

	Amortised Cost	Fair Value		Book Value	Fair Value
		Quoted Market Prices	Valuation models based on observable market information		
(in thousands of euro)					
<b>Balance as at 31 December 2013</b>					
Cash and deposits at central banks	1 828 674	-	-	1 828 674	1 828 674
Deposits with banks	1 148 934	-	-	1 148 934	1 148 934
Financial assets held for trading	-	1 073 726	1 412 051	2 688	2 488 465
Securities					
<i>Bonds issued by government and public entities</i>	-	955 951	-	-	955 951
<i>Bonds issued by other entities</i>	-	85 283	17 413	2 583	105 279
<i>Shares</i>	-	30 894	69	-	30 963
<i>Other variable income securities</i>	-	1 596	-	105	1 701
Derivatives					
<i>Exchange rate contracts</i>	-	-	69 990	-	69 990
<i>Interest rate contracts</i>	-	-	1 231 045	-	1 231 045
<i>Credit default contracts</i>	-	-	34 840	-	34 840
<i>Others</i>	-	-	58 696	-	58 696
Other financial assets at fair value through profit or loss	-	2 349 139	742 242	472 737	3 564 118
<i>Bonds issued by government and public entities</i>	-	1 234 847	-	-	1 234 847
<i>Bonds issued by other entities</i>	-	493 999	701 821	33 647	1 229 467
<i>Shares and other variable income securities</i>	-	620 293	40 421	439 090	1 099 804
Available-for-sale financial assets	6 547 <sup>(a)</sup>	5 142 754	2 435 703	1 344 774	8 929 778
<i>Bonds issued by government and public entities</i>	-	2 960 469	1 139 328	-	4 099 797
<i>Bonds issued by other entities</i>	-	932 457	1 193 538	112 717	2 238 712
<i>Shares</i>	6 547 <sup>(a)</sup>	541 885	42 579	588 701	1 179 712
<i>Other variable income securities</i>	-	707 943	60 258	643 356	1 411 557
Loans and advances to banks	4 827 790	-	-	-	4 827 790
Loans and advances to customers	48 683 844	-	586 823	-	49 270 667
Held-to-maturity investments	1 672 068	-	-	-	1 672 068
<i>Bonds issued by government and public entities</i>	-	437 778	-	-	437 778
<i>Bonds issued by other entities</i>	1 234 290	-	-	-	1 234 290
Derivatives for risk management purposes	-	-	363 391	-	363 391
<i>Exchange rate contracts</i>	-	-	1 726	-	1 726
<i>Interest rate contracts</i>	-	-	317 132	-	317 132
<i>Credit default contracts</i>	-	-	25 188	-	25 188
<i>Others</i>	-	-	19 345	-	19 345
<b>Financial assets</b>	<b>58 167 857</b>	<b>8 565 617</b>	<b>5 540 212</b>	<b>1 820 199</b>	<b>74 093 885</b>
Deposits from central banks	9 772 244	-	-	-	9 772 244
Financial liabilities held for trading	-	7 262	1 329 506	-	1 336 768
Derivatives					
<i>Exchange rate contracts</i>	-	-	50 333	-	50 333
<i>Interest rate contracts</i>	-	-	1 097 335	-	1 097 335
<i>Credit default contracts</i>	-	-	18 387	-	18 387
<i>Others</i>	-	-	156 229	-	156 229
Other financial liabilities held for trading	-	7 262	7 222	-	14 484
Deposits from banks	4 809 385	-	224 109	-	5 033 494
Due to customers	28 647 635	-	9 446 172	-	38 093 807
Debt securities issued	9 368 898	-	3 246 310	-	12 615 208
Derivatives for risk management purposes	-	-	130 710	-	130 710
<i>Exchange rate contracts</i>	-	-	1 501	-	1 501
<i>Interest rate contracts</i>	-	-	79 667	-	79 667
<i>Credit default contracts</i>	-	-	10 949	-	10 949
<i>Others</i>	-	-	38 593	-	38 593
Investment contracts	2 804 498	-	1 669 423	-	4 473 921
Subordinated debt	1 402 915	-	273	-	1 403 188
<b>Financial liabilities</b>	<b>56 805 575</b>	<b>7 262</b>	<b>16 046 503</b>	<b>-</b>	<b>72 859 340</b>

<sup>(a)</sup> Assets at acquisition cost net of impairment losses. These assets refer to equity instruments issued by non-quoted entities in relation to which no recent transactions were identified or is not possible to estimate reliably its fair value.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

	Amortised Cost	Fair Value		Book Value	Fair Value
		Quoted Market Prices	Valuation models based on observable market information		
(in thousands of euro)					
<b>Balance as at 31 December 2012</b>					
Cash and deposits at central banks	1 444 831	-	-	1 444 831	1 444 831
Deposits with banks	1 126 853	-	-	1 126 853	1 126 853
Financial assets held for trading	-	1 490 879	2 490 966	3 981 845	3 981 845
Securities					
<i>Bonds issued by government and public entities</i>	-	1 349 507	46 076	1 395 583	1 395 583
<i>Bonds issued by other entities</i>	-	98 686	166 371	265 057	265 057
<i>Shares</i>	-	40 505	11 776	52 281	52 281
<i>Other variable income securities</i>	-	2 181	-	2 181	2 181
Derivatives					
<i>Exchange rate contracts</i>	-	-	76 786	76 786	76 786
<i>Interest rate contracts</i>	-	-	1 997 925	1 997 925	1 997 925
<i>Credit default contracts</i>	-	-	44 913	44 913	44 913
<i>Others</i>	-	-	147 119	147 119	147 119
Other financial assets at fair value through profit or loss	-	1 324 283	997 673	2 603 463	2 603 463
<i>Bonds issued by government and public entities</i>	-	516 859	-	516 859	516 859
<i>Bonds issued by other entities</i>	-	240 984	668 065	956 370	956 370
<i>Shares and other variable income securities</i>	-	566 440	329 608	1 130 234	1 130 234
Available-for-sale financial assets	8 605 (a)	5 367 885	4 705 052	11 041 235	11 041 235
<i>Bonds issued by government and public entities</i>	-	3 204 546	1 293 451	4 497 997	4 497 997
<i>Bonds issued by other entities</i>	-	998 414	3 208 240	4 225 951	4 225 951
<i>Shares</i>	8 605 (a)	788 266	74 595	1 380 154	1 380 154
<i>Other variable income securities</i>	-	376 659	128 766	937 133	937 133
Loans and advances to banks	4 548 247	-	-	4 548 247	4 548 247
Loans and advances to customers	50 180 516	-	512 362	50 692 878	47 670 608
Held-to-maturity investments	1 119 047	-	-	1 119 047	1 069 283
<i>Bonds issued by government and public entities</i>	404 393	-	-	404 393	423 863
<i>Bonds issued by other entities</i>	714 654	-	-	714 654	645 421
Derivatives for risk management purposes	-	-	516 520	516 520	516 520
<i>Exchange rate contracts</i>	-	-	5 356	5 356	5 356
<i>Interest rate contracts</i>	-	-	460 692	460 692	460 692
<i>Credit default contracts</i>	-	-	10 216	10 216	10 216
<i>Others</i>	-	-	40 256	40 256	40 256
<b>Financial assets</b>	<b>58 428 099</b>	<b>8 183 047</b>	<b>9 222 573</b>	<b>77 074 919</b>	<b>74 002 885</b>
Deposits from central banks	10 941 325	-	-	10 941 325	10 941 325
Financial liabilities held for trading	-	796	2 123 429	2 124 225	2 124 225
Derivatives	-	-	-	-	-
<i>Exchange rate contracts</i>	-	-	80 101	80 101	80 101
<i>Interest rate contracts</i>	-	-	1 855 768	1 855 768	1 855 768
<i>Credit default contracts</i>	-	-	31 478	31 478	31 478
<i>Others</i>	-	-	156 082	156 082	156 082
Other financial liabilities held for trading	-	796	-	796	796
Deposits from banks	4 453 703	-	612 277	5 065 980	4 875 828
Due to customers	26 828 492	-	8 796 982	35 625 474	35 625 474
Debt securities issued	13 293 288	-	2 659 582	15 952 870	16 426 268
Derivatives for risk management purposes	-	-	125 199	125 199	125 199
<i>Exchange rate contracts</i>	-	-	232	232	232
<i>Interest rate contracts</i>	-	-	65 437	65 437	65 437
<i>Credit default contracts</i>	-	-	18 340	18 340	18 340
<i>Others</i>	-	-	41 190	41 190	41 190
Investment contracts	1 729 390	-	2 114 630	3 844 020	4 045 862
Subordinated debt	1 176 219	-	263	1 176 482	1 180 958
<b>Financial liabilities</b>	<b>58 422 417</b>	<b>796</b>	<b>16 432 362</b>	<b>74 855 575</b>	<b>75 345 139</b>

(a) Assets at acquisition cost net of impairment losses. These assets refer to equity instruments issued by non-quoted entities in relation to which no recent transactions were identified or is not possible to estimate reliably its fair value

The Group determines the fair value of its financial assets and liabilities in accordance with the following hierarchy:

**Quoted market prices (level 1)** – this category includes financial assets with available quoted market prices in official markets and with dealer prices quotations provided by entities that usually provide transaction prices for these assets/liabilities traded in active markets.

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**Valuation models based on observable market information (level 2)** – consists on the use of internal valuation techniques, namely discounted cash flow models and option pricing models which imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instrument. Notwithstanding, the Group uses observable market data such as interest rate curves, credit spreads, volatility and market indexes. Includes also instruments with dealer price quotations but which are not traded in active markets.

**Valuation models based on non-observable market information (level 3)** – consists on the use of internal valuation techniques, mainly discounted cash flow models, or quotations provided by third parties but which imply the use of non-observable market information.

The movements of the financial assets valued based on non-observable market information, during 2013 and 2012, can be analysed as follows:

	31.12.2013			
	Financial assets held for trading	Other financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
	(in thousands of euro)			
Balance as at 1 January	-	281 507	959 693	1 241 200
Acquisitions	25 660	36 008	360 250	421 918
Disposals	-	(54 797)	(56 082)	(110 879)
Transfer	(22 772)	205 748	117 021	299 997
Changes in value	(200)	4 271	(36 108)	(32 037)
<b>Balance as at 31 December</b>	<b>2 688</b>	<b>472 737</b>	<b>1 344 774</b>	<b>1 820 199</b>

	31.12.2012			
	Financial assets held for trading	Other financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
	(in thousands of euro)			
Balance as at 1 January	-	14 332	253 507	267 839
Acquisitions	-	275 819	713 523	989 342
Disposals	-	(2 722)	(17 604)	(20 326)
Transfer	-	-	6 593	6 593
Changes in value	-	(5 922)	3 674	(2 248)
<b>Balance as at 31 December</b>	<b>-</b>	<b>281 507</b>	<b>959 693</b>	<b>1 241 200</b>

The main assumptions and inputs used in the valuation models are presented as follows:

***Interest rates curves***

The short term rates presented reflect benchmark interest rates for the money market, being that for the long term the presented values represent the swap interest rate for the respective years:

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

	31.12.2013			31.12.2012		
	EUR	USD	GBP	EUR	USD	GBP
						(%)
<i>Overnight</i>	0.1100	0.1100	0.4100	0.0700	0.1000	0.4700
1 month	0.1941	0.1600	0.4100	0.1759	0.2300	0.4600
3 months	0.2870	0.3300	0.5200	0.1870	0.4150	0.4800
6 months	0.3890	0.4100	0.7350	0.3200	0.4400	0.6200
9 months	0.3981	0.4500	0.8100	0.3178	0.5900	0.7900
1 year	0.4130	0.3050	0.6412	0.3200	0.3260	0.5411
3 years	0.7715	0.8560	1.4342	0.4700	0.4765	0.7783
5 years	1.2580	1.7490	2.1337	0.7650	0.8260	1.0169
7 years	1.6820	2.4270	2.5770	1.1250	1.2435	1.3563
10 years	2.1550	3.0280	2.9876	1.5700	1.7500	1.8560
15 years	2.5809	3.5230	3.3160	2.0184	2.2800	2.4135
20 years	2.7139	3.7200	3.4170	2.1715	2.5020	2.7230
25 years	2.7399	3.8080	3.4380	2.2203	2.6240	2.8800
30 years	2.7309	3.8520	3.4360	2.2413	2.6880	2.9535

***Credit spreads***

The credit spreads used by the Group on the valuation of the credit derivatives are disclosed on a daily basis by Markit representing observations constituted for around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spreads behaviour in the market throughout the year, is presented as follows:

Index	Series	1 year	3 years	5 years	7 years	10 years
		(basis points)				
<b>Year 2013</b>						
CDX USD Main	<b>21</b>	7.67	29.88	62.44	88.95	107.99
iTraxx Eur Main	<b>20</b>	-	35.17	70.15	96.97	118.17
iTraxx Eur Senior Financial	<b>20</b>	-	-	87.06	-	135.18
<b>Year 2012</b>						
CDX USD Main	<b>19</b>	33.02	58.73	95.39	118.68	136.14
iTraxx Eur Main	<b>18</b>	-	76.38	117.43	141.58	154.60
iTraxx Eur Senior Financial	<b>18</b>	-	-	142.44	-	174.98

***Interest rates volatility***

The values presented below, refer to the implied volatilities (at the money) used for the valuation of the interest rate options:

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

	31.12.2013			31.12.2012		
	EUR	USD	GBP	EUR	USD	GBP
			(%)			
1 year	112.77	75.90	49.18	197.18	66.60	54.10
3 years	65.30	72.76	55.78	84.70	72.90	64.90
5 years	53.30	50.62	45.99	67.50	63.22	60.80
7 years	45.20	38.21	38.55	52.90	51.03	49.60
10 years	36.80	31.55	31.80	39.70	42.33	37.20
15 years	30.68	35.58	26.58	31.43	35.80	27.80

**Exchange rates and volatility**

Presented below are the exchange rates (European Central bank) at the balance sheet date and the implied volatilities (at the money) for the main currencies used on the derivatives valuation:

Exchange Rates	31.12.2013	31.12.2012	Volatility (%)				
			1 month	3 months	6 months	9 months	12 months
EUR/USD	1.3791	1.3194	7.65	7.75	7.88	8.15	8.32
EUR/GBP	0.8337	0.8161	6.55	6.73	7.00	7.13	7.33
EUR/CHF	1.2276	1.2072	3.25	3.83	4.23	4.58	4.89
EUR/NOK	8.3630	7.3483	8.05	8.03	7.95	8.00	7.98
EUR/PLN	4.1543	4.0740	5.00	5.84	6.56	7.08	7.53
EUR/RUB	45.3246	40.3295	7.37	7.89	8.43	8.90	9.41
USD/BRL <sup>a)</sup>	2.3621	2.0491	12.95	13.38	13.60	13.80	14.00
USD/TRY <sup>b)</sup>	2.1467	1.7850	14.50	13.80	13.60	13.60	13.60

<sup>a)</sup> Calculation based in EUR/USD and EUR/BRL exchange rates

<sup>b)</sup> Calculation based in EUR/USD and EUR/TRY exchange rates

Concerning the exchange rates, the Group uses in the valuation models the spot rate observed in the market at the time of the valuation.

**Equity indexes**

In the table below, is presented the evolution of the main market equity indexes and the respective volatilities used for the valuation of equity derivatives:

	Quote			Historical volatility		Implied volatility
	31.12.2013	31.12.2012	% change	1 month	3 months	
DJ Euro Stoxx 50	3 109	2 636	17.95	14.90	13.72	13.44
PSI 20	6 559	5 655	15.98	12.91	13.65	-
IBEX 35	9 917	8 168	21.42	15.39	15.34	-
FTSE 100	6 749	5 898	14.43	10.11	9.83	10.69
DAX	9 552	7 612	25.48	13.23	12.04	13.56
S&P 500	1 848	1 426	29.60	8.74	10.31	11.21
BOVESPA	51 507	60 952	(15.50)	19.34	20.22	-

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The valuation adjustments which the Group has considered in the valuations of its derivatives and borrowings, were (i) credit value adjustments (CVA), reflecting the counterparties credit risk embedded in the fair value of derivatives, (ii) debit value adjustments (DVA), reflecting the Group's own credit risk embedded in the fair value of derivatives and own credit adjustments (OCA), reflecting the Group's own credit risk embedded in the fair value of non-quoted borrowings.

CVA per counterparty is calculated on the exposure per net counterparty exposure, to which is applied the probability of default (PD) of the counterparty and the loss given default.

OCA is calculated using market observable CDS spreads, namely BES CDS spreads.

The methods and assumptions used in estimating the fair values of financial assets and liabilities measured at amortised cost in the balance sheet are analysed as follows:

	Amortised Cost	Fair Value			Fair value	
		Quoted Market Prices	Valuation models based on observable market information	Valuation models based on non-observable market information		
			Level 1	Level 2		Level 3
			(in thousands of euro)			
<b>Balance as at 31 December 2013</b>						
Cash and deposits at central banks	1 828 674	1 828 674	-	-	1 828 674	
Deposits with banks	1 148 934	1 148 934	-	-	1 148 934	
Available-for-sale financial assets shares	6 547	-	-	6 547	6 547	
Loans and advances to banks	4 827 790	-	4 827 790	-	4 827 790	
Loans and advances to customers	48 683 844	-	45 960 805	-	45 960 805	
Held-to-maturity investments	1 672 068	640 871	991 879	1 468	1 634 218	
<i>Bonds issued by government and public entities</i>	437 778	434 900	2 464	-	437 364	
<i>Bonds issued by other entities</i>	1 234 290	205 971	989 415	1 468	1 196 854	
<b>Financial assets</b>	<b>58 167 857</b>	<b>3 618 479</b>	<b>51 780 474</b>	<b>8 015</b>	<b>55 406 968</b>	
Deposits from central banks	9 772 244	9 772 244	-	-	9 772 244	
Deposits from banks	4 809 385	-	4 747 040	-	4 747 040	
Due to customers	28 647 635	-	28 647 635	-	28 647 635	
Debt securities issued	9 368 898	6 289 708	5 294 682	234 132	11 818 522	
Investment contracts	2 804 498	-	1 712 631	-	1 712 631	
Subordinated debt	1 402 915	1 200 946	242 363	-	1 443 309	
<b>Financial liabilities</b>	<b>56 805 575</b>	<b>17 262 898</b>	<b>40 644 351</b>	<b>234 132</b>	<b>58 141 381</b>	

***Cash and deposits at central banks, Deposits with banks and Loans and advances to banks***

Considering the short term nature of these financial instruments, carrying value is a reasonable estimate of its fair value.

***Loans and advances to customers***

The fair value of loans and advances to customers is estimated based on the discount of the expected future cash flows of capital and interest, assuming that the installments are paid on the dates that have been contractually defined. The expected future cash flows of loans with similar credit risk characteristics are estimated collectively. The discount rates used by the Group are current interest rates used in loans with similar characteristics.



**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

***Held-to-maturity investments***

The fair values of these financial instruments are based on quoted market prices, when available. For unquoted securities the fair value is estimated by discounting the expected future cash-flows.

***Deposits from central banks and Deposits from banks***

Considering the short term nature of these financial instruments, carrying value is a reasonable estimate of its fair value.

***Due to customers***

The fair value of these financial instruments is estimated based on the discount of the expected future cash flows of capital and interest, assuming that the instalments are paid on the dates that have been contractually defined. The discount rates used by the Group are the current interest rates used in instruments with similar characteristics. Considering that the applicable interest rates to these instruments are floating interest rates and that the period to maturity is substantially less than one year, the difference between fair value and book value is not significant.

***Debt securities issued and Subordinated debt***

The fair value of these instruments is based on market prices, when available. When not available, the Group estimates its fair value by discounting the expected future cash-flows.

**NOTE 53 - RISK MANAGEMENT**

A qualitative outlook of the risk management at the Group is presented below:

***Credit risk***

Credit risk represents the potential financial loss arising from the failure of a borrower or counterparty to honour its contractual obligation. Credit risk is essentially present in traditional banking products – loans, guarantees granted and contingent liabilities – and in trading products – swaps, forwards and options (counterparty risk). Regarding credit default swaps, the net exposure between selling and buying positions in relation to each reference entity, is also considered as credit risk to the Group. The credit default swaps are accounted for at fair value in accordance with the accounting policy described in Note 2.4.

Credit portfolio management is an ongoing process that requires the interaction between the various teams responsible for the risk management during the consecutive stages of the credit process. This approach is complemented by the continuous introduction of improvements in the methodologies, in the risk assessment and control tools, as well as in procedures and decision processes.

The risk profile of ESFG Group's credit portfolios is analysed on a regular basis by the risk committees at the subsidiary level. In these meetings the Committees monitor and analyses the risk profile of the Group entities under four major perspectives: evolution of credit exposures, monitoring of credit losses, capital allocation and consumption and control of risk adjusted return.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

ESFG Group credit risk exposure is analysed as follows:

	31.12.2013	31.12.2012
	(in thousands of euro)	
Deposits with banks	3 577 359	3 433 052
Financial assets held for trading	2 455 801	3 927 384
Financial assets at fair value through profit or loss	2 464 314	1 473 229
Available-for-sale financial assets	6 338 509	8 723 948
Loans and advances to customers	49 270 667	50 692 878
Held-to-maturity investments	1 672 068	1 119 047
Derivatives for risk management purposes	363 391	516 520
Other assets	729 168	605 374
Guarantees granted and stand by letters of credit	8 031 816	8 427 956
Open documentary credits	4 234 660	3 780 554
Irrevocable commitments	1 800 185	3 461 701
Credit risk linked to the reference entities of credit derivatives	176 305	489 884
	<b>81 114 243</b>	<b>86 651 527</b>

The analysis of the risk exposure by sector of activity, as at 31 December 2013 and 2012, can be analysed as follows:

	31.12.2013								
	Loans and advances to customers		Financial assets held for trading	Other financial assets as at fair value through profit or loss	Available-for-sale financial assets		Held-to-maturity investments		Financial guarantees issued
	Gross amount	Impairment			Gross amount	Impairment losses	Gross amount	Impairment losses	
	(in thousands of euro)								
Agriculture	474 905	(29 573)	8 596	-	7 017	-	-	-	36 054
Mining	256 767	(15 077)	3 083	6 115	13 392	( 777)	-	-	41 035
Food, beverage and tobacco	1 022 636	(46 467)	26 696	47 396	11 770	( 52)	4 594	-	70 930
Textiles	373 564	(39 938)	645	-	38 778	(3 957)	-	-	15 329
Shoes	75 046	(6 609)	205	-	499	(499)	-	-	1 543
Wood and cork	139 638	(29 582)	302	80 627	15 528	(1 329)	-	-	7 801
Printing and publishing	396 424	(36 462)	3 983	-	35 871	(10 000)	-	-	59 427
Refining and oil	3 007	( 171)	274	22 273	93 043	(12 322)	-	-	5 461
Chemicals and rubber	644 899	(16 951)	9 715	26 062	23 731	(13 145)	-	-	95 966
Non-metallic minerals	337 314	(30 756)	253	-	12 730	(7 586)	-	-	21 146
Metallic products	960 765	(71 576)	7 208	3 223	3 696	( 92)	-	-	193 496
Production of machinery, equipment and electric devices	243 660	(10 555)	1 264	257	12 645	(3 582)	-	-	120 120
Production of transport material	133 638	(6 238)	541	36 011	39 206	( 108)	-	-	71 154
Other transforming industries	387 087	(30 205)	736	14 244	48 828	(16 515)	-	-	41 268
Electricity, gas and water	1 362 949	(13 846)	124 426	28 802	305 684	(3 278)	-	-	512 944
Construction	4 386 193	(473 686)	208 560	138 846	294 850	(3 387)	3 946	-	2 219 758
Wholesale and retail	3 380 556	(370 776)	8 333	73 192	65 948	(22 649)	3 705	-	507 631
Tourism	1 424 044	(121 920)	5 705	17 912	24 203	( 523)	-	-	125 140
Transports and communications	2 174 418	(70 276)	184 269	63 779	259 894	(5 683)	15 841	-	1 112 173
Financial activities	4 602 509	(220 219)	661 849	1 492 033	2 575 173	(117 749)	1 076 580	(8 808)	258 005
Real estate activities	5 627 216	(616 989)	17 675	125 439	121 155	(4 177)	1 304	-	265 482
Services provided to companies	5 098 084	(469 163)	228 639	95 886	735 571	(37 803)	64 272	-	1 342 600
Public services	1 594 188	(25 454)	960 428	1 234 847	4 099 798	(1 973)	437 777	-	196 168
Non-profit organisations	3 459 283	(288 679)	24 109	56 888	393 811	(47 602)	77 470	(4 613)	463 271
Mortgage loans	10 814 726	(185 863)	-	-	4 902	-	-	-	6
Consumer loans	2 547 855	(208 886)	-	-	2 667	-	-	-	239 263
Other	795 371	(10 178)	971	286	7 433	(3 257)	-	-	8 555
<b>TOTAL</b>	<b>52 716 742</b>	<b>(3 446 075)</b>	<b>2 488 465</b>	<b>3 564 118</b>	<b>9 247 823</b>	<b>(318 045)</b>	<b>1 685 489</b>	<b>(13 421)</b>	<b>8 031 816</b>

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

31.12.2012

	Loans and advances to customers		Financial assets held for trading	Other financial assets as at fair value through profit or loss	Available-for-sale financial assets		Held to maturity investments		Financial guarantees issued
	Gross amount	Impairment losses			Gross amount	Impairment losses	Gross amount	Impairment losses	
	(in thousands of euro)								
Agriculture	434 485	( 27 152)	14 202	-	10 725	( 6)	-	-	36 677
Mining	309 229	( 11 966)	3 742	11 708	12 969	( 675)	-	-	53 656
Food, beverage and tobacco	1 028 563	( 50 542)	25 727	2 685	10 560	( 52)	-	-	103 345
Textiles	332 226	( 33 316)	862	-	10 425	( 3 958)	-	-	14 833
Shoes	63 359	( 6 843)	38	-	499	( 499)	-	-	2 063
Wood and cork	147 345	( 23 121)	480	2 236	4 366	( 1 330)	-	-	7 466
Printing and publishing	331 889	( 15 601)	6 683	-	11 968	( 1 968)	-	-	84 260
Refining and oil	6 976	( 45)	4 817	3 385	24 939	( 12 322)	-	-	5 425
Chemicals and rubber	616 899	( 14 149)	20 744	1 471	24 009	( 13 276)	-	-	102 280
Non-metallic minerals	363 449	( 28 435)	431	-	13 103	( 7 958)	-	-	20 152
Metallic products	913 642	( 50 197)	14 592	194	2 499	-	-	-	156 525
Production of machinery, equipment and electric devices	284 716	( 11 883)	3 079	384	31 249	( 5 724)	1 526	-	120 022
Production of transport material	113 698	( 9 677)	630	11 055	36 299	( 3 438)	-	-	34 662
Other transforming industries	389 355	( 27 340)	1 611	2 865	54 790	( 11 280)	-	-	38 449
Electricity, gas and water	1 475 462	( 11 034)	155 360	24 712	703 231	-	4 243	-	527 890
Construction	5 337 689	( 381 893)	416 606	57 643	27 858	( 1 688)	-	-	2 459 038
Wholesale and retail	3 270 510	( 290 235)	10 810	1 366	35 267	( 15 430)	1 537	-	577 460
Tourism	1 453 763	( 91 596)	15 324	65 301	39 674	( 485)	-	-	121 896
Transports and communications	2 168 980	( 49 779)	291 250	18 593	307 936	( 9 386)	20 945	-	1 032 239
Financial activities	4 691 491	( 125 507)	1 052 978	1 693 028	3 692 898	( 71 415)	578 140	( 20 794)	258 326
Real estate activities	6 293 486	( 431 611)	52 371	70 000	201 741	( 1 891)	1 299	-	456 531
Services provided to companies	4 959 436	( 375 582)	345 263	91 424	1 158 903	( 33 197)	39 139	-	1 503 039
Public services	954 941	( 22 959)	1 408 962	516 859	4 498 007	( 1 984)	404 392	-	227 198
Non-profit organisations	3 432 597	( 268 571)	133 248	26 391	369 680	( 46 089)	106 937	( 18 317)	402 493
Mortgage loans	11 133 822	( 169 114)	-	-	-	-	-	-	9
Consumer loans	2 778 244	( 197 344)	269	-	-	-	-	-	70 704
Other	141 252	( 11 134)	1 826	1 963	11 781	( 90)	-	-	11 378
<b>TOTAL</b>	<b>53 427 504</b>	<b>(2 734 626)</b>	<b>3 981 845</b>	<b>2 603 463</b>	<b>11 295 376</b>	<b>(254 141)</b>	<b>1 158 158</b>	<b>(39 111)</b>	<b>8 427 956</b>

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

As at 31 December 2013 and 2012, the analysis of the loan portfolio by rating is as follows:

Rating/Scoring models	Internal scale (1)	31.12.2013		31.12.2012	
		Credit amount (in million of euro)	(%)	Credit amount (in million of euro)	(%)
Large companies	[aaa;a-]	8	0.02%	8	0.01%
	[bbb+;-bbb-]	2 119	4.02%	2 313	4.33%
	[bb+;bb-]	4 549	8.63%	4 997	9.35%
	[b+;b-]	7 074	13.42%	8 080	15.12%
	ccc+	1 981	3.76%	1 277	2.39%
Medium enterprises	8-9	488	0.93%	535	1.00%
	10-11	403	0.76%	532	1.00%
	12-13	553	1.05%	632	1.18%
	14-15	467	0.89%	438	0.82%
	16-17	502	0.95%	567	1.06%
	18-19	380	0.72%	342	0.64%
	20-21	468	0.89%	347	0.65%
	22-23	231	0.44%	294	0.55%
24-25	1 527	2.90%	1 659	3.11%	
Small enterprises	A	62	0.12%	71	0.13%
	B	334	0.63%	305	0.57%
	C	556	1.05%	620	1.16%
	D	268	0.51%	311	0.58%
	E	137	0.26%	251	0.47%
	F	556	1.05%	557	1.04%
Mortgage loans	01	1 220	2.31%	1 196	2.24%
	02	4 398	8.34%	4 341	8.12%
	03	1 427	2.71%	1 492	2.79%
	04	680	1.29%	710	1.33%
	05	506	0.96%	503	0.94%
	06	496	0.94%	488	0.91%
	07	617	1.17%	679	1.27%
	08	712	1.35%	953	1.78%
Private individuals	01	74	0.14%	86	0.16%
	02	57	0.11%	66	0.12%
	03	118	0.22%	130	0.24%
	04	238	0.45%	312	0.58%
	05	118	0.22%	136	0.25%
	06	170	0.32%	198	0.37%
	07	149	0.28%	144	0.27%
	08	132	0.25%	109	0.20%
	09	183	0.35%	260	0.49%
	10	2	-	4	0.01%
No internal rating / scoring loans		18 757	35.59%	17 485	32.77%
<b>TOTAL ESFG</b>		<b>52 717</b>	<b>100.00%</b>	<b>53 428</b>	<b>100.00%</b>

<sup>(1)</sup> Internal scale established by the Group. The lower the number / letter the better is the rating

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**Market Risk**

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

The market risk management is integrated with the balance sheet management through the Asset and Liability Committee (ALCO) at the Group entities level. These committees are responsible for defining policies for the structuring and composition of the balance sheet, and for the control of exposures to interest rate, foreign exchange and liquidity risk.

The main measure of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) valuation criteria is used. Group's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year. As a complement to VaR, stress testing has been developed, allowing to evaluate the impact of potential losses higher than the ones considered by VaR.

	31.12.2013				31.12.2012			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
	(in million of euro)							
Exchange risk	11 166	9 192	10 957	7 371	3 399	11 272	13 723	3 399
Interest rate risk	5 532	7 108	9 342	5 566	8 793	18 426	28 532	8 793
Shares & Commodity	11 186	12 640	21 441	10 538	15 026	14 439	11 127	15 026
Volatility	3 055	5 817	4 089	2 857	7 112	7 222	7 173	7 112
Credit Spread	16 775	23 944	33 893	16 941	13 887	40 212	71 556	13 887
Diversification effect	(10 901)	(11 023)	(14 773)	(8 725)	(10 105)	(17 030)	(20 347)	(10 105)
<b>Total</b>	<b>36 813</b>	<b>47 678</b>	<b>64 949</b>	<b>34 548</b>	<b>38 112</b>	<b>74 541</b>	<b>111 764</b>	<b>38 112</b>

Group has a VaR of euro 36 813 million (31 December 2012: euro 38 112 million), for its trading positions.

**Interest rate risk**

Following the recommendations of Basel II (Pillar 2) and Instructions n.19/2005, of the Bank of Portugal, ESFG Group calculates its exposure to interest rate risk based on the methodology of the Bank of International Settlement (BIS), which requires the classification of non-trading balances and off-balance positions by repricing intervals.

	31.12.2013						31.12.2012							
	Eligible amounts	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Eligible amounts	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
	(in thousands of euro)													
Cash and deposits	7 803 747	378 077	7 141 183	220 889	44 638	5 347	13 613	7 126 870	439 581	6 113 706	104 831	103 370	59 862	6 396
Loans and advances to customers	31 517 355	-	31 911 560	8 240 164	2 024 758	6 615 448	2 625 430	32 582 243	-	30 869 761	9 839 711	2 736 210	6 509 111	2 709 472
Securities	15 127 818	6 075 017	3 279 701	1 161 017	854 262	1 062 751	2 695 270	17 050 165	1 395 922	3 853 254	1 429 967	1 058 077	2 018 160	1 306 510
<b>Total</b>			<b>42 352 244</b>	<b>9 722 070</b>	<b>2 923 653</b>	<b>7 683 546</b>	<b>5 334 313</b>			<b>40 954 701</b>	<b>11 473 524</b>	<b>3 698 057</b>	<b>8 582 234</b>	<b>4 016 158</b>
Deposits from banks	14 644 160	-	12 916 444	367 797	623 992	264 759	451 177	15 892 784	-	14 355 741	523 694	648 472	284 271	240 906
Due to customers	17 542 580	-	18 849 106	3 424 030	6 711 979	8 521 623	35 569	19 114 209	-	19 325 506	3 309 018	3 666 320	5 713 713	19 564
Debt securities issued and subordinated deb	13 584 423	-	2 855 265	1 901 208	350 606	4 789 515	3 627 429	16 725 167	-	5 276 662	937 607	278 890	6 508 024	3 772 494
Preference shares	51 367	-	-	-	-	-	51 367	55 878	-	-	-	-	-	55 878
<b>Total</b>			<b>34 720 915</b>	<b>6 520 188</b>	<b>7 716 777</b>	<b>16 234 378</b>	<b>5 285 620</b>			<b>42 787 911</b>	<b>4 460 379</b>	<b>3 994 672</b>	<b>12 506 608</b>	<b>4 088 562</b>
GAP - Assets Liabilities	(2 182 049)	-	7 611 329	3 201 882	(4 793 124)	(8 550 829)	18 693	1 086 542	-	(1 833 210)	7 013 145	(9 6 615)	(3 924 374)	(72 404)
Off-Balance sheet	(8 473 342)	-	(1 271 548)	-	6 120 632	3 705 311	(92 400)	(7 947 681)	-	(7 947 681)	6 261 795	442 751	2 365 906	(5 928)
<b>Structural GAP</b>	<b>(2 495 016)</b>		<b>(8 621 133)</b>	<b>1 930 334</b>	<b>1 327 798</b>	<b>(4 845 518)</b>	<b>(45 707)</b>	<b>1 086 542</b>		<b>(7 947 681)</b>	<b>6 261 795</b>	<b>442 751</b>	<b>2 365 906</b>	<b>(5 928)</b>
Accumulated GAP	(8 621 133)	-	1 068 301	2 396 069	(2 451 309)	(2 485 016)	-	(7 947 681)	-	(3 653 386)	(1 273 155)	1 062 471	1 068 542	-

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The sensitivity of ESFG Group to interest rate risk, measured in accordance with Instruction no. 19/2005 of the Bank of Portugal, which requires the calculation of the impact of a parallel shift of 200 basis points in the interest rate curve, can be analysed as follows:

	31.12.2013	31.12.2012
	(in million of euro)	
Accumulated impact in equity:		
Increase of 200 basis points	(96)	(65)
Decrease of 200 basis points	96	65

In addition, the model used to monitor the sensitivity of BES Group to interest rate risk is based on the duration model, and consider parallel and non parallel scenarios.

	31.12.2013				31.12.2012			
	Parallel increase of 100 bp	Parallel decrease of 100bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year	Parallel increase of 100 bp	Parallel decrease of 100bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year
	(in million of euros)							
At 31 December	( 22)	22	( 1)	1	( 85)	85	( 34)	34
Average for the year	( 80)	80	( 24)	24	( 22)	22	( 1)	1
Maximum for the year	( 110)	110	( 38)	38	( 125)	125	60	( 60)
Minimum for the year	( 71)	71	( 21)	21	13	( 13)	22	( 22)

The following table presents the average balances, interest and interest rates in relation to the Group's major assets and liabilities categories, for the years ended 31 December 2013 and 2012.

	31.12.2013			31.12.2012		
	Average balance of the year	Interest of the year	Average interest rate	Average balance of the year	Interest of the year	Average interest rate
	(in thousands of euro)					
Monetary assets	9 833 442	269 980	2.75%	8 949 524	196 774	2.20%
Loans and advances to customers	103 634 293	2 445 378	2.36%	104 771 572	2 683 469	2.56%
Securities	28 725 539	704 748	2.45%	29 042 776	866 614	2.98%
<b>Financial assets</b>	<b>142 193 274</b>	<b>3 420 106</b>	<b>2.41%</b>	<b>142 763 872</b>	<b>3 746 857</b>	<b>2.62%</b>
Monetary liabilities	30 970 140	342 599	1.11%	35 504 430	422 556	1.19%
Due to costumers	74 431 667	1 020 792	1.37%	69 007 319	1 039 585	1.51%
Other financial liabilities	29 510 815	964 220	3.27%	34 951 702	1 019 495	2.92%
Other	3 092 195	-	-	1 281 892	-	-
<b>Financial liabilities</b>	<b>138 004 817</b>	<b>2 327 611</b>	<b>1.69%</b>	<b>140 745 343</b>	<b>2 481 636</b>	<b>1.76%</b>
<b>Net interest income</b>		<b>1 092 495</b>	<b>0.72%</b>		<b>1 265 221</b>	<b>0.86%</b>

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**Foreign Exchange risk**

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2013 and 2012, is analysed as follows:

		31.12.2013				31.12.2012			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
(in thousands of euro)									
USD	United States Dollars	384 142	( 467 092)	69 054	( 13 896)	( 758 046)	742 785	99 049	83 788
GBP	Great Britain Pounds	504 707	( 491 941)	855	13 621	473 884	( 472 979)	( 970)	( 65)
BRL	Brazilian real	149 020	( 148 191)	( 218)	611	187 801	( 183 686)	( 4 738)	( 623)
DKK	Danish krone	3 191	( 3 278)	-	( 87)	21 947	( 21 579)	-	368
JPY	Japanese yene	( 13 404)	18 623	( 16 883)	( 11 664)	27 819	6 506	( 40 166)	( 5 841)
CHF	Swiss franc	173 052	( 54 951)	( 20 873)	97 228	81 444	( 1 357)	( 10 475)	69 612
SEK	Swedish krona	( 13 232)	13 203	-	( 29)	7 403	( 7 778)	( 53)	( 428)
NOK	Norwegian krone	( 43 087)	43 156	-	69	( 49 539)	49 807	69	337
CAD	Canadian Dollar	( 1 048)	11 728	-	10 680	22 866	( 23 290)	( 7 227)	( 7 651)
ZAR	Rand	( 14 340)	14 287	-	( 53)	( 5 569)	4 475	497	( 597)
AUD	Australian Dollar	( 2 022)	2 760	-	738	( 8 510)	10 124	17	1 631
AOA	Kwanza	( 156 583)	-	-	( 156 583)	( 53 208)	-	-	( 53 208)
CZK	Czech koruna	105	-	-	105	5	-	-	5
MXN	Peso Mexican	42 900	( 43 878)	-	( 978)	63 789	( 75 772)	9 338	( 2 645)
	Other	( 63 833)	35 932	26 084	( 1 817)	( 26 351)	121 789	26 297	121 735
		<b>949 568</b>	<b>(1 069 642)</b>	<b>58 019</b>	<b>( 62 055)</b>	<b>( 14 265)</b>	<b>149 045</b>	<b>71 638</b>	<b>206 418</b>

Note: asset / (liability)

**Exposure to peripheral Eurozone countries public debt**

As at 31 December 2013 and 2012 the exposure to public debt from peripheral Eurozone countries which are monitored by the Group is analysed as follows:

31.12.2013						
	Loans and advances to customers	Financial assets held for trading and at fair value	Derivative instruments <sup>(1)</sup>	Available-for-sale financial assets	Held-to-maturity investments	Total
(in thousands of euro)						
Portugal	913 897	1 310 228	18 652	2 190 606	145 167	4 578 550
Spain	92 786	60 312	( 47)	525 101	-	678 152
Greece	-	725	-	29 451	-	30 176
Ireland	-	-	-	-	2 724	2 724
Italy	-	10 402	-	160 409	-	170 811
	<b>1 006 683</b>	<b>1 381 667</b>	<b>18 605</b>	<b>2 905 567</b>	<b>147 891</b>	<b>5 460 413</b>

(1) Net amounts: receivable/(payable)

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

31.12.2012

	Loans and advances to customers	Financial assets held for trading at fair value	Derivative instruments <sup>(1)</sup>	Available-for- sale financial assets	Held-to-maturity investments	Total
	(in thousands of euro)					
Portugal	935 771	593 850	31 143	2 519 596	220 041	4 300 401
Spain	111 121	568	( 76)	608 278	-	719 891
Greece	-	3 439	-	-	-	3 439
Ireland	-	-	-	-	27 483	27 483
Italy	-	7 926	-	21 399	-	29 325
	<b>1 046 892</b>	<b>605 783</b>	<b>31 067</b>	<b>3 149 273</b>	<b>247 524</b>	<b>5 080 539</b>

(1) Net amounts: receivable/(payable)

All the exposures presented above, except loans and advances to customers, are recorded in the Group's balance sheet at fair value, which is based on market quotations or, in relation to derivatives, based on valuation techniques with observable market data. Loans and advances to customers are recorded at amortized cost net of impairment losses.



**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

A detailed exposure regarding securities recorded in available-for-sale financial assets, financial assets held for trading and held-to-maturity investments can be analysed as follows:

(in thousands of euro)

	31.12.2013					
	Nominal Amount	Market value	Accrued interest	Book value	Impairment	Fair value reserve
<b>Available-for-sale financial assets</b>						
<b>Portugal</b>	<b>2 294 141</b>	<b>2 134 526</b>	<b>56 080</b>	<b>2 190 606</b>	-	<b>( 2 416)</b>
Maturity up to 1 year	252 551	251 119	56	251 175	-	225
Maturity exceeding 1 year	2 041 590	1 883 407	56 024	1 939 431	-	( 2 641)
<b>Spain</b>	<b>498 655</b>	<b>515 385</b>	<b>9 716</b>	<b>525 101</b>	-	<b>( 676)</b>
Maturity up to 1 year	250 500	249 711	2	249 713	-	171
Maturity exceeding 1 year	248 155	265 674	9 714	275 388	-	( 847)
<b>Greece</b>	<b>53 003</b>	<b>28 552</b>	<b>899</b>	<b>29 451</b>	-	<b>938</b>
Maturity exceeding 1 year	53 003	28 552	899	29 451	-	938
<b>Italy</b>	<b>160 000</b>	<b>159 991</b>	<b>418</b>	<b>160 409</b>	-	<b>709</b>
Maturity up to 1 year	150 000	149 490	211	149 701	-	332
Maturity exceeding 1 year	10 000	10 501	207	10 708	-	377
	<b>3 005 799</b>	<b>2 838 454</b>	<b>67 113</b>	<b>2 905 567</b>	-	<b>( 1 445)</b>
<b>Financial assets held for trading</b>						
Portugal	100 127	94 591	1 959	96 550	-	-
Spain	45 114	50 674	2 338	53 012	-	-
	<b>145 241</b>	<b>145 265</b>	<b>4 297</b>	<b>149 562</b>	-	-
<b>Financial assets at fair value through profit or loss</b>						
Portugal	1 244 006	1 207 129	6 549	1 213 678	-	-
Spain	7 290	7 291	9	7 300	-	-
Greece	1 219	705	20	725	-	-
Italy	10 400	10 402	-	10 402	-	-
	<b>1 262 915</b>	<b>1 225 527</b>	<b>6 578</b>	<b>1 232 105</b>	-	-
<b>Held-to-maturity investments</b>						
Portugal	157 440	156 731	2 131	145 167	-	-
Ireland	3 000	3 245	97	2 724	-	-
	<b>160 440</b>	<b>159 976</b>	<b>2 228</b>	<b>147 891</b>	-	-

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

(in thousands of euro)

	31.12.2012					
	Nominal Amount	Market value	Accrued interest	Book value	Impairment	Fair value reserve
<b>Available-for-sale financial assets</b>						
<b>Portugal</b>	2 720 736	2 471 421	48 175	2 519 596	-	191 382
Maturity up to 1 year	195 431	194 133	249	194 382	-	485
Maturity exceeding 1 year	2 525 305	2 277 288	47 926	2 325 214	-	190 897
<b>Spain</b>	618 792	600 096	8 182	608 278	-	2 208
Maturity up to 1 year	389 350	383 681	325	384 006	-	796
Maturity exceeding 1 year	229 442	216 415	7 857	224 272	-	1 412
<b>Greece</b>	53 003	28 552	899	29 451	-	938
Maturity exceeding 1 year	53 003	28 552	899	29 451	-	938
<b>Italy</b>	20 100	20 975	424	21 399	-	478
Maturity exceeding 1 year	20 100	20 975	424	21 399	-	478
	<b>3 412 631</b>	<b>3 121 044</b>	<b>57 680</b>	<b>3 178 724</b>	<b>-</b>	<b>195 006</b>
<b>Financial assets held for trading</b>						
Portugal	158 946	141 676	3 807	145 483	-	-
Spain	304	302	-	302	-	-
Italy	1 656	1 667	34	1 701	-	-
	<b>160 906</b>	<b>143 645</b>	<b>3 841</b>	<b>147 486</b>	<b>-</b>	<b>-</b>
<b>Financial assets at fair value through profit or loss</b>						
Portugal	524 625	440 395	7 972	448 367	-	-
Spain	260	259	7	266	-	-
Greece	129 655	3 439	-	3 439	-	-
Italy	5 969	6 224	1	6 225	-	-
	<b>660 509</b>	<b>450 317</b>	<b>7 980</b>	<b>458 297</b>	<b>-</b>	<b>-</b>
<b>Held-to-maturity investments</b>						
Portugal	239 640	216 703	3 338	220 041	-	-
Ireland	27 000	26 542	941	27 483	-	-
	<b>266 640</b>	<b>243 245</b>	<b>4 279</b>	<b>247 524</b>	<b>-</b>	<b>-</b>

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

***Liquidity risk***

Liquidity risk derives from the potential inability to fund assets while satisfying the maturity dates of commitments and from potential difficulties in liquidating portfolio positions without incurring excessive losses.

Liquidity risk can be divided into two types:

- Asset liquidity (market liquidity risk) — The inability to sell a particular asset due to lack of liquidity in the market, which results in increasing the bid / offer spread or applying a haircut to market value;
- Funding (funding liquidity risk) — The inability to, within the desired timeframe and currency, fund assets in the market and / or refinance debt that comes due. This inability can be reflected by a significant increase of financing cost or of collateral requirements in order to obtain funds. Difficulties of (re) financing can lead to asset sales, even incurring in significant losses. The risk of (re) financing should be minimized through adequate diversification of funding sources and maturities.

During 2013, the market sentiment continued to improve, with the reduction in the aversion risk levels and in the sovereign debt yields of the peripheral countries supported in expansionist policies from central banks, although there have been some political instability events during the year. In Portugal, the economic indicators have improved, with the beginning of an economic recovery cycle. In December the Republic accessed the markets for a switch operation of Treasury Bills and in January with a new five years issue of euro 3 250 million.

During the year, a significant number of banks have reimbursed the LTRO (Long Term Refinancing Operation) granted in December 2011, in the amount of approximately euro 446 000 million. The Group has repaid in advance euro 1 000 million under this facility.

In order to take advantage of the favourable conditions, the Group accessed the international capital markets in the beginning of the year with a senior debt issuance, not guaranteed, with a 5 years maturity, in the amount of euro 500 million, anticipating part of the reimbursements occurring during the year (euro 1.6 billion). In November the Group issued subordinated debt in the amount of euro 750 million. These issues, combined with a good performance in the client's deposits and the reduction of the loan's portfolio, allowed the Group to face the reimbursements of 2013, rebuy debt and reduce the ECB financing. Taking advantage of the improvement in the economic sentiment, in January 2014, the Group issued a 5 years debt in the amount of euro 750 million, with a 4% coupon, which corresponds to a 285 b.p. spread over the 5 years mid-swap rate. This level of placement was equal to the 5 years issue conducted in 2009.

At year end, assets eligible as collateral for rediscount operations were euro 20.9 billion, of which euro 18.6 billion were eligible at the European Central Bank.

In order to evaluate the global exposition to liquidity risk, reports have been prepared which permit not only the identification of negative mismatches, but also lead to the coverage of these situations.

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The following tables present details of the mismatch in the residual terms for each of the main categories of assets and liabilities:

31.12.2013						
Eligible amounts	Up to 7 days	From 7 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year
(In million of euro)						
<b>ASSETS</b>						
Cash and deposits with banks	378	378	-	-	-	-
Loans and advances to banks and central banks	7 211	6 647	209	104	162	47
Loans and advances to customers	44 619	621	2 075	1 841	1 684	2 198
Securities*	21 455	231	382	1 924	1 110	1 930
Other assets, net	1 882	705	-	68	-4	123
Off-balance sheet items (Commitments and Derivatives)	2 361	78	220	823	383	536
<b>Total</b>	<b>8 660</b>	<b>2 886</b>	<b>4 760</b>	<b>3 343</b>	<b>4 834</b>	<b>53 422</b>
<b>LIABILITIES</b>						
Deposits from banks, central banks and other loans	14 921	1 684	687	916	196	914
Due to customers	39 062	2 559	576	796	534	934
Debt securities issued	14 048	29	70	1 551	2 013	608
Other short-term liabilities	1 390	1 310	3	26	2	11
Off-balance sheet items (Commitments and Derivatives)	10 365	116	306	959	486	552
<b>Total</b>	<b>5 698</b>	<b>1 642</b>	<b>4 248</b>	<b>3 231</b>	<b>3 019</b>	<b>61 947</b>
<b>GAP (Assets - Liabilities)</b>	<b>2 962</b>	<b>1 244</b>	<b>512</b>	<b>112</b>	<b>1 815</b>	
<b>Accumulated GAP</b>	<b>2 962</b>	<b>4 206</b>	<b>4 718</b>	<b>4 830</b>	<b>6 645</b>	
<b>Buffer &gt; 12 months</b>						<b>2 127</b>

\* This caption includes securities held by the Group which can be rediscounted with the ECB for liquidity purposes

31.12.2012						
Eligible amounts	Up to 7 days	From 7 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year
(In million of euro)						
<b>ASSETS</b>						
Cash and deposits with banks	420	420	-	-	-	-
Loans and advances to banks and central banks	6 381	5 583	235	243	204	81
Loans and advances to customers	46 770	1 044	1 813	2 161	1 847	2 742
Securities*	21 727	340	921	1 983	794	1 299
Other assets, net	1 851	1 829	-	5	1	-
Off-balance sheet items (Commitments and Derivatives)	6 574	313	139	268	455	513
<b>Total</b>	<b>9 529</b>	<b>3 108</b>	<b>4 660</b>	<b>3 301</b>	<b>4 635</b>	<b>58 490</b>
<b>LIABILITIES</b>						
Deposits from banks, central banks and other loans	16 181	2 097	537	717	479	778
Due to customers	35 632	857	960	2 244	747	171
Debt securities issued	17 289	184	561	2 021	1 069	488
Other short-term liabilities	1 635	1 607	-	12	4	-
Off-balance sheet items (Commitments and Derivatives)	10 192	329	201	417	624	520
<b>Total</b>	<b>5 074</b>	<b>2 259</b>	<b>5 411</b>	<b>2 923</b>	<b>1 957</b>	<b>63 305</b>
<b>GAP (Assets - Liabilities)</b>	<b>4 455</b>	<b>849</b>	<b>( 751)</b>	<b>378</b>	<b>2 678</b>	
<b>Accumulated GAP</b>	<b>4 455</b>	<b>5 304</b>	<b>4 553</b>	<b>4 931</b>	<b>7 609</b>	
<b>Buffer &gt; 12 months</b>						<b>700</b>

\* This caption includes securities held by the Group which can be rediscounted with the ECB for liquidity purposes

The table reflects the amounts of assets, liabilities and off-balance sheet items with defined or determinate cash-flows classified by the period to maturity. In the event that no maturity is defined (such as for deposits, overdrafts, current accounts and commitments with third parties), the Group used a behaviour model based on historical information, which reflects the expected maturity of the cash flows. For deposits with stated maturities, the Group also used a behaviour model to estimate expected maturity.

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The one year cumulative gap went from euro 7 609 million in December 2012 to euro 6 645 million as of December 2013.

Additionally, and in accordance with Instruction 13/2009 of the Bank of Portugal, the liquidity gap is defined by the indicator  $[(\text{Net Assets} - \text{Volatile Liabilities}) / (\text{Assets} - \text{Net assets}) * 100]$  on each residual cumulative maturity scale. Net assets include cash and net securities and volatile liabilities include debt issued, commitments, derivatives and other liabilities. This indicator allows a characterization of the wholesale risk of institutions.

As at 31 December 2013, the one year liquidity gap was -0.6, which compares to -3.1 from the same period last year.

It may be noted that the above liquidity gap figures, calculated in accordance with the determinations of Instruction 13/2009 of the Bank of Portugal, do not include the Group's insurance companies, whose activity is regulated by the Portuguese Insurance Institute.

In order to anticipate possible negative impacts to liquidity, ESFG considers different stress scenarios (moderate and severe) in terms of liquidity, different time frames and different types of impact (systemic, Group specific or combined). For example, in the systemic scenario, closure of the wholesale markets is simulated, while in the scenario specific to the Group, a run off of customer deposits from retail and non-retail is simulated, with different levels of severity.

From 1 January 2014 is in force the CRD/CRR, under the Basel III framework. In what concerns Liquidity Risk, the highlights are the mandatory requirements regarding the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). As at 31 December 2013, the Group had met the ratio the limit set for 2015 in what concerns LCRA. In January the Bank of International Settlements published a document in connection with the NSFR calculation review. The Group continues to follow every legislative change in order to comply with its regulatory obligations.

#### *Operational risk*

Operational risk represents the risk of losses resulting from failures in internal procedures, people behaviours, information systems and external events.

To manage operational risk, it was developed and implemented a system that standardises, systematises and regulates the frequency of actions with an objective of identification, monitoring, controlling and mitigation of risk. The system is supported at organizational level by a unit within the Global Risk Department of BES, exclusively dedicated to this task, and by representatives designated by each of the relevant departments and subsidiaries.

#### *Insurance risk*

Insurance risk – inherent risk related to the selling of insurance contracts, underwriting policy, pricing, reserving, claims management and reinsurance arrangements.

Pricing is based on actuarial methodologies, revised on a regular basis in order to ensure a rigorous policy underwriting and risk acceptance.

Risks underwritten that require selective acceptance are analysed centrally. Evidence of the underwriting conditions and identification of the decision maker are required.

The technical reserves, specifically the claims reserves, are analysed on a monthly basis. The adequacy of the insurance liabilities is reviewed on a regular basis. Regarding the evaluation of reserves, new models are being developed internally by the Group's Insurance companies based on stochastic methodologies.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The table below reflects the claims reserves development, excluding pensioners arising out from workers compensation claims:

	(in thousands of euro)										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Initial estimate of claims liabilities	305 512	328 733	363 800	375 014	394 397	397 996	395 038	380 242	360 863	345 377	305 238
Cumulative payments											
One year later	106 724	91 174	105 504	100 096	98 779	95 712	98 241	100 636	90 781	91 466	
Two years later	149 681	141 526	157 627	145 308	135 925	129 339	130 042	129 721	122 006		
Three years later	185 956	176 790	191 998	171 505	160 955	151 151	150 003	152 241			
Four years later	213 367	201 716	213 580	192 108	177 757	166 142	167 547				
Five years later	235 135	220 093	230 853	206 571	189 563	180 263					
Six years later	250 333	233 869	244 762	216 254	201 297						
Seven years later	262 243	243 757	253 229	226 131							
Eight years later	269 575	250 265	261 492								
Nine years later	274 911	255 924									
Ten years later	279 695										
Re-estimated claims liabilities											
One year later	327 363	338 836	354 407	366 449	366 560	371 201	352 690	351 804	317 106	290 364	
Two years later	334 297	334 918	356 147	348 138	349 376	331 632	327 754	311 228	274 997		
Three years later	332 408	333 196	354 218	338 431	316 055	316 347	294 322	279 471			
Four years later	331 075	339 341	352 070	311 532	311 642	290 304	272 645				
Five years later	343 336	336 647	331 796	313 127	290 264	272 225					
Six years later	340 872	323 690	334 384	295 603	275 312						
Seven years later	335 816	327 291	319 336	284 072							
Eight years later	341 335	313 502	312 892								
Nine years later	328 545	305 675									
Ten years later	322 396										
Cumulative surplus/(deficit)	( 16 884)	23 058	50 908	90 942	119 085	125 771	122 392	100 771	85 866	55 013	

Longevity risk covers the uncertainty in the ultimate loss due to policyholders living longer than expected and can arise for example, in annuity portfolios within the life Insurance and workmen's compensation portfolios within non-life insurance.

Longevity risk is managed through pricing, underwriting policy and by regularly reviewing the mortality tables used for pricing and establishing reserves. Where longevity is found to be improving faster than assumed in the mortality tables additional reserves are established and mortality tables are updated.

Any adjustments resulting from changes in reserves estimates are reflected in current results of operations. However, because the establishment of claims reserves is an inherently uncertain process, there can be no assurance that ultimate losses will not exceed existing claims reserves, and this risk is covered by the additional solvency capital.

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

Regarding life line of business, the main actuarial assumptions defined in each contract, are as follows:

	<u>Mortality Table</u>	<u>Technical rate</u>
<b>Retirements savings plans and capitalization products</b>		
Up to December 1997	GKM 80	4%
From January 1998 to February 1999	GKM 80	3.25%
From July 1999 to February 2003	GKM 80	2.25% and 3%
From Mars 2003 to December	GKM 80	2.75%
After January 2004	GKM 80	Set per calendar year (*)
<b>Insurance in case of life</b>		
<u>Rents</u>		
Up to June 2002	TV 73/77	4%
From July 2002 to December 2003	TV 73/77	3%
From January 2004 to August 2006	GKF 95	3%
After January 2004	GKM - 3 years	2%
<u>Other insurance</u>		
<i>Insurance in case of death</i>		
Up to December 2004	GKM 80	4%
After January 2005	GKM 80	0% to 2%
<i>Insurance mixed</i>		
Up to September 1998	GKM 80	4%
After October 1998	GKM 80	3%

(\*) In 2013 the technical rate was 3% (2012: 2%)

For liability adequacy test purposes of the life business the mortality assumptions are based on best estimates derived from portfolio experience investigations. Future cash flows are evaluated and discounted at government bonds rate.

The main mortality assumptions are as follows:

	<u>Mortality Table</u>
Annuities	GRM 95
Savings and other contracts	30% GKM 80

For liability adequacy test purposes, the calculation of the present value of Workmen's Compensation mathematical reserves was performed with the mortality table TV 73/77 (2012: TV 73/77) and risk free rate.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The maximum risk exposure per event after reinsurance and after deductibles per segment and product line is summarised below:

Line of business	Type of reinsurance	Net retention	Maximum treaty liability
		(in thousands of euro)	
Personal Accident (Credit Protection)	Quota Share	-	100%
Personal Accident	Excess Of Loss	300	14 700
Workers Compensation	Excess Of Loss	500	39 500
Motor - Third Party Legal Liability	Excess Of Loss	1 000	49 000
Motor - Own Damage	Excess Of Loss	1 000	14 000
Bonds - Bonds	Quota Share	20%	400
Bonds - Fidelity	Quota Share	20%	200
Engineering	Proportional	1 250	13 750
Fire /M.Risk/Lop (Simple Risks)	Proportional	1 000	20 000
Fire /M.Risk/Lop(Condominium)	Proportional	1 000	35 000
Fire /M.Risk/Lop(Comm&Indust Risks)	Proportional	1 000	40 000
Fire /M.Risk/Lop - Cat Cover	Excess Of Loss	15 000	165 000
Fire /M.Risk/Lop - XOL Cover	Excess Of Loss	2 000	8 000
Fire /M.Risk/Lop - XOL Aggregate Cover	Excess Of Loss	250 AAL 1 000	1 750
Property Stop Loss	Excess Of Loss	105% of NEP	7 500
General Third Party Liability	Excess Of Loss	150	4 850
Environmental Liability	Quota Share	20%	250
Director'S Liability Art 396	Quota Share	20%	250
Marine Hull	Proportional	250	5 000
Marine Hull- Fleets	Proportional	325	6 500
Marine Cargo	Proportional	200	4 600
Marine Cargo & Hull - Xol Cover	Excess Of Loss	400	3 500
Health – Dread Illness	Quota Share	20%	80%
Health – Medical Expenses	Excess Of Loss	25	325
Assistance	Quota Share	-	100%
Life - Mortgage	Proportional	75 / 100	1000
Life - Group	Proportional	75 / 100	1000
Life - Individual Credit	Proportional	75 / 100	1000
Life - Mortgage 2.0	Proportional	100	1000
Life - Natural Disasters	Excess Of Loss	1000	10 000 per disaster
Life - Working Cover	Excess Of Loss	100	1 500 per event
Life - Credit Protection	Quota Share	-	100%
Life - Assistance	Quota Share	-	100%

*Capital Management and Solvency Ratio*

The main goals of capital management are (i) to allow adequate growth of activities through the generation of enough capital to support the increase of assets, (ii) fulfilment of the minimum capital adequacy requirements as defined by the supervisory authorities and (iii) to ensure the fulfilment of the Group's strategic goals with respect to capital adequacy.

The strategy for capital adequacy management is determined by the Executive Committee and is integrated into the strategic goals of the Group.

The capital metrics are incorporated in the main management control instruments and monitoring is undertaken frequently, thus permitting a quick response to fulfil the defined goals.



**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The Group is subject to prudential supervision by the Bank of Portugal which, in accordance with the Capital Adequacy Directive of the EU, establishes the prudential rules to be observed by the institutions under its supervision. These rules determine a minimum ratio of Own funds to Capital requirements of risks assumed, which institutions are required to fulfill.

Within the implementation of the Basel II capital accord and in accordance with Decree-Law 103/2007 and Decree-Law 104/2007, the Group was authorized to employ, as from 31 March 2009, the Internal Rating Based Foundation Approach – IRBF for credit risk and the Standardized Approach – TSA for operational risk.

The capital elements of ESFG are divided into: Core Tier I, Tier I, Tier II and Deductions, as follows:

- Core Tier I: This category includes share capital, share premiums, eligible reserves, the certified net profit to be retained for the year and non-controlling interests. The fair value reserves are excluded except for deduction of negative fair value reserves associated with shares or other equity instruments; additionally, deductible from Core Tier I are the balance sheet amounts referring to goodwill, intangible assets, actuarial losses (above the prudential corridor) arising from responsibilities for post-employment benefits to employees and, where applicable, the net loss for the period. Excess Large exposures above a base amount set by the Bank of Portugal are also deducted.
- Tier I: In addition to the amounts considered as Core Tier I, this category includes preference shares and hybrid capital instruments. Alternatively, half of: (i) investments of above 10% of the capital of financial and insurance institutions; (2) investments of below 10% of the capital of financial and insurance institutions above a given limit; and the difference between the expected loss calculated on exposures subject to IRBF treatment and the corresponding loss provisions, are deducted from Tier I.
- Tier II: Essentially incorporates the eligible subordinated debt and 45% of the positive fair value reserve associated with equity securities. The other half of the amounts deducted 50% from Tier I are deducted from Tier II.
- Deductions: The base amount of excess Large exposures are deducted here as well as prudential amortization of assets received in the recovery of non-performing loans.

The prudential rules determine, additionally, that the Tier II cannot exceed Tier I and that a component of Tier II (known as Lower Tier II) cannot exceed 50% of overall Tier II.

In December 2008, the Bank of Portugal issued Notice 11/2008 which established a transition period of four years, from December 2009 to December 2012, for the recognition of the actuarial gains/losses determined in 2008. This transition period ended in December 2012.

In May 2011 and in the context of the negotiation of the Financial Assistance Programme to Portugal – with the European Commission, the European Central Bank and the International Monetary Fund – the Bank of Portugal issued Notice 3/2011, establishing new minimum levels of solvency to be observed by financial groups subject to its supervision. It determined that Portuguese credit institutions reach a Core Tier I ratio of no less than 9% by 31 December 2011 and 10% by 31 December 2012.

At the same time, the European Banking Authority (EBA), using somewhat different criteria for Own funds and Capital requirements determined that European banks must reach a Core Tier I ratio of 9% by 30 June 2012.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

As at 2013 and 2012, the main movements occurred in Basic Own Funds (Tier I) are as follows:

	<b>31.12.2013</b>	<b>31.12.2012</b>
	<b>(in million of euro)</b>	
<b>Balance at beginning of the year</b>	<b>6 594</b>	<b>5 732</b>
Capital increase	( 1)	489
Increase/(decrease) in non-controlling interest	( 235)	596
Retained profit/(loss) for the year	( 864)	315
Changes on actuarial losses	( 95)	( 526)
Goodwill	116	( 296)
Recognition of the impact of adopting IFRS	( 7)	( 12)
Variation of preference shares recognised as Tier I	( 39)	( 37)
Exchange of hybrid instruments	-	-
Unrecognised losses on financial instruments	( 24)	186
Investments in banking and insurance entities	( 77)	( 119)
Risks deducted from basic own funds	67	299
Other effects	49	( 33)
<b>Balance at end of the year</b>	<b>5 484</b>	<b>6 594</b>

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The capital adequacy of ESFG Group as at 31 December 2013 and 31 December 2012 is presented as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	(in million of euro)	
<b>A - Capital Requirements</b>		
Share Capital, Issue Premium and Treasury Stock	1 768	1 753
Net Income, Legal and Statutory Reserves, and Retained Earnings	( 596)	265
Non-controlling interest	5 013	5 326
Intangible Assets, actuarial losses, goodwill and other	( 598)	( 696)
Risks deducted from basic own funds	-	( 67)
<b>A1 - Basic own funds excluding preference shares (Core Tier I)</b>	<b>(A1) 5 587</b>	<b>6 581</b>
Preference Shares	244	282
Deductions of investments in Financial institutions, insurance companies and others	( 347)	( 269)
<b>A2 - Basic own funds (Tier I)</b>	<b>(A2) 5 484</b>	<b>6 594</b>
Positive Fair Value Reserves and Others (45%)	162	48
Eligible Subordinated Debt	1 380	1 158
Deductions of investments in Financial institutions, insurance companies and others	( 347)	( 269)
<b>Complementary own funds (Tier II)</b>	<b>1 195</b>	<b>937</b>
<b>Deductions</b>	<b>( 84)</b>	<b>( 71)</b>
<b>Eligible own funds</b>	<b>(A3) 6 595</b>	<b>7 460</b>
<b>B Risk Asset Equivalents (Basel II - Standard)</b>		
Calculated according Notice 05/2007 (Credit Portfolio)	55 891	59 634
Calculated according Notice 8/2007 (Trading Portfolio)	1 209	1 548
Calculated according Notice 9/2007 (Operational Risk)	3 503	3 881
<b>Total Risk Asset Equivalent</b>	<b>(B2) 60 603</b>	<b>65 063</b>
<b>C Prudential Ratios Basel II</b>		
Ratio Core Tier I	<b>(A1 / B2)</b>	9.2%
Ratio Tier I	<b>(A2 / B2)</b>	10.1%
<b>Solvency Ratio</b>	<b>(A3 / B2)</b>	<b>10.9%</b>

As at 31 December 2013 the Core Tier I ratio was 9.2% (31 December 2012: 10.1%).

In order to comply with the minimum defined by the Bank of Portugal under Basel II rules, applicable as of 31 December 2013, ESFG is currently putting in place a plan which will allow achieving a Core Tier I ratio of at least 10%. This plan is being discussed with the Bank of Portugal and is in an advance stage, being expected to start its execution during the first semester of 2014.

Under BIS III (CRD IV/CRR) which will be in force as from 1 January 2014, the Common Equity Tier I ratio, employing the transitional provisions, is 8.5%, or 8.8% considering the waiver of Article 84 (5) and the eligibility of the minority interests in BESPAR. This result is above the Bank of Portugal's requirement (minimum of 7.0%).

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

*Plans Financing and capitalization (2011 - 2015)*

Following the signing of the Memorandum of Economic and Financial Policies, the Portuguese Government and the European Commission (EC), European Central Bank (ECB) and International Monetary Fund (IMF), Portuguese banks, and financial holding companies that consolidate Portuguese banking subsidiaries, have had to develop, quarterly, financing and capital plans for the period from 2011 to 2015, in order to demonstrate the achievement of the following objectives:

- The loan to deposit ratio should, preferably, be reduced to a maximum value of 120% as from December 2014;
- The stable funding ratio should be 100% as from December 2014;
- The Core Tier I ratio must be at least 9% as of 31 December 2011 and 10% as of 31 December 2012, as established in Notice 3/2011 of Bank of Portugal.

Additionally, the dependence of their branches and subsidiaries abroad on domestic Portuguese funding should be minimized; the institutions must reduce their dependence on funding from the ECB; and they should develop policies to support sectors of the Portuguese economy, namely small and medium enterprises. The financing and capital plans should consider moderate access to short-term markets and a gradual opening of medium and long term markets from the fourth quarter of 2013.

In order to prepare the plans, projections of relevant domestic macroeconomic variables, of GDP growth in the geographic areas of greatest relevance to the activities of the banks and further projections of interest rates and other parameters necessary for drawing up the plans were provided by the Bank of Portugal after consultation with the EC/ECB/IMF. Together with the plan for the period in reference, a stress test exercise is required, where the banks should, in an extreme scenario, present a Core Tier I ratio higher than 6% during the period (2011-2015).

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 54 - CONTRACTUAL COMMITMENTS**

*Securitization transactions*

Following the downgrade by Moody's of the Portuguese Republic in February 2012, this agency set the maximum rating attributable to bonds issued in securitized operations as Baa1. Consequently, the operation of securitization of small and medium enterprises put together by BES in December 2010 – Lusitano SME No.2 – lost its eligibility as collateral for rediscounting at ECB and as a result BES chose to exercise its call option on 23 March 2012.

*Contract Support Annex (CSA)*

BES has a set of contracts negotiated with counterparties with whom it deals in derivative in the OTC market. CSA takes the form of a collateral agreement established between two parties negotiating derivatives with each other on this market, with the main objective to provide protection against credit risk, establishing for that purpose a set of rules regarding collateral. Derivatives transactions are regulated by the International Swaps and Derivatives Association (ISDA) and have minimum margin requirements that may change according to the rating of the parties.

**NOTE 55 - TRANSACTIONS WITH NON-CONTROLLING INTEREST AND CHANGES IN THE SCOPE OF CONSOLIDATION**

**Transactions with non-controlling interest**

As explained in Note 1, during the year ended 31 December 2012, the Group entered into several transactions with non-controlling interest, the most significant being the transactions with non-controlling of BES, namely the net acquisition of an additional interest of 0.86% through the acquisition in the market of 29 510 581 shares.

These transactions were accounted for in accordance with the accounting policy described in Note 2.2 as transactions with equity holders in their capacity as equity holders. Therefore, the difference between the net consideration paid and the non-controlling interest acquired, in the amount of euro 45 628 thousand as detailed below, was recognised in equity.

The balance of the components of other comprehensive income, namely the fair value reserve and foreign exchange differences were reallocated in order to reflect the new percentage held.

The impact of these transactions with the non-controlling interest occurred in 2012 is as follows:

	<b>31.12.2012</b>
	<b>(in thousands of euro)</b>
Net consideration paid	17 525
Consideration paid by non-controlling interest	( 1 191)
<b>Net consideration paid attributable to ESFG</b>	<b>16 334</b>
Non-controlling interest acquired	58 498
	<b>42 164</b>
Reallocation of components of other comprehensive income	
Fair value reserve	6 247
Exchange differences	34
<b>Gain recognised in equity resulting from transactions with BES non-controlling interest</b>	<b>48 445</b>
Other transactions with non-controlling interest	( 2 817)
<b>Gain recognised in equity resulting from transactions with non-controlling interest</b>	<b>45 628</b>

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The transaction with non-controlling occurred in 2013 did not have a significant impact in the Group's consolidated financial statements.

**Loss of control over subsidiaries occurred in 2012**

***Pastor Vida***

As referred in Note 32, in the first semester of 2012, Banco Popular acquired a controlling interest on Banco Pastor, the legal merger between these two entities having taken place on 5 July 2012.

The change in control of Banco Pastor had a significant impact in the implementation of Group's strategy regarding Pastor Vida and therefore in the second quarter of 2012, the Group took the decision, as permitted within the shareholders agreement established between Tranquilidade and Banco Pastor, to exercise its option to put Pastor Vida shares back to Banco Pastor. The sale was completed during the second semester of 2012. Therefore, the related goodwill and value in force, amounting to euro 23.1 million and euro 57.9 million, respectively, were derecognised.

The impact of the loss of control over Pastor Vida in ESFG consolidated financial statements as at 31 December 2012 can be analysed as follows:

	<b>31.12.2012</b>
	<b>(in thousands of euro)</b>
<b>Net consideration received</b>	<b>40 072</b>
Pastor Vida net equity at the date of the loss of control (1)	103 711 (1)
Pastor Vida net equity at the date of the loss of control attributable to ESFG	51.856
Pastor Vida goodwill	23 110
Deferred and contingent consideration recognised	( 46 100)
<b>Pastor Vida</b>	<b>28 866</b>
<b>Gain on the loss of control of Pastor Vida recognised in the income statement</b>	<b>11 206</b>

(1) includes value in force amounting to 57.9 million

***ES Saúde***

As referred in Note 32, in November 2012 (i) Rio Forte Investments, S.A. (Rio Forte) acquired an additional 19.5% stake in ES Saúde, becoming to have a 44.5% shareholding in this company; (ii) ESFG and Rio Forte signed a shareholders' agreement under which Rio Forte assumes control over ES Saúde governing bodies; and (iii) Rio Forte acquired from ESFG a call option, currently exercisable up to May 2013, over 5.5% of ES Saúde sharecapital plus 1 share, giving Rio Forte the current ability to exercise control over the majority of the voting rights of ES Saúde.

As a result of the loss of control over ES Saúde in 2012, this entity is no longer fully consolidated by ESFG and is included in its consolidated financial statements following the equity method (see Note 33).

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

In accordance with paragraph 34 of IAS 27 and with the accounting policy described in Note 2.2, the non-controlling interest retained by ESFG in ES Saúde following the loss of control, was remeasured to fair value and the resulting gain was recognised in the income statement as follows:

	<b>31.12.2012</b>
	<b>(in thousands of euro)</b>
Retained interest in ES Saúde	43%
Estimated fair value of ES Saúde at the time control was lost	268 795
<b>Attributable to ESFG</b>	<b>115 313</b>
Book value of ES Saúde at the time control was lost	
ES Saúde net equity at the date of the loss of control	128 160
<b>Attributable to ESFG</b>	<b>54 981</b>
<b>Gain on the loss of control of ES Saúde recognised in the income statement (1)</b>	<b>60 332</b>
Attributable to ESFG	45 007
Attributable to non-controlling interest	15 325
	<b>60 332</b>

(1) arising from the remeasurement of the retained non-controlling interest

The fair value of ES Saúde at the time the control was lost, was estimated based on the transaction price between Rio Forte and third parties occurred in November 2012, as it was considered as a recent comparable transaction. Notwithstanding, this fair value was back tested, ESFG having prepared a valuation report based on a Discounted Cash Flow methodology using the financial budget approved by management, an Weighted Average Cost of Capital (WACC) between 9.0% and 9.3% and a terminal growth rate of 2%.

Following paragraph 37 of IAS 27, the fair value of the non-controlling interest retained by ESFG in ES Saúde, was assumed as the cost on initial recognition of the investment in this associate for the purposes of the initial application of the equity method in accordance with IAS 28.

**Business combinations occurred in 2012**

*Acquisition of BES Vida*

Until 30 April 2012, BES held a 50% interest in BES Vida, Companhia de Seguros, S.A. (BES Vida), a life insurance company, which distributes its products in Portugal and Spain, through BES branch network. Crédit Agricole owned the remaining 50 % and controlled its activities.

As referred in Note 1, in May 2012, BES acquired, from Credit Agricole, the remaining 50% of the share capital of BES Vida with the objective of leveraging the marketing of BES Vida's insurance products.

Following this acquisition, BES became to hold the entire share capital of BES Vida and has the management control over its activities. Therefore, BES Vida, which qualified as an associate and was included in the consolidated financial statements of BES following the equity method, has become a subsidiary and is being fully consolidated since May 2011.

The total investment amounted to euro 225 million euro, paid in cash.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

This transaction was accounted for in accordance with the provisions of paragraph 42 of IFRS 3 related with business combination achieved in stages, which requires any previously held equity interest in the acquire, to be remeasured to fair value at the acquisition date and the resulting gain or loss to be recognised in the income statement. The amounts recognised in the fair value reserve up to the date in which control in acquired, are required to be recycled to the income statement.



**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

As at 1 May 2012, the balance sheet of BES Vida included in the BES Group consolidated financial statements can be analysed as follows:

	<b>(in thousand of euro)</b>
<b>Assets</b>	
Cash and deposits with banks	198 648
Other financial assets at fair value through profit or loss	2 759 100
Available-for-sale financial assets	1 917 328
Held-to-maturity investments	159 551
Property and equipment	93 864
Intangible assets	76 641
Technical reserves of reinsurance ceded	2 512
Income tax assets	112
Other assets	178 712
	<b>5 386 468</b>
<b>Liabilities</b>	
Technical reserves	1 880 631
Investment contracts	3 053 344
Other financial liabilities	194 434
Income tax liabilities	2 342
Other liabilities	40 291
	<b>5 171 042</b>
<b>Equity</b>	
Share Capital	50 000
Other reserves and retained earnings	165 426
	<b>215 426</b>
	<b>5 386 468</b>

The fair value of recognised identifiable assets acquired and liabilities assumed include, under Intangible assets, the amount of euro 107 768 thousand related to the present value of the business in force acquired related to life insurance contracts (Value in Force) (euro 76 515 thousand net of taxes). This asset will be amortised over the remaining lifetime of the contracts.

It should be mentioned, however, that following the reinsurance treaty signed in 2013 by BES Vida, described in Note 32, the net amount of euro 137 476 thousand in relation to the value in force acquired was derecognised, having the remaining amount, been recognised under Other liabilities.

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The goodwill recognised as a result of this acquisition amounts to euro 234 574 thousand, as follows:

	%	(in thous and of euro)
<b>Goodwill as the excess of:</b>		
Consideration transferred		225 000
Acquisition date fair value of the 50% interest previously held in BES Vida		225 000
		<b>450 000</b>
<b>Over:</b>		
Fair value of identifiable assets and liabilities acquired (1)	100	215 426
		<b>234 574</b>

(1) measured on a provisional basis

The goodwill is attributable mainly to the potential growth of the market where BES Vida operates.

The impact in the 2012 income statement of measuring at fair value the previously held equity interest in BES Vida, representing 50% of its share capital, following the requirements of paragraph 42 of IFRS 3, can be analysed as follows:

	(in thous and of euro)
50% interest previously held in BES Vida	
Fair value	225 000
Book value	66 931
	<b>158 069</b>
<b>Loss on remeasurement of the previously held in Bes Vida</b>	<b>158 069</b>
Recognition in the income statement of the accumulated fair value reserve of BES Vida appropriated on the acquisition of control in Bes Vida	( 70 796)
	<b>87 273</b>

(1) Amount before non controlling interest. After non controlling interest the fair value recycled to the income statement amount to euro 19.8 million.

The profit of BES Vida from the acquisition date to 31 December 2012 included in the profit for the year attributable to the equity holders of the Company, amounts to euro 32.8 million. If BES Vida had been consolidated from 1 January 2012, the profit for the year attributable to the equity holders of the Company would have increased by euro 0.7 million.

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 56 - RECENTLY ISSUED PRONOUNCEMENTS**

**56.1 Recently issued pronouncements already adopted by the Group**

In the preparation of the consolidated financial statements for the year ended 31 December 2013, the Group adopted the following standards and interpretations that are effective since 1 January 2013:

*IAS 19 Revised – Employee Benefits*

In 2013, the Group adopted the amendments to “IAS 19 – Employee Benefits” issued in 2011 and effective (with retrospective application) for annual periods beginning on or after 1st January 2013. Those amendments were endorsed by European Commission Regulation 475/2012, 5th June. The amendments to IAS 19, included the elimination of the corridor mechanism and the concept of expected returns on plan assets.

The Group made a voluntary change in the accounting policy related to actuarial gains and losses arising from its post employment benefits which from 2011 are charged to equity, under other comprehensive income, therefore the adoption of IAS 19 (revised) had no impact in the Group’s financial statements in what concerns the recognition of actuarial gains and losses.

However, as a result of IAS 19 (2011), the Group has changed its accounting policy with respect to the basis for determining the income or expense related to defined benefit. Under IAS 19 (2011), the Group determines the net interest expense (income) for the period on the net defined benefit liability (asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) at the beginning of the annual period. Consequently, the net interest expense (income) includes interest cost on the defined benefit obligation net of a theoretical return on the plan assets, both calculated using the discount rate applied in the determination of the defined benefit obligation (see Note 14).

Previously, the Group determined interest income on plan assets based on their long-term rate of expected return.

*IFRS 13 – Fair Value Measurement*

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively. The methods and assumptions used in estimating the fair values of financial assets and liabilities are disclosed in Note 52.

Notwithstanding the above, the change had no significant impact on the measurement of the Group’s assets and liabilities, once the major change in the calculation of the fair value was the inclusion of the credit value adjustments (CVA) and debit value adjustments (DVA), which had no significant impact in the valuation of derivatives.

*IAS 1 Presentation of Financial Statements - Presentation of items of other comprehensive income*

As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in its consolidated statement of other comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information has also been re-presented accordingly.

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities and comprehensive income of the Group.

*IFRS 7 (Amended) - Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities*

The IASB, issued on 16th December 2011, amendments to “IFRS 7 – Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities”, effective (with retrospective application) for annual periods beginning on or after 1st January 2013. Those amendments were endorsed by EU Commission Regulation 1256/2012, 11th December.

These amendments required an entity to disclose information about what amounts have been offset in the statement of financial position and the nature and extend of rights to set-off and related arrangements (e.g. collateral arrangements).

The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

The adoption of the amendment to IFRS 7 had no impact on the consolidated financial statements.

*Improvements to IFRS (2009-2011)*

The annual improvements cycle 2009-2011, issued by IASB on 17th May 2012, introduce amendments, with effective date on, or after, 1st January 2013, to the standards IFRS1, IAS1, IAS16, IAS32, IAS34 and IFRIC2.

*IAS 1 Presentation of Financial Statements*

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

*IAS 16 Property Plant and Equipment*

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory

*IAS 32 Financial Instruments, Presentation and IFRIC 2*

The improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes, avoid any interpretation that may mean any either application.

*IAS 34 Interim Financial Reporting*

The amendments align the disclosure requirement for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures in relation to the changes of profit and loss account and other comprehensive income.

The adoption of these improvements had no impact on the consolidated financial statements.

*IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine*

The International Financial Reporting Interpretations Committee (IFRIC), issued on 19th October 2011, “IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine”, effective (with retrospective application) for annual periods beginning on or after 1st January 2013. Those amendments were endorsed by EU Commission Regulation 1255/2012, 11th December.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

Give the nature of the Group's operation, this interpretation did not have any impact on the consolidated financial statements.

**56.2** *The Group decided to opt for not having an early application of the following standards endorsed by EU but not yet mandatory effective*

The new standards and interpretations that have been issued, but that are not yet effective and that the Group has not yet applied, are analysed below. The Group will apply these standards when they are effective.

*IAS 32 (Amended) - Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

The IASB, issued on 16th December 2011, amendments to "IAS 32 – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities", effective (with retrospective application) for annual periods beginning on or after 1st January 2014. Those amendments were endorsed by EU Commission Regulation 1256/2012, 11th December.

The IASB amended IAS 32 to add application guidance to address the inconsistent application of the standard in practice. The application guidance clarifies that the phrase 'currently has a legal enforceable right of set-off' means that the right of set-off must not be contingent on a future event and must be legally enforceable in the normal course of business, in the event of default and in the event of insolvency or bankruptcy, of the entity and all of the counterparties.

The application guidance also specifies the characteristics of gross settlement systems in order to be considered equivalent to net settlement.

The Group is not expecting a significant impact from the adoption of the amendment to IAS 32.

*IAS 27 (Revised) – Separate Financial Statements*

The IASB, issued on 12th May 2011, amendments to "IAS 27 – Separate Financial Statements", effective (with prospective application) for annual periods beginning on or after 1st January 2014. Those amendments were endorsed by EU Commission Regulation 1254/2012, 11th December.

Taking in consideration that IFRS 10 addresses the principles of controls and the requirements relating to the preparation of consolidated financial statements, IAS 27 was amended to cover exclusively separate financial statements.

The amendments aimed, on one hand, to clarify the disclosures required by an entity preparing separate financial statements so that the entity would be required to disclose the principal place of business (and country of incorporation, if different) of significant investments in subsidiaries, joint ventures and associates and, if applicable, of the parent.

The previous version required the disclosure of the country of incorporation or residence of such entities.

On the other hand, it was aligned the effective dates for all consolidated standards (IFRS10, IFRS11, IFRS12, IFRS13 and amendments to IAS 28).

The Group expects no impact from the adoption of this amendment on its financial statements.

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

*IFRS 10 Consolidated Financial Statements*

The IASB, issued on 12th May 2011, “IFRS 10 Consolidated Financial Statements”, effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, which allows a delayed on mandatory application for 1st January 2014.

IFRS 10, withdraw one part of IAS 27 and SIC 12, and introduces a single control model to determine whether an investee should be consolidated.

The new concept of control involves the assessment of power, exposure to variability in returns and a linkage between the two. An investment controls an investee when it is exposed, or has rights, to variability returns from its involvement with the investee and is able to affect those returns through its power over the investee (facto control).

The investor considers whether it controls the relevant activities of the investee, taking into consideration the new concept. The assessment should be done at each reporting period because the relation between power and exposure variability in returns may change over the time.

Control is usually assessed over a legal entity, but also can be assessed over only specified assets and liabilities of an investee (referred to as silo).

The new standard also introduce other changes such as: i) accounting requirements for subsidiaries in consolidation financial statements are carried forward from IAS 27 to this new standards and ii) enhanced disclosures are requires, including specific disclosures for consolidated and unconsolidated structured entities.

The Group has not carried out a thorough analysis of the impacts of the application of this standard. Given the introduction of a new control model the Group may need to change its consolidation conclusion in respect of its investees.

*IFRS 11 – Joint Arrangements*

The IASB, issued on 12th May 2011, “IFRS 11 Joint arrangements”, effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

IFRS 11, withdraw IAS 31 and SIC 13, defines “joint control” by incorporating the same control model as defined in IFRS 10 and requires an entity that is part of a “join arrangement” to determine the nature of the joint arrangement (“joint operations” or “joint ventures”) by assessing its rights and obligations.

IFRS 11 removes the option to account for joint ventures using the proportionate consolidation. Instead, joint arrangements that meet the definition of “joint venture” must be account for using the equity method (IAS 28).

The Group expects no impact form the adoption of this amendment on its financial statements.

*IAS 28 (Revised) – Investments in Associates and Joint Ventures*

The IASB, issued on 12th May 2011, “IAS 28 Investments in Associates and Joint Ventures”, effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, which allows a delay on mandatory application to 1st January 2014.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed as IAS 28 Investments in Associates and Joint ventures, and describes the application of the entity method to investments in joint ventures and associates.

The Group expects no impact from the adoption of this amendment on its financial statements.

*IFRS 12 – Disclosures of Interest in Other Entities*

The IASB, issued on 12th May 2011, “IFRS 12 Disclosures of Interests in Other Entities”, effective (with retrospective application) for annual periods beginning on or after 1st January 2013. These amendments were endorsed by EU Commission Regulation 1254/2012, 11th December, that allows a delayed on mandatory application for 1st January 2014.

The objective of this new standard is to require an entity to disclose information that enables users of its financial statements to evaluate: (a) the nature of, and risks associated with, its interests in other entities; and (b) the effects of those interests on its financial position, financial performance and cash flows.

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special vehicles and other off balance sheet vehicles.

The Group is yet assessing the full impact of the new IFRS 12 in line with the adoption of IFRS 10 and IFRS 11.

*Investment Entities – Amendments to IFRS 10, IFRS12 and IAS 8 (issued by IASB on 31st October 2012)*

The amendments apply to a particular class of business that qualify as investment entities. The IASB uses the term ‘investment entity’ to refer to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds.

The amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

The amendments are effective from 1 January 2014 with early adoption permitted. This option allows investment entities to apply the Investment Entities amendments at the same time they first apply the rest of IFRS 10.

The Group does not expect any major impact from the adoption of this amendment on its financial statements.

*IAS 36 (Revised) – Recoverable Amount Disclosures for Non-Financial Assets*

The IASB issued on 29th May 2013, this amendment, effective (with retrospective application) for annual periods beginning on or after 1st January 2014. These amendments were endorsed by EU Commission Regulation 1374/2013, 19th December.

The objective of the amendments is to clarify that the scope of the disclosures of information about the recoverable amount of assets, where that amount is based on fair value less costs of disposal, is limited to impaired assets.

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

*IAS 39 (Revised) – Novation of Derivatives and Continuation of Hedge Accounting*

The IASB issued on 27th June 2013, this amendment, effective (with retrospective application) for annual periods beginning on or after 1st January 2014. These amendments were endorsed by EU Commission Regulation 1375/2013, 19th December.

The objective of the amendments is to provide relief in situations where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. Such a relief means that hedge accounting can continue irrespective of the novation which, without the amendment, would not be permitted.

**56.3** *Recently Issued pronouncements that are not yet effective for the Group*

*IAS 19 (Revised) – Defined Benefit Plans: Employee Contributions*

The IASB issued on 21th November 2013, this amendment, effective (with retrospective application) for annual periods beginning on or after 1st July 2014.

The Amendment clarifies the guidance on attributing employee or third party contributions linked to service and require entities to attribute the contributions linked to service in accordance with paragraph 70 of IAS 19 (2011). Therefore, such contributions are attributed using plan's contribution formula or on a straight line basis.

The amendment addresses the complexity by introducing a practical expedient that allows an entity to recognise employee or third party contributions linked to service that are independent of the number of years of service (for example a fixed percentage of salary), as a reduction in the service cost in the period in which the related service is rendered.

*IFRIC 21 Levies*

The IASB issued on 20th May 2013, this interpretation, effective (with retrospective application) for annual periods beginning on or after 1st January 2014.

IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. IFRIC 21 is not expected to have any effect on the Group's financial statements.

*Improvements to IFRS (2010-2012)*

The annual improvements cycle 2010-2012, issued by IASB on 12th December 2013, introduce amendments, with effective date on, or after, 1st July 2014, to the standards IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS16, IAS24 and IAS38.

*IFRS 2 – definition of vesting condition*

The amendment clarify the definition of 'vesting conditions' in Appendix A of IFRS 2 Share-based Payment by separate the definition of performance condition and service condition from the definition of vesting condition to make the description of each condition clear.

*IFRS 3 – Accounting for contingent consideration in a business combination*

The objective of this amendment is to clarify certain aspects of accounting for contingent consideration in a business combination, namely: classification of contingent consideration in a business combination and subsequent measurement, taking into account if such contingent consideration is a financial instrument or a non-financial asset or liability.



**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

*IFRS 8 – Aggregation of operation segments and reconciliation of the total of the reportable segments' assets to entity's assets*

The amendment clarify the criteria for aggregation of operating segments and requires entities to disclose those factors that are used to identify the entity's reportable segments when operating segments have been aggregated. To achieve consistency, reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed, if that amount is regularly provided to the chief operating decision maker.

*IFRS 13 – Short-term receivables and payables*

IASB amends the basis of conclusion in order to clarify that, by deleting IAS 39AG79, in applying IFRS 3, IASB did not intend to change the measurement requirements for short-term receivables and payables with no interest, that should be discount if such discount is material, noting that IAS 8.8 already permits entities not apply accounting polices set out in accordance with IFRSs when the effect of applying them is immaterial.

*IAS 16 & IAS 38 – Revaluation method – proportionate restatement accumulated depreciation or amortization*

In order to clarify the calculation of the accumulated depreciation or amortization at the date of the revaluation, IASB amended paragraph 35 of IAS 16 and paragraph 80 of IAS 38 to clarify that:

- a) the determination of the accumulated depreciation (or amortization) does not depend on the selection of the valuation technique; and
- b) the accumulated depreciation (or amortization) is calculated as the difference between the gross and the net carrying amounts.

*IAS 24 – Related Party Transactions – Key management personal services*

In order to address the concerns about the identification of key management personal (KMP) costs, when KMP services of the reporting entity are provided by entities (management entity e.g. in mutual funds), IASB clarifies that, the disclosure of the amounts incurred by the entity for the provision of KMP services that are provided by a separate management entity shall be disclosed but it is not necessary to present the information required in paragraph 17.

*Improvements to IFRS (2011-2013)*

The annual improvements cycle 2011-2013, issued by IASB on 12th December 2013, introduce amendments, with effective date on, or after, 1st July 2014, to the standards IFRS 1, IFRS 3, IFRS 13 and IAS 40.

*IFRS 1 – meaning of “effective IFRS”*

IASB clarifies that if a new IFRS is not yet mandatory but permits early application, that IFRS is permitted, but not required, to be applied in the entity's first IFRS financial statements.

*IFRS 3 – Scope exceptions for joint ventures*

The amendment excludes the formation of all types of joint arrangements as defined in IFRS 11 Joint Arrangements from the scope of IFRS 3. The scope exception only applies to the financial statements of the joint venture or the joint operation itself.

*IFRS 13 – Scope of paragraph 52 – portfolio exception*

Paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. This is referred to as the portfolio exception. The objective of this amendment was to clarify that the portfolio exception applies to all contracts within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.

*IAS 40 – interrelationship with IFRS 3 when classify property as investment property or owner-occupied property*

The objective of this amendment was to clarify that judgment is needed to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3 and that this judgment is based on the guidance in IFRS 3.

**ESPIRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

*IFRS 9 Financial instruments (issued in 2009 and revised in 2010)*

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces the hedging requirements. The IASB currently has an active project of additional disclosures requirements limited amendments to the classification and measurement requirements of IFRS 9 and new requirements to address the impairment of financial assets.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables.

For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in OCI. No amount recognised in OCI would ever be reclassified to profit or loss at a later date. However, dividends on such investments would be recognised in profit or loss, rather than OCI, unless they clearly represent a partial recovery of the cost of the investment.

Investments in equity instruments in respect of which an entity does not elect to present fair value changes in OCI would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires derivatives embedded in contracts with a host that is a financial asset in the scope of the standard not to be separated; instead, the hybrid financial instrument is assessed in its entirety for whether it should be measured at amortised cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in OCI rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised.

The Group has started the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

**ESPÍRITO SANTO FINANCIAL GROUP S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2013 AND 2012 – (Continued)**  
*(Amounts expressed in thousands of euro, except when indicated)*

**NOTE 57 - SUBSEQUENT EVENTS**

On 2 April 2014 ESFG sold its remaining 9.0% stake in Banco BEST to BES.

On 18 March 2014 ESFG announced that it had sold a 10.63% stake in Espírito Santo Saúde, as part of the healthcare company's IPO, launched on 6 February. The sale, which included the over-allotment option, leaves ESFG with a 3.38% direct stake in the company.

On 14 February 2014 ESFG announced the sale of its 44.81% stake in BES Vénétie to BES.







## Espírito Santo Financial Group (excluindo Grupo BES)

	% interesse económico
Advancecare - Gestão de Serviços de Saúde, S.A.	51,00%
AOC Patrimoine	56,52%
Banque Espírito Santo et de la Vénétie, S.A.	56,52%
Banque Privée Espírito Santo, S.A.	100,00%
BESPAR, SGPS, S.A.	73,60%
ES Bankers (Dubai) Limited	95,00%
ESFG International Ltd	91,00%
Espírito Santo Bank (Panama), S.A.	100,00%
Espírito Santo Contact Center, Gestão de Call Centers, S.A.	67,76%
Espírito Santo Financial (Portugal), SGPS, S.A.	100,00%
Espírito Santo Financière, S.A.	100,00%
Espírito Santo Wealth Europe S.A.	100,00%
Esumédica - Prestação de Cuidados Médicos, S.A.	100,00%
Fundo de Investimento Imobiliário Fechado Corpus Christi	100,00%
IMOPRIME - Fundo de Investimento Imobiliário Fechado	55,91%
Marignan Gestion S.A.	56,52%
BESV Courtage S.A.	56,52%
PARTRAN SGPS, S.A.	100,00%
Quinta dos Cónegos- Sociedade Imobiliária, S.A.	41,22%
SEGUROS LOGO S.A.	100,00%
SLMB - Société Lyonnaise de Marchands de Biens	56,46%
Société Civile Immobilière du 45 Avenue Georges Mandel	49,97%
TRANQUILIDADE - Companhia de Seguros Tranquilidade, S.A.	100,00%
Tranquilidade CAS (Angola)	52,21%
Tranquilidade Moçambique Companhia de Seguros, S.A.	100,00%
Tranquilidade Moçambique Companhia de Seguros Vida, S.A.	100,00%
T-VIDA, Companhia de Seguros, S.A.	100,00%





	<b>% interesse económico</b>
Adepa Global Services	40,00%
BES, Companhia de Seguros, S.A.	31,86%
Espírito Santo Saúde SGPS, S.A.	32,02%
Europ Assistance - Comp. Portuguesa Seguros Assistência, S.A.	47,00%
SCA Mandel Partners	27,24%
Goupe CFCA SAS	16,90%
IMOCRESCENTE - Fundo de Investimento Imobiliário Fechado	48,90%

**Nota:**

A estas entidades devem-se juntar as incluídas no Grupo BES (ver Anexo 2), uma vez que as mesmas integram igualmente o perímetro de consolidação da ESFG.

