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Exmo. Senhor  
Dr. Fernando Negrão  
Presidente da Comissão Parlamentar de Inquérito  
à Gestão do BES e do GES  
Assembleia da República  
Palácio de S. Bento  
1249-068 LISBOA

Lisboa, 15 de Dezembro de 2014

Exmo. Sr. Presidente,

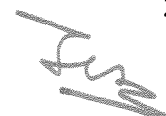
A propósito das declarações prestadas nessa comissão de inquérito pelo Sr. Dr. Morais Pires considero conveniente, para cabal apuramento da verdade dos factos, esclarecer os seguintes pontos:

- 1) Pese embora o facto de ter deixado de desempenhar funções efectivas a partir de Junho de 2012 no Departamento de Risco Global (DRG), cuja gestão efectiva ficou na prática a cargo do Dr. Joaquim Goes, é preciso deixar bem claro que jamais me apercebi da realidade das contas da ESI a não ser em Novembro de 2013.
- 2) É certo que, em Julho de 2012, o DRG realizou uma avaliação do *rating* da Espírito Santo International (ESI), na sequência de pedido formulado pelo Dr. Ricardo Salgado ao Director Coordenador do Departamento, Dr. Carlos Calvário, avaliação essa que não obedeceu à tramitação habitualmente exigida, e que não foi inclusivamente do conhecimento do Administrador efectivo do Departamento, Dr. Joaquim Goes. – Documento n.º1





- 3) Na verdade, não existia ao tempo qualquer relação creditícia entre o Banco Espírito Santo (BES) e a ESI, sendo certo que as avaliações de *rating* eram apenas realizadas para efeitos de atribuição de créditos.
- 4) O referido *rating* traduzia a avaliação correcta das contas oficiais da ESI em 31 de Dezembro de 2011.
- 5) E mereceu a certificação da KPMG, conforme documento datado de 30 de Julho de 2012 que se junta em anexo. – Documento n.º2
- 6) Se se procurou convencer os membros da Comissão de Inquérito que as contas da ESI eram por esse facto do meu conhecimento, então não era possível configurar outras contas que não fossem as oficiais referentes ao exercício de 2011.
- 7) Acresce que após realizada a avaliação de *rating* em Julho de 2012, não se procedeu mais à sua actualização, o que significa que era materialmente impossível aperceber-me do buraco financeiro resultante de dívida e prejuízos ocultados que só veio a ser denunciado em Setembro de 2013, na sequência do ETRICC 2.
- 8) Por outro lado, a venda e colocação de papel comercial destinada a cobrir o buraco financeiro da ESI aos balcões do BES, que já era reveladora de um inusitado aumento de prejuízo, não foi precedida de qualquer consulta ou apreciação prévia do DRG.
- 9) Nem o DRG detinha jurisdição de qualquer natureza sobre a ESAF, onde em momento anterior os fundos se encontravam consignados.
- 10) A decisão de vender o papel comercial aos balcões do BES competia ao Departamento de gestão da Poupança dirigido pelo administrador, Dr. Morais Pires, sem qualquer participação da Direcção Global de Risco.
- 11) O Departamento de Auditoria e Inspeção do BES, conforme relatório n.º 92.00/2014 que se junta em anexo, confirma que a DRG nunca participa no processo de concepção ou desenvolvimento de produtos de poupança, o que só pode significar que tais produtos foram colocados no mercado sem indicação de qualquer nota de *rating*. – Documento n.º3





12) Se o Dr. Morais Pires pretendeu igualmente demonstrar o meu poder de intervenção dentro do banco pelo facto de não lhe ter sido possível levar à prática, na área internacional, para efeito de contenção de custos, a unificação das sucursais do BES e do BESI de Nova Iorque, então faltará acrescentar, a bem da verdade, que me opus de facto ao encerramento da sucursal do BESI por se tratar de unidade lucrativa, tendo sido o Dr. Ricardo Salgado a rejeitar o encerramento da sucursal do BES.

Finalmente, compreende-se que o Dr. Morais Pires, interveniente directo em graves operações financeiras que estão a ser objecto de investigação criminal, pretenda não só camuflar a sua eventual responsabilidade com afirmações conclusivas sobre o meu desempenho, que não resistem ao escrutínio documental, como ainda desvalorizar a sua especial relevância dentro do banco, bem comprovada pela sua designação como substituto do Dr. Ricardo Salgado em Junho de 2014.

Cumprimento-me ainda manifestar ao Sr. Presidente a minha disponibilidade para comparecer de novo perante a Comissão de Inquérito a fim de prestar os esclarecimentos que os respectivos membros considerem necessários.

Aproveito para apresentar os meus melhores cumprimentos,



Anexos:

Documento n.1 – Análise de rating da ESI do DRG (Julho de 2012)

Documento n. 2 – Certificado KPMG (Julho de 2012)

Documento n. 3 – Relatório 92.00/2014 do Departamento de Auditoria e Inspeção

C/C: Banco de Portugal, Dr. António Varela

C/C: Banco de Portugal, Departamento de Averiguação e Acção Sancionatória





**BANCO  
ESPIRITO SANTO**

# **Espírito Santo International S.A. Rating**

July 2012

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- 1. Executive Summary**
2. Espirito Santo International Company Presentation
3. SPV Rating Tool Presentation
4. Parameters used in the assessment of ESI rating
5. Annexes



## Executive Summary

- The present study aims to assess the rating of Espírito Santo International S.A. (“ESI”).
- For this purpose the SPV Rating Tool was applied. This Model is employed by the Global Risk Department of Banco Espírito Santo (“GRD”) in order to assign ratings to financial holdings.
- The rating *driver* of a financial holding is the relationship between the value of the underlying investments – adjusted/stressed by its potential decrease due to the uncertainty of its value in the future – and the debt of the specific entity. The investments value adjustment is based upon returns and respective volatility, and also incorporates the correlation between the assets values.
- The information incorporated in the rating assessment was based upon: (i) information sent by ESI; (ii) public information regarding ESI and its subsidiaries; (iii) the internal GRD expertise about the industries in which ESI indirectly develops its activities.
- Returns, volatility and correlation parameters employed in the rating assessment of ESI were obtained using a sample of peer companies\*. However, and given the inexistence of listed peer companies for Rio Forte, and given the atypical evolution of stock markets in the last years, several

\* See Annex III

## Executive Summary

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scenarios were calculated, incorporating different assumptions for returns, volatility and correlation parameters\*.

- The estimated rating of Espírito Santo International is in between [bb; bb-], which corresponds to a PD of [0,63%; 1,10%].

\*See Annex II

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# Espírito Santo Internacional Company Presentation

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- Espírito Santo Internacional, S.A. (“ESI”) was incorporated under the law of Luxembourg and is subject to the legislation governing financial holding companies (*Soparfi*).
- The activity of ESI is limited to monitoring the performance of its investments. ESI thus manages its capital structure in accordance with the need to reinforce or lighten its investment portfolio and the need to support those investments, either through loans or capital contributions.
- ESI main assets are: (i) 35% of Espírito Santo Financial Group, S.A. (“ESFG”), directly held, and another 10% more, indirectly held through ES Resources Limited. ESFG holds interests in financial services companies, namely commercial banking and investment, insurance companies and healthcare providers; and (ii) 100% of Rio Forte Investments, S.A. (“Rio Forte”), whose investments encompass various non financial sectors, including real estate, construction, leisure, agriculture and renewable energies, as well as holdings in other diversified companies.
- The 2011 financial statements of ESI was revised by *Commissaire aux Comptes* (Francisco Machado da Cruz), which provided an unqualified opinion.

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# SPV Rating Tool Presentation

- The “SPV Rating Tool” or “Financial Holdings Model” was developed by Banco Espírito Santo in 2008, with the advisory of Oliver Wyman, and aims to assign ratings to entities that focus their activities in the investment and management of financial investments (“financial holdings”).
- The rating *driver* to assess solvency and assign a rating to a financial holding is the relationship between the value of the underlying investments – adjusted/stressed by its potential decrease due to the uncertainty of its value in the future – and the debt of the specific entity.
- The main inputs of that Model are:
  - Assets characteristics:
    - Fair value of assets held and corresponding ratings;
    - Expected return of assets and industry;
    - Volatility of assets and industry;
    - Correlation of returns;
  - Financial liabilities characteristics:
    - Total Holding’s financial liabilities;



# SPV Rating Tool Presentation

- Financial liabilities characteristics: (continued)
  - Financial liabilities' characteristics: (i) spread; (ii) covenants; (iii) cross-default clauses; pari-passu; negative pledge.
- Based upon the mentioned inputs, the SPV Rating Tool runs Monte Carlo simulations\*, which aim to estimate the probability of holding asset's value being lower than its financial liabilities. From the result of these simulations the solvency score is obtained.
- The final rating features the solvency score as a starting point, but incorporates other qualitative factors in addition:
  - Complexity and transparency of assets held by the Holding – with the objective of assessing if the existing information regarding its assets is clear and updated. This section is classified into five possible categories: (i) *Transparent*; (ii) *Not fully transparent*; (iii) *Partially opaque*; (iv) *Significantly opaque*; (v) *Highly opaque*;
  - Support and financial capacity from shareholders/sponsors – in this section the financial capacity and the incentive that the sponsors have to support the Holding in a stressful situation is evaluated.

\* Simulations are based upon the Merton Model. See "Methodological Framework SPV Rating Tool", accompanying this document.

## SPV Rating Tool Presentation

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This section is either classified as “*Relevant*” (if the shareholder/sponsor has financial capacity and a strong strategic interest in the Holding, which leads to a strong incentive to support it in a stressful situation) or “*Non Relevant*” (if it is not the case).

■ The qualitative factors presented in the previous section may improve the “*solvency score*” up to two notches (that is from the “Support and financial capacity of shareholders/sponsors”) or decrease it to the worst rating in the scale (“ccc”, in the case that “Complexity and Asset Transparency” is “*Highly Opaque*”).



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## Parameters used in the assessment of ESI rating

- The estimated rating of Espírito Santo International is in between [bb; bb-], which corresponds to a PD of [0,63%; 1,10%].
- The following parameters were used throughout ESI's rating assignment process:
  - Assets characteristics:
    - 100% of Rio Forte, valued at a fair value of EUR 1.234 million. The internal rating assigned to Rio Forte is b+;
    - 35% of ESFG, valued at a fair value of EUR 1.287 million. The internal rating assigned to ESFG is bbb- (S&P: NR; Moody's: B2; DBRS: BBB-);
    - Both Rio Forte and ESFG were classified as "*Private Companies*". In the case of ESFG, this is justified by the fact that it is considered that a hypothetical sale of such equity stake by ESI would not be accomplished through a sale of shares in the stock market.
    - Asset and industry returns, volatility and correlation were calculated using market data, based upon two "peer groups" of companies comparable to Rio Forte and ESFG\*.

\*See Annex III



## Parameters used in the assessment of ESI rating

- It wasn't considered in the total assets value of ESI the equity held and advances made to Espirito Santo Resources Limited ("ESR"), in the amount of 95 million Euros and 630 million Euros, respectively. Instead, this total amount was deducted from ESI's financial liabilities, given the Comfort Letter\* issued from major shareholders of ESI (Espirito Santo Control, S.A., "ESC"), ensuring that the loans granted to ESR by ESI will always be reimbursed even if its assets are insufficient to settle down all commitments. Note that ESI and ESC plan to accomplish the phase out of ESR until final closing of this company.
- ESI Financial Liabilities characterization:
  - ✦ The amount of ESI's financial liabilities considered in the rating assessment was EUR 1.754 million. The coverage ratio between the assets' fair value and financial liabilities is 144%;
  - ✦ It was considered the following characteristics of financial liabilities: (i) spread of 4,5% over Euribor; (ii) non existence of covenants;
  - ✦ Existence of cross default, negative pledge and pari-passu clauses.

\*See Annex VI

## Parameters used in the assessment of ESI rating

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- ✦ Regarding the qualitative questions, these were evaluated in the following way:
  - ✦ Complexity and Transparency – it was considered as “*Transparent*”, given that there is a deep knowledge of ESI assets. This classification did not lead to any adjustment of the “*solvency score*”;
  - ✦ Capacity and financial flexibility of shareholders/sponsors – it was classified as “*Relevant*”, given that they do have financial capacity and a strong strategic interest in ESI, leading to a strong incentive to support the company in the hypothetical situation of a financial stress. To this point, it was also considered the long track record and the historical ability to raise funds either through debt or through equity. This classification led to a one notch uplift of the “*solvency score*”;
  - ✦ At last, it should be noted that, based upon the previous inputs, the calculation of ESI’s rating was calculated through the running of 100.000 Monte Carlo simulations.

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## Annex I – Considerations regarding the Executed Scenarios (1/2)

- Regarding stock market valuation of the companies comprising the peer groups, data from June 2000 to June 2007 was collected, since it is considered that from this date onward the stock markets had an atypical behavior due to several factors (e.g.: sub-prime crisis, Lehman Brothers bankruptcy; sovereign debt crisis).
  - Given the inexistence of peer listed companies for Rio Forte, it was decided to simulate different scenarios in order to calculate ESI's rating. These scenarios were based upon different assumptions regarding returns, volatility and correlation parameters.
    - Returns – were calculated in the following manner: (i) evolution of stocks in the period Jun2000-Jun2007; (ii) *Return on equity* for the period 2000-2011 – in both situations returns were calculated using arithmetic means and weighted averages using the market cap of companies that make part of peer groups.
- In the case of Rio Forte, and taking into account its large industry diversification, industry averages were calculated, which were weighted afterwards based on the weight of each industry in the composition of adjusted Rio Forte Net Asset Value (NAV) (Construction and Renewable Energy – 18%, Real Estate – 54%, leisure – 19% and Healthcare – 9%).

## Annex I – Considerations regarding the Executed Scenarios (2/2)

■ Volatility -- it was used the volatility associated to stocks that comprise the peer groups in the Jun2000-Jun2007 period. Both arithmetic means and weighted averages that use the market cap were calculated.

In the case of Rio Forte, and in addition to weighting each sector in the composition of adjusted NAV, the correlations between different industries\* were included. Additionally, a sensitivity scenario for this parameter was run.

■ The correlations used between ESFG and Rio Forte were based upon correlations calculated between the respective *peer groups* (46% and 43% for the arithmetic means and market cap weighted averages, respectively).

\*See Annex IV.

# Annex II – Summary of Accomplished Results

Parameters: Returns and volatilities were calculated using arithmetic averages. 46% correlation between Rio Forte and ESFG

Return	Volatility	Rio Forte Volatil. Return	ESFG Volatil. Return	Solvency PD	Solvency Rating	Final Rating*
Equity Returns 2000-2007	90% correlation between Real Estate and Construction was used for Rio Forte; 35% correlation between Real Estate and Construction was used for Rio Forte;	18,4% 11,8%	26,3% 6,9%	1,31%	bb-	bb
ROE 2000-2011	90% correlation between Real Estate and Construction was used for Rio Forte; 35% correlation between Real Estate and Construction was used for Rio Forte;	18,4% 11,3%	26,3% 12,4%	1,03%	bb-	bb
		16,9% 11,3%	26,3% 12,4%	0,84%	bb-	bb

\* One notch uplift

Parameters: Returns and volatilities were calculated using averages weighted by the market cap of the companies that make part of the peer group. 43% correlation between Rio Forte and ESFG

Return	Volatility	Rio Forte Volatil. Return	ESFG Volatil. Return	Solvency PD	Solvency Rating	Final Rating*
Equity Returns 2000-2007	90% correlation between Real Estate and Construction was used for Rio Forte; 43% correlation between Real Estate and Construction was used for Rio Forte;	18,2% 15,3%	28,9% 4,1%	1,58%	b+	bb-
ROE 2000-2011	90% correlation between Real Estate and Construction was used for Rio Forte; 43% correlation between Real Estate and Construction was used for Rio Forte;	16,9% 13,7%	28,9% 13,2%	1,30%	bb-	bb
		16,9% 13,7%	28,9% 13,2%	0,89%	bb-	bb

\* One notch uplift





# Annex III – Peer Group Rio Forte (1/2)

## Parameters calculation through arithmetic averages

Company	Industry	ROE 2000-2011	Equity Returns (Jun 2000-Jun 2007)	Volatility
MOTA ENGIL SGPS	Construction	11.82%	19.02%	25.85%
SOARES DA COSTA	Construction	3.32%	19.82%	38.51%
TEIXEIRA DUARTE	Construction	7.38%	1.71%	30.08%
Abengoa SA	Construction	19.84%	19.85%	32.94%
ACS Actividades de Construccion y Serv	Construction	29.37%	22.33%	17.83%
Acciona SA	Construction	24.53%	23.50%	20.11%
Fomento de Construcciones y Contratas SA	Construction	16.03%	14.48%	21.11%
Grupo Ferrovial SA	Construction	3.82%	17.59%	21.72%
Sacyr Vallehermoso SA	Construction	12.80%	10.24%	40.42%
OHL SA	Construction	17.48%	23.68%	30.30%
Unibail-Rodamco SE	Real Estate	14.23%	19.57%	21.34%
Eurocommercial Properties NV	Real Estate	9.62%	10.28%	15.78%
Vastned Retail NV	Real Estate	9.85%	6.36%	16.51%
Corp Dermoesetica SA	Healthcare	1.57%	2.95%	27.85%
Orpea	Healthcare	11.63%	29.80%	24.92%
IBERSOL	Leisure	18.37%	11.88%	20.87%
Accor SA	Leisure	17.50%	6.08%	29.00%
Melia Hotels International SA	Leisure	7.21%	3.57%	32.09%
NH Hoteles SA	Leisure	7.73%	5.16%	25.10%
Club Med/ferancee	Leisure	-4.70%	-13.31%	43.79%
Pierre & Vacances SA	Leisure	16.41%	8.29%	32.30%
Construction Industry Average		14.6%	17.2%	27.9%
Real Estate Industry Average		11.2%	12.1%	17.9%
Healthcare Industry Average		6.6%	16.4%	26.4%
Leisure Industry Average		10.4%	3.6%	30.5%
<b>Rio Forte's Peer Weighted Average with Correlations (i) (ii) (iii)</b>		<b>11,3%</b>	<b>11,8%</b>	<b>16,9%</b>
<b>Rio Forte's Peer Weighted Average with Correlations (i) (ii) (v)</b>		<b>11,3%</b>	<b>11,8%</b>	<b>18,4%</b>

Source: Bloomberg

(i) Adjusted average incorporating the weight of each industry (considering listed peers) in the composition of Rio Forte's Net Asset Value (NAV), namely: (a) Construction and Renewable Energy – 18%; (b) Real Estate – 54%; (c) Leisure – 19%; and (d) Healthcare – 9%.

(ii) Given that Forte Rio presents a diversified business portfolio, the volatility took into consideration the correlations between the industries in which Rio Forte operates.

(iii) Indicator based upon the underlying correlation of 35% between the Construction and Real Estate, after some statistical calculations.

(v) Indicator that has underlying correlation between the Construction and Real Estate 90% (override).

# Annex III – Peer Group Rio Forte (2/2)

## Parameters calculation through Mkt Cap Weighted Averages

Company	Industry	Market Cap*	Weight in the Industry %	ROE 2000-2011	Equity Returns Jun 2000-Jun 2007	Volatility
MOTA ENGL SGPS	Construction	534.5	1.7%	11.8%	19.02%	25.85%
SOARES DA COSTA	Construction	103.7	0.3%	3.3%	19.82%	38.51%
TEIXEIRA DUARTE	Construction	535.0	1.7%	7.4%	1.71%	30.08%
Abengoa SA	Construction	1.113.3	3.6%	19.8%	19.85%	32.94%
ACS Actividades de Construccion y Serv	Construction	6.751.4	21.9%	29.4%	22.33%	17.83%
Acciona SA	Construction	5.367.4	17.4%	24.5%	23.50%	20.11%
Fomento de Construcciones y Contratas SA	Construction	4.874.1	15.8%	16.0%	14.48%	21.11%
Grupo Ferrovial SA	Construction	6.219.2	20.1%	3.8%	17.59%	21.72%
Sacyr Vallehermoso SA	Construction	4.438.4	14.4%	12.8%	10.24%	40.42%
OHL SA	Construction	955.1	3.1%	17.5%	23.68%	30.30%
Unibail-Rodamco SE	Real Estate	5.357.5	75.7%	14.2%	19.57%	21.34%
Eurocommercial Properties NV	Real Estate	568.4	12.3%	9.6%	10.28%	15.78%
Vasined Retail NV	Real Estate	846.7	12.0%	9.8%	6.36%	16.51%
Corp Dermoeestetica SA	Healthcare	330.1	26.5%	1.6%	2.95%	27.85%
Orpea	Healthcare	915.1	73.5%	11.6%	29.80%	24.92%
IBERSOL	Leisure	110.9	0.8%	18.4%	11.88%	20.87%
Accor SA	Leisure	8.783.2	65.8%	17.5%	6.08%	29.00%
Melia Hotels International SA	Leisure	1.637.5	12.3%	7.2%	3.57%	32.09%
NH Hoteles SA	Leisure	1.406.1	10.5%	7.7%	5.16%	25.10%
Club Mediterranee	Leisure	810.1	6.1%	-4.7%	-13.31%	43.79%
Pierre & Vacances SA	Leisure	595.9	4.5%	16.4%	8.29%	32.30%
Construction Industry Average				17.4%	18.1%	24.1%
Real Estate Industry Average				13.1%	16.8%	20.1%
Healthcare Industry Average				9.0%	22.7%	25.7%
Leisure Industry Average				13.8%	4.6%	29.9%
<b>Rio Forte's Peer Weighted Average with Correlations (i) (ii) (iii)</b>				13.7%	15.3%	16.9%
<b>Rio Forte's Peer Weighted Average with Correlations (i) (ii) (v)</b>				13.7%	15.3%	18.2%

Source: Bloomberg

\* Avg Mkt Cap Jan2000-Jun 2007

- (i) Adjusted average incorporating the weight of each industry (considering listed peers) in the composition of Rio Forte's Net Asset Value (NAV), namely: (a) Construction and Renewable Energy – 18%; (b) Real Estate – 54%; (c) Leisure – 19%; and (d) Healthcare – 9%.
- (ii) Given that Forte Rio presents a diversified business portfolio, the volatility took into consideration the correlations between the industries in which Rio Forte operates.
- (iii) Indicator based upon the underlying correlation of 43% between the Construction and Real Estate, after some statistical calculations.
- (v) Indicator that has underlying correlation between the Construction and Real Estate 90% (override).



# Annex III – Peer Group ESFG (1/2)

## Parameters calculation through arithmetic averages

Company	Industry	ROE 2000-2011	Equity Returns (Jun 2000-Jun 2007)	Volatility
BCP	Banking	13.4%	-1.2%	27.8%
BANCO ESPR.SANTO	Banking	10.6%	6.2%	14.5%
BANCO BPI	Banking	12.2%	10.1%	20.6%
BANIF	Banking	7.9%	23.0%	27.4%
ESPIRITO SANTO FINL.	Banking	11.1%	13.8%	19.3%
Banco Bilbao Vizcaya Argentaria SA	Banking	16.4%	2.7%	26.6%
Bankinter SA	Banking	12.5%	4.5%	27.1%
Banco Espanol de Credito SA	Banking	15.8%	2.4%	21.3%
Banco Popular Espanol SA	Banking	17.4%	9.9%	15.0%
Banco de Sabadell SA	Banking	12.3%	10.3%	19.0%
Banco Santander SA	Banking	13.3%	3.7%	27.9%
BNP Paribas SA	Banking	14.1%	8.1%	24.6%
Credit Agricole SA	Banking	7.3%	10.1%	24.6%
Credit Lyonnais SA	Banking	12.2%	3.7%	35.6%
Dexia SA	Banking	10.8%	5.8%	27.4%
Groupe Bruxelles Lambert SA	Banking	5.4%	9.5%	22.1%
ING Groep NV	Banking	17.5%	-1.1%	33.1%
KBC Groep NV	Banking	9.8%	11.1%	21.6%
Societe Generale SA	Banking	12.1%	11.2%	26.1%
RBS Holdings NV	Banking	19.0%	6.6%	31.5%
Mapfre SA	Insurance	14.1%	18.9%	26.0%
Aegon NV	Insurance	9.2%	-12.8%	43.5%
Allianz France SA	Insurance	14.4%	11.5%	32.0%
AXA SA	Insurance	9.3%	-3.1%	37.0%
<b>Sector's Average</b>		<b>12.4%</b>	<b>6.9%</b>	<b>26.3%</b>

Source: Bloomberg

# Annex III – Peer Group ESFG (2/2)

Parameters calculation through Mkt Cap Weighted Averages

Company	Sector	Market Cap*	Weight in the Industry	ROE 2000-2011	Equity Returns Jun 2000-Jun 2007	Volatility
BCP 'R'	Banking	8.569.0	1.7%	13.4%	-1.2%	27.8%
BANCO ESPR. SANTO	Banking	4.520.6	0.9%	10.6%	6.2%	14.5%
BANCO BPI	Banking	2.633.0	0.5%	12.2%	10.1%	20.6%
BANIF 'R'	Banking	511.6	0.1%	7.9%	23.0%	27.4%
ESPIRITO SANTO FINL	Banking	1.156.1	0.2%	11.1%	13.8%	19.3%
Banco Bilbao Vizcaya Argentaria SA	Banking	47.661.2	9.3%	16.4%	2.7%	26.6%
Bankinter SA	Banking	3.183.7	0.6%	12.5%	4.5%	27.1%
Banco Espanol de Credito SA	Banking	8.195.1	1.6%	15.8%	2.4%	21.3%
Banco Popular Espanol SA	Banking	11.213.2	2.2%	17.4%	9.9%	15.0%
Banco de Sabadell SA	Banking	5.822.3	1.1%	12.3%	10.3%	19.0%
Banco Santander SA	Banking	59.888.0	11.6%	13.3%	3.7%	27.9%
BNP Paribas SA	Banking	50.038.3	9.7%	14.1%	8.1%	24.6%
Credit Agricole SA	Banking	33.027.2	6.4%	7.3%	10.1%	24.6%
Credit Lyonnais SA	Banking	14.586.1	2.8%	12.2%	3.7%	35.6%
Dexia SA	Banking	18.816.5	3.7%	10.8%	5.8%	27.4%
Groupe Bruxelles Lambert SA	Banking	8.817.1	1.7%	5.4%	9.5%	22.1%
ING Groep NV	Banking	56.440.1	11.0%	17.5%	-1.1%	33.1%
KBC Groep NV	Banking	19.697.7	3.8%	9.8%	11.1%	21.6%
Societe Generale SA	Banking	34.517.6	6.7%	12.1%	11.2%	26.1%
RBS Holdings NV	Banking	38.335.6	7.4%	19.0%	6.6%	31.5%
Mapfre SA	Insurance	2.838.7	0.6%	14.1%	18.9%	26.0%
Aegon NV	Insurance	27.242.4	5.3%	9.2%	-12.8%	43.5%
Allianz France SA	Insurance	11.575.2	2.2%	14.4%	11.5%	32.0%
AXA SA	Insurance	45.578.2	8.9%	9.3%	-3.1%	37.0%
<b>Sector's Average</b>				<b>13.2%</b>	<b>4.1%</b>	<b>28.9%</b>

Source: Bloomberg

\* Avg Mkt Cap Jan2000-Jun 2007



**BANCO ESPIRITO SANTO**  
Global Risk Department

# Annex IV – Rio Forte: Correlation Matrix between Industries

## Arithmetic Means

	Construction	Healthcare	Leisure	Real Estate
Construction	100%	51%	61%	35%
Healthcare	51%	100%	38%	16%
Leisure	61%	38%	100%	25%
Real Estate	35%	16%	25%	100%

Bloomberg Data: GRD Calculation

## Market Cap Weighted Averages

	Construction	Healthcare	Leisure	Real Estate
Construction	100%	51%	55%	43%
Healthcare	51%	100%	37%	15%
Leisure	55%	37%	100%	25%
Real Estate	43%	15%	25%	100%

Bloomberg Data: GRD Calculation

## Annex V – Rating Scale and Probabilities of Default

Rating	Average PD	Min PD	Max PD
aaa	0,001%	0,000%	0,002%
aa+	0,003%	0,002%	0,005%
aa	0,008%	0,005%	0,011%
aa-	0,015%	0,011%	0,025%
a+	0,040%	0,025%	0,045%
a	0,050%	0,045%	0,055%
a-	0,060%	0,055%	0,095%
bbb+	0,150%	0,095%	0,169%
bbb	0,190%	0,169%	0,218%
bbb-	0,250%	0,218%	0,316%
bb+	0,400%	0,316%	0,502%
bb	0,630%	0,502%	0,832%
bb-	1,100%	0,832%	1,468%
b+	1,960%	1,468%	3,202%
b	5,230%	3,202%	6,296%
b-	7,580%	6,296%	13,930%
ccc	25,600%	13,930%	100,000%

Annex VI – Comfort Letter “Espírito Santo Control”

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**SEE NEXT PAGE**

## Annex VII – Rio Forte Investments Risk Report

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SEE NEXT PAGES





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The Executive Committee of  
**Banco Espírito Santo, S.A.**  
Avenida da Liberdade, 195  
1250-142 Lisbon  
Portugal

30 July 2012

Dear Sirs,

**Espírito Santo International, S.A. rating**

We were requested by the Executive Committee of Banco Espírito Santo, S.A. ('BES' or 'Bank'), to issue this letter in connection with the assessment, made by the Global Risk Department ('DRG') of the Bank, of the credit risk of Espírito Santo International, S.A. and the respective assignment of an internal credit rating.

*Introduction*

Espírito Santo International, S.A. ('ESI') was incorporated under the laws of Luxembourg and is subject to the legislation governing financial holding companies ('Soparfi'). The activity of ESI consists mainly in the management of its financial investments namely (i) the 35% direct and 10% indirect shareholding in Espírito Santo Financial Group, S.A. ('ESFG') and (ii) the 100% shareholding in Rio Forte Investments, S.A. ('Rio Forte').

ESFG is a limited liability company headquartered in Luxembourg and is the holding company of the banking and financial activities of the Espírito Santo Group. Through its subsidiaries, ESFG engages in financial activities primarily through Banco Espírito Santo S.A. and its insurance companies in Portugal: BES-Vida Companhia de Seguros, S.A., Companhia de Seguros Tranquilidade 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.

Rio Forte, a limited liability company incorporated on 11 December 2007 under the law of Luxembourg, is the main holding company for the non financial activities of the Espírito Santo Group. Rio Forte and its subsidiaries are engaged in multiple activities, the most significant being real estate, agriculture, construction and tourism. The group is present in Southwest Europe, South America and Africa.

The 2011 consolidated financial statements of ESFG and Rio Forte, prepared in accordance with IFRS as adopted by the EU, together with the Independent Auditors Reports thereon, issued by



KPMG Luxembourg S.à.r.l and Ernst & Young, Société Anonyme, respectively, on 26 March 2012 and 6 June 2012, both unqualified, are included in the Annual Reports of these entities.

The 2011 stand alone accounts of ESFG and Rio Forte and the Independent Auditors Reports thereon, issued by KPMG Luxembourg S.à.r.l and Ernst & Young, Société Anonyme, respectively, on 26 March 2012 and 18 June 2012, both unqualified, are also available for consultation.

It should be noted that the stand alone accounts of Rio Forte were prepared in accordance with IFRS as adopted by the EU. As allowed by IAS 27 'Consolidated and Separate Financial Statements' and IAS 28 'Investments in Associates', Rio Forte classifies, in the stand alone accounts, the investments in subsidiaries and associated companies as available for sale in the scope of IAS 39 'Financial Instruments - recognition and measurement'. Therefore, these investments are measured at fair value, being the corresponding changes in fair value recognized in equity. On the other hand, ESFG measures, in the stand alone accounts, the investments in subsidiaries and associated companies at the lower of cost or market value in accordance with the Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

#### *The subject matter*

In July 2012, the Global Risk Department of the Bank issued a report containing the assessment of the rating of ESI. In accordance with this report, the estimated credit rating of ESI is between [bb-, bb], which corresponds to a probability of default ("PD") of [0.63%; 1.10%].

For the purpose of the assessment of ESI credit rating, DRG applied the 'SPV Rating Tool' (also designated as 'Financial Holdings Model'). This model was developed by BES in 2008, with the advisory of Oliver Wyman, and is used by the Bank in order to assign ratings to financial holdings that focus its activities in the management of its financial investments. It is our understanding that the rating driver to assess solvency and assign a rating to a financial holding is the relationship between the value of the underlying investments and the debt of the specific entity.

This letter is issued in connection with the DRG report dated July 2012 referred to above. It should be noted that the information contained in that report and respective appendices, and of the rating assigned, is the responsibility of BES Executive Committee. We have not performed an audit or review made in accordance with any generally accepted auditing or review standards and therefore we will not issue an audit or review report.

#### *Basis of information*

For the purposes of this letter, we have read the following information which is the responsibility of the Executive Committee of Banco Espírito Santo, S.A.:

- Espírito Santo International, S.A. Rating Report, issued by DRG in July 2012, which is attached to this letter as Appendix A. This report includes as appendix (i) a comfort letter from Espírito Santo Control, for the benefit of ESI in relation to its investment in ES Resources; (ii) Rio Forte Investment Rating Report issued by DRG on 19 July 2012; (iii) valuation of ESFG



prepared by Banco Espírito Santo de Investimento, S.A. as at 31 December 2011; and (iv) manual of the 'SPV Rating Tool' prepared by Oliver Wyman;

- Summary of the sensitive analysis performed by DRG in relation to ESI rating, driven by a change in ESFG valuation;
- Press release issued by BES on 30 April 2009, which is attached to this letter as Appendix B. This press release discloses that BES was authorized by Bank of Portugal, from 31 March 2009, to use the Internal Ratings Based (IRB) method for calculation of the minimum core capital requirements to cover credit risk;
- Application document for the utilization of IRB Approach submitted to Bank of Portugal in 2008;
- ICAAP (Economic Capital) report submitted to the Bank of Portugal for regulatory requirements of ESFG as at 31 December 2011;
- Stand alone financial statements of ESI as at 31 December 2011, which were provided to us by BES and are attached to this letter as Appendix C;
- Audited consolidated financial statements of ESFG as at 31 December 2011, which are attached to this letter as Appendix D;
- Audited stand alone financial statements of ESFG as at 31 December 2011, which are attached to this letter as Appendix E;
- Audited consolidated financial statements of Rio Forte as at 31 December 2011, which are attached to this letter as Appendix F;
- Audited stand alone financial statements of Rio Forte as at 31 December 2011, which were provided to us by BES and are attached to this letter as Appendix G;
- Meetings with DRG and discussions held with the Executive Committee of BES

The procedures described above do not constitute an audit or review made in accordance with any generally accepted auditing or review standards. Furthermore, they will not necessarily reveal matters of significance with respect to any material misstatement of the information subject to our reading.



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### *Findings*

Solely on the basis of our reading of the information described above and on discussions with DRG, we noted the following:

- (a) In 2009 BES Group was authorised by the Bank of Portugal to use the Internal Ratings Based (IRB) approach to calculate regulatory capital requirements to cover credit risk.

The rating process is regularly monitored by DRG in order to comply with Bank of Portugal rules, which are based on the paper issued by Bank for International Settlements "Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework" dated November 2005, adopted by the European Union by the Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006.

The rating process is based on credit templates, developed by S&P (for non-retail exposures) and score cards, developed by Oliver Wyman (for retail exposures) which are certified by the Bank of Portugal for the purposes of risk weighted assets calculation for credit risk exposures.

In what concerns the rating process it should be highlighted the following:

- Model backtesting and calibration is performed at least annually by DRG. The backtesting and calibration process is validated by the Independent Validation Unit ('UVI');
- The Internal Audit Department ('DAI') reviews the back testing and calibration process including the accuracy of the statistical data used. In addition, the internal controls underlying this process are also audited by DAI. A report is issued for DRG and Executive Committee;
- This information is made available to the Bank of Portugal through the continuous inspection programme in place within BES.

- (b) The 'SPV Rating Tool', applied for the purpose of the assessment of ESI credit rating, is being used by DRG, in order to assign ratings to financial holdings that focus its activities in the management of its financial investments.

This 'SPV Rating Tool', runs Monte Carlo simulations which aim to estimate the probability that the value of the holding's financial investments is lower than its financial liabilities.

The base value of the underlying investments of ESI, used by DRG in the assessment of the credit rating correspond to

- (i) for ESEG, the valuation performed by Banco Espírito Santo de Investimento, S.A. (BESI) with reference to 31 December 2011, upon which, the fair value of the 35% interest held by ESI in ESEG amounts to 1,287.5 million euro. We have not performed an audit or review of the



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valuation performed by BESI and for which BESI and BES are the sole responsible

- (ii) for Rio Forte, the value of the shareholder's equity of this subsidiary, as shown on the audited stand alone accounts as at 31 December 2011, amounting to 1,341 million euro;
- (iii) the investment in Espirito Santo Resources Limited and the accounts receivable from this entity were considered at their book value based on the Comfort Letter issued by ES Control for the benefit of ESI, a copy being included in Appendix A

Asset and industry returns, volatility and correlations were calculated using market data for peers considered by DRG as comparables to ESFG and Rio Forte. The list of peers is disclosed in the Espirito Santo International, S.A. Rating Report, issued by DRG in July 2012.

Based upon the results of the simulations performed by the 'SPV Rating Tool' and after incorporating qualitative factors as described in Espirito Santo International, S.A. Rating Report, dated July 2012, DRG estimated ESI rating to be between [bb- bb-], which corresponds to a probability of default ('PD') of [0.63%; 1.10%].

- (c) DRG performed a sensitive analysis in relation to ESI rating, driven by a change in ESFG valuation.

In this sensitive analysis, the assessment of the credit risk of ESI was based on a valuation of ESFG considering its consolidated equity, a price to book value of 1.5 and a control premium of 25%. On these basis, the value of the 35% interest held by ESI in ESFG amounts to 745.4 million euro, compared to the value of the base scenario as referred in the previous paragraph of 1,287.5 million euro. We make no representation regarding the adequacy of the assumption underlying the value of ESFG used in this sensitive analysis.

This sensitive analysis indicates an estimated rating for ESI of [b] to which corresponds a probability of default ('PD') of [5.73%]

- (d) The rating assigned to ESFG by Moody's is B2 and by DBRS is BBB-.

The internal rating assigned to Rio Forte is [b+] which correspond to a probability of default ('PD') of [1.96%]. The rating report of Rio Forte is attached in Appendix A.

It should be noted that the current credit rating assigned to Portugal by S&P is BB; by Moody's is Ba3 and by Fitch is BB-

- (e) As at 31 December 2011, the shareholders' equity of ESI amounts to 867.3 million euro representing 25.6% of total assets. During the year, the share capital was increased from 260.4 million euro to 460.4 million euro

Total assets amount to 3,390.1 million euro, of which 1,287.5 million euro relates to the investment in ESFG and 1,366.0 million euro relates to the investment in Rio Forte.



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which represent, together, 78.3% of total assets. The book value of these investments, in the stand alone accounts of ESI, correspond to the estimated fair value of the shareholding interest in these subsidiaries determined based (i) on the valuation performed by BESI as at 31 December 2011, in what concerns ESFG; and (ii) on the value of the estimated shareholders equity shown on the preliminary stand alone accounts of Rio Forte as at 31 December 2011.

It should be noted that the shareholder's equity of Rio Forte shown on the final audited stand alone accounts as at 31 December 2011, which are included in Appendix C, amount to 1,234.1 million euro. If the stand alone accounts of ESI would be corrected in order to reflect the amount of the shareholders equity of Rio Forte as shown in its final audited stand alone accounts, the shareholders equity of ESI and total assets would be adjusted by 131.9 million euro and would amount to 735.4 million euro and 3,258.2 million euro, respectively.

Total assets also include (i) an amount of 94.8 million euro related with the investment in Espirito Santo Resources Limited and (ii) an amount of 630 million euro regarding an account receivable from this subsidiary. Both the value of the investment and the loan are covered by a Comfort Letter issued by ES Control for the benefit of ESI. A copy of this comfort letter is included in Appendix A.

- (f) Further to the adjustment to the investment in Rio Forte referred to in the previous paragraph, if the stand alone accounts of ESI would be corrected in order to reflect the value of ESFG as determined based on the sensitivity analysis performed by DRG and described under paragraph (e) above, the shareholders equity of ESI and total assets would be adjusted by an additional amount of 54.1 million euro and would amount to 193.3 million euro and 2,716.1 million euro, respectively.

#### *Final considerations*

Based on the information disclosed above and on discussions with DRG, we have no reasons to believe that the process followed in order to assign a rating to ESI was not consistent with normal rating process implemented by DRG.

Based on the assessment made by DRG regarding ESI credit risk, it was concluded that the estimated PD for ESI is between of [0.63%; 1.10%]. Moreover, based on the sensitive analysis, the estimated PD could reach 5.23%.

The adjusted stand alone accounts of ESI shows an amount of shareholders equity of 735.4 million euro, which represent approximately 22.6% of total assets. Based on the value of ESFG and Rio Forte and considering the comfort letter issued by ES Control in favour of ESI in relation to ES Resources, the liabilities of ESI are covered by its assets by approximately 129%.

Considering a more extreme scenario and after adjusting the shareholders equity of ESI by considering a lower valuation for ESFG, as determined in the sensitivity analysis as described in paragraph (e) above, the liabilities of ESI are covered by its assets by approximately 108%.



This letter is solely for the information of the addressees and it is not to be used, circulated, quoted, or otherwise referred to in whole or in part, to third parties without our prior written consent. However, we authorise the Bank to disclose this letter to the Board of Directors of ESFC, Banque Privée Espírito Santo, S.A., ES Bankers (Dubai) Limited and Espírito Santo Bank (Panamá), S.A..

This letter should not be understood as an opinion, or any type of assurance report, regarding the assessment of the credit risk of EST and of the rating assigned. Moreover, we are not issuing an opinion or any type of assurance regarding the rating process implemented by BES.


Yours faithfully,

KPMG & Associadas,  
Sociedade de Revisores Oficiais de Contas, S.A.  
Represented by  
Sikander Sattar  
Senior Partner







N.º RELATÓRIO		Folha n.º 41 de 57 Folhas
92.00/2014	45000-DGP-DEPARTAMENTO GESTAO POUPANCA	

- O sponsor deve manter um arquivo digital de toda a documentação no servidor do respetivo departamento. Além dos elementos já referidos, deve constar: a proposta apresentada no fórum de decisão e a respetiva decisão, as fichas de sign off de requisitos e de entrada em produção, a matriz de enquadramento contabilístico e fiscal e a ficha técnica de Catálogo. Conforme apurado, o DGP não possui esse arquivo sistematizado como estabelece a norma, muito embora neste caso concreto os requisitos e as características do produto tenham sido enviados e vistos com os Departamentos intervenientes;
- As Fichas Técnicas de Produto, as Fichas Técnicas de cada Emissão e as Notas Informativas contendo as Advertências aos Investidores, Fatores de Risco e Informações sobre as Emitentes, foram publicados na Intranet do BES – Área de Oferta. Também por esta via foi divulgado um documento explicativo com as alterações ao RJOIC (Regime Jurídico dos Organismos de Investimento Coletivo) e as características do produto papel comercial.


**Relativamente à adequação da norma e dos procedimentos definidos:**

- A norma NP 143/2006 - Conceção e Desenvolvimento de Produtos e Serviços da Oferta do BES, em vigor a julho de 2013, embora referisse em termos gerais que deve existir uma análise de risco no processo de desenvolvimento da oferta, não concretiza essa necessidade na definição em concreto de responsabilidades (Anexo 1 - Matriz de Responsabilidades e Anexo 2 Matriz de Intervenções), não prevendo a intervenção do Departamento de Risco Global (DRG) como departamento mandatário em termos de "Sign Off", independentemente do produto/serviço e define a sua participação apenas no "Sign Off" dos produtos de crédito do Banco. Também não estava prevista qualquer intervenção/análise de impactos em termos de risco por outro Departamento;

PERÍODO		Viso
De: 17-03-2014 A: 25-06-2014		





N.º RELATÓRIO		Folha n.º 42 de 57 Folhas
92.00/2014	45000-DGP-DEPARTAMENTO GESTAO POUPANCA	

- Efetivamente confirmámos que o DRG nunca participa no âmbito da conceção ou desenvolvimento de produtos de poupança, incluindo os produtos de desintermediação financeira;
- O Documento "Caracterização da Inovação" referido na norma não está referenciado como impresso ou formulário, nem se encontra publicado na Intranet do Banco, tendo-se concluído que constituía um documento não normalizado, mas cujo conteúdo era definido na norma. Continuando este documento, na norma atualmente em vigor, a ser o suporte principal para a decisão de novos produtos, deverá ser reavaliado o facto de ser um documento "aberto", não normalizado, dado que não garante de forma tão eficaz a cobertura de todas as vertentes previstas na norma, ao nível do conteúdo das Propostas e a normalização das Propostas entre os diferentes Sponsors de Oferta;
- Não são referidos no corpo da norma os anexos I "Matriz de responsabilidades" e IV "Níveis de Serviço";
- Entretanto a norma sofreu alterações, sendo a versão em vigor datada de 14/05/2014, da qual se destaca:
  - A tipologia a aplicar no processo é determinada por questionário de certificação com 3 resultados possíveis (isento, simplificado e completo);
  - O Departamento de Risco Global (DRG) passou a estar definido como Departamento Mandatório, o que implica que tem que ser obrigatoriamente consultado e dar parecer sobre a introdução de nova oferta a ser comercializada na rede comercial do BES;
  - Melhoria do arquivo digital, agora no GeDOC, encontrando-se tipificados os documentos que devem constar.

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De: 17-03-2014 A: 25-06-2014		

